



EUROPEAN COMMISSION  
EUROSTAT

Directorate C: National and European Accounts  
**Unit C-3: Public finance**

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## **- FINAL FINDINGS -**

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

**21 March 2006**

## Executive Summary

The EDP dialogue visit to Malta took place on 21 March 2006 with the aim to examine certain methodological issues, to assess compliance with the accounting rules and to identify potential risks or problems.

The meeting was constructive and Eurostat welcomed the transparent, well structured and comprehensive approach of Malta to EDP related work.

Concerning data sources, Eurostat welcomed the introduction of a comprehensive accrual-based system for delivery of data for EDP purposes and encouraged a continued development. Eurostat also welcomed the progress made concerning the comprehensive survey of the Extra Budgetary Units.

As far as the April 2006 notification is concerned, it was concluded that the notification is well prepared from a methodological point of view. It was also stressed that due to the small size of the economy, revisions need to be followed closely.

The tables in the "*questionnaire related to EDP tables*" were analysed in order to ensure the full assessment of data in the context of the notification exercise. In particular, it was agreed that the Maltese authorities should investigate the existence of transactions with the EU as well as the pre-accession funds in order to assure full compliance with the Eurostat rules from February 2005<sup>1</sup>. Furthermore, it was concluded that even if no calls on government guarantees had been made in Malta, the issue should be kept under close surveillance due to the high amounts at stake.

Concerning the methodological decisions of Eurostat taken in recent years, it was clarified that there are currently no Public-Private-Partnerships or Securitisation operations involving government in Malta. The Maltese authorities will assure a close cooperation with Eurostat on potential future projects or operations. It was also confirmed that Malta is not concerned by the decision of Eurostat on funded pension schemes. The Maltese pensions system is still under revision and there are at present no second pillar schemes. Also on this point, the Maltese authorities were encouraged to take early contact with Eurostat when the structure of the revised pension system will become clear. For Military expenditure, the Maltese authorities confirmed that currently there are no expenditure, but that the decision of Eurostat will be applied for any possible military expenditure in the future.

The follow-up of Council Regulation 2516/2000 was also discussed and Eurostat concluded that the Maltese application of the rules are different from other countries, but still acceptable. The method could however be improved by introducing time-adjustment of data, and Eurostat encouraged the Maltese authorities to make an effort in this respect. The Maltese authorities were also invited to provide an updated detailed reply on the questionnaire on the application of Council Regulation 2516/2000.

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<sup>1</sup> Eurostat news release 22/2005 of 15 February 2005

## **Final findings**

### **Introduction**

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Malta on 21 March 2006.

The delegation of Eurostat was headed by Mr. Nørlund, Director of National and European Accounts. The European Central Bank (ECB) also participated in the meeting as observer. The Directorate General for Economic and Financial Affairs (DG ECFIN) was excused. The Maltese Authorities were represented by the National Statistical Office, the Ministry of Finance (Treasury and Budget Office) and the Central bank of Malta.

Eurostat carried out this EDP Dialogue visit with the aim to examine certain methodological issues, to assess compliance with the accounting rules and to identify potential risks or problems. It was the first EDP dialogue visit since Malta joined the European Union.

### **1. General and institutional issues**

#### Procedural arrangements and working procedures

In relation to the procedural arrangements, in accordance with article 8 of Regulation 3605/93 as amended, Eurostat explained the new procedures, indicating that *Main conclusions and action points* would be sent within a couple of days to the Maltese statistical authorities, who may provide comments. Within coming weeks, the *Provisional findings* would be sent to the Maltese authorities in a draft form, for their review. After adjustments, a final version of the *Main findings* will be sent to the EFC and published on the web site of Eurostat.

The Maltese authorities presented the work organisation for EDP issues (being a joint exercise between the National Statistical Office, the Central Bank and the Ministry of Finance) as well as recent progress and coming challenges. Eurostat welcomed the transparent, well structured and comprehensive approach of Malta to EDP-work.

#### Data sources: characteristics and problems

##### *Introduction*

The Maltese authorities have in recent years been involved in important development work to ensure the delivery of accrual data for EDP purposes and to ensure solid source data for all parts of the general government sector, including Extra Budgetary Units (EBUs).

##### *Discussion*

The Maltese authorities stated that the April 2006 notification would be on a full accrual basis for the first time (for year 2005), by a standard based system developed for all parts of central government. No revision of earlier years was currently foreseen because of the practical difficulties involved in such an exercise.

The Maltese authorities confirmed that the provision of data regarding EBUs was now on an accrual basis and fully comprehensive compared to previous years, when only major EBUs were surveyed.

#### *Findings and conclusions*

Eurostat concluded that the Maltese authorities have made substantial progress towards establishing a comprehensive accrual-based system for delivery of data for EDP purposes and encourages a continued development in this area. Eurostat also welcomed the comprehensive survey of the EBUs.

## **2. Examination of EDP tables**

### *Introduction*

In order to prepare the examination of forthcoming EDP notifications, it is important to anticipate major changes in the notifications caused by national accounts revisions or methodological developments. The Maltese authorities were therefore invited to present possible revisions of data to be included in the April 2006 notification.

### *Discussion*

The Maltese authorities confirmed that the 2005 benchmark revision of national accounts has led to important revisions of GDP levels including the sector allocation of FISIM in the accounts. It was confirmed that the forthcoming EDP-notification would be based on FISIM allocated account. Furthermore, full consistency between EDP notifications and ESA95 transmission tables would be ensured. Other major revisions were not foreseen in the forthcoming notification.

### *Findings and conclusions*

Eurostat concluded that work for the April 2006 notification was well prepared from a methodological point of view and stressed the fact due to the size of the economy, even relatively small revisions in the Maltese data may have a large impact, and therefore need to be followed closely. On a specific point it was concluded that the Maltese authorities would ensure that the amounts in EDP table 2A for other accounts receivable/payable should not be netted, but split.

## **3. Questionnaire related to EDP tables**

### *Introduction*

The completion by Member States of the EDP related questionnaire (a development of the so called pre-notification questionnaire from 28 July 2005) should be analysed to ensure the full assessment of data in the context of the notification exercise.

### *Discussion*

The EDP questionnaire was examined, table by table. The Maltese authorities had managed to fill in most of the tables already at this stage, even if some adjustments would be done before the deadline of 31 March 2006.

#### Table I – other receivables and payables relating to taxes and social contributions

Data before 2001 will probably not be provided in the April notification, whereas the breakdowns for the years 2002-2005 will be compiled.

#### Table II – other receivables and payables of general government relating to the EU

The Maltese authorities intended to complete the table on EU grants, which is an improvement compared to the September 2005 notification. The existence of transactions with the EU for 2004 and 2005, as well as the pre-accession funds, need to be checked in detail in order to assure full compliance with the Eurostat rules from February 2005<sup>2</sup>. The Maltese authorities confirmed the awareness of the rules referring to EU transactions and furthermore that the rules would be applied in future notifications.

#### Tables IIIa, IIIb and IIIc - government guarantees

The Maltese authorities would check the amounts concerning total stock of outstanding guarantees in particular as regards possible double counting of EBU-related debt, as well as the amounts of new guarantees provided.

It was confirmed that no calls on government guarantees had been made in Malta. The issue should be kept under surveillance though, due to the comparatively high amounts at stake (around 15% of GDP).

#### Table IV – debt cancellations

The Maltese expressed the intention to complete the table as regards debt cancellations.

#### Table Va and Vb – capital injections into public corporations

The Maltese authorities confirmed the willingness to analyse in the future the possible entries of super dividends and the exact amounts of certain privatisations receipts in 2002. The data in the table would be corrected as regards distributions from the Central Bank. Eurostat further encouraged the Maltese authorities to report data for the remainders of table V.

#### Tables VII on Military expenditure and VIII on Public-Private-Partnerships and securitisations

These tables were discussed under point 4 on the agenda, in the context of recent Eurostat decisions.

#### *Findings and conclusions*

Eurostat took note of the agreed actions for the different tables in the questionnaire related to EDP tables.

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<sup>2</sup> Eurostat news release 22/2005 of 15 February 2005

#### **4. Follow-up of Eurostat decisions in recent years**

##### Public-Private-Partnerships (PPPs)

The Maltese have indicated to Eurostat that there are no real PPPs at present in Malta.

##### *Discussion*

The Maltese authorities confirmed that there were no PPPs being implemented at present, but informed Eurostat about a planned project on an old people's home, the so called Mellieha home project. The current analysis of the project was based on the rules in the Eurostat decision on PPPs.

##### *Findings and conclusions*

The Maltese authorities were asked to assure a close cooperation with Eurostat on the future PPPs.

##### Securitisation operations

The Maltese have indicated that there are no current or planned securitisation operations.

##### *Discussion*

The Maltese authorities informed Eurostat that they are working on a new law on securitisation operations, in order to provide a legal background for such operations in the future, even if there are no specific projects in the pipeline.

##### *Findings and conclusions*

Eurostat concluded that there are no actions to be taken at this stage, but that the Maltese authorities shall co-operate closely with Eurostat in case of future operations to be implemented.

##### Pension schemes

##### *Introduction*

The Maltese have confirmed, in the context of previous notifications, that they do not have any funded pension schemes.

##### *Discussion*

The Maltese authorities plan to introduce a reformed pension system including a first, second and third pillar system. The project is however slightly delayed compared to initial plans, and the second and third pillar systems have not been fully settled and introduced yet.

##### *Findings and conclusions*

Eurostat took note of the information and encouraged the Maltese authorities to take early contact with Eurostat concerning classification issues of pension schemes etc.

## Military expenditure

### *Introduction*

The latest decision of Eurostat on Military expenditure from 9 March 2006 was recalled<sup>3</sup>.

### *Discussion*

The Maltese are aware of the decision of Eurostat and confirmed that the only expenditure at present are in relation to the Italian Protocol, i.e. Malta received a grant from Italy for buying sea crafts and patrol boats.

### *Findings and conclusions*

The Maltese authorities confirm that the decision of Eurostat will be applied for any possible military expenditure in the future.

## **5. Follow-up of the implementation of Council Regulation 2516/2000**

### *Introduction*

According to Council Regulation 2516/2000 on taxes and social contributions, Member States shall report yearly to Eurostat the methods used for recording taxes and social contributions. In this context, the implementation of the rules on the recording of taxes and social contributions in Malta was raised.

### *Discussion*

The Maltese authorities presented the methods currently used, being a mix of cash and accrual adjustments where the cash amounts each year are adjusted by the assessment of amounts unlikely to be paid. There is no time-adjustment of cash receipts and the assessment and declarations method is not used for any taxes and social contributions today. It was further explained that the data for time-adjustment are actually available for most taxes, but that it have not been used so far.

### *Findings and conclusions*

Eurostat concluded that the Maltese authorities apply an "unorthodox" method for recording taxes and social contribution, which is however acceptable according to the rules. The method could however be improved by introducing time-adjustments and Eurostat encouraged the Maltese authorities to make an effort to do this in the future as the potential exists. The Maltese authorities were also invited to provide an updated detailed reply on the questionnaire on the application of Council Regulation 2516/2000.

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<sup>3</sup> Eurostat news release 3/2006 of 9 March 2006

## **6. Recent and planned privatisation operations**

### *Introduction*

There have been several privatisation operations undertaken in Malta during the last years. Furthermore a range of privatisation operations are announced for 2006.

### *Discussion*

The recent privatisation operations and in particular the privatisation of Malta Airport in 2002 and 2005 were discussed. After analysing the transactions involved, it was confirmed that the recording of past privatisations as financial operations have been fully correct.

### *Findings and conclusions*

Concerning the planned operation for 2006, Eurostat encourages the Maltese authorities to follow the operations closely in 2006 and 2007, and in particular to check whether government receives any special revenues in this context.