5. GOVERNMENT FINANCE

In the second quarter of 2024, the general government balance recorded a surplus which contrasts with a deficit in the corresponding period of 2023. When measured on a four-quarter moving sum basis, the general government deficit ratio narrowed by 0.4 percentage points, to reach 3.4% from 3.8% in March 2024. Similarly, the cyclically-adjusted deficit narrowed.

The general government debt-to-GDP ratio declined by 0.5 percentage points to stand at 46.7% at the end of June. Meanwhile, the net financial worth as a share of GDP improved, though it remained negative.

Quarterly developments

General government balance registers a surplus in the second quarter
In level terms, the general government registered a surplus of €55.2 million in the second quarter of 2024, which contrasts with a deficit of €17.7 million registered in the corresponding period of 2023. This was due to a strong increase in government revenue offsetting a rise in government expenditure. The primary balance registered a surplus of €114.8 million in the quarter under review, higher than the primary surplus of €35.9 million recorded a year earlier.

Tax inflows support revenue growth
In the second quarter of 2024, general government revenue increased by €233.7 million, or 13.3%, when compared with the same quarter of 2023 (see Table 5.1). This was mainly driven by higher tax revenue, particularly inflows from current taxes on income and wealth, which increased by €82.4 million. This is due to higher income tax inflows from households. Moreover, receipts from taxes on production and imports rose by €65.0 million, mainly reflecting higher inflows from VAT. Social contributions received rose by €21.5 million, reflecting favourable labour market conditions. Inflows from capital and current transfers increased by €27.1 million, mainly reflecting higher inflows from grants. Furthermore, income from sales increased and was the main factor behind the €37.6 million increase in 'other' revenue.

Expenditure growth underpinned by current spending
Total government expenditure increased by €160.8 million, or 9.1%, when compared with the second quarter of 2023. This increase mostly reflects higher current expenditure, due to a rise of €140.5 million in current transfers payable. This surge in outlays partly reflects the timing of tax refund cheques distributed to households, which were delivered earlier in 2024. It also reflects higher payments to the EU budget.

Spending on social benefits and compensation of employees also increased. The former rose by €42.5 million, largely on the back of higher spending on retirement pensions and children's allowances. Spending on compensation of employees increased by €31.7 million, mainly due to higher outlays in the health, public administration and education sectors. Meanwhile, spending on intermediate consumption rose by €17.4 million. This rise was largely due to higher outlays in the public administration sector, which outweighed a decline in spending in the health, residential care and education sectors. Interest payments increased by €6.1 million in line with higher debt levels and the financing cost of debt.

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2023			2024		Change 2024Q2-2023Q2	
	Q2	Q3	Q4	Q1	Q2	Amount	%
Revenue	**1,750.9**	**1,655.1**	**1,722.8**	**1,692.8**	**1,984.6**	**233.7**	**13.3**
Taxes on production and imports	462.9	525.2	505.1	521.3	527.9	65.0	14.0
Current taxes on income and wealth	771.9	617.0	611.7	690.9	854.3	82.4	10.7
Social contributions	264.9	263.5	296.7	272.6	286.4	21.5	8.1
Capital and current transfers receivable	62.4	80.5	121.0	40.2	89.6	27.1	43.5
Other[1]	188.9	168.9	188.3	167.8	226.5	37.6	19.9
Expenditure	**1,768.6**	**1,733.4**	**2,322.2**	**1,801.4**	**1,929.4**	**160.8**	**9.1**
Compensation of employees	479.3	493.4	493.7	511.7	510.9	31.7	6.6
Intermediate consumption	374.0	326.8	448.6	357.2	391.4	17.4	4.7
Social benefits	418.8	379.1	400.7	501.4	461.3	42.5	10.1
Subsidies	178.9	150.9	277.1	117.7	103.2	-75.7	-42.3
Interest	53.6	52.4	64.2	63.2	59.6	6.1	11.3
Other current transfers payable	54.9	119.7	148.2	82.5	195.4	140.5	256.0
GFCF	164.6	157.8	275.9	122.2	150.5	-14.1	-8.6
Capital transfers payable	39.7	51.4	206.3	41.8	52.6	12.9	32.6
Other[2]	4.8	1.9	7.5	3.6	4.4	-0.4	
Primary balance	**35.9**	**-25.9**	**-535.2**	**-45.4**	**114.8**	**78.9**	
General government balance	**-17.7**	**-78.2**	**-599.4**	**-108.6**	**55.2**	**72.8**	
General government debt	**9,172.0**	**9,420.8**	**9,791.4**	**10,000.2**	**10,084.0**		

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.

These increases were partly offset by a €75.7 million decline in subsidies, reflecting lower spending on support measures to mitigate energy price pressures.

Meanwhile, GFCF and capital transfers declined by €14.1 million and €12.9 million respectively, mostly due to a decline in domestically-financed projects.

Debt increases

In June 2024, the stock of general government debt amounted to €10,084.0 million, €83.8 million higher than the level registered at end-March 2024. This reflects an increase in short-term debt securities outstanding (composed of Treasury bills), which offset a decline in long-term debt securities outstanding (composed of MGS). The former rose by €92.6 million, with its share in total debt increasing by 0.9 percentage points to 5.3%. Holdings of long-term debt securities declined by €14.2 million, with their share in total debt decreasing by 0.8 percentage points to 80.8%.

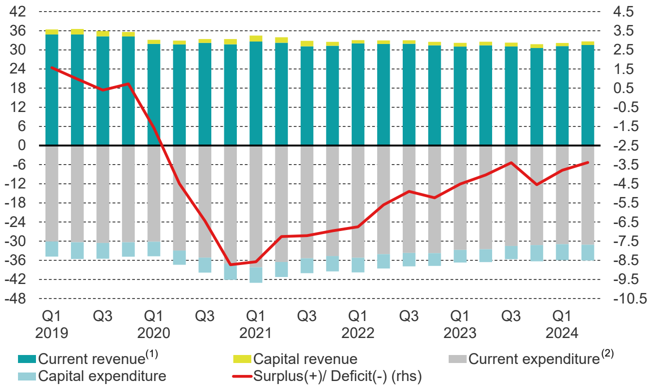
The value of loans outstanding increased by €5.1 million, due to an increase in long-term loans. The share of loans outstanding in total debt remained broadly unchanged at 9.7%.

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 ratio narrowed by 0.4 percentage points, from 3.8% in the first quarter of 2024 to 3.4% in the quarter under review (see Chart 5.1). This was mostly driven by a 0.5 percentage point rise in the revenue-to-GDP ratio, which reached 32.7%, due to a rise in the share of current revenue in GDP. This offset a marginal increase in the expenditure-to-GDP ratio, which reached 36.1%. The latter increased due to a 0.2 percentage point increase in the share of current expenditure in GDP.

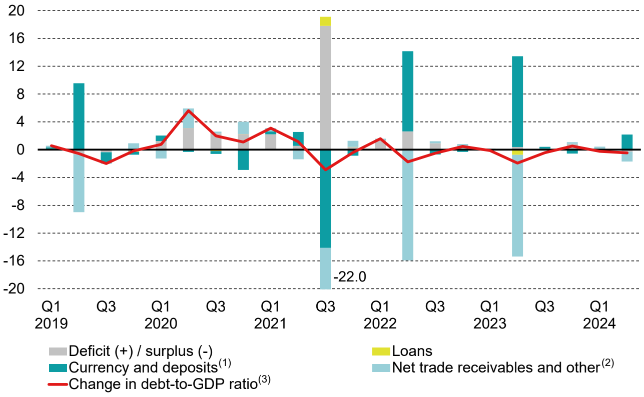
Chart 5.1
GENERAL GOVERNMENT REVENUE AND EXPENDITURE
(four-quarter moving sums; % of GDP)



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.

Although debt increased in level terms, the increase in nominal GDP over the same period was more significant. Between March 2024 and June 2024, the debt-to-GDP ratio decreased by 0.5 percentage points, from 47.2% to 46.7% (see Chart 5.2). The decrease in this ratio reflects the shift to a surplus as well as transactions in net trade receivables. The latter offset a build-up in government deposits. These transactions reflect the settlement of tax refunds owed by eligible firms.

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.

Net financial worth improves

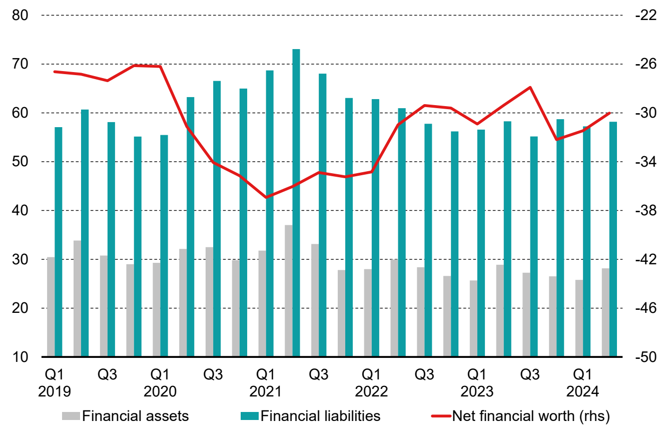
The market value of financial assets held by the general government increased to €6,080.4 million by June 2024, €614.8 million higher than the level three months earlier. This was mostly due to a rise in the value of deposits, followed by rises in the values of other accounts receivable, debt securities and shares and other equity. Consequently, the share of financial assets in GDP rose to 28.2% from 25.8% in the previous quarter (see Chart 5.3).

The market value of financial liabilities increased by €426.1 million, to stand at €12,563.0 million. This is driven by a rise in the value of other accounts payable. The decline was partly offset by a decrease in the value of debt securities. Consequently, the share of financial liabilities in GDP increased by 0.9 percentage points, to stand at 58.2%.

The resulting net financial worth of general government stood at -€6,482.6 million, an improvement of €188.7 million compared with the previous quarter. The net financial worth of general government as a share of GDP improved by 1.4 percentage points, standing at -30.0% by end-June.

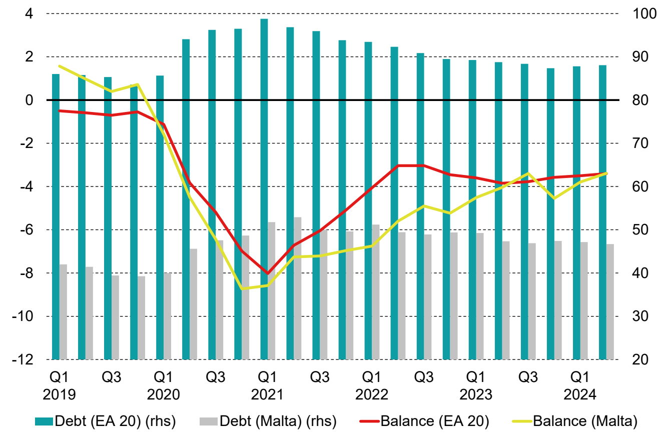
Over the same period, the euro area average net financial value as a share in GDP improved by 0.9 percentage points, to -55.7.% of GDP. Thus, the net worth position of the Maltese general government remained more favourable than the euro area average.

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



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

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



Sources: NSO; EUROSTAT.

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

During the quarter under review, the euro area general government deficit stood at 3.4% of GDP on a four-quarter moving sum basis, down from a deficit of 3.5% of GDP at end-March (see Chart 5.4). Over the same period, the euro area debt ratio rose to 88.1% of GDP from 87.8% in the previous quarter.

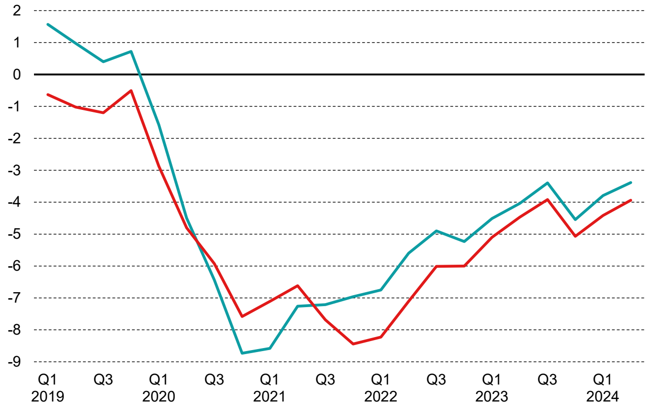
The Maltese government deficit ratio narrowed at a faster rate than the euro area average. As a result, the Maltese ratio converged to the latter. At the same time, Malta's debt-to-GDP ratio remained well below the euro area average.

Cyclically-adjusted deficit narrows[1]

On a four-quarter moving sum basis, the cyclically-adjusted deficit narrowed by 0.5 percentage points compared to March, to stand at 3.9% of GDP in the quarter under review (see Chart 5.5).

[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.

This is broadly in line with the 0.4 percentage point narrowing in the headline deficit ratio over the same period.



When compared with March, the share of cyclically-adjusted revenue in GDP increased by 0.5 percentage points (see Table 5.2). This was due to an increase in the share of current taxes on income and wealth and an increase in the 'other' component of revenue. The latter increased due to the aforementioned rise in capital transfers. To a lesser extent, taxes on production and imports also contributed to this positive change in the cyclically-adjusted revenue.

Meanwhile, the share of cyclically-adjusted expenditure remained unchanged. This was mainly due to a decline in the share of intermediate consumption and government investment being counterbalanced by an increase in the ratio of 'other' expenditure. The latter reflects a rise in the ratio of current transfers.

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

	2023			2024	
	Q2	Q3	Q4	Q1	Q2
Revenue	**0.4**	**-0.2**	**-0.5**	**0.4**	**0.5**
Current taxes on income and wealth	0.5	-0.3	-0.5	0.5	0.2
Taxes on production and imports	-0.2	-0.1	-0.1	0.1	0.1
Social contributions	0.0	-0.1	0.0	0.0	0.0
Other[(1)]	0.0	0.3	0.1	-0.2	0.2
Expenditure	**-0.3**	**-0.8**	**0.7**	**-0.2**	**0.0**
Compensation of employees	-0.3	-0.1	-0.1	-0.1	0.0
Intermediate consumption	0.0	0.0	0.1	0.0	-0.1
Social benefits	0.0	-0.1	-0.2	0.0	0.0
Interest payments	0.0	0.0	0.1	0.1	0.0
GFCF	0.0	0.0	0.2	0.0	-0.1
Other[(2)]	-0.1	-0.6	0.6	-0.3	0.2
Primary balance	**0.7**	**0.6**	**-1.1**	**0.7**	**0.5**
General government balance	**0.6**	**0.5**	**-1.1**	**0.6**	**0.5**

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.