



MALTA: HALF YEARLY REPORT 2023

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

Ministry for Finance and Employment

July 2023

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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 2023.



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). 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 of the year and an updated forecast for 2023, with details of discretionary measures being undertaken. It analyses developments in public finances in 2023 taking into consideration the principles and rules stipulated in the Fiscal Responsibility Act and in the context of the Government's commitments at a European level in terms of the Stability and Growth Pact. The latter remain suspended in 2023 by means of the general escape clause of the Stability and Growth Pact. The Annex of this report also includes a statistical overview of the main fiscal indicators.

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

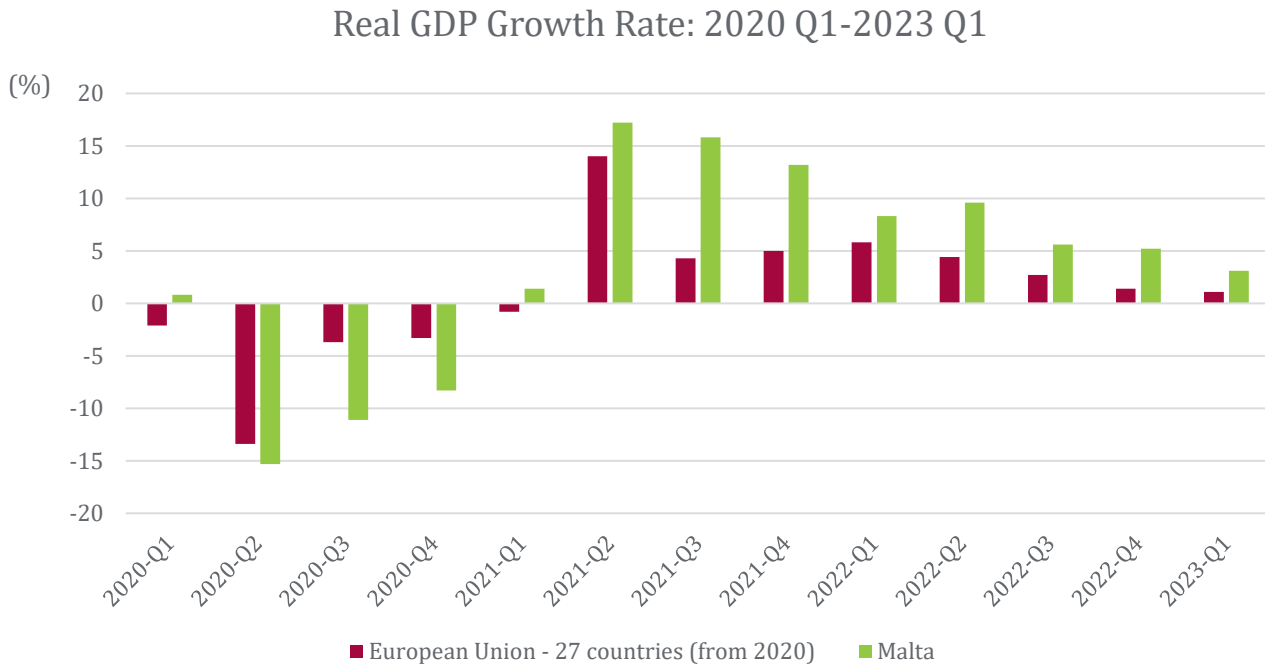
The most recent data indicates a sustained level of economic activity throughout the past few months. However, core inflation has remained stubbornly high, leading central banks in advanced economies to persist in

their tightening stance, which could potentially have a dampening effect on foreign demand. Despite the prevailing circumstances, the main trading partners of Malta are expected to demonstrate steady economic growth, thereby alleviating adverse trade repercussions. The current situation is further enhanced by a tourism sector that has exceeded expectations.

During the first three months of 2023, the Maltese economy exhibited a real growth rate of 3.1 per cent, in comparison to the corresponding quarter of the previous year. In nominal terms, economic activity expanded by 9.1 per cent. The growth observed in the first quarter of 2023 was primarily driven by net exports, making a significant contribution of 5.3 percentage points to economic growth. By contrast, domestic demand negatively contributed 2.2 percentage points to GDP growth, while inventories did not have a substantial effect on GDP growth.

During the first quarter of 2023, total gross value added increased by 9.3 per cent. This growth was broad-based. The manufacturing sector exhibited the highest growth rate, surging by 19.7 per cent. Other notable growth rates were recorded in the professional, scientific, and technical activities sector (14.4 per cent); the financial and insurance sector (12.5 per cent); the wholesale, retail, and hospitality sector (12.4 per cent); while the real estate sector and the information and communication sector both experienced a growth rate of 9.9 per cent.

Figure 2.1



Source: Eurostat

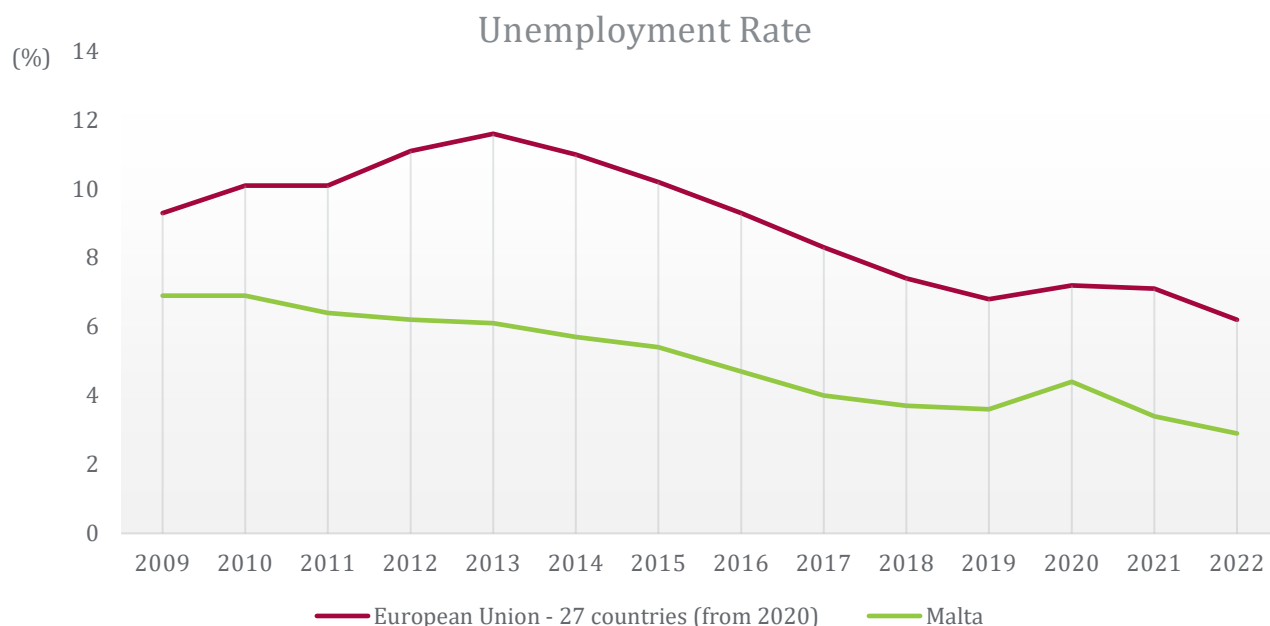
From the income side, compensation of employees experienced substantial growth, increasing by 8.3 per cent (equivalent to €149.4 million). This increase was evident across all sectors, with particularly noteworthy growth rates in real estate activities (17.6 per cent); financial and insurance services (15.1 per cent); and professional, scientific, and technical activities (14.0 per cent) sectors. Additionally, profit growth moderated when compared to the exceptionally strong growth in the preceding quarters, with an increase of 6.2 per cent (equivalent to €117.3 million) in the first quarter of 2023. Meanwhile, taxes less subsidies on production and imports demonstrated a significant surge, growing by 39.1 per cent (equivalent to €92.1 million).

Chart 2.1 compares the real GDP growth rates in Malta and the European Union (EU). Focusing on the first quarter of 2023, a deceleration in GDP growth rates was observed in both Malta and the EU. Malta registered a growth rate of 3.1 per cent compared to 1.1 per cent recorded by the EU. Overall, Malta’s relative outperformance in comparison to the broader EU economy remains robust.

2.1.1 Labour Market

The labour market has continued to exhibit a positive performance. During the first quarter of 2023, headcount employment experienced another strong increase of 8.2 per cent compared to the corresponding quarter of 2022. Through sustained economic growth and persistent labour market shortages, Malta

Figure 2.2



Source: Eurostat

has managed to record the lowest unemployment rate in the EU in 2022. Specifically, the unemployment rate reached a historic low of 2.9 per cent, which was 3.3 percentage points below the EU-27 average. Malta also fared relatively well in terms of youth unemployment (ages 15 to 24), with an unemployment rate of 8.3 per cent when compared to the EU-27 average of 14.5 per cent.

Unemployment data covering the first five months of this year shows that Malta recorded the second lowest unemployment rate in the EU, with the unemployment standing at 2.8 per cent. In May 2023, Malta’s unemployment rate continued to decline to 2.7 per cent.

2.1.2 Prices

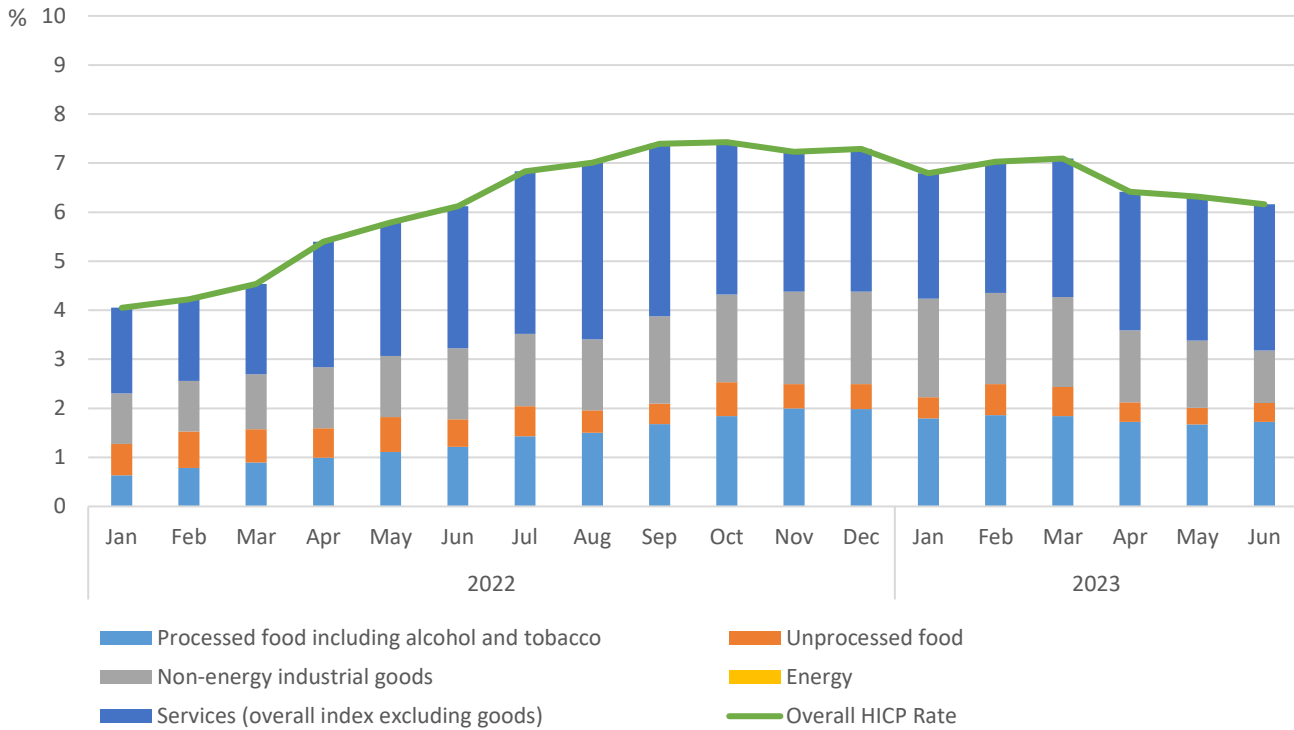
In June 2023, the annual HICP inflation rate in Malta stood at 6.2 per cent. Meanwhile, the EA

annual rate for the same month stood at 5.5 per cent.

Inflation experienced an upward surge during the first quarter of the year. However, by April and May, large base effects from rising inflation in the previous year began to contribute to a gradual decline in headline inflation. While price pressures remain broad-based across most product components, there has been an easing of international supply bottlenecks. Additionally, the fall in global energy commodity prices has had strong spillover effects on other products. This easing of pressure is evident in the moderation of non-energy industrial goods inflation. However, services inflation has remained persistent, especially in housing services and restaurants, supported by domestic demand and the strong recovery in the tourism sector.

Figure 2.3

Contributions to Year-on-Year HICP Inflation



Source: NSO

Malta’s core inflation, which excludes volatile components such as energy, food, alcohol, and tobacco, reached 6.0 per cent in Jan-June 2023, which is higher than the core inflation recorded in the EA-19 (5.5 per cent), reflecting strong base effects in the EA as energy prices began to ease. Nevertheless, it remains marginally lower than the EU-27 average of 6.4 per cent.

2.2 Comparison of macroeconomic projections

This section presents a comparison between the latest set of macroeconomic forecasts for the year 2023 as outlined in the Stability Programme 2023 - 2026 (hereinafter referred to as the Spring 2023 forecast) and the forecasts for the same year that formed the basis of the Budget 2023 projections in

October 2022 (hereinafter referred to as the Autumn 2022 forecasts). This assessment aims to explain the main forecast revisions that have been made since October 2022. The data referenced in this section is presented in Table 2.1.

2.2.1 Statistical Revisions influencing the change in Macroeconomic Forecasts

The Budget projections from October 2022 were based on data available until September 12, 2022. They take into account actual data pertaining to the first half of 2022, while the year 2022 itself was a forecast. In contrast, the cut-off date for the revised Spring forecasts of April 2023 was 20th April 2023, thus incorporating data for the whole of 2022 and the forecast period starting from the year 2023.

Main Macroeconomic Indicators

Table 2.1

	2020 ⁽¹⁾	2021 ⁽¹⁾	2022 ⁽¹⁾	2023 ^{af}	2023 ^{sf}
GDP growth at current Market Prices (%)	-7.1	13.9	12.7	7.3	8.6
GDP growth at chain-linked volumes by period (reference year 2010)	-8.6	11.7	7.1	3.5	4.1
Expenditure Components of GDP chain-linked volumes by period (reference year 2010)					
Private Final Consumption Expenditure ⁽²⁾	-10.6	8.2	9.8	4.0	3.8
General Government Final Consumption Expenditure	15.8	6.9	2.4	-2.4	3.4
Gross Fixed Capital Formation	-6.6	11	29.5	5.9	-6.8
Exports of Goods and Services	-1.7	6.2	6.3	2.5	4.3
Imports of Goods and Services	1.9	3.8	9.2	2.0	2.4
Contribution to GDP growth:					
Domestic Demand	-3.5	7.2	10.6	2.5	0.6
Inventories	0.5	-0.3	0.0	0.1	0.0
Net Exports	-5.7	4.8	-3.5	0.9	3.5
Inflation rate (%)	0.8	0.7	6.1	3.7	5.7
Employment growth (%)⁽³⁾	3.6	3.2	6.2	3.4	3.5
Unemployment rate (%)	29.5	-19.7	-9.8	3.1	3.0
Potential GDP growth	5.8	2.9	4.5	4.2	4.8
Output Gap	-9.8	-1.8	0.5	-0.6	-0.1

Notes:

af - Autumn (Budget) Forecasts

sf - Spring (Revised) Forecasts

⁽¹⁾ Actual data Source: NSO News Release No. 095/2023 - GDP Release 2023/Q1

⁽²⁾ Includes NPISH final consumption expenditure

⁽³⁾ Employment based on National Accounts Definition.

The headline real and nominal GDP growth rates for 2023 were revised upwards from the Autumn 2022 forecast to the Spring 2023 forecast. In Autumn 2022, the projected nominal and real GDP growth rates for 2023 were equal to 7.3 per cent and 3.5 per cent, respectively. In Spring 2023, economic growth was forecasted to be 8.6 per cent in nominal terms and 4.1 per cent in real terms.

This mainly reflects a stronger contribution of net exports, primarily attributed to an upward revision in export, owing to better-than-expected tourism performance. Higher inflationary pressures also led to the upward revision in the forecast of inflation and the corresponding GDP deflator, thus contributing to an upward revision in nominal GDP growth.

2.2.2 Other developments influencing the change in Macroeconomic Forecasts

In Autumn 2022, the escalation of the Russia-Ukraine conflict introduced a heightened sense of uncertainty, resulting in a presumed deceleration of the global economy. This geopolitical instability was projected to increase inflationary pressures, prompting monetary authorities worldwide to constrict liquidity conditions in an attempt to stave off inflation. At the time the Autumn forecasts were produced, a combination of soaring prices, energy supply disruptions, and global policy tightening was expected to result in a swift deceleration of external demand across Malta's main trading partners.

In Spring the external environment appeared to have marginally improved even though persistent price pressures and stringent monetary responses from global central banks continued to cast a shadow over the external outlook. The implications of these developments since Autumn 2022 led to a marginal upward revision in the outlook of Malta's main trading partners. Whereas in Autumn 2022, growth in Malta's main trading partners was projected to be 0.0 per cent in 2023, slight improvements in external conditions lead to an upward revision to 0.2 per cent. Moreover, the Spring Forecast assumes a stronger Euro vis-à-vis the US Dollar as well as stronger Euro vis-à-vis the Sterling.

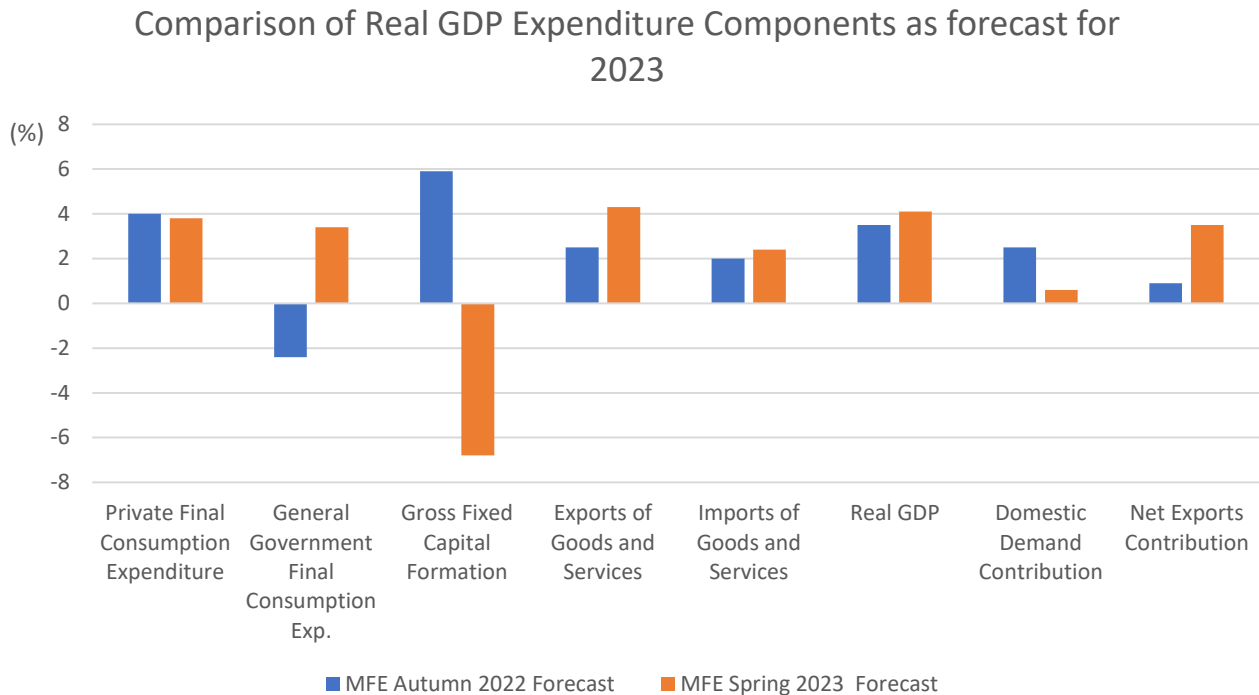
The tourism industry in 2022 outperformed expectations, with inbound tourism achieving 83.0 per cent of pre-pandemic levels, a

significant overachievement relative to initial forecasts. These positive developments within the travel sector were anticipated to extend into 2023, with expectations of tourism numbers expected to surpass pre-pandemic record levels. Concurrently, non-tourism services exports, which have demonstrated resilience in the face of weaker international demand, were also projected to maintain robust performance throughout the year.

Against this background, the largest revision between the Autumn and the Spring Forecast was related to net export performance. While the Autumn forecast, was projecting the contribution of net exports for 2023 at 0.9 per cent, a more positive net exports balance of 3.5 per cent was projected in the Spring forecast, thus an upward revision of 2.6 percentage points. This was underpinned by a significant upward revision in export growth and a relatively weaker upward revision in imports.

There were also significant revisions in the domestic drivers of aggregate demand. In the Autumn forecast, domestic demand was still expected to contribute positively to GDP growth by 2.5 percentage points, 1.9 percentage points higher than forecasted later in Spring (0.6 percentage points). This downward revision in the contribution of domestic demand was mainly due to the downward revision in the growth of gross fixed capital formation, in view of strong base effects from the prior year, tighter financing conditions, and high uncertainty.

Figure 2.4



Source: Economic Policy Department

Figure 2.4 provides a graphical comparison of the differences in the projected components of real GDP for 2023 as estimated by the MFE in the Autumn 2022 projections and the revised Spring 2023 projections.

2.2.3 Private Consumption Expenditure

The revised forecasts presented by MFE in Spring 2023 projected a marginally weaker rate of growth in private consumption expenditure (-0.2 percentage points), when compared to the Autumn 2022 forecasts. The revision was underpinned by pronounced base effects in 2022 and the anticipated normalisation of consumer demand after a strong recovery in the previous two years. The downward adjustment also mirrors the contraction in disposable income observed in

the concluding quarters. Nevertheless, private consumption growth is expected to remain strong supported by strong employment and sustained population growth.

2.2.4 Public Consumption Expenditure

Growth in government final consumption expenditure for 2023 has been revised upwards by 5.8 percentage points, to reach 3.4 per cent in the Spring forecast. This increase is attributed to increases in government intermediate consumption and compensation of employees.

2.2.5 Gross Fixed Capital Formation (GFCF)

The outlook for GFCF in 2023 has been revised downwards from 5.9 per cent in October 2022 to a negative 6.8 per cent in April 2023. It is

important to acknowledge that the inherent volatility of GFCF necessitates a prudent approach when forecasting. The weaker outlook is attributed to a strong base effect from last year as a result of a large extraordinary investment in the aviation sector. The short-term effect of this revised outlook for investment is however neutralised by imports such that its impact on the outlook for GDP was negligible.

2.2.6 External Balance of Goods and Services

The external environment marginally improved since the Draft Budgetary Plan. However, the persistent price pressures and the aggressive tightening response by global central banks continue to weigh on the external outlook. Nonetheless, a stronger tourism rebound, and the re-opening of China, along with the easing of supply chain disruptions and the strong manufacturing performance, led to an upward revision of exports by 1.8 percentage points, increasing from 2.5 to 4.3 per cent. The growth in imports was also revised upwards from 2.0 per cent to 2.4 per cent. The primary factor behind the upward adjustment in import projections reflects the expected development in exports.

2.2.7 Inflation and Labour Market Developments

In the latest Spring forecasts inflation was revised upwards by 2.0 percentage points in comparison to the Autumn forecast, resulting in an increase to 5.7 per cent. Inflationary pressures are expected to remain high, yet it is anticipated that they will gradually ease over the forecast horizon. This can be attributed to the easing of supply side bottlenecks, lower commodity prices, as well

as a moderation of economic activity. Nevertheless, the upward revision of the HICP can be mainly attributed to the presence of inflationary trends that have proven to be more enduring than initially evaluated.

Services inflation is set to persist supported by rising wage pressures. Moreover, the notable increase in the Cost-of-Living Adjustment (COLA) of €9.90 per week, the staggered nature of wage and rent contracts, and the tight labour market are expected to keep inflation sticky.

Meanwhile, employment growth projections have been slightly revised upwards by 0.1 percentage points, leading to a projected growth rate of 3.5 per cent. Additionally, the unemployment rate has been marginally revised downwards due to persistent labour market shortages and sustained economic growth.

2.2.8 Potential Output and the Output Gap

Malta's potential output growth in Spring 2023 is projected to reach 4.8 per cent in 2023, which is 0.6 percentage points higher than what was projected in Autumn 2022, reflecting an increase in the capital contribution. Accordingly, the estimate of the output gap (per cent of potential output) was revised upwards by 0.5 percentage points and is expected to reach -0.1 per cent in 2023 compared to the -0.6 per cent projected last Autumn suggesting that the economy is now expected to operate at its potential.

2.3 Updated Risks to the Growth Outlook since Spring 2022

In view of the uncertainty related to the conflict in Ukraine along with tighter monetary policy in advanced economies, the baseline forecast remains conservative. This approach is justified by the fact that the macroeconomic forecast serves as a basis for fiscal projections.

From a macroeconomic perspective, it is notable that the external assumptions that underpin our projections have experienced a slight improvement for 2023, indicating that some of the upside risks have been materialising. In addition, it is anticipated that there will be sustained positive economic growth, albeit moderate, in Malta's main trading partners, on the back of a strong labour market, serving as a stabilising factor for the overall economic outlook along with normalising energy prices and stable growth in the services sector.

On the other hand, tourism has been outperforming previous expectations, indicating that a notable upside risk has also started to materialise. This is evident from a higher-than-anticipated number of tourist arrivals and tourist expenditure during the first five months of 2023. Internal estimates suggest that the positive tourism prospects for 2023 are likely to outweigh any negative developments in the relative competitiveness in other sectors and overall, the risk is neutral. A similar conclusion was drawn by the Malta Fiscal Advisory Council in its latest assessment of the Update of the Stability Programme.

The upside risks to inflation persist, as the persistent nature of inflation may surpass initial estimates and be influenced by indirect effects stemming from previous commodity price increases. Additionally, second-round effects, such as escalating wages and profit margins, could contribute to the prolonged manifestation of inflation. However, it is worth noting that inflationary pressures in the medium-term could potentially be alleviated by further monetary tightening measures and decreased foreign demand.

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.

The economic analysis suggests that the revised macroeconomic forecasts presented last Spring remain plausible though, on balance, subject to downside risks in real terms, whilst inflationary pressures suggest upside risk in nominal terms. The analysis of the budgetary indicators also suggests that the revised targets presented last Spring remain plausible. In this context, the Half Yearly Report does not recommend a major revision to the macro or fiscal targets for 2023 at present, although developments shall be monitored closely as the global economic outlook remains clouded by high uncertainty.

3. The 2023 targets as established in the 2022-2025 Medium-Term Fiscal Strategy and the 2023 Draft Budget Plan

The assessment of developments against targets established in the 2022–2025 Medium Term Fiscal Strategy (2022 MTFs) and the 2023 Draft Budgetary Plan (2023 DBP) is mainly undertaken in terms of data classified according to the European System of Accounts (ESA) 2010. Therefore, actual data may still be subject to further revisions.

In the 2022 MTFs, the revenue to GDP ratio was expected to remain unchanged at 38.1 per cent of GDP in 2023, while the expenditure-to-GDP ratio was expected to decline by 0.9 percentage points, such that the general Government deficit was expected to improve from 5.4 per cent of GDP in 2022 to 4.6 per cent of GDP in 2023.

In July 2022, the European Council advised Malta to align 2023 national expenditure with a neutral policy stance, and provide support to vulnerable households, firms affected by energy prices, and Ukrainian refugees. The Council also recommended that Malta be prepared to adapt spending and invest in green, digital, and energy security initiatives, utilizing REPowerEU and Union funds.

Accordingly, and in view of the economic challenges brought about by the escalation of the Russia-Ukraine war, as a result of which inflationary pressures from abroad mounted,

the Government adjusted its spending to support the economy and stabilise the price of basic commodities. This allowed the economy to register a notable rate of economic expansion and generate more revenues than anticipated to finance additional support from public funds being provided by the Government. Overall, the 2023 deficit target was revised upwards to 5.5 per cent in the DBP 2023. Meanwhile, in Autumn 2022, the debt ratio was expected to reach 59.1 per cent of GDP in 2023.

The fiscal policy strategy outlined in the DBP 2023 revolved around the following core principles:

- Stabilising the economy through the Government's political commitment to shelter households and firms from a temporary surge in the price of essential commodities such as energy and food, including protecting the most vulnerable through social support measures specifically aimed towards specific groups of society.
- Supporting economic growth while preserving fiscal sustainability through an increase in revenue consistent with economic growth and expenditure consolidation measures.
- Strengthening the potential of the economy by undertaking the necessary investments and reforms for the economy to grow in a sustainable manner, particularly by facilitating the Green & Digital transitions.

The general Government balance for 2023 was revised upwards compared to the estimated deficit outlined in the 2022 MTFs, as higher estimated revenue in 2023 was expected to be more than offset by an upward

revision in the general Government expenditure.

The main revision in the 2023 general Government revenue projected in Autumn 2022 compared to the earlier estimates outlined in the 2022 MTFS related to taxes on the income and profit of corporations, reflecting better than anticipated tax revenue in 2022, primarily from corporate income tax. This was in part offset by weaker economic growth prospects anticipated for 2023 as economic conditions abroad continued to deteriorate at the time of the forecast, following the continuation of the conflict in Eastern Europe.

Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2022 MTFS was mainly attributable to an upward revision in subsidies, pertaining to energy measures in view of anticipated global inflationary developments expected 2023 particularly in the energy sector. These were in part offset by a downward revision in intermediate consumption and compensation of employees, reflecting the comprehensive spending review exercise undertaken by the Ministry for Finance and Employment to offset the fiscal pressures which were anticipated in relation to energy costs.

In the Commission opinion published on 22 November 2022, the Commission considered that the Draft Budgetary Plan for Malta was in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. It noted that Malta swiftly implemented emergency measures to tackle the surge in energy prices. However, the Commission

cautioned against extending or introducing new support measures in response to high energy costs as such actions could lead to increased net nationally financed current expenditure and to an increase in the projected Government deficit and debt in 2023. The Commission urged Member States, including Malta, to focus supporting measures on vulnerable households and exposed firms, maintain incentives to reduce energy demand, and to gradually withdraw measures as energy prices pressures subside.

4. Revised 2023 Targets as outlined in the 2023 Medium Term Fiscal Plan

The fiscal outcome in 2022, revised macroeconomic projections, as well as the evaluation of general Government budgetary developments during the current year, constitute the basis for the revised projections for 2023 undertaken in April. Additional revisions also take into consideration the revised impact of fiscal measures, including those intended to support households and businesses from the increases in the international price of oil and commodities as well as the fiscal impact of the measures underlying the 2023 Budget.

When compared to 2022, the general Government balance is expected to decline in 2023, to a deficit of €913.3 million, such that the deficit ratio to GDP will improve to 5.0 per cent. The general Government revenue ratio is expected to increase by 0.6 percentage points while the general Government expenditure is expected to decrease slightly by 0.2

percentage points. General Government budgetary execution and prospects in accordance with ESA standards are outlined in Table 4.1.

During 2023, the general Government deficit was revised downwards by €59 million, when compared to the estimated deficit of €972.0 million outlined in the 2023 Draft Budget Plan. These developments mainly reflected upward revisions in total revenues. Total revenue was revised upwards by €67 million, primarily reflecting more buoyant macroeconomic developments now expected in 2023. Total expenditure was revised upwards by €8 million, as a downward revision in expenditure on energy subsidies, created some fiscal space to cater for the higher than estimated inflationary effect on other expenditure components, particularly impacting intermediate consumption.

4.1 Base effect from 2022

Compared to the Autumn 2022 projections, revenue in 2022 from taxes on individual and household income turned out stronger than expected by €79 million, however this was more than outweighed by lower-than-expected revenue from taxes on the income and profits of corporations. Meanwhile, marginally higher than estimated revenue from capital taxes (+€10 million) and social contributions (+€8 million) was in part offset by lower than estimated revenue from taxes on production and imports (-€13 million) in 2022.

Expenditure turned out higher than planned as higher expenditure allocated to subsidies amounting to €83 million was only in part

offset by lower than estimated expenditure of €32 million on compensation of employees.

Table 4.2 disaggregates the changes to the 2023 forecasts compared to the 2023 Draft Budget Plan due to the impact of the actual outturn in 2022 (base effect) on revenue and on non-discretionary expenditure components, updated macroeconomic determinants, and other changes (mainly capturing the fiscal impact pertaining to price and supply developments of energy and commodities).

4.2 Budgetary implications of economic developments

In view of the updated macro-economic projections for 2023, in Spring 2023 the general Government revenue was revised upwards by €65 million. This mainly reflects an upward revision in revenue from current taxes on income primarily reflecting a significant upward revision in projections for compensation of employees, which similarly results in a €10 million upward revision to revenue from social contributions. Meanwhile, revenue from taxes on production and imports was revised marginally upwards by €6 million, primarily due to lower projected growth for tourism spending resulting from a larger base in 2022, in part offset by more buoyant developments in the property market than expected in Autumn 2022.

4.3 Discretionary measures and other revisions

As outlined in Table 4.2, other revisions were carried out to the 2022 Autumn fiscal projections resulting in an upward revision in

total revenue by €12 million and a downward revision of €48 million in total expenditure.

Downward revisions to the sensitivity of VAT revenue to the underlying tax base and the revised fiscal impact of discretionary property-market tax measures and the extension of lower excise duty rates on petroleum products in 2023 primarily resulted in a €54 million downward revision in taxes on production and imports. Other revisions to current taxes on income are due to a higher updated elasticity assumptions on corporate profits and compensation of employees. Property income is expected to be lower due to lower expected profits transferred from the Central Bank of Malta.

A list of the main discretionary measures underpinning the fiscal developments are presented in Table 4.3.

In terms of expenditure, in the 2023 Budget, the Government had allocated over 8 per cent of total annual expenditure to cushion the impact of international energy prices on water and energy bills and fuel prices. As energy prices have somewhat stabilised at lower prices in recent months, the cost of energy support measures was revised significantly downwards in 2023, in part offset by a provisional allocation included in 2023 in view of the possibility of Government opening a second early retirement scheme for Air Malta workers (subsidies -€256 million). The savings from the energy support measures were for the most part taken up by the factoring in of a higher anticipated inflationary effect on contractual services than anticipated in Autumn 2022

(intermediate consumption +€141 million), and an estimate of the cost of collective and sectoral agreements in negotiation during 2023 (compensation of employees +€42 million).

4.4 Developments to date and other revisions

This section analyses the Government's provisional data for revenue and expenditure for the first half of the year compared with the actual data as occurred in 2022. Outcomes for this period are presented in Table 4.1. During January to June 2023, the general Government revenue is estimated to have increased by €221.2 million or 7.9 per cent over the comparable period in 2022. This increase is mainly on account of higher tax revenue, social contributions and 'other' revenue, in part offset by a decline in revenue emanated from property income. In the first half of 2023, 46.4 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 taxes on production and imports is estimated to have recorded an increase of €91.2 million or 10.7 per cent during the first six months of 2023. Compared to estimates in the 2023 Budget, growth in this component of revenue has remained relatively unchanged at 8.3 per cent in the revised Spring projections. In the first half of 2023, 47.4 per cent of the approved target (equivalent to 48.9 per cent of the revised target) for the year is estimated to have been collected, compared to a ratio of 47.8 per cent

a year earlier suggesting that the performance to date is in line with the revised projections.

Revenue from current taxes on income and wealth is estimated to have increased by €45.1 million during the first six months of 2023. The implied growth rate of 4.2 per cent in current taxes on income and wealth recorded during the first half of the year is equivalent to that projected in Autumn 2022. It is also noted that in the first half of 2023, 46.2 per cent of the approved estimates for the whole year is estimated to have accrued. This is broadly in line with the comparable period last year where 46.8 per cent of the yearly proceeds had been accrued. On the basis of the revised Spring 2023 projections, 45.5 per cent of the revised estimates for 2023 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.

During the first half of 2023, revenue from social contributions is estimated to have slightly increased by 4.7 per cent or €22.3 million. Revenue projections for social contributions were revised upwards in Spring 2023 to take into consideration higher than estimated tax revenue in 2022, more buoyant underlying macro-economic conditions and a more related sensitivity of tax revenue to such developments. Growth in this component of revenue was revised to a growth of 6.9 per cent in 2023. In the first half of 2023, 48.1 per cent of the approved target for the year (equivalent to 46.5 per cent of the revised revenue target) is estimated to have been collected, compared to a ratio of 47.4 per cent

a year earlier. These indicators suggest that the revised targets remain plausible.

Meanwhile, 'other' revenue is estimated to have increased by €78.7 million during the first six months of 2023. This is consistent with the higher forecast for the year as a whole. Given the volatile seasonal patterns of other revenue, a meaningful comparison with 2022 is difficult to perform.

During the first two quarters of 2023, general Government expenditure is estimated to have increased by €68.4 million, or 2.1 per cent, compared to the same period of 2022. Overall, expenditure in the first half of the year was 44.9 per cent of the revised budget target whereas in the same period last year 47.5 per cent of total expenditure outlays for the year had been spent in the first six months. Higher outlays are mainly recorded towards social payments, intermediate consumption and 'other' expenditure, in part offset by lower expenditure on gross fixed capital formation, subsidies and capital transfers compared to the same period in 2022. What follows is a more detailed review of the main components underlying the variances with successive projections.

During January-June 2023, expenditure on social payments has increased by €72.9 million, or 9.4 per cent, compared to the same period last year, reflecting primarily higher outlay on retirement pensions. Expenditure on social payments during the January-June 2023 period amounted to 52.2 per cent of the approved target for the year (equivalent to 52.4 per cent of the revised target), compared to a ratio of 52.0 per cent during the same

period in 2022. Assuming that seasonal patterns observed last year persist, these indicators suggest that in the first half of the year expenditure on social payments is consistent with the approved and the revised estimates.

Expenditure on intermediate consumption has increased by €41.9 million during the first half of 2023, such that intermediate consumption expenditure during the January-June 2023 period amounted to 50.6 per cent of the approved target for the year, compared to a ratio of 49.1 per cent during the same period in 2022. Nevertheless, the share to annual expenditure declines to 46.0 per cent when compared to the revised target expenditure for 2023. Developments in intermediate consumption primarily reflect expenditure by central Government made in respect of 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 2023 period. Additional expenditure is recorded towards 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 €25.8 million during the first two quarters of 2023. This represents 44.3 per cent of the approved estimate, 44.7 per cent of the revised estimate and comparable to the

40.9 per cent of annual expenditure recorded last year. These indicators suggest that 'other' expenditure is higher than expected, though this could in part be due to the timing of payments due, and hence no revisions are contemplated at the current juncture.

In line with an estimated increase in the revised target for 2023, compensation of employees, slightly increased by 1.1 per cent during the first half of 2023 compared to the same period in the previous year. During the first six months, outlays in respect of this item of expenditure amounted to 47.6 per cent of the approved target for the year (or the equivalent of 47.3 per cent of the revised target for this category of expenditure), compared to a ratio of 50.2 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 lower than the approved and the revised estimates for 2023.

Expenditure on gross fixed capital formation decreased by €47.0 million during the first six months of 2023, reflecting the completion of major infrastructural projects in 2022. As a result, over the first six months of 2023, the Government has spent around 31.2 per cent of the approved expenditure for 2023 (equivalent to 30.8 per cent of the revised target for gross fixed capital formation), as compared to 46.1 per cent over the comparable period in 2022. 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 2023Q2 was partly estimated and is to be considered as provisional

Table 4.1

	ESA Code	2022 Actual € 000	2023 Budget Forecast € 000	Jan-Jun 2022 Actual € 000	Jan-Jun 2023 Provisional € 000	2023 Revised Forecast € 000
Net lending (+)/net borrowing (-)						
1. General Government	S.13	-980,579	-972,000	-465,128	-312,268	-913,340
2. Central Government	S.1311	-987,709	-970,787	-470,084	-317,223	-912,127
3. State Government	S.1312	-	-	-	-	-
4. Local Government	S.1313	7,129	-1,213	4,955	4,955	-1,213
5. Social Security funds	S.1314	-	-	-	-	-
For the General Government						
6. Total Revenue	TR	5,918,330	6,475,802	2,814,119	3,035,351	6,542,723
Of which						
Taxes on Production and Imports	D.2	1,777,454	1,985,670	850,222	941,461	1,924,670
Current Taxes on Income, Wealth, etc.	D.5	2,299,090	2,423,126	1,075,155	1,120,255	2,463,126
Capital Taxes	D.91	36,153	25,775	15,138	17,128	25,775
Social Contributions	D.61	990,613	1,021,800	469,675	491,947	1,059,000
Property Income	D.4	85,074	84,197	42,092	24,005	50,205
Other ^(a)		729,947	935,234	361,836	440,554	1,019,947
7. Total Expenditure	TE	6,898,910	7,447,802	3,279,247	3,347,619	7,456,063
Of which						
Compensation of employees	D.1	1,830,246	1,952,093	918,225	928,405	1,961,983
Intermediate Consumption	P.2	1,367,334	1,408,844	671,473	713,325	1,550,264
Social Payments	D.6	1,489,081	1,621,472	774,216	847,126	1,616,470
Interest Expenditure	D.41	165,977	227,140	79,489	95,637	225,583
Subsidies	D.3	850,199	859,121	322,262	281,184	685,894
Gross Fixed Capital Formation	P.51	563,901	681,569	259,918	212,895	690,802
Capital Transfers	D.9	154,155	198,282	58,119	47,703	229,459
Other ^(b)		478,017	499,279	195,545	221,343	495,608
8. Gross Debt ^(c)		9,003,370	10,372,324	8,595,453	9,165,346	10,040,838

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 2023

Divergence from previous forecasts

(Millions of Euro)

Table 4.2

	ESA Code	DBP 2023 compared to MTFS 2023			Total forecast revision
		Divergence due to outturn in <i>t-1</i>	Divergence due to updated macro-economic projections	Other revisions	
Net lending (+)/net borrowing (-)					
1. General Government	S.13	-71	71	58	59
2. Central Government	S.1311	-71	71	58	59
3. State Government	S.1312	-	-	-	-
4. Local Government	S.1313	0	0	0	0
5. Social Security funds	S.1314	-	-	-	-
For the General Government					
6. Total Revenue	TR	-8	65	12	67
Of which					
Taxes on Production and Imports	D.2	-13	6	-54	-61
Of which					
Value Added Type Taxes (VAT)	D.211	8	-11	-42	-46
Taxes on Financial and Capital Transactions	D.214C	-12	12	-42	-42
Current Taxes on Income, Wealth, etc.	D.5	-13	45	7	40
Of which					
Taxes on Individual or Household Income	D.51M	79	48	-36	91
Taxes on the income or profits of Corporations	D.510	-89	-3	43	-50
Capital Taxes	D.91	10	4	-11	0
Social Contributions	D.61	8	10	19	37
Of which					
Employers' Actual Pension Contributions	D.611	10	8	1	19
Households' actual social contributions	D.613	9	2	4	15
Property Income	D.4	0	0	-34	-34
Other ^(a)		0	0	85	85
7. Total Expenditure	TE	62	-6	-48	8
Of which					
Compensation of employees	D.1	-32	0	42	10
Intermediate Consumption	P.2	0	0	141	141
Social Payments	D.6	6	-6	-5	-5
Of which					
Unemployment expenditure		-6	-6	6	-6
Interest Expenditure	D.41	2	0	-4	-2
Subsidies	D.3	83	0	-256	-173
Gross Fixed Capital Formation	P.51	0	0	9	9
Capital Transfers	D.9	0	0	31	31
Other ^(b)		3	0	-7	-4

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

Measures	ESA Code	Date of adoption	Incremental Budgetary Impact				
			2021	2022 ^{af}	2022 ^{sf}	2023 ^{af}	2023 ^{sf}
Reduced tax on the transfer of immovable property	D2, D5 - R	June 2020 Economic Regeneration Plan	-0.29	0.70	0.05	1.11	0.22
Reduced Excise Duty	D2 - R	June 2020 Economic Regeneration Plan	-0.05	0.01	0.02	0.10	0.01
Budget measures enabling business activity	D2 - R	2019 - 2021	0.00	0.00	0.00	0.00	0.00
Minimum excise duty applicable on petroleum products as from 9/11/2021	D2 - R	2021	-0.03	-0.17	-0.16	0.20	0.01
Revision in interest and penalties due on outstanding tax balances	D2, D5 - R	2022	0.00	0.13	0.12	-0.01	-0.01
Fiscal incentives for private pensions	D5 - R	2019 - 2021	-0.03	0.00	0.00	0.00	0.00
Income tax - Fixed Rate on part-time work	D5 - R	2022	0.00	-0.03	-0.03	0.00	0.00
Assumption of 5% unrecoverable deferred tax	D2, D5, D6 - R	2020-2022	-0.02	0.01	0.01	0.00	0.01
Revenue from the Citizenship by Investment scheme	P10 - R	2014	-0.33	-0.45	-0.34	0.22	0.21
Other revenue measures, including measures legislated in previous budgets			-0.05	-0.06	-0.07	-0.02	-0.02
Various medical supplies and equipment in relation to COVID-19	P2 - E	2020 - 2021	0.10	0.29	0.27	0.18	0.19
Cargo Transportation and Repatriation	P2 - E	COVID-19 Support Measure	0.38	0.00	0.00	0.00	0.00
COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme	D3 - E	2020 - 2021	0.86	2.14	2.01	0.70	0.74
Government-guaranteed loans schemes	D3 - E	COVID-19 Support Measure	-0.06	-0.01	0.01	0.08	0.06
Support to the agricultural sector	D3 - E	2021	-0.03	0.01	0.01	0.03	0.02
Energy support measures and commodity price and supply security measures		2020	-0.14	-2.24	-1.72	-0.92	0.79
Short Term Social Measures	D6 - E	COVID-19 Support Measure	0.11	0.00	0.00	0.00	0.00
Housing Programmes	D6 - E	2020	0.00	-0.05	-0.04	-0.01	0.00
Extended COLA mechanism targeting vulnerable households	D6 - E	2023	0.00	0.00	0.00	-0.07	-0.07

Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society; cash payments by Government to households	D6 - E	2021-2026	-0.04	-0.29	-0.14	-0.74	-0.33
Financial support to the national airline	D9 - E	2022 & 2023	0.00	-0.32	-0.86	-0.07	0.31
Tourism Support Schemes	D9 - E	2021 & 2022	-0.09	0.05	0.05	0.04	0.04
Other expenditure measures, including measures legislated in previous budgets and projects financed from the National Development and Social Fund			-0.04	0.10	0.02	0.29	-0.09
			0.23	-0.18	-0.78	1.13	2.08

af: Autumn 2022 forecast

sf: Spring 2023 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: 2023 Revised Estimates

With respect to financial year 2023, the deficit in the Consolidated Fund has been revised downwards to €924.3 million from €979.9 million announced in the original budgetary estimates that were presented in October 2022 and approved in December 2022. The general Government budget deficit in ESA terms was revised to €913.3 million from the original estimation of €972.0 million. 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 5.0 per cent of GDP as compared to the original target deficit of 5.5 per cent of GDP which was published in the 2023 Budget Estimates.

Table 1 shows the revenue and expenditure performance for the first six months of 2023 as compared to the same period in 2022, incorporating also the respective revised positions for 2023 as compared to the original budget which was approved in December 2022. The revised position is based on the outturn for 2022, updated macroeconomic forecasts and factors in, 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 2023 - 2026 Stability Programme for Malta which was published in April this year.

Revenue

A net decrease in revenue equivalent to 0.01 per cent of GDP is expected by the end of 2023, 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 €74 million in total, based on the outturn for 2022, whilst Excise Duties and Value Added Tax have been revised downwards by a total of €97 million, in reflection of revenue performance in 2023 to-date and the expected economic activity up to the end of the year.

Recurrent Expenditure

When compared to the original budget, a net decrease in recurrent expenditure equivalent to 0.42 per cent of GDP is expected to ensue by the end of 2023.

The factors contributing to this variance emanate from the Programmes and Initiatives category, due to an expected lower outlay in Energy Support Measures necessary on elements that were not envisaged at time of budget preparation.

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 €2.2 million, equivalent to 0.01 per cent of GDP is expected to ensue by the end of 2023, when compared to the original budget.

This variance includes an expected reduction in outlay to cover projects funded by both the European Union and through the national budget, reflecting anticipated absorption until 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.

Central Government Finances - Consolidated Fund

Table 1

	Jan - Dec 2022 <i>Actual⁽¹⁾</i> € 000	Jan - Dec 2023 <i>Approved Estimates</i> € 000	Jan - Jun 2022 <i>Actual</i> € 000	Jan - Jun 2022 <i>Actual as a % of 2022</i>	Jan - Jun 2023 <i>Actual</i> € 000	Jan - Jun 2023 <i>Actual as a % of 2023</i>
Revenue	5,845,166	6,368,120	2,566,226	43.9	2,920,775	45.9
Tax Revenue	5,313,716	5,756,763	2,354,912	44.3	2,626,374	45.6
<i>Indirect Tax Revenue</i>	1,867,601	2,084,763	890,402	47.7	955,592	45.8
Customs and Excise Duties	284,624	325,000	132,574	46.6	139,002	42.8
Licenses, Taxes, and Fines	351,595	383,763	171,389	48.7	199,569	52.0
Value Added Tax	1,231,382	1,376,000	586,439	47.6	617,021	44.8
<i>Direct Tax Revenue</i>	3,446,115	3,672,000	1,464,510	42.5	1,670,782	45.5
Income Tax	2,139,970	2,309,000	889,306	41.6	1,053,406	45.6
Social Security	1,306,145	1,363,000	575,204	44.0	617,376	45.3
Non-Tax Revenue	531,449	611,357	211,314	39.8	294,401	48.2
Fees of Office	112,000	77,510	29,417	26.3	36,892	47.6
Sales	46,242	98,843	13,326	28.8	45,907	46.4
Reimbursements	5,533	2,678	1,236	22.3	2,373	88.6
Central Bank of Malta	22,173	33,000	22,173	100.0	0	0.0
Rents	30,833	35,860	15,275	49.5	13,878	38.7
Dividends on Investments / Receipts	49,529	55,850	9,330	18.8	8,424	15.1
Interests on Loans made by Government	189	276	0	0.0	272	98.6
Grants	195,526	298,252	79,911	40.9	148,059	49.6
Miscellaneous	69,425	9,088	40,646	58.5	38,597	424.7
Total Expenditure⁽¹⁾	6,745,450	7,348,041	3,030,438	44.9	3,179,322	43.3
Recurrent Expenditure	5,832,511	6,206,817	2,673,874	45.8	2,764,015	44.5
Personal Emoluments	1,127,170	1,172,559	524,445	46.5	549,197	46.8
Operations and Maintenance	262,455	262,812	110,765	42.2	153,066	58.2
Programmes and Initiatives	3,647,265	4,021,040	1,718,811	47.1	1,683,258	41.9
Contributions to Government Entities	795,621	750,406	319,853	40.2	378,494	50.4
Interest Payments	173,609	219,000	85,652	49.3	100,003	45.7
Capital Expenditure	739,329	922,224	270,912	36.6	315,304	34.2
Foreign Funds	120,999	296,252	34,640	28.6	83,607	28.2
National Funds (incl Co Financing)	618,330	625,972	236,272	38.2	231,697	37.0
Consolidated Fund Balance	-900,285	-979,921	-464,212		-258,547	

Notes:

af - Autumn Forecasts (Approved Estimates)

⁽¹⁾ Excluding sinking fund contributions, direct loan repayments 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 2023, and a comparison of the revised forecasts of debt for the entire year with the 2023 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 2022, the debt-to-GDP ratio decreased by 1.7 percentage points

to 53.4 per cent of GDP. This in spite of the impact of the price support related measures set to stabilise the inflationary pressures mounted by the Russia-Ukraine conflict. When compared to the Autumn targets set for the 2023 budget, the estimated general Government debt-to-GDP ratio for 2023 has been revised downwards by 4.6 percentage points, to 54.5 per cent of GDP. This primarily reflects the upward revision in the level of GDP in 2023 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 interest expenditure.

General Government (S.13) Debt Developments and Prospects

Table 5.1

		2022	2023 ^{af}	2023 ^{sf}
	ESA Code	% GDP	% GDP	% GDP
1. Gross Debt^(a)		53.4	59.1	54.5
2. Change in Gross Debt ratio		-1.7	2.2	1.1
Contributions to changes in Gross Debt				
3. Primary Balance		4.8	4.2	3.8
4. Interest Expenditure	D.41	1.0	1.3	1.2
5. Stock-flow adjustment		-1.4	0.5	0.3
p.m.: Implicit interest rate on debt ^(c) (%)		2.0	2.4	2.5
Other relevant variables				
Percentage of debt related to foreign loans ^(d) (%)		0.0	0.0	0.0
Average MGS maturity (years) ^(e)		9.0	8.4	8.7
Real GDP growth (%)		7.1	3.5	4.1

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) 99% of outstanding Foreign Loans balance is denominated in domestic currency, whereas 1% is denominated in foreign currency (CAD).

^(e) For 2023^{sf}, data refers to position as at end of June 2023.

5.2 Components of General Government Public Debt

The Government's debt management policy aims to minimise long-term financing costs, considering risk, and raise funds prudently and efficiently. Timely financing is pursued to meet cash shortfalls, ensuring availability of funds. Sustainable debt levels are targeted while minimising short, medium, and long-term gross debt and interest rate risks.

Table 7 in the Statistical Annex illustrates the Statement of General Government sector debt. Actual General Government debt as at 30 June 2023 stood at €9,165.35 million (30 June 2022: €8,595.45 million). The consolidated outstanding MGS figure increased by €775.09 million. The outstanding Malta Government Retail Savings Bonds balance stood at €354.70 million, a decrease of €117.14 million, whilst the consolidated outstanding amount of T-Bills decreased by €107.77 million and stood at €747.83 million as at end June 2023. The foreign loans outstanding balance (99.99 per cent denominated in euro) as at 30 June 2023 stood at €420.53 million, down by €130,000 over the corresponding figure for the equivalent period of last year.

5.3 Main developments in the eurozone sovereign bond market during H1- 2023

During January and February market participants' expectations of euro area interest rates initially moved substantially higher, owing to the ECB's December 2022 communication that additional policy tightening was needed to ensure a timely return of inflation to the 2 per cent medium-term target. Subsequently, policy rate

expectations were pared back amid market perception that inflationary pressures were easing following lower-than-expected inflation data and softening energy prices. By mid-March, expectations for policy rate increases largely receded owing to rising uncertainty sparked by difficulties at a few US regional banks and a major Swiss financial institution, and their ramifications for inflation and growth. From mid-March to early May, euro area financial market developments were driven largely by waning concerns about the banking sector as well as by the ECB's monetary policy decisions. Market expectations for euro area policy rates rose during this period but remained lower than prior to the banking turmoil. Overall, during Spring euro area financial markets stabilized following the banking sector turmoil in the United States in early March. Sovereign bond markets were broadly insulated from banking sector events and spreads did not react to the ECB's announcement to discontinue APP reinvestments as of July 2023. As concerns about the economic impact of the banking turmoil gradually abated, market participants reappraised their inflation and monetary policy rate expectations.

On 2 February, the ECB decided to raise policy interest rates by 50 basis points (bps), from 2.00 per cent to 2.50 per cent, and it expected to raise them further. In view of high underlying inflation, the Governing Council pre-committed to raise interest rates by another 50 bps at its March meeting and asserted that it will then evaluate the subsequent path of its monetary policy. Keeping interest rates at restrictive levels was

expected over time to reduce inflation by dampening demand and would also guard against the risk of a persistent upward shift in inflation expectations. The ECB's future policy rate decisions would continue to be data-dependent and follow a meeting-by-meeting approach. At the same meeting the ECB also decided on the modalities for reducing the Eurosystem's asset purchase programme (APP) holdings. The APP portfolio would be run down by €15 billion per month on average, from the beginning of March until the end of June 2023, and the subsequent pace of portfolio reduction would be determined over time. As concerns the pandemic emergency purchase programme (PEPP), the ECB restated its intention of reinvesting maturing securities until at least the end of 2024. The future roll-off of the PEPP portfolio would be managed to avoid interference with the appropriate monetary policy stance. The Governing Council would continue applying flexibility in reinvesting PEPP redemptions, with a view to countering risks to monetary policy transmission related to the pandemic.

On 16 March, the ECB decided to increase its three key interest rates by 50 bps. According to the ECB, the elevated level of uncertainty reinforced the importance of a data-dependent approach to policy rate decisions, which would be determined by the inflation outlook considering incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. The Governing Council also announced that it was monitoring market tensions caused by banking sector turmoil in the US and Switzerland closely. It reassured that it stood ready to respond as necessary to

preserve price and financial stability in the euro area. The ECB also reiterated that the euro area banking sector had strong capital and liquidity positions, and that its policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed to preserve the smooth transmission of monetary policy.

Overall, from the beginning of 2023 to mid-March, euro area risk-free rates and longer-term bond yields increased only slightly. €STR closely followed the changes in the ECB's deposit rate, which the Governing Council raised in February and March. However, towards mid-March, the elevated level of volatility sparked by difficulties at several regional US-based banks and Credit Suisse also created tension in euro area financial markets. The €STR forward curve moved significantly lower across tenors. That said, the €STR forward curve moved higher across maturities during the first quarter of 2023. During most of this period, the Overnight Indexed Swaps (OIS) forward curve, based on the €STR, increased significantly, reflecting firmer expectations of further interest rate hikes, driven by a stronger growth and core inflation outlook.

Over Q1 2023, long-term government bond yields broadly followed developments in risk-free rates and were subject to considerable volatility. The ten-year GDP-weighted euro area sovereign bond yield broadly tracked the ten-year euro OIS rate for most of the period. Amid swings related to macroeconomic news, the ten-year euro OIS rate and the ten-year GDP-weighted euro area sovereign bond rate increased substantially up to the end of

February, before most of that increase was reversed amid rising market tensions in March. The rising market tensions led to a smaller drop in the ten-year OIS rate compared with the ten-year GDP-weighted sovereign bond yield. The ten-year German sovereign bond yield also showed a decline. Over January-March 2023, the ten-year euro area OIS rate and ten-year GDP-weighted average sovereign yield increased by 31 and 7 basis points, reaching 2.76 per cent and 2.84 per cent, respectively. Euro area sovereign bond yields moved broadly in line with risk-free rates for most of Q1 2023, with sovereign spreads narrowing somewhat towards the end of the period across countries. The ten-year GDP-weighted average government bond yield ended the first quarter of the year 24 basis points lower than in mid-December 2022. The decline reflected a tightening of sovereign spreads across countries. For instance, the Italian ten-year sovereign bond spread declined by 36 basis points, while the corresponding spreads for Greece and Germany declined by 28 bps.

Given the persistently high inflation, the ECB decided on 4 May to raise its three policy interest rates by another 25 bps. Headline inflation started declining from Spring, but core price pressures remained strong. Past rate increases were being transmitted forcefully to euro area financing and monetary conditions, although the time lags and strength of transmission to the real economy remained uncertain. The Governing Council restated that it would continue to follow a data-dependent approach to determine the appropriate level and duration of monetary restriction. Policy rate decisions

would continue to be based on the Governing Council's assessment of the inflation outlook based on incoming economic and financial data, the dynamics of core inflation, and the strength of monetary policy transmission. In parallel, the ECB would keep reducing the Eurosystem's APP portfolio at the pre-announced pace and confirmed the discontinuation of APP reinvestments as of July 2023. Forward guidance on the management of the PEPP portfolio remained the same.

The ECB's May decision did not have a significant impact on market participants' policy rate path expectations. The most notable movement during Spring was the decline in the Greek sovereign bond spread following the first round of parliamentary elections on 21 May, which strengthened market participants' expectations of a possible credit rating upgrade to investment-grade status in the coming months. The Greek ten-year sovereign bond spread fell by 60 bps during this period. However, lower than expected core and headline inflation data releases at the end of May slightly dampened higher policy rate expectations. Long-term sovereign bond yields started May below the level prior to the banking sector disorder in early March. The euro area GDP-weighted average ten-year sovereign bond yield stood at around 2.90 per cent, seeing little change from mid-March to early May and remaining somewhat below its level prior to the banking turmoil. Ten-year sovereign bond yields in the euro area generally moved in line with long-term risk-free rates, resulting in a stable spread over the euro area OIS rate of around 0.2 percentage points.

Generally, between mid-March and mid-June, the OIS forward curve rose at the very short end and priced in a peak rate of 3.8 per cent for October 2023. Compared with the OIS forward curve prevailing before the Governing Council's May meeting, the mid-June forward curve showed a similar peak, but a more moderate decline in forward rates thereafter. The benchmark €STR closely followed the changes in the deposit rate, which the ECB raised from 2.50 per cent to 3.00 per cent in March, and to 3.25 per cent in May. Overall, the €STR forward curve rose at the very short end, peaking at around 3.80 per cent by mid-June – although this level was still lower than in early March before the onset of the banking turmoil. Euro area long-term risk-free rates only partially mirrored the increases in their US and UK counterparts and settled slightly higher than in mid-March.

Long-term risk-free rates in the euro area declined notably in mid-March as financial market participants reappraised their policy rate expectations in the aftermath of the banking turmoil. The ten-year GDP-weighted euro area sovereign bond yield stood at 3 per cent in mid-March. From there, it fluctuated in a range of around 40 bps, ending June 10 bps higher, at 3.10 per cent. Euro area sovereign bond yields moved broadly in line with developments in risk-free rates as sovereign spreads remained insulated from concerns over the banking sector, rating actions and the ECB's APP rundown decision. The GDP-weighted euro area average sovereign bond spread over the OIS rate based on the €STR increased only slightly over Q2 2023, echoing sovereign bond spreads, which remained

broadly stable, in most jurisdictions. The main driver of the upward movement was the German ten-year sovereign bond spread, which increased by 12 bps to become less negative, in part reflecting a reversal of the flight-to-safety flows sparked by the banking sector turmoil.

By mid-June, inflation was coming down but was projected to remain too high for too long. Consequently, on 15 June the ECB decided to raise the three policy interest rates by 25 bps. Indicators of underlying price pressures remained strong, although some showed tentative signs of softening. The ECB revised up its core inflation projections for 2023 and 2024, owing to past upward surprises and the robust labour market. At the same time, the ECB noted that past rate increases were being transmitted forcefully to financing conditions and were gradually having an impact across the real economy: borrowing costs increased steeply and loan growth started slowing. Tighter financing conditions are a key reason why inflation is predicted to decline, as they are expected to increasingly dampen demand. The ECB reiterated its data-dependent approach to determining the appropriate level and duration of restrictive monetary policy, with focus on the inflation outlook, the dynamics of underlying inflation, and the strength of policy transmission. Finally, the ECB confirmed that it would discontinue APP reinvestments as of July 2023.

5.4 Primary Market

5.4.1 The Debt Capital Market (Malta Government Stocks)

In the beginning of January, the Treasury department published the annual borrowing

plan for the year 2023 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 2022 (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 2023 at an amount not exceeding €1.6 billion.

The first six months of 2023 were principally characterised by rising inflationary pressures and the resultant faster and stronger tightening of ECB monetary policy, which ultimately translates into higher borrowing costs. Moreover, given the persistently volatile international geopolitical situation, the Treasury department will continue to retain flexibility in its issuance strategy to be able to quickly adapt and respond to shifting market conditions. During the first semester of 2023, the Treasury department tapped the domestic debt capital market twice, in February and June, whilst also during the month of June the department issued another ex-Church property MGS.

In the February MGS issue, the Treasury department offered two new fixed-rate MGSs in the short and long-term maturity segments of the sovereign yield curve. This issuance was a combined issuance, where both retail and institutional investors were offered the

opportunity to participate. Retail investors could buy the bonds at a fixed price whilst institutional investors participated in a competitive sealed-bid auction.

The amount on issue was €200 million, with an over-allotment option of a further €150 million. Total participation in the first MGS issuance of the year amounted to €415.7 million (€288.4 million in the 3.50 per cent MGS 2028 (VI) and €127.3 million in the 4.00 per cent MGS 2043 (I)), resulting in a bid-to-cover of 2.08x. In this issuance, the Treasury department allotted the sum of €349.2 million - €243.4 million in the 3.50 per cent MGS 2028 (VI) and €105.8 million in the 4.00 per cent MGS 2043 (I).

During the month of June, the Treasury department offered existing holders of the 62+ Malta Government Savings Bond (Issue 2018) maturing on 19 June 2023, the opportunity to rollover their holdings into a new issue of 62+ Malta Government Savings Bond maturing on 19 June 2028. The new 62+ MGSB (2023 Issue) has the same terms and conditions as the maturing 62+ MGSB (2018 Issue), except that due to the recent rise in interest rates, the new 5-year 62+ MGSB bears a coupon of 3.60 per cent per annum instead of the 3.00 per cent per annum coupons offered on all 62+ MGSBs issued from 2017 to 2021. From a total outstanding amount of nearly €86 million available for rollover held by 12,608 investors, 10,249 investors accepted the offer and €70.1 million were rolled over into the new 62+ MGSB (2023 Issue). This resulted in a conversion rate of 82 per cent of the amount available for rollover. Consequently, the total sum of €15.8 million

of holdings in the 62+ MGSB (2018 Issue) were not rolled over and therefore redeemed.

In June, the Treasury department also issued (through a private placement) a new 10-year MGS amounting to €1,078,200 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 June, the Treasury raised a total of €419.3 million (excluding the ex-Church property MGS) or 26 per cent of the approved funding requirements for this year which according to current fiscal projections are not expected to exceed €1.6 billion.

As at 30 June 2023, the Weighted-Average Maturity (WAM) of the gross MGS portfolio, which represents 79.3 per cent of the total gross Central Government Debt Portfolio¹, stood at 8.7 years (30 June 2021: 9.5 years). The WAM of the gross central government debt portfolio as at end of June 2023 stood at 7.8 years against 8.3 years registered on 30 June 2022. Despite the observed global sharp rise in sovereign bond yields so far, the Weighted-Average Coupon (WAC) of the gross MGS debt portfolio rose at a slower pace and stood at 2.49 per cent on 30 June 2022 (30 June 2022: 2.31 per cent), whilst the Weighted-Average Rate (WAR) of total gross central government debt was registered at 2.47 per cent (30 June 2022: 1.99 per cent).

By 30 June 2023, the Treasury had redeemed one MGS amounting to €130.7 million and €15.8 million worth in the 62+ MGSB (2018 Issue) which were not rolled over into the new 62+ MGSB (2023 Issue), totalling €146.5 million compared to €240.9 million (including ex-Church property MGS redemption premium) by end June 2022.

Total interest paid on MGS and Savings bonds during the first half of 2023 amounted to €93.2 million, €7.8 million higher than in H1 2022.

5.4.2 The Money Market (Treasury Bills)

In the first six months 2023, the Treasury department held 26 T-bills auctions, once every week. The total nominal amount of T-Bills issued in H1 2023 amounted to €1.37 billion, compared to €1.24 billion (nominal) for January-June 2022. 72 per cent 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 2.9106 per cent compared to minus 0.3018 per cent registered by end June 2022, a reflection of the restrictive monetary policy adopted by the ECB since July 2022 to rein in high inflation which affects short-term borrowing rates.

Total T-bill redemptions for the first six months of the year amounted to €1.28 billion, whilst over the same period last year the figure stood at €977.8 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 23 June 2022 onwards the Treasury

department allotted T-bills in every tenor at positive interest rates. From 1 January 2023 up to 30 June 2023, the Treasury department paid €7.2 million in interest on T-bill borrowing. Over H1 2022 the Treasury department had received €1.2 million in interest on short-term borrowing.

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

Malta follows both domestic fiscal rules outlined in the Fiscal Responsibility Act 2014 (FRA) and European Union (EU) fiscal rules under the Stability and Growth Pact (SGP). These rules provide provisions for the Government to implement fiscal measures in response to circumstances beyond its control or during a severe economic downturn.

The general escape clause (GEC) was activated in March 2020, allowing for a temporary deviation from the medium-term budgetary objective as long as it does not jeopardise fiscal sustainability in the medium term. It's important to note that although the GEC is in effect, it does not suspend the procedures of the SGP. Instead, it permits Member States to deviate from their regular budgetary requirements.

6.1. Exceptional Circumstances under the Stability and Growth Pact

The activation of the GEC of the SGP enabled large-scale fiscal support in all Member States in response to the coronavirus pandemic. It allowed Member States to undertake

measures to deal adequately with the crisis, while departing from some budgetary requirements that would normally apply under the EU fiscal framework. In 2020 and 2021, coordinated policy action successfully cushioned the macroeconomic impact of the COVID-19 pandemic. In 2022, fiscal policy also mitigated the social and economic impact of the sudden rise in energy prices and allowed the provision of humanitarian assistance to those fleeing Ukraine. The Commission has considered that the conditions to maintain the GEC in 2023 and to deactivate it as of end-2023 were met.

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

On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, based on the macroeconomic outlook of its 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to be differentiated across Member States and take into account possible cross-country spillovers. The Commission invited Member States to reflect the guidance in their Stability and Convergence Programmes.

On 2 May 2022, Malta submitted its 2022 Stability Programme, in line with Article 4 of

Regulation (EC) No 1466/97. In its 2022 Stability Programme, the Government expected that the headline deficit would decrease to 5.4 per cent of GDP in 2022 and to 4.6 per cent in 2023. According to the Programme, the general Government debt-to-GDP ratio was expected to increase to 58.6 per cent in 2022 and to rise further to 59.4 per cent in 2023. Malta planned to continue using the grants from the Recovery and Resilience Facility (RRF) in 2023 to finance additional investment in support of the recovery.

On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes, the Council highlighted the importance of maintaining a balanced approach in the growth of nationally-financed current expenditure, while considering the need to provide temporary and targeted support to households and businesses that are most affected by energy price increases and to individuals seeking refuge from Ukraine. Furthermore, the Council underscored expanding public investment initiatives related to the transition towards a greener and more digital economy, as well as ensuring energy security by utilising resources such as the RRF, RePowerEU, and other European Union funds.

In the 2023 Draft Budgetary Plan, Malta's general Government deficit was planned to decrease from 5.8 per cent of GDP in 2022 to 5.5 per cent of GDP in 2023, mainly due to a decrease in the expenditure-to-GDP ratio, driven by lower compensation of employees and intermediate consumption, despite an increase in subsidies and interest expenditures. The general Government debt

ratio was planned to increase from 57.0 per cent of GDP in 2022 to 59.1 per cent of GDP in 2023, driven by the high primary deficit. The overall fiscal policy stance was estimated to be contractionary, primarily reflecting the contractionary contribution to the overall fiscal stance from nationally financed current expenditure. In its opinion of 22 November 2022, the Commission noted that the Draft Budgetary Plan for Malta was in line with the fiscal guidance contained in the Council recommendation of 12 July 2022.

On 3 May 2023, Malta submitted its 2023 Stability Programme, in which the Government expected that the general Government deficit ratio will decrease to 5.0 per cent of GDP in 2023, 0.5 percentage points below the 2023 DBP target. Whilst the Government balance in 2023 was expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impacts of the increase in energy prices, the revision took into account the easing of international energy prices. This was however partly offset by the stronger and more persistent anticipated impact of inflationary pressures on Government spending. According to the Programme, the general Government debt-to-GDP ratio is expected to increase from 53.4 per cent at the end of 2022 to 54.5 per cent at the end of 2023, which figures are substantially lower than those presented in the 2023 Draft Budgetary Plan. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution to the fiscal stance, in line with the Council recommendation.

6.2. Exceptional Circumstances under Malta's Domestic Budgetary Rule

The FRA allows for flexibility in adhering to budgetary rules under certain conditions, if such flexibility does not threaten medium-term fiscal sustainability. According to Article 2(1) of the FRA, exceptional circumstances are defined as situations where an unforeseen event beyond the control of the State significantly impacts the general Government's financial position or a prolonged period of severe economic downturn, as defined by the Stability and Growth Pact.

Activation of the GEC at the European level serves as a formal acknowledgment by the Government that exceptional circumstances exist. In line with the Council agreement, in the 2020 Stability Programme, the Maltese Government indicated the suspension of budgetary constraints imposed by national fiscal rules. This decision aimed to accommodate the budgetary implications of the crisis and align with the efforts made to address the situation effectively. The uncertain economic situation, and the consequent international commodity price pressures, as the war in Eastern Europe persists suggest that 2023 continues to be characterised by exceptional circumstances within the meaning of the FRA. Nevertheless, economic conditions have improved since the pandemic and in this context, the Government

is intent on controlling the deficit at an appropriate pace, also in anticipation of the lifting of the GEC later this year.

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

According to the Malta Fiscal Advisory Council (MFAC), the conditions of "exceptional circumstances" defined in the FRA continue to exist. As a result, the MFAC has temporarily halted its evaluation of compliance with fiscal rules until the GEC is lifted and the situation is no longer deemed exceptional.

In its assessment of the 2023 Stability Programme, the MFAC noted that the fiscal projections align with the new fiscal rules and emphasise debt sustainability. Based on the information available to the Malta Fiscal Advisory Council, and after considering the inherent risks and uncertainty surrounding the projections, the Council considered the full set of macroeconomic and fiscal projections for the period 2023 to 2026 prepared by the Ministry for Finance and Employment as part of the 2023 Stability Programme to lie within its endorsable range. Whilst highlighting both upside and downside risks, the Council advised the Government to prioritise achieving a prudent medium-term fiscal position following the deactivation of the GEC as of end 2023.

7. Statistical Annex

Half-Yearly Budgetary Execution on Cash Basis in ESA codes⁽¹⁾

Table 1

	Jan-June 2022 <i>Actual</i> € 000	Jan-June 2023 <i>Actual</i> € 000
Consolidated Fund balance	-464,212	-258,547
1. Total Revenue	2,439,150	2,779,270
Taxes, of which:	1,787,336	2,017,310
Current Taxes on Income, Wealth, etc	923,937	1,083,690
Taxes on Production and Imports, of which:	863,399	933,620
VAT	586,439	617,021
Social Contributions	464,741	502,527
Market Output	55,500	79,468
Current Transfers	2,259	10,524
Capital Transfers	93,917	156,237
Property Income	35,397	13,204
2. Total Expenditure	2,903,362	3,037,817
Intermediate Consumption	406,822	464,592
Compensation of employees	596,606	633,115
Interest	83,287	101,218
Subsidies	199,590	178,257
Social Benefits	785,297	849,390
Current Transfers	612,014	652,782
Capital Transfers Payable	65,510	49,227
Capital Investment	154,237	109,235

Notes:

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

Central Government Finances by Expenditure Vote (Consolidated Fund)

Table 2

	Jan - Dec 2022 Actual € 000	Jan - Dec 2023 Approved Estimate € 000	Jan - Jun 2022 Actual € 000	Jan - Jun 2022 Actual as a % of 2022	Jan - Jun 2023 Actual € 000	Jan - Jun 2023 Actual as a % of 2023
Recurrent Expenditure						
1 Office of the President	6,204	4,931	2,305	37.2	2,759	56.0
2 Parliamentary Service	10,563	11,500	5,473	51.8	5,317	46.2
3 Office of the Ombudsman	1,420	1,549	950	66.9	1,000	64.6
4 National Audit Office	3,900	4,200	2,310	59.2	2,450	58.3
5 Commissioner for Standards in Public Life	759	450	380	50.1	---	---
6 Office of the Prime Minister	122,563	43,040	25,199	20.6	26,684	62.0
7 Information	1,392	1,540	643	46.2	632	41.0
8 Government Printing Press	1,792	1,862	883	49.3	940	50.5
9 Electoral Office	9,233	3,195	6,806	73.3	1,591	49.8
10 Public Service Commission	630	778	289	45.9	329	42.3
11 Industrial and Employment Relations	1,861	2,160	918	49.3	926	42.9
12 Ministry for Health	882,824	930,408	413,632	46.8	427,832	46.0
13 Ministry for the National Heritage, the Arts and Local Government	60,733	64,209	22,990	37.9	31,392	48.9
14 Local Government	55,184	55,082	36,811	66.8	30,316	55.0
15 Ministry for Foreign and European Affairs and Trade	47,875	52,530	19,914	38	19,737	37.6
16 Ministry for Social Policy and Children's Rights	57,579	62,348	27,572	48	28,782	46.2
17 Social Policy	436,711	450,550	174,747	40.0	190,512	42.3
18 Social Security Benefits	1,208,392	1,335,560	628,163	52.0	678,931	50.8
19 Pensions	103,002	103,800	51,351	49.9	51,046	49.2
20 Ministry for Agriculture, Fisheries and Animal Rights	47,862	47,476	17,586	36.6	29,569	62.3
21 Ministry for Social and Affordable Accommodation	39,255	43,136	12,660	32.2	18,417	42.7
22 Ministry for the Economy, European Funds and Lands	45,797	58,885	18,736	40.9	26,014	44.2
23 Commerce	1,810	1,895	821	45	878	46.3
24 Ministry for Inclusion, Voluntary Organisations and Consumer Rights	51,002	58,536	23,418	46	24,323	41.6
25 Ministry for Transport, Infrastructure and Capital Projects	121,267	107,411	50,845	42	50,236	46.8
26 Ministry for Gozo	58,341	59,942	28,300	48.5	29,217	48.7
27 Ministry for Home Affairs, Security, Reforms and Equality	67,233	72,294	33,698	50.1	35,903	49.7
28 Armed Forces of Malta	66,434	68,949	29,885	45.0	33,394	48.4
29 Police	85,235	85,591	39,587	46.5	42,733	49.9
30 Probation and Parole	1,473	1,609	663	45	657	40.8
31 Civil Protection	10,187	10,797	4,861	47.7	5,176	47.9
32 Ministry for Tourism	158,758	154,273	70,825	44.6	74,558	48.3
33 Ministry for the Environment, Energy and Enterprise	547,050	814,190	161,116	29.5	179,161	22.0
34 Ambient Malta	18,234	15,553	8,086	44.3	7,568	48.7
35 Ministry for Finance and Employment	306,141	311,253	144,322	47.1	113,465	36.5
36 Economic Policy	1,810	3,044	978	54.0	1,072	52.4
37 Treasury	88,078	51,491	80,962	90.3	7,990	13.7
39 Commissioner for Revenue	26,369	25,218	11,169	40.6	16,404	65.0
40 Customs	14,054	15,385	6,695	47.6	6,713	43.6
41 Contracts	3,181	3,569	1,521	47.8	1,506	42.2
42 Ministry for Education, Sport, Youth, Research and Innovation	368,260	394,321	175,938	47.8	201,590	51.1
43 Education	346,207	369,840	177,782	51.4	189,493	51.2
44 Ministry for Public Works and Planning	---	37,312	---	---	16,397	43.9
45 Ministry for Justice	46,496	43,263	22,412	48.2	26,049	60.2
46 Ministry for Active Ageing	213,046	222,892	103,525	47.8	124,355	55.8
[Ministry for Equality, Research and Innovation	5,966	---	4,022	67.4	---	---
[Ministry for the Environment, Climate Change and Planning	80,348	---	22,125	27.5	---	---
TOTAL RECURRENT EXPENDITURE	5,832,511	6,206,817	2,673,874	45.8	2,764,015	44.5
Public Debt Servicing						
44 Public Debt Servicing	---	---	---	---	---	---
Contribution to Special MGS Sinking Fund	25,000	30,000	---	---	---	---
Interest - Local	172,658	218,104	85,349	49.6	99,755	45.7
Repayment of Loan - Local	469,610	445,637	240,169	51.1	147,831	33.2
Early Repayment of MGRSB	6,873	5,598	3,101	45.1	3,342	59.7
Contribution to Sinking Fund - Foreign	50	50	---	---	---	---
Interest - Foreign	952	896	303	31.8	249	27.8
TOTAL PUBLIC DEBT SERVICING	675,143	700,285	328,922	48.7	251,177	35.9
TOTAL RECURRENT EXPENDITURE AND PUBLIC DEBT SERVICING	6,507,654	6,907,102	3,002,796	46.1	3,015,192	43.7
Capital Expenditure						
I Office of the President	406	348	189	46.6	135	38.8
II Parliamentary Service	454	2,709	---	---	161	5.9
III Office of the Prime Minister	34,396	45,219	12,100	35.2	16,522	36.5
IV Ministry for Health	33,582	75,538	11,037	32.9	24,575	32.5
V Ministry for the National Heritage, the Arts and Local Government	25,132	28,490	5,947	23.7	7,693	27.0
VI Ministry for Foreign and European Affairs and Trade	5,884	4,223	1,396	24	3,382	80.1
VII Ministry for Social Policy and Children's Rights	3,832	3,992	668	17	878	22.0
VIII Ministry for Agriculture, Fisheries and Animal Rights	29,349	75,617	12,917	44	17,004	22.5
IX Ministry for Social and Affordable Accommodation	3,244	5,088	417	12.9	726	14.3
X Ministry for the Economy, European Funds and Lands	49,554	73,890	20,609	41.6	43,107	58.3
XI Ministry for Inclusion, Voluntary Organisations and Consumer Rights	8,773	8,582	5,519	63	2,308	26.9
XII Ministry for Transport, Infrastructure and Capital Projects	199,290	176,619	94,684	48	69,569	39.4
XIII Ministry for Gozo	22,435	22,219	5,829	26	6,964	31.3
XIV Ministry for Home Affairs, Security, Reforms and Equality	44,099	49,394	16,155	36.6	21,006	42.5
XV Ministry for Tourism	25,758	23,900	12,056	46.8	15,403	64.4
XVI Ministry for the Environment, Energy and Enterprise	76,756	116,758	35,193	46	33,483	28.7
XVII Ministry for Finance and Employment	77,465	92,952	35,990	46.8	15,403	16.4
XVIII Ministry for Education, Sport, Youth, Research and Innovation	63,832	82,440	20,689	32.4	9,274	10.0
XIX Ministry for Public Works and Planning	---	23,062	---	---	30,322	36.8
XX Ministry for Justice	2,079	6,321	---	---	7,377	32.0
XXI Ministry for Active Ageing	5,405	4,863	1,773	32.8	1,684	34.6
[Ministry for Equality, Research and Innovation	383	---	216	56.4	---	---
[Ministry for the Environment, Climate Change and Planning	27,221	---	3,527	13.0	---	---
TOTAL CAPITAL EXPENDITURE	739,329	922,224	270,912	36.6	315,304	34.2
XVII Ministry for Finance and Employment	---	---	---	---	---	---
Investment - Equity Acquisition	28,044	12,510	4,500	16.0	5,504	44.0
TOTAL CAPITAL EXPENDITURE AND INVESTMENT	767,373	934,734	275,412	35.9	320,808	34.3
TOTAL EXPENDITURE	7,275,027	7,841,836	3,278,208	45.1	3,336,000	42.5

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

Table 3

	Personal Emoluments		Operational and Maintenance Expenses		Programmes and Initiatives		Contributions to Government Entities	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2022	2023	2022	2023	2022	2023	2022	2023
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
General Public Services	66,820	69,563	28,185	29,858	309,498	198,371	70,525	87,587
Defense	25,443	28,063	4,080	4,914	362	416	0	0
Public Order and Safety	45,493	48,677	4,902	6,832	6,036	7,603	24,207	23,037
Economic Affairs	28,457	31,953	5,155	15,805	157,406	29,889	90,153	74,421
Environmental Protection	2,437	758	275	95	13,620	129,329	3,370	34,025
Housing and Community Affairs	0	0	0	0	11,517	15,254	0	0
Health	173,040	179,757	34,096	48,020	165,069	150,560	41,427	49,495
Recreation, culture and religion	4,095	4,434	684	899	5,053	10,576	13,803	16,115
Education	143,834	150,076	10,079	12,872	136,757	147,739	63,050	80,396
Social Protection	34,827	35,915	23,309	33,771	913,493	993,521	13,319	13,417
Total	524,445	549,197	110,765	153,066	1,718,811	1,683,258	319,853	378,494

	Interest Expenditure		Capital Expenditure		Total expenditure	
	Actual	Actual	Actual	Actual	Actual	Actual
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2022	2023	2022	2023	2022	2023
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
General Public Services	85,652	100,004	119,458	147,274	680,137	632,657
Defense	0	0	721	2,314	30,606	35,708
Public Order and Safety	0	0	15,472	18,723	96,110	104,872
Economic Affairs	0	0	92,456	56,038	373,627	208,107
Environmental Protection	0	0	2,551	25,605	22,253	189,812
Housing and Community Affairs	0	0	408	661	11,925	15,915
Health	0	0	11,037	24,575	424,669	452,407
Recreation, culture and religion	0	0	5,669	7,166	29,303	39,190
Education	0	0	20,689	30,322	374,409	421,405
Social Protection	0	0	2,451	2,627	987,400	1,079,251
Total	85,652	100,004	270,912	315,304	3,030,438	3,179,323

Notes:

1. Data refers to the total expenditure of the Consolidated Fund and is not fully consistent with the General Government sector expenditure by function published by the NSO. The General Government expenditure by the classification of functions of government (COFOG) data is compiled by NSO on an annual basis with a delay of one year.
2. Data are in line with the COFOG classifications as published in the Government Finance Statistics Manual 2001 (ISBN 1-58906-061-X).

Transition between Consolidated Fund and General Government sector by period

Table 4

	2022	2023
	Jan - Jun	Jan - Jun
	€ 000	€ 000
Consolidated Fund Surplus / Deficit	-464,212	-258,726 ¹
Adjustments to the Consolidated Fund:		
Loan Repayment	0	0
Equities, acquisitions (+)	0	0
Equities, sales (-)	0	0
Other financial transactions	-3,113	0
Difference between interest paid (+) and interest accrued (-)	2,771	3,731
Other accounts receivable (+) and payable (-)	-153,784	-154,890
Time-adjusted cash transactions	149,433	48,593
Payable Tax Credits	12,127	12,127
Treasury Clearance Fund flows in non-financial transactions	-2,661	-863
Sinking Fund interests' received	2,183	2,797
Quarterly adjustments	-44,878	-44,216
EFSF re-routing	-30	35
Equity injection	0	0
Rerouting/PPP adjustments	-1,504	-2,951
Debt assumption	0	0
Other adjustments	-610	0
Net Borrowing (-) / Net Lending (+) of Extra Budgetary Units	34,193	77,141
Net Lending (+) / Net Borrowing (-) of Local Government	4,955	4,955
Net Lending (+) / Net Borrowing (-) of General Government	-465,128	-312,268

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. Tax credits deemed non-payable are treated as 'payable' if they are transferable to third parties, their use can be deferred over time and/or issued in compensation with other taxes and social security liabilities. If the probability of a tax credit being utilised is high, then it should be treated as 'payable'.
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 2016 failed the capital injection test. Previous equity injections to the national air carrier feature as expenditure in the Consolidated Fund Surplus / Deficit.
11. The aggregated net borrowing (-) / net lending (+) of the extra budgetary units forming part of the Central Government Sector.
12. 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/wp-content/uploads/2023/01/EDP-Inventory-ESA-2010.pdf>

Annual Aggregate Budgetary Targets in Accordance with ESA standards

Table 5

	ESA Code	2022 % GDP	2023 ^{af} % GDP	2023 ^{sf} % GDP
Net lending (+)/Net borrowing (-) by sub-sector				
1. General Government	S.13	-5.8	-5.5	-5.0
2. Central Government	S.1311	-5.8	-5.5	-5.0
3. State Government	S.1312	-	-	-
4. Local Government	S.1313	0.0	0.0	0.0
5. Social Security funds	S.1314	-	-	-
General Government (S.13)				
6. Total Revenue	TR	35.1	36.9	35.7
7. Total Expenditure	TE	40.9	42.5	40.7
8. Interest Expenditure	D.41	1.0	1.3	1.2
9. Primary Balance ^(a)		-4.8	4.2	-3.8
10. One-off and other temporary measures ^(b)		0.0	0.0	0.0
11. Real GDP growth (%)		7.1	3.5	4.1
12. Potential GDP growth (%)		4.5	4.2	4.8
13. Output Gap (%)		0.5	-0.6	-0.1
14. Cyclical Budgetary Component		0.2	-0.3	0.0
15. Cyclically-Adjusted Balance (1 - 14)		-6.0	-5.2	-5.0
16. Cyclically-Adjusted Primary Balance (15 + 8)		-5.0	-3.9	-3.8
17. Structural Balance (15 - 10)		-6.0	-5.2	-5.0

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 6

	Net Collectable Arrears as on 31/12/21 €	As published in 2023 Financial Estimates €	Target			Arrears Collected		
			Quarter 1 €	Quarter 2 €	Total €	Quarter 1 €	Quarter 2 €	Total €
Office of the Prime Minister								
<i>Office of the Prime Minister</i>	6,675	668				900	300	1,200
<i>Information</i>	40,630	4,063	1,016	1,016	2,032	0	0	0
<i>Government Printing Press</i>	803,530	80,353	20,088	20,088	40,177	11,445	35,333	46,778
<i>Industrial and Employment Relations</i>	78,361	7,836	1,959	1,959	3,918	480	550	1,030
	<u>929,196</u>	<u>92,920</u>	<u>23,063</u>	<u>23,063</u>	<u>46,126</u>	<u>12,825</u>	<u>36,183</u>	<u>49,008</u>
Ministry for Health								
<i>Ministry</i>	4,036,576	403,658	100,915	100,915	201,829	85,697	385,224	470,921
<i>Mater Dei Hospital</i>	11,302,084	1,130,208	282,552	282,552	565,104	8,862	21,249	30,111
<i>Central Procurement and Supplies Unit</i>	20,973,072	2,097,307	524,327	524,327	1,048,654	0	0	0
<i>Primary Health Care</i>	0	0	0	0	0	0	0	0
<i>Sir Anthony Mamo Oncology Centre / Sir Paul Boffa</i>	58,468	5,847	1,462	1,462	2,924	0	0	0
	<u>36,370,200</u>	<u>3,637,020</u>	<u>909,255</u>	<u>909,255</u>	<u>1,818,510</u>	<u>94,559</u>	<u>406,473</u>	<u>501,032</u>
Ministry for National Heritage, the Arts and Local Government	9,819	980	245	245	490	0	0	0
Ministry for Foreign and European Affairs and Trade	197,906	19,792	4,948	4,948	9,896	0	1,561	1,561
Ministry for Social Policy and Children's Rights								
<i>Social Security Benefits</i>	24,140,340	2,414,032	603,508	603,508	1,207,016	2,046,665	2,507,403	4,554,068
<i>Pensions</i>	46,386,197	4,638,620	1,159,655	1,159,655	2,319,310			0
	<u>70,526,537</u>	<u>7,052,652</u>	<u>1,763,163</u>	<u>1,763,163</u>	<u>3,526,326</u>	<u>2,046,665</u>	<u>2,507,403</u>	<u>4,554,068</u>
Ministry for Agriculture, Fisheries, Food and Animal Rights	1,288,064	128,808	3,553	3,553	7,106	25,470	14,315	39,785
Ministry for the Economy, European Funds and Lands								
<i>TV Licences</i>	6,013,459	601,346	150,337	150,337	300,673	0	0	0
<i>Malta Gaming Authority</i>	401,905	40,190	10,048	10,048	20,095	0	0	0
<i>Malta Communications Authority</i>	1,132,400	113,240	28,310	28,310	56,620	0	1,965	1,965
<i>Lands Authority</i>	56,352,808	5,635,281	1,408,820	1,408,820	2,817,641	338,464	739,817	1,078,281
<i>Commerce Department</i>	19,589	1,959	490	490	980	688	1,101	1,789
	<u>63,920,161</u>	<u>6,392,016</u>	<u>1,598,004</u>	<u>1,598,004</u>	<u>3,196,008</u>	<u>339,153</u>	<u>742,883</u>	<u>1,082,035</u>
Ministry for Transport, Infrastructure and Capital Projects								
<i>Ministry</i>	355,084	35,508	8,877	8,877	17,754	12,213	2,291	14,504
<i>Transport Malta</i>	39,825,408	3,982,540	995,635	995,635	1,991,270	8,248		8,248
	<u>40,180,492</u>	<u>4,018,048</u>	<u>1,004,512</u>	<u>1,004,512</u>	<u>2,009,024</u>	<u>20,461</u>	<u>2,291</u>	<u>22,752</u>
Ministry for Gozo	60,962	6,096	1,524	1,524	3,048	6,958	0	6,958
Ministry for Home Affairs, Security, Reforms and Equality								
<i>Armed Forces of Malta</i>	144,036	14,404	3,601	3,601	7,202	389		389
<i>Police</i>	1,240,572	124,056	31,014	31,014	62,028	7,644		7,644
<i>Civil Protection Department</i>	30,157	3,016	754	754	1,508	668		668
	<u>1,414,765</u>	<u>141,476</u>	<u>35,369</u>	<u>35,369</u>	<u>70,738</u>	<u>8,701</u>	<u>0</u>	<u>8,701</u>
Ministry for Tourism								
<i>Cleansing and Maintenance Division</i>	825,857	82,587	20,647	20,647	41,294	900	610	1,510
<i>Malta Tourism Authority</i>	72,086	7,209	1,802	1,802	3,605	25,753	10,528	36,281
	<u>897,943</u>	<u>89,796</u>	<u>22,449</u>	<u>22,449</u>	<u>44,898</u>	<u>26,653</u>	<u>11,138</u>	<u>37,791</u>
Ministry for the Environment, Climate Change and Planning	62,531	6,252	1,563	1,563	0	650	550	1,200
Ministry for Finance and Employment								0
<i>Ministry</i>	1,056,770	105,677	26,419	26,419	52,839			
<i>Continental Shelf</i>	23,300	2,330	583	583	1,165			
<i>Income Tax and Social Security Contributions</i>	431,373,718	43,137,372	10,784,343	10,784,343	21,568,686	20,578,545	25,263,614	45,842,159
<i>VAT</i>	364,668,114	36,466,811	9,116,703	9,116,703	18,233,406	33,791,939	27,552,346	61,344,285
<i>Customs Department</i>	12,486,809	1,248,681	312,170	312,170	624,341	41,986		41,986
<i>Contracts</i>	160,973	16,097	4,024	4,024	8,049	0		0
	<u>809,769,684</u>	<u>80,976,968</u>	<u>20,244,242</u>	<u>20,244,242</u>	<u>40,488,484</u>	<u>54,412,470</u>	<u>52,815,960</u>	<u>107,228,430</u>
Ministry for Education, Sport, Youth, Research and Innovation								
<i>Ministry</i>	1,172,381	117,238	29,310	29,310	58,619	21,203	2,094	23,296
<i>Education</i>	328,965	32,898	8,225	8,225	16,449	9,891	3,848	13,739
	<u>1,501,346</u>	<u>150,136</u>	<u>37,534</u>	<u>37,534</u>	<u>75,068</u>	<u>31,093</u>	<u>5,942</u>	<u>37,035</u>
Ministry for Justice								
<i>Ministry</i>	138,655	13,865	3,466	3,466	6,933	5,974	0	5,974
<i>Attorney General</i>	239	24				0	0	0
<i>State Advocate</i>	238,144	23,814	5,954	5,954	11,907	14,347	5,811	20,158
<i>Courts Services Agency</i>	7,795,049	779,505	194,876	194,876	389,753			0
	<u>8,172,087</u>	<u>817,208</u>	<u>204,296</u>	<u>204,296</u>	<u>408,592</u>	<u>20,322</u>	<u>5,811</u>	<u>26,133</u>
Ministry for Active Ageing	339,190	33,920	8,480	8,480	16,960	4,938	4,461	9,399
Total			<u>25,862,200</u>	<u>25,862,200</u>	<u>51,721,274</u>	<u>57,050,917</u>	<u>56,554,971</u>	<u>113,605,888</u>

Statement of General Government Sector Debt

Table 7

	Jan-Dec 2022	Jan-Dec 2023	Jan-Jun 2022	Jan-Jun 2023	Jan-Dec 2023
	<i>Actual</i>	<i>Budget</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>
	€ 000	€ 000	€ 000	€ 000	Estimate
					€ 000
General Government Debt					
Malta Government Stocks (MGS)	6,861,027	8,319,500	6,317,789	7,092,877	8,108,173
Malta Government Retail Savings Bonds (MGRSB)	375,170	282,573	471,841	354,697	282,316
Treasury Bills	801,895	763,000	855,600	747,834	648,169
Foreign Loans	420,591	420,463	420,657	420,527	420,464
EBU's and Local Councils	150,542	154,402	150,524	151,762	150,542
Currency	98,815	112,049	95,329	100,368	111,958
ESA Rerouted Debt	295,330	320,337	283,713	297,280	319,217
Total	9,003,370	10,372,324	8,595,453	9,165,346	10,040,838
Public Debt Servicing					
Local Loans					
Interest - Short Term Borrowing (Treasury Bills)	647	12,341	0	7,171	16,570
Interest (MGS/MGRSB)	172,011	205,762	85,349	92,584	194,518
<i>(A) Total Interest - Local Loans</i>	172,658	218,104	85,349	99,755	211,088
Contributions to Sinking Funds					
Contribution to Special MGS Sinking Fund	25,000	30,000	0	0	30,000
Direct Loan Repayment	468,963	445,637	240,169	147,831	445,633
Early Repayment of MGRSB	6,873	5,598	3,101	3,343	5,650
<i>(B) Direct Loan repayments including Early Repayments of MGRSB and Contributions to Sinking Funds</i>	500,837	481,235	243,270	151,173	481,283
Total Servicing of Local Loans (A + B)	673,495	699,339	328,619	250,929	692,370
Foreign Loans					
Interest	952	896	303	249	896
Contributions to Sinking Funds	50	50	25	25	50
Total Servicing of Foreign Loans	1,002	946	328	274	946