Malta: Half Yearly Report 2021

In line with Article 39(7) of the Fiscal Responsibility Act

Ministry for Finance and Employment

July 2021

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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.

Clyde Caruana

Minister for Finance and Employment

1. Introduction

The Half-Yearly Report is prepared in accordance with Article 39 (7) of the Fiscal Responsibility Act (Cap. 534) and is the seventh report since the enactment of the Act.

This Half-Yearly Report provides an assessment of the impact of revised macroeconomic projections on the main revenue projections and expenditure commitments, information on fiscal developments during the first six months and an updated forecast for 2021, with details of discretionary measures being undertaken to address the impact of these developments. It analyses developments in public finances in 2021 in consideration of the principles and rules stipulated in the Fiscal Responsibility Act and in the context of the Government's European commitments in terms of the Stability and Growth Pact, which are currently suspended in view of the activation of the general escape clause of the Stability and Growth Pact. The analysis of the 2021 fiscal performance must also be considered against the exceptional circumstances brought about by the COVID-19 pandemic which has had a substantial negative economic impact and that led to the equally unprecedented but vital fiscal support provided by Government to mitigate its impact. The Annex of this report also includes a statistical overview of the main macroeconomic and fiscal indicators.

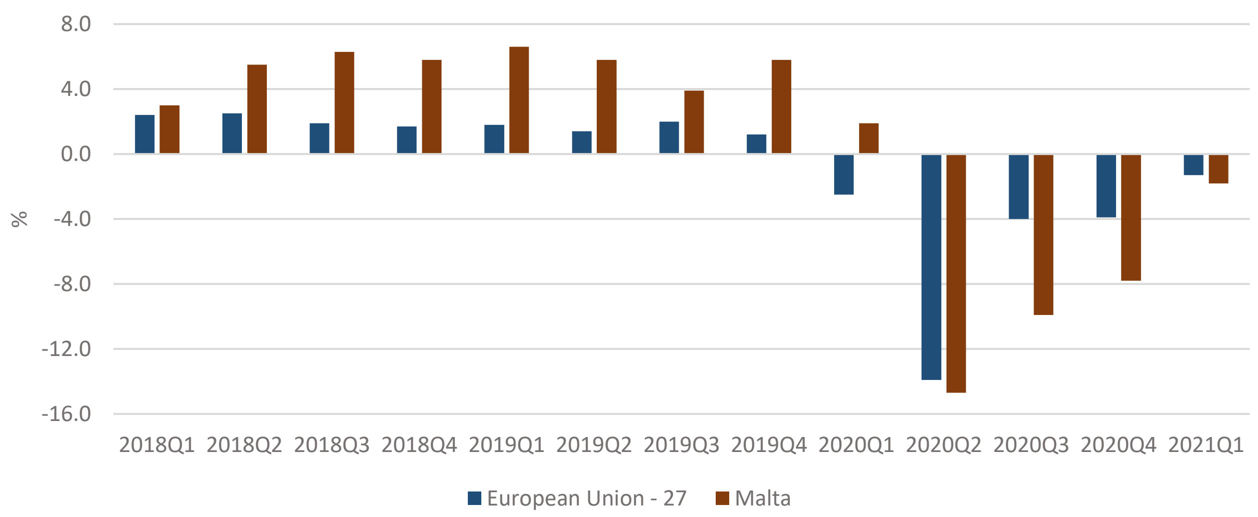
2. Overview of the Macroeconomic Situation

This section provides an economic update, and a comparison of the revised macroeconomic projections with the 2021 Budget projections, as well as a detailed explanation of the main changes.

2.1 Latest Economic Conditions

In 2020, the Covid-19 pandemic led to a series of unprecedented stresses on the global economy, including Malta. The Maltese economy contracted by 7.8 per cent in real terms, equivalent to 6.5 per cent in nominal terms. The depth of the recession across Member States in the European Union (EU) was uneven, depending on the severity of Covid-19 and relative containment measures, the economic structure, and economic policy responses. The contraction of the Maltese economy was 1.7 percentage points higher than in the EU, owing to the large services sector in Malta, particularly the heavy reliance on tourism-related services, which were disproportionately constrained by the pandemic, together with other contact-intensive services. However, positive performance from other sectors like remote gaming, information and communications, pharmaceuticals, electronics, construction and real estate, mitigated some of the economic repercussions of the pandemic.

Chart 2.1: Real GDP growth, 2018Q1-2021Q1



The economic effects of the Covid-19 pandemic persisted in the beginning of 2021, amidst renewed restrictions in March. The rapid pace of vaccine roll-out and the improvement in the epidemiological situation in Malta, allowed for a gradual easing of containment measures in the second quarter.

During the first quarter of 2021, the Maltese economy registered a decline of 1.8 per cent in real terms when compared to the corresponding period in the previous year. In nominal terms, the economy declined by 0.5 per cent. Net exports continued to be the main contributor to the decline in GDP, with a negative contribution of 2.4 percentage points. Domestic demand also contributed negatively to GDP growth by 0.3 percent, mainly driven by declines in private consumption and investment expenditure, and partly offset by government expenditure.

Gross Value Added (GVA) declined by 0.5 per cent in the first quarter of 2021. The Primary sector decreased by 2.2 per cent, quarter-on-quarter, while the Industrial sector contracted by 1.7 per cent. The contraction in the Industrial sector was driven by the Manufacturing industry sector, which declined by 2.9 per cent, whereas the non-manufacturing industry sector grew by 4.5 per cent. The Services sector was more resilient during the first quarter, declining marginally by 0.4 per cent.

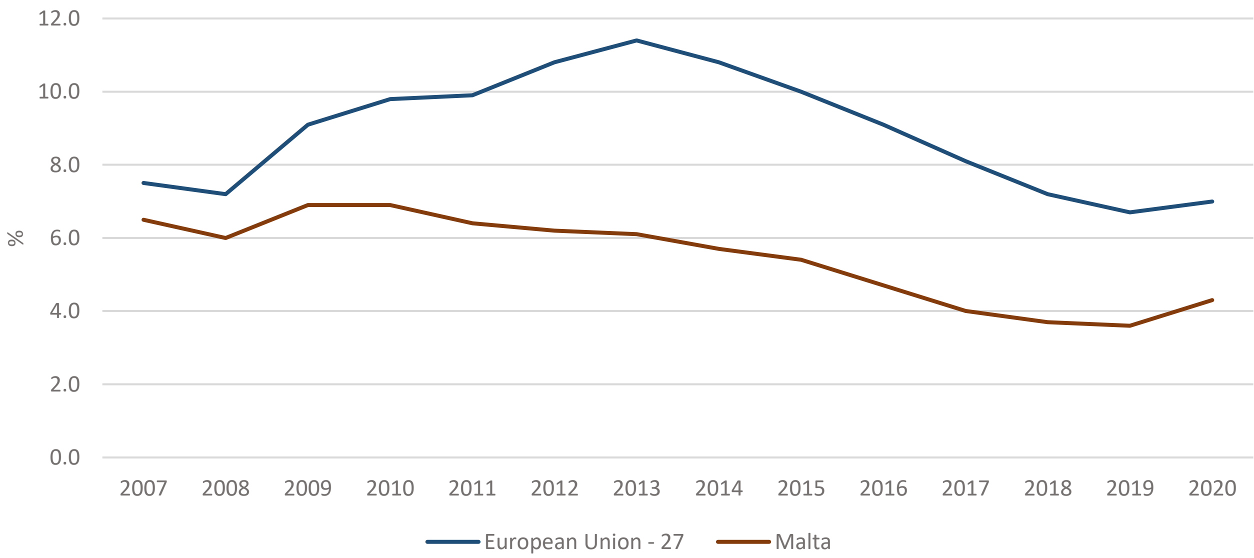
The Wholesale and Retail trade, Transportation and Accommodation sector continued its negative performance, contracting by 23.8 per cent as inbound tourism was restricted during this period. Other services sectors that experienced declines include the Professional, Scientific, and Technical activities sector (-5.8 per cent), and the Real Estate sector (-0.3 per cent). These were offset by other sectors that proved to be resilient to the economic effects of the pandemic, including the Information and Communication sector, which grew by 12.2 per cent, the Arts Entertainment and Recreation sector (9.1 per cent), the Financial and Insurance Services sector (7.2 per cent) and the Construction sector (1.0 per cent).

From the income side, net taxation on production and imports declined by 22.8 per cent during the first quarter of 2021, mainly driven by subsidies growth of 59.4 per cent reflecting the extensive government measures in place to support the economy. On the other hand, growth in compensation of employees remained subdued, standing at 0.9 per cent, while gross operating surplus increased by 1.8 per cent, reversing the declines reported in 2020. Compensation of employees declined in the Professional, Scientific, and Technical activities, Wholesale and Retail trade, Transportation and Accommodation, Real Estate, and Information and Communication sectors.

2.1.1 Labour Market

In 2020, employment grew by 2.9 per cent. while the unemployment rate reached 4.3 per cent. The highest unemployment rate was recorded in August 2020 at 4.7 per cent.

Chart 2.2: Unemployment Rate



Notwithstanding this increase in unemployment, both the activity rates and employment rates did not fall. Activity rates in 2020 stood at 77.1 per cent, 1.2 percentage points higher than the rate in 2019, with improvements registered in all quarters. An overall improvement was also recorded in the employment rate for 2020 which increased by 0.7 percentage points over 2019, reaching 73.8 per cent.

During the first quarter of 2021, employment decreased by 1.3 per cent. The contraction in overall employment was almost entirely driven by the Wholesale and Retail, Transportation and Accommodation sector, where employment declined by 6.0 per cent. Other sectors which experienced a decline in employment during the first quarter of 2021 include the Information and Communication sector (-1.0 per cent), the Professional, scientific and technical activities sector (-1.4 per cent), the Financial and Insurance Services sector (-1.0 per cent) and Industrial sectors (-0.5 per cent). On the other hand, some sectors registered significant employment growth, most notably the Real Estate sector (4.6 per cent), followed by the Construction sector (3.4 per cent), the Agriculture and Fishing sector (3.3 per cent) and the Arts, Entertainment and Recreation sector (2.6 per cent).

2.1.2 Prices

Annual HICP inflation in Malta stood at 0.2 per cent in May 2021. Meanwhile, the EU annual rate stood at 2.3 per cent and the EA recorded a rate of 2.0 per cent.

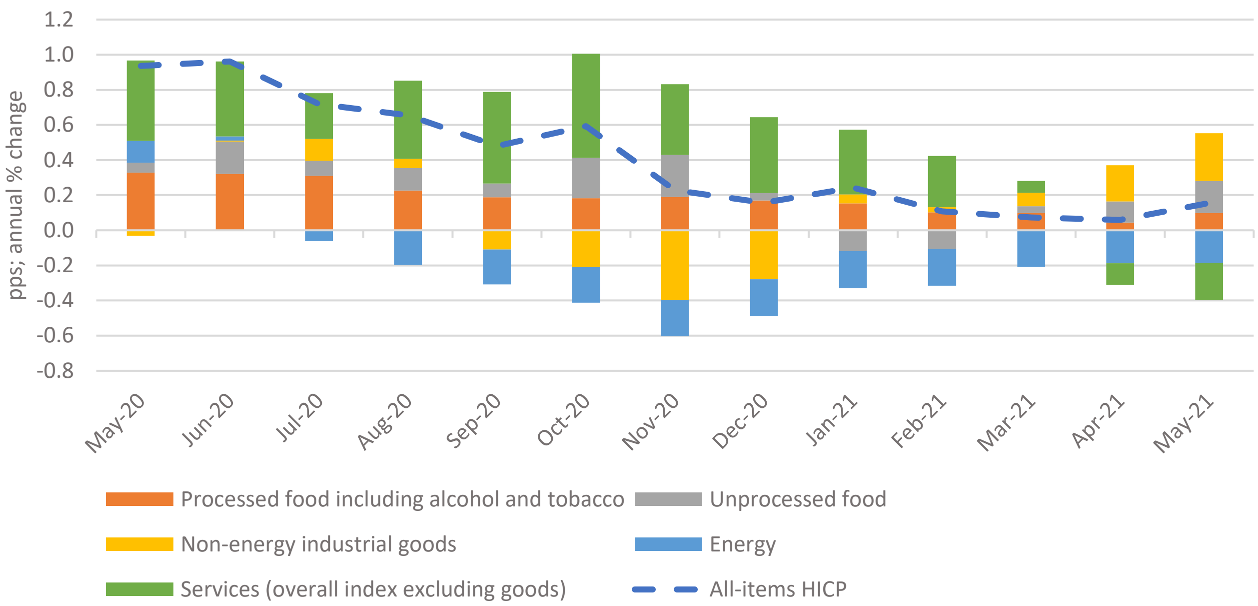
During the first five months of 2021, HICP inflation recorded a modest deceleration, before slightly picking up in May. In the first three months of the year, inflation was primarily driven by services and subsequently, in April and May, by prices of non-energy industrial goods. These were offset by declines in the prices of energy in each month, while services prices also declined in April and May. In fact, the annual inflation for services declined from 0.7 per cent in January to 0.5 per cent in May, with the annual rate for energy prices standing at -3.2 per cent in May. Unprocessed food prices increased significantly from -2.5 per cent in January, to 4.1 per cent in May. The annual rate for non-energy industrial goods increased from 0.4 per cent in January to 1.0 per cent in May, while prices of processed foods including alcohol and tobacco declined from 1.0 per cent to 0.6 per cent. The measure of core HICP inflation (excluding energy and unprocessed foods) decreased from 0.6 per cent in January to 0.3 per cent in May.

Comparison of Macro-Economic Projections for 2021

Table 2.1

	Autumn 2020	Spring 2021	Difference
Private final consumption expenditure	3.7	2.4	-1.3
General government final consumption expenditure	-1.2	5.6	6.8
Gross fixed capital formation	7.5	9.2	1.7
Exports of goods and services	5.5	5.1	-0.4
Imports of goods and services	4.5	5.9	1.4
Real GDP	5.0	3.8	-1.2
Domestic Demand Contribution (in pps)	3.3	4.5	1.2
External Demand Contribution (in pps)	1.7	-0.7	-2.4
Nominal GDP	6.4	5.9	-0.5
HICP	1.3	1.3	0.0
Employment (Domestic Concept)	2.3	2.2	-0.1
Unemployment Rate	4.0	4.3	0.3
Output Gap	-3.5	-5.1	-1.6
Potential Output	2.9	3.4	0.5

Chart 2.3: Contributions to Year-on-Year HICP Inflation



2.2 Comparison of macroeconomic projections

This section provides a comparative evaluation of the latest macroeconomic forecasts for 2021 published in the Stability Programme 2021 - 2024 (hereinafter referred to as the Spring 2021 forecast) against the forecasts for the same year that underpinned the 2021 Budget projections in October 2020 (hereinafter referred to as the Autumn 2020 forecasts). This assessment aims to explain the main forecast revisions that were undertaken since October 2020. Data referred to in this section is shown in Table 2.1.

2.2.1 Statistical Revisions influencing the change in Macroeconomic Forecasts

The Budget projections of October 2020 carried a cut-off date for the inclusion of statistics and other information of 14 September 2020. As a result, forecasts were based on actual data for the first half of 2020 with 2020 being a forecast. In contrast, the cut-off date for the revised Spring forecasts of April 2021 was 7 April 2021 thus incorporating data for the whole of 2020 and the forecast period starting from the year 2021.

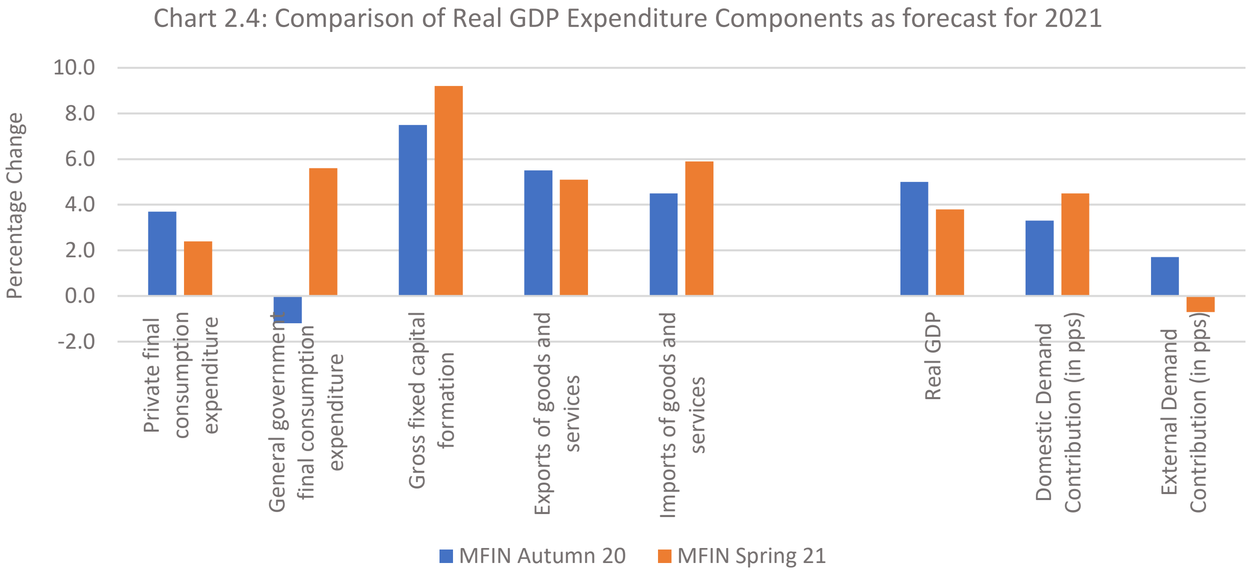
The most recent forecasts indicate a weaker than expected economic recovery for 2021. The headline real and nominal GDP growth rates have been substantially revised downwards from the Autumn 2020 forecasting session to the Spring 2021 forecasting session. In Autumn 2020, nominal and real GDP projections for 2021 were 6.4 per cent and 5.0 per cent, respectively, while in Spring 2020, economic growth was forecasted to be 5.9 per cent in nominal terms and 3.8 per cent in real terms.

2.2.2 Other developments influencing the change in Macroeconomic Forecasts

In the Autumn 2020 forecast, the outlook for 2021 assumed a gradual recovery in economic activity from the third quarter of 2020, and a modest recovery in 2021 assuming the distribution of an effective vaccine throughout the first and second quarters of 2021. However, as the virus persisted, the Spring 2021 forecast followed an assumption that 70 per cent of the population will be vaccinated by the third quarter of 2021 and that the economy will start to recover in the fourth quarter of 2021.

Whereas in Autumn 2020, growth in Malta's main trading partners was projected to be 4.6 per cent in 2021, weaker global growth and worsening economic conditions in the EU and globally resulted in a downwards revision of 0.2 percentage points, to 4.4 per cent. Moreover, forecasts for Spring 2021 assume a stronger Euro vis-à-vis the US Dollar as well as weaker Euro vis-à-vis the Sterling.

There were significant revisions on the domestic drivers of aggregate demand. In the Autumn Forecast domestic demand was still expected to contribute positively to GDP growth (3.3 per cent),



although to a lesser extent than that forecasted in Spring (4.5 per cent). This reflected a substantial upward revision in public expenditure and gross fixed capital formation which is expected to compensate for the lower contributions of private consumption.

The largest revision between the Autumn and the Spring forecast of 2020 was related to the net export performance. This reflected weaker exports and a stronger increase in imports reflecting the upward revision in domestic demand growth, particularly imports of investment goods. While the Autumn forecast was projecting a positive contribution from net exports of 1.7 per cent due to base effects following the strong reduction in 2020, a more adverse negative net exports balance of -0.7 percentage points was projected in Spring 2020.

Chart 2.4 provides a graphical comparison of the differences in the projected components of real GDP for 2021 as estimated by MFE in the Budget projections and the revised Spring 2021 projections.

2.2.3 Private Consumption Expenditure

The revised forecasts presented by MFE in Spring 2021 projected a decline in private consumption expenditure of 1.3 percentage points when compared to the Autumn 2020 forecasts. The revision was primarily underpinned by the closing down of non-essential outlets throughout the second quarter of the year.

2.2.4 Public Consumption Expenditure

Growth in government final consumption expenditure for 2021 has been revised upwards by 6.8 percentage points, to reach 5.6 per cent in the Spring forecast. This increase was mainly due to upward revisions attributed to intermediate consumption and compensation of employees and lower market output in the Spring forecast compared to the Autumn forecast.

2.2.5 Gross Fixed Capital Formation

The outlook for GFCF in 2021 has been revised upward from 7.5 per cent in Autumn 2020 to 9.2 per cent in Spring 2021. This revision is due to the fact that a number of investment projects have been deferred to 2021 in view of the uncertainty which prevailed in 2020.

2.2.6 External Balance of Goods and Services

In the Spring forecast, the gap between exports and imports of goods and services narrowed. While exports have been revised downwards in the forecast round carried out in April 2021, imports were revised upwards by a higher rate. Exports were adjusted downwards by 0.4 per cent, from 5.5 per cent to 5.1 per cent, reflecting the marginally more subdued outlook in Malta’s main trading partners, but in particular reflecting the prolonged re-opening of the tourism sector. Imports were revised upwards by 1.4 percentage points to 5.9 per cent, consistent with the upward revision in investment which induces demand for imports of investment goods.

2.2.7 Inflation and Labour Market Developments

Policy measures were instrumental to alleviate the impact of the pandemic on the labour market. However, employment growth projections have been revised downwards slightly by 0.1 percentage points from 2.3 per cent growth to 2.2 per cent in 2021, with a marginal rise in the unemployment rate (based on the Harmonised definition) to 4.3 per cent from the 4.0 forecasted in Autumn.

The latest Spring forecasts expect inflationary pressures to remain relatively unchanged when compared to the annual inflation rate forecasted in Autumn 2020, which stood at 1.3 per cent.

2.2.8 Potential Output and the Output Gap

Due to the current pandemic, in 2020, potential output growth stood at 2.8 per cent in 2020. As the economy is expected to gradually recover, Malta's potential output growth is projected to reach 3.4 per cent in 2021, which is 0.5 percentage points higher than what was projected in Autumn 2020. Accordingly, the estimate of the output gap (per cent of potential output) was revised downwards in 2020 to -5.4 per cent and is expected to reach -5.1 per cent in 2021 compared to the -3.5 per cent projected last Autumn.

2.3 Updated Risks to the Growth Outlook since Spring 2021

In view of the uncertainty perceived from the economic and epidemiological developments, the baseline forecast for 2021 contained in the 2021 Update of the Stability Programme is prudent, on the grounds that the forecast is used for fiscal projections. Such prudence is evident when comparing the baseline forecast with projections of other institutions. From a macroeconomic perspective, it is notable that the external outlook has improved since last April, suggesting that some upside risks are materializing. In particular, conditions in Malta's main trading partners have improved on the back of effective implementation of vaccination campaigns and sizable fiscal stimulus. This, along with a weaker euro relative to the dollar and the pound, should support stronger export growth. Tourism assumptions underlying the forecast are also considered to be on the cautious side, but the risks pertaining to tourism remain skewed towards the downside.

Retail and recreation mobility data suggest that in July, mobility has surpassed January 2020 for the first time. Sentiment indicators also show a sharp rebound since May, indicating that the economic recovery is picking up steam.

Furthermore, as borne by the literature, the decision in June by FATF to insert Malta in its list of countries identified as having strategic anti-money laundering (AML) deficiencies is not expected to have substantive negative economic effects over the short term. That said, since projections were already cautious at the time of preparation in April and given the potential materialization of upside risks from the external side, a revision in the macro-economic forecast is not deemed necessary at this stage. Forecasts will be updated for the next round in Autumn 2021.

3. The 2021 targets as established in the 2021 Draft Budget Plan and the 2020 Medium-Term Fiscal Plan

The assessment of developments against targets established in the 2021 Draft Budgetary Plan (2021 DBP) and the 2020 Medium Term Fiscal Strategy (2020 MTFS) is mainly undertaken in terms of data classified according to the European System of Accounts (ESA) 2010 and therefore actual data may still be subject to further revisions. It is worth noting that the macroeconomic and fiscal projections outlined in the 2021 DBP remained unchanged in the 2020 MTFS, since both publications were based on statistical information available up to end September 2020.

On 20 July 2020, the Council recommended Malta to take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery in 2021. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

In Autumn 2020, the Maltese economy was expected to grow by 5 per cent in 2021, driven by a recovery in both domestic and external demand.

Private consumption was set to rebound on the back of improving employment outlook and accelerating wage growth.

On this basis, the 2021 DBP targeted an improvement in the budget deficit to -5.9 per cent of GDP in 2021. In structural terms, the general Government balance was expected to reach -4.3 per cent in 2021. The projected fiscal improvement in 2021 was expected to be driven by the gradual economic recovery translating mainly into higher revenues from indirect taxes due to buoyant private consumption.

The phasing out of the temporary measures adopted to contain the negative impacts of the pandemic were expected to reduce primary expenditure, while capital outlays were projected to accelerate. The 2021 Budget built on already existing measures intended to sustain the recovery

and extended their duration and outlined new social-oriented measures and measures incentivising the circular economy, which for the most part, were expected to impact Government expenditure. The debt-to-GDP ratio was still expected to remain below the 60 per cent threshold at 58.6 per cent of GDP in 2021, reflecting the ongoing primary deficit and an additional contribution from the stock flow adjustment. Renewed GDP growth was expected to prevent an even larger rise of the debt-to-GDP ratio.

In the Commission opinion published on 18 November 2020, the Commission considered that the measures set out in the Draft Budgetary Plan of Malta supported economic activity against the background of considerable uncertainty and invited the authorities to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

4. Revised 2021 Targets as outlined in the 2021 Medium Term Fiscal Plan

The fiscal outcome in 2020, the evaluation of general Government budgetary developments during the current year, as well as the revised macroeconomic projections, constitute the basis for the revised projections for 2021 undertaken in April. Additional revisions also reflect the extension of some of the fiscal policy measures put in place to cushion the economic impact of the COVID-19 beyond their original deadline, and other additional measures for the current year.

Indeed, the general Government balance is now expected to worsen further in 2021, to a deficit of €1,630.4 million or 12.0 per cent of GDP. Indeed, the increase of 2.1 percentage points in the general Government expenditure ratio more than outweighs the expected marginal increase of 0.2 percentage points in the general Government revenue ratio. General Government budgetary execution and prospects in accordance with ESA standards are outlined in Table 4.1.

During 2021, the general Government deficit was revised upwards by €838 million, compared to the estimated deficit of €792.5 million outlined in the 2021 Draft Budget Plan. These developments reflect a more subdued than anticipated revenue outcome in 2020, which turned out €49 million lower than expected, as well as more subdued estimated macro-economic developments in 2021, which are estimated to result in €249 million lower tax revenue. These are expected to be in part offset by €84 million in additional revenue from the expected behavioural responses in respect to the relative tax bases, as well as the revised fiscal impact of fiscal policy measures. The principal revision compared to the estimates outlined in the 2021 Draft Budget Plan relates to taxes on production and imports, in particular revenue from VAT. For the most part, these revisions are related to the more subdued estimated macro-economic developments in 2021.

4.1 Base effect from 2020

Largely impacted by the COVID-19 pandemic and subsequent Government measures to mitigate the associated risks, the general Government balance for 2020 amounted to a deficit of €1,300.2 million, a worsening of €1,350.3 million over the surplus recorded in 2019. As a share of GDP, the general Government balance was equivalent to a deficit of 10.1 per cent, worsening by 10.5 percentage points when compared to the surplus of 0.4 per cent that was registered in 2019.

General Government Budgetary Execution and Prospects in Accordance with ESA Standards

The data for 2021Q2 was partly estimated and is to be considered as provisional

Table 4.1

	ESA Code	2020 Actual *€ 000*	2021 Budget Forecast *€ 000*	Jan-Jun 2020 Actual *€ 000*	Jan-Jun 2021 Provisional *€ 000*	2021 Revised Forecast *€ 000*
Net lending (+)/net borrowing (-)						
1. **General Government**	S.13	**-1,300,177**	**-788,004**	**-757,680**	**-669,899**	**-1,630,361**
2. Central Government	S.1311	-1,308,658	-786,791	-763,708	-670,178	-1,629,147
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	8,481	-1,213	6,028	279	-1,213
5. Social Security funds	S.1314	-	-	-	-	-
For the General Government						
6. **Total Revenue**	TR	**4,677,764**	**5,210,482**	**2,107,256**	**2,373,136**	**4,986,761**
Of which						
Taxes on Production and Imports	D.2	1,372,318	1,663,307	653,716	702,145	1,442,638
Current Taxes on Income, Wealth, etc.	D.5	1,689,836	1,857,505	733,850	887,671	1,772,255
Capital Taxes	D.91	22,618	24,353	10,596	14,331	17,623
Social Contributions	D.61	841,068	828,440	397,157	409,715	859,440
Property Income	D.4	92,576	82,909	43,413	35,104	79,229
Other [(a)]		659,348	753,969	268,524	324,169	815,577
7. **Total Expenditure**	TE	**5,977,940**	**5,998,794**	**2,864,936**	**3,043,035**	**6,617,122**
Of which						
Compensation of employees	D.1	1,566,566	1,668,114	771,796	814,556	1,702,943
Intermediate Consumption	P.2	1,221,504	1,222,727	529,321	608,276	1,340,189
Social Payments	D.6	1,202,929	1,390,890	701,933	725,895	1,410,753
Interest Expenditure	D.41	170,160	156,955	86,217	84,689	160,629
Subsidies	D.3	642,879	404,325	260,412	282,526	583,211
Gross Fixed Capital Formation	P.51	574,061	676,002	271,557	238,591	736,788
Capital Transfers	D.9	142,318	115,943	61,912	52,374	306,552
Other [(b)]		457,523	363,837	181,788	236,127	376,057
8. **Gross Debt** [(c)]		**6,958,938**	**7,825,460**	**6,641,169**	**8,005,771**	**8,828,398**

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).

General Government Budgetary Developments in 2021

Divergence from previous forecasts

(Millions of Euro)

Table 4.2

	ESA Code	DBP 2021 compared to USP 2021 Divergence due to outturn in *t-1*	Divergence due to updated macro-economic projections	Other revisions	**Total forecast revision**
Net lending (+)/net borrowing (-)					
1. **General Government**	S.13	**-49**	**-130**	**-659**	**-838**
2. Central Government	S.1311	-49	-130	-659	-838
3. State Government	S.1312	-	-	-	-
4. Local Government	S.1313	0	0	0	0
5. Social Security funds	S.1314	-	-	-	-
For the General Government					
6. **Total Revenue**	TR	**-49**	**-149**	**-16**	**-215**
Of which					
Taxes on Production and Imports	D.2	-25	-145	-50	-221
Of which					
Value Added Type Taxes (VAT)	D.211	-5	-104	-15	-125
Taxes on Financial and Capital Transactions	D.214C	1	-43	11	-31
Current Taxes on Income, Wealth, etc.	D.5	-83	19	-21	-85
Of which					
Taxes on Individual or Household Income	D.51M	123	-39	-23	61
Taxes on the income or profits of Corporations	D.51O	-204	58		-146
Capital Taxes	D.91	4	-7	-4	-7
Social Contributions	D.61	55	-16	2	40
Of which					
Employers' Actual Pension Contributions	D.611	12	-4	7	16
Households' actual social contributions	D.613	44	-13	-15	15
Property Income	D.4			-4	-4
Other [(a)]				62	62
7. **Total Expenditure**	TE		**-19**	**642**	**623**
Of which					
Compensation of employees	D.1			35	35
Intermediate Consumption	P.2			119	119
Social Payments	D.6		-19	42	23
Of which					
Unemployment expenditure			-19		-19
Interest Expenditure	D.41			4	4
Subsidies	D.3			178	178
Gross Fixed Capital Formation	P.51			60	60
Capital Transfers	D.9			191	191
Other [(b)]				12	12

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.

The headline balance fell short of the target of a deficit of 9.4 per cent of GDP presented in the 2020 MTFS and 2021 DBP. Compared to the Autumn 2020 projections, taxes on corporate income and indirect taxes turned out lower than expected and were only partly outweighed by stronger-than-expected social contributions. Expenditure turned out lower than planned despite higher than planned investment outlays and interest expenditure. Indeed, lower than planned expenditure was recorded for most remaining components of expenditure. Because of these developments, the general Government balance in 2021 was revised downwards by €49 million, to reflect the outturn in 2020.

Table 4.2 disaggregates the changes to the 2021 forecasts compared to the 2021 Draft Budget Plan due to the impact of the actual outturn in 2020 (base effect) on tax revenue, the macroeconomic determinants (mainly the impact of the pandemic on the economy and the resultant budgetary impact), and other changes (mainly capturing the fiscal impact of COVID-related support measures).

4.2 Budgetary implications of economic developments

In view of updated macro-economic projections for 2021, in Spring 2021 general Government revenue was revised downwards by €149 million. Indeed, consumption is expected to recover more gradually in 2021, as growth is expected to be driven mainly by the recovery in exports and investment and supported by the Government stimulus measures which were extended from last year. Consequently, revenue from taxes on production and imports was revised downwards by €145 million. Other less significant revisions to revenue components included an aggregate €23 million downward revision to revenue from capital taxes and from social contributions. Meanwhile, €19 million higher revenue from taxes on income is expected in 2021 from revisions to the outlook for tax bases when compared to the levels estimated in Autumn 2020. Whilst compensation of employees was revised downwards, affecting negatively individual taxes on income, this was more than compensated for by the upward revision in gross operating surplus, affecting positively corporate income taxes.

4.3 National policy response to COVID-19 and other revisions

Several policy measures which had been put in place to cushion the impact of the pandemic in 2020, were extended in 2021. Indeed, in the case of companies and self-employed persons that suffer a significant downturn in their turnover and liquidity because of the economic constraints arising from the coronavirus pandemic, the settlement of provisional tax, social security contributions of self-employed persons and Value Added Tax falling due in August 2020 up to and including December 2021 was extended, such that eligible taxes may be settled from May 2022 with no interest or penalties charged. Both the COVID-19 Business Assistance Programme and the reduced tax rates applicable on the transfer of immovable property were also extended and widened in scope. New incentives underpinning the Tourism Recovery Plan are now also in place to support the tourism industry, which was severely hit by the pandemic.

Budget 2021 measures in support of the recovery originally accounted for 2.2 per cent of GDP but were later extended to a total stimulus of 5.3 per cent of GDP, inclusive of the support to the national airline. Of the 2021 measures, 4.6 per cent of GDP are temporary in nature. Such unprecedented support avoided mass corporate insolvencies or significant layoffs which could have seriously damaged the economy and undermined fiscal sustainability.

These measures feature primarily as 'other revisions' in Table 4.2 and are outlined in detail in Table 4.3.

It is however worth noting that 'Other Revisions' on the revenue side also feature additional revisions which reflect a revised assessment of the behavioural response of the tax base (technically change in elasticity assumptions). Some of these revisions are in effect also the result of the pandemic.

4.4 Developments to date and other revisions

General Government accrual data for the second quarter of the year is not fully available by the deadline date and is therefore based on provisional estimates. Data referred to in this section is also shown in Table 4.1.

Discretionary measures adopted/announced up to end April 2021[1]

Table 4.3

	Measures	ESA Code (Expenditure / Revenue component)	Date of adoption	Budgetary Impact (% of GDP - change from previous year) 2020	2021
Temporary measures[2]	Reduced tax on the transfer of immovable property	D2, D5 - R	2020 - 2021	-0.4	0.2
	Reduced Excise Duty	D2 - R	2020	-0.1	0.1
	Budget measures enabling business activity	D2 - R	2019 - 2021	0.0	-0.1
	Various medical supplies and equipment in relation to COVID-19	P2 - E	2020 - 2021	-0.6	0.2
	Cargo Transportation and Repatriation	P2 - E	2020	-0.4	0.4
	Tourism Regeneration Plan	D3 - E	2021	0.0	-0.1
	Short Term Social Measures	D6 - E	2020	-0.1	0.1
	COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme	D3 - E	2020 - 2021	-3.3	0.8
	Subtotal			-4.9	1.5
Non-temporary measures[2]	Revenue from the Individual Investor Programme	P10 - R	2014	-0.2	-0.1
	Government-guaranteed loans schemes	D3 - E	2020	0.0	-0.1
	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society; cash payments by Government to households	D6 - E	2016 - 2021	-0.6	-0.1
	Financial support to the national airline	D9 - E	2021 - 2022	0.0	-1.0
	Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund			-0.1	0.0
	Subtotal			-1.0	-1.3
	Total			**-5.9**	**0.2**

[1] Excluding those measures that are planned to be financed by grants under the RRF.

[2] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond 2022, i.e. have a fiscal effect of 0.1% of GDP or lower

During January to June 2021, general Government revenue is estimated to have increased by €265.9 million or 12.6 per cent over the comparable period in 2020. This increase is mainly on account of higher tax revenue and ‘other’ revenue, in particular market output and capital transfers receivable, in part offset by a decline in property income. In the first half of 2021, 48 per cent of the revised projected revenue was collected, compared to 45 per cent in the comparable period last year. Moreover, tax revenue and social contributions are relatively more buoyant than expected, particularly compared to developments during H1 2020. What follows is a more detailed review of the main components underlying the variances with successive projections.

Revised 2021 Estimates

As a result of various factors, mainly the lower revenues and higher expenditure due to COVID-19, in 2021, the fiscal target of Government has been revised from a deficit of 5.9 per cent of GDP announced in the 2021 Budget to a 12.0 per cent of GDP deficit. The deficit in the Consolidated Fund has been revised to a deficit of €1.588 billion, while the general Government budget deficit in ESA terms was revised to a deficit of €1.630 billion.

Table 1 shows the revenue and expenditure performance for the first six months of 2021 as compared to the same period in 2020 incorporating also the respective revised positions for 2021 as compared to the original budget which was approved in December 2020. The revised position is based on the outturn for 2020, the revised macroeconomic forecasts and factors in, additional exceptional outlays due to COVID-19, amongst other parameters. It may be noted that these variances were already reflected in the 2021 - 2024 Stability Programme for Malta which was published in April this year.

Revenue

A decrease in revenue equivalent to 2.85 per cent of GDP is expected to ensue by the end of 2021, when compared to the original budget. By way of tax revenue, owing to the economic slowdown, the originally approved amounts under Income Tax, Customs and Excise, Value Added Tax as well as Licences, Taxes & Fines have been revised downwards partially compensated by an increase under Social Security Contributions by a total €404.28 million, based on revenue performance to-date and in reflection of expected economic activity up to the end of the year.

An increase of €16.77 million is projected in the total amounts to be received under the Non-Tax Revenue category that affect the targeted fiscal balance, mainly due to higher expected EU funding reimbursements by year end.

Recurrent Expenditure

When compared to the original budget, a net increase in recurrent expenditure equivalent to 2.62 per cent of GDP is expected to ensue by the end of 2021.

Disaggregated according to the respective recurrent expenditure categories, the factors contributing to this variance amounted to +€13.31 million under Personal Emoluments, +€19.07 million under Operational and Maintenance Expenses, +€297.3 million under Programmes & Initiatives, +€32.3 million under Contribution to Government Entities and no significant changes in Interest Payments.

The revised estimates for the Operational and Maintenance Category includes supplementary funding under Contractual Services. Higher sums required under the Programmes and Initiatives category are required mainly due to additional supplies required as part of the pandemic plant, as well as the extension of the existing social and economic support measures announced by Government in respect of the mentioned plan. Higher outlay is also expected to result under the Contributions to Government Entities category, mainly to support the tourism and cultural sector in response to 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.

Capital Expenditure

A net increase in capital expenditure of €88.8 million, equivalent to 0.65 per cent of GDP is expected to ensue by the end of 2021, when compared to the original budget.

This variance includes higher 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.

General Government Adjustments

Whilst no changes expected in the total amount of the general Government adjustments, the components therefore have been revised to factor in the effect of the tax deferral schemes as extended by Government as well as the support to the national airline which is under consideration.

Central Government Finances - Consolidated Fund

Table 1

	Jan - Dec 2020 *Actual* € 000	Jan - Dec 2021 *Approved Estimates* € 000	Jan - Jun 2020 *Actual* € 000	Jan - Jun 2020 *Actual as a % of 2020*	Jan - Jun 2021 *Actual* € 000	Jan - Jun 2021 *Actual as a % of 2021*
Revenue	**4,399,017**	**5,198,002**	**1,819,329**	**41.4**	**2,162,087**	**41.6**
Tax Revenue	**3,953,012**	**4,599,000**	**1,596,621**	**40.4**	**2,008,218**	**43.7**
Indirect Tax Revenue	*1,352,030*	*1,719,000*	*627,568*	*46.4*	*749,945*	*43.6*
Customs and Excise Duties	264,415	344,000	118,177	44.7	133,609	38.8
Licenses, Taxes, and Fines	310,336	381,000	147,763	47.6	155,225	40.7
Value Added Tax	777,279	994,000	361,628	46.5	461,111	46.4
Direct Tax Revenue	*2,600,982*	*2,880,000*	*969,053*	*37.3*	*1,258,273*	*43.7*
Income Tax	1,536,850	1,793,000	556,985	36.2	746,689	41.6
Social Security	1,064,132	1,087,000	412,068	38.7	511,584	47.1
Non-Tax Revenue	**446,005**	**599,002**	**222,709**	**49.9**	**153,870**	**25.7**
Fees of Office	116,530	122,041	55,274	47.4	47,916	39.3
Sales	36,868	42,096	14,699	39.9	10,508	25.0
Reimbursements	4,045	4,573	1,520	37.6	1,608	35.2
Central Bank of Malta	31,500	33,000	20,000	63.5	20,000	60.6
Rents	34,791	33,680	14,906	42.8	12,416	36.9
Dividends on Investments / Receipts	26,060	44,100	12,660	48.6	8,250	18.7
Interests on Loans made by Government	9	276	7	77.8	1	0.4
Grants	110,837	263,503	54,531	49.2	27,983	10.6
Miscellaneous	85,365	55,733	49,112	57.5	25,188	45.2
Total Expenditure (1)	**5,868,637**	**5,954,541**	**2,714,959**	**46.3**	**3,010,949**	**50.6**
Recurrent Expenditure	**4,650,281**	**4,971,899**	**2,235,011**	**48.1**	**2,651,883**	**53.3**
Personal Emoluments	987,034	1,042,922	454,364	46.0	516,040	49.5
Operations and Maintenance	268,536	245,756	131,235	48.9	127,374	51.8
Programmes and Initiatives	2,774,062	3,042,332	1,348,883	48.6	1,675,218	55.1
Contributions to Government Entities	620,649	640,889	300,529	48.4	333,251	52.0
Interest Payments	**181,205**	**189,825**	**93,085**	**51.4**	**90,524**	**47.7**
Capital Expenditure	**1,037,151**	**792,817**	**386,863**	**37.3**	**268,542**	**33.9**
Foreign Funds	147,385	190,546	55,467	37.6	36,372	19.1
National Funds (incl Co Financing)	889,766	602,271	331,396	37.2	232,170	38.5
Consolidated Fund Balance	**-1,469,620**	**-756,539**	**-895,630**		**-848,862**	

Notes:

af - Autumn Forecasts (Approved Estimates)

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

Revenue from current taxes on income and wealth is estimated to have increased by €153.8 million. The implied growth rate of 21 per cent in current taxes on income and wealth recorded during the first half of the year is significantly stronger than the growth rate of 7.9 per cent projected in Autumn 2020 for the entire year. It is also noted that in the first half of 2021, 48.0 per cent of the approved estimates for the whole year is estimated to have accrued, whereas in the comparable period last year 43 per cent of the yearly proceeds had been accrued. On the basis of the revised Spring 2021 projections, 50.0 per cent of the revised estimates for 2021 are estimated to have accrued. These indicators show that the performance in the first half of the year is broadly in line with expectations.

Revenue from taxes on production and imports is estimated to have recorded an increase of €48.4 million or 7.4 per cent during the first six months of 2021. To take into consideration the significantly lower than budgeted tax revenue in 2020, revenue from indirect taxation was revised downwards in Spring 2021. Accordingly, growth in this component of revenue, which was projected at 17.7 per cent in the 2021 Budget, was reduced to 5.1 per cent, to reflect the extension of temporary property-related fiscal measures in 2021, as well as the more prolonged than originally expected recovery in the tourism industry. In the first half of 2021, 42 per cent of the approved target (equivalent to 49 per cent of the revised target) for the year is estimated to have been collected, compared to a ratio of 48 per cent a year earlier. Of the €702.1 million in revenue collected from taxes on production and imports, €439.5 million relate to Value Added Tax (VAT) proceeds, as revenue from VAT for the January to June 2021 period is estimated to have registered a growth rate of 16.8 per cent. These indicators suggest that taxes on production and imports are in line with revised targets, although VAT is exceeding expectations.

During the first half of 2021, revenue from social contributions is estimated to have increased by 3.2 per cent or €12.6 million, compared to a projected increase of 3.8 per cent forecast for the whole year in Autumn 2020. Revenue projections for social contributions were revised upwards in Spring 2021 to take into consideration higher than budgeted tax revenue in 2020. However, an element of prudence was sustained by way of more conservative growth targets for 2021, such that growth in this component of revenue was revised downwards to 2.2 per cent in 2021. In the first half of 2021, 49 per cent of the approved target for the year (equivalent to 48 per cent of the revised revenue target) is estimated to have been collected, compared to a ratio of 47 per cent a year earlier. These indicators suggest that the revised targets remain relevant.

Meanwhile, other revenue is estimated to have increased by €55.6 million, mainly reflecting the increase in market output of €41.2 million and in estimated capital transfers and investment grants amounting to €21.8 million, in part offset by lower other current transfers amounting to €7.3 million.

During the first two quarters of 2021, general Government expenditure is estimated to have increased by €178.1 million, or 6.2 per cent, compared to the same period of 2020. Overall expenditure in the first half of the year was 46 per cent of the revised budget target whereas in the same period last year 48 per cent of total expenditure outlays for the year had been spent in the first six months. Higher outlays are mainly recorded towards intermediate consumption, ‘other expenditure’ and compensation of employees, in part offset by lower expenditure on gross fixed capital formation, compared to the same period in 2020. What follows is a more detailed review of the main components underlying the variances with successive projections.

Expenditure on intermediate consumption has increased by €79.0 million during the first half of 2021, such that intermediate consumption expenditure during the January-June 2021 period amounted to 50 per cent of the approved target for the year, compared to a ratio of 43 per cent during the same period in 2020. Nevertheless, the share to annual expenditure declines to 45 per cent when compared to the revised target expenditure for 2021. Developments in intermediate consumption primarily reflect expenditure by central Government made in respect of ad hoc programmes run by Government and payments for the provision of services, as well as contributions towards Government Entities and capital expenditure classified under this category of expenditure. It also includes expenditure by Extra-Budgetary Units recorded during the January-June 2021 period. Additional expenditure is recoded towards both Covid and non-Covid related health expenditure, as well as towards the care for the elderly.

‘Other’ expenditure is estimated to have increased by €54.3 million during the first two quarters of 2021 primarily on account of higher current transfers, which have increased by €51.6 million compared to the same period in 2020. These developments primarily reflect higher EU Own

Resource payments and a higher contribution to Church schools.

In spite of a €42.8 million increase in expenditure on compensation of employees, this is estimated to have increased by 5.5 per cent during the first half of 2021, less buoyant than the projected increases of 5.6 per cent and 8.7 per cent estimated in Autumn 2020 and Spring 2021, respectively. Indeed, during the first six months, outlays in respect of this item of expenditure amounted to 49 per cent of the approved target for the year (or the equivalent of 48 per cent of the revised target for this category of expenditure), compared to a ratio of 49 per cent a year earlier. These indicators suggest that in the first half of the year compensation of employees is marginally lower than the revised targets. These indicators suggest that the performance in this category is in line with the revised projections.

Expenditure on gross fixed capital formation declined by €33.0 million during the first six months of 2021, mainly underpinned by lower expenditure on projects in part financed from EU funds, as well as domestically financed capital expenditure. As a result, over the first six months of 2021, the Government has spent around 35 per cent of the approved expenditure for 2021 (equivalent to 32 per cent of the revised target for gross fixed capital formation), as compared to 47 per cent over the comparable period in 2020. Although outlays are below expectations, the seasonal element is less predictable for this item of expenditure and a further revision is not deemed warranted at this stage.

5. Debt developments and targets

The following section provides information on the debt developments and the components of General Government debt in the first six months of 2021, and a comparison of the revised forecasts of debt for the entire year with the 2021 Budget targets. It also provides details on the main developments in the Eurozone sovereign bond market and in the domestic Malta Government Stocks (MGS) market in the first half of 2021.

5.1 Debt Developments

As outlined in Table 5.1, in 2020, the debt-to-GDP ratio increased by 12.8 percentage points to 54.8 per cent of GDP, reflecting the impact of the COVID-19 pandemic and the subsequent Government measures set to mitigate the economic, social and health risks associated with it.

Compared to the Autumn targets set for the 2021 budget, the estimated general Government debt-to-GDP ratio for 2021 has been revised upwards by 10.2 percentage points, to 65.0 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 expansionary impact of the primary balance on the debt-to- GDP ratio increased from 4.7 percentage points in 2021 Budget estimates to 10.8 percentage points in the 2021 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 the 2020 autumn estimate thus marginally lower than that reported for 2020. The expansionary impact of the stock flow adjustment on the debt-to-GDP ratio has increased by 0.7 percentage points in the 2021 revised projections when compared to the 2021 estimates presented in the Budget.

The implicit interest rate on debt remained constant at 2.3 per cent, as presented in the 2021 Budget estimates. The share of maturing stock in total Government debt is 5.2 per cent.

5.2 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

General Government (S.13) Debt Developments and Prospects

Table 5.1

	ESA Code	2020 % GDP	2021[af] % GDP	2021[sf] % GDP
1. **Gross Debt**[(a)]		**54.8**	**58.6**	**65.0**
2. Change in Gross Debt ratio		12.8	3.6	10.2
Contributions to changes in Gross Debt				
3. Primary Balance		8.9	4.7	10.8
4. Interest Expenditure	D.41	1.3	1.2	1.2
5. Stock-flow adjustment		-0.3	1.1	1.8
p.m.: Implicit interest rate on debt[(c)] (%)		3.0	2.3	2.3
Other relevant variables				
Percentage of debt related to foreign loans[(d)] (%)		1.7	3.1	2.8
Average MGS maturity (years) [(e)]		8.6	-	8.5
Real GDP growth (%)		-7.8	5.0	3.8

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 2021[sf], data refers to position as at end June 2021.

levels remain sustainable while simultaneously minimising short, medium and long-term gross debt and interest rate risks.

Annex Table 9 illustrates the Statement of General Government sector debt. Actual General Government public debt as of 30 June 2021 stood at €8,005.77 million. The outstanding consolidated MGS increased by €866.60 million (further information on this increase can be obtained from section 8.4). The outstanding Malta Government Retail Savings Bonds balance stood at €378.10 million, an increase of €89.77 million, whilst the stock of T-Bills decreased by €15.25 million and stood at €782.25 million as at end June 2021 (further information on this increase can be obtained from section 8.4). The outstanding levels of debt held by EBU's and Local Councils decreased by circa €9.02 million whilst the level of Euro coins issued in the name of the Treasury went up by €0.74 million when compared to the coin stock as at the end of June 2020. The foreign loans outstanding balance (99.99% denominated in euro) as of 30 June 2021 stood at €420.78 million up by €419.89 million over the corresponding period of last year.

The increase in foreign loans represents amounts borrowed from the European Commission on favourable terms under the SURE instrument across three transactions held in November 2020 (€120 million), March (€123 million) and May 2021 (€177 million).

The SURE instrument was established under Council Regulation (EU) 2020/672 in May 2020 and was intended to provide temporary support to EU member states to mitigate unemployment risks in an emergency in response to the Covid-19 outbreak.

5.3 Main developments in the Euro zone sovereign bond market during H1-2021

The COVID-19 pandemic and its economic ramifications continued to dominate euro area sovereign debt markets during the first half of 2021. Long-term sovereign bond yields in the euro area increased somewhat during January but remained at historical low levels overall. The GDP-weighted euro area ten-year sovereign bond yield increased by 5 basis points to -0.19%. Euro area sovereign bond spreads relative to risk-free rates remained broadly unchanged. Specifically, ten-year German, French, Italian, Spanish and Portuguese sovereign spreads moved by 0, -3, -1, -2 and -2 basis points respectively to reach -0.27, -0.05, 0.84, 0.33 and 0.29 percentage points. The GDP-weighted euro area ten-year sovereign spread (relative to the corresponding risk-free rate) consequently decreased by 2 basis points to 0.06 percentage points and remained below its February 2020 level.

An acceleration in the pace of vaccination during spring, together with the envisaged relaxation of containment measures, underpinned expectations of a rebound in economic activity and inflation. As a result, euro area long-term sovereign bond yields increased by the end of March. The GDP-weighted euro area ten-year sovereign bond yield increased by 28 basis points to reach 0.03%. The long-term spreads of euro area sovereign bonds relative to overnight index swap (OIS) rates remained fairly stable, as yields increased largely in lockstep with risk-free rates in most jurisdictions. Italian and Portuguese ten-year spreads narrowed by 12 and 1 basis points, to stand at 0.73% and 0.30%, respectively. Over the same period, the German, French and Spanish ten-year spreads marginally increased by 1, 1 and 6 basis points and reached -0.26%, -0.01% and 0.41%, respectively. With underlying price pressures remaining below the ECB's inflation target, the Governing Council of the ECB signalled that PEPP purchases would be conducted at a significantly higher pace after its March meeting, to prevent a premature tightening of financing conditions. All the other monetary policy tools were kept unchanged.

The EONIA and the new benchmark euro short-term rate (€STR) averaged -48 and -57 basis points respectively between mid-March and late April. Over the same period, the EONIA forward curve reflected continued market expectations of a prolonged period of negative short-term interest rates. Long term euro area sovereign bond yields increased slightly during this period, but remained at low levels overall. The GDP-weighted euro area and the German ten-year sovereign bond yields increased by 9 and 7 basis points to 0.08% and -0.26% respectively, showing little reaction to the March ECB meeting or to adverse pandemic-related news. Ten-year German, French and Spanish spreads moved by 1, 3 and 3 basis points respectively to reach -0.26, -0.01 and 0.40 percentage points, while the Italian spread increased by 9 basis points to stand at 0.76 percentage points. Consequently, the GDP-weighted euro area ten-year sovereign spread increased by 3 basis points to 0.08 percentage points, which was still below its pre-pandemic level of February 2020.

Euro area sovereign bond yields increased somewhat during May and June, mainly due to less negative term premia, the improving public health situation and more optimistic economic outlooks. The GDP-weighted euro area ten-year sovereign bond yield increased by 14 basis points to reach 0.13%. The increase of long-term euro area sovereign bonds spreads relative to OIS rates was moderate. While the widening of yield spreads can partly be attributed to an increase in credit risk premia, more recent gyrations may likewise be related to speculation about PEPP purchases adjustments as well as significant sovereign bond supply. The increase in sovereign spreads has been broad-based across countries, with Italian, Portuguese and French ten-year spreads increasing by 16, 15 and 15 basis points to stand at 0.83%, 0.40% and 0.11% respectively. Over the same period, German and Spanish ten-year spreads increased by 3 and 4 basis points to reach -0.25% and 0.41% respectively.

5.4 Primary Market

The situation going forward continues to be overshadowed with uncertainty with respect to both the duration of the virus as well as the intensity at which it reproduces. As a result of the extension of several pandemic-related policy support measures intended to cushion the impact of the pandemic beyond the period contemplated in the 2021 Budget together with newly introduced incentives targeted at encouraging growth potential activities such as the Tourism Recovery Plan, the government was compelled to revise upwards the maximum amount that it could borrow during the current year from €1.1 billion to a sum not exceeding €2.1 billion [The Budget Measures Implementation Act (Cap. 624 of the Laws of Malta)]. Moreover, on 28 June 2021, Parliament approved the increase in the capping of outstanding T-Bills at any time from €1 billion to €1.3 billion. 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, market functioning and shifting demand preferences. During the first semester of 2021, the Treasury tapped the capital market three times in February, May and in June (settling in July).

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 €180 million, with an over-allotment option of a further €120 million. Total participation in the first MGS issuance of the year amounted to €408.8 million (€241.4 million in the 0.40% MGS 2027 (IV), €85.4 million in the 1.00% MGS 2035 (II) and €82.0 million in the 1.40% MGS 2046 (I), resulting in a bid-to-cover of 2.27x. In this issuance, the Treasury allotted €300 million - € 146.6 million in the 0.40% MGS 2027 (IV), €77.4 million in the 1.00% MGS 2035 (II) and €76.0 million in the 1.40% MGS 2046 (I).

In the May MGS issue the Treasury offered three fixed-rate stocks a new 5-year stock the 0.25% MGS 2026 (III) and re-offered again the 1.00% MGS 2031 (II) which was first offered in February 2020 and re-offered again the 1.40% MGS 2046 (I) which was first offered in February 2021. This issuance was offered via a competitive auction targeting institutional investors.

The amount on issue was €180 million, with an over-allotment option of a further €120 million. Total participation in the second MGS issuance of the year amounted to €393.3 million (€172.1 million in the 0.25% MGS 2026 (III), €141 million in the 1.00% MGS 2031 (II) and €80.2 million in the 1.40% MGS 2046 (I), resulting in a bid-to-cover of 2.19x. In this issuance, the Treasury allotted €300 million - €150.1 million in the 0.25% MGS 2026 (III), €80.1 million in the 1.00% MGS 2031 (II) and €69.8 million in the 1.40% MGS 2046 (I).

In the June MGS issue which was offered via a combined issuance targeting both the retail and institutional investors, the Treasury offered two fixed-rate stocks the 0.25% MGS 2026 (III) which was first offered in May 2021 and a new 30-year MGS, the 1.8% MGS 2051 which is the longest stock in the MGS portfolio.

The amount on issue was €50 million, with an over-allotment option of a further €30 million. Total participation in the third MGS issuance of the year amounted to just below €103.58 million (€56.11 million in the 0.25% MGS 2026 (III), and €47.46 million in the 1.80% MGS 2051 (I)), resulting in a bid-to-cover of 2.07x. In this issuance, the Treasury allotted just below €60.58 million – (i) €13.61 million in the 5-year MGS, and (ii) €46.96 million in the 30-year MGS 2051. The June auction settled in July 2021.

By end of June, between the two MGS issuance held in February and May and two tranches of the SURE instrument, the Treasury raised 42.9% of the expected revised funding requirements for this year which according to current fiscal projections are not expected to exceed €2.1 billion.

As of 30 June 2021, the Weighted Average Maturity (WAM) of the MGS portfolio which represents 80.0% of the total Central Government Debt Portfolio [1] stood at 8.5 years, similar to that reported at end of June 2020. 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 2021 stood

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

at 7.7 years against 7.2 years registered in June 2020.

5.4.1 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 just below € 0.98 billion (nominal), €140 million less than the amount issued in H1-2020. These were mostly allotted in the 91-day tenor (62.3%). During the first six months of the year, the 91-day-tenor was issued at weighted average rate of minus 0.461%.

The total redemptions in the first six months of the year amounted to €835.5 million (2020: €566 million).

In H1-2021, all T-Bills issuances were allotted at negative interest and the Treasury earned just below €1.79 million in negative interest (2020: €1.25 million).

6. Compliance with the provisions of the Stability and Growth Pact and the Fiscal Responsibility Act

Malta is subject to domestic fiscal rules, as set out in the Fiscal Responsibility Act 2014 (FRA), and the EU fiscal rules. Both sets of rules envision scenarios in which the Government needs to use fiscal resources to respond to circumstances beyond its control, or alternatively, respond to a severe economic downturn.

This report is drawn up in the context of the activation of the general escape clause of the Stability and Growth Pact in March 2020, which allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, if this does not endanger fiscal sustainability in the medium term.

6.1 Exceptional Circumstances under the Stability and Growth Pact

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact, given the expected severe economic downturn resulting from the COVID-19 outbreak, to grant Member States budgetary flexibility to deal with the crisis. On 20 July 2020, the Council recommended Malta to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. On 17 September 2020, in its Annual Sustainable Growth Strategy, the Commission announced that the general escape clause would remain active in 2021.

On 15 October 2020, Malta submitted its 2021 Draft Budgetary Plan, outlining the economic and budgetary projections for the forthcoming year. On 18 November 2020, in its Opinion on the 2021 Draft Budgetary Plans the Commission considered that the Draft Budgetary Plan of Malta was overall in line with the fiscal policy recommendations adopted by the Council on 20 July 2020, and that most of the measures included in the plan supported economic activity against the background of considerable uncertainty.

On 3 March 2021, the Commission adopted a Communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes.

The Commission Communication of 2 June 2021 on economic policy coordination indicates that the general escape clause of the Stability and Growth Pact will continue to be applied in 2022 and is expected to be deactivated as of 2023.

6.1.1 Assessment of Compliance with the provisions of the Stability and Growth Pact

On 30 April 2021, Malta submitted its 2021 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97. In its 2021 Stability Programme, the government plans an increase in the general Government deficit from 10.1 per cent of GDP in 2020 to 12.0 per cent of GDP in 2021, while the debt ratio is planned to increase to 65.0 per cent of GDP. The worsening in the Government's budgetary position reflects the budgetary impact of discretionary budgetary measures in support of the economy, in line with the Council Recommendation of 20 July 2020, and the operation of automatic stabilisers.

At the current juncture, no decision has been taken to place Member States under the excessive deficit procedure, considering the high uncertainty, the agreed fiscal policy response to the COVID-19 crisis and the Council Recommendations of 20 July 2020. As a result, Malta and all other Member States have been allowed to deviate from the fiscal targets and the fiscal rules without being warned or sanctioned. This flexibility allowed the EU and its Member States to mitigate the socio-economic impact of the COVID-19 pandemic. It is the Commission's intention, as stated in its Communication on 2 June 2021, to reassess the budgetary situation in Member States based on the Autumn 2021 Economic Forecast, and the 2022 Draft Budgetary Plans to be submitted by euro area Member States by 15 October 2021.

6.2 Exceptional Circumstances under Malta's Domestic Budgetary Rules

The FRA allows for deviation from the budgetary rules if exceptional circumstances exist. Article 2(1) of the FRA defines exceptional circumstances as:

a period during which an unusual event outside the control of the State has a major impact on the financial position of the general government, or

a period of severe economic downturn, within the meaning of the Stability and Growth Pact.

The SGP defines a severe economic downturn as 'negative real growth of GDP or as an accumulated loss of output during a protracted period of very low real growth of GDP relative to its potential'.

As a result, any decision to activate the general escape clause at a European level has the same effect as a formal announcement by Government on the presence of exceptional circumstances. In line with the Council agreement, the Maltese Government indicated the suspension of budgetary constraints set by national fiscal rules, as part of the effort to accommodate the budgetary implications of the outbreak, in the 2020 Update of the Stability Programme.

6.2.1 Assessment of Compliance with the provisions of the Fiscal Responsibility Act

The Malta Fiscal Advisory Council (MFAC) considers that the situation of 'exceptional circumstances' as defined in the FRA persists. The assessment of compliance with the fiscal rules by the MFAC is 'temporarily suspended until the general escape clause is revoked and the situation is no longer considered as exceptional'.

7. Statistical Annex

Main Macroeconomic Indicators

Table 1

	2018[1]	2019[1]	2020[1]	2021[af]	2021[sf]
GDP growth at current Market Prices (%)	**7.5**	**7.9**	**-6.5**	**6.4**	**5.9**
GDP growth at chain-linked volumes by period (reference year 2010)	**5.2**	**5.5**	**-7.8**	**5.0**	**3.8**
Expenditure Components of GDP chain-linked volumes by period (reference year 2010)					
Private Final Consumption Expenditure[2]	9.1	4.5	-8.0	3.7	2.4
General Government Final Consumption Expenditure	12.1	14.7	15.2	-1.2	5.6
Gross Fixed Capital Formation	3.2	8.5	-7.1	7.5	9.2
Exports of Goods and Services	-0.6	7.0	-7.0	5.5	5.1
Imports of Goods and Services	0.5	8.5	-3.3	4.5	5.9
Contribution to GDP growth:					
Domestic Demand	6.6	6.2	-2.5	3.3	4.5
Inventories	0.0	0.1	0.6	0.0	0.0
Net Exports	-1.5	-0.8	-5.8	1.7	-0.7
Inflation rate (%)	**1.7**	**1.5**	**0.8**	**1.3**	**1.3**
Employment growth (%)[3]	**6.7**	**7.7**	**3.6**	**2.3**	**2.2**
Unemployment rate (%)	**3.7**	**3.6**	**4.3**	**4.0**	**4.3**
Potential GDP growth	**5.4**	**5.0**	**2.8**	**2.9**	**3.4**
Output Gap	**4.8**	**4.6**	**-5.4**	**-3.5**	**-5.1**

Notes:

af - Autumn (Budget) Forecasts

sf - Spring (Revised) Forecasts

(1) Actual data Source: NSO News Release No. 097/2021 - GDP Release 2021/Q1

(2) Includes NPISH final consumption expenditure

(3) Employment based on National Accounts Definition.

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

Table 2

	Jan-June 2020 *Actual* *€ 000*	Jan-June 2021 *Actual* *€ 000*
Consolidated Fund[2]	**-895,643**	**-848,862**
1. **Total Revenue**	**1,696,632**	**1,994,427**
Taxes, of which:	1,187,150	1,484,508
Current Taxes on Income, Wealth, etc	584,606	777,516
Taxes on Production and Imports, of which:	602,543	706,992
VAT	361,628	459,055
Social Contributions	342,271	357,312
Market Output	69,107	69,841
Current Transfers	2,556	3,176
Capital Transfers	64,429	40,484
Property Income	31,118	39,106
2. **Total Expenditure**	**2,592,275**	**2,843,289**
Intermediate Consumption	414,488	486,962
Compensation of employees	533,816	546,203
Interest	61,923	96,533
Subsidies	184,209	149,624
Social Benefits	662,757	697,781
Current Transfers	583,459	686,846
Capital Transfers Payable	35,433	20,860
Capital Investment	116,190	158,480

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 2020 *Actual* [1] *€ 000*	Jan - Dec 2021 *Approved Estimate* *€ 000*	Jan - Jun 2020 *Actual* *€ 000*	Jan - Jun 2020 *Actual as a % of 2020*	Jan - Jun 2021 *Actual* *€ 000*	Jan - Jun 2021 *Actual as a % of 2021*
Recurrent Expenditure							
1	Office of the President	3,731	4,714	1,769	47.4	1,774	37.6
2	House of Representatives	9,343	10,472	6,767	72.4	6,551	62.6
3	Office of the Ombudsman	1,340	1,427	1,000	74.6	952	66.7
4	National Audit Office	3,600	3,850	2,100	58.3	2,250	58.4
5	Commissioner for Standards in Public Life	640	478	320	50.0	239	50.0
6	Office of the Prime Minister	74,241	59,355	29,863	40.2	24,111	40.6
7	Information	1,103	1,438	537	48.7	525	36.5
8	Government Printing Press	1,647	1,730	756	45.9	804	46.5
9	Electoral Office	2,482	2,666	1,086	43.8	1,258	47.2
10	Public Service Commission	669	770	339	50.7	294	38.2
11	Industrial and Employment Relations	1,691	1,948	813	48.1	900	46.2
12	Ministry for Health	773,027	758,174	372,648	48.2	439,018	57.9
13	Ministry for Foreign and European Affairs [Trade Promotion]	66,855	45,048	39,224	58.7	15,869	35.2
14	Ministry for Senior Citizens and Active Ageing [Elderly and Community Care]	164,103	202,911	75,204	45.8	86,805	42.8
15	Ministry for Research, Innovation and the Co-Ordination of Post COVID-19 Strategy	---	16,195	---	---	4,201	25.9
16	Ministry for the National Heritage, the Arts and Local Government	---	49,115	---	---	23,246	47.3
17	Local Government	52,469	54,916	34,867	66.5	31,450	57.3
18	Ministry for Transport, Infrastructure and Capital Projects	115,684	102,069	50,005	43.2	45,218	44.3
19	Ministry for the Social Justice and Solidarity, the Family and Children's Rights	117,613	66,897	63,755	54.2	39,775	59.5
20	Social Policy	362,516	371,082	126,152	34.8	157,793	42.5
21	Social Security Benefits	1,076,911	1,118,069	555,330	51.6	578,952	51.8
22	Pensions	101,980	103,490	52,137	51.1	52,500	50.7
23	Ministry for Justice, Equality and Governance	---	40,051	---	---	20,588	51.4
24	Ministry for Agriculture, Fisheries and Animal Rights	---	32,189	---	---	17,432	54.2
25	Ministry for Social Accomodation	---	28,888	---	---	14,108	48.8
26	Ministry for Education [and Employment]	350,408	311,862	174,443	49.8	183,724	58.9
27	Education	319,476	330,966	156,359	48.9	170,270	51.4
28	Ministry for the Economy and Industry [Investment and Small Businesses]	82,122	88,040	16,814	20.5	45,966	52.2
29	Commerce	1,548	1,634	612	39.5	764	46.8
30	Ministry for Inclusion and Social Wellbeing	---	47,990	---	---	22,204	46.3
31	Ministry for the Environment, Climate Change and Planning	94,489	72,632	42,363	44.8	26,381	36.3
32	Ambjent Malta	18,590	6,599	8,681	---	6,564	99.5
33	Ministry for Gozo	46,099	51,734	20,086	43.6	22,666	43.8
34	Ministry for Home Affairs and National Security	61,651	57,577	21,588	35.0	42,203	73.3
35	Armed Forces of Malta	54,328	58,299	24,533	45.2	37,706	64.7
36	Police	80,937	82,780	38,734	47.9	39,107	47.2
37	Probation and Parole	1,350	1,456	551	40.8	642	44.1
38	Civil Protection	9,407	9,906	4,119	43.8	5,551	56.0
39	Ministry for Tourism and Consumer Protection	120,509	149,989	70,547	58.5	65,420	43.6
40	Ministry for Energy, Enterprise and Sustainable Development [Water Management]	114,787	249,374	58,768	51.2	244,594	98.1
41	Ministry for Finance and Employment	168,587	304,598	84,897	50.4	147,506	48.4
42	Economic Policy	1,608	1,807	785	48.8	713	39.5
43	Treasury	28,678	35,654	20,230	70.5	5,409	15.2
45	Commissioner for Revenue	19,667	20,813	9,392	---	11,438	55.0
46	Customs	12,147	12,716	5,647	46.5	5,590	44.0
47	Contracts	1,671	2,031	788	47.2	851	41.9
	[Ministry for Justice, Culture and Local Government	110,415	---	51,576	46.7	---	---
	[Ministry for European Affairs and Equality	20,161	---	8,827	43.8	---	---
	TOTAL RECURRENT EXPENDITURE	**4,650,280**	**4,976,399**	**2,235,012**	**48.1**	**2,651,882**	**53.3**

Central Government Finances by Expenditure Vote (Consolidated Fund)

Table 3

		Jan - Dec 2020 *Actual* (1) *€ 000*	Jan - Dec 2021 *Approved Estimate* *€ 000*	Jan - Jun 2020 *Actual* *€ 000*	Jan - Jun 2020 *Actual as a % of 2020*	Jan - Jun 2021 *Actual* *€ 000*	Jan - Jun 2021 *Actual as a % of 2021*
44	Public Debt Servicing						
	Contribution to Special MGS Sinking Fund	20,000	50,000	10,000	50.0	2,306	4.6
	Interest - Local	181,196	189,817	93,081	51.4	90,256	47.5
	Repayment of Loan - Local	461,583	462,502	202,161	43.8	3,145	0.7
	Early Repayment of MGRSB	4,123	4,500	1,513	36.7	1,215	27.0
	Contribution to Sinking Fund - Foreign	50	50	25	50.0	25	50.0
	Interest - Foreign	9	8	4	44.4	4	50.0
	TOTAL PUBLIC DEBT SERVICING	**666,961**	**706,877**	**306,784**	**46.0**	**96,951**	**13.7**
	TOTAL RECURRENT EXPENDITURE AND PUBLIC DEBT SERVICING	**5,317,241**	**5,683,276**	**2,541,796**	**47.8**	**2,748,833**	**48.4**
Capital Expenditure							
I	Office of the President	481	554	92	19.1	119	21.5
II	House of Representatives	84	2,176	25	29.8	343	15.8
III	Office of the Prime Minister	41,921	53,326	16,998	40.5	10,811	20.3
IV	Ministry for Health	45,743	66,053	20,547	44.9	13,273	20.1
V	Ministry for Foreign and European Affairs [Trade Promotion]	2,724	2,905	412	15.1	7,915	272.5
VI	Ministry for Senior Citizens and Active Ageing [Elderly and Community Care]	---	9,483	---	---	2,506	26.4
VII	Ministry for Research, Innovation and the Co-Ordination of Post COVID-19 Strategy	---	1,590	---	---	137	8.6
VIII	Ministry for the National Heritage, the Arts and Local Government	---	29,354	---	---	3,982	13.6
IX	Ministry for Transport, Infrastructure and Capital Projects	175,504	163,245	79,538	45.3	92,202	56.5
X	Ministry for the Social Justice and Solidarity, the Family and Children's Rights	17,281	4,199	5,321	30.8	2,071	49.3
XI	Ministry for Justice, Equality and Governance	---	4,263	---	---	828	19.4
XII	Ministry for Agriculture, Fisheries, Food and Animal Rights	---	41,238	---	---	20,221	49.0
XIII	Ministry for Social Accomodation	---	3,941	---	---	455	11.5
XIV	Ministry for Education [and Employment]	72,045	88,207	20,237	28.1	16,701	18.9
XV	Ministry for the Economy and Industry [Investment and Small Businesses]	447,380	39,633	167,406	37.4	22,614	57.1
XVI	Ministry for Inclusion and Social Wellbeing	---	27,624	---	---	2,673	9.7
XVII	Ministry for the Environment, Climate Change and Planning	60,694	47,328	31,697	52.2	5,094	10.8
XVIII	Ministry for Gozo	17,492	22,007	4,115	23.5	13,081	59.4
XIX	Ministry for Home Affairs, National Security and Law Enforcement	28,697	62,602	6,800	23.7	16,532	26.4
XX	Ministry for Tourism and Consumer Protection	25,045	20,436	4,591	18.3	5,743	28.1
XXI	Ministry for Energy, Enterprise and Sustainable Development [Water Management]	31,771	76,712	11,600	36.5	21,877	28.5
XXII	Ministry for Finance and Employment	11,129	25,941	30,891	277.6	9,364	36.1
	[Ministry for Justice, Culture and Local Government	28,090	---	8,283	29.5	---	---
	[Ministry for European Affairs and Equality	31,068	---	5,291	17.0	---	---
	TOTAL CAPITAL EXPENDITURE	**1,037,149**	**792,817**	**413,844**	**39.9**	**268,542**	**33.9**
XXII	Ministry for Finance and Employment Investment - Equity Acquisition	36,980	10,538	26,980	73.0	4,500	42.7
	TOTAL CAPITAL EXPENDITURE AND INVESTMENT	**1,074,129**	**803,355**	**440,824**	**41.0**	**273,042**	**34.0**
	TOTAL EXPENDITURE	**6,391,370**	**6,486,631**	**2,982,620**	**46.7**	**3,021,875**	**46.6**

(1) 2020 figures published in NSO NR. 058/2021 have been revised and updated. Further revisions may be necessary to correct any remaining discrepancies.

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	
	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*
General Public Services	49,336	49,087	49,820	25,013	138,996	300,939	21,489	48,158
Defense	16,856	33,259	3,692	4,079	356	485	146	0
Public Order and Safety	45,416	46,798	5,156	5,158	3,810	7,909	22,316	35,256
Economic Affairs	31,795	42,694	12,247	22,721	89,504	156,537	91,724	83,951
Environmental Protection	2,410	2,607	8	1,112	25,413	19,021	11,518	260
Housing and Community Affairs	805	403	242	92	7,523	0	7,116	709
Health	146,735	171,609	25,994	42,582	164,601	182,708	36,953	42,665
Recreation, culture and religion	3,314	1,272	2,671	638	6,829	8,601	17,667	12,620
Education	125,107	136,550	8,818	10,384	121,101	131,085	61,640	79,253
Social Protection	28,813	31,762	22,601	15,595	790,751	867,932	29,960	30,379
Total	**450,585**	**516,040**	**131,250**	**127,374**	**1,348,885**	**1,675,218**	**300,530**	**333,251**

	Interest Expenditure		Capital Expenditure		Total expenditure	
	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*	Actual Jan-Jun 2020 *€ 000*	Actual Jan-Jun 2021 *€ 000*
General Public Services	93,085	90,524	30,335	30,516	**383,061**	**544,237**
Defense	0	0	1,105	1,254	**22,154**	**39,077**
Public Order and Safety	0	0	7,424	14,984	**84,122**	**110,106**
Economic Affairs	0	0	277,051	162,231	**502,320**	**468,133**
Environmental Protection	0	0	25,696	11,508	**65,045**	**34,508**
Housing and Community Affairs	0	0	2	449	**15,689**	**1,653**
Health	0	0	20,311	12,965	**394,594**	**452,529**
Recreation, culture and religion	0	0	11,228	14,020	**41,710**	**37,151**
Education	0	0	9,186	15,157	**325,852**	**372,429**
Social Protection	0	0	4,525	5,457	**876,651**	**951,126**
Total	**93,085**	**90,524**	**386,864**	**268,542**	**2,711,198**	**3,010,949**

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

	2020 Jan - Jun € 000	2021 Jan - Jun € 000	
Consolidated Fund Surplus / Deficit	**-895,642**	**-848,862**	[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 (-)	-30,285	-5,799	[4]
Other accounts receivable (+) and payable (-)	161,834	98,400	[5]
Time-adjusted cash transactions	43,445	106,212	[6]
Treasury Clearance Fund flows in non-financial transactions	2,990	106	
Sinking Fund interests' received	2,244	2,378	
Quarterly adjustments	-31,322	-47,189	[7]
EFSF re-routing	10	0	[8]
Equity injection	-13,020	0	[9]
Debt assumption	0	0	
Other adjustments	-15,184	-6,952	
Net Borrowing (-) / Net Lending (+) of Extra Budgetary Units	11,222	25,516	[10]
Net Lending (+) / Net Borrowing (-) of Local Government	6,028	6,028	[11]
Net Lending (+) / Net Borrowing (-) of General Government	**-757,680**	**-670,163**	

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 method.
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	2020	2021[af]	2021[sf]
		% GDP	*% GDP*	*% GDP*
Net lending (+)/Net borrowing (-) by sub-sector				
1. General Government	S.13	-10.1	-5.9	-12.0
2. Central Government	S.1311	-10.1	-5.9	-12.0
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	36.5	39.0	36.7
7. Total Expenditure	TE	46.6	44.9	48.7
8. Interest Expenditure	D.41	1.3	1.2	1.2
9. Primary Balance [(a)]		-8.8	-4.8	-10.8
10. One-off and other temporary measures [(b)]		0.0	0.1	0.0
11. Real GDP growth (%)		-7.8	5.0	3.8
12. Potential GDP growth (%)		2.8	2.9	3.4
13. Output Gap (%)		-5.4	-3.5	-5.1
14. Cyclical Budgetary Component		-2.6	-1.7	-2.5
15. Cyclically-Adjusted Balance (1 - 14)		-7.6	-4.3	-9.5
16. Cyclically-Adjusted Primary Balance (15 + 8)		-6.2	-3.1	-8.4
17. Structural Balance (15 - 10)		-7.6	-4.3	-9.6

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 31/12/19	As published in 2021 Financial Estimates	Target			Arrears Collected		
			Quarter 1	Quarter 2	Total	Quarter 1	Quarter 2	Total
	€	€	€	€	€	€	€	€
Office of the Prime Minister	357	36	9	9	18	60	60	120
ex MSDC (1)	48	5	1	1	2	N/A	N/A	N/A
ex MEIAM	1,582	158	40	40	79	0	0	0
Information	2,244	224	56	56	112	0	83	83
Government Printing Press	54,336	5,434	1,358	1,358	2,717	45,359	6,746	52,105
Electoral Office	0	0	0	0	0	0	0	0
Public Service Commission	0	0	0	0	0	0	0	0
Industrial and Employment Relations	8,204	820	205	205	410	297	666	963
	66,771	6,677	1,669	1,669	3,339	45,716	7,555	53,271
Ministry for Health								
Ministry for Health	402,048	40,205	10,051	10,051	20,102	254,376	290,227	544,603
Mater Dei Hospital	955,660	95,566	23,892	23,892	47,783	58,660	116	58,776
Central Procurement and Supplies Unit	761,379	76,138	19,034	19,034	38,069	0	0	0
Primary Health Care	36	4	1	1	2	0	0	0
Sir Anthony Mamo Oncology Centre / Sir Paul Boffa	4,762	476	119	119	238	0	0	0
	2,123,885	212,389	53,097	53,097	106,194	313,036	290,343	603,379
Ministry for Foreign and EU Affairs	24,412	2,441	610	610	1,221	0	0	0
	24,412	2,441	610	610	1,221	0	0	0
Ministry for Senior Citizen and Active Ageing	28,126	2,813	703	703	1,406	2,265	20,000	22,265
	28,126	2,813	703	703	1,406	2,265	20,000	22,265
Ministry for Transport, Infrastructure and Capital Projects								
Ministry	58,346	5,835	1,459	1,459	2,917	15,790	97,859	113,649
Transport Malta	150,000	15,000	3,750	3,750	7,500	8,513	8,631	17,144
	208,346	20,835	5,209	5,209	10,417	24,303	106,490	130,793
Ministry for Social Justice and Solidarity, the Family and Children's Rights								
Social Care Standards Authority	0	0	0	0	0	0	0	0
Social Security Benefits	2,475,068	247,507	61,877	61,877	123,753	1,117,711	1,243,318	2,361,029
Pensions	4,080,567	408,057	102,014	102,014	204,028	42,078	146,243	188,321
	6,555,635	655,564	163,891	163,891	327,782	1,159,789	1,389,561	2,549,350
Ministry for Justice, Equality and Governance								
Ministry	8,292	829	207	207	415	0	0	0
State Advocate (ex-Attorney General)	24,891	2,489	622	622	1,245	4,810	6,800	11,610
Notary to Government	579	58	14	14	29	0	0	0
Courts Services Agency (2)	633,997	63,400	15,850	15,850	31,700	180,651	153,996	334,647
	667,759	66,776	16,694	16,694	33,388	185,461	160,796	346,257
Ministry for Agriculture, Fisheries and Animal Rights	133,484	13,348	3,337	3,337	6,674	142,553	33,585	176,138
	133,484	13,348	3,337	3,337	6,674	142,553	33,585	176,138
Ministry for Education								
Ministry	128,622	12,862	3,216	3,216	6,431	92,217	50,447	142,664
Education	22,427	2,243	561	561	1,121	6,694	8,422	15,116
	151,049	15,105	3,776	3,776	7,552	98,911	58,869	157,780
Ministry for Economy and Investment								
TV Licences	601,346	60,135	15,034	15,034	30,067	0	0	0
Malta Gaming Authority	44,422	4,442	1,111	1,111	2,221	12,100	40	12,140
MCA	111,127	11,113	2,778	2,778	5,556	1,352	2,439	3,791
Lands Authority	3,964,081	396,408	99,102	99,102	198,204	551,417	563,342	1,114,759
Commerce Department	270	27	7	7	14	2,304	280	2,584
	4,721,246	472,125	118,031	118,031	236,062	567,173	566,101	1,133,274
Ministry for the Environment, Climate Change and Planning								
Ministry	1,588	159	40	40	79	1,512	8,241	9,753
	1,588	159	40	40	79	1,512	8,241	9,753
Ministry for Gozo	51,182	5,118	1,280	1,280	2,559	2,993	1,981	4,974
Ministry for Home Affairs, National Security and Law Enforcement	1,323	132	33	33	66	0	0	0
Land Registration Agency (1)	169	17	4	4	8	N/A	N/A	N/A
Correctional Services	6,142	614	154	154	307	0	0	0
Armed Forces of Malta	5,328	533	133	133	266	1,236	0	1,236
Police	46,974	4,697	1,174	1,174	2,349	26,062	14,042	40,104
Civil Protection Department	6,115	612	153	153	306	0	54	54
	66,051	6,605	1,651	1,651	3,303	27,298	14,096	41,394
Ministry for Tourism and Consumer Protection								
Cleansing and Maintence Division	18,741	1,874	469	469	937	0	300	300
Malta Tourism Authority	133,064	13,306	3,327	3,327	6,653	76,356	79,700	156,056
	151,805	15,181	3,795	3,795	7,590	76,356	80,000	156,356
Ministry for Energy, Enterprise and Sustainable Development (1)	782	78	20	20	39	N/A	N/A	N/A
Ambjent Malta (1)	5,253	525	131	131	263	N/A	N/A	N/A
	6,035	604	151	151	302			
Ministry for Finance and Employment	7,234	723	181	181	362	0	0	0
Economic Policy Department	0	0	0	0	0	0	0	0
Treasury	0	0	0	0	0	0	0	0
Income Tax	34,318,063	3,431,806	857,952	857,952	1,715,903	19,812,218	18,569,785	38,382,003
VAT	21,286,849	2,128,685	532,171	532,171	1,064,342	13,026,765	10,950,051	23,976,816
Customs Department	1,153,509	115,351	28,838	28,838	57,675	10,466	5,465	15,931
Contracts	14,321	1,432	358	358	716	500	500	1,000
	56,779,976	5,677,998	1,419,499	1,419,499	2,838,999	32,849,949	29,525,801	62,375,750
Total			*1,793,434*	*1,793,434*	*3,586,867*	*35,497,315*	*32,263,419*	***67,760,734***

Notes:
(1) Collected.
(2) The amount reported in Table 7 is cash. Furthermore, an amount of €52,320 (Qt 1) and €67,068 (Qt 2) were reported as fines, revoked, cancelled or converted into imprisonment.

Statement of General Government Sector Debt

Table 8

	Jan-Dec 2020 *Actual* € 000	Jan-Dec 2021 *Budget Estimate* € 000	Jan-Jun 2020 *Actual* € 000	Jan-Jun 2021 *Actual* € 000	Jan-Dec 2021 *Revised Estimate* € 000
General Government Debt					
Malta Government Stocks (MGS)	5,358,625	5,959,942	5,042,012	5,908,610	6,662,674
Malta Government Retail Savings Bonds (MGRSB)	380,517	376,640	288,336	378,102	376,007
Treasury Bills	586,500	636,000	797,500	782,250	786,000
Foreign Loans	120,839	244,346	902	420,780	420,714
EBU's and Local Councils	149,138	162,692	158,586	149,565	150,229
Currency	90,371	104,486	89,590	90,330	99,714
ESA Rerouted Debt	272,948	341,354	264,243	276,134	333,060
Total	**6,958,938**	**7,825,460**	**6,641,169**	**8,005,771**	**8,828,398**
Public Debt Servicing					
Local Loans					
Interest - Short Term Borrowing (Treasury Bills)	0	528	0	0	365
Interest (MGS/MGRSB)	181,196	189,289	93,081	90,524	185,863
(A) Total Interest - Local Loans	**181,196**	**189,817**	**93,081**	**90,524**	**186,228**
Contributions to Sinking Funds					
Contribution to Special MGS Sinking Fund	20,000	50,000	10,000	0	30,000
Direct Loan Repayment	461,583	462,502	202,161	3,657	462,502
Early Repayment of MGRSB	4,123	4,500	1,513	2,415	4,500
(B) Direct Loan repayments including Early Repayments of MGRSB and Contributions to Sinking Funds	**485,706**	**517,002**	**213,674**	**6,072**	**497,002**
Total Servicing of Local Loans (A + B)	**666,902**	**706,819**	**306,755**	**96,596**	**683,230**
Foreign Loans					
Interest	9	8	4	4	445
Contributions to Sinking Funds	50	50	25	0	50
Total Servicing of Foreign Loans	**59**	**58**	**29**	**4**	**495**