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Government's Fiscal Outlook: Budget 2013

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GOVERNMENT'S FISCAL OUTLOOK: BUDGET 2013[1]

According to the Budget Speech and Financial Estimates 2013 issued by the Government in April 2013, the deficit in the Consolidated Fund widened considerably in 2012 but is set to decline in 2013 (see Table 1). It is projected to fall further in 2014 and 2015, as revenue growth is forecast to outstrip a rise in expenditure.

The general government deficit also widened, reaching 3.3% of GDP in 2012. The Government expects this to narrow to 2.7% in 2013, and then to decline steadily to 1.6% by 2015. Moreover, the general government debt-to-GDP ratio is set to increase further in 2013 to 74.2%. It is then projected to decline in 2014 and 2015.

Consolidated Fund 2012

The Consolidated Fund deficit for 2012 stood at €342.3 million, compared with the originally approved €145.2 million (see Table 2). The difference arose from revenue shortfalls that outweighed lower capital expenditure. Moreover, the Consolidated Fund deficit increased to 5.1% of GDP from 2.1% as originally approved.[2]

Total revenue in 2012 rose by 2.6% to reach €2,513.3 million. Nevertheless, this was €237.2 million less than the approved estimate mainly on account of lower inflows from indirect taxes. These were driven by reduced receipts from customs and excise duties, and VAT. This reflected weaker than expected growth in private consumption and the timing of payments by Enemalta to Government of excise duties on fuel, which were not received in 2012 (see Chart 1 and Table 2).

In addition, grants received in 2012 from the European Union (under the 2007-2013 Structural and Cohesion Fund programmes) were lower than estimated. The shortfall in EU

Table 1
GOVERNMENT FISCAL INDICATORS
As a percentage of GDP

	2011 Actual	2012 Actual	2013 Estimate	2014 Estimate	2015 Estimate
Total revenue	40.3	40.2	43.4	44.1	44.4
Total expenditure	43.7	45.3	45.8	46.2	45.6
Primary balance	-0.1	-1.7	1.0	1.3	2.1
Consolidated Fund balance	-3.3	-5.1	-2.3	-2.1	-1.3
General government balance	-2.8	-3.3	-2.7	-2.1	-1.6
General government gross debt	70.3	72.1	74.2	74.1	73.2
Nominal GDP (growth rate)	3.8	3.0	3.3	3.8	4.2

Sources: NSO; Ministry for Finance (Budget Speech April 2013).

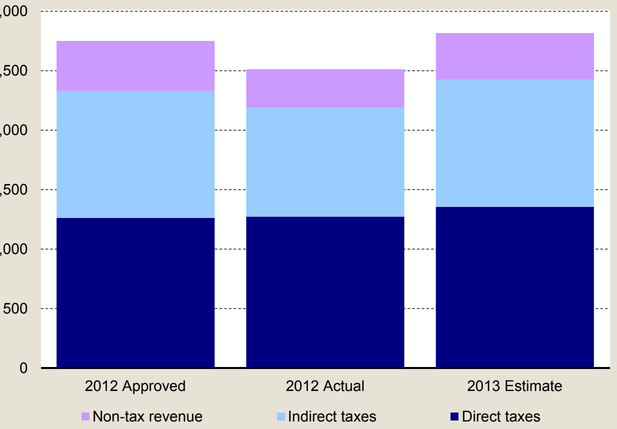
1 The Budget was first presented to Parliament in November 2012 but failed to pass. This report is based on the Budget bill for 2013 that was subsequently passed in Parliament in April 2013.

2 In this report the approved estimates for 2012 refer to the Financial Estimates presented with the Budget 2012 that was approved by Parliament on 14 November 2011.

grants reflects lower than expected capital expenditure, as well as the timing of cash flows, which are expected to be recorded as intakes in 2013.

In contrast, recurrent expenditure rose by 5.6% to €2,511.8 million, or €41.4 million higher than the amount originally approved. The outcome for 2012 featured the transfer of around €21.0 million in subsidies to Enemalta,

Chart 1
CONSOLIDATED FUND REVENUE IN 2012 AND 2013
(EUR millions)



Source: Ministry for Finance.

Table 2
BALANCE ON THE CONSOLIDATED FUND 2012-2013
EUR millions

	2012		Change (Actual 2012 less estimate)		2013	Change (2013/2012)	
	Approved Estimate	Actual	Amount	%	Estimate	Amount	%
Revenue	**2,750.5**	**2,513.3**	**-237.2**	**-8.6**	**2,817.2**	**303.9**	**12.1**
Direct Tax	**1,261.5**	**1,273.1**	**11.6**	**0.9**	**1,355.7**	**82.6**	**6.5**
Income tax	840.0	865.9	25.9	3.1	928.0	62.1	7.2
Social security contributions(1)	421.5	407.2	-14.3	-3.4	427.7	20.5	5.0
Indirect tax	**1,069.9**	**917.3**	**-152.5**	**-14.3**	**1,070.7**	**153.3**	**16.7**
Value Added Tax	581.6	534.2	-47.4	-8.2	580.0	45.8	8.6
Customs and excise duties	267.9	155.8	-112.1	-41.8	236.9	81.1	52.0
Licences, taxes and fines	220.4	227.4	7.0	3.2	253.8	26.5	11.6
Non-tax	**419.2**	**322.8**	**-96.4**	**-23.0**	**390.8**	**68.1**	**21.1**
of which Grants	194.5	92.9	-101.6	-52.3	186.5	93.6	100.8
Expenditure	**2,895.7**	**2,855.5**	**-40.2**	**-1.4**	**2,981.0**	**125.5**	**4.4**
Recurrent(1)	**2,470.4**	**2,511.8**	**41.4**	**1.7**	**2,594.1**	**82.3**	**3.3**
Personal emoluments	609.1	612.5	3.3	0.5	640.0	27.5	4.5
Operational and maintenance	117.1	115.6	-1.5	-1.3	122.6	7.1	6.1
Contributions to entities	229.6	221.2	-8.4	-3.7	231.7	10.5	4.8
Social security benefits	750.4	782.6	32.2	4.3	787.7	5.1	0.7
Interest payments	230.6	225.8	-4.8	-2.1	235.3	9.5	4.2
Other expenditure	533.5	554.1	20.6	3.9	576.7	22.6	4.1
Capital(2)	**425.3**	**343.8**	**-81.6**	**-19.2**	**386.9**	**43.1**	**12.6**
Consolidated Fund balance	**-145.2**	**-342.3**	**-197.0**	**135.7**	**-163.8**	**178.5**	**-52.1**

(1) Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.

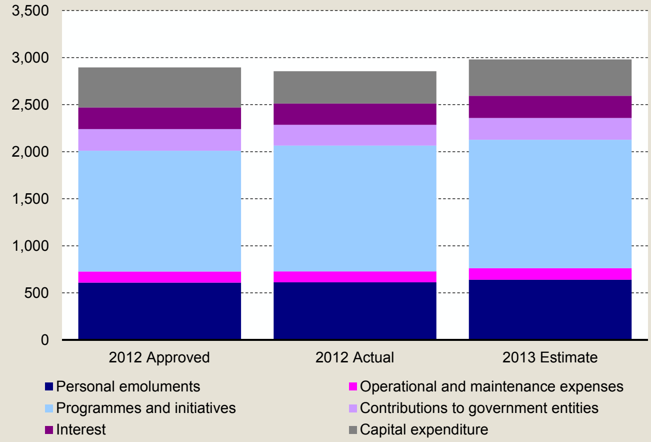
(2) Capital expenditure data are obtained from the Budget Speech 2013, as presented in November 2012 and April 2013. Figures do not correspond with those in the Financial Estimates due to the treatment of equity acquisitions.

Source: Ministry for Finance.

which had not formed part of the approved estimates. Spending on social benefits, more specifically on retirement pensions, contributory bonuses and social assistance, was also higher than estimated (see Chart 2).

Meanwhile, capital spending, at €343.8 million, was €81.6 million lower than projected. This was largely driven by lower outlays on EU-funded projects, as mentioned earlier.

Chart 2
CONSOLIDATED FUND EXPENDITURE IN 2012 AND 2013
(EUR millions)



Source: Ministry for Finance.

Consolidated Fund 2013

The Consolidated Fund deficit is expected to decline to €163.8 million in 2013, which implies a narrowing of €178.5 million compared with 2012 (see Table 2). The improvement is driven by a larger year-on-year increase in revenue relative to expenditure.

In the Budget Speech and Financial Estimates 2013, total revenue is forecast to expand by 12.1%, mainly as a result of higher tax receipts. The latter rise is mostly driven by a recovery in indirect taxes, particularly customs and excise duties, as the above-mentioned dues from Enemalta are expected to be passed on during 2013. The projected rise in collected duties will also be driven by the increase in excise duty rates on fuel, cement, cigarettes, and other tobacco products. Moreover, VAT receipts are set to rise by 8.6%, partly due to a recovery in domestic private consumption and to a more concerted effort to recoup past tax arrears.

Direct tax inflows in 2013 are expected to expand by 6.5%, mainly driven by a 7.2% increase in income tax receipts. Growth in income tax intake from households is expected to be subdued - a result of a slower pace of growth in government forecasts for compensation per employee and employment, as well as the announced reductions in the income tax rate from 35% to 32% charged on specific income bands.[3] Social security contributions are set to grow by 5.0%. Non-tax revenue is expected to increase by 21.1%, mainly due to higher grants, in line with a projected rise in capital expenditure.

Total expenditure is forecast to rise by 4.4% from its 2012 level. This is a result of an increase in both capital and recurrent spending. While capital expenditure is set to rise by 12.6%, recurrent expenditure is projected to grow by 3.3%. The latter, however, accounts for most of the increase in absolute terms.

[3] Tax at 32% is to be levied on income between €19,501 to €60,000 in the case of single taxpayers, from €21,201 to €60,000 in the case of parents and from €28,701 to €60,000 for married taxpayers.

The main contributor to the growth in recurrent spending is personal emoluments, which are set to rise by 4.5%, partly under the impact of new sectoral collective agreements. Interest payments and contributions to government entities are expected to increase by 4.2% and 4.8%, respectively. Spending on social benefits is set to grow by 0.7%, as the increase in the retirement age dampens expenditure on pensions.

Capital spending is expected to increase by 12.6%. Growth in capital spending is set to be driven by EU-funded projects, which include the Mater Dei Oncology Centre and the flood water relief project.

Consolidated Fund projections for 2014 and 2015

Looking further ahead, the Consolidated Fund deficit is set to decline by €11.8 million, to €152 million in 2014. This decline will be mainly driven by higher tax revenue, which will outweigh the rise in total expenditure. The increase in the latter will primarily reflect higher capital expenditure.

The deficit is set to decline further to €95 million in 2015, as increases in tax revenue will outweigh the rise in total expenditure. In contrast to 2014, the main contributor to the rise in outlays in 2015 is projected to be recurrent spending.