

the latter are based on the previous targets for these two expenditure components. Nevertheless, these small inconsistencies are not expected to influence to a relevant extent the macroeconomic outlook for the year. Their second round effect on the fiscal targets beyond the initial effect as presented in the HYR is consequently also deemed marginal. Growth is still expected to be driven by domestic demand, with small contribution also from net exports, and the overall real and nominal GDP growth forecast for 2017 is still plausible.

4. Fiscal outturn during the first half of 2017

The purpose of the mid-year review is to assess the extent to which the fiscal projections contained in the Budget and in the USP can be fine-tuned on the basis of updated fiscal information. However, while the first quarter of 2017 is based on NSO News Release 109/2017 published on 7 July 2017, data for the second quarter is only provisionally estimated by the MFIN, with the assistance of the NSO. Thus, the assessment of the fiscal outturn for the first half of 2017 should be considered as preliminary, as data might be subject to change. A particular limitation is that accruals data for general government was not fully available by the time the HYR was finalised. As a result, developments in the cash-based CF play a critical role in shaping the MFIN's revised outlook (see Box 1).

Box 1: Consolidated Fund and ESA balances

Monthly fiscal statistics are published by the NSO based on the CF transactions. However, European Union (EU) Council Directive 85/2011, which deals with the requirements on the collection, treatment and dissemination of fiscal data and statistics, prescribes that fiscal data must also be presented in ESA codes.

During the first half of 2017, the ratio of revenues recorded through the CF amounted to 87% of its ESA counterpart, slightly lower than a year earlier, where it stood at 90% (see Table A). In the case of expenditure, the ratios were slightly higher, 94% in 2016 and 95% in 2017. However, at a component level the representativeness of the CF transactions is somewhat limited in relation to subsidies, gross fixed capital formation and capital transfers, where the coverage amounted to 54%, 58% and 30% respectively.

Both the CF and the fiscal figures in accordance with the ESA standards showed an improvement in the fiscal balance during the first half of 2017 compared to a year earlier. However, whereas the CF recorded a reduction in the deficit from €110.6 million in the first half of 2016 to €92.0 million during the first six months of 2017, in ESA terms the outturn was significantly more positive, with an estimated surplus of €66.6 million in the first half of 2017 against a deficit of €41.9 million in the same period of 2016. Indeed, on a net basis, the revenues and expenditures outside the CF framework contributed very positively to the fiscal balance (see Table B). This mainly reflected the operations of Extra-Budgetary Units (EBUs) and the impact of timing adjustments which more than compensated for the effect of amounts owed by the Government.

Table A: Consolidated Fund and ESA balances for January – June (EUR millions)

	2016		2017		2016	2017
	CF	ESA	CF	ESA	% CF/ESA*	
Total revenue	1,573.3	1,753.0	1,736.8	1,985.1	90	87
Taxes on production and imports	573.2	575.2	630.0	613.2	100	103
Current taxes on income and wealth	550.8	649.3	565.3	690.1	85	82
Social contributions	282.5	307.9	317.4	327.7	92	97
Property income	50.0	54.9	50.5	56.7	91	89
Other	116.8	165.7	173.7	297.3	70	58
Total expenditure	1683.9	1,794.8	1,828.9	1,918.5	94	95
Compensation of employees	424.4	590.7	445.7	624.5	72	71
Intermediate consumption	201.6	287.8	203.3	323.6	70	63
Social payments	505.4	540.1	561.6	571.8	94	98
Interest expenditure	108.5	107.6	102.9	102.5	101	100
Subsidies	38.2	56.4	35.2	64.9	68	54
Gross fixed capital formation	48.3	102.3	61.2	105.0	47	58
Capital transfers payable	6.1	38.5	6.2	20.8	16	30
Other	351.4	71.5	412.8	105.5	491	391
Fiscal balance	-110.6	-41.9	-92.0	66.6		

*A percentage higher (lower) than 100% indicates that the CF transactions overstate (understate) the amount when compared to the ESA methodology.

Source: MFIN

Table B: Reconciliation between Consolidate Fund and ESA balances (EUR millions)

Consolidated Fund balance as at June 2017	-92.0
Surplus of Extra-Budgetary Units (EBUs) including revenues from the IIP not recorded through the Consolidated Fund	107.0
Net effect of time and quarterly adjustments (to allow for the fact that some taxes are not necessarily collected in the same calendar year, and some items may be re-apportioned to alternative quarters over the year)	87.5
Additional net revenues in relations to transactions in the Treasury Clearance Fund	32.2
Surplus in the balances of local	4.4
Net amounts owed by government	-71.7
Other	-0.8
ESA balance as at June 2017	66.6

Source: MFIN

The estimated revenue for the first half of 2017, amounting to €1,985.1 million, represents 48.7% of the HYR target for the entire year. Developments across the broad revenue components show that the estimated amounts for the first half of the year are rather close to the 50% benchmark. The MFAC considers this benchmark as useful guidance for both revenues and expenditures, albeit acknowledging that specific factors might lead to fluctuations across quarters.

In the case of taxes on production and imports, current taxes on income and wealth, and social contributions (the three main revenue items), the ratio to the HYR targets stands at