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Government Finance

January-June 2006

Recurrent revenue up till the end of June 2006 amounted to Lm389.9 million, and made up 41.0 per cent of this year's budget forecast. Compared to the first six months of 2005, this revenue represented an increase of Lm13.8 million, or 3.7 per cent. The recurrent revenue for the same period in 2005 amounted to Lm376.1 million, which accounted for 42.0 per cent of the actual final outturn. At the same time, total expenditure, excluding sinking funds contributions and direct loan repayments, amounted to Lm463.9 million, a decrease of Lm7.0 million, or 1.5 per cent, from the Lm470.9 million expended in the same period in 2005. The total expenditure¹ for the January to June period amounted to 46.1 per cent of the approved 2006 estimate. Total expenditure for the same period in 2005 made up 48.5 per cent of the actual total expenditure for the year.

The shortfall between recurrent revenue and total expenditure during the period under review amounted to Lm74.0 million this year, compared to a shortfall of Lm94.8 million one year ago.

During the first six months of 2006, there were no proceeds from sinking funds on converted loans, whilst in the same period 2005, proceeds from this source amounted to Lm3.8 million. Loan repayments between January and June 2006 amounted to Lm0.06 million; and there were no such repayments in 2005. Contributions to the sinking funds amounted to Lm6.4 million and Lm6.0 million respectively for the 2006 and 2005 comparative periods. During the first six months of this year local loans amounting to Lm25.0 million were taken up, whilst during the same period last year Lm76.5 million loans were taken up. There was no resort to foreign borrowing in either of the comparative periods. Proceeds from disposal of shares owned by Government this year amounted to Lm74.2 million.

The increase of Lm13.8 million in recurrent revenue during the first half of 2006, when compared to the same period one year earlier, was reported mainly under Income Tax (+Lm4.1 million), Social Security Contributions (+Lm5.0 million), Customs and Excise (+Lm4.7 million), Licences, Taxes and fines (+Lm4.1 million), Value Added Tax (+Lm4.1 million), and Dividends on Investment (+Lm1.6 million). A relative decline in revenue was recorded under Central Bank of Malta (-Lm4.0 million), Grants (-Lm3.0 million), and Miscellaneous Receipts (-Lm2.8 million).

Recurrent expenditure (excluding Public Debt Servicing) during the first six months of 2006 amounted to Lm372.6 million, an increase of Lm5.6 million, or 1.5 per cent on the Lm367.0 million expended during the same period in 2005. Recurrent expenditure for the periods under review makes up 47.7 per cent of the budgetary estimates for 2006, whilst the 2005 figure corresponds to 47.9 per cent of the actual final outturn for that year.

^[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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In the 2006 Financial Estimates, the Special Expenditure category has been incorporated into the Operational and Maintenance category, so all comparisons under the latter category for both years include the corresponding figures of the items previously featuring under the Special Expenditure category.

Expenditure under the Operational and Maintenance category amounted to Lm18.9 million between January and June 2006, compared to Lm18.4 million for the same period last year. These figures represent a reduction of Lm0.6 million.

Expenditure under the Programmes and Initiatives category during the first half of this year amounted to Lm224.6 million and stood at 47.8 per cent of this year's budget estimates, while last year's outlay under this category amounted to Lm217.0 million. The relative increase this year amounts to Lm7.6 million, or 3.5 per cent. The items contributing to this increase were higher payments under Retirement Pensions (+Lm4.8 million), Widows Pensions (+Lm0.8 million), Social Security State Contribution (+Lm1.6 million), Film Industry Incentives (+Lm0.6 million), Influenza Combating Programme (+Lm0.6 million), Medicines and Surgical Materials (+2.4 million), Welfare Committee (+Lm1.3 million), and CHOGM (+Lm0.6 million), and Streets and Road Lighting (+Lm2.9 million). On the other hand, lower payments were registered under EU Own Resources (-Lm1.9 million), Agriculture Support Scheme (Lm1.0 million), MIMCOL/MGI Debt Servicing (-Lm2.0 million), Repayment of Income Tax (-Lm1.2 million), and Guaranteed Earnings Agreement (-Lm0.6 million).

Outlay under the Contributions to Government Entities category during the first six months of 2006 declined by Lm3.5 million, and amounted to Lm34.9 million. The main reasons for the net decrease under this category were less funds passed on to the Water Services Corporation (-Lm2.6 million) and to Malta shipyards (-Lm0.6 million).

The interest component of the public debt servicing costs for the January – June period this year increased by Lm2.1 million, from Lm37.2 million last year to Lm39.3 million in 2006, mainly due to an increase in interest payments on Malta Government Stocks (+Lm3.3 million), coupled by lower payments under Treasury Bills (-Lm1.2 million).

During the January to June 2006 period, Capital Expenditure amounted to Lm52.0 million, registering a decrease of Lm14.6 million, or 22.0 per cent, when compared to the outlay of Lm66.6 million for January – June 2005. Lower expenditures were reported under the Office of the Prime Minister (-Lm1.4 million), and under the sectors of Justice and Home Affairs (-Lm2.7 million), Finance (-Lm4.8 million), Tourism and Culture (-Lm1.7 million), Rural Affairs and the Environment (-Lm1.0 million), and Urban Development and Roads (-Lm3.0 million).

The Central Government debt outstanding at the end of June amounted to Lm1,358.4 million, a decrease of Lm40.1 million or 2.9 per cent on the Lm1,398.5 million outstanding at the end of June 2005. This total includes the current balance (Lm24.8 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	2005			2006		
	Jan-Jun		Jan-Dec	Jan-Jun		Jan-Dec
	Lm'000	% of final outturn	Actual Lm'000	Lm'000	% of budget estimates	Approved budget estimates Lm'000
Recurrent	367,024	47.92	765,974	372,599	47.65	781,901
Public Debt Servicing ^[2]	43,215	48.78	88,584	45,761	52.20	87,662
Capital	66,644	50.88	130,994	52,006	35.00	148,602
Total	476,883	48.39	985,552	470,366	46.20	1,018,165

^[2] Inclusive of contribution to the Sinking Funds and direct repayment of loans.

Table 1. Government Finance Data

	Lm thousands										
	2003	2004	2005	2003		2004		2005		2006	
	Jan-Dec			Jun	Jan-Jun	Jun	Jan-Jun	Jun	Jan-Jun	Jun	Jan-Jun
GOVERNMENT FINANCE											
Total Revenue	873,487	921,875	1,032,046	58,572	378,798	50,342	385,066	71,808	456,402	67,205	489,036
<i>consisting of:</i>											
Loans	132,129	99,948	110,000	2,807	59,129	0	46,300	0	76,500	0	25,000
Receipts from sale of Shares	0	0	21,791	0	0	0	0	0	0	0	74,170
Other Extraordinary Receipts	2,137	8,899	3,837	713	713	0	2,915	0	3,837	0	0
Recurrent Revenue	739,221	813,027	896,418	55,052	318,956	50,342	335,851	71,808	376,064	67,205	389,866
<i>of which:</i>											
Grants	2,517	30,310	66,955	143	1,523	3,098	6,806	3,893	27,178	3,778	24,129
Customs and Excise	61,576	62,309	65,670	5,297	28,755	3,155	26,361	5,259	28,287	6,500	32,942
Consumption Tax	123,910	141,570	168,331	8,160	55,897	5,885	63,607	15,656	76,753	14,603	80,842
Income Tax	205,218	211,177	221,760	16,943	72,284	15,678	77,466	18,240	77,381	14,061	81,434
Social Security	188,427	189,657	195,587	15,687	79,411	13,476	77,799	14,843	76,868	15,884	81,860
Others	157,573	178,004	178,115	8,822	81,087	9,050	83,813	13,916	89,596	12,379	88,659
Total Expenditure	857,405	933,909	985,552	69,913	438,836	68,375	439,633	73,523	476,883	77,812	470,366
<i>consisting of:</i>											
Recurrent Expenditure	677,655	732,846	765,974	55,652	341,952	51,552	349,257	55,213	367,024	59,105	372,599
<i>of which</i>											
Education	48,998	50,212	50,918	4,484	25,738	3,917	24,618	4,100	24,543	4,189	25,429
Social security (benefits)	200,922	207,458	220,830	20,194	103,494	15,396	106,097	16,623	112,733	17,305	119,260
Others	427,735	475,175	494,226	30,974	212,720	32,239	218,542	34,489	229,747	37,611	227,909
Public Debt Servicing	75,781	96,444	88,584	9,272	37,887	10,196	41,895	4,346	43,215	4,119	45,761
Capital Programme	103,969	104,620	130,994	4,989	58,997	6,627	48,481	13,964	66,644	14,588	52,006
<i>of which</i>											
Productive Investment	28,372	27,036	29,177	2,173	15,770	838	11,164	6,176	18,838	6,592	15,524
Infrastructure	34,095	41,693	49,587	2,375	16,907	2,602	14,368	2,579	20,322	3,368	13,934
Social	41,501	35,891	52,230	441	26,320	3,188	22,950	5,209	27,484	4,627	22,548
Gross Government Debt ^[1]	1,259,605	1,353,404	1,403,787	1,187,096	1,187,096	1,333,018	1,333,018	1,398,479	1,398,479	1,358,356	1,358,356

[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-June 2006

Description	Jan - Jun			Jan-Jun 2005/Jan-Jun 2006		Jan-Jun 2006
	2004	2005	2006	Absolute Change	% Change	% Dist.
	Lm '000s					
Total Revenue	385,066	456,402	489,036	32,635	7.15	100.00
<i>consisting of:</i>						
Loans	46,300	76,500	25,000	-51,500	-67.32	5.11
Receipts from Sale of Shares	0	0	74,170	74,170	N/A	15.17
Other extraordinary receipts	2,915	3,837	0	-3,837	-100.00	0.00
Recurrent Revenue	335,851	376,064	389,866	13,802	3.67	79.72
<i>of which:</i>						
Grants	6,806	27,178	24,129	-3,049	-11.22	4.93
Customs and Excise	26,361	28,287	32,942	4,655	16.46	6.74
Consumption Tax	63,607	76,753	80,842	4,089	5.33	16.53
Income Tax	77,466	77,381	81,434	4,052	5.24	16.65
Social Security	77,799	76,868	81,860	4,992	6.49	16.74
Others	83,813	89,596	88,659	-938	-1.05	18.13
Total Expenditure	439,633	476,883	470,366	-6,517	-1.37	100.00
<i>consisting of:</i>						
Recurrent Expenditure	349,257	367,024	372,599	5,575	1.52	79.21
<i>of which:</i>						
Education	24,618	24,543	25,429	886	3.61	6.82
Social Security (benefits)	106,097	112,733	119,260	6,527	5.79	32.01
Others	218,542	229,747	227,909	-1,838	-0.80	61.17
Public Debt Servicing	41,895	43,215	45,761	2,545	5.89	9.73
<i>of which:</i>						
Contribution to Sinking Fund	6,340	6,003	6,406	404	6.73	14.00
Interest Payments	35,555	37,213	39,289	2,076	5.58	85.86
Repayment of Loan	0	0	65	65	N/A	0.14
Capital Programme	48,481	66,644	52,006	-14,638	-21.96	11.06
<i>of which:</i>						
Productive Investment	11,164	18,838	15,524	-3,314	-17.59	29.85
Infrastructure	14,368	20,322	13,934	-6,387	-31.43	26.79
Social	22,950	27,484	22,548	-4,936	-17.96	43.36
Structural Deficit (-) / Surplus (+) ^[1]	-97,442	-94,816	-74,028	20,788	-21.92	
Gross Government Debt ^[2]	1,333,018	1,398,479	1,358,356	-40,123	-2.87	100.00
<i>of which:</i>						
Treasury Bills	259,834	215,307	121,304	-94,003	-43.66	8.93
Govt. Stock	961,048	1,091,488	1,150,333	58,845	5.39	84.69
Foreign Loans Outstanding	70,462	66,902	63,788	-3,114	-4.65	4.70
Other dept assumptions	41846	26,661	24,810	-1,851	-6.94	1.83
MGSF investments in Government Debt	-172	-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.

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

The Treasury (Government Revenue and Expenditure data)

Table 3. Government Revenue and Expenditure

January-June 1994-2006

(January-June 2005 = 100)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	January-June												
GOVERNMENT FINANCE													
Total Recurrent Revenue	50.12	52.55	58.05	57.98	63.86	69.32	79.87	81.94	84.73	84.81	89.31	100.00	103.67
<i>of which:</i>													
Customs and Excise	121.75	50.26	38.25	48.84	81.10	89.45	96.51	89.18	97.13	101.65	93.19	100.00	116.46
Consumption Tax	N/A	33.52	41.12	50.81	46.71	52.30	65.25	72.65	73.53	72.83	82.87	100.00	105.33
Income Tax	42.83	48.97	59.02	48.80	60.33	58.99	83.29	88.16	91.19	93.41	100.11	100.00	105.24
Social Security	59.60	64.99	74.98	76.35	77.84	81.63	92.40	99.85	99.15	103.31	101.21	100.00	106.49
Others	64.30	59.80	62.20	58.91	64.09	74.36	74.93	70.39	75.31	70.74	77.60	100.00	96.59
Total Expenditure	48.74	53.37	58.33	59.08	60.71	67.16	69.98	77.31	84.45	92.02	92.19	100.00	98.63
<i>consisting of:</i>													
Recurrent Expenditure	52.81	57.06	62.82	64.56	65.29	68.71	72.80	78.00	85.99	93.17	95.16	100.00	101.52
<i>of which</i>													
Education	83.82	75.88	71.89	80.92	78.54	84.29	86.15	97.49	101.08	104.87	100.30	100.00	103.61
Social security (benefits)	52.24	52.43	58.43	62.54	71.49	71.84	76.67	81.05	83.72	91.80	94.11	100.00	105.79
Others	49.78	57.33	64.00	63.80	60.83	65.50	69.47	74.42	85.49	92.59	95.12	100.00	99.20
Public Debt Servicing	24.11	21.83	25.20	35.67	53.48	61.89	65.25	83.09	89.14	87.67	96.94	100.00	105.89
Capital Programme	42.28	53.49	55.09	44.04	40.21	62.03	57.53	69.80	72.94	88.53	72.75	100.00	78.04
Productive Investment	99.78	133.05	106.35	56.22	52.78	114.08	90.87	103.36	95.68	83.72	59.27	100.00	82.41
Infrastructure	24.81	27.48	40.63	55.86	50.55	67.47	53.03	84.54	67.87	83.20	70.70	100.00	68.57
Social	15.80	18.18	30.64	26.97	23.94	22.34	38.00	35.91	61.12	95.76	83.50	100.00	82.04

Table 4. Revenue/Expenditure Heads (cumulative)

	2003	2004	2005	2006
	January-June			
	Lm '000s			
Revenue Heads				
Customs and Excise Duties	28,755	26,361	28,287	32,942
Licences, Taxes and Fines	38,749	47,790	43,187	47,272
Income Tax	72,284	77,466	77,381	81,434
Consumption Tax	55,897	63,607	76,753	80,842
Fees of Office	2,701	2,776	9,552	8,495
Reimbursements	2,377	2,522	3,210	4,762
Public Corporations	1,883	1,883	1,883	1,883
Central Bank of Malta	24,783	18,233	14,001	10,001
Rents	5,610	4,658	5,391	5,078
Dividends on Investment	1,997	2,884	2,077	3,703
Repayment of and Interest on, Loans made by Government	10	10	10	6
Social Security	79,411	77,799	76,868	81,860
Grants	1,523	6,806	27,178	24,129
Miscellaneous Receipts	2,978	3,058	10,286	7,459
Total Recurrent Revenue	318,956	335,851	376,064	389,866
Extraordinary Receipts	713	2,915	3,837	74,170
Loans	59,129	46,300	76,500	25,000
Total Non-Ordinary Revenue	59,842	49,215	80,337	99,170
Total Revenue	378,798	385,066	456,402	489,036
Recurrent Expenditure Heads				
Personal Emoluments	98,483	92,988	93,221	94,177
Operational and Maintenance Expenditure	28,431	28,486	18,139	18,921
Special Expenditure	264	343	229	0
Programmes and Initiatives	176,625	187,451	217,028	224,610
Contribution to Government Entities	38,147	39,988	38,407	34,891
Total Recurrent Expenditure	341,952	349,257	367,024	372,599

Source: The Treasury

Note: Figures may not add up due to rounding

Table 5. Revenue/Expenditure Heads (monthly)

	2003	2004	2005	2006
	June			
	Lm '000s			
Revenue Heads				
Customs and Excise Duties	5,297	3,155	5,259	6,500
Licences, Taxes and Fines	5,926	7,174	9,215	8,438
Income Tax	16,944	15,678	18,240	14,061
Consumption Tax	8,159	5,885	15,656	14,603
Fees of Office	391	449	3,468	2,129
Reimbursements	564	331	405	1,064
Public Corporations	0	0	0	0
Central Bank of Malta	0	0	0	0
Rents	753	301	563	449
Dividends on Investment	973	0	0	55
Repayment of and Interest on, Loans made by Government	0	0	0	0
	2	2	2	1
Social Security	15,686	13,476	14,843	15,884
Grants	143	3,097	3,893	3,778
Miscellaneous Receipts	214	794	264	241
Total Recurrent Revenue	55,052	50,342	71,808	67,205
Extraordinary Receipts	713	0	0	0
Loans	2,807	0	0	0
Total Non-Ordinary Revenue	3,520	0	0	0
Total Revenue	58,572	50,342	71,808	67,205
Recurrent Expenditure Heads				
Personal Emoluments	17,659	16,370	16,534	16,389
Operational and Maintenance Expenditure	3,081	3,731	2,143	2,952
Special Expenditure	40	27	32	0
Programmes and Initiatives	30,679	26,871	30,973	35,657
Contribution to Government Entities	4,191	4,552	5,530	4,106
Total Recurrent Expenditure	55,651	51,552	55,213	59,105

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 and the Treasury.

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 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 2005. 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 Tables 4 and 5. 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.

The examples indicated in the definitions are presented for explanatory purposes only, and the list is 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.