



EUROPEAN COMMISSION  
DIRECTORATE GENERAL  
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 26 May 2016

**Assessment of the 2016 Stability Programme for  
Malta**

*(Note prepared by DG ECFIN staff)*

## CONTENTS

1.	INTRODUCTION.....	3
2.	MACROECONOMIC DEVELOPMENTS .....	3
3.	RECENT AND PLANNED BUDGETARY DEVELOPMENTS.....	5
3.1.	Deficit developments in 2015.....	5
3.2.	Medium-term strategy and targets.....	6
3.3.	Measures underpinning the programme .....	8
3.4.	Debt developments .....	10
3.5.	Risk assessment.....	12
4.	COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT .....	13
4.1.	Compliance with the debt criterion .....	13
4.2.	Adjustment towards the MTO .....	13
5.	FISCAL SUSTAINABILITY .....	17
6.	FISCAL FRAMEWORK .....	20
7.	CONCLUSIONS.....	20
8.	ANNEX.....	22

## **1. INTRODUCTION**

This document assesses Malta's April 2016 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 30 April and covers the period 2015-2019. The document is endorsed by the government and presented to the national parliament for a debate.

Malta is subject to the preventive arm of the the Stability and Growth Pact and should ensure sufficient progress towards its MTO. As the debt ratio was 67.1% of GDP in 2014 (the year in which Malta corrected its excessive deficit), exceeding the 60% of GDP reference value, Malta is also subject to the debt reduction benchmark.

This document complements the Country Report published on 26 February 2015 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 2016 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on 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 and the quality of public finances. Section 7 provides a summary.

## **2. MACROECONOMIC DEVELOPMENTS**

The Stability Programme projects real GDP growth to decline gradually over the forecast horizon from the 6.3% peak reported in 2015 to 2.4% in 2019. Domestic demand is projected to be the main driver of growth in 2016-17, underpinned by robust private consumption in 2016 and a pick-up in investment in 2017 reflecting a cycle of large projects deemed to have a high probability of realisation. Growth is projected to decelerate in 2018-19 on the back of a moderation in domestic demand, only partly offset by an improvement in net exports. The macroeconomic projections underpinning the Stability Programme have been revised upwards compared to the previous Stability Programme reflecting the better-than-expected economic growth in 2015. The revision for 2016 reflects stronger net exports, partly offset by weaker investment. Stronger investment, accompanied by higher imports and, consequently, weaker net exports underpin the GDP growth revision for 2017.

The real GDP growth projection for 2016 is in line with the Commission forecast, while the one for 2017 is slightly lower than it. The projections for the later years of the programme horizon are more cautious than the Commission's potential output growth estimates for those years. The composition of GDP growth in the Stability Programme is less tax rich than the Commission forecast for indirect taxes, but more tax rich for direct taxes in 2016 on account of a higher projected wage growth for that year.

Overall, the macroeconomic scenario underpinning the Stability Programme is plausible for 2016 and cautious for 2017-19.

The cyclical position of the economy is strong in 2015-16 as evidenced by the highly positive output gap, as recalculated by the Commission based on the information in the programme,

following the commonly agreed methodology. Thereafter, the (recalculated) output gap is estimated to close gradually and to turn slightly negative in 2019.

The Stability Programme discusses the sensitivity of the underlying macroeconomic scenario to a number of economic shocks and concludes that the underlying macroeconomic projections are prudent and risks are tilted to the upside in the short-term, swinging to the downside in the subsequent years. The programme also estimates the impact of the macroeconomic risk scenarios on the attainment of the fiscal targets. 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**

	2015		2016		2017		2018	2019
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	6.3	6.3	4.1	4.2	3.5	3.1	2.9	2.4
Private consumption (% change)	4.9	4.9	4.4	3.5	3.5	2.4	2.3	2.2
Gross fixed capital formation (% change)	21.4	21.4	1.0	1.6	3.0	9.2	-3.9	2.5
Exports of goods and services (% change)	2.4	2.4	3.4	3.4	4.0	3.0	3.1	2.0
Imports of goods and services (% change)	3.0	3.0	3.0	2.4	4.5	3.9	1.6	1.7
<i>Contributions to real GDP growth:</i>								
- Final domestic demand	7.5	7.5	3.4	2.6	3.8	4.0	0.5	1.9
- Change in inventories	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	-0.6	-0.6	0.8	1.6	-0.4	-0.9	2.3	0.5
Output gap <sup>1</sup>	1.5	1.5	1.3	1.6	0.6	0.5	0.2	-0.2
Employment (% change)	3.5	3.5	2.9	2.7	2.7	2.7	2.2	2.0
Unemployment rate (%)	5.4	5.4	5.1	5.3	5.1	5.3	5.4	5.4
Labour productivity (% change)	2.7	2.7	1.2	1.5	0.7	0.4	0.6	0.4
HICP inflation (%)	1.2	1.2	1.4	1.6	2.2	1.9	1.8	1.7
GDP deflator (% change)	2.3	2.3	2.3	2.6	2.5	2.5	1.9	2.1
Comp. of employees (per head, % change)	1.5	1.7	1.9	2.8	2.3	2.4	2.5	2.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	11.6	11.6	7.3	9.0	6.0	8.4	8.7	9.1
<b>Note:</b>								
<sup>1</sup> In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.								
<b>Source:</b>								
Commission 2016 spring forecast (COM); Stability Programme (SP).								

### **3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS**

#### **3.1. Deficit developments in 2015**

In 2015, the budget deficit decreased to 1.5% of GDP, from 2.0% in 2014. The outturn is marginally better than the target (1.6% of GDP) set in both the previous Stability Programme and the 2016 Draft Budgetary Plan submitted in October 2015. The reduction in the headline deficit by 0.5 pp. of GDP is mainly explained by the improvement in current revenue, which increased by 8.2% y-o-y in nominal terms, on the back of the favourable macroeconomic outlook and tax-increasing measures (0.4% of GDP).

Public investment increased substantially in 2015, i.e. by 35.4%. This is explained by the spending acceleration of the EU funds from the programming period 2007-2013, and required matching financing from national sources. Almost 70% of these investments consisted of government expenditure on EU programmes fully matched by EU funds revenue. As a result, net capital investment (i.e. investment financed by national funds) registered a substantial increase (around 11%) compared to 2014. In addition, subsidies for investment purposes increased significantly due to the further capital injection into Air Malta (0.5% of GDP).

Total current revenue grew by 8.2% y-o-y in nominal terms compared to 2014, above the growth rate expected in the 2016 Draft Budgetary Plan, benefitting from high employment growth, strong growth in profits and sustained consumer demand, as well as the impact of the measures foreseen on the revenue side, namely the International Investor Programme (IIP) (0.6% of GDP) and increases in excise duties on various products.

Total current expenditure increased by 5.8% year-on-year in nominal terms, well above the growth rate expected in the 2016 Draft Budgetary Plan (4.1%), notwithstanding the decrease in interest expenditure (by 1.4%). Despite the restraint on public wages introduced with the 2015 budget, compensation of employees increased by 6.5% (against 5.6% in the 2016 Draft Budgetary Plan), due to both higher average wages and higher employment in both the health and education sector. Intermediate consumption increased by 13.7% (against 9.4% in the 2016 Draft Budgetary Plan), due also to higher expenditure of the extra-budgetary units. Finally, other current expenditure increased by 4.0%, against a decrease expected in the 2016 Draft Budgetary Plan. On the contrary, some other expenditure items turned out lower than expected, especially social transfers (11.7% of GDP instead of 12.3% of GDP in the 2016 Draft Budgetary Plan). To be noted, the 0.1% of GDP contingency reserve included in general government accounts was spent in 2015.

Overall, the headline deficit in 2015 was slightly better than the target set in both the 2015 Stability Programme and the 2016 Draft Budgetary Plan submitted in October 2015, despite considerably stronger-than-expected nominal growth. There are also differences in terms of composition. These documents targeted both lower revenues and expenditure in nominal terms. The higher outturn for both capital and current expenditure was offset by higher than targeted revenue, despite lower proceeds related to the IIP. In particular, the budgetary impact of the IIP on 2015 was estimated at 0.6% of GDP in the 2015 Stability Programme and was subsequently revised upward to 0.9% of GDP in the 2016 Draft Budgetary Plan. However, ex-post, the proceeds related to this measure turned 0.3% of GDP lower than expected, due to some delays in processing the applications.

Malta's structural balance is estimated to have deteriorated marginally (by 0.1pps. of GDP) in 2015, as the improvement of the headline balance is fully attributed to improving cyclical conditions. Nominal growth was higher than expected in 2015 which led to a sharp increase in the output gap estimate between 2014 and 2015 (from -0.3% to 1.5% of potential output).

### **3.2. Medium-term strategy and targets**

Malta plans to further reduce the deficit over the period covered by the Stability Programme, to a surplus of 0.1% of GDP in 2019. This implies gradual progress towards the medium-term objective (MTO), which is defined as a balanced budgetary position in structural terms, to be achieved by 2019. The medium-term objective is in line with the requirements of the Stability and Growth Pact. In addition, according to the Stability Programme, the path of the structural balance is consistent with the requirements of the national fiscal rules.

The consolidation planned in the programme is spread unequally over the programme period. The programme plans a reduction in the headline deficit by 0.8% of GDP in 2016, followed by a slower pace of consolidation in 2017 (0.1% of GDP). The consolidation pace increases in 2018 and 2019 as the deficit is targeted to decline by 0.3% of GDP each year. Compared to the previous Stability Programme and as a result of a better-than-targeted deficit in 2015 and a better economic environment, the deficit target for 2016 became more stringent by 0.4 pps. of GDP while for the following years the targets are unchanged. The primary surplus is planned to double over the programme period, improving from 1.1% of GDP in 2015 to 2.2% of GDP in 2019.

When looking at the entire programme period, the revenue and expenditure projections point to a consolidation effort that is mainly expenditure-based, in line the previous programme. Due to lower EU-financed investments and the end of the capital injection into Air Malta, both the revenue and expenditure ratios are planned to drop significantly in 2016 while, in the following years, net capital expenditure is set to stabilize. When excluding public investment, the consolidation becomes more broad-based. The bulk of the consolidation is on primary current expenditure, which is set to decrease by around 4.0 pps. of GDP in the period 2015-2019, while interest expenditure is expected to contribute to the fiscal adjustment by 0.5 pps. of GDP. Current revenue is set to decrease by around 1.0 pp. of GDP over this same period. The decline reflects moderation in the proceeds coming from the IIP, a prudent elasticity assumption and a slower growth in the tax base, in particular for indirect taxes, than nominal GDP in the outer years of the programme.

However, the planned consolidation effort is underpinned by measures only for 2016. For the remaining years, the programme confirms the continuation of the restrictive policy on additional recruitment in the public sector. Details on the quantification of some specific items such as the impact of the ongoing Ministerial Spending Review and the Comprehensive Spending Review on social protection expenditure, as well as of measures targeted at tapering social benefits are provided. However, these specific measures are not sufficient to underpin the programme targets as of 2017.

In structural terms, the planned fiscal effort for 2016, as recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology, is estimated at 0.7 percentage points. After 2017, the programme projects a (recalculated) structural adjustment effort of around 0.6 in both 2017 and 2018, while in 2019 the structural effort is expected to be reduced to 0.4. The path of the (recalculated) structural balance shows that Malta would be close to its medium-term objective of a balanced budget in structural terms already in 2018, namely at 0.3% of GDP. While a (recalculated) structural surplus of 0.1% of GDP is expected in 2019.

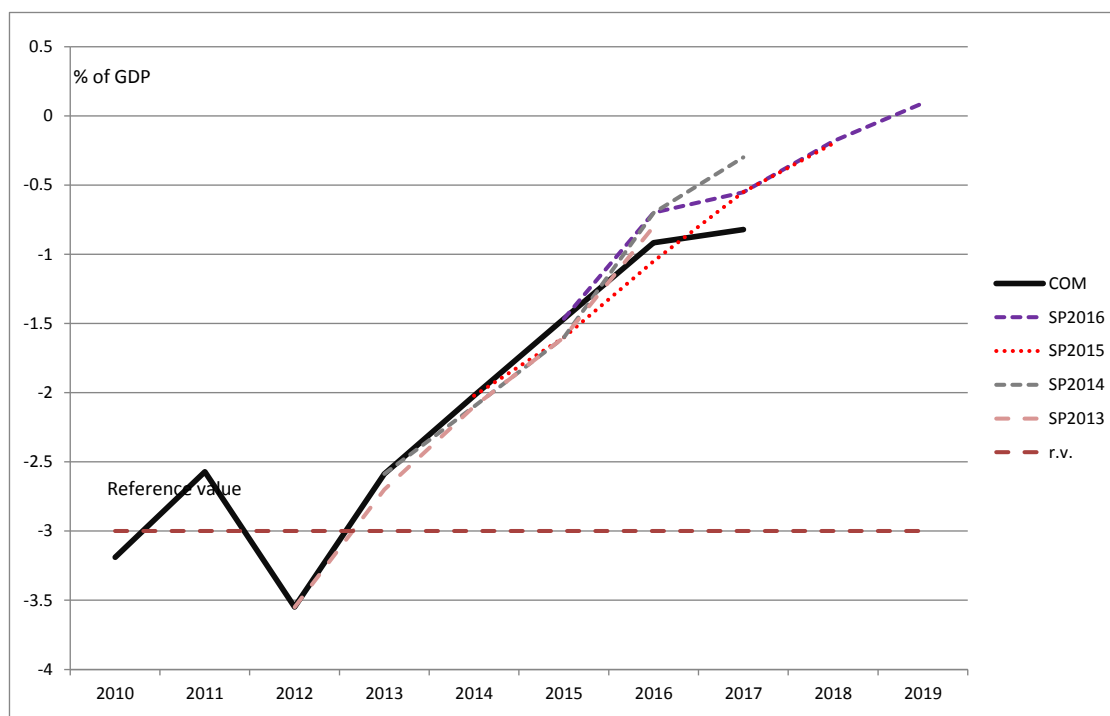
The Commission 2016 spring forecast expects Malta's structural balance to improve by 0.7 pps. of GDP in 2016 and by 0.4 pps. of GDP in 2017 under a no-policy-change assumption. For 2016, the Commission 2016 spring forecast does not include the additional consolidation measures put forward in the Stability Programme (see Section 3.3). For 2017, this is below

the adjustment foreseen in the programme because of a higher headline deficit projected in the Commission forecast.

**Table 2: Composition of the budgetary adjustment**

(% of GDP)	2015	2016		2017		2018	2019	Change: 2015-2019
	COM	COM	SP	COM	SP	SP	SP	SP
<b>Revenue</b>	<b>41.9</b>	<b>39.6</b>	<b>39.4</b>	<b>39.4</b>	<b>39.3</b>	<b>38.8</b>	<b>38.4</b>	<b>-3.4</b>
<i>of which:</i>								
- Taxes on production and imports	13.5	13.7	13.6	13.6	13.5	13.3	13.1	-0.4
- Current taxes on income, wealth, etc.	14.1	14.0	13.9	14.0	13.8	13.8	13.9	-0.2
- Social contributions	6.8	6.7	6.7	6.6	6.5	6.4	6.4	-0.4
- Other (residual)	7.5	5.3	5.3	5.2	5.5	5.3	5.0	-2.5
<b>Expenditure</b>	<b>43.3</b>	<b>40.5</b>	<b>40.1</b>	<b>40.2</b>	<b>39.9</b>	<b>39.0</b>	<b>38.3</b>	<b>-5.0</b>
<i>of which:</i>								
- Primary expenditure	40.7	38.2	37.8	38.0	37.6	36.9	36.2	-4.5
<i>of which:</i>								
Compensation of employees	12.7	12.7	12.5	12.7	12.3	12.1	12.0	-0.7
Intermediate consumption	6.8	6.8	6.5	6.8	6.5	6.2	6.0	-0.8
Social payments	11.7	11.4	11.3	11.1	11.1	11.0	10.9	-0.8
Subsidies	1.3	1.2	1.2	1.2	1.2	1.1	1.1	-0.2
Gross fixed capital formation	4.6	2.9	3.5	3.0	3.6	3.4	3.3	-1.3
Other (residual)	3.7	3.1	2.8	3.1	3.0	3.0	3.1	-0.6
- Interest expenditure	2.6	2.4	2.3	2.3	2.2	2.2	2.1	-0.5
<b>General government balance (GGB)</b>	<b>-1.5</b>	<b>-0.9</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.6</b>	<b>-0.2</b>	<b>0.1</b>	<b>1.6</b>
<b>Primary balance</b>	<b>1.1</b>	<b>1.5</b>	<b>1.6</b>	<b>1.4</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>1.1</b>
One-off and other temporary	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.1
<b>GGB excl. one-offs</b>	<b>-1.6</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-0.3</b>	<b>0.0</b>	<b>1.6</b>
Output gap <sup>1</sup>	1.5	1.3	1.6	0.6	0.5	0.2	-0.2	-1.7
Cyclically-adjusted balance <sup>1</sup>	-2.1	-1.5	-1.4	-1.1	-0.8	-0.3	0.2	2.3
<b>Structural balance<sup>2</sup></b>	<b>-2.3</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.2</b>	<b>-0.9</b>	<b>-0.3</b>	<b>0.1</b>	<b>2.4</b>
Structural primary balance <sup>2</sup>	0.3	0.8	0.8	1.1	1.3	1.8	2.2	1.9
<b>Notes:</b>								
<sup>1</sup> 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.								
<sup>2</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
<b>Source:</b>								
Stability Programme (SP); Commission 2016 spring forecasts (COM); Commission calculations.								

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



Source: Commission 2016 spring forecast; Stability Programmes

### 3.3. Measures underpinning the programme

The measures underpinning the Stability Programme confirm those included in the 2016 budget which was presented to Parliament on 12 October 2015 and subsequently approved on 9 December 2015. The government's 2016 budget included some revenue-increasing measures, such as increases in indirect taxation, the replacement of the eco contribution with excise taxes and the introduction of an environmental contribution to be paid by tourists, partly compensated by the lowering in income tax for low income earners, with a net impact on revenues of about 0.1% of GDP. On the expenditure side, the budget envisages several deficit-increasing social measures for 0.2% of GDP, among which, the upward adjustment of the minimum contributory pension and the partial funding of the cost of home care for elderly and an expropriation compensation (to address property locked in inheritance disputes).

In the Stability Programme, the impact of some of the revenue measures for 2016 was revised upwards to reflect more up-to-date information, as well as the actual impact recorded for 2015. These revisions amount to 0.06% of GDP and concern the measures aimed at increasing the excise duty on various products (fuel, cement and cigarettes and tobacco) and the corresponding impact on VAT. When including these revisions, the budget measures are estimated to have a neutral impact (-0.01% of GDP) on the deficit in 2016<sup>1</sup>.

In addition to the budget measures, the Stability Programme envisages additional deficit-reducing measures in 2016 of 0.16% of GDP. The measures are targeted at restricting capital transfers by 0.09% of GDP and restraining current primary expenditure by 0.07% of GDP, in particular in the area of compensation of employees, following the introduction of the new

<sup>1</sup> The budget measures for 2016 in the original appraisal were estimated to have a net deficit-increasing impact amounting to 0.1% of GDP.



guidelines on the formulation of business plans for each Ministry on the human resources part, and intermediate consumption.

Overall, the impact of the new measures and the revisions to the estimated impact of some of the revenue measures included in the 2016 budget amounts to 0.2% of GDP. The Commission 2016 spring forecast does not include these measures, the detail of which were not known before the cut-off date.

### Main budgetary measures

Revenue	Expenditure
<b>2015</b>	
<ul style="list-style-type: none"> <li>• Increase in several excise duty rates and revision to licence fees (0.3% of GDP)</li> <li>• Anti tax avoidance measures (0.1% of GDP)</li> <li>• International Investor Programme (0.6% of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Conditional children's allowance (0.1% of GDP)</li> <li>• Social measures (0.1% of GDP)</li> <li>• Tapering of benefits and Youth Guarantee (-0.1% of GDP)</li> </ul>
<b>2016</b>	
<ul style="list-style-type: none"> <li>• Increase in several excise duty rates and respective increase in VAT, and revision to licence fees (0.5% of GDP)</li> <li>• Anti tax avoidance measures (0.1% of GDP)</li> <li>• Widening of the income tax rates (-0.1% of GDP)</li> <li>• International Investor Programme (0.9% of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Conditional children's allowance (0.1% of GDP)</li> <li>• Tapering of benefits and Youth Guarantee (-0.1% of GDP)</li> <li>• Social measures (0.1% of GDP)</li> <li>• Reduction in capital transfers (-0.1% of GDP)</li> </ul>
<b>2017</b>	
<ul style="list-style-type: none"> <li>• Increase in several excise duty rates and respective increase in VAT, and revision to licence fees (0.5% of GDP)</li> <li>• Anti avoidance measures (0.1% of GDP)</li> <li>• International Investor Programme (0.9% of GDP)</li> <li>• Measures to be specified (0.4% of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Conditional children's allowance (0.1% of GDP)</li> <li>• Tapering of benefits and Youth Guarantee (-0.1% of GDP)</li> <li>• Social measures (0.1% of GDP)</li> </ul>
<b>2018</b>	
<ul style="list-style-type: none"> <li>• Increase in several excise duty rates and respective increase in VAT, and revision to licence fees (0.5% of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Conditional children's allowance (0.2% of GDP)</li> <li>• Tapering of benefits and Youth</li> </ul>

<ul style="list-style-type: none"> <li>• Anti avoidance measures (0.1% of GDP)</li> <li>• International Investor Programme (0.4% of GDP)</li> <li>• Measures to be specified (0.4% of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Guarantee (-0.2% of GDP)</li> <li>• Social measures (0.1% of GDP)</li> </ul>
<b>2019</b>	
<ul style="list-style-type: none"> <li>• Increase in several excise duty rates and respective increase in VAT, and revision to licence fees (0.5% of GDP)</li> <li>• Anti avoidance measures (0.1% of GDP)</li> <li>• International Investor Programme (0.3% of GDP)</li> <li>• Measures to be specified (0.4% of GDP)</li> </ul>	<ul style="list-style-type: none"> <li>• Conditional children's allowance (0.2% of GDP)</li> <li>• Tapering of benefits and Youth Guarantee (-0.2% of GDP)</li> <li>• Social measures (0.1% of GDP)</li> </ul>
<p><u>Note:</u> 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.</p>	

### 3.4. Debt developments

The general government debt-to-GDP ratio decreased to 63.9% of GDP in 2015, from 67.1% of GDP in 2014, despite a debt-increasing stock-flow adjustment, which, however, included the repayment of some tax arrears from Enemalta (the public energy utility corporation).

In the Stability Programme, the general government gross debt ratio is expected to decrease by 1.3% of GDP in 2016, reaching 62.6% of GDP, as the projected primary surplus and the positive impact of nominal growth more than offset a large stock-flow adjustment. The latter reflects the adjustments made to the deficit in ESA10 terms on account of higher EU funds receivable, partly offset by the repayment of loans (Air Malta, courts and other deposits), and by a decrease in the cash buffer.

The debt-to-GDP ratio is projected to decrease further over the programme period, and to be close to the 60%-of GDP threshold in 2017 already, before declining below the threshold in 2018 and reaching 55.5% in 2019. The stock-flow adjustment is projected to increase substantially in 2016 to 2.0% of GDP and to decrease in 2017 to 0.7% of GDP. In 2018 it is expected to become negative and to increase again in 2019 to 0.5% of GDP. 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 Draft Budgetary Plan, the debt-to-GDP ratio decreased faster in 2015, by 3.2 pps. of GDP, compared to a planned decrease of 1.7 percentage points of GDP, thanks to a better-than-expected nominal GDP growth. While a precise comparison of debt-to-GDP ratios from different programmes is not possible due to the high GDP growth that occurred in 2015, it is worth noting that the debt is now projected to follow a faster pace of reduction compared to the previous programme.

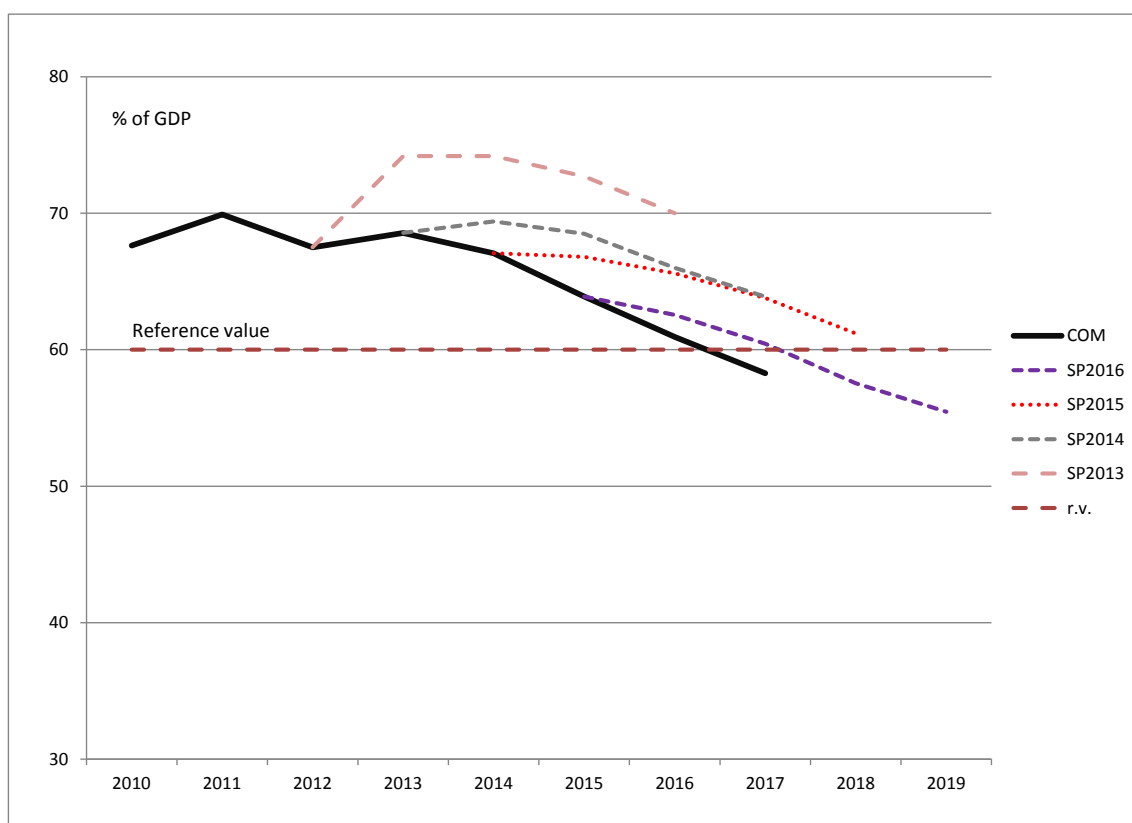
According to the Commission forecast, the debt ratio is projected to decrease further to 60.9% GDP in 2016 and to decline below the 60% of GDP threshold already in 2017 to 58.3% of GDP. The difference compared to the Stability Programme targets is due to the lower expected primary surplus (on a no-policy-change basis), which more than compensate for a lower projection for the stock-flow adjustment, while nominal GDP growth projections are broadly similar.

Overall, both in the Stability Programme and in the Commission forecast, the debt rule is estimated to have been respected in 2015 in its forward-looking dimension.

**Table 3: Debt developments**

(% of GDP)	Average 2010-2014	2015	2016		2017		2018	2019
			COM	SP	COM	SP	SP	SP
<b>Gross debt ratio<sup>1</sup></b>	<b>68.1</b>	<b>63.9</b>	<b>60.9</b>	<b>62.6</b>	<b>58.3</b>	<b>60.4</b>	<b>57.5</b>	<b>55.5</b>
Change in the ratio	-0.1	-3.2	-3.0	-1.3	-2.7	-2.1	-2.9	-2.1
<i>Contributions<sup>2</sup>:</i>								
<b>1. Primary balance</b>	<b>-0.2</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-1.6</b>	<b>-1.4</b>	<b>-1.7</b>	<b>-2.0</b>	<b>-2.2</b>
<b>2. “Snow-ball” effect</b>	<b>-0.6</b>	<b>-2.8</b>	<b>-1.4</b>	<b>-1.7</b>	<b>-1.2</b>	<b>-1.0</b>	<b>-0.6</b>	<b>-0.4</b>
<i>Of which:</i>								
Interest expenditure	3.0	2.6	2.4	2.3	2.3	2.2	2.2	2.1
Growth effect	-2.1	-3.9	-2.5	-2.5	-2.0	-1.8	-1.7	-1.3
Inflation effect	-1.5	-1.4	-1.4	-1.5	-1.4	-1.4	-1.1	-1.1
<b>3. Stock-flow adjustment</b>	<b>0.7</b>	<b>0.8</b>	<b>0.0</b>	<b>2.0</b>	<b>0.0</b>	<b>0.7</b>	<b>-0.3</b>	<b>0.5</b>
<i>Of which:</i>								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								
<b>Notes:</b>								
<sup>1</sup> End of period.								
<sup>2</sup> 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.								
<i>Source:</i>								
<i>Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.</i>								

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



Source: Commission 2016 spring forecast; Stability Programmes

### 3.5. Risk assessment

There are risks related to the deficit targets in the Stability Programme. In particular, these are related to slippages in current expenditure, especially in the public sector wage bill and intermediate consumption, given past experience. In addition, since the collective agreement in place is going to expire at end-2016, its renewal might require additional resources. Moreover, the setting up of the national development bank might entail additional public expenditure. On the other hand, public investment are likely be lower than planned due to a lower absorption of EU funds linked to the beginning of the new programming period 2014-2020

The revenue targets include the impact of a revenue measure introduced with the 2014 Budget, namely the IIP, for which it has so far proven difficult to have a precise estimate of the expected revenue. Also, the revenue targets for 2017-2019 are not underpinned by measures. On the other hand, revenue projections in the Stability Programme seem somewhat cautious, relying on conservative elasticities, thus pointing to a marginal upside risk to the revenue projections due also to a more favourable economic environment. Overall, while risks related to the deficit targets seem balanced, there could be differences in the composition of the adjustment.

The same risks highlighted for the deficit targets apply to the debt projections of the Stability Programme. Moreover, despite a decrease in 2015 (to 16.0% of GDP from 16.5% of GDP in 2014), the government-guaranteed debt in Malta remains high compared to other Member States.

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

##### 4.1. Compliance with the debt criterion

Following the abrogation of the EDP in June 2015, Malta is subject to the preventive arm of the Pact as of 2015 and, as the debt ratio exceeded 60% of GDP in 2014, Malta needs to respect the debt reduction benchmark. Namely, Malta has to ensure that the debt ratio is sufficiently diminishing and approaching 60% at a satisfactory pace.

According to the Commission 2016 spring forecast, the debt reduction benchmark is expected to be met in 2016, with a margin above 4 percentage points of GDP. Moreover, the debt-to-GDP ratio is projected to decline below the 60% threshold already in 2017. According to national plans, the debt benchmark is expected to be met in the period 2016.

**Table 4: Compliance with the debt criterion**

	2015	2016		2017 (*)	
		SP	COM	SP	COM
Gross debt ratio	63.9	62.6	60.9	60.4	58.3
Gap to the debt benchmark <sup>1,2</sup>	-5.2	-4.5	-4.9	n.r.	n.r.

Notes:

<sup>1</sup> Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

<sup>2</sup> Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

(\*) Since in 2018 the debt-to-GDP ratio is below the 60% threshold, it is not possible to compute the debt rule on a forward-looking basis.

Source:  
*Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.*

##### 4.2. Adjustment towards the MTO

###### **Box 1. Council recommendations addressed to Malta**

On 14 July 2015, the Council addressed recommendations to Malta in the context of the European Semester. In particular, in the area of public finances the Council recommended to Malta to achieve a fiscal adjustment of at least 0.6 % of GDP towards the medium-term objective in 2015 and in 2016.

In 2015, based on outturn data, the structural balance is estimated to have deteriorated marginally (by 0.1 pps. of GDP). The change in the structural balance deviated by 0.7 pps. of GDP from the recommended structural adjustment of 0.6% of GDP, therefore pointing to a risk of significant deviation from the required adjustment path toward the MTO. The growth rate of government expenditure, net of discretionary revenue measures, exceeded the applicable expenditure benchmark rate by 1.1% of GDP in 2015, thus also pointing to a risk of significant deviation. An overall assessment is needed before reaching a final conclusion on compliance.

The structural balance seems negatively impacted by revenue shortfalls (0.7%), as the upside surprise in GDP growth does not appear to be tax-rich and the eventual outcome of the IIP turned lower than expected. Correcting for this, the structural balance pillar would have pointed to compliance with the required adjustment towards the MTO.

Moreover, the structural balance pillar in 2015 was negatively impacted by a sizeable revision of the output gap, reflecting the high volatility of the very small domestic economy. In previous forecast rounds, the structural balance pillar pointed to some deviation (i.e. lower than 0.5 pps.) from the recommended adjustment of 0.6% of GDP. The assessment changed to significant deviation only in the Commission 2016 spring forecast, due to the much higher than expected GDP growth, and the downward revision of growth in 2014. In view of these elements, it seems difficult to conclude on a significant deviation on the basis of this indicator.

Therefore, the expenditure benchmark indicator, which makes use of a more stable estimate of medium term potential growth rate, seems to be a more suitable indicator in the case of Malta at the current juncture. It reflects *prima facie* the reality of an expansionary fiscal policy. In particular, the fiscal stance in Malta appeared to be pro-cyclical in 2015 since revenue from the buoyant economic environment and savings from low interest did not lead to substantially stronger consolidation than initially targeted. At the same time, the expenditure benchmark indicator seems to be distorted by one-offs measures (both on the revenue and the expenditure side), which account for around 0.2 pps. of the 1.1 pps. deviation. After correcting for one-off measures, the expenditure benchmark still points to a significant deviation however. Furthermore, the increase in expenditure was particularly high for public investment, due to the spending acceleration of the EU funds from the programming period 2007-2013, thus putting pressure on public investments coming also from projects financed by national sources, which increased by around 0.4% of GDP in 2015 compared to the previous year. This surge is accounted for by the expenditure benchmark, as public investment is smoothed over four years. However, given the exceptional surge in co-financing in 2015 the expenditure benchmark would be still impacted by the peak in investment. In addition, subsidies to investment increased on the back of a further capital injection into Air Malta (0.5% of GDP in 2015 compared to 0.2% in 2014). Overall, the increase in capital expenditure would explain around 0.5 pps. of the 1.1 pps. deviation. By taking into account all the elements mentioned above, the deviation based on the expenditure benchmark would be reduced to around -0.4%.

As a result, following an overall assessment based on outturn data for 2015, combining an analysis in terms of both the change in the structural balance and expenditure net of discretionary revenue measures, there appears to have been some but close to a significant deviation from the adjustment path towards the MTO in 2015.

For 2016, according to the information provided in the Stability Programme and the Commission 2016 spring forecast, both the structural balance and the expenditure benchmark pillar are in line with the requirements, pointing to compliance with the recommended adjustment path towards the MTO.

However, over 2015 and 2016 together, based on both the Stability Programme and the Commission 2016 spring forecast, both pillars point to a risk of significant deviation. This is due to the impact of the 2015 outturn. With a view to limiting the deviation over 2015-2016, the Stability Programme includes additional measures for 2016, which, taken together, have a net deficit-reducing impact of around 0.2% of GDP. Against the background of the Commission forecast, considering these measures would reduce the average deviation from the matrix requirements by 0.2 pps. and the structural balance pillar would point to a conclusion of some deviation over the two-years. When looking at the expenditure

benchmark, taking into account the factors mentioned for 2015 and the new measures for 2016, the indicator would point to a risk of some deviation on average over the two years. Therefore, the overall assessment points to a risk of some deviation over 2015 and 2016 together.

In 2017, based on the Stability Programme, the structural balance is expected to improve by 0.7% of GDP, more than the recommended 0.6%-of-GDP adjustment towards the MTO. The growth rate of government expenditure net of discretionary revenue measures is expected to exceed the applicable expenditure benchmark rate (1.8%) by 0.2% of GDP, pointing to a risk of some deviation. This calls for an overall assessment. While the structural balance pillar is negatively impacted by the temporary increase in the self-financed investment in 2016 (due to a drop in the absorption of EU funds), this is expected to phase out in 2017. Therefore the expenditure benchmark seems to be the relevant indicator, pointing to a risk of some deviation. This risk, however, is higher based on the Commission 2016 spring forecast which, relying on the usual no-policy change assumption, points to a risk of significant deviation.

**Table 5: Compliance with the requirements under the preventive arm**

(% of GDP)	2015	2016		2017	
<b>Initial position<sup>1</sup></b>					
Medium-term objective (MTO)	0.0	0.0		0.0	
Structural balance <sup>2</sup> (COM)	-2.3	-1.6		-1.2	
Structural balance based on freezing (COM)	-2.1	-1.6		-	
<b>Position vis-a-vis the MTO<sup>3</sup></b>	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	<b>2015</b>	<b>2016</b>		<b>2017</b>	
	<b>COM</b>	<b>SP</b>	<b>COM</b>	<b>SP</b>	<b>COM</b>
<b>Structural balance pillar</b>					
Required adjustment <sup>4</sup>	0.6	0.6		0.6	
Required adjustment corrected <sup>5</sup>	0.6	0.6		0.6	
Change in structural balance <sup>6</sup>	-0.1	0.7	0.7	0.7	0.4
<i>One-year deviation from the required adjustment<sup>7</sup></i>	-0.7	0.1	0.1	0.1	-0.2
<i>Two-year average deviation from the required adjustment<sup>7</sup></i>	n.a. in EDP in 2014	-0.3	-0.3	0.1	0.0
<b>Expenditure benchmark pillar</b>					
Applicable reference rate <sup>8</sup>	0.3	1.3		1.8	
<i>One-year deviation<sup>9</sup></i>	-1.1	0.2	0.2	-0.2	-0.6
<i>Two-year average deviation<sup>9</sup></i>	n.a. in EDP in 2014	-0.5	-0.5	0.0	-0.2
<b>Conclusion</b>					
Conclusion over one year	Significant deviation	Compliance	Compliance	Overall assessment	Overall assessment
Conclusion over two years	n.a. in EDP in 2014	Significant deviation	Significant deviation	Compliance	Overall assessment
Notes					
<sup>1</sup> 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.					
<sup>2</sup> Structural balance = cyclically-adjusted government balance excluding one-off measures.					
<sup>3</sup> Based on the relevant structural balance at year t-1.					
<sup>4</sup> 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.).					
<sup>5</sup> Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.					
<sup>6</sup> Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.					
<sup>7</sup> The difference of the change in the structural balance and the corrected required adjustment.					
<sup>8</sup> 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.					
<sup>9</sup> 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.					
<i>Source:</i>					
<i>Stability Programme (SP); Commission 2016 spring forecast (COM); Commission calculations.</i>					



## 5. FISCAL SUSTAINABILITY

Malta does not appear to face fiscal sustainability risks in the short run. Both the fiscal and macro-financial and competitiveness sides of the economy do not seem to pose potential challenges.<sup>2</sup>

Based on the Commission forecast and a no-policy-change scenario beyond the forecast horizon, government debt is expected to decrease and to fall below the 60%-of-GDP threshold already in 2017 and to decrease further to 48.5% of GDP by 2026. This points to low risks for debt sustainability in the medium term. The full implementation of the Stability Programme would put the debt on a more strongly-decreasing path, reaching 40.6% of GDP by 2026.

The medium-term fiscal sustainability risk indicator S1 is at -0.9 pps. of GDP based on the Commission 2016 spring forecast, primarily reflecting the 2015 structural primary balance. This indicates low risks in the medium term. The full implementation of the Stability Programme would put the indicator in even more negative territory, at -2.6 pps. of GDP, confirming this assessment.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 4.3% of GDP, based on the Commission 2016 spring forecast. Therefore Malta appears to face medium fiscal sustainability risks in the long term, primarily related to the projected ageing costs, which amount to 4.7 pp. of GDP. Full implementation of the programme would reduce the S2 indicator, but it would remain in the medium-risk territory.

With regards to fiscal sustainability, the authorities have recently legislated pension reform measures following the proposals of the national Pension Strategy Group. The measures seek to improve the balance between the years spent in work and those in retirement notably by increasing the number of required contribution years to be entitled for a full pension has been increased from 40 to 41. Moreover, measures to dis-incentivise early retirement have been introduced. However, future increases in the statutory retirement age do not seem to be considered and while potential future increases in the contributory periods are indicated, the way in which it should be related to changes in life expectancy is yet to be specified. These measures may be insufficient to contain projection pension expenditure increases. In particular, a preliminary assessment of the new reform indicates that despite going in the direction of the Council's 2015 country-specific recommendations, its effects may be largely offset by the introduction of credited contributions that may account to up to 85% of the contributory career (35 years out of 41). Hence these measures reduce the requirements to be met compared to the current situation in which a full pension is granted with 40 years of paid contributions. To ensure the effectiveness of this measure, additional policy efforts to safeguard the employability of the people affected may be useful. Nevertheless, measures concentrated on improving the activity rates of older workers are not expected to be sufficient to ensure the long-term sustainability of the pension system. In addition, since the adopted pension reform measures aim to improve the adequacy of pensions, it may put additional pressure on the sustainability of the system.

The Stability Programme includes an interim estimate of the impact of two pension reform measures, namely the lengthening of the contributory period and the linking of the

---

<sup>2</sup> This conclusion is based on the short-term fiscal sustainability risk indicator S0, which incorporates 14 fiscal and 14 financial-competitiveness variables. The fiscal and financial-competitiveness sub-indexes (reported in table 4) are based on the two sub-groups of variables respectively. For sustainability risks arising from the individual variables, by country, see the Commission's Fiscal Sustainability Report 2015 (page 67).

contributory period to the period in retirement. However, only the first measure was actually adopted and the analysis does not take into account the expenditure-increasing impact of the measures to improve the adequacy of pensions. Finally, these estimates and the underlying assumptions were not presented to the EPC Ageing Working Group. Therefore, the impact of the adopted measures on the projected pension expenditure in the long term remains to be fully assessed.

**Table 6: Sustainability indicators**

<i>Time horizon</i>	<b>No-policy Change Scenario</b>		<b>Stability Programme Scenario</b>	
<b>Short Term</b>	<b>LOW risk</b>			
<b>S0 indicator</b> <sup>[1]</sup>	0.1			
Fiscal subindex (2015)	0.1	LOW risk		
Financial & competitiveness subindex (2015)	0.2	LOW risk		
<b>Medium Term</b>	<b>LOW risk</b>			
<b>DSA</b> <sup>[2]</sup>	LOW risk			
<b>S1 indicator</b> <sup>[3]</sup>	-0.9	LOW risk	-2.6	LOW risk
<i>of which</i>				
IBP	-1.5		-3.0	
Debt Requirement	-0.1		-0.4	
CoA	0.8		0.8	
<b>Long Term</b>	<b>MEDIUM risk</b>		<b>MEDIUM risk</b>	
<b>S2 indicator</b> <sup>[4]</sup>	4.3		3.1	
<i>of which</i>				
IBP	-0.4		-1.5	
CoA	4.7		4.7	
<i>of which</i>				
Pensions	1.9		2.0	
HC	1.5		1.4	
LTC	0.9		0.9	
Other	0.4		0.4	

Source: Commission services; 2016 stability programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2016 forecast until 2017. 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 2015 Ageing Report.

[1] The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

[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. See Fiscal Sustainability Report 2015.

[3] The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2017) is required (indicating a cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

[4] The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

## **6. FISCAL FRAMEWORK**

The 2015 budgetary outcome appears not to be in line with the national budget balance fiscal rule, which requires that, when not at the MTO, the annual structural balance should converge towards the MTO in accordance with the 1997 Surveillance and Coordination Regulation (Fiscal Responsibility Act, Art 8(4a)). The national fiscal rule would imply an improvement of the structural balance of more than 0.5% of GDP relative to 2014, whereas the structural balance remained unchanged. For 2016-19, the Stability Programme targets are in compliance with the national fiscal rules. Thus, based on the information provided in the Stability Programme, following the slippage in 2015, the planned fiscal performance in Malta appears to comply with the requirements of the applicable national numerical fiscal rules. There is no national expenditure rule, but in its assessment of the 2016 Draft Budgetary Plans, the MFAC drew attention to the need to step up the efforts to optimise government expenditure and to avoid situations where revenue windfalls finance additional permanent spending.

The Stability Programme indicates that it constitutes the national medium-term fiscal plans, 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 Malta Fiscal Advisory Council (MFAC). The MFAC concluded that the projections may be feasible, albeit subject to downside risks in the outer years linked to investment and external trade. The forecasting process was deemed sound and well-documented, but there is room to further coordinate and streamline activities of the involved entities. The endorsement is available on the website of the Ministry of Finance. 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. Government is obliged to consider the MFAC's opinion and if it does not accept it, the Minister of Finance is to lay the reasons for rejecting it before parliament within two months of receiving the opinion.

## **7. CONCLUSIONS**

In 2015, Malta registered a deterioration of the structural balance of 0.1% of GDP, thus failing to meet the required adjustment towards the MTO of 0.6% of GDP. In addition, the growth rate of government expenditure, net of discretionary revenue measures, exceeded the applicable expenditure benchmark rate by 1.1% of GDP. Following an overall assessment, these developments point to some but close to significant deviation from the recommended adjustment towards the MTO.

Malta plans an improvement of the structural balance of 0.7% of GDP in both 2016 and 2017 and of 0.5% of GDP on average in 2018 and 2019, when it plans to reach the MTO. In 2016, the growth rate of government expenditure, net of discretionary revenue measures, is planned to exceed the applicable benchmark rate. The overall assessment shows that there is a risk of a significant deviation from the adjustment path towards the MTO over the two-years 2015 and 2016 due to the deviation observed in 2015. This risk is confirmed by the Commission forecast. However, in order to reduce the deviation over the two-years 2015-2016, the

Stability Programme includes additional measures for 2016, with a net deficit-reducing impact of 0.2% of GDP, that could not be included in the spring forecast. Against the background to the Commission forecast, factoring in these measures would improve the structural effort, and the structural balance pillar would point to some deviation on average over the two years 2015-2016. As a result, the overall assessment points to a risk of some deviation from the adjustment path towards the MTO over 2015 and 2016 taken together.

In 2017, based on the (recalculated) Stability Programme, the expenditure benchmark would not be fully met and point to risk of some deviation from the adjustment path towards the MTO. In addition, the Commission forecast points to a risk of significant deviation from the adjustment path towards the MTO in 2017, since the growth rate of government expenditure, net of discretionary revenue measures, is planned to exceed the applicable expenditure benchmark rate by 0.6%.

Finally, according to both the national plans and the Commission forecast, the debt reduction benchmark is expected to be met in 2016 and to be respected in 2017, with the debt-to-GDP ratio projected to decline below the 60% threshold already in 2017.

8. ANNEX

Table I. Macroeconomic indicators

	1998-2002	2003-2007	2008-2012	2013	2014	2015	2016	2017
<b>Core indicators</b>								
GDP growth rate	3.5	2.5	1.8	4.1	3.7	6.3	4.1	3.5
Output gap <sup>1</sup>	0.5	0.5	-0.7	-0.4	-0.3	1.5	1.3	0.6
HICP (annual % change)	2.8	2.1	2.9	1.0	0.8	1.2	1.4	2.2
Domestic demand (annual % change) <sup>2</sup>	1.5	3.8	1.0	2.3	3.6	7.6	3.6	4.2
Unemployment rate (% of labour force) <sup>3</sup>	6.9	7.0	6.5	6.4	5.8	5.4	5.1	5.1
Gross fixed capital formation (% of GDP)	21.1	21.5	19.0	17.2	17.9	21.1	20.6	20.6
Gross national saving (% of GDP)	16.4	14.4	18.0	21.8	21.8	30.9	26.2	25.0
<b>General Government (% of GDP)</b>								
<b>Net lending (+) or net borrowing (-)</b>	<b>-6.6</b>	<b>-4.2</b>	<b>-3.3</b>	<b>-2.6</b>	<b>-2.0</b>	<b>-1.5</b>	<b>-0.9</b>	<b>-0.8</b>
<b>Gross debt</b>	<b>60.6</b>	<b>67.6</b>	<b>67.1</b>	<b>68.6</b>	<b>67.1</b>	<b>63.9</b>	<b>60.9</b>	<b>58.3</b>
<b>Net financial assets</b>	<b>n.a</b>	<b>-48.8</b>	<b>-51.4</b>	<b>-49.0</b>	<b>-55.3</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Total revenue	34.7	38.4	38.4	39.4	41.2	41.9	39.6	39.4
Total expenditure	41.3	42.6	41.8	42.0	43.2	43.3	40.5	40.2
<i>of which: Interest</i>	3.7	3.6	3.2	2.9	2.9	2.6	2.4	2.3
<b>Corporations (% of GDP)</b>								
<b>Net lending (+) or net borrowing (-)</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>Net financial assets; non-financial corporations</b>	<b>n.a</b>	<b>-106.9</b>	<b>-94.1</b>	<b>-79.5</b>	<b>-70.1</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>Net financial assets; financial corporations</b>	<b>n.a</b>	<b>-13.8</b>	<b>-25.8</b>	<b>-38.6</b>	<b>-42.1</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Gross capital formation	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Gross operating surplus	25.7	24.0	25.2	n.a	n.a	n.a	n.a	n.a
<b>Households and NPISH (% of GDP)</b>								
<b>Net lending (+) or net borrowing (-)</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>Net financial assets</b>	<b>n.a</b>	<b>188.4</b>	<b>177.3</b>	<b>188.7</b>	<b>202.3</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
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
<b>Rest of the world (% of GDP)</b>								
<b>Net lending (+) or net borrowing (-)</b>	<b>-4.1</b>	<b>-4.2</b>	<b>-1.4</b>	<b>5.3</b>	<b>5.1</b>	<b>11.6</b>	<b>7.3</b>	<b>6.0</b>
<b>Net financial assets</b>	<b>n.a</b>	<b>-18.9</b>	<b>-5.8</b>	<b>-21.5</b>	<b>-34.7</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
Net exports of goods and services	-1.9	-1.1	1.0	6.8	7.7	6.9	7.7	7.3
Net primary income from the rest of the world	-0.8	-2.4	-3.8	-4.9	-2.9	-2.6	-2.7	-2.6
Net capital transactions	0.4	1.8	1.3	1.7	1.7	1.8	1.7	1.6
Tradable sector	51.2	42.8	38.7	37.2	36.4	36.1	n.a	n.a
Non tradable sector	38.1	44.6	48.9	50.7	50.8	51.2	n.a	n.a
<i>of which: Building and construction sector</i>	5.4	6.0	4.1	3.8	3.7	3.7	n.a	n.a
Real effective exchange rate (index, 2000=100)	86.2	94.9	102.4	105.8	107.7	102.4	102.7	102.5
Terms of trade goods and services (index, 2000=100)	97.0	98.7	99.5	99.9	100.6	100.8	101.2	101.4
Market performance of exports (index, 2000=100)	79.4	72.1	100.3	105.6	102.0	99.1	98.2	97.4
<b>Notes:</b>								
<sup>1</sup> The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.								
<sup>2</sup> The indicator on domestic demand includes stocks.								
<sup>3</sup> 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.								
<b>Source:</b>								
AMECO data, Commission 2016 spring forecast								