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# THE COMPOSITION OF SOCIAL BENEFITS

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## BOX 2: THE COMPOSITION OF SOCIAL BENEFITS[1]

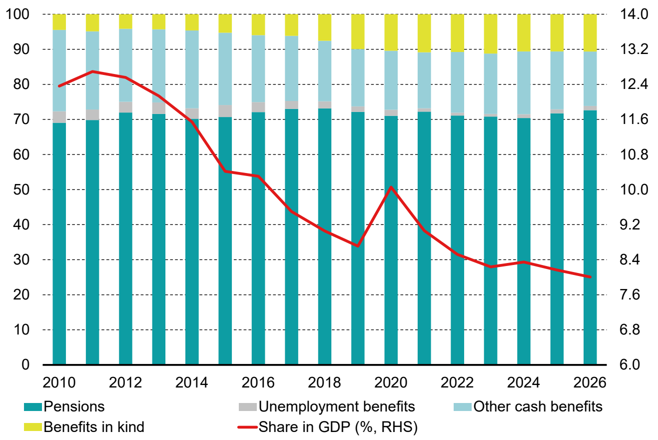
Government expenditure on social benefits can take the form of cash payments and payments in kind. Benefits in cash make up the vast majority of social benefit payments in Malta. These include contributory and non-contributory benefits, such as pensions, unemployment benefits, child allowances, and the in-work benefit. Expenditure on benefits in kind mostly reflects the provision of goods such as medicine, and services such as childcare, school transport and public transport.

Until 2013, social benefits made up around 30% of government expenditure and averaged just over 12.0% of GDP. However, in subsequent years outlays on benefits increased at a slower pace than other government expenditure items and when compared with growth in economic activity. Consequently, by 2022 social benefits made up 21.7% of government expenditure and amounted to 8.5% of GDP. This reflects efforts to boost labour market participation, which include a gradual increase in the statutory retirement age, incentives to those remaining in employment past retirement age, and the tapering of benefits scheme. At the same time, buoyant economic activity and tight labour market conditions contributed to lower spending on unemployment assistance.

Due to these developments, the composition of social benefits changed over time (see Chart 1). The share of outlays on unemployment assistance and cash benefits excluding pensions, declined from around 25% of total benefit spending before 2013 to around 18% by 2022. On the other hand, spending on pensions rose from around 70% of total benefit spending to just over 71% by 2022. This is partly due to a series of increases in pensions, given out every year since 2016. In the same period, the share of outlays on benefits in kind more than doubled from around 4.5% to just below 11%. This reflects the extension of free school transport and the provision of free public transport to holders of the Tallinja Card.

The Bank projects outlays on social benefits to grow at a declining rate in the coming years. Consequently, the share of benefits in GDP is expected to decline from 8.5% in 2022 to 8.0% in 2026 (see Chart 2). This is partly due to the methodology with which the Bank compiles the fiscal forecasts. Any government measures which are not specified in detail and have not yet been approved by Parliament

**Chart 1**
**COMPOSITION OF SOCIAL BENEFITS**
*(per cent of total)*



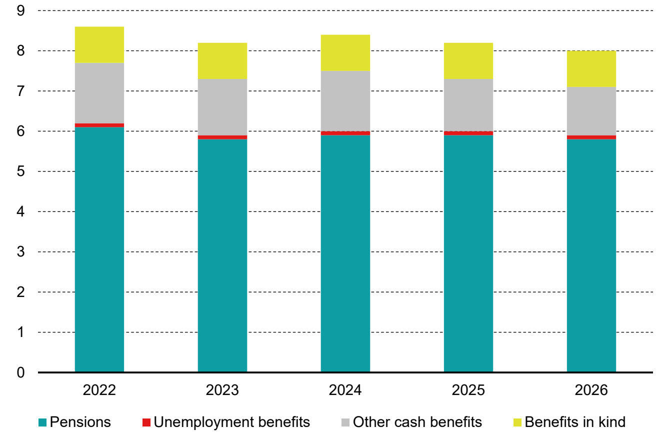

Sources: NSO; Author's estimates.

[1] Prepared by John Farrugia, Manager Fiscal Affairs and Reports Office and Kurt Sant, Senior Economist within the same office.

are not included in the projections. These forecasts thus do not account for the likelihood of additional increases in social benefits, beyond what was announced in the 2024 Budget.

As a result, cash benefits excluding pensions and unemployment benefits, are set to amount to around 1.2% of GDP in 2026, down from 1.5% in 2022.

**Chart 2**
**FORECAST PROFILE OF SOCIAL BENEFITS**
*(per cent of GDP)*




Sources: NSO; Author's estimates.

Pension expenditure is however set to broadly amount to just below 6% of GDP throughout the projection horizon. Forecasts for this benefit type are partly based on the expected profile of beneficiaries, which in turn is based on population projections. Beneficiaries are set to grow at a broadly constant rate in the coming years, except in 2026 when growth is set to be slower. This is due to the coming into force of the final mandated increase in the retirement age, to 65 years.

In the absence of additional known measures beyond the 2024 Budget, growth in average pensions is set to decline in the outer years of the forecast horizon. Their forecast profile is mostly determined by the index used to compute the increase in pensions included in the law, which is based on the national average wage and the rate of inflation.[2]

Outlays on unemployment benefits and benefits in kind are set to grow in line with GDP. They are thus set to retain a stable ratio in GDP, amounting to around 0.1% and 0.9%, respectively.

[2] According to law, 70% of the annual rate of increase of two-thirds pensions (the largest form of pension) is determined by the previous year's increase in national average wages. The remaining 30% is based on the previous year's rate of inflation. In the 2024 Budget, it was announced that this formula will be applied to all beneficiaries of the two-thirds pensions, and not just to those born after 1961 as was the case previously.