



EUROPEAN COMMISSION
EUROSTAT

 Ref. Ares(2014)3858775 - 19/11/2014

Directorate D: Government Finance Statistics (GFS) and quality
Unit D-3: Excessive deficit procedure (EDP) 2

Luxembourg, 11 November 2014

FINAL FINDINGS

EDP standard dialogue visit to Malta

20-21 May 2014

Executive summary

Eurostat undertook an EDP dialogue visit to Malta on 20-21 May 2014 as part of its regular visits to Member States. The aim of the visit was to discuss the quality and exhaustiveness of primary data sources, to clarify some issues relating to EDP tables, to review the progress achieved in implementing ESA 2010 methodology (in particular sector classification of units) and to assure that provisions from the Manual on Government Deficit and Debt and recent Eurostat decisions are duly implemented in the Maltese EDP tables and national accounts.

In the meeting, Eurostat welcomed the transparent and well structured approach by the Maltese authorities to the EDP related work and thanked the Maltese authorities for the comprehensive annexes to the EDP notifications, which are sent with each reporting. Eurostat took note that there had been no changes in the institutional set-up for compiling GFS and EDP data in Malta and encouraged the Maltese authorities to work towards the development of Memoranda of Understanding between the National Statistics Office (NSO) and the Ministry of Finance (MF), as well as between the NSO and the National Audit Office (NAO). As regards data sources, Eurostat welcomed the intention of the Maltese authorities to introduce a new accruals-based data source (the Corporate Financial Management Solution). Eurostat also welcomed the efforts of the Maltese authorities to reform the public accounting system in Malta.

Eurostat appreciated the work of the Maltese statistical authorities on the EDP Inventory and encouraged them to formalise their EDP revision policy. Eurostat examined some technical issues which had appeared in the April 2014 EDP reporting. In this context, the Maltese statistical authorities committed to address a number of issues in the forthcoming October 2014 EDP Notification. It was also agreed that the NSO would send an example of the calculation of net lending/net borrowing for a large local government body, in order to bring more clarity on how the NSO compiles EDP table 2C. Among others, the Maltese statistical authorities also clarified the recording of EU funds advance payments and guarantee fees in the Questionnaire tables.

Concerning taxes, it was agreed that the Maltese authorities would provide Eurostat with a breakdown of income tax receipts by type of taxpayer, which could help to explain the significant increase in taxes observed for the last quarter of 2013. Eurostat also asked for a description of how the Investment Registration Scheme works. Under a separate point of the agenda, the Maltese authorities described in detail the ex-gratia scheme for car tax refunds. It was agreed that the amounts to be paid under this scheme should be recorded at the point when future applications are accepted by the government.

On public corporations, special attention was devoted to Enemalta, Malta Freeport Corporation (MFC) and Transport Malta, among others. The Maltese authorities described the agreement signed between Enemalta and China Power Investment Corporation, and explained how the company planned to meet its excise duties to government and repay its loans to banks. The Maltese authorities also clarified some aspects of the lease agreement between MFC and the private operator of the port infrastructure. Eurostat stressed the importance of reaching progress on the sector classification of MFC by the October 2014 EDP Notification. Concerning Transport Malta, the Maltese authorities agreed to provide further information on the repurchase of the bus licenses and the resulting outstanding debt of the company.

In relation to the agenda items on specific government transactions, no particular action points were set. On other issues, it was agreed that the Maltese authorities would send to Eurostat the Individual Investor Programme legal acts, so that Eurostat could analyse them and provide an advice on the time of recording of the proceeds. On pensions, the Maltese statistical authorities explained that government would not be involved in any third pillar pension schemes in Malta. Concerning the implementation of Council Directive 85/2011, it was concluded that the Maltese

NSO should address the issue of the missing revenue and expenditure items for extra-budgetary units (EBUs) when data for the first quarter of 2014 are compiled. Finally, Eurostat reviewed the rules for recording of proceeds from sales of mobile phone licences, sales of emission trading permits as well as the rules for recording transfers to Greece of income stemming from Central Bank of Malta's (CBM) Greek Government Bonds holdings in ANFA portfolios.

Eurostat also appreciated the work of the Maltese statistical authorities on the implementation of ESA 2010.

Introduction

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Malta on 20-21 May 2014.

The delegation of Eurostat was headed by Mr John Verrinder, Head of Unit D-3 "Excessive Deficit Procedure (EDP) 2". The European Commission's Directorate General for Economic and Financial Affairs participated in the meeting as an observer. Malta was represented by the NSO, the MF and the CBM. Officials representing the energy provider Enemalta, the public corporation Malita Investments Ltd, the Freeport zone manager MFC and the transport sector regulator Transport Malta also took part in the discussions for some of the agenda points.

The main purpose of this visit was to ensure that the provisions of the Eurostat's Manual on Government Deficit and Debt as well as Eurostat's decisions are duly implemented in the Maltese EDP and Government Finance Statistics (GFS) data. In addition, a significant amount of time was devoted to data sources and the delimitation of the general government sector under ESA 2010.

With regard to procedural arrangements, Eurostat explained that the Main conclusions and action points would be sent to the Maltese statistical authorities for review. Then, within weeks, the Provisional Findings would be sent to Malta for review. After this, Final Findings will be sent to Malta and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat appreciated the documentation provided prior to the EDP dialogue visit and the good cooperation on the EDP-related issues from the Maltese statistical authorities.

1. Statistical institutional issues

1.1. Institutional responsibilities in the framework of the reporting of data under the Excessive Deficit Procedure (EDP) and Government Finance Statistics (GFS) compilation

Introduction

The Maltese NSO is responsible for compiling and transmitting GFS tables. While it is fully responsible for the production of non-financial accounts, annual and quarterly financial accounts of general government are produced in close cooperation with the MF. The NSO is also responsible for the compilation of the EDP notification tables, except for planned debt and deficit data which are provided by the MF. The CBM is a key data provider for EDP tables 3A and 3B and it also provides to the NSO data on nominal debt for the Budgetary Central Government (BCG).

Discussion

Eurostat reviewed the institutional responsibilities in place for the compilation of EDP and GFS data as well as the responsibilities of the NSO, the MF and the CBM for collecting data from upstream entities. There have been no substantial changes since the last EDP dialogue visit which took place in May 2012.

The Maltese statistical authorities explained how the Memorandum of Understanding between the NSO and the CBM works in practice and in particular how the EDP process is coordinated between the institutions. The Maltese statistical authorities also elaborated on the role of the Treasury in the EDP compilation process and described the data collection process of the MF. The Treasury collects data from the BCG, while the Local Councils send their accounts directly to the NSO. The Maltese statistical authorities explained that the responsibilities of the upstream entities for statistical reporting are ensured through the Malta Statistics Authority Act and would be further reinforced through the new Fiscal Responsibility Act¹. Furthermore, the NSO explained that it has a full read-only access to the relevant information systems of the MF and that the data transmission arrangements between the two institutions were smooth, even though not formalised.

Eurostat pointed out that it is common practice in other Member States for the National Statistics Offices to sign cooperation agreements with the key co-compilers of EDP data and main data providers. In many Member States such agreements exist with the National Audit Offices (NAO) as well.

Eurostat also encouraged the NSO to keep track of the EDP processes. The NSO pointed out that work practices and processes are being fully documented and submitted to the Malta Statistics Authority.

¹ The act was published on the 8th August 2014.

Findings and conclusions

Eurostat took note of the explanations provided and encouraged the NSO to sign cooperation agreements with the MF and the NAO, on a one-to-one basis.

Action point 1: The Maltese authorities will work towards the development of Memoranda of Understanding between the NSO and the Ministry of Finance/Treasury, and between the NSO and the National Audit Office, providing an update on progress to Eurostat by end-2014.

2. Data sources and revision policy

2.1. Data sources

Introduction

Eurostat reviewed the main data sources used for GFS and EDP compilation in Malta. Currently, all transactions of the BCG are captured in the Departmental Accounting System (DAS) - a cash-based database, managed by the Treasury. The working balance in EDP table 2A thus corresponds to the BCG fund which is called the Consolidated Fund. Cash data are then supplemented with data from accruals-based financial statements (so-called Accruals templates), prepared by the Treasury on a quarterly basis.

Public corporations, EBUs and Local Councils already report on an accrual basis. The Financial Data Reporting System (FDRS) database provides accruals-based financial data for EBUs and major public corporations on a quarterly basis. On an annual basis, however, the NSO relies on the audited accounts of the public corporations and EBUs.

Discussion

Eurostat asked how the individual DAS accounts are coded in ESA95 terms in the Chart of Accounts. The Treasury explained that the NSO has the final responsibility for allocating the codes under ESA95. It was also clarified that the Chart of Accounts had been recently updated for ESA 2010. The NSO committed to provide Eurostat with a copy of the updated Chart of Accounts.

The NSO explained that it has online access to DAS, FDRS and the Treasury's Accrual templates. The Maltese statistical authorities confirmed that the accruals-based financial statements of public corporations, EBUs and Local Councils follow IFRS. In this context, Eurostat enquired about the adjustments made, if any, to the Local Councils' accounts when compiling EDP table 2C. The Maltese statistical authorities explained that for the compilation of EDP table 2C the accruals-based audited financial statements of the Local Councils are used, while small adjustments are made to take out non-ESA relevant items (provisions, etc.). The NSO committed to provide an example of how the net lending/borrowing of a major Local Council is compiled.

The Treasury presented the update on the status of the tender of the new Corporate Financial Management Solution (CFMS), which will replace DAS and implement accrual accounting. The new system will report both on a cash and on an accrual basis and will receive data from other external systems (income tax systems, etc.). The Treasury explained that eventually the CFMS

would also incorporate the data for EBUs. The Maltese statistical authorities assured that the CFMS took into account statistical needs such as coding structures in line with GFS and ESA.

Eurostat took note of the intention of the Maltese authorities to introduce a modernised financial management system (CFMS) and of the NSO to develop an integrated national accounts data system. Eurostat strongly encourages both of these initiatives, which will contribute to the quality of public finance statistics.

Eurostat enquired about the Accruals templates submitted each quarter by the government Ministries and Departments to the Treasury. The Maltese statistical authorities explained that the collection of these templates is currently ensured through circulars issued by the MF. The reporting obligations of the government Ministries and Departments will be included in the new Fiscal Responsibility Act. The NSO is responsible for consolidating data from the Accruals templates of the individual entities into the annual financial statement reports. The Maltese authorities also pointed out that data from the Accrual templates are not audited.

With respect to internal control, the Treasury conducts sample checks by reconciling cash data as reported in the DAS with the accrual data submitted by the Government Ministries and Departments. On the other hand, the NSO performs checks on the Treasury's Accruals templates, outlines any shortfalls and brings them to the attention of the Treasury. In addition, all officers charged with the supervision of the collection of public money are required to submit an annual Arrears of Revenue Return (ARR), which is audited on an annual basis by the NAO. The Maltese statistical authorities confirmed that Enemalta's arrears (discussed under agenda point 6.2) form part of the ARR.

Findings and conclusions

Action point 2: The NSO will provide Eurostat with a copy of the Budgetary Central Government Chart of Accounts expressed in ESA 2010 codes by end-June 2014².

Action point 3: The NSO will provide Eurostat with an example of the calculation of net lending/net borrowing for a large Local Council, including a set of accounts and its statistical synthesis, by end-July 2014³.

2.2. Reform of the public accounting system

Introduction

In 2012, the government embarked on a project that will lead to the implementation of the International Public Sector Accounting Standards (IPSAS) for all government Departments and Ministries in the coming years. Prior to the visit, the NSO sent to Eurostat a short note describing the reform of the public accounting system.

² Action point completed.

³ Action point completed.

Discussion

During the visit, the Treasury made a presentation on the reform of the public accounting system in Malta and in particular the state of play of the implementation of IPSAS within the BCG. An IPSAS Committee was set up in 2012, an IPSAS Implementation Board was appointed and a number of workshops were organised. The Maltese authorities explained that they had adopted accrual accounting concepts (on which the IPSAS standards are based) to satisfy the requirements of national accounts reporting.

Findings and conclusions

Eurostat appreciated the progress made and welcomed the efforts of the Treasury (MF) in this respect.

2.3. EDP inventory

Introduction

The latest version of the Maltese EDP Inventory was drafted in December 2013 and is publicly available both on the Eurostat and NSO websites.

Discussion

Eurostat welcomed the work of the Maltese statistical authorities on the EDP Inventory. It also informed the NSO that the update of inventories for ESA 2010 would be discussed at the next FAWG in June 2014.

Findings and conclusions

Eurostat pointed out that the information provided in the Maltese EDP Inventory was very clear and comprehensive and that no further action was required, except for the regular update of the inventory (including its annexed list of general government units) whenever important changes in the methods, procedures or sources are implemented.

2.4. Revision policy

Introduction

There is no formal written revision policy related to EDP data and the underlying ESA95 government accounts in Malta. EDP data in the notification tables for years t-4, t-3 and t-2 are considered final, although exceptional revisions are possible, if needed. The main reasons for revisions are the availability of audited accounts for EBUs and Local Councils for the second notification, revisions in the Accruals templates collected by the Treasury (due to mistakes or methodological errors) and revisions due to reclassifications of units inside or outside the general government sector.

Discussion

Eurostat encouraged the Maltese statistical authorities to formalise their revision policy for EDP purposes. Most Member States' Statistics Offices do have such formal policies, which have to be

of course fully aligned with any revision policies applied in the Central Banks and the Ministries of Finance.

Eurostat also informed the Maltese statistical authorities that they would have to revise historical data (preferably going back to 1995) with the implementation of ESA 2010 in the October 2014 EDP Notification.

The Maltese statistical authorities pointed out that sometimes EBUs accounting data might arrive quite late, which could lead to exceptional revisions to backward data beyond year t-2.

Findings and conclusions

The Maltese statistical authorities will reflect on developing a formal written revision policy for EDP.

3. Follow-up of the previous EDP dialogue visit

Eurostat congratulated the Maltese statistical authorities on completing all action points from the last EDP standard dialogue visit (22-23 May 2012).

4. Follow-up of the latest EDP reporting – analysis of EDP tables and the related questionnaire

Introduction

Eurostat appreciated the timely and complete EDP transmissions and the comprehensive supporting documents sent with each notification.

Discussion

4.1. EDP Table 1

Eurostat enquired about the inclusion of capitalised interest in Gross Fixed Capital Formation (GFCF) for an EBU in the April 2014 EDP Notification. The NSO confirmed that it could not identify interest in the audited financial statements of the EBU in question, but it would obtain the data for the next notification.

Prior to the visit, Eurostat sent to the NSO an example on the statistical treatment of the issuance of coins under ESA 2010. It was agreed that Eurostat would provide further comments on this matter.

The Maltese statistical authorities confirmed that Local Councils and EBUs do not hold government securities, so that no problems of consolidation of interest or principal arise.

Findings and conclusions

Action point 4: The NSO will obtain the series for interest payable from the Foundation for Tomorrow's Schools and ensure that any capitalised interest (currently recorded as Gross Fixed Capital Formation) is recorded as interest in the end-September 2014 EDP notification tables⁴.

Action point 5: The NSO will examine the example provided by Eurostat of the recording of coins under ESA 2010, and will ensure that it is implemented in the end-September 2014 EDP notification⁵.

Discussion

4.2. EDP Tables 2A-D

Table 2A

Eurostat reviewed the exclusions from the Consolidated Fund data in EDP table 2A. The Maltese statistical authorities explained that revenues that have no impact on deficit, such as proceeds from loans and proceeds from sales of financial assets (including privatisations) are not taken into consideration. Likewise, loan repayments, contributions to sinking funds and acquisitions of equity are excluded from the total expenditure.

However, adjustments are made in EDP table 2A for international subscriptions, super-dividends and stock premium proceeds under the line "Financial transactions included in the working balance" because these items appear in the working balance. As an example, the Maltese statistical authorities explained in detail the recording of premiums in EDP table 2A.

As to non-financial flows relating to the Treasury Clearance Funds and the Sinking Funds, these appear in the line "Non-financial transactions not included in the working balance".

Table 2C

There were no particular issues for EDP table 2C. The adjustments made to the Local Councils' accounts when compiling EDP table 2C were covered under point 2.1 Data sources (*see Action Point 3*).

4.3. EDP Tables 3A-E

In the preparation for the meeting, the Maltese statistical authorities provided to Eurostat a list of loans (flows) granted by government (or on behalf of government) to non-government units, broken down by individual beneficiary, for the years 2010-2013. Eurostat cross-checked these data with the figures reported in the April 2014 EDP Notification and enquired about the

⁴ Action point completed.

⁵ Eurostat provided a numerical example of the recording of coins in the financial accounts. NSO adopted this example.

increase in loans observed for both 2012 and 2013. The Maltese statistical authorities explained that this increase was mainly due to EFSF lending.

In relation to EDP table 3D, the Maltese statistical authorities confirmed that there are no transactions in loans or equities for the Local Councils.

No further issues related to EDP tables 3 were discussed.

4.4. EDP Table 4

Eurostat enquired whether it would be possible for the Maltese statistical authorities to separately identify trade credits. The Maltese statistical authorities explained that the Treasury's Creditors template does not have a separate line for trade credits. However, the Treasury's Creditors template contains information on the nature of each expenditure item, which would allow the compilers of EDP tables to distinguish between trade credits and other payables.

Findings and conclusions

Eurostat encouraged the Maltese statistical authorities to address the issue of identification of trade credits in the new accounting system.

4.5. Statistical discrepancies

Discussion

Eurostat enquired about the threshold of 2% of GDP which is being currently used by the NSO to investigate quarterly statistical discrepancies. The NSO explained that the high statistical discrepancies in the fourth quarter tend to compensate for the discrepancies in the previous three quarters and thus they normally balance within the year. The Maltese statistical authorities explained that the high discrepancies in the fourth quarter seem to be generated mostly by BCG entities. They committed to further investigate this issue and check whether the 2014 quarterly data will follow the same pattern.

Findings and conclusions

Action point 6: The NSO will closely monitor quarterly statistical discrepancies for general government through 2014 and provide Eurostat with a report by end-April 2015 on the likely reasons for the substantial quarterly discrepancies seen until now.

4.6. Questionnaire relating to the EDP tables

Discussion

The Maltese statistical authorities explained how they record EU funds advance payments in EDP tables 2 and 3, based on the figures reported in Questionnaire table 6. The NSO explained that the EU Funds advance payments deposited at the CBM feature in the general government financial accounts as other accounts payable liability (F.7) and as a currency and deposits asset

(F.2), while they appear in the non-financial accounts as revenue only later, when the amounts are effectively transferred to the Consolidated Fund.

Referring to Questionnaire table 9.3, the Maltese statistical authorities also explained the nature of a guarantee fee, which is not being paid in cash but rather accumulated over time to eventually represent the amount for which an immovable property will be transferred to government after 25 years. This guarantee fee relates to Vault Finance, an SPV which was created for the first restructuring of Enemalta's debt back in 2009. Under the terms of the restructuring, Enemalta's property was transferred to Vault Finance and leased back to Enemalta. Thereby, the debt was converted to rent paid by Enemalta to Vault Finance. The Maltese statistical authorities explained that the guarantee fee would be used to off-set the transfer when the assets revert back to government.

Findings and conclusions

Eurostat took note of the recording of EU funds and agreed with the recording of the guarantee fee as revenue.

5. Implementation of the accrual principle

5.1. Recording of accrued interest

Introduction

In the preparation for the meeting, Eurostat asked the Maltese NSO to complete and send a table showing the breakdown of the lines "Difference between interest paid and accrued" in EDP tables 2A and 3B as well as a table on the recording of cash interest expenditure in EDP table 2A. All questions raised by Eurostat on this table were answered by the NSO before the meeting.

Discussion

The Maltese statistical authorities explained that the difference between the item "Difference between interest paid and accrued" in EDP table 2 and the same item in EDP table 3 is due to the recording of premiums. The premiums (as well as discounts) are apportioned throughout the lifetime of the security, with the apportionment for year t featuring in the item "Difference between interest paid and accrued" in EDP table 3. On the other hand, in EDP table 2, all the revenue from the premium proceeds is recorded within the working balance, while under the category "Other financial transactions" within the item "Adjustment stock premium proceeds" an adjustment is made for the difference between the premium proceeds received in year t and the premium apportionment accrued for year t .

The Maltese statistical authorities also confirmed that interest is calculated on an instrument-by-instrument basis.

Findings and conclusions

Eurostat took note of the explanations provided by the Maltese statistical authorities.

5.2. Recording of taxes and social contributions (*including tax amnesties*)

Introduction

The NSO obtains source data on taxes and social contributions on a cash basis from DAS. Then it applies the time-adjusted cash method for VAT (one-month lag) and income taxes (2-months lag). The other taxes are recorded on a cash basis and are adjusted for accruals using the Treasury's Accruals templates. For social contributions, a time-lag of 2 months is used.

For social contributions, income taxes and VAT, any refunds, final settlements, interest on late payments, penalties and tax amnesties are captured with the time-adjusted method.

As explained in the EDP Inventory, the data on taxes and social contributions for the year t-1 are considered final by the first EDP notification.

Discussion

Eurostat enquired if source data on taxes and social contributions are ever revised, as had been seen in some other Member States. The Maltese statistical authorities explained that in Malta there is no significant delay for the cash reaching the government funds. Hence, revisions are either small or inexistent.

Eurostat enquired about the big increase in income taxes in the last quarter of 2013, which was explained before the visit by the Maltese statistical authorities as a result of economic growth. The Maltese statistical authorities confirmed their previous explanation and committed to further investigate the issue. In particular, they confirmed that the cash revenues for the VAT, income tax and social contributions were high. They pointed out that usually the fourth quarter accounts for the highest receipts collected for each of the three main tax categories. On income taxes, they pointed out that the 2013 projections were too conservative as compared with the real data. On the other hand, there have been no changes in the deadlines for the corporate tax payers and there have been no government proceeds in the fourth quarter of 2013 from new tax amnesty schemes.

Eurostat enquired about the Scheme for Remittance of Interest and Administrative Penalties and the Investment Registration Scheme, which had recently been referred to in the press.

The Maltese authorities explained that the Scheme for Remittance of Interest and Administrative Penalties is not a tax amnesty scheme but it is rather designed to allow taxpayers to regularize their outstanding VAT arrears, benefitting from a reduction in interest and penalties. The scheme has been operational since 2012.

As to the Investment Registration Scheme, the Maltese statistical authorities explained that it would be shortly launched. The scheme would allow people holding undeclared funds, securities or investments to regularise their position, while paying a registration fee.

The Maltese statistical authorities explained that the proceeds from both schemes would be recorded on a cash basis.

Findings and conclusions

Action point 7: The Maltese authorities will provide Eurostat by end-June 2014 with a breakdown of 2010-2013 income tax receipts by type of taxpayer⁶.

Action point 8: The Maltese authorities will provide to Eurostat a description of how the Investment Registration Scheme functions when this scheme is established⁷.

5.3. Ex-gratia scheme for car tax refunds

Introduction

The Maltese government launched a VAT refund scheme for car owners who registered a vehicle for personal use between 1 May 2004 and 31 December 2008. The scheme was announced on the website of Transport Malta, with a deadline for submitting applications of 28 March 2014. Before the visit, the Maltese NSO requested an advice from Eurostat on how to record the tax refunds in national accounts.

Discussion

Eurostat asked about the modalities of the practical implementation of the scheme and about the role of Transport Malta in the reimbursement process. Representatives from Transport Malta explained the application procedure for the tax refunds. Transport Malta started making payments to car owners in April 2014. The refunds will be paid over a seven year period, with separate calls for application being issued each year. Every year there will be a new legal act for this purpose and Parliament approval will be required. Each call for applications will be subject to a separate verification process, as indicated in the published scheme. The exact amount of the refund will be only known at the end of the verification process.

The eligibility of each applicant will be determined by Transport Malta, based on a number of criteria specified in the scheme. Even though applicants may be eligible for receiving the flat rate in 2014, this eligibility will not be automatically carried forward for the remaining amount of the refund, but the further applications would need to be verified and could be refused.

Findings and conclusions

Based on the description of the scheme provided by the Maltese authorities, it was agreed that the amounts to be paid under the scheme would not be considered as certain during 2014 and should be therefore recorded, as proposed by the Maltese statistical authorities, "at the time when the amount of the claims/obligations is definitely determined with certainty", which would be the point at which future applications are accepted by the government.

6. Delimitation of the general government sector: classification of institutional units

6.1. Questionnaire on government controlled units classified outside general government

⁶ Action point completed.

⁷ Action point completed.

Introduction

Eurostat received the Questionnaire on government controlled units classified outside general government on 30 December 2013.

All public corporations (and EBUs) in Malta are regularly tested for the 50% criterion, and this has been discussed in previous visits. The delimitation exercise, carried out by the NSO with the cooperation of the MF, is conducted twice a year, prior to each EDP notification.

Discussion

Eurostat asked the NSO how it is informed when new units are set up. The NSO explained that it is immediately informed by the MF when a new unit is created. The NSO would then request the MF to provide a budget plan for this new entity so as to determine its sector classification.

The NSO also explained how they manage the register of public entities. The list of public entities is regularly cross-checked with the entities in the Business Register and full consistency is ensured.

As regards the units reported in the Questionnaire on government controlled units classified outside general government, Eurostat asked about the significant drop in the results of the 50% test for one particular body in 2011. The Maltese statistical authorities explained that this body had been closed down in 2011.

Findings and conclusions

Eurostat took note of the explanations.

6.2. Specific public corporations (*Enemalta, Malta Freeport Corporation, Air Malta, Housing Authority, etc.*)

Introduction

Under this agenda point, a number of public corporations were discussed.

Discussion

Malita Investments Ltd

Eurostat briefly reviewed the developments in the City Gate project, which consists of the construction of the Open Air Theatre and the Parliament Building in Valletta. The Chairman of Malita Investments Ltd described the funding model of the company and presented the way it deals with new projects. He also explained that the Open Air Theatre had been completed, while the Parliament Building was planned to be finalised by the end of the year.

No new relevant factors for Malita's sector classification under ESA 2010 were identified. It was agreed that Malita Investments Ltd would remain classified outside general government.

Enemalta

Enemalta Corporation is a public corporation which has as its principal activities the generation, transmission and distribution of electricity, together with the importation and distribution of petroleum products. Since 2009 Enemalta's debt has been steadily increasing. The company is

currently facing financial difficulties and its debt, mostly government-guaranteed, needs to be restructured.

Enemalta has also accumulated a lot of arrears to government for excise duties. Enemalta's liabilities to government for excise duties amounted to EUR 104.6 million as of end 2013. Further accumulation of excise duties is expected during 2014.

Enemalta is presently classified outside the general government sector as its sales cover more than 50% of its costs. Despite the announced cut in electricity tariffs by 25% and its big interest charge, the company is likely to remain classified outside general government under ESA 2010 as it will benefit from efficiency gains (significant decrease in the production costs) as a result of the restructuring of the company.

The Maltese authorities explained the funding model of Enemalta. In particular, they described how the company would meet its liabilities for excise duties to government, how it would service its loans to banks and how it would deal at the same time with the announced cut in electricity prices. Over the years, the company will also have to finance two major projects – the extension of the Delimara power station and the setting-up of the Malta-Sicily interconnector.

On 11 March 2014, Enemalta signed an agreement with China Power Investment Corporation, which will invest EUR 320 million in Enemalta and will acquire a 33 per cent stake in the corporation. This investment will be split as follows - a capital injection of EUR 100 million into Enemalta, an investment of EUR 150 million to acquire the majority shareholding in the BWSC plant, and the remaining EUR 70 million will cover the commitment to convert the BWSC plant to gas. Part of these funds will be used to pay off the excise duties to government and to reduce Enemalta's bank loans. The Maltese authorities explained that the agreement was to be implemented in the second half of 2014.

Eurostat asked whether government pays any subsidies to Enemalta. The Maltese authorities explained that government transfers money to Enemalta in the form of subsidies (Feed-in Tariff and Eco Reduction) and as intermediate consumption for services rendered by Enemalta, based on the actual costs of services provided (street lighting and electricity bills).

Eurostat also enquired about the planned privatisation of the profit-making Petroleum Division of Enemalta. The Maltese authorities explained that the government intends to separate the Petroleum Division from Enemalta before the Chinese investment is made, and thereby retain complete ownership of the profitable business of Enemalta. The government has the intention to explore different options for a future market transaction (a strategic investor and/or an Initial Public Offering) involving the Petroleum Division, though there are no firm plans at present.

Finally, as regards Vault Finance, which was set up to restructure Enemalta's debt in the past, the Maltese statistical authorities explained that it would remain classified outside general government under ESA 2010.

Findings and conclusions

Action point 9: The Maltese authorities will provide Eurostat with financial projections from Enemalta's updated business plan, when that plan is finalised in 2014.

Discussion

Malta Freeport Corporation (MFC)

MFC was set up in 1988 to develop and manage the Malta Freeport. Since 2004 MFC has been leasing the infrastructure to a private entity, Malta Freeport Terminals, which is now operating the assets.

Under the current ESA95 rules, this entity is classified outside general government, as a non-financial public corporation. It has actually always been considered a market producer, both when it was the operator of the Freeport infrastructure and now when it is only acting as the lessor of the infrastructure.

Under the ESA 2010 rules, however, the market/non-market test applied to a non-financial public corporation to determine its sector classification should take into account the net interest charge of the corporation. As MFC has a relatively big amount of debt, the new rules would lead to its reclassification inside general government. Based on preliminary calculations made by the Maltese statistical authorities, the classification of MFC within government would only apply for the period 1999-2011, while it would be again reclassified outside general government in 2012.

Eurostat discussed the implications of ESA 2010 for the sector classification of MFC. In particular, the calculations of the 50% test should take into account the net interest charge of MFC, the consumption of fixed capital for all relevant assets and the revenue from leasing the assets to a private company. Eurostat asked the Maltese authorities to calculate consumption of fixed capital for the assets of the MFC infrastructure and to ensure that all of the port infrastructure is taken into account.

Before the visit, the NSO sent to Eurostat a copy of the MFC lease agreement (dated 5th October 2004) together with a copy of the amended lease agreement (dated 24th February 2008). During the visit, the nature of the lease agreement was briefly discussed and it was agreed that it has the characteristics of an operational leasing.

Findings and conclusions

Action point 10: The NSO will obtain from Malta Freeport Corporation the details of the calculation of investment property recorded in its balance sheet, and other relevant information, and will determine which elements are appropriate for the calculation of consumption of fixed capital of Malta Freeport Corporation. The NSO will then calculate the 50% test for Malta Freeport Corporation under ESA 2010 and will report to Eurostat by end-July 2014⁸.

Discussion

Transport Malta

Transport Malta is the transport sector regulator in Malta, fully owned by government, and is currently classified in the non-financial corporations sector. All the non-financial assets of the road network, as well as the annual recurrent and capital expenditure for the roads in Malta, feature in the general government sector and not in the Transport Malta's accounts.

Eurostat noted the substantial amount of government-guaranteed debt of Transport Malta and asked the Maltese statistical authorities to describe the company. The Maltese statistical authorities explained that the debt related to repurchases of bus licences and buses by Transport Malta in 2010. In 2011 Arriva Malta started operating Malta's public transport service. This

⁸ Action point completed.

company ceased to operate in 2013, when it was purchased, including the buses, by Transport Malta for a nominal consideration of EUR 1. Then a public company, Malta Public Transport Services Ltd, was set up to run the public transport service using Arriva's buses. At the end of 2013 the government nationalised Malta Public Transport Services Ltd (*see agenda point 7.2 on capital injections*).

The Maltese authorities confirmed that Transport Malta was not involved in any building of infrastructure and that it would use its own funds to pay off its debt.

Findings and conclusions

Action point 11: The Maltese authorities will confirm the circumstances under which Transport Malta re-purchased bus licences in 2010, and why the resulting debt is still outstanding, by end-June 2014⁹.

Action point 12: The Maltese authorities will confirm by end-June 2014 if there were any transactions, or obligations, established with government when the private operator of Malta buses ceased to operate services at end-2013¹⁰.

Discussion

Housing Authority

Prior to the visit, Eurostat requested from the NSO a note on the main developments in the Maltese public housing sector. The NSO provided a short note where reference was made to the Housing Authority.

Eurostat asked the Maltese statistical authorities to describe the major activities of the Housing Authority, including any new developments in the Maltese housing policy which might have statistical implications. The Maltese statistical authorities explained that the Housing Authority is active in the provision of social housing and is currently operating a number of schemes for that purpose. Among the main goals of the Housing Authority are promoting home ownership and providing housing service to individuals. It is classified as an EBU within the general government sector. The Maltese authorities further explained that the government seeks to expand social housing and various models are currently under consideration, but none of these corresponds to a public-private partnership (PPP) as defined in statistics.

Findings and conclusions

Action point 13: After completion of the on-going tender process, the Maltese authorities will inform Eurostat about the details of the Housing Authority initiative to purchase residences for social housing.

Discussion

Church schools, hospitals and others

Eurostat enquired about the government's rights over the church schools, which are currently classified outside the general government sector. The Maltese statistical authorities explained

⁹ Action point completed.

¹⁰ Action point completed.

that the church schools enjoy complete freedom apart from the school curriculum. No changes are thus expected with respect to their sector classification.

Eurostat enquired about the funding model of the Public Broadcasting Services, Malta's broadcasting services provider, which is currently classified outside the general government sector. The Maltese statistical authorities explained that the main income of this body comes from advertising.

The NSO also confirmed the sector classification of Property Management Services Limited as an EBU within government.

As regards public hospitals, which form part of general government in Malta, the Maltese statistical authorities confirmed that there had been no further developments which might have statistical implications.

Eurostat also enquired about Malta Enterprise and Malta Industrial Parks. The Maltese statistical authorities explained that these are two separate companies. Malta Enterprise is part of general government, while Malta Industrial Parks is classified as a non-financial corporation. For both entities, there will be no implications from the implementation of ESA 2010. The Maltese statistical authorities explained that the market/non-market test for Malta Industrial Parks will show results well above the 50% threshold under ESA 2010.

Findings and conclusions

Eurostat took note of the explanations provided by the Maltese statistical authorities.

7. Further methodological issues and recording of specific government transactions

7.1. Recording of EU flows (*JEREMIE scheme, etc.*)

Introduction

In the April 2014 EDP Notification the NSO made revisions to back data related to EU funds reimbursements. At the time the government made expenditure, the NSO did not record a receivable because they did not know if the project would be eligible. They rather revised later on, when the government received the funds. This approach led to revisions to back data.

Discussion

The Maltese statistical authorities described the method used for recording EU flows. As explained in the EDP Inventory, EU grants are now recorded at the time of expenditure. The pending claims method, which was used in the past, will be phased out as soon as the old claims are settled. The NSO explained that it is in a position to distinguish between advances and reimbursements from the EU, through information supplied by the MF. They also explained that backward revisions due to the matching approach only happen at the end of the programming period, when the government receives the funds.

Eurostat also enquired about the JEREMIE programme, which was implemented in Malta in April 2011 through the Bank of Valletta. The Government of Malta injected EUR 10 million (EUR 8.5 EU Funds and EUR 1.5 national co-financing) in the JEREMIE programme, thereby allowing the bank to leverage a EUR 51 million JEREMIE Fund for enterprises. The objective of the fund was to enhance access to finance for SMEs and in particular to micro enterprises. In

national and public accounts the government transfer of EUR 10 million was recorded as an investment grant payable (D.92) with the final beneficiaries being the SMEs.

Findings and conclusions

Eurostat agreed with the recording of the government transfer as an investment grant payable (D.92) as the money is expected to remain in the scheme till spent.

7.2. Capital injections into public corporations, dividends, privatisations

Capital injections

Introduction

Prior to the visit, the NSO provided information on equity injections made by government in the years 2010-2013. The capital injections into Air Malta in the years 2012-2013 were recorded as capital transfers as the company had a loss-making history. In addition to Air Malta, the following companies received capital injections from government: Malta Industrial Parks Ltd in 2011, Malita Investments Ltd in 2011 and 2012 and Malta Public Transport Services Ltd in 2013. All these companies were profitable, except for Air Malta. The information provided by the NSO on equity injections matches with the data on equity transactions reported in Questionnaire table 10.2.

Discussion

As regards Air Malta, the Maltese statistical authorities informed Eurostat that conversions of loans into equity had been planned for the years 2015 and 2016. The NSO will perform the capital injection test and verify whether Air Malta will be profitable or not in these years. The Maltese authorities explained that based on the projections for the future profitability of Air Malta, the company would still be loss-making through 2015. Thus an increase in the deficit for the amount of EUR 40 million is expected for 2015. The company is expected to recover in 2016.

In the clarification round of the April 2014 EDP Notification Eurostat enquired about the rationale for recording an equity transaction for the injection made to Malta Public Transport Services Ltd in 2013. The NSO explained that the equity transaction of EUR 1 million was for the creation of a new public company, Malta Public Transport Services Ltd, which took over the operations of public transport from the original private company. At the end of 2013 the government nationalised Malta Public Transport Services Ltd for a nominal consideration of EUR 1. This capital injection was deemed by the Maltese authorities as part of a privatisation process within a short-term perspective.

In the visit, the Maltese statistical authorities clarified the circumstances surrounding the privatisation of Malta Public Transport Services Ltd. Given that the government had already issued an expression of interest for privatising the company with a closing date of 7 April 2014 (three operators have submitted interest), the NSO decided to classify this company outside the general government sector.

Findings and conclusions

Eurostat recalled that there must be strong evidence at the time of the capital injection that the privatisation will be launched so as to treat it as an equity transaction. By the end of 2014 the NSO will make a final decision based on the details of the agreement with the new operator.

Should the privatisation not materialise, they will re-examine the 2014 sector classification of Malta Public Transport Services Ltd.

Dividends

Introduction

Prior to the visit, the Maltese NSO provided Eurostat with a detailed list of dividends paid to general government between 2010 and 2013. Super-dividends were shown for the CBM, for the years 2010 and 2011, which was in line with the data reported in Questionnaire tables 10 in the April 2014 EDP Notification.

Discussion

The Maltese statistical authorities assured that the super-dividend test is regularly applied and information on dividends is available for all public corporations for the April notification. For the October notification the audited accounts of the public corporations are available and used for the super-dividend test.

Findings and conclusions

Eurostat took note of the explanations provided.

Privatisations

No particular issues were raised as regards privatisations. All privatisation proceeds in Malta are transferred to the BCG. However, these proceeds are not recorded as revenue and therefore do not feature in the working balance of EDP Table 2A.

7.3. Recording of government guarantees

Introduction

Prior to the visit, Eurostat received from the NSO a list of outstanding government guarantees (by individual beneficiary) for the years 2010-2013. The data are consistent with the figures reported in Questionnaire table 9.1 of the April 2014 EDP Notification.

Discussion

The Maltese statistical authorities confirmed that the government guarantees reported in the Questionnaire tables relating to the EDP exclude guarantees on Multilateral Investment Guarantee Agency (MIGA) and International Bank for Reconstruction and Development (IBRD) as well as on foreign loans taken by the CBM on behalf of government, which loans already feature in government debt. The government guarantees in Questionnaire table 9.1 also exclude government guarantees provided to EBUs.

The Maltese statistical authorities confirmed that there had been no calls of guarantees. They also explained that the total amount of outstanding government guarantees would be reduced following the restructuring of Enemalta.

Findings and conclusions

Eurostat took note of the explanations provided.

7.4. Recording of debt assumptions, debt cancellations and debt write-offs

Introduction

Recently, there have been no significant debt assumptions, debt cancellations and debt write-offs in Malta.

Discussion

Eurostat briefly discussed the statistical recording differences between non-recoverable, non-performing and written-off loans.

As described in the EDP Inventory, "loans or other accounts receivable which are non-recoverable or non-performing, as long as they are kept in the books of government accounts, are treated as such in the national accounts. Accrued interest revenue is not calculated for these types of receivables, both in the government's public accounts and in national accounts."

Debt write-offs, on the other hand, are usually associated to the disappearance of units (liquidations), when the claim can no longer be collected. The NSO confirmed that they keep the claims in the books until a genuine write-off (when the entity disappears) takes place.

Findings and conclusions

The Maltese authorities confirmed that they record non-recoverable, non-performing and written-off loans in line with the rules of the Manual on Government Deficit and Debt.

7.5. Public Private Partnerships (PPPs) and concessions

Introduction

The Maltese statistical authorities reported only one off-government balance sheet PPP in Questionnaire table 11 in the April 2014 EDP Notification.

Discussion

The Maltese statistical authorities confirmed that the only fully operational PPP in Malta is the Mellieha Home for the Elderly, set up in 2007, which is currently recorded off the government balance sheet. Other forms of agreements between the government and the private sector exist, but it was clarified that these are rather payments for services by government and not PPPs in national accounts terms.

Findings and conclusions

Eurostat took note of the explanations.

7.6. Statistical implications of the new developments in the Maltese energy sector

Prior to the visit, the Maltese statistical authorities provided a note describing the recent developments in the Maltese energy sector and the possible statistical implications thereof. Energy-related matters where the government might be involved were discussed in more detail under agenda point 6.2 (the part on Enemalta).

8. Implementation of ESA 2010

Introduction

As of the October 2014 EDP Notification, Member States should start transmitting EDP notification tables and related questionnaires in line with the ESA 2010 methodology.

The implications of the introduction of ESA 2010 for the sector classification of particular entities was discussed under agenda point 6.2.

Discussion

Eurostat asked about the progress made in assessing the impact of the implementation of ESA 2010 and gave a general description of developments across EU Member States. The Maltese statistical authorities explained that, apart from MFC (at least from 1999 to 2011) and the Malta Information Technology Authority (insignificant impact on the government accounts), no other reclassifications inside general government due to the implementation of ESA 2010 are expected.

Lump sum payments received from pension schemes and the change in the treatment of interest payments under swaps and FRAs are not applicable for Malta. The Maltese statistical authorities confirmed that the government does not grant any standardised guarantees. Deferred tax assets are also not relevant for Malta.

Findings and conclusions

Eurostat appreciated the work of the Maltese statistical authorities on the implementation of ESA 2010.

9. Other issues (ESA95 Transmission Programme, etc.)

Introduction

The following matters were covered under this agenda point: the Individual Investor Programme, issues related to the Maltese pension system, the implementation of Council Directive 85/2011, the recording of emission trading permits in national accounts, the recording of transfers of income stemming from CBM's Greek Government Bonds holdings in ANFA portfolios and the recording of proceeds from granting mobile phone licences.

Discussion

Individual Investor Programme

Eurostat enquired about the details of the recently announced Individual Investor Programme, which would allow foreign individuals and their families who contribute to the economic development of Malta to apply for a Maltese citizenship, subject to certain provisions. The Maltese authorities explained that prior to the submission of the application file applicants shall pay an up-front non-refundable deposit (a relatively small amount). The Maltese authorities further explained that a second payment (a much more significant amount) should be made by successful applicants at a later stage. There have been no large payments made under the programme so far, even though some applications have already been received and perhaps some non-refundable deposits as well.

As to the exact nature of the proceeds from the Individual Investor Programme, Eurostat explained that it would favour recording a fee under "Other non-market output" (P.131) as there is no market for citizenship and the price is not determined by the demand and the supply. The NSO explained that they do not make the split between market output (P.11) and P.131 and they would rather record the proceeds under P.11.

As to the time of recording, Eurostat reviewed the different options for the time of recording of the proceeds from the programme. The time of recording will depend on the exact moment when the obligation of the applicants to settle the whole amount of the contribution arises. It was agreed that the up-front non-refundable deposit would be recorded on a cash basis. To be able to determine the exact time of recording of the second payment, Eurostat required a copy of the Individual Investor Programme legal acts, which would provide a detailed description of the modalities of the programme.

Eurostat agreed to provide an example on the recording of the proceeds in national accounts.

Findings and conclusions

Action point 14: Eurostat will provide the Maltese authorities by end-June 2014 with an example of recording of the Individual Investor Programme revenues in national accounts¹¹.

Action point 15: Eurostat will analyse the Individual Investor Programme legal acts, and will confirm to the NSO by end-June 2014 if a time of recording at time of cash payment would be appropriate¹².

Pension system

Discussion

Currently, Malta has only a first pillar pension scheme, which is the compulsory, pay-as-you-go state pension scheme. The Maltese government is reflecting on the introduction of a third pillar pension scheme in the near future.

Nevertheless, the Maltese statistical authorities explained that government would not be involved in the third pillar pension scheme. Individuals subscribing to the third pillar pensions will only benefit from certain tax deductions.

Findings and conclusions

Eurostat took note of the explanations.

Council Directive 85/2011

Discussion

The NSO is responsible for implementing the requirements of Council Directive 85/2011 on the collection and dissemination of fiscal data. In this context, on 28 February 2014 the NSO published on its website the first series of monthly fiscal data for BCG (the government's Consolidated Fund) and for EBUs.

¹¹ Action point completed.

¹² Action point completed.

In April 2014 Eurostat made an assessment of the compliance of countries' publications of monthly fiscal data for central government and social security funds with the requirement of the Directive. Eurostat also assessed the compliance of Member States' publications of methodological reconciliation tables with the provisions of the Directive.

Eurostat congratulated the Maltese NSO for publishing the first series of monthly fiscal data for BCG and EBUs. The NSO explained that EBUs data for capital transfers receivable and payable as well as for Gross Fixed Capital Formation are not available on a monthly basis. They proposed to first compile the EBUs data for the first quarter of 2014 as part of the compilation of the ESA quarterly non-financial accounts and then compare the quarterly figures with the fiscal data for the first three months in order to decide whether to estimate the missing items based on the previous year's figures. According to the NSO, for a large number of EBUs capital transfers receivable compensate for Gross Fixed Capital Formation, so the impact on deficit would not be substantial.

Findings and conclusions

Eurostat took note of the explanations provided and agreed with the approach proposed by the NSO to first compile quarterly data and then assess the need to estimate the missing items.

Emission trading permits

Discussion

Up to 2013 there were no surrenders of permits in Malta and no amounts were booked under "Other taxes on production" (D.29 rec). The Maltese statistical authorities explained that the legal deadline for reporting of surrender of the permits is in April, which does not fit well with the April notification.

Eurostat explained that the Maltese statistical authorities should not track individual permits sold but should rather look at a model of all surrendered permits, according to the formula provided in the Manual on Government Deficit and Debt. This is in line with the advice given by Eurostat to other Member States on this issue.

Transfer of income stemming from CBM's Greek Government Bonds holdings in ANFA portfolios

Discussion

Eurostat reviewed the recording of transfers to Greece of income stemming from CBM's Greek Government Bonds holdings in ANFA portfolios and referred to the experience with other Member States on this issue. The Maltese statistical authorities confirmed that the amounts transferred to Greece in June each year are recorded in the government accounts on an accrual basis in the second quarter of the year.

Mobile phone licences

Discussion

Finally, Eurostat reviewed the rules for recording of the proceeds from sales of mobile phone licences. It was clarified that a licence could be recognised as an asset only if the holder of the licence should be able to transfer it to a third party.

The Maltese statistical authorities explained that the third generation mobile phone licences would be operating in Malta till the year 2020 and they would further check if the licence is transferable over this period.

Findings and conclusions

Action point 16: The NSO will confirm to Eurostat by end-September 2014 if the mobile phone licences in Malta are transferrable¹³.

¹³ Action point completed.

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