Update of Stability Programme 2020 - 2021

Ministry for Finance and Financial Services
April 2020

The following symbols have been used throughout this document:

. . .	to indicate that data are not available;
—	to indicate that the figure is negligible;
0	to indicate that the figure is zero;
-	to indicate that data are not applicable or cannot be determined;
n/c	to indicate that there is no change in the data.
f	to indicate that it is a forecast

Figures may not add up due to rounding.

Introduction

This Programme constitutes the eleventh update of Malta's Stability Programme. The first Update was submitted in December 2008.

The Programme is being compiled in the context of a severe economic downturn brought about by exceptional circumstances. This called for the activation of the general escape clause within the Stability and Growth Pact as proposed by the Commission and agreed by the European Council on 23 March 2020.

The document is in line with the Draft Guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak. In line with these guidelines, this abridged Programme contains three sections: an introductory section on the overall budgetary policy response to the COVID-19 outbreak; the economic outlook; and the general Government balance. The Programme focuses primarily on 2020 and 2021 in light of the exceptional circumstances.

The Ministry for Finance and Financial Services compiled this document, with an important contribution from the National Statistics Office as well as from other Ministries and entities across Government.

The macroeconomic forecasts underlying this Programme have been submitted to the Fiscal Advisory Council for its endorsement. The Council concluded that "Based on the information available to the Malta Fiscal Advisory Council, and after taking due consideration of the uncertainty inherent in macroeconomic forecasts, and the added uncertainty brought about by the COVID-19 pandemic, the Council considers the full set of scenario-based macroeconomic forecasts for the period 2020 to 2021 prepared by the Ministry for Finance and Financial Services as part of the Update of Stability Programme to lie within its endorsable range".

1. Overview and General Policy Strategy

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1.1 Overview of the Short-Term Economic and Budgetary Outlook

This 2020 Update of the Stability Programme is being prepared in an environment characterised by heightened uncertainty pertinent to the socio-economic impact of the COVID-19 pandemic on Malta. Whilst as outlined in this Programme, the present health emergency is expected to have a negative impact on economic activity and employment prospects for 2020, this development comes on the back of a decade of sustained employment-rich economic growth. In light of the robust macroeconomic fundamentals, the Maltese Government is well-placed to adopt measures to minimise the impact of the COVID-19 pandemic on enterprises and employment and thus ensure that the economy returns as quickly as possible to the path of economic growth.

In Malta, the outbreak of the pandemic did have an adverse effect on the broad economy with sectors, in particular those related to the tourism activity, hit by the partial-lockdown measures. The Maltese economy is expected to contract in real terms during 2020 as containment measures, particularly travel restrictions as well as the slowdown in the economies of the main trading partners are projected to weigh on Malta's net export performance, although public expenditure is expected to compensate for the estimated negative contributions of private consumption and gross fixed capital formation. Nevertheless in 2021, the Maltese economy is expected to resume its positive performance as the main economic sectors are expected to return to growth in reflection of positive developments in tourism, external demand and domestic sentiment.

During the current fiscal year, a deterioration in the general Government balance is expected. Indeed, fiscal developments in 2020 are expected to be affected considerably by the deterioration in the macroeconomic developments projected for 2020 and the fiscal impact of the COVID-19-related Government support measures. Apart from increasing funding for the health authorities, the Maltese Government has introduced several other measures including financial assistance to enterprises, the self-employed and employees. The Wage Supplement measure provides funds to business and self-employed, affected by the COVID-19 pandemic, and is intended to support enterprises in retaining their employees. Other measures are intended to ease liquidity problems and include the deferral of tax payments and loan guarantees and interest rate subsidies to support access to credit, whilst also supporting business to facilitate remote working through measures supporting investment in telework equipment. A one-off lump sum grant is also provided with respect to those employees on mandatory quarantine due to the possible contact with individuals that are at risk of infection. On the social side, a number of measures were introduced for individuals who were made redundant or who are now unable to work.

Although in the face of the pandemic, the health aspect remains the highest priority, the Government is vigilant to ensure that once the present health emergency starts to subside, the necessary policy frameworks are in place with the aim of improving the country's productivity and competitiveness, including through the attraction of high value added foreign direct investment that supports Malta's knowledge-based economy.

Table 1.1 outlines discretionary measures adopted in response to the COVID-19 outbreak, while Table 1.2 identifies guarantees adopted to alleviate corporate liquidity constraints brought about by the pandemic.

Table 1.1

Discretionary measures adopted in response to COVID-19 outbreak

List of measures	Detailed description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary Impact (% of GDP - change from previous year) 2020	2021
Deferral of payment of taxes	A deferral to enterprises, including self-employed individuals, to pay Provisional Tax, VAT and National Insurance Contribution on salaries.	D2, D5, D6 - R	Adopted	(1)	
Economic Support Measures	**COVID wage supplement:** The COVID Wage Supplement provides employees and self-employed individuals with a basic wage cover of their main source of income to address the disruption caused by the COVID-19 pandemic.	D39 - E	Adopted	-2.35	2.22
	Quarantine leave: Employers who have or had a member of their staff (including themselves) on mandatory quarantine leave in accordance with the directives of the Superintendent of Public Health are entitled to a one-off lump sum grant.		Adopted		
	Facilitating teleworking activities: Support to employers and self-employed individuals to invest in technology that enables teleworking and to partially cover the costs of teleworking solutions.		Adopted		
Further liquidity measures	The MDB COVID-19 Guarantee Scheme (CGS) provides guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.	(2)	Adopted	-6.12	
	Moratorium from banks for business or personal loans.		Adopted	(3)	
	Subsidised interest rates on working capital loans for two years and up to a maximum 2.5%	D39 - E	Adopted	-0.15	0.14
Social measures	Parents who both work in the private sector requiring one of the parents to stay at home to take care of school-aged children will receive a direct payment provided that they cannot carry out their functions through teleworking arrangements.	D6 - E	Adopted	-0.28	0.27
	Persons with disability who work in the private sector will receive a direct payment if they opt to stay home for health and safety reasons.		Adopted	0.00	0.00
	Employees who had their full-time employment terminated as of 9th March 2020, including those who were self-employed, as a result of the COVID-19 pandemic will be eligible for the Contributory Unemployment Benefit.		Adopted	0.00	0.00
	Medical benefit to persons employed in the private sector, who after 27th March 2020 are not going to work because they are ordered by the Superintendent of Public Health not to leave their home, are not able to work from home and are not being paid by their employer during their absence from work.		Adopted	0.00	0.00
Health expenditure	Various supplies for combatting COVID-19	P2 - E	Adopted	-0.54	0.34
	Various supplies for combatting COVID-19	D6 - E	Adopted	-0.33	0.21
	Healthcare-related capital expenditure	P51 - E	Adopted	-0.16	0.15
Contribution to Government Entities	Funding the drop in revenue in Government Entities	D1 - E	Adopted	-0.09	0.09
	Funding the drop in revenue in Government Entities	P2 - E	Adopted	-0.06	0.06
Other expenditure	Expenses in respect of other Ministries	D1 - E	Adopted	-0.07	0.07
	Expenses in respect of other Ministries	P2 - E	Adopted	-0.05	0.05

(1) These deferrals shall be recovered by the end of this financial year and are thus not expected to have an impact on the General Government balance.

(2) A Guarantee Fund of €350 million has been allocated by Government, through the Malta Development Bank (MDB), for the purpose of guaranteeing loans granted by commercial banks in Malta to offer up to €780 million in loans to businesses affected negatively by the pandemic. The scheme shall only impact the General Government balance in the eventuality of a call on the guarantees.

(3) Not expected to have an impact on the General Government balance.

Table 1.2

Guarantees adopted in response to COVID-19 outbreak

List of measures	Description	Adoption Status	**Maximum amount of contingent liability** (% of GDP)
Malta Development Bank ‘COVID-19 Guarantee Scheme’	The MDB COVID-19 Guarantee Scheme (CGS) provides guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.	(1)	2.75

(1) A Guarantee Fund of €350 million has been allocated by Government, through the Malta Development Bank (MDB), for the purpose of guaranteeing loans granted by commercial banks in Malta to offer up to €780 million in loans to businesses affected negatively by the pandemic. The scheme shall only impact the General Government balance in the eventuality of a call on the guarantees.

1.2 Budgetary Policy Response to COVID-19 Outbreak

The Maltese Government's approach to addressing the impact of the COVID-19 pandemic was guided by the following key principles:

- Supporting the provision of additional healthcare capacity.
- Addressing corporate liquidity until restrictions are relaxed.
- Cushioning the impact of the losses or declines in household incomes.

1.2.1 Supporting the provision of additional healthcare capacity

Government launched its strategy for the local public health sector during the early stages of the global pandemic so as to ensure Malta reaches the highest possible levels of preparedness. The health system response plan is based upon a command and control structure where the Superintendent of Public Health holds legislative authority and makes recommendations to an Inter-ministerial Committee chaired by the Deputy Cabinet Prime Minister and Minister for Health. Since the first case of COVID-19 was reported on 7 March 2020, a series of prevention, containment, control and treatment measures have been implemented and enforced across sectors and within society. These measures have been strengthened in a graduated manner and updated according to the progress of the pandemic on the Maltese islands. As a result, additional healthcare funding was necessary to expand capacity and procure the required equipment.

1.2.2 Deferral of payment of taxes

This measure provided for a two-month deferral to enterprises, including the self-employed, to postpone the payment of Provisional Tax, Value Added Tax (VAT) and National Insurance Contribution on salaries owed until the end of April. The incentive is primarily aimed, but not limited to, the tourism and hospitality, entertainment, transport, and manufacturing sectors. Given the current economic scenario, in the last week of April, the Government announced that it will be extending the period of tax deferrals. These deferrals shall be recovered by the end of this financial year and are thus not expected to have an impact on the general Government balance.

1.2.3 Economic Support Measures

COVID Wage Supplement

The COVID Wage Supplement covers a person's main source of income and provides employees and self-employed individuals with a basic wage cover to address the disruption caused by the COVID-19 pandemic. Full-time employees of enterprises operating in sectors that suffered due to the COVID-19 pandemic or had to temporarily suspend operations on the order of the Superintendent of Public Health are entitled to up to five days' salary based on a monthly wage of €800, while part-time employees will be eligible for €500 per month.

Full-time employees of enterprises in other adversely affected sectors are entitled to one day's salary per week equivalent to €160 per month, whilst part-time employees are eligible to one day's salary per week, equivalent to €100 per month. In the case of Gozo-based enterprises this will increase to two days' salary per week equivalent to €320 per month for full-time employees, and €200 per month for part-time employees.

Quarantine leave

Employers who have or had a member of their full-time employees (including themselves) on mandatory quarantine leave in accordance with the directives of the Superintendent of Public Health are entitled to a one-off lump sum grant of €300.

Facilitating teleworking activities

This measure provides support to employers and self-employed individuals to invest in technology that enables teleworking and to partially cover the costs of teleworking solutions. Support is limited to €500 per teleworking agreement and €4,000 per undertaking and is awarded against 45 per cent of eligible costs incurred between 15 February and 8 May 2020.

1.2.4 Further Liquidity Measures

The MDB COVID-19 Guarantee Scheme (CGS) and Interest Rate Subsidy

The scheme provides guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.

The Guarantee Fund of €350 million has been allocated by Government, through the Malta Development Bank (MDB), for the purpose of guaranteeing loans granted by commercial banks in Malta to offer up to €780 million in loans to businesses affected negatively by the pandemic. The scheme shall only impact the general Government balance in the eventuality of a call on the guarantees. In addition, businesses shall be benefitting from a subsidy of up to 2.5 per cent on the interest rate on working capital loans obtained from local banks.

Six-month moratorium from banks for business or personal loans

This scheme is intended to alleviate the burden of bank loans for individuals and businesses in this challenging period.

1.2.5 Social Measures

Additional Unemployment Benefit

Employees who had their full-time employment terminated as of 9 March 2020 as a result of the COVID-19 pandemic, including those who were self-employed, and are eligible for the Contributory Unemployment Benefit, are eligible to a direct payment of €166.15 in the case of full-time employment or €103.85 per week for part-time employment.

Parent Benefit

Parents who both work in the private sector requiring one of the parents to stay at home to take care of school-aged children will receive a direct payment provided that they cannot carry out their functions through teleworking arrangements. Eligible employees are entitled to a direct payment of €166.15 in the case of full-time employment or €103.85 per week for part-time employment.

Persons with Disability

Persons with disability who work in the private sector will receive a direct payment if they opt to stay home for health and safety reasons, amounting to €166.15 per week in the case of full-time employment or €103.85 per week for part-time employment.

Medical Benefit

This scheme provides a medical benefit to persons employed in the private sector, who after 27 March 2020 are not going to work because they are ordered by the Superintendent of Public Health not to leave their home, are not able to work from home and are not being paid by their employer during their absence from work. Eligible employees are entitled to a direct payment of €166.15 per week in the case of full-time employment or €103.85 per week for part-time employment.

Rent Subsidy

Another social measure relates to the increase in rent subsidies for individuals who have their job terminated due to COVID-19. Through this measure, the Housing Authority, aims to make rent more affordable by lowering the burden that households face in relation to rent expenses by raising the benefit cap.

1.3 Recourse to the General Escape Clause and Provisions in the Context of the Fiscal Responsibility Act

On 13 March 2020, the European Commission adopted a Communication on a coordinated economic response to the COVID-19 outbreak. It proposed that the Union institutions should apply the full flexibility existing within the European Union (EU) fiscal framework, with a view to helping Member States address the outbreak and deal with its fallout. On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact (SGP). In that Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Council supported that view.

It is to be noted that the Fiscal Responsibility Act (FRA) is intrinsically tied to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and the SGP, such that any decision to activate the escape clause at a European level should have the same effect as a formal announcement by Government on the presence of exceptional circumstances. Indeed, the FRA defines exceptional circumstances in the same way as the SGP. In line with the Council agreement, the Government of Malta considers the current circumstances as exceptional.

The FRA envisages the suspension of the budgetary rule in the presence of exceptional circumstances. This applies to both the departure from the Medium-Term Objective (MTO), as well as the adjustment path towards it such that, as long as exceptional circumstances prevail, any departure from the MTO in that year and any lack of sufficient adjustment towards the MTO in any of the years that the exceptional circumstances prevail do not constitute a breach of the rules. It is the express view of the Government that once exceptional circumstances do not prevail, the Government will support a fiscal strategy to revert to the Medium-Term Objective of a balanced budget in structural terms and ensure that the debt ratio remains below 60 per cent of Gross Domestic Product (GDP). It is however premature at this stage to anticipate when these exceptional circumstances will cease to exist. Indeed, in line with new guidelines, this Update of the Stability Programme will not cover the usual three-year period of projections as in previous years, whilst the projections for 2021 constitute a no-policy change budgetary scenario, in line with the Commission guidelines.

2. Economic Conditions for 2019

2.1 Economic Conditions for 2019

In 2019, the Maltese economy recorded a real growth rate of 4.4 per cent, equivalent to 6.8 per cent in nominal terms. This positive economic performance was mainly driven by the domestic side of the economy, contributing to 4.3 percentage points. Changes in inventories also contributed 0.2 percentage points towards growth, while there was a negative contribution of 0.1 percentage points from net exports in 2019.

Underpinning this positive performance was the continued growth in the Government consumption and investment. Buoyant Government consumption in 2019 included higher expenditure on intermediate consumption and higher compensation of employees. In the meantime, the growth in investment activity was due to increases in both public and private investment. An increase in private consumption was also registered, supported by strong employment growth and increases in disposable income. From an external standpoint, both export and import activity in real terms and their respective prices moderated due to weaker external demand conditions.

Gross Value Added (GVA) at basic prices increased by 7.5 per cent in 2019. This growth was primarily attributed to the services sector that contributed 7.1 percentage points to growth in GVA. The industry sector contributed for the rest of the growth in GVA. Nevertheless, all sectors, excluding agriculture, recorded a positive growth rate. Indeed, the services sector maintained a strong share in GVA at 89.3 per cent, while the industry sector maintained a share of 9.8 per cent of GVA. The study of individual sectors confirmed that the highest growth rates were recorded in Construction, which grew by 13.9 per cent over the year, followed by Professional Services (10.2 per cent), Arts, Entertainment and Recreation (9.6 per cent) and Public Administration, Education and Health (8.8 per cent) sectors. The sectors that contributed the most towards GVA were Professional, Scientific and Technical and Public Administration, Education and Health sectors, both with a contribution of 1.5 percentage points, followed by Arts, Entertainment and Recreation with a contribution of 1.4 percentage points.

On the income side in 2019, compensation of employees increased by 7.6 per cent in nominal terms to reach €5,387.8 million. Gross operating surplus and mixed income growth remained strong at 7.4 per cent, reaching €6,411.3 million. Subsidies on production and imports experienced an increase of 6.7 per cent, while revenue from taxation on production and imports rose by 2.0 per cent reaching €1,625.7 million.

During 2019, the global economy continued to expand, albeit at a moderate and uneven pace. The International Monetary Fund's (IMF) most recent World Economic Outlook showed the global economy growing by 2.9 per cent in 2019, 0.7 percentage points lower than the growth recorded in 2018.

The COVID-19 pandemic continues to have a severe impact on global economic activity. As a result of the pandemic, the global economy is projected to contract sharply by 3.0 per cent in 2020 and then recover to 5.8 per cent in 2021 as economic activity normalizes, sustained by policy support. According to the IMF, there is extreme uncertainty surrounding the global growth forecast, as the economic fallout from this pandemic is still difficult to predict. Factors surrounding this uncertainty include the evolution of the COVID-19 virus itself including the possibility of further waves, the intensity and efficacy of containment efforts imposed by various countries, the level of supply disruptions, behavioural and spending patterns, volatility in commodity prices and the repercussions from the tightening in global financial market conditions.

In the present economic environment, cross border investment is expected to decline as the unprecedented levels of uncertainty regarding the duration and underlying impact on various jurisdictions, continue to weigh negatively on investment growth.

In terms of the balance of payments, Malta retained its current account surplus in 2019, where such a favourable balance stood at 9.7 per cent of Gross Domestic Product (GDP). The large net export balance of the services sector largely explains the overall surplus of the current account. This was coupled with a lower goods net import figure which continued to accentuate the strong current account balance.

Within the services sector, the net export balance is being driven by large net export figures related to the personal, cultural and recreational sector, the travel sector, the transport sector and the financial services sector. These balances are partly offset by a sizeable net import balance of other business services, which consists of large imports of services related to professional legal and accountancy services.

The primary income net payment balance increased from around €1.1 billion to €1.2 billion between 2018 and 2019. A decomposition of these figures would suggest that a substantial part of the net payment primary income balance is due to net outflows on direct investments which were partially offset by net inflows from portfolio investments.

The recent growth rates of the Maltese economy have supported a large increase in savings which resulted in a net accumulation of foreign assets. As at the end of 2019, the net international investment position for Malta stood at 60.2 per cent of GDP, or around €8 billion.

2.2 The Short-Term Scenario

The COVID-19 pandemic has brought about unprecedented stresses to the global economy. The effect of this shock distinguishes itself from previous crises as the declines in demand are complemented with supply restrictions resulting from the mandatory imposition of various lockdowns. The unrelenting speed at which the virus spread resulted in unanticipated strains on health care systems. International institutions and Governments hastily responded to the outbreak by loosening monetary policies and providing fiscal stimulus in an attempt to cushion the economic setback. Despite these efforts, the situation going forward is overshadowed with uncertainty with respect to both the duration of the virus as well as its rate of transmission. There is also uncertainty on the effectiveness of the policies implemented by Governments.

In Malta, while the outbreak of the pandemic exerted adverse effects on the broad economy, the sectors most severely hit by the partial-lockdown measures are the tourism industry, the wholesale and retail trade sector, transportation and storage and the accommodation and food services sector.

Against this background, the Maltese economy is expected to contract by 5.4 per cent in real terms during 2020. Given the high degree of openness of the economy, international developments are projected to weigh heavily on Malta's net export performance. Indeed, the main contributor to the decline in real GDP for 2020 is a negative net exports balance of 7.2 percentage points. The domestic component of the economy is expected to contribute 1.8 percentage points to growth in 2020, as public expenditure is expected to compensate for the negative contributions of private consumption and gross fixed capital formation.

The projections for domestic demand are supported by the Government support measures, particularly those aimed at sustaining employment and corporate liquidity while providing incentives to bank lending via subsidised loans and guarantees. Private consumption growth for 2020 is projected to decline by 0.8 per cent, reflecting receding employment and weak wage developments. Public consumption is expected to grow by 16.5 per cent, on the back of significant increases in expenditure on intermediate consumption and compensation of employees.

It is worth mentioning that the inherently volatile nature of gross fixed capital formation makes it relatively challenging to forecast. Due to the prevailing uncertainty underlying the economic landscape, the capital projects which were planned to be developed throughout 2020 are still planned to materialise, albeit deferred by a few months. Thus, gross fixed capital formation is projected to decline by 4.0 per cent in 2020. Investment projects, both of a private and public nature, are expected in real estate, telecommunications, transport and health sectors, as well as continued improvement in the country's infrastructure. Whilst the COVID-19 related situation is expected to weigh on investment appetite, it is assumed that this is a temporary shock and hence the impact on the longer-term outlook should remain limited.

From an external perspective, the subdued outlook in Malta's main trading partners is reflected in the anticipated decline of 12.2 per cent in exports in 2020. Partially offsetting this drop, is a decline in imports of 8.0 per cent. It is worth mentioning that in Malta, investment activity tends to be highly import-intensive, and thus, year-on-year movements in investment are offset by imports of capital goods, thereby minimising the impact of volatile investment flows on GDP in the medium-term. The depreciation of the Euro against the Dollar further supports the decline in imports.

The outlook for 2021 is subject to a high degree of uncertainty and is highly contingent on the economic recovery in Malta's trading partners, the persistence of supply disruptions due to the severity of the shock as well as the speed at which the confidence and behaviour of domestic consumers and firms will return to normality. The baseline projection accounts for gradual resumption of economic activity from the third quarter of 2020, and a modest recovery in 2021. Indeed, the Maltese economy is expected to resume its positive performance and grow by 3.9 per cent in real terms in 2021. This reflects the fact that growth rates in the main GDP components are expected to turn positive in reflection of positive developments in tourism, external demand and domestic sentiment. Net exports are projected to be the main driver of this growth with an expected contribution of 2.1 percentage points followed by a positive domestic demand contribution of 1.8 percentage points.

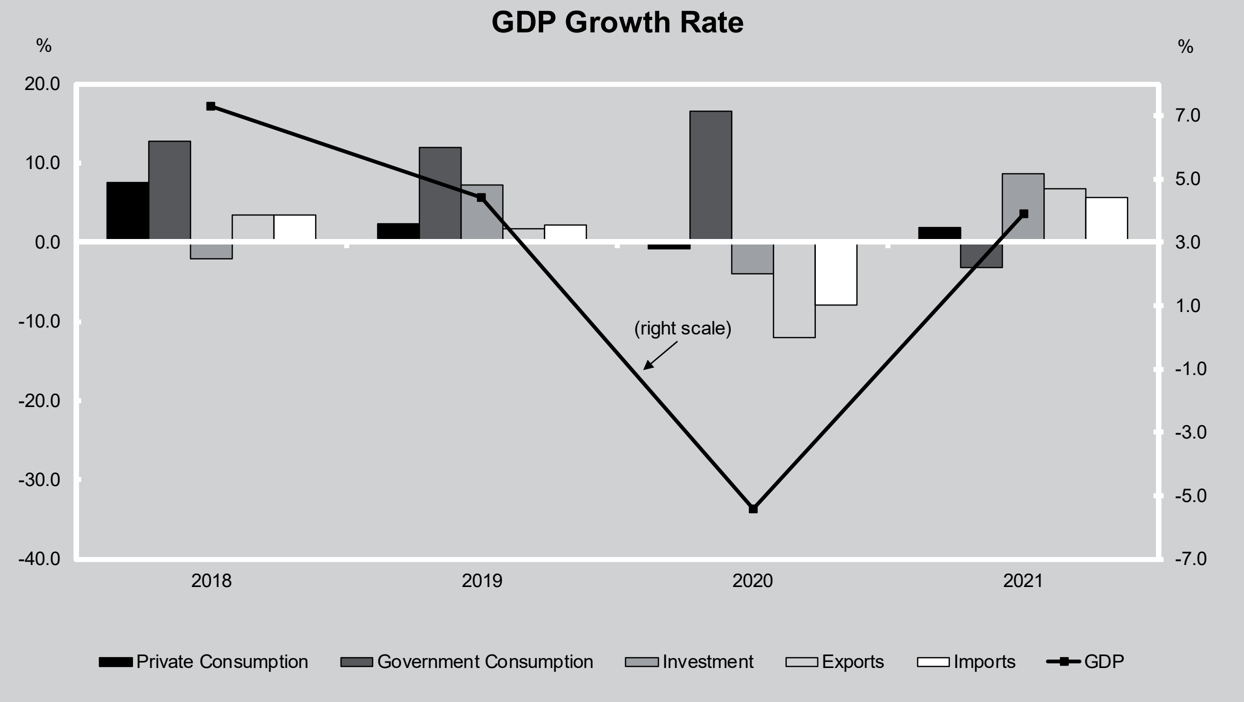
Alleviated supply restrictions from the lifting of containment measures combined with a recovery in consumer demand are expected to give rise to a resurgence in employment. Also supported by stronger wage growth, private consumption growth is expected to grow by 1.8 per cent. On the other hand, on the back of a substantial base effect from the significant growth in 2020, public consumption growth is projected to decline by 3.2 per cent in 2021. As firm and investor sentiment is gradually restored and the announced projects in the pipeline progress in accordance to plans, gross fixed capital formation is projected to grow by 8.6 per cent, as several large-scale investment projects particularly in transport and aviation, tourism, real estate and health sectors are expected to materialise.

From an external standpoint, a recovery in growth of Malta's main trading partners is anticipated to result in an increase in Malta's exports by 6.8 per cent in 2021. Moreover, a substantial increase in investment activity, coupled with improved domestic activity prospects, will lead to a growth in imports of 5.6 per cent in 2021.

It is important to emphasize that the figures presented are scenario-based projections, and risks remain skewed towards the downside. The projections are particularly sensitive to the assumption of the timing of the resumption of tourism activity which was aligned to the independent assumption of most credit rating agencies and the IMF projections for Malta. Furthermore, the real GDP growth for 2020 would have been materially worse had it not been for the wide-ranging public intervention by the Government, that should help support domestic demand. Estimates suggest that the measures restored around 2.0 percentage points to GDP growth whilst supporting the liquidity of enterprises to help them avoid job losses. These policies, ranging from wage supplements, tax deferrals, quarantine leave, teleworking measures, and liquidity guarantees, will be crucial in cushioning the impact on the real economy and averting stresses on the financial system.

Chart 2.1 illustrates the projected growth rates of GDP, together with a detailed breakdown of the expenditure aggregates. Table 2.1 presents the main macroeconomic indicators for the years 2018-2021. The figures for 2018 and 2019 represent actual data published by the National Statistics Office (NSO), while the data for 2020 and 2021 represent the scenario-based projections of the Ministry for Finance and Financial Services. The macroeconomic forecasts take into account the latest available data and are provided in Tables 1a, 1b, 1c and 1d of the Statistical Appendix.

Chart 2.1



Main Macroeconomic Indicators

Table 2.1

	2018	2019	2020p	2021p
GDP growth at current market prices (%)	9.6	6.8	-3.6	5.9
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1]	7.3	4.4	-5.4	3.9
Expenditure Components of GDP at Current Market Prices by period (%)				
Private final consumption expenditure[2]	8.4	3.9	0.3	3.4
General Government final consumption expenditure	15.4	14.7	18.8	-1.0
: net of Individual Investor Programme (IIP) proceeds	*10.9*	*11.1*	*19.2*	*-0.9*
Gross fixed capital formation	0.5	10.9	-1.0	12.4
Exports of goods and services	6.1	3.6	-12.0	8.1
: net of Individual Investor Programme (IIP) proceeds	*6.5*	*3.9*	*-12.2*	*8.2*
Imports of goods and services	5.6	3.9	-7.2	7.1
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)				
Private final consumption expenditure[2]	7.6	2.4	-0.8	1.8
General Government final consumption expenditure	12.7	12.0	16.5	-3.2
Gross fixed capital formation	-2.1	7.2	-4.0	8.6
Exports of goods and services	3.5	1.7	-12.1	6.8
Imports of goods and services	3.4	2.1	-8.0	5.6
Inflation rate (%)	1.7	1.5	1.0	1.4
Employment growth (National Accounts Definition) (%)[3]	5.5	5.7	-3.3	3.2
Unemployment rate (Harmonised definition, Eurostat) (%)	3.7	3.4	5.9	3.7
Compensation per employee (% change)[4]	2.1	1.8	1.6	2.8
Labour productivity (% change)	1.8	-1.2	-2.2	0.7
Nominal Unit Labour Cost (% change)	0.4	3.0	3.8	2.1
Real Unit Labour Costs (% change)	-1.3	1.5	2.8	0.7

Alternative Scenarios	**2020p**	**2021p**
Baseline real GDP	*-5.4*	*3.9*
Improved Global Economic Growth Scenario	-4.3	6.7
Weaker Global Economic Growth Scenario	-6.4	1.2
Interest rate scenario	-4.4	3.1

(1) Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

(2) Includes NPISH final consumption expenditure.

(3) Total Employment based on National Accounts Definition.

(4) Compensation per employee actual figures and forecasts based on unpublished FTEs.

2.2.1 Assumptions for Projections

The macroeconomic forecasts presented in this Stability Programme are based on the following assumptions:

- Economic activity in Malta's main trading partners is expected to decrease by 5.5 per cent in 2020, then recover at a growth rate of 4.6 per cent in 2021.
- World prices are projected to decrease by 2.4 per cent in 2020, and to then decrease by 0.5 per cent in 2021.
- Oil prices are assumed to fall from an annual average price of $64.4 per barrel in 2019 to $38.4 in 2020, then marginally increase to $42.8 in 2021.
- The Dollar/Euro exchange rate is expected to depreciate from a yearly average of 1.1185 Dollars per Euro in 2019 to 1.1098 Dollars per Euro in 2020 and then appreciate in 2021 to 1.1363 Dollars per Euro.
- The Sterling/Euro exchange rate is expected to appreciate from an annual average of 0.8728 Pounds per Euro in 2019 to 0.8849 Pounds per Euro in 2020 and then to depreciate in 2021 to 0.8716 Pounds per Euro.
- The short-term interest rate is projected to remain virtually unchanged at around 0.0 per cent over the projection horizon in line with the European Central Bank (ECB) projections, while the long run interest rate is assumed to remain stable during the forecast horizon at 0.3 per cent.
- Changes in inventory are assumed not to contribute to GDP growth.
- Travel restrictions are assumed to start being gradually alleviated from summer, which is equivalent to a reduction of 43.5 per cent of the total number of inbound tourists in 2020.
- The supply side shock due to the lockdown is projected to lead to job losses mostly in wholesale and retail trade, hospitality, manufacturing, construction and, to a lesser extent, in the services sector.
- Assumed a deferral by some months in particular capital projects.

These assumptions are outlined in Table 8 of the Statistical Appendix.

2.2.2 Productivity and Employment Growth

The labour market continued to yield positive developments in 2019, as employment growth stood at 5.7 per cent (as per National Accounts definition). This reflected strong labour market conditions and the robust state of the Maltese economy. Employment growth was further supported by ongoing efforts in promoting and sustaining active labour market policies.

In spite of Government's policy efforts to ease cash flows challenges faced by local businesses, some negative consequences on the labour market are expected to materialise in the short-term. Employment is expected to decline by 3.3 per cent in 2020, with a concomitant rise in the unemployment rate (based on the Harmonised definition) to 5.9 per cent. In 2021, a pick-up in economic activity is projected to generate employment growth of 3.2 per cent. These favourable labour market dynamics correspond to a reduction in the unemployment rate to reach 3.7 per cent.

Compensation of employees is projected to decline by 1.8 per cent in 2020 before recovering to rise by 6.0 per cent in 2021, as heightened job demand generates marginal upward wage pressures. In 2020, compensation per employee is projected to grow by 1.6 per cent as the decline in employment supersedes the overall decline in compensation of employees. In 2021, growth in compensation per employee is projected to be 2.8 per cent.

In 2020, real labour productivity is projected to decline by 2.2 per cent. This decline is consistent with the drop in real GDP outpacing the anticipated drop in employment of 3.3 per cent, as labour market frictions and Government efforts to prevent layoffs come into force. In 2021, labour productivity is projected to increase by 0.7 per cent. Nominal unit labour costs are expected to rise by 3.8 per cent in 2020 given the aforementioned labour demand conditions, prior to decelerating to a growth rate of 2.1 per cent in 2021. Moreover, real unit labour costs are projected to rise by an average rate of 2.8 per cent in 2020, before increasing by 0.7 per cent in 2021.

2.2.3 Inflation

In 2019, the inflation rate (measured as the twelve-month moving average of the Harmonized Index for Consumer Prices (HICP)) was 1.5 per cent. This was primarily driven by energy prices, unprocessed food and services prices, and partly offset by a moderate growth in processed food prices and the decline in non-energy industrial goods. The inflation rate is expected to decline to 1.0 per cent in 2020. Underlying the deceleration in inflation is the unprecedented drop in oil prices as a result of the COVID-19 developments together with subdued services inflation resulting from the suppression in demand being more austere than the supply-side restraints. Prices are expected to accelerate in 2021 to 1.4 per cent, as demand recovers when the pandemic subsides.

3. General Government Balance, Measures and Government Debt

3. General Government Balance, Measures and Government Debt

The year 2019 was the fourth consecutive year when a budget surplus was recorded. In 2019, the general Government surplus stood at 0.5 per cent of Gross Domestic Product (GDP). Alongside the strong GDP growth, the healthy state of public finances has also contributed significantly to the reduction in the debt-to-GDP ratio, which in 2019 declined to 43.1 per cent of GDP.

The consistent improvement in the fiscal position has allowed Malta to gain fiscal headroom. This was supported by the sustained strengthening of the institutional capacity in Malta's fiscal framework, particularly the institutionalisation of the Comprehensive Spending review, the setting up of a performance budgeting framework, the repeal of the Financial Administration and Audit Act with the Public Finance Management Act (Cap. 601) and measures pursuant to the International Monetary Fund (IMF) Fiscal Transparency Evaluation (FTE).

As outlined in Chapter 1, against the background of the unprecedented and extraordinary ongoing circumstances surrounding the COVID-19 situation, the Maltese Government continues to monitor and evaluate economic developments while intervening strategically in order to safeguard employment, especially in the most hard-hit industries through wage subsidies. Furthermore, the Government has taken steps to sustain corporate liquidity and thus support employment retention. These measures include the deferral of tax payments and loan guarantees to support access to credit to finance the working capital requirements of enterprises affected by the pandemic. In addition, the Government will be subsidising the interest rate of these loans for two years, up to a maximum of 2.5 per cent. This should ensure that liquidity shocks to otherwise profitable enterprises do not result in permanent and sustained damage to corporate balance sheets. The Government has also legislated for banks to give a six-month moratorium on existing business and individual repayment of capital loans and interest due.

3.1 Fiscal Developments in 2019

In 2019, the general Government surplus stood at 0.5 per cent of GDP, while the debt-to-GDP ratio declined to 43.1 per cent of GDP.

3.1.1 General Government Revenue in 2019

In 2019, the general Government revenue-to-GDP ratio declined by 0.4 percentage points to 38.2 per cent of GDP.

The tax revenue ratio remained unchanged at 26.2 per cent of GDP in 2019. Revenue from taxes on production and imports registered a decline of 0.5 percentage points of GDP, mainly due to subdued growth in Value Added Tax (VAT) revenue and lower proceeds from taxes on financial and capital transactions. These developments were partly driven by the loss in retained revenue during the transitory period of the regulation on VAT on electronic services, as well as the extension of ongoing measures targeting stamp duty. Meanwhile, the ratio to GDP of current taxes on income and wealth increased by 0.5 percentage points, mainly underpinned by strong labour market conditions and the robust state of the Maltese economy.

Meanwhile, the ratios of property income and social contributions declined marginally in 2019 by 0.3 percentage points of GDP in aggregate. The lower ratio to GDP of property income is related to lower profits from the Central Bank of Malta and lower distributed dividends from public listed companies.

3.1.2 General Government Expenditure in 2019

In 2019, the ratio of general Government expenditure to GDP increased by 1 percentage point to 37.7 per cent, primarily reflecting buoyant Government consumption, in particular higher expenditure on intermediate consumption.

Intermediate consumption increased by 0.9 percentage points to 7.5 per cent of GDP in 2019 mainly on account of higher expenditure by Extra Budgetary Units (EBUs) and by central Government for residential homes in the social sector, medicines and surgical materials as well as landscaping in urban areas, which is of a one-off nature.

Reviews of Government spending are contributing to the achievement of improved efficiency in public spending, reduction of waste and value for money. As a result of these efforts, as well as the expenditure-reducing effect of measures legislated in previous Budgets, in particular the tapering of social benefits and the gradual extension of the retirement age by virtue of the 2006 pension reform initiatives, the ratio of social payments declined by a further 0.2 percentage points to 9.4 per cent of GDP. Indeed, the lower ratio for social payments resulted in spite of a number of 2019 Budget measures addressing the adequacy of pensions, including disability pensions, and other vulnerable groups.

As a result of the Treasury's debt management strategy as well as the low interest rate environment, expenditure on interest payments declined in both absolute and relative terms in 2019.

Expenditure on subsidies and on compensation of employees as a share of GDP increased marginally by 0.1 percentage points in 2019, the latter reflecting moderate increases in public service salaries.

Meanwhile, the increase in the expenditure to GDP ratio also resulted from higher capital expenditure, in particular as gross fixed capital formation increased by 0.7 percentage points of GDP. Higher capital expenditure was directed to roads, the environment, health and education and included higher infrastructure expenditure financed from both the European Union (EU) and local funds.

3.1.3 Meeting the 2019 targets as established in the 2019 Medium-Term Fiscal Plan

This section assesses the fiscal and budgetary policies in 2019 against the medium-term objectives outlined in the 2019 Medium-Term Fiscal Plan published on 30 April 2019. It is important to note that the targets for 2019, as outlined in Spring 2019, were different from those underlying the 2019 Budget presented in October 2018 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections are based. Developments in the general Government budgetary execution in 2019, between subsequent forecasts, are outlined in Table 3.1.

General Government Budgetary Execution and Prospects

Table 3.1 € millions

	ESA Code	2019 Budget Forecast	2019 USP 2019 Forecast	2019 Actual	2020 USP 2019 Forecast	2020 Budget Forecast	2020 USP 2020 Forecast
Net lending (+)/net borrowing (-)							
1. **General Government**	S.13	**165.0**	**120.3**	**71.0**	**141.7**	**193.0**	**-951.9**
2. Central Government	S.1311	166.2	121.5	65.1	142.9	194.2	-950.7
3. State Government	S.1312	-	-	-	-	-	-
4. Local Government	S.1313	-1.2	-1.2	5.9	-1.2	-1.2	-1.2
5. Social Security funds	S.1314	-	-	-	-	-	-
For the General Government							
6. **Total Revenue**	TR	**5,054.0**	**5,124.4**	**5,045.3**	**5,346.8**	**5,523.6**	**4,997.1**
Of which							
Taxes on Production and Imports	D.2	1,613.8	1,665.8	1,601.2	1,758.0	1,804.9	1,471.0
Current Taxes on Income, Wealth, etc.	D.5	1,935.4	1,796.4	1,827.0	1,932.9	2,007.0	1,820.0
Capital Taxes	D.91	26.5	27.2	26.1	28.5	27.9	18.7
Social Contributions	D.61	807.3	817.5	800.1	875.0	870.6	797.4
Property Income	D.4	66.2	68.5	61.7	71.0	74.6	69.7
Other [(a)]		604.8	749.0	729.2	681.4	738.5	820.2
7. **Total Expenditure**	TE	**4,889.0**	**5,004.1**	**4,974.3**	**5,205.1**	**5,330.6**	**5,949.0**
Of which							
Compensation of employees	D.1	1,467.7	1,490.3	1,484.1	1,577.4	1,567.9	1,584.6
Intermediate Consumption	P.2	888.1	936.9	985.9	987.1	1,055.4	1,212.8
Social Payments	D.6	1,290.9	1,275.1	1,236.5	1,327.8	1,308.6	1,378.0
Interest Expenditure	D.41	187.8	186.5	181.3	179.8	175.2	177.1
Subsidies	D.3	176.8	165.4	195.0	175.0	195.7	499.6
Gross Fixed Capital Formation	P.51	464.2	525.1	505.9	485.9	573.8	672.2
Capital Transfers	D.9	157.0	168.6	107.0	178.7	151.9	100.9
Other [(b)]		256.5	256.2	278.5	293.5	302.2	323.9
8. **Gross Debt** [(c)]		**5,703.7**	**5,755.8**	**5,695.6**	**5,740.2**	**5,690.7**	**6,939.7**

Notes:

[(a)] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[(b)] D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

[(c)] As defined in Council Regulation (EC) No 479/2009 (OJ L 145, 10.6.2009, p. 1).

During 2019, the general Government recorded a surplus of €71.0 million, compared to the target surplus of €120.3 million outlined in the 2019 Update of the Stability Programme. These developments reflected a more subdued than anticipated revenue outcome, which turned out €79.1 million lower than expected but in part this was offset by general Government expenditure, which was also marginally lower than projected by €29.8 million.

Most components of revenue yielded lower than estimated proceeds, but most notably taxes on production and imports, which yielded €64.5 million less revenue than expected. This component of revenue increased by 1.8 per cent, compared to an estimated growth of 4.7 per cent forecast in the 2019 Update of the Stability Programme. The more robust growth registered in the labour market resulted in higher than expected proceeds amounting to €30.6 million from current taxes on income and wealth, which increased by 10.7 per cent, compared to an estimated growth of 8.8 per cent forecast in the previous Update. At the same time, lower revenue from social contributions of €17.5 million is due to a lower-than-estimated State Contribution.

Meanwhile, higher than targeted expenditure on intermediate consumption and subsidies was more than offset by lower than planned expenditure on capital transfers, social payments and gross fixed capital formation. Expenditure on intermediate consumption was €49.0 million higher than targeted, registering a 20.6 per cent year-on-year increase, compared to an anticipated growth of 12.3 per cent in the 2019 Update of the Stability Programme. These developments were the result of higher than planned EBUs' intermediate consumption, medical and surgical materials, contribution to government entities operating in financial intelligence, and higher than planned expenditure towards operations and maintenance. Higher than planned subsidies amounting to €29.6 million were primarily related to the national regulator of financial markets. Meanwhile, lower than expected capital transfers and gross fixed capital formation were mainly on account of a lower than planned absorption of pre-financed expenditure than was accrued to 2019 in the 2019 Update of the Stability Programme.

3.2 Updated budgetary plans for 2020

Major revisions were carried out to the components of both revenue and expenditure for 2020, compared to the projections outlined in the 2020 Draft Budgetary Plan. These revisions confirm the severe impact on economic activity resulting from the COVID-19

Main Fiscal Projections

(per cent of GDP)

Table 3.2

	2018	2019	2020	2021
Revenue	**38.6**	**38.2**	**39.2**	**38.8**
Components of revenue				
Taxes on production and imports	12.7	12.1	11.5	11.8
Current taxes on income and wealth	13.3	13.8	14.3	14.3
Capital taxes	0.2	0.2	0.1	0.1
Social contributions	6.2	6.1	6.3	6.1
Property income	0.7	0.5	0.5	0.5
Other revenue	5.5	5.5	6.4	6.0
Expenditure	**36.7**	**37.7**	**46.7**	**42.4**
Components of expenditure				
Compensation of employees	11.1	11.2	12.4	12.0
Intermediate consumption	6.6	7.5	9.5	9.0
Social payments in cash and in kind	9.6	9.4	10.8	10.3
Interest expenditure	1.5	1.4	1.4	1.4
Subsidies	1.4	1.5	3.9	1.5
Gross fixed capital formation	3.1	3.8	5.3	4.9
Capital Transfers Payable	1.3	0.8	0.8	1.0
Other expenditure	2.0	2.1	2.5	2.3
General Government Balance	**1.9**	**0.5**	**-7.5**	**-3.6**
Primary Balance	**3.5**	**1.9**	**-6.1**	**-2.2**

Discretionary Factors Underpinning Budgetary Developments

Note: The impact of the measrues is reported on accruals basis. The impact is recorded in cumulative terms. A positive represents an improvement in the budget balance.

Table 3.3

List of measures	Detailed description	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Introduced in Budget for…	Incremental Budgetary Impact 2018 % of GDP	2019 % of GDP	2020 % of GDP	2021 % of GDP
VAT	Impact from VAT directive on electronic commerce	D2 - R	Accruals	Permanent & Adopted	2019	0.00	-0.11	0.00	0.00
Duty on documents	Extension of reduced rate of stamp duty chargeable on the transfer of immovable property and of a family business	D2 - R	Accruals	Temporary & Adopted	2014 - 2019	-0.03	-0.01	-0.02	0.18
	Change in income tax thresholds for low income earners, including pensioners	D5 - R	Accruals	Permanent & Adopted	2017 - 2019	-0.04	-0.02	0.00	0.00
Personal income tax	Fiscal incentives for private pensions	D5 - R	Accruals	Permanent & Adopted	2019	0.00	-0.01	0.00	0.00
	Fixed rate on overtime	D5 - R	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.03	0.00
COVID-19 measures	Deferral of payment of taxes	D2, D5, D6 - R	Accruals	Permanent & Adopted	2020	0.00	0.00	0.00	0.00
Individual Investor Programme	Revenue from the Individual Investor Programme	P10 - R	Accruals	Permanent & Adopted	2014	-0.42	-0.32	0.21	0.00
Other revenue measures legislated in previous budgets			Accruals	Permanent & Adopted		-0.04	-0.00	0.00	0.00
COVID-19 measures	COVID-19-related expenses in respect of other Ministries	D1, P2 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.12	0.11
COVID-19 measures	Funding the drop in revenue in Government Entities	D1, P2 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.16	0.15
EU Presidency	Intermediate consumption in respect of Malta's EU Council Presidency in 2017	P2 - E	Accruals	Permanent & Adopted	2016 - 2017	0.22	0.00	0.00	0.00
COVID-19 measures	Various medical supplies for combatting COVID-19	P2, D6 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.87	0.55
COVID-19 measures	Malta Enterprise - Sustainable Enterprise Schemes	D3 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-2.35	2.22
COVID-19 measures	Subsidised interest rates on working capital loans for two years and up to a maximum 2.5%	D3 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.15	0.14
Pension reform initiatives	The pension reform initiative legislated in 2006 is expected to lead to lower pension expenditure primarily as the increase in retirement age leads to lower retirees	D6 - E	Accruals	Permanent & Adopted	2006	0.09	0.00	0.00	0.00
Tapering of Social Benefits	Tapering of Social Benefits to beneficiaries who become engaged in employment or start working as self-occupied	D6 - E	Accruals	Permanent & Adopted	2015	0.03	0.03	0.00	0.00
Re-distribution measures	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society	D6 - E	Accruals	Permanent & Adopted	2016 - 2019	-0.12	-0.17	-0.31	0.00
School transport	Extension of the school transport network to children in independent and church schools	D6 - E	Accruals	Permanent & Adopted	2018 - 2019	-0.04	-0.11	0.00	0.00
COVID-19 measures	Short-term social measures	D6 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.28	0.27
Tax relief measure		D7 - E	Accruals	Permanent & Adopted	2018 - 2019	-0.09	0.00	-0.03	0.00
Compensation payments		D7 - E	Accruals	Permanent & Adopted	2017 - 2019	-0.02	0.04	0.00	0.00
COVID-19 measures	Healthcare-related capital expenditure	P51 - E	Accruals	Permanent & Adopted	2020	0.00	0.00	-0.16	0.15
Other expenditure measures legislated in previous budgets, including projects financed from the National Development and Social Fund			Accruals	Permanent & Adopted		-0.07	-0.01	-0.18	-0.32
						-0.53	**-0.70**	**-4.47**	**3.46**

The impact is recorded in incremental terms - as opposed to levels - compared to the previous year's baseline projection. The total figure is the Total impact on the budget balance, as a revenue increasing measure is listed as positive, while an expenditure decreasing measure is also positive. The contrary applies for negative figures, such that a revenue decreasing measure is negative and an expenditure increasing measure is also negative. Simple permanent measures are recorded as having an effect of +/- X in the year(s) they are introduced and zero otherwise (the overall impact on the level of revenues or expenditures does not cancel out). If the impact of a measure varies over time, only the incremental impact is recorded in the table. By their nature, one-off measures are recorded as having an effect of +/- X in the year of the first budgetary impact and -/+ X in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years is zero. The measures may not add up to the total due to the marginal impact of measures legislated in previous' years Budget, but which might nonetheless have a marginal impact on the budget balance.

pandemic, as well as the fiscal impact of the Government support measures primarily aimed to safeguard employment and corporate liquidity in the most hard-hit industries. On account of these revisions, in 2020, the budget balance is expected to decline to a deficit of 7.5 per cent of GDP.

Updated budgetary plans are outlined in Table 3.2 and Appendix Table 2a, while Table 3.3 presents the measures underlying the expected short-term fiscal developments.

3.2.1 General Government Revenue in 2020

General Government revenue is expected to increase by 1.0 percentage point of GDP, from 38.2 per cent of GDP in 2019 to 39.2 per cent of GDP in 2020.

It is worth noting that in Malta, while the outbreak of the pandemic exerted adverse effects on the broad economy in general, some sectors were more severely hit than others by the partial-lockdown measures, in particular tourism-related industries and the wholesale and retail trade sectors. These developments are expected to negatively effect proceeds from taxes on production and imports, which are expected to decline by 8.1 per cent in 2020, such that the ratio-to-GDP is expected to decline by 0.6 percentage points to 11.5 per cent.

Government support measures, particularly those aimed at sustaining employment, are to an extent expected to mitigate the severity of the downturn on compensation of employees, such that the expected drop in GDP is expected to outpace the anticipated drop in employment. In addition, the support measures aimed at sustaining corporate liquidity and profitability are expected to minimise the timeframes within which the more severely hit sectors recover. Consequently, revenues from current taxes on income and wealth and from social contributions are expected to decline only marginally, by 0.4 per cent and 0.3 per cent respectively, such that their share to GDP is expected to increase.

In this context, it is worth reiterating that the outlined fiscal projections are based on the assumption of a gradual resumption of economic activity from the third quarter of 2020, in line with what most credit rating agencies and the IMF are projecting for Malta. It is assumed that taxation due shall be recovered by the end of this financial year.

At unchanged policies, tax revenues, including social contributions, are expected to decline by 3.3 per cent, with an implied elasticity of tax revenue to GDP estimated at 0.9, in line with developments observed in recent years.

3.2.2 General Government Expenditure in 2020

The ratio of general Government expenditure to GDP is expected to increase by 9.0 percentage points to 46.7 per cent in 2020. The increase in the expenditure-to-GDP ratio is mainly set to come from the fiscal impact of COVID-19 related measures as well as measures legislated by means of the 2020 Budget. An analysis of the developments in the general Government balance is presented in Table 3.4.

As outlined, developments in the expenditure-to-GDP ratio primarily reflect the fiscal impact of COVID-19 related measures, which are expected to exert a negative impact of 4.1 percentage points of GDP on the general Government balance. In this context, it is worth reiterating that the Guarantee Fund outlined in Chapter 1 shall only impact the general Government balance in the eventuality of a call on the guarantees and are therefore not included in these estimates.

In addition, the 2020 Budget introduced measures that contribute towards sustainable development by continuing investment in the country's infrastructure and flood relief interventions, greater social protection and integration, and sustainable economic development, which collectively increased the expenditure-to-GDP ratio by 0.4 percentage points. The incremental fiscal impact of discretionary expenditure measures legislated in previous budgets, but which will still have an impact in 2020, is expected to be marginal.

Analysis of the Developments in the General Government Balance
(percentage points)

Table 3.4

	2018	2019	2020	2021
Change in Revenue Ratio	**(0.68)**	**(0.39)**	**1.03**	**(0.41)**
Discretionary factors underpinning fiscal developments	(0.77)	(0.61)	0.21	0.09
Tax revenue buoyancy	(0.16)	(0.02)	0.07	(0.04)
Other revenue	0.25	0.24	0.75	(0.46)
Change in Expenditure Ratio	**(0.74)**	**(0.99)**	**(9.04)**	**4.29**
Discretionary factors underpinning fiscal developments	0.05	(0.19)	(4.65)	2.98
Change in Gross Fixed Capital Formation	(0.62)	(0.70)	(1.12)	0.28
Other expenditure	(0.17)	(0.10)	(3.27)	1.02
Change in the General Government Balance	**(1.43)**	**(1.38)**	**(8.01)**	**3.87**

Note: positive represents an improvement in the General Government balance

Meanwhile, even when excluding the fiscal impact of COVID-19 related measures as well as measures legislated by means of the 2020 Budget, the main components of expenditure are expected to exert upward pressure on the expenditure-to-GDP ratio. In particular, the ratio of intermediate consumption is expected to increase by 2.1 percentage points reflecting added outlays on health and the care of the elderly. Expenditure on compensation of employees as a share of GDP is also expected to increase by 1.2 percentage points. Developments in the latter reflect moderate increases in public service salaries, including the effect of the agreed 8-year collective agreement, as well as the planned recruitment as envisaged in the Ministries and Departments' Business and Financial Plans, including HR Plans.

3.2.3 Comparison with the 2019 Update of the Stability Programme

During the current fiscal year, a sharp deterioration in the general Government balance is expected, which is set to deteriorate from a present surplus of 0.5 per cent of GDP to a deficit of 7.5 per cent of GDP. Between the 2019 Update of the Stability Programme and this update, fiscal projections were revised to reflect actual fiscal developments in 2019, as well as considerably more subdued macroeconomic developments projected for 2020 and the fiscal impact of the COVID-19-related Government support measures. Developments in the general Government budgetary projections for 2019 are outlined in Table 3.1.

The projections for general Government revenue were revised downwards by €350 million or 6.5 per cent, to €4,997.1 million because of lower anticipated proceeds from taxation, in particular taxes on production and imports, which have been revised downwards by €287 million to reflect a weaker outturn in 2019 as well as the stress brought about by the COVID-19 pandemic on the domestic economy, particularly in the tourism sector. In the revised forecasts, revenues from current taxes on income and wealth and social contributions were also revised downwards, albeit by a lower magnitude of €113 million and €78 million, respectively. Meanwhile, 'other' revenue was revised upwards by €139 million in anticipation of higher market output compared to projections in the 2019 Update.

The projections for general Government expenditure have been revised significantly upwards by €744 million or 14.3 per cent, to €5,949.0 million. On the expenditure side, higher expenditure on subsidies amounting to €325 million, and higher outlays on gross fixed capital formation and intermediate consumption of €226 million and €186 million, respectively are anticipated. Compared with the 2019 Update of the Stability Programme, the main changes to the expenditure forecast in 2020 are mainly on account of fiscal measures introduced to mitigate the effects of COVID-19 pandemic.

3.3 Budgetary plans for 2021

The outlook for 2021 is highly contingent on the economic recovery in Malta's trading partners, the persistence of supply disruptions due to the severity of the shock as well as the speed at which the confidence and behaviour of domestic consumers and firms will return to normality. Updated budgetary plans for 2021 are based on the assumption of a modest economic recovery in 2021, in reflection of positive developments in tourism, external demand and domestic sentiment. Domestic demand is projected to be the main driver of this growth, which together with alleviated supply restrictions, is expected to give rise to a resurgence in employment and a resumption in wage growth.

On account of these developments, as well as the termination of the temporary social and economic support measures, the general Government balance is expected to improve to a deficit of 3.6 per cent of GDP in 2021. Indeed, the estimated decline of 4.3 percentage points in the general Government expenditure ratio outweighs the expected marginal decline of 0.4 percentage points in the general Government revenue ratio.

The assumed economic recovery is expected to support taxation receipts over the course of next year such that by end-2021, total tax revenue is expected to have recovered to last year's level. The recovery in the labour market is expected to support an increase in current taxes on income and wealth and social contributions. It is however worth noting that certain elements of revenue, particularly corporate income tax, exert a lagged effect on the fiscal balance. Meanwhile, proceeds from taxes on production and imports are expected to benefit from higher levels of consumption.

General Government expenditure is expected to decline next year as temporary policy support is unwound. Expenditure on subsidies is also expected to normalise, with similar developments expected for social transfers and intermediate consumption.

3.4 Medium-Term Budgetary Outlook

While the level of uncertainty regarding the short- and medium-term path for the economy is unprecedented, the fiscal starting position in Malta is sound. The Maltese Government adopted a prudent fiscal policy approach in recent years to build fiscal buffers – running headline budget surpluses and establishing a Contingency Reserve Fund – to prepare for an economic shock.

As a result of this prudent approach, the economy can absorb a short-term increase in borrowing. Financing conditions remain favourable. Nevertheless, the Maltese Government remains committed to put the debt-to-GDP ratio back on a declining path once the recovery is firmly established, and the extraordinary fiscal support introduced during the crisis is lifted. Indeed, it is the express view of the Government that once these exceptional circumstances cease to prevail, the Government will support a fiscal strategy to revert to the Medium-Term Objective of a balanced budget in structural terms and ensure that the debt ratio remains below 60 per cent of GDP. It is however premature at this stage to anticipate when these exceptional circumstances will cease to exist.

3.5 Debt levels and developments

Government debt has declined below the 60 per cent Treaty reference value in 2015 and has fallen continuously ever since, reaching a debt to GDP ratio of 43.1 per cent in 2019. In this regard, Malta continues to be one of the Member States with the lowest debt ratio in the Euro Area. As of 2020, the level of public debt relative to GDP is forecasted to increase by 11.4 percentage points to 54.5 per cent, reflecting the impact of the COVID-19 pandemic. By 2021 Malta's debt to GDP ratio is expected to increase by a further 1.0 percentage point to reach 55.5 per cent.

Meanwhile, the Government's debt strategy still remains that of ensuring that the financing needs of the public sector are met at the lowest possible costs, while simultaneously minimising medium and long-term interest rate risk. The Government's reliance on short-term funding remains marginal, in line with the dynamics exhibited in recent years. During 2019, short-term debt accounted for 5.3 per cent of total Government debt and is expected to increase to 6.3 per cent in 2020. Short-term debt funding is predicted to stabilise in the following years to reach 5.4 per cent in 2021. Additionally, the share of maturing stocks in total Government debt is expected to increase from a level of 7.6 per cent in 2019 to 8.1 per cent in 2020. Furthermore, the proportion of maturing stocks in total Government debt is projected to remain on an upward trajectory, with the ratio reaching 8.2 per cent in 2021.

3.5.1 Projected Debt developments

Debt developments depend on net lending which can be decomposed into the primary balance and interest expenditure, GDP growth and the stock flow which is made up of financial transactions and accruals that do not affect lending. Developments in the debt ratio for the Programme period and the contributors to developments in the debt-to-GDP ratio are presented in Table 3.5 and Statistical Appendix Table 4. The debt-to-GDP ratio is expected to increase to 55.5 per cent by 2021, mainly on the back of the negative primary balance together with an expansionary impact of the SFA on the debt-to-GDP ratio foreseen thorough these two years.

After increasing by €51.5 million over 2018, together with a higher level of GDP, the debt-to-GDP ratio for 2019 fell to 43.1 per cent. The debt ratio is expected to increase by 11.4 percentage points in 2020 and increase further by 1.0 percentage point to reach 55.5 per cent of GDP in 2021. Developments in the gross Government debt are illustrated in Chart 3.1. Over 2020, the projected increase in the gross debt ratio is mainly driven by the negative primary balance (primary deficit), together with the expansionary contribution stemming from the SFA, the nominal growth and the interest expenditure. The expansionary contribution of both the primary balance and the SFA on the debt ratio are expected to moderate in 2021 while the nominal growth trajectory is expected to have a contractionary impact on the debt-to-GDP ratio.

The Dynamics of Government Debt[1]

Table 3.5

Percentages of GDP	2018	2019	2020	2021
Gross debt	45.6	43.1	54.5	55.5
Change in gross debt ratio	-4.7	-2.5	11.4	1.0
Contributions to changes in gross debt				
Primary balance	-3.5	-1.9	6.1	2.2
Snowball Effect	-2.9	-1.5	3.0	-1.7
Interest expenditure	1.5	1.4	1.4	1.4
Real GDP growth	-3.2	-1.9	2.5	-2.0
Inflation Effect	-1.2	-1.0	-0.9	-1.0
Stock-flow adjustment	1.6	0.9	2.3	0.4
p.m. implicit interest rate on debt	3.4	3.2	3.1	2.7

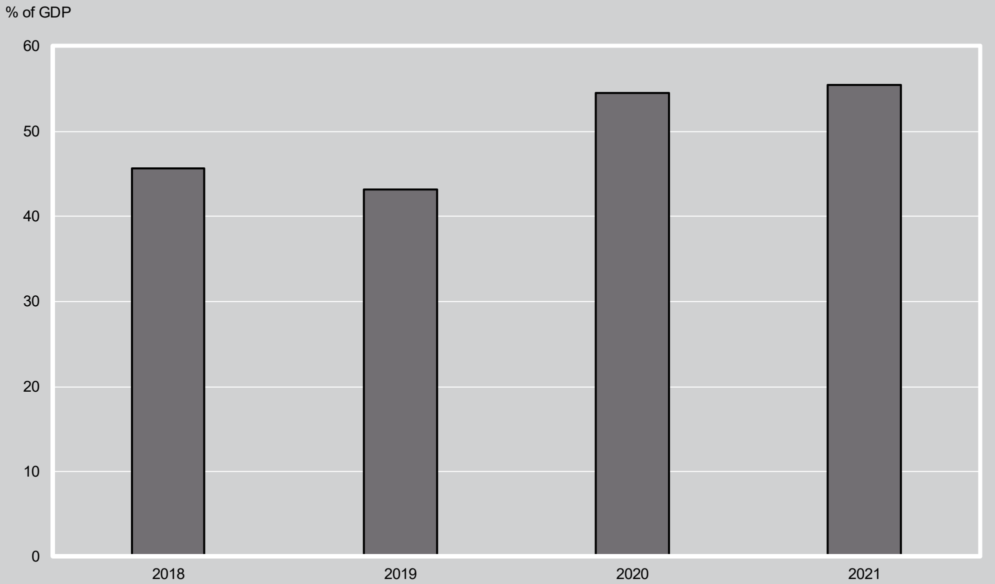
[1] Developments in the debt- to-GDP ratio depend on: $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} \cdot \frac{i_t - y_t}{1 + y_t}\right) + \frac{SFA_t}{Y_t}$

where t denotes a time subscript, D, PD, Y and SFA are the government debt, primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth.

In 2019, the SFA is estimated to have resulted in a 0.9 percentage points increase in the debt-to-GDP ratio. This is underpinned by the adjustments made to the deficit in ESA10. In 2020, stock flow transactions are expected to have a positive impact on the debt ratio while over 2021, stock flow transactions are expected to have a marginal impact

Chart 3.1

Debt-to-GDP ratio



on debt ratio. Meanwhile, the projected Individual Investor Programme (IIP) revenue will continue to underpin the positive stock-flow adjustments throughout the forecast period with revenue time adjustment being the main contribution towards the increase in ESA Adjustments for 2020. Further details on the SFA can be found in Annex Table 10.

3.5.2 Comparison with the April 2019 Update of the Stability Programme

As illustrated in the Statistical Appendix Table 6, the ratios of general Government debt-to-GDP presented in this Programme are expected to be broadly the same up till 2019 but differ substantially for the coming two years to those presented in the previous Update of the Stability Programme. Debt-to-GDP ratio presented in the programme are higher mainly due to projected primary deficits. In 2020, Stock Flow Adjustment is also projected to be higher than that projected in the previous Update and include the outlays towards SVPR within general Government.

For 2019, the debt-to-GDP ratio was revised upwards by 0.4 percentage points to 43.1 per cent of GDP while debt-to-GDP ratios for 2020 and 2021 were revised upwards by 15.1 and 19.3 percentage points, respectively.

In the 2019 Update, the debt-to-GDP ratio was expected to follow a downward path from a level of 42.7 per cent in 2019 to a level of 36.2 per cent in 2021. On the other hand, in this Update of the Stability Programme, the debt-to-GDP ratio is estimated to rise to a ratio of 55.5 per cent by 2021, still below the 60 per cent threshold.

Statistical Appendix

Macroeconomic Prospects

Table 1a

Percentages unless otherwise indicated	ESA Code	Level 2018(1)	Level 2019(1)	Percentage change over previous period 2018	2019	2020(2)	2021
1. Real GDP	B.1g	10,512.8	10,973.7	7.3	4.4	-5.4	3.9
2. Nominal GDP	B.1g	12,366.3	13,208.5	9.6	6.8	-3.6	5.9
Components of real GDP							
3. Private consumption expenditure(3)	P.3	4,883.6	4,999.8	7.6	2.4	-0.8	1.8
4. Government consumption expenditure	P.3	1,725.1	1,931.8	12.7	12.0	16.5	-3.2
5. Gross fixed capital formation	P.51	1,838.9	1,970.6	-2.1	7.2	-4.0	8.6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52+P.53			0.8	1.0	1.0	1.0
7. Exports of goods and services	P.6	15,105.0	15,357.6	3.5	1.7	-12.1	6.8
8. Imports of goods and services	P.7	13,147.5	13,421.2	3.4	2.1	-8.0	5.6
Contribution to real GDP growth(4)							
9. Final domestic demand		8,447.6	8,902.2	4.9	4.3	1.8	1.8
10. Change in inventories and net acquisition of valuables	P.52+P.53			1.6	0.2	0.0	0.0
11. External balance of goods and services	B.11	1957.5	1936.3	0.9	-0.1	-7.2	2.1

(1) € million

(2) Projections from 2020 onwards

(3) Includes NPISH final consumption expenditure

(4) Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

Price Developments

Table 1b

Percentages unless otherwise indicated	ESA Code	Level 2018[1]	Level 2019[1]	Percentage change over previous period 2018	2019	2020[2]	2021
1. GDP deflator[3]		117.6	120.4	2.1	2.3	1.8	2.0
2. Private consumption deflator		110.7	112.3	0.7	1.5	1.2	1.5
3. HICP (Average 2015=100)		127.3	129.2	1.7	1.5	1.0	1.4
4. Public consumption deflator		115.6	118.4	2.4	2.4	2.0	2.4
5. Investment deflator		127.0	131.4	2.6	3.5	3.1	3.5
6. Export price deflator (goods and services)		118.7	120.9	2.5	1.9	0.8	1.1
7. Import price deflator (goods and services)		116.5	118.5	2.2	1.7	1.2	1.3

(1) Index (base 2010 unless otherwise indicated)

(2) Projections from 2020 onwards

(3) Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. Indeed, summing up the deflators of the components of GDP would not add up to the actual GDP deflator observed for the year. For this reason, the GDP deflator quoted in this table for 2014 and 2015 reflects the actual difference between nominal and real GDP growth rates for the year.

Labour Market Developments

Table 1c

Percentages unless otherwise indicated	ESA Code	Level 2018	Level 2019	Percentage change over previous period 2018	2019	2020[(1)]	2021
1. Employment, persons (National Accounts Definition, Domestic Concept)		230,649	243,740	5.5	5.7	-3.3	3.2
2. Employment, hours worked (National Accounts Definition, Domestic Concept) ('000s)		463,144	489,430	5.5	5.7	-3.3	3.2
3. Unemployment rate (Harmonised definition, 1,000 persons)		9,014	8,857	3.7	3.4	5.9	3.7
4. Labour Productivity, persons (Real GDP per person employed)		45,579	45,022	1.8	-1.2	-2.2	0.7
5. Labour Productivity, hours worked (Real GDP per hour worked)		22.7	22.4	1.8	-1.2	-2.2	0.7
6. Compensation of employees (€ million)	D1	5,008.1	5,387.8	7.7	7.6	-1.8	6.0
7. Compensation per employee (€)		21,713	22,105	2.2	1.9	1.6	2.8

(1) Projections from 2020 onwards

Sectoral Balances

Table 1d

Percentages of GDP	ESA Code	2018	2019	2020	2021
1. Net lending/ borrowing		12.9	11.6	1.8	4.0
vis-à-vis the rest of the world	B.9				
of which:					
Balance on goods and services		21.1	20.2	12.5	13.8
Balance of primary incomes and transfers		-9.1	-9.5	-11.0	-10.1
Capital account		0.9	0.9	0.4	0.3
2. Net lending/ borrowing of the private sector	B.9	9.6	8.4	-12.6	-11.9
3. Net lending/ borrowing of General Government	EDP B.9	2.7	0.9	13.6	15.1
4. Statistical discrepancy		0.7	0.8	0.8	0.8

General Government Budgetary Prospects

Table 2a

Percentages of GDP		ESA code	2018(*)	2019(*)	2018	2019	2020	2021
Net Lending (EDP B9) by sub-sector								
1.	General Government	S13	237.1	71.0	1.9	0.5	-7.5	-3.6
2.	Central Government	S1311	231.3	65.1	1.9	0.5	-7.5	-3.6
3.	State Government	S1312	-	-	-	-	-	-
4.	Local Government	S1313	5.8	5.9	0.0	0.0	-0.0	-0.0
5.	Social security funds	S1314	-	-	-	-	-	-
General Government								
6.	Total revenue	TR	4,771.9	5,045.3	38.6	38.2	39.2	38.8
7.	Total expenditure	TE	4,534.8	4,974.3	36.7	37.7	46.7	42.4
8.	Net lending / borrowing	B9	237.1	71.0	1.9	0.5	-7.5	-3.6
9.	Interest expenditure	D41	190.6	181.3	1.5	1.4	1.4	1.4
10.	Primary balance(1)		427.7	252.3	3.5	1.9	-6.1	-2.2
11.	One-off and other temporary measures(2)		14.6	2.8	0.1	0.0	0.1	0.1
Selected Components of Revenue								
12.	Total Taxes (12=12a+12b+12c)		3,243.5	3,454.3	26.2	26.2	26.0	26.2
12a.	Taxes on production and imports	D2	1,572.4	1,601.2	12.7	12.1	11.5	11.8
12b.	Current Taxes on Income, Wealth, etc.	D5	1,650.4	1,827.0	13.3	13.8	14.3	14.3
12c.	Capital Taxes	D91	20.7	26.1	0.2	0.2	0.1	0.1
13.	Social Contributions	D61	764.8	800.1	6.2	6.1	6.3	6.1
14.	Property Income	D4	83.9	61.7	0.7	0.5	0.5	0.5
15.	Other(3)		679.7	729.2	5.5	5.5	6.4	6.0
16=6.	Total Revenue	TR	4,771.9	5,045.3	38.6	38.2	39.2	38.8
p.m.:	Tax Burden (D2+D5+D6111+D6131+D91-D995)(4)		4,030.2	4,278.1	32.6	32.4	32.4	32.6
Selected Components of Expenditure								
17.	Compensation of employees + intermediate consumption	D1+P2	2,189.1	2,470.0	17.7	18.7	22.0	21.0
17a.	Compensation of employees	D1	1,371.3	1,484.1	11.1	11.2	12.4	12.0
17b.	Intermediate consumption	P2	817.7	985.9	6.6	7.5	9.5	9.0
18.	Social payments (18=18a+18b)		1,181.0	1,236.5	9.6	9.4	10.8	10.3
	of which Unemployment benefits (5)		23.3	27.4	0.2	0.2	0.2	0.2
18a.	Social transfers in kind supplied via market producers	D632	89.5	115.5	0.7	0.9	1.2	1.0
18b.	Social transfers other than in kind	D62	1,091.5	1,121.0	8.8	8.5	9.6	9.3
19=9.	Interest expenditure	D41	190.6	181.3	1.5	1.4	1.4	1.4
20.	Subsidies	D3	179.0	195.0	1.4	1.5	3.9	1.5
21.	Gross fixed capital formation	P51G	386.9	505.9	3.1	3.8	5.3	4.9
22.	Capital transfers	D9	164.4	107.0	1.3	0.8	0.8	1.0
23.	Other(6)		243.8	278.5	2.0	2.1	2.5	2.3
24=7.	Total Expenditure	TE	4,534.8	4,974.3	36.7	37.7	46.7	42.4
p.m.:	Government consumption (nominal)	P3	2,000.9	2,299.7	16.2	17.4	20.7	19.9

(*) € million

(1) The primary balance is calculated as (B9, item 8) plus (D41, item 9)

(2) A plus sign means deficit-reducing one-off measures

(3) P10 + D39rec + D7rec + D9N (ie D9 other than D91rec)

(4) Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D995), if appropriate

(5) Includes social benefits other than social transfers in kind (D62) and social transfers in kind via market producers (D632) related to unemployment benefits

(6) D29pay + D4Npay (ie D4 other than D41pay) + D5pay + D7pay + P5M + NP + D8

General Government Debt Developments

Table 4

Percentages of GDP	ESA Code	2018	2019	2020	2021
1. Gross debt		45.6	43.1	54.5	55.5
2. Change in gross debt ratio		-4.7	-2.5	11.4	1.0
Contributions to changes in gross debt					
3. Primary balance		-3.5	-1.9	6.1	2.2
4. Interest expenditure	EDP D.41	1.5	1.4	1.4	1.4
5. Stock-flow adjustment		1.6	0.9	2.3	0.4
p.m. implicit interest rate on debt(1)		3.4	3.2	3.1	2.7

(1) Proxied by interest expenditure divided by the debt level of the previous year.

Divergence from the April 2019 Stability Programme

Table 6

Percentages of GDP	ESA Code	2018	2019	2020	2021
Real GDP growth					
Previous update		6.6	6.1	5.7	5.1
Current update		7.3	4.4	-5.4	3.9
Difference		0.7	-1.7	-11.1	-1.2
General Government net lending	EDP B.9				
Previous update		2.0	0.9	1.0	1.1
Current update		1.9	0.5	-7.5	-3.6
Difference		-0.1	-0.4	-8.5	-4.7
Total Revenue	TR				
Previous update		38.8	38.1	36.7	35.7
Current update		38.6	38.2	39.2	38.8
Difference		-0.2	0.1	2.5	3.1
Total Expenditure	TE				
Previous update		36.8	37.2	35.7	34.7
Current update		36.7	37.7	46.7	42.4
Difference		-0.1	0.5	11.0	7.7
General Government gross debt					
Previous update		46.0	42.7	39.4	36.2
Current update		45.6	43.1	54.5	55.5
Difference		0.4	-0.4	-15.1	-19.3

Basic Assumptions

Table 8

	2018	2019	2020(p)	2021(p)
Short-term interest rate (annual average)	0.0	0.0	0.0	0.0
Long-term interest rate (annual average)	1.4	0.7	0.3	0.3
USD/EUR exchange rate (average)	1.175	1.119	1.110	1.136
GBP/EUR exchange rate (average)	0.886	0.873	0.885	0.872
Malta’s main trading partners real GDP growth	2.6	2.1	-5.5	4.6
Oil prices, (Brent, USD/barrel)	71.1	64.4	38.4	42.8
World prices weighted by main trading partners (y-o-y % change)	2.5	0.3	-2.4	-0.5

Stock Flow Adjustment Statement

Table 10

Millions of Euros	2019	2020	2021
General Governemnt deficit (-) / surplus (+) (ESA10)	**-71.0**	**952.9**	**485.6**
ESA Adjustments	61.6	125.9	-31.5
Contribution to Sinking Fund (Local)	0.0	0.0	0.0
Contribution to Sinking Fund (Foreign)	0.1	0.1	0.1
Contribution to Special MGS Sinking Fund	50.0	50.0	50.0
Equity Acquisition	18.8	37.1	0.1
EFSF/ESM Credit Line Facility	0.0	4.5	4.5
Courts and other deposits	-15.0		
Stock Premium paid to Church	1.4	0.0	0.3
Advances made by Government			
Repayment of Loans to Government	0.0	-0.7	-2.0
Sale of Assets	-0.1	-0.9	-0.9
Sale of Non-Financial Assets	-	-	-
EBUs	-9.4	0.0	0.0
Currency	4.7	10.3	6.9
Movement in Bank Account	19.8	-	-
ESA Rerouted Debt	43.0	72.0	50.0
Increase/(Decrease)in cash balance	-40.8	1.2	-0.2
Increase/(Decrease) in Non-Consolidated Debt	**62.1**	**1,252.4**	**562.8**
MGS Consolidation	-10.6	-8.3	-17.7
Increase/(Decreaese) in Consolidated Debt	51.5	1,244.1	545.1
SFA	122.5	291.2	59.5