MFAC
MALTA FISCAL ADVISORY COUNCIL

# Annual Report and Statement of Accounts

# 2020

This publication is available on: **www.mfac.org.mt**



*The cut-off date for the information included in this Report is 5 February 2021.*

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MFAC

MALTA FISCAL ADVISORY COUNCIL

# ANNUAL REPORT

# AND

# STATEMENT OF ACCOUNTS

# 2020

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8 March 2021

The Hon Mr Clyde Caruana B.Com. (Hons) Economics, M.A. Economics
Minister for Finance and Employment
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 2020.

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 2020.

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;

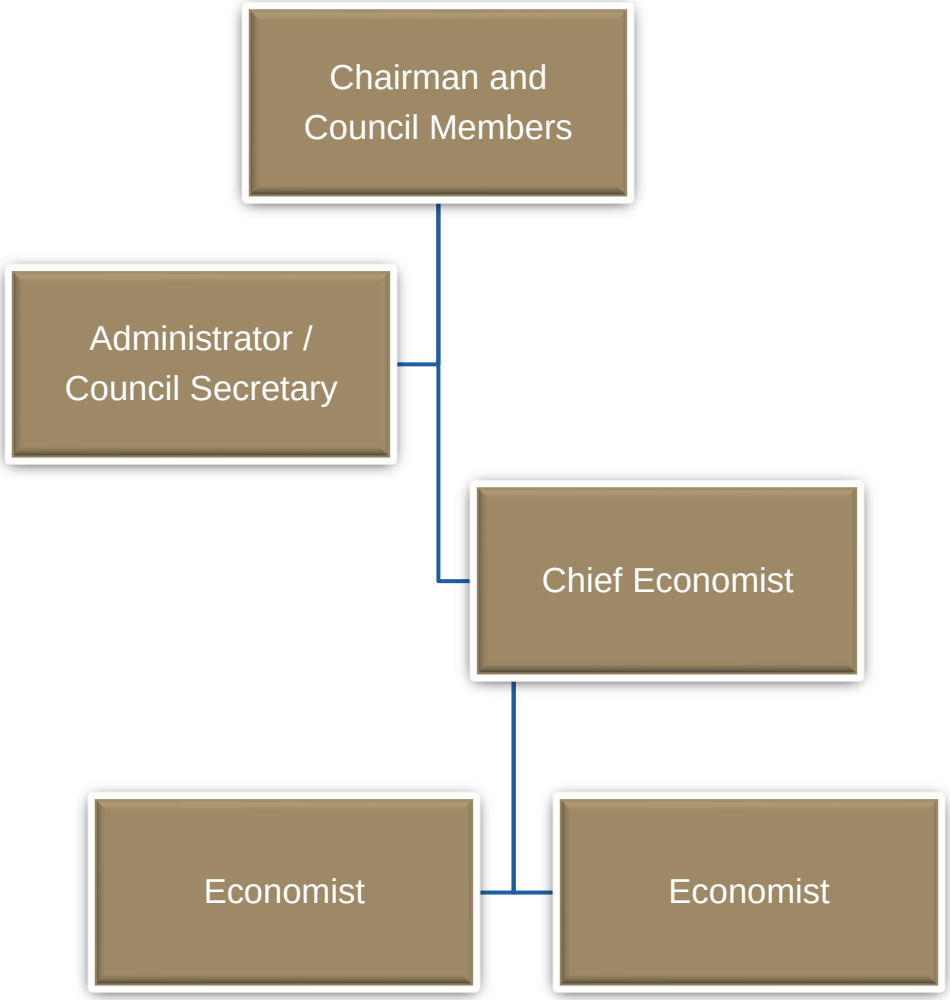
vi. Determining whether exceptional circumstances, which would allow for a departure from the announced fiscal plans, exist or have ceased to exist;

vii. Issuing opinions and formulating recommendations in the areas of public finances and economic management;

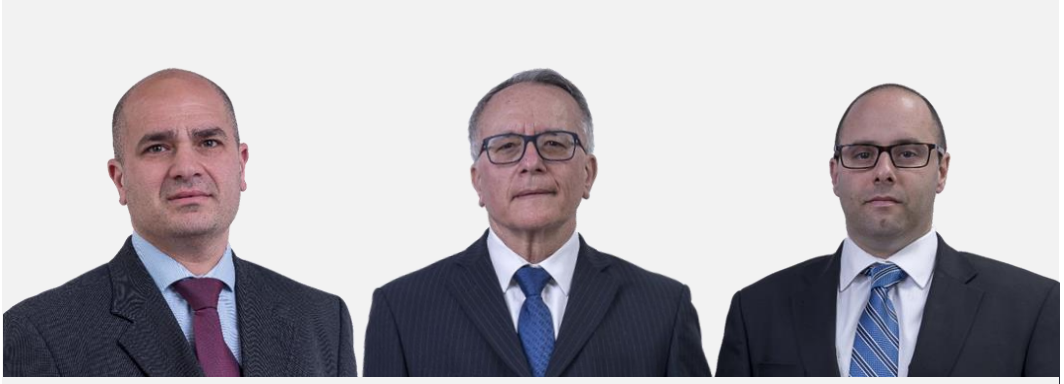
viii. Advising the Government and the Public Accounts Committee concerning the maintenance of fiscal discipline; and

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



| Dr Carl Camilleri<br>Member | Mr John Cassar White<br>Chairman | Dr Ian P. Cassar<br>Member |
|---|---|---|

*From left to right*
Mr Christian Xuereb (Economist), Mr Malcolm Bray (Chief Economist), Ms Alison Bugeja (Administrator / Council Secretary) and Mr Kurt Davison (Economist)

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# Chairman's statement

The year 2020 turned out completely different from what anyone had expected initially. Globally, the COVID-19 pandemic created numerous consequences, including significant challenges to the health sector, a sharp contraction in economic activity and high uncertainty. Governments sought to mitigate the adverse effects by resorting to various revenue and expenditure measures, resulting in considerable public finances deterioration. Throughout 2020, fiscal policy across the globe was thus mostly geared towards providing adequate resources for the health sector, offering a lifeline to the worst-hit economic sectors, and protecting, as much as possible, households' income and employment.

The COVID-19 pandemic impacted Malta directly. Its economic effect by far outweighed that created by the two previous major international shocks, namely the global financial crisis and the sovereign debt crisis. Being a small open economy, Malta was fully exposed to its main trading partners' major recession. In Malta's case, the adverse shock was amplified since a significant share of its economy is related directly or indirectly to the tourism sector. Indeed, tourism was among the pandemic's worst hit sectors, where tourists in Malta declined by 76% on a year earlier.

The decision taken at the European level in 2020 to temporarily lift the fiscal rules and the state aid rules offered the government leeway in the initiatives that could be undertaken to address the pandemic's enormous health and economic challenges. Looking ahead, the roll-out of the vaccine programmes worldwide should help pave the way towards a partial global economic recovery from 2021. However, caution is warranted, since the economic recovery's speed and trajectory, both internationally and in Malta, remains subject to a high degree of uncertainty.

In 2020 there was a significant turnaround in Malta's public finances. Whereas between 2016 and 2019, Malta registered a fiscal surplus and a falling public debt-to-GDP ratio, in 2020, Malta experienced a sizeable fiscal deficit and a sharp increase in public debt.

These developments practically used up the fiscal space, which was built pre-pandemic. The eventual total fiscal cost of the pandemic will depend not only on the duration of the measures necessary to mitigate the pandemic's effects, but also on whether any contingent liabilities linked to the state guarantees provided to ease borrowers' liquidity problems would materialise in future.

The post-pandemic world could present challenges for Malta, of which I will identify three. First, some sectors could remain impacted by the legacy of the pandemic's pattern changes, such as in working practices and consumer behaviour. These changes could possibly alter the long-term outlook for specific sectors.

Second, the EU discussions on how to finance the cost of the economic support measures implemented during the pandemic and the financing gap in the Union's budget as a result of BREXIT, have added vigour towards greater tax harmonisation. Tax competitiveness remains critically important for Malta's fiscal management in the longer term.

Third, the fiscal space which served to mitigate the future challenges posed by an ageing population was redeployed towards combatting the pandemic. Authorities may now have to consider whether to gradually rebuild this buffer, such as by targeting fiscal surpluses again at a future date, or else, by exploring specific measures in the areas of pensions and health, to safeguard long term sustainability. This also takes into account the fact that the growth in the population, which occurred in recent years, and which had contributed to improving pension sustainability, came to a halt in 2020, as a result of the pandemic.

These issues highlight the importance that efforts to accelerate economic recovery should be accompanied by discussions among stakeholders on how to steer public finances back onto a sustainable path, once the crisis abates. It is essential to maintain focus on the medium to long term fiscal challenges which Malta could face.

Turning to the Fiscal Council's operations, it is positive to note that throughout the six years since being set up, the official macroeconomic forecasts and fiscal projections produced by the government have always been considered within an endorsable range. Robust economic forecasts, together with realistic fiscal targets, are a crucial input for sound policy making.

Finally, I would like to thank the Malta Fiscal Advisory Council's main stakeholders 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 2020

## 1.1 The Fiscal Council

The **Malta Fiscal Advisory Council (MFAC)** held ten formal Council meetings during 2020. The first two meetings were attended in person, while the rest were held online due to the COVID-19 pandemic. The agenda items focused on the annual work programme, financial matters, operations, human resources issues, and participation at official meetings and training. The macroeconomic and fiscal developments were regularly discussed during the Fiscal Council's meetings, as part of the government's official forecasts endorsement and risk assessment. The Council was periodically briefed about the pandemic's potential economic impact and effect on Malta's public finances.

## 1.2 Relations with key stakeholders

Regular meetings were held with key stakeholders, mostly online. There was a regular dialogue with the Ministry responsible for finance (for most of the year this was the **Ministry for Finance and Financial Services** and towards the end of 2020 this became the **Ministry for Finance and Employment**).

The primary purpose of these meetings was to discuss the official macroeconomic and fiscal forecasts, as well as the methodologies used and the assumptions underpinning such forecasts. Other meetings with the Ministry were administrative, concerning the Council's premises and on financial matters.

Following the agreement reached at the EU Council, in March 2020, to activate the general escape clause of the Stability and Growth Pact (which temporarily lifted the fiscal rules across the European Union Member States), the MFAC initiated a dialogue with the Ministry on this subject. The purpose was to explore whether there is scope for setting up a Memorandum of Understanding between the two parties.

The discussions focused on the possible procedures to be followed concerning the activation and termination of the period wherein the fiscal rules in Malta would apply or be temporarily lifted due to exceptional circumstances. Fruitful progress was made during 2020, and these matters are expected to be addressed further during 2021.

As in previous years, the MFAC held meetings with officials from the Directorate-General for Economic and Financial Affairs within the **European Commission** and participated in the Article IV consultation mission of the **International Monetary Fund (IMF)**. During these meetings, there was an exchange of views on Malta's latest macroeconomic and fiscal developments. The Council took the opportunity to present its considerations regarding the overall economic and fiscal outlook and possible risks. The MFAC also participated in meetings with **credit rating agencies**, as part of the latter's rating reviews. Besides, the MFAC participated actively in the various initiatives at the EU level led by the **EU Network of Independent Fiscal Institutions (EUNIFI)**.

At the same time, the Fiscal Council maintained close contact with the **Central Bank of Malta** whose set of macroeconomic and fiscal forecasts, together with those produced by the European Commission and the credit rating agencies, are used by the MFAC as a benchmark to assess the plausibility of the official forecasts.

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 concerning the operations of the Fiscal Council. In 2020 there was no such request by the Public Accounts Committee.

## 1.3 Other meetings and seminars

The MFAC participated in twelve meetings and seminars organised by foreign institutions during 2020 (see Table 1.1). The events organised before the pandemic were attended in person, while the others were held online.

These events were organised by EUNIFI, other independent fiscal institutions, the European Commission and the **European Fiscal Board (EFB)**. The MFAC also participated as an observer at the annual meeting of the **OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions**.

**Table 1.1: Meetings and seminars attended by the MFAC during 2020**

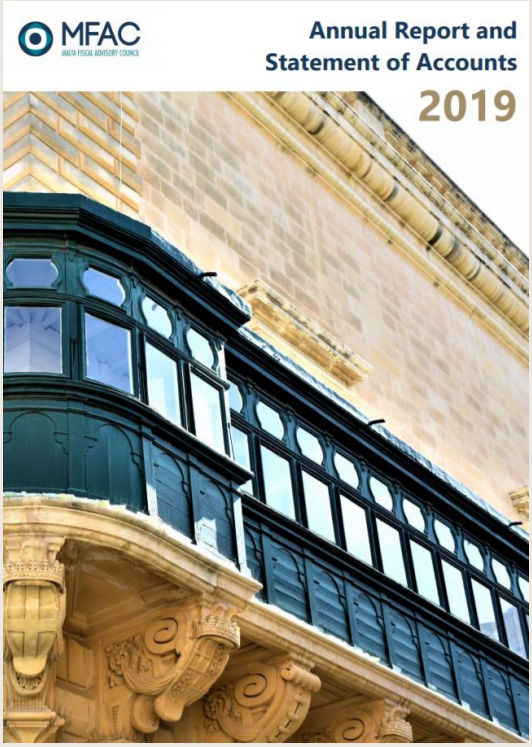
| Event | Organiser |
|---|---|
| **Fiscal Rules in Europe: Design and Enforcement** | European Commission |
| **12th Meeting of the EUNIFI** | EUNIFI |
| **Path for the Public Finances 2020** | Irish Fiscal Advisory Council |
| **Rethinking the European Fiscal Framework** | European Fiscal Board |
| **Fiscal Policy at the current juncture: challenges and outlook** | European Central Bank |
| **Meeting of the Network of EU IFIs** | EUNIFI |
| **Virtual Meeting of the PBO Network** | OECD |
| **The Impact of the Pandemic on European Sovereign Ratings: Fitch Ratings' Approach** | FITCH |
| **13th Meeting of the EUNIFI** | EUNIFI |
| **EU IFI's Network Online Meeting** | EUNIFI |
| **Presentation of the European Fiscal Board Annual Report 2020** | European Fiscal Board |
| **Seminar on Public Spending Evaluation** | EUNIFI |

## 1.4 Publications and research

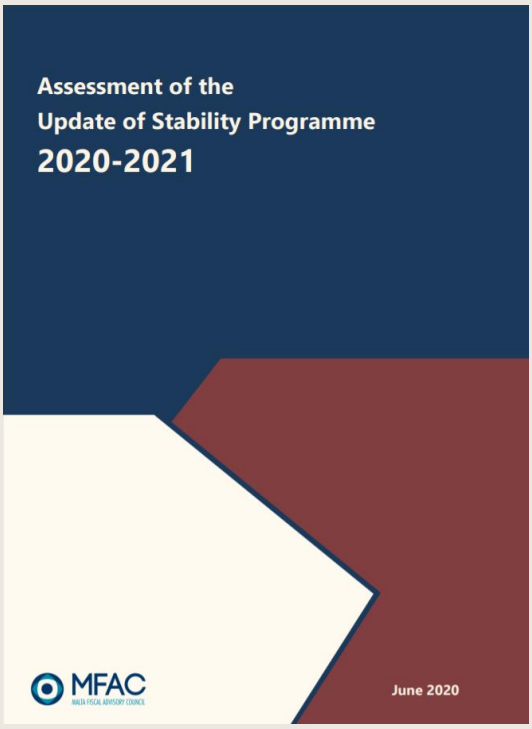
The MFAC published four **reports** during 2020 (see Box 1.1).[1] The first publication of the year was the Annual Report and Statement of Accounts for 2019. The second report presented the assessment of forecasts in the Update of the Stability Programme 2020 – 2021. The third document focused jointly on the Ministry for Finance's Annual Report 2019 and the Ministry for Finance's Half-Yearly Report 2020. The fourth report assessed the official forecasts presented in the Draft Budgetary Plan for 2021.

[1] These reports are available on https://mfac.org.mt/publications/reports/reports-2020/.

### Box 1.1: Reports published by the MFAC during 2020

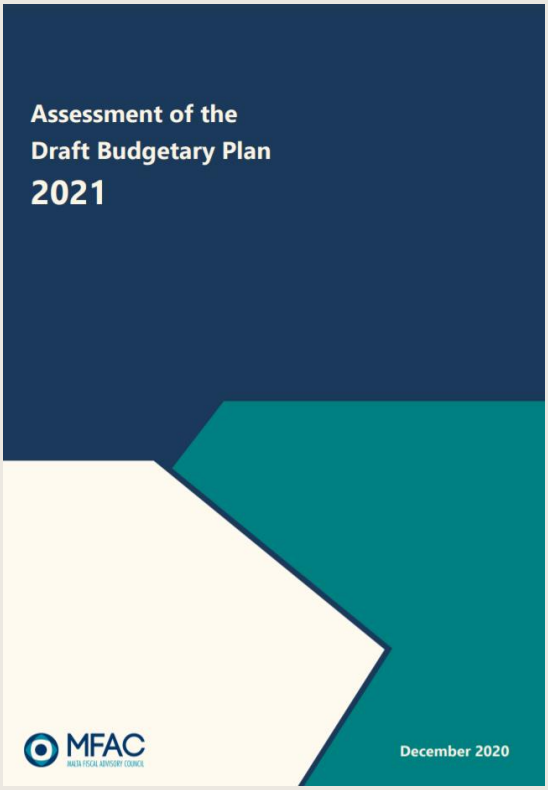



The fifth Annual Report covered the activities performed by the MFAC during 2019 and published the organisation's financial statements. The report contained two thematic chapters, one comparing the macroeconomic and fiscal developments in Malta and the euro area, and the other surveying Extra-Budgetary Units' activities in Malta.




The MFAC acknowledged the high uncertainty created by COVID-19 in this report. The macroeconomic and fiscal forecasts for the period 2020 to 2021 were considered within its endorsable range. It was concluded that there was an overall downside risk vis-à-vis the real GDP growth forecasts of -5.4% (2020) and +3.9% (2021). The MFAC's assessment further suggested an overall downside risk vis-à-vis the fiscal balance targets of -7.5% of GDP (2020) and -3.6% of GDP (2021). An upside risk was identified concerning the forecast debt-to-GDP ratio of 54.5% (2020) and 55.5% (2021). Compliance with the fiscal rules was not assessed in this report, since these were temporarily lifted, when in March 2020 the general escape clause was activated at the EU level.


The Council noted that in 2019 nominal GDP growth was below that indicated in the Draft Budgetary Plan and the Update of Stability Programme. This factor likely contributed to the discrepancies between the actual revenue and the targets for the year. Consequently, in 2019 the fiscal balance remained in surplus but was lower than projected. The Council also noted that the Half-Yearly Report reproduced the macroeconomic forecasts presented in the Update of Stability Programme, whereas the fiscal projections were revised to a larger fiscal deficit and higher public debt.




The MFAC acknowledged the high uncertainty which persisted due to COVID-19. The MFAC considered the updated macroeconomic and fiscal forecasts for 2020 and 2021 to be within its endorsable range. They were also broadly in line with what other institutions were anticipating. The MFAC's assessment suggested an overall downside risk to the government's real GDP forecasts of -7.4% (2020) and +5.0% (2021). The evaluation further indicated an overall downside risk vis-à-vis the fiscal balance targets of -9.4% of GDP (2020) and -5.9% of GDP (2021). On the other hand, it was concluded there was an upside risk concerning the forecast trajectory for the public debt-to-GDP ratio of 55.0% (2020) and 58.6% (2021). Again, compliance with the fiscal rules was not assessed in this report as the general escape clause activated at the EU level continued to apply.

Apart from the four reports, the MFAC transmitted two **official letters** addressed to the Minister for Finance, respectively on 30 April 2020 and 15 October 2020. These letters communicated the endorsement of the macroeconomic forecasts included in the Update of Stability Programme and the Draft Budgetary Plan, published in 2020.

The MFAC issued four **press releases** during 2020 (see Table 1.2).[2] These are available both in English and Maltese. They aim to advise the general public about the latest MFAC reports and highlight the leading messages in a non-technical manner.

**Table 1.2: Press releases issued by the MFAC during 2020**

| Date | Title |
|---|---|
| **21 April** | Malta Fiscal Advisory Council publishes its Annual Report for 2019 |
| **18 June** | Malta Fiscal Advisory Council publishes its assessment of the Update of Stability Programme 2020 - 2021 |
| **7 October** | Malta Fiscal Advisory Council publishes its assessment of the Annual Report 2019 and the Half-Yearly Report 2020 |
| **15 December** | Malta Fiscal Advisory Council publishes its assessment of the Draft Budgetary Plan 2021 |

The MFAC continued to contribute to the **European Fiscal Monitor**, as part of a EUNIFI initiative.[3] This publication was revised from the standard one-page summary of each country's main economic and fiscal developments to a thematic publication, focusing on the impacts of COVID-19 and the economic measures launched by the various countries.

The MFAC's staff carried out further internal research during the year to improve the institution's output quality. During 2020 the study mainly focused on developing a deeper understanding of aggregate household consumption expenditure and Malta's labour market dynamics. Some of the material derived from this research is presented in the two thematic chapters included in this year's Annual Report. Other work was carried out on a face-to-face survey on the property market developments and outlook

[2] The press releases are available on https://mfac.org.mt/press-releases/.
[3] The documents are available on https://www.euifis.eu/eng/fiscal/174/european-fiscal-monitor.

in Malta. However, it was decided to postpone work on this project following the outbreak of the pandemic.

## 1.5 Public relations of the MFAC

The MFAC remains open to participate in public events organised by **institutional bodies** and give interviews to the **media** which deal with matters falling under its responsibility. During the year, the MFAC continued to take part in such initiatives to increase the awareness about its role and offer insight into the economic and fiscal developments in Malta. The MFAC's **website** was also regularly updated to provide easy access to its reports, together with the latest GDP and fiscal statistics published by the National Statistics Office.

## 1.6 Human resources

The **staff** complement of the MFAC remained unchanged during 2020, consisting of a Chief Economist, two Economists and an Administrator (who also serves as the secretary to the Fiscal Council).

In 2020 the Council approved a remote working policy, which provided greater work flexibility to its employees and mitigated the pandemic's risks. The Council also provided the tools and adopted the relevant procedures to maintain all its operations running smoothly throughout the year, despite the pandemic's challenges.

The Council continued to encourage its staff to pursue further training. In 2020 two economists successfully followed an online course on financial planning and programming organised by the International Monetary Fund.

Chapter 2

# Private consumption patterns in Malta 2000 – 2019

## 2.1 Introduction

Household consumption consists of the goods or services acquired by resident institutional units for the direct satisfaction of human needs, whether individual or collective.[4] Household consumption accounts for around 60% of domestic demand (both in nominal and real terms), and as a result, it is closely interlinked with other macroeconomic variables.

The expected future consumption volumes drive domestically oriented investment in Malta. In turn, the amount of imports embeds the import content associated with the different consumption components. Demand for labour, and hence employment, is a derived demand which is related to the level of consumption. Inflation is also linked to the pace at which consumption is evolving, whether buoyant or subdued. On the fiscal front, a significant share of revenue is generated from indirect taxes, which depend on household consumption. Even direct taxes are impacted through the link between consumption, employment and incomes.

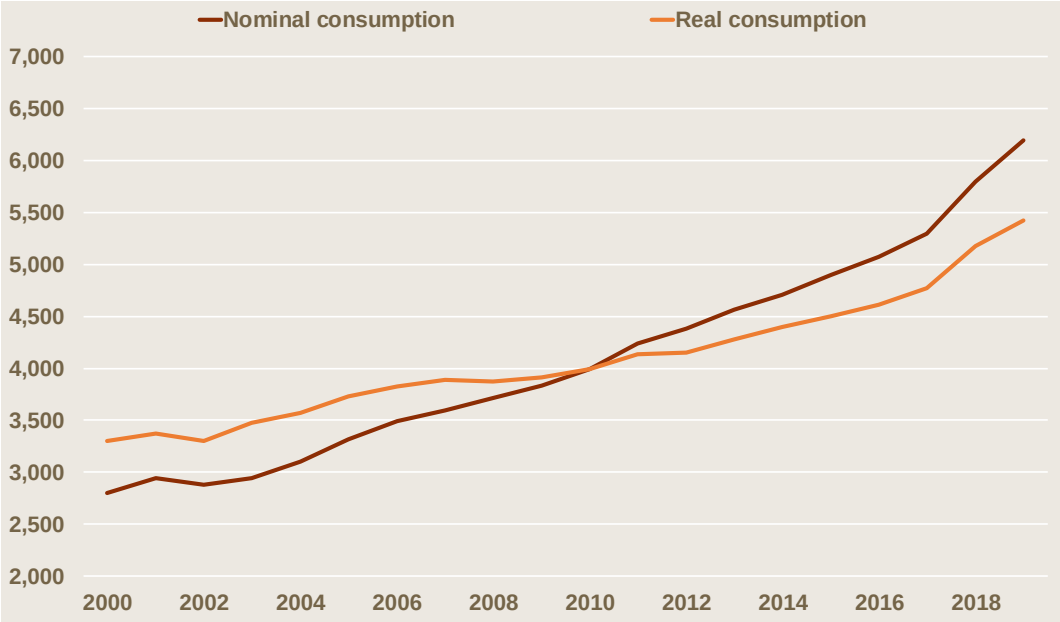
## 2.2 Nominal and real consumption

Private consumption followed an upward trend between 2000 and 2019 (see Chart 2.1). In nominal terms, private consumption more than doubled, rising from €2,797.8 million in 2000 to €6,191.5 million in 2019. In real terms, that is, adjusted for inflation, the rise in consumption was less pronounced. Real consumption advanced by 64.4% over twenty years, approximately half the 121.3% growth recorded in nominal consumption during the same years (see Chart 2.2).

The real growth in private consumption ranged between -2.2% and 8.4% between 2000 and 2019, whereas in nominal terms the range was between -2.0% and 9.3% (see Chart 2.3). During this period, the average consumption growth was 2.7% in real terms and 4.3% in nominal terms.

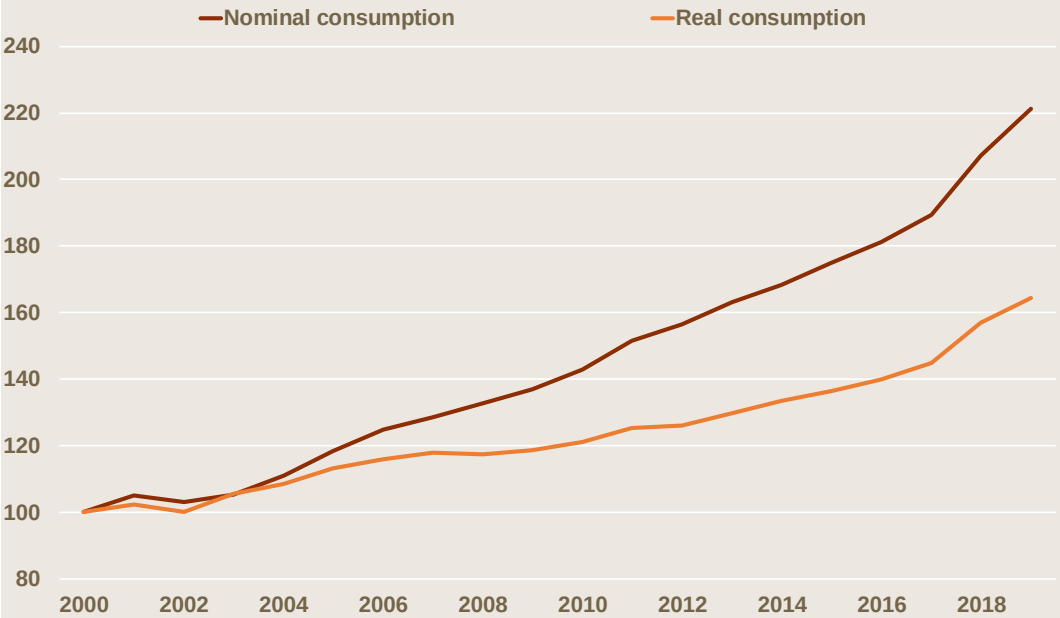
[4] Unless otherwise indicated, household consumption is that relating to the national concept used in the computation of GDP, and in respect of which, official forecasts are contained in the Draft Budgetary Plan and the Update of Stability Programme. This consumption aggregate adds the spending by Non-Profit Institutions Serving Households (NPISH) to household spending but excludes the spending by non-residents which are considered as exports.

### Chart 2.1: Nominal and real consumption (EUR million)




*Source: Eurostat*

### Chart 2.2: Consumption index (2000 = 100)

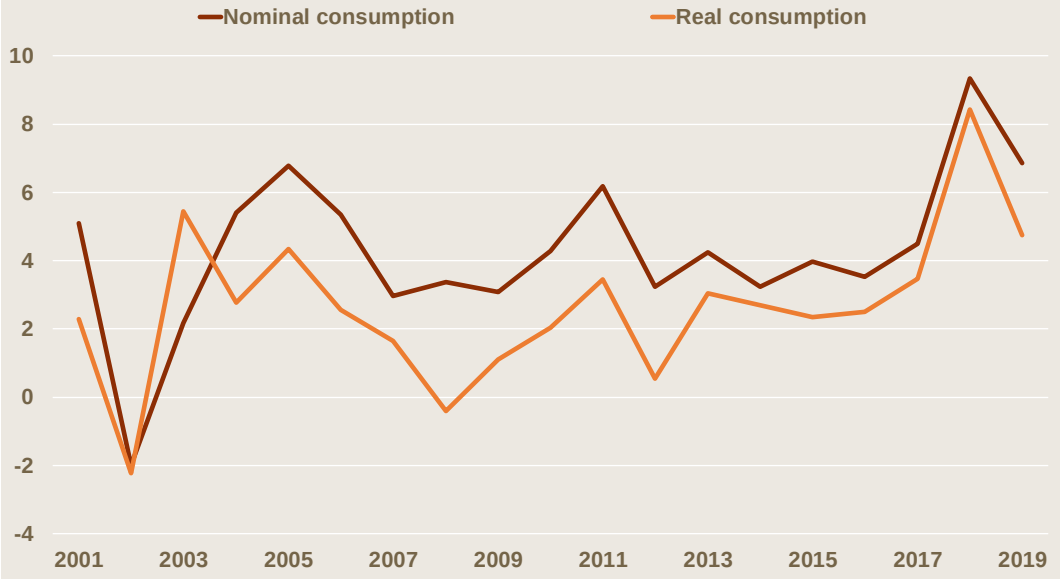



*Source: Eurostat*

There were two instances when consumption registered negative growth in real terms. This event happened in 2002 and 2008, respectively associated with the aftermath of the 9/11 terrorist attacks and the global financial crisis. However, it was only in 2002 that nominal consumption growth was also negative. Another observation is that

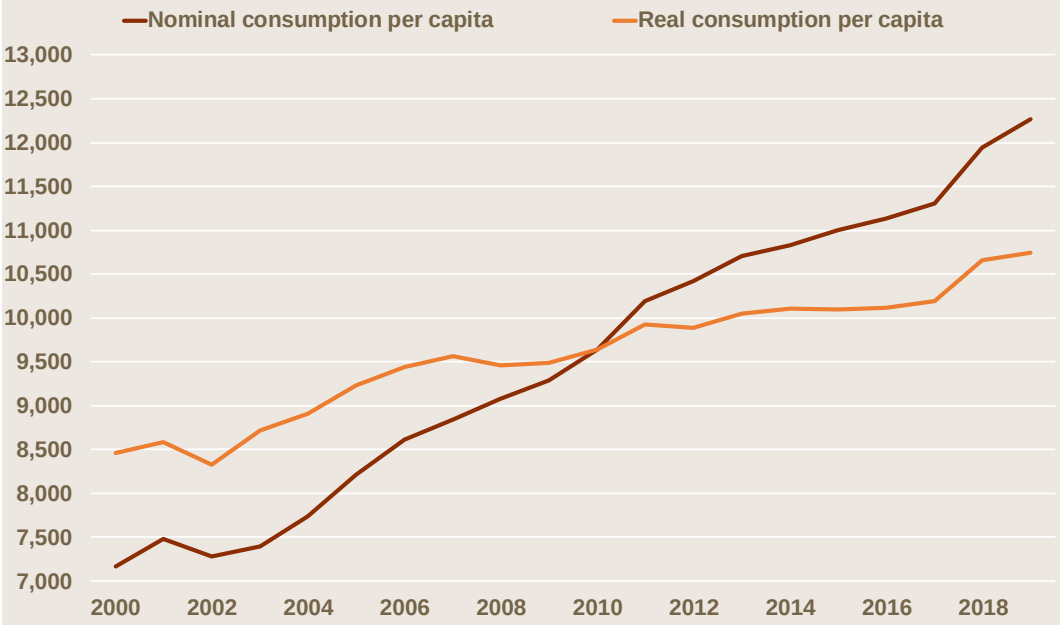
between 2015 and 2019, both real and nominal average consumption growth were higher than the previous five-year timeframes.

### Chart 2.3: Consumption growth (%)




*Source: Eurostat*

### Chart 2.4: Consumption per capita (EUR)




*Source: Eurostat*

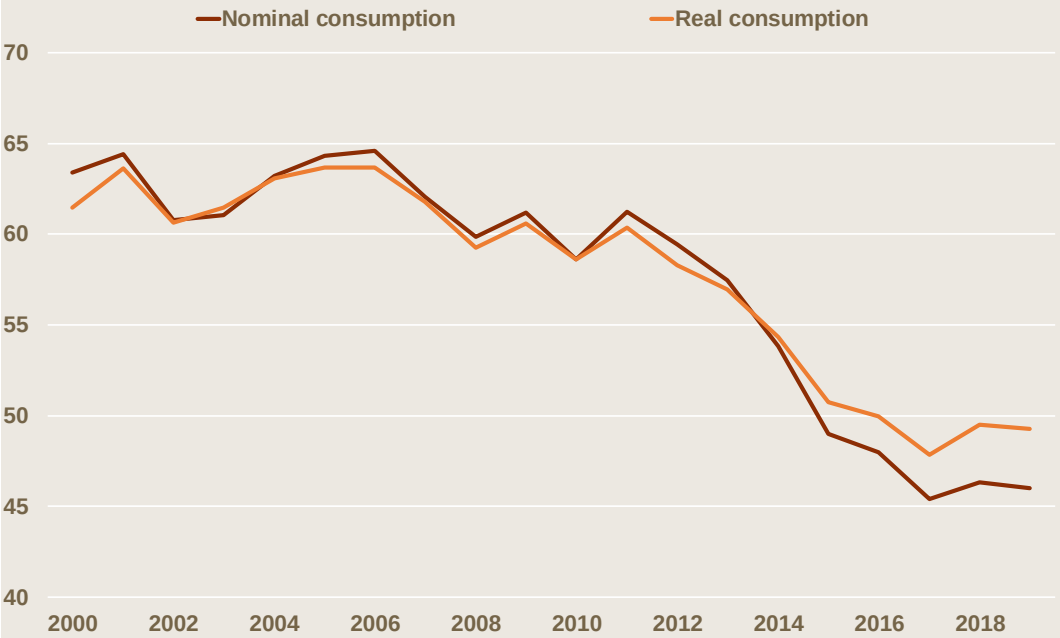
In 2019, nominal consumption stood at €12,270 on a per capita basis, €5,100 more than in 2000 (see Chart 2.4). In real terms, the change over the same period amounted

to around half, or €2,280. As a result, real per capita consumption was estimated at €10,740 in 2019.

## 2.3 Consumption in relation to the other GDP components

The rise in consumption over the twenty-year period under review was outpaced by that in GDP, both when the comparison is undertaken in nominal terms and real terms. As a result, the share of consumption to GDP declined (see Chart 2.5). Whereas over the decade 2000 to 2009 consumption accounted for above, or close to, 60% of GDP, this share fell below 50% towards the end of the following decade.

**Chart 2.5: Share of consumption in GDP (%)**




*Source: Eurostat*

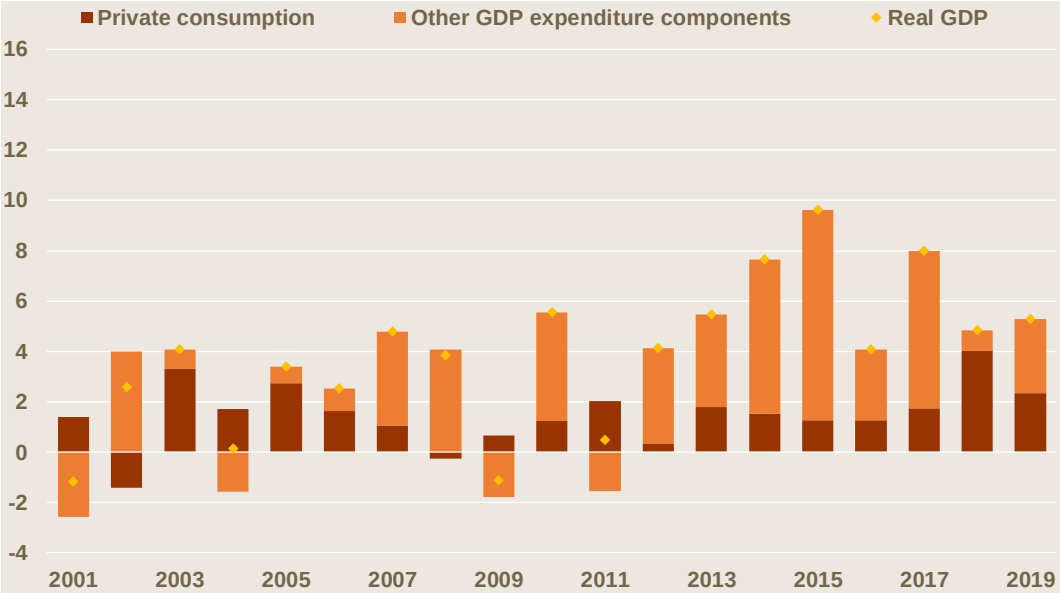
The yearly real growth rate in private consumption exhibited the least variability over time compared to the other GDP components. The boxplot for consumption growth shows a smaller interquartile range, and a smaller gap between the upper and lower whisker, compared to the boxplots for the growth rates in the other GDP expenditure components (see Chart 2.6).[5]

[5] A box plot is a graphical method to show the distribution of the data. The interquartile range (IQR) is a measure of statistical dispersion being equal to the difference between the 75th and the 25th percentiles, respectively identified in the chart as the upper bound of the top brown rectangle and the lower bound of the bottom brown rectangle. The lower whisker indicates the

### Chart 2.6: Boxplots for real growth rates in GDP expenditure components (%)


*Source: Eurostat*

### Chart 2.7: Contribution to real GDP growth (pp)




*Source: Eurostat*

The relative contribution to real GDP growth stemming from consumption varied over time (see Chart 2.7). There were years when consumption was the main driver of real

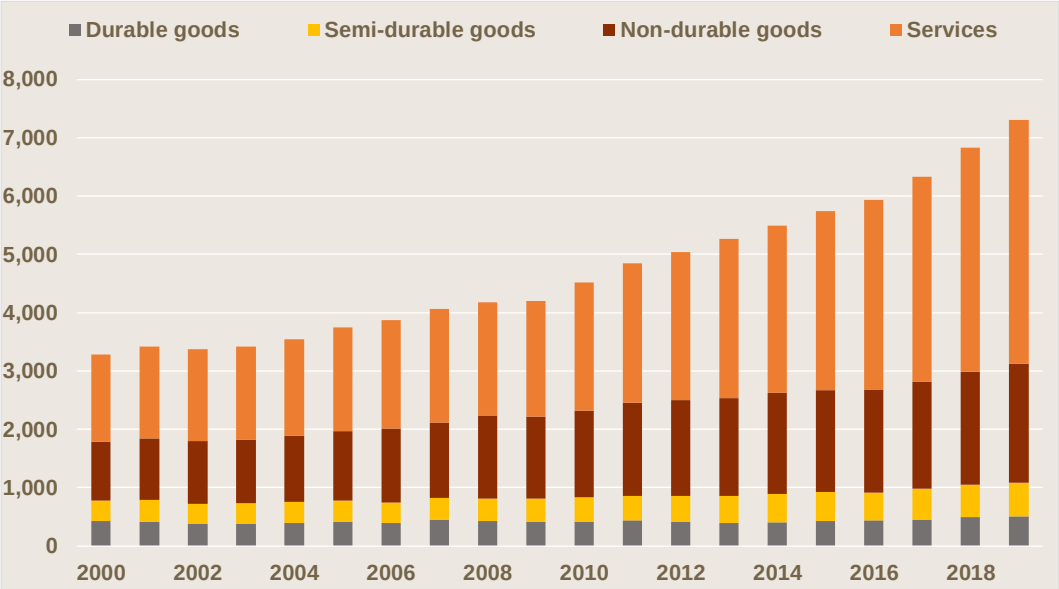
lowest value up to a limit (set as 25th percentile – 1.5 x IQR), whereas the upper whisker indicates the highest value up to a limit (set as 75th percentile + 1.5 x IQR). Values which do not fit within these limits are categorised as outliers, shown as orange dots. The median is depicted as the orange line separating the two brown rectangles, whereas 'x' shows the mean.

GDP growth, but its contribution was relatively less significant in other years. In some years, the contribution to growth stemming from net exports was relatively more important, reflecting the faster expansion in export-oriented sectors, such as remote gaming, financial services and tourism.

## 2.4 Consumption aggregates by durability

Consumption can be classified as durable, semi-durable, non-durable and services.[6] The services component has contributed to a more considerable extent than the other three different types of goods to the rise in total consumption over time (see Chart 2.8).

**Chart 2.8: Consumption aggregates by durability (EUR million)**



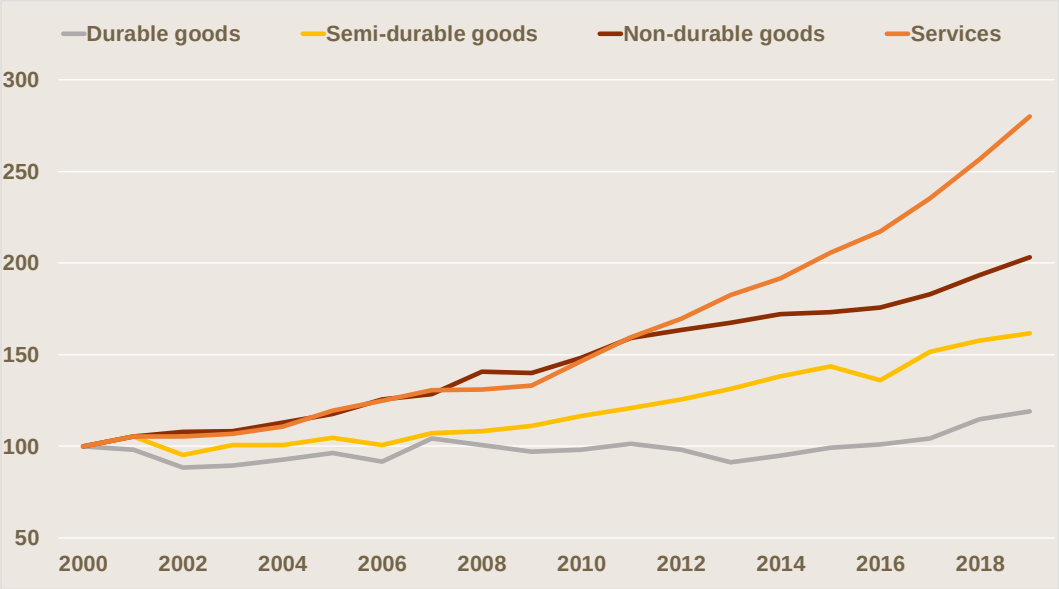

*Source: Eurostat*

In nominal terms, in 2019, spending on services was almost three times as much as in 2000, whereas spending on different goods exhibited relatively smaller percentage changes (see Chart 2.9). Spending on durable goods was virtually stable throughout

[6] Durable consumer goods typically include commodities with an expected lifetime of more than three years and with a relatively high value (e.g. cars, furniture, home appliances or electrical and electronic devices). Semi-durable and non-durable consumer goods respectively have an expected lifetime of between one-three years and less than one year and have comparatively lower value. This categorisation is available for total expenditure on goods and services and hence it includes spending by nationals and net consumption expenditure by non-residents and is not directly comparable to other consumption aggregates discussed in the chapter.

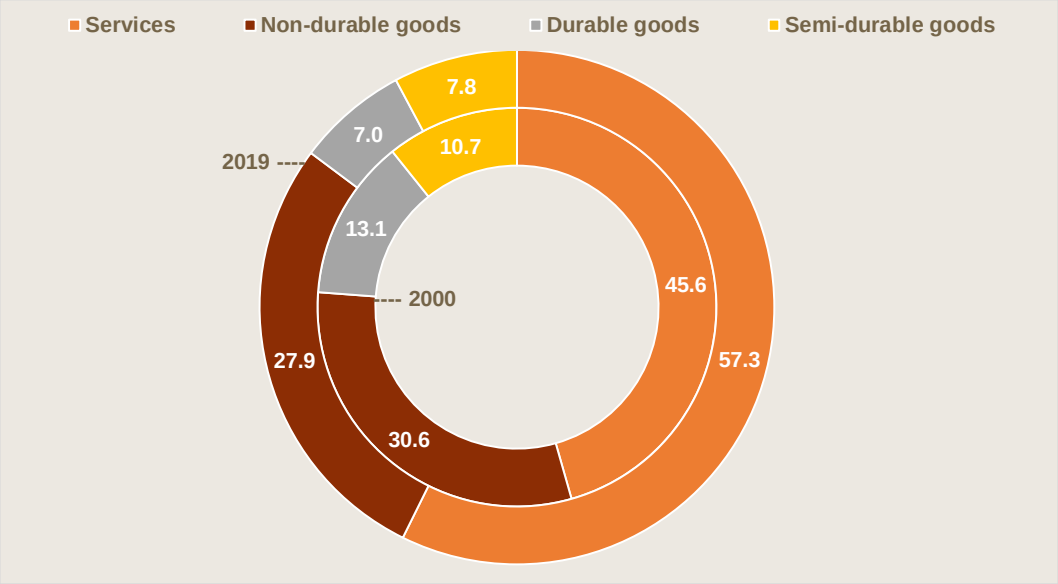
most of the period, with increases recorded mainly during the last two years. The increase in spending on non-durable goods was approximately twofold throughout the twenty years, while that on semi-durable goods was around 1.5 times. As a result, the share of the expenditure on services increased from 45.6% in 2000 to 57.3% in 2019, whereas the share of spending on goods (durable, semi-durable and non-durable) declined (see Chart 2.10).

### Chart 2.9: Consumption index by durability (2000 = 100)




*Source: Eurostat*

### Chart 2.10: Share of consumption by durability (%)

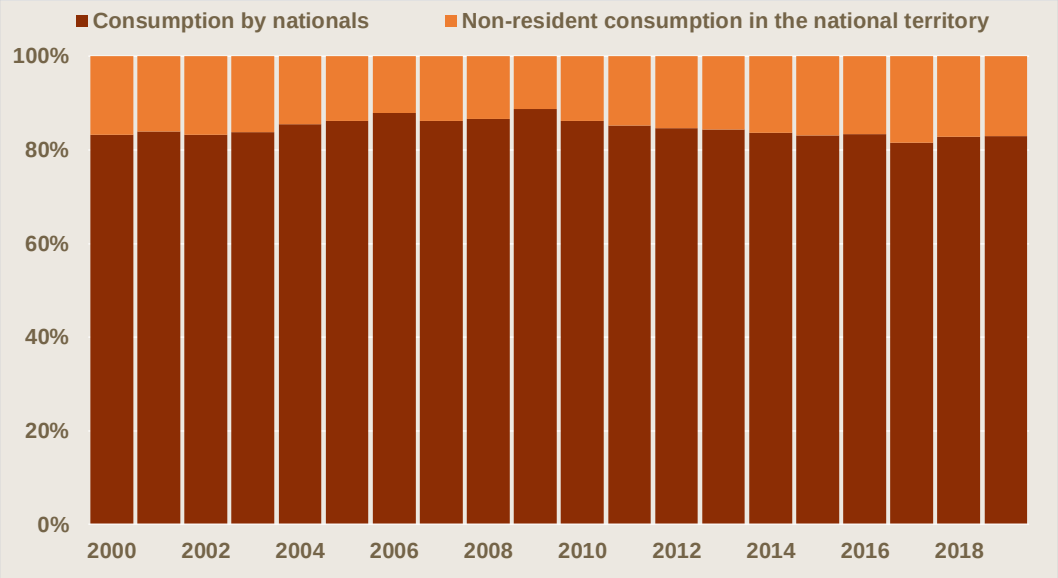



*Source: Eurostat*

## 2.5 National and total consumption expenditure

Final household consumption expenditure on a national basis (which is the aggregate considered as household consumption in GDP) consistently made up around four-fifths of total expenditure on goods and services, in nominal terms (see Chart 2.11). The other one-fifth mostly represented the non-resident consumption in the national territory, practically the spending on goods and services by tourists in Malta.

**Chart 2.11: Resident and non-resident consumption in Malta (%)**




*Source: Eurostat*

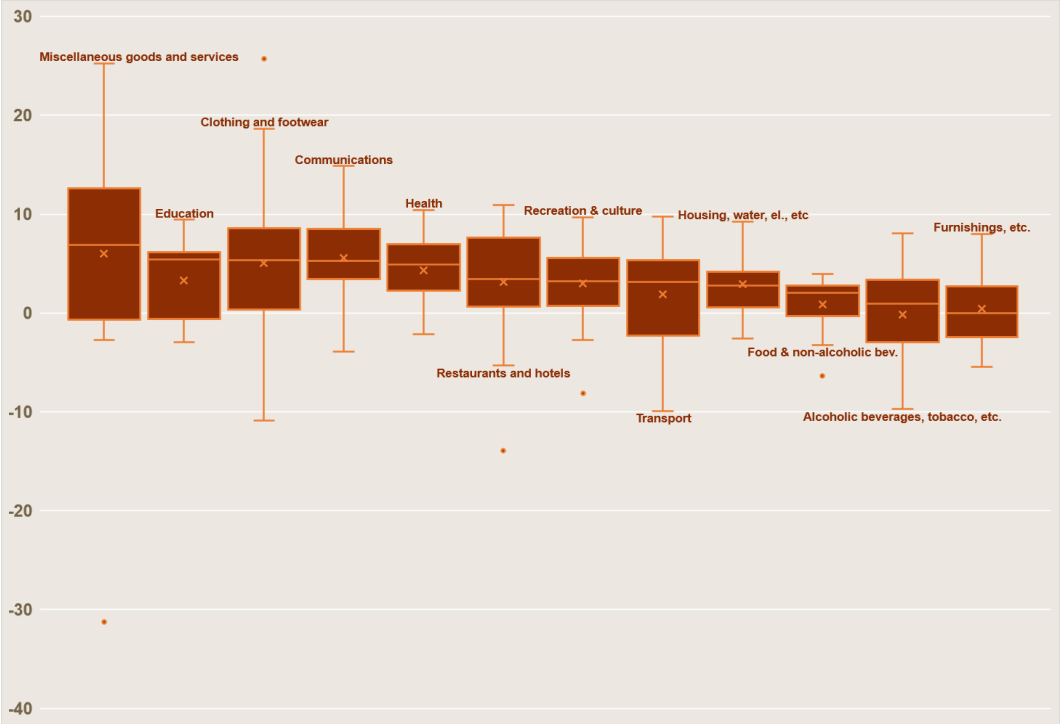
## 2.6 Breakdown of consumption

In the compilation of national statistics, household consumption is split across twelve categories as follows: (1) Food and Non-Alcoholic Beverages; (2) Alcoholic Beverages, Tobacco; (3) Clothing and Footwear; (4) Housing, Water, Electricity, Gas and other fuels; (5) Furnishings, Household Equipment and Routine Household Maintenance; (6) Health; (7) Transport; (8) Communication; (9) Recreation and Culture; (10) Education; (11) Restaurants and Hotels; and (12) Miscellaneous Goods and Services.

The yearly real growth rates recorded by each category varied (see Chart 2.12). Spending on miscellaneous goods and services recorded the highest median growth rate and the second-highest dispersion (when considering the difference between the

lower and upper whisker in the boxplot), and the largest outlier value.[7] On the other hand, the median growth in furnishings' spending was practically zero, as the number of positive and negative growth rates was similar. Changes over time in terms of demography, incomes and lifestyle have impacted how spending on the various consumption components has evolved over these years.

**Chart 2.12: Boxplots for real expenditure growth by consumption purpose (%)**




Note: The ordering is based on the respective median growth rate (the horizontal orange line).

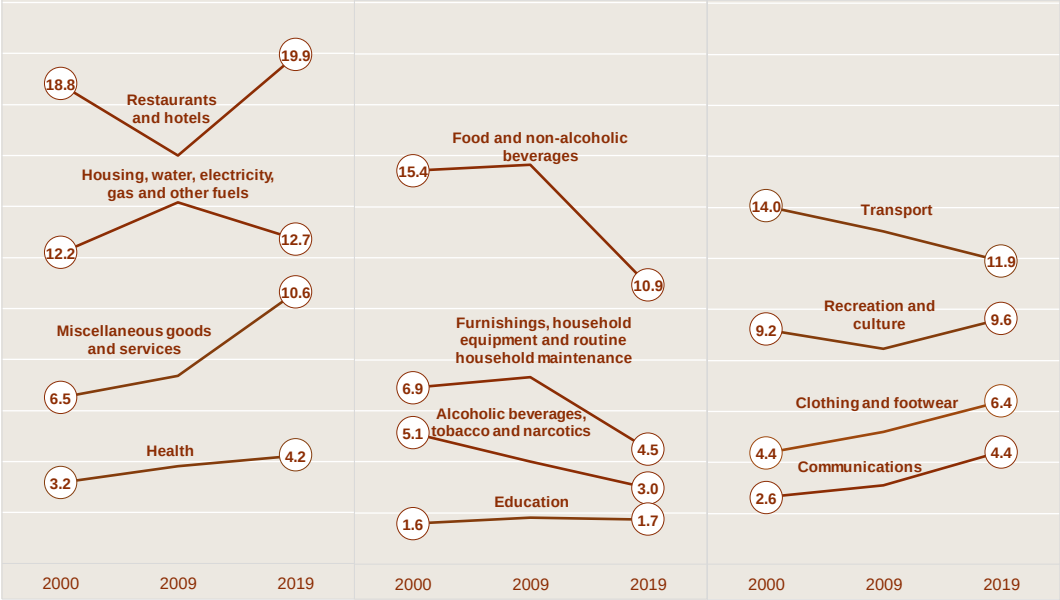
*Source: Eurostat*

In 2019, real expenditure on restaurants and hotels accounted for 19.9% of total spending maintaining the highest share as in 2000 (see Chart 2.13).[8] This was followed by spending on 'housing, water, electricity gas and other fuels', 'transport' and 'food and non-alcoholic beverages'. Together, these four categories represented more than half of the total consumption expenditure in 2019.

[7] Whiskers are the vertical lines starting from the shaded rectangles. The lower whisker shows the range for the lower set of observations (excluding any outliers), while the upper whisker shows the range for the upper set of observations (excluding any outliers).

[8] The high proportion is partly due to the inclusion of spending by tourists in Malta. Expenditure by tourists in restaurants accounted for around one-fifth of expenditure on restaurants and hotels.

**Chart 2.13: Share of total real consumption by category (%)**




*Source: Eurostat*

Other notable developments over the twenty years included the rise in the share spent on miscellaneous goods and services and the drop in the share allocated to food and non-alcoholic beverages. The rising share for miscellaneous goods and services partly reflects higher spending on personal care. Still, it is also indicative of higher spending on products not captured by the other categories (this category can also be considered a residual type of classification). On the other hand, the falling share of food consumption is in line with the general observation that spending on this component rises typically slower than for other products because of lower-income elasticity.

## 2.7 Actual Individual Consumption

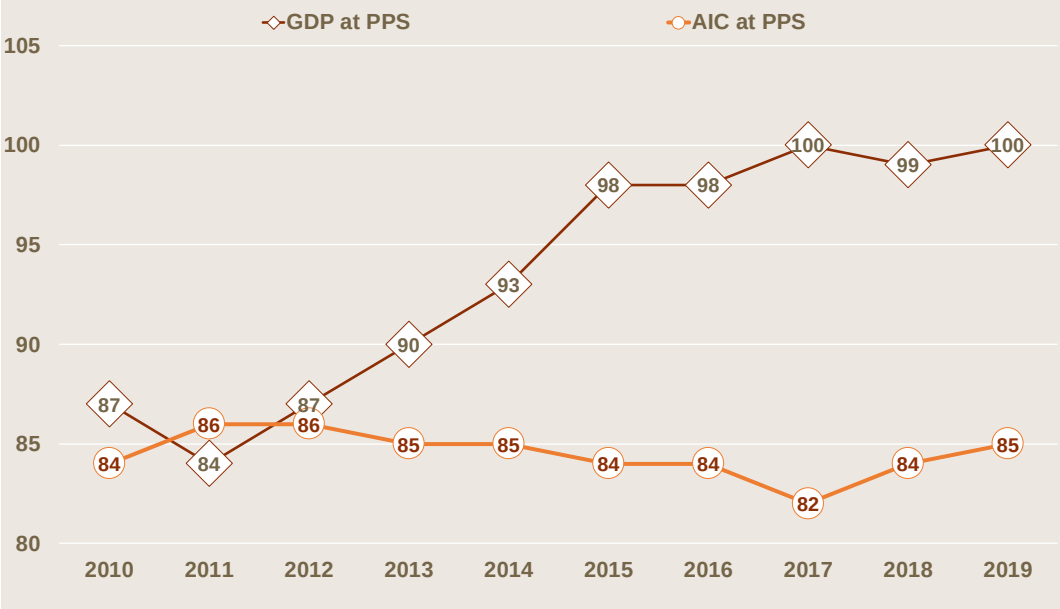
Actual Individual Consumption (AIC) consists of goods and services consumed by individuals, irrespective of whether these goods and services are purchased and paid by households, by the government, or by non-profit institutions.[9] It thus provides a better measure of the material welfare of households. This statistic is useful to indicate the extent of variability in living standards across the Member States. It complements

[9] This is another different consumption measure compared to the previous aggregates discussed in this chapter.

the other similar measure, namely, GDP per capita expressed in Purchasing Power Standards (PPS).[10]

Malta's GDP at PPS rose over the last decade, to reach 100, as at 2019, thereby indicating full convergence, that is, the attainment of the EU-27 average (see Chart 2.14), However, the AIC per capita in Malta, expressed in PPS, has not yet fully converged, as it hovered mostly around 85% of the EU-27 average between 2010 and 2019. This can be linked to the fact that the share of GDP consumption declined over this period since in general GDP grew more strongly than consumption over these years (see Chart 2.5).

**Chart 2.14: GDP at PPS and AIC per capita (EU-27 average = 100)**

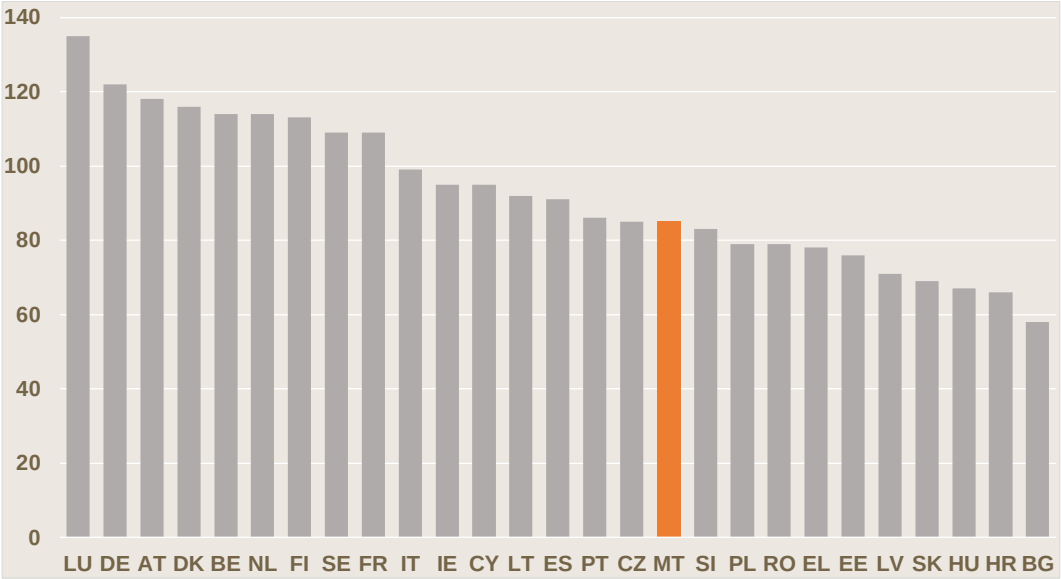



*Source: Eurostat*

In 2019, Malta's AIC per capita was comparable to Portugal, Czech Republic and Slovenia (see Chart 2.15). Malta's AIC per capita was around 63% lower than in Luxembourg (which had the highest value), and 47% above that in Bulgaria (which had the lowest value).

[10] Purchasing Power Standard is an artificial currency unit designed to enhance cross-country data comparability by adjusting for product price differences across countries.

**Chart 2.15: 2019 AIC per capita index (EU-27 average = 100)**




*Source: Eurostat*

## 2.8 Conclusion

This chapter explored the salient consumption patterns recorded in Malta between 2000 and 2019. The centrality of consumption makes it a critical variable to monitor as part of the MFAC's assessment of the official macroeconomic and fiscal forecasts. The patterns described in this chapter provide useful benchmarks to evaluate the plausibility of the official consumption forecasts. They are also helping to guide the MFAC's risk assessment.

At the same time, the MFAC acknowledges that due to the very small size of the Maltese economy, specific developments can impact the overall outturn. Hence micro information remains crucial both in the preparation of the consumption forecasts and in their assessment.

The consumption patterns presented in this chapter can also serve as a benchmark in future studies to assess the extent to which new developments could impact consumption patterns over the next decade.

Chapter 3

# Labour market patterns in Malta 2000 – 2019

## 3.1 Introduction

Developments in the labour market are closely linked to a country's macroeconomic performance. Labour supply is a key determinant of the economy's potential output. At the same time, the labour market generates the bulk of households' income (in 2019, it accounted for almost four-fifths of gross household income). In turn, this income finances private consumption and saving. Incentivising participation in the labour market is also a key policy used by governments to address poverty, promote social wellbeing, foster inclusion and prevent crime.

Moreover, the labour market exerts a significant impact on public finances, both on the revenue and the expenditure side of the budget. The labour market directly drives income taxes and social security contributions. However, since labour income also influences the level of consumption, developments in the labour market impact indirect taxes. On the other hand, weak labour market conditions often bring calls for higher public expenditure on social payments, to act as a safety net, and the launch of new public projects to stimulate demand. Overall, benign labour market conditions typically contribute to an improvement in the fiscal balance, whereas adverse developments in the labour market generally result in a deterioration.

The MFAC monitors Malta's labour market closely to assess both the official macroeconomic forecasts and the fiscal projections. This monitoring involves verifying the plausibility of the labour market forecasts such as for labour supply, sectoral employment growth, sectoral growth in wages and the unemployment rate, and evaluating their consistency with the forecasts for real GDP growth and the fiscal balance.

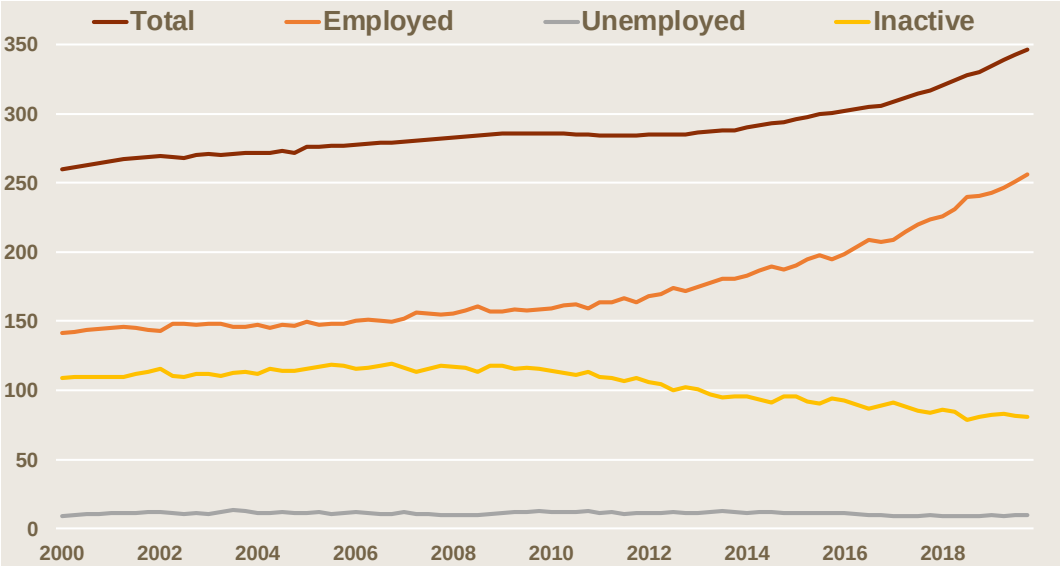
This Chapter provides an overview of Malta's labour market's salient developments over the twenty years 2000 to 2019. Unless otherwise indicated, the data reported in this Chapter is derived from the Labour Force Survey statistics.[11]

[11] The European Union Labour Force Survey is conducted in all Member States of the European Union in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. It is a large household sample survey providing quarterly results on

## 3.2 Labour supply

In 2019, the population in Malta within the 15 to 64 age-bracket reached 346,500, expanding by around one-third during the last two decades. Population growth accelerated during the more recent years, as the number of foreigners residing in Malta increased (see Chart 3.1).

**Chart 3.1: Population aged 15 – 64 in Malta by type of activity (thousands)**




*Source: Eurostat*

This development was accompanied by a decline in the number of Maltese within the working-age who were inactive. Thus, Malta's labour supply grew more strongly during the second decade, both due to the influx of foreign workers and the increase in the number of Maltese joining the labour market, following the implementation of various active labour market policies throughout this period.

During the second decade, there was a steeper rise in employment.[12] This suggests that the creation of job opportunities was a catalyst for foreign workers and to

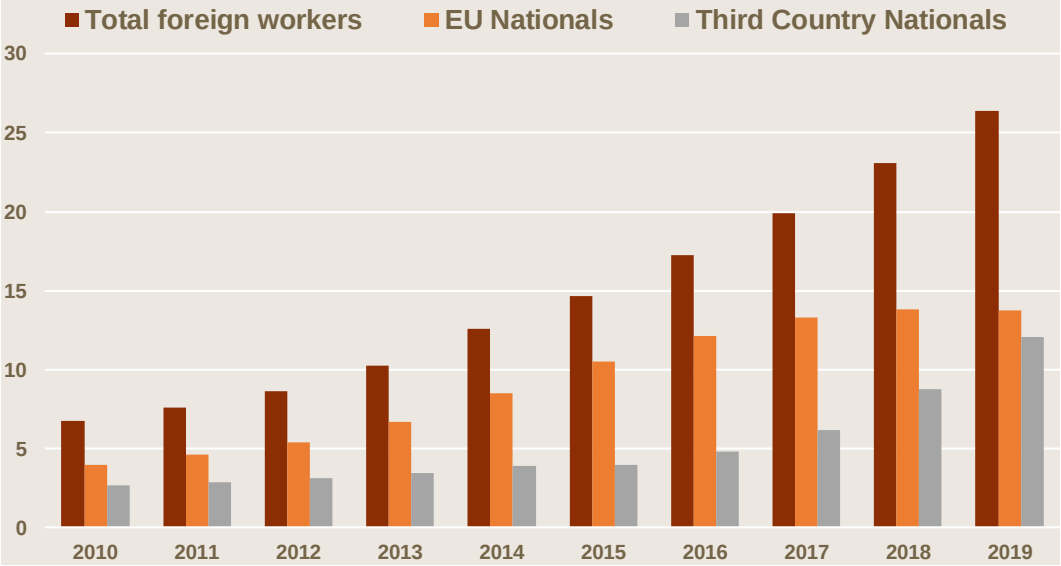
labour participation of people aged 15 and over as well as on persons outside the labour force. The Labour Force Surveys are conducted by the national statistical institutes across Europe and are centrally processed by Eurostat. The national statistical institutes are responsible for selecting the sample, preparing the questionnaires, conducting the direct interviews among households, and forwarding the results to Eurostat in accordance with the requirements of the regulation.

[12] Eurostat employment statistics are based on the Labour Force Survey. These are defined as persons who work for a public or private employer and who receive

encourage more Maltese to join the labour market.[13] Meanwhile, the number of persons unemployed was generally low and relatively stable between 2000 and 2019.

Foreign workers accounted for slightly more than a quarter of employment in Malta in 2019, with their share rising steadily over time (see Chart 3.2). Indeed, their number grew approximately six-fold during the last decade, to reach 67,596 (see Chart 3.3).[14]

**Chart 3.2: Share of foreign workers in total employment in Malta (%)**




*Source: Eurostat, Jobsplus*

EU and Third Country Nationals practically equally drove the increase in foreign workers in Malta. Indeed, in 2019, 52% of foreign workers were EU nationals, while the rest of the world accounted for the other 48% (see Chart 3.4).

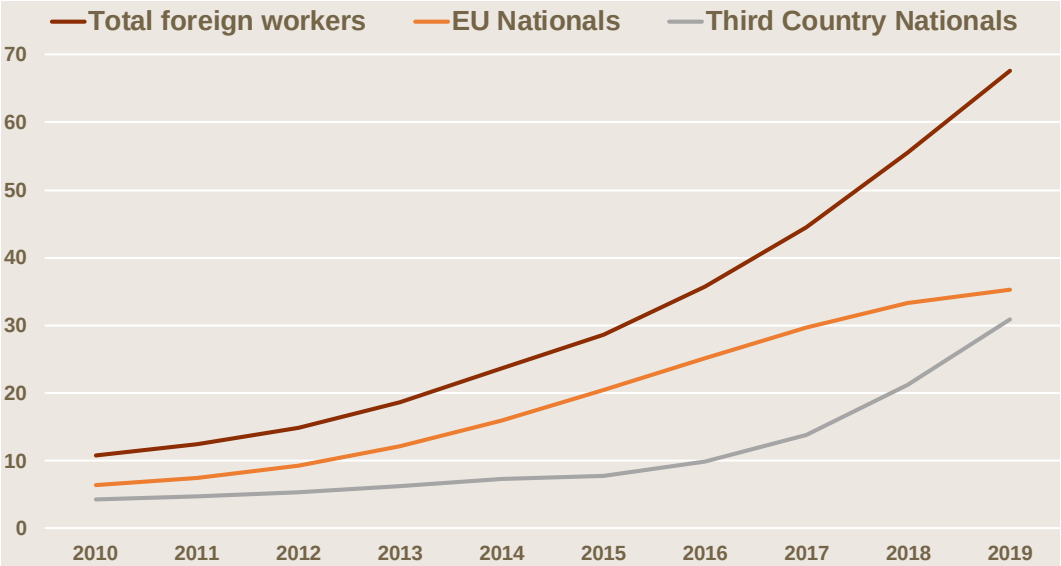
Asian workers accounted for the largest share of non-EU workers, with the second-largest group originating from European countries which do not form part of the EU. In 2019, 86.4% of Malta's total employment was on a full-time basis, whilst the rest had part-time jobs. Almost the same percentage, 86.2% of EU nationals were employed on a full-time basis, whereas in the case of Third Country Nationals, the rate was higher, at 97.3%.

compensation in the form of wages, salaries, fees, gratuities, payment by results or payment in kind.

[13] The provision of free child-care services was another important policy which contributed to expand Malta's labour supply, particularly in the case of females.

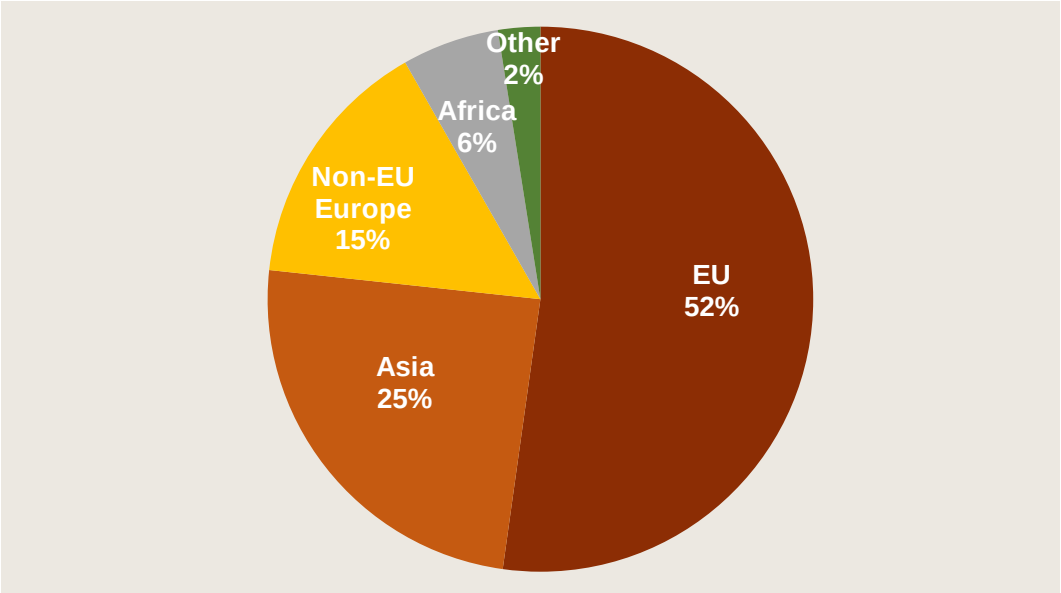
[14] Statistics on foreign workers are based on administrative records maintained by Jobsplus.

**Chart 3.3: Foreign workers in Malta (thousands)**




*Source: Jobsplus*

**Chart 3.4: Total foreign workers in Malta in 2019 by major groups (%)**




*Source: Jobsplus*

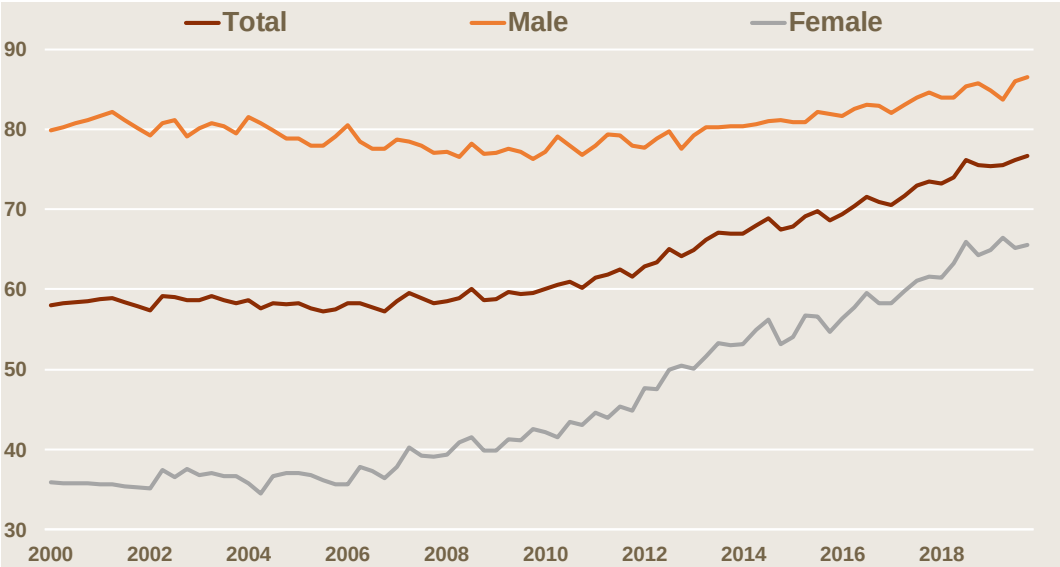
## 3.3 Activity rates

Over the past two decades, Malta's total activity rate increased by around 18 percentage points, to almost 77% by 2019. Since the higher participation in the labour market was accompanied by a similar rise in the employment rate, this enabled Malta to meet its Europe 2020 employment rate target. Indeed, Malta's employment rate

target of 70% was surpassed by 2016. By 2018, Malta's employment rate had also exceeded the EU target of 75%.

The activity rate overall increase was underpinned by a rapid rise in the female activity rate, predominantly during the last decade (see Chart 3.5). The female activity rate almost doubled during the twenty years, reaching 65.6% by 2019. In turn, the male activity rate, which for many years hovered close to 80%, also increased slightly in recent years. Overall, the gap between male and female activity rates has practically halved since 2000. Indeed, by 2019 the gap between male and female activity rates had narrowed to around 20 percentage points.

**Chart 3.5: Activity rates by sex (%)**




*Source: Eurostat*

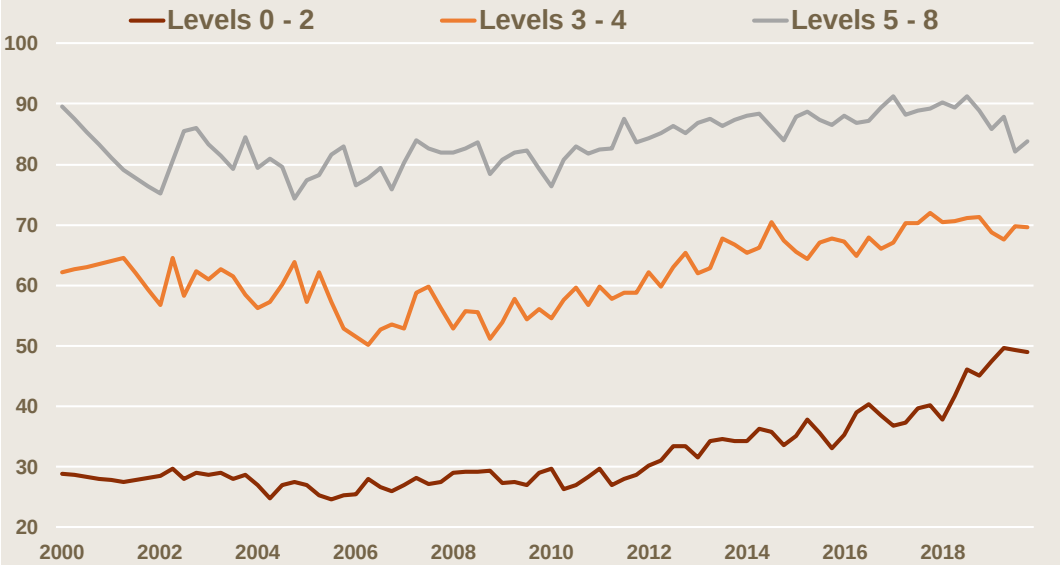
When examining Malta's female labour market, there is a clear positive correlation between education qualifications and activity rates. Indeed, the share of the more qualified females who participate in the labour market is much higher than that for females with lower educational background. The same pattern can be observed across the other EU Member States. However, in Malta, the difference in activity rates across education levels has narrowed in the more recent years (see Chart 3.6).

In 2000, the activity rate for females with education levels 5 – 8 was three times higher than that for females with education levels 0 – 2, but by 2019 this ratio had fallen below two.[15] This reflected the significant improvement in female participation rate from the

[15] Level 0: early childhood education; level 1: primary education; level 2: lower secondary education; level 3: upper secondary education; level 4: post-secondary

lower educational background, which at the start of the millennium mostly hovered under 30%, but which increased to 49% by 2019.

**Chart 3.6: Female activity rates by level of education (%)**




*Source: Eurostat*

## 3.4 Sectoral employment

When focusing on employment share across the various sectors, there were two dominant changes over the past two decades. The employment share within the manufacturing sector [C] declined steadily, from 21.7% in 2000 to 9.4% by 2019 (see Table 3.1 and Chart 3.7). Even though the contraction in employment within manufacturing, from 31,820, in 2000 to 21,990, in 2010, was partially reversed through an expansion in employment, to 23,510, as of 2019 (see Table 3.2).

On the contrary, the share of employment within the professional, scientific and technical activities, administrative and support service activities [M, N] rose significantly, from 5.8% to 16.5% during the same period. Indeed, whereas in 2000, employment within this sector stood at 8,530, by 2019, this rose to 41,360. This was in line with the re-orientation of the country towards a more service-based economy.

non-tertiary education; level 5: short-cycle tertiary education; level 6: bachelor or equivalent level; level 7: master or equivalent level; and level 8: doctor or equivalent level.

**Table 3.1 Sector codes**

| | |
|---|---|
| **A** | Agriculture, forestry and fishing |
| **B, D, E** | Industry |
| **C** | Manufacturing |
| **F** | Construction |
| **G, H, I** | Wholesale and retail trade, transport, accommodation and food service activities |
| **J** | Information and communication |
| **K** | Financial and insurance activities |
| **L** | Real estate activities |
| **M, N** | Professional, scientific and technical activities; administrative and support service activities |
| **O, P, Q** | Public administration, defence, education, human health and social work activities |
| **R, S, T, U** | Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organisations and bodies |

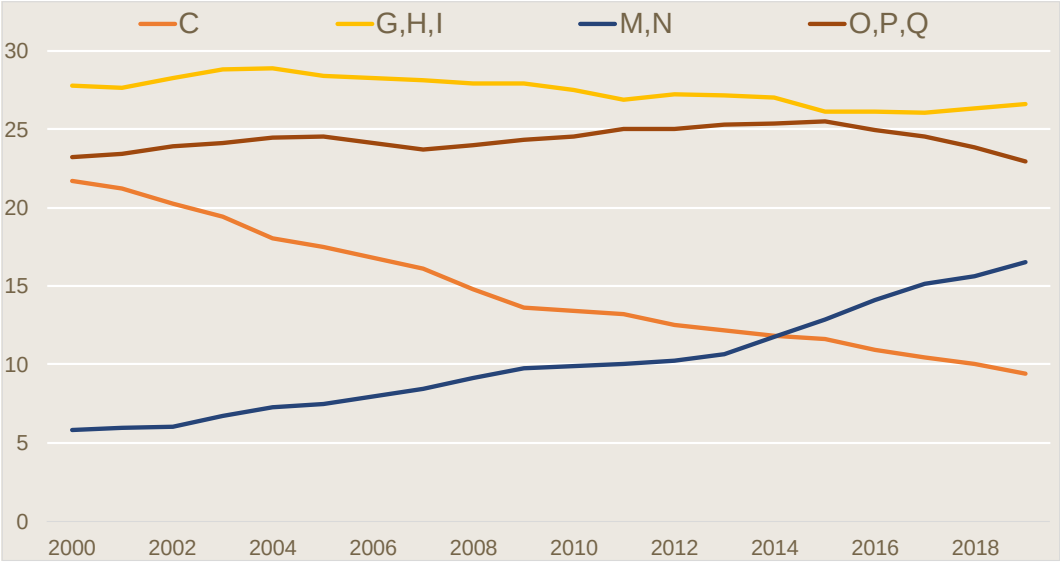
*Source: Eurostat*

**Table 3.2: Employment levels in selected sectors (thousands)**

| | 2000 | 2010 | 2019 |
|---|---|---|---|
| Agriculture, forestry and fishing | 2.20 | 2.60 | 2.62 |
| Manufacturing | 31.82 | 21.99 | 23.51 |
| Construction | 9.73 | 11.19 | 14.87 |
| Wholesale and retail trade, transport, accommodation and food service activities | 40.66 | 45.11 | 66.51 |
| Information and communication | 3.83 | 5.07 | 9.67 |
| Financial and insurance activities | 5.64 | 9.12 | 12.89 |
| Professional, scientific and technical activities; administrative and support service activities | 8.53 | 16.19 | 41.36 |
| Public administration, defence, education, human health and social work activities | 34.01 | 40.17 | 57.34 |
| Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organisations and bodies | 4.6 | 7.93 | 16.71 |

*Source: Eurostat*

**Chart 3.7: Share of employment for the largest sectors (%)**




*Source: Eurostat*

The other sectors maintained relatively stable employment shares. Wholesale and retail trade, transport, accommodation and food service activities [G, H, I] consistently accounted for the bulk of employment, averaging around 27.5% during this period. Indeed, the expansion in jobs within this sector, from 40,660 in 2000 to 66,510 in 2019, followed the overall employment growth trend. Similarly, public administration, defence, education, human health and social work activities [O, P, Q] maintained the second-highest share, with an average of 24.4% between 2000 and 2019. In this case, the headcount increased from 34,010 in 2000 to 57,340 by 2019.

The shares of the remaining sectors all remained below 10%. Between 2000 and 2019, employment within the financial and insurance activities sector expanded from 5,640 to 12,890. In turn, employment within the arts and entertainment and information and communication rose respectively from 4,600 to 16,710 and from 3,830 to 9,670.[16]

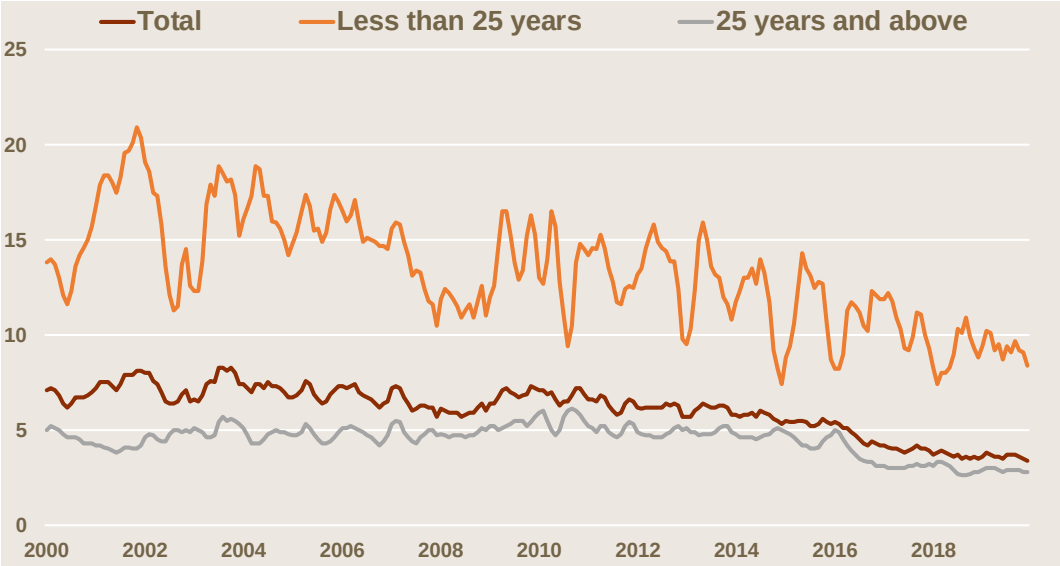
## 3.5 Unemployment

The monthly unemployment rate generally remained low between 2000 and 2019. During these years, the highest unemployment rate was 8.3% during some months of 2003 (see Chart 3.8). On the other hand, the lowest unemployment rate was 3.4% and

[16] The rise in employment within these two sectors is in part related to the 'gaming sector' which over these years expanded considerably.

was recorded at the end of 2019. Between January 2000 and April 2016, the unemployment rate was always above 5%, but between May 2016 and December 2019, unemployment was always lower than 5%.

**Chart 3.8: Unemployment rate by age group (%)**




*Source: Eurostat*

Malta was consistently among the EU Member States with a lower unemployment rate (see Table 3.3). The reduction in Malta's unemployment rate observed over the second decade matches the pattern recorded across most EU Member States.

Focusing on the unemployment rate by age group, a regular pattern emerges whereby the younger population (less than 25 years old) consistently experienced a higher unemployment rate when compared to the rest of the population (25 years and above). The younger cohort's unemployment rate also experienced more monthly variations, probably reflecting the school leaving patterns as individuals end their scholastic year and experience a period of unemployment until they find their first job.

Annual average data on the number of registered unemployed, based on the administrative records of Jobsplus and its predecessor, the Employment and Training Corporation, also indicates two distinct phases.[17]

[17] The administrative records are based on the people who formally register as unemployed under Part 1 and Part 2. Hence, the data is not directly comparable to that produced by the Labour Force Survey which has a broader classification. The Labour Force Survey considers as unemployed those without a job who were actively

**Table 3.3: Unemployment rates in the EU – 27 in ascending order as at 2019 (%)**

| | December 2010 | December 2015 | December 2019 |
|---|---|---|---|
| Czechia | 6.8 | 4.5 | 1.9 |
| Poland | 9.6 | 6.9 | 2.9 |
| Netherlands | 4.7 | 6.4 | 3.0 |
| Germany | 6.5 | 4.5 | 3.1 |
| Hungary | 11.2 | 6.2 | 3.4 |
| **Malta** | **6.9** | **5.3** | **3.4** |
| Slovenia | 8.1 | 8.7 | 4.0 |
| Romania | 7.0 | 6.8 | 4.1 |
| Bulgaria | 11.9 | 8.0 | 4.3 |
| Austria | 4.4 | 5.7 | 4.3 |
| Estonia | 14.3 | 6.5 | 4.5 |
| Ireland | 15.3 | 9.0 | 4.6 |
| Denmark | 7.9 | 6.1 | 4.9 |
| Belgium | 7.7 | 8.8 | 5.2 |
| Slovakia | 14.0 | 10.8 | 5.7 |
| Luxembourg | 5.1 | 7.0 | 6.0 |
| Finland | 7.9 | 9.2 | 6.0 |
| Sweden | 7.6 | 6.7 | 6.0 |
| **European Union – 27** | **9.9** | **9.7** | **6.5** |
| Croatia | 13.1 | 16.0 | 6.6 |
| Latvia | 17.6 | 10.0 | 6.6 |
| Lithuania | 17.5 | 9.4 | 6.9 |
| Cyprus | 5.8 | 13.1 | 7.0 |
| Portugal | 12.4 | 12.4 | 7.0 |
| France | 9.6 | 10.6 | 8.2 |
| Italy | 8.2 | 11.6 | 9.8 |
| Spain | 20.2 | 20.6 | 13.6 |
| Greece | 15.2 | 24.5 | 16.8 |

*Source: Eurostat*

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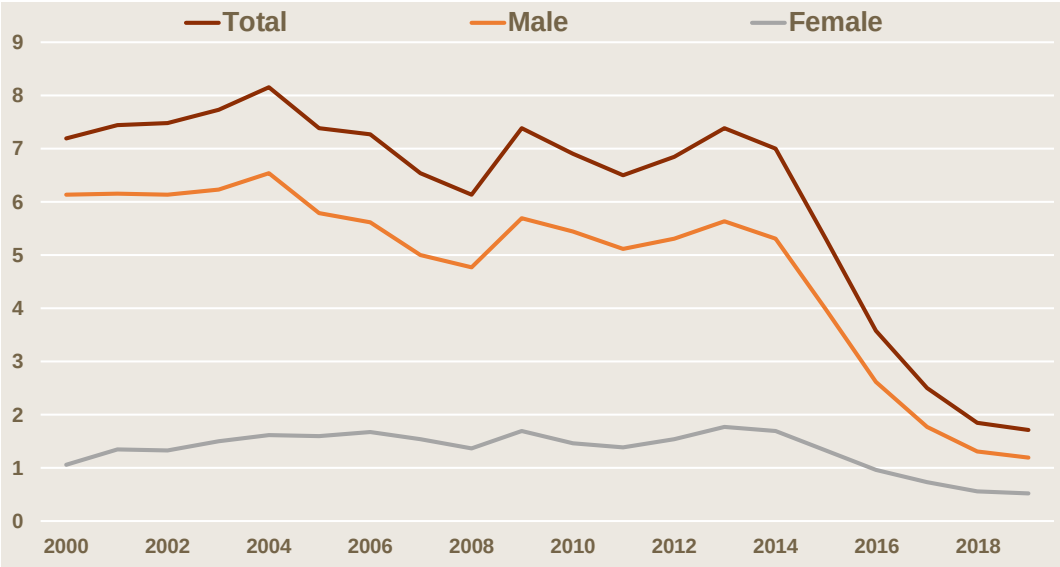
looking for a job over the previous four weeks and were available to start work within two weeks, irrespective of whether that persons registers for work or not.

Between 2000 and 2014, the total number of registered unemployed fluctuated between 6,500 and 8,000 persons (see Chart 3.9). However, in more recent years, the registered unemployed declined steadily and stood below 2,000 in 2019. Another clear pattern that emerges is that those registering for work were predominantly males throughout the twenty years. However, the gap has narrowed significantly over the last five years, notably as male unemployment declined significantly. This was facilitated by the various schemes that Jobsplus launched during this period, which aimed at training and helping the long-term unemployed and unskilled youths join the labour market.

**Chart 3.9: Registered unemployed (thousands)**




*Source: Employment and Training Corporation, Jobsplus*

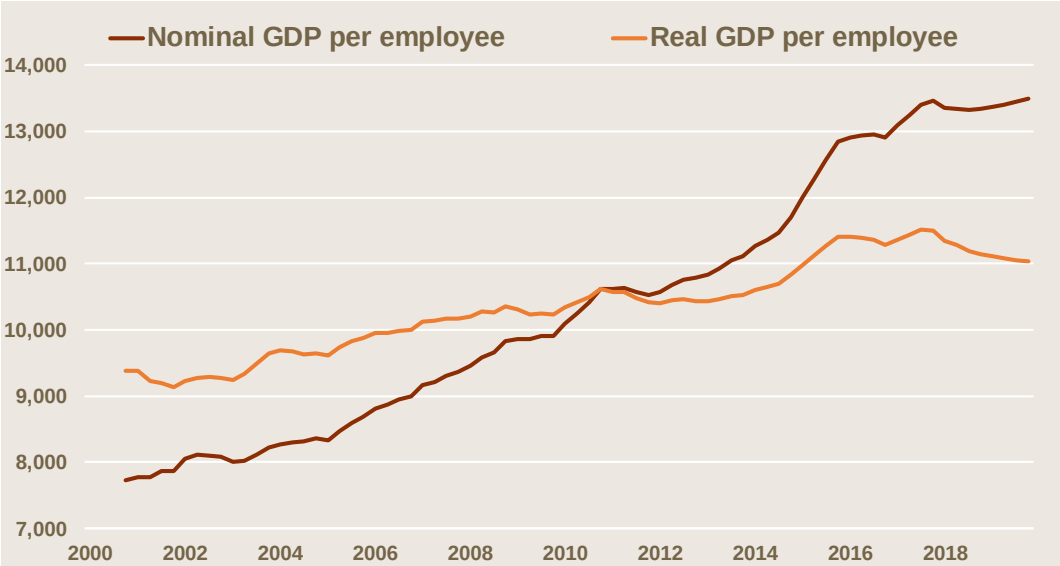
Around half of those registering for work during 2019 were 45 years and over. In turn, around two-thirds were male and one-third female. Slightly less than half had been registering for work for over a year. The most popular occupation sought was that of clerical support workers.

## 3.6 Labour productivity

Dividing nominal GDP and real GDP by the number of employees provides a crude measure of labour productivity, i.e. respectively, an estimate of each person's total output in monetary terms and volume terms. Over the two decades, quarterly GDP per employee increased by almost 75% in nominal terms, from slightly less than €8,000 in

2000 to around €13,500 in 2019 (see Chart 3.10). However, during this period, the increase in labour productivity (proxied by real GDP per employee) amounted to around 18%, or just under one per cent per annum, on average.

**Chart 3.10: Quarterly moving average nominal and real GDP per employee (€)**

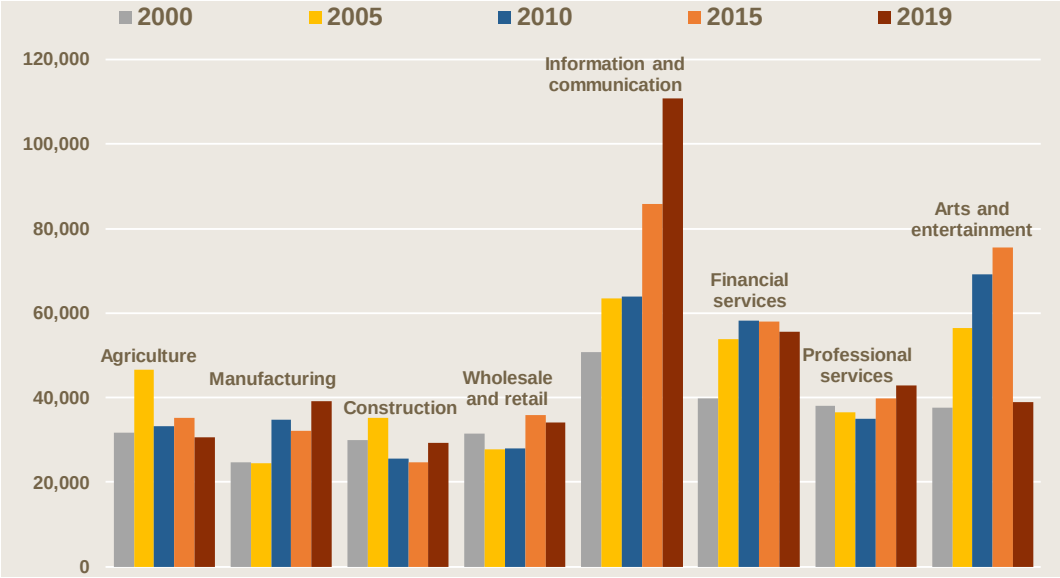



*Source: Eurostat*

Performance across the sectors was uneven. Economic theory suggests that the sectors where the capital per employee tends to be higher generally experience higher productivity. Indeed, capital deepening, which takes place through investment, tends to raise labour productivity.

The Information and Communication sector consistently recorded the highest gross value added per employee in real terms during the period under review (see Chart 3.11). This value also rose consistently in each of the interval periods considered. On the other hand, the arts and entertainment sector and the financial service sector, which respectively exhibited the second and third highest real gross value added per employee, experienced increases in 2005, 2010 and 2015, but then suffered a reduction in 2019. The setback was more pronounced in the case of the arts and entertainment sector. On the other hand, the real gross value added per employee in the manufacturing sector increased by almost 60% between 2000 and 2019. In turn, the construction sector had the lowest real gross value added per employee in 2019, which practically stood at the same level as in 2000.

**Chart 3.11: Yearly real gross value added per employee by sector (€)**




*Source: Eurostat*

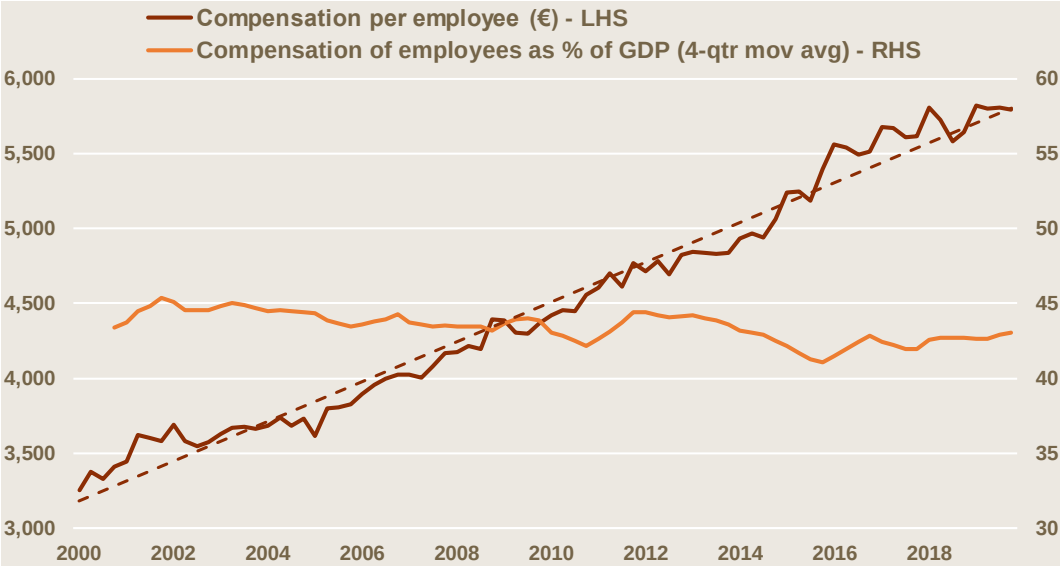
## 3.7 Compensation of employees

In nominal terms, compensation of employees increased by slightly more than 70% over the two decades, to almost €6,000 per quarter (see Chart 3.12). The rise followed the linear trend rather closely. Compensation of employees hovered close to the average of 43.5% of nominal GDP throughout the twenty years.

At a sectoral level, there were differences in terms of the annual compensation per employee. In 2019, the financial and insurance activities sector [K] recorded the highest earnings per employee, amounting to €40,507 (see Table 3.1 and Chart 3.13).[18] This was followed by the arts and entertainment sector and the information and communication sector, with an average compensation per employee slightly above €30,000. On the other hand, compensation per employees in the wholesale and retail trade, transport, accommodation and food service activities sectors [G, H, I] which together account for the bulk of employment, stood at just under €17,000 per annum.

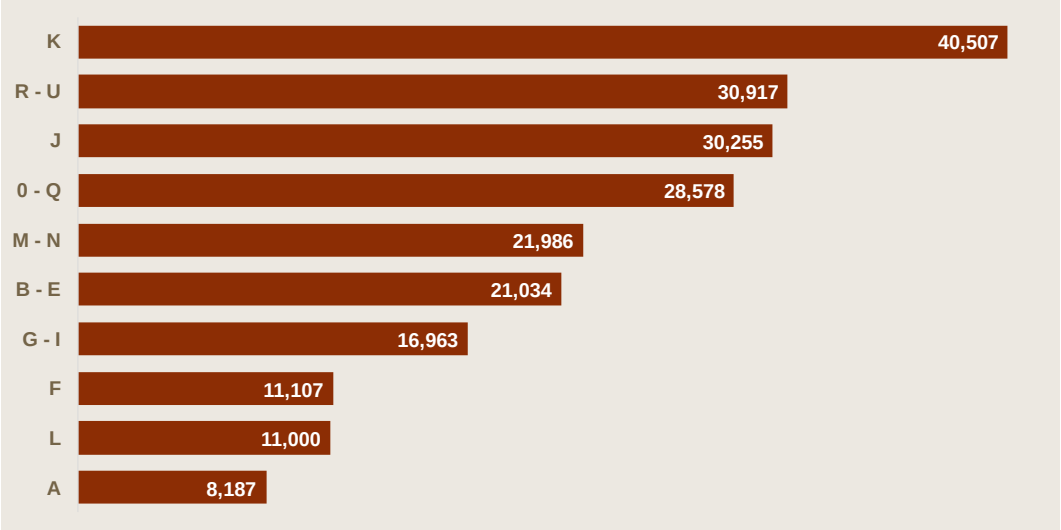
[18] Compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period. Compensation of employees consists of wages and salaries, and of employers' social contributions. This value is not identical to the salary indicated in the employees' payslip.

**Chart 3.12: Quarterly compensation of employees (€, % of GDP)**




*Source: Eurostat*

**Chart 3.13: Compensation per employee by sector (€)**

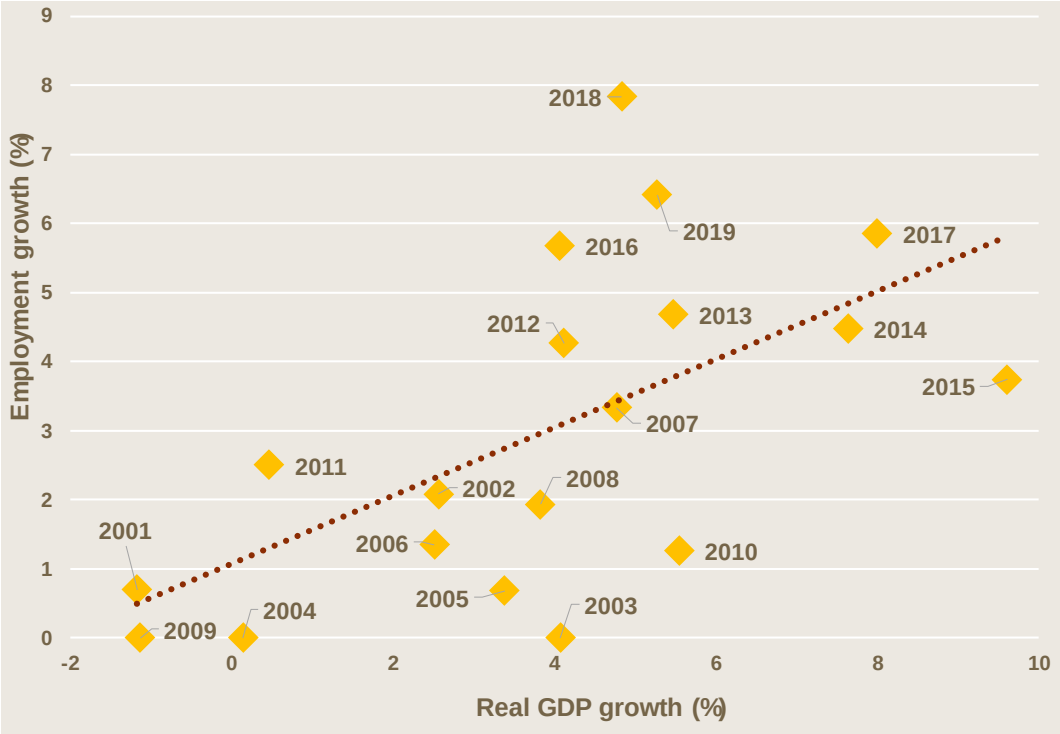



*Source: Eurostat*

## 3.8 Relationship between the labour market and GDP

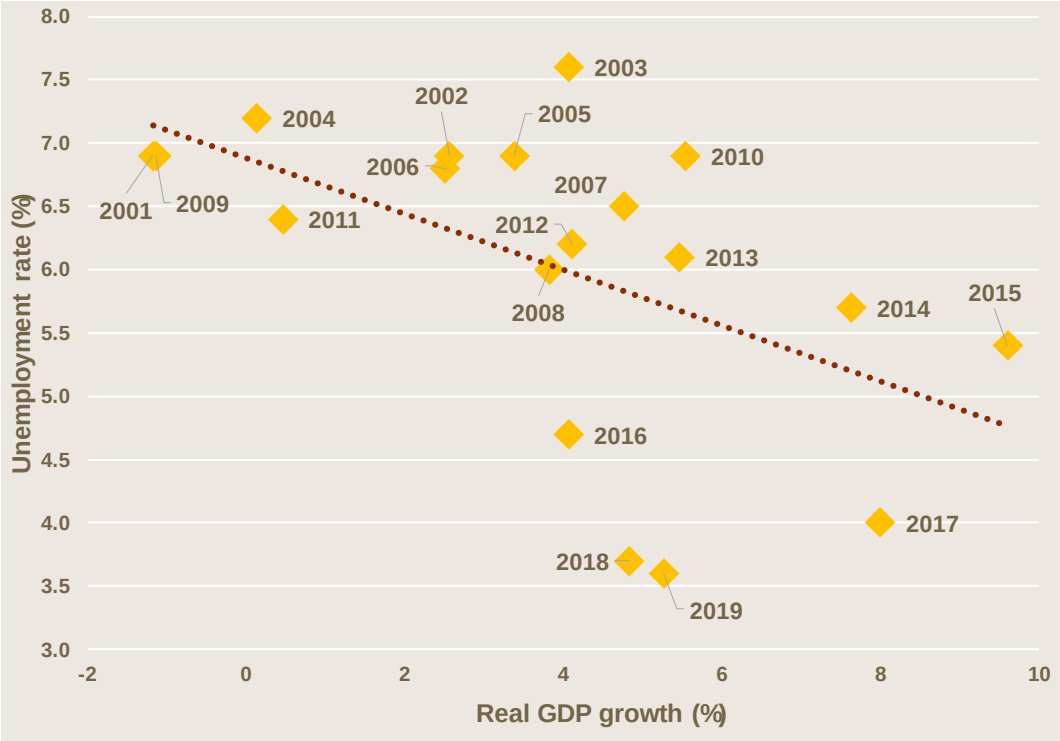
Typically, employment grows when the economy expands, and vice-versa. This positive relationship is visible when plotting the yearly growth rates in employment against real GDP growth in Malta over the period 2000 to 2019 (as indicated by the upward sloping dashed line of best fit) (see Chart 3.14).

## Chart 3.14: Employment and real GDP growth (%)




*Source: Eurostat*

## Chart 3.15: Unemployment rate and real GDP growth (%)



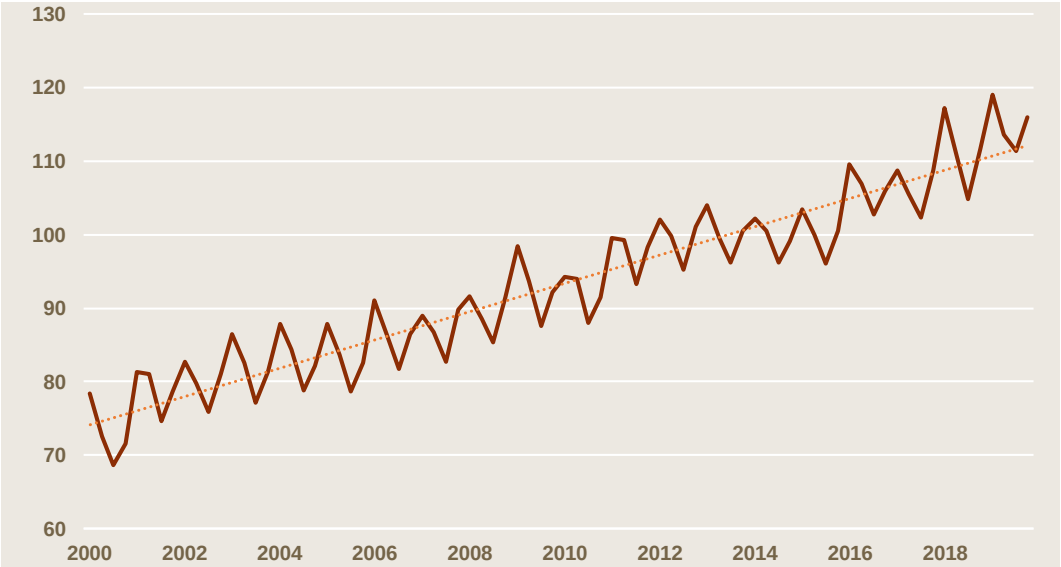

*Source: Eurostat*

On the other hand, the unemployment rate usually is inversely related to real GDP growth, as suggested in the economic literature by Okun's law.[19] Slow or negative real GDP growth can push up the unemployment rate, either through job losses or because of fewer job opportunities compared to the number of new entrants in the labour market. The negative relationship is visible when plotting the unemployment rate against real GDP growth in Malta over the period 2000 to 2019 (as indicated by the downward sloping dashed line of best fit) (see Chart 3.15).

## 3.9 Unit labour cost

Nominal unit labour cost measures the average cost of labour per unit of output. It is calculated as the ratio of labour costs to labour productivity (using real GDP and total employment as input). The unit labour cost thus represents a link between productivity and the cost of labour in producing output. Throughout the twenty years, Malta's nominal unit labour cost has followed a generally stable upward trend (see Chart 3.16).

**Chart 3.16: Nominal unit labour cost based on persons (Index 2015 = 100)**




*Source: Eurostat*

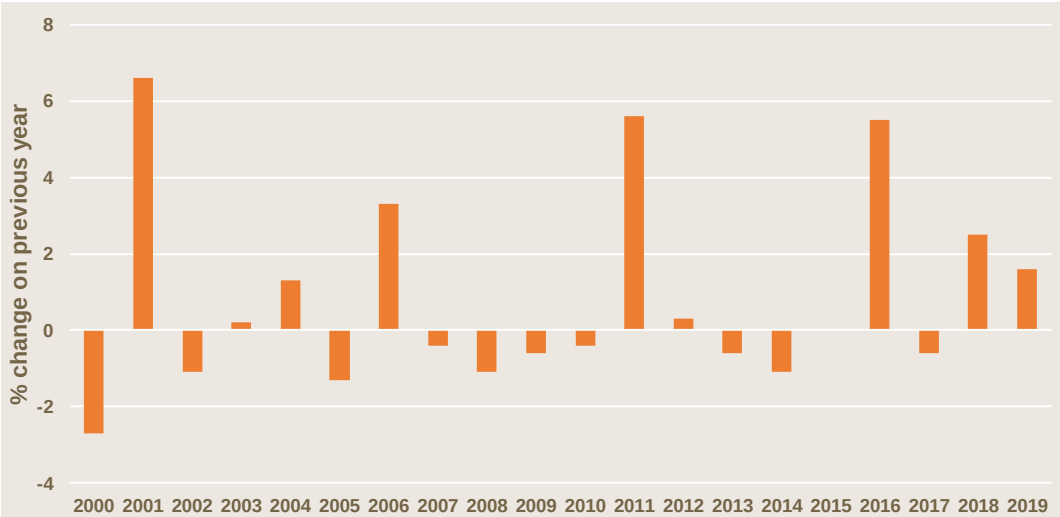
Developments in the labour market can impact the relative competitiveness of a country. This can be assessed by looking at the unit labour cost performance related to the euro area. This indicator measures the trading position of an individual country

[19] Okun, A.M, "Potential GNP: Its Measurement and Significance", Proceedings of the Business and Economic Statistics Section, American Statistical Association, 1962.

relative to its partners in the euro area, accounting for variations in relative price levels based on the unit labour cost, as well as market exchange rates. A decrease in the relative unit labour cost index is regarded as improving a country's competitive position relative to their trading partners in the euro area and vice-versa.

The period between 2000 and 2019 was characterised by years of small improvements in price competitiveness (as indicated by a fall in the unit labour cost relative to the euro area), which were, however, more than offset by more substantial increases (i.e. loss of competitiveness) in some years (see Chart 3.17).

**Chart 3.17: Unit labour cost performance related to the euro area (%)**




*Source: Eurostat*

## 3.10 Conclusion

Malta's labour market has been very dynamic. Rising labour demand was matched by an expansion in labour supply. Decisive work incentive policies contributed to improving the standard of living of Maltese households through greater labour market participation. In this respect, the policies of granting tax breaks to women returning to work and the provision of free child-care appear to have been very successful in leading to a cultural change vis-à-vis the previously very low female participation rate. Meanwhile, sectoral transformations and economy-wide wage dynamics have helped the unemployment rate in Malta to remain low. Such benign labour market conditions have sustained economic growth over the years. They also contributed positively to the general improvement in public finances.

# Financial Statements

For the year ended 31 December 2020

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 31 December 2020.

## 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 €267,000 in Government Subvention during the year ended 31 December 2020 (2019: €261,000) in terms of the Fiscal Responsibility Act and incurred €200,847 in expenditure (2019: €209,107). The Council registered a surplus of €66,636 for the year ended 31 December 2020 (2019: €52,752) as shown in the statement of comprehensive income on page 62.

## Events after the reporting period

In March 2020, the World Health Organization (WHO) declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic. Malta registered its first cases which brought about a number of government measures and restrictions on society and on the business community. As at the date of the financial statements, the virus continues to spread in Malta and around the world.

The impact on the Council was limited since it successfully implemented remote working arrangements. Nevertheless, given the uncertainty about the length and potential effects of this pandemic, the full impact on the Council cannot be estimated and quantified at this point in time. However, the members of the Council are confident that the Council will be able to continue as a going concern as the operations were not affected by the pandemic.

## 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. Carl Camilleri – Executive Member
Dr. Ian Cassar – 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 accrual's basis; and
- Value separately the components of assets and liability items on a prudent basis.

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 26 February 2021 by:

Mr. John Cassar White
**Chairman**

Dr. Carl Camilleri
**Council Member**

Dr. Ian P. Cassar
**Council Member**

**Registered Office:**
Malta Fiscal Advisory Council,
St. Calcedonious Square,
Floriana FRN 1530

**Malta Fiscal Advisory Council**
***Independent Auditor's 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 62 to 77, which comprise the statement of financial position as at 31 December 2020, 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 31 December 2020, 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 and Schedule. 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.

**Malta Fiscal Advisory Council**
***Independent Auditor's Report***
**To the Council Members of Malta Fiscal Advisory Council**

## 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. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Council business and the overall economy.

- 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 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.

**Auditors' Responsibilities for the Audit of the Financial Statements**

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.

**Malta Fiscal Advisory Council**
***Independent Auditor's Report***
**To the Council Members of Malta Fiscal Advisory Council**

**Report on Other Legal and Regulatory Requirements**

Under the Fiscal Responsibility Act, 2014, Cap 534, we have nothing to report you with respect to the following matters:

- Proper accounting records have not been kept; or
- The Financial statements are not in agreement with the accounting records; or
- We have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit;

The Director in charge of the audit resulting in this independent auditor's report is Ms. Donna Greaves for and on behalf of:

PKF Malta Limited

Registered Auditors

15, Level 3, Mannarino Road.

Birkirkara,

BKR 9080,

Malta

26 February 2021

**Malta Fiscal Advisory Council**
***Statement of Comprehensive Income***
**For the year ended 31 December 2020**

| | Note | 2020 EUR | 2019 EUR |
|---|---|---|---|
| **Income** | 3 | 267,000 | 261,000 |
| Expenditure | | (200,847) | (209,107) |
| Other Income | | 484 | 859 |
| **Surplus before tax** | | 66,637 | 52,752 |
| Taxation | 5 | - | - |
| **Surplus for the year** | 7 | 66,637 | 52,752 |
| Other Comprehensive Income for the year | | - | - |
| **Total Comprehensive Income for the year** | | **66,637** | **52,752** |

The notes to the financial statements on pages 66 to 77 form an integral part of these financial statements.

**Malta Fiscal Advisory Council**
***Statement of Financial Position***
**As at 31 December 2020**

| | Note | 2020 EUR | 2019 EUR |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and Equipment | 8 | 3,954 | 5,322 |
| **Current Assets** | | | |
| Other Receivables | 9 | - | 422 |
| Cash and Cash Equivalents | 10 | 198,459 | 132,374 |
| **Total Current Assets** | | 198,459 | 132,796 |
| **TOTAL ASSETS** | | **202,413** | **138,118** |
| **CAPITAL AND LIABILITIES** | | | |
| **Capital and Reserves** | | | |
| Accumulated Reserve – Recurrent vote and operating activities | 11 | 199,699 | 133,062 |
| **Current Liabilities** | | | |
| Other Payables | 12 | 2,714 | 5,056 |
| **TOTAL CAPITAL AND LIABILITIES** | | **202,413** | **138,118** |

The notes to the financial statements on pages 66 to 77 form an integral part of these financial statements.

These financial statements were approved by the Fiscal Advisory Council, authorised for issue on 26th February 2021 and signed on its behalf by:

Mr. John Cassar White
**Chairman**

Dr. Carl Camilleri
**Council Member**

Dr. Ian P. Cassar
**Council Member**
**Malta Fiscal Advisory Council**

***Statement of Changes in Equity***
**For the year ended 31 December 2020**

| | Accumulated Reserve EUR | Total EUR |
|---|---|---|
| **Balance as at 31 December 2018** | 80,310 | 80,310 |
| Surplus for the year | 52,752 | 52,752 |
| **Balance as at 31 December 2019** | 133,062 | 133,062 |
| Surplus for the year | 66,637 | 66,637 |
| **Balance as at 31 December 2020** | **199,699** | **199,699** |

The notes to the financial statements on pages 66 to 77 form an integral part of these financial statements.

**Malta Fiscal Advisory Council**
***Statement of Cash Flows***
**For the year ended 31 December 2020**

| | Note | 2020 EUR | 2019 EUR |
|---|---|---|---|
| **Cash flows from Operating Activities** | | | |
| Surplus before tax | | 66,637 | 52,752 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | - | 320 |
| Depreciation of Plant and Equipment | 8 | 1,772 | 2,788 |
| *Operating surplus before working capital changes* | | 68,409 | 55,860 |
| Movement in Other Receivables | 9 | 422 | (93) |
| Movement in Other Payables | 12 | (2,341) | 3,164 |
| *Net cash flow (used in)/ from Operating Activities* | | (1,919) | 3,071 |
| **Cash flows from Investing Activities** | | | |
| Acquisition of Plant and Equipment | 8 | (404) | (4,280) |
| *Net cash used in Investing Activities* | | (404) | (4,280) |
| Movement in Cash and Cash Equivalents | | 66,086 | 54,651 |
| **Cash and Cash equivalents at start of the year** | | 132,374 | 77,723 |
| **Cash and Cash equivalents at end of the year** | 10 | **198,460** | **132,374** |

The notes to the financial statements on pages 66 to 77 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 31 December 2020 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) Functional and Presentation Currency

The financial statements are presented in euro (€), which is the Council's functional currency.

### d) 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. 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

## 1. Basis of Preparation *(continued)*

application of the new standards and interpretations will not have a material impact on the financial statements.

## 2. Significant Accounting Policies

### a. 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.

*Depreciation*

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost amount, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Fixtures and fittings | 10% per annum |
| Computer and office equipment | 25% per annum |
| Library books | 10% per annum |
| Air conditioners | 16.67% per annum |

*Depreciation method, useful life and residual value*

The depreciation method applied, the residual value and the useful life of property, plant and equipment are reviewed on a regular basis and when necessary, revised with the effect of any changes in estimate being accounted for prospectively.

## 2. Significant Accounting Policies (continued)

### a. Plant and equipment (continued)

*Derecognition*

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

### b. 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.

## 2. Significant Accounting Policies (continued)

### b. Financial Instruments (continued)

*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:

- 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.

## 2. Significant Accounting Policies (continued)

### b. Financial Instruments (continued)

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.

### c. 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.

### d. Other Payables

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

### e. 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.

## 2. Significant Accounting Policies (continued)

### e. Impairment (continued)

*Financial Assets (continued)*

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.

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.

*Non-Financial Assets (continued)*

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.

## 2. Significant Accounting Policies (continued)

### f. Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term investments that are held to meet short-term cash commitments rather than for investment or other purposes. Bank overdrafts, which are repayable on demand and form an integral part of the Council's cash management, and are presented in current liabilities in the balance sheet.

### g. Provisions and contingent liabilities

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.

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with sufficient reliability.

### h. 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.

## 2. Significant Accounting Policies (continued)

### h. Taxation (continued)

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.

### i. Government subvention

Government grants are assistance by government, inter-governmental agencies and similar bodies whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to operating activities of the Council. Government grants are recognised when there is reasonable assurance that the Council will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in the income statement so as to match them with the expenditure towards which they are intended to contribute. Any grants relating to future periods are recognised as deferred income.

### j. 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:

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Government Subvention | 267,000 | 261,000 |

The Government subvention as per Article 55 sub-articles (2), (4a) and (4b) of the Fiscal Responsibility Act amounts to not less than €267,000 annually and increases by the Index of Inflation as established and published by the National Statistics Office in each subsequent year.

## 4. Council Honoraria

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Honoraria | 42,000 | 42,000 |
| 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

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Staff Gross Salaries and Social Security Contributions | 139,599 | 129,218 |
| Average Number of Employees | 4 | 4 |

## 7. Surplus for the year

*Auditors' Remuneration*

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

| | 2020 EUR | 2019 EUR |
|---|---|---|
| Audit Fees | 1,180 | 1,180 |

## 8. Plant and Equipment

| | Fixtures & Fittings EUR | Computer and Office Equipment EUR | Library Books EUR | Air Conditioner EUR | Total EUR |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2020 | 2,132 | 10,037 | 1,091 | 1,130 | 14,390 |
| Additions | - | 404 | - | - | 404 |
| As at 31 December 2020 | 2,132 | 10,441 | 1,091 | 1,130 | 14,794 |
| **Depreciation** | | | | | |
| As at 1 January 2020 | 603 | 7,643 | 446 | 376 | 9,068 |
| Charge for the year | 213 | 1,262 | 109 | 188 | 1,772 |
| As at 31 December 2020 | 816 | 8,905 | 555 | 564 | 10,840 |
| **Net Book Value** | | | | | |
| As at 31 December 2019 | 1,529 | 2,394 | 645 | 754 | 5,322 |
| As at 31 December 2020 | **1,316** | **1,536** | **536** | **566** | **3,954** |

## 9. Other Receivables

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Prepayments | - | 422 |

## 10. Cash and Cash Equivalents

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

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Bank Balances | 198,460 | 132,374 |

## 11. Accumulated Reserve – Recurrent Vote and Operating Activities

The recurrent vote and operating activities represent the accumulated surplus resulting from operations.

## 12. Other Payables

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Other Payables | - | 417 |
| Accruals | 2,715 | 4,639 |
| | 2,715 | 5,056 |

## 13. Financial Instruments

*Fair Values of Financial Assets and Financial Liabilities*

At 31 December 2020 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.

## 13. Financial Instruments *(continued)*

*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.

## 14. 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 31 December 2020 and 2019 are disclosed in note 4.

## 15. Comparative Information

Certain comparative information has been reclassified to conform to the current's year disclosure for the purpose of fairer presentation.

## 16. Post balance sheet events

In March 2020, the World Health Organization (WHO) declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic. Malta registered its first cases which brought about a number of government measures and restrictions on society and on the business community. As at the date of the financial statements, the virus continues to spread in Malta and around the world.

The impact on the Council was limited since it successfully implemented remote working arrangements. Nevertheless, given the uncertainty about the length and potential effects of this pandemic, the full impact on the Council cannot be estimated and quantified at this point in time. However, the members of the Council are confident that the Council will be able to continue as a going concern as the operations were not affected by the pandemic

**Malta Fiscal Advisory Council**
***Schedules to the Expenditure Account***
**For the year ended 31 December 2020**

**Recurrent Expenditure**

| | 2020<br>EUR | 2019<br>EUR |
|---|---|---|
| Council Honoraria | 42,000 | 42,000 |
| Salaries and Consultancy fees | 139,599 | 129,218 |
| Audit fee | 1,180 | 1,180 |
| Accountancy fees | 500 | 699 |
| MITA Subscription | - | 3,058 |
| Annual Report | 651 | - |
| Telecommunication and Internet Costs | 3,683 | 4,663 |
| Travel and Training costs | 3,320 | 9,035 |
| Local Conference costs | - | 250 |
| Staff Welfare | 36 | 763 |
| Postage, other Printing and Stationery | 1,483 | 3,240 |
| Insurance | 779 | 667 |
| Subscriptions | 1,016 | - |
| Times of Malta - Subscription of online newspaper | - | 155 |
| Depreciation of plant and equipment | 1,772 | 2,788 |
| Amortisation of intangible assets | - | 320 |
| Sundry Expenses | 305 | 54 |
| Bank Charges | 95 | 57 |
| Maintenance | 207 | 930 |
| General expenses | 1,249 | 593 |
| Equipment/Licences | - | 449 |
| Consumables - Equipment | 404 | 7,380 |
| Cleaning | 1,677 | 1,418 |
| Air Conditioner | - | 190 |
| Website | 891 | - |
| Total Recurrent Expenditure | 200,847 | 209,107 |

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

**Malta Fiscal Advisory Council**

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