

## 5. GOVERNMENT FINANCE

In the fourth quarter of 2022, the general government deficit widened in level terms when compared to that recorded in the corresponding period of 2021. When measured on a four-quarter moving sum basis, the general government balance registered a deficit of 5.8% of GDP, marginally higher than in the third quarter of 2022, but below the 7.8% registered at end-2021. The general government debt-to-GDP ratio reached 53.4% at end-December 2022; higher than the 52.9% recorded in September, but lower than the 55.1% posted at end-2021. The net financial worth as a share of GDP improved in the quarter under review. Furthermore, the cyclically-adjusted deficit ratio widened.

### Quarterly developments

#### General government deficit widens in the fourth quarter

In level terms, the general government registered a deficit of €323.9 million in the fourth quarter of 2022, an increase of €51.2 million when compared to the deficit registered in the corresponding period of 2021. This was mainly due to a strong increase in government expenditure, which more than offset a rise in government revenue. The primary deficit increased to €279.2 million for the quarter under review, up from €230.8 million in the corresponding quarter of the previous year.

#### Higher tax receipts underpin revenue growth

In the fourth quarter of 2022, general government revenue increased by €73.6 million, or 4.7%, when compared with the same quarter of 2021 (see Table 5.1). This was mainly driven by higher

**Table 5.1**  
**REVENUE, EXPENDITURE AND DEBT**

EUR millions

	2021		2022			Change 2022Q4-2021Q4	
	Q4	Q1	Q2	Q3	Q4	Amount	%
<b>Revenue</b>	<b>1,567.6</b>	<b>1,307.6</b>	<b>1,506.6</b>	<b>1,458.6</b>	<b>1,641.1</b>	<b>73.6</b>	<b>4.7</b>
Taxes on production and imports	414.2	394.9	455.3	471.2	456.0	41.9	10.1
Current taxes on income and wealth	592.4	478.1	597.0	551.3	672.6	80.2	13.5
Social contributions	288.5	229.2	240.5	255.8	265.2	-23.3	-8.1
Capital and current transfers receivable	79.5	56.3	56.9	55.9	83.6	4.0	5.1
Other <sup>(1)</sup>	192.9	149.1	156.8	124.4	163.8	-29.2	-15.1
<b>Expenditure</b>	<b>1,840.3</b>	<b>1,680.8</b>	<b>1,598.5</b>	<b>1,650.6</b>	<b>1,965.0</b>	<b>124.8</b>	<b>6.8</b>
Compensation of employees	447.3	452.5	465.8	458.8	453.2	5.9	1.3
Intermediate consumption	427.6	321.9	350.8	303.8	389.3	-38.3	-8.9
Social benefits	319.8	421.4	352.8	326.4	388.4	68.7	21.5
Subsidies	189.8	160.9	160.9	262.9	264.7	74.9	39.4
Interest	41.9	37.4	42.1	41.7	44.7	2.8	6.7
Other current transfers payable	120.9	133.0	54.5	84.9	189.9	69.0	57.1
GFCF	189.7	121.1	138.8	131.1	172.8	-16.8	-8.9
Capital transfers payable	99.8	28.8	29.3	31.2	64.9	-35.0	-35.0
Other <sup>(2)</sup>	3.5	3.7	3.4	9.8	-3.0	-6.5	
<b>Primary balance</b>	<b>-230.8</b>	<b>-335.8</b>	<b>-49.8</b>	<b>-150.3</b>	<b>-279.2</b>	<b>-48.4</b>	
<b>General government balance</b>	<b>-272.7</b>	<b>-373.2</b>	<b>-91.9</b>	<b>-192.0</b>	<b>-323.9</b>	<b>-51.2</b>	
<b>General government debt</b>	<b>8,263.9</b>	<b>8,651.3</b>	<b>8,595.5</b>	<b>8,695.0</b>	<b>9,003.4</b>		

Source: NSO.

<sup>(1)</sup> "Other" revenue includes market output as well as income derived from property and investments.

<sup>(2)</sup> "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

tax revenue, which was buoyed by strong growth in domestic demand. Receipts from current taxes on income and wealth increased by €80.2 million in year-on-year terms, due to higher inflows from income taxes on households. Moreover, inflows from taxes on production and imports rose by €41.9 million, mainly reflecting higher VAT receipts. Meanwhile, due to timing issues, inflows from social contributions fell by €23.3 million.

Non-tax revenue declined when compared to a year earlier. This was due to a fall of €29.2 million in the 'other' component of government revenue, reflecting lower income from sales.

### *Current expenditure underpins the rise in expenditure*

Total government expenditure increased by €124.8 million, or 6.8% when compared with the fourth quarter of 2021. This increase reflects higher current expenditure, mainly through a significant rise in subsidies, social benefits, and other current transfers. Outlays on subsidies increased by €74.9 million, mainly reflecting costs related to the restructuring exercise and early retirement schemes issued by Air Malta. Spending on social benefits increased by €68.7 million, mainly attributable to increases in outlays on supplementary allowances and in-work benefits. This reflects the introduction of a new COLA-based mechanism to support low-income households, more generous eligibility on the in-work benefit, and revamped administrative procedures.<sup>1</sup> Meanwhile, outlays on current transfers payable rose by €69.0 million, after declining strongly in the previous two quarters.

Outlays on compensation of employees and interest payments increased marginally by €5.9 million and €2.8 million, respectively. Meanwhile, intermediate consumption declined by €38.3 million, largely on the back of lower spending related to public administration.

Capital spending declined during the period under review. Outlays on government investment fell by €16.8 million, mainly attributable to lower outlays on road construction, and on investments in property, plant, and equipment. Furthermore, capital transfers declined by €35.0 million, due to a decrease in outlays on locally-financed initiatives.

### *Debt increases*

In December 2022, the stock of general government debt amounted to €9,003.4 million, €308.4 million higher than the level registered at end-September 2022. This reflects an increase in long-term debt securities outstanding (composed of MGS), which outweighed a decline in short-term debt securities outstanding (composed of Treasury bills). The former rose by €465.0 million due to new MGS issues. As a result, its share in total debt rose by 2.6 percentage points to 76.2%. Meanwhile, holdings of short-term debt securities fell by €166.1 million, and their share in total debt decreased by 2.2 percentage points to 8.9%.

The value of loans outstanding increased by €9.8 million, due to an increase in long-term loans. The share of loans outstanding in total debt stood at 9.6%, down from 9.9% in September.

## **Headline and cyclically-adjusted developments**

### *Headline deficit ratio rises slightly in the final quarter but declines in annual terms*

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio widened slightly by 0.1 percentage point, from 5.7% in the third quarter of 2022 to 5.8% in

<sup>1</sup> In 2022, in-work benefits started being paid to all eligible parents irrespective of application status. Payments are made in arrears.

the quarter under review (see Chart 5.1). This was driven by a 0.5 percentage point drop in the revenue-to-GDP ratio, which reached 35.1%, due to a decline in the share of current revenue in GDP. This drop more than offset a 0.3 percentage point fall in the expenditure-to-GDP ratio, which now amounts to 40.9%. It reflects a 0.4 percentage point decrease in the share of capital expenditure in GDP.

Over the year as a whole, the deficit decreased by 2.0 percentage points from 7.8% at end-2021. This was driven by a declining share of expenditure in GDP, which offset a smaller decline in the revenue-to-GDP ratio.

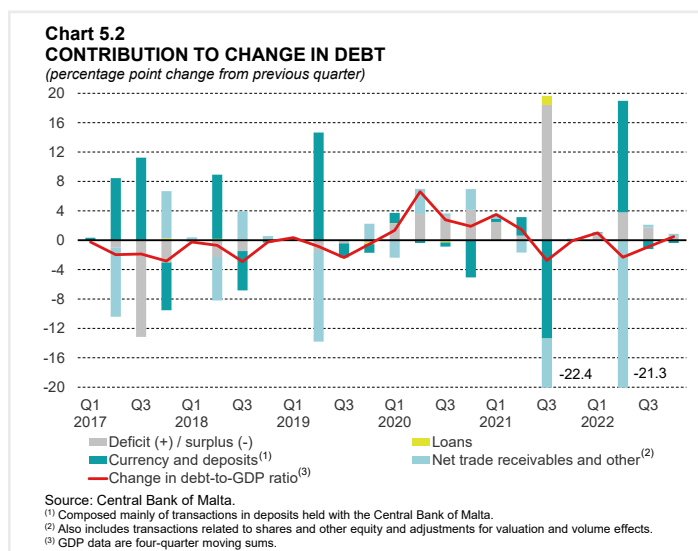
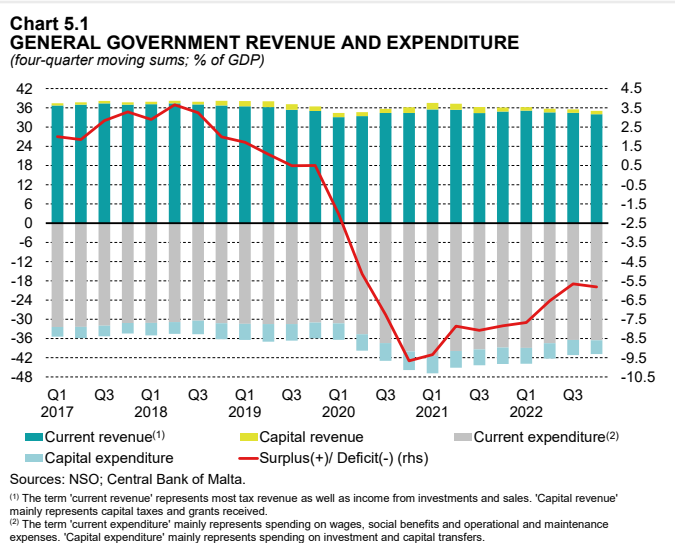
Between September 2022 and December 2022, debt increased in level terms. During this period, the debt-to-GDP ratio increased by 0.5 percentage point, from 52.9% to 53.4%. The impact of transactions in financial assets and other deficit-debt adjustments on the debt ratio during this quarter was marginal (see Chart 5.2).

Over the year as whole, the debt ratio declined by 1.7 percentage points, despite the level increase in debt. This is due to significant negative deficit-debt adjustments, mostly from net trade receivables.

### Net financial worth improves relative to GDP

The market value of financial assets held by the general government fell to €4,820.2 million by December 2022, €198.7 million less than the level as at end-September 2022. This was mainly due to a decline in the value of currency and deposits, following a drawdown of deposits held with the Central Bank of Malta. Consequently, the share of financial assets in GDP dropped to 28.6%, from 30.5% in the previous quarter (see Chart 5.3).

The market value of financial liabilities declined by €83.7 million, to stand at €10,318.7 million. This is mainly due to a strong decline in other accounts payable, which was partly offset by an increase in the value of debt securities. Consequently, the share of financial liabilities in GDP



declined by 2.1 percentage points, to reach 61.2%.

The resulting net financial worth of general government stood at -€5,498.5 million, which is a deterioration of €115.0 million compared to the previous quarter. However, the net financial worth of general government as a share of GDP improved by 0.2 percentage point, standing at -32.6% by end-December.

As a share in GDP, the net financial worth of the euro area improved by 1.5 percentage points compared to September, to -57.0% of GDP. Despite this development, the net worth position of the Maltese general government is still more favourable than that in the euro area.

### *Debt ratio continues to compare favourably with the euro area's*

During the quarter under review, the euro area general government deficit stood at 3.6% of GDP on a four-quarter moving sum basis, up from a deficit of 3.3% of GDP at end-September (see Chart 5.4). Over the same period, the euro area debt ratio declined to 91.6% of GDP, from 93.0% of GDP in the previous quarter. Over the year as whole, the euro area general government deficit-to-GDP ratio declined by 1.7 percentage points, while the debt-to-GDP ratio decreased by 3.9 percentage points.

In 2022, the Maltese government deficit ratio improved at a faster rate than the euro area's, but remained above it. Malta's debt-to-GDP ratio declined at a comparatively slower pace but remained well below the corresponding ratio for the euro area.

### *Cyclically-adjusted deficit widens<sup>2</sup>*

On a four-quarter moving sum basis, the cyclically-adjusted deficit stood at 5.8% of GDP in the quarter under review, 0.2 percentage point higher than the deficit posted three months earlier (see

<sup>2</sup> The cyclically-adjusted balance is corrected for the impact of the economic cycle on government tax revenue and unemployment assistance. This methodology is in line with the approach used by the European Commission but is based on own estimates for fiscal items' elasticities and the output gap. For an overview of the method used by the Commission, see Mourre, G., Astarita C., and Princen S. (2014): "Adjusting the budget balance for the business cycle: the EU methodology," European Economy – Economic Papers 536, (DG ECFIN), European Commission.

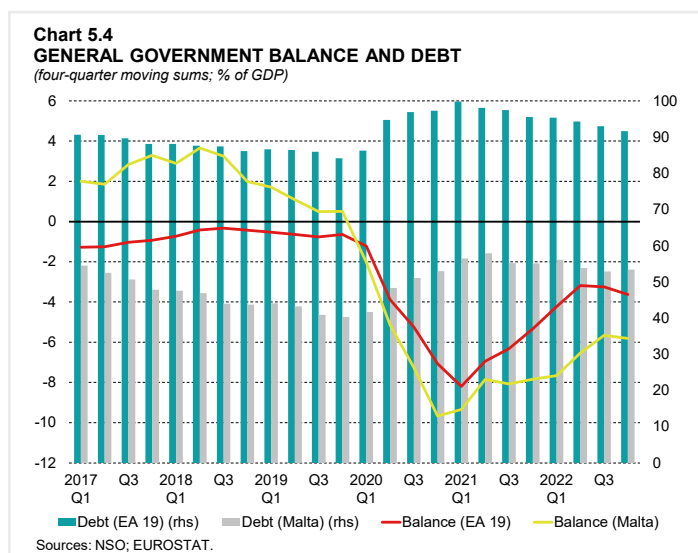
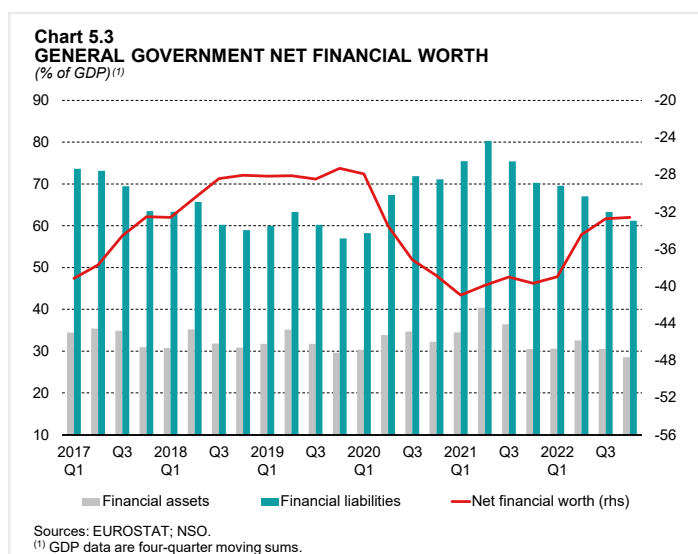
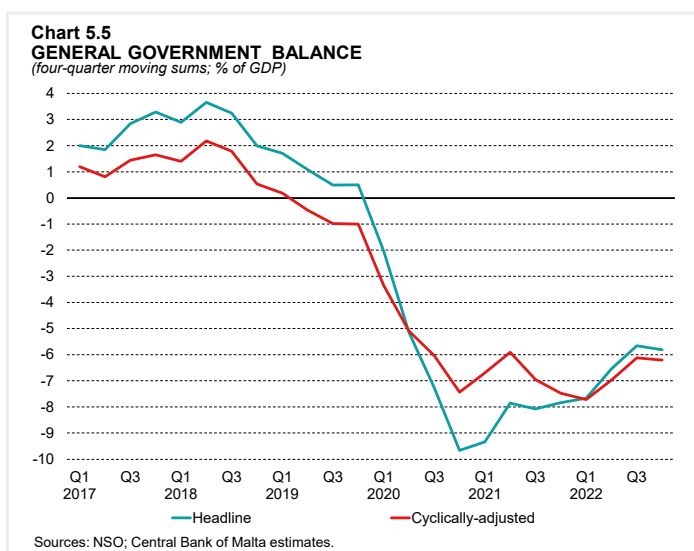


Chart 5.5). This is broadly in line with the 0.1 percentage point increase in the headline deficit ratio over the same period.

Overall, the share of cyclically-adjusted revenue in GDP declined by 0.6 percentage point (see Table 5.2). This was mostly due to a fall in the share of 'other revenues', which declined by around 0.4 percentage point, due to a fall in income from sales. Overall, cyclically-adjusted tax revenue had a marginal contribution to the decline in the revenue ratio.

While the share of social contributions in GDP fell by 0.3 percentage point, this was partly offset by a 0.2 percentage point increase in the share of current taxes on income and wealth.

The share of cyclically-adjusted expenditure fell by 0.5 percentage point. This was mainly due to the decrease in the ratio of intermediate consumption, compensation of employees and government investment. This was partly offset by an increase in 'other expenditure' and social benefits, which rose by 0.4 percentage point and 0.1 percentage point, respectively, due to the aforementioned increases in outlays on subsidies, current transfers and on certain benefits.



**Table 5.2**  
**QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS**

Percentage points of GDP

	2021		2022		
	Q4	Q1	Q2	Q3	Q4
<b>Revenue</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.3</b>	<b>-0.6</b>
Current taxes on income and wealth	0.0	0.1	-0.6	0.1	0.2
Taxes on production and imports	-0.3	0.0	0.0	0.0	0.0
Social contributions	0.2	-0.1	0.0	0.1	-0.3
Other <sup>(1)</sup>	-0.1	0.0	0.1	-0.4	-0.4
<b>Expenditure</b>	<b>0.4</b>	<b>0.2</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-0.5</b>
Compensation of employees	0.1	-0.2	-0.2	-0.2	-0.3
Intermediate consumption	0.2	0.1	0.2	-0.3	-0.5
Social benefits	-0.2	0.3	-0.5	-0.3	0.1
Interest payments	0.0	-0.1	0.0	0.0	0.0
GFCF	0.1	-0.1	-0.2	0.0	-0.2
Other <sup>(2)</sup>	0.3	0.2	-0.6	-0.3	0.4
<b>Primary balance</b>	<b>-0.6</b>	<b>-0.3</b>	<b>0.7</b>	<b>0.8</b>	<b>-0.1</b>
<b>General government balance</b>	<b>-0.5</b>	<b>-0.2</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.1</b>

Sources: NSO; Central Bank of Malta estimates.

<sup>(1)</sup> Includes market output, income derived from property and investments and current and capital transfers received.

<sup>(2)</sup> Mainly includes subsidies, current and capital transfers.