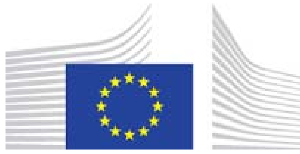


EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 23 May 2018

Assessment of the 2018 Stability Programme for Malta

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION 3
2. MACROECONOMIC DEVELOPMENTS 3
3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS 4
3.1. DEFICIT DEVELOPMENTS IN 2017 AND 2018 4
3.2. MEDIUM-TERM STRATEGY AND TARGETS 6
3.3. MEASURES UNDERPINNING THE PROGRAMME 9
3.4. DEBT DEVELOPMENTS 12
3.5. RISK ASSESSMENT 14
4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT 14
5. FISCAL SUSTAINABILITY 16
6. FISCAL FRAMEWORK 18
7. SUMMARY 19
8. ANNEXES 20

1. INTRODUCTION

On 30 April 2018, Malta submitted its 2018 Stability Programme (hereafter called Stability Programme), covering the period 2018-2021.

Malta is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective (MTO).

This document complements the Country Report published on 7 March and updates it with the information included in the Stability Programme.

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2018 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview of the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The Stability Programme projects real GDP growth to decline gradually over the forecast horizon from 6.6% in 2017 to 4.6% in 2021, as the rather buoyant growth in domestic demand is expected to normalise. Growth is projected to be driven by domestic demand as private consumption expenditure remains strong and investment is forecast to pick up. Following the contraction in 2017, which reflected the expiration of one-off large investment projects, investment is expected to pick-up and to continue growing in the following years of the programme horizon, reaching a peak in 2019. As a result, the rather buoyant growth in domestic demand anticipated in 2018 is expected to normalize in the forecast horizon. The macroeconomic projections underpinning the Stability Programme have been revised upwards compared to both the previous programme and the 2018 Draft Budgetary Plan reflecting the better-than-expected economic growth in 2017. Higher real GDP growth in 2018 and 2019 reflect stronger private consumption and investment, while the contribution of net exports has been significantly revised downward, especially for 2018.

The real GDP growth projection for both 2018 and 2019 is broadly in line with the Commission 2018 spring forecast (hereafter called Commission forecast). Namely, the growth projections for both 2018 and 2019 are slightly above the Commission forecast due to a higher contribution from net exports. The projections for the later years of the programme horizon are more favourable than those of the Commission's potential output growth estimates. The Stability Programme's growth composition in 2018 and 2019 is slightly less tax rich than the Commission forecast, in terms of direct taxes due to slightly low wage growth projections. The cyclical position of the economy was quite strong in 2017 as evidenced by the positive output gap, as recalculated by the Commission following the commonly agreed methodology. Thereafter, the recalculated output gap is estimated to close gradually. It is estimated to turn slightly negative in 2020 and to more largely negative in 2021. The recalculated output gap is broadly in line with the Commission forecast over the forecast horizon. Overall, the macroeconomic scenario underpinning the Stability Programme is plausible for 2018-2019 and favourable for 2020-2021.

The Stability Programme discusses the sensitivity of the underlying macroeconomic scenario to twelve alternative scenarios, including both upside and downside shocks to both the external environment (global economic growth, exchange rates and world prices), interest rate and to the medium-term investment in the country. Overall, the balance of risks seem tipped to the downside for the period 2018-2020 and to the upside for 2021. An analysis of the impact of the different scenarios on the budget balance indicates that under the most adverse scenario the budget balance would remain in surplus within the programme horizon. The Stability Programme's macroeconomic scenario does not include the macroeconomic impact of structural reforms, which is discussed and quantified in detail in the National Reform Programme.

Table 1: Comparison of macroeconomic developments and forecasts

	2017		2018		2019		2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	6.6	6.6	5.8	6.1	5.1	5.3	4.8	4.6
Private consumption (% change)	4.2	4.3	4.0	4.4	3.7	3.8	3.6	3.3
Gross fixed capital formation (% change)	-7.4	-7.4	4.3	4.2	7.2	10.0	2.6	6.3
Exports of goods and services (% change)	1.6	1.6	2.0	3.1	2.7	3.4	3.2	2.8
Imports of goods and services (% change)	-3.0	-3.0	2.3	2.9	2.5	2.8	1.6	2.1
Contributions to real GDP growth:								
- Final domestic demand	0.1	0.1	5.7	5.4	4.3	4.2	2.5	3.3
- Change in inventories	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	5.9	5.9	0.1	0.8	0.8	1.1	2.3	1.2
Output gap[1]	1.3	1.4	1.0	1.1	0.3	0.1	-0.1	-0.4
Employment (% change)	5.4	5.4	3.9	3.8	3.4	3.5	3.2	3.1
Unemployment rate (%)	4.0	4.0	4.0	3.8	4.0	3.9	4.0	4.0
Labour productivity (% change)	1.1	1.1	1.8	2.1	1.6	1.7	1.6	1.4
HICP inflation (%)	1.3	1.3	1.6	1.6	1.8	1.8	1.9	2.0
GDP deflator (% change)	2.3	2.3	2.0	2.2	2.1	2.2	1.9	2.0
Comp. of employees (per head, % change)	1.1	1.3	3.4	3.2	3.3	3.2	3.1	3.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	13.0	13.0	12.0	13.6	11.8	16.2	17.0	19.0

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2018 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2017 AND 2018

In 2017, the budgetary situation has improved massively. After a surplus of 1.0% of GDP in 2016, Malta achieved a surplus of 3.9% of GDP in 2017. This much better-than-expected outcome is explained by the high growth rate of current revenue. Tax revenue increased faster than nominal GDP. In particular, the strong growth rate in income tax revenues and social security contributions was due to both favourable labour market conditions and high corporate profits. Buoyancy in taxes on production and imports was supported by soaring private

consumption. In addition, higher-than-expected proceeds from the International Investor Programme (IIP) (2.6% of GDP) as well as higher revenue from other entities in the central government sector[1], in particular those related to the construction and the gaming sector, contributed to the fiscal surplus. Current expenditure continued to increase at a faster pace than in the previous year, despite the decrease in interest expenditure. The growth of current expenditure was driven by intermediate consumption, which included costs associated with Malta's presidency of the EU and health-related expenditure (i.e. the health concession agreement worth 0.3% of GDP, expenditure on medicines and surgical materials, the new provisions for cancer treatments and long-term care beds and increased outlays on residential care in private homes), public wages and social security expenditure. Finally, net capital expenditure decreased by 0.3 percentage point of GDP, despite an improvement in the absorption of EU funds.

The headline balance outturn for 2017 in the current Stability Programme was much better than the target set in both the previous programme and the 2018 Draft Budgetary Plan submitted in October 2017. These documents targeted a surplus of 0.5% and 0.8% of GDP respectively. Part of the difference is explained by stronger-than-expected nominal growth. As a result of the growth in corporate profits and the stronger labour market, income tax and social contribution turned higher than expected. Also indirect taxes were more buoyant than expected. The proceeds related to the IIP, which were estimated at 1.9% of GDP in the 2018 Draft Budgetary Plan, turned out 0.7 percentage point of GDP higher than expected, contributing substantially to the budgetary surplus. Finally, total expenditure was lower than expected, with lower capital expenditure more than compensating for the faster growth in current expenditure.

Malta's structural balance is estimated to have improved markedly (by 3.0 percentage points of GDP) in 2017, reflecting the improvement in the headline balance, while the output gap is estimated to have marginally increased to 1.3% of GDP in 2017 from 1.2% of GDP in 2016.

In 2018, the programme expects the headline surplus to decline to 1.1% of GDP. This is above the target (0.5% of GDP) set in both the 2018 Draft Budgetary Plan and the previous programme. This upward revision in the headline surplus is the result of both the better than expected budgetary outcome in 2017, and the upward revision in the macroeconomic conditions (with real GDP growth at 6.1% in the Stability Programme against 5.6% previously projected in the 2018 Draft Budgetary Plan).

In 2018, total current revenues as a share of GDP are expected to decrease by 2.0 percentage points. The drop is explained mainly by a reduction in the proceeds from the IIP, which are projected to scale down to 0.9% of GDP (from 2.6% of GDP in 2017). On the contrary, total current taxes are expected to remain constant in terms of GDP, increasing, in nominal terms, in line with nominal GDP. The slowdown in the growth rate of current taxes compared to the previous years is also due to the prudent elasticities underpinning the programme compared to the average of recent years. Current expenditure, in turn, is projected to decrease by 0.4 percentage point of GDP, compared to an increase of 0.2 percentage point of GDP reported in 2017. In fact, the increase in other current expenditure is more than compensated by a reduction in the other expenditure categories. Namely, interest expenditure, social transfers

[1] These entities are the Extra Budgetary Units, also termed public non-market units. They comprise institutional units under public control that are principally engaged in the production of goods and services not usually sold on a market and/or that are involved in the redistribution of national income and wealth.

(despite the measures introduced with the 2018 Budget), compensation of employees and intermediate consumption are expected to decrease overall by 0.7 percentage point of GDP. Capital expenditure net of the EU funds is set to increase by 1.3 percentage points due to the acceleration in the implementation of investment projects co-financed by the EU, some investment financed by the National Development and Social Fund (NDSF)[2] related to the IIP and a capital transfer to Air Malta related to the purchase of landing rights (worth 0.5% of GDP).

In structural terms, the recalculated structural balance in 2018 is estimated to deteriorate by 3.0 percentage points, but to remain above the MTO, reaching 0.5% of GDP. This reflects the decline of the headline surplus while the positive output gap is expected to decline.

The Commission forecast projects the 2018 general government surplus at 1.1% of GDP, in line with the authorities' target. However, there are some differences in the composition. Lower current taxes, mainly income taxes following also a lower elasticity used in the Commission forecast, are expected to be offset by lower public investment due to a slower implementation of investment projects both co-financed by the EU and financed by the National Development and Social Fund. In structural terms, the Commission projects the structural balance in 2018 to decline to 0.6% of GDP, but to remain above the MTO. The difference compared to the national plans is due to a marginally lower estimate of the output gap.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

Malta's Stability Programme aims at maintaining the general government balance in surplus at 0.9% of GDP in 2019-2020 and to increase to 1.6% of GDP in 2021. Thus, the debt-to-GDP ratio is expected to be brought down at a fast pace over the programme period. As a consequence, the recalculated structural balance is planned to remain above the medium-term objective (MTO) - a balanced budgetary position in structural terms- over the programme horizon. The MTO reflects the objectives of the Stability and Growth Pact.

The general government balance targets have been considerably modified in the latest Stability Programme compared to the previous programmes. In the past programme the plan was to maintain the general government balance in surplus at 0.5% of GDP in 2019-2020. Following the higher-than-expected fiscal outcome for 2017 and a better economic environment, the targets and the fiscal policy have been revised upward substantially. As a result, the Stability Programme targets the general government surplus to remain stable in 2019-2020 at 0.9% of GDP and to increase to 1.6% of GDP in 2021 (see Figure 1).

[2] The Individual Investment Programme was established by LN 47/2014. This scheme grants naturalization to foreign individuals and their dependants following substantial investment and a due diligence process. By virtue of LN 2/2015, which amends the Public Administration Act, a legal framework was provided for the funds received through the IIP applications, and managed by the National Development and Social Fund Agency as a separate legal entity. The National Development and Social Fund was established in 2015 and it is expected to receive 70% of the contributions paid by the applicants. According to the establishing act, the funds received by the National Development and Social Fund shall be used in the public interest inter alia for the advancement of education, research, innovation, social purposes, justice and the rule of law, employment initiatives, the environment and public health. However, the first investments of the NDSF was in banks equity (namely, 49% of the shares in Lombard Bank, which are currently held by the Cypriot Popular Bank Public Co. Ltd., and 10% shareholding in Bank of Valletta held by the Italian bank Unicredit).

In 2019, in line with the moderation of the macroeconomic conditions and prudent elasticities, current revenue is projected to decrease by 0.8 percentage point of GDP, with a mild decrease in the expected proceeds from the IIP (0.7 percentage point of GDP). Current expenditure is also expected to decrease, driven by compensation of employees, social spending and interest expenditure. Intermediate consumption, is expected to remain constant in terms of GDP while other current expenditure is expected to grow. Overall, current expenditure is expected to decrease by 0.7 percentage point of GDP in 2019. Finally, after the sharp increase in 2018, net capital expenditure is expected to decrease by around 0.1 percentage point of GDP. In particular, while public investment nationally financed is expected to continue growing, lower subsidies to investment (which were high in 2018 following the capital transfer to Air Malta) more than compensate for this increase.

When looking at the entire programme horizon, both the revenue and expenditure ratios are projected to decrease in terms of GDP. The current revenue ratio is planned to decline over the programme period as a result of the prudent elasticity assumptions and a slower projected growth in the tax base, in particular for indirect taxes, than nominal GDP in the outer years of the programme. The moderation in the proceeds coming from the IIP is expected to contribute to the decline in the current revenue ratio in the period 2017-2019, while a marginal increase in the outer years of the programme is envisaged. Current expenditure in terms of GDP is also planned to decrease, with compensation of employees, social spending and interest expenditure contributing the most to the reduction. Intermediate consumption is also set to decrease. After the increase in 2018 to 3.6% of GDP, net capital expenditure is projected to remain on average broadly stable in the following years, peaking at 3.7% of GDP in 2020 due to an increase in investment projects financed by the National Development and Social Fund.

The planned consolidation effort is underpinned by measures only for 2018. Details on the quantification of some specific measures are provided also for the period 2019-2021. Namely, on the revenue side, the Stability Programme quantifies the impact of the following measures: additional revenues related to the IIP, impact of the directive on electronic commerce on VAT, impact of the exemption and reduction of duty on documents for first time and second time buyers as well as for the acquisition of a property in Gozo. On the expenditure side, the Stability Programme includes the additional investment that are expected to be financed by the National Development and Social Fund and the impact of measures targeted at tapering social benefits (see Section 3.3).

No new additional measures are included in the Stability Programme for the years 2019-2021.

In structural terms, the recalculated structural balance for 2019 is estimated to remain in surplus and to reach 0.8% of GDP. The programme projects the (recalculated) structural surplus to remain stable in 2020 and to increase to 1.8% of GDP in 2021.

The general government balance seems to have been underestimated over time. This was mainly due to both a certaing degree of prudence applied by the Maltese authorities in their macroeconomic projections in the recent years and in the estimation of the expected revenues related to some budgetary measures (in particular the IIP). Also, the use of prudent revenue elasticities contributed somehow to the underestimation of the general government balance. Ex-post, economic growth turned out more robust and more tax-rich than initially envisaged, thus boosting tax revenue. According to the Stability Programme, the fiscal surplus is expected to reach higher levels compared to the previous programme (see Figure 1).

Table 2: Composition of the budgetary adjustment

(% of GDP)	2017	2018		2019		2020	2021	Change: 2017-2021
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**40.5**	**38.4**	**38.7**	**38.1**	**38.0**	**37.6**	**37.4**	**-3.1**
of which:								
- Taxes on production and imports	12.7	12.4	12.3	12.2	11.9	11.7	11.6	-1.1
- Current taxes on income, wealth, etc.	14.1	14.3	14.5	14.5	14.6	14.6	14.7	0.6
- Social contributions	6.3	6.3	6.3	6.2	6.2	6.1	6.0	-0.4
- Other (residual)	7.3	5.4	5.6	5.2	5.3	5.2	5.1	-2.2
Expenditure	**36.5**	**37.3**	**37.6**	**36.8**	**37.1**	**36.7**	**35.8**	**-0.7**
of which:								
- Primary expenditure	34.7	35.7	36.0	35.4	35.7	35.4	34.6	-0.1
of which:								
Compensation of employees	11.4	11.4	11.4	11.4	11.1	10.8	10.6	-0.9
Intermediate consumption	6.8	6.9	6.7	7.0	6.7	6.5	6.4	-0.4
Social payments	10.2	10.0	10.0	9.8	9.7	9.4	9.1	-1.2
Subsidies	1.2	1.2	1.2	1.2	1.2	1.2	1.1	-0.1
Gross fixed capital formation	2.2	2.7	3.0	3.0	3.3	3.5	3.4	1.2
Other (residual)	2.8	3.5	3.7	3.0	3.7	4.0	4.1	1.3
- Interest expenditure	1.9	1.6	1.6	1.5	1.4	1.3	1.2	-0.7
General government balance (GGB)	**3.9**	**1.1**	**1.1**	**1.3**	**0.9**	**0.9**	**1.6**	**-2.3**
Primary balance	**5.8**	**2.7**	**2.7**	**2.8**	**2.4**	**2.2**	**2.8**	**-3.0**
One-off and other temporary	-0.2	0.0	0.1	0.1	0.1	0.1	0.0	0.2
GGB excl. one-offs	**4.1**	**1.1**	**1.0**	**1.3**	**0.9**	**0.9**	**1.5**	**-2.6**
Output gap[1]	1.3	1.0	1.1	0.3	0.1	-0.1	-0.4	-1.7
Cyclically-adjusted balance[1]	3.3	0.7	0.6	1.2	0.9	1.0	1.8	-1.6
Structural balance[2]	**3.5**	**0.6**	**0.5**	**1.1**	**0.8**	**0.9**	**1.7**	**-1.8**
Structural primary balance[2]	5.4	2.3	2.1	2.6	2.3	2.2	2.9	-2.5

Notes:

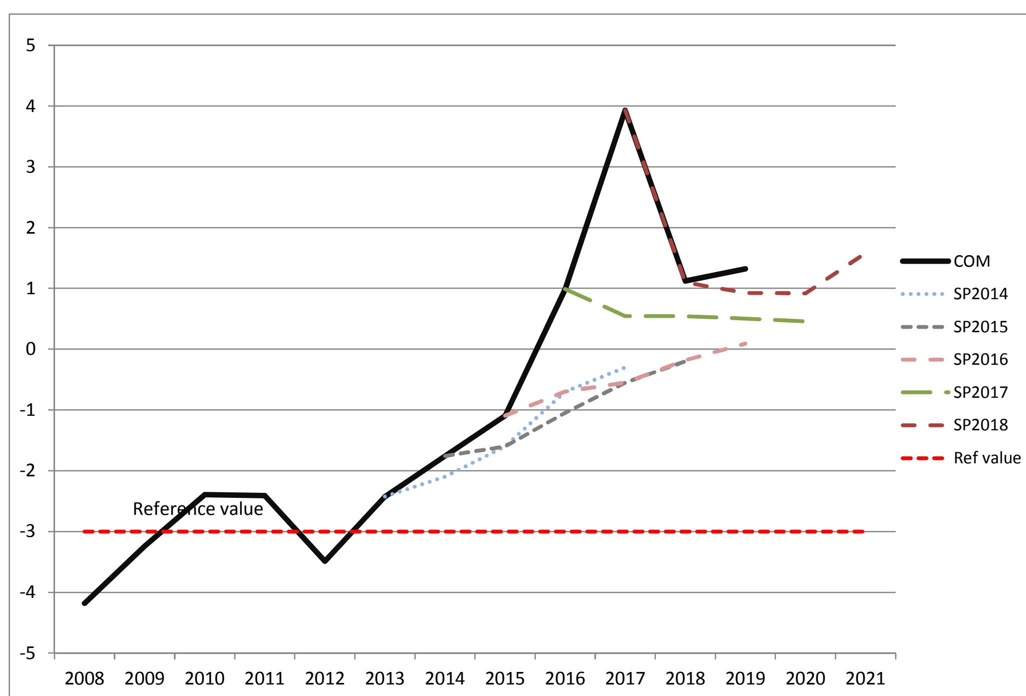
[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability Programme (SP); Commission 2018 spring forecasts (COM); Commission calculations.

Figure 1: Government balance projections in successive programmes (% of GDP)



Source: Commission 2018 spring forecast; Stability Programmes

3.3. MEASURES UNDERPINNING THE PROGRAMME

The measures underpinning the Stability Programme are those included in the 2018 budget presented to Parliament on 9 October 2017 and subsequently approved on 18 December 2017. On the revenue side, the measures are expected to decrease the headline surplus by 0.2% of GDP. These include, among other measures, the exemption and reduction of duty on documents for first time and second time buyers, for the acquisition of a property in Gozo; the introduction of VAT grouping for the financial services and gaming sectors (implying that supplies between members of the same VAT group will not trigger a VAT charge); the increase in the VAT exemption threshold for small and medium enterprises; a VAT refund on car registration tax to those who registered their vehicle in 2017; a reduced VAT (7%) on hiring of bicycles and the exemption from registration tax for electric and hybrid vehicles; a one-time income tax refund for employees earning less than EUR 60,000 per annum; an increase in the annual pension income not subject to tax; and a tax credit for persons attending a postgraduate course, allowing them not to pay any income tax for up to two years following the finalization of the course.

On the expenditure side, altogether, the budget measures are estimated to decrease the surplus by nearly 0.1% of GDP. The budget includes an increase in minimum retirement pensions by EUR 2 per week and several social measures i.e. an increase in the in-work benefit and in the community work scheme, an increase in service pensions by EUR 200 per year, an annual grant of €300 for persons over the age of 75 who still reside in their personal home, the reckoning of social security contributions paid after the payment of pensions, the extension of the disability allowance, an increase in the foster care allowance, and a grant for expenses incurred for adopting foreign children. In the area of property, the budget foresees a widening of the thresholds for subsidies to persons living in rented property (including special

thresholds for persons who are 65 years and over) and the launching of a scheme by the Housing Authority to offer financial assistance for the restoration of properties to be used as social housing.

Overall, the measures included in the 2018 budget are estimated to have a net deficit-increasing impact of around 0.3% of GDP, which is plausible.

In addition, the Stability Programme projects public investments financed by the National Development Social Fund at 0.3% of GDP in 2018 and 2019, increasing to 0.5% of GDP in 2020. It also includes the impact of the directive on electronic commerce, which is expected to permanently decrease VAT revenue by 0.1% of GDP starting from 2019. This is related to the e-gaming sector as the directive obliges VAT from electronic services to be paid to the country where the customer was resident.

The Stability Programme does not include any additional measure for the years beyond 2018.

Main budgetary measures (in % of GDP)

Revenue	**Expenditure**
2017	
• Increase in several excise duty rates and respective increase in VAT, and concessions on stamp duties on inheritance (0.2% of GDP) • Phasing-out of the eco-contribution (-0.1% of GDP) • Widening of the income tax rates (-0.1% of GDP) • International Investor Programme (2.6% of GDP)	• Tapering of benefits and Youth Guarantee (-0.1% of GDP) • Reduction in current expenditure (-0.1% of GDP) • Social measures (0.1% of GDP) • Compensation payments (0.1% of GDP) • Impact of 2006 pension reform initiatives (-0.2% of GDP)
2018	
• Increase in several excise duty rates and respective increase in VAT (0.1% of GDP) • Phasing-out of the eco-contribution (-0.1% of GDP) • Widening of the income tax rates (-0.1% of GDP) • International Investor Programme (0.9% of GDP)	• Tapering of benefits and Youth Guarantee (-0.2% of GDP) • Reduction in current expenditure (-0.1% of GDP) • Social measures (0.1% of GDP) • Increase in pensions (01.% of GDP) • Impact of 2006 pension reform initiatives (-0.3% of GDP) • Measures in the area of residential property (0.1% of GDP) • Use of the National Development Social Fund (NDSF) (0.3% of GDP) • Compensation payments (0.1% of GDP)

2019	
• Increase in several excise duty rates and respective increase in VAT (0.1% of GDP) • VAT directive on electronic commerce (-0.1% of GDP) • Phasing-out of the eco-contribution (-0.1% of GDP) • Widening of the income tax rates (-0.1% of GDP) • International Investor Programme (0.7% of GDP)	• Tapering of benefits and Youth Guarantee (-0.2% of GDP) • Reduction in current expenditure (-0.1% of GDP) • Social measures (0.1% of GDP) • Increase in pensions (01.% of GDP) • Impact of 2006 pension reform initiatives (-0.3% of GDP) • Measures in the area of residential property (0.1% of GDP) • Use of the NDSF (0.3% of GDP) • Compensation payments (0.1% of GDP)
2020	
• Increase in several excise duty rates and respective increase in VAT (0.1% of GDP) • VAT directive on electronic commerce (-0.1% of GDP) • Phasing-out of the eco-contribution (-0.1% of GDP) • Widening of the income tax rates (-0.1% of GDP) • International Investor Programme (0.8% of GDP)	• Tapering of benefits and Youth Guarantee (-0.2% of GDP) • Reduction in current expenditure (-0.1% of GDP) • Social measures (0.2% of GDP) • Increase in pensions (01.% of GDP) • Impact of 2006 pension reform initiatives (-0.3% of GDP) • Measures in the area of residential property (0.1% of GDP) • Use of the NDSF (0.7% of GDP) • Compensation payments (0.1% of GDP)
2021	
• Increase in several excise duty rates and respective increase in VAT (0.1% of GDP) • VAT directive on electronic commerce (-0.1% of GDP) • Phasing-out of the eco-contribution (-0.1% of GDP) • Widening of the income tax rates (-0.1% of GDP) • International Investor Programme (0.8% of GDP)	• Tapering of benefits and Youth Guarantee (-0.2% of GDP) • Reduction in current expenditure (-0.1% of GDP) • Social measures (0.2% of GDP) • Increase in pensions (01.% of GDP) • Impact of 2006 pension reform initiatives (-0.3% of GDP) • Measures in the area of residential property (0.1% of GDP) • Use of the NDSF (0.7% of GDP)

	• Compensation payments (0.1% of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

3.4. DEBT DEVELOPMENTS

The general government debt-to-GDP ratio decreased to 50.8% of GDP in 2017, from 56.2% of GDP in 2016, despite a high debt-increasing stock-flow adjustment (amounting to 3.2% of GDP). The sizeable stock-flow adjustment (3.2% of GDP) was related, among others, to the IIP revenues and equity acquisition related to Malta Development Bank, Bank of Valletta and Unicredit.

In the Stability Programme, the general government gross debt ratio is planned to decrease by 5.0% of GDP in 2018, reaching 45.8% of GDP, thanks to the projected positive primary surplus and the positive impact of nominal growth. In addition, the stock-flow adjustment is expected to have a slightly contractionary impact on the debt, due to lower expected IIP revenues and a negative balance in the sinking fund used to manage the debt.

The debt-to-GDP ratio is projected to decrease further over the programme period, to reach 35.6% in 2021. The stock-flow adjustment is projected to increase substantially in 2019 to 0.9% of GDP and to stabilize at 0.3% of GDP in 2020-2021. This is due mainly to the projected proceeds related to the IIP. Despite this, the projected increasing primary surplus, the acceleration of inflation, the positive (even if moderating) impact of real GDP growth, as well as the planned decrease in interest expenditure are sufficient to keep the debt ratio on a declining path.

Compared to the 2018 Draft Budgetary Plan, the debt-to-GDP ratio decreased faster in 2017, by 5.4 percentage points of GDP, compared to a planned decrease of 2.7 percentage points of GDP, given better-than-expected primary balance and strong nominal GDP growth. However, a precise comparison of debt-to-GDP ratios from different programmes is not possible due to the revisions to nominal and real GDP that occurred in the December 2017.

According to the Commission forecast, the debt ratio is projected to decrease further to 47.1% of GDP in 2018 and to 43.4% of GDP in 2019. The difference compared to the Stability Programme targets is due to the higher stock-flow adjustment in 2018 and the higher expected primary surplus in 2019 (on a no-policy-change basis). The lower nominal GDP growth projections in the Commission forecast has only a marginal impact in the debt decreasing snow-ball effect.

Compared to other Member States, the government guarantees provided on debt of non-government units, while decreasing over the last years, remains relatively high in Malta (at 9.6% of GDP in 2017). In the Stability Programme, these are expected to decrease further over the programme horizon, reaching 7.3% of GDP in 2021.

The general government debt-to-GDP ratio seems to have been overestimated over time. This was mainly due to upward data revisions to nominal GDP in the latest years, to the better-than expected economic growth and to the contribution of the better-than expected general government balance registered in both 2016 and 2017. As a result, according to the Stability Programme, the debt-to-GDP ratio is expected to reach lower levels compared to the previous programme (see Figure 2).

Table 3: Debt developments

(% of GDP)	Average 2012-2016	2017	2018		2019		2020	2021
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**63.0**	**50.8**	**47.1**	**45.8**	**43.4**	**42.5**	**39.3**	**35.6**
Change in the ratio	-2.8	-5.4	-3.7	-5.0	-3.7	-3.2	-3.2	-3.7
Contributions[2] *:*								
1. Primary balance	**-1.1**	**-5.8**	**-2.7**	**-2.7**	**-2.8**	**-2.4**	**-2.2**	**-2.8**
2. "Snow-ball" effect	**-2.3**	**-2.7**	**-2.1**	**-2.2**	**-1.7**	**-1.7**	**-1.3**	**-1.2**
Of which:								
Interest expenditure	2.6	1.9	1.6	1.6	1.5	1.4	1.3	1.2
Growth effect	-3.7	-3.4	-2.7	-2.9	-2.2	-2.2	-1.9	-1.7
Inflation effect	-1.2	-1.2	-0.9	-1.0	-0.9	-0.9	-0.7	-0.7
3. Stock-flow adjustment	**0.7**	**3.2**	**1.2**	**-0.1**	**0.9**	**0.9**	**0.3**	**0.3**

Notes:

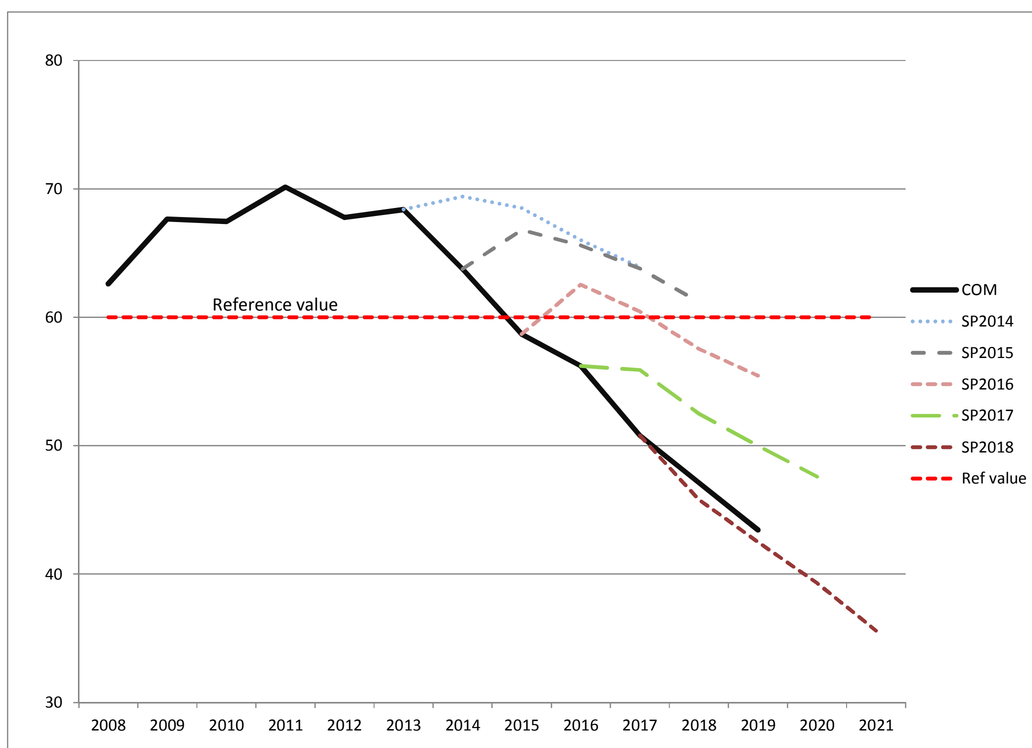
[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2018 spring forecast (COM); Stability Programme (SP), Commission calculations.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2018 spring forecast; Stability Programmes

3.5. RISK ASSESSMENT

The achievement of the expenditure targets are subject to risks. Current expenditure could be higher in view of possible slippages. On the contrary, the targets for public investment included in the programme seem ambitious. In case these are not met, capital expenditure could be lower than targeted.

The revenue targets include the impact of the IIP, for which a precise estimate of the expected revenue has so far proven difficult to obtain and in the past years the outturn has always been substantially higher than originally projected. In addition, revenue projections in the Stability Programme seem somewhat cautious, especially for taxes on production and imports, relying on conservative elasticities, thus pointing to a marginal upside risk to the revenue projections.

Overall, while risks related to the fiscal targets seem balanced, there could be differences in the components of government revenue and expenditure relative to those presented in the programme.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Malta is subject to the preventive arm of the Stability and Growth Pact. On 11 July 2017, the Council did not address a recommendation to Malta in the context of fiscal compliance under the European Semester since the Council was of the opinion that Malta complies with the Stability and Growth Pact. The general government balance posted a surplus of 3.9% of GDP in 2017 and it is expected to remain in surplus throughout the forecast horizon. This is confirmed by the Commission forecast for the years 2018 and 2019. The general government debt fell below the 60% of GDP threshold and reached 50.8% of GDP in 2017. Government plans expect it to decrease further to 35.6% of GDP by 2021, i.e. to remain well below the 60% of GDP threshold from the Pact.

Malta's structural balance reached a surplus of 3.5% of GDP in 2017, well above its medium-term objective of a balanced budgetary position in structural terms. The improvement in the fiscal position has largely benefitted from the revenue related to a particular budget measure, namely the IIP. Thanks to this measure, in the 2014-2017 period, revenue increased by 5.0% of GDP, half of which was collected in 2017. However, when excluding the IIP proceeds, the budget balance would still be in a surplus position in 2017, both in nominal and structural terms. According to the information provided in the Stability Programme, in 2018 the (recalculated) structural balance is set to deteriorate by 3.0 percentage points of GDP and to reach 0.5% of GDP, thus remaining above the MTO. It is planned to increase to 0.8% of GDP in 2019. Therefore, Malta is expected to remain above its medium-term objective also in 2018 and 2019.

This is also confirmed in the Commission forecast, albeit with a slightly higher structural surplus, especially in 2019 under a no-policy-change assumption. At the same time, expenditure developments should be monitored carefully in the short and the medium term, especially in light of possible future risks to the robustness of revenues, to safeguard fiscal sustainability in line with the SGP.

According to the Stability Programme as well as the Commission forecast, the debt-to-GDP ratio, which in 2016 was already below the 60%-of-GDP threshold, is expected to remain below that threshold and to decrease further over the programme horizon.

Table 4: Compliance with the requirements under the preventive arm

(% of GDP)	2017	2018		2019	
Initial position[1]					
Medium-term objective (MTO)	0.0	0.0		0.0	
Structural balance[2] (COM)	3.5	0.6		1.1	
Structural balance based on freezing (COM)	0.6	0.6		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2017**	**2018**		**2019**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	Compliance				
Required adjustment corrected[5]					
Change in structural balance[6]					
One-year deviation from the required adjustment [7]					
Two-year average deviation from the required adjustment [7]					
Expenditure benchmark pillar					
Applicable reference rate[8]					
One-year deviation adjusted for one-offs[9]					
Two-year deviation adjusted for one-offs[9]					
PER MEMORIAM: One-year deviation [10]					
PER MEMORIAM: Two-year average deviation [10]					

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2017) is carried out on the basis of Commission 2018 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

<u>Source</u>:
Stability Programme (SP); Commission 2018 spring forecast (COM); Commission calculations.

5. FISCAL SUSTAINABILITY

Malta does not appear to face fiscal sustainability risks in the short run.[3]

Based on Commission 2018 spring forecasts and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at 50.8% of GDP in 2017, is expected to decrease (to 15.0% in 2028), thus remaining below the 60% of GDP Treaty threshold. Over this horizon, government debt peaks in 2017. Sensitivity analysis shows similar risks.[4] Overall, this highlights low risks for Malta from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put the debt on a slightly decreasing path by 2028, reaching 13.4% of GDP by 2028.

The medium-term fiscal sustainability risk indicator S1[5] is at -5.2 percentage points of GDP based on the Commission forecast, thanks to to the initial budgetary position contributing with -4.1 percentage points of GDP,thus indicating low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -6.6 percentage points of GDP, leading to similar medium-term risk. Overall, risks to fiscal sustainability over the medium term are, therefore, low. Fully implementing the fiscal plans in the Stability Programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 is at 2.8 percentage points of GDP. In the long term, Malta therefore appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 5.0 percentage points of GDP. Full implementation of the programme would nonetheless put the S2 indicator at 2.2 percentage points of GDP, leading to a lower long-term risk.[6]

The Maltese authorities carried out spending reviews in some areas of public spending particularly relevant in terms of fiscal sustainability — healthcare, education and training and social security in the period 2014-2017. Each review ended with the publication of recommendations, some of them have been already implemented, especially for the first two reviews. Additional reviews carried out in 2018 concerned the Management Efficiency Unit and the Malta College for the Arts, Sciences and Technology. Finally, the authorities have set up a new directorate within the Ministry of Finance tasked with public sector performance and evaluation, thus institutionalising the spending review function. These initiatives seem promising and should contribute towards increased effectiveness in public spending, provided those are properly implemented.

At the same time, the 2018 Budget introduced a number of measures targeted at increasing pension income. These measures, while safeguarding adequacy, do not fully respond to the identified long-term challenges.

---

[3] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 5 for a definition of the indicator.

[4] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Debt Sustainability Monitor 2017 for more details).

[5] See the note to Table 5 for a definition of the indicator.

[6] The projected costs of ageing used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the updated projections, endorsed by the EPC on 30 January 2018, and to be published in the forthcoming Ageing Report 2018.

Table 4: Sustainability indicators

Time horizon			Commission Scenario		Stability / Convergence Programme Scenario	
Short Term			**LOW risk**			
S0 indicator [1]			0.0			
Fiscal subindex			0.0	LOW risk		
Financial & competitiveness subindex			0.1	LOW risk		
Medium Term			**LOW risk**			
DSA [2]			LOW risk			
S1 indicator [3]			-5.2	LOW risk	-6.6	LOW risk
of which						
	Initial Budgetary Position		-4.1		-4.5	
	Debt Requirement		-1.4		-2.3	
	Cost of Ageing		0.3		0.2	
	of which					
		Pensions	-0.5		-0.6	
		Health-care	0.6		0.5	
		Long-term care	0.2		0.2	
		Other	-0.1		0.1	
Long Term			**MEDIUM risk**		**MEDIUM risk**	
S2 indicator [4]			2.8		2.2	
of which						
	Initial Budgetary Position		-2.1		-2.5	
	Cost of Ageing		5.0		4.7	
	of which					
		Pensions	1.8		1.7	
		Health-care	1.9		1.7	
		Long-term care	1.0		0.9	
		Other	0.2		0.4	

Source: Commission services; 2018 stability/convergence programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2018 forecast covering until 2019 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2032. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2020 for Commission scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2017.

6. FISCAL FRAMEWORK

The 2017 budgetary outcome appears in line with the national budget balance rule, which requires that, when not at the MTO, the structural balance should converge towards the MTO in accordance with the 1997 Surveillance and Coordination Regulation (Fiscal Responsibility Act, Art 8(4a)). This rule would imply an improvement of the structural balance of more than 0.6% of GDP relative to 2016. The other fiscal rule in place in Malta, i.e. the general government debt rule, would imply a reduction in the debt ratio in accordance with the 1997 Excessive Deficit Regulation until the ratio reaches 60% of GDP.

The general government balance recorded a surplus of 3.9% of GDP in 2017, further increasing from a surplus of 1.0% of GDP in 2016. This position represents a sizeable upward revision compared to the general government surplus of 0.8% of GDP projected in the 2018 Draft Budgetary Plan. In structural terms, it corresponds to a structural surplus of 3.6% of GDP in 2017, improving significantly from the structural surplus of 0.7% of GDP the year before. Therefore, Malta complied with the national budget balance rule with a margin and remained well above its MTO of a balanced budgetary position in structural terms. In addition, the general government debt decreased below the 60%-of-GDP threshold already in 2016, with a value of 56.2%, and in 2017 it decreased further to 50.8% of GDP. For 2018-2021, the Stability Programme complies with the national fiscal rules, as the structural balance is expected to remain positive and above the MTO while the debt-to-GDP ratio is projected to remain below the 60% threshold. Thus, based on the information provided in the Stability Programme, the past, planned and forecast fiscal performance in Malta appears to comply with the requirements of the applicable national numerical fiscal rules.

As regards general government expenditure, there is no expenditure rule in place and the Fiscal Responsibility Act only makes an indirect reference to it in the eventuality that the country receives a warning from the Commission as a result of a significant deviation in its budgetary policy. In its assessment of the 2018 Draft Budgetary Plan, the Malta Fiscal Advisory Council (MFAC) shared the Commission's assessment of the 2018 Draft Budgetary Plan and the Commission's invitation to the authorities "to stand ready to take further measures within the national budgetary process to ensure that the 2018 budget will be compliant with the SGP". The MFAC also reminded of the importance that Malta aims towards full compliance with the Stability and Growth Pact. At the same time, the MFAC referred to its report dealing with the endorsement of the fiscal forecasts included in the 2018 Draft Budgetary Plan, wherein it had identified possible downside risks to total expenditure growth for 2017 and 2018, with savings linked to the possibility that as in 2016, there would be no recourse to the Contingency Reserve in 2017 and 2018. However, this downside risk did not materialize in 2017, since current expenditure turned out higher than expected.

The Stability Programme indicates that it constitutes the national medium-term fiscal plan, which implies that Malta complies with the obligation to make public by 30 April its national medium-term fiscal plan as required by Art. 4(1) of Regulation No 473/2013. However, there are no explicit indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact neither in the Stability Programme nor in the National Reform Programme.

The economic growth projections underpinning the Stability Programme were endorsed by the MFAC. The MFAC concluded that the projections appear cautious as they represent a gradual moderation compared to the growth recorded during the previous years. The balance of risks to GDP growth for the period 2018-2021 is assessed as neutral, with possible downside risks associated to the external sector likely to be compensated for by possible upside risks related to domestic demand. The forecasting process was deemed sound, well-

structured and detailed, taking into account the views of international organisations. At the same time, the MFAC invited to continue exploring ways to strengthen the robustness of the macroconomic toolkit further. The endorsement is available on the website of the MFAC. At the time the Stability Programme was submitted, the MFAC was still in the process of evaluating the fiscal plans included in the programme.

The MFAC is an independent body established in January 2015. Its mandate includes endorsing the macroeconomic and fiscal projections of the government, assessing fiscal performance and assessing compliance of the fiscal stance with respect to the Fiscal Responsibility Act and the SGP. The government is obliged to consider the MFAC's opinion and if it does not accept it, the Minister of Finance is to explain the reasons for rejecting it before parliament within two months of receiving the opinion.

7. SUMMARY

In 2017, Malta recorded headline and structural budget surpluses, in full compliance with the provisions of the Stability and Growth Pact.

According to both the information provided in the Stability Programme and the Commission 2018 spring forecast Malta is expected to continue to remain above its medium-term objective in 2018 and 2019. In addition, the debt-to-GDP ratio was already below 60% in 2017 and, according to the Stability Programme and the Commission 2018 spring forecast, it is projected to decline further. Therefore, Malta is expected to be compliant with the provisions of the SGP in both 2018 and in 2019. At the same time, expenditure developments should be monitored carefully in the short and the medium term, especially in light of possible future risks to the robustness of revenues, to safeguard fiscal sustainability in line with the SGP.

8. ANNEXES

Table I. Macroeconomic indicators

	2000-2004	2005-2009	2010-2014	2015	2016	2017	2018	2019
Core indicators								
GDP growth rate	2.6	2.1	4.1	9.9	5.5	6.6	5.8	5.1
Output gap [1]	0.8	0.3	-1.4	2.9	1.2	1.3	1.0	0.3
HICP (annual % change)	2.6	2.5	1.9	1.2	0.9	1.3	1.6	1.8
Domestic demand (annual % change) [2]	2.4	2.3	1.7	16.3	1.3	0.8	6.9	5.2
Unemployment rate (% of labour force) [3]	7.2	6.6	6.4	5.4	4.7	4.0	4.0	4.0
Gross fixed capital formation (% of GDP)	20.1	20.8	18.5	25.5	24.6	21.4	21.1	21.5
Gross national saving (% of GDP)	15.8	16.4	21.2	30.9	32.2	35.1	33.7	33.8
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.1**	**-2.9**	**-2.5**	**-1.1**	**1.0**	**3.9**	**1.1**	**1.3**
Gross debt	**66.1**	**65.4**	**67.5**	**58.7**	**56.2**	**50.8**	**47.1**	**43.4**
Net financial assets	**-51.2**	**-49.0**	**-49.5**	**-47.3**	**-43.8**	**n.a**	**n.a**	**n.a**
Total revenue	36.1	39.1	39.2	39.0	38.1	40.5	38.4	38.1
Total expenditure	42.2	42.0	41.7	40.1	37.1	36.5	37.3	36.8
of which: Interest	3.8	3.5	3.0	2.4	2.1	1.9	1.6	1.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets; non-financial corporations	**-107.8**	**-111.7**	**-80.4**	**-53.1**	**-63.7**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**3.1**	**-7.1**	**-28.6**	**-30.9**	**-24.6**	**n.a**	**n.a**	**n.a**
Gross capital formation	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross operating surplus	24.7	24.8	25.5	n.a	n.a	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets	**190.4**	**185.4**	**181.1**	**181.1**	**176.6**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Net property income	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Current transfers received	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross saving	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.5**	**-3.0**	**3.4**	**6.2**	**7.4**	**13.0**	**12.0**	**11.8**
Net financial assets	**-35.2**	**-18.3**	**-24.0**	**-49.8**	**-44.4**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-1.0	-1.4	4.8	7.1	11.4	17.2	16.5	16.6
Net primary income from the rest of the world	-0.9	-3.5	-4.1	-3.9	-5.9	-5.9	-6.0	-6.2
Net capital transactions	0.5	1.8	1.7	1.8	0.4	0.4	0.4	0.5
Tradable sector	47.8	40.6	37.5	36.4	35.8	35.2	n.a	n.a
Non tradable sector	40.7	46.6	50.1	51.9	52.4	52.9	n.a	n.a
of which: Building and construction sector	6.3	4.9	3.9	3.5	3.2	3.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	89.3	98.8	104.1	99.9	100.2	100.8	103.4	103.7
Terms of trade goods and services (index, 2000=100)	97.9	98.9	100.1	101.1	101.6	102.3	102.4	102.6
Market performance of exports (index, 2000=100)	75.1	82.6	102.7	102.2	103.2	100.0	97.1	95.6

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
AMECO data, Commission 2018 spring forecast