



# Malta: Half-Yearly Report 2015

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**Ministry for Finance**

**July 2015**

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## **1. Introduction**

The Half-Yearly Report is in line with Article 39 of the Fiscal Responsibility Act, and constitutes the first of its kind.

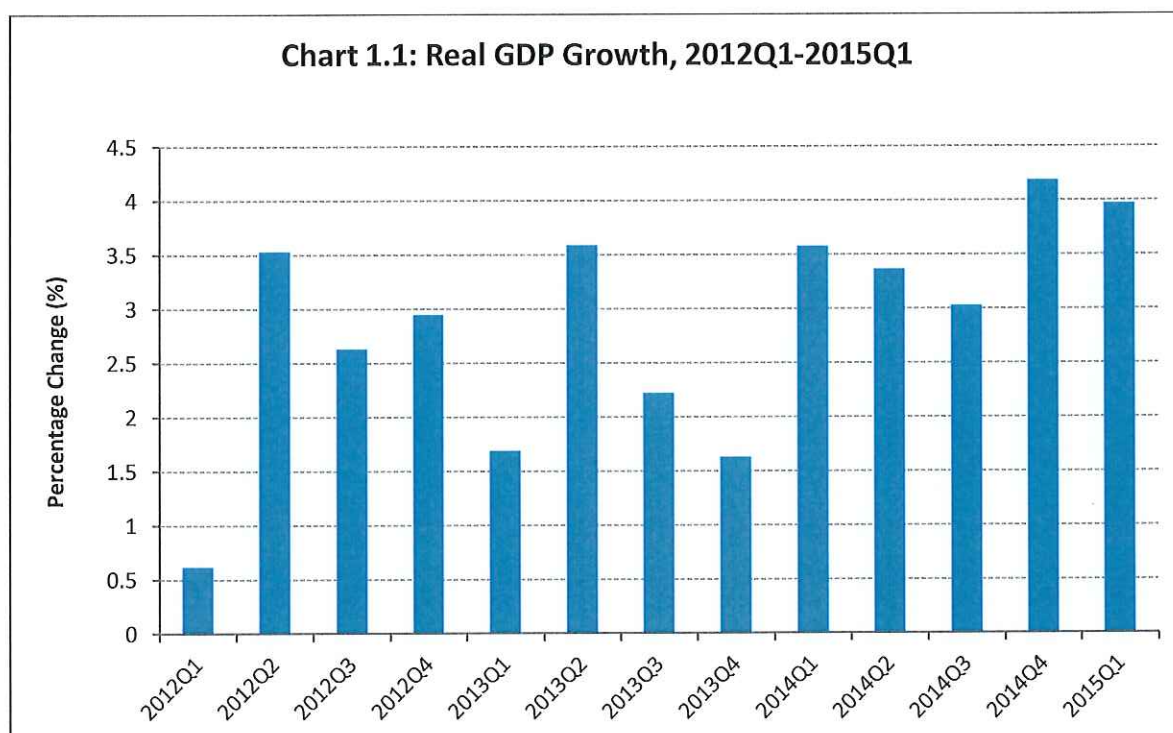
In line with Article 39(8), the half-yearly report provides a review of the macroeconomic situation that includes the latest significant changes and trends since the finalization of the final budget. It provides an assessment of the impact of a revised macroeconomic scenario on the fiscal situation and a presentation of necessary corrective measures being undertaken and/or to be taken to address such impacts. It explains how the implementation of the budget is consistent with Fiscal Rules and the Stability and Growth Pact requirements. It provides data on the general budget revenues and expenditure performance. Revenue performance is detailed for each category of revenue, indicating the initial forecast, performance in the first six months, and an updated forecast for the entire year. Expenditure performance is detailed by economic and functional classification, indicating the approved expenditure, the expenditure incurred in the first six months, and an updated forecast for the entire year. The report also provides data on the General Government budgetary targets, data on the absorption of European funds and data on all outstanding creditors for the first six months of the years. The report explains any shortfalls in the forecasted revenues and revenue arrears and provides data on Government debt developments and targets, and the financing of the budget deficit.

## 2. Review of the Macroeconomic Situation

*This section provides an economic update, including a table with the revised macroeconomic projections in comparison with the Budget projections together with a detailed explanation of the main changes.*

### 2.1 Latest Economic Conditions

The positive economic developments of 2014 appear to be gaining further momentum in 2015. Latest data released by the NSO shows that in the first quarter of 2015, the Maltese economy expanded by 4.0 per cent in real terms, driven primarily by net exports.



During the same period, total gross value added increased by €83.0 million, or 5.2 per cent, compared with a 3.8 per cent increase in the corresponding period of 2014. Growth was underpinned by an affirmative performance in nearly all sectors of the economy, particularly in the financial and insurance activities (11.9 per cent), professional, scientific and technical activities sector (11.2 per cent), public administration and defence, compulsory social security, education, human health and social work activities sector (6.3 per cent), real estate activities (5.7 per cent) and the agriculture (5.0 per cent) sector. Of particular note is



the fact that the financial sector, the agriculture, forestry and fishing sector and the mining and waste management sector all registered a positive turnaround in the first quarter of 2015. These positive developments more than offset the overall decline registered in the manufacturing sector. It is worth noting however that the decline in manufacturing gross value added was not broad based but was mainly attributed to lower production by the computer, electronic and optical products. In contrast, a number of manufacturing sectors which together account for around 48.5 per cent of manufacturing gross value added registered very strong growth rates averaging 21.9 per cent.

From the income side, total incomes grew by 6.0 per cent in the first quarter of 2015, underlined by a positive performance in both gross operating surplus and compensation of employees. Net taxes increased by 13.2 per cent, or €27.9 million when compared to the corresponding period of the previous year.

### *2.1.2 Labour Market*

Employment growth increased by 3.1 per cent in 2014, which is higher than the average registered during the last decade. Moreover, the latest Labour Force Survey estimates indicate that during the first quarter of 2015, employment increased by 1.3 per cent when compared to the corresponding quarter of 2014. During the same period, the unemployment rate remained at a historically low rate of 5.9 per cent.

### *2.1.3 Inflation*

During the last three quarters of 2014, HICP annual rate of inflation was mainly stable hovering around the rate of 0.6 per cent. Subsequently, in May 2015, it reached the rate of 1.3 per cent, compared to 0.3 per cent for EA19. Indeed, as the impact of the 2014 energy price reduction was wearing off, the overall inflation rate increased in May 2015. During the same period, the processed and unprocessed food as well as the non-industrial goods components showed steady positive contributions to the overall rate.

## *2.2 Comparison of macroeconomic projections*

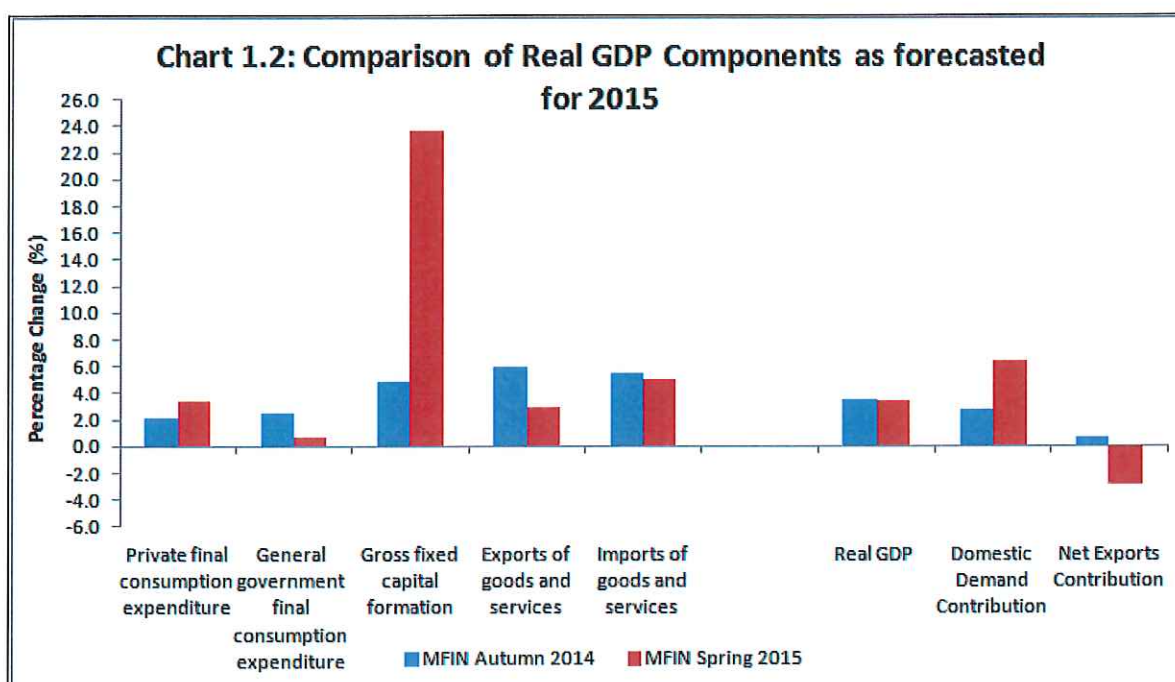
This section provides a comparative evaluation of the latest macroeconomic forecasts for 2015 published in the 2015 Stability Programme document (hereinafter referred to as the

Spring 2015 forecast) against the projected estimates for the same year generated within the Budget 2015 projections in October 2014 (hereinafter referred to as the Autumn 2014 forecasts). This assessment aims to explain the main forecast revisions that were undertaken since October 2014. Data referred to in this section is shown in **Table 1**.

The Budget projections of October 2014 carry a cut-off date for the inclusion of data and information available to MFIN up to the 15th of September 2014, so that the forecast start from the year 2014. In contrast, the cut-off date for the revised Spring forecasts of April 2015 has been set to the 18th March 2015 and the forecast thus start from the year 2015. Indeed, this permitted more recent developments effecting 2015 to be taken into account in the revised forecast exercise. Nevertheless this does not include the most recent national accounts data and other economic data published after the cut-off date.

The headline real and nominal GDP growth rates have remained relatively similar between the two forecasting exercises, though the main contributors to growth differ substantially. Both sets of forecasts are consistent with a domestically-led growth scenario, yet the revised Spring 2015 forecast assumes domestic demand to be the sole driver of economic growth, with the external sector now acting as a drag on GDP growth. Specifically, the revised contribution from domestic demand is 3.6 percentage points higher than that expected in the Budget projections, whilst the contribution from the external side has changed from a positive 0.7 percentage points to a negative 2.9 percentage points. These divergences are primarily underpinned by the assumed significant increase in the import-intensive GFCF component, which is in turn based on the latest information available for Spring's forecast round. Furthermore, the developments within the domestic demand components expected for 2015 have had an impact on the expected contribution of net exports to economic growth.

**Chart 1.2** provides a graphical comparison of the differences in the projected components of real GDP for 2015 as estimated by MFIN in the Budget projections and the revised Spring 2015 projections.



### 2.2.2 – Private Consumption

The revised forecasts presented by MFIN in Spring 2015 project a stronger rate of growth in private consumption expenditure when compared to the projected rate by MFIN in October 2014. Indeed, the revised projected rate is 1.3 percentage points higher than the rate forecasted in the Budgetary exercise of 2014. This revision is primarily underpinned by a higher than expected increase in disposable income, which is in turn prompted by favourable labour market developments, an appreciation in wages, lower energy prices and lower effective income tax. The revision also reflects the stronger than anticipated performance experienced in 2014 based on the March 2015 statistics.

### 2.2.1 – Gross Fixed Capital Formation

The forecasted growth rate for GFCF in 2015 has been revised upwards from 4.8 per cent in October 2014 to 23.6 per cent in April 2015. This revision reflects the anticipation that a number of large one-off private and public investment projects will materialise over 2015. In addition, private investment is expected to be supported by a series of announced governmental measures in the Budget for 2015.



### *2.2.3 – Public Consumption*

Growth in government final consumption expenditure over 2015 has been revised downwards by 1.9 percentage points, to reach 0.6 per cent in MFIN's Spring forecast.

### *2.2.4 – External Balance of Goods and Services*

In MFIN's Spring forecasts, the significant pick-up in the import-intensive domestic demand in 2015, was reflected in a declining contribution of net exports to economic growth during the same year. Indeed, albeit both real exports and imports growth forecasts were revised downwards, the decline in the growth of exports was of a higher magnitude. This more subdued growth in exports of goods and services is partially supported by a slower than previously anticipated pick-up in a number of export oriented sectors, including manufacturing.

### *2.2.4 – Inflation and Labour Market Developments*

MFIN's Spring forecast exercise is expecting inflationary pressures to be more subdued, as the HICP inflation rate was revised downwards by 0.5 percentage points to reach 1.0 per cent in 2015. This revision is partly supported by significantly lower assumed oil price for 2015 (from \$103.7/barrel assumed in Autumn 2014 to \$59.9/barrel assumed in Spring 2015), and the reduction in utility tariffs for the commercial sector from March 2015, which is also expected to somewhat damper inflationary pressures this year. Furthermore, there were no significant discrepancies relating to the projections within the labour market, with both forecast vintages expecting the employment growth rate at around the 2.0 per cent mark and unemployment rate below the 6.0 per cent mark in 2015.

### *2.2.5 – Potential Output and the Output Gap*

Malta's potential output growth has been revised upwards by 0.7 percentage points in MFIN's Spring forecasts, to reach 3.5 per cent in 2015. This revision is mainly underpinned by strong improvements in investment for the same year. The output gap is also expected to be higher at 0.6 per cent as a result of the higher potential output growth and the lower GDP growth for 2015.

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

#### **Situation**

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

Between Autumn 2014 and Spring 2015 fiscal projections were updated to take into account more recent economic statistics and revised external assumptions. In particular revised forecasts for private final consumption expenditure, tourist expenditure, employment, wages, profits and prices can have a significant impact on revenue forecasts.

Whilst nominal GDP growth forecasts were only revised marginally downwards the composition of growth in the Spring vintage of the forecast was balanced more in favour of domestic demand conditions, including household consumption. Tourism earnings were revised upwards in line with the stronger than anticipated performance of the tourism industry. The composition of growth was such as to result in an increase in revenue from consumption. Inflation projections were revised downwards partly mitigating the effect of a stronger private domestic consumption on indirect tax revenue. Nevertheless, revenue from VAT was kept at the same level to ensure a measure of prudence in the revised forecasts.

Revenue from taxes on income, as projected in Spring 2015 was revised upwards to reflect the strong growth in employment and wages when compared to the Autumn forecasts. On the other hand the growth in profits was revised marginally downwards. As a result of these developments both income tax revenue and social security contributions were revised upwards by €8 million and €9 million respectively. Further upward revisions with respect to income tax revenue as documented in this Report are related to the performance of this component of revenue in the first six months of 2015.

Revisions in the macroeconomic forecasts are not assumed to have a significant impact on expenditure projections. However, lower inflationary projections and consequently a lower COLA assumption can have a significant effect on social benefits.



Nevertheless since COLA is estimated on the basis of the inflation rate of the previous year both set of projections for 2015 were based on the same COLA of €0.58. Hence the revisions in expenditure projections were unrelated to changes in macroeconomic forecasts.

## 4. Corrective Measures and Revised Forecasts

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

The revised revenue and expenditure projections found below are based on the outturn for 2014, the revised 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 the main part of the variances have already been reflected in the 2015 - 2018 Stability Programme for Malta which was published in April this year. **Table 2** shows the revenue and expenditure performance for the first six months of 2015 as compared to the same period in 2014.

Whilst both revenue and expenditure projections in the Consolidated Fund are being revised, the accruals based deficit target has been maintained at 1.6 per cent of GDP, and therefore, no corrective measures other than continued vigilance on expenditure are deemed necessary.

### 4.1 Revenue

An increase in revenue equivalent to 1.1 per cent of GDP is expected to ensue by the end of 2015, when compared to the original budget. By way of *Tax Revenue*, the originally approved amounts under *Income Tax and Social Security Contributions* have been revised upwards by €21 million and €9 million, respectively, based on revenue performance to-date and in reflection of expected stronger macroeconomic activity up to the end of the year as explained in the previous section. The increase envisaged under the *Customs and Excise Duty* heading arises due to the outstanding amount of Excise Duty on Petroleum due to Government as prevailing at the end of 2014, which is now expected to be passed on to Government during 2015, in addition to the current year dues proper.

Under the *Non-Tax Revenue* category, an upward revision of €26.9 million arises due to the anticipated reimbursements from the EU emanating from Malta's approved funding perspectives, including also the balance which was not received by the end of 2014, the magnitude of which had not yet been established at the time when the Estimates were approved last December.

#### 4.2 Recurrent Expenditure

When compared to the original budget, a net increase in recurrent expenditure equivalent to 0.7 per cent of GDP is expected to ensue by the end of 2015. Broken down according to the respective recurrent expenditure categories, the factors contributing to this increase were the following upward revisions: €15.9 million for *Personal Emoluments*, €3.1 million for *Operational and Maintenance*, €28.3 million for *Programmes and Initiatives* and €7.9 million in respect of *Government Entities*.

The main driving factors for the upward revision in *Personal Emoluments* arise under the education and health sectors, owing to additional recruitment required to meet increasing demands. Under the *Operational and Maintenance* category, the education sector is also expected to give rise to a funding increase to cover the yearly bill for the transport service provided to students attending Government schools.

Under the *Programmes and Initiatives* category, the main component accounting for the increase in funding requirements is Malta's *Own Resources* contribution to the European Union's budget, based on the latest workings and revisions made available this year. The settlement of arrears which have been established as being due to Church schools takes up another significant part of the projected increases in excess of budget targets expected to result by year-end. The state contribution due in terms of the Social Security Act will also need to be supplemented, to correspond to the anticipated increase in social security contributions which has been assimilated into the revenue projections. Other net revisions were necessary to cover the costs of the elections including the referendum and the local council elections which were held earlier this year, expenditure on waste treatment, residential care for the elderly and residential homes for the disabled. On the other hand, further savings in social benefits are expected to stem from the Youth Guarantee and the



Tapering of Social Benefits as such schemes have enabled a number of persons to take the opportunities being offered and to enter the labour market.

With regards to the *Contributions towards Government Entities*, when compared to the original budget, it is anticipated that, based on further updates made available regarding staff which are to be transferred onto Engineering Resources Ltd, higher amounts will become due by way of emoluments to cover the corresponding human resource element, as compared to the original estimate. Wherever possible, staff transfers are to substitute new recruitment across the public service. Furthermore, given the likelihood that the agency responsible for mental health shall experience a budget shortfall by year-end reflecting the provision of its service in this sector, a supplementary amount is also being featured into the revised estimates.

The above mentioned adjustments are in addition to transfers of funds affected within various recurrent expenditure votes, through which other shortfalls have been covered by means of compensatory savings, both for purposes of the Fiscal Responsibility Act as well as by way of corrective action aimed at deficit target containment.

When compared to the approved budget, interest payments on public debt are expected to be €6.5 million lower than originally estimated.

#### *4.3 Capital Expenditure*

Based on claims being made, a net increase in capital expenditure of €24.7 million, equivalent to 0.3 per cent of GDP is expected to ensue by the end of 2015, when compared to the original budget.

This amount includes an increase in expenditure on EU funded projects and programmes, consistent with the increase in revenue referred to under non-tax revenue above and for the same reason as explained earlier. Other elements expected to require supplementary provisions include allocations towards civil works, acquisition of land, as well as film incentives.

Corresponding downward expenditure trends are also envisaged under nationally funded capital expenditure items. Such compensatory adjustments have become necessary to make good for shortfalls experienced elsewhere in the budget in line with the Fiscal Responsibility Act and as corrective measures for deficit target purposes. These were arrived at after having considered actual expenditure registered during the first two quarters of 2015 as well as existing commitments, thus ensuring that the implementation of ongoing capital projects may proceed as planned.



## 5. General Government Revenue and Expenditure Performance

*This section provides an analysis on revenue and expenditure performance for the first six months of 2015 relative to the original budgetary targets. Data provided in this section is accruals based, using the European System of Accounts (ESA) 2010 methodology. Actual data is used for the first quarter of 2015, whereas estimated and therefore provisional data is used for the second quarter. It is important to note that the data presented below is not comparable to that classified in the statement of Consolidated Fund as provided in Section 4 of this Report. An explanation of how accrual data is derived from the Consolidated Fund data is provided in Table 6a.*

The assessment of the fiscal performance against budgetary targets and the fiscal rules implied by the Fiscal Responsibility Act has to be undertaken on the basis of ESA2010 data which is adjusted for accruals. Given that General Government accrual data for the second quarter of 2015 is not yet fully available, the reported budgetary performance of General Government for the first half of 2015 should be treated as provisional. Moreover, the analysis provides a comparison against the November projections of the 2015 Budget. This evaluation coupled with the revised macroeconomic projections constitutes the basis for the revised projections highlighted in this Report. Data referred to in this section is shown in **Table 6b**.

Over January-June 2015, the General Government revenue is estimated to have increased by €121.6 million, implying a growth rate of around 8.2 per cent over the comparable period of 2014 primarily as a result of higher tax revenue. This compares favourably with the growth of 5.1 per cent in General Government revenue targeted in November 2014 for 2015 suggesting that revenue performance is likely to be stronger than anticipated.

Revenue from taxes on production and imports is expected to have recorded an increase of €44.9 million in the first six months of 2015 when compared to the same period of 2014, implying a growth rate of about 9.2 per cent. The targeted growth rate for taxes on production and imports as at November 2014 was 6.7 per cent, thus indicating a stronger than anticipated performance in the first six months of 2015. It is however worth noting that out of the total taxes on production, revenue collected from Value Added Tax (VAT) in the

January-June 2015 period is estimated to have registered a growth rate of 0.9 per cent, in contrast with 6.8 per cent growth rate targeted by year end. However, this weaker than expected performance reflects the negative impact resulting from the EU change to the place of supply rules, which came into force with effect from 1st January 2015 for electronically supplied services (such as online gaming), whereby the tax now accrues to the country of the consumer. Nevertheless lower than expected revenue from VAT is expected to be more than offset by other revenue from customs, excise and licences classified under taxes on production and imports.

Revenue from current taxes on income and wealth is estimated to have increased by €37.5 million, reflecting the sustained positive performance of the labour market and an increase of revenue from income tax paid by companies. The implied growth rate in current taxes on income and wealth is 7.3 per cent, which performance compares favourably to the prudent growth rate of 0.9 per cent for current taxes on income and wealth that was targeted for 2015 as at November. In fact, while over the first six months of 2014 Government has collected about 44 per cent of the total current taxes on income and wealth, over the same period of 2015, Government is estimated to have collected around 47 per cent of the 2015 target. This positive performance justifies the revised projections for 2015 contained in this Report.

The 'other' category of revenue, which aggregates revenue from market output, output for own final use and payments for non-market output, other current transfers and other receivable capital transfers and investment grants is expected to have recorded an increase of €18.3 million in the first six months of 2015 when compared to the same period in 2014. This implies a growth rate of 11.3 per cent largely underpinned by higher receipts from other receivable capital transfers and investment grants reflecting the anticipated reimbursements from Malta's approved EU funding. The targeted growth rate for the 'other' category of revenue as at November was 11.7 per cent, in line with the performance noted up till June indicating that these revenue targets are on track.

Over January to June 2015, revenue from social security contributions is expected to have grown by 5.8 per cent compared to a target growth of 5.2 per cent. The expected increase of €15.5 million reflects the strength of the labour market and the strong outcome in output and employment. It is to be noted that over the first six months of 2014 and 2015,



Government is estimated to have collected about 48 per cent of the total social contributions for the respective year; the positive performance suggests that budget targets have also been relatively prudent and justifies the revisions carried out in April in this revenue component.

In the first six months of 2015 property income is estimated to have increased by €3.8 million when compared to the same period of 2014. The expected growth rate of 7.3 per cent in the first six months is comparable to the targeted growth rate for property income for 2015. Meanwhile, when compared to the January to June period of 2014, revenue from capital taxes is expected to increase by €1.7 million in the first six months of 2015. Over the period January to June of 2015, Government has already collected more than 57 per cent of its 2015 target for capital taxes, comparing favourably to a ratio of about 47 per cent collected in the same period over 2014. Again this indicates a stronger than anticipated performance relative to Budget targets.

General Government expenditure is expected to have increased by €141.9 million in the first six months of 2015 compared to the same period of 2014, implying a growth rate of around 8.3 per cent over the comparable period of 2014. This is primarily due to higher expenditure for gross fixed capital formation, the 'other' category of expenditure, compensation of employees, and social payments. As at November, General Government expenditure was targeted to grow more modestly by 3.7 per cent in 2015.

The estimated increase in gross fixed capital formation of €56.5 million is mainly underpinned by higher expenditure for projects which were in part financed from EU funds. Over the first six months of 2014 Government had spent just below 41 per cent of the aggregate investment expenditure for 2014; while over the comparable period of 2015. Government is estimated to have spent around 63 per cent of the investment expenditure target for 2015.

During the first half of this year, the 'other' category of expenditure, is estimated to have increased by €36.1 million. This is expected to have been largely underpinned by higher expenditure in other current transfers, but which however will be neutral on the deficit by year end.

During the same period, compensation of employees is estimated to have increased by €35.7 million, implying an estimated growth rate of 6.9 per cent over the comparable period in 2014. The estimated increase was higher than target mainly on account of higher expenditures on priority sectors, namely education and human health activities. Projections have been revised upwards in April and further in July to take into account the performance of compensation of employees relative to the original budgetary targets.

The targeted growth rate for social security payments as at November was 4.0 per cent. Meanwhile, social security payments are estimated to have increased by €8.1 million in the first six months of 2015, or a growth of 1.6 per cent over the same period in 2014. Although the performance in the first six months is favourable, this could partly reflect different timing of payments due and hence no revisions have been undertaken apart from revised estimates of the impact of budgetary measures such as the Youth Guarantee and the Tapering of Social Benefits. Furthermore, expenditure on residential care in private homes has been reclassified under intermediate consumption.

In the period January to June of 2015, capital transfers are estimated to have increased by €4.4 million over the same period in 2014, implying a growth of 9.7 per cent. Over the first six months of 2014, Government's capital transfers were equivalent to around 51 per cent of the aggregate 2014 capital transfers; while over the comparable period of 2015 Government's capital transfers constitute about 40 per cent of the targeted capital transfers for 2015. This reflects the higher equity injection in Air Malta which took place in the first quarter of 2015 and hence is not indicative of underperformance relative to targets.

In the first half of 2015, subsidies are estimated to have increased by €2.2 million, consistent with a growth rate of 4.2 per cent over the comparable period of 2014. Nevertheless, while in the January to June 2015 period, subsidies represent about 37 per cent of the targeted subsidies for 2015, in the same comparable period of 2014 subsidies represented around 51 per cent of the subsidies in 2014. Over January to June 2015, intermediate consumption and interest expenditure together are estimated to have declined by €1.1 million.

Moreover during the same period, the ratio of intermediate consumption and interest expenditure to their respective approved target is line with the 2014 ratio. It is however

worth noting that the performance of intermediate consumption and subsidies is influenced by the reclassification amounting to €24 million of the subvention to WSC and Engineering Resources Co. Ltd into intermediate consumption.



## **6. Revised General Government Budgetary Targets**

*The following section provides data on the General Government budgetary targets as proposed in the 2015 Budget, and the revised forecast primarily reflecting the revised macroeconomic scenario and the performance indicators discussed above. Data in this section is in accordance with ESA standards.*

Government remains committed to ensure a sustainable fiscal position by gradually but consistently reducing the fiscal imbalance. During the current fiscal year, despite the corrective measures outlined earlier, the General Government balance is still expected to reach the deficit targets of November 2014 as reiterated in the Stability Programme and later in the Medium Term Fiscal Policy Strategy.

Consistent with the tax-rich composition of economic growth and the better than expected performance, the targets for General Government revenue have been revised upwards by €75.2 million to reach €3,564.9 million in 2015.

More than two-thirds of this increase is however attributable to an upward revision in the 'other' component of revenue. The revised projections in this category of revenue mainly reflect higher anticipated reimbursements from Malta's approved EU funding to the magnitude of €26.9 million. The revised projections also take into account an upward revision of €30.2 million related to EBUs and Local Councils.

Indirect taxes are expected to register a growth of 6.2 per cent reaching €1,155.1 million by year end mainly supported by the budgetary measures announced in last November in particular, revisions to the excise duty on cigarettes and tobacco, fuel, cement, mobile telephony, and beer and spirits, and the introduction of an excise duty on tyres together with greater efficiency in revenue collection. Despite the positive performance of this revenue component when compared to the original budgetary estimates and the favourable changes in macroeconomic projections, taxes on production and imports, which includes revenue from VAT, were not revised upwards thus allowing a measure of prudence in the revised forecasts. Indeed targets were revised downwards by €5.3 due to higher own resources payable to the EU. It is pertinent to note that in May, the Malta Fiscal Advisory

Council (MFAC) already reported<sup>1</sup> that it considers that the estimate for taxes on production and imports is based on an element of prudence. This should be enough to compensate for the risks of underperformance of the VAT component.

A growth of 6.2 per cent is also expected to ensue for revenue from social security contributions. Revenue from social security contributions has been revised upwards by €6 million when compared to the approved budgetary estimate to reach €595.3 million by 2015. This revision reflects both the revenue performance to date and the revised macroeconomic scenario which is consistent with stronger labour market conditions and wage growth compared to the Autumn 2014 forecasts. Furthermore, a €3 million upward revision was also carried out to the state contribution, which however has a deficit-neutral effect in ESA terms. It is to be noted that according to the MFAC's assessment<sup>1</sup>, the uncertainty surrounding the projections for social contributions is limited.

Based on the revised estimates, current taxes on income and wealth are expected to reach €1,186.6 million in 2015, implying a growth rate of 2.7 per cent partly as a result of measures in place to reduce the tax burden and also due to the absence of the one-off revenue collected from the Investment Registration Scheme last year. Revenue from income tax has been revised upwards by €22 million when compared to the approved budgetary estimate. The revised Spring 2015 macroeconomic forecast led to an upward revision in this component of revenue equivalent to €8 million reflecting primarily the strength of the labour market and wages. It is worth noting that subsequent to this revision, the MFAC<sup>1</sup> was of the opinion that there did not appear any particular risk for the materialisation of the projections for current taxes on income and wealth. The performance of the first six months against the April targets suggests that this revision was too prudent and a further revision to the tune of €13 million is being carried out in this report.

The revised estimate for property income has been adjusted upward by about €1 million to reach €102.3 million implying a growth rate of 8.3 per cent by year end. Meanwhile, no revision was carried out to the approved budgetary estimate for capital taxes and this

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<sup>1</sup> Malta Fiscal Advisory Council (2015). "An Assessment of the Main Fiscal Forecasts prepared by the Ministry for Finance and presented in the Update of the Stability Programme for Malta 2015-2018." Available at [http://mfin.gov.mt/en/Library/Documents/MFAC\\_Fiscal\\_Forecasts/MFAC\\_Fiscal\\_Assessment\\_28May2015.pdf](http://mfin.gov.mt/en/Library/Documents/MFAC_Fiscal_Forecasts/MFAC_Fiscal_Assessment_28May2015.pdf)



revenue category is expected to reach €12.7 million by year end, implying a growth rate of 7.1 per cent in 2015.

Meanwhile, General Government expenditure is expected to increase by 6.0 per cent to reach €3,700.4 million in 2015. In view of the performance in the first six months of 2015, Government expenditure targets are being revised upwards by €80.7 million. The largest contributor to this revision is gross fixed capital formation which is consistent with the revision in other revenue, primarily from EU funds, and thus mostly deficit neutral.

Intermediate consumption is expected to grow by 9.7 per cent due to reach €576.3 million in 2015. Intermediate consumption was revised upwards by €35.6 million when compared to the autumn forecast of November. This mainly reflects the reclassification of subventions towards the Water Services Corporation and the Engineering Resources Co. Ltd from subsidies to intermediate consumption and the reclassification of residential care in private homes from social payments to intermediate consumption. These reclassifications amount to around €24 million. The upward revision also reflects higher than anticipated expenditure on EBUs and Engineering Resources Co. Ltd .

Gross fixed capital formation is expected to grow by 14.1 per cent of GDP, reaching €342.1 million in 2015 primarily reflecting higher expenditure related to capital projects financed from EU funds. Further increases are also expected in projects financed from national sources. The approved budgetary estimate for this investment expenditure was revised upwards by €56.1 million, of which about half relates to the expected revision in the anticipated reimbursements from Malta's approved EU funding. In addition, an upward revision of €13.4 million relates to EBUs.

Expenditure towards compensation of employees is expected to reach €1,086.4 million by 2015, implying a growth rate of 3.3 per cent. The approved budgetary estimate for compensation of employees was revised upwards by €36.3 million, mainly reflecting an upward revision in the consolidated fund of €15.9 million and an additional revision in the wages and salaries for EBUs. It is worth noting that in their report<sup>1</sup>, MFAC had expressed some concern on the plausibility of the expenditure targets for compensation of employees in the public sector and this revision is in line with their assessment.

Social payments are expected to grow by 3.0 per cent of GDP reaching €1,039.0 million in 2015. This rate of growth is supported by a number of budgetary measures, including the introduction of a conditional children's allowance, a one-time additional bonus to compensate those employees, pensioners and other beneficiaries who did not benefit from the reduction in income tax, assistance to help the elderly live independently, free child care centres, an in-work benefit for low-income working parents with children to encourage labour market participation and reduce dependency on social benefits and a bonus for retirees not eligible for pensions. The increase is however mitigated by a relatively low COLA together with the Youth Guarantee and the Tapering of Social Benefits which should lead to an estimated cost savings of €4.2 million. It is to be noted that these estimates now include a revised impact of the conditional children's allowance, the Youth Guarantee and the Tapering of Social Benefits based on more up to date estimates.

Capital transfers are expected to increase by €24.6 million in 2015, mainly underpinned by a higher final equity injection to the national airline as part of the ongoing restructuring process. In the revised forecasts, this category of expenditure has been revised downwards by €11.0 million reflecting revised assumption on the classification of capital expenditure together with a downward revision in capital transfers to EBUs.

In 2015, subsidies are expected to increase from their 2014 level to reach €126.5 million. In the revised estimates, these were revised downwards by €23.1 million reflecting a downwards revision emerging from an adjustment to the EAGGF and the reclassification of subventions to the Water Services Corporation and Engineering Resources Co. Ltd from subsidies to intermediate consumption.

The 'other' category of expenditure was revised marginally by €3.2 million. This revision was underpinned by an increase in VAT and GNI Own Resource of about €7 million which was offset by lower expenditure on EBUs. In addition, higher than anticipated expenditure related to the contribution to church schools and due to Malita Investments plc were offset by the capital component of this item of expenditure.

Interest payments were revised downwards by €6.7 million, reflecting favourable market conditions characterised by low interest rate environment which was further enhanced by the introduction of quantitative easing.



## 7. Collection of Revenue Arrears

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

In terms of Article 29(a)(ii) of the Fiscal Responsibility Act, the presentation of the annual budget was to include quarterly targets for the recovery of revenue arrears. In conformity with this legal obligation, a statement entitled '*Recovery of Revenue Arrears*' has been published at Appendix 'I' of the Financial Estimates for 2015.

The projections incorporated into this statement refer to eight (8) per cent of the net collectable stock position obtaining for all line Ministries on 31 December 2013, as reported to the Accountant General at the beginning of 2014.

Towards this end, in January this Ministry issued a communication to all line Ministries to initiate necessary action towards collection of the arrears detailed in the mentioned statement. In line with the quarterly periods upon which the projections are based, quarterly reports on the amount of arrears collected were to be submitted.

Actual revenue arrears collected for the first half of the year, broken down by Ministry and Department, may be seen at **Table 9**. The original targeted amount was €21 million as appearing in Appendix I of the 2015 Financial Estimates. By closing date for submissions, replies had not been received from the Institute for Tourism Studies and data for the second quarter had not yet been received from the Ministry for Sustainable Development and the Environment and Climate Change. Based on the available submissions Government already collected €26 million and is therefore currently exceeding targets.

The main methods of enforcement applied by ministries for collection of revenue arrears consisted of issuing of additional statements, notices, reminders, judicial letters, notification letters, legal action and administrative fines.

As may be seen from the data submitted, the more substantial improvements over the targeted amounts set for the first two quarters of 2015 were mainly registered under the following ministries:



- **Office of the Prime Minister**, through the Government Property Division - mainly by way of rent due on Government owned property;
- **Ministry for Finance**, through the Inland Revenue Department - mainly by way of self-assessments as well as from employers and the self-employed categories;
- **Ministry for Finance**, through the VAT Department - mainly as a result of demand notices and compliance certificates;
- **Ministry for the Family and Social Solidarity**, through the Department for Social Security - in the main part as result of recouplement of over-payments in the issue of social security benefits.

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

## 8. Debt Development and Targets

*The following section provides information on the debt developments and the components of the General Government debt level in the first six months of 2015, and a comparison of the revised forecasts of the debt for the entire year with the 2015 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 six months of 2015.*

### 8.1 Debt Developments

The Government's core medium-term fiscal objective of achieving sustainable public finances hinges on two main targets; addressing the current imbalance in public finances and reducing the debt-to-GDP ratio at a satisfactory pace. General Government debt developments and prospects are illustrated in **Table 10**. Debt-to-GDP ratio in 2014 remained on a downwards trajectory, declining by 1.3 percentage points to reach 68.5 per cent of GDP.

The 2015 estimate General Government debt-to-GDP ratio presented in the 2015 Budget have been revised downwards in the first six months of 2015. In fact, the 2015 debt-to-GDP ratio has been revised downwards by 1.7 percentage points to 67.3 per cent of GDP. This reflects a more buoyant macroeconomic environment, supported by sustained economic growth, and a decrease in the revised General Government debt levels for 2015.

The contractionary impacts of the primary balance on the debt-to-GDP ratio remained relatively unchanged, from 1.3 percentage points in the 2015 estimates to 1.1 percentage points in the 2015 revised level. The expansionary impact that interest expenditure is expected to have on gross debt has been reduced by 0.1 percentage points from the 2015 estimates.

Furthermore, the expansionary impact of the stock-flow adjustment on the debt-to-GDP ratio have been reduced from 0.6 percentage points in the 2015 estimates, to 0.3 percentage points in the 2015 revised projections. The stock-flow adjustment is significantly underpinned by the payments made to Government for the accruals accumulated by

Enemalta over the past two years. In the 2015 Budget estimates it was assumed that the accruals by Enemalta will be completely paid in 2014, and thus no value was attributed to the stock-flow adjustment for Enemalta accruals for 2015. This has been revised in first six months of 2015 to a stock-flow value of -0.4 per cent of GDP, to reflect further dues to be paid in 2015.

The implicit interest rate on debt remained unchanged from the 2015 Budget estimates at 4.1 per cent. The foreign loans balance (99% of which are held in domestic currency) was not revised in the first six months of 2015 and stood at 0.5%, which is a relatively small percentage out of the total gross debt. This amount is lower than in 2014, and is expected to continue falling in the forecast horizon. The weighted average maturity of MGS portfolio in the first six months of 2015 has been extended further to 8.7 years compared to 8.6 years at the end of 2014. The share of maturing stock in total Government debt has increased slightly from 6.1 per cent in the 2015 estimates to 6.3 per cent in the 2015 revised levels on the back of a downward revision to total General Government debt.

## *8.2 Components of General Government Public Debt*

Government's debt strategy is that of ensuring that the financing needs of the public sector are met with the lowest possible costs while maintaining a prudent level of risk. At the same time, the government aims to ensure that debt levels remain sustainable and simultaneously minimize short, medium and long-term gross debt and interest rate risks.

**Table 11** illustrates the Statement of General Government sector debt. Actual General Government public debt for the first six months of 2015 is €99.3 million lower than the actual General Government public debt for the first six months of 2014. This is mainly attributable to lower short-term funding, reflected in lower Treasury Bills of €176.6 million. This is equivalent to a 3 percentage point decrease out of total Government debt. A decrease from the 2014 actual levels was also registered in foreign loans of €10.6 million and EFSF debt re-routing of €8.7 million. This decrease in the first six months of 2015 actual debt levels was partly offset by increases in MGS issues of €81.5 million, outlays for EBU's/Local Councils of €9.3 million, and currency issues of €6.6 million.



The revised General Government public debt for 2015 is €132.9 million lower than the budget estimates for 2015, which indicates that Government is well below its gross debt level projections for 2015. This is as a result of lower than anticipated financing through Treasury Bills, mainly arising from lower levels of outstanding Treasury Bills as at end December 2014 (€140.4 million) than previously estimated (€250 million). Thus, Government's short-term funding has decreased from 5.5 per cent in the 2015 budget estimates, to 3.4 per cent of total Government debt in the 2015 revisions. The slight decrease in the currency issues of €2.8 million and a higher amount of consolidation of debt in 2014 over and above that projected in the budget estimates have also contributed to a lower revised gross debt in 2015. Whereas outlays for EBU's/Local Councils have been revised upwards by €10.9 million, the other components of General Government public debt have not been revised for 2015.

### *8.3 Main developments in the Eurozone sovereign bond market between January and June 2015.*

Developments in the Euro area bond markets in the year to date have been strongly influenced by two main factors; (a) monetary policy and, (b) falling inflation expectations on the back of subdued economic indicators for the Eurozone economy combined with a steep drop in the price of oil.

In mid-January the ECB announced unprecedented accommodative policies which included the expansion of the asset purchase programme, its version of quantitative easing (QE). The implementation of the programme was set to commence on 9th March 2015. The expectations regarding quantitative easing sent government bond yields across the Euro area bond markets markedly lower ahead of the programme. Once the purchasing commenced these declines initially persisted, bringing down yields across the Eurozone to their historic lows. In the Euro area steep bond price increases persisted into April.

The falling yields trend started reversing towards the end of April 2015, on the back of positive Eurozone economic news. By 7th May 2015, 30-year German bund yields were up 70 basis points from historic lows reached a few days before. The increase in German yields may be attributable to a number of factors; (a) a likely correction of the market following the significant impact of QE during the early weeks of the programme, (b) higher

economic growth and exceptionally accommodative monetary policy leading to rising inflation expectations, (c) investors adopting the view that yields on benchmark bonds had dropped to unsustainably low levels leading to extensive portfolio adjustments and, (d) augmented volatility.

In the first quarter of 2015, volatility has shown some resurgence and was further augmented thereafter by political, economic and debt crisis developments in the Hellenic Republic. The current higher yields and volatility in the Euro bond markets may not raise undue concerns as they may be viewed as manageable and more of a market finding its equilibrium.

#### *8.4 Local Developments in the domestic MGS market*

By and large, yields on MGS in the period under review have followed a similar path to that of the German Bunds and other bonds in the euro area (with the exception of Greece). The yields across the different segments of the MGS yield curve (2, 5, 10, and 20-Year) experienced a decline from the beginning of the year up to end April during which yields on MGS reached record lows. The decline in yields was evident in the medium and long maturity segments while the decline at the short end of the yield curve was less pronounced.

As in the Euro area and other main global bond markets, in late April, the MGS market also saw major corrections to its high valuation levels gained in the first four months of the year. Yields across the short, medium and long-term took an upward turn late in April 2015. At the end of June short-term yields settled around the levels prevailing at the beginning of the year, the medium-term edged marginally higher while long term yields (15 and 20-Year) declined.

The yield spreads over the German Bunds in respect of short-term MGS were broadly stable during the period under review. The spreads in the medium term MGS compressed whilst those in long term narrowed significantly.

## *8.5 Primary Market*

In the first half of 2015, the Treasury successfully launched two MGS issuances, one in February and another one in June. Both issuances attracted robust demand. The first issuance of €120 million plus €60 million over-allotment was opened for both retail and institutional investors on the back of falling borrowing costs. A new 3% - 25-Year bond maturing in 2040, establishing the furthest point on the MGS yield curve, was issued alongside a fungible short term 5-Year MGS.

The response from retail investors was overwhelming with the Treasury receiving almost twice as much the amount that it usually receives in similar issuances. The nominal value applied for exceeded €440 million on the first day of issuance obliging Treasury to close the issue and cancel the auction through which institutional investors participate in the MGS issues. It was evident that in response to declining rates, retail investors showed an increased willingness to take on duration in search for the yield.

The second issuance of €50 million with an over-allotment option of an additional sum up to €40 million was launched in June through the auction mechanism. Treasury re-opened the 5-Year MGS and launched a new 2.3% - 14 year MGS. This issuance attracted strong demand from institutional investors with the Treasury raising €90 million after receiving in excess of €193 million nominal value of bids in the two Stocks.

During the first six months of the year, Treasury issued a total of €258.3 million nominal in MGSs, representing 51.7 per cent of the maximum amount permissible under the approved Estimates for 2015 which was set not to exceed €500 million.



## **9. Consistency with Fiscal Rules and SGP Requirements**

*The following section explains how fiscal rules established by the Fiscal Responsibility Act (FRA) and the Stability and Growth Pact (SGP) are being adhered to in view of the revisions proposed in the budgetary projections, in the absence of exceptional circumstances.*

Based on (i) the unchanged macroeconomic projections since the Update of the Stability Programme, (ii) the targeted structural adjustment path highlighted below and (iii) the expected one-off revenues of 0.1 per cent of GDP in 2015, the Government is aiming for a deficit target of 1.6 per cent of GDP in 2015. Furthermore, the most recent information and estimates suggest an output gap of 0.6 per cent of GDP for 2015.

In this context, the targeted General Government deficit in 2015 is consistent with a structural budget deficit of 2.0 per cent of GDP, down from 2.8 per cent of GDP in 2014. This implies a structural effort of 0.8 percentage points of GDP.

Economic conditions in 2015 are expected to be relatively favourable with strong growth in excess of potential, supported by strong domestic demand conditions, a positive output gap, further increases in labour supply and labour demand, low unemployment and low inflation.

The revised fiscal projections remain consistent with the fiscal effort required by the Stability and Growth Pact and the Fiscal Responsibility Act, the Government's medium term fiscal policy strategy and the calendar of convergence established by the Commission for Malta for the achievement of the Medium Term Budgetary Objective.

Revenue and expenditure performance for the first six months suggests that such targets are achievable and therefore the attainment of the structural targets in compliance with the Fiscal Responsibility Act remain achievable.

As the primary surplus is expected to rise to 1.1 per cent of GDP in 2015, it is pertinent to note, that with an average annual growth rate of nominal GDP of 5.2 per cent and an implicit interest rate on debt of around 4.1 per cent, even a primary deficit of around 1.0 per

cent would be enough to stabilise the debt-to-GDP ratio in the absence of stock-flow adjustments. Thus, targeting such a primary surplus is consistent with the Government's objective of gradually reducing the debt ratio to approach the 60 per cent of GDP reference value in line with the requirements of the Fiscal Responsibility Act (i.e. the Debt Rule).

The debt rule requires that any General government debt greater than 60% of GDP should be sufficiently diminishing and approaching 60% of GDP at a satisfactory pace. The debt rule is fulfilled if *"the differential of the debt with respect to the reference value has decreased over the previous three years at an average rate of 1/20th per year as a benchmark"* through the backwards looking rule. The debt criterion is also considered fulfilled if *"the budgetary forecasts indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which data is available"* through the forwards looking rule. The revised debt projections presented in this report are consistent with the forward-looking debt rule.

## 10. Annex Tables



## Main Macroeconomic Indicators

Table 1

	2011 <sup>(1)</sup>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>af</sup>	2015 <sup>sf</sup>
GDP growth at current Market Prices (%)	4.4	4.5	4.2	5.4	4.8	4.7
GDP growth at constant (2000) Prices (%)	2.1	2.5	2.3	3.5	3.5	3.4
<b>Expenditure Components of GDP</b>						
at constant (2000) Prices (% change) <sup>(2)</sup>						
Private Final Consumption Expenditure	3.0	0.1	1.8	3.4	2.1	3.4
General Government Final Consumption Expenditure	3.2	5.6	-0.3	7.1	2.5	0.6
Gross Fixed Capital Formation	-18.5	4.5	1.1	9.7	4.8	23.6
Exports of Goods and Services	2.3	6.7	-0.9	1.1	5.9	2.8
Imports of Goods and Services	-0.2	4.8	-1.0	-0.2	5.5	5.0
<b>Contribution to GDP growth:</b>						
Domestic Demand	-1.6	1.9	1.2	5.0	2.7	6.3
Inventories	-0.2	-2.6	0.9	-3.5	0.0	0.0
Net Exports	3.9	3.1	0.2	2.0	0.7	-2.9
<b>Inflation rate (%)</b>						
Inflation rate (%)	2.5	3.2	1.0	0.8	1.5	1.0
<b>Employment growth (%)<sup>(3)</sup></b>						
Employment growth (%)	2.5	2.2	3.3	3.1	1.9	2.0
Unemployment rate (%)	6.4	6.3	6.4	5.9	5.9	5.8
<b>Potential GDP growth</b>						
Potential GDP growth	1.8	2.2	2.5	2.9	2.8	3.5
Output Gap	-0.4	-0.1	0.1	0.7	0.3	0.6

**Notes:**

af - Autumn (Budget) Forecasts

sf - Spring (Revised) Forecasts

<sup>(1)</sup> Actual data Source: NSO News Release No. 108/2015 - GDP Release 2015/Q1

<sup>(2)</sup> Includes NPISH final consumption expenditure

<sup>(3)</sup> LFS resident population concept definition

**Central Government Finances - Revised Estimates 2015 (Consolidated Fund)**

Table 2

	Jan - Dec 2014 Actual € 000	Jan - Dec 2015 Approved Estimates € 000	Jan - Jun 2014 Actual € 000	Jan - Jun 2014 Actual as a % of 2014	Jan - Jun 2015 Actual € 000	Jan - Jun 2015 Actual as a % of 2015 <sup>af</sup>
<b>Revenue</b>						
<b>Tax Revenue</b>	<b>3,387,209</b>	<b>3,555,049</b>	<b>1,414,347</b>	<b>41.8</b>	<b>1,607,398</b>	<b>45.2</b>
<i>Indirect Tax Revenue</i>	<b>2,953,687</b>	<b>3,063,650</b>	<b>1,214,279</b>	<b>41.1</b>	<b>1,337,154</b>	<b>43.6</b>
Customs and Excise Duties	1,186,407	1,210,650	477,873	40.3	548,328	45.3
Licenses, Taxes, and Fines	302,607	265,000	69,458	23.0	112,531	42.5
Value Added Tax	244,124	260,650	118,652	48.6	135,121	51.8
<i>Direct Tax Revenue</i>	<b>639,676</b>	<b>685,000</b>	<b>289,763</b>	<b>45.3</b>	<b>300,676</b>	<b>43.9</b>
Income Tax	1,767,280	1,853,000	736,406	41.7	788,826	42.6
Social Security	1,068,089	1,112,000	425,554	39.8	464,415	41.8
Fees of Office	699,191	741,000	310,852	44.5	324,411	43.8
Reimbursements	<b>433,522</b>	<b>491,399</b>	<b>200,068</b>	<b>46.1</b>	<b>270,244</b>	<b>55.0</b>
Public Corporations	77,384	40,934	18,237	23.6	12,507	30.6
Central Bank of Malta	25,095	29,051	10,727	42.7	10,549	36.3
Rents	815	815	0	0.0	0	0.0
Dividends on Investments	50,000	48,000	37,000	74.0	36,000	75.0
Repayment of Interest on Loans	28,787	30,080	15,948	55.4	15,673	52.1
Grants	17,874	38,930	3,731	20.9	8,698	22.3
Miscellaneous	1,191	2,247	1,031	86.6	132	5.9
	176,803	263,322	100,954	57.1	157,090	59.7
	55,574	38,020	12,440	22.4	29,595	77.8
<b>Total Expenditure<sup>(1)</sup></b>	<b>3,508,515</b>	<b>3,703,659</b>	<b>1,664,573</b>	<b>47.4</b>	<b>1,762,373</b>	<b>47.6</b>
<b>Recurrent Expenditure</b>	<b>2,857,050</b>	<b>2,949,674</b>	<b>1,376,798</b>	<b>48.2</b>	<b>1,443,163</b>	<b>48.9</b>
Personal Emoluments	704,021	710,926	321,604	45.7	341,193	48.0
Operations and Maintenance	138,687	144,455	69,095	49.8	77,306	53.5
Programmes and Initiatives	1,751,297	1,814,645	852,374	48.7	881,106	48.6
Contributions to Government Entities	263,045	279,648	133,725	50.8	143,558	51.3
<b>Interest Payments</b>	<b>231,096</b>	<b>240,220</b>	<b>111,215</b>	<b>48.1</b>	<b>116,164</b>	<b>48.4</b>
<b>Capital Expenditure</b>	<b>420,369</b>	<b>513,765</b>	<b>176,560</b>	<b>42.0</b>	<b>203,046</b>	<b>39.5</b>
Foreign Funds	209,169	263,322	77,075	36.8	82,090	31.2
National Funds (incl Co Financing)	211,200	250,443	99,485	47.1	120,956	48.3
<b>Consolidated Fund Balance</b>	<b>-121,306</b>	<b>-148,610</b>	<b>-250,226</b>		<b>-154,975</b>	

**Notes:**

af - Autumn Forecasts (Approved Estimates)

<sup>(1)</sup> excluding sinking fund contributions, direct loan repayments and equity acquisition

## Half-Yearly Budgetary Execution on Cash Basis in ESA codes<sup>(1)</sup>

*The data for 2015Q2 was partly estimated and is to be considered as provisional*

Table 3

	Jan-June 2014 <i>Actual</i> € 000	Jan-June 2015 <i>Provisional</i> € 000
<b>Consolidated Fund<sup>(2)</sup></b>	<b>-265,205</b>	<b>-157,971</b>
<b>1. Total Revenue</b>	<b>1,343,407</b>	<b>1,522,933</b>
Taxes, of which:	903,400	1,013,036
Current Taxes on Income, Wealth, etc	451,694	490,828
Taxes on Production and Imports, of which:	451,706	522,208
VAT	289,763	300,676
Social Contributions	266,233	275,844
Market Output	19,890	17,230
Current Transfers	10,899	3,042
Capital Transfers	96,900	162,685
Property Income	46,084	51,095
<b>2. Total Expenditure</b>	<b>1,608,612</b>	<b>1,680,904</b>
Intermediate Consumption	165,777	186,299
Compensation of employees	385,693	403,933
Interest	110,119	114,784
Subsidies	50,273	42,376
Social Benefits	503,594	490,199
Current Transfers	274,892	329,860
Capital Transfers Payable	37,935	34,080
Capital Investment	80,329	79,373

### Notes:

<sup>(1)</sup> 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](http://nso.gov.mt/en/Services/Council_Directive/Pages/Council-Directive-85_2011.aspx)

<sup>(2)</sup> The difference in the Consolidated Fund balance between Table 2 and Table 3 is the equity injection to national air carrier which is included as expenditure within the 'Capital transfers payable' item in Table 3 but not in Table 2.



Central Government Finances - Revised Estimates 2015, by Expenditure Vote (Consolidated Fund)

Table 4

	Jan - Dec 2014 Actual € 000	Jan - Dec 2015 Approved Estimate € 000	Jan - Jun 2014 Actual € 000	Jan - Jun 2014 Actual as a % of 2014	Jan - Jun 2015 Actual € 000	Jan - Jun 2015 Actual as a % of 2015 <sup>nr</sup>
<b>Recurrent Expenditure</b>						
1	3,387	3,739	1,264	37.3	1,716	45.9
2	3,497	8,411	1,419	40.6	1,761	20.9
3	1,437	1,140	700	48.7	400	35.1
4	2,600	2,700	1,520	58.5	1,575	58.3
5	28,997	24,896	13,669	47.1	13,503	54.2
6	513	648	214	41.7	252	38.9
7	1,297	1,421	549	42.3	569	40.0
8	1,394	1,429	659	47.3	663	46.4
9	7,428	5,193	2,436	32.8	5,260	101.3
10	8,232	4,932	3,637	44.2	2,965	60.1
11	10,575	12,977	3,545	33.5	4,794	36.9
12	22,699	25,946	9,618	42.4	10,660	41.1
13	205,767	212,973	101,290	49.2	110,632	51.9
14	194,888	196,138	90,830	46.6	98,325	50.1
15	47,214	48,865	23,564	49.9	22,192	45.4
16	90,604	82,802	45,043	49.7	42,821	51.7
17	27,186	27,375	12,453	45.8	12,670	46.3
18	9,734	11,644	4,477	46.0	4,931	42.3
19	1,210	1,350	605	50.0	549	40.7
20	31,625	36,154	16,025	50.7	16,262	45.0
21	1,795	2,272	810	45.1	809	35.6
22	26,709	20,409	14,869	55.7	11,409	55.9
23	40,721	42,315	18,336	45.0	20,139	47.6
24	54,963	54,233	26,030	47.4	26,736	49.3
25	10,132	9,322	4,735	46.7	5,103	54.7
26	922	929	416	45.1	458	49.3
27	4,340	4,860	2,044	47.1	2,104	43.3
28	94,726	112,207	57,423	60.6	62,747	55.9
29	5,196	5,102	2,785	53.6	3,257	63.8
30	91,879	90,705	46,828	51.0	47,235	52.1
31	7,439	8,304	3,649	49.1	3,743	45.1
32	5,594	6,574	2,797	50.0	2,556	38.9
33	11,268	10,813	5,814	51.6	5,340	49.4
34	1,293	1,518	607	46.9	685	45.1
35	1,232	1,347	588	47.7	612	45.4
36	46,309	63,148	18,108	39.1	24,482	38.8
37	414,578	414,015	207,072	49.9	225,417	54.4
38	47,247	62,355	26,819	56.8	38,109	61.1
39						

Central Government Finances - Revised Estimates 2015, by Expenditure Vote (Consolidated Fund)

Table 4

	Jan - Dec 2014 Actual	Jan - Dec 2015 Approved Estimate	Jan - Jun 2014 Actual	Jan - Jun 2014 Actual as a % of 2014	Jan - Jun 2015 Actual	Jan - Jun 2015 Actual as a % of 2015 <sup>nr</sup>
	€ 000	€ 000	€ 000		€ 000	
40 Social Policy	239,079	254,397	95,130	39.8	99,211	39.0
41 Social Security Benefits	852,908	869,600	412,253	48.3	407,831	46.9
42 Social Welfare Standards	982	1,130	478	48.7	528	46.7
43 Elderly and Community Care	76,994	75,767	38,327	49.8	41,233	54.4
44 Ministry for Justice, Culture and Local Government	-	27,444	-	-	12,615	46.0
45 Judicial	12,873	13,585	6,169	47.9	6,500	47.8
46 Local Government	37,219	38,359	18,050	48.5	18,667	48.7
47 Ministry for Tourism	66,068	48,231	30,624	46.4	23,137	48.0
[Land and Public Registry Division	4,300	-	2,520	58.6	-	-
<b>TOTAL RECURRENT EXPENDITURE</b>	<b>2,857,050</b>	<b>2,949,674</b>	<b>1,376,798</b>	<b>48.2</b>	<b>1,443,163</b>	<b>48.9</b>
31 Public Debt Servicing						
Contribution to Sinking Fund - Local	3,261	3,261	1,631	50.0	1,631	50.0
Contribution to Special MGS Sinking Fund	50,000	50,000	25,000	50.0	5,000	10.0
Interest - Local	226,913	235,496	108,689	47.9	114,652	48.7
Repayment of Loan - Local	387,505	349,377	25,750	7.0	69,882	20.0
Contribution to Sinking Fund - Foreign	6,465	6,465	3,233	50.0	3,233	50.0
Interest - Foreign	2,305	1,817	1,773	76.9	1,418	78.0
Interest - Short-term borrowing	1,878	2,907	752	40.0	94	3.2
<b>TOTAL PUBLIC DEBT SERVICING</b>	<b>658,327</b>	<b>649,323</b>	<b>166,828</b>	<b>25.3</b>	<b>195,910</b>	<b>30.2</b>
<b>TOTAL RECURRENT EXPENDITURE AND PUBLIC DEBT SERVICING</b>	<b>3,515,377</b>	<b>3,598,997</b>	<b>1,543,626</b>	<b>43.9</b>	<b>1,639,073</b>	<b>45.5</b>
<b>Capital Expenditure</b>						
I Office of the President	188	122	2	1.1	7	5.7
II Office of the Prime Minister	11,658	13,302	4,162	35.7	11,827	88.9
III Ministry for European Affairs and Implementation of the Electoral Manifesto	23,481	43,927	11,375	48.4	19,233	43.8
IV Ministry for Foreign Affairs	1,291	1,263	843	65.3	1,145	90.7
V Ministry for Education and Employment	66,283	67,584	24,765	36.3	25,327	37.5
VI Ministry for Sustainable Development, the Environment and Climate Change	47,046	77,667	19,693	41.9	38,045	49.0
VII Ministry for Transport and Infrastructure	83,921	90,088	37,136	44.3	23,598	26.2
VIII Ministry for Gozo	9,552	16,562	4,475	46.8	3,579	21.6

**Central Government Finances - Revised Estimates 2015, by Expenditure Vote (Consolidated Fund)**

Table 4

	Jan - Dec 2014 Actual € 000	Jan - Dec 2015 Approved Estimate € 000	Jan - Jun 2014 Actual € 000	Jan - Jun 2014 Actual as a % of 2014	Jan - Jun 2015 Actual € 000	Jan - Jun 2015 Actual as a % of 2015 <sup>af</sup>
IX Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	2,326	1,922	581	25.0	1,026	53.4
X Ministry for the Economy, Investment and Small Business	46,840	43,449	20,478	43.7	21,093	48.5
XI Ministry for Home Affairs and National Security	11,933	21,422	5,880	49.3	12,092	56.4
XII Ministry for Finance	24,486	23,086	18,124	74.0	17,095	74.0
XIII Ministry for Energy and Health	66,124	86,560	19,430	29.4	18,613	27.5
XIV Ministry for the Family and Social Solidarity	4,689	5,798	2,449	52.2	2,272	39.2
XV Ministry for Justice, Culture and Local Government	17,473	19,570	7,068	40.5	7,521	38.4
XVI Ministry for Tourism	1,078	1,443	99	9.2	573	39.7
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>420,369</b>	<b>513,765</b>	<b>176,560</b>	<b>42.0</b>	<b>203,046</b>	<b>39.5</b>
XII Ministry for Finance Investment - Equity Acquisition	28,735	44,159	27,735	96.5	4,055	9.2
<b>TOTAL CAPITAL EXPENDITURE AND INVESTMENT</b>	<b>449,104</b>	<b>557,924</b>	<b>204,295</b>	<b>45.5</b>	<b>207,101</b>	<b>37.1</b>
<b>TOTAL EXPENDITURE</b>	<b>3,964,481</b>	<b>4,156,921</b>	<b>1,747,921</b>	<b>44.1</b>	<b>1,846,174</b>	<b>44.4</b>

**Notes:**

af - Autumn Forecasts (Approved Estimates)



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

Table 5

	Personal Emoluments		Operational and Maintenance Expenses		Programmes and Initiatives		Contributions to Government Entities	
	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000
General Public Services	77,473	33,118	29,175	13,726	162,885	89,544	12,505	5,167
Defense	35,020	17,192	6,982	2,804	313	143	0	0
Public Order and Safety	80,186	39,302	10,722	5,149	3,722	1,783	4,323	2,248
Economic Affairs	71,664	34,171	10,267	6,330	118,243	52,342	61,493	32,889
Environmental Protection	1,258	411	259	58	23,676	13,600	19,930	7,589
Housing and Community Affairs	3,187	1,323	1,494	482	5,902	14	3,987	1,182
Health	206,044	101,542	52,518	26,918	114,917	74,031	42,780	24,839
Recreation, culture and religion	5,481	2,744	626	317	10,807	4,092	15,887	7,139
Education	184,231	88,466	14,627	11,554	88,809	47,466	98,716	49,351
Social Protection	46,381	22,925	17,783	9,967	1,285,371	598,091	20,027	13,155
<b>Total</b>	<b>710,926</b>	<b>341,193</b>	<b>144,455</b>	<b>77,306</b>	<b>1,814,645</b>	<b>881,106</b>	<b>279,648</b>	<b>143,558</b>

	Interest Expenditure		Capital Expenditure		Total expenditure	
	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000	Approved Estimate 2015 € 000	Actual Jan-Jun 2015 € 000
General Public Services	240,220	116,164	72,586	35,311	594,844	293,031
Defense	0	0	8,473	3,323	50,788	23,462
Public Order and Safety	0	0	16,367	6,448	115,321	54,931
Economic Affairs	0	0	310,059	109,221	571,726	234,952
Environmental Protection	0	0	3,775	1,181	48,898	22,838
Housing and Community Affairs	0	0	8,145	10,921	22,715	13,922
Health	0	0	13,358	5,264	429,617	232,593
Recreation, culture and religion	0	0	10,396	5,661	43,198	19,953
Education	0	0	67,586	24,548	453,969	221,385
Social Protection	0	0	3,020	1,168	1,372,583	645,306
<b>Total</b>	<b>240,220</b>	<b>116,164</b>	<b>513,765</b>	<b>203,046</b>	<b>3,703,659</b>	<b>1,762,373</b>

**Notes:**

1. Data refers to the total expenditure of the Central Government (Consolidated Fund) in view that the General Government expenditure by the classification of functions of government (COFOG) data is compiled by NSO on an annual basis with a delay of one year.

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

## Transition between Consolidated Fund and General Government sector by period

Table 6a

	2014 <i>Jan - Jun</i> € 000	2015 <i>Jan - Jun</i> € 000	
<b>Consolidated Fund Surplus / Deficit</b>	<b>-265,205</b>	<b>-157,971</b>	<b>1</b>
Adjustments to the Consolidated Fund:			
Equities, acquisitions (+)	0	0	2
Equities, sales (-)	0	0	
Other financial transactions	0	0	3
Difference between interest paid (+) and interest accrued (-)	-4,914	1,670	4
Other accounts receivable (+) and payable (-)	-2,649	-73,769	5
Time-adjusted cash transactions	52,363	56,637	6
Treasury Clearance Fund flows in non-financial transactions	39,878	20,042	
Sinking Fund interests' received	1,048	1,633	
Interest received not included in consolidated fund	5	0	
Adjustment Stock premium proceeds	-2,261	-3,760	7
Quarterly adjustments	-30,237	-40,158	8
EFSF re-routing	205	197	9
Equity injection	0	-40,016	10
Debt assumption	0	0	11
Other adjustments	0	-189	
 Net Borrowing (-) / Net Lending (+) of Extra Budgetary Units	 2,600	 5,880	 12
 Net Lending (+) / Net Borrowing (-) of Local Government	 -960	 -562	 13
<b>Net Lending (+) / Net Borrowing (-) of General Government</b>	<b>-210,127</b>	<b>-230,366</b>	

**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 interest receivable.
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. 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.
8. 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.
9. Re-routed operations of the European Financial Stability Facility.
10. Equity injection to Air Malta plc. The debt-to-equity conversion in January 2015 failed the capital injection test. Previous equity injections to the national air carrier feature as expenditure in the Consolidated Fund Surplus / Deficit.
11. Debt assumption in relation to the liquidation of Sea Malta Co Ltd.
12. The aggregated net borrowing (-) / net lending (+) of the extra budgetary units forming part of the Central Government Sector.
13. The aggregated net borrowing (-) / net lending (+) of the 68 local councils, 5 Regional Committees and Local Councils Association.

For further information on the ESA 2010 adjustments refer to Malta's EDP Inventory at:  
[http://nso.gov.mt/en/nso/Sources\\_and\\_Methods/Unit\\_A2/Public\\_Finance/Pages/Government-Debt-and-Deficit-under-the-Maastricht-Treaty.aspx](http://nso.gov.mt/en/nso/Sources_and_Methods/Unit_A2/Public_Finance/Pages/Government-Debt-and-Deficit-under-the-Maastricht-Treaty.aspx)

## General Government Budgetary Execution and Prospects in Accordance with ESA Standards

*The data for 2015Q2 was partly estimated and is to be considered as provisional*

Table 6b

	ESA Code	2014 Actual € 000	2015 Budget Forecast € 000	Jan-Jun 2014 Actual € 000	Jan-Jun 2015 Provisional € 000	2015 Revised Forecast € 000
<b>Net lending (+)/net borrowing (-)</b>						
<b>1. General Government</b>						
1. Central Government	S.13	-168,166	-130,000	-210,127	-230,366	-135,500
3. State Government	S.1311	-165,919	-130,863	-209,167	-229,805	-134,287
4. Local Government	S.1312	-	-	-	-	-
5. Social Security funds	S.1313	-2,246	863	-960	-562	-1,213
	S.1314	-	-	-	-	-
<b>For the General Government</b>						
<b>6. Total Revenue</b>	TR	<b>3,321,602</b>	<b>3,489,750</b>	<b>1,490,243</b>	<b>1,611,882</b>	<b>3,564,947</b>
Of which						
Taxes on Production and Imports	D.2	1,087,337	1,160,416	489,850	534,746	1,155,080
Current Taxes on Income, Wealth, etc.	D.5	1,155,430	1,165,635	511,222	548,690	1,186,635
Capital Taxes	D.91	11,823	12,661	5,596	7,260	12,661
Social Contributions	D.61	560,305	589,255	268,431	283,913	595,255
Property Income	D.4	94,477	101,371	52,737	56,576	102,290
Other <sup>(a)</sup>		412,230	460,412	162,408	180,697	513,026
<b>7. Total Expenditure</b>	TE	<b>3,489,767</b>	<b>3,619,750</b>	<b>1,700,371</b>	<b>1,842,249</b>	<b>3,700,447</b>
Of which						
Compensation of employees	D.1	1,051,870	1,050,115	519,016	554,696	1,086,391
Intermediate Consumption	P.2	525,439	540,698	251,651	250,702	576,316
Social Payments	D.6	1,008,424	1,048,766	508,794	516,850	1,039,042
Interest Expenditure	D.41	230,151	229,916	113,720	113,601	223,198
Subsidies	D.3	103,608	149,514	52,897	55,136	126,451
Gross Fixed Capital Formation	P.51	299,957	285,994	122,725	179,204	342,133
Capital Transfers	D.9	88,577	124,179	45,219	49,623	113,164
Other <sup>(b)</sup>		181,741	190,568	86,350	122,437	193,751
<b>8. Gross Debt <sup>(c)</sup></b>		<b>5,417,449</b>	<b>5,710,522</b>	<b>5,759,203</b>	<b>5,659,946</b>	<b>5,577,625</b>

**Notes:**

<sup>(a)</sup> P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

<sup>(b)</sup> D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

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



## Annual Aggregate Budgetary Targets in Accordance with ESA standards

Table 7

	ESA Code	2014 % GDP	2015 <sup>af</sup> % GDP	2015 <sup>sf</sup> % GDP
<b>Net lending (+)/Net borrowing (-) by sub-sector</b>				
1. General Government	S.13	-2.1	-1.6	-1.6
2. Central Government	S.1311	-2.1	-1.6	-1.6
3. State Government	S.1312	-	-	-
4. Local Government	S.1313	0.0	0.0	0.0
5. Social Security funds	S.1314	-	-	-
<b>General Government (S.13)</b>				
6. Total Revenue	TR	42.0	42.1	43.0
7. Total Expenditure	TE	44.1	43.6	44.7
8. Interest Expenditure	D.41	2.9	2.8	2.7
9. Primary Balance <sup>(a)</sup>		0.8	1.2	1.1
10. One-off and other temporary measures <sup>(b)</sup>		0.3	0.2	0.1
11. Real GDP growth (%)		3.5	3.5	3.4
12. Potential GDP growth (%)		2.9	2.8	3.5
13. Output Gap (%)		0.7	0.3	0.6
14. Cyclical Budgetary Component		0.3	0.2	0.3
15. Cyclically-Adjusted Balance (1 - 14)		-2.4	-1.7	-1.9
16. Cyclically-Adjusted Primary Balance (15 + 8)		0.5	1.1	0.8
17. Structural Balance (15 - 10)		-2.8	-1.9	-2.0

**Notes:**

af - Autumn (Budget) Forecasts as a % of Autumn GDP forecasts

sf - Revised Forecasts as a % of Spring GDP forecasts

<sup>(a)</sup> The primary balance is calculated as (B.9, item 1) plus (D.41, item 8).

<sup>(b)</sup> A plus sign means deficit-reducing measures.

## Outstanding Creditors<sup>1</sup>

Table 8

Vote	Ministry/Department	Outstanding Creditors	
		2014Q4	2015Q2
		€	€
	1 Office of the President	0	5,644 <sup>2</sup>
	2 House of Representatives	3,731	0 <sup>2</sup>
	5 Office of the Prime Minister	174,969	784,811 <sup>2</sup>
	6 Public Service Commission	0	2,736 <sup>2</sup>
	7 Information	53,148	4,081 <sup>2</sup>
	8 Government Printing Press	0	0 <sup>2</sup>
	9 Electoral Office	2,841	0 <sup>2</sup>
	10 Government Property Division	47,302,441	49,252,512 <sup>2</sup>
	11 Ministry for European Affairs and Implementation of the Electoral Manifesto	141,628	242,554 <sup>2</sup>
	12 Ministry for Foreign Affairs	31,065	184,233 <sup>3</sup>
	13 Ministry for Education and Employment	2,570,935	8,448,369 <sup>3</sup>
	14 Education	1,221,302	311,092 <sup>3</sup>
	15 Ministry for Sustainable Development, the Environment and Climate Change	8,100,552	2,311,356 <sup>2</sup>
	16 Ministry for Transport and Infrastructure	5,279,423	7,605,010 <sup>2</sup>
	17 Ministry for Gozo - Corporate	11,973	8,950 <sup>2</sup>
	Ministry for Gozo - Customer Services	2,691	10,873
	Ministry for Gozo - Projects & Development	181,557	96,836 <sup>3</sup>
	18 Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	174	54,441 <sup>2</sup>
	19 Industrial and Employment Relations	0	0
	20 Ministry for the Economy, Investment and Small Business	499	104,230
	21 Commerce	16,651	35,653 <sup>2</sup>
	22 Ministry for Home Affairs and National Security	4,113,529	201,018 <sup>2</sup>
	23 Armed Forces of Malta	50,749	44,537 <sup>2</sup>
	24 Police	418,151	11,356 <sup>2</sup>
	25 Correctional Services	22,498	156,639 <sup>3</sup>
	26 Probation and Parole	0	1,197
	27 Civil Protection	197,654	200,706 <sup>2</sup>
	28 Ministry of Finance	6,746,801	16,913 <sup>2</sup>
	29 Treasury	0	1,259,962
	30 Pensions	0	0
	32 Inland Revenue	191,212	216,559 <sup>2</sup>
	33 VAT	30,295,202	606,958 <sup>2</sup>
	34 Customs	616,300	123,300 <sup>2</sup>
	35 Contracts	1,376	2,738 <sup>2</sup>
	36 Economic Policy	79,911	4,416
	37 Ministry for Energy and Health	989	298,084 <sup>3</sup>
	Parliamentary Secretary for Health	0	37,435 <sup>3</sup>
	38 Health	1,760,134	5,323,918 <sup>3</sup>
	Mater Dei Hospital	17,720,491	16,374,053
	Gozo General Hospital	261,295	753,682 <sup>2</sup>
	Government Pharmaceutical Services	24,841,483	10,362,743
	Sir Paul Boffa Hospital	220,434	709,381
	Primary Health Care	130,387	280,507 <sup>2</sup>
	39 Ministry for the Family and Social Solidarity	462,319	276,141 <sup>3</sup>
	40 Social Policy	4,929	74,604 <sup>3</sup>
	41 Social Security Benefits	0	1,650,000
	42 Social Welfare Standards	47	3,009 <sup>2</sup>
	43 Elderly and Community Care	16,473,571	12,749,502

## Outstanding Creditors<sup>1</sup>

Table 8

Vote	Ministry/Department	Outstanding Creditors	
		2014Q4	2015Q2
		€	€
44	Ministry for Justice, Culture and Local Government	0	132,933 <sup>2</sup>
	Notary to Government	6	0
	Attorney General	0	1,725 <sup>2</sup>
45	Judicial	216,150	192,908 <sup>2</sup>
46	Local Government	719,619	430,617 <sup>2</sup>
47	Ministry for Tourism	202,811	126,273 <sup>2</sup>
	Institute of Tourism Studies	0	9,029 <sup>3</sup>
	<b>Total Outstanding Creditors</b>	<b>170,843,627</b>	<b>122,096,224</b>

**Notes:**

1. The creditors balances represent amounts owed by the Government to suppliers. Such balances have been invoiced or formally agreed with the supplier but were not paid as of the respective reporting dates. The amounts are compiled by the respective departments and are collected through the Treasury department Debtors/Creditors template as per circular number MF 10/2001. The normal deadline for the submission of these templates is 10 working days from the end of the month, however, exceptionally for this report the deadline for the provision of the accruals data for 2015Q2 was reduced to 8 working days.

2. Provisional data, yet to be validated.

3. Data not sent, figures shown are for 2015Q1.

4. The accruals data, collected by the Treasury Department, is used by the NSO to compile the General Government Sector deficit/surplus. For this purpose, NSO performs some adjustments to the original data so as to comply with the ESA2010 and Manual on Government Deficit and Debt rules.



## Report on Revenue Arrears in terms of Article 39 of the Fiscal Responsibility Act

Table 9

	Net Collectable Arrears as on 31/12/13	8% Target as published in 2015 Financial Estimates	Quarter 1	Target Quarter 2	Total	Quarter 1	Quarter 2	Total
	€	€	€	€	€	€	€	€
<b>Office of the Prime Minister</b>								
<i>Public Service Commission</i>	7,026	562	141	141	281	0	1,010	1,010
<i>Government Printing Press</i>	0	0	0	0	0	0	0	0
<i>Electoral Office</i>	705,284	56,423	14,106	14,106	28,211	4,022	2,945	6,967
<i>Information</i>	77,903	6,232	0	0	0	0	0	0
<i>Government Property Division</i>	23,227,108	1,858,169	1,558	1,558	3,116	1,678	1,852	3,530
	<u>24,017,321</u>	<u>1,921,386</u>	<u>480,346</u>	<u>480,346</u>	<u>929,084</u>	<u>640,780</u>	<u>524,320</u>	<u>1,165,100</u>
					<u>960,693</u>	<u>646,480</u>	<u>530,127</u>	<u>1,176,607</u>
<b>Ministry for Education and Employment</b>								
<i>Ministry</i>	342,164	27,373	6,843	6,843	13,687	1,046	2,685	3,731
<i>Education Dept</i>	237,927	19,034	4,759	4,759	9,517,08	3,140	3,909	7,049
	<u>580,091</u>	<u>46,407</u>	<u>11,602</u>	<u>11,602</u>	<u>23,204</u>	<u>4,186</u>	<u>6,594</u>	<u>10,780</u>
<b>Ministry for Sustainable Development, the Environment and Climate Change</b>	1,533,617	122,689	30,672	30,672	61,345	0	-	0
<b>Ministry for Transport and Infrastructure</b>	556,363	44,509	11,127	11,127	22,255	221,452	6,466	227,918
<i>Transport Malta <sup>(1)</sup></i>	20,074,497	1,605,960	401,490	401,490	802,980	221,452	110,764	110,764
	<u>20,630,860</u>	<u>1,650,469</u>	<u>412,617</u>	<u>412,617</u>	<u>825,234</u>	<u>221,452</u>	<u>117,230</u>	<u>338,682</u>
<b>Ministry for Gozo</b>	745,166	59,613	14,903	14,903	29,807	20,631	25,331	45,962
<b>Ministry for Social Dialogue and Consumer Affairs</b>	0	0	0	0	0	0	0	0
<i>Department of Industrial and Employment Relations</i>	112,796	9,024	2,256	2,256	4,512	435	420	855
	<u>112,796</u>	<u>9,024</u>	<u>2,256</u>	<u>2,256</u>	<u>4,512</u>	<u>435</u>	<u>420</u>	<u>855</u>

**Report on Revenue Arrears in terms of Article 39 of the Fiscal Responsibility Act**

Table 9

	Net Collectable Arrears as on 31/12/13 €	8% Target as published in 2015 Financial Estimates €	Quarter 1 €	Target Quarter 2 €	Total €	Quarter 1 €	Quarter 2 €	Total €
<b>Ministry for Economy, Investment and Small Business</b>								
<i>Commerce Department</i>	2,958,488	236,679	59,170	59,170	118,340	94,327	168,554	262,881
<b>Ministry for Home Affairs and National Security</b>								
<i>Armed Forces of Malta</i>	631,460	50,517	12,629	12,629	25,258	0	0	0
<i>Police<sup>(1)</sup></i>	382,075	30,566	7,642	7,642	15,283	0	43,591	43,591
<i>Corradino Correctional Facility</i>	0	0	0	0	0	0	0	0
<i>Civil Protection Department</i>	13,173	1,054	263	263	527	1,639	223	1,862
<i>Probation and Parole</i>	0	0	0	0	0	0	0	0
<i>Land Registry<sup>(2)</sup></i>	42,988	3,439	860	860	1,720	0	0	0
	<u>1,069,696</u>	<u>85,576</u>	<u>21,394</u>	<u>21,394</u>	<u>42,788</u>	<u>1,639</u>	<u>43,814</u>	<u>45,453</u>
<b>Ministry for Finance</b>								
<i>Treasury</i>	25,422	2,034	508	508	1,017	1,323	27,857	29,180
<i>Inland Revenue Department</i>	0	0	0	0	0	0	0	0
<i>VAT Department</i>	246,361,389	19,708,911	4,927,228	4,927,228	9,854,456	11,013,380	8,337,499	19,350,879
<i>Central Salaries and Pensions</i>	49,233,506	3,938,680	984,670	984,670	1,969,340	1,801,763	1,274,829	3,076,592
<i>Contracts</i>	23,256,008	1,860,481	465,120	465,120	930,240	0	0	0
<i>Economic Policy Department</i>	209,741	16,779	4,195	4,195	8,390	3,457	1,979	5,436
<i>Customs Department</i>	0	0	0	0	0	0	0	0
	<u>115,152,789</u>	<u>9,212,223</u>	<u>2,303,056</u>	<u>2,303,056</u>	<u>4,606,112</u>	<u>6,729</u>	<u>17,530</u>	<u>24,259</u>
	<u>434,238,855</u>	<u>34,739,108</u>	<u>8,684,777</u>	<u>8,684,777</u>	<u>17,369,554</u>	<u>12,826,652</u>	<u>9,659,694</u>	<u>22,486,346</u>
<b>Ministry for Energy and Health</b>								
<i>Mater Dei Hospital</i>	2,452,891	196,231	49,058	49,058	98,116	7,225	42,981	50,206
<i>Primary Health Care</i>	2,886	231	58	58	115	2,341	0	2,341
<i>Sir Paul Boffa</i>	75,006	6,000	1,500	1,500	3,000	259	0	259
<i>Health Department</i>	2,476,056	198,084	49,521	49,521	99,042	77,196	29,426	106,622
<i>Gozo General Hospital</i>	63,934	5,115	1,279	1,279	2,557	0	0	0

## Report on Revenue Arrears in terms of Article 39 of the Fiscal Responsibility Act

Table 9

	Net Collectable Arrears as on 31/12/13 €	8% Target as published in 2015 Financial Estimates €	Quarter 1 €	Target Quarter 2 €	Total €	Quarter 1 €	Arrears Collected Quarter 2 €	Total €
<i>Mental Health Services</i>	450,600	36,048	9,012	9,012	18,024	431,896	23,000	454,896
<i>Central/Procurement and Supplies Unit</i>	0	0	0	0	0	0	0	0
	<u>5,521,373</u>	<u>441,710</u>	<u>110,427</u>	<u>110,427</u>	<u>220,855</u>	<u>518,917</u>	<u>95,407</u>	<u>614,324</u>
<b>Ministry for Family and Social Solidarity</b>	0	0	0	0	0	0	0	0
Social Security Benefits	18,594,832	1,487,587	371,897	371,897	743,793	553,565	479,709	1,033,274
Social Security Department	0	0	0	0	0	0	0	0
Social Welfare Standards	0	0	0	0	0	0	0	0
Elderly and Community Care	3,136,595	250,928	62,732	62,732	125,464	0	0	0
	<u>21,731,427</u>	<u>1,738,514</u>	<u>434,629</u>	<u>434,629</u>	<u>869,257</u>	<u>553,565</u>	<u>479,709</u>	<u>1,033,274</u>
<b>Ministry for Justice, Culture and Local Government</b>	0	0	0	0	0	0	0	0
Office of the Attorney General	25,993	2,079	520	520	1,040	1,475	743	2,218
Notary to Government	1,511	121	30	30	60	0	15	15
Department of Local Government	2,575	206	52	52	103	2,575	0	2,575
Courts of Justice	11,338,396	907,072	226,768	226,768	453,536	247,781	196,996	444,777
	<u>11,368,475</u>	<u>909,478</u>	<u>227,370</u>	<u>227,370</u>	<u>454,739</u>	<u>251,831</u>	<u>197,754</u>	<u>449,585</u>
<b>Ministry for Tourism</b>	1,625,313	130,025	32,506	32,506	65,013	119,233	73,733	192,966
Malta Tourism Authority	206,778	16,542	4,136	4,136	8,271	-	-	0
ITS	1,832,091	146,567	36,642	36,642	73,284	119,233	73,733	192,966
	<u>10,526,805</u>	<u>10,526,805</u>	<u>10,526,805</u>	<u>10,526,805</u>	<u>21,053,610</u>	<u>15,259,348</u>	<u>11,398,367</u>	<u>26,657,715</u>

**Notes:**

(1) Submission covers January - June 2015

(2) Now under Identity Malta Agency



## General Government (S.13) Debt Developments and Prospects

Table 10

	ESA Code	2014 % GDP	2015 <sup>af</sup> % GDP	2015 <sup>sf</sup> % GDP
<b>1. Gross Debt<sup>(a)</sup></b>		<b>68.5</b>	<b>69.0</b>	<b>67.3</b>
2. Change in Gross Debt ratio		-1.3	-1.1	-1.2
<b>Contributions to changes in Gross Debt</b>				
3. Primary Balance		-0.8	-1.3	-1.1
4. Interest Expenditure	D.41	2.9	2.8	2.7
5. Stock-flow adjustment		0.1	0.6	0.3
<i>of which:</i>				
- Differences between cash and accruals relating to Enemalta transaction <sup>(b)</sup>		-0.7	0	-0.4
p.m.: Implicit interest rate on debt <sup>(c)</sup> (%)		4.4	4.1	4.1
<b>Other relevant variables</b>				
Percentage of debt related to foreign loans <sup>(d)</sup> (%)		0.7	0.5	0.5
Average MGS maturity (years)		8.6	-	8.7
Real GDP growth (%)		3.5	3.5	3.4

**Notes:**

af - Autumn (Budget) Forecasts as a % of Autumn GDP forecasts

sf - Spring (Revised) Forecasts as a % of Spring GDP forecasts

<sup>(a)</sup> As defined in Regulation (EC) No 479/2009.

<sup>(b)</sup> 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.

<sup>(c)</sup> Proxied by the interest expenditure divided by the debt level of the previous year.

<sup>(d)</sup> The foreign loans balance has 99% which is held in domestic currency, whereas 1% is denominated in foreign currency.

## Statement of General Government Sector Debt

Table 11

	Jan-Dec 2014	Jan-Dec 2015	Jan-Jun 2014	Jan-Jun 2015	Jan-Dec 2015
	<i>Actual</i> € 000	<i>Budget Estimate</i> € 000	<i>Actual</i> € 000	<i>Actual</i> € 000	<i>Revised</i> € 000
<b>General Government Debt</b>					
Malta Government Stocks	4,828,016	4,956,519	4,916,896	4,998,408	4,942,412
Treasury Bills	140,440	316,370	407,167	230,550	189,510
Domestic Loans with Commercial Banks	56,379	56,379	56,379	56,379	56,379
Foreign Loans	40,347	29,751	43,165	32,597	29,751
EBU's and Local Councils	110,076	99,198	98,640	107,949	110,076
Currency	60,397	70,514	57,107	62,874	67,697
EFSF (Debt Re-Routing)	181,794	181,791	179,849	171,189	181,800
<b>Total</b>	<b>5,417,449</b>	<b>5,710,522</b>	<b>5,759,203</b>	<b>5,659,946</b>	<b>5,577,625</b>
<b>Public Debt Servicing</b>					
<b>Local Loans</b>					
Interest (Treasury Bills)	1,878	2,907	749	90	1,004
Interest (MGS)	224,670	233,249	108,436	114,392	228,619
Interest (Domestic Loans with Commercial Banks)	2,246	2,247	1,114	1,114	2,247
<i>(A) Total Interest - Local Loans</i>	<b>228,794</b>	<b>238,403</b>	<b>110,298</b>	<b>115,596</b>	<b>231,870</b>
Contributions to Sinking Funds	3,261	3,261	1,631	1,631	3,261
Contribution to Special MGS Sinking Fund	50,000	50,000	25,000	5,000	50,000
Direct Loan Repayment	361,661	349,377	24,459	69,882	349,377
<i>(B) Total Contributions to Sinking Funds and Direct Loan repayments</i>	<b>414,922</b>	<b>402,638</b>	<b>51,090</b>	<b>76,513</b>	<b>402,638</b>
<b>Total Servicing of Local Loans (A + B)</b>	<b>643,716</b>	<b>641,041</b>	<b>161,388</b>	<b>192,109</b>	<b>634,508</b>
<b>Foreign Loans</b>					
Interest	2,305	1,817	1,773	1,418	1,818
Contributions to Sinking Funds	6,465	6,465	3,233	3,233	6,465
<b>Total Servicing of Foreign Loans</b>	<b>8,770</b>	<b>8,282</b>	<b>5,006</b>	<b>4,651</b>	<b>8,283</b>
<b>Malta Government Stocks Issuance Programme for 2015</b>					
					€ 000s
Total amount of Malta Government Stocks to be issued during 2015 shall not exceed					500,000
Total amount of Malta Government Stocks issued to date					258,287
The Total amount of Malta Government Stocks to be issued in H2 of 2015 shall not exceed					<u>241,713</u>