Malta:
Annual Report 2019

In line with Article 41 of the Fiscal Responsibility Act

Ministry for Finance and Financial Services

June 2020

Contents

1. Introduction

The Annual Report is prepared in accordance to the Fiscal Responsibility Act (Cap. 534) and is the fourth report since the enactment of the Act.

The Annual Report provides information on the execution of the Budget for 2019 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 2019. It analyses how the Government has observed the principles and rules stipulated in the Fiscal Responsibility Act. In addition, it assesses whether the fiscal and budgetary policies in the completed budget year are in line with the medium-term objective stipulated in the fiscal strategy. It provides explanations regarding any deviations from the Government's medium-term objectives and how these are to be addressed. It also explains the outcome of the Budget in the context of the Government's European commitments in 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 the 2019 Budgetary Estimates

This section provides information on the execution of the 2019 Budget as announced on 22 October 2018. It also compares the 2019 outcome with the strategic objectives and priorities of the fiscal strategy and targets as announced in the 2019 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 the Constitution and 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 4 which presents the data for General Government in line with the ESA 2010 definition.

In the Budget for 2019, the target balance for the Government's Consolidated Fund was estimated as a surplus of €33.3 million compared to the actual outturn of a surplus of €9.4 million. Table 2 of the Annex presents Government's final fiscal position for 2019 compared to the targets as initially set out in the annual budget for 2019.

In 2019, tax revenue was €86.0 million less than was forecast, primarily since income tax revenue was €103.2 million less than estimated. The latter outcome was impacted by the flows of tax refunds in 2018 and 2019which were unanticipated at the 2019 Budget forecast preparation stage. The actual receipts from Social Security Contributions were €12.1 million higher than projected, reflecting positive developments in the number of gainfully occupied persons in 2019, as well as continuous enforcement.

Meanwhile, indirect tax revenue was broadly on target, as marginally higher than estimated revenue from licences, taxes and fines (+€8.1 million) outweighed lower than expected revenue from customs and excise duties (-€3.8 million). Revenue from VAT was marginally higher than target. Higher receipts when compared to the original estimate for licences, taxes and fines reflect higher than estimated gaming taxes, in part offset by the negative variance in proceeds from the motor vehicle registration tax. On the other hand, lower receipts from import duties and less revenue in excise duty on machine-made cigarettes and construction components was only in part offset by the higher than expected revenue in excise duty on petroleum.

Non-tax revenue was €45.1 million higher than planned for in the Budget, mainly due to higher than budgeted miscellaneous receipts (+€43.6 million), mainly reflecting higher than estimated premium received from the sale of Malta Government Stocks. A positive variance is also recorded for revenue from fees of office (+€13.3 million), reflecting higher proceeds from the Individual Investor Programme and the Residency and Visa Programme, and reimbursements (€6.4 million). These developments were in part offset by lower than estimated revenue from grants (-€15.2 million).

On the expenditure side, total expenditure was also lower than forecast in the 2019 Budget. The recurrent expenditure outturn was €96.9 million above the original budget, reflecting requirements arising for the provision of public services as the year progressed.

A higher than forecast contribution of €47.7 million was transferred to government entities in particular entities engaged tourism, financial services and financial intelligence, asylum seekers and health care related activities in 2018. Higher than estimated expenditure of €29.2 million on programmes and initiatives was mainly in respect of medicines and surgical materials (+€17.4 million), the State Contribution (+€11.0 million), which also features as revenue, and education, in particular Church schools (+€9.4 million), child care (+€9.4 million), as well as the extention of the school transport network (+€6.7 million). These were in part countered by lower than forecast expenditure on social security benefits and non-contributory pensions (-€43.3 million), classified under this category. Meanwhile, higher than estimated outlays amounting to €18.7 million were also recorded in respect of operations and maintenace. Personal emoluments were almost on target.

These developments were in part compensated for by €6.8 million lower than estimated interest payments, against the background of the ensuing low interest rate environment and the Treasury's debt management strategy.

In 2019, Government's capital expenditure was €107.0 million lower than estimated in the 2019 Budget. Nationally funded capital expenditure was €56.9 million below target.

2.2 Update on the performance of the main fiscal measures

The proceeds from the Individual Investor Programme were €27.6 million higher than estimated in the 2019 Budget, such that €9.2 million in additional revenue was transferred to the Consolidated Fund, while the remaining additional revenue was transferred to the National Development and Social Fund (NDSF). The NDSF has committed in excess of €90.5 million to-date towards the wellbeing of society, including health, social accommodation and sports. The major part of this allocation will be directed towards providing a substantial number of social housing units over a 3-year period. At the same time, expenditure from the NDSF was lower than anticipated.

As the year progressed, additional funds amounting to €17.4 million were necessary for the procurement of medicinal and surgical materials to meet ongoing needs and commitments.

As from 2019, all VAT collected from the Mini One Stop Shop (MOSS), as per Council Implementation Directive (EU) No 1042/2013, is transferred to the Member State where purchases are affected and no more proceeds will be retained from this scheme. In 2019, revenue from the scheme totalled €13.0 million, with the amount for retained revenue being consolidated in the general Government's non-financial accounts.

An additional €9.4 million in funds were also necessary to cover the collective agreement and requirements in Church Schools.

As from 2014, the Government has provided free childcare services to parents who are in employment or are pursuing their education, with the aim to help families achieve a work-life balance. The childcare service is either provided directly through government services or alternatively through Registered Childcare Centres. In 2019, in response to the take up of this initiative as the year progressed, actual expenditure was €8.6 million higher than estimated.

School transport is provided free of charge to all students. As from scholastic year 2017/2018, the scheme was extended to children in Church and Independent Schools. The year 2019 was the first year of the fully operative scheme, with a budget of €19.6 million. Actual cost was €6.7 million higher than budgeted, as a result of actual take-up.

The Private Rent Housing Benefit Scheme provides a housing benefit to tenants on rent paid for premises leased as ordinary residence, intended to render the rent more affordable. In 2019, the scheme was revised to increase the housing benefit payable to eligible beneficiaries. The cost of the scheme was estimated to increase to a maximum of €7 million. In view of the household income of eligible applicants and the actual number of beneficiaries, the actual cost of the scheme amounted to €3.8 million in 2019.

2.3 General Government Public Debt

Actual general Government gross debt for 2019 was €8.1 million lower than the 2019 Budget projections. A lower than anticipated outstanding Treasury Bills balance of €20.0 million was recorded when compared to the 2019 projected Budget estimates. Additionally, EBUs and Local Councils and currency (including Malta Government Retail Savings Bonds) also registered a lower than anticipated outstanding balance of €19.3 million and €5.8 million, respectively. Furthermore, lower than anticipated outstanding Malta Government Stocks from €4,620.1 million projected in the 2019 Budget estimates, to an actual level of €4,615.5 million, was recorded.

Table 3 of the Annex presents the composition of actual general Government public debt for 2019 compared to the estimates presented in the 2019 Budget. As observed in the table, general Government public debt is mainly financed by issues of Malta Government Stocks, although their outstanding balance at end December 2019 was marginally lower than the 2019 Budget estimate. These developments were partly offset by a €41.8 million higher than estimated balance for ESA re-routed debt. Meanwhile, the other components of general Government public debt were on target.

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.

Malta's institutional fiscal framework was strengthened significantly with the enactment of the Fiscal Responsibility Act (FRA) in 2014, which requires that the national fiscal authorities achieve a Medium-Term Objective (MTO) of a balanced budget after correcting for the economic cycle. The Act also requires that the general Government debt is lower than 60 per cent of GDP over the medium and long term.

Subsequently, a number of additional changes were legislated in 2018 to ensure full consistency with the Directive on Budgetary Frameworks as well as other amendments intended to ensure clarity in the administration of the Act.

In terms of the Act, Ministries, Departments and Government Entities are required to prepare their three-year business and financial plans which are based on the (most recently announced) medium-term fiscal strategy. In this regard, the Ministry for Finance issued circular MFIN 1/19 to request the submission of the Ministries' 2020 – 2022 Business and Financial Plans, serving as the basis for the 2020 budget preparation and Government's medium-term fiscal plan. MFIN assessed the plans received by each Ministry/Department/Entity in order to compile the three-year fiscal projections. Along the budgetary process, two rounds of bilateral meetings were held with each line Ministry, one at Permanent Secretarial level and the second at Ministerial level. The business and financial plans were discussed in detail, clarifications were sought and statements incorporating the three-year revenue and expenditure projections for 2020 - 2022, at Ministry level, were incorporated into the 2020 Financial Estimates which were approved by Parliament in December 2019.

3.1 Respecting the Budget Balance Rule

Table 4 of the Annex presents cyclical developments in 2019 compared to the targets presented in the 2019 Update of the Stability Programme.

In 2019, the general Government surplus stood at 0.5 per cent of GDP. This translates into a balanced budgetary position in structural terms, such that Malta remained at its MTO in 2019.

3.2 Respecting the Debt Rule

Government debt has declined below the 60 per cent reference value in 2015. The general Government debt ratio declined further in 2019 to 43.1 per cent of GDP, mainly on account of a continuing primary surplus and accelerating nominal GDP. The stock-flow adjustment of almost 1 per cent of GDP, driven mainly by proceeds from the Individual Investor Programme, prevented an even stronger fall in the debt ratio.

4. Meeting the 2019 targets as established in the Medium-Term Fiscal Plan

This section assesses if the fiscal and budgetary policies in 2019 and its results were in line with the medium-term objective stipulated in the National Medium-Term Fiscal Plan as published in April 2019. 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 2019 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 further revisions. It is pertinent to note that the targets for 2019, as outlined in spring 2019, were different from those underlying the 2019 Budget presented in October 2018 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections are based. Table 5 of the Annex presents Government's final fiscal position for 2019 compared to the targets revised in the 2019 Update of the Stability Programme.

Table 1 of the Annex presents the macroeconomic assumptions which underpinned the 2019 Budget and the 2019 Update of the Stability Programme, together with the latest 2019 data available. In 2019, the Maltese economy recorded a growth rate of 4.7 per cent in real GDP, surpassing the growth rate registered by most of the European Member States. This robust economic growth is primarily attributed to domestic demand, underpinned by robust private consumption and investment. However, economic growth was less tax rich than estimated.

As a consequence, during 2019, the general Government recorded a surplus of €71.0 million, compared to the target surplus of €120.3 million established in the 2019 Update of the Stability Programme. In terms of GDP, the general Government balance amounted to 0.5 per cent of GDP, lower than the target of 1.4 per cent of GDP presented in the 2019 Stability Programme.

Compared to the 2019 Update of the Stability Programme, general Government revenue turned out €79.1 million lower than expected. 'Other revenue', most notably capital transfers and investment grants, as well as taxes on production and imports turned out lower than expected and were only partly outweighed by stronger-than-expected market output. The most notable decline when compared to the forecast was recorded in 'other revenue', primarily reflecting a lower than planned absorption of EU funds. Revenue from taxes on production and imports was more subdued than expected by €64.5 million, mainly reflecting less buoyant than estimated developments in domestic consumption and the local property market. This component of revenue increased by 1.8 per cent, compared to an estimated growth of 4.7 per cent forecast in the 2019 Update of the Stability Programme. The more robust growth registered in the labour market resulted in higher than expected proceeds amounting to €30.6 million from current taxes on income and wealth, which increased by 10.7 per cent, compared to an estimated growth of 8.8 per cent forecast in the previous Update. At the same time, lower revenue from social contributions of €17.5 million is due to a lower-than-estimated State Contribution. Meanwhile, market output turned out €81.8 million higher than anticipated in in the National Medium-Term Fiscal Plan as published in April 2019.

General Government expenditure turned out €29.8 million lower than planned primarily due to lower social payments and investment outlays. Indeed, higher than targeted expenditure on intermediate consumption and subsidies was more than offset by lower than planned expenditure on capital transfers, social payments and gross fixed capital formation. Expenditure on intermediate consumption was €49.0 million higher than targeted, registering a 20.6 per cent year-on-year increase, compared to an anticipated growth of 12.3 per cent in the 2019 Update of the Stability Programme. These developments were the result of higher than planned EBUs' intermediate consumption, medical and surgical materials, contribution to government entities operating in financial intelligence, and higher than planned expenditure towards operations and maintenance. Higher than planned subsidies amounting to €29.6 million were primarily related to the national regulator of financial markets. Meanwhile, lower than expected capital transfers and gross fixed capital formation were mainly on account of a lower than planned absorption of pre-financed expenditure than was accrued to 2019 in the 2019 Update of the Stability Programme. Social payments were €38.6 million lower than target reflecting a lower than anticipated number of beneficiaries.

4.1 General Government Public Debt

At 43.1 per cent of GDP, the 2019 actual ratio of general Government debt-to-GDP presented in the 2020 Stability Programme was 0.4 percentage points higher than the target of 42.7 per cent of GDP established in the 2019 Update of the Stability Programme. Table 6 in the Statistical Annex presents a comparison of the debt dynamics estimated in the 2019 Update of the Stability Programme and the actual outturn.

The gross debt ratio declined by 0.7 percentage points less than anticipated in the 2019 Stability Programme estimates. Indeed, the 'snowball effect' contributed less than originally anticipated to the decline in the debt ratio, mainly due to lower than estimated real GDP growth complemented by more subdued than expected inflation. A lower than expected contribution of 0.4 percentage points from the primary balance was also recorded. These developments were in part offset by a lower than expected debt-increasing stock-flow adjustment by 0.6 percentage points.

5. Moving towards the MTO in the Preventive Arm

The following section explains the outcome of the 2019 Budget in the context of the Government's European commitments, in particular in terms of the Stability and Growth Pact (SGP).

Malta is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and in 2019 it was required to ensure ongoing compliance with its medium-term budgetary objective (MTO) of a balanced budget in structural terms. On 9 July 2019, the Council did not address a recommendation to Malta in the context of fiscal compliance under the European Semester since the Council was of the opinion that Malta complies with the Stability and Growth Pact.

Indeed, the general Government balance has been in surplus since 2016. In addition, the structural balance remained above the medium-term objective over the past years and the debt-to-GDP ratio fell below the 60 per cent threshold in 2015 and has continued to decline since then. The fiscal framework has been strengthened through the implementation of binding multiannual targets and the introduction of spending reviews. The further incorporation in the budgetary process of these targets and reviews is ongoing.

In 2019, Malta reported a headline balance of 0.5 per cent of GDP and a balanced structural budget. Based on the outturn data and the Commission forecast, the ex-post assessment by the Commission suggests some deviation from the requirements of the Stability and Growth Pact in 2019. At the same time, considering 2018 and 2019 taken together, both the structural balance and expenditure benchmark pillars suggest compliance.

The debt-to-GDP ratio, which in 2018 was already below the 60 per cent of GDP threshold, has declined further to 43.1 per cent of GDP in 2019.

Over the medium term, the European Commission expects the general Government balance to swing into a deficit of around 6.75 per cent of GDP in 2020. Assuming no changes in policies, such that the pandemic-related measures would be discontinued after a few months and healthcare spending would decline to pre-2020 levels, the Commission estimates that the general Government balance should improve strongly but remain in a deficit of around 2.5 per cent of GDP in 2021. The European Commission forecasts the Government debt-to-GDP ratio to increase to around 51 per cent in 2020 and remain around this level in 2021, driven by adverse developments in the deficit.

Against this background, the Council has recommended that when economic conditions allow, Malta should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

6. Annex Tables

Macroeconomic Forecast vs Estimates for 2019

(growth %)

Table 1

	Forecast Autumn 2018*	Forecast Spring 2019**	Actual 2019***
Gross Domestic Product (at current Market Prices)	7.7	9.3	6.8
Private Final Consumption Expenditure	4.7	7.6	3.9
General Government Final Consumption Expenditure	10.6	15.8	14.7
Gross Fixed Capital Formation	11.1	17.3	10.9
Exports of Goods and Services	3.9	4.7	3.6
Imports of Goods and Services	3.9	5.8	3.9
Compensation of Employees	6.6	8.1	7.6
Operating Surplus and Mixed Income	8.4	10.8	7.4
Tourism Earnings	8.6	4.1	7.8
Employment	3.7	4.6	5.7
Inflation	1.9	1.9	1.5

*Source: 2019 Budget, Published in October 2018

**Source: 2019 Stability Programme, published on April 2019

***Source: NSO News Release 034/2020 - Gross Domestic Product 2019

Actual Fiscal Developments vs Budget Targets for 2019

Consolidated Fund

(Millions of Euro)

Table 2

	Jan/Dec 2019 Approved Estimate*	Jan/Dec 2019 Actual**	Variance
Recurrent Revenue	**5,013.8**	**4,972.9**	**-40.9**
Tax Revenue	**4,571.8**	**4,485.8**	**-86.0**
Indirect Tax Revenue	*1,668.8*	*1,673.9*	*5.1*
Customs and Excise Duties	335.9	332.1	-3.8
Licenses, Taxes, and Fines	388.9	397.0	8.1
Value Added Tax	944.0	944.7	0.7
Direct Tax Revenue	*2,903.0*	*2,811.9*	*-91.1*
Income Tax	1,869.0	1,765.8	-103.2
Social Security	1,034.0	1,046.1	12.1
Non-Tax Revenue	**442.0**	**487.0**	**45.1**
Fees of Office	70.9	84.2	13.3
Reimbursements	42.1	48.5	6.4
Central Bank of Malta	28.0	28.0	0.0
Rents	32.1	35.6	3.5
Dividends on Investments	39.1	32.6	-6.5
Repayment of Interest on Loans	0.3	0.1	-0.2
Grants	199.8	184.6	-15.2
Miscellaneous	29.8	73.4	43.6
Total Expenditure	**4,980.5**	**4,963.5**	**-16.9**
Recurrent Expenditure	**4,119.3**	**4,216.2**	**96.9**
Personal Emoluments	961.0	962.3	1.3
Operations and Maintenance	209.7	228.4	18.7
Programmes and Initiatives	2,464.5	2,493.7	29.2
Contributions to Government Entities	484.1	531.8	47.7
Interest Payments	**199.1**	**192.3**	**-6.8**
Capital Expenditure	**662.0**	**555.0**	**-107.0**
Government Consolidated Fund Balance	**33.3**	**9.4**	**-24.0**

*Source: Financial Estimates 2019, Ministry for Finance; as announced in October 2018

**Source: NSO News Release 052/2020 - Government Finance Data: January-December 2019

Actual General Government Public Debt vs Budget Targets for 2019

(Millions of Euro)

Table 3

	Jan/Dec 2019 Estimate*	Jan/Dec 2019 Actual**	Variance
General Government Public Debt	**5,703.7**	**5,695.6**	**-8.1**
Composition of Gross Public Debt			
Malta Government Stocks	4,620.1	4,615.5	**-4.6**
Malta Government Retail Savings Bonds	290.0	289.9	**-0.1**
Treasury Bills	320.0	300.0	**-20.0**
Domestic Loans with Commercial Banks	0.0	0.0	**0.0**
Foreign Loans	1.0	1.0	**0.0**
EBU's/Local Councils	170.3	151.1	**-19.3**
Currency	95.0	89.2	**-5.8**
ESA Re-Routed Debt	207.3	249.1	**41.8**

*Source: Treasury

**Source: Treasury / NSO News Release 064_2020

Cyclical Developments

(percentage points of GDP [1])

Table 4

	Jan/Dec 2019 Estimate*	Jan/Dec 2019 Actual**	Variance
General Government Balance	0.9	0.5	-0.4
One-off and other temporary measures [2]	0.0	0.0	0.0
General Government Balance net of One-offs	0.9	0.5	-0.4
Output Gap Estimates	0.4	1.1	0.7
Cyclically-Adjusted Budget Balance	0.7	0.0	-0.7
Structural Balance	0.7	0.0	-0.7
Structural Adjustment	-0.9	-0.7	0.2

[1] GDP for 2019 used in the 2019 SP was an estimate, while GDP for 2019 used in the 2020 SP was actual

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

*Source: 2019 Stability Programme, published April 2019
**Source: 2020 Stability Programme, published May 2020

Actual Fiscal Developments vs Medium Term Target for 2019

European System of Accounts

(Millions of Euro)

Table 5

	Jan/Dec 2019 Estimate*	Jan/Dec 2019 Actual**	Variance
Revenue	**5,124.4**	**5,045.3**	**-79.1**
Components of revenue			
Taxes on production and imports	1,665.8	1,601.2	-64.5
Current taxes on income and wealth	1,796.4	1,827.0	30.6
Capital taxes	27.2	26.1	-1.1
Social contributions	817.5	800.1	-17.5
Property income	68.5	61.7	-6.8
Market Output and Output for own final use	446.1	527.9	81.8
Other revenue	302.9	201.2	-101.7
Expenditure	**5,004.1**	**4,974.3**	**-29.8**
Components of expenditure			
Compensation of employees	1,490.3	1,484.1	-6.2
Intermediate consumption	936.9	985.9	49.0
Social payments in cash and in kind	1,275.1	1,236.5	-38.6
Interest expenditure	186.5	181.3	-5.2
Subsidies	165.4	195.0	29.6
Gross fixed capital formation	525.1	505.9	-19.1
Capital Transfers Payable	168.6	107.0	-61.6
Other expenditure	256.2	278.5	22.3
General Government Balance	**120.3**	**71.0**	**-49.3**
Primary Balance	**306.8**	**252.3**	**-54.5**

*Source: 2019 Stability Programme, published April 2019
**Source: 2020 Stability Programme, published May 2020

The Dynamics of Government Debt

(percentage points of GDP [(1)])

Table 6

Percentages of GDP	Jan/Dec 2019 Estimate*	Jan/Dec 2019 Actual**	Variance
Gross debt	42.7	43.1	0.4
Change in gross debt ratio	-3.2	-2.5	0.7
Contributions to changes in gross debt			
Primary balance	-2.3	-1.9	0.4
Snowball Effect	-2.5	-1.5	1.0
Interest expenditure	1.4	1.4	0.0
Real GDP growth	-2.7	-1.9	0.7
Inflation Effect	-1.2	-1.0	0.3
Stock-flow adjustment	1.6	0.9	-0.6
p.m. implicit interest rate on debt	3.3	3.2	-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 2018 used in the 2018 USP was an estimate, while GDP for 2018 used in the 2019 USP was actual

*Source: 2019 Stability Programme, published April 2019

**Source: 2020 Stability Programme, published April 2020