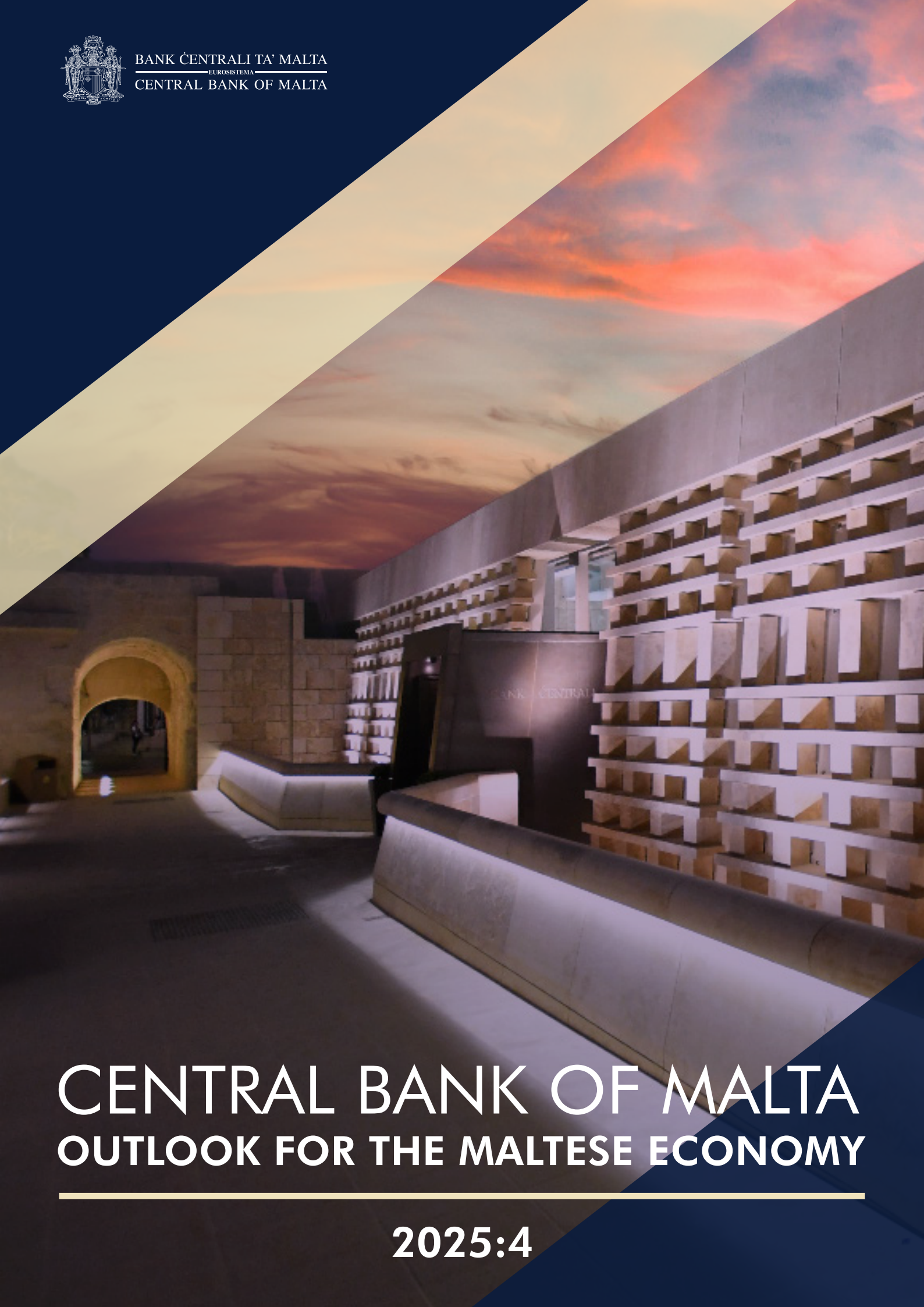




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CENTRAL BANK OF MALTA OUTLOOK FOR THE MALTESE ECONOMY

2025:4

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The Bank's projections for the Maltese economy take into account the ECB technical assumptions transmitted on 28 November 2025. Figures in tables may not add up due to rounding.

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OUTLOOK FOR THE MALTESE ECONOMY 2025-2028

Overview^{1,2}

Gross domestic product (GDP) growth in Malta slowed down in 2025, although the underlying pace of economic expansion remains strong when accounting for technical factors. Indeed, employment data and high-frequency data suggest that economic activity remains resilient, while the Bank's Business Conditions Index is consistent with growth that is around its historical average.

Going forward, economic growth is expected to continue to moderate from the very high rates recorded in the last four years. However, the recently enacted widening of the income tax bands, is expected to support real disposable income growth, and thus private consumption growth in the medium term.

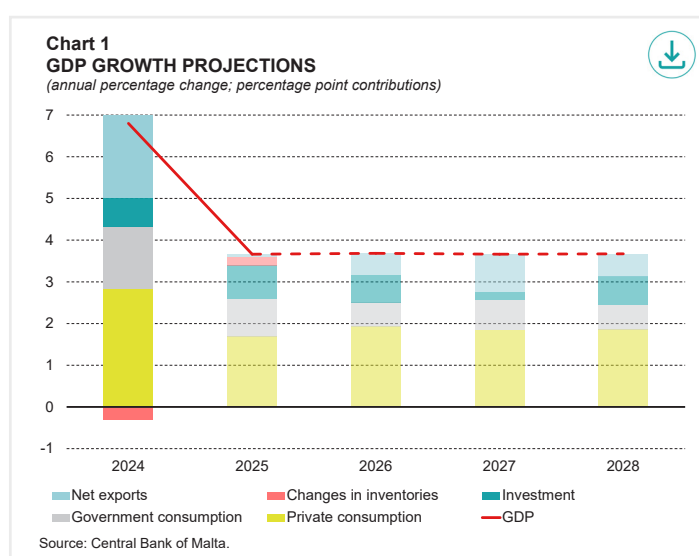
At the same time, inflation, especially services, has remained rather persistent in recent months, and has surprised on the upside when compared with the Bank's August projections. As a result, the annual rate of change of the Harmonised Index of Consumer Prices (HICP) has fluctuated in a narrow range around 2.5% during most of this year. It is expected to average 2.4% in 2025, and only slowly decelerate towards the European Central Bank's (ECB) 2% inflation target.

Since the August 2025 projection round, the Budget for 2026 was announced, which brought about new measures, particularly progressively lower taxation for parents. Box 1 outlines the impact of Budget 2026, and its contribution to revisions to the Bank's August 2025 fiscal projections. Box 2 studies the revision in parent income tax bands and finds that gains are felt across the income distribution especially among middle-income households.

Economic outlook

According to the Bank's latest forecasts, Malta's real GDP growth is set to moderate from 6.8% in 2024 to 3.7% in 2025. Growth is set to remain stable at 3.7% in the following three years (see Table 1). Compared to the Bank's previous projections, the outlook for GDP growth is revised marginally down in 2025 and up in the following two years.

Over the projection horizon, domestic demand is expected to be the main driver of growth (see Chart 1). The latter is



¹ The Bank's projections for the Maltese economy take into account the ECB technical assumptions transmitted on 28 November 2025. The GDP release for the third quarter of 2025, published on 27 November 2025, has not been considered as relevant information tied to this release was not fully available by the cut-off date for these projections.

² See [Outlook for the Maltese Economy 2025:3](#).

Table 1**PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA⁽¹⁾**

	2024 ⁽²⁾	2025	2026	2027	2028
Real economic activity (% change)					
GDP	6.8	3.7	3.7	3.7	3.7
Private consumption expenditure	6.2	3.7	4.2	4.1	4.1
Government consumption expenditure	9.2	5.4	3.4	4.1	3.3
Gross fixed capital formation	3.6	4.3	3.6	1.0	3.8
Exports of goods and services	6.2	4.7	3.9	3.6	3.5
Imports of goods and services	5.3	5.5	4.1	3.3	3.5
Contribution to real GDP growth (in percentage pts)					
Final domestic demand	4.8	3.6	3.2	2.8	3.1
Net exports	2.0	0.1	0.5	0.9	0.5
Changes in inventories	-0.3	0.2	0.0	0.0	0.0
Balance of payments (% of GDP)					
Goods and services balance	18.6	17.9	17.7	18.1	18.0
Current account balance	7.1	6.8	6.8	6.9	6.9
Labour market (% change)⁽³⁾					
Total employment	5.3	3.5	2.6	2.5	2.3
Unemployment rate (% of labour supply)	3.1	2.9	2.8	2.8	2.8
Real disposable income	11.5	5.5	4.6	4.7	4.1
Household saving ratio	19.5	20.9	21.2	21.7	21.7
Prices and costs (% change)					
GDP deflator	3.3	2.5	2.4	2.3	2.2
RPI	1.7	2.3	2.0	1.9	1.8
Overall HICP	2.4	2.4	2.3	2.1	2.1
HICP excluding energy	2.6	2.6	2.4	2.3	2.2
Compensation per employee	6.8	5.6	4.7	4.4	4.0
ULC	5.3	5.4	3.6	3.3	2.6
Business cycle					
Potential output (% change)	6.1	5.0	4.4	3.9	3.5
Output gap (% of GDP)	2.5	1.2	0.5	0.3	0.5
Technical assumptions					
EUR/USD exchange rate	1.08	1.13	1.16	1.16	1.16
Oil price (USD per barrel)	81.2	69.2	62.5	62.6	64.0

Sources: NSO; Central Bank of Malta.

⁽¹⁾ Data on GDP were sourced from NSO *News Release 155/2025* published on 28 August 2025, while RPI and HICP data were sourced, respectively, from NSO *News Releases 215/2025* and *211/2025* (published on 24 November 2025 and 19 November 2025). The flash estimate for November is also included. The GDP release for the third quarter of 2025, published on 27 November 2025, have not been considered as it falls out of the cut-off for these projections.

⁽²⁾ Actual data.

⁽³⁾ Employment data are consistent with the national accounts. The unemployment rate is based on the number of unemployed and employed as reported in the Labour Force Survey.

expected to be led by private consumption, which is projected to continue to grow at a brisk pace, although investment should also continue to increase over the projection horizon. Furthermore, net exports are projected to contribute positively to GDP growth over the forecast horizon, driven by trade in services. However, this contribution is set to be much smaller than that of domestic demand.

Private consumption growth is set to decelerate from 6.2% in 2024 to 3.7% in 2025. This reflects the continued normalisation of consumer demand following strong growth in recent years, though recent muted dynamics in private consumption are partly being affected by statistical volatility related to the computation of Financial Intermediation Services Indirectly Measured (FISIM). Growth in private consumption is expected to pick up to 4.2% next year as the new Budget 2026 measures, particularly the revision in the income tax brackets for parents, come into force. Private consumption growth is set to hover around 4.1% in the following two years.

After increasing by 9.2% in 2024, government consumption is projected to grow at a more moderate rate of 5.4% in 2025. The moderation in 2025 mainly reflects a base effect from the strong growth in employee compensation in 2024. The latter reflected the impact from a new collective agreement for educators, which included significant backdated payments. Growth in employee compensation is expected to moderate further over the rest of the forecast horizon. Nonetheless, employee compensation in the public sector is expected to remain strong throughout 2025-2027, supported by the entry into force of a new civil service agreement in 2025. With regards to intermediate consumption, it is envisaged to continue to grow briskly, driven by higher spending on contractual services, health treatments, and EU-funded initiatives. That said, growth in this component is expected to moderate from the double-digit rates experienced in 2024 and forecast in 2025.

Overall gross fixed capital formation (GFCF) is projected to grow by 4.3% in 2025 before growth declines to 3.6% in 2026. Growth is projected to moderate further to 1.0% in 2027 as government investment is projected to decline strongly that year, with the assumed completion of all projects financed through the EU's Recovery and Resilience Facility (RRF) by 2026. The fall in government investment is set to offset growth in private investment. Overall GFCF is expected to grow by 3.8% in 2028 as both private and government investment are expected to increase.

Private investment increased by 4.7% in 2024. Growth is expected to stand at 1.7% in 2025, which partly reflects muted growth in residential construction as we assess the level of activity in construction to be already very high by historical standards. Non-dwelling private investment is also expected to grow moderately this year in line with latest outcomes. Private investment growth is then expected to pick-up in 2026 and maintain a growth rate of just above 4%. The acceleration partly reflects the impact of Budget 2026 incentives targeting investment, most notably the announcement of a new €100 million fund to boost investment in AI.

Following a contraction of 1.3% in 2024, government investment is projected to increase by 16.8% in 2025 and by a further 1.2% in 2026. This component is then expected to decline by 12.3% in 2027, before recording a modest recovery of 1.8% in 2028. This profile is driven by outlays on EU-funded projects, which are set to increase in 2025 and remain at elevated levels in 2026. Outlays are however set to drop sharply in 2027 once RRF-funded projects are completed. Moreover, another large-scale EU funded project (the second electricity interconnector) is also expected to be completed in 2026. Meanwhile, domestically-financed projects are set to grow throughout the forecast horizon, but by less than nominal GDP.

Export growth is set to moderate from 6.2% in 2024 to 4.7% in 2025 and edge down further to 3.5% by 2028. Growth in services exports is expected to ease over the projection horizon

following an extended period of robust growth but are set to remain above growth in external demand. Meanwhile, goods exports are set to decline this year, which reflects the strong declines experienced in the first nine months of the year and mirror the weak international environment. They are set to recover in 2026 and grow further in the following two years, trailing the envisaged recovery in external demand by a small margin.

Growth in imports is expected to edge up this year, from 5.3% to 5.5%, before decelerating to 3.6% by 2028. The dynamics of imports are partly affected by those in government investment, which is set to decline in 2027 and recover in the following year, although services imports are also set to slow down over the projection horizon.

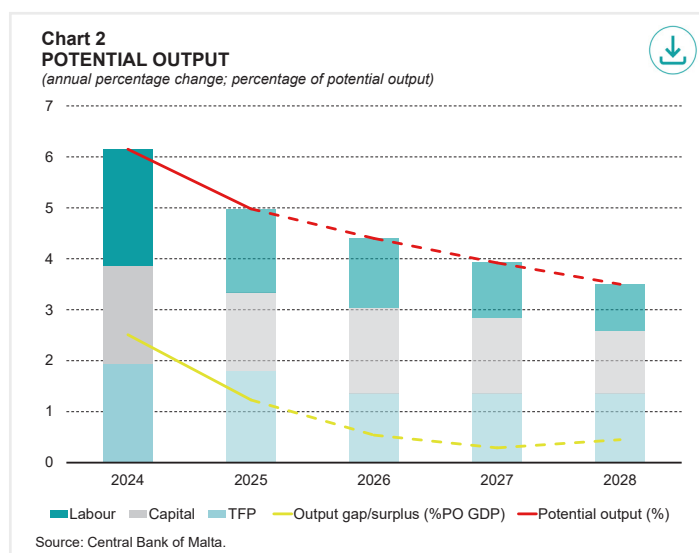
The current account of the balance of payments is expected to remain relatively stable at 6.8% during the first two years of the forecast horizon. In the outer years, the ratio is expected to increase slightly to 6.9%.

Potential output

Potential output growth is expected to slow from 6.2% in 2024, to 5.0% in 2025 and stand at 3.5% by 2028 (see Chart 2). This reflects declines in the contributions of all components of potential output.

The contribution from capital is expected to moderate slightly in the outer years of the projection horizon reflecting the projected developments in investment. The labour contribution is also envisaged to decline, due to expected lower, albeit still strong, net migration flows. A slower increase in the participation rate also contributes, although this decline is somewhat mitigated by the last increase in the pension age in 2026. The contribution from total factor productivity is set to decline marginally towards its long-term average.

The output gap is expected to remain slightly open at 0.5% by 2028 due to the effects from expansionary fiscal measures over the next three years.



Labour market

The labour market remains strong and demand for labour is envisaged to stay high. However, the increase in employment is expected to moderate over the projection horizon, driven by the

projected easing in economic growth and an assumed recovery in productivity. Inflows of foreign workers are also expected to slow down from next year due to measures related to the implementation of the Malta Labour Migration Policy which came into force in August 2025. As a result, employment growth is expected to stand at 3.5% this year, down from 5.3% in 2024. It is projected to moderate gradually to 2.3% by 2028.

The unemployment rate is forecast to stand at 2.9% this year before edging down to 2.8% for the rest of the forecast horizon. The unemployment gap remains negative, as the NAIRU is projected at around 3.1% in 2028.

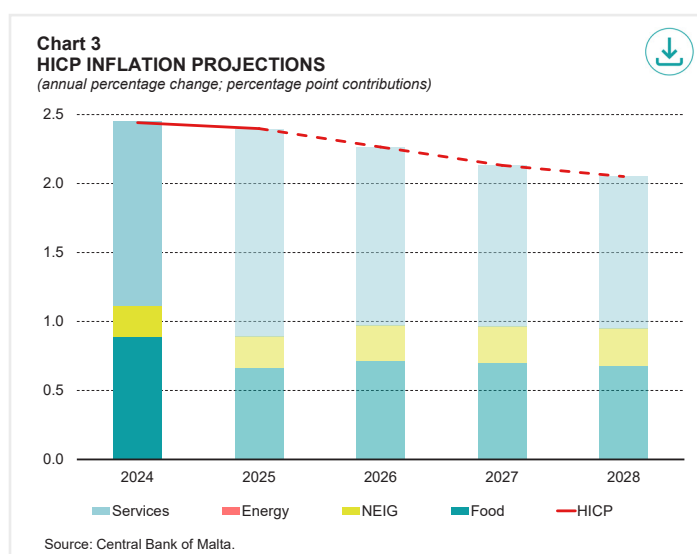
A persistently negative unemployment gap implies that labour market tightness will be a key factor driving the outlook for wage developments but the gap is expected to narrow following the strong growth last year. The envisaged moderation is partly due to base effects related to high public sector wage growth in 2025, which reflected the conclusion of collective agreements in the education sector. However, wage growth is set to remain strong from a historical perspective. Wage growth is thus projected at 5.6% in 2025 from 6.8% last year. It is set to edge further down to 4.7% in 2026 and 4.4% and 4.0% in 2027 and 2028, respectively.

Prices

Following a slowdown in inflation during the first quarter of this year, inflation picked up to rates of around 2.5% in subsequent quarters. This acceleration reflects a pick-up in food and services inflation. Non-energy industrial goods (NEIG) inflation also rose in the third quarter. The latest outcome for October stands at 2.5%, while the flash estimate for November is slightly lower at 2.4%.

HICP inflation is projected to stand at 2.4% in 2025, unchanged from the previous year, as the easing pressure from food inflation is expected to be offset by higher services inflation (see Chart 3). Overall inflation is expected to ease further to 2.3% in 2026 and 2.1% in 2027 and 2028, driven primarily by lower services inflation. Meanwhile, HICP excluding energy and food is projected to accelerate to 2.4% in 2025 compared to 2.1% in 2024. It is then projected to decline to 2.2% in 2026 and slow down further to 2.0% and 1.9% in 2027 and 2028, respectively, driven by an expected moderation in services inflation.

Compared to the Bank's previous forecast publication, overall HICP inflation was revised up by 0.1 percentage points in 2025 and 2027 and 0.2 percentage points in 2026. This primarily reflects higher services inflation, which have remained more persistent than expected.



Indeed, services inflation remained above historical averages this year, and while it is still expected to decelerate, the correction is set to be slower than previously envisaged. Most subcomponents are expected to moderate at a slower pace, while communications services inflation is set to become less negative, as previous falls in the prices of mobile services drop out of the annual inflation rate. Consequently, services inflation is expected to average 3.2% in 2025 before easing to 2.4% by 2028.

NEIG inflation has accelerated from low levels over the summer, converging towards its historical mean in the first half of 2025. In recent months, it has consistently surprised on the upside which led to a marginal upward revision over the projection horizon. NEIG inflation is expected to stand at 0.9% in 2025 before settling at 1.0% in 2026, 2027 and 2028. The latter is in line with its historical average.

Unprocessed food inflation continues to exhibit high volatility. It is set to stand at 3.0% this year from 4.9% in 2024 and should then settle at 3.3% by 2028. Similarly, processed food inflation is expected to moderate further to 3.1% by the end of the forecast horizon. This is in line with expected developments in international commodity prices. Reflecting these developments, overall food inflation is set to stand at 3.2% and 3.3% in 2025 and 2026, respectively. It is then expected to ease to 3.1% by 2028.

Energy prices are projected to remain at current levels throughout the forecast horizon, reflecting the Government's commitment to keep these prices stable.

Public finance

The general government deficit-to-GDP ratio is projected to decline from 3.5% in 2024 to 3.3% in 2025 and below 3% in 2026, narrowing further to 2.1% by 2028 (see Table 2). This improvement in the public finances is driven primarily by a declining expenditure-to-GDP ratio, reflecting lower capital spending and the gradual decline on outlays regarding inflation-mitigation measures. Compared to the Bank's August projections, the deficit forecast has been revised downwards by approximately 0.1 percentage points of GDP in each year.

The share of current revenue in GDP is projected to fall below its 2024 level, which was impacted by substantial direct tax revenue windfalls. It is, however, set to remain broadly stable over the forecast horizon. This profile is mainly driven by direct tax revenue, whose share in GDP is affected by a negative base effect in 2025 arising from the previous year's windfalls, and will edge down further in 2026, due to the widening of income tax bands for parents announced in the 2026 Budget (see Box 1 and Box 2). The share in GDP of taxes on production and imports is also expected to decrease in 2025 due to slower growth in VAT receipts. However, growth is set to increase in 2026 and to remain broadly in line with nominal GDP thereafter. Meanwhile, social contributions are forecast to increase at or marginally above nominal GDP throughout the forecast horizon.

The share of non-tax current revenue in GDP is projected to increase in 2025, supported by higher sales revenue. As inflows from sales are projected to grow at more subdued rates, the profile of non-tax revenue is expected to remain stable as a proportion of GDP over the remainder of the forecast period.

Table 2**PROJECTIONS FOR MAIN FISCAL ITEMS (% of GDP)**

	2024 ⁽¹⁾	2025	2026	2027	2028
Headline aggregates					
Total revenue	34.0	33.1	32.9	32.4	32.4
Total expenditure	37.5	36.5	35.9	35.0	34.6
General government balance	-3.5	-3.3	-2.9	-2.5	-2.1
of which: Primary balance	-2.4	-2.1	-1.7	-1.2	-0.8
General government debt	46.2	47.4	47.6	47.5	46.9
Detailed breakdown					
Current revenue	32.9	31.5	31.5	31.5	31.6
Current taxes on income and wealth	14.8	13.4	13.1	13.2	13.2
Taxes on production and imports	9.2	8.9	9.1	9.2	9.2
Social contributions	5.1	5.2	5.2	5.2	5.1
Other current revenue ⁽²⁾	3.9	4.1	4.0	4.0	4.0
Current expenditure	31.2	31.9	31.7	31.5	31.2
Compensation of employees	9.7	9.9	10.0	10.1	10.1
Social benefits	7.9	8.0	8.1	8.0	7.9
Intermediate consumption	7.4	8.1	7.9	7.8	7.7
Interest payments	1.2	1.2	1.2	1.3	1.3
Subsidies	2.2	2.1	1.8	1.6	1.6
Other current expenditure ⁽³⁾	2.8	2.7	2.7	2.6	2.6
Gross savings	1.7	-0.4	-0.2	0.0	0.3
Capital revenue	1.0	1.6	1.4	0.9	0.9
Capital taxes	0.2	0.2	0.2	0.2	0.2
Other capital revenue ⁽⁴⁾	0.9	1.4	1.3	0.8	0.7
Capital expenditure	6.3	4.5	4.2	3.5	3.3
Gross fixed capital formation	3.2	3.6	3.5	3.0	2.9
Capital transfers	3.0	0.9	0.7	0.6	0.5
Other capital expenditure ⁽⁵⁾	0.1	0.0	-0.1	-0.1	0.0
Capital revenue net of capital expenditure	-5.2	-2.9	-2.7	-2.6	-2.5
Underlying budgetary outcome					
Cyclical component	1.2	0.7	0.4	0.2	0.2
Temporary government measures	0.0	0.0	0.0	0.0	0.0
Structural balance	-4.7	-4.0	-3.3	-2.7	-2.4

Sources: NSO; Central Bank of Malta.

⁽¹⁾ Actual data as per NSO *News Releases* 155/2025 (published on 28 August 2025) and 188/2025 (published on 21 October 2025).

⁽²⁾ Mainly includes revenue from dividends, rents and sales.

⁽³⁾ Mainly includes spending on education and contributions to the EU budget.

⁽⁴⁾ Mainly includes grants from EU Programmes.

⁽⁵⁾ Mainly reflects the value of changes in inventories and in the net acquisition of valuables and other assets.

The share of capital revenue in GDP is expected to increase in 2025, reflecting a higher absorption of EU funds, which part-finance capital expenditure. The ratio is set to decline in 2026 and to drop sharply in 2027 once projects financed by the RRF are concluded.

The government expenditure-to-GDP ratio is projected to decline faster than the revenue ratio, primarily due to the profile of capital expenditure. In particular, capital transfers featured

exceptional one-off payments in 2024, partly related to the winding down of Airmalta and the setup of KM Malta airlines. This base effect is set to offset increases some current expenditure items.

Compensation of employees is set to increase by more than nominal GDP for most of the projection horizon, owing to the implementation of the civil service collective agreement in 2025. Marginal rises in the share of public wages in GDP are expected in 2026 and 2027. The share of intermediate consumption in GDP is also set to rise in 2025, largely due to higher spending on contractual agreements and health treatment, as well as some one-off expenditures, such as the Malta's Presidency of the Council of Europe in Strasbourg. Subsequently, growth in intermediate consumption is set to moderate and to increase by less than GDP. Interest payments are projected to remain at their 2024 share of GDP in 2025 and 2026, but to increase slightly in the outer years, reflecting the carry-over of financing costs of accumulated debt.

The share of social benefits in GDP is set to rise slightly in 2025, with a further increase in 2026 following the implementation of newly announced Budget measures. Thereafter, their share of GDP is expected to decline, in part owing to the increase in the pension retirement age in 2026.

The share of subsidies in GDP is expected to decline significantly over time, as outlays on inflation mitigation measures are set to decrease. Other current transfers are also set to grow by less than nominal GDP over time.

Capital expenditure as a share of GDP is forecast to decline over the projection period. EU-financed outlays are expected to grow significantly in 2025, driven by large-scale projects such as the second interconnector and RRF-financed initiatives. These are expected to be completed by end-2026. Consequently, spending is projected to remain broadly stable in 2026, decline sharply in 2027, and then stabilize at a lower level in 2028 reflecting progress on other EU-funded projects. Meanwhile, outlays on domestically financed projects are set to grow slightly, such that their share in GDP declines over time.

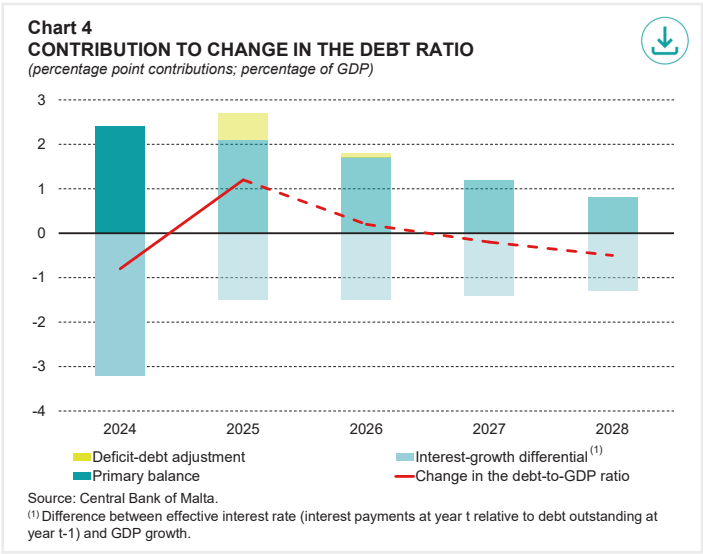
The structural budget deficit is projected to narrow significantly, from 4.7% of GDP in 2024 to 2.4% by 2028.³ This is partly driven by the declining profile of inflation mitigation measures, which are not treated as temporary outlays, and thus affect the structural position.

In the context of the EU fiscal framework, a single operational indicator is used by the Commission to carry out surveillance on member states. The so-called net expenditure indicator measures growth in government primary expenditure, net of the impact of discretionary revenue measures, EU-funded projects, cyclical elements and other temporary and one-off measures. Both the Government and the Commission publish the forecast growth of this indicator (see Box 1). The Bank also monitors and projects the net expenditure indicator, although the impact of certain components, such as the impact of revenue measures, is computed using a different methodology.⁴ Nevertheless, the Bank's estimates do not vary significantly from the values discussed in Box 1. On average, in the Bank's projections net expenditure is set to grow by 4.7% between 2025 and 2028.

³ The structural balance is defined as the cyclically-adjusted balance, net of temporary government measures.

⁴ For further details, refer to [Box 2](#) published in the *Outlook for the Maltese Economy 2025*:3.

The general government debt-to-GDP ratio is projected to peak at 47.6% in 2026 before declining to 46.9% by 2028. This trajectory is primarily driven by continued – though gradually narrowing – fiscal deficits, which is eventually offset by a debt-reducing interest-growth differential (see Chart 4). However, the contribution of this differential diminishes somewhat over time due to the projected increase in the effective interest rate on government debt.



BOX 1: THE IMPACT OF BUDGET 2026 TARGETS ON THE BANK'S FISCAL PROJECTIONS¹

This box evaluates how the Government's fiscal targets, as outlined in the 2026 Budget Speech and the [2026 Draft Budgetary Plan](#) (DBP), affect the Bank's latest fiscal projections.

The Budget for 2026 reaffirms the Government's intention to sustain economic activity, mainly through continued energy support measures and widened income tax bands for parents. It also introduces increases in several social benefits. At the same time, the Government has committed to a deficit-reduction strategy centred on expenditure restraint, aiming to exit the Excessive Deficit Procedure earlier than the deadline set by the Council, and without undermining economic growth or fiscal sustainability.

Budget 2026 measures

A central feature of the Budget is the phased revision of income tax bands over a three-year period for parents with children under 18, or under 23 if still in education (see Box 2 for further information). It also permanently extended tax relief for first-time property buyers, and renewed incentives for the purchase of vacant or village-core properties. Tax exemptions for pension income, first introduced in 2022, will also be extended. To partly mitigate the revenue impact of these measures, the Government expects to enhance the efficiency and effectiveness of tax collection and anticipates additional revenue from a higher eco-contribution paid by tourists.

Support measures to counter inflation were retained, including minimum excise duties on fuel imports, as permissible by EU law and subsidies to maintain fixed retail prices for electricity, fuel, and LPG gas.

This Budget also contains a wide set of measures to improve disposable income and strengthen support for vulnerable groups. Pension entitlements will be increased, and the maximum pension for beneficiaries born before 1962 will be increased to narrow the gap between the maximum pension available to beneficiaries born after this date. A number of existing benefits, largely focused on low-income beneficiaries, will also be enhanced. Other forms of support, such as children's allowances, grants to carers and student maintenance grants, will be made more generous. The additional cost-of-living adjustment (COLA) mechanism for low-income households will be retained, while tax refunds and other corrective measures addressing historical anomalies will continue in 2026.

Apart from the abovementioned measures, the budgetary outcome in 2026 is affected by the end of the citizenship-by-investment scheme (which brought in revenue from fees) and the end of a deficit-reducing base effect, stemming from the phasing out of assistance to Air Malta and setting up of a new national airline.

As shown in Table 1a, the main budget measures (revenue and expenditure) are expected to have a net deficit-increasing impact in marginal terms in 2026. This marks a shift from

¹ This box was prepared by Jessica Pace, Senior Economist within the Fiscal Affairs and Reports Office, and John Farrugia, Manager within the Fiscal Affairs and Reports Office.

Table 1a
MARGINAL IMPACT OF MAIN BUDGET MEASURES
(% of GDP)

	2024	2025	2026
Revenue⁽¹⁾	0.49	-0.85	-0.37
Revision in Income Tax brackets (Budget 2025)	0.00	-0.57	0.04
Revision in Parent Income Tax brackets (Budget 2026)	0.00	0.00	-0.19
Exemption of tax on pension income	0.01	0.00	0.00
Schemes for property buyers in Malta & Gozo	0.08	0.02	0.01
Inflation support measures – minimum excise duty applicable on petroleum products	0.01	0.01	0.01
COVID measures – reduction in stamp duty and capital gains tax on property sales/purchases	0.00	0.00	0.00
Revenue from granting of citizenship for exceptional services	0.29	-0.30	-0.28
Improved efficiency and effectiveness of tax collection	0.10	-0.01	-0.01
Increased environmental contribution	0.00	0.00	0.05
Expenditure⁽²⁾	0.01	-0.86	0.23
Increase in pensions (including COLA)	0.27	0.14	0.20
Higher social benefits	0.20	0.12	0.16
Outlays on tax rebates to employees and schemes to address past anomalies	-0.08	0.00	0.00
EUR10,000 grant to first-time buyers	-0.09	-0.01	-0.01
Free to all public transport	0.00	0.01	0.01
Inflation support measures	-0.54	-0.04	-0.15
COLA mechanism for low income persons	-0.09	-0.02	0.02
COVID measures – support to employers and households and liquidity measures	-0.01	0.00	0.00
COVID measures – health treatment, repatriation and safe reopening of schools	-0.07	0.00	0.00
Support to national airline	0.42	-1.06	0.00
Impact on balance⁽³⁾	0.48	0.01	-0.60

Sources: Budget Speeches, 2026 Draft Budget Plan; Authors' estimate.

⁽¹⁾ A positive value indicates a positive impact on (improvement of) the fiscal balance and vice versa.

⁽²⁾ A positive value indicates a negative impact on (deterioration of) the fiscal balance and vice versa.

⁽³⁾ A positive value indicates an improvement of the fiscal balance, and vice versa.

2024 and 2025, during which budgetary measures are estimated to contribute towards reducing the deficit, or else having a neutral impact.

Drawing on information from the 2026 DBP and the Bank's own estimates, the newly announced measures for 2026, including increases in social benefits awarded due to the COLA, are projected to increase expenditure by more than 0.3% of GDP. However, the impact of inflation support measures is expected to decline. Overall, the impact of expenditure measures is set to amount to around 0.2% of GDP. At the same time, government revenue from budget measures is expected to decline by around 0.4% of GDP.

Beyond social and tax measures, the Budget announces several longer-term initiatives, which will take place over an extended time horizon. Their immediate budgetary impact cannot therefore be established with certainty and thus are not included in Table 1a. These include the introduction of schemes to promote digitisation and AI adoption, and a separate scheme which will partly subsidise wage increases to experienced members of staff. The Budget also proposed a land reclamation project outside the Freeport perimeter and the development of a free-zone logistics hub. If these measures are implemented in full as announced, they will benefit economic growth in the medium-to-long run and can also have second round positive effects on the budget balance.

In the coming years, Government will continue to carry out projects as approved under the Recovery and Resilience Plan (RRP), by means of which Government is eligible for grants from the EU's Recovery and Resilience Fund. It is also carrying out other projects, such as the second electricity interconnector, which are also co-funded by the EU.

Fiscal targets for 2026

For 2025, the 2026 DBP maintains the general government deficit-to-GDP target of 3.3%. This is in line with the target set in the [Annual Progress Report 2025](#) (2025 APR), published last April. This represents a decline from the 3.5% deficit recorded in 2024 (see Table 1b). In 2026, the DBP expects the deficit to narrow further to 2.8% in 2026. According to the Budget Speech, Government aims to bring the deficit down further to 2.0% by 2028.

Turning to public debt, Malta is projected to remain well below the 60% of GDP threshold established under the Maastricht criteria. Direct comparisons with the projections in the 2025 APR are not possible due to a large denominator effect brought by revisions to the GDP level. However, according to both reports, primary deficits and the debt-increasing impact of the stock-flow adjustment are expected to be eventually offset by the debt-reducing impact of the interest-growth differential.

The 2026 DBP also includes projections for the growth path of net expenditure, which is the EU's single operational indicator for fiscal surveillance. Net expenditure growth is projected to slow down markedly in 2025, partly due to the end of support measures related to the national airlines. In 2026, growth is set to decline even more, reflecting Government's intention to moderate domestically financed primary spending (see Table 1b). The DBP

Table 1b
GOVERNMENT BUDGETARY TARGETS

(per cent)

	2024	2025	2026	2027	2028
General government balance (% of GDP)	-3.5	-3.3	-2.8	-2.4	-2.0
General government debt (% of GDP)	46.2	47.1	47.3	47.1	46.4
Net nationally financed primary expenditure (growth rate)	14.9	5.8	3.9	n.a	n.a
Memo: Council recommendation annual growth rate	7.4	6.0	5.8	n.a	n.a

Sources: Budget Speech 2026; Draft Budget Plan 2026.

envisages that growth in 2025 and 2026 will be below the Council's recommended ceiling of around 6%.

In November, the European Commission issued its assessment of the [2026 DBP](#). It concluded that, despite the compliant annual growth rate in 2026, the cumulative expenditure path set out in the DBP exceeds the permitted deviation from the expenditure trajectory recommended by the Council. This is because according to the rules established in the revised Stability and Growth Pact framework, apart from the annual rate of growth, the Commission also considers the cumulative growth in net expenditure, using 2023 as the reference year. As a result, the Commission considers Malta's DBP at risk of material non-compliance, signalling that further adjustments may be required to ensure alignment with the medium-term fiscal guidance. Nevertheless, the Commission also noted that the correction of the excessive deficit in 2026 is within reach.

Impact on Bank's fiscal forecasts

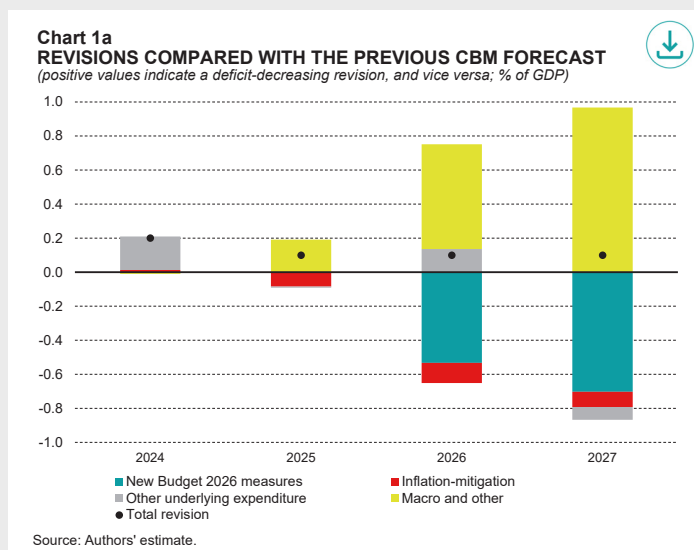
Chart 1a decomposes the revisions in the Bank's deficit projection, compared with the August projection exercise. The impact of newly announced and ongoing inflation-mitigation measures is shown separately. The chart also shows revisions in the projected impact of underlying expenditure, such as wages, previously enacted measures, and the profile of capital expenditure. Revisions in the macro-outlook and its impact on the deficit ratio (including the impact of prices and the resulting COLA) are also displayed. The Bank's forecasts exclude measures whose fiscal impact is currently unknown or difficult to quantify.

Overall, the December exercise revises the general government deficit down compared with the August forecast, by 0.1 percentage points of GDP in each year between 2025 and 2027.

New Budget 2026 measures exert a material deficit-increasing effect in 2026 and 2027. The impact of budget measures increases between 2026 and 2027, owing to the gradual implementation of the parent tax band measure. The impact of inflation-mitigation measures has been revised up somewhat, such that it exerts a higher deficit-increasing effect.

There were relatively small revisions to underlying expenditure projections, whose impact was mostly felt in 2026.

The impact of macro and price revisions offsets all the abovementioned factors. In 2025, this component also captures deficit-reducing revisions to the profile of non-tax revenue.



BOX 2: THE FISCAL AND MACROECONOMIC EFFECTS OF THE PARENT INCOME TAX REFORM¹

Overview

In the [Budget Speech 2026](#), the Government has announced a new Personal Income Tax (PIT) cut. Unlike the broad-based tax cuts announced in the 2025 Budget, this year's measure is specifically targeted to financially support parents and potentially incentivise families to have additional children, with the final aim of boosting the currently low fertility rate across Maltese households.² Given its targeted structure and design, the new policy may have important implications with respect to the channels through which it influences economic activity, fiscal outcomes and the income distribution in the economy.

This box describes the reform announced in the latest Budget speech and attempts to estimate the fiscal, distributional and macroeconomic impact that this measure is expected to have in Malta over the next four years. It is however important to stress that the economic models used in this analysis might not be able to fully capture the intricate nature of the policy reform. In particular, at the current juncture, simulating the economic effects that this policy is expected to have in the near future is quite complex, especially due to the uncertain effects this policy might have on hours worked per household. Moreover, the design and scale of the latest tax cuts differ significantly from similar policies in other developed economies, making it more difficult to benchmark results against existing studies. Therefore, the macroeconomic results presented in this note should be treated with caution.

Policy setup

Malta's existing income tax framework is composed of three classes of tax brackets, labelled 'single', 'married' and 'parent'. Each of these computation classes is made up of four brackets with tax rates ranging between 0% and 35%. Parents of children who are either under 18 years of age or aged up to 23 and still in education are eligible to be taxed under the 'parent' schedule. Married individuals, whether parents or not, may be taxed under 'married' rates. The existing system does not make any distinction by the number of children of the taxpayer under either of these two computation types.

The reform announced in this year's Budget widens tax bands under both 'married' and 'parent' structures, and introduces a revised band structure with bracket thresholds that vary according to the number of dependent children. As shown in Table 2a, the measure will be introduced gradually over three years, with the final changes taking place in 2028.

¹ Prepared by Glenn Abela, Senior Research Economist within the Modelling Office, Ian Debattista, Senior Economist within the Fiscal Affairs and Reports Office, and Noel Rapa, Head of the Economic Research Department at the Central Bank of Malta.

² See Cumbo, L. (2025), [The native Maltese population: Projections and implications on the labour supply](#). Policy Note 01/25, Central Bank of Malta.

Table 2a
TAX SCHEDULE FOR PARENTS, 2025-2028⁽¹⁾

	2025		2026		2027		2028	
	From	To	From	To	From	To	From	To
Married (1 child)								
0%	0	15,000	0	17,500	0	20,000	0	22,500
15%	15,001	23,000	17,501	26,500	20,001	30,000	22,501	33,500
25%	23,001	60,000	26,501	60,000	30,001	60,000	33,501	60,000
35%	60,001	and over	60,001	and over	60,001	and over	60,001	and over
Married (2+ children)								
0%	0	15,000	0	22,500	0	30,000	0	37,000
15%	15,001	23,000	22,501	32,000	30,001	41,000	37,001	50,000
25%	23,001	60,000	32,501	60,000	41,001	60,000	50,001	60,000
35%	60,001	and over	60,001	and over	60,001	and over	60,001	and over
Parent (1 child)								
0%	0	13,000	0	14,500	0	16,000	0	18,000
15%	13,001	17,500	14,501	21,000	16,001	24,500	18,001	28,000
25%	17,501	60,000	21,001	60,000	24,501	60,000	28,001	60,000
35%	60,001	and over	60,001	and over	60,001	and over	60,001	and over
Parent (2+ children)								
0%	0	13,000	0	18,500	0	24,000	0	30,000
15%	13,001	17,500	18,501	25,500	24,001	33,500	30,001	42,000
25%	17,501	60,000	25,501	60,000	33,501	60,000	42,001	60,001
35%	60,001	and over	60,001	and over	60,001	and over	60,001	and over

Source: Ministry for Finance (2025), *Budget Speech 2026*. Available at: finance.gov.mt/wp-content/uploads/2025/11/Budget-Speech-2026.pdf

⁽¹⁾ The table shows the thresholds, in Euro, between which each tax rate applies under each computation type.

Fiscal and distributional impact

The impact of this measure on PIT revenues was estimated independently by the Bank using EUROMOD, a tax-benefit microsimulation model developed by the European Commission's Joint Research Centre (JRC). The model enables a detailed assessment of the fiscal and distributional effects of tax and benefit policy changes, applying country-specific policy rules to representative microdata on households and individuals. The estimates presented in this box are based on the 2023 EU Statistics on Income and Living Conditions (EU-SILC) dataset. Income and monetary variables in the dataset are adjusted with appropriate indices to reflect their nominal levels in the policy years under consideration, based on the latest Central Bank of Malta projections.

The granular nature of the model allows for a detailed decomposition of the cost of the measure to government, in terms of foregone tax revenue, by family structure and computation type. That said, it is important to point out that EUROMOD is a static and non-behavioural microsimulation model. Therefore, the simulated impacts of the policy presented below only capture mechanical changes in household tax liabilities given the revised tax system

parameters, and do not account for any second-round effects or behavioural changes that the policy might induce, such as decisions on labour force participation.

Table 2b presents the reduction in income tax revenue attributable to this measure for each year between 2026 and 2028, the year by when the measure is fully implemented. Our simulations take into account the phasing-in process of the revised income tax brackets and distinguish between subgroups of affected taxpayers. The cost for each year is derived by comparing estimated tax revenue given the revised tax structure applicable in each year, to the estimated tax revenue if the tax system remained unchanged (i.e., as in 2025) over the whole period. In this simulation, it is assumed that parents eligible for both married and parent computations select the computation that minimises their tax liability.

Table 2b
FISCAL COST OF MEASURE BY COMPUTATION TYPE

(EUR millions)

	2026	2027	2028
Reduction in tax liabilities	62.6	117.8	170.3
<i>of which:</i> Parent (1 child)	15.8	31.1	47.8
Parent (2+ children)	35.8	66.3	94.9
Married (1 child)	1.3	2.5	3.7
Married (2+ children)	9.8	17.9	23.9

Source: Authors' calculations.

Note: Figures represent impact on tax liability in each year compared to a no-policy change scenario. Totals might not add up due to rounding.

We estimate that the measure will imply a €62.6 million reduction in tax revenue in 2026, which increases to €117.8 million in 2027 and €170.3 million in 2028, reflecting the gradual implementation of the measure. The majority of the fiscal cost arises from households assessed under the parent computation. This reflects both the higher generosity of the new parent tax rates and the greater prevalence of dual-earner families in the microdata. The low extent of revenue losses through the married computation is also expected given that typically this tax class of brackets is most advantageous for households where one member is not employed or earns a relatively low income. In turn, families with two or more children account for the majority of the revenue loss across both married and parent computations, consistent with the design of the reform, which significantly raises tax-free thresholds and widens tax bands for larger families.

Table 2c presents the distributional impact of the phased reform on equivalised household disposable income between 2026 and 2028. As in Table 2b, effects for each year are presented against a no-policy change scenario. The results indicate that the percentage increase in equivalised disposable income are most pronounced in the middle of the income distribution, with gains tapering off towards the lower and upper deciles. This pattern reflects the interaction between the tax framework and the targeted design of the

Table 2c
INCREASE IN HOUSEHOLD EQUIVALISED DISPOSABLE INCOME

(percentage increase)

	2026	2027	2028
Decile 1	0.06	0.10	0.13
Decile 2	0.68	0.97	1.17
Decile 3	1.12	1.85	2.28
Decile 4	1.11	1.92	2.50
Decile 5	1.22	2.20	2.97
Decile 6	1.05	1.91	2.68
Decile 7	0.90	1.69	2.45
Decile 8	0.74	1.37	1.96
Decile 9	0.69	1.33	1.93
Decile 10	0.23	0.43	0.64
All	0.70	1.27	1.76

Source: Authors' calculations.

Note: Figures represent increase in household equivalised disposable income in each year compared to a no policy change scenario. Deciles are based on the distribution of household taxable income and include all households (including non-beneficiaries).

measure. As the reform benefits households up to a certain threshold of taxable income, the relative improvement increases with income but peaks in the middle deciles. For lower-income households, gains might be more modest due to the limited number of tax liable individuals and the already low effective tax liabilities arising from other targeted benefits and allowances. Conversely, higher income households experience diminishing relative gains, which may indicate a combination of the plateau in absolute gains for individuals whose income exceeds a specific threshold, and possible differences in the composition of these households in terms of both eligibilities, share of individuals that are parents, and the number of dependent children.

Macroeconomic effects

To gauge the macroeconomic impact of these results, we compute a scenario analysis using MEDSEA (Rapa, 2016, 2017), which is a New Keynesian general equilibrium model that contains a detailed fiscal block.^{3,4} The scenario under analysis is modelled as a cut in the aggregate effective labour income tax rates corresponding to a drop of 0.25 percentage points, 0.44 percentage points and 0.59 percentage points in ex-ante government income tax revenue expressed as percent of GDP. These correspond to the estimated foregone tax revenue estimated in Table 2b, as well as the Bank's projections of nominal GDP.

Results in Table 2d indicate that the reform is expected to add around 0.18% to the level of GDP for the period 2026-2028. The decline in the income tax rates lead to a lower wedge between gross and net wages which leads to some downward pressure on marginal costs of production and is therefore expected to improve the price competitiveness of Maltese exports. Meanwhile, the drop in household tax bill boosts income and private consumption.

³ Rapa, N. (2016). [MEDSEA: A small open economy DSGE model for Malta](#). Working Paper 05/2016, Central Bank of Malta.

⁴ Rapa, N. (2017). [Estimates of Fiscal Multipliers using MEDSEA](#). Working Paper 04/2017, Central Bank of Malta.

Table 2d
MACROECONOMIC IMPACTS

(percentage deviations from steady-state levels)

	2026	2027	2028
Real GDP	0.05	0.09	0.18
Private consumption	0.20	0.32	0.40
Real wages	0.71	1.37	1.82
Labour income tax revenue (% of GDP)	-0.20	-0.41	-0.56
HICP	0.03	0.01	-0.03
Government balance	0.12	0.30	0.45
Government debt	0.03	0.24	0.60
Hours worked	0.09	0.13	0.22

Source: Authors' calculations.

The results shown here are the normal effects that one would expect in a broad-based cut in income tax. Once again, however, the nature of this policy reform raises the possibility of alternative outcomes, in particular in terms of the labour supply response. Therefore, these macroeconomic results should be treated with this qualification in mind.

Implications for the projections

The latest reduction in PIT for parents follows a broad-based tax cut introduced in 2025. In both instances, the measures significantly increase household disposable income, which in turn supports stronger household consumption. Owing to the design of the tax cut, middle-income households gain the most, although lower and higher-income households also benefit substantially.

Consequently, household disposable income and private consumption have been revised upwards. The saving ratio has likewise been revised upward to reflect the fact that higher-income beneficiaries have a lower average/marginal propensity to consume and may save a bigger share of the tax liability reduction. This, in turn, also helps to explain part of the upward revision to GDP growth over the period 2026-2028.

Risks

Risks to activity are broadly balanced. Downside risks largely emanate from possible continued weakness in the international economic environment, primarily in the euro area. On the other hand, employment and wages could exhibit even stronger dynamics than envisaged in this projection round, especially in the medium term. This would result in higher private consumption growth and thus raise output growth more than envisaged.

Risks to inflation are slightly tilted to the upside over the projection horizon. Upside risks to inflation could stem from the persistence in services inflation as well as wage pressures which remain relatively strong. Having said this, some downside risks remain, particularly arising from the re-routing of exports from competitor countries to the EU and heightened competitive pressures in markets targeted by tariffs. Additionally, a renewal of trade tensions between the US and its trading partners could amplify uncertainty and further dampen global growth, putting more downward pressure on imported inflation. Food inflation could turn higher than expected in the presence of adverse climate effects.

On the fiscal side, risks are assessed to be tilted towards the downside (deficit-increasing). These predominantly stem from the possibility of slippages in current expenditure, such as higher-than-expected spending on energy support measures should commodity prices exceed assumptions. These risks are partly mitigated by the likelihood of additional revenue windfalls in 2025.