

Key messages:

- Macroeconomic conditions are expected to remain benign; real GDP growth gradually easing from 5.0% in 2016 to 3.4% in 2020.
- The MTO of a balanced budget (in structural terms) by 2019 was achieved in 2016, with a surplus of 1.0% of GDP.
- The Medium Term Fiscal Strategy aims to maintain a stable yearly surplus for General Government, equivalent to 0.5% of GDP, between 2017 and 2020.
- Gross debt dropped to 58.3% of GDP in 2016, and is expected to maintain its downward trend to reach 47.6% of GDP by 2020.
- In 2016 there was full compliance with the SGP requirements.
- Risks to the fiscal balance for the period 2017-2020 are neutral, with upside revenue and expenditure risks compensating each other.

Macroeconomic outlook

After the exceptional growth rates recorded between 2014 and 2016 period, real GDP is projected to grow by 4.3% in 2017 and ease gradually, to 3.4% by 2020. Domestic demand is expected to drive GDP growth in 2017 and 2019, while net exports will be the main source of growth in 2018 and 2020.

Short-term fiscal outlook

The Government is projecting a fiscal surplus of 0.5% of GDP in 2017, following the surplus of 1.0% of GDP in 2016. The MFAC's assessment is that for 2017 there is an overall upside risk for both total revenue and total expenditure. The MFAC considers these upside risks to be of a similar magnitude, resulting in neutral risk in relation to the fiscal balance.

Medium-term fiscal outlook

The surplus in the General Government balance for years 2018 to 2020 is expected to be maintained at 0.5% of GDP. From 2.7% of potential output in 2015, the output gap is projected to close off by 2018 and to swing to a marginally below potential level of activity for the outer two years (Chart 1). Both the revenue and expenditure ratios are projected to experience a downward trend (Chart 2). Overall, the MFAC's assessment points to a neutral risk to the fiscal balance over these years, with upside risks to both revenues and expenditures (see box below). Gross debt is planned to decline to 47.6% of GDP by 2020 (Chart 3).

Summary of risks to the revenue and expenditure projections

	2017	2018	2019	2020
Risks to the revenue projections				
Taxes on production and imports	↑	↑	↑	↑
Current taxes on income and wealth	↑	↑	↑	↑
Capital taxes	↔	↔	↔	↔
Social contributions	↔	↔	↔	↔
Property income	↓	↓	↓	↓
Other revenue	↔	↔	↔	↔
Total revenue	↑	↑	↑	↑
Risks to the expenditure projections				
Compensation of employees	↔	↑	↑	↑
Intermediate consumption	↑	↑	↑	↑
Social benefits	↔	↔	↔	↔
Interest expenditure	↔	↔	↔	↔
Subsidies	↑	↔	↔	↔
Gross fixed capital formation	↔	↔	↔	↔
Capital transfers payable	↔	↔	↔	↔
Other expenditure	↔	↓	↓	↓
Total expenditure	↑	↑	↑	↑
RISKS TO THE FISCAL BALANCE	↔	↔	↔	↔

Fiscal framework and national fiscal rules

The MFAC invites the Government to adhere closely to the fiscal plans as outlined in the USP 2017 - 2020, since any significant departure (following the general elections which were held on 3 June 2017) could pose risks to the attainment of the fiscal surplus and debt targets. The planned annual fiscal surplus sustains the fulfilment of the MTO and contributes to maintain the public debt ratio below the 60% threshold. The expenditure benchmark is not binding since the country has achieved its MTO.

Key indicators

		2015	2016	2017 f	2018 f	2019 f	2020 f
Real GDP growth rate - MoF est.	[% y-to-y]	7.4	5.0	4.3	3.7	3.5	3.4
Real GDP growth rate - ECFIN est.	[% y-to-y]	7.4	5.0	4.6	4.4	-	-
Output Gap- MoF est.	[% of P.GDP]	2.7	2.0	1.0	0.0	-0.4	-0.4
Output Gap- ECFIN est.	[% of P.GDP]	2.6	1.6	0.6	0.2	-	-
GG balance - MoF est.	[% of GDP]	-1.3	1.0	0.5	0.5	0.5	0.5
GG balance - ECFIN est.	[% of GDP]	-1.3	1.0	0.5	0.8	-	-
GG debt - MoF est.	[% of GDP]	60.6	58.3	55.9	52.5	50.0	47.6
GG debt - ECFIN est.	[% of GDP]	60.6	58.3	55.8	52.5	-	-
GG structural balance - MOF est.	[% of P.GDP]	-2.6	0.2	0.2	0.5	0.6	0.6
GG structural balance - ECFIN est.	[% of P.GDP]	-2.6	0.4	0.4	0.7	-	-

Chart 1: Developments in the Structural Balance 2016 - 2020

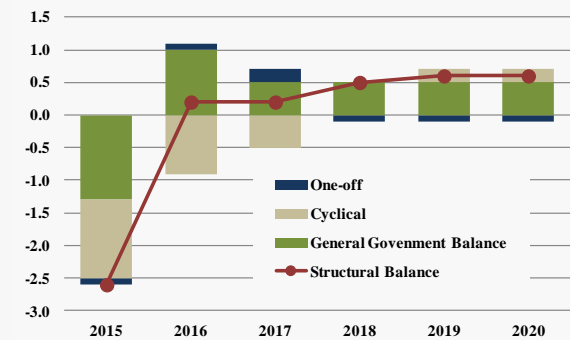


Chart 2: Revenue, Expenditure and General Government Balance (% of GDP)

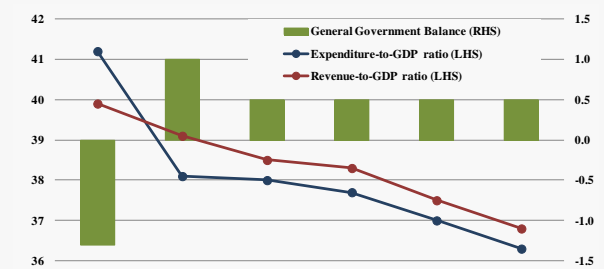
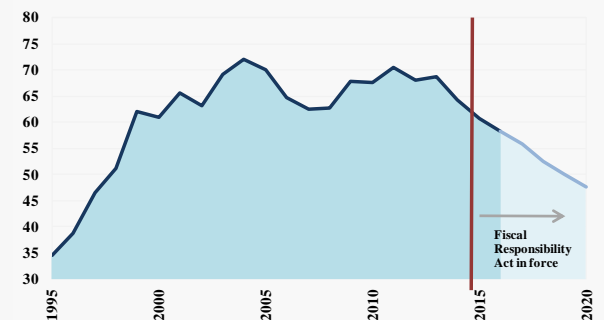


Chart 3: Debt-to-GDP ratio (% of GDP)



Sources: Medium-Term Fiscal Strategy Malta: Update of Stability Programme 2017-2020

European Commission Spring 2017 Forecast;

MFAC: Macroeconomic, Fiscal and Overall Assessments of the Update of Stability Programme for Malta 2017-2020

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