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Government Finance

Government Finance: January - May 2005

Recurrent revenue during the first five months of 2005 totalled Lm304.3 million, and made up 33.8 per cent of this year's budget forecast. Compared to the same period last year, this represents an increase of Lm18.7 million, or 6.6 per cent. At the same time, total expenditure, excluding contributions to the sinking funds and direct loan repayments, amounted to Lm397.4 million, an increase of Lm26.1 million, or 7.0 per cent, from the Lm371.3 million expended in the same period in 2004.

The shortfall between recurrent revenue and total expenditure¹ during the periods under review amounted to Lm93.1 million this year, compared to Lm85.7 million one year ago. While during the first five months of this year, proceeds from Sinking Funds on Converted Loans amounted to Lm3.8 million, during the comparative period in 2004, these proceeds amounted to Lm2.9 million. No loan repayments were made in either period. During the first five months of 2005, contributions to sinking funds amounted to Lm6.0 million, and there were no such contributions during the same period last year. During the January – May 2005 period, resort to local loans amounted to Lm76.5 million, compared to Lm46.3 million during the first five months of 2004. No foreign borrowing was taken up in either period.

The increase of Lm18.7 million in recurrent revenue for the first five months of 2005 was mainly brought about by higher revenue registered under Value Added Tax (+Lm3.4 million), Fees of Office (+Lm3.8 million), Grants (+Lm19.6 million), and Miscellaneous Receipts (+Lm7.8 million). On the other hand decreases were registered under Income Tax (-Lm2.6 million), Social Security (-Lm2.3 million) and Central Bank of Malta (-Lm4.2 million). A decrease of Lm6.6 million was also registered under Licences, Taxes and Fines, partly due to the fact that the 2004 revenue figure included initial fees receivable from the operator of the national lotteries.

When compared to the same period last year, recurrent expenditure (excluding Public Debt Servicing) increased by Lm14.1 million or 4.7 per cent, and amounted to Lm311.8 million. Recurrent expenditure for the period under review makes up 41.0 per cent of the budgetary estimates for 2005, and 40.6 per cent of the final outturn for 2004.

Personal emoluments up to the end of May amounted to Lm76.7 million, and made up 36.9 per cent of the budget forecast (Lm207.8 million), whilst the outlay for the same period last year totalled Lm76.6 million. These figures represent an increase this year of less than Lm0.1 million.

^[1] In this case 'Total Expenditure' excludes Government's contribution to the Sinking Fund and direct repayments of loans. This definition is in line with the ESA95 manual on Deficit and Debt.

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Expenditure under the Operational and Maintenance Expenditure category amounted to Lm16.0 million during the first five months of 2005 as compared to Lm24.8 million last year. This represents a decrease of Lm8.8 million or 35.4 per cent, the main reason being the reclassification of expenditure on medical and surgical materials from under this expenditure category to the Programmes and Initiatives Category in 2005.

Expenditure under the Special Expenditure category amounted to Lm0.2 million and Lm0.3 million for the 2005 and 2004 comparative periods respectively.

Expenditure under the Programmes and Initiatives category this year amounted to Lm186.1 million and stood at 41.8 per cent of this year's budget estimates. Last year's outlay under this category amounted to Lm160.6 million, and made up 40.5 per cent of that year's final outturn. The net increase, in absolute terms, of Lm25.5 million is mainly due to increases in Social Security Benefits (+Lm5.4 million), EU Own Resources (+Lm8.1 million), MGI/MIMCOL (+Lm2.0 million), Financing of Church Schools (+Lm2.3 million), Food Subsidies (+Lm1.2 million), Streets and Roads Lighting (+Lm1.7 million), Treasury Pensions (+Lm1.3 million), and due to the reclassification explained earlier, Medicines and Surgical Supplies (+Lm6.6 million). On the other hand, lower expenditure was registered under Compensation Payment by Government (-Lm6.6 million) which represented a once-only payment effected by government in 2004 as compensation for the increase in VAT rate announced in the 2004 budget speech.

Outlay under the Contribution to Government Entities category during the first five months of 2005 decreased by Lm2.6 million, and amounted to Lm32.9 million, down from last year's figure of Lm35.4 million. The main reasons for the decrease under this category were lower expenditure in respect of MGI/MIMCOL (-Lm1.9 million) and Water Services Corporation (-Lm0.8 million).

The interest component of the public debt servicing costs this year increased by Lm1.2 million, from Lm31.7 million last year to Lm32.9 million in 2005. While interest on Government Stocks increased by Lm1.8 million, interest payments on Treasury Bills and on Foreign Borrowing declined by Lm0.6 million and Lm0.04 million respectively.

During the first five months of 2005, Capital Expenditure amounted to Lm52.7 million, registering an increase of Lm10.8 million or 25.9 per cent, when compared to the expenditure of Lm41.9 million for the January-May period of 2004. The main reasons for this increase were higher outlays in the Ministries for Justice and Home Affairs (+Lm1.5 million), Finance (+Lm17.3 million) mainly due to reclassification of expenditure on the Mater Dei Hospital project, Rural Affairs and the Environment (+Lm3.2 million). On the other hand, lower expenditure was registered under Health, Elderly and Community Care (-Lm14.8 million) mainly due to the reclassification of the Mater Dei Hospital project mentioned above.

The Central Government debt outstanding at the end of May amounted to Lm1,390.1 million, an increase of Lm52.5 million or 3.9 per cent, on the Lm1,337.6 million outstanding at the end of May 2004. The total outstanding debt includes the current balance (Lm27.4 million) of Government's assumption of debts of the ex-Malta Drydocks and of the ex-Malta Shipbuilding. The Sinking Fund investments in Government debt (Lm1.9 million) are deducted from the total outstanding balance ■

Type of Expenditure	2004			2005		
	Jan - May		Jan - Dec	Jan - May		Jan - Dec
	Lm'000	% of final outturn	Actual Lm'000	Lm'000	% of budget estimates	Approved budget estimates Lm'000
Recurrent	297,705	40.62	732,846	311,811	40.95	761,404
Public Debt Servicing ²	31,669	32.87	96,444	38,869	43.10	90,178
Capital	41,854	40.01	104,620	52,679	38.43	137,076
Total	371,258	39.75	933,909	403,360	40.80	988,658

^[2] Inclusive of contribution to the Sinking Funds and direct repayment of loans.

Table 1. Government Finance Data

	Lm thousands										
	2002	2003	2004	2002		2003		2004		2005	
	Jan-Dec			May	Jan-May	May	Jan-May	May	Jan-May	May	Jan-May
GOVERNMENT FINANCE											
Total Revenue	770,957	873,487	921,875	54,871	270,145	84,976	320,226	106,523	334,723	111,001	384,594
<i>consisting of:</i>											
Loans	10,563	132,129	99,948	0	0	32,196	56,322	46,300	46,300	36,500	76,500
Receipts from sale of Shares	27,341	0	0	0	0	0	0	0	0	0	0
Other Extraordinary Receipts	13,250	2,137	8,899	0	0	0	0	2,915	2,915	3,837	3,837
Recurrent Revenue	719,803	739,221	813,027	54,871	270,145	52,780	263,904	57,308	285,509	70,664	304,256
<i>of which:</i>											
Grants	2,721	2,517	30,310	159	913	931	1,380	3,383	3,708	6,014	23,286
Customs and Excise	59,813	61,576	62,309	5,231	23,145	4,997	23,458	4,539	23,206	5,350	23,028
Consumption Tax	117,503	123,910	141,570	11,013	48,677	9,522	47,737	8,324	57,722	10,665	61,097
Income Tax	190,175	205,218	211,177	12,368	56,941	11,954	55,341	12,671	61,788	15,099	59,141
Social Security	181,142	188,427	189,657	15,966	63,175	15,360	63,724	16,417	64,323	16,039	62,025
Others	168,449	157,573	178,004	10,132	77,293	10,016	72,264	11,974	74,762	17,497	75,680
Total Expenditure	819,324	857,405	933,909	73,563	342,132	77,847	368,924	83,221	371,258	99,944	403,360
<i>consisting of:</i>											
Recurrent Expenditure	645,995	677,655	732,846	55,662	263,766	60,041	286,300	64,548	297,705	70,443	311,811
<i>of which</i>											
Education	47,502	48,998	50,212	4,024	20,522	3,984	21,254	4,274	20,701	4,218	20,443
Social security (benefits)	190,749	200,922	207,458	14,667	79,375	14,341	83,300	19,957	90,701	21,458	96,110
Others	407,744	427,735	475,175	36,971	163,869	41,715	181,746	40,317	186,303	44,767	195,259
Public Debt Servicing	75,657	75,781	96,444	7,423	34,409	6,058	28,615	7,384	31,699	14,760	38,869
Capital Programme	97,672	103,969	104,620	10,477	43,957	11,749	54,008	11,289	41,854	14,741	52,679
<i>of which</i>											
Productive Investment	31,526	28,372	27,036	4,382	17,065	3,018	13,597	3,236	10,326	1,894	12,662
Infrastructure	27,391	34,095	41,693	2,110	11,773	3,801	14,532	5,229	11,766	5,316	17,742
Social	38,754	41,501	35,891	3,985	15,119	4,931	25,879	2,823	19,762	7,532	22,276
Gross Government Debt [1]	1,076,961	1,259,605	1,354,171	1,050,254	1,050,254	1,175,939	1,175,939	1,337,594	1,337,594	1,390,166	1,390,166

[1] Made up of Treasury Bills issued and outstanding (at nominal prices), Government Stock, Foreign Loans, Ex-Malta Drydocks and Ex-Malta Shipbuilding Debt Assumptions less Malta Government Stocks owned by the Sinking Fund.
Data for the last three months is to be considered provisional.
At end of period indicated.

Note: Figures may not add up exactly due to rounding.
Source: The Central Bank of Malta (Government Debt position);
The Treasury (Government Revenue and Expenditure data)

Table 2. Comparative Government Finance Data: January - May 2005

Description	Jan - May			Jan-May 2004/Jan-May 2005		Jan-May 2005
	2003	2004	2005	Absolute Change	% Change	% Dist.
				Lm '000s		
Total Revenue	320,226	334,723	384,594	49,871	14.90	100.00
<i>consisting of:</i>						
Loans	56,322	46,300	76,500	30,200	N/A	19.89
Receipts from Sale of Shares	0	0	0	0	N/A	0.00
Other extraordinary receipts	0	2,915	3,837	923	N/A	1.00
Recurrent Revenue	263,904	285,509	304,256	18,748	6.57	79.11
<i>of which:</i>						
Grants	1,380	3,708	23,286	19,577	527.91	6.05
Customs and Excise	23,458	23,206	23,028	-178	-0.77	5.99
Consumption Tax	47,737	57,722	61,097	3,375	5.85	15.89
Income Tax	55,341	61,788	59,141	-2,647	-4.28	15.38
Social Security	63,724	64,323	62,025	-2,298	-3.57	16.13
Others	72,264	74,762	75,680	919	1.23	19.68
Total Expenditure	368,924	371,258	403,360	32,102	8.65	100.00
<i>consisting of:</i>						
Recurrent Expenditure	286,300	297,705	311,811	14,106	4.74	77.30
<i>of which:</i>						
Education	21,254	20,701	20,443	-258	-1.25	5.07
Social security (benefits)	83,300	90,701	96,110	5,409	5.96	23.83
Others	181,746	186,303	195,259	8,956	4.81	48.41
Public Debt Servicing	28,615	31,699	38,869	7,171	22.62	9.64
<i>of which:</i>						
Contribution to Sinking Fund	0	0	6,003	6,003	N/A	1.49
Interest Payments	28,164	31,699	32,867	1,168	3.69	8.15
Repayment of Loan	451	0	0	0	0.00	0.00
Capital Programme	54,008	41,854	52,679	10,825	25.86	13.06
<i>of which:</i>						
Productive Investment	13,597	10,326	12,662	2,335	22.61	3.14
Infrastructure	14,532	11,766	17,742	5,977	50.80	4.40
Social	25,879	19,762	22,276	2,513	12.72	5.52
Structural Deficit [1]	-104,569	-85,750	-93,101	-7,352	8.57	
Gross Government Debt [2]	1,175,939	1,337,594	1,390,141	52,547	3.93	100.00
<i>of which:</i>						
Treasury Bills	260,060	265,834	242,903	-22,931	-8.63	17.47
Govt. Stock	839,963	959,329	1,054,696	95,367	9.94	75.87
Foreign Loans Outstanding	75,916	70,757	66,994	-3,763	-5.32	4.82
Other debt assumptions	-	41,846	27,427	-14,419	N/A	1.97
MGSF investments in Government Debt	-	-172	-1,879	-1,707	N/A	-0.14

[1] Shortfall between Recurrent Revenue and Total Expenditure (less contribution to the Sinking Fund and direct loan repayment).

[2] Made up of Treasury Bills issued and outstanding (at nominal prices), Government Stock, Foreign Loans, Ex-Malta Drydocks and Ex-Malta Shipbuilding Debt Assumptions less Malta Government Stocks owned by the Sinking Fund.

Data for the last three months is to be considered provisional.
At end of period indicated.

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Sources: The Central Bank of Malta (Government Debt position)
The Treasury (Government Revenue and Expenditure data)

Table 3. Government Revenue and Expenditure

January - May 1993 - 2005

(January - May 1995 = 100)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	January - May												
GOVERNMENT FINANCE													
Total Recurrent Revenue	90.85	98.53	100.00	114.52	112.36	123.72	135.27	151.94	156.38	163.57	159.79	172.87	232.87
<i>of which:</i>													
Customs and Excise	283.23	252.23	100.00	79.62	102.83	167.18	182.44	197.31	184.31	203.97	206.73	204.51	202.94
Consumption Tax	N/A	N/A	100.00	128.09	159.33	144.13	160.84	203.02	228.70	236.86	232.29	280.87	297.29
Income Tax	82.29	86.49	100.00	122.35	102.95	121.54	122.79	168.51	175.73	180.07	175.01	195.40	187.03
Social Security	85.05	92.28	100.00	119.34	117.16	120.71	127.10	141.76	158.07	154.49	155.83	157.29	151.67
Others	94.02	113.63	100.00	109.13	99.91	111.86	129.82	124.41	115.49	128.76	121.24	129.19	162.93
Total Expenditure	74.17	88.73	100.00	109.49	108.96	114.61	125.02	133.27	147.27	161.03	173.64	174.73	189.84
<i>consisting of:</i>													
Recurrent Expenditure	74.44	89.98	100.00	110.46	111.22	115.08	119.00	130.45	136.43	151.22	164.14	170.68	178.77
<i>of which</i>													
Education	96.53	107.78	100.00	103.17	108.94	105.11	111.87	114.88	129.70	132.79	137.52	133.94	132.27
Social security (benefits)	80.16	92.63	100.00	112.27	119.76	139.71	138.54	157.86	159.05	163.70	171.79	187.06	198.21
Others	68.83	86.33	100.00	110.68	107.79	105.67	111.42	120.60	127.44	148.32	164.50	168.63	176.73
Public Debt Servicing	76.45	102.23	100.00	116.32	167.63	259.25	303.49	327.73	417.47	447.66	372.28	412.40	505.69
Capital Programme	72.07	78.09	100.00	102.20	81.15	75.31	114.46	100.28	141.14	144.78	177.89	137.86	173.51
Productive Investment	60.66	74.64	100.00	79.67	43.50	41.64	84.48	67.06	76.94	79.03	62.97	47.82	58.64
Infrastructure	113.01	89.71	100.00	158.23	199.70	189.46	270.93	171.87	335.69	271.03	334.54	270.85	408.44
Social	87.54	83.48	100.00	157.13	148.53	127.54	107.16	192.14	263.44	341.76	585.01	446.73	503.55

Table 4. Revenue/Expenditure Heads

	2002	2003	2004	2005
	January - May			
	Lm '000s			
Revenue Heads				
Customs and Excise Duties	23,145	23,458	23,206	23,028
Licences, Taxes and Fines	33,914	32,823	40,616	33,972
Income Tax	56,941	55,341	61,788	59,141
Consumption Tax	48,677	47,737	57,722	61,097
Fees of Office	7,418	2,309	2,327	6,084
Reimbursements	2,824	1,813	2,190	2,806
Public Corporations	0	1,883	1,883	1,883
Central Bank of Malta	25,682	24,783	18,233	14,001
Rents	5,183	4,857	4,356	4,828
Dividends on Investment	784	1,024	2,884	2,077
Repayment of and Interest on, Loans made by Government	21	8	8	8
Social Security	63,175	63,724	64,323	62,025
Grants	913	1,380	3,708	23,286
Miscellaneous Receipts	1,468	2,764	2,264	10,022
Total Recurrent Revenue	270,145	263,904	285,509	304,256
Extraordinary Receipts	0	0	2,915	3,837
Loans	0	56,322	46,300	76,500
Total Non-Ordinary Revenue	0	56,322	49,215	80,337
Total Revenue	270,145	320,226	334,723	384,594
Recurrent Expenditure Heads				
Personal Emoluments	80,808	80,825	76,618	76,686
Operational and Maintenance Expenditure	22,594	25,350	24,755	15,996
Special Expenditure	216	224	315	197
Programmes and Initiatives	132,462	145,946	160,581	186,055
Contribution to Government Entities	27,686	33,956	35,436	32,876
Total Recurrent Expenditure	263,766	286,301	297,705	311,811

Source: The Treasury

Note: Figures may not add up due to rounding

Methodological Notes

1. The data contained in this news release are compiled in order to provide users with regular up-to-date information on the consolidated fund of Government. Data are sourced as follows:
 - i. Revenue and Expenditure, and Public Debt Servicing The Consolidated Fund, the transactions of which are consolidated at the Treasury.
 - ii. Central Government debt and debt guaranteed by Government Central Bank of Malta, the Treasury at the Ministry of Finance

All allocations provided out of this Fund are either authorised by Parliament under an Appropriation Act, or are permanently appropriated by Parliament under other relevant legislation. On the other hand, the Treasury Clearance Fund contains all those Funds and Accounts the expenses of which are initially defrayable out of public funds and are eventually repayable out of the Consolidated Fund or other sources.

2. This news release seeks to follow the guidelines set out in the European System of Accounts (ESA95) Manual on Government Deficit and Debt. Therefore the shortfall between revenue and expenditure as listed in Table 2, is essentially the cash-based deficit position as far as the Central Government's consolidated fund is concerned.

In this respect, revenue that has no impact on the deficit, such as proceeds from loans, proceeds from sale of financial assets and, revenue from other accounts of Government, are not taken into consideration. Likewise, direct loan repayments, contributions to sinking funds, as well as transfers into other accounts of Government are excluded from the total expenditure.

3. The debt position includes both the actual debt which is held by Government, as well as the recent debt assumption resulting from the Malta Shipyards restructuring exercise which took place in November 2003. On the other hand, any investments made by Government in its own funds are excluded from the total debt.
4. Table 2 presents a comparative exercise covering the period to date with the same period for the past two years. Moreover, in the text table, the aggregate expenditure figures for the current year are appearing against the budgetary projections, while last year's data are benchmarked against the actual final expenditure. Where practical, this comparative exercise is also presented (within the text of the release) for the main components of expenditure.
5. Table 3 presents an index for the main components of revenue and expenditure. The base year for this exercise is 1995, which is the year when Consumption Tax was introduced. In this table, over the years, there have been some adjustments to expenditures which were traditionally reported within the capital expenditure category, but which are now being recorded under recurrent expenditure. This repositioning has been done to better reflect the actual nature of the expenditure.
6. The individual revenue heads, and expenditure categories for the past 4 years are presented in Table 4. Here again caution needs to be exercised when using the recurrent expenditure heads since the setting up of new entities implies the shifting of their various expenditures from other categories to the 'contributions to government entities' category.
7. In the primary data source, and in line with the budget forecasts, the capital expenditure is further subdivided. Although no hard and fast rule is followed in this sub-classification, it is basically determined as follows:
 - i. **Productive Investment:** Expenditure on Tourism, including the subvention to the Malta Tourism Authority; capital expenditure relating to construction of factories and on agricultural/fisheries programmes.
 - ii. **Infrastructure:** All I.T. related expenditures, improvements to buildings, and construction projects (including road construction). All acquisition of property is classified within this category.
 - iii. **Social:** Capital expenditures (excluding I.T. and improvements to buildings) related to housing, education, health and waste management.

These examples indicated in the definitions are presented for explanatory purposes only, and the list is not exhaustive. The contents of each category being provided here are presented for the purpose of illustration only, and are not exhaustive.

8. Revisions: the revenue and expenditure figures are based on actual cash transactions, and are therefore not, normally, subject to revision. Although revisions to debt data are uncommon, it is prudent to consider debt figures for the previous three months as provisional. Any revisions to the data will be carried out at the first opportunity and published accordingly in the next news release.