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Government Finance

January - October 2005

Recurrent Revenue during the first ten months of 2005 totalled Lm686.4 million, and made up 76.3 per cent of this year's budget forecast. Compared to the same period last year, this represents an increase of Lm78.0 million, or 12.8 per cent. At the same time, total expenditure amounted to Lm775.8 million, an increase of Lm25.9 million, or 3.4 per cent, from the Lm749.9 million expended in the same period in 2004.

The shortfall between recurrent revenue and total expenditure¹ during the period under review amounted to Lm82.0 million this year, against Lm120.8 million one year ago. During the first ten months of this year proceeds from sinking funds on converted loans amounted to Lm3.8 million, during the comparative period last year, 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. During the January-October 2005 period, resort to local loans amounted to Lm110.0 million as compared to Lm70.4 million during the same period last year. No resort was made to foreign loans in either of the comparative periods. Whilst no proceeds from disposal of Government shares were forthcoming last year, during the period under review this year, Government received Lm2.5 million.

The increase of Lm78.0 million in recurrent revenue for the first ten months of the year was brought about by higher revenue registered under Value Added Tax (+Lm25.6 million), Income Tax (+Lm8.5 million), Customs and Excise (+5.6 million), Fees of Office (+Lm19.8 million), Grants (+Lm26.0 million) and Miscellaneous Receipts (+Lm4.3 million). While on the other hand decreases were registered under the Central Bank of Malta (-Lm4.2 million), Licences, Taxes and Fines (-Lm8.2 million) and Rents (-Lm2.2 million).

When compared to the same period last year, recurrent expenditure (excluding Public Debt Servicing and repayment of loans) increased by Lm18.8 million, or 3.2 per cent, from Lm588.4 million to Lm604.2 million.

Personal emoluments to date amounted to Lm154.3 million, and made up 74.3 per cent of the budget forecast (Lm207.8 million), whilst the outlay for the same period last year totalled Lm156.2 million. These figures represent a decrease this year of Lm1.9 million.

Expenditure under the Operational and Maintenance Expenditure category amounted to Lm27.6 million during the reference period, as compared to Lm43.2 million for the comparative period last year. This represents a decrease of Lm15.6 million, or 36.1 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.

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

Expenditure under the Programmes and Initiatives category so far this year amounted to Lm360.2 million, which is equivalent to 80.9 per cent of this year's budget estimate for this category. Last year's outlay under this category amounted to Lm319.9 million. The increase of Lm40.3 million was mainly due to increases in Social Security Benefits (+Lm10.4 million), EU Own Resources (+Lm7.1 million), MGI/MIMCOL (+Lm3.0 million), Financing of Church Schools (+Lm1.5 million), Income Tax Refunds (+Lm1.0 million), Food Subsidies (+Lm2.8 million), Treasury Pensions (+Lm2.4 million) and due to reclassification, as explained above, Medicines and Surgical Supplies (+Lm15.4 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 the VAT rate. A timing variance in the withdrawal of the allocation in respect of local councils resulted in Lm2.5 million less being passed over during the first ten months.

Outlay under the Contribution to Government Entities category during the first ten months of 2005 declined by Lm3.8 million, and amounted to Lm61.7 million, down from last year's figure of Lm65.5 million. The main reasons for this were lower expenditure under MGI / MIMCOL (-Lm2.6 million) and Water Services Corporation (-Lm1.4 million).

The interest component of the public debt servicing costs this year increased by Lm5.3 million, from Lm59.1 million last year to Lm64.4 million in 2005, mainly due to in the public debt portfolio.

During the January-October period of 2005, Capital Expenditure amounted to Lm99.9 million, an increase of Lm15.2 million, or 17.9 per cent, when compared to Lm84.7 million expended last year. The main components of this increase were higher expenditure in the ministries for Finance (+Lm35.5 million) mainly due to reclassification of expenditure on Mater Dei Hospital project, Rural Affairs and the Environment (+Lm2.3 million), Office of the Prime Minister (+Lm3.0 million), Urban Development and Roads (+Lm9.9 million). On the other hand, lower expenditure was registered under Education, Youth and Employment (-Lm1.2 million), Health, Elderly and Community Care (-Lm22.8 million) mainly due to the reclassification mentioned above and Foreign Affairs (-Lm6.8 million).

The Central Government debt outstanding at the end of October reached Lm1,394.7 million, representing an increase of Lm48.7 million or 3.6 per cent on the Lm1,346.0 outstanding at the end of October 2004. This total includes the current balance (Lm25.3 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.

This issue also includes data on the total debt guaranteed by Government. The amount of Lm327.4 million represents the outstanding balances on Government Guaranteed debt as at the end of September 2005. The increase of Lm29.7 million in guaranteed debt since last June is mainly due to new guarantees issued in favour of Enemalta Corporation ■

Type of Expenditure	2004			2005		
	Jan - Oct		Jan - Dec	Jan - Oct		Jan - Dec
	Lm'000	% of final outturn	Actual Lm'000	Lm'000	% of budget estimates	Approved budget estimates Lm'000
Recurrent	585,435	79.89	732,846	604,173	79.35	761,404
Public Debt Servicing ^[2]	79,831	82.77	96,444	71,774	79.59	90,178
Capital	84,678	80.94	104,620	99,861	72.85	137,076
Total	749,944	80.30	933,909	775,808	78.47	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			Oct	Jan-Oct	Oct	Jan-Oct	Oct	Jan-Oct	Oct	Jan-Oct
GOVERNMENT FINANCE											
Total Revenue	770,957	873,487	921,875	57,233	581,836	64,335	665,184	70,181	687,746	80,908	802,770
<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	1,423	2,515
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	57,233	562,788	64,335	560,917	70,181	608,398	79,485	686,417
<i>of which:</i>											
Grants	2,721	2,517	30,310	9	1,182	15	2,130	6,228	22,172	7,878	48,202
Customs and Excise	59,813	61,576	62,309	4,408	48,545	5,807	50,749	5,893	48,313	6,795	53,948
Consumption Tax	117,503	123,910	141,570	13,665	96,884	13,246	99,310	15,064	112,637	16,666	138,192
Income Tax	190,175	205,218	211,177	16,079	141,620	16,502	141,503	14,092	147,986	16,793	156,526
Social Security	181,142	188,427	189,657	14,147	135,425	15,767	141,735	13,640	138,436	15,963	141,928
Others	168,449	157,573	178,004	8,925	139,132	12,998	125,490	15,264	138,854	15,390	147,620
Total Expenditure	819,324	857,405	933,909	63,979	661,242	68,485	707,077	95,511	749,944	77,464	775,808
<i>consisting of:</i>											
Recurrent Expenditure	645,995	677,655	732,846	52,986	523,970	57,483	556,879	67,274	585,435	60,722	604,173
<i>of which</i>											
Education	47,502	48,998	50,212	3,664	39,495	3,939	40,923	3,396	38,802	3,579	39,293
Social security (benefits)	190,749	200,922	207,458	17,132	158,920	18,042	168,300	17,719	173,280	20,020	183,706
Others	407,744	427,735	475,175	32,190	325,555	35,502	347,656	46,159	373,353	37,123	381,173
Public Debt Servicing	75,657	75,781	96,444	5,468	60,784	4,856	59,874	19,192	79,831	9,985	71,774
Capital Programme	97,672	103,969	104,620	5,525	76,488	6,146	90,324	9,045	84,678	6,757	99,861
<i>of which</i>											
Productive Investment	31,526	28,372	27,036	1,130	27,576	1,029	24,467	3,986	21,844	1,331	24,641
Infrastructure	27,391	34,095	41,693	1,790	23,490	3,708	27,320	3,188	30,378	4,122	37,011
Social	38,754	41,501	35,891	2,604	25,421	1,408	38,537	1,873	32,457	1,304	38,209
Gross Government Debt [1]	1,076,961	1,259,605	1,354,171	1,035,282	1,035,282	1,210,899	1,210,899	1,346,022	1,346,022	1,394,689	1,394,689 (*)
Government Guaranteed Debt	374,008	315,023	303,534	383,322	383,322	340,370	340,370	305,034	305,034	327,378	327,378

[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.

(*) Position as at 30th September

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 - October 2005

Description	Jan - Oct			Jan-Oct 2004/Jan-Oct 2005		Jan-Oct 2005
	2003	2004	2005	Absolute Change	% Change	% Dist.
Total Revenue	665,184	687,746	802,770	115,024	16.72	100.00
<i>consisting of:</i>						
Loans	102,129	70,448	110,000	39,552	N/A	13.70
Receipts from Sale of Shares	0	0	2,515	2,515	N/A	0.31
Other extraordinary receipts	2,137	8,899	3,837	-5,062	N/A	0.48
Recurrent Revenue	560,917	608,398	686,417	78,019	12.82	85.51
<i>of which:</i>						
Grants	2,130	22,172	48,202	26,030	117.40	6.00
Customs and Excise	50,749	48,313	53,948	5,634	11.66	6.72
Consumption Tax	99,310	112,637	138,192	25,555	22.69	17.21
Income Tax	141,503	147,986	156,526	8,541	5.77	19.50
Social Security	141,735	138,436	141,928	3,492	2.52	17.68
Others	125,490	138,854	147,620	8,767	6.31	18.39
Total Expenditure	707,077	749,944	775,808	25,864	3.45	100.00
<i>consisting of:</i>						
Recurrent Expenditure	556,879	585,435	604,173	18,737	3.20	77.88
<i>of which:</i>						
Education	40,923	38,802	39,293	491	1.27	5.06
Social security (benefits)	168,300	173,280	183,706	10,426	6.02	23.68
Others	347,656	373,353	381,173	7,820	2.09	49.13
Public Debt Servicing	59,874	79,831	71,774	-8,057	-10.09	9.25
<i>of which:</i>						
Contribution to Sinking Fund	5,743	6,340	6,003	-338	N/A	0.77
Interest Payments	53,679	59,072	64,369	5,297	8.97	8.30
Repayment of Loan	451	14,419	1,402	-13,017	0.00	0.23
Capital Programme	90,324	84,678	99,861	15,183	17.93	12.87
<i>of which:</i>						
Productive Investment	24,467	21,844	24,641	2,797	12.81	3.18
Infrastructure	27,320	30,378	37,011	6,633	21.83	4.77
Social	38,537	32,457	38,209	5,753	17.72	4.93
Structural Deficit [1]	-139,965	-120,788	-81,987	38,801	-32.12	
Gross Government Debt [2]	1,210,899	1,346,022	1,394,689	48,667	3.62	100.00
<i>of which:</i>						
Treasury Bills	254,000	265,453	180,141	-85,312	-32.14	12.92
Govt. Stock	882,963	985,196	1,124,988	139,792	14.19	80.66
Foreign Loans Outstanding	73,936	69,825	66,123	-3,702	-5.30	4.74
Other debt assumptions	-	27,427	25,316	-2,111	-7.70	1.82
MGSF investments in Government Debt	-	-1,879	-1,879	0	0.00	-0.13

[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 - October 1993 - 2005

(January - October 1995 = 100)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	January - October												
GOVERNMENT FINANCE													
Total Recurrent Revenue	89.60	94.28	100.00	106.26	117.24	122.66	138.43	150.79	159.07	170.03	169.46	183.81	207.38
<i>of which:</i>													
Customs and Excise	258.51	232.02	100.00	78.76	114.80	153.19	175.02	183.04	183.24	191.56	200.26	190.65	212.88
Consumption Tax	N/A	N/A	100.00	125.28	131.89	117.16	140.15	170.86	186.78	190.42	195.18	221.38	271.60
Income Tax	92.02	91.56	100.00	107.48	115.61	124.68	153.35	173.42	187.38	205.52	205.35	214.76	227.15
Social Security	85.47	90.17	100.00	105.61	124.56	118.03	124.96	141.60	152.27	153.40	160.54	156.81	160.76
Others	94.49	113.32	100.00	103.20	104.77	120.35	129.67	124.28	124.50	143.79	130.78	165.01	200.67
Total Expenditure	80.16	89.25	100.00	110.48	115.07	121.48	127.75	132.46	143.34	153.77	164.43	174.40	162.40
<i>consisting of:</i>													
Recurrent Expenditure	80.69	90.95	100.00	111.55	114.59	117.61	121.52	127.66	138.31	149.27	158.65	166.78	172.12
<i>of which</i>													
Education	102.09	105.15	100.00	95.82	100.06	102.72	109.09	111.98	130.16	132.35	137.14	130.03	131.68
Social security (benefits)	85.31	92.95	100.00	113.75	121.55	130.05	138.11	144.44	148.77	154.45	163.56	168.40	178.54
Others	75.58	88.06	100.00	112.66	113.29	113.78	115.40	121.89	134.49	149.14	159.27	171.04	174.62
Public Debt Servicing	75.37	94.69	100.00	125.61	167.58	250.40	281.52	298.54	314.91	337.44	332.39	443.18	398.46
Capital Programme	78.55	77.86	100.00	99.88	102.34	105.70	118.22	111.05	121.61	125.42	148.11	138.85	163.75
Productive Investment	72.36	72.90	100.00	70.75	52.73	68.26	97.70	66.75	70.74	65.30	57.94	51.72	58.35
Infrastructure	97.72	88.78	100.00	168.69	237.75	212.63	158.25	199.80	248.36	230.36	267.92	297.91	362.96
Social	86.26	89.30	100.00	161.67	185.78	163.02	171.79	223.86	221.58	297.05	450.31	379.25	446.48

Table 4. Revenue/Expenditure Heads

	2002	2003	2004	2005
	January - October			
	Lm '000s			
Revenue Heads				
Customs and Excise Duties	48,545	50,749	48,313	53,948
Licences, Taxes and Fines	71,323	71,106	81,289	73,079
Income Tax	141,620	141,503	147,986	156,526
Consumption Tax	96,884	99,310	112,637	138,192
Fees of Office	11,140	5,136	4,567	24,362
Reimbursements	5,124	3,940	6,435	6,266
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	25,682	24,783	18,233	14,001
Rents	7,343	8,851	10,039	7,850
Dividends on Investment	13,222	2,913	3,637	2,847
Repayment of and Interest on, Loans made by Government	32	67	16	314
Social Security	135,425	141,735	138,436	141,928
Grants	1,182	2,130	22,172	48,202
Miscellaneous Receipts	3,384	6,812	12,756	17,018
Total Recurrent Revenue	562,788	560,917	608,398	686,417
Extraordinary Receipts	19,048	2,137	8,899	6,353
Loans	0	102,129	70,448	110,000
Total Non-Ordinary Revenue	19,048	104,266	79,348	116,353
Total Revenue	581,836	665,184	687,746	802,770
Recurrent Expenditure Heads				
Personal Emoluments	162,966	162,410	156,236	154,320
Operational and Maintenance Expenditure	38,607	39,720	43,235	27,621
Special Expenditure	410	445	533	380
Programmes and Initiatives	269,148	292,676	319,899	360,165
Contribution to Government Entities	52,839	61,627	65,532	61,687
Total Recurrent Expenditure	523,970	556,879	585,435	604,173

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.