



Level -1,  
New Street in Regional Road,  
Msida, Malta  
T: +356 2247 9200  
Fax: +356 2247 9219  
info@mfac.org.mt  
www.mfac.org.mt

26 March 2024

## PRESS RELEASE

### Malta Fiscal Advisory Council publishes its Annual Report for 2023

The Malta Fiscal Advisory Council (MFAC) has released its Annual Report for 2023, which was tabled in Parliament on 25 March 2024.

In her statement, the Chairperson highlighted that despite the global challenges which persisted over the past year, Malta's economic landscape remained resilient and registered robust economic growth characterised by an improved employment landscape with low unemployment rates and heightened labour force engagement. The counter-cyclical fiscal policy exercised in the preceding years led to a fiscal deficit ratio which surpassed the 3% benchmark level and is projected to reach 5.0% of GDP in 2023. On the other hand, despite the notable upsurge in government indebtedness, projections indicate that the debt-to-GDP ratio will remain below the 60% threshold in 2023.

Looking ahead, the recent revocation of the EU's general escape clause highlights the importance of prudent fiscal management. At the same time, the EU economic governance framework is being reformed, with a provisional inter-institutional agreement reached in February 2024. The reform will introduce new fiscal rules and obligations. While the 3% deficit-to-GDP reference value and the 60% debt-to-GDP benchmark will be maintained, the emphasis within the new economic governance framework will be on debt sustainability. It will also involve a shift towards expenditure control, with specific expenditure paths depending on country-specificities. Concurrently, there will be a concerted effort to bolster structural reforms and public investments to foster sustainability and economic growth.

Throughout its publications last year, the MFAC proposed several recommendations to the Government. In terms of Malta's economic outlook, the MFAC highlighted the importance of enhancing Malta's international competitiveness, promoting export-led growth, and safeguarding planned productive public capital expenditure. This entails prioritising labour productivity enhancements to drive competitiveness, bridge skill gaps and embrace the transition towards digitalisation and environmentally sustainable business practices. Furthermore, with the economic recovery well underway, the Council has emphasised that it is also imperative to start rebuilding fiscal buffers to strengthen Malta's fiscal resilience. It has also recommended that Government should avoid inflating government spending and means of expenditure restraint should be explored to ensure that the minimum required fiscal effort is

achieved. On the revenue front, the Council has encouraged Government to continue achieving higher levels of collection in its revenue arrears. Finally, regarding the fixed-energy-price policy, the MFAC has recommended the preparation of an adequate exit strategy, the adoption of a more targeted approach, and the enhancement of incentives for energy savings.

The Annual Report contains three thematic chapters. The first chapter presents empirical estimates of the link between output and the unemployment rate in Malta. This study finds evidence of a statistically significant relationship between output and unemployment in Malta, though relatively weaker when compared to other EU countries. The unemployment-output relationship was found to have changed over the years, but not by significant proportions, and in general, it tends to be more responsive during contractionary periods than expansionary periods. This research points towards several policy implications concerning fiscal policy and supply-side policies, which are discussed at the end of the Chapter.

The second thematic chapter involves an analysis of real unit labour costs, labour productivity and price developments in Malta. Over the past two decades, a strategic reallocation of resources towards higher-productivity sectors, notably in the tertiary sector, has been central to Malta's economic transformation. The analysis shows improvements in Malta's price competitiveness in certain sectors. While some industries, such as manufacturing, face hurdles due to higher unit labour costs compared to their peers in the Euro Area, other sectors like the arts, entertainment, and recreation sector, including online gaming, showcase Malta's competitive advantage. The report emphasizes the need for strategic investments in technology, human capital, and innovation to enhance Malta's competitiveness. A general improvement in profitability is also noted, particularly within the tertiary sector, and the report highlights the importance of investing excess profits in labour productivity aims to ensure a sustainable post-pandemic economy.

The last thematic chapter delves into the fiscal revenue model developed by the MFAC in 2023, which enables the Council to produce forecasts for government revenue components. The model also enhances the institution's risk assessment capabilities, facilitates counterfactual assessments, and provides the possibility to conduct scenario analyses. This chapter offers a detailed explanation of the foundations of the model and the methodological framework adopted by the MFAC to compute both historical and forecast revenue elasticity estimates to subsequently produce its own revenue projections. Additionally, the Chapter provides a summary of the projections from the two forecast rounds conducted in 2023, highlighting the identified risks vis-à-vis the projections for government revenue published by the Ministry for Finance. Evaluation of the model's functionality is conducted through simulation exercises. Conclusively, the Chapter delineates the model's limitations, encapsulates the insights gained and summarises the importance of developing such a revenue forecasting model for informed fiscal policy recommendations.

The Annual Report for 2023, including the audited financial statements, is available on the website of the MFAC: <http://www.mfac.org.mt>.

26 ta' Marzu 2024

## STQARRIJA GĦALL-ISTAMPA

### Il-Kunsill Fiskali Konsultattiv Malti jippubblika r-Rapport Annwali tiegħu għall-2023

Il-Kunsill Fiskali Konsultattiv Malti (MFAC) ippubblika r-Rapport Annwali tiegħu għall-2023, li tressaq fil-Parlament fil-25 ta' Marzu 2024.

Fl-istqarrija tagħha, iċ-Chairperson stqarret li minkejja l-isfidi globali li baqgħu jippersistu matul is-sena li għaddiet, ix-xenarju ekonomiku ta' Malta baqa' reżiljenti u ġie rreġistrat tkabbir ekonomiku robust, ikkaratterizzat minn ambjent ta' impjieg b'saħħtu b'rati baxxi ta' qgħad, u iktar attivita' fis-suq tax-xogħol. Il-politika fiskali eżerċitata fis-snin preċedenti, li marret kontra ċ-ċiklu ekonomiku, wasslet għal proporzjon ta' defiċit fiskali li qabeż il-livell referenzjarju ta' 3% u huwa mistenni li jkun leħaq il-5.0% tal-PDG fl-2023. Min-naħa l-oħra, minkejja ż-żieda notevoli fid-dejn tal-gvern, il-tbassir jindika li l-proporzjon tad-dejn mal-PDG se jibqa' taħt il-livell limitu tas-60% fl-2023.

Għas-snin li ġejjin, it-twaqqif reċenti tal-klawżola liberatorja ġenerali tal-UE jenfasizza l-importanza ta' maniġġjar fiskali iktar prudenti. Fl-istess ħin, il-qafas ta' governanza ekonomika tal-UE qed jiġi riformat, bi ftehim interistituzzjonali proviżorju li ntlahaq fi Frar 2024. Ir-riforma se tintroduċi regoli u obbligi fiskali ġodda. Filwaqt li l-valur referenzjarju tad-defiċit mal-PDG ta' 3% u l-valur referenzjarju tad-dejn mal-PDG tas-60% se jinżammu, l-enfasi fi ħdan il-qafas il-ġdid se jkun fuq is-sostenibbiltà tad-dejn. Dan se jinvolvi bidla għal iktar enfasi fuq il-kontroll tan-nefqa tal-Gvern, b'trajettorji ta' nfiq li jiddependu fuq l-andamenti speċifiċi ta' kull pajjiż. Fl-istess ħin, se jkun hemm sforz konġunt biex jissaħħu r-riformi strutturali u l-investimenti pubbliċi sabiex titrawwem iktar sostenibbiltà u tkabbir ekonomiku.

Matul il-pubblikazzjonijiet tas-sena l-oħra, l-MFAC ippropona diversi rakkomandazzjonijiet lill-Gvern. B'mod partikolari, fir-rigward tal-andament ekonomiku ta' Malta, l-MFAC enfasizza l-importanza li tissaħħaħ il-kompetittività internazzjonali ta' Malta, li jiġi promoss tkabbir immexxi mill-esportazzjoni, u li tiġi salvagwardjata n-nefqa kapitali pubblika li tkun produttiva. Dan jinvolvi li jiġi prijorizzat it-titjib fil-produttività tax-xogħol innifsu, u b'hekk tiġi xprunata l-kompetittività, jitnaqqsu d-diskrepanzi fil-ħiliet u sseħħ it-tranzizzjoni lejn id-diġitalizzazzjoni u prattiċi tan-negozji iktar ambjentali u sostenibbli. Barra minn hekk, fl-isfond tal-irkupru ekonomiku li għaddej, il-Kunsill enfasizza li huwa essenzjali wkoll li nibdew nibnu mill-ġdid riservi fiskali biex insaħħu r-reżiljenza fiskali ta' Malta. Ġie rakkomandat ukoll li l-Gvern għandu jevita li jżid l-infiq u għandhom jiġu esplorati mezzi biex dan jittrażżan, sabiex jiġi żgurat

li jinkiseb l-isforz fiskali minimu li huwa meħtieġ u rekwiżit. Mil-lat tad-dhul, il-Kunsill inkoraġġixxa lill-Gvern biex ikompli jkiseb livelli ogħla ta' ġbir fl-arretrati tad-dhul tiegħu. Fl-aħħar nett, dwar il-politika tal-prezzijiet fissi tal-enerġija, l-MFAC kien irrakkomanda t-tnejn ta' strateġija adegwata biex jibda jitwaqqaf dan l-infiq, li dawn is-sussidji ikunu iktar immirati u li jitjiebu l-inċentivi sabiex jiġi ffrankat l-użu tal-enerġija.

Ir-Rapport Annwali jinkludi tliet kapitoli tematiċi. L-ewwel kapitolu jippreżenta stimi empiriċi tar-rabta bejn dak li jiġi pproduċut u r-rata tal-qgħad f'Malta. Dan l-istudju jsib evidenza ta' relazzjoni statistikament sinifikanti bejn dak li jiġi pproduċut u l-qgħad f'Malta, għalkemm relattivament din hi aktar dgħajfa meta mqabbla ma' pajjiżi oħra tal-UE. Instab li r-relazzjoni bejn il-qgħad u l-produzzjoni inbidlet matul is-snin iżda mhux bi proporzjonijiet sinifikanti, u b'mod ġenerali, għandha t-tendenza li tirreaġixxi aktar matul perjodi kajmana minn perjodi ta' tkabbir b'produzzjoni b'saħħitha. Din ir-riċerka tindika diversi implikazzjonijiet għall-politika fiskali u għall-politika min-naħa tas-*supply*, diskussi fl-aħħar tal-Kapitolu.

It-tieni kapitolu tematiku jinvolvi analiżi tal-ispejjeż ta' kull unità (impjeg) tax-xogħol, il-produttività tax-xogħol u l-iżviluppi fil-prezzijiet f'Malta. Matul dawn l-aħħar għoxrin sena, r-riallokazzjoni strateġika tar-riżorsi lejn setturi ta' produttività ogħla, b'mod partikolari fis-settur terziarju, kienet ċentrali għat-trasformazzjoni ekonomika ta' Malta. L-analiżi turi titjib fil-kompetittività tal-prezzijiet ta' Malta f'ċerti setturi. Filwaqt li xi industrij, bħall-manifattura, jiffaċċjaw ostakli minhabba l-ispejjeż ta' unità ta' impjeg ogħla meta mqabbla mal-pari tagħhom fiż-Żona tal-Euro, setturi oħra bħas-settur tal-arti, id-divertiment u r-rikreazzjoni, inkluż il-logħob online, juru l-vantaġġ kompetittiv ta' Malta. Ir-rapport jenfasizza l-ħtieġa għal investimenti strateġiċi fit-teknoloġija, il-kapital uman, u l-innovazzjoni biex tissaħħaħ il-kompetittività ta' Malta. Ġie nnutat ukoll titjib ġenerali fil-profittabbiltà, b'mod partikolari fis-settur terziarju. Ir-rapport jenfasizza l-importanza li profitti eċċessivi jiġu investiti fil-produttività tax-xogħol biex tiġi żgurata li wara l-perjodu ta' pandemija l-ekonomija tibqa sostenibbli.

L-aħħar kapitolu tematiku jiddeskrivi l-mudell tal-introjt (dhul) fiskali żviluppat mill-MFAC fl-2023, li jippermetti li l-Kunsill jipproduċi tbassir għall-komponenti tad-dhul tal-gvern. Il-mudell isaħħaħ il-valutazzjonijiet ta' riskji fiskali minn naħa tal-istituzzjoni, jiffaċilita iktar evalwazzjonijiet kontrofattwali u jipprovdni l-possibbiltà li jitwettqu analiżi ta' xenarji partikolari. Dan il-kapitolu joffri spjegazzjoni dettaljata tal-pedamenti tal-mudell u l-qafas metodoloġiku adottat mill-MFAC biex jiġu kkalkolati l-istimi tal-elastiċità tad-dhul, kemm dawk tal-passat kif ukoll dawk imbassar, biex eventwalment jiġu mħejjija t-tbassir tal-dhul fiskali. Barra minn hekk, il-Kapitolu jipprovdni sommarju taż-żewġ drabi li sar it-tbassir permezz tal-mudell fl-2023, fejn jintwerew r-riskji identifikati għad-dhul tal-gvern meta mqabbla ma dawk ippubblikati mill-Ministeru għall-Finanzi. L-evalwazzjoni tat-tħaddim tal-mudell titwettaq permezz ta' eżerċizzji ta' simulazzjoni. Fil-konklużjoni jingħataw l-limitazzjonijiet tal-mudell, u jinġabar fil-qosor l-importanza li jiġi żviluppat mudell ta' tbassir tad-dhul bħal dan għal rakkomandazzjonijiet infurmati dwar il-politika fiskali.

Ir-Rapport Annwali għall-2023, inklużi r-rapporti finanzjarji awditjati, huwa disponibbli fuq is-sit elettroniku tal-MFAC: <http://www.mfac.org.mt>.