Malta:
Annual Report 2014

Ministry for Finance

June 2015

Contents

1. Introduction

The Annual Report is in line with Article 41 of the Fiscal Responsibility Act, and constitutes the first of its kind.

In line with Article 41(2), the annual report provides information on the execution of the previous budget and compares its outcome with the strategic objectives and priorities in the fiscal strategy and the fiscal targets as announced in the previous annual budget. It analyses how the Government has respected the principles and rules stipulated in the Fiscal Responsibility Act and explains any deviations there from. It assesses whether the fiscal and budgetary policies in the completed budget year are in line with the medium-term objective stipulated in the fiscal strategy. It also provides explanations regarding any deviations from the Government's medium-term objectives and how these are to be addressed and explain the outcome of the budget in the context of the Government's European commitments, in particular the terms of the Stability and Growth Pact.

The Annex of this report also includes the final execution data for the indicators provided in the Medium Term Fiscal Plan.

2. Meeting 2014 Budgetary Estimates

This section provides information on the execution of the 2014 Budget as announced on the 4th of November 2013. It also compares the 2014 outcome with the strategic objectives and priorities of the fiscal strategy and targets as announced in the 2014 Budget.

The cash-based position in this section relates to the Central Government's Consolidated Fund. All allocations provided from the Consolidated Fund are either authorised by Parliament under an Appropriation Act, or are permanently appropriated by Parliament under other relevant legislation.

The revenue and expenditure figures presented in this Section are based on actual cash transactions, and are therefore not normally subject to revision. Financial transactions, such as proceeds from loans, proceeds from sale of financial assets, and revenue from other accounts of Government are not taken into consideration. Likewise, direct loan repayments, contributions to sinking funds, acquisition of equity, as well as transfers into other accounts of Government, are excluded from the total expenditure. In this sense, data presented in this section will differ from the data in Section Four which presents the data for General Government on an accruals basis.

In its Budget for 2014, the Government set an ambitious deficit target of €151.3 million, down from the €263.2 million closing deficit in 2013. The Government deficit for 2014 was recorded at €136.3 million, €15.0 million less than target. Table 2 of the Annex presents Government's final fiscal position for 2014 compared to the targets as initially set out in the annual budget for 2014.

From the revenue side, tax revenue in 2014 was €147.2 million more than forecasted, mainly stemming from higher income tax revenue, reflecting stronger than anticipated labour market conditions and salaries and corporate profits as well as enhanced efficiency in revenue collection. Revenue from customs and excise duties was also higher than forecasted due to higher than expected revenue from excise on Petroleum. Revenue from Value Added Tax (VAT) and Social Security Contributions together were about €40 million higher than target as sustained by strong domestic demand conditions, reflecting the stability in the labour market and the strong outcome in output and employment. On the other hand, revenue from licences, taxes and fines were €11.6 million lower than target mainly reflecting lower income from duty on documents.

Non-tax revenue was around €33 million lower than planned for in the Budget, mainly due to lower revenue from EU Structural, Cohesion and other EU/Foreign Funds, as revenue from grants was €64.4 million lower than target. This would be reflected in lower expenditure towards capital projects funded by EU funds, and hence is mostly neutral on the deficit. The lower than expected non-tax revenue was partially offset by higher than budgeted revenue from miscellaneous receipts and fees of office, particularly the Investor Registration Scheme.

On the expenditure side, operations and maintenance expenditure and contributions to Government entities were roughly on target. On the other hand, personal emoluments and expenditure on programmes and initiatives together were around €119 million above target, mainly reflecting higher than expected expenditure on health, education and the elderly on account of increased personal emoluments related to activities in the respective sectors, and higher expenditure towards medicines and surgical materials, residential care in private homes, energy support measures and higher outlays towards the social security state contribution. Notable increases were also recorded in relation to a higher public service obligation towards land transportation. Also underpinning higher expenditure on programmes and initiatives in 2014 is higher expenditure on social security benefits of €24.3 million, which was also primarily due to the advanced payment of Children's Allowance, Supplementary Assistance, and Disability Pensions and an increased number of beneficiaries for subsidiary protection assistance under social assistance. Interest payments were around €4 million lower than target.

Capital expenditure for 2014 was €32.5 million lower than that forecasted in the 2014 Budget, mainly due to lower EU funded capital projects related to health, transport and infrastructure and environment. As reiterated above, the effect of this variance is mostly neutral on the deficit.

2.1 General Government Public Debt

Actual General Government Public Debt for 2014 was €78.8 million higher than the budget projections for 2014. This is equivalent to a 1.5 percentage points increase from the 2014 gross debt estimates and was reflective of a larger outlay of Malta Government Stocks, and a slight increase in outlays for EBU's/Local Councils and EFSF debt re-routing. Table 3 of the Annex presents Government's actual General Government public debt for 2014 compared to the targets presented in the 2014 Budget.

Gross debt is mainly financed by issues of Malta Government Stocks. In fact, Malta Government Stocks exhibited the largest discrepancy from the 2014 budget estimates. This was equivalent to €165.0 million. A slight increase of €21.8 million in outlays for EBU's/Local Councils, and an increase of €15.6 million in EFSF debt re-routing have also contributed to a higher than projected gross debt in actual levels in 2014. This was partly offset by a decline in short-term funding, reflected in a lower than anticipated financing through Treasury Bills from €265.7 million in the 2014 budget estimates, to €140.4 million in the 2014 actual levels. The other components of general government public debt remained relatively unchanged.

3. Respecting the Principles and Rules within the Fiscal Responsibility Act

The following section of the Annual report analyses how the Government has respected the principles and rules stipulated in the Fiscal Responsibility Act, and explains any deviations from the Act.

The Fiscal Responsibility Act, which came into force in August 2014, requires that Government prepares and lays before Parliament a Medium Term Fiscal Policy Statement and a Fiscal Policy Strategy which outline the Government's fiscal objectives, strategic priorities and a three-year rolling target for fiscal management together with a description of any underlying assumptions. The macroeconomic and fiscal forecasts are endorsed by the Fiscal Council and made public.

The new fiscal framework follows a top down budgeting approach supported by fiscal rules consistent with the SGP. Essentially, deficit targets are established in line with fiscal rules. Revenue projections are then established on the basis of macroeconomic projections. A spending ceiling is then established which is consistent with the fiscal rules and the revenue projections.

Articles 7 to 11 of the Fiscal Responsibility Act establish two fiscal rules, the budgetary balance rule and the debt rule. The budgetary rule is that for each year either the structural budgetary position of the general government is in balance or in surplus. The requirement shall be deemed to be respected if the annual structural balance of the general government is at the medium-term budgetary objective. If not, the budget balance rule is the adjustment path condition, which requires that the annual structural balance of the general government is converging towards the medium-term budgetary objective in line with the time-frame set in accordance with the 1997 Surveillance and Coordination Regulation. In general this requires a minimum structural effort of 0.5pp of GDP per annum, with a higher effort in good times, whereas the effort could be lower in bad times. The debt rule requires that when the ratio of general government debt to gross domestic product at market prices exceeds 60 per cent, the ratio shall be reduced in accordance with the 1997 Excessive Deficit Regulation until the ratio reaches 60 per cent.

In line with the Article 13(1) of the Fiscal Responsibility Act, in the first year after the coming into force of the Act, the assessment and endorsement exercise was carried out by the National Audit Office (NAO), selected on the basis of their competencies. In 2014, the NAO was tasked with the endorsement and assessment of the macroeconomic projections underlying the Update of the 2014 Stability Programme and the Draft Budgetary Plan of 2015; and with the endorsement and assessment of the fiscal projections underlying both the Update of the Stability Programme and the Draft Budgetary Plan.

3.1 Respecting the Budget Balance Rule

The medium-term fiscal strategy underlying Malta's National Medium Term Fiscal Plan published in April 2014 forecast a positive output gap of 0.2 per cent of GDP for 2014, implying a cyclically-sensitive component for the year of 0.1 per cent of GDP. The targeted level of one-offs in 2014 was 0.2 per cent of GDP including revenue from the Investment Registration Scheme. Given a general Government deficit target of 2.1 per cent of GDP in 2014, the implied structural budget balance was expected at 2.3 per cent of GDP, down from 2.8 per cent of GDP in 2013, effectively targeting a structural effort of 0.5pp of GDP. This effort was to follow a much stronger fiscal effort observed in 2013 such that the strategy was in line with the calendar of convergence established by the European Commission in order to meet Malta's MTO.

The most recent information and estimates as published a year later in the 2015 Update of the Stability Programme suggest an output gap of 0.5 per cent of GDP for 2014, implying a cyclically-sensitive component for the year of 0.2 per cent of GDP. The level of one-offs in 2014 was 0.3 per cent of GDP, which mostly included the higher than anticipated revenue from the Investment Registration Scheme. Given a general Government deficit of 2.1 per cent of GDP in 2014, the implied structural budget balance was 2.7 per cent of GDP, up from 2.5 per cent of GDP in 2013.

The combined structural effort over the 2013/14 period was equivalent to 1.0 percentage points of GDP. This suggests that Malta remains in line with the calendar of convergence established by the European Commission in order to achieve the MTO by 2019. Table 4 of the Annex presents Government's fiscal consolidation strategy for 2014 compared to the targets presented in the 2014 Medium Term Fiscal Plan.

3.2 Respecting the Debt Rule

In line with the SGP commitments and the fiscal requirements of the FRA, member states' whose ratio of general government debt to gross domestic product at market prices exceeds 60 per cent, are required to reduce such ratio until it reaches 60 per cent again in accordance with the Excessive Deficit Regulation. A member state is non-compliant with the debt rule if its general government debt is greater than 60% of GDP and is not sufficiently diminishing and approaching 60% of GDP at a satisfactory pace. The debt rule is being fulfilled if *"the differential of the debt with respect to the reference value has decreased over the previous three years at an average rate of 1/20th per year as a benchmark"*.

The debt criterion shall also be considered fulfilled if *"the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which data is available".* A breach of the debt criterion is judged by considering the debt reduction benchmark in three categories; the backward looking rule, the forward looking rule, and the cyclically adjusted rule. Only if a country is in breach of all three categories, the debt criterion is considered breached.

The debt ratio for Malta embarked on a downwards trajectory declining from 69.2 per cent in 2013 to 68.0 per cent in 2014, as a result of which, the forward looking debt reduction benchmark was fulfilled in 2014.

4. Meeting 2014 targets as established in the Medium Term Fiscal Plan

This section assesses if the fiscal and budgetary policies in 2014 and its results were in line with the medium-term objective stipulated in the National Medium Term Fiscal Plan as published on 30 April 2014. The section also explains in more detail the deviations, if any, from the Government's medium-term objectives and how these are to be addressed.

Data in this section is in line with the European System of Accounts (ESA) 2010, which system is mandatory for all EU Member States. Under this system, adjustments are carried out to the cash balances of the Consolidated Fund transactions to include all government accounts, exclude financial transactions, and include accrual adjustments. Moreover, data pertinent to Extra Budgetary Units and Local Councils are also included. It is therefore pertinent to note that the data presented in this section is not comparable to that classified in the Section One. Moreover, unlike data in Section One, actual data in this section should be considered as provisional and therefore subject to revision.

It is also pertinent to note that the targets for 2014 prepared in April 2014 were different from those underlying the Budget presented in November 2013 due to updated fiscal information available and revised macroeconomic assumptions upon which the fiscal projections rest. Table 1 of the Annex presents the macroeconomic assumptions which underpinned the 2014 Budget and the 2014 Stability Programme, together with the latest 2014 estimates available. Moreover whilst the 2014 National Medium Term Fiscal Plan is based on ESA95 data, the most recent information is based on ESA10 data and therefore not completely comparable.

Government's fiscal strategy remains that of targeting a prudent pace of fiscal consolidation in order to successfully attain the Medium-Term Budgetary Objectives (MTO). In its 2014 Stability Programme, the Government set an ambitious deficit target of €155.0 million for 2014. The Government managed to roughly reach this target, and in fact, the general government deficit for 2014 was recorded €168.3 million. In terms of GDP, Government was aiming to reach a deficit target of 2.1 per cent of GDP which target was achieved. Table 5 of the Annex presents Government's final fiscal position for 2014 compared to the targets revised in the 2014 Update of the Stability Programme.

Government's revenue was around €150 million higher than target, mainly stemming from €83.6 million more in current taxes on income and wealth, reflecting higher than expected proceeds from the Investment Registration Scheme, stronger than anticipated labour market conditions, salaries and corporate profits and higher efficiency in revenue collection. Revenue from market output and output for own final use was also €46 million higher than forecasted largely due to higher than expected market output from EBUs. The revision in the European System of Accounts (ESA) to ESA 2010 in September 2014 also contributed to the increase in market output as actual 2014 data includes output related to R&D which was previously not included in the target. Moreover, income from the International Investor Programme launched in 2014 was also higher than expected. Indirect tax revenue from taxes on production and imports in 2014 was €28.3 million higher than target, mainly supported by strong domestic demand conditions.

Other revenue, mostly comprising of capital transfers sourced from EU funds programmes were €7.5 million lower than target; however, this had a predominantly neutral effect on the deficit since it was mitigated by an equivalent shortfall in public investment expenditure funded by EU funds. On the other hand, revenue from capital taxes, social contributions and property income were roughly on target.

Conversely, government's expenditure was around €163 million higher than forecasted, mainly due to higher than projected expenditure in compensation of employees and gross fixed capital formation as well as higher than forecasted expenditure on intermediate consumption and capital transfers. .

The difference between actual gross fixed capital formation and that forecasted in the Stability Programme of €57.5 million mainly reflects the methodology used to compile the expenditure component levels in ESA terms from Consolidated Fund data. The main component underpinning the projections for gross fixed capital formation is an apportionment of the capital expenditure in the Consolidated Fund using the average ratio for the last three years[1]. In addition, actual GFCF was higher than forecast due to the

[1] It is to be noted that while this methodology can result in distortions at an expenditure component level when comparing forecast to actual data, this methodology will not affect the comparison for aggregate expenditure in ESA terms.

capitalisation of R&D expenditure attributed to the revision to ESA 2010 as described earlier, whereby under ESA 2010, R&D expenditure is included under GFCF as it recorded as investment. GFCF from EBUs was also higher than expected.

Similarly, deviations from targeted expenditure for intermediate consumption and capital transfers amounting to €35.3 and €18.0 million also, respectively, reflects the methodology being used to compile the ESA forecast.

Expenditure related to social benefits and social transfers in kind, interest expenditure, subsidies and other expenditure (comprising mainly of payable current transfers) were roughly on target.

4.1 General Government Public Debt

The Government's core medium-term fiscal objective is that of achieving sustainable public finances. This objective hinges on two main targets; addressing the imbalance in public finances, and reducing the debt-to-GDP ratio at a satisfactory pace. As illustrated in Table 6, the 2014 actual ratios of general Government debt-to-GDP presented in the 2015 Update of the Stability Programme are lower than the 2014 estimate ratios presented in the 2014 Update of the Stability Programme. In fact, for 2014 the debt-to-GDP ratio was revised downwards by 1.4 percentage points to 68.0 per cent of GDP. This revision reflects a more buoyant macroeconomic environment, emanating from sustained economic growth, which was stronger than the macroeconomic forecasts set in the 2014 Update of the Stability Programme.

The contractionary impacts of the primary balance on the debt-to-GDP ratio remained relatively unchanged, from 0.9 percentage points in the 2014 estimate to 0.8 percentage points in the 2014 actual level. Furthermore, there was a 0.2 percentage points improvements from the snowball effect. The expansionary effect that interest expenditure was expected to have on the debt-to-GDP dynamics was reduced by 0.1 percentage points. Meanwhile, the contractionary contribution of real GDP growth has decelerated marginally from a level of 1.6 percentage points in the 2014 estimate, to 1.3 percentage points in the 2014 actual level. This was largely offset by the 0.5 percentage points improvement in the 2014 actual contractionary contribution of inflationary pressures on the debt-to-GDP ratio.

Changes in nominal GDP growth, captured by these two final components of the snowball effect, reflect a more favourable macroeconomic outlook for 2014 and, capture as well the ESA methodological change in 2014. This methodological change has also impacted the stock-flow adjustment (SFA), which has been revised upwards from -2.3 percentage points in the 2014 estimate to 0.1 percentage points in the 2014 actual outcome.

5. Moving from the Corrective Arm towards the Preventive Arm

The following section explains the outcome of the 2014 Budget in the context of the Government's European commitments, in particular the terms of the Stability and Growth Pact (SGP).

In 2012, Malta recorded a general Government deficit of 3.6 per cent of GDP, well above the 3% reference value. Consequently, on 21 June 2013, the European Council established that an excessive deficit situation existed in Malta and recommended Malta to correct its excessive deficit by 2014. To this end, Malta was required to:

- reach a headline general government target of 3.4% of GDP for 2013 and 2.7% of GDP in 2014, which is consistent with an annual improvement of the structural balance of 0.7% in both years. This adjustment path would allow bringing the headline government deficit below the 3% of GDP reference value by 2014 while at the same time ensuring that the government gross debt ratio will approach the 60%-of-GDP reference value at a satisfactory pace;
- specify and rigorously implement the measures that are necessary to achieve the correction of the excessive deficit by 2014, and use all windfall gains for deficit reduction.

On 8 July 2014, the Council also addressed recommendations to Malta in the context of the European Semester. In particular, in the area of public finances, the Council recommended to Malta to correct the excessive deficit in a sustainable manner by 2014. In 2015, Malta was to significantly strengthen the budgetary strategy to ensure the required structural adjustment of 0.6% of GDP towards the medium-term objective and, thereafter, pursue a structural adjustment of at least 0.5% of GDP each year, and more in good economic conditions or if needed. In addition, the Council recommended finalising the adoption of the Fiscal Responsibility Act with a view to putting in place a binding, rule-based multiannual fiscal framework and establishing an independent institution charged with monitoring of fiscal rules and endorsing macroeconomic forecasts underpinning fiscal planning. Finally, the Council recommended further improvements in tax compliance and addressing tax evasion by ensuring the continued roll-out and evaluation of measures taken so far, while taking additional action, notably by promoting the use of electronic means of payment.

Malta took effective action to bring down the Government deficit below the 3.0 per cent threshold by the end of 2013, a year prior to the deadline set by the Council, but in line with the projections of Malta's 2013 Update of the Stability Programme. In fact, the general Government deficit-to-GDP ratio for 2013 improved by 1.0 percentage points to reach 2.6 per cent of GDP. The Government continued on the path of fiscal consolidation and further reduced the deficit to 2.1 per cent of GDP in 2014, which is well below the target recommended by the Council. Improvements were also made in structural terms, where the structural deficit fell from 3.7 per cent of GDP in 2012 to 2.7 per cent of GDP in 2014.

Moreover, given that the debt-to-GDP ratio was above the 60% reference value of the Treaty, compliance with the forward-looking debt rule was a necessary condition for the abrogation of an EDP. The debt ratio also embarked on a downward trajectory declining from 69.2 per cent in 2013 to 68.0 per cent in 2014, as a result of which, the forward-looking debt reduction benchmark was fulfilled in 2014. In 2014, the forward-looking debt rule was met with a margin of 1.6 per cent of GDP.

On this basis, on 13 May 2015, the Commission has issued a Recommendation for a Council Decision abrogating the Decision of 21 June 2013 on the existence of an excessive deficit in Malta. On 19 June 2015, the Economic and Financial Affairs Council (ECOFIN) ratified the Commission's for the lifting of the excessive deficit procedure opened against Malta. Nonetheless, Government is committed to continue on the path of fiscal consolidation and to ensure a structural effort which will allow us to meet the Medium Term Budgetary Objective in line with the calendar of convergence as proposed by the Commission and as stipulated by the Fiscal Responsibility Act.

6. Annex Tables

Macroeconomic Forecast vs Estimates for 2014

(growth %)

Table 1

	Forecast Autumn 2013*	Forecast Spring 2014**	Estimate Mar-15
Gross Domestic Product (at current Market Prices)* **	3.8	4.7	5.2
Private Final Consumption Expenditure	3.6	3.6	3.4
General Government Final Consumption Expenditure	2.9	4.4	8.8
Gross Fixed Capital Formation	8.1	20.2	13.7
Exports of Goods and Services	4.3	4.8	-0.5
Imports of Goods and Services	4.1	6.6	-1.1
Compensation of Employees	3.8	3.2	5.5
Operating Surplus and Mixed Income	4.1	5.2	3.7
Tourism Earnings	**7.2**	**4.3**	**8.0**
Employment	**1.8**	**2.1**	**2.0**
Inflation	**2.3**	**1.3**	**1.0**

*Source: 2014 Budget, Published in November 2013

**Source: 2014 Stability Programme, published on 30 April 2014

***Source: NSO News Release 046/2015 - Gross Domestic Product 2014

Actual Fiscal Developments vs Budget Targets for 2014

Consolidated Fund

(Millions of Euro)

Table 2

	Jan/Dec 2014 Approved Estimate*	Jan/Dec 2014 Actual**	Variance
Recurrent Revenue	**3,272.9**	**3,387.2**	**114.3**
Tax Revenue	**2,806.5**	**2,953.7**	**147.2**
Indirect Tax Revenue	*1,142.5*	*1,186.4*	*43.9*
Customs and Excise Duties	266.5	302.6	36.2
Licenses, Taxes, and Fines	255.7	244.1	-11.6
Value Added Tax	620.3	639.7	19.4
Direct Tax Revenue	*1,664.0*	*1,767.3*	*103.3*
Income Tax	984.0	1,068.1	84.1
Social Security	680.0	699.2	19.2
Non-Tax Revenue	**466.4**	**433.5**	**-32.9**
Fees of Office	59.6	77.4	17.8
Reimbursements	27.1	25.1	-2.0
Public Corporations	0.8	0.8	0.0
Central Bank of Malta	50.0	50.0	0.0
Rents	28.4	28.8	0.4
Dividends on Investments	26.1	17.9	-8.2
Repayment of Interest on Loans	2.2	1.2	-1.0
Grants	241.2	176.8	-64.4
Miscellaneous	31.1	55.6	24.4
Total Expenditure	**3,424.2**	**3,523.5**	**99.3**
Recurrent Expenditure	**2,721.7**	**2,857.0**	**135.4**
Personal Emoluments	663.3	704.0	40.7
Operations and Maintenance	131.7	138.7	6.9
Programmes and Initiatives	1,673.3	1,751.3	78.0
Contributions to Government Entities	253.4	263.0	9.7
Interest Payments	**234.7**	**231.1**	**-3.6**
Capital Expenditure***	**467.8**	**435.3**	**-32.5**
Government Consolidated Fund Balance	**-151.3**	**-136.3**	**15.0**

*Source: Financial Estimates 2014, Ministry for Finance; as announced in November 2013

**Source: NSO News Release 2015_061 - Government Finance Data: January-December 2014

*** Capital Expenditure includes equity injection in Airmalta

Actual General Government Public Debt vs Budget Targets for 2014

(Millions of Euro)

Table 3

	Jan/Dec 2014 Estimate*	Jan/Dec 2014 Actual**	Variance
General Government Public Debt	**5,338.6**	**5,417.4**	**78.8**
Compostion of Gross Public Debt			
Malta Government Stocks	4,663.1	4,828.0	165.0
Treasury Bills	265.7	140.4	-125.3
Domestic Loans with Commercial Banks	56.4	56.4	0.0
Foreign Loans	40.4	40.3	0.0
EBU's/Local Councils	88.2	110.0	21.8
Currency	58.6	60.4	1.8
EFSF (Debt Re-Routing)	166.2	181.8	15.6

*Source: Budget 2014, Ministry for Finance; as announced in November 2013

**Source: 2015 Stability Programme, published on 30 April 2015

Fiscal Consolidation

(percentage points of GDP[1])

Table 4

	Jan/Dec 2014 [2] Estimate*	Jan/Dec 2014 [3] Actual**	Variance
General Government Balance	-2.1	-2.1	0.0
One-off and other temporary measures[4]	0.2	0.3	0.1
General Government Balance net of One-offs	-2.2	-2.4	-0.2
Output Gap Estimates	0.2	0.5	0.3
Cyclically-Adjusted Budget Balance	-2.8	-2.3	0.5
Structural Balance	-2.3	-2.7	-0.4
Structural Adjustment	0.5	-0.1	-0.6

(1) GDP for 2014 used in the 2014 SP was an estimate, while GDP for 2014 used in the 2015 SP was actual

(2) ESA 1995 methodology

(3) ESA 2010 methodology

(4) A plus sign means deficit-reducing one-off measures

*Source: 2014 Stability Programme, published on 30 April 2014
**Source: 2015 Stability Programme, published on 30 April 2015

Actual Fiscal Developments vs Medium Term Target for 2014

European System of Accounts

(Millions of Euro)

Table 5

	Jan/Dec 2014 [1] Estimate*	Jan/Dec 2014 [2] Actual**	Variance
Revenue	**3,172.2**	**3,321.8**	**149.6**
Components of revenue			
Taxes on production and imports	1,058.9	1,087.2	28.3
Current taxes on income and wealth	1,071.8	1,155.4	83.6
Capital taxes	15.3	11.8	-3.5
Social contributions	559.4	560.3	0.9
Property income	92.7	94.4	1.8
Market Output and Output for own final use	140.7	186.7	46.0
Other revenue	233.4	225.9	-7.5
Expenditure	**3,327.2**	**3,490.1**	**162.9**
Components of expenditure			
Compensation of employees	993.9	1,051.9	57.9
Intermediate consumption	490.2	525.5	35.3
Social benefits and social transfers in kind	1,016.4	1,008.4	-8.0
Interest expenditure	222.5	230.2	7.7
Subsidies	113.4	103.6	-9.8
Gross fixed capital formation	242.7	300.2	57.5
Capital Transfers Payable	70.5	88.6	18.0
Other expenditure	177.5	181.7	4.2
Deficit	**-155.0**	**-168.3**	**-13.3**
Primary Balance	**67.5**	**61.9**	**-5.6**

[1] ESA 1995 methodology

[2] ESA 2010 methodology

*Source: 2014 Stability Programme, published on 30 April 2014

**Source: 2015 Stability Programme, published on 30 April 2015

The Dynamics of Government Debt

(percentage points of GDP[1])

Table 6

	Jan/Dec 2014 [2] Estimate*	Jan/Dec 2014 [3] Actual**	Variance
Percentages of GDP	Estimate*	Actual**	Variance
Gross debt	69.4	68.0	-1.4
Change in gross debt ratio	-3.5	-1.2	2.3
Contributions to changes in gross debt			
Primary balance	-0.9	-0.8	0.1
Snowball Effect	-0.3	-0.5	-0.2
Interest expenditure	3.0	2.9	-0.1
Real GDP growth	-1.6	-1.3	0.3
Inflation Effect	-1.6	-2.1	-0.5
Stock-flow adjustment	-2.3	0.1	2.4
p.m. implicit interest rate on debt	4.2	4.4	0.2

Developments in the debt- to-GDP ratio depend on: $\frac{D_t}{Y_t}-\frac{D_{t-1}}{Y_{t-1}}=\frac{PD_t}{Y_t}+\left(\frac{D_{t-1}}{Y_{t-1}}\cdot\frac{i_t-y_t}{1+y_t}\right)+\frac{SFA_t}{Y_t}$

where t denotes a time subscript, D, PD , Y and SFA are the government debt, primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth.

[1] GDP for 2014 used in the 2014 SP was an estimate, while GDP for 2014 used in the 2015 SP was actual

[2] ESA 1995 methodology

[3] ESA 2010 methodology

*Source: 2014 Stability Programme, published on 30 April 2014

**Source: 2015 Stability Programme, published on 30 April 2015