Malta: Technical Assistance Report-Fiscal Transparency Evaluation

MALTA

TECHNICAL ASSISTANCE REPORT— FISCAL TRANSPARENCY EVALUATION

September 2018

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F I S C A L A F F A I R S D E P A R T M E N T

Malta

Fiscal Transparency Evaluation

Torben Hansen, Stephen Farrington, Yugo Koshima, and Natalia Salazar

July 2018

I N T E R N A T I O N A L M O N E T A R Y F U N D

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GLOSSARY

CBM	Central Bank of Malta
COFOG	Classification of Functions of Government
DMD	Debt Management Directorate
EBU	Extra-Budgetary Unit
EC	European Commission
EDP	Excessive Deficit Procedure
EPD	Economic Policy Department
ESA	European System of Accounts
EU	European Union
FC	Fiscal Compact
FRA	Fiscal Responsibility Act
FSI	Financial Situation Indicator
GFSM	Government Finance Statistics Manual
GFR	General Financial Regulations
HoR	House of Representatives
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IIP	Individual Investor Program
LGD	Local Government Division
MDB	Malta Development Bank
MFAC	Malta Fiscal Advisory Council
MGI	Malta Government Investment
MTO	Medium-Term Objective
NAO	National Audit Office
NDSF	National Development and Social Fund
NSO	National Statistics Office
PC	Public Corporation
PDMA	Public Debt Management Act
PPP	Public-Private Partnership
SDDS	Special Data Dissemination Standards
SGP	Stability and Growth Pact

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

PREFACE

At the request of the Minister for Finance, Mr. Edward Scicluna, an IMF technical assistance mission visited Valletta, Malta, from April 30 to May 14, 2018 to conduct a Fiscal Transparency Evaluation based on the first three pillars of the IMF's Fiscal Transparency Code. The mission comprised Torben Hansen (head) and Yugo Koshima from the IMF's Fiscal Affairs Department, Stephen Farrington, and Natalia Salazar (both FAD experts). A preliminary visit by Torben Hansen took place on February 8, 2018 to discuss the fiscal transparency framework and data requirements.

In the Ministry for Finance, the mission met with Mr. Edward Scicluna; Mr. Alfred Camilleri (Permanent Secretary); Mr. Joseph Caruana (Permanent Secretary); Mr. Paul Debattista (Chief of Staff); Mr. Mark Borg (Director General); Mr. Godwin Mifsud (Director General); Mr. Kevin Vella (Director); Mr. Keith Borg (Director); Mr. Carmelo Muscat (Director); Ms. Lorraine Mangion Duca (Director); Ms. Jacqueline Gili (Director); Mr. Stefano Manicolo (Director); Mr. Michael Zammit Munro (Director); and their staff. The mission also met with the Commissioner for Revenue, Mr. Marvin Gaerty; Acting Director General of the National Statistics Office (NSO), Mr. Etienne Caruana; Head of Unit Public Finance of the NSO, Mr. Mark Galea; and their staff.

In the government, the mission met with Ms. Joyce Dimech (Permanent Secretary, Prime Minister's Office); Mr. Christopher Cutajar (Permanent Secretary, Ministry for Transport, Infrastructure and Capital Projects); Mr. John Agius (Director, Ministry for Home Affairs and Security); Mr. Adrian Mifsud and Ms. Svetlana Curmi (Directors, Local Government Division); and their staff. Outside the government, the mission met with Mr. Charles Deguara (Auditor General); Mr. Oliver Bonello (Deputy Governor, Central Bank of Malta); Mr. Ray Scicluna (Clerk to the House of Representatives); Mr. Rene Saliba (Chairman, Malta Fiscal Advisory Council); Mr. John Bencini (Chairman, Malta Council for Economic and Social Development); Mr. Aaron Farrugia (Parliamentary Secretary); Mr. Josef Bonnici (CEO, Malta Development Bank); Mr. David Curmi (CEO, National Development and Social Fund); Mr. Stanley Mifsud (CEO, MIMCOL); Mr. Camenzuli James (Chairman, Projects Malta); and their staff.

The evaluation is based on information available at the time of the visit in May 2018. The findings and recommendations of the report represent the views and advice of the IMF mission team and do not necessarily reflect those of the authorities. Unless otherwise specified, the data presented in text, figures, and tables in the report are estimates made by the IMF mission team and not official estimates of the government of Malta.

The mission would like to thank the Maltese authorities and other officials for their excellent collaboration in the conduct of this evaluation and for the frank and open exchanges of views on all matters discussed. Particular thanks go to Ms. Angela Buttigieg and Ms. Alessia Galea for their excellent support before and during the mission. The mission would also like to thank Rohini Ray (FAD Research Assistant) for her support in compiling data and cross-country comparisons.

EXECUTIVE SUMMARY

Malta meets a large number of the principles of the Fiscal Transparency Code at good or advanced level. Based on the assessment made in this report, Malta meets the good or advanced practice on 21 out of 35 principles in the Code. One principle, related to natural resources, was not relevant to Malta and therefore not assessed. Malta meets the basic practice on a further 12 principles (Table 0.1). Practices are stronger in the areas of fiscal reporting and fiscal forecasting and budgeting, where Malta is subject to and complies with the comprehensive reporting framework established by the European Union. Practices are generally weaker in the area of fiscal risk analysis and management, notably oversight of public corporations.

Fiscal reporting meets good or advanced practice in almost all areas (Chapter I). Fiscal reports cover all general government entities and include all financial assets and liabilities, as well as both cash-based and accrued revenue, expenditures, and financing. Reports are published in a timely manner and comparable to each other. Fiscal statistics are prepared by the professionally independent National Statistics Office in accordance with the European Statistics Code of Practices and the periodic monitoring of Eurostat, and the government's financial statements are audited by the independent National Audit Office.

Yet, there remains scope to enhance fiscal reporting practices in some areas. There is no fiscal report that provides a consolidated view of the public corporation sector, and a lack of reporting of nonfinancial assets and—until now—employment related pension entitlements creates gaps in the general government balance sheet. Other economic flows have been sizable in Malta due to the restructuring of public corporations, but are not reported. Tax expenditures may be sizable and could be more comprehensively reported.

Fiscal forecasting and budgeting practices meet the good or advanced practice in most areas (Chapter II). Budget documentation includes medium-term macroeconomic forecasts with explanations of their components and underlying assumptions. Fiscal policy objectives are embedded in a medium-term budget framework, and macroeconomic and fiscal forecasts are evaluated by an independent fiscal council. Fiscal legislation is comprehensive, and budget documents are published in a timely manner.

However, there is scope to enhance fiscal forecasting and budgeting in several areas. Revenue and total expenditures of extrabudgetary units, which have been growing in significance, are not reported in the budget documentation. Limited information is provided on multi-annual public investment projects, and cost-benefit analysis for major investment projects is not consistently undertaken and published. There is also scope to enhance performance information in the budget documentation and, more generally, achieve greater consistency in the presentation of fiscal data across different reports.

Fiscal risk analysis and management meets the advanced practice in some areas

(Chapter III). Fiscal strategy documents include scenario analysis of macroeconomic risks to the fiscal outlook and probabilistic fan charts for macroeconomic and fiscal outcomes. While limited analysis pertaining to government assets is performed, the framework for analyzing and reporting on risks to the government's debt portfolio is comprehensive. Potential risks emanating from the financial sector are also well monitored and reported.

Nonetheless, there are also a range of areas where fiscal risk analysis and management

falls short of the good practice of the Code. The most notable gap is the absence of reporting on the overall financial performance of public corporations, given the potential risks emanating from that sector, and the absence of a common framework for exercising ownership functions and monitoring performance. The lack of a summary report on specific risks to the fiscal forecast, which would include enhanced reporting on long-term fiscal sustainability, government guarantees, and public private partnerships, amongst others, is also an important gap.

The evaluation provides seven recommendations to further enhance fiscal transparency in Malta. Specifically, it recommends the authorities to:

- Gradually expand the coverage of fiscal reports to the public sector by: (i) producing a statement of other economic flows of the general government; (ii) consolidating public corporations into the statement of operations of the general government; (iii) producing balance sheets of subsectors of general government and public corporations; and (iv) preparing accrual-based financial statements of the central government to produce a public sector balance sheet.
- Better report and control tax expenditures by: (i) publishing a regular report that includes estimated revenue loss of all existing and new tax expenditures; and (iii) setting budgetary targets to control the level of tax expenditures.
- Improve the comprehensiveness of budget documentation by: (i) presenting more comprehensive information on extrabudgetary units; and (ii) gradually introducing performance information in the budget documentation.
- Improve the consistency of different reports by: (i) harmonizing and consolidating presentations of macroeconomic and fiscal forecasts in different reports; and (ii) providing a detailed explanation of changes to the forecasts published in previous reports.
- Strengthen the framework for public investment management by: (i) disclosing the value of total obligations under each multi-annual project; (ii) publishing results of cost-benefit analysis conducted for major projects; and (iii) undertaking a Public Investment Management Assessment (PIMA).
- Publish an annual fiscal risk statement, produced by the government, that discusses the size and nature of specific fiscal risks, and measures to mitigate these risks.

- Strengthen the institutional framework in the Ministry for Finance for managing fiscal risks, including by: (i) assigning responsibility to a unit for compiling information for and drafting the fiscal risk statement; and (ii) establishing a unit to oversee the financial operations of public corporations, based on a common ownership policy and performance monitoring cycle.

A suggested Action Plan for implementing these recommendations is set out in Annex I.

The Fiscal Transparency Evaluation also estimates Malta's public sector financial position to provide a more comprehensive view of public finances. For 2016, it estimates consolidated public sector revenue and expenditures of 47 and 45 percent of GDP, public sector asset holdings and liabilities of around 126 and 157 percent of GDP, and a public sector net worth of -31 percent of GDP (Table 0.2). While inclusion of public corporations, including the Central Bank of Malta, do not change the general government figure for net worth, financial net worth decreases by 20 percent of GDP to -86 percent of GDP. At the same time, net lending (the fiscal surplus) increases from the reported 1.0 percent of GDP for the general government sector to 1.8 percent of GDP, due to the profitability of the public corporation sector in 2016.

Table 0.1. Malta: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
Coverage of Institutions	Budget Unity	Macroeconomic Risks
Coverage of Stocks	Macroeconomic Forecasts	Specific Fiscal Risks
Coverage of Flows	Medium-term Budget Framework	Long-term Fiscal Sustainability
Coverage of Tax Expenditures	Investment Projects	Budgetary Contingencies
Frequency of In-Year Reporting	Fiscal Legislation	Asset and Liability Management
Timeliness of Annual Accounts	Timeliness of Budget Documentation	Guarantees
Classification	Fiscal Policy Objectives	Public-Private Partnerships
Internal Consistency	Performance Information	Financial Sector
Historical Revisions	Public Participation	Natural Resources
Statistical Integrity	Independent Evaluation	Environmental Risks
External Audit	Supplementary Budget	Subnational Governments
Comparability of Fiscal Data	Forecast Reconciliation	Public Corporations

Table 0.2. Malta: Public Sector Financial Overview, 2016
(Percent of GDP)

	General Government				Public Corporations			Public sector	
	Central government	Local government	Consolidation	Consolidated	Nonfinancial	Central Bank	Other financial	Consolidation	Consolidated
Flows									
Revenue	38.1	0.4	-0.3	38.2	11.0	0.5	0.3	-3.2	46.9
Expenditure	37.1	0.4	-0.3	37.2	10.2	0.5	0.4	-3.2	45.1
Net lending/borrowing	1.0	0.0	-	1.0	0.8	0.0	-0.1	-	1.8
Stocks									
Assets	67.6	1.1	-0.2	68.5	27.4	54.3	3.3	-27.7	125.9
Nonfinancial	34.0	0.7	-	34.7	19.6	0.3	0.1	-	54.8
Financial	33.5	0.4	-0.2	33.8	7.8	54.0	3.2	-27.7	71.0
Liabilities	99.1	0.2	-0.2	99.3	27.4	54.3	3.3	-27.7	156.7
Liabilities	77.7	0.2	-0.2	77.9	16.6	49.5	3.1	-11.8	135.3
Public service pension entitlements	21.3	0.0	0.0	21.3	-	-	-	-	21.3
Equity	0.1	0.0	0.0	0.1	10.8	4.9	0.3	-15.9	0.1
Net worth	-31.5	0.9	-	-30.8	-	-	-	-	-30.8
Net financial worth	-65.6	0.2	-	-65.5	-8.9	4.5	0.1	-	-85.6
Memorandum items									
<i>Net financial worth excl. public service pension entitlements</i>	-44.3	0.2	-	-44.2	-8.9	4.5	0.1	-	-64.4
<i>Social security pension entitlements</i>	235.4	0	-	235.4	-	-	-	-	235.4

Source: Eurostat, NSO, Treasury, Directorate for Local Governments, and staff estimates

Notes: Data on social security and public service pension entitlements are for 2015 and data on nonfinancial assets of local governments are for 2017. The "Consolidation" columns show the amount of inter-public sector transactions and cross-holding of assets and liabilities held and owed by one public sector unit to another. The "Consolidated" column are calculated by summing up the flows and stocks of each subsector on a gross basis and eliminating the amount of consolidation.

I. FISCAL REPORTING

1. This chapter assesses the quality of fiscal reporting in Malta against the principles set out in the Fiscal Transparency Code. In doing so, it assesses the: (i) coverage of institutions, stocks, and flows; (ii) frequency and timeliness of reporting; (iii) quality of fiscal reports; and (iv) integrity of reported fiscal data.

2. Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance. They should:

- Cover all institutional units in the public sector classified according to international standards;
- Record all assets, liabilities, revenue, expenditures, financing, and other economic flows;
- Be published in a frequent and timely manner;
- Reconcile the different balances calculated and have comparable data across reports; and
- Be prepared by an independent agency in the case of fiscal statistics, and scrutinized by an independent audit institution in the case of financial statements.

3. While the Maltese authorities publish a large volume of fiscal reports, they are somewhat fragmented and based on different standards. As shown in Table 1.1 below, fiscal reports differ in terms of coverage of institutions, flows and stocks, and basis of accounting. While fiscal statistics for the general government sector strictly follow the European System of Accounts (ESA) 2010 framework, financial statements for the budgetary central government (the Consolidated Fund) are based on national classifications. There is no report providing a comprehensive, consolidated view of the public sector. Malta's main summary fiscal reports comprise:

- **Quarterly Accounts for General Government**, which are produced by the National Statistics Office (NSO) in accordance with ESA 2010 and include financial assets and liabilities, accrued revenue, expenditures, and financing, as well as debt and guarantees;
- **Excessive Deficit Procedure (EDP) notifications**, which are produced by the NSO in accordance with the EDP reporting framework and include reconciliations between budget accounts and ESA 2010-based net borrowing/lending and stock-flow adjustments, together with an inventory of Extra Budgetary Units (EBUs) and explanation of historical revisions;
- **Monthly "Comparative Statements" of the Consolidated Fund**, which are produced by the Treasury and present budget execution data in comparison with budget estimates by using the same administrative and economic classifications;
- **Monthly and quarterly "Fiscal Data"**, which are produced by the NSO in accordance with the requirements under the EU Directive 2011/85/EU and present monthly revenue and expenditures of the Consolidated Fund and EBU by economic classification;
- **Annual Financial Statements and Financial Reports**, which are produced by the Treasury,

and certified and audited by the National Audit Office (NAO), and include receipts and payments of the budgetary central government together with statements of debt and some financial assets (in the case of Financial Reports), while not covering EBUs; and

- **Half Yearly and Annual Reports under the Fiscal Responsibility Act (FRA)**, which are produced by the Economic Policy Department (EPD) of the Ministry for Finance and include budget execution data in comparison with estimates of general government revenue, expenditures, financing, debt, and some financial assets (revenue arrears) and liabilities (payables to suppliers).

1.1. Coverage of Fiscal Reports

1.1.1. Coverage of Institutions (Good)

4. **In 2016, Malta's public sector comprised 389 institutional units.** These can be distributed into the following subsectors:

- **Central government**, which comprised 203 budgetary central government units¹ and 62 EBUs. The budgetary central government includes 14 ministries, the Offices of the President and Prime Minister, the House of Representatives (HoR), the Judiciary, other non-ministerial departments, and various cost centers under these entities (including 33 embassies and 21 customer service units of the Ministry for Gozo). Because social security schemes are integrated into the Ministry for the Family, Children's Rights and Social Solidarity, there is no separate social security fund. EBUs include various agencies that are mainly funded by budget transfers or own source revenue treated as taxes;²
- **Local government**, which comprised 68 local councils;
- **Public nonfinancial corporations**, which comprised 53 commercially-oriented entities controlled by the central government or other public corporations. 19 corporations are controlled through six holding companies;³
- **Public financial corporations**, which comprised the Central Bank of Malta (CBM), the Malta Financial Services Authority, and a special purpose entity created for the Enemalta restructuring (Vault Finance).⁴

¹ The latest available data from 2014.

² Three financial sector protection funds (Depositor Compensation Scheme, Investor Compensation Scheme, and Protection and Compensation Fund) are classified into EBUs because they are funded by compulsory levies.

³ Holding companies include Malta Government Investment, Malta Investment Management Company, Malta Enterprise Corporation, Gozo Channel (Holding) Company, Libyan Arab Maltese Holding Company, and Malta University Holding Company.

⁴ Vault Finance is classified outside the general government sector because Vault Foundation, which is the sole director of Vault Finance, is able to make economic decisions independently to the extent necessary for execution of sale-and-lease back transactions with Enemalta. Vault Foundation is governed by two-tier boards composed of members from various backgrounds.

Table 1.1. Malta: List of Fiscal Reports

Report	Author	Sectors	Coverage		Accounting		Publication	
			Flows	Stocks	Basis	Classification	Frequency	Within
In-Year Reports								
Government Finance Data	NSO	BCG	Rev, Exp, Fin	Debt	Cash	National ESA 2010	Monthly	30 days
Comparative Statements	Treasury	BCG	Rev, Exp, Fin	-	Cash	National	Monthly	1 week
Monthly Fiscal Data	NSO	BCG, EBU	Rev, Exp	-	Cash, accrual	ESA 2010	Monthly	1 month
Quarterly Fiscal Data	NSO	BCG, EBU, LG	Rev, Exp	-	Cash, accrual	ESA 2010	Quarterly	1 month
Quarterly Accounts for General Government	NSO	GG	Rev, Exp, Fin	Financial assets, Liabilities, Debt, Guarantees	Part accrual	ESA 2010	Quarterly	4 months
Consolidated Fund Account	Treasury	BCG	Rev, Exp	-	Cash	National	Quarterly	30 days
Financial Situation Indicator	LGD	LG	Rev, Exp	Assets, Liabilities	Accrual	National	Quarterly	4 months
Outstanding Malta Gov. Securities	Treasury	BCG		Debt	Cash	National	Quarterly	1 month after end of quarter
End-Year Reports								
EDP Notifications	NSO	GG	Reconciliation 1/	Debt	Part accrual	ESA 2010	6 months	April and October
Annual financial statements (sec. 65)	Treasury	BCG	Rev, Exp, Fin		Cash	National	Annual	3 months
Financial reports	Treasury	BCG	Rev, Exp, Fin	Cash, Loans, Equity, Debt	Cash	National	Annual	6 months
Structure of General Government Debt	NSO	GG		Debt, Guarantees	Part accrual	ESA 2010	Annual	5 months
Expenditure of GG Sector by Functions	NSO	GG	Exp		Part accrual	ESA 2010	Annual	13 months
Tax Revenue	NSO	GG	Rev		Part accrual	ESA 2010	Annual	10 months
Liabilities of public corporations	NSO	PC		Liabilities	Part accrual	ESA 2010	Annual	13 months
Government guarantees	NSO	GG		Guarantees	Part accrual	ESA 2010	Annual	10 months
Annual debt management report	Treasury	BCG		Debt	Cash	National	Annual	3 months
Reports under Fiscal Responsibility Act								
Medium-Term Fiscal Strategy	EPD	GG	Rev, Exp,	Debt	Part accrual	ESA 2010	Annual	April
Draft Budgetary Plan	EPD	GG	Rev, Exp,	Debt	Part accrual	ESA 2010	Annual	October
Half-yearly Report	EPD	GG	Rev, Exp, Fin	Debt	Part accrual	ESA 2010	6 months	7 months
Annual Report	EPD	GG	Rev, Exp, Fin	Debt	Part accrual	ESA 2010	Annual	6 months

1/ Reconciliation between (i) working balances in government accounts and net lending/borrowing; and (ii) deficit and debt.

Note: BCG: Budgetary Central Government; LG: Local Government; GG: General Government; PC: Public Corporation; Rev: Revenue; Exp: Expenditures; Fin: Financing; LGD: Local Government Division.

5. Malta's public sector expenditures accounted for an estimated 45 percent of GDP in 2016. Table 1.2 summarizes the distribution of public sector revenue and expenditures across the different subsectors and shows that:

- **General government** expenditures accounted for 37 percent of GDP, only 1 percent of which was spent by local governments. Expenditures of EBU's comprised around 13 percent of gross general government expenditures;
- **Public corporations** accounted for 11 percent of GDP, more than 90 percent of which was spent by public nonfinancial corporations. The three largest enterprises⁵ comprised around two-thirds of the total expenditures of public nonfinancial corporations.

Table 1.2. Malta: Public Sector Institutions and Finances, 2016
(Percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditures	Net lending(+)/ borrowing (-)
Public Sector (k) = (g)+(h)+(i)+(j)	389	46.9	45.1	1.8
General Government (g) = (d)+(e)+(f)	333	38.2	37.2	1.0
Central Government (d) = (a)+(b)+(c)	265	38.1	37.1	1.0
Budgetary Central Government (a)	203	37.4	38.1	-0.7
EBUs (b)	62	7.4	5.6	1.8
Inter-Central Government Transfers (c)	-	-6.7	-6.7	-
Local Government (e)	68	0.4	0.4	0.0
Inter-General Government Transfers (f)	-	-0.3	-0.3	-
Nonfinancial public corporations (h)	53	11.0	10.2	0.8
Financial public corporations (i)	3	0.8	0.9	-0.1
Central Bank	1	0.5	0.5	0.0
Others	2	0.3	0.4	-0.1
Inter-Public-Sector Transfers (j)	-	-3.2	-3.2	-

Source: NSO, financial statements of public corporations, and staff estimates.

Note: Inter-transfers include subsidies, capital transfers, property income, and other revenue and expenditure received from and paid to other units in the same subsector.

6. Fiscal reports in Malta consolidate all general government entities and report on each subsector according to international standards. The NSO is responsible for determining the institutional composition of the public sector, the general government and its subsectors. An assessment of the appropriate classification of these entities, in accordance with ESA 2010, is undertaken twice a year, prior to each EDP notification. The NSO publishes quarterly general government accounts that consolidate revenue, expenditures, financing, financial assets and liabilities of each subsector of the general government. There is no fiscal report that consolidates

⁵ These comprise (i) Enemalta, which generates and distributes electricity and had a turnover of EUR 327 million in 2016; (ii) Enemed, which provides wholesale and retail sale of gasoline and had a turnover of EUR 231million in 2016; and (iii) Air Malta, which had a turnover of EUR 192million in 2016.

public financial and nonfinancial corporations, except for data on public corporation liabilities, which the NSO publishes annually in accordance with the EU requirements.⁶

7. There is no single financial statement that consolidate all government-controlled entities in accordance with international standards. Financial Reports produced annually by the Treasury provide for cash-based financial statements of the budgetary central government in accordance with accounting rules specified under the General Financial Regulations.⁷ The individual financial statements of all local governments, EBU, and public corporations are prepared on a full accrual basis in accordance with the International Financial Reporting Standards (IFRS).

8. Future developments in the newly created Malta Development Bank (MDB) could potentially influence its classification as a public corporation.⁸ MDB was established in late 2017 with EUR 30 million paid-in capital from the budget. In the medium-term, the MDB is planning to gradually expand its loan and investment portfolio funded by capital, bond issuance, and borrowing, some of which would be guaranteed by the government. MDB is classified as a public financial corporation in accordance with ESA 2010, because the government guarantees are planned to be only partial, but the MDB Act authorizes the government to guarantee up to 100 percent on MDB's assets and borrowing.⁹ An increase in the amount of government guarantees beyond what is currently planned could lead to reclassification into the general government sector.

9. Expanding the coverage of fiscal reports to include financial and non-financial public corporations, including the Central Bank of Malta (CBM), would have improved the overall fiscal balance by 0.8 percent of GDP in 2016. The impact on the overall balance would be due in large part to the operating profits made by Enemalta, which comprised around half of total operating profits of public nonfinancial corporations in 2016. Figure 1.1 shows the size of fiscal reports' departures from the full public-sector coverage. Expenditures of public corporations that are not reported in fiscal statistics comprised 20 percent of gross public expenditures in 2016 (shown as the red part of the left-hand chart in Figure 1.1).

⁶ Article 14(3) of Council Directive 2011/85/EU.

⁷ The Treasury plans to produce the financial statements of the budgetary central government on a full accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS) after a new Enterprise Resource Planning system is implemented in 2020.

⁸ Furthermore, the statistical classification of the Housing Project Management Unit (established in 2016) and the Commonwealth Trade Finance Facility (2017), both of which are 100 percent owned by the government through a holding company, has not been determined yet. This also applies to D3 Power Generation Ltd. (established in 2014), where Enemalta holds 10 percent of the shares but have some veto powers to safeguard its minority rights.

⁹ Article 5(1) of the MDB Acts.

Figure 1.1. Malta: Public Sector Expenditure and Coverage in Fiscal Reports, 2016
(Percent of expenditure of each level)

Source: NSO, Treasury, financial statements of public corporations, and staff estimates.

Note: "Not reported" refers to expenditure of units not consolidated in fiscal reports.

1.1.2. Coverage of Stocks (Good)

10. Fiscal reports in Malta cover all financial assets and liabilities that are recognized under ESA 2010, but not nonfinancial assets or net worth. Quarterly general government accounts published by the NSO include all financial assets and recognized liabilities, but exclude nonfinancial assets and pension entitlements.¹⁰ Financial Reports for the budgetary central government published by the Treasury include debt and some financial assets (cash, loans, and equity shares). Public corporation data published by the NSO include liabilities but exclude assets and equity. There is no report that presents the net worth of the public sector.

11. The absence of data on nonfinancial assets of the general government is a significant gap in fiscal reports. The stock of general government fixed assets captured in the national accounts amounted to around 35 percent of GDP in 2016.¹¹ Most nonfinancial assets are held by the central government. The total nonfinancial assets reported in the financial statements of individual local governments were only 0.7 percent of GDP in 2017.

12. Accrued to date pension entitlements of 21 percent of GDP for general government employees are yet to be included in fiscal reports. In line with EU requirements, the NSO is preparing a supplementary table on pension schemes, which is expected to be published shortly.¹² The employment-related pension scheme (the so-called "Treasury pension"), which is a defined Pay-As-You-Go scheme, is an additional pension applying to government employees who were employed before 1979. All employees paying social contributions are covered by the general social security pensions, which are also defined Pay-As-You-Go schemes, obligations of

¹⁰ NSO has published pension entitlements in June 2018, after the fiscal transparency evaluation was conducted.

¹¹ Source: NSO. This does not include non-produced assets (e.g. land). The breakdown of this number by asset type or level of government is not published in the national accounts.

¹² This was published by NSO on June 14, 2018.

which were estimated to be 235 percent of GDP in 2015.

13. If reported in full, Malta's public sector asset holding would be 154 percent of GDP, and its liabilities and equity would be 184 percent of GDP on a gross basis. After consolidating cross-holdings of assets and liabilities within the public sector, the public sector assets and liabilities would be 126 and 157 percent of GDP, respectively.¹³ Fiscal reports include only 22 percent of public sector assets and 53 percent of public sector liabilities on a gross basis (Figure 1.2). The main composition of the public sector balance sheet is as follows:

- **Nonfinancial assets** accounted for 55 percent of GDP on a gross basis, out of which the general government and public nonfinancial corporations held 35 and 20 percent of GDP, respectively;
- **Financial assets** accounted for 99 percent of GDP on a gross basis, out of which the CBM, the general government, and public corporations held 54, 34, and 11 percent of GDP, respectively. The general government held a high level of cash in its CBM bank accounts (around 6 percent of GDP), which was one of the main sources of consolidation;
- **Liabilities** accounted for 168 percent of GDP on a gross basis, out of which the general government, the CBM, and public corporations held 99, 49, and 20 percent of GDP, respectively. The liabilities of the general government were mostly composed of debt securities (64 percent of GDP) and employment-related pension entitlements (21 percent of GDP);
- **Equity** of public corporations accounted for 16 percent of GDP, which was added to gross public sector liabilities; and
- **Net worth** was –31 percent of GDP and **financial net worth** was –86 percent of GDP.

Figure 1.2. Malta: Coverage of Public Sector Balance Sheet in Fiscal Reports, 2016
(Gross basis, Percent of GDP)

Source: NSO, Treasury, financial statements of public corporations, and staff estimates.

¹³ It is noted that due to different accounting treatments the 2016 financial statement of Vault Finance reported EUR 282 million receivables owed by Enemalta in relation to a sale-and-lease back transaction, while the 2016 financial statement of Enemalta reported EUR 86 million payables owed to Vault Finance and disclosed all commitments in relation to this transaction in note 29.

14. Malta's net worth is relatively low compared to a sample of other countries (Figure 1.3). This is because the level of general government assets is lower than other European countries (Figure 1.4), while there is a sizable amount of public sector liabilities arising from general government borrowing,¹⁴ employment-related pension entitlements, and public nonfinancial corporations (Figure 1.5).

Figure 1.3. Public Sector Net Worth in Selected Countries
(Percent of GDP)

Source: Fiscal Transparency Evaluation reports and staff estimates.

Latest available data: 2016 (Malta), 2015 (Georgia, Uganda, U.K.), 2014 (Brazil, Guatemala), 2013 (Albania, Finland, Kenya, Peru, Tunisia, Turkey), 2012 (Mozambique, Philippines, Portugal, Romania), 2011 (Bolivia, Costa Rica, Ireland).

Figure 1.4. General Government Assets in Selected European Countries, 2016
(Percent of GDP)

Source: Eurostat and staff estimates.

¹⁴ Malta's general government debt in 2016 in terms of GDP was the seventeenth highest out of the 28 EU member countries.

Figure 1.5. Public Sector Gross Liabilities in Selected European Countries
(Percent of GDP)

Source: Eurostat, statistics offices of respective countries, and staff estimates.
Latest available data: 2016 (Malta) and 2015 (all other countries).

1.1.3. Coverage of Flows (Good)

15. Fiscal reports cover cash flows, accrued revenue, expenditures, and financing, but exclude other economic flows. The financial statements of the budgetary central government (Financial Reports) provide details of the composition of all cash receipts and payments of the Consolidated Fund. The financial statements of individual local governments, EBU, and public corporations include statements of cash flow and comprehensive income as required by the IFRS. Fiscal statistics are based on ESA 2010 and include accrual-based reporting of revenue, expenditures, and financing. Other economic flows or their breakdown into holding gains and other changes in the volume of assets are not included in any fiscal report and can be derived only as a residual of the financial and nonfinancial accounts of the general government.

16. Other economic flows¹⁵ have been sizable in Malta due to restructuring of public corporations. As shown in Figure 1.6, there were large other economic flows of the general government financial assets in 2012 and 2014, which deviated from the EU average. These arose from a capital injection in kind to Enemalta in 2012 (3 percent of GDP) and revaluation losses at the conversion of Enemalta's legal form (2 percent of GDP) in 2014.

¹⁵ Other economic flows are composed of holding gains and losses, which account for changes in value of assets and liabilities from price changes and revaluation, and other changes in the volume of assets, which, among others, account for appearance and disappearance of assets (for example, discovery of natural resources) and effects of reclassification of institutions.

Figure 1.6. Other Economic Flows of General Government Financial Assets
(Percent of GDP)

Source: Eurostat and staff estimates.

1.1.4 Coverage of Tax Expenditures (Not Met)

17. Malta does not yet publish an estimate of revenue loss from tax expenditures, which may be sizeable. Each Stability Program Update¹⁶ includes medium-term estimates of the revenue loss from new tax expenditures as part of its quantification of fiscal measures. For example, the annual revenue loss from investment aid tax credits was estimated to be around 0.4 percent of GDP.¹⁷ However, there is no report that includes estimates of the revenue loss from several existing and new tax expenditures.¹⁸ Figure 1.7 shows the estimated revenue loss from tax expenditures in selected European countries, the average of which was 3.2 percent of GDP in recent years.

¹⁶ Under the EU's legislative economic governance framework, which comprises the Growth and Stability Pact and the Fiscal Compact (comprising the "Six-pack" and "Two-pack" of legislative measures), member countries are required to submit several reports to the European Commission as part of the European Semester framework. These include the Stability Program Update (to be submitted in April), the National Reform Program (April), and the Draft Budgetary Plan (October). The legislative framework sets out the required content of these reports, as well as the fiscal rules and economic governance procedures. See also Footnote 33 and Section 2.3.1.

¹⁷ Communication in 2018 to the EC under the State aid regulations (SA.50287 (2018/X)). This provides tax credits to investments made for start-up of new companies or business in a wide range of industries.

¹⁸ Work is underway in the EPD to produce a report on tax expenditures before the end of 2018, but the government is yet to agree on definitions.

Figure 1.7. Annual Revenue Loss from Tax Expenditures in Selected European Countries
(Percent of GDP)

Source: Various official reports of respective countries, and staff estimates.

Latest available data: 2018 (Italy), 2017 (France, Netherlands, Portugal, Romania, Spain, UK), 2016 (Estonia, Ireland), 2014 (Poland).

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Fiscal Reporting (Advanced)

18. In-year fiscal reports for the budgetary central government are published monthly. The Treasury publishes monthly cash-based budget execution reports ("Comparative Statements"), which are based on national classifications, on the last Friday of the following month, except December which is published on the last working day of March. The NSO publishes monthly cash-based data on the budgetary central government ("Government Finance Data"), which are based on both national and ESA 2010 classifications, in conjunction with the Treasury publication of the Comparative Statements. The NSO also publishes quarterly general government accounts based on ESA 2010 classifications within four months after the end of each quarter. The Local Government Division (LGD) of the Ministry of Justice, Culture and local Governments publishes aggregate accrual-based data on local councils on a quarterly basis.

1.2.2 Timeliness of Annual Financial Statements (Advanced)

19. The annual financial statements of the budgetary central government are published within six months after the end of each financial year. Within three months after the end of each year, the Treasury publishes "Section 65 Annual Financial Statements" of the budgetary central government, which include outturns of major revenue and financing items and total expenditures of each vote. These are certified by the Auditor-General, who states whether they are "found to agree with Treasury Books," before publication. Subsequently, within six months after the end of each year, the Treasury publishes the "Financial Report" of the budgetary central government, which include comparisons of outturn and budget of each line item and data on some financial assets and debt.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Good)

20. Fiscal statistics include economic and functional classifications in accordance with international standards. Quarterly general government accounts published by the NSO report revenue, expenditures, financing, and financial assets and liabilities by an economic classification that complies with ESA 2010. Monthly budgetary central government data published by the NSO include bridging of budget classifications to a functional classification that complies with the UN's Classification of Functions of Government (COFOG) and integrated into ESA 2010. The NSO also publishes annual general government expenditures by a functional classification, broken down to the second level functions, in accordance with COFOG. Quarterly aggregate data on local councils published by the LGD report income, expense, assets, and liabilities by using classifications broadly based on IFRS.

21. Financial statements of the budgetary central government include administrative and economic classifications, but not a program classification. The Financial Reports published by the Treasury are based on the same classifications as the budget estimates, which are determined by the Minister of Finance. Revenue is classified by their type (such as direct and indirect taxes, dividends and profits, interest on loans, grants, and departmental receipts, with a further breakdown of these categories). Expenditures use a three-tier classification based on administrative, economic, project, and "programs and initiatives" classifications. "Programs and initiatives," which covered 51 percent of total budget expenditures in 2016, are composed of a mix of economic, administrative, and other classifications. Social benefits, subsidies, and transfers comprised 74 percent of expenditures under "programs and initiatives" in 2016, with the remainder being wages and capital expenditures.

1.3.2. Internal Consistency (Advanced)

22. Fiscal reports include all three reconciliations required under the Code. The Treasury annually publishes a reconciliation between debt issued and debt holding in the Financial Report. It compares the opening and closing balances, new issue, and repayments of Malta Government Stocks, Treasury Bills, and foreign loans, which account for 99 percent of the central government debt, on an issue-by-issue basis. The NSO semiannually publishes a reconciliation between net borrowing, financing (i.e., net financial transactions), and change in the debt stock of the general government, as part of EDP notifications.

23. The various fiscal reports are generally internally consistent. A reconciliation between debt issued and debt holding in the 2016 Financial Report showed no statistical discrepancy. Statistical discrepancies identified by reconciliations between net borrowing, financing, and changes in the debt stock have been limited to EUR 2million on average between 2010 and 2016.

24. Malta's stock-flow adjustments have been large in recent years mainly because of the acquisition of financial assets. On average between 2013 and 2016, Malta's stock-flow

adjustments were 1.5 percent of GDP, which were higher than the EU average during the same period (-0.3 percent of GDP). While the general government was in surplus in 2016, its debt increased slightly (Figure 1.8). This resulted in a large increase in cash balances.

Figure 1.8. Stock-Flow Adjustments of General Government
(Percent of GDP)

Source: EDP notifications and staff estimates.

1.3.3 Historical Revisions (Good)

25. Revisions to historical fiscal statistics are reported with an explanation for each major revision, but no bridging table is published. Historical revisions to annual data are made twice a year as part of EDP notifications. The NSO explains each major revision in its news releases, but does not publish bridge tables between the old and new time series.

26. Malta's revisions to the general government deficit have been high in recent years, but the revisions to debt have been low. EDP notifications between April 2013 and April 2018 show that the deficit for 2012 was brought down by 0.5 percent of GDP, while the deficit for 2013 to 2015 were revised up by an average of 0.2 percent of GDP. In contrast, revisions to the estimates of debt were minimal during the same period. The size of revisions to deficits have been larger than the EU average, while revisions to debt have been smaller (Figure 1.9).

Figure 1.9. Historical Revisions between April 2013 and April 2018 EDP Notifications
(a) General Government Deficit (Percent of GDP) (b) General Government Debt (Percent of GDP)

Source: EDP notifications, Eurostat news releases, and staff estimates.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Advanced)

27. Fiscal statistics are compiled by the professionally independent NSO and disseminated in accordance with international standards. The NSO is an independent body established by the Malta Statistics Authority Act, 2001. It is headed by a Director General appointed by the governing board (the National Statistics Authority). The NSO has the sole responsibility for “the collection, compilation, extraction, and release of official statistics” in Malta and is subject to “the principles of reliability, objectivity, relevance, statistical confidentiality, transparency, specificity, and proportionality.”¹⁹ The compilation of fiscal statistics is coordinated through a Government Finance Statistics Committee chaired by the NSO and composed of NAO, the Budget Office, Treasury, EPD, and CBM, but the ultimate responsibility for compilation of fiscal statistics, including decisions on the entity classification, is vested in the NSO. Fiscal statistics are disseminated in accordance with the Special Data Dissemination Standards (SDDS). The NSO’s website includes the National Summary Data Page of Malta where data on central and general government operations and debt are published according to SDDS.

28. Eurostat provides periodic monitoring and advice in respect of fiscal statistics. The NSO is bound by the European Statistics Code of Practices and must observe the EU regulations on community statistics. The Malta Statistics Authority Act is kept updated to incorporate any amendments to the EU regulations.

¹⁹ Article 10 of the Malta Statistics Authority Act.

1.4.2 External Audit (Good)

29. Financial statements of the budgetary central government are audited by the independent NAO in accordance with international standards.²⁰ The audit reports are published within 12 months of the start of each fiscal year (see Section 1.2.2). The Auditor General is an officer of the HoR and reports directly to the Speaker of the House. He or she is appointed by a two-thirds majority of all members of the HoR and can be removed only in exceptional circumstances. The NAO independently decides which audits to carry out. Although NAO's budget is presented in the government budget, only the National Audit Office Accounts Committee of the HoR²¹ can scrutinize and approve it. NAO's audits are carried out in accordance with the International Standards of Supreme Audit Institutions (ISSAI).

30. NAO's audit opinions in recent years have stated that the government financial statements are fairly presented in accordance with the accounting policies without major qualifications. Since the approval of the "Auditor General and National Audit Office Act" in 1997, the audit opinions on public accounts have not included any qualifications in terms of the reliability of accounts, although several regularity and compliance problems are identified every year. The Public Accounts Committee of the HoR may request the Auditor General to submit a memorandum on any matter, but the Auditor General has no obligation to respond.

31. Audit opinions of local councils and EBUs often include qualifications. Financial statements of local councils and EBUs, which are already prepared on a full accrual basis, often receive qualified opinions or, in exceptional cases, disclaimers from external auditors²² in relation to nonfinancial assets and recognition of revenue.²³ This implies an increased risk of qualified opinions when the budgetary central government also moves to an accrual basis, which will be implemented after the planned Enterprise Resource Planning system is operationalized.

1.4.3 Comparability of Fiscal Data (Good)

32. Budget outturns are comparable with budget forecasts and reconciled with the final accounts and fiscal statistics. The Treasury prepares the monthly "Comparative Statements" that compare budget outturns with the estimates by using the same administrative and economic classifications. The budget outturns shown in the December "Comparative Statements" are published every March after being fully reconciled with the annual financial

²⁰ This paragraph is based on Article 108 of the Constitution and various sections of the Auditor General and National Audit Office Act and the Financial Administration and Audit Act.

²¹ The membership includes a chairperson of the Committee, the Leader of the House of Representatives, and three other members of Parliament.

²² Under Article 65(1) of the Local Councils Act 1993, external auditors of local councils are appointed by the Auditor-General.

²³ For the 2016 financial statements, 48 out of 68 local governments received qualified opinions and two local governments received disclaimers. Among EBUs, the Housing Authority and Identity Malta also received qualified opinions.

statements. The cash-based Consolidated Fund deficit/surplus shown in the Treasury's Financial Reports are reconciled with the accrual-based net lending/borrowing of the central government in accordance with the EDP framework, but the published EDP notification does not include a detailed reconciliation at the level of each revenue and expenditure item. The NSO publishes the reconciliation table together with an explanation of each major adjustment.

33. The size of adjustments between budget deficits/surplus and central government net borrowing/lending is relatively large in Malta. In 2016, the difference between the Consolidated Fund surplus shown in the Financial Report and the central government net lending reported in the October 2017 EDP notification was 1 percent of GDP, higher than the EU average of 0.8 percent of GDP. As shown in Figure 1.10, the adjustments first brought the balance of the budgetary central government down to -0.7 percent of GDP, which was largely caused by reclassifying capital injections to public corporations as expenditures rather than financial transactions. The net lending of EBU's increased the central government's net lending to 1.1 percent of GDP. This was mainly caused by the large surplus of the National Development and Social Fund (NDSF) funded by Individual Investor Program (IIP) contributions.

Figure 1.10. Reconciliation of Budget Accounts with General Government Net Lending, 2016 (Percent of GDP)

Source: EDP notifications and staff estimates.

1.5 Recommendations

34. Malta's fiscal reporting meets good or advanced practices in almost all areas. The assessment against the Code, summarized in Table 1.3, shows that fiscal reports cover all general government entities, and include all financial assets and liabilities, as well as both cash-based and accrued revenue, expenditure, and financing in accordance with the ESA 2010 framework. Reports are published in a timely manner and comparable to each other. Fiscal statistics are prepared by the professionally independent NSO, subject to the European Statistics Code of Practices and the periodic monitoring of Eurostat. The independent NAO audits the government financial statements in accordance with international standards, and its opinions have included no major qualifications.

35. Yet, there remains scope to enhance fiscal reporting practices in some areas. There is no fiscal report that provides a consolidated view of the public corporation sector, which comprises 20 percent of gross public expenditures and 17 percent of gross public sector liabilities (excluding CBM). The lack of reporting of nonfinancial assets (35 percent of GDP) and employment related pension entitlements (21 percent of GDP)²⁴ also creates gaps in the general government balance sheet. Other economic flows have been sizable in Malta due to the restructuring of public corporations, but are not reported. Producing accrual based central government financial statements will help fill these gaps. The assessment also shows that tax expenditures, which may be sizable in Malta, could be more comprehensively reported.

36. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

- **Recommendation 1.1: Expand the coverage of fiscal reports to the public sector in the following stages:**
 - Produce a statement of other economic flows of the general government and publish data on general government pension entitlements (NSO);²⁵
 - Produce a statement of operations of public corporations, which will then be consolidated with the general government to produce and operating statement for the public sector (NSO);
 - Produce balance sheets of subsectors of general government and public corporations (NSO); and
 - Prepare accrual-based financial statements of the central government to produce the public sector balance sheet (Treasury).
- **Recommendation 1.2: Better report and control tax expenditures by:**
 - Deciding on the definition of tax expenditures and the methodology for estimating them (EPD);
 - Publishing a regular report that includes estimated revenue loss of all existing and new tax expenditures (EPD); and
 - Setting budgetary targets to control the level of tax expenditures (EPD).

²⁴ Pension entitlements have now been published. See Footnotes 10 and 12.

²⁵ Pension entitlements have now been published. See Footnotes 10 and 12.

Table 1.3. Malta: Summary Evaluation - Fiscal Reporting

	Principle	Assessment	Importance	Recs
1.1.1	Coverage of Institutions	Good: Fiscal reports consolidate all general government entities, but not the broader public sector	High: Public corporations with expenditures of 11.5 percent of GDP are outside fiscal statistics	1.1
1.1.2	Coverage of Stocks	Good: Fiscal reports cover all financial assets and liabilities recognized under ESA 2010, but not net worth	Medium: No data on general government nonfinancial assets. Employment-related pension entitlements of 22 percent of GDP are not yet included in fiscal reports	1.1
1.1.3	Coverage of Flows	Good: Fiscal reports cover cash flows, accrued revenues, expenditures, and financing, but not other economic flows	High: Other economic flows associated with SOE shares up to 3 percent of GDP. Accrued pension entitlements are not yet included in expenditures	1.1
1.1.4	Coverage of Tax Expenditures	Not met: There is no report on tax expenditures	Medium: Tax expenditures may be sizable by European standards	1.2
1.2.1	Frequency of In-Year Reporting	Advanced: In-year reports are published on a monthly basis	Low: Monthly statements are published within 1 week	
1.2.2	Timeliness of Annual Financial Statements	Advanced: Final Financial Reports are published within six months	Low: Financial Reports are published in time	
1.3.1	Classification	Good: Fiscal reports include administrative, economic and functional classifications, but not a program classification	Medium: Budget document mixes different classifications in inconsistent way	
1.3.2	Internal Consistency	Advanced: Fiscal reports include all three reconciliations required by the Code	High: Stock-flow adjustments are high due to accumulation of cash balances	
1.3.3	Historical Revisions	Good: Revisions to historical statistics are reported with an explanation, but no bridge table is published	Medium: Historical revisions to deficits are high due to the reclassification of institutional units	
1.4.1	Statistical Integrity	Advanced: NSO is professionally independent and observe international standards	Low: NSO is subject to corporate governance rules and procedures defined by Eurostat	
1.4.2	External Audit	Good: Financial Reports are audited by an independent supreme auditor consistent with international standards, but local governments and EBUs often receive qualified opinions	Medium: Introduction of accrual accounting may increase risks of qualified audit opinions	
1.4.3	Comparability of Fiscal Data	Good: Fiscal forecasts/budgets and outturn are comparable, and outturn is reconciled with both final accounts and fiscal statistics, except revenue and expenditures	Medium: Adjustments from budget deficits to central government net borrowing have been large	

II. FISCAL FORECASTING AND BUDGETING

37. Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances. This chapter assesses the quality of

Malta's fiscal forecasting and budgeting practices against the standards set by the four dimensions of the Fiscal Transparency Code:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the fiscal forecasts and budget proposals.

38. The Ministry for Finance produces a large amount of reports related to fiscal forecasting and budgeting (Table 2.1). These include reports produced to meet requirements under the EU fiscal framework²⁶ and submitted to the European Commission (EC), such as the Stability Program Update and the Draft Budgetary Plan, as well as reports mandated by national legislation, such as the Half-Yearly and Annual Reports and the budget documents, including the Financial Estimates. While these reports in combination provide an abundance of fiscal information, they are somewhat inconsistent in their presentations (for example, of multi-year forecasts), often requiring the consultation of several documents to obtain a full picture.

Table 2.1. Malta: Fiscal Forecasting and Budget Documents

Document	Purpose/Activities	Timing
National Reform Program	Assessment of economic and distributional impact of structural reform measures. Reports on implementation of EU country-specific recommendations and policies to reach Europe 2020 targets.	April
Stability Program Update	Updates the medium-term economic and fiscal forecasts; sets out fiscal objectives; incorporates long-term fiscal sustainability analysis.	Late April
Annual Report	Information on execution of previous year's budget and compliance with fiscal rules	June
Half-Yearly Report	Review of macroeconomic and fiscal developments during first half of the year; corrective measures; debt developments.	July
Pre-Budget Document	Update on economic and fiscal conditions (but no new forecasts). Sets out priority areas for the forthcoming budget.	August
Draft Budgetary Plan	Abridged update of Stability Program. Incorporates updated economic and fiscal forecasts for the current year and the year ahead, and distributional analyses of major budget measures.	Mid-October
Financial Estimates	Three-year ahead revenue and expenditure projections by line ministry. Detailed one-year ahead expenditure estimates by ministry (vote) and line item.	Mid-October
Budget Speech	Presentation of budget priorities and measures. Summary and explanation of revisions to current budget's revenue and expenditure estimates by ministry.	Mid-October
Economic Survey	Detailed discussion of the latest macroeconomic and financial developments.	Mid-October

²⁶ See Footnote 20.

2.1. Comprehensiveness of Budget Documentation

2.1.1. Budget Unity (Basic)

39. Budget documentation includes all budgetary central government revenue and expenditures on a gross basis but provides limited information on EBU. Local government revenues account for less than 1 percent of total general government revenue and are reported in budget documents, and Malta does not have a social security fund, expenditures on which are financed through the budgetary appropriations. While estimated revenue and expenditures by EBUs are consolidated into the fiscal aggregates, the budget documentation only details the transfers from the budget to these units, with no detailed information on their own-source revenue and total expenditures.

40. EBUs account for a large and rising share of central government revenue and expenditures. Revenue of EBUs has been steadily increasing in recent years, mainly due to proceeds to the NDSF emanating from the Individual Investor Program (IIP), and accounted for 13 percent of gross expenditures in 2016. However, the share is expected to decline in future years as IIP revenue is expected to moderate (Box 2.1).

Box 1.1. The Individual Investor Program and the National Development and Social Fund

The IIP was introduced in 2014. It is a citizenship-by-investment program that allows individuals to acquire citizenship in exchange for major investments in the Maltese economy. It requires an investment in financial instruments for a minimum value of EUR 150,000, and in real estate (by purchasing property for a minimum value of EUR 350,000, or leasing for at least EUR 16,000 per annum), with a minimum holding period of five years. Individual applicants must also contribute EUR 650,000, of which 10 percent is retained by Identity Malta and Henley & Partners as fees.

The IIP has generated significant fiscal revenue, with total receipts rising from 0.2 per cent of GDP in 2014 to 2.5 percent of GDP in 2017. Revenue is projected to moderate in 2018 (Figure a), although the original forecasts for 2016 and 2017 was less than half the actual revenue received, suggesting there is potentially significant upside risk to the government's projections. Only 30 percent of revenue (after fees) is transferred to the Consolidated Fund. The remaining 70 percent is transferred to the National Development and Social Fund (NDSF) to be used for investment projects in areas such as health, education, social housing, infrastructure and research and innovation.

The NDSF is governed by a Board of Governors appointed by the Prime Minister. The legislation gives the NDSF spending and investment authorities in a broad range of sectors. Although the financial plan of the NDSF is factored into the fiscal framework, the Board of Governors has discretion in allocating the Fund's resources without the approval of the government or Parliament.

The budget documentation records IIP revenue received by the Consolidated Fund but there is no reporting on the operations of the NDSF and its disbursements. As the size of NDSF and its operations increase, this could lead to fragmented budgetary decision-making. The uncertainty over the size and profile of expected IIP revenue, which influence the overall fiscal projections, may create risks for compliance with the government's fiscal rules.

Figure a: IIP Contributions to the Consolidated Fund and NDSF (percent of GDP)

2.1.2. Macroeconomic Forecasts (Advanced)

41. Budget documentation present four-year forecasts for the main macroeconomic variables, their components and underlying assumptions. The forecasts are presented in their most detailed form in the Stability Program Update. The document presents recent outturns and

four-year ahead forecasts for the key macroeconomic aggregates, such as GDP and its components, inflation, unemployment, and the balance of payments. There is a detailed discussion of the forecasts and the conditioning economic assumptions, and an in-depth discussion of risks and uncertainties, as discussed in Section 3.1.1. The near-term (one-year ahead) forecasts are updated in the Draft Budgetary Plan, which is published in October.

42. Over the past decade, medium term real GDP forecast errors have been substantial and have exhibited a large pessimistic bias. As a small open economy, Malta is subject to considerable volatility, but even after adjusting for this volatility GDP forecast errors in Malta remained slightly larger than for other EU countries (Figure 2.1.a).²⁷ At the same time, there was a large (2 percent of GDP on average) pessimism bias in the medium-term forecasts, which was quite unique amongst EU countries (Figure 2.1.b). While this pattern is in part due to significant upward revisions to recent real GDP data, it also indicates that GDP growth has tended to exceed expectations. Yet, revenue and expenditures forecasts have not shown a similar pessimistic bias, as discussed in Section 2.1.3, which could indicate a disconnect in past years between GDP forecasts and fiscal forecasts.

Figure 2.1. Medium-Term Macroeconomic Forecast Error for Real GDP Growth (2005–17)
a. Real GDP Forecast Accuracy – Absolute Error for Budget Year (Percent)

²⁷ A comparison of institutional forecast accuracy undertaken by the Ministry for Finance finds very similar forecast accuracy for the Ministry, the European Commission, and the Central Bank of Malta. See Camilleri & Vella (2015) "Interpolating forecast Errors for Assessing Uncertainty in Macroeconomic Forecasts: An Analysis for Malta," Economic Policy Department Working paper 01/2015.

b. Real GDP Forecast Bias – Average Medium-Term Forecast Error (Percent)

Source: Ministry for Finance, IMF staff estimates.

Note: Volatility adjustment is average absolute forecast error divided by standard deviation of growth over the period.

2.1.3. Medium-Term Budget Framework (Good)

43. Malta has a medium-term budget framework in line with EU requirements,²⁸ but its presentation is somewhat fragmented and inconsistent. The Stability Program Update in April presents revenue and expenditure outturns for the general government for the two preceding years, and four-year ahead forecasts by economic classification for the general government. It also presents total revenue and expenditure projections at unchanged policies (the baseline scenario) at a very aggregate level, as required by the EU fiscal framework. Fiscal forecasts are updated in the Draft Budgetary Plan in October, but only one-year ahead. In contrast, the Financial Estimates in October presents three-year ahead revenue and expenditure estimates by line ministry, but not by economic classification other than a division between recurrent and capital expenditures.²⁹ Four-year projections for financing are presented only in the Budget Speech. These somewhat inconsistent and fragmented presentations make it difficult to capture the full and updated picture of medium-term revenue, expenditure, and financing projections.

44. Forecasts of revenue and expenditures have shown an optimistic bias in the past, while forecasts of the overall fiscal balance have been quite accurate. One-year ahead forecasts of the fiscal balance have been highly accurate, with an average absolute forecast error

²⁸ Article 9(1) of Council Directive 2011/85/EU, which is part of the "Six-pack," requires member countries to "establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective." The EC has developed an index of the quality of medium-term budgetary frameworks which ranks as Malta 8th out of 28 EU countries (2016).

²⁹ Only estimates for the budget year are binding, while estimates for the two outer years are indicative.

of 0.1 percent of GDP, but this masks one-year ahead revenue and expenditure forecast errors that exceeded 3 percent of GDP on average (Figure 2.2). Two-year and three-year ahead forecast errors display a similar pattern of offsetting overestimation of revenue and expenditures, producing a more accurate forecast for the overall balance.

45. The Ministry for Finance has taken steps to produce more accurate revenue and expenditure forecasts. The production of macroeconomic and fiscal forecasts has become more integrated, with fiscal forecasts now more explicitly determined by the macroeconomic projections, rather than independently produced. Particularly, the authorities consider the choice of revenue elasticities to be deliberately cautious, as evidenced by a conservative revenue-to-GDP ratio forecast adopted for the 2017 budget. The Malta Fiscal Advisory Council (MFAC) in their assessment of the 2017 Draft Budgetary Plan judged that the risks to the fiscal forecasts were balanced.

Figure 2.2. Average Medium-Term Fiscal Forecast Error, 2005–17 (Percent of GDP)
a. Revenue Forecast Bias – Average Forecast Error

b. Expenditures Forecast Bias – Average Forecast Error

c. Budget Balance Forecast Bias – Average Forecast Error

Source: Ministry for Finance, IMF staff estimates.

Note: Sample period for Malta begins in 2004. Data are for general government.

46. Medium-term nominal expenditure forecasts have tended to be revised upwards over the last few years, in line with upward revisions to revenue forecasts (Figure 2.3). This suggests there is potential to strengthen the medium-term budget framework, so that the expenditure ceilings become a more binding constraint on line ministry budgets, to mitigate this expenditure creep.

Figure 2.3. Medium-term Revenue and Expenditure Forecasts, 2014–18
(millions of euros)

Source: National Budget documents (years refer to the year when the medium-term plan was made).

2.1.4. Investment Projects (Basic)

47. Major investment projects are subject to open and competitive tender in line with EU regulations,³⁰ but the value of multi-annual investment projects is not disclosed, and

³⁰ EU public procurement and concession directives 2014/23, 2014/24 & 2014/25.

information on the cost-benefit analysis for major projects is not uniformly published. A summary of major infrastructure projects is available on the website of the Ministry for Transport, Infrastructure and Capital Projects, but there is no published information on their total value or detail on multi-annual obligations. The Financial Estimates include three-year ahead estimates of capital expenditures by ministry, and some more detailed one-year ahead estimates under each ministry, but only limited information on individual projects is published. Cost-benefit analysis is conducted for EU co-financed investment projects and submitted to the EC as part of the financing decisions, but cost-benefit analysis for other projects is not mandatory and information is not routinely made public. There are no general guidelines for project appraisal and project selection beyond those pertaining to EU co-financed projects.

48. Overall levels of public investment in Malta are not high by EU standards, and virtually all investment is undertaken by the central government. Total general government investment has averaged around 3 percent of GDP over the last decade, which is a little below the EU average (Figure 2.4). In recent years, the growth in public investment has not kept pace with the growth in GDP, resulting in a drop in public investment to 2.2 percent of GDP in 2017. Around a quarter of public investment is financed through EU structural funds. The government is planning to scale up public investment over next few years to mitigate infrastructure bottlenecks and sustain the economic and social developments of the past years, including through increased use of public-private partnerships (PPPs).

Figure 2.4. General Government Investment, 2006–17
(Percent of GDP)

Source: Eurostat.

2.2. Orderliness

2.2.1. Fiscal Legislation (Good)

49. Fiscal legislation provides a well-defined framework for budget preparation. This comprises the Constitution; the 2014 FRA, which effectively transposes the requirements of the EU's Stability and Growth Pact (SGP) and the Fiscal Compact (FC) into national legislation, with

some additional requirements; the 2017 General Financial Regulations (GFR); and the Standing Orders of the HoR. The FRA and the GFR comprehensively set out the key content requirements for the government's fiscal plans and budget proposal, while the Standing Orders regulates HoR's access to amend the budget proposal.³¹ While the FRA sets out detailed timelines for the production and submission of EU-related documents, and for their submission to and endorsement by the MFAC, the legal framework does not provide an effective timetable for submission of the budget proposal to the HoR.

2.2.2. Timeliness of Budget Documents (Good)

50. For the past three years the budget has been presented to Parliament in mid-October and approved in December before the beginning of the budget year (Table 2.2). The Constitution (Article 103(1)) provides that the Financial Estimates be submitted to the HoR before or within 30 days of the commencement of the fiscal year, which has not been a constraint in recent years. In practice, the timetable for budget preparation and budget submission is determined by the EU requirement to submit a Draft Budgetary Plan to the EC by October 15 each year; this also determines the timing of submission of the budget proposal to the HoR. The Minister for Finance sets the date of the budget submission.

Table 2.2. Malta: Dates of Budget Submission and Approval

Budget Year	2014	2015	2016	2017	2018
Submitted to parliament	Nov. 4	Nov. 17	Oct. 12	Oct. 17	Oct. 9
Approved by parliament	Nov. 21	Dec. 4	Dec. 9	Dec. 7	Dec. 12

Source: Ministry for Finance.

2.3. Policy Orientation

2.3.1. Fiscal Policy Objectives (Advanced)

51. Malta's fiscal policy objectives, as specified by several fiscal rules, are clearly set out in the FRA and reported upon in the budget documentation. Fiscal policy is conducted with reference to a precise and time-bound set of fiscal rules, which are effectively a transposition of the SGP and FC,³² and require:

- **Deficit rule:** general government deficit below 3 percent of GDP (since 2003);
- **Debt rule:** general government gross debt below 60 percent of GDP (since 2003);

³¹ While neither the Constitution nor the FRA provides any limitations to the Parliament's powers to amend the budget proposal, the Standing Orders of the House of Representatives prohibit amendments to increase either taxes or expenditures, and only reductions can be proposed by parliamentary members. In practice, the budget proposal is not amended by Parliament.

³² See Footnote 20. The mission did not assess the consistency and calibration of the fiscal rules.

- **Medium-term objective (MTO):** a country-specific objective of structural general government budget balance or surplus as a percentage of GDP in the medium term (since 2013);
- **Debt reduction rule:** when general government debt exceeds 60 percent of GDP, the annual pace of debt reduction must be no less than 1/20th of the distance between the actual debt ratio and the 60 percent limit (since 2013); and
- **Expenditure benchmark:** limits annual growth in general government expenditures to potential GDP growth, unless financed by discretionary measures.³³

52. Malta has been fully compliant with its fiscal rules since 2016 and is forecast to remain so (Table 2.3). The deficit and debt requirements of the SGP have been met since 2015, and debt has been on a declining path since 2013, meeting the debt reduction requirement of the FC. The structural fiscal balance moved into surplus in 2016, which saw Malta achieve its medium-term objective three years early. The 2018 budget continues to target a surplus of 0.5 percent of GDP and a structural budget balance, and to provide further guidance for fiscal policy, the government has committed to achieve the MTO net of IIP revenues and expenditures³⁴ (which it did in 2017) and to aim for an increasing fiscal surplus.³⁵ The MFAC regularly reports on compliance against the fiscal rules, including a qualitative assessment of the credibility of the underpinning economic and fiscal forecasts.

Table 2.3. Malta: Compliance with Fiscal Rules
(General Government, Percent of GDP)

Fiscal metric	2012	2013	2014	2015	2016	2017	2018 ¹	2019 ¹	2020 ¹	2021 ¹
Deficit	-3.7	-2.6	-2.0	-1.3	1.0	3.9	1.1	0.9	0.9	1.6
Debt	68	68	64	59	56	51	46	43	39	36
Debt reduction		0.6	-4.6	-5.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural balance		n.a. ²	n.a. ²	n.a. ²	0.7	3.6	0.6	0.7	0.9	1.8

Source: National Budget documents. Green color indicates compliance; red color indicates non-compliance.

Notes: 1) Projection; 2) Revised historical estimates are not reported.

³³ The expenditure benchmark is not a formal fiscal rule but is reported upon in the Stability Program Update.

³⁴ Stability Program Update, Section 3.3.1: "Over the medium term, the Maltese Government is committed to continue to ensure compliance with the MTO, net of IIP receipts and expenditure."

³⁵ Stability Program Update, Section 1.2: "The medium-term strategy portrayed in this program is one that essentially aims to maintain a rising surplus net of IIP and achieve a permanent structural surplus net of IIP."

2.3.2. Performance Information (Basic)

53. The budget documentation includes information on financial resources and staffing by administrative entity, but not information on outputs or outcomes. The government has taken several steps to improve the monitoring and evaluation of performance, but this has so far not been reflected in the budget documentation. The Prime Minister's Office regularly monitors the implementation and performance of around 2,000 different government measures (initiatives), setting targets and key performance indicators, and a Comprehensive Spending Review program was initiated in 2014 covering, amongst others, the health care and education sectors. As part of the budget process, ministries also submit multi-year business plans to the Ministry for Finance. This framework is in the process of being enhanced to provide some information on expected outputs for "programs and initiatives." Following an EU country-specific recommendation, the National Reform Program anticipates widening the scope and coverage of the existing Comprehensive Spending Review program. A new directorate is also being established in the Ministry for Finance to strengthen performance monitoring and evaluation.

2.3.3. Public participation (Advanced)

54. Malta has a longstanding tradition for consultation and public participation in the budget process. The Pre-Budget Document, which is published in August, provides an accessible description of the government's priorities for the upcoming budget. This is followed by two presentations, one of which is held in Gozo, that are open to the public and always well attended. Formal consultations are also held with the social partners facilitated by the Malta Council for Economic and Social Development and the Malta-EU Steering Action Committee. In addition, proposals can be submitted by any citizen through the website of the Ministry for Finance. The Budget Speech includes an accessible overview of major policy measures in the budget against the macroeconomic and fiscal backdrop. The Draft Budgetary Plan discusses the distributional implications of major measures and includes indicators for poverty, social exclusion and inequality for different demographic groups. The National Reform Program sets out the distributional impact of selected measures by income decile.

55. Citizens in Malta are very engaged in the political process. Voter turnout at the last general election was 93 percent, placing Malta 9th out of 196 countries.³⁶ Malta is also at the 88th percentile of the World Bank's Voice and Accountability Indicator, indicating a high level of government responsiveness to its citizens.

³⁶ "Voter Turnout Trends around the World," 2016 International Institute for Democracy and Electoral Assistance (2016).

2.4. Credibility

2.4.1. Independent Evaluation (Advanced)

56. The MFAC evaluates the credibility of the government's economic and fiscal forecasts and reports on compliance against the fiscal rules. The Council was established with the FRA and began operating in January 2015. Its funding is provided for in the FRA, and the Council is directly accountable to the parliamentary Accounts Committee. It is mandated to validate the government's economic and fiscal forecasts; assess performance against the fiscal rules; and provide an assessment of whether the fiscal stance is conducive to prudent economic and budgetary management. Recent amendments to the FRA³⁷ entrusts MFAC to carry out an independent ex post assessment of macroeconomic and fiscal projections, as well as a fiscal risk assessment (see Section 3.1.2).

57. The Council publishes several reports during the year. These include:

- Assessment of the Macroeconomic Forecasts – Update of Stability Program
- Assessment of the Fiscal Forecasts – Update of Stability Program
- Overall Assessment – Update of Stability Program
- Assessment of Macroeconomic Forecasts – Draft Budgetary Plan
- Assessment of Fiscal Forecasts – Draft Budgetary Plan
- Overall Assessment – Draft Budgetary Plan
- Overall Assessment – Ministry for Finance Half-Yearly Report
- Overall Assessment – Ministry for Finance Annual Report
- Annual Report and Statement of Accounts

2.4.2. Supplementary budget (Basic)

58. A supplementary budget regularizes expenditures exceeding the approved budget. Article 103 of the Constitution requires a supplementary estimate to be laid before the HoR if the appropriated amounts in the Financial Estimates are insufficient, or if an unforeseen need for expenditures has arisen. However, an amendment to the Financial Administration and Audit Act in 1965 authorized the Minister for Finance to approve expenditures of up to 10 percent above the approved total budget, with subsequent reporting to the HoR. In practice, a supplementary budget is tabled in the HoR once a year, each December, to regularize in-year budget amendments within the 10 percent limit. The HoR routinely approves the supplementary budget without debate.

³⁷ Amendment to FRA Act that were legislated in 29th March 2018 to fully transpose EU Directive 2011/85/EU. Revised Article 13(3)e.

59. Supplementary budgets are relatively large. On average, supplementary budgets increased total expenditure appropriations by 6.6 percent of total expenditures between 2008 and 2016 (Figure 2.5). Despite supplementary appropriations, the original budget has, on average, been a good guide to the aggregate expenditure outturn since increases in appropriations have been offset by equivalent average underspends of 6.5 percent of expenditures in the execution of the budget in other areas.

Figure 2.5. Supplementary Budgets and Outturns Relative to Approved Budget (2008–16)
(Percent of expenditure)

Source: National Budget documents.

2.4.3. Forecast Reconciliation (Basic)

60. The budget documentation provides only a limited explanation of changes between successive forecasts or medium-term plans. The Half-Yearly Report, which is published in July, provides a comparison of macroeconomic forecasts used for the budget (autumn forecasts) and updated forecasts used for the Stability Program Update (spring forecasts) for the budget year only, as well as revenue and expenditure performance for the first six months of the year compared with the same period in the previous year. There is also a qualitative discussion of the impact of the revised macroeconomic forecasts on the fiscal outlook. The annual Stability Program Update includes a table comparing the multi-annual forecasts of real GDP growth, general government net lending, and general government gross debt with the previous year's Update, but without a breakdown of the causes for the changes into macroeconomic determinants, new policies and accounting adjustments. The Draft Budgetary Plan includes a table which explains the quantitative impact of new policy measures on the fiscal balance, but it is limited to the current year and one-year ahead fiscal forecasts.

61. On average, since 2003, medium-term forecasts of the fiscal deficit show no systematic tendency to be revised up or down. However, there is a clear change in the pattern of revisions through the period (Figure 2.6). As in many other countries, medium-term fiscal

forecasts were too optimistic following the global financial crisis in 2008. In the subsequent period of fiscal consolidation, revisions to the medium-term projections have been significantly smaller and closer to actual outturns.

Figure 2.6. Successive Medium-Term Budget Deficit Forecasts (2003–17)
(Percent of GDP)

Source: National Budget documents.

2.5. Recommendations

62. Malta's fiscal forecasting and budgeting practices meet the advanced or good standards of the Fiscal Transparency Code in most areas. As summarized in Table 2.4, budget documentation includes medium-term macroeconomic forecasts with explanations of their components and underlying assumptions. Fiscal policy objectives are embedded in a medium-term budget framework, and macroeconomic and fiscal forecasts are evaluated by an independent fiscal council. Fiscal legislation is comprehensive, and budget documents are published in a timely manner.

63. However, there is scope to enhance fiscal forecasting and budgeting practices in several areas. Revenue and total expenditures of EBUs, which have been growing in significance, are not reported in the budget documentation. Limited information is provided on multi-annual public investment projects, and cost-benefit analysis for major investment projects is not consistently undertaken and published. There is also scope to enhance performance information in the budget documentation and, more generally, the consistency of presentations in different reports.

64. Based on the above assessment, the evaluation highlights the following priorities for improving transparency of fiscal forecasting and budgeting:

- **Recommendation 2.1: Improve the comprehensiveness of budget documentation by:**

- Presenting information at an appropriate level of detail on outturns and estimates of the revenue and total expenditure of each EBU in an annex to the Financial Estimates; and
- Gradually introducing performance information in the budget documentation (Budget Office).
- **Recommendation 2.2: Improve the consistency of fiscal reports by:**
 - Harmonizing and consolidating presentations of macroeconomic and fiscal forecasts in different reports to make them more consistent; and
 - Providing a detailed explanation of changes to the forecasts between successive reports, distinguishing between the impact of new policies, macroeconomic determinants, and other changes (EPD).
- **Recommendation 2.3: Strengthen the framework for public investment management by:**
 - Disclosing the value of total obligations under each multi-annual project in an annex to the Financial Estimates, with a breakdown of annual outlays (Budget Office);
 - Publishing results of cost-benefit analysis conducted for major projects (Ministry for Finance); and
 - Strengthening the framework for public investment management, including project appraisal and project selection, based on a Public Investment Management Assessment (PIMA)³⁸ (Ministry for Finance).

³⁸ The PIMA is a comprehensive diagnostic assessment tool developed by the IMF, which evaluates the strengths and weaknesses of public investment management institutions in all three phases of the project cycle (planning, allocation, and implementation). See IMF. 2018. *Public Investment Management Assessment—Review and Update*.

Table 2.4. Malta: Summary Evaluation - Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
2.1.1	Budget Unity	Basic: Budget documentation incorporates budgetary central government revenues, expenditures, and financing, but not extra-budgetary units, although these are consolidated into fiscal aggregates	Medium: Extra-budgetary funds amount to 13 percent of gross expenditure	2.1
2.1.2	Macroeconomic Forecasts	Advanced: Budget documentation includes 4-year forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions	High: Real GDP forecast errors (after adjusting for volatility) are large at 0.9 per cent. Large pessimism bias at year t+2 of 1.8 per cent	
2.1.3	Medium-term Budget Framework	Good: Medium-term (4 year) forecasts published for revenues, expenditures, and financing. Expenditure breakdown available by ministry and economic category.	High: On average, fiscal forecasts are unbiased, but due to offsetting revenue and expenditure errors. Recent forecasts have been deliberately cautious.	2.2
2.1.4	Investment Projects	Basic: Major projects are subject to open and competitive tender, but total obligations are not disclosed, and cost-benefit analysis is not consistently undertaken and published	Medium: While capital spending has been below the EU average, there are plans to scale up public investment	2.3
2.2.1	Fiscal Legislation	Good: While fiscal legislation is comprehensive, it does not set out the timetable for budget submission. Legislature's powers to amend the budget proposal set out in Standing Orders	Low: Budget preparation is conducted according to long-standing and well-established timelines and procedures	
2.2.2	Timeliness of Budget Documents	Good: Budget proposals are published 2 months before start of the financial year, but only approved by parliament in December	Low: Budgets are routinely approved before the start of the financial year	
2.3.1	Fiscal Policy Objectives	Advanced: Precise, time bound rules have been in place for more than 3 years. Independent Fiscal Council reports on compliance.	Low: Fiscal rules are currently being met	
2.3.2	Performance	Basic: Budget documentation includes information on financial resources and staffing by administrative entity, but not information on outputs or outcomes	Medium: The government regularly monitors and reports on a significant number of policy initiatives, but information in the budget documentation is very limited	2.1
2.3.3	Public Participation	Advanced: Accessible information provided in Pre-Budget Document and Budget Speech, including distributional analysis of major measures. There is a comprehensive formal consultation process with the public.	Low: Malta is at 88 th percentile of World Bank Voice and Accountability Indicator.	
2.4.1	Independent Evaluation	Advanced: Fiscal council qualitatively evaluates credibility of forecasts and performance against fiscal rules	High: The inherent volatility of a small open economy increases need for independent assessment	
2.4.2	Supplementary Budget	Basic: Supplementary expenditures are regularized ex post in a supplementary budget	Medium: Supplementary budgets on average increase total appropriations by 6.6 percent of expenditure.	
2.4.3	Forecast Reconciliation	Basic: Differences to previous forecasts for revenues and expenditures are shown at the aggregate level but are not broken down into effects of macroeconomic determinants, new policies and accounting	Medium: medium term fiscal forecasts show no systematic tendency to be revised but are now deliberately cautious	2.2

III. FISCAL RISK ANALYSIS AND MANAGEMENT

65. Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector. This chapter assesses the quality of Malta's fiscal risk analysis, management and reporting practices against the standards set by three dimensions of the Fiscal Transparency Code:

- General arrangements for the disclosure and analysis of fiscal risks;
- The reporting and management of risks arising from specific sources, such as government guarantees, public-private partnerships (PPPs), and the financial sector; and
- Coordination of fiscal decision-making between central government, local governments, and public corporations.

66. Some fiscal risks are regularly disclosed in various reports. The EPD discusses macroeconomic risks in the context of the annual Stability Program Update; risks to the public debt portfolio are disclosed and assessed in the annual report of the Debt Management Directorate (DMD) under the Treasury; CBM performs comprehensive risk assessments related to financial sector stability; NAO discloses information pertaining to government guarantees and local councils; and the NSO discloses aggregate summary information on PPPs, guarantees, and the liabilities of public corporations. However, this information varies significantly in terms of analysis and level of detail. Table 3.1 lists the various key published reports that provide information on fiscal risks.

Table 3.1. Malta: Reports Related to Fiscal Risks

Report	Related Risks and Issues	Author
Stability Program Update	Alternative macroeconomic scenarios, probabilistic forecasts for macroeconomic risks	EPD
Annual Report on the Management of Central Government Debt	Central Government debt structure and risk assessment	Treasury - DMD
Annual Audit Report of Public Accounts	Total stock of government guarantees with a detailed breakdown by guarantee and beneficiary	NAO
Report by the Auditor General on the Workings of Local Governments	Assessment of local councils' financial situation, quality and punctuality of information	NAO
LGD website	Financial statements of local councils, quarterly consolidated report, financial situation indicator	LGD
Financial Stability Report	Assessment of macro-financial conditions, developments and resilience of the financial system	CBM
NSO website	Council Directive 85/2011 reporting (PPPs, guarantees, liabilities of public corporations)	NSO

3.1. Disclosure and Analysis

3.1.1. Macroeconomic risks (Advanced)

67. The Stability Program Update provides advanced and comprehensive macroeconomic risk analysis. Chapter 4 of the Update presents alternative scenario analyses, which discuss the impact on the budget balance of baseline, optimistic, and pessimistic global economic growth scenarios, as well as sensitivity analyses incorporating alternative assumptions for real GDP growth, exchange rates, world commodity prices, private investment, trade, and interest rates. These projections are based on a mix of forecasting techniques combining macro-econometric model-based analysis with judgment based on consultations with key private and public sector stakeholders.³⁹ In addition, the Stability Program Update includes probabilistic fan chart forecasts for GDP growth and the budget balance, derived from the scenarios and an analysis of past forecast error variance (Figure 3.1). The Pre-Budget document also includes a summary of macroeconomic risks, based on the Stability Program Update.

Source: MF – EPD, Medium-Term Fiscal Strategy for Malta – Update of Stability Program 2018–21.

68. The volatility of GDP and government revenue in Malta has been relatively low compared to other smaller European countries. As a small and open economy, it is to be expected that the volatility of Malta's economic growth would be higher than in large European countries. But the volatility of GDP in Malta has been relatively low compared to other smaller European countries, such as Cyprus, Latvia, Lithuania, Estonia, and Slovenia (Figure 3.2). The volatility in revenue growth has also been amongst the lowest in Europe during the period 2000–17 (Figure 3.3).

³⁹ EPD has developed a range of alternative forecasting techniques/models to complement the expenditure-driven Keynesian macro-econometric model (STEMM), including model-free statistical forecasts, model-based univariate forecasts, and model-based multivariate forecasts.

Figure 3.2. Volatility of GDP in Selected European Countries (2000–17)
(Standard deviations)

Source: WEO (October 2017) and IMF Staff Estimates.

Note: Volatility is calculated using the standard deviation of growth.

Figure 3.3. Volatility of General Government Revenue Growth in Selected European Countries (2000–17), (X-axis: GDP, Y-axis: revenue; standard deviations)

Source: WEO (October 2017) and IMF Staff estimates.

Note: Volatility is calculated using the standard deviation of growth.

3.1.2. Specific fiscal risks (Not met)

69. The government does not publish a statement of specific fiscal risks. Although information on some fiscal risks is available, as noted in Table 3.1 above, it is not comprehensive, and there is no consolidated report on the fiscal risks to which the government is exposed. On a quarterly basis, the NSO reports on the stock and composition of assets and liabilities, total outstanding guarantees provided by the government, non-performing loans granted by the government, and PPP contractual obligations. However, these are only disclosed in the aggregate without detail or analysis. The NAO, in its annual report, provides a full list of government guarantees by sector and beneficiary as well as a description of letters of comfort issued by entity.⁴⁰ MFAC in its 2016 Annual Report also devoted a chapter to general considerations on contingent liabilities. The financial situation of local councils is assessed by the NAO in a dedicated annual report, and the LGD publishes quarterly consolidated and individual financial data on local councils, including a so-called Financial Situation Indicator (FSI) for each council. Fiscal risks associated with public corporations are not reported, as further discussed in Section 3.3.2.

70. A recent amendment to the FRA requires MFAC, rather than the Ministry for Finance, to produce an annual fiscal risk statement. According to this requirement, MFAC must produce an assessment of relevant contingent liabilities in addition to its independent analysis of the government's macroeconomic and fiscal forecasts. While this requirement could enrich the discussion on fiscal risks, it would not ensure the development of an appropriate, and well-staffed, risk management framework in the government, which should include the integration of analysis, reporting, and management of fiscal risks.

71. Malta is exposed to a range of specific fiscal risks, with the maximum gross exposure estimated at around 40 percent of GDP (Table 3.2). This does not include any potential implicit fiscal risk related to the financial sector. The government has relatively large fiscal exposures related to government guarantees and public corporations, and Malta also faces sizeable long-term fiscal pressures from the ageing of its population. Other potential fiscal risks, which are more specific to Malta, could emanate from changes to international taxation as well as developments in the Individual Investment Program (IIP), as discussed in Chapter II. On the other hand, some fiscal risks that are common in many countries are insignificant in Malta, such as risks emanating from local governments, or natural disasters.

⁴⁰ It is unusual that this information is reported only in the annual report of the audit office and not by the government.

Table 3.2. Malta: Selected Specific Fiscal Risks, Gross Exposure

Specific Fiscal Risk	Magnitude		Reporting
	Millions (EUR)	Percent of GDP	
Public Sector			
General government guarantees (2016)*	1,399	14	NSO, Council Directive 85/2011
Public Private Partnerships (2016)**	7	0	NSO, Council Directive 85/2011
Liabilities of Public Corporations***	2,053	17	NSO, Council Directive 85/2011
<i>Liabilities of units involved in financial activities***</i>	<i>317</i>	<i>3</i>	
<i>Liabilities of units involved in other activities</i>	<i>1,736</i>	<i>17</i>	
Financial Sector			
Explicit exposure to the financial sector	0	0	CBM - Financial Stability Report
Natural disasters			
Natural disasters	0	0	Not reported
Long-term Risks			
NPV of pension spending change (2015-50)	655	6	IMF - Fiscal Monitor

Source: IMF staff estimates.

Notes: * Excludes guarantees provided by the Multilateral Investment Guarantee Agency (MIGA) and International Bank for Reconstruction and Development (IBRD) and on foreign loans taken by the Central Bank of Malta on behalf of government, which loans already feature in the calculation of government external debt. Government guarantees include guarantees granted by the EBU's but exclude government guarantees provided to EBU's. **Amortized contractual value. *** Excludes CBM.

3.1.3. Long-term sustainability of public finances (Basic)

72. The government publishes long-term projections for the main expenditure items, but does not present scenarios which assess the impact of alternative economic assumptions. The annual Stability Program Update provides long-term (50+ years) projections of pension, health, long-term care, education, and unemployment expenditures, but the document does not include long-term estimates of total government revenue, expenditures or debt, nor multiple scenarios for the sustainability of the main fiscal aggregates. Scenario analysis reflecting a range of demographic and macroeconomic assumptions is included in the EC's Ageing Reports prepared by the Ageing Working Group and endorsed by the EU member countries.⁴¹

⁴¹ The long-term projections for Malta presented in the latest Stability Program Update are based on the 2018 Ageing Report, which will be published by autumn 2018 at the latest.

73. Malta will face significant pressures from increases in age-related spending in the longer term. The old-age dependency ratio in Malta is expected to almost double over the next 50 years to 55.8 percent in 2070, up from 29.1 percent in 2016 (Figure 3.4). This would imply that Malta would move from having 3.5 working-age people for every person aged more than 65 in 2016, to less than 2 in 2070. Expenditures for pensions, health, education, long-term care, and unemployment benefits are expected to increase by 6.8 percent of GDP between 2013 and 2060 (Figure 3.5), which is one of the highest increases amongst EU members countries.

Figure 3.4. Old-Age Dependency Ratios
(Age 65+ to 15–64 population)

Source: European Commission - The 2018 Ageing Report.

Figure 3.5. Change in Age-Related Spending, 2013–60
(Percent of GDP)

Source: European Commission – The 2018 Ageing Report.

*Includes pensions, health care, long-term care, education and unemployment benefits.

3.2. Fiscal Risk Management

3.2.1. Budgetary contingencies (Basic)

74. The budget includes a contingency reserve, but the access criteria are not clearly defined. The FRA requires the establishment of a contingency reserve of between 0.1 percent and 0.5 percent of GDP in any particular year, together with earmarked funds of the same size. The reserve is to be built up over five years starting the first year following the entry into force of the FRA (i.e., 2015). Provisions to the contingency reserve must be made as soon as the budget is in surplus,⁴² and any drawdown must be replenished gradually over a period of three years until the contingency reserve is within the range set out in the FRA. Funds earmarked for the reserve are to be invested in top rated short-term liquid assets, and drawdowns can only be made in 'urgent, temporary and unforeseen circumstances' following a proposal from the Minister for Finance, and with the approval of the Prime Minister. In line with the FRA, a transfer of EUR 9.8 million (around 0.1 percent of GDP) was made to the contingency reserve, for the first time, in 2017.⁴³

75. Malta's contingency reserve is small compared to other countries. It represents less than 0.3 percent of total budgeted expenditures, which is low in comparison to other countries for which data are readily available (Figure 3.6).

Figure 3.6. Contingency Reserves
(Percent of total budget expenditures)

Source: IMF, Fiscal Transparency Evaluation reports.

⁴² As long as the budget is not in surplus, the contingency reserve is financed as an expenditure vote in the budget.

⁴³ Note that drawdowns from the contingency reserve in any year will impact on reported ESA 2014 net lending/borrowing for the full amount, despite being funded from the reserve. In contrast, transfers to the reserve are not regarded as expenditures, and thus do not impact on net lending/borrowing.

3.2.2. Management of assets and liabilities (Basic)

76. The government's balance sheet holds significant financial assets and liabilities, some of which are subject to fiscal risks. Financial assets mainly comprise deposits with the CBM and investments in public corporations. The overall amount of financial assets has been relatively stable at around 30 percent of GDP in recent years, but the composition of assets has shifted towards a larger share of deposits. Liabilities mainly comprise debt securities, which represented 82 percent of total liabilities (55 percent of GDP) in 2017 (Figure 3.7). The amount of liabilities has been reduced significantly in recent years to below 70 percent of GDP, explained primarily by the decreasing trend in public debt.

Figure 3.7. Financial Assets and Liabilities, 2011–17
(Percent of GDP)

Source: NSO: Quarterly Financial Accounts, and Eurostat.

77. Debt securities are managed in accordance with good international practices. The DMD comprising front, middle, and back office functions have been established in the Treasury, and a comprehensive “Government Borrowing and Management of Public Debt Act” (PDMA) was adopted in 2017. According to the Act, only the Minister for Finance has the authority to borrow on behalf of government.⁴⁴ The annual “Budget Measures Implementations Act” authorizes and sets a limit on the total amount of central government borrowing, and the maximum amount of outstanding Treasury Bills is established by Parliamentary Resolution. The DMD’s Annual Report reports on compliance with these legal limits and discloses detailed information regarding the level, cost, and composition of government debt by holder, maturity, and currency denomination. The report also discusses risks to the debt portfolio in the form of market, interest rate, refinancing, settlement, operational, liquidity, and fraud risks. A medium-term debt management strategy is being prepared for the first time but has not yet been published.

⁴⁴ The Local Government Act of 1993 prohibits local councils from raising debt, except with the approval of the Ministry for Finance.

78. Indicators of risk to the debt portfolio compare well to other countries. The debt is held exclusively in Euro, which mitigates exchange rate risks. The share of assets with short-term maturities in general government debt is also relatively low, reducing refinancing risk (Figure 3.8). The average maturity of government debt by end 2017 was 9 years, which is relatively high compared to other EU countries. Finally, 90 percent of the debt is held by domestic residents, which is significantly more than in any other EU country. This reduces vulnerability to external financing shocks while at the same time implies a higher exposure to the performance of the domestic financial sector.

Figure 3.8. Government Debt: Maturity and Percentage Held by Residents
(Percent of GDP)

Source: Eurostat, News Release, June 2017.

79. Risks to financial assets emanate mainly from public corporations. Government investments in public corporations accounted for 39 percent of total financial assets on average during 2011–17, although the share has been decreasing in terms of GDP. Currency and deposits (23 percent of total financial assets on average), which carry a low risk, are held both with the CBM and commercial banks, amounting for 64 percent and 36 percent respectively of total currency and deposits of the general government in 2016. Deposits held at the CBM and commercial banks have been increasing and accounted for 10 percent of GDP in 2016, due largely to cash inflows of IIP. Around 18 percent of these deposits are associated with IIP contributions that are still refundable and matched by payables.

3.2.3. Guarantees (Basic)

80. Government guarantees are reported, but there are no limits on the issuance of new guarantees, or the total stock of guarantees. The NAO's Annual Report includes information on the total stock of guarantees as well as detailed information on each guarantee by sector, beneficiary, and gross exposure. It also provides some information on letters of

comfort. The NSO publishes the total stock of guarantees on a quarterly basis in the Quarterly Accounts for the General Government, but with no detail. As of now, there is no legal limit on the issuance or stock of guarantees, although implementation of the PDMA will change this (see paragraph 82).

81. The stock of guarantees has been large but was recently reduced. During 2012–16 the stock of guarantees was around 14–16 percent of GDP (Figure 3.9), which was high by international comparison (Figure 3.10). However, the stock of guarantees was reduced to below 10 percent of GDP in 2017 following the withdrawal of a temporary guarantee related to the energy sector (Electrogas). Most guarantees are limited to a few entities; in 2016, eight entities absorbed 98 percent of the total outstanding guarantees, and 68 percent were concentrated in the energy sector (Table 3.3).

Figure 3.9. Government Guarantees 2010–17
(Percent of GDP)

Source: NSO.

Figure 3.10. Government Guarantees in Selected Countries, 2016
(Percent of GDP)

Source: Eurostat, MoF and staff estimates.

Table 3.3. Malta: Government Guarantees and Letters of Comfort (2016, 2017)

	2016		2017	
	Thousand €	Percentage of total	Thousand €	Percentage of total
Electrogas Ltd.	360,000	25.7%	0	0.0%
Vault Malta Ltd.	282,026	20.2%	273,167	25.5%
Enemalta p.l.c.	251,792	18.0%	236,205	22.1%
Malta Freeport Ltd.	200,755	14.3%	200,831	18.8%
Malta Industrial Parks Ltd.	116,662	8.3%	126,352	11.8%
Petromal Co.Ltd.	85,000	6.1%	80,000	7.5%
Water Services Corporation	74,350	5.3%	72,256	6.8%
Malta Enterprise Corporation	6,958	0.5%	78,257	7.3%
Others	22,518	1.6%	19,893	1.9%
Total	1,399,259	100.0%	1,069,299	100%

Source: NSO.

82. The new PDMA aims at strengthening the formal framework for managing government guarantees. While government guarantees so far have been managed by the Permanent Secretary of the Ministry for Finance, who by legislation is authorized to issue guarantees on behalf of the government, the PDMA introduced, in line with international good practice, more formal and comprehensive provisions on the management of government guarantees. These provisions include: (i) a requirement that new guarantees are approved by the Minister for Finance on the advice of the Treasury (DMD); (ii) an obligation to set a limit on total guarantees consistent with the medium-term fiscal framework; (iii) a requirement for the DMD to make regular assessments of the risks surrounding guarantees; and (iv) requirements on periodical reporting. The provisions on government guarantees have not yet entered into force, but are expected to be implemented within the next year or so.

3.2.4. Public-private partnerships (Basic)

83. Malta so far has made very limited use of PPPs. Only one PPP contract associated with a home for the elderly, which was approved in 2007, was reported in the Fiscal Statistics for 2016.

84. While not reported as PPPs, contractual arrangements by public corporations could also pose risks to the government. Experience from several countries suggest that contracts with features similar to a PPP, such as power purchase agreements, could constitute an implicit contingent liability for the government. Enemalta has entered into a power purchase agreement with a project company (Electrogas) owned by an international consortium, which will construct and operate the Delimara 4 power plant with a total investment of EUR 462 million (around 5 percent of GDP). Enemalta will purchase the electricity produced from the plant during an 18-year contract period,⁴⁵ and the government is obliged to take over the power purchase agreement if Enemalta fails to implement it.

⁴⁵ State aid case SA.45779 (2016/N).

85. Malta plans to scale up the use of PPPs. Projects Malta was created in 2015 as an EBU to coordinate and facilitate PPPs between ministries and the private sector. It aims to serve as the government's resource center for PPPs, advising and supporting ministries to conduct feasibility studies, preparing request for proposals, and executing tenders. Once tendered, the PPPs would rest with the respective line ministry. So far, Projects Malta has been involved in preparing some PPPs, notably for building a new site for the Institute for Tourism Studies, as well as several concessions. Some major infrastructure projects are also being considered for the future. There are no general government policies or guidelines pertaining to the consideration, selection, management, and reporting on PPPs, including fiscal risk management, and there is no legal limit to the accumulated stock of PPP obligations.

3.2.5. Financial sector (Advanced)

86. The government does not extend explicit support to the financial sector, and there is a deposit guarantee scheme in place. The Depositor Compensation Scheme, which complies with EU Directive 2014/49/EU, is considered an EBU as it is funded by compulsory levies from the deposit-taking financial institutions, but it does not involve any explicit government obligation. The Depositor Compensation Scheme covers a maximum of EUR100,000 per depositor per credit institution. Each credit institution is required to contribute to the scheme annually at least 1.3 percent of its covered deposits, and the size of contributions can change, depending on risk levels of credit institutions. There are two other protection schemes for the investment banks and insurance companies.

87. The CBM regularly undertakes an assessment of financial sector stability based on a range of macroeconomic and financial market scenarios. The annual Financial Stability Report includes a range of scenarios to stress test the resilience of the domestic financial system to extreme events. These include scenarios considering (i) a credit quality deterioration in the securities portfolio; (ii) persistent deposit withdrawals; (iii) a sharp decrease in property prices; and (iv) materialization of interest rate risks. A macroeconomic risk scenario is also considered, but has not been published so far. The 2016 Financial Stability report concluded that the financial sector is well capitalized, provisioned, and has ample liquidity buffers.

88. The financial sector in Malta is relatively large, but international banks are not linked with the domestic economy. While total assets of the financial sector amounted to 431.6 percent of GDP in 2017, which is high by international standards, the core domestic deposit-taking banking sector had assets of around 206.4 percent of GDP in 2017, which is below the EU average of the total banking sector assets.

89. Financial sector soundness indicators are solid, but the domestic banking sector faces some challenges going forward. The core domestic banking system is well capitalized and profitable, and the ratio of non-performing loans has been declining, albeit partly due to write-offs (Figure 3.11). The loan to deposit ratio is below 60 percent and well below the EU average, indicating the sector is highly liquid. At the same time, there are several challenges to

the sector as profitability remains subject to headwinds from subdued lending to non-financial corporations, a possible prolongation of the European Central Bank's accommodative monetary policy stance, and upcoming regulatory changes, which may lead to higher funding costs.⁴⁶

Figure 3.11. Banking Sector Soundness Indicators, 2017

(Core domestic banks, ratios in percent)

Source: European Banking Authority and European Central Bank.

3.2.6. Natural resources (Not Assessed)

90. Malta does not have noticeable natural resources. There were no rents generated from natural resources during 2007–16 (Figure 3.12).

Figure 3.12. Natural Resources Rents (2007–16) (Percent of GDP)

Source: IMF.

3.2.7. Environmental risks (Basic)

91. Malta does not publish an assessment of fiscal exposures to natural disasters and other major environmental risks. The Critical Infrastructure Protection Directorate within the

⁴⁶ Sourced from IMF's 2017 Article IV Consultation, staff report.

Ministry for Home Affairs and Security prepared a comprehensive national risk assessment report in 2015, which considered, amongst others, environmental risks. Among risks identified and assessed in the report, which has not been published, were earthquake, floods, droughts, severe weather, and risks of oil spill. These risks were generally assessed to be low to medium.

3.3. Fiscal Coordination

3.3.1. Subnational governments (Advanced)

92. Local governments in Malta are an insignificant source of fiscal risks. The local government sector is the smallest in Europe, representing only 1 percent of general government expenditures (Figure 3.13). The local councils' responsibilities are limited to some areas of environment, internal security, and infrastructure, including general upkeep and embellishment, local warden scheme, refuse collection, and other general administrative duties for the central government. They are mostly financed by grants from central government, and their own revenue amounts to only 0.1 percent of gross general government revenue in 2016. Similarly, their debt represents only 0.1 percent of general government debt in 2016.

Figure 3.13. Local Governments Expenditures, 2016
(Percent of expenditures of General Government)

Source: Eurostat.

93. The financial condition and performance of sub-national governments is published quarterly, and there are limits on local government borrowing. The LGD publishes individual and consolidated quarterly data on the financial accounts of the 68 local councils. It compiles for each council the FSI, which is derived from the ratio of net current liabilities (excluding loans approved by central government) to allocations from central government. In addition, the NSO discloses annual statistics on fiscal aggregates for the consolidated local government sector. Audit findings pertaining to the local councils are presented on an aggregated basis in the NAO's "Annual Report on the Workings of the Local Councils," which reports frequent delays and quality weaknesses in the information provided by some local governments. According to the Local

Councils Act, local councils are prohibited from borrowing except with the joint approval of the Minister of Justice, Culture and Local Governments and the Minister for Finance.

3.3.2. Public corporations (Basic)

94. The public corporation sector in Malta is sizeable and a significant source of fiscal risk. As discussed in Chapter I, it comprises 53 commercially-oriented nonfinancial entities with total liabilities excluding equity of around 17 percent of GDP in 2016, of which around 0.4 percent were loans owed to the general government. This is relatively high compared to other European countries (Figure 3.14). Liabilities are concentrated in the five largest corporations, which amount for 80 percent of total liabilities of the sector. While the sector was generally profitable in 2016 (Figure 3.15), Malta has a history of government intervention to support and restructure public corporations when economic conditions are dire. Such support has been notified and approved by the EC in accordance with the EU state aid rules.

Figure 3.14. Total Liabilities of Nonfinancial PCs, 2016 (Percent of GDP)

Source: Eurostat.

Figure 3.15. Net profits(+)/loss- of Selected PCs, 2016 (Percentage of assets)

Source: Ministry of Finance.

95. Direct transfers to public corporations are regularly disclosed but are not based on a published ownership policy, and there is no consolidated reporting on their financial performance. Transfers between the government and public corporations in the form of dividends, subsidies and capital injections in cash are disclosed in the budget and Financial Reports. However, there is no published document that outlines the purpose and objectives of state ownership and the criteria under which public corporations operate; neither is there a published dividend policy. While detailed information on each public corporation can be found in their annual financial statements, there is no document that consolidates financial information on public corporations to present an overview and assessment of their financial performance.

96. The government has provided some subsidies and capital injections to public corporations in recent years (Table 3.4). However, the total amount of direct subsidy and capital injection that is included in the general government expenditures has not been large (below 1 percent of GDP in each year), related mainly to Malta Freeport Corporation, Enemalta, and Air Malta, but the government has also provided other means of support.⁴⁷

Table 3.4. Subsidies and Capital Injections to Public Corporations Included in General Government Expenditure, 2012–16 (EUR millions)

	2012	2013	2014	2015	2016
Subsidies	32.3	35.5	70.2	49.6	55.9
Capital injections	22.5	41.3	16.3	45.2	23.6

Source: Ministry for Finance.

Note: This does not include other current and capital transfers to public corporations.

97. Oversight and monitoring arrangements for public corporations appear to be somewhat fragmented. 19 corporations are controlled through six holding companies, the most significant of which is Malta Government Investments (MGI). Others are controlled by either the relevant line ministry or the Ministry for Finance. While the Ministry for Finance has a deep and ongoing involvement in the key public corporations, including Enemalta, Air Malta, and Malta Freeport, and regularly monitors their performance, there is no single entity responsible for developing the ownership policies across the government, or for monitoring and reporting on the performance of the entire public corporation sector.

3.4 Recommendations

98. Malta's fiscal risk analysis and management meets the advanced practice of the Fiscal Transparency Code in some areas. The assessment, summarized in Table 3.5, shows that fiscal strategy documents include scenario analysis of macroeconomic risks to fiscal outlook and probabilistic fan charts for macroeconomic and fiscal outcomes. While limited analysis pertaining

⁴⁷ In addition to guarantees noted above, this include capital injection in kind to Enemalta in 2012, seeds capital in kind to a start-up public corporation in 2012, cash acquisition of Enemalta's petroleum operations in 2014, and re-employment of Enemalta employees through other public corporations with government funding since 2014.

to government assets is performed, the framework for analyzing and reporting on risks to the government's debt portfolio is comprehensive. Potential risks emanating from the financial sector are also well monitored and reported. While risks from the local government sector are insignificant, the reporting on their finances are quite comprehensive.

99. However, there are also a range of areas where fiscal risk analysis and management falls short of or meets only the basic practice of the Code. The most notable gap is the absence of reporting on the overall financial performance of public corporations, given the potential risks emanating from the sector, and the absence of a common framework for exercising ownership functions and monitoring performance. The lack of a summary report on specific risks to the fiscal forecast, which would include enhanced reporting on long-term fiscal sustainability, government guarantees, and PPPs, amongst others, is also an important gap. Addressing this gap could improve Malta's performance against the Fiscal Transparency Code on a range of principles, and, more importantly, improve the management of fiscal risks.

100. Based on the above assessment, the priorities for improving transparency of fiscal risk analysis and management are the following:

- **Recommendation 3.1: The government should produce and publish an annual fiscal risk statement that discusses the size and nature of macroeconomic as well as specific fiscal risks, including discussion of:**
 - Exposures to guarantees, on-lending, and indemnities, including a comprehensive list of outstanding amounts, beneficiaries, and the likelihood for risk materialization;
 - The financial position of public corporations at individual and aggregate levels, including comprehensive information on actual and expected financial government support as well as costs of quasi-fiscal activities (for example, public service obligations);
 - PPPs and other long-term contractual arrangements, including the government's rights, obligations, and exposures under each project; and
 - Other relevant sources of fiscal risks.
- **Recommendation 3.2: Strengthen the institutional framework in the Ministry for Finance for analyzing and managing fiscal risks, including:**
 - Assign responsibility to a unit for compiling information for and drafting the fiscal risk statement, drawing on information and analysis sourced from other units as well as own analysis; and
 - Establish a centralized oversight arrangement for all public corporations based on a common ownership policy and performance monitoring cycle.

Table 3.5. Summary Evaluation - Fiscal Risks

	Principle		Rating	Importance	Rec
3.1.1	Macroeconomic Risks		Advanced: Stability Program Update includes alternative scenarios and probabilistic fan charts for macroeconomic and fiscal forecasts	Medium: As a small open economy, Malta's vulnerability to external shocks tends to be high	
3.1.2	Specific Fiscal Risks		Not met: No report summarizes specific fiscal risks, their magnitude, or their likelihood	High: Information on fiscal risks are scattered, and some specific risks could be material	3.1, 3.2
3.1.3	Long-term Fiscal Sustainability		Basic: Stability Program Update includes long-term projections of main age-related expenditures, but multiple scenarios are not presented	Medium: Age-related spending is expected to increase by around 7 percent of GDP between 2013 and 2060	
3.2.1	Budgetary Contingencies		Basic: The budget includes a contingency reserve, but access criteria are not clearly defined	Medium: The contingency reserve is relatively small albeit complemented by access to amend the budget	
3.2.2	Asset and Liability Management		Basic: Borrowing is authorized by law, and risks surrounding government's debt holdings are comprehensively analyzed and disclosed, but not assets	Low: Gross public debt is decreasing and below EU28 average. Financial assets are mainly CBM deposits and public corporations	
3.2.3	Guarantees		Basic: Guarantees are disclosed, but the maximum value of new guarantees or their stock is not authorized by law	Medium: The stock of guarantees is subject to risks. A comprehensive legal framework for managing guarantees have been adopted but not yet implemented	
3.2.4	Public-Private Partnerships		Basic: Obligations on PPPs are reported quarterly, but with no detail	Medium: Use of PPPs has so far been limited, but there are PPP-like arrangements and plans to expand the use of PPPs	
3.2.5	Financial Sector Exposure		Advanced: There are no explicit guarantees. CBM and ECB regularly monitor and assess financial sector stability based on a range of scenarios	Medium: The core domestic banking sector is relatively small and profitable, and financial soundness indicators compare well to EU average, but the impact of financial crisis could be significant	
3.2.6	Natural Resources		Not Assessed	Low: Natural resource assets are insignificant	
3.2.7	Environmental Risks		Basic: The government identifies and discusses main fiscal risks from natural disasters in the context of the national risk plan, but it is not published yet	Low: Malta is usually not affected by natural disasters	
3.3.1	Subnational Governments		Advanced: Information on financial performance of local councils is published on a quarterly basis, and their borrowing is limited by law	Low: The subnational government sector in Malta represents less than 0.1% of general government revenue	
3.3.2	Public Corporations		Basic: Direct transfers from central government is disclosed, but there is no report on overall performance of public corporations, and no published ownership policy	High: Liabilities of non-financial public corporations represent 17.5% of GDP	3.2

Appendix I. Malta: Government Fiscal Transparency Action Plan (2018–22)

Recommendation	2018	2019	2020	2021-22	Responsibility
1.1. Expand the coverage of fiscal reports to the public sector					
Expand the coverage of fiscal statistics	Produce a statement of other economic flows of the general government, and publish data on general government pension entitlements	Produce a statement of operations of public corporations consolidated into the statement of operations of the general government	Produce balance sheets of subsectors of general government and public corporations	Produce public sector balance sheet	NSO
Prepare accrual-based financial statements	Develop a comprehensive register of government nonfinancial assets	Adopt IPSAS-based accounting standards	Complete roll-out of a new Enterprise Resource Planning system	Prepare accrual-based financial statements of the central government	Treasury
1.2. Better report and control tax expenditures					
Produce a report on tax expenditures and determine budgetary limits	Agree on a definition of tax expenditures	Produce report that includes estimates of annual revenue loss from existing and new tax expenditures	Set a limit to the size of tax expenditures	Include in the report on tax expenditures information on compliance with the limit	EPD
2.1: Improve the comprehensiveness of budget documentation					
Present comprehensive information on EBUs in the budget documentation	Agree on format for an Annex on EBUs in the Financial Estimates	Include Annex in the 2020 Financial Estimates	-	-	Budget Office
Introduce performance information in the budget documentation	Consider and agree on the presentation of performance information in the budget documentation, and its gradual implementation	Adapt formats for ministerial business plans and budget submissions to provide the agreed set of information	Expand scope of performance information in the budget documentation	-	Budget Office

Recommendation	2018	2019	2020	2021-22	Responsibility
		Include simple performance information in the 2020 budget documentation			
2.2: Improve consistency of different reports					
Harmonize presentations of multi-annual macroeconomic and fiscal forecasts	Design standardized tables for presentation of multi-year macroeconomic and fiscal forecasts	Incorporate standardized tables in relevant documents	-	-	EPD
Provide a detailed reconciliation between forecasts in different reports	Design tables for forecast reconciliation, drawing on examples of other European countries	Include reconciliation tables in the Stability Program Update and the Draft Budgetary Plan	-	-	EPD
2.3: Strengthen the framework for public investment management					
Strengthen reporting on capital projects in the budget documentation	Design table for inclusion in the budget documentation, possibly an Annex to the Financial Estimates	Include table in the 2020 budget documentation	-	-	Budget Office
Strengthen project appraisal, selection, and management	Publish cost-benefit analysis undertaken for major projects	Conduct a public investment management assessment	Implement recommendations from assessment	-	Ministry for Finance

Recommendation	2018	2019	2020	2021-22	Responsibility
3.1: Disclose the size and nature of specific fiscal risks					
Strengthen reporting on specific fiscal risks	Include comprehensive list of guarantees, on-lending, and indemnities in the 2019 budget documentation	-	Produce fiscal risk statement as part of the 2021 budget documentation	Expand scope of the fiscal risk statement to encompass a broader range of fiscal risks	Budget Office, EPD, Treasury
3.2: Strengthen the institutional framework for fiscal risks management					
Develop fiscal risk analysis and management functions within the Ministry for Finance	Assign responsibility to a unit for preparing a fiscal risk statement	Implement institutional arrangement for fiscal risk analysis and monitoring	-	-	Ministry for Finance
Develop centralized ownership function for public corporations	Assign responsibility for comprehensive reporting on the financial performance of public corporations	Develop ownership policy that applies to all ownership agencies	Incorporate reporting on financial performance of public corporations in the fiscal risk statement	Consider centralizing ownership functions	Ministry for Finance

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