

Key messages:

- Real GDP growth is expected to remain strong, but to decelerate gradually from 6.7% in 2017, to 5.8% in 2018 and 5.3% in 2019.
- The country is expected to continue over-achieving its MTO of structural balance.
- The debt-to-GDP ratio is projected to continue declining, to reach 43.8% of GDP in 2019.
- The fiscal rules are expected to be met in both 2018 and 2019.
- The updated macroeconomic and fiscal forecasts were both considered by the MFAC to lie within its endorsable range.

Macroeconomic outlook

In 2018, real GDP is expected to grow by 5.8%, easing from the 6.7% growth recorded in 2017. Real growth is expected to ease further in 2019, to 5.3%. Final domestic demand is expected to be the main driver of growth throughout the forecast horizon (see Chart 1). The macroeconomic forecasts presented in the Draft Budgetary Plan 2019 were endorsed by the MFAC. The Council views the possibility of a marginal downside risk to real GDP growth in 2018. This is spread across different expenditure components but is mitigated by the generally high import content. On the other hand, the risk outlook for 2019 is neutral, as the downside risk to exports is compensated for by the upside risk to government consumption and the downside risk to imports.

Short and medium-term fiscal outlook

The fiscal surplus, which in 2017 amounted to 3.5% of GDP, is anticipated to drop to 1.1% in 2018, and increase slightly, to 1.3%, in 2019 (See Chart 2). Revenue as a percentage of GDP is projected to decrease slightly over the forecast horizon. On the other hand, the expenditure-to-GDP ratio is expected to increase in 2018 and drop slightly in 2019 (but will remain above the ratio recorded in 2017). The Council considers the revenue forecasts as generally prudent with the possibility of upside risks in 2018, whereas the outlook for 2019 is neutral. In relation to the expenditure forecasts, there could be downside risks in 2018, but upside risks for 2019. Overall, there is the possibility of a larger fiscal surplus for 2018, while for 2019 the fiscal surplus could be less than planned.

Summary of risks to the macroeconomic and fiscal forecasts

	2018	2019
Risks to the macroeconomic forecasts		
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		
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

The structural balance is anticipated to drop from 3.1% of potential GDP in 2017 to 0.6% in 2018. It is then expected to increase to 1.2% in 2019. This would ensure that the MTO continues to be over-achieved (See Chart 2). These developments are projected to take place against a background of a small positive output gap, which by 2019 is expected to nearly close off. The Government plans to reduce the debt ratio further, to 43.8% of GDP by 2019, thus continuing to respect the debt rule (see Chart 3). The materialisation of these fiscal plans, which the Council has already considered as plausible and within its endorsable range, ensure that the fiscal rules that feature in the Stability and Growth Pact and the Fiscal Responsibility Act, continue to be complied with in both 2018 and 2019.

Key indicator forecast

		2016	2017	2018f	2019f	Source
Real GDP growth rate - MoF est.	[% y-to-y]	5.2	6.7	5.8	5.3	1
Real GDP growth rate - ECFIN est.	[% y-to-y]	5.2	6.7	5.4	4.9	2
Output Gap - MoF est.	[% of P.GDP]	1.4	1.3	0.9	0.1	1
Output Gap - ECFIN est.	[% of P.GDP]	1.6	1.5	0.9	0.4	2
GG balance - MoF est.	[% of GDP]	0.9	3.5	1.1	1.3	1
GG balance - ECFIN est.	[% of GDP]	0.9	3.5	1.3	1.2	2
GG debt - MoF est.	[% of GDP]	56.3	50.9	46.9	43.8	1
GG debt - ECFIN est.	[% of GDP]	56.3	50.9	47.9	44.8	2
GG structural balance - MoF est.	[% of P.GDP]	0.4	3.1	0.6	1.2	1
GG structural balance - ECFIN est.	[% of P.GDP]	0.3	3.1	0.9	0.9	2

Chart 1: Contributions to real GDP growth (pp)

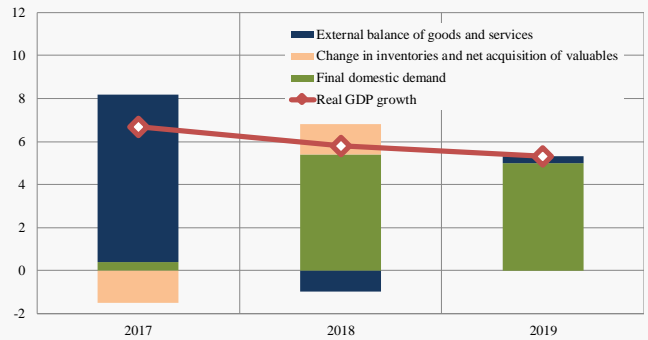


Chart 2: Revenue, expenditure and general government balance (% of GDP)

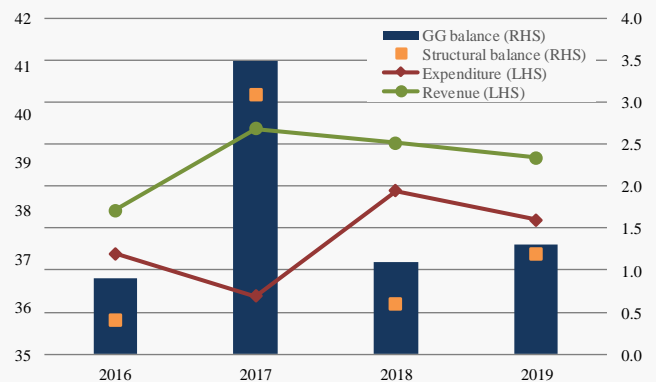
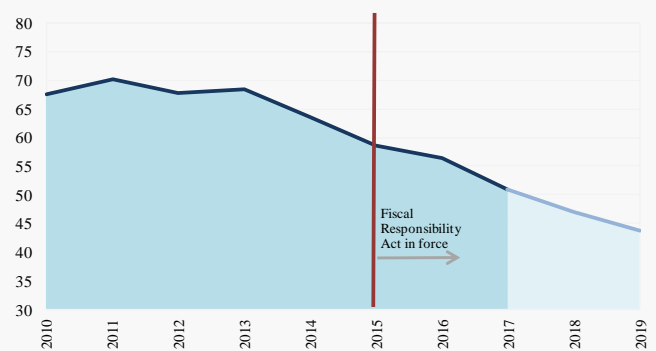


Chart 3: Debt-to-GDP ratio (% of GDP)



Sources:

1 - Malta: Draft Budgetary Plan 2019, Ministry for Finance

2 - European Commission Autumn 2018 Forecast

f - forecast