GOVERNMENT OF MALTA
MINISTRY FOR FINANCE

MALTA:
Draft Budgetary Plan
2025

October 2024

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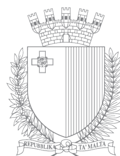
Draft Budgetary Plan

October, 2024

Ministry for Finance
Maison Demandols,
Valletta.



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CHAPTER 1

Overall Policy Framework and Objectives

1. Overall Policy Framework and Objectives

In the face of significant external challenges, Malta continued to demonstrate resilience through its impressive economic performance. This is especially true in the context of weak economic growth registered by the European Economy. Malta registered a substantial 7.5 per cent real growth rate in 2023 and a 5.9 per cent real growth rate in the first half of 2024. In spite of the challenging economic environment, the Government remains committed to continue its path towards fiscal sustainability.

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

Following the cessation of the general escape clause in 2023, discussions commenced on the establishment of a new framework to coordinate economic governance across the EU which is more credible, risk-based, less complex, less reliant on unobservable elements, and not pro-cyclical in nature.

The new fiscal framework contemplates a nationally owned medium-term fiscal plan covering a period of four to five years. Member States may also choose to extend this plan by a maximum of three years subject to specific reform and investment commitments. This medium-term plan would contain a risk-based fiscal trajectory underpinned by a set of commitments regarding the net expenditure growth path which ensures fiscal sustainability in the Medium-Term based on the Debt Sustainability Analysis framework of the European Commission.

On the 20th of September 2024, Malta officially submitted its Medium-Term Fiscal Structural Plan (MTFSP) following extensive dialogue with the European Commission, which on its part, had prepared a reference trajectory of the net expenditure path earlier on during the year. The submitted plan ensures that the Government debt is put on a downward trajectory or stays at a prudent level under a set of adverse scenarios. Within the plan, Malta's chosen net nationally financed primary expenditure path was consistent with the reference trajectory as prepared by the Commission such that Malta's average annual primary net expenditure growth over the next four years will be limited to 5.9 per cent.

The net expenditure path set in the MTFSP represents a 'budget constraint', and does not preclude the Maltese Government from embarking on a more ambitious fiscal consolidation strategy to correct the excessive deficit over a shorter period of time.

1.2 Main Policy Objectives

In line with the MTFSP and in order to maintain a healthy fiscal consolidation strategy which aims to maintain the current level of economic performance whilst ensuring that Malta embarks on a deficit reducing trajectory in accordance with its MTFSP, the Government has set the following main policy objectives:

1. Recognising the need to support the economy through increased productivity, the Government is prioritising high-quality investments which add value and reduce the reliance on low-skilled labour. More specifically, the Government will target key areas namely the environment, infrastructure, health and education.
2. On a similar vein to last year's Draft Budgetary Plan, this budget will continue to support families and businesses through price support measures aimed at protecting the most vulnerable, all whilst sustaining the current strong economic performance.
3. The Government will be targeting a more ambitious deficit reduction and net expenditure growth strategy in 2025 than specified within the MTFSP, with a view to control the excessive deficit in the shortest time possible without jeopardising growth or fiscal sustainability.
4. The Government is also committed towards improving the quality of life of all Maltese citizens by continuing to facilitate the Green and Digital transitions.

1.3 Macroeconomic Scenario

The macroeconomic forecasts presented in this Plan reflect a prudent view of the future economic developments in Malta. Risks to the growth outlook, particularly in 2024 are tilted on the upside.

Malta continued with its strong economic trajectory in the first half of 2024, with outturn data showing better than expected performance for the Maltese economy. This comes against the backdrop of a somewhat weak external environment driven by uncertainty, weak productivity growth and geo-political conflict. Nevertheless, Malta's strong economic performance is strongly driven by exports (particularly developments in the tourism sector). Household consumption growth, recently strong due to the pent-up demand after the 2020 COVID crisis, has since moderated but still registered a strong growth of 5.2 per cent in the first half of 2024.

In the first half of 2024, Gross Value Added (GVA) increased by 7.7 per cent. Though growth across sectors was broad-based, the services sector enjoyed the lion's share of such increases, with the best performing sectors in terms of GVA being the Hospitality sector, Real estate activities, Financial and insurance activities, the Construction sector and Professional and administrative activities.

The Maltese Economy is also expected to maintain a positive trajectory in the short-term though growth is expected to moderate after the strong growth rates recorded during the post-pandemic recovery period. Real GDP growth is expected to reach 4.9 per cent in 2024, and a more moderate 4.3 per cent is expected in 2025. Weak external demand conditions driven by increasingly protectionist measures on a global level coupled with the anticipated normalisation of tourism trends are anticipated to contribute to this moderation. In addition, capacity constraints in the economy are also likely to play a role and moderate growth when compared to previous trends. Domestic demand is expected to be the primary driver of growth. The projections underlying this Plan are to be considered prudent and upside risks are likely to prevail.

1.4 Fiscal Policy Objectives

In line with the published MTFSP the Government will be seeking a fiscal consolidation strategy in line with fiscal sustainability objectives, whilst also acknowledging the need to sustain economic growth.

In 2024 the Government deficit ratio is expected to improve and to reach 4.0 per cent of GDP due to changes in both revenue and expenditure items. Most notably, revenue increases pertain to an upward revision in capital transfers and investment grants. Furthermore, there were increased tax revenue collections resulting from better tax compliance, higher economic activity and inflows from EU funds. Expenditure is also forecasted to increase, mainly due to higher than anticipated gross fixed capital formation (GFCF) stemming from larger capital expenditure by central Government and EBUs. Furthermore, increases in expenditure also reflect higher compensation of employees resulting from the new sectoral agreements and the settlement of outstanding arrears. Meanwhile, expenditure related to the energy support measures is expected to subside as the cost of energy is expected to decline in the coming months.

In 2025 the Government is expected to target a budget balance of 3.5 per cent representing a fiscal adjustment of 0.5 per cent of GDP. This Draft Budget Plan is targeting a net primary expenditure growth of 5.6 per cent, hence frontloading the fiscal consolidation when compared to the 6.0 per cent growth constraint envisaged in Malta's MTFSP submitted in September 2024. A reduction in the structural primary balance of 0.8 is also envisaged in this Plan, thus exceeding the 0.5 minimum adjustment required by the new Economic Governance Framework.

1.5 Endorsement by the Malta Fiscal Advisory Council

The targets contained in this Plan fulfil the legal requirements established by virtue of the Fiscal Responsibility Act. In addition, the macroeconomic forecasts underlying this Plan have been endorsed by the Malta Fiscal Advisory Council.

CHAPTER 2

Economic Outlook

2. Economic Outlook

Despite the weak external environment and high global inflationary pressures, the Maltese economy proved resilient in the last two years. In real terms, economic activity expanded by 7.5 per cent in 2023 and 5.9 per cent in the first half of 2024.

2.1 The Short-Term Scenario

In 2024, global economic conditions began to improve gradually, with modest growth returning to Europe following a period of economic stagnation. Tight monetary policy and a stabilisation in commodity prices were successful in bringing down elevated inflation and anchoring inflation expectations. In fact, inflation in the Euro Area has broadly returned to the European Central Bank's (ECB) target, resulting in expectations of further rate cuts in the coming months. Easing monetary conditions bode well for investment and global trade activity, which were constrained over the past year. At the same time, new risks have emerged related to geopolitical tensions in the Middle East and the growing trade restrictions, which could produce a drag on external demand conditions and weaken economic growth among Malta's main trading partners. Indeed, supply chain pressures have resurfaced in 2024, and freight rates increased significantly after tensions along the main shipping routes.

Despite these headwinds, the Maltese economy continued to outperform global trends, growing by 5.9 per cent during the first half of 2024. Growth is currently exceeding the level of 4.2 per cent which was expected in the Draft Budgetary Plan of last year. Nominal Gross Domestic Product (GDP) grew by 9.6 per cent, also exceeding the 7.4 per cent expected last year.

In the first half of 2024, growth was predominantly driven by domestic demand, which contributed 3.3 percentage points. Private consumption showed signs of normalisation following strong increases in the aftermath of the pandemic, increasing by 5.2 per cent, backed by a persistently robust labour market and a recovery in households' purchasing power as inflation subsided. Growth in household consumption is also exceeding growth expectations on the back of lower than expected inflationary pressures. Government consumption was supportive to a lesser extent, increasing by 0.3 per cent compared to the same period of 2023. Moreover, Gross Fixed Capital Formation (GFCF) increased by 4.9 per cent, propelled by investments in intellectual property products and housing construction.

On the external front, Malta exhibited robust export performance during the first half of 2024, with exports increasing by 6.8 per cent, largely reflecting the strong momentum in the tourism sector, as well as non-tourism services. It is pertinent to note that export performance significantly exceeded expectations on the back of the unanticipated strength of tourism. Moreover, imports increased by 5.5 per cent, in line with the recovery in demand conditions. Net exports contributed 2.6 percentage points to economic growth.

During the first half of 2024, Gross Value Added (GVA) increased by 7.7 per cent. Growth was broad-based across most sectors and was particularly led by the services sector. In fact, the services sector contributed 7.6 percentage points to total growth, further reinforcing itself as the main source of growth in the Maltese economy. Despite subdued global manufacturing, the industrial sector also sustained positive momentum, contributing 0.2 percentage points. The best performing sectors in the first half of 2024 were Real estate activities which grew by 17.1 per cent, followed by Financial and insurance activities (12.4 per cent), the Construction sector (11.1 per cent), and Professional and administrative activities (10.2 per cent).

From the income side, compensation of employees accelerated in the first half of 2024, as wages per capita and employment performed in line with what was projected last year. Compensation of employees increased by 9.3 per cent, while gross operating surplus increased by 6.7 per cent. Nevertheless, the labour share stood at 41.0 per cent during the first half of the year, below pre-pandemic levels. This reflects the robust performance of profits since the pandemic.

The Maltese economy is expected to maintain a positive trajectory in the short-term, albeit moderating from very strong growth rates recorded during the post-pandemic recovery. Such normalisation in economic activity is consistent with the slowdown observed in the first two quarters of the year. The projected slowdown, however, contains an element of prudence in the macroeconomic forecasts and there is a higher probability that growth exceeds expectations in both 2024 and 2025. In real terms, the Maltese economy is projected to grow by 4.9 per cent in 2024. Domestic demand is anticipated to be the primary driver of growth, contributing 4.3 percentage points, while net exports are expected to add 0.6 percentage points to growth.

Private consumption growth is expected to decelerate from 11.2 per cent in 2023, to 4.4 per cent in 2024. This reflects a normalisation in consumption after uncharacteristically sharp increases in previous years which were enabled by accumulated savings during the pandemic, as well as an element of pent-up demand. Going forward, the strong labour market and easing inflation should support households' purchasing power and consumption. However, survey-based data indicates that consumer confidence remains weak, reflecting the lingering impact from the high inflationary shock. As a result, consumption is anticipated to decelerate in the second half of the year, falling below its long-term average.

Public consumption is expected to increase by 8.6 per cent, driven by compensation of employees reflecting the impact of new sectoral agreements and intermediate consumption. After a decline in 2023, GFCF is expected to partially recover by 4.5 per cent in 2024. The positive investment outlook is backed by encouraging permit data and construction activity in recent periods, as well as a number of one-off projects. At the same time, it is important to note that the inherently volatile nature of investment makes it challenging to forecast in a small economy. Hence, when forecasting investment, a relatively prudent approach is taken, factoring in only those projects that have a strong

political commitment or a high probability of realisation, while assuming a relatively high import content which is consistent with the high import intensity of investment in Malta, thus having an offsetting impact on GDP growth.

Exports are expected to strengthen in 2024, in line with the solid performance in the tourism sector and a slight improvement in global external demand. The tourism sector has continued to exceed expectations, as inbound tourists amounted to 2.4 million between January and August, a 21.1 per cent increase over the same period in the previous year. Moreover, high-frequency indicators suggest that the sector sustained robust activity in recent months. In this context, exports are expected to grow by 5.2 per cent, led by tourism and non-tourism services, while goods exports are assumed to remain weak in line with sluggish global demand for manufactured goods. Meanwhile, imports are expected to rebound by 5.4 per cent, in line with robust demand.

In 2025, the Maltese economy is projected to grow by 4.3 per cent in real terms, and by 7.0 per cent in nominal terms. Growth is anticipated to be led by the domestic side of the economy, which is set to contribute 3.4 percentage points. Net exports are expected to also contribute positively by 0.9 percentage points, an improvement over the previous year, reflecting the gradual recovery in external demand.

Private consumption is projected to accelerate slightly to 4.6 per cent in 2025, underpinned by sustained employment, and the ongoing recovery in real wages that is set to largely restore households’ purchasing power by the end of 2025. This is coupled with the Government's measures to lower income tax, which should further boost disposable income and consumer confidence, boding well for consumption increases. Public consumption is anticipated to increase by 1.9 per cent, while GFCF is expected to pick-up pace and grow by 5.5 per cent, as a number of one-off projects are expected to materialise, while the lower relative cost of capital is anticipated to facilitate outlays addressing infrastructural and capacity needs.

External demand is expected to recover in 2025 as global financial conditions ease, thus facilitating global trade and improving consumer demand. To this end, while the impulse from the tourism sector is expected to wane following the robust performance in 2024, the recovery in global economic activity should support non-tourism services and goods exports. The latter is also set to benefit from a recovery in demand for manufactured goods as excessive inventories built up in the global economy are drawn down. Consequently, export growth is expected to remain stable at 5.3 per cent. Imports are also expected to remain strong at 5.3 per cent, driven by robust domestic demand and strengthened euro.

Table 2.1 below presents the main macroeconomic indicators for the period 2021 to 2025. The figures for the period 2021 to 2023 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 2024 and 2025 are the Ministry for Finance (MFIN) projections.

Main Macroeconomic Indicators					
Table 2.1					
	2021	**2022**	**2023**	**2024p**	**2025p**
GDP growth at current market prices (%)	16.2	9.4	13.2	8.1	7.0
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1]	13.5	4.1	7.5	4.9	4.3
Expenditure Components of GDP at Current Market Prices by period (%)					
Private final consumption expenditure[2]	13.1	16.8	18.0	7.6	6.9
General Government final consumption expenditure	8.1	3.9	7.8	13.1	5.1
Gross fixed capital formation	26.8	15.7	-12.9	6.3	7.4
Exports of goods and services	1.2	18.6	8.1	8.0	7.6
Imports of goods and services	-1.7	23.4	3.0	8.2	7.4
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure[2]	11.9	10.9	11.2	4.4	4.6
General Government final consumption expenditure	5.9	0.4	2.9	8.6	1.9
Gross fixed capital formation	20.5	9.7	-18.2	4.5	5.5
Exports of goods and services	-0.4	13.7	4.7	5.2	5.3
Imports of goods and services	-3.1	18.5	-0.4	5.4	5.3
Inflation rate (%)	0.7	6.1	5.6	2.5	2.1
Employment growth (Full-Time Equivalents) (%)	3.1	5.1	6.3	4.6	4.2
Unemployment rate (Harmonised definition, Eurostat) (%)	3.8	3.5	3.5	3.2	3.1
Compensation per employee (% change)	4.7	3.8	1.7	4.4	4.2
Labour productivity (% change)	10.0	-0.9	1.1	0.3	0.1
Nominal Unit Labour Cost (% change)	-4.9	4.8	0.5	4.0	4.1
Real Unit Labour Costs (% change)	-7.1	-0.3	-4.5	1.0	1.5

(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.

2.1.1 Assumptions for Projections

The macroeconomic forecasts underpinning this Draft Budgetary 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 2024, and by 1.0 per cent in 2025.
2. Oil prices are expected to stabilise at $82.4 per barrel in 2024 and drop to $79.8 in 2025.
3. The short-term interest rate is expected to increase to 4.3 per cent in 2024. Interest rate cuts are then expected to materialise in each quarter, such that short-term interest rates decrease to an annual average of 3.2 per cent in 2025. The long-term interest rate is assumed to reach an average of 3.5 per cent in 2024, before declining gradually to 3.3 per cent in 2025.
4. The USD/EUR exchange rate is assumed to appreciate from 1.0813 in 2023, to 1.0867 and 1.1089 in 2024 and 2025 respectively. This represents an appreciation of 0.5 per cent in 2024 and 2.1 per cent in 2025. The STG/EUR exchange rate is expected to

average 0.8548 in 2024 and 0.8547 in 2025. This means that the STG/EUR exchange rate is assumed to depreciate by 1.7 per cent in 2024, and to remain stable in 2025.

5. Starting from the third quarter of 2024, changes in inventories are not expected to materially contribute to GDP growth.
6. World prices are expected to decline by 0.8 per cent in 2024 and then accelerate to 1.6 per cent in 2025.
7. The interest-rate passthrough is assumed to remain very limited, in line with historical performance and the presence of ample bank liquidity.

2.1.2 Employment Prospects

Over the first months of 2024, the unemployment rate continued to decline each month, reaching 3.0 per cent in August, down from 3.8 per cent in the same month of the previous year. Moreover, during the first half of 2024, headcount employment increased by 4.6 per cent (National Accounts definition), with job creation particularly evident in the services sector. Recent data indicates that labour demand remains strong, as evidenced by high vacancy rates and broad-based increases in sectoral employment. Additionally, labour supply conditions are expected to remain favourable in the short-term, partly addressing domestic shortages although tight labour market conditions are expected to persist. In this context, employment is projected to increase by 4.6 per cent in 2024, with the unemployment rate remaining at 3.2 per cent. In 2025, the labour market is expected to maintain its solid performance, with employment increasing by 4.2 per cent, and the unemployment rate projected to decline slightly to 3.1 per cent.

2.1.3 Inflation

In August, the Harmonised Index of Consumer Prices (HICP) inflation reached 2.4 per cent, while the 12-month moving average stood at 3.3 per cent, reflecting the gradual decline in inflation over the past year. Inflation in Malta is following developments in other European countries, where inflation in the Euro Area also declined to 2.2 per cent in August, thus moving closer to the 2.0 per cent target for price stability.

The disinflationary process in Malta has been primarily driven by lower services inflation, which proved less sticky than anticipated as labour costs were relatively contained. Inflation of non-energy goods also maintained a downward trajectory, enabled by stable global commodity prices and improved supply-side dynamics. The decline in commodity prices also contributed to lower food inflation, which detracted 1.1 percentage points from headline inflation between January and August. These disinflationary forces are expected to continue in the coming months, with inflation averaging 2.5 per cent this year.

In 2025, inflation is expected to gradually converge towards normal levels, as global commodity prices are assumed to decline further. Moreover, the expected strengthening of the euro should push down imported inflation. At the same time, resilient domestic demand, in particular the recovery in consumer confidence, may induce demand-side

price pressures. Consequently, inflation is projected to decline only gradually to 2.1 per cent in 2025.

2.1.4 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 which are expected to be carried out in the coming months.

2.2 Comparison to Commission's Latest Forecast

It is important to note, that the European Commission's (EC) latest forecast does not take into account the most recent national accounts data release by NSO. Such more recent data produced higher economic growth rates in the first half of 2024, due to upward revisions for first quarter figures. By contrast, the projections conducted by MFIN are based on updated data. The projections also incorporate latest external data, which hold particular importance for a small and open economy.

The EC's Spring forecast projected real GDP growth of 4.6 per cent in 2024 and 4.3 per cent in 2025. Economic growth was projected to be propelled by domestic demand, albeit net exports were also anticipated to contribute positively. This means that MFIN's projections are higher by 0.3 percentage points for 2024, reflecting updated data and the incorporation of recent outturns in the tourism sector. For 2025, both EC and MFIN project the same real GDP growth rate. Moreover, the composition of growth is broadly consistent with MFIN's projections. Nevertheless, MFIN's projections include a higher forecast for Government consumption for 2024, leading to a higher contribution for domestic demand. For 2025, the composition is broadly consistent, with the EC forecast attributing a higher contribution from net exports. Overall, both forecasts appear consistent in terms of projections and overall composition.

2.3 Potential Output and the Output Gap

The estimation of potential output and output gap within this Draft Budgetary Plan is based on the commonly agreed Production Function method. Any disparities between the estimates from the EC and MFIN can be attributed to differences in macroeconomic projections.

Chart 2.1 shows historic potential output growth and output gap developments, including projections for 2024 and 2025. From 2014 to 2023, potential output growth averaged 6.5 per cent, with a gradual stabilisation in recent periods. This steady pace is expected to extend into the forecast horizon, as potential output growth is projected to average 4.9 per cent. The primary contributor of potential growth is expected to be labour, mainly underpinned by positive employment growth and migration. Capital accumulation and total factor productivity should also contribute positively to potential output growth.

Chart 2.1
Malta's Potential Output Growth and Output Gap Estimates

The output gap (expressed as a percentage of potential GDP) is expected to turn slightly negative in 2024, before widening in 2025, reflecting an element of prudence in MFIN's projection for actual GDP growth.

2.4 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.

2.4.1 Accuracy of Past Forecasting Performance

The updated analysis confirms the tendency of macroeconomic forecasts to underestimate GDP growth, and therefore a downward bias in the GDP growth projections in previous years. However, this is significantly influenced by statistical revisions, predominantly in the upward direction in the national accounts data. The recent statistical benchmark revision in national accounts may also affect the readings of forecast errors, affecting the base on which those previous projections were undertaken. Moreover, the underestimation of real GDP growth is also a result of an element of prudence in projections.

While the one-year ahead forecasts, excluding the recessions, display a root-mean squared error (RMSE) of 4.1, it is notable that the sample size employed is rather small and the earliest available forecast is that of 2004. The small sample size and the statistical revisions play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies. Over successive forecast vintages, the widening of errors can be primarily attributed to the relatively large forecast errors in 2014, 2015 and 2017 which are symptomatic of significant upward revisions in the national accounts data.

The evaluation of the risk and uncertainty of the current macroeconomic projections underlying this Plan is based on both an ex-ante analysis of past forecast errors which determine 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.

2.4.2 The Balance of Risks

In order to capture the balance of risks around the macroeconomic forecasts, twelve alternative model-based growth scenarios were performed. These scenarios are summarised as follows:

1. Improved economic activity in Malta's main trading partners, as indicated by the upper bound projections of the Consensus Forecasts.
2. Weaker economic activity in Malta's main trading partners, as indicated by the lower bound projections of the Consensus Forecasts.
3. Higher interest rate scenario, where renewed inflationary pressures prompt higher for longer interest rates. In this scenario, both short-term rates and long-term rates are maintained at their current peak throughout the forecast horizon.
4. Improved services exports, assuming that export-oriented sectors, in particular the gaming sector, are able to increase their market share beyond conservative estimates in the baseline.
5. Stronger consumption, reflecting the risk that consumption could turn out higher than envisaged, as real wages recover earlier than anticipated while the income tax cut could have a larger impetus on consumption.
6. Higher investment, taking into account a number of one-off projects that were not included in the baseline, while also reflecting the risk of stronger construction activity, backed by recent credit data.
7. Upside tourism, which lifts the assumption for inbound tourists in off-peak months in 2024 and 2025, in line with efforts to smoothen tourism across the year and improved connectivity.
8. Lower interest rates, underpinning the risk that lower inflation in the Euro Area leads to a faster monetary policy normalisation, improving the investment and trade

outlook. An earlier policy re-adjustment than other advanced economies would lead to a depreciation to the euro, supporting exports.

9. Higher commodity prices, where geopolitical tensions lead to higher oil prices, as indicated by the upper bound of the Consensus Forecasts.
10. Subdued competitiveness, reflecting the downside risk that export-oriented sectors face challenges due to rising domestic costs.
11. Lower labour supply, which assumes that migration trends start to ease, leading to subdued employment growth and weaker domestic demand.
12. Weak global trade, where geopolitical tensions and intensification of trade restrictions constrain global trade, leading to subdued goods exports.

These represent scenarios that are plausible alternatives to the baseline projections. While economic judgement influences the choice of these scenarios, this judgement is also underpinned by the constant monitoring of prevailing economic conditions and is supported by various meetings with stakeholders and regulators operating within the Maltese economy.

Among the alternative forecasts projections, a more detailed description is provided for the alternative growth and interest rate scenarios.

2.4.2.1 Improved Global Economic Growth

This scenario models the risk that economic growth in Malta's main trading partners turns out higher than anticipated in the baseline. Global economic growth, weighted by main trading partners, is increased by 0.3 percentage points in 2024 and by 0.4 percentage points in 2025. The higher economic growth rates in Germany, France, Italy, the United Kingdom (UK), and the (United States) US are based on the Consensus Forecasts of September 2024, assuming the most optimistic growth figure for each country.

Overall, stronger external demand would lift real GDP growth by 0.2 percentage points in 2024, and by 0.4 percentage points in 2025. In this scenario, the budget balance would improve by 0.1 percentage points and 0.2 percentage points in 2024 and 2025 respectively.

2.4.2.2 Weaker Global Economic Growth

Within this scenario, the growth outlook for Malta's main trading partners is downgraded when compared to the baseline. The lower economic growth rates in Germany, France, Italy, the UK, and the US are based on the Consensus Forecasts of September 2024, assuming the lower bound growth figures for each trading partner for the forecast years. Global economic activity is revised downwards by 0.2 percentage points in 2024 and by 0.7 percentage points in 2025, reflecting a substantial downward revision for the UK.

The weaker external environment would have a pronounced impact on exports, downgrading real GDP growth by 0.2 percentage points for 2024, and by 0.6 percentage points in 2025. The budget balance would deteriorate by 0.1 percentage points in 2024, and by 0.3 percentage points in 2025.

2.4.2.3 Interest Rate Scenario

The underlying monetary assumption in the baseline is that the ECB continues to gradually loosen its monetary policy stance throughout the forecast horizon, as inflation returns to the price stability objective. This scenario attempts to reflect the risk that renewed inflationary pressures in the Euro Area prompt higher for longer interest rates. Consequently, this scenario assumes that policy rates are maintained at their current peak throughout the forecast horizon. This implies that short-term rates are increased by 25.0 basis points in the final quarter of 2024, and by 100.0 basis points in 2025. Long-term rates are also increased by 50.0 basis points in 2025 when compared to the baseline.

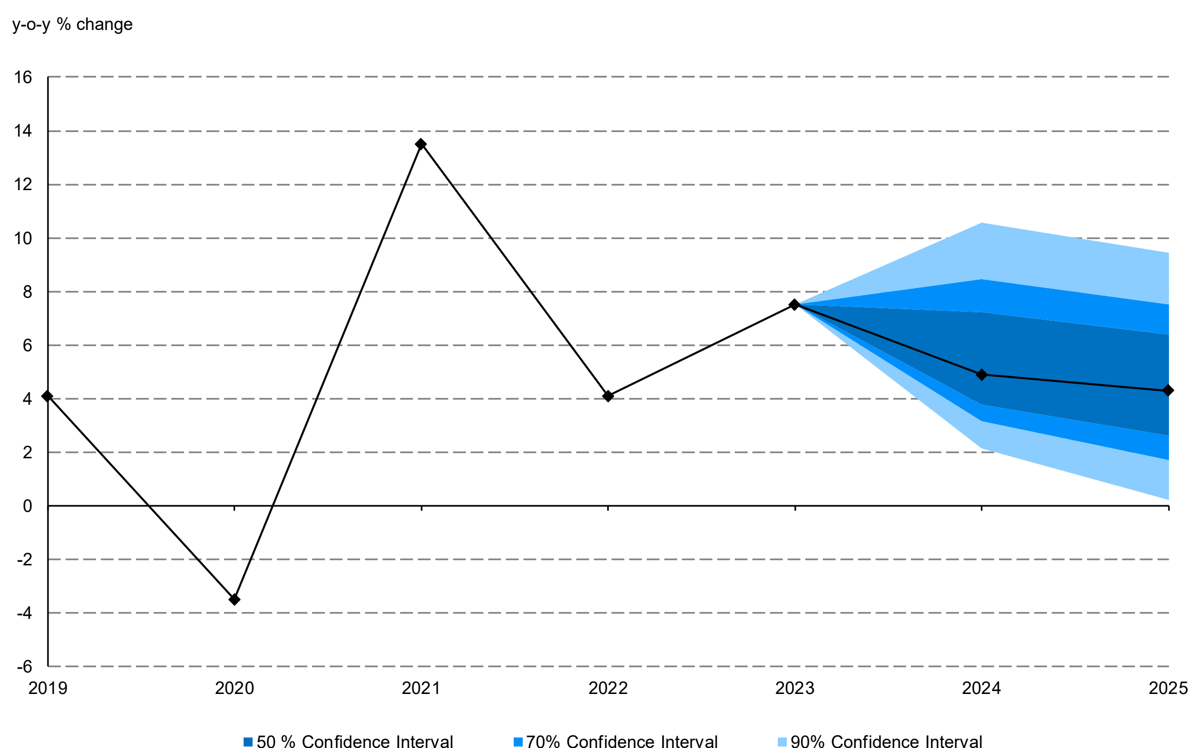
Higher interest rates would constrain investment and weaken consumer confidence through increased debt repayments and higher savings. In this scenario, higher interest rates would not have a tangible impact on real GDP growth for 2024, while it would downgrade growth by 0.4 percentage points in 2025. The budget balance would be relatively unaffected in 2024, and it would deteriorate marginally by 0.1 percentage point in 2025, when compared to the baseline. However, it is important to note that historical data and the latest monetary policy tightening both show an incomplete interest rate pass-through to domestic lending rates, which means that the impact may be even less pronounced. Moreover, it is important to note that given the exogenous nature of exchange rates in the forecasting model, the impact does not incorporate the exchange rate channel.

2.4.3 Alternative Models Forecasts

The EPD developed seven alternative forecasting models, which encompass model-free statistical forecasts (two Holt-Winters Seasonal Smoothing Methods), model-based univariate forecasts (two ARIMA models) and model-based multivariate forecasts (three VAR models, with exogenous and supply-side variables). These models assist the Department in benchmarking the results derived from the main macro-econometric model.

For 2024, the simple average of all models provides an estimate of 5.2 per cent for real GDP growth, while the average of the VAR models implies a growth rate of 5.0 per cent. With regards to 2025, the simple average suggests a real GDP growth rate of 4.3 per cent, similar to the average output of the VAR models of 4.2 per cent. This means that the baseline GDP forecasts for 2024 appears slightly lower than the average outputs produced by the alternative models, while the forecast for 2025 is overall consistent. At the same time, the forecasts produced by the alternative models ranges from 4.2 to 6.0 per cent for 2024, and from 3.7 to 4.8 per cent in 2025. Consequently, the baseline GDP forecast for both 2024 and 2025 are within the range produced by the alternative models.

Chart 2.2
Fan Chart with GDP Growth Forecasts



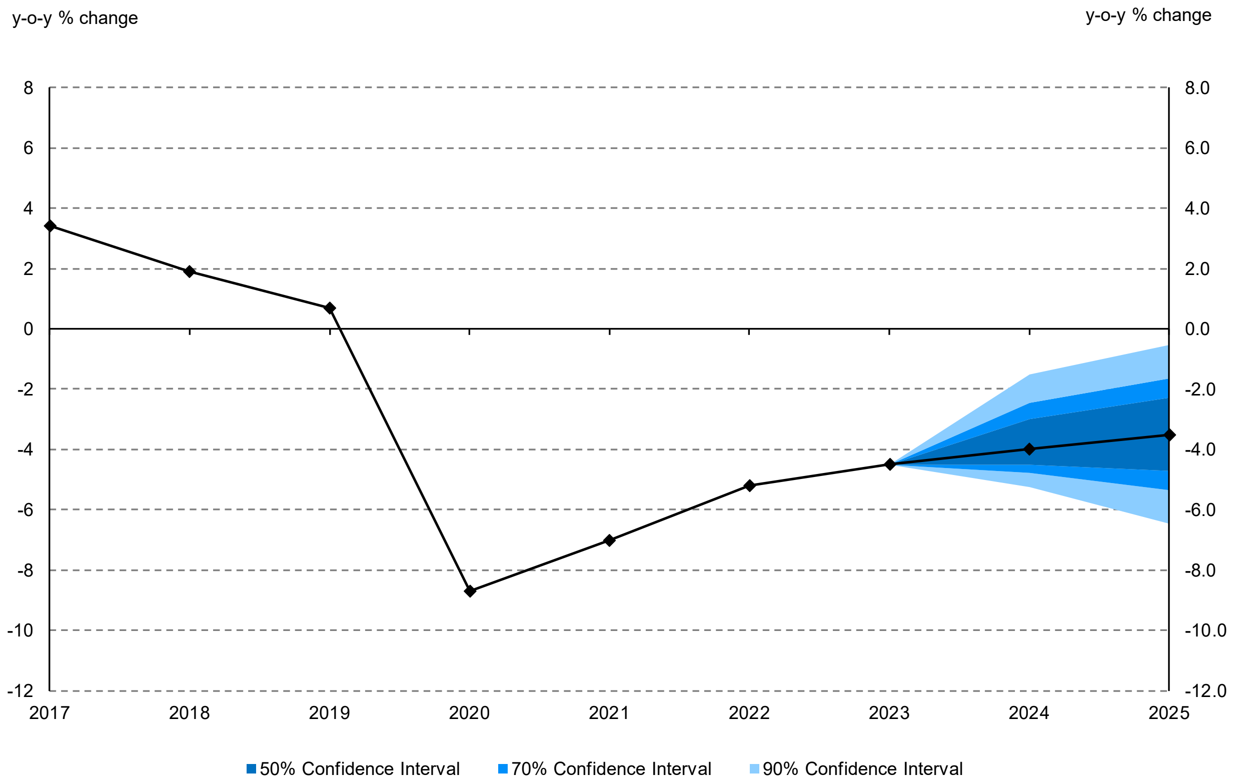
2.4.4 Uncertainty and the Balance of Risks Underlying the Macroeconomic Projections

The uncertainty surrounding the macroeconomic projections is based on the past forecast error variance of GDP. For the Autumn forecast, the standard deviation is equal to 3.1 for the current year forecast, and 4.1 for the one-year ahead forecast. The alternative model scenarios documented above are used to assess the balance of risks based on the Pearson skewness indicator. This indicator shows that there are significant upside risks for 2024. Upside risks are also apparent for 2025, although more marginal. The result is consistent with the outputs of the alternative model forecasts documented in section 2.4.3. Chart 2.2 represents the uncertainty and the balance of risks surrounding the macroeconomic forecasts presented in this Draft Budgetary Plan.

2.4.5 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 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 rather than point estimates. The budget balance risk is skewed towards the upside in 2024, and broadly balanced for 2025. From

Chart 2.3
Fan Chart with Budgetary Targets



the alternative scenarios produced in this chapter, the worst-case scenario suggests a downward revision of 0.1 and 0.3 percentage points in 2024 and 2025 respectively, when compared to the baseline projection.

2.4.6 Alternative Output Gap projections and risks to Structural Fiscal Targets

The assessment of risks surrounding the macroeconomic forecasts could also affect the output gap projections, and therefore the structural commitments outlined in this Plan. Accordingly, alternative output gap forecasts were also conducted, based on the alternative scenarios presented in section 2.4.2. Output gap projections range from -0.6 to 0.4 per cent of potential output in 2024, and from -0.8 and 0.3 per cent in 2025, as illustrated in Chart 2.4.

Chart 2.4
Output Gap: Risk Assessment

Macroeconomic forecasts
(Basic assumptions)

Appendix Table 0.i

	Data Source	2023	2024p	2025p
Short-term interest rate (annual average)	ECB	3.8	4.3	3.2
Long-term interest rate (annual average)	ECB	3.7	3.5	3.3
USD/€ exchange rate (annual average)	ECB + Consensus Economics (September 2024)	1.081	1.087	1.109
STG/€ exchange rate (annual average)	ECB + Consensus Economics (September 2024)	0.870	0.855	0.855
Real GDP Growth of main trading partners	Eurostat + Consensus Economics (September 2024)	0.8	0.8	1.0
Nominal GDP Growth of main trading partners	Eurostat + Consensus Economics (September 2024)	4.9	3.0	3.1
Oil prices (Brent, USD/barrel)	US Energy Information Administration (EIA) + Consensus Economics (September 2024)	82.47	82.37	79.83

Macroeconomic forecasts
(Macroeconomic prospects)

Appendix Table 1.a

	ESA Code	€ million *CLV 2020 Prices* 2023	rate of change 2023	rate of change 2024p	rate of change 2025p
1. Real GDP[1]	B1*g	18,223.3	7.5	4.9	4.3
2. Potential GDP		18,211.8	5.2	5.1	4.8
contributions:					
- labour			2.6	2.7	2.7
- capital			1.4	1.4	1.3
- total factor productivity			1.2	0.9	0.8
3. Nominal GDP	B1*g	20,650.4	13.2	8.1	7.0
Components of real GDP					
4. Private final consumption expenditure[2]	P.3	8,370.4	11.2	4.4	4.6
5. Government final consumption expenditure	P.3	3,094.0	2.9	8.6	1.9
6. Gross fixed capital formation	P.51	3,262.4	-18.2	4.5	5.5
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	-	0.9	0.9	0.9
8. Exports of goods and services	P.6	23,164.3	4.7	5.2	5.3
9. Imports of goods and services	P.7	19,794.5	-0.4	5.4	5.3
Contributions to real GDP growth					
10. Final domestic demand		14,726.8	1.0	4.3	3.4
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.0	0.0	0.0
12. External demand	B.11	3,369.9	6.5	0.6	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.

Macroeconomic forecasts
(Price developments)

Appendix Table 1.b

	Index[(1)]	rate of change		
	2023	**2023**	**2024p**	**2025p**
1. GDP deflator	125.6	5.3	3.0	2.6
2. Private consumption deflator	119.7	6.1	3.0	2.2
3. HICP	120.0	5.6	2.5	2.1
4. Public consumption deflator	120.3	4.7	4.1	3.2
5. Investment deflator	131.2	6.4	1.6	1.9
6. Export price deflator (goods and services)	119.4	3.3	2.8	2.2
7. Import price deflator (goods and services)	116.1	3.4	2.7	2.0

[(1)] Index (base 2015)

Macroeconomic forecasts
(Labour market developments)

Appendix Table 1.c

		€000s	rate of change		
	ESA Code	**2023**	**2023**	**2024p**	**2025p**
1. Employment, Full-Time Equivalents[1]		308.3	6.3	4.6	4.2
2. Employment, hours worked[2]		559,137.5	8.0	4.6	4.2
3. Unemployment rate (%)[3]		10.9	3.5	3.2	3.1
4. Labour productivity, persons[4]		58.9	1.1	0.3	0.1
5. Labour productivity, hours worked [5]			1.1	0.3	0.1
6. Compensation of employees	D.1	8,190.0	8.5	9.2	8.6
7. Compensation per employee		31.2	1.7	4.4	4.2

[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)

Macroeconomic forecasts
(Sectoral balances)

Appendix Table 1.d				% GDP
Percentages of GDP	ESA Code	**2023**	**2024p**	**2025p**
1. Net lending/ borrowing		7.6		
vis-à-vis the rest of the world	B.9			
of which:				
Balance on goods and services		17.9		
Balance of primary incomes and transfers		-11.6		
Capital account		1.2		
2. Net lending/ borrowing of the private sector	B.9	3.0		
3. Net lending/ borrowing of general Government	EDP B.9	4.5		
4. Statistical discrepancy		0.1		
Current Account		6.4		

CHAPTER 3

General Government Budgetary Developments

3. General Government Budgetary Developments

Despite global challenges, the Maltese economy has demonstrated remarkable strength and resilience. In 2023, the Government reported a deficit of 4.5 per cent of Gross Domestic Product (GDP), down from 5.2 per cent in 2022. The reduction in the deficit was the result of a larger decline in the expenditure ratio than in the revenue ratio. Indeed, despite the increase in the level of general Government revenue, its ratio-to-GDP decreased by 0.8 percentage points over 2022, while the ratio of general Government expenditure to GDP decreased by 1.4 percentage points in 2023, primarily reflecting a lower ratio-to-GDP for capital transfers and compensation of employees. Despite the deficit being higher than the 3.0 per cent threshold, Malta's debt-to-GDP ratio in 2023 decreased to 47.4 per cent, remaining well below the Treaty reference value of 60.0 per cent.

The Maltese Government's medium-term fiscal strategy focuses on addressing the current deficit, ensuring fiscal sustainability, and fostering long-term economic resilience. The Government is committed to ensure that projected economic growth remains sustainable and responsive to emerging realities. The 2025 Budget will reflect the Government's ambitious work program, with fiscal incentives aligned to five key priorities including: better quality of life, prioritising social initiatives, supporting families and businesses, prioritising high-quality investments, and emphasising key sectors such as the environment, infrastructure, health, and education. These sectors will remain central to the Government's capital investment strategy, driving the economy forward. At the same time, the Government will continue to strengthen its fiscal position with smart, targeted investments that enhance long-term economic stability.

The core principle of the upcoming budget is enhancing the quality of life. The Government's approach goes beyond providing incentives and subsidies; it aims to increase incomes for families. This budget will continue the focus on social initiatives and rewarding hard work by reducing income tax rates. It will also provide ongoing support for families and businesses, while addressing evolving national priorities.

The Government recognises the importance of maintaining prudent fiscal management and implementing targeted interventions to ensure debt sustainability in the coming years. To achieve this, proactive measures are in place to improve the deficit-to-GDP ratio by limiting net expenditure growth and reducing the structural primary deficit by at least 0.5 percentage points annually. This approach, in line with Country-Specific Recommendations, ensures compliance with debt sustainability requirements and the Stability and Growth Pact. By controlling net primary nationally financed expenditure, the Government aims to keep public debt at prudent levels, safeguarding the country's long-term fiscal health.

3.1 Budgetary targets

In 2024, the general Government deficit ratio is projected to improve, reaching 4.0 per cent of GDP, driven by anticipated changes in both revenue and expenditure patterns.

General Government revenue is expected to increase by 1.0 percentage point, reaching 32.8 per cent of GDP. This increase is largely attributed to higher tax revenue collections, stemming from robust economic performance and enhanced tax compliance. Additionally, inflows from European Union (EU) funds will also contribute significantly to this revenue growth, supporting various national investment projects and initiatives.

Meanwhile, general Government expenditure is forecast to increase by 0.5 percentage points, reaching 36.9 per cent of GDP. This increase is mainly driven by higher compensation of employees, reflecting the impact of new sectoral agreements, including the settlement of outstanding arrears resulting from the educators' sectoral agreement. Furthermore, increased spending on gross fixed capital formation reflects continued investment in infrastructure and other investment projects. However, these expenditure pressures will be partially offset by a reduction in subsidies and capital transfers, the latter reflecting the phased withdrawal of support to the national airline. As energy prices stabilised since 2023, although at higher levels compared to pre-pandemic levels, the cost of energy support measures is expected to be lower in 2024.

The general Government debt-to-GDP ratio is expected to increase from 47.4 per cent at the end of 2023 to 49.5 per cent by the end of this year. The expected increase in the debt-to-GDP ratio in 2024 is mainly on the back of the expansionary contribution stemming from the stock flow adjustment (SFA), relating to the capital injection in the national airline, in part offset by an improvement in the primary balance. Furthermore, the debt-to-GDP ratio is expected to increase by a further 0.6 percentage points in 2025

Budgetary Targets
General Government debt developments

Table 2.b — % GDP

	2023	2024	2025
1. Gross debt [1]	47.4	49.5	50.1
2. Change in gross debt ratio	-1.9	2.1	0.6
Contributions to changes in gross debt			
3. Primary balance	3.5	2.8	2.2
4. Interest expenditure	1.0	1.2	1.3
5. Stock-flow adjustment	-0.7	1.6	0.3
p.m.: Implicit interest rate on debt [2]	2.4	2.8	2.9

[1] As defined in Regulation 479/2009.

[2] Proxied by interest expenditure divided by the debt level of the previous year.

to 50.1 per cent. Developments in the gross Government debt and the contributors to developments in the debt-to-GDP ratio are presented in Table 2.b.

3.1.1 Updated Budgetary Plans for 2024

The 2024 general Government balance was revised downwards by €14.8 million, compared to the estimated deficit of €918.0 million outlined in the 2024 Draft Budgetary Plan (DBP). While the total revenue component was revised upwards from €6,901.9 million projected in the DBP 2024 to €7,323.2 million, the total expenditure component was revised upwards from €7,820.7 million being reported in the DBP 2024 to €8,227.1 million.

Total revenue is expected to turn out €421.2 million more than projected last autumn. The better-than-expected outcome in revenue mainly reflects higher than estimated 'other' revenue, primarily due to an upward revision in capital transfers and investment grants. Revenue from current taxes on income and wealth has also been revised significantly upwards, reflecting developments to date underpinned by a stronger than anticipated growth in wages and corporate profits and reforms in tax collection which are yielding higher tax collection and improved efficiency in the administration of taxes. Meanwhile, lower than planned revenue is expected from property income, reflecting lower profit from the Central Bank.

Meanwhile, higher than targeted expenditure compared to the estimates outlined in the 2024 DBP of €406.5 million is mainly attributable to higher than anticipated gross fixed capital formation (GFCF), reflecting higher than anticipated capital expenditure by central Government and EBUs. Higher than estimated compensation of employees is mainly due to a higher than estimated cost of sectoral agreements and the settlement of corresponding arrears that were renegotiated during 2024. Moreover, higher than budgeted intermediate consumption is mainly attributed to a higher than estimated cost of contractual services, higher outlays towards the health sector, as well as higher than estimated capital expenditure classified under this category. These higher outlays are partly compensated by lower than projected outlays on subsidies which are expected to be lower due to the stabilisation in energy prices at lower levels. Cautious about the potential risks of withdrawing energy support too rapidly, particularly the possibility of triggering high inflation, the Government has opted for a more gradual approach by focusing on structural reforms and strategic investments in the energy sector. The long-term strategy aims to reduce dependence on energy subsidies by investing in renewable energy sources and improving energy efficiency. Developments in the general Government budgetary execution in 2023, between subsequent forecasts, are outlined in Table 3.1.

General Government Budgetary Execution and Prospects					
Table 3.1					€ millions
	ESA Code	USP 2023	2024 DBP 2024	DBP 2025	2025 DBP 2025
Net lending (+)/net borrowing (-)					
1. **General Government**	S.13	**-847.2**	**-918.8**	**-904.0**	**-847.4**
2. Central Government	S.1311	-846.0	-917.6	-902.8	-846.2
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	**6,751.2**	**6,901.9**	**7,323.2**	**7,634.9**
Of which					
Taxes on Production and Imports	D.2	2,035.7	2,161.1	2,189.0	2,353.1
Current Taxes on Income, Wealth, etc.	D.5	2,617.2	2,636.2	2,793.4	2,892.4
Capital Taxes	D.91	26.5	29.4	32.2	36.5
Social Contributions	D.61	1,128.0	1,124.4	1,129.2	1,203.4
Property Income	D.4	61.0	63.2	56.8	64.5
Other [a]		882.8	887.6	1,122.5	1,085.0
7. **Total Expenditure**	TE	**7,598.4**	**7,820.7**	**8,227.1**	**8,482.3**
Of which					
Compensation of employees	D.1	2,087.5	2,137.8	2,261.9	2,328.5
Intermediate Consumption	P.2	1,610.5	1,576.9	1,661.6	1,816.4
Social Payments	D.6	1,730.9	1,749.2	1,794.8	1,889.0
Interest Expenditure	D.41	288.6	273.1	270.0	317.3
Subsidies	D.3	572.1	666.8	556.1	502.5
Gross Fixed Capital Formation	P.51	616.8	766.6	943.7	934.0
Capital Transfers	D.9	189.5	133.9	174.8	122.2
Other [b]		502.5	516.5	564.3	572.3
8. **Gross Debt** [c]		**10,992.0**	**11,273.9**	**11,056.2**	**11,968.0**

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).

3.2 Budgetary plans for 2025

In line with the developments underlying macroeconomic projections, the projected budget balance is expected to improve from 4.0 per cent in 2024 to 3.5 per cent in 2025. In structural terms, the general Government deficit will decrease to 3.3 per cent from the rate of 4.0 per cent estimated in 2024. This shall be accomplished by capping the growth of nationally financed net primary expenditure to an estimate of 5.6 per

cent in 2025. General Government budgetary targets are outlined in Table 2.a. Table 7 compares the budgetary targets outlined in the DBP with those outlined in the MTFSP.

As a share of GDP, both revenue and expenditure are expected to decrease in 2025, the former due to revenue reducing measures and prudent forecast assumptions, the latter reflecting expenditure control measures. The revenue-to-GDP ratio is estimated at 32.0 per cent decreasing from 32.8 per cent in 2024, while the expenditure ratio-to-GDP is projected to decline to 35.5 per cent, from 36.9 per cent estimated in 2024. General Government expenditure and revenue targets are presented in Table 4.a, while Table 4.b outlines the components necessary for the computation of the expenditure benchmark. A breakdown of the general Government expenditure by function is contained in the corresponding Table 4.c.i and Table 4.c.ii.

The decline in the revenue-to-GDP ratio mainly reflects developments in 'other' revenue, which is expected to decline by 0.5 percentage points from 5.0 per cent of GDP in 2024 to 4.5 per cent in 2025, mainly reflecting developments in capital transfers and

Budgetary Targets

General Government budgetary targets broken down by subsector

Table 2.a — % GDP

	ESA Code	2023	2024	2025
Net lending (+) / net borrowing (-) by sub-sector[1]	B.9			
1. General Government	S.13	-4.5	-4.0	-3.5
2. Central Government	S.1311	-4.5	-4.0	-3.5
3. State Government	S.1312	-	-	-
4. Local Government	S.1313	-0.0	-0.0	-0.0
5. Social security funds	S.1314	-	-	-
6. Interest expenditure	D.41	1.0	1.2	1.3
7. Primary balance[2]		-3.5	-2.8	-2.2
8. One-off and other temporary measures[3]		0.0	0.0	0.0
8.a Of which one-offs on the revenue side: general Government		0.0	0.0	0.0
8.b Of which one-offs on the expenditure side: general Government		0.0	0.0	0.0
9. Real GDP growth (%) (=1 in Table 1.a)		7.5	4.9	4.3
10. Potential GDP growth (%) (=2 in Table 1.a)		5.2	5.1	4.8
11. Output gap (% of potential GDP)		0.1	-0.1	-0.5
12. Cyclical budgetary component (% of potential GDP)		0.0	-0.0	-0.2
13. Cyclically-adjusted balance (1 - 12) (% of potential GDP)		-4.6	-4.0	-3.3
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		-3.5	-2.8	-2.0
15. Structural balance (13 - 8) (% of potential GDP)		-4.6	-4.0	-3.3

[1] TR-TE= B.9.

[2] The primary balance is calculated as (B.9) plus (D.41, item 6).

[3] A plus sign means deficit-reducing one-off measures.

Divergence from latest MTFSP				
Table 7				% GDP
	ESA Code	**2023**	**2024**	**2025**
Real GDP growth				
MTFSP		7.5	4.9	4.4
Draft Budgetary Plan		7.5	4.9	4.3
Difference		0.0	0.0	-0.1
General Government net lending/ net borrowing	EDP B.9			
MTFSP		-4.6	-4.0	-3.8
Draft Budgetary Plan		-4.5	-4.0	-3.5
Difference		0.1	-0.0	0.2
General Government gross debt				
MTFSP		47.3	49.2	49.8
Draft Budgetary Plan		47.4	49.5	50.1
Difference		0.1	0.3	0.3

Discrepancies in 2023 and 2024 data reflect the October fiscal notification of 2024.

investment grants. Proceeds from current taxes on income and wealth is also projected to decrease by 0.4 percentage points of GDP, primarily on account of the fiscal impact of the revision in the income tax bands. On the other hand, as a percentage of GDP, a broad decline is foreseen in Government expenditure for 2025. Except for intermediate consumption and interest expenditure, declines are estimated to occur in all other categories. In absolute terms, subsidies and capital transfers are projected at lower levels for the year 2025.

3.2.1 Debt Projections

The general Government gross debt ratio is expected to reach 50.1 per cent in 2025, 0.6 percentage points higher than the previous year but still remaining well below the 60.0 per cent Maastricht Treaty threshold. Projected interest payments and the minimisation in the stock flow adjustment are expected to offset the positive impact of nominal GDP growth. Developments in the general Government debt are presented in Table 2.b. Debt developments data, consistent with the detailed budgetary targets and macroeconomic forecasts, is complemented with data on contingent liabilities in Table 2.c. A detailed account of the Stock-Flow adjustments can be found in Appendix Table 7.

3.2.2 Discretionary Measures

A list of the main discretionary measures included in the DBP and underpinning the expenditure and revenue targets for 2025 is presented in Table 5.a. The net incremental impact on the budget balance of temporary and permanent discretionary revenue

Expenditure and Revenue Targets

(General Government expenditure and revenue targets, broken down by main components)

Table 4.a — % GDP

	ESA Code	**2023**	**2024**	**2025**
General Government (S13)				
1. Total revenue target	TR	31.8	32.8	32.0
Of which				
1.1. Taxes on production and imports	D.2	9.4	9.8	9.9
1.2. Current taxes on income, wealth, etc	D.5	12.2	12.5	12.1
1.3. Capital taxes	D.91	0.2	0.1	0.2
1.4. Social contributions	D.61	5.2	5.1	5.0
1.5. Property income	D.4	0.5	0.3	0.3
1.6. Other [1]		4.3	5.0	4.5
p.m.: Tax burden		27.0	27.6	27.2
(D.2+D.5+D.61+D.91-D.995)[2]				
2. Total expenditure target	TE[3]	36.3	36.9	35.5
Of which				
2.1. Compensation of employees	D.1	9.4	10.1	9.7
2.2. Intermediate consumption	P.2	7.1	7.4	7.6
2.3. Social payments	D.6M	8.0	8.0	7.9
of which Unemployment benefits [3]		*0.1*	*0.1*	0.1
2.4. Interest expenditure (= item 6 in Table 2.a)	D.41	1.0	1.2	1.3
2.5. Subsidies	D.3	3.6	2.5	2.1
2.6. Gross fixed capital formation	P.51G	3.5	4.2	3.9
2.7. Capital transfers	D.9	1.6	0.8	0.5
2.8. Other [4]		2.1	2.5	2.4

[1] P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[2] Tax revenue, including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[3] Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

[4] D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

Net expenditure growth

Table 4.b

	ESA Code	**2023 (level)**	**2023 (% of GDP)**	**2024 (% of GDP)**	**2025 (% of GDP)**
1. Total expenditure	TE	7,500.2	36.3	36.9	35.5
2. Interest expenditure	D.41p	215.9	1.0	1.2	1.3
3. Cyclical unemployment expenditure		-3.4	-0.0	-0.0	-0.0
4. Expenditure funded by transfers from the EU		225.8	1.1	1.5	1.2
4a. Of which: Investments (GFCF)		69.6	0.3	0.8	0.2
5. National co-financing of EU programmes		58.8	0.3	0.3	0.4
6. One-off expenditure (levels, excl. EU funded)		0.0	0.0	0.0	0.0
7. Net nationally financed primary expenditure (before DRM) (ne = 1-2-3-4-5-6)		7,003.1	33.9	33.8	32.6
8. DRM (excl. one-off revenue, incremental impact)		-	-	0.5	-0.8
9. Net nationally financed primary expenditure (after DRM) (ne - drm = 7 - 8)		-	-	33.4	33.4
10. Nominal GDP growth (g) (growth rate)		-	-	8.1	7.0
11. Net expenditure growth (growth rate)		-	-	6.4	5.6

General Government Expenditure by Function

General Government Expenditure on Education, Healthcare and Employment

Table 4.c.i

	2023		2024		2025	
	% of GDP	% of gG expenditure	% of GDP	% of gG expenditure	% of GDP	% of gG expenditure
Education (= item 9 in table 4.c.ii)	4.6	12.8	5.2	14.0	5.0	14.0
Health (= item 7 in table 4.c.11)	5.1	13.9	5.4	14.7	5.3	15.0
Employment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

General Government Expenditure by Function

Table 4.c.ii — % GDP

		COFOG Code	2023	2024	2025
1.	**General public services**	1	4.9	5.4	5.4
2.	**Defence**	2	0.6	0.6	0.6
3.	**Public order and safety**	3	1.1	1.2	1.2
4.	**Economic affairs**	4	7.7	6.5	5.8
5.	**Environmental protection**	5	1.3	1.4	1.3
6.	**Housing and community amenities**	6	0.5	0.4	0.4
7.	**Health**	7	5.1	5.4	5.3
8.	**Recreation, culture and religion**	8	1.2	1.2	1.2
9.	**Education**	9	4.6	5.2	5.0
10.	**Social protection**	10	9.4	9.5	9.3
11.	**Total Expenditure (=item 2 in Table 4.a)**	TE	36.3	36.9	35.5

measures for 2025 (including those implemented in previous budgets but which will still have an impact in 2025) is estimated to amount to -0.82 per cent. Meanwhile, incremental discretionary expenditure measures (including those implemented in previous budgets but which will still have an impact in 2025), are expected to worsen slightly the budget balance of 2025 by -0.03 per cent of GDP. Overall, in 2025, the net impact of discretionary revenue and expenditure measures, is expected to worsen the budget balance by -0.85 percentage points of GDP.

In the upcoming Budget, the Government will continue to support the economy by maintaining the cost of energy and basic commodities unchanged. The overall expenditure on these support initiatives is anticipated to reach 0.72 per cent of GDP in 2025, a decline of 0.15 percentage points compared to 2024.

Contingent Liabilities

Table 2.c			% GDP
	2023	**2024**	**2025**
Public guarantees	5.5	4.6	4.4

Description of discretionary measures included in the draft budget

(Discretionary measures taken by General Government)

Table 5.a

List of measures	Detailed description	Target (Expenditure / Revenue component) ESA Code	Accounting principle	Adoption Status	Introduced in Budget for…	Incremental budgetary impact (% of GDP)		
						2023	**2024**	**2025**
Property-related taxation	Reduced tax on the transfer of immovable property	D2, D5 - R	Accruals	Temporary & Adopted	2014-2024	0.31	0.04	-0.01
Excise duty	Energy support measures	D2 - R	Accruals	Permanent & Adopted	2021	0.02	0.01	0.01
Efficiency in Revenue Collection	Digital tools and data-led intelligence to facilitate and increase the efficiency and effectiveness of tax collection	D2, D5 - R	Accruals	Permanent & Adopted	2022	-0.01	0.10	-0.01
Personal Income Tax	Comprehensive review of Malta's tax system, including structure and rates	D5 - R	Accruals	Announced	2025	0.00	0.00	-0.54
Personal Income Tax	Tax Credits	D5 - R	Accruals	Announced	2025	0.00	0.00	-0.08
	Granting of Citizenship for Exceptional Services	P10 - R	Accruals	Permanent & Adopted	2014	0.14	0.30	-0.18
	Other revenue measures, including measures legislated in previous budgets		Accruals	Permanent & Adopted		-0.01	-0.00	-0.00
COVID-19 Support Measure	Various medical supplies and equipment in relation to COVID-19	P2 - E	Accruals	Temporary & Adopted	2020	0.18	0.05	0.02
COVID-19 Support Measure and Post Covid-19 Economic Regeneration Plan	COVID-19 Business Assistance Programme and the Economic Regeneration Voucher Scheme	D3 - E	Accruals	Temporary & Adopted	2020	0.65	0.00	0.00
COVID-19 Support Measure	Government-guaranteed loans schemes	D3 - E	Accruals	Temporary & Adopted	2020	0.05	0.00	0.00
COVID-19 Support Measure	Support to the agricultural sector	D3 - E	Accruals	Temporary & Adopted	2021	0.02	0.00	0.00
AirMalta restructuring plan	Financial support to the national airline	D3 - E	Accruals	Temporary & Adopted	2021	0.14	0.65	0.00
Sustainable transport	Free public transport	D3 - E	Accruals	Permanent & Adopted	2022	-0.12	0.01	0.01
Price stabilisation support	Energy support measures and commodity price and supply security measures		Accruals	Temporary & Adopted	2020	0.64	0.59	0.15
Re-distribution measures	Measures to address housing affordability, pension adequacy and the integration of vulnerable individuals in society; cash payments by Government to households	D6 - E	Accruals	Permanent & Adopted	2016 - 2023	-0.31	0.08	0.08
Budget 2024 Measures	Social Support Measures	D6 - E	Accruals	Permanent & Adopted	2024	0.00	-0.14	0.02
Budget 2025 Measures	Social Support Measures	D6 - E	Accruals	Announced	2025	0.00	0.00	-0.28
COVID-19 Support Measure	Tourism Support Schemes	D9 - E	Accruals	Temporary & Adopted	2021 & 2022	0.03	0.00	0.00
NDSF	Projects financed from the National Development and Social Fund	D7, P5111 - E	Accruals	Permanent & Adopted	2018	0.00	0.01	-0.02
	Other expenditure measures, including measures legislated in previous budgets		Accruals	Permanent & Adopted		0.02	0.01	-0.00
						1.75	1.72	-0.85

The impact is recorded in incremental terms - as opposed to levels - compared to the previous year's baseline projection. The total figure is the total impact on the budget balance, as a revenue increasing measure is listed as positive, while an expenditure decreasing measure is also positive. The contrary applies for negative figures, such that a revenue decreasing measure is negative and an expenditure increasing measure is also negative. Simple permanent measures are recorded as having an effect of +/- X in the year(s) they are introduced and zero otherwise (the overall impact on the level of revenues or expenditures does not cancel out). If the impact of a measure varies over time, only the incremental impact is recorded in the table. By their nature, one-off measures are recorded as having an effect of +/- X in the year of the first budgetary impact and -/+ X in the following year, i.e. the overall impact on the level of revenues or expenditures in two consecutive years is zero. The measures may not add up to the total due to the marginal impact of measures legislated in previous' years Budget, but which might nonetheless have a marginal impact on the budget balance.

The Government is also planning a revision in income tax rates in 2025, together with tax credits to stimulate private savings. Chargeable income tax bands will be widened specifically targeting middle-income earners, leaving a positive impact on the disposable income for households. The expense associated with this measure is projected to lower Government revenue by 0.54 percentage points of GDP.

Social support measures are also envisaged, aimed at supporting vulnerable households that are at greater risks of poverty or social exclusion in particular, pensioners, elderly persons, persons with disabilities, as well as low-income families. Funds for measures associated with the overall well-being and quality of life allocated in 2025 are estimated to increase expenditure by 0.28 percentage points of GDP.

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

When excluding the fiscal impact of discretionary revenue measures in 2025, the tax burden would increase by 0.3 percentage points to 27.9 per cent of GDP. As shown in Table 3, developments mainly relate to other revenues partly offset by higher revenue from current taxes on income and wealth. At unchanged policies, total expenditure would decline to 34.5 per cent of GDP, mainly reflecting a lower ratio for subsidies (when excluding the energy subsidies) and social payments.

Expenditure and Revenue Projections under the no-policy change scenario [1]
(General Government expenditure and revenue projections at unchanged policies broken down by main components)

Table 3			% GDP
	ESA Code	**2024**	**2025**
General Government (S13)			
1. Total revenue at unchanged policies	TR	32.8	32.8
Of which			
1.1. Taxes on production and imports	D.2	9.8	9.9
1.2. Current taxes on income, wealth, etc	D.5	12.5	12.7
1.3. Capital taxes	D.91	0.1	0.2
1.4. Social contributions	D.61	5.1	5.0
1.5. Property income	D.4	0.3	0.3
1.6. Other [2]		5.0	4.7
p.m.: Tax burden		27.6	27.9
(D.2+D.5+D.61+D.91-D.995)[3]			
2. Total expenditure at unchanged policies	TE	36.9	34.5
Of which			
2.1. Compensation of employees	D.1	10.1	9.7
2.2. Intermediate consumption	P.2	7.4	7.6
2.3. Social payments	D.6M	8.0	7.6
of which Unemployment benefits [4]		0.1	0.1
2.4. Interest expenditure	D.41	1.2	1.3
2.5. Subsidies	D.3	2.5	1.4
2.6. Gross fixed capital formation	P.51	4.2	3.9
2.7. Capital transfers	D.9	0.8	0.5
2.8. Other [5]		2.5	2.4

[1] Data for 2024 is equivalent to the data presented in Table 4.a. The no-policy change scenario for the forthcoming year (2025) involves the extrapolation of revenue and expenditure trends after deducting the impact of temporary measures of the current year and before adding the impact of the measures included in the forthcoming year's budget.

[2] P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).

[3] Tax revneue, Including those collected by the EU and including an adjustment for uncollected taxes and social contributions D.995), if appropriate.

[4] Includes cash benefits (D.621 and D.624) and in kind benefits (D.632) related to unemployment benefits.

[5] D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.

Stock Flow Adjustment Statement

Appendix Table 7 — € million

	2023	2024	2025
General Governemnt deficit (-) / surplus (+) (ESA10)	**-938.9**	**-904.0**	**-847.8**
ESA Adjustments	-142.4	4.7	2.4
Contribution to Sinking Funds (Foreign loans)	0.1	0.0	0.0
Contribution to Special MGS Sinking Fund	30.0	30.0	30.0
Equity Acquisition	12.5	215.0	50.0
Courts and other deposits			
Stock Premium paid to Church	0.2	0.1	0.2
Advances made by Government			
Repayment of Loans to Government	-2.8	-2.8	-2.8
Sale of Assets	-0.9	-0.9	-0.9
Sale of Non-Financial Assets	-	-	-
EBUs	0.0	0.0	0.0
Currency	6.1	6.7	7.4
Movement in Bank Account	120.9	0.0	-
ESA Rerouted Debt	20.0	20.0	5.0
Increase/(Decrease) in cash balance	-355.6	146.1	-47.1
Increase/(Decrease) in Non-Consolidated Debt	626.9	1,323.0	892.1
Total Consolidation	153.6	-58.1	19.7
Increase/(Decrease) in Consolidated Debt	780.5	1,264.9	911.8
SFA	-158.4	360.9	64.0

RRF Impact on Projections - Grants

Table 9a — % of GDP

	ESA Code	2020	2021	2022	2023	2024	2025
Revenue from RRF GRANTS							
RRF GRANTS as included in the revenue projections		0.0	0.0	0.1	0.2	0.4	0.3
Cash disbursements of RRF GRANTS from EU[1]		0.0	0.2	0.0	0.3	0.4	0.0
Expenditure financed from RRF GRANTS							
Total Current Expenditure		0.0	0.0	0.0	0.0	0.0	0.0
Total Capital Expenditure		0.0	0.0	0.1	0.2	0.4	0.3
of which:							
Gross fixed capital formation	P.51g	0.0	0.0	0.1	0.1	0.4	0.3
Capital transfers	D.9	0.0	0.0	0.0	0.0	0.0	0.0
Other costs financed by RRF GRANTS [2]							
Financial transactions		0.0	0.0	0.0	0.0	0.0	0.0
of which:							
Reduction in tax revenue		0.0	0.0	0.0	0.0	0.0	0.0
Other costs with impact on revenue		0.0	0.0	0.0	0.0	0.0	0.0

[1] As per MT RRP

[2] This covers costs that are not recorded as expenditure in national accounts

RRF Impact on Projections - Loans

Table 9b — % of GDP

	ESA Code	2020	2021	2022	2023	2024	2025
Cash flow from RRF loans projected in the programme							
Disbursements of RRF LOANS from EU		-	-	-	-	-	-
Repayments of RRF LOANS to EU		-	-	-	-	-	-
Expenditure financed from RRF loans							
Total Current Expenditure		-	-	-	-	-	-
Total Capital Expenditure		-	-	-	-	-	-
of which:							
Gross fixed capital formation	P.51g	-	-	-	-	-	-
Capital transfers	D.9	-	-	-	-	-	-
Other costs financed by RRF loans[1]							
Financial transactions		-	-	-	-	-	-
of which:							
Reduction in tax revenue		-	-	-	-	-	-
Other costs with impact on revenue		-	-	-	-	-	-

[1] This covers costs that are not recorded as expenditure in national accounts

Appendix Table 6.a **Indications on how the measures in the DBP address the Recommendations**

Recommendations	List of Measures	Description of direct relevance
Recommendation 1: Submit the Medium-Term Fiscal Structural Plan (MTFSP) in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with reducing the general Government deficit towards the 3 per cent of GDP Treaty reference value and keeping the general Government debt at a prudent level over the medium-term. Wind down the emergency energy support measures by the 2024/2025 winter. To address remaining aggressive tax planning risks, introduce a withholding tax on outbound payments or equivalent defensive measures, and amend rules on non-domiciled companies.	Submit the MTFSP in a timely manner.	Malta submitted its four-year MTFSP for 2025 to 2028 on 20 September 2024. The Plan sets out the minimum fiscal adjustment path necessary to ensure debt sustainability in line with the new economic governance framework of the European Union (EU). The Plan also outlines Malta's strategic investments and reforms across several areas which align with these Recommendations, including addressing the common priorities of the Union.
	In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with reducing the general Government deficit towards the 3 per cent of GDP Treaty reference value and keeping the general Government debt at a prudent level over the medium-term.	The Maltese Government's medium-term fiscal strategy aims to address the current deficit, ensure fiscal sustainability, and foster economic resilience and stability. The Government is aiming for a reduction of 0.9 percentage points in the structural primary deficit. This shall be accomplished by capping the growth of nationally financed net primary expenditure to an estimate of 5.6 per cent in 2025. Indeed, the Government is targeting a more ambitious and front-loaded fiscal consolidation strategy than outlined in the MTFSP. This will ensure that the deficit-to-Gross Domestic Product (GDP) will fall below the 3.0 per cent threshold in 2026 and continue falling to 2.5 per cent in 2027. The debt-to-GDP ratio for 2023 decreased to 47.4 per cent and is expected to increase to 49.9 per cent in 2025, thus remaining well-below the 60.0 per cent benchmark.
	Wind down the emergency energy support measures by the 2024/2025 winter.	While cautious about removing energy support measures to avoid high inflation, the Government emphasises structural reforms and investments in the energy transition as sustainable, long-term solutions. These efforts aim to stabilise the economy, reduce reliance on subsidies, promote environmental sustainability, and ultimately enhancing Malta's economic resilience and global competitiveness.
	To address remaining aggressive tax planning risks, introduce a withholding tax on outbound payments or equivalent defensive measures, and amend rules on non-domiciled companies.	The Government aims to continue its efforts in addressing potential aggressive tax planning. It is actively working towards the implementation of Pillar 2, the forthcoming DAC 8/CARF framework, the ongoing supplementary review of the Exchange of Information on Request (EOIR) standard, the VISit Direct Administrative Cooperation (VISDAC) project, and preparing for the European Court of Auditors (ECA) visit concerning harmful tax competition within the Union. In line with its RRP commitment, the Government is implementing legislative changes related to inbound and outbound payments, specifically regarding dividends, interest, and royalty payments between companies based in Malta and related companies in jurisdictions either on the EU list of non-cooperative jurisdictions or considered zero-tax or low-tax jurisdictions. This legislation is expected to be enacted by the end of 2024. These amendments seek to balance the defensive measures introduced to mitigate aggressive tax planning risks without disproportionately affecting genuine economic activity and foreign investment.
Recommendation 2: Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic	Continue with the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026.	The Government is dedicated to implementing the RRP, alongside the 2021-2027 Cohesion Policy Programme. The RRP's implementation is progressing as scheduled, meeting the M&Ts specified in the revised Council Implementing Decisions of July 14, 2023. Malta and the European Commission have agreed on technical operational arrangements, describing aspects such as the supporting documentation required for verification. On July 14, 2023, Malta updated its RRP to include measures addressing the REPowerEU objectives. To support this expanded scope, €40 million from Malta's Brexit Adjustment Reserve was allocated to the Plan, in addition to Malta's REPowerEU grant of €30 million. The REPowerEU measures involve reforming the permitting system for renewable energy projects and a €69.9 million investment in the electricity grid. With the revised RRP approved, the total grants financed by the RRF now amount to €328 million. Regular reporting on the FENIX portal adheres to the required guidelines. The initial payment request was submitted in December 2022 after fulfilling all 2021 M&Ts and was subsequently approved. The second payment request followed in December 2023, meeting all 2022 M&Ts. Progress on other M&Ts remains on track. Malta is set to submit its third payment request in 2024, as planned.

Technologies for Europe Platform initiative to improve competitiveness.	Accelerate the implementation of cohesion policy programmes.	Following the European Commission's approval of Malta's Partnership Agreement and the adoption of the ERDF/CF/JTF, ESF+ and EMFAF programmes in 2022, work on their implementation began in early 2023. The Managing Authority has taken several steps to ensure more efficient implementation of current programmes, starting with early planning and issuing of calls and frequent Project Selection Committee meetings. The Calls issued so far already cover 75.0 per cent of the ERDF/CF/JTF programme and 78.0 per cent of the ESF+ programme. By the end of Q2 2024, 32.0 per cent of the ERDF/CF/JTF programme and 52.0 per cent of the ESF+ Programme were committed. Continuous close monitoring of selected operations and verification of payments further ensures the efficient implementation of the programmes. High level bilateral meetings are held on a monthly basis with the beneficiary organisations to obtain status updates on the implementation and discuss any issues which may impact the implementation and mitigation measures proposed.
	In the context of the cohesion policy programmes 2021-2027 mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.	In the context of the cohesion policy programmes 2021-2027 mid-term review, Malta remains focused on the agreed priorities, aligning strategic investments with sustainable development and enhanced connectivity. Under the ERDF/CF/JTF programme, thirteen calls were launched in the first half of 2024, with additional calls targeting educational facilities and green infrastructure expected by year-end. Approved projects to date focus on alternative fuels infrastructure and smart energy systems, with further projects in culture, tourism, health, and social infrastructure to be finalised by 2024. Efforts under the Cohesion Fund (CF) align with key priorities such as sustainable water management, a circular economy, and sustainable urban mobility. Although no CF projects have been approved yet, several are in the final evaluation stages. Furthermore, the European Social Fund Plus (ESF+) and European Maritime, Fisheries and Aquaculture Fund (EMFAF) have contributed to Malta's competitiveness by addressing education, employment, social inclusion, and the protection of aquatic biodiversity. These projects complement Malta's focus on fostering innovation, enhancing resilience, and promoting the green and digital transition.
Recommendation 3: Strengthen the quality and labour market relevance of education and training to address low educational outcomes as well as the severe shortage and mismatch of skills, in particular by fostering basic skills of students and the professional development of teachers.	Strengthen the quality and labour market relevance of education and training to address low educational outcomes.	The Government of Malta has undertaken several targeted actions focusing on improving educational quality, increasing access, aligning skills with labour market demands, and addressing educational shortcomings. More specifically, the Government launched the National Education Strategy 2024-2030 (NES), which emphasises well-being, growth, empowerment, equity, and inclusion. It focuses on improving educational outcomes and labour market relevance through policy foresight, with individual-centred design and a robust monitoring mechanism to track progress and ensure alignment with educational needs. In response to the PISA 2022 results, which highlighted areas for improvement, the Government is developing a targeted strategy to enhance student competencies. This strategy includes revising the National Curriculum Framework (NCF), ensuring it reflects future challenges and equips students with the skills necessary for success. The Government's Early Leaving from Education and Training (ELET) Strategy (2023-2030) seeks to reduce the early school leaving rate to 9 per cent by 2030. The strategy is closely monitored, with annual reports evaluating progress. Additionally, programmes like the Reading Recovery Programme provide essential support to struggling students. Initiatives under the National Literacy Strategy 2021-2030, such as multilingualism in primary years and the 'My Journey' programme, cater to students' diverse needs through academic, vocational, and applied learning approaches. These efforts aim to strengthen foundational skills and ensure that learners are well-prepared for the workforce. Furthermore, the One Device Per Child initiative will distribute laptops to seventh-year students in 2024/2025, ensuring digital skills development, crucial for today's labour market. To further support labour market relevance, the National Strategic Action Plan for Further and Higher Education 2022-2030 will be implemented, raising education standards, and ensuring alignment with industry needs. Apprenticeship programmes at MCAST and financial support through the Further Studies Made Affordable (FSMA) scheme enhance students' access to higher education and work-based learning opportunities. The National Skills Council is working on a National Skills Strategy focusing on identifying future skills gaps, supported by the OECD. Jobsplus, the Maltese Public Employment Service, has also relaunched the Investing in Skills Scheme. Jobsplus offers a variety of free, demand-driven training programmes aligned with the labour market, including courses in green and digital skills, health, hospitality, and ICT. These programmes aim to enhance employability and ensure participants acquire the skills needed by employers.

	Address the severe shortage and mismatch of skills, in particular by fostering basic skills of students and the professional development of teachers.	The Government is addressing the severe shortage and mismatch of skills through a multifaceted approach focused on improving the basic skills of students and enhancing the professional development of teachers. A central element of this approach is the implementation of lifelong learning and upskilling initiatives, ensuring that both students and educators are well-prepared for the evolving demands of the labour market, particularly in the context of the digital and green transitions. The National Lifelong Learning Strategy 2023-2030 aims to strengthen adult education and skill development by offering free basic skills programmes, which focus on literacy, numeracy, and digital skills. These programmes are designed to support individuals who need additional learning, regardless of age, ensuring that students and workers alike are equipped with essential competencies. To address broader labour market mismatches, the Government has relaunched schemes like the Investing in Skills Scheme, which provides funding for employee training and development, and the Smartly Project, which offers accredited courses in both green and digital skills. This ensures that students leaving the education system and entering the workforce are equipped with the skills needed to meet industry demands, while current employees receive continuous development opportunities. In parallel, the Government has implemented the Digital Education Strategy 2024-2030, which prioritises digital skill acquisition from an early stage. This strategy not only aligns with European Digital Education Action Plans but also introduces sustainable education practices by reducing reliance on physical materials, thus fostering environmentally responsible learning environments. Furthermore, the strategy is set to enhance students' digital literacy, preparing them for both present and future roles in the labour market, with a special focus on supporting the green transition and green job opportunities. The Government recognises the importance of high-quality educators. A Sectoral Agreement signed in 2024 improves teacher remuneration, accelerates career progression, and enhances well-being, which in turn is expected to lead to better educational outcomes. Continuous professional development opportunities, particularly in inclusive pedagogy, ensure educators are well-equipped to meet diverse student needs. Furthermore, the Directorate for Digital Literacy and Transversal Skills (DDLTS) has been leading efforts to improve professional development through digital competence programmes. These include initiatives such as digital citizenship training and AI literacy, which enable educators to integrate advanced technologies into their classrooms effectively. Additionally, the Government has rolled out Global Citizenship Education (GCED) and Learning for Sustainability (LfS) programmes. These are part of the Education Strategy 2024-2030, starting with mandatory training for kindergarten educators in 2023, extending to all primary educators over four years. This initiative is designed to ensure teachers can provide students with the skills necessary to navigate and contribute to an increasingly digital and sustainable world.
Recommendation 4: Accelerate the deployment of renewable energy through large-scale projects as well as small-scale investments in direct energy production and consumption. Address traffic congestion by improved quality and efficiency of public transport and step-up investments in 'soft mobility' infrastructure.	Accelerate the deployment of renewable energy through large-scale projects as well as small-scale investments in direct energy production and consumption.	The Government of Malta is committed to advancing renewable energy as part of its broader strategy to reduce reliance on fossil fuels and improve energy efficiency. Government is fostering a more sustainable and resilient energy system through large-scale infrastructure projects but also through small-scale investments. Malta's Recovery and Resilience Plan (RRP) outlines investments in PV installations across public spaces such as roads and footpaths, with a €3 million financing allocation currently in the tendering phase. Moreover, the Government has committed to reviewing and streamlining permitting systems for renewable energy projects by 2024, which will expedite future renewable energy developments. Additionally, works to strengthen and expand the electricity distribution network, coupled with the development of a 10 MWh battery storage facility, are expected to be contracted by 2024, with €19 million earmarked for this investment. Another project is the commissioning of a second electrical interconnection between Malta and Sicily by the end of 2026. Supported by EU funding through the European Regional Development Fund (ERDF), this interconnection will double Malta's electrical connectivity capacity with the EU and enhance the integration of domestic renewable energy sources, including offshore generation. The Government also supports household adoption of renewable energy technologies through various grant programmes and feed-in tariff schemes. These schemes specifically encourage the installation of PV panels and battery storage systems, empowering citizens to contribute directly to energy production. For medium and large-scale renewable energy projects, competitive bidding processes continue to provide opportunities for further investment. Complementary to these initiatives is the ongoing Roof Insulation and Double-Glazing Scheme, promoting energy efficiency in households and SMEs. Additionally, investments in water and wastewater infrastructure, such as the installation of energy-efficient equipment at the Ta' Barkat Wastewater Treatment Plant, are set to be completed by 2024, with further PV panel installations projected to deliver 2.7 MW of peak output by 2025. Furthermore, the Government is investing in energy efficiency improvements across public and private buildings, with significant retrofitting projects scheduled for completion by 2026. These efforts are designed to reduce primary energy demand by at least 30 per cent. This includes the retrofitting of Mount Carmel Hospital and various commercial and non-residential buildings, financed through the RRF.

	Address traffic congestion by improved quality and efficiency of public transport and step-up investments in 'soft mobility' infrastructure.	The Government is committed to boosting the quality and efficiency of public transport through significant infrastructure projects. These include the ongoing development of multi-modal transport hubs like the one in Ta' Xħajma, Gozo, and the Intelligent Transport System (ITS) services platform. The ITS will provide near real-time traffic data and travel information, indirectly enhancing public bus transport and overall traffic efficiency. Additionally, the introduction of electric public buses is a key step toward modernising public transport while reducing both traffic congestion and pollution. The Government has also introduced free public transport for all as part of its broader strategy to reduce traffic congestion and promote sustainable mobility. This initiative aims to encourage more people to shift away from private car use, easing pressure on road networks and reducing emissions. To reduce the reliance on motor vehicles and mitigate urban congestion, the Government is stepping up investments in 'soft mobility' infrastructure, including the development of pedestrian pathways and cycling lanes, which provide alternatives to vehicular travel. This infrastructure is designed to support clean and active urban transport, directly addressing congestion by offering more sustainable options for movement within urban areas. Additionally, the Government has been actively promoting the adoption of electric vehicles through financial incentives and the introduction of a growing network of EV charging stations. These measures are pivotal in fostering a cleaner, low-emission transport system. The Government is also promoting sustainable multi-modal urban mobility, which is critical for reducing traffic congestion and fostering a cleaner, more efficient transport network. The ongoing upgrades to the inner-harbour ferry system are designed to improve connectivity between key urban areas, offering an alternative to road transport and reducing pressure on traffic-heavy routes. This will also improve air quality by providing an eco-friendlier travel option. Government is also promoting active forms of mobility such as cycling and walking. Together with the "soft mobility" infrastructure mentioned earlier, these alternatives are essential for reducing the number of short-distance trips made by private vehicles. Additionally, the Government is making significant investments in shore-to-ship electricity projects, further contributing to the reduction of emissions and environmental degradation in urban areas, whilst contributing to cleaner air in the surrounding areas. The provision of onshore power for berthed vessels in the Grand Harbour is aimed at improving air quality in surrounding urban areas. The first phase of this project, focusing on the North Harbour quays and Boiler Wharf, has been completed. The next phase of this project will extend the provision of shore-side electricity to the South Harbour quays, thus providing further capacity for ships to connect to the grid, significantly cutting emissions in the Grand Harbour area. In addition, the Government is advancing shore-to-ship electricity projects in Malta Freeport. Two quays at the Freeport Terminals will be equipped with High Voltage Shore Connection (HVSC) systems, enabling container vessels to import power from the grid while docked.

Extra Budgetary Units as at 31 December 2023

Appendix Table 6.b

	NACE CODE		NACE CODE
Arts Council Malta	90	Malta Government Technology Investments Ltd	84
Agency for Infrastructure Malta	71	Malta Information Technology Agency	63
Bord tal-Koperattivi	84	Malta Investment Management Co. Ltd	84
Broadcasting Authority	84	Malta Philharmonic Orchestra	90
Business First Ltd	84	Malta Resources Authority	84
Commonwealth Trade Finance Facility Ltd	64	Malta Statistics Authority	84
Community Malta Agency	84	Malta Tourism Authority	84
Court Services Agency	84	Manoel Theatre Management Committee	90
Correctional Services Agency	84	Medicines Authority	84
Depositor Compensation Scheme	64	Mental Health Services	87
Environment and Resources Authority	84	MSE (Holdings) Ltd	64
Environment and Development Funds	84	National Audit Office	84
Film Finance Malta Ltd	84	National Commission Persons with Disability	84
Fort Secuirty Services Ltd	84	National Development and Social Fund	84
Foundation for Educational Services	84	Occupational Health and Safety Authority	84
Foundation for Medical Services	84	Office of the Ombudsman	84
Foundation for Social Welfare Services	88	Planning Authority	84
Foundation for Tomorrow's Schools	84	Projects Malta Ltd	84
Gozo Channel (Holdings) Co. Ltd	77	Projects Plus Ltd	84
Grand Harbour Regeneration Corporation	71	Property Management Services	84
Heritage Malta	91	Protection and Compensation Fund	64
House Maintenance and Embellishment Co. Ltd	41	Regulator for Energy and Water Services	84
Housing Authority	84	Residency Malta Agency	84
Identity Malta	84	Resources Support and Services Ltd	78
Interconnect Malta Ltd	71	Safe City Malta Ltd	84
International Institute on Ageing	85	Sapport	88
Investor Compensation Scheme	64	Selmun Palace Hotel	84
Jobsplus	78	SportMalta	93
Lands Authority	84	St James Cavalier Creativity Centre	90
Libyan Arab Maltese Holdings Ltd	64	Superintendence of Cultural Heritage	84
Malta College of Arts, Science and Technology	85	The Rehabilitation Hospital Karin Grech	86
Malta Communications Authority	84	Trade Malta Ltd	73
Malta Competition and Consumer Affairs Authority	84	University of Malta	85
Malta Council for Economic and Social Development	84	Transport Malta	84
Malta Council for Science and Technology	84	Valletta Cultural Agency	91
Malta Enterprise Corporation	84	WasteServ Malta Ltd	38
Malta Gaming Authority	84	Yachting Malta Ltd	73
Malta Government Investments Ltd	84		

Notes:

1. This list does not include entities which are already accounted for within the Government's accounting systems.
2. General Classification of economic activities within the European communities. Industries are grouped into 64 categories (A64) based on NACE Rev 2.

CHAPTER 4

Distributional Implications of Budget Measures

4. Distributional Implications of Budget Measures

To achieve sustainable economic growth, it is crucial to elevate living standards and ensure that the benefits of growth are shared broadly, particularly with vulnerable households. The Maltese Government is dedicated to developing policies that promote equity and inclusivity, focusing on reducing social disparities and advancing social justice. Each year, the Government refines its tax and benefit policy framework to improve existing programs and introduce new initiatives that seek to enhance fair wealth distribution among individuals and diverse social groups. In the past decade, significant measures have included reducing direct taxes, expanding the in-work benefit scheme, providing free childcare, and gradually tapering benefits to encourage workforce participation whilst minimising dependency on social support systems.

The Government has consistently increased pensions and implemented tax incentives to support low-income households. Additionally, it has enhanced informal long-term care by raising caregiver grants and allowances and reforming means-tested criteria to increase access to free prescription medications and other healthcare services. Improvements have also been made to benefits for individuals with disabilities, promoting their integration into the labour market. Furthermore, the Government has increased supplementary allowances, expanded housing benefits, raised stipends, and enhanced children's allowances and the childbirth bonus, all aimed at reinforcing the economic safety net for those in need.

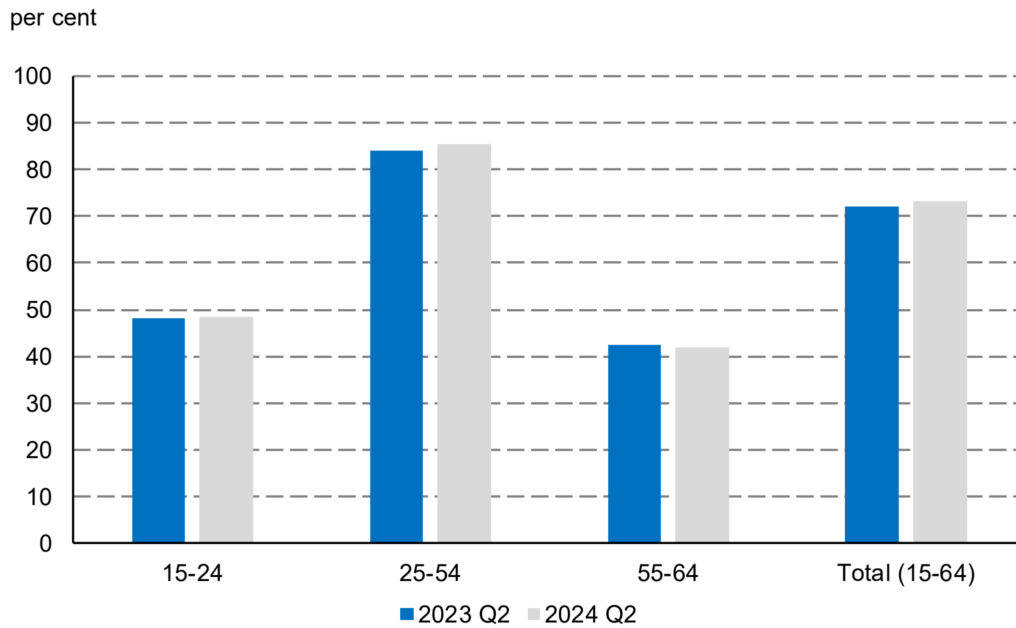
Moreover, the ongoing challenges stemming from the pandemic and the war in Ukraine have kept inflationary pressures on energy and food prices high. Although subsidies have been implemented to alleviate some of these burdens, the problem of inflation continues to affect many households. In light of this persistent issue, the Additional Cost of Living Adjustment (COLA) for Vulnerable Household Mechanism has again been triggered to provide essential support to those most impacted. This initiative aims to create a safety net for pensioners and low-income families during these challenging times. Looking ahead, the Government remains dedicated to fostering economic growth that generates sufficient wealth to support all segments of society in the face of ongoing inflationary challenges.

4.1 Government Initiatives in the Employment Field

Each year, the Government remains committed to strengthening the workforce and encouraging greater participation from marginalised groups in the job market. Despite challenges posed by the war in Ukraine and the lingering effects of the COVID-19 crisis, recent Labour Force Survey (LFS)[1] data shows continued growth in the labour market. In fact, the LFS for the second quarter of 2024 indicates that the overall activity rate

[1] Data from the LFS may be subject to further revisions as a result of updates derived from the recent census data, which could provide a more accurate representation of the labour market dynamics.

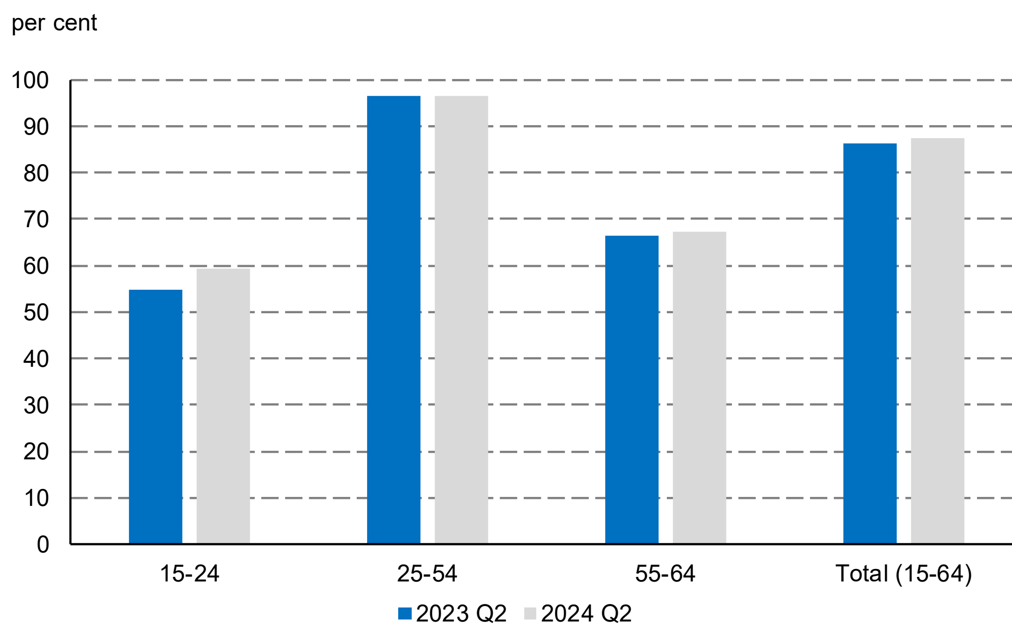
Chart 4.1
Activity Rates, Females



Source: National Statistics Office

for the working population (aged 15-64) reached 81.1 per cent, a 1.2 percentage point increase compared to the same period in 2023. This data is illustrated in Charts 4.1 and 4.2, which break down the activity rate by age and gender. Compared to the second

Chart 4.2
Activity Rates, Males



Source: National Statistics Office

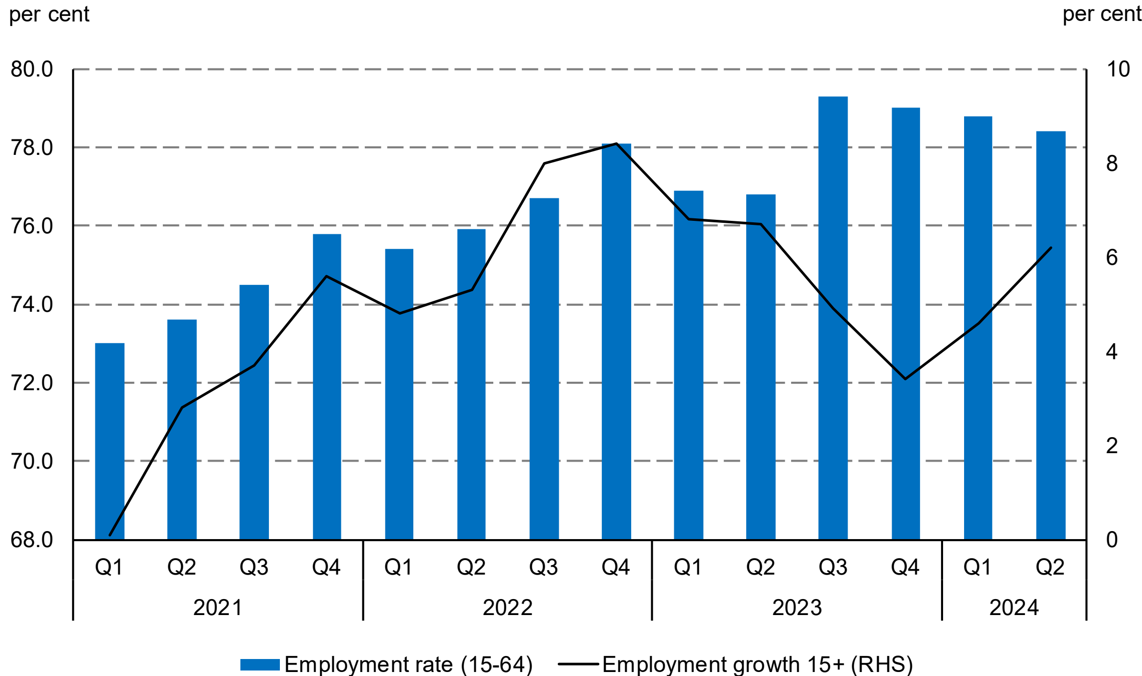
quarter of 2023, the activity rate for males rose by 1.1 percentage points, while the rate for females increased by 1.3 percentage points.

The largest increase in activity was observed in the 15-24 age group, where the activity rate rose by 2.4 percentage points to 54.2 per cent compared to the same quarter in 2023. Conversely, the highest activity rate was reported in the 25-54 age group, reaching 91.7 per cent in the second quarter of 2024, up by 0.7 percentage points from the previous year. The 55-64 age group saw a slight increase of 0.1 percentage points, with an activity rate of 54.9 per cent in 2024. A deeper analysis of gender-specific activity rates shows that only the 25-64 male cohort and the 55-64 female cohort experienced declines, with decreases of 0.1 and 0.8 percentage points, respectively.

The overall and case-specific increases are driven by a combination of current and long-term labour market policies aligned with the new national employment strategy, which focuses on promoting adaptable skills, implementing active labour market measures, and enhancing the attraction and retention of foreign workers.

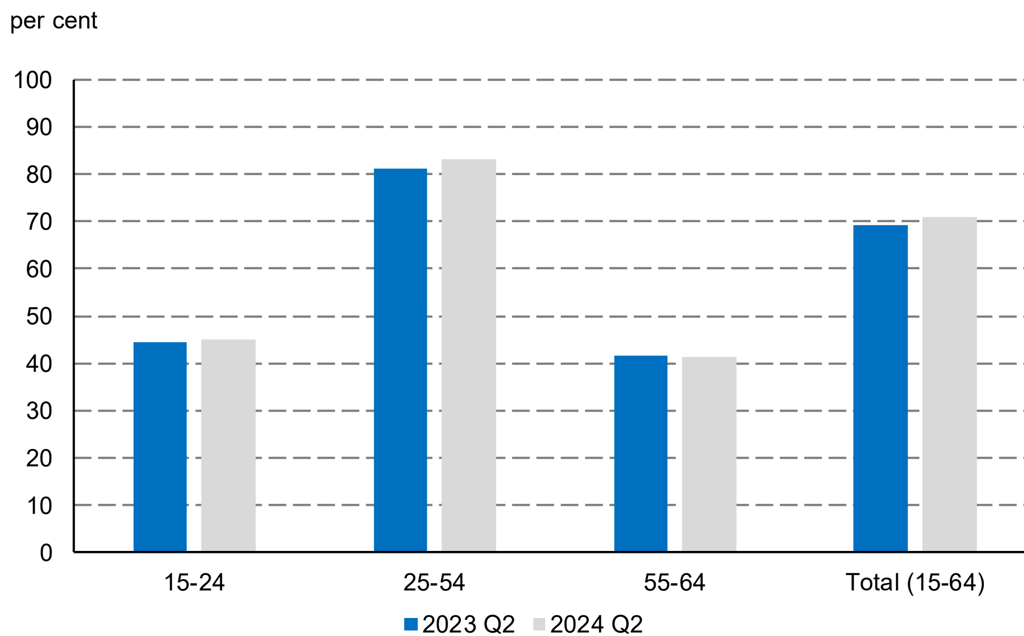
The latest employment data from the LFS for the second quarter of 2024 indicates that the number of employed individuals rose to 315,545, reflecting an increase of 18,417 individuals over the past twelve months, representing a growth rate of 6.2 per cent. As illustrated in Chart 4.3, the employment rate in the second quarter of 2024 stood

Chart 4.3
Employment Growth and Employment Rate



Source: National Statistics Office

Chart 4.4
Employment Rates, Females



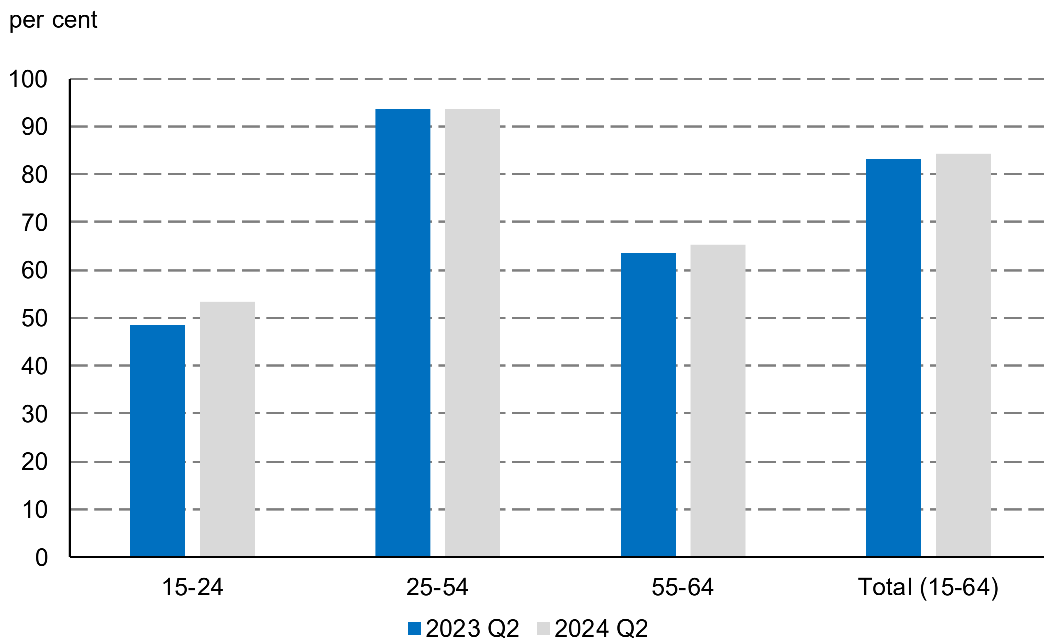
Source: National Statistics Office

at 78.4 per cent, marking an increase of 2.0 percentage points compared to the same period of the previous year. Moreover, by the end of June 2024, this employment rate was 7.5 percentage points higher than the European Union (EU) 27 average for the same period. This indicates that the Maltese labour market continues to diverge further from the EU average.

Further analysis of the employment rates across different age brackets reveals that individuals aged 25 to 54 reported the highest employment rate at 89.1 per cent, reflecting a 1.0 percentage point increase compared to the same quarter of the previous year. Conversely, the lowest employment rate was recorded for those aged 15 to 24, at 49.4 per cent. Notably, this age group registered the highest increase from the previous year, amounting to 2.7 percentage points.

When analysing age brackets with respect to gender, the most significant increase was observed among males aged 15 to 24, whose employment rate rose by 4.7 percentage points, compared to a modest increase of 0.3 percentage points for females in the same age bracket, as shown in Charts 4.4 and 4.5. Additionally, the employment rate for females aged 55 to 64 was the only one to decrease over the twelve months ending in June 2024, declining by 0.4 percentage points. In contrast, the male employment rate in the same age bracket increased by 1.8 percentage points, resulting in a net positive change of 0.8 percentage points for both genders combined. Lastly, the 25 to 54 age bracket saw the greatest increase for females at 2.1 percentage points, while the male employment rate in this group rose by 0.1 percentage points.

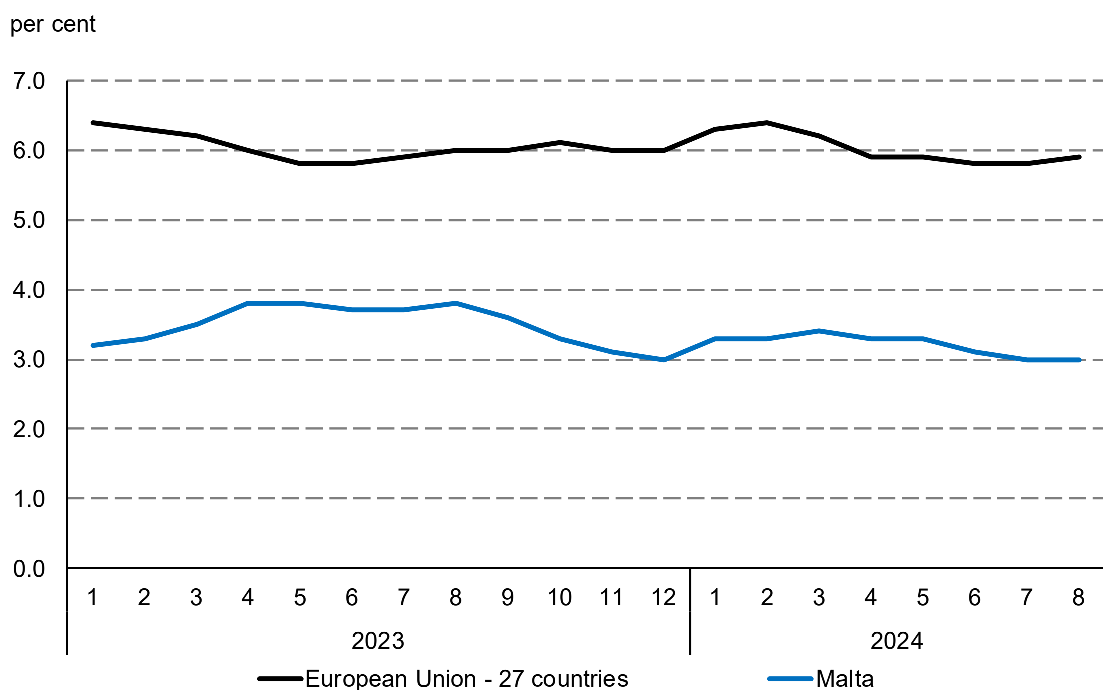
Chart 4.5
Employment Rates, Males



Source: National Statistics Office

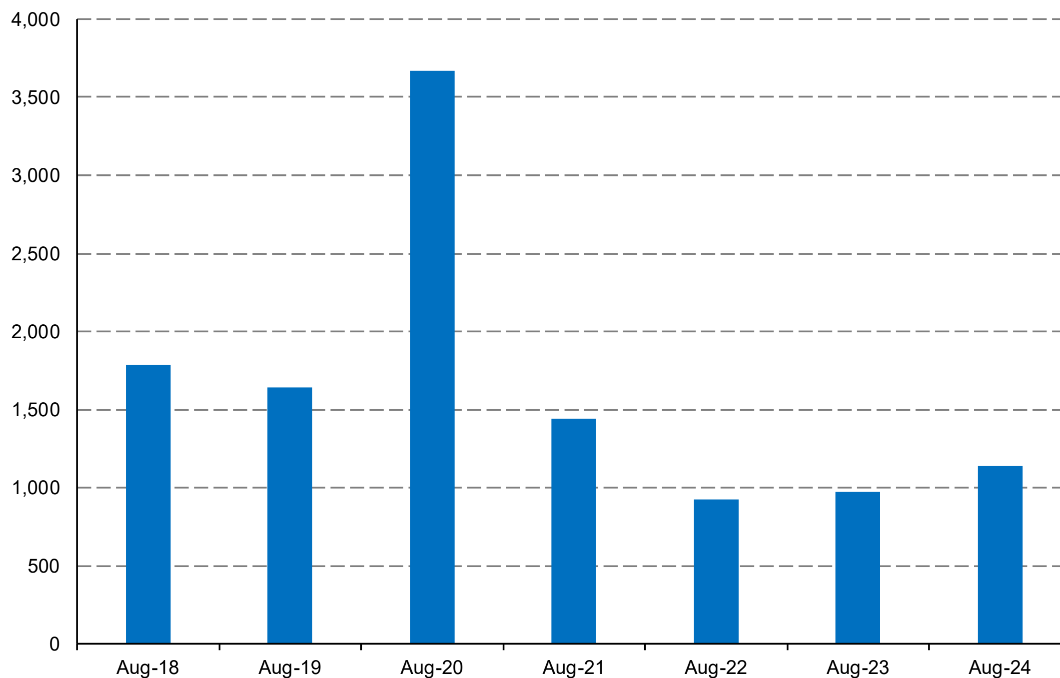
In terms of unemployment, Malta continues to outperform its European peers, maintaining one of the lowest unemployment rates in the EU, as evidenced in Chart 4.6. Based on

Chart 4.6
Unemployment Rate (15-74)



Source: EUROSTAT

Chart 4.7
Average Number of Unemployed Persons Registering for Work



Source: National Statistics Office based on Jobsplus database

data from January to August 2024, Malta registered an average unemployment rate of 3.2 per cent, which is 2.8 percentage points lower than the EU average of 6.0 per cent.

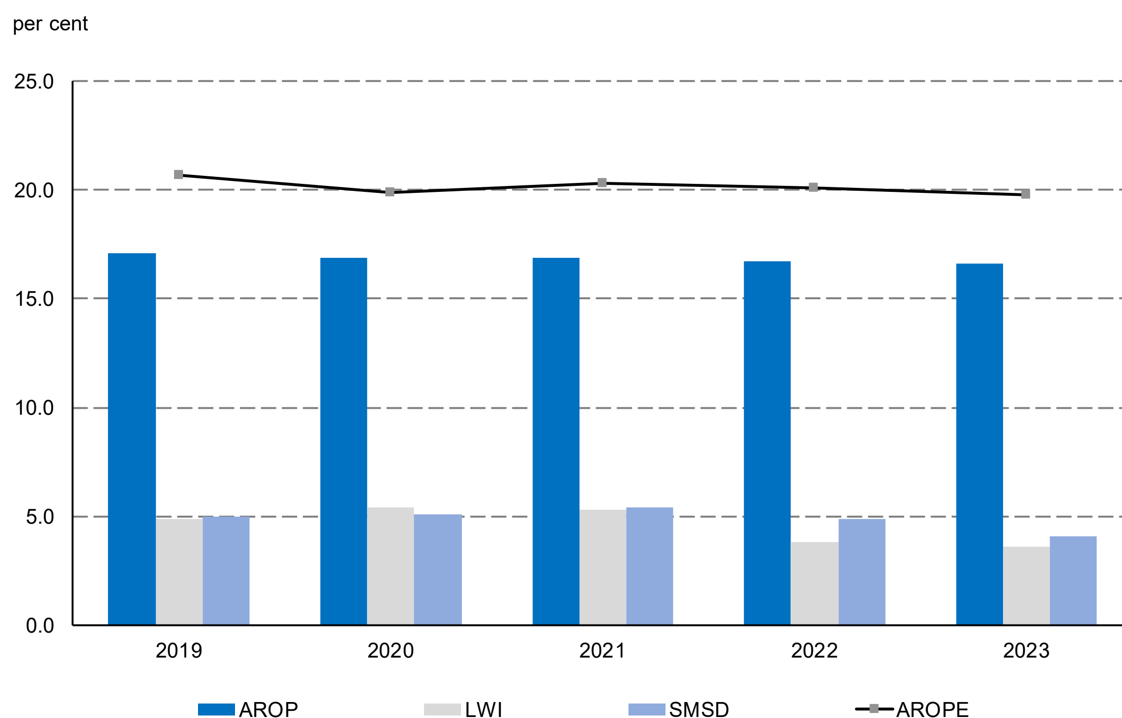
Furthermore, Chart 4.7 shows that the number of unemployed persons registering for work in August 2024 amounted to 1,138, an increase of 164 individuals over the same month of the previous year.

4.2 Indicators measuring Poverty, Social Exclusion and Inequality

The key measure for monitoring progress towards the EU's 2030 target on poverty and social exclusion is the at-risk-of-poverty-or-social-exclusion (AROPE[2]) rate. This rate represents the percentage of the overall population deemed to be at risk of poverty or social exclusion. In 2023, as shown in Chart 4.8, Malta's AROPE rate stood at 19.8 per cent, a decrease of 0.3 percentage points from the 20.1 per cent rate registered in 2022. When compared to the EU27 average, Malta's 2023 AROPE rate was 1.6 percentage points lower, as the EU average stood at 21.4 per cent.

[2] Further detail on the AROPE can be found in the following link: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)

Chart 4.8
At Risk-of-Poverty Indicators



Source: EUROSTAT

The AROPE is composed of three main indicators, namely:

1. At-risk-of-poverty rate (AROP): This indicator outlines the number of households falling below a threshold set at 60 per cent of the median household disposable income.
2. Severe material and social deprivation (SMSD): This indicator represents the number of households that are unable to afford certain basic necessities from a predetermined list of goods and services.
3. Low Work Intensity (LWI): This indicator measures households' work intensity in terms of hours worked per week.

Before factoring in social transfers, Malta's AROP rate in 2023 stood at 33.6 per cent, while the EU rate for the same year stood at 42.9 per cent, 9.3 percentage points above Malta's rate. This indicates that, based solely on income and financial conditions, Malta has a lower proportion of its population at risk of poverty compared to the EU average. After accounting for social transfers, Malta's AROP rate, one of the components of the AROPE rate, dropped significantly by 17.0 percentage points, to 16.6 per cent in 2023. This confirms the role of social transfers in providing additional support to individuals and households, reducing their vulnerability to poverty. A similar but larger reduction occurred at the EU level, where the rate fell by 26.7 percentage points reaching 16.2 per

cent. The large reduction across the EU likely reflects coordinated efforts and policies among Member States targeted at reducing poverty.

In recent years, Malta's AROP rate after incorporating social transfers has seen a continuous slight decrease each year. In 2019 it stood at 17.1 per cent and declined to 16.9 per cent in the following two years. In 2023, this rate settled at 16.6 per cent. Notably, the AROP thresholds, or poverty line, for single-person households and families with two adults and two children under 14 years increased by 23.4 per cent over the five-year period examined, highlighting the increase in the median equivalised income[3]. This rise is primarily attributed to employment income, which increased more rapidly than social benefits and other income sources. Consequently, this may have contributed to a higher AROP rate, as the higher poverty line captures more households below the threshold.

The other two components of the AROPE rate are the SMSD and LWI. As depicted in Chart 4.8, in 2023, the SMSD rate in Malta for individuals living in households was 4.1 per cent, representing approximately 21,853 people. This figure marked a decrease of 0.8 percentage points from the 2022 rate of 4.9 per cent. Additionally, Malta's SMSD rate in 2023 was 2.7 percentage points lower than the EU27 average, indicating that a smaller proportion of individuals living in Malta experienced severe material and social deprivation compared to the EU27 average.

In 2023, 3.6 per cent of individuals in Malta lived in households with LWI, which is a 0.2 percentage point decrease from the 2022 rate of 3.8 per cent. This rate is also 1.3 percentage points lower than the 4.9 per cent recorded in 2019, suggesting improved work engagement among some households and a positive long-term trend. Additionally, the EU27 rate for individuals in households with LWI was 8.0 per cent in 2023, making Malta's rate 4.4 percentage points lower than the EU average for that year.

The distribution of income in Malta can be analysed using two key metrics: the income quintile share ratio (S80/S20) and the Gini coefficient, as shown in Table 4.1. The latest

Income Distribution

Table 4.1

	EU27		Malta	
	2022	**2023**	**2022**	**2023**
S80/S20 ratio	4.7	4.7	4.8	5.3
Less than 65 years	4.9	4.9	4.8	5.3
65 years or over	4.1	4.1	3.6	4.3
Gini-coefficient	29.6	29.6	31.1	33.0

Source: Eurostat

[3] AROP threshold is defined as 60 per cent of the median national equivalised income.

available data for these indicators is based on 2023, using 2022 as the income reference year. Consequently, any income redistribution measures or policies introduced from 2023 onwards are not reflected in these indicators of income inequality. The S80/S20 ratio measures income inequality by comparing the income of households in the 80th percentile to those in the 20th percentile, calculated by dividing the former by the latter.

Over the past year, the S80/S20 indicator has risen, with the ratio increasing from 4.8 in 2022 to 5.3 in 2023. This implies, that in 2023, households in the top 20th percentile earned, on average, 5.3 times more than those in the 80th percentile. When compared to the EU27, which recorded an S80/S20 ratio of 4.7 in 2023, income inequality in the EU has decreased, whereas inequality in Malta has increased. Breaking down this indicator by age group, the increase in inequality in Malta occurred due to an increase in both the 65 years and over cohort and also in the less than 65 years cohort. The cohort of less than 65 years experienced an increase in the ratio of 0.5, reaching a ratio of 5.3 in 2023 from 4.8 in 2022. Among those aged 65 and over, the ratio rose by 0.7 compared to 2022, resulting in a ratio of 4.3 in 2023. Both figures for Malta—among individuals younger than 65 and those aged 65 or older—are higher than the EU27 average which indicates that income disparity is more pronounced in Malta in both cohorts compared to the average of the EU.

The Gini coefficient after social transfers, increased by 1.9 percentage points over the past year, from 31.1 per cent in 2022 to 33.0 per cent in 2023. Additionally, when compared to the EU27, Malta's rate in 2023 is 3.4 percentage points higher. This also suggests that income distribution in Malta is more uneven compared to the average inequality across EU countries. This divergence in income inequality trends within the EU can be partly attributed to the impact of COVID-19 and the resulting rise in unemployment, which affected household disposable income. Several EU countries faced higher unemployment rates during this period, leading to a more equitable income distribution. In contrast, Malta experienced minimal impact on unemployment due to the Government's robust support for businesses and employees through various measures, helping households maintain their standard of living.

4.3 Distributional Impact of selected 2024 Budget Measures

The Government has consistently undertaken comprehensive efforts to enhance the social protection system in Malta, prioritising support for pensioners and low-income families. These initiatives are crucial for providing a reliable safety net to vulnerable households, particularly in the face of the recent crises. Recognising the imperative to address poverty and reduce social inequality, the Government has been committed to implement a series of policy reforms each year. These reforms, focused on the tax and benefits framework, are designed to ensure a more equitable distribution of resources. By continually refining these policies, the Government aims to significantly improve the quality of life of vulnerable households, fostering a more inclusive and supportive community for all members of society.

To this end, this section examines how selected policy measures announced in the 2024 Budget affect the income distribution and poverty levels of households[4]. These measures include the weekly pension increase of €2.19, the €50 increase in the elderly grant, the tax rebate for pensioners, an increase in the children's allowance, the increase in childbirth and adoption bonus, allowance for post-secondary students, as well as the additional COLA mechanism. To evaluate the impact of these initiatives, simulations were modelled using EUROMOD, an EU-wide static tax-benefit microsimulation model and 2022 EU-SILC microdata[5].

The simulations consist of four policy scenarios:

- **'Baseline' Scenario**[6] which represents the 2023 tax and benefit policy rules, excluding the additional COLA mechanism and increase in pension of that year.
- **'Benefits Targeted to Elderly' Scenario** models a pension increase of €2.19 per week, an increase of €50 in the elderly grant and the tax rebate for pensioners to the base scenario.
- **'Benefits Targeted to Families with Children' Scenario** models the increase in the children's allowance, the increase in childbirth and adoption bonus and allowance for post-secondary students to the base scenario.
- **'Additional COLA Mechanism' Scenario** models only the Additional COLA Mechanism announced in the 2024 budget to the base scenarios.

In each policy scenario, the difference between the policy scenario and the baseline highlights the distributional impact of that specific policy reform.

Measures targeted to the Elderly Population

In the 2024 Budget, the Government continued to target pensioners through a set of additional measures, which are collectively analysed through simulation analysis. These measures include a weekly increase of €2.19 in contributory and non-contributory pensions (over and above the increase in the statutory COLA), a €50 increase in the

[4] The measures are selected based on what can be modelled within EUROMOD using the EU-SILC micro-data. For further detail on what is modelled in EUROMOD, see the latest Country Report.

[5] EUROMOD is a tax-benefit microsimulation model for the EU that enables researchers and policy analysts to calculate, in a comparable manner, the effect of taxes and benefits on household incomes and work incentives for the population of each country and for the EU. These simulations are based on the 2023 tax and benefit system of Malta using EUROMOD version I6.0+ and the 2022 EU-SILC microdata. The EU-SILC data represents the national population and provides data on income, poverty, social exclusion and living conditions of households.

[6] The baseline scenario is based on the 2023 tax and benefit system of Malta excluding the additional COLA mechanism introduced in 2022. Thus, the results presented for the additional COLA mechanism are assessed against a no-policy scenario. The same methodology applies to the analysis of the increase in pension reform.

elderly grant for individuals aged 80 years and over who are still living in the community or in a private care home, and an increase in the tax rebate on pension income.

These combined initiatives are expected to decrease the overall AROP rate by around 0.18 percentage points, as shown in Table 4.2. Notably, this decline is primarily attributed to the decrease in poverty rates among individuals aged 65 and over, as shown in the breakdown of poverty rates by household type.

Additionally, the Gini coefficient, an indicator of income inequality, also showed a decline, suggesting that these measures help in alleviating income inequality. Moreover, as illustrated in Chart 4.9, it is evident that these policies are expected to have a positive impact on the disposable income of all income brackets, particularly benefiting those in the lower end of the income distribution.

Measures targeted to Families with Children

The Government implemented several measures pertaining to child benefits. One of these measures involves an annual increase of €250 in the children's allowance ensuring that parents of dependent children[7], regardless of their income, receive an additional €250

Distributional impact of reforms (in percentage points)

Table 4.2

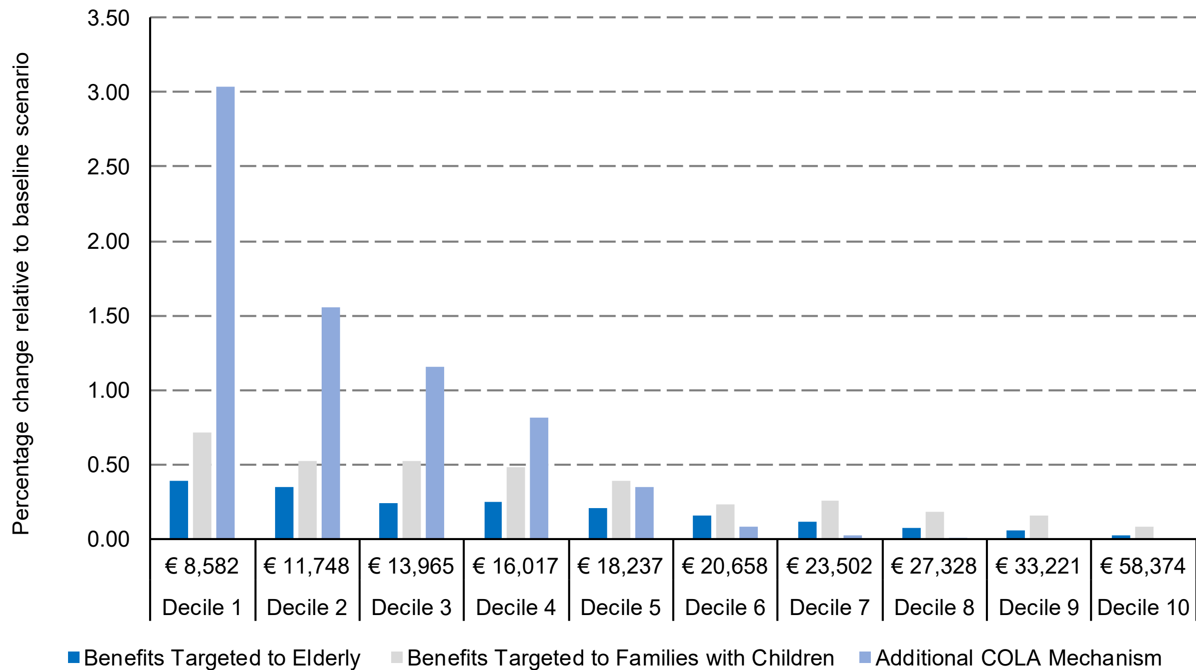
	Benefits Targeted to Elderly	Benefits Targeted to Families with Children	Additional COLA Mechanism
Poverty rate[1] of Total Population	-0.18pp	-0.26pp	-0.65pp
Poverty rates by Household Type:			
One adult < 65, no children	0.00pp	0.00pp	-0.45pp
One adult >= 65, no children	-0.82pp	0.00pp	-1.02pp
One adult with children	0.00pp	-2.59pp	-2.13pp
Two adults < 65, no children	0.00pp	0.00pp	-0.13pp
Two adults, at least one >= 65, no children	-1.06pp	0.00pp	-1.69pp
Two adults with one child	0.00pp	-0.59pp	-0.79pp
Two adults with two children	0.00pp	0.00pp	-0.44pp
Two adults with three or more children	0.00pp	-4.49pp	-4.49pp
Three or more adults, no children	0.00pp	0.00pp	-0.11pp
Three or more adults with children	-0.07pp	-0.07pp	-0.23pp
Gini Coefficient	-0.001	-0.001	-0.003

[1] The poverty indicators capture poverty risk of the total population and different sub-population groups. The indicator is based on the at-risk-of poverty (AROP) rate of the baseline scenario. Households are defined as being at risk of poverty (poor) if their equivalised disposable household income is below the poverty line, which is defined as 60% of the median equivalised disposable household income, set at €11,663.

Source: EPD calculations using EUROMOD and 2022 EU-SILC data

[7] Dependent children are assumed to be children under the age of 16 in line with the eligibility conditions of the children allowance benefit.

Chart 4.9
Percentage change in Equivalised Disposable Income from Baseline Scenario for Selected Measures by Decile Groups



Source: EPD calculations using EUROMOD and 2022 EU-SILC data

per child as part of their respective benefit. Additionally, the Government increased the childbirth and adoption bonus by €100 for the first child and €600 for any subsequent children in the family. Another measure introduced in this context is a special allowance for parents whose children pursue education beyond the compulsory age. This allowance amounts to €500 per year for children aged 16 to 18 who continue living with their parent(s) and are full-time students.

EUROMOD simulations conducted to evaluate the effects of these measures, indicate that the overall AROP rate is expected to decrease by around 0.26 percentage points, primarily affecting households with children. When looking at the AROP by household type, the highest decline is observed in the households with two adults and three or more dependent children, recording a decrease of 4.49 percentage points (Table 4.2). The Gini coefficient also registered a decline, indicating that these measures help alleviate income inequality. Furthermore, Chart 4.9 illustrates a positive and progressive impact on disposable income across all income brackets.

Additional COLA Mechanism

The additional COLA mechanism is a benefit designed to support vulnerable families. This mechanism was developed to compensate low-income families for the recent increase in the cost of living due to high inflation. It is triggered when the following two circumstances occur simultaneously:

- The inflation rate in the previous 12 months exceeds 2.0 per cent.
- Individual inflation in the previous 12 months in three of the five basic RPI components - Food; Accommodation; Electricity, Water, Gas and Fuel; Household equipment and household maintenance cost; and Personal health care – exceeds 2.0 per cent.

If both conditions are met, the mechanism is triggered, and households earning less than the household median equivalised income[8], set at €18,155 for 2023, will benefit from it. The benefit rate is based on the disparity between the inflation rates experienced by low-income household and the average household. The most affected households will receive the highest allowance, as the mechanism ensures that the pay-out is highest among families with more persons living in same household and whose households with the lowest equivalised income. The benefit can vary between €100 and €1,500 per household.

This mechanism is expected to reduce the overall AROP rate by approximately 0.65 percentage points, as shown in Table 4.2. The most substantial decline is expected within households consisting of two adults with three or more children, single-parent households, and households with individuals aged 65 years and older. Consequently, this initiative is expected to have a substantial positive distributional impact on the elderly cohort and families with dependent children.

Additionally, Chart 4.9 demonstrates a substantial increase in equivalised disposable income among the bottom three deciles, reflecting the targeted nature of this measure. This result is reinforced by the improvement in the Gini coefficient, affirming the effectiveness of the measure in addressing income inequality.

4.4 2025 Budget Measures

In the upcoming Budget, the Government will continue supporting the economy by insulating it from the rise in energy prices and the increase in price of basic commodities. Social support measures are also aimed at supporting vulnerable households which have greater risks of poverty or socially exclusion in particular, pensioners, elderly persons, persons with disability, as well as low-income families. The Government will also implement measures that continue to reinforce its commitment towards the green economy including through the diversification of Malta's energy sources and the provision of cleaner energy as well as the provision of energy efficiency schemes for household and businesses, amongst others. The Government will also continue investing in the healthcare, elderly care, and education sectors, while sustaining the infrastructural

[8] Equivalised disposable income, also referred to as National Equivalised Income (NEI), is defined as the household's total disposable income divided by its "equivalent size", to take account of the size and composition of the household and is attributed to each household member. The equivalised value is based on the weight specified by the OECD, in which the reference person takes a value of one, all other adults in the household take a value of 0.5 each and children take a weighting individual value of 0.3.

investment across different priority areas including roads, energy, marine, water and waste management, and transport. Moreover, the 2025 Budget will ensure that the overall impact of the Budget measures is in line with the SGP rules. Indeed, the growth in net primary expenditure in 2025 is estimated to be lower than the 6.0 per cent growth outlined in Malta's medium-term fiscal structural plan.