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Government Finance

January - September 2005

Recurrent revenue during the first nine months of 2005 totalled Lm606.9 million, and made up 67.4 per cent of this year's budget forecast. Compared to the recurrent revenue received during the same period last year, this represents an increase of Lm68.7 million, or 12.8 per cent. At the same time, total expenditure, excluding contributions to the sinking funds and direct loan repayments, amounted to Lm692.3 million, an increase of Lm44.3 million, or 6.8 per cent, from the Lm648.1 million expended in the same period in 2004.

The shortfall between recurrent revenue and total expenditure¹ during the period under review amounted to Lm85.4 million this year, compared to Lm109.9 million one year ago. While during the first nine 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 Lm8.9 million. No loan repayments were made in either period. During the period under review this year, contributions to sinking funds amounted to Lm6.0 million, whilst the contributions effected during the corresponding 2004 period totalled Lm6.3 million. During the January – September 2005 period, resort to local loans amounted to Lm110.0 million, compared to Lm70.4 million during the first nine months of 2004. No foreign borrowing was taken up in either period. Whilst no proceeds from disposal of government shares were forthcoming last year, during the period under review this year, Government received Lm1.1 million in respect of Eutelsat shareholding.

The increase of Lm68.7 million in recurrent revenue for the first nine months of 2005, when compared to the same period last year, was registered mainly under Income Tax (+Lm5.8 million), Customs and Excise (+Lm4.7 million), Value Added Tax (+Lm24.0 million), Fees of Office (+Lm14.2 million), Grants (+Lm24.4 million), and Miscellaneous Receipts (+Lm6.5 million). On the other hand a decrease was registered in the profits received from the Central Bank of Malta (-Lm4.2 million), while a decline of Lm7.7 million registered under Licences, Taxes and Fines, was in part 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 Lm25.3 million or 4.9 per cent, from Lm518.2 million to Lm543.5 million. Recurrent expenditure for the period under review makes up 71.4 per cent of the budgetary estimates for 2005, and 70.7 per cent of the final outturn for 2004.

Personal emoluments up to the end of September amounted to Lm139.4 million, and made up 67.1 per cent of the budget forecast (Lm207.8 million). This represents an increase this year amounting to Lm0.5 million when compared to the amount expended in the same period last year (Lm138.9 million) which represented 69.1 per cent of that year's final outturn of Lm201.0 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 Lm25.0 million during the reference period, as compared to Lm39.3 million last year. This represents a decrease of Lm14.3 million or 36.4 per cent, which was mainly brought about by the reclassification of expenditures on medicines and surgical materials to the Programmes and Initiatives Category as from January 2005.

Expenditure under the Special Expenditure category amounted to Lm0.3 million and Lm0.5 million for the 2005 and 2004 comparative periods respectively.

Expenditure under the Programmes and Initiatives category this year amounted to Lm323.5 million and stood at 72.7 per cent of this year's budget estimates. Last year's outlay under this category amounted to Lm281.6 million, and made up 71.0 per cent of that year's final outturn. The increase of Lm41.8 million is mainly due to increases in Social Security Benefits (+Lm8.1 million), EU Own Resources (+Lm9.7 million), MGI/MIMCOL (+Lm3.0 million), Financing of Church Schools (+Lm3.3 million), Food Subsidies (+Lm1.8 million), Streets and Roads Lighting (+Lm1.7 million), Treasury Pensions (+Lm2.2 million), and due to the reclassification explained earlier, Medicines and Surgical Supplies (+Lm13.6 million). On the other hand, lower expenditure was registered under the Compensation Payment by Government (Lm7.0 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 nine months of 2005 declined by Lm2.6 million, and amounted to Lm55.2 million, down from last year's figure of Lm57.8 million. The main reasons for the decrease under this category were lower expenditure in respect of MGI/MIMCOL (-Lm1.0 million) and Water Services Corporation (-Lm1.0 million).

The interest component of the public debt servicing costs this year increased by Lm1.5 million, from Lm54.3 million last year to Lm55.8 million in 2005. Reflecting the composition of the public debt portfolio, interest on Government Stocks increased by Lm2.0 million, while interest payments on Treasury Bills and on Foreign Borrowing declined by Lm0.4 million and Lm0.1 million respectively.

During the first nine months of 2005, Capital Expenditure amounted to Lm93.1 million, registering an increase of Lm17.5 million or 23.1 per cent, when compared to Lm75.6 million expended last year. The main components of this increase were higher outlays in the Office of the Prime Minister (+Lm3.2 million), and in the ministries for Finance (+Lm35.5 million) mainly due to reclassification of expenditure on the Mater Dei Hospital project, Rural Affairs and the Environment (+Lm1.7 million) and Urban Development and Roads (+Lm9.0 million). On the other hand, lower expenditure was registered under Education, Youth and Employment (-Lm1.5 million), Health, Elderly and Community Care (-Lm22.1 million) mainly due to the reclassification of the Mater Dei Hospital project mentioned above, and Foreign Affairs (-Lm6.8 million).

The Central Government debt outstanding at the end of September amounted to Lm1,391.0 million, an increase of Lm42.7 million or 3.2 per cent, on the Lm1,348.3 million outstanding at the end of September 2004. The total outstanding debt includes the current balance (Lm26.7 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 - Sep		Jan - Dec	Jan - Sep		Jan - Dec
	Lm'000	% of final outturn	Actual Lm'000	Lm'000	% of budget estimates	Approved budget estimates Lm'000
Recurrent	518,151	70.70	732,846	543,451	71.37	761,404
Public Debt Servicing ²	60,639	62.88	96,444	61,789	68.52	90,178
Capital	75,633	72.29	104,620	93,104	67.92	137,076
Total	654,423	70.07	933,909	698,344	70.64	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			Sep	Jan-Sep	Sep	Jan-Sep	Sep	Jan-Sep	Sep	Jan-Sep
GOVERNMENT FINANCE											
Total Revenue	770,957	873,487	921,875	57,216	524,602	54,997	600,849	69,209	617,565	76,462	721,861
<i>consisting of:</i>											
Loans	10,563	132,129	99,948	0	0	0	102,129	0	70,448	0	110,000
Receipts from sale of Shares	27,341	0	0	0	19,048	0	0	0	0	0	1,092
Other Extraordinary Receipts	13,250	2,137	8,899	0	0	0	2,137	0	8,899	0	3,837
Recurrent Revenue	719,803	739,221	813,027	57,216	505,555	54,997	496,582	69,209	538,217	76,462	606,932
<i>of which:</i>											
Grants	2,721	2,517	30,310	13	1,173	76	2,115	3,001	15,944	5,183	40,324
Customs and Excise	59,813	61,576	62,309	6,374	44,137	5,535	44,942	5,196	42,420	5,955	47,153
Consumption Tax	117,503	123,910	141,570	7,825	83,219	8,695	86,064	13,162	97,573	17,418	121,526
Income Tax	190,175	205,218	211,177	18,734	125,541	16,261	125,001	15,536	133,894	18,598	139,733
Social Security	181,142	188,427	189,657	15,155	121,277	15,329	125,968	16,409	124,796	17,985	125,965
Others	168,449	157,573	178,004	9,115	130,208	9,101	112,493	15,905	123,589	11,323	132,231
Total Expenditure	819,324	857,405	933,909	64,123	597,262	64,618	638,593	66,321	654,423	70,729	698,344
<i>consisting of:</i>											
Recurrent Expenditure	645,995	677,655	732,846	52,412	470,984	53,209	499,396	53,896	518,151	58,729	543,451
<i>of which</i>											
Education	47,502	48,998	50,212	3,708	35,831	3,813	36,984	3,566	35,406	3,841	35,714
Social security (benefits)	190,749	200,922	207,458	15,177	141,788	16,658	150,258	14,341	155,561	14,995	163,686
Others	407,744	427,735	475,175	33,527	293,365	32,738	312,154	35,989	327,184	39,893	344,052
Public Debt Servicing	75,657	75,781	96,444	5,861	55,316	6,093	55,018	6,453	60,639	5,035	61,789
Capital Programme	97,672	103,969	104,620	5,850	70,963	5,316	84,178	5,972	75,633	6,965	93,104
<i>of which</i>											
Productive Investment	31,526	28,372	27,036	1,863	26,446	976	23,438	833	17,858	778	23,310
Infrastructure	27,391	34,095	41,693	2,029	21,700	2,185	23,612	3,400	27,190	4,226	32,889
Social	38,754	41,501	35,891	1,958	22,817	2,155	37,129	1,738	30,584	1,961	36,905
Gross Government Debt [1]	1,076,961	1,259,605	1,354,171	1,042,666	1,042,666	1,209,021	1,209,021	1,348,287	1,348,287	1,391,008	1,391,008

[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 - September 2005

Description	Jan - Sep			Jan-Sep 2004/Jan-Sep 2005		Jan-Sep 2005
	2003	2004	2005	Absolute	% Change	% Dist.
				Change		
	Lm '000s					
Total Revenue	600,849	617,565	721,861	104,296	16.89	100.00
<i>consisting of:</i>						
Loans	102,129	70,448	110,000	39,552	N/A	15.24
Receipts from Sale of Shares	0	0	1,092	1,092	N/A	0.15
Other extraordinary receipts	2,137	8,899	3,837	-5,062	N/A	0.53
Recurrent Revenue	496,582	538,217	606,932	68,715	12.77	84.08
<i>of which:</i>						
Grants	2,115	15,944	40,324	24,380	152.91	5.59
Customs and Excise	44,942	42,420	47,153	4,732	11.16	6.53
Consumption Tax	86,064	97,573	121,526	23,952	24.55	16.84
Income Tax	125,001	133,894	139,733	5,838	4.36	19.36
Social Security	125,968	124,796	125,965	1,169	0.94	17.45
Others	112,493	123,589	132,231	8,642	6.99	18.32
Total Expenditure	638,593	654,423	698,344	43,921	6.71	100.00
<i>consisting of:</i>						
Recurrent Expenditure	499,396	518,151	543,451	25,301	4.88	77.82
<i>of which:</i>						
Education	36,984	35,406	35,714	308	0.87	5.11
Social security (benefits)	150,258	155,561	163,686	8,125	5.22	23.44
Others	312,154	327,184	344,052	16,868	5.16	49.27
Public Debt Servicing	55,018	60,639	61,789	1,150	1.90	8.85
<i>of which:</i>						
Contribution to Sinking Fund	5,743	6,340	6,003	-338	N/A	0.86
Interest Payments	48,824	54,299	55,786	1,487	2.74	7.99
Repayment of Loan	451	0	0	0	0.00	0.00
Capital Programme	84,178	75,633	93,104	17,471	23.10	13.33
<i>of which:</i>						
Productive Investment	23,438	17,858	23,310	5,451	30.53	3.34
Infrastructure	23,612	27,190	32,889	5,699	20.96	4.71
Social	37,129	30,584	36,905	6,320	20.67	5.28
Structural Deficit [1]	-135,816	-109,866	-85,410	24,456	-22.26	
Gross Government Debt [2]	1,209,021	1,348,287	1,391,008	42,721	3.17	100.00
<i>of which:</i>						
Treasury Bills	251,007	252,512	174,480	-78,032	-30.90	12.54
Govt. Stock	882,963	985,196	1,124,988	139,792	14.19	80.88
Foreign Loans Outstanding	75,051	70,612	66,759	-3,853	-5.46	4.80
Other debt assumptions	-	41,846	26,661	-15,185	-36.29	1.92
MGSF investments in Government Debt	-	-1,879	-1,879	0	0.00	-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.

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 - September 1993 - 2005

(January - September 1995 = 100)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	January - September												
GOVERNMENT FINANCE													
Total Recurrent Revenue	89.97	95.33	100.00	108.72	114.40	123.35	139.37	152.54	159.17	172.35	169.29	183.48	206.91
<i>of which:</i>													
Customs and Excise	272.21	245.64	100.00	76.82	107.82	165.91	191.61	195.33	182.32	206.67	210.44	198.63	220.79
Consumption Tax	N/A	N/A	100.00	132.39	139.32	123.87	150.30	183.17	196.81	196.59	203.31	230.50	287.08
Income Tax	88.93	93.33	100.00	112.10	114.43	126.01	148.25	171.45	186.20	206.05	205.16	219.76	229.34
Social Security	84.71	90.30	100.00	109.37	117.85	119.91	126.63	143.24	154.16	155.08	161.08	159.58	161.08
Others	94.28	110.15	100.00	102.34	101.29	114.24	126.95	123.42	122.23	145.15	126.62	154.16	190.64
Total Expenditure	80.55	90.26	100.00	110.79	115.87	117.07	130.50	135.30	146.95	158.27	169.23	173.42	185.06
<i>consisting of:</i>													
Recurrent Expenditure	81.20	91.64	100.00	111.08	115.28	115.17	123.38	130.06	140.01	152.08	161.26	167.31	175.48
<i>of which</i>													
Education	102.43	106.40	100.00	92.40	100.24	103.55	109.06	113.23	129.43	132.20	136.46	130.63	131.77
Social security (benefits)	85.14	92.89	100.00	112.54	122.29	132.28	140.93	144.94	149.98	158.29	167.75	173.67	182.74
Others	76.39	88.99	100.00	113.03	114.14	108.86	117.24	125.51	136.87	151.99	161.73	169.52	178.26
Public Debt Servicing	73.52	98.75	100.00	126.95	170.41	264.36	298.47	320.86	334.94	358.22	356.29	392.69	400.14
Capital Programme	78.77	79.56	100.00	104.29	103.28	84.77	123.10	111.53	132.52	135.86	161.16	144.80	178.25
Productive Investment	73.30	74.22	100.00	77.27	50.48	42.79	98.47	69.97	77.73	73.04	64.73	49.32	64.38
Infrastructure	96.35	90.71	100.00	160.57	243.69	204.84	203.33	190.24	265.81	245.72	267.38	307.89	372.43
Social	84.73	92.81	100.00	171.25	196.73	148.72	148.64	224.11	244.73	317.25	516.25	425.26	513.14

Table 4. Revenue/Expenditure Heads

	2002	2003	2004	2005
	January - September			
	Lm '000s			
Revenue Heads				
Customs and Excise Duties	44,137	44,942	42,420	47,153
Licences, Taxes and Fines	64,721	61,624	73,325	65,618
Income Tax	125,541	125,001	133,894	139,733
Consumption Tax	83,219	86,064	97,573	121,526
Fees of Office	10,571	4,214	4,144	18,380
Reimbursements	4,790	3,525	5,802	5,410
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	25,682	24,783	18,233	14,001
Rents	6,966	8,087	6,354	7,410
Dividends on Investment	13,222	2,616	3,637	2,847
Repayment of and Interest on, Loans made by Government	31	66	14	13
Social Security	121,277	125,968	124,796	125,965
Grants	1,173	2,115	15,944	40,324
Miscellaneous Receipts	2,343	5,696	10,197	16,670
Total Recurrent Revenue	505,555	496,582	538,217	606,932
Extraordinary Receipts	19,048	2,137	8,899	4,929
Loans	0	102,129	70,448	110,000
Total Non-Ordinary Revenue	19,048	104,266	79,348	114,929
Total Revenue	524,602	600,849	617,565	721,861
Recurrent Expenditure Heads				
Personal Emoluments	147,148	146,583	138,913	139,411
Operational and Maintenance Expenditure	36,003	36,176	39,293	24,998
Special Expenditure	364	399	504	321
Programmes and Initiatives	240,268	259,592	281,642	323,482
Contribution to Government Entities	47,200	56,647	57,798	55,238
Total Recurrent Expenditure	470,984	499,396	518,151	543,451

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.