Malta:
Annual Report 2015

In line with Article 41 of the Fiscal Responsibility Act

Ministry for Finance

June 2016

Contents

1. Introduction

The Annual Report is in line with Article 41 of the Fiscal Responsibility Act, and is the second report since the enactment of the Fiscal Responsibility Act in August 2014.

In line with Article 41(2), the Annual Report provides information on the execution of the Budget for 2015 and compares the outcomes with the strategic objectives and priorities outlined in the fiscal strategy and the fiscal targets as announced in the Budget for 2015. It analyses how the Government has respected the principles and rules stipulated in the Fiscal Responsibility Act. It shows how the fiscal and budgetary policies in the completed budget year are in line with the medium-term objective stipulated in the fiscal strategy. It also provides explanations regarding any deviations from the Government's medium-term objectives and how these are to be addressed and explain the outcome of the budget in the context of the Government's European commitments, in particular the terms of the Stability and Growth Pact.

The Annex of this report also includes the final execution data for the indicators provided in the Medium Term Fiscal Plan.

2. Meeting 2015 Budgetary Estimates

This section provides information on the execution of the 2015 Budget as announced on the 17th of November 2014. It also compares the 2015 outcome with the strategic objectives and priorities of the fiscal strategy and targets as announced in the 2015 Budget.

The cash-based position in this section relates to the Central Government's Consolidated Fund. All allocations provided from the Consolidated Fund are either authorised by the House of Representatives under an Appropriation Act, or are permanently appropriated by the House under other relevant legislation.

The revenue and expenditure figures presented in this Section are based on actual cash transactions, and are not normally subject to revision. Financial transactions, 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, acquisition of equity, as well as transfers into other accounts of Government, are excluded from the total expenditure. In this sense, data presented in this section will differ from the data in Section Four which presents the data for General Government in line with the ESA 2010 definition.

In the Budget for 2015, the Government set a consolidated deficit target of €156.1 million, compared to the €136.3 million closing consolidated deficit in 2014. Table 2 of the Annex presents Government's final fiscal position for 2015 compared to the targets as initially set out in the annual budget for 2015.

From the revenue side, tax revenue in 2015 was €131.9 million more than forecasted, mainly stemming from higher income tax revenue, reflecting stronger than anticipated labour market conditions and corporate profits, as well as enhanced efficiency in revenue collection. Revenue from customs and excise duties was also higher than was forecasted due to higher than expected revenue from excise on Petroleum. Revenue from licences, taxes and fines was €20.3 million higher than target mainly reflecting higher income from duty on documents.

Finally revenue from Value Added Tax (VAT) was €15 million higher than target, sustained by a stronger growth in private consumption and the positive performance of tourism.

Non-tax revenue was around €52 million lower than planned for in the Budget, mainly due to lower revenue from EU Structural, Cohesion and other EU/Foreign Funds, as revenue from grants was €87.2 million lower than target. This lower revenue is not estimated to have an impact on the fiscal balance of 2015 in ESA 2010 terms, because EU revenue is reimbursed in 2016 following project verifications in accordance with EU regulations. The lower than expected non-tax revenue was partially offset by higher than budgeted revenue from miscellaneous receipts and fees of office.

On the expenditure side, in response to requirements arising for the provision of public services as the year progressed, the recurrent expenditure outturn was around €103 million above the original budget. Programmes and Initiatives took €40 million of this increase. This was mainly underpinned by higher expenditure towards the finance, education and health sectors, including Church schools, child care, EU Own Resources, medicines and surgical materials as well as various programmes for the elderly. Higher expenditure in Personal Emoluments of about €32 million mainly reflected higher than expected expenditure on health, education and the elderly. Moreover, it also reflected one-off additional expenditures related to the EU-Africa Summit and the Commonwealth Heads of Government meeting which were unforeseen in the original estimates presented in the 2015 Budget. Operations and maintenance expenditure and contributions to government entities together were around €31 million above target, mainly reflecting higher than expected expenditure covering Engineering Resources Ltd, Mental Health Services and health contractual services. Interest payments were around €8 million lower than the approved budget reflecting the low interest environment.

Capital expenditure for 2015 was €64.7 million higher than that forecasted in the 2015 Budget, mainly due to higher expenditure for the acquisition of new and existing tangible fixed assets, notably in relation to the increased spending associated with the closure of the EU funds programme period 2007-2013. As 2015 was the final year by which payments for projects and initiatives under the EU 2007-2013 programme period were to be effected, it was necessary to supplement the allocations which were approved in the 2015 Budget in order to enable absorption of the funds at Malta's disposition.

Hence, it was necessary to augment the pre-financing element by €25 million, which amount is to be reimbursed by the EU, owing to expenditure in 2014 which was lower than expected and which therefore needed to be provided in 2015. In parallel, an additional €35 million were required under the national co-financing element as well as to cover funding gaps and non-eligible expenditure incurred on the same projects.

2.1 General Government Public Debt

Actual General Government Public Gross Debt for 2015 was €89.9 million lower than the budget projections for 2015. This is equivalent to a 1.6 percentage points decrease from the 2015 gross debt estimates. This was mainly reflected in a lower than anticipated outstanding Treasury Bills balance from €316.4 million projected in the 2015 budget estimates, to €222.1 million in the 2015 actual levels. This improvement emanates from an actual lower level of Treasury Bills as at the end of 31st December 2014 than that originally projected in the Budgetary estimates for 2015, which was spilled over in 2015. Effectively, the Treasury Bills balance as at the end of 31st December 2014 was €109.56 million lower than that projected in the Budgetary estimates published in November 2014. The decrease in the actual outstanding amount for 2014 necessitated a downward revision (in January 2015) in the projected outstanding levels of Treasury Bills as at end 2015.

Table 3 of the Annex presents Government’s actual General Government public debt for 2015 compared to the targets presented in the 2015 Budget. As observed in Table 3, General Government public debt was mainly financed by issues of Malta Government Stocks.

3. Respecting the Principles and Rules within the Fiscal Responsibility Act

The following section of the Annual report analyses how the Government has respected the principles and rules stipulated in the Fiscal Responsibility Act, and explains any deviations from the Act.

The Fiscal Responsibility Act, enacted by Parliament on 8th August 2014, puts greater emphasis on medium-term planning as well as on a more synchronised and transparent budgeting process.

The Act establishes fiscal rules which bind national fiscal authorities in achieving a balanced structural budget, or in its absence, converge towards the medium-term budgetary objective. This requires a minimum structural effort of 0.5pp of GDP per annum, with a higher effort in good times, whereas the effort could be lower in bad times. The Act also requires the Ministry for Finance to maintain public debt at sustainable levels (lower than 60 per cent of GDP) over the medium and long term. When the debt-to-GDP ratio exceeds 60 per cent of GDP, it shall be reduced in accordance with the 1997 Excessive Deficit Regulation until the ratio reaches 60 per cent.

Procedures are now established for the independent assessment of macroeconomic and fiscal forecasts and the independent monitoring of compliance with fiscal rules. During the first year, the reports issued by the Malta Fiscal Advisory Council (MFAC) contained a number of different but inter-related observations and recommendations on the conduct of fiscal policy and the budgetary process, ranging from proposals on public expenditure control to pension reforms and the public debt. The Ministry for Finance has taken note of many of the MFAC proposals. The Ministry has also held preliminary discussions with the MFAC to exchange views on these observations and further meetings are envisaged to ensure continued progress. It is also worth noting that the MFAC and prior to its establishment the National Audit Office (NAO), has so far endorsed all the macroeconomic and fiscal projections.

The Fiscal Responsibility Act also establishes rolling three-year business and financial plans. Statements showing the three-year revenue and expenditure projections for 2016-2018, at Ministry level, were integrated in the 2016 Financial Estimates presented to Parliament in October 2015.

3.1 Respecting the Budget Balance Rule

In 2015, the national fiscal authorities were required to ensure sufficient progress towards the medium-term objective (MTO) through enhanced budgetary discipline resulting in a budgetary effort of greater than 0.5% of GDP. To this effect, and based on expected one-off revenues of 0.1 per cent of GDP and an output gap of 0.5 per cent of potential GDP, the Ministry for Finance targeted a structural effort of 0.7 percentage points of GDP. In effect, most recent information and estimations suggest that the structural balance remained relatively unchanged in 2015.

Since the budgetary rule is set in structural terms (adjusting for the effect of the economic cycle on the general Government balance and net of one-off and temporary measures), revisions to output gap estimates have a significant effect on the fiscal targets. Indeed, economic conditions in 2015 turned out to be much stronger than those envisaged when the budgetary targets were initially set – 8.8 per cent in the most recent estimates, compared to 5.4 per cent forecast in the 2015 Update of the Stability Programme and 4.8 per cent forecast in the Budget for 2015. Moreover, the most recent estimates as published in the 2016 Update of the Stability Programme suggest an output gap of -0.1 per cent of potential GDP in 2014 and of 1.6 per cent for 2015, compared to a forecast output gap estimates of 0.5 per cent of potential GDP for both years as published in the 2015 Update of the Stability Programme. Coupled with statistical revisions of historical data (the general Government balance in 2014 was revised downwards to 2.0 per cent of GDP compared to 2.1 per cent), revisions in the output gap projections neutralised as much as 0.8 percentage points of potential GDP in structural effort, in part offset by a marginally better outturn in the budget deficit than targeted in 2015.

Certain expenditure related to national EU co-financing of projects in 2015 affected the structural effort by 0.4% of GDP. Nevertheless, in view of the temporary nature of these factors, they will automatically translate into a higher effort in 2016 such that at no point do such temporary and unanticipated shocks in expenditure derail Government's commitment to reach the MTO of a balanced budget in structural terms in line with the calendar of convergence established by the European Commission.

On account of the sizeable revision of the output gap, and the temporary expenditure transactions, the fiscal stance may appear to be pro-cyclical in 2015. However, as also acknowledged by the European Commission in its assessment of the 2016 Stability Programme for Malta, after correcting for these relevant factors, the structural balance pillar pointed to compliance with the required adjustment towards the MTO and consequently, the European Commission did not issue any warnings associated with a significant deviation under Article 6(2) of Council Regulation (EC) No. 1466/97. It is to be noted that such a warning would have automatically triggered the provisions of Article 11 of the Fiscal Responsibility Act which contemplates the formulation of a corrective action plan and its submission to Parliament. Table 4 of the Annex presents Government's fiscal consolidation strategy for 2015 compared to the targets presented in the 2015 Update of the Stability Programme.

3.2 Respecting the Debt Rule

As the debt ratio exceeded 60 per cent of GDP in 2014, in 2015 the Ministry for Finance was required to ensure that the debt ratio was sufficiently diminishing and approaching 60 per cent at a satisfactory pace.

The general government debt-to-GDP ratio decreased to 63.9 per cent of GDP in 2015, from 67.1 per cent of GDP in 2014. The notable decline in the debt ratio primarily reflected a more buoyant macroeconomic environment than that expected in the earlier Update of the Stability Programme.

Overall, both in the 2016 Stability Programme and the Commission 2016 Spring forecast, deemed that the debt rule has been respected in 2015 in its forward-looking dimension.

4. Meeting 2015 targets as established in the Medium Term Fiscal Plan

This section assesses if the fiscal and budgetary policies in 2015 and its results were in line with the medium-term objective stipulated in the National Medium Term Fiscal Plan as published on 30 April 2015. The section also explains in more detail the deviations, if any, from the Government's medium-term objectives and how these are to be addressed.

The assessment of deviations with the targets established in the 2015 Medium Term Fiscal Plan is undertaken in terms of data classified according to the European System of Accounts (ESA) 2010, and consequently the data presented in this section is not comparable to that classified in Section 2. Moreover, actual data in this section may still be subject to revisions. It is also pertinent to note that the targets for 2015 prepared in April 2015 were different from those underlying the Budget presented in November 2014 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections rest. Table 1 of the Annex presents the macroeconomic assumptions which underpinned the 2015 Budget and the 2015 Update of the Stability Programme, together with the latest 2015 estimates available.

In line with the policy objective of consolidating public finances to reach a balanced structural budget in the medium-term, the deficit declined to €129 million in 2015, compared to a target of €133.1 million set in the 2015 Update of the Stability Programme. In terms of GDP, the general Government deficit has been reduced to 1.5 per cent in 2015, which is marginally better than the target of 1.6 per cent. Table 5 of the Annex presents Government's final fiscal position for 2015 compared to the targets revised in the 2015 Update of the Stability Programme.

Government revenue was over €131 million higher than target, this being the result of €63.9 million more in current taxes on income and wealth. Indirect tax revenue from taxes on production and imports in 2015 was also €34.0 million higher than target, mainly supported by stronger domestic demand conditions. Other revenue was €17.4 million above target due to higher than projected capital transfers sourced from EU funds programmes.

This was also reflected in higher than anticipated expenditure on gross fixed capital formation and capital transfers payable, and a higher than anticipated budget to cover elements of national co-financing of EU funds in 2015. Revenue from market output and output for own final use was also €14.8 million higher than forecasted largely due to higher than expected market output from EBUs. Meanwhile, revenue from capital taxes, social contributions and property income was roughly in line with projections.

Conversely, Government expenditure was around €127 million higher than forecasted with the main contributor being expenditure on gross fixed capital formation, most of which was EU funded. As already outlined, in order to ensure that a strong rate of absorption of EU funds could be achieved, a higher than anticipated expenditure on gross fixed capital formation (+€59.9 million) and capital transfers payable (+€16.1 million), and a higher than anticipated budget to cover elements of national co-financing of EU funds in 2015 were necessary. Expenditure on compensation of employees exceeded targets by €34.0 million. Deviation from targeted expenditure for intermediate consumption of almost €30 million mainly reflected higher than expected intermediate consumption by EBUs and higher expenditure by central Government on programmes and initiatives classified under intermediate consumption, in particular the 'Childcare for all' scheme, the EU Africa Migration Summit, and the EU Presidency in 2017. Expenditure related to social benefits and social transfers in kind, interest expenditure, subsidies and other expenditure (comprising mainly of payable current transfers) were roughly on target.

4.1 General Government Public Debt

As illustrated in Table 6, for 2015, the debt-to-GDP ratio was revised downwards by 2.9 percentage points to 63.9 per cent of GDP.

The higher than expected improvement in the debt ratio is mainly attributable to a more beneficial 'snowball effect', which accounts for 2.4 percentage points of the improvement. This reflected a more buoyant macroeconomic environment than that expected in the 2015 Update of the Stability Programme. Indeed, contribution of real GDP growth to the reduction in the debt ratio has accelerated significantly, from an estimate of 2.3 percentage points in the 2015 initial estimate, to 4.0 percentage points in the most recent estimate.

This was complemented by a 0.6 percentage point improvement in the 2015 actual contribution of inflationary pressures on the reduction in the debt-to-GDP ratio. Meanwhile, the expansionary effect that interest expenditure was expected to have on the debt-to-GDP dynamics was reduced by 0.1 percentage points.

The contractionary impact of the primary balance on the debt-to-GDP ratio remained unchanged at 1.1 percentage points, whilst the stock-flow adjustment (SFA) has been revised upwards from 0.3 percentage points in the 2015 estimate to 0.8 percentage points in the most recent estimates.

5. Moving towards the MTO in the Preventive Arm

The following section explains the outcome of the 2015 Budget in the context of the Government's European commitments, in particular the terms of the Stability and Growth Pact (SGP).

Malta is subject to the preventive arm of the Stability and Growth Pact and should ensure sufficient progress towards its MTO of reaching a balanced budget in structural terms by 2019.

In 2015 Malta has managed to outperform its deficit targets. In particular the budget deficit decreased from 2.0 per cent in 2014 to 1.5 per cent of GDP, marginally better than the target of 1.6 per cent of GDP. However, Malta's structural balance has remained relatively stable in 2015, estimated at a deficit of 2.3% of GDP.

Higher expenditure equivalent to 0.4 per cent of GDP from the original 2015 Budget projections was necessary to cover elements of national EU co-financing, non-eligible expenditure and funding gaps in order to ensure that a strong rate of absorption of EU funds could be achieved. Furthermore, additional one-off expenditures related to the EU-Africa Summit and the Commonwealth Heads of Government meeting equivalent to 0.06 per cent of GDP were unforeseen in the original fiscal targets, presented in the November 2014 Budget for 2015. These variances, which in total amount to 0.46 per cent of GDP, are not expected to recur in the coming years.

The Commission's overall assessment concluded that there appears to have been "some but close a significant deviation" from the adjustment path towards the MTO in 2015 and consequently, a Significant Deviation Procedure (SDP) was not launched by the Commission.

With regards to the debt ratio, the fiscal consolidation efforts led to a reduction in the debt ratio which in 2015 reached 63.9% of GDP compared to a target of 66.8% of GDP presented in the previous Update of the Stability Programme. The debt ratio is rapidly converging to the 60% benchmark of the Stability and Growth Pact.

Malta is expected to comply with the debt reduction benchmark in 2015 and 2016, while the debt-to-GDP ratio is set to decrease to below the 60% reference value of the Treaty in 2017 (on a no-policy-change basis). Government welcomes the Commission's overall assessment that the debt rule is estimated to have been respected in 2015 in its forward-looking dimension.

A stronger structural effort is expected in 2016. This ensures that the path towards the MTO is generally safeguarded. Nevertheless for 2016, in the Medium Term Fiscal Strategy of April 2016, Government made a commitment to undertake extra corrective budget measures meant to doubly ensure the attainment of the MTO by 2019 in line with the calendar of convergence established by the Commission (also considering that Malta is targeting a more ambitious MTO than the minimum requirement). As a result, a strong structural effort is envisaged in 2016 with the inclusion of these new measures.

6. Annex Tables

Macroeconomic Forecast vs Estimates for 2015

(growth %)

Table 1

	Forecast Autumn 2014*	Forecast Spring 2015**	Estimate March 2016***
Gross Domestic Product (at current Market Prices)	4.8	5.4	8.8
Private Final Consumption Expenditure	4.2	4.3	6.1
General Government Final Consumption Expenditure	5.7	3.8	6.5
Gross Fixed Capital Formation	3.6	25.5	27.7
Exports of Goods and Services	4.8	5.2	4.0
Imports of Goods and Services	4.7	8.1	4.4
Compensation of Employees	4.2	4.7	5.3
Operating Surplus and Mixed Income	6.0	5.9	12.9
Tourism Earnings	**11.8**	**5.4**	**7.5**
Employment	**1.9**	**4.7**	**3.5**
Inflation	**1.5**	**1.0**	**1.2**

*Source: 2015 Budget, Published in November 2014

**Source: 2015 Stability Programme, published on 30 April 2015

***Source: NSO News Release 041/2016 - Gross Domestic Product 2015

Actual Fiscal Developments vs Budget Targets for 2015

Consolidated Fund

(Millions of Euro)

Table 2

	Jan/Dec 2015 Approved Estimate*	Jan/Dec 2015 Actual**	Variance
Recurrent Revenue	**3,555.0**	**3,634.8**	**79.7**
Tax Revenue	**3,063.7**	**3,195.6**	**131.9**
Indirect Tax Revenue	*1,210.7*	*1,271.4*	*60.7*
Customs and Excise Duties	265.0	290.4	25.4
Licenses, Taxes, and Fines	260.7	281.0	20.3
Value Added Tax	685.0	700.0	15.0
Direct Tax Revenue	*1,853.0*	*1,924.2*	*71.2*
Income Tax	1,112.0	1,184.6	72.6
Social Security	741.0	739.6	-1.4
Non-Tax Revenue	**491.4**	**439.2**	**-52.2**
Fees of Office	40.9	51.6	10.7
Reimbursements	29.1	28.8	-0.3
Public Corporations	0.8	0.0	-0.8
Central Bank of Malta	48.0	48.0	0.0
Rents	30.1	29.3	-0.8
Dividends on Investments	38.9	34.9	-4.0
Repayment of Interest on Loans	2.2	0.4	-1.9
Grants	263.3	176.2	-87.2
Miscellaneous	38.0	70.1	32.1
Total Expenditure	**3,711.2**	**3,870.6**	**159.5**
Recurrent Expenditure	**2,954.2**	**3,056.8**	**102.7**
Personal Emoluments	710.9	742.4	31.5
Operations and Maintenance	144.5	160.3	15.8
Programmes and Initiatives***	1,819.1	1,858.9	39.7
Contributions to Government Entities	279.6	295.2	15.6
Interest Payments	**240.2**	**232.3**	**-7.9**
Capital Expenditure****	**516.8**	**581.5**	**64.7**
Government Consolidated Fund Balance	**-156.1**	**-235.8**	**-79.7**

*Source: Financial Estimates 2015, Ministry for Finance; as announced in November 2014

**Source: NSO News Release 2016_054 - Government Finance Data: January-December 2015

*** Programmes and Initiatives Category includes EFSF/ESM Credit Line Facility

**** Capital Expenditure excludes equity acquisition

Actual General Government Public Debt vs Budget Targets for 2015

(Millions of Euro)

Table 3

	Jan/Dec 2015 Estimate*	Jan/Dec 2015 Actual**	Variance
General Government Public Debt	**5,710.5**	**5,620.7**	**-89.9**
Compostion of Gross Public Debt			
Malta Government Stocks	4,956.5	4,953.9	-2.6
Treasury Bills	316.4	222.1	-94.3
Domestic Loans with Commercial Banks	56.4	56.4	0.0
Foreign Loans	29.8	29.8	0.0
EBU's/Local Councils	99.2	119.5	20.3
Currency	70.5	67.9	-2.7
EFSF (Debt Re-Routing)	181.8	171.2	-10.6

*Source: Budget 2015 Ministry for Finance; as announced in November 2014

**Source: 2016 Stability Programme, published on 30 April 2016

Fiscal Consolidation

(percentage points of GDP[(1)])

Table 4

	Jan/Dec 2015 Estimate*	Jan/Dec 2015 Actual**	Variance
General Government Balance	-1.6	-1.5	0.1
One-off and other temporary measures[(2)]	0.1	0.1	0.0
General Government Balance net of One-offs	-1.7	-1.6	0.1
Output Gap Estimates	0.5	1.6	1.1
Cyclically-Adjusted Budget Balance	-1.8	-2.2	-0.4
Structural Balance	-2.0	-2.3	-0.3
Structural Adjustment	0.7	0.0	-0.7

[(1)] GDP for 2015 used in the 2015 SP was an estimate, while GDP for 2015 used in the 2016 SP was actual

[(2)] A plus sign means deficit-reducing one-off measures

*Source: 2015 Stability Programme, published on 30 April 2015

**Source: 2016 Stability Programme, published on 30 April 2016

Actual Fiscal Developments vs Medium Term Target for 2015

European System of Accounts

(Millions of Euro)

Table 5

	Jan/Dec 2015 Estimate*	Jan/Dec 2015 Actual**	Variance
Revenue	**3,551.5**	**3,683.1**	**131.5**
Components of revenue			
Taxes on production and imports	1,155.1	1,189.1	34.0
Current taxes on income and wealth	1,173.6	1,237.6	63.9
Capital taxes	12.7	15.0	2.3
Social contributions	594.9	596.3	1.5
Property income	102.3	99.8	-2.5
Market Output and Output for own final use	217.9	232.8	14.8
Other revenue	295.1	312.5	17.4
Expenditure	**3,684.6**	**3,812.1**	**127.4**
Components of expenditure			
Compensation of employees	1,082.4	1,116.4	34.0
Intermediate consumption	566.6	596.5	29.9
Social benefits and social transfers in kind	1,039.8	1,033.2	-6.5
Interest expenditure	222.9	227.6	4.7
Subsidies	128.3	110.6	-17.7
Gross fixed capital formation	342.5	402.3	59.9
Capital Transfers Payable	113.5	129.6	16.1
Other expenditure	188.8	195.8	7.0
Deficit	**-133.1**	**-129.0**	**4.1**
Primary Balance	**89.8**	**98.6**	**8.8**

*Source: 2015 Stability Programme, published on 30 April 2015

**Source: 2016 Stability Programme, published on 30 April 2016

The Dynamics of Government Debt

(percentage points of GDP[(1)])

Table 6

Percentages of GDP	Jan/Dec 2015 Estimate*	Jan/Dec 2015 Actual**	Variance
Gross debt	66.8	63.9	-2.9
Change in gross debt ratio	-1.2	-3.2	-2.0
Contributions to changes in gross debt			
Primary balance	-1.1	-1.1	0.0
Snowball Effect	-0.4	-2.8	-2.4
Interest expenditure	2.7	2.6	-0.1
Real GDP growth[(2)]	-2.3	-4.0	-1.7
Inflation Effect[(2)]	-0.8	-1.4	-0.6
Stock-flow adjustment	0.3	0.8	0.5
p.m. implicit interest rate on debt	4.1	4.2	0.1

Developments in the debt- to-GDP ratio depend on:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} \cdot \frac{i_t - y_t}{1 + y_t}\right) + \frac{SFA_t}{Y_t}$$

where t denotes a time subscript, D, PD , Y and SFA are the government debt, primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth.

(1) GDP for 2014 used in the 2014 SP was an estimate, while GDP for 2014 used in the 2015 SP was actual

(2) Errata Corrige: In the respective Stability Programmes there was a composition error in the Nominal GDP growth affecting its sub-components; Real GDP growth and Inflation Effect for both the estimate and the actual figures for 2015

*Source: 2015 Stability Programme, published on 30 April 2015

**Source: 2016 Stability Programme, published on 30 April 2016