



EUROPEAN COMMISSION  
EUROSTAT

Directorate D: Government finance statistics (GFS)  
**Unit D-3: Excessive deficit procedure (EDP) 2**

Luxembourg,  
ESTAT/D3/LA/JJ/HL/af D(2022)

## **FINAL FINDINGS**

### **EDP dialogue visit to Malta**

**31 May–1 June 2021**

## EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Malta on 31 May–1 June 2021, in the form of a videoconference. The purpose of the visit was to review the compliance of the Maltese EDP and Government Finance Statistics (GFS) data with the accounting rules of the European System of Accounts (ESA 2010) and with the existing guidance set out in the latest 2019 edition of the Manual on Government Deficit and Debt (MGDD).

Some of the specific issues addressed were the memoranda of understanding between the National Statistics Office (NSO) and its key partners and data suppliers for EDP statistics, the introduction of IPSAS and a new main accounting system in public accounting, statistical discrepancies, the update of the EDP Inventory, the sector classification of e.g. Transport Malta and dormant public corporations, perpetually reportable tax credit schemes, the recording of interest, the overestimation of revenue and expenditure in recording EU grants, residual amounts pertaining to the EU *Jeremie* initiative, the recording of the various measures undertaken in the context of the COVID-19 pandemic (altogether 46 measures, incl. for example business assistance, tax deferral schemes, voucher schemes, real estate assistance, and guarantee schemes by the Malta Development Bank), standardised guarantees and guarantee fees, the cancellation of an Air Malta interest claim, the repayments of loans extended to subsidiaries of the Libyan Arab Maltese Holdings Company Limited, capital injections in Air Malta and other public companies in aviation, a new project on solar-powered greenhouses by the public company Malita, direct lending of the Malta Development Bank, the super-dividend tests for the dividends received from the subsidiaries of extra-budgetary units, a new potential concession on a tunnel between Malta and Gozo, a new joint social housing project between the government and the Archdiocese of Malta, and Malta's recovery and resilience plan.

As regards institutional responsibilities, it was noted that the memoranda of understanding between the NSO and its key partners and data suppliers for EDP statistics need updating in view of the changes to the public accounting system and data analytics. It was also agreed that the Maltese statistical authorities will keep Eurostat informed on the development work on internal control arrangements.

Regarding data sources, revision policy and the EDP Inventory, the Maltese statistical authorities provided an update on the ongoing accrual accounting project. The new Corporate Financial Management Solution (CFMS) accounting system had been taken into use by the budgetary central government in two phases in 2020 and 2021. It enables accrual accounting, but only cash data will be extracted from it, at least until the end of year 2021. The most important national standards developed based on IPSAS had also been drafted and the guidelines for them prepared. Eurostat expressed concern regarding the sizeable statistical discrepancies observed in Maltese quarterly accounts (2020 Q1 and Q2, in particular), presumably linked to the introduction of the CFMS. The NSO should further investigate the causes and make efforts to reduce these discrepancies. It was also agreed that the Maltese statistical authorities will provide regular updates on the progress of the accrual accounting project. As regards the revision policy, Eurostat congratulated the Maltese statistical authorities for going through with a benchmark revision in August 2020. As regards the update of the EDP Inventory provided by the NSO in April 2021, it was brought up by Eurostat that some sections had not been updated, and there were also problems with sections that had been updated. It was agreed that Eurostat will first send comments, and the NSO will revise the Inventory based on them.

There were four EDP action points from the previous visit in 2018 still pending prior to the visit. The action point 11, related to the overestimation of revenue and expenditure in recording EU grants, was discussed under Section 4.2.3 EU flows, and remained open.

While examining the latest notification of EDP data in April 2021, it was concluded that all the closing remarks had been either addressed by sending the list of requested documents prior to the visit, or they were discussed in the context of other agenda items during the visit.

When discussing the delimitation of the general government, Transport Malta, classified as a public non-financial corporation, was noticed to have some regulatory powers and the Maltese statistical authorities agreed to conduct an analysis on its sector classification. Regarding other government-controlled entities currently classified outside general government, the Maltese statistical authorities were requested to provide detailed market/non-market test results for four public corporations, to

investigate the possibility to improve the timeliness of data, and to continuously monitor all the units, including e.g. revising the sector classification of all the dormant, inactive public corporations, and public corporations in liquidation. Regarding public corporations currently classified inside general government, Eurostat asked Malta to provide a list of them and their unit-by-unit net lending / net borrowing (B.9) figures.

Concerning the implementation of the accrual principle for taxes, the Maltese statistical authorities confirmed that there have been no changes in the time-adjusted cash system of tax recording. Nevertheless, Eurostat asked the NSO to check whether sectoral changes might have impacts on average time lags and to provide data on cash and time-adjusted cash for VAT, corporate income tax and personal income tax for the last ten years. As regards tax credits, Eurostat noted that the current classification of the long-term and perpetually reportable tax credits as non-payable could be questionable. The NSO was requested to provide an overview of the existing tax credit schemes together with their quantified information. Concerning the recording of VAT for electronic services, Malta confirmed that they comply with the first phase, MOSS, and their systems should be ready for the implementation of the next step, OSS, in July 2021 as planned. Tax deferral schemes were discussed in the context of Section 4.3.1 on COVID-19 measures.

Regarding the ad hoc table on the recording of interest, Eurostat reminded that data on flows and stocks should be reconciled. Eurostat briefly demonstrated how the data already provided by the Maltese statistical authorities as a part of their voluntary annexes for each EDP notification could be used for filling in the table. Malta Government Stock bonds were taken as an example. It was agreed that Eurostat will give further step-by-step instructions bilaterally.

As regards the EU flows, the Maltese statistical authorities had not made progress with fixing the overestimation of the central government revenue and expenditure related to the recording of EU grants, a problem discussed already during several dialogue visits. They could not provide a timetable for the resolution of this issue, but they said they could start dealing with it for certain EU-funded projects. Regarding the EU Financial Instruments, the Maltese statistical authorities were asked to verify whether the residual amounts pertaining to the 2007–2013 programming period *Jeremie* initiative will have to be reused for other EU-financed projects or whether the government has the right to use them as it wishes.

Regarding measures undertaken by the government in the context of the COVID-19 pandemic, it was noted that new measures had been announced during the spring 2021, but many pre-existing measures were also missing from the *Supplementary table for reporting measures taken in the context of the COVID-19 pandemic* in the April 2021 notification. It was agreed that, by the next notification, the NSO will provide Eurostat with an update of the complete list of measures (at the time of the visit, 46 measures), and to consistently update the supplementary table for all measures, taking into account negative revenues and uncollectable amounts in relation to tax deferral schemes. For the second tax deferral scheme, which was for taxes due in August 2020–December 2021, the NSO will separately provide accrual estimates for all the periods involved (also 2022). In addition, the current D.39 recording of voucher schemes was agreed to be reconsidered.

Most of the discussion on guarantees revolved around standardised guarantees. The NSO had, after the previous EDP dialogue visit, recorded the guarantees on households' mortgages provided by the Housing Authority as standardised guarantees, and the NSO had already decided to do so also for the COVID-19 guarantee scheme of the Malta Development Bank. The NSO agreed to check whether the provisions booked by the MDB could be used as a proxy for F.66. Regarding one-off guarantees, Eurostat asked the NSO to provide annual data on guarantee fees by company and to check the figures in the EDP questionnaire table 9.1 after the mission.

As regards the government claims, it was agreed that the Maltese statistical authorities will record in 2020 a cancellation of a claim pertaining to interest accrued on an Air Malta loan that had been converted into equity. They will also check whether the loans of the Libyan Arab Maltese Holdings Company Limited, extended to its subsidiaries, still exist and are being serviced. Regarding the loan provided by the central government to the Water Services Corporation, the Maltese statistical authorities had new information that a revised repayment schedule had been established in 2020 after a long break in repayments.

When discussing capital injections, the focus was on the recent operations of three public corporations, Air Malta, Malita, and the MDB. Air Malta has gone through heavy restructuring in recent years in order to improve its profitability, yet the government was applying for a permission to inject further EUR 290 million in the company. Regarding Malita, a new project on solar-powered greenhouses was discussed. The Maltese statistical authorities will give Eurostat an update on this project and inform it on any new projects. Concerning the MDB, the participants discussed the ad hoc direct lending it is providing to various organisations. The MDB was asked to compare the conditions of these loans to commercial banks.

Regarding dividends and super-dividends, the Maltese were asked to provide super-dividend test results for the subsidiaries of two extra-budgetary units, the Malta Government Investments Limited (MGI) / Malta Investment Management Company Limited (MIMCOL), and the Libyan Arab Maltese Holdings Company Limited. They were also requested to compare the dividend paid by the Malta Financial Services Authority in 2017 with the profit of 2016 and check whether there was a super-dividend component.

The PPPs and concessions were also discussed. In addition to the existing three PPPs and three concessions, the Maltese statistical authorities gave information about a new potential major concession, a 14-kilometre tunnel between Malta and Gozo. The project was at final tender stage and it was agreed that the Maltese statistical authorities will provide a copy of the contract with their classification analysis as soon as available. Regarding the International School in Mtarfa, they had already sent the statistical analysis, which suggested recording the concession off balance sheet, but they were still asked to provide a copy of the final contract.

Under other specific government transactions, the Maltese statistical authorities presented a new social housing project between the government and the Archdiocese of Malta that is still in the early stage. Eurostat concluded that the main issues would be the recording of the gross fixed capital formation and the sector classification of the foundation established for the project. Eurostat asked to be kept updated on the developments and suggested that the Maltese statistical authorities could get acquainted with a relatively similar case in Ireland. Otherwise the Maltese statistical authorities had confirmed prior to the visit that they were not aware of any large government transactions not yet reported to Eurostat.

Finally, Eurostat enquired whether Malta had already submitted their recovery and resilience plan to the European Commission, but it was said to be still in preparation.

Eurostat appreciated the cooperation and transparency demonstrated by the Maltese statistical authorities during the visit, as well as the quality of the documentation provided before it.

## Final findings

### INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009<sup>1</sup>, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty on the Functioning of the European Union, Eurostat carried out an EDP dialogue visit to Malta on 31 May–1 June 2021 in the form of a videoconference.

The delegation of Eurostat was headed by Mr Luca Ascoli (Director, Directorate D - Government Finance Statistics (GFS)). Eurostat was also represented by Mr Jukka Jalava, Ms Rasa Jurkoniene, Ms Henna Laasonen, Mr Didier Lebrun and Ms Nicoleta Savu. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers.

The Maltese statistical authorities were represented by the National Statistics Office of Malta (NSO), the Ministry for Finance and Employment of Malta (MoFE) and the Central Bank of Malta (CBM). Experts from the Fiscal Advisory Council and the National Audit Office of Malta also attended the meeting.

The overall purpose of this EDP dialogue visit was to review EDP arrangements in place and to ensure that the provisions of the European System of National and Regional Accounts (ESA 2010)<sup>2</sup>, of Eurostat's Manual on Government Deficit and Debt (MGDD 2019)<sup>3</sup>, as well as Eurostat's decisions, are duly implemented in the production of the Maltese EDP statistics.

The discussion focused on statistical capacity issues (especially the accrual accounting project and the EDP Inventory); the delimitation of the general government (especially the sector classification of certain units); the implementation of the accrual principle, particularly for taxes (tax credits and tax deferrals), interest and EU flows; the recording of specific government transactions, with a focus on COVID-19 government measures, guarantees, government claims, capital injections, dividends, and public-private partnerships (PPPs) and concessions; the follow-up of the action points resulting from the 2018 EDP dialogue visit and the closing remarks of the April 2021 EDP notification.

Regarding procedural arrangements, the draft main conclusions and action points were sent to Malta for review after the visit and the final version on 6 July 2021. Next, the provisional findings were sent to Malta for comments on 21 December 2021. Once these were agreed between Eurostat and the Maltese statistical authorities, the final findings would also be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the cooperation and transparency demonstrated by the Maltese statistical authorities during the visit and the quality of the documentation provided before it.

## 1. STATISTICAL CAPACITY ISSUES

### 1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation

#### *Introduction*

The NSO informed Eurostat before the visit that there have been no significant organisational changes that would affect the EDP process. The official Government Finance Statistics Committee is chaired by the NSO. The Memorandum of Understanding (MoU) between the National Statistics Office, the Ministry for Finance and Employment and the Central Bank of Malta in the domain of Government Finance Statistics and EDP was signed in 2016. The duration of the MoU is indefinite and it allows for

---

<sup>1</sup> Available online: <https://eur-lex.europa.eu/eli/reg/2009/479/2014-09-01>.

<sup>2</sup> European System of National and Regional Accounts (ESA 2010) (<https://ec.europa.eu/eurostat/web/esa-2010>).

<sup>3</sup> Manual on Government Deficit and Debt – Implementation of ESA 2010 – 2019 edition (<https://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/ks-gq-19-007>).

updates every two years, but no updates have been done yet. The Memorandum of Cooperation with the National Audit Office was signed in 2016, but expired in 2018.

The NSO also informed that there have been some changes in the flowchart for the EDP production process, mostly related to the transition to the new CFMS accounting system. This is further discussed under Section 1.2.

### *Discussion*

It was noted that Malta's central government reporting is nowadays regulated by the new Public Finance Management Act<sup>4</sup>, which was enacted on 12 July 2019 and replaced the former Financial and Administration Act. The Maltese statistical authorities gave their assessment that it is a big step forward and it provides a better framework e.g. for the eventual adoption of accrual accounting and reporting, but does not have any direct linkage to the dealings with Eurostat.

As regards the MoU between the National Statistics Office, the Ministry of Finance and Employment and the Central Bank of Malta in the domain of Government Finance Statistics and EDP, the Maltese statistical authorities explained that the responsibilities of the organisations have not changed. However, it was agreed that they should update the MoU to reflect the transition to the new CFMS accounting system. There was no timeline for that yet.

As regards the expired Memorandum of Cooperation between the NSO and the National Audit Office (NAO), the Maltese statistical authorities confirmed that they are in the process of amending it. The changes the NAO wants to make are not related to the GFS, but to other domains within the statistical office, although the references to the accounting system need to be updated, too. According to the NSO, cooperation with the NAO has been smooth. For example, lately the NAO did three reports to which the NSO gave its input: about the Vitals/Steward PPP, the St. Vincent de Paul PPP, and the COVID-19 measures.

The Maltese statistical authorities confirmed that although there have been some organisational changes in public administration, e.g. the number of ministries has grown from 9 to 14 since 2018, they have nothing to highlight in the flowchart of institutions involved in the EDP process.

Eurostat enquired on developments regarding internal control arrangements, the documentation of processes, and the quality framework, for which the Public Finance unit is responsible for in the area of GFS. The NSO explained that it is the responsibility of its methodology unit to remind the other units to update their processes and documentation. It was recalled that the methodology unit might have some tasks in the pipeline for the Public Finance unit. However, the Public Finance unit consists of only six people, two of them on reduced hours. There are currently no plans to increase the resources, but various improvements made to the IT systems should enable updating the documentation more timely in the future.

### *Findings and conclusions*

**Action point 1.** The Maltese statistical authorities will provide Eurostat with a copy of the updated Memorandum of Understanding in the field of Government Finance Statistics between the National Statistics Office, the Ministry for Finance and Employment and the Central Bank of Malta, and a copy of the amended Memorandum of Cooperation between the National Statistics Office and the National Audit Office, in view of the changes to the public accounting system and data analytics.

**Deadline: as soon as available.**

**Action point 2.** The Maltese statistical authorities will keep Eurostat informed on the development work on internal control arrangements.

**Deadline: progress report by March 2022.**

---

<sup>4</sup> Available online: <https://legislation.mt/eli/cap/601/eng>.

## 1.2. Data sources, revision policy and EDP Inventory

### Data sources

#### *Introduction*

Two major long-term IT projects regarding data sources and production processes were expected to be finished before this mission: the accrual accounting project, and the non-financial accounts' IT system.

The accrual accounting project is, however, still in progress, and before the mission, the NSO provided Eurostat with a note on the progress made.

The core target of the accrual accounting project, led by the Treasury, is the implementation of the Corporate Financial Management Solution (CFMS) accounting system, which will replace the cash-based Departmental Accounting System (DAS) that has been run across the budgetary central government for years. The CFMS, receiving data from external systems (e.g. income tax systems) will report both on cash and accrual basis. The new system will follow national standards based on International Public Sector Accounting Standard (IPSAS).

The implementation of the CFMS has been split in three phases: the implementation of core modules in 15 pilot units, the implementation of core modules in the remaining units, and the implementation of other modules. The pilot units, e.g. the Treasury and the Commissioner for Revenue, started using the CFMS for reporting on 1 January 2020, thus affecting EDP figures for 2020 starting from the April 2021 notification. The remaining 38 units started to use the CFMS on 1 April 2021.

Although the CFMS reports can be run both on a cash or accruals basis, the NSO is using the CFMS to extract only cash data for the time being. All the units covered will continue submitting the Treasury accruals' templates separately at least for this year. In addition, exceptionally high quarterly statistical discrepancies have been reported for 2020. In the April 2021 notification, the total figure for statistical discrepancies for 2020 at S.13 level was EUR 25.1 million, just at the threshold of 0.2% of GDP. However, quarterly discrepancies remained much higher.

The other major project, consisting of creating a new data warehouse system for non-financial accounts, was confirmed by the Maltese statistical authorities to have been otherwise completed, but the database has not been populated with all the past data.

The NSO also informed prior to the mission that its financial data reporting system (FDRS), which the NSO uses to extract monthly and quarterly data for the extra-budgetary units and for some public corporations, has been upgraded to a new version, which e.g. provides improvements in data extraction, but that there have been no major changes in the actual templates.

#### *Discussion*

Eurostat enquired on the progress on the accrual accounting project. The Maltese statistical authorities confirmed that CFMS data for the remaining 38 budgetary central government units will enter the EDP notification for the first time in April 2022. This will concern the data for the year 2021 only. Those units have been using the DAS accounting system for the first three months of 2021 for all reporting, so the final balances have to be transferred into the CFMS. By the end of year 2021, the NSO should be using only data coming from the CFMS. However, this concerns cash data exclusively. The Maltese statistical authorities confirmed that the accrual data are still being extracted from the Treasury's Excel templates circulated between the departments. More people need to be recruited by the Treasury in order to accelerate the transition away from the accrual templates, but the templates will most likely continue to be used at least until the end of 2021. As regards the IPSAS part of the accrual accounting project, the most important standards have already been drafted and the guidelines for them prepared. They are available on the Treasury's website. With regard to the last phase of the project, already about to start, the Maltese statistical authorities are having discussions about the next potential CFMS modules to be implemented. They will also continue work on the previous phase of the project.

Eurostat asked about the main causes of the quarterly discrepancies for 2020 observed in the April 2021 notification, and stressed the importance of reducing them, hopefully already by the next October notification. The Maltese statistical authorities replied that they had not yet managed to identify the

exact root cause, although the partial and recent implementation of the CFMS is likely to contribute to the problem. The Maltese statistical authorities said they are looking forward to next compiling the first quarter of 2021, and they are hopeful that they might not experience the same amount of discrepancy as for the previous year. They pointed out that they are still in the transition period and need more time to ensure that the system is producing good accruals data. Eurostat reminded that at some stage the Maltese statistical authorities would still need to go back to 2020 and try to identify the main causes and fix them.

Regarding other IT systems, the Maltese statistical authorities confirmed that they have no plans to continue populating the non-financial accounts' database in the near future due to lack of human resources and the fact that other tasks are of higher priority. Concerning the FDRS, Eurostat asked which major public corporations submit financial data directly to the NSO via this system. It was agreed that the Maltese statistical authorities will get back to the issue later after they have checked it.

### *Findings and conclusions*

**Action point 3.** The Maltese statistical authorities will provide Eurostat with an update on the progress of the accrual accounting project, in particular as regards the plans to use the Corporate Financial Management Solution (CFMS) accounting system data for the EDP reporting.

**Deadline: for each EDP notification until full CFMS implementation.**<sup>5</sup>

**Action point 4.** Eurostat expressed some concern regarding the existence of sizeable statistical discrepancies in Maltese quarterly accounts (2020 Q1 and Q2, in particular). The Maltese statistical authorities will further investigate the causes for the significant quarterly statistical discrepancies between financial and non-financial accounts reported for 2020, and will make efforts to reduce them.

**Deadline: progress report by October 2021.**<sup>6</sup>

## **Revision policy**

### *Introduction*

A short description about the relevant revision practice is available in the EDP Inventory. For EDP data, the data for years  $t-4$ ,  $t-3$ , and  $t-2$  is considered final. However, if exceptional revisions are necessary, the NSO will still adopt these revisions for years considered final. The most common reasons for these kinds of revisions are late availability of audited accounts for extra-budgetary units and local councils, and revisions in the accrual templates collected by the Treasury. In practice, revisions to deficit and debt have been small in recent years. Malta went through a benchmark revision in the context of the GDP data release of the second quarter of 2020 (August 2020), originally planned for 2018. However, it had a very limited impact on the EDP figures.

### *Discussion*

Eurostat congratulated the NSO for going through with the benchmark revision, in the context of which they also managed to close two EDP action points<sup>7</sup>. Eurostat also asked whether the Maltese statistical authorities have any plans to address the issue of late deliveries of audited accounts of extra-budgetary units and local councils, which often seems to cause small revisions to years considered final. The Maltese statistical authorities did not consider this a major issue, as the revisions are small overall.

## **EDP Inventory**

### *Introduction*

---

<sup>5</sup> The first progress report was provided by the Maltese statistical authorities on 30 September 2021 in the context of the October 2021 EDP notification.

<sup>6</sup> The progress report was provided by the Maltese statistical authorities on 30 September 2021 in the context of the October 2021 EDP notification. The issue was left to be followed up, as the discrepancy for 2020 had only increased and now exceeded the threshold also at the annual level, the causes were not clear and a timetable for reducing the discrepancy could not be given yet.

<sup>7</sup> Action points 24 and 25 from the 2018 EDP dialogue visit.



During the previous dialogue visit in 2018, the Maltese statistical authorities were given the task (EDP action point 5) of updating the EDP Inventory of October 2015<sup>8</sup>, which was comprehensive, clear and based on the ESA 2010 methodology, but already partly outdated. The NSO provided a draft on 30 April 2021. The latest Eurostat template had been used for it, but some sections had not yet been updated. On 13 May 2021, some of the missing parts were provided to Eurostat along with the package of documents requested to be provided before the mission.

### *Discussion*

During the discussion, Eurostat mentioned that the sections related to the CFMS accounting system and EU Financial Instruments had not been updated at all for the version provided in April 2021, nor any of the several annexes. Eurostat had observed also various smaller issues in sections that had been updated. It was agreed that Eurostat will first send some comments based on these observations, and the Maltese statistical authorities will then submit the final version.

### *Findings and conclusions*

**Action point 5.** The Maltese statistical authorities will revise the parts of the EDP Inventory that were discussed in the meeting and for which the need for an update was identified<sup>9</sup>. The update will be focusing primarily, but not exclusively, on the chapters covering the new CFMS accounting system, EU financial instruments, the recording of interest and the annexes. Further consistency between the information provided in different inventory sections will be ensured.

**Deadline: end of August 2021.**<sup>10</sup>

## **2. FOLLOW-UP OF THE PREVIOUS EDP DIALOGUE VISIT OF 31 MAY–1 JUNE 2018**

Out of 27 action points from the previous dialogue visit in 2018, four action points (2, 5, 11 and 26) were pending at the time of the visit.

Action point 2<sup>11</sup>, which related to the accrual accounting project, had not been closed yet, as the project is still ongoing. The action point was closed in the context of the discussion about the project under Section 1.2, but a new slightly modified action point 3 (see above) was set to replace it.

Action point 5<sup>12</sup> related to the update of the EDP Inventory and was pending, since some of the sections of the draft inventory provided by the Maltese statistical authorities prior to the visit in need of an update had not yet been revised. It was discussed and closed in the context of the discussion about the EDP Inventory under Section 1.2, but a new action point 5 was established to replace it.

Action point 11<sup>13</sup>, which related to a specific recording practice of the EU grants, was discussed in Section 4.2.3 about EU flows. The action point was not closed since Eurostat did not agree with the Maltese statistical authorities' view on the overall insignificance of the overestimation of revenue and expenditure caused by this recording practice.

---

<sup>8</sup> Published on Eurostat's website: <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>.

<sup>9</sup> On 6 July 2021, Eurostat gave comments on the draft EDP Inventory provided by the Maltese statistical authorities prior to the dialogue visit, identifying issues that needed to be addressed.

<sup>10</sup> On 31 August 2021, the Maltese statistical authorities submitted the final version of the EDP Inventory. The action point was closed on 24 January 2022. The Inventory has been published on the website of Eurostat: <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>.

<sup>11</sup> Action point 2 (2018): Eurostat took note of the actual work and future plans to introduce IPSAS in public accounting. The NSO will inform Eurostat on any future changes that will be introduced in the source data used for the Maltese GFS compilation, as well as on any changes that will be introduced in the EDP tables. Deadline: continuous.

<sup>12</sup> Action point 5 (2018): The Maltese statistical authorities will revise the EDP inventory in the sections which need to be updated. Deadline: before the October 2019 notification.

<sup>13</sup> Action point 11 (2018): As already emerged from the 2016 EDP dialogue visit, Eurostat took note that the present system of recording of the EU grants results in an overestimation of the central government revenue and expenditure. The Maltese statistical authorities are invited to remove such overestimation in their data starting from the current EU programming period (2014-2020) onwards. Deadline: as soon as possible. The Maltese statistical authorities will also make the respective corrections in the back series. Deadline: by December 2018.

Action point 26<sup>14</sup>, related to the government's acquisition of a 49.01% stake in the Lombard Bank Malta plc in 2018, was discussed briefly. During the previous discussions, Eurostat had already confirmed that, given the fact that the Maltese government is not exercising any power in the bank, it could continue to be considered as a private financial institution classified in S.12. However, the Maltese statistical authorities were required to ask from the Lombard Bank Malta plc whether the government had de facto exercised some powers, e.g. in the general assembly meetings. During the dialogue visit, the Maltese statistical authorities confirmed that the bank is fully acting as a normal private bank, is not involved in any government operation, and the fact that there are as yet no plans to sell any of the shares is only due to keeping the shares as an investment and waiting for the right moment to sell them. The action point was closed, but it was concluded that, given the government has a 49.01% ownership, there is still a need to keep a close eye on the bank.

In addition, action point 15 was widely discussed in Section 4.3.4.1 about Air Malta, although it had been closed already in 2018.

### **3. FOLLOW-UP OF THE APRIL 2021 EDP NOTIFICATION – ANALYSIS OF EDP TABLES AND THE RELATED QUESTIONNAIRES**

#### *Introduction*

In this section, Eurostat and the Maltese statistical authorities briefly discussed the outcome of the April 2021 notification.

#### *Discussion*

The Maltese statistical authorities submitted the set of EDP tables, the historical tables, the explanatory note and the EDP questionnaire for the April 2021 EDP notification fully completed and on time, as usual. In addition, the Maltese authorities have been sending to Eurostat, with each EDP notification, a comprehensive set of supporting documents containing detailed EDP tables (separately for the budgetary central government and for the EBUs) and breakdowns of several lines of the EDP tables. This time the NSO also submitted the *Supplementary table for reporting measures taken in the context of the COVID-19 pandemic*, although filled in only for large operations. Two requests for clarification were sent and replied to. The forecasts have often been delivered only slightly after the official EDP deadline, and this happened also in April regarding the planned data for 2021.

#### *Findings and conclusions*

It was concluded that all the closing remarks from the April 2021 EDP notification were either addressed by sending the list of requested documents prior to the visit, or they are discussed in the context of other agenda items during the visit.

### **4. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS**

#### **4.1. Delimitation of general government and application of market/non-market criteria in national accounts**

#### *Introduction*

According to the EDP Inventory, the general government sector delimitation exercise is conducted twice a year, prior to each EDP notification. As the majority of the EBUs have a financial year ending December 31<sup>st</sup>, the annual financial statements for year  $t-1$  may not yet be ready in time for the first EDP notification. In this case, the data are estimated for GDP and EDP purposes mainly based on data extracted from the NSO's Financial Data Reporting System (FDRS). A compact version of the formula

---

<sup>14</sup> Action point 26 (2018). The Maltese statistical authorities will analyse the acquisition of a 49.01% stake in the Lombard Bank Malta plc by the National Development and Social Fund planned for this year, in order to determine whether this entails control in the ESA 2010 sense over the bank. The prices of the transactions to be negotiated will also have to be checked against market prices in order to establish whether and to what extent they are beneficial to the bank. Deadline: before the October 2018 notification.

used for the market/non-market test in the process of deciding the sector classification of public entities was provided by the NSO prior to this visit.

Before the visit, the Maltese statistical authorities also provided an update of Annex 1 of the EDP Inventory, including the number of general government units and changes since the 2018 EDP dialogue visit. Furthermore, they provided separately the lists of all budgetary central government units, extra-budgetary units and local government units by NACE<sup>15</sup>.

In July 2020, the NSO had published for the first time a statistical release on public corporations for the year 2018.<sup>16</sup> However, the NSO struggled to provide figures for 2019 in the *Questionnaire on government-controlled units classified outside general government* submitted in December 2020, thus an update of the questionnaire needed to be provided before this visit. There are no public corporations in the questionnaire included in the MFI list<sup>17</sup> and there are no units classified as ‘NACE O’ Public administration and defence; compulsory social security.

### *Discussion*

Regarding extra-budgetary units (EBUs), Eurostat suggested that the list of all EBUs of the central government, provided by the NSO prior to the visit, could be further structured so that it would be easier to spot public corporations reclassified in S.13 among other types of EBUs. Furthermore, Eurostat asked the Maltese statistical authorities to provide unit-by-unit data and information on all reclassified public corporations in the EDP questionnaire table 3. The current way of presenting EBUs in that table has been by COFOG<sup>18</sup> function, also identifying separately the EBUs with the biggest net lending / net borrowing (B.9) impact inside each function. Most reclassified units have not been shown explicitly among these separately reported units, but all revisions to B.9 have been reported unit by unit in the explanatory note provided for each EDP notification. It was agreed that it would be enough for the NSO to do a one-off exercise with the EDP questionnaire table 3. The NSO also promised to check and fix the inconsistencies observed by Eurostat regarding the number of EBUs mentioned across the April 2021 version of the EDP Inventory.

Next, the participants examined the list of new general government units and the units removed since the previous EDP dialogue visit in 2018. Twelve units had been reclassified in S.13. Out of the ten units removed, most had ceased to exist as institutional units due to mergers.

According to the April 2021 draft of the EDP Inventory, the Maltese have a new database for all the units classified inside S.13 by qualitative criteria. Eurostat asked about examples of units included in the database. The NSO mentioned that the Malta Information Technology Authority is a unit selling only to the government, while the Libyan Arab Maltese Holdings Company Limited, and the MSE (Holdings) Ltd are public holding companies. Selmun Palace Hotel, a public company in liquidation, was also reclassified inside S.13, as a result of EDP action point 7 of the 2018 EDP dialogue visit. All these companies mentioned by the NSO are included in the list of EBUs as well.

Concerning the formula used for the market/non-market test provided by the NSO, Eurostat expressed a wish to receive the bridge table between the profit-and-loss account and the market/non-market test formula, as well as some concrete calculation examples. Special attention was to be paid on government subsidies.

Regarding the *Questionnaire on government controlled units classified outside general government*, some data was still observed to be missing for 2019 and for earlier years, even after the May 2021 update. The Maltese statistical authorities confirmed that the financial statements are usually available after six months, but there are sometimes delays. They explained that the units on the list without data for years earlier than 2019 are units whose status is still active, but there are no audited accounts

---

<sup>15</sup> Statistical Classification of Economic Activities in the European Community, commonly referred to as NACE (i.e. industrial classification). Available online: <https://ec.europa.eu/eurostat/web/nace-rev2>.

<sup>16</sup> Available online: [https://nso.gov.mt/en/News\\_Releases/View\\_by\\_Unit/Unit\\_A2/Public\\_Finance/Pages/Public-Corporations.aspx](https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A2/Public_Finance/Pages/Public-Corporations.aspx).

<sup>17</sup> List of Monetary financial institutions (MFIs) by the European Central Bank. Available online: [https://www.ecb.europa.eu/stats/financial\\_corporations/list\\_of\\_financial\\_institutions/html/index.en.html#mfi](https://www.ecb.europa.eu/stats/financial_corporations/list_of_financial_institutions/html/index.en.html#mfi).

<sup>18</sup> Classification of the functions of government (COFOG).

available and no news that the companies would be active. Usually, when an entity is dormant or its status is not active, the NSO removes it from the questionnaire. Eurostat reminded that until an institutional unit is liquidated, it may have assets and liabilities, and it must have a sector classification, either inside or outside S.13. If it does not have market output, it will fail the market/non-market test and should be included in S.13. The NSO promised to check the dormant units that had been removed from the list, although not reclassified inside S.13 either. In addition to various problems with missing data, the participants also discussed the identified cases of units with very high market/non-market test results, as well as the units with no employees. Inconsistencies with the GDP data used for 2019 in the questionnaire were also mentioned.

Transport Malta, a S.11-classified public corporation, was also discussed, as Eurostat had noticed that it might have some regulatory powers. The Maltese statistical authorities confirmed that this is indeed the case. Some fees or taxes collected by it on behalf of the government are transferred to the government, and some are kept by Transport Malta, as they have been seen as fees proportional to the service provided. Eurostat asked the Maltese to conduct a further analysis on the unit.

### *Findings and conclusions*

**Action point 6.** The Maltese statistical authorities will provide Eurostat with Annex I of the EDP Inventory *List of general government units – Extra budgetary units* showing separately public corporations reclassified inside S.13 and the other extra-budgetary units. As a one-off exercise, the Maltese statistical authorities will provide to Eurostat the *Questionnaire related to the EDP notification tables*, table 3, showing separately the B.9 of individual reclassified public corporations and of the extra-budgetary units / groups of EBUs.

**Deadline: end of July 2021 for Annex I and the October 2021 notification for the EDP questionnaire table 3.**<sup>19</sup>

**Action point 7.** The Maltese statistical authorities will provide their analysis on the sector classification of Transport Malta. Particular attention will be given to the analysis of the entity's regulatory powers.

**Deadline: by mid-September 2021.**<sup>20</sup>

**Action point 8.** The Maltese statistical authorities will provide detailed market/non-market test 2017–2020 results for the Water Services Corporation, the Malta Freeport Corporation Ltd, the Public Broadcasting Services Ltd and the Malta Business Registry. The information provided to Eurostat will include the financial statements, data on subsidies received from government (if relevant) as well as the 50% test formula.

**Deadline: by mid-September 2021.**<sup>21</sup>

**Action point 9.** In the next submission of the *Questionnaire on government controlled units classified outside general government*, the Maltese statistical authorities will correct the GDP figures. The Maltese statistical authorities will investigate the possibility to improve the timeliness of data (at least for large) for public companies in order to carry out the market/non-market test related to year  $t-1$  already for the October notification of year  $t$ .

**Deadline: a note on progress by end of December 2021.**<sup>22</sup>

---

<sup>19</sup> On 30 July 2021, the Maltese statistical authorities provided their contribution. The action point was closed during the October 2021 EDP notification round. Eurostat concluded that most figures for reclassified public corporations are small, and the NSO could continue with their practice with the EDP questionnaire table 3 of providing information separately only for the units with the biggest B.9 if they so wish.

<sup>20</sup> On 19 July 2021, the Maltese statistical authorities provided their analysis, which concluded that Transport Malta should be reclassified inside S.13 due to its regulatory role for the transport sector. The reclassification was successfully implemented for the October 2021 EDP notification, starting from 2010. However, the Ministry for Transport announced on 15 October 2021 that Transport Malta will demerge back into three independent authorities focusing on aviation, maritime and land transportation. Considering this new information, Eurostat decided to keep the action point open until a further note on the future of Transport Malta has been received.

<sup>21</sup> On 13 September 2021, the Maltese statistical authorities provided their analysis and the last financial statement for each entity.

<sup>22</sup> On 22 December 2021, the Maltese statistical authorities submitted the questionnaire with corrected GDP figures.

**Action point 10.** The Maltese statistical authorities shall continuously monitor the public corporations outside S.13 reported in the *Questionnaire on government controlled units classified outside general government*. Special attention should be given to: entities having market/non-market test results close to the 50% threshold; entities having market/non-market test results above 200%, as well as to the cases where a sharp fall/increase in the market/non-market test result was observed. Moreover, entities having zero/one employee should be investigated with the aim to determine whether these are institutional units, and to identify holding companies and head offices. The Maltese statistical authorities will furthermore revise the sector classification of all the dormant, inactive public corporations, or public corporations in liquidation, currently classified outside general government.

**Deadline: progress report by end of December 2021 and thereafter continuously.**<sup>23</sup>

## 4.2. Implementation of the accrual principle

### 4.2.1. Taxes and social contributions

#### *Introduction*

As stated in the EDP Inventory, the main method for recording taxes is time-adjusted cash. It is applied for value-added tax (VAT), income taxes and social contributions. In 2019, these three tax categories covered 85% of the government sector total tax revenues. The time-adjustment lag is of  $t+1$  month for VAT and  $t+2$  months for income taxes and social contributions and there have been no recent changes in the method. The reimbursements, refunds, final settlement, interest on late payments, fines and penalties for non-payments, and tax amnesties are captured with the time-adjusted method for all these three tax categories: VAT, income tax and social contributions. The other taxes, essentially the excise duties, and transport and property taxes, are recorded on a cash basis and adjusted for accruals using the Treasury's accruals template, which are based on the realisable debtors' balances as recorded on the books of the tax authorities.

According to the latest *Questionnaire on taxes and social contributions*, dated December 2020, Malta has 22 tax credit schemes for income taxes. All these schemes are recorded as non-payable in the Maltese government accounts. As a part of fact finding exercise, an ad hoc questionnaire was sent to all Member States in February 2021 to gather more information on the recording practices of tax credits. According to the answers, the main criteria used by the Maltese statistical authorities when making the decision to record a scheme as non-payable has been that no amount in excess of tax liability is paid to the beneficiary. None of the tax credit schemes are transferrable to a third party. However, 11 schemes are perpetually reportable, meaning that the tax credit can be carried forward and claimed until fully absorbed, no matter how many years after the activity giving rise to the tax credit has taken place. In addition, one scheme is reportable for 11 years, and for another one, each beneficiary has a different expiry date.

During the previous EDP mission in 2018, Malta was given the action point 8 regarding the recording practices of Mini One Stop Shop (MOSS)<sup>24</sup> used for collecting VAT of specific business sectors on behalf of other countries. Malta's VAT revenues had been expected to diminish during the transition period due to channelling a growing part of VAT to other countries, however, the overall strong growth of VAT revenues caused by economic growth explained why there was no notable decline. Malta was found to comply with the MOSS rules. A more recent development regarding the MOSS is the introduction of the 'VAT e-commerce package' on 1 July 2021, including the One Stop Shop (OSS), which extends the scope of MOSS.<sup>25</sup>

---

<sup>23</sup> The progress report was provided by the Maltese statistical authorities on 17 December 2021.

<sup>24</sup> Since January 2015, the broadcasting, telecommunications and electronically supplied services (TBE) must have been taxed in the country where the customer belongs. VAT has been collected via Mini One Stop Shop (MOSS) in the Member State on behalf of other countries. During a transition period from 2015 to 2018, countries collecting VAT through the MOSS were allowed to keep a diminishing part of the collected amounts.

<sup>25</sup> One Stop Shop (OSS) extends the scope of the MOSS to business-to-consumer supplies of services other than TBE services, to intra-EU distance sales of goods, to certain domestic supplies of goods facilitated by electronic interfaces, and to distance sales of goods imported from third territories and third countries in consignments of an intrinsic value of maximum EUR

Two tax deferral schemes were introduced by the government due to the COVID-19 pandemic. These were discussed further under Section 4.3.1.2 about tax deferral schemes.

### *Discussion*

The Maltese statistical authorities confirmed that there have been no changes in tax recording – the time-adjusted cash method is applied to VAT and income taxes. Malta applies the method at the aggregate level of all economic sectors. The NSO assessed that there may have been changes for particular sectors e.g. in the tax calendar or different tax investment aids, but so small that there should be no need to move away from the existing time lags. Nevertheless, Eurostat asked the NSO to check whether these sectoral changes have an impact on average time lag and to provide data on cash and time-adjusted cash for ten years.

Regarding the adjustment for taxes from International Trading Companies (ITCs), the NSO confirmed that there have been no changes to the recording practice, discussed during the previous dialogue visit. A  $t+2$  months' time lag is applied as for other income taxes. Eurostat invited the NSO to fill in the relevant information on ITCs in the tax questionnaire.

Regarding fines and penalties for non-payments, and interest on late payments, Eurostat enquired whether the Maltese can separate these or how they get to know the associated cash flows. The NSO clarified that it is able to identify penalties and interest on late payments, as there is a specific item for them in an administrative source. Tax amnesties are rare, but their flows could be distinguished from other tax payments as they would be recorded in a separate account. Also tax reimbursements can be identified from tax payments.

The discussion on tax credits confirmed the information shared with Eurostat before the EDP dialogue visit. The Maltese statistical authorities emphasised that their decision to record all tax credits as non-payable was based on the fact that tax credits can only be used against tax liabilities and nothing is ever paid out. Eurostat explained that the difference between payable and non-payable is not so straightforward, and that one aspect to consider is whether the amounts can be lost or not. If the period when the credit can be carried forward and claimed is very long or even infinite, it is extremely likely that in practice nothing will be lost. In the Maltese case, the only circumstance where an indefinite credit can be lost is when the taxpayer becomes no longer existent, for instance, if the taxpayer dies or leaves the country, or the company is dissolved. Eurostat mentioned that the existence of such exceptional situations might not be enough to classify a tax credit as non-payable. The NSO did not have data on the amounts of tax credits used each year readily available, but agreed to ask for it from the Commissioner for Revenue if needed. Eurostat explained that the delineation of tax credits payable vs. non-payable is gaining importance and concerns several Member States, therefore, further analysis will be conducted and further discussions will take place at EU level among national accountants.

Concerning the recording of VAT on behalf of other countries, the Maltese statistical authorities confirmed that they are not recording VAT in the Maltese accounts in excess for the sectors, for which the MOSS is already applied. They also confirmed that Malta should be ready to introduce OSS on time, and no changes to EDP reporting were expected.

### *Findings and conclusions*

**Action point 11.** The Maltese statistical authorities will send annual cash and accrual data for VAT, corporate income tax and personal income tax for the last ten years.

**Deadline: by the October 2021 notification.**<sup>26</sup>

**Action point 12.** Eurostat noted that the current classification of existing tax credits in Malta as non-payable is questionable due the fact that many of the existing schemes are de facto long term or even

---

150. More information about the VAT e-commerce package is available online:  
[https://ec.europa.eu/taxation\\_customs/modernising-vat-cross-border-e-commerce\\_en](https://ec.europa.eu/taxation_customs/modernising-vat-cross-border-e-commerce_en).

<sup>26</sup> On 30 September 2021, the Maltese statistical authorities sent their contribution. Eurostat concluded in the closing remarks of the October 2021 EDP notification that the annual differences are small for most years in proportion to the total amounts for all three tax categories, and there seems to be no need for reconsidering the time lag on an aggregate level, but left the action point open in case it would later on have some further questions on the data.

perpetually reportable. The Maltese statistical authorities will provide to Eurostat an overview of the existing tax credits as well as their quantified information. In particular, data will be provided on yearly amounts of tax credits claimed and the amounts of tax credits that can still be carried forward (by scheme).

***Deadline: by December 2021.***<sup>27</sup>

#### 4.2.2. Interest

##### *Introduction*

The details on the cash and accruals of interest of the Treasury Bills, Malta Government Stock (MGS) bonds and loans (domestic and foreign) are available in the EDP Inventory. Data are available, instrument by instrument, to the NSO. In the working balance, the accounting basis used for the recording of interest expenditure and revenue is on a cash basis. The adjustment line for interest in the EDP table 2A refers to interest expenditure of the budgetary central government. The accrued interest revenue is recorded under 'other accounts receivable' in the EDP T2A. All the cash proceeds from the premiums on the issuances of MGSs are recorded within the working balance in the EDP T2A. Under the category 'difference between interest paid and accrued' there is the difference between the premium proceeds received in year  $t$  and the premium apportionment accrued for year  $t$ . Both the premium and the discount are spread over the lifetime of the securities. The flows for the discount on government securities do not enter the working balance.

Before the visit, the NSO submitted an updated *Questionnaire on interest recording*. The data reported in the questionnaire had been discussed during the 2018 EDP dialogue visit (action point 10 of that visit) and afterwards. Several versions of the table were provided to Eurostat following bilateral discussions thereafter. The most recent table on interest sent before this mission followed the format submitted in March 2020, which had a different basic structure than Eurostat's original template, using multiple spreadsheets. For some instruments, flows had been used instead of stocks due to having difficulties with calculating the stocks.

##### *Discussion*

Regarding the ad hoc table on the recording of interest, the Maltese statistical authorities confirmed that the debt figures reported in the table are smaller than in the EDP tables due to including only the units of the budgetary central government. Part of the debt is consolidated with the extra-budgetary units' (EBUs') holdings of MGSs, but EBUs and local government units are not included in the totals related to government debt of the interest table.

Eurostat then demonstrated how Annex 8 *Difference between interest paid (+) and accrued (-)* and Annex 8a *Interest Payable on Government Stocks*, submitted by the Maltese statistical authorities voluntarily for each notification as a part of their package of Annexes 1–10, can be utilised for calculating the data for MGSs in the interest table. First, it was shown that the stock of coupon can be obtained from Annex 8a. Second, Eurostat gave an example for calculating the stock of discount/premium at issuance based on figures in Annex 8. Third, it was shown that the coupon sold could be calculated using the data included in Annex 8a.

It was agreed that Eurostat will give further step-by-step instructions bilaterally.

##### *Findings and conclusions*

**Action point 13.** Eurostat and the Maltese statistical authorities will work bilaterally on the compilation of the *Questionnaire on interest recording*, with the aim of having a finalised template by the April 2022 EDP notification.

***Deadline: bilateral discussions during July 2021 and implementation by the April 2022 notification.***<sup>28</sup>

---

<sup>27</sup> On 3 December 2021, an extension was granted until mid-February 2022.

### 4.2.3. *EU flows*

#### *Introduction*

The NSO provided a table prior to the visit, showing the recording of EU flows for 2017–2020.

The NSO still records some<sup>29</sup> EU flows, where the final beneficiaries are non-government units, as part of government revenue and expenditure (thus inflating expenditure and revenue but without impacting government deficit) although such transactions should only be reflected in the financial accounts. This issue was the object of an action point following the 2016 dialogue visit, and remained open also after the 2018 visit (action point 11). There had been no progress to date.

This issue is also linked to the implementation of the 2019 MGDD rules regarding the accounting treatment of so-called EU Financial Instruments (EU FIs).<sup>30</sup> During the April and October 2020 notifications Eurostat had encouraged the Maltese statistical authorities to start solving the problem with the EU funds in relation to the SME Initiative that are being administered by the European Investment Fund (EIF) and currently shown as government revenue and expenditure.

Before this visit, the NSO provided a simple calculation for the overestimation of revenue and expenditure in 2017–2020. According to that, overestimation had been at the level of 0.1–0.3% of GDP in those years.

Regarding EU FIs, the April 2021 update of the EDP Inventory had not been updated, but the NSO separately provided an overview of current EU FIs before the visit and their recording<sup>31</sup>.

#### *Discussion*

Regarding the overestimation of revenue and expenditure in recording EU grants, there was uncertainty about the funds that are included in the revenue/expenditure in the working balance (WB). The Maltese statistical authorities clarified that the Agriculture and Education funds are the only ones excluded from the WB. Grants from the European Maritime and Fisheries Fund (EMFF) are recorded in the WB, and the final recipients are mostly in the private sector, thus the fund is contributing to the problem.

During the previous EDP dialogue visit, the non-financial accounts' new IT system was believed to offer solutions to the expenditure/revenue overestimation issue. The NSO confirmed that the issues are not linked. The problems are the lack of resources, the lack of data on the final recipients of the grants outside government split by project, and the fear that by fixing this issue, problems would be created elsewhere in the national accounts.

Eurostat pointed out that the adjustments have been relatively large in some years. Although B.9 is presumably not impacted by the overestimation of revenue and expenditure, the amounts involved have been up to 0.3% of GDP and might impact other GFS ratios. It was concluded that the action point 11 from the 2018 dialogue visit will remain until further notice. The Maltese statistical authorities said they cannot offer a timetable for the possible resolution of the problem, but they could start dealing with the issue starting with certain EU-funded projects.

Eurostat had found inconsistencies when comparing the April 2021 EDP questionnaire table 6 with the supplementary table on the recording of EU flows in 2017–2020 provided before the visit. The NSO confirmed that there was an error in the supplementary table. The F.2 inflows and F.8 had changed places for the years 2018–2020. When the two lines are switched back regarding those years, the figures match.

---

<sup>28</sup> On 28 July 2021, Eurostat had a bilateral online meeting with the NSO and the Treasury via MS Teams. In its reply to the pre-notification email of the October 2021 EDP notification, the NSO said that the meeting was not conclusive and some further clarifications are required. It was agreed that bilateral discussions can be continued after the notification.

<sup>29</sup> Expenditure pertaining to the agriculture and education funds are not concerned.

<sup>30</sup> Section 2.6.3 of the MGDD.

<sup>31</sup> In national accounts the disbursements to the fund of funds / holding fund manager are being recorded as expenditure in capital transfers payable (D.9pay).



In addition to EU flows, EU FIs were also briefly discussed. Section 6.2.3 on EU FIs had not been updated for the draft EDP Inventory of April 2021, but the NSO provided a table on existing EU FIs before the visit. One of them was the *Jeremie* initiative, and the other three concerned financial instruments implemented in the context of the EU Regulation No 1303/2013<sup>32</sup>. Regarding *Jeremie*, the Maltese statistical authorities explained that EUR 10 million of residual money should be coming from the EIF this year, as the programme has ended. They were not sure whether the amount is earmarked to be used for other EU-financed projects or whether government could use it at its discretion. Originally the money had been recorded as expenditure, which was neutralised. Eurostat concluded that more information is needed before giving advice on the correct recording.

### *Findings and conclusions*

**Action point 14.** The Maltese statistical authorities will further investigate the nature of the EU Financial Instruments' residual amounts pertaining to the 2007–2013 programming period *Jeremie* programme. The Maltese statistical authorities will verify whether the money will have to be reused for EU financed projects or whether government has a right to appropriate these funds and use them at its discretion.

**Deadline: by mid-September 2021.**<sup>33</sup>

## **4.3. Recording of specific government transactions**

### 4.3.1. *Measures undertaken in the context of COVID-19*

#### *Introduction*

Malta has implemented various economic measures designed to address the adverse economic effects of the COVID-19 pandemic. During the October 2020 EDP notification, the NSO provided for the first time an ad hoc list of measures announced by government. An updated version of the list, and the first draft of the *Supplementary table for reporting measures taken in the context of the COVID-19 pandemic* (also known as Annex 8, consisting of sub-tables 8.1 and 8.2) were extensively discussed during an informal bilateral videoconference on 15 January 2021. By then, Annex 8 had been filled in only regarding the so-called large operations, i.e. four (groups of) measures expected to surpass the cumulative threshold of 0.2% of quarterly GDP: five business assistance measures, a tax deferral scheme, four COVID-19 related social security benefit measures, and a voucher scheme. These covered altogether 11 measures out of the 36 mentioned in the ad hoc list of announced measures.

For the April 2021 EDP notification, the figures in Annex 8 were updated by the NSO, but the coverage was noted to be still not in line with Eurostat's reporting guidance. In the sub-table 8.1 annual, the 2020 figures for SURE loan (EUR 120 million) and guarantees related to it (EUR 23 million), and for the guarantees of the COVID-19 guarantee scheme (EUR 128.8 million) had been added on top of the four major measures. The SURE loan and its guarantees were not included in the list of COVID-19 measures at that time.<sup>34</sup>

A new update of the ad hoc list of COVID-19 measures was provided prior to this EDP dialogue visit, now consisting of 46 measures.<sup>35</sup>

#### *Discussion*

---

<sup>32</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

<sup>33</sup> On 1 September 2021, the Maltese statistical authorities provided their analysis on the *Jeremie* residual amounts, concluding that these will be used only to existing and new EU FIs targeting support of SMEs to access financing, and that the exact amounts are not yet known. In the context of the October 2021 EDP notification, the NSO confirmed that there will be no impact on B.9. The action point was left open until the amounts on funds have been received.

<sup>34</sup> SURE instruments were added in the list of COVID-19 measures during the October 2021 EDP notification.

<sup>35</sup> The list of 46 measures provided prior to the visit is attached as Annex 3 to this document. By the October 2021 EDP notification, four more measures were added, making the total 50.

Eurostat took note of the ten new measures included in the most recent list of COVID-19 measures, most of them new measures announced in 2021. In addition, several measures had been extended until 2021, such as the tax deferral and the voucher scheme. The coverage of Annex 8 was found lacking. Recently announced measures and small measures were missing, and lost revenues had not been added in the table. Moreover, the figures given for the first tax deferral scheme did not match with the ones entered in the most recent list of COVID-19 measures, and there were no estimates for the second tax deferral scheme. Eurostat concluded that all these issues should be fixed for the October 2021 notification, and the ad hoc list of COVID-19 measures should be updated as well to help with the assessment of Annex 8.

### *Findings and conclusions*

**Action point 15.** The Maltese statistical authorities will provide Eurostat with an update of the complete list of COVID-19 measures (currently 46 measures), including updated ESA codes and amounts. The *Supplementary table for reporting measures taken in the context of the COVID-19 pandemic* will be updated:

- table 8.1 will include all government operations undertaken in the context of the COVID-19 pandemic,
- tables will be filled in for all measures and consistency with the list of COVID-19 measures will be ensued,
- the currently missing foregone revenue (negative entries) will be reported on the appropriate lines of part 1.A Revenue,
- the estimated uncollectable amounts in relation to tax deferrals will be shown explicitly.

***Deadline: by the October 2021 notification.***<sup>36</sup>

#### 4.3.1.1. Business assistance

##### *Introduction*

The supplementary Annex 8 submitted for the April 2021 EDP notification covered five business assistance measures, managed by the Malta Enterprise Corporation.<sup>37</sup> These same five measures had been discussed also during the bilateral videoconference on 15 January 2021. Eurostat then asked the NSO to study in more detail the utility bills measure<sup>38</sup> in order to find out whether the amounts should be recorded for 2020 or 2021. The NSO clarified that the utility bill subsidy involved the refund of 50% of the electricity bills of certain businesses. Malta Enterprise had adopted a thorough checking procedure of the individual electricity bills of each applicant. The NSO decided that they will be recording the subsidy on a cash basis for both the utility and rent bills.

The most recent ad hoc list of COVID-19 measures provided by the Maltese statistical authorities before the mission included 17 business assistance measures managed by Malta Enterprise. New extensions and/or modifications had been announced for four of the business assistance schemes.<sup>39</sup> In addition, budget amounts had been updated for five measures and deleted for six measures.<sup>40</sup> Five new measures had been added, all of them still missing either an ESA code or budget impacts.<sup>41</sup> One of the new ones (measure 12) was actually not new but had been missing from the previous version of the list.

##### *Discussion*

---

<sup>36</sup> During the October 2021 EDP notification, the NSO provided several new versions of the supplementary Annex 8 and the list of COVID-19 measures until the figures in Annex 8.1 annual and in the list of COVID-19 measures were found identical. Various other issues such as the coverage of Annex 8.1 quarterly and Annex 8.2, the missing figures and ESA codes for some measures, and the missing uncollectable taxes were discussed and several issues were left to be implemented for the April 2022 notification.

<sup>37</sup> Measures 1–5 concerned wage supplement for those engaged in the less critically hit sectors, quarantine leave supplement, facilitating teleworking activities, rent subsidy, and utility bill subsidy.

<sup>38</sup> Certain businesses were entitled to receive a refund of 50% of their electricity bills for July–September 2020, capped at EUR 1,500. The measure was extended on 1 May 2021 to cover June–August 2021.

<sup>39</sup> Measures 1, 4–5 and 14.

<sup>40</sup> Budget amounts for measures 1–5 had been updated by the NSO, and estimates for measures 6–11 had been deleted.

<sup>41</sup> Measures 12–13 and 15–17.

Eurostat recalled that only the first five measures reported in the ad hoc list were covered by Annex 8 in the April notification. Regarding these five, the Maltese statistical authorities explained that the wage supplement scheme had been first extended until December 2020, and then a new similar scheme had been announced for 2021. The NSO did not expect any accrual issues or other recording challenges with it. Regarding rent and utility bill subsidies<sup>42</sup>, recorded on a cash basis, the NSO confirmed that the cash payments have been very close to the moment of acceptance of the bills and that the amounts are small.

When asking about the missing budget impacts for seven other measures<sup>43</sup>, also missing from Annex 8, the Maltese statistical authorities reminded that those are small measures referring to different sectors. For several measures, there had not been many applications and the amounts are expected to be small. The Maltese questioned whether those amounts should be entered in Annex 8 at all, especially when the NSO was not able to identify the measures from the data available. Eurostat encouraged the Maltese statistical authorities to have as full coverage as possible, also for small amounts. Regarding the source data, it is not the NSO but the government that should assess the costs and provide figures to the NSO.

As regards the missing ESA codes for six measures<sup>44</sup>, it was concluded that these measures were mostly new and were supposed to take place in 2021, so that the NSO would still have a bit of time to decide on the recording.

Regarding conversion of the normally non-payable MicroInvest tax credits<sup>45</sup> in cash (measure 6), Eurostat reminded that this has to be recorded as expenditure and reckoned that there could be an issue of time of recording. The NSO did not have any figures yet available for the measure, but Eurostat had found preliminary figures online and based on those, the amounts seemed small. Also, two new measures had been announced regarding tax credit schemes.<sup>46</sup> The Maltese statistical authorities recalled that both of these should be related to existing pre-COVID-19 tax credit schemes.

#### 4.3.1.2. Tax deferral schemes

##### *Introduction*

The updated list of COVID-19 measures provided by the Maltese statistical authorities before the dialogue visit included two tax deferral schemes managed by the Commissioner for Revenue, one for taxes due in March–August 2020 and another one for taxes due in August 2020–December 2021.<sup>47</sup>

Only the first scheme was already included in Annex 8 in the April 2021 EDP notification. During bilateral discussions, the Maltese statistical authorities clarified that the budget impact of that first tax deferral scheme was equal to the amount of various taxes that were estimated by the Commissioner for Revenue to accrue for March–August 2020 but to be collected until May 2021. The NSO explained that they were using a method where they imputed revenue that was impacted by the tax deferrals in the first two quarters of 2020, while in the third quarter they already started to reduce these amounts with a negative adjustment, in order to take into consideration that some companies did start repaying taxes before the deadline. In the April 2021 notification, the NSO recorded an amount equivalent to 1.1% of GDP as tax deferrals due for 2020 to be collected in 2021. The figures were based on the Commissioner for Revenue's updated estimates compiled in January 2021. The tax deferral estimate was allocated as follows: VAT 39%, income taxes 45%, and social security 16%. Eurostat concluded that the Maltese statistical authorities should revise the 2020 accrued figures when the final data will be available.

In the list of COVID-19 measures provided before the mission, the budget impact of the first scheme had been updated upwards to 1.7% of GDP. In addition, a new scheme had been added, as announced by the government in March 2021. It is basically an extension of the previous scheme until December 2021, except that 'employee taxes, maternity fund payments and social security contributions' are not included anymore.

---

<sup>42</sup> Measures 4–5.

<sup>43</sup> Measures 6–12.

<sup>44</sup> Measures 10 and 13–17.

<sup>45</sup> Malta Enterprise Act LN107/2010 - Tax Credit for Micro Enterprises TRA71 & RA15.

<sup>46</sup> Measures 16–17.

<sup>47</sup> Measures 18–19.

## *Discussion*

Eurostat asked why the first tax deferral scheme amounted to 1.1% of GDP in Annex 8 reported for the April 2021 notification versus 1.7% of GDP in the most recent list of COVID-19 measures. The Maltese statistical authorities clarified that 1.7% of GDP was equivalent to the total amount for which there were applications for tax deferral in 2020. However, some of the deferred taxes were paid already in the fourth quarter of 2020, and the amount that was left to be paid in 2021 was equivalent to 1.1% of GDP.

Eurostat further enquired whether this 1.1% of GDP is the gross amount from which the uncollectable amounts should be deducted, or the net amount, in which case Eurostat would like to know the coefficient used for assessing uncollectable taxes. The Maltese statistical authorities had assumed that nothing will remain uncollected, thus gross would equal net. Eurostat thought that this was unlikely and hoped that the Maltese statistical authorities would reassess their assumptions in the reporting of the first quarter of 2021 figures at the end of June. In the October 2021 EDP notification, the NSO should take into account the uncollectable taxes in Annex 8.

The list of COVID-19 measures provided in May 2021 introduced a new tax deferral scheme, which was described to run from August 2020 until December 2021. The Maltese statistical authorities clarified that, although the descriptions of the two schemes both mentioned August 2020, there is no overlap. The first scheme includes deferred taxes until August 2020, and the second scheme starting after the first one had ended, from September 2020.

The figures reported in Annex 8 for the April 2021 EDP notification were explained to be related only to the first scheme, thus only covering March to August in 2020. The Maltese statistical authorities explained that the second scheme was announced only in late March 2021, so in practice the companies and individuals had already paid their taxes for September to December 2020 by the time they learned that they could pay their taxes later. The NSO further justified its zero estimate for the uncollectable amounts for the second scheme in Annex 8 for 2020 by explaining that the cash for those months were at the level of pre-COVID-19 figures of 2019. Actually, the amounts for collected income taxes seemed high also for the first months of 2021. However, granular tax data was not yet available. Eurostat was rather sceptical about the fact that not even a small amount accrued for those last four months of 2020, but advised that if the estimate used for September to December 2020 would be zero, then also the estimate for the first quarter of 2021 should logically be zero.

It was concluded that, regarding 2020, granular data from the Commissioner for Revenue will soon be available and, based on that, the NSO will be able to make further accrual adjustments already before the next EDP reporting to Eurostat. Regarding the years 2021 and 2022, it was agreed that it is urgent to make estimations, as the settlement of the second scheme will start only in May 2022 and there will be no hard data available in a long time.

## *Findings and conclusions*

**Action point 16.** Regarding tax deferral schemes introduced by government due to COVID-19, the Maltese statistical authorities will correct the taxes accrued with the uncollectable amounts, and tax revenue (and F.8 rec) for the year 2020 will be revised accordingly, negatively affecting the B.9.

**Deadline: by the October 2021 notification.**<sup>48</sup>

**Action point 17.** The Maltese statistical authorities will provide Eurostat with a note on the second COVID-19 tax deferral scheme (announced in March 2021 for taxes due in August 2020–December 2021), detailing the annual and quarterly estimates of taxes and F.8 receivable (net of uncollectable amounts) for the years involved (2020–2022), and explaining the reasoning for the estimation of the quarterly figures.

**Deadline: by the October 2021 notification.**<sup>49</sup>

---

<sup>48</sup> The NSO sent a joint note about action points 16–17 on 30 September 2021. The NSO had received an estimate for uncollectable amounts (5%) from the Commissioner for Revenue, but nothing had been recorded yet for the October 2021 EDP notification. Implementation was allowed to be postponed until the April 2022 notification, as the impact for 2020 would have been only 0.06% of GDP based on the reported tax deferrals.

#### 4.3.1.3. Social measures

##### *Introduction*

The updated list of COVID-19 measures provided before the visit included five social measures, managed by the Ministry for the Family, Children's Rights and Social Security.<sup>50</sup>

During previous discussions, no issues of accrual recording had been found as regards the four social measures announced by then. The benefits had been recorded as D.62 for the second and third quarters of 2020 and the Maltese statistical authorities clarified that no additional amounts were foreseen to be paid.

##### *Discussion*

Eurostat observed that a new measure (benefit for parents on unpaid leave to take care of their children) had been announced in March 2021, with its estimated budget impact to be recorded as D.62. The other four measures were already included in Annex 8, but this new one should be added there.

#### 4.3.1.4. Voucher schemes

##### *Introduction*

The basic details of the COVID-19 voucher schemes<sup>51</sup>, managed by Malta Investment Management Company Limited (MIMCOL), were included in the updated list of COVID-19 measures provided by the Maltese statistical authorities before the mission. Malta has announced two rounds of government vouchers, the first one for 2020 and the second round for 2021.

Member States were asked in June 2020 to give details on their voucher schemes and to express their opinion on the proper recording. The Maltese statistical authorities preferred recording their scheme as D.39 other subsidies on production, as the aim of the measure was to support the industries and not to subsidise specific products. The NSO also commented that no liability should be recorded at issuance, on the basis that economic activity took place when the vouchers were effectively used by the households. The reimbursement in their system happens within 24 hours, so Malta favoured F.2 recording in the financial accounts with no need for recording any F.8.

The recording of COVID-19 voucher schemes was discussed also bilaterally. Eurostat noted that Malta is the only Member State implementing a D.39 recording. However, as no decision had been taken at EU level on this issue, there was still flexibility as regards the recording.

##### *Discussion*

Eurostat noted that the new voucher scheme for 2021 looks rather similar to its predecessor. Only the business branches benefiting from the vouchers had slightly changed. Regarding the 2020 scheme, the Maltese statistical authorities confirmed that the budget impact for the 2020 scheme, equivalent to 0.3% of GDP, is final. The scheme is included in the supplementary Annex 8.

Eurostat informed that the alternative recording options for voucher schemes in the non-financial accounts will be discussed during the EDPS WG of June 2021. The Maltese statistical authorities said that they would follow the discussion and, based on the outcome, decide on the appropriate recording.

##### *Findings and conclusions*

**Action point 18.** The Maltese statistical authorities will reconsider the recording of the COVID-19 voucher schemes, currently recorded as D.39 other subsidies on production, taking into consideration the outcome of the EDPS WG discussion on the appropriate recording.

---

<sup>49</sup> The NSO sent a joint note about action points 16–17 on 30 September 2021. Action point 17 was left open waiting for provision of the annual and quarterly estimates for the whole period and the reasoning behind the figures.

<sup>50</sup> Measures 20–24.

<sup>51</sup> Measure 25.

*Deadline: by the October 2021 notification.*<sup>52</sup>

#### 4.3.1.5. Real estate assistance measures

##### *Introduction*

In the list of COVID-19 measures provided before the mission, the Maltese statistical authorities reported three real estate assistance measures.<sup>53</sup> The responsible entity for these is the Commissioner for Revenue. The measures were aiming at widening the criterion for qualifying as first-time buyers to receive investment incentives, temporarily reducing stamp duties and reducing income tax on property sold.

The measures were discussed during the videoconference on 15 January 2021. The estimated budget impacts of the measures for 2021 were noticed to be disproportionately small, given that it had already been announced that measures would run at least until March 2021. The NSO also clarified that the first-time buyers' assistance means just extending the definition of a first-time buyer qualified to a lower stamp tax to some groups of people who would not have qualified before. The Maltese statistical authorities suspected that this measure could be of a permanent nature and not exactly linked to COVID-19.

##### *Discussion*

It was noted that two measures pertaining to taxes and stamp duty cuts had been extended until July 2021. The budget impacts had been updated so that the figures for 2021 now seemed more plausible than in January. However, all the measures were observed to be missing from the supplementary Annex 8. Eurostat advised that a stamp duty cut is a typical example of a measure that should be recorded as negative revenue in Annex 8. During the discussion, the NSO also confirmed that the extensions to the first-time buyers' assistance are COVID-19 related and not permanent.

#### 4.3.1.6. Malta Development Bank's measures

##### *Introduction*

In the most recent list of COVID-19 measures provided by the Maltese statistical authorities, there were four measures, for which the responsible entity is the Malta Development Bank.<sup>54</sup>

The COVID-19 Guarantee Scheme<sup>55</sup> raised several questions during the videoconference on 15 January 2021, and it was discussed extensively also during the April 2021 EDP notification. During this dialogue visit, it was further discussed under Section 4.3.2 on guarantees.

The COVID-19 temporary bond subscription facility also raised Eurostat's interest during the videoconference on 15 January 2021. The MDB had committed to purchase bonds that will not be subscribed by the market. Eurostat asked the Maltese statistical authorities to further investigate the case. It turned out that the bond subscription facility had been approved by DG COMP in summer 2020 and concerned only one company. The facility was finally not needed as the bond issue was oversubscribed.

##### *Discussion*

---

<sup>52</sup> On 1 September 2021, the Maltese statistical authorities informed that the reclassification of the 2020 COVID-19 voucher scheme from D.39 to D.319 has been implemented in the national accounts. The action point was closed during the October 2021 EDP notification after the NSO confirmed that they will follow the same recording also for the 2021 scheme.

<sup>53</sup> Measures 33–35.

<sup>54</sup> COVID-19 Guarantee Scheme (measure 42), COVID-19 Small Loans Guarantee Scheme (measure 43), COVID-19 Interest Rate Subsidy Scheme (measure 44), COVID-19 Temporary Bond Subscription Facility (measure 45).

<sup>55</sup> The MDB COVID-19 Guarantee Scheme (CGS) aimed at providing guarantees to commercial banks in order to enhance access to bank financing for the working capital requirements of businesses in Malta facing a sudden acute liquidity shortage as a result of the COVID-19 outbreak.

The COVID-19 Guarantee Scheme (CGS) was agreed to be further discussed under Section 4.3.2 on guarantees. The Maltese statistical authorities clarified that the COVID-19 Small Loans Guarantee Scheme (SLGS) is practically just a subset of the main CGS scheme, providing some advantageous conditions (reduced collateral) for small firms who are taking out loans under the CGS scheme. When the NSO receives data from the MDB, there is only one aggregated amount for these two schemes. Also the preliminary decision taken in April 2021 to record the MDB's guarantee scheme as standardised guarantees, concerned both measures. Both CGS and SLGS schemes feature as contingent liabilities in the supplementary Annex 8.

The COVID-19 Interest Rate Subsidy Scheme (CIRSS)<sup>56</sup> was also clarified by the Maltese to be heavily linked to the CGS measure, as only the beneficiaries of the main scheme can benefit from the interest rate subsidies provided by this sub-scheme. However, this is an expenditure scheme funded from the budget, with D.39 ESA code and budgeted impacts for both 2020 and 2021. Eurostat reminded that those figures should be entered also in Annex 8.

#### 4.3.1.7. Other measures

##### *Introduction*

There were 14 more measures, not covered under other agenda points, featuring in the updated list of COVID-19 measures provided by the Maltese statistical authorities before the mission.<sup>57</sup> These miscellaneous measures were not discussed during the videoconference of 15 January 2021.

##### *Discussion*

It was noted that all of these other measures were still missing from the EDP supplementary Annex 8, even the ones for which there was a budget impact reported and an ESA code<sup>58</sup>.

Eurostat also noted that the information provided in the ad hoc list was incomplete, notably in relation to the ESA coding<sup>59</sup> but also with regard to the description of the each component of some measures<sup>60</sup>. In other cases, the budgetary impact of the measure was not reported.<sup>61</sup>

Regarding the moratorium for business and personal loans (measure 46), the Maltese statistical authorities clarified that the responsible authority is the Central Bank of Malta, not the government, and there should be no impact on the government accounts.

#### 4.3.2. Guarantees

##### **One-off guarantees on borrowing**

##### *Introduction*

Generally, government guarantees are recorded off-balance sheet in the Maltese government accounts (as contingent liability), and neither government debt nor deficit is impacted at inception. However, when a guarantee is activated (called), the payment made by government on behalf of the debtor is recorded as government expenditure. In case of repeated guarantee calls, the whole outstanding amount of the guaranteed debt should be assumed by government. The latter leads to a one-off increase of government debt as well as of deficit.

---

<sup>56</sup> Through the COVID-19 Interest Rate Subsidy Scheme (CIRSS), all borrowers under the CGS benefit from a grant of up to 2.5 percentage points on the interest rate paid on the loan for the initial two years of the term. The scheme is administered by the MDB as an agent of the government.

<sup>57</sup> Measures 26–32, 36–41 and 46.

<sup>58</sup> Voluntary organizations' emergency fund (measure 26), refund of commercial licenses (measure 27), wedding expenses fund (measure 29), assistance to homes for the elderly (measure 36), and additional expenditure in the health and education sectors (measures 40 and 41) had both information entered in the list of COVID-19 measures.

<sup>59</sup> Measures 28 and 31.

<sup>60</sup> Most notably regarding measure 28.

<sup>61</sup> Measures 32 and 37–39.

The NSO receives information on government guarantees on borrowing from the Central Bank of Malta (CBM) on a quarterly basis. The CBM prepares a report on the position of the government guarantees including information on each individual guarantee and beneficiary.

Prior to the visit, Eurostat received from the NSO a list of outstanding government guarantees by beneficiary for the years 2017–2020.

The Maltese statistical authorities were not asked to provide details on guarantee fees before the mission. During the previous dialogue visit in 2018, it had been recalled that Vault Finance (VF), incorporated in 2012, is the holder of assets and debt previously held by Enemalta (state energy corporation) guaranteed by government. The guarantee fees of VF are not paid cash but accrued to be deducted from the value of the fixed assets that VF will return to the government. These amounts are recorded in the other accounts receivable and feature in Annex 9, voluntarily provided for each EDP notification. The stock position of the VF guarantee fee is recorded as accrued income.

### *Discussion*

Eurostat enquired about the ‘new legislation on government borrowing and government guarantees’ that had been anticipated at the time of the previous EDP dialogue visit in 2018. The NSO recalled that the Treasury had been expected to take over new tasks, but this did not eventually happen.

Regarding the organisational responsibilities, it was clarified by the Maltese statistical authorities that although the NSO receives the data on guarantees from the CBM, it is the Ministry of Finance and Employment (MoFE) that receives the requests for guarantees and handles the process. The CBM collects information on guarantees from the MoFE and from the banks and double-checks the figures and eventually shares the information with the NSO.

The participants then reviewed the table of outstanding government guarantees by beneficiary in 2017–2020. Eurostat commented that there were figures for the stock of government guarantees, but the rest of the table, such as guarantee calls, had been filled with ‘M’ not applicable. The NSO explained that there were no calls during that period, although calls could happen. Thus, the correct notation would have been zero.

Eurostat then paid attention to the fees collected for guarantees, presented in the EDP questionnaire table 9.1 (item 18). A part of these are fees accrued for Vault Finance (VF) which are not cashed. Eurostat asked whether the Maltese statistical authorities could recall which other guarantees are receiving fees at the moment. Eurostat also wondered under which item the VF fees that are being accrued, are shown in the EDP questionnaire table 4. The NSO figured that it must be aggregated under the line *Treasury accrued income*.

### *Findings and conclusions*

**Action point 19.** The Maltese statistical authorities will provide Eurostat with annual data on guarantee fees by company for the period 2017–2020, indicating the amounts of fees not yet cashed or settled.

**Deadline: by the October 2021 notification.**<sup>62</sup>

## **Standardised guarantees provided by the Housing Authority**

### *Introduction*

At the time of the previous EDP dialogue visit in 2018, there were no standardised guarantees recorded in Malta. The Maltese statistical authorities were given the task (action point 14) to check whether the guarantees on households' mortgages provided by the Housing Authority would fit in the definition of standardised guarantees. These guarantees are nearly all old guarantees. The amounts are small, generally related to the value of the property and are provided to a closed number of beneficiaries as this particular scheme is not open for new entrants. The Maltese statistical authorities concluded that these guarantees indeed meet the criteria of standardised guarantees as outlined in ESA 2010 paragraph 5.190.

---

<sup>62</sup> The NSO sent their contribution on 30 September 2021. Only Vault Finance had a large amount of guarantee fees not settled. The action point was closed during the October 2021 EDP notification.



They were able to revise the data starting from 2012. The revision featured in the April 2020 notification.

### *Discussion*

Eurostat checked the updated section on standardised guarantees in the EDP Inventory and noticed an error in the table *Standardised guarantees on households' mortgages by the Housing Authority 2012–2020*. The formula for calculating AF.66 provisions adjusted for actual calls advised to use the cumulative calls instead of annual calls. In addition, the figures for 2020 were still missing from the inventory. Eurostat promised to include these comments in its feedback on the EDP Inventory.

## **Guarantee schemes of the Malta Development Bank**

### *Introduction*

The NSO provided Eurostat with a note on the Malta Development Bank's (MDB) guarantee schemes prior to the mission, and the ones related to the COVID-19 pandemic were described in detail also in the list of COVID-19 measures.

The COVID-19 Guarantee Scheme was launched in 2020 in response to the COVID-19 pandemic. It is administered by the MDB on behalf of the government, and it is one of the government's COVID-19 measures<sup>63</sup>. The government guarantees to pay the MDB all outstanding obligations of the MDB in respect of claims by accredited commercial banks whose clients have failed to repay loans covered by the scheme, up to a total of EUR 350 million. The MDB has a risk sharing agreement with all the nine accredited banks, where it provides a guarantee covering 90% of the individual loans under the scheme, with a cap rate of 50% at the portfolio level, generating a multiplier of 2.22. Thus, the commercial banks could grant loans up to a total portfolio volume of EUR 777.8 million under the scheme. The MDB is receiving a fee attached to the guarantees. These fees are in accordance with the fee schedule specified by the European Commission in its State aid decision of 2 April 2020 approving the scheme.

By the April 2021 notification, the NSO decided that the MDB's guarantee scheme met the criteria of standardised guarantees as outlined in ESA 2010 paragraph 5.190. Guarantees are issued to a large number of entities, all have the same contractual obligations, and they are granted in the context of public interest policy, though the amounts involved are not necessarily small. However, as there had been no calls yet, the Maltese statistical authorities were not able to provide estimates for the probability-weighted risk of calls on the scheme. Thus, they were asked to treat the scheme as one-off guarantees for the time being.

This COVID-19 Guarantee Scheme is complemented with the COVID-19 Small Loans Guarantee Scheme and by the COVID-19 Interest Subsidy Scheme.<sup>64</sup> These two schemes were discussed under Section 4.3.1.6 on MDB's COVID-19 measures.

In addition to the COVID-19 guarantee facilities, the MDB has also three other guarantee schemes further explained in the note provided before the visit. The other schemes do not feature in the EDP questionnaire tables nor in the list of outstanding government guarantees provided to Eurostat beforehand. Two schemes were explained to be entirely covered by the MDB's own resources and targeted at SMEs in the private sector. The third one is 80% financed by the European Social Fund (ESF) and 20% by the Maltese government. The MDB was appointed by the Managing Authority for EU Funds to act as the implementing body of that scheme. All the interest subsidy and the guarantees are funded from the ESF.

### *Discussion*

Eurostat continued the discussion on the Malta Development Bank's COVID-19 Guarantee Scheme, extensively discussed already during the bilateral videoconference on 15 January 2021 and during the April 2021 EDP notification. By April, the Maltese statistical authorities had already made the choice to report these guarantees as standardised guarantees, but had to revert their decision and record them as

---

<sup>63</sup> Measure 42 in the list of COVID-19 measures provided before the visit.

<sup>64</sup> Measures 43–44 in the list of COVID-19 measures provided before the visit.

one-off guarantees for the time being, as they were not yet able to provide estimates for the probability-weighted risk of calls. When comparing the table of outstanding debt with the EDP questionnaire table 9.1, Eurostat noticed that the subtotal of one-off guarantees to public corporations in the questionnaire table 9.1 has not been updated to take into account the COVID-19 Guarantee Scheme, which was moved from the EDP questionnaire table 9.4 to 9.1 in the middle of the April notification round. The scheme is included in the grand total of table 9.1, though, so it was not missing altogether.

The Maltese statistical authorities confirmed that, by the time of this mission, there still had been no calls, and that there were no provisions in the public accounts (which are still on a cash basis). It was discussed that maybe the provisions featuring in the annual report of the MDB for 2020 could be used. It should be checked whether there are provisions there for all the COVID-19 guarantee facilities as a whole or for sub-schemes separately.

### *Findings and conclusions*

**Action point 20.** The Maltese statistical authorities will update the subtotals for public corporations in the EDP questionnaire table 9.1 for 2020 on one-off guarantees taking into account the COVID-19 guarantee scheme managed by the Malta Development Bank. They will also change ‘M’ (not applicable) to zero values, where necessary.

**Deadline: by the October 2021 notification.**<sup>65</sup>

**Action point 21.** The Maltese statistical authorities will investigate the possibility to use the provisions booked by the Malta Development Bank in relation to guarantee programmes, for estimates of F.66 relating to standardised guarantees, as foreseen in the ESA 2010 rules for recording standardised guarantees.

**Deadline: by the October 2021 notification.**<sup>66</sup>

#### 4.3.3. *Debt assumptions, claims, debt cancellations and debt write-offs*

##### *Introduction*

The NSO provided, before the EDP visit, a list of central and local government claims, including stocks and transactions, for the period 2017–2020. The figures were found to be consistent with the EDP questionnaire table 8.

Out of the entities on this list of claims, the Water Services Corporation’s (WSC) current loans from the government consist of an advance granted by the government but converted into a loan in 1999, and an additional loan granted in 1998. These were partially repaid over the years, but when subsidies towards the WSC stopped by the end of 2008, so did the repayments, for seven years. The repayment schedule and the possibility of recording a debt cancellation have been discussed several times over the years. During the 2018 EDP dialogue visit, the Maltese statistical authorities recalled that no interests accrued on the loan and explained that negotiations were taking place to reach the full reimbursement of the loan in 2018. Instead, no repayments have been recorded since.

Regarding Air Malta, a loan of EUR 52 million granted by the Treasury was to be paid back in 2015 and 2016, but instead it was converted into equity. Thus, a total of EUR 43 million was recorded as a capital transfer in 2015, with the remaining EUR 12 million recorded as a capital transfer in 2016. However, the related accrued interest still amounts to EUR 1.9 million, with no change since 2015.

Prior to the mission, the NSO also provided the summary of debt assumptions, debt cancellations and debt write-offs for the period 2017–2020. The only debt cancellation, related to the Mariam Al-Batool School in 2017, had been included in the figures already by the previous EDP dialogue visit.

---

<sup>65</sup> The corrections were implemented for the October 2021 EDP notification and the action point was closed.

<sup>66</sup> The NSO sent their contribution on 30 September 2021, concluding that there are no provisions nor expected credit losses estimated in relation to the COVID-19 guarantee scheme in the annual report of the MDB for 2020. The NSO also confirmed that there had been no calls. It was agreed during the October 2021 notification that the guarantees will continue to be treated as one off and the action point was closed.

## *Discussion*

Regarding the loan to the Water Services Corporation (WSC), Eurostat enquired whether any repayments are expected in the future or a new repayment schedule has been established. The NSO explained that, in October 2020, an agreement had been made for the WSC to start annual repayments, and the company had made the first payment in 2020. However, the NSO had missed it, so that it was not recorded in the national accounts. Eurostat pointed out that it is a zero-interest loan and wondered, what its original maturity was. The Maltese statistical authorities explained that it is payable on demand and probably there has been no maturity at any point. Eurostat reminded that the case of a loan with no maturity is not even envisaged in the national accounts, but agreed with the Maltese statistical authorities that, for practical reasons, they should still keep the current recording as a loan and record the repayment by the October 2021 notification.

The accrued interest of EUR 1.9 million related to an Air Malta loan that had been converted into equity in 2015 and 2016, also caught Eurostat's attention. The Maltese statistical authorities explained that, according to the agreement on the loan, the claim is still due. However, they suggested that repayments are not likely to happen, given that the government has decided to continue injecting equity in Air Malta. It was agreed that they should record a debt cancellation, not for the year when the interest stopped accruing, but now.

Eurostat also asked questions about the loans of the Libyan Arab Maltese Holdings Company Limited, extended to its subsidiaries. The holding company had been reclassified inside general government starting from 2017, and it was noticed that the repayments had stopped after that. The Maltese statistical authorities informed that the company has three subsidiaries, all of them featuring in the *Questionnaire on government controlled units classified outside general government*: Milano Due, Vivaldi Hotel (Operations) Ltd., and Libyan Maltese Investments Co. Ltd. However, for two of them, there were no market/non-market test results available.

## *Findings and conclusions*

**Action point 22.** The Maltese statistical authorities will record in 2020 a cancellation of a claim pertaining to interest accrued on the Air Malta loan that was converted into equity and statistically recorded as capital transfer.

**Deadline: by the April 2022 notification.**<sup>67</sup>

**Action point 23.** The Maltese statistical authorities will check whether the loans of the Libyan Arab Maltese Holdings Company Limited, extended to its subsidiaries, still exist and are being serviced.

**Deadline: by the October 2021 notification.**<sup>68</sup>

### *4.3.4. Capital injections in public corporations*

The NSO provided before the mission the list of capital injections for the period 2017–2020 by beneficiary and treatment in national accounts. The entities on the list were Air Malta and several companies related to it, for which a capital transfer (D.99pay) had been recorded in national accounts, as well as the Malta Development Bank and the Mediterranean Offshore Bunkering Ltd, both of which had received equity injections (F.5 assets).

Out of these, the cases of Air Malta and the Malta Development Bank are discussed separately below. In addition, Malita's projects involving government are also briefly addressed here.

---

<sup>67</sup> On 1 September, the Maltese statistical authorities informed that the cancellation will be recorded for 2020Q4 as D.99pay with a corresponding reduction in F.42 in financial accounts, already for the October 2021 notification. The action point was closed during the notification.

<sup>68</sup> The NSO provided their contribution on 30 September 2021. There were loans to Vivaldi Hotel (Operations) Ltd and Milano Due Ltd. Vivaldi had been making repayments, but Milano Due had been only getting advances. The NSO explained that Milano Due hotel is under renovation and planned to reopen in 2022. The action point was closed, but Eurostat asked the NSO to regularly check the repayments from these subsidiaries in the future.

#### 4.3.4.1. Air Malta

##### *Introduction*

Air Malta plc is the national air carrier of Malta. The company is 98%-owned by government and is one of the largest public corporations in Malta.

Air Malta has been making losses almost every year since 2003. The government has intervened several times: EUR 130 million in State aid was provided in 2010 under the condition that the airline was restructured. Capital transfers were recorded by the NSO also for all years 2012 to 2016, but none thereafter. The massive restructuring, which has included selling Air Malta's assets to the government, has been organized so that the capital transfers have been recorded in the new companies established for the cause, and not in Air Malta. In 2017, the company reported operating losses of EUR 10.8 million, but the airline registered a small EUR 1.2 million profit, prior to restructuring costs. In 2018, the airline revalued its assets upwards, obtaining a EUR 16 million boost to cushion the accumulated losses of EUR 223 million from previous years.

In 2018, the government incorporated a new company, Malta Air Travel Ltd (MAT), with the primary objective to purchase and hold Air Malta's landing slots at London airports, and then lease them back to Air Malta. In February 2018, Eurostat provided advice on the transaction stating that MAT should be seen as an artificial subsidiary of Air Malta because its activities will simply complement and will be necessary to the activities of Air Malta: this new company will enter into contractual relations only with Air Malta and even the aircraft, which MAT will sub-lease, will be leased back to Air Malta, so that MAT will not have any fixed assets except the landing rights. The operation had to be treated as a capital transfer into Air Malta, even if organised via different legal entities. The note provided by the NSO before the 2018 EDP dialogue visit did not change Eurostat's view. During the visit, the Maltese statistical authorities were requested (action point 15) to 'check the exact amount of the capital injection in Air Malta paid in the first quarter of 2018, which is to be treated as capital transfer'. The action point was closed after the NSO recorded a capital transfer D.99 of EUR 57.5 million but it remained to be monitored if and when the entire EUR 70 million of authorised capital will be injected.

In 2018, the government incorporated also another new company, Air Malta Aviation Services Ltd to take over the ground handling services provided at the airport by Air Malta. Air Malta Aviation Services Ltd is classified as a public non-financial corporation, while the government's equity injection of EUR 5.0 million was classified by the NSO as a capital transfer in this new company.

In March 2019, Air Malta set up a subsidiary company called IP Holding Limited (IPH) transferring to that subsidiary, run by Air Malta's Chairman, the intellectual property of Air Malta's name and brand. IPH licensed back the brand name to Air Malta for a period of 20 years. The brand had been valued at EUR 21.0 million in March 2019 by a leading brand valuation and strategy firm, appointed by the government. The yearly royalty fee charged from Air Malta was indicated as a percentage (0.98%) of Air Malta's turnover in a particular year. The government acquired the shareholding in IPH in two tranches, EUR 8.0 million in 2019 and EUR 13 million in 2020, recorded as capital transfers in IPH. IPH is classified as a public non-financial company.

The Maltese statistical authorities have not provided information about the financial situation of Air Malta for 2019 and 2020. It is however known that the airline was not making operating profit before the COVID-19 pandemic hit the aviation industry. On 12 April 2021, the Government of Malta submitted a funding plan for Air Malta to the European Commission, i.e. a State aid request. The funding plan is for the period 2022 to 2026 and envisages a capital injection of EUR 290 million in equity. The NSO provided a note about the State aid request before the dialogue visit.

##### *Discussion*

Eurostat asked for an update regarding possible further restructuring of Air Malta, and for the State aid request. The Maltese statistical authorities were not aware of any new developments since the note provided on 13 May 2021. Eurostat emphasised the importance of monitoring the issue, providing information to Eurostat and analysing the nature of the possible upcoming transactions, as the latest financial statements have not been made publicly available. The NSO said that the possible injection will be likely recorded in the same way as the previous ones, impacting the deficit. Preliminarily the

injection of EUR 290 million is foreseen to be divided in two, so that it would impact 145 million in 2021 and EUR 145 million in 2022. Probably nothing will be recorded for the first two quarters of 2021, but maybe something for Q3 and Q4, depending on the timetable and the contents of the State aid decision.

Eurostat then followed up on the 2018 action point 15 (closed in 2018). The D.9 injection had been recorded in the Malta Air Travel Ltd (MAT), and not in Air Malta as the action point prescribed. The B.9 impact was the same, and government expenditure was recognised, therefore the NSO did not see a problem. From the NSO's perspective, the transaction was to MAT. Eurostat reminded the discussion of February 2018, recalling that MAT could be seen as an artificial subsidiary of Air Malta, and then the whole operation had to be treated as a capital transfer in Air Malta, even if organized via different legal entities. Eurostat then asked whether the Maltese statistical authorities consider MAT as an institutional unit. The NSO answered that it is nowadays leasing planes and it is operating planes, so it could qualify as an institutional unit. The NSO clarified that the company is actually no longer MAT but that it changed its name into Malta MedAir soon after the transaction. Eurostat concluded that the situation concerning Air Malta and other public companies in the aviation sector will continue to be monitored.

#### 4.3.4.2. Malita's projects

##### *Introduction*

Malita Investments plc was incorporated in 2011 with the objective of acquiring and managing immovable property, in particular, projects of national and/or strategic importance. Malita is classified as a public non-financial corporation (S.11). It is 80% owned by the government and profitable, has only four employees and fulfils the market/non-market test. It has been agreed with Eurostat that any new project by Malita involving government will have to be analysed on its own.

During the previous EDP dialogue visit in 2018, two new projects of Malita were discussed extensively: the Affordable Housing project and the Smart City ITS project. The Affordable Housing project was rerouted for the April 2019 notification. The total capital expenditure of the project is estimated at EUR 58 million, out of which only a small amount has been spent so far. Regarding the ITS project, the NSO confirmed on 30 September 2020 that the project had been put on hold.

On 30 September 2020, the NSO also informed that Malita is planning a new solar project. The NSO provided Eurostat with a note on the project prior to this visit. According to the note, it is a nation-wide 20 MW solar project. The project will involve the set-up of new greenhouses that are equipped with photovoltaic cells, across Malta and Gozo on private fields. Such greenhouses shall be self-financed, thus giving back to the farming community an upgraded infrastructure at no additional cost. Malita will be making its revenue from the feed-in tariff, received from the power generation. Malita will start the project with a case study, for which some key figures were provided prior to the visit. The NSO informed Eurostat prior to the mission that it has preliminarily concluded that the solar project will not be rerouted through government as the only involvement by the government in this project is through the feed-in tariff.

##### *Discussion*

Regarding the Smart City ITS project of the Institute of Tourism Studies that had been on hold already for a while, the Maltese statistical authorities confirmed that it will no longer be under the responsibility of Malita. The government was now planning to request a grant from the Recovery and Resilience Facility (RRF) for the project.

The new solar project was confirmed to be still in the pipeline for Malita. Eurostat asked further questions about the feed-in tariff, which had been named beforehand as the only financial involvement of the government to the project. The Maltese statistical authorities clarified that the solar energy produced by the solar panels installed during the project will be paid to Malita using the same regulated feed-in tariff as for other commercial solar energy producers. Enemalta, which is a public corporation classified outside S.13, will buy all the energy produced by the project and it will go to the national grid. The difference between the feed-in tariff for which Enemalta is buying solar energy and the price for which it is selling it to the end users will be covered by subsidies from the government, and recorded in

national accounts as subsidies. So the primary beneficiary of the subsidies is Enemalta, although the end users will of course benefit from the lower prices as well.

### *Findings and conclusions*

**Action point 24.** The Maltese statistical authorities will provide Eurostat with a note on the developments of the new solar-powered greenhouses project and any other projects of Malita involving government.

**Deadline: by the April 2022 notification.**

#### 4.3.4.3. Malta Development Bank

##### *Introduction*

The Malta Development Bank (MDB) was created in 2016 and started its operations in 2017. The Malta Development Bank Act came into force in May 2017.<sup>69</sup> The MDB's sector classification was discussed extensively during the 2016 EDP dialogue visit. It was classified outside government in S.125, but Eurostat reserved the right to review its opinion should the reality turn out to be different from the plans. During the 2018 dialogue visit, more attention was given to capital injections and operations of the MDB. Two action points were agreed, to set up a regular data collection on the MDB's operations (action point 18) and to further analyse the paid-up initial capital from the government (action point 19). Both have been closed.

Regarding capital injections, the MDB has so far received three capital injections during its existence, classified as F.5 equity injections. The initial injection of EUR 30 million to set up the bank was made in 2017. After that, the Maltese statistical authorities provided a note on the topic in September 2018 as the response to the 2018 EDP action point 19. According to it, Article 10(3)(b) of the MDB Act specifies that the paid-up capital of the MDB is determined by the board of the bank and shall be paid in by the shareholders in instalments as determined by the board with two months' notice. The board will determine the paid-up capital levels in accordance with the MDB business plan where the aim is to increase gradually the paid-up capital in line with the MDB's business growth. The MDB Act provides that the government shall subscribe to 100% of the share capital, while the First Schedule of the MDB Act provides that the government shall subscribe an initial capital of EUR 60 million. On 27 September 2018, Eurostat confirmed the NSO's view that only EUR 30 million of paid-up capital should be booked while the other EUR 30 million of callable capital is contingent. Since then, two more injections have been booked, for 2019 and 2020, each for EUR 10 million. During the April 2020 notification round, the NSO confirmed, regarding the capital injection test, that there are no private shareholders and that the MDB did not accumulate net losses nor made exceptional losses, and that the equity injection of EUR 10 million is in accordance with the projected paid-up capital plan and with the MDB Act.

Before this mission, the Maltese statistical authorities provided a note on the MDB's operations. Out of these operations, the guarantee schemes managed by the MDB were discussed under Section 4.3.2 on guarantees. In addition, the MDB was planning to provide direct lending to three projects: the Affordable Housing Fgura Project by the Housing Authority, the Electric Car Sharing project by Car Sharing Malta Ltd, and the University Residence and Community Complex concession by Campus Residence Malta Limited. The last one was also discussed in the context of PPPs and concessions in Section 4.3.6.

##### *Discussion*

Concerning equity injections from government, it was noted that EUR 50 million of initial capital has been booked now as F.5 transactions. The First Schedule of the MDB Act provides that the government shall subscribe an initial capital of EUR 60 million upon request of the MDB's board. The Maltese statistical authorities said that they are not aware of the timetable for further equity injections.

---

<sup>69</sup> Available online: <https://legislation.mt/eli/cap/574/eng>.

Regarding the reporting template agreed with the MDB in 2019, the NSO told that it has regularly received information from the MDB at the end of June and at the end of December and that information has proved useful.

The discussion on the ad hoc tailored facilities in the form of direct lending revolved mostly around the exact conditions of the loans, not provided in the note. In all three projects, the MDB will be co-financing the project on a 50-50 basis with a commercial bank. Eurostat pointed out that the MDB is classified outside S.13, because it is assumed that it acts like a bank. The first thing to check when the MDB enters into such a contract, should be to analyse whether the conditions of the loan are similar to those provided by commercial banks. The Maltese statistical authorities made a remark that in the particular case of the Affordable Housing project where the counterparty is inside S.13, the government accounts will actually feature both the loan and the liability, and that project also has gross fixed capital formation recorded. Eurostat said that, on the other hand, in the case of the Electric Car Sharing project, the MDB would not only provide direct lending but also a partial guarantee of 40% on the commercial bank's share of the loan.

### *Findings and conclusions*

**Action point 25.** Eurostat took note that the Malta Development Bank, alongside private banks, was lending to various projects undertaken by various entities. In this respect, the Maltese statistical authorities will check whether the conditions of the direct lending by the Malta Development Bank are similar to the private sector banks co-financing of the same projects.

**Deadline: end of August 2021.**<sup>70</sup>

#### 4.3.5. *Dividends, super-dividends*

##### *Introduction*

Before the visit, the NSO submitted a table of the dividends paid by the public corporations in 2017–2020 and their associated profits. According to the April 2021 update of the EDP Inventory, the NSO receives information on these dividends from the Budget Office at the Ministry for Finance and Employment. The local government sector does not hold financial investments, from which it could receive dividends.

Based on the figures reported in the EDP questionnaire table 2, the government has received super-dividends in recent years only from two units, the Central Bank of Malta (CBM) and the MSE Holdings Co. Ltd, both in 2017. The latter unit was reclassified inside S.13 starting from April 2017.

According to the EDP Inventory, the super-dividend test for the CBM transfers to the government, for the current year, is applied once the CBM's audited accounts are available to the NSO. This is usually around the beginning of April. The EDP Inventory shows the detailed method used to calculate the test starting from the CBM's profit and loss account. The Maltese statistical authorities confirmed during the April 2021 notification that the test has been done for all years.

For other public corporations, the super-dividend test is applied in preparation to the April EDP notification. The NSO compares the data on dividends from the Budget Office with the profit before tax data from the audited accounts. In absence of the audited accounts, the NSO either uses data from its Financial Data Reporting System (FDRS) or requests the company to forward their management accounts. Only some major public corporations submit data to the FDRS.

Interim dividends are not common, but according to the EDP Inventory, when the government receives those, the NSO uses monthly information from the FDRS to apply the super-dividend test. Then, if need be, the quarterly accounts for the general government sector are adjusted.

##### *Discussion*

---

<sup>70</sup> On 31 August 2021, the Maltese statistical authorities provided their contribution. They concluded that the conditions are similar as compared to the private commercial banks participating in the same transactions. The action point was closed on 9 September 2021.

The discussion focused on the table of dividends and associated profits, provided before the visit, and on comparing it with the super-dividends reported in the EDP questionnaire table 2.

The table on dividends was missing data on profits for several units and for several years. The Maltese statistical authorities pointed out that, regarding the previous statistical year, there will always be some assumptions in the April notification, but those will have to be confirmed by the October notification. For 2020, the super-dividend test had already been conducted for the CBM, and regarding, for example, the Malta Business Registry and the Malta Stock Exchange, which have also paid dividends that year, it is likely based on the information available that the profit will match or exceed the dividend.

Eurostat asked for clarifications on the reference years used for the dividend table. The dividend technically paid in year  $t+1$  should be compared to the profit of year  $t$ . It was found out that the NSO had filled the table using this logic for the CBM, but not for the rest of the units.

Regarding the Malta Financial Services Authority (MFSA), the Maltese statistical authorities agreed to check the figures and to repeat the super-dividend test after it was found during the meeting that the dividend marked for 2017 exceeded the 2016 profit reported earlier to Eurostat. Eurostat suggested that there could be a super-dividend component paid in 2017. It was also mentioned that the MFSA is unlikely to continue paying dividends in the future, since the profitable arm of the MFSA, the Registry of Companies function, demerged from the MFSA in April 2018 and moved to the Malta Business Registry. Since then, the Malta Business Registry has started paying dividends, and the government has needed to issue a subsidy to the MFSA.

Eurostat also asked about the dividends from the three extra-budgetary units (EBUs) mentioned in the table on dividends. The Maltese statistical authorities confirmed that the data for the National Development and Social Fund consists of the dividends from its various investments. Regarding the other two EBUs, the Libyan Arab Maltese Holdings Company Limited and the Malta Government Investments (MGI) / Malta Investment Management Company Limited (MIMCOL), the data in the table relates to dividends received from their subsidiaries. However, the associated profits had not been entered in the dividend table for comparison. As previously noted in the context of government claims in Section 4.3.3, some of the subsidiaries were lacking recent data also in the *Questionnaire on government controlled units classified outside general government*. Eurostat suggested that more granular data should be reported to get a better view of the individual situations of the subsidiaries that are paying dividends to the EBUs concerned, and to be able to apply a super-dividend test at the subsidiary level. The NSO explained that, for MGI/MIMCOL, this would be rather complicated, because some of the subsidiaries are classified inside S.13 and some are not. It was agreed that the Maltese statistical authorities will nevertheless provide super-dividend test results for the subsidiaries of these two EBUs.

### *Findings and conclusions*

**Action point 26.** The Maltese statistical authorities will compare the dividend paid by the Malta Financial Services Authority in 2017 with the profit of 2016 and check whether there was a super-dividend component.

**Deadline: by the October 2021 notification.**<sup>71</sup>

**Action point 27.** The Maltese statistical authorities will provide the super-dividend test results for the subsidiaries of the Malta Government Investments Limited (MGI) / Malta Investment Management Company Limited (MIMCOL), and of the Libyan Arab Maltese Holdings Company Limited for 2017–2020.

**Deadline: by February 2022.**

### 4.3.6. PPPs and concessions

#### *Introduction*

---

<sup>71</sup> The NSO informed in the context of the October 2021 EDP notification that it had not had time to look at the issue. It was agreed that it could be implemented for the April 2022 notification.



The Maltese statistical authorities have identified altogether three PPPs and three concessions over the years. In addition to that, the NSO has communicated to Eurostat a new project, the Malta–Gozo tunnel, for which it has been too early to say in which category it would belong to.

The PPP of the Mellieha Home for the Elderly, the Vitals/Steward PPP, and the Malta National Aquarium concession were known to Eurostat already prior to the previous EDP dialogue visit in 2018. The Vitals/Steward PPP, consisting of redevelopment, maintenance, management and operation of the sites at St Luke’s Hospital, Karin Grech Rehabilitation Hospital and Gozo General Hospital, was largely discussed during that visit and put on government balance sheet in the October 2018 notification. However, the government has tried to renegotiate it with the new US-based operator Steward Health Care in order to enter into another form of operational agreement.

A concession of the University Residence and Community Complex was reported to Eurostat in 2019. The NSO provided a statistical assessment, and a copy of the final contract, and it was preliminarily decided to keep the project off government balance sheet. According to the note on PPPs provided by the NSO prior to the mission, the project is now in an advanced construction phase. The Malta Development Bank (MDB) has recently entered into an agreement with Campus Residence Malta Ltd to co-finance, on a 50-50 basis together with a commercial bank, the sub-project of the development of a student residential complex. The loan by the MDB will be provided over a repayment period of 25 years, whereas the loan of the commercial bank will be for a 12-year term. According to the NSO, this MDB facility is covered from the MDB’s own resources and targeted at the private sector.

Another potential concession reported to Eurostat in 2019, was the International School in Mtarfa. The NSO provided a statistical assessment based on the draft of the contract in 2019, and preliminarily decided to keep the project off government balance sheet. According to an update provided by the NSO prior to the mission, the final agreement between MEDE and Haileybury Malta Ltd has been signed in March 2021, and the NSO has requested a copy of it to confirm the statistical assessment carried out in 2019.

In 2020, the NSO informed of a new PPP on building of new blocks at St. Vincent de Paul Long-Term Facility, and added it on the government balance sheet in the April 2020 EDP notification. According to an update provided by the NSO prior to the mission, the works on the new blocks had already been concluded or were at the latest stages and the NSO was awaiting feedback from the operator on the final cost.

The seventh project is about the construction of a tunnel between Malta and Gozo. The project includes the development of a 14-kilometre, partly subsea, tunnel with two lanes and a central buffer offering space for emergency vehicles. Infrastructure Malta launched stage one of the three-stage tender process in January 2020 to identify the concessionaires who will design, build, finance, operate and maintain the tunnel. The government’s preferred option for this project was to be self-financed, without any form of guarantees or subsidies. Details on tolls or other fees for tunnel users were to be identified during the final stage which focuses on the bidders’ financial proposals. Prior to the mission, the NSO provided an update that four bids have been received in answer to the request for proposals: three are for bored tunnels and one for an immersed structure, but the evaluation process is still ongoing.

Information on potential new PPPs and concessions is gathered from the ministries via a survey conducted regularly by the NSO, last time in October 2020. The results of the latest survey did not however bring any new cases to light. Also, some projects already presented to Eurostat were missing from the results. The NSO explained that the Ministry of Health had shelved two projects for the construction of specialized hospitals, which were earmarked for PPPs and had already been listed as planned projects in the previous questionnaires. Moreover, projects such as the construction of the Natatorium Complex in Gozo and the Waste-to-Energy facility will be financed through the government’s national budget. It was discussed whether the survey should be conducted annually, as requested by the Eurostat in 2018 (action point 20), but it was agreed that it would be enough to do it every two years.

### *Discussion*

Regarding the renegotiations of the Vitals/Steward PPP, the Maltese statistical authorities anticipated that the government might be taking over the project, but Steward Health Care would continue

managing the assets. The NSO believed there should be developments during the year 2021. Eurostat concluded that then, hopefully, in around one year the NSO will submit the copies of the signed agreements and its statistical assessment to Eurostat.

As regards the close-to-completed construction of the St. Vincent de Paul PPP, Eurostat asked about the final cost and whether the Maltese statistical authorities already know how this could impact the current recording. The NSO confirmed that it has just received the information on the final cost. Eurostat recalled that the figure exceeds the contractual capital value of the PPP. The NSO agreed that there could be a revision to 2020.

Regarding the long-term loan recently provided by the MDB for building the University Residence and Community Complex, the Maltese statistical authorities confirmed that it has no impact for government accounts, and there has been no other involvement from government, such as guarantees. The conditions of the loan were discussed also in Section 4.3.4.3 on the MDB.

Eurostat noted that the decision to classify the International School in Mtarfa concession outside S.13 is only temporary, as the Maltese statistical authorities have not yet received the final contract. The NSO corrected this statement saying that it has actually just received the final agreement and can confirm that the subject matters have not changed from the draft, so the NSO will continue to record it outside S.13. Eurostat concluded that a copy of the final agreement might be needed.

Regarding the Malta–Gozo tunnel project, Eurostat asked whether the four bids received by the Infrastructure Malta mean that the tender process is now in the final and third stage. The NSO believed that this was the case and explained that, once the winner has been decided, the government has to further discuss the plans and draft the contract, before the NSO gets to analyse it. There was no timeline for that yet. Eurostat asked whether the Maltese statistical authorities already knew if it would be a concession or a PPP. The NSO expected the contract being a concession, because the households will pay for using the tunnel. Eurostat concluded that there is a need to keep a close eye on it in the light of the size and costs of the project.

Eurostat recalled that a new gas cable between Malta and Sicily was mentioned as one of the possible PPPs or concessions in the context of the April 2020 notification. This is the only potential project whose later developments have not been reported since. The Maltese statistical authorities said that they need to check the current situation of the project. At some point it was mentioned that it would be funded from the EU funds, but the latest news were that it would not.

#### *Findings and conclusions*

**Action point 28.** The Maltese statistical authorities will provide Eurostat with a copy of the final concession contract of the International School in Mtarfa.

**Deadline: end of July 2021.**<sup>72</sup>

**Action point 29.** The Maltese statistical authorities will provide a copy of the contract of the Malta–Gozo tunnel project with their classification analysis.

**Deadline: as soon as available.**<sup>73</sup>

4.3.7. *Others: interventions to support financial institutions, financial derivatives, emission trading permits, privatization, sale and leaseback operations, decommissioning costs, UMTS, securitisation etc.*

### **New Affordable Housing project**

#### *Introduction*

---

<sup>72</sup> On 13 July 2021, the Maltese statistical authorities shared a copy of the final concession contract with Eurostat.

<sup>73</sup> It was confirmed during the October 2021 EDP notification that the contract is not yet available.

The NSO mentioned before the mission that it would be interested in Eurostat's views on a new social housing project, which is still in an early stage. It is called Affordable Housing project, but it is not the same as Malita's Affordable Housing project.

According to the information available on the project, there are ongoing discussions between the government, represented by the Ministry for Social Accommodation, and the Roman Catholic Archdiocese of Malta, represented by the Diocesan Office of Administration, to jointly setup a foundation with the main purpose to build a stock of housing units for households that are currently priced out of the market but not social dependent. The targeted households must earn between EUR 13,000 and EUR 24,000. These households are not or will not be eligible to receive subsidies from the Housing Authority and they are not on its waiting list for an apartment. The tenants will enter into a five-year rental agreement. The projected cost is EUR 33 million for the construction of 430 units across 30 different sites. The financing of the project has not yet been settled. The founders will share responsibilities, both for administration and finance. The allocation policy will be set and managed by the foundation. No dividends will be paid to the founders, as the profit will be reinvested in other projects.

This project is still in the early stage and the NSO has not yet finalised its statistical assessment.

#### *Discussion*

Eurostat highlighted that, based on preliminary information, the houses built would belong to the foundation. Thus, the main issues to be addressed would concern the recording of the gross fixed capital formation when the houses are built, and the statistical classification of the foundation inside or outside S.13. Eurostat suggested that the Maltese statistical authorities could get acquainted with a somewhat similar case in Ireland. The Irish statistical authorities have conducted a statistical analysis on it, and there is also a letter published by Eurostat available online.

#### *Findings and conclusions*

**Action point 30.** The Maltese statistical authorities will keep Eurostat updated on the developments of the new Affordable Housing project jointly implemented by the government and the Archdiocese of Malta.

**Deadline: report by April 2022.**

#### **Other government transactions**

Regarding mobile phone licenses, the Maltese statistical authorities were given the EDP action point 24 in 2018, to spread over the years the recording of all the proceeds from the sales of UMTS licences and record rent (D.45r). The issue was tackled during the benchmark revision in August 2020.

Regarding emission trading permits (ETS), the NSO has annually provided new updated ETS figures. The latest ones for 2020 were received during the April 2021 notification.

The Maltese statistical authorities confirmed prior to the dialogue visit that they are not aware of any other large government transactions not yet reported to Eurostat. For example, Malta has not made any government interventions to support financial institutions, it does not have any energy performance contracts, nor does it use financial derivatives.

#### **5. OTHER ISSUES (PLANNED FUTURE OPERATIONS, TRANSMISSION OF GFS DATA ETC.)**

Regarding the Recovery and Resilience Facility (RRF)<sup>74</sup>, Eurostat enquired whether Malta has already submitted its recovery and resilience plan to the European Commission. According to the information

---

<sup>74</sup> The Recovery and Resilience Facility is the centrepiece of NextGenerationEU, a temporary recovery instrument that allows the European Commission to raise funds to help repair the immediate economic and social damage brought about by the COVID-19 pandemic. The RRF makes loans and grants available to support reforms and investments undertaken by Member States. The aim is to mitigate the economic and social impact of the COVID-19 pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.

received by the participants, the plan was still in preparation at the time of the meeting. The plan was not expected to include any loans, but only grants. Nor was it projected to include any retroactive claims of expenditure incurred in 2020.<sup>75</sup>

---

<sup>75</sup> The Maltese RRF plan was submitted on 13 July 2021. The press release is available at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_3407](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3407).

## **ANNEX 1. AGENDA**

### **1. Statistical capacity issues**

#### **1.1. Review of institutional responsibilities in the framework of the EDP data reporting and government finance statistics compilation**

#### **1.2. Data sources, revision policy and EDP inventory**

1.2.1. Data sources and production processes

1.2.2. Revision policy

1.2.3. EDP inventory

### **2. Follow-up of the previous EDP dialogue visit of 31 May–1 June 2018**

### **3. Follow-up of the April 2021 EDP notification - analysis of EDP tables and the related questionnaires**

### **4. Methodological issues and recording of specific government transactions**

#### **4.1. Delimitation of general government and application of market/non-market criteria in national accounts**

4.1.1. Changes in sector classification since the last EDP dialogue visit

4.1.2. Practical implementation of the market/non-market test, qualitative and quantitative criteria

4.1.3. Sector classification of specific units

4.1.4. Government controlled entities classified outside general government

#### **4.2. Implementation of accrual principle**

4.2.1. Taxes and social contributions

4.2.2. Interest

4.2.3. EU flows

#### **4.3. Recording of specific government transactions**

4.3.1. Measures undertaken in the context of COVID-19

4.3.1.1. Business assistance (measures 1–17)

4.3.1.2. Tax deferral schemes (measures 18–19)

4.3.1.3. Social measures (measures 20–24)

4.3.1.4. Voucher schemes (measure 25)

4.3.1.5. Real estate assistance (measures 33–35)

4.3.1.6. Malta Development Bank's measures (42–45)

4.3.1.7. Other measures (26–32, 36–41 and 46)

4.3.2. Guarantees

4.3.3. Debt assumptions, claims, debt cancellations and debt write-offs

4.3.4. Capital injections in public corporations

4.3.4.1. Air Malta

- 4.3.4.2. Malita's projects
- 4.3.4.3. Malta Development Bank
- 4.3.5. Dividends, super-dividends
- 4.3.6. PPPs and concessions
- 4.3.7. Others: interventions to support financial institutions, financial derivatives, emission trading permits, privatization, sale and leaseback operations, decommissioning costs, UMTS, securitisation etc.

**5. Other issues (planned future operations, transmission of GFS data etc.)**

## ANNEX 2. LIST OF PARTICIPANTS

Institution(s)	Represented by
Maltese statistical authorities	<ul style="list-style-type: none"> <li>• Mr Etienne Caruana, NSO, Director General</li> <li>• Mr Owen Grech, NSO, Director Economic Statistics</li> <li>• Mr Mark Galea, NSO, Head of Unit, Public Finance</li> <li>• Ms Valerie Cremona, NSO, Principal Statistician</li> <li>• Ms Charlene Zammit Bondin, NSO, Senior Statistician</li> <li>• Mr Clive Sacco, NSO, Senior Statistician</li> <li>• Mr Alan Casha, NSO, Statistician</li> <li>• Mr Mark Borg, MoFE, Director General</li> <li>• Mr Charles Muscat, MoFE, Director</li> <li>• Ms Paulanne Mamo, MoFE, Treasury, Accountant General</li> <li>• Ms Marisabelle Azzopardi, MoFE, Treasury, Director</li> <li>• Ms Maria Camilleri, MoFE, Treasury, Director</li> <li>• Ms Claire Micallef, MoFE, Treasury, Economist</li> <li>• Mr Godwin Mifsud, MoFE, Economic Policy Department, Director General</li> <li>• Mr Kevin Vella, MoFE, Economic Policy Department, Director</li> <li>• Ms Ritianne Demanuele, MoFE, Economic Policy Department, Senior Economist</li> <li>• Ms Jessica Spiteri, MoFE, Economic Policy Department, Economics Officer</li> <li>• Ms Rita Schembri, Central Bank of Malta, Manager, Economic Analysis Office</li> <li>• Mr John Farrugia, Central Bank of Malta, Economist</li> <li>• Mr Juergen Attard, Central Bank of Malta, Economist</li> <li>• Mr Noel Camilleri, National Audit Office, Deputy Auditor General</li> <li>• Mr Malcolm Bray, Malta Fiscal Advisory Council, Chief Economic Analyst</li> </ul>
European Commission, DG Eurostat	<ul style="list-style-type: none"> <li>• Mr Luca Ascoli, Director of Directorate D, Government finance statistics (GFS) and quality</li> <li>• Mr Jukka Jalava, Head of Unit D.3, Excessive deficit procedure (EDP) 2</li> <li>• Ms Rasa Jurkoniene, Head of Unit D.1, Excessive deficit procedure, methodology and GFS</li> <li>• Ms Henna Laasonen, D.3, EDP Desk Officer for Malta</li> <li>• Mr Didier Lebrun, D.3, Deputy Head of Unit D.3, Excessive deficit procedure (EDP) 2</li> <li>• Ms Nicoleta Savu, D.3, EDP Desk Officer for Slovenia</li> </ul>
European Commission, DG ECFIN	<ul style="list-style-type: none"> <li>• Mr Vladimir Solanič, Economic Analyst for Italy and Malta</li> </ul>
European Central Bank	<ul style="list-style-type: none"> <li>• Mr Robert Gadsby, External Statistics &amp; Sector Accounts Division</li> </ul>

### ANNEX 3. LIST OF COVID-19 MEASURES PROVIDED PRIOR TO THE DIALOGUE VISIT

No	Name
1	Business Assistance: Wage Supplement
2	Business Assistance: Quarantine leave supplement
3	Business Assistance: Facilitating teleworking activities
4	Business Assistance: Rent subsidy
5	Business Assistance: Utility bill subsidy
6	Business Assistance: Conversion of tax credits in cash
7	Business Assistance: Skills Development Scheme
8	Business Assistance: Reimbursement of international fair costs
9	Business Assistance: Assistance for digital campaigns
10	Business Assistance: Export Guarantee Scheme
11	Business Assistance: Modernising the Construction Industry
12	Business Assistance: Investment Aid COVID Products
13	Business Assistance: One-time grant
14	Business Assistance: Change to Grow 2021
15	Business Assistance: Restart Incentive Scheme
16	Business Assistance: Smart and Sustainable Investment Scheme
17	Business Assistance: Extending the tax credit certificate issued through Micro-Invest Scheme
18	Deferral of payment of taxes, 2020 scheme
19	Deferral of payment of taxes, 2021 scheme
20	Social Measures: Unemployment benefit
21	Social Measures: Benefit to persons with disabilities
22	Social Measures: Parent benefit (1)
23	Social Measures: Medical benefit
24	Social Measures: Parent benefit (2)
25	COVID-19 Government Vouchers
26	Voluntary Organisations Emergency Fund
27	Refund of Commercial Licences
28	Refund of Port Charges and reduction of container discharge fees
29	Wedding expenses refund
30	Tourism Support Schemes
31	Cancellation of tourism industry operators' licence fees
32	Increase in in-work benefit
33	Real Estate assistance: First-time buyers
34	Real Estate assistance: Stamp duty cuts
35	Real Estate assistance: Tax/duty cuts
36	Assistance to homes for the elderly
37	COVID-19 R&D fund
38	Assistance to Gozo-based enterprises
39	Assistance to Media/News/Publishing Houses
40	Additional expenditure in Health Sector
41	Additional expenditure in Education Sector
42	COVID-19 Guarantee Scheme
43	COVID-19 Small Loans Guarantee Scheme
44	COVID-19 Interest Rate Subsidy Scheme
45	COVID-19 Temporary Bond Subscription Facility
46	Moratorium for business and personal loans