# 13. MALTA

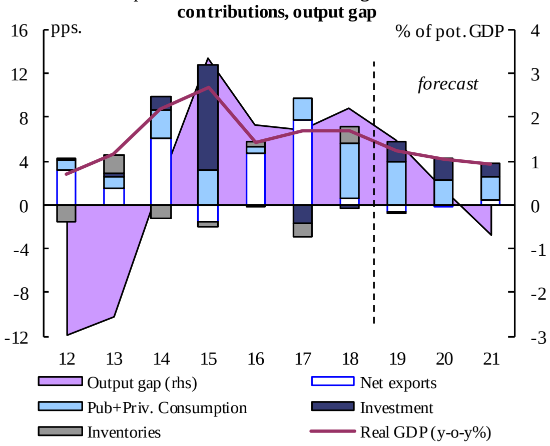
## Strong growth ahead, albeit at a slower pace

*Malta's economic performance continues to be strong, driven by robust domestic demand. Growth is expected to slow down from the high rates recorded in recent years, as private consumption and export growth moderate. Employment growth is set to continue, albeit at a slower pace, while the unemployment rate remains at a record low. The government is expected to maintain a budget surplus.*

### Economic activity remains vibrant…

After recording annual real GDP growth of close to 7% in 2017 and 2018, Malta's economy started to show signs of cooling down in the first half of this year. In particular, private consumption growth significantly slowed down from the very high rate recorded in 2018. Domestic demand was underpinned by strong investment growth, which fuelled a strong rise in goods imports. Export growth remained subdued, also reflecting a slowdown in the tourism sector. After dropping in the second quarter of the year as a result of a significant decline in the industry confidence indicator, general economic sentiment has recovered but remains substantially lower than in recent years.

*Graph II.13.1:* **Malta - Real GDP growth and contributions, output gap**




### …but growth is set to moderate

Growth is expected to continue over the forecast horizon, but the pace of expansion is expected to gradually ease from 5% in 2019 to 4.4% in 2020 and 3.9% in 2021. Private consumption growth is set to weaken but should remain above its historical average, due to favourable labour market conditions. Large-scale projects planned in the aviation, health and tourism sectors are set to boost private investment. Residential construction investment, by contrast, is expected to moderate after several years of strong growth. Investment growth is forecast to remain high until 2020 and to slow down thereafter, as a number of infrastructure projects reach completion.

Looking at the external side, export growth is expected to remain relatively low over the forecast horizon, reflecting a weaker external environment and elevated global uncertainty. As domestic demand remains high, imports are set to grow somewhat faster than exports in 2020, before decelerating in 2021. The current account surplus, which peaked in 2017, is projected to gradually narrow but remain high.

### Job creation slowing down

The fast pace of economic growth in Malta has been coupled with strong employment growth and record-low unemployment rate, which is projected to reach 3.5% in 2019, and to remain broadly stable over the forecast horizon. The recent steady increase in Malta's labour supply, due to both higher domestic labour market participation and a net inflow of foreign workers, has kept wage pressures contained despite persistent labour and skill shortages.

As economic growth slows down, the fast pace of job creation is expected to moderate. At the same time, the labour market tightness is set to translate into increasing wage pressures and higher unit labour cost.

### Gradual price increases and elevated external risks

Headline inflation is projected to decline slightly from 1.7% in 2018 to 1.6% in 2019, as the rise in unprocessed food prices is expected to be offset by low prices for non-energy industrial goods due to weak inflationary pressures in Malta's trading partners. Inflation is set to pick up moderately and reach 1.7% in 2021, reflecting a recovery in imported goods' prices.

As a small open economy, Malta's economic outlook is subject to significant uncertainties related to the economic performance of its trading partners. Risks to the projections appear tilted to the downside as the weak global trade outlook and possible foreign exchange rate movements could further weigh on Malta's exports.

### Government to maintain surpluses

In 2019, the government surplus is projected to decrease to 1.2% of GDP from 1.9% a year earlier. Strong demand-driven economic growth underpinned by favourable labour market developments is projected to translate into robust tax revenues. Proceeds from Malta's citizenship scheme for foreigners, however, are expected to be lower than in recent years. Current expenditure is projected to grow swiftly in most categories with the exception of interest outlays, which are set to decrease. A hike in the government's investment activity will be largely driven by the implementation of EU-funded projects. The public investment-to-GDP ratio is expected to exceed 4%.

In 2020, the government's budget surplus is set to decline further to 1% of GDP. Despite some moderation, the economic environment remains favourable, which should support strong revenue growth also when accounting for introduced fiscal measures (e.g. retaining advantages for first-time home buyers and taxing overtime work at a lower rate). Proceeds from the citizenship scheme are expected to increase. On the expenditure side, the government announced a series of social measures focussing on pensioners (e.g. supplementary aid to those over 65 and at risk of poverty), families (e.g. extension of free transport to all students, a grant for every new-born) and benefits for disabled (e.g. a minimum wage for those who cannot work). The growth of public investment is projected to decline reflecting also a slowdown in implementation of EU-financed projects. Nevertheless, it is expected to remain above long-term averages. Assuming no changes in policies, the surplus is projected to remain unchanged in 2021.

The structural balance has reached a surplus of ¾% of GDP in 2018. In 2019 it is estimated to decrease somewhat, reflecting a declining nominal surplus. In 2020 and 2021 it will improve again driven mainly by the output gap developments. The government debt-to-GDP ratio is forecast to remain on a downward path, declining to some 43% in 2019 and below 40% by the end of 2021.

*Table II.13.1:*

**Main features of country forecast - MALTA**

| | 2018 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| mio EUR | Curr. prices | % GDP | 00-15 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| GDP | 12323.8 | 100.0 | 3.4 | 5.7 | 6.7 | 6.8 | **5.0** | **4.2** | **3.8** |
| Private Consumption | 5392.6 | 43.8 | 2.2 | 2.4 | 3.3 | 7.3 | **4.2** | **3.8** | **3.7** |
| Public Consumption | 2005.6 | 16.3 | 2.8 | -3.0 | 2.5 | 12.6 | **12.7** | **3.6** | **3.6** |
| Gross fixed capital formation | 2338.6 | 19.0 | 5.0 | -0.3 | -7.2 | -1.8 | **10.0** | **9.5** | **5.5** |
| of which: equipment | 768.9 | 6.2 | - | 13.0 | -35.1 | -11.0 | **-** | **-** | **-** |
| Exports (goods and services) | 17853.0 | 144.9 | 5.6 | 4.5 | 4.8 | 2.6 | **1.7** | **1.8** | **1.8** |
| Imports (goods and services) | 15279.5 | 124.0 | 5.3 | 1.6 | -0.4 | 2.6 | **2.6** | **2.1** | **1.8** |
| GNI (GDP deflator) | 11354.9 | 92.1 | 3.0 | 2.3 | 6.9 | 7.1 | **3.7** | **4.7** | **3.8** |
| Contribution to GDP growth: | Domestic demand | | 2.9 | 0.6 | 0.2 | 4.8 | **5.8** | **4.2** | **3.4** |
| | Inventories | | -0.2 | 0.4 | -1.3 | 1.5 | **-0.1** | **0.0** | **0.0** |
| | Net exports | | 0.7 | 4.7 | 7.8 | 0.5 | **-0.7** | **0.0** | **0.4** |
| Employment | | | 1.8 | 4.3 | 8.1 | 5.4 | **4.0** | **3.0** | **2.5** |
| Unemployment rate (a) | | | 6.6 | 4.7 | 4.0 | 3.7 | **3.6** | **3.5** | **3.6** |
| Compensation of employees / head | | | 3.6 | 2.9 | -0.7 | 2.3 | **2.4** | **3.4** | **3.0** |
| Unit labour costs whole economy | | | 2.0 | 1.6 | 0.6 | 1.0 | **1.4** | **2.3** | **1.7** |
| Real unit labour cost | | | -0.4 | 0.2 | -1.7 | -1.1 | **-0.7** | **0.3** | **-0.3** |
| Saving rate of households (b) | | | - | - | - | - | **-** | **-** | **-** |
| GDP deflator | | | 2.5 | 1.4 | 2.4 | 2.1 | **2.1** | **2.0** | **2.1** |
| Harmonised index of consumer prices | | | 2.2 | 0.9 | 1.3 | 1.7 | **1.6** | **1.7** | **1.7** |
| Terms of trade of goods | | | 0.8 | -4.2 | 4.9 | 3.7 | **1.8** | **1.4** | **1.3** |
| Trade balance (goods) (c) | | | -15.8 | -18.3 | -12.6 | -12.0 | **-11.9** | **-11.7** | **-11.3** |
| Current-account balance (c) | | | -3.2 | 3.8 | 10.5 | 9.8 | **9.0** | **8.5** | **8.2** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -1.8 | 4.1 | 11.0 | 10.8 | **10.0** | **9.5** | **9.2** |
| General government balance (c) | | | -3.7 | 0.9 | 3.4 | 1.9 | **1.2** | **1.0** | **1.0** |
| Cyclically-adjusted budget balance (d) | | | -3.6 | 0.0 | 2.6 | 0.8 | **0.5** | **0.8** | **1.3** |
| Structural budget balance (d) | | | - | 0.1 | 2.8 | 0.8 | **0.5** | **0.8** | **1.3** |
| General government gross debt (c) | | | 65.8 | 55.5 | 50.3 | 45.8 | **43.3** | **41.0** | **38.7** |

(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.