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

Luxembourg, 1 October 2018

## **FINAL FINDINGS**

**Eurostat EDP dialogue visit to Malta**

**31 May-1 June 2018**

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## EXECUTIVE SUMMARY

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, 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 31 May-1 June 2018.

Eurostat undertook this visit in order to review the implementation of the methodology of ESA 2010 and Manual for Government Deficit and Debt (MGDD) and to ensure that Eurostat decisions are duly implemented in the Maltese EDP statistics. The visit focused on the memoranda of understanding between the NSO and its key partners and data suppliers for EDP statistics, the introduction of IPSAS in public accounting, an analysis of the April 2018 EDP notification, the sector classification of Selmun Palace, the recording of VAT collected as one-stop shop, the recording of bonds repurchased at premium/discount, the recording of the EU grants (including the overestimation of the central government revenue and expenditure), existing government schemes in the field of social housing, two current projects of the public company Malita (affordable housing and Institute of Tourism Studies), capital injections undertaken by the central government in Air Malta, the planned activities of the Malta Development Bank and of the National Development and Social Fund, the PPP on the management of hospitals with Steward Healthcare International, the recording of emission trading permits, the recording of transactions related to the merger of the Gozo Channel corporations.

As regards the institutional responsibilities, Eurostat welcomed the level of institutionalisation of the responsibilities of the different institutions, the comprehensive and clear memorandum of understanding (MoU) between the NSO, the MoF and the Central Bank of Malta and the Memorandum of Cooperation (MoC) with the National Audit Office. Eurostat encouraged the NSO to regularly examine the National Audit Office's reports which might include relevant information for EDP statistical purposes. Eurostat also took note of the actual and future work to introduce the International Public Sector Accounting Standards (IPSAS) in public accounting. The Maltese statistical authorities are currently working on national standards based on IPSAS, whereas the old and the new system would run in parallel for some time. A completion date was not yet fixed and the Working Balance for budgetary central government will remain on a cash basis presumably at least until 2020. The NSO will inform Eurostat on any future changes that will be introduced in the source data used for the Maltese GFS compilation, as well as on any possible changes introduced in the EDP tables.

The NSO had informed Eurostat before the visit that there were no changes in data sources since the last EDP visit. However, the production of the government accounts was undergoing significant IT developments. Eurostat welcomed the comprehensive and very clear EDP Inventory of Malta but pointed out the need for an update in some sections of it. The NSO will prepare an updated version.

While examining the latest notification of EDP data (April 2018), the participants discussed the new Contingency Reserve Fund included in the breakdown of the line "Treasury Clearance Fund Flows in non-financial transactions and Good Causes Fund" reported in Table 2A under "non-financial transactions not included in the working balance". The discussion also concerned some presentational changes implemented during the last notification to be continued in future notifications. Eurostat invited the Maltese statistical authorities to send a breakdown table on the residual line in Annex 9 related to the item "Other accounts receivable" of EDP Table 2A. Relating to the statistical discrepancies reported in Table 3B, the Maltese statistical authorities will determine whether the 2016 merger of the Gozo Channel Company Ltd. and the Gozo Ferries Company Ltd. has

contributed to the statistical discrepancy recorded for 2017. An appropriate recording of the transactions occurred during the merger will have to be implemented during the next EDP notification.

Concerning the sector classification of units, it was agreed that Selmun Palace Hotel Co. Ltd, which ceased operations in 2011, should be reclassified inside the general government sector starting from 2017.

Concerning the implementation of the accrual principle for taxes, Eurostat considers that the present recording of VAT collected as one-stop shop in Malta needs to be corrected for the existing time-lag between revenues and expenditures, for the amount to be transferred to other Member States and, the amounts retained during the transition period. The Maltese statistical authorities confirmed that there were no changes in the calendar for the payment of taxes or in their time-adjusted cash method as compared to the previous dialogue visit.

Regarding the recording of interests, the participants agreed that the Maltese statistical authorities will correct the accounts as regards the repurchase of bonds at premium/discount in order to ensure that premium/discount at repurchase affect only the financial accounts and are not recorded as expenditure/revenue of government. The Maltese statistical authorities will also amend the template on the recording of interests correcting the recording of premium/discount at repurchase and a number of other technical issues that were identified.

As regards the recording of EU flows, as already emerged from the 2016 EDP dialogue visit, Eurostat took note that the present system of recording of the EU grants results in an overestimation of the central government revenue and expenditure. The Maltese statistical authorities are invited to remove such overestimation in their data. The Maltese statistical authorities will also check the consistency of other accounts receivable for EU flows between the EDP questionnaire Table 6 and EDP Annex 9 provided at each notification. The Maltese statistical authorities will also verify whether the time of recording of EU Commission decisions determining the amounts unduly perceived by Member States to be reimbursed ("penalties" in EDP Questionnaire Table 6) is correct.

As regards the government claims, the Maltese statistical authorities will have to analyse whether the guarantees on households' mortgages by government fit in the definition of standardised guarantees and should be recorded as such. The Maltese statistical authorities explained that the repayment of the loan provided by the central government to the Water Services Corporation continued in 2017 and its extinction is currently being negotiated.

When discussing capital injections, the focus was on two public corporations, Air Malta and Malita, and on the Malta Development Bank (MDB). The Maltese statistical authorities will have to check the exact amount of the capital injection in Air Malta paid in the first quarter of 2018 treated as capital transfer, as previously agreed with Eurostat. Regarding Malita, two on-going projects were discussed: the Affordable Housing and the Institute for Tourism Studies. According to what emerged in the meeting, the part of Malita's business concerning the provision of Affordable Housing will have to be re-routed through government accounts. The Maltese statistical authorities will also keep Eurostat updated on the Institute of Tourism Studies project (including sending the official documents related to the set-up of the companies involved in the management of assets when signed) and on other Malita's future projects. Concerning the MDB, the participants discussed its projected balance sheet and current and planned activities. Eurostat invited the exchange of detailed and timely information with the Maltese statistical authorities on every operation undertaken, to determine whether any operation should be re-routed through government accounts. The

Maltese statistical authorities will determine whether the shares of the MDB "subscribed" by government entail an actual obligation to inject capital in the future.

The PPPs and concessions were also discussed. It was agreed that the Maltese statistical authorities will need to send the questionnaire on PPPs and concessions that was sent to the various government departments in the past on an annual basis, at least until a more solid source of information is established. Concerning the PPP with Vitals Global Healthcare/Steward Healthcare International, given that the Maltese statistical authorities have identified in the present form of the agreements elements that automatically lead to record the assets on government balance sheet, the Maltese statistical authorities will have to include this PPP in the EDP Questionnaire Table 11 starting from the next EDP notification. It was also agreed that the Maltese statistical authorities will provide the new complete contracts on the PPP agreement between government and Steward Healthcare International currently under negotiation as soon as possible.

Under "other items", the participants addressed the recording of mobile phone licenses, and emission trading permits. The participants agreed that the Maltese statistical authorities will spread over the years the recording of all the proceeds from the sales of mobile phone licences (UMTS) and record rent (D.45r). Concerning emission trading permits, the Maltese statistical authorities will correct the data included in the specific template as regards the time of recording of transactions and stocks.

Finally, the participants discussed the recording of the proceeds from the Individual Investor Programme which are to be booked as P.131. The possibility of rather having the features of taxes on wealth (D.59) or capital (D.91) should also be investigated by the Maltese statistical authorities. The Maltese statistical authorities will also start implementing the split between P.11 and P.131 to be completed by the next benchmark revision.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Maltese statistical authorities during the meeting and the documents provided beforehand.

**EUROSTAT EDP DIALOGUE VISIT TO MALTA  
31 MAY-1 JUNE 2018**

**AGENDA**

**1. Statistical capacity issues**

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

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

**2. Follow-up of previous dialogue visits**

**3. Analysis of EDP tables – follow up of the April 2018 EDP notification**

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

**4.1. Delimitation of general government, application of 50% market test in national accounts**

4.1.1 Reclassification of units: Selmun Palace Hotel Co. Ltd

**4.2. Implementation of accrual principle**

4.2.1 Taxes and social contributions

4.2.2 Interest

4.2.3 EU flows

4.2.4 Recording of other flows of receivables and payables

**4.3 Recording of specific government transactions**

4.3.1 Guarantees

4.3.2 Debt assumptions, claims, debt cancellations and debt write-offs

4.3.3 Capital injections in:

4.3.3.1 Public corporations:

4.3.3.1.1 Air Malta and Malta Air Travel

4.3.3.1.2 Malita's projects: Affordable Housing and Institute of Tourism Studies

4.3.3.2 Malta Development Bank – future projects

4.3.4 Dividends, super dividends

4.3.5 PPPs (and concessions)

4.3.5.1 Vitals Global Healthcare and Steward Healthcare International

4.3.6 Others: emission trading permits, privatization, sale and leaseback operations, UMTS, securitisation, etc.

**5. Any other business (planned future operations, transmission of GFS data etc...)**

5.1 Individual Investor Programme – National Development Social Fund

5.2 Gozo Channel Group

## INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, 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 from 31 May-1 June 2018.

Mr Luca Ascoli (Acting Director of Directorate D: Government finance statistics and quality and Head of Unit D.1: Excessive deficit procedure and methodology) headed the delegation of Eurostat. Mr Jukka Jalava (Head of Unit D.3: Excessive deficit procedure (EDP) 2), Mr Didier Lebrun (Backup Desk Officer for Malta, Unit D.3) and Ms Chiara Morandini (Desk Officer for Malta, Unit D.3) also represented Eurostat. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers.

The National Statistics Office of Malta (NSO), the Ministry for Finance of Malta (MoF) and the Central Bank of Malta (the Central Bank) represented Malta. Representatives from the Economic Policy Department and the Treasury Department at the MoF, the Malta Fiscal Advisory Council, the National Audit Office, the National Development and Social Fund, Malita Investment, the Malta Development Bank, Air Malta and Malta Air Travel, Permanent Secretary for Health, the Malta Resources Authority also participated for the relevant agenda items. The list of participants can be found in the annex.

Eurostat undertook this visit in order to review the implementation of the methodology of ESA 2010 and the Manual for Government Deficit and Debt (MGDD) and to assure that Eurostat decisions are duly implemented in the Maltese EDP statistics.

The visit focused on the memoranda of understanding between the NSO and its key partners and data suppliers for EDP statistics, the introduction of IPSAS in the public accounting, an analysis of the April 2018 EDP notification, the sector classification of Selmun Palace, the recording of VAT collected as one-stop shop, the recording of bonds repurchased at premium/discount, the recording of the EU grants (including the overestimation of the central government revenue and expenditure), capital injections undertaken by the central government in Air Malta, the accounting treatment of existing government schemes in the field of social housing, two current projects of the public company Malita (affordable housing and Institute of Tourism Studies), the planned activities of the Malta Development Bank and of the National Development and Social Fund, the PPP on the management of hospitals with Steward Healthcare International, the recording of emission trading permits, the recording of proceeds from the Individual Investor Programme, the recording of transactions related to the merger of the Gozo Channel corporations.

With regards to procedural arrangements, the Main conclusions and action points were sent to Malta for review after the visit. After a few weeks, the Provisional Findings were sent to Malta for review. The Final Findings will be sent to Malta and to the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Maltese statistical authorities during the meeting and the documents provided before the visit.

## 1. STATISTICAL CAPACITY ISSUES

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

#### *Introduction*

The NSO informed Eurostat before the visit that there were no changes as regards institutional responsibilities. The Memorandum of Understanding between the National Statistics Office, the Ministry of Finance and the Central Bank of Malta in the domain of the Government Finance Statistics and EDP notification was signed on 23 June 2016. The duration of the MoU is indefinite but it allows for updates every two years. No necessary updates were envisaged as of before the visit. In 2016, the NSO also signed a Memorandum of Cooperation with the National Audit Office.

The NSO also informed that there were no changes in the flowchart for the EDP production process.

#### *Discussion*

During the visit, Eurostat welcomed the level of institutionalisation of the responsibilities of the different institutions and the comprehensive and clear memorandum of understanding (MoU) between the National Statistics Office, the Ministry of Finance and the Central Bank of Malta in the domain of the Government Finance Statistics and EDP notification signed in 2016, as well as the Memorandum of Cooperation with the National Audit Office. It was further confirmed that no updates of the agreements were envisaged. Cooperation with the National Audit Office is smooth and the NSO has frequently shared data with the National Audit Office. The representative of the National Audit Office stressed how all their reports are published and publicly available. Compliance audit results are included in the annual reports published every November for the year t-1, performance audit reports are published more frequently whilst investigations, which have a wider scope, require longer delays. The latest published report concerns the Mater Dei hospital. The NSO confirmed that in the past there has been no revision in the EDP data due to the National Audit Office findings. Eurostat stressed the importance of regularly and timely sharing information as there might be statistical implications for government accounts.

#### *Findings and conclusions*

**Action point 1.** The Maltese statistical authorities are invited to continuously check the reports published by the National Audit Office in order to assess whether any issue has accounting implications for government accounts. *Deadline: continuous.*

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

#### *Introduction*

There are currently two projects being undertaken by the Treasury Department and the NSO with regards to data sources and production processes: the implementation of the Corporate Financial Management Solution (CFMS) that will replace the current Departmental Accounting System; the new IT system for non-financial accounts. Before the visit, the NSO provided Eurostat with a comprehensive note on the progress made in the implementation of the two projects.

The CFMS project, led by the Treasury, will entail the transformation of the financial operations of government: the Business World ERP Solution, upgrading government technology and Accrual Accounting based on International Public Service Accounting

Standards (IPSAS) and supporting guidelines will be implemented. It will replace the existing main cash-based corporate application which has been in use for several years - the Departmental Accounting System (DAS) – and which runs across all departments and ministries. The IPSAS would be implemented as "national standards based on IPSAS", which would be called "IPSAS as adopted by the Maltese government". The project entails three phases: the implementation of core modules in the pilot sites, the implementation of core modules in the remaining sites and, the implementation of the other modules. The third pillar of the project concerns human resources training.

The objective of the IT project in the area of non-financial accounts is to develop a new data warehouse system that stores all the raw data and processes and generates the necessary reports, including the data input to the National Accounts unit, reducing the dependence on large and heavily linked excel files and manual inputting. The templates developed so far were included in the note sent before the visit. The project is funded by a Eurostat grant "Implementation of SDMX and the Data Structure Definitions (DSDs) in National Accounts according to ESA 2010" and the deadline has been extended to the end of September 2018.

Concerning revisions, in general, the NSO makes relatively small revisions (around 0.1 percentage points of GDP) to the government deficit and debt at the time of each EDP notification. According to the NSO, a written revision policy relating to EDP data was not in place, whereas, in fact, a short description about the relevant practice is available in the EDP Inventory. The NSO also informed Eurostat that the data for years t-4, t-3, and t-2 of the EDP tables are considered as final, whilst seven years are opened for routine revisions in EDP/GFS. All data (non-financial, financial, EDP and GFS) are revised in a consistent manner. Revisions of final data occurred in the April 2018 EDP notification and it was clarified that this was due to updated data sources related to two specific Extra Budgetary Units, falling in the specific cases listed in the EDP Inventory. For the large majority of Extra Budgetary Units, data are available by the October EDP Notification.

The latest available version of the ESA 2010 based EDP Inventory was provided to Eurostat in October 2015 and is published on Eurostat's website.<sup>1</sup> Before the visit, the NSO informed Eurostat that some necessary changes were identified but that at that time updating the EDP Inventory was not considered a priority.

### *Discussion*

Concerning the CFMS project, the Maltese statistical authorities explained the phases and the planned timeline. Currently, the project is in phase 1, which consists in building the software solutions to be implemented in ten pilot sites and will be completed in 2019. The nationally approved IPSAS is being developed by a project team and will be published. The project is steered by an implementation board in which the unit in charge of EDP and GFS at the NSO is involved. The Maltese statistical authorities underlined that, while the chart of accounts had already been ESA coded, it was too early to know when the working balance would be reported on an accrual basis, but presumably not before 2020, as prior approval by the Parliament is necessary.

Regarding the IT project on non-financial accounts, the Maltese authorities are currently working on achieving completion by September 2018.

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<sup>1</sup> See <http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories>

Regarding the EDP Inventory, the participants agreed that there was need for an update to be carried out in 2019. The next benchmark revision was also discussed and the Maltese statistical authorities explained that it was provisionally fixed at the end of 2018 and that in autumn a definitive date would be decided and communicated to Eurostat.

### *Findings and conclusions*

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

**Action point 3.** The Maltese statistical authorities will keep Eurostat updated on the on-going IT project concerning non-financial accounts, which is relevant, amongst other, for the implementation of the changes concerning EU flows, in order to correct the current overestimation of government revenue and expenditure. *Deadline: September 2018.*<sup>2</sup>

**Action point 4.** The Maltese statistical authorities will communicate to Eurostat the exact date of the next benchmark revisions currently planned for the end of 2018. *Deadline: as soon as established.*<sup>2</sup>

**Action point 5.** The Maltese statistical authorities will revise the EDP Inventory in the sections which need to be updated. *Deadline: before the October 2019 notification.*

## **2. FOLLOW-UP OF THE 2016 EDP VISIT**

Action point 19<sup>3</sup> of the 2016 dialogue visit had not been closed as the NSO is waiting for further information from the authorities involved in the PPP concerning the renovation and management of three hospitals. Copy of the complete agreements had not been disclosed to Eurostat before the EDP dialogue visit. Action point 16<sup>4</sup> on EU flows was carried over to be discussed during the 2018 visit. Action point 20<sup>5</sup> on mobile phone licences will be fully accomplished during the next benchmark revision in line with the agreed methodological approach.

## **3. ANALYSIS OF EDP TABLES- FOLLOW-UP OF THE APRIL 2018 EDP NOTIFICATION**

### *Introduction*

Malta transmits timely and complete actual EDP data, whereas the forecasted data have been so far delivered slightly after the official EDP deadline. In addition, the Maltese authorities have been sending to Eurostat, with each EDP notification, a comprehensive set of supporting

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<sup>2</sup> Concerning Action Point 2, 3 and 4, at the time of writing of these findings, no information has been provided yet by the NSO.

<sup>3</sup> Action point 19: The Maltese statistical authorities will examine whether the government is involved in any concession with the private sector concerning the construction and / or the management of fixed assets and will inform Eurostat about their findings.

<sup>4</sup> Action point 16: Eurostat took note that the present system of recording of the EU grants results in an overestimation of the central government revenue and expenditure. The Maltese statistical authorities are invited to remove such overestimation in their data starting from the current EU programming period (2014-2020) onwards. The Maltese statistical authorities will also make the respective corrections in the back series.

<sup>5</sup> As regards the sale of mobile phone licenses, the Maltese statistical authorities will change the recording from tax (D.29) to sales of the non-produced assets (NP).

documents containing detailed EDP tables (separately for the main body of central government and for the EBUs) and breakdowns of several lines of the EDP tables.

### *Discussion*

Eurostat very much welcomed the Maltese practice of sending a comprehensive set of supporting documents with the EDP notifications, which is of great help in assessing the quality of the Maltese EDP data.

The participants examined the April 2018 EDP notification tables and the Questionnaire related to EDP notification tables (EDP questionnaire). Eurostat welcomed the fact that updated forecast data are always sent and that, despite the delays on the transmission deadlines, the transmission has always been compatible with Eurostat publication of EDP figures.

In the context of the analysis of EDP tables, the participants clarified several presentational issues. Specifically, in EDP Table 2 the line “Non-financial transactions not included in the WB” is broken down in several lines, one of which is called “Treasury Clearance Fund Flows in non-financial transactions and Good Causes fund”. The transactions included there are shown in the breakdown in Annex 10 of the EDP notification tables. Since the April 2018 EDP notification, a new entry is now included, related to the newly created Contingency Reserve Fund. Eurostat further enquired on the Fund and its planned operations. The Maltese authorities explained that this Fund was established by the Ministry for Finance, to ensure that unforeseen expenditure or revenue slippages do not jeopardize the compliance with fiscal rules. Once the budgetary position of the general government is in surplus, the funds earmarked for the contingency reserve can be invested in top rated short-term liquid assets. The Contingency Reserve shall amount to between 0.1 per cent and 0.5 per cent of the Gross Domestic Product (GDP) in any one particular year. In 2017, there was a transfer between the working balance and the TCF. It is a below the line account at the Treasury that receives transfers from the Working Balance. For the time being, investment plans are being elaborated and will be implemented only if there is a general government surplus.

Eurostat also enquired about the lines on other accounts payable and receivable in EDP Table 2A, as further detailed in the Annex 9 submitted at every EDP notification. In particular, the Maltese statistical authorities explained what is included in the residual line for budgetary central government and will send a breakdown table of the transactions according to related ESA codes. The Maltese authorities also confirmed that the presentational changes implemented in Table 2C during the April 2018 will be maintained in the next EDP notifications.

### *Findings and conclusions*

**Action point 6.** The Maltese statistical authorities will provide a table with the breakdown of other accounts payable/ receivable according to related ESA codes of the line "budgetary central government" in EDP "Annex 9". *Deadline: before the October 2018 notification.*<sup>6</sup>

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<sup>6</sup> On 03.07.2018 the NSO has sent the relevant information and this Action Point was accomplished.

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

### **4.1. Delimitation of general government, application of 50% market test in national accounts**

#### *Introduction*

According to the Maltese statistical authorities, the general government sector delimitation exercise is conducted twice a year, prior to each EDP notification. The number of years covered depends on the length of operation of a particular entity. As the majority of the EBUs have a financial year ending December 31<sup>st</sup>, the annual financial statements for year n-1 may not yet be ready in time for the first EDP notification. Hence, in this case, data are estimated for GDP/EDP purposes, mainly based on data extracted from the Financial Data Reporting System (FDRS). The delimitation template used in the process of deciding the sector classification of public entities can be found in Annex IV of the EDP Inventory.

Before the visit, the Maltese statistical authorities transmitted a note with an update of Annex 1 of the EDP Inventory, with the number of units included in general government and the changes in the extra budgetary units list from the 2016 EDP dialogue visit.

#### *Discussion*

The participants examined the list of new general government units and the units removed since the last EDP visit in 2016. All the reclassifications of extra budgetary units occurred as a result of the 2016 visit action points. Eurostat pointed out some calculation errors in Annex 1 to the EDP Inventory that should be corrected before publishing the updated version of the EDP Inventory. Regarding newly created units, the Malta Residence and VISA Programme Agency was discussed and it was confirmed that the entity is not involved with the Individual Investor Programme.

#### **4.1.1 Reclassification of units**

##### *Introduction*

Following Eurostat's request for information on Public Corporations, specifically in relation to the Public Corporations questionnaire, the Maltese Public Finance Unit started working on a dedicated database. This database includes administrative and classification information and financial and employment data. The information is captured from the Public Corporations' audited accounts, starting from 2005 onwards. There are no public corporations in the questionnaire included in the MFI list and there are no units classified as "NACE O".

##### *Discussion*

The discussion focused in particular on Selmun Palace Hotel Co. Ltd. The entity consists of a hotel and a historical building. It ceased its operations in 2011 and, according to the Final Findings of the 2016 EDP dialogue visit and the April 2017 EDP notification clarification requests, is in liquidation, and should therefore be reclassified inside the general government sector. The last audited financial statements available for Selmun Palace are for the year ending March 2016 and these accounts were taken for the questionnaire on public corporations for 2015. It has 11 MEUR total liabilities and the market/non-market test was not provided in the last questionnaire, whereas it resulted in figures far below the 50% threshold in the past. The Maltese statistical authorities clarified that while operations were stopped in 2011, the liquidation process has never started. In 2016, government purchased it

from Air Malta for a very small amount and at the same time, under the same agreement, government paid Selmun Palace €10.9 million euro to cover its liabilities against Air Malta. This transaction was recorded as a capital transfer. Future plans about the assets are unclear for the moment. The participants agreed that the unit should be reclassified in the general government sector starting from 2017.

### *Findings and conclusions*

**Action point 7.** Selmun Palace Hotel Co. Ltd will be reclassified in the general government sector starting from 2017. *Deadline: before the October 2018 notification.*<sup>7</sup>

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

### **4.2.1 Taxes and social contributions**

#### *Introduction*

As stated in the Inventory and confirmed in the note submitted by the NSO before the visit, the main method for recording taxes is time-adjusted cash. The time-adjusted cash method is applied for VAT, income tax and social contributions. In 2016, these three tax categories covered around 80% of the Government Sector total tax revenues. The time-adjustment lag is of t+1 for VAT and t+2 for income taxes and social contributions and there have been no recent changes in the method. The other taxes, essentially the excise duties, transport and property taxes, are recorded on a cash basis and are adjusted for accruals using the Treasury's accruals template, which are based on the realisable debtors' balances as recorded on the books of the tax authorities. The NSO sent an updated version of the questionnaire on taxes and social contribution before the visit.

The main material changes related to the system of recording taxes from International Trading Companies (ITCs). A two months' time adjusted cash method is applied, as for other income taxes. However, the practice of recording revenue from the income taxes collected from the ITCs differs somewhat from other income taxes. The ITCs are companies registered in Malta with essentially foreign ownership, which gives their non-resident shareholders a right to be refunded. The ITCs registered in Malta pay a flat corporate tax of 35% on their chargeable income, and then, following the distribution of dividends, shareholders are entitled to a tax refund generally of 6/7ths of the tax on the gross dividend. Thus, the effective tax rate is 5%. However, there are also cases where the tax refund differs from the 6/7ths ratio. Once the refund is requested and paid, the balances in these departmental accounts, held at the Central Bank, representing the net income tax, are then transferred to the Consolidated Fund as revenue. Until such transfer, the closing balances of the accounts at the Central Bank are recorded in the financial accounts of government under F.2A (currency and deposits, assets) and F.8L (accounts receivable/payable, liability). The net cash flows entering the working balance from the income taxes collected from the ITCs, increased significantly since 2011 and form an important part of government's revenue. To avoid fluctuations in the working balance, there are nine bank accounts in the CBM, which are used for the receipts from and for refunds to the ITCs. According to the Maltese authorities, the transfers were made to the Consolidated Fund at the points in time "when reasonable amounts can be transferred". In Eurostat's view, such net amounts transferred to the working balance should remain stable over time in order to avoid overestimation or underestimation of the central government tax revenue. To this end, on Eurostat's request, the Maltese statistical

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<sup>7</sup> This Action Point is in progress pending the validation of the October 2018 EDP data.

authorities have accordingly sent Eurostat on an annual basis the exact amounts (stocks outstanding) of the cash included in the accounts held at the Central Bank as of end-December of the previous year and as of end-February of the current year. A threshold of 75 MEUR (+/- 10% meaning 67.5-82.5 MEUR) was set for the stock outstanding at the Central Bank as of end of December and end of February every year and it was agreed that the difference between the balances in the accounts and the agreed adjusted threshold as of end of December and February every year should be recorded as revenue/expenditure of general government. In the October 2017 EDP notification the NSO recorded the 8 MEUR in excess to the 82.5 MEUR upward threshold as revenue for 2016 (neutralised in 2017). During the April 2018 notification, the NSO has forwarded the ITCs bank balances held at the Central Bank for December 2017 and February 2018 and informed that no adjustment was needed for 2018, as the reported bank balance for February 2018 is within the agreed threshold.

Concerning VAT, since January 2015, under Council Directive 2008/8/EC and Council Directive 143/2008, the broadcasting, telecommunications and electronically supplied services are to be taxed in the country where the customer belongs. Electronic services include gaming and betting online, which is a relevant sector in Malta. VAT is collected via one-stop shop (MOSS) in one Member State on behalf of other countries. The amounts collected by country A via the one-stop shop on behalf of country B should not give rise to non-financial transactions in the accounts of country A. The amounts collected should be recorded as VAT revenue in country B and during a transition period from 2015 to 2018, countries collecting VAT through the one-stop shop may retain a diminishing part of the collected amounts recorded as a D.74 (international cooperation) flow from country B to country A. In Malta, which is a small economy, this should entail a significant decrease in VAT revenues and receivables, although this had not yet been observed.

### *Discussion*

The participants confirmed that there were no changes in the time-adjusted cash system of tax recording or in the national tax calendar. Concerning the recording of VAT for electronic services, an in-depth analysis of the current system has to be carried out in cooperation with the VAT department of the NSO. Preliminarily, the discussion highlighted a few issues: net recording, no recording of international cooperation amounts for the part still retained from other Member States in the transition period and the recording as administrative fees of part of the proceeds. The participants agreed that this recording should be aligned with the recording system established in GFS task forces.

### *Findings and conclusions*

**Action point 8.** Concerning the VAT collected as one-stop shop in Malta, the Maltese statistical authorities will eliminate the time-lag between government revenue and expenditure (and record F.8 accordingly), as well as record the full amount paid back to other EU Member States as a financial transaction. In the transition period, D.74 (current international cooperation) should be recorded for the part of revenue retained. *Deadline: before the October 2018 notification.*<sup>8</sup>

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<sup>8</sup> On 28.08.2018 and 14.09.2018 the NSO has sent relevant information. At the moment of writing these findings, this Action Point is in progress.

## 4.2.2 Interests

### *Introduction*

The details on the cash and accruals of interest of the Treasury Bills, Malta Government Stocks (bonds) and loans (domestic and foreign), are available in the EDP Inventory. Data are available, instrument by instrument, to the NSO. In the working balance, the accounting basis used for the recording of interest expenditure and revenue is on a cash basis. The adjustment line for interest in EDP Table 2A refers to interest expenditure of the budgetary central government. The accrued interest revenue is recorded under "Other adjustments" in EDP Table 2A. Premiums on issuance of government securities are recorded as revenue on a cash basis in the working balance of EDP Table 2A. The adjustment for the premium proceeds from the issuance of Malta Government Stocks features under the category "Other financial transactions" of this EDP table. Both the premium and discount are spread over the life of the securities. The flows for the discount on government securities do not enter the working balance.

Before the visit, the NSO had submitted the ad-hoc table on interest recording, both in the updated and in the older template. A number of technical issues in the table were solved following bilateral exchanges between Eurostat and the NSO before the visit. Some technical issues remained open to be discussed during the visit. Analysing the ad hoc tables and the detailed Annex 8 to the EDP notification tables, it became clear that the Maltese government is buying back bonds through the Sinking Fund on the secondary market for amounts close to 0.02% of GDP. In EDP Table 2A, the premium/discount at repurchase are not recorded in the working balance and do not impact B.9, but the amortisation is wrongly included in the adjustment line "Difference between interest paid and accrued" (D.41) thus wrongly impacting B.9. This recording is not in line with ESA 2010 (paragraph 20.180). It should in fact be recorded as other changes as nominal holding gains and losses (K.7).

### *Discussion*

The participants mainly discussed the issue related to the recording of the amortised premium and discounts at repurchase. Under ESA 2010, the repurchase of its debt securities by the issuer is deemed to be redemption in national accounts, and the premium/discount on repurchase should not be booked as income but recorded in the revaluation accounts. The Maltese statistical authorities agreed to amend EDP Table 2A by removing the amortised premium/discount at repurchase from the line "Difference between interest paid and accrued." In EDP Table 3B, the total premium should instead be recorded under the line "Redemptions/repurchase of debt above/below nominal value" where it is not for the moment. The participants also reviewed in detail the interest recording ad hoc table and clarified a number of technical issues to be corrected.

### *Findings and conclusions*

**Action point 9.** The Maltese statistical authorities will correct the accounts as regards the repurchase of bonds at premium/discount in order to ensure that premium/discount at repurchase affect only the financial accounts and are not recorded as expenditure/revenue of government (neither at repurchase nor spread over later years). *Deadline: before the October 2018 notification.*<sup>9</sup>

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<sup>9</sup> On 30.07.2018 the NSO has sent relevant information. At the moment of writing these findings, this Action Point is in progress pending the validation of the October 2018 EDP data.

**Action point 10.** In the table for the recording of interests, a number of corrections will be introduced: line 2 should be revised to include only revaluation and other change in volume concerning the stock of accrued coupons (for instance applicable for bonds in dollar foreign exchange); in line 3 the flow of coupon accrued in the accounting period should be recorded; line 5 should reflect coupon sold at time of issuance of new tranches of an existing bond; line 6 should include coupon bought on bonds repurchased from third parties (not coupon received on the existing portfolio); line 7a should include, for year t, the sum of the remaining amortised premium in year t+1 and following, until maturity (allowing the calculation of the stock of discounts by difference with item 7); line 12b should include all amortised discounts (currently apparently included in line 3). Following Action Point 5, item 12a has to include the amortisation of premium which is currently reported under line 15 and item 15 should instead reflect the difference between the face value and ESA nominal value (outside coupon accrued). *Deadline: before the October 2018 notification*<sup>10</sup>.

### 4.2.3 Recording of EU flows

#### *Introduction*

All units involved in the administration of the EU funds are classified in central government. The “time of expenditure” method, as suggested by the MGDD, had been implemented for the EU flows from the EU Funds programming periods 2007-2013 and 2014-2020. The “pending claims” method, which was phased out in 2014, was used for recording of the EU Funds programming period 2004-2006. There were no market regulatory agencies in Malta, which were acting on behalf of the European Union. As of the April 2018 EDP notification, flows from additional funds were included in the recording: the International Security Fund (Borders, VISA and Police) and the Asylum and Migration Fund.

The NSO records the EU flows, where the final beneficiaries are non-government units, as part of government revenue and expenditure (without impacting government deficit), which is not in line with present rules. This issue was the object of an action point following the 2016 dialogue visit which remained open to the 2018 visit.<sup>11</sup> As an example, the amount inflating the revenue and expenditure of government was 34.9 MEUR (0.4% of GDP) in 2015.

#### *Discussion*

The participants discussed the overestimation of government revenue and expenditure and the reporting of the data on the EU flows in the EDP questionnaire (Table 6: "Recording of EU flows in EDP tables"). It was in fact confirmed that, with the exception of Agricultural Funds, all flows are included in the working balance and then neutralised such that there is no B.9 impact, although revenue is overestimated. The Maltese statistical authorities stressed that the impact of the overestimation is expected to be lower in years other than 2015, a year which was affected by the closure of the EU Funds programming period. Some information on final beneficiaries is already available, while the Maltese statistical authorities would need to acquire more from the specific authorities to fully implement the neutralisation.

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<sup>10</sup> At the moment of writing these findings, there has been no progress on this Action Point.

<sup>11</sup> Action point 16: Eurostat took note that the present system of recording of the EU grants results in an overestimation of the central government revenue and expenditure. The Maltese statistical authorities are invited to remove such overestimation in their data starting from the current EU programming period (2014-2020) onwards.

As for the data reporting on the EU flows in the EDP questionnaire Table 6, the discussion focussed on some discrepancies with the EDP Annex 9. The Maltese statistical authorities agreed to verify and correct such inconsistencies. Eurostat also enquired why there are no amounts unduly perceived by Member States, to be reimbursed, recorded in line 19 "Other adjustments relating to penalties" in EDP questionnaire Table 6. The Maltese statistical authorities pointed out that there might have been penalties in the past and Eurostat recalled that the appropriate time of recording is the time when the European Commission takes the related decision.

### *Findings and conclusions*

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

**Action point 12.** The Maltese statistical authorities will check the consistency of other accounts receivable for EU flows between the EDP questionnaire Table 6 and EDP Annex 9 provided at each notification by the Maltese statistical authorities. *Deadline: before the October 2018 notification.*<sup>12</sup>

**Action point 13.** The Maltese statistical authorities will check whether the time of recording of EU Commission decisions determining the amounts unduly perceived by Member States to be reimbursed (recorded in line 19 "Other adjustments relating to penalties" in EDP questionnaire Table 6) is correct. *Deadline: before the October 2018 notification.*<sup>12</sup>

## **4.2.4 Recording of other flows of receivables and payables**

### *Introduction*

There are small but recurrent other economic flows (F.8L) off-set by symmetric amounts in currency and deposits (F.2A) (1-3 MEUR). These amounts are not related to sector reclassifications (K.61) or revaluation of foreign currency (K.7) but rather to the departmental bank accounts held at the Central Bank in relation to taxes from International Trading Units (ITUs) and EU funds.

### *Discussion*

Eurostat enquired about the recording method that gives rise to these flows. The Maltese statistical authorities recalled that tax inflows from ITCs (see section 4.2.1) are recorded at the Departmental bank accounts (which are part of the government financial accounts perimeter) as F.2 and F.8L, because the units are entitled to be refunded (for around 6/7ths of the total). When the refund is claimed by the units, the net amounts are transferred to government, the tax revenue is recorded and the liabilities in other economic flows are reduced by matching amounts.

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<sup>12</sup> At the moment of writing these findings, Action Point 12 and 13 are pending.

## 4.3 Recording of specific government transactions

### 4.3.1 Guarantees

#### *Introduction*

The NSO receives information on government guarantees on borrowing from the CBM on a quarterly basis. The CBM prepares a report on the position of the government guarantees including information on each individual guarantee and beneficiary, such as the issue date, limit, amount withdrawn, capital repaid and government's exposure. Contrary to the information on government guarantees in public accounts, in national accounts government guarantees exclude guarantees to the Multilateral Investment Guarantee Agency (MIGA) and the International Bank for Reconstruction and Development (IBRD) and on foreign loans taken by the CBM on behalf of government, which already feature in the calculation of the external debt of government. Government guarantees include any guarantees granted by the EBU's but exclude government guarantees provided to EBU's.

Prior to the visit, Eurostat received from the NSO a list of outstanding government guarantees (by individual beneficiary) for the years 2013-2017 and the data were consistent with the figures reported in questionnaire table 9.1 of the April 2018 EDP notification. In 2017, there were around 55 MEUR of new issued guarantees to non-financial institutions.

#### *Discussion*

The participants reviewed the list of outstanding guaranteed debt. Eurostat enquired about the large new issued guarantees benefitting non-financial institutions. The Maltese statistical authorities explained that the guarantee was issued in favour of a private company that prints bills and manufacture coins. It was recalled that Vault Finance, incorporated in 2012 and classified in the financial corporation sector (S.125), is the holder of assets and debt previously held by Enemalta (state energy corporation) guaranteed by government. The new government guarantee of around 10 MEUR to Malta Industrial Parks was related to increased activity in 2017. The public company builds factory sites to be rented to the private sector. Eurostat also recalled that there are no standardised guarantees in Malta and, in relation with the discussion on social housing programmes, raised doubts about whether the guarantees on mortgages extended to households by the Housing Authority should actually be considered as such.

#### *Findings and conclusions*

**Action point 14.** The Maltese statistical authorities will check whether the guarantees on households' mortgages, which the Housing Authority is providing, fit in the definition of standardised guarantees. *Deadline: before the October 2018 notification.*<sup>13</sup>

### 4.3.2 Debt assumptions, claims, debt cancellations and debt write-offs

#### *Introduction*

The NSO provided before the EDP visit a list of central and local government claims, stocks and transactions for the period 2013- 2017 and the figures were consistent with EDP Questionnaire table 8. The last debt assumption took place in 2014, and was recorded in government deficit, relating to the liquidation of Sea Malta Co. Ltd. The liquidation process had commenced in 2005, whilst in 2014 the bank requested government to pay the balance of

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<sup>13</sup> On 14.09.2018 the Maltese statistical authorities sent some relevant information.

the company's loan of 5.8 MEUR. In December 2014, government paid the final reimbursement to the bank in full, which was recorded as a debt assumption in government accounts in 2014. There was a small debt cancellation in 2017 (0.4 MEUR) in favour of the Mariam Al Batool School.

Concerning the Water Services Corporation (WSC), during the last EDP dialogue visit its liabilities against government were discussed as there was no repayment between 2008 and 2014 and an action point covered this issue.<sup>14</sup> The NSO submitted the repayment schedule from WSC and the loan was partially repaid in 2015 and 2016. The Maltese statistical authorities also informed Eurostat that a new repayment schedule from Water Services Corporation was expected. No repayment of debt took place in 2017.

#### *Discussion*

The Maltese statistical authorities recalled that no interests accrued on the loan to the WSC and explained that negotiations were taking place to reach the full reimbursement of the loan in 2018. It was also recalled that the loan to the Hellenic Republic bears only small interests calculated by the European Commission and that, in relation to the Malta-USSR trade protocol, there was no corresponding asset and therefore an amount in other change in volume was booked. It was also recollected that the loan to the Libyan Arab Maltese Holdings, a holding company reclassified in government starting from April 2017, was a loan extended to its subsidiaries.

### **4.3.3 Capital injections in:**

#### **4.3.3.1 Public corporations:**

##### **4.3.3.1.1 Air Malta and Malta Air Travel**

#### *Introduction*

Air Malta plc is the national air carrier of Malta. Among the largest public corporations in Malta, it was set up in 1973 and is majority-owned (98% of the shares) by government. It has been loss-making since 2003 and government has intervened several times to support the company: first in 2010, providing 130 MEUR in state aid on condition that the airline was restructured, providing annual capital injections from 2012 onwards, all treated as capital transfers. In 2015, 40 MEUR of the total 52 MEUR recorded as capital transfer related to the conversion of the above-mentioned loan into equity and the remaining 12 MEUR were converted into equity in the first quarter of 2016. In 2018, government incorporated a new company, Malta Air Travel Ltd (MAT), with the primary objective to purchase and hold Air Malta's landing slots at London airports. The Air Malta plc slots have been valued by international evaluators at €62 million. Malta Air Travel will in turn lease the landing slots back to Air Malta for a period of at least 15 years. In February 2018, Eurostat provided advice on the transaction stating that MAT should be seen as an artificial subsidiary of Air Malta because its activities will simply complement and will be necessary to the activities of Air Malta: this new company will enter into contractual relations only with Air Malta and even the aircraft, which MAT will sub-lease, will be leased back to Air Malta, so that MAT will not have any fixed assets except the landing rights. The whole operation has to be treated

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<sup>14</sup> Action point 15: The Maltese statistical authorities will inform Eurostat about the repayments of the loan provided by the central government to the Water Services Corporation from the time of the issuance of this loan. The Maltese statistical authorities will need to closely monitor this loan's situation in order to record a debt cancellation, if appropriate.

as a capital transfer from government into Air Malta, even if organised via different legal entities. On this operation, the Maltese statistical authorities have transmitted a note before the dialogue visit.

#### *Discussion*

The representatives of Air Malta presented the financial situation and the outlook for Air Malta. The restructuring plan currently aims at improving cost-efficiency, stabilising losses and obtaining positive results. For the time being, no dividends are expected to be distributed and no further capital injections are expected, as losses should be limited. Regarding the operation with MAT, there was some uncertainty about the exact value of the capital transfer, which Eurostat asked the Maltese statistical authorities to verify.

#### *Findings and conclusions*

**Action point 15.** The Maltese statistical authorities will check the exact amount of the capital injection in Air Malta paid in the first quarter of 2018, which is to be treated as capital transfer. *Deadline: June 2018.*<sup>15</sup>

### **4.3.3.1.2 Malita's projects: Affordable Housing and ITS**

#### *Introduction*

Malita Investment plc was incorporated as a public limited company in 2011 with the objective of acquiring and managing immovable property, in particular, projects of national and/or strategic importance. It was created as a special purpose vehicle in the context of the City Gate Project. The sector classification of Malita and the recording of the agreements of the City Gate Project were discussed during the 2012 dialogue visit, after which it was agreed that Malita should be classified in the non-financial corporations sector. The sector classification in S.11 was confirmed in the 2014 dialogue visit after the introduction of ESA 2010. It is 80% owned by government and it is profitable, has only 3 employees and largely fulfils the market/non-market test. It was agreed with Eurostat that any new project by Malita involving government will have to be analysed on its own. The Maltese statistical authorities sent in February 2018 a description and analysis of two new projects: affordable housing and Institute of Tourism Studies (ITS).

#### *Discussion*

The representative of Malita presented the features of the two new projects.

The project on affordable housing aims at filling the existing market gap for affordable dwellings in the Maltese real estate market. It was launched in 2016, the financing contract with the European Investment Bank and Council of Europe Development Bank was signed in June 2017 and in June 2018 the first disbursement took place. The project was in the tendering phase to select an external constructor for construction works which will last for around 2 years and a half. The total capital expenditure will amount to 58 MEUR, out of which only a small amount took place in 2017. A long term rent contract (emphyteusis) for the land sites was signed with government on the basis of prices valued by external evaluators and will last for 28 years with a 5% increase in the lease price each year. At the end of the 28<sup>th</sup> year, the assets will revert back to the Housing Authority, classified in government. The Housing Authority is responsible for issuing a certificate granting

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<sup>15</sup> On 03.07.2018 the NSO has sent the relevant information. This Action Point is accomplished.

entitlement to social housing. The Housing authority, based on the same set of criteria (which includes income), draws two complementary lists of tenants: one for social housing on the sites included in Malita's project and one for social housing on other sites. The tenants then enter into a 7 year renewable lease contract with Malita. If a tenant is removed from the Housing Authority's list, then, the person loses the right to rent the dwelling. In case of unpaid rent, the normal procedures for eviction are followed, even if eviction is seen as an extreme solution that should be avoided. Malita can set the rental price but is allowed to raise it only by inflation rate (maximum 3%). Tenants might be entitled to government subsidies for rent that span from 70 to 100% of the total rental price, depending on the level of income and value of assets owned by the person.

The ITS project consists in building a university campus with offices premises and a hotel for training purposes, along with managing the education programme offered at the Institute. The concerned sites were leased for a long term to the private corporation Smart City, which transferred the rights on part of the sites back to government via a government owned company. Government, in turn, will enter in a sub-lease agreement (emphyteusis) with Malita for 45 years at current rates estimated by independent architects. The financing is planned to be given by EIB/CODB (25 years loan) and Malita will rely on a tenderer for the construction works. The total capital expenditure is expected to be around 55 MEUR. The economic life of the assets is expected not to be much higher than 45 years for this type of assets. Two partially government owned companies will be set up to rent and manage the facilities for 25 years: one company (36% owned by government) would mainly be in charge of managing the hotel, the second (60% owned by government) would manage the campus facilities and offer academic programmes. The companies will receive revenue directly from the students and the hotel guests.

Concerning the Affordable Housing project, Eurostat pointed out several elements that emerged from the discussion and that are relevant for the appropriate recording of assets. The land, which has practically an infinite economic life, and the assets will revert back to government after 28 years. Despite some uncertainty about the economic life of the assets, considering the standard used in the IPSAS framework, it would amount to 50 years. Therefore, government will benefit from the assets for a significant length of their economic life. Malita is also bound to follow the list of tenants drafted by the Housing Authority, is obliged to increase rent only for a maximum amount equivalent to inflation rates and eviction is clearly a last resort measure to be avoided as much as possible. These are all elements pointing to the social policy purposes of the project. Government is also subsidising rent up to 100%. Eurostat concluded that, unless these elements proved not accurate or changed, the assets should be re-routed through government accounts. Concerning the ITS, Eurostat asked the Maltese statistical authorities to send updates on further developments, as well as on other Malita's future projects.

### *Findings and conclusions*

**Action point 16.** According to what emerged in this Dialogue Visit, the part of Malita's business concerning the provision of Affordable Housing will have to be re-routed through government accounts. The Maltese statistical authorities will check whether the facts that emerged in the meeting fully correspond to reality. *Deadline: September 2018.*<sup>16</sup>

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<sup>16</sup> On 07.09.2018 the NSO provided relevant documents. At the moment of writing these findings, this Action Point is in progress.

**Action point 17.** The Maltese statistical authorities will keep Eurostat updated on the Institute of Tourism Studies project (including sending the official documents related to the setting-up of the companies involved in the management of assets when signed) and on any new project undertaken by Malita. *Deadline: as soon as available.*

#### **4.3.3.2 Malta Development Bank**

##### *Introduction*

Created in 2016, the Malta Development Bank (MDB) held its first meeting in December 2017. The MDB Act came into force in May 2017 and in December 2017 the Minister for Finance appointed the Board of Directors of the MDB as well as the members of the MDB Supervisory Board. The sector classification was discussed during the 2016 dialogue visit and in August 2016 Eurostat concluded that the MDB could remain outside government while reserving the right to review its opinion should the reality turn out to be different from the plans and projections. It seemed that the appropriate sub sector for classification could be "Other financial intermediaries, except insurance corporations and pension funds (S.125)". The government's initial capital injection to set up the MDB of 30 MEUR was carried out in the last quarter of 2017. The capital injection test was applied and the injection was treated as a financial transaction, as the bank did not have a history of losses and a market return was likely; on the other hand, there were no private investors. Before the visit, the Maltese statistical authorities provided a detailed note covering the business plan, current activities as well as future plans.

##### *Discussion*

A representative of the MDB presented the aim, the structure and the business plan of the bank. The discussion focussed on the relevant elements for sector classification, the recording of capital injections and re-routing of operations through government accounts. In terms of governance, there does not seem to be general government control at the strategic level. Regarding constraints on the liabilities side, government does not have to authorise borrowing. On the other hand, government guarantees can go up to 100% even if the targeted level is planned to be at 30% of the total borrowing. Concerning financing from government, Eurostat recalled that for the time being the assessment of capital injections is based on projections but the actual returns will have to be checked when realised. Eurostat also enquired about the 60 MEUR shares "subscribed" by government and whether this entailed an obligation to inject the additional 30 MEUR in the next future. On the assets side, expected constraints from government did not seem significant: guarantees by government over lending were expected to reach about 30% of the total. Eurostat stressed the importance of timely exchanges of information between the MDB and the Maltese statistical authorities in order to determine whether any operation should be rerouted through government accounts when carried out on behalf of government.

##### *Findings and conclusions*

**Action point 18.** Eurostat invites the Malta Development Bank to send detailed and timely information to the Maltese statistical authorities on every operation undertaken, as well as all information necessary to determine whether any operation should be re-routed through government accounts. *Deadline: continuous.*

**Action point 19.** The Maltese statistical authorities will determine whether the shares of the Malta Development Bank "subscribed" by government entail an actual obligation for government to inject capital in the Development Bank in the future. *Deadline: August 2018.*<sup>17</sup>

#### **4.3.4 Dividends, super dividends**

##### *Introduction*

Before the visit, the Maltese statistical authorities submitted a table with the dividends paid by companies in 2013-2017 and their associated profits. Since 2013, super-dividends were paid only by the Malta Financial Services Authority (1MEUR in 2013) and the Central Bank (8.3 MEUR in 2016 and 9.5 MEUR in 2017). The Maltese statistical authorities specified that the Central Bank super-dividend is compiled according to the MGDD chapter "Payments between the central bank and government". The EDP Inventory shows the detailed method used to calculate the super-dividend test starting from the Central Bank profit and loss accounts.

##### *Discussion*

The participants agreed that there was no particular issue to be discussed under this item at that stage.

#### **4.3.5 PPPs and Concessions**

##### *Introduction*

As shown in EDP questionnaire Table 11 and reported in the EDP Inventory, prior to the visit, there was only one existing PPP which concerns the construction of the Mellieha Home for the Elderly. The construction phase dates back to 2007-2008 and the total contractual capital value is 6.5 MEUR. It was agreed with Eurostat to classify it off government balance sheet. In 2014, a new unit, Projects Malta Ltd (PM) was set-up to coordinate and facilitate Public Private Partnerships between Ministries and the Private Sector. It is fully owned by the government of Malta and it is classified in S.13 as extra budgetary unit.

Following the 2016 EDP dialogue visit, the Maltese statistical authorities committed to enquire whether the government was involved in any concession with the private sector concerning the construction and/or the management of fixed assets and to inform Eurostat about their findings. Each contract is now analysed by the NSO in order to distinguish PPP, concessions and leases and decide on the statistical treatment. The NSO collected relevant information via a questionnaire on agreements that may be PPPs and Concessions in MGDD terms and in March 2017 sent its analysis and the original questionnaire used. The results showed one concession agreement for the Malta National Aquarium, an additional new PPP on the management of hospitals (discussed in section 4.3.5.1) and 19 assets management contracts.

##### *Discussion*

The participants briefly discussed the concession agreement regarding the Aquarium, the construction phase of which ended in 2011, and which was recorded off government balance sheet based on the complete transfer of risks and rewards to the private operator. The 19 assets management contracts were also discussed and the Maltese statistical authorities confirmed that no new assets would be built under these agreements. Eurostat encouraged the

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<sup>17</sup> On 19.09.2018 the NSO has provided relevant information and this Action Point is accomplished.

Maltese statistical authorities to take provisional decisions based on the available information, at time of signature of the agreements even if they are not definitive, in order to complete EDP questionnaire Table 11 based on the contractual capital value. The Maltese statistical authorities explained that the different agreements are fully under the responsibility of the ministries in charge and therefore information is not centralised. Eurostat highlighted the importance of acquiring timely information and therefore suggested to make the questionnaire exercise a recurring one, at least until a more structured way to exchange information is established.

#### *Findings and conclusions*

**Action point 20.** The questionnaire on PPPs and concessions which the Maltese statistical authorities have sent to the various government departments is to be sent annually, at least until a more solid source of information is established. *Deadline: December 2018, then, continuously.*

### **4.3.5.1 PPP with Vitals Global Healthcare/Steward Healthcare International**

#### *Introduction*

The scope of the PPP between government and Vitals Global Healthcare Ltd signed at the end of 2015 is the redevelopment, maintenance, management and operation of three hospital sites, the St Luke's Hospital, Karin Grech Rehabilitation Hospital and Gozo General Hospital. The redevelopment requirements include, amongst other, the construction of a new hospital, redesigning and remodelling the existing building at Gozo General Hospital, the construction and outfitting of a medical school, the construction of a dedicated research and development centre and of a nursing university institution. Before the visit, the Maltese statistical authorities informed Eurostat that the initial investment of the Vitals Group shall be 220 MEUR. Government will be purchasing the services of the healthcare provided by Vitals Group throughout the duration of the concession which is 30 years. Beds, facilities and services capacity not reserved for use by the Maltese government may be offered by the private operator for medical tourism. In March 2017, the NSO claimed that a final statistical assessment of this agreement was not yet possible, awaiting further information from the relevant authorities. The NSO also explained that the construction of the Barts Medical School started at the beginning of 2017, while in 2016 there were some renovation and refurbishment works. In 2016 government paid the Vitals Group 16 MEUR, whereas in the first quarter of 2017 government paid a further 5.7 MEUR. In January 2018, the NSO notified that discussions of a take-over by the US group Steward Healthcare from current shareholders Vitals were under way.

Before the visit, no major capital expenditure had yet been incurred on the project, Eurostat did not receive the complete copies of the agreements and had only access to the heavily redacted version publicly available.

#### *Discussion*

The representative of Vitals Global Healthcare (VGH) and the Permanent Secretary within the Ministry for Health presented the broad features of the agreement. They explained that a new agreement was being renegotiated after the change in ownership of VGH to the Steward Healthcare group. The contracts are expected to remain unchanged in the operational obligations of the private partner but some other elements (e.g. financing and government obligations to buy minimum levels of service) were under discussion. The representative also confirmed that very little gross fixed capital formation expenditure took place in 2017. The Maltese statistical authorities could analyse the complete set of agreements and pointed out

two features that, each on its own, would lead to an on government balance sheet recording: the presence of a minimum revenue guarantee for the private partner and government granting to take over in full the partner's debt in case of default. Eurostat also highlighted an issue of high importance visible in the available incomplete copies of the contracts: the list of force majeure events is an open-ended list. Based on these elements, the participants agreed that the PPP should be classified on government balance sheet starting from the next EDP notification. The new agreements will have to be reassessed as soon as signed.

#### *Findings and conclusions*

**Action point 21.** The Maltese statistical authorities will provide the new complete contracts on the PPP agreement between government and Steward Healthcare International. *Deadline: as soon as signed.*<sup>18</sup>

**Action point 22.** The Maltese statistical authorities will include in the EDP questionnaire Table 11 the PPP agreement with Vitals Global Healthcare/Steward Healthcare International. *Deadline: before the October 2018 notification.*<sup>19</sup>

### **4.3.6 Other transactions:**

#### **Emission trading permits**

##### *Introduction*

Concerning the emission trading permits, the competent authority responsible for the overall implementation and administration of the EU ETS in Malta is the Malta Resources Authority. The Malta Resources Authority provides all the data to compile the method of recording revenue from the proceeds of the emission trading units auctioned. The model used to record the emission trading permits in Malta's national accounts is according to the formula in the MGDD. The payments for emission permits, issued by governments under cap and trade schemes, should be recorded as other taxes on production (D.29), on an accrual basis, in the year of surrender of the permits. The timing difference between the cash payments received by government for the allowances and the time of recording of the tax revenue in national accounts gives rise to a financial liability (F.89) for government. In Malta, the only stationary installations are the Enemalta power stations, while the main aircraft operator is Air Malta. Before the dialogue visit, the Maltese statistical authorities provided a completed ad hoc table for the recording of ETS compiled by the Malta Resources Authority and Eurostat also produced a new template partially pre-filled by Eurostat taking the data from the European Environment Agency.

##### *Discussion*

The representative of the Malta Resources Authority presented the system of ETS in Malta, explaining that the first phase started in 2005 with free allocation of permits mostly to the two power plants in Marsa and Delimara then surrendered in 2007, when the actual emissions from the plants started. All the permits were issued for free until 2012. It was pointed out that the cancellation of permits in 2012 is related to the changes in the rules for the allocations of permits to the aviation sector. A series of inconsistencies and technical issues were discussed

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<sup>18</sup> On 11.06.2018 the NSO sent Eurostat the original complete set of contracts signed by government and Global Vitals Healthcare, along with the related statistical analysis. Eurostat provided its analysis and confirmed the on balance sheet recording. On 14.09.2018 the NSO has provided further updates. At the moment of writing these findings, this Action Point is in progress.

<sup>19</sup> At the moment of writing these findings, this Action Point is in progress pending the validation of the October 2018 EDP data.

comparing the two templates. In particular, Eurostat invited the Maltese statistical authorities to correct the time of recording issue that causes a t+1 shift of the figures and resubmit to Eurostat the updated template.

### *Findings and conclusions*

**Action point 23.** The Maltese statistical authorities will correct the data included in the Emission Trading Permits template as regards the time of recording of transactions and stocks. *Deadline: September 2018.*<sup>20</sup>

## **Mobile phone licences (UMTS)**

### *Introduction*

As a result of the 2016 dialogue visit, the NSO changed the recording of the sale of mobile phone licences from tax (D.29) to sales of non-produced assets (NP), because transferable, from the October 2016 EDP notification. The revenues from the sales are spread over the years (mostly 15 years), except for two sales in 2005 and also for a few other cases for very small amounts. The NSO was invited to spread all proceeds before its next benchmark revision. In April 2018, the Malta Communications Authority issued five new spectrum licences which granted the rights of use of radio spectrum in the 800 MHz and 2.5 GHz band for the provision of electronic communications services in Malta. The licences are for the term of 15 years, running until 2033. The operators will be paying the licence fee on an annual basis, for a total amount of €1.7 million per year for the five-new spectrum licences.

### *Discussion*

The participants discussed the recording of mobile phone licenses, stressing that no adjustment is necessary for the new licences extended in 2018 paid on an annual basis and agreed that correction for the older licences and appropriate recording of rent will have to be implemented.

### *Findings and conclusions*

**Action point 24.** The Maltese statistical authorities will spread over the years the recording of all the proceeds from the sales of mobile phone licences (UMTS) and record rent (D.45r). *Deadline: before the next benchmark revision.*

## **5. OTHER BUSINESS**

### **5.1 Individual Investor Programme and the National Development Social Fund**

#### *Introduction*

The Malta Individual Investor Programme (IIP) was discussed at the 2014 and the 2016 EDP visits. The IIP allows foreign individuals and their families who contribute to the economic development of Malta to apply for Maltese citizenship, subject to certain provisions on eligibility conditions. As a result of the 2014 EDP visit,<sup>21</sup> it was concluded that the receipts

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<sup>20</sup> On 27.08.2018 the NSO sent relevant information. At the moment of writing these findings, this Action Point is under evaluation.

<sup>21</sup> 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 accounts.  
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 appropriate.

by government would be recorded on a cash basis and that the revenue would be recorded under P.131 “payments for non-market output”. Proceeds are still being recorded as P.11, given that the split between P.131 and P.11 is still not carried out.

The proceeds of the Individual Investor Programme are used to finance the National Development and Social Fund (NDSF). 70% of the revenue of the programme (previously held at the Treasury Clearance Fund) is in fact transferred to the NDSF. The remaining 30% is recorded as revenue in the Consolidated Fund. The NDSF was set up in July 2016 and it was classified inside the general government sector as an extra budgetary unit. In 2016, the NDSF had a surplus of 163.5 MEUR. The first outflows related to the NDSF were recorded in 2017 as equity acquisitions of 28 MEUR in Bank of Valletta (2.9% of the bank share capital) as the transaction met all criteria to be recorded as equity. Before the visit, the NSO submitted a note on the planned activities of the NDSF. The Fund has acquired 52 MEUR in Malta Government Stocks. The main planned investment activities consist of a discretionary investment mandate to the Central Bank of Malta (approximately 100 MEUR); the acquisition of a 49.01% stake in Lombard Bank Malta plc (approximately 48-49 MEUR); social grants including 45-50 MEUR for social housing to the Housing Authority.

### *Discussion*

Eurostat recalled that proceeds should be recorded as P.131 rather than P.11. The Maltese statistical authorities explained that the split between P.11 and P.131 could probably be possible in the course of 2019, depending on IT changes and priority issues. Eurostat also recalled that while in this case the "sale of passport" has some characteristics typical of sales (the consumers can choose the "product" based on prices as there exists a market of different similar programmes in other countries), in the May 2017 GFS task force it was advanced that, given that there is no legal alternative to a passport, it should not be considered a sale but rather a tax. Unlike taxes, though, the transactions are mostly with units belonging to the S.22 rest of the world sector. Therefore alternative recording options could be other current taxes as tax on wealth of non-residents (D.59) or capital taxes (D.91). The participants agreed that the different recording options deserve further reflection.

The discussion focused on the planned activities of the NDSF. A representative from the NDSF presented the setup of the Fund: the NDSF is managed by a five members Board of Governors including the Chairman which acts independently but for public policy purposes. The Advisory Board has a consultative role and can propose projects to the Board of Governors. The Fund follows the Santiago and IFRS principles and relies on external auditors. It was stressed that the investment in Bank of Valletta was of a strategic nature and driven by positive dividends prospects, whilst other projects are driven by social policy goals. The discretionary mandate with the Central Bank will be submitted to monitoring in terms of risk management following a low risk approach: the majority of the portfolio will be constituted of national or foreign bonds with an overall A rate average. Upon Eurostat's request, it was confirmed that the NDSF pays the Central Bank for its duty of oversight.

The purpose of the acquisition of a 49.01% stake in Lombard Bank Malta plc was to facilitate the exit of the previous holder, Cyprus Popular Bank Public Co Ltd, who was aiming at giving up assets, having difficulties in meeting the necessary capital requirements. The acquisition was waiting for approval of the ECB and the Maltese Financial Authority and the price would be negotiated using the market price as base. The plan is then to dispose of the shares in a public off-load without distorting the market and retain only a small share. Eurostat pointed out that this purchase could imply government control over the bank: it should be enquired whether the purchase implied becoming the qualifying shareholder and

how widespread the ownership of the remaining 51% of the shares would be. The Maltese authorities pointed out that there is not any government control either by the appointment of directors or on management. Eurostat also stressed that the terms of the transaction are to be closely monitored and compared to market prices to establish whether the bank benefited of a flow that could be recorded as capital transfer.

#### *Findings and conclusions*

**Action point 25.** The Maltese statistical authorities will start implementing the split between P.11 and P.131. The proceeds from the Individual Investor Programme, which are to be booked as P.131, should be analysed in order to determine whether they could have the features of taxes on wealth (D.59) or capital (D.91). *Deadline: progress before the October 2018 notification and full implementation by the next benchmark revision.*<sup>22</sup>

**Action point 26.** The Maltese statistical authorities will analyse the acquisition of a 49.01% stake in the Lombard Bank Malta plc by the National Development and Social Fund planned for this year, in order to determine whether this entails control in the ESA 2010 sense over the bank. The prices of the transactions to be negotiated will also have to be checked against market prices in order to establish whether and to what extent they are beneficial to the bank. *Deadline: before the October 2018 notification.*<sup>23</sup>

## **5.2 Gozo Channel Group**

### *Introduction*

The Gozo Channel group provides the ferry service between Malta and Gozo via three vessels owned by the parent company and operated by the subsidiary. In 2016, a reorganisation took place between the subsidiary, Gozo Channel Company Limited, and the holding, Gozo Ferries Company Limited (classified in the general government sector as extra budgetary unit). The holding company, which remained a government unit, took the name of Gozo Channel (Holding) Company Limited. As part of the re-organisation, a new entity was incorporated as a subsidiary called Gozo Channel (Operations) Limited, classified in S.11. All assets, rights, liabilities and obligations of the former subsidiary were transferred to the renamed holding company, which in turn transferred all assets, rights, liabilities, and obligations necessary for the operations, to the new subsidiary Gozo Channel (Operations) Limited. During the April 2018 EDP notification, the Maltese statistical authorities have clarified that the financial transactions related to the reorganisation, gave rise to 8 MEUR of increased retained earnings for the holding company which have not been recorded and have contributed to the statistical discrepancies for 2017.

### *Discussion*

The participants discussed the events and the transactions that took place during the reorganisation of the Gozo Channel group. Eurostat invited the Maltese statistical authorities to verify which financial transactions and other economic flows in relation to the event were recorded, whether any non-financial transactions were recorded and identify the most appropriate accounting treatment to be implemented.

**Action point 27.** The Maltese statistical authorities will determine whether the 2016 merger of Gozo Channel Company Ltd. and Gozo Ferries Company Ltd., which originated Gozo

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<sup>22</sup> At the moment of writing these findings, there has been no progress on this Action Point.

<sup>23</sup> On 19.07.2018 and on 14.09.2018 the NSO provided Eurostat with relevant information. At the moment of writing these findings, this Action Point is in progress.

Channel (Holding) Co. Ltd. as parent company (classified inside the general government sector) and Gozo Channel (Operations) Ltd. as subsidiary, has contributed to the statistical discrepancy recorded in 2017. The financial transactions and other economic flows which occurred during the merger will have to be recorded in the most appropriate way. It should additionally be verified whether any non-financial transactions were recorded. *Deadline: before the October 2018 notification.*<sup>24</sup>

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<sup>24</sup> At the moment of writing these findings, this Action Point is in progress pending the validation of the October 2018 EDP data.

## ANNEX

### EUROSTAT EDP DIALOGUE VISIT TO MALTA

31 MAY-1 JUNE 2018

#### LIST OF PARTICIPANTS

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