Malta: Half Yearly Report 2020

Ministry for Finance and Financial Services

July 2020

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Fiscal Responsibility Act, 2014 (Cap 534)

In accordance with the requirements of Article 39(7) of the Fiscal Responsibility Act, 2014, I hereby submit a Half-Yearly Report on the economic and budgetary developments for the first half of 2020.

Prof. Edward Scicluna

Minister for Finance and Financial Services

1. Overview of the Macroeconomic Situation

This section provides an economic update, and a comparison of the revised macroeconomic projections with the Budget projections, as well as a detailed explanation of the main changes.

1.1 Introduction

In 2019, the Maltese economy recorded a real growth rate of 4.4 per cent, equivalent to 7.1 per cent in nominal terms. This growth figure was 2.9 percentage points higher than that of the European Union (EU), securing Malta's position as one of the fastest growing economies in the EU.

The domestic demand component was the main driver of this robust economic activity. The labour market continued to be buoyant, with further increases in activity rates observed particularly among females and older workers, contributing to a record low unemployment rate. Inflationary developments remained within the thresholds of price stability.

Malta continued to perform positively in external trade sustaining the current account surplus recorded in recent years. The large net export balance of the services sector largely explains the overall surplus of the current account. This was coupled with a lower goods net import figure which continued to accentuate the strong current account balance.

In 2020, the COVID-19 pandemic brought about unprecedented stresses to the global economy. The effect of this shock distinguishes itself from previous crises as the declines in demand are accompanied by supply restrictions resulting from the mandatory imposition of various lockdowns. Despite efforts by international institutions and governments, the economic situation going forward is overshadowed with uncertainty with respect to both the duration of the virus outbreak as well as its rate of transmission.

Against this background, the Maltese economy is expected to contract in 2020 and modestly recover in 2021. Given the high degree of openness of the economy, international developments are projected to weigh heavily on Malta's net export performance. Indeed, the main contributor to the decline in real GDP for

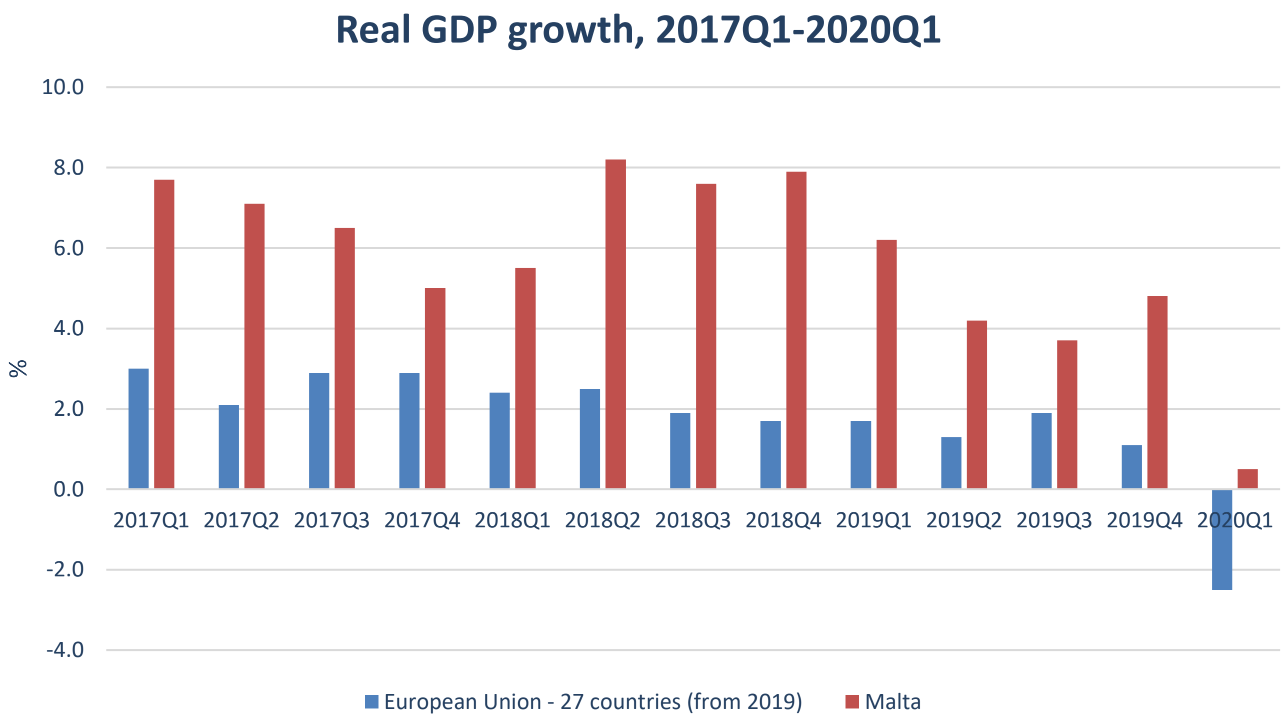

Figure 1

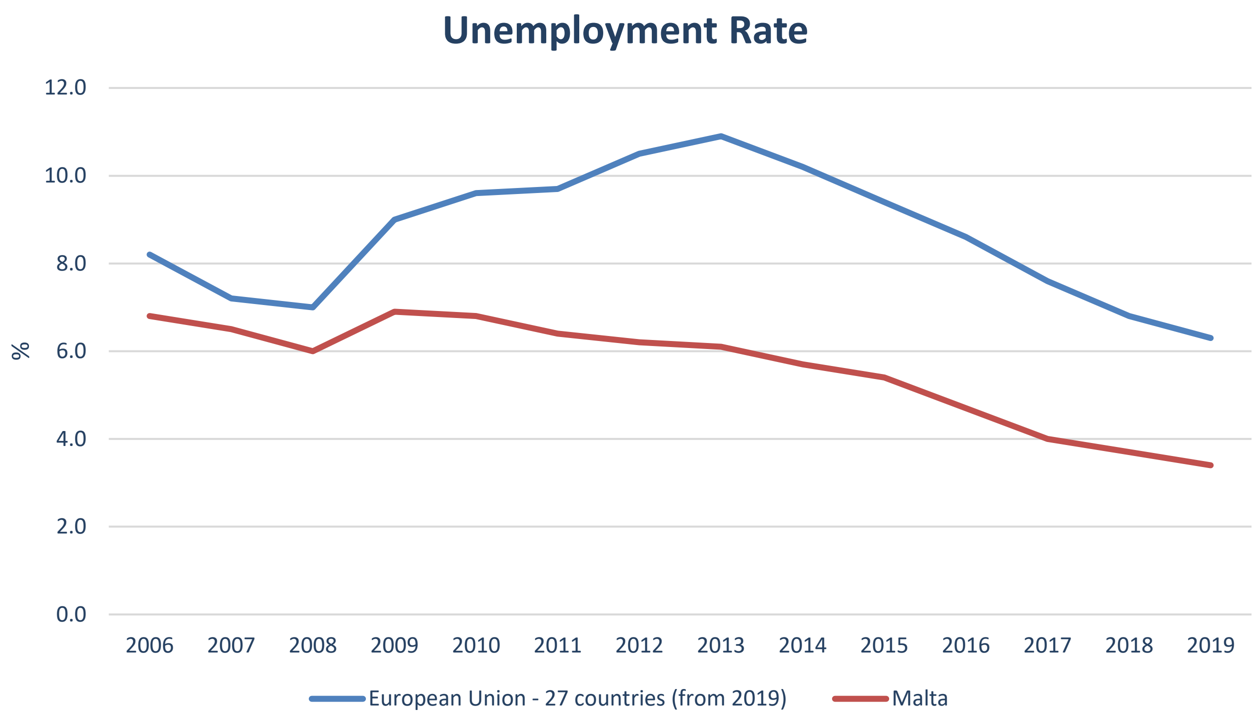

Figure 2

2020 is a negative net exports balance. The domestic component of the economy is expected to positively contribute to growth in 2020, as public expenditure is expected to compensate for the negative contributions of private consumption and gross fixed capital formation.

1.2 Local Scene

1.2.1 Economic Growth

During the first quarter of 2020, the Maltese economy grew by 0.5 per cent in real terms over the corresponding period of last year. This growth was predominantly driven by net exports which contributed 3.4 percentage points to growth after a strong start to the year before the pandemic hit. Further supporting the positive growth was a 0.8 percentage point contribution from inventories, while domestic demand acted as a headwind to growth, negatively contributing 3.7 percentage points. The latter is explained by an instantaneous negative shock in consumption due to the imposition of containment measures, as well as base effects intertwined with uncertainty which negatively affected investment.

In nominal terms, total income grew by 1.9 per cent, mainly reflecting a 5.9 per cent (or €78.2 million) increase in compensation of employees and a 2.4 per cent (or €36.0 million) growth in gross operating surplus.

During the same period, total gross value added increased by 2.6 per cent. The first three months of 2020 were sufficiently buoyant to yield gross value-added growth in the majority of sectors. The highest growth rates were recorded in the construction sector (14.1 per cent), the real estate sector (9.2 per cent), the financial and insurance sector (5.2 per cent) and the arts, entertainment and recreation sector (4.7 per cent). A few sectors witnessed immediate negative implications from the outbreak of the pandemic, including the non-manufacturing industry sector (-7.3 per cent), the agriculture, forestry and fishing sector (-4.6 per cent) and the wholesale and retail trade; transport; accommodation and food service activities (-4.5 per cent).

1.2.2 Labour Market

The labour market continued to yield positive developments in 2019. Employment growth (as per Labour Force Survey) stood at 5.8 per cent, reflecting strong labour market conditions and the robust state of the Maltese economy. Employment growth was driven by improved business prospects and inflows of foreign workers, while further supported by ongoing efforts in promoting and sustaining active labour market policies. The latter included work-life balance measures, family-friendly measures, in-work benefit, tapering of benefits, deferred retirement incentives and lower taxes on labour which have effectively helped increase participation rates, particularly among females and the elderly.

Indeed, these efforts contributed to further improvements in the female participation rate, which increased by 2.3 percentage points in 2019. This helped further reduce the gender disparity between employment rates of males and females. The overall activity rate for 2019 was estimated at 76.0 per cent, with the highest rate recorded being among persons aged 25-54 (87.7 per cent).

During the first quarter of 2020, there was an increase of 5.5 per cent in employment when compared to the corresponding quarter of 2019. However, according to the Labour Force Survey, during April, 62 per cent of people who had a job felt that their employment was affected with the onset of COVID-19, mainly due to reduction in the number of working hours or complete absence from work.

The unemployment rate (based on the Harmonised definition) reached a historically low level at 3.4 per cent in 2019, which was 2.9 percentage points lower than the EU-28 average (2019 composition). Malta also fared relatively well when considering youth unemployment (ages 15 to 24) which stood at 9.2 per cent compared to the EU-27 average of 14.3 per cent.

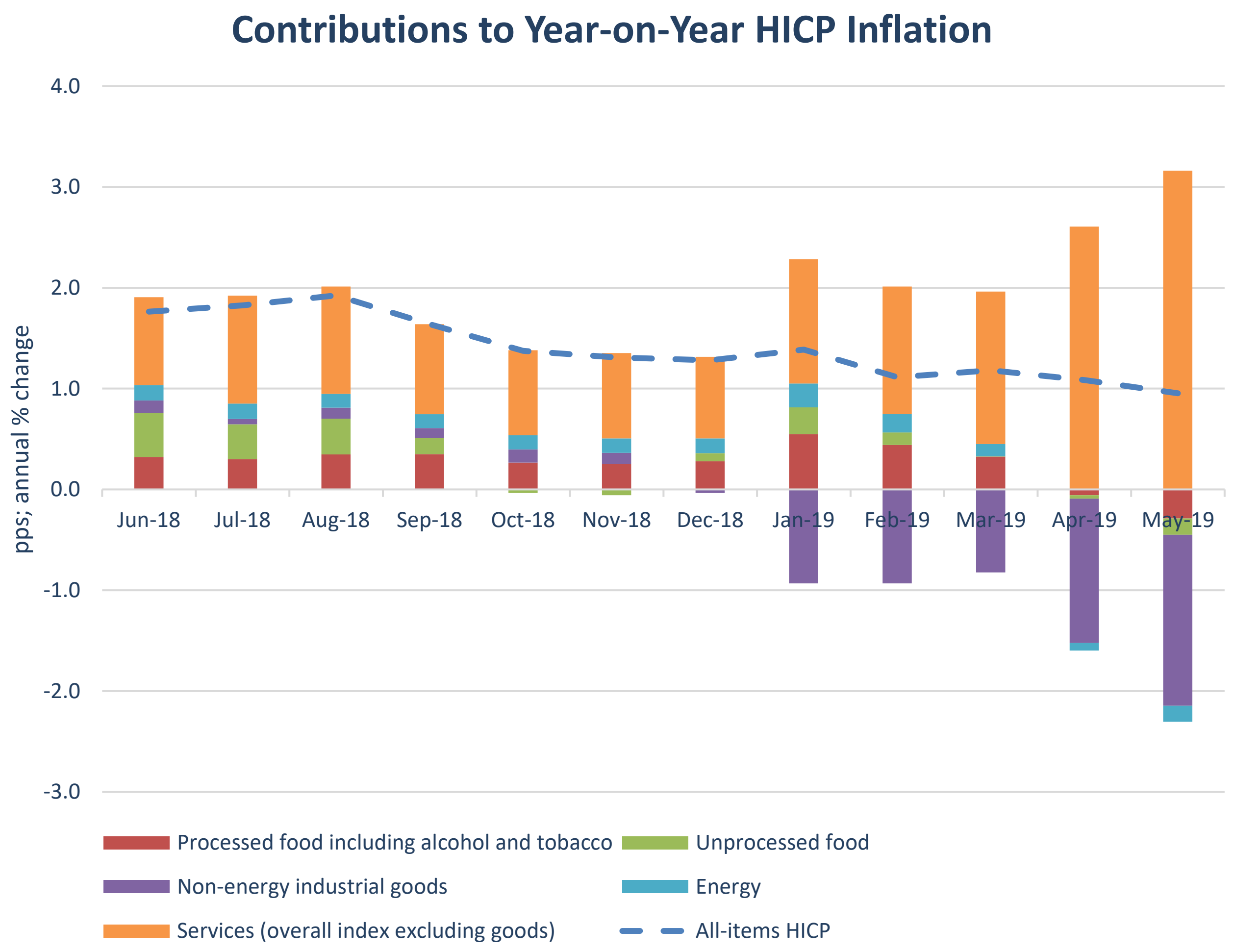

Figure 3

Unemployment data covering the first three months of this year shows that Malta recorded one of the lowest unemployment rates among European Member States, at 3.4 per cent. However, in April there was an increase in the unemployment rate to 4.1 per cent, reflecting the effects of COVID-19 on the labour market.

1.2.3 Inflation

In May 2020, the annual HICP inflation in Malta stood at 0.9 per cent.

During the first five months of 2020, HICP inflation has recorded a modest deceleration. This has mainly emanated from developments observed in non-energy industrial goods and energy, which were more than offset by rising services inflation, as illustrated in Figure 3. Underpinning these developments are behavioural changes in demand as well as supply disruptions attributed to the outbreak of the pandemic in March.

1.2.4 Balance of Payments

The balance of payments records inflows and outflows of goods, services and financial transactions. The current account focuses on flows related to goods, services and income from Malta to the rest of the world. Over recent years Malta has recorded a surplus which reached 9.8 per cent of GDP in 2019. The main contributor of this surplus was the strong net export balance which stood at 20.5 per cent of GDP, underlined by a services net export balance of 32.2 per cent of GDP and a modestly downward trending goods net import balance of 11.9 per cent of GDP. The key drivers behind the strong net export figure include substantial increases in exports related to personal, cultural and recreational services, travel, transport, financial and insurance services.

The primary income account within the current account shows the income received on Malta residents' foreign investments and income paid to foreigners on their investments in Malta. In 2019, Malta's primary income account had a net payment balance of 9.5 per cent of GDP, implying that income flows from Malta to foreign jurisdictions outweighed income inflows to Malta. This balance is driven by substantial direct investment liability net payments which is partially offset with net receipts with respect to portfolio investment assets. The secondary income account is only a minor component of Malta's balance of payments and shows any income transfers unrelated to any services rendered (such as pensions and remittances). In 2019, the secondary income account had a net payment balance of 1.2 per cent of GDP.

The net international investment position takes stock of the amount of foreign assets and liabilities held in Malta. As at the end of 2019, Malta held around €255.2 bn in assets and €246.9 bn in liabilities. Most of the assets are held in the form of either portfolio or direct investments, while most of the liabilities are held in the form of direct investment. The overall net international position as at the end of 2019 stood at 62.2 per cent of GDP.

Throughout the first quarter of 2020, the current account recorded a surplus of 6.3 per cent of GDP, with net exports of goods and services amounting to 17.2 per cent of GDP, the primary income net payment balance reaching 9.9 per cent of GDP and the secondary income account recording a net payment balance of 1.0 per cent of GDP.

1.2.5 Tourism

Inbound tourist trips from January to December 2019 reached nearly 2.8 million, an increase of an increase of 5.9 per cent over the same period in 2018, mainly driven by holiday travellers. Furthermore, total nights spent increased by 4.1 per cent and total tourism expenditure was estimated at €2.2 billion for 2019, an increase of 5.7 per cent over 2018.

After a strong start to 2020, the travel restrictions imposed to contain the spread of

COVID-19 had a disproportionate impact on the tourism sector. The large-scale cancellations of bookings, the closure of airports and the collapse of new reservations strained airline operators' financial positions. The damage is also reflected in other sectors such as wholesale and retail trade and accommodation and food service activities, in which the interlinkages with the tourism sector are prevalent. Looking ahead, the airport is to gradually reopen in July and Malta's attractiveness compounded with its perceived safety compared to other countries should help to somewhat restart tourism activity.

Comparison of macroeconomic projections for 2020

Table 1.1

	MFIN Autumn 2019	MFIN Spring 2020	Difference
Private final consumption expenditure	4.0	-0.8	-4.8
General government final consumption expenditure	4.9	16.5	11.6
: net of Individual Investor Programme (IIP) proceeds	5.5	17.2	11.7
Gross fixed capital formation	9.7	-4.0	-13.7
Exports of goods and services	1.6	-12.1	-13.7
: net of Individual Investor Programme (IIP) proceeds	1.5	-13.0	-14.5
Imports of goods and services	2.0	-8.0	-10.0
Real GDP	4.3	-5.4	-9.7
Domestic Demand Contribution (in pps)	4.5	1.8	-2.7
External Demand Contribution (in pps)	-0.2	-7.2	-7.0
Nominal GDP	6.5	-3.6	-10.1
HICP	1.6	1.0	-0.6
Employment (Domestic Concept)	4.1	-3.3	-7.4
Unemployment Rate	3.5	5.9	2.4
Output Gap	-0.1	-5.5	-5.4
Potential Output	5.6	1.2	-4.4

1.3 Growth Prospects

In Malta, while the outbreak of the pandemic exerted adverse effects on the broad economy, the sectors most severely hit by the partial-lockdown measures are the tourism industry, the wholesale and retail trade sector, transportation and storage and the accommodation and food services sector.

contingent on the economic recovery in Malta's trading partners, the persistence of supply disruptions due to the severity of the shock as well as the speed at which the confidence and behaviour of domestic consumers and firms will return to normality. The baseline projection accounts for gradual resumption of economic activity from the third quarter of 2020, and a modest recovery in 2021.

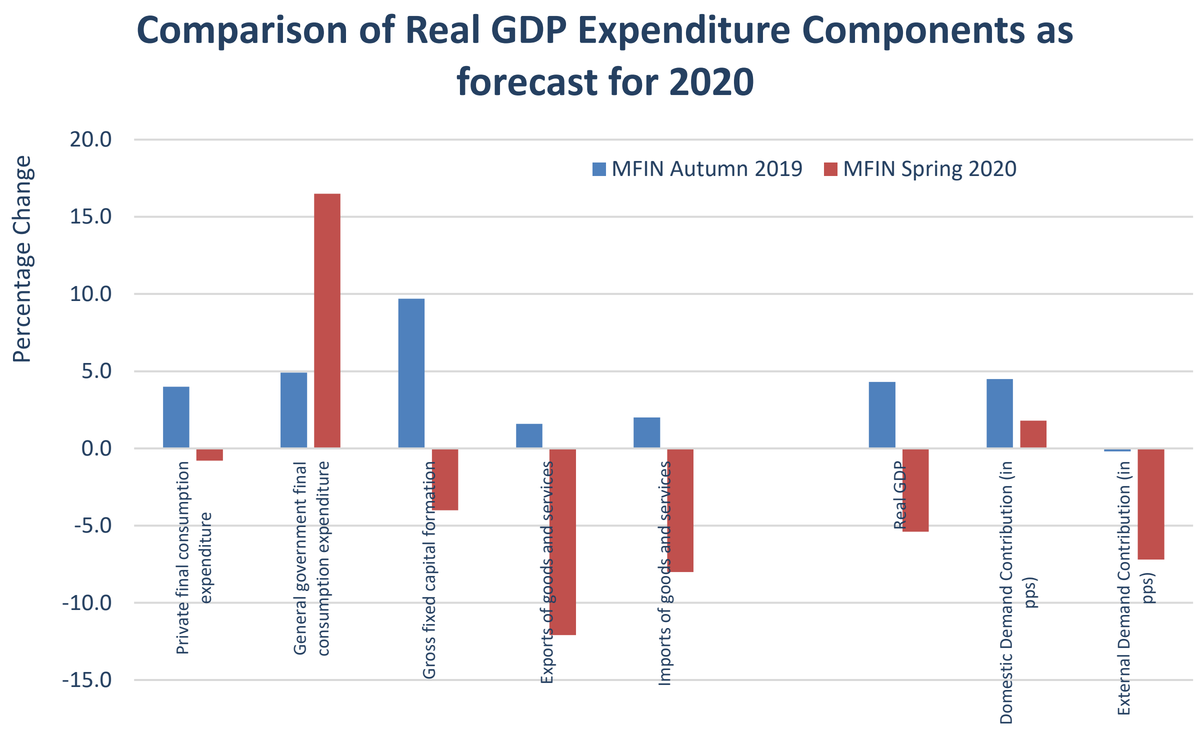

Figure 4

Against this background, the Maltese economy is expected to contract by 5.4 per cent in real terms during 2020. International developments are projected to weigh heavily on Malta's net export performance with a negative 7.2 percentage point contribution to GDP. The domestic component of the economy is expected to contribute 1.8 percentage points to growth in 2020, as public expenditure is expected to compensate for the negative contributions of private consumption and gross fixed capital formation. The outlook for 2021 is subject to a high degree of uncertainty and is highly

Indeed, the Maltese economy is expected to resume its positive performance and grow by 4.3 per cent in real terms in 2021. This reflects the fact that growth rates in the main GDP components are expected to turn positive in reflection of the recovery in tourism, external demand and domestic sentiment. Net exports are projected to be the main driver of this growth with an expected contribution of 2.5 percentage points followed by a positive domestic demand contribution of 1.8 percentage points.

Private consumption growth for 2020 is projected to decline by 0.8 per cent, reflecting adverse labour market developments and relatively weak growth in wages. In 2021, a rebound in consumption of 1.8 per cent is projected supported by employment creation and stronger wage growth.

Public consumption is expected to grow by 16.5 per cent, on the back of significant increases in expenditure on intermediate consumption and compensation of employees following the announcement of various Government support measures aimed at sustaining employment and guaranteeing corporate liquidity as well as higher expenditure in relation to the health sector. In 2021, on the back of a substantial base effects from the significant growth in 2020, public consumption growth is projected to decline by 3.2 per cent.

Gross fixed capital formation is projected to decline by 4.0 per cent in 2020, reflecting the deferral of large-scale planned investment projects due to the uncertain outlook. Whilst the COVID-19 situation is expected to weigh on investment appetite, it is assumed that this is a temporary shock and hence the impact on the longer-term outlook should remain limited. In fact, as firm and investor sentiment is gradually restored and the announced projects in the pipeline progress in accordance to plans, gross fixed capital formation is projected to grow by 8.8 per cent, as several large-scale investment projects particularly in transport and aviation, tourism, real estate and health sectors are expected to recuperate.

From an external perspective, the subdued outlook in Malta's main trading partners is reflected in the anticipated decline of 12.1 per cent in exports in 2020. Partially offsetting this drop is a decline in imports of 8.0 per cent, reflecting lower imports of capital goods and industrial supplies. In 2021, a recovery in growth of Malta's main trading partners is anticipated to result in an increase in exports of 7.2 per cent. Moreover, a substantial increase in investment activity, coupled with improved domestic activity prospects explains the growth in imports of 5.8 per cent.

Despite Government's policy efforts to ease cash flows challenges faced by local businesses as a result of the pandemic, some negative consequences on the labour market are expected to materialise in the short-term. Employment is expected to decline by 3.3 per cent in 2020, with a concomitant rise in the unemployment rate (based on the Harmonised definition) to 5.9 per

Labour Market Indicators

Table 1.2

	2018	**2019**	**2020p**	**2021p**
Employment Growth % (National Accounts Definition, Domestic Concept)	5.5	5.7	-3.3	3.2
Labour Productivity (%change)	1.8	-1.2	-2.2	1.1
Compensation of Employees (% change)	7.7	7.6	-1.8	6.1
Compensation per Employee (% change)	2.1	1.8	1.6	2.8
Unemployment rate (Harmonised definition, %)	3.7	3.4	5.9	3.7

Source: *NSO, MFIN*

cent. In 2021, a pick-up in economic activity is projected to generate employment growth of 3.2 per cent. These favourable labour market dynamics correspond to a reduction in the unemployment rate to reach 3.7 per cent.

Compensation of employees is projected to decline by 1.8 per cent in 2020 before recovering to rise by 6.1 per cent in 2021. In 2020, compensation per employee is projected to grow by 1.6 per cent as the decline in employment supersedes the overall decline in compensation of employees. In 2021, growth in compensation per employee is projected to be 2.8 per cent. Table 1.2 presents the main labour market indicators for the years 2018 to 2021.

The inflation rate is expected to decline to 1.0 per cent in 2020. Underlying the deceleration in inflation is the unprecedented drop in oil prices as a result of the COVID-19 developments together with subdued services inflation resulting from the suppression in demand being more austere than the supply-side restraints. Prices are expected to accelerate in 2021 to 1.4 per cent, as demand recovers when the pandemic subsides.

These macroeconomic projections have been recently assessed and endorsed by the Malta Fiscal Advisory Council. It is important to emphasize that the figures presented are scenario-based projections, and risks remain skewed towards the downside for 2020. Furthermore, the real GDP growth for 2020 would have been materially worse had it not been for the wide-ranging public intervention by the Government, that should help support domestic demand and mitigate the liquidity constraints of enterprises in the face of the severe supply restrictions imposed. Estimates suggest that the measures restored around 2.0 percentage points to GDP growth whilst supporting the liquidity of enterprises to help them avoid job losses. These policies, ranging from wage supplements, tax deferrals, quarantine leave, teleworking measures, and liquidity guarantees, will be crucial in cushioning the impact on the real economy, averting stresses on the financial system and supporting a stronger post-COVID recovery.

1.4 International Scene

1.4.1 Economic Growth and Growth Prospects in the Global Economy

In 2019, the European economy grew by 1.5 per cent, down 0.5 percentage points from the growth recorded in the previous year. Global Gross Domestic Product (GDP) growth excluding the EU amounted to 3.0 per cent in 2019 and this was also 0.7 percentage points lower than previously recorded. The slower growth was mainly driven by a deceleration in world demand which was particularly evident in manufacturing, a decline in productivity and geopolitical tensions which acted as a headwind on global trade.

The effect of the COVID-19 pandemic shock distinguishes itself from previous crises as the declines in demand are complemented with supply restrictions resulting from the mandatory imposition of various lockdowns. The unrelenting speed at which the virus spread resulted in unanticipated strains on health care systems. International institutions and Governments hastily responded to the outbreak by loosening monetary policies and providing fiscal stimulus in an attempt to cushion the economic setback. Despite these efforts, the situation going forward is overshadowed with uncertainty with respect to both the duration of the virus as well as the intensity at which it reproduces. There is also uncertainty on the effectiveness of the policies implemented by Governments.

Against this background, the European Commission Spring 2020 forecast expects global growth to contract by 2.9 per cent as economies struggle to operate amidst the pandemic outbreak. This projection assumes that economic activity will resume in the second half of 2020. On the back of this assumption, global growth is expected to bounce back by 5.0 per cent in 2021. The European Commission highlights that the recovery will be uneven across countries and regions, depending on their policy space and their pre-pandemic economic health. Indeed, the impact on emerging and low-income countries is projected to be long lasting, especially in view of the economic, financing and social challenges as well as their dependence on commodities. Economies like Russia and Brazil are projected to experience negative growth of 5.0 per cent and 5.2 per cent in 2020 respectively, while the recovery in 2021 is also projected to be muted at 1.6 per cent and 1.9 per cent respectively. Meanwhile, other resilient emerging markets like China and India are still expected to grow by 1.0 per cent and 1.1 per cent in 2020 respectively, before rebounding strongly in 2021 at 7.8 per cent and 6.7 per cent growth respectively.

Advanced economies like the US and Japan are also projected to suffer substantial declines in growth in 2020, with declines in the range of 6.5 per cent and 5.0 per cent respectively. The safe haven nature of these economies is expected to attract capital flows causing upward pressure on currencies and downward pressure on yields, which can help to sustain the low interest environment and kick-start economic growth. Indeed, in 2021 the US is expected to grow by 4.9 per cent, while Japan is projected to grow by 2.7 per cent.

Adopting the same assumption that economic activity will resume in the second half of 2020, the IMF's April World Economic Outlook points towards a marginally more pessimistic outlook in 2020 as global growth declines by 4.9 per cent. However, the projected recovery is more buoyant, as global growth is projected to rise by 5.4 per cent. In the meantime, yield curves have continued to flatten, or even turn negative in some regions supported by central banks' commitment to support the economy as well as weak inflation expectations. Major global central banks' communication to retain low borrowing costs and ensure sufficient liquidity is injected into the economies signals that, the worst appears to be over. However, uncertainty still remains, particularly on whether second or even third waves of the virus may emerge, whether and when a vaccine becomes readily available to the market and the behavioural response of consumers and firms. Hence, the balance of risk is primarily tilted to the downside over the short term.

1.4.2 Economic Growth and Growth Prospects in the EU

The COVID-19 pandemic struck the European economy while it was on a moderate recovery path following the great recession of 2009. Economic activity in Europe has weakened significantly over the first half of the year, as the containment measures triggered in response to the crisis by most Member States in March put the European economy into an unprecedented lockdown.

Following the 1.5 per cent growth the EU experienced in 2019, the economy contracted by 2.5 per cent in the first quarter of 2020 and this downward trend is expected to continue as economic output is set to collapse in the first half of 2020.

Over recent weeks, the euro has gained lost ground against major currency pairs in nominal effective terms after a notable depreciation at the outset of the pandemic, reflecting aggressive monetary accommodation and capital flowing into perceived safe haven assets. The recent appreciation is reflective of weakening commodity prices, increased optimism on the proposed joint European recovery package, as well as capital outflows from emerging market currencies that have occurred amid mounting evidence about the damaging economic impact the COVID-19 pandemic will have on the global economy.

International Outlook

Table 1.3

	2018	2019	2020p	2021p
Real GDP Growth %				
EU	2.1	1.5	-7.4	6.1
Euro Area	1.9	1.2	-7.7	6.3
USA	2.9	2.3	-6.5	4.9
Japan	0.3	0.7	-5.0	2.7
Malta	7.3	4.4	-5.8	6.0
Inflation (%) (Consumer Prices)				
EU	1.8	1.4	0.6	1.3
Euro Area	1.8	1.2	0.2	1.1
USA	2.4	1.8	0.5	1.5
Japan	1.0	0.5	0.0	0.2
Malta	1.7	1.5	0.7	1.1
Unemployment Rate (%)				
EU	7.3	6.7	9.0	7.9
Euro Area	8.2	7.5	9.6	8.6
USA	3.9	3.7	9.2	7.6
Japan	2.4	2.3	4.3	4.5
Malta	3.7	3.4	5.9	4.4
Employment Growth (%)				
EU	1.4	1.0	-4.4	3.3
Euro Area	1.5	1.2	-4.7	3.9
USA	1.7	1.1	-6.3	2.0
Japan	1.7	0.5	-5.0	-1.0
Malta	6.0	5.6	-1.8	2.8
General Government Balance (%GDP)				
EU	-0.4	-0.6	-8.3	-3.6
Euro Area	-0.5	-0.6	-8.5	-3.5
USA	-6.6	-7.2	-17.8	-8.5
Japan	-2.3	-2.3	-4.9	-5.3
Malta	1.9	0.5	-6.7	-2.5
General Government Debt (%GDP)				
EU	81.3	79.4	95.1	92.0
Euro Area	87.8	86.0	102.7	98.8
USA	108.7	111.1	136.2	136.6
Japan	237.1	236.5	254.1	252.6
Malta	45.6	43.1	50.7	50.8

Source: *Eurostat, AMECO & the European Commission Spring 2020 Forecast*

Labour markets were the highlight of the expansion years up to early 2020, as unemployment rates fell to their lowest in more than a decade and employment reached new all-time highs. However, in the first quarter of 2020, employment growth decreased by 0.2 per cent in both the EU and the Euro Area (EA), and is expected to decrease further throughout the rest of the year. Employment growth in the EU and the EA are expected to decrease by 4.4 per cent and 4.7 per cent respectively. Furthermore, the unemployment rate is expected to reach 9.0 per cent and 9.6 per cent for the EU and the EA respectively.

The COVID-19 crisis is asymmetric shock with asymmetric effects among Member States. Their strong economic interconnectedness is magnifying the aggregate demand shocks and supply chain disruptions. While the recovery looks set to be incomplete by the end of the year in almost all countries, the way Member States will emerge from it is set to be uneven. Due to their strong interdependencies, an incomplete recovery in one country is likely to hinder recovery prospects in other countries and dampen overall economic growth.

Indeed, the European Commission expects the EU economy to contract by 7.4 per cent this year and rebound by 6.1 per cent in 2021, while the EA is expected to contract by 7.7 per cent this year and rebound 6.3 per cent. That said, the aggressive stimulus packages proposed by European leaders in conjunction with accommodative monetary policy in the foreseeable future will surely be instrumental in supporting Member States' recovery prospects.

2. Half Yearly General Government Revenue and Expenditure Performance

This section provides a brief overview of revenue and expenditure performance for the first six months of 2020 relative to the original and the revised budgetary targets. The underlying rationale for the revised fiscal targets is explained in detail in subsequent chapters of this Report. Chapter 3 explains the economic rationale behind the revisions carried out in the fiscal targets, Chapter 4 includes an account of revisions in cash terms driven by developments during the first half of 2020, whilst the combined effect in ESA2010 terms is also synthesised in Chapter 5.

Data provided in this section is based on the European System of Accounts (ESA) 2010 methodology. Actual data is used for the first quarter of 2020, whereas estimated and therefore provisional data is used for the second quarter. It is important to note that the data presented below is not comparable to that classified in the statement of Consolidated Fund as provided in Section 4 of this Report. An explanation of how accrual data is derived from the Consolidated Fund data is provided in Appendix Table 5.

As required by the Fiscal Responsibility Act, the assessment of fiscal performance against budgetary targets and the fiscal rules is based on ESA2010 data, which is adjusted for accruals. General Government accrual data for the second quarter of the year is not fully available by the deadline to lay this Report on the table of the House of Representatives. As a consequence, the reported budgetary performance of general Government for the first half of 2020 should be treated as provisional.

In previous editions of this report, the evaluation of general Government budgetary developments during the first half of the year, coupled with the revised macroeconomic projections, constituted the basis for the revised projections highlighted in the Half-Yearly Report. However, in the current year, revisions also reflect fiscal policy measures put in place to cushion the economic impact of the COVID-19 pandemic on revenues, incomes and liquidity. Indeed, at this juncture, it is worth highlighting that developments in general Government revenue and expenditure observed during the first half of 2020 are quite peculiar in reflection of these extraordinary circumstances. Seasonal patterns observed in previous years may not be indicative of anticipated developments in the second half of 2020. The latter depend on the shape the recovery is expected to take, as households and businesses adjust to economic 'normality' post-COVID.

General Government Budgetary Execution and Prospects in Accordance with ESA Standards

The data for 2020Q2 was partly estimated and is to be considered as provisional

Table 2.1

	ESA Code	2019 Actual € 000	2020 Budget Forecast € 000	Jan-Jun 2019 Actual € 000	Jan-Jun 2020 Provisional € 000	2020 Revised Forecast € 000
Net lending (+)/net borrowing (-)						
1. **General Government**	S.13	**71,029**	**193,000**	**4,347**	**-656,893**	**-1,109,677**
2. Central Government	S.1311	65,099	194,213	238	-661,002	-1,108,464
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	5,930	-1,214	4,109	4,109	-1,213
5. Social Security funds	S.1314	-	-	-	-	-
For the General Government						
6. **Total Revenue**	TR	**5,045,273**	**5,523,588**	**2,445,260**	**2,146,198**	**4,787,923**
Of which						
Taxes on Production and Imports	D.2	1,601,247	1,804,950	776,688	668,799	1,413,902
Current Taxes on Income, Wealth, etc.	D.5	1,826,986	2,007,005	912,311	772,745	1,806,405
Capital Taxes	D.91	26,110	27,933	11,083	10,596	18,680
Social Contributions	D.61	800,078	870,614	385,494	382,343	766,175
Property Income	D.4	61,698	74,611	35,973	37,486	63,143
Other [a]		729,154	738,476	323,711	274,229	719,618
7. **Total Expenditure**	TE	**4,974,244**	**5,330,589**	**2,440,913**	**2,803,091**	**5,897,600**
Of which						
Compensation of employees	D.1	1,484,126	1,567,862	734,263	759,294	1,590,518
Intermediate Consumption	P.2	984,416	1,055,415	451,197	634,482	1,224,979
Social Payments	D.6	1,121,021	1,211,461	560,611	626,806	1,360,352
Interest Expenditure	D.41	181,312	175,167	90,431	86,467	177,065
Subsidies	D.3	194,988	195,682	93,322	214,835	550,910
Gross Fixed Capital Formation	P.51	505,914	573,832	243,189	189,820	612,763
Capital Transfers	D.9	107,007	151,864	63,734	24,378	71,235
Other [b]		395,460	399,306	204,166	267,008	309,779
8. **Gross Debt** [c]		**5,700,097**	**5,690,739**	**5,853,306**	**6,630,995**	**6,988,261**

Notes:

[a] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[b] D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

[c] As defined in Council Regulation (EC) No 479/2009 (OJ L 145, 10.6.2009, p. 1).

Data referred to in this section is shown in Table 2.1.

During January to June 2020, general Government revenue is estimated to have declined by €299.1 million or 12.2 per cent over the comparable period in 2019. Lower proceeds are estimated from all components of revenue, other than property income, mainly in reflection of the adverse effects that the outbreak of the pandemic exerted on the broad economy in general. In the first half of 2020, 45 per cent of the revised projected revenue was collected, compared to 48 per cent in the comparable period last year. However, tax revenue and social contributions (adjusted for estimated deferred tax revenue) are roughly in line with expectations and the marginal shortfall is due to other revenue. Indeed, whereas on average, 49 per cent of revised projected tax revenue is estimated to have accrued in H1 2020, only 38 per cent of other revenue is estimated to have been received during the same period. Other revenue is estimated to have declined by €49.5 million, reflecting an estimated decline in market output of €25.6 million and lower estimated capital transfers and investment grants amounting to €22.9 million.

During the first two quarters of 2020, general Government expenditure is estimated to have increased by €362.2 million, or 14.8 per cent, compared to the same period of 2019. In the 2020 Budget projections, general Government expenditure was forecast to register a more subdued growth rate of 4.0 per cent, though this has now been revised to a growth rate of 18.6 per cent to reflect the fiscal impact of COVID-19 related measures. Overall expenditure in the first half of the year was 48 per cent of the revised budget target, whereas in the same period last year 49 per cent of total expenditure outlays for the year had been spent in the first six months. The marginally negative variance is primarily due to more subdued expenditure developments in gross fixed capital formation, capital transfers payable and subsidies compared to the same period in 2019, when benchmarked against the revised projections.

3. The Impact of a Revised Macroeconomic Scenario on the Fiscal Situation

This section provides an assessment of the impact of revised macroeconomic projections between autumn 2019 and spring 2020 on main revenue projections and expenditure commitments. This section focuses exclusively on the macroeconomic projections which are used as input in the fiscal projections.

The COVID-19 pandemic drastically changed the outlook for the Maltese (and global) economy compared to autumn 2019 projections. As a consequence, between autumn 2019 and spring 2020, fiscal projections were revised to mainly reflect revised macroeconomic forecasts, fiscal policy measures put in place to cushion the economic impact of the COVID-19 pandemic on revenues, incomes and liquidity, and an overall lower than estimated starting fiscal position. This section provides an assessment of the impact that the revised macroeconomic projections outlined in section 1 of this report are estimated to have on public finances. Details of discretionary policies that addressed the severe socio-economic consequences of the pandemic are outlined in section 4 of this report, while a detailed overview of fiscal developments in 2019 compared to projections are presented in the 2019 Annual Report[1].

The outbreak of the pandemic and the subsequent national partial-lockdown measures exerted adverse effects on the broad economy in particular in tourism-related industries and the wholesale and retail trade sectors. Major revisions were carried out to the components of both revenue and expenditure for 2020, compared to the projections outlined in autumn 2019. Total tax receipts (including social security contributions) were revised downwards by €705.3 million, of which almost two-thirds is explained by the deterioration in the macroeconomic developments projected for 2020.

In spring 2020, the 2020 projections for taxes on production and imports were revised downward, against the background of the fiscal outturn in 2019 and the anticipated negative macroeconomic developments in 2020. As a result, proceeds from taxes on production and imports were revised downwards by €334 million in spring 2020, compared to proceeds of €1,805 million estimated in the 2020 Budget. Nevertheless, additional fiscal support measures (including extended tax deferrals, a reduction in the price of fuels, and a reduction in stamp duty on property purchases) announced in June 2020 are expected to further negatively affect indirect tax revenue, such that the decline in revenue has been revised further upwards to €187 million compared to 2019 revenue. The Government support measures delineated in early spring, particularly those aimed at sustaining employment, are to an extent expected to mitigate the severity of the downturn on compensation of employees, such that the expected drop in GDP is expected to outpace the anticipated drop in employment. In addition, similar support measures aimed at sustaining corporate liquidity and profitability are expected to minimise the timeframes within which the more severely hit sectors recover.

[1] https://mfin.gov.mt/en/Library/Documents/Annual%20Reports/Annual_Report_2019.pdf

Consequently, revenues from current taxes on income and wealth and from social contributions were revised by €187 million and €73 million, respectively compared to proceeds estimated in the 2020 Budget. Nevertheless, compared to the spring 2020 update, a further worsening is now expected in direct tax revenue, to reflect the impact of the additional fiscal support measures (including extended tax deferrals and a reduced tax rate on the sale of property) announced in June, which in aggregate are estimated to result in €54 million less revenue in 2020 compared to 2019.

The projections for general Government expenditure were meanwhile revised upwards by €561 million compared to the autumn 2019 projections. Revisions in the macroeconomic forecasts are not assumed to have a direct impact on the revised expenditure projections. Nevertheless, changes to the expenditure forecast in 2020 were carried out in spring 2020, mainly on account of COVID-19 related measures, compared to expected developments in 2020 as projected in autumn 2019. Compared with the autumn 2019 projections, in spring 2020, expenditure on subsidies was revised upwards by €304 million, while higher outlays on intermediate consumption of €157 million were anticipated. In addition, further expenditure-related support measures were announced as part of Malta's economic recovery plan in June 2020.

At the current juncture, latest macroeconomic conditions and fiscal performance indicators during the first half of the year do not warrant further revisions to the 2020 fiscal stance beyond the adjustments carried out in spring 2020 and June 2020, outlined in this report. It is worth highlighting that even in normal circumstances, the in-year budgetary performance is not symmetrical throughout the year. Seasonal patterns usually vary from one year to the next due to the timing of payments and receipts, such that in-year budgetary data as a measure of in-year budgetary performance should be read with caution. In these extraordinary circumstances, in-year comparisons with previous cycles can be even less indicative. Nevertheless, the Government remains vigilant to ensure that the fiscal policy framework remains supportive to the post-COVID economic recovery.

4. National policy response to COVID-19 and budgetary implications

This section includes any adjustments effected to the autumn 2019 budgetary targets following a review of revenue targets and expenditure commitments as a result of revised macroeconomic projections and revised budgetary assessment. The analysis in this section is based on data as classified in the Statement of the Consolidated Fund, where such data is defined on a cash basis rather than on an accruals system.

Table 4.1 shows the revenue and expenditure performance for the first six months of 2020 as compared to the same period in 2019, incorporating also the respective revised positions for 2020 as compared to the original budget which was approved in December 2019. The revised position is based on the outturn for 2019, the revised macroeconomic forecasts and factors in fiscal policy measures put in place to cushion the economic impact of, and the subsequent recovery from, the COVID-19 pandemic.

As the virus spread, a broad range of policy measures was implemented to limit the impact of the pandemic. The initial policy response sought to lower the number of infections, to avoid an overloading of the acute health system and to limit the number of casualties. To this end, in an initial response, the Maltese Government intervened to contain the spread of the virus through a series of prevention, containment, control and treatment measures, implemented and enforced across sectors and within society. In addition, further healthcare funding was necessary to address hospital capacity, medical equipment and protective gear. Subsequently, fiscal policy measures were put in place to cushion the economic impact on revenues, incomes and liquidity, consisting of discretionary polices with a direct impact on the budget, as well as liquidity-oriented measures. Once the pandemic was under control, following the lifting of several restrictions imposed as a

Central Government Finances - Consolidated Fund

Table 4.1

	Jan - Dec 2019 *Actual* *€ 000*	Jan - Dec 2020 *Approved Estimates* *€ 000*	Jan - Jun 2019 *Actual* *€ 000*	Jan - Jun 2019 *Actual as a % of 2019*	Jan - Jun 2020 *Actual* *€ 000*	Jan - Jun 2020 *Actual as a % of 2020*
Revenue	**4,972,883**	**5,451,747**	**2,164,501**	***43.5***	**1,819,329**	***33.4***
Tax Revenue	**4,485,840**	**4,954,393**	**1,959,622**	***43.7***	**1,596,621**	***32.2***
Indirect Tax Revenue	*1,673,899*	*1,869,393*	*803,797*	*48.0*	*627,568*	*33.6*
Customs and Excise Duties	332,123	350,140	153,539	*46.2*	118,177	*33.8*
Licenses, Taxes, and Fines	397,034	420,253	202,158	*50.9*	147,763	*35.2*
Value Added Tax	944,742	1,099,000	448,100	*47.4*	361,628	*32.9*
Direct Tax Revenue	*2,811,941*	*3,085,000*	*1,155,825*	*41.1*	*969,053*	*31.4*
Income Tax	1,765,801	1,936,000	685,178	*38.8*	556,985	*28.8*
Social Security	1,046,140	1,149,000	470,647	*45.0*	412,068	*35.9*
Non-Tax Revenue	**487,043**	**497,354**	**204,879**	***42.1***	**222,709**	***44.8***
Fees of Office	95,138	103,993	45,889	*48.2*	55,274	*53.2*
Sales	36,837	35,466	15,765	*42.8*	14,699	*41.4*
Reimbursements	7,718	4,003	3,266	*42.3*	1,520	*38.0*
Central Bank of Malta	28,000	28,500	20,000	*71.4*	20,000	*70.2*
Rents	35,594	37,615	23,289	*65.4*	14,906	*39.6*
Dividends on Investments / Receipts	32,644	47,161	8,635	*26.5*	12,660	*26.8*
Interests on Loans made by Government	90	276	37	*41.1*	7	*2.5*
Grants	184,600	208,382	71,547	*38.8*	54,531	*26.2*
Miscellaneous	66,422	31,958	16,451	*24.8*	49,112	*153.7*
Total Expenditure[(1)]	**4,963,529**	**5,337,752**	**2,320,667**	***46.8***	**2,714,959**	***50.9***
Recurrent Expenditure	**4,216,202**	**4,419,343**	**2,006,941**	***47.6***	**2,235,011**	***50.6***
Personal Emoluments	962,313	977,231	441,597	*45.9*	454,364	***46.5***
Operations and Maintenance	228,375	216,937	104,838	*45.9*	131,235	***60.5***
Programmes and Initiatives	2,493,388	2,648,849	1,237,486	*49.6*	1,348,883	***50.9***
Contributions to Government Entities	532,126	576,326	223,020	*41.9*	300,529	***52.1***
Interest Payments	**192,284**	**183,472**	**94,218**	***49.0***	**93,085**	***50.7***
Capital Expenditure	**555,043**	**734,937**	**219,508**	***39.5***	**386,863**	***52.6***
Foreign Funds	147,126	208,382	66,224	*45.0*	55,467	***26.6***
National Funds (incl Co Financing)	407,917	526,555	153,284	*37.6*	331,396	***62.9***
Consolidated Fund Balance	**9,354**	**113,995**	**-156,166**		**-895,630**	

Notes:

af - Autumn Forecasts (Approved Estimates)

(1) Excluding sinking fund contributions, direct loan repayments and equity acquisition

result of the pandemic and the re-opening of non-essential retail establishments and services, the Maltese Government provided support to the rebound and recovery. The June economic recovery plan is based on three pillars, and aims to reduce business costs, directly support businesses, and stimulate domestic demand and consumption. The budgetary implications of the COVID-19 related measures are outlined in Table 4.2.

4.1 COVID-19 economic and social support measures

The Maltese Government introduced several measures to cushion the economic impact of the pandemic on the revenues, incomes and liquidity of enterprises, the self-employed and employees.

Discretionary measures adopted in response to the COVID-19 pandemic

Table 4.2

List of measures	Detailed description	Estimated budgetary impact *€ millions*
Health-care related expenditure	Expenditure in connection with the COVID-19 pandemic to address hospital capacity, medical equipment and protective gear	114
Deferral of payment of taxes	The payment of Provisional Tax, VAT and National Insurance Contributions which fall due between March and August 2020 may be settled by end May 2021 with no interest charged	200
Economic Support Measures	Covid wage supplement Quarantine leave Facilitating teleworking activities	235
Further liquidity measures	Malta Development Bank COVID-19 Guarantee Scheme (CGS)*	-
	Moratorium from banks for business or personal loans	-
	Subsidised interest rates on working capital loans for two years and up to a maximum 2.5%	20
	Underwriting of bonds by Malta Development Bank	-
Social measures	Parent benefit Additional unemployment benefit Medical benefit for vulnerable employees, including persons with disabilities	20
Repatriation related costs	Cargo transportation and repatriation costs	29
Other sector-specific support		1
Reducing business costs	50% utility bill refund to businesses from July to September 2020 Subsidy on rent for businesses MicroInvest conversion of credits to cash grant Reduction in the price of fuel Reimbursement of commercial licences Assistance in the compilation of business plans Skills Development Scheme for the training of employees Assistance to businesses carrying out digital promotion and international events	105
Stimulating domestic demand and consumption	Temporary stamp duty reduction from 5% to 1.5% Temporary reduction in property sales tax from 8% to 5% Vouchers for 16 year olds and older residents Tax refund to taxpayers Assistance for postponed wedding ceremonies Improvement of in-work benefit and additional supplement	107
Directly supporting businesses	Refund of port charges and container discharge fees Export Guarantee Scheme Platform for business promotion and local products Investment in machinery for construction sector Assistance to voluntary organisations and homes for the elderly	25
Investment in industrial infrastructure	Several capital and infrastructural projects in industrial areas, including the extension of the Life Sciences Park, the upgrade of the Kordin Business and Incubation Centre, investment at the Marsa ex-landfill and a new logistics hub	400

* A budgetary impact is only recorded for called guarantees.

The Wage Supplement measure is providing funds to businesses and self-employed, affected by the COVID-19 pandemic, to support enterprises in retaining their employees. Other measures were intended to ease liquidity problems, including the deferral of tax payments, loan guarantees and interest rate subsidies to support access to credit, whilst also supporting business to facilitate remote working through measures supporting investment in telework equipment. A one-off lump sum grant was also provided with respect for those employees on mandatory quarantine due to the possible contact with individuals that are at risk of infection.

On the social side, a number of measures were introduced for individuals who were made redundant or who were unable to work. The parental benefit targeted working parents in the private sector, who could not go to work or carry out their functions through teleworking arrangements and were required to stay at home to take care of their school-aged children. The additional unemployment benefit scheme catered for employees who lost their jobs due to COVID-19. Moreover, the medical benefit scheme and the disability benefit scheme were granted to working disabled and vulnerable people who could not carry out their work functions due to being ordered to stay home for medical reasons.

4.2 Government's Economic Recovery Plan following COVID-19

Following the lifting of several restriction imposed as a result of the pandemic and the re-opening of non-essential retail establishments and services, on 8 June the Government announced a recovery plan aimed at regenerating the Maltese economy post the pandemic based on three pillars; (i) reducing business costs; (ii) stimulating domestic demand and consumption; and (iii) directly supporting businesses.

4.2.1 Reducing business costs

The Tax Deferral Scheme, applicable to companies and self-employed businesses which suffered a significant downturn in turnover, was extended for provisional tax, social security contributions of self-employed persons and Value Added Tax which fall due in March up to and including August 2020 (previously April and subsequently June 2020). Eligible taxes are to be settled by May 2021 (formerly October 2020) with no interest charged.

The Government also introduced a utility bill refund scheme and rent refund scheme for businesses affected by the pandemic. Through these measures, beneficiaries of the wage supplement scheme are given additional support in the first months after resuming operations.

Through the MicroInvest cash conversion, entities will benefit from a grant for the refurbishment and upgrading of offices and factories, investment in machinery and other assets. The Government, through Malta Enterprise also introduced a business re-engineering consultancy service, whereby assistance will be provided to businesses for the development of a new business plan and to explore new technological solutions, so as to continue moving towards a digital economy.

Other measures include the extension of skills development scheme to encourage the achievement of new skills and knowledge, the refund of commercial licenses and the reduction in fuel prices.

4.2.2 Stimulating domestic demand and consumption

In order to stimulate domestic expenditure, the Government has granted a €100 voucher to residents aged 16 and over to be spent locally at hotels, licensed accommodations, restaurants, bars or diving schools and at retail outlets that were required to close during the pandemic. A tax refund has yet again been granted to taxpayers earning less than €60,000. Moreover, beneficiaries of the in-work benefit shall receive a one-time yearly grant of €250 and the income thresholds of the benefit were widened to cater for more low-income households.

The stamp-duty on the transfer of residential property has been reduced, in addition to the reduction in the tax rate associated with sales of property and the extension and wider coverage of the first-time buyer scheme.

Other measures include a refund on forfeited deposits to couples who postponed their wedding due to COVID-19 up to a maximum of €2,000.

4.2.3 Directly supporting businesses

The wage supplement scheme, which was adopted by the Government in March 2020 as an initial policy response to COVID-19, was extended for a further 3-month period up to September 2020. The scheme was widened in scope to also cater for pensioners and students who work in the affected sectors, whilst the rate was revised to reflect the resumption of certain operations, with an exception for businesses operating within the air transport sector, tourist accommodation travel agencies, language schools and event organisation sector.

The Government is also providing a refund on logistics cost to vessels importing goods to Malta and on container discharge fees for imports and exports. The Government is also assisting local businesses carrying out digital promotion in new markets, including through an export credit guarantee scheme for the establishment of new export markets, and incentivising the construction industry to modernise its machinery and equipment.

Other measures aimed at directly supporting businesses include a new underwriting facility for private enterprise bonds set up by the Malta Development Bank, a reimbursement of up to 80 per cent of the cost incurred to participate in international fairs that were cancelled due to COVID-19, assistance to nursing homes and an allocation to NGOs to mitigate the impact of the pandemic on their income.

Furthermore, over the medium-term, the Government shall carry out several capital and infrastructural projects in industrial areas, including the extension of the Life Sciences Park, the upgrade of the Kordin Business Incubation Centre, investment at the Marsa ex-landfill and a new logistics hub.

4.3 Revised 2020 Estimates

As a result of various factors, mainly the lower revenues and higher expenditure due to COVID-19, in 2020, the fiscal target of Government has been revised from a surplus of 1.4 per cent of GDP announced in the 2020 Budget to an 8.7 per cent of GDP deficit. The surplus in the Consolidated Fund has been revised to a deficit of €1.12 billion, while the general Government budget surplus in ESA terms was revised to a deficit of €1.11 billion.

Table 4.1 shows the revenue and expenditure performance for the first six months of 2020 as compared to the same period in 2019 incorporating also the respective revised positions for 2020 as compared to the original budget which was approved in December 2019. The revised position is based on the outturn for 2019, the revised macroeconomic forecasts and factors in, as and where applicable, an analysis of the performance for the first six months of the year considering the exceptional outlays due to COVID-19, amongst other parameters. It may be noted that these variances have, in the main part, already been reflected in the 2020 - 2021 Stability Programme for Malta which was published in April this year, whilst the additional measures subsequently announced in June have also been included.

4.3.1 Revenue

A decrease in revenue equivalent to 6.4 per cent of GDP is expected to ensue by the end of 2020, when compared to the original budget. By way of tax revenue, owing to the economic slowdown, the originally approved amounts under Income Tax, Social Security Contributions, Customs and Excise, Value Added Tax as well as Licences, Taxes & Fines have been revised downwards by a total €812 million, based on revenue performance to-date and in reflection of expected economic activity up to the end of the year.

There were no significant changes in the total amounts expected to be received under the Non-Tax Revenue category that affect the targeted fiscal balance, although the components are expected to change.

4.3.2 Recurrent Expenditure

When compared to the original budget, a net increase in recurrent expenditure equivalent to 4.4 per cent of GDP is expected to ensue by the end of 2020.

Disaggregated according to the respective recurrent expenditure categories, the factors contributing to this variance amounted to +€7.2 million under Personal Emoluments, +€43 million under Operational and Maintenance Expenses, +€453 million under Programmes & Initiatives, +€51.7 million under Contribution to Government Entities and €4 million by way of Interest Payments.

The revised estimates for the Operational and Maintenance Category include supplementary funding required to meet repatriation and transportation expenses connected to COVID-19. Higher funds were also required under the Programmes and Initiatives category, mainly for the social and economic support measures announced by Government, in particular the wage supplement scheme, as well as for health-care related expenditure, including personal protective equipment together with other contracts and supplies in the health sector. Further to these, non-COVID-19 related shortfalls are expected to materialise in the sectors for energy, migration, transport, and elderly care. Higher outlay is also expected to result under the Contributions to Government Entities category, mainly directed at the financial services and tourism agencies. The supplementary funding required by way of interest payments reflects the cost of borrowing higher amounts than originally forecast, to finance the budget shortfalls due to revenue slowdown and expenditure measures in view of the pandemic.

The above-mentioned adjustments are being shown in addition to transfers of funds which may need to be affected within various recurrent expenditure votes, by means of which other shortfalls are covered by compensatory savings, both for purposes of the Fiscal Responsibility Act.

4.3.3 Capital Expenditure

A downward revision in capital expenditure of €112.3 million, equivalent to 0.9 per cent of GDP is expected to ensue by the end of 2020, when compared to the original budget. This variance includes lower expected outlay to cover projects which are both nationally and EU funded, in consideration of actual performance to date and commitments expected to be paid by the end of the current financial year.

4.3.4 General Government Adjustments

Compared to the original budget projections, downward revisions in the general Government budget forecasts total €68 million and include adjustments due to a revision in the Individual Investor Programme proportions assigned to the National Development and Social Fund, reclassification and lower outlays with respect to capital projects. The revision also includes, an adjustment corresponding to the tax deferral measure announced by Government as part of the COVID-19 compensation package, which sums are partly expected to be received within the time adjustment period corresponding to the 2020 fiscal year.

5. General Government Revenue and Expenditure Performance

The following section provides data on the general Government budgetary targets as proposed in the 2020 Budget, and the revised forecast primarily reflecting the revised macroeconomic scenario and the performance indicators discussed above. Data in this section is in accordance with ESA standards.

Major revisions were carried out to the components of both revenue and expenditure for 2020, compared to the projections outlined in the 2020 Budget. Fiscal projections include the fiscal impact of Government support measures primarily aimed to safeguard employment and corporate liquidity in the most hard-hit industries, as well as Government's economic recovery plan. On account of these revisions, in 2020, the budget balance is expected to decline to a deficit of 8.7 per cent of GDP.

While the outbreak of the pandemic exerted adverse effects on the broad economy in general, some sectors were more severely hit than others by the partial-lockdown measures. In particular tourism-related industries and the wholesale and retail trade sectors have been adversely impacted by the pandemic. These developments are expected to negatively affect proceeds from taxes on production and imports. The Government support measures, particularly those aimed at sustaining employment, are to an extent expected to mitigate the severity of the downturn on compensation of employees, such that the expected drop in GDP is expected to outpace the anticipated drop in employment. In addition, the support measures aimed at sustaining corporate liquidity and profitability are aimed at reducing the risk of corporate insolvencies and expected to minimise the timeframes within which the more severely hit sectors recover. In this context, it is worth reiterating that the outlined fiscal projections assume a gradual and partial resumption of economic activity from the third quarter of 2020.

On account of these developments, the general Government revenue to GDP ratio is expected to decline by 0.6 percentage points to 37.4 per cent of GDP compared to 2019. The projections for general Government revenue were revised downwards by €736 million to €4,787.9 million because of lower anticipated proceeds from taxation, in particular taxes on production and imports, which have been revised downwards by €391 million. In the revised forecasts, revenues from current taxes on income and wealth and social contributions were also revised downwards, albeit by a lower magnitude of €201 million and €104 million, respectively. The lower impact on direct taxation relates to normal lags in the payments of corporate income tax as well as the expected success of government support in shoring up employment during the pandemic.

The ratio of general Government expenditure to GDP is expected to increase by 8.6 percentage points to 46.1 per cent in 2020. The increase in the expenditure-to-GDP ratio is mainly set to come from the fiscal impact of COVID-19 related measures as well as measures legislated by means of the 2020 Budget. The projections for general Government expenditure have been revised significantly upwards by €567 million to €5,897.6 million. On the expenditure side, higher expenditure on subsidies amounting to €355 million, and higher outlays on intermediate consumption and social payments of €170 million and €149 million, respectively are anticipated. The main changes to the expenditure forecast in 2020 are mainly on account of fiscal measures introduced to mitigate the effects of COVID-19 pandemic.

6. Collection of Revenue Arrears

This section provides an explanation on the collection of revenue arrears, indicating the measures taken in this regard.

In terms of Article 29(a)(ii) of the Fiscal Responsibility Act, the presentation of the annual budget is to include quarterly targets for the recovery of revenue arrears. In conformity with this legal obligation, a statement entitled 'Recovery of Revenue Arrears' has been published at Appendix 'I' of the Financial Estimates for 2020.

The projections incorporated into this statement in most cases refer to ten (10) per cent of the net collectable stock position obtaining for all line Ministries on 31 December 2018, as reported to the Accountant General in 2019.

Towards this end, the Ministry for Finance and Financial Services has been in contact with all line Ministries who undertook action necessary towards collection of the arrears detailed in the mentioned statement.

Actual revenue arrears collected for the first half of the year, broken down by Ministry, Department and Entity, are outlined in Table 7.

It will be noted that the original targeted amount of €31.1 million as appearing in Appendix I of the 2020 Financial Estimates for the first half of 2020, has in fact been exceeded, reaching €46.4 million by the end of the second quarter.

The Ministry for Finance and Financial Services shall continue to follow up its correspondence with the line Ministries involved, to ensure compliance with the relevant provisions of the Act and the collection of amounts due to Government.

7. Debt Developments and Targets

The following section provides information on debt developments and the components of general Government debt in the first six months of 2020, and a comparison of the revised forecasts of debt for the entire year with the 2020 Budget targets. It also provides details on the domestic Malta Government Stocks (MGS) market in the first half of 2020.

7.1 Debt Developments

In 2019, the debt-to-GDP ratio sustained its downwards trajectory, declining by 2.6 percentage points to 42.9 per cent of GDP. These positive developments were primarily supported by a strong and sustainable rate of economic growth and a healthy state of public finances. General Government debt

General Government (S.13) Debt Developments and Prospects

Table 7.1

	ESA Code	2019 % GDP	2020[af] % GDP	2020[sf] % GDP
1. **Gross Debt**[(a)]		**42.9**	**40.3**	**54.6**
2. Change in Gross Debt ratio		-2.6	-2.7	11.7
Contributions to changes in Gross Debt				
3. Primary Balance		-1.9	-2.6	6.1
4. Interest Expenditure	D.41	1.4	1.2	1.4
5. Stock-flow adjustment		1.0	1.3	2.6
p.m.: Implicit interest rate on debt[(c)] (%)		3.2	3.1	3.1
Other relevant variables				
Percentage of debt related to foreign loans [(d)] (%)		0.0	0.0	0.0
Average MGS maturity (years) [(e)]		8.7	-	8.5
Real GDP growth (%)		**4.7**	**4.3**	**-5.4**

Notes:
af - Autumn (Budget) Forecasts as a % of Autumn GDP forecasts
sf - Spring (Revised) Forecasts as a % of Spring GDP forecasts
[(a)] As defined in Regulation (EC) No 479/2009.
[(b)] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
[(c)] Proxied by the interest expenditure divided by the debt level of the previous year.
[(d)] The outstanding balance of foreign loans overwhelmingly held in domestic currency and a negligible amount is held in foreign currency.
[(e)] For 2020[sf], data refers to position as at end June 2020.

developments and prospects are illustrated in Table 7.1.

Compared to the Autumn targets set for the 2020 budget, the estimated general Government debt-to-GDP ratio for 2020 has been revised upwards by 11.7 percentage points, to 54.6 per cent of GDP. This is mainly on the back of the negative contribution of the primary balance, largely reflecting the budgetary impact of the COVID-19 pandemic, together with the expansionary impact of the SFA on the debt-to-GDP.

The impact of the primary balance on the debt-to-GDP ratio changed from a contractionary effect of 2.6 percentage points in 2020 Budget estimates to an expansionary impact of 6.1 percentage points in the 2020 revised level, reflecting the revised budgetary targets explained in previous sections. The expansionary impact that interest expenditure is expected to have on gross debt is the same as that recorded in 2019, thus increasing by 0.2 percentage points compared to the 2020 autumn estimates. The expansionary impact of the stock-flow adjustment on the debt-to-GDP ratio has increased by 1.3 percentage points in the 2020 revised projections when compared to the 2020 estimates presented in the Budget.

The implicit interest rate on debt remained constant at 3.1 per cent, as presented in the 2020 Budget estimates. The share of maturing stock in total Government debt is 6.6 per cent.

7.2 Components of General Government Public Debt

The main objective of Government's debt policy is to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, such that funds are raised in a prudent and cost-effective manner. Additionally, the financing needs of the Government including its debt service payment obligations are met in a timely manner such that funds are always available to meet any net daily central government cash shortfall. The

Government aims to ensure that debt levels remain sustainable while simultaneously minimising short, medium and long-term gross debt and interest rate risks.

Appendix Table 8 illustrates the Statement of General Government sector debt. Actual general Government public debt as at 30 June 2020 stood at €6,631million. The outstanding consolidated MGS increased by €304.2 million (further information on this increase can be obtained from section 7.4). The outstanding Malta Government Retail Savings Bonds balance stood at €288.3 million, a decrease of €2.9 million, whilst the stock of T-Bills increased by €464.7 million and stood at €797.5 million as at end June 2020 (further information on this increase can be obtained from section 7.4). The outstanding levels of debt held by EBU's and Local Councils decreased by circa €14.65 million whilst the level of Euro coins issued in the name of the Treasury went up by €3.6 million when compared to the coin stock as at the end of June 2019. The foreign loans outstanding balance (92.8% denominated in euro) as at 30 June 2020 stood at €0.9 million down by €0.125 million over the corresponding period of last year.

The impact of the COVID-19 pandemic necessitated an upward revision of €1.298 billion in the outstanding level of general Government debt projected for the end of 2020 when compared to the Budget estimates for 2020, published in October 2019. Further information on this year's debt developments can be found in section 7.4.

7.3 Main developments in the Euro zone sovereign bond market during H1-2020

In the beginning of the first quarter of the year (mid-January) benchmark yield curves started drifting downward reflecting growing concerns about the global growth outlook and increasingly a decline in risk appetite. The declines accelerated somewhat when it became clear that the covid-19 virus could not be confined to China only. Yields of the euro-area Member States' 10-year government bonds declined across the board over the period (until mid-March - 1st Quarter), particularly for the Bund, French, Dutch, Finnish and Irish Bonds but declines were less pronounced in other Member States. In the wake of the spread to Europe of the covid-19, yields have diverged somewhat, with in particular spreads on Greece, Italy, Portugal and to a lesser extent Spain and Ireland, reflecting heightened risk aversion.

Yields increased sharply towards mid-March over the escalating number of casualties in the West which triggered a sharp retrenchment in risk aversion with investors rushing to sell their most liquid assets, including safe havens such as benchmark government bonds. This triggered major central banks to step in to address the ensuing market disruption, including through unprecedented accommodative measures. Amongst other measures, the Fed brought its policy rate down to zero.

At its monetary policy meeting on 12 March, the ECB Governing Council decided on a comprehensive package of monetary policy measures with additional substantial monetary policy stimulus aimed to support liquidity and funding conditions for households, businesses and banks and help preserve the smooth provision of credit to the real economy.

Following the announcement of these unprecedented monetary measures, benchmark sovereign bond yields embarked on a downward path. Yet they remained somewhat volatile, though, increasing on news of successes in containing the spread of the virus and gradually resuming economic activity, and declining when concerns arose about a possible acceleration of the pandemic, especially in countries with less advanced health services. Yields of euro-area Member States' 10-year government bonds generally increased over this period but spreads on euro-denominated bonds have narrowed, in part on the back of supportive monetary measures, but remained significantly higher than pre-COVID-19 especially for lower-rated issuers.

7.4 Primary Market

In response to sudden changes in the fiscal outlook posed by the ongoing COVOD-19 outbreak, where (i) main sources of revenue are expected to be lower mainly, but not limited to, the deferral of tax receipts from hit businesses while (ii) expenditure shall be significantly higher than projected before the outbreak, the government was compelled to revise upwards the maximum amount that it could borrow during the current year from €450 million to a sum not exceeding €2 billion [Budget Measures Implementation Act, Cap 608 of the Laws of Malta]. Moreover, the capping of outstanding T-Bills at any time was increased from €700 million to €1 billion. Based on current fiscal projections, the Treasury is bound to borrow an amount in the region of €1.5 billion or €1.05 billion higher than the amount announced in its annual borrowing plan published in January 2020. The evolution of the Covid-19 pandemic is still subject to a high level of uncertainty. As such, Treasury will need to retain flexibility in its issuance strategy to respond to further changes in funding needs (if need be), market functioning and shifting demand preferences. During the first semester of 2020, the Treasury tapped the capital market three times in February, April and in May.

In the February MGS issue the Treasury offered three new fixed-rate stocks in the short-, medium- and long-term maturity horizon. This issuance was offered via a competitive auction targeting institutional investors.

The amount on issue was €60 million, with an over-allotment option of a further €40 million. Total participation in the first MGS issuance of the year amounted to €234.4million (€169.5 million in the 0.40% MGS 2026(II), €24.5 million in the 1.00% MGS 2031 (II) and €40.4 million in the 1.50% MGS 2045 (I), resulting in a bid-to-cover of 3.91x. In this issuance, the Treasury allotted €100 million - €37.7 million in the 0.40% MGS 2026 (II), €22.9 million in the 1.00% MGS 2031 (II) and €39.4 million in the 1.50% MGS 2045 (I).

In the April MGS issue the Treasury offered two fixed-rate stocks a new 5-year stock the 0.75% MGS 2025 (III) and re-offered again the 1.85% MGS 2029 (III) which was first offered in the year 2018 and re-offered again in three of the issuances held last year. This issuance was offered via a competitive auction targeting institutional investors.

The amount on issue was €200 million, with an over-allotment option of a further €100 million. Total participation in the second MGS issuance of the year amounted to €403.7 million (€200 million in the 0.75% MGS 2025 (III) and €203.7 million in the 1.85% MGS 2029 (III)), resulting in a bid-to-cover of 2.02x. In this issuance, the Treasury allotted €300 million - €139 million in the 0.75% MGS 2025 (III) and €161 million in the 1.85% MGS 2029 (III).

In the May MGS issue the Treasury offered three fixed-rate stocks a new 4-year stock the 0.30% MGS 2024 and re-offered again the 0.40% MGS 2026 and 1.00% MGS 2031 which were first offered in the February issuance to build up liquidity in these issues. This issuance was offered via a competitive auction targeting institutional investors.

The amount on issue was €200 million, with an over-allotment option of a further €100 million. Total participation in the third MGS issuance of the year amounted to €493.9 million (€241.7 million in the 0.30% MGS 2024 (IV), €209.4 million in the 0.4% MGS 2026 (II) and €42.8 million in the 1.00% MGS 2031 (II)), resulting in a bid-to-cover of 2.47x. In this issuance, the Treasury allotted €300 million – (i) €170 million in the 4-year MGS, (ii) €87.2 million in the 6-year MGS 2026 and €42.8 million in the 11-year MGS.

By end of June, the Treasury raised 46.6% of the expected revised funding requirements for this year which according to current fiscal projections are not expected to exceed €1.5 billion.

As at 30th June 2020, the Weighted Average Maturity (WAM) of the MGS portfolio which represents 82.3% of the total Central Government Debt Portfolio[2] stood at 8.5 years, 0.2 years lower than that reported at end of June 2019. The weighted average maturity of the central government debt portfolio made up of MGS, T-Bills, Savings Bonds and Foreign Loans, as at end of the June 2020 stood at 7.2 years against 7.9 years registered in June 2019.

[2] MGSs, T-Bills, Foreign Loans, Retail Savings Bonds

7.4.1 Money Market

In the first six months of this year, the Treasury held 26 T-bills auctions, regularly once every week. The total amount of T-Bills issued in H1 amounted to € 1.12 billion (nominal), more or less as much as the volume issued throughout the entire year 2019. These were mostly allotted in the 91-day tenor (63.7%). Sixty-eight per cent (68%) of the T-Bills issued in the first semester of the year took place in the second quarter of 2020 after the outbreak of Covid-19. By comparison, whilst issuances in the first quarter amounted to €359 million (nominal), in the second quarter the Treasury issued €762 million (nominal). The total redemptions in the first six months of the year amounted to €566 million (2019: €480.1 million).

During the first six months of the year, the 91-day-tenor was issued at weighted average rate of minus 0.354% just 0.002% above the average 3-month Euribor of minus 0.355% registered for the same period of year.

In H1-2020, all T-Bills issuances were allotted at negative interest and the Treasury earned just below €1.25 million in negative interest. This amount is 2.45 times higher when compared to the corresponding period of last year (H1-2019: €507,811) on account of higher volumes of T-Bills issued in H1-2020. In H1-2020, the Treasury issued €1.12 billion T-Bills whilst in 2019, the Treasury has issued €522.9 million in the first six months of the year.

8. Fiscal Rules and SGP Requirements

The following section explains how fiscal rules established by the Fiscal Responsibility Act (FRA) and the Stability and Growth Pact (SGP) are suspended in view of exceptional circumstances and the activation of the general escape clause.

In 2019, the general Government surplus stood at 0.5 per cent of GDP. This translates into a balanced budgetary position in structural terms, such that Malta remained at its MTO in 2019. The outlined developments were in compliance with the provisions of the FRA. Based on the outturn data and the Commission forecast, the ex-post assessment by the Commission suggests that taken together, in 2018 and 2019, both the structural balance and expenditure benchmark pillars suggest compliance. Government debt has declined below the 60 per cent reference value in 2015 and has fallen continuously ever since. The general Government debt ratio declined further in 2019 to 42.9 per cent of GDP, mainly on account of a continuing primary surplus and accelerating nominal GDP.

On 13 March 2020, the European Commission adopted a Communication on a coordinated economic response to the COVID-19 outbreak. It proposed that the Union institutions should apply the full flexibility existing within the European Union (EU) fiscal framework, with a view to helping Member States address the outbreak and deal with its fallout. On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact (SGP). In that Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Council supported that view. It is to be noted that the Fiscal Responsibility Act (FRA) is intrinsically tied to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and the SGP, such that any decision to activate the escape clause at a European level should have the same effect as a formal announcement by the Government on the presence of exceptional circumstances. Indeed, the FRA defines exceptional circumstances in the same way as the SGP. In line with the Council agreement, the Government of Malta considers the current circumstances as exceptional.

The FRA envisages the suspension of the budgetary rule in the presence of exceptional circumstances. This applies to both the departure from the Medium-Term Objective (MTO), as well as the adjustment path towards it such that, as long as exceptional circumstances prevail, any departure from the MTO in that year and any lack of sufficient adjustment towards the MTO in any of the years that the exceptional circumstances prevail do not constitute a breach of the rules. It is the express view of the Government that once exceptional circumstances do not prevail, the Government will support a fiscal strategy to revert to the Medium-Term Objective of a balanced budget in structural terms and ensure that the debt ratio remains below 60 per cent of Gross Domestic Product (GDP). It is however premature at this stage to anticipate when these exceptional circumstances will cease to exist.

Statistical Annex

Main Macroeconomic Indicators

Table 1

	2017[(1)]	2018[(1)]	2019[(1)]	2020[af]	2020[sf]
GDP growth at current Market Prices (%)	**9.2**	**9.5**	**7.1**	**6.5**	**-3.6**
GDP growth at chain-linked volumes by period (reference year 2010)	**6.5**	**7.3**	**4.7**	**4.3**	**-5.4**
Expenditure Components of GDP					
chain-linked volumes by period (reference year 2010)					
Private Final Consumption Expenditure[(2)]	3.3	7.8	2.9	4.0	-0.8
General Government Final Consumption Expenditure	2.1	12.2	12.9	4.9	16.5
Gross Fixed Capital Formation	-7.1	-1.8	6.2	9.7	-4.0
Exports of Goods and Services	4.8	3.4	2.5	1.6	-12.1
Imports of Goods and Services	-0.5	3.0	3.0	2.0	-8.0
Contribution to GDP growth:					
Domestic Demand	0.2	4.9	4.5	4.5	1.8
Inventories	-1.6	1.1	0.2	0.0	0.0
Net Exports	7.9	1.1	0.0	-0.2	-7.2
Inflation rate (%)	**1.3**	**1.7**	**1.5**	**1.6**	**1.0**
Employment growth (%)[(3)]	**8.1**	**6.0**	**5.8**	**4.1**	**-3.3**
Unemployment rate (%)	**4.0**	**3.7**	**3.4**	**3.5**	**5.9**
Potential GDP growth	**6.9**	**6.9**	**5.8**	**5.6**	**1.2**
Output Gap	**2.1**	**2.4**	**1.1**	**-0.1**	**-5.5**

Notes:
af - Autumn (Budget) Forecasts
sf - Spring (Revised) Forecasts
(1) Actual data Source: NSO News Release No. 091/2020 - GDP Release 2020/Q1
(2) Includes NPISH final consumption expenditure
(3) LFS resident population concept definition

Half-Yearly Budgetary Execution on Cash Basis in ESA codes[1]

Table 2

	Jan-June 2019 *Actual* *€ 000*	Jan-June 2020 *Actual* *€ 000*
Consolidated Fund	**-156,165**	**-895,642**
1. **Total Revenue**	**2,030,718**	**1,696,632**
Taxes, of which:	1,479,039	1,187,150
Current Taxes on Income, Wealth, etc	725,011	584,606
Taxes on Production and Imports, of which:	754,028	602,543
VAT	448,100	361,628
Social Contributions	373,447	342,271
Market Output	51,268	69,107
Current Transfers	11,280	2,556
Capital Transfers	74,189	64,429
Property Income	41,495	31,118
2. **Total Expenditure**	**2,186,883**	**2,592,274**
Intermediate Consumption	337,617	414,488
Compensation of employees	508,262	533,816
Interest	94,642	61,923
Subsidies	43,650	199,209
Social Benefits	592,381	662,757
Current Transfers	484,347	583,459
Capital Transfers Payable	16,449	20,433
Capital Investment	109,535	116,190

Notes:

[1] In line with the Council Directive 85/2011 monthly fiscal data requirements as published by the NSO, link: http://nso.gov.mt/en/Services/Council_Directive/Pages/Council-Directive-85_2011.aspx

Central Government Finances by Expenditure Vote (Consolidated Fund)

Table 3

		Jan - Dec 2019 *Actual* *€ 000*	Jan - Dec 2020 *Approved Estimate* *€ 000*	Jan - Jun 2019 *Actual* *€ 000*	Jan - Jun 2019 *Actual as a % of 2019*	Jan - Jun 2020 *Actual* *€ 000*	Jan - Jun 2020 *Actual as a % of 2020*
Recurrent Expenditure							
1	Office of the President	4,777	4,580	2,457	51.4	1,769	38.6
2	House of Representatives	9,234	10,443	4,368	47.3	6,767	64.8
3	Office of the Ombudsman	1,300	1,340	700	53.8	1,000	74.6
4	National Audit Office	3,500	3,800	2,030	58.0	2,100	55.3
5	Commissioner for Standards in Public Life	368	640	350	---	320	50.0
6	Office of the Prime Minister	70,976	66,786	22,373	31.5	29,863	44.7
7	Information	1,187	1,411	533	44.9	537	38.1
8	Government Printing Press	1,576	1,666	716	45.4	756	45.4
9	Electoral Office	8,950	2,783	3,620	40.4	1,086	39.0
10	Public Service Commission	684	742	326	47.7	339	45.7
11	Ministry for Health	658,418	702,024	311,363	47.3	372,648	53.1
12	Ministry for the Economy, Investment and Small Businesses	21,460	22,628	9,505	44.3	16,814	74.3
13	Commerce	1,513	1,664	666	44.0	612	36.8
14	Ministry for Education and Employment	325,171	347,308	130,901	40.3	174,443	50.2
15	Education	295,200	301,026	141,047	47.8	156,359	51.9
16	Ministry for Energy and Water Management	91,719	97,077	42,176	46.0	58,768	60.5
17	Ministry for Finance	189,011	185,557	111,993	59.3	84,897	45.8
18	Economic Policy	1,630	1,750	814	49.9	785	44.9
19	Treasury	21,174	39,537	15,504	73.2	20,230	51.2
21	Commissioner for Revenue	20,134	20,050	8,998	---	9,392	46.8
22	Customs	12,414	12,453	6,077	49.0	5,647	45.3
23	Contracts	1,703	1,866	810	47.6	788	42.2
24	Ministry for Tourism	126,785	123,213	64,270	50.7	70,547	57.3
25	Ministry for Home Affairs and National Security	27,983	39,300	11,307	40.4	21,588	54.9
26	Armed Forces of Malta	53,572	57,222	23,696	44.2	24,533	42.9
27	Police	78,528	78,356	33,989	43.3	38,734	49.4
28	Probation and Parole	1,349	1,416	557	41.3	551	38.9
29	Civil Protection	7,569	9,282	3,257	43.0	4,119	44.4
30	Ministry for Justice, Culture and Local Government	73,788	98,593	33,978	46.0	51,576	52.3
31	Local Government	49,498	52,829	23,538	47.6	34,867	66.0
32	Ministry for the Environment, Sustainable Development and Climate Change	87,051	88,652	37,303	42.9	42,363	47.8
33	Ambjent Malta	22,534	18,078	13,875	---	8,681	48.0
34	Ministry for Foreign Affairs and Trade Promotion	33,217	34,737	13,405	40.4	39,224	112.9
35	Ministry for Transport, Infrastructure and Capital Projects	104,148	101,671	48,109	46.2	50,005	49.2
36	Ministry for Gozo	42,586	48,271	19,219	45.1	20,086	41.6
37	Ministry for the Family, Children's Rights and Social Solidarity	92,430	108,813	46,688	50.5	63,755	58.6
38	Social Policy	363,533	391,816	152,434	41.9	126,152	32.2
39	Social Security Benefits	997,940	1,061,995	512,025	51.3	555,330	52.3
40	Pensions	101,468	100,664	51,222	50.5	52,137	51.8
41	Elderly and Community Care	145,413	166,003	72,606	49.9	75,204	45.3
42	Ministry for European Affairs and Equality	22,461	23,596	9,650	43.0	8,827	37.4
43	Industrial and Employment Relations	1,544	1,705	720	46.6	813	47.7
	[Correctional Services	16,993	---	7,486	44.1	---	---
	[Judicial	23,712	---	10,279	43.3	---	---
	TOTAL RECURRENT EXPENDITURE	**4,216,201**	**4,433,343**	**2,006,940**	**47.6**	**2,235,012**	**50.4**
20	Public Debt Servicing						
	Contribution to Special MGS Sinking Fund	50,000	50,000	20,000	40.0	10,000	20.0
	Interest - Local	192,274	183,463	94,384	49.1	93,081	50.7
	Repayment of Loan - Local	437,227	461,583	55,787	12.8	202,161	43.8
	Early Repayment of MGRSB	2,446	2,750	876	35.8	1,513	55.0
	Contribution to Sinking Fund - Foreign	50	50	25	50.0	25	50.0
	Interest - Foreign	10	9	5	50.0	4	44.4
	TOTAL PUBLIC DEBT SERVICING	**682,007**	**697,855**	**171,077**	**25.1**	**306,784**	**44.0**
	TOTAL RECURRENT EXPENDITURE AND PUBLIC DEBT SERVICING	**4,898,208**	**5,131,198**	**2,178,017**	**44.5**	**2,541,796**	**49.5**

Central Government Finances by Expenditure Vote (Consolidated Fund)

Table 3

		Jan - Dec 2019 *Actual* *€ 000*	Jan - Dec 2020 *Approved Estimate* *€ 000*	Jan - Jun 2019 *Actual* *€ 000*	Jan - Jun 2019 *Actual as a % of 2019*	Jan - Jun 2020 *Actual* *€ 000*	Jan - Jun 2020 *Actual as a % of 2020*
Capital Expenditure							
I	Office of the President	670	589	272	40.6	92	15.6
II	House of Representatives	200	2,188	4	2.0	25	1.1
III	Office of the Prime Minister	45,134	46,987	20,256	44.9	16,998	36.2
IV	Ministry for Health	27,525	50,998	8,353	30.3	20,547	40.3
V	Ministry for the Economy, Investment and Small Businesses	40,064	38,800	28,043	70.0	167,406	431.5
VI	Ministry for Education and Employment	58,375	100,791	22,136	37.9	20,237	20.1
VII	Ministry for Energy and Water Management	43,352	39,416	20,942	48.3	11,600	29.4
VIII	Ministry for Finance	29,354	14,859	4,010	13.7	30,891	207.9
IX	Ministry for Tourism	12,276	32,861	4,049	33.0	4,591	14.0
X	Ministry for Home Affairs and National Security	32,090	44,941	5,867	18.3	6,800	15.1
XI	Ministry for Justice, Culture and Local Government	19,046	28,353	4,931	25.9	8,283	29.2
XII	Ministry for the Environment, Sustainable Development and Climate Change	57,850	70,962	20,493	35.4	31,697	44.7
XIII	Ministry for Foreign Affairs and Trade Promotion	2,093	2,483	819	39.1	412	16.6
XIV	Ministry for Transport, Infrastructure and Capital Projects	132,450	167,646	55,433	41.9	79,538	47.4
XV	Ministry for Gozo	11,503	19,220	2,634	22.9	4,115	21.4
XVI	Ministry for the Family, Children's Rights and Social Solidarity	11,802	23,807	3,923	33.2	5,321	22.4
XVII	Ministry for European Affairs and Equality	31,259	50,036	17,344	55.5	5,291	10.6
	TOTAL CAPITAL EXPENDITURE	**555,043**	**734,937**	**219,509**	**39.5**	**413,844**	**56.3**
VIII	Ministry for Finance Investment - Equity Acquisition	18,795	10,100	308	1.6	26,980	267.1
	TOTAL CAPITAL EXPENDITURE AND INVESTMENT	**573,838**	**745,037**	**219,817**	**38.3**	**440,824**	**59.2**
	TOTAL EXPENDITURE	**5,472,046**	**5,876,235**	**2,397,834**	**43.8**	**2,982,620**	**50.8**

Central Government Finances by Functional Classification of Expenditure (Consolidated Fund)

Table 4

	Personal Emoluments		Operational and Maintenance Expenses		Programmes and Initiatives		Contributions to Government Entities	
	Approved Estimate 2020	Actual Jan-Jun 2020	Approved Estimate 2020	Actual Jan-Jun 2020	Approved Estimate 2020	Actual Jan-Jun 2020	Approved Estimate 2020	Actual Jan-Jun 2020
	€ 000	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*
General Public Services	117,124	49,336	49,076	49,820	258,289	138,996	35,304	21,489
Defense	47,290	16,856	9,404	3,692	487	356	500	146
Public Order and Safety	92,965	45,416	10,208	5,156	6,023	3,810	44,822	22,316
Economic Affairs	68,086	31,795	14,260	12,247	150,129	89,504	166,180	91,724
Environmental Protection	10,338	2,410	545	8	61,243	25,413	32,320	11,518
Housing and Community Affairs	1,714	805	507	242	8,720	7,523	8,800	7,116
Health	309,510	146,735	71,432	25,994	95,972	164,601	66,060	36,953
Recreation, culture and religion	5,433	3,314	684	2,671	46,425	6,829	30,393	17,667
Education	264,062	125,107	15,463	8,818	330,214	121,101	142,200	61,640
Social Protection	60,710	28,813	45,358	22,601	1,691,347	790,751	49,747	29,960
Total	**977,231**	**450,585**	**216,937**	**131,250**	**2,648,849**	**1,348,885**	**576,326**	**300,530**

	Interest Expenditure		Capital Expenditure		Total expenditure	
	Approved Estimate 2020	Actual Jan-Jun 2020	Approved Estimate 2020	Actual Jan-Jun 2020	Approved Estimate 2020	Actual Jan-Jun 2020
	€ 000	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*
General Public Services	183,472	93,085	103,560	30,335	**746,825**	**383,061**
Defense	0	0	37,191	1,105	**94,872**	**22,154**
Public Order and Safety	0	0	44,734	7,424	**198,752**	**84,122**
Economic Affairs	0	0	344,516	277,051	**743,171**	**502,320**
Environmental Protection	0	0	63,275	25,696	**167,720**	**65,045**
Housing and Community Affairs	0	0	2,130	2	**21,870**	**15,689**
Health	0	0	25,850	20,311	**568,824**	**394,594**
Recreation, culture and religion	0	0	53,963	11,228	**136,898**	**41,710**
Education	0	0	46,551	9,186	**798,490**	**325,852**
Social Protection	0	0	13,167	4,525	**1,860,329**	**876,651**
Total	**183,472**	**93,085**	**734,937**	**386,864**	**5,337,752**	**2,711,198**

Notes:

1. Data refers to the total expenditure of the Consolidated Fund and is not fully consistent with the General Government sector expenditure by function published by the NSO. The General Government expenditure by the classification of functions of government (COFOG) data is compiled by NSO on an annual basis with a delay of one year.

2. Data are in line with the COFOG classifications as published in the Government Finance Statistics Manual 2001 (ISBN 1-58906-061-X).

Transition between Consolidated Fund and General Government sector by period

Table 5

	2019 Jan - Jun *€ 000*	2020 Jan - Jun *€ 000*	
Consolidated Fund Surplus / Deficit	**-156,166**	**-896,406**	1
Adjustments to the Consolidated Fund:			
Loan Repayment	0	0	
Equities, acquisitions (+)	0	0	2
Equities, sales (-)	0	0	
Other financial transactions	0	0	3
Difference between interest paid (+) and interest accrued (-)	-1,683	-30,017	4
Other accounts receivable (+) and payable (-)	-24,029	142,618	5
Time-adjusted cash transactions	202,223	142,393	6
Treasury Clearance Fund flows in non-financial transactions	22,395	2,072	
Sinking Fund interests' received	2,028	2,244	
Quarterly adjustments	-57,489	-30,756	7
EFSF re-routing	3	15	8
Equity injection	0	0	9
Debt assumption	0	0	
Other adjustments	-28,063	-15,955	
Net Borrowing (-) / Net Lending (+) of Extra Budgetary Units	41,018	22,790	10
Net Lending (+) / Net Borrowing (-) of Local Government	4,109	4,109	11
Net Lending (+) / Net Borrowing (-) of General Government	**4,347**	**-656,893**	

Notes:

1. Consolidated Fund Surplus/Deficit as published on a monthly basis by the NSO.
2. Acquisition of shares in international agencies.
3. Superdividend test - Dividends paid out of accumulated reserves.
4. Difference between the interest paid and accrued of the Treasury Bills, Malta Government Stocks and Foreign Loans. Includes also the difference between the issue value and the par value, i.e. the premium, of the Malta Government Stocks is apportioned throughout the lifetime of the security.
5. Accruals adjustment for all the Budgetary Central Government. Includes amongst which: Treasury Department accrual templates, adjustment for EU Funds neutrality, church stock adjustment and emission trading permits.
6. In line with Council Regulation 2516/2000, the method of recording of taxes and social contributions is the time-adjusted
7. Quarterly adjustments necessary to fulfil compliance with the ESA2010 methodology and the Manual on Government Deficit and Debt. On an annual basis these sum up to 0.
8. Re-routed operations of the European Financial Stability Facility.
9. Equity injection to Air Malta plc. The debt-to-equity conversion in 2016 failed the capital injection test. Previous equity injections to the national air carrier feature as expenditure in the Consolidated Fund Surplus / Deficit.
10. The aggregated net borrowing (-) / net lending (+) of the extra budgetary units forming part of the Central Government Sector.
11. The aggregated net borrowing (-) / net lending (+) of the 68 local councils, 5 Regional Committees and Local Councils Association.

For further information on the ESA 2010 adjustments refer to Malta's EDP Inventory at:
http://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A2/Public_Finance/Pages/Government-Debt-and-Deficit-under-the-Maastricht-Treaty.aspx

Annual Aggregate Budgetary Targets in Accordance with ESA standards

Table 6

	ESA Code	2019 *% GDP*	2020[af] *% GDP*	2020[sf] *% GDP*
Net lending (+)/Net borrowing (-) by sub-sector				
1. General Government	S.13	0.5	1.4	-8.7
2. Central Government	S.1311	0.5	1.4	-8.7
3. State Government	S.1312	-	-	-
4. Local Government	S.1313	0.0	0.0	0.0
5. Social Security funds	S.1314	-	-	-
General Government (S.13)				
6. Total Revenue	TR	38.0	39.2	37.4
7. Total Expenditure	TE	37.5	37.8	46.1
8. Interest Expenditure	D.41	1.4	1.2	1.4
9. Primary Balance [(a)]		1.9	2.6	-7.3
10. One-off and other temporary measures [(b)]		0.0	0.1	0.1
11. Real GDP growth (%)		4.7	4.3	-5.4
12. Potential GDP growth (%)		5.8	5.6	1.2
13. Output Gap (%)		1.1	-0.1	-5.5
14. Cyclical Budgetary Component		0.5	0.0	-2.5
15. Cyclically-Adjusted Balance (1 - 14)		0.0	1.4	-6.2
16. Cyclically-Adjusted Primary Balance (15 + 8)		1.4	2.6	-4.8
17. Structural Balance (15 - 10)		0.0	1.3	-6.3

Notes:

af - Autumn (Budget) Forecasts as a % of Autumn GDP forecasts
sf - Revised Forecasts as a % of Spring GDP forecasts
[(a)] The primary balance is calculated as (B.9, item 1) plus (D.41, item 8).
[(b)] A plus sign means deficit-reducing measures.

Report on Revenue Arrears in terms of Article 29 of the Fiscal Responsibility Act

Table 7

	Net Collectable Arrears as on 31/12/18 €	As published in 2020 Financial Estimates €	Target Quarter 1 €	Target Quarter 2 €	Target Total €	Arrears Collected Quarter 1 €	Arrears Collected Quarter 2 €	Arrears Collected Total €
Office of the Prime Minister	22,930	2,293	573	573	1,146	1,325	870	2,195
TV Licences	601,346	60,135	15,034	15,034	30,067	0	0	0
Malta Gaming Authority	327,826	32,783	8,196	8,196	16,391	43,691	3,440	47,131
MCA	20,802	2,080	520	520	1,040	96	1,355	1,451
Information	2,199	220	55	55	110	0	0	0
Government Printing Press	52,514	5,251	1,313	1,313	2,626	5,265	0	5,265
Electoral Office	0	0	0	0	0	0	0	0
Public Service Commission	0	0	0	0	0	0	0	0
	1,027,617	102,762	25,690	25,690	51,381	50,377	5,665	56,042
Ministry for Health								
Government Pharmaceutical Services	568,964	56,896	14,224	14,224	28,448	0	0	0
Health Department	220,681	22,068	5,517	5,517	11,034	102,801	119,815	222,616
Mater Dei Hospital	789,893	78,989	19,747	19,747	39,495	35,034	0	35,034
Primary Health Care	92	9	2	2	5	0	0	0
Sir Anthony Mamo Oncology Centre / Sir Paul Boffa	3,457	346	86	86	173	4,486	0	4,486
	1,583,089	158,309	39,577	39,577	79,154	142,321	119,815	262,136
Ministry for Economy, Investment and Small Businesses								
Commerce Department	4,056	406	101	101	203	8,034	881	8,915
	4,056	406	101	101	203	8,034	881	8,915
Ministry for Education and Employment								
Ministry	72,745	7,275	1,819	1,819	3,637	2,046	2,585	4,631
Education	15,053	1,505	376	376	753	15,010	11,679	26,689
	87,798	8,780	2,195	2,195	4,390	17,056	14,264	31,320
Ministry for Energy and Water Management (1)	328	33	8	8	16	N/A	N/A	N/A
Ministry for Finance								
Ministry	3,404	340	85	85	170	0	925	925
Economic Policy Department	0	0	0	0	0	0	0	0
Treasury	0	0	0	0	0	0	0	0
Income Tax	30,197,420	3,019,742	754,935	754,935	1,509,871	13,015,045	10,935,593	23,950,638
VAT	16,455,047	1,645,505	411,376	411,376	822,752	8,695,149	6,139,699	14,834,848
Customs Department	1,186,440	118,644	29,661	29,661	59,322	10,645	6,727	17,372
Contracts	14,321	1,432	358	358	716	0	0	0
	47,856,631	4,785,663	1,196,416	1,196,416	2,392,832	21,720,839	17,082,944	38,803,783
Ministry for Tourism	110,066	11,007	2,752	2,752	5,503	48,326	7,938	56,264
Ministry for Home Affiars and National Security								
Security	0	0	0	0	0	0	0	0
Correctional Services	62	6	2	2	3	0	0	0
Armed Forces of Malta	10,014	1,001	250	250	501	255	0	255
Police	43,587	4,359	1,090	1,090	2,179	27,150	4,371	31,521
Civil Protection Department	1,134	113	28	28	57	0	0	0
	54,797	5,480	1,370	1,370	2,740	27,405	4,371	31,776
Ministry for Justice, Culture and Local Government								
Ministry	0	0	0	0	0	0	0	0
Attorney General	31,766	3,177	794	794	1,588	10,249	5,375	15,624
Notary to Government	764	76	19	19	38	0	0	0
Valletta 2018 Foundation (1)	8,351	835	209	209	418	N/A	N/A	N/A
Courts Services Agency (2)	962,925	96,293	24,073	24,073	48,146	193,900	149,077	342,977
Gozo Law Courts	29,696	2,970	742	742	1,485	9,457	33,891	43,347
Local Government	0	0	0	0	0	0	0	0
	1,033,502	103,350	25,838	25,838	51,675	213,606	188,342	401,948
Ministry for the Environment, Sustainable Development, and Climate Change	119,960	11,996	2,999	2,999	5,998	18,051	8,897	26,948
Ministry for Foreign Affairs and Trade Promotion	20,490	2,049	512	512	1,024	0	0	0
Ministry for Transport and Infrastructure								
Ministry	97,583	9,758	2,440	2,440	4,879	8,140	12,141	20,281
Transport Malta (3)	150,000	15,000	3,750	3,750	7,500	7,143		7,143
Lands Authority	3,300,103	330,010	82,503	82,503	165,005	1,942,774	1,483,618	3,426,392
	3,547,685	354,769	88,692	88,692	177,384	1,958,057	1,495,759	3,453,816
Ministry for Gozo	18,873	1,887	472	472	944	2,074	1,372	3,446
Ministry for Family, Children's Rights and Social Solidarity								
Social Care Standards Authority	554	55	14	14	28	0	0	0
Social Security Benefits	2,314,726	231,473	57,868	57,868	115,736	1,692,629	1,072,730	2,765,359
Pensions	3,974,641	397,464	99,366	99,366	198,732	500,000	0	500,000
Elderly and Community Care	434,075	43,408	10,852	10,852	21,704	1,000	0	1,000
	6,723,996	672,400	168,100	168,100	336,200	2,193,629	1,072,730	3,266,359
Ministry for European Affairs and Equality								
ex MSDC (1)	143	14	4	4	7	N/A	N/A	N/A
ex MEIAM	1,057	106	26	26	53	0	0	0
Industrial and Employment Relations	8,497	850	212	212	425	420	320	740
	9,697	970	242	242	485	420	320	740
Total			*1,554,965*	*1,554,965*	*3,109,929*	*26,400,195*	*20,003,298*	***46,403,493***

Notes:
(1) Collected in 2019.
(2) The amount reported in Table 9 is cash. Furthermore, an amount of €59,396 (€43,474 in Quarter 1 and €15,922 in Quarter 2) was reported as fines, revoked, cancelled or converted into imprisonment.
(3) Did not submit quarter 2.

Statement of General Government Sector Debt

Table 8

	Jan-Dec 2019 *Actual* € 000	Jan-Dec 2020 *Budget Estimate* € 000	Jan-Jun 2019 *Actual* € 000	Jan-Jun 2020 *Actual* € 000	Jan-Dec 2020 *Revised Estimate* € 000
General Government Debt					
Malta Government Stocks (MGS)	4,615,450	4,600,269	4,737,850	5,042,012	5,550,632
Malta Government Retail Savings Bonds (MGRSB)	289,849	287,246	291,248	288,336	381,600
Treasury Bills	300,000	285,000	332,800	797,500	479,000
Foreign Loans	967	843	1,027	902	840
EBU's and Local Councils	155,600	170,325	170,270	155,618	155,618
Currency	89,171	102,799	85,977	89,590	99,511
ESA Rerouted Debt	249,060	244,257	234,134	257,037	321,060
Total	**5,700,097**	**5,690,739**	**5,853,306**	**6,630,995**	**6,988,261**
Public Debt Servicing					
Local Loans					
Interest - Short Term Borrowing (Treasury Bills)	0	833	0	0	1,482
Interest (MGS/MGRSB)	192,273	182,631	94,212	93,081	185,974
(A) Total Interest - Local Loans	**192,273**	**183,464**	**94,212**	**93,081**	**187,456**
Contributions to Sinking Funds					
Contribution to Special MGS Sinking Fund	50,000	50,000	20,000	10,000	50,000
Direct Loan Repayment	437,227	461,583	55,787	202,161	461,583
Early Repayment of MGRSB	2,446	2,750	1,047	1,513	3,250
(B) Direct Loan repayments including Early Repayments of MGRSB and Contributions to Sinking Funds	**489,673**	**514,333**	**76,834**	**213,674**	**514,833**
Total Servicing of Local Loans (A + B)	**681,946**	**697,797**	**171,046**	**306,755**	**702,289**
Foreign Loans					
Interest	10	9	5	4	9
Contributions to Sinking Funds	50	50	25	25	50
Total Servicing of Foreign Loans	**60**	**59**	**30**	**29**	**59**