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GOVERNMENT'S FISCAL OUTLOOK: BUDGET 2014

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GOVERNMENT'S FISCAL OUTLOOK: BUDGET 2014¹

According to the Budget Speech and Financial Estimates 2014, the deficit in the Consolidated Fund declined considerably in 2013 and should narrow further through to 2016, as revenue growth is forecast to outstrip expenditure (see Table 1).

The general government deficit is estimated to have gone down to 2.7% of GDP in 2013 from 3.3% in 2012. It is then projected to narrow steadily to 0.7% by 2016. The general government debt-to-GDP ratio is seen to have peaked at 72.9% in 2013, with a foreseen decline to 68.6% by 2016.

Revisions in the Consolidated Fund for 2013

According to revised estimates in the Budget approved by Parliament in November 2013, the Consolidated Fund deficit for 2013 reached €179.8 million, up from the €163.8 million originally approved in April. An upward revision in expenditure exceeded higher than anticipated revenue (see Chart 1).

The revision in revenue estimates for 2013 was largely driven by larger than expected inflows from

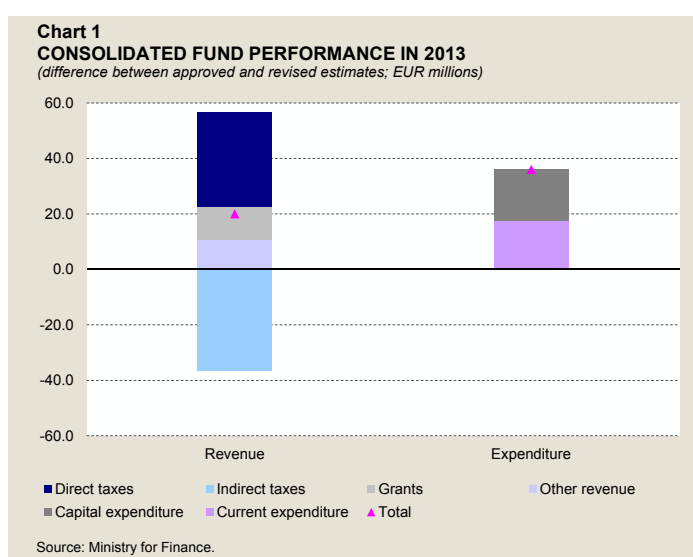


Table 1
GOVERNMENT FISCAL INDICATORS

As a percentage of GDP

	2012	2013	2014	2015	2016
	Actual ⁽¹⁾	Estimate	Estimate	Estimate	Estimate
Total revenue	39.8	43.1	44.5	44.6	44.6
Total expenditure	44.8	45.6	46.4	45.6	45.2
Primary balance	-1.7	0.7	1.3	2.1	2.6
Consolidated Fund balance	-5.0	-2.5	-1.9	-1.0	-0.6
General government balance	-3.3	-2.7	-2.1	-1.6	-0.7
General government gross debt	71.3	72.9	72.6	71.1	68.6
Nominal GDP (growth rate)	3.1	3.7	3.8	3.8	3.6

⁽¹⁾ Computed using the same GDP vintage available when the *Budget Speech 2014* was prepared (NSO Release 170/2013).

Source: NSO; Ministry for Finance (*Budget Speech November 2013*).

¹ The Financial Estimates for 2014, as well as revised estimates for 2013, were first presented to Parliament on 4 November 2013 and were subsequently approved. In this report the approved estimates for 2013 are those presented with the Budget 2013 that had been approved by Parliament in April 2013.

direct taxes, mainly due to provisional income tax paid by firms on their profits and in spite of the negative impact of the reduction in the top rate of personal income tax implemented in the year. In 2013 grants received from the European Union were also larger than anticipated. On the other hand, revenue from indirect taxes was revised downwards on account of lower than expected inflows from duties on petroleum and motor vehicle registration tax.

Concurrently, government current expenditure was revised upwards mainly due to higher than anticipated outlays on social benefits, as well as on medicine and maintenance of medical equipment. Capital spending was also revised upwards, partly due to outlays on projects co-financed by the European Union.

Consolidated Fund 2013: comparison with 2012

On the basis of the revised estimates, compared with 2012 the Consolidated Fund deficit declined by €162.5 million in 2013, as the increase in revenue is estimated to have been double the rise in expenditure (see Table 2). Total revenue during 2013 is estimated to have expanded by €324.0 million, or 12.9%, mainly due to growth in receipts from both indirect and direct taxes. The latter are seen to have increased by 9.2%, primarily on the back of increased provisional income taxes paid by businesses, although taxes paid by households also supported this revenue item, reflecting developments in the labour market.

Table 2
BALANCE ON THE CONSOLIDATED FUND 2012-2014

EUR millions

	2012	2013		2014			
	Actual	Revised estimate	Change Amount	%	Approved estimate	Change Amount	%
Revenue	2,513.3	2,837.3	324.0	12.9	3,046.5	209.2	7.4
Direct Tax	1,273.1	1,389.7	116.6	9.2	1,437.6	47.9	3.4
Income tax	865.9	959.0	93.1	10.7	984.0	25.0	2.6
Social security contributions ⁽¹⁾	407.2	430.7	23.5	5.8	453.6	22.9	5.3
Indirect tax	917.3	1,034.0	116.7	12.7	1,142.5	108.5	10.5
Value Added Tax	534.2	585.0	50.8	9.5	620.3	35.3	6.0
Customs and excise duties	155.8	211.0	55.2	35.4	266.5	55.5	26.3
Licences, taxes and fines	227.4	238.0	10.6	4.7	255.7	17.7	7.4
Non-tax	322.8	413.6	90.8	28.1	466.4	52.9	12.8
<i>of which</i> Grants	92.9	198.5	105.7	113.8	241.2	42.6	21.5
Expenditure	2,855.5	3,017.1	161.5	5.7	3,182.8	165.7	5.5
Recurrent⁽¹⁾	2,511.8	2,611.6	99.8	4.0	2,730.0	118.4	4.5
Personal emoluments	612.5	648.0	35.6	5.8	663.3	15.3	2.4
Operational and maintenance	115.6	123.8	8.2	7.1	131.7	8.0	6.4
Contributions to government entities	221.2	231.5	10.3	4.6	253.4	21.9	9.4
Social security benefits	782.6	802.1	19.5	2.5	828.6	26.5	3.3
Interest payments	225.8	228.0	2.2	1.0	234.7	6.7	3.0
Other expenditure	554.1	578.2	24.1	4.3	618.3	40.1	6.9
Capital⁽²⁾	343.8	405.5	61.7	17.9	452.8	47.3	11.7
Consolidated Fund balance	-342.3	-179.8	162.5	-	-136.3	43.5	-

⁽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 2014*. Figures do not correspond with those in the Financial Estimates 2014 due to the treatment of equity acquisitions.

Source: Ministry for Finance.

Inflows from indirect taxes are estimated to have grown by 12.7%, partly on the basis of expectations with regard to private consumption, which should have boosted VAT revenue. The latter is estimated to have contributed around two-fifths of the overall increase in indirect taxes. Inflows from customs and excise duties are seen to have expanded by 35.4%, mainly due to the recovery of overdue duties on petroleum. Meanwhile, non-tax revenue is expected to have risen by 28.1%, driven by higher grants from the European Union.

According to the revised estimates for 2013, total expenditure added €161.5 million, or 5.7% over 2012, with around three-fifths being due to higher current spending. Within this category, outlays on personal emoluments showed the strongest increase in absolute terms, rising by an estimated 5.8%. Spending on social security benefits is seen to have increased by 2.5%, mainly due to additional outlays on retirement pensions. Concurrently, contributions to government entities are set to have grown by 4.6% owing to expenditure within the health and education sectors. Capital spending is estimated to have increased by 17.9%, mainly driven by spending on EU-funded projects.

Budget Estimates for 2014

In 2014 the deficit on the Consolidated Fund is expected to be reduced by €43.5 million, to €136.3 million, as revenue grows faster than expenditure.

Revenue is forecast to grow by 7.4%, with around half of this rise coming from indirect taxes. The latter include the effect of increases announced in the Budget Speech on duties on fuel, tobacco, cement and alcohol, as well as driving licence fees. The intake from direct taxes is set to rise by 3.4%, driven by inflows from social security contributions. Meanwhile, non-tax revenue is foreseen to increase by 12.8%, largely driven by higher grants from the European Union. The Budget anticipates growth in non-tax revenue to include some inflows arising from the Individual Investor Programme.

The Government expects to increase its spending by 5.5% over the 2013 level, owing to higher capital and, particularly, recurrent outlays. The latter are once again set to grow on the back of higher expenditure on social security benefits, medicine and surgical materials, as well as personal emoluments. Owing to the reform in the pension system, which led to an increase in the statutory retirement age as from 2013, outlays on social benefits in 2014 are set to grow at a faster pace than in the previous year. On the other hand, personal emoluments received by government employees are expected to rise at a slower rate than in 2013, when certain collective agreements in the health and education sectors came into effect.

Spending is also set to grow on the basis of new measures announced in the Budget 2014; these include an ex-gratia payment in relation to registration tax paid on imported vehicles for personal use within a certain period, as well as measures intended to boost employment. Partly as a result, contributions to government entities and “other” expenditure are set to grow by 9.4% and 6.9%, respectively.

Capital expenditure is meanwhile projected to grow by 11.7%, as a number of infrastructural projects part-financed by the European Union are expected to reach completion.