Malta:
Annual Report 2017

In line with Article 41 of the Fiscal Responsibility Act

Ministry for Finance

June 2018

Contents

1. Introduction

The Annual Report is in line with Article 41 of the Fiscal Responsibility Act, and is the third such report since the enactment of the Act.

The Annual Report provides information on the execution of the Budget for 2017 and compares the outcomes with the strategic objectives and priorities outlined in the fiscal strategy and the fiscal targets as announced in the Budget for 2017. It analyses how the Government has observed the principles and rules stipulated in the Fiscal Responsibility Act. In addition, it assesses whether the fiscal and budgetary policies in the completed budget year are in line with the medium-term objective stipulated in the fiscal strategy. It provides explanations regarding any deviations from the Government's medium-term objectives and how these are to be addressed. It also explains the outcome of the Budget in the context of the Government's European commitments in terms of the Stability and Growth Pact.

The Annex of this report also includes the final execution data for the indicators provided in the Medium Term Fiscal Plan.

2. Meeting the 2017 Budgetary Estimates

This section provides information on the execution of the 2017 Budget as announced on 17 October 2016. It also compares the 2017 outcome with the strategic objectives and priorities of the fiscal strategy and targets as announced in the 2017 Budget.

The cash-based position in this section relates to the Central Government's Consolidated Fund. All allocations provided from the Consolidated Fund are either authorised by the House of Representatives under an Appropriation Act, or are permanently appropriated by the House under other relevant legislation.

The revenue and expenditure figures presented in this Section are based on actual cash transactions, and are not normally subject to revision. Financial transactions, such as proceeds from loans, proceeds from sale of financial assets, and revenue from other accounts of Government are not taken into consideration. Likewise, direct loan repayments, contributions to sinking funds, acquisition of equity, as well as transfers into other accounts of Government, are excluded from the total expenditure. In this sense, data presented in this section will differ from the data in Section 4 which presents the data for General Government in line with the ESA 2010 definition.

In the Budget for 2017, the Government set a Consolidated Fund deficit target of €128.3 million. Table 2 of the Annex presents Government's final fiscal position for 2017 compared to the targets as initially set out in the annual budget for 2017.

In 2017, tax revenue was €287.0 million more than was forecast, mainly due to higher direct tax receipts. The better than expected performance confirmed the element of prudence in-built in the original projections, as well as stronger-than-expected nominal growth. In particular, the robust growth registered in corporate profits and the stronger labour market, resulted in higher than expected proceeds from income tax (+€181.1 million) and social contributions (+€34.1 million). The better than expected outcome in corporate tax revenue was also influenced by administrative provisions affecting the management of International companies' departmental account at the Central Bank of Malta, as recommended by Eurostat.

Meanwhile, indirect tax revenues were also more buoyant than expected, as higher than estimated revenue from VAT (+€46.3 million) and from licences, taxes and fines (+€29.4 million) outweighed lower than expected revenue from customs and excise duties (-€3.9 million). Indeed, a better outturn was registered by year-end in VAT receipts, reflecting better macroeconomic developments than expected and also the continuous improvements to collect taxation. Increases in the number of contracts in respect of immovable property and in the corresponding total values over 2016 gave rise to a higher increase in revenue from duty on documents, classified under licences, taxes and fines, than originally anticipated and factored into the estimates at budget preparation stage. On the other hand, lower receipts from import duties and less revenue in excise duty on machine-made cigarettes was only in part offset by the higher than expected revenue in excise duty on petroleum.

Non-tax revenue was €116.6 million higher than planned for in the Budget, mainly due to higher than budgeted revenue from fees of office (+€58.9 million), reflecting higher proceeds from the International Investor Programme, and grants (+€47.3 million). It is however worth noting that in case of the latter, this included re-imbursements in respect of foreign financed projects under the 2007-2013 programme originally budgeted for in 2016 but which continued to be received in 2017.

On the expenditure side, in response to requirements arising for the provision of public services as the year progressed, the recurrent expenditure outturn was €108.4 million above the original budget. Indeed, higher than expected outlays were registered in all recurrent expenditure components, even though mainly concentrated under programmes and initiatives.

The higher than expected expenditure on programs and initiatives reflected higher outlays effected by the health sector in respect of the Health Concession Agreements and medicines and surgical materials, as well as social security benefits in respect of retirement and widows pensions. Higher than planned expenditure on operations and maintenace was mainly in respect of the care of the elderly. Meanwhile, a higher than planned contribution was disbursed to the Malta Tourism Authority in 2017, while higher than planned outlays were recorded in respect of salaries and wages, as well as bonuses, allowances and overtime payments paid to employees in the education and health sectors.

These developments were in part compensated for by a lower than estimated capital expenditure, and to a lesser extent by lower interest payments, against the background of the ensuing low interest rate environment and the Treasury's debt management strategy.

Government's capital expenditure witnessed a more pronounced decline than estimated in the 2017 Budget reflecting lower spending on EU funded projects under the new EU funding programme 2014-2020.

2.2 Update on the performance of the main fiscal measures

The proceeds from the International Investor Programme were +€185.3 million higher than estimated in the 2017 Budget, such that €55.6 million in additional revenue was transferred to the Consolidated Fund, while the remaining additional revenues were transferred to the National Development and Social Fund (NDSF). It is also worth noting that the 2017 Budget provided an allocation of €24.0 million to finance expenditure from the NDSF. Since transactions financed from the NDSF during 2017 were of a financial nature, these did not have an impact on the Consolidated Fund or the general Government balance.

Meanwhile, marginally lower revenue than estimated in the 2017 Budget was received in respect of 'excise on toiletries and washing preparations' (-€0.4 million) and from 'excise duty on construction components and other fixtures' (-€0.6 million).

On the other hand, higher than planned expenditure was registered in respect of the EU Presidency (+€0.8 million) and towards compensation payments (+€0.8 million).

2.3 General Government Public Debt

Actual general Government gross debt for 2017 was €450.4 million lower than the 2017 Budget projections, mainly on account of the better than expected budgetary outcome. As a result, financing needs declined. These mainly manifested themselves in a lower than anticipated outstanding Malta Government Stocks balance, from €5,346.1 million projected in the 2017 Budget estimates to an actual level of €4,977.0 million. Furthermore, the actual Treasury Bills balance was €181.4 million lower than that estimated in the 2017 Budget.

Table 3 of the Annex presents the composition of actual general Government public debt for 2017 compared to the estimates presented in the 2017 Budget. As observed in Table 3, general Government public debt is mainly financed by issues of Malta Government Stocks, although their outstanding balance at end December 2017 was lower than the 2017 Budget estimates. This was partly offset by a €90.5 million higher than estimated outstanding balance for currency (which also includes Malta retail savings bond) and by another €9.6 million higher than estimated outstanding balance for EBU's and Local Councils such that their balance was €130.7 million in 2017. Meanwhile, the other components of general Government public debt remained unchanged.

3. Respecting the Principles and Rules within the Fiscal Responsibility Act

The following section of the Annual report analyses how the Government has respected the principles and rules stipulated in the Fiscal Responsibility Act, and explains any deviations from the Act.

The Fiscal Responsibility Act (FRA) was enacted by the House of Representatives on 8th August 2014. The Act established fiscal rules which bind national fiscal authorities in achieving a Medium-Term Objective (MTO) of a balanced structural budget, or in its absence, convergence towards the MTO. This requires a minimum structural effort of 0.5 percentage points of GDP per annum until the MTO is reached, with a higher effort in good times, while the effort could be lower in bad times. The Act also requires the Ministry for Finance to maintain public debt at sustainable levels (lower than 60 per cent of GDP) over the medium and long term. When the debt-to-GDP ratio exceeds 60 per cent of GDP, it shall be reduced in accordance with the 1997 Excessive Deficit Regulation until the ratio reaches 60 per cent.

The FRA also put stronger emphasis on medium-term planning, a more transparent budgeting process, procedures for the independent assessment of macroeconomic and fiscal forecasts and the independent monitoring of compliance with fiscal rules.

In terms of the Act, Ministries, Departments and Government Entities are required to prepare their three-year business and financial plans which are based on the (most recently announced) medium-term fiscal strategy. In this regard, in 2017, the Ministry for Finance issued circular MFIN 1/17 to request the submission of the Ministries' 2018 – 2020 Business and Financial Plans. MFIN assessed the plans received by each Ministry/Department/Entity to compile the three-year fiscal projections. Along the budgetary process, two rounds of bilateral meetings were held with each line Ministry, one at Ministerial level and the other at Permanent Secretarial level. The business and financial plans were discussed in detail, clarifications were sought and the fiscal forecasts were consolidated with a view to serve as the basis of the revenue and expenditure aggregates in the 2018 Financial Estimates presented to Parliament in October 2017 and subsequently approved in March of 2018.

Procedures are now established for the independent assessment of macroeconomic and fiscal forecasts and the independent monitoring of compliance with fiscal rules. In carrying out its tasks, the Malta Fiscal Advisory Council (MFAC) issues opinions and formulates recommendations in the areas of public finances and economic management.

Following the significant strengthening of Malta's institutional fiscal framework with the enactment of the FRA, a number of additional changes were legislated early in 2018 to ensure full consistency with the Directive on Budgetary Frameworks. The main amendments transposing the Directive may be summarised as follows:

1. Clearly specifying that the sensitivity analysis includes clear reference to the interest rate scenario and that the FRA requires explicitly that such analysis is not just contained in the Medium-Term Fiscal Policy Statement but also in the Annual Budget. This amendment is reflected in Article 15(6)a, ix and new Article 16(2)g. In practice these requirements were already being fulfilled prior to the legislative change.

2. A new function to carry out an independent ex-post assessment of macroeconomic and fiscal projections has been entrusted to the Malta Fiscal Advisory Council by virtue of the revised Article 13(3)e.

3. Revised Article 15(6)e contemplates that the fiscal risk assessment is to be carried out on the basis of the Malta Fiscal Advisory Council's independent ex-post assessment contemplated by the new Article 13(3)e and the Article 13(3)a reports by the MFAC which call for the independent assessment of official forecasts. In practice, the MFAC's fiscal risk assessment of the fiscal projections presented in the Stability Programme were already being incorporated in the Medium-Term Fiscal Plan submitted by Government to Parliament. Thus, in effect this good practice has now been entrenched through the changes in the Act.

4. The sensitivity analysis required by the Directive are also submitted to the scrutiny of the House during the annual budget with a view to enhance the awareness of the macroeconomic risks surrounding fiscal targets. This amendment is reflected in Article 16(2)g.

5. Amendments in line with Article 4(6) of the Directive aimed to ensure that

a. the evaluation of macroeconomic forecasts including an evaluation of forecast accuracy and biases (referred to in Article 15(4)h of the FRA) shall now similarly be conducted in terms of fiscal forecasts;
b. the FRA now makes it clear that both evaluations are to be made on "objective criteria" and
c. the FRA now stipulates that "necessary action will be taken and made public" in case significant bias is detected affecting macroeconomic forecasts.

These amendments are being reflected in Article 15(6)e, Article 13(3)e, Article 15(4)h, Article 15(6)a, Article 16(2)g and Article 15(6)f, respectively.

Furthermore, the European Commission has also evaluated Malta's transposition of the Fiscal Compact and concluded that the Fiscal Responsibility Act transposes in full the requirements of the Fiscal Compact.

3.1 Respecting the Budget Balance Rule

Table 4 of the Annex presents cyclical developments in 2017 compared to the targets presented in the 2017 Update of the Stability Programme.

In 2017, the general Government balance recorded a surplus of 3.9 per cent of GDP, further increasing from a surplus of 1.0 per cent of GDP in 2016. In structural terms, it corresponds to a structural surplus of 3.6 per cent of GDP in 2017, improving significantly from the structural surplus of 0.7 per cent of GDP for the previous year. These developments are in full compliance with the provisions of both the Stability and Growth Pact (SGP) and the FRA. Indeed, Malta complied with the national budget balance rule with a margin and remained well above its MTO of a balanced budgetary position in structural terms.

3.2 Respecting the Debt Rule

The gradual but consistent improvement in the budget balance positively impacted the Government debt ratio which fell below the 60.0 per cent target to 50.8 per cent of GDP in 2017. These developments were primarily supported by a strong and sustainable rate of economic growth and growing primary surpluses.

Compared to the 2017 Stability Programme target, the outturn for the debt-to-GDP ratio was 5.1 percentage points of GDP lower. This reflects a more buoyant macroeconomic environment and a stronger than anticipated fiscal position.

4. Meeting the 2017 targets as established in the Medium Term Fiscal Plan

This section assesses if the fiscal and budgetary policies in 2017 and its results were in line with the medium-term objective stipulated in the National Medium Term Fiscal Plan as published on 2 May 2017. The section also explains in more detail the deviations, if any, from the Government's medium-term objectives and how these are to be addressed.

The assessment of deviations with the targets established in the 2017 Medium Term Fiscal Plan is undertaken in terms of data classified according to the European System of Accounts (ESA) 2010, and consequently the data presented in this section is not comparable to that classified in Section 2. Moreover, actual data in this section may still be subject to further revisions. It is also pertinent to note that the targets for 2017, as prepared in Spring 2017, were different from those underlying the Budget presented in October 2016 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections are based. Table 1 of the Annex presents the macroeconomic assumptions which underpinned the 2017 Budget and the 2017 Update of the Stability Programme, together with the latest 2017 estimates available. Meanwhile, Table 5 of the Annex presents Government's final fiscal position for 2017 compared to the targets revised in the 2017 Update of the Stability Programme.

During 2017, the budgetary situation improved markedly as the general Government recorded a surplus of €436.6 million, much better than the target surplus of €57.1 million outlined in the 2017 Update of the Stability Programme. In terms of GDP, the general Government balance has improved from a planned surplus of 0.5 per cent of GDP to a surplus of 3.9 per cent of GDP.

The better than expected outturn mainly reflected a stronger than anticipated revenue outcome, which turned out €444.9 million (or 11.0 per cent) higher than expected. In part, the stronger-than-expected nominal growth, in particular the robust growth registered in corporate profits and the stronger labour market, resulted in higher than expected proceeds from current taxes on income and social contributions. The better than expected outcome in corporate tax revenue was also influenced by a one-time increase of €41 million due to administrative provisions affecting the management of International companies' departmental account at the Central Bank of Malta as recommended by Eurostat. Revenues from taxes on production and imports were also more buoyant than expected, partly due to the stronger performance in tourism. Meanwhile, on account of the IIP proceeds, market output turned out €288.2 million higher than expected, contributing around two-thirds of the variance in the budgetary surplus.

Total expenditure was marginally higher than expected, as the faster growth in current expenditure more than compensated for lower capital expenditure. General Government expenditure was €65.3 million (or 1.6 per cent) higher than projected, as higher than target expenditure was observed in all current expenditure components. Total capital outlays were €31.5 million lower than projected, mainly due to lower than projected gross capital formation sourced from EU funds programmes. Meanwhile, expenditure on intermediate consumption and on social benefits and social transfers in kind was €38.0 million and €28.0 million higher than target, respectively. While the higher than expected expenditure on intermediate consumption mainly reflected higher than planned expenditure by EBUs, higher expenditure on social payments was mainly on account of the reclassification of the (higher than planned) expenditure on the free childcare scheme, as well as higher than estimated outlays for the direct provision of pharmaceutical products. Expenditure on subsidies was €17.4 million higher than targeted, mainly due to higher film industry incentives and higher expenditure in respect of renewable energy schemes.

4.1 General Government Public Debt

The 2017 actual ratio of general Government debt-to-GDP presented in the 2018 Stability Programme was 5.1 percentage points lower at 50.8 per cent of GDP, when compared to the target presented in the 2017 Stability Programme. Table 6 in the Statistical Annex presents a comparison of the targeted debt dynamics and the actual outturn.

The improvement in the debt ratio was 3.0 percentage points stronger than anticipated. This was mainly due to a higher than expected contribution of 3.3 percentage points from the primary balance. These developments resulted despite a higher than expected debt-increasing stock-flow adjustment of 1.6 percentage points of GDP. Meanwhile, the 'snowball effect' also contributed more to a stronger reduction in the debt ratio than originally anticipated. This was mainly due to a higher than expected real GDP growth complemented by a marginally better than expected inflationary environment and interest expenditure.

5. Moving towards the MTO in the Preventive Arm

The following section explains the outcome of the 2017 Budget in the context of the Government's European commitments, in particular in terms of the Stability and Growth Pact (SGP).

Malta is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should preserve a sound fiscal position which ensures compliance with the Medium-Term Objective (MTO). On 11 July 2017, the Council did not address a recommendation to Malta in the context of fiscal compliance under the European Semester since the Council was of the opinion that Malta complies with the Stability and Growth Pact.

In 2017, Malta reported headline and structural budget surpluses, in line with the provisions of the Stability and Growth Pact. The structural balance reached a surplus of 3.6 per cent of GDP in 2017, well above the medium-term objective of a balanced budgetary position in structural terms. The recent fiscal developments were supported by strong and sustainable economic growth which sustained robust direct tax revenue and the proceeds from the International Investor Programme. When excluding proceeds from the IIP, the budget balance would still be in a surplus position in 2017, both in nominal and structural terms. On account of these developments, the debt-to-GDP ratio, which in 2016 was already below the 60 per cent of GDP threshold, has declined further to 50.8 per cent of GDP in 2017.

The European Commission has taken note of these developments. In particular, the Commission noted that the headline balance outturn for 2017 was much better than the target set in both the 2017 Stability Programme and the 2018 Draft Budgetary Plan submitted in October 2017. The Commission estimates indicate that Malta's (recalculated) structural balance improved markedly (by 3 percentage points of GDP) in 2017, due to the improvement in the headline balance as well as marginally better than expected cyclical conditions.

Over the medium term, the European Commission forecast expects Malta's structural balance to remain positive, suggesting that the achievement of the medium-term objective of a balanced structural budget is sustainable. Nevertheless, the Commission recommends that expenditure developments are monitored carefully in the short and the medium term to safeguard fiscal sustainability in line with the SGP. Meanwhile, according to the Commission forecasts, the debt-to-GDP ratio, which in 2016 was already below the 60 per cent of GDP threshold, is expected to remain below that threshold and to decrease further over the medium term.

6. Annex Tables

Macroeconomic Forecast vs Estimates for 2017

(growth %)

Table 1

	Forecast Autumn 2016*	Forecast Spring 2017**	Estimate June 2018***
Gross Domestic Product (at current Market Prices)	5.8	6.3	9.1
Private Final Consumption Expenditure	4.4	5.1	4.5
General Government Final Consumption Expenditure	7.1	13.9	0.9
Gross Fixed Capital Formation	14.9	1.0	-5.5
Exports of Goods and Services	4.0	4.3	7.7
Imports of Goods and Services	5.3	3.8	1.6
Compensation of Employees	5.6	7.0	7.1
Operating Surplus and Mixed Income	6.0	5.3	10.7
Tourism Earnings	**4.1**	**6.9**	**16.7**
Employment	**2.7**	**3.2**	**5.4**
Inflation	**1.5**	**1.5**	**1.3**

*Source: 2017 Budget, Published in October 2016

**Source: 2017 Stability Programme, published on 2 May 2017

***Source: NSO News Release 089/2018 - Gross Domestic Product Q1/2018

Actual Fiscal Developments vs Budget Targets for 2017

Consolidated Fund

(Millions of Euro)

Table 2

	Jan/Dec 2017 Approved Estimate*	Jan/Dec 2017 Actual**	Variance
Recurrent Revenue	**3,887.6**	**4,291.2**	**403.6**
Tax Revenue	**3,542.3**	**3,829.3**	**287.0**
Indirect Tax Revenue	*1,385.0*	*1,456.7*	*71.8*
Customs and Excise Duties	307.0	303.1	-3.9
Licenses, Taxes, and Fines	303.1	332.5	29.4
Value Added Tax	774.8	821.2	46.3
Direct Tax Revenue	*2,157.4*	*2,372.5*	*215.2*
Income Tax	1,316.4	1,497.5	181.1
Social Security	841.0	875.1	34.1
Non-Tax Revenue	**345.3**	**461.9**	**116.6**
Fees of Office	53.7	112.6	58.9
Reimbursements	33.9	45.5	11.6
Central Bank of Malta	50.0	50.0	0.0
Rents	33.1	31.3	-1.8
Dividends on Investments	47.8	41.4	-6.4
Repayment of Interest on Loans	2.2	0.1	-2.1
Grants	91.9	139.2	47.3
Miscellaneous	32.6	41.8	9.2
Total Expenditure	**4,015.9**	**4,108.5**	**92.6**
Recurrent Expenditure	**3,434.9**	**3,543.3**	**108.4**
Personal Emoluments	821.6	828.0	6.4
Operations and Maintenance	176.9	189.0	12.2
Programmes and Initiatives	2,064.5	2,147.1	82.6
Contributions to Government Entities	371.9	379.1	7.2
Interest Payments	**219.1**	**215.1**	**-4.1**
Capital Expenditure	**361.9**	**350.2**	**-11.8**
Government Consolidated Fund Balance	**-128.3**	**182.7**	**311.0**

*Source: Financial Estimates 2017, Ministry for Finance; as announced in October 2016

**Source: NSO News Release 051/2018 - Government Finance Data: January-December 2017

Actual General Government Public Debt vs Budget Targets for 2017

(Millions of Euro)

Table 3

	Jan/Dec 2017 Estimate*	Jan/Dec 2017 Actual**	Variance
General Government Public Debt	**6,093.0**	**5,642.6**	**-450.4**
Composition of Gross Public Debt			
Malta Government Stocks	5,346.1	4,977.0	**-369.1**
Treasury Bills	358.4	177.0	**-181.4**
Domestic Loans with Commercial Banks	0.0	0.0	**0.0**
Foreign Loans	9.0	9.0	**0.0**
EBU's/Local Councils	121.1	130.7	**9.6**
Currency	87.3	177.8	**90.5**
EFSF (Debt Re-Routing)	171.2	171.2	**0.0**

*Source: Treasury

**Source: Treasury / NSO News Release 062_2018

Cyclical Developments

(percentage points of GDP [1])

Table 4

	Jan/Dec 2017 Estimate*	Jan/Dec 2017 Actual**	Variance
General Government Balance	0.5	3.9	3.4
One-off and other temporary measures [2]	-0.2	-0.2	0.0
General Government Balance net of One-offs	0.7	4.1	3.4
Output Gap Estimates	1.0	1.0	0.0
Cyclically-Adjusted Budget Balance	0.1	3.5	3.4
Structural Balance	0.2	3.6	3.4
Structural Adjustment	0.0	2.9	2.9

(1) GDP for 2017 used in the 2017 SP was an estimate, while GDP for 2017 used in the 2018 SP was actual

(2) A plus sign means deficit-reducing one-off measures

*Source: 2017 Stability Programme, published on 2 May 2017
**Source: 2018 Stability Programme, published on 30 April 2018

Actual Fiscal Developments vs Medium Term Target for 2017

European System of Accounts

(Millions of Euro)

Table 5

	Jan/Dec 2017 Estimate*	Jan/Dec 2017 Actual**	Variance
Revenue	**4,049.7**	**4,494.6**	**444.9**
Components of revenue			
Taxes on production and imports	1,322.5	1,408.1	85.6
Current taxes on income and wealth	1,493.9	1,569.8	76.0
Capital taxes	18.3	19.3	1.0
Social contributions	678.5	702.9	24.4
Property income	109.8	85.2	-24.5
Market Output and Output for own final use	316.9	605.1	288.2
Other revenue	109.9	104.1	-5.7
Expenditure	**3,992.6**	**4,057.9**	**65.3**
Components of expenditure			
Compensation of employees	1,263.6	1,271.1	7.5
Intermediate consumption	716.0	754.0	38.0
Social payments in cash and in kind	1,110.4	1,138.4	28.0
Interest expenditure	206.6	206.7	0.1
Subsidies	114.8	132.2	17.4
Gross fixed capital formation	293.1	249.0	-44.1
Capital Transfers Payable	90.8	103.5	12.6
Other expenditure	197.3	203.1	5.9
General Government Balance	**57.1**	**436.6**	**379.6**
Primary Balance	**263.7**	**643.3**	**379.7**

*Source: 2017 Stability Programme, published on 2 May 2017

**Source: 2018 Stability Programme, published on 30 April 2018

The Dynamics of Government Debt

(percentage points of GDP [1])

Table 6

Percentages of GDP	Jan/Dec 2017 Estimate*	Jan/Dec 2017 Actual**	Variance
Gross debt	55.9	50.8	-5.1
Change in gross debt ratio	-2.4	-5.4	-3.0
Contributions to changes in gross debt			
Primary balance	-2.5	-5.8	-3.3
Snowball Effect	-1.5	-2.8	-1.3
Interest expenditure	2.0	1.9	-0.1
Real GDP growth	-2.4	-3.5	-1.1
Inflation Effect	-1.0	-1.2	-0.2
Stock-flow adjustment	1.6	3.2	1.6
p.m. implicit interest rate on debt	3.6	3.6	0.0

Developments in the debt- to-GDP ratio depend on:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} \cdot \frac{i_t - y_t}{1 + y_t}\right) + \frac{SFA_t}{Y_t}$$

where t denotes a time subscript, D, PD, Y and SFA are the government debt, primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth.

[1] GDP for 2017 used in the 2017 SP was an estimate, while GDP for 2017 used in the 2018 SP was actual

*Source: 2017 Stability Programme, published on 2 May 2017
**Source: 2018 Stability Programme, published on 30 April 2018