Malta: Half Yearly Report 2022

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

Ministry for Finance and Employment

July 2022

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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 2022.

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 2022, with details of discretionary measures being undertaken. It analyses developments in public finances in 2022 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. The latter remained suspended in 2022 in view of the activation of the general escape clause of the Stability and Growth Pact. The Annex of this report also includes a statistical overview of the main macroeconomic and fiscal indicators.

The economic analysis suggests that the revised macroeconomic forecasts presented last Spring remain plausible though, on balance, subject to upside risks. The inflationary outlook could however exceed the forecasts prepared last Spring. The analysis of the first half budgetary performance indicates that the revised targets presented last Spring also remain plausible. In this context, the Half Yearly Report does not recommend a major revision to the macro or fiscal targets for 2022 at this juncture. However, the uncertainty that prevails may warrant a regular monitoring of the situation.

2. 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.

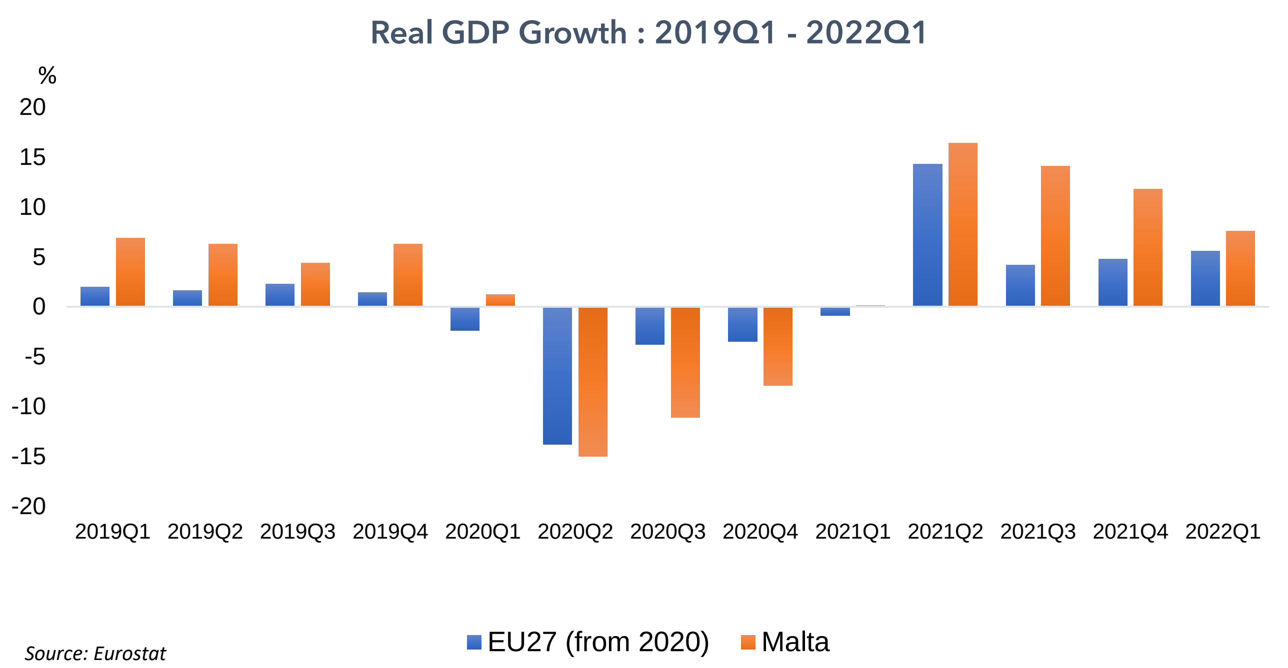
2.1 Latest Economic Conditions

During the first three months of 2022, the Maltese economy grew by 7.6 per cent in real terms, when compared to the corresponding quarter in the previous year. In nominal terms, economic activity expanded by 10.7 per cent. Growth in the first quarter of 2022 was driven by domestic demand, contributing 4.5 percentage points, and net exports which contributed 3.2 percentage points. By contrast, inventories negatively contributed to GDP growth by 0.2 percentage points.

While first quarter results show that the recovery in Malta is well-entrenched, such a significant growth rate is partially attributable to low base effects resulting from restrictions imposed during 2021Q1. Throughout the second quarter of 2022, the global economic outlook substantially deteriorated due to higher inflation and a tightening of financial conditions. Consequently, it is likely that economic growth will stabilize to lower levels in the remaining quarters of the year.

During the same period, total gross value added increased by 10.8 per cent. Growth was broad-based across all sectors, with the highest growth recorded in the wholesale, retail and hospitality sector, which grew by 32.3 per cent, mainly due to a base effect reflecting the decline in the corresponding quarter of 2021 following the Covid-19 containment measures. Other notable growth rates were recorded in the information and communication sector (16.4 per cent), the non-manufacturing industrial sector (16.2 per cent), the arts, entertainment, and recreation sector (13.0 per cent), the agriculture, forestry and fishing sector (11.5 per cent), the professional, scientific and technical activities sector (8.2 per cent) and the financial and insurance sector (7.0 per cent).

Figure 2.1



Source: Eurostat

In nominal terms, total income grew by 10.7 per cent, mainly reflecting a 13.6 per cent (or €218.4 million) growth in gross operating surplus, 5.3 per cent (or €85.9 million) increase in compensation of employees, and 31.7 per cent (or €62.3 million) growth in taxes less subsidies on production and imports due to the strong recovery in indirect tax revenue.

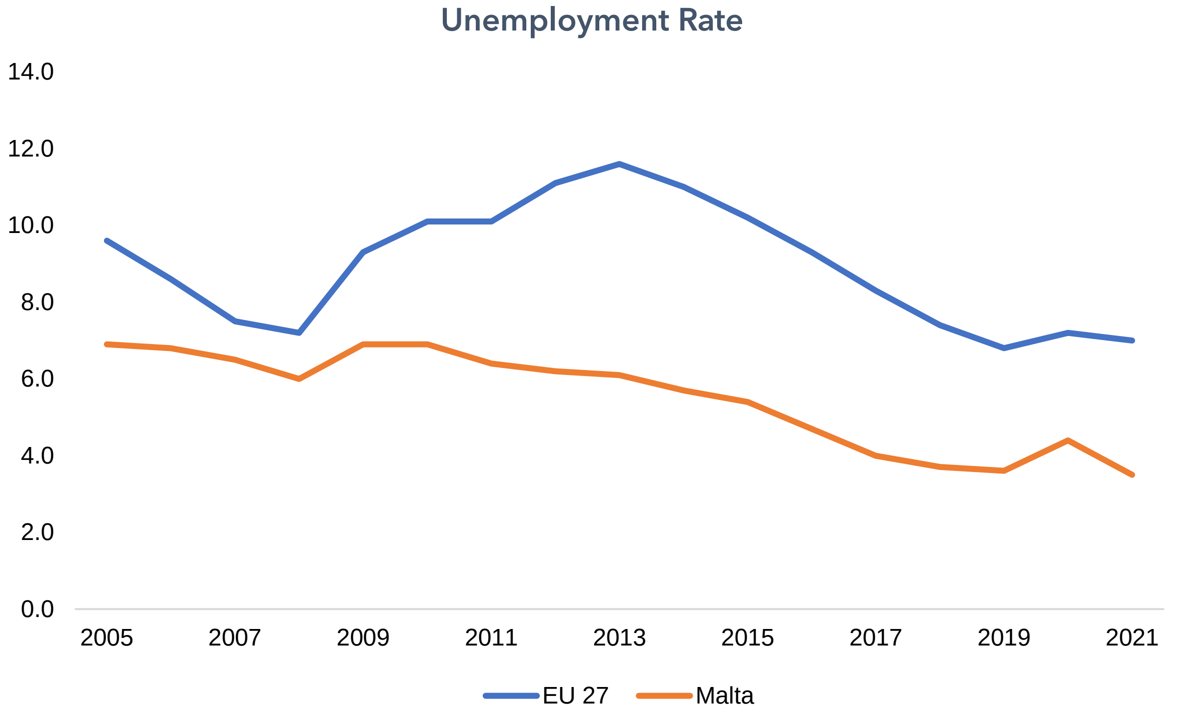
2.1.1 Labour Market

The Maltese labour market proved resilient in spite of the challenges prevalent in the international economic environment particularly as the global economy started to recover from the impact of the pandemic. While total employment (as measured in the Labour Force Survey) in the European economy remained below pre-crisis levels in 2021, Malta registered positive employment growth in both 2020 and 2021, where in the latter year, employment growth stood at 2.3 per cent. Employment growth was sustained by a strong economic recovery, while the Government support measures helped cushion the impact of the pandemic on the labour market through the Wage Supplement Scheme, which was extended until May 2022.

During the first quarter of 2022, there was an increase of 4.5 per cent in headcount employment, when compared to the corresponding quarter of 2021. Through the support of the Government measures, Malta has managed to maintain a low unemployment rate (based on the Harmonized definition), which is one of the lowest among its European peers. In 2021, the unemployment rate reached a historically low level at 3.5 per cent, which was 3.5 percentage points below the EU-27 average. Malta also fared relatively well with regards to youth unemployment (ages 15 to 24), with an unemployment rate of 9.6 per cent, when compared to the EU-27 average of 16.6 per cent.

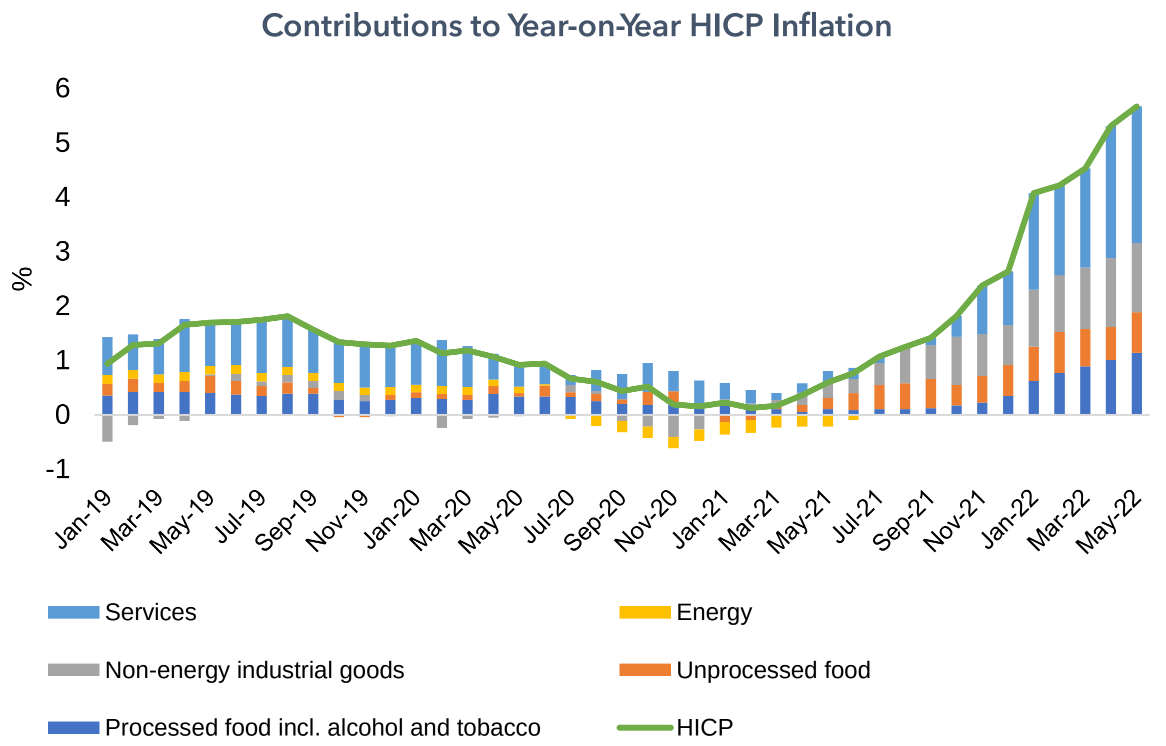
Unemployment data covering the first three months of this year shows that Malta recorded the second lowest unemployment rate amongst European Member States. The unemployment rate declined from 3.9 per cent in the first quarter of 2021, to 3.2 per cent in the first quarter of 2022. In May 2022, Malta's unemployment rate continued to decline to 3.1 per cent.

Figure 2.2



Source: Eurostat

Figure 2.3



2.1.2 Prices

In June 2022, the annual HICP inflation in Malta stood at 6.1 per cent. Meanwhile, the EU annual rate for the same month was 9.6 per cent.

During the first half of 2022, HICP inflation has been on an accelerating path, driven mainly by food prices, prices of non-energy industrial goods and housing services. In March 2022, the Government announced that it will be sheltering the economy from the increases in energy prices and supporting the security of imported supplies of grain, wheat and animal fodder. This political commitment has been instrumental in containing costs for businesses, allowing the domestic economy to remain competitive and supporting consumers. By May 2022, Malta had one of the lowest inflation rates in Europe.

2.2 Comparison of Macroeconomic Projections

This section provides a comparative evaluation of the latest macroeconomic forecasts for 2022 published in the Stability Programme 2022 - 2025 (hereinafter referred to as the Spring 2022 forecast) against the forecasts for the same year that underpinned the Budget 2022 projections in October 2021 (hereinafter referred to as the Autumn 2021 forecasts). This assessment aims to explain the main forecast revisions that were undertaken since October 2021. Data referred to in this section is shown in Table 1.

2.2.1 Statistical Revisions influencing the change in Macroeconomic Forecasts

The Budget projections of October 2021 carried a cut-off date for the inclusion of statistics and other information of 17th September 2021. As a result, forecasts were based on actual data for the first half of 2021 and data for the entire year of 2021 being a forecast. In contrast, the cut-off date for the revised Spring forecasts of April 2021 was 4th April 2022 thus incorporating data for the whole of 2021 and the forecast period starting from the year 2022.

The headline real and nominal GDP growth rates for 2022 have been revised downwards from the Autumn 2021 forecasting session to the Spring 2022 forecasting session. In Autumn 2021, nominal and real GDP projections for 2022 were 8.6 per cent and 6.5 per cent, respectively, while in Spring 2022, economic growth was forecasted to be 7.5 per cent in nominal terms and 4.4 per cent in real terms. This was in part a reflection of stronger base effects from 2021 as the economy performed more strongly than anticipated. In 2021, the Maltese economy recorded a real growth rate of 10.4 per cent, equivalent to 12.4 per cent in nominal terms. This growth figure was 5.0 percentage points higher than that reported in the European Union (EU), which indicates that Malta experienced once of the most rapid recoveries following the pandemic. The domestic demand component was the main driver of this robust economic activity as the labour market continued to be buoyant. On the external front, despite a resurgence in virus cases which prevented travel exports from recovering as expected, Malta still managed to record a net export contribution of 2.7 percentage points.

2.2.2 Other developments influencing the change in Macroeconomic Forecasts

In the Autumn 2021 forecast, the outlook for 2022 assumed a continued recovery in economic activity of Malta's main trading partners after the pandemic impaired 2020 GDP growth. However, the strong recovery in demand, particularly for manufactured goods, and consequently industrial supplies and energy products supported by loose monetary and fiscal policy conditions could not be instantly matched by supply which was still being disrupted by the pandemic. This created the conditions for accelerations in price growth of final goods towards the end of 2021.

As the momentum in price growth started to moderate towards the beginning of 2022, the invasion of Ukraine by Russia reignited the inflationary pressures. This time round, the inflation was primarily caused by supply disruptions in commodities and natural resources. The war severely undermined supplies of main agricultural commodities such as grains, affected the supply of animal feeds, the provision of basic industrial supplies such as iron and steel, and created havoc in the energy markets as security of supply concerns especially for gas and fuel mounted.

Main Macroeconomic Indicators

Table 1

	2019(1)	2020(1)	2021(1)	2022af	2022sf
GDP growth at current Market Prices (%)	**8.4**	**-7.0**	**12.4**	**8.6**	**7.5**
GDP growth at chain-linked volumes by period (reference year 2010)	**5.9**	**-8.3**	**10.4**	**6.5**	**4.4**
Expenditure Components of GDP					
chain-linked volumes by period (reference year 2010)					
Private Final Consumption Expenditure(2)	4.6	-10.2	6.7	4.0	3.4
General Government Final Consumption Expenditure	13.1	15.8	7.7	2.7	8.3
Gross Fixed Capital Formation	8.4	-7.6	17.0	8.8	1.8
Exports of Goods and Services	7.0	-3.8	8.0	6.6	3.6
Imports of Goods and Services	7.9	-0.1	6.7	5.5	3.4
Contribution to GDP growth:					
Domestic Demand	5.9	-3.6	8.1	4.4	3.6
Inventories	0.1	0.6	-0.4	0.0	0.0
Net Exports	0.0	-5.3	2.7	2.1	0.8
Inflation rate (%)	**1.5**	**0.8**	**0.7**	**1.7**	**3.5**
Employment growth (%)(3)	**5.7**	**2.8**	**2.8**	**2.2**	**2.4**
Unemployment rate (%)	**3.7**	**3.6**	**4.3**	**4.0**	**3.4**
Potential GDP growth	**5.7**	**3.1**	**4.1**	**3.6**	**3.8**
Output Gap	**4.9**	**-6.7**	**-1.8**	**-2.5**	**-1.2**

Notes:

af - Autumn (Budget) Forecasts

sf - Spring (Revised) Forecasts

(1) Actual data Source: NSO News Release No. 095/2022 - GDP Release 2022/Q1

(2) Includes NPISH final consumption expenditure

(3) Historical employment based on Headcount definition. Forecasts based on National Accounts Definition

The implications of these developments since Autumn 2021 were profound and led to a substantial downward revision in the outlook of Malta's main trading partners. Whereas in Autumn 2021, growth in Malta's main trading partners was projected to be 4.3 per cent in 2022, weaker global growth expectations and worsening economic conditions in the EU and globally resulted in a downwards revision of 1.2 percentage points, to 3.1 per cent. Moreover, forecasts for Spring 2022 assume a weaker Euro vis-à-vis the US Dollar as well as a weaker Euro vis-à-vis the Sterling.

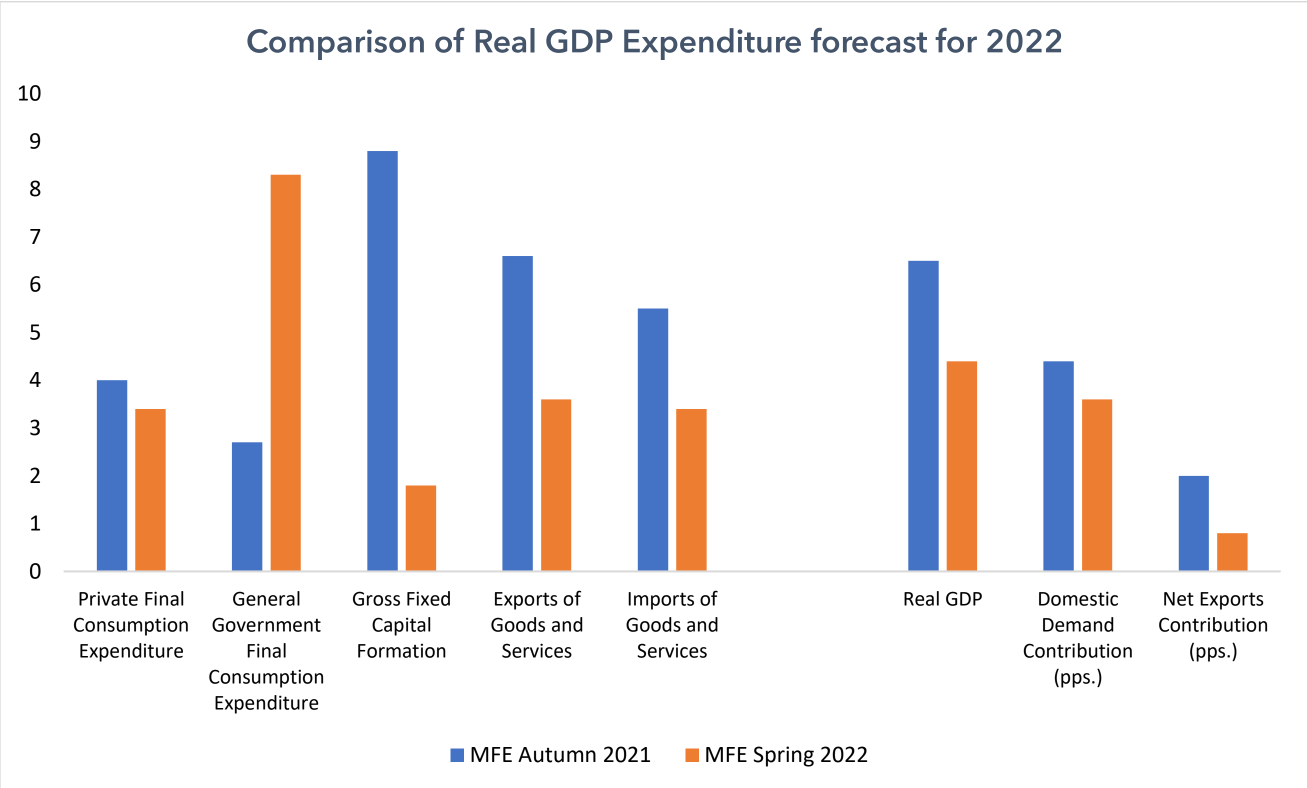
Against this background and given the high degree of openness of the economy, international developments weighed heavily on Malta's net export performance. Indeed, the largest revision between the Autumn and the Spring forecast of 2022 was related to the net export performance. While the Autumn forecast was projecting a positive contribution from net exports of 2.1 per cent, a more adverse net exports balance of 0.8 percentage points was projected in Spring 2022. This was underpinned by a significant downward revision in export growth and a relatively weaker downward revision in imports.

There were also revisions on the domestic drivers of aggregate demand. In the Autumn forecast, domestic demand was still expected to contribute positively to GDP growth by 4.4 percentage points, 0.8 percentage points higher than forecasted in Spring (3.6 percentage points). This is reflected in downward revisions in private consumption expenditure and gross fixed capital formation which offset the upward revision in public consumption. Chart 4 provides a graphical comparison of the differences in the projected components of real GDP for 2022 as estimated by the MFE in the Autumn 2021 projections and the revised Spring 2022 projections.

2.2.3 Private Consumption Expenditure

The revised forecasts presented by MFE in Spring 2022 projected a weaker rate of growth in private consumption expenditure (-0.6 percentage points), when compared to the Autumn 2021 forecasts. A revised outlook for disposable income primarily underpinned the revision. Although the labour market remains strong, supported by strong job growth and a decelerating unemployment rate, inflationary pressure eroded consumers' purchasing power and are expected to exert stronger downward pressure on real incomes.

Figure 2.4



2.2.4 Public Consumption Expenditure

Growth in government final consumption expenditure for 2022 has been revised upwards by 5.6 percentage points, to reach 8.3 per cent in the Spring forecast. This increase is attributed to an increase in intermediate government consumption and compensation of employees.

2.2.5 Gross Fixed Capital Formation

The outlook for GFCF in 2022 has been revised downwards from 8.8 per cent in October 2021 to 1.8 per cent in April 2022. It is important to acknowledge that GFCF has a volatile nature, therefore a prudent approach is generally followed when forecasting such aggregates. The weaker outlook is to be attributed to a strong base effect from the prior year, and some uncertainty regarding short-term outlook which may lead to some projects to be deferred to the future.

2.2.6 External Balance of Goods and Services

Supply chain bottlenecks led to higher global prices and disruptions in trade, while signals of a tightening of financial conditions are expected to dent external demand. This led to a deterioration in external outlook from Autumn 2021 to Spring 2022. In fact, growth in exports has been adjusted downwards by 3.0 percentage points, from 6.6 to 3.6 per cent. On the other hand, the growth in imports has also been revised downwards by 2.1 percentage points, from 5.5 to 3.4 per cent. The latter is consistent with the downward revision in investment which has a relatively high import content as well as a downward revision in domestic demand.

2.2.7 Inflation and Labour Market Developments

The Spring forecasts expected inflationary pressures to increase by 1.8 percentage points when compared with the rate forecasted in Autumn 2021 and reach 3.5 per cent. Inflation was initially driven by pandemic-related disruptions in global supply-chains, causing bottlenecks and shortages. Price pressures were further amplified because of the conflict in Ukraine. The upward revision in HICP was mainly driven by higher food prices. Increased shipping costs have also led to higher inflation in non-energy industrial goods components, while no energy inflation is expected to pass through following the Government's commitment to shelter the domestic economy from international price increases. Presently the annual HICP inflation stood at 6.1 per cent in June. However, on a 12-month moving average, the rate in June stood at 3.1 per cent. Recent developments suggest that inflation is likely to be higher than forecast last April.

Meanwhile, employment growth projections have been revised upwards by 0.2 percentage points, while the unemployment rate is expected to reach a rate lower than that forecasted in Autumn 2021, reflecting the more buoyant labour market conditions.

2.2.8 Potential Output and the Output Gap

As the economy continued to gradually recover from the pandemic-induced shock in 2020, Malta's potential output growth in Spring 2022 was projected to reach 3.8 per cent in 2022, which is 0.2 percentage points higher than what was projected in Autumn 2021. Accordingly, the estimate of the output gap (per cent of potential output) was revised upwards by 1.3 percentage points and is expected to reach -1.2 per cent in 2022 compared to the -2.5 per cent projected last Autumn. This was due to the fact that 2021 growth surprised on the upside, bringing the economy closer to potential growth.

2.3 Updated Risks to the Growth Outlook since Spring 2022

In view of the uncertainty related to the conflict between Russia and Ukraine, along with the epidemiological evolution, the baseline forecast is conservative, 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 deteriorated further compared to Spring 2022, suggesting that some downside risks are materializing. Conditions in Malta's main trading partners have deteriorated as the conflict in Ukraine continues to put upward pressure on commodity prices, eroding purchasing power and setting off a faster tightening of monetary policy. Gas rationing may significantly dent growth prospects in Europe presenting further downward risks to the growth outlook. A weaker euro relative to the dollar and the pound, should in principle support stronger export growth, but at the cost of risking higher imported inflation.

On the other hand, Tourism is outperforming original expectations and suggests that notable upside risks are also materialising as the number of tourist arrivals in the first five months of 2022 surpassed expectations. The decision by FATF to remove Malta from the grey list also bodes well for continued economic progress. Internal estimates suggest that the positive tourism prospects for 2022 are likely to outweigh the otherwise deteriorating external environment and overall, the risk is slightly tilted to the upside. A similar conclusion was drawn by the Malta Fiscal Advisory Council in its latest assessment of the Update of the Stability Programme.

While the Government's commitment to shelter the domestic economy from international price increases will limit energy inflation in 2022, strong core inflation in the first half of 2022 suggests that Malta is indirectly being impacted by rising international energy and commodity prices. Inflationary pressures could be exacerbated by the weakening of the Euro. Furthermore, given the high import content of domestic consumption, the effect on core inflation is likely to be stronger than that observed in the rest of the continent. This also makes Malta more vulnerable to rising shipping costs. However, tighter monetary conditions and fiscal consolidation efforts may eventually put some downward pressure on inflation. Overall inflation is likely to exceed the Spring forecast projections carried out last April.

That said, since projections were already cautious at the time of preparation in April, given that opposing forces remain at play, and given the strong level of uncertainty still prevailing in the global economy, a revision in the macro-economic forecast is not envisaged at this stage.

3. The 2022 targets as established in the 2022 Draft Budget Plan and the 2021-2024 Medium-Term Fiscal Plan

The European System of Accounts (ESA) 2010 is the main data classification system used to assess the developments against the targets established in the 2022 Draft Budgetary Plan (DBP2022) and the 2021-2024 Medium Term Fiscal Strategy (2021MTFS). Therefore, actual data might still be in need of additional revisions. The statistical information on macroeconomic and fiscal projects for the DBP2022 was available up till the 29th of September 2021, whilst the statistical information used in the 2021MTFS was available up till the 30th of April 2021.

On 18 June 2021, the European Council recommended Malta to maintain a supportive fiscal stance in 2022, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions, while enhancing investment to boost growth potential. Furthermore, it recommended to focus on the quality of budgetary measures, in particular investment supporting the green and digital transition, and fiscal structural reforms.

According to the DBP2022, the 2022 Budget revolves around 3 main objectives;

- Strengthening the distribution policies to enhance social inclusion, promoting social mobility and reducing poverty.
- Support the economic recovery from the pandemic impact, as well as creating employment.
- Smoothen Green & Digital Transitions

With regards to the Government's economic recovery plan following the COVID-19 pandemic, the Government was planning to reduce business costs, stimulate domestic demand and provide direct business support. Over the medium-term, the Government committed to continue supporting measures which are intended to lead to prudent fiscal positions involving a balance between controlling current spending whilst at the same time supporting investment and higher productivity.

The 2021MTFS anticipated a slower recovery from the pandemic in 2021 and as a consequence, expected a stronger growth in 2022 with the economy expected to expand by 8.9 per cent in 2022. By contrast, in Autumn 2021 it was becoming increasingly evident that the economic recovery would be much stronger than anticipated in 2021. As a consequence, in the DBP2022, economic growth for that year was expected to reach a real growth rate of 6.5 per cent (8.6 per cent nominal growth), thus below the original projections of the 2021MTFS.

Both the DBP2022 and the 2021MTFPS projected that the pre-pandemic level of output would be reached by the end of 2022. Potential output growth and the profile of the negative output gap for 2021 and 2022 was very similar in the 2021MTFS and the DBP2022. This notwithstanding the different recovery profile is mainly attributed to a stronger contraction in 2020 which became more apparent following statistical revisions which were published later during the year. Essentially for 2022, both projected a potential output growth ranging from 3.6 per cent to 3.9 per cent whilst the negative output gap ranged from 2.4 per cent to 2.5 per cent. Thus, whilst both programmes anticipated a recovery to pre-pandemic levels, the economy was expected to remain below its potential, justifying the continuation of support measures in 2022, in line with the Council recommendation.

In the 2021MTFS, fiscal Support measures, which were undertaken to support the economy due to the pandemic, were anticipated to be phased out in 2021 and were meant to expire in 2022. Some of the measures were extended to the first few months of 2022. A similar profile was foreseen in the DBP 2022. However additional measures to insulate the economy from international inflationary pressures which ensued led to the notching up of support measures. Despite these changes, the DBP 2022 maintained the deficit target for 2022 at 5.6 per cent of GDP. The additional spending projected in the DBP2022 was expected to be financed by stronger tax revenue performance. Both programmes also envisaged a significant correction in the structural deficit in 2022 which was expected to go down to 4.5 per cent of GDP in 2022.

Despite the similar budgetary profile, the debt dynamics portrayed in both programmes differ mainly as a result of the revised GDP statistics between the two forecast vintages and the stronger recovery in 2021. In the 2021MTFS the debt ratio was expected to climb further from 65.0 per cent of GDP to 65.8 per cent of GDP in 2022. In the DBP2022, the debt ratio was expected to rise more modestly from 61.3 per cent of GDP in 2021 to 61.8 per cent of GDP in 2022 supported by the buoyant economic recovery.

On 24 November 2021, in its Opinion of the 2022 Draft Budgetary Plan, the European Commission considered that the level of public investment planned for 2022 was historically high, while the fiscal stance was projected to be neutral, in line with the Council recommendations. It also stressed the importance for Malta to regularly review the use, effectiveness and adequacy of support measures and adapt measures to changing circumstances.

4. Revised 2022 Targets as outlined in the 2022 Medium Term Fiscal Plan

This section of the Half Yearly Report explains the revised fiscal targets for 2022 in comparison to the targets for 2022 presented in the Draft Budget in October 2021 and explains the rationale behind such changes. The fiscal outcome in 2021, the evaluation of the general Government budgetary developments during the current year, as well as the revised macroeconomic projections, constitute the basis for the revised projections for 2022 undertaken in April. Additional revisions also reflected the extension and phasing out of some of the fiscal policy measures put in place to cushion the economic impact of the COVID-19 pandemic beyond their original deadline, as well as the price stabilisation measures implemented after the Budget, following the rising global inflationary pressures.

When compared to 2021, the general Government balance is now expected to improve in 2022 from a deficit of 7.9 per cent of GDP to a deficit of 5.4 per cent of GDP. Indeed, the general Government revenue ratio is expected to increase by 0.6 percentage points while the general Government expenditure is expected to decrease by 1.9 percentage points. General Government budgetary execution and prospects in accordance with ESA standards are outlined in Table 4.1.

In Spring 2022, the general Government deficit for the year was maintained at €850 million as outlined in the 2022 Draft Budget Plan. Nevertheless, revenue targets were revised upwards by €344 million, whilst expenditure targets were also revised by an equivalent amount. These revisions primarily reflect the better-than-expected revenue outcome in 2021, which turned out €308 million higher than anticipated. Meanwhile, expenditure was revised upwards mainly to reflect higher subsidies on energy, grains and animal feeds granted to support the economy amidst the global inflationary pressures as well as updated projections for intermediate consumption and compensation of employees which followed a review of expenditure performance undertaken in Spring.

4.1 Base effect from 2021

Largely impacted by the COVID-19 pandemic and subsequent Government measures to mitigate the associated risks, the general Government balance for 2021 amounted to a deficit of €1,164.2 million, an improvement of €69.5 million over the deficit recorded in 2020. As a share of GDP, the general Government balance was equivalent to a deficit of 7.9 per cent, an improvement by 1.5 percentage points when compared to the deficit of 9.5 per cent that was registered in 2020. In view of the outturn for GDP in 2021, the deficit in 2021 turned out substantially lower than the estimate of 11.1 per cent of GDP published in the Draft Budget in Autumn of 2021.

Compared to the Autumn 2021 projections, current taxes on income and wealth and social contributions turned out stronger than expected. This explains most of the increase in revenue projections in 2022.

In addition to the impact of the actual outturn in 2021 (base effect) on tax revenue, Table 4.2 further disaggregates the changes to the 2022 forecasts compared to the 2022 Draft Budget Plan due to the macroeconomic determinants (mainly the impact of the pandemic on the economy, the impact of the Russia-Ukraine conflict and the resultant budgetary impact), and other changes (mainly capturing the fiscal impact of COVID-related support measures as well as support related to price and supply developments of energy and commodities).

4.2 Budgetary implications of economic developments

In view of the downward revisions in the macro-economic projections for 2022, in Spring 2022 the general Government revenue was revised downwards by €179 million. This mainly reflects a downward revision in revenue from taxes on production and imports of €128 million in view of the weaker projections for tourism spending. Meanwhile current taxes on income was revised downwards by €42 million, primarily reflecting a downward revision in projections for corporate profits. Other less significant revisions to revenue components included a €19 million downward revision to revenue from capital taxes. Meanwhile, €9 million higher revenue from Social Contributions and higher revenue from individual taxes on income reflected the resilience and growth of the labour market.

4.3 National policy response to Covid-19 and other revisions

In 2022, as the number of hospitalisations due to the COVID-19 pandemic decreased, along with the resumption in economic activity in 2021, allocation of the Government COVID-19 health-related expenditure and supporting schemes assisting the Tourism industry, businesses and employment are expected to be almost phased out by the end of 2022. The Malta Enterprise business assistance schemes, including the wage supplement scheme that has been discontinued by May 2022, will see the withdrawal of measures amounting to €296 million by the end of 2022. In total, Covid measures are expected to be phased out from 4.8% of GDP in 2021 to 1.6% of GDP in 2022, estimated to be around €446.2 million.

On the other hand, energy support measures to stabilise the price of gas, petroleum, electricity, grains and animal fodder were implemented in 2022. Furthermore, a temporary economic stimulus to compensate for the higher cost of living was distributed earlier in the year. These measures were not contemplated in the Draft Budget Plan back in October 2021 and explain most of the upward revision in expenditure. In addition, the excise duty on petroleum has also been reduced in November 2021. These are captured under 'Other revisions' as illustrated in Table 4.2 in the form of subsidies and Table 4.3 as part of the price stabilisation support measures. Such measures will amount to about €230 million in 2022, which is equivalent to around 1.5% of GDP. These temporary support measures are expected to half in 2023, assuming that the pandemic will remain under control whilst the price support measures will be phased out in 2024/25 assuming that economic conditions will improve. In Spring 2022, as part of a re-assessment of expenditure dynamics, the budgetary targets for intermediate consumption were also revised upwards, reflecting an increase in programmes and initiatives which are classified as intermediate consumption. This includes a substantial increase of €45m for COVID supplies, an increase in new medicines expenditure (circa €24m) and a €40m increase in carbon credits.

4.4 Developments to date and other revisions

Provisional General Government accrual data for the first half of the year and the comparable actual data for 2021 are presented in Table 4.1. This section analyses developments that occurred over this period in the Government's revenue and expenditure.

During January to June 2022, the general Government revenue is estimated to have increased by €264.8 million or 10.4 per cent over the comparable period in 2021. This increase is mainly on account of higher tax revenue and social contributions, in part offset by a decline in 'other' revenue. In the first half of 2022, 47.4 per cent of the revised projected revenue was collected, which is at the same levels to the comparable period last year. What follows is a more detailed review of the main components underlying the variances with successive projections.

Revenue from current taxes on income and wealth is estimated to have increased by €109.8 million during the first six months of 2022. The implied growth rate of 11.4 per cent in current taxes on income and wealth recorded during the first half of the year is to the contrary of the projected decline estimated in Autumn 2021 for the entire year. It is also noted that in the first half of 2022, 54.0 per cent of the approved estimates for the whole year is estimated to have accrued, whereas in the comparable period last year 47.6 per cent of the yearly proceeds had been accrued. On the basis of the revised Spring 2022 projections, 46.5 per cent of the revised estimates for 2022 are estimated to have accrued. These indicators show that the performance in the first half of the year is broadly in line with the revised targets for the year.

Revenue from taxes on production and imports is estimated to have recorded an increase of €142 million or 19.3 per cent during the first six months of 2022. Growth in this component of revenue, which was projected at 18.2 per cent in the 2022 Budget, was reduced to 14.2 per cent in the revised Spring projections. In the first half of 2022, 47.4 per cent of the approved target (equivalent to 49.0 per cent of the revised target) for the year is estimated to have been collected, compared to a ratio of 47.0 per cent a year earlier suggesting that the performance to date is in line with the revised projections.

During the first half of 2022, revenue from social contributions is estimated to have increased by 10.6 per cent or €44.3 million during the first six months of 2022. Revenue projections for social contributions were revised upwards in Spring 2022 to take into consideration higher than budgeted tax revenue in 2021. The component of revenue was revised to a growth of 4.2 per cent in 2022. In the first half of 2022, 50.4 per cent of the approved target for the year (equivalent to 48.4 per cent of the revised revenue target) is estimated to have been collected, compared to a ratio of 45.4 per cent a year earlier. These indicators suggest that the revised targets remain plausible.

Meanwhile, 'other' revenue is estimated to have decreased by €44.1 million during the first six months of 2022. This is consistent with the lower forecast for the year as a whole. Given the volatile seasonal patterns of other revenue, a meaningful comparison with 2021 is difficult to perform.

During the first two quarters of 2022, the general Government expenditure is estimated to have increased by €151.9 million, or 4.9 per cent, compared to the same period of 2021. Overall expenditure in the first half of the year was 48.2 per cent of the revised budget target whereas in the same period last year 47.2 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, social payments and 'other' expenditure, in part offset by lower expenditure on subsidies and gross fixed capital formation, compared to the same period in 2021. What follows is a more detailed review of the main components underlying the variances with successive projections.

Expenditure on intermediate consumption has increased by €115.2 million during the first half of 2022, such that intermediate consumption expenditure during the January-June 2022 period amounted to 49.0 per cent of the approved target for the year, compared to a ratio of 43.5 per cent during the same period in 2021. Nevertheless, the share to annual expenditure declines to 45.2 per cent when compared to the revised target expenditure for 2022. Developments in intermediate consumption primarily reflect expenditure by central Government made in respect of ad hoc programmes run by the 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 2022 period. Additional expenditure is recorded towards both Covid and non-Covid related health expenditure, as well as towards the care for the elderly. The performance to date suggests that if seasonal patterns observed last year persist, intermediate consumption targets for the year as a whole remain on track.

'Other' expenditure is estimated to have increased by €40.6 million during the first two quarters of 2022. This represents 69.6 per cent of the approved estimate, 56.5 per cent of the revised estimate and comparable to the 41.0 per cent of annual expenditure recorded last year. These indicators suggest that other expenditure is in line with expectations.

In spite of an estimated increase in the revised target for 2022, compensation of employees, slightly decreased by 1.0 per cent during the first half of 2022 compared to the same period in the previous year. During the first six months, outlays in respect of this item of expenditure amounted to 47.2 per cent of the approved target for the year (or the equivalent of 46.3 per cent of the revised target for this category of expenditure), compared to a ratio of 50.0 per cent a year earlier. Assuming that seasonal patterns observed last year persist, these indicators suggest that in the first half of the year compensation of employees is below the approved and the revised estimates.

Expenditure on gross fixed capital formation declined by €12.8 million during the first six months of 2022, 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 2022, the Government has spent around 35.1 per cent of the approved expenditure for 2022 (equivalent to 40.9 per cent of the revised target for gross fixed capital formation), as compared to 45.1 per cent over the comparable period in 2021. 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.

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 4.1

	ESA Code	2021 Actual *€ 000*	2022 Budget Forecast *€ 000*	Jan-Jun 2021 Actual *€ 000*	Jan-Jun 2022 Provisional *€ 000*	2022 Revised Forecast *€ 000*
Net lending (+)/net borrowing (-)						
1. **General Government**	S.13	**-1,164,244**	**-850,700**	**-589,585**	**-476,671**	**-850,000**
2. Central Government	S.1311	-1,172,051	-849,487	-594,850	-481,915	-848,787
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	7,806	-1,213	5,264	5,244	-1,213
5. Social Security funds	S.1314	-	-	-	-	-
For the General Government						
6. **Total Revenue**	TR	**5,452,619**	**5,611,280**	**2,535,820**	**2,800,663**	**5,955,765**
Of which						
Taxes on Production and Imports	D.2	1,575,696	1,862,324	739,843	882,312	1,800,054
Current Taxes on Income, Wealth, etc.	D.5	2,029,846	1,995,455	965,563	1,075,398	2,311,682
Capital Taxes	D.91	29,340	25,785	14,331	15,138	22,921
Social Contributions	D.61	914,880	912,178	415,762	460,025	950,898
Property Income	D.4	81,432	71,005	31,797	43,345	68,290
Other [a]		821,425	744,533	368,522	324,444	801,921
7. **Total Expenditure**	TE	**6,616,864**	**6,461,980**	**3,125,405**	**3,277,334**	**6,805,765**
Of which						
Compensation of employees	D.1	1,769,584	1,855,655	885,083	876,211	1,894,425
Intermediate Consumption	P.2	1,336,362	1,421,600	580,835	696,037	1,539,238
Social Payments	D.6	1,412,495	1,521,322	742,074	792,549	1,524,132
Interest Expenditure	D.41	167,430	166,087	84,411	81,252	166,094
Subsidies	D.3	688,283	254,760	316,999	284,797	458,845
Gross Fixed Capital Formation	P.51	606,750	742,426	273,466	260,583	637,575
Capital Transfers	D.9	161,901	162,125	48,007	50,774	169,177
Other [b]		474,059	338,004	194,530	235,131	416,279
8. **Gross Debt** [c]		**8,284,403**	**9,373,749**	**8,026,916**	**8,613,970**	**9,150,695**

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 2022

Divergence from previous forecasts

(Millions of Euro)

Table 4.2

	ESA Code	DBP 2022 compared to MTFS 2022 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	**308**	**-159**	**-148**	**1**
2. Central Government	S.1311	308	-159	-148	1
3. State Government	S.1312	-	-	-	-
4. Local Government	S.1313	0	0	0	0
5. Social Security funds	S.1314	-	-	-	-
6. **Total Revenue**	TR	**308**	**-179**	**216**	**344**
Of which					
Taxes on Production and Imports	D.2	-6	-128	71	-62
Of which					
Value Added Type Taxes (VAT)	D.211	-2	-104	58	-48
Taxes on Financial and Capital Transactions	D.214C	31	-16	-1	13
Current Taxes on Income, Wealth, etc.	D.5	244	-42	114	316
Of which					
Taxes on Individual or Household Income	D.51M	151	2	54	207
Taxes on the income or profits of Corporations	D.51O	96	-43	48	101
Capital Taxes	D.91	15	-19	1	-3
Social Contributions	D.61	55	9	-25	39
Of which					
Employers' Actual Pension Contributions	D.611	27	5	-5	27
Households' actual social contributions	D.613	21	5	-6	20
Property Income	D.4	0	0	-3	-3
Other [(a)]		0	0	57	57
7. **Total Expenditure**	TE	**0**	**-20**	**364**	**344**
Of which					
Compensation of employees	D.1	0	0	39	39
Intermediate Consumption	P.2	0	0	118	118
Social Payments	D.6	0	-20	23	3
Of which					
Unemployment expenditure		0	-20	0	-20
Interest Expenditure	D.41	0	0	0	0
Subsidies	D.3	0	0	204	204
Gross Fixed Capital Formation	P.51	0	0	-105	-105
Capital Transfers	D.9	0	0	7	7
Other [(b)]		0	0	78	78

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.

Discretionary Fiscal Measures

(% of GDP)

Table 4.3

List of measures	Detailed description	ESA Code	Introduced in Budget for...	Incremental Budgetary Impact				
				2020	2021est	2021rev	2022af	2022sf
Post Covid-19 Economic Regeneration Plan	Reduced tax on the transfer of immovable property	D2, D5 - R	June 2020 Economic Regeneration Plan	-0.47	-0.01	-0.52	0.39	0.5
Post Covid-19 Economic Regeneration Plan	Reduced Excise Duty	D2 - R	June 2020 Economic Regeneration Plan	-0.06	0.06	-0.06	0.00	0.01
Budget measures enabling business activity		D2 - R	2019 - 2021	0	-0.06	-0.06	0.00	0
Excise duty	Minimum excise duty applicable on petroleum products as from 9/11/2021	D2 - R	2021	0		-0.03		-0.17
Efficiency in Revenue Collection	Revision in interest and penalties due on outstanding tax balances	D2, D5 - R	2022	0	0.00	0	0.13	0.13
Personal income tax	Fiscal incentives for private pensions	D5 - R	2019 - 2021	0	-0.03	-0.03	0.00	0
Personal income tax	Income tax - Fixed Rate on part-time work	D5 - R	2022	0	0.00	0	-0.07	-0.03
Tax deferrals	Assumption of 5% unrecoverable deferred tax	D2, D5, D6 - R	2020-2022	-0.06	-0.05	-0.03	0.01	0.01
Individual Investor Programme	Revenue from the Individual Investor Programme	P10 - R	2014	-0.2	-0.29	-0.32	-0.28	-0.26
Other Revenue	Other revenue measures, including measures legislated in previous budgets			-0.03	-0.01	-0.05	-0.06	-0.06
COVID-19 Support Measure	Various medical supplies and equipment in relation to COVID-19	P2 - E	2020 - 2021	-0.66	0.21	0.09	0.36	0.23
COVID-19 Support Measure	Cargo Transportation and Repatriation	P2 - E	COVID-19 Support Measure	-0.38	0.38	0.38	0.00	0
COVID-19 Support Measure	Additional Covid19-related expenses sustained by education and health sectors	P2 - E	2020		-0.10		0.19	
COVID-19 Support Measure and Post Covid-19 Economic Regeneration Plan	COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme	D3 - E	2020 - 2021	-3.64	0.84	0.8	2.80	2.38
COVID-19 Support Measure	Government-guaranteed loans schemes	D3 - E	COVID-19 Support Measure	-0.01	-0.08	-0.06	0.02	-0.02
COVID-19 Support Measure	Support to the agricultural sector	D3 - E	2021	0		-0.03		0.03
Price Stabilisation Measures	Energy support measures and commodity price and supply security measures		2020	-0.27		-0.16		-0.85
COVID-19 Support Measure	Short Term Social Measures	D6 - E	COVID-19 Support Measure	-0.11	0.10	0.11	0.02	0
	Housing Programmes	D6 - E	2020	-0.12	-0.01	-0.01	-0.05	-0.05

Discretionary Fiscal Measures

(% of GDP)

Table 4.3

List of measures	Detailed description	ESA Code	Introduced in Budget for…	Incremental Budgetary Impact				
				2020	2021^{est}	2021^{rev}	2022^{af}	2022^{sf}
Re-distribution measures	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	-0.45	-0.10	-0.06	-0.20	-0.2
AirMalta restructuring plan	Financial support to the national airline	D9 - E	2021 & 2022	0	-0.21	0	0.21	-0.06
COVID-19 Support Measure	Tourism Support Schemes	D9 - E	2021 & 2022	0	-0.14	-0.09	0.14	0.05
Other Expenditure	Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund			-0.1	-0.14	-0.05	-0.01	-0.07
				-6.55	**0.35**	**-0.17**	**3.61**	**1.59**

est: Estimated in Autumn 2021 in the Draft Budget Plan 2021

rev: Revised in Spring 2022 in the Medium Term Fiscal Strategy 2022

af: Autumn 2021 Forecast

sf: Spring 2022 Forecast

The impact is recorded in incremental terms - as opposed to levels - compared to the previous year's baseline projection. The total figure is the Total impact on the budget balance, as a revenue increasing measure is listed as positive, while an expenditure decreasing measure is also positive. The contrary applies for negative figures, such that a revenue decreasing measure is negative and an expenditure increasing measure is also negative. Simple permanent measures are recorded as having an effect of +/- X in the year(s) they are introduced and zero otherwise (the overall impact on the level of revenues or expenditures does not cancel out). If the impact of a measure varies over time, only the incremental impact is recorded in the table. By their nature, one-off measures are recorded as having an effect of +/- X in the year of the first budgetary impact and -/+ X in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years is zero. The measures may not add up to the total due to the marginal impact of measures legislated in previous' years Budget, but which might nonetheless have a marginal impact on the budget balance.

Box: 2022 Revised Estimates

With respect to financial year 2022, the deficit in the Consolidated Fund has been revised to €794.2 million while the general Government budget deficit in ESA terms was revised to €850 million, which is close to the €850.7 million announced in the original budgetary estimates that were presented in October 2021 and approved in December 2021. By the end of the year, when also considering the revised Gross Domestic Product forecast, the general Government budget deficit is thus expected to reach 5.4 per cent of GDP as compared to the original target deficit of 5.6 per cent of GDP which was published in the 2022 Budget Estimates.

Table 1 shows the revenue and expenditure performance for the first six months of 2022 as compared to the same period in 2021, incorporating also the respective revised positions for 2022 as compared to the original budget which was approved in December 2021. The revised position is based on the outturn for 2021, macroeconomic forecasts and factors in, as and where applicable, an extrapolation of performance for the first six months of the year, amongst other parameters. It may be noted that these estimates are already reflected in the 2022 - 2025 Stability Programme for Malta which was published in April this year.

Revenue

An increase in revenue equivalent to 0.8 per cent of GDP is expected to ensue by the end of 2022, when compared to the original budget. By way of tax revenue, the originally approved amounts under Income Tax, Social Security Contributions and Value Added Tax have been revised upwards by a total €197.5 million, based on the outturn for 2021, revenue performance in 2022 to-date and in reflection of expected economic activity up to the end of the year.

There were no significant changes under the Non-Tax Revenue category that affect the targeted fiscal balance.

Recurrent Expenditure

When compared to the original budget, a net increase in recurrent expenditure equivalent to 1.5 per cent of GDP is expected to ensue by the end of 2022.

The factors contributing to this variance emanate from the Programmes and Initiatives category, due to the outlay necessary on elements that were not envisaged at time of budget preparation, including the wage supplement scheme, the economic stimulus cheques, the higher outlay on the pandemic and the continued support to ease inflationary pressures.

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, as a result of enhanced budgetary monitoring and for purposes of the Fiscal Responsibility Act.

Capital Expenditure

A net decrease in capital expenditure of €55 million, equivalent to 0.4 per cent of GDP is expected to ensue by the end of 2022, when compared to the original budget.

This variance includes lower expected outlay to cover projects which are both funded by the European Union as well as through the national budget, reflecting expected absorption up to year-end. Whilst higher outlay is expected to result with respect to original budget for certain projects, this is expected to be compensated by lower expenditure under others, leading to the net effect shown in this assessment.

General Government Adjustments

The net favourable revisions in the general Government forecasts amount to 0.4 per cent GDP. Amongst these are factors that were revised after the budget was approved, due to additional information made available and the timing of developments ensuing by that time, including tax deferral amounts, as well as support being provided by the Government to make good for the increase in the cost of energy.

Central Government Finances - Consolidated Fund

Table 1

	Jan - Dec 2021 *Actual* € 000	Jan - Dec 2022 *Approved Estimates* € 000	Jan - Jun 2021 *Actual* € 000	Jan - Jun 2021 *Actual as a % of 2021*	Jan - Jun 2022 *Actual* € 000	Jan - Jun 2022 *Actual as a % of 2022*
Revenue	**5,412,213**	**5,704,710**	**2,189,194**	***40.4***	**2,566,227**	***45.0***
Tax Revenue	**4,897,429**	**5,134,325**	**2,018,335**	***41.2***	**2,354,912**	***45.9***
Indirect Tax Revenue	*1,607,029*	*1,999,045*	*756,287*	*47.1*	*890,402*	*44.5*
Customs and Excise Duties	300,313	345,100	133,610	*44.5*	132,574	*38.4*
Licenses, Taxes, and Fines	336,676	389,700	161,566	*48.0*	171,389	*44.0*
Value Added Tax	970,040	1,264,245	461,111	*47.5*	586,439	*46.4*
Direct Tax Revenue	*3,290,400*	*3,135,280*	*1,262,048*	*38.4*	*1,464,510*	*46.7*
Income Tax	2,090,844	1,920,000	746,689	*35.7*	889,306	*46.3*
Social Security	1,199,556	1,215,280	515,359	*43.0*	575,204	*47.3*
Non-Tax Revenue	**514,784**	**570,385**	**170,859**	***33.2***	**211,315**	***37.0***
Fees of Office	101,103	114,938	47,608	*47.1*	29,417	*25.6*
Sales	41,723	42,214	10,518	*25.2*	13,326	*31.6*
Reimbursements	4,008	4,803	1,591	*39.7*	1,236	*25.7*
Central Bank of Malta	33,045	18,400	20,000	*60.5*	22,173	*120.5*
Rents	31,195	35,880	12,416	*39.8*	15,275	*42.6*
Dividends on Investments / Receipts	49,932	46,600	8,250	*16.5*	9,330	*20.0*
Interests on Loans made by Government	3	276	1	*33.3*	0	*0.0*
Grants	170,463	248,426	27,983	*16.4*	79,911	*32.2*
Miscellaneous	83,312	58,848	42,493	*51.0*	40,647	*69.1*
Total Expenditure[(1)]	**6,680,591**	**6,441,785**	**3,012,775**	***45.1***	**3,028,822**	***47.0***
Recurrent Expenditure	**5,715,011**	**5,329,471**	**2,653,840**	***46.4***	**2,672,253**	***50.1***
Personal Emoluments	1,092,683	1,132,234	516,975	*47.3*	523,423	*46.2*
Operations and Maintenance	281,248	254,905	127,119	*45.2*	110,387	*43.3*
Programmes and Initiatives	3,653,269	3,225,962	1,675,266	*45.9*	1,718,590	*53.3*
Contributions to Government Entities	687,811	716,370	334,480	*48.6*	319,853	*44.6*
Interest Payments	**184,249**	**181,417**	**90,524**	***49.1***	**85,652**	***47.2***
Capital Expenditure	**781,331**	**930,897**	**268,411**	***34.4***	**270,917**	***29.1***
Foreign Funds	122,720	246,926	36,372	*29.6*	34,640	*14.0*
National Funds (incl Co Financing)	658,611	683,971	232,039	*35.2*	236,277	*34.5*
Consolidated Fund Balance	**-1,268,378**	**-737,075**	**-823,581**		**-462,595**	

Notes:

af - Autumn Forecasts (Approved Estimates)

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

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 2022, and a comparison of the revised forecasts of debt for the entire year with the 2022 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 2022.

5.1 Debt Developments

As outlined in Table 5.1, in 2021, the debt-to-GDP ratio increased by 3.0 percentage points to 56.4 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. When compared to the Autumn targets set for the 2022 budget, the estimated general Government debt-to-GDP ratio for 2022 has been revised downwards by 3.2 percentage points, to 58.6 per cent of GDP. This primarily reflects the upward revision in the level of GDP in 2021 when compared to the Autumn estimate of GDP. The contribution to the change in the debt ratio continues to be underpinned primarily by the primary balance and the expansionary impact of interest expenditure. In both cases, the contribution to the change in the debt burden was similar to what was projected in Autumn 2021. Nevertheless, a revision in the SFA component reflects a stronger positive contribution to debt developments expected in 2022, compared to the forecast presented in Autumn 2021.

The implicit interest rate on debt increased marginally to 2.0 per cent. The share of maturing stock in total Government debt is 4.1 per cent.

General Government (S.13) Debt Developments and Prospects

Table 5.1

	ESA Code	2021 *% GDP*	2022[af] *% GDP*	2022[sf] *% GDP*
1. **Gross Debt**[(a)]		**56.4**	**61.8**	**58.6**
2. Change in Gross Debt ratio		3.0	0.5	2.2
Contributions to changes in Gross Debt				
3. Primary Balance		6.5	4.5	4.4
4. Interest Expenditure	D.41	1.4	1.1	1.1
5. Stock-flow adjustment		1.0	-0.3	0.1
p.m.: Implicit interest rate on debt[(c)] (%)		3	1.9	2
Other relevant variables				
Percentage of debt related to foreign loans[(d)] (%)		5.1	4.5	4.6
Average MGS maturity (years) [(e)]		9.4	-	9.5
Real GDP growth (%)		10.4	4.8	3.3

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 foreign loans balance has 99% which is held in domestic currency, wheras 1% is denominated in foreign currency.

(e) For 2022, data refers to position as at end June 2022.

5.2 Components of General Government Public Debt

The main objective of the Government's debt management 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 to be raised 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.

Table 11 illustrates the Statement of General Government sector debt. Actual General Government debt as at 30 June 2022 stood at €8,065.89 million (30 June 2021: €7,580.34 million). The consolidated outstanding MGS figure increased by €409.18 million. The outstanding Malta Government Retail Savings Bonds balance stood at €471.84 million, an increase of €93.74 million, whilst the consolidated outstanding amount of T-Bills increased by €73.35 million and stood at €855.60 million as at end June 2022. The foreign loans outstanding balance (99.99% denominated in euro) as at 30 June 2022 stood at €420.66 million, down by €123,000 over the corresponding figure for the equivalent period of last year.

5.3 Main developments in the euro-zone sovereign bond market during H1-2022

Russia's invasion of Ukraine since 24 February 2022 and its ramifications dominated financial markets during the first half of 2022. The conflict is expected to substantially impact economic activity and inflation through higher energy and commodity prices, with further disruption of international commerce and weaker confidence dampening private sector demand. Consequently, the geopolitical situation triggered significant volatility across financial markets. In general, before 24 February 2022, euro area financial markets were predominantly influenced by growing expectations of monetary policy normalisation amid rising inflation and geopolitical uncertainty. After 24 February 2022, the primary driver became the conflict and its economic implications.

Until the outbreak of the conflict, the euro short-term rate (€STR) forward curve steepened further, indicating that markets anticipated a faster pace of rate normalisation given rising inflation. Likewise, long-term nominal risk-free rates – and sovereign bond yields – rose. The benchmark €STR averaged -58 basis points (bps) during this period. The €STR overnight index swap (OIS) forward curve moved up noticeably from the December ECB meeting, reflecting investors' waning concerns about the Omicron variant and increasingly pricing in tighter monetary policy. The average GDP-weighted euro area and German ten-year sovereign bond yields increased by 41 bps and 38 bps, up to 0.49% and 0.04% respectively. Long-term euro area sovereign bond spreads relative to OIS rates remained broadly unchanged. The German ten-year sovereign bond spread remained almost unchanged, standing at -0.26%. Ten-year sovereign bond spreads in France and Spain also moved within a very narrow range, widening by 7 bps and 3 bps to 0.16% and 0.5% respectively, whilst the Italian sovereign bond spread edged up by 7 bps. The aggregate ten-year euro area GDP-weighted sovereign bond spread widened by only 4 bps to 0.20%. This overall limited movement reflected an improvement in risk sentiment amid waning concerns about the Omicron variant. On 3 February, the ECB reiterated that it would reduce Asset Purchase Program (APP) purchases in a gradual manner over the coming quarters, and the cessation of the Pandemic Emergency Purchase Programme (PEPP) at the end of March 2022. Long-term euro area sovereign spreads relative to €STR-based OIS rates increased in some jurisdictions in the wake of the ECB February announcements, in anticipation of monetary policy tightening amid rising inflation concerns (e.g. 19 bps in Italy, 12 bps in Portugal and 11 bps points in Spain).

However, sovereign bond yields subsequently dropped in the wake of the Russian invasion of Ukraine. The fall in real rates, combined with some minor flight-to-safety movements, caused a broad-based decline across euro area sovereign bond yields amid expectations of slower monetary policy normalisation given the economic uncertainties ahead.

Following the onset of the conflict at the end of February 2022, both the GDP-weighted euro area average ten-year sovereign bond yield and the ten-year risk-free OIS rate based on the €STR increased by approximately 70 bps, to 0.74% and 0.64% respectively.

On 10 March 2022, the ECB announced that monthly APP purchases would be gradually reduced during the Spring, and that persistent high inflation forecasts, would lead to the discontinuation of purchases in the third quarter. The ECB was also committed to continue reinvesting maturing APP securities for an extended period of time past the date when policy rates start rising, and for as long as necessary to maintain ample monetary accommodation. Policy rates were kept unchanged.

Towards the end of March 2022, the GDP-weighted euro area average ten-year sovereign spread over the €STR-based OIS rate was 7 bps lower than in December 2021. This change was driven by the decrease in long-term sovereign yield spreads in Germany, which fell by almost 20 bps from February, possibly driven by a flight-to-safety amid geopolitical tensions. By early Spring, global financial markets had rebounded from the sharp falls recorded after Russia's invasion of Ukraine as risk sentiment improved. The overnight index swap (OIS) forward curve based on the benchmark short-term rate €STR forward curve steepened further, reversing the substantial flattening observed shortly after the onset of the invasion. This steepening suggested that investors had revised their monetary policy expectations amid mounting inflationary pressures and the ECB's accelerated APP termination schedule.

Long-term euro area bond yields increased substantially in tandem with short-term rates. The average GDP-weighted euro area and German ten-year sovereign bond yields increased by 60 bps and 58 bps respectively, to 1.35% and 0.77%, levels last seen at the end of 2018. Spreads over the OIS rate remained relatively stable. The aggregate GDP-weighted euro area ten-year sovereign bond spread over the OIS rate declined by 3 bps to 0.13%.

On 14 April 2022, the ECB confirmed its March APP tapering plan. Policy rates remained unchanged, and the Governing Council reiterated its forward rate guidance. The ECB also restated its intention of reinvesting maturing PEPP securities until at least the end of 2024. The future roll-off of the PEPP portfolio would avoid interference with the appropriate monetary policy stance. The ECB also reassured that in the event of renewed market fragmentation related to the pandemic, PEPP reinvestments could be rapidly adjusted across time, asset classes and jurisdictions.

Early June saw euro area risk-free rates increase significantly as financial markets expected an imminent tightening of monetary policy given high and persistently rising inflation rates. Indeed, on 9 June 2022, the ECB Governing Council pre-committed to raise all policy rates by at least 25 bps at its July meeting and also expected to raise policy rates again in September. The magnitude of future rate increases would depend on the updated medium-term inflation outlook. Whilst the ECB decided to end the APP as of 1 July, it also specified it will continue reinvesting maturing securities for an extended period of time past the date when it starts raising policy interest rates, and for as long as necessary to maintain an appropriate monetary policy stance. Over the Spring, €STR averaged at -0.58%. At the same time, the €STR-based OIS forward curve steepened following the April ECB meeting. Market participants had revised their monetary policy expectations in light of growing inflationary pressures and the Governing Council's announcement to end APP purchases in the third quarter. Long-term bond yields surged globally in anticipation of higher central bank policy rates despite mounting downside risks to economic growth. Overall, euro area sovereign bond yields increased in lockstep with risk-free rates, while spreads widened fairly across countries. The GDP-weighted average ten-year sovereign bond yield rose by 118 bps to 2.05%, a level last seen in mid-2015. The ten-year GDP-weighted euro area sovereign spread over the OIS rate increased by a modest 9 bps. A slightly stronger repricing occurred for high-debt countries, with Italian and Portuguese ten-year sovereign bond spreads increasing by 44 and 27 bps respectively, while the German ten-year Bund spread dived by a further 2 bps.

5.4 Primary Market

5.4.1The Debt Capital Market (Malta Government Stocks)

In the beginning of January, the Treasury published the annual borrowing plan for the year 2022 in which it announced (i) the maximum amount that it could borrow during the current year based on the amount set in the Budget Measures Implementation Bill tabled in Parliament in October 2021 (ii) the scope of borrowing and (iii) the instruments that were going to be used to raise the necessary finance to meet the borrowing requirements for the year. Subsequently, the Budget Measures Implementation Act (Cap. 629 of the Laws of Malta) was enacted by Parliament in the beginning of February confirming the maximum amount that the Government could borrow during the year 2022 at an amount not exceeding €1.2 billion.

The first six months of 2022, saw the challenges posed by the Covid-19 pandemic being compounded by the outbreak of the conflict between Russia and Ukraine. This development intensified the headwinds hitting the global economy and financial markets, especially in the form of rising inflationary pressures, including in Malta, and the resultant expectations of a faster and stronger tightening of central bank monetary policy, which ultimately translates into higher borrowing costs.

Since the evolution of the Covid-19 pandemic and the international geopolitical situation are still subject to a high level of uncertainty, the Treasury department will continue to retain flexibility in its issuance strategy to be able to quickly adapt and respond to shifting market sentiment. During the first semester of 2022, the Treasury department tapped the domestic debt capital market twice, in February and May, whilst in June the department issued another ex-Church property MGS.

In the February MGS issue, the Treasury department offered three new fixed-rate MGSs in the short, medium and long-term maturity segments of the sovereign yield curve. This issuance was offered via a competitive auction targeting institutional investors.

The amount on issue was €140 million, with an over-allotment option of a further €100 million. Total participation in the first MGS issuance of the year amounted to €251.9 million (€113 million in the 0.90% MGS 2027 (V), €68.9 million in the 1.60% MGS 2032 (III) and €70 million in the 2.40% MGS 2052 (I)), resulting in a bid-to-cover of 1.80x. In this issuance, the Treasury department allotted €237.4 million - € 110 million in the 0.90% MGS 2027 (V), €58.4 million in the 1.60% MGS 2032 (III) and €69 million in the 2.40% MGS 2052 (I).

In the May MGS issue, the Treasury department offered another three new fixed-rate MGSs amid highly dynamic conditions prevailing in both the global and local sovereign debt capital markets. The Treasury issued a 6-year MGS with a coupon of 1.70% maturing in 2028; a 10-year MGS paying a 2.10% coupon and maturing in 2032; and a 25-year MGS maturing in 2047 with a coupon of 2.60%. This issuance was offered to institutional investors via a competitive auction. The amount on issue was €130 million, with an over-allotment option of a further €100 million. Total participation in the second MGS issuance of the year amounted to €151.1 million (€65.1 million in the 1.70% MGS 2028 (IV), €51 million in the 2.10% MGS 2032 (IV) and €35 million in the 2.60% MGS 2047 (I)), resulting in a bid-to-cover of 1.16x. In this issuance, the Treasury department allotted €98.1 million - €58.1 million in the 1.70% MGS 2028 (IV), €20 million in the 2.10% MGS 2032 (IV) and €20 million in the 2.60% MGS 2047 (I).

In June, the Treasury department issued (through a private placement) a new 10-year stock MGS of €677,400 in accordance with article 7 of the Ecclesiastical Entities (Properties) Act and article 28 of the Government Borrowing and Management of Public Debt Act, and by virtue of the Agreement entered into between the Holy See and Malta.

By end of June, with the two MGS issuances held in February and May, the Treasury raised a total of €335.5 million (excluding the Church stock) or 28% of the approved funding requirements for this year which according to current fiscal projections are not expected to exceed €1.2 billion.

As at 30th June 2022, the Weighted-Average Maturity (WAM) of the gross MGS portfolio, which represents 79.3% of the total gross Central Government Debt Portfolio1, stood at 9.5 years (30 June 2021: 8.5 years). The WAM of the gross central government debt portfolio as at end of June 2022 stood at 8.3 years against 7.7 years registered on 30 June 2021. Despite the observed global sharp rise in sovereign bond yields so far, the Weighted-Average Coupon (WAC) of the gross MGS debt portfolio stood at 2.31% on 30 June 2022 (30 June 2021: 2.79%), whilst the Weighted-Average Rate (WAR)

[1] Composed of MGSs, T-Bills, Foreign Loans and Retail Savings Bonds.

of total gross central government debt was registered at 1.99% (30 June 2021: 2.34%).

By 30 June 2022, the Treasury had redeemed one MGS amounting to €240.17 million compared to €3.66 million (including redemption premium) by end June 2021.

Total interest paid on MGS and Savings bonds during the first half of 2022 amounted to €85.35 million, €5.18 million lower than in H1 2021.

5.4.2 The Money Market (Treasury Bills)

In the first six months 2022, the Treasury held 26 T-bills auctions, regularly once every week. The total nominal amount of T-Bills issued in H1 2022 amounted to €1.24 billion compared to €0.98 billion (nominal) for January-June 2021. Sixty-six (66%) of this total was allotted in the 91-day tenor. During the first half of this year, the 91-day-tenor was issued at a weighted- average rate of minus 0.3018% compared to minus 0.461% registered by end June 2021.

Total T-bill redemptions for the first six months of the year amounted to €977.8 million, whilst over the same period last year the figure stood at €835.5 million.

Until the end of May 2022, all T-Bill issuances were allotted at negative interest rates. As expectations of normalisation of monetary policy by the ECB increasingly took hold, from June onwards the Treasury started receiving bids and allotting T-bills at positive rates, mainly on the 182-day maturities and longer tenors. Up to 30 June 2022, the Treasury department received €1.2 million in interest on T-bills issued compared to €1.8 million in H1 2021.During the month of June 2022, the Treasury issued €120 million nominal worth of T-bills at positive interest rates, which include just above €265,000 in interest payable over the rest of 2022 and 2023.

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 within the Stability and Growth Pact (SGP). Both sets of rules contain clauses that allow the Government to undertake fiscal measures 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 severe economic downturn clause, or as it is more generally known, the general escape clause (GEC) within the SGP. This clause was activated in March 2020, allowing 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. It is however pertinent to note that the application of the general escape clause does not suspend the procedures of the SGP but still allows Member States to depart from their normal budgetary requirements.

6.1. Exceptional Circumstances under the Stability and Growth Pact

On 20 March 2020, the European 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. This enabled large-scale fiscal support at a national and European level, allowing for the necessary budgetary flexibility to address the pandemic and support the economic recovery.

Initially, in its communication, the European Commission indicated that the deactivation of the clause should depend on a quantitative criterion, chosen to be the level of economic activity in the EU, compared to pre-crisis levels. The EU economy is expected to reach pre-pandemic levels of economic activity in 2022, according to the latest European Commission forecasts which, prima facie would have supported the deactivation of the GEC in 2023. However, on 23 May 2022, the European Commission concluded that the EU economy is still in a severe economic downturn, given the heightened uncertainty and downside risks related to the war in Ukraine, unprecedented energy price hikes and supply chain disruptions. Therefore, the European Commission concluded that it is justifiable for the general escape clause to be extended through 2023.

On 18 June 2021, the European Council recommended Malta to preserve nationally financed investment in 2022, while pursuing a prudent fiscal policy. It also recommended Malta to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions, while enhancing investment to boost growth potential. Furthermore, it recommended to focus on the quality of budgetary measures, in particular investment supporting the green and digital transition, and fiscal structural reforms.

On 15 October 2021, Malta submitted the Draft Budgetary Plan for 2022, outlining the economic and budgetary situation for the forthcoming year. On 24 November 2021, in its Opinion of the 2022 Draft Budgetary Plan, the European Commission considered that the level of public investment planned for 2022 was historically high, while the fiscal stance[2] was projected to be neutral, in line with the Council recommendations. It also stressed the importance for Malta to regularly review the use, effectiveness and adequacy of support measures and adapt measures to changing circumstances.

On 18 January 2022, the European Council adopted recommendations for Euro Area Member States, recommending a moderately supportive fiscal stance in 2022 across the Euro Area, mainly through targeted and recovery-oriented measures, in addition to investments consistent with the green and digital transitions, while keeping fiscal policy agile to react to the evolution of the pandemic.

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

On 30 April 2022, Malta submitted its 2022 Stability Programme, in line with Article 4 of Regulation (EC) No 1466/97. It is important to note that since the adoption of the Council Recommendations for 2022, the economic outlook has deteriorated due to the conflict between Russia and Ukraine, which exacerbated pre-existing headwinds to growth which were previously expected to subside. The economic and social impact stemming from these developments require fiscal policy to support households and businesses.

In its Stability Programme, the Government plans an improvement in the general Government deficit from 8.0 per cent of GDP in 2021 to 5.4 per cent of GDP in 2022, while the debt ratio is planned to increase to 58.6 per cent of GDP. The improvement in the general Government balance relative to GDP reflects strong economic growth and the phasing out of the fiscal measures supporting the economy during the pandemic. In addition, within the Programme, the Government expects investment to remain elevated at 4.1 per cent of GDP in 2022, sustained by the RRF and structural reforms, in line with the Council Recommendation of 18 June 2021.

At the current juncture, the European Commission did not propose to open excessive deficit procedures, considering the high uncertainty created by the economic and fiscal impact of the pandemic and the current geopolitical situation. 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 and the conflict in Ukraine. It is the Commission's intention, as stated in its Communication on 23 May 2022, to reassess the relevance of opening excessive deficit procedures in autumn 2022, and in spring 2023, taking into account compliance with fiscal recommendations addressed by the Council.

6.2. Exceptional Circumstances under Malta's Domestic Budgetary Rule

The FRA allows for deviation from the budgetary rules if exceptional circumstances exist, and the deviation does not endanger fiscal sustainability in the medium-term. 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

[2] Fiscal stance is defined as the change in primary expenditure (net of discretionary revenues measures), excluding Covid-19 temporary measures, but including expenditure financed by EU funds, relative to medium-term potential growth.

formal announcement by the 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 crisis, 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 exceptional". The MFAC stresses the importance of adequate preparedness for the time when the general escape clause is revoked, and fiscal rules become binding again.

7. Statistical Annex

Main Macroeconomic Indicators

Table 1

	2019[1]	2020[1]	2021[1]	2022[af]	2022[sf]
GDP growth at current Market Prices (%)	8.4	-7.0	12.4	8.6	7.5
GDP growth at chain-linked volumes by period (reference year 2010)	5.9	-8.3	10.4	6.5	4.4
Expenditure Components of GDP chain-linked volumes by period (reference year 2010)					
Private Final Consumption Expenditure[2]	4.6	-10.2	6.7	4.0	3.4
General Government Final Consumption Expenditure	13.1	15.8	7.7	2.7	8.3
Gross Fixed Capital Formation	8.4	-7.6	17.0	8.8	1.8
Exports of Goods and Services	7.0	-3.8	8.0	6.6	3.6
Imports of Goods and Services	7.9	-0.1	6.7	5.5	3.4
Contribution to GDP growth:					
Domestic Demand	5.9	-3.6	8.1	4.4	3.6
Inventories	0.1	0.6	-0.4	0.0	0.0
Net Exports	0.0	-5.3	2.7	2.1	0.8
Inflation rate (%)	1.5	0.8	0.7	1.7	3.5
Employment growth (%)[3]	5.7	2.8	2.8	2.2	2.4
Unemployment rate (%)	3.7	3.6	4.3	4.0	3.4
Potential GDP growth	5.7	3.1	4.1	3.6	3.8
Output Gap	4.9	-6.7	-1.8	-2.5	-1.2

Notes:

[af] - Autumn (Budget) Forecasts

[sf] - Spring (Revised) Forecasts

(1) Actual data Source: NSO News Release No. 095/2022 - GDP Release 2022/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 2021 *Actual* *€ 000*	Jan-June 2022 *Actual* *€ 000*
Consolidated Fund	**-823,581**	**-462,595**
1. **Total Revenue**	**2,021,749**	**2,439,151**
Taxes, of which:	1,505,417	1,787,665
Current Taxes on Income, Wealth, etc	758,589	923,937
Taxes on Production and Imports, of which:	746,827	863,728
VAT	461,111	586,439
Social Contributions	369,267	464,741
Market Output	71,533	55,685
Current Transfers	3,176	2,259
Capital Transfers	40,484	93,917
Property Income	31,873	34,885
2. **Total Expenditure**	**2,845,331**	**2,901,746**
Intermediate Consumption	453,317	407,918
Compensation of employees	535,161	599,743
Interest	80,069	83,287
Subsidies	226,562	182,458
Social Benefits	709,160	789,179
Current Transfers	635,898	636,382
Capital Transfers Payable	33,915	60,973
Capital Investment	171,248	141,806

(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 2021 *Actual* *€ 000*	Jan - Dec 2022 *Approved Estimate* *€ 000*	Jan - Jun 2021 *Actual* *€ 000*	Jan - Jun 2021 *Actual as a % of 2021*	Jan - Jun 2022 *Actual* *€ 000*	Jan - Jun 2022 *Actual as a % of 2022*
Recurrent Expenditure							
1	Office of the President	4,105	4,903	1,773	43.2	2,305	47.0
2	Parliamentary Service [House of Representatives]	9,281	10,928	6,551	70.6	5,473	50.1
3	Office of the Ombudsman	1,352	1,420	952	70.4	950	66.9
4	National Audit Office	3,850	3,900	2,250	58.4	2,310	59.2
5	Commissioner for Standards in Public Life	478	759	239	50.0	380	50.1
6	Office of the Prime Minister	52,477	62,139	24,128	46.0	25,199	40.6
7	Information	1,147	1,450	525	45.7	643	44.3
8	Government Printing Press	1,710	1,794	804	47.0	883	49.2
9	Electoral Office	3,051	7,741	1,256	41.2	6,806	87.9
10	Public Service Commission	608	714	294	48.3	289	40.5
11	Industrial and Employment Relations	1,941	2,138	900	46.4	918	42.9
12	Ministry for Health	873,610	897,353	439,064	50.3	413,632	46.1
13	Ministry for Foreign and European Affairs	49,103	48,421	16,521	33.6	19,914	41.1
14	Ministry for Senior Citizens and Active Ageing	196,949	211,933	86,805	44.1	101,903	48.1
15	Ministry for Equality, Research and Innovation	14,408	22,653	4,201	29.2	4,022	17.8
16	Ministry for the National Heritage, the Arts and Local Government	57,187	57,899	23,278	40.7	22,990	39.7
17	Local Government	53,272	56,257	31,450	59.0	36,811	65.4
18	Ministry for Transport, Infrastructure and Capital Projects	112,485	115,951	45,218	40.2	50,845	43.9
19	Ministry for the Social Justice and Solidarity, the Family and Children's Rights	67,090	61,616	39,781	59.3	27,572	44.7
20	Social Policy	389,601	413,739	157,793	40.5	174,747	42.2
21	Social Security Benefits	1,114,688	1,212,984	578,952	51.9	628,163	51.8
22	Pensions	104,167	104,228	52,500	50.4	51,351	49.3
23	Ministry for Justice and Governance	47,028	41,899	21,782	46.3	22,412	53.5
24	Ministry for Agriculture, Fisheries, Food and Animal Rights	41,185	40,839	17,428	42.3	17,586	43.1
25	Ministry for Social Accomodation	29,753	40,092	14,108	47.4	12,660	31.6
26	Ministry for Education	302,744	366,515	183,723	60.7	175,938	48.0
27	Education	360,506	337,598	170,270	47.2	177,782	52.7
28	Ministry for the Economy and Industry	127,300	49,807	45,966	36.1	18,736	37.6
29	Commerce	1,761	1,935	764	43.4	821	42.4
30	Ministry for Inclusion and Social Wellbeing	48,390	59,257	22,204	45.9	23,418	39.5
31	Ministry for the Environment, Climate Change and Planning	69,789	87,823	26,382	37.8	22,125	25.2
32	Ambjent Malta	15,525	18,624	6,564	42.3	8,086	43.4
33	Ministry for Gozo	52,415	57,241	22,641	43.2	28,300	49.4
34	Ministry for Home Affairs, National Security and Law Enforcement	73,913	65,639	42,203	57.1	33,698	51.3
35	Armed Forces of Malta	67,178	69,222	37,584	55.9	29,885	43.2
36	Police	82,830	86,317	39,107	47.2	39,587	45.9
37	Probation and Parole	1,443	1,523	642	44.5	663	43.5
38	Civil Protection	10,927	10,593	5,599	51.2	4,861	45.9
39	Ministry for Tourism and Consumer Protection	151,395	150,699	65,413	43.2	70,825	47.0
40	Ministry for Energy, Enterprise and Sustainable Development	694,253	177,492	244,594	35.2	161,116	90.8
41	Ministry for Finance and Employment	353,000	296,078	147,575	41.8	144,322	48.7
42	Economic Policy	1,572	1,927	713	45.3	978	50.8
43	Treasury	30,823	31,851	5,462	17.7	80,962	254.2
45	Commissioner for Revenue	23,538	21,467	11,438	48.6	11,169	52.0
46	Customs	13,190	13,206	5,590	42.4	6,695	50.7
47	Contracts	1,992	2,407	851	42.7	1,521	63.2
	TOTAL RECURRENT EXPENDITURE	**5,715,010**	**5,330,971**	**2,653,840**	**46.4**	**2,672,253**	**50.1**
44	Public Debt Servicing						
	Contribution to Special MGS Sinking Fund	30,000	25,000	2,306	7.7	---	---
	Interest - Local	183,804	180,465	90,520	49.2	85,349	47.3
	Repayment of Loan - Local	462,502	469,567	3,657	0.8	240,169	51.1
	Early Repayment of MGRSB	5,090	5,850	2,415	47.4	3,101	53.0
	Contribution to Sinking Fund - Foreign	50	50	25	50.0	---	---
	Interest - Foreign	445	952	4	0.9	303	31.8
	TOTAL PUBLIC DEBT SERVICING	**681,891**	**681,884**	**98,927**	**14.5**	**328,922**	**48.2**
	TOTAL RECURRENT EXPENDITURE AND PUBLIC DEBT SERVICING	**6,396,901**	**6,012,855**	**2,752,767**	**43.0**	**3,001,175**	**49.9**

Central Government Finances by Expenditure Vote (Consolidated Fund)

Table 3

		Jan - Dec 2021 *Actual* *€ 000*	Jan - Dec 2022 *Approved Estimate* *€ 000*	Jan - Jun 2021 *Actual* *€ 000*	Jan - Jun 2021 *Actual as a % of 2021*	Jan - Jun 2022 *Actual* *€ 000*	Jan - Jun 2022 *Actual as a % of 2022*
Capital Expenditure							
I	Office of the President	582	476	119	20.4	189	39.7
II	Parliamentary Service [House of Representatives]	1,086	1,749	343	31.6	---	---
III	Office of the Prime Minister	35,312	53,312	10,773	30.5	12,100	22.7
IV	Ministry for Health	50,053	75,363	13,273	26.5	11,037	14.6
V	Ministry for Foreign and European Affairs	9,706	4,067	7,822	80.6	1,396	34.3
VI	Ministry for Senior Citizens and Active Ageing	6,708	6,548	2,506	37.4	1,773	27.1
VII	Ministry for Equality, Research and Innovation	1,085	2,957	137	12.6	216	7.3
VIII	Ministry for the National Heritage, the Arts and Local Government	17,638	31,381	3,982	22.6	5,947	19.0
IX	Ministry for Transport, Infrastructure and Capital Projects	242,649	177,420	92,202	38.0	94,684	53.4
X	Ministry for the Social Justice and Solidarity, the Family and Children's Rights	6,084	4,348	2,071	34.0	668	15.4
XI	Ministry for Justice, Equality and Governance	2,571	6,119	828	32.2	401	6.6
XII	Ministry for Agriculture, Fisheries, Food and Animal Rights	37,234	37,747	20,221	54.3	12,917	34.2
XIII	Ministry for Social Accomodation	1,530	3,711	455	29.7	417	11.2
XIV	Ministry for Education	59,517	93,359	16,701	28.1	20,689	22.2
XV	Ministry for the Economy and Industry	47,116	45,081	22,614	48.0	20,609	45.7
XVI	Ministry for Inclusion and Social Wellbeing	10,110	31,071	2,673	26.4	5,519	17.8
XVII	Ministry for the Environment, Climate Change and Planning	35,144	47,503	5,094	14.5	3,531	7.4
XVIII	Ministry for Gozo	31,147	27,043	13,081	42.0	5,829	21.6
XIX	Ministry for Home Affairs, National Security and Law Enforcement	50,733	61,880	16,532	32.6	16,155	26.1
XX	Ministry for Tourism and Consumer Protection	20,811	23,551	5,743	27.6	12,056	51.2
XXI	Ministry for Energy, Enterprise and Sustainable Development	58,129	96,837	21,877	37.6	35,193	36.3
XXII	Ministry for Finance and Employment	21,886	99,374	9,364	42.8	9,590	9.7
	TOTAL CAPITAL EXPENDITURE	**746,831**	**930,897**	**268,411**	**35.9**	**270,917**	**29.1**
XXII	Ministry for Finance and Employment Investment - Equity Acquisition	34,500	5,038	4,500	13.0	0	---
	TOTAL CAPITAL EXPENDITURE AND INVESTMENT	**781,331**	**935,935**	**272,911**	**34.9**	**270,917**	**28.9**
	TOTAL EXPENDITURE	**7,178,232**	**6,948,790**	**3,025,678**	**42.2**	**3,272,092**	**47.1**

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 2021	Actual Jan-Jun 2022	Actual Jan-Jun 2021	Actual Jan-Jun 2022	Actual Jan-Jun 2021	Actual Jan-Jun 2022	Actual Jan-Jun 2021	Actual Jan-Jun 2022
	€ 000	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*	*€ 000*
General Public Services	62,991	65,798	26,802	28,180	218,601	309,486	64,680	70,525
Defense	33,136	25,443	4,079	4,080	369	362	0	0
Public Order and Safety	45,626	45,493	4,648	4,902	7,874	6,036	30,444	24,207
Economic Affairs	26,108	28,457	21,191	4,782	255,550	157,406	80,126	90,153
Environmental Protection	2,877	2,437	408	275	15,722	13,620	5,960	3,370
Housing and Community Affairs	0	0	0	0	8,990	11,517	0	0
Health	171,666	173,040	42,576	34,096	182,158	165,069	42,665	41,427
Recreation, culture and religion	3,692	4,095	636	684	3,872	5,053	15,602	13,803
Education	136,550	143,834	10,477	10,079	130,963	136,757	76,003	63,050
Social Protection	34,329	34,827	16,302	23,309	851,167	913,285	19,001	13,319
Total	**516,975**	**523,423**	**127,119**	**110,387**	**1,675,266**	**1,718,590**	**334,480**	**319,853**

	Interest Expenditure		Capital Expenditure		Total expenditure	
	Actual Jan-Jun 2021	Actual Jan-Jun 2022	Actual Jan-Jun 2021	Actual Jan-Jun 2022	**Actual Jan-Jun 2021**	**Actual Jan-Jun 2022**
	€ 000	*€ 000*	*€ 000*	*€ 000*	***€ 000***	***€ 000***
General Public Services	90,524	85,652	132,187	119,463	**595,785**	**679,103**
Defense	0	0	1,139	721	**38,723**	**30,606**
Public Order and Safety	0	0	15,581	15,472	**104,173**	**96,110**
Economic Affairs	0	0	75,581	92,456	**458,555**	**373,253**
Environmental Protection	0	0	4,940	2,551	**29,907**	**22,253**
Housing and Community Affairs	0	0	469	0	**9,459**	**11,517**
Health	0	0	13,273	11,037	**452,337**	**424,669**
Recreation, culture and religion	0	0	3,964	5,669	**27,767**	**29,303**
Education	0	0	16,701	20,689	**370,694**	**374,409**
Social Protection	0	0	4,577	2,858	**925,375**	**987,598**
Total	**90,524**	**85,652**	**268,411**	**270,917**	**3,012,775**	**3,028,822**

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

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

	2021 Jan - Jun *€ 000*	2022 Jan - Jun *€ 000*	
Consolidated Fund Surplus / Deficit	**-823,318**	**-462,990**	1
Adjustments to the Consolidated Fund:			
Loan Repayment	0	0	
Equities, acquisitions (+)	0	0	2
Equities, sales (-)	0	0	
Other financial transactions	-8,948	0	3
Difference between interest paid (+) and interest accrued (-)	-5,599	2,771	4
Other accounts receivable (+) and payable (-)	28,837	-157,561	5
Time-adjusted cash transactions	199,867	159,070	6
Treasury Clearance Fund flows in non-financial transactions	12,011	-2,640	
Sinking Fund interests' received	2,035	2,183	
Quarterly adjustments	-44,368	-48,695	7
EFSF re-routing	0	0	8
Equity injection	0	0	9
Rerouting/PPP adjustments	-5,390	-3,146	
Standardised guarantees	0	0	
Debt assumption	0	0	
Other adjustments	-380	0	
Net Borrowing (-) / Net Lending (+) of Extra Budgetary Units	50,403	29,094	10
Net Lending (+) / Net Borrowing (-) of Local Government	5,264	5,244	11
Net Lending (+) / Net Borrowing (-) of General Government	**-589,585**	**-476,671**	

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:
https://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A2/Public_Finance/Pages/General-Government-Balance-and-Debt-under-the-Maastricht-Treaty.aspx

Annual Aggregate Budgetary Targets in Accordance with ESA standards

Table 6

	ESA Code	2021 *% GDP*	2022[af] *% GDP*	2022[sf] *% GDP*
Net lending (+)/Net borrowing (-) by sub-sector				
1. General Government	S.13	-7.9	-5.6	-5.4
2. Central Government	S.1311	-8.0	-5.6	-5.4
3. State Government	S.1312	-	-	-
4. Local Government	S.1313	0.1	0.0	0.0
5. Social Security funds	S.1314	-	-	-
General Government (S.13)				
6. Total Revenue	TR	37.5	37.0	38.1
7. Total Expenditure	TE	45.5	42.6	43.6
8. Interest Expenditure	D.41	1.5	1.1	1.1
9. Primary Balance [(a)]		-6.6	-4.5	-4.4
10. One-off and other temporary measures [(b)]		0.0	0.0	0.0
11. Real GDP growth (%)		10.4	6.5	4.4
12. Potential GDP growth (%)		4.1	3.6	3.8
13. Output Gap (%)		-1.8	-2.5	-1.2
14. Cyclical Budgetary Component		-0.8	-1.1	-0.5
15. Cyclically-Adjusted Balance (1 - 14)		-7.1	-4.5	-4.9
16. Cyclically-Adjusted Primary Balance (15 + 8)		-5.6	-3.4	-3.8
17. Structural Balance (15 - 10)		-7.1	-4.5	-4.9

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 31/12/20 €	As published in 2022 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	208	21	5	5	10	180	317	497
Information	6,762	676	169	169	338	0	0	0
Government Printing Press	81,725	8,173	2,043	2,043	4,086	11,445	6,875	18,320
Industrial and Employment Relations	8,002	800	200	200	400	563	477	1,040
	96,697	9,670	2,417	2,417	4,835	12,188	7,669	19,857
Ministry for Health								
Ministry for Health	321,338	32,134	8,033	8,033	16,067	579,393	13,864	593,257
Mater Dei Hospital	1,067,815	106,782	26,695	26,695	53,391	242,570	281,448	524,018
Central Procurement and Supplies Unit	1,396,921	139,692	34,923	34,923	69,846	0	0	0
Primary Health Care	2	0	0	0	0	450	0	450
Sir Anthony Mamo Oncology Centre / Sir Paul Boffa	6,520	652	163	163	326	232	0	232
	2,792,596	279,260	69,815	69,815	139,630	822,645	295,312	1,117,957
Ministry for Foreign and European Affairs	18,286	1,829	457	457	914	672	833	1,505
	18,286	1,829	457	457	914	672	833	1,505
Ministry for Senior Citizen and Active Ageing	38,737	3,874	968	968	1,937	0	3,754	3,754
	38,737	3,874	968	968	1,937	0	3,754	3,754
Ministry for Transport, Infrastructure and Capital Projects								
Ministry	83,341	8,334	2,084	2,084	4,167	1,985	13,761	15,746
Transport Malta	150,000	15,000	3,750	3,750	7,500	121,691	63,015	184,706
	233,341	23,334	5,834	5,834	11,667	123,676	76,776	200,452
Ministry for Social Justice and Solidarity, the Family and Children's Rights								
Social Security Benefits	2,264,026	226,403	56,601	56,601	113,201	1,160,458	1,184,899	2,345,357
Pensions	4,318,727	431,873	107,968	107,968	215,936	231,097	0	231,097
	6,582,753	658,275	164,569	164,569	329,138	1,391,555	1,184,899	2,576,454
Ministry for Justice, Equality and Governance								
Ministry	6,129	613	153	153	306	0	0	0
Attorney General	45					0	0	0
State Advocate	22,814	2,281	570	570	1,141	1,061	1,001	2,062
Notary to Government (1)	413	41	10	10	21	N/A	N/A	N/A
Courts Services Agency (2)	657,200	65,720	16,430	16,430	32,860	80,742	104,189	184,931
	686,600	68,656	17,164	17,164	34,328	81,803	105,190	186,993
Ministry for Agriculture, Fisheries, Food and Animal Rights	142,117	14,212	3,553	3,553	7,106	14,433	6,750	21,182
	142,117	14,212	3,553	3,553	7,106	14,433	6,750	21,182
Ministry for Education								
Ministry	136,777	13,678	3,419	3,419	6,839	10,262	7,170	17,432
Education	31,516	3,152	788	788	1,576	10,206	10,434	20,640
	168,293	16,829	4,207	4,207	8,415	20,468	17,604	38,072
Ministry for Economy and Investment								
TV Licences	601,346	60,135	15,034	15,034	30,067	0	0	0
Malta Gaming Authority (1)	12,616	1,262	315	315	631	N/A	N/A	N/A
Malta Communications Authority (1)	22,243	2,224	556	556	1,112	N/A	N/A	N/A
Lands Authority	3,830,257	383,026	95,756	95,756	191,513	577,166	524,780	1,101,947
Commerce Department	1,430	143	36	36	71	4,095	1,971	6,066
	4,467,892	446,789	111,697	111,697	223,395	581,261	526,751	1,108,012
Ministry for the Environment, Climate Change and Planning								
Ambjent Malta (1)	287	29	7	7	14	N/A	N/A	N/A
	287	29	7	7	14			
Ministry for Gozo	25,530	2,553	638	638	1,277	2,375	2,993	5,368
Ministry for Home Affairs, National Security and Law Enforcement								
Armed Forces of Malta	8,920	892	223	223	446	19,352	0	19,352
Police	55,575	5,558	1,389	1,389	2,779	16,583	7,902	24,485
Civil Protection Department	5,082	508	127	127	254	0	65	65
	69,577	6,958	1,739	1,739	3,479	35,935	7,967	43,901
Ministry for Tourism and Consumer Protection								
Cleansing and Maintence Division	95,112	9,511	2,378	2,378	4,756	10,766	750	11,516
Malta Tourism Authority	11,413	1,141	285	285	571	6,956	22,599	29,554
	106,525	10,653	2,663	2,663	5,326	17,722	23,349	41,070
Ministry for Energy, Enterprise and Sustainable Development	635	64	16	16	32	814	821	1,635
Ministry for Finance and Employment	7,699	770	192	192	385	0	0	0
Income Tax	37,517,650	3,751,765	937,941	937,941	1,875,882	26,343,099	47,109,117	73,452,216
VAT	25,865,295	2,586,530	646,632	646,632	1,293,265	41,694,211	29,125,687	70,819,898
Customs Department	1,288,682	128,868	32,217	32,217	64,434	27,384	25,357	52,741
Contracts	16,272	1,627	407	407	814	500	250	750
	64,695,598	6,469,560	1,617,390	1,617,390	3,234,780	68,065,194	76,260,411	144,325,605
Total			*2,003,135*	*2,003,135*	*4,006,271*	*71,170,741*	*78,521,079*	*149,691,820*

Notes:
(1) Collected.
(2) The amount reported in Table 8 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 2021 Actual € 000	Jan-Dec 2022 Budget Estimate € 000	Jan-Jun 2021 Actual € 000	Jan-Jun 2022 Actual € 000	Jan-Dec 2022 Revised € 000
General Government Debt					
Malta Government Stocks (MGS)	6,265,121	7,363,520	5,908,610	6,317,789	7,086,703
Malta Government Retail Savings Bonds (MGRSB)	474,942	376,655	378,102	471,841	375,754
Treasury Bills	576,920	640,000	782,250	855,600	694,000
Foreign Loans	420,718	420,591	420,780	420,657	420,591
EBU's and Local Councils	168,817	167,566	168,594	168,827	168,817
Currency	93,502	105,533	90,593	93,727	105,447
ESA (Debt Re-Routing)	284,383	299,884	277,987	285,529	299,383
Total	**8,284,403**	**9,373,749**	**8,026,916**	**8,613,970**	**9,150,695**
Public Debt Servicing					
Local Loans					
Interest (Treasury Bills)	0	631	0	0	631
Interest (MGS/MGRSB)	183,803	179,834	90,524	85,349	179,834
(A) Total Interest - Local Loans	**183,803**	**180,465**	**90,524**	**85,349**	**180,465**
Contribution to Special MGS Sinking Fund	30,000	25,000	0	0	25,000
Direct Loan Repayment	462,502	469,567	3,657	240,169	469,567
Early Repayment of MGRSB	5,090	5,850	2,415	3,101	5,850
(B) Direct Loan repayments including Early Repayments of MGRSB and Contributions to Sinking Funds	**497,592**	**500,417**	**6,072**	**243,270**	**500,417**
Total Servicing of Local Loans (A + B)	**681,395**	**680,882**	**96,596**	**328,619**	**680,882**
Foreign Loans					
Interest	445	952	4	303	952
Contributions to Sinking Funds	50	50	0	25	50
Total Servicing of Foreign Loans	**495**	**1,002**	**4**	**328**	**1,002**

Malta Government Debt Securities with maturities of more than one year

	€ 000s
The revised amount of Malta Government Securities/debt instruments to be issued during 2022 shall not exceed	1,200,000
Total amount of Malta Government Stocks issued to date	335,500
The Total amount of Malta Government Securities/debt instruments to be issued in H2 of 2022 shall not exceed	864,500