5. GOVERNMENT FINANCE

In the third quarter of 2024, the general government balance recorded a surplus in contrast to the deficit recorded in the corresponding period of 2023. When measured on a four-quarter moving sum basis, the general government deficit ratio narrowed by 0.5 percentage points, to reach 2.9%. The cyclically-adjusted deficit also narrowed.

The general government debt-to-GDP ratio declined by 1.1 percentage points to stand at 45.3% at the end of September. Meanwhile, the net financial worth as a share of GDP deteriorated.

Quarterly developments

General government balance registers a surplus in the third quarter

A surplus of €29.0 million for the general government balance was recorded in the third quarter of 2024. This contrasts with a deficit of €75.0 million registered in the corresponding period of 2023. In this period, a strong increase in government revenue offset a rise in government expenditure. The primary balance registered a surplus of €100.7 million in the quarter under review, in contrast to a primary deficit of €22.6 million a year earlier.

Tax inflows support revenue growth

In the third quarter of 2024, general government revenue increased by €339.3 million, or 20.5%, when compared with the same quarter of 2023 (see Table 5.1). This was mainly driven

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2023		2024			Change 2024Q3-2023Q3	
	Q3	Q4	Q1	Q2	Q3	Amount	%
Revenue	**1,655.1**	**1,722.8**	**1,679.8**	**1,992.8**	**1,994.4**	**339.3**	**20.5**
Taxes on production and imports	525.2	505.2	518.0	562.6	565.5	40.3	7.7
Current taxes on income and wealth	617.0	611.7	689.5	852.5	874.3	257.2	41.7
Social contributions	263.5	296.7	272.0	285.9	286.5	23.0	8.7
Capital and current transfers receivable	80.5	120.9	35.5	89.6	81.2	0.8	1.0
Other[(1)]	168.9	188.3	164.8	202.1	186.9	18.0	10.7
Expenditure	**1,730.1**	**2,323.3**	**1,798.6**	**1,951.8**	**1,965.4**	**235.3**	**13.6**
Compensation of employees	493.4	493.7	512.4	515.1	555.7	62.3	12.6
Intermediate consumption	322.5	454.7	351.0	427.5	402.1	79.6	24.7
Social benefits	379.1	400.7	504.0	464.9	408.4	29.2	7.7
Subsidies	148.2	275.9	118.0	93.9	184.3	36.1	24.4
Interest	52.4	64.2	63.9	60.2	71.7	19.3	36.8
Other current transfers payable	118.0	150.0	81.3	178.3	121.1	3.2	2.7
GFCF	163.3	270.4	122.5	154.8	177.7	14.3	8.8
Capital transfers payable	51.4	206.3	41.8	52.6	39.5	-11.9	-23.1
Other[(2)]	1.9	7.5	3.6	4.5	5.0	3.1	
Primary balance	**-22.6**	**-536.3**	**-54.9**	**101.2**	**100.7**	**123.3**	
General government balance	**-75.0**	**-600.4**	**-118.8**	**41.0**	**29.0**	**104.0**	
General government debt	**9,419.7**	**9,790.3**	**10,000.2**	**10,083.7**	**10,035.0**		

Source: NSO.

[(1)] "Other" revenue includes market output as well as income derived from property and investments.

[(2)] "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

by higher tax revenue, particularly inflows from current taxes on income and wealth, which increased by €257.2 million. This is primarily due to higher income tax inflows from companies. Moreover, receipts from taxes on production and imports rose by €40.3 million, mainly reflecting higher inflows from customs and excise duties due to the timing of receipt of duties on petroleum products. Inflows from social contributions rose by €23.0 million, reflecting favourable labour market conditions. Income from sales increased and was the main factor behind the €18.0 million increase in 'other' revenue. Furthermore, inflows from capital and current transfers increased by a modest €0.8 million, mainly reflecting higher inflows from grants and capital taxes.

Expenditure growth underpinned by current spending

Total government expenditure increased by €235.3 million, or 13.6%, when compared with the third quarter of 2023. This increase mostly reflects higher current expenditure, particularly due to a rise in spending on intermediate consumption and compensation of employees. The former increased by €79.6 million largely due to higher outlays in the public administration, health, and residential care sectors. Spending on compensation of employees increased by €62.3 million, mainly due to higher outlays in the public administration, education, and health sectors. This partly reflects higher payments on allowances, following recently concluding collective agreements. Spending on subsidies increased by €36.1 million, due to the timing of payments on measures to retain fixed utility prices. Spending on social benefits rose by €29.2 million, largely on the back of higher spending on retirement pensions. Moreover, interest payments increased by €19.3 million while outlays on current transfers increased by €3.2 million.

Meanwhile, GFCF increased by €14.3 million, mostly due to a rise in domestically-financed projects. This was partly offset by a €11.9 million decline in capital transfers.

Debt falls

In September 2024, the stock of general government debt amounted to €10,035.0 million, €48.7 million lower than the level registered at end-June 2024. This reflects a decrease in short-term debt securities outstanding (composed of Treasury bills), which offset a rise in long-term debt securities outstanding (composed of MGS). The former fell by €172.8 million, with its share in total debt declining by 1.7 percentage points to 3.6%. Holdings of long-term debt securities increased by €127.2 million, with their share in total debt rising by 1.7 percentage points to 82.4%.

The value of loans outstanding decreased by €3.5 million, due to a decline in long-term loans. The share of loans outstanding in total debt remained broadly unchanged at 9.7%.

Headline and cyclically-adjusted developments

Headline deficit and debt ratios decline

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio narrowed, by 0.5 percentage points, to 2.9% in the quarter under review (see Chart 5.1). This was mostly driven by a 0.9 percentage-point rise in the revenue-to-GDP ratio, which reached 33.4%, due to a rise in the share of current revenue in GDP. This offset an increase in the expenditure-to-GDP ratio, which reached 36.3%. The latter increased due to a 0.4

percentage-point increase in the share of current expenditure in GDP.

Between June 2024 and September 2024, the debt-to-GDP ratio decreased by 1.1 percentage points, from 46.4% to 45.3% (see Chart 5.2). This reflects the posting of a surplus as well as negative deficit-debt adjustments, due to transactions in net trade receivables.

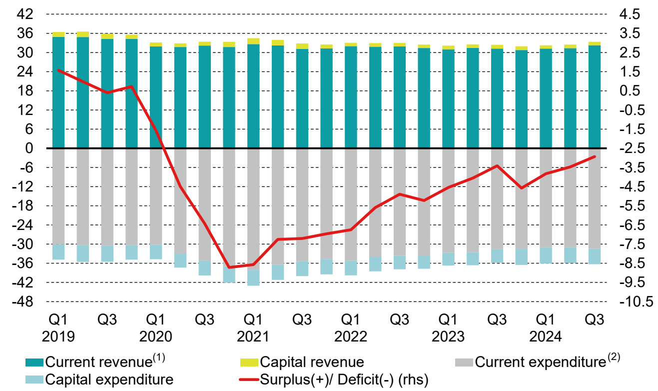
Net financial worth worsened

The market value of financial assets held by the general government increased to €6,488.2 million by September 2024, €336.4 million higher than the level three months earlier. This was mostly due to a rise in the value of deposits and of shares and other equity, which offset a decline in the value of other accounts receivable. Consequently, the share of financial assets in GDP rose to 29.3% from 28.3% in the previous quarter (see Chart 5.3).

The market value of financial liabilities increased by €570.5 million, to stand at €13,157.1 million. This is driven by a rise in the value of debt securities and other accounts payable. Consequently, the share of financial liabilities in GDP increased by 1.4 percentage points, to stand at 59.4%.

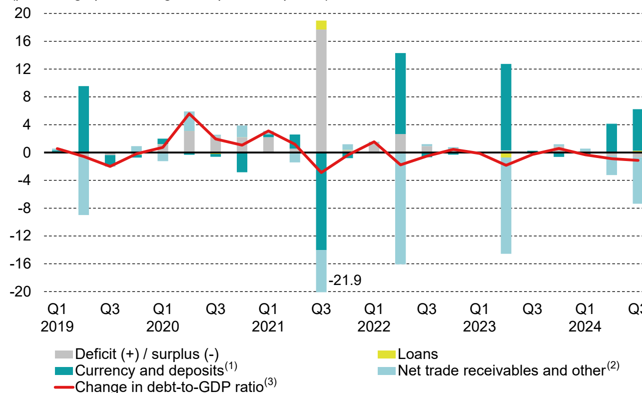
The resulting net financial worth of general government stood at -€6,668.9 million, a deterioration of €234.2 million compared with the previous quarter. The net financial worth of general

Chart 5.1
GENERAL GOVERNMENT REVENUE AND EXPENDITURE
(four-quarter moving sums; % of GDP)



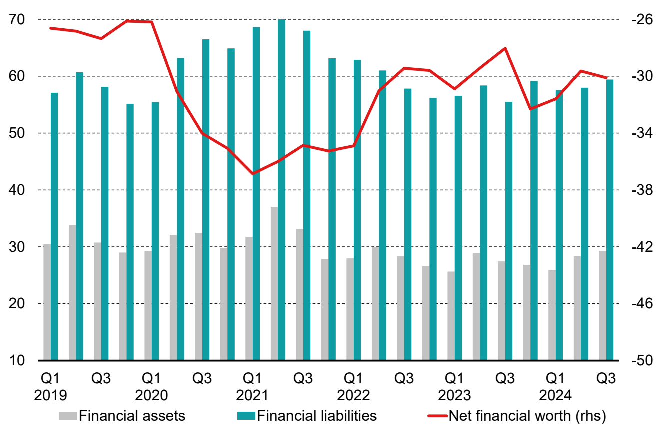
Sources: NSO; Central Bank of Malta.
(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.
(2) The term 'current expenditure' mainly represents spending on wages, social benefits and operational and maintenance expenses. 'Capital expenditure' mainly represents spending on investment and capital transfers.

Chart 5.2
CONTRIBUTION TO CHANGE IN DEBT
(percentage point change from previous quarter)



Source: Central Bank of Malta.
(1) Composed mainly of transactions in deposits held with the Central Bank of Malta.
(2) Also includes transactions related to shares and other equity and adjustments for valuation and volume effects.
(3) GDP data are four-quarter moving sums.

Chart 5.3
GENERAL GOVERNMENT NET FINANCIAL WORTH
(% of GDP) (1)



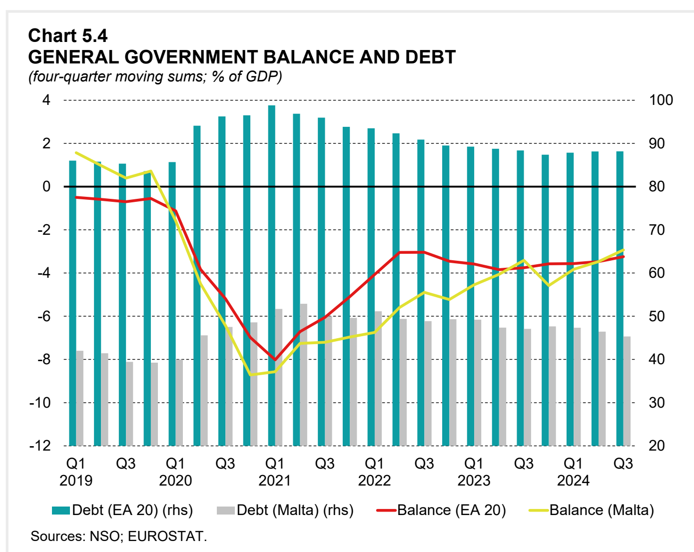
Sources: EUROSTAT; NSO.
(1) GDP data are four-quarter moving sums.

government as a share of GDP worsened by 0.5 percentage points, standing at -30.1% by end-September.

Over the same period, the euro area average net financial value as a share in GDP worsened by 1.3 percentage points, to stand at -57.1% of GDP. Thus, the net worth position of the Maltese general government remained more favourable than the euro area average.

Debt and deficit ratios compare favourably with the euro area's

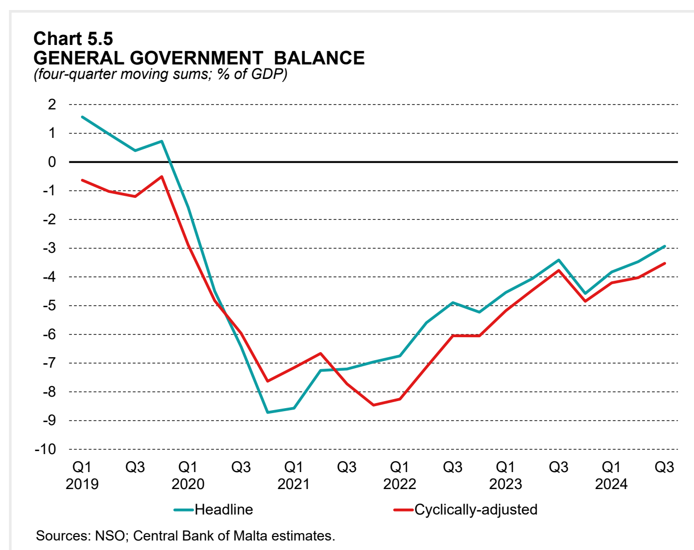
During the quarter under review, the euro area general government deficit stood at 3.2% of GDP on a four-quarter moving sum basis, down from a deficit of 3.5% of GDP at end-June (see Chart 5.4). Over the same period, the euro area debt ratio stood at the same rate of 88.2% of GDP as the previous quarter.



The Maltese government deficit ratio narrowed at a faster rate than the euro area average. By the third quarter of 2024, the Maltese deficit ratio stood lower than the latter. Additionally, Malta's debt-to-GDP ratio remained well below the euro area average.

Cyclically-adjusted deficit narrows[1]

On a four-quarter moving sum basis, the cyclically-adjusted deficit narrowed by 0.5 percentage points compared to June, to stand at 3.5% of GDP in the quarter under review (see Chart 5.5). This is in line with the narrowing in the headline deficit ratio over the same period.



[1] The cyclically-adjusted balance is corrected for the impact of the economic cycle on government tax revenue and unemployment assistance. This methodology is in line with the approach used by the European Commission but is based on own estimates for fiscal items' elasticities and the output gap. For an overview of the method used by the Commission, see Mourre, G., Astarita C., and Princen S. (2014), "Adjusting the budget balance for the business cycle: the EU methodology," *European Economy – Economic Papers* 536, (DG ECFIN), European Commission.

When compared with June, the share of cyclically-adjusted revenue in GDP increased by 0.9 percentage points (see Table 5.2). This was due to an increase in the share of current taxes on income and wealth.

Meanwhile, the share of cyclically-adjusted expenditure increased by 0.4 percentage points. This was mainly due to a rise in the share of intermediate consumption and to a lesser extent, in compensation of employees and interest payments.

Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS
Percentage points of GDP

	2023		2024		
	Q3	Q4	Q1	Q2	Q3
Revenue	**-0.1**	**-0.5**	**0.3**	**0.3**	**0.9**
Current taxes on income and wealth	-0.2	-0.5	0.4	0.0	0.9
Taxes on production and imports	-0.1	0.0	0.1	0.2	0.0
Social contributions	-0.1	0.0	0.0	0.0	0.0
Other[(1)]	0.2	0.1	-0.2	0.2	0.0
Expenditure	**-0.8**	**0.6**	**-0.3**	**0.1**	**0.4**
Compensation of employees	-0.1	-0.1	-0.1	0.0	0.1
Intermediate consumption	0.0	0.2	-0.1	0.1	0.2
Social benefits	-0.1	-0.2	0.0	0.1	0.0
Interest payments	0.0	0.1	0.1	0.0	0.1
GFCF	0.1	0.2	0.0	-0.1	0.0
Other[(2)]	-0.7	0.6	-0.3	0.1	0.0
Primary balance	**0.7**	**-1.0**	**0.7**	**0.2**	**0.6**
General government balance	**0.7**	**-1.1**	**0.6**	**0.2**	**0.5**

Sources: NSO; Central Bank of Malta estimates.

[(1)] Includes market output, income derived from property and investments and current and capital transfers received.

[(2)] Mainly includes subsidies, current and capital transfers.

BOX 3: EVALUATING THE IMPACT OF TAX REBATES AND EXEMPTIONS ON THE FINANCIAL WELL-BEING OF PENSIONERS[1]

This box provides a brief overview of a 2024 Working Paper which evaluates the impact of two policies that are relevant for the financial well-being of pensioners.[2] The two policies are the 2017 Tax Rebate on Pensions and the 2022 Exempt Pension Income measures. Using the EUROMOD microsimulation model, the effects on pensioners' disposable income, work incentives and financial well-being are simulated for the 2017-2027 period.

The 2006 Pension Reform and subsequent Budget Measures

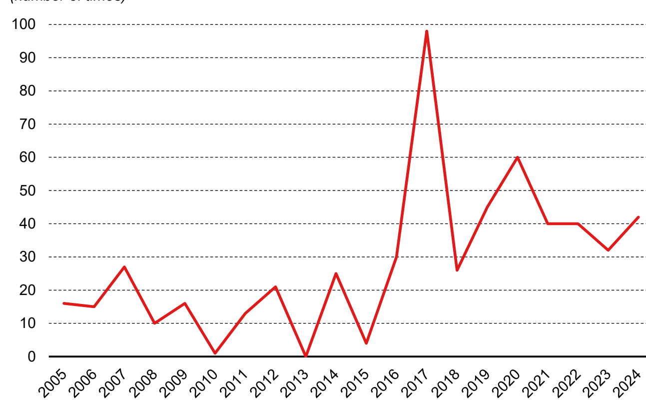
Malta's present pension system has been shaped by a series of wide-ranging reforms and budget measures over the years. These reforms are necessary to ensure that the pension system remains sustainable, equitable and adequate, as it faces increasing pressures from various socio-economic factors. One of the primary drivers of these reforms stems from Malta's ageing population.

In December 2006, Parliament adopted a series of parametric reforms that significantly altered key aspects of the pension system. These changes include adjustments to the retirement age, early retirement provisions, the full two-thirds pension rate, the calculation formula, maximum pensionable income and the crediting of contributions. As part of these reforms, the pension age was gradually increased for both men and women.[3]

Beyond the 2006 reforms, pensions have remained a central focus of nearly every annual budget, with several measures introduced or amended to address evolving pension-related challenges. This is illustrated by an increase in the use of the term "pension/s" in recent budgets (see Chart 1).

A notable measure introduced in the 2017 budget is the Tax Rebate on Pensions, which took effect on 1 January 2017. This rebate applies to individuals receiving any form of taxable pension income – including pensions,

Chart 1
NUMBER OF MENTIONS OF "PENSION/S" IN BUDGET SPEECHES (2005-2024)
(number of times)



Source: Author's NLP analysis from Ministry of Finance (2004-2023).

[1] Prepared by Kurt Sant, Senior Economist within the Economic Analysis Department of the Bank. The views expressed in this article represent those of the author and should not be interpreted to reflect those of the Bank. Any errors are the author's own.

[2] Sant, K. (2024) "Evaluating the Impact of Tax Rebates and Exemptions on the Financial Well-Being of Pensioners", Central Bank of Malta *Working Paper* 08/2024.

[3] For further details on the pension reform and on its possible long-term impact see Grech, A.G. (2016) "The possible impact of pension age changes on Malta's potential output", Central Bank of Malta *Policy Note*.

charges, annuities, or annual payments – who were at least 61 years old in the year the pension was received.

Furthermore, in the 2022 budget, Government introduced the Exempt Pension Income measure, which provides a partial exemption on all pension income, gradually increasing to a full exemption by 2026, subject to a cap. According to Government, the aim of the policy is to encourage pensioners to remain active and continue working, with those earning additional income on top of their pension benefitting from a substantial reduction in their tax bill. Previously, under the 2017 tax rebate scheme, individuals received a rebate equal to the tax on their pension income (up to a certain limit). While this rebate exempted pension income from direct taxation, the untaxed portion was still considered/included when calculating tax rates on the remaining taxable income. The 2022 reform, however, fully exempts the specified portion of pension income from being factored into tax calculations.

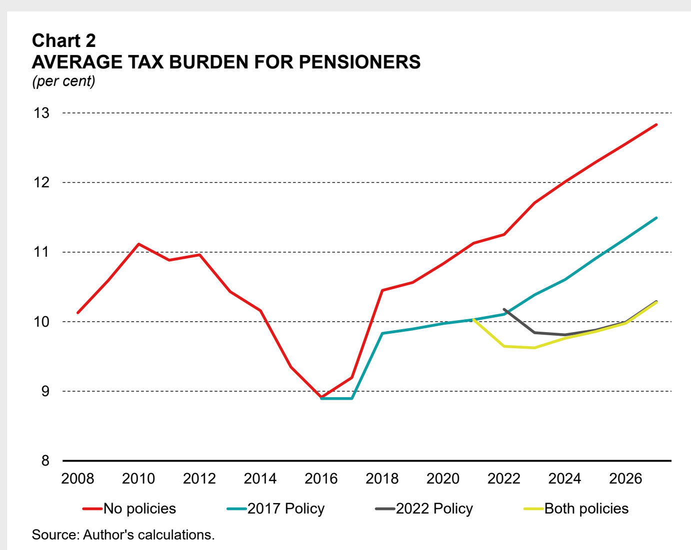
The 2017 Tax Rebate on Pensions implemented targeted tax relief for pensioners, potentially affecting their disposable income substantially. Likewise, the 2022 Exempt Pension Income measure provides a partial to full exemption from tax by excluding a portion of pension income from taxation. Both measures could have considerable implications for retirees' financial well-being and their decisions to remain in the workforce or delay retirement.

Using EUROMOD, a tax-benefit microsimulation model for the European Union, the study simulates the impact of the two policies based on three scenarios over the period 2017-2027, compared to a baseline 'do-nothing' scenario. This approach enables the isolation of effects of each policy, as well as their combined impact on key economic indicators, including household income and poverty rates.

Results

The results show that the tax policies implemented are effectively targeted, primarily benefiting pensioners, while exhibiting limited leakage to other labour status groups. A large majority of policy effects are concentrated among pensioners, with minimal benefits observed amongst self-employed individuals, employees and the unemployed. Crucially, the policies have substantially reduced the average tax burden for pensioners (see Chart 2). Specifically, the average tax burden for pensioners decreased from 11.3% to 9.6% in 2022 due to the combined effects of both policies. By 2027, this is

Chart 2
AVERAGE TAX BURDEN FOR PENSIONERS
(per cent)



Source: Author's calculations.

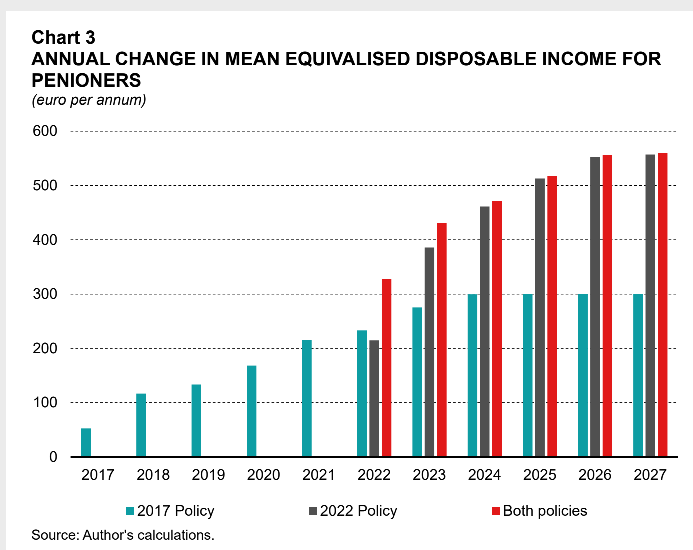
expected to stand at 10.3%, significantly lower than the 12.8% in a no-policy scenario. This reduction could encourage pensioners to postpone retirement and remain in the workforce longer, allowing them to retain a larger share of their income. However, this behavioural change cannot be modelled in EUROMOD and thus is not estimated in this study.

Results also show that over 73% of pensioner households – around 40,000 households – saw a rise in income as a result of these policies. Specifically, pensioner households saw an average increase in their annual equivalised disposable income from €52 in 2017 to €300 by 2025 due to the 2017 policy. The introduction of the 2022 tax exemption policy provided a significant immediate boost of €215, which is projected to rise to €557 by 2027. When both policies are considered together, pensioner households' disposable income rose from €328 in 2022 (2.0% of total income) to €560 by 2027 (3.2% of total income), indicating a substantial positive impact on their financial well-being (see Chart 3).

Despite these clear benefits to pensioners, the policies do not serve as a comprehensive solution for poverty alleviation. The at-risk-of-poverty rates of pensioners decreases from 26.6% in the baseline scenario to 25.6% with both policies in 2022, but other groups have seen negligible improvements, indicating that the current measures are insufficient for broader poverty alleviation. Furthermore, the analysis of income inequality, as measured by the Gini coefficient, shows a limited impact of these policies on the income distribution among lower deciles. In fact, the Gini coefficient under both policies dropped minimally, from 0.3221 to 0.3211 by 2027, highlighting the need for more inclusive reforms to achieve meaningful reductions in income inequality, although the budgetary costs would also be higher. It is worth noting, however, that the Gini coefficient was already relatively low to begin with, indicating a comparatively equitable income distribution even prior to the implementation of these policies.

Indeed, the fiscal cost of these policies remains contained. The 2017 policy was introduced with a cost of just under €5 million (0.04% of GDP). This cost is projected to rise to just below €30 million (0.11% of GDP) per year between 2024 and 2027. In contrast, the impact of the 2022 policy was estimated at €22 million in its first year, with this cost expected to reach around €65 million (0.24% of GDP) in 2027. The fiscal impact of both measures combined remains small when compared with the

Chart 3
ANNUAL CHANGE IN MEAN EQUIVALISED DISPOSABLE INCOME FOR PENIONERS
(euro per annum)



Source: Author's calculations.

level of Maltese economic activity (at approximately 0.24% of GDP per year between 2024 and 2027).

By the later years of the review period (2025-2027), the fiscal impact of the 2017 policy diminishes as the expanded parameters of the 2022 policy dominate. The 2022 exemption becomes so extensive that for many individuals the 2017 tax rebate loses relevance. Nonetheless, keeping in mind that the analysis presented in this paper does not internalise any labour supply decision changes, the overall effect of the 2017 policy may be understated. Indeed, internalising behavioural changes – such as individuals opting to work longer rather than retiring – would boost the impact that the 2017 policy would have on these estimates. On the other hand, these results suggest that if the 2017 policy is in fact administratively complex and costly to maintain, its benefit becomes questionable, especially when weighed against the expanding reach of the 2022 policy, which will eventually exempt 100% of pension income from taxation.

Conclusion

The 2017 Tax Rebate on Pensions and the 2022 Exempt Pension Income measures have had a significant and positive impact on pensioners' disposable income and overall financial wellbeing. They also appear to have achieved the goal of encouraging delayed retirement by substantially reducing the average tax burden. However, the limited benefits for the lowest-income pensioners and the minimal effects on other population groups underscore the fact that these policies alone do not address broader challenges such as poverty and income inequality. As Malta continues to face an ageing population and shifting demographic conditions, it is crucial to continue adapting the pension system to ensure its sustainability. These policies should be complemented by future reforms aimed at making the pension system more resilient in the face of these socio-economic challenges.