5. GOVERNMENT FINANCE

In the fourth quarter of 2023, the general government deficit widened in level terms when compared to that recorded in the corresponding period of 2022. When measured on a four-quarter moving sum basis, the general government balance registered a deficit of 4.9% of GDP, higher than in the third quarter of 2023, but below the 5.5% registered at end-2022. Similar movements can be observed in the Bank's estimate of the cyclically-adjusted balance.

The general government debt-to-GDP ratio reached 50.4% at end-December 2023, higher than in September, but lower than the 51.6% posted at end-2022. The net financial worth as a share of GDP worsened in the quarter under review, both in quarterly and annual terms.

Quarterly developments

General government deficit widens in the fourth quarter

In level terms, the general government registered a deficit of €596.9 million in the fourth quarter of 2023, an increase of €254.7 million when compared to the deficit registered in the corresponding period of 2022. This was mainly due to a strong increase in government expenditure, which offset a rise in government revenue. The primary deficit increased to €534.7 million in the quarter under review, up from €298.7 million a year earlier.

Higher direct tax inflows underpin revenue growth

In the fourth quarter of 2023, general government revenue increased by €66.0 million, or 4.0%, when compared with the same quarter of 2022 (see Table 5.1). Around half of this increase was

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2022	2023				Change 2023Q4-2022Q4	
	Q4	Q1	Q2	Q3	Q4	Amount	%
Revenue	**1,645.8**	**1,409.3**	**1,723.4**	**1,638.6**	**1,711.7**	**66.0**	**4.0**
Taxes on production and imports	465.6	449.0	461.8	524.1	504.1	38.4	8.3
Current taxes on income and wealth	622.6	496.9	749.7	599.0	585.0	-37.6	-6.0
Social contributions	265.2	242.6	264.9	263.5	296.7	31.5	11.9
Capital and current transfers receivable	106.8	61.9	52.4	73.1	112.0	5.2	4.9
Other[1]	185.5	158.9	194.7	178.9	213.9	28.4	15.3
Expenditure	**1,988.0**	**1,656.5**	**1,746.5**	**1,721.7**	**2,308.7**	**320.7**	**16.1**
Compensation of employees	462.6	480.0	479.8	492.2	496.0	33.4	7.2
Intermediate consumption	405.5	328.3	385.4	340.9	467.2	61.7	15.2
Social benefits	383.1	442.1	399.5	365.1	379.4	-3.7	-1.0
Subsidies	267.3	138.6	178.9	150.9	276.4	9.1	3.4
Interest	43.6	44.4	52.9	48.7	62.2	18.6	42.7
Other current transfers payable	156.4	78.1	48.7	117.4	152.9	-3.5	-2.3
GFCF	212.6	106.4	156.6	149.7	258.9	46.3	21.8
Capital transfers payable	53.5	35.1	38.9	50.6	204.7	151.2	282.6
Other[2]	3.5	3.5	5.8	6.3	10.9	7.5	
Primary balance	**-298.7**	**-202.8**	**29.8**	**-34.4**	**-534.7**	**-236.1**	
General government balance	**-342.2**	**-247.2**	**-23.2**	**-83.1**	**-596.9**	**-254.7**	
General government debt	**8,999.7**	**9,250.0**	**9,160.3**	**9,408.7**	**9,767.8**		

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.

due to higher tax revenue. Inflows from taxes on production and imports rose by €38.4 million, partly reflecting higher inflows from value added tax (VAT), excise duties and stamp duty. Inflows from social contributions rose by €31.5 million, reflecting favourable labour market conditions. However, intakes from current taxes on income and wealth fell by €37.6 million in year-on-year terms, due to lower receipts from firms.

Meanwhile, non-tax revenue increased when compared to a year earlier. This was mainly due to a rise of €28.4 million in the 'other' component of government revenue, reflecting higher income from sales.

Capital spending main factor behind rise in expenditure

Total government expenditure increased by €320.7 million, or 16.1%, when compared with the fourth quarter of 2022. This increase partly reflects higher current expenditure, mainly through a significant rise in intermediate consumption, compensation of employees, and interest. Outlays on intermediate consumption increased by €61.7 million, largely on the back of higher spending within the public administration and residential care sectors. Spending on compensation of employees increased by €33.4, mainly due to higher outlays in the health sector, where a new collective agreement for nurses, midwives and ECG technicians came into force. Moreover, interest payments increased by €18.6 million, in line with higher debt levels and an increase in the cost of debt financing.

Overall, other forms of current expenditure rose marginally. While outlays on subsidies increased by €9.1 million, spending on social benefits and on current transfers payable declined by €3.7 million and €3.5 million, respectively.

Capital spending increased strongly during the period under review, in part driven by the completion of projects part financed by the European Union. At the same time, outlays on domestically-financed infrastructural projects increased. This resulted in a €151.2 million surge in capital transfers and a €46.3 million increase in government investment. Outlays reflected projects on water management, improvements in ICT systems and environmentally-friendly projects such as the retrofitting of public buildings and new public transport vehicles.

Debt increases

In December 2023, the stock of general government debt amounted to €9,767.8 million, €359.1 million higher than the level registered at end-September 2023. This reflects an increase in short-term debt securities outstanding (composed of Treasury bills), and a rise in long-term debt securities outstanding (composed of MGS). The former rose by €150.7 million, while its share in total debt went up by 1.4 percentage points to 5.7%. While holdings of long-term debt securities increased by €131.8 million, their share in total debt decreased by 1.7 percentage points to 80.0%.

The value of loans outstanding increased by €77.6 million, due to an increase in long-term loans. The share of loans outstanding in total debt stood at 9.6%, up from 9.2% in September.

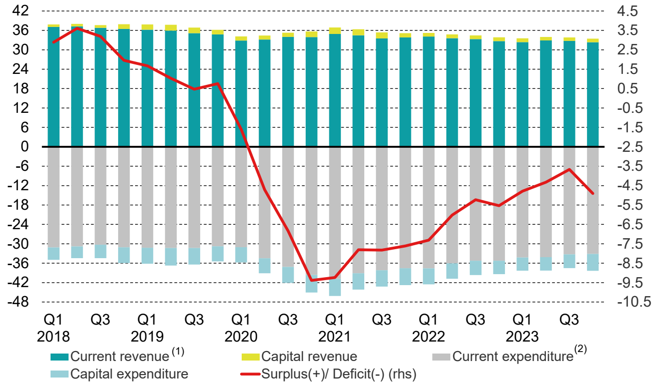
Headline and cyclically-adjusted developments

Headline deficit ratio rises 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 by 1.2 percentage points, from 3.7% in the third quarter of 2023 to 4.9% in the quarter under review (see Chart 5.1). This was mostly driven by a 0.8 percentage point rise in the expenditure-to-GDP ratio, which reached 38.4%, due to a rise in the share of capital expenditure in GDP. This was amplified by a 0.4 percentage point fall in the current revenue-to-GDP ratio, which lowered the overall revenue ratio to 33.5%.

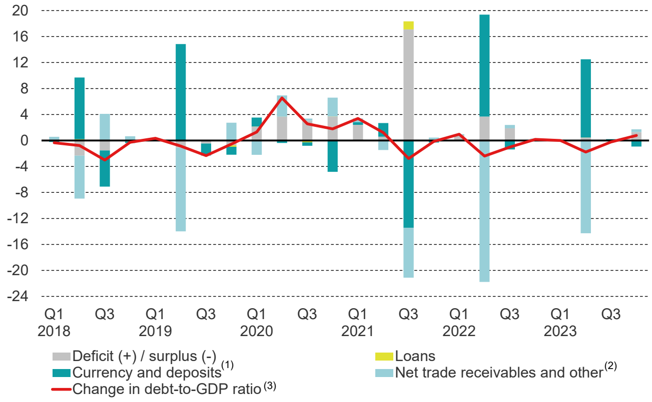
Over the year as a whole, the deficit shrank by 0.6 percentage point from 5.5% at end-2022. This was due to a declining share of expenditure in GDP, driven by a 2.1 percentage point drop in the share of current spending in GDP.

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.

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 September 2023 and December 2023, the debt-to-GDP ratio increased by 0.8 percentage point, from 49.6% to 50.4%. This increase was driven by the budget deficit, as the impact of transactions in financial assets, and other deficit-debt adjustments on the debt ratio was marginal (see Chart 5.2).

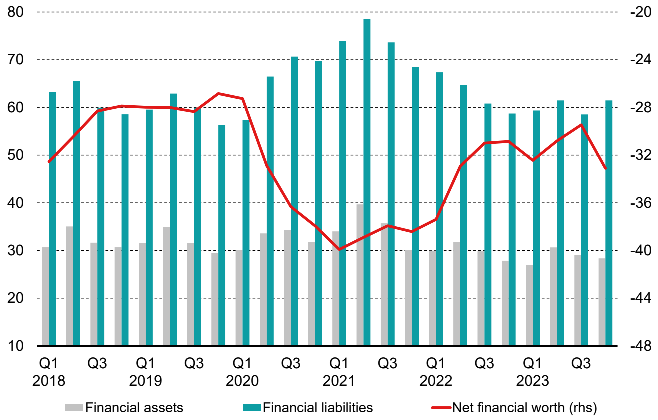
Over the year as whole, the debt ratio declined by 1.2 percentage points, despite the level increase in debt. This is due to significant negative deficit-debt adjustments, mostly from net receivables.

Net financial worth worsens

The market value of financial assets held by the general government declined to €5,494.1 million by December 2023, €15.7 million less than the level as at end-September 2023. 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 28.3%, from 29.1% in the previous quarter (see Chart 5.3).

The market value of financial liabilities increased by €814.4 million, to stand at €11,911.8 million. This is mainly due to a strong rise in the value of debt securities and other accounts payable. An increase in the value of loans also contributed. Consequently, the share of financial liabilities in GDP rose by 2.9 percentage points, to reach 61.5%.

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



Sources: EUROSTAT; NSO.
[1] GDP data are four-quarter moving sums.

The resulting net financial worth of general government stood at -€6,417.7 million, which is a deterioration of €830.0 million compared to the previous quarter. The net financial worth of general government as a share of GDP deteriorated by 3.6 percentage points, standing at -33.1% by end-December.

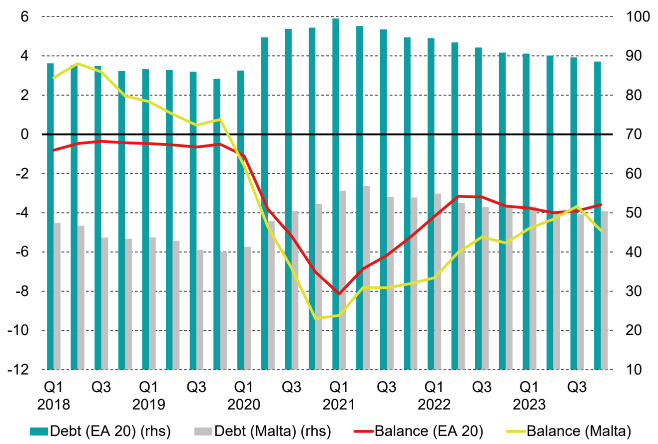
The euro area average net financial value as a share in GDP worsened by 3.1 percentage points compared to September, to -57.9% of GDP. Thus, the net worth position of the Maltese general government remained more favourable than the euro area average.

Debt ratio continues to compare favourably with the euro area's despite wider deficit

During the quarter under review, the euro area general government deficit stood at 3.6% of GDP on a four-quarter moving sum basis, down from a deficit of 3.9% of GDP at end-September (see Chart 5.4). Over the same period, the euro area debt ratio declined to 88.6% of GDP, from 89.6% in the previous quarter. Over the year as whole, the euro area general government deficit-to-GDP ratio declined by 0.1 percentage point, while the debt-to-GDP ratio decreased by 2.3 percentage points.

In 2023, the Maltese government deficit ratio improved at a faster rate than that of the euro area but remained above it. Malta's debt-to-GDP ratio declined at a comparatively slower pace but remained below the corresponding ratio for the euro area.

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

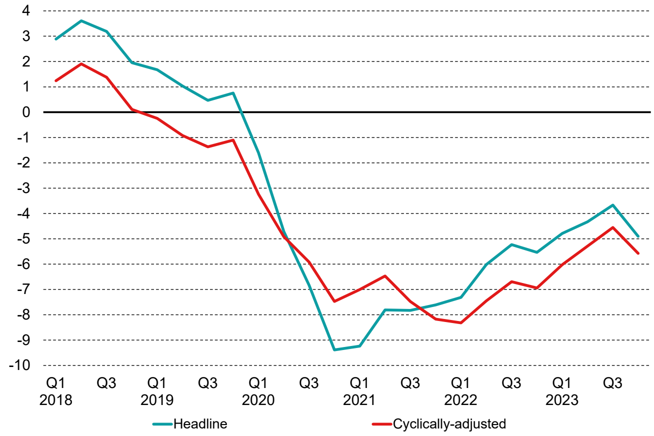


Sources: NSO; EUROSTAT.

Cyclically-adjusted deficit widens[1]

On a four-quarter moving sum basis, the cyclically-adjusted deficit stood at 5.6% of GDP in the quarter under review, 1.0 percentage point wider than the deficit posted three months earlier (see Chart 5.5). This is broadly in line with the 1.2 percentage point increase 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.

Over the year as a whole, the cyclically-adjusted deficit ratio declined by 1.3 percentage points, from 6.7% in 2022.

When compared with September, the share of cyclically-adjusted revenue in GDP declined by 0.4 percentage point (see Table 5.2). This was due to a fall in the share of current taxes on income and wealth. The share of other forms of revenue remained stable over the quarter.

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

	2022	2023			
	Q4	Q1	Q2	Q3	Q4
Revenue	**-0.7**	**-0.4**	**0.4**	**-0.1**	**-0.4**
Current taxes on income and wealth	-0.2	-0.2	0.6	-0.2	-0.4
Taxes on production and imports	-0.1	0.0	-0.2	-0.1	0.0
Social contributions	-0.4	-0.1	0.0	-0.1	0.0
Other(1)	0.0	-0.1	-0.1	0.2	0.0
Expenditure	**-0.4**	**-1.3**	**-0.4**	**-0.8**	**0.6**
Compensation of employees	-0.3	-0.2	-0.3	-0.1	-0.1
Intermediate consumption	-0.3	-0.2	0.0	0.0	0.1
Social benefits	0.1	-0.2	-0.1	-0.1	-0.3
Interest payments	0.0	0.0	0.0	0.0	0.1
GFCF	0.0	-0.1	0.0	0.0	0.1
Other(2)	0.1	-0.7	-0.1	-0.6	0.7
Primary balance	**-0.3**	**0.9**	**0.8**	**0.7**	**-0.9**
General government balance	**-0.2**	**0.9**	**0.7**	**0.7**	**-1.0**

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.

[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.

Meanwhile, the share of cyclically-adjusted expenditure rose by 0.6 percentage point. This was mainly due to the increase in the ratio of 'other' expenditure, which in turn is driven by the aforementioned increase in capital transfers. Moreover, the share of government investment, interest payments, and intermediate consumption all increased by 0.1 percentage point. These increases were partly offset by a decline in the ratio of social benefits and compensation of employees, of 0.3 and 0.1 percentage points, respectively.