

are met, additional expenditure measures should be considered.”<sup>66</sup> The MFAC also encourages the authorities to remain vigilant with respect to the age-related expenditure while at the same time ensure that long term sustainability issues are also addressed in a timely manner.

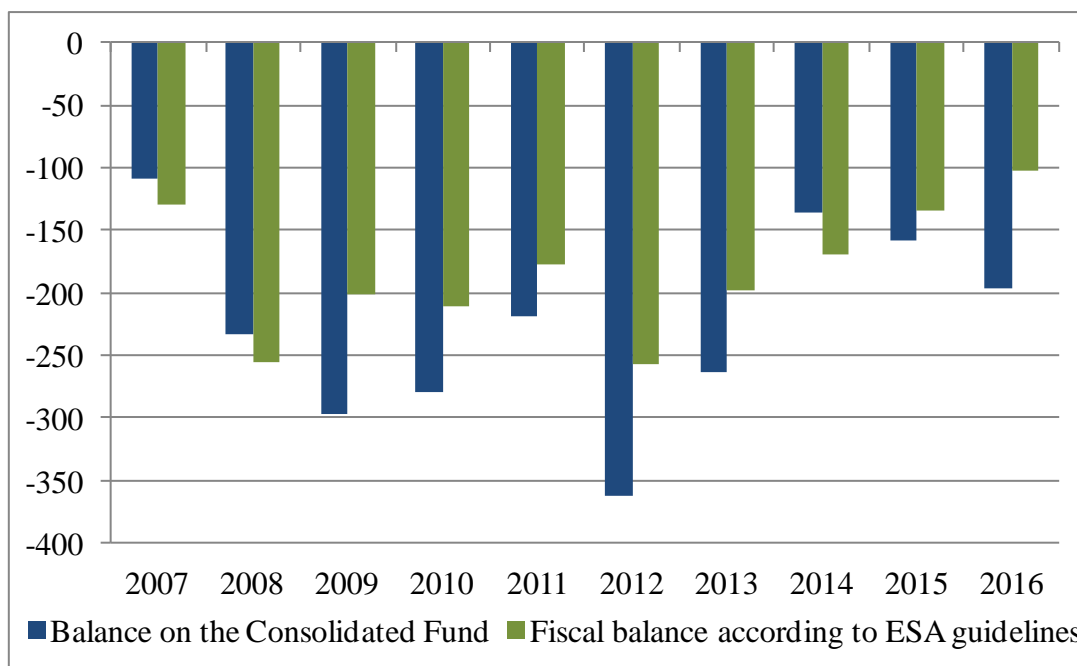
In order to enhance the transparency of fiscal policy, the MFAC also considers important that the differences between the balance on the Consolidated Fund, upon which the Budget Speech is based, and the fiscal balance calculated on the basis of the ESA guidelines, upon which the DBP is based, are clearly mapped and explained (see Box 5).

**Box 5: The Consolidated Fund and the ESA balances**

In Malta fiscal data has traditionally been compiled on the basis of methodologies devised by the Budget Office (BO) within MFIN. According to this methodology, revenues and expenditures are broken down by ministry. The definitions used by the BO are outlined in the yearly Financial Estimates document published by the MFIN. The MFAC considers that there is scope for these definitions to be enhanced in order to make them more exhaustive, less subjective, and closer to definitions used by Eurostat. For example, the definitions used to classify certain types of expenditures are rather arbitrary, such as the distinction between capital and current expenditure.

The MFAC notes that the trend in the Consolidated Fund balance diverged from the fiscal balance measured as per ESA guidelines, making the communication of fiscal developments to the general public more challenging (see Chart B).

Chart B: Consolidated Fund and ESA balances (EUR millions)



Source: Ministry for Finance

<sup>66</sup> Source: <http://www.imf.org/external/np/ms/2015/111615.htm>

In particular, when compared to 2014, the Consolidated Fund deficit is expected to widen in 2015 and in 2016 but to decline in ESA terms. While this is due to many different factors, the primary factor appears to be related to the current method of recording of IIP revenues, where in the case of the Consolidated Fund only 30% of such revenues feature, while in the case of the ESA balance, the full 100% is considered.

The MFAC acknowledges that the current framework has to date served the country well in the sense that it enabled the BO to maintain a firm grip of the fiscal revenues and expenditures to ensure adherence to local legislation. However, another apparent weakness of the current BO framework is the possibility of undertaking ‘below-the-line’ transactions, that is transactions which entail fiscal revenues and expenditures but which do not feature among the Consolidated Fund transactions.<sup>67</sup> The MFAC considers important that information about these types of transactions be more easily available publicly, in order to contribute to more informed public opinion about the conduct of fiscal policy.

The MFAC acknowledges the work being carried out internally by the Budget Office (BO) in terms of analysis of the quarterly accruals returns presented by the various ministries, and the other entities forming part of general government as per ESA guidelines but a longer term approach is warranted to steer the current BO methodologies to approximate better the ESA guidelines. This is advisable both to ensure that the MFIN’s analysis of fiscal developments is more focused on the internationally recognised definitions but also to enable the general public to better understand and participate in the debate on fiscal issues as applicable within the general EU fiscal governance framework.

Finally, the MFAC has identified areas of possible improvement in terms of added transparency in the contents of the DBP document as well as in the process. In particular the MFAC suggests that the DBP should include a table to identify the following key fiscal assumptions: the projected employment level within general government and the projected change in the average government wage. Furthermore, the MFAC deems necessary that MFIN publishes greater details on intermediate consumption and expenditure on gross fixed capital formation (on projects above a certain threshold), particularly since the latter two expenditure categories can prove rather volatile and where micro evidence is necessary to support the stated targets. This is particularly relevant whenever the planned budgetary improvement relies on developments in these two categories.

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<sup>67</sup> The transactions in the ‘below-the-line’ accounts are reflected in the Treasury Clearance Fund which is established in terms of the Financial Administration and Audit Act. The opening of such accounts requires prior approval from the MFIN and is subject to conditions laid down in those cases when approval is granted, which approval is only issued after having ensured that the requests are justified. The ‘below-the-line’ accounts are included in the Annual Financial Report of the Treasury, are assigned an ESA code in the system and their performance forms part of the bi-annual ‘Notification of Debt and Deficit’ reported to the COM.