5. GOVERNMENT FINANCE

In the third quarter of 2023, the general government deficit narrowed significantly when compared to that recorded in the corresponding period of 2022. When measured on a four-quarter moving sum basis, the general government deficit stood at 3.4% of GDP, lower than the 4.2% registered in the second quarter of 2023. The general government debt-to-GDP ratio declined slightly, despite increasing in level terms. The net financial worth as a share of GDP improved in the quarter under review. Meanwhile, the cyclically-adjusted deficit ratio also narrowed.

Quarterly developments

General government deficit narrows significantly

In level terms, the general government registered a deficit of €44.5 million in the third quarter of 2023, a decline of €140.0 million when compared to the deficit registered in the corresponding period of 2022. This was due to an increase in government revenue, which outweighed a rise in expenditure. The primary balance shifted to a surplus of €2.5 million, from a deficit of €142.8 million a year earlier.

Higher tax receipts support revenue growth

In the third quarter of 2023, general government revenue increased by €176.4 million, or 12.0% when compared with the same quarter of 2022 (see Table 5.1). This was mainly driven by higher

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2022		2023			Change 2023Q3-2022Q3	
	Q3	Q4	Q1	Q2	Q3	Amount	%
Revenue	**1,464.5**	**1,615.8**	**1,405.6**	**1,733.7**	**1,640.9**	**176.4**	**12.0**
Taxes on production and imports	481.9	465.3	447.3	461.0	523.3	41.5	8.6
Current taxes on income and wealth	551.3	622.6	498.7	747.0	596.3	44.9	8.2
Social contributions	255.8	265.2	240.9	263.2	261.8	6.1	2.4
Capital and current transfers receivable	57.5	90.2	59.8	53.7	73.4	16.0	27.8
Other[1]	118.1	172.5	158.9	208.8	186.1	68.0	57.6
Expenditure	**1,649.0**	**1,964.8**	**1,643.1**	**1,747.6**	**1,685.4**	**36.4**	**2.2**
Compensation of employees	457.0	459.6	479.3	479.0	490.6	33.5	7.3
Intermediate consumption	299.6	380.7	333.3	388.0	341.5	41.8	14.0
Social benefits	326.4	386.1	442.1	399.6	365.1	38.7	11.8
Subsidies	264.4	267.7	138.7	183.5	142.9	-121.5	-46.0
Interest	41.7	43.5	44.5	53.0	47.0	5.3	12.6
Other current transfers payable	88.7	186.8	73.4	48.1	118.5	29.8	33.6
GFCF	139.6	178.5	98.4	156.0	130.6	-8.9	-6.4
Capital transfers payable	25.4	58.5	30.4	35.0	41.4	16.1	63.3
Other[2]	6.2	3.5	3.0	5.4	7.9	1.7	
Primary balance	**-142.8**	**-305.6**	**-193.0**	**39.1**	**2.5**	**145.3**	
General government balance	**-184.5**	**-349.0**	**-237.5**	**-13.9**	**-44.5**	**140.0**	
General government debt	**8,695.0**	**9,000.5**	**9,250.8**	**9,161.1**	**9,409.8**		

Source: NSO.

[1] "Other" revenue includes market output as well as income derived from property and investments.

[2] "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

tax revenue. Inflows from current taxes on income and wealth increased by €44.9 million, mostly due to income taxes paid by individuals. Inflows from taxes on production and imports rose by €41.5 million, reflecting higher VAT receipts. Moreover, inflows from social contributions rose by €6.1 million, reflecting favourable labour market conditions.

Non-tax revenue also increased when compared to a year earlier. This was due to a rise in intakes from sales of services provided by general government entities. This item is part of the 'other' component of government revenue shown in Table 5.1.

Current expenditure underpins the rise in expenditure

Total government expenditure increased by €36.4 million, or 2.2% when compared with the third quarter of 2022. This increase primarily reflects higher current expenditure. Social benefits increased by €38.7 million, largely on the back of higher outlays on retirement pensions. Meanwhile, intermediate consumption rose by €41.8 million, as a result of higher outlays within the public administration, health and residential care service sectors. Outlays on compensation of employees rose by €33.5 million, while current transfers rose by €29.8 million. The latter increase reflected the timing of tax refund cheques issued to households. On the other hand, subsidies declined by €121.5 million, due to timing of payments on support measures to mitigate energy price pressures.

Capital spending also rose during the period under review. Outlays on capital transfers increased by €16.1 million in annual terms offsetting a decrease of €8.9 million in government spending.

Debt increases

In September 2023, the stock of general government debt amounted to €9,409.8 million, €248.8 million higher than the level registered at end-June. This mostly reflects a rise 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 increased by €588.6 million, and as a result, their share in total debt increased by 4.2 percentage points to 81.6%. Meanwhile, holdings of short-term debt securities declined by €340.3 million, and their share in total debt decreased by 3.8 percentage points to 4.3%.

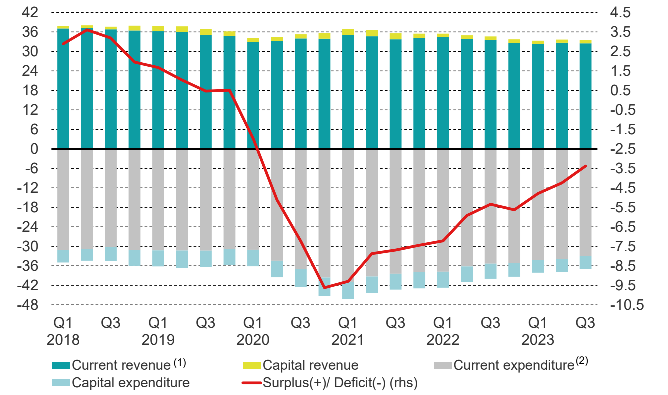
The value of other forms of government debt – namely loans outstanding and currency and deposits – remained broadly unchanged from June. Their share in total debt also changed marginally.

Headline and cyclically-adjusted developments

Headline deficit and debt ratios decline

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP

Chart 5.1
GENERAL GOVERNMENT REVENUE AND EXPENDITURE
(four-quarter moving sums; % of GDP)



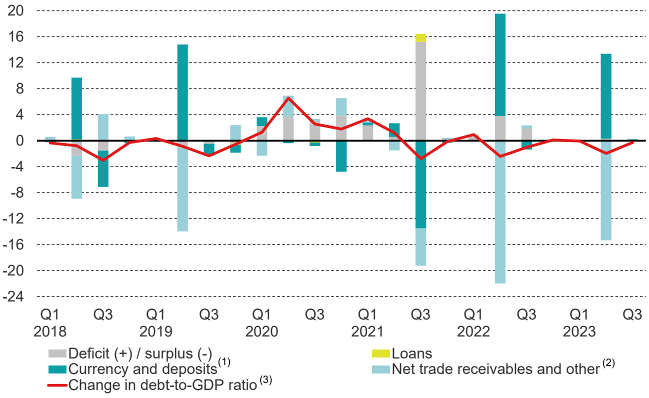
Sources: NSO; Central Bank of Malta.

(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.

(2) The term 'current expenditure' mainly represents spending on wages, social benefits and operational and maintenance expenses. 'Capital expenditure' mainly represents spending on investment and capital transfers.

ratio narrowed by 0.8 percentage point, from 4.2% in the second quarter of 2023 to 3.4% in the quarter under review (see Chart 5.1). This was mainly driven by a 1.0 percentage point decline in the expenditure-to-GDP ratio, which fell to 36.9%, mostly reflecting a fall in the share of current expenditure in GDP. This offset a marginal decline of 0.2 percentage point in the revenue-to-GDP ratio, which stood at 33.5%, due to a decline in the share of current revenue in GDP.

Chart 5.2
CONTRIBUTION TO CHANGE IN DEBT
(percentage point change from previous quarter)



Source: Central Bank of Malta.
(1) Composed mainly of transactions in deposits held with the Central Bank of Malta.
(2) Also includes transactions related to shares and other equity and adjustments for valuation and volume effects.
(3) GDP data are four-quarter moving sums.

Between June and September 2023, the debt-to-GDP ratio declined marginally by 0.3 percentage point, from 49.6% to 49.3% (see Chart 5.2). However, as stated above, debt increased in level terms. Although the deficit recorded in the third quarter contributed, the level increase in debt primarily reflects transactions in financial assets, in particular the accumulation of bank deposits.

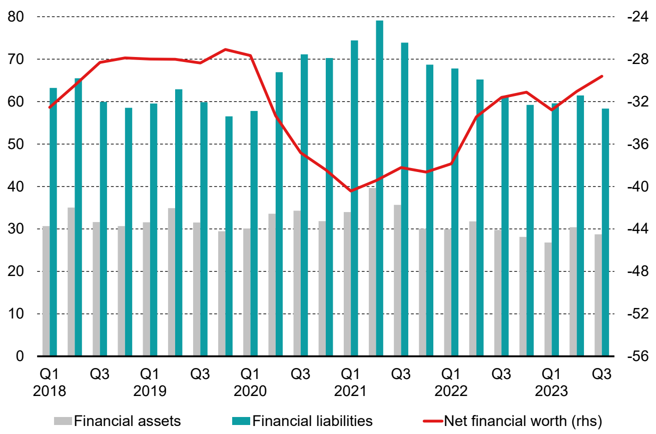
Net financial worth improves

The market value of financial liabilities held by the general government decreased by €217.7 million during the third quarter of 2023, to stand at €11,136.1 million. This is mainly due to a decline in 'other accounts payable' which offset the abovementioned rise in debt securities. Consequently, the share of financial liabilities in GDP declined by 3.1 percentage points, to 58.4% (see Chart 5.3).

The market value of financial assets declined to €5,485.5 million, €133.5 million lower than the level as at end-June 2023. This was mainly due to a decline in 'other accounts receivable', which offset an increase in the value of deposits. Consequently, the share of financial assets in GDP fell to 28.7%, from 30.4% in the previous quarter.

The resulting net financial worth of general government stood at -€5,650.6 million, an improvement of €84.2 million from the previous quarter's level. As a share of GDP, the net financial worth improved by 1.4 percentage points, standing at -29.6% by end-September.

Chart 5.3
GENERAL GOVERNMENT NET FINANCIAL WORTH
(% of GDP)(1)



Sources: EUROSTAT; NSO.
(1) GDP data are four-quarter moving sums.

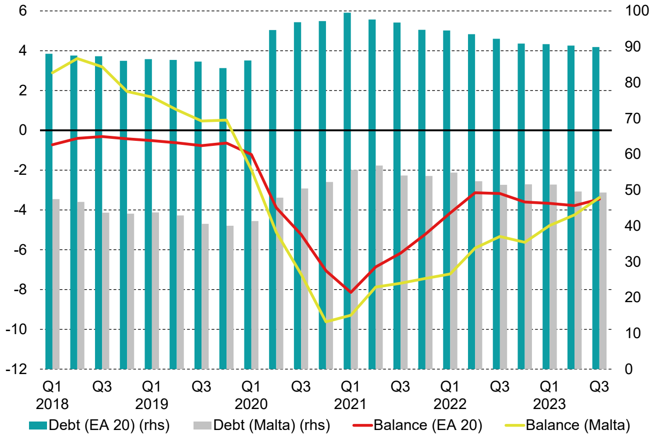
In the euro area, this share improved by 1.4 percentage points compared to June, to -56.4% of GDP. Thus, the net worth position of the Maltese general government remained more favourable than the euro area average.

Deficit ratio improves at a faster pace than the euro area average

During the quarter under review, the euro area general government deficit stood at 3.5% of GDP on a four-quarter moving sum basis, slightly narrower than the deficit registered in June 2023 (see Chart 5.4). Over the same period, the euro area debt ratio declined slightly to 89.9% of GDP, from 90.3% of GDP in the previous quarter.

Due to the significant improvement in the fiscal balance in year-on-year terms, Malta's deficit-to-GDP ratio is now in line with the euro area average. Moreover, the debt-to-GDP ratio remains well below the corresponding ratio for the euro area.

Chart 5.4
GENERAL GOVERNMENT BALANCE AND DEBT
(four-quarter moving sums; % of GDP)

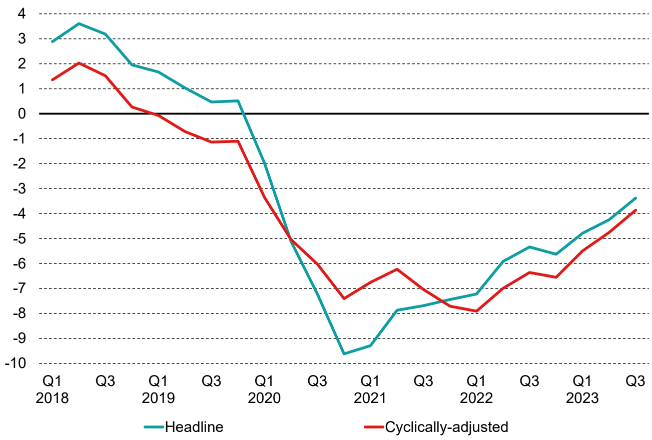


Sources: NSO; EUROSTAT.

Cyclically-adjusted deficit narrows[1]

On a four-quarter moving sum basis, the cyclically-adjusted deficit stood at 3.9% of GDP in the quarter under review, 0.9 percentage point lower than that posted three months earlier (see Chart 5.5.). This is in line with the decrease in the headline deficit ratio over the same period.

Chart 5.5
GENERAL GOVERNMENT BALANCE
(four-quarter moving sums; % of GDP)



Sources: NSO; Central Bank of Malta estimates.

The share of cyclically-adjusted revenue in GDP fell by 0.1 percentage point (see Table 5.2). This was driven by a 0.2 percentage point decrease in the share of current taxes on income and wealth, together with a decline of 0.1 percentage point in both taxes on production and imports and social contributions. This development

[1] 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.

Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS
Percentage points of GDP

	2022		2023		
	Q3	Q4	Q1	Q2	Q3
Revenue	**-0.5**	**-1.0**	**-0.4**	**0.3**	**-0.1**
Current taxes on income and wealth	0.1	-0.2	-0.2	0.5	-0.2
Taxes on production and imports	0.0	-0.1	0.0	-0.2	-0.1
Social contributions	0.0	-0.4	-0.1	0.0	-0.1
Other(1)	-0.5	-0.3	-0.1	0.0	0.3
Expenditure	**-1.1**	**-0.8**	**-1.5**	**-0.4**	**-1.0**
Compensation of employees	-0.3	-0.3	-0.2	-0.3	-0.1
Intermediate consumption	-0.4	-0.6	-0.2	0.0	0.0
Social benefits	-0.3	0.1	-0.2	-0.1	-0.1
Interest payments	0.0	0.0	0.0	0.0	0.0
GFCF	0.0	-0.2	-0.3	0.0	-0.1
Other(2)	-0.1	0.3	-0.7	-0.1	-0.6
Primary balance	**0.6**	**-0.2**	**1.1**	**0.8**	**0.9**
General government balance	**0.6**	**-0.2**	**1.1**	**0.7**	**0.9**

Sources: NSO; Central Bank of Malta estimates.

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

(2) Mainly includes subsidies, current and capital transfers.

was partly offset by a 0.3 percentage point increase in the share of ‘other’ revenue, which was partly driven by the above-mentioned increase in sales income.

At the same time, the share of cyclically-adjusted expenditure fell by 1.0 percentage point. This was mainly due to a fall in the share of ‘other’ expenditure which declined by 0.6 percentage point. This in turn was driven by the previously mentioned decline in subsidies. Meanwhile, the share of other forms of expenditure remained broadly stable, or declined slightly, in the period under review.