

5. GOVERNMENT FINANCE

In the second quarter of 2025, the general government registered a deficit, in contrast to the surplus recorded in the corresponding period of 2024. When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio widened by 0.8 percentage points when compared with the first quarter of 2025, to 4.0% of GDP. The Bank's estimate of the cyclically-adjusted deficit widened at a similar pace.

The general government debt-to-GDP ratio reached 46.9% at the end of June, higher than the 46.7% posted a quarter earlier. Moreover, the net financial worth as a share of GDP deteriorated in the quarter under review.

Quarterly developments

General government registers a deficit in the second quarter

In the second quarter of 2025, the general government registered a deficit of €170.4 million, compared with a €38.6 million surplus registered in the corresponding period of 2024. This was due to a strong increase in government expenditure and a decline in government revenue. The primary balance swung to a deficit of €99.6 million in the quarter under review, from a €99.3 million surplus a year earlier.

Lower direct tax inflows underpin the decline in revenue

General government revenue declined by €38.7 million, or 1.9%, in the second quarter of 2025 when compared with the same quarter of 2024 (see Table 5.1). This was mostly due to lower revenue from current taxes on income and wealth. This fell by €98.5 million in annual terms mainly as a result of lower income tax inflows from companies, offsetting increases in the other forms of revenue, in particular 'other' revenue. The latter increased by €40.4 million due to an increase in income from sales. Moreover, receipts from social contributions rose by €8.6 million, reflecting favourable labour market conditions. Revenue from taxes on production and imports increased by €7.0 million, being driven by the timing of excise duties. Moreover, capital and current transfers increased slightly by €3.9 million.

Current spending main factor behind rise in expenditure

Total government expenditure increased by €170.4 million, or 8.7%, when compared with the second quarter of 2024. This increase mostly reflects higher current expenditure. In particular, spending on compensation of employees increased by €69.9 million, driven by higher wages as well as allowances. This reflects the coming into force of new collective agreements – one for educators (in late 2024) and one for the civil service (as from this year). Outlays on intermediate consumption increased by €50.1 million largely due to higher outlays in the public administration and residential care sectors. Spending on social benefits rose by €40.5 million, largely on the back of higher outlays on retirement pensions. Spending on subsidies increased by €32.9 million, partly due to the timing on payments on support measures to mitigate energy price pressures. Moreover, interest payments increased by €10.2 million. On the other hand, current transfers declined by €65.3 million partly due to timing issues related to tax refunds to households.

There was an increase in capital expenditure during the second quarter of the year. GFCF rose by €27.0 million, mostly due to higher outlays on infrastructural projects, some of which are partly

Table 5.1
REVENUE, EXPENDITURE AND DEBT

EUR millions

	2024			2025		Change 2025Q2-2024Q2	
	Q2	Q3	Q4	Q1	Q2	Amount	%
Revenue	1,998.2	2,020.7	2,165.2	1,966.5	1,959.5	-38.7	-1.9
Taxes on production and imports	563.5	566.4	464.6	528.1	570.5	7.0	1.2
Current taxes on income and wealth	859.5	892.6	988.6	902.7	761.0	-98.5	-11.5
Social contributions	284.1	286.5	327.6	302.5	292.8	8.6	3.0
Capital and current transfers receivable	89.7	93.8	122.6	36.3	93.6	3.9	4.3
Other ⁽¹⁾	201.3	181.3	261.8	196.8	241.7	40.4	20.1
Expenditure	1,959.5	2,010.0	2,874.9	2,038.3	2,129.9	170.4	8.7
Compensation of employees	514.8	563.4	653.0	583.1	584.6	69.9	13.6
Intermediate consumption	420.5	400.3	563.8	410.8	470.7	50.1	11.9
Social benefits	464.9	407.9	453.8	547.1	505.4	40.5	8.7
Subsidies	86.4	153.5	149.8	114.3	119.3	32.9	38.0
Interest	60.7	71.1	69.7	71.4	70.8	10.2	16.8
Other current transfers payable	192.8	131.4	206.0	132.5	127.4	-65.3	-33.9
GFCF	166.7	199.4	238.6	122.7	193.7	27.0	16.2
Capital transfers payable	48.5	79.0	518.2	50.7	52.9	4.4	9.1
Other ⁽²⁾	4.3	4.0	22.0	5.7	5.1	0.8	
Primary balance	99.3	81.8	-640.0	-0.5	-99.6	-198.9	
General government balance	38.6	10.7	-709.7	-71.8	-170.4	-209.1	
General government debt	10,107.3	10,165.2	10,647.4	10,934.6	11,117.5		

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.

financed by the EU. Furthermore, capital transfers and 'other' expenditure rose by €4.4 million and €0.8 million, respectively.

Debt increases

In June 2025, the stock of general government debt amounted to €11,117.5 million, €183.0 million higher than in March 2025. This mostly reflects an increase in short-term debt securities outstanding (composed of Treasury bills), which rose by €102.5 million. As a result, their share in total debt increased by 0.8 percentage points to reach 5.7%. Meanwhile, long-term debt securities outstanding (composed of MGS) increased by €0.9 million, while their share in total debt declined by 1.3 percentage points to stand at 81.9%.

The value of loans outstanding increased by €80.2 million, due to a rise in long-term loans. The share of loans outstanding in total debt increased by 0.6 percentage points, to reach 9.8%.

Headline and cyclically-adjusted developments

Headline deficit and debt ratios increase

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio widened by 0.8 percentage points from the first quarter of 2025, to stand at 4.0% in the quarter under review (see Chart 5.1). This was driven by a 0.6 percentage point decline in the

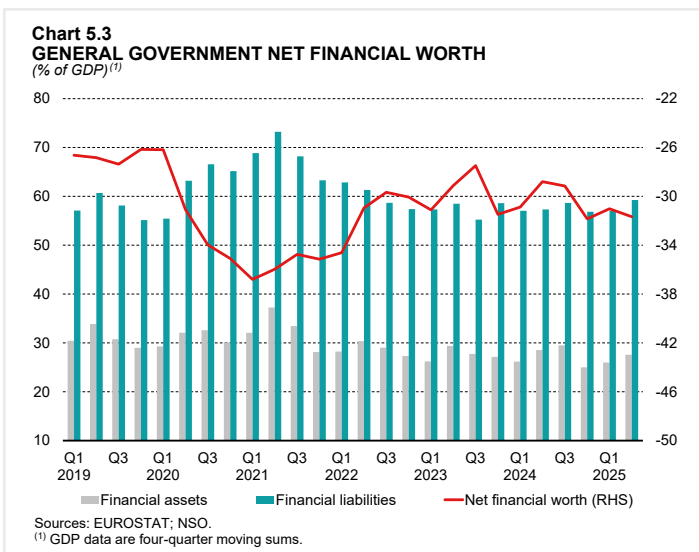
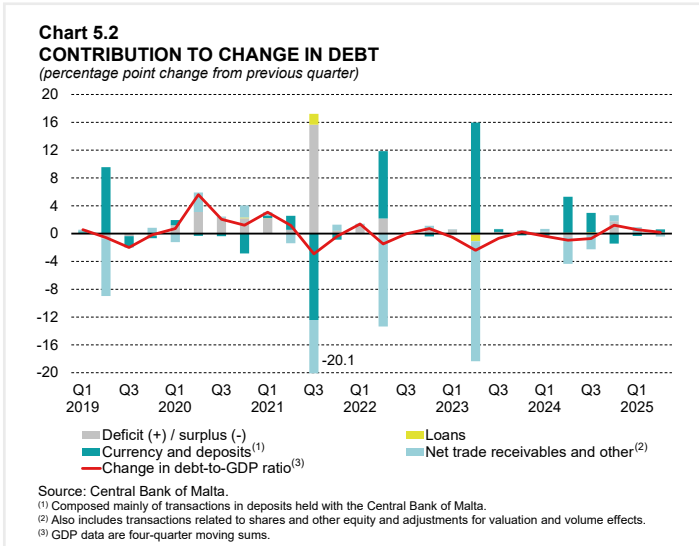
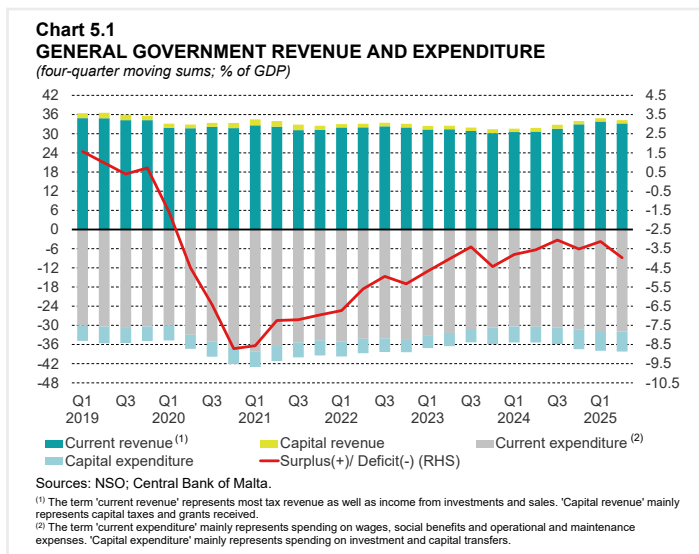
revenue-to-GDP ratio, which reached 34.2%, due to a lower share of current revenue in GDP. This was coupled by an increase of 0.2 percentage points in the expenditure-to-GDP ratio, which rose to 38.2%, due to an increase in the share of both current and capital expenditure in GDP.

The debt-to-GDP ratio increased by 0.2 percentage points to reach 46.9% in June, from 46.7% in March. This reflected the deficit posted during the quarter (see Chart 5.2).

Net financial worth deteriorates

The market value of financial assets held by the general government increased to €6,536.2 million by June 2025, €450.9 million more than the level three months earlier. This was mainly due a rise in the level of deposits held with banks. The value of accounts receivable also increased, although not at the same extent. Consequently, the share of financial assets in GDP increased to 27.6% from 26.0% in the previous quarter (see Chart 5.3).

The market value of financial liabilities increased by €697.8 million, to stand at €14,042.2 million. This was mainly driven by a rise in the value of other accounts payable and outstanding debt securities. The value of outstanding loans also contributed to this rise. Consequently, the share of financial liabilities in GDP rose by 2.2 percentage points, to stand at 59.2%.



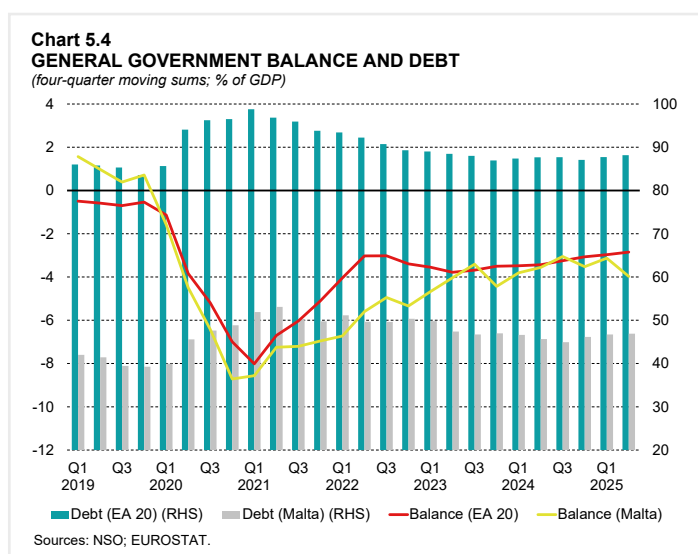
The resulting net financial worth of general government stood at -€7,505.9 million, a deterioration of €246.9 million compared with the previous quarter. The net financial worth of general government as a share of GDP also deteriorated when compared with March, declining by 0.7 percentage points. It stood at -31.7% by end-June.

The net worth position of the Maltese general government remained more favourable than the euro area average, which closed the year at -55.7% of GDP.

Debt ratio compares favourably with the euro area's, while deficit ratio is higher

During the quarter under review, the euro area general government deficit stood at 2.8% of GDP on a four-quarter moving sum basis, down from a deficit of 3.0% of GDP at end-March 2025 (see Chart 5.4). Over the same period, the euro area debt ratio increased to 88.2% of GDP from 87.7%.

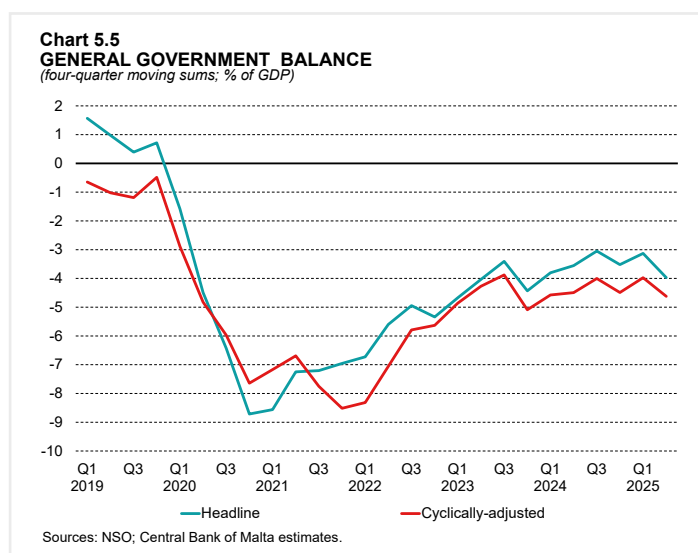
In the same period, the Maltese government deficit ratio increased to stand above the euro area average. However, Malta's debt-to-GDP ratio remained well below the euro area average, despite increasing slightly in the period under review.



Cyclically-adjusted deficit widens¹

On a four-quarter moving sum basis, the cyclically-adjusted deficit widened by 0.6 percentage points compared with March, to stand at 4.6% of GDP in the quarter under review (see Chart 5.5). This is in line with the 0.8 percentage point widening in the headline deficit ratio over the same period.

When compared with March, the share of cyclically-adjusted revenue in GDP decreased by



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.

0.7 percentage points (see Table 5.2). This was mainly due to the abovementioned decline in the share of current taxes on income and wealth.

Meanwhile, the share of cyclically-adjusted expenditure remained broadly unchanged. This was due to small increases in the shares of compensation of employees, intermediate consumption and investment. Altogether, these offset a decline in the ratio of the ‘other’ form of government expenditure.

Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS

Percentage points of GDP

	2024			2025	
	Q2	Q3	Q4	Q1	Q2
Revenue	0.3	1.0	1.1	0.8	-0.7
Current taxes on income and wealth	0.0	1.0	1.4	0.8	-0.5
Taxes on production and imports	0.2	0.0	-0.4	-0.1	-0.1
Social contributions	0.0	0.0	0.0	0.0	-0.1
Other ⁽¹⁾	0.1	0.1	0.1	0.1	0.0
Expenditure	0.2	0.5	1.6	0.3	0.0
Compensation of employees	-0.1	0.1	0.5	0.2	0.1
Intermediate consumption	0.1	0.2	0.3	0.2	0.1
Social benefits	0.0	0.0	0.1	0.0	0.0
Interest payments	0.0	0.1	0.0	0.0	0.0
GFCF	-0.1	0.1	-0.2	-0.1	0.1
Other ⁽²⁾	0.2	0.1	0.9	0.0	-0.3
Primary balance	0.1	0.5	-0.5	0.5	-0.6
General government balance	0.1	0.5	-0.5	0.5	-0.6

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.