



EUROPEAN COMMISSION  
EUROSTAT

Directorate D Government Finance Statistics (GFS)  
**Unit D-3: Excessive Deficit Procedure II**

**Luxembourg, 13 November 2012**

**- FINAL FINDINGS -**

➤ **EDP Mission to Malta**

**22-23 May 2012**

# **Eurostat EDP dialogue visit to Malta**

## **22-23 May 2012**

### **Final Findings**

#### **Executive summary**

A standard EDP dialogue visit to Malta took place on 22-23 May 2012 in order to review the implementation of ESA95 methodology and to ensure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Maltese EDP and Government Finance Statistics (GFS) data. The recording of specific government transactions in the Maltese national accounts and EDP notifications were also discussed during the visit.

The meeting was very constructive and Eurostat thanked the Maltese authorities for the openness and transparency shown in the meeting and for the quality of documents provided prior and during the visit.

The main point discussed concerned the statistical recording of the City Gate Project, with particular attention to the statistical classification of Malita, and to transactions between Malita and the Maltese government. The Maltese authorities explained the arrangements to Eurostat and follow-up points were identified.

In relation to the institutional arrangements in the framework of EDP reporting, Eurostat took note that there are no changes in the role of each authority. A Memorandum of Understanding between the National Statistical Office and the Central Bank describes their cooperation in EDP reporting.

In relation to the EDP tables, Eurostat asked the Maltese statistical authorities to ensure, for the other accounts receivable, in case of update of data sources, a proper recording in EDP tables. Eurostat congratulated the Maltese statistical authorities for the low statistical discrepancy, based on substantial efforts over the last 2 years.

Eurostat welcomed the explanations provided of the restructuring plan of Air Malta, including the provision of a new government loan, and took note that the restructuring plan was under consideration by DG Competition.

Finally, Eurostat took note that there have been no interventions by the Maltese government in the context of the financial crisis, that there have been no cases of privatisations in 2010 and 2011, that there have been no calls for guarantees or debt cancellations in 2010 and 2011, and that there have been no new Public-Private-Partnerships.

## **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 22-23 May.

Eurostat was represented by Mr. John Verrinder (Head of Unit D3 "Excessive Deficit Procedure II"), Mr. Michele Marotta (desk officer for Malta), Mr. Gabe de Vries and Ms. Carmela Zammit. DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers.

Malta was represented by the National Statistical Office, the Ministry of Finance, the Court of Auditors and the Central Bank. For some of the items on the agenda, representatives from Air Malta and an external consultant also took part in the meeting.

The main aims of the visit were to examine the statistical treatment of City Gate Project, the expected replacement loan to Air Malta at the end of 2012, and the latest events concerning the restructuring of Enemalta. The institutional responsibilities in EDP compilation and reporting and the EDP framework were also discussed during the meeting.

### **1. Statistical institutional issues**

#### **1.1 Institutional responsibilities in the framework of the reporting of data under the EDP and government finance statistics compilation**

##### *Introduction*

The compilation of EDP tables is a joint exercise between the National Statistical Office (NSO), the Central Bank (the NCB) and the Ministry of Finance (Budget Office and Treasury). There exists a well established Government Finance Committee, made up of officers from the NSO, the Ministry of Finance (the Budget Office and the Treasury), the Financial Management and Monitoring Unit, as well as the Central Bank of Malta, who are all involved in the process of EDP data compilation.

##### *Discussion*

The Maltese authorities confirmed that this arrangement remained in place and added that the Court of Auditors had recently joined this Committee; the Court of Auditors clarified that they have a supervisory function, and not an executive function. The Government Finance Committee is officially scheduled to meet twice each quarter, but in fact it meets every month. The ultimate responsibility for the compilation of the EDP Notification and treatment of related methodological issues rests with the NSO.

The NSO confirmed that it is professionally independent of Government (although for administrative purposes it depends on the Ministry of Finance). The NSO is the executive arm of the Malta Statistics Authority. The Board of the MSA consists of nominees of the social partners: the Central Bank of Malta, the Ministry of Finance, and the University of

Malta. It meets regularly and discusses technical matters. The Director General of the NSO is an ex-officio member of the Authority.

The NSO has a Memorandum of Understanding (MoU) with the Central Bank of Malta, which describes the working arrangements between the two entities. This MoU contains a paragraph which deals specifically with the compilation of GFS data. No such MoU exists with the Ministry of Finance, but NSO and the Ministry of Finance reported that they have an excellent working relationship.

## **2. Data sources**

### 2.1 Changes in data sources

#### *Introduction*

The general government sector of Malta consists of Budgetary Central Government, Extra Budgetary Units (EBUs) and Local Government. Malta has no State or Social Security sub-sectors.

#### *Discussion*

The main data source for Budgetary Central Government (Ministries and Departments) is the Departmental Accounting System (DAS). The quality of data is under the responsibility of the Ministry of Finance (Treasury Department), with the cooperation of NSO. Government departments directly encode their data into the DAS database, which is managed by the Ministry of Finance (Treasury). The NSO has direct access to this database.

The Financial Data Reporting System (FDRS) gathers data for EBUs and the main public corporations, before the financial statements are finalised. The audited accounts are the basis for the reported data for local councils, and estimates based on previous year's figures are used before the data are finalised.

On a quarterly basis the Treasury Department collects accruals data for Budgetary Central Government. These data are used to supplement the available cash data. The data templates are saved on a shared server which is accessible to the NSO.

With regard to public accounting standards, a committee has been established to discuss the possible introduction of International Public Sector Accounting Standards (IPSAS). Before coming to a decision, the committee is awaiting the results of the Eurostat report assessing the suitability of IPSAS for EU Member States, due to be published in December 2012.

#### *Conclusions*

**Action 1:** The Maltese Finance Ministry will provide a copy of its process documentation on government accounting data to Eurostat. *Deadline: 30 June 2012.*<sup>1</sup>

---

<sup>1</sup> This information was provided by the Maltese authorities on 6 June 2012.

## 2.2 EDP inventory

### *Discussion*

Eurostat asked if the Maltese authorities were planning an update of the existing EDP inventory, and if any progress had been made on the new format EDP inventory.

The Maltese authorities answered that – in the absence of major changes to compilation processes - they had not planned an update of the existing EDP inventory, and had not yet started work on the new format EDP inventory.

### *Conclusion*

Eurostat encouraged the Maltese authorities to start compiling the new format EDP inventory. Eurostat explained that the new format EDP inventory will not start from scratch, but will draw upon the existing inventory, explanatory notes concerning the methodological treatment of some specific transactions and past one-off questionnaires.

## 2.3 Revision policy

### *Introduction*

There is a general stability of the data provided by the NSO and the revision of deficit and debt during the year is negligible.

### *Discussion*

Eurostat asked the reason for the substantial revision of data for one EBU, Malta Government Investment Technology, in 2009. The Maltese authorities explained that this was due to an update of data sources. However, because of the size of the revision and that it was made significantly after the year in question, Eurostat asked to clarify if the revision was due to a specific reason.

### *Conclusion*

**Action 2:** The NSO will explain to Eurostat the reasons for the revision of EUR 1.8 million in the net lending of Malta Government Technology Investment in 2009. *Deadline 31 July 2012.*<sup>2</sup>

## **3. Follow-up of the previous EDP dialogue visits**

### *Introduction*

---

<sup>2</sup> The Maltese authorities provided an explanatory note on 26 June 2012, in which it was explained that the revision was due to the accounting of expropriation expenses for the Smart City Development.

The previous actions points were completed on time. Eurostat had two follow-up questions, concerning the privatisation of Malta Shipyards and the restructuring plan of Enemalta.

#### *Discussion and conclusion*

The privatisation of Malta Shipyards was reported to be proceeding to plan. After the sale of assets recorded in 2010 (EUR 18 million), the Government started to receive rent from the emphyteutical grant.

With respect to Enemalta, the Maltese authorities explained that the planned loan restructuring would shortly be approved and initiated, along the lines discussed with Eurostat in previous years, and therefore Eurostat's previous advice continues to be appropriate.

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

##### *Introduction*

Eurostat generally raises few questions on the Maltese EDP tables owing to detailed annexes of further information provided by the Maltese authorities.

In the meeting the discussion focused mainly on the data for other accounts receivable reported in the EDP table and in the questionnaire.

##### *Discussion*

Concerning table 1, the projected increase of GFCF in 2012 is not due to new investments but because a significant disposal of assets was registered in 2011. The Maltese authorities confirmed that they have no problems concerning the consolidation of debt.

For table 2A, during previous "clarifications" the Maltese authorities provided a detailed annex to explain how they calculate the superdividend for the NCB. As clarified in that table, the amount recorded as revenue for the government is the minimum of the amount payable to Government under article 22 of NCB Act (Cap 204) and the operational profit. The Maltese registered as revenue in EDP questionnaire table 10.2 the minimum amount net of the ECB buffer. The difference between the amount payable to Government (Cap 204 art22) and the minimum amount net of buffer is treated as a superdividend.

Concerning the breakdown of net lending/borrowing reported for other central government units (Table 3 of the EDP questionnaire) Eurostat asked for more detail about the surplus of Housing Authority, which appears to arise from development and resale of housing projects. The NSO agreed to review the source data in order to provide an explanatory note.

Concerning EDP table 4, the Maltese authorities had previously explained that the data on trade credits relate only to Local Government and to EBUs. Eurostat asked to

complete the data concerning trade credits by adding the data relating to Budgetary Central Government

The other main point concerned the recording of flows of other accounts receivable. In order to estimate these flows, the NSO calculates the difference between the stock of debtors at 1st January and at 31st December. During the EDP notification of April 2012, the change in debtors at the end of 2010 was recorded as other change in volume in 2010. However, according to Eurostat's opinion, the change in debtors at the end of 2010 should have had an impact on changes in other accounts receivable in 2010. Eurostat underlined that changes in source data, when properly verified, should be introduced as revisions in government finance statistics, and not as other changes in volume.

Concerning the annex provided by the NSO during the EDP notification (annex11), Eurostat asked about the difference between the item "D2 accrual template" and the item "D2 time adjustment". The NSO replied that they will answer as soon as possible.

### *Conclusion*

**Action 3:** The NSO will review source data for the Housing Authority to explain its surplus in 2011 and provide a short explanatory note to Eurostat. *Deadline 31 July 2012.*<sup>3</sup>

**Action 4:** The Maltese authorities will investigate if the row in EDP Table 4 on trade credits can be expanded to cover all general government by adding the relevant data for Budgetary Central Government, and give feedback to Eurostat. *Deadline 30 September 2012.*<sup>4</sup>

**Action 5:** The Maltese authorities will provide to Eurostat an update on the on-going work to quality-assure accruals data for Budgetary Central Government, including the results of the exercise to compare accruals data for creditors and debtors with cash data. *Deadline 31 December 2012.*

**Action 6:** The NSO will examine recent data source revisions to determine if the revised data on debtors/creditors should be introduced into the EDP notification, and not treated as other changes in volume. *Deadline 30 September 2012.*<sup>5</sup>

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

### 5.1 Recording of accrued interest

#### *Introduction*

Before the mission the Maltese authorities provided Eurostat with a table reconciling the item "difference between interest accrued and paid" reported in table 2A and in table 3B

---

<sup>3</sup> The NSO provided the explanatory note on 26 June 2012.

<sup>4</sup> The Maltese authorities provided feedback to Eurostat on 27 September 2012.

<sup>5</sup> The NSO took the Eurostat proposal on board in the October 2012 EDP Notification.

## *Discussion*

Eurostat checked the table provided line by line and took note of the correct recording.

### 5.2 Recording of EU flows

#### *Introduction*

During the previous EDP visit, the Maltese authorities had explained the introduction of a new treatment of EU flows in order to meet MGGD rules. The NSO now provides a detailed EDP questionnaire table 6.

#### *Discussion*

Eurostat asked if there was any disallowance relating to EU grants during the years 2009-2011. The Ministry of Finance's paying authority confirmed to the NSO that, in 2011, the EU fully reimbursed all claims in respect of Structural Funds and Cohesion Funds and no discrepancies were noted.

### 5.3 Recording of taxes and social contributions

#### *Introduction*

The NSO uses the time adjusted cash method for the accrual recording of taxes and social contributions. This method was adopted in October 2008. The discussion focused on data related to debtors and creditors (for the areas not covered by time adjusted cash), and to the modality of payment of tax amnesties in 2012.

#### *Discussion*

The Maltese authorities confirmed that a prudent approach is used for the estimation of debtors and creditors, and agreed to provide more details.

Concerning the 2012 tax amnesty, the Maltese government had launched a limited open window whereby those in arrears on VAT will be able to regularise their position. The Maltese authorities updated Eurostat concerning the deadline for payment. The deadline for one time payment had been extended to 31/05/2012. For the option to pay in instalments, a down payment had to be made by the end of May 2012 and the remaining balance settled in instalments according to which option is taken, with the last instalment for the longest extended option to be made by 30/04/2013.

#### *Conclusion*

**Action 7:** The Maltese authorities will provide a breakdown of the end-2011 stock of other accounts receivable relating to accrued D2 taxes under the accruals template (not the time adjusted VAT part). *Deadline: 30 June 2012.*<sup>6</sup>

---

<sup>6</sup> A breakdown of the end-2011 stock of debtors was provided by the Maltese authorities to Eurostat on 26 June 2012.



## 6. City Gate Project

### *Introduction*

The City Gate Project is a project concerning the construction of new buildings, (an open theatre and parliament building). The total cost of the project is EUR 82 million. The project started in 2009 and the Grand Harbour Regeneration Corporation (an EBU classified in general government) is responsible for delivering the project. In June 2011 the Government set up a SPV (Malita), and through a **Novation Agreement** (28 December 2011) the legal ownership of the project was assumed by Malita. Malita also obtained an emphyteutical deed over the land for 65 years.

The business plan of Malita explains that the acquisition of City Gate Project will be financed entirely from its funds: equity subscription in cash from GG (EUR 15 million in 2011 and EUR 10 million in 2012), bank borrowing (EUR 40 millions from the European Investment Bank) and new equity raised from private investors through an Initial Public Offering ( EUR 15 million).

The Government and Malita will enter into a **Leasing Agreement**, starting immediately upon the certification of completion (duration of the lease, with possibility of renewal, is 20 years for the Parliament and 30 years for the Open Theatre). The Government will pay an annual rent equal to 5.2 million (3.7 million for the Parliament Building and EUR 1.5 million for Open Air Theatre). Malita will be responsible for carrying out extraordinary repairs and a number of other tasks.

The government also will also transfer to Malita the existing rights to collect rents from the Airport and Cruise Port (duration of the emphyteusis contracts in both is 65 years).

The NSO had classified Malita outside the general government sector. The NSO had recorded a positive impact on government net lending/borrowing in 2011 from the transfer of the project, through the recording of a disposal of assets from government to Malita. The impact was EUR 27 million, (0.4% of GDP), equivalent to the cumulated expenditure at end-2011 by GHRC on the project.

### *Discussion*

The main issues discussed during the meeting were concerning the classification of Malita and the treatment of the leasing operation.

During the visit an external expert explained the principle features of Malita, notably the composition of its Investment Committee (made up of a mix of independence and non-executive director) and its autonomy of decision. In particular the Investment Committee can: determine and review where necessary the Company's investment policies; determine which investments; ensure investments are consistent with the Company's funding needs and dividend policy.

An Initial Public Offering (IPO) was planned to be launched in July 2012, and upon completion, private shareholders would retain up to 20% of the total shares (which could rise to 30% later). During the discussion the Maltese authorities stressed the rights of private shareholders and the obligations that Malita would take on as a listed company.

The other main issue discussed concerning the features of the lease agreements. The lease agreements were planned to commence once certificates of completion are issued. The Maltese authorities explained also that the assets transferred could be rented to the private sector after the end of the leasing contracts with government; the leases would be renewable but both parties would have the right to walk away. According to the Maltese authorities the current risks of construction are low, because the City Gate was expected to be ready by the end of 2012, and the cost of the project is not expected to change.

### *Conclusion*

Eurostat took note of the detailed arrangements regarding the creation of Malita and the City Gate project. Eurostat will monitor if the IPO is successfully completed, and expected to receive further information and analysis from the Maltese authorities.

**Action 8:** As a follow-up to the discussions, Eurostat requests that the NSO quickly write to Eurostat describing the statistically-relevant aspects of Malita and the City Gate project and setting out its statistical view of the recording of the operations. *Deadline: as soon as possible.*<sup>7</sup>

## **7. Air Malta**

### *Introduction*

Air Malta received a loan of EUR 52 million from the Maltese Government; EUR 15 million in 2010 and EUR 37 million in 2011. The loan agreement established that the loan would be interest-bearing and a restructuring plan would be carried out. The NSO informed Eurostat before the visit that a new loan is under arrangement for the end of 2012. Moreover an equity injection of EUR 20 million was also planned for 2012.

### *Discussion*

A staff member of Air Malta explained the restructuring plan that the company is carrying out and the expectation of results for the future. In response to Eurostat's questions about the new loan, as it is of the same amount as the existing loan, it was clarified that the new loan will be for new purposes.

### *Conclusion*

Eurostat took note of the restructuring of Air Malta, including the provision of a new government loan for new purposes, and that the restructuring plan was under consideration by DG Competition. Based on the expectations of financial performance presented, Eurostat agreed with the NSO's proposed approach to classify the planned capital injection as a capital transfer, and the recording of the new loan as a financial

---

<sup>7</sup> The Maltese authorities provided several notes between May and July 2012. Moreover there were a number of bilateral contacts between the Maltese authorities and Eurostat on this issue over June to August 2012, which led to a closure of the issue.

transaction in national accounts. Should the new loan subsequently be converted into equity, the NSO will undertake a statistical analysis based on the capital injection rules. Eurostat will monitor these operations in order to verify the appropriate recording according the rules in the Manual on Deficit and Debt.

## 8. Further methodological issues and recording of specific government transactions

### 8.1 Classification of units

#### *Introduction*

The sector delimitation exercise for the EBUs and the corporations classified outside General Government is updated twice per year, prior to the EDP notifications. The Ministry of Finance systematically informs the NSO with regard to any updates.

#### *Discussion*

The discussion focused on the classification and the activities carried out by certain public bodies: Malta Industrial Park, transport services, Property Management Service, Public Broadcasting Service, Kalaxlokk and other public corporations under the university.

The discussion clarified that all the units are classified outside the General Government, because of their market nature. Concerning Malta Industrial Park Eurostat, Eurostat requested more details concerning the nature of the transaction of EUR 6 million, classified as equity injections in 2011 in EDPM questionnaire table 10.2. The NSO and Ministry of Finance will carry out a further analysis to clarify the nature and the profitability of this investment.

#### *Conclusion*

**Action 9:** The Maltese authorities will provide the background to the expectation of the future profitability of Malta Industrial Parks Ltd – in the context of the 2011 government capital injection. *Deadline 31 August 2012.*<sup>8</sup>

**Action 10:** Eurostat and the NSO will bilaterally resolve the detailed recording of capital injections in EDP questionnaire table 10. *Deadline 30 September 2012.*<sup>9</sup>

**Action 11:** The NSO will provide a short note to Eurostat on Property Management Services Ltd, including its activities and an analysis of the 50% test. *Deadline 30 September 2012.*<sup>10</sup>

### 8.2 Capital injections into public corporations, dividends, privatisations

---

<sup>8</sup> The Maltese authorities provided a note to Eurostat on 26 June 2012.

<sup>9</sup> The Issue has been resolved.

<sup>10</sup> The NSO informed Eurostat in September 2012 of the reclassification of the Property Management Service into the General Government sector.

### *Discussion*

The main operations were discussed under previous agenda points.

#### 8.3 Recording of guarantees

### *Introduction*

The level of stock of guarantees had increased in the recent years and had reached around 17% of GDP. The increase in guarantees was mainly due to Enemalta.

### *Discussion*

Eurostat asked for confirmation that there had not been any calls on guarantees in 2010-2011, and the Maltese authorities provided this confirmation. Eurostat also asked about the reason for the difference between the level of stocks reported by the NAO and the NSO. The NSO replied that the difference is due to consolidation inside the General Government.

#### 8.4 Recording of debt assumptions, debt cancellations and debt write-offs,

### *Discussion*

The NSO confirmed that there were no debt assumptions, debt cancellations or debt write-offs in 2010-2011.

#### 8.5 Concessions, Public Private Partnerships

### *Discussion*

Eurostat asked for more details concerning the agreement for a new lottery concession, and the NSO agreed to inform Eurostat. The NSO also informed Eurostat that there are no other significant government concessions in Malta.

### *Conclusion*

**Action 12:** The Maltese authorities will provide further information to Eurostat on the modalities for the lottery concession fee to be collected in 2012. *Deadline 30 June 2012.*<sup>11</sup>

---

<sup>11</sup> The Maltese authorities provided the information to Eurostat on 31<sup>st</sup> July 2012. Eurostat confirmed that the full amount of the concession (EUR 39.1 million) is to be recorded as "disposal of non-produced non-financial assets" in 2012Q2

## 8.6 Military expenditure

### *Discussion*

The Maltese confirmed that there were no military deliveries in 2008-2011.

## 8.7 Planned operations with possible impact on government accounts

### *Discussion*

The main operations were discussed under previous agenda.

## **Annex: list of participant**

### **National Statistics Office:**

Michael Pace Ross, Director General  
Joseph Bonello, Director Economic Statistics  
Mark Galea, Manager, Public Finance Unit  
Lara Friggieri-Cordina, Statistician  
Maria Cini, Statistician

### **Ministry of Finance, the Economy and Investment, Budget Office:**

Mark Borg, Director General  
Leonard Sacco, Director

### **Ministry of Finance, the Economy and Investment, Treasury:**

Noel Camilleri, Director General  
Claire Micallef, Economist

### **Ministry of Finance, Economic Policy:**

Kevin Vella, Director Economic Strategy  
Ritianne Demanuele, Economics Officer

### **Central Bank of Malta:**

Jesmond Pule`, Head Statistics Department  
Christopher Pace, Manager  
Karen Caruana, Senior Economist Statistician

### **National Audit Office:**

Charles Deguara, Deputy Auditor General

### **Financial Management Monitoring Unit (FMMU)**

Michael Zammit-Munro, Project Manager

### **Eurostat**

John Verrinder – Head of Unit D3 - Excessive Deficit Procedure  
Gabe De Vries  
Michele Marotta  
Carmela Zammit

### **DG Economic and Financial Affairs (ECFIN)**

Barbara Bernardi

### **European Central Bank (ECB)**

Henri Maurer