BANK ĊENTRALI TA' MALTA

EUROSISTEMA

CENTRAL BANK OF MALTA

# Economic Projections

# 2019 - 2021

2019:3

# 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. Growth in private consumption and government expenditure is expected to remain robust, while investment is expected to recover from the contraction recorded in 2018. Compared with the Bank's previous projections, GDP growth has been revised marginally downwards in 2019, due to a delay in a major investment project in the private sector.*

*During the projection horizon, GDP growth will be supported by domestic demand, mainly 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 strong domestic demand. The contribution of net exports should turn positive in 2021, reflecting faster export growth.*

*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 in 2019, before edging up to 1.9% by 2021, reflecting a pick-up in services and non-energy industrial goods inflation (NEIG).*

*Moreover, the government balance is expected to remain in surplus over the coming years, such that the debt-to-GDP ratio is projected to decline to below 40% by 2021.*

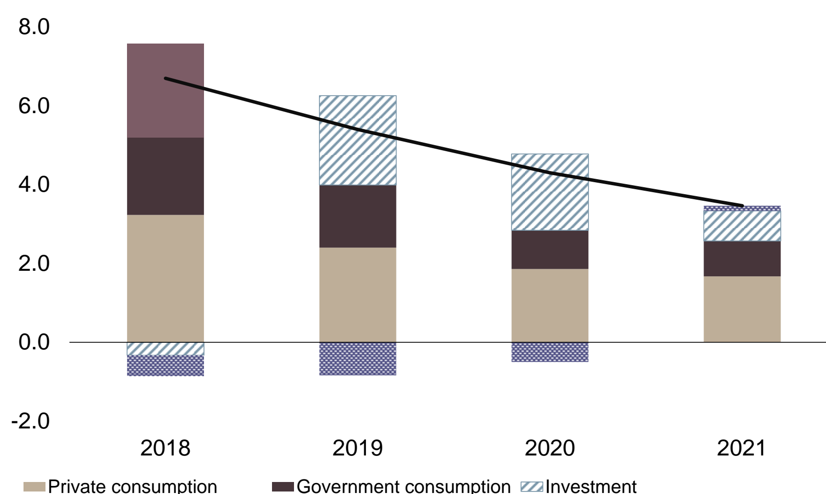
*Looking ahead, the external environment poses downside risks to the projections of economic activity and inflation. Conversely, domestic risks remain largely on the upside in the medium-term. The risks to public finances are broadly balanced, as possible slippages in the implementation of investment 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 should ease from 6.7% in 2018 to 5.4% in 2019, and further to 4.3% in 2020 and 3.5% in 2021. Compared with the Bank's previous projections, published in June 2019, GDP growth has been revised marginally downwards in 2019 due to delays in a major investment project. Economic growth forecasts for the following two years are virtually unchanged, as upward revisions to gross fixed capital formation are counterbalanced by downward revisions to export growth.

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




Source: Central Bank of Malta

Domestic demand will 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 is forecast to rebound in 2019 and increase strongly in 2020 due to planned expenditure on infrastructure and health projects. It is set to slow down markedly in 2021, once a number of large projects reach completion. On the other hand, net exports are set to dampen GDP growth in 2019 and 2020 due to a pick-up in imports of capital goods. The net export contribution is projected to remain negative during the first two years

[1] The Bank's outlook for the Maltese economy is based on information available up to 8 July 2019.

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

| | 2018[2] | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| **Real economic activity (% change)** | | | | |
| GDP | 6.7 | 5.4 | 4.3 | 3.5 |
| Private consumption expenditure | 7.3 | 5.5 | 4.3 | 3.8 |
| Government consumption expenditure | 12.8 | 9.8 | 5.8 | 5.2 |
| Gross fixed capital formation | -1.6 | 12.0 | 9.6 | 3.6 |
| Exports of goods and services | 1.8 | 2.1 | 2.2 | 2.6 |
| Imports of goods and services | 2.4 | 3.1 | 2.9 | 2.8 |
| **Contribution to real GDP growth (in percentage pts)** | | | | |
| Final domestic demand | 7.3 | 6.3 | 4.8 | 3.3 |
| Net exports | -0.5 | -0.8 | -0.5 | 0.1 |
| Changes in inventories | 2.4 | 0.0 | 0.0 | 0.0 |
| **Real disposable household income**[3] | 5.0 | 4.1 | 3.4 | 3.1 |
| **Household saving ratio**[3] | 18.4 | 17.3 | 16.6 | 16.0 |
| **Balance of payments (% of GDP)** | | | | |
| Goods and services balance | 20.0 | 18.1 | 16.9 | 16.5 |
| Current account balance | 9.8 | 8.5 | 7.9 | 7.7 |
| **Labour market (% change)**[4] | | | | |
| Total employment | 5.3 | 4.5 | 3.5 | 3.0 |
| Unemployment rate (% of labour supply) | 3.7 | 3.7 | 3.7 | 3.8 |
| **Prices and costs (% change)** | | | | |
| GDP deflator | 2.2 | 2.1 | 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 | 0.7 | 1.6 | 2.5 | 2.9 |
| **Business cycle** | | | | |
| Potential output (% change) | 6.2 | 5.1 | 4.9 | 4.3 |
| Output gap (% of GDP) | 1.0 | 1.3 | 0.8 | 0.0 |

[1] Data on GDP were sourced from NSO News Release 090/2019 published on 6 June 2019, while HICP and RPI data were sourced, respectively, from NSO News Release 075/2019 and 078/2019 (released on 15 and 21 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.

of the projection horizon but should turn positive in 2021, as some investment projects are expected to reach completion by late 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, reflecting continued positive but decelerating net migrant flows and an increase in the capital stock contribution. GDP growth is expected to remain above potential in 2019. Thereafter, potential output is projected to grow more than real GDP. As a result, while a positive output gap is set to persist throughout the projection horizon, this is expected to close 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 fast rate of growth of private consumption mirrors the large savings ratio estimated i by the Bank and the expectation that labour market conditions remain favourable over the medium-term. The savings ratio reached 18.4% in 2018, which is considered high from a historic and cross-country perspective. In the projection horizon, it is expected to decline further, while remaining relatively elevated, to around 16.0% in 2021. At the same time, private consumption is set to decelerate, reflecting the profile of real disposable income over the projection horizon, whose growth rate is set to taper off to around 3.1% by 2021, from 5.0% in 2018.

The profile of real government consumption is heavily influenced by the projected growth in intermediate consumption and compensation of employees, and the expected decline in 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.

Moreover, investment is projected to rebound in 2019 and grow at a fast pace in 2020, driven by large-scale outlays on infrastructure and health-related projects. It is then expected to slow down slightly in 2021, as some of these projects reach completion. Residential investment is foreseen to grow at a progressively slower pace, following the strong expansion seen in recent years. This view is also conditioned by the expectation of some deceleration in the issuance of building permits and in migrant flows. Compared to the Bank's earlier projections, however, investment growth has been revised slightly downwards in 2019 and upwards in 2020, as a major investment project in the private sector has been delayed.

In view of the softening international economic environment and elevated uncertainty, export growth is expected to remain muted and recover only gradually over the forecast horizon. In particular, goods exports are projected to contract again in 2019, reflecting the ongoing weaknesses in industrial production and the less benign external demand conditions this year. Although goods exports are expected to recover in 2020, they are set to grow less rapidly than foreign demand. Furthermore, growth in services exports

is expected to moderate slightly from the very high rates recorded recently.

Mainly mirroring the investment and export projections, import growth is set to pick up in 2019 before decelerating slightly in 2020 and 2021. This profile 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 slightly in 2019 and 2020, reflecting the expected path of services exports. Services imports then pick up marginally in the last year of the projection horizon. Overall imports are projected to slow down in 2021, though, reflecting the deceleration in private investment growth foreseen that year. Import shares are projected to decline marginally over the projection horizon, but the pace of decline is expected to slow down following the strong declines in the last few years (see Box 1).

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.

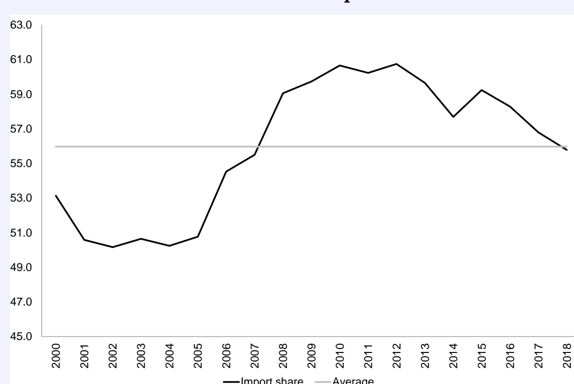
## Box 1: The recent decline in import shares - forecast implications [i]

The Maltese economy is a small and highly open to trade with other countries. Its performance is heavily conditioned by its ability to export and to utilise imported resources effectively and efficiently to create value-added. Developments in import intensities are thus fundamental in explaining economic growth in Malta. Furthermore, changes in these import intensities have contributed to the current accounts shift from deficit to surplus in recent years.

Chart A plots total import shares, defined as the ratio of total imports to total demand, during the last two decades. Total demand is defined as the sum of private consumption, government consumption, investment and exports. All variables are measured in real terms.

Between 2000 and 2018, the average import share stood at around 56.0%. The import share rose considerably between 2006 and 2012, peaking at around 60.7% in 2012, and has declined in almost each year thereafter. The total import share reached its historical average in 2018.

**Chart A: Total import shares**



The evolution of import intensities relating to goods and services are shown in Charts B.1 and B.2. In this Box, the goods import share is approximated by the ratio of goods imports to total demand when excluding services exports. The services import share is defined as the share of services imports to services exports.

**Chart B.1: Goods import shares**

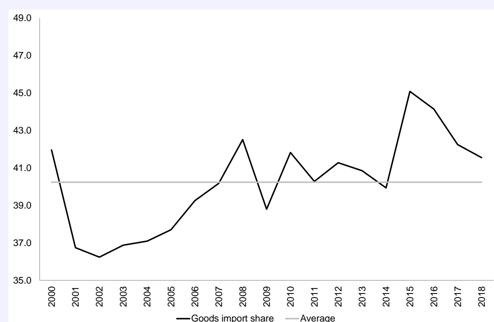
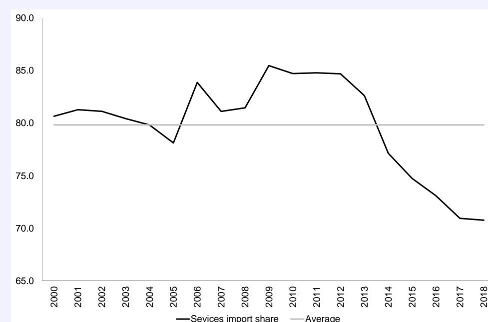



**Chart B.2: Services import shares**




The historical average of the goods import share is around 40.0% (see Chart 2a). In the period before 2006, the goods import share was well below average, reflecting a protracted period of relatively low investment growth. On the other hand, the goods import share rose sharply from 2012 onward, mirroring strong capital-intensive investment growth. The goods import share declined thereafter, reflecting the completion or nearing completion of a number of large-scale investment projects. However, it remains slightly above its historical average reflecting the relatively high investment-to-GDP ratio.

The recent decline in import shares is clearer on the services side of the economy. Chart B.2 shows that since 2012, the share of services imports to services exports has been on a steep decline, which implies that the economy was able to generate high value-added in service-oriented industries with fewer imports. To a large extent this reflects the increased diversification of the service sector in Malta, in particular the faster expansion of firms that are mostly dependent on information technology and skilled labour as their main inputs (such as computer programming and remote gaming), as against other firms that tended to require considerable inputs from abroad (such financial services and tourism). Indeed, in 2018, services imports were equivalent to around 71.0% of services exports, significantly lower than the historical average of 80.0%. This development has been fundamental in turning the current account balance from deficit to surplus.

**Forecast implications**

Chart C plots the projected change in the import shares and the actual change in the import share for each year since 2014.

The projected change is the difference between the projected share for the first projection year and the first outcome of the former. For example, for the year 2014, this would be the difference between the share projected for that year in the June 2014 forecasting round and the first outcome for 2013 (published in March 2014).

The actual change in import shares is the difference between the outcome for the first projection year and the outcome of the previous year, as published in the first national accounts vintage covering the whole projection year. In the aforementioned example, this would be the change between 2013 and 2014 outcomes derived from the first national accounts release for the full year 2014, which would have been published in March 2015.

For each year since 2014, the projections overestimated the actual change in the import shares. Indeed, in 2014 and 2015 the import share was expected to increase slightly, but it actually declined. In the following years, despite projecting some declines in import shares, these fell more than projected. This overestimation in import shares partly explains the underestimation of GDP growth during the last five years.

**Chart C: Forecast errors in import share changes**

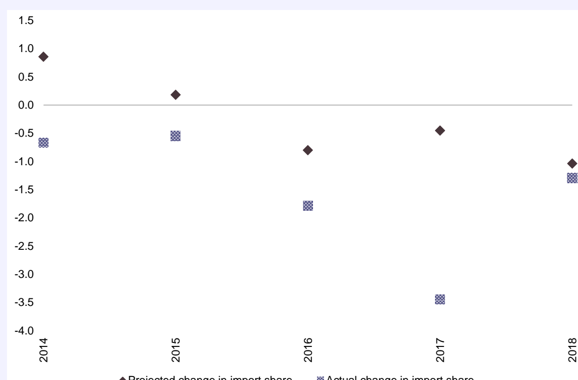
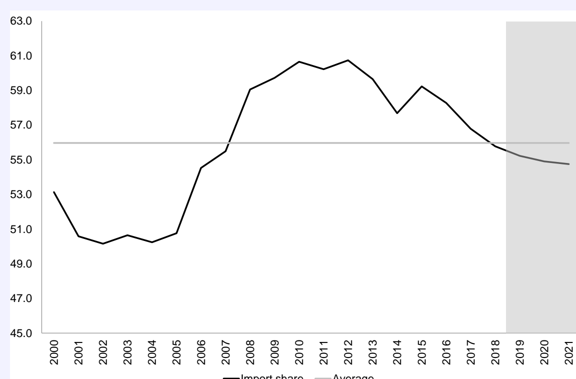



Chart D plots the latest projections of the import share. In this round, the import share is projected to decline somewhat over the projection horizon, but the pace of decline is expected to be slower than that observed in recent years. It is projected to stabilise to around 55.0% of total demand. The goods import share is projected to stabilise at its current levels, reflecting a persistently high investment-to-GDP ratio. Moreover, the services import share is projected to decline by around 0.3 percentage point by 2021, and thus almost stabilising around its recent low level.

**Chart D: Forecast 2019:3**




[i] Prepared by Ian Borg, a principal economist within the Economic Analysis Department of the Central Bank of Malta.

[ii] See Grech, A. G., & Rapa, N., (2019), 'A reassessment of external demand's contribution to Malta's economic growth', Journal of Economic Structures, 8(12): 1-13.

[iii] See Grech, A.G., (2019), 'From a deficit to a surplus country The case of Malta', European Scientific Journal, 15(4): 130-142.

[iv] Investment has a strong import content in Malta. For further details on import intensities by aggregate demand component, refer to Grech, A. G., & Rapa., N., (2016), 'Trends in Malta's current account and their underlying causes', CBM Policy Note.

## 2 Labour market

As economic activity moderates over the projection horizon, the pace of job creation 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 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.

## 3 Prices

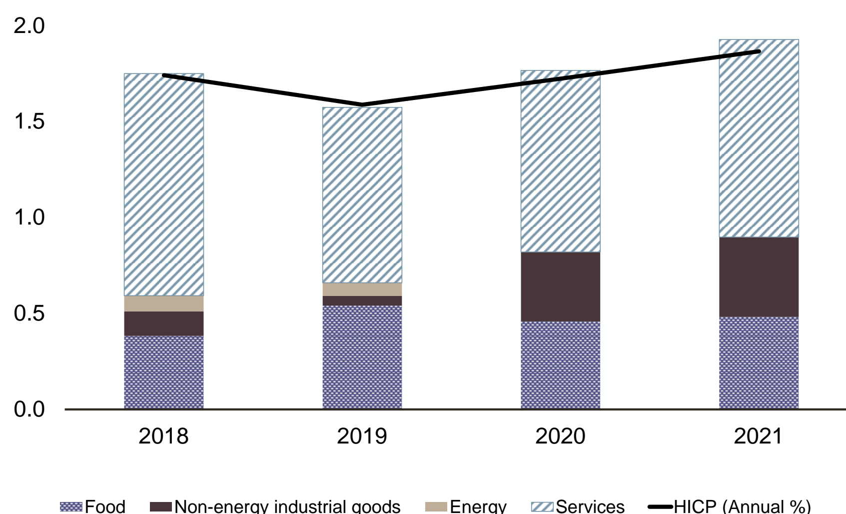
HICP inflation in Malta is set to moderate to 1.6% in 2019, from 1.7% in 2018. Thereafter, consumer price inflation is expected to accelerate gradually, reaching 1.9% in 2021 (see Chart 2).

The deceleration in 2019 mainly reflects a smaller contribution from services inflation, which had been boosted by a large increase in the weight of accommodation services in 2018. Furthermore, weakness in 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, mirroring expected developments in the international price of oil. This is assumed to affect the price of transport fuels through a lagged and partial pass-through.

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. NEIG inflation is also set to pick up, mirroring a recovery in imported inflation. Food inflation is projected to remain robust over the projection horizon.

By the cut-off date of this forecast round, there were announcements of an increase in the price for milk and transport fuels. These are expected to lead to a small upward revision in the inflation forecasts for food and energy mostly in 2019.

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




Source: Central Bank of Malta

# 4 Public finance

The fiscal balance is expected to remain in surplus throughout the forecast horizon, sustained by positive headline primary balances (see Table 2). However, the surplus is expected to decline from 2.0% of GDP in 2018 to 1.0% of GDP in 2019 and 2020, before edging up to 1.1% of GDP in 2021. This profile is mainly driven by lower gross savings.

Compared with the Bank's earlier projections, the fiscal outlook remains mostly unchanged.

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 is expected to increase, driven by higher income taxes levied on households and corporations. 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 expected to increase at a smaller 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, which is set to decline further from the levels received in 2018. Income from rents and dividends is also expected to decrease.

The share of current spending items in GDP is expected to remain broadly unchanged over the forecast period. Compensation of employees and intermediate consumption as a share of GDP are set to increase. The former is driven by higher recruitment and allowances in the health and education sectors. At the same time, the profile of intermediate consumption in GDP is set to be mainly driven by higher health-

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 | 37.4 | 36.9 | 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 | 43.2 | 40.6 | 38.3 |
| **Detailed Breakdown** | | | | |
| Current Revenue | 37.7 | 36.8 | 36.6 | 36.5 |
| Current taxes on income and wealth | 13.4 | 13.6 | 13.6 | 13.7 |
| Taxes on production and imports | 12.9 | 12.6 | 12.5 | 12.5 |
| 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 | 32.4 | 32.5 |
| Compensation of Employees | 11.2 | 11.2 | 11.3 | 11.4 |
| 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 | 4.4 | 4.2 | 4.0 |
| Capital Revenue | 1.1 | 1.7 | 1.4 | 1.3 |
| 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 | 0.5 | 0.6 | 0.4 | 0.1 |
| Temporary government measures | 0.0 | 0.0 | 0.0 | 0.0 |
| Structural balance | 1.5 | 0.4 | 0.6 | 1.0 |

[1] CBM calculations based on NSO News Release 90/2019 (published on 6 June 2019) and News Release 105/2019 (published on 8 July 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.

related costs.

By contrast, social payments are meanwhile set to increase more slowly than GDP, owing to measures aimed at reducing dependence on social assistance and still favourable labour market developments. The ratio of interest payments in GDP is also expected to decrease, reflecting lower financing needs as well as the prevailing low interest rate environment.

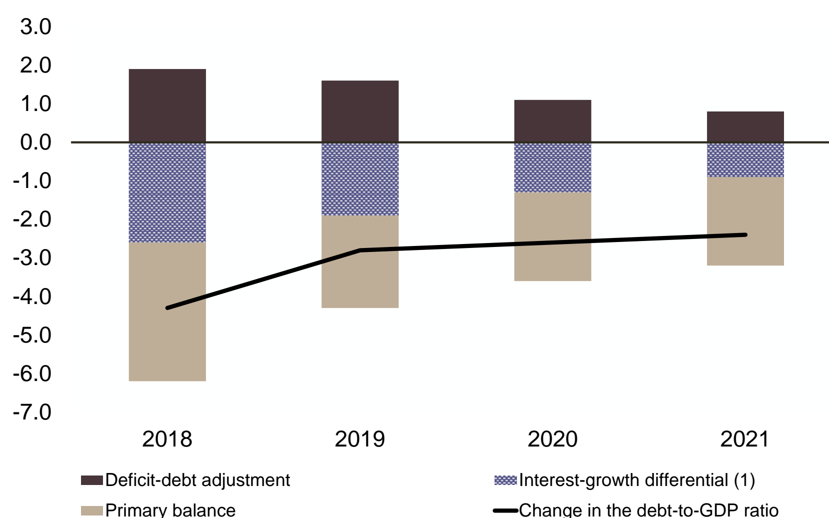
The shortfall in the balance between capital revenue and capital expenditure is expected to increase in 2019 and to decline in the outer years of the forecast period. The increased shortfall in 2019 is due to a sharp increase in investment outlays, reflecting higher spending on domestically-funded road projects and on other projects which are part-financed by EU funds under the 2014-2020 funding framework (see Box 2). 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 European System of Central Banks. The parameters for estimating the structural balance are based on CBM estimates and thus differ from those used by the European Commission and the Maltese Government.

The Central 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 1.5% of GDP in 2018 to 0.4% of GDP in 2019, before improving to 1.0% by 2021. This reflects the expected closure 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

## Box 2: Forecasts of EU-funded capital expenditure [i]

The Bank makes separate projections for the domestically and EU funded components of capital expenditure i.e. government investment and capital transfers. This box gives an overview of the nature of the funds monitored by the Bank, and outlines the latest forecasts for EU-funded capital spending.

**EU funds monitored by the Bank**

The Bank analyses capital projects that are partly financed from the largest structural and investment funds. These include the European Regional and Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and Migration and Security Funds. Overall, these funds, amounting to around EUR932.0 million (7.6% of GDP) excluding the Government's co-financing element, form the vast majority of resources available for Malta under the 2014-2020 Programme. The bulk of these funds are co-financed from the ERDF and the CF and are earmarked for road construction, improving the management of water resources, the construction of new facilities at MCAST and the University of Malta and building a new regional health hub.

Actual amounts spent on capital projects from the ERDF, CF and ESF by 2018 amounted to around EUR145.0 million (1.2% of GDP). The bulk of outlays mostly took place in 2017 and 2018, as in previous years Government was still utilising the remaining funds allocated under the 2007-2013 Programme. By 2017, actual spending financed from these funds made up around 12.0% of the committed total. By 2018, the absorption rate rose to around 20%.

According to internal estimates, on average just under 70% of EU co-funded projects were classified as government investment between 2017 and 2018, with the remaining listed as capital transfers.

**Forecasts**

The Bank forecasts the annual level of capital expenditure financed from the above-mentioned funds, by assessing when the main projects are likely to be completed. This assessment is derived from government announcements, media reports and other information supplied by the Ministry for Finance. This information is also supplemented

by expert judgement.

The current forecast exercise is based around two assumptions. Firstly, Government is assumed to make full use of the available funds, as was the case for the previous Programme. It is also assumed that work on ongoing road construction projects, which started in earnest in 2018, continues unabated.

Consequently, the share of EU-funded capital expenditure in GDP is expected to increase markedly in 2019 before declining in 2020 and 2021 (see charts A and B). However, outlays are expected to remain high in level terms throughout this period. This reflects efforts to complete large infrastructural projects, particularly in relation to road construction and water management. On average, between 2019 and 2021, EU funds are forecast to form around 25.0% of investment spending, and around 35.0% of capital transfers payable.

According to the Bank's projections, the EU funds absorption rate is set to rise to around 80% by 2021. This is in line with experience under the 2007-2013 financing framework, when the actual take-up of funds after a similar number of years stood around 77.0%.

Chart B compares the Bank's projected outlays on gross fixed capital formation, with the latest Government projections as published in the *Update of the Stability Programme 2019-2022*. Overall, the Bank expects a slightly slower rate of increase in gross fixed capital formation in 2019, but a higher level of spending in 2021. This is mainly due to differences in the forecast profile of EU funded expenditure.

**Chart A: EU-funded capital expenditure**

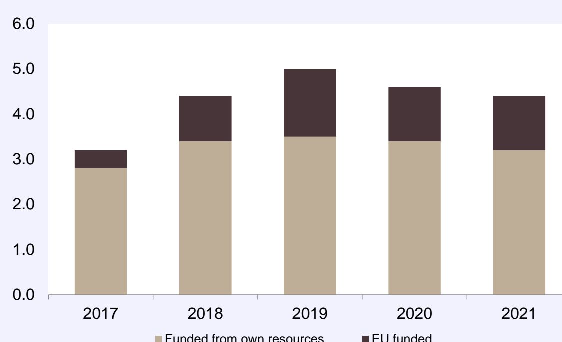
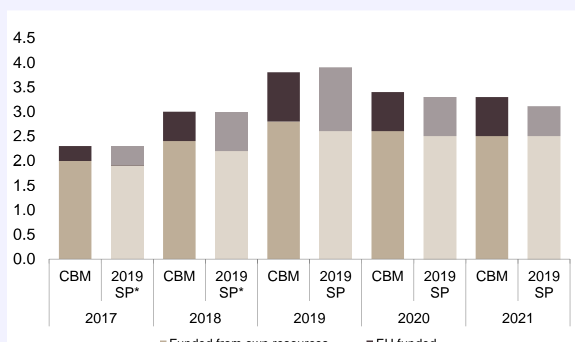



**Chart B: EU-funded gross fixed capital formation**




[i] Prepared by John Farrugia, a principal economist within the Economic Analysis Department of the Central Bank of Malta.

[ii] Source: Parliamentary Secretary for EU Funds and Social Dialogue: www.eufunds.gov.mt

[iii] Source: European Commission: https://cohesiondata.ec.europa.eu/countries/MT
[iv] According to the prevailing European Commission's rules, Governments were able to make use of available funds up to 2 years (n+2) after the end of the Programme period.
[v] See press release by the Ministry for European affairs and implementation of the electoral manifesto, '100% absorption rate for EU funds,' Reference Number: PR170528, Press Release Issue Date: 3 March 2017.

# 5 Risks to the projections

Risks to the GDP growth projections are broadly balanced. In the short to medium term the main risks are external. In particular, global activity indicators have softened further since the cut-off date for these projections amidst indications of escalating trade tensions and uncertainty about Brexit, which could lead to a downward revision in the foreign demand assumptions and, consequently, lower than anticipated export growth. 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 the CBM investment projections especially in the outer years.

Risks to inflation are broadly balanced. On the one hand, readings for HICP inflation in May and June, which were published after these projections were finalised, surprised slightly on the downside. Furthermore, external price pressures remain weak, which might act as a further drag to inflation. These are balanced with the recent increases in food and energy prices.

Risks to public finances are broadly balanced. These reflect the possibility of slippages in the implementation of investment projects, which are however offset by the possibility of overruns in current expenditure.