5. GOVERNMENT FINANCE

In the first quarter of 2026, the general government deficit widened from that recorded in the corresponding period of 2025. This in part reflects the timing of income tax receipts. When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio rose to 3.2%, from 2.2% at end-2025. The Bank's estimate of the cyclically-adjusted deficit widened at a similar pace.

The general government debt-to-GDP ratio stood at 45.9%, lower than the 46.4% ratio recorded at end-2025. The net financial worth as a share of GDP deteriorated slightly in the quarter under review.

Quarterly developments

General government deficit widens

In the first quarter of 2026, the general government registered a deficit of €339.0 million, a significant increase from the €85.3 million deficit registered in the corresponding period of 2025. This was due to a strong increase in government expenditure which offset a relatively small increase in government revenue. The primary deficit amounted to €262.0 million in the quarter under review, €249.1 million lower than the primary deficit recorded a year earlier.

Timing of tax revenue depresses revenue growth

General government revenue rose by €42.5 million, or 2.2%, in the first quarter of 2026 (see Table 5.1). This relatively small rate of increase was due to a negative contribution from tax revenue,

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2025				2026	Change 2026Q1-2025Q1	
	Q1	Q2	Q3	Q4	Q1	Amount	%
Revenue	**1,959.7**	**1,961.1**	**2,177.3**	**2,455.7**	**2,002.3**	**42.5**	**2.2**
Taxes on production and imports	528.0	569.6	632.7	638.7	594.2	66.2	12.5
Current taxes on income and wealth	902.7	761.0	921.0	1114.4	809.0	-93.7	-10.4
Social contributions	302.7	292.9	309.9	355.6	317.3	14.6	4.8
Capital and current transfers receivable	34.5	94.2	71.1	90.7	66.0	31.5	91.1
Other(1)	191.7	243.4	242.5	256.2	215.7	24.0	12.5
Expenditure	**2,045.0**	**2,214.1**	**2,147.0**	**2,692.8**	**2,341.3**	**296.3**	**14.5**
Compensation of employees	589.7	603.4	606.1	609.5	644.1	54.4	9.2
Intermediate consumption	416.8	505.4	456.7	611.7	510.1	93.3	22.4
Social benefits	547.1	504.6	461.1	477.3	613.7	66.5	12.2
Subsidies	122.0	140.5	149.2	124.9	119.0	-2.9	-2.4
Interest	72.4	71.2	75.0	80.3	77.0	4.7	6.5
Other current transfers payable	129.5	100.7	140.0	287.2	176.1	46.5	35.9
GFCF	115.6	204.2	168.1	273.5	156.2	40.6	35.1
Capital transfers payable	45.5	78.0	82.4	222.1	35.5	-10.0	-22.0
Other(2)	6.5	6.1	8.4	6.4	9.7	3.1	
Primary balance	**-12.9**	**-181.9**	**105.2**	**-156.9**	**-262.0**	**-249.1**	
General government balance	**-85.3**	**-253.1**	**30.3**	**-237.2**	**-339.0**	**-253.7**	
General government debt	**10,908.2**	**11,083.5**	**11,188.7**	**11,397.1**	**11,457.6**		

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.

reflecting a large drop in receipts from current taxes on income and wealth. The latter declined by €93.7 million due to the timing of income taxes paid by companies. This offset higher inflows from taxes on production and imports, which rose by €66.2 million, mainly due to higher VAT receipts. Meanwhile, social contributions rose by €14.6 million.

Overall, non-tax revenue increased by modest amounts. Receipts from capital and current transfers increased mainly due to EU grants. Meanwhile, 'other' revenue rose due to higher inflows from sales.

Expenditure buoyed by higher recurrent outlays

Total government expenditure rose by €296.3 million, or 14.5%, when compared with the first quarter of 2025. This mostly reflects higher current expenditure, particularly intermediate consumption which increased by €93.3 million. This is mainly due to higher outlays on residential care, health care and to a lesser extent in the provision of education. Spending on social benefits rose by €66.5 million, largely on the back of higher spending on retirement pensions. At the same time, compensation of employees increased by €54.4 million.

Current transfers increased by €46.5 million mainly due to higher payments to the EU budget. Moreover, interest payments increased by €4.7 million. On the other hand, spending on subsidies decreased slightly by €2.9 million.

Overall, capital expenditure increased in the first quarter. GFCF increased significantly by €40.6 million, mainly due to higher outlays on domestically financed projects. This offset a €10.0 million decrease in capital transfers.

Debt increases

In March 2026, the stock of general government debt amounted to €11,457.6 million, €60.5 million higher than in December 2025. This reflects an increase in long-term debt securities outstanding (composed of Malta Government Stocks (MGS)), which outweighed a fall in short-term debt securities outstanding (composed of Treasury bills). Long-term debt securities outstanding rose by €95.5 million, with its share in total debt increasing slightly by 0.4 percentage points to reach 81.5%. Holdings of short-term debt securities declined by €41.7 million, and their share in total debt declined by 0.4 percentage points to stand at 6.4%.

The value of loans outstanding increased slightly by €7.1 million, due to a rise in long-term loans. The share of loans outstanding in total debt remained unchanged at 8.6%.

Headline and cyclically-adjusted developments

Headline deficit ratio increases while debt ratio decreases

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio rose by 1.0 percentage points from the last quarter of 2025, to stand at 3.2% in the quarter under review (see Chart 5.1). This was driven by a 0.6 percentage point increase in the expenditure-to-GDP ratio, which rose to 37.6%, mainly due to a higher share of current expenditure in GDP. At the same time, the revenue-to-GDP ratio narrowed by 0.4 percentage points, to stand at 34.4%, due to a decline in the share of current revenue in GDP. The latter mostly reflects the aforementioned decline in tax revenue due to timing of direct taxes paid by companies.

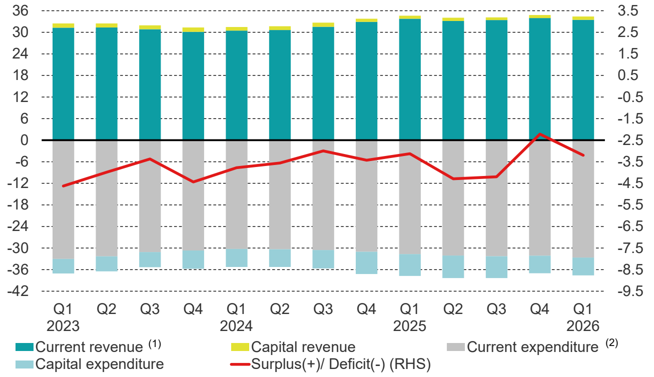
The debt-to-GDP ratio decreased by 0.5 percentage points falling to 45.9%, from 46.4% in December. This was because debt increased by much less than the corresponding deficit for the quarter, as financing needs were partly covered by a drawdown in government deposits. Hence, the level increase in debt was too small to offset the denominator effect (higher nominal GDP) (see Chart 5.2).

Net financial worth deteriorates slightly

The market value of financial assets held by the general government decreased to €6,194.0 million by March 2026, €374.1 million less than the level three months earlier. This was due a decline in the level of deposits held with banks. Consequently, the share of financial assets in GDP fell to 24.8% from 26.7% in the previous quarter (see Chart 5.3). The market value of financial liabilities declined by €188.7 million, to stand at €14,133.9 million. This was mainly driven by a fall in the value of other accounts payable. Consequently, the share of financial liabilities in GDP decreased by 1.7 percentage points to stand at 56.6%.

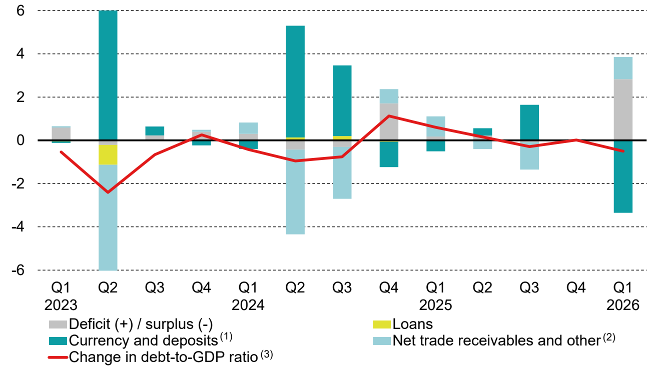
The resulting net financial worth of general government stood at -€7,939.9 million, a deterioration of €185.4 million compared with the previous quarter. The

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



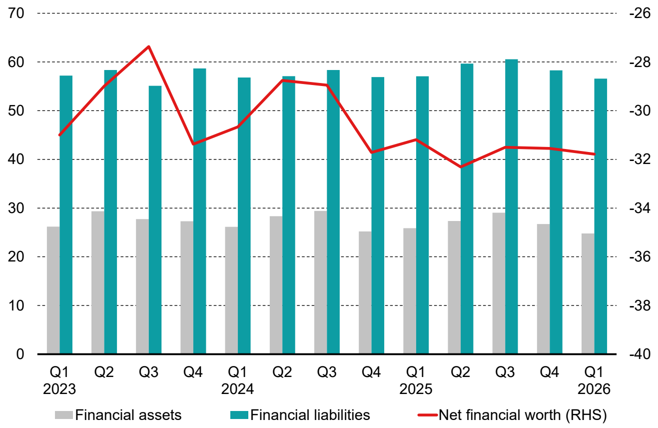
Sources: NSO; Central Bank of Malta.
(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.
(2) The term 'current expenditure' mainly represents spending on wages, social benefits 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. Values in 2023Q2 have been truncated. These amount to 16.1.
(2) Also includes transactions related to shares and other equity and adjustments for valuation and volume effects. Values in 2023Q2 have been truncated. These amount to -17.3.
(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.

net financial worth of general government as a share of GDP deteriorated slightly from the previous quarter, standing at -31.8% by end-March.

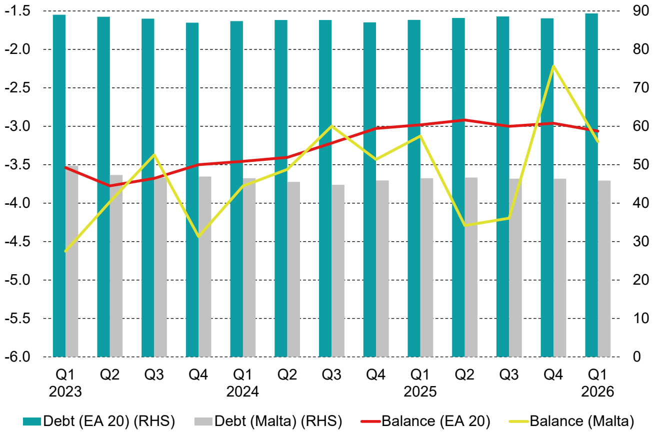
The net worth position of the Maltese general government remained more favourable than the euro area average, which closed the year at -53.9% of GDP.

Deficit and debt ratios stand below those in the euro area

During the quarter under review, the euro area general government deficit stood at 3.1% of GDP on a four-quarter moving sum basis, slightly up from a deficit of 3.0% of GDP at end-December 2025 (see Chart 5.4). Over the same period, the euro area debt ratio increased to 89.4% of GDP from 88.1%.

Although broadly in line with the euro area average, the Maltese government deficit ratio widened at a faster pace. Meanwhile, Malta's debt-to-GDP ratio remained well below the euro area average.

Chart 5.4
GENERAL GOVERNMENT BALANCE AND DEBT
(four-quarter moving sums; % of GDP)

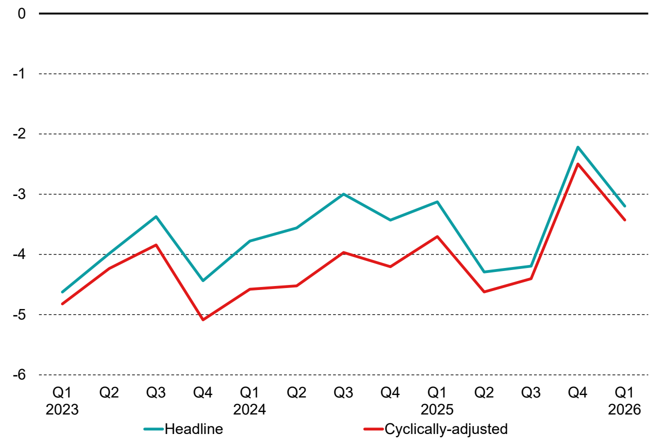


Sources: NSO; EUROSTAT.

Cyclically-adjusted deficit widened[1]

On a four-quarter moving sum basis, the cyclically-adjusted deficit widened by 0.9 percentage points compared with December 2025, to stand at 3.4% of GDP in the quarter under review (see Chart 5.5). This is similar to the 1.0 percentage point deterioration in the headline deficit ratio over the same period.

Chart 5.5
GENERAL GOVERNMENT BALANCE
(four-quarter moving sums; % of GDP)



Sources: NSO; Central Bank of Malta estimates.

When compared with previous period, the share of cyclically-adjusted revenue in GDP declined by 0.4 percentage points (see Table 5.2). This was mainly due to the drop in the share of current taxes on income and wealth in GDP.

[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.

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

	2025				2026
	Q1	Q2	Q3	Q4	Q1
Revenue	**0.8**	**-0.6**	**0.1**	**0.7**	**-0.4**
Current taxes on income and wealth	0.8	-0.5	-0.1	0.2	-0.6
Taxes on production and imports	-0.1	-0.1	0.1	0.6	0.1
Social contributions	0.0	0.0	0.0	0.1	0.0
Other(1)	0.0	0.0	0.0	-0.1	0.1
Expenditure	**0.3**	**0.3**	**-0.1**	**-1.2**	**0.5**
Compensation of employees	0.2	0.2	0.0	-0.3	0.0
Intermediate consumption	0.2	0.2	0.1	0.1	0.2
Social benefits	0.0	0.0	0.1	0.0	0.1
Interest payments	0.0	0.0	0.0	0.0	0.0
GFCF	-0.1	0.1	-0.2	0.1	0.1
Other(2)	0.0	-0.2	-0.1	-1.0	0.0
Primary balance	**0.5**	**-0.9**	**0.2**	**1.9**	**-0.9**
General government balance	**0.5**	**-0.9**	**0.2**	**1.9**	**-0.9**

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.

Meanwhile, the share of cyclically-adjusted expenditure rose by 0.5 percentage points. This mostly reflects a rise in the ratio of intermediate consumption, as well as an increase in the share of social benefits and GFCF.