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PRESS RELEASE

MFAC publishes its assessment of the Update of Stability Programme 2023 – 2026

The Malta Fiscal Advisory Council (MFAC) presented to the Minister for Finance and Employment its assessment of the Update of Stability Programme 2023 – 2026. The MFAC's Report has a cut-off date of 24 May 2023. The Fiscal Council considered the macroeconomic and fiscal forecasts for 2023 to 2026 to be within its endorsable range and compatible with the assumptions specified in the official document.

Despite maintaining the general escape clause active for this year, the European Commission, in its guidelines on the design of fiscal policy, recommended that the Stability or Convergence Programmes for the period 2023-2026 should already include medium-term budgetary and structural plans as required by the new governance framework. This year's Update of Stability Programme (USP) and the assessment conducted by the MFAC take into account the European Commission's fiscal policy guidance for the year 2024.

The economic outlook presented in the Programme points to a 4.1% growth rate in real GDP in 2023, continuing the momentum of economic growth registered in the previous two years. Growth is expected to remain strong over the outer years and even outpace the forecast for 2023 (2024: +4.5%; 2025: +4.6%; 2026: +4.2%). At the same time, inflation is projected to remain strong over the next two years. Against this background, the fiscal deficit is projected to narrow to 5.0% of GDP in 2023, from 5.8% a year earlier. For the outer years, the Stability Programme targets a progressive reduction in the fiscal deficit ratio, reaching just under the 3% of GDP reference value by 2026. As a result, the USP is in line with the Commission's fiscal policy guidelines for 2024, recommending a correction of the excessive deficit within the period covered by the Programme. Furthermore, the correction of the fiscal deficit ratio is consistent with an annual average structural effort of 0.7% of GDP and an average annual reduction of the structural primary deficit of 0.9% of GDP over the Programme's horizon. The

MFAC notes that the effort being targeted by the Government is more ambitious than the minimum 0.5% of GDP requirement of the current fiscal framework and the Commission's proposed governance framework. Furthermore, according to the USP, the general government debt-to-GDP ratio is expected to remain consistently below the 60% reference value, although it is projected to increase slightly from 55.7% at the end of 2024 to 56.1% by the end of 2026.

According to the risk assessment carried out, the Council opines that the balance of short-term risks associated with economic growth tilts slightly on the upside for 2023, mainly on the back of stronger domestic developments. Against this background, the Council considers that over the short term, total revenue could turn out to be stronger than projected by the Ministry for Finance and Employment, specifically current taxes on income and wealth and taxes on production and imports. However, the Council also views that growth in expenditure could turn out stronger than anticipated in the USP, particularly for the outer forecast years. Indeed, the Council assesses the risk that a higher fiscal deficit materialises to be more pertinent over the outer forecast years. Nonetheless, the fiscal balance as a percentage of GDP is supported by the upside risks to GDP, which acts as the denominator in this ratio. Various factors could underpin the trajectory of the fiscal balance, and any changes in government policy, or the materialisation of certain ad-hoc risks could result in deviations from the deficit targets. Such risks are particularly relevant given that any deviances that worsen the fiscal deficit ratio may result in not adhering to the 3% deficit benchmark by the final year of the Programme period. The fact that the budget deficit target for 2026 is only 0.1 percentage points below the 3% threshold leaves little to no room for manoeuvre for Government to provide support through countercyclical fiscal policy in case of any unforeseen shocks.

The Council's risk assessment largely hinges on the Government's planned expenditure on energy subsidies, due to their magnitude as well as the uncertainty surrounding these outlays. In particular, the Council notes the material deviation in the energy subsidy estimates submitted by the Ministry for Finance and Employment in the USP for 2023 relative to those set in the Draft Budgetary Plan. The Council opines that this uncertainty surrounding this expenditure component constitutes an important risk element to the fiscal projections. Furthermore, the Council also identifies the future of Air Malta and potential associated costs as another important fiscal risk. The global minimum level of taxation rules applicable to the multinational investor market could also affect Malta's ability to retain its competitive position relative to our foreign counterparts and may also potentially lead to deviations in the fiscal revenue targets during the Programme period.

The Fiscal Council notes that the activation of the general escape clause in the Stability and Growth Pact and in the Fiscal Responsibility Act permitted the Government to take all the initiatives deemed necessary to mitigate the adverse effects created by the pandemic and ensuing supply-chain disruptions and the subsequent Russia-Ukraine war. However, following the de-activation of the general escape clause in 2024, the Council would again like to emphasize the importance of achieving a prudent medium-term fiscal position. The Council recommends that any potential savings from energy subsidies or higher than projected revenue should be used to rebuild fiscal buffers. Furthermore, any deviations from the revenue and expenditure targets should not be compensated for by curtailing planned productive capital expenditure.

The full report, entitled “Assessment of the Update of Stability Programme 2023 – 2026”, is available on the website of the MFAC: <http://www.mfac.org.mt>.

30 ta' Ġunju 2023

STQARRIJA GĦALL-ISTAMPA

Il-Kunsill Fiskali Konsultattiv Malti jippubblika l-evalwazzjoni tal-Aġġornament tal-Programm ta' Stabbiltà 2023–2026

Il-Kunsill Fiskali Konsultattiv Malti (MFAC) ippreżenta lill-Ministru għall-Finanzi u x-Xogħol l-evalwazzjoni tal-Aġġornament tal-Programm ta' Stabbiltà 2023–2026. Dan ir-Rapport tal-Kunsill kien ippreparat abbażi tal-informazzjoni disponibbli sal-24 ta' Mejju 2023. Il-Kunsill Fiskali jikkunsidra x-xenarju makroekonomiku u fiskali għall-perjodu mill-2023 sal-2026 bħala plawżibbli, u kompatibbli mas-suppożizzjonijiet speċifikati fid-dokument uffiċjali.

Minkejja li l-klawżola liberatorja ġenerali fil-Patt ta' Stabbiltà u Tkabbir nżammet attiva għal din is-sena, il-Kummissjoni Ewropea, fil-linji gwida tagħha dwar it-tfassil tal-politika fiskali, irrakkomandat li l-Programmi ta' Stabbiltà jew Konverġenza għall-perjodu 2023–2026 għandhom diġà jinkludu pjanijiet baġitarji u strutturali fuq terminu medju kif meħtieġ mill-qafas ta' governanza l-ġdid. L-Aġġornament tal-Programm ta' Stabbiltà ta' din is-sena u l-valutazzjoni mwettqa mill-MFAC jieħdu kunsiderazzjoni tal-linji gwida tal-politika fiskali tal-Kummissjoni Ewropea għas-sena 2024.

Il-prospettiva ekonomika ppreżentata fil-Programm tindika rata ta' tkabbir ta' 4.1% fil-Prodott Domestiku Gross (PDG) reali fl-2023, kontinwazzjoni fir-rata tat-tkabbir ekonomiku rreġistrat fis-sentejn preċedenti. It-tkabbir huwa mistenni li jibqa' b'saħħtu matul il-bqijja tas-snin u saħansitra jissupera t-tkabbir previżt għall-2023 (2024: +4.5%; 2025: +4.6%; 2026: +4.2%). Fl-istess ħin, l-inflazzjoni hija pproġettata li tibqa' b'saħħitha matul is-sentejn li ġejjin. F'dan l-isfond, id-defiċit fiskali huwa pproġettat li jonqos għal 5.0% tal-PDG fl-2023, minn 5.8% rreġistrat fis-sena ta' qabel. Għas-snin imbiegħda, il-Programm ta' Stabbiltà jimmira lejn tnaqqis progressiv fil-proporzjon tad-defiċit fiskali, li jilħaq ftit inqas mill-valur referenzjarju ta' 3% tal-PDG sal-2026. B'riżultat ta' dan, l-Aġġornament tal-Programm ta' Stabbiltà ta' din is-

sena huwa konformi mal-linji gwida tal-politika fiskali tal-Kummissjoni għall-2024, li jirrakkomandaw korrezzjoni tad-defiċit eċċessiv fil-perjodu kopert mill-Programm. Barra minn hekk, il-korrezzjoni tal-proporzjon tad-defiċit fiskali hija konsistenti ma' sforz strutturali medju annwali ta' 0.7% tal-PDG u tnaqqis annwali medju tad-defiċit primarju strutturali ta' 0.9% tal-PDG matul il-perjodu tal-Programm. Il-MFAC jinnota li t-tnaqqis fil-miri tal-Gvern huma aktar ambizzjużi mir-rekwiżit minimu ta' 0.5% tal-PDG tal-qafas fiskali attwali u l-qafas ta' governanza propost mill-Kummissjoni. Barra minn hekk, skont l-Programm, il-proporzjon tad-dejn tal-gvern għall-PDG huwa mistenni li jibqa' konsistentement taħt il-valur referenzjarju tas-60%, għalkemm huwa pproġettat li jiżdied ftit, minn 55.7% fi tmiem l-2024 għal 56.1% sa tmiem l-2026.

L-evalwazzjoni tar-riskji mwettqa mill-Kunsill Fiskali tissuggerixxi riskju marginali pożittiv għat-
tkabbir tal-PGD reali matul 2023, prinċipalment minħabba żviluppi domestiċi aktar b'saħħithom. F'dan l-isfond, il-Kunsill huwa tal-fehma li fuq medda qasira ta' żmien, id-dħul totali jista' jirriżulta li jkun aktar b'saħħtu milli mbassar mill-Ministeru għall-Finanzi u l-Impjegi, speċifikament it-taxxi kurrenti fuq id-dħul u l-ġid u t-taxxi fuq il-produzzjoni u l-importazzjoni. Madankollu, il-Kunsill iqis ukoll li t-
tkabbir fin-nefqa jista' jirriżulta aktar b'saħħtu milli antiċipat fl-Aġġornament tal-Programm ta' Stabbiltà ta' din is-sena, b'mod partikolari għas-snin lejn l-aħħar tal-Programm. Fil-fatt, il-Kunsill jivvaluta r-riskju li jimmaterjalizza defiċit fiskali oġġla bħala aktar pertinenti matul is-snin lejn l-aħħar tat-tbassir. Madankollu, il-bilanċ fiskali bħala perċentwal tal-PDG huwa appoġġat mir-riskji pożittivi għall-PDG, li jaġixxi bħala denominatur f'dan il-proporzjon. Diversi fatturi jistgħu jirfdu t-trajettorja tal-bilanċ fiskali, u kwalunkwe bidla fil-politika tal-gvern, jew il-materjalizzazzjoni ta' ċerti riskji 'ad hoc' jistgħu jirriżultaw f'devjazzjonijiet mill-miri tad-defiċit. Dawn ir-riskji huma partikolarment rilevanti minħabba li kwalunkwe devjazzjoni li taggrava l-proporzjon tad-defiċit fiskali tista' tirriżulta fin-nuqqas ta' konformità mal-valur referenzjarju tad-defiċit ta' 3% sal-aħħar sena tal-perjodu tal-Programm. Il-fatt li l-mira tad-defiċit baġitarju għall-2026 hija biss 0.1 punti perċentwali taħt il-limitu ta' 3% ftit li xejn jhalli lok għal Gvern biex jipprovi appoġġ permezz ta' politika fiskali kontroċiklika f'każ ta' xokkijiet mhux previsti.

Il-valutazzjoni tar-riskju tal-Kunsill tiddependi b'mod b'saħħtu fuq in-nefqa pplanata tal-Gvern fuq is-sussidji tal-enerġija, kemm minħabba l-kobor tagħhom kif ukoll minħabba l-inċertezza dwar dawn l-ispejjeż. B'mod partikolari, il-Kunsill jinnota d-devjazzjoni materjali fl-istimi tas-sussidju tal-enerġija pprezentati mill-Ministeru għall-Finanzi u l-Impjegi fl-Aġġornament tal-Programm ta' Stabbiltà ta' din is-sena għall-2023 meta mqabbla ma' daww stabbiliti fil-Pjan Baġitarju 2023. Il-Kunsill huwa tal-opinjoni li din l-inċertezza dwar dan il-komponent tan-nefqa tikkostitwixxi element ta' riskju importanti għat-tbassir fiskali. Barra minn hekk, il-Kunsill jidentifika wkoll il-futur tal-Air Malta u l-ispejjeż assoċjati magħha bħala riskju fiskali importanti

ieħor. Il-livell minimu globali tar-regoli tat-tassazzjoni applikabbli għas-suq tal-investituri multinazzjonali jista' wkoll jaffettwa il-kapaċità ta' Malta li żżomm il-pożizzjoni kompetittiva tagħha meta mqabbla mal-kontropartijiet barranin tagħna u jista' wkoll potenzjalment iwassal għal devjazzjonijiet fil-miri tad-dħul fiskali matul il-perjodu tal-Programm.

Il-Kunsill Fiskali jinnota li l-attivazzjoni tal-klawżola liberatorja ġenerali fil-Patt ta' Stabbiltà u Tkabbir u fl-Att dwar ir-Responsabbiltà Fiskali ppermettiet lill-Gvern jieħu l-inizjattivi kollha meħtieġa biex jittaffew l-effetti negattivi maħluqa mill-pandemija u t-tfixkil sussegwenti fil-provvisti kif ukoll dawk mill-gwerra bejn ir-Russja u l-Ukrajna. Madankollu, wara d-diżattivazzjoni tal-klawżola liberatorja ġenerali fl-2024, il-Kunsill jixtieq jerga' jenfasizza l-importanza li tinkiseb pożizzjoni fiskali prudenti fuq terminu medju. Il-Kunsill jirrakkomanda li kwalunkwe tfaddil potenzjali minn sussidji tal-enerġija jew dħul oġhla minn dak previst għandu jintuża biex jinbnew mill-ġdid tfaddil u 'buffers' fiskali. Barra minn hekk, kwalunkwe devjazzjoni mill-miri tad-dħul u l-infiq ma għandux jiġi kkompensat billi jitnaqqas l-infiq kapitali pplanat u produttiv.

Ir-rapport sħiħ, intitolat "Assessment of the Update of Stability Programme 2023 – 2026", huwa disponibbli fuq is-sit elettroniku tal-MFAC: <http://www.mfac.org.mt>.