

# News Release



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## Government Finance

### Government Finance: January 2005

#### Commentary

As was done last year the National Statistics Office is presenting data covering the first month's revenue and expenditure for the Budgetary Central Government before the outturn for last year is confirmed.

Recurrent Revenue during January totalled Lm45.9 million, and made up 5.1 per cent of this year's budget forecast. Compared to the same period last year, this represents a decrease of Lm2.6 million, or 5.4 per cent. At the same time, total expenditure, excluding contributions to the sinking funds and direct loan repayments, amounted to Lm84.7 million, an increase of Lm16.3 million, or 23.8 per cent, from the Lm68.4 million expended in the same period in 2004. Actual expenditure for 2004 made up 7.7 per cent of that year's final outturn, as compared to the corresponding figure of 8.6 per cent this year.

The shortfall between recurrent revenue and total expenditure during the month under review amounted to Lm38.8 million this year, against Lm19.9 million one year ago. During January of this year, as well as in the corresponding month last year, there were no proceeds from sinking funds on converted loans, no contributions to the sinking funds, and no direct loan repayments.

Recurrent revenue during the first month of 2005 declined by Lm2.6 million when compared to the same month last year. This decline was mainly brought about by lower revenue registered under Income Tax (-Lm0.9 million), Social Security (-Lm0.8 million), Customs and Excise (-Lm1.8 million), Licences, Taxes and Fines (-Lm1.2 million), and Central Bank of Malta (-Lm4.0 million). On the other hand, increases over the comparative period in 2004 were registered mainly under VAT (+Lm1.6 million) and EU Grants (Lm3.4 million).

When compared to the same period last year, recurrent expenditure (excluding Public Debt Servicing) increased by Lm17.4 million, or 33.4 per cent. Recurrent expenditure for the period under review makes up 9.1 per cent of this year's budgetary provisions and 7.3 per cent of the estimated final outturn in 2004.

Personal emoluments to date amounted to Lm15.7 million, and made up 7.6 per cent of the budget forecast (Lm207.8 million), whilst the outlay for January 2004 totalled Lm15.0 million and made up 7.5 per cent of the final outturn. These figures represent an increase this year of Lm0.7 million, or 4.4 per cent, brought about mainly by annual increments and cost of living increases. Similar to 2004, this year all civil service employees are being paid every 4 weeks and not monthly.

Expenditure under the Operational and Maintenance Expenditure category amounted to Lm2.8 million during the reference month, as compared to Lm4.9 million for the comparative period last year. This represents a decrease of Lm2.2 million, or 43.9 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.

<sup>1</sup> Refer to Item 2, Methodological notes

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

Expenditure under the Programmes and Initiatives category so far this year amounted to Lm44.9 million, which is equivalent to 10.1 per cent of this year's budget estimate for this category. Last year's outlay under this category amounted to Lm25.9 million and represented 6.7 per cent of the final outturn. The increase of Lm19.0 million was mainly due to increases in Social Security Benefits (+Lm7.8 million) as a result of the timing of payments on certain benefits in respect of which two payments were made in January 2005, compared to a single payment made in January 2004. Financing of Church Schools this year increased by Lm1.7 million while expenditures on Medicines and Surgical Supplies (+Lm1.1 million) have from this year been reclassified within this category. A payment of Lm4.7 million in respect of EU Own Resources was made during January 2005.

Outlay under the Contribution to Government Entities category during the first month of 2005 declined by Lm0.1 million, and amounted to Lm6.1 million.

The interest component of the public debt servicing costs this year decreased by Lm1.1 million, from Lm7.0 million last year to Lm5.9 million in 2005, resulting from lower interest payments made on both local stocks (-Lm0.8 million) and on Treasury Bills (-Lm0.3 million).

No variance was registered under Capital Expenditure when comparing January 2004 to January 2005, with the figure amounting to Lm9.4 million.

The Central Government debt outstanding at the end of January reached Lm1,342.9 million, representing an increase of Lm143.4 million or 12.0 per cent on the Lm1,199.5 outstanding at the end of January 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 being deducted from the total outstanding balance■

**Revenue and Expenditure: January 2001-2005**

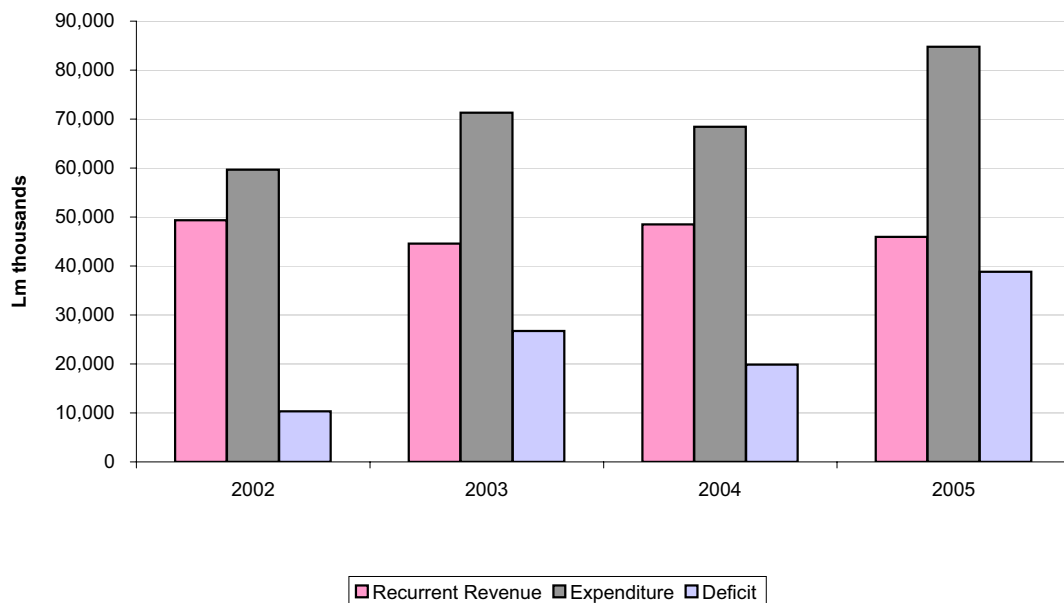


Table 1. Comparative Government Finance Data: January 2002-2005

Description	January				Jan 2005/Jan 2004		Jan 2005
	2002	2003	2004	2005	Absolute Change	% Change	% Dist.
					Lm thousands		
<b>Total Revenue</b>	<b>49,336</b>	<b>44,545</b>	<b>48,527</b>	<b>45,919</b>	<b>-2,608</b>	<b>-5.37</b>	<b>100.00</b>
<i>consisting of:</i>							
Loans	0	0	0	0	0	N/A	0.00
Receipts from Sale of Shares	0	0	0	0	0	N/A	0.00
Other extraordinary receipts	0	0	0	0	0	N/A	0.00
Recurrent Revenue	49,336	44,545	48,527	45,919	-2,608	-5.37	100.00
<i>of which:</i>							
Grants	25	282	319	3,730	3,411	1070.77	8.12
Customs and Excise	4,593	4,229	4,754	2,915	-1,840	-38.69	6.35
Consumption Tax	9,661	9,856	10,319	11,869	1,550	15.02	25.85
Income Tax	8,630	5,015	7,184	6,332	-852	-11.86	13.79
Social Security	7,943	7,714	6,505	5,704	-800	-12.31	12.42
Others	18,484	17,449	19,446	15,368	-4,078	-20.97	33.47
<b>Total Expenditure</b>	<b>59,675</b>	<b>71,300</b>	<b>68,413</b>	<b>84,671</b>	<b>16,257</b>	<b>23.76</b>	<b>100.00</b>
<i>consisting of:</i>							
Recurrent Expenditure	47,529	52,633	52,039	69,416	17,377	33.39	81.98
<i>of which:</i>							
Education	3,987	4,304	3,970	3,554	-416	-10.48	4.20
Social security (benefits)	16,596	17,873	17,867	25,646	7,778	43.53	30.29
Others	26,946	30,456	30,202	40,216	10,014	33.16	47.50
Public Debt Servicing	9,010	6,385	6,985	5,882	-1,103	-15.80	6.95
<i>of which:</i>							
Contribution to Sinking Fund	0	0	0	0	0	N/A	0.00
Interest Payments	9,010	6,385	6,985	5,882	-1,103	-15.80	6.95
Repayment of Loan	0	0	0	0	0	N/A	0.00
Capital Programme	3,136	12,282	9,389	9,373	-16	-0.17	11.07
<i>of which:</i>							
Productive Investment	1,740	1,703	1,762	2,929	1,166	66.18	3.46
Infrastructure	1,128	2,774	1,045	3,336	2,290	219.04	3.94
Social	268	7,805	6,581	3,109	-3,472	-52.76	3.67
Shortfall [1]	-10,339	-26,755	-19,887	-38,752	-18,866	94.87	
<b>Gross Government Debt [2]</b>	<b>1,018,833</b>	<b>1,091,656</b>	<b>1,199,483</b>	<b>1,342,884</b>	<b>143,401</b>	<b>11.96</b>	<b>100.00</b>
<i>of which:</i>							
Treasury Bills	165,505	233,831	214,286	234,316	20,030	9.35	17.45
Govt. Stock	812,854	813,030	913,029	1,014,696	101,667	11.14	75.56
Foreign Loans Outstanding	40,474	44,795	72,168	68,323	-3,845	-5.33	5.09
Other debt assumptions	-	-	41,846	27,427	-14,419	-34.46	2.04
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, and Foreign Borrowing.

Data for the last three months 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 2. Revenue/Expenditure Heads: January 2002-2005

	2002	2003	2004	2005
	January			
	Lm thousands			
<b>Revenue Heads</b>				
Customs and Excise Duties	4,593	4,229	4,754	2,915
Licences, Taxes and Fines	6,544	5,553	7,575	6,416
Income Tax	8,630	5,015	7,184	6,332
Consumption Tax	9,661	9,856	10,319	11,869
Fees of Office	480	425	444	835
Reimbursements	357	513	276	322
Public Corporations	0	0	0	0
Central Bank of Malta	10,000	10,000	10,000	6,000
Rents	896	816	868	751
Dividends on Investment	0	0	0	0
Repayment of and Interest on Loans made by Government	7	2	0	1
Social Security	7,943	7,714	6,505	5,704
Grants	25	282	319	3,730
Miscellaneous Receipts	198	141	283	1,042
<b>Total Recurrent Revenue</b>	<b>49,336</b>	<b>44,545</b>	<b>48,527</b>	<b>45,919</b>
Extraordinary Receipts	0	0	0	0
Loans	0	0	0	0
<b>Total Non-Recurrent Revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Revenue</b>	<b>49,336</b>	<b>44,545</b>	<b>48,527</b>	<b>45,919</b>
<b>Recurrent Expenditure Heads</b>				
Personal Emoluments	15,572	15,782	15,011	15,669
Operational and Maintenance Expenditure	3,234	5,826	4,933	2,768
Special Expenditure	22	58	20	38
Programmes and Initiatives	25,096	27,266	25,873	44,861
Contribution to Government Entities	3,605	3,701	6,203	6,080
<b>Total Recurrent Expenditure</b>	<b>47,529</b>	<b>52,633</b>	<b>52,039</b>	<b>69,416</b>

Source: The Treasury, Budget Office

## 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 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.