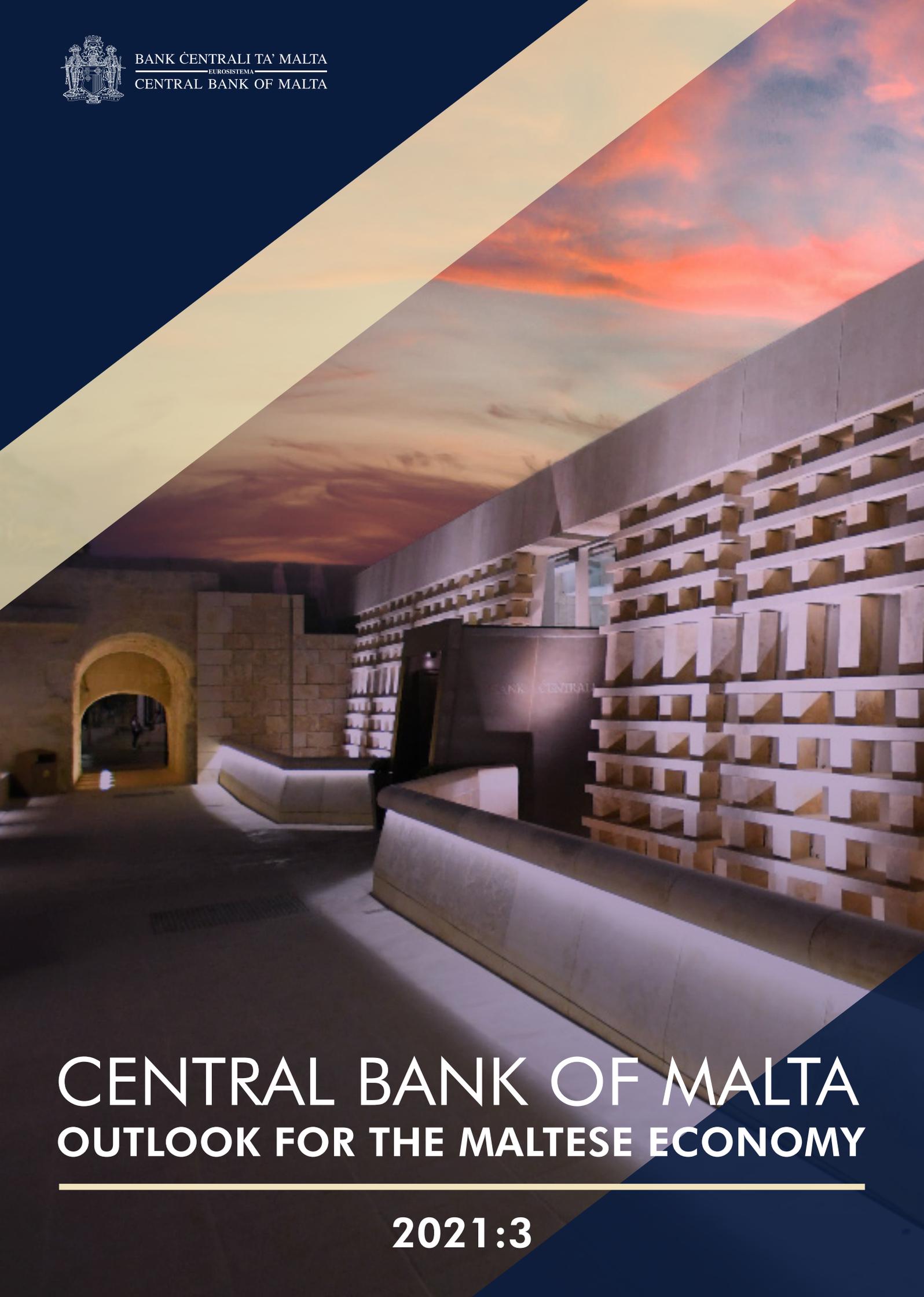




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CENTRAL BANK OF MALTA OUTLOOK FOR THE MALTESE ECONOMY

2021:3

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Address

Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone

(+356) 2550 0000

Fax

(+356) 2550 2500

Website

www.centralbankmalta.org

E-mail

info@centralbankmalta.org

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OUTLOOK FOR THE MALTESE ECONOMY 2021-2023

Overview

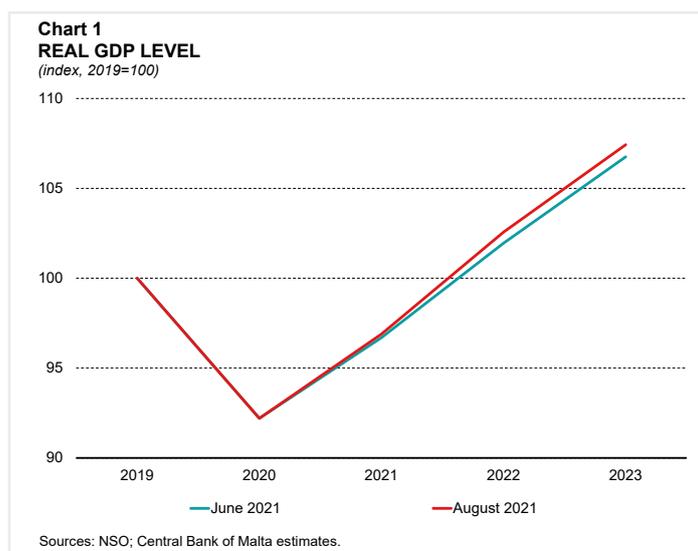
Since the June projections were published, the pandemic situation continued to evolve, both in Malta and abroad. Following the strong decline in active cases during the second quarter of this year, the Government embarked on a gradual easing of COVID-19 restrictions, including the limited re-opening of international travel since June. Following a renewed increase in active cases in July, the Government introduced some restrictions related to international travel, whereby persons over 12 years of age need to quarantine or produce a negative swab test, unless they are in possession of a valid vaccination certificate recognised by the Superintendent of Public Health. Furthermore, English language schools were closed, although a number have since re-opened. At the same time, vaccination continued at a brisk pace, with over 87% of the adult population being fully vaccinated according to data published by the European Centre for Disease Prevention and Control.

In addition, the international economic environment continued to improve and economic activity is rebounding in several trading partners. Nevertheless, active cases of COVID-19 have also increased somewhat in several countries as a result of the Delta variant, which suggests that international travel will likely retain restrictions for some time.

At the same time, the increase in the rate of vaccination – both in Malta and abroad – as well as the improved international economic environment, should provide tailwinds for growth. On the other hand, we expect that this year tourism will be weaker than expected in June in light of the escalation of measures to stem the increase of active cases across Europe and frequent changes to travel advice (see Box 1). In addition, many firms that participate in the Bank's Business Dialogue exercise have expressed growing concern regarding labour shortages, which could act as a drag on the recovery in the short-run; such shortages should subside in the medium run as the pandemic situation improves and international travel normalises.

Economic outlook¹

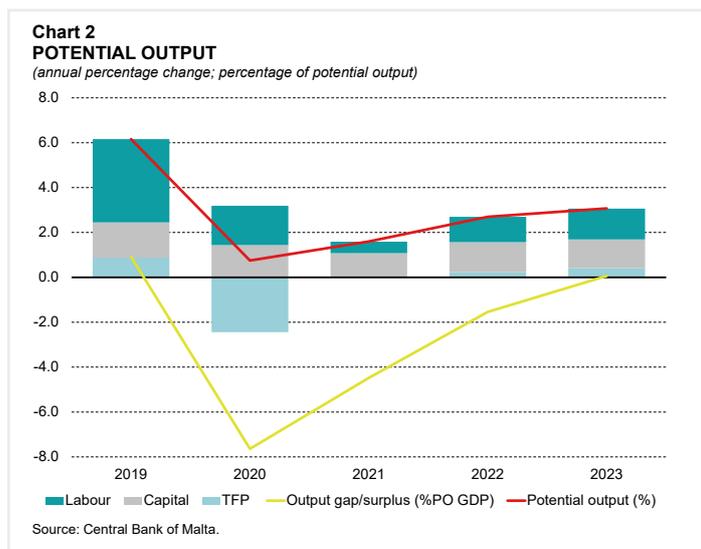
The level of GDP in 2021 is expected to recover somewhat from last year's contraction but is set to remain below the 2019 level (see Chart 1). It is projected to exceed 2019 levels in 2022. The level of GDP has been revised upwards when compared to the previous projection round published in June 2021, with the 2022 level of GDP now expected to exceed that prevailing before the pandemic by around 2.6%.



¹ The Bank's projections for the Maltese economy are based on information available up to 16 August 2021.

In 2020, the productive capacity of the Maltese economy was adversely affected by containment measures and uncertainty. It also attracted a smaller net inflow of foreign workers in 2020, saw a drop in average hours worked and postponement of investment, as well as lower capacity utilisation rates. As a result, potential output growth slowed down significantly. In 2021, potential output growth is expected to pick up to 1.6%, reflecting an improvement in capacity utilisation, as well as a recovery in investment.

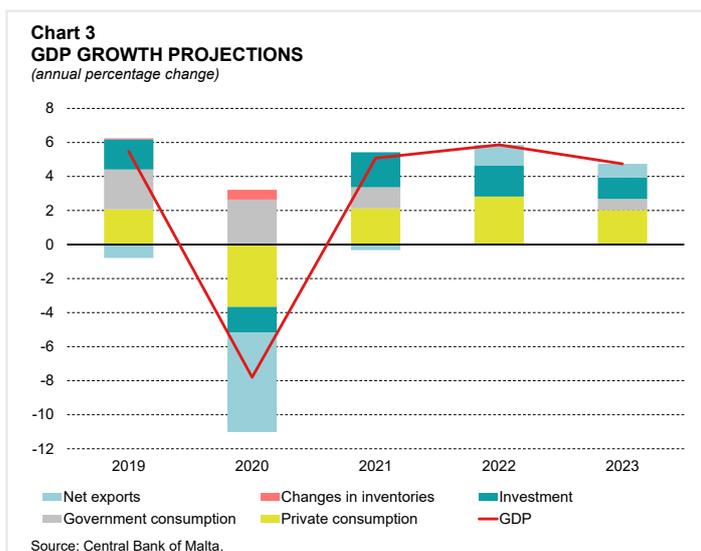
However, the labour contribution to potential output is assumed to remain limited, as ongoing travel restrictions impinge on the ability of firms to attract foreign workers, especially those from non-EU countries (see Chart 2). Potential output growth is projected to increase further in 2022 and 2023, mainly reflecting a recovery in productivity and a return to net migration flows similar to those seen in the pre-pandemic period.



The economy is expected to continue operating below its potential until 2022. The output gap is then expected to practically close by 2023.

GDP is set to grow by 5.1% in 2021, 5.9% in 2022 and 4.7% in 2023 (see Table 1). Compared to the Bank's earlier projections, GDP growth is being revised upwards by 0.2 percentage point in 2021 and by 0.4 percentage point in 2022. No significant revisions were made to 2023. The upward revision in 2021 is driven primarily by higher private consumption and non-tourism exports, which reflect improved consumer sentiment due to the higher vaccination rate and to higher foreign demand. These tailwinds are partly offset by weaker tourism exports than those envisaged in the June 2021 projection round. In addition, labour shortages are assumed to limit the speed of recovery in 2021. The latter headwinds are then expected to ease in 2022, and – hence – GDP growth is being revised upwards more significantly than in 2021.

In 2021, all domestic demand components are projected to grow significantly as the economy gradually recovers from the 2020 contraction (see Chart 3).



	2020 ⁽²⁾	2021	2022	2023
Real economic activity (% change)				
GDP	-7.8	5.1	5.9	4.7
Private consumption expenditure	-8.0	4.7	6.3	4.5
Government consumption expenditure	15.2	5.7	0.0	3.1
Gross fixed capital formation	-7.1	9.6	8.2	5.5
Exports of goods and services	-7.0	6.3	5.7	3.6
Imports of goods and services	-3.3	7.0	5.2	3.3
Contribution to real GDP growth (in percentage pts)				
Final domestic demand	-2.0	5.4	4.6	3.9
Net exports	-5.9	-0.3	1.2	0.8
Changes in inventories	0.6	0.0	0.0	0.0
Real Disposable Income ⁽³⁾	1.7	2.2	2.3	3.2
Household Saving Ratio ⁽³⁾	28.2	26.8	24.1	23.2
Balance of payments (% of GDP)				
Goods and services balance	7.6	7.1	8.0	8.5
Current account balance	-3.6	-2.5	-0.3	0.8
Labour market (% change)⁽⁴⁾				
Total employment	2.9	1.1	2.2	3.0
Unemployment rate (% of labour supply)	4.3	3.9	3.7	3.5
Prices and costs (% change)				
GDP Deflator	1.4	1.6	1.8	1.9
RPI	0.6	1.1	1.6	1.7
Overall HICP	0.8	0.5	1.7	1.8
HICP excl. energy	0.9	0.7	1.8	1.9
Compensation per employee	-0.2	2.1	2.8	3.1
ULC	11.3	-1.8	-0.8	1.3
Business Cycle				
Potential Output (% change)	0.8	1.6	2.7	3.1
Output gap (% of GDP)	-7.6	-4.5	-1.5	0.1
Technical Assumptions				
EUR/USD exchange rate	1.14	1.21	1.21	1.21
Oil Price (USD per barrel)	42.3	65.8	64.6	61.9

Sources: NSO; Central Bank of Malta.

⁽¹⁾ Data on GDP were sourced from NSO *News Release* 097/2021 published on 28 May 2021, while HICP and RPI data were sourced, respectively, from NSO *News Releases* 127/2021 and 131/2021 (published on 16 July 2021 and 22 July 2021). The July HICP flash release, published on 30 July 2021, was also incorporated.

⁽²⁾ Actual data as per NSO *News Releases* 097/2021, 127/2021 and 131/2021.

⁽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.

Overall, domestic demand is expected to be the main driver of growth, though the recovery in all demand components will be partially absorbed by an increase in imports. Net exports are expected to exert a smaller negative impact on GDP growth in 2021, as foreign demand starts to recover, with a positive contribution thereafter.

A look at the expenditure components in more detail shows that private consumption is expected to start recovering this year, following the sharp contraction in 2020. It is expected to benefit from

the phasing out of containment measures, lower uncertainty due to vaccination, as well as support from the voucher scheme. However, private consumption will remain somewhat below its 2019 level, primarily due to continued limitations to international travel and remaining restrictions impacting certain components in consumption. Private consumption is set to mount a more meaningful recovery in 2022, as the factors weighing down on consumption this year will become less relevant going forward. Moreover, as a result of the pandemic and related restrictions on mobility and social interactions, households have accumulated a high stock of savings. Hence, we expect some pent-up demand to spur private consumption growth during 2022 and 2023 as the saving ratio falls from recent peaks.

Due to the pandemic, private sector firms' investment plans were mostly postponed last year. As uncertainty begins to recede and the economy begins to recover in 2021, investment is expected to bounce back. This is corroborated by feedback collected from the Bank's dialogue exercise with industry. Furthermore, the EU Budget as well as Next Generation EU (NGEU) funds will provide a substantial boost to government investment during the next three years.

Exports are set to recover somewhat this year from the sharp decline in 2020 in line with improving foreign demand, but levels will remain relatively low due to the expected muted recovery in tourism. The recovery in exports should continue in 2022 and 2023, as travel disruptions ease and travellers respond favourably to the high vaccination rate in Malta, although travel exports are not expected to reach 2019 levels until the end of the projection horizon (see Box 1).

With regards to imports, these are set to increase in 2021, reflecting higher domestic demand as well as positive developments in goods exports. Imports are then set to grow further over the rest of the projection horizon, reflecting the expected recovery in final demand.

The trade surplus is set to narrow this year, reflecting the projected negative net export contribution. In 2022 and 2023, the trade surplus is set to rise once again due to the envisaged positive contributions from net exports. As a result, the current account deficit is projected to narrow until 2022, and return to a small surplus in 2023.

BOX 1: TOURISM EXPENDITURE PROJECTIONS¹

Tourism has been strongly affected by the pandemic and the ensuing efforts to mitigate its spread, both within communities and across countries. The industry has been particularly impacted by the pandemic. Tourism is a service industry reliant on close personal interaction, and dependant on the availability of accommodation, restaurants and catering, cultural events, travel and other amenities. In Malta's case, disruptions to these services were further amplified by national characteristics of the industry, such as the inability of tourists to travel to Malta using their own transportation – which is feasible in other continental European countries – and the small size of the national market for internal tourism when compared to the foreign component. This box describes recent outcomes and projected developments in tourism using several sources.

¹ This box was prepared by Reuben Ellul, a principal economist within the Economic Analysis Department.

High-frequency tourism data

NSO data indicate that in the first six months of this year tourism arrivals were down by 62.3% over 2020 and stood at 11.6% of 2019 levels.² A large share of the difference with respect to 2020 can be primarily attributed to tourists arriving in January and February 2021, which were the last months with normal travel arrangements and tourist flows before the

outbreak of the pandemic. In stark contrast, the first months of 2021 did not register similar arrivals, leading to a negative statistical base-effect up until March 2021.

Traffic data from Malta International Airport show that the anticipated re-opening of tourism in June brought about significantly more activity than in recent months. However, passenger transits were still down by 73.6% compared to June 2019.³ This reflects the sharp decline in air travel seen over the past year and a half.

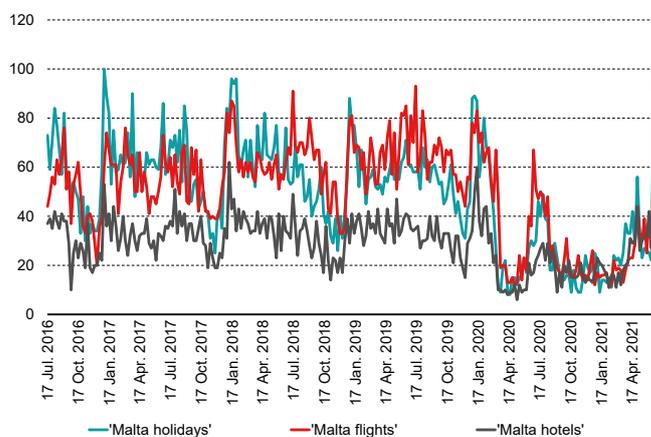
As COVID-19 cases in Malta decreased by end-June, and tourist operators geared for the reopening of tourist travel across Europe, there was heightened interest in Malta as a travel destination. A look at three key search terms on Google Trends, which are monitored by the Bank for an indication of likely interest, shows a significant surge in interest and popularity occurring from mid-June onwards (see Chart 1).

However, as cases surged again in several European countries, and governments across the EU struggled to provide clear travel advice to inform their citizens' holiday plans, interest (as measured by these search terms) began to stabilise or even fall in the first weeks of July.

Tourist expenditure projections

The projections for the travel export component were based on a very cautious stance throughout the forecast horizon for this component. The projections were underpinned by internal assessments on travel likelihood using high-frequency data, as well as projections published by international organisations. Moreover, as part of the Eurosystem projection exercise, a common pandemic narrative is shared among euro area national central banks.

Chart 1
WEEKLY SEARCHES FOR SELECTED KEY TERMS
(index; peak popularity = 100)



Source: Google Trends.

² NSO News Release 141/2021.

³ Malta International Airport plc. *Company Announcement* 351/2021 – June Traffic Results.

In the Bank's projections, this common narrative was matched with that for flight traffic projection scenarios constructed by Eurocontrol, which is a pan-European, civil-military organisation dedicated to support European aviation. As a word of caution, it is important to note that while Eurocontrol publishes projections for European flight traffic, the Bank's projections look at tourist flows and expenditure.

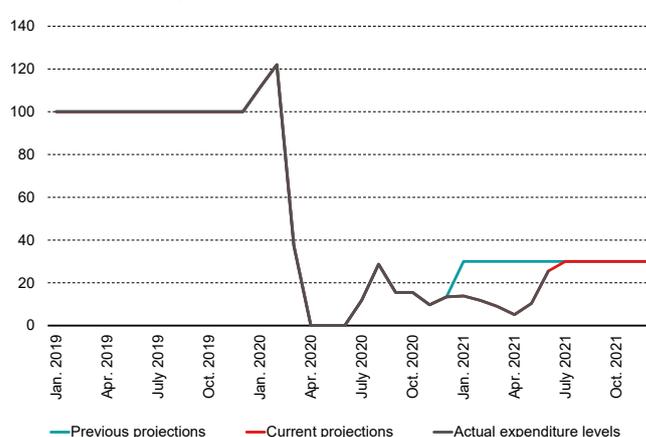
2021 projection

In previous projection exercises – given the lack of availability of high-frequency data for Malta – forecasts for travel exports were built on the travel scenarios provided by Eurocontrol. As more data became available, these scenarios were compared to tourist expenditure outturns in the first months of 2021 and assessed against the prevailing stringency levels. The projected level of tourist expenditures in Malta in the June projections exercise was estimated to stand in 2021 at 30.0% of 2019 levels. On the basis of incoming data for the first half of 2021, this estimate was lowered to 22.0% in these updated projections due to lower-than-expected outturns in recent months (see Chart 2). This update also assumes that from July to December 2021, expenditures will continue to stand at around 30.0% of 2019 levels.

Medium-term projections

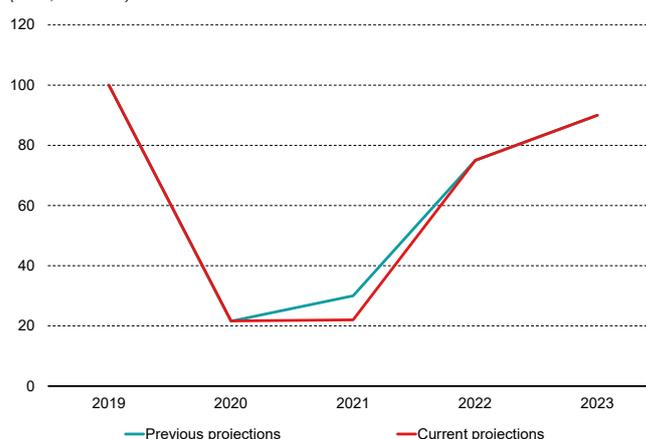
Tourist exports are then projected to rise to 75.0% and 90.0% of 2019 levels in 2022 and 2023, respectively (see Chart 3). For 2022, the latest Eurocontrol European flight projections update envisages a strong rebound in its three scenarios.⁴

Chart 2
MONTHLY TOURISM EXPENDITURE COMPARED WITH 2019 DATA
(per cent of corresponding month of 2019 = 100)



Sources: NSO; Central Bank of Malta estimates.

Chart 3
TRAVEL EXPORTS PROJECTIONS
(index, 2019=100)



Source: Central Bank of Malta estimates.

⁴ Eurocontrol *Forecast Update 2021-2024*: "European Flight Movements and Service Units Three Scenarios for Recovery from COVID-19," May 2021.

These range between 84.0% of 2019 traffic levels in the optimistic scenario to 59.0% in the most pessimistic scenario. For the mid-range scenario, a share of around 72% is assumed. It is important to highlight that Eurocontrol lowered its projections in these scenarios when compared to its previous projections.⁵ The Bank's assumption of around 75.0% of 2019 expenditure levels is slightly higher than Eurocontrol's mid-range scenario estimate, which only envisages wide vaccination availability by summer 2022, and the easing of travel restrictions by the first quarter of 2022.

Caution is important when constructing such projections even if Malta's vaccination rates have been particularly strong with the vaccination programme outperforming its euro area peers. The lower vaccination rate in Malta's main target markets in the euro area, as well as uncertainty linked with variants, and travel restrictions and changing travel regulations are further reasons for caution with respect to projecting tourist arrivals.

Implications

These projections imply subdued tourist arrivals in 2021, and subsequently low expenditures, with an indication of a strong rebound in travel expected in 2022. Yet, tourist activity is still expected to remain below pre-pandemic levels in 2023. This indication is contingent on a resolution of the pandemic, the absence of new variants, and progress with vaccinations in Europe.

Looking at the long term, current assessments of the international tourism industry by the United Nations World Tourism Organisation (UNWTO) indicate that it is unlikely for international tourism levels to return to 2019 levels before 2023, with a good proportion of market operators and experts indicating the possibility that 2019 levels may be reached in 2024 or beyond.⁶

Finally, authorities in Malta appear to have taken strong steps to support the sector in the pandemic. A new strategy for tourism was published to increase the industry's viability and value added, and make it more environmentally sustainable over the medium to long term.

⁵ The previous Eurocontrol projections, which were used to construct the Bank's June 2021 tourist expenditure figures, were published in November 2020.

⁶ UNWTO *World Tourism Barometer and Statistical Annex*, January 2021.

Labour Market

The labour market is expected to remain strong in 2021. Nevertheless, employment growth is envisaged to remain rather limited this year. In part, this reflects a gradual return to normal working hours following their decline last year and during the shutdown in March and April of this year. In addition, net migration is envisaged to remain rather limited this year due to ongoing travel restrictions and due to the low vaccination rate outside Europe. Hence, labour shortages are assumed to remain binding this year. Employment growth is thus set to decelerate to 1.1% in 2021. It is then set to grow more rapidly in 2022 and 2023, but more slowly than GDP, as firms seek to regain some of the productivity losses experienced during the pandemic.

The unemployment rate is projected to decline to 3.9% this year, from 4.3% last year. It is then set to drop further and reach 3.5% by the end of the projection horizon. This would mark a new record low for Malta.

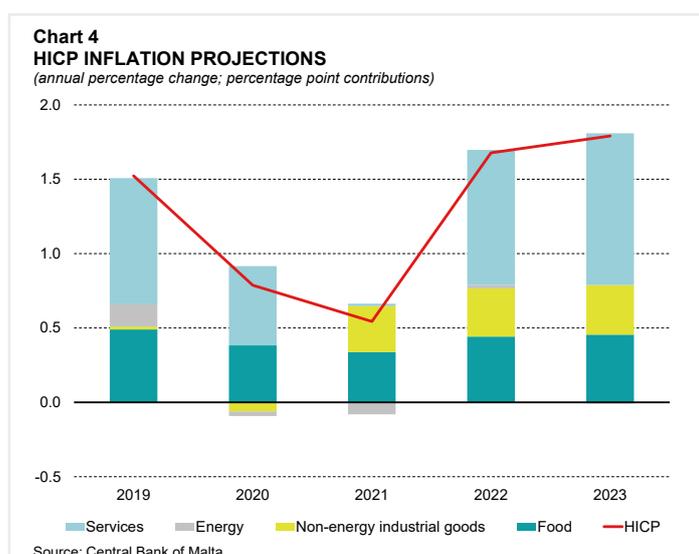
As regards wages, growth in compensation per employee is expected to rise by 2.1% in 2021. This reflects some growth in private sector compensation per employee following the contraction in 2020. Moreover, public sector compensation per employee is expected to rise at a faster rate in 2021. Wage growth for the whole economy is envisaged to pick up further in 2022 and 2023, reflecting the gradual recovery of demand and tightness in labour market conditions.

Prices

With regard to consumer prices, annual inflation based on the Harmonised Index of Consumer Prices (HICP) is projected to moderate in 2021, largely reflecting technical factors related to the computation of the index. In particular, households' consumption basket changed considerably in 2020 as a result of the pandemic, which brought about a large change in the weights of certain subcomponents of the index in 2021.

In 2021, HICP inflation is projected to stand at 0.5%, down from 0.8% in 2020. Thereafter, inflation is expected to pick up, reaching 1.7% in 2022 and 1.8% in 2023 (see Chart 4). When compared with the Bank's previous forecasts published in June 2021, overall HICP inflation has been revised up throughout the forecast horizon. These upward revisions reflect stronger than projected inflation outcomes in recent months, as well as the intensification of producer price pressures brought about by supply-chain disruptions. In particular, the Bank's dialogue exercise suggests an increase in transport costs related to the importation of goods. At this stage, this appears to be mostly a reflection of the pandemic rather than the result of Brexit's impact on trade flows.

Services inflation is expected to ease significantly in 2021, driven primarily by changes in weights of several subcomponents. Moreover, energy inflation is expected to turn more negative, reflecting last year's cuts in gas and fuel prices, which imply weaker inflationary pressures in the first half of 2021. These are expected to offset the lagged impact of the recent increase in oil prices. In addition, food inflation is projected to decelerate in 2021, due to lower processed food inflation, reflecting weaker than expected outcomes for the first two quarters of 2021. By contrast, NEIG inflation is expected to turn positive, following negative rates in 2020 and indications of increasing price pressures in source markets. This reflects increases in transport costs as well as an increase in the prices of raw materials due to international shortages.



Indeed, prices of durable and semi-durable goods have recently increased, following a sequence of declines.

HICP inflation is expected to pick up in the medium term, reflecting the expected partial recovery in tourism following a successful vaccination drive in 2021. In particular, services inflation is expected to pick up somewhat in 2022 and 2023.²

Public finance

In 2021, the general government deficit is set to narrow slightly to 9.9% of GDP (see Table 2). Outlays on COVID-related measures are expected to remain significant this year. The deficit is set to narrow further over the rest of the forecast horizon and is expected to reach 4.1% by 2023. This improvement is driven by the unwinding of COVID-19 measures and a more favourable macroeconomic environment.

Compared with the Bank's earlier projection, a smaller deficit is projected in the outer years of the forecast horizon. These developments largely reflect revisions in the forecast profile of macroeconomic variables.

The share of current revenue in GDP is set to decline in 2021 as the recovery in tax revenue is expected to be weaker than that in nominal GDP. Current revenue is set to grow at a stronger pace than GDP in 2022 and retain a similar rate of growth in 2023, mainly due to the profile of indirect tax receipts.

Meanwhile, the share of current expenditure in GDP is expected to decline over the forecast horizon. This reflects the gradual unwinding of COVID-related outlays on support measures, medical treatment and vaccination. Most of these measures are set to expire by end-2021. This affects the profile of subsidies and, to a lesser extent, intermediate consumption, benefits and compensation of employees. At the same time, the share of interest payments in GDP is expected to increase due to rising financing needs.

The share of capital expenditure in GDP is projected to increase in 2021. It is expected to remain unchanged in 2022 and to grow by less than GDP thereafter. Overall, spending on domestically-funded projects is expected to remain elevated throughout the forecast horizon, owing mostly to investment in health, transport and the environment. At the same time, outlays on EU-financed projects are set to increase sharply in 2021, as works on projects which were delayed in the previous year due to the pandemic come to completion. EU-funded capital expenditure is set to increase again in 2022, due to the expected take up of NGEU grants.³

The structural deficit is estimated to widen to 7.8% in 2021. It is then projected to narrow to 3.8% by 2023, as COVID-related measures are unwound (the latter are not treated as one-off measures and thus affect the underlying structural position). It should be noted that owing to

² Inflation projections keep the item weights unchanged at their 2021 levels for 2022 and 2023. These weights varied significantly in 2021, following changes to consumption patterns brought about by the pandemic. As the pandemic evolves and consumers adjust their expenditures, there may be other large revisions to expenditure weights which may significantly change the path for these projections in future years.

³ In line with Malta's Recovery and Resilience Plan, the Bank's projections assume that the Government will only use the grant element of the NGEU.

Table 2**PROJECTIONS FOR MAIN FISCAL ITEMS (% of GDP)⁽¹⁾**

	2020 ⁽²⁾	2021	2022	2023
Headline aggregates				
Total Revenue	36.8	36.6	37.1	37.0
Total Expenditure	47.0	46.6	42.0	41.1
General Government Balance	-10.2	-9.9	-4.9	-4.1
of which: Primary Balance	-8.9	-8.7	-3.6	-2.7
General Government Debt	54.8	62.5	63.4	63.8
Detailed Breakdown				
Current Revenue	35.3	34.4	34.6	34.8
Current taxes on income and wealth	13.3	12.9	12.5	12.6
Taxes on production and imports	10.8	10.6	11.6	11.8
Social contributions	6.6	6.3	6.1	6.0
Other current revenue ⁽³⁾	4.5	4.5	4.4	4.4
Current Expenditure	41.3	40.6	36.1	35.5
Compensation of employees	12.3	12.4	12.3	12.2
Social benefits	10.6	10.5	9.9	9.7
Intermediate consumption	9.6	9.5	8.7	8.5
Interest payments	1.3	1.2	1.3	1.3
Subsidies	5.1	4.3	1.2	1.1
Other current expenditure ⁽⁴⁾	2.4	2.6	2.7	2.7
Gross Savings	-6.0	-6.2	-1.5	-0.7
Capital Revenue	1.5	2.2	2.5	2.3
Capital taxes	0.2	0.2	0.2	0.2
Other capital revenue ⁽⁵⁾	1.4	2.1	2.3	2.1
Capital Expenditure	5.7	5.9	5.9	5.6
Gross fixed capital formation	4.5	4.8	5.0	4.8
Capital transfers	1.1	1.2	1.0	0.9
Other capital expenditure ⁽⁶⁾	0.1	-0.1	-0.1	-0.1
Capital Revenue net of Capital Expenditure	-4.2	-3.7	-3.5	-3.4
Underlying budgetary outcome				
Cyclical Component	-3.2	-2.1	-1.2	-0.2
Temporary Government Measures	0.0	0.0	0.0	0.0
Structural Balance	-7.0	-7.8	-3.8	-3.8

Sources: NSO; Central Bank of Malta.

⁽¹⁾ Central Bank of Malta calculations based on NSO *News Release* 97/2021 (published on 28 May 2021) and *News Release* 137/2021 (published on 30 July 2021).

⁽²⁾ Actual data as per NSO *News Releases* 97/2021 and 137/2021.

⁽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.

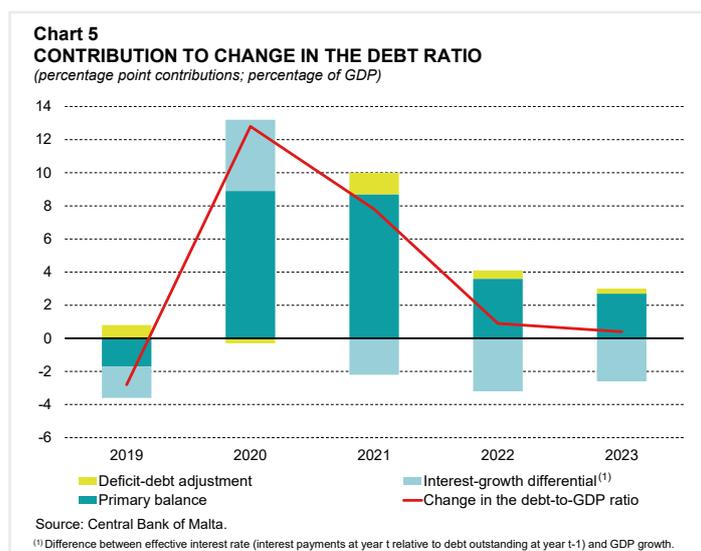
significant uncertainty surrounding the value of the budgetary semi-elasticity and the output gap in times of crisis, structural balance estimates should be treated with caution.

The general government debt-to-GDP ratio is projected to increase from 54.8% in 2020 to 62.5% in 2021 (see Chart 5). This is mainly driven by the expected primary deficits and to a lower extent debt-increasing, deficit-debt adjustments. Debt is expected to increase further in the outer

years of the projection horizon, although at a significantly slower pace compared to 2021. It is expected to reach 63.8% by 2023, largely on the back of the projected primary deficits.

Risks

Risks to economic activity are judged to be on the upside. In particular, the saving ratio is at historical highs and is assumed to remain above pre-pandemic levels until 2023. A faster decline in the saving ratio – also spurred by pent-up demand – could lead to faster than expected growth in economic activity.



Nevertheless, while uncertainty regarding the evolution of the pandemic has receded due to the substantial pick up in the vaccination rate both in Malta and more lately abroad, it remains significant (see Box 2). In this context, the pandemic remains a downside risk to economic activity in 2021. Moreover, tourism exports could surprise on the downside in view of further changes to travel rules or a prolongation of existing measures.

With regards to prices, risks are assessed to be on the upside, for 2021 and 2022, as private consumption could pick up more strongly than assumed due to pent-up demand. In addition, recent increases in transport costs could transmit to domestic consumer prices at a faster rate than assumed in this projection round. Risks are seen as balanced in 2023.

On the fiscal side, risks are deemed to be mainly deficit-increasing. The largest risks relate to 2021 and 2022, and reflect the need to provide State aid to the national airline. Other deficit-increasing risks relate to the possibility that some government guarantees on working capital loans extended by the Malta Development Bank are called in during the outer years of the projection horizon. On the other hand, expenditure on economic support in 2021 could be lower than projected if the economic recovery proceeds faster than expected.

BOX 2: FORECASTS BY OTHER INSTITUTIONS¹

Over the course of a calendar year, successive macroeconomic projections for the Maltese economy are published by national institutions, international organisations and private sector entities. This box looks at a number of different projections published in 2021, and considers underlying factors that may be driving differences between projections. While often referred to together, these different projections are not strictly comparable with each other due to a number of factors. Underlying differences in methodologies, assumptions, data

¹ This box was prepared by Reuben Ellul, principal economist within the Economic Analysis Department.

vintages, as well as cut-off dates of the available information set imply that comparisons between projections need to be carried out with caution.

Moreover, in recent projection exercises, differences between forecasts may also be attributable to the rapid evolution of the COVID-19 pandemic, which may have significantly affected a specific projection exercise at the time of its finalisation, as well as differences between institutions regarding the expectations for the evolution of the pandemic. Sudden increases or decreases in active cases may therefore exacerbate uncertainty surrounding the projections, thereby further affecting the comparability of different projection exercises.

Table 1 presents a series of recent forecasts for real GDP growth in Malta. The Bank's GDP projections tend to be within the range of growth forecasts published by other institutions, throughout the projection horizon. The current CBM projections for GDP growth in 2021 are above the median point forecast from other institutions, but well within their range, while for 2022 they are very close to the median point forecast for the other institutions.

As noted above, projections are influenced by various factors, with multiple assumptions on the evolution of certain key variables. These all can have strong impact on the projections for Malta. One such component, for example, is analysed in Grech (2018),² which looks at the revision properties of GDP data in Malta.

These data were observed to be likely to be revised considerably in successive vintages, meaning that forecasters ought to be wary of the likely possible impact of revisions to GDP growth paths. While such revisions cannot be forecasted, these may still affect the projected paths of many aggregate expenditure components. Reliance solely on recent quarter-on-quarter growth patterns to extrapolate annual estimates may therefore be misleading.

Table 1
RECENT FORECASTS FOR REAL GDP GROWTH IN MALTA

(Annual percentage changes; chain-linked volumes)

	Date of Release	GDP growth			
		2020	2021	2022	2023
Central Bank of Malta projections (2021:3)	August 2021	-7.8	5.1	5.9	4.7
Moody's Investors Service	August 2021	-7.8	3.5	5.9	4.8
International Monetary Fund	July 2021	-7.8	5.8	6.0	-
European Commission	July 2021	-7.8	5.6	5.8	-
Fitch Ratings	June 2021	-7.0	4.7	6.0	-
Ministry for Finance – Update to the Stability Programme	April 2021	-7.0	3.8	6.8	4.5
Median point estimate for non-Central Bank of Malta projections		-	4.7	6.0	4.7

Sources: Central Bank of Malta (2021:3); Moody's Investors Services – Sovereign and Supranational – Government of Malta, 10 August 2021; IMF Staff Concluding Statement of the 2021 Article IV Mission; European Commission Summer 2021 Economic Forecasts; Fitch Ratings – Rating action commentary – 4 June 2021; Ministry for Finance – Update to the Stability Programme 2021-2024, April 2021.

² Grech, O. (2018). "An Analysis of Revisions to Maltese GDP Data", *Research Bulletin* 2018, Central Bank of Malta, pp. 27-34.