MFAC Annual Report and Statement of Accounts

2021

MFAC
MALTA FISCAL ADVISORY COUNCIL

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MALTA FISCAL ADVISORY COUNCIL

ANNUAL REPORT

AND

STATEMENT OF ACCOUNTS

2021

MFAC
MALTA FISCAL ADVISORY COUNCIL

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30 March 2022

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 2021.

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 2021.

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.

The Malta Fiscal Advisory Council

Chairman

Mr John Cassar White

Council Member

Dr Carl Camilleri

Council Member

Dr Ian P. Cassar

Staff

Administrator and Council Secretary

Mrs Alison Bugeja Persiano

Economist

Mr Christian Xuereb

Economist

Mr Kurt Davison

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Chairman’s statement

It is with pleasure that I present the seventh Annual Report of the Malta Fiscal Advisory Council, which covers the activities performed during 2021. My statement reflects on macroeconomic and fiscal developments during the past year, outlining some challenges and priorities for the medium-term. The Report also contains two thematic chapters, one on developments in inflation, focusing on the most recent trends and another on historical trends in exports and imports in Malta. The audited financial accounts for the year ended 2021 are also being presented within this Report.

The COVID-19 pandemic persisted in 2021 and the government had to keep some restrictive measures in place, while continuing to aid those sectors most impacted by the pandemic. Being a small open economy, Malta has had to face the challenge of being exposed to the economic recessions of its trading partners, together with the lower level of tourism activity compared to pre-pandemic years. Nonetheless, there are indications that the recovery in national output in 2021, is stronger than expected. It is important that there is a maintained effort to propel economic growth as the pandemic abates. On the other hand, the relaxation of certain restrictive measures in 2021 released pent-up consumer demand for goods, which, along with supply chain disruptions and fluctuating energy prices, contributed to higher levels of inflation than observed over the recent decade.

Inevitably, the response by the government to mitigate the negative effects of the pandemic has led to a significantly higher debt position compared to the pre-pandemic debt level. When economic conditions permit, fiscal policy in Malta should again be aimed at attaining a prudent medium-term fiscal position, thus safeguarding debt sustainability. Also, the country should aim at rebuilding fiscal space to have enough buffer to respond to possible adverse shocks which might occur in the future. Indeed, Malta’s budgetary position would have been more strained if the government did not create fiscal space prior to the pandemic.

The flexibility granted to EU Member States, by temporarily lifting fiscal rules and state aid rules, via the general escape clause, has allowed for the use of expansionary fiscal policies during the pandemic. It is very important that Malta is adequately prepared for when the general escape clause will eventually be revoked, and fiscal rules become binding again, which is planned to happen in 2023. There is also added uncertainty on what the new governing framework and fiscal rules will entail.

In this respect, the European Commission issued a Communication in October 2021 to take stock of the changed circumstances for economic governance in the aftermath of the crisis. It invited all stakeholders to present their views on how to enhance the effectiveness of the framework, with the aim of building a broad-based consensus ahead of the planned introduction of the new rules and governance framework. To this effect, the Secretariat of the Network of EU Independent Fiscal Institutions, of which the MFAC is a member, published a paper that draws on the experiences and expertise of fiscal institutions as a contribution to the debate. The paper outlines that the current EU governance framework suffers from weak compliance, procyclicality and excessive complexity and outlines ways how these can be addressed. Additionally, the Network issued two position papers on minimum standards and on strengthening the role of national fiscal institutions. The MFAC will continue to monitor developments relating to the economic governance framework, in view of possible changes to the role of fiscal councils and fiscal rules.

Looking forward, government policy needs to be focused on tackling the challenges of the green and digital transitions. The Recovery and Resilience Facility shall help in securing the twin transitions, but there should also be a focus on other high-quality nationally financed public investments. Environmental degradation and climate change is an existential threat that has been given priority at the EU level, with the continent seeking to become the first to achieve climate neutrality by 2050. Making use of smart, clean digital technologies is pivotal for enabling climate action and environmental sustainability.

Looking at the MFAC’s operations during 2021, the Council kept in place measures to preserve business continuity in a pandemic context. To this end, the Council is satisfied that its regular suite of assessment reports were published in line with the official requirements. Moreover, in 2022 the MFAC will be relocating its operations to new offices in Msida. The Council is also in the process of implementing a reorganisation of the structure of the MFAC team.

Finally, I would like to thank my fellow members of the Council and the staff for their professional work carried out throughout the year. On behalf of the Council members, I also express my appreciation and gratitude for the support and collaboration extended by all stakeholders to facilitate the MFAC's operations.

John Cassar White
Chairman

Chapter 1

Developments during 2021

1.1 The Fiscal Council

The **Malta Fiscal Advisory Council (MFAC)** held nine formal Council meetings during 2021. The Council meetings were held online due to the COVID-19 pandemic. These included discussions on administrative and operational issues, which involved decisions relating to the annual work programme, the finances of the Council, its operations, issues relating to human resources, training programmes, and participation in official meetings and seminars. Other meetings and extensive discussions were also held on macroeconomic developments and public finance conditions, highlighting the various risks which were pertinent at the time. This process was important in forming the Council's assessments and the required endorsement of the government's official forecasts.

1.2 Relations with key stakeholders

Regular meetings were held with key domestic and international stakeholders. Due to the COVID-19 pandemic such meetings were mostly undertaken online. As in previous years, there was a regular dialogue with the **Ministry for Finance and Employment**. Technical meetings were held with the Ministry to discuss and exchange views on the preliminary macroeconomic and fiscal forecasts, as well as to help clarify the assumptions and methodologies used.[1] Regular dialogues were also held to discuss recurrent fiscal issues and other assumptions used for the official fiscal forecasts. Other dialogues were in respect of recurrent administrative issues.

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 had initiated a dialogue with the Ministry on clarifications and proceedings in this respect. To this effect, a Memorandum of Understanding was entered on 14 June 2021 by and between the Ministry for Finance and Employment and the MFAC.[2] The Memorandum of Understanding is aimed at clarifying the procedures, documents, and timing applicable

[1] The Ministry for Finance and Employment provides the MFAC with a preliminary forecast such that the MFAC can start its assessment prior to the Ministry providing its finalised forecast figures for endorsement.
[2] The Memorandum of Understanding is available to view on: https://mfac.org.mt/wp-content/uploads/2021/08/MOU.pdf.

when the situation of exceptional circumstances is invoked by the Government of Malta and the subsequent (non-binding) opinion provided by the MFAC.

The MFAC held meetings with officials from the Directorate-General for Economic and Financial Affairs within the **European Commission**, in April and in October, near the date when the government's official forecasts were published. The Council also participated in the 2021 Article IV consultation mission of the **International Monetary Fund (IMF)**. During these technical meetings, the Council presented its views and considerations on the overall macroeconomic and fiscal outlook, suggesting possible risks that could influence the forecasts. The institutions also discussed with the Council their views on the short and medium-term outlook, corroborating or otherwise the Council's opinions. It should be noted that the discussions held throughout these meetings, when compared to the recent past, were underpinned by an underlying high degree of uncertainty across various key aspects of the economy, as a result of the impact of the COVID-19 pandemic.

From time to time, **credit rating agencies** have also requested meetings with the Council in 2021, as part of their rating reviews. Also, the MFAC participated actively in the various initiatives at the EU level, led by the **EU Network of Independent Fiscal Institutions (EUNIFI)**.[3] In particular, a number of meetings were held to exchange views amongst fiscal councils on current economic issues, and to contribute to the Economic Governance Review.[4]

The Fiscal Council also organised meetings with officials from the **Central Bank of Malta** forecasting team. Independently produced forecasts are used by the MFAC as a benchmark to assess the plausibility of the official forecasts produced by the government. During 2021, the Council also organised meetings with the **Chamber of Commerce** to gain insight on private sector developments and the conditions influencing the conduct of business. A meeting with **Malta Enterprise** officials was also held to discuss pandemic-related government schemes, primarily in relation to the COVID-19 wage supplement. Regular dialogue was also kept with the **National**

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[3] The EUNIFI is a platform to exchange views, expertise and pool resources in areas of common concern to European independent fiscal oversight bodies.
[4] The Economic Governance Review is a public debate organised by the European Commission inviting all stakeholders to present their views on how to enhance the effectiveness of the framework and the fiscal rules that will be applicable as of 2023. The Network met several times to discuss its contribution to the debate, and has published a contributory paper in 2021, which is available on https://www.euifis.eu/publications/6.

Statistics Office, and a representative of the MFAC attended **Eurostat**'s Excessive Deficit Procedure dialogue visit to Malta.

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 2021 there was no such request by the Public Accounts Committee.

1.3 Other meetings, seminars and conferences

The MFAC participated in various meetings, seminars and conferences, mostly organised by foreign institutions (see Table 1.1). Most of the events attended were organised by the **EUNIFI**. Others were organised by other **IFIs**, the **European Commission** and the **European Fiscal Board (EFB)**, the **OECD** and the **European Investment Bank**. The MFAC also attended events organised by local institutions.

1.4 Publications and research

The MFAC published four **reports** during 2021 (see Box 1.1).[5] The first publication of the year was the Annual Report and Statement of Accounts for 2020. The second report presented the assessment of forecasts contained in the Update of the Stability Programme 2021 – 2024. The third document focused on the Annual Report 2020 and the Half-Yearly Report 2021, which were published by the Ministry for Finance and Emploiyment during the year under review. The last report for the year assessed the official forecasts presented in the Draft Budgetary Plan for 2022.

Apart from the four main reports published throughout the year, the MFAC transmitted two **official letters** addressed to the Minister for Finance, respectively on 29 April 2021 and 11 October 2021. These letters communicated the endorsement of the macroeconomic forecasts included in the Update of Stability Programme and the Draft Budgetary Plan which were published in 2021.

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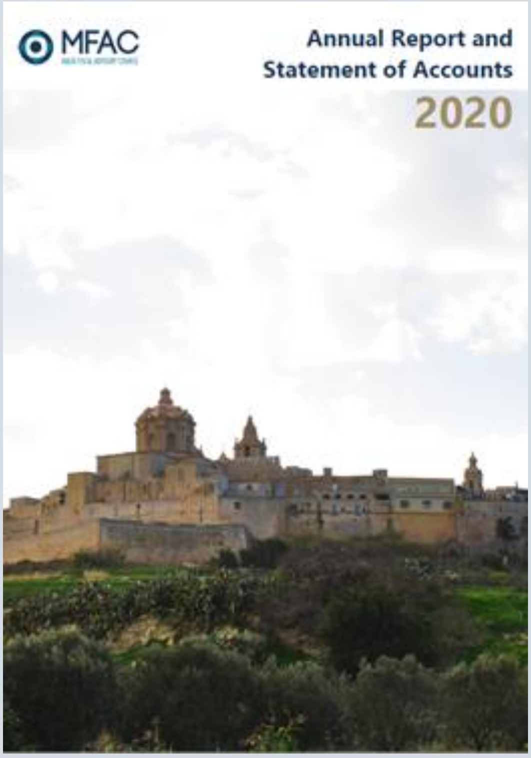
[5] These reports are available on https://mfac.org.mt/publications/reports/reports-2021/.

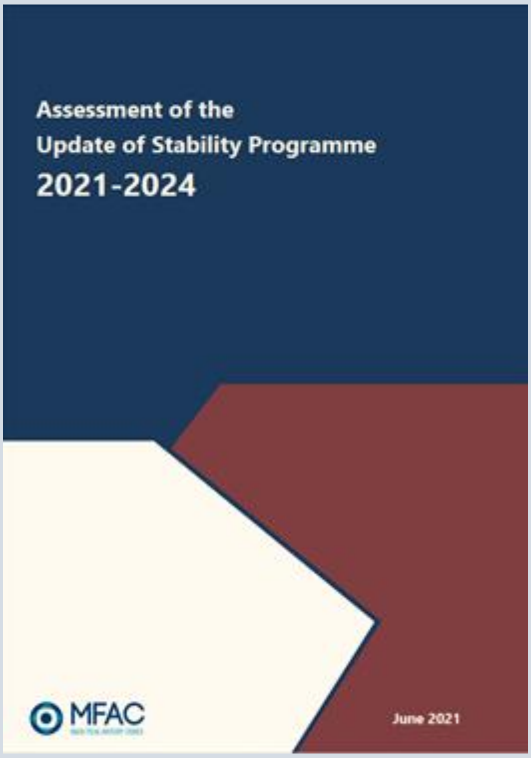
Table 1.1: Meetings and seminars attended by the MFAC during 2021

Event	Organiser
Joint session between EU IFIs and the European and Financial Committee Alternates	EUNIFI
Various EU IFIs Network online meetings	EUNIFI
Path for the Public Finances 2021	Irish Fiscal Advisory Council
Third Annual Conference of the EFB	European Fiscal Board
14th Meeting of the EUNIFI	EUNIFI
Investment in the post-COVID-19 era, digitalisation and climate change	European Investment Bank and Central Bank of Malta
Integrating climate change into economic modelling	EUNIFI and OECD
Technical Support Instrument Annual Conference	DG REFORM
Various online meetings on the Economic Governance Review position paper	EUNIFI
Presentation of the EFB's assessment of the 2021 Spring Package	EUNIFI and EFB
Should the Stability and Growth Pact's 3% deficit rule be abandoned?	Florence School of Banking and Finance
Meeting of the PBO Network	OECD
Output gap estimation under the EU's Commonly Agreed Methodology (CAM)	EUNIFI
Economic Governance Review: Medium-Term Budgetary Frameworks	DG ECFIN
EU economic governance review – The future role of IFIs	DG ECFIN
Malta's Recovery and Resilience Plan	European Commission Representation in Malta
Inflation: Trends, Threats and Transitions	Chamber of Commerce and Central Bank of Malta

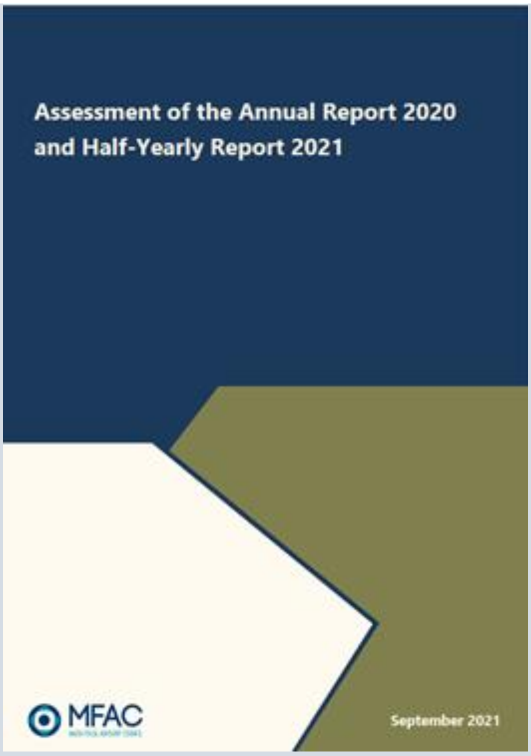
Box 1.1: Reports published by the MFAC during 2021



The sixth Annual Report covered the activities performed by the MFAC during 2020 and published the organisation's financial statements. The report contained two thematic chapters, one on private consumption patterns in Malta and the other on labour market patterns in Malta, covering the period 2000 – 2019.



The macroeconomic and fiscal forecasts for the period 2021 to 2024 were considered to be within its endorsable range, though the Council acknowledged the high uncertainty as a result of the pandemic. It was concluded that there was an overall neutral risk vis-à-vis the profile for real GDP for the period 2021 to 2024. The MFAC further suggested that over the same period, the fiscal deficit could be higher than targeted, mostly reflecting an upside risk from the expenditure side of the budget. An upside risk was identified in relation to the forecast debt-to-GDP ratio accounting for the possible larger fiscal deficit and delays in deferred tax settlements.



In the assessment of the Ministry's Annual Report, the Council noted that the economic growth envisaged for 2020 did not materialise. The fiscal targets were also missed as the economic recession impacted tax revenues negatively and necessitated various unbudgeted support measures. This translated into a large fiscal deficit and higher public debt for the year. The Council also noted that the official macroeconomic forecasts and fiscal projections for 2021 specified in the Half-Yearly Report remained unchanged from the previous round. The Council had already considered these forecasts to lie within its endorsable range.

The MFAC considered the updated macroeconomic and fiscal forecasts for 2021 and 2022 to be within its endorsable range, amid the high uncertainty. The MFAC's assessment suggested an overall upside risk to the real GDP growth forecast of 4.8% (2021) and 6.5% (2022) and indicated a neutral risk vis-à-vis the fiscal balance target in 2021 (-11.1% of GDP), but that the deficit could be larger than the target of -5.6% of GDP in 2022. On the other hand, the possibly higher fiscal deficit could be broadly compensated should the level of nominal GDP be higher than expected, thus leading to a neutral risk outlook vis-à-vis the public debt ratio.

The MFAC continued to contribute to the **European Fiscal Monitor**, as part of a EUNIFI initiative.[6] These publications continued to focus on the short-term and medium-term outlook for public finances of its members. They also include an analysis of the impact of COVID-19 and the economic measures launched by the various countries during the year on their respective fiscal balance. Information was also included on the Recovery and Resilience Plans across countries and across the years.

The MFAC's staff carried out further internal research during the year, with the aim of continuing to improve the quality of the institution's output. In 2021, research mainly focused on exports and imports of goods and services in Malta. These components are particularly important for Malta, being a small and open economy, with both variables significantly exceeding the level of the country's GDP. A summary of the data analysis derived from this research is presented in one of the thematic chapters included in this year's Annual Report. The Council also continued to work on a face-to-face survey on the property market developments and outlook in Malta.

1.5 Public relations of the MFAC

The MFAC issued four **press releases** during 2021 (see Table 1.2).[7] These are available both in English and Maltese. Their aim is to inform the general public about the latest MFAC reports, providing a summary of the Council's assessments in a non-technical manner.

The MFAC remains open to participating in public events organised by **institutional bodies** and giving interviews to the **media** which deal with matters falling under its responsibility. The MFAC's **website** was also regularly updated to provide easy access to its reports and press releases, and was updated with the latest GDP and fiscal statistics published by the National Statistics Office.

[6] The documents are available on https://www.euifis.eu/publicationsfilter/efm.
[7] The press releases are available on https://mfac.org.mt/press-releases/press-releases-2021/.

Table 1.2: Press releases issued by the MFAC during 2021

Date	Title
17 March	Malta Fiscal Advisory Council publishes its Annual Report for 2020
30 June	Malta Fiscal Advisory Council publishes its assessment of the Update of Stability Programme 2021 - 2024
10 September	Malta Fiscal Advisory Council publishes its assessment of the Annual Report 2020 and the Half-Yearly Report 2021
22 December	Malta Fiscal Advisory Council publishes its assessment of the Draft Budgetary Plan 2022

1.6 Human resources

The **staff** complement of the MFAC remained unchanged during 2021, consisting of a Chief Economist, two Economists and an Administrator (who also serves as the secretary to the Fiscal Council).

In 2021, the **remote working policy** approved by the Council in 2020 remained in place. This provided greater work flexibility to its employees, mitigating the risks associated with the pandemic. The Council continued to provide the tools and adopted the relevant procedures to maintain all its operations running smoothly throughout the year, despite the challenges created by the pandemic.

The Council continued to encourage its staff to pursue further **training**. In 2021 the economists successfully followed two separate online courses, one on the post-pandemic world economy organised by ISEO and the other on macroeconomic analysis and policy, organised by the Paris School of Economics. The former was focused on analysing some of the biggest issues affecting the global economy, including the impact of the Covid-19 pandemic. The other course included short-term macro analysis in closed and open economies, and medium-term issues such as bubbles, unemployment, inequalities, and fiscal policies. The various seminars and training events attended by the Council and staff throughout the year are also considered useful in the development of the institution’s human capital.

Chapter 2

Inflation developments

2.1 Introduction

The pandemic undoubtedly had unprecedented adverse effects on the Maltese economy and the Euro Area. Since October 2021, inflation in Malta and across the Euro Area has been growing at accelerated rates. The annual inflation rate is the economic indicator that measures average price changes between a reference month and the same month of the previous year, as defined by the **National statistics office (NSO)**. There is no general agreement as to what price increases are undesirable, although the **European Central Bank (ECB)** sets a target of an annual growth rate in prices of 2.0% over the medium-term to achieve price stability.[8]

Monthly inflation rates in the last three months of 2021 have on average surpassed the 2.0% benchmark, whereas the average monthly inflation rates for the rest of the year stood at around 0.2%. The main concern is whether the current inflation rates are transitory or whether they are of a more permanent nature that will persist in the medium- to long-term.

This Chapter is intended to briefly explain the measurements of inflation used in Malta, provide a brief analysis of historical patterns in the inflation rate for Malta in the past decade, compare Malta's inflation rate with that of the Euro Area from 2019 onwards and provide a brief analysis on the current economic scenario and the possible future effects on the economy if inflation persists.

2.2 The measurements of inflation and trends in the last decade

The NSO produces two separate indices to measure price developments in Malta. These are the **Retail Price Index (RPI)** and the **Harmonised Index of Consumer Prices (HICP)**. In general, these indices are very similar, although they differ in a number of methodological aspects.

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[8] The ECB states that "an inflation rate of 2% is low enough for the economy to fully reap the benefits of price stability while also provide a safety margin against the risk of deflation and allow a sufficient margin for smoother adjustments of macroeconomic imbalances across Euro Area countries, downward wage rigidities and a positive measurement bias in the price index." For more information see https://www.ecb.europa.eu/mopo/strategy/pricestab/html/index.en.html.

The **RPI** measures the monthly changes in the cost of purchasing a representative basket of consumer goods and services.[9] It is closely linked with the **Cost-of-Living Adjustment (COLA)** increases and periodic rent payment adjustments. The weight for each expenditure category is mainly derived from the **Household Budgetary Survey** compiled by the NSO.[10] The weights are assumed constant for a number of years and are only updated when a new survey is compiled to account for changing household expenditure patterns. The index is published by the NSO following its review by the **RPI Advisory Board**. The RPI is generally regarded as a good domestic economic barometer for the measurement of prices.

On the other hand, the **HICP** is calculated in each Member State of the **European Union** according to rules specified in a series of European Union regulations that Eurostat developed in conjunction with the Member States.[11] The HICP aims to produce a measure of inflation that enables comparison across the EU Member States even though the basket of goods and services varies from country to country. All Member States are expected to abide by the same set of regulations, which can be considered the backbone of the HICP.

The HICP is intended to provide institutions, governments, and economic and social partners with a set of harmonised statistics on which to base their policy making decisions. The HICP is also the primary measure the ECB utilises in assessing price stability in the Euro Area.

Both the HICP and RPI are compiled using a large and representative selection of goods and services. Also, both indices have the same geographic coverage, utilise the same price collection methodologies and the same outlet sample.[12] The main methodological disparities between the two are the following: the RPI captures only private households, whereas the HICP whilst also capturing private households

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[9] Refer to the latest NSO release on RPI (NR010/2022), which may be accessed on https://nso.gov.mt/en/News_Releases/Documents/2022/01/News2022_010.pdf.
[10] The latest Household Budgetary Survey was published by the NSO in January 2018 and is based on the period April 2015 to April 2016 and may be accessed on https://nso.gov.mt/en/publicatons/Publications_by_Unit/Documents/C1_Living_Conditions_and_Culture_Statistics/HBS%20Publication%202015.pdf.
[11] Refer to the latest NSO release on HICP (NR009/2022), which may be accessed on https://nso.gov.mt/en/News_Releases/Documents/2022/02/News2022_030.pdf.
[12] An outlet sample is made up of a representative set of outlets that sell selected products. The sample reflects both product varieties and varieties in the type of outlets chosen. The latter vary by service and price levels.

additionally covers institutional households and those goods and services typically associated with tourism activities; the population base year for the two indices is different; unlike the RPI which is a fixed base index, the HICP is a chain-linked index with the weights reviewed on an annual basis; the sample of goods and services within the RPI change every time the weights are updated, whereas newly significant goods and services can be introduced in the HICP framework on an annual basis; and while the coverage of the HICP is based on an international classification system, COICOP (Classification of Individual Consumption by Purpose), the RPI has a different set of codes for each group of items.

As a result of developments related to COVID-19, the NSO has recently adapted its methodology for both indices to '*preserve continuity and ensure that developments in prices continue to be measured systematically and reliably. In doing so, NSO has closely followed the guidance issued by Eurostat following close collaboration with the Member States' National Statistical Institutes, which ensures a harmonised approach across all countries. As a result of the pandemic, consumer spending patterns have changed. To capture this, the HICP weights for 2021 were compiled using preliminary quarterly consumer expenditure data for 2020 from the national accounts, complemented with additional data for 2020 from other sources, such as short-term statistics on retail trade and services, in line with Eurostat recommendations*'.[13]

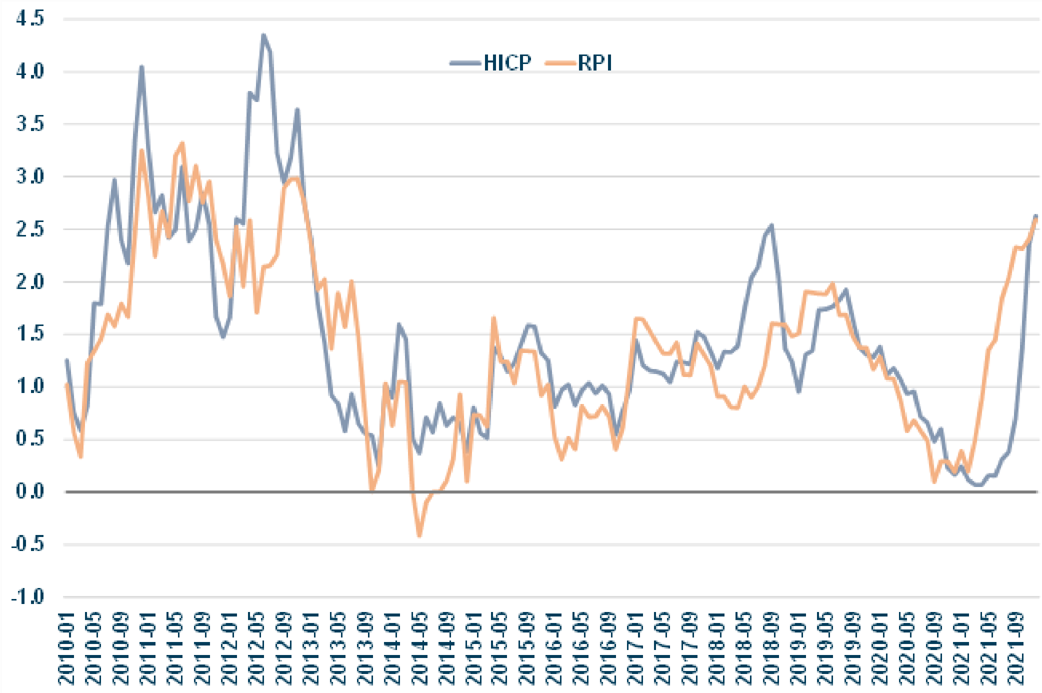
Chart 2.1 shows the annual inflation rates of the HICP and RPI for the period January 2010 up to December 2021. Overall, both these indices follow a similar trend across the years. Within this chapter and for comparative reasons, further analysis will be mainly based on the HICP.

In the first half of 2010, inflation was relatively subdued, hovering around 1.2%. However, it accelerated to around 4.0% by the end of the year, primarily due to developments in the 'food and non-alcoholic beverages' and 'restaurant and hotel' items. The inflation rate then gradually decreased to 1.5% in late 2011 before experiencing another increase to 4.3% by mid-2012 due to accelerated services inflation. From then onwards, inflation slowly fell, and from 2013 till mid-2018, Malta experienced a relatively stable trend of low inflation rates. Indeed, the overall annual inflation rate remained generally in the region of 1.4% in the five months of 2018 before hiking to levels surpassing the 2.0% threshold between June and October of the same

[13] Refer to methodological notes in the latest HICP and RPI news releases (NR009/2022 and NR010/2022).

year. Following October 2018, the annual inflation rate followed a declining trend before spiking again in the last quarter of 2021. Recent developments show that prices have drastically increased in the most recent months, rising by 2.6% in December 2021, which can mainly be attributed to pandemic-related consequences.

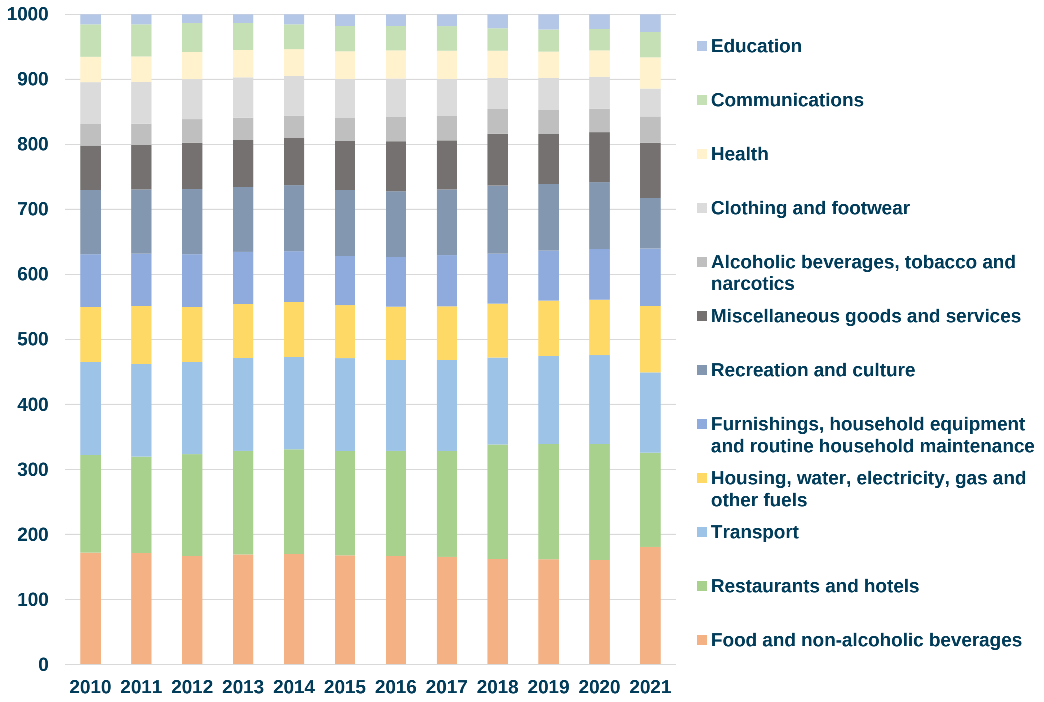
Chart 2.1: Harmonised Index of Consumer Prices and Retail Price Index (year on year % change)



Source: National Statistics Office (NSO)

The weights of the various items which make up the HICP index vary in the effect that price changes have on total inflation (See Chart 2.2). Indeed, the items which are given the largest weighting are ‘food and non-alcoholic beverages’, ‘restaurants and hotels’, ‘transport’ and ‘housing, water, electricity, gas and other fuels’. Thus, price changes in these items tend to have an overall larger effect than changes in prices in the other items which make up the index. The HICP weights are revised yearly. The largest revision upwards in weighting from 2010 to 2021 can be observed in the ‘housing, water, electricity, gas and other fuels’. Other increases are noted in ‘miscellaneous goods and services’, ‘education’, ‘food and non-alcoholic beverages’, ‘health’, ‘furnishings, household equipment and routine household maintenance’ and ‘alcoholic beverages, tobacco and narcotics’. On the other hand, the largest reductions in weighting where on ‘clothing and footwear’, ‘recreation and culture’ and ‘transport’. The weighting for 'restaurants and hotels' and 'communications' also fell slightly across this period.

Chart 2.2: Yearly HICP item weights (weight out of 1000)

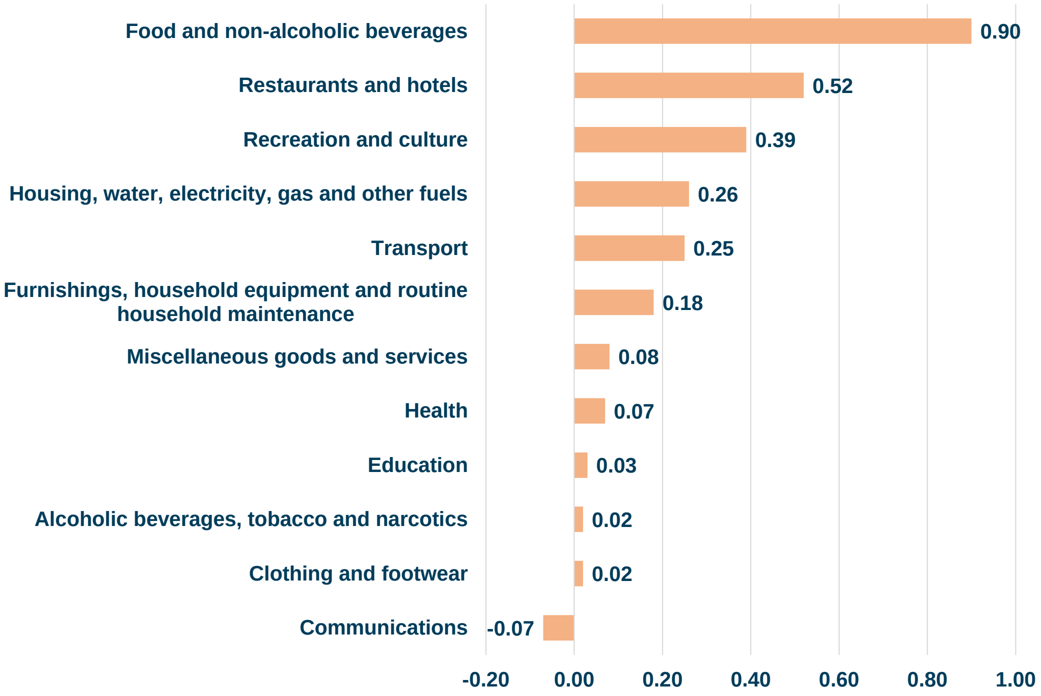


Source: Eurostat

The main contributing items to inflation growth in December 2021 were 'Food and non-alcoholic beverages', 'Restaurants and hotels', 'Recreation and culture, 'Housing, water, electricity, gas and other fuels' and 'Transport' (See Chart 2.3).[14] The rest of the items which include 'Furnishings, household equipment and routine household maintenance', 'Miscellaneous goods and services', 'Health' and 'Education' all contributed to a lesser extent to inflation growth. The lowest contributors to inflation growth were 'Alcoholic beverages, tobacco and narcotics' and 'Clothing and footwear'.[15] 'Communications' was the only expenditure item that negatively impacted inflation mainly due to lower prices of mobile phone services.

[14] The analysis is based on the most recent data available by the cut-off date of this report.
[15] 'Miscellaneous goods and services' include personal care, personal effects, social protection, insurance, financial services and legal services among others.

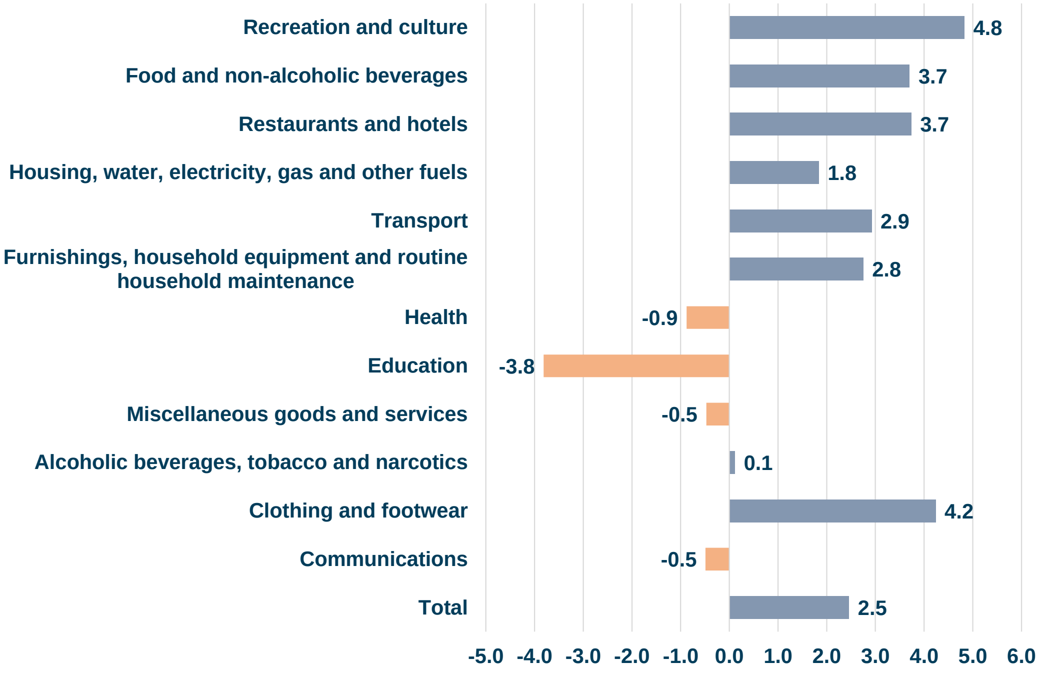
Chart 2.3: Contribution to inflation growth in December 2021 (percentage points)



Source: National Statistics Office (NSO)

Comparing the annual growth rate at the expenditure item level recorded in December 2021 with the same comparable period in 2020, inflation was higher by 2.5 percentage points. Increases were recorded across the board save for ‘Education’ (-3.8 percentage points), ‘Health’ (-0.9 percentage points), ‘miscellaneous goods and services’ (-0.5 percentage points), and ‘Communications’ (-0.5 percentage points) (See Chart 2.4). ‘Recreation and culture’ experienced the highest increase in prices relative to the previous year, rising from 0.2% to 5.1% in December of 2021. Inflation in ‘Clothing and footwear’ increased by 4.2 percentage points, while ‘Restaurants and hotels’ and ‘Food and non-alcoholic beverages’, both had an increase of 3.7 percentage points in December 2021 relative to December 2020. The remaining expenditure items also reported price acceleration, albeit to a lesser extent ranging between 0.1 percentage points (‘Alcoholic beverages, tobacco and narcotics’) to 2.9 percentage points (‘Transport’).

Chart 2.4: Difference in annual growth rate in inflation between December 2021 and December 2020 (%)

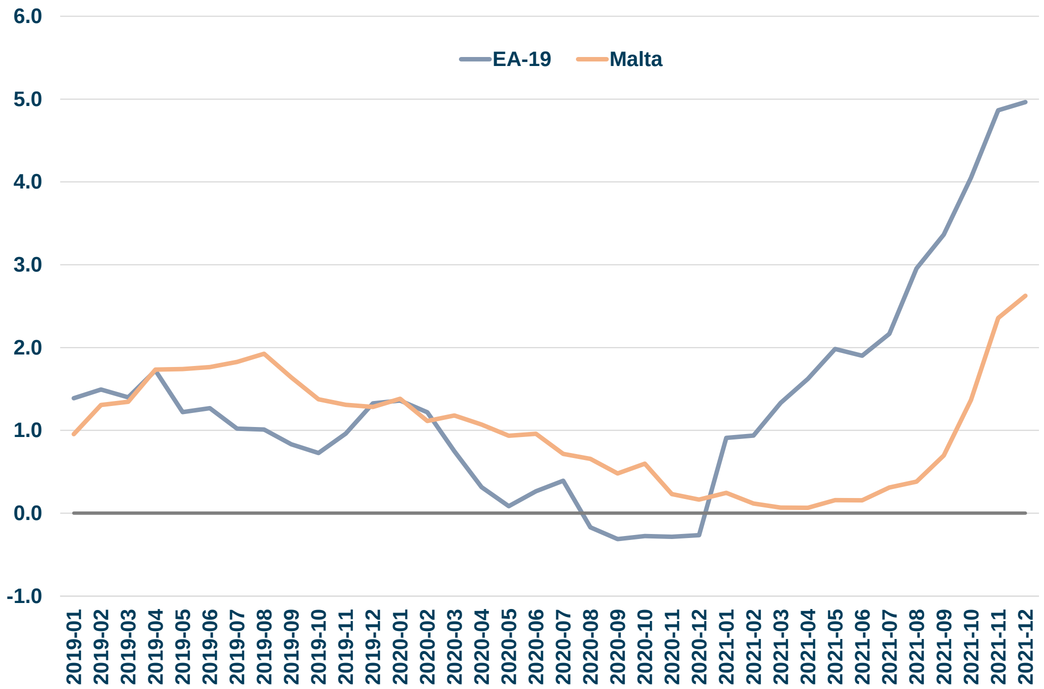


Source: National Statistics Office (NSO)

2.3 Comparison between Malta and the Euro Area

This section compares the annual inflation rates for Malta and the Euro Area average between 2019 and 2021. Whilst both followed a rapid decline throughout 2020, the annual rate for Malta was generally higher than that of the Euro Area in 2019 and 2020 (See Chart 2.5). Indeed, it sustained a positive rate whereas the Euro Area rate went negative for the last five months of 2020. Subsequently, the Euro Area rate gradually increased from 2021 onwards, exceeding Malta's rates throughout the same period and peaking at 5.0% in December 2021. Indeed, Malta's rate was still stable and low in the first nine months of 2021, averaging 0.2%. Subsequently, it started to increase rapidly, reaching 2.6% in December 2021.

Chart 2.5: Malta and Euro Area HICP- all items (year-on-year % growth)

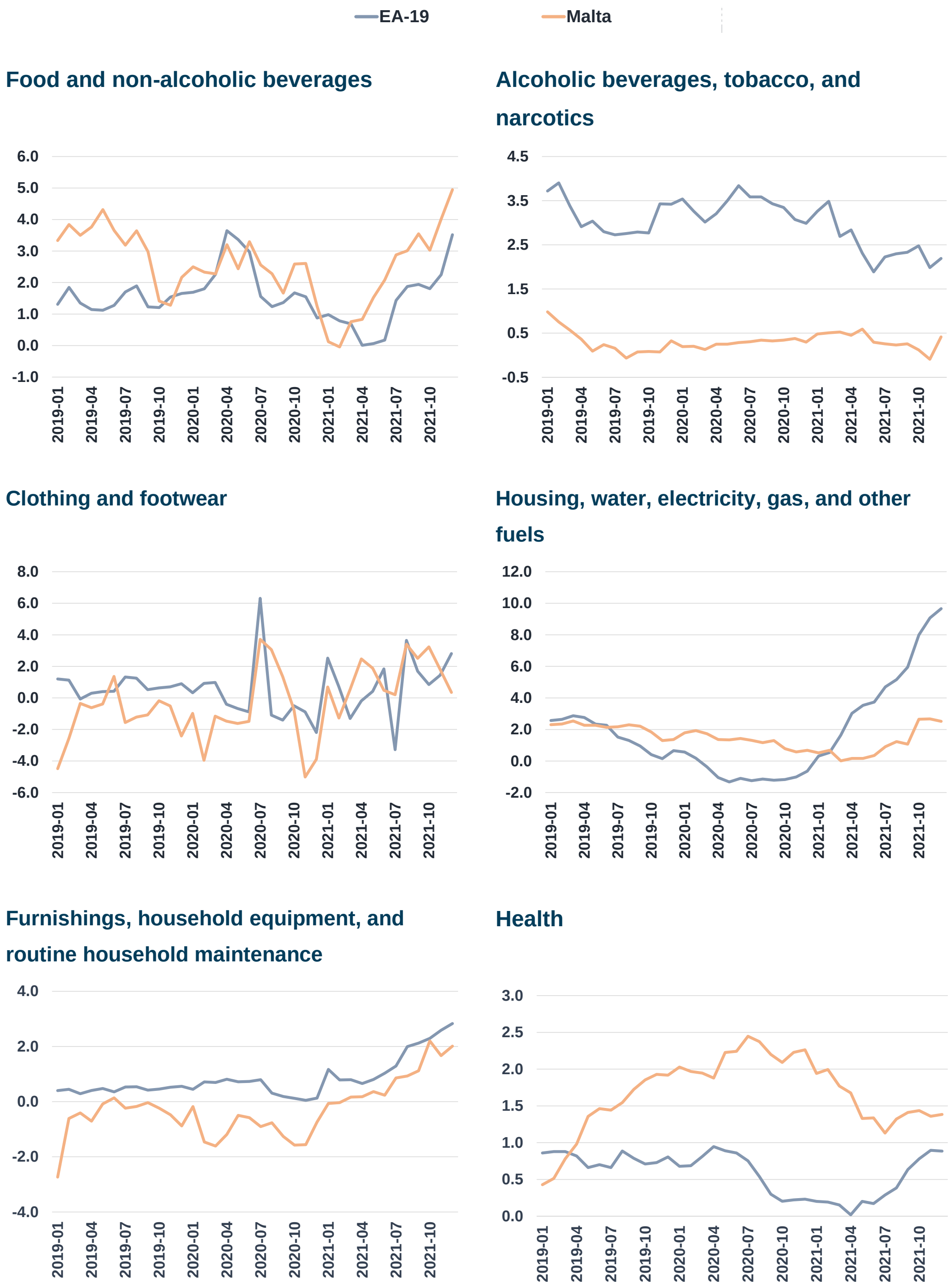


Source: National Statistics Office (NSO), Eurostat

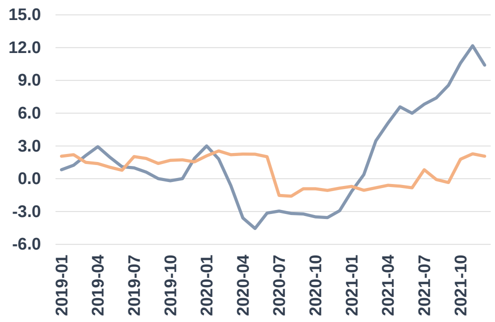
Comparing the main components of inflation between Malta and the Euro Area average (See Chart 2.6), the largest difference was observed in the 'Housing, water, electricity, gas and other fuels' item as prices in the Euro Area grew more strongly in recent months compared to Malta. Another large difference may be observed in the price developments of the 'Transport' item, which also grew very strongly in the Euro Area, whilst being more subdued in Malta.

'Food and non-alcoholic beverages', 'followed a similar path to European levels, albeit being slightly higher given Malta's high degree of openness and dependence on imported items. Clothing and footwear', 'Furnishings, household equipment, and routine household maintenance', 'Recreation and culture' and 'Restaurant and hotels' also followed similar price trajectories. The inflation rate of 'Health' was higher in Malta as opposed to the Euro Area during the period under review while the annual rates of 'Alcoholic beverages, tobacco and narcotics' were, overall, lower in Malta relative to the Euro Area average. The inflation rate in 'Communications' has only turned lower in Malta from May 2021 as it had previously been more elevated (albeit still in slightly positive or negative territories).

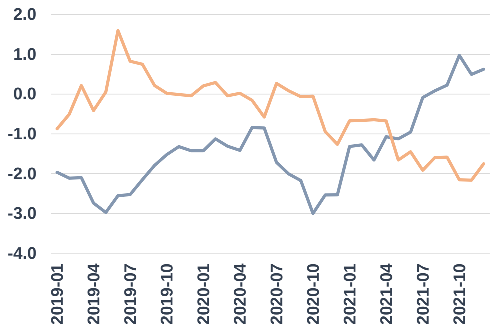
Chart 2.6: Malta and Euro Area HICP – by consumption category (year-on-year % growth)



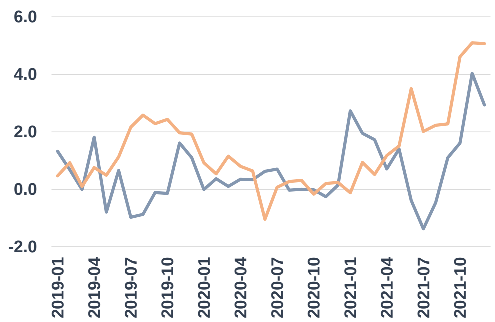
Transport



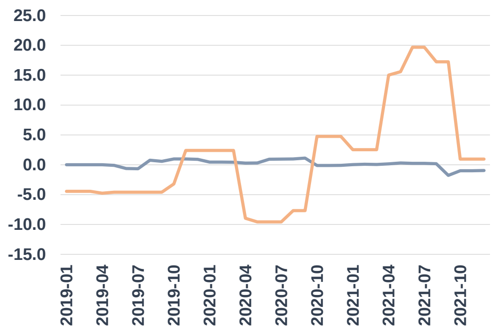
Communications



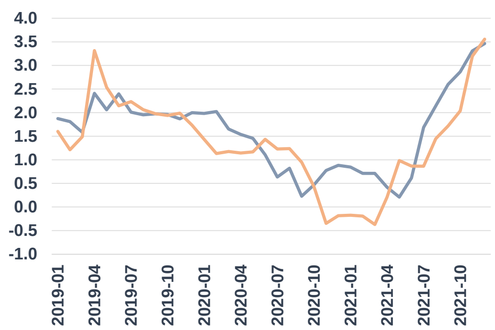
Recreation and culture



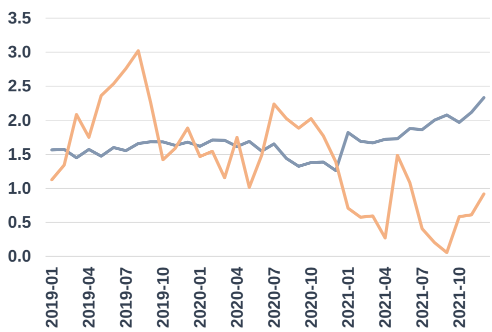
Education



Restaurants and hotels



Miscellaneous goods and services



Source: National Statistics Office (NSO), Eurostat

2.4 Conclusion

The most common effect of high inflation is that it erodes the purchasing power of individuals, especially those whose income is not inflation-adjusted. Naturally, inflation tends to have a worse impact on the poor than the rich since a lower budget means that spending allocations must be divided among a smaller basket of goods and services. As indicated in Section 2.2, among the product basket, 'food and non-alcoholic beverages' experienced the highest growth and is the highest contributing factor to inflation in Malta. More so, inflation in such items tends to put a much higher strain on low-income households since food and beverages typically absorb a larger share of spending in low-income families than the average household in Malta.

Another concern is that inflation inevitably leads to higher uncertainty, leading to lower consumer confidence. This means that individuals will be less willing to spend their income on goods and services not considered essential. This will negatively affect firms' profits, leading to lower economic activity. Business profits may further be impacted if there are claims for higher wages, given the erosion of individuals' purchasing power. Naturally, an increase in wages without improvements in productivity may lead to firms increasing their prices further to protect their profit; a phenomenon called the wage-price spiral.

Inflation is a concern not only for Malta but also for the Euro Area. Indeed, HICP data shows that the price pressures in the Euro Area are even higher than in Malta. The highest contributing factors to inflation in the Euro Area are 'transport' and 'housing, electricity, gas and other fuels' which until 2021 seem to have played a more modest role in Malta.

One of the main concerns for future inflationary pressures in Malta is the higher prices of imported goods. Goods bought from foreign countries have seen an increase in price as a result of global supply chain disruptions. The cost of imported goods is further inflated by the ever-increasing freight cost. Another concern is further increases in global energy prices that may create more pressure on local gas, electricity, and fuel prices. Another issue is the green transition in line with the European green deal which aims to make Europe carbon neutral by 2050. This effort would require substantial investments by businesses in order to make the shift to green technology. Given that green technology is still in its infancy, such investment may limit the possibility of productivity gains, which may entice businesses to increase their prices to make up for their possible losses. Finally, although the ECB has made public that it will allow a transitory period of high inflation, the risk remains that official interest rates may rise in the short term, which occurrence could have an impact on the country's economic growth.

Chapter 3

Exports and imports of goods and services in Malta

3.1 Introduction

Exports of goods and services consist of transactions in goods and services (sales, barter, and gifts) from residents to non-residents. On the contrary, **imports of goods and services** consist of transactions in goods and services from non-residents to residents. Exports and imports of goods occur when economic ownership of goods changes between residents and non-residents, irrespective of the corresponding physical movement of such goods across frontiers.[16]

This Chapter presents a review and analysis of statistical data on Malta's exports and imports of goods and services over the period 2000 to 2020 (when available), obtained from different sources. The next two sections shall analyse the profile of exports and imports, their relation to GDP, and the difference in composition between goods and services, sourced from National Accounts data. The subsequent two sections shall review the composition of exports and imports of goods based on international trade data (by Broad Economic Category and by Standard International Trade Classification). Balance of payments data is then examined in the final two sections, whereby one of these sections provides a detailed analysis of the development in the exports and imports of services. The concluding section then provides a summary of the main points highlighted in the chapter and includes some final remarks.

3.2 Exports and imports and their relation to GDP

Being a **small and open economy**, Malta is highly dependent on international trade.[17] Indeed, in real terms, exports of goods and services accounted for 145.8% of GDP in 2020, making it an export-oriented economy.[18] Malta is an economy that imports a significant part of its inputs for consumption, investment, and exports of goods. Indeed, imports of goods and services were equivalent to 139.4% of GDP in 2020.

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[16] These definitions were sourced from the European System of National and Regional Accounts (ESA) 2010 Manual, paragraphs 3.159 – 3.162.

[17] It is typical that smaller countries having a high degree of openness have higher export-to-GDP ratios and imports-to-GDP ratios. For example, within the euro area, Luxembourg has the highest ratio, followed by Malta and Ireland. These are the only countries that have exports-to-GDP and imports-to-GDP ratios exceeding 100%. On the contrary, some of the larger countries have the lowest ratios in relation to their national output amongst all the euro area countries.

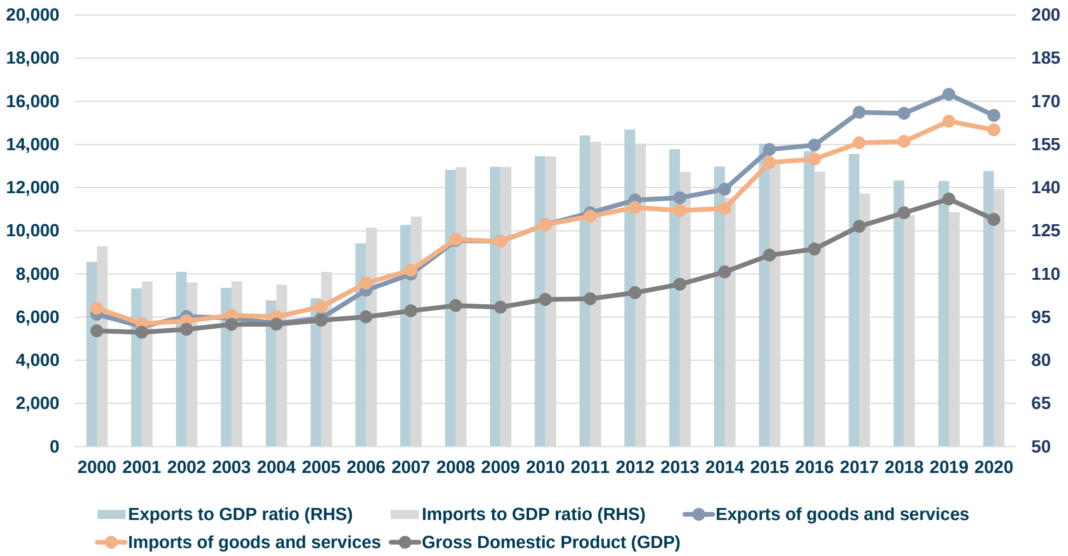
[18] The figures and data included in this section of the Report, are in real terms and based on chain-linked volumes (reference year 2010). The figures are sourced from Eurostat, based on NSO News Release NR217/2021.

During the period between 2001 and 2005, both the imports and exports ratio-to-GDP hovered close to 100.0% (see Chart 3.1). This was followed by a period where the pace of growth of both variables was faster than that in GDP, with both variables reaching a peak of more than 155.0% of GDP between 2011 and 2012. The acceleration in real GDP over the period 2013 – 2020 was faster than that in exports and imports. As a result, the ratio-to-GDP of both variables has marginally declined, though it remained elevated.

Both variables have exhibited relatively similar upward trajectories over time. Between the period 2000 and 2020, the value of both exports and imports, in real terms, has more than doubled. In 2020, the absolute level of real exports of goods and services was 2.5 times that in 2000, whilst real imports reached a level close to 2.3 times the level in 2000. Though having similar trajectories, the gap between the two variables has widened since 2012 compared to previous years, with exports continuously exceeding imports. This was primarily driven by a surplus in the export of services. In 2020, both exports and imports were affected negatively by the COVID-19 pandemic.

In nominal terms, both variables have increased by more than threefold over the past two decades, with exports of goods and services recording a level of €18.7 billion in 2020, whilst imports reached €17.1 billion during the same year.

Chart 3.1: Real exports and imports (EUR million) and their ratio to real GDP (%)[19]



Source: Eurostat

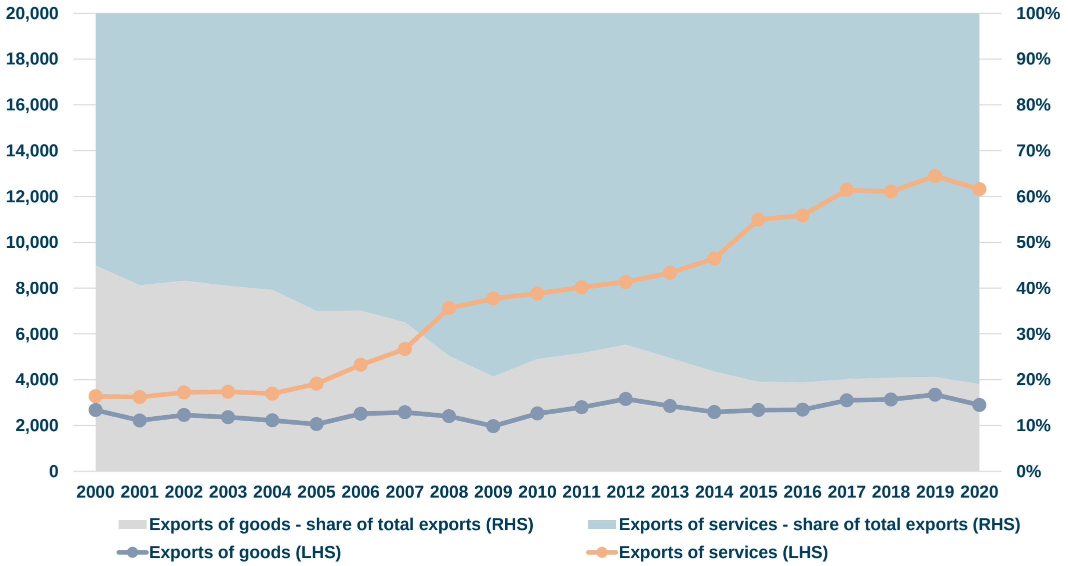
[19] Using chain-linked volumes reference year 2010.

3.3 Differentiating between goods and services

Exports and imports are categorised between trade in goods and trade in services. Malta's growth in both exports and imports has been highly **service-oriented** over the past years (see Chart 3.2 and Chart 3.3).[20]

In real terms, the share of exports of goods to total exports has declined markedly over the period 2000 – 2020. Indeed, the share of goods exported declined from around 45.0% in 2000 to 19.0% in 2020.[21] On the contrary, the share of services exports has increased from 55.0% in 2000 to 81.0% in 2020, an increase of 26.0 percentage points. The substantial decline in the share of exports of goods is not attributed to absolute level declines in goods exports but to increases in total exports, which more than outpaced the subdued growth in goods exports. Indeed, the absolute level of services exports has nearly quadrupled over the period under review.

Chart 3.2: Real exports of goods and services (LHS-EUR millions, RHS-percent)[22]



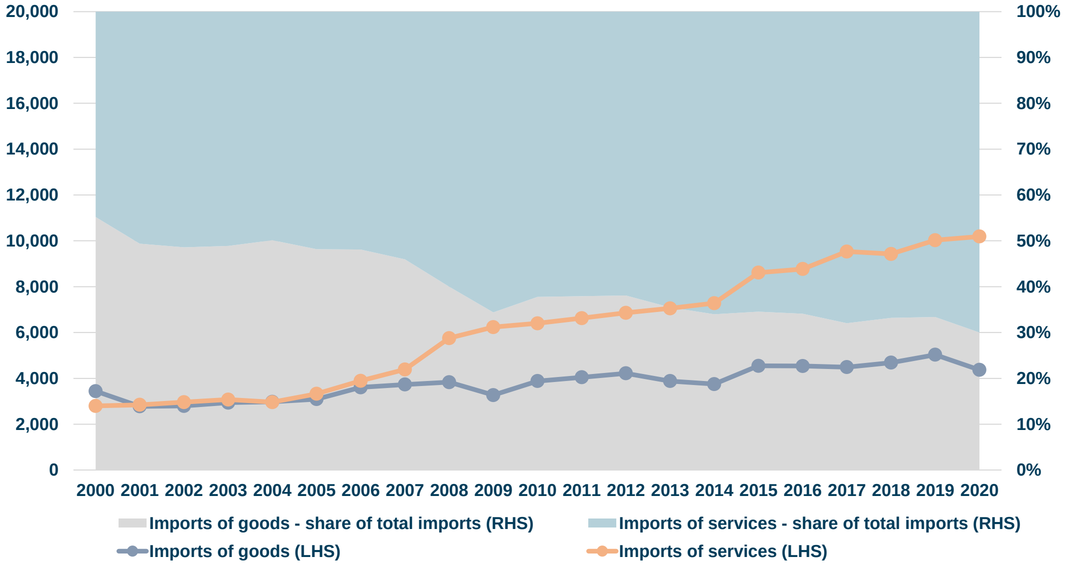
Source: Eurostat

[20] This section presents data extracted from the country's National Accounts (ESA 2010).
[21] The figures and data included in this section of the Report, are in real terms and based on chain-linked volumes (reference year 2010). The figures are sourced from Eurostat, based on NSO News Release NR217/2021.
[22] Using chain-linked volumes reference year 2010.

In the case of imports, most growth was also due to the higher growth in imports of services. However, the share of imports of goods to total imports stood at around 30.0% in 2020, and thus did not fall as much as in the case of exports of goods. Indeed, over the period under review, exports of services increased to a higher level relative to the imports of services, whilst on the contrary, imports of goods increased by more than exports of goods.

Though the exports and imports of goods is essential to the Maltese economy, the provision of services has become increasingly important over the years, as the economy became more service-oriented. The share of services exported from total exports has risen to around 80.0%, whilst the share of imported services to total imports has increased to around 70.0%.

Chart 3.3: Real imports of goods and services (LHS-EUR millions, RHS-percent)[23]



Source: Eurostat

3.4 Trade of goods by Broad Economic Category

This section presents statistics on Malta's exports and imports of basic classes of goods by BEC (Broad Economic Categories) product group, which disaggregates the

[23] Using chain-linked volumes reference year 2010.

exports and imports of goods into intermediate, capital, and consumption goods.[24,25] This data is measured in trade value denominated in current prices. This is the statistical value, therefore the amount that would be invoiced in the event of sale or purchase at the national border of the reporting country.[26] Differences exist between exports of goods as measured in trade data (data described in this section) and that used in National Accounts.[27] These differences reflect in some variances in the reported statistics.[28]

Exports of intermediate goods have predominantly been the highest category of exports for Malta since the year 2000 (see Chart 3.4).[29] Out of the three broad categories, the exportation of intermediate goods was also the most volatile. Exports of intermediate goods peaked in 2012, rebounding from the slowdown experienced due to the international financial crisis of 2008 and 2009. After 2012, exports of consumption goods (the second most exported group of goods) increased the most, with its share of total goods rising over time from an average of 20.0% between 2000 and 2012 to an average of 33.0% between 2013 and 2020. Based on the BEC method, the share of capital goods out of total exports remained broadly stable over the years at an average of 7.0%, whilst 'motor spirit and passenger cars' accounted for a very small amount compared to the other categories.

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[24] The BEC is managed by the United Nations. It permits the conversion of international trade data based on the SITC (Standard International Trade Classification) into end-use categories. The BEC categories are aggregated to approximate the three basic classes of goods (capital, intermediate and consumption goods).

[25] The data within this section was sourced from the following Eurostat table: Member States EU27 (from 2020) trade by BEC product group since 1999.

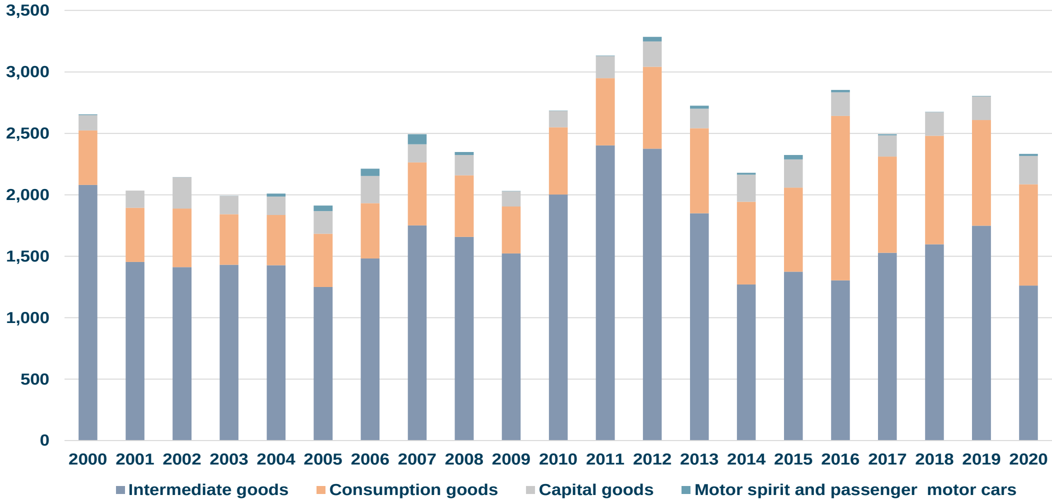
[26] It is said to be a FOB (Free On Board) valuation for exports and a CIF (Cost Insurance Freight) valuation for imports.

[27] Adjustments aim to convert trade in goods statistics to the basis required for National Accounts. The adjustments address differences in coverage, the treatment of particular operations, the valuation of transactions (conversion of import value from CIF to FOB) and the time of recording of the transactions. In addition, some Member States make adjustments to deal with the incomplete coverage of their trade statistics.

[28] In most years, the pattern and direction of growth across both statistics are still similar.

[29] Intermediate goods are goods used as input in the production of other goods or a finished product.

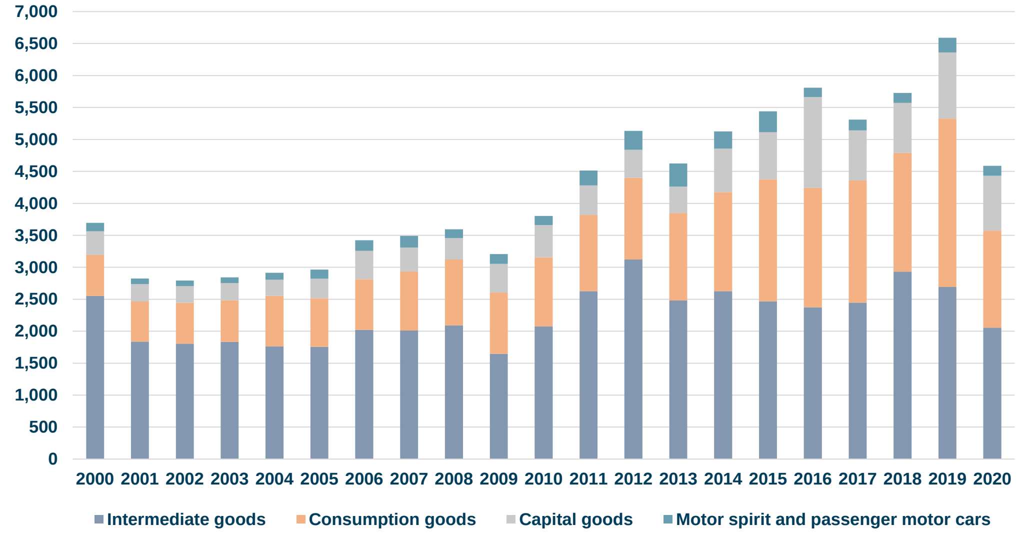
Chart 3.4: Exports of goods by BEC product group (EUR millions)



Source: Eurostat

Similar to exports, imports of intermediate goods have also been the highest category of imported goods for Malta over the period under review (see Chart 3.5). However, in recent years the importation of goods classified as consumption goods has seen a substantial rise in level terms, partly due to the rapid increase in the population of the Maltese islands. The import of capital goods also increased in level terms over the past ten years due to the high investment levels experienced over the same period. Indeed, the share of intermediate goods has fallen over the past two decades, while the shares of imports of consumption goods and capital goods have increased. In 2020, the decline in imports was mostly underpinned by a significant decline in consumption goods, and to a lesser extent, a decline in the imports of intermediate goods.

Chart 3.5: Imports of goods by BEC product group (EUR millions)



Source: Eurostat

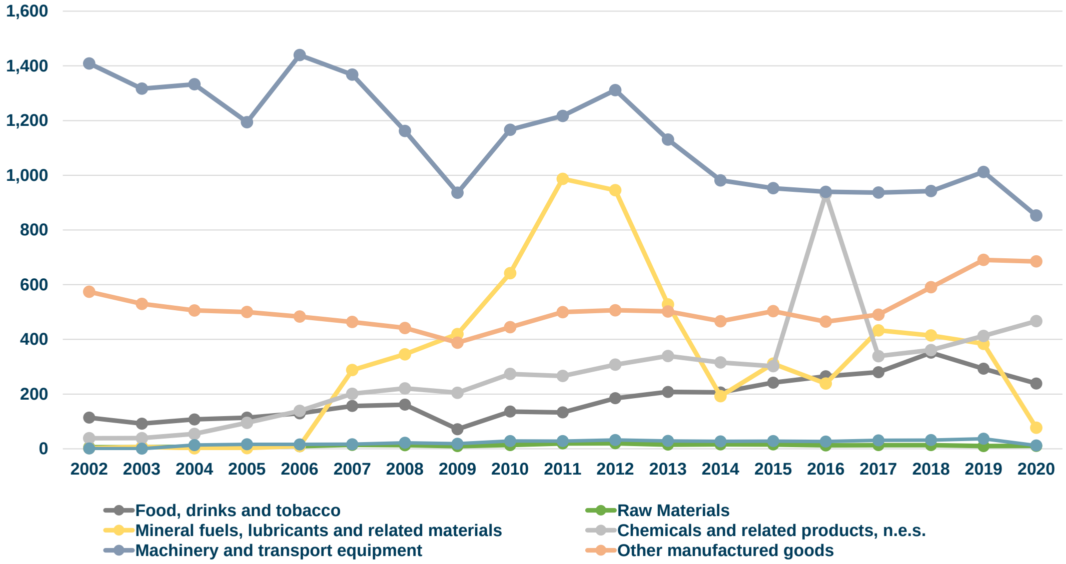
3.5 Trade of goods by SITC product group

The Standard International Trade Classification (SITC) is a product classification used for external trade statistics, allowing for international comparisons of commodities and manufactured goods. Exports by the SITC method is measured in trade value and corresponds to the total value by the BEC method. The main categories are food, drinks and tobacco; raw materials; mineral fuels, lubricants and related materials; chemicals and related products; machinery and transport equipment; other manufactured goods; and other commodities.

For the period under consideration, the exportation of 'machinery and transport equipment' has been the highest amongst the rest of the SITC product groups (see Chart 3.6).[30,31] However, its share of total goods exported has declined over the years, whilst other categories have increased in importance. 'Other manufactured goods' represented the second-highest category exported over most of the years under analysis. The latter's export value hovered between €400.0 million and €600.0 million for most years, though this range has been exceeded in 2019 and 2020. Two export categories observed to have increased constantly over the past two decades are 'chemicals and related products' and 'food, drinks and tobacco'. Indeed, these have expanded by a yearly average of around 13.2% and 8.2% over the period 2002-2020, respectively.[32] The trajectory of the exportation of 'mineral fuels, lubricants and related materials' has been the most volatile, reaching a peak in 2011 and 2012 before declining to lower levels in the subsequent years. In 2020, the exportation of this category was very limited. The remaining two categories, 'raw materials and other commodities', accounted for a relatively low share of goods exports compared to the rest of the categories, averaging €12.2 million and €21.9 million per year over the period 2002-2020, respectively.

[30] Data from this section was sourced from the following Eurostat table: International trade of EU, the euro area and the Member States by SITC product group.
[31] Data by SITC product group available online on the Eurostat database was not available for the entire 2000 – 2020 period.
[32] The calculated average growth of 'chemicals and related products' does not include the year 2016 which was a one-off outlier.

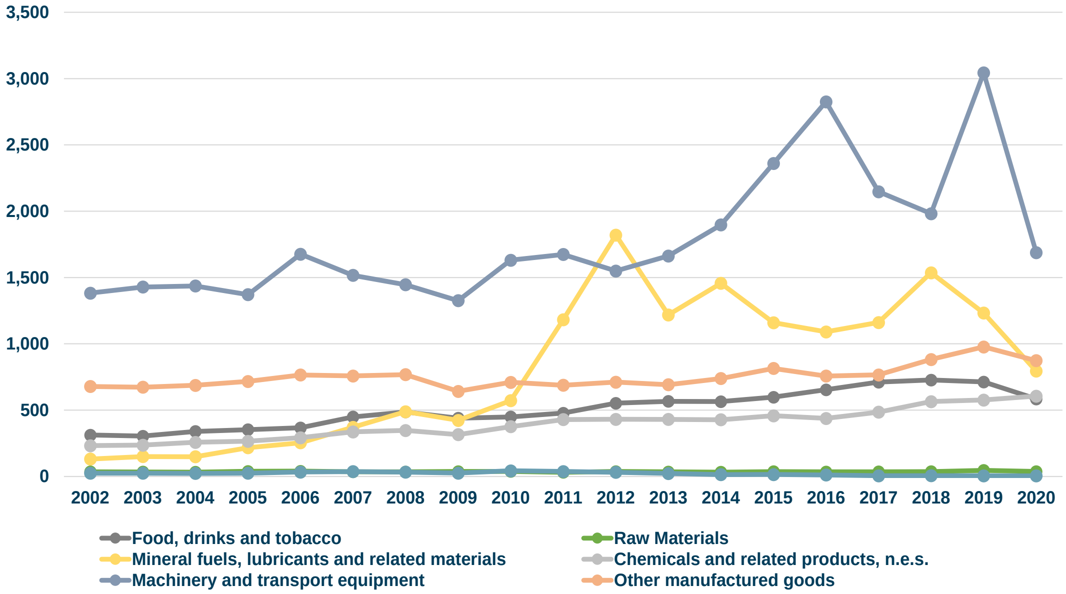
Chart 3.6: Exports of goods by main SITC product group (EUR millions)



Source: Eurostat

The bulk of total imports comprises of 'machinery and transport equipment' and 'other manufactured goods' (see Chart 3.7). The largest component, that is, 'Import of machinery and transport equipment', hovered around the €1.5 billion mark from 2002 till 2012, reaching a minimum of nearly €1.4 billion in 2009 and a maximum of more than €3.0 billion in 2019. On the other hand, 'other manufactured goods' hovered around €700.0 million of imports between 2002 and 2017, increasing to nearly €1.0 billion over 2018 and 2019 before slightly declining in 2020. Similar to exports, the 'mineral fuels, lubricants and related materials' component was also the most volatile amongst the categories, though to a lesser extent than in the case of exports. The importation of 'foods, drinks and tobacco' grew constantly, reaching around double the amount in recent years than imported in 2002. This is in line with the constant increase in the population of the Maltese islands. 'Chemicals and related products' was the only SITC import category that did not decline in 2020, reaching a level which is 2.6 times its level in 2002. Over the period under review, this component increased by an annual average of 5.7%. The importation of 'raw materials' remained rather stable, ranging between €30.0 million and slightly more than €40.0 million per year. On the other hand, the importation of 'other commodities' has declined over the most recent years, from around €30.0 million yearly between 2002 and 2012 to around €5.0 million between 2017 and 2020.

Chart 3.7: Imports of goods by main SITC product group (EUR millions)



Source: Eurostat

3.6 Balance of Payments - goods and services balance

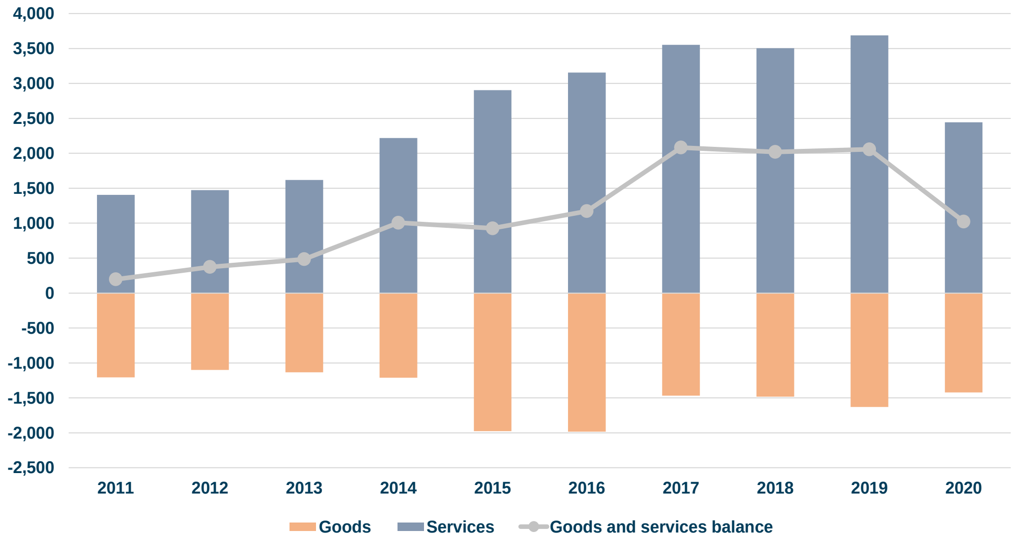
The Balance of Payments systematically summarises all economic transactions between residents and non-residents of Malta during a given period. A record of the value of exports and imports of both goods and services is kept in the current account within the Balance of Payments.

The external balance of trade in the Balance of Payments has been in **surplus** over the period 2011 – 2020 (see Chart 3.8).[33,34,35] This contributes positively to the current account within the Balance of Payments. The **goods balance** was always negative over this ten-year period, as debit flows (imports) always exceeded credit flows (exports). The contrary applies to the **services balance**, as this was constantly in surplus. Since 2011, the surplus in services continuously expanded, as services' exports accelerated faster than the imports of services. On the other hand, the balance

[33] Balances in this section refer to exports minus imports.
[34] Balance of Payments data based on BPM6 was not available for the entirety of the period 2000 till 2020. The decision was to start the analysis from 2011, given this followed a period of international uncertainty due to the financial crisis, and in order to keep the analysis over a ten-year period.
[35] Data in this section is sourced from the following Eurostat table: Balance of payments by country - annual data (BPM6). The data extracted uses information in line with NSO News Release NR227/2021.

in goods was rather stable between 2011 and 2014, but this changed in 2015 and 2016, as imports outpaced exports at an accelerated rate, mainly because of a significant increase in local investment. The balance then got less negative over the remaining years.

Chart 3.8: Goods and services – Balance of Payments balances (EUR millions)



Source: Eurostat

In 2020, the balance of goods and services remained in surplus, though declining by around half the proportion of 2019. This was primarily due to the services balance, which suffered the more significant hit. In particular, tourism and transport services were heavily impacted because of the COVID-19 pandemic. On the other hand, the impact was larger in the importation of goods than their export, which offset some of the larger deterioration in the Balance of Payments from the services side.

In 2020, 56.5% of exports of goods and services were towards countries forming part of the EU, whilst 43.5% were towards extra-EU countries.[36,37] The decline in services exported during 2020, compared to 2019, was largely a result of a decline in exports towards extra-EU countries. With respect to imports of goods and services, the direction of trade, in 2020, was almost split evenly between EU countries and extra-EU countries. Overall, 55.6% of the decline in imports of goods in 2020 when compared to 2019 resulted from fewer imports from EU countries, while the rest of the decline in imports of goods was from extra-EU countries.

[36] Extra-EU refers to those countries outside of the EU.
[37] Most goods exported were towards extra-EU countries (62.6%). However, this was more than compensated by services exported (much larger in level terms) to EU countries (60.5%).

3.7 Exports and imports of services

The contribution to growth in both exports and imports from services is higher than that from goods. Balance of Payments data provides a detailed breakdown of the types of services that are exported and imported.[38] The main categories that contribute to most of the trade in services in Malta are explained in detail in Box 3.1.

Financial services have been consistently one of the largest components making up total exports in Malta (see Chart 3.9).[39] Their export has though remained relatively stable between 2011 and 2020. On the other hand, 'personal, cultural and recreational services', which includes exports relating to the gaming industry, was the export category that grew and contributed the most towards export growth over the past decade. Indeed, its share in total services of exports in 2019 stood at 30.6%, the highest amongst all categories. This sector's resilience was maintained during the pandemic (in 2020), as exports from this category still continued to increase. The 'other business services' category also occupies a large part of total services exports. The latter's share amounted to around 22.0% of total services exports between 2018 and 2020, thus reaching a similar share to that of financial services exports.

'Travel and transport' occupy the next largest shares in total exports. Excluding 2020, where travel and transport were limited because of the COVID-19 pandemic, these two categories have together maintained a ratio of around 18.0% over the most recent five years. 'Charges for the use of intellectual property' have contributed to about 4.0% of total exports during the last five years under review, whilst the other remaining categories included in the Balance of Payments are rather small and only have a combined contribution of less than 3.0% to services exports.

[38] Further to the categories listed in this section, there are other categories of services which in the case of Malta are negligible.
[39] Data in this section is sourced from the following Eurostat table: Balance of payments by country - annual data (BPM6). The data extracted uses information in line with NSO News Release NR227/2021.

Box 3.1: Sub-categories of Balance of Payments main services categories[40]

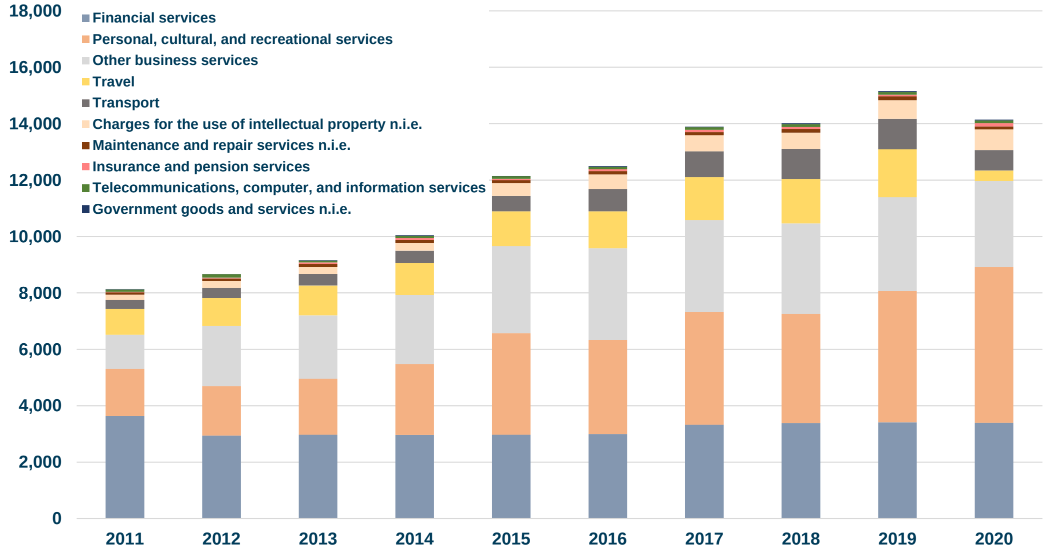
Some of the service categories in the Balance of Payments are further sub-categorised. This box provides some explanations on some of the main categories relevant for Malta when it comes to exports and imports of services.

Financial services	Financial services cover financial intermediary and auxiliary services, except insurance and pension fund services, financial advisory services, asset management, etc… These include explicitly charged and other financial services and financial intermediation services indirectly measured.
Personal, cultural and recreational services	This category consists of (a) audiovisual and related services and (b) other personal, cultural, and recreational services. The latter include health services, education services, and services associated with museums and other cultural, sporting, gambling, and recreational activities, except those included in travel.
Other business services	This includes research and development services, professional and management consulting services, and technical, trade-related and other business services.
Travel	Travel credits cover goods and services for own use or to give away acquired from an economy by non-residents during visits to that economy. Travel debits cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies.
Transport	Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. Also included are postal and courier services. Transport can be classified according to mode of transport, namely sea, air and other; and according to what is carried, that is passenger or freight.
Charges for the use of intellectual property n.i.e	Charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises). These rights can arise from research and development, as well as from marketing; and charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes, such as copyrights for books or manuscripts and related rights such as for live performances and television.

Source: Eurostat and IMF

[40] The Balance of Payments and International Investment Position Manual (Sixth Edition) is available on: https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf.

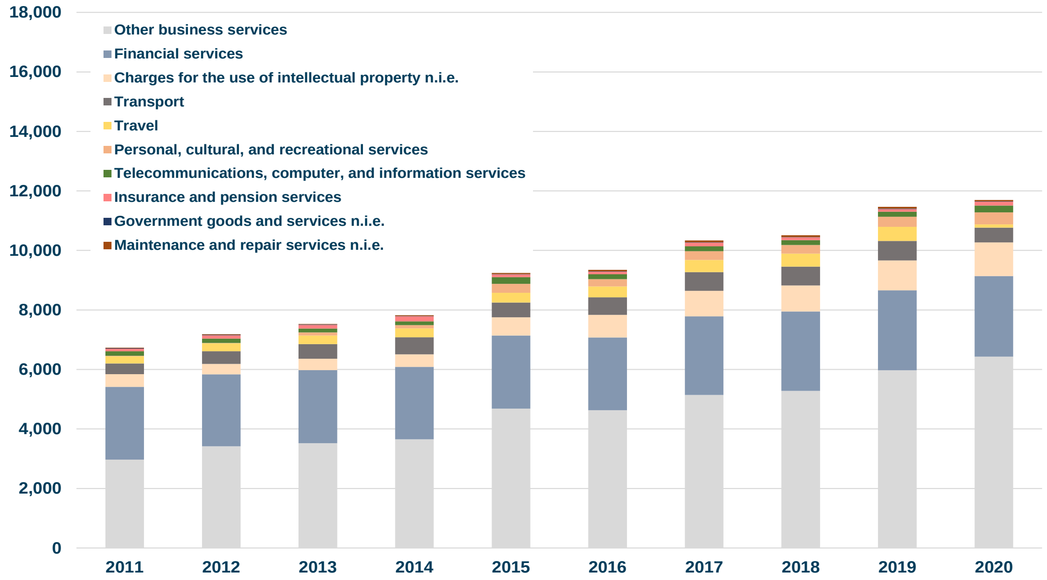
Chart 3.9: Exports of services (EUR millions)



Source: Eurostat

Turning on to imports of services, the larger part of such imports is derived from the ‘other business services’ category (see Chart 3.10). Its share of total imports of services increased over the years, from around 44.0% in 2011 to more than 50.0% in 2018, 2019, and 2020, reaching 55.0% in the latter year. Its level has more than doubled over the period 2011 – 2020. Their importance has increased with the rise in services exports relating to the gaming industry as these are dependent on imports relating to business services.

Chart 3.10: Imports of services (EUR millions)



Source: Eurostat

Another import category that is essential for the Maltese economy is financial services. In level terms, this category of imports has seen an increase of 10.9% between 2011 and 2020 and has accounted for slightly less than one-fourth of the share in total imports of services in 2019 and 2020. The rest of the categories made up around 22.0% of the share in total imports of services. The largest category amongst these is ‘charges for the use of intellectual property’, which made up slightly less than 10.0% of the total services imported in 2020. Debit entries associated with travel and transport have increased over the years, but these were negatively affected in 2020 due to the pandemic. The rest of the categories make up a small percentage of the total imports of services (3.0%), with imports of telecommunication services contributing to the larger part of this amount.

3.8 Conclusion

This Chapter explored the salient patterns in exports and imports of goods and services recorded in Malta over the past two decades. Being a small and open economy, Malta’s economic development highly depends on international trade, making the external balance of goods and services a critical component to monitor as part of the MFAC’s assessment of the official government forecasts. The patterns described in this Chapter provide useful benchmarks for evaluating the profile of exports and imports of goods and services over the years.

The emergence of various export-oriented services sectors, including financial services, online gaming, and other business services have significantly elevated the importance of services’ exports over the past decade. Significant improvements in tourism and investments in this sector have also boosted the rise in exports experienced over the past years. Although the gap between the exports of services and goods has widened, the latter remains a substantial contributor to the development of the country’s economy. Given the geographical realities of the Maltese islands, imports have always been central to the country’s economy. The importation of goods has risen over the years because of an increasing population, developments in other sectors (imports as an input for the production of other goods), and an increase in investment activity, which tends to be highly import-intensive in Malta. However, over the past decade, the role of imports of services has become increasingly important, supplying various export-oriented sectors. For instance, services exports such as those related to the gaming industry are dependent on imports relating to business services.

Due to its size and openness and the importance of the tourism industry, Malta's exports and economic outlook are, to a certain degree, conditional on the economic developments of its trading partners. This makes the country more prone to shocks, as evidenced by the COVID-19 pandemic. Indeed, in 2020, Malta's exports were relatively amongst the worst hit in the euro area, primarily driven by a decline in the demand for key export-service sectors. Moreover, during the pandemic, disruptions caused by strict border controls and temporary shutdowns had led to companies facing supply-chain problems. As Malta started its path to recovery, the non-repetition of such controls should pave the way for better export prospects. On the opposite, high freight and transportation costs could lead to supply shortages for certain imported products.

Financial Statements

for the year ended 31 December 2021

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 2021.

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 €271,000 in Government Subvention during the year ended 31 December 2021 (2019: €267,000) in terms of the Fiscal Responsibility Act and incurred €207,929 in expenditure (2020: €200,847). The Council registered a surplus of €63,330 for the year ended 31 December 2021 (2019: €66,637) as shown in the statement of comprehensive income on page 59.

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 – Chairman
Dr. Carl Camilleri – Council Member
Dr. Ian Cassar – Council 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.

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.

Statement of Responsibilities of the Council (continued)

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 18 February 2022 by:

Mr. John Cassar White
Chairman

Dr. Carl Camilleri
Council Member

Dr. Ian Cassar
Council Member

Registered Office:

Malta Fiscal Advisory Council,
St. Calcedonious Square,
Floriana FRN 1530
Malta

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 59 to 72, which comprise the statement of financial position as at 31 December 2021, 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 2021, 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.

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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.

Auditors' Responsibilities for the Audit of the Financial Statements

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.

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.

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- 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.

Auditors' Responsibilities for the Audit of the Financial Statements

- 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.

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.

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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

18 February 2022

Malta Fiscal Advisory Council
Statement of Comprehensive Income
For the year ended 31 December 2021

	Notes	2021 EUR	2020 EUR
Income	3	271,000	267,000
Expenditure		(207,929)	(200,847)
Other Income		259	484
Surplus for the year	7	63,330	66,637

The notes to the financial statements on pages 63 to 72 form an integral part of these financial statements.

Malta Fiscal Advisory Council
Statement of Financial Position
As at 31 December 2021

	Notes	2021 EUR	2020 EUR
ASSETS			
Non-Current Assets			
Plant and Equipment	8	3,178	3,954
Current Assets			
Cash and Cash Equivalents	9	262,228	198,459
Total Current Assets		262,228	198,459
TOTAL ASSETS		**265,406**	**202,413**
CAPITAL AND LIABILITIES			
Capital and Reserves			
Accumulated Surplus – Recurrent vote and operating activities	10	263,029	199,699
Current Liabilities			
Other Payables	11	2,377	2,714
TOTAL CAPITAL AND LIABILITIES		**265,406**	**202,413**

The notes to the financial statements on pages 63 to 72 form an integral part of these financial statements.

These financial statements were approved by the Fiscal Advisory Council, authorised for issue on 18th February 2022 and signed on its behalf by:

Mr. John Cassar White
Chairman

Dr. Carl Camilleri
Council Member

Dr. Ian Cassar
Council Member

Malta Fiscal Advisory Council
Statement of Changes in Equity
For the year ended 31 December 2021

	Accumulated Surplus EUR	Total EUR
Balance as at 1st January 2020	133,062	133,062
Surplus for the year	66,637	66,637
Balance as at 31 December 2020	**199,699**	**199,699**
Surplus for the year	63,330	63,330
Balance as at 31 December 2021	**263,029**	**263,029**

The notes to the financial statements on pages 63 to 72 form an integral part of these financial statements.

Malta Fiscal Advisory Council
Statement of Cash Flows
For the year ended 31 December 2021

	Note	2021 EUR	2020 EUR
Cash flows from Operating Activities			
Surplus for the year		63,330	66,637
Adjustments for:			
Depreciation of Plant and Equipment	8	775	1,772
Operating surplus before working capital changes		64,105	68,409
Movement in other receivables	9	-	421
Movement in other payables	11	(337)	(2,341)
Net cash flow (used in)/ from Operating Activities		(337)	(1,920)
Cash flows from Investing Activities			
Acquisition of Plant and Equipment	8	-	(404)
Net cash used in Investing Activities		-	(404)
Movement in Cash and Cash Equivalents		63,768	66,085
Cash and Cash equivalents at start of the year		198,459	132,374
Cash and Cash equivalents at end of the year	9	**262,228**	**198,459**

The notes to the financial statements on pages 63 to 72 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 2021 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 has 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.

- Amendments to IFRS 9 IAS 396, IFRS7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective for annual reporting periods beginning on or after 1 January 2021)
- Amendment to IFRS 16 Covid-19 Related Rent Concessions (effective for annual reporting periods beginning on or after 01 April 2021)

Standards, interpretations and amendments to published standards as endorsed by the EU that are not yet effective

As at the date of the authorisation of these financial statements certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Council's accounting policies upon their effective date. The Council is still assessing the effect to these changes on the financial statements, however certain new standards and interpretations are not expected to have a material impact on the Council's financial statements.

- Amendments to IFRS 3 Reference to the Conceptual Framework (effective for annual reporting periods beginning on or after 1 January 2022)
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use (effective for annual reporting periods beginning on or after 1 January 2022)
- Amendments to IAS 37 Onerous Contracts Cost of Fulfilling a Contract (effective for annual reporting periods beginning on or after 1 January 2022)
- Annual Improvements to IFRS Standards 2018-2020 (effective for annual reporting periods beginning on or after 1 January 2022)

Changes in accounting policies and disclosures (continued)

- Amendments to IAS 8 Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023)
- IFRS 17 – Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2023)
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023)

Standards, interpretations and amendments to published standards that are not yet endorsed by the EU

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current (effective for annual reporting periods beginning or after 1 January 2023)
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual reporting periods beginning on or after 1 January 2023)

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

Significant Accounting Policies (continued)

a. Plant and Equipment (continued)

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.

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. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2. Significant Accounting Policies (continued)

b. Financial Instruments (continued)

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.

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

2. Significant Accounting Policies (continued)

e. Impairment (continued)

Financial Assets (continued)

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.

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.

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.

2. Significant Accounting Policies (continued)

h. 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.

i. 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:

	2021 EUR	2020 EUR
Government Subvention	271,000	267,000

The Government subvention as per Article 55 sub-articles (2), (4a) and (4b) of the Fiscal Responsibility Act amounts to not less than €271,000 annually and increases by the Index of Inflation as established and published by the National Statistics Office in each subsequent year.

4. Council Honoraria

	2021 EUR	2020 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

	2021 EUR	2020 EUR
Staff Gross Salaries and Social Security Contributions	143,863	139,599
Average Number of Employees	4	4

7. Surplus for the year

Auditors' Remuneration

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

	2021 EUR	2020 EUR
Audit Fees	1,239	1,180

8. Plant and Equipment

	Fixtures & Fittings	Computer and Office Equipment	Library Books	Air Conditioner	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
As at 1 January 2021	2,132	10,441	1,091	1,130	14,794
Additions	-	-	-	-	-
As at 31 December 2021	2,132	10,441	1,091	1,130	14,794
Depreciation					
As at 1 January 2021	816	8,905	555	564	10,840
Charge for the year	213	1,171	109	188	1,681
Overstated depreciation	-	(907)	-	-	(907)
As at 31 December 2021	1,029	9,169	664	752	11,614
Net Book Value					
As at 31 December 2020	1,316	1,536	536	566	3,954
As at 31 December 2021	**1,103**	**1,272**	**427**	**378**	**3,180**

9. Cash and Cash Equivalents

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

	2021 EUR	2020 EUR
Bank Balances	262,228	198,459

10. Accumulated Reserve – Recurrent Vote and Operating Activities

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

11. Other Payables

	2021 EUR	2020 EUR
Other Payables	65	-
Accrued expenses	2,312	2,714
	2,377	2,714

12. Financial Instruments

Fair Values of Financial Assets and Financial Liabilities

At 31 December 2021 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short-term maturities of these assets and liabilities.

Financial Risk Management

The exposures to risk and the way risks arise, together with the Council's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below. The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

Liquidity Risk

The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments associated with financial instruments and by maintaining adequate banking facilities.

Capital Risk Management

The Council's objectives when managing capital is to safeguard its ability to continue as a going concern.

12. Financial Instruments (continued)

Capital Risk Management (continued)

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.

13. 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 2021 and 2020 are disclosed in note 4.

14. Comparative Information

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

Malta Fiscal Advisory Council
Schedules to the Expenditure Account
For the year ended 31 December 2021

Expenditure

	2021 EUR	2020 EUR
Accountancy fees	**680**	500
Annual report	**407**	651
Audit fee	**1,239**	1,180
Bank charges	**181**	95
Cleaning	**1,600**	1,677
Consumables - Equipment	**668**	404
Council Honoraria	**42,000**	42,000
Depreciation of plant and equipment	**1,681**	1,772
Overstated depreciation	**(907)**	-
General expenses	**259**	1,249
Insurance	**544**	779
Maintenance	**95**	207
MITA subscription	**1,026**	-
Other expenses	**2,470**	-
Postage, other printing and stationery	**1,536**	1,483
Salaries and consultancy fees	**143,863**	139,599
Staff welfare	**370**	36
Subscriptions	**1,043**	1,016
Sundry expenses	**-**	305
Telecommunication and internet costs	**4,190**	3,683
Times of Malta - Subscription of online newspaper	**1,629**	-
Travel and training costs	**2,620**	3,320
Website	**735**	891
Total Expenditure	**207,929**	200,847

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

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