MFAC
MALTA FISCAL ADVISORY COUNCIL

Annual Report and Statement of Accounts

2019

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The cut-off date for the information included in this Report is 21 February 2020.

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ANNUAL REPORT

AND

STATEMENT OF ACCOUNTS

2019

MFAC
MALTA FISCAL ADVISORY COUNCIL

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27 March 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,

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 2019. This report was produced before the first cases of COVID-19 were reported in Malta.

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 2019.

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;

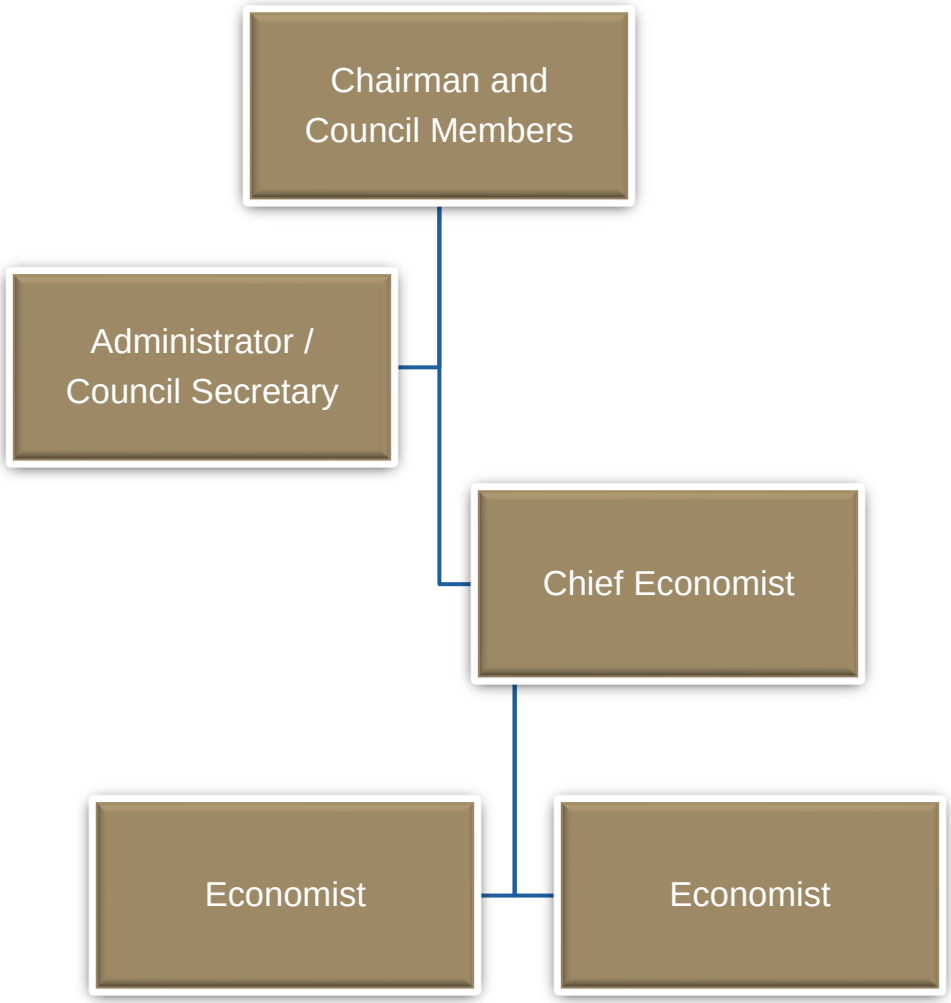
vi. Determining whether exceptional circumstances, which would allow for a departure from the announced fiscal plans, exist or have ceased to exist;

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

Mr John Cassar White (Chairman)

Dr Carl Camilleri (Member)

Dr Ian P. Cassar (Member)

Staff

Mr Malcolm Bray
Chief Economist

Mr Christian Xuereb
Economist

Mr Kurt Davison
Economist

Ms Alison Bugeja
Administrator /
Council Secretary

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Chairman's statement

I present with pleasure the fifth Annual Report of the Malta Fiscal Advisory Council, which covers the activities performed during 2019. My statement reflects on issues relating to the conduct of macroeconomic and fiscal policy in Malta. In addition, the Report contains two thematic chapters, one comparing the GDP and fiscal developments in Malta over a five-year period to those in the euro area, and the other focusing on the activities of Extra-Budgetary Units in Malta.

Being a small open economy, international developments play a significant role in shaping Malta's economic outlook, both positively and negatively. Economic growth in Malta's main trading partners, or lack thereof, impacts the country's export prospects. Likewise, international legislative changes, particularly in the areas of taxation, gaming and financial services, could present challenges to the long run prospects of businesses which over the past decade have contributed strongly to employment and real GDP growth in Malta. It is thus important that efforts remain geared towards the development of new areas of economic activity, both to sustain future growth, but also to act as buffer in case the dynamism of some sectors abates.

The quality of growth is equally important. Environmental protection, improved health outcomes, greater gender balance, stronger governance and income distribution considerations deserve attention, as they also impact the wellbeing of the population. The long-term economic success of a country hinges on the ability to involve all stakeholders and strike the right balances among different priorities.

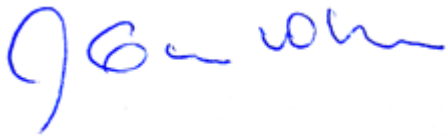
The robust GDP growth recorded in recent years has enabled the Government to achieve a stream of fiscal surpluses and a reduction in the public debt-to-GDP ratio. The Council welcomes the fact that both the latest Draft Budgetary Plan (which covers 2020), and the latest Update of Stability Programme (which covers up to 2022), indicate that the Government intends to pursue further fiscal surpluses and declines in the debt ratio. Such targets have been considered plausible and within the Council's

endorsable range and comply with the fiscal rules prescribed in the Fiscal Responsibility Act and the Stability and Growth Pact.

It is important that any future initiatives safeguard Malta's international competitiveness, preserve healthy public finances, and adequately prepare for the long-term challenges associated with population ageing and climate change. This while ensuring that the size and scope of the public sector are on one hand financially sustainable, but also commensurate with the growing size and needs of the population in Malta. Regular assessment of the benefits and costs associated with the various initiatives would ensure the highest value-added for the taxpayers' money.

The Fiscal Council positively notes that its reports receive media coverage. This helps raise awareness about the economic and fiscal issues most relevant for Malta. To this effect, the upgrade of the Council's website, which was implemented in 2019 should provide easier access to the output produced by the institution. The Council is also satisfied that its views are regularly sought by international institutions as part of their surveillance work. This confirms the good work carried out by the institution in its first five years of existence.

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 2019

1.1 The Fiscal Council

During 2019, the **Malta Fiscal Advisory Council (MFAC)** held ten formal meetings. The meetings focused on the annual work programme, the Council's financial management, human resources, maintenance of the premises, official travel and training programmes. Macroeconomic and fiscal developments were discussed as part of the MFAC's assessment and endorsement of the official projections published by the Ministry for Finance. The MFAC's reports were also approved for publication. Additional issues and decisions were settled through ad-hoc meetings or via email communication.

1.2 Relations with key stakeholders in Malta

Regular meetings were held with the **Ministry for Finance** to discuss the official macroeconomic and fiscal forecasts. The purpose was to seek clarifications and gain further insight and background information to support the MFAC's assessment. The methodologies and assumptions used by the Ministry were also discussed, with the Ministry providing updates where relevant. Other meetings were of an administrative nature, mainly in relation to the premises of the MFAC and financial issues.

The Council met officials from the **Central Bank of Malta**. The aim of these meetings was to discuss economic developments and forecasts, as well as to share information about the research being carried out by both institutions.

The MFAC held meetings with officials from the Directorate-General for Economic and Financial Affairs within the **European Commission**. During these meetings there was an exchange of views on the current macroeconomic and fiscal developments and outlook as a build-up to the publication of the European Commission's assessment of Malta's Update of Stability Programme and Draft Budgetary Plan. These meetings also serve to discuss the country's short and medium-term economic and fiscal challenges and risks.

The MFAC participated in the annual Article IV consultation mission of 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 short to medium-term risks to public finances in Malta.

The MFAC also provided its input during several meetings with officials from **credit rating agencies**, as part of the latter's rating reviews.

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 asked to give evidence to that Committee in relation to the operations of the Fiscal Council. No such requests were made by the Public Accounts Committee in 2019.

1.3 Meetings and seminars abroad

During 2019, members and staff of the MFAC attended ten meetings and seminars abroad (see Table 1.1). These included events organised by the **EU Network of Independent Fiscal Institutions (EUNIFI)** of which the MFAC is an active member. Other seminars were organised by counterpart independent fiscal institutions and the European Commission. The MFAC attended the first workshop organised by the **European Fiscal Board (EFB)**, a new institution tasked to strengthen the economic governance across the European Union. The MFAC was also invited as observer at the annual meeting of the **OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions**.

Table 1.1: Participation in meetings and seminars abroad during 2019

Event	Organiser
10th Meeting of the EUNIFI	EUNIFI
Fiscal Policy in an Uncertain Environment	European Commission
11th Annual Meeting of OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions	OECD
Path for the Public Finances 2019	Irish Fiscal Advisory Council
Independent Fiscal Institutions in the EU Fiscal Framework	European Fiscal Board
Meeting of the Network of EU IFIs	EUNIFI
Fiscal multipliers and transfer payments	Austrian Fiscal Advisory Council
11th Meeting of the EUNIFI	EUNIFI
Election costings around the World	CPB Netherlands Bureau for Economic Policy Analysis
EU DataViz 2019	European Commission

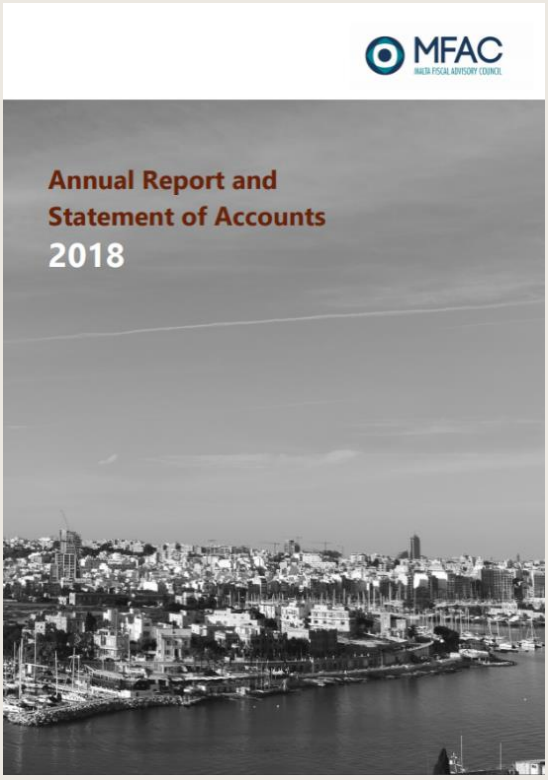
1.4 Publications and research

The MFAC published four **reports** in 2019 (see Box 1.1).[1] This was the first year where the MFAC's suite of publications was carried out under the new format.[2]

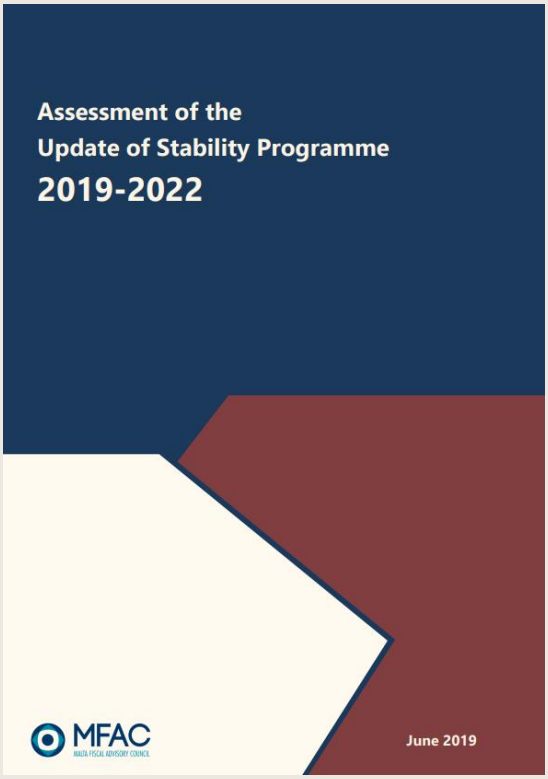
The first report was the Annual Report and Statement of Accounts for 2018. The second report focused on the Update of the Stability Programme 2019 – 2022. It dealt with the endorsement of the macroeconomic forecasts, the endorsement of the fiscal forecasts and the compliance with the fiscal rules. The third report assessed the Ministry for Finance's Annual Report 2018 and Half-Yearly Report 2019. The fourth report focused on the Draft Budgetary plan for 2020, presenting the endorsement of the macroeconomic and fiscal forecasts and an assessment of compliance with the fiscal rules.

[1] Available on https://mfac.org.mt/publications/reports/reports-2019/.
[2] The format combines content which was previously divided across different publications.

Box 1.1: List of publications

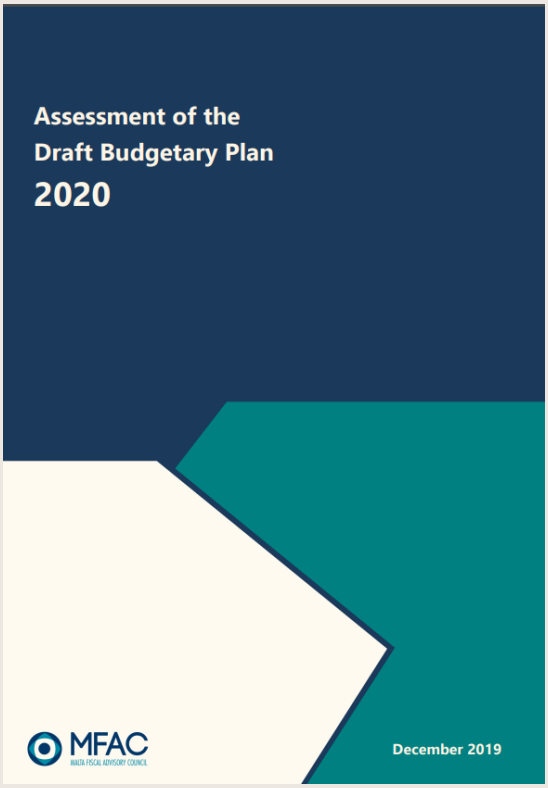


The fourth Annual Report covered the activities performed by the Malta Fiscal Advisory Council during 2018. The Annual Report also contained two thematic chapters, one focusing on fiscal transparency and the other on fiscal risks.



The MFAC considered the macroeconomic and fiscal forecasts for the period 2019 – 2022, to be within its endorsable range. The plans also complied with the fiscal rules. The assessment carried out on the individual GDP expenditure components, suggested a broadly neutral risk outlook vis-à-vis real GDP growth throughout the period 2019 to 2022. On the other hand, the report concluded that the fiscal balance could turn out higher than planned in 2019, but there were neutral risks for the period 2020 to 2022.

The Council welcomed the general level of prudence in the macroeconomic forecasts for 2018. Indeed, the outturn for nominal GDP growth exceeded the forecasts which had been presented in the Draft Budgetary Plan and the Update of Stability Programme. The Council also welcomed the fact that the fiscal surplus was larger than originally targeted. The Council noted that the Half-Yearly Report reconfirmed the macroeconomic and fiscal forecasts as presented in the Update of Stability Programme 2019 – 2022.



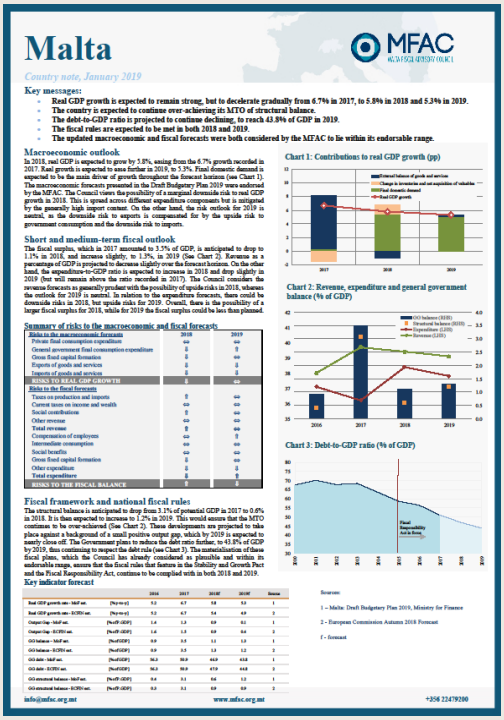
The MFAC considered the macroeconomic and the fiscal forecasts for 2019 and 2020 to be within its endorsable range. The plans also complied with the fiscal rules. The assessment carried out on the individual GDP expenditure components suggested a broadly neutral risk outlook vis-à-vis real GDP growth for 2019 and 2020. In turn, the assessment carried out on the individual revenue and expenditure components, suggested possible upside risks for the fiscal balance in 2019, but downside risks for 2020.

Apart from these reports, the MFAC also issued an official letter addressed to the Minister for Finance on two instances, one to endorse the macroeconomic forecasts contained in the Update of Stability Programme 2019 – 2022 and the other to endorse the macroeconomic forecasts contained in the Draft Budgetary Plan for 2020.

During 2019 the MFAC continued to prepare the bi-annual **Fiscal Monitor**, as part of a joint initiative of the Network of EU Independent Fiscal Institutions (see Box 1.2).[3] 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, thereby facilitating the horizontal surveillance of macroeconomic and fiscal developments.

Box 1.2: Fiscal Monitor

January 2019


Malta

MFAC

Country note, January 2019

Key messages:

- Real GDP growth is expected to remain strong, but to decelerate gradually from 6.7% in 2017, to 5.8% in 2018 and 5.3% in 2019.
- The country is expected to continue over-achieving its MTO of structural balance.
- The debt-to-GDP ratio is projected to continue declining, to reach 43.8% of GDP in 2019.
- The fiscal rules are expected to be met in both 2018 and 2019.
- The updated macroeconomic and fiscal forecasts were both considered by the MFAC to lie within its endorsable range.

Macroeconomic outlook

Short and medium-term fiscal outlook

Summary of risks to the macroeconomic and fiscal forecasts

Fiscal framework and national fiscal rules

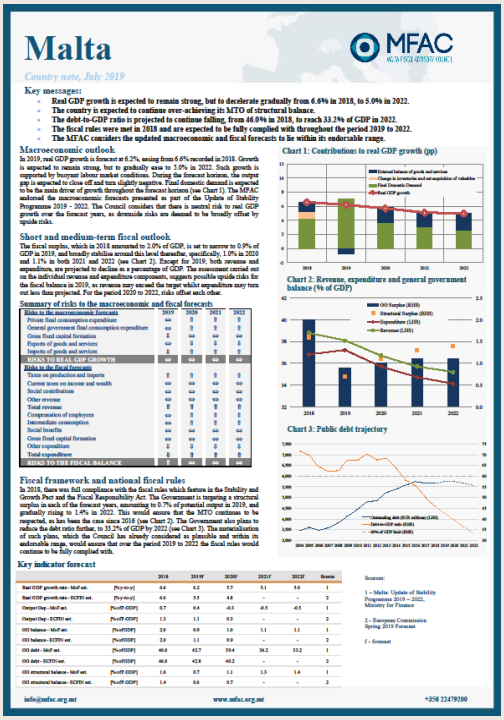
Key indicator forecast

Chart 1: Contributions to real GDP growth (pp)

Chart 2: Revenue, expenditure and general government balance (% of GDP)

Chart 3: Debt-to-GDP ratio (% of GDP)

July 2019


Malta

MFAC

Country note, July 2019

Key messages:

- Real GDP growth is expected to remain strong, but to decelerate gradually from 6.6% in 2018, to 5.0% in 2022.
- The country is expected to continue over-achieving its MTO of structural balance.
- The debt-to-GDP ratio is projected to continue falling, from 46.0% in 2018, to reach 33.2% of GDP in 2022.
- The fiscal rules were met in 2018 and are expected to be fully complied with throughout the period 2019 to 2022.
- The MFAC considers the updated macroeconomic and fiscal forecasts to lie within its endorsable range.

Macroeconomic outlook

Short and medium-term fiscal outlook

Summary of risks to the macroeconomic and fiscal forecasts

Fiscal framework and national fiscal rules

Key indicator forecast

Chart 1: Contributions to real GDP growth (pp)

Chart 2: Revenue, expenditure and general government balance (% of GDP)

Chart 3: Public debt trajectory

In addition, MFAC staff continued to carry out internal research with the aim of improving the quality of the institution's output. During 2019 research focused mainly on the patterns and determinants of private consumption in Malta and explored alternative forecasting methodologies for private consumption.

[3] Available on https://www.euifis.eu/eng/fiscal/174/european-fiscal-monitor.

1.5 Public relations of the MFAC

The MFAC issued four **press releases** during 2019, available in both English and Maltese (see Table 1.2).[4] These follow the publication of the Council's reports and explain the main messages to the public in a non-technical manner. Occasionally, there were requests from the media for **interviews** to elaborate further on the reports, or to discuss economic or fiscal issues in general.

Table 1.2: List of press releases issued during 2019

Date	Title
18 April	Malta Fiscal Advisory Council publishes its Annual Report for 2018
10 June	Malta Fiscal Advisory Council publishes its assessment of the Update of Stability Programme 2019 - 2022
18 September	Malta Fiscal Advisory Council publishes its assessment of the Annual Report 2018 and the Half-Yearly Report 2019
12 December	Malta Fiscal Advisory Council publishes its assessment of the Draft Budgetary Plan 2020

During 2019, the MFAC also redesigned its **website**, to make it more visually appealing and more user-friendly (see Box 1.3).

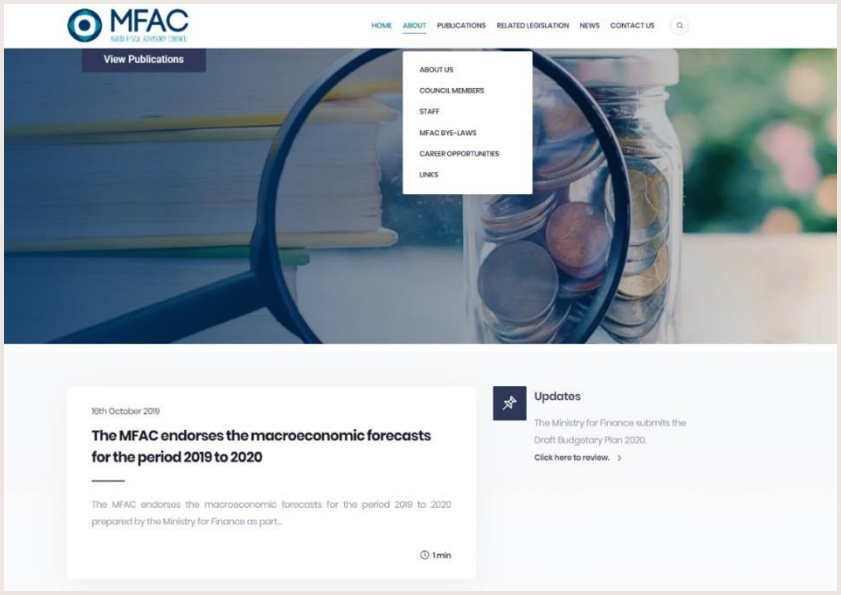
1.6 Human resources

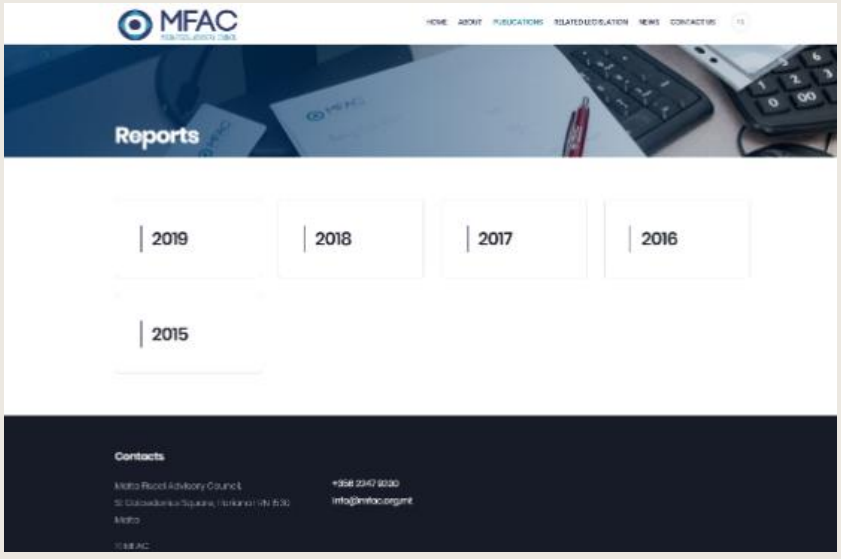
The **staff** complement of the MFAC remained unchanged during 2019, consisting of the Chief Economist, two Economists and the Administrator (who also serves as the Council secretary). In 2019, the two economists successfully completed their studies and were awarded the Master of Science degree in economics from the University of Malta. The MFAC offers financial assistance to its staff who are interested in furthering their studies. Staff are also encouraged to attend seminars in areas related to functions of the MFAC.

[4] Available on https://mfac.org.mt/press-releases/.

Box 1.3: The new website of the MFAC

The redesigned MFAC home page has six main tabs and includes recent news and updates. The [About] tab includes general information on the mandate and tasks of the MFAC, the Council Members, staff, the MFAC's Bye-Laws, career opportunities and other links. The MFAC's reports, working papers and the European Fiscal Monitor are included in the [Publications] tab. The press releases are found under the [News] tab, which also includes updates and events. The reports and press releases are grouped by year, for ease of reference. The [Related Legislation] tab groups the legislation, both local and European, relevant for the functions of the Council. The contact details are found in the [Contact Us] tab.





Chapter 2

GDP and fiscal developments in Malta and the euro area

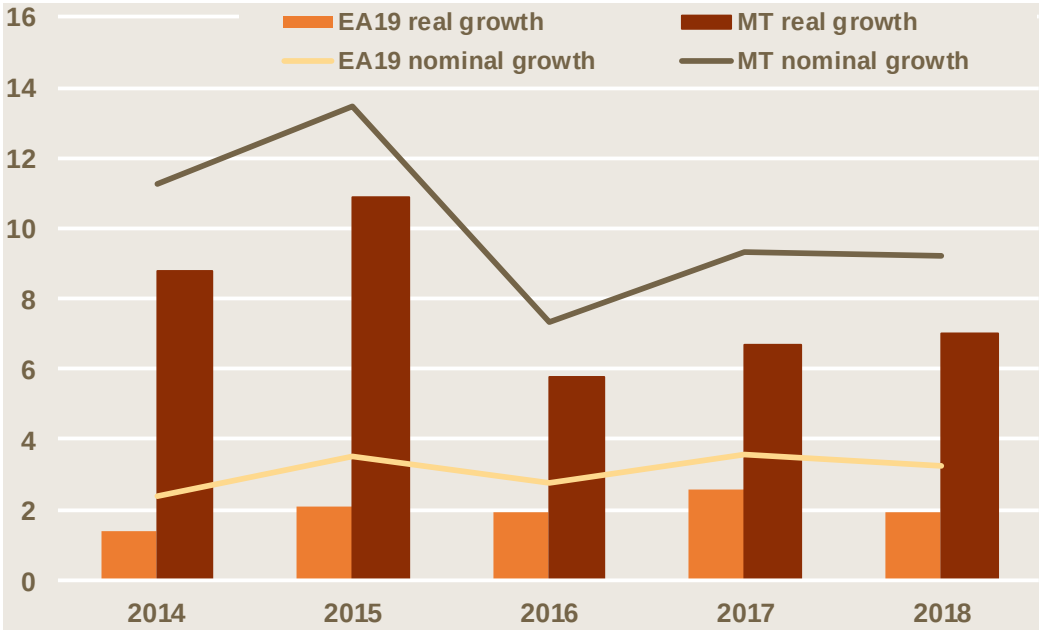
2.1 Introduction

This chapter reviews the GDP and fiscal developments in **Malta** and the **euro area** (EA-19) between 2014 to 2018.[5,6] It identifies the similarities and differences in terms of economic growth and the conduct of fiscal policy during this five-year period.

2.2 Gross Domestic Product (GDP)

Nominal and real GDP growth in Malta have been consistently higher than in the euro area between 2014 and 2018 (see Chart 2.1). Indeed, Malta's nominal GDP growth averaged 10.1% during these years, compared to 3.1% in the euro area; while Malta's real GDP grew by 7.8% on average, compared to 2.0% in the euro area. During this period, Malta recorded its highest real GDP growth, of 10.9%, in 2015, while the lowest annual growth was 5.8%, in 2016. The latter was nevertheless still above any of the yearly growth rates recorded by the euro area between 2014 and 2018.

Chart 2.1: Nominal and real GDP growth (%)

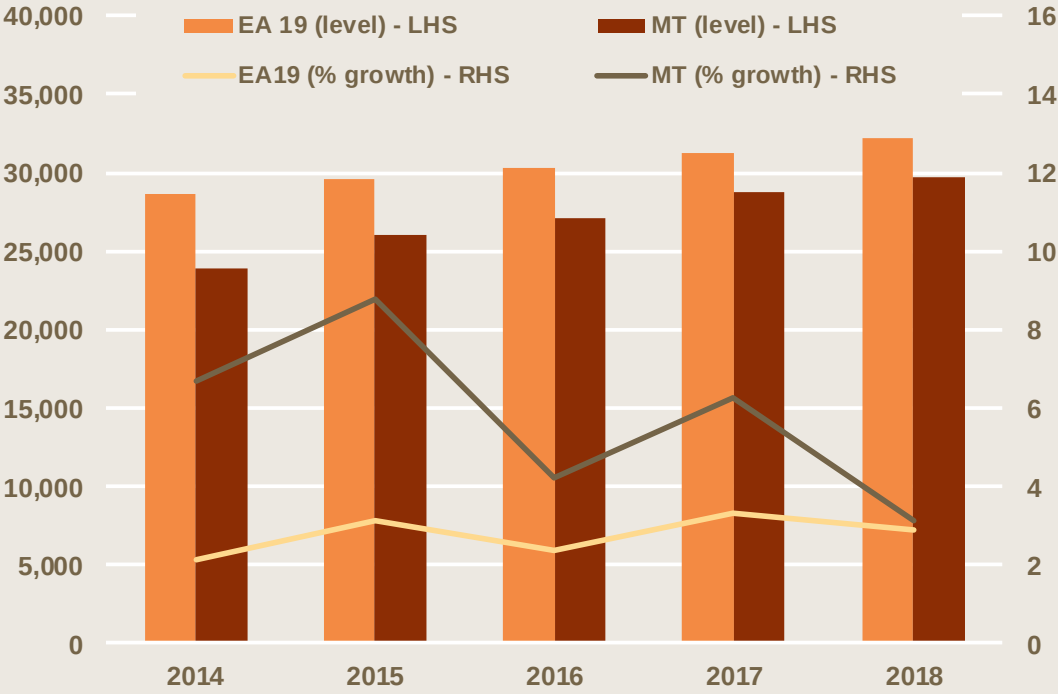


Source: Eurostat

[5] The euro area consists of 19 countries which have adopted the euro as their currency: Austria; Belgium; Cyprus; Estonia; Finland; France; Germany; Greece; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; The Netherlands; Portugal; Slovakia; Slovenia and Spain.
[6] The cut-off date for the information contained in this chapter is 21 February 2020. The latest annual data available by this cut-off date was 2018.

GDP per capita at Purchasing Power Standards (PPS), rose steadily in both Malta and the euro area (see Chart 2.2). As at 2014, Malta's GDP per capita at PPS stood at €23,900 while that in the euro area was higher at €28,700. However, since Malta's GDP per capita at PPS increased at a faster pace than in the euro area, the gap narrowed. Indeed, by 2018 Malta's GDP at PPS stood at 92.2% of the euro area, compared to 83.3% in 2014.

Chart 2.2: GDP per capita at PPS



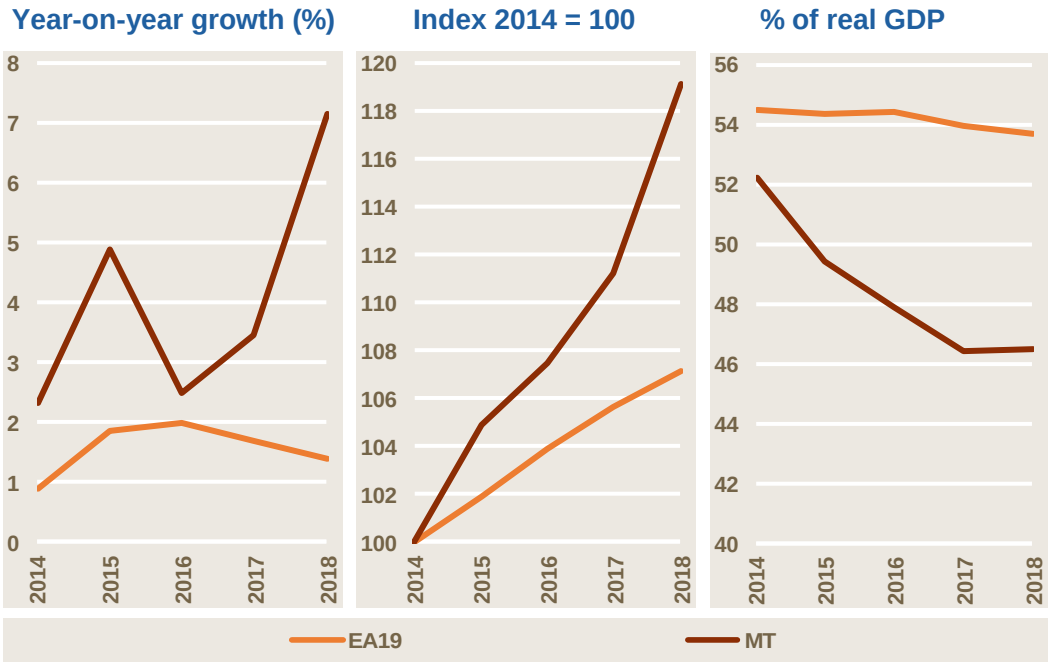
Source: Eurostat

The rest of the section presents the growth rates recorded by the real GDP expenditure components between 2014 and 2018. It also shows the overall changes in these variables using an index with 2014 as the reference year. In addition, the share of each component as percentage of real GDP is presented, to help identify any structural changes over time and structural differences between Malta and the euro area.

Private consumption growth in Malta was consistently higher than in the euro area (see Chart 2.3). Growth was rather volatile, ranging between 2.3% in 2014 and 7.1% in 2018. Overall, real private consumption expanded by 19.2% compared to 2014, around three times higher than in the euro area. The rapid expansion in Malta's population over this period was an important contributor to such pattern. Nevertheless, the ratio of private consumption to GDP (both expressed in real terms) followed a

downward path in Malta, in contrast with the broad stability recorded in the euro area. In Malta the ratio declined from 52.2% in 2014 to 46.5% in 2018. Thus, in Malta, the share of private consumption in GDP, which in 2014 was already lower than in the euro area, exhibited a wider difference in 2018.

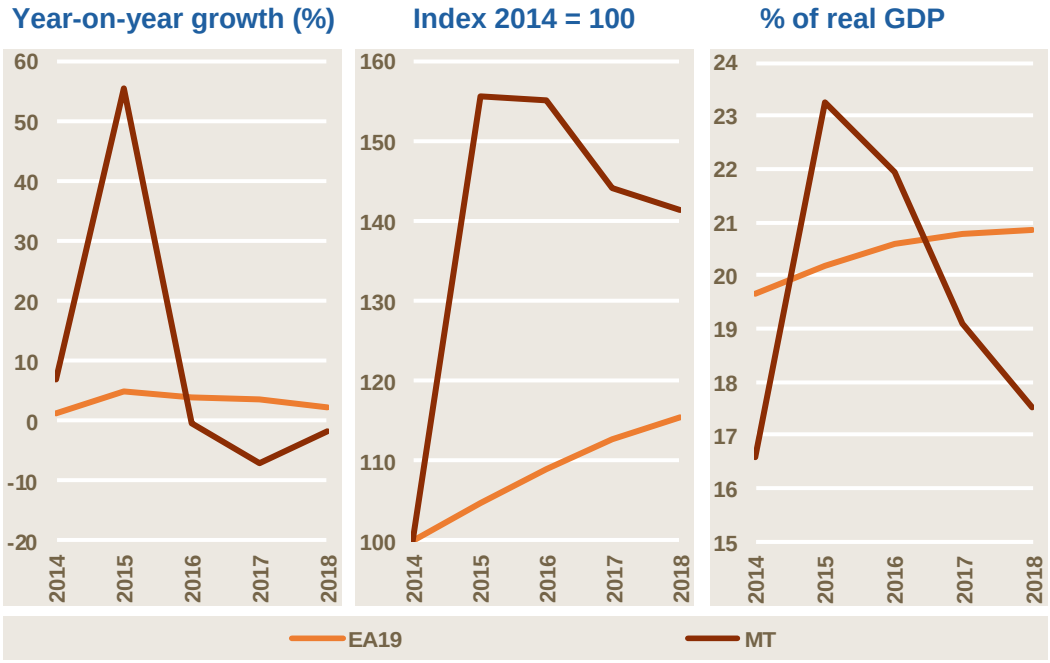
Chart 2.3: Private consumption



Source: Eurostat

Gross fixed capital formation also experienced volatile real growth rates in Malta (see Chart 2.4). Indeed, investment growth surged by 55.7% in 2015 but was then followed by three consecutive years of declines, in real terms. Such developments can be ascribed both to the varying pace of public investment and fluctuations in large private sector projects. On the other hand, the euro area exhibited more stable patterns, with growth averaging 3.2% in the last five years. Despite the negative growth rates recorded in Malta, real investment was still 41.5% higher in 2018 than in 2014. This was a larger increase compared to the 15.4% expansion recorded by the euro area during the same period. The share of investment in GDP was higher in 2018 than in 2014 both in Malta and in the euro area, with a similar gap at the beginning and end of the period under review.

Chart 2.4: Gross fixed capital formation

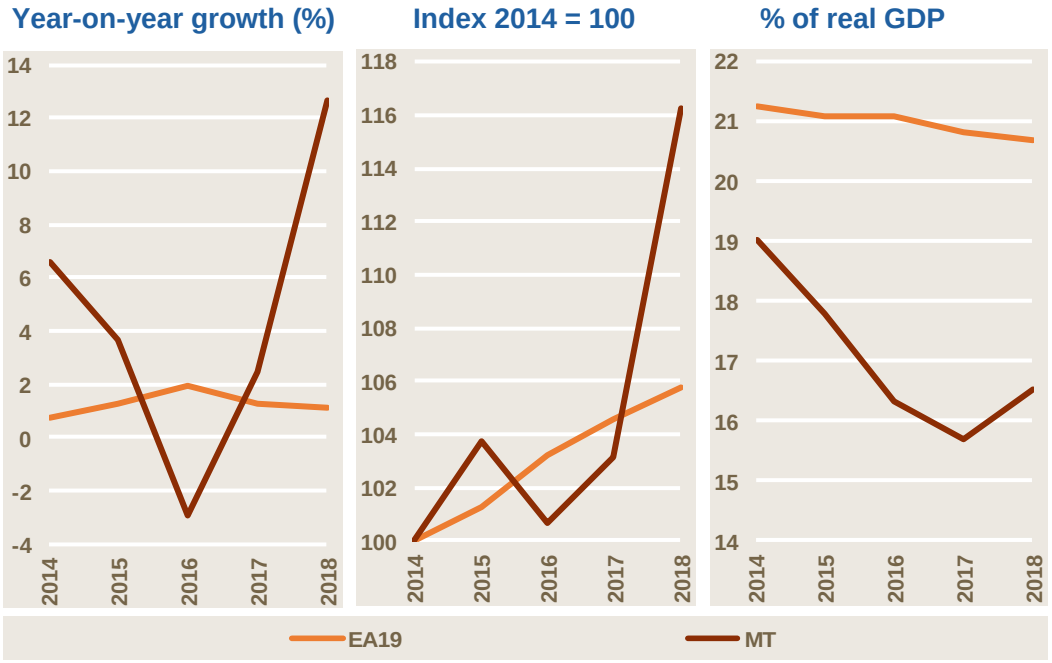


Source: Eurostat

Yearly growth in real **government consumption** in Malta averaged 4.5%, which is above the 1.3% average growth recorded in the euro area during the same period (see Chart 2.5). In Malta's case, the yearly volatility was influenced by the swings in the value of market output (driven by the proceeds from the Individual Investor Programme) during these years. In 2018, real Government consumption in Malta was 16.2% higher than in 2014, mainly reflecting the expansion recorded at the end of the horizon. However, Government consumption as a percentage of real GDP was lower in Malta than in the euro area, standing at 16.5% in 2018, compared to 20.7% in the euro area.

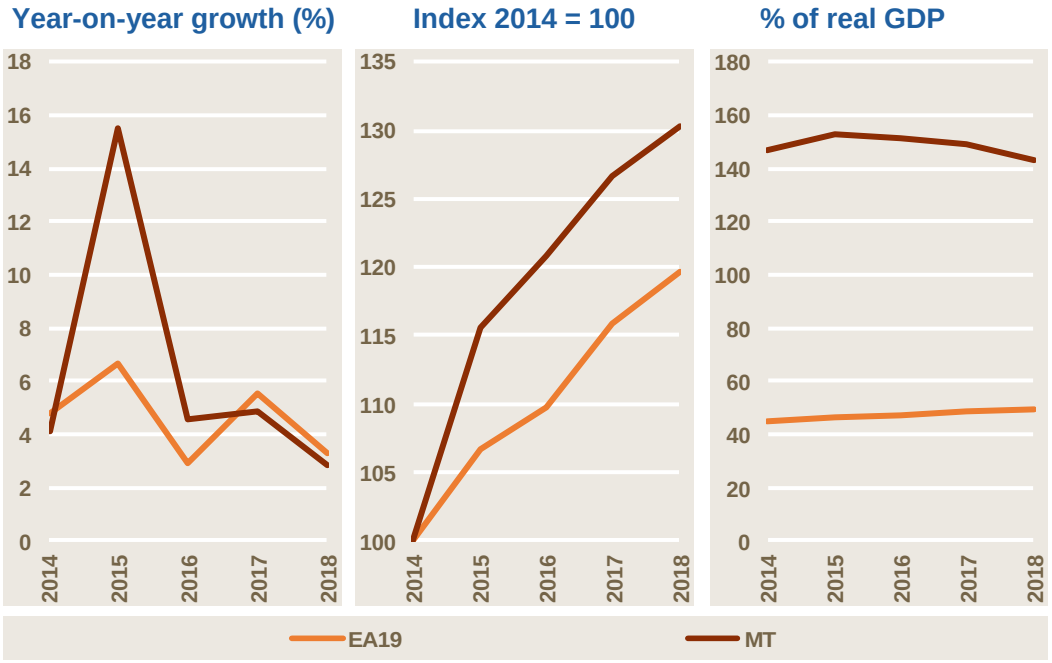
Apart from the spike in 2015, growth in Malta's **exports** was comparable to the euro area (see Chart 2.6). Malta's exports grew by an average 6.4%, higher than the 4.6% recorded in the euro area. Both in Malta and in the euro area, exports maintained an upward trend. In the case of Malta this led to the volume of exports to rise by 30.3% since 2014, while in the euro area the increase amounted to 19.6%. Despite easing slightly, Malta's share of exports in GDP remained very high, around three times the comparable ratio in the euro area.

Chart 2.5: Government consumption



Source: Eurostat

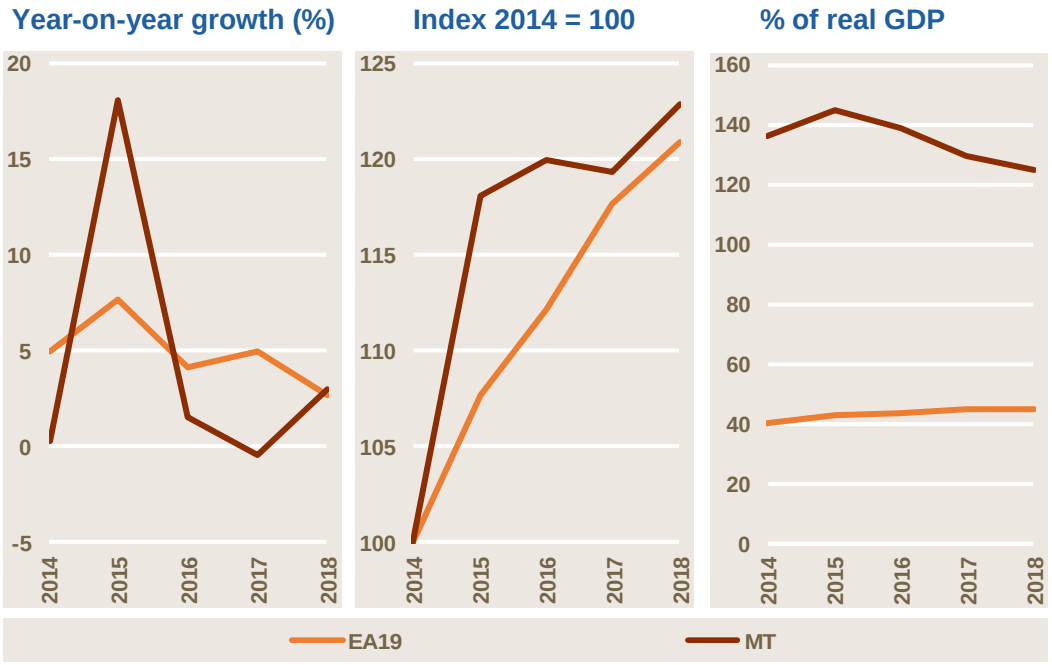
Chart 2.6: Exports of goods and services



Source: Eurostat

The **import** patterns in Malta and the euro area ensued from the developments in the previously mentioned GDP components (see Chart 2.7). Malta's surge in imports in 2015 mirrored the buoyant investment and export growth during the same year. [7] The overall changes between 2014 and 2018 were very similar, rising by 22.9% in Malta and slightly less, 20.9% in the euro area. Malta's share of imports in GDP followed a slight declining path since 2015, while the euro area experienced a slight increase. Still in Malta the size of imports remained around three times higher than in the euro area, mirroring the same pattern for exports.[8,]

Chart 2.7: Imports of goods and services



Source: Eurostat

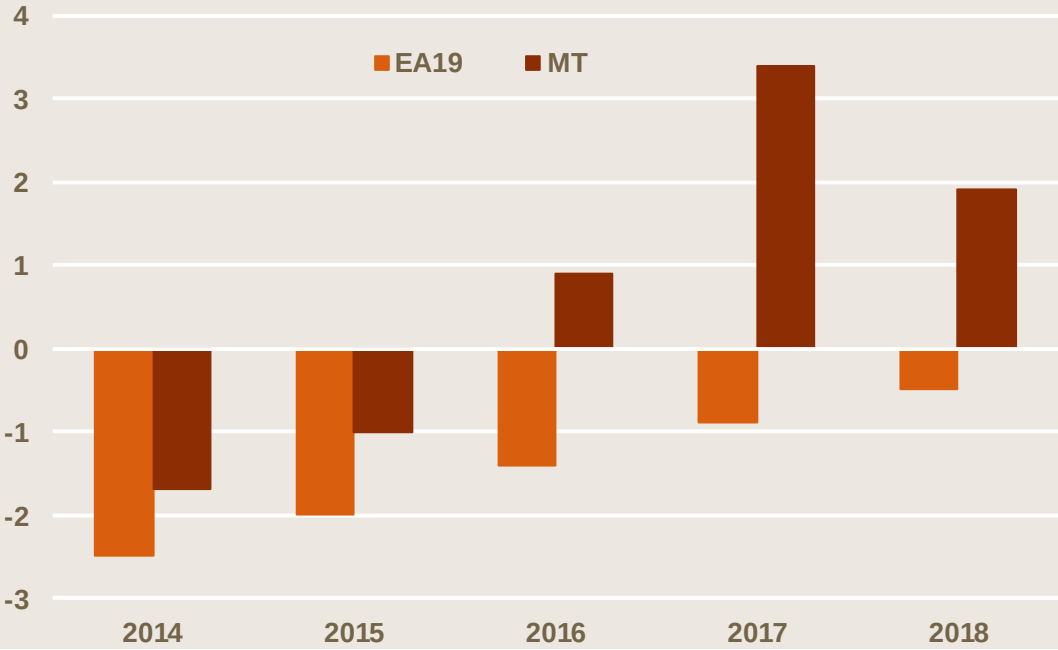
[7] In Malta both investment and exports have a high import content.
[8] Malta being a small open economy, it is to be expected that import and export dynamics vary significantly from the euro area average.

2.3 Fiscal developments

2.3.1 Fiscal balance and public debt

Between 2014 and 2018, the **fiscal balance** improved in both Malta and the euro area (see Chart 2.8). In Malta the fiscal balance swung from a deficit of 1.7% of GDP in 2014 to a surplus starting from 2016. The stream of fiscal surpluses in Malta amounted to 0.9% of GDP in 2016, and 3.4% and 1.9% in the subsequent two years. Overall, the euro area still recorded a fiscal deficit throughout this period, but this narrowed from 2.5% of GDP in 2014 to 0.5% of GDP in 2018.

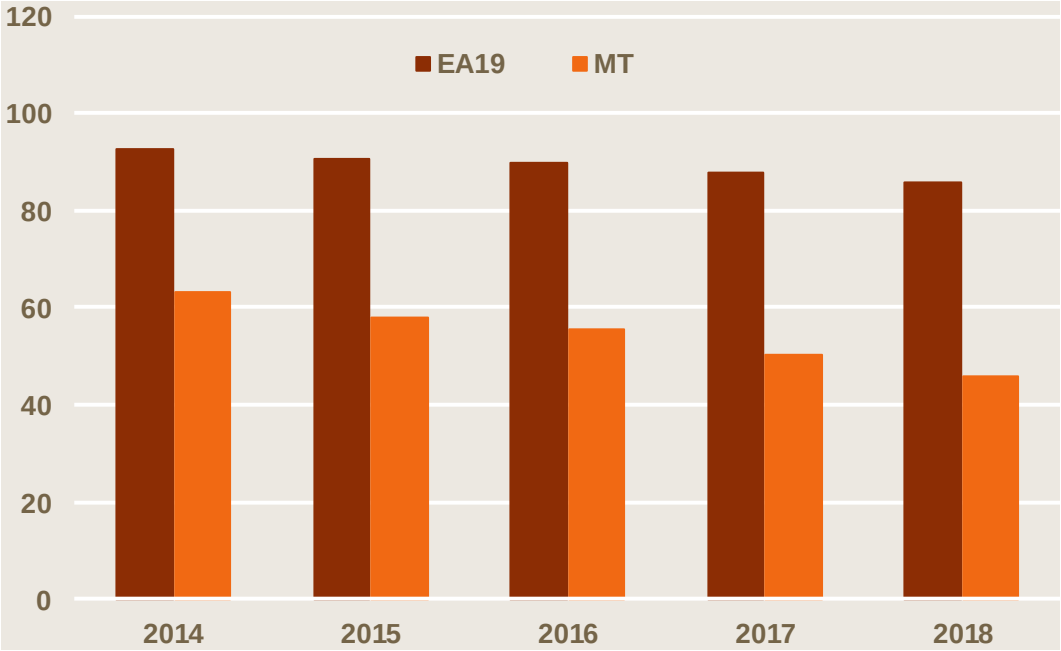
Chart 2.8: Fiscal balance (% of nominal GDP)



Source: Eurostat

Both Malta and the euro area experienced a consistent decline in the **public debt** as a percentage of nominal GDP since 2014 (see Chart 2.9). However, the magnitude of this decline was larger for the Maltese economy. In 2014, the debt-to-GDP ratio in Malta amounted to 63.4%, while in the euro area it was higher, at 92.8%. By 2018, the debt-to-GDP ratio in Malta dropped to 45.8%, reflecting the elevated nominal GDP growth and the stream of fiscal surpluses. This was around half the ratio observed in the euro area, which amounted to 85.9%.

Chart 2.9: Public debt (% of nominal GDP)



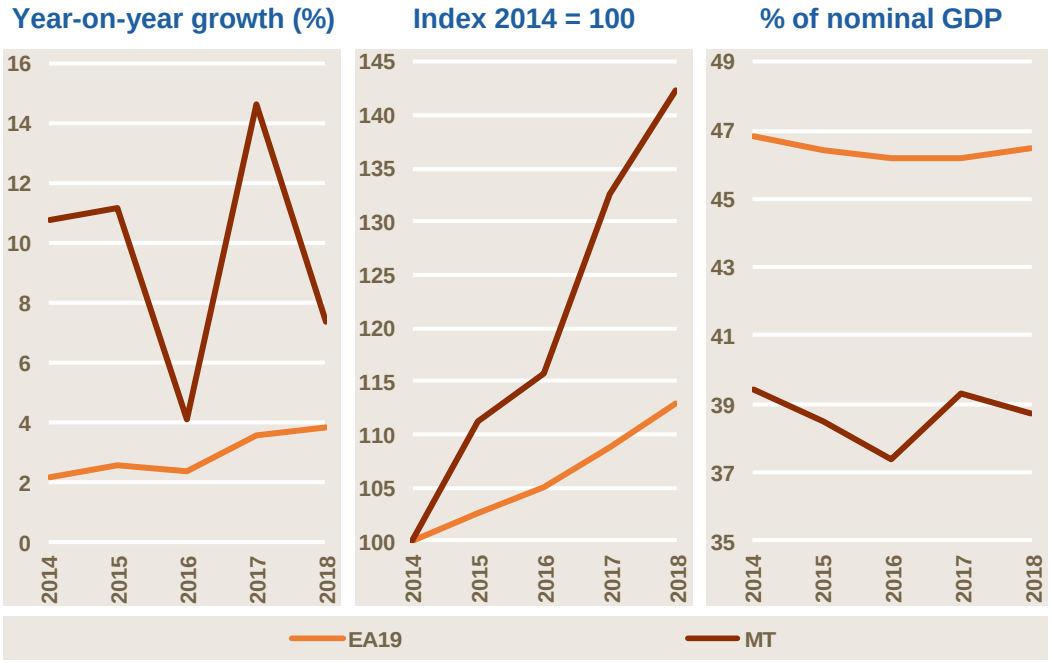
Source: Eurostat

2.3.2 Revenue

In Malta, growth in **total revenue** has been consistently stronger than in the euro area (see Chart 2.10). The annual growth in total revenue in Malta ranged between 4.1% and 14.6%, whereas in the euro area growth was smoother, rising from 2.2% in 2014 to 3.8% in 2018. During the period under review total revenue in Malta increased by 42.4%, more than three times the expansion recorded in the euro area. Nevertheless, when expressed as a percentage of GDP, the revenue ratio in Malta remained significantly lower than in the euro area, hovering around 39.0% in the case of Malta some 8 percentage points lower than in the euro area.

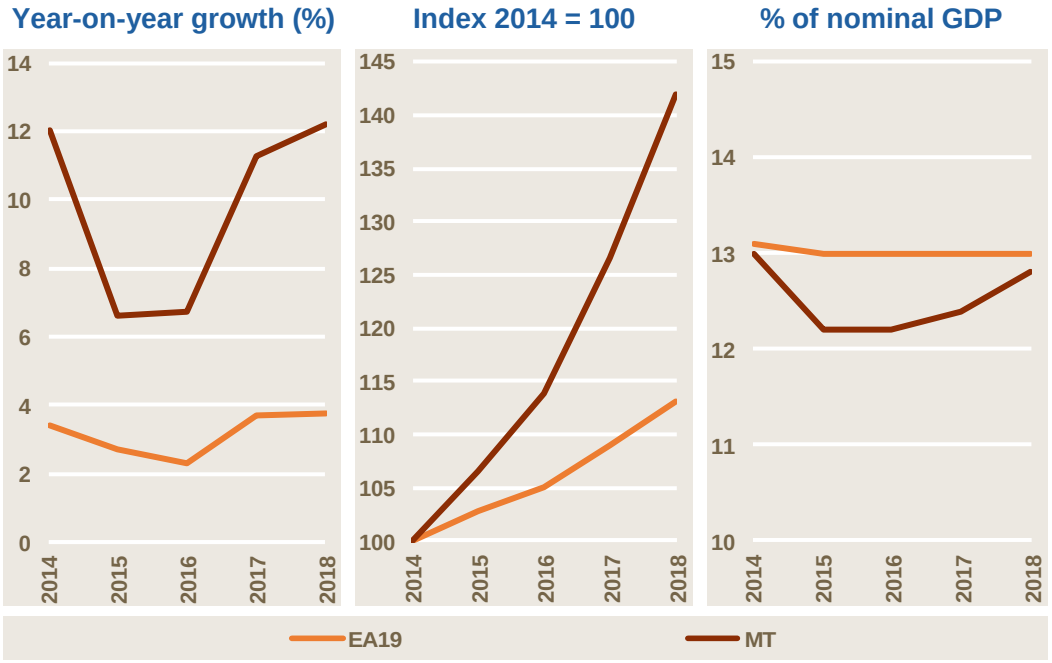
In each year, **taxes on production and imports** (indirect taxes) grew faster in Malta than in the euro area (see Chart 2.11). As a result, in 2018 the revenue collected from this source was 42.0% more than in 2014 in the case of Malta. This was more than three times the increase recorded in the euro area. As a percentage of GDP, taxes on production and imports in Malta and the euro area were almost the same at the beginning and the end of the period under review.

Chart 2.10: Total revenue



Source: Eurostat

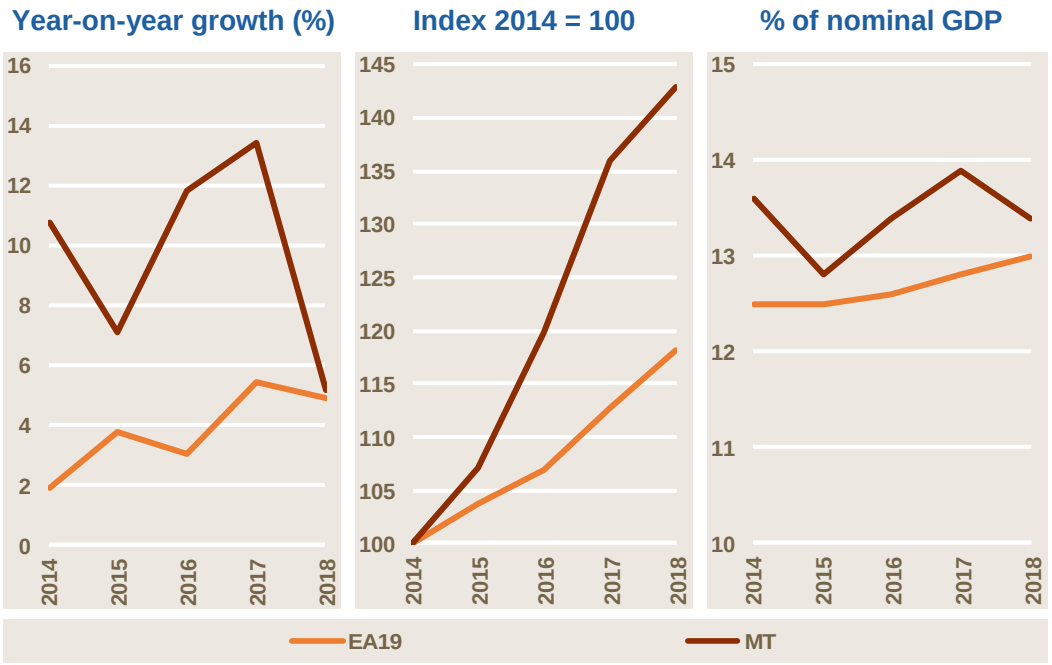
Chart 2.11: Taxes on production and imports



Source: Eurostat

Apart from 2018, **taxes on income and wealth** (direct taxes) in Malta grew by much more than in the euro area (see Chart 2.12). Thus, when compared to 2014, revenues from direct taxes rose by 42.8% in Malta, significantly more than the 18.2% growth recorded in the euro area. Despite some fluctuations, the ratio of direct taxes to GDP in Malta thus remained slightly above that in the euro area.

Chart 2.12: Taxes on income and wealth

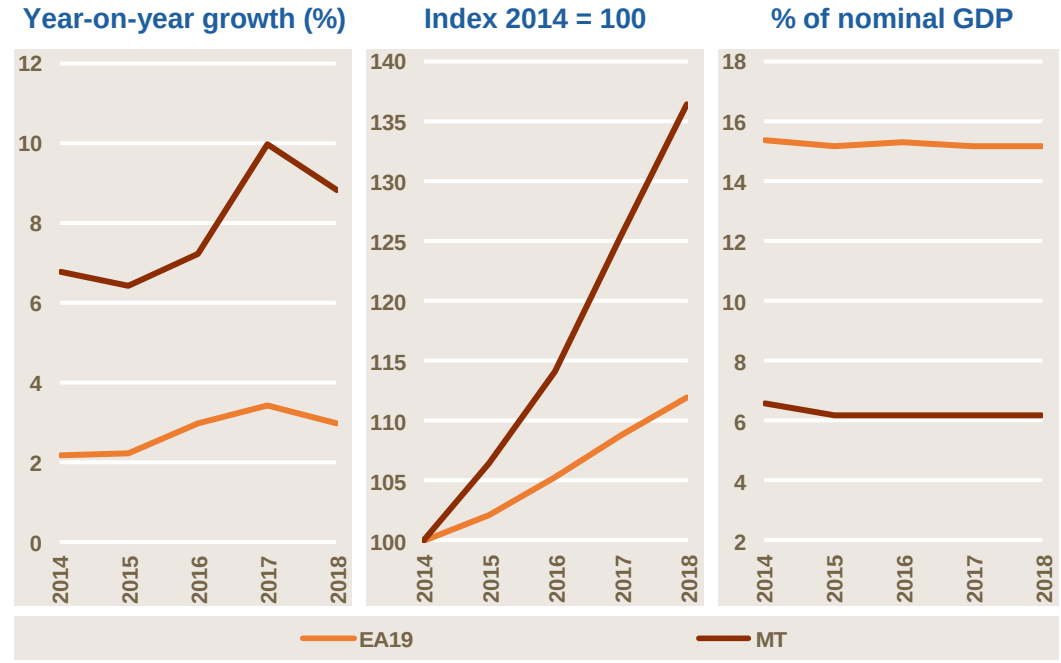


Source: Eurostat

Even **social contributions** grew consistently more strongly in Malta than in the euro area (see Chart 2.13). This was in line with the job-rich growth experienced by Malta. Indeed, social contributions expanded by an average of 7.8% compared to the 2.7% growth recorded in the euro area. In 2018, social contributions were thus 36.5% higher than in 2014 in Malta, exceeding the 12.0% increase recorded in the euro area. Still, the ratio of social contributions to nominal GDP, in Malta remained much lower in Malta than in the euro area, respectively stable at around 6.3% and 15.3%.

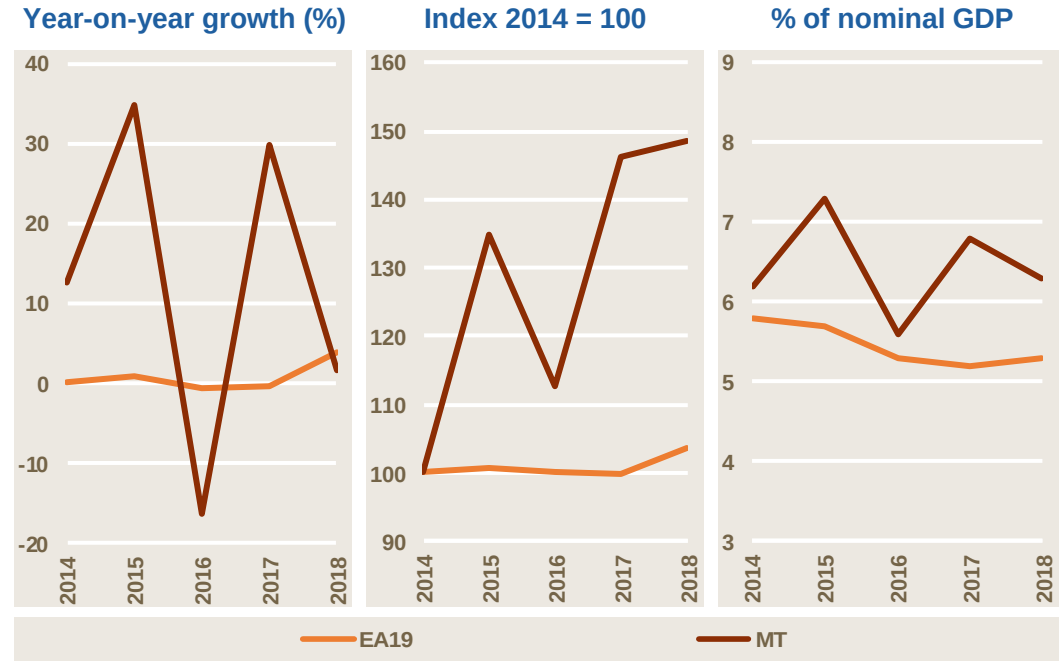
Other revenue, which comprises capital taxes, property income and 'other' revenue, was more volatile in Malta when compared to the euro area (see Chart 2.14). In absolute terms, other revenue expanded by 48.4% in the case of Malta (driven by the proceeds related to the Individual Investor Programme), whereas in the euro area it remained stable, apart from a small increase in 2018. The ratio with respect to GDP averaged around 6.4% in the case of Malta and slightly less in the euro area.

Chart 2.13: Social contributions



Source: Eurostat

Chart 2.14: Other revenue

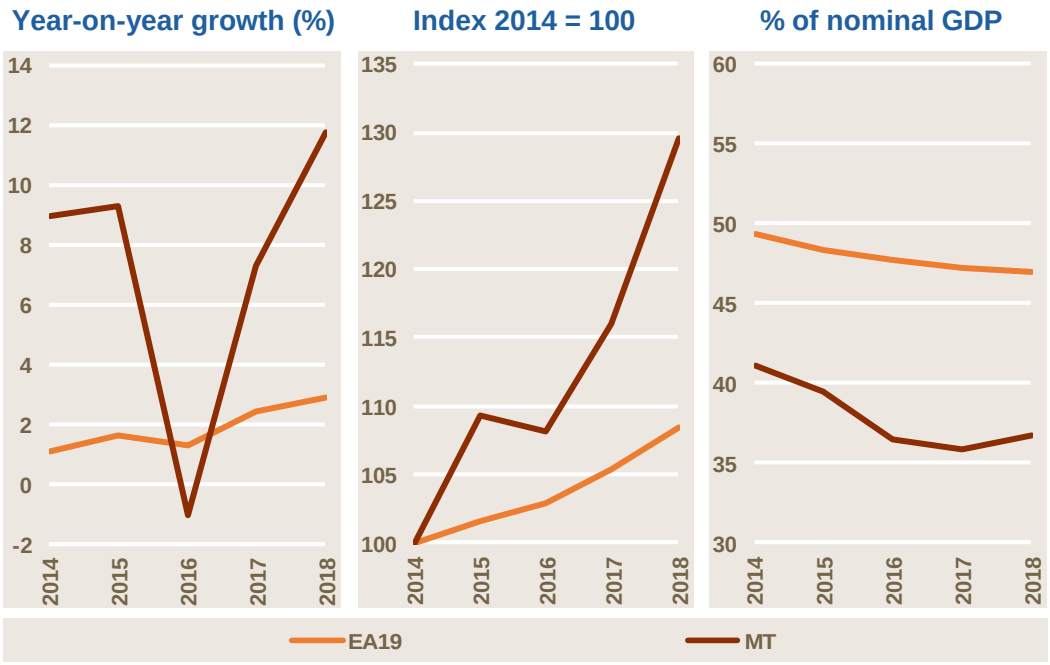


Source: Eurostat

2.3.3 Expenditure

In Malta, growth in **total expenditure** outstripped that in the euro area in four out of five years (see Chart 2.15). Indeed, between 2014 and 2018 total expenditure grew by an average of 7.2% in Malta while in the euro area it expanded by 1.8%. As a result, within the five-year period total expenditure rose by 29.6% in Malta, three times more than in the euro area. Despite this, when expressed as percentage of GDP, total expenditure in Malta was 10 percentage points below that in the euro area. Both in Malta and in the euro area, the total expenditure to GDP ratio in 2018 was lower than that in 2014, as nominal GDP grew faster than total expenditure.

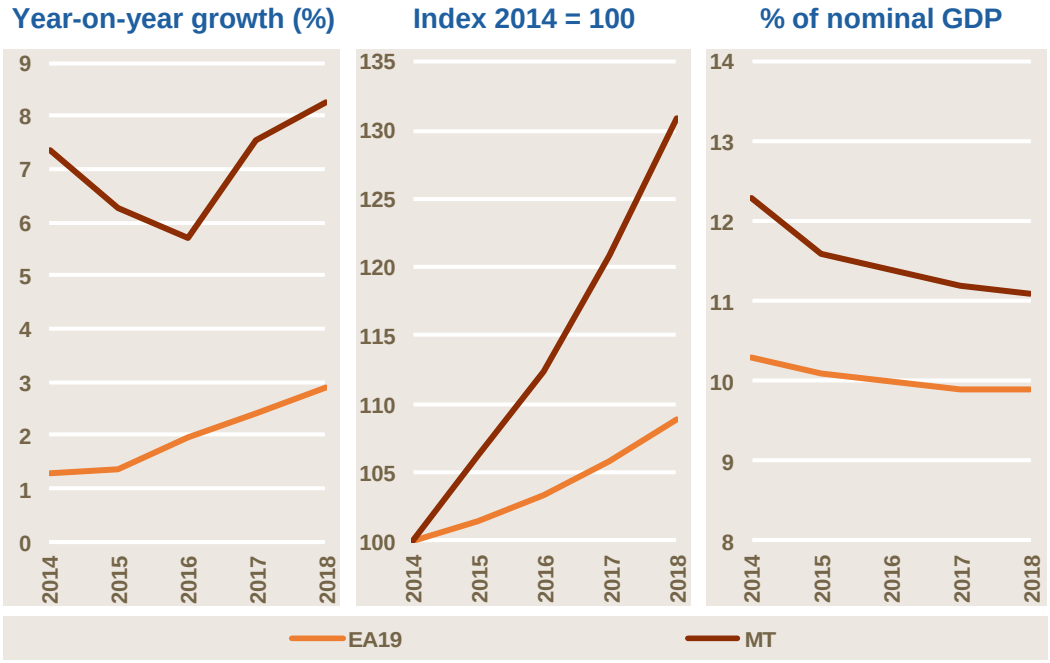
Chart 2.15: Total expenditure



Source: Eurostat

Compensation of employees grew at a much more rapid pace in Malta than in the euro area (see Chart 2.16). During the five-year period outlays rose by 30.8% in Malta, while in the euro area the increase was contained to 8.9%. Both in Malta and the euro area, compensation of employees expanded at a slower pace than nominal GDP, resulting in a declining ratio. In Malta this effect was slightly larger, but nevertheless, at 11.1%, in 2018, the ratio remained above that in the euro area.

Chart 2.16: Compensation of employees

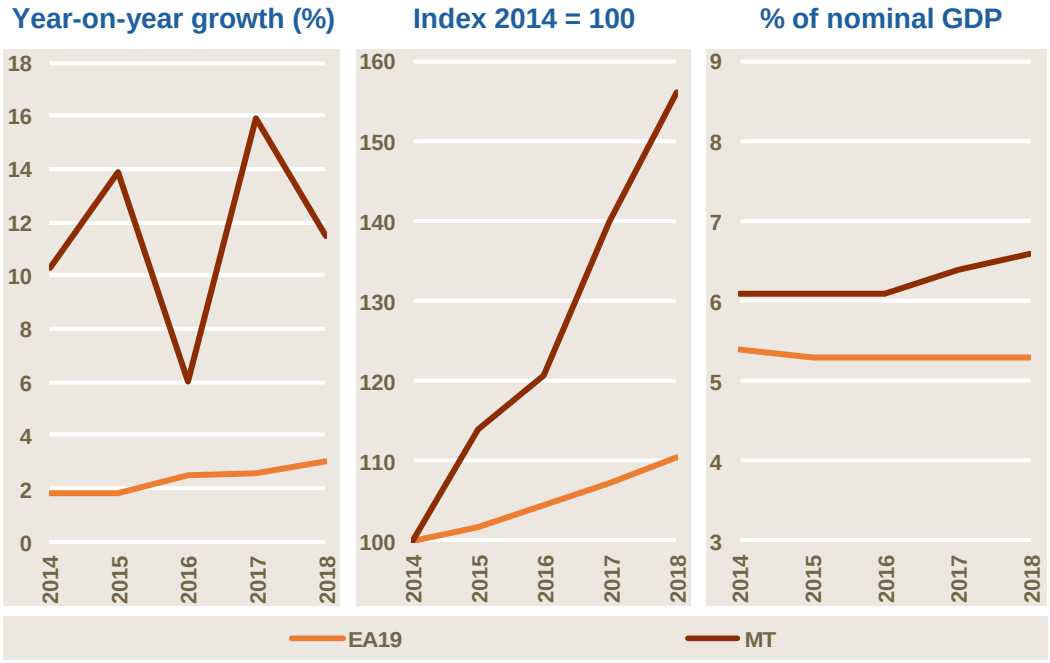


Source: Eurostat

Spending on **intermediate consumption** in Malta registered faster growth than in the euro area and was rather volatile (see Chart 2.17). This expenditure item registered the largest growth between 2014 and 2018 compared to the other categories. In 2018 it was 56.1% higher than in 2014, while in the euro area the increase was limited to 10.3%. In Malta, spending on intermediate consumption, as a percentage of GDP, thus remained slightly above that in the euro area average. Such ratio also rose slightly in Malta, in contrast with the stability observed in the euro area.

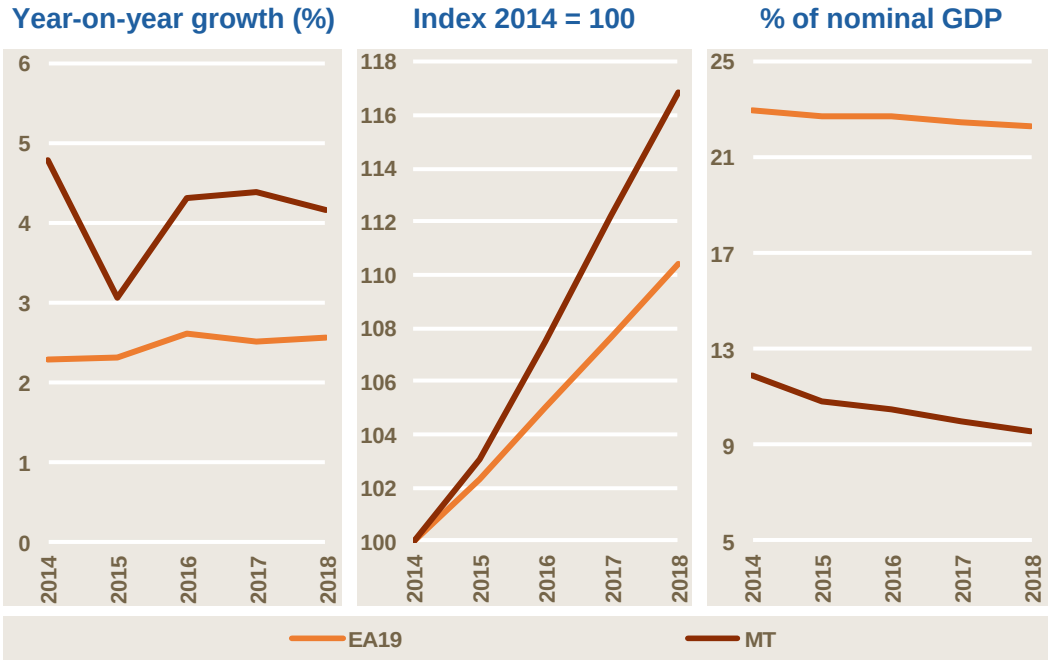
Social payments grew at a slightly faster pace in Malta compared to the euro area (see Chart 2.18). Overall the growth difference is smaller compared to other expenditure categories. Indeed, between 2014 and 2018, social payments rose by 16.9% in Malta, while in the euro area the growth was 10.4%. On the other hand, there is a large difference in the amount of outlays when compared to nominal GDP. Whereas in 2018, the ratio in Malta stood at 9.6%, in the euro area this category amounted to 22.3%. Moreover, whereas in the euro area this ratio was stable, in Malta it declined slightly.

Chart 2.17: Intermediate consumption



Source: Eurostat

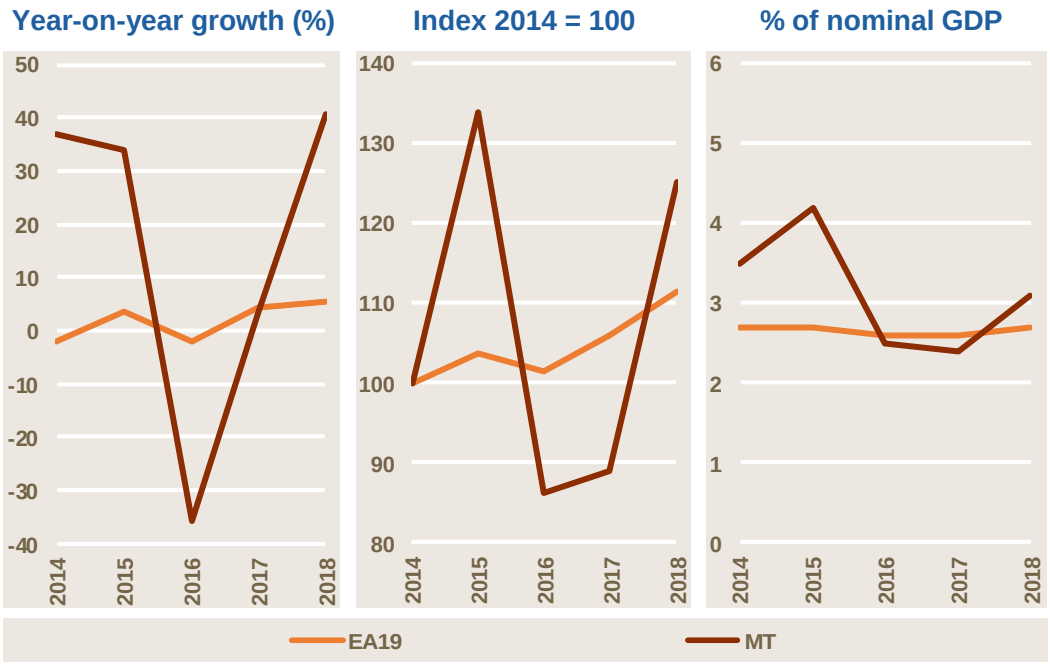
Chart 2.18: Social payments



Source: Eurostat

Spending on **gross fixed capital formation** by general government experienced very volatile patterns in Malta (see Chart 2.19). Indeed, during the period under review growth ranged from 40.7% to -35.6%, displaying the largest swings within the budget. Overall, in 2018 public investment was 25.3% higher than in 2014, while in the euro area the increase amounted to 11.5%. However, when compared to nominal GDP, gross fixed capital formation remained close to 3%, both in Malta and in the euro area.

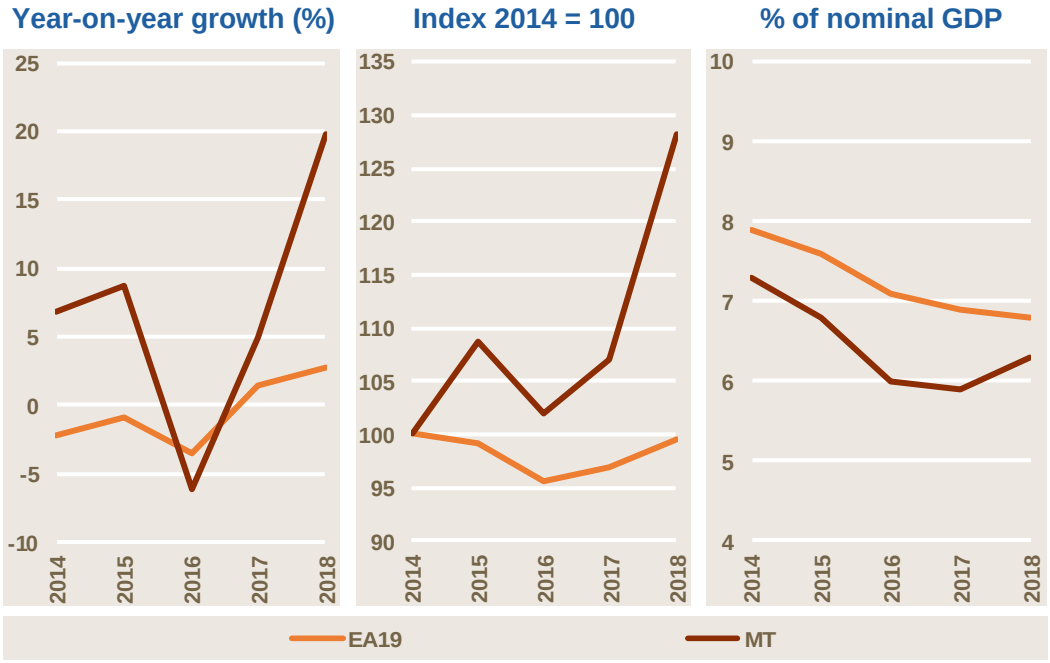
Chart 2.19: Gross fixed capital formation



Source: Eurostat

Other expenditure, which comprises interest payments, subsidies, capital transfers payable and 'other' expenditure, grew by an average of 6.8% in Malta but declined by an average of 0.5% in the euro area (see Chart 2.20). Over a five-year period, such spending remained practically the same in the euro area but increased by 28.2% in Malta. However, when expressed as a percentage of nominal GDP, the ratio exhibited similar patterns in Malta and the euro area.

Chart 2.20: Other expenditure



Source: Eurostat

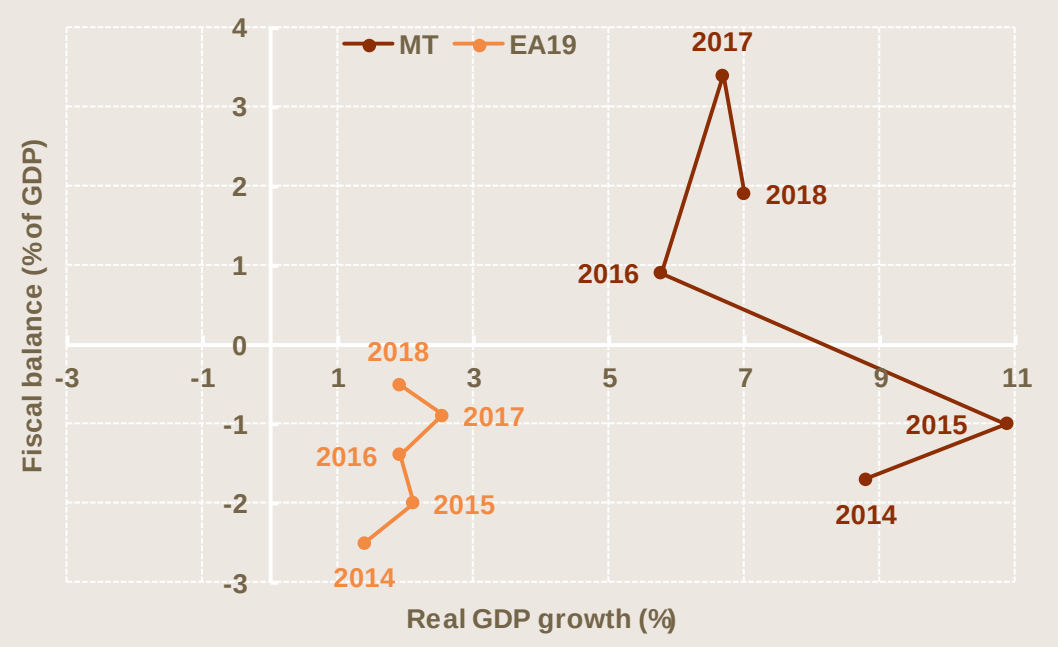
2.4 GDP and fiscal developments

Between 2014 and 2018 real GDP growth in Malta was significantly higher than in the euro area and the fiscal balance was also more positive (see Chart 2.21).

From a structural perspective, the Maltese economy converged closer to the euro area in terms of standard of living (as measured by the GDP at PPS). However, in Malta, private consumption, government consumption and investment remain somewhat low when compared to the euro area (see Chart 2.22). On the contrary, Malta's very high export and import to GDP ratios confirm the country's very high openness and outlier position with respect to the euro area.

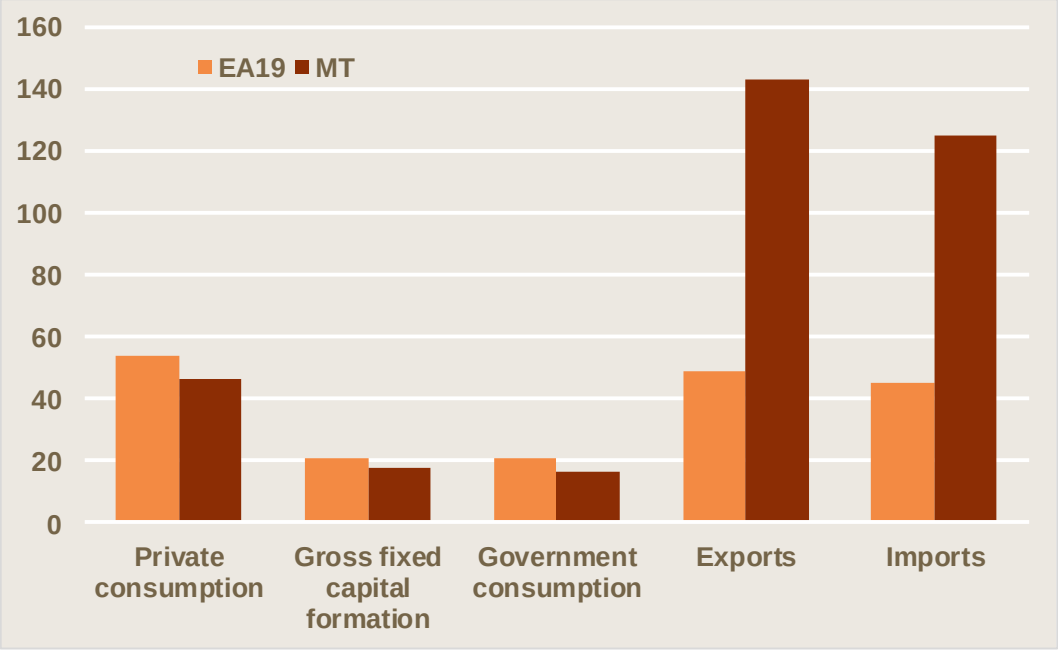
On the fiscal front, Malta's revenue and expenditure ratios (when compared to nominal GDP) are respectively some 7.8% and 10.3% below the euro area. In the case of revenue, the main difference relates to the lower social contributions paid in Malta compared to the euro area (see Chart 2.23). On the expenditure front this is mirrored by the lower social payments paid in Malta compared to the euro area (see Chart 2.24).

Chart 2.21: Real GDP growth and fiscal balance



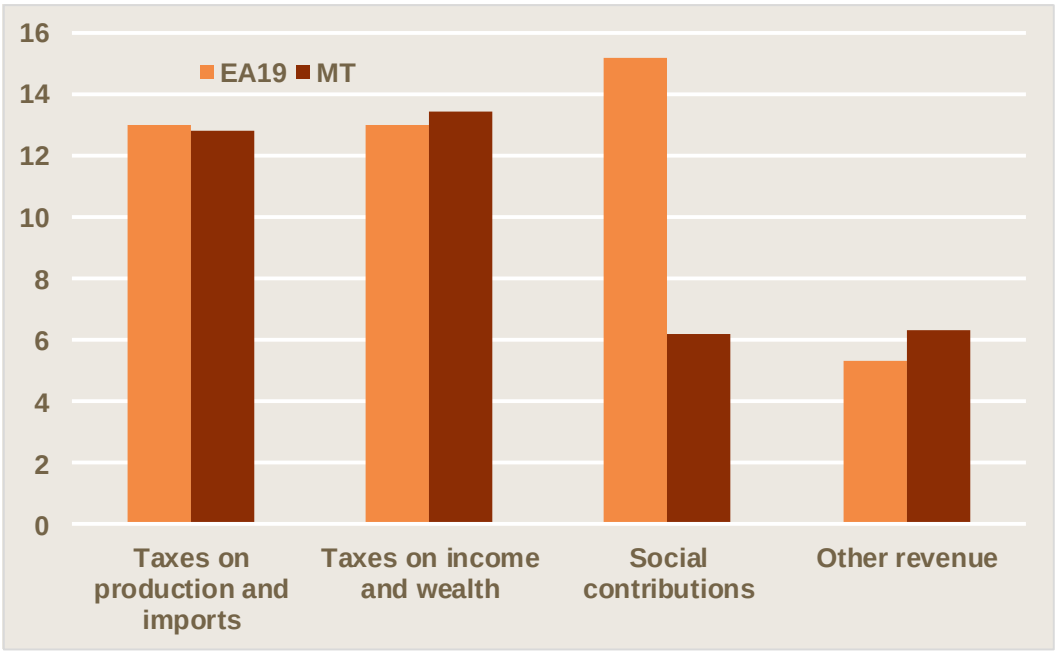
Source: Eurostat

Chart 2.22: Real GDP components in 2018 (% of real GDP)



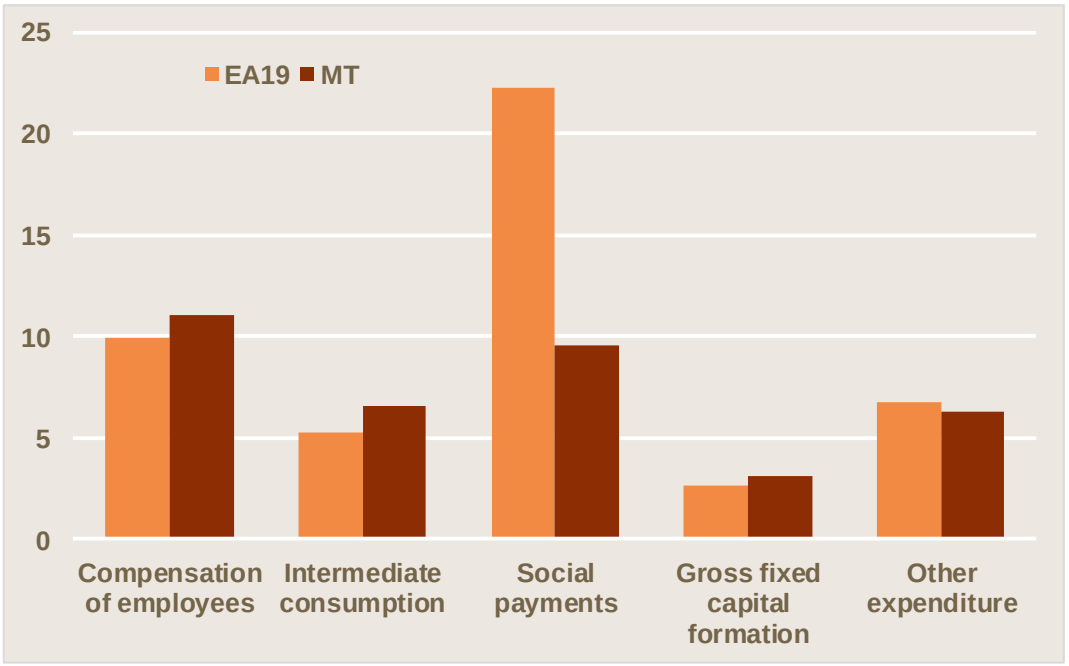
Source: Eurostat

Chart 2.23: Revenue components in 2018 (% of nominal GDP)



Source: Eurostat

Chart 2.24: Expenditure components in 2018 (% of nominal GDP)



Source: Eurostat

2.5 Conclusion

Between 2014 and 2018 Malta enjoyed more benign economic conditions compared to the euro area. This facilitated the improvement in public finances which in Malta was more pronounced than in the euro area, both in relation to the fiscal balance and the public debt-to-GDP ratio. The faster economic growth in Malta contributed to higher revenue growth, which in turn financed stronger expenditure growth, while still achieving the target of a fiscal surplus.

Chapter 3

Extra-Budgetary Units

3.1 Introduction

Extra-Budgetary Units (EBUs) are entities which are classified as part of general government because they meet specific criteria. These entities are established by Acts of Parliament and are responsible to perform specialised public functions in areas such as education, health, administration, regulation and social policy. These institutions are legally required to prepare an annual set of audited accounts and their annual financial budget is approved by Parliament. The accounting system used by EBUs is accruals-based, in contrast with the cash-based system adopted for the Consolidated Fund transactions.

Although the Consolidated Fund covers most of the government's activities, the fiscal balance and public debt, measured on an ESA basis, are also impacted by the operations of those entities classified as EBUs.[9] Thus, establishing whether an institution is an EBU, and hence within the general government sector, or otherwise, is of critical importance, in order to give a complete perspective on the fiscal situation in the country and assess compliance with the fiscal rules.[10]

3.2 Classifying an Extra-Budgetary Unit

Entities are tested twice a year, to check their statistical status. This is carried out prior to the fiscal notification which the National Statistics Office (NSO) forwards to the European Commission in April and October each year. This notification transmits the official data on Malta's fiscal balance and public debt, necessary to verify ex-post compliance with the European fiscal rules.

For classification purposes it is first necessary to determine whether an entity is a **government-controlled institutional unit** or not.[11] A government-controlled institutional unit means that the entity is directly or indirectly controlled by the

[9] ESA refers to the European system of national and regional accounts. The fiscal rules specified in the Fiscal Responsibility Act and the Stability and Growth Pact refer to the fiscal statistics compiled according to ESA.
[10] General government balance = Consolidated Fund balance + EBU balance + other statistical adjustments.
[11] An institutional unit has autonomy of decision in owning and exchanging goods and services; in taking economic decisions; in incurring liabilities or obligations; can enter into contracts; and draws up a complete set of accounts.

government. This happens when the Government enjoys any one of the following conditions: (1) rights to appoint, remove, approve or veto a majority of officers, board of directors, etc.; or (2) rights to appoint, veto or remove a majority of appointments for key committees (or sub-committees) of the entity having a decisive role on key factors of its general policy; or (3) ownership of the majority of voting interest. In case the assessment is inconclusive, other factors which impact the classification decision include: the rights to appoint, vet or remove key personnel; rights under special shares and options; rights to control via contractual agreements or from agreement/permission to borrow; or control via excess regulation.

If the government-controlled entity finances its operational activity through the sale of goods and services at economically significant prices then it is considered as a **market producer** and thus classified outside general government.[12] There are two main tests which are employed to verify this, a **quantitative test** and a **qualitative test**.

The quantitative test verifies whether sales cover more or less than 50% of the production costs. The general rule is that if sales cover more than 50%, the entity is not to be treated as an EBU. This condition normally needs to be satisfied for at least 3 years, to enable an entity to be considered outside general government. However, if the unit would have surpassed the 50% ratio in the previous year and it is strongly expected to hold it for near future, then the unit can also be classified outside general government (therefore not labelled as EBU). On the other hand, whenever an entity sells all its output to the government, such entity is automatically classified inside the general government sector (labelled as EBU).

In the case of newly established units, forward-looking business plans are normally used to base the decision of whether a unit would surpass or not the 50% benchmark. When the audited accounts for subsequent years become available, the NSO can then verify whether the initial classification was validated or whether a reclassification is necessary.[13]

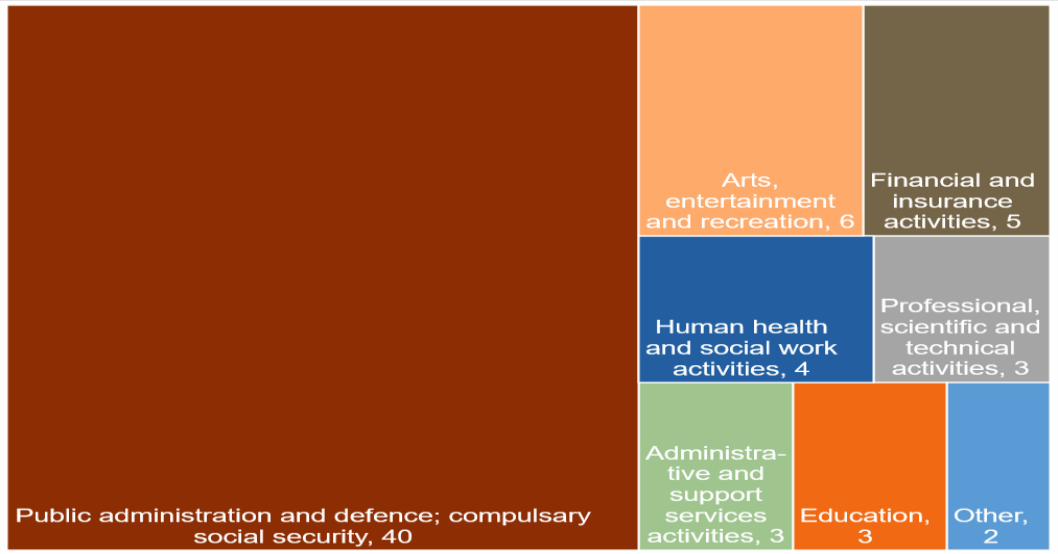
[12] An economically significant price is a price which has a substantial influence on the amounts of products the producers are willing to supply and on the amounts of products that the purchasers wish to acquire. An economically insignificant price is one which is completely unrelated to the cost of production of the good or service.
[13] Such reclassification would normally be backdated, thereby changing the time series for the fiscal balance and / or public debt.

Should a unit obtain a positive result in the **market test ratio**, because sales cover more than 50% of costs, the entity still needs to pass the qualitative test to qualify as a market producer, and hence fall outside general government. The qualitative test offers further guidelines how to treat specific type of entities and situations, such as hospitals, financial institutions and special purpose entities. [14]

3.3 The list of Extra-Budgetary Units in Malta

The list of EBUs is regularly published by the NSO.[15] The latest list shows the institutions classified as EBUs as at 31 December 2018.[16] Each EBU is categorised according to the **NACE** code.[17] The majority of EBUs, 40 entities, are classified under NACE section O, code 84 'Public administration and defence; compulsory social security', with the other 26, spread under 8 different NACE sections (see Chart 3.1). The full list of entities classified as EBUs is presented in Table 3.1 and Table 3.2.

Chart 3.1: EBUs by NACE



Note: The area of each rectangle represents the number of entities in each category out of the total set of EBUs. Other includes NACE sections 'E' and 'J'.
Source: NSO

[14] For further details refer to the Manual on Government Deficit and Debt 2019 Edition published by Eurostat.
[15] The list is available on: https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A2/Public_Finance/Pages/General-Government-Balance-and-Debt-under-the-Maastricht-Treaty.aspx.
[16] The cut-off date for information presented in this chapter is 21 February 2020.
[17] NACE is a coding system to classify economic activities in the EU. It is derived from the French term "nomenclature statistique des activités économiques dans la Communauté européenne".

Table 3.1: EBUs included under NACE section 'O' – Public administration and defence; compulsory social security' as at 31 December 2018

Bord tal-Koperattivi
Broadcasting Authority
Environment and Resources Authority
Environment Protection Fund
Fort Security Services Ltd
Foundation for Educational Services
Foundation for Medical Services
Foundation for Tomorrow's Schools
Housing Authority
Identity Malta
Infrastructure Malta
Lands Authority
Malta Communications Authority
Malta Competition and Consumer Affairs Authority
Malta Council for Economic and Social Development
Malta Council for Science and Technology
Malta Enterprise Corporation
Malta Gaming Authority
Malta Government Investments Ltd
Malta Government Technology Investments Ltd
Malta Individual and Investor Programme Agency
Malta Investment Management Co. Ltd
Malta Residency and Visa Programme Agency
Malta Resources Authority
Malta Statistics Authority
Malta Tourism Authority
Medicines Authority
National Audit Office
National Commission Persons with Disability
National Development and Social Fund
Occupational Health and Safety Authority
Office of the Ombudsman
Planning Authority
Projects Malta Ltd
Projects Plus Ltd
Property Management Services
Regulator for Energy and Water Services
Selmun Palace Hotel
Superintendence of Cultural Heritage
Valletta Cultural Agency

Source: NSO

Table 3.2: EBUs included under other NACE sections as at 31 December 2018

NACE section	
E	WasteServ Malta Ltd
J	Malta Information Technology Agency
K	Depositor Compensation Scheme
K	Investor Compensation Scheme
K	Libyan Arab Maltese Holdings Ltd
K	MSE (Holdings) Ltd
K	Protection and Compensation Fund
M	Grand Harbour Regeneration Corporation
M	Trade Malta Ltd
M	Yachting Malta Ltd
N	Gozo Channel (Holdings) Co. Ltd
N	Jobsplus
N	Resources Support and Services Ltd
P	International Institute on Ageing
P	Malta College of Arts, Science and Technology (MCAST)
P	University of Malta
Q	Foundation for Social Welfare Services
Q	Mental Health Services
Q	Sapport
Q	The Rehabilitation Hospital Karin Grech
R	Arts Council Malta
R	Heritage Malta
R	Malta Philharmonic Orchestra
R	Manoel Theatre Management Committee
R	SportMalta
R	St James Cavalier Creativity Centre

NACE sections: **E** – Water supply; sewerage; waste management and remediation activities; **J** – Information and communication; **K** – Financial and insurance activities; **M** – Professional, scientific and technical activities; **N** – administrative and support service activities; **P** – Education; **Q** – Human health and social work activities; **R** – Arts, entertainment and recreation.

Source: NSO

3.4 The financial performance of Extra-Budgetary Units

Between 2014 and 2018 EBUs registered a **surplus** in each year, as revenue always exceeded expenditure (see Table 3.3). The surplus increased significantly starting from 2016. In that year, the surplus recorded by the EBUs more than compensated for the deficit in the other components of general government, thus contributing to the

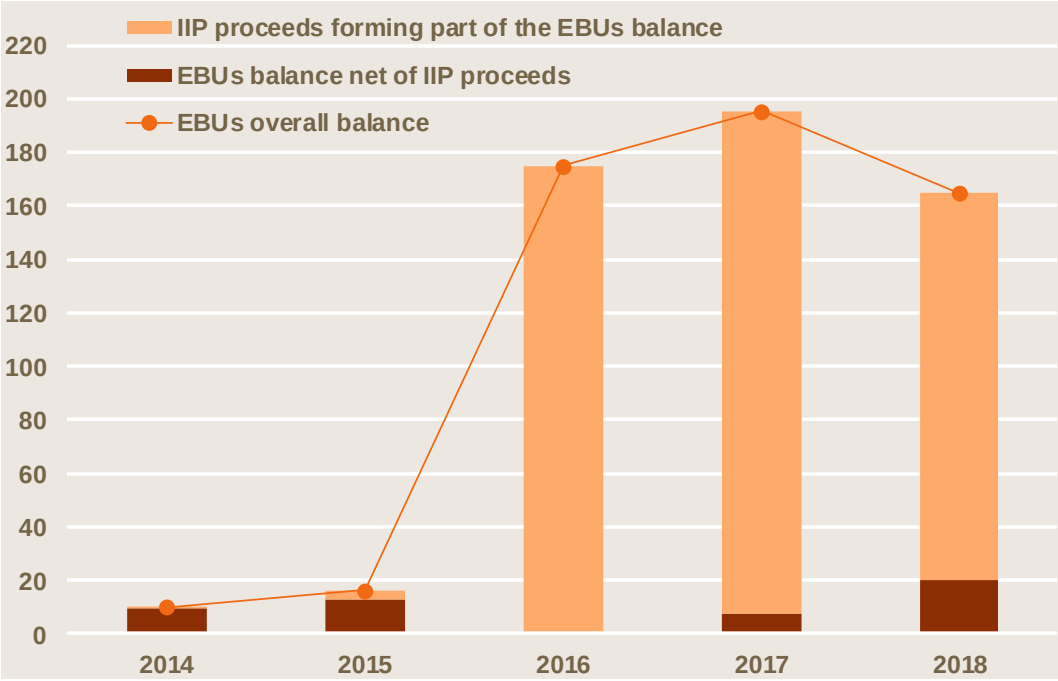
overall fiscal surplus on an ESA basis. In 2017 and 2018, the surplus generated by the EBUs supplemented the surplus recorded by the rest of general government. The significant improvement in the EBUs balance starting from 2016 was the result of the introduction of the **Individual Investor Programme (IIP)**.[18] In 2016, the National Development and Social Fund (NDSF) was set up, and this new EBU contributed to the significant increase in the aggregate surplus of the EBUs (see Chart 3.2).[19]

Table 3.3: General government and EBU balances (EUR millions)

	2014	2015	2016	2017	2018
General government balance net of EBUs	-157.7	-114.4	-80.7	190.0	71.1
EBUs balance	9.9	16.2	175.0	195.3	164.5
General government balance	-147.8	-98.2	94.3	385.3	235.6

Source: NSO

Chart 3.2: EBUs balance (EUR millions)



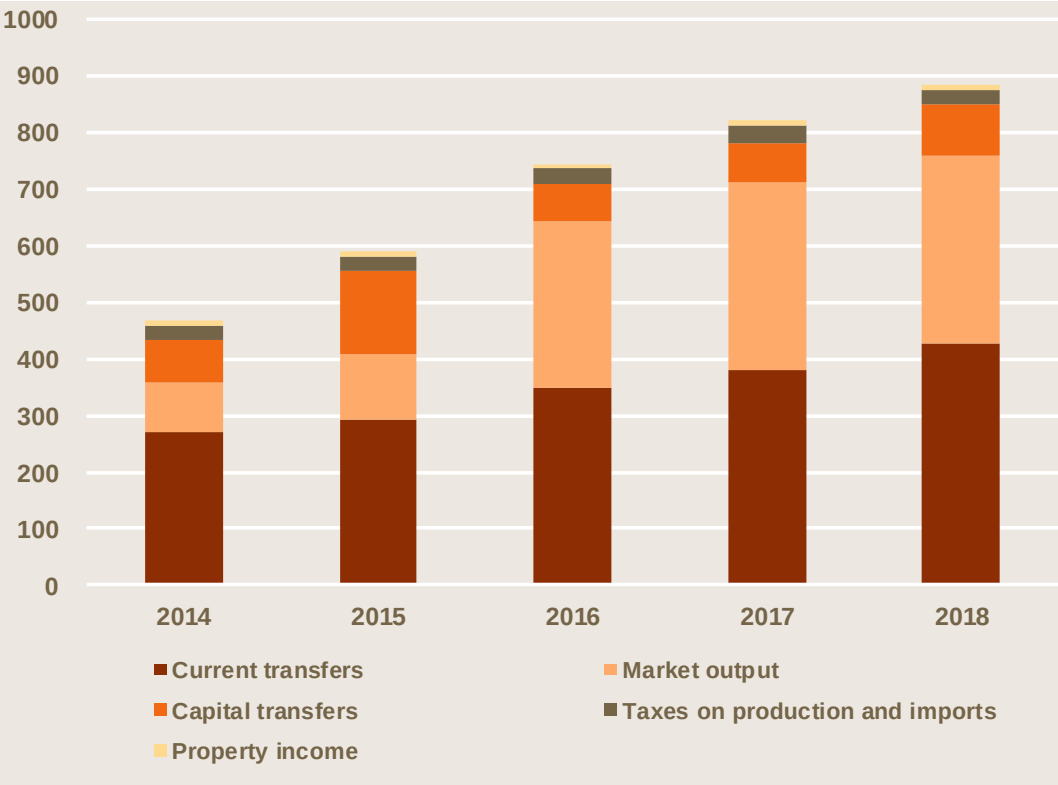
Source: NSO

[18] Out of the total proceeds generated by the IIP, 90% accrues to general government, 6% is retained by Identity Malta (classified as an EBU), whilst 4% is paid as commission to a private unit. In turn, out of the 90%, 30% is transferred to the Consolidated Fund, whilst the other 70% is transferred to the National Development and Social Fund (classified as an EBU).

[19] The proceeds generated from the IIP in 2014 and 2015, which were due to the NDSF were transferred to the NDSF in 2016. Such transfer was however balance neutral with respect to general government.

The aggregate **revenue** generated by EBUs doubled between 2014 and 2018 (see Chart 3.3). The bulk of revenue is in the form of current transfers, which mostly represent direct transfers from other units of government. In this case the overall impact on general government of such amounts is neutral on the fiscal balance as these funds are also recorded as expenditure by the entity providing such funds (within the Consolidated Fund). The second largest component, which in effect has contributed mostly to the observed growth in total revenue over these years is market output. The latter includes the revenues generated by the IIP.

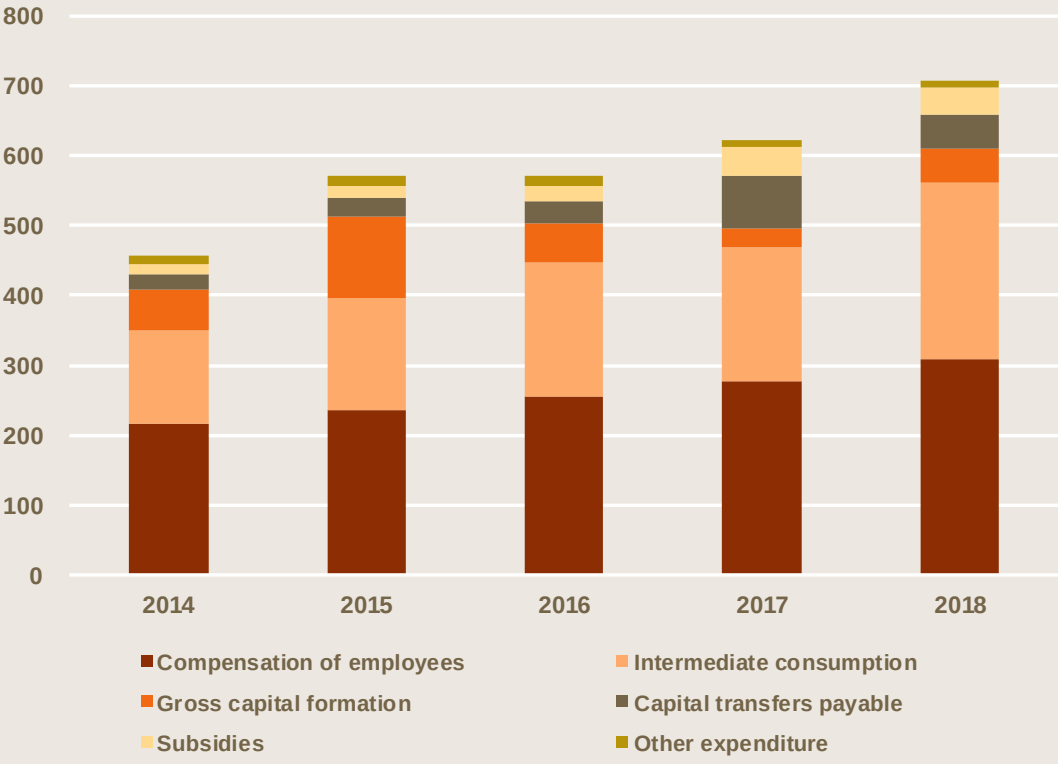
Chart 3.3 Breakdown of the EBUs aggregate revenue (EUR millions)



Source: NSO

On the other hand, the bulk of **expenditures** incurred by EBUs, is channelled towards compensation of employees and intermediate consumption (see Chart 3.4). In 2018, these accounted for 79.4% of total expenditure by EBUs, slightly higher than in 2014, when such ratio stood at 76.6%.

Chart 3.4: Breakdown of the EBUs aggregate expenditure (EUR millions)



Source: NSO

3.5 Conclusion

The setting up of EBUs can serve special purposes such as to improve the delivery of service, to improve efficiency, for independence purposes or delegation of power. Over the years, EBUs have been expanding. Whereas as at end 2014 the list consisted of 50 entities, it expanded to 66 as at end 2018.

The fact that EBUs have on aggregate recorded a surplus between 2014 and 2018 helps to attenuate the overall fiscal risks posed by these entities. At the same time, it is important to evaluate closely the implications on the fiscal balance and public debt of such arrangements. For example, one needs to evaluate the extent to which EBUs may eventually need additional financing or give rise to new contingent liabilities.

Methodological rules at European level may change over the years and this may be the cause that entities which were originally classified outside the general government would end up inside general government. Another fiscal risk which needs to be monitored carefully is the possibility that a new entity originally meeting the criteria to

be classified outside general government (not an EBU), eventually fails to meet the necessary criteria and is reclassified as an EBU at a later stage, thereby adversely impacting the fiscal balance and / or public debt. Under both scenarios, this would imply that the balance of such an entity would be added to the general government balance, and in the eventuality that such entity incurred a loss, it would contribute to a deterioration in the overall fiscal balance.

It is thus very important that when a new entity is considered, a business plan is provided to the NSO to ensure the correct sector classification (whether inside or outside general government) and fully evaluate the fiscal implications of such initiative.

Financial Statements

For the year ended 31 December 2019

Malta Fiscal Advisory Council
Report of the Council Members
For the year ended 31st December 2019

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 2019.

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 €261,000 in Government Subvention during the year ended 31st December 2019 (2018: €257,000) in terms of the Fiscal Responsibility Act and incurred €209,107 in expenditure (2018: €219,813). The Council registered a surplus of €52,752 for the year ended 31st December 2019 (2018: €40,920) 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 Limited, 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 28th February 2020 by:

Mr. John Cassar White
Chairman

Dr. Carl Camilleri
Council Member

Dr. Ian Cassar
Council Member

Registered Office:

Malta Fiscal Advisory Council,
St. Calcedonius 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

Opinion

We have audited the financial statements of Malta Fiscal Advisory Council (the 'Council'), set out on pages 6 to 18, which comprise the statement of financial position as at 31st December 2019, 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31st December 2019, 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 - Director
for and on behalf of PKF Malta Limited
28/02/2020

Ms. Donna Greaves

For and on behalf of
PKF Malta Limited
Certified Public Accountants and Registered Auditors

28th February 2020

Malta Fiscal Advisory Council
Statement of Comprehensive Income
For the year ended 31st December 2019

	Note	2019 EUR	2018 EUR
Income	3	261,000	257,000
Expenditure		(209,107)	(219,813)
Other Income		859	3,733
Surplus before tax		52,752	40,920
Taxation		-	-
Surplus for the year		52,752	40,920
Other Comprehensive Income for the year		-	-
Total Comprehensive Income for the year		**52,752**	**40,920**

The notes to the financial statements on pages 65 to 75 form an integral part of these financial statements.

Malta Fiscal Advisory Council
Statement of Financial Position
As at 31st December 2019

	Note	2019 EUR	2018 EUR
ASSETS			
Non-Current Assets			
Intangible Assets	8	-	320
Plant and Equipment	9	5,322	3,830
Total Non-Current Assets		5,322	4,150
Current Assets			
Other Receivables	10	422	329
Cash and Cash Equivalents	11	132,374	77,723
Total Current Assets		132,796	78,052
Total Assets		**138,118**	**82,202**
CAPITAL AND LIABILITIES			
Capital and Reserves			
Accumulated Reserve – Recurrent vote and operating activities	12	133,062	80,310
Current Liabilities			
Other Payables	13	5,056	1,892
Total Capital and Liabilities		**138,118**	**82,202**

The notes to the financial statements on pages 65 to 75 form an integral part of these financial statements.

These financial statements were approved by the Fiscal Advisory Council, authorised for issue on 28th February 2020 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 2019

	Accumulated Reserve EUR	Total EUR
Balance as at 31st December 2017	39,390	39,390
Surplus for the year	40,920	40,920
Balance as at 31st December 2018	80,310	80,310
Surplus for the year	52,752	52,752
Balance as at 31st December 2019	**133,062**	**133,062**

The notes to the financial statements on pages 65 to 75 form an integral part of these financial statements.

Malta Fiscal Advisory Council

Statement of Cash Flows

For the year ended 31st December 2019

	Note	2019 EUR	2018 EUR
Cash flows from Operating Activities			
Surplus before tax		52,752	40,920
Adjustments for:			
Depreciation of intangible assets	8	320	1,013
Depreciation of Plant and Equipment	9	2,788	2,181
Operating surplus before working capital changes		55,860	44,114
Movement in Other Receivables	10	-93	276
Movement in Other Payables	13	3,164	572
Tax Paid		-	-
Net cash flow from Operating Activities		3,071	848
Cash flows from Investing Activities			
Acquisition of Plant and Equipment	9	(4,280)	(2,672)
Net cash used in Investing Activities		(4,280)	(2,672)
Movement in Cash and Cash Equivalents		54,651	42,290
Cash and Cash equivalents at start of the year		77,723	35,433
Cash and Cash equivalents at end of the year	10	**132,374**	**77,723**

The notes to the financial statements on pages 65 to 75 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 2019 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) Changes in accounting policies and disclosures

During the year under review, the Council have adopted a number of Standards and Interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee, and endorsed by the European Union. The Council is of the opinion that the adoption of these standards and interpretations did not have a material impact on the financial statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective for accounting periods commencing on or after 1 January 2018. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L.

Basis of Preparation (Cont'd)

The standard also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This generally results in accelerating provisions for impairment as compared to IAS 39. Notwithstanding this change in recognising impairment, the Council qualifies for the simplifications afforded in IFRS 9 in recognising impairment losses, by estimating the expected credit loss using a provisions matrix. From the assessment carried out, the Council concluded that the impact was not material on the financial statements and there was not a significant increase in the credit risk relative to the date of initial recognition.

There have been no instances of early adoption of Standards and Interpretations ahead of their effective date. At the date of the statement of financial position, certain new Standards and Interpretations were in issue and endorsed by the European Union, but not yet effective for the current financial year. The Council anticipate that the initial application of the new standards and interpretations will not have a material impact on the financial statements.

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.

Significant Accounting Policies (Cont'd)

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.

Classification

From 1 January 2018, the Council classifies its financial assets in the following measurement categories;

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Council's financial assets are classified at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Council has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Council reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition and derecognition

The Council recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.
Regular way purchases and sales of financial assets are recognised on settlement date, the date on which an asset is delivered to or by the Council. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership or has not retained control of the asset.

Measurement

Subsequent measurement of debt instruments depends on the Council's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Council classifies its debt instruments:

Significant Accounting Policies (Cont'd)

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises. From 1 January 2018, the Council assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Impairment

From 1 January 2018, the Council assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Assets carried at amortised costs

For financial assets carried at amortised costs, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the profit or loss.

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

d. 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.

Significant Accounting Policies (Cont'd)

e. Other Payables

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

f. 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.

g. 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.

h. 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.

Significant Accounting Policies (Cont'd)

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.

i. Cash and Cash Equivalents

Cash and cash equivalents comprise the bank balance as at the year ended 31st December 2019.

j. 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.

k. 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:

	2019 EUR	2018 EUR
Government Subvention	261,000	257,000

The Government subvention as per Article 55 sub-articles (2), (4a) and (4b) of the Fiscal Responsibility Act amounts to not less than €261,000 annually and increases by the Index of Inflation as established and published by the National Statistics Office in each subsequent year.

4. Council Honoraria

	2019 EUR	2018 EUR
Honoraria	42,000	48,550
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 2018.

6. Salaries and Consultancy Fees

	2019 EUR	2018 EUR
Staff Gross Salaries and Social Security Contributions	129,218	122,496
Average Number of Employees	4	4

7. Auditors' Remuneration

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

	2019 EUR	2018 EUR
Audit Fees	1,879	1,180
Total Auditors' Remuneration	1,879	1,180

8. Intangible Assets

	Computer Software EUR	Total EUR
Cost		
As at 1st January 2019	4,053	4,053
Additions	-	-
As at 31st December 2019	4,053	4,053
Depreciation		
As at 1st January 2019	3,733	3,733
Charge for the year	320	320
As at 31st December 2019	4,053	4,053
Net Book Value		
As at 31st December 2018	320	320
As at 31st December 2019	-	-

9. Plant and Equipment

	Fixtures & Fittings	Computer and Office Equipment	Library Books	Air Conditioner	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
As at 1st January 2019	590	7,299	1,091	1,130	10,110
Reclassification between classes of assets	1,542	(1,542)	-	-	-
Additions	-	4,280	-	-	4,280
As at 31st December 2019	2,132	10,037	1,091	1,130	14,390
Depreciation					
As at 1st January 2019	236	5,519	337	188	6,280
Reclassification between classes of assets	154	(154)	-	-	-
Charge for the year	213	2,278	109	188	3,020
As at 31st December 2019	603	7,643	446	376	9,068
Net Book Value					
As at 31st December 2018	354	1,780	754	942	3,830
As at 31st December 2019	**1,529**	**2,394**	**645**	**754**	**5,322**

10. Other Receivables

	2019 EUR	2018 EUR
Prepayments	422	329

11. Cash and Cash Equivalents

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

	2019 EUR	2018 EUR
Bank Balances	132,374	77,723

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

	2019 EUR	2018 EUR
Other Payables	417	82
Accruals	4,639	1,810
	5,056	1,892

14. Financial Instruments

Fair Values of Financial Assets and Financial Liabilities

At 31st December 2019 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 2019 and 2018 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 2019

Recurrent Expenditure

	2019 EUR	2018 EUR
Council Honoraria	42,000	48,550
Salaries and Consultancy fees	129,218	122,496
Audit fees	1,879	1,180
MITA Subscription	3,058	1,305
Telecommunication and Internet Costs	4,663	6,440
Travel and Training costs	9,035	6,303
Local Conference costs	250	-
Recruitment costs	-	1,284
Rental fees	-	6,250
Premises Fees	-	1,300
Study loans	-	5,300
Staff Welfare	763	543
Photocopier lease expenses	913	1,318
Postage, Printing and Stationery	2,327	4,167
Insurance	667	886
Subscriptions	-	155
Times of Malta - Subscription of online newspaper	155	-
Depreciation of tangible assets	2,788	2,181
Amortisation of intangible assets	320	1,013
Sundry Expenses	54	779
Bank Charges	57	67
Maintenance	930	2,856
Moving to New Premises	-	1,402
Out of Budget	593	1,498
Equipment/Licences	449	1,946
Consumables - Equipment	7,380	-
Cleaning	1,418	594
Air Conditioner	190	-
Total Recurrent Expenditure	209,107	219,813

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

Malta Fiscal Advisory Council

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