

# News Release



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## Government Finance

### Government Finance: January - July 2005

Recurrent Revenue during the first seven months of 2005 totalled Lm445.7 million, and made up 49.5 per cent of this year's budget forecast. Compared to the same period last year, this represents an increase of Lm48.1 million, or 12.1 per cent. At the same time, total expenditure (excluding Government's contribution to the Sinking Fund and direct repayment of loans) amounted to Lm545.0 million, an increase of Lm31.7 million, or 6.2 per cent, from the Lm513.3 million expended in the same period in 2004.

The shortfall between recurrent revenue and total expenditure during the period under review amounted to Lm99.3 million this year, against Lm115.7 million one year ago. During the first seven months of this year proceeds from sinking funds on converted loans amounted to Lm3.8 million, during the comparative period, the related amount was Lm8.9 million. During 2005, contributions to sinking funds amounted to Lm6.0 million, whilst the amount of the corresponding 2004 period was Lm6.3 million. No direct loan repayments were made in either period. During the January-July 2005 period, resort to local loans amounted to Lm76.5 million as compared to Lm46.3 million, during the same period last year. No resort was made to foreign loans in either of the comparative periods.

The increase of Lm48.1 million in recurrent revenue for the first seven months of the year was brought about by higher revenue registered under Value Added Tax (+Lm16.2 million), Customs and Excise (+3.3 million), Fees of Office (+Lm12.3 million), Grants (+Lm18.6 million), Social Security (+Lm1.5 million) and Miscellaneous Receipts (+Lm7.2 million). While on the other hand decreases were registered under the Central Bank of Malta (-Lm4.2 million) and Licences, Taxes and Fines (-Lm8.4 million).

When compared to the same period last year, recurrent expenditure (excluding Public Debt Servicing) increased by Lm22.1 million, or 5.4 per cent, from Lm407.4 million to Lm429.4 million.

Personal emoluments to date amounted to Lm108.6 million, and made up 52.3 per cent of the budget forecast (Lm207.8 million), whilst the outlay for the same period last year totalled Lm108.2 million. These figures represent a decrease this year of Lm0.4 million, or 0.4 per cent.

Expenditure under the Operational and Maintenance Expenditure category amounted to Lm20.7 million during the reference period, as compared to Lm31.6 million for the comparative period last year. This represents a decrease of Lm10.9 million, or 34.4 per cent, which was mainly brought about through the reclassification of expenditures on medicines and surgical materials to the Programmes and Initiatives category as from January 2005.

Negligible expenditure was registered under the Special Expenditure category in both 2004 as well as in 2005.

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Expenditure under the Programmes and Initiatives category so far this year amounted to Lm257.0 million, which is equivalent to 57.7 per cent of this year's budget estimate for this category. Last year's outlay under this category amounted to Lm220.9 million. The increase of Lm36.1 million was mainly due to increases in Social Security Benefits (+Lm6.9 million), EU Own Resources (+Lm9.6 million), MGI/MIMCOL (+Lm1.9 million), Financing of Church Schools (+Lm3.6 million), Food Subsidies (+Lm1.2 million), Streets and Roads Lighting (+Lm1.8 million), Treasury Pensions (+Lm2.1 million) and due to reclassification, as explained above, Medicines and Surgical Supplies (+Lm10.2 million). On the other hand, lower expenditure was registered under the 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.

Outlay under the Contribution to Government Entities category during the first seven months of 2005 declined by Lm3.5 million, and amounted to Lm42.9 million, down from last year's figure of Lm46.3 million. The main reasons for this were lower expenditure under MGI / MIMCOL (-Lm1.9 million) and Water Services Corporation (-0.9 million).

The interest component of the public debt servicing costs this year increased by Lm0.8 million, from Lm42.1 million last year to Lm42.8 million in 2005, mainly due to the timing of interest payments on Malta Government Stocks.

During the January-July period of 2005, Capital Expenditure amounted to Lm72.7 million, an increase of Lm8.9 million, or 13.9 per cent, when compared to Lm63.8 million expended last year. The main components of this increase were higher expenditure in the ministries for Finance (+Lm26.7 million) mainly due to reclassification of expenditure on Mater Dei Hospital project, Rural Affairs and the Environment (+Lm2.8 million), Urban Development and Roads (+Lm6.8 million) and Office of the Prime Minister (+Lm1.7 million). On the other hand, lower expenditure was registered under Health, Elderly and Community Care (-Lm19.1 million) mainly due to the reclassification mentioned above and the Foreign Affairs (-Lm6.8 million).

The Central Government debt outstanding at the end of July reached Lm1,388.6 million, representing an increase of Lm71.6 million or 5.4 per cent on the Lm1,317.0 outstanding at the end of July 2004. This total includes the current balance (Lm27.4 million) of Government's assumption of the 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 - Jul		Jan - Dec	Jan - Jul		Jan - Dec
	Lm'000	% of final outturn	Actual Lm'000	Lm'000	% of budget estimates	Approved budget estimates Lm'000
Recurrent	407,380	55.59	732,846	429,437	56.40	761,404
Public Debt Servicing <sup>1</sup>	48,397	50.18	96,444	48,820	54.14	90,178
Capital	63,828	61.01	104,620	72,723	53.05	137,076
<b>Total</b>	<b>519,604</b>	<b>55.64</b>	<b>933,909</b>	<b>550,980</b>	<b>55.73</b>	<b>988,658</b>

<sup>[1]</sup> 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	
				Jul	Jan-Jul	Jul	Jan-Jul	Jul	Jan-Jul	Jul	Jan-Jul
<b>GOVERNMENT FINANCE</b>											
<b>Total Revenue</b>	<b>770,957</b>	<b>873,487</b>	<b>921,875</b>	<b>93,975</b>	<b>412,610</b>	<b>102,259</b>	<b>481,058</b>	<b>67,740</b>	<b>452,806</b>	<b>70,693</b>	<b>527,094</b>
<i>consisting of:</i>											
Loans	10,563	132,129	99,948	0	0	43,000	102,129	0	46,300	0	76,500
Receipts from sale of Shares	27,341	0	0	19,048	19,048	0	0	0	0	0	0
Other Extraordinary Receipts	13,250	2,137	8,899	0	0	1,424	2,137	5,984	8,899	1,092	4,929
Recurrent Revenue	719,803	739,221	813,027	74,927	393,563	57,835	376,791	61,756	397,607	69,601	445,665
<i>of which:</i>											
Grants	2,721	2,517	30,310	56	1,135	100	1,623	5,920	12,726	4,168	31,346
Customs and Excise	59,813	61,576	62,309	5,586	33,063	5,257	34,012	5,059	31,420	6,474	34,761
Consumption Tax	117,503	123,910	141,570	10,961	67,397	12,051	67,948	11,328	74,935	14,334	91,087
Income Tax	190,175	205,218	211,177	18,244	88,807	12,069	84,353	14,009	91,475	14,682	92,063
Social Security	181,142	188,427	189,657	14,186	90,403	15,173	94,584	11,240	89,039	13,713	90,581
Others	168,449	157,573	178,004	25,894	112,759	13,185	94,271	14,200	98,012	16,230	105,827
<b>Total Expenditure</b>	<b>819,324</b>	<b>857,405</b>	<b>933,909</b>	<b>69,369</b>	<b>472,114</b>	<b>71,885</b>	<b>510,721</b>	<b>79,972</b>	<b>519,604</b>	<b>74,097</b>	<b>550,980</b>
<i>consisting of:</i>											
Recurrent Expenditure	645,995	677,655	732,846	52,815	368,422	53,596	395,548	58,123	407,380	62,413	429,437
<i>of which</i>											
Education	47,502	48,998	50,212	3,852	28,659	3,893	29,631	3,695	28,313	3,822	28,365
Social security (benefits)	190,749	200,922	207,458	18,850	113,235	16,147	119,641	18,319	124,416	18,537	131,270
Others	407,744	427,735	475,175	30,114	226,528	33,556	246,275	36,109	254,651	40,054	269,802
Public Debt Servicing	75,657	75,781	96,444	6,473	44,997	5,468	43,355	6,502	48,397	5,605	48,820
Capital Programme	97,672	103,969	104,620	10,082	58,695	12,821	71,818	15,347	63,828	6,079	72,723
<i>of which</i>											
Productive Investment	31,526	28,372	27,036	4,886	22,910	4,778	20,548	4,264	15,428	1,598	20,436
Infrastructure	27,391	34,095	41,693	4,168	17,959	3,034	19,941	7,560	21,928	3,342	23,664
Social	38,754	41,501	35,891	1,028	17,825	5,008	31,328	3,521	26,471	1,139	28,623
Gross Government Debt [1]	1,076,961	1,259,605	1,354,171	1,049,513	1,049,513	1,220,305	1,220,305	1,316,957	1,316,957	1,388,557	1,388,557

[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 - July 2005

Description	Jan - Jul			Jan-Jul 2004/Jan-Jul 2005		Jan-Jul 2005
	2003	2004	2005	Absolute	% Change	% Dist.
				Change		
	Lm '000s					
<b>Total Revenue</b>	<b>481,058</b>	<b>452,806</b>	<b>527,094</b>	<b>74,288</b>	<b>16.41</b>	<b>100.00</b>
<i>consisting of:</i>						
Loans	102,129	46,300	76,500	30,200	N/A	14.51
Receipts from Sale of Shares	0	0	0	0	N/A	0.00
Other extraordinary receipts	2,137	8,899	4,929	-3,970	N/A	0.94
Recurrent Revenue	376,791	397,607	445,665	48,058	12.09	84.55
<i>of which:</i>						
Grants	1,623	12,726	31,346	18,619	146.31	5.95
Customs and Excise	34,012	31,420	34,761	3,341	10.64	6.59
Consumption Tax	67,948	74,935	91,087	16,152	21.55	17.28
Income Tax	84,353	91,475	92,063	588	0.64	17.47
Social Security	94,584	89,039	90,581	1,542	1.73	17.18
Others	94,271	98,012	105,827	7,815	7.97	20.08
<b>Total Expenditure</b>	<b>510,721</b>	<b>519,604</b>	<b>550,980</b>	<b>31,376</b>	<b>6.04</b>	<b>100.00</b>
<i>consisting of:</i>						
Recurrent Expenditure	395,548	407,380	429,437	22,057	5.41	77.94
<i>of which:</i>						
Education	29,631	28,313	28,365	52	0.18	5.15
Social security (benefits)	119,641	124,416	131,270	6,855	5.51	23.82
Others	246,275	254,651	269,802	15,151	5.95	48.97
Public Debt Servicing	43,355	48,397	48,820	423	0.87	8.86
<i>of which:</i>						
Contribution to Sinking Fund	5,743	6,340	6,003	-338	N/A	1.09
Interest Payments	37,161	42,057	42,817	761	1.81	7.77
Repayment of Loan	451	0	0	0	0.00	0.00
Capital Programme	71,818	63,828	72,723	8,895	13.94	13.20
<i>of which:</i>						
Productive Investment	20,548	15,428	20,436	5,008	32.46	3.71
Infrastructure	19,941	21,928	23,664	1,736	7.92	4.29
Social	31,328	26,471	28,623	2,151	8.13	5.19
<b>Structural Deficit [1]</b>	<b>-127,735</b>	<b>-115,657</b>	<b>-99,313</b>	<b>16,345</b>	<b>-14.13</b>	
<b>Gross Government Debt [2]</b>	<b>1,220,306</b>	<b>1,316,957</b>	<b>1,388,557</b>	<b>71,600</b>	<b>5.44</b>	<b>100.00</b>
<i>of which:</i>						
Treasury Bills	262,092	269,834	204,706	-65,128	-24.14	14.74
Govt. Stock	882,963	935,196	1,091,488	156,292	16.71	78.61
Foreign Loans Outstanding	75,251	70,253	66,815	-3,438	-4.89	4.81
Other debt assumptions	-	41,846	27,427	-14,419	-34.46	1.98
MGSF investments in Government Debt	-	-172	-1,879	-1,707	992.44	-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.

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At end of period indicated.

Note: Figures may not add up exactly due to rounding.

Sources: The Central Bank of Malta (Government Debt position)

The Treasury (Government Revenue and Expenditure data)

**Table 3. Government Revenue and Expenditure**

**January - July 1993 - 2005**

**(January - July 1995 = 100)**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	January - July												
<b>GOVERNMENT FINANCE</b>													
<b>Total Recurrent Revenue</b>	<b>89.32</b>	<b>97.02</b>	<b>100.00</b>	<b>110.51</b>	<b>115.01</b>	<b>125.74</b>	<b>134.14</b>	<b>152.44</b>	<b>158.35</b>	<b>172.99</b>	<b>165.62</b>	<b>174.77</b>	<b>195.90</b>
<i>of which:</i>													
Customs and Excise	265.26	236.20	100.00	74.69	92.23	174.19	184.66	187.53	171.31	193.04	198.58	183.45	202.96
Consumption Tax	N/A	N/A	100.00	130.45	149.25	134.69	160.28	193.03	212.55	219.68	221.47	244.25	296.89
Income Tax	91.69	91.92	100.00	121.53	116.98	130.29	122.64	172.20	184.38	201.39	191.29	207.45	208.78
Social Security	81.34	91.45	100.00	111.66	121.11	121.09	127.75	143.25	154.77	154.88	162.05	152.55	155.19
Others	90.47	111.81	100.00	103.38	100.72	112.37	123.96	124.18	121.80	147.47	124.17	143.39	177.62
<b>Total Expenditure</b>	<b>77.45</b>	<b>90.67</b>	<b>100.00</b>	<b>109.59</b>	<b>112.64</b>	<b>116.42</b>	<b>130.11</b>	<b>136.34</b>	<b>145.07</b>	<b>157.48</b>	<b>170.35</b>	<b>173.32</b>	<b>183.78</b>
<i>consisting of:</i>													
Recurrent Expenditure	78.17	92.28	100.00	111.31	114.30	114.23	123.29	130.99	138.31	150.21	161.27	166.10	175.09
<i>of which</i>													
Education	98.32	107.50	100.00	96.50	99.70	103.82	110.99	114.04	129.60	132.71	137.21	131.10	131.34
Social security (benefits)	84.49	94.53	100.00	113.34	124.93	133.65	143.26	151.52	154.56	160.32	169.39	176.15	185.86
Others	72.41	89.09	100.00	112.47	111.45	106.74	115.81	123.90	132.04	148.02	160.92	166.39	176.29
Public Debt Servicing	82.43	111.30	100.00	99.77	160.68	282.31	313.89	328.77	332.17	352.60	339.74	379.24	382.56
Capital Programme	71.68	74.90	100.00	102.43	88.27	78.56	113.99	108.98	127.59	140.52	171.93	152.81	174.10
Productive Investment	61.08	68.58	100.00	78.15	43.61	39.43	84.27	71.56	81.58	77.74	69.72	52.35	69.34
Infrastructure	98.56	87.17	100.00	147.72	214.30	195.16	216.67	180.88	275.33	262.89	291.90	320.98	346.39
Social	95.20	93.65	100.00	176.69	171.52	143.75	145.91	220.82	190.98	326.03	573.00	484.17	523.51

**Table 4. Revenue/Expenditure Heads**

	2002	2003	2004	2005
	January - July			
	Lm '000s			
<b>Revenue Heads</b>				
Customs and Excise Duties	33,063	34,012	31,420	34,761
Licences, Taxes and Fines	50,919	47,326	58,825	50,389
Income Tax	88,807	84,353	91,475	92,063
Consumption Tax	67,397	67,948	74,935	91,087
Fees of Office	9,279	3,308	3,264	15,529
Reimbursements	3,784	2,941	3,318	4,013
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	25,682	24,783	18,233	14,001
Rents	6,037	6,644	5,206	6,424
Dividends on Investment	13,182	2,616	3,637	2,731
Repayment of and Interest on, Loans made by Government	27	62	11	11
Social Security	90,403	94,584	89,039	90,581
Grants	1,135	1,623	12,726	31,346
Miscellaneous Receipts	1,966	4,708	3,636	10,845
<b>Total Recurrent Revenue</b>	<b>393,563</b>	<b>376,791</b>	<b>397,607</b>	<b>445,665</b>
Extraordinary Receipts	19,048	2,137	8,899	4,929
Loans	0	102,129	46,300	76,500
<b>Total Non-Ordinary Revenue</b>	<b>19,048</b>	<b>104,266</b>	<b>55,199</b>	<b>81,429</b>
<b>Total Revenue</b>	<b>412,611</b>	<b>481,058</b>	<b>452,806</b>	<b>527,094</b>
<b>Recurrent Expenditure Heads</b>				
Personal Emoluments	114,138	114,445	108,200	108,619
Operational and Maintenance Expenditure	29,429	31,464	31,562	20,702
Special Expenditure	280	310	392	258
Programmes and Initiatives	187,084	204,868	220,917	257,001
Contribution to Government Entities	37,492	44,461	46,310	42,857
<b>Total Recurrent Expenditure</b>	<b>368,423</b>	<b>395,548</b>	<b>407,380</b>	<b>429,437</b>

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.