Medium-Term Fiscal Strategy for Malta
2025-2028

Ministry for Finance
December 2025

The following symbols have been used throughout this document:

. . .	to indicate that data are not available;
—	to indicate that the figure is negligible;
0	to indicate that the figure is zero;
-	to indicate that data are not applicable or cannot be determined;
n/c	to indicate that there is no change in the data.

Figures may not add up due to rounding.

Fiscal Responsibility Act, 2014

(Cap 534)

Statement of Fiscal Responsibility

by the Prime Minister and Minister for Finance

In accordance with the requirements of Article 15(8) of the Fiscal Responsibility Act, 2014, we hereby attest to the reliability and completeness of information contained in this Medium-Term Fiscal Strategy and to compliance with the principles of fiscal responsibility.

Robert Abela
Prime Minister

Clyde Caruana
Minister for Finance

December 2025

1. Medium-Term Fiscal Policy Strategy

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In fulfilment of the requirements under article 15(1) of the Fiscal Responsibility Act (FRA), the Ministry for Finance (MFIN) is publishing this Medium-Term Fiscal Policy Strategy (MTFS) for the period 2025-2028. As last year, this plan is being submitted in December 2025 and is consistent with the Draft Budgetary Plan (DBP) for Malta issued on the 15th of October 2025 and has the same cut-off date.

1.1 Short-term Outlook

Within this MTFS for 2025-2028, the macroeconomic projections reflect a prudent view of Malta's position in terms of economic developments. Overall, we view the risks pertaining to this forecast to be tilted towards the downside in 2025 and balanced beyond 2026.

During the first half of 2025, Malta's real economic growth stood at 3.1 per cent. Data from the last two quarters indicates a slowdown in consumption expenditure. Despite this, the labour market remains robust, with historically low unemployment, moderate employment growth, and overall increases in real wages. While external risks—such as uncertainties from the United States' (US) trade policy and ongoing geopolitical tensions—could impact global economic prospects, Malta's economy has demonstrated resilience, largely due to its service-oriented structure and relative insulation from global trade policy shifts.

For 2025, domestic demand is projected to remain the primary driver of growth, while the external balance is expected to have a slightly negative effect. Nonetheless, strong export growth is still being projected and this is partly attributed to strong performance in digital services and continued double-digit growth in tourism. Such trends are anticipated to persist in the short-term.

Looking at sectoral contributions to Gross Value Added (GVA), the year-on-year growth rate in the second quarter was 5.6 per cent. The largest shares in GVA were registered by the Public Administration (1.9 percentage points), Information and Communication sector which contributed 1.3 percentage points, and Wholesale and Retail (1.2 percentage points). Conversely, the Financial Services sector had a negative impact on GVA growth (-0.6 percentage points).

The Maltese economy is expected to maintain its growth path, with real output stabilising at around 4.1 per cent in both 2025 and 2026. Although consumption slowed in early 2025, strong labour market fundamentals suggest a rebound in the latter half of the year, with potential for upside risks. On the external front, subdued demand—partly due to a strong euro—could pose a downside risk, but this may be offset by increased European military investment. Domestic demand, supported by Government consumption and public investment, is still anticipated to be the main growth engine. The external balance is expected to contribute positively to growth in 2026. Overall, risks are seen as slightly tilted to the downside in 2025 and balanced in 2026.

In 2027 and 2028, nominal GDP is projected to remain stable at 7.1 per cent in both years, with domestic demand being the main contributor towards real Gross Domestic Product (GDP) growth over the same period.

1.2 The New Economic Governance Framework and the Medium-Term Fiscal Structural Plan

On the 20th of September of 2024, Malta submitted its Medium-Term Fiscal Structural Plan (MTFSP) which covered a period of four years between 2025 till 2028 and was in accordance with the Commission's reference trajectory. The MTFSP aimed to correct the excessive deficit by 2027/28. The MTFSP also established a net nationally financed primary expenditure path on the basis of potential economic growth, the structural balance, inflation and the ratio of primary expenditure to GDP. In the case of Malta, the allowed average annual growth in net expenditure over the period of the plan stood at 5.9 per cent.

Shortly after the publication of the MTFSP, Malta submitted its Draft Budgetary Plan (DBP) on the 15th of October 2024. Within this Plan Malta submitted its intention to go beyond the commitments established within the MTFSP for 2025 and reach a deficit target of 3.5 per cent from a value of 4.0 per cent in 2024.

On 21 January 2025, the European Council recommended Malta to limit net primary expenditure in 2025 to an annual growth of 6.0 per cent and a cumulative growth of 14.9 per cent.

Subsequently, in accordance with the new fiscal regulations under Article 21(1) of Regulation (EU) 2024/1263, Malta submitted its Annual Progress Report (APR) on the 30th of April 2025. Within this report, Malta's deficit target was revised downwards to 3.3 per cent in anticipation of strong revenue collections.

On the 15th of October 2025, Malta also submitted its DBP for 2026. Within this Plan, Malta expects to reach 3.3 per cent deficit by the end of 2025, just 0.3 per cent shy of the 3.0 per cent deficit target to exit the EDP and in line with the APR target.

1.3 Fiscal Policy objectives and priorities

The Government shall continue to pursue a fiscal consolidation strategy in line with the objectives set out within the MTFSP. Net primary expenditure in 2025 is expected to increase by 5.8 per cent which is in line with the Council recommendation on an annual basis. On the back of economic growth and efforts to curb tax evasion and avoidance and improve the administrative efficiency of tax expenditure, the Government reaffirms its commitment to reduce the deficit to 3.3 per cent of GDP in 2025 and aims to reach a 2.8 per cent deficit target by 2026.

The structural effort is expected to reach 0.7 per cent in 2025 and 0.9 per cent in 2026 which shows that the Government is making the required effort to reduce the deficit after removing the effects of the business cycle. To meet Malta's Medium-Term Objectives, this programme proposes a further structural effort of 0.7 per cent of GDP in 2027 and 0.5 per cent in 2028 such that a structural balance of -1.2 per cent is achieved by 2028. Such a fiscal effort aims to strike a balance between economic stability and fiscal sustainability. This adjustment path is also in line with the requirements of the newly established EGR and the aforementioned MTFSP, which also sets a target of net nationally financed primary expenditure growth averaging 5.9 per cent of GDP over the next four years. In terms of debt, Malta has been performing well, supported by strong revenue performance and the substantial growth rates it has achieved. In 2024, the debt levels reached 46.2 per cent and is expected to increase slightly in 2025 to 47.1 per cent, which is markedly below the 60.0 per cent reference value.

1.4 Fiscal Risk Statement

In 2025, Malta's fiscal position is expected to continue improving, supported by a resilient macroeconomic environment and a gradual normalisation of expenditure dynamics. The Government projects a general Government deficit of –3.3 per cent of GDP, broadly in line with the European Commission's Autumn 2025 forecast, which estimates a deficit of –3.2 per cent of GDP. This marks a further step towards the medium-term consolidation objectives outlined in the national fiscal strategy.

Economic activity is projected to remain robust in 2025. According to the Commission, real GDP is expected to expand by 4.0 per cent, underpinned by strong domestic demand, continued recovery in tourism-related services, and a gradual pickup in public and private investment. The labour market remains tight, with employment growth forecast at 3.7 per cent, supporting both consumption and revenue growth. These developments reinforce the Government's expectations of solid tax performance, especially in direct taxes and social contributions.

On the expenditure side, pressures remain elevated but manageable. Public-sector wage growth, higher intermediate consumption, and the scaling-up of EU-funded investment projects are projected to contribute to higher outlays in 2025. Social-protection measures introduced in recent budgets—particularly pension enhancements and increased family-related benefits—also exert an upward impact on recurrent expenditure.

The debt-to-GDP ratio is forecasted to remain on a downward trajectory. The Government projects a ratio of 47.1 per cent in 2025, broadly in line with the European Commission's Autumn 2025 forecast of 47.0 per cent, both well below the 60.0 per cent Treaty reference value. Debt dynamics are supported by favourable nominal GDP growth and prudent debt-management operations, including active liquidity management and stable market access.

Overall, the 2025 outlook reflects a continuation of fiscal consolidation amid sustained economic resilience. The alignment between national projections and the Commission's Autumn 2025 forecast underscores the credibility of the fiscal path and supports the medium-term objective of reducing the deficit below the 3.0 per cent threshold by 2026, in line with EU fiscal-governance requirements.

The macroeconomic and fiscal projections underpinning this Plan were assessed by the Malta Fiscal Advisory Council (MFAC) in the context of its evaluation of its assessment of the Medium-Term Fiscal Strategy for the period 2025-2028. The Council finds Malta's 2025–2028 macroeconomic growth projections within its endorseable range, though it notes higher uncertainty for 2027 and 2028 due to a longer forecast horizon and ongoing instability. While assigning a neutral risk assessment, the Council disagrees with the composition of growth drivers and the Government's output gap forecasts, and highlights that risks identified in its 2026 Assessment Reports remain relevant.

Following its endorsement of the DBP's fiscal forecasts in December 2025, the Council has assessed Malta's projections for the years 2025 through 2028 and considers them to be generally plausible based on available information. Despite this overall assessment, the Council expresses reservations regarding certain elements of these forecasts, specifically pointing out disagreements with the expected levels of revenue, expenditure, and structural balance as outlined by the authorities. The MFAC has drawn attention to the risks stemming from expenditure developments and the cumulative deviation from the net expenditure path.

The MFAC has also raised concerns about the projections for the structural balance. The Council warns that, although the required structural effort is expected to be achieved, the risks associated with the output gap could potentially undermine compliance with the structural adjustment requirements.

In its assessment, the MFAC reiterated the importance of strengthening Malta's growth model through productivity-enhancing reforms, skills development, innovation and digitalisation, alongside continued efforts to improve public spending efficiency. The Council emphasised the need for prudent expenditure management and careful prioritisation of policy measures, particularly in view of elevated recurrent spending pressures and the ongoing application of energy support measures. Given Malta's continued placement under the Excessive Deficit Procedure, the MFAC stressed the importance of strict adherence to the fiscal targets set out in the MTFSP and of directing any revenue overperformance towards fiscal consolidation.

2. Economic Outlook

2. Economic Outlook

Despite heightened geopolitical tensions and trade agreements that created economic uncertainty for the United States (US) and its trading partners, Malta's real economic activity expanded by 6.8 per cent in 2024 and by 3.1 per cent in the first half of 2025.

2.1 The Current Economic Scenario

New risks have emerged related to geopolitical tensions in the Middle East and the growing trade restrictions, which produced a drag on external demand conditions. Red Sea shipping disruptions and tariff escalations have compounded these pressures, further straining global supply chains. Despite these headwinds, the World Bank projects a 7.0 per cent decline in commodity prices in 2025, which should help ease inflationary pressures. Financial markets have responded unevenly to these developments. US equities remain resilient, buoyed by robust investment in artificial intelligence, while European stocks, particularly in green energy and electric vehicles, underperformed during the first half of the year. The global race for AI adoption is intensifying, with North America leading, China recording the fastest year-on-year growth in 2024, and Europe catching up.

Monetary policy has also diverged sharply across major economies. The European Central Bank has cut rates aggressively to 2.5 per cent, signalling further easing, while the US Federal Reserve, constrained by persistent inflation near 3.0 per cent, anticipated only one rate cut, which may be delayed until early 2026.

Despite the prevailing uncertainty, Malta's economy outperformed global trends, growing by 3.1 per cent during the first half of 2025 relative to the same period in 2024 – more than double the European Union (EU) average of 1.4 per cent – while nominal Gross Domestic Product (GDP) expanded by 5.6 per cent.

In the first half of 2025, growth was driven primarily by domestic demand. Household consumption was the main contributor, expanding by 2.8 per cent year-on-year and contributing 1.3 percentage points to real GDP growth. Government consumption provided another significant boost, contributing 0.9 percentage points. Conversely, Gross Fixed Capital Formation (GFCF) contracted by 0.1 per cent compared with the same period in 2024.

On the external front, during the first half of the year, net exports contributed 0.5 percentage points to growth, with exports expanding by 5.2 per cent. Exports of services remained resilient, growing by 8.1 per cent in real terms. Tourism and digital services contributed positively to this growth with no sign of slowing down over the upcoming year. Imports growth was also substantial, growing by 5.7 per cent, reflecting the strong external demand coupled with the strengthening of the Euro.

Malta's nominal Gross Value Added (GVA) expanded by 6.0 per cent in the first half of 2025, reaching approximately €11.0 billion. Growth was broad-based, with services remaining the backbone of the economy, contributing 5.7 percentage points to overall GVA growth. The Public activities sector led the expansion, recording a growth rate of 14.1 per cent, contributing 2.0 percentage points. The Wholesale and retail trade sector followed by Information and communication services sector were key private-sector contributors, adding 1.4 and 1.3 percentage points, respectively. In addition, the Arts, entertainment and recreation sector added 0.4 percentage points, reflecting continued expansion, particularly in business-to-business activity.

Tourism also showed strong momentum, with inbound arrivals rising by 11.7 per cent year-on-year to nearly 3.1 million visitors between January and September. Overall, two sectors diverged from the overall positive trend: Construction recorded no growth, while Financial and insurance services contracted by 6.4 per cent.

From the income side, in the first half of 2025, compensation of employees grew by 9.4 per cent, outpacing the 3.4 per cent increase in gross operating surplus. Wages per capita are estimated to have increased by 4.9 per cent. The unemployment rate stood at 3.0 per cent between January and September 2025, while employment grew by 3.7 per cent in the first half compared to the same period in 2024. Despite a 1.1 per cent decline in labour productivity, possibly due to high employment turnover, wage pressures persisted. These pressures stemmed from labour shortages in private sector services, particularly in Information and communication, Wholesale and retail trade, and Professional and administrative services, as well as from new collective agreements in the public sector.

2.2 The Short to Medium-Term Scenario

With global conditions stabilising, Malta's economy is expected to sustain its positive momentum through 2025 and 2026. Real GDP growth for 2025 is projected at 4.1 per cent, driven primarily by domestic demand, which is set to contribute 4.8 percentage points. GFCF is projected to lead domestic demand, increasing by 10.8 per cent, supported by extraordinary investments in transport equipment and an acceleration in public sector activities.

Private consumption growth is forecasted to decelerate from 6.2 per cent in 2024 to 3.7 per cent in 2025. This slowdown reflects the performance in the first half of the year, with growth expected to strengthen in the second half of the year, in line with the strength of labour market fundamentals and contained inflationary pressures. Spending is expected to strengthen in the second half, underpinned by solid labour market conditions, easing inflation and improved consumer confidence.

Government expenditure is projected to rise by 6.6 per cent in real terms in 2025, down from 9.2 per cent in 2024, reflecting the new collective agreements as well as higher contractual services.

Exports are expected to remain robust, with real growth projected at 4.7 per cent in 2025, supported by strong tourism and business services. While remote gaming shows signs of maturity, it is still expected to contribute 1.1 percentage points to export growth. Imports are projected to grow by 6.2 per cent, reflecting high import content in GFCF and a stronger euro.

In 2026, Malta's economy is forecast to grow by 4.1 per cent in real terms and 7.0 per cent nominally. Domestic demand is expected to remain the main growth driver, contributing 2.4 percentage points to real growth, while net exports are projected to add 1.8 percentage points as import demand moderates following the normalisation of investment activity from elevated 2025 levels. Following exceptional GFCF growth in 2025, a modest contraction of 0.9 per cent is anticipated due to base effects. Risks persist in manufacturing as Europe competes with China in the electric vehicles (EV) market, but easing geopolitical tensions and higher EU defence spending should bolster investor confidence and manufacturing activity. Real exports are projected to grow by

4.5 per cent, while import growth moderates to 3.5 per cent. Finally, private consumption is expected to rise by 3.8 per cent, supported by strong employment and wage growth, while Government spending slows to 4.6 per cent.

Over the outer years, the Maltese economy is expected to remain robust. Real GDP is forecast to increase by 4.3 per cent in 2027 and 4.4 per cent in 2028. Domestic demand is expected to be the main pillar supporting growth in 2027 and 2028, driven by household consumption. Employment growth is forecast to remain strong and increase by 3.8 and 3.9 per cent in 2027 and 2028, respectively. External conditions are expected to be positive with net exports contributing 0.9 percentage points to real GDP in both 2027 and 2028. This reflects stronger economic activity in Malta's main trading partners and a stable to slightly weaker euro, which together support external demand.

Table 2.1 below presents the main macroeconomic indicators for the period 2023 to 2028. The figures for the period 2023 to 2024 are based on the latest data released by the National Statistics Office (NSO) under the European System of National and Regional Accounts (ESA 2010), whereas the figures presented for 2025-2028 are the Ministry for Finance (MFIN) projections.[1]

2.2.1 Assumptions for Projections

The macroeconomic forecasts underpinning this Medium-Term Plan are based on the following assumptions:

1. Global economic activity, weighted by Malta's main trading partners, is expected to expand by 0.8 per cent in 2025, and 1.4 per cent in 2026. Over the outer years, global growth is expected to reach 1.6 per cent in both 2027 and 2028.
2. Oil prices are expected to stabilise at $69.02 per barrel in 2025 and drop to $66.10 in 2026. Oil prices are then expected to remain stable at the 2026 levels for the remainder of the forecast horizon.
3. The short-term interest rate is expected to decrease to 2.2 per cent in 2025, after which it further decreases to an annual average of 1.8 per cent in 2026. For the outer years, the short-term interest rate is expected to stabilise at 1.9 per cent. The long-term interest rate is assumed to reach an average of 3.4 per cent in 2025, before increasing to an annual average of 3.5 per cent in 2026. In the outer years, it is expected to stabilise at 3.3 per cent.
4. The USD/EUR exchange rate is assumed to appreciate to 1.1330 and 1.1910 in 2025 and 2026, respectively. This represents an appreciation of 5.2 per cent in 2025 and 5.1 per cent in 2026. However, in the outer years, the euro is expected to depreciate to 1.2 per cent in both 2027 and 2028.
5. The STG/EUR exchange rate is expected to average 0.8518 in 2025 and 0.8662 in 2026. This means that the STG/EUR exchange rate is assumed to appreciate by 1.2 per cent in 2025 and by 1.7 per cent in 2026. For the outer years, the STG/EUR exchange rate is expected to remain at 2026 levels.
6. Starting from the third quarter of 2024 until the end of the forecast horizon, changes in inventories are not expected to materially contribute to GDP growth.
7. World prices are expected to increase by 1.0 per cent in 2025 and 1.1 per cent in 2026. Price pressures are expected to further increase, reaching a growth rate of 2.1 per cent in both 2027 and 2028.
8. The interest-rate passthrough is assumed to remain very limited, in line with historical performance and the presence of ample bank liquidity.

Table 2.1
Main Macroeconomic Indicators

	2022	2023	2024	2025p	2026p	2027p	2028p
GDP growth at current market prices (%)	7.7	16.3	10.3	6.9	7.0	7.1	7.1
GDP growth at Chain Linked Volumes by period (Reference year 2020) (%)[1]	2.5	10.6	6.8	4.1	4.1	4.3	4.4
Expenditure Components of GDP at Current Market Prices by period (%)							
Private final consumption expenditure[2]	9.6	13.0	6.2	6.4	6.3	7.3	7.6
General Government final consumption expenditure	3.6	8.4	13.6	12.6	8.4	8.3	6.6
Gross fixed capital formation	20.3	-10.9	6.7	12.3	0.4	3.1	4.9
Exports of goods and services	16.5	8.3	9.3	7.1	7.2	6.6	6.7
Imports of goods and services	23.9	1.2	8.4	8.8	5.9	6.2	6.3
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2020) (%)							
Private final consumption expenditure[2]	9.6	13.0	6.2	3.7	3.8	4.8	5.1
General Government final consumption expenditure	-0.2	3.8	9.2	6.6	4.6	5.8	3.9
Gross fixed capital formation	14.4	-15.9	3.6	10.8	-0.9	1.2	2.8
Exports of goods and services	11.7	4.9	6.2	4.7	4.5	3.9	4.0
Imports of goods and services	19.0	-2.2	5.3	6.2	3.5	3.7	3.9
Inflation rate (%)	6.1	5.6	2.4	2.4	2.2	2.1	2.2
Employment growth (Full-Time Equivalents) (%)	5.2	7.4	5.3	4.0	3.8	3.8	3.9
Unemployment rate (Harmonised definition, Eurostat) (%)	3.5	3.5	3.0	2.8	2.8	3.2	3.1
Compensation per employee (% change)	6.8	2.4	7.0	6.9	4.6	4.2	4.0
Labour productivity (% change)	-2.4	3.6	1.7	0.0	0.4	0.4	0.5
Nominal Unit Labour Cost (% change)	9.5	-1.1	5.2	6.9	4.2	3.8	3.5
Real Unit Labour Costs (% change)	4.2	-5.9	1.9	4.1	1.4	1.1	0.8

[1] Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

[2] Includes NPISH final consumption expenditure.

2.2.2 Employment Prospects

The labour market demonstrated considerable strength in 2025, with the unemployment rate averaging 3.0 per cent through September. This stability, coupled with broad-based employment growth, signals economic expansion and resilience. Employment growth during the first half was particularly strong in the Information and communication sector (12.6 per cent), the Real estate sector (8.4 per cent), and the Arts and recreation sector (7.7 per cent). Labour demand remains strong, with job vacancies reaching an all-time high of 9,158 in the second quarter, indicating scope for further expansion.

Labour market conditions are expected to remain favourable over the short-term with employment growth (of full-time equivalents) projected to reach 4.0 per cent and 3.8 per cent in 2025 and 2026, respectively, while the unemployment rate is expected to fall to 2.8 per cent in both 2025 and 2026.

In the medium-term, employment growth is expected to increase by 3.8 per cent in 2027 and 3.9 per cent in 2028, whilst the unemployment rate is expected to increase to 3.2 per cent in 2027, following a marginal decrease to 3.1 per cent in 2028.

2.2.3 Inflation

Inflation in Malta averaged 2.4 per cent during the first three quarters of 2025, with October recording a Harmonised Index of Consumer Prices (HICP) rate of 2.5 per cent and a twelve-month moving average of 2.3 per cent in September. Price pressures were primarily driven by services and food. Non-energy industrial goods and air transport also contributed to upward price movements, while communication services saw price declines. Despite strong tourism, package holidays and accommodation remained slightly below Euro Area inflation levels, and housing service prices grew moderately.

Looking ahead, both headline and core inflation are expected to stabilise, reaching 2.4 per cent in 2025 and 2.2 per cent in 2026, with core inflation following a similar path. Services inflation is projected to increase to 3.1 per cent in 2025 and 2.9 per cent in 2026, while food inflation is forecasted to slow down. Continued euro appreciation against non-euro trading partners is expected to dampen imported inflation. Overall, expected inflation normalisation over the short-term reflects easing geopolitical risks and moderating demand conditions.

In the outer years, HICP inflation is projected to stabilise at 2.1 per cent in 2027 and 2.2 per cent in 2028. Core inflation is expected to remain steady at 2.1 per cent over both years. Food and services are anticipated to be the main drivers of inflation during this period.

2.2.4 Sectoral Balances

Appendix Table 1.d provides an overview of the projections of the goods and services balance. Current account projections will not be produced as part of this forecast round due to substantial revisions in the Balance of Payments.

2.3 Comparison to Commission's Latest Forecast

According to the European Commission (EC), Malta's GDP is projected to grow by 4.0 per cent in 2025, 3.8 per cent in 2026, and 3.5 per cent in 2027, falling below the MFIN forecasts. The EC's growth trajectory, while moderating over the forecast horizon due to capacity constraints and labour market tightness, positions Malta to record the highest GDP growth among all EU Member States in 2026 and 2027. Both the EC and MFIN identify domestic demand to remain the main driver of growth. However, the EC adopts a more conservative stance on employment dynamics, projecting growth of 3.7 per cent in 2025 and 2.9 per cent in both 2026 and 2027, reflecting the EC's emphasis on tighter immigration policies and persistent structural labour shortages that may constrain workforce expansion despite continued demand. In terms of inflation, both forecasts align closely, with the EC expecting deceleration from 2.4 per cent in 2025 to 2.0 per cent by 2027, underpinned by Government energy subsidies that effectively shield consumers from price volatility.

2.4 Potential Output and the Output Gap

The estimations of potential output and output gap are based on the commonly agreed Production Function approach. Any disparities between the estimates from the EC and MFIN can be attributed to differences in macroeconomic projections.[2]

Chart 2.1
Potential Output Growth and Output Gap Estimates

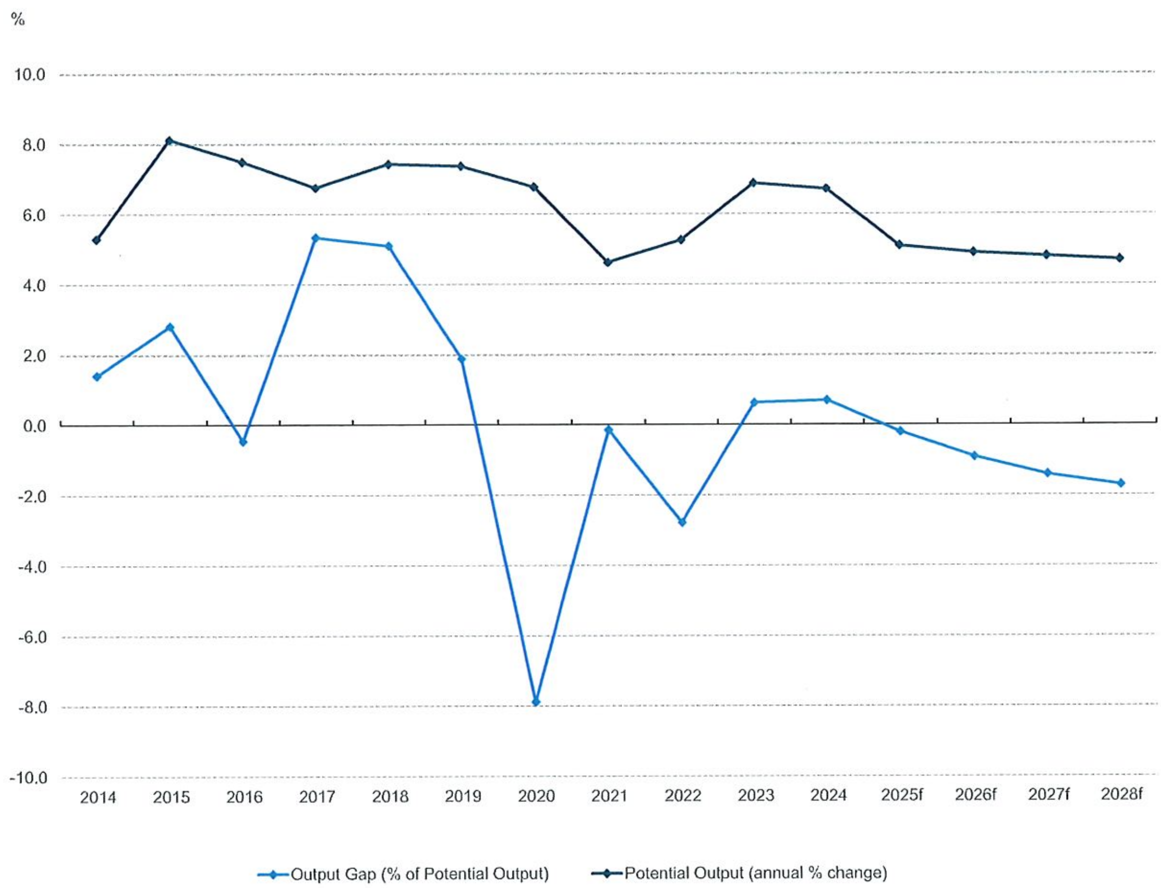


Chart 2.1 shows historic potential output growth and output gap developments, including projections for 2025 and 2026. Potential output growth is expected to moderate from 6.7 per cent in 2024 to 5.1 per cent in 2025 and 4.9 per cent in 2026. With actual growth projected to fall below potential, the output gap will turn negative in the short-term, estimated at -0.2 and -0.9 per cent of potential GDP in 2025 and 2026, respectively. This indicates room to utilise additional labour and capital without triggering cyclical inflationary pressures.

Over the medium-term, potential growth is forecast to reach 4.8 per cent in 2027 and 4.7 per cent in 2028. The output gap is expected to widen, reaching -1.4 per cent and -1.7 per cent of potential output in 2027 and 2028, respectively.

2.5 Sensitivity Analysis

The macroeconomic forecast is the economic foundation of the Government's fiscal policy targets presented in this Plan. In this context, the macroeconomic forecasts strive to achieve forecast accuracy, while maintaining a prudent approach. This is complemented by the assessment of past forecasting performance and a rigorous and scientific quantification of macroeconomic risk, based on research carried out by the Economic Policy Department (EPD) within the MFIN. This section offers an evaluation of forecast uncertainty and the associated risks surrounding the macroeconomic projections in this Plan.

2.5.1 Accuracy of Past Forecasting Performance

The revised analysis reaffirms that macroeconomic forecasts have generally underestimated GDP growth, indicating a downward bias in past GDP growth projections. However, this pattern is largely driven by statistical revisions in the national accounts, which have predominantly been on the upside in terms of both level and annual changes. The recent benchmark revision in national accounts may also influence the interpretation of forecast errors by altering the underlying data used for earlier projections. Owing to the adoption of a prudent approach in forecasting, real GDP growth tends to be underestimated.

Excluding recession periods, the one-year ahead forecasts show a root mean squared error (RMSE) of 5.6. However, this assessment is based on a relatively small sample, with the earliest forecast dating back to 2013. The limited sample size, along with the statistical revisions, exerts a considerable influence on the results and constrains meaningful comparisons with the forecast accuracy of other economies.

The evaluation of risk and uncertainty of the current macroeconomic projections underlying this Plan is based on both an ex-ante analysis of past forecast errors, which determines the level of uncertainty, and an ex-post assessment of the balance of risks, based on a number of alternative but plausible economic scenarios generated with the forecasting model used by the EPD.

2.5.2 The Balance of Risks

A prudent approach is taken to balance different risks on the upside and downside, which could have an impact on the macroeconomic forecast. Nine alternative model-based growth scenarios were performed. These scenarios are summarised as follows:

1. Improved economic conditions in Malta's main trading partners, potentially emanating from increased military spending.
2. Weaker economic activity in Malta's main trading partners, reflecting lower productivity and competitiveness in Europe.
3. Higher interest rates capturing a situation where strong economic activity in the Eurozone forces the European Central Bank (ECB) to tighten monetary policy to keep inflation close to target.
4. Lower interest rates reflecting a scenario where slow economic growth prompts the ECB to ease monetary policy to boost aggregate demand.
5. Stronger domestic household consumption of 6.0 per cent in 2025, sustaining the strong momentum of recent years.
6. Weaker domestic household consumption of 2.0 per cent in 2025, in line with how domestic consumption has evolved over the first half of the year.
7. Higher Euro/Dollar and Euro/Sterling exchange rates were implemented to capture effects on Malta's external demand.
8. Pronounced external Euro Area uncertainty scenario projects exports in 2025 to be lower, with growth falling to 3.0 per cent to capture a scenario where exports of tourism, gaming and electrical and machinery turn out lower than anticipated.
9. Lower investment to model a scenario where investment is lower than what was anticipated in the baseline scenario.

These scenarios serve as plausible alternatives to the baseline projections. Although economic judgment plays a role in selecting these scenarios, it is grounded in continuous monitoring of current economic conditions and is reinforced through regular consultations with stakeholders and regulators within the Maltese economy.

Among the alternative forecast projections, more detailed explanations are provided for the scenarios related to growth and interest rates.

2.5.2.1 Improved Global Economic Growth

This scenario models the risk that economic growth in Malta's main trading partners, namely Germany, France, Italy, the United Kingdom and the US, turns out higher than anticipated in the baseline. Global economic growth, weighted by main trading partners, is increased to 1.2 per cent in 2025 and 2.0 per cent in 2026. These figures are based on the most optimistic projections provided by the Consensus Forecasts of September 2025.

The effect of stronger economic growth in Malta's main trading partners results in real economic growth of 4.3 per cent and 4.4 per cent in 2025 and 2026, respectively. In this optimistic scenario, the budget deficit would be unchanged in 2025, and 0.5 percentage points lower in 2026.

In 2027-2028, world GDP growth was increased by 0.6 percentage points in each year, resulting in a real economic growth of 4.5 per cent and 4.4 per cent for 2027 and 2028 respectively. In this scenario, the budget balance remained unchanged in 2025 and improved by 0.1 percentage points in each year from 2026 to 2028.

2.5.2.2 Weaker Global Economic Growth

Within this scenario, the growth outlook for Malta's main trading partners is downgraded when compared to the baseline. In this scenario, global GDP weighted by main trading partners was reduced to 0.6 per cent and 0.8 per cent in 2025 and 2026, respectively, whilst in the outer years, global growth was revised to 1.0 per cent. These figures are based on the most pessimistic projections provided by the Consensus Forecasts of September 2025.

Under the downside scenario, Malta's real GDP growth is projected at 4.0 per cent in 2025, 3.4 per cent in 2026, 4.0 per cent in 2027, and 3.8 per cent in 2028. The budget balance would remain unchanged in 2025 but would deteriorate by 0.1 percentage points in 2026 and by 0.2 percentage points in both 2027 and 2028.

2.5.2.3 Interest Rate Scenario

While the baseline macroeconomic projections assume stable policy rates in line with the ECB baseline, the evolving distribution of risks around Euro Area inflation and growth justifies the assessment of the impact of both upside and downside interest rate shocks.

The upside scenario reflects a situation where stronger-than-expected activity prompts the ECB to tighten monetary policy moderately in response to higher inflation. It assumes a 100-basis point increase in the short-term interest rate, characterised by a high passthrough, with approximately half of the effect materialising in 2025 and the remainder being phased in gradually over subsequent quarters. The long-term rate rises by 0.5 percentage points in total (a 50.0 per cent pass-through), following a similarly gradual adjustment, consistent with Malta's historically weak transmission.

Conversely, the lower interest rate scenario captures the risk of a renewed slowdown or disinflationary pressures leading to a 50-basis point policy easing, assuming a high pass-through to the short-term rate and a modest one to the long-term rate, with the impact fading over the course of 2026 as the shock is assumed to be temporary.

The impact of these scenarios on real GDP growth is marginal. The upside scenario results in a 0.1 percentage point decline in real GDP in 2025, while GDP remains broadly unchanged in 2026. The downside scenario leads to no effective change in 2025 and a 0.1 percentage point increase in 2026. The budget balance remained largely unaffected in both years and in both scenarios. It is important to note that, given the exogenous treatment of exchange rates in the forecasting model, higher interest rates are assumed not to alter the exchange rate assumption.

Interest rate assumptions for 2027-2028 remain consistent across both scenarios. Short-term rates are projected to stabilize at 1.9 per cent, while long-term rates are expected to stabilize at 3.3 per cent. Under these assumptions, both real GDP growth and the budget balance in 2027 and 2028 remain unchanged from the baseline projections.

2.5.3 Alternative Models Forecasts

The EPD developed six alternative forecasting models, which encompass model-free statistical forecasts (one Holt-Winters statistical forecast), model-based univariate forecasts (two ARIMA models), and model-based multivariate forecasts (three VAR models, with exogenous and supply-side variables). Although these models do not capture the full interplay of variables and detailed assumptions embedded in the macro-econometric framework, they serve as useful benchmarks based on historical patterns and remain broadly aligned with MFIN's central forecast.

For 2025, the combined average of all forecasting models points to a real GDP growth rate of 3.4 per cent, while the subset of VAR models suggests a slightly higher rate of 3.7 per cent, both below the estimate from the main macro-econometric model. A closer look indicates that when external factors are incorporated, the outlook becomes more optimistic. For 2026, an average across the six models projects growth at 3.7 per cent, with the VAR models estimating an average growth of 4.3 per cent. Notably, the Holt-Winters Additive Seasonal model forecasts an even stronger expansion of 4.5 per cent.

In the medium-term, the average of all six models projects real GDP growth of 3.7 per cent in both 2027 and 2028. The VAR models, which incorporate external assumptions, yield more optimistic projections of 4.7 per cent in 2027 and 4.8 per cent in 2028.

2.5.4 Uncertainty and the Balance of Risks Underlying the Macroeconomic Projections

Uncertainty in the macroeconomic outlook is evaluated using the historical variance of GDP forecast errors. The sensitivity scenarios documented in section 2.5.2 are used to evaluate the balance of risks (Chart 2.2). For the Autumn forecast, the estimated standard deviation of past errors is 3.6 for 2025 and 5.4 for 2026.

Overall, risks are tilted to the downside in 2025, while the balance of risk is balanced for 2026. The largest negative deviation in 2025 is observed under the external Euro Area uncertainty scenario, which models a rather pronounced deterioration in export demand for key services industries. The downside consumption shocks followed by the lower investment scenario also weigh down on growth prospects, while stronger consumption represents the strongest upside potential in 2025. The balance of risks is forecast to remain broadly balanced through 2027 and 2028.

2.5.5 Risks to Fiscal Targets

The alternative macroeconomic scenarios documented above can influence the attainment of the general Government fiscal targets, thus underpinning alternative fiscal conditions. Chart 2.3 illustrates the range of possible budget balance outcomes

Chart 2.2
Fan Chart with GDP Growth Forecasts

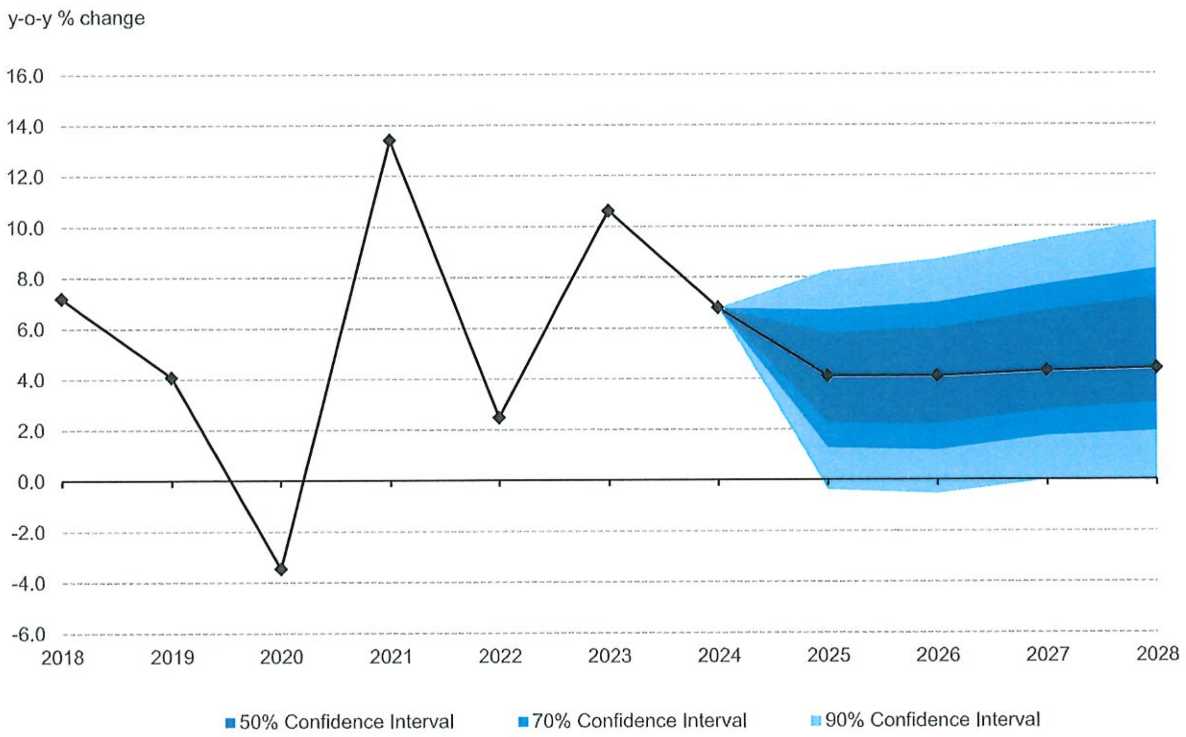
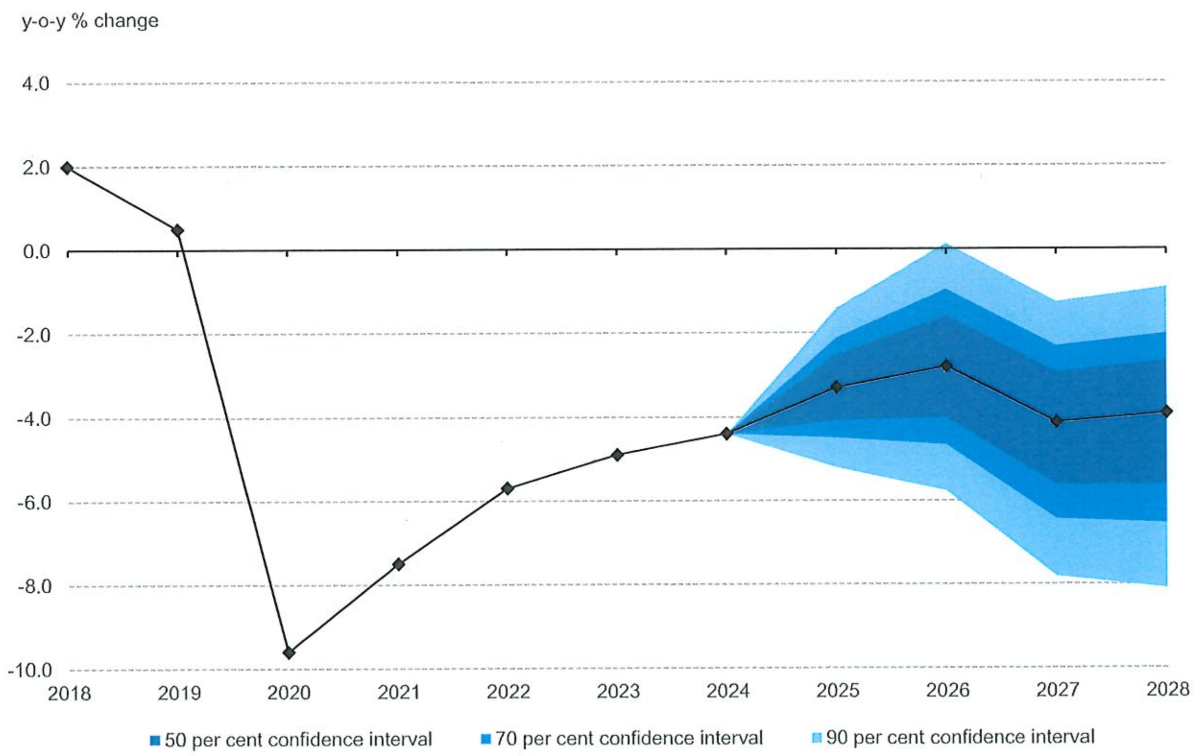


Chart 2.3
Fan Chart with Budgetary Targets

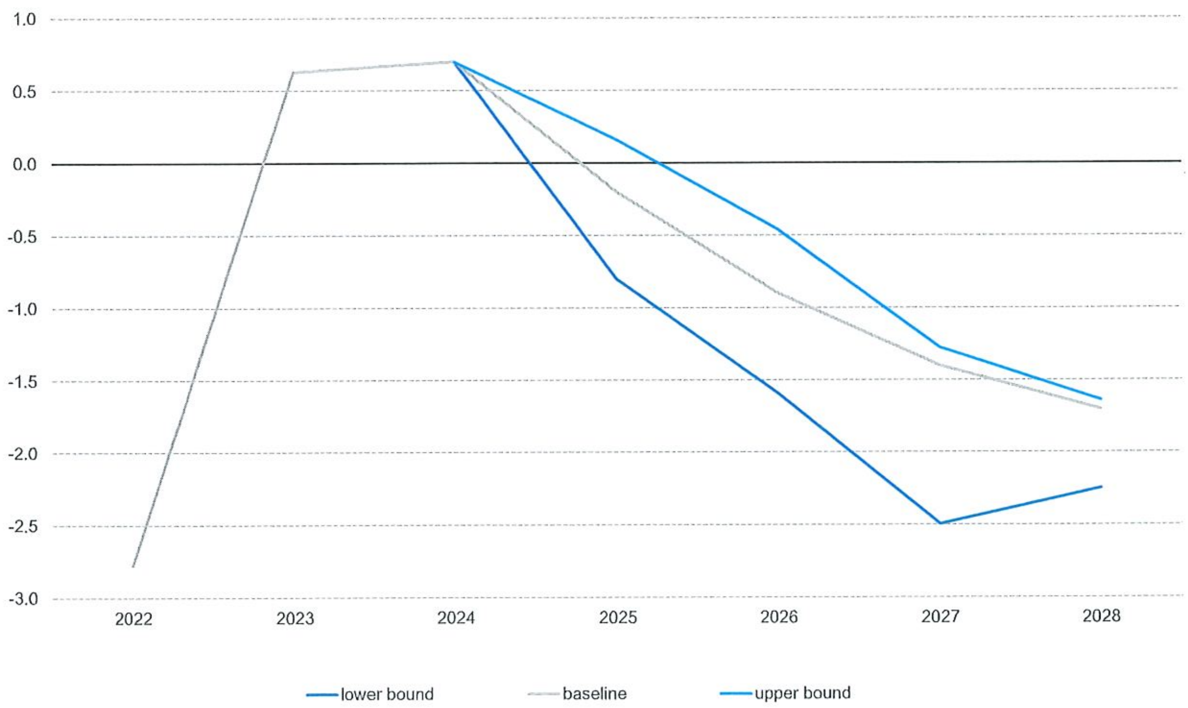


conditional upon the realisation of these alternative scenarios. The evaluation of fiscal risk conditional on macroeconomic risks also incorporates the variance resulting from the past forecast error of fiscal projections, based on a methodology similar to that used for deriving the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic fan chart. The budget balance risk is skewed towards the upside in 2024 and is broadly balanced over the outer years.

2.5.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

The sensitivity scenarios outlined in section 2.5.2 are also evaluated for their impact on output gap projections, which in turn influence the structural commitments set out in this Plan. As shown in Chart 2.4, output gap estimates range between -0.8 per cent and 0.2 per cent of potential output for 2025 and between -1.6 per cent and -0.5 per cent for 2026. Overall, risks are skewed to the downside. In the outer years, the output gap widens. Under the lower bound, the gap reaches -2.5 per cent and -2.2 per cent in 2027 and 2028, respectively. Conversely, under the upper bound, the output gap is estimated at -1.3 per cent and -1.6 per cent in 2027 and 2028, respectively.

Chart 2.4
Output Gap Risk Assessment



Footnotes

[1] The cut-off date for the macroeconomic forecasts is 1 October 2024.

[2] The estimation of potential output and output gap are based on the macroeconomic projections underlying Malta's Medium-Term Fiscal Structural Plan: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#malta

Appendix Table 0.i
Macroeconomic forecasts (Basic assumptions)

	Data Source	2024	2025p	2026p	2027p	2028p
Short-term interest rate (annual average)	ECB	4.1	2.2	1.8	1.9	1.9
Long-term interest rate (annual average)	ECB	3.4	3.4	3.5	3.3	3.3
USD/€ exchange rate (annual average)	ECB + Consensus Economics (September 2025)	1.100	1.100	1.191	1.1840	1.1840
STG/€ exchange rate (annual average)	ECB + Consensus Economics (September 2025)	0.8	0.9	0.9	0.9	0.9
Real GDP Growth of main trading partners	Eurostat + Consensus Economics (September 2025)	0.8	0.8	1.4	1.6	1.6
Nominal GDP Growth of main trading partners	Eurostat + Consensus Economics (September 2025)	3.6	3.5	3.7	3.9	3.8
Oil prices (Brent, USD/barrel)	US Energy Information Administration (EIA) + Consensus Economics (September 2025)	80.5	69.0	66.1	66.1	66.1

Appendix Table 1.a
Macroeconomic forecasts (Macroeconomic prospects)

	ESA Code	€ million	rate of change				
		2024	2024	2025p	2026p	2027p	2028p
1. Real GDP[1]	B1*g	19,721.8	6.8	4.1	4.1	4.3	4.4
2. Potential GDP		19583.4	6.7	5.1	4.9	4.8	4.7
3. Nominal GDP	B1*g	23,071.0	10.3	6.9	7.0	7.1	7.1
Components of real GDP							
4. Private final consumption expenditure[2]	P.3	8,953.1	6.2	3.7	3.8	4.8	5.1
5. Government final consumption expenditure	P.3	3,382.9	9.2	6.6	4.6	5.8	3.9
6. Gross fixed capital formation	P.51	3,532.8	3.6	10.8	-0.9	1.2	2.8
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	101.615553	0.5	0.0	0.0	0.0	0.0
8. Exports of goods and services	P.6	24,267.1	6.2	4.7	4.5	3.9	4.0
9. Imports of goods and services	P.7	20,465.5	5.3	6.2	3.5	3.7	3.9
Contributions to real GDP growth							
10. Final domestic demand		15,868.8	5.0	4.8	2.4	3.4	3.5
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	101.6	-0.2	0.0	0.0	0.0	0.0
12. External demand	B.11	3,801.6	2.1	-0.7	1.8	0.9	0.9

[1] Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

[2] Includes NPISH final consumption expenditure.

Appendix Table 1.b
Macroeconomic forecasts (Price developments)

	Index(1)	rate of change				
	2024	2024	2025p	2026p	2027p	2028p
1. GDP deflator	129.8	3.3	2.8	2.8	2.6	2.7
2. Private consumption deflator	123.7	3.1	2.6	2.5	2.4	2.4
3. HICP	122.9	2.4	2.4	2.2	2.1	2.2
4. Public consumption deflator	179.0	4.1	5.6	3.7	2.4	2.6
5. Investment deflator	0.1	3.0	1.3	1.3	1.9	2.1
6. Export price deflator (goods and services)	119.8	3.0	2.3	2.6	2.7	2.6
7. Import price deflator (goods and services)	116.3	2.9	2.5	2.3	2.3	2.3

(1) Index (base 2015)

Appendix Table 1.c
Macroeconomic forecasts (Labour market developments)

	ESA Code	€000s	rate of change				
		2024	2024	2025p	2026p	2027p	2028p
1. Employment, Full-Time Equivalents[1]		325.5	5.3	4.0	3.8	3.8	3.9
2. Employment, hours worked[2]		592,966.5	3.5	4.0	3.8	3.8	3.9
3. Unemployment rate (%)[3]		3.1	3.0	2.8	2.8	3.2	3.1
4. Labour productivity, persons[4]		60.6	1.7	0.0	0.4	0.4	0.5
5. Labour productivity, hours worked [5]			1.7	0	0.4	0.4	0.5
6. Compensation of employees	D.1	9,685.3	12.6	11.2	8.5	8.2	8.0
7. Compensation per employee		29.8	7.0	6.9	4.6	4.2	4.0

[1] Levels expressed in headcount employment (National Accounts Definition).
[2] Forecasts based on FTEs, assuming no change in hours worked.
[3] Harmonised definition, Eurostat; levels.
[4] Real GDP per person employed (Based on FTEs).
[5] Real GDP per hour worked (Based on FTEs).

Appendix Table 1.d
Macroeconomic forecasts (Sectoral balances)

% GDP

Percentages of GDP	ESA Code	2024	2025p	2026p	2027p	2028p
1. Net lending/ borrowing		8.6	-	-	-	-
vis-à-vis the rest of the world	B.9					
of which:						
Balance on goods and services		18.6	-	-	-	-
Balance of primary incomes and transfers		-11.5	-	-	-	-
Capital account		1.5	-	-	-	-
2. Net lending/ borrowing of the private sector	B.9	11.5	-	-	-	-
3. Net lending/ borrowing of general Government	EDP B.9	-3.5	-	-	-	-
4. Statistical discrepancy		0.7	-	-	-	-
Current Account		0.0	-	-	-	-

3. General Government Budgetary Development

3. General Government Budgetary Developments

Malta's economy has continued to demonstrate resilience in the face of external economic challenges. This resilience supported a gradual reduction in the deficit from 8.7 per cent of Gross Domestic Product (GDP) in 2020 to 3.5 per cent in 2024. The general Government debt-to-GDP ratio declined further to 46.2 per cent in 2024, remaining well below the 60.0 per cent Treaty reference value. In 2025, the deficit is expected to fall further to 3.3 per cent of GDP on the back of an improvement in the structural budget balance. The information presented in this Chapter is based on data available up to 10th October 2025.

The Government is dedicated to address the current fiscal deficit, safeguard fiscal sustainability, and build a robust, future-proof economy. To this end, this Medium-Term Fiscal Strategy (MTFS) represents a commitment to reduce the deficit below the 3.0 per cent threshold in 2026 and to maintain the debt burden well below the Treaty reference value.

The Government's policy priorities in the 2026 Budget will focus on addressing demographic challenges, strengthening family wellbeing, and supporting labour market participation. Planned measures include continued targeted support for working families and businesses, enhancements to the COLA mechanism, and the implementation of the Social Plan for the Family 2025–2030, aimed at enhancing financial stability and supporting family formation. Pension reforms and investments in active ageing will also remain central to ensuring intergenerational stability and wellbeing. Environmental priorities will continue to guide fiscal policy, with investments in renewable energy schemes and incentives for the uptake of electric vehicles, contributing to both climate objectives and household cost containment. Collectively, these initiatives support the Government's vision of a sustainable, inclusive, and forward-looking economy.

Table 1b
Main variables

% GDP

	2024	2025	2026	2027	2028
1. Net lending/borrowing	-3.5	-3.3	-2.8	-2.4	-2.0
2. Structural balance	-3.9	-3.2	-2.4	-1.8	-1.2
3. Structural primary balance	-2.7	-2.0	-1.1	-0.5	0.1
4. Gross debt	46.2	47.1	47.3	47.0	46.4
5. Change in gross debt	-0.8	0.9	0.2	-0.3	-0.7

Table 4
Budgetary projections

	ESA Code	2024 (Levels)	2024	2025	2026	2027	2028
Revenue		€ millions	% GDP	% GDP	% GDP	% GDP	% GDP
1. Taxes on production and imports	D.2	2,113.3	9.2	9.4	9.3	9.3	9.2
2. Current taxes on income, wealth, etc	D.5	3,420.0	14.8	14.1	13.9	13.9	13.6
3. Social contributions	D.61	1,172.0	5.1	5.1	5.2	5.2	5.2
4. Other current revenue	(P.11+P.12+P.131) + D.39 + D.4 + D.7	893.9	3.9	3.7	3.0	2.9	2.8
5. Capital taxes	D.91	37.5	0.2	0.1	0.1	0.1	0.1
6. Other capital revenue	D.92+D.99	196.9	0.9	1.2	1.2	1.5	1.4
7. Total revenue (= 1+2+3+4+5+6)	TR	7,833.6	34.0	33.6	32.8	32.9	32.3
8. Of which: Transfers from the EU (accrued revenue, not cash)	D.7EU+D.9EU	153.4	0.7	1.0	1.1	1.4	1.3
9. Total revenue other than transfers from the EU (= 7-8)		7,680.2	33.3	32.6	31.7	31.5	31.0
10. p.m. Revenue measures (increments, excluding EU funded measures)		66.6	0.3	-0.9	-0.5	-0.1	-0.2
10b. p.m. Revenue reductions funded by transfers from the EU (levels)		0.0	0.0	0.0	0.0	0.0	0.0
11. p.m. One-off revenue included in the projections (levels, excluding EU funded measures)		6.9	0.0	0.0	0.0	0.0	0.0
Expenditure		€ millions	% GDP	% GDP	% GDP	% GDP	% GDP
12. Compensation of employees	D.1	2,232.1	9.7	9.9	10.0	10.1	10.0
13. Intermediate consumption	P.2	1,714.2	7.4	8.1	7.8	7.8	7.6
14. Interest expenditure	D.41	268.8	1.2	1.2	1.3	1.3	1.3
15. Social benefits other than social transfers in kind	D.62	1,619.8	7.0	6.9	6.9	6.9	6.7
16. Social transfers in kind via market producers	D.632	210.9	0.9	1.0	0.9	0.9	0.8
17. Subsidies	D.3	514.0	2.2	2.2	1.9	1.8	1.7
18. Other current expenditure	D.29 + (D.4-D.41) + D.5 + D.7 + D.8	643.6	2.8	2.7	2.7	2.7	2.6
19. Gross fixed capital formation	P.51	740.1	3.2	4.3	3.5	3.5	3.2
20. Of which: Nationally financed public investment		694.3	3.0	3.2	3.3	2.9	2.6
21. Capital transfers	D.9	685.1	3.0	0.8	0.7	0.6	0.6
22. Other capital expenditure	P.52+P.53+NP	19.3	0.1	-0.1	-0.1	-0.1	-0.1
23. Total expenditure (= 12+13+14+15+16+17+18+19+21+22)	TE	8,647.9	37.5	37.0	35.6	35.3	34.4
24. Of which: Expenditure funded by transfers from the EU (= 8-10b)		153.4	0.7	1.0	1.1	1.4	1.3
25. Nationally financed expenditure (23-24)		8,494.5	36.8	35.9	34.5	34.0	33.1
26. p.m. National co-financing of programmes funded by the Union		33.8	0.1	0.4	0.5	0.6	0.5
27. p.m. Cyclical component of unemployment benefits		-3.6	-0.0	-0.0	-0.0	0.0	0.0
28. p.m. One-off expenditure included in the projections (levels, excluding EU funded measures)		0.0	0.0	0.0	0.0	0.0	0.0
29. Net nationally financed primary expenditure (before revenue measures) (= 25-26-27-28-14)		8,195.4	35.5	34.3	32.8	32.1	31.3
Net nationally financed primary expenditure				growth rate	growth rate	growth rate	growth rate
30. Net nationally financed primary expenditure growth				5.8	3.9	5.6	5.2
Balances		€ millions	% GDP	% GDP	% GDP	% GDP	% GDP
31. Net lending/borrowing (= 7-23)	B.9	-814.2	-3.5	-3.3	-2.8	-2.4	-2.0
Net lending/borrowing by subsector							
31a. Central government	B.9 (S.1311)	-810.8	-3.5	-3.3	-2.8	-2.4	-2.0
31b. State government	B.9 (S.1312)	0.0	0.0	0.0	0.0	0.0	0.0
31c. Local government	B.9 (S.1313)	-3.5	-0.0	-0.0	-0.0	0.0	0.0
31d. Social security fund	B.9 (S.1314)	0.0	0.0	0.0	0.0	0.0	0.0
32. Primary balance (= 31+14)	B.9+D.41p	-545.4	-2.4	-2.1	-1.6	-1.1	-0.8
Cyclical adjustment			% GDP	% GDP	% GDP	% GDP	% GDP
33. Structural balance			-3.9	-3.2	-2.4	-1.8	-1.2
34. Structural primary balance			-2.7	-2.0	-1.1	-0.5	0.1
Debt		€ millions	% GDP	% GDP	% GDP	% GDP	% GDP
35. Gross debt		10,652.7	46.2	47.1	47.3	47.0	46.4
36. Change in gross debt		822.1	-0.8	0.9	0.2	-0.3	-0.7
37. Contributions to changes in gross debt							
38. Primary balance (= minus 32)			2.4	2.1	1.6	1.1	0.8
39. Snowball effect			-3.2	-1.8	-1.8	-1.9	-1.8
40. Interest expenditure (= 14)			1.2	1.2	1.3	1.3	1.3
41. Growth			-3.0	-1.8	-1.9	-1.9	-2.0
42. Inflation			-1.4	-1.2	-1.2	-1.2	-1.1
43. Stock-flow adjustment (= 36-38-39)			0.0	0.6	0.4	0.4	0.4
			%	%	%	%	%
44. p.m. Implicit interest rate on debt (= 14 / DEBT(t-1))			2.7	2.9	2.9	2.9	2.9
Defence expenditure		€ millions	% GDP	% GDP	% GDP	% GDP	% GDP
45. Total defence expenditure	COFOG 2	105.9	0.5				
46. Of which: Defence investment	COFOG 2, P.51g	20.6	0.1				

3.1 Budgetary Projections for 2025

The general Government deficit is projected to reach 3.3 per cent of GDP in 2025, in line with the projections presented in the Annual Progress Report (APR) and 0.2 percentage points of GDP below the target set in last year's Draft Budgetary Plan (DBP). The structural balance is expected to improve by 0.7 percentage points to 3.2 per cent. Table 1b outlines the main fiscal variables, providing a comprehensive overview of the key budgetary components.

The general Government debt-to-GDP ratio is expected to increase from 46.2 per cent at the end of 2024 to 47.1 per cent by the end of 2025. The increase mainly reflects the expansionary contribution of the stock flow adjustment (SFA), in part offset by an improvement in the primary balance. The debt ratio is projected to increase further by 0.2 percentage points in 2026, reaching 47.3 per cent. Developments in the gross Government debt and the contributors to developments in the debt-to-GDP ratio are presented in Table 4.

3.1.1 Updated Budgetary Plans for 2025

The general Government balance for 2025 has been revised upwards by €32.2 million, compared to the estimated deficit of €787.8 million presented in the 2025 APR. Table 3.1 shows that total revenue is now projected at €8,300.5 million, up from €7,902.6 million in the 2025 APR, while total expenditure is estimated at €9,120.5 million, compared to €8,690.4 million previously projected.

The upward revision in revenue, amounting to €397.9 million, mainly reflects stronger-than-expected performance in 'other' revenue, current taxes on income and wealth, supported by more robust wage and corporate profits growth, and taxes on production and imports. This improvement is partially offset by lower revenue from property income.

Expenditure is projected to exceed previous estimates by €430.1 million. Around one-third (or €150.7 million) of this increase is primarily due to higher outlays on gross fixed capital formation (GFCF). The increase in GFCF is partly attributable to higher capital outlays on projects financed by both local and European Union (EU) funds. Capital transfers were also revised by €64.0 million. Other notable revisions were affected to intermediate consumption (+€69.3 million) reflecting the stronger impact of inflationary pressures and wage growth, whilst compensation of employees was revised upwards by €61.6 million to reflect a stronger than anticipated cost of wage bargaining in the public sector. These increases are partly offset by lower interest expenditure and reduced subsidies, following the stabilisation of energy prices at lower levels. Meanwhile, expenditure on social payments remained close to the previous projections.

As outlined in Table 1a, net primary expenditure is now expected to increase by 5.0 per cent in 2025, 1.0 percentage point lower than the annual target of 6.0 per cent demanded by the European Council. Nevertheless, the cumulative growth of expenditure over 2024 and 2025 will exceed the recommendation of the Council of 13.8 per cent.

Table 3.1
General Government Budgetary Execution and Prospects

€ millions

	ESA Code	2025			2026
		DBP 2025	APR 2025	DBP 2026	DBP 2026
Net lending (+)/net borrowing (-)					
1. **General Government**	S.13	**-950.8**	**-787.8**	**-820.0**	**-751.0**
2. Central Government	S.1311	-949.6	-786.5	-818.8	-749.8
3. State Government	S.1312	-	-	-	-
4. Local Government	S.1313	-1.2	-1.2	-1.2	-1.2
5. Social Security funds	S.1314	-	-	-	-
For the General Government					
6. **Total Revenue**	TR	**7,323.2**	**7,902.6**	**8,300.5**	**8,659.6**
Of which					
Taxes on Production and Imports	D.2	2,189.0	2,195.4	2,323.1	2,465.2
Current Taxes on Income, Wealth, etc.	D.5	2,793.4	3,342.9	3,481.6	3,657.9
Capital Taxes	D.91	32.2	36.5	36.9	39.4
Social Contributions	D.61	1,129.2	1,242.6	1,251.6	1,373.9
Property Income	D.4	56.8	98.9	63.8	59.8
Other [(a)]		1,122.5	986.2	1,143.3	1,063.6
7. **Total Expenditure**	TE	**8,273.9**	**8,690.4**	**9,120.5**	**9,410.6**
Of which					
Compensation of employees	D.1	2,259.3	2,375.4	2,437.1	2,649.3
Intermediate Consumption	P.2	1,647.3	1,933.2	2,002.6	2,066.4
Social Payments	D.6	1,794.8	1,928.8	1,933.2	2,074.7
Interest Expenditure	D.41	270.0	317.2	300.7	340.0
Subsidies	D.3	589.2	545.7	536.0	493.3
Gross Fixed Capital Formation	P.51	903.5	902.8	1,053.6	915.9
Capital Transfers	D.9	230.9	140.6	204.6	177.1
Other [(b)]		579.0	546.6	652.7	693.8
8. **Gross Debt** [(c)]		**11,927.0**	**11,608.4**	**11,625.2**	**12,495.3**

Notes:

[(a)] P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).
[(b)] D.29 + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.
[(c)] As defined in Council Regulation (EC) No 479/2009 (OJ L 145, 10.6.2009, p. 1).

Table 1a
Fiscal commitments

annual growth rate

	2024	2025	2026	2027	2028
1a. Net nationally financed primary expenditure (target)		6.0	5.8	5.8	6.1
1b. Net nationally financed primary expenditure (actual)		5.8	3.9	5.6	5.2

3.2 Budgetary plans for 2026

In line with macroeconomic developments, the general Government deficit is projected to narrow from 3.3 per cent in 2025 to 2.8 per cent in 2026. In structural terms, the general Government deficit is expected to decline from 3.2 per cent in 2025 to 2.4 per cent in 2026.

The Government remains committed to the fiscal consolidation path set out in the Medium-Term Fiscal Structural Plan (MTFSP), which set out the minimum adjustment required to ensure debt sustainability under the new EU economic governance framework, while also defining the reform and investment priorities for 2025-2028. The nationally financed net primary expenditure is projected to grow by 4.5 per cent, below the growth limit of 5.8 per cent set by the European Council. The general Government budgetary projections are outlined in Table 4.

Both revenue and expenditure ratios are expected to decline in 2026. The revenue-to-GDP ratio is projected to fall from 33.6 per cent in 2025 to 32.8 per cent in 2026, reflecting lower 'other' current revenue, which is expected to decline by 0.7 percentage points to 3.0 per cent in 2026, mainly due to lower market output and EU funds revenue. The decline in the revenue-to-GDP ratio also reflects the fiscal impact of tax-reducing measures and prudent forecast assumptions.

The expenditure-to-GDP ratio is forecasted to decline from 37.0 per cent in 2025 to 35.6 per cent in 2026, primarily driven by lower EU-funded GFCF, lower energy-related subsidies and expenditure containment efforts.

3.2.1 Debt Projections

The general Government gross debt ratio is projected to reach 47.1 per cent in 2025, representing an increase of 1.0 percentage points compared to 2024, yet remaining well below the 60.0 per cent Maastricht Treaty reference threshold. Projected interest payments and a lower stock-flow adjustment are expected to offset part of the positive impact of nominal GDP growth. Developments in the general Government debt are presented in Table 4. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

Table 5b

Estimated impact of discretionary measures on Budget balance

% GDP

Title/description measure	One-off	Exp / Rev	Sub-sector	ESA Code	2024	2025	2026	2027	2028
The use of digital tools and data-led intelligence to enhance the efficiency and effectiveness of tax collection	No	Rev	S13	D211	0.10	-0.01	-0.01	-0.01	-0.01
Reduced tax on the transfer of immovable property payable by buyers	No	Rev	S13	D5	-0.03	0.01	-0.01	-0.01	-0.01
Revenue from Citizenship by Investment Scheme	No	Rev	S13	D5	0.29	-0.30	-0.28	0.00	0.00
Comprehensive review of Malta's tax system, including structure and rates	No	Rev	S13	D5	0.00	-0.53	-0.15	-0.13	-0.14
Reduced tax on the transfer of immovable property payable by sellers			S13	D5	-0.03	0.01	-0.01	-0.01	-0.01
Other revenue measures	No	Rev	S13		-0.03	-0.04	0.00	0.01	0.01
Energy support measures	No	Exp	S13	D319	0.51	0.01	0.13	0.05	0.04
Commodity price and supply security measures	No	Exp	S13	D319	0.03	0.03	0.02	0.00	0.00
National Airline Restructuring Assistance and early retirement schemes	No	Exp	S13	D39	0.64	-0.05	0.05	0.00	0.00
Extension of the school transport network	No	Exp	S13	D6	0.04	0.04	0.01	0.01	0.01
Extended COLA mechanism	No	Exp	S13	D6	-0.09	-0.02	0.02	0.01	0.01
Social Support Measures	No	Exp	S13	D6	0.01	-0.21	-0.11	0.00	0.00
Capital Transfer to KM Malta Airlines and Air Malta	No	Exp	S13	D9	-1.14	1.14	0.00	0.00	0.00
Other expenditure measures	No	Exp	S13		0.08	0.01	0.03	0.02	0.02
TOTAL					0.39	0.09	-0.30	-0.06	-0.07

3.2.2 Discretionary Measures

The main discretionary measures included in the 2026 MTFS are presented in Table 5b. The net incremental impact on the budget balance of temporary and permanent discretionary revenue measures, including those introduced in previous budgets with effects continuing in 2026, is estimated at -0.45 per cent of GDP. Discretionary expenditure measures, including carryover effects, are expected to improve the budget balance by 0.14 per cent of GDP. Overall, the combined effect of discretionary measures is projected to worsen the 2026 budget balance by 0.3 percentage points of GDP.

The Government will continue to support economic stability through prudent management of energy and essential commodity prices. The expected decline in international oil prices will allow a reduction in related allocations, improving the overall budget balance by an estimated 0.13 percentage points of GDP.

Social support measures will continue to focus on vulnerable households, particularly pensioners, elderly persons, persons with disabilities, and low-income families. Allocations for well-being and quality-of-life measures in 2026 are projected to increase expenditure by 0.11 percentage points of GDP.

No proceeds from the citizenship by investment scheme are expected as from 2026. Meanwhile, developments related to the national airline assistance, including retirement schemes, are expected to have a positive impact on the overall balance.

3.3 Expenditure and Revenue Targets under the No-Policy Change Assumption

When excluding the fiscal impact of discretionary revenue measures in 2026, total revenue would decline by 0.3 percentage points to 33.3 per cent of GDP. As shown in Table 5a, this mainly reflects developments in 'other current revenues', partly offset by higher revenue from current taxes on income and wealth. Under a no-policy-change assumption, total expenditure is expected to decline to 34.7 per cent of GDP, mainly reflecting a lower ratio for underlying subsidies (when excluding the energy subsidies), and GFCF.

Table 5a

Budgetary projections under unchanged policies

	ESA Code	2024 (Levels)	2024	2025	2026	2027	2028
Revenue		€ billions	% GDP	% GDP	% GDP	% GDP	% GDP
1. Taxes on production and imports	D.2	2,113.3	9.2	9.4	9.4	9.3	9.2
2. Current taxes on income, wealth, etc	D.5	3,420.0	14.8	14.1	14.3	14.4	14.1
3. Social contributions	D.61	1,172.0	5.1	5.1	5.2	5.2	5.2
4. Other current revenue	(P.11+P.12+P.131) + D.39 + D.4 + D.7	893.9	3.9	3.7	3.0	2.9	2.8
5. Capital taxes	D.91	37.5	0.2	0.1	0.1	0.1	0.1
6. Other capital revenue	D.92+D.99	196.9	0.9	1.2	1.2	1.5	1.4
7. Total revenue (= 1+2+3+4+5+6)	TR	7,833.6	34.0	33.6	33.3	33.4	32.8
Expenditure		€ billions	% GDP	% GDP	% GDP	% GDP	% GDP
8. Compensation of employees	D.1	2,232.1	9.7	9.9	10.0	10.1	10.0
9. Intermediate consumption	P.2	1,714.2	7.4	8.1	7.8	7.7	7.5
10. Interest expenditure	D.41	268.8	1.2	1.2	1.3	1.3	1.3
11. Social benefits other than social transfers in kind	D.62	1,619.8	7.0	6.9	6.8	6.7	6.6
12. Social transfers in kind via market producers	D.632	210.9	0.9	1.0	0.9	0.8	0.8
13. Subsidies	D.3	514.0	2.2	2.2	1.2	1.1	1.0
14. Other current expenditure	D.29 + (D.4-D.41) + D.5 + D.7 + D.8	643.6	2.8	2.7	2.7	2.7	2.6
15. Gross fixed capital formation	P.51	740.1	3.2	4.3	3.5	3.5	3.2
16. Of which: Nationally financed public investment		694.3	3.0	3.2	3.3	2.9	2.6
17. Capital transfers	D.9	685.1	3.0	0.8	0.7	0.6	0.6
18. Other capital expenditure	P.52+P.53+NP	19.3	0.1	-0.1	-0.1	-0.1	-0.1
19. Total expenditure (= 8+9+10+11+12+13+14+15+17+18)	TE	8,647.9	37.5	37.0	34.7	34.4	33.4
Balances		€ billions	% GDP	% GDP	% GDP	% GDP	% GDP
20. Net lending/borrowing (= 7-19)	B.9	-814.2	-3.5	-3.3	-1.4	-1.0	-0.6
21. Primary balance (= 20+10)	B.9+D.41p	-545.4	-2.4	-2.1	-0.1	0.3	0.7

Table 6
RRF grants

% GDP

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants							
1. RRF grants as included in the revenue projections		0.2	0.0	0.3	0.3	0.2	0.1
2. Cash disbursements of RRF grants from EU		0.2	0.0	0.3	0.3	0.2	0.0
Expenditure financed by RRF grants							
3. Total current expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Gross fixed capital formation	0.0	0.0	0.1	0.1	0.1	0.1	0.1
5. Other capital expenditure	0.0	0.0	0.0	0.0	0.1	0.1	0.0
6. Total capital expenditure (= 4+5)	0.0	0.0	0.1	0.2	0.2	0.2	0.1
Other costs financed by RRF grants							
7. Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 7
RRF loans

% GDP

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF loans							
1. Disbursements of RRF loans from EU		0.0	0.0	0.0	0.0	0.0	0.0
2. Repayment of RRF loans to EU		0.0	0.0	0.0	0.0	0.0	0.0
Expenditure financed by RRF loans							
3. Total current expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Gross fixed capital formation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Other capital expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6. Total capital expenditure (4+5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF loans							
7. Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8. Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Appendix Table 7
Stock Flow Adjustment Statement

€ million

	2024	2025	2026	2027	2028
General Governemnt deficit (-) / surplus (+) (ESA10)	**-814.2**	**-820.0**	**-751.0**	**-685.0**	**-615.0**
ESA Adjustments	-381.0	175.8	101.0	80.0	80.0
Contribution to Sinking Funds (Foreign loans)	0.0	0.0	0.0	0.0	0.0
Contribution to Special MGS Sinking Fund	30.0	30.0	30.0	30.0	30.0
Equity Acquisition	385.7	50.4	0.1	0.1	0.1
Courts and other deposits					
Stock Premium paid to Church	0.1	0.2	0.1	0.1	0.0
Advances made by Government					
Repayment of Loans to Government	-7.9	-2.8	-2.8	-2.8	-2.8
Sale of Assets	0.0	0.0	0.0	0.0	0.0
Sale of Non-Financial Assets	-	-	-	-	-
EBUs	-1.7	-0.7	0.0	0.0	0.0
Currency	4.0	12.8	4.7	4.7	4.7
Movement in Bank Account	61.9	-	-	-	-
ESA Rerouted Debt	10.2	0.0	-2.3	-2.3	-2.4
Increase/(Decrease) in cash balance	-73.6	-227.3	-24.8	-7.8	41.6
Increase/(Decrease) in Non-Consolidated Debt	842.1	858.4	857.0	787.0	766.2
Total Consolidation	20.0	-114.1	-13.1	4.6	-20.1
Increase/(Decrease) in Consolidated Debt	822.1	972.5	870.1	791.5	746.1
SFA	7.8	152.5	119.1	106.5	131.1