



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

30 April 2020

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

Dear Minister,

**ASSESSMENT OF THE MACROECONOMIC FORECASTS
CONTAINED IN THE UPDATE OF STABILITY PROGRAMME**

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 and Financial Services on which the Update of Stability Programme is based. Accordingly, the Ministry forwarded to the Council the first estimates on 24 April 2020, and the final set of macroeconomic forecasts on 28 April 2020.

The Council takes note of the guidance offered by the European Commission whereby Member States could limit their forecasts for the current year and the next in their Update to the Stability Programme, instead of the usual four-year horizon. The Council also acknowledges the great challenges in the preparation of economic forecasts at a time when the severity of the economic impact and the duration of the COVID-19 pandemic remains highly uncertain.

The Council's assessment focused on an in-depth review of the assumptions employed by the Ministry and comparisons with the latest available forecasts prepared

by independent institutions. An online meeting was also held with the Ministry's senior officials to discuss the drivers underpinning the official forecasts.

The official scenario-based projections portray a 5.4% decline in real GDP in 2020, followed by 3.9% growth in 2021 (see Appendix 1). During the same period, nominal GDP is expected to contract by 3.6%, and then expand by 5.9%.

In real terms, the expansion in government consumption is expected to sustain domestic demand in 2020, compensating for the expected declines in private consumption and investment. In 2021, the anticipated growth in private consumption and investment is then expected to be partially dampened by the scaling back of the exceptional government consumption the year before. In turn, exports are expected to swing significantly, with a double-digit drop in 2020, followed by a recovery, albeit partial, next year. These expenditure patterns are set to lower imports in 2020 but raise them again in the outer forecast year.

Throughout the forecast horizon, yearly inflation is expected to remain low. On the other hand, employment is projected to decline in 2020, but job losses are expected to be practically fully reversed in 2021. As a result, the unemployment rate is forecast to rise only temporarily and return to a lower level in 2021.

The Council is satisfied with the background information and clarifications provided by the Ministry, particularly to verify the internal consistency of the figures presented. The Council highlights that in contrast with previous forecast vintages, the forecast range across various institutions for Malta's economic outlook is much wider. Indeed, as a result of the exceptional circumstances, the macroeconomic outlook is very sensitive to the assumptions employed. In this respect the Council notes that the assumptions used by the Ministry are broadly compatible with those underpinning the forecasts by other independent institutions. Any material departure from such assumptions could deviate the outturn, possibly significantly, from the outlook as presented in the official forecasts.

Based on the information available to the Malta Fiscal Advisory Council, and after taking due consideration of the uncertainty inherent in macroeconomic forecasts, and the added uncertainty brought about by the COVID-19 pandemic,

the Council considers the full set of scenario-based macroeconomic forecasts for the period 2020 to 2021 prepared by the Ministry for Finance and Financial Services as part of the Update of Stability Programme 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

| | 2019 | 2020 | 2021 |
|--|------------|-------------|------------|
| Real GDP components chain linked volumes, reference year 2010 | | | |
| Private final consumption expenditure (including NPISH) (y-o-y %) | 2.4 | -0.8 | 1.8 |
| General government final consumption expenditure (y-o-y %) | 12.0 | 16.5 | -3.2 |
| Gross fixed capital formation (y-o-y %) | 7.2 | -4.0 | 8.6 |
| Exports of goods and services (y-o-y %) | 1.7 | -12.1 | 6.8 |
| Imports of goods and services (y-o-y %) | 2.1 | -8.0 | 5.6 |
| Real GDP (y-o-y %) | 4.4 | -5.4 | 3.9 |
| <i>Contribution to real GDP growth from:*</i> | | | |
| Domestic demand (pp) | 4.3 | 1.8 | 1.8 |
| Inventories (pp) | 0.2 | 0.0 | 0.0 |
| Net exports (pp) | -0.2 | -7.2 | 2.1 |
| Nominal GDP (y-o-y %) | 6.8 | -3.6 | 5.9 |
| Inflation rate (based on the HICP) (%) | 1.5 | 1.0 | 1.4 |
| Employment growth (National Accounts definition) (%) | 5.7 | -3.3 | 3.2 |
| Unemployment rate (based on the LFS) (%) | 3.4 | 5.9 | 3.7 |

* Figures may not add up due to rounding.

Note: Figures for 2019 refer to the provisional values as published by the National Statistics Office on 28 February 2020 (News Release 034/2020), while figures for the period 2020 to 2021 represent the forecasts prepared by the Ministry for Finance and Financial Services.

Source: Ministry for Finance and Financial Services