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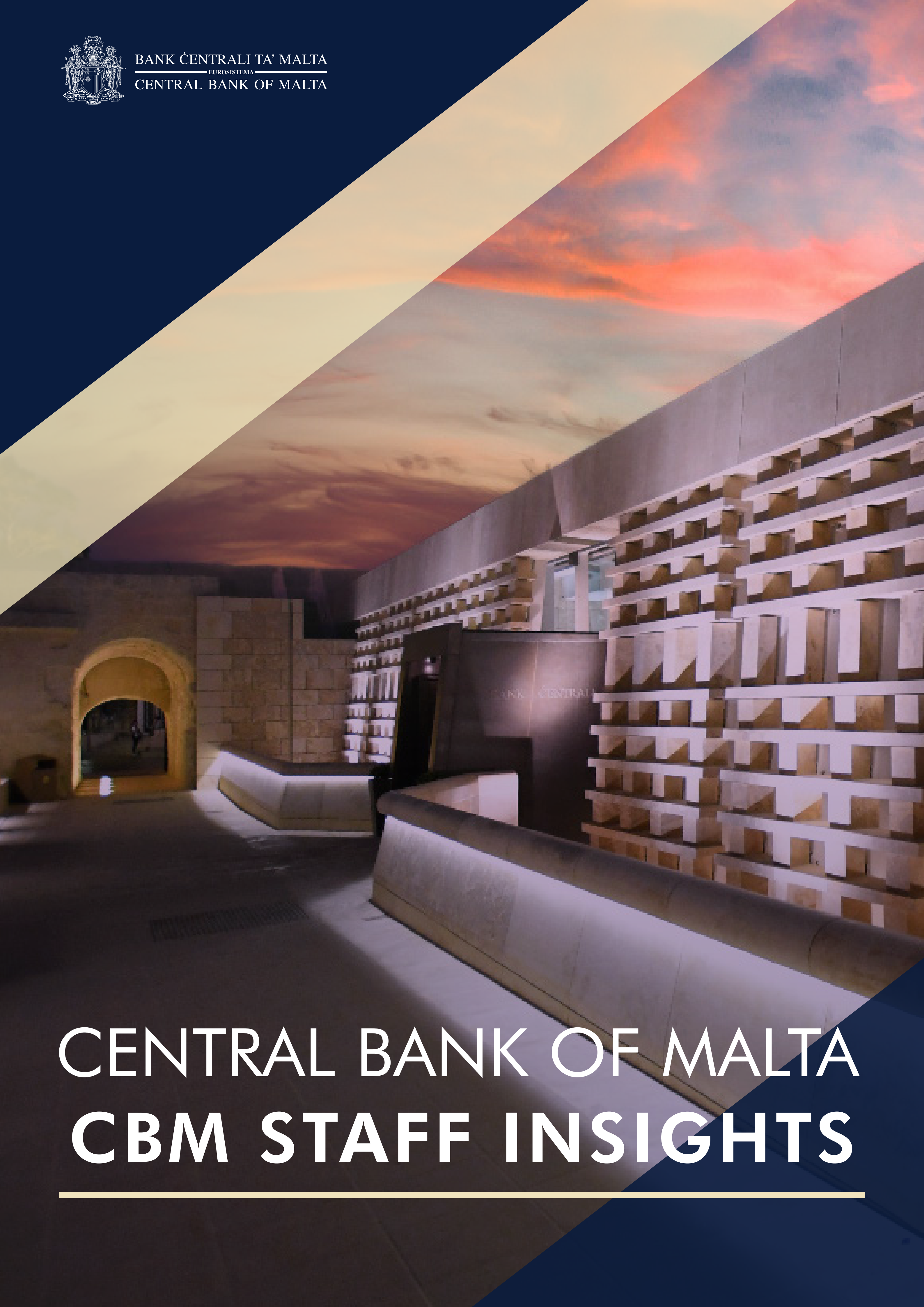

CENTRAL BANK OF MALTA
CBM STAFF INSIGHTS

FISCAL DEVELOPMENTS IN 2025

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FISCAL DEVELOPMENTS IN 2025[1]

Introduction

This analysis offers insights into the fiscal outturn in 2025. It compares this outcome against developments in previous years and assesses the underlying fiscal stance and the general government debt, as a share of gross domestic product (GDP).

In 2025, Malta's fiscal position improved significantly, with the general government deficit narrowing to 2.2% of GDP, from 3.4% in 2024.[2] This marks the first time that the deficit has fallen below the 3% reference value since the COVID-19 pandemic. The decline in the deficit ratio reflects a higher share of revenue in GDP, coupled with a lower expenditure-to-GDP ratio. At the same time, the general government debt-to-GDP ratio edged up slightly to 46.4%, from 45.9% a year earlier.

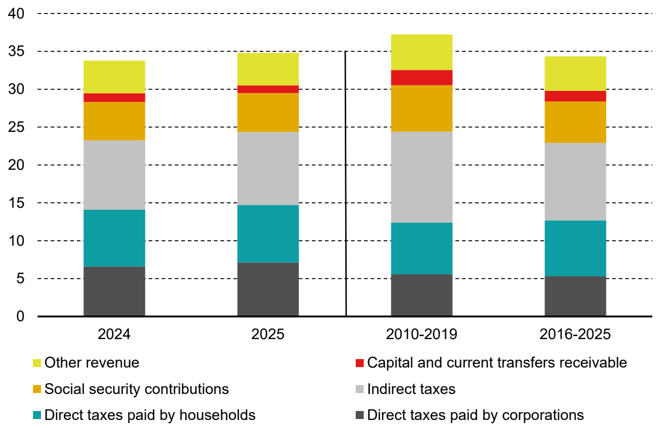
Decomposition of general government revenue and expenditure

In level terms, government revenue increased at a strong pace, rising by 9.4% in 2025. As a result, the share of revenue in GDP rose to 34.8%, from 33.8% in the previous year. This is the highest ratio recorded since 2019 and reflects broad-based growth across the main revenue categories, particularly tax receipts.

Chart 1 presents the composition of government revenue as a share of GDP and compares each component with its average share during the pre-pandemic period (2010-2019) and the more recent ten-year period (2016-2025). Overall, the share of the main tax revenue items in GDP increased in 2025 to stand at 29.5%. This is above the 2016-2025 average but lower than the 2010-2019 average. Developments in 2025 thus served to partly reverse the declining share of tax revenue in GDP over time, which was driven by lower ratios for indirect taxes and social contributions (see below).

In 2025, inflows from taxes on income and wealth increased strongly, reaching 15.1% of GDP, the highest-ever recorded ratio. This increase reflected stronger income tax receipts, which offset lower inflows from the citizenship-by-investment scheme.[3] According to estimates compiled by the author, corporate income taxes contributed most to this increase.[4] These rose to 7.1% of GDP,

Chart 1
DECOMPOSITION OF REVENUE COMPONENTS
(percentage of GDP)



Sources: NSO; Author's estimate.

[1] Prepared by Jessica Pace, Senior Economist in the Fiscal Affairs and Reports Office within the Economic Analysis Department of the Central Bank of Malta.

[2] This article makes use of the data published in National Statistics Office (NSO) *News Release* 117/2026 published on 6 July 2026. Ratios to GDP are based on GDP data published in NSO *News Release* 095/2026, published on 28 May 2026.

[3] In line with ESA 2010 methodology, this scheme was classified as a form of direct tax. It was closed after a ruling by the European Court of Justice in April 2025 determined that the scheme was contrary to EU law. More details on the judgement are available here.

[4] Splits for corporate and household income taxes are based on the level of taxes paid by institutional sector. This information is published by the NSO once a year around October, in a news release on the structure of tax revenue. The author updated this information to make sure that splits tally with the most recent data vintage. Splits for 2025 were estimated by the author as they have not yet been published by the NSO.

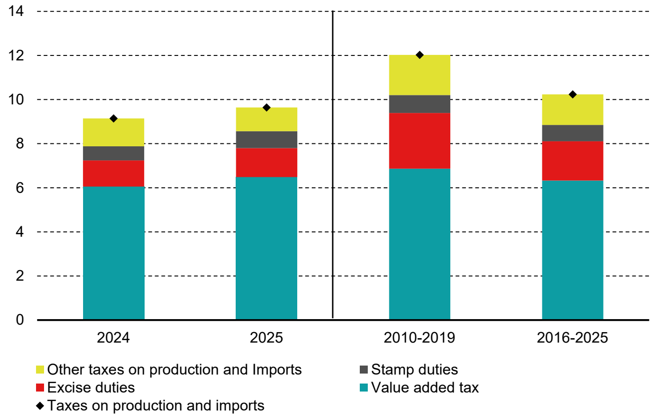
after having already increased strongly a year earlier, and thereby substantially exceeded the 2016-2025 average ratio of 5.3%.

The performance in these last two years mostly reflects a surge in the amount of taxes paid by firms that are registered in Malta but conduct most of their business overseas. These firms typically benefit from generous tax rebates but still pay significant amounts in taxes after all refunds are settled with the tax authorities.[5] Since 2024, tax refunds have been processed in a timelier manner following improvements in administration. Legislative initiatives also contributed towards an increase in corporate tax revenue.[6]

Household income tax receipts also increased despite the widening of personal income tax bands introduced during the year. They reached 7.6% of GDP in 2025, up slightly from the 2024 ratio and exceeding both ten-year comparative historical averages in this analysis. This reflected continued growth in employment and average wages, as well as ongoing improvements in tax compliance.[7] The share of indirect taxes in GDP rose strongly in 2025 to reach 9.6%, from a record low of 9.1% in 2024. This increase reflected stronger value added tax (VAT) receipts, supported by robust domestic demand, record tourism activity and improvements in VAT collections and refund processing. Other forms of indirect tax receipts broadly retained a similar share in GDP as in the previous year (see Chart 2).

Nevertheless, total indirect tax revenue remains significantly below its 2010-2019 pre-pandemic average of 12.0% of GDP, and below the 2016-2025 average ratio of 10.2% of GDP. This is primarily attributable to a denominator effect, as growth in nominal GDP outstripped that of most indirect tax categories such as excise duties and stamp duties. Thanks to strong tourism activity from 2021 onwards, the share of VAT receipts in GDP partly reversed some of the declines observed in this ratio in previous years. However, this was not enough to reverse the decreasing trend in overall indirect taxes as a share of GDP.

Chart 2
DECOMPOSITION OF INDIRECT REVENUE
(percentage of GDP)



Sources: NSO; Author's estimate.

In 2025, the share of social contributions stood at 5.1% of GDP, in line with the 2024 ratio but below its 2010-2019 and 2016-2025 average. This reflects the fact that owing to the statutory

[5] Tax refunds under Malta's imputation system primarily benefit non-resident shareholders as Malta does not levy withholding taxes on dividends paid to foreigners and foreign shareholders can generally claim refunds of part of the corporate tax paid by the Maltese company.

[6] Firms are making increasing use of the Consolidated Group (Income Tax) Rules (L.N. 110/2019) through which parent companies and their subsidiaries are treated as a single fiscal unit for income tax purposes. This system is designed to improve the cash flexibility of the group of companies, as there is no need for each subsidiary to apply for tax refunds. Consequently, firms are incentivised to settle tax dues faster. In addition, Legal Notice (LN) 188 of 2025 enables firms to opt to pay a 15% non-refundable tax rate for a minimum of five years. This law incentivises multinational firms set up in Malta, eligible for the so-called 'Pillar 2' 15% minimum effective tax rate, to settle all their dues in the country.

[7] The Malta Tax and Customs Administration 2025 Annual Report reports further improvement in taxpayer compliance, with the proportion of Personal Income Tax returns submitted on time increasing by approximately 2% compared to 2024.

nominal capping of weekly social contributions, the year-on-year level increase in this tax category is lower than the level increase in GDP.

The share of non-tax revenue in GDP (made up of current transfers, capital transfers, property income and inflows from sales) stood at 5.4% of GDP in 2025, in line with 2024 rates but lower than the 2016-2025 average ratio of 5.9%. This partly reflects a comparatively lower level of EU grants received in 2025. During this year, the Maltese Government continued to carry out projects part-financed by EU funds. Some large-scale projects, such as the second interconnector and other projects financed by the Recovery and Resilience Facility, are scheduled to be completed by 2026. The bulk of EU funds related to these initiatives is expected to be received once projects are completed or become operational.

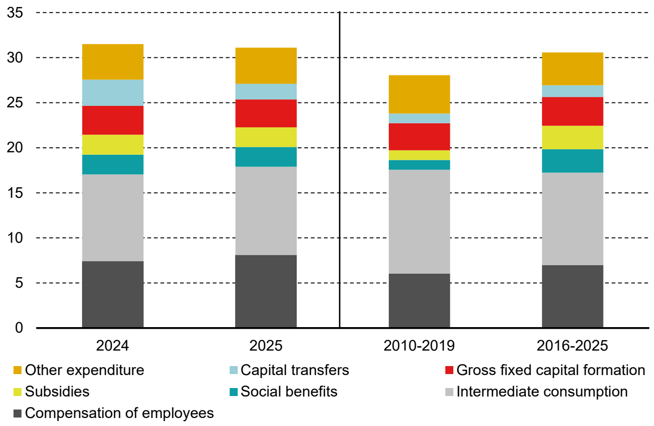
Overall, the share of most revenue items in GDP during 2025 has been below its historical average, with the exception of direct tax items. This suggests a greater reliance on current taxes and income and wealth relative to other sources of revenue.[8]

Government expenditure increased by 5.7% in 2025, and by less than revenue in level terms. Overall, expenditure amounted to 37.0% of GDP, down slightly from 37.2% in the previous year (see Chart 3). On the one hand, the share of current expenditure items increased, driven by the profile of the three largest expenditure categories; the share of intermediate consumption, compensation of employees, and social benefits in GDP increased when compared with a year earlier, to respectively reach 8.1%, 9.8% and 8.1%. On the other hand, the share of capital expenditure in GDP declined.

Total expenditure relative to GDP has moderated from its pre-pandemic (2010-2019) decade average of 37.8% of GDP to a ten-year rolling average of 36.7% over 2016-2025. This occurred despite persistent and strong increases in outlays, and mainly reflects a strong denominator effect, due to rapid nominal GDP expansion.

The implementation of a new civil service collective agreement in 2025 contributed to higher expenditure on wages.[9] In this year, intermediate consumption increased sharply owing to higher spending on contractual services, residential care, and operational expenditure across various government entities. The increase in social benefits mainly reflected higher pension expenditure, as Government continued to raise pensions beyond the annual cost-of-living adjustment. The

Chart 3
DECOMPOSITION OF EXPENDITURE COMPONENTS
(percentage of GDP)



Sources: NSO; Author's estimate.

[8] See Box B in Malta Fiscal Advisory Council (2026). Assessment of the Fiscal Forecasts Underlying the Annual Progress Report 2026. Assessment Report 02/2026

[9] For a detailed assessment on the largest expenditure items, see Bigeni (2026). Decomposing the Largest Government Expenditure Items. Central Bank of Malta *Staff Insights* 14/2026.

rising number of pension beneficiaries, owing to population ageing and higher life expectancy, also contributed.

In 2025, the ratio of compensation of employees and social benefits in GDP stood below their 2016-2025 average (which respectively amount to 10.3% and 8.8%), as their share had been on a declining trend from around 2016 to around 2023. However, by 2025 the ratio of intermediate consumption in GDP was well above its ten-year average of 7.0%.

Subsidies amounted to 2.2% of GDP in 2025, in line with the previous year. Outlays were buoyed by energy support measures which subsidise retail utility prices. Nevertheless, subsidy expenditure remained significantly above pre-pandemic levels. Over the 2010-2019 decade, subsidies averaged 1.1% of GDP. This doubling of subsidies-to-GDP ratio relative to the historical pre-pandemic averages underscores the continued fiscal cost of successive support measures introduced since the onset of the COVID-19 pandemic.

Other current expenditure remained broadly stable at around 4.0% of GDP during both 2024 and 2025 and stood around 0.4 percentage points above its 2016-2025 average. The above-average ratio partly reflects a gradual increase in transfers to households over time, due to government measures which introduced income tax rebates to employees and compensation schemes to select groups of workers.[10]

In contrast with most current expenditure items, the share of capital outlays in GDP decreased in 2025 when compared with the previous year. Capital transfers had the largest decline, following exceptionally large one-off outlays recorded in 2024. The latter reflected expenditure associated with the winding down of Air Malta and the establishment of KM Malta Airlines. Nevertheless, the share of capital transfers in GDP remained above their 2016-2025 average of 1.3% and amounted to 1.7% of GDP in 2025. This is partly due to a one-off payment awarded by the Courts to former National Bank shareholders.

Despite a modest increase in gross fixed capital formation in nominal terms, its share in GDP declined to 3.1% in 2025 from 3.2% in the previous year. Nevertheless, it remains broadly in line with both the 2010-2019 and the 2016-2025 average ratio. Investment is supported by the abovementioned EU-financed projects, as well as outlays on IT, improvements to property and equipment and urban greening projects.

Developments in fiscal stance and government debt

A deeper look at the direction of the Maltese Government's fiscal policy in 2025 can be obtained by analysing the fiscal stance over a number of years. This term is used to explain the impact of governments' discretionary policy actions on economic activity and aggregate demand. Here, the fiscal stance is estimated as the year-on-year change in the ratio of the cyclically adjusted primary balance in GDP.[11] The latter represents the headline balance, net of interest payments and adjusted for the impact of the business cycle.

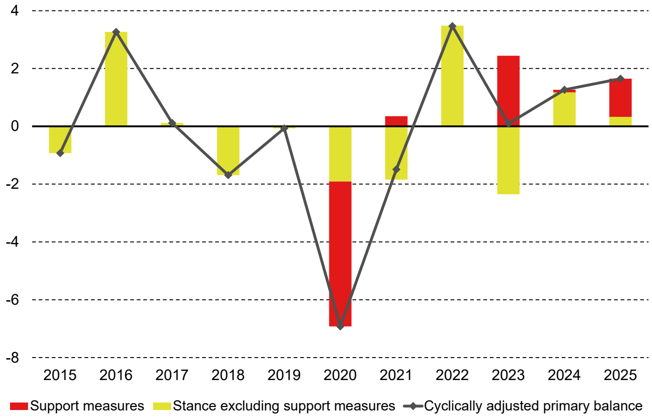
Chart 4 decomposes the resulting fiscal stance into two components. The stance arising from sizeable support measures is measured in the red bars. This captures the year-on-year change in

[10] These include members of corps established before 1979, former port workers and members of the police.

[11] 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.

the level of spending on COVID-19 support measures, energy support measures, the restructuring of Air Malta and the setup of KM Malta airlines, as a share in GDP. The yellow bars in the chart capture the fiscal stance arising from government policies other than support measures.

Chart 4
YEAR-ON-YEAR CHANGE IN GOVERNMENT BALANCE-TO-GDP RATIO
(percentage points)



Sources: NSO; Author's estimate.

In 2025, the fiscal stance (the sum of the red and yellow bars) tightened (i.e. Government pursued fiscal consolidation). This means that the decline in the headline deficit ratio during the year was not simply due to the business cycle or a sudden change in the ratio of interest payments in GDP. The tightening fiscal stance follows from, and is slightly larger than, the tightening in 2024. However, it is smaller than observed in 2016 and 2022.

Developments in 2024 and 2025 contrast with the markedly looser fiscal stance (i.e. Government undertook expansionary measures) in 2020, and to a lesser extent in 2018 and 2021. The fiscal stance was broadly neutral in the remaining years.

Support measures have been a key driver of changes in the fiscal stance since 2020. The introduction of COVID-19 support measures resulted in a markedly expansionary fiscal stance in 2020. Although these measures had been phased out by 2022, their impact was offset by the introduction of energy support measures in the same year.[12] Outlays on energy support measures declined in 2023, contributing towards a neutral fiscal stance for that year. In 2025 the tightening fiscal stance is almost entirely explained by the unwinding of support measures, reflecting the end of restructuring assistance to Air Malta and the establishment of a new national airline in the previous year. That said, over the years there were periods in which the fiscal stance was not driven by the profile of support measures. The fiscal stance was expansionary in 2018, 2020, 2021 and 2023 due to factors such as a rising share of investment in GDP, higher wage growth and a declining ratio of structural tax revenue in GDP.[13] On the other hand, a declining share of current expenditure in GDP and a higher structural tax revenue-to-GDP ratio contributed towards a tightening stance in 2016, 2022 and 2024.

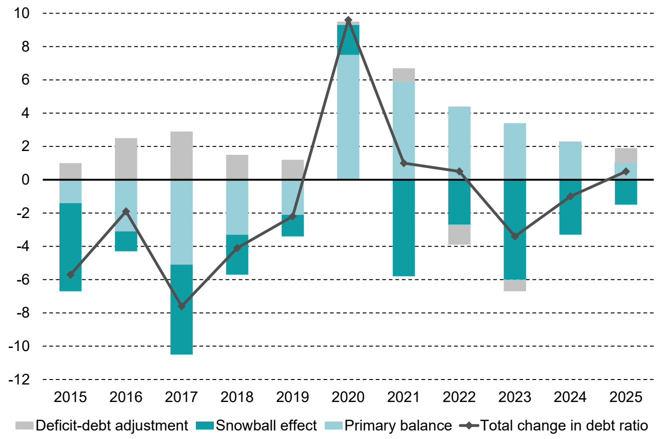
In 2025, the general government debt ratio stood at 46.4% of GDP, compared with 43.1% in 2016. This period was characterised by successive reductions in the debt ratio between 2016 and 2019, an increasing ratio between 2020 and 2022, and reductions in 2023 and 2024, while 2025 was characterised by a modest increase.

Chart 5 breaks down the annual change in the debt ratio into its three drivers: the primary balance, the snowball effect (i.e. the interest-growth differential) and the deficit-debt

[12] Mourre, G., Astarita, C. and Princen, S. (2014). Adjusting the budget balance for the business cycle: the EU methodology. European Economy – Economic Papers No. 536, (DG ECFIN), European Commission.
[13] In structural terms, the profile of tax revenue could change due to shifts in the composition of taxpayers, practices adopted by tax administration and exceptional events such as large tax refunds or inflows.

adjustment.[14] Up to 2019, government was posting a fiscal surplus and had little need to borrow additional resources. Hence, during this period, the contribution of the primary balance to government debt was negative. This changed in 2020 when economic activity declined and government embarked on an expansionary fiscal stance. The resulting primary deficit pushed the debt-to-GDP ratio upward. While the primary deficit continued to place upward pressure on debt, its impact was significantly smaller in 2024 and 2025 due to the continued narrowing of the fiscal deficit.

Chart 5
CONTRIBUTION TO CHANGES IN DEBT-TO-GDP RATIO
(percentage point change)



Source: Central Bank of Malta.

The snowball effect had a largely debt-decreasing impact, due to strong nominal GDP growth and declining financing costs. That said, its contribution weakened in 2024 and in 2025 as nominal GDP growth moderated and effective interest rates on government debt increased.

Overall, the impact of deficit-debt adjustments was small and debt-increasing, mostly reflecting the accumulation of government deposits.

Malta's fiscal performance under the EU fiscal framework

When placed in a European context, Malta's fiscal performance was stronger than the euro area average in 2025, which recorded a general government deficit of 2.9% of GDP and government debt of 87.4% of GDP.[15] In June 2026, the Council closed the Excessive Deficit Procedure for Malta given that the general government deficit was successfully reduced to below 3% of GDP in 2025 and is projected to remain below 3% of GDP in 2026 and 2027.

The Council's recommendations for Malta acknowledge that the 2025 fiscal outturn demonstrates the resilience of the country's revenue base and highlights the contribution of strengthened tax administration to fiscal consolidation.[16] At the same time, the recommendations identify a number of areas warranting continued attention. Government expenditure continues to increase at a relatively rapid pace, driven mainly by higher public sector wage costs, intermediate consumption, and permanent energy support measures.

The Council further notes that while Malta's annual expenditure growth in 2025 was in line with the path set in the government's Medium Term Fiscal Structural Plan, cumulative net expenditure growth exceeds the recommended path under the EU's revised fiscal framework.[17,18]

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[14] For further details about these drivers, see Farrugia and Grech (2013). Assessing the Sustainability of Maltese Government Debt. Central Bank of Malta *Working Paper*, WP/04/2013.
[15] It should be noted that several Member States have activated the national escape clause under the revised EU fiscal framework, allowing temporary flexibility of up to 1.5% of GDP in additional defence-related expenditure.
[16] The June 2026 Council's recommendations for Malta can be found here.
[17] Malta's Medium Term Fiscal Structural Plan 2025-2028 can be found here.
[18] Under the EU fiscal framework, Member States are monitored using the net nationally financed primary expenditure indicator. Net expenditure is defined as total general government expenditure, net of interest payments, discretionary revenue measures, expenditure financed from the EU (including the co-financing element), the cyclical component of unemployment benefits and certain one-off outlays.