BOX C: MFAC'S FISCAL REVENUE FORECASTS

The MFAC uses a fiscal model that is based on the standard ESA 2010 framework. This model allows for a detailed examination of the core components of government tax revenue: taxes on production and imports, current taxes on income and wealth, and social security contributions. These three revenue components account for more than four-fifths of total government revenue. The analysis was carried out at the sub-component level, thus, the individual elements contributing to the total revenue were examined. Through this model, the Council can gain a more nuanced understanding of the tax base, and the sensitivity of revenue components to shifts in the tax base and refine its risk assessment capabilities.

Revenue collection is driven by two main elements: the tax base and discretionary fiscal policy. Tax revenue elasticity focuses on the former, as it involves the estimated impact of the macroeconomic environment on revenue, assuming fiscal policy remains unchanged. By using this model, a relationship between revenue collected and its respective tax base can be deduced.

Table 1C: MFAC's Elasticity Estimates for the Main Revenue Components assuming the same macroeconomic projections of MFE [33]

	2022	2023	2024
Taxes on production and imports	0.4[34]	0.8	0.9
Current taxes on income and wealth	0.7	1.2	1.1
Net Social Security Contributions	0.8	0.8	0.9

Source: MFAC Estimates

Using the above elasticity estimates, the Council considered two scenarios. The first scenario maintains the macroeconomic projections provided by the MFE. In this case, the MFAC employs its model-driven elasticities and produces a forecast of tax revenue, so that variances are attributed solely to different tax elasticities. In this scenario, the MFAC assesses an element of upside risk in 2023 in the total fiscal revenue projection as presented by MFE of €8.8 million, but a downside risk to the total fiscal revenue projection for 2024 of €46.1 million. Notably, the MFAC projects lower fiscal revenue from indirect taxes but higher revenue from direct taxes. Differences in net social security contributions receivables projections differ marginally.

[33] The elasticity provided here is worked on a synthetic tax base.

[34] If nominal GDP is used as the tax base, the elasticity estimate for 2022 would increase to 1.1.

Table 2C: MFAC Projections Assuming the same Macroeconomic Projections from the MFE (EUR millions) [35]

	2023			2024			2024 - Incremental Risk
	MFE	**MFAC**	**MFE-MFAC**	**MFE**	**MFAC**	**MFE-MFAC**	
Taxes on production and imports	1,981.4	1,928.4	53.0	2,161.1	2,041.4	119.7	66.7
of which Value Added Taxes	1,315.0	1,298.7	16.3	1,450.0	1,382.3	67.7	51.4
Current taxes on income and wealth	2,483.7	2,538.8	(55.1)	2,636.2	2,713.4	(77.2)	(22.1)
of which taxes on individual or household income including holding gains	N/A	1,656.1		N/A	1,849.7		
of which Taxes on the Income or profits of Corporations including Holding Gains	N/A	779.8		N/A	790.8		
Net Social Security Contributions	1,046.9	1,053.6	(6.7)	1,124.4	1,120.8	3.6	10.3
Downside / (Upside) on Government Revenue			**(8.8)**			**46.1**	**54.9**

Source: MFE, MFAC Estimates

The second scenario incorporates changes in the macroeconomic projections based on the expert judgment of MFAC, reflecting the macroeconomic risks highlighted earlier in the Report. The MFAC considers various factors, such as changes in global economic conditions, domestic policies, emerging trends, and other relevant factors that may impact the baseline macroeconomic outlook of the MFE. By introducing changes to the macroeconomic projections in the second scenario, the MFAC aims to provide a more encompassing risk assessment of the revenue outcomes. This approach allows the Council to incorporate its expert judgment and insights into the forecasting process, which can be particularly valuable in situations where the Council identifies significant deviations or risks compared to the macroeconomic projections.

The projections derived from this scenario convey positively for the government's total revenue for 2023 by around €128.9 million, as an upside risk in all the primary revenue components is identified, save for taxes on production and imports. Similarly, when incorporating the possible macroeconomic risks for 2024, and 2023 base effects, the MFAC assesses an upside risk to the total fiscal revenue projection of €102.0 million. However, when removing the €128.9 million base effect, the

[35] A negative balance in Tables 2C and 3C reflects an upside risk (green) to the projections by the MFE, whilst a positive balance indicates a downside risk (red).

incremental risk in 2024 turns on the downside, amounting to €26.9 million, derived from taxes on production and imports and, to a lesser extent, from social contributions.

Table 3C: MFAC Projections incorporating changes in Macroeconomic Projections based on Expert Judgement (EUR millions) [0]

	2023			2024			2024 - Incremental Risk
	MFE	MFAC	MFE-MFAC	MFE	MFAC	MFE-MFAC	
Taxes on production and imports	1,981.4	1,956.5	24.9	2,161.1	2,083.3	77.8	52.9
of which Value Added Taxes	1,315.0	1,321.4	(6.4)	1,450.0	1,418.6	31.4	37.8
Current taxes on income and wealth	2,483.7	2,613.2	(129.5)	2,636.2	2,800.8	(164.6)	(35.1)
of which taxes on individual or household income including holding gains	N/A	1,715.9	N/A	N/A	1,915.5		
of which Taxes on the Income or profits of Corporations including Holding Gains	N/A	793.9		N/A	812.1		
Net Social Security Contributions	1,046.9	1,071.2	(24.3)	1,124.4	1,139.6	(15.2)	9.1
Downside / (Upside) on Government Revenue			**(128.9)**			**(102.0)**	**26.9**

Source: MFE, MFAC Estimates

29. **Although decelerating, growth in taxes on production and imports is still projected to be strong throughout the forecast years, close to 10%. The synthetic elasticity is projected to increase progressively from its low value in 2022, turning elastic in 2024 according to the MFE.** In 2023, indirect taxes are forecasted to increase by €192.0 million, followed by a €179.8 million increase in 2024. The deceleration in growth in 2023 to 10.7%, from 14.1% in 2022, follows similar developments in private consumption expenditure and tourism earnings which act as proxy bases. Although remaining below unitary, the elasticity in 2023 is higher than the low elasticity experienced in 2022. On the other hand, in 2024, the higher growth in indirect taxes compared to the proxy bases indicates an elasticity greater than unitary. Particularly, the MFE is envisaging a relatively high elasticity for Value-Added Taxation (VAT). This also reflects an assumed improvement in tax collection efficiency. Such higher elasticities for 2024 have contributed to the upward revision of €125.4 million, in absolute terms, compared