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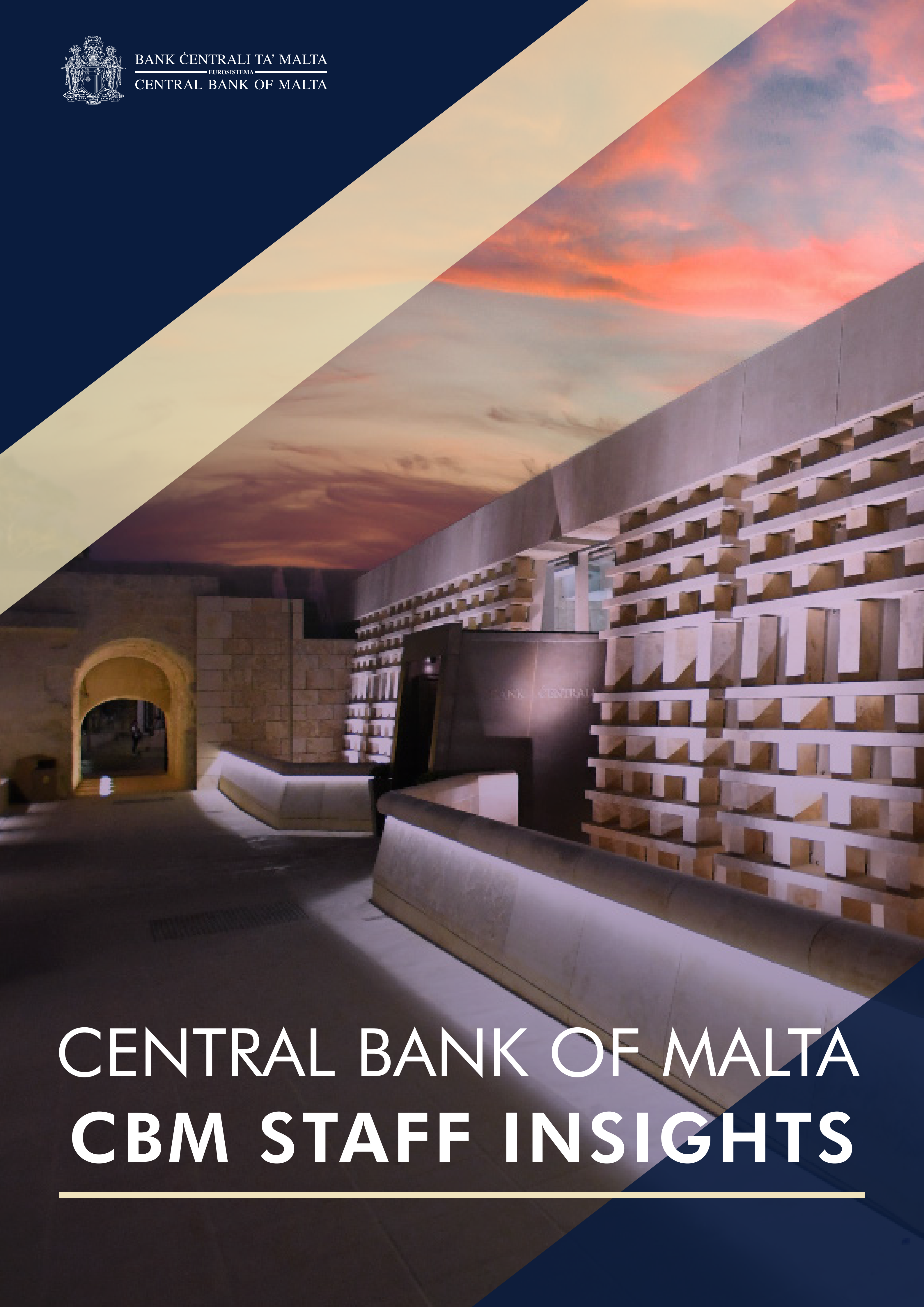

CENTRAL BANK OF MALTA
CBM STAFF INSIGHTS

DECOMPOSING THE LARGEST GOVERNMENT EXPENDITURE ITEMS

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DECOMPOSING THE LARGEST GOVERNMENT EXPENDITURE ITEMS[1]

Introduction

A large part of the Maltese Government's expenditure is in the form of three categories. Since 2022, spending on intermediate consumption, compensation of employees and social benefits averaged just over two-thirds of total government expenditure and amounted to around 29.0% of Malta's gross domestic product (GDP). This study analyses growth in these three components in greater detail than is usually the case in the Bank's regular publications.

The terms compensation of employees, intermediate consumption and social benefits are defined according to the ESA 2010 methodology.[2] The data used in this analysis is computed by the National Statistics Office (NSO) as part of the general government accounts. These accounts cover the operations by ministries and government departments directly under ministerial control as well as the operations of local councils and Extra Budgetary Units (EBUs).[3]

This analysis is based on more granular information used by NSO to compute these series. Access to this detailed information has been provided for the period between 2022 and 2025. Statistics are in line with the general government accounts 2025Q4 vintage.[4]

Compensation of employees

Overall, compensation of employees amounted to €2,408.7 million in 2025. Between 2022 and 2025 the level of expenditure grew by 31.1%, or €571.9 million. However, its share in GDP declined to 9.8% in 2025 from 10.2% in 2022.

Growth in this category of expenditure mainly stems from two factors, being growth in the level of employment and growth in the level of average wages.[5]

Employment within general government increased in all the years under review. This was mainly driven by higher recruitment within the public administration, education, health and residential care sectors. Growth in the public administration sector (NACE 84), which includes various government entities, was particularly driven by employment needs of the authorities responsible for education and transport. Both ministries and EBUs increased their headcount during this period.

Growth in average wages between 2022 and 2025 was affected by the coming into force of various collective agreements. The largest reflect the 2024 agreement for educators and the 2025 civil service collective agreement. The former had a sizeable impact, not just due to the number of educators employed by the State, but also due to backdated payments effected at the end of

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[2] For further methodological details please refer to ESA 2010.

[3] EBUs are separate government units which maintain full sets of accounts, own goods or assets in their own right, engage in non-market activities for which they are held accountable at law, and are able to incur liabilities and enter into contracts. Such entities can have separate revenue streams, apart from transfers from the Treasury. EBUs are different from other institutions within the public sector as the latter sell their output at a market price. For a full list of EBUs, see final table in *News Release* 067/2026.

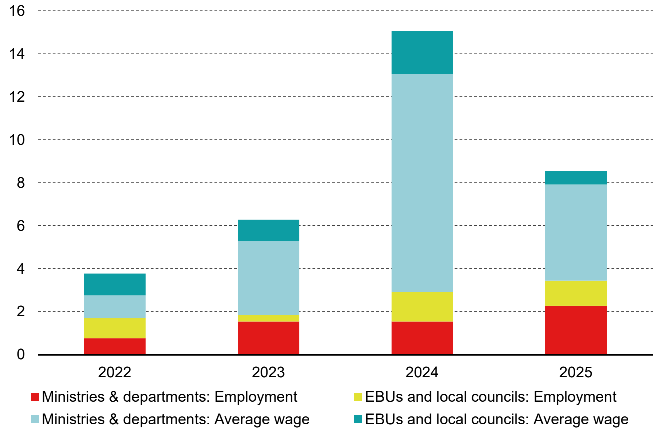
[4] The NSO published the Government Finance release 066/2026 on 22 April 2026. Ratios on GDP are based on *NSO Release* 095/2026, published on 28 May 2026.

[5] In the ESA 2010 methodology, the term 'compensation of employees' also includes the level of social contributions paid by Government on behalf of employees. The latter is not discussed in this Staff Insight as it is determined by the level of pay for each employee, which is the focus of this exercise.

the year.[6] Meanwhile, the 2025 agreement affected a larger number of employees in general.[7] During this period there were other, smaller agreements which also affected the level of pay and/or allowances given to workers, including the police force and nurses.

Chart 1 decomposes annual growth in the wage bill into its main drivers (employment and average wage) and distinguishes between ministries, EBUs, and local councils.

Chart 1
COMPENSATION OF EMPLOYEES
(contribution to growth; per cent)



Sources: NSO; Author's estimates.

In the period under review, growth was highest in 2024, whereby the wage bill increased by €266.9 million from its level a year earlier. This was largely due to a 12.1% rise in the average wage, which in turn was driven by growth in average wages paid to staff employed within Ministries and institutions directly under ministerial remits. The previously mentioned educators' collective agreement (inclusive of arrears) explains most of this increase.

On average, between 2022 and 2025, employment contributed just under one third of growth in the wage bill. This was mainly driven by higher employment by Ministries and institutions within their remits. In 2024 and 2025, employment by EBUs and Local Councils had a higher contribution to growth in the total wage bill compared with the previous two years.

Overall, growth in compensation of employees was relatively contained in 2022 and 2023 and rose by less than nominal GDP. The strong increases in 2024 and 2025 led to a rising share of wages in GDP. However, by 2025 this ratio was still below that prevailing in 2022.

Intermediate consumption

The term 'intermediate consumption' reflects outlays on activities and services to provide final products, such as access to education and health. Outlays amounted to €2,043.9 million in 2025. Between 2022 and 2025 the level of expenditure grew by 56.8%, or €740.4 million. Its share in GDP stood at 8.3% in 2025 compared with 7.2% in 2022.

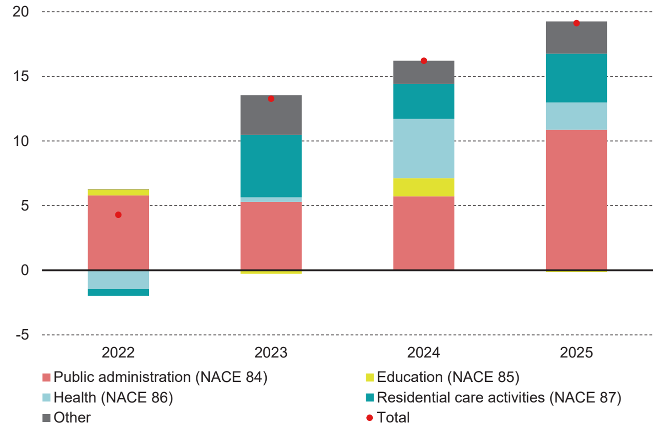
Owing to the wide range of goods and services procured by the State, it is difficult to pinpoint all the drivers of growth in each year. In this Insight, intermediate consumption is assessed on the basis of outlays by NACE and by type of spending, with the latter classification compiled by the author.

Chart 2 shows intermediate consumption by NACE sector. Overall, spending within the public administration sector (NACE 84) explains a significant share of the total increase in outlays.

[6] According to the most recent *NSO Release* (NR 208/2025), there are over 16,000 teachers, teacher aides, support personnel, management and administrative personnel in the education sector.
[7] In 2025 around 33,500 people were employed within the civil service.

This sector explains almost all growth in 2022 and just over half the increase in 2025. Between 2023 and 2025, intermediate consumption within the health and residential care sectors (NACEs 86 and 87, respectively) also contributed strongly.

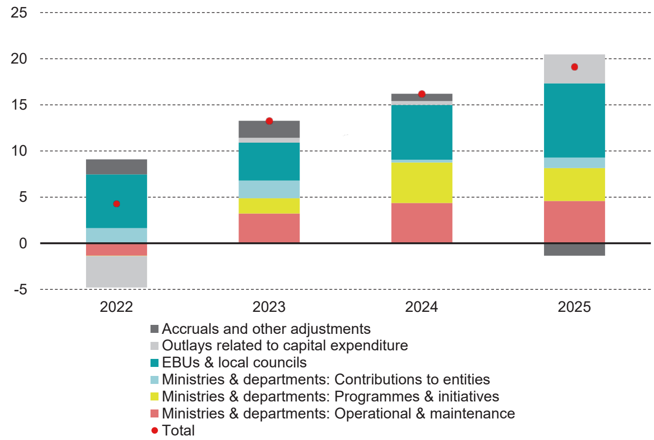
Chart 2
INTERMEDIATE CONSUMPTION BY NACE
(conribution to growth; per cent)



Sources: NSO; Author's estimates.

Chart 3 allows for a more detailed assessment, by analysing different types of spending. Outlays by EBUs and Local Councils account for a significant percentage of year-on-year growth in intermediate consumption. On average, these contributed to around 36% of the annual increase between 2023 and 2025, and almost all the increase in 2022. Spending across various programmes and initiatives explain a relatively higher share of growth in 2024 and 2025. This is partly due to one-off outlays associated with the presidency of the Organisation for Security and Co-operation in Europe in 2024, and the Presidency of the Council of Europe in 2025. Spending of an operational nature accounted for around 25% of the annual increase between 2023 and 2025. This reflects outlays on services such as cleaning, office supplies, security and consultancy services.

Chart 3
INTERMEDIATE CONSUMPTION BY TYPE OF SPENDING
(contribution to growth; per cent)



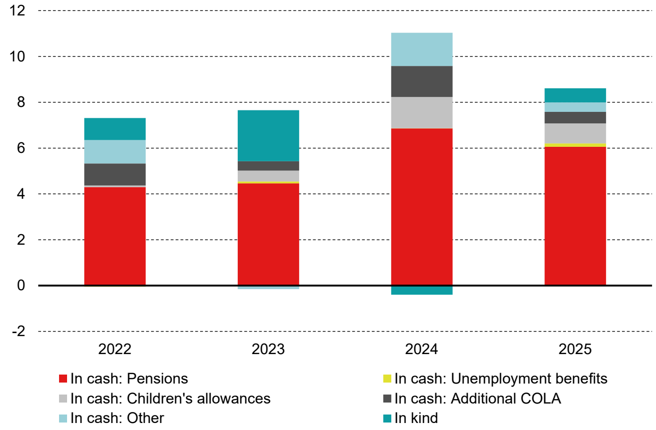
Sources: NSO; Author's estimates.

Intermediate consumption also includes spending related to ongoing capital projects. This reflects outlays on technical and feasibility studies, and other issues required for the successful completion of capital projects. Spending of this nature contributed positively in 2025, but negatively in 2022, while exerting a negligible impact in the other years under review.

Social benefits

Outlays on social benefits amounted to €1,988.0 million in 2025. Between 2022 and 2025 the level of expenditure grew by 29.2%, or €449.0 million. Despite this increase, its share in GDP stood at 8.1% in 2025, down from 8.6% ratio in 2022.

Chart 4
SOCIAL BENEFITS
(contribution to growth; per cent)



Sources: NSO; Author's estimates.

There are two main types of social benefits, those paid in kind and those in cash. The former, which are less significant, reflect services given to households, while the latter represent actual handouts.

Overall, benefits in cash account for most of the growth between 2022 and 2025 (see Chart 4). This is mostly due to higher pension expenditure.[8] Growth in this component was characterised by increases over and above the Cost-of-Living Adjustment (COLA), announced each year in Budget speeches. Outlays also increased due to a rising number of retirement pension beneficiaries. The NSO publish a breakdown of outlays on social benefits by type and their respective beneficiaries.[9] According to this dataset the number of beneficiaries for the two-thirds pension, the main form of retirement pension, rose by around 2,000 persons each year, from around 58,000 in 2022 to just under 64,000 in 2025.[10]

During this period, Government also announced increases in a range of other social benefits, notably stipends, carers' grants, disability assistance, in-work benefits and children's allowances. In addition, in 2022, Government introduced a new cost of living benefit, which awards an additional COLA to low-income households. Growth in children's allowances and the additional COLA explained most of the increase in social benefits in cash, apart from pensions.

By contrast, as shown in Chart 4, the contribution of unemployment benefits to growth in social benefits was virtually zero.[11] This is due to the strong economic growth overseen in this period, during which unemployment declined to record lows.[12] When looking at the breakdown of social benefits as published by the NSO, outlays on non-contributory social assistance rose at a very small pace (by around €6 million) between 2022 and 2025, while the number of beneficiaries declined (by around 1,700 persons). This explains why the share of total social benefits in GDP did not increase by much during this period.

Overall, the contribution to growth stemming from benefits in kind was relatively small. Growth was largest in 2023, mainly driven by outlays on the extension of school transport and the provision

[8] The breakdown for pensions and unemployment benefits is in line with the Classification of the Functions of Government (COFOG) dataset. The former reflects outlays on old age and survivors' pensions (COFOG items 10.2 and 10.3). Data for 2025 is not yet available and is estimated by the author.
[9] Data on social benefits for the years 2023 to 2025 are sourced from *NSO Release* 057/2026 (published on 09 April 2026), while data for 2022 is taken from *NSO Release* 057/2025 (published on 03 April 2025). Data in these releases is on a cash basis.
[10] The rate of increase in the number of pension beneficiaries was partly mitigated by a rise in the minimum retirement age, which occurred in a gradual manner. The last two increases, which raised the retirement age to 64 and 65 years, occurred in 2022 and 2026, respectively.
[11] See footnote 8. Outlays on unemployment benefits relate to COFOG item 10.5. Data for 2025 is not yet available and is estimated by the author.
[12] During this period, Government introduced structural reforms to encourage the long-term unemployed to return to the labour market. The tapering of benefits scheme contributed towards a reduction in beneficiaries for unemployment assistance and social assistance. See Sant, K. (2023). The Impact of Malta's Tapering of Benefits Scheme on Employment. Central Bank of Malta *Working Paper*, WP/07/2023.

of childcare. These initiatives explain most of the year-on-year growth in social benefits in kind between 2022 and 2025.

Conclusion

Over the period analysed, there have been steady increases in the three largest types of government expenditure. This was partly driven by specific government policies, such as offering more generous pensions and benefits and investing more in health care. The increases awarded in recent collective agreements in part reflect a rise in inflation in 2022, coupled with an adjustment in the level of allowances eligible to staff (some of which were still aligned with the previous civil service collective agreement which was signed in 2017). In general, growth in spending arising from these issues was in line with the rate of increase in economic activity.

That said, it is more difficult to clearly explain growth in more 'discretionary' types of expenditure, such as intermediate consumption. Spending by EBUs (which have much larger operational budgets compared with Local Councils) accounts for a significant share of this increase. It is worthwhile pointing out that EBUs also contribute strongly to growth in general government non-tax revenue. Future assessments of the Maltese public finances would benefit from more detailed information on the operations of these EBUs. Such information could feature in regular government publications such as the Economic Survey and the Half Yearly Report.[13]

[13] The Half Yearly Report publication is a requirement as stipulated in Article 39(7) of the Fiscal Responsibility Act. The latter is subject to review and will be updated to transpose Directive (EU) 2024/1265 on the requirements for national budgetary frameworks.