

Key messages:

- Real GDP growth is expected to remain strong, but to decelerate gradually from 6.6% in 2018, to 5.0% in 2022.
- The country is expected to continue over-achieving its MTO of structural balance.
- The debt-to-GDP ratio is projected to continue falling, from 46.0% in 2018, to reach 33.2% of GDP in 2022.
- The fiscal rules were met in 2018 and are expected to be fully complied with throughout the period 2019 to 2022.
- The MFAC considers the updated macroeconomic and fiscal forecasts to lie within its endorsable range.

Macroeconomic outlook

In 2019, real GDP growth is forecast at 6.2%, easing from 6.6% recorded in 2018. Growth is expected to remain strong, but to gradually ease to 5.0% in 2022. Such growth is supported by buoyant labour market conditions. During the forecast horizon, the output gap is expected to close off and turn slightly negative. Final domestic demand is expected to be the main driver of growth throughout the forecast horizon (see Chart 1). The MFAC endorsed the macroeconomic forecasts presented as part of the Update of Stability Programme 2019 - 2022. The Council considers that there is neutral risk to real GDP growth over the forecast years, as downside risks are deemed to be broadly offset by upside risks.

Short and medium-term fiscal outlook

The fiscal surplus, which in 2018 amounted to 2.0% of GDP, is set to narrow to 0.9% of GDP in 2019, and broadly stabilise around this level thereafter, specifically, 1.0% in 2020 and 1.1% in both 2021 and 2022 (see Chart 2). Except for 2019, both revenue and expenditure, are projected to decline as a percentage of GDP. The assessment carried out on the individual revenue and expenditure components, suggests possible upside risks for the fiscal balance in 2019, as revenue may exceed the target whilst expenditure may turn out less than projected. For the period 2020 to 2022, risks offset each other.

Summary of risks to the macroeconomic and fiscal forecasts

Risks to the macroeconomic forecasts	2019	2020	2021	2022
Private final consumption expenditure	↔	↑	↑	↑
General government final consumption expenditure	↔	↑	↑	↑
Gross fixed capital formation	↓	↔	↔	↔
Exports of goods and services	↔	↓	↓	↓
Imports of goods and services	↓	↑	↑	↑
RISKS TO REAL GDP GROWTH	↔	↔	↔	↔
Risks to the fiscal forecasts	2019	2020	2021	2022
Taxes on production and imports	↑	↑	↑	↑
Current taxes on income and wealth	↔	↔	↔	↔
Social contributions	↔	↔	↔	↔
Other revenue	↔	↔	↔	↔
Total revenue	↑	↑	↑	↑
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

In 2018, there was full compliance with the fiscal rules which feature in the Stability and Growth Pact and the Fiscal Responsibility Act. The Government is targeting a structural surplus in each of the forecast years, amounting to 0.7% of potential output in 2019, and gradually rising to 1.4% in 2022. This would ensure that the MTO continues to be respected, as has been the case since 2016 (see Chart 2). The Government also plans to reduce the debt ratio further, to 33.2% of GDP by 2022 (see Chart 3). The materialisation of such plans, which the Council has already considered as plausible and within its endorsable range, would ensure that over the period 2019 to 2022 the fiscal rules would continue to be fully complied with.

Key indicator forecast

		2018	2019f	2020f	2021f	2022f	Source
Real GDP growth rate - MoF est.	[% y-to-y]	6.6	6.2	5.7	5.1	5.0	1
Real GDP growth rate - ECFIN est.	[% y-to-y]	6.6	5.5	4.8	-	-	2
Output Gap - MoF est.	[% of P.GDP]	0.7	0.4	-0.3	-0.5	-0.5	1
Output Gap - ECFIN est.	[% of P.GDP]	1.3	1.1	0.3	-	-	2
GG balance - MoF est.	[% of GDP]	2.0	0.9	1.0	1.1	1.1	1
GG balance - ECFIN est.	[% of GDP]	2.0	1.1	0.9	-	-	2
GG debt - MoF est.	[% of GDP]	46.0	42.7	39.4	36.2	33.2	1
GG debt - ECFIN est.	[% of GDP]	46.0	42.8	40.2	-	-	2
GG structural balance - MoF est.	[% of P.GDP]	1.6	0.7	1.1	1.3	1.4	1
GG structural balance - ECFIN est.	[% of P.GDP]	1.4	0.6	0.7	-	-	2

Chart 1: Contributions to real GDP growth (pp)

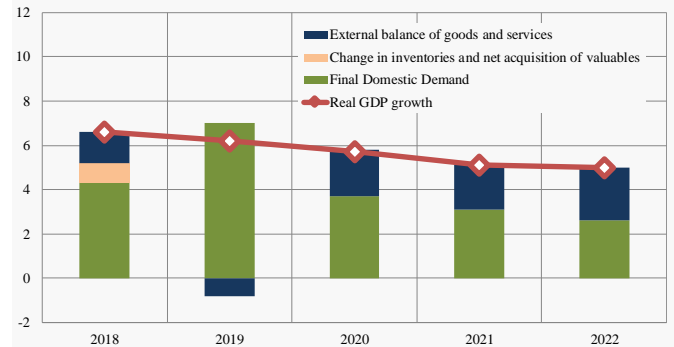


Chart 2: Revenue, expenditure and general government balance (% of GDP)

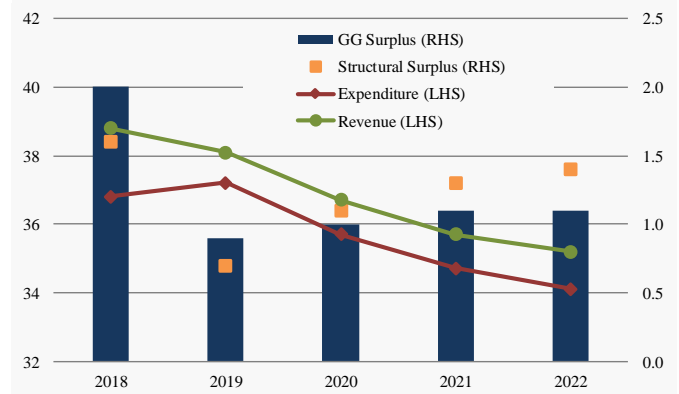
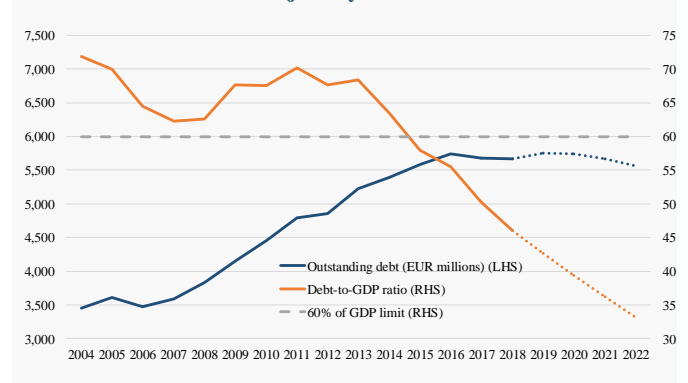


Chart 3: Public debt trajectory



Sources:

1 - Malta: Update of Stability Programme 2019 - 2022, Ministry for Finance

2 - European Commission Spring 2019 Forecast

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