

# News Release



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## Government Finance

### Government Finance: February 2005

#### Commentary

Recurrent Revenue during February totalled Lm97.9 million, and made up 10.9 per cent of this year's budget forecast. Compared to the same period last year, this represents a decrease of Lm3.0 million, or 3.0 per cent. At the same time, total expenditure, excluding contributions to the sinking funds and direct loan repayments, amounted to Lm144.5 million, an increase of Lm12.4 million, or 9.4 per cent, from the Lm132.0 million expended in the same period in 2004.

The shortfall between recurrent revenue and total expenditure during the month under review amounted to Lm46.5 million this year, against Lm31.2 million one year ago. During February 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.

The decline of Lm3.0 million in recurrent revenue for the first two months of the year was brought about by lower revenue registered under Income Tax (-Lm2.7 million), Social Security Contributions (-Lm0.8 million), Customs and Excise (-Lm3.3 million) and Licences, Taxes and Fines (-Lm8.2 million). On the other hand, increases over the comparative period in 2004 were registered mainly under EU Grants (+Lm9.2 million) and Miscellaneous Receipts (+Lm1.4 million).

When compared to the same period last year, recurrent expenditure (excluding Public Debt Servicing) increased by Lm13.7 million, or 13.1 per cent. Recurrent expenditure for the period under review makes up 15.5 per cent of this year's budget estimates.

Personal emoluments to date amounted to Lm29.8 million, and made up 14.3 per cent of the budget forecast (Lm207.8 million), whilst the outlay for 2004 totalled Lm29.7 million. These figures represent an increase this year of Lm0.1 million, or 0.2 per cent, brought about mainly by annual increments and cost of living increases. Similar to 2004, all civil service employees are this year being paid every 4 weeks and not monthly.

Expenditure under the Operational and Maintenance Expenditure category amounted to Lm6.3 million during the reference month, as compared to Lm11.4 million for the comparative period last year. This represents a decrease of Lm5.1 million, or 45.0 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 Lm71.5 million, which is equivalent to 16.1 per cent of this year's budget estimate for this category. Last year's outlay under this category amounted to Lm50.2 million. The increase of Lm21.2 million was mainly due to increases in Social Security Benefits (+Lm8.8 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, EU Own Resources (Lm6.4 million) in respect of which there was no payment during the comparative 2004 period, Solid Waste Management (+Lm0.7 million) and, due to reclassification, as explained above, Medicines and Surgical Supplies (+Lm2.1 million).

Outlay under the Contribution to Government Entities category during the first two months of 2005 declined by Lm2.5 million, and amounted to Lm10.6 million, down from last year's figure of Lm13.1 million. The main reasons for this were lower expenditure under MGI / MIMCOL (-Lm1.3 million), Water Services Corporation, including the Drainage Directorate (-Lm1.1 million), Industrial Projects and Services Ltd (-Lm0.5 million), whilst an increase was registered in the funds passed on to the Malta Shipyards (+Lm0.5 million).

The interest component of the public debt servicing costs this year increased by Lm1.5 million, from Lm11.0 million to Lm12.6 million, resulting from higher interest payments made on local stocks (+Lm1.4 million).

During the first two months of 2005, Capital Expenditure amounted to Lm13.7 million, a decrease of Lm2.8 million, or 17.0 per cent, when compared to Lm16.5 million last year. The main components of this decline were the decrease in expenditure on the Mater Dei Hospital (-Lm5.3 million) and the Malta Tourism Authority (-Lm1.2 million), which were partly offset by increases under the Ministry of Justice and Home Affairs (+Lm2.8 million).

The Central Government debt outstanding at the end of February reached Lm1,366.5 million, representing an increase of Lm110.9 million or 8.8 per cent on the Lm1,255.6 outstanding at the end of February 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. Moreover the Sinking Fund investments in Government debt (Lm1.9 million) are being deducted from the total outstanding balance■

**Revenue and Expenditure: February 2002-2005**

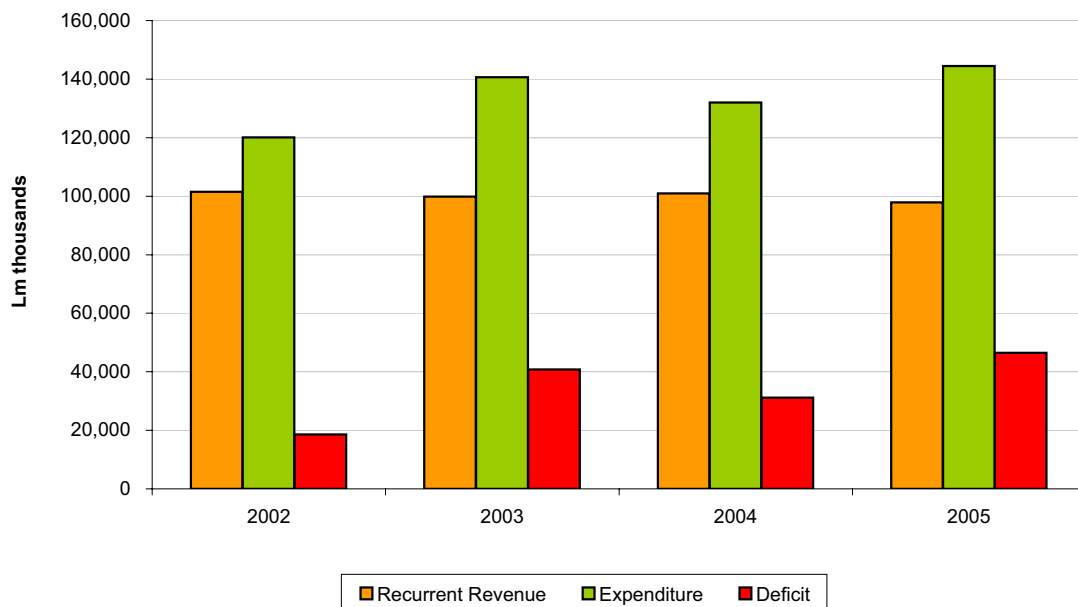


Table 1. Comparative Government Finance Data: February 2002-2005

Description	February				Feb 2005/Feb 2004	Feb 2005	
	2002	2003	2004	2005	Absolute Change	% Change	% Dist.
					Lm thousands		
<b>Total Revenue</b>	<b>101,448</b>	<b>123,960</b>	<b>100,890</b>	<b>97,912</b>	<b>-2,978</b>	<b>-2.95</b>	<b>100.00</b>
<i>consisting of:</i>							
Loans	0	24,126	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	101,448	99,834	100,890	97,912	-2,978	-2.95	100.00
<i>of which:</i>							
Grants	30	287	319	9,518	9,199	2887.36	9.72
Customs and Excise	8,404	8,897	9,501	6,180	-3,321	-34.95	6.31
Consumption Tax	18,386	18,228	22,186	22,255	68	0.31	22.73
Income Tax	16,655	15,291	16,589	13,892	-2,697	-16.26	14.19
Social Security	19,185	20,224	17,789	16,955	-834	-4.69	17.32
Others	38,788	36,907	34,507	29,113	-5,394	-15.63	29.73
<b>Total Expenditure</b>	<b>120,063</b>	<b>140,670</b>	<b>132,044</b>	<b>144,444</b>	<b>12,400</b>	<b>9.39</b>	<b>100.00</b>
<i>consisting of:</i>							
Recurrent Expenditure	96,042	107,835	104,505	118,155	13,650	13.06	81.80
<i>of which:</i>							
Education	8,687	9,324	8,920	8,454	-467	-5.23	5.85
Social security (benefits)	28,988	31,441	31,736	40,558	8,822	27.80	28.08
Others	58,367	67,069	63,848	69,143	5,295	8.29	47.87
Public Debt Servicing	12,797	10,928	11,013	12,559	1,546	14.04	8.69
<i>of which:</i>							
Contribution to Sinking Fund	7	0	0	0	0	N/A	0.00
Interest Payments	12,790	10,928	11,013	12,559	1,546	14.04	8.69
Repayment of Loan	0	0	0	0	0	N/A	0.00
Capital Programme	11,223	21,907	16,526	13,730	-2,796	-16.92	9.51
<i>of which:</i>							
Productive Investment	5,255	4,602	4,679	3,491	-1,189	-25.40	2.42
Infrastructure	3,185	6,200	1,935	5,194	3,259	168.46	3.60
Social	2,784	11,105	9,912	5,045	-4,867	-49.10	3.49
Shortfall [1]	-18,607	-40,836	-31,154	-46,533	-15,379	49.36	
<b>Gross Government Debt [2]</b>	<b>1,040,264</b>	<b>1,120,452</b>	<b>1,255,594</b>	<b>1,366,507</b>	<b>110,913</b>	<b>8.83</b>	<b>100.00</b>
<i>of which:</i>							
Treasury Bills	187,491	235,331	229,100	258,113	29,013	12.66	18.89
Govt. Stock	812,854	839,962	913,029	1,014,696	101,667	11.14	74.25
Foreign Loans Outstanding	39,919	45,159	71,791	68,149	-3,642	-5.07	4.99
Other debt assumptions	-	-	41,846	27,427	-14,419	-34.46	2.01
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: February 2002-2005

	2002	2003	2004	2005
	February			
	Lm thousands			
<b>Revenue Heads</b>				
Customs and Excise Duties	8,404	8,897	9,501	6,180
Licences, Taxes and Fines	13,882	13,644	19,350	11,181
Income Tax	16,655	15,291	16,589	13,892
Consumption Tax	18,386	18,228	22,186	22,255
Fees of Office	1,103	872	866	1,821
Reimbursements	1,095	866	775	695
Public Corporations	0	0	0	0
Central Bank of Malta	20,000	17,000	10,000	11,000
Rents	2,206	2,011	2,982	2,520
Dividends on Investment	0	141	0	0
Repayment of and Interest on Loans made by Government	12	3	2	1
Social Security	19,185	20,224	17,789	16,955
Grants	30	287	319	9,518
Miscellaneous Receipts	490	2,370	532	1,895
<b>Total Recurrent Revenue</b>	<b>101,448</b>	<b>99,834</b>	<b>100,890</b>	<b>97,912</b>
Extraordinary Receipts	0	0	0	0
Loans	0	24,126	0	0
<b>Total Non-Recurrent Revenue</b>	<b>0</b>	<b>24,126</b>	<b>0</b>	<b>0</b>
<b>Total Revenue</b>	<b>101,448</b>	<b>123,960</b>	<b>100,890</b>	<b>97,912</b>
<b>Recurrent Expenditure Heads</b>				
Personal Emoluments	31,377	31,487	29,727	29,778
Operational and Maintenance Expenditure	8,917	12,533	11,378	6,255
Special Expenditure	45	142	88	69
Programmes and Initiatives	47,023	52,785	50,242	71,460
Contribution to Government Entities	8,681	10,888	13,069	10,593
<b>Total Recurrent Expenditure</b>	<b>96,043</b>	<b>107,835</b>	<b>104,505</b>	<b>118,155</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.