5. GOVERNMENT FINANCE

In the second quarter of 2026, the general government deficit widened further. When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio rose to 3.5%, from 3.1% in the first quarter of 2026. The Bank's estimate of the cyclically adjusted deficit widened at a similar pace.

The general government debt-to-GDP ratio stood at 47.0%, higher than the 45.7% ratio recorded a quarter earlier. The net financial worth as a share of GDP deteriorated in the quarter under review.

Quarterly developments

General government deficit widens

In the second quarter of 2026, the general government registered a deficit of €344.1 million, higher than the €234.9 million deficit registered in the corresponding period of 2025. This reflected a strong increase in government expenditure, which offset a rise in government revenue. The primary deficit amounted to €258.2 million in the quarter under review, €94.2 million higher than the primary deficit recorded a year earlier.

Tax receipts support revenue growth

General government revenue rose by €212.3 million, or 10.8%, in the second quarter of 2026 when compared with the same quarter of 2025 (see Table 5.1). This was mostly due to higher tax revenue, in particular current taxes on income and wealth, which rose by €141.2 million mainly as a result of higher income tax inflows paid by companies. Other tax revenue items exhibited more modest growth. Revenue from taxes on production and imports increased by €23.0 million, mainly due to higher VAT receipts. Moreover, receipts from social contributions rose by €32.4 million.

Intakes from capital and current transfers increased by €29.3 million, mainly due to the receipt of EU grants. Meanwhile, 'other' revenue declined by €13.6 million due to lower receipts from sales.

Expenditure driven by higher recurrent outlays

Total government expenditure rose by €321.5 million, or 14.6%, when compared with the second quarter of 2025. This mostly reflects higher current expenditure, particularly intermediate consumption which increased by €87.6 million. This is mainly due to higher outlays on health care, contractual obligations and spending related to ongoing capital projects. Compensation of employees and social benefits also rose largely on the back of higher spending on retirement pensions.

Current transfers increased by €32.4 million, mainly due to higher transfers to the EU budget. Moreover, interest payments increased by €15.0 million. On the other hand, subsidies decreased by €6.9 million.

The increase in capital expenditure in the second quarter was far more modest than the rise in current outlays, and was mostly due to a one-off event. Capital transfers rose by €47.2 million, reflecting the payment to MIDI plc to take over Manoel Island and Fort Tigné. Meanwhile, GFCF increased by €30.8 million driven mostly by domestically financed projects.

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2025			2026		Change 2026Q2-2025Q2	
	Q2	Q3	Q4	Q1	Q2	Amount	%
Revenue	**1,965.2**	**2,179.1**	**2,533.1**	**2,018.6**	**2,177.5**	**212.3**	**10.8**
Taxes on production and imports	570.3	633.4	684.9	591.9	593.3	23.0	4.0
Current taxes on income and wealth	764.9	924.9	1118.3	809.0	906.1	141.2	18.5
Social contributions	292.9	309.9	355.6	317.3	325.3	32.4	11.1
Capital and current transfers receivable	95.5	73.5	110.1	73.0	124.9	29.3	30.7
Other(1)	241.5	237.3	264.1	227.3	227.9	-13.6	-5.6
Expenditure	**2,200.1**	**2,149.2**	**2,755.5**	**2,373.0**	**2,521.6**	**321.5**	**14.6**
Compensation of employees	603.8	605.8	611.2	650.7	664.6	60.8	10.1
Intermediate consumption	494.4	446.7	607.6	524.3	581.9	87.6	17.7
Social benefits	504.6	461.1	477.3	613.6	557.9	53.3	10.6
Subsidies	140.5	149.2	120.3	116.6	133.6	-6.9	-4.9
Interest	70.9	74.5	79.8	76.7	85.9	15.0	21.1
Other current transfers payable	104.3	146.0	293.5	182.9	136.7	32.4	31.1
GFCF	197.5	171.0	265.7	154.5	228.3	30.8	15.6
Capital transfers payable	80.3	88.7	296.4	43.4	127.6	47.2	58.8
Other(2)	3.7	6.1	3.5	10.2	5.1	1.4	
Primary balance	**-164.0**	**104.4**	**-142.6**	**-277.7**	**-258.2**	**-94.2**	
General government balance	**-234.9**	**29.8**	**-222.4**	**-354.4**	**-344.1**	**-109.2**	
General government debt	**11,086.4**	**11,193.5**	**11,410.1**	**11,461.1**	**11,977.2**		

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.

Debt increases

In June 2026, the stock of general government debt amounted to €11,977.2 million, €516.0 million higher than in March 2026. This reflects an increase in long-term debt securities outstanding (composed of Malta Government Stocks (MGS)), which rose by €481.0 million, with its share in total debt increasing slightly by 0.5 percentage points to reach 82.0%. Holdings of short-term debt securities increased by €34.2 million, with their share in total debt remaining unchanged at 6.4%.

The value of loans outstanding increased slightly by €1.0 million, reflecting a rise in long-term loans. The share of loans outstanding in total debt declined by 0.4 percentage points to stand at 8.3%.

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 0.4 percentage points from the first quarter of 2026, to stand at 3.5% in the quarter

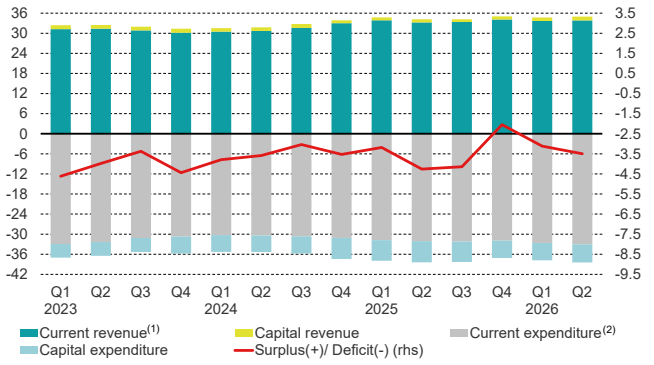
under review (see Chart 5.1). This was driven by a 0.6 percentage point increase in the expenditure-to-GDP ratio, which rose to 38.5%, mainly due to a higher share of current expenditure in GDP. This offset a smaller increase in the revenue-to-GDP ratio which rose by 0.3 percentage points, to stand at 35.0%. The latter increase was due to a higher share of current revenue in GDP.

The debt-to-GDP ratio increased by 1.3 percentage points rising to 47.0% (see Chart 5.2). The level increase in debt was larger than the deficit incurred during this quarter, and reflected a build-up in deposits, which offset debt-reducing transactions in net trade receivables. The quarterly impact of these transactions varies significantly, in line with the settlement of tax refunds owed by eligible firms.

Net financial worth deteriorates

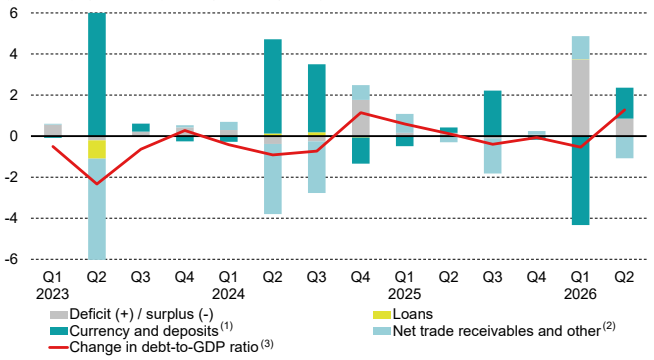
The market value of financial assets held by the general government increased to €6,937.7 million by June 2026, €725.4 million more than the level three months earlier. This was driven by a rise in the level of deposits held with banks. As a result, the share of financial assets in GDP rose to 27.2% from 24.8% in the previous quarter (see Chart 5.3). The market value of financial liabilities increased by €1,126.3 million, to stand at €15,213.9 million. This was mainly driven by a rise in the value of debt securities coupled with an increase in the value of other accounts

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



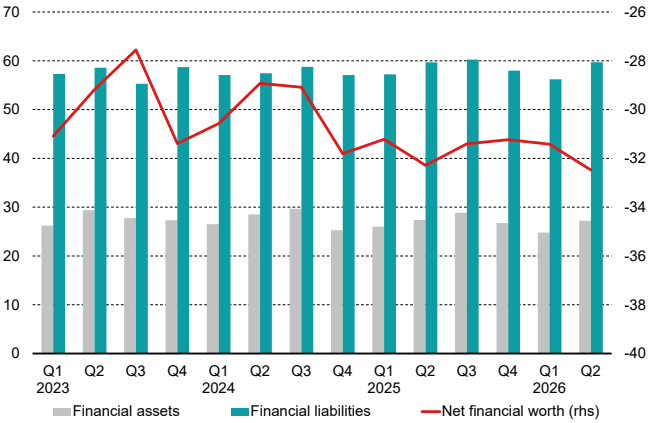
Sources: NSO; Central Bank of Malta.
(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.
(2) The term 'current expenditure' mainly represents spending on wages, social benefits 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 15.5.
(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 -17.9.
(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.

payable. Consequently, the share of financial liabilities in GDP increased by 3.5 percentage points to stand at 59.7%.

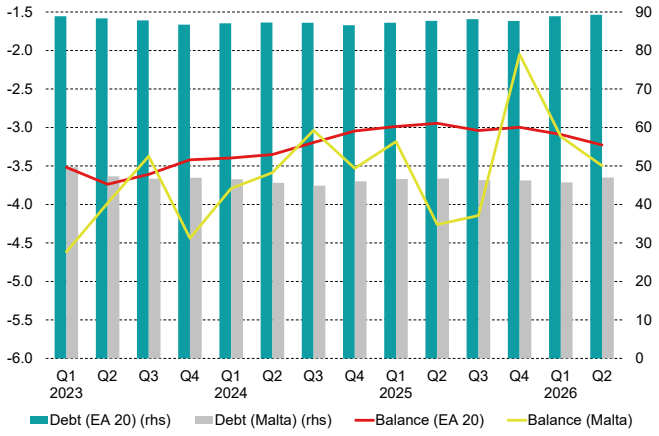
The resulting net financial worth of general government stood at -€8,276.3 million, a deterioration of €400.9 million compared with the previous quarter. The net financial worth of general government as a share of GDP stood at -32.5% by end-June.

The net worth position of the Maltese general government remained more favourable than the euro area average, which stood at -54.0% of GDP.

Debt ratio remains below the euro area, despite higher-than-average deficit ratio

During the quarter under review, the euro area general government deficit stood at 3.2% of GDP on a four-quarter moving sum basis, slightly up from a deficit of 3.1% of GDP at end-March 2026 (see Chart 5.4). Over the same period, the euro area debt ratio increased to 89.3% of GDP from 88.9%.

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



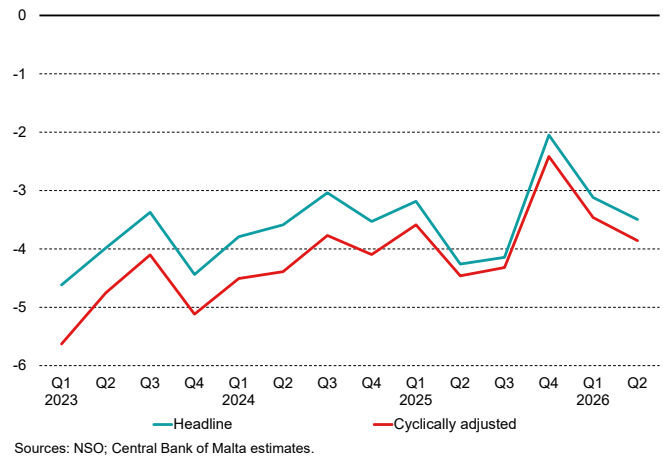
Sources: NSO; EUROSTAT.

In the first half of the year, the Maltese general government deficit widened and became larger than the euro area average. However, Malta's debt-to-GDP ratio remained well below the euro area average.

Cyclically adjusted deficit widens[1]

On a four-quarter moving sum basis, the cyclically adjusted deficit widened by 0.4 percentage points compared with March 2026, to stand at 3.9% of GDP in the quarter under review (see Chart 5.5). This is in line with the 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 rose

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

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.

by 0.2 percentage points (see Table 5.2). This was mainly due to a strong rise in the share of current taxes on income and wealth in GDP.

Meanwhile, the share of cyclically adjusted expenditure increased by 0.6 percentage points. This mostly reflects a rise in the ratio of intermediate consumption and the aforementioned one-off capital transfer to MIDI plc, which is shown in the 'other' expenditure category.