BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

THE IMPACT OF BUDGET 2024 TARGETS ON THE BANK'S FISCAL PROJECTIONS

Article published in the Projections 2023:4, pp. 14-17

BOX 2: THE IMPACT OF BUDGET 2024 TARGETS ON THE BANK'S FISCAL PROJECTIONS[1]

This Box assesses the impact of Government fiscal targets as announced in the Budget 2024 and the 2024 Draft Budgetary Plan (DBP), on the Bank's latest projections.

With this Budget, Government reaffirmed its commitment to support economic growth and protect households and firms from high international commodity prices. Vulnerable and low-income persons also benefit from additional social measures. Although the Budget envisages lower deficits in each year in the medium term, it projects a slower pace of fiscal consolidation compared with previous government forecast exercises.

Budget 2024 measures

Inflation-mitigating support measures constitute the main form of measures included in the 2024 Budget. Apart from retaining the minimum level of excise duties on fuel imports allowed by EU law, these measures also include subsidies to retain fixed retail prices for electricity, fuel, and LPG gas. Other, smaller measures offer targeted support to farmers, fishermen and importers of wheat.

Newly-announced measures mainly reflect an increase in pensions and higher benefits for low-income beneficiaries, as well as more generous allowances to carers and parents with children. Government also extended the eligibility of the additional COLA mechanism previously offered to low-income households but now being made accessible to all those earning below median household equivalised income.

Existing measures supporting first time and second time property buyers, and purchases of vacant property or buildings in village cores will be renewed. A tax exemption scheme on employment income of pensioners, first introduced in 2022, will be extended. Tax refunds and other measures to address past anomalies will also be continued in 2024.

The Budget also refers to ongoing measures related to the facilitation of the green economy and digital transitions. These include schemes for installing renewable energy systems, installation of electric vehicle charging points, investment in green urban spaces and building renovations. Large-scale projects include new waste treatment facilities and investment in the storage of electricity in batteries. Many of these projects form part of the milestones listed in the Recovery and Resilience Plan, by means of which Government is eligible for grants from the EU's Recovery and Resilience Fund.

The Budget's Financial Estimates and the 2024 DBP also foresee support to Air Malta. As announced in a press conference in October, prior to its closure, the airline is set to finance legacy early retirement schemes to existing employees. In 2022 and 2023, the Airline also benefited from additional assistance by the Government. In 2024, a new airline will be set up, backed by a financial injection by the State. In line with the ESA methodology, this

[1] This box was prepared by John Farrugia, Manager within the Fiscal Affairs and Reports Office, and Kurt Sant, Senior Economist within the same office.

measure will not affect the level of the deficit but will instead be classified as part of general government debt.

As shown in Table 1, in marginal terms, the main budget measures are set to have a deficit-reducing impact. The impact is largest in 2023, at 1.9% of GDP, and mostly reflects the end of COVID-19 related support measures in 2022. The termination of such measures is set to boost government revenue by 0.4% of GDP whilst reducing expenditure by 1.0% of GDP. While some outlays on treatment and vaccinations were retained in 2023, their impact is very small.

The deficit-reducing impact of measures in 2024 amounts to around 0.3% of GDP. The impact of newly-announced measures, inclusive of COLA, is set to boost expenditure by around 0.5% of GDP. At the same time, Government expects outlays on inflation support measures to increase compared with 2023. However, the impact of these measures is expected to be offset by savings in expenditure made from the end of support measures to Air Malta, and higher revenue from improved efficiency and effectiveness of tax collection.

Table 1
IMPACT OF MAIN BUDGET MEASURES
(% of GDP)

	2023	2024
Revenue	**0.42**	**0.18**
Exemption of tax on employment income of pensioners	-0.03	-0.02
Schemes for property buyers in Malta & Gozo	0.03	0.07
Inflation support measures − minimum excise duty applicable on petroleum products	0.02	0.01
COVID measures − reduction in stamp duty and capital gains tax on property sales/purchases	0.41	0.00
Improved efficiency and effectiveness of tax collection	-0.01	0.12
Expenditure	**-1.47**	**-0.10**
Increase in pensions (including COLA)	0.27	0.31
Higher social benefits	0.07	0.22
Additional outlays on tax rebates to employees and schemes to address past anomalies	-0.01	-0.07
EUR1,000 grant to first-time buyers	0.02	0.01
Inflation support measures − commodity prices	-0.48	0.29
Inflation support measures − economic stimulus cheques; COLA mechanism for vulnerable persons	-0.27	0.02
COVID measures − support to employers and households and liquidity measures	-0.83	-0.01
COVID measures − health treatment, repatriation and safe reopening of schools	-0.18	-0.08
Support to Air Malta	-0.05	-0.79
Impact on balance[(1)]	**1.89**	**0.27**

Sources: Budget Speeches; Draft Budget Plans; authors' estimate.

[(1)] A positive value indicates a lower deficit, and vice versa.

Revised Government targets

According to the 2024 DBP, the general government deficit-to-GDP ratio is set to decrease to 5.0% in 2023, from 5.7% in the previous year (see Table 2). It is then expected to decline to 4.5% in 2024, and to fall to 3.5% by 2026. Meanwhile, the debt ratio is set to increase from 52.3% of GDP in 2022 to just under 57.0% of GDP by 2026.

Compared with the targets set in last April's Stability Programme Update (SP), a slower pace of fiscal consolidation is expected throughout the projection horizon. As a result, the deficit is now expected to remain above 3.0% of GDP by 2026.

Apart from revisions to the profile in tax revenue, brought about by new macro projections, the latest forecasts embed faster growth in certain expenditure items. The DBP attributes some of the revisions to the introduction of new measures, the expected impact of new public sector collective agreements, and revisions to the expected cost of inflation support measures.

Compared with the SP targets, the projected growth in outlays on compensation of employees and social benefits is revised up in 2024 and 2025. On the other hand, growth in capital expenditure (investment and capital transfers) is mostly revised up in 2023 and 2026. Outlays on subsidies are set to decrease at a slower rate in 2023 and 2024, but to decline at faster rates thereafter. Meanwhile, outlays on intermediate consumption are projected to increase at a slower pace throughout the forecast horizon.

Owing to the higher deficits, the DBP envisages the debt-to-GDP ratio to increase at a faster pace from 2024 onwards. In contrast with the SP, the debt ratio is not expected to peak within the forecast horizon.

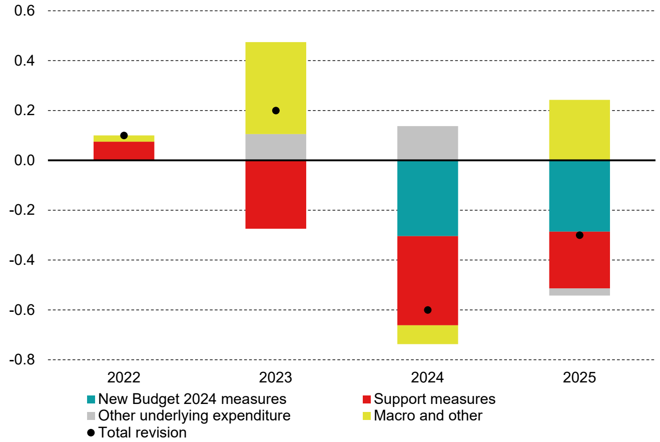
Table 2
GOVERNMENT REVENUE AND EXPENDITURE TARGETS
(% of GDP)

	Budget /Draft Budget Plan 2024					Stability Programme 2023 Update				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
General government balance	**-5.7**	**-5.0**	**-4.5**	**-4.0**	**-3.5**	**-5.8**	**-5.0**	**-4.3**	**-3.6**	**-2.9**
Revenue	**34.2**	**35.0**	**34.0**	**33.5**	**33.3**	**35.1**	**35.7**	**34.2**	**34.0**	**33.7**
Tax revenue	29.6	29.4	29.4	29.0	29.0	30.4	30.0	29.6	29.3	29.2
Other revenue	4.6	5.6	4.6	4.5	4.3	4.7	5.7	4.6	4.7	4.5
Expenditure	**39.9**	**40.0**	**38.6**	**37.6**	**36.8**	**40.9**	**40.7**	**38.5**	**37.6**	**36.6**
Compensation of employees	10.7	10.5	10.5	10.6	10.4	10.8	10.7	10.6	10.4	10.3
Intermediate consumption	7.8	8.1	7.7	7.4	7.2	8.1	8.5	8.2	8.0	7.8
Social payments	8.6	8.5	8.6	8.6	8.5	8.8	8.8	8.8	8.6	8.4
Interest payments	1.0	1.1	1.3	1.4	1.5	1.0	1.2	1.5	1.5	1.4
Subsidies	4.8	3.8	3.3	2.8	2.0	5.0	3.7	2.9	2.6	2.2
Gross fixed capital formation	3.4	4.5	3.8	4.2	4.7	3.3	3.8	3.1	3.1	3.2
Capital transfers	0.8	1.0	0.6	0.3	0.2	0.9	1.3	1.0	1.0	1.0
Other expenditure	2.8	2.5	2.8	2.3	2.3	3.0	2.7	2.4	2.4	2.3
General government debt	**52.3**	**52.8**	**55.3**	**56.3**	**56.9**	**53.4**	**54.5**	**55.7**	**56.2**	**56.1**

Sources: Budget Speech 2024; Draft Budget Plan 2024; Stability Progamme Update 2023.

Impact on Bank's fiscal forecasts

Chart 1
REVISIONS COMPARED WITH THE PREVIOUS CBM FORECAST
(positive values indicate a deficit-decreasing revision, and vice versa; % of GDP)



Sources: Authors' estimate.

Chart 1 decomposes the revisions in the Bank's deficit projection, compared with the August exercise. The impact of newly-announced and ongoing support measures is shown separately. The chart also shows revisions in the projected impact of underlying expenditure, such as wages, previously-enacted measures, and the profile of capital expenditure. Revisions in the macro outlook and its impact on the deficit ratio (including the impact of prices and the resulting COLA) are also displayed.

The Bank's forecasts do not take into account measures whose impact is currently unknown or hard to determine (for example, the impact of improved efficiency in tax collection).

Revisions to past data and in the recording of certain support measures led to a small improvement in the deficit ratio for 2022.

Overall, revisions to the impact of Budget and support measures are deficit-increasing throughout the forecast horizon. This impact is partly mitigated by a reassessment of the profile of underlying expenditure (particularly spending on capital transfers). The impact of macro revisions on the fiscal balance was deficit-reducing in 2023 and 2025 and marginally deficit-increasing in 2024.