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

Dear Minister,

ASSESSMENT OF THE MACROECONOMIC FORECASTS CONTAINED IN THE DRAFT BUDGETARY PLAN 2020

The Malta Fiscal Advisory Council has an obligation under Article 13 of the Fiscal Responsibility Act to endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Ministry for Finance on which the Draft Budgetary Plan for 2020 is based. Accordingly, the Ministry forwarded to the Council preliminary macroeconomic forecasts on 2 October 2019, followed by the transmission of the final forecasts on 12 October 2019.

The official forecasts show that real GDP is expected to grow by 5.0% in 2019 and by 4.3% in 2020, whereas nominal GDP is forecast to grow by 7.5% and 6.5% during the same period (see Appendix 1). These growth rates point towards a gradual easing from the 6.8% real GDP growth and 9.0% nominal GDP growth recorded in 2018. Growth is expected to be driven entirely by domestic demand throughout the forecast horizon. Indeed, imports are expected to grow faster than exports throughout the forecast horizon, resulting in a negative net contribution to growth from net exports. In turn, inventory changes are expected to contribute negatively to growth in 2019 but are assumed to have no impact on growth in 2020.

Yearly inflation is expected to remain stable, below 2.0%. In turn, employment growth is expected to remain vigorous, but ease gently, from 5.4% in 2018, to 4.8% and 4.1% respectively in 2019 and 2020. As a result, the unemployment rate is expected to remain low, stabilising at 3.5% during the forecast years. According to the Ministry's calculations, the economy will continue to operate slightly above potential in 2019, but the output gap is expected to turn marginally negative in 2020.

The Council's assessment of the macroeconomic forecasts consisted of: a review of the forecasting methodologies and assumptions employed by the Ministry; an evaluation of the forecast trajectory of the various macroeconomic variables; and comparisons with the previous vintage of official forecasts and the latest available forecasts prepared by independent institutions.

Discussions were also held with the Ministry's senior officials to evaluate the plausibility of the assumptions and drivers underpinning the official forecasts. Background information and explanations were provided by the Ministry to support the official macroeconomic forecasts and to address queries and requests for clarifications raised by the Council.

Based on the information available to the Malta Fiscal Advisory Council, and after taking due consideration of the uncertainty inherent in macroeconomic forecasts, the Council considers the full set of macroeconomic forecasts for the period 2019 to 2020 prepared by the Ministry for Finance as part of the Draft Budgetary Plan 2020 to lie within its endorsable range.

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

Yours sincerely,



John Cassar White
Chairman

Appendix 1: Main macroeconomic indicators

	2018	2019	2020
Real GDP components chain linked volumes, reference year 2010			
Private final consumption expenditure (including NPISH) (y-o-y %)	7.3	4.6	4.0
General government final consumption expenditure (y-o-y %)	12.6	13.5	4.9
Gross fixed capital formation (y-o-y %)	-1.8	11.7	9.7
Exports of goods and services (y-o-y %)	2.6	1.8	1.6
Imports of goods and services (y-o-y %)	2.6	2.7	2.0
Real GDP (y-o-y %)	6.8	5.0	4.3
<i>Contribution to real GDP growth from:</i>			
Domestic demand (pp)	4.8	6.4	4.5
Inventories (pp)	1.5	-0.7	0.0
Net exports (pp)	0.5	-0.7	-0.2
Nominal GDP (y-o-y %)	9.0	7.5	6.5
Inflation rate (based on the HICP) (%)	1.7	1.7	1.6
Employment growth (National Accounts definition) (%)	5.4	4.8	4.1
Unemployment rate (based on the LFS) (%)	3.7	3.5	3.5
Output gap (% of potential output)	1.8	1.2	-0.1

Note: Figures for 2018 refer to the provisional values as published by the National Statistics Office on 6 September 2019 (News Release 145/2019), while figures for the period 2019 to 2020 represent the forecasts prepared by the Ministry for Finance.

Source: Ministry for Finance