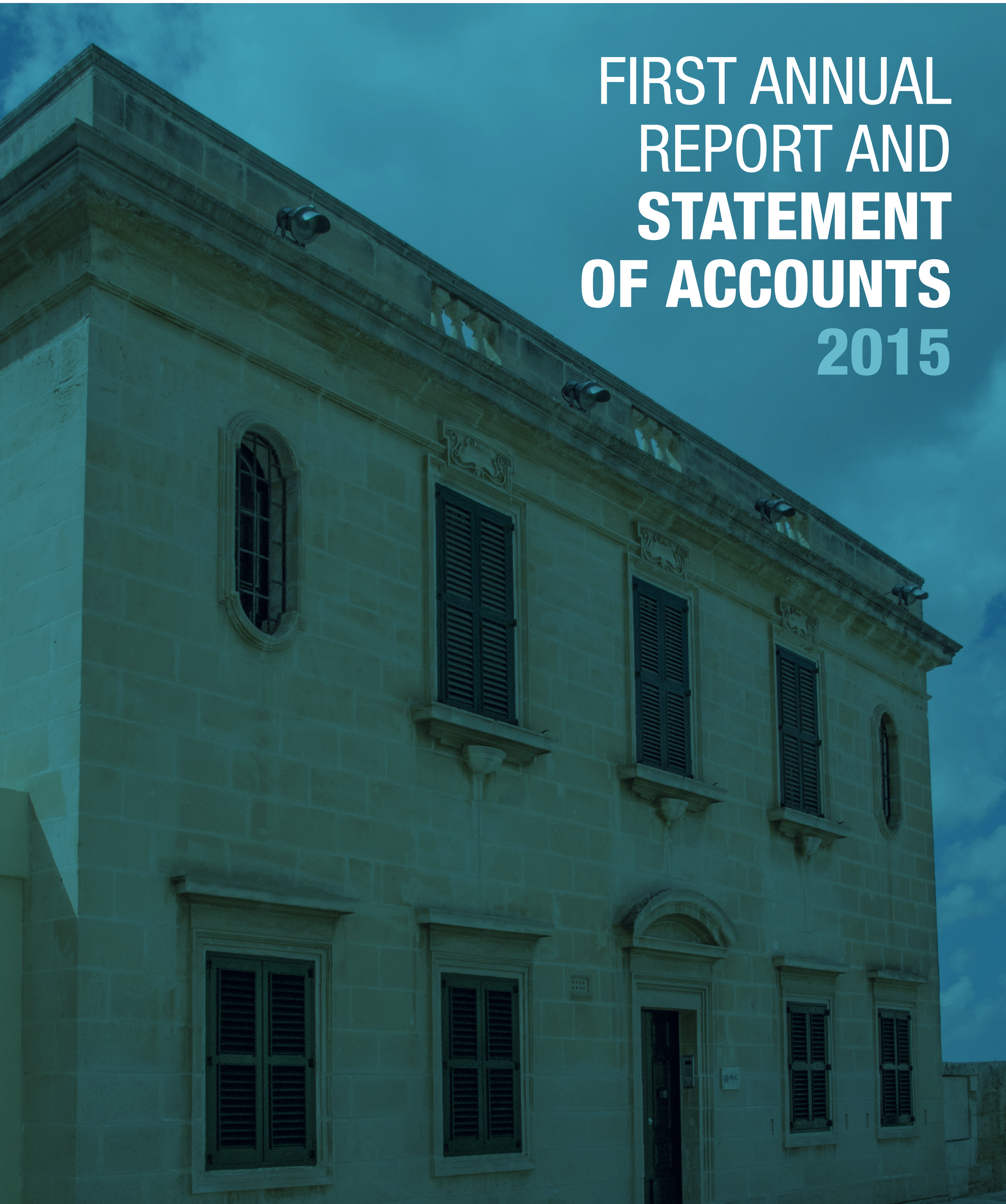
MFAC

MALTA FISCAL ADVISORY COUNCIL

FIRST ANNUAL REPORT AND **STATEMENT OF ACCOUNTS** 2015



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AND

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29 March 2016

The Hon Prof Edward Scicluna B.A. (Hons) Econ, M.A. (Toronto),
Ph.D (Toronto), D.S.S (Oxon) MP
Minister for Finance
Maison Demandols
South Street
Valletta VLT 2000

Dear Minister

LETTER OF TRANSMITTAL

In terms of article 58 of the Fiscal Responsibility Act, 2014 (Cap 534), I have the honour to transmit to you a copy of the first Annual Report of the Malta Fiscal Advisory Council for the year 2015.

In terms of article 56 of the Fiscal Responsibility Act, I am also transmitting a copy of the audited accounts of the Council for the financial year ended 31 December 2015.

Yours sincerely

Rene Saliba
Chairman

Vision

To contribute to stronger fiscal governance in Malta

and offer assurance about the quality of

the official economic and fiscal projections,

and about fiscal sustainability,

through independent analysis and advice.

Mission Statement

The Malta Fiscal Advisory Council (MFAC) is an independent institution established under the Fiscal Responsibility Act (2014) which has the primary objective to contribute to sustainable public finances and sound economic policy making in Malta.

The MFAC seeks to carry out its statutory responsibilities by:

i. Assessing the plausibility of the Government's macroeconomic forecasts and fiscal projections and endorsing them as it considers appropriate;
ii. Assessing whether the fiscal stance is conducive to prudent economic and budgetary management;
iii. Assessing the extent to which the conduct of fiscal policy in Malta is consistent with the country's fiscal commitments as a member of the European Union;
iv. Assessing the extent to which the annual budgetary plan and medium term fiscal plan comply with the Fiscal Responsibility Act and the Stability and Growth Pact;
v. Assessing the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved;
vi. Determining whether exceptional circumstances, which would allow for a departure from the announced fiscal plans, exist or have ceased to exist;
vii. Issuing opinions and formulating recommendations in the areas of public finances and economic management;
viii. Advising the Government and the Public Accounts Committee concerning the maintenance of fiscal discipline; and
ix. Disseminating information and analysis to the public to increase awareness and understanding of economic and fiscal issues.

Biographies of Council Members

From left to right: Ms Doriette Camilleri (Council Secretary), Dr Carl Camilleri, Mr Rene Saliba, Dr Ian Cassar

Mr Rene Saliba – Chairman of the MFAC

Rene Saliba joined the Central Bank of Malta in 1975 from where he retired in October 2014. During his Central Bank career, he occupied various posts including Head of the Economic Research Division, Advisor to the Governor, Director Financial Markets, Senior Director Financial Services, and Director General Financial Policy and Special Projects. Mr Saliba sat on a number of local official committees including the Malta Stock Exchange Council, the Retail Price Index Advisory Committee, the Public Debt Management Advisory Committee, the Management Committee for the Depositor Compensation Scheme and the Investor Compensation Scheme, the Joint Financial Stability Committee, and the Financial Crisis Management Committee. He was also a member of various foreign committees including the Monetary Operations Committee of the European Central Bank, several ECB High Level Groups, the Economic and Financial Committee of the Commission, and the EFC Sub-Committee on EU Government Bonds and Bills Markets.

Dr Carl Camilleri - Member of the MFAC

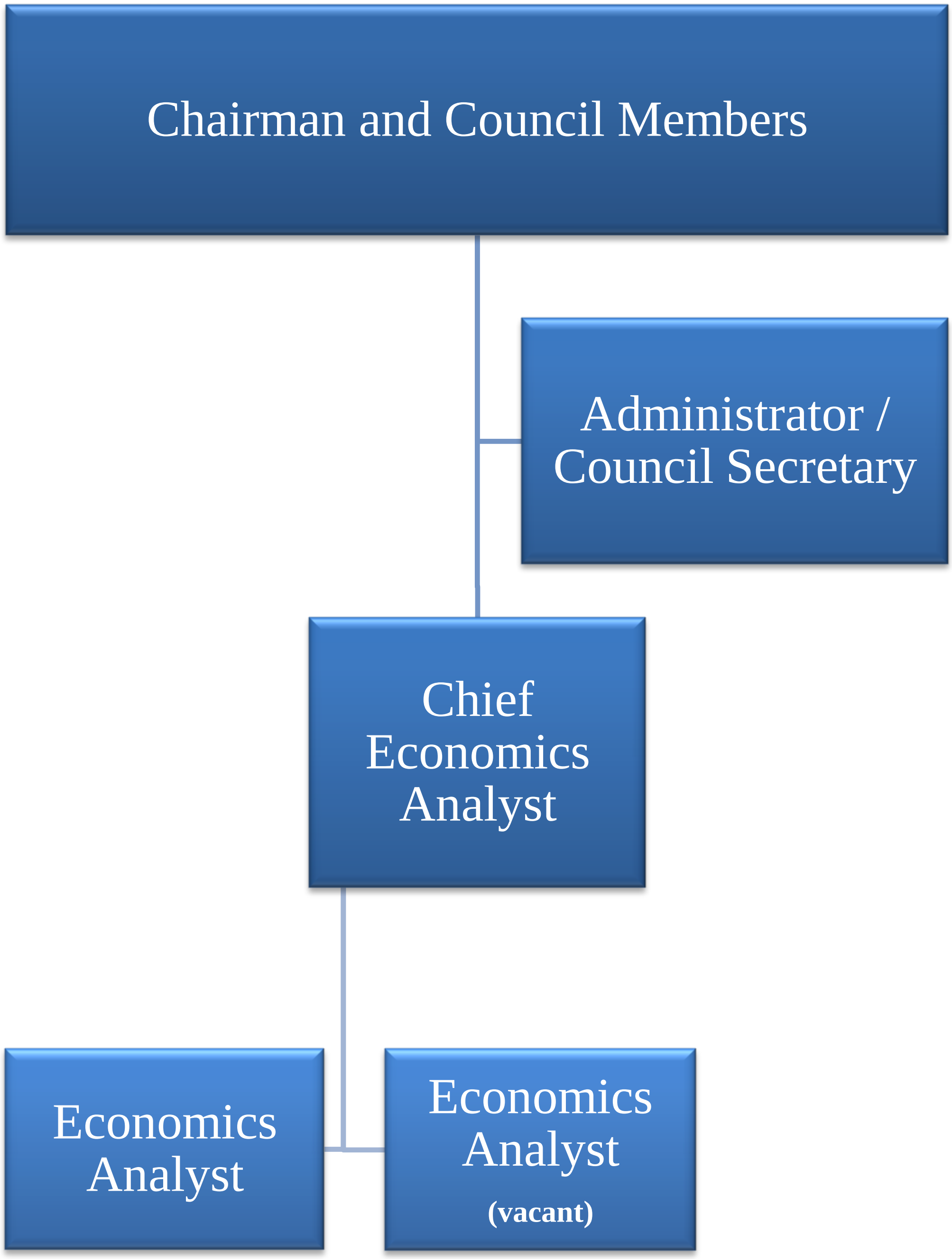
Dr Carl Camilleri is a Lecturer at the University of Malta within the Department of Economics (Faculty of Economics, Management and Accountancy). Over the past 10 years Dr Camilleri has been lecturing Econometrics at the Department of Economics. Over the recent years Dr Camilleri was also involved in the lecturing of a number of other courses, in particular: Applied Macroeconomics, Health Economics and the Economics of Ageing and Pensions at the same university. Prior to joining the Department of Economics, Dr Camilleri served in the public service within the Economic Policy Division (Ministry of Finance) for 10 years and held the position of Senior Economist within the same Division. Dr Camilleri was mainly responsible for macroeconomic forecasting within the division and during his stay at the Economic Policy Division, Dr Camilleri was involved in the modelling and analysis of pension reform systems within the Maltese economy. Dr Camilleri holds a Master of Science degree in Econometrics awarded from Queen Mary and Westfield College (University of London) in 1999 and has been awarded the Degree of Doctor of Philosophy in Economics from City University (London) in 2015.

Dr Ian Cassar - Member of the MFAC

Dr Ian Cassar is a Lecturer at the University of Malta within the department of Economics (Faculty of Economics, Management and Accountancy). His main teaching areas include introductory macroeconomics, intermediate macroeconomics, applied macroeconomics and mathematical economics. His research interests include input-output analysis, social accounting matrices, computable general equilibrium modelling, and the economics of tourism. He graduated with a Bachelor of Commerce (Hons) in Economics from the University of Malta in 2006. Subsequently in 2007 he obtained a Master of Science degree in Economics from the University of Edinburgh. In 2013 he was awarded a Ph.D. in Economics from Heriot-Watt University (Edinburgh). Over his period at Heriot-Watt University Dr. Cassar was also employed as a research assistant and was part of a team of economists who worked with BP plc to produce their "BP Statistical Review of World Energy", one of the most widely respected and authoritative publications in the field of energy economics. Dr Cassar has also served as director of the Malta Statistical Authority and currently occupies the position of associate editor for Economics within the academic journal of Xjenza, which is the official journal of the Malta Chamber of Scientists.

Organisation Chart

As at 31 December 2015



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Abbreviations

AEFB	Advisory European Fiscal Board
AWG	Ageing Working Group (of the EPC)
BO	Budget Office
CBM	Central Bank of Malta
CIRCABC	Communication and Information Resource Centre for Administrations, Businesses and Citizens
COM	European Commission
CSR	Comprehensive Spending Review
DAS	Departmental Accounting System
DBP	Draft Budgetary Plan
EBU	Extra Budgetary Units
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFC	Economic and Financial Committee (of the EU)
EMU	Economic and Monetary Union
EPC	Economic Policy Committee (of the EU)
EPD	Economic Policy Department
ESA	European System of National and Regional Accounts
ESCB	European System of Central Banks
EU	European Union
FRA	Fiscal Responsibility Act
GDP	Gross Domestic Product
IFI	Independent Fiscal Institution
IIP	Individual Investor Programme

IMF	International Monetary Fund
MFAC	Malta Fiscal Advisory Council
MFIN	Ministry for Finance
MGS	Malta Government Stocks
MIP	Macroeconomic Imbalance Procedure
MITA	Malta Information Technology Agency
MTFS	Medium Term Fiscal Strategy
MTO	Medium Term Objective
NAO	National Audit Office
NGO	Non-Governmental Organisation
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
RQMU	Reverse Qualified Majority Voting
SGP	Stability and Growth Pact
TSCG	Treaty on Stability, Coordination and Governance
USP	Update of Stability Programme

Chairman’s Statement

The establishment of the Malta Fiscal Advisory Council (MFAC), in terms of the Fiscal Responsibility Act, 2014, can be considered as another milestone in Malta’s economic history. Through its role as an independent watchdog on Malta’s public finances, the institution aims to contribute positively to enhance fiscal governance in Malta.

During its first year of operations, the MFAC has evaluated scrupulously the macroeconomic and the fiscal projections presented by the Government. It is positive to note that the two rounds of projections, submitted as part of the Update of Stability Programme (USP) and the Draft Budgetary Plan (DBP), were all considered by the MFAC to lie within its endorseable range. The MFAC underscores the importance of realistic projections, as these are vital to ensure that policy making is grounded on robust information, and any build-up of risks is quickly identified, for remedial action to be taken.

The sovereign debt crisis which hit a number of European countries some years ago, and which necessitated drastic fiscal adjustments in certain countries, should serve as a stark reminder of the importance of maintaining sound public finances. Indeed, the creation of the MFAC can be considered as one of the pillars through which surveillance of the country’s public finances has been stepped up, both locally and at the European level.

The MFAC notes with satisfaction the commitment by the Authorities to the announced fiscal deficit and public debt targets, which also led to the abrogation of Malta’s Excessive Deficit Procedure (EDP) in 2015. The Government is invited to proceed further with fiscal consolidation, in order to attain the country’s Medium Term Objective (MTO) of a balanced budget, in structural terms, by 2019. This objective is the cornerstone of prudent macroeconomic management, and should remain the main priority for public finances in the short term. At the same time, it is important that there is compliance with all the requirements envisaged in the Stability and Growth Pact (SGP), by undertaking at least the minimum structural effort, and by satisfying the expenditure growth ceilings.

Throughout the year, the MFAC has made a series of recommendations, dealing with the conduct of fiscal policy, the introduction of new legislation, possible improvements to the budgetary process and suggestions to enhance transparency. In 2016 the MFAC will follow up further on these issues, in the spirit of open dialogue and mutual collaboration with the Authorities, building upon the positive relations between the MFAC and the various government departments and entities witnessed throughout 2015.

During its first year of operations, the MFAC incurred a total expenditure of €150,017, well below the €250,000 provided by the Fiscal Responsibility Act. It should be noted that whereas the 2015 outlays included a number of non-recurring items associated to the start-up phase, the expenditure related to salaries was abnormally low due to the fact that the staff recruitment process was concentrated in the latter part of the year.

Looking ahead, it is expected that during the course of 2016 there will be a fuller utilisation of the amount budgeted in terms of the Fiscal Responsibility Act because the Council is planning to operate at full staff complement while doing its utmost to operate diligently and cost effectively. The Council will also be updating its accounting system, switching from a cash basis to an accrual basis, thereby aligning more closely to best practice.

During 2016, the MFAC will also seek to strengthen its expertise in the area of public finance, in order to enhance its contribution to fiscal governance. Another important target for the year will be to increase the awareness of public finance issues among the constituted bodies and the general public. The MFAC is committed to make available good quality analysis dealing with public finance issues while always maintaining high standards of independence. The objective is to increase the awareness of the key aspects relating to Malta’s fiscal policy, focus attention on the sustainability of public finances, and evaluate closely the adherence of public finances to the local legislation and other international commitments.

In conclusion, on behalf of the MFAC members, I would like to express our sincere gratitude for the support and assistance provided by various entities to enable the MFAC embark on a successful commencement of operations. I would like to acknowledge the collaborative spirit and assistance extended by the Ministry for Finance (MFIN), the Economic Policy Department (EPD), the Budget Office (BO), as well as the National Statistics Office (NSO) in providing all the necessary information and cooperation for the preparation of the Council’s reports. I would also like to show the Council’s appreciation to the National Audit Office (NAO) for its valuable support and guidance in order to facilitate a smooth handover of the work related to the assessment of macroeconomic and fiscal projections which was temporarily the responsibility of NAO prior to the establishment of the MFAC. I am also deeply indebted to the Central Bank of Malta (CBM) for making available the premises and for refurbishing the relative facilities. Our gratitude is also due to the Corporate Services Department and the Office of the Chief Information Officer of the MFIN for being very instrumental in constantly supporting the capacity building process of the MFAC in its first year of activities. Finally, I would also like to sincerely thank my fellow members of the Council and the staff of the MFAC for the professional work carried out throughout the year and for their dedication and commitment to fulfil the MFAC’s mandate.

Rene Saliba
Chairman

1 Background to the MFAC

Fiscal councils are independent public institutions whose role is to strengthen commitments to sustainable public finances. Following the sovereign debt crisis, which hit a number of European countries, fiscal governance assumed even greater importance. A number of fiscal governance reforms were initiated in the European Union (EU), one of which required Member States to establish an independent body that is in charge of monitoring compliance with numerical fiscal rules.[1] This was deemed necessary in order to contribute to better fiscal discipline.

In April 2013, the MFIN published a report "Strengthening Malta's Fiscal Framework, An Economic Assessment" which considered the obligations emanating from the fiscal reforms at the European level, and the options available.[2] This report included a number of recommendations, and in particular, recommendation number 5 stated that "such conditions point towards the need of a functionally independent fiscal institution". This obligation was also formally established through Article 5 of Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, which laid down the need to have in place an independent body to monitor compliance with fiscal rules.[3] In 2014, the Fiscal Responsibility Act (FRA) was thus enacted by

> "In the past, there were only a handful of institutions and processes that held a government accountable to how it spends taxpayer money. Among these is the Public Accounts committee, which can only conduct post-mortems once the damage is potentially done, and the Budget itself, which is routinely steeped in mystery and secrecy. The Fiscal Responsibility Act will change all of that."
>
> Prof. Edward Scicluna, Minister for Finance, during a press conference following the implementation of the FRA, 24 July 2014.

[1] See also Chapter 4 in this Report.
[2] The report is available on http://mfin.gov.mt/en/epd/Documents/library/strengthening/Strengthening_Malta_s_Fiscal_Framework.pdf
[3] The legal text is available on http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R0473

parliament, in order to transpose the agreed European fiscal rules into national legislation, as well as to establish the MFAC. This was also in response to a Country Specific Recommendation by the Council of the EU whereby Malta was invited to take action within the period 2014-2015 to "Finalise the adoption of the Fiscal Responsibility Act with a view to putting in place a binding, rule-based multiannual fiscal framework and establishing an independent institution charged with the monitoring of fiscal rules and endorsing macroeconomic forecasts underpinning fiscal planning".[4] The activities of the MFAC must also be carried out in line with the timeframe envisaged under the European Semester.[5]

An important role for any fiscal council is to provide assurance that the country's macroeconomic and fiscal projections are plausible and not overly optimistic. The FRA actually requires the endorsement of both the macro and fiscal forecasts by the MFAC, thus going beyond the minimum requirements of the EU fiscal governance framework.[6] Indeed, the mandate of the MFAC can be considered as rather broad, and is actually wider than that of a number of EU IFIs. Besides requiring the MFAC to express an opinion on all the reports published by the MFIN during the course of the year, the FRA also allows it to make recommendations on the conduct of fiscal policy and on any legislative proposals on the maintenance of fiscal discipline, with the aim of encouraging sound policy making and greater transparency. The FRA also requires the MFAC to disseminate information to enable the public to obtain a fair representation of the sustainability of government finances and to have a sufficient understanding of whether the Government is complying with its fiscal obligations. On the other hand, while some countries have actually opted to task such institutions with the provision of the official macroeconomic and fiscal projections, in the case of Malta, the remit of the MFAC is restricted to assessing and endorsing as it considers appropriate such forecasts. Likewise, the MFAC is not specifically requested to cost government's tax and expenditure initiatives - as is the case in some countries - but is responsible to verify the plausibility of the estimates provided by the Government.

The legal basis for all the work carried out by the MFAC is contained in the FRA, as detailed in Table 1.1.[7]

[4] Available on http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_malta_en.pdf

[5] For further details about the European Semester, refer to the MFAC's report "An Assessment of the Medium Term Fiscal Strategy 2015-2018, Annual Report 2014 and Half Yearly Report 2015 published by the Ministry for Finance", page 12.

[6] Regulation EU 473/2013 states that "National medium-term fiscal plans and draft budgets referred to in paragraphs 1 and 2 shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body."

[7] Chapter 2 describes the actual activities carried out by the MFAC during the year.

Table 1.1: The legal basis for the MFAC's work

	Description	FRA
Establishment	The MFAC was established by an Act of parliament with effect from 1 January 2015.	Article 42
Mandate	The MFAC is to review and assess the extent to which the fiscal and economic policy objectives proposed by the Maltese Government are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy in Malta.	Article 13, Article 43
Independency	The MFAC performs its functions independently.	Article 45
Powers	The MFAC may request any information from government departments, local councils, authorities and other entities, which it deems relevant to perform its duties.	Article 46
Composition	The MFAC is composed of three council members appointed by the Minister for Finance on the basis of competence and experience in domestic and international macroeconomic and fiscal matters. The term of office for the MFAC members is four years, with the possibility of two consecutive terms, and shall be eligible for re-appointment. MFAC members may at any time resign but are protected from removal of office, unless specific conditions relating to inadequacy, as specified in the law, are met, and following a resolution approved by the House of Representatives.	Article 47, Article 48, Article 49, Article 50, Article 53
Support	The MFAC's work is supported by staff, which during the first year of operations was composed of two economists and an administrator. The MFAC may also appoint consultants to assist its work.	Article 52
Confidentiality	The information processed by the MFAC and its staff remains confidential unless it is authorised to be disclosed as part of carrying out the MFAC's duties.	Article 54

	Description	FRA
Funding	An allocation is made in the Consolidated Fund to finance the operations of the MFAC. The sum for the first year of operation was established at not more than €250,000, and for each subsequent year, is adjusted by the Index of Inflation, as published by the NSO.	Article 55
Main deliverables	The MFAC endorses the macroeconomic and fiscal forecasts presented by the Government. The MFAC also publishes reports which assess compliance to the national and EU fiscal rules and whether the fiscal stance is conducive to prudent economic management. These reports may also include recommendations aimed at improving the conduct of fiscal policy in Malta. The MFAC is also tasked to issue an opinion of whether exceptional circumstances exist to warrant departure from plans, and adherence to the fiscal rules.	Article 13
Accountability	The MFAC must submit to the Minister for Finance its audited accounts and an annual report of its activities by not later than the end of March. The Minister for Finance shall lay on the table of the House of Representatives a copy of the MFAC's annual report and audited accounts not later than the end of April of each year. The Chairperson of the MFAC may be requested to give evidence to the Public Accounts Committee.	Article 56, Article 57, Article 58

A fiscal council can use three channels to exert influence.[8] The first one is linked to the impact of its policy deliverables on fiscal authorities, through for example the endorsement or otherwise of macroeconomic forecasts (direct impact). Second, if a fiscal council benefits from sufficient credibility, the mere possibility of intervention may induce the government to adjust preventively its policies for fear of receiving public criticism (implicit impact). Third, a fiscal council, through its publications, is likely to enhance scrutiny from existing checks and balances embedded into the budgetary process, such as by parliament, EU authorities and the public at large (indirect impact). By carrying out its regular tasks, a fiscal council can be an effective way to address the various potential causes and manifestations of the deficit bias, that is, a tendency for government revenues to fall short of expenditures, which if left unaddressed could have negative consequences in the long term on fiscal sustainability.

[8] These channels are described in the Report on Public Finances in EMU 2014, available on: http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee9_en.pdf

2 Activities of the MFAC

Establishment

The MFAC was formally established on 1 January 2015 through the publication of Government notice number 33, published in the Government gazette on 16 January 2015. All members of the Council are on an executive basis, the chairman being on a full time basis.

Copy of the Notice as appeared in the Government gazette

No. 33

ATT DWAR IR-RESPONSABBILTÀ FISKALI
(KAP. 534)

Kunsill Fiskali

NGĦARRFU għall-informazzjoni ta' kulħadd illi bis-saħħa tas-setgħat mogħtija lilu bl-Artiklu 48 tal-Att dwar ir-Responsabbiltà Fiskali, il-Ministru għoġbu jaħtar lill-persuni li ġejjin bħala Membri tal-Kunsill Fiskali għal perjodu ta' erba' snin b'seħħ mill-1 ta' Jannar, 2015.

Chairperson
Is-Sur René Saliba, BA (Hons) (Econ.) (Melit.), ACIB

Membri
Is-Sur Ian Cassar, BCom (Hons) (Econ.) (Melit.), MSc (Econ.) (Edin.), PhD (Heriot-Watt)
Is-Sur Carl Camilleri, BA (Hons) (Econ.) (Melit.), MSc (Econometrics) (Lond.)

Is-16 ta' Jannar, 2015

No. 33

FISCAL RESPONSIBILITY ACT
(CAP. 534)

Fiscal Council

IT is notified for general information that in exercise of the powers conferred by Article 48 of the Fiscal Responsibility Act (Cap. 534), the Minister for Finance has appointed the following persons as Members of the Fiscal Council for a period of four years with effect from 1st January 2015.

Chairperson
Mr René Saliba, BA (Hons) (Econ.) (Melit.), ACIB

Members
Mr Ian Cassar, BCom (Hons) (Econ.) (Melit.), MSc (Econ.) (Edin.), PhD (Heriot-Watt)
Mr Carl Camilleri, BA (Hons) (Econ.) (Melit.), MSc (Econometrics) (Lond.)

16th January, 2015

Formal meetings of the MFAC members

The Council met twelve times during 2015. During these meetings, the work plan, policy guidelines and administrative issues relating to the capacity building process were discussed. The MFAC reports, which included the endorsement of the macroeconomic and fiscal projections, were also approved for publication during these meetings.

Other meetings in Malta

During the year, the MFAC members and staff held a number of meetings with public officials, foreign delegations, and consultants. Further meetings were also held in connection with the capacity building process including extended interviews and the markings of written-based assessments for staff recruitment purposes.

Organisation / Officials	Main purpose
NAO	The NAO coordinated a meeting for the MFAC with the main stakeholders and provided other support and guidance in order to facilitate a smooth handover of the work related to the assessment of macroeconomic and fiscal projections, since the NAO had been temporarily responsible for carrying out such assessments prior to the establishment of the MFAC.
MFIN	Technical meetings were held with the Budget Office (BO) and the Economic Policy Department (EPD) of the MFIN to exchange views, to discuss and evaluate the drivers of economic and fiscal projections, and to convey the MFAC's opinion on the stance of fiscal policy. Other meetings were also held with the Corporate Services Department and the Office of the Chief Information Officer of the MFIN dealing with administrative issues in respect of support services provided by the MFIN in the MFAC's capacity building process.
Advisor to the Minister for Finance	Discussions focused on the results of the Comprehensive Spending Reviews (CSRs) being carried out.
NSO	Technical meetings were held to discuss the compilation and evaluation of published statistics, in the area of public finances.
COM, IMF, credit rating agencies	During these meetings the MFAC presented its views on the current and projected macroeconomic and fiscal developments.
Economic consultants	The draft versions of the MFAC reports on the plausibility of the fiscal projections prepared with the assistance of two consultants were discussed.
Central Bank of Malta	Meetings were held to discuss the CBM's fiscal forecasts and the methodologies used.
European Commission representation in Malta	Meetings were held to co-ordinate a training programme for the MFAC to be held in Brussels in 2016.

International affiliations, meetings and seminars abroad

During the year, the MFAC developed a number of formal and informal links with other IFIs and international institutions related to fiscal surveillance. These included the Network of EU IFIs established by the COM, the Informal Network of EU IFIs, the OECD meetings of Parliamentary Budget Officials and IFIs (as observer), the Economic and Financial Affairs Directorate of the COM and a number of IFIs in the EU. Moreover, the MFAC members attended a number of meetings and seminars organised by these entities abroad. The purpose of these meetings and links is to establish closer co-operation with the fiscal councils in Europe and OECD countries. These meetings also serve to build a platform of regular dialogue on fiscal issues and formal communication channels particularly with the COM and some of its Committees, primarily the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC).

Month	Title	Venue
February	EU Fiscal Framework Seminar by COM for EU IFIs and MFINs	Brussels
April	Seventh Annual Meeting of OECD Parliamentary Budget Officials and IFIs	Vienna
June	Third Meeting of EU Network of IFIs	Brussels
September	Third Meeting of the Informal Network of EU IFIs and Conference on “Rethinking Fiscal Policy after the Crisis”	Bratislava
	Course organised by the Centre for Monetary and Financial Studies (CEMFI) of the Banco de España on “Fiscal Rules and Fiscal Institutions”	Madrid
December	Fourth Meeting of EU Network of IFIs and First Meeting of EU Network of IFIs and EFC Alternates	Brussels

Published reports

In terms of the FRA, the MFAC is required to submit its assessment of all MFIN reports to the Minister for Finance as soon as is practicable and to publish such assessments within ten days after submission to the Minister. Since its establishment, the MFAC has published six reports through its website www.mfac.gov.mt, which was launched on 30 July 2015: two reports assessing the macroeconomic forecasts, respectively included in the USP 2015-2018 and the DBP 2016; two reports assessing the fiscal forecasts, respectively included in the USP 2015-2018 and the DBP 2016; one report dealing with the assessment of the Government's Medium Term Fiscal Strategy (MTFS) 2015-2018, and the Annual Report 2014 and Half Yearly Report 2015 published by the MFIN; and one report presenting an overall assessment of the DBP 2016.[9] These reports also contained a series of recommendations by the MFAC.[10]

Screen shot of the MFAC's website indicating the publications to date

Publications

Click on the below to view recent publications:

- **An overall assessment of the Draft Budgetary Plan 2016**
- **An Assessment of the Fiscal Forecasts prepared by the Ministry for Finance and presented in the Draft Budgetary Plan 2016**
- **An Assessment of the Macroeconomic Forecasts for the Maltese Economy prepared by the Ministry for Finance in October 2015**
- **An Assessment of the Medium Term Fiscal Strategy 2015-2018, Annual Report 2014 and Half Yearly Report 2015 published by the Ministry for Finance**
- **An Assessment of the Main Fiscal Forecasts prepared by the Ministry for Finance and presented in the Update of the Stability Programme for Malta 2015-2018**
- **An Assessment of the Macroeconomic Forecasts for the Maltese Economy prepared by the Ministry for Finance in April 2015**

Press releases

Since its establishment the MFAC published six press releases, which are available both in English and Maltese.

Screen shot of the MFAC's website indicating the press releases to date

PRESS RELEASES

13/01/2016 - Malta Fiscal Advisory Council publishes an overall assessment of the Draft Budgetary Plan for 2016

07/12/2015 - Malta Fiscal Advisory Council publishes an overall assessment of the Government's fiscal forecasts presented within the Draft Budgetary Plan for 2016

23/10/2015 - Malta Fiscal Advisory Council publishes an overall assessment of the Government's macroeconomic forecasts presented within the Draft Budgetary Plan for 2016

06/10/2015 - Malta Fiscal Advisory Council publishes an overall assessment of the Government's fiscal strategy and budgetary performance

03/06/2015 - Malta Fiscal Advisory Council publishes assessment of the Government's fiscal projections for 2015-2018

12/05/2015 - Malta Fiscal Advisory Council publishes its first assessment of the Government's April macroeconomic forecasts for 2015-2018

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[9] The report on the overall assessment of the DBP was published in January 2016.

[10] Refer to chapter 3 and the Appendix for an overview of the main recommendations made by the MFAC since its establishment.

MFAC in the press

The MFAC featured a number of times in the local press during the year, following the publications of its reports. Press releases were reported and commented upon in the various local newspapers, both in the printed and online versions.

TV interviews

In December, the Chairman and the Chief Economics Analyst were invited to discuss the work and publications of the MFAC on the national television station.

From left to right, the Chairman of the MFAC (Mr Rene Saliba), the Chief Economics Analyst (Mr Malcolm Bray) and the TV presenter (Ms Norma Saliba)

Visibility

When considering that during a large part of the year the MFAC was still in its capacity building phase, its visibility in the media was somewhat subdued. In 2016, the MFAC intends to improve its visibility through further development of its website, educational articles in the press, presentations to University students, seminars to selected audiences and more interaction with stakeholders.

Human resources and premises

Soon after the appointment of the Council members, work was initiated on the capacity building process, including human resources and premises. At the end of the year, the complement of the MFAC consisted of one administrator and two economists. Since the two economists were recruited in the latter part of the year, the MFAC made use of support from independent consultants in connection with the preparation of two of the reports published during 2015. The MFAC plans to recruit an additional economist in 2016 to enable it to fulfil its mandate more effectively.

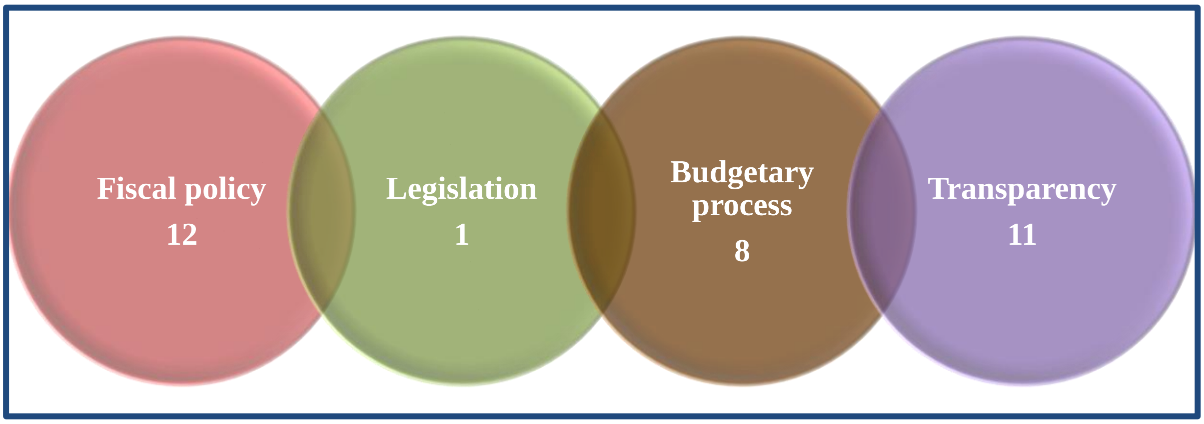
The MFAC is located in premises belonging to the Central Bank of Malta. During the course of the year, the MFAC received valuable support and assistance from various entities to enable it to develop the physical infrastructure. These included the Administration Office of the Central Bank of Malta, the Corporate Services Department and the Office of the Chief Information Officer within the Ministry for Finance, and Malta Information Technology Agency (MITA).

3 Recommendations

During the first year of establishment, the MFAC has issued a number of reports which contained thirty-two different but inter-related recommendations. These can be categorised under four different headings: 12 relating to the conduct of fiscal policy, 1 dealing with proposed new legislation, 8 focusing on the budgetary process and 11 to encourage higher transparency. The overall objective of these recommendations is to improve the conduct of fiscal policy in Malta and fiscal governance in general. This is in line with article 13, sub-article 3(b), of the FRA which states that the MFAC shall analyse and assess whether the Government's fiscal strategy is compliant with the provisions contained in this Act, and issue recommendations if necessary. In turn, article 13, sub-article 6, states that the opinions and the recommendations of the MFAC shall be considered by the Government when preparing and approving its fiscal strategy and the annual budget. So far, the MFAC's recommendations have focused on four key aspects, summarised in Diagram 3.1 (refer to Appendix 'A' for the full list of recommendations, included in the MFAC's published reports).

> "Recommendations are a very important element of a Fiscal Council's mandate. Just describing problems without giving advice how to solve them would not duly justify the existence of a council. These recommendations should be well defined and time consistent. Additionally the recommendations should be anchored to the EU fiscal framework. It is crucial that these recommendations are published to exert influence on the public debate and to guarantee a maximum of transparency."
>
> Gerhard Steger, Federal Ministry of Finance, Austria, during a seminar organised by the Austrian Fiscal Advisory Council, 31 January 2011.

Chart 3.1: Recommendations by type and number of recommendations



Recommendations dealing with the conduct of fiscal policy

Rationalise expenditure

Over time, upward pressures on government expenditures tend to emerge.[11] This can be due to, among other possible reasons, demand for additional and better quality government services, ageing-related costs, and faster rise in the cost of government services when compared to the general price level. At the same time, there is a limit on how much tax revenues can increase over time, since higher average tax rates act as a disincentive to work, and can stifle economic growth. In order to safeguard fiscal sustainability, in a growth friendly manner, it is important that structural factors which tend to push up expenditures are compensated for, through savings in other areas, such as those identified through the CSRs[12] which have been carried out by the MFIN, and also take into consideration the Country Specific Recommendations issued by the COM on 13 May 2015.[13]

[11] In the public finance literature the tendency for government spending to increase over time is termed Wagner's Law, after the German economist who first identified and published about this pattern in 1911.
[12] The CSRs have so far targeted social benefits and the health sector. The next sector to be targeted is education.
[13] The Country Specific Recommendations addressed to Malta are available on: http://europa.eu/rapid/press-release_IP-15-4975_en.htm.

Advance further in pension reform

Pensions represent a crucial component of the welfare state. Demographic change, in particular ageing, alters the balance between the size of the labour force (the people who pay contributions) and the amount of pensioners (those who receive benefits). The rising dependency ratio raises concerns about the sustainability of the current pension system and other age-related expenditures.[14] Moreover, rising prices and higher lifestyle expectations can erode the effective purchasing power of existing pension receipts, and over time, this may create requests for upward revisions to the pension entitlement, or else, easing of the eligibility requirements. In order to ensure that future outlays on pensions do not result in a significant drain on public finances, while at the same time guaranteeing a decent standard of living to the pensioners, it may be necessary to advance further in pension reform paying due consideration to the suggestions put forward by the Pensions Strategy Group.[15] It would also be useful to regularly maintain accurate and comprehensive estimates on ageing costs, to raise greater awareness of the long term fiscal challenges related not only to the current pension system but also to the health care system.

Extend further the average maturity of public debt

The current very low international and domestic interest rate environment has resulted in historically low yields on Malta Government Stocks (MGS). As a result, the cost of servicing public debt, to finance the yearly fiscal deficit and to roll-over existing debt, is currently rather low. This is generating important costs savings. The Government is invited to benefit further from this temporary time window, by adjusting its debt management strategy, to extend further the average maturity profile of the public debt in Malta. Although this strategy may in the short term result in slightly higher costs, since the interest rate paid on long term debt is slightly higher than that paid on short term debt, this factor would be more than offset in the longer term. Resulting costs savings would be spread over many years.

[14] The European Commission estimates that the economic old-age dependency ratio (15-64) will increase from 41% in 2013 to 71% in 2060. According to the AWG reference scenario, public pensions expenditure will increase to 12.8% of GDP by 2060 from 9.6% in 2013, and long-term care expenditure and health care expenditure will respectively increase by 1.2 pp and 2.1 pp of GDP by 2060 from the 2013 level. Source: The 2015 Ageing Report.

[15] In 2015 the Group made 27 recommendations, which are contained in the report “A Strategy for an Adequate and Sustainable Maltese Pension System”.

Use revenue windfalls primarily to build fiscal buffers

Actual fiscal revenues may at times turn out higher than originally anticipated. This may be due to the conservative revenue forecasts adopted by the MFIN in certain cases. However, this may also reflect faster-than-projected economic growth, which boosts tax bases beyond expectations. It may also be attributable to exceptionally favourable tax-rich economic conditions. By their very nature, such revenue windfalls, as distinguished from normal revenue forecast errors, are temporary and hence it is more prudent to utilise such funds to accelerate fiscal consolidation.

Use IIP funds cautiously

Through the launch of the Individual Investor Programme (IIP), the Government has managed to create a new source of annual revenue. Under the current legislation, 70% of this revenue is contributed to the National Development and Social Fund. However, such revenues are, in practice, instrumental to the narrowing of the fiscal deficit in 2015 and beyond, when measured according to the guidelines prescribed by the European System of National and Regional Accounts (ESA). This is attributable to the fact that this Fund is still considered as part of general government, for statistical purposes.[16] The manner in which the National Development and Social Fund will eventually utilise the accumulated funding must be carefully considered. In particular, it is important that the Fund undertakes transactions that do not entail direct expenditure outlays, as this could have deficit increasing impacts in future, thereby possibly derailing the planned trajectory towards Malta's MTO. One possibility would be to undertake equity investments in entities that contribute to socio-economic development and are not considered as part of general government for statistical purposes.

Consider a buffer over the minimum structural effort required

Malta's obligations under the SGP, as identified in the Country Specific Recommendations issued by the COM on 13 May 2015, require that the annual structural effort amounts to 0.6% of GDP.[17] This is necessary to ensure sufficient progress towards a balanced budget in structural terms by 2019, which is MTO. This

[16] For a unit to be classified inside the general government sector, it should not be a separate unit from government, it should be an institutional unit controlled by Government and it should be a non-market unit. For further explanations refer to "General Government Deficit and Debt First Transmission based on ESA 2010 methodology" issued by the NSO, available on http://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A2/Public_Finance/Documents/Government_Deficit_and_Debt_First_Transmission_ESA2010.pdf

[17] This requirement is also conditioned by the period of elevated economic growth.

obligation is to be considered as a minimum requirement. Fiscal plans could foresee a slightly higher annual fiscal consolidation effort, to serve as buffer, in the case of unfavourable developments concerning the fiscal balance. This requirement can also be met if the Government does not make recourse to the funds allocated annually to the Contingency Reserve.

Replenish the Contingency Reserve and establish clear policies on its use

The FRA has mandated the creation of a special reserve for prudence purposes. This buffer is useful to avoid situations where unforeseen expenditure or revenue slippages could jeopardize the compliance with the fiscal rules. The FRA further specifies that the Contingency Reserve shall amount to between 0.1% and 0.5% of GDP in any particular year. Since the Government made recourse to the Contingency Reserve during the first year when it was established, there is need to re-allocate the required funding.[18] At the same time, it is considered useful to circumscribe more clearly the specific types of conditions which must be met, to justify recourse to such reserve. The Government is thus encouraged to establish detailed and objective criteria, which are publicly available, to ensure that recourse to such funds is only permitted when all other options, including expenditure cuts, or revenue increases, have been explored, and evaluated to be contrary to sound and prudent macroeconomic management.

Appraise the current system of property-related taxes

Malta stands out among the EU Member States in that, in contrast with many other countries, its property tax system is focused on the imposition of taxes at the time of transfer and there are no recurrent taxes. The disadvantage of this system is that it increases the transaction costs associated with property transfers, thereby reducing the liquidity of the property market. The yearly revenue intake may also be unstable as it depends on the value of property transactions carried out annually, which may be volatile. The Government is thus invited to explore whether the current property tax system remains the most efficient and equitable, or whether superior alternatives, which yield similar revenues but with lower burden, could be explored.

[18] The legal text may be subject to interpretation, in particular whether the Reserve can maintain a minimum balance of 0.1% of GDP or whether this should be scaled up to 0.5% of GDP within a five-year period from the enactment of the FRA.

Allocate more resources towards attaining Europe 2020 targets

As part of the Europe's job and growth strategy, EU Member States have agreed to five headline targets to be achieved by the end of 2020.[19] These cover employment; research and development; climate/energy; education; social inclusion and poverty reduction. It may be opportune to allocate additional resources, in order to make sufficient progress to meet these targets within the stipulated timeframe.

Recommendations dealing with legislation

New legislation on the issuing of government guarantees

Government guarantees are provided to certain borrowers to enable them to obtain the necessary amount of funding at more advantageous interest rates. The decision to award government guarantees is often justified as being in the country's national interest. However, government guarantees represent a contingent liability for public finances, with potentially negative implications for the future fiscal balance, should the borrower default. Given that the outstanding level of government guarantees, expressed as per cent of GDP, is rather high when compared to that of other countries, it is worth considering the introduction of specific new legislation. The aim would be to clearly outline when and how such guarantees can be given, using as much as possible objective criteria, and possibly set upper limits, in order to avoid spiralling levels of guarantees and undue risks, while enhancing the level of transparency in the way government guarantees are awarded.

[19] For further details about Europe's jobs and growth strategy, refer to http://ec.europa.eu/europe2020/index_en.htm.

Recommendations dealing with the budgetary process

Ensure full consistency between the macro and fiscal forecasts

Macroeconomic forecasts are produced by models which rely on economic relationships derived from past data. However, at times macroeconomic models may be too aggregated to capture specific fiscal data which needs to be forecasted. This is where microeconomic data, and specific knowledge, based on information available at the various government departments, may be superior. While the approach of combining forecasts using different methods and sources is considered as necessary and best practice, it is crucial that macroeconomic and fiscal projections are fully aligned. This requires that both sets of forecasts are based on identical assumptions, and in both cases embodying the updated and latest available information. Importantly, whenever a macroeconomic or fiscal forecast is retained, under a fresh vintage, despite the availability of new information, there needs to be an explicit statement and explanation to support why the MFIN have taken this decision. This would allow analysts to better evaluate the quality of the published forecasts.

Ensure closer synergy across government departments and entities

The work involved with the preparation of historical fiscal data and projections is highly technical and depends on a limited number of specialised staff. It is important that detailed working instructions are maintained on how fiscal data is being compiled and how fiscal projections are being prepared. This would help ensure better continuity and strengthen the robustness of the processes involved. Updating some of the methodologies used by the BO to compile the Financial Estimates, in order to approximate better the ESA guidelines, would also contribute to streamline the existing processes and make the process more efficient and less prone to mistakes.

Coincide the budgetary planning with the requirements of the European Semester

Under the European Semester there are strict deadlines when the DBP and the USP need to be submitted each year. It is thus important that the budgeting process is fine-tuned to these new deadlines. The bringing forward of the budget date in 2015 was opportune. This practice should become a feature of future budget speeches. However, it may be necessary that budget discussions and negotiations are also brought forward, in order to allow for sufficient time for the preparation and, checking of the reports containing the macroeconomic and the fiscal projections. This would also facilitate the endorsement process used by the MFAC, which endorsement also needs to be submitted to the COM.

Monitor regularly the output gap developments and its implications

Historically, fiscal targets in Malta have been set in absolute amounts and more recently, as percentage of GDP. However, obligations under the SGP go a step further, and require calculations based on the estimation of the output gap. The extent to which economic developments are buoyant or subdued, thus, plays a key role in determining the fiscal turnout necessary to comply with the SGP requirements. As a result, it is important that fiscal developments are monitored not only in isolation, on the basis of the January-to-date revenues and expenditures, and in relation to the total for the year (as published in the Financial Estimates). Indeed fiscal developments should also be assessed with respect to the underlying economic conditions, as the latter impacts on the estimation of the structural effort being undertaken, which is one of the key criteria used by the COM to evaluate whether the country is complying with the SGP.

Recommendations dealing with transparency issues

Provide greater detail in the official publications

Article 3 (a) of the FRA requires that "the Government has the obligation to make public all the information necessary to allow the assessment of the implementation of such fiscal and budgetary policies". Fiscal transparency is important as it makes it easier to evaluate the fiscal choices that need to be made, as well as to understand any risks which may exist. Greater public awareness should also ensure that there is a greater support for sound public finances, while encouraging more scrutiny and accountability. In this respect, there is scope for the inclusion of additional detail in the MFIN's publications, as indicated in Table 3.1.

Table 3.1: List of additional information to enhance transparency

Following the publication of the assessment by the COM of the DBP and the USP documents submitted by the MFIN, it would be useful to include the official Government's reaction to such assessments in one of the MFIN's successive publications, to indicate the extent to which the Government shares or otherwise the results of such assessments.
The magnitude of the likely impact of permanent or temporary fiscal measures is necessarily based on estimates, based on quantitative relationships and / or subjective assessments. It would be useful to enhance the publicly available details in order to assist in the evaluation of the plausibility of such estimates. It would also be desirable that where possible and feasible, ex-post assessments of the actual impact of the measures introduced are undertaken.
While the USPs fiscal projections cover years t, t+1 and t+2, the extent of details provided to support such forecasts varies, with greater detail provided for period t and less to support periods t+1 and t+2. It would be useful to provide further details about the outer years in order to better be able to evaluate how and the extent to which, the stated fiscal ratios can be achieved in the context of a three-year budgeting framework.
The inclusion of a more extensive commentary on the economic drivers of variations in fiscal data could enable a better understanding of the factors contributing to observed improvements or deteriorations in specific revenue and expenditure items forming the budget, by establishing a closer link with the underlying revenue and expenditure bases.
In order to generate macroeconomic and fiscal forecasts, numerous assumptions are used. While the most important assumptions relating to the international sector are included in the published reports, there is scope for the inclusion of a more broad set of assumptions, in order to enable a more in-depth evaluation of the plausibility of such forecasts.

In order to communicate better about the dependency of the macroeconomic and fiscal forecasts on the assumptions used, it would be useful to expand further the sensitivity analysis which is published to better explain the impact of the individual assumptions used, particularly those that are deemed to be critical.
In the case when statistical changes (such as when there is a change in the methodology used) and data revisions may exert a significant impact on the reported fiscal or macroeconomic data, it would be important that estimates of the overall impact are produced, to enable a clear understanding of the underlying trends net of one-off statistical changes.
Whenever there is a change in the announced fiscal strategy, such as a change in the fiscal targets, or in the way how such targets are being addressed, it is important that any update is stated explicitly in the official documentation.
Given that government guarantees represent a contingent liability, it is important that more details are provided to explain what contributes to an increase or decrease in the outstanding levels of such guarantees.

4 Fiscal Governance

Rationale

Governments use fiscal policy to manage the economy: through spending on goods and services provided by the state, and on welfare support initiatives, which in turn, are to a large extent funded through tax revenues. Any shortfall is financed through the issue of debt. However, under this framework there exists a potential deficit bias, in the sense that governments have an incentive to run fiscal deficits, by delaying the imposition of the required taxation to sustain the yearly expenditures.

Within a monetary union, the deficit bias may be accentuated by the fact that a country might be able to shift part of the cost onto other member countries. Indeed, increased issuance of bonds, as a result of large and persistent fiscal deficits, may result in higher interest rates across the whole monetary union.[20] Another possible negative spill-over effect could occur, should the fear of government default in one country – because of elevated debt levels – make investors demand higher risk premia on government debt, across the whole monetary union. A further possibility could be that, in the event that differences in underlying economic fundamentals in different countries are not duly reflected in differential risk premia, weaker economies would be able to borrow at artificial cheaper rates, thereby undermining fiscal discipline.

> "... the primary usefulness of a well-designed and appropriately implemented set of permanent fiscal rules, that prevents a deficit bias, consists of establishing a depoliticized framework for fiscal policy – much like the depolitization of monetary policy under successful inflation targeting."
>
> George Kopits (2001) – Fiscal Rules: Useful Policy Framework or Unnecessary Ornament?, IMF Working Paper 01/145

In order to address the deficit bias which may characterise unconstrained fiscal policy, the general consensus is that some restrictions on the conduct of fiscal policy may be necessary and indeed beneficial. Internationally this has popularised the use of fiscal rules, as a way to address the deficit bias.[21] Across the EU, fiscal governance has taken a broader

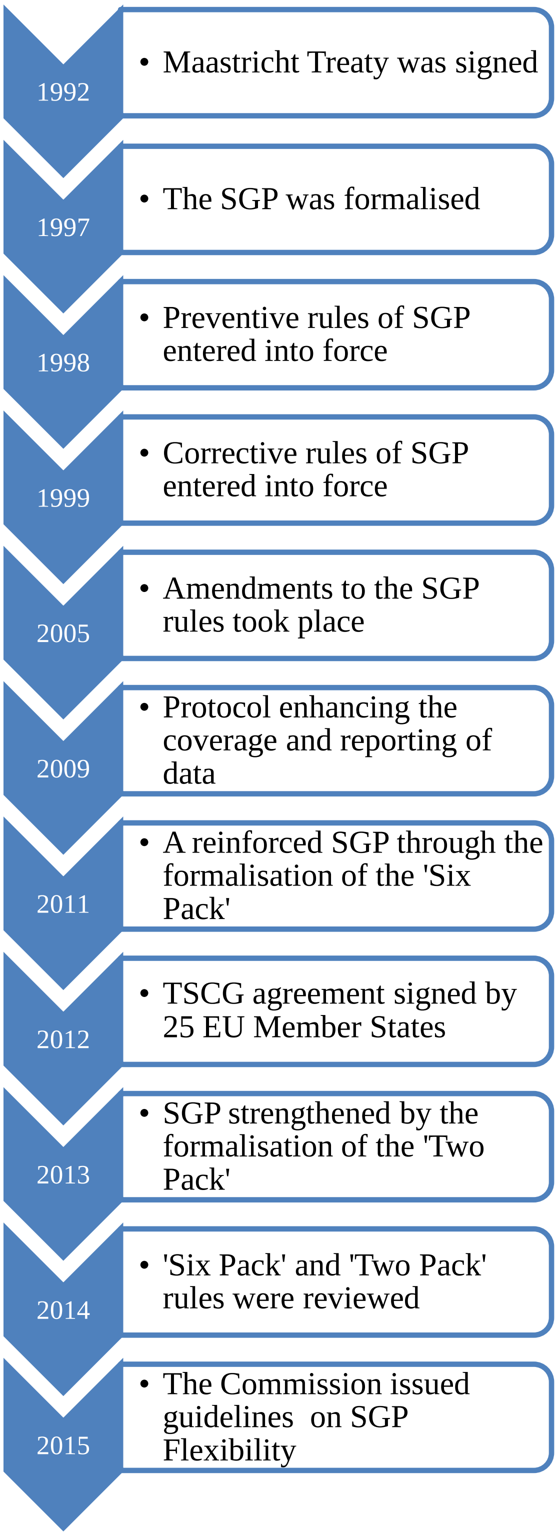
[20] This is particularly relevant in the case of large countries.
[21] Fiscal rules are constraints which are imposed on the conduct of fiscal policy.

perspective, comprising not only numerical fiscal rules, but also increased focus on medium-term budgetary frameworks and the creation of independent fiscal institutions (IFIs) to monitor compliance with fiscal regulations.

Fiscal Governance in the EU

The Maastricht Treaty, which was signed in 1992, introduced the 3% limit on the government deficit-to-GDP ratio and the threshold of 60% for the debt-to-GDP ratio (with some allowance in the case where the debt ratio was declining). This Treaty also specified the EDP, that is, the process through which, a country which breaches the stipulated fiscal requirements, would be given recommendations on how to rectify its position.

However, the Maastricht Treaty provisions alone proved to be insufficient to deter countries from running excessive fiscal deficits, as non-compliance was not sufficiently well addressed. As a remedy, in 1997, the SGP was introduced, allowing for better surveillance of the countries' budgetary positions. The SGP also introduced greater coordination of economic policies across the EU. The SGP further stipulated the content, the submission, the assessment and the monitoring of the stability and convergence programmes by each country.[22] These documents outline how a Member State plans to reach the MTO of a balanced budget or surplus. The SGP also clarified some aspects relating to the implementation of the EDP, in order to make it more rigorous, and more automatic. A country which is placed under the EDP has to follow the requirements stipulated under the corrective arm of the SGP. On the other hand, the other



[22] Stability Programmes are submitted by euro area countries while Convergence Programmes are submitted by the Member States that have not adopted the euro. These documents outline how the country is planning to meet its fiscal obligations, in terms of satisfying the numerical fiscal rules.

countries need to follow the requirements laid out under the preventive arm of the SGP. The corrective arm of the SGP is meant to address any fiscal slippage in a timely manner, while the preventive arm is meant to support further fiscal consolidation, even after the 3% deficit-to-GDP limit has been satisfied.

In 2005, amendments to the SGP were introduced, in order to introduce country-specific MTOs. In particular, for countries which were not at the MTO, the requirement of an adjustment path equivalent to 0.5% of GDP per annum was established, which could be more in good economic times, or less in bad economic times. The definition of excessive deficit was also clarified, while some easing of the rules was introduced, in the case of countries implementing structural reforms.

Another major milestone in European fiscal governance took place in 2011 with the introduction of the so-called 'Six Pack', which consists of five legislative acts and one Council directive. The 'Six Pack' established the European Semester, which is a yearly cycle for economic policy coordination. It also defined what a 'significant deviation' from the MTO, or the adjustment path towards it, refers to. Moreover, the debt criterion under the corrective arm was given greater importance. Another criterion, an expenditure benchmark, was also introduced under the preventive arm of the Pact. This placed a ceiling on the annual growth of public expenditure when compared to a medium-term reference growth rate. The 'Six Pack' also stipulated that compliance with the EU's fiscal rules should be monitored by national IFIs. [23]

Under the European fiscal governance framework, the COM and the European Council monitor individual Member States' budgetary positions and in the case of non-compliance with the existing numerical rules, the European Council issues an opinion and makes recommendations for the reversal of the fiscal policy stance. A deadline to take action is also imposed upon Member States, with the possibility of financial sanctions if such recommendations are not adhered to.[24]

In 2013, the Treaty on Stability, Coordination and Governance (TSCG) entered into force.[25] In the 'Fiscal Compact', as this Treaty is commonly referred to, Member States agreed on the need to enforce the medium term limit of 0.5% deficit to GDP ratio, or 1% to GDP in the case of countries whose debt to GDP is well below the 60% benchmark. The 'Fiscal Compact' also required that the EU's fiscal regulations relating to the deficit criterion and the debt criterion, be transposed into national law, in an attempt to boost compliance.

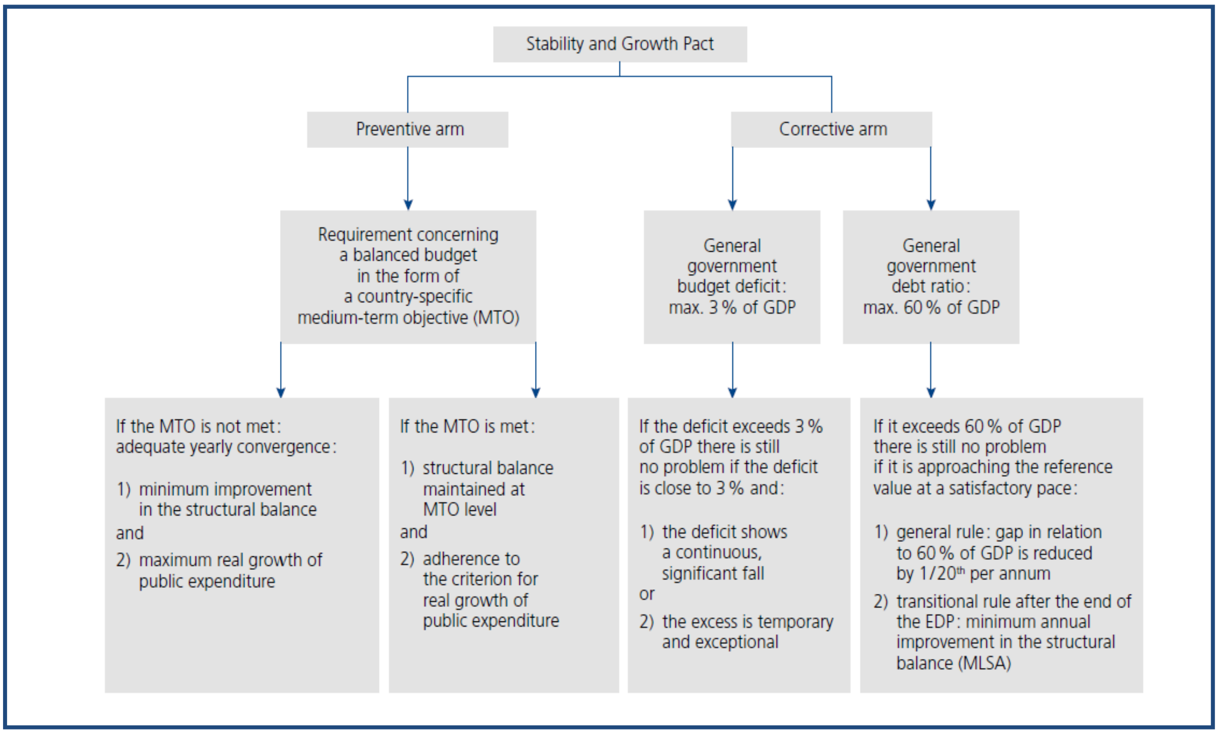
[23] The 'six pack' also created the Macroeconomic Imbalance Procedure (MIP), which aims to detect, prevent or correct macroeconomic imbalances, which refer to situations whereby macroeconomic developments adversely affect the functioning of a Member State's economy.
[24] According to the Reverse Qualified Majority Voting (RQMV) procedure in the context of the economic governance package, a COM recommendation is deemed to be adopted unless the Council decides by qualified majority to reject the recommendation within a given deadline that starts to run from the adoption of such a recommendation by the COM. Votes by country are weighted according to pre-established weights.
[25] This Treaty was signed by 25 EU Member States in 2012. The Czech Republic, the United Kingdom and Croatia did not sign this intergovernmental agreement.

In the case of euro area countries, two other legislative acts, referred to as the 'Two Pack' were introduced in 2013. The aim was to strengthen further fiscal surveillance in the euro area. The first legislation introduced an elevated level of surveillance for those countries facing financial instability. The other legislation introduced a common budgetary timeline, together with a set of specific reporting requirements, and in particular more requirements for Member States in the EDP. It also stipulated that every Member State should have in place independent bodies, to monitor compliance with fiscal rules. The EU fiscal framework was transposed into national legislation in Malta through the Fiscal Responsibility Act, 2014 which was passed in August 2014.

In 2015, the COM sought to clarify and extend some form of flexibility to the European fiscal rules, particularly in terms of the treatment of expenditures relating to investment for EDP purposes, concessions for countries undertaking structural reforms and clarifying issues relating to cyclical conditions and the corresponding fiscal effort required.

The current European fiscal rules are summarised in Diagram 4.1.

Diagram 4.1: Summary of the main European fiscal rules[26]



Source: National Bank of Belgium

[26] This diagram is reproduced from the Economic Review (September 2015) published by the National Bank of Belgium available on https://www.nbb.be/doc/ts/publications/economicreview/2015/ecorevii2015_h5.pdf

Independent Fiscal Institutions

To further strengthen fiscal surveillance and compliance to EU fiscal rules, EU legislation required the establishment of an 'independent body or body with functional autonomy' to monitor compliance with national fiscal rules. IFIs in the EU have two major functions; that of producing or endorsing the macroeconomic forecasts and that of monitoring compliance with the national fiscal rules. These include the activation of the correction mechanism with respect to significant deviation from the adjustment path towards the MTO or from the MTO itself, and any circumstances which allow for the temporary deviation from it. As a result of the strengthening of the EU fiscal framework and the increasing focus placed on the role of IFIs, the number of IFIs in the EU rose from 10 in 2008 to 25 in 2015.

From an organisational perspective, IFIs across the EU collaborate together and have formed platforms where they can exchange views on the challenges they are facing together and share expertise without prejudice to their respective mandates and independence. Thus in 2013 the COM set up an EU Network of IFIs to establish more effective communication lines between IFIs and the COM services, while sharing information on IFI best practices and other issues of common interest.

The number of meetings of this Network was increased from yearly in 2013 and 2014 to bi-annual as from 2015 in order to intensify the level of dialogue. During the course of 2015, EU IFIs were also provided with access to the COM's Communication and Information Resource Centre for Administrators, Businesses and Citizens (CIRCABC). CIRCABC is a platform which enables users to share information and documents with a number of European Committees such as the EFC and the EPC. Such access should contribute to better transparency of EU fiscal surveillance operations.

Another important development to enhance dialogue between IFIs and the relevant European Committees was the first formal meeting held in December 2015 between the EU Network of IFIs and the Alternate members of the EFC. Such annual meetings should enhance further the working relationship between IFIs and Ministries of Finance at EU level.

Concurrently with this development, EU IFIs also established an informal network in 2013 to provide a forum through which they can share experiences and expertise as well as pool resources in areas of common concern. To ensure better co-ordination, on 11 September 2015, this informal collaborative arrangement was formalised through an agreement among participating IFIs which set out its terms of reference (see Appendix B for a copy of the signed agreement). The agreement stipulates the role of IFIs, the importance of IFIs being independent and the recognition of doing the best possible for the effective functioning of the fiscal framework, at both national and EU level. The Network established a sub-Committee for EU Affairs to serve as a formal contact for consultations with the COM and to contribute to the ongoing dialogue on the EU fiscal policy architecture.

Well designed fiscal councils need to be based on a number of principles which ensure a sound framework, and in particular they need to be independent; have a well defined mandate; have sufficient resources; have access to all the relevant data; and have good presence in the public debate. In this respect, in 2014 the Organisation for Economic Co-Operation and Development (OECD), following consultations during the Third and Fourth Meetings of the OECD Parliamentary Budget Officials (PBOs) and IFIs held in 2011 and 2012, has adopted a set of 22 recommendations on principles for the effective functioning of an independent fiscal institution, which are grouped under nine broad headings (see Table 4.1).[27] The MFAC considers that the FRA adheres to these broad principles.

Table 4.1: OECD principles for IFIs

Principle	Description
Local ownership	Requires broad national ownership, commitment, and consensus across the political spectrum; Local needs and the local institutional environment should determine options for the role and structure of the IFI.
Independence and non-partisanship	Demonstrate objectivity and professional excellence; Leadership and staff should be selected on the basis of merit and technical competence, without reference to political affiliation; Term lengths and the number of terms that the leadership of the IFI may serve should be clearly specified in legislation, as should be the criteria and process for dismissal.
Mandate	The mandate of IFIs should be stipulated in law; There should be direct reference to the tasks needed to be carried out by IFIs in terms of the budget process; IFIs should be free to produce reports and other assessments as they deem necessary as long as they conform to their mandate.
Resources	The resources of the IFI should be commensurate with their mandate and should be published.
Relationship with the legislature	The budget timetable should cater for enough time for IFIs to submit their assessment on the budget, so as for the Parliament to scrutinise, assess and take into consideration the IFIs assessment; The legislature should also stipulate the IFI's role in terms of request for analysis from budget committees and sub-committees.

[27] These principles are available on http://www.oecd.org/gov/budgeting/OECD-Recommendation-on-Principles-for-Independent-Fiscal-Institutions.pdf

Principle	Description
Access to information	IFIs should be guaranteed in legislation to have full access to all relevant information, at no cost and in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals; Any reason for retaining information should be defined in the local legislature.
Transparency	IFIs should make their reports freely available; Release dates of major reports should be formally established.
Communications	IFIs should maintain constant communication with the media, civil society and other stakeholders for their analysis to be more effective.
External evaluation	IFIs should be assessed and evaluated externally by other similar institutions or experts in the field.

Source: OECD

Advisory European Fiscal Board

On 21 October 2015 the COM published a decision establishing an Advisory European Fiscal Board (AEFB) which was one of the measures included in the Five Presidents Report published on 26 June 2015 as a roadmap for completing the Economic and Monetary Union (EMU).[28] The AEFB is expected to start operating by mid-2016. According to the COM's decision "This Board will feed into the COM's work of surveillance and enforcement of the SGP. It will advise on the overall direction of fiscal policy of the euro area and evaluate how the fiscal governance framework was executed. The Board would neither replace national fiscal councils nor duplicate the COM's work on applying the SGP."[29]

[28] This document is available on https://ec.europa.eu/priorities/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en
[29] Refer to https://ec.europa.eu/priorities/sites/beta-political/files/factsheet-efb_en.pdf

"The AEFB is expected to carry out four main tasks:

- providing to the Commission an assessment of the implementation of the Union fiscal framework, in particular through the evaluation of the horizontal consistency in the decisions taken and the cases of serious non-compliance with fiscal rules;
- advising the Commission on the prospective fiscal stance appropriate for the Euro area, and on the consistency between national fiscal stances and the advised fiscal stance of the Euro area;
- cooperating with national fiscal councils, facilitating the exchange of best practices; and
- providing ad-hoc advice, on the request of the President of the Commission."[30]

"I have argued that, in the light of the European sovereign debt crisis and persistent sustainability concerns, it is more important than ever to make a credible commitment to stability-oriented fiscal policies. This is a necessary condition for fiscal policy to be in a position to support and complement the ECB's monetary policy. We can see today how much a lack of compliance with the rules has hampered the euro area's ability to deliver an efficient macroeconomic policy stance.... Setting up independent institutions such as the fiscal councils at the national level and the EFB at the European level could prove to be a decisive step in this direction."

Benoît Cœuré, Member of the Executive Board of the ECB, opening remarks at the workshop on "Fiscal councils, central banks and sound public finances", Frankfurt, 27 January 2016, available on the ECB website.

[30] Refer to a note by the Economic Governance Unit of the European Parliament available on http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/542674/IPOL_ATA(2015)542674_EN.pdf

5 Publicly available information about Malta's public finances

Fiscal transparency is important because it allows the general public to evaluate better the conduct of fiscal policy and understand whether any risks to sustainability are likely to build up. Availability of fiscal information contributes to better understanding of the fiscal issues being debated in the public sphere. Detailed historical data can also increase the accountability of the executive, as it evidences whether and how the announced fiscal targets are being met.

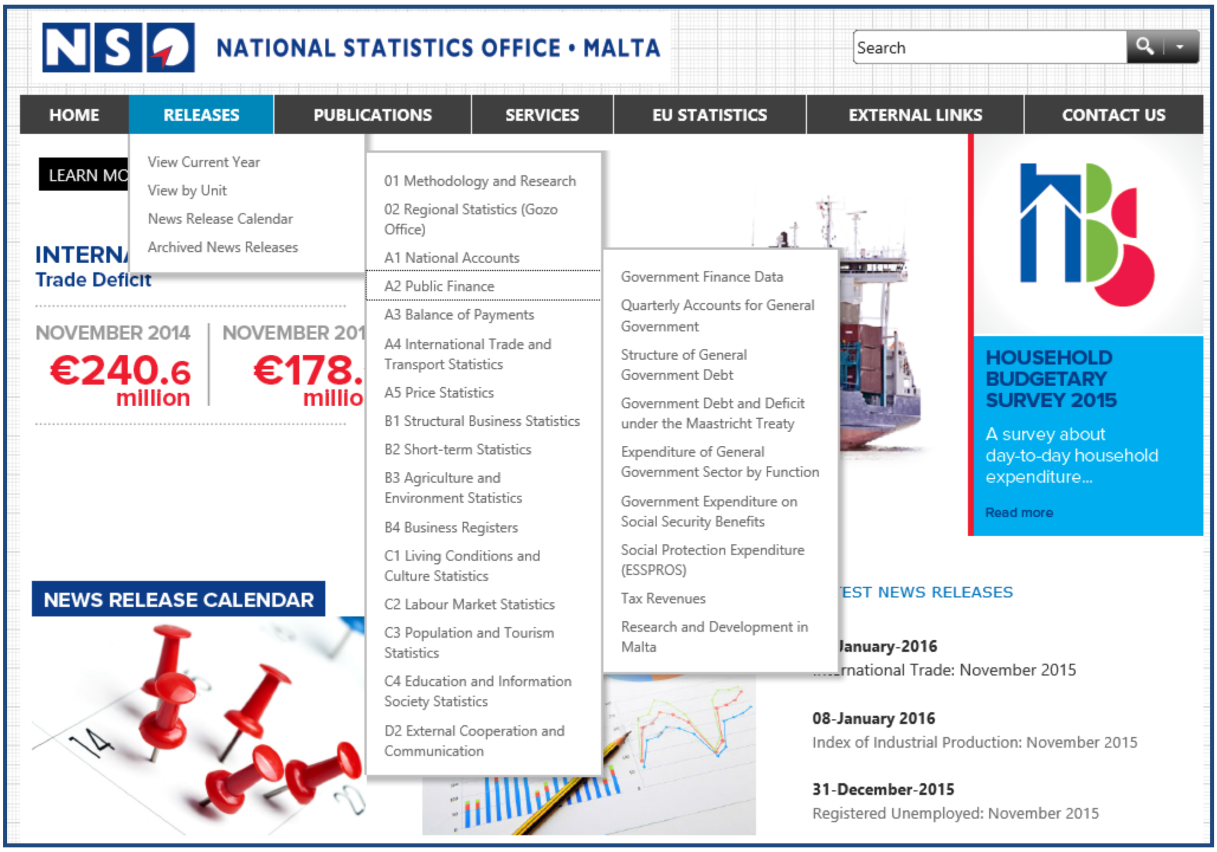
"Fiscal transparency allows for a better informed debate by both policymakers and the public about the design and results of fiscal policy, and helps establish accountability for its implementation. It helps to highlight risks to the fiscal outlook, allowing an earlier and smoother fiscal policy response to changing economic conditions and thereby reducing the incidence and severity of crises. The degree of fiscal transparency can also help provide a sense of a country's fiscal credibility and plays a role in how financial markets view the country's fiscal track record."

Factsheet published on the IMF website.

In a forward-looking context, fiscal projections show how public finances are anticipated to evolve over the coming years, based on the announced policies, thereby serving as early warning of whether future changes may be necessary, in order to safeguard fiscal sustainability. They are also important to verify Malta's adherence to the international commitments in the area of public finance. In the case of Malta, fiscal projections are regularly published by the MFIN and other independent organisations, both local and foreign. Independent fiscal projections are particularly useful because they serve as a benchmark, against which, the robustness of the MFIN's forecasts can be evaluated, while facilitating the identification of any upside or downside risks to the official targets. Indeed, in some countries, the production of forecasts is fully delegated to an independent authority to further reduce any risk of possible bias.

In the case of Malta, the NSO is the main source for historical data in the area of public finances. Fiscal statistics are freely downloadable from the NSO's website (see Diagram 5.1).[31]

Diagram 5.1: NSO's releases in the area of public finances



The frequency of the releases ranges from monthly to annual, according to the release calendar.[32] Some published statistics are compiled using local definitions, while statistics contained in some other releases are based on the ESA 2010 guidelines, which is mandatory across the EU. Local definitions mirror the way in which the budgetary process in Malta is carried out, while the ESA definitions are the ones used to compile fiscal data across the EU, thereby ensuring the use of harmonised definitions and cross-country comparability.

Each type of release also varies with regards to the time after the end of the reference period when it is published. In some cases, the statistics published in the release are also labelled as provisional, and henceforth could be revised in subsequent releases, when more and better

[31] www.nso.gov.mt
[32] The NSO publishes the release calendar for the next three months. This is available on https://nso.gov.mt/en/News_Releases/Release_Calendar/Pages/News-Release-Calendar.aspx

quality data becomes available to the NSO. However, cash-based data, compiled on the basis of local definitions, is generally not revised.

These various aspects, and in particular the definitions used and timeliness, have a bearing on the purpose for which each release may be useful and the caveats which have to be kept in mind when analysing such statistics. Table 5.1 provides a detailed list of the type of content which can be found in each of the releases and an explanation of their usefulness.

Table 5.1: Overview of the NSO's releases in the area of public finance

TITLE	FREQUENCY	CONTENT	USEFULNESS
Government Finance Data	Monthly	Details about the various revenue and expenditure transactions which are recorded in the Consolidated Fund; and the gross outstanding Central Government debt.	To monitor latest cash-based fiscal developments, compiled using definitions established by the BO. Offers the most regular and timely fiscal information, but the coverage is incomplete, since it does not capture the full General Government. The revenue and expenditure figures are based on actual cash transactions, and are therefore not normally subject to revision. However, since there is no accrual adjustment, monthly figures may be influenced by special factors which make it harder to identify underlying trends.
Quarterly Accounts for General Government	Quarterly	Details about the revenues and the expenditures for general government; and information about the adjustments necessary to reconcile the fiscal balance as recorded in the Consolidated Fund, and that measured	To monitor fiscal developments compiled according to the definitions upon which adherence to the SGP is assessed. To analyse the different revenue and expenditure components using economically meaningful definitions. This release also includes information about the accrual adjustments to the cash data, as well as a full coverage of the Government's activities,

TITLE	FREQUENCY	CONTENT	USEFULNESS
		according to the ESA 2010 guidelines (which is mandatory across the EU).	beyond what is recorded in the Consolidated Fund. This release offers the comprehensive information about public finance but the information is less timely than in the case of the monthly *Government Finance Data* release.
Structure of General Government Debt	Annual	Details about the holders of debt; the type of debt, the currency denomination; the original and remaining maturity of debt; the apparent cost of debt (average interest rate paid); the market value of debt; and the outstanding Government guarantees by sector.	To detect possible roll-over risks for government debt such as by identifying whether there are particular concentrations of maturating debt. To identify the share of public debt held by non-residents and identify possible exchange rate risks. To monitor the trend in the contingent liabilities (guarantees), in the eventuality that guarantees may be called up, hence creating negative implications for the fiscal balance.
General Government Debt and Deficit under the Maastricht Treaty	Biannual	Presents the deficit-to-GDP and the debt-to-GDP ratios computed in line with the procedure defined in the Maastricht Treaty Article 104. This release captures all the government's accounts including the Treasury Clearance and Sinking Funds; excludes the financial transactions; and includes accruals	To monitor whether the requirement that the general government deficit should not exceed 3 per cent of GDP and gross nominal consolidated debt should not exceed 60 per cent of GDP, are being respected. The release also contains the updated list of EBUs which are entities forming part of General Government, but which are not accounted for within the Departmental Accounting System (DAS) of Central Government. The performance of these entities must be monitored as they can be a source of additional fiscal risks,

TITLE	FREQUENCY	CONTENT	USEFULNESS
		adjustments. Data in respect of Extra Budgetary Units (EBUs) and Local Councils are also included.	if they experience revenue shortfalls or expenditure slippages.
Expenditure of General Government Sector by function	Annual	Government expenditure is classified by the purpose for which the funds are used. Details about the general government expenditure split by function, such as on general public services, health and education. Data is also split according to the specific type of expenditure, for example whether it represents gross capital formation or compensation of employees.	To analyse trends in government expenditure and in particular drivers of growth, based on ESA 2010 definitions. This enables meaningful comparison with other countries' fiscal developments. This release offers a holistic perspective of expenditures relating to key sectors, such as health and education. It makes it easier to link expenditure developments to their underlying economic determinants. The latter is important to establish a better link between fiscal and macroeconomic dynamics, thereby evaluating the plausibility of the published projections.
Government Expenditure on Social Security Benefits	Quarterly	Detailed breakdown on the social security benefit payments, such as on the various types of pensions. Additional data about non-contributory benefits, such as social assistance and children's allowance. The data is extracted	To analyse the latest quarterly trends in pension-related expenditures. Offers timely information about changing short term trends and in particular identify possible intensification of upward pressures. Given that the data is based on administrative records, any changes to the payment procedures may impact the monthly data, hence requiring extra caution when evaluating year-on-year or month on month changes.

TITLE	FREQUENCY	CONTENT	USEFULNESS
		from the administrative records of the Social Security Department.	
Social Protection Expenditure	Annual	Detailed breakdown on social protection expenditure in Malta, such as in the form of spending on hospitals, subsidies and transfers to Non-Governmental Organisations (NGOs). Also distinguishes between gross and net expenditures, by removing the taxes and social contributions that are paid by the recipients of the benefits.	Offers a holistic perspective of expenditure on social protection, thereby enabling a fuller assessment of the conduct of fiscal policy in this area. Useful to identify issues related to poverty alleviation and ageing-related costs, and long term fiscal challenges in general.
Tax Revenues	Annual	Detailed breakdown of tax revenues, such as direct and indirect taxes. Includes also the data about the overall tax burden.	To analyse trends in tax revenues based on economically meaningful definitions and in particular, the drivers of growth, based on ESA 2010 definitions. This enables meaningful comparison with other countries' fiscal developments. It also links revenues to their economic determinants. The latter is important to establish a better link between fiscal and macroeconomic dynamics, thereby evaluating the plausibility of the projections.

TITLE	FREQUENCY	CONTENT	USEFULNESS
Research and Development in Malta	Annual	Details about Government spending on R&D and employment related to R&D	To evaluate the country's progress towards attaining the Europe 2020 target relating to the overall spending on R&D. Can provide information about future potential output growth, since this is also influenced by investment in R&D.

Apart from these releases, the NSO makes available additional monthly and quarterly data, based on the cash transactions recorded in the Consolidated Fund, but classified under the ESA headings.[33] Effectively, these files report the fiscal balance as published in the Monthly Government Finance Data release, but based on ESA terminology and methodology. These files also include separate data relating to the revenues and expenditures of the EBUs. The NSO compiles this information as part of the requirements stemming from the Enhanced Economic Governance package. This information can be particularly useful, as it provides partial, but timelier information, about fiscal developments, based on ESA classifications, and thus enable a better evaluation of the fiscal revenues and expenditures when compared to the annual targets as indicated in the DBP and the USP.

Statistics on Malta's public finances are also freely downloadable from Eurostat, which is the statistics agency of the EU.[34] In this case, there is the added advantage that one can retrieve the fiscal data for each EU Member State, as well as aggregates for the EU and the euro area as a whole. Since this data is all compiled on the basis of a common methodology, it enables meaningful comparisons, such as to evaluate the relative composition of tax revenues and the relative spending on particular expenditure categories. Quality assurance is also enhanced, since the plausibility of the data for each data transmission is checked by Eurostat, which may request additional information from local authorities, in case of any doubts about the data quality.

[33] These can be downloaded from http://nso.gov.mt/en/Services/Council_Directive/Pages/Council-Directive-85_2011.aspx

[34] http://ec.europa.eu/eurostat

While the NSO and Eurostat are the prime source for historical data, the MFIN is the primary source of forward-looking information dealing with the conduct of fiscal policy in Malta. Indeed, within MFIN, the EPD is primarily responsible for producing Malta's fiscal and macroeconomic forecasts which are published in October, as part of the DBP, and in April, as part of the USP.[35,36] The DBP contains the fiscal forecasts for the years t and t+1, produced after taking account of the discretionary measures, as announced in the Budget Speech. In turn, the USP presents an extended set of fiscal and macro projections, to cover up to year t+3.

"Statistics are of great importance to the country because of how they provide the necessary gauges for decision makers. One cannot safely guide the ship of state without precise gauges and indicators in place conveying much-needed information to decision makers."

Prof Edward Scicluna, Minister for Finance, during a visit to the NSO, 31 July 2013.

Independent commentaries on the recent and the projected fiscal developments are also publicly available. In particular, these are published by the CBM, the COM and the IMF. Specifically, the CBM dedicates a chapter to analyse public finance developments in Malta in every edition of its *Quarterly Review* and in its *Annual Report*, and a section it its monthly *Economic Update*.[37] The CBM also publishes forecasts for key fiscal ratios, which are prepared according to the guidelines of the European System of Central Banks (ESCB).[38] Importantly, these projections are prepared independently of the MFIN. As a result, the CBM's forecasts present an alternative set of fiscal forecasts which may differ from the MFIN's figures due to the use of different assumptions and reliance on different economic relationships and models.

The COM publishes dedicated country page, three times a year, when it presents its own economic projections. These are labelled as the Winter, Spring and Autumn forecasts.[39] These are also included in the COM's assessment of Malta's DBP and USP.[40,41] In these reports the COM presents its assessment of whether the country is complying with the requirements of the SGP, based on its own calculations, following the data submitted by the

[35] Malta's DBP can be downloaded from http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm
[36] The latest USP is available on http://ec.europa.eu/europe2020/pdf/csr2015/sp2015_malta_en.pdf
[37] These are available on http://www.centralbankmalta.org/publications
[38] For example, the ESCB guidelines require that only measures which have been clearly publicly articulated can be included in the baseline forecasts, while some assumptions, particularly related to international variables are uniform across the ESCB.
[39] Can be downloaded from: http://ec.europa.eu/economy_finance/publications/european_economy/forecasts/index_en.htm
[40] The COM's assessment of Draft Budgetary Plans for the euro area Member States, are available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm
[41] The COM's assessment of Stability and Convergence Programmes, are available on: http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/

Member States. The IMF is another source of information as it publishes a commentary about public finance developments in Malta in its annual Article (iv) report on Malta.[42] The IMF provides longer term fiscal projections about Malta in its Fiscal Monotor, which is a biannual publication.[43] Indeed, while the CBM and the COM publish fiscal forecasts to cover years: t, t+1 and t+2, the IMF publishes forecasts up to t+5.

Table 5.2 summarises the level of detail which is published by each of the identified institutions. It is useful to compare the projections across institutions, in order to identify whether there exists significant or limited dispersion since this can indicate the extent of uncertainty relating to the published projections.

Table 5.2: Publicly available fiscal projections by official institutions

FISCAL VARIABLE	UNIT	MFIN	CBM	COM	IMF
General government revenue	% of GDP	✓		✓	✓
General government expenditure	% of GDP	✓		✓	✓
General government balance	% of GDP	✓	✓	✓	✓
Primary balance	% of GDP	✓		✓	✓
Cyclically-adjusted budget balance	% of potential GDP	✓		✓	✓
Cyclically-adjusted primary balance	% of potential GDP	✓		✓	✓
Structural budget balance[44]	% of potential GDP	✓		✓	
General government gross debt	% of GDP	✓	✓	✓	✓

[42] When a country joins the IMF, it agrees to subject its economic and financial policies to the scrutiny of the international community. During an Article IV consultation, an IMF team of economists visits a country to assess economic and financial developments and discuss the country's economic and financial policies with government and central bank officials. IMF staff missions also often meet with parliamentarians and representatives of business, labor unions, and civil society. For further details refer to https://www.imf.org/external/about/econsurv.htm. For publications relating to Malta refer to http://www.imf.org/external/country/MLT/index.htm
[43] Available on http://www.imf.org/external/ns/cs.aspx?id=262
[44] The difference betweeen the cyclically-adjusted budget balance and the structural budget balance is that the latter nets off one-off and other temporary measures.

APPENDIX
- A -

The MFAC's recommendations in detail

As indicated in Chapter 3, the reports published by the MFAC contained thirty-two different recommendations. This Appendix contains the full set of recommendations and reproduces abstracts from the text which was originally published in the MFAC's reports, listed hereunder.

"The Fiscal Advisory Council continues to build its capacity and has produced its first set of reports, increasing fiscal transparency. "

IMF, *Staff Report for the 2015 Article IV Consultation*

Report no 1	An Assessment of the Macroeconomic Forecasts for the Maltese Economy prepared by the Ministry for Finance in April 2015
Report no 2	An Assessment of the Main Fiscal Forecasts prepared by the Ministry for Finance and presented in the Update of the Stability Programme for Malta 2015-2018
Report no 3	An Assessment of the Medium Term Fiscal Strategy 2015-2018, Annual Report 2014 and Half Yearly Report 2015
Report no 4	An Assessment of the Macroeconomic Forecasts for the Maltese Economy prepared by the Ministry for Finance in October 2015
Report no 5	An Assessment of the Fiscal Forecasts prepared by the Ministry for Finance and presented in the Draft Budgetary Plan 2016
Report no 6	An overall assessment of the Draft Budgetary Plan 2016

A. Recommendations dealing with the conduct of fiscal policy

1. **Rationalise expenditure**

   "The MFAC views such initiatives (Comprehensive Spending Review) positively and invites the Government to act on the areas where potential expenditure savings are identified." *(Report no 3, page 6)*

   "The MFAC encourages the Government to take advantage of the current benign macroeconomic scenario in Malta, with real growth rate of 3.6% being projected for 2016, to add momentum to the expenditure rationalisation and reform processes. This applies with respect to the necessary changes to rationalise expenditure and increase effectiveness, such as in the areas of health and education. The MFAC highlights the importance to implement the necessary changes, ahead of a possible change in business cycle conditions, which according to the latest DBP could take place over the medium term." *(Report no 6, page 35)*

2. **Consider a buffer over the minimum required structural effort**

   "The MFAC considers that future deficit reducing measures could target an adjustment above the minimum requirements, in order to reduce the risk of missing the fiscal benchmarks." *(Report no 3, page 13)*

3. **Maintain accurate estimates on ageing costs**

   "Due consideration should be given to ensuring that accurate estimates of ageing related costs are maintained, following on the work of the Pensions Strategy Group." *(Report no 3, page 13)*

4. **Raise awareness about the long term fiscal challenges**

   "The MFAC insists upon constant awareness about Malta's long term fiscal challenges so that timely action could be taken in this respect." *(Report no 3, page 13)*

"The MFAC highlights the importance of continuous vigilance and adequate reforms to foster further rationalisation and efficiency in age-related expenditure programmes so as to ensure the long term sustainability of public finances." *(Report no 3, page 13)*

"The MFAC also encourages the authorities to remain vigilant with respect to the age-related expenditure while at the same time ensure that long term sustainability issues are also addressed in a timely manner." *(Report no 6, page 40)*

5. Achieve further progress in pension reform

"In this respect, the MFAC takes note of the progress made in addressing the CSRs particularly in relation to pension reform and invites the authorities to advance further in the announced reforms." *(Report no 6, page 10)*

6. Extend the average maturity profile of public debt

"The MFAC considers that there is scope to further extend the average maturity profile of the public debt in Malta." *(Report no 6, page 16)*

7. Use IIP funds cautiously

"The MFAC encourages the Government to evaluate how best to utilise such funds (from the IIP), particularly to ensure that such funds are used to finance the acquisition of financial assets, rather than to fund direct expenditure, as this could have implications for the future fiscal balances, when measured according to the ESA definitions." (Report no 6, page 22)

8. Sustain progress towards attaining the Europe 2020 targets

"The initiatives undertaken in the fields of the environment and labour market, including those contained in the latest DBP, are a step in the right direction, but there appears to be the need and scope for further initiatives in order to attain such targets (Europe 2020)." *(Report no 6, page 36-37)*

9. Evaluate the economic efficiency of the current property-related taxation system

"The MFAC also invites the Government to consider whether the current system of property-related taxes is indeed the most efficient and equitable or whether one could consider alternatives." *(Report no 6, page 37)*

10. Use revenue windfalls primarily to build fiscal buffers

"The MFAC considers that the more benign macroeconomic conditions, which translate into higher tax revenues, should be channelled into a faster decline in the fiscal deficit rather than to finance additional expenditures." *(Report no 6, page 38)*

"The MFAC strongly advises that revenues in excess of targets should be carefully analysed and any revenue windfalls as distinguished from normal revenue forecast errors, should primarily be used to build fiscal buffers." *(Report no 6, page 39)*

11. Establish rigorous policies of how the Contingency Reserve can be resorted to

"While the MFAC acknowledges that some expenditure undertaken in 2015 was not initially earmarked for in the Budget Estimates, it invites the authorities to establish more rigorous policies of how this reserve (Contingency Reserve) may be resorted to in future. The MFAC considers that such Contingency Reserve should only be utilised in rare circumstances and when all other options have been exhausted." *(Report no 6, page 39)*

12. Replenish the Contingency Reserve

"The MFAC also encourages the MFIN to replenish the Contingency Reserve, as stipulated in the FRA, by ensuring that the required amount is allocated for in the budget estimates." *(Report no 6, page 39)*

B. Recommendations dealing with legislation

13. Consider new legislation to guide the issuing of government guarantees

"The Council encourages the Government to consider the introduction of legislation providing for an appropriate framework governing the monitoring and issuance of Government guarantees, thereby facilitating control and introducing stronger governance." *(Report no 3, page 14)*

C. Recommendations dealing with the budgetary process

14. Consider the publication of more timely official statistics

"In view of the fact that the output from the forecasts is used as a base for the preparation of a number of other government official documents, the need to ensure that such forecasts are prepared with enough lead time to ensure a smoother running of the overall processes is imperative." *(Report no 1, page 21)*

"The document presents an updated position for general government based on actual estimates published by the NSO for the first quarter and NSO provisional calculations for the second quarter. While the NSO's statistical obligations allow for a longer period to provide official figures for the second quarter of the year, the MFAC invites the authorities to consider whether more timely official data can be made available to enable more meaningful analysis and risk assessment. This would contribute to a more robust analysis of the fiscal turnout for the first half of the year, upon which the SGP requirements are evaluated." *(Report no 3, page 20)*

"The MFAC recommends that the MFIN should review certain procedures in order to ensure that enough lead time is available to users of such macroeconomic forecasts who need the outputs of MFIN as a base for their reports and analysis." *(Report no 4, page 3)*

"It is considered that the work on the assessment exercise could have been facilitated if the necessary data and information, even though provisional, had been provided to the MFAC in a more timely manner." *(Report no 5, page 8)*

15. Ensure closer synergy across government departments

"The MFAC is of the opinion that there is the need for more streamlining and coordination between the different Government and non-Governmental entities which provide their input and contribution to the forecast exercise." *(Report no: 1, page 21)*

"The disaggregation in the process of formulating the projections increases the risk of forecast errors and possible discrepancies between figures for the same item of expenditure taken from different databases." *(Report no 2, page 7)*

"The MFAC notes that the change in the legislation (here referring to the EU VAT legislation changes) was known before the cut-off date for the preparation of the fiscal forecasts. The Council notes the increased co-operation across departments to improve the forecasting process, but believes that there is still scope for further synergy, as suggested by this specific instance." *(Report no 3, page 20)*

"There is a need for more coordination and planning between the various institutions involved in the forecast exercise to ensure a smoother transition between the publication of data and the incorporation of such data within the forecasting framework in a timely and efficient manner." *(Report no 4, page 6)*

"The process of firstly finalising forecasts on a cash basis and only subsequently transposing them into ESA 2010 methodology increases the risk of forecast error. Also, as highlighted in previous assessments, since a number of entities are involved in this process, the process is characterised by a degree of fragmentation and there is a need for a more streamlined process and a smoother forecasting exercise, which would have favourable repercussions on the quality of the forecasts." *(Report no 5, page 10)*

16. Maintain detailed documentation on how the fiscal data is compiled

"As there is no official documentation of the methodology by which data is transposed to ESA 2010 methodology is resulting in a situation whereby a very limited number of experts have knowledge of the underlying methodology. It would therefore be desirable to have formal methodological documentation in place in this regard." *(Report no 2, page 7)*

"The MFAC would like to encourage the introduction of formal methodological documentation in order to enhance the robustness of the exercise." *(Report no 5, page 10)*

"The definitions used by the BO are outlined in the yearly Financial Estimates document published by the MFIN. The MFAC considers that there is scope for these definitions to be enhanced in order to make them more exhaustive, less subjective, and closer to definitions used by Eurostat. For example, the definitions used to classify certain types of expenditures are rather arbitrary, such as the distinction between capital and current expenditure." *(Report no 6, page 40)*

17. Ensure higher consistency between the macro and fiscal forecasts

"The projections show increases in 2015 and 2018, but in 2016 and 2017 Malta's contribution to the EU budget is assumed to remain largely stable. Whilst we recognise the difficulty to forecast these outlays as they are affected by revisions to GDP statistics, no information was provided to explain the expected trajectory, which adds further uncertainty to these projections." *(Report no 2, page 27)*

"The MFAC is of the opinion that, although not specified within Article 41 of the Act, explanations with respect to the potential interdependence between variances in the fiscal outturn and macroeconomic forecast errors would be beneficial to better evaluate and communicate about the determinants of the recorded variations.” *(Report no 3, page 15)*

“The MFAC would like to invite the MFIN to be more explicit in how it views the latest economic developments in relation to the anticipated trends. A reasonable solution would be to at least clearly articulate whether the latest available data suggests any upside or downside risks to the macroeconomic and fiscal outlook for the year, while confirming whether on the basis of available information, fiscal and macro forecasts are still deemed to be fully consistent with each other.” *(Report no 3, page 19)*

“Whilst recognizing the particular time constraints experienced throughout this forecasting round, the MFAC recommends that, where possible, all available data published from official sources should be incorporated within the baseline of any prepared forecast.” *(Report no 4, page 5)*

18. Ensure that the budget timetable is consistent with the European Semester

“The MFAC recommends that government budgetary practices are further aligned to meet the European Semester requirements.” *(Report no 3, page 12)*

19. Perform closer monitoring of output gap and its implications

“The MFAC encourages the Authorities that in the course of monitoring of macroeconomic conditions, a closer assessment is carried out of the extent to which the economy is operating below or above potential as this has a direct impact on the measured structural balance upon which adherence to SGP requirements is assessed.” *(Report no 3, page 13)*

“Whereas the MFAC appreciates that currently not all assumptions made by the COM are communicated to Member States, it will be desirable to explore ways that would enable the MFIN to better assess the possible implications that such revisions could have on fiscal requirements. It would be desirable to explore ways that would enable the MFIN to better assess how revisions could influence the expenditure growth reference rate calculated by the COM.” *(Report no 3, page 18)*

20. Revise historical data to ensure consistency with the latest published data

“The MFAC would also appreciate if the information passed to it, is presented in a way which facilitates the analysis, primarily by ensuring that all the historical data is revised in order to be consistent with the latest published data.” *(Report no 5, page 10)*

21. Update the BO's methodologies to approximate better the ESA guidelines

"The MFAC acknowledges the work being carried out internally by the Budget Office (BO) in terms of analysis of the quarterly accruals returns presented by the various ministries, and the other entities forming part of general government as per ESA guidelines but a longer term approach is warranted to steer the current BO methodologies to approximate better the ESA guidelines." *(Report no 6, page 41)*

D. Recommendations dealing with transparency issues

22. Provide detailed calculations of revenue measures

"The forecasts presented in the SP for current taxes on income and wealth for 2015 also include an additional 0.08 per cent of GDP anticipated to result from Government's efforts to curb avoidance related to income tax and capital gains tax. No explanation was provided to explain how this impact was calculated and on the basis of the limited information available the plausibility of these estimates could not be assessed." *(Report no 2, page 19)*

23. Provide details about fiscal measures for years t+1, t+2

"The Council encourages the MFIN to better outline the relevant revenue and expenditure measures, particularly to support forecasts beyond the current year, in line with the three-year budgeting framework." *(Report no 3, page 12)*

24. Specify in greater detail how expenditure growth will be constrained

"The MFAC invites the Government to be more explicit about how it intends to constrain expenditure growth." *(Report no 3, page 13)*

"The document could have outlined which specific expenditures are being referred to when stating 'corresponding downward expenditure trends are also envisaged under nationally funded capital expenditure items'." *(Report no 3, page 20)*

25. Provide more details about the assumptions used to prepare the forecasts

"The MFAC would welcome that such data (here referring to 'implied elasticities of the main revenue sources in respect of the respective tax bases which are projected for the 2015–2018 period') would be complemented by additional explanations that would further justify these assumptions. Further details about the main assumptions used to produce the fiscal forecasts would make it easier to judge the plausibility of such forecasts." *(Report no 3, page 13-14)*

"The EPD provided a technical note explaining the main methodology and assumptions used to derive their projections for outlays on social benefits. Such documentation is also considered positively as it improves the transparency of the fiscal forecasting exercise and should be applied also for the forecasts of other major expenditure components." *(Report no 5, page 28-29)*

"The MFAC suggests that the DBP should include a table to identify the following key fiscal assumptions: the projected employment level within general government and the projected change in the average government wage." *(Report no 6, page 41)*

"The MFAC deems necessary that MFIN publishes greater details on intermediate consumption and expenditure on gross fixed capital formation (on projects above a certain threshold), particularly since the latter two expenditure categories can prove rather volatile and where micro evidence is necessary to support the stated targets." *(Report no 6, page 41)*

26. Provide more information about government guarantees

"The report would benefit from greater transparency if additional information is included on the main drivers of projected changes in the ratio of government guarantees to GDP." *(Report no 3, page 14)*

27. Provide quantitative estimates of the impact of assumptions used

"The inclusion of a commentary to clarify the impact of specific assumptions on the overall fiscal balance would have enhanced further the transparency of the report." *(Report no 3, page 14)*

28. Provide higher detail on the impact of statistical changes

"The MFAC recommends that when major methodological changes (here referring to changes from ESA95 to ESA 2010) are implemented, tables could be included to map and quantify the approximate impact of such changes on key indicators, in order to enhance the transparency of the report." *(Report no 3, page 16)*

"The document provides few explanations as to the reason behind the downward revision (with respect to government consumption). While the latest USP made reference to the statistical treatment of revenues from the Individual Investor Programme (IIP) as impacting this GDP component, the document could have been clearer in terms of apportioning between the 'statistical effect' and the 'real restraint' effect, in order to better evaluate the plausibility of this forecast." *(Report no 3, page 18)*

"In order to enhance the transparency of fiscal policy, the MFAC also considers important that the differences between the balance on the Consolidated Fund, upon which the Budget Speech is based, and the fiscal balance calculated on the basis of the ESA guidelines, upon which the DBP is based, are clearly mapped and explained." *(Report no 6, page 40)*

29. Enhance the commentary on the drivers of variations in fiscal data

"The MFAC is of the opinion that the report could have expanded more on the underlying factors which have contributed to the deviation (here referring to the aggregate debt target) rather than just apportioning the variances across the different components of aggregate public debt." *(Report no 3, page 17)*

"Further explanations as to the factors which contributed to the upward revision in personal emoluments would have been advisable to better distinguish between policy initiatives, such as changes to employment levels and other contributors to expenditure growth such as wage drift." *(Report no 3, page 20)*

"The MFAC encourages the Government to be more transparent in its off-budget activities and better document the factors contributing to the stock flow adjustments, to enable analysts to better evaluate the likelihood of such stock flow adjustments. This is also necessary to instil confidence that such positive stock flow adjustments are not tantamount to future risks to the budget balance." *(Report no 6, page 22)*

"Another apparent weakness of the current BO framework is the possibility of undertaking 'below-the-line' transactions, that is transactions which entail fiscal revenues and expenditures but which do not feature among the Consolidated Fund transactions. The MFAC considers important that information about these types of transactions be more easily available publicly, in order to contribute to more informed public opinion about the conduct of fiscal policy." *(Report no 6, page 41)*

30. Publish a dedicated section in the Annual Report explaining possible deviations in the fiscal strategy

"Article 41(3) requires that the report includes a section which is focused solely on explaining the deviations from the fiscal strategy and initial annual budget, and presenting justifications for such deviations. Although this form of assessment was undertaken throughout the individual sections of the report, the MFAC feels that a separate section focusing exclusively on this issue could have benefited the report as a whole." *(Report no 3, page 17)*

31. State explicitly the reasons whenever the previous round of macroeconomic forecasts is retained.

"The MFAC notes that since the cut-off date when the macro projections were prepared for the USP, a new vintage of national accounts data, covering up to the first quarter of 2015, were published. The Report provides a commentary of the main economic developments based on this release but it does not take this information into account to revise the macroeconomic outlook as published in the USP. It is the opinion of the MFAC that the Report could have been more explicit as to the arguments to justify why the macroeconomic forecasts were not revised." *(Report no 3, page 18)*

32. Address the specific issues raised by the Commission in its assessment of the USP in the MFIN's publications

"The half yearly document could also directly address the issues raised by the COM in its assessment of the USP. This is not directly stated in the Act, but the MFAC is of the opinion that this would better contribute to enhance transparency and foster public dialogue on issues of fiscal sustainability." *(Report no 3, page 21)*

APPENDIX

- B -

Agreement of EU Independent Fiscal Institutions

We, the undersigned heads of European Union independent fiscal institutions (EU IFIs), on behalf of our national institutions, agree on the establishment of a Network of EU Independent Fiscal Institutions.

EU IFIs are independent oversight bodies responsible for the monitoring of fiscal performance in our respective Member States. Independence, statutory as well as perceived, vis-à-vis the national authorities as well as EU institutions is central to our existence. The comparative advantage of EU IFIs lies in our clearly specified mandates, in the understanding of national economies and public finances, and close familiarity with domestic challenges and risks. Our independence, legitimacy and expertise in the eyes of the domestic public and national authorities are the foundations of the contribution we make to the effective functioning of our national fiscal frameworks and the EU fiscal framework.

The Network is a voluntary and inclusive institution open to all independent fiscal oversight bodies operating in the EU. It provides a platform to exchange views, expertise and pool resources in areas of common concern.

The Network appoints José Luis Escrivá, Chair of the Spanish Independent Authority for Fiscal Responsibility, to serve as the Chair for an initial term of two years. He works closely with Ľudovít Ódor, member of the Slovak Council for Budget Responsibility, his Deputy, appointed for a term of the same length. Their main responsibility is to represent the common interests of the members of the Network to external stakeholders, inter alia on matters pertaining to the EU fiscal framework.

Their work in this regard receives legitimacy from a Committee for EU Affairs of the Network. The Committee adopts positions on issues concerning relations with EU institutions, including on the EU fiscal framework. Membership in the Committee, as in the Network, is voluntary and open to any EU IFI. The Committee decides, as a rule, by consensus of participating IFIs. Administrative and technical support to the Committee is provided by the Secretariat, supplied as a voluntary contribution by selected EU IFIs.

Bratislava, 11th September 2015

Austrian Fiscal Advisory Council - Fiskalraat	Bernhard Felderer President
Cyprus Fiscal Council Chairman	Demetris Georgiades
Danish Economic Council	John Smidt Head if the Secretariat
Estonian Fiscal Council	Raul Eamets Chairman
National Audit Office, Finland	Heidi Silvennoinen Executive Director for Fiscal Policy Evaluation
Haut Conseil des Finances Publiques, France	François Monier Rapporteur général
Independent Advisory Board to the Stability Council, Germany	Eckhard Janeba Chairman
Parliamentary Budget Office, Greece	Panagiotis Liargovas Co-ordinator
Hungarian Fiscal Council	Árpád Kovács Chairman
Irish Fiscal Advisory Council (IFAC)	John McHale Council Member
Parliamentary Budget Office, Italy	Giuseppe Pisauro President
Latvian Fiscal Discipline Council	Janis Platais Chairman

Lithuanian National Audit Office	Arūnas Dulkys Auditor General
Conseil National des Finances Publiques, Luxembourg	Romain Bausch Chairman
Malta Fiscal Advisory Council	Rene Saliba Chairman
CPB Netherlands Bureau for Economic Policy Analysis	Laura van Geest Director
Portuguese Public Finance Council	Teodora Cardoso President of the Board
Council for Budget Responsibility, Slovakia	Ivan Šramko Chairman
Independent Authority for Fiscal Responsibility (AIReF), Spain	José Luis Escrivá President
Swedish Fiscal Council	John Hassler Chairman
Office for Budget Responsibility, UK	Robert Chote Chairman

Source: http://www.euifis.eu/

Glossary

Budget balance: The difference between total government revenue and total government expenditure. A balanced budget occurs when expenditure is equal to revenue.

Budgetary rule: A rule which sets limits on the conduct of fiscal policy such as for example by establishing limits on the permissible annual fiscal deficit or the yearly expenditure growth.

Central Government: Consists of all administrative departments of the state and other central agencies whose responsibilities cover the whole economic territory of a country, except for the administration of social security funds.

Comprehensive Spending Review: Consists of a line-by-line analysis carried out by the Ministry for Finance of each ministry's expenditure inputs and outputs in order to determine the effective cost of government's activities. The objective is to prioritise expenditure and identify areas where savings can be attained.

Consolidated Fund: This fund is the government's main account and it captures the activities of the Government Ministries and Departments. This Fund records transactions on a cash basis. All allocations provided from the Consolidated Fund are either authorised by Parliament under an Appropriation Act, or are permanently appropriated by Parliament under other relevant legislation.

Contingency Reserve: A contingency reserve with the purpose of reducing the risks surrounding the attainment of the fiscal targets, and its utilisation is permitted on the basis of exceptional conditions, as specified in the Fiscal Responsibility Act.

Country-Specific Recommendations: Provide tailored advice by the European Council following a proposal by the European Commission to Member States on how to boost jobs and growth, while maintaining sound public finances.

Cyclically-adjusted budget balance: Computed as the difference between the actual balance-to-GDP ratio and an estimated cyclical component. It is the balance (deficit or surplus) that would exist if the economy were at potential.

Debt criterion: A country whose public debt-to-GDP ratio exceeds the 60% threshold must converge to this limit, at a satisfactory pace. This criterion is part of the corrective arm of the Stability and Growth Pact (also referred to as the Debt Rule).

Dependency ratio: the sum of persons aged less than 15 years plus persons aged 65 years and over, expressed as a percentage of the working-age population, between 15 and 64 years.

Draft Budgetary Plan: A document which presents the Government's updated official macroeconomic outlook and the fiscal projections for the current and the following year, taking account of the new fiscal measures.

Europe 2020 targets: 10-year targets which were launched in 2010, as part of the EU's growth and jobs strategy. The targets relate to employment, R&D, emissions levels, renewable energy use, energy efficiency, early school leaving, tertiary education and population at risk of poverty.

European Semester: This is a yearly cycle of economic policy co-ordination, guidance and surveillance. It provides a framework and a binding annual timeline for managing pro-growth measures at the European level.

European System of National and Regional Accounts: The European accounting standard for the reporting of economic data by Member States in the EU. The ESA methodology is based on the accruals accounting concept.

Excessive Deficit Procedure: A procedure under the corrective arm of the Stability and Growth Pact. This is applicable to Member States judged to have an excessive deficit (above 3% of GDP) or public debt levels not diminishing at a satisfactory pace towards the 60% of GDP benchmark.

Expenditure Benchmark: A reference value for the permissible expenditure growth which depends on the estimates for potential GDP growth. Any excess expenditure growth must be matched by discretionary revenue measures.

Extra Budgetary Units: entities forming part of General Government, but which are not accounted for within the Departmental Accounting System (DAS) of Central Government.

Fiscal Compact: Refers to the fiscal part of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union which is an intergovernmental agreement signed on 2 March 2012 and which introduced a stricter version of the SGP.

Fiscal consolidation: Governments' actions and policies to lower the deficit-to-GDP ratio in structural terms.

Fiscal deficit: A situation when government expenditure exceeds government revue.

Fiscal governance: Rules, regulations and procedures that influence how budgetary policy is planned, approved, carried out and monitored.

Fiscal policy: The act of regulating government revenue and expenditure to attain macroeconomic objectives.

Fiscal Responsibility Act, 2014: An Act approved by the Maltese Parliament on 8 August 2014 to provide for fiscal responsibility (Act No XXVII of 2014 – Chapter 534)

General Government: Includes Central Government and other activities such as those of Local Councils and Extra-budgetary units (which comprise institutional units under public control that are principally engaged in the production of goods and services not usually sold on a market and / or that are involved in the redistribution of national income and wealth).

Government guarantees: Financial Guarantees provided by the government to certain borrowers to enable them to obtain the necessary amount of funding and at more advantageous interest rates.

Gross Domestic Product: This represents the standard measure of economic activity carried out in a country, at quarterly or annual intervals. Nominal GDP measures activity at market prices while real GDP measures activity at chain-linked prices.

Gross Fixed Capital Formation: Consists of various types of investment, primarily in the form of dwellings, other building and structures, transport equipment, machinery and intellectual property products.

Independent Fiscal Institutions: Independent oversight bodies responsible for the monitoring of fiscal performance and adherence to fiscal rules in their respective country. In some countries they are also mandated to provide forecasts and costing of fiscal measures.

Individual Investor Programme: The programme allows for the grant of citizenship by a certificate of naturalization to foreign individuals and their families who contribute to the economic development of Malta, as provided in the regulations contained in Legal Notice 47 of 2014.

Inflation: The general increase in the price of goods and services over time. The annual inflation rate measures the percentage change in the general price level compared to the previous year.

Maastricht criteria: Five criteria which must be adhered to by European countries in order to qualify for the adoption of the euro. The criteria relate to inflation, fiscal deficit, public debt, exchange rate and interest rates.

Medium Term budgetary Objective: This is the budgetary target to be reached by a specific year, which is assigned to each EU Member State, in order to keep governments on track towards meeting their commitments to pursue sound fiscal policies.

Medium Term Fiscal Strategy: The Government's fiscal objectives, presented as part of a three-year rolling target for fiscal management.

One off and temporary measures: Budget items whose impact is constrained to one or few years.

Output gap: The difference between the level of actual and potential output expressed as a percentage of potential output.

Potential output: This is an estimate of the maximum output that an economy can produce, without creating inflationary pressures, when its resources are utilised in the most efficient manner.

Primary balance: The budget balance excluding interest payments.

Public debt: That amount of debt accumulated over time by the general government.

Revenue windfalls: Unexpected fiscal revenues accruing as a result of better-than anticipated economic developments or other special factors.

Six pack: Five Regulations and one Directive which entered into force on 13 December 2011. It applies to all Member States with some specific rules for euro-area Member States. In particular the six-pack reinforced both the preventive and the corrective arm of the Stability and Growth Pact.

Stability and Growth Pact: This is a set of rules aimed at assuring that countries in the EU pursue sound public finances and coordinate their fiscal policies. The Pact includes specific rules for countries under the preventive or the corrective arm.

Stock-flow adjustment: Stock flow adjustments relate to certain type of transactions which create a difference between the annual change in gross debt and the budget deficit.

Structural budget balance: The actual budget balance net of the cyclical component and net of one-off and other temporary measures.

Structural effort criterion: The required annual improvement of the general government's fiscal balance measured in structural terms that should be achieved by each Member State following a fiscal adjustment path towards its Medium Term Objective.

Two-pack: Two Regulations which entered into force on 30 May 2013 in all euro area Member States providing for increased transparency on countries' budgetary decisions, stronger coordination in the euro area starting with the 2014 budgetary cycle, and recognising the special needs of euro area Member States under severe financial pressure.

Financial Statements of the Malta Fiscal Advisory Council for the year ended 31 December 2015

Malta Fiscal Advisory Council
Report of the Council Members
For the year ended 31st December 2015

The Council present their report and audited schedule of receipts and expenditure for the year ended 31st December 2015.

Principal Activity

The Malta Fiscal Advisory Council ("the Council") was established by the Minister for Finance with effect from 1 January 2015 in terms of the Fiscal Responsibility Act, 2014, Cap 534. This is the first statement that is being presented and approved by the Council.

The Council's aim is to review and assess the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy. The Council is independent in the performance of its functions.

Council Members

In accordance with the Fiscal Responsibility Act, the Council shall consist of the Chairman and two other members.

On 1st January 2015, the Committee was constituted as follows:

Mr. Rene Saliba – Executive Chairman
Dr. Ian Cassar – Executive Member
Dr. Carl Camilleri – Executive Member

Results

The Statement of Receipts and Expenditure Account is prepared on a cash basis. The Council opened a bank account with Bank of Valletta Plc. on 18th September 2015. The results for the year are set out in the Statement of Receipts and Expenditure on pages 5.

Future Developments

The Council is not envisaging to change its principal activity.

Disclosure of Information to the Auditors

So far as the Council Members are aware, all relevant information has been brought to the attention of the Council's Auditors.

Registered office

Malta Fiscal Advisory Council, Triq il-Papa Piju V, Valletta

Auditors

Messrs. PKF (Malta) eligible, offer themselves for re-election.

Approved by the Fiscal Council and signed on its behalf on 18th March 2016 by:

Mr. Rene Saliba
Chairman

Dr. Carl Camilleri
Council Member

Dr. Ian Cassar
Council Member

Malta Fiscal Advisory Council
Council Members Responsibilities
For the year ended 31st December 2015

The Council members are required to prepare in such form as may be approved by the Minister for Finance, all proper and usual accounts of receipts and expenditure of the Council, at the end of each financial year, showing the results for that year.

The Council members are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Council and to enable them to ensure that the financial reports have been properly prepared.

The Council members are also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council members are responsible to ensure that the Council establishes and maintains adequate internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The Council is responsible, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Council's activities. This responsibility includes establishing and maintaining controls pertaining to the Council's objective of preparing financial reports and managing risks.

The Members are aware that the Council has a generally sound system of control, which will ensure that its assets are safeguarded, all material misstatements are detected, and the compilation of its financial reports are more efficiently presented.

Approved by the Council and signed on its behalf on 18th March 2016 by:

Mr. Rene Saliba
Chairman

Dr. Carl Camilleri
Council Member

Dr. Ian Cassar
Council Member

Malta Fiscal Advisory Council
Independent Auditor's Report
To the Council Members of Malta Fiscal Advisory Council
Report on the Statement of Income and Expenditure for the year ended 31st December 2015

We have audited the accompanying accounts of *Malta Fiscal Advisory Council*, which comprise statement of receipts and expenditure and a summary of significant accounting policies and other explanatory information.

Responsibilities for the Accounts

The *Malta Fiscal Advisory Council* is responsible for the preparation and fair presentation of these accounts in accordance with the accounting policies as set in Note 2, on page 7 of these accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these accounts based on our audit. We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Receipts and Expenditure Account give a true and fair view of the Council's financial performance in accordance with Article 56 of the Fiscal Responsibility Act (Chapter 534 of the Laws of Malta) for the year ended 31st December 2015.

This report has been signed by
Donna M. Greaves Bonello
(Partner) for and on behalf of
PKF (Malta)

PKF (Malta)
Certified Public Accountants Registered Auditors

35, Mannarino Road,

Birkirkara BKR 9080
Malta

Date: 18th March 2016

Malta Fiscal Advisory Council
Statement of Receipts and Expenditure Account
For the year ended 31st December 2015

	Note	2015 EUR
Receipts		
Government Subvention	3	150,017
Expenditure		
Council Honoraria	4	53,167
Salaries and Consultancy fees	5	66,622
Telecommunication Fees	6	4,608
IT installation and Equipment Fees		9,428
Corporate Image Expenses		1,011
Travel Fees		4,669
Recruitment Fees		2,550
Premises Fees		5,200
Sundry Expenses		2,762
Total Expenditure		150,017
Surplus/(Deficit) for the year		-

Malta Fiscal Advisory Council
Notes to the Accounts
For the year ended 31st December 2015

1. Basis of Preparation

The principal accounting policies adopted in the preparation of the statement of receipts and expenditure, are set out below:

a) Statement of Compliance

The Statement of Receipts and Expenditure has been prepared in accordance with Article 56 of the Fiscal Responsibility Act (Chapter 534 of the Laws of Malta).

b) Basis of preparation

The financial report which consists of receipts and expenditure for year ended 31st December 2015 has been prepared on the cash basis.

c) Functional and presentation currency

The financial statements are presented in euro (€), which is the Council's functional currency.

2. Significant Accounting Policies

a) Revenue & Expenditure Recognition

Revenue is recognised at the time physical cash is actually received. Revenue comprises the Government subvention used during the year.

Expenses are recognised at the time physical cash is actually paid out. Such expenditure comprises costs incurred by the Council in reviewing and assessing the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy.

Items of plant and equipment have been fully expensed in the year ended 31st December 2015.

3. Revenue

	2015 Eur
Government Subvention	150,017

The Government subvention as per Article (55) sub-articles (2), (4a) and (4b) of the Fiscal Responsibility Act amounts to not less than €250,000 annually and increase by the Index of Inflation as established and published by the National Statistics Office in each subsequent year.

During the year under review, the subvention was not passed on to the Council but kept by the Ministry for Finance, and expenses incurred by the Council were paid by the Ministry.

The subvention utilised in the year ended 31st December 2015 amounted to €150,017

4. Council Honoraria

	2015 Eur
Honoraria	53,167
Average No. of Council Members	3

5. Salaries and Consultancy fees

	2015 Eur
Administrator & Other Consultancy Fees	44,932
Economists Salaries (Including NI)	21,690
	66,622
Average no. of Employees	2

6. Telecommunications

	2015 Eur
Telephone and Internet fees	2,650
Mobile Expenses	1,958
	4,608

Malta Fiscal Advisory Council
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Email: info.mfac@gov.mt www.mfac.gov.mt

MFAC
MALTA FISCAL ADVISORY COUNCIL