

Key messages:

- The buoyant economic performance observed in recent years is expected to be sustained over 2017 and 2018
- Following the fiscal surplus of 1.1% of GDP in 2016, further surpluses are anticipated for 2017 and 2018
- The gross debt-to-GDP ratio is projected to continue declining and to reach 50.8% by 2018
- Full compliance with the European fiscal rules is expected for 2017 while ‘broad compliance’ is anticipated for 2018
- The MFAC endorsed the Government’s forecasts, noting upside risks to the fiscal balance for both 2017 and 2018

Macroeconomic outlook

The rate of GDP growth in real terms in 2017 is anticipated to accelerate to 5.9% from 5.5% in 2016. In 2018, real growth is expected to remain buoyant, at 5.6% albeit marginally lower than in 2017. The external balance is set to be the sole driver of growth in 2017, whilst domestic demand is expected to contribute more towards growth in 2018 (see chart 1). Employment growth over 2017 and 2018 is on average expected to be 3.9% and the unemployment rate is set to decline from 4.7% in 2016 to 4.1% in 2017 and to 4.2% in 2018. Inflation is expected to gradually accelerate to 1.5% in 2018.

Short-term fiscal outlook

The latest official statistics published by the National Statistics Office (NSO) show that in 2016, a fiscal surplus equivalent to 1.1% of nominal GDP was achieved (see chart 2). For 2017, the Government is targeting a fiscal surplus of 0.8% of GDP and a public debt-to-GDP ratio of 54.9%. In 2018, the fiscal surplus is then expected to narrow slightly, to 0.5% of GDP, and the public debt ratio to fall further, to 50.8% of GDP (See Chart 2 & 3). These developments are expected to take place against a background of a stable small positive output gap, estimated at 0.8% of potential output throughout 2017 and 2018. Overall, the MFAC’s assessment points to an upside risk to the fiscal balance over both 2017 and 2018, with upside risk to total revenue and downside risk to total expenditure (see box below).

Summary of risks to the revenue and expenditure projections

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

Fiscal framework and national fiscal rules

The fiscal plans and the anticipated macroeconomic conditions should safeguard Malta’s Medium-Term Budgetary Objective of structural balance over the forecast horizon. However, prudent fiscal policy requires that during the current relatively benign conditions, the focus should be on building buffers against possible worse times and future liabilities, particularly in view of the anticipated higher age-related costs facing Malta in the longer term. The expenditure benchmark is not binding in 2017 since Malta has over-achieved its MTO in 2016. For 2018, expenditure developments point towards the risk of a possible deviation from the expenditure benchmark.

Key indicator forecast

		2015	2016	2017 f	2018 f	Source
Real GDP growth rate – MoF est.	[% y-to-y]	7.1	5.5	5.9	5.6	1
Real GDP growth rate – ECFIN est.	[% y-to-y]	7.1	5.5	5.6	4.9	2
Output Gap – MoF est.	[% of P.GDP]	2.3	0.9	0.8	0.8	1
Output Gap – ECFIN est.	[% of P.GDP]	2.0	1.0	1.1	0.8	2
GG balance – MoF est.	[% of GDP]	-1.1	1.1	0.8	0.5	1
GG balance – ECFIN est.	[% of GDP]	-1.1	1.1	0.9	0.5	2
GG debt - MoF est.	[% of GDP]	60.3	57.6	54.9	50.8	1
GG debt - ECFIN est.	[% of GDP]	60.3	57.6	54.9	51.6	2
GG structural balance - MoF est.	[% of P.GDP]	-2.1	0.8	0.6	0.0	1
GG structural balance - ECFIN est.	[% of P.GDP]	-2.1	0.8	0.6	0.1	2

Chart 1: Contributions to real GDP growth

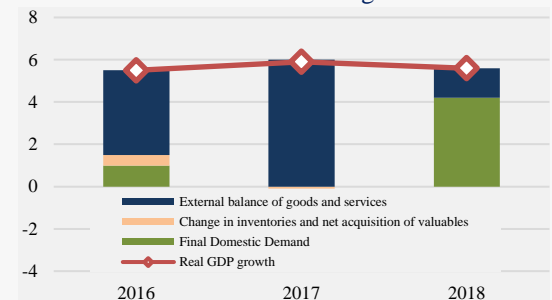


Chart 2: Revenue, Expenditure and General Government Balance (% of GDP)

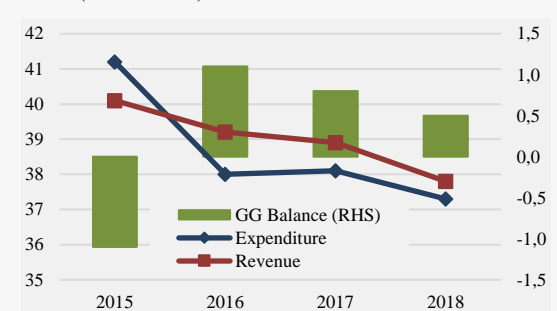
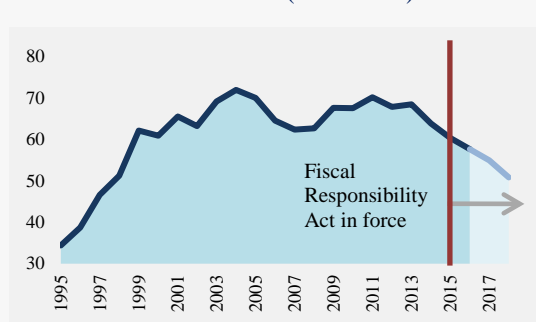


Chart 3: Debt-to-GDP ratio (% of GDP)



Sources:

1 - Malta: Draft Budgetary Plan 2018, Ministry for Finance

2 - European Commission Autumn 2017 forecasts

3 - Macroeconomic, Fiscal and Overall Assessment of the Draft Budgetary Plan for Malta 2018