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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,

**ASSESSMENT OF THE MACROECONOMIC FORECASTS CONTAINED  
IN THE UPDATE OF STABILITY PROGRAMME 2021 – 2024**

The Malta Fiscal Advisory Council (MFAC) has an obligation under Article 13 of the Fiscal Responsibility Act to endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Ministry for Finance and Employment on which the Update of Stability Programme is based. Accordingly, the Ministry forwarded to the Council the provisional macroeconomic forecasts on 13 April, followed by the final set of macroeconomic forecasts on 26 April 2021 (see Appendix 1). These forecasts update the macroeconomic outlook which was published by the Ministry and endorsed by the Council in October 2020, as part of the Draft Budgetary Plan.

The Fiscal Council reviewed the plausibility of the assumptions used by the Ministry in the latest forecast round. Discussions were held with the Ministry's senior officials to examine in detail the drivers underpinning the updated macroeconomic outlook, as well as the factors contributing to the revisions from the previous forecast vintage. The macroeconomic forecasts were further examined in the light of the information available and compared to those prepared by independent institutions. In its assessment, the Council acknowledges the significant challenges involved in the preparation of macroeconomic forecasts covering a four-year horizon, at a time when

both the short-term and the medium-term economic effects of the COVID-19 pandemic remain highly uncertain.

In 2021 real GDP is forecast to grow by 3.8%, reversing part of the 7.0% downturn experienced in 2020. Economic growth is expected to accelerate to 6.8% in 2022, and remain elevated thereafter, respectively 4.5% in 2023, and 4.0% in 2024. Domestic demand is anticipated to be the main driver of real GDP growth in each of the forecast years. The expected contribution to growth from net exports is slightly negative in 2021 but is then envisaged to turn positive, and remain broadly stable, between 2022 and 2024. On the other hand, in each forecast year, inventories are assumed unchanged compared to their level in 2020, thereby exerting no material impact on growth.

All GDP components are expected to grow in 2021, with investment anticipated to expand fastest, up by 9.2% on a year earlier. The forecast recovery in private consumption is more gradual, estimated at 2.4%. Exports are expected to grow by 5.1%, but even in this case, the anticipated recovery is partial during the first year. On the other hand, the fiscal plans factored in the Update of Stability Programme envisage that the growth rate in government consumption will be contained to 5.6% in 2021, after having recorded double digit growth rates over the previous three years. Such developments in domestic demand and exports are, in turn, together estimated to raise imports by 5.9% in 2021.

These projected growth rates, together with those for the outer years, depict a scenario where real GDP and all its components would attain a level above that recorded in 2019 (pre-pandemic) by the end of the forecast horizon. Economic growth is expected to remain rather job-rich, and as a result, employment growth is forecast to remain sustained, albeit slightly slower than in recent years. Consequently, the small rise in the unemployment rate, which was recorded in 2020, is expected to be practically slowly reversed by 2024. In turn, the low yearly inflation pattern is expected to persist throughout the four-year forecast horizon.

The Fiscal Council notes that the official real GDP growth forecast for 2021 has been lowered compared to that which had been indicated in the Draft Budgetary Plan. The outlook for the period 2021 to 2024 adequately factors the macroeconomic information available to date and the government's fiscal plans for this period. The scenario

characterised by partial real GDP recovery in 2021, acceleration in 2022, and high, yet moderating, growth rates in 2023 and 2024, broadly matches the profile indicated in the forecasts which were published by independent institutions by the date of this letter.

The Council is satisfied with the background information and extensive clarifications provided by the Ministry, which were required in order to assess and verify the internal consistency of the forecasts. The Council reiterates the main caveat that in view of the exceptional circumstances, the macroeconomic outlook remains very sensitive to the assumptions employed. In particular, the outlook is conditional on developments surrounding the key sectors in the Maltese economy, such as tourism, remote gaming, and financial services, performing in line with current expectations, as well as the materialisation of the fiscal plans which underpin the Update of Stability Programme.

***Based on the information available to the Malta Fiscal Advisory Council by the date of this letter, and after taking due consideration of the uncertainty inherent in macroeconomic forecasts, and the added uncertainty brought about by the COVID-19 pandemic, the Council considers the full set of macroeconomic forecasts for the period 2021 to 2024 prepared by the Ministry for Finance and Employment as part of the Update of Stability Programme 2021 – 2024 to lie within its endorsable range.***

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

Yours sincerely,



**John Cassar White**  
Chairman

## Appendix 1: Main macroeconomic indicators

	2019	2020	2021	2022	2023	2024
<b>Real GDP components chain linked volumes, reference year 2015</b>						
Private final consumption expenditure (including NPISH) (y-o-y %)	4.5	-7.6	2.4	5.4	3.0	2.7
General government final consumption expenditure (y-o-y %)	13.8	16.1	5.6	-3.2	1.9	1.3
Gross fixed capital formation (y-o-y %)	9.5	-4.5	9.2	12.5	3.6	3.2
Exports of goods and services (y-o-y %)	6.4	-7.8	5.1	6.9	4.6	4.2
Imports of goods and services (y-o-y %)	7.9	-4.1	5.9	5.8	3.5	3.3
<b>Real GDP (y-o-y %)</b>	<b>5.5</b>	<b>-7.0</b>	<b>3.8</b>	<b>6.8</b>	<b>4.5</b>	<b>4.0</b>
<i>Contribution to real GDP growth:</i>						
Domestic demand (pp)	6.3	-1.7	4.5	4.9	2.7	2.3
Inventories (pp)	0.0	0.6	0.0	0.0	0.0	0.0
Net exports (pp)	-0.8	-5.9	-0.7	1.9	1.8	1.7
<b>Nominal GDP (y-o-y %)</b>	<b>8.0</b>	<b>-5.7</b>	<b>5.9</b>	<b>8.9</b>	<b>6.7</b>	<b>6.2</b>
Inflation rate (based on the HICP) (%)	1.5	0.8	1.3	1.5	1.6	1.7
Employment growth (National Accounts definition) (%)	6.5	4.1	2.2	3.5	3.2	3.0
Unemployment rate (based on the LFS) (%)	3.6	4.3	4.3	3.9	3.8	3.7

Note: GDP growth rates for 2019 and 2020 are based on the provisional values as published by the National Statistics Office on 1 March 2021 (News Release 040/2021), while figures for the period 2021 to 2024 represent the forecasts prepared by the Ministry for Finance and Employment.

Source: Ministry for Finance and Employment