

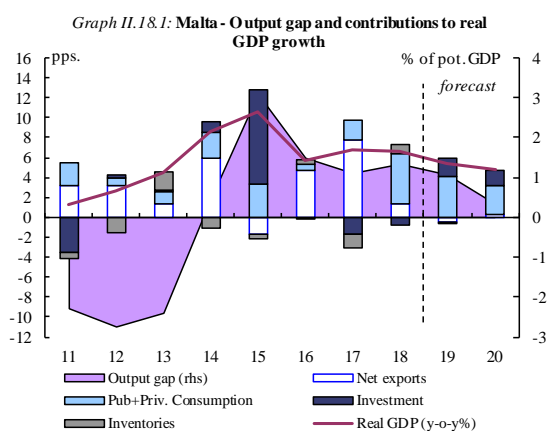
18. MALTA

Domestic demand upholds the strong growth performance

Malta's economic expansion is expected to continue with the support of buoyant domestic demand, but the brisk pace of growth will ease slightly. The external surplus remains at historically high levels, due to the strong performance of the export-oriented services sector. Sustained job creation and low unemployment are creating an increasingly tight labour market. Inflation is set to increase only marginally over the forecast horizon. The fiscal position remains sound although the high surpluses recorded in recent years are set to decline.

Robust growth continues

Malta's economy performed better than expected in 2018, with real GDP growth reaching the high rate of 6.6%. Economic growth accelerated in the second half of the year, driven by record-high levels of private consumption growth, which increased by 7.3% compared to the previous year. In particular, robust employment growth coupled with modest price pressures in the household consumption basket contributed to boost households' real disposable income. Going forward, private consumption growth is expected to slow down but remain well above its historical average.



Investment set to recover and fuel import growth

Despite the drop in investment in real terms in 2018, which was mostly due to base effects, investment in recent years has stabilised at relatively high levels, with an investment-to-GDP ratio above 20%. In 2019, investment is set to rebound and pick up further in 2020. In particular, non-residential construction is expected to benefit from large investment projects planned in the health, transport and tourism sectors.

The import content of Malta's exports has been steadily declining in the recent past, reflecting the

structural shift toward the services sector. As investment rises, import growth is likewise expected to increase, turning the growth contribution of net exports from positive to slightly negative in 2019. Export growth is expected to remain above 2% as a result of the good performance of export-oriented services such as tourism and remote gaming. The current account surplus is set to narrow but to remain among the highest in the EU, underpinned by the large surplus in the services account.

Solid growth ahead, amid rising uncertainties

Real GDP growth is expected to remain solid but to gradually ease over the forecast horizon, to an annual rate of 5.5% in 2019 and 4.8% in 2020. Risks to the macroeconomic outlook appear broadly balanced. In particular, global trade tensions and rising uncertainties in some of Malta's trading partners could negatively affect the short-term growth profile. Important upside risks include the possibility of stronger-than-expected private consumption, driven by employment creation and accumulated savings, and a further decline in the import of services.

Tight labour market and moderate inflation

With the activity rate in Malta quickly approaching the EU average, employment growth is expected to moderate slightly as economic growth slows down, while the unemployment rate is projected to remain below 4% over the forecast horizon. The significant inflow of foreign workers has helped keep wage growth contained; unit labour cost growth is set to rise and reach 1.2% in 2020 as wage pressures gradually materialise.

The inflation profile has been influenced by price increases in the services sector, in particular tourism-related expenditure like accommodation services. Inflation is set to increase only marginally over the forecast horizon, reaching 1.9% in 2020.

Public spending trims down surplus

In 2018, the headline government surplus reached 2.0% of GDP. While lower than in 2017, the outcome was better than budgeted. Economic growth translated in a strong increase in consumption tax revenue but also revenue from income taxes and social contributions, mirroring the favourable labour market conditions. A hike in received capital transfers reflected an improved utilisation of EU funds. Spending outpaced revenue growth, however, and rose compared to the previous year. Intermediate consumption, employee compensation and investment were the main drivers. A capital transfer of some 0.5% of GDP to Air Malta was another important item increasing government outlays.

In 2019, the headline government surplus is projected to shrink further to 1.1% of GDP on the back of increased expenditures. Intermediate consumption, wages as well as social benefits are expected to grow at a swift pace.

Investment is set to continue growing also because of a pick-up in the implementation of projects co-financed by EU funds. The projected slowdown in revenues is driven largely by an expected decline in proceeds from Malta's citizenship scheme for foreigners. Other revenue components are forecast to grow in line with the robust economic environment. Under an assumption of unchanged policies, the surplus is expected to decline to 0.9% of GDP in 2020, reflecting continuing and high public outlays.

The structural balance reached a surplus of some 1½% of GDP in 2018. It is estimated to decrease to above ½% of GDP in 2019 and then to improve in 2020 as the positive output gap closes. The government debt-to-GDP ratio is forecast to decline further from 46% in 2018 to 40.2% in 2020.

Table II.18.1:

Main features of country forecast - MALTA

	2017			Annual percentage change						
	mio EUR	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	11313.3		100.0	3.0	10.7	5.7	6.7	6.6	5.5	4.8
Private Consumption	5004.3		44.2	2.2	5.1	2.4	3.6	7.3	5.0	4.1
Public Consumption	1733.8		15.3	2.5	3.7	-2.8	2.1	11.7	11.5	6.3
Gross fixed capital formation	2306.3		20.4	2.4	55.3	-0.1	-7.4	-3.7	10.1	7.8
of which: equipment	821.7		7.3	-	85.5	13.5	-35.0	-14.4	-	-
Exports (goods and services)	17068.1		150.9	5.2	15.6	4.5	5.6	2.1	2.4	2.8
Imports (goods and services)	14657.9		129.6	4.8	18.3	1.6	0.6	1.3	3.2	3.0
GNI (GDP deflator)	10264.8		90.7	2.9	9.0	2.3	5.6	7.4	4.9	5.3
Contribution to GDP growth:		Domestic demand		2.4	12.8	0.6	0.3	4.3	6.0	4.4
		Inventories		0.0	-0.4	0.4	-1.3	0.9	0.0	0.0
		Net exports		0.7	-1.7	4.6	7.7	1.4	-0.5	0.3
Employment				1.6	4.1	4.3	7.8	5.6	4.0	3.4
Unemployment rate (a)				6.7	5.4	4.7	4.0	3.7	3.8	3.9
Compensation of employees / head				3.5	5.5	2.9	-0.3	1.6	2.4	2.5
Unit labour costs whole economy				2.1	-0.8	1.5	0.8	0.8	1.0	1.2
Real unit labour cost				-0.3	-3.2	0.1	-1.7	-1.4	-1.2	-1.0
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	2.6	1.4	2.5	2.2	2.3	2.2
Harmonised index of consumer prices				2.3	1.2	0.9	1.3	1.7	1.8	1.9
Terms of trade of goods				0.7	0.9	-4.5	4.4	2.0	1.5	1.7
Trade balance (goods) (c)				-15.6	-19.5	-18.3	-12.6	-11.3	-11.6	-11.7
Current-account balance (c)				-3.6	2.8	3.8	10.4	11.2	9.8	9.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.3	5.6	4.1	10.9	11.7	10.8	10.5
General government balance (c)				-4.0	-1.0	0.9	3.4	2.0	1.1	0.9
Cyclically-adjusted budget balance (d)				-3.9	-2.5	0.2	2.9	1.4	0.6	0.7
Structural budget balance (d)				-	-2.6	0.3	3.1	1.4	0.6	0.7
General government gross debt (c)				66.0	57.9	55.5	50.2	46.0	42.8	40.2

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.