BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Economic Projections

2019 - 2021

2019:2

Outlook for the Maltese economy

Economic projections

2019-2021

The Central Bank of Malta expects economic growth over the coming years to remain strong, averaging 4.4% between 2019 and 2021. Projections for economic activity have been revised upwards for 2019 reflecting stronger anticipated growth in private consumption, investment and government expenditure. Conversely, economic activity in 2020 has been revised marginally down, due to a downward revision in investment growth.

During the projection horizon, GDP growth will be supported by domestic demand, reflecting robust growth in private consumption and investment. Conversely, the net export contribution to growth is expected to be negative in 2019 and 2020, reflecting the weak international environment, and a pick-up in import growth as a result of robust consumption and investment growth. It should turn positive in 2021.

The pace of job creation is set to moderate, but remain strong. The labour market is expected to remain tight, with the unemployment rate projected at 3.8% by 2021.

Annual inflation, based on the Harmonised Index of Consumer Prices (HICP), is projected to ease slightly this year, before edging up to 1.9% by 2021, reflecting a pick-up in services and non-energy industrial goods inflation (NEIG).

Moreover, government finances are expected to remain in surplus over the coming years, such that the debt-to-GDP ratio is projected to decline to below 40%.

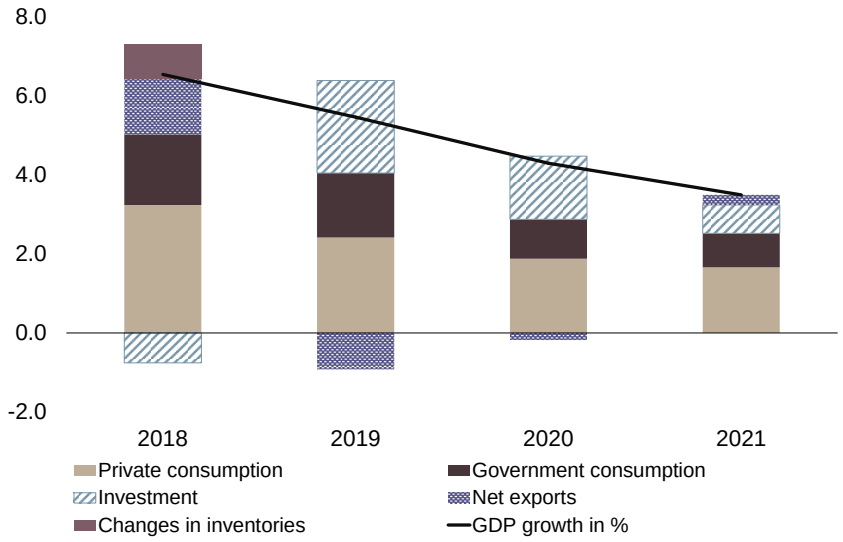
Looking ahead, the external environment poses downside risks to the projections of economic activity and inflation. Conversely, domestic risks remain largely positive in the medium-term. The risks to public finances are broadly balanced, as possible slippages in the implementation of investment projects could be offset by higher current expenditure.

1 Economic outlook

The latest economic projections produced by the Central Bank of Malta foresee economic activity in Malta to remain robust over the projection horizon, supported by both demand and supply factors. GDP growth in recent years exceeded markedly its historical average, and is thus expected to gradually normalise over the projection horizon. Moreover, the current weakness in the international environment is expected to limit export growth, particularly in 2019 and 2020 (see Table 1).[1]

GDP growth is expected to ease from 6.6% in 2018 to 5.5% in 2019, 4.3% in 2020 and 3.5% in 2021. Compared with the Bank's previous projections, published in February 2019, GDP growth is being revised upwards in 2019, and slightly downwards in 2020. The upward revision in the projection for 2019 reflects stronger anticipated growth in private consumption and investment, and government expenditure. Conversely, GDP growth in 2020 is being revised slightly downwards, reflecting a downward revision to investment growth. Throughout the horizon, the latest projections incorporate less support from export growth than foreseen in February, due to elevated weakness in the international environment.

Chart 1: GDP growth over the projection horizon
(percentage point contributions; annual percentage change)



Source: Central Bank of Malta

Domestic demand is foreseen to be the dominant driver of economic growth over the projection horizon, underpinned by all its components (see Chart 1). Private consumption growth is envisaged to remain robust, in the context of favourable labour market conditions. Government consumption is also expected to lift domestic demand, as the Government is assumed to use some of its fiscal space. Investment growth is forecast to rebound in 2019 and remain strong in 2020 due to planned expenditure on infrastructure and health projects. On the other hand, net exports are set to dampen GDP growth in 2019 and 2020

[1] The Bank's outlook for the Maltese economy is based on information available up to 16 May 2019.

Table 1: Projections for the main macroeconomic aggregates for Malta[1]

	2018[2]	2019	2020	2021
Real economic activity (% change)				
GDP	6.6	5.5	4.3	3.5
Private consumption expenditure	7.3	5.5	4.3	3.8
Government consumption expenditure	11.7	10.0	5.9	5.0
Gross fixed capital formation	-3.7	12.5	7.9	3.4
Exports of goods and services	2.1	2.0	2.4	2.6
Imports of goods and services	1.3	3.1	3.0	2.8
Contribution to real GDP growth (in percentage pts)				
Final domestic demand	4.3	6.4	4.5	3.2
Net exports	1.4	-0.9	-0.2	0.3
Changes in inventories	0.9	0.0	0.0	0.0
Real disposable household income[3]	4.6	4.1	3.4	3.1
Household saving ratio[3]	18.0	16.9	16.1	15.5
Balance of payments (% of GDP)				
Goods and services balance	21.4	19.4	18.5	18.1
Current account balance	10.9	9.6	8.9	8.7
Labour market (% change)[4]				
Total employment	5.6	4.4	3.4	2.9
Unemployment rate (% of labour supply)	3.7	3.7	3.7	3.8
Prices and costs (% change)				
GDP deflator	2.2	2.0	2.0	2.1
RPI	1.2	1.6	1.6	1.7
Overall HICP	1.7	1.6	1.7	1.9
HICP excluding energy	1.8	1.6	1.8	2.0
Compensation per employee	1.6	2.5	3.3	3.3
ULC	0.8	1.5	2.4	2.8
Business cycle				
Potential output (% change)	6.1	5.0	4.7	4.2
Output gap (% of GDP)	0.9	1.3	0.9	0.2

[1] Data on GDP were sourced from NSO News Release 038/2019 published on 5 March 2019, while data for prices were sourced from NSO News Release 075/2019 and 078/2019 (released on 15 and 21 of May 2019).
[2] Actual data.
[3] Central Bank of Malta estimates.
[4] Employment data are consistent with the national accounts. The unemployment rate is based on the number of unemployed and employed as reported in the Labour Force Survey.

due to a pick-up in capital-intensive investment growth. The net export contribution is projected to turn positive in 2021, as some investment projects are expected to reach completion by 2020.

The robust growth on the demand side should be supported by the supply side of the economy. In particular, the labour supply is expected to increase further, partly reflecting continued positive but decelerating net migrant flows and additional increases in the participation rate (see Box 1). GDP growth is expected to remain above potential until 2019. Thereafter, potential output is projected to grow in line with or above real GDP. As a result, while a positive output gap is set to persist throughout the projection horizon, this is expected to narrow significantly by 2021.

Looking at the expenditure components in more detail, private consumption growth is set to decelerate from 7.3% in 2018 to 5.5% in 2019. It is then projected to slow down to 4.3% in 2020 and 3.8% in 2021. The profile of private consumption mirrors the very large accumulation of savings estimated for the last few years, and the profile of real disposable income over the projection horizon. The savings ratio reached 18.0% in 2018, less than that estimated for 2017, but still high from a historic and cross-country perspective. In the projection horizon, it is expected to decline further, while remaining relatively elevated. Although real disposable income is set to decelerate, it is estimated to remain strong, with growth averaging around 3.5%. This should support continued strong increases in private consumption.

The profile of real government consumption is heavily influenced by the projected growth in intermediate consumption and compensation of employees, as well as inflows from the Individual Investor Programme (IIP), which are netted against consumption expenditure. More details on projected developments in public consumption can be found in section 4.

In addition, investment growth in 2019 and 2020 is expected to grow strongly, on the back of large-scale outlays on infrastructure and specific health-related projects. Growth in investment should then slowdown in 2021, as some of these projects reach completion. Residential investment is foreseen to grow at a slower pace, following the strong expansion seen in the last few years. This view is also conditioned by the expectation of some deceleration in the issuance of permits and in migrant flows.

In view of the softening international economic environment and elevated uncertainty, export growth is expected to remain muted in 2019 and to recover only gradually in the following two years as global trade picks up. Furthermore, growth in services exports is expected to moderate from the very high rates recorded recently. In addition, goods exports are projected to contract in 2019, reflecting the ongoing weaknesses in this component and the less benign external demand. Although goods exports are expected to recover in 2020, they are set to grow less rapidly than foreign demand.

Mainly mirroring the investment and export projections, import growth is set to pick up significantly

in 2019 and 2020, before decelerating in 2021. This acceleration is driven by a substantial rise in goods imports, which in turn mirrors the strong pick-up in private investment growth. Conversely, services imports are foreseen to decelerate in 2019, reflecting the expected path of services exports. Services imports then pick up marginally in the last two years of the projection horizon as the import share in services is foreseen to stabilise after the strong declines in the last few years. Overall imports are projected to slow down in 2021, though, reflecting the deceleration in private investment growth foreseen that year.

The trade surplus is expected to narrow over the projection horizon. This partly reflects the fact that the net export contribution is set to be negative in 2019 and 2020. Furthermore, outflows related to primary income are envisaged to rise due to increasing profits of internationally-oriented firms.

Box 1: Forecasting the labour participation rate in Malta using a cohort approach [i]

The domestic labour market went through a number of developments in the last few years, which have had a substantial impact on potential output of the Maltese economy. On the one hand, the working age population has increased sharply as a result of an influx of foreign nationals. Moreover, participation rates also rose strongly in recent years, mainly reflecting an increase in female participation and the fact that most incoming migrants came to Malta to work.

In line with Europe 2020 targets, Malta targets an employment rate of 70% by 2020 within the 20-64 cohort.[ii] Following recent Labour Force Survey (LFS) revisions,[iii] both the employment and participation rates were revised upwards, such that the Europe 2020 employment target had already been achieved in 2016. Moreover, the employment rate of those aged between 20 and 64 reached 75.5% already in 2018.

The Bank's methodology for projecting the participation rate relied on targeting a specific rate, while applying filtering techniques to projections for the intermediate years. Taking into account the Bank's estimates of Malta's long run unemployment rate, the Europe 2020 target meant that a 15-64 participation rate of 76% would be achieved by 2025. Following the recent LFS revisions however, this method is no longer adequate. To this end, the Bank has developed a new cohort-specific methodology that seeks to account for age-period-cohort effects. The new participation rate methodology is based on the projection of participation rates for successive five-year age cohorts.[iv]

To account for age-period-cohort effects we apply recent gender-specific participation entry and exit rates to past participation rates. This methodology takes into account the number of persons within a particular cohort who are expected to be part of the labour market in the following period (in this case, in the next five years) by estimating entry and exit rates for each cohort *(i)*. The rate of entry *(Ren)* is estimated by dividing the number of persons expected to become active between age group i and *(i+1)* *(NLS)* by the number of inactive persons in the previous period. The latter is the difference between the population *(Pop)* and the number of people who are already participating in the labour market *(LS)*.

$$REN = \frac{NLS_{t+5}^{i+1}}{Pop_t^i - LS_t^i} \tag{1}$$

The exit rate *(Rex)* is calculated by subtracting the ratio of the participation rate of a cohort to that of the adjacent cohort five-years before from unity as shown below.

$$REX = 1 - \frac{Pr_{t+5}^{i+1}}{Pr_{t}^{i}} \tag{2}$$

The rate of entry is used in the case of cohorts whose participation rate increases when compared to the rate of the previous cohort five-years before. On the other hand, the rate of exit is applied to those cohorts whose participation rate is lower than that of the previous cohort five years earlier.

By applying these rates to the projected number of persons in each age bracket, it is then possible to obtain the participation rate of each cohort.[v] The participation rate of each five-year cohort is then multiplied by the cohort's population to obtain the cohorts labour supply. The overall participation rate is then projected by aggregating the cohort-specific labour supply of those aged between 15 and 64 and dividing this by the working age population.

Apart from taking into account age effects, this dynamic cohort methodology takes into account the development of labour market participation among different generations. The importance of these effects can mostly be observed in the profile of the female participation rate. In fact, age-period-cohort effects are gradually shifting the participation of middle-aged females to higher levels reducing the current gap with the euro area average.

Table A: Participation rate projections[1]
percentage of total working age population, percentage point contribution

	Participation rate		Labour contribution to potential output[2]	
	Feb 2019	June 2019 BMPE	Target Method	Cohort Model
2017	72.0	72.2	3.3	3.3
2018	**73.2**	74.2	3.0	3.0
2019	**74.2**	**74.9**	**2.0**	**2.1**
2020	**74.9**	**75.7**	**1.5**	**1.7**
2021	**75.3**	**76.5**	**1.0**	**1.4**
2022	**75.5**	**77.2**	**0.6**	**1.1**
2023	**75.6**	**78.1**	**0.4**	**0.8**
2024	**75.6**	**78.8**	**0.2**	**0.6**
2025	**75.5**	**79.1**	**0.0**	**0.4**

[1] Forecasted figures are shown in bold
[2] Based on the 2018Q4 vintage
Source: Eurostat, Author's calculations

Comparing the target-based method used as at the last forecast round published in February 2019, with the participation rate used in the June 2019 BMPE forecast round, one can note that this rate is now expected to reach 79.1% in 2025 compared to the 75.5% forecasted previously (see Table A).

Moreover, table A also shows the impact of the change in the labour market contribution to potential output growth using the two methodologies.[vi] The labour contributions shown in table A are consistent with the 2018Q4 vintage, and differ only in terms of the method used for projecting participation rates. The adoption of a cohort-based model for the projection of participation rates has on average contributed to an upward revision of 0.4 percentage point per annum in potential output growth between 2019 and 2025.[vii]

[i] Prepared by Abigail Marie Rapa, a senior economist within the Economic Analysis Department of the Central Bank of Malta. This box applies the main findings of Rapa, A. M. (2019). "A cohort approach to project the labour participation rate in Malta", Policy Note, Central Bank of Malta, April 2019, to the current projection round.

[ii] See The National Employment Policy, Ministry for Education and Employment, May 2014, p.13 and Malta: National Reform Programme 2019, Ministry for Finance, April 2019, p.41.
[iii] See NSO NR 153/2018
[iv] Based on Carone, G. (2005) "Long-term labour force projections for the 25 EU Member States: A set of data for assessing the economic impact of ageing". European Commission Economic Paper, No. 235. Whereas Carone (2005) forecasts the participation rate using each year of age, we forecast the activity rates using five-year age groups for both males and females between 2019 and 2030.
[v] Projections presented in Carone (2005) are based on fixed entry and exit rates calculated as the average of the rates between 1997 and 2003. Given the substantial shifts within the Maltese labour market over the very recent years, this study largely applies the average rates between 2014 and 2017 for most cohorts.
[vi] Potential output is estimated using a Cobb-Douglas production function approach. See Grech, A. G. and Micallef, B. (2015) "Assessing potential output growth of the Maltese economy using a production function approach". Xjenza, vol. 3, no.1, pp. 5763.
[vii] The revisions to potential output due to the change in methodology for projecting the participation rate were partly offset by some downward revisions to net migrant flows.

2 Labour market

In line with the expected easing of economic activity over the projection horizon, employment growth is foreseen to slow down. Nevertheless, both economic activity and growth in employment are expected to remain well above their historical average.

The LFS unemployment rate is expected to edge up marginally from record lows, ending the projection horizon at 3.8%. A low unemployment rate is expected to persist in spite of continued increases in net migration flows and increased activity among nationals, as the envisaged deceleration in employment growth is foreseen to be broadly matched by an expected slowdown in labour supply growth.

As regards wages, surveys[2] and the Bank's contacts with industry continue to highlight that labour market tightness and wage pressures are gaining pace. In this context, and reflecting also an expected pick-up in consumer prices, nominal compensation per employee should accelerate over the projection horizon. The faster rate of growth in wages also reflects the assumption of slower labour supply growth.

3 Prices

Against the background of a weaker external environment and the expected evolution of domestic cost pressures, HICP inflation in Malta is set to moderate to 1.6% in 2019, from 1.7% in 2018. Thereafter, consumer price inflation is expected to accelerate gradually, reaching 1.9% in 2021 (see Chart 2).

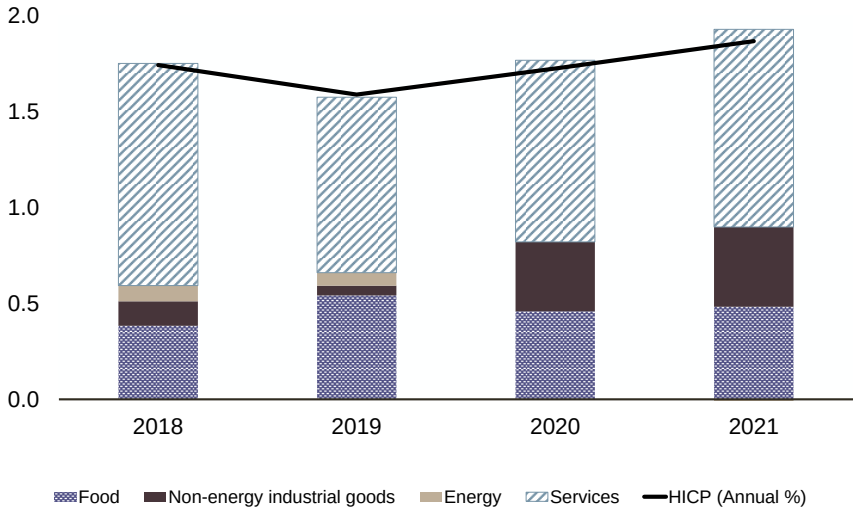
The deceleration in 2019 mainly reflects a smaller contribution from services inflation, which had been boosted by a large change in the weight of accommodation services in 2018. Furthermore, weakness in

[2]See for example the European Commission business surveys `https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en#construction`

external price pressures is expected to act as a drag on prices for NEIG, with NEIG inflation expected to weaken slightly during 2019. Energy inflation is also set to moderate slightly, largely mirroring developments in prices for transport fuel, which were increased in August 2018 and are assumed to remain fixed at current levels until mid-2019. The decline in the international price of oil in the second half of 2018 is expected to affect energy prices in the second half of 2019 through a lagged and partial pass-through of oil prices to transport fuel prices.

The pick-up in HICP inflation over 2020 and 2021 is largely driven by expected movements in HICP excluding energy. The latter is projected to accelerate from 1.6% in 2019 to 2.0% by 2021. This is mainly underpinned by faster growth in services prices, reflecting some intensification of demand and wage pressures. Inflation in NEIG is also set to pick up, mirroring a recovery in imported inflation. Food inflation is projected to remain robust over the projection horizon (see Box 2).

Chart 2: HICP inflation over the projection horizon
(percentage point contributions; annual percentage change)



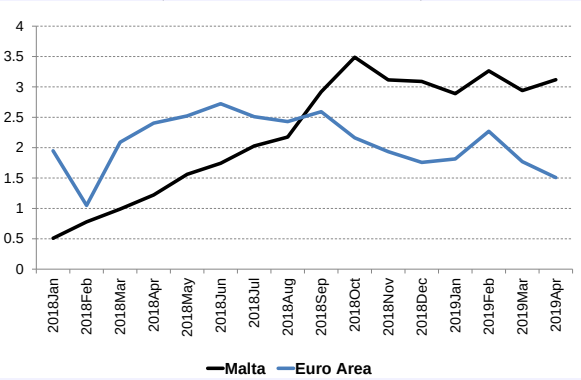
Source: Central Bank of Malta

Box 2: Recent developments in food prices: implications for the forecast [i]

Food inflation in Malta has picked-up significantly in recent months and has exceeded that in the euro area by a significant margin since October 2018 (see Chart A). Indeed, it has reached 3.1% in April 2019, compared with 1.2% a year earlier. It also exceeded the euro area average of 1.5%.

Chart A: Food inflation

(annual percentage change)



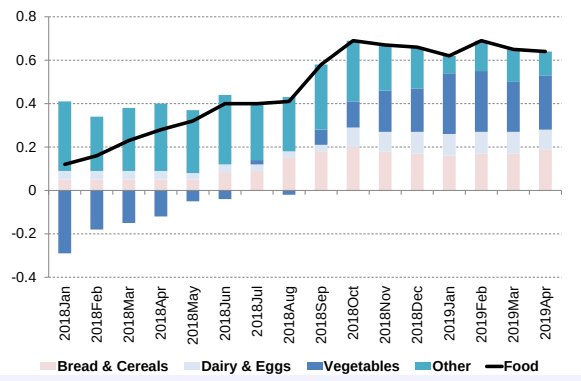
Source: Eurostat, NSO

The acceleration in food prices since the last quarter of 2018 partly reflected announced price increases for certain products to counter higher production costs, such as labour costs and raw materials. Indeed, international cereal prices rose significantly in the period 2016-2018. Given the small size of the local market, local producers are very sensitive to changes in costs associated with the importation of food commodities and animal feed. The announced increases consisted of higher prices for local bread, which came into effect in July 2018, and an increase in prices of selected locally produced dairy products (particularly yoghurt), which were introduced in October 2018 (see Chart B).

Another important factor behind the acceleration in food inflation has been a strong pick-up in vegetable prices (see Chart B). Prices for fresh vegetables are heavily dependent on domestic supply factors, particularly weather conditions in the preceding months.

Chart B: Contribution of food to HICP

(annual percentage change; annual percentage point contributions)

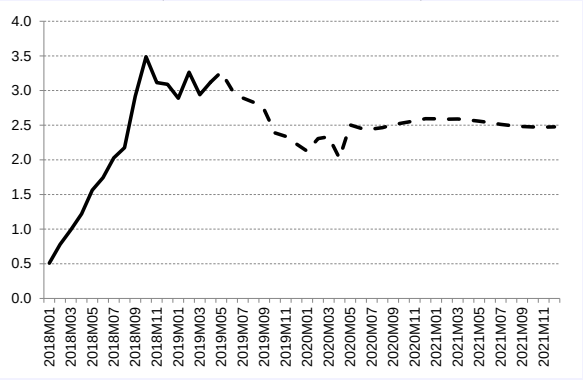


Source: Eurostat, NSO

The effect of increased prices for food components such as bread and dairy are expected to affect annual rates of inflation until July and October 2019, respectively. Annual growth in vegetable prices is also expected to stabilise in the second half of 2019. Food inflation is thus set to stabilize at high levels in the first half of 2019, but should then decelerate towards 2.5% (see Chart C).

Chart C: Food inflation Forecast

(annual percentage change)



Source: Eurostat, NSO, Own calculations

[i]Prepared by Jude Darmanin, a senior economist within the Economic Analysis Department of the Central Bank of Malta.

4 Public finance

Government finances are expected to remain in surplus throughout the forecast horizon, sustained by positive headline primary balances (see Table 2). However, the surplus should decline from 2.0% of GDP in 2018 to 1.0% of GDP in 2019. The surplus is expected to remain around this level in 2020 and to widen slightly to 1.1% of GDP in 2021. This profile is mainly driven by a deterioration in gross savings. Compared with the Bank's earlier projections, the government surplus for the period 2019-2021 has been revised down, despite the projected surplus for 2018 being mostly on track. This reflects a downward revision in the revenue-to-GDP forecasts, coupled with a revised capital expenditure profile. The resulting lower primary surplus projections have consequently led to an upward revision in the general government debt-to-GDP throughout the forecast period.

Overall, the share of tax revenue items in GDP is expected to decline compared with 2018. The share of current taxes on income and wealth in GDP should increase, driven by higher income tax revenue on the back of strong underlying growth in compensation of employees and operating surplus. On the other hand, the ratio of taxes on production and imports is expected to decline, driven by slower growth in consumption. Revenue from social contributions is also projected to increase at a slower pace than GDP, in line with the provisions of Maltese law which limit these contributions.

Meanwhile, the share of other current revenue in GDP is set to decline significantly. This is due to the forecast profile of income from the IIP, and a decline in income from rents and dividends.

The share of current spending items in GDP should remain unchanged over the forecast period. Compen-

Table 2: Projections for main fiscal items (% of GDP) [1]

	2018[2]	2019	2020	2021
Headline Aggregates				
Total revenue	38.8	38.5	38.0	37.9
Total expenditure	36.8	37.5	37.0	36.8
General Government Balance	2.0	1.0	1.0	1.1
of which: Primary Balance	3.6	2.4	2.3	2.3
General Government Debt	46.0	43.3	40.7	38.3
Detailed Breakdown				
Current Revenue	37.7	36.8	36.6	36.6
Current taxes on income and wealth	13.4	13.6	13.7	13.7
Taxes on production and imports	12.9	12.7	12.6	12.6
Social contributions	6.2	6.1	6.0	6.0
Other current revenue[3]	5.2	4.5	4.4	4.3
Current Expenditure	32.5	32.5	32.5	32.5
Compensation of Employees	11.2	11.2	11.3	11.5
Social benefits	9.5	9.4	9.3	9.3
Intermediate Consumption	6.8	7.0	7.0	7.0
Interest payments	1.5	1.3	1.3	1.2
Subsidies	1.3	1.3	1.3	1.3
Other current expenditure[4]	2.2	2.3	2.3	2.3
Gross savings	5.2	4.3	4.2	4.1
Capital Revenue	1.1	1.7	1.4	1.4
Capital taxes	0.2	0.2	0.2	0.2
Other capital revenue[5]	0.9	1.5	1.2	1.2
Capital Expenditure	4.3	5.0	4.5	4.3
Investment	3.0	3.8	3.4	3.3
Capital transfers	1.4	1.2	1.2	1.1
Other capital expenditure[6]	-0.1	-0.1	-0.1	-0.1
Capital Revenue Net of Capital Expenditure	-3.2	-3.3	-3.1	-3.0
Underlying Budgetary Position				
Cyclical component	0.4	0.6	0.5	0.2
Temporary government measures	0.0	0.0	0.0	0.0
Structural balance	1.6	0.4	0.6	0.9

[1] CBM calculations based on NSO News Release 60/2019 (published on 23 April 2019) and News Release 38/2019 (published on 8 March 2019).
[2] Actual data.
[3] Mainly includes revenue from dividends, rents and sales.
[4] Mainly includes spending on education and contributions to the EU budget.
[5] Mainly includes grants from EU Programmes.
[6] Mainly reflects the value of changes in inventories and in the net acquisition of valuables and other assets.

sation of employees and intermediate consumption as a share of GDP are set to increase. The increase in the former reflects higher recruitment and allowances in the health and education sectors. The profile of intermediate consumption in GDP is set to be mainly driven by higher health-related costs.

By contrast, social payments are anticipated to increase more slowly than GDP, owing to the retention of measures aimed at reducing dependence on social assistance and still favourable labour market conditions. The ratio of interest payments to GDP is also projected to decrease, reflecting lower financing needs as well as persistently low interest rate environment.

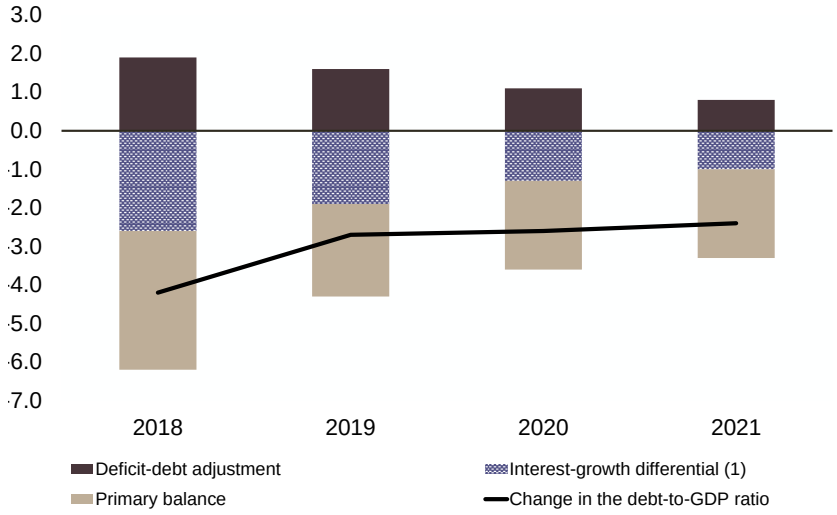
The shortfall in the balance between capital revenue and capital expenditure is expected to widen in 2019 and to decline in the outer years of the forecast period. The increased shortfall in 2019 is due to a sharp increase in investment outlays, reflecting higher spending on domestically-funded road building projects, and on other projects which are part-financed by EU funds. Spending is expected to level off and decline slightly in 2020 and 2021.

The Central Bank of Malta also estimates the structural balance, i.e. the underlying budgetary position corrected for temporary government measures and the economic cycle. The impact of the latter is based on the output gap, and estimated using a methodology applied within the ESCB. The parameters for estimating the structural balance are based on internal estimates and may thus differ from those used by the European Commission and the Maltese Government.

The Bank expects a positive cyclical component which declines over time. In addition, no significant temporary measures are expected to take place throughout the forecast period. Overall, the structural surplus is set to decline from 1.6% of GDP in 2018 to 0.4% of GDP in 2019, before improving to 0.9% by 2021. This reflects the expected narrowing of the output gap during this period. Overall, the structural balance is expected to remain above the medium-term budgetary objective of a balanced budget in structural terms.

The general government debt-to-GDP ratio is forecast to decline from 46.0% in 2018 to 38.3% by 2021, driven by high primary balances and a favourable interest-growth differential (see Chart 3).

Chart 3: Contribution to change in the debt ratio
(percentage point contributions; percentage of GDP)



Source: Central Bank of Malta

5 Risks to the projections

Risks to the GDP growth projections are broadly balanced. In the short to medium-term, the main downside risks are external. In particular, economic growth in some of Malta's trading partners has surprised on the downside in recent quarters, and if weaknesses persist it is likely to affect negatively Malta's export performance. By contrast, domestic risks are mostly tilted to the upside. In particular, a number of large projects that are still in the planning stage or have not been sufficiently specified have not been factored in this projection exercise, and are likely to pose upside risks to our investment projections especially in the outer years. Downside domestic risks are more relevant over the long-term and relate to possible capacity constraints becoming binding after a prolonged period of above-average economic growth.

Risks to inflation are broadly balanced. Upside risks relate to possible further increases in food prices and stronger than expected wage pressures. Inflation could however surprise on the downside if there is a further weakening of external price pressures, as this would delay the expected pick-up in NEIG inflation.

Risks to public finances are broadly balanced. Possible slippages in the implementation of investment projects could be offset by possibly higher current expenditure.