

Pre-Budget  
Consultation  
Document

2027

**finanzi**



# Pre-Budget Consultation Document 2027

September 2026



**GOVERNMENT OF MALTA**  
MINISTRY FOR FINANCE



# Contents

|    |                                                                     |     |
|----|---------------------------------------------------------------------|-----|
|    | Foreword                                                            | 4   |
| 01 | Sustaining Growth Through Economic Resilience                       | 8   |
| 02 | Preserving Fiscal Strength                                          | 38  |
| 03 | Energy Prices and the Implications for Malta's Economy              | 56  |
| 04 | Driving the Transition Towards a Sustainable Future                 | 78  |
| 05 | Strengthening Families, Living Standards and Demographic Resilience | 94  |
| 06 | Empowering Communities Through Education and Inclusion              | 112 |
| 07 | Investing in Health for Wellbeing and Social Resilience             | 130 |
|    | Concluding Remarks                                                  | 148 |

# Foreword

**Clyde Caruana**  
Minister for Finance





Malta enters the  
2027 Budget from  
a position of strength that few  
countries in Europe can match.  
Once again, our economy  
has grown faster than the  
European Union average.

The deficit has fallen below 3.0 per cent of GDP, two full years ahead of the deadline set by the Council, while public debt remains well below the 60.0 per cent Treaty ceiling. None of this was inevitable. These gains were achieved against the backdrop of successive external shocks, from the closure of the Strait of Hormuz to renewed conflict in the Middle East, each placing further pressure on energy prices and testing economies across the continent. Through it all, Malta held its ground.

Those pressures have not disappeared. Keeping electricity and fuel prices stable for families and businesses costs the Government millions of euros every year. Shielding the country from volatile international prices carries a real and recurring cost, but it is a cost we have chosen to bear. We will not pass international price shocks on to Maltese households, nor will we protect them at the expense of sound public finances.

Energy price stability remains a central priority for 2027, and it will be delivered while keeping the deficit below 3.0 per cent of GDP. It is this fiscal discipline that makes such stability sustainable and credible.

Our strength today does not, however, erase the vulnerabilities that lie beneath it. Malta's fertility rate is the lowest in the EU27, while an ageing population will continue to place pressure on pensions, healthcare and long-term care in the years ahead. These challenges are not reasons for alarm; they are reasons for action. They reinforce the need to maintain discipline in public spending while investing deliberately in the foundations of Malta's resilience for the decade ahead: our energy security, our workforce, our families and our businesses.

This Pre-Budget Document sets out the evidence that will inform the decisions ahead. It is being published to ensure that the debate leading up to the Budget is an informed one. I invite social partners, businesses and civil society to engage with it, challenge it and share their views. The choices we make in Budget 2027 will be shaped in equal measure by the numbers set out in these pages and by the people whose lives lie behind them. Malta has weathered some of the most challenging years in recent memory and emerged stronger. Our responsibility now is to preserve that strength and build on it for the years ahead.

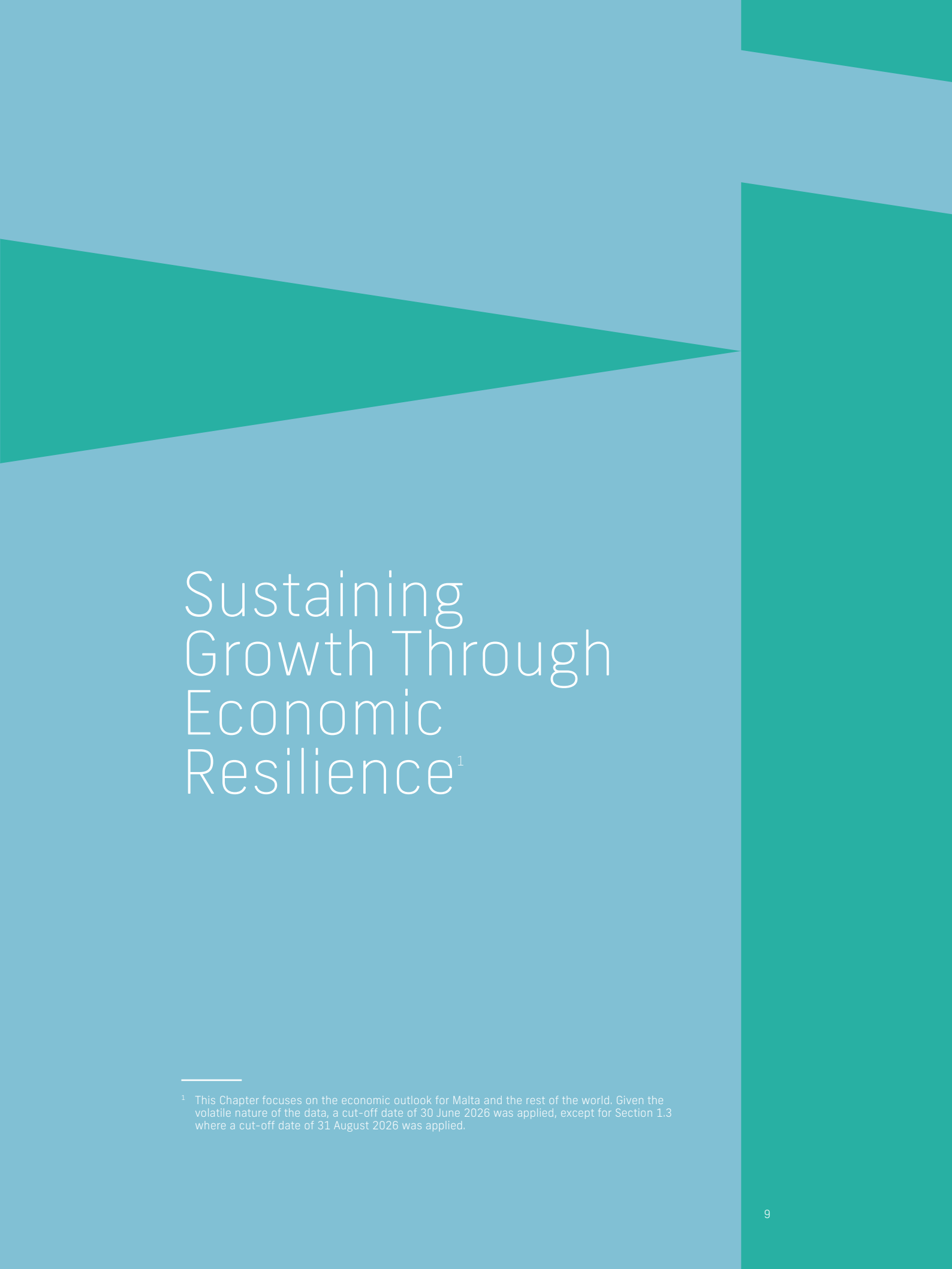


**Clyde Caruana**  
Minister of Finance





01



# Sustaining Growth Through Economic Resilience<sup>1</sup>

---

<sup>1</sup> This Chapter focuses on the economic outlook for Malta and the rest of the world. Given the volatile nature of the data, a cut-off date of 30 June 2026 was applied, except for Section 1.3 where a cut-off date of 31 August 2026 was applied.

Malta's economy has demonstrated considerable resilience in recent years, sustaining strong growth despite a series of external shocks and heightened international uncertainty. This resilience reflects the economy's ability to adapt to changing conditions while maintaining momentum across key areas of activity. As global developments continue to evolve, sustaining this performance will depend on preserving the economy's underlying strengths while enhancing its capacity to absorb future shocks and support stable, inclusive, and sustainable growth.

## 1.1 International Economic Outlook

The global economy in 2026 was shaped by several geopolitical developments that weighed on global output. Supply-chain disruptions arising from developments in the Strait of Hormuz, one of the world's most important energy corridors, caused oil prices to surge, with repercussions across international markets. These adverse effects extended beyond the energy sector, increasing transport and food costs, fuelling inflation expectations, weakening business sentiment and eroding household purchasing power, with energy-importing economies in Europe and Asia among the hardest hit. As policymakers grappled with rising inflationary pressures, the European Central Bank (ECB) became the first major central bank to raise interest rates.<sup>2</sup>

Despite the challenging global economic environment in the first half of 2026, the negative impact of heightened trade barriers and elevated uncertainty was partly mitigated by increased investment in technology, including artificial intelligence and the emergence of agentic AI, as well as by favourable financial conditions and continued fiscal and monetary stimulus.

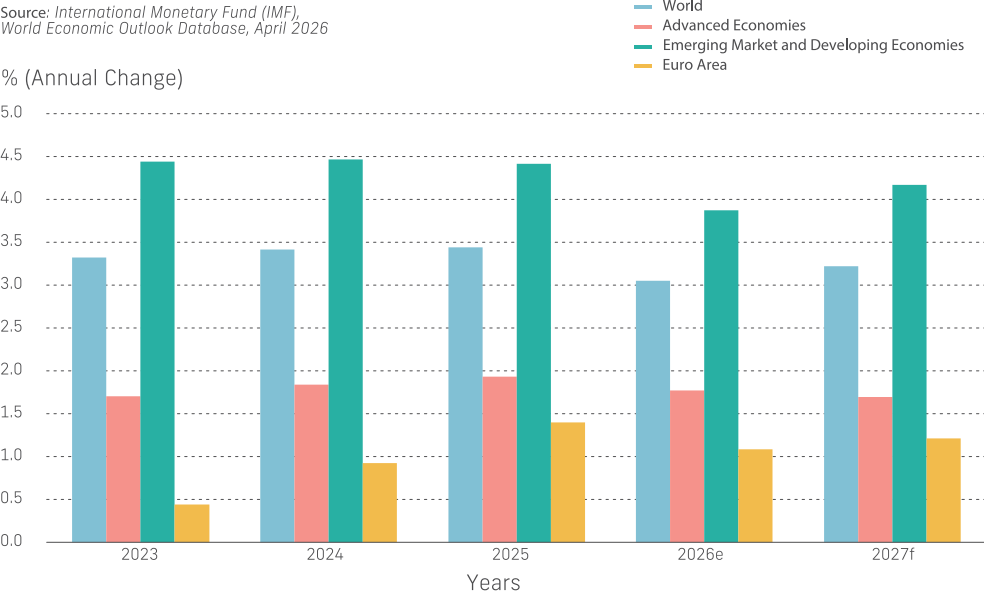
The April 2026 World Economic Outlook (WEO) published by the International Monetary Fund (IMF) indicates that global output increased by 3.4 per cent in 2025, unchanged from 2024. The IMF noted that this pace of expansion remained markedly below the historical average of 3.7 per cent recorded during the period 2000-2019.

---

<sup>2</sup> Politico Europe (2026) 'ECB becomes first major central bank to hike rates amid Iran war', Politico Europe. Available at: <https://www.politico.eu/article/ecb-first-major-central-bank-hike-rates-iran-war/>

The IMF forecasts global growth to moderate to 3.1 per cent in 2026, 0.2 percentage points lower than projected in its January 2026 forecast. Growth is subsequently expected to recover marginally to 3.2 per cent in 2027 (Figure 1.1).

Fig 1.1  
Real Economic Growth by Region

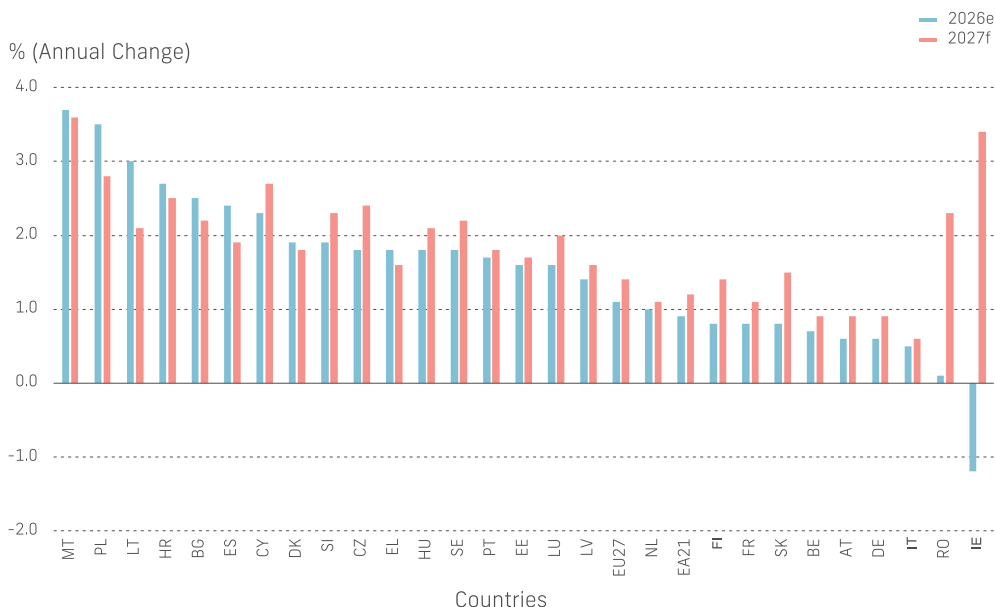


The EU economy is facing a renewed energy shock amid heightened geopolitical tensions in the Middle East. Higher energy prices have contributed to rising inflation, eroded household purchasing power, tighter monetary conditions, and heightened uncertainty, all of which have weighed on private consumption and investment. In addition, weaker export prospects, reflecting subdued global goods trade and persistent competitiveness challenges, are expected to place further pressure on economic activity. Against this backdrop, the European Commission (EC) projects EU GDP to grow by 1.1 per cent in 2026 and 1.4 per cent in 2027. Growth in the euro area is projected to be slightly lower, at 0.9 per cent in 2026 and 1.2 per cent in 2027. Malta, meanwhile, is projected to record the highest real GDP growth rate among EU Member States over the forecast horizon, as shown in Figure 1.2.

Fig 1.2

## Real Economic Growth by EU Country

Source: European Commission (EC), European Economic Forecast, Spring 2026



## 1.2 The Maltese Economy

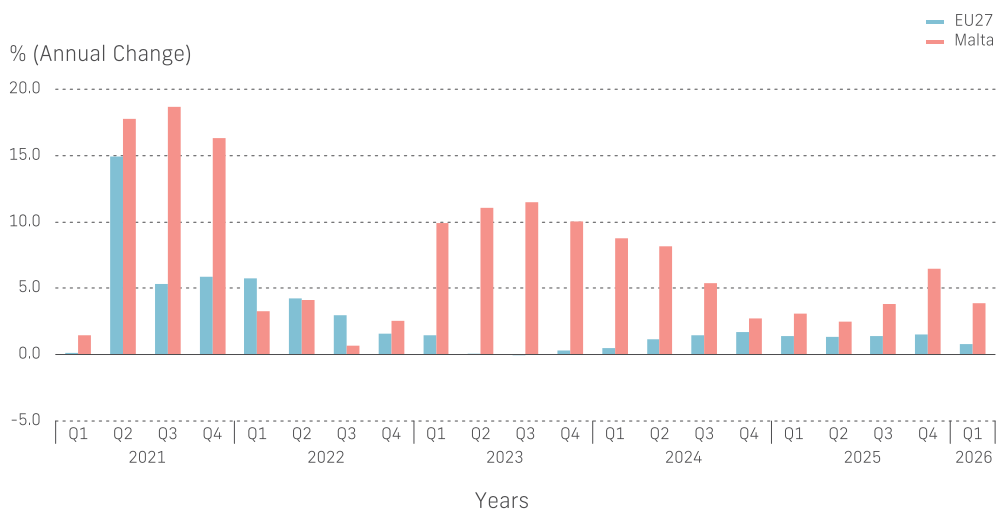
Local economic growth remained relatively robust despite continued geopolitical uncertainty and a challenging external environment marked by persistent global tensions and subdued economic activity across Europe. Although economic growth moderated in 2025 compared with the exceptionally strong growth rates recorded in previous years, Malta continued to outperform the EU27 average by a considerable margin.

As shown in Figure 1.3, year-on-year real GDP growth stood at 3.1 per cent in the first quarter of 2025, before moderating to 2.5 per cent in the second quarter and subsequently strengthening to 3.8 per cent and 6.5 per cent in the third and fourth quarters of 2025, respectively. Growth moderated once again in the first quarter of 2026 but remained resilient, registering a healthy real growth rate of 3.9 per cent. Despite this moderation, Malta continued to record robust economic growth, driven primarily by domestic demand, while the external sector also made a positive contribution to overall economic activity.

Fig 1.3

## Real GDP Growth

Source: Eurostat



Developments in the external sector also strengthened over the year. Following relatively weak trade growth in the first quarter of 2025, exports recovered strongly, increasing by 6.8 per cent in the second quarter before expanding further in the third and fourth quarters, by 4.3 per cent and 6.0 per cent, respectively. This positive momentum continued into the first quarter of 2026, when exports grew by 4.9 per cent. Import growth followed a similar pattern, increasing from 0.6 per cent in the first quarter of 2025 to 8.7 per cent in the second quarter, before moderating to 4.4 per cent and 3.7 per cent in the third and fourth quarters, respectively, and subsequently rising to 5.6 per cent in the first quarter of 2026. The tourism sector also maintained resilient growth over this period, contributing positively to external demand and supporting overall economic activity.

Relative to the rest of the EU, Malta continued to record significantly stronger real economic growth throughout 2025 and into the first quarter of 2026. While annual real GDP growth across the EU remained relatively subdued, fluctuating between 0.8 per cent and 1.5 per cent over the period, Malta consistently outperformed the EU average, with the gap becoming particularly pronounced in the second half of 2025.

The country's sustained economic performance reflected strong domestic demand, underpinned by resilient household and government consumption, together with a strengthening contribution from external demand. In the first quarter of 2026, domestic demand remained the principal driver of economic growth, contributing 3.7 percentage points to real GDP growth, while external demand also made a positive contribution.

Looking ahead, continued investment in artificial intelligence (AI), digital infrastructure, and AI-related skills will be essential for supporting productivity growth, fostering innovation, and enhancing Malta's long-term competitiveness, particularly as businesses increasingly integrate AI technologies into their operations.

### 1.2.1 The Labour Market

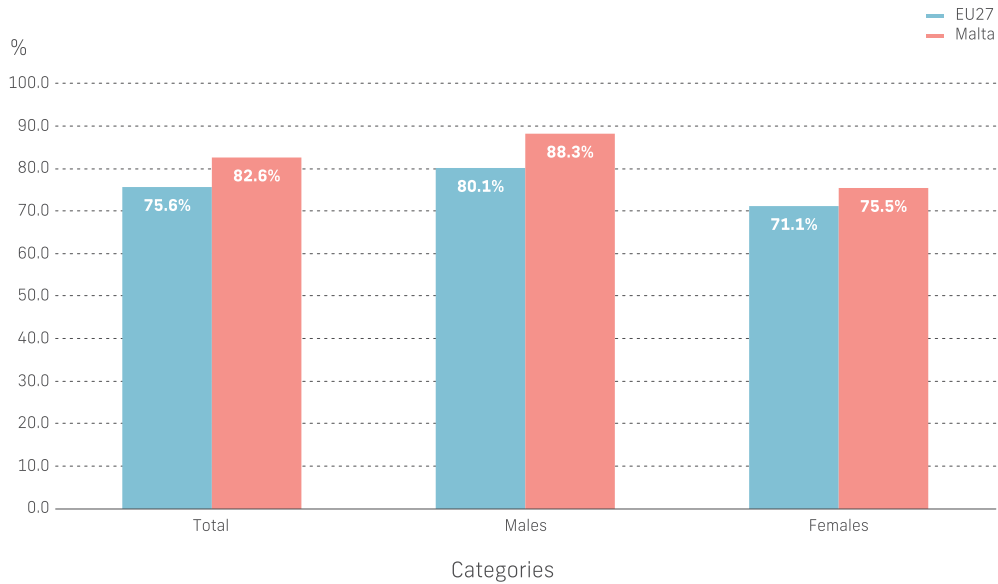
In 2025, the Labour Force Survey continued to indicate positive developments in Malta's labour market, with employment maintaining its upward trajectory despite a more moderate pace of economic growth. Employment growth, measured as the change in the number of employed persons aged 15 to 64, remained positive throughout the year, although the pace of growth gradually moderated from 3.9 per cent in the first quarter of 2025 to 2.9 per cent in the fourth quarter, before easing slightly further to 2.5 per cent in the first quarter of 2026.

Nevertheless, the sustained increase in employment underscores the continued resilience of the Maltese labour market and its ability to generate new employment opportunities despite persistent external economic uncertainty. Employment growth remained broad-based across both males and females, with male employment increasing by 2.7 per cent in the first quarter of 2026 compared with the corresponding quarter of the previous year, while female employment grew by 2.3 per cent. These developments indicate that labour market conditions remained supportive of employment growth across both sexes.

Fig 1.4

## Participation Rates by Gender (2025)

Source: Eurostat

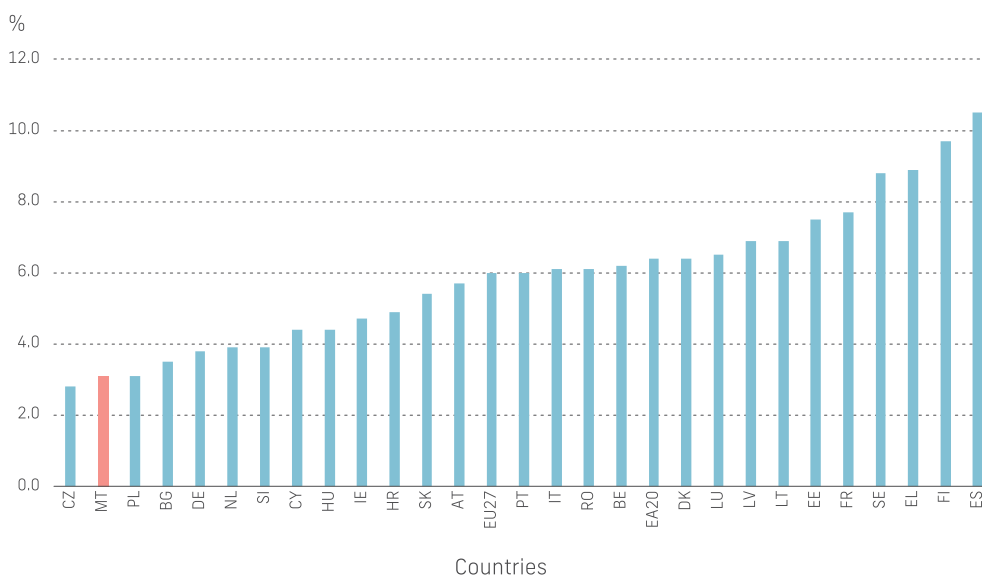


Malta's overall participation rate rose from 81.8 per cent in 2024 to 82.6 per cent in 2025, an increase of 0.8 percentage points. Improvements were also recorded across both genders, with the male participation rate increasing slightly from 88.1 per cent to 88.3 per cent, while the female participation rate rose more markedly, from 74.2 per cent to 75.5 per cent. The continued rise in female participation is particularly noteworthy, reflecting the growing participation of women in the labour market. Similar upward trends were observed across the EU27; however, Malta continued to outperform the EU27 average by a significant margin (Figure 1.4). Malta's overall participation rate remained well above the EU27 average of 75.6 per cent. Similarly, the country's male and female participation rates of 88.3 per cent and 75.5 per cent, respectively, remained above the corresponding EU27 averages of 80.1 per cent and 71.1 per cent.

Labour market conditions remained favourable throughout 2025 and into the first months of 2026, supported by sustained employment growth and rising labour force participation. The unemployment rate remained among the lowest in the European Union (Figure 1.5), declining further, albeit marginally, from 3.2 per cent in 2024 to 3.1 per cent in 2025, while the EU27 unemployment rate remained unchanged at 6.0 per cent. Malta, therefore, continued to record an unemployment rate of around half the EU27 average, underscoring the strength of its domestic labour market. Taken together, rising employment, increasing participation, and persistently low unemployment indicate that Malta's labour market remained resilient despite continued geopolitical uncertainty and weaker economic growth across many European economies.

Fig 1.5  
Unemployment Rate (2025)

Source: Eurostat



The continued expansion of the Maltese economy has important implications for the labour market and labour supply. As in other advanced economies, Malta continues to face structural demographic challenges associated with an ageing population and declining fertility rates, which increase the importance of maintaining an adequate supply of skilled labour to sustain future economic growth. These developments underscore the importance of policies aimed at attracting and retaining skilled workers, increasing labour market participation and further strengthening human capital. Continued investment in education, vocational training, upskilling, and lifelong learning is essential to raise labour productivity, enhance competitiveness, and support sustainable, long-term economic growth. At the same time, the increasing adoption of artificial intelligence is expected to reshape labour market demand by automating certain routine tasks while increasing demand for higher-skilled occupations. This further reinforces the importance of continuous reskilling and workforce adaptability. As labour shortages persist across a number of sectors, policies that facilitate workforce participation and ensure that labour supply continues to evolve in line with the changing needs of the economy will remain critical.

### 1.2.2 Productivity

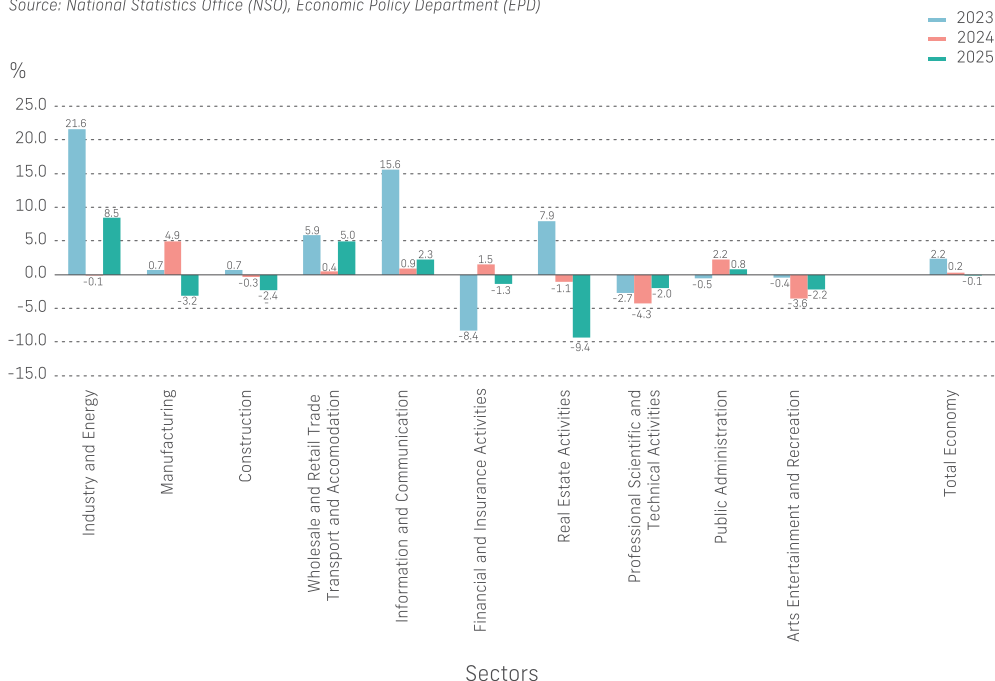
Malta's cost competitiveness, as measured by real unit labour costs, declined in 2025 compared with the previous year, reflecting continued economy-wide labour cost pressures. However, this deterioration was partly mitigated by margin absorption and the strong performance of several sectors. Over a longer time horizon, however, cost competitiveness has remained relatively stable, particularly when developments over the past six years are taken into account.

Figure 1.6 shows productivity growth across Malta's economic sectors over the past three years, measured in terms of real gross value added per worker employed. In 2023, productivity grew by 2.2 per cent, driven by gains in the Information and Communication, Real Estate Activities, Wholesale and Retail Trade, Transportation and Accommodation, Construction, and Manufacturing sectors.

Fig 1.6

## Productivity Growth by Sector

Source: National Statistics Office (NSO), Economic Policy Department (EPD)



Although productivity growth remained positive in 2024, it slowed to 0.2 per cent compared with 2023. In 2024, productivity growth was primarily driven by the Manufacturing, Public Administration, Financial and Insurance Activities, Information and Communication, and Wholesale and Retail Trade, Transportation and Accommodation sectors. All of these sectors recorded increases in both real output and employment levels, with real output growing at a faster pace than employment.

In 2025, the Maltese economy recorded a marginal decline in overall productivity. This reflected weaker productivity performance across several key sectors, including Real Estate, Manufacturing, Construction, Arts, Entertainment and Recreation, Professional, Scientific and Technical Activities, and Financial and Insurance Activities. In most of these sectors, productivity declined because employment growth exceeded real output growth. The exceptions were the Manufacturing and Real Estate sectors, where real output contracted while employment continued to grow.

### Sectoral Labour Productivity Decomposition for 2024<sup>3</sup>

Alongside technological progress, organisational efficiency and favourable market characteristics, more and better equipment per employee (referred to as capital deepening in economic terms) can be an important driver of labour productivity. Labour productivity is therefore positively associated with capital deepening.

An industry-level analysis of labour productivity against capital intensity in Malta demonstrates that a 1.0 per cent increase in the capital-to-worker ratio leads to roughly a 1.5 per cent increase in output per worker. This means that, on average, even with labour inputs held constant, investment in capital inputs can increase output per worker. This suggests that output growth can be generated through investment in capital rather than through increases in employment. Alternatively, labour can be substituted by capital to generate the same output, implying higher productivity per worker. This matters because living standards are tied to increases in productivity rather than output growth.

Furthermore, an examination of the sectoral relationship between labour productivity and capital deepening shows that some sectors achieve productivity levels above this benchmark, while others fall below it. In the former sectors, technological progress, organisational efficiency, and favourable market characteristics (often termed total factor productivity) contribute to labour productivity beyond capital deepening. In contrast, sectors falling below the benchmark may reflect weaker Total Factor Productivity (TFP). Arts, Entertainment and Recreation, for example, has approximately the same capital intensity as the Wholesale and Retail Trade, Transport and Accommodation sector. Yet, the former's productivity is significantly higher than the latter's. This suggests that additional capital investment does not necessarily translate into proportional productivity gains and highlights the important complementary role of Total Factor Productivity in determining sectoral labour productivity.

---

<sup>3</sup> At the time of writing, the latest available data on the capital stock related to 2024, hence the choice of 2024 as the reference year for the analysis.

Among the sectors included in the analysis, Information and Communication records the highest labour productivity relative to its capital intensity. Arts, Entertainment and Recreation exhibits a similar, albeit less pronounced, pattern. These sectors of the Maltese economy have recorded improvements in Total Factor Productivity. By contrast, Manufacturing and Professional, Scientific and Technical Activities record lower labour productivity than would be expected given their capital intensity, suggesting comparatively weaker Total Factor Productivity performance.

### Real Unit Labour Costs

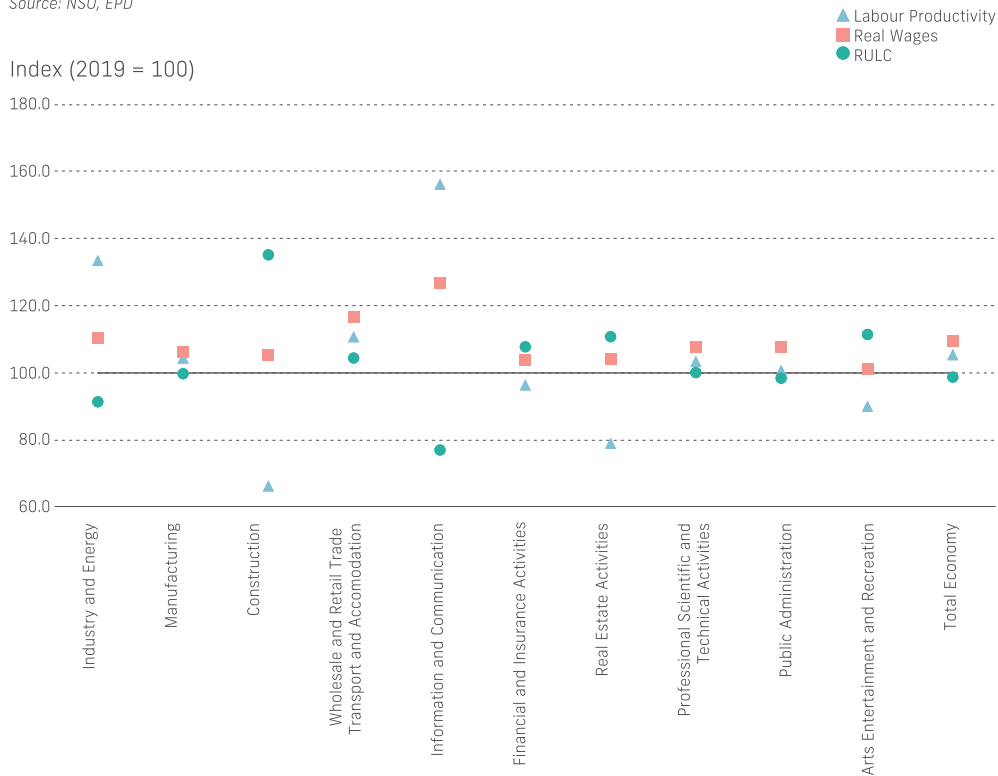
Real unit labour costs (RULC) measure the cost of labour required to produce a unit of output after accounting for sector-specific price changes using the respective GVA deflator. When the value of labour productivity grows faster than wages, RULCs decline, indicating improved cost competitiveness. Conversely, when wages rise faster than the value of labour productivity, RULCs increase. Figure 1.7 compares RULCs across sectors in 2025 with their respective levels in 2019. Most sectors recorded RULCs broadly in line with their 2019 levels, suggesting limited changes in cost competitiveness over the period.

A notable increase in RULCs was observed in the Construction sector, which recorded consecutive increases over the past three years. Successive declines in labour productivity, combined with a modest rise in wages relative to product prices, pushed the sector's RULC in 2025 to around 35.0 percentage points above its 2019 level. Over the same period, RULC also increased in Arts, Entertainment and Recreation (11.2 percentage points) and Real Estate Activities (10.7 percentage points) relative to 2019.

Fig 1.7

## Changes in Real wages, Labour Productivity and Real Unit Labour Costs by Sector (2019=100, 2025)

Source: NSO, EPD



In contrast, the Information and Communication sector recorded a substantial improvement in competitiveness. Strong productivity growth more than offset the increase in wages net of prices, reducing the sector's RULC by around 23.0 percentage points in 2025 relative to its 2019 level. The sector has recorded continued improvements in productivity since 2019, indicating that it is able to generate considerably more output per unit of labour cost than before the pandemic. The RULC of the Industry and Energy sector also declined markedly over the past three years, falling to a level 8.7 per cent below that recorded in 2019.

In the EU, RULC growth stood at 0.3 per cent in 2023, accelerated to 1.54 per cent in 2024, and moderated to 0.6 per cent in 2025. Relative to developments in the EU, Malta recorded a substantial decline in RULC growth in 2023, following labour productivity gains over the same period. In 2024 and 2025, Malta's RULC grew by 2.4 and 2.8 per cent, respectively. RULC growth in Malta over the past two years outpaced that in the EU, reflecting higher labour productivity growth in the latter between 2024 and 2025.

### Evolution and Drivers of the GVA Deflator

The following analysis examines the sources of domestic price pressures by decomposing changes in the Gross Value Added (GVA) deflator into contributions from labour costs, profit margins and taxes<sup>4</sup>. It helps to identify the extent to which changes in domestic prices reflect developments in labour costs and productivity, changes in profit margins or taxation, and whether these pressures have been passed through to prices or absorbed through margins.

The composition of domestic price pressures shifted markedly over the 2023–2025 period. In 2023, as the economy continued to normalise following the pandemic, labour productivity growth (2.2 per cent) broadly matched the increase in nominal compensation per employee (2.4 per cent), limiting the contribution of unit labour costs to just 0.3 percentage points of the 6.7 per cent increase in the GVA deflator. Instead, price growth was driven primarily by unit profits, defined as gross operating surplus and mixed income over real GVA, reflecting the continued recovery in business activity, with a smaller positive contribution from unit taxes. This pattern reversed in 2024, as labour productivity growth slowed sharply to 0.2 per cent while nominal compensation per employee accelerated to 7.6 per cent, partly reflecting the implementation of public sector collective agreements. Consequently, unit labour costs became the main driver of domestic price pressures, contributing 3.3 percentage points to GVA deflator growth, while the contribution from unit profits moderated substantially. Unit taxes continued to exert a smaller positive contribution as energy-related subsidies were gradually phased out.

---

<sup>4</sup> This analysis is based on the ECB methodology. Further information is available at the following link: [https://www.ecb.europa.eu/press/economic-bulletin/focus/2023/html/ecb.ebbbox202304\\_03~705befadac.en.html](https://www.ecb.europa.eu/press/economic-bulletin/focus/2023/html/ecb.ebbbox202304_03~705befadac.en.html)

By 2025, domestic price pressures had eased considerably, with GVA deflator growth slowing to 1.5 per cent. Despite broadly flat labour productivity growth (–0.1 per cent), nominal compensation per employee grew by 4.2 per cent, partly reflecting arrears related to public sector collective agreements, pushing the contribution of unit labour costs to 1.9 percentage points. Unit profits, however, made a marginally negative contribution (–0.3 percentage points), indicating slight aggregate margin absorption, which moderated the extent to which rising labour costs were passed through to prices. This aggregate result, however, masks significant sectoral divergence.

Manufacturing, Financial and Insurance Activities, and Information and Communication increasingly absorbed cost pressures through lower profit margins rather than higher prices. While labour cost contributions remained positive in 2025 (4.3, 1.6, and 3.0 percentage points, respectively), they were partly or more than offset by negative contributions from unit profits (–3.8, –9.2, and –0.7 percentage points, respectively). This represents a marked shift from 2023 and 2024, when profit margins contributed positively to price growth, particularly in Financial and Insurance Activities and Information and Communication.<sup>5</sup> By contrast, Construction, Wholesale and Retail Trade, Transport and Accommodation displayed limited margin absorption, with unit profits making a broadly neutral contribution and GVA deflator growth largely tracking labour cost pressures. Nevertheless, price pressures moderated considerably compared with 2024, particularly in Construction, suggesting that, while cost pass-through remained broadly intact, the intensity of domestic price pressures eased.

A final group of sectors recorded price increases driven primarily by unit profits rather than labour costs. This pattern was most notable in Real Estate, Professional and Scientific Activities, and Arts and Entertainment. In the latter two sectors, unit profit contributions remained broadly consistent over the past three years, while stronger labour cost pressures, particularly in 2024, contributed to higher output price growth without a corresponding compression of profit margins. Real Estate remained an outlier, with price developments continuing to be supported by unit profits despite limited wage pressures and declining labour productivity in 2024 and 2025.<sup>6</sup>

---

<sup>5</sup> Given the known methodological limitations in the measurement of financial sector output (FISIM), currently under review by the NSO, developments in this sector should be interpreted with some caution.

<sup>6</sup> Figures for Real Estate Activities should be interpreted with caution, given the inclusion of imputed rents on owner-occupied housing in gross operating surplus, which can distort measured productivity and profits. Public Administration is excluded from the interpretation of profits given the non-market nature of output measurement in national accounts.

### 1.2.3 The External Sector

Developments in Malta's external sector were reflected in the country's balance of payments and balance of trade, providing an overview of Malta's economic transactions with the rest of the world.

A comparison of the balance of trade between January and April 2026 with the corresponding period in 2025 shows a 23.0 per cent narrowing of the trade deficit. This improvement was driven by both an increase in exports (4.4 per cent) and a notable contraction in imports (8.5 per cent). Exports rose across most Broad Economic Categories (BEC), with the strongest growth recorded in capital goods (14.5 per cent), followed by consumer goods (11.9 per cent). A similar pattern is evident under the Standard International Trade Classification (SITC), with exports increasing across most product groups, except mineral fuels, semi-manufactured goods, and miscellaneous transactions. On the import side, declines were recorded across the main BEC categories. At the commodity level, imports of machinery and transport equipment declined markedly (-18.7 per cent).

Trade statistics by partner country, as shown in Figures 1.8 and 1.9, indicate that the EU remained Malta's largest trading partner during the period under review. The trade deficit with the EU narrowed to €978.3 million, reflecting a 5.0 per cent increase in exports alongside a 9.1 per cent decline in imports compared with the corresponding period in 2025. Despite heightened uncertainty and rising global energy prices associated with the conflict in the Middle East, the direct impact on Malta's trade flows is expected to remain limited, given the relatively low exposure of both Malta and its main trading partners to the Strait of Hormuz.

Fig 1.8

## Exports by Trading Partner

Source: NSO

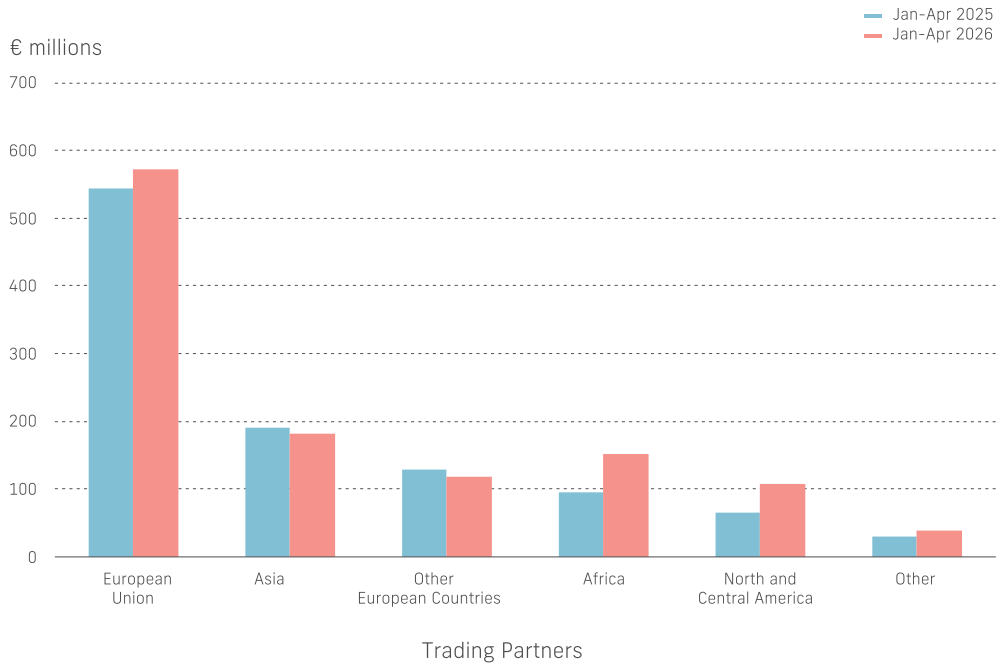
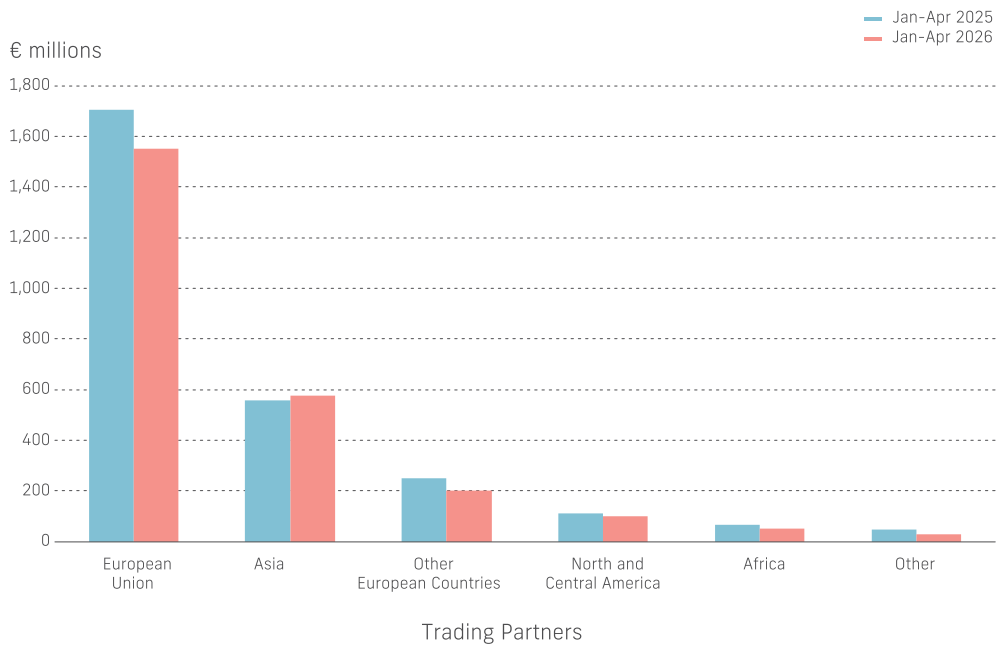


Fig 1.9

## Imports by Trading Partner

Source: NSO



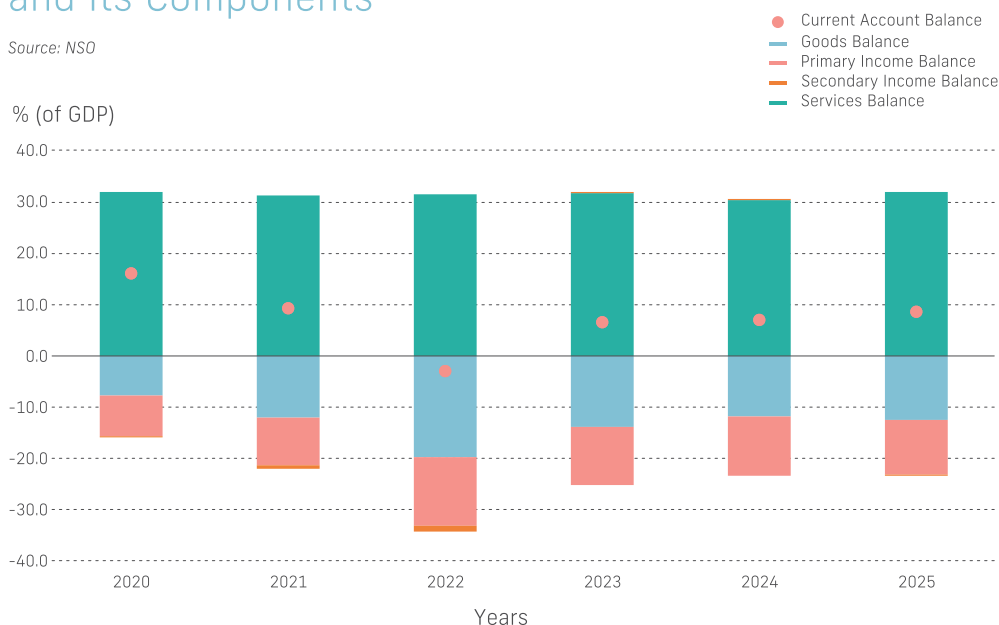
Since 2017, Malta's current account of the Balance of Payments has consistently recorded a surplus, with the exception of 2022. In 2025, the surplus reached 8.6 per cent of nominal GDP, as exports increased by 4.4 per cent, outpacing import growth of 2.8 per cent. The current account surplus was primarily driven by strong net exports of services, which more than offset net imports of goods and net outflows in the primary income account. The gaming sector remained the largest contributor, accounting for 37.9 per cent of exports and 4.8 per cent of imports. Tourism and transport also made significant contributions, with tourism exports and imports amounting to 12.1 per cent and 2.9 per cent of GDP, respectively, and transport's net exports reaching 8.6 per cent of GDP.

By contrast, the primary income account registered net payments equivalent to 10.6 per cent of GDP. While portfolio investment recorded net receipts equivalent to 7.0 per cent of GDP, these were outweighed by net payments related to compensation of employees, direct investment, and other primary income, despite a positive contribution from other investment income.

Fig 1.10

## Current Account Balance and Its Components

Source: NSO



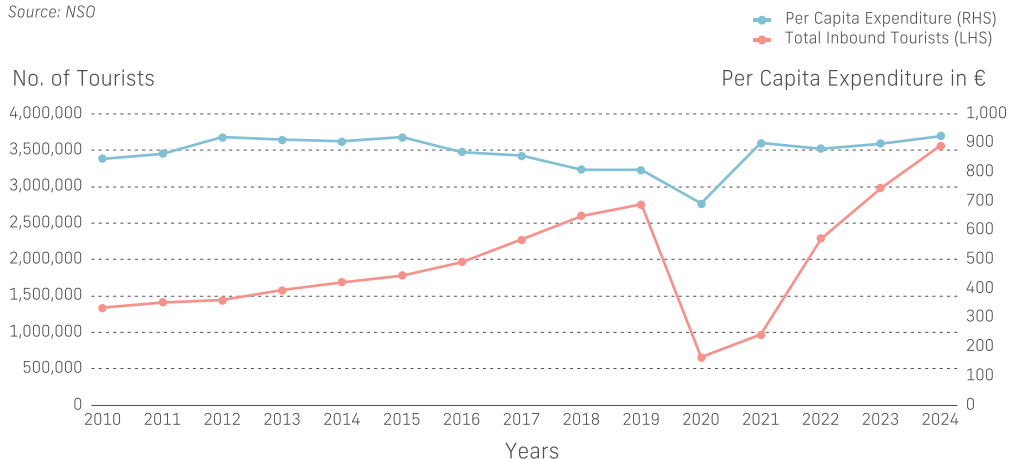
#### 1.2.4 The Tourism Industry

Although rising energy and jet fuel prices were expected to adversely affect Malta's tourism industry, the sector has continued to record robust growth. Tourist arrivals increased by 16.5 per cent between January and April 2026 compared with the corresponding period in 2025, reaching more than 1.2 million. Inbound tourism remains a key pillar of the Maltese economy, contributing 0.9 percentage points to overall nominal GDP growth in the first quarter of 2026.

An analysis by purpose of visit indicates that holidays remained the primary reason for travel, accounting for 92.4 per cent of total inbound visits and increasing by 16.2 per cent compared with the corresponding period of 2025. Meanwhile, business and professional travel increased by 31.6 per cent, accounting for 5.3 per cent of total inbound tourism during the period under review. At the same time, the average length of stay declined marginally, with the average number of nights per visit falling by 0.3 per cent. In addition, per capita expenditure contracted by 1.8 per cent during the first four months of 2026 compared with the corresponding period of 2025.

Fig 1.11  
Trends in Total Inbound Tourism  
and Per Capita Expenditure

Source: NSO



Country-of-residence data show that the largest number of tourists came from the United Kingdom, Poland, and Italy. Per capita expenditure, meanwhile, was highest among tourists from the United States, Switzerland, and Scandinavia.<sup>7</sup> Monthly net occupancy rates per bedroom in hotels and similar accommodation establishments across the EU also show that Malta recorded the highest average occupancy rate during the first four months of 2026, at 67.6 per cent, followed by Spain (63.2 per cent) and the Netherlands (61.9 per cent).

### Air Network Coverage

Air travel remains the principal means of connecting the Maltese Islands with other destinations. Airline connectivity has expanded rapidly, reflecting Malta's strategy to promote year-round operations and broaden the range of destinations served. In April 2026, Malta International Airport (MIA) ranked among the strongest performers within the EU+ group, recording passenger growth of 13.5 per cent.<sup>8</sup> Data from MIA comparing 2025 with 2024 show that passenger movements, aircraft movements, and seat capacity increased by 12.3 per cent, 11.4 per cent, and 13.1 per cent, respectively.

A key recent development in air connectivity was the introduction of direct flights between Malta and New York, which are expected to strengthen economic ties between Malta and the United States. This initiative also supports Malta's objective of attracting higher-value tourism and aligns with the Malta Tourism Authority's 2021–2030 Strategy.

Looking ahead, MIA projects passenger traffic to reach approximately 10.5 million movements in 2026, up from 9.3 million passenger movements in 2025.<sup>9</sup> The airport also plans to further expand connectivity, particularly with Eastern and Northern Europe, including the Scandinavian countries, through new routes and increased frequencies on existing services. Overall, the available data point to continued growth in the tourism sector, supported by enhanced air connectivity, expanded route networks, and strong operational performance.

---

<sup>7</sup> Includes Denmark, Finland, Norway and Sweden.

<sup>8</sup> This was reported by the Airports Council International (ACI) in its April 2026 review of trends across European airports. <https://www.aci-europe.org/press-release/600-passenger-traffic-turns-negative-for-the-first-time-since-post-covid-recovery.html>

<sup>9</sup> Malta International Airport (2026) Facts and figures. Available at: <https://maltairport.com/corporate/our-airport/facts-and-figures/>

### Skilling of the Tourism Workforce

Given the strategic importance of the tourism sector to Malta's economic growth, maintaining competitiveness and responding to evolving tourism demands remain key priorities. In this context, the Government is implementing the 'Tourism Excellence Malta' Programme, an innovative upskilling initiative aimed at enhancing the skills of individuals employed across the tourism industry in the Maltese Islands.

In the first quarter of 2026, employment in tourism-related sectors accounted for 4.5 per cent of total full-time equivalents (FTEs). The Government's Skills Pass framework further supports the quality of the tourism and hospitality workforce. The framework follows a two-stage approach: a pre-departure course, followed by the Tourism Skills Pass for candidates who successfully complete the required process. Since its implementation, over 13,000 workers have received Skills Pass accreditation in the catering and hospitality sectors. In parallel, the Malta Tourism Authority (MTA) is promoting the digital transition across tourism services, including the use of artificial intelligence to enhance the planning and management of tourism flows.

Malta continues to seek a balance between tourism growth and the appropriate allocation of resources, guided by the Malta Tourism 2050 Vision, the United Nations Sustainable Development Goals (SDGs) and the OECD's 37 sustainability indicators. The MTA enforces adherence to environmental standards through internationally recognised certifications such as the GSTC, Green Key, and the EU Ecolabel. These internationally recognised standards support responsible tourism by promoting positive outcomes for both visitors and local communities.

## 1.3 Inflation

### 1.3.1 External Developments

Global inflationary pressures have continued to moderate as supply chain conditions have improved and the effects of tighter monetary policy have gradually filtered through the economy. Nevertheless, the inflation outlook remains subject to heightened uncertainty, with geopolitical tensions and disruptions to global trade and energy markets continuing to pose upside risks to prices.

Figure 1.12 illustrates the evolution of Brent crude oil, gasoline, and diesel prices over the period under review, highlighting the sharp increase in 2026 as geopolitical tensions escalated. Section 3.2 examines these developments and their implications for Malta in greater detail.

Fig 1.12  
Energy Prices

Source: EIA, European Commission

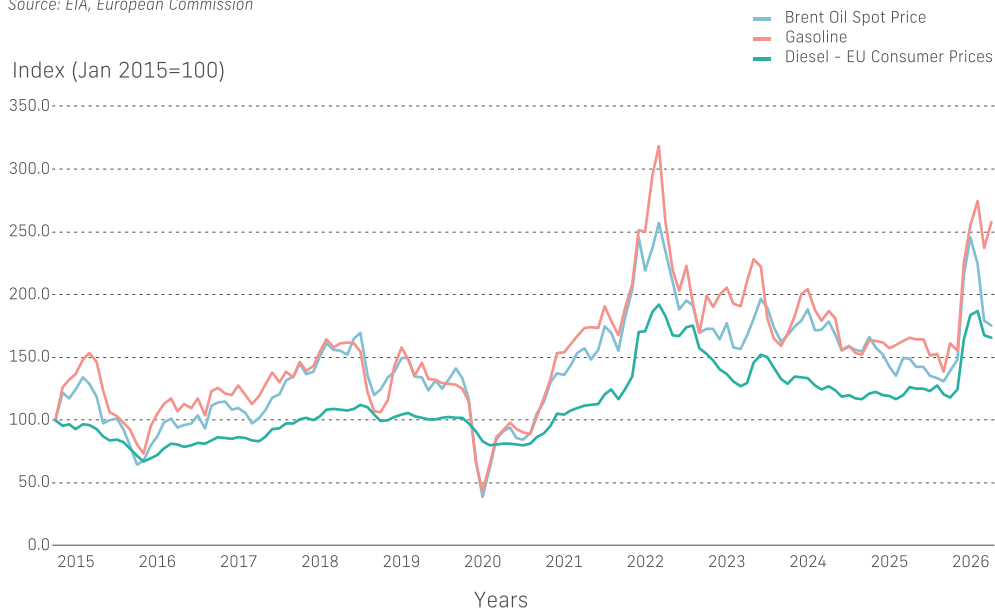


Figure 1.13 shows the evolution of natural gas and electricity prices relevant to Malta over the same period. Section 3.2 provides a more detailed analysis, including the Gestore Mercati Energetici (GME) price series used for the Malta-Italy interconnector.

Fig 1.13

## Natural Gas and Electricity Prices

Source: Gestore Mercati Energetici, FRED

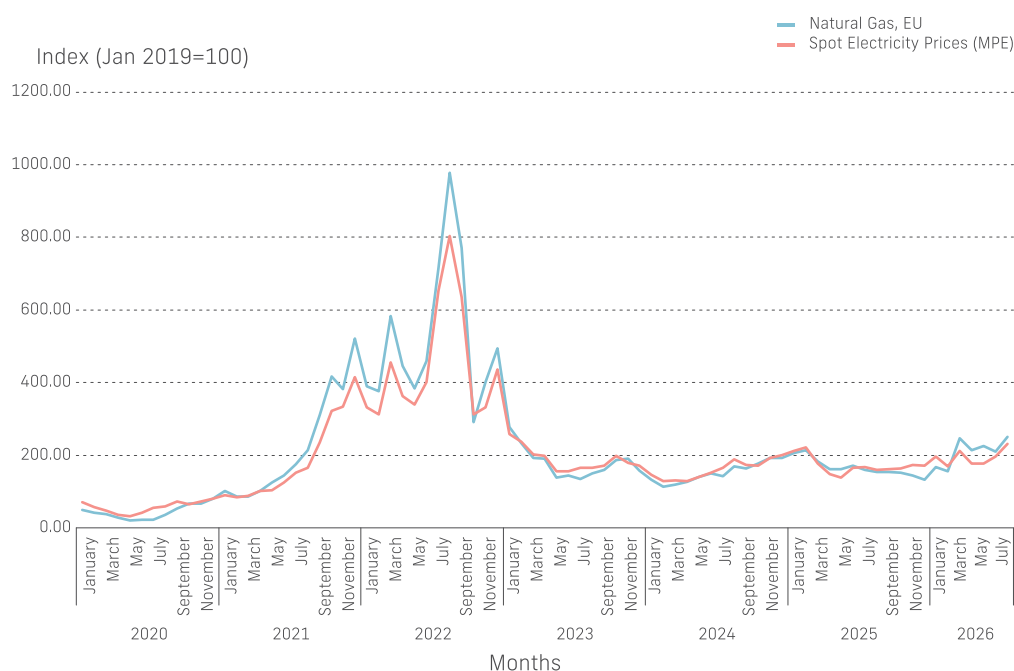


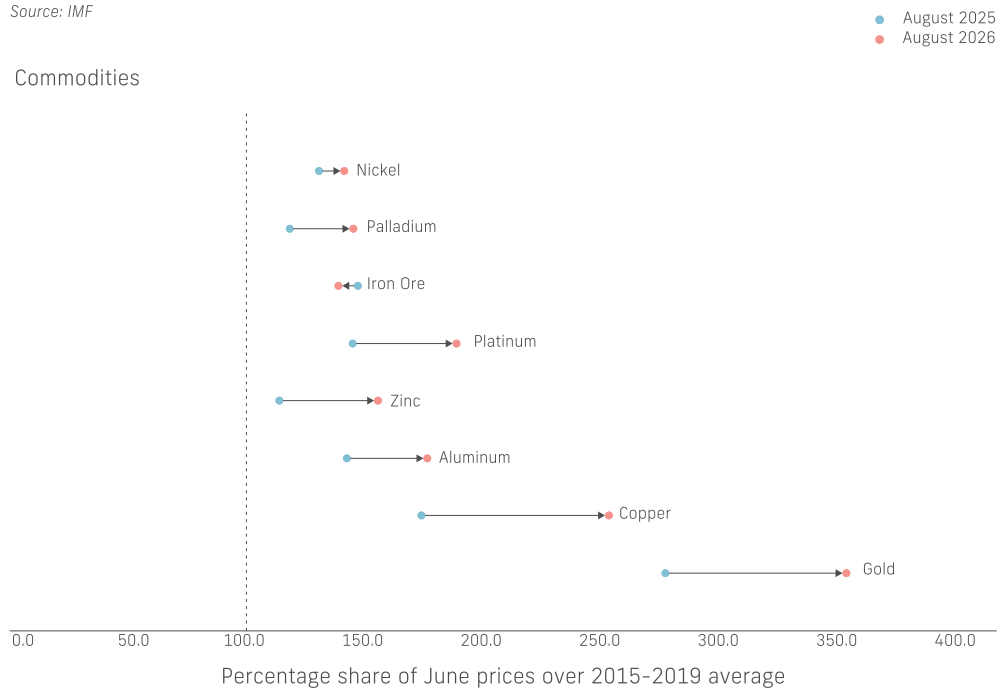
Figure 1.14 illustrates changes in the average global prices of selected commodities relative to the 2015 –2019 average. Notably, the prices of key commodities, including copper, gold, platinum, zinc and aluminium, have fluctuated significantly. The increase in copper prices reflects stronger industrial demand, given the metal's essential role in a broad range of economic activities. Similarly, platinum prices have trended upwards, supported by sustained demand for industrial applications. In contrast, the rise in gold prices has been largely driven by increased safe-haven demand, as investors have sought the metal's perceived stability amid heightened uncertainty.

These commodity price movements have broader implications for the global economy, influencing production costs, inflation rates, and trade balances. The sharp increase in energy prices in 2026, driven by escalating geopolitical tensions, highlights the sensitivity of global commodity markets to external shocks. Together with broader trends in commodity prices, these developments underscore the interconnected nature of global markets and the importance of closely monitoring price movements and their potential implications for inflation and economic activity.

Fig 1.14

## Average Global Prices of Selected Commodities compared to the 2015-2019 average

Source: IMF



### 1.3.2 Global Consumer Prices

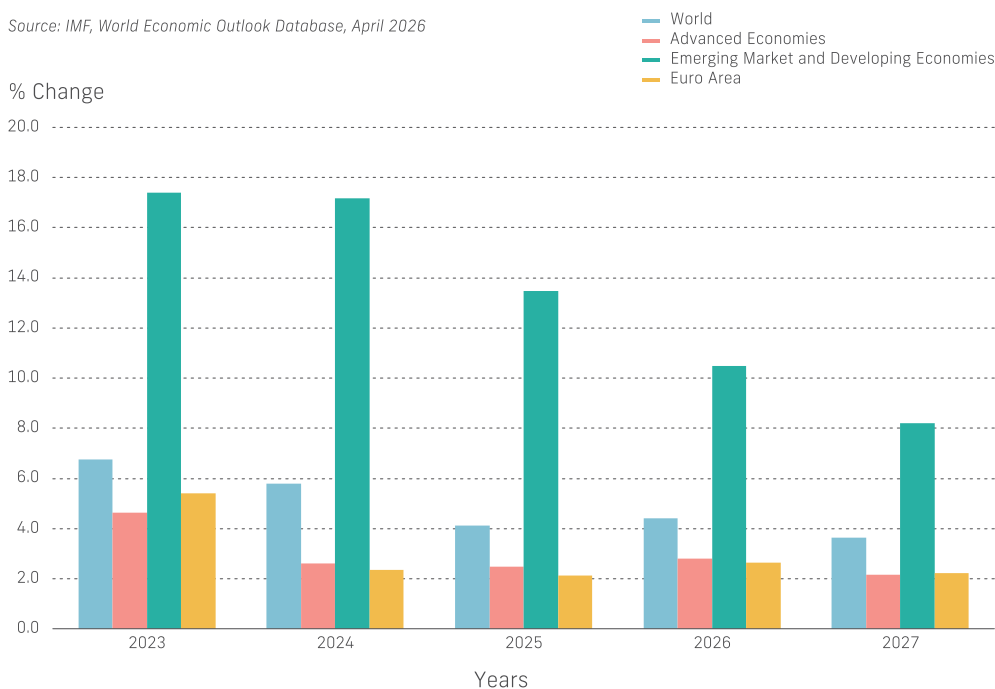
As shown in Figure 1.15, consumer prices followed a broad-based downward trend across regions between 2023 and 2025, although inflation dynamics are increasingly diverging across major economies. Nevertheless, global inflation, according to the IMF's April 2026 World Economic Outlook, is projected to increase from 4.1 per cent in 2025 to 4.4 per cent in 2026, before easing to 3.7 per cent in 2027, assuming that the Middle East conflict is not prolonged. The temporary increase mainly reflects higher energy and food prices, while country-specific factors and persistent services inflation have become increasingly important drivers of inflation developments.

In advanced economies, inflation has generally moved closer to central bank targets, although notable differences remain. In the US, inflation continues to exceed the target due to persistent services inflation and the gradual pass-through of tariffs, but it is expected to decline to just above 2.0 per cent in 2027. By contrast, inflation in Japan is projected to moderate and converge towards the target as food and commodity prices ease. At the same time, the euro area is expected to experience a temporary increase in headline inflation to above 2.0 per cent in 2026, largely reflecting higher energy prices. Inflation in emerging markets and developing economies remains substantially higher than in advanced economies, reflecting greater exposure to commodity price shocks, tighter global financial conditions, and structural vulnerabilities. However, inflation is expected to moderate gradually over the forecast horizon.

Fig 1.15

## Global Consumer Prices by Region

Source: IMF, World Economic Outlook Database, April 2026



### 1.3.3 EU and Domestic Inflation

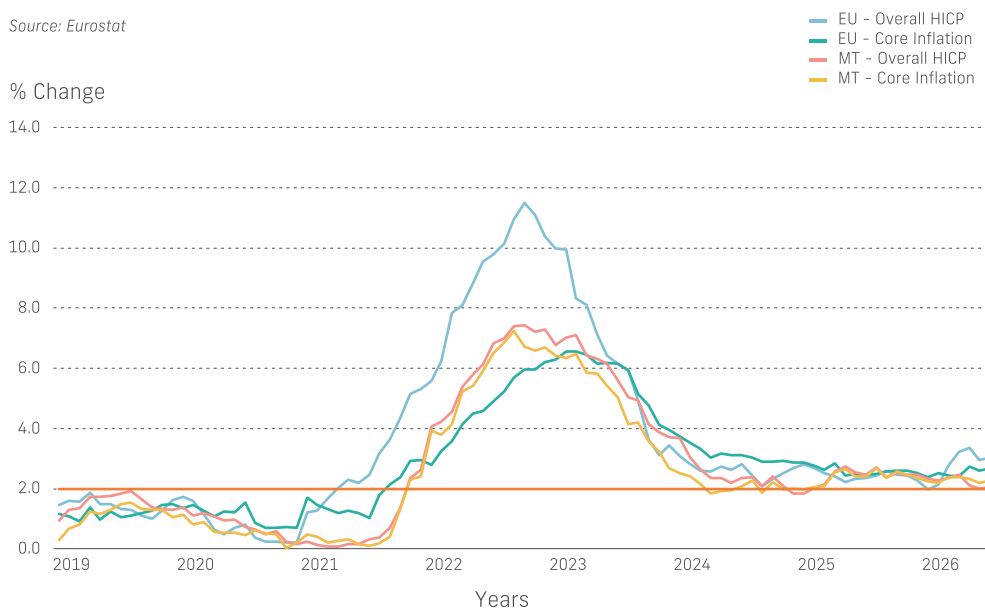
Over the twelve months to July 2026, the annual inflation rate in the European Union averaged 2.6 per cent. In the first seven months of 2026, inflation rose from 2.0 per cent in January to 3.3 per cent in May, before declining slightly to 3.0 per cent in July. After stabilising at around 2.5 per cent during the second half of 2025, EU core inflation stood at 2.7 per cent in July 2026. Figure 1.16 illustrates these developments.

In its published Spring forecast, the Commission expects inflation to increase by 0.6 percentage points, from 2.5 per cent in 2025 to 3.1 per cent in 2026. This projected increase reflects uncertainty stemming from the Middle East conflict. Thereafter, inflation is projected to ease by 0.7 percentage points to 2.4 per cent in 2027.

Fig 1.16

## HICP Inflation

Source: Eurostat

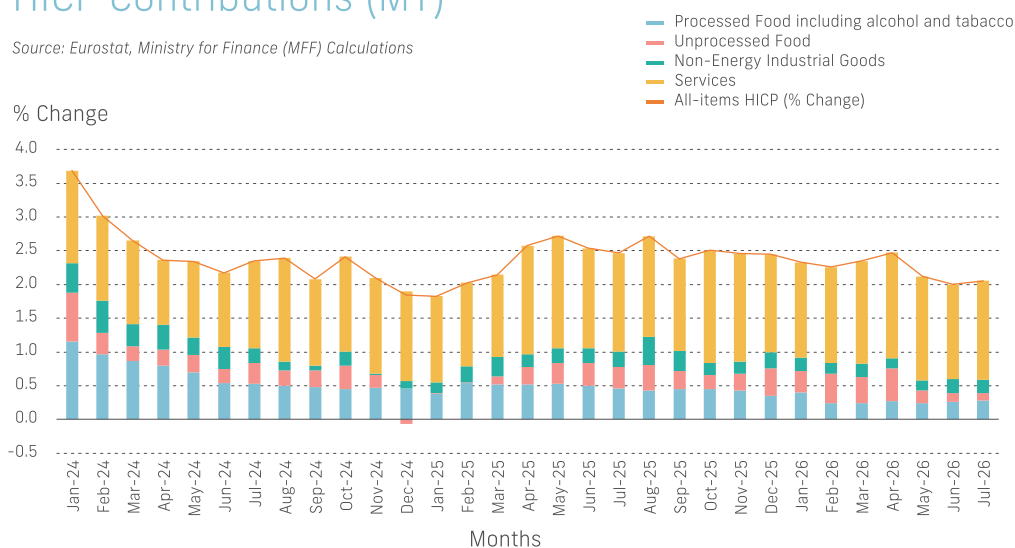


By contrast, inflation in Malta has moderated over the past 12 months, following the heightened volatility experienced in the previous year. A gradual downward trend became evident during the latter part of 2025 and continued into the first quarter of 2026. Although inflation increased marginally to 2.5 per cent in April 2026, it eased to 2.1 per cent in July 2026, down from 2.3 per cent in January. Meanwhile, HICP core inflation stood at 2.3 per cent in July 2026, remaining below the EU average.

Fig 1.17

## HICP Contributions (MT)

Source: Eurostat, Ministry for Finance (MFF) Calculations



Services inflation remained the primary contributor to inflation in Malta (Figure 1.17). Over the twelve months to July 2026, services inflation averaged around 3.3 per cent annually, up from 3.1 per cent over the same period to July 2025. Over the same period to July 2026, processed foods and unprocessed foods recorded average annual inflation rates of 2.2 per cent and 4.8 per cent, respectively. Processed foods inflation remained virtually unchanged compared with the same period in 2025, while unprocessed foods inflation increased by 1.8 percentage points. This increase reflected higher monthly inflation rates compared with the previous year, resulting in a higher annual average. Non-energy industrial goods recorded an average inflation rate of 0.8 per cent, while the energy component remained unchanged. Overall, the average HICP inflation rate over the twelve months to July 2026 remained virtually unchanged compared with the corresponding period in 2025, standing at 2.3 per cent in both periods.

Fig 1.18

## HICP Inflation by Component

Source: Eurostat



The inflationary process in the EU during the first seven months of 2026 was also attributable, among other factors, to the conflict in the Middle East and its impact on energy prices. (Figure 1.18 above). By contrast, Malta continued to record a zero-inflation rate for the energy component, owing to the Government's continued commitment to shielding the economy from energy price shocks.

During the first months of 2026, domestic inflation was higher than the EU average for unprocessed food and transport services, with the latter partly reflecting higher air transport prices, driven by the strong rise in tourism and rising jet fuel costs. Food inflation was significantly affected by base effects, whereby month-to-month variations relative to a year earlier influenced the annual inflation rate. In the first seven months of 2026, food inflation in Malta registered an average annual increase of 2.7 per cent, down from 3.0 per cent in the same period of the previous year.



02



# Preserving Fiscal Strength

Fiscal sustainability remains a central pillar of the Government's economic policy framework. In line with the revised European Union economic governance framework, the Government's fiscal strategy is anchored in the objective of maintaining sound public finances, ensuring that the general Government deficit remains below the reference value of 3.0 per cent of gross domestic product (GDP), and keeping the debt ratio at prudent levels over the medium term.

The fiscal framework remains centred on the net expenditure path set out in Malta's Medium-Term Fiscal-Structural Plan for 2025–2028, which was endorsed by the Council in January 2025. This framework establishes expenditure-based limits to ensure that debt remains sustainable and that the deficit is brought below, and maintained below, the Treaty reference value. Malta's recent fiscal performance shows a significant improvement relative to the targets initially embedded in the medium-term plan, with the general Government deficit having declined to below 3.0 per cent of GDP in 2025 and being projected to remain below the reference value in 2026.

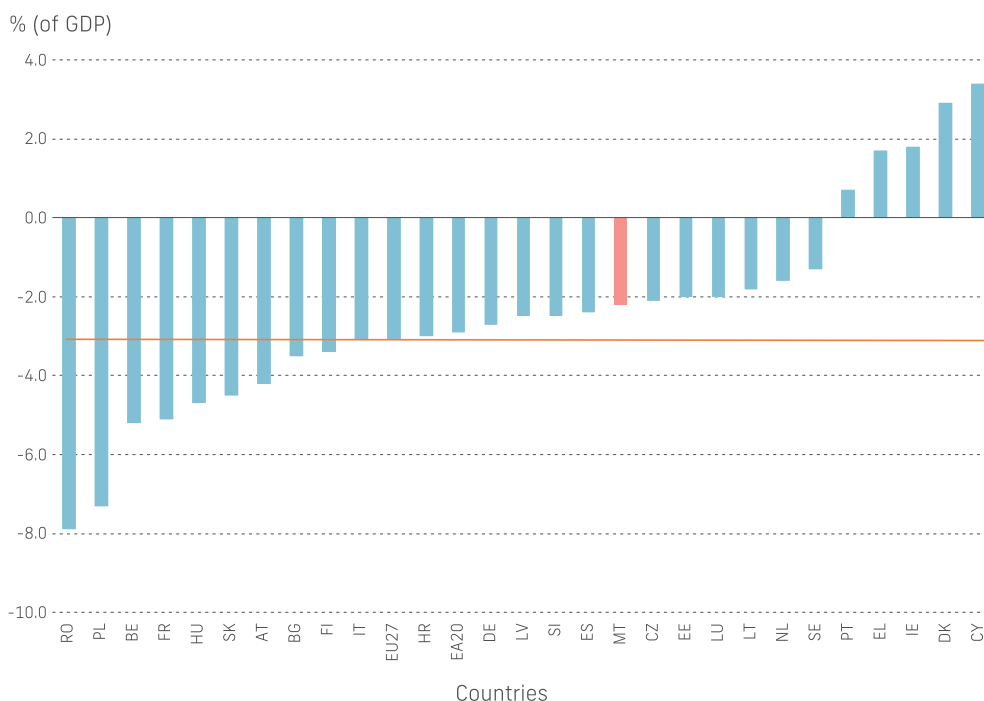
## 2.1 Fiscal Developments in 2025: European Union and Malta

Fiscal developments across the European Union in 2025 reflected a challenging external environment, characterised by subdued economic activity, higher financing costs, rising defence expenditure and renewed pressures from international energy prices. According to the European Commission's Spring 2026 Economic Forecast, the aggregate general Government deficit in the European Union stood at 3.1 per cent of GDP in 2025, while the euro area deficit stood at 2.9 per cent of GDP. Government balances continued to vary across Member States, ranging from a deficit of 7.9 per cent in Romania to a surplus of 3.4 per cent in Cyprus. Ten Member States recorded deficits above the 3.0 per cent reference value in 2025 (Figure 2.1).

Fig 2.1

## General Government Balance (2025)

Source: Eurostat



Against this backdrop, Malta recorded a marked improvement in its fiscal position. The general Government deficit declined from 3.4 per cent of GDP in 2024 to 2.2 per cent of GDP in 2025. In nominal terms, the general Government deficit amounted to €545.3 million, based on total revenue of €8,553.8 million and total expenditure of €9,099.1 million. The 2025 fiscal outturn therefore represents an improvement of 1.2 percentage points of GDP compared with 2024 and was significantly stronger than the deficit path projected in earlier fiscal plans, including the 3.3 per cent projected in the 2025 Annual Progress Report.

The improvement in Malta's fiscal balance was mainly driven by stronger-than-expected revenue performance. General Government revenue increased by €736.1 million, or 9.4 per cent, relative to 2024, rising from €7,817.6 million to €8,553.7 million. Sustained economic activity, resilient domestic demand, favourable labour market conditions, wage growth and solid corporate profitability supported this increase. Higher tax receipts, particularly from income and wealth taxes, supported the revenue outturn, with current taxes on income and wealth increasing by €279.1 million, or 8.2 per cent, as employment, wages and corporate profitability remained robust. Taxes on production and imports increased by €253.0 million, or 12.0 per cent, reflecting continued growth in domestic consumption and activity in the services sector, as well as a robust property market, with the latter developments reflected in higher receipts from VAT and duty on documents. The overall revenue performance was also supported by higher revenue from social contributions, which increased by €88.7 million, or 7.6 per cent, driven by favourable labour market conditions. Market output increased by €144.0 million in 2025, in part due to higher transfers from the Residency Malta Agency. These developments more than offset smaller counteracting movements in current transfers and property income receivable.

On the expenditure side, total general Government expenditure increased by €487.4 million, or 5.7 per cent, in 2025, rising from €8,611.6 million to €9,099.0 million. Expenditure developments reflected higher employee compensation, which increased by €180.1 million, or 8.1 per cent, partly due to the continued impact of sectoral agreements and wage-related commitments. Intermediate consumption increased by €274.8 million, or 16.0 per cent, mainly reflecting higher expenditure by EBU's and central Government on contractual services and elderly care. Social payments also remained an important component of expenditure, with spending on social benefits and social transfers in kind increasing by €159.8 million, or 8.7 per cent. At the same time, expenditure was contained by lower capital transfers, reflecting the normalisation of the exceptional outlays recorded in 2024 in relation to support to public enterprises for infrastructure projects and restructuring assistance, as well as capital transfers to the national airline, alongside expenditure containment efforts.

Overall, Malta's 2025 fiscal outturn points to a substantial strengthening of the public finances. While expenditure pressures remained, revenue overperformance more than offset these pressures, allowing the deficit to fall below the 3.0 per cent of GDP reference value ahead of the Excessive Deficit Procedure deadline.

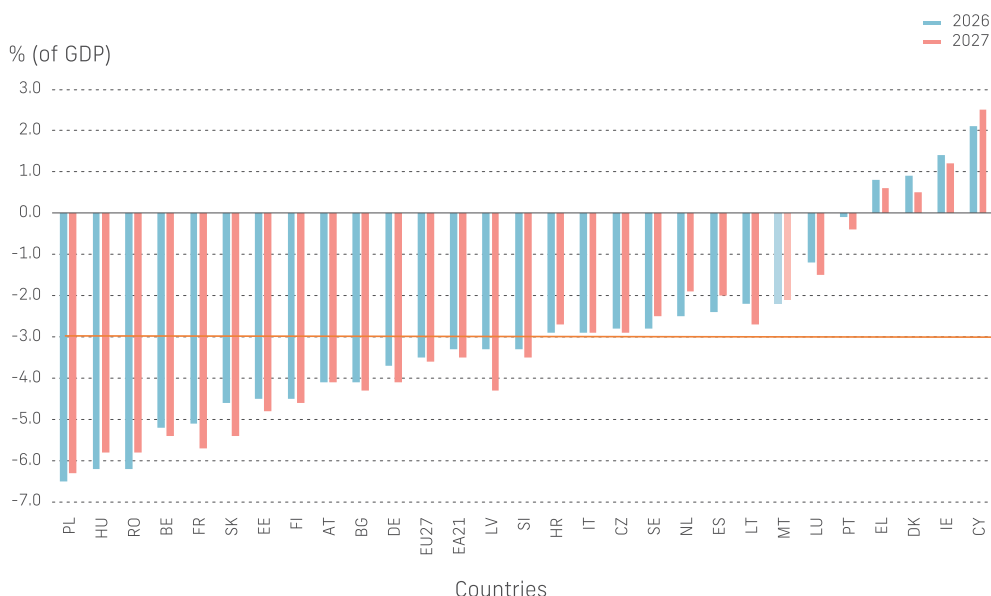
## 2.2 Fiscal Outlook: European Union and Malta

The European Commission's Spring 2026 Economic Forecast points to a gradual deterioration in the aggregate fiscal position of the European Union over the forecast horizon. The EU general Government deficit is projected to widen from 3.1 per cent of GDP in 2025 to 3.5 per cent in 2026 and 3.6 per cent in 2027. For the euro area, the deficit is projected to increase from 2.9 per cent of GDP in 2025 to 3.3 per cent in 2026 and 3.5 per cent in 2027. This projected deterioration is attributed to a combination of subdued economic activity, higher interest expenditure, increased defence spending and fiscal measures adopted or announced by several Member States to mitigate the impact of higher energy prices. The Commission also expects the number of Member States with deficits above the 3.0 per cent of GDP reference value to increase over the forecast horizon (Figure 2.2).

Fig 2.2

## Forecasted General Government Balance (2026, 2027)

Source: European Commission, European Economic Forecast, Spring 2026



For Malta, the European Commission's Spring 2026 Forecast presents a more favourable fiscal outlook. The Commission forecasts the general Government deficit to remain below the 3.0 per cent reference value throughout the forecast horizon, at 2.2 per cent of GDP in 2026 and 2.1 per cent in 2027. The Commission notes that the deficit fell to 2.2 per cent of GDP in 2025, supported by strong revenue growth driven by nominal GDP growth and significant tax receipts, while expenditure continued to increase, particularly in the wage bill, intermediate consumption, as well as due to one-off expenditure arising from a court decision.

The Commission's forecast for Malta also points to continued economic resilience. Real GDP growth is projected at 3.7 per cent in 2026 and 3.6 per cent in 2027. Growth is expected to remain supported by private and public consumption and the solid performance of key export sectors, although external conditions are expected to become less favourable. Inflation is forecast to increase to 2.7 per cent in 2026, partly reflecting the indirect effects of higher international energy prices, while the direct effect on local energy inflation is expected to be mitigated by measures to keep retail energy prices unchanged.

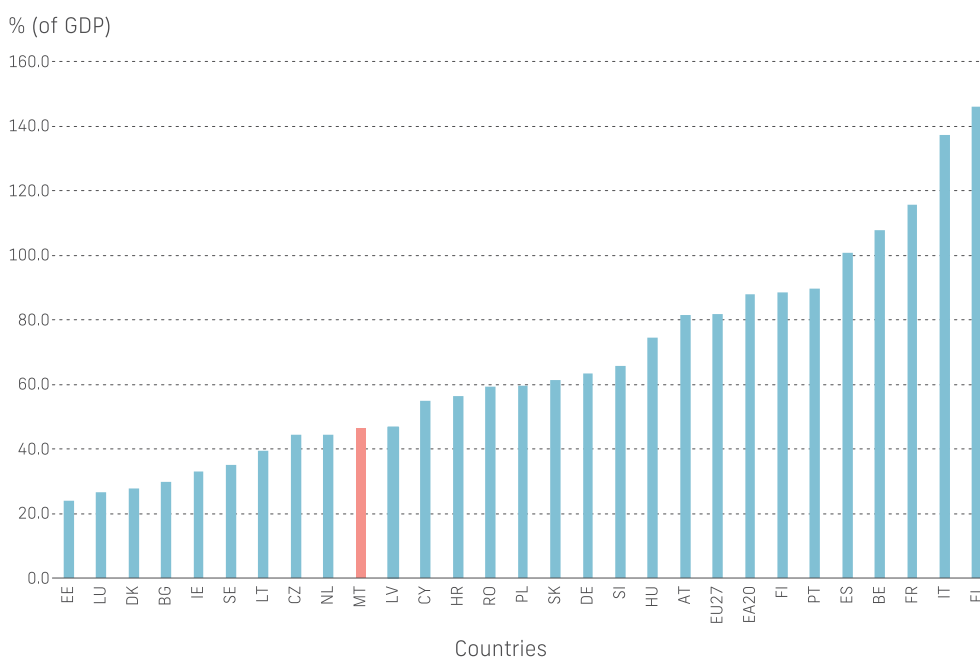
## 2.3 Debt Levels and Developments

Public debt developments continue to differ significantly between Malta and the European Union aggregate. At the EU level, the public debt-to-GDP ratio increased to 82.8 per cent in 2025 and is projected by the European Commission to rise to 85.3 per cent by 2027. In the euro area, the debt ratio is projected to increase from 88.7 per cent in 2025 to 91.2 per cent by 2027. In 2025, debt ratios across Member States ranged from 24.1 per cent in Estonia to 146.1 per cent in Greece (Figure 2.3). The Commission attributes this upward trajectory to higher primary deficits, a less favourable interest-growth differential and debt-increasing stock-flow adjustments.

Fig 2.3

### General Government Debt (2025)

Source: Eurostat



Malta's debt ratio remains well below both the EU average and the 60.0 per cent Treaty reference value. In 2025, general Government debt stood at €11,397.1 million, equivalent to 46.4 per cent of GDP. Although the nominal debt stock increased by €776.0 million compared with 2024, the debt ratio remained prudent and continued to provide a significant buffer relative to the Treaty threshold. The 2025 debt ratio was also substantially below earlier projections. Malta's 2026 Annual Progress Report notes that the debt-to-GDP ratio of 46.4 per cent in 2025 was 3.4 percentage points below the target estimated in the Medium-Term Fiscal-Structural Plan. This reflected the combined impact of a reduced deficit, sustained nominal economic growth and stock-flow developments.

Looking ahead, the MFF projects Malta's debt-to-GDP ratio to decline to 45.8 per cent in 2026. This represents a further improvement of 0.6 percentage points relative to 2025, with the ratio remaining well below the Treaty reference value of 60.0 per cent. The projected reduction in the debt ratio is mainly driven by the snowball effect, supported by economic growth and a lower deficit. The European Commission's Spring 2026 Forecast similarly expects Malta's public debt-to-GDP ratio to stabilise at around 46.0 per cent over the forecast horizon.

## 2.4 Drivers of the Increase in General Government Debt since 2020

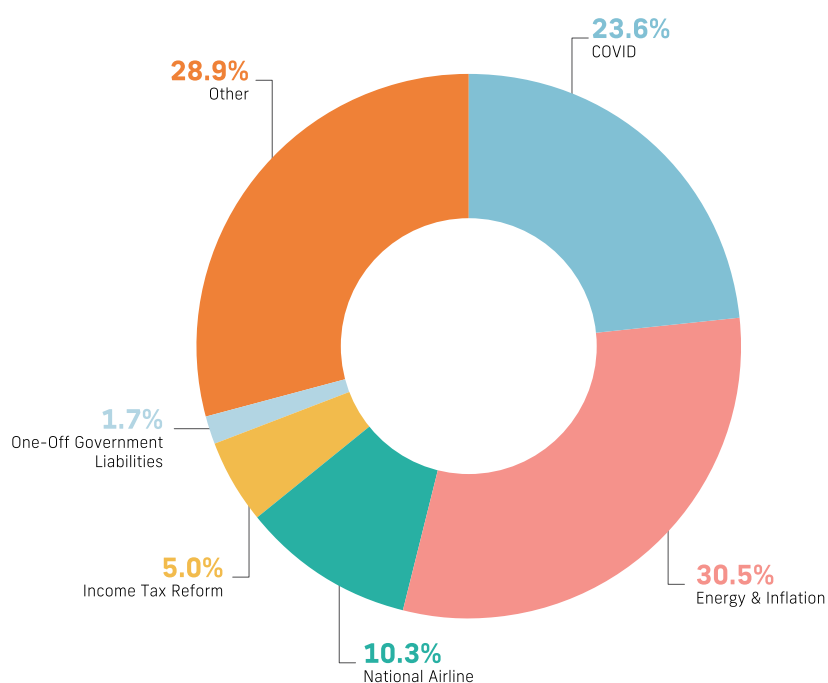
General Government debt increased from €5.7 billion at end-2019 to €11.4 billion at end-2025 and, on the basis of the most recent projections in the 2026 Annual Progress Report, is expected to reach €11.9 billion in 2026. This represents a cumulative nominal increase of €6.2 billion since the onset of the pandemic. Figure 2.4 below provides an overview of the factors driving the increase in such debt. It is important to note that the change in debt does not necessarily correspond exactly to the annual fiscal deficit. Debt is also affected by transactions in financial assets, equity acquisitions, changes in Government deposits, accrual- and cash-timing differences and other deficit-debt adjustments. The increase in the debt stock over the last few years largely reflects the financing of two successive and exceptional external shocks, together with support for the national airlines, as well as other policies and one-off factors.

When considering debt sustainability, the nominal debt stock should also be assessed in the context of economic conditions. An expanding economy would typically be in a better position to finance such debt, meaning that a metric relating debt to GDP would serve as a better indicator of debt sustainability. Indeed, notwithstanding the increase in the nominal debt stock, general Government debt stood at 46.4 per cent of GDP in 2025, remaining well below the 60.0 per cent Maastricht reference value and below the ratios recorded during the pandemic.

Fig 2.4

## Drivers of the Increase in Public Debt

Source: MFF, NSO



## COVID-Related Measures

COVID-related measures explain 23.6 per cent of the increase in debt. The majority of their impact arose from direct Government expenditure, although reductions in revenue also made a material contribution. The net fiscal cost of the COVID-related measures between 2020 and 2026 amounted to €1.5 billion, of which €1.3 billion represented direct Government expenditure, while €255.6 million represented foregone revenue or revenue that was not expected to be recovered.

The expenditure response was centred on the Wage Supplement Scheme, which protected employment and maintained links between workers and employers during the disruption to economic activity. The Wage Supplement Scheme was partially financed through REACT-EU. The corresponding EU reimbursement has therefore been deducted in estimating the net contribution of COVID-related expenditure to the increase in debt. The expenditure itself remained recorded in the Government accounts, while the corresponding EU grant revenue reduced the net financing burden.

Other measures included additional expenditure on testing, vaccines, protective equipment and the treatment of the virus; the safe reopening of schools; support for tourism and other affected sectors; interest subsidies and working-capital assistance; economic regeneration vouchers; and assistance to vulnerable households, voluntary organisations, homes for the elderly and public entities affected by the decline in activity.

The revenue impact principally reflected temporary reductions in stamp duty and in the tax on property transfers, reimbursements of commercial and tourism licence fees, reductions in fuel-related duties and an assumed unrecoverable portion of taxes deferred during the pandemic<sup>10</sup>.

---

<sup>10</sup> Tax deferrals should be distinguished from permanent revenue losses. Under the accrual-based ESA methodology, deferred taxes are generally recorded as revenue when the liability arises. Deferrals can nevertheless affect the Government's cash position and borrowing requirement until the amounts are collected. Only the proportion that is ultimately considered irrecoverable represents a permanent fiscal cost. Similarly, guarantees issued under the COVID Guarantee Scheme do not affect the deficit or debt unless they are called.

## Energy and Inflation Measures

Energy and inflation measures represent the largest identified contribution, accounting for 30.5 per cent of the increase in debt. Their fiscal impact was predominantly expenditure-based, although reductions in fuel duties also resulted in foregone revenue. These measures partly offset the improvement that would otherwise have resulted from the gradual withdrawal of COVID support.

The total fiscal cost of energy-related and inflation-mitigation measures between 2020 and 2026 is estimated at €1.9 billion. The annual cost has declined from a peak of €446.5 million in 2022 to an estimated €388.2 million in 2026. Most of this support was expenditure-based. Direct Government expenditure on energy and inflation is estimated at €1.7 billion, while €230.0 million represents foregone revenue resulting from reductions in fuel-related taxation.

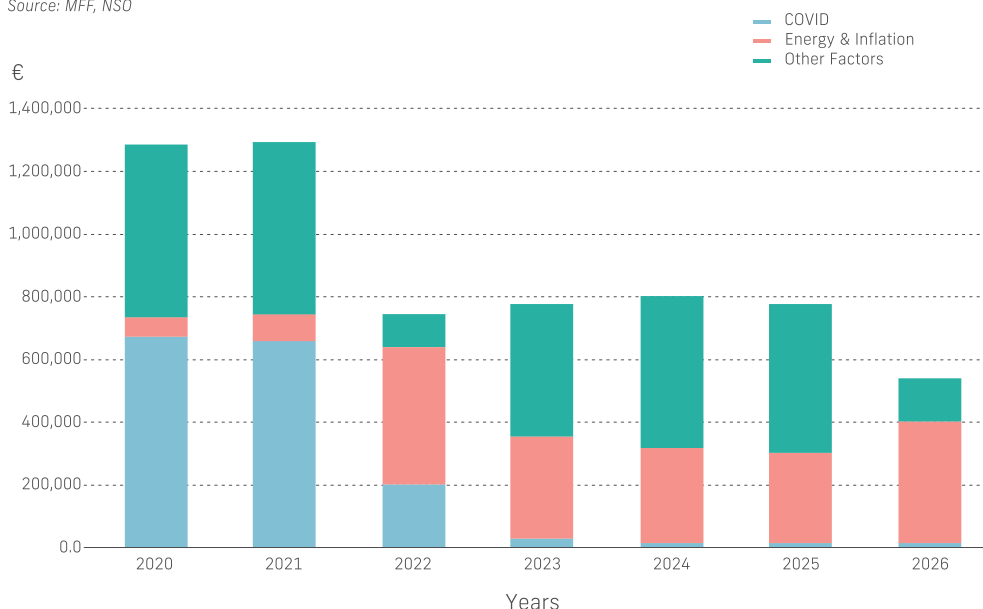
Direct expenditure was mainly channelled through support to Enemalta, Enemed and other energy-sector operators to compensate for higher costs associated with imported electricity, fuel, gas, carbon emissions and energy supply. These interventions enabled electricity, petrol, diesel and LPG prices to remain stable despite the exceptional increase in international energy prices. On the revenue side, the Government maintained petroleum excise duties at the minimum applicable level.

Inflation support was not limited to energy prices. The broader inflation response also included the extended COLA mechanism for vulnerable households and assistance relating to grain, wheat, animal fodder, agriculture, fisheries and other essential commodities. In addition, €188.5 million under the extended Cost-of-Living Adjustment mechanism was allocated to vulnerable households, with the cost increasing from €13.8 million in 2022 to an estimated €60.2 million in 2026. An additional payment of €48.0 million was distributed in 2022 to workers and pensioners in response to the higher cost of living.

Fig 2.5

## Annual Profile of Covid and Energy Support Measures

Source: MFF, NSO



The annual figures demonstrate that the significance of energy and inflation support increased considerably after the pandemic (Figure 2.5). As direct pandemic support was gradually withdrawn, the pressure on public finances shifted towards maintaining stable energy prices and assisting households affected by inflation. These measures accounted for 60.1 per cent of the increase in debt recorded in 2022, 41.7 per cent in 2023, up to an estimated 72.7 per cent of the increase in debt projected for 2026, based on the assumption that energy prices will remain elevated due to geopolitical tensions.

### Other Factors

Support relating to Air Malta and KM Malta Airlines accounts for 10.3 per cent of the cumulative increase in debt. It includes employee early-retirement schemes, restructuring assistance, capital transfers and Government equity investments. The accounting treatment differs across these interventions: subsidies and capital transfers affect both the deficit and debt, while qualifying equity acquisitions are financial transactions that can increase the financing requirement and debt without affecting the deficit.

The income tax reform accounts for 5.0 per cent of the increase in debt. This represents foregone revenue resulting from a structural reduction in the personal income-tax burden, intended to strengthen household disposable income. A further small share (1.7 per cent) reflects the settlement of exceptional Government liabilities, primarily comprising a €71.8 million legal settlement with the former National Bank shareholders and their heirs.

The “other” component, which represents residual factors, accounts for 28.9 per cent of the increase. It captures the cumulative effect of ordinary fiscal deficits and factors not separately identified in the analysis, including expenditure on pensions, health, public services and public investment; interest expenditure; cyclical revenue losses not classified as discretionary measures; and stock-flow adjustments.

## Conclusion

More than half of the increase in Government debt since 2020 is attributable to the fiscal response to the pandemic and the subsequent energy and inflation crisis. A further significant share arose from the restructuring of the national airline and the establishment of KM Malta Airlines, reductions in personal income taxation and the settlement of exceptional liabilities.

The increase in debt was therefore largely associated with identifiable policy interventions undertaken in response to exceptional circumstances. These measures protected employment, household incomes, essential services and economic activity during successive external shocks. The subsequent recovery in economic activity and improvement in the fiscal balance have helped to contain the debt ratio, which stood at 46.4 per cent of GDP in 2025 despite the increase in the nominal debt stock.

## 2.5 Malta's Medium-Term Fiscal Outlook

Malta's medium-term fiscal outlook has strengthened considerably following the 2025 fiscal outturn and the updated 2026 projections. The general Government deficit declined to 2.2 per cent of GDP in 2025, significantly outperforming the targets previously set out in the Medium-Term Fiscal-Structural Plan for 2025–2028. This improved starting position provides the basis for a medium-term fiscal path that remains consistent with the requirements of the revised European Union economic governance framework. The Government's strategy is focused on maintaining the general Government deficit at a sustainable level, while preserving prudent expenditure management and supporting sustainable economic growth over the medium term. This updated path represents a material improvement relative to the original medium-term framework.

The Government's consolidation strategy remains anchored in the revised European Union economic governance framework. The control of net nationally financed primary expenditure remains the key operational indicator for fiscal policy. According to the 2026 Annual Progress Report, net nationally financed primary expenditure increased by 5.6 per cent in 2025, below the annual ceiling of 6.0 per cent, and is projected to increase by 5.2 per cent in 2026, remaining below the 5.8 per cent ceiling. This confirms that, notwithstanding the stronger-than-expected fiscal outturn, expenditure discipline remains central to the medium-term strategy.

Prudent revenue assumptions will support continued economic expansion, while further improvements in revenue collection efficiency will support fiscal consolidation. At the same time, the Government remains committed to maintaining targeted and transparent budgetary support where necessary, including in response to developments in external energy prices, while continuing to invest in energy security, renewable energy, interconnection, and energy efficiency to reduce medium-term vulnerabilities.

The updated fiscal position also supports Malta's debt sustainability outlook. General Government debt stood at 46.4 per cent of GDP in 2025 and is projected to remain well below the 60.0 per cent Treaty reference value in 2026. The combination of a deficit below the Treaty reference value, sustained nominal GDP growth, and prudent debt management is expected to support a stable debt trajectory over the medium term. This provides Malta with a significant fiscal buffer relative to the Treaty reference value and reinforces the resilience of the public finances to potential future shocks.

## 2.6 Exiting the Excessive Deficit Procedure

Malta's fiscal performance in 2025 enabled the country to correct its excessive deficit ahead of the Council's deadline. The Excessive Deficit Procedure was opened in July 2024, following the general Government deficit of 4.9 per cent of GDP recorded in 2023. In January 2025, the Council recommended that Malta end the excessive deficit situation by 2027 through a corrective net expenditure path consistent with Malta's Medium-Term Fiscal-Structural Plan.

The initial corrective path was based on a gradual consolidation profile. Under the original medium-term plan, the general Government deficit was expected to remain above 3.0 per cent of GDP in 2025 and 2026, before reaching the reference value by 2027. Malta's actual fiscal performance was significantly stronger. The deficit declined from 3.4 per cent of GDP in 2024 to 2.2 per cent of GDP in 2025, thereby falling below the 3.0 per cent Treaty reference value two years ahead of the Council's recommended deadline. This improvement reflected strong revenue performance, supported by nominal GDP growth, robust labour market conditions and higher tax receipts, which more than offset expenditure pressures. The fiscal outturn also compares favourably with earlier projections, confirming the credibility of the Government's consolidation strategy and the resilience of Malta's public finances.

On 12 June 2026, the Council decided to close the Excessive Deficit Procedure concerning Malta, noting that the general Government deficit had been successfully and durably reduced below the 3.0 per cent of GDP reference value. This decision marks an important milestone in Malta's post-pandemic fiscal consolidation process. Malta's exit from the Excessive Deficit Procedure confirms that the correction of the deficit was achieved earlier than originally required. At the same time, the debt ratio remained well below the 60.0 per cent Treaty reference value.

The Government's focus will remain on ensuring that the deficit remains below the 3.0 per cent of GDP reference value over the medium term, while continuing to reinforce Malta's fiscal sustainability and strengthen the country's capacity to respond to future economic shocks.





03

# Energy Prices and the Implications for Malta's Economy

## 3.1 European Energy Developments

Global and European energy markets are expected to remain elevated and volatile through 2026, with risks to energy prices tilted to the upside. World Bank and IMF projections point to renewed pressure across energy benchmarks, with global energy prices expected to rise by around 24.0 per cent, and crude-oil prices by around 32.0 per cent compared with 2025, while European natural-gas prices are expected to increase by around 22.0 per cent.

In Europe, this price outlook has been reinforced by conditions during the summer of 2026. Exceptional heatwaves increased cooling demand, while drought, high river temperatures and low river flows constrained nuclear, thermal and hydropower generation in several countries. At times, weaker renewable output further tightened supply, increasing the need for higher-cost generation and contributing to sharp movements in wholesale electricity prices. These developments also underline the direct transmission of developments in gas markets to electricity prices under Europe's marginal-pricing system, particularly when gas-fired generation sets the wholesale price.

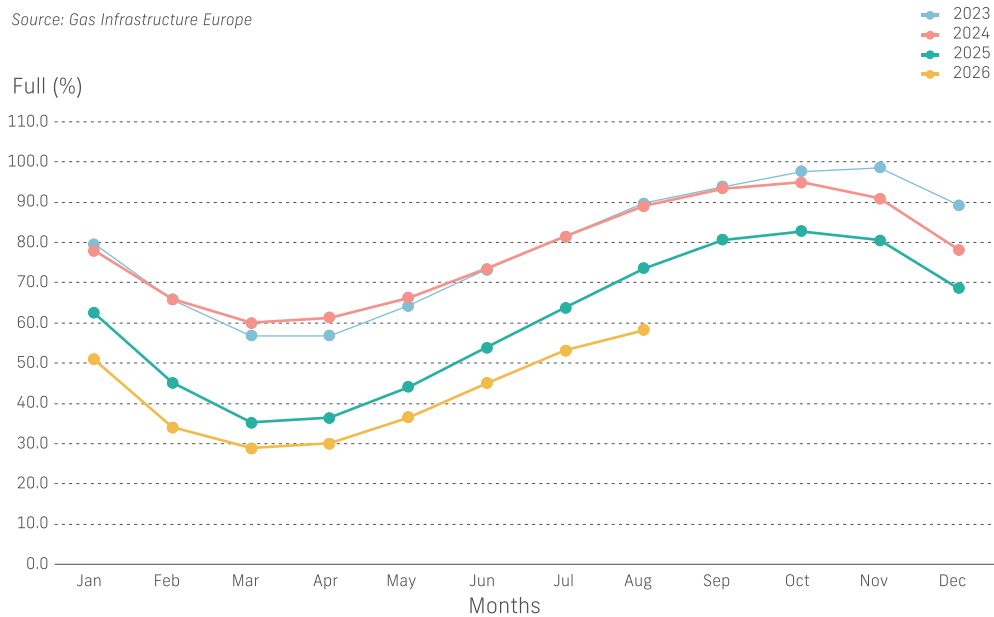
Energy security concerns are also linked to Europe's gas-storage position ahead of the winter of 2026–27 (Figure 3.1). Storage had been depleted following the colder winter of 2025–26, and the refill period started from a lower base than in recent years. Although injections accelerated during spring and summer, EU storage remained below the levels recorded in 2023 and 2024, leaving Europe more dependent on sustained LNG and pipeline imports. The Agency for the Cooperation of Energy Regulators (ACER) estimates that meeting the EU's 90.0 per cent storage target would require LNG imports to increase by around 13.0 per cent compared with 2025, exposing Europe to additional price pressures if global LNG markets tighten or winter demand proves stronger than expected.

Malta is particularly exposed to this environment because it relies heavily on imported fuels, LNG-based electricity generation and imported electricity. Government subsidies currently shield households and firms from immediate increases in international energy costs, but they do not remove the underlying cost. Instead, a larger share of this cost is transferred to public expenditure, meaning that a prolonged period of elevated prices would increase pressure on the public finances.

Fig 3.1

## EU Monthly Average Gas Storage Fullness

Source: Gas Infrastructure Europe



## 3.2 An In-depth Look at Gas, Electricity and Diesel prices

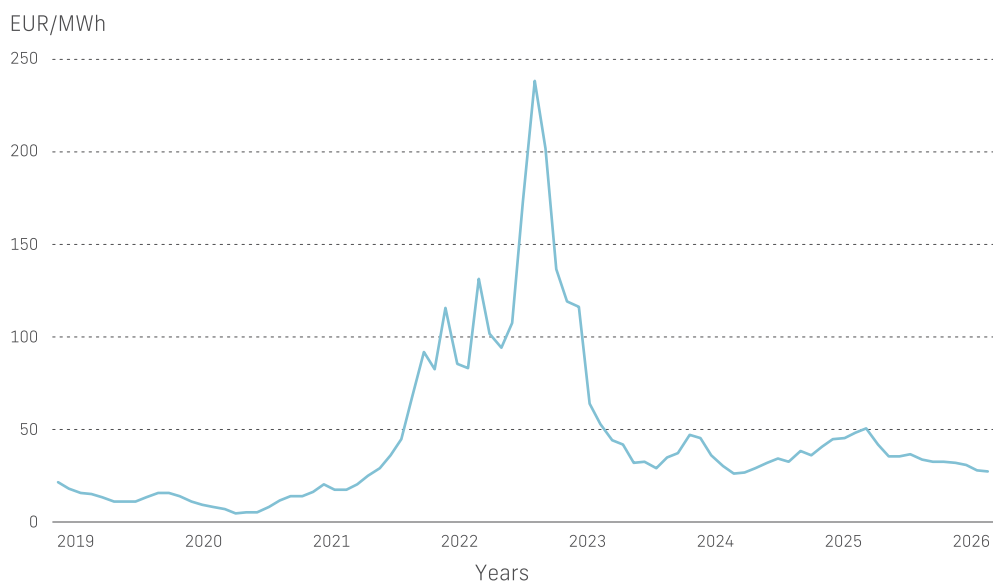
### Natural Gas Prices

European natural gas prices increased sharply from 2021 onwards, peaking during the 2022 energy crisis. As illustrated in Figure 3.2, monthly Title Transfer Facility (TTF) prices rose throughout 2021 and peaked at EUR237.95/MWh (megawatt-hour) in August 2022. This represented a substantial increase compared with the prices observed in 2019 and 2020. The subsequent period was characterised, to some extent, by greater stability in natural gas prices. As shown in Table 3.1, the annual average TTF price declined from EUR132.30/MWh in 2022 to EUR41.43/MWh in 2023 and EUR34.58/MWh in 2024. In 2025, the average price increased slightly to EUR36.39/MWh.

Fig 3.2

## TTF Natural Gas Prices

Source: ACER (European Union Agency for the Cooperation of Energy Regulators)



Despite this substantial normalisation, natural gas prices remained somewhat elevated compared with the period preceding the energy crisis. The average TTF price in 2025 was around three times the average recorded during 2019 and 2020. Although there was a sharp decline from the values observed in 2022, European natural gas prices remained above the levels prevailing before the energy crisis.

**Table 3.1**

## TTF Natural Gas Prices: Summary Statistics

Source: ACER, MFF calculations

| Year | Average<br>(EUR/MWh) | Minimum<br>(EUR/MWh) | Maximum<br>(EUR/MWh) |
|------|----------------------|----------------------|----------------------|
| 2019 | 14.62                | 10.8                 | 21.69                |
| 2020 | 9.64                 | 4.84                 | 16.42                |
| 2021 | 47.24                | 17.4                 | 115.38               |
| 2022 | 132.3                | 83.07                | 237.95               |
| 2023 | 41.43                | 29.15                | 63.86                |
| 2024 | 34.58                | 25.87                | 45.15                |
| 2025 | 36.39                | 27.6                 | 50.38                |

Note: Minimum and maximum refer to monthly observations. 2026 is excluded as the historical ACER series used in Table 3.1 contains only one observation for the year, corresponding to January.

Current data point to renewed pressure on European natural gas prices in 2026. According to the European Commission's Spring 2026 Economic Forecast, TTF prices rose to around EUR62/MWh in March before easing to around EUR43/MWh by the end of April. Prices therefore remained far below the 2021–2022 crisis peaks, but still above pre-crisis levels. World Bank Pink Sheet data further confirm that pressures continued into the summer. Although reported in USD/MMBtu rather than EUR/MWh, the series shows TTF prices rising from USD13.63/MMBtu in the first quarter to USD15.58/MMBtu in the second quarter, and further to USD18.06/MMBtu in July.

A separate ACER dataset containing more granular TTF price observations shows that average prices increased from EUR 34.6/MWh in January and EUR 32.5/MWh in February to EUR 53.0/MWh in March. Prices later moderated but remained elevated, averaging EUR 45.1/MWh in April and EUR 47.4/MWh in May. The available observations for 1–11 June indicate an average of EUR 48.8/MWh.

To complement the ACER data with more recent market information, data published by the European Energy Exchange (EEX) were also considered separately. Over the available period in July, the EEX TTF Neutral Gas Price averaged EUR 54.4/MWh. In August 2026, the monthly average increased to EUR 61.6/MWh, with daily observations ranging from EUR 53.2/MWh to EUR 67.9/MWh. These figures are not incorporated into the historical ACER series, as the datasets differ in their coverage and construction. Nevertheless, they provide a more recent indication of conditions in the TTF market.

Taken together, the available indicators suggest that the substantial post-crisis decline in European natural gas prices has not eliminated the risk of heightened price pressures. Prices remain well below the exceptional levels observed during the 2022 energy crisis; however, developments during 2026 suggest that, despite post-crisis normalisation, European gas prices remain exposed to renewed upward pressures and volatility.

### Electricity Prices

Wholesale electricity prices relevant to Malta can be assessed using the price series published by Gestore dei Mercati Energetici (GME) for the foreign virtual zone linked to the Sicily–Malta electricity interconnector. This series provides an indication of the day-ahead electricity price relevant to cross-border electricity trading with Malta.

As shown in Figure 3.3, electricity prices rose sharply during the energy crisis, with the increase becoming evident from the second half of 2021 and peaking in 2022. Prices subsequently declined and became more stable during 2023–2025, although they remained above the levels observed before the energy crisis. The key point is therefore that, following the energy crisis, prices stabilised at a structurally higher level than that prevailing before the end of 2021. More recent data for 2026 suggest some renewed volatility, particularly during the summer months. Monthly average prices increased from EUR 111.6/MWh in May to EUR 129.3/MWh in June, EUR 163.0/MWh in July and EUR 198.4/MWh in August. This represents an increase of around 77.7 per cent between May and August. While this does not reverse the broader post-crisis normalisation, it indicates that wholesale electricity prices remain sensitive to market conditions and can still rise materially above the more stable levels recorded in 2024 and 2025.

Fig 3.3

## Monthly Average Electricity Price

Source: GME, MFF Calculations



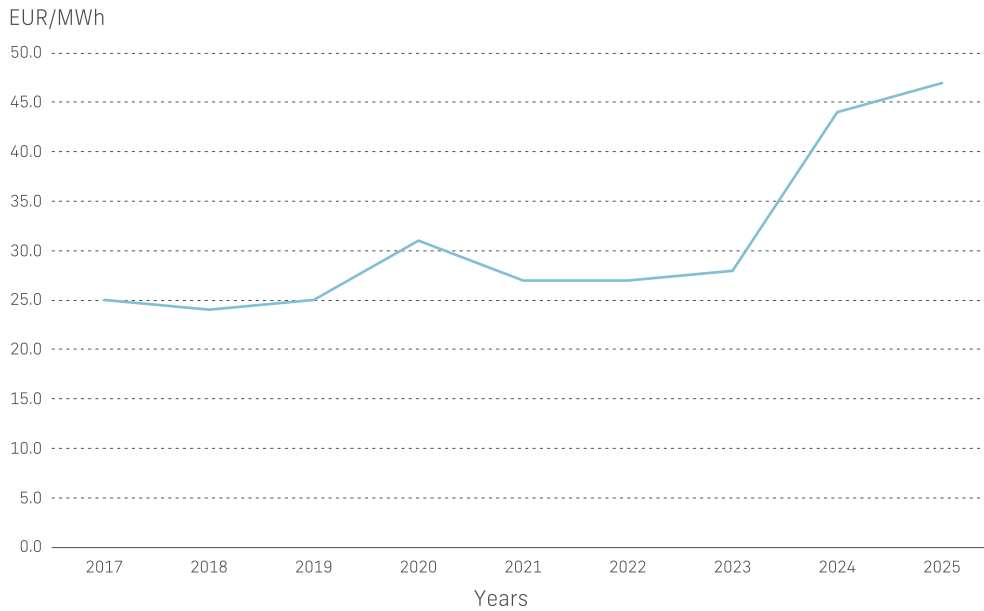
Electricity network costs in Malta, as published by Eurostat, are based on data provided by Enemalta plc to the National Statistics Office (NSO). The NSO also compiles electricity price statistics using administrative data from both Automated Revenue Management Services Ltd (ARMS Ltd) and Enemalta plc before submitting the data to Eurostat. The latter reports the same network-cost values for household and non-household consumers in Malta over the common period. The household series is available from 2017, while the non-household series starts in 2019. As both series report the same network-cost values over the common period, Figure 3.4 uses the household series to show the historical pattern from 2017.

Network costs showed limited variation up to 2023. The series stood at EUR 25/MWh in 2019 and rose to EUR 31/MWh in 2020. Between 2021 and 2023, network costs ranged between EUR 27/MWh and EUR 28/MWh. A clear break from this pattern occurred in 2024, when network costs reached EUR 44/MWh, before increasing further to EUR 47/MWh in 2025. This placed the 2025 value 88.0 per cent above the level recorded in 2019 (Figure 3.4).

Fig 3.4

## Electricity Network Cost

Source: Eurostat, MFF calculations



## Diesel

Diesel is widely used in road transport, freight, distribution and other commercial activities. Higher diesel prices can therefore raise the cost of moving goods and providing services. EU consumer diesel prices have increased over the past few years, reaching elevated levels in 2022. Figure 3.5 shows a clear upward movement in diesel prices during 2021, with prices reaching a peak in 2022. Although prices stabilised to some extent thereafter, they remained generally above those observed prior to the COVID-19 pandemic and the subsequent energy crisis. Diesel prices surged in March, exceeding even the peak observed in 2022, and have since remained elevated.

Fig 3.5

## EU Consumer Diesel Prices including Taxes

Source: European Commission, Weekly Oil Bulletin, MFF Calculations



The recent increase in diesel prices reflects tighter global distillate markets. Refinery outages, disruptions to Russian product exports, tighter EU sanctions and constrained supply in major producing regions contributed to higher European benchmark prices and refining margins. These developments help to explain the renewed pressure on EU diesel prices in 2026.

### 3.3 Malta's Exposure to Energy Developments

#### Import Dependence and Energy-Supply Structure

Eurostat statistics show that Malta's energy import dependency is approximately 98.0 per cent, the highest in the European Union. This structural dependence means that developments in global and European energy markets can affect Malta through several channels, even where domestic retail prices are temporarily kept stable through Government intervention. Malta is particularly exposed to changes in international natural-gas and LNG prices, Brent crude-oil prices, Italian and wider European electricity prices, shipping and transport costs, as well as exchange-rate movements. Exchange-rate developments are relevant because many energy commodities are priced in US dollars. Malta is also vulnerable to disruptions affecting LNG deliveries or electricity imports through the Malta-Italy interconnector.

Malta's energy supply is derived mainly from four sources:

- Petroleum products, including petrol, diesel, aviation fuel, marine fuel and LPG, are imported by ship and are used mainly for transport and other economic activities.
- Natural gas, in the form of LNG, is imported by ship and used at the Delimara power station to generate most of the electricity produced locally.
- Electricity is imported from Sicily through the Malta-Sicily interconnector, linking Malta to the wider European electricity market.
- Locally generated renewable energy comes almost entirely from solar photovoltaic panels.

In terms of electricity supply, Enemalta's 2025 energy mix consisted of approximately 58.0 per cent natural gas, 33.0 per cent imported electricity, 8.0 per cent renewable energy and less than 1.0 per cent petroleum products. This structure means that both local electricity generation and imported electricity can be affected by international gas and electricity -market conditions.<sup>11</sup>

### Transmission of External Price Pressure for Malta

Overall, Malta is particularly exposed to the gas-to-electricity price transmission channel. In 2025, natural gas accounted for 58.3 per cent of the electricity supplied by Enemalta, making it the dominant domestic generation source. A rise in LNG or natural-gas procurement costs can therefore increase the underlying cost of locally generated electricity at Delimara. A further 33.5 per cent of electricity demand was met through imports via the Malta-Sicily interconnector. Imported electricity is linked to the broader European market, where gas-fired plants often influence the marginal wholesale price. Natural gas also accounted for 68.8 per cent of the reported source mix of imported electricity.

This exposure is reinforced by Malta's small and relatively isolated energy system. The country has limited ability to absorb external shocks through large-scale storage, a broad range of domestic generation sources or extensive cross-border interconnections beyond the single link with Sicily. Malta is therefore largely a price-taker in international fuel markets and in the electricity market to which it is connected. In practical terms, international energy-market volatility can affect Malta's generation costs, electricity-import costs, fuel-import bill, shipping expenses and energy security simultaneously. A disruption affecting one supply channel may also increase dependence on the others. For example, constraints on imported electricity could increase reliance on local gas-fired generation, while LNG disruptions could increase the importance of the interconnector.

---

<sup>11</sup> Fuel Mix for Energy distributed by Enemalta plc. in 2025 - Enemalta

### 3.4 Energy Subsidies: Economic and Fiscal Implications

The Maltese Government has maintained stable electricity, water, fuel and LPG prices to shield households and businesses from volatility in international energy markets. This support acts as a buffer, preventing higher global costs from being fully passed on to consumers and helping to protect purchasing power, contain business costs and support economic stability. In the absence of subsidies, increases in oil, LNG, natural gas and European electricity prices would normally be expected to feed through to higher utility bills, transport costs and business expenses. The current support framework creates a buffer between international market prices and the prices paid by Maltese end-users, meaning that households and firms may not immediately experience the full effect of an external energy-price shock.

#### A Comparative Analysis of Energy Price Stability in Malta

The rationale for this stabilisation framework can be traced back to the significant external shocks experienced in 2022. At the time, the Government anticipated that external economic conditions would remain challenging as the war in Ukraine persisted, global energy markets remained volatile, and major central banks tightened monetary policy to contain inflationary pressures and avert the risk of a wage-price spiral. Against this backdrop of heightened uncertainty, the Government made a clear policy choice to support economic stability by shielding households and businesses from the temporary surge in the prices of essential commodities, particularly energy. This commitment has been renewed annually since the onset of the war in Ukraine and has continued to guide policy amid the subsequent instability in the Middle East. Stabilisation has therefore remained a central objective of this Administration, aimed at protecting purchasing power, supporting business continuity, and containing broader inflationary spillovers.

Table 3.2

## Comparative Electricity Rates by Energy Use Band

Source: Eurostat

|                                                      | EU<br>(€) | MT<br>(€) | Difference<br>(%) |
|------------------------------------------------------|-----------|-----------|-------------------|
| <b>Household Rates</b>                               |           |           |                   |
| Consumption less than 1,000 kWh - band DA            | 0.48      | 0.31      | 35.4              |
| Consumption from 1,000 kWh to 2,499 kWh - band DB    | 0.33      | 0.14      | 57.6              |
| Consumption from 2,500 kWh to 4,999 kWh - band DC    | 0.29      | 0.13      | 55.2              |
| Consumption from 5,000 kWh to 14,999 kWh - band DD   | 0.26      | 0.14      | 46.2              |
| Consumption for 15,000 kWh or over - band DE         | 0.25      | 0.30      | -20.0             |
| <b>Industrial Rates</b>                              |           |           |                   |
| Consumption less than 20 MWh - band IA               | 0.36      | 0.19      | 47.2              |
| Consumption from 20 MWh to 499 MWh - band IB         | 0.26      | 0.16      | 38.5              |
| Consumption from 500 MWh to 1,999 MWh - band IC      | 0.22      | 0.14      | 36.4              |
| Consumption from 2,000 MWh to 19,999 MWh - band ID   | 0.19      | 0.12      | 36.8              |
| Consumption from 20,000 MWh to 69,999 MWh - band IE  | 0.16      | 0.11      | 31.3              |
| Consumption from 70,000 MWh to 149,999 MWh - band IF | 0.15      | 0.10      | 33.3              |
| Consumption 150,000 MWh or over - band IG            | 0.13      |           |                   |

While the price support measures are broad-based and therefore protect both vulnerable households and firms, the household electricity tariff structure continues to preserve incentives for energy efficiency. Higher consumption bands remain subject to higher prices (Table 3.2), with tariffs exceeding EU levels for households consuming 15,000 kWh or more. For most consumption bands, however, electricity prices in the EU remain substantially higher than those prevailing in Malta after taxation, with the differential generally ranging from 30.0 per cent to 60.0 per cent. This illustrates the extent to which the support framework has insulated domestic consumers and businesses from external price shocks while maintaining price discipline at exceptionally high levels of household consumption.

The Government is, however, acutely aware of the strain that public subsidies aimed at stabilising energy prices place on public finances. Such subsidies are expected to amount to 1.4 per cent of GDP in 2026, down from 1.8 per cent in 2022 (Table 3.3).

**Table 3.3**  
**Energy Subsidies**

Source: Ministry for Finance (MFF)

|                                       | 2022         | 2023         | 2024         | 2025         | 2026         |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                       | € millions   | € millions   | € millions   | € millions   | € millions   |
| Energy Support Measures - Electricity | 244.4        | 162.7        | 151.4        | 133.5        | 290.0        |
| Energy Support Measures - Fuel        | 67.8         | 64.5         | 37.1         | 38.7         | 85.0         |
| Energy Support Measures - Gas         | 16.3         | 15.3         | 13.8         | 15.9         | 16.7         |
| <b>TOTAL</b>                          | <b>328.5</b> | <b>242.5</b> | <b>202.3</b> | <b>188.1</b> | <b>391.7</b> |
| (% of GDP)                            | 1.8          | 1.2          | 0.9          | 0.8          | 1.4          |

The cost of subsidies was supported by buoyant revenues, driven by economic strength, alongside expenditure control. As a result, public finances remained under control, with the deficit declining from 5.3 per cent of GDP in 2022 to 2.2 per cent in 2025, whilst the debt ratio declined to 46.4 per cent of GDP in 2025, compared with 50.0 per cent in 2022. Moreover, Malta exited the Excessive Deficit Procedure two years earlier than committed.

Table 3.4 illustrates that energy prices in Malta remain materially below the corresponding EU benchmarks across both electricity and fuel categories. For electricity, the estimated annual cost faced by a representative household consuming 4,500 kWh is around half the EU average. At the same time, commercial and industrial users also benefit from sizeable differentials, ranging from around one-third to almost one-half, depending on their consumption profile.

The advantage is evident across small retail users, offices, workshops, factories, and hotels, indicating that the policy not only cushions households but also helps to contain operating costs across a broad spectrum of business activity. A similar pattern is observed for transport and heating fuels, where petrol, diesel and heating gas oil prices in Malta are between 31.0 per cent and 40.0 per cent lower than the EU reference levels. These differentials illustrate the extent to which the energy price support framework has insulated the domestic economy from external price pressures, thereby supporting purchasing power, cost competitiveness and price stability during a period of elevated international energy costs.

**Table 3.4**

## Energy Prices in Malta and the EU

Source: Eurostat

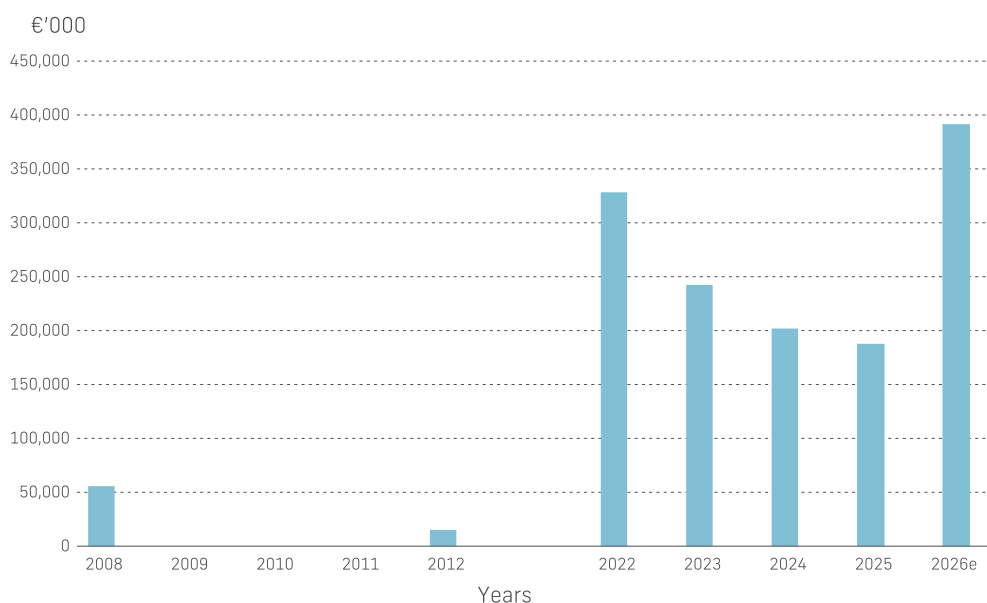
|                                     | EU<br>(€) | MT<br>(€) | Difference<br>(%) |
|-------------------------------------|-----------|-----------|-------------------|
| <b>Electricity Bill</b>             |           |           |                   |
| Household consuming 4,500 kWh       | 1,558     | 785       | 51.5              |
| Retail Shop consuming 20 MWh        | 7,154     | 3,846     | 46.2              |
| Office consuming 80MWh              | 22,862    | 13,374    | 41.5              |
| Workshop consuming 400MWh           | 106,638   | 64,190    | 39.8              |
| Medium Factory consuming 25,000 MWh | 4,728,718 | 3,054,270 | 35.4              |
| Hotel consuming 6,000 MWh           | 1,231,718 | 784,670   | 36.3              |
| <b>Fuel (€ per litre)</b>           |           |           |                   |
| Petrol                              | 1.94      | 1.34      | 30.9              |
| Diesel                              | 2.01      | 1.21      | 39.8              |
| Heating Gas Oil                     | 1.45      | 1.00      | 31.0              |

## Energy Subsidies Across Two Crisis Periods

Figure 3.6 illustrates a substantial change in both the scale and nature of Malta's energy-subsidy policy across the two crisis periods. While the earlier period involved more limited Government support alongside adjustments to domestic tariffs, the more recent crisis prompted a much larger fiscal intervention aimed at protecting households and businesses from international energy-price increases.

**Fig 3.6**  
**Subsidies to the Energy Sector**

Source: NSO, MFF



The €70.7 million across 2008–2012 is considerably lower than the approximate €1.35 billion recorded across 2022–2026. The earlier period coincided with the global financial crisis and significant volatility in international oil prices, while the more recent period was characterised by the energy-price shock following Russia's invasion of Ukraine, compounded by continued geopolitical tensions and disruptions to global supply chains. More recently, tensions in the Middle East, including disruptions affecting key shipping routes in the Red Sea, have added further uncertainty to international energy markets.

The difference in the level of support reflects not only the scale and persistence of the more recent energy-price shock, but also a significant change in policy approach. Whereas the earlier period saw increases in electricity and water tariffs in response to higher international oil prices, the current Government's response to the more recent energy crisis has been to absorb the significant increase in energy and fuel costs, thereby maintaining stable prices for households and businesses. This approach has resulted in substantially higher levels of public expenditure on energy support, while shielding domestic consumers from the full impact of international energy-price volatility. The contrasting levels of support therefore also highlight the fiscal implications of maintaining domestic energy-price stability during periods of heightened international uncertainty.

### Economic Impact of Energy Subsidies in Malta

The Economic Policy Department within the Ministry for Finance has simulated the macroeconomic implications of removing energy subsidies in 2026 using the Structural Annualised econometric Model for Malta (SAMM). The simulation assumes that removing support would lead to a broad increase in energy prices, with electricity, fuel, and gas prices rising materially relative to the baseline. In modelling terms, this represents a cost shock to households and firms: higher energy prices raise production costs across energy-intensive sectors, feed into consumer prices, reduce real household disposable income, and weaken domestic demand. Since SAMM is a structural annual model with an input-output framework, the shock also captures indirect effects through inter-industry linkages, as higher input costs are transmitted across the wider production chain.

**Table 3.5**

## Impact of a 70.0 per cent increase in electricity prices and 65.0 per cent increase in fuel prices

Source: Economic Policy Department (EPD), SAMM Simulation

|                                  | YR1                      | YR2   | YR3   |
|----------------------------------|--------------------------|-------|-------|
|                                  | (% Change from Baseline) |       |       |
| GDP                              | -0.9                     | -1.8  | -2.2  |
| Consumption                      | -0.2                     | -1.2  | -2.3  |
| Investment                       | 0.3                      | -0.8  | -1.7  |
| Profits (Nominal)                | -5.6                     | -3.0  | -1.7  |
| Consumer Prices (Rate)           | 4.9                      | 4.6   | 5.0   |
| Employment                       | -0.2                     | -0.6  | -0.8  |
| Average Wages                    | 0.1                      | 0.3   | 0.4   |
| Unemployment (No. of persons)    | 528                      | 1,933 | 2,586 |
| Real Household Disposable Income | -3.2                     | -4.6  | -6.4  |

The results, indicated in Table 3.5 above, suggest that removing subsidies (modelled as a 70.0 per cent increase in electricity prices and a 65.0 per cent increase in fuel prices) would have a persistent contractionary effect on the Maltese economy. Real GDP would be 0.9 per cent below baseline in the first year, widening to 1.8 per cent in the second year and 2.2 per cent in the third year as the price shock progressively works through consumption, investment and production costs. Household consumption is initially moderately affected, declining by 0.2 per cent in the first year, but the effect deepens to 1.2 per cent and 2.3 per cent in the subsequent years as higher prices erode real purchasing power. Real household disposable income is particularly affected, falling by 3.2 per cent in the first year, 4.6 per cent in the second year and 6.4 per cent by the third year, indicating that households would feel the burden of higher energy costs even after wage responses are taken into account.

The simulation also points to an adverse impact on firms. Nominal profits fall sharply in the first year, by 5.6 per cent relative to baseline, reflecting the immediate compression of margins as businesses absorb higher energy and input costs. Although the decline in profits moderates to 3.0 per cent in the second year and 1.7 per cent in the third year, investment increases by 0.3 per cent in the first year before turning negative, falling by 0.8 per cent in year two and 1.7 per cent in year three. This suggests that withdrawing subsidies would not only raise short-term operating costs but could also weigh on future productive capacity by weakening investment incentives. The labour-market impact is more gradual but remains negative, with employment falling by 0.2 per cent in the first year, 0.6 per cent in the second year and 0.8 per cent below baseline by the third year, while unemployment increases by 528 persons, 1,933 persons and 2,586 persons respectively.

The inflationary impact is sizeable and immediate. Consumer prices would rise by 4.9 per cent relative to the baseline in the first year, remain 4.6 per cent higher in the second year and increase to 5.0 per cent above baseline in the third year, confirming that removing energy support would have a broad and persistent effect on the domestic price level. Average wages would increase only modestly, by 0.1 per cent in the first year, 0.3 per cent in the second year and 0.4 per cent in the third year, suggesting that wage adjustments would not fully offset the loss in real purchasing power. Overall, the SAMM results indicate that the current energy support framework has had a material stabilising role: its removal in 2026 would lower output, weaken household incomes and consumption, compress business profitability, raise unemployment and generate a significant upward shock to consumer prices.

The analysis shows that Malta's energy support framework has played an important stabilising role by keeping electricity and fuel prices significantly below EU levels, thereby protecting households and supporting business competitiveness during a period of exceptional external volatility. While the framework entails a fiscal cost, this cost has declined relative to GDP and has been accommodated within an improving fiscal position. The SAMM simulation further indicates that a sudden removal of subsidies in 2026 would have material short-term adverse effects on output, inflation, household incomes, investment and employment.

Overall, Malta's exposure to international energy markets remains an important source of vulnerability, given its reliance on imported fuels, LNG and electricity. While the moderation in energy prices from the peaks observed during the 2022 crisis provides some relief, continued volatility in international markets underscores the importance of strengthening resilience to future external energy shocks.

The experience of recent years demonstrates that the Government's energy support framework has provided an effective buffer against such shocks, helping to preserve purchasing power, contain inflationary pressures and support economic activity. At the same time, the declining fiscal cost of the measures, alongside the improvement in public finances, provides important context for assessing their sustainability.

Going forward, the policy challenge will be to balance continued protection against external energy shocks with the longer-term objectives of fiscal sustainability, energy security and a more resilient domestic energy system. This will require maintaining Malta's resilience to external shocks while ensuring that energy support remains fiscally sustainable and aligned with longer-term energy security objectives.





04



# Driving the Transition Towards a Sustainable Future

Energy and environmental sustainability are central to Malta's long-term resilience, economic competitiveness and quality of life. The Government remains committed to ensuring a reliable and affordable energy supply while accelerating the transition towards cleaner energy, improving energy and water efficiency, protecting the natural environment and responding to the challenges posed by climate change.

These priorities require continued investment across a range of areas, including electricity generation and security of supply, renewable energy, energy efficiency, water management, waste management, environmental protection and the development of sustainable infrastructure and green spaces. Together, these measures aim to strengthen Malta's resilience to environmental and energy-related pressures, support a more sustainable and competitive economy, and improve the quality of life for communities across Malta and Gozo.

#### **4.1 Electricity Infrastructure and Renewables**

Malta's energy strategy continues to focus on maintaining affordable and stable electricity prices, diversifying supply sources, and strengthening system resilience. Enemalta concluded a new Liquefied Natural Gas supply agreement with BP following an international competitive process to secure natural gas supplies for electricity generation and strengthen resilience amid developments in international energy markets. At the same time, Malta is finalising a decarbonisation strategy for its industrial sector, identifying cost-effective measures to reduce energy-related emissions in the industrial and services sectors in line with its 2050 targets. In 2027, this strategy is to be integrated with the investment plan for electricity generation and the electrification plan for the domestic sector.

Investment in the electricity distribution network has continued at an accelerated pace. Enemalta's nationwide reinforcement programme is strengthening supply security and preparing the grid for rising demand arising from economic and population growth, as well as wider electrification.

Since its launch, Enemalta has commissioned 235 new substations, laid approximately 265 km of new medium-voltage underground cables, installed 549 new low-voltage feeders, replaced 160 power transformers and modernised 131 switchgear installations across Malta and Gozo. The programme has increased network capacity and resilience while improving the grid's ability to accommodate rising demand and the integration of renewable energy. The upgrade of the Msida Distribution Centre will further strengthen capacity and network flexibility. On the high-voltage network, a new 132 kV underground cable link between the Magħtab Interconnector Terminal and the Mosta Distribution Centre is nearing completion. The link will increase Mosta's transmission capacity by approximately 25.0 per cent and improve the network's flexibility, redundancy and ability to accommodate electricity imported through the second Malta–Italy interconnector.

A major milestone in Malta's long-term electricity planning was reached with the launch of Enemalta's Nine-Year Plan in January 2026, providing a roadmap for continued modernisation and expansion. The Plan includes 15 new electricity distribution centres across Malta and Gozo, a new 132 kV link between Malta and Gozo, continued high-voltage reinforcement, the expansion of underground cable infrastructure and upgrades to existing distribution centres; all designed to increase capacity, flexibility and resilience, support renewable energy connections, facilitate the electrification of transport and buildings, and enable future energy storage. The first major milestone is the commissioning of new distribution centres at Siġġiewi and Naxxar, which are expected to become operational within weeks and will together benefit approximately 24,000 consumers. Alongside generation, transmission and distribution works, Enemalta continues to modernise Malta's public lighting network, progressively replacing street lighting with energy-efficient LED technology to improve illumination while reducing electricity consumption.

As pledged in the Government's Manifesto, works on the second 200 MW Malta–Italy electricity interconnector (IC2) are progressing rapidly, with the project planned to be completed in the coming months. More than 85.0 per cent of the onshore works in Malta and Sicily have been completed, while the 103 km subsea cable has been manufactured and is due to be laid later this year. The project will increase security of supply, diversify electricity sources and facilitate the integration of large-scale renewable generation.

It is supported by approximately €260 million in eligible ERDF funding, following an additional €95 million allocation under the programme's mid-term review, as well as a €100 million EIB loan secured in 2026. Looking beyond IC2, Malta is pursuing further diversification of its electricity supply. The Government has decided to pursue a third interconnector with Italy (IC3), with an initial capacity of 200 MW and the potential to scale up to 400 MW, using a High-Voltage Direct Current (HVDC) connection. IC3 is expected to connect to Italy's 380 kV transmission system, providing a direct link to mainland Italy. Malta is also exploring a potential submarine electricity link with North Africa capable of importing approximately 0.8 TWh of renewable electricity annually, equivalent to around 25.0 per cent of Malta's electricity demand based on 2025 consumption, thereby potentially significantly reducing Malta's carbon footprint.

Electricity storage is being developed alongside additional interconnection capacity. Two utility-scale Battery Energy Storage Systems (BESS), at Delimara and Marsa, are being developed with €35 million in ERDF funding. An updated electricity supply study covering the period 2029–2045 concluded that further BESS investment will be required between 2029 and 2032 to maintain the desired level of security of supply and support the integration of renewable energy. Malta is simultaneously expanding domestic renewable energy generation. A procurement process is underway for an approximately 300 MW floating offshore wind farm within Malta's Exclusive Economic Zone, projected to generate approximately 0.8 TWh annually. Solar deployment is also being expanded across Government buildings and other public assets. The Water Services Corporation's 'Pannelli bla Bejt' community solar scheme, launched in April 2026, envisages the installation of approximately 4,000 PV panels across 10 Water Services Corporation (WSC) reservoirs in Malta and Gozo, representing an investment of €4.7 million.

Support schemes continue to encourage the uptake of renewable energy and improvements in energy efficiency. In 2025, enhanced battery-storage grants in Gozo resulted in 436 of the 888 paid applications originating from the island. In 2026, grant rates were aligned with those applicable in Malta. The Invitation to Bid (ITB) Scheme continued to support larger renewable-energy projects, with a total capacity of 52.6 MWp benefiting from ITB support between 2022 and April 2026. In the residential sector, households installed 5.92 MWp of solar PV in 2025 through available grant and feed-in tariff schemes.

Energy efficiency measures complement these investments. The Energy and Water Efficiency Scheme has allocated more than €2.2 million to around 120 interventions undertaken by voluntary organisations. At the same time, support for roof insulation and double-glazing remains available at 50.0 per cent of eligible costs, including VAT, subject to a €1,000 cap per measure.

Malta and Gozo are accelerating their transition towards a carbon-neutral electricity sector by 2050 through a diversified mix of renewables, storage and stronger interconnection. The strategy, led by the recently launched Malta's Energy Shift: A Sustainable Power Transition, prioritises affordability, security of supply, sustainability and diversification while supporting growing electricity demand. Key investments include future additional interconnection, large-scale battery storage and grid upgrades. Renewable energy will expand through more solar generation, offshore wind, renewable electricity imports and hydrogen-ready infrastructure. Together, these projects will strengthen grid resilience, reduce emissions and support the country's long-term decarbonisation while positioning the country for greater regional energy cooperation.

## 4.2 Climate Action and the Environment

Malta continues to implement its long-term climate strategy and EU 2030 targets, with investment across power generation, buildings and transport underpinning progress towards climate neutrality by 2050. Key measures include the continued electrification of buildings and transport to reduce fossil fuel use, incentives for low-carbon and shared mobility, and measures to improve energy efficiency. The Climate Action Authority is reviewing the long-term strategy under the Climate Action Act to assess Malta's potential contribution to the EU's collective 2040 target. The Authority is also expanding its coordinating role to identify additional opportunities arising from the clean transition. A Climate Action Fund is also expected to be established under the Act to support sustainable projects of national importance and public interest, by consolidating government revenues from climate-related measures, grants and donations. The Fund will finance public services and facilitate stakeholder access to environmentally sound technologies and capacity-building, supporting the Government's clean-transition commitments.

New schemes will incentivise private-sector investment in publicly accessible EV charging infrastructure, tailored to local demand and site characteristics. Responsibility for public charging points was transferred from EWA to the Climate Action Authority in 2026. Since taking over this responsibility, the Authority has made more than 80 charging points publicly available, including reinstated former Go To chargers, and is preparing a pilot scheme for trickle chargers to widen the range of accessible charging options. Moreover, a new energy efficiency platform is in the pilot phase, with five public entities tracking energy, water, and fleet data. The second phase will extend the platform across the public sector and support public buildings in pursuing ISO 14001 or ISO 50001 certification.

With extreme weather events increasing globally, Malta is moving towards a cost-effective National Adaptation Plan. Following a 2025 market consultation, sectoral action plans will be developed for the ten most climate-vulnerable sectors: energy, transport and infrastructure, human health, wholesale and retail trade, tourism, arts and entertainment, construction, manufacturing, and water, agriculture and fisheries. These action plans will contribute to the development of a fully costed preparedness plan aimed at protecting both the population and the economy from climate impacts. The Environment and Resources Authority (ERA) has outlined a practical investment and delivery programme to strengthen environmental protection, regulatory effectiveness, and evidence-based decision-making. In 2025 and 2026, ERA implemented measures aligned with national and EU priorities, supporting Malta Vision 2050 and the forthcoming National Strategy for the Environment 2050 (NSE 2050).

Implemented measures include the finalisation of key policy and regulatory instruments, the strengthening of environmental monitoring, the designation of additional protected areas, the publication of new environmental permitting regulations, and the maintenance of compliance and enforcement activity. Ongoing measures include the implementation of the National Biodiversity Strategy and Action Plan to 2030, preparation for the revised EU Ambient Air Quality Directive, the revised Industrial Emissions Directive, and the Water Framework Directive, development of Malta's National Restoration Plan, preparation of the Soil Monitoring Law framework, delivery of EU-funded marine and water projects, and continued investment in digital systems, data platforms and technical capacity.

ERA will continue to strengthen air quality and noise management through policy implementation, enhanced monitoring infrastructure and scientific evidence. In 2025, the Authority finalised the Air Quality Plan, advanced the draft National Air Pollution Control Programme through public consultation, and maintained air quality monitoring across five fixed stations and around 100 passive diffusion tube sites. ERA will also revise and implement the Noise Action Plan, focusing on major transport sources and agglomerations, using GIS-based analysis to identify noise hotspots and candidate quiet areas.

ERA will continue to strengthen the protection and restoration of Malta's natural heritage through an integrated biodiversity programme. In 2025 and 2026, it continued to implement the National Biodiversity Strategy and Action Plan 2030, monitored progress towards national and global targets, and advanced Malta's National Restoration Plan under the EU Nature Restoration Regulation through stakeholder engagement and evidence-gathering across terrestrial, freshwater, marine and urban ecosystems. Conservation efforts were reinforced through the designation of two new Special Protection Areas in 2025, the continued development and adoption of Natura 2000 conservation objectives and measures, and the development of the National Strategy and Action Plan for Pollinators (NSAPP). ERA will also continue to develop the National Biodiversity Database as a central platform for biodiversity information and to address progress towards the 30.0 per cent protected-area target as well as remaining sufficiency gaps. Particular emphasis will be placed on Natura 2000 conservation objectives and measures for terrestrial sites, the Nature Restoration Plan, the expansion of protected area and the pollinator strategy and associated monitoring.

Furthermore, ERA aims to strengthen the sustainable management of Malta's marine resources through targeted investment, scientific monitoring, and EU-funded initiatives. It will continue to work on the EMFAF Marine Conservation project, supporting the management of marine Natura 2000 sites through habitat restoration, stakeholder engagement and public awareness. Monitoring capacity has been enhanced through the BLUE buoy off the Grand Harbour, which provides real-time data on currents, waves, and water quality, thereby supporting implementation of the Water Framework Directive and the Marine Strategy Framework Directive.

ERA will continue to deliver actions under the LIFE IP River Basin Management Plan, including wetland restoration, hydrographic modelling, anchoring and mooring surveys, and monitoring for emerging pollutants, while also preparing Malta's fourth River Basin Management Plan. Future priorities include marine surveys beyond 25 nautical miles, ecological moorings, the identification of Fish Revival Areas, and the development of conservation objectives and measures for Marine Protected Areas. Investment will also be supported through EU-funded and nationally supported initiatives, including the Marine Conservation projects (€2.84 million and €4.62 million, respectively) and ERA's €1.59 million share of funding under the LIFE IP River Basin Management Plan.

Investment in digital transformation and data-driven governance is also crucial. During 2025, ERA advanced the migration and digitisation of key business processes, upgraded ICT infrastructure in line with national cybersecurity standards, progressed the development of MEPS Version 2, and enhanced ERIS functionality to improve permitting, financial management, and operational efficiency. Further improvements include electronic payment facilities at ERA's Malta and Gozo offices and the use of body cameras by contracted littering enforcement officers to strengthen accountability. ERA is also expanding the State of the Environment Report dashboards to provide accessible environmental indicators and data that support evidence-based policymaking and transparency.

Overall, ERA's work in 2026 and its planned work for 2027 emphasise measurable regulatory delivery, stronger compliance, improved environmental data through scientific monitoring, enhanced digital systems and upgraded laboratory and field equipment, as well as additional targeted investment. These efforts will enable ERA to consolidate the gains made in 2026, meet expanding EU and national requirements, and deliver tangible environmental outcomes for communities, businesses and future generations.

## 4.3 Water Infrastructure

Water management remains a top priority for safeguarding Malta's environmental sustainability and long-term resilience. Continued investment in water conservation, efficiency, and sustainable water resources will support supply security while reducing pressure on the country's limited freshwater resources. Water monitoring will continue across Malta and Gozo to provide a clearer picture of natural water resources, informing the National Plan for the Management of Water in Malta, expected by the end of 2027. The Plan will establish measures to safeguard water quality and availability while ensuring the sustainable use of water resources. In 2026, educational activities continued at the Ghajn National Water Conservation Awareness Centre.

The Water Services Corporation continued to advance its vision of becoming a modern, sustainable and citizen-centric utility, aligned with national priorities and the EU sustainability agenda. During 2025, it delivered measurable progress across infrastructure, operations, customer service, environmental stewardship and workforce development, while strengthening its long-term resilience. Capital investment remained at record levels in 2025, covering drinking water production, wastewater treatment, network resilience, digital transformation, renewable energy and operational efficiency. A major milestone was the inauguration of the new €7.2 million Net-Zero Carbon Warehouse at Bulebel, which improved logistics, operational efficiency, and emergency response capabilities while reflecting the Corporation's commitment to lower-carbon operations. In 2025, Malta achieved national water quality harmonisation for the first time, ensuring greater consistency across the islands. Continued optimisation of reverse osmosis production, groundwater blending and AI-driven operational algorithms improved efficiency and water quality. Reverse osmosis now accounts for over 70.0 per cent of Malta's potable water supply.

Leakage management continued to deliver world-class results through pressure management, real-time monitoring, SCADA and GIS technologies, and predictive maintenance. The Infrastructure Leakage Index improved from 1.75 to a record low of 1.6, placing Malta among Europe's best performers and resulting in annual savings of over 224,800 cubic metres of water. Non-Revenue Water fell to 22.2 per cent, from 25.4 per cent in 2024, while overall network efficiency rose to 77.8 per cent, from 74.6 per cent.

The Corporation's Green Bond programme is financing strategic environmental projects, including the reverse osmosis plant at Hondoq ir-Rummien, renewable energy installations, wastewater aeration improvements, network upgrades, digital transformation and further reductions in Non-Revenue Water. These investments are aligned with the UN Sustainable Development Goals, Malta's Recovery and Resilience Plan, the National Investment Plan and the European Green Deal.

The expansion of New Water remains a strategic priority, providing high-quality reclaimed water for agriculture, reducing pressure on groundwater, and supporting climate resilience. Significant progress has also been made in wastewater infrastructure across Malta and Gozo, alongside preparations for major EU co-financed projects to further modernise the network. Digital transformation, including smart metering, billing systems, GIS integration, ERP modernisation, and data-driven decision-making, contributed to an increase in customer satisfaction across all service channels to 77.4 per cent. As part of its investment in its workforce, the Corporation delivered 7,548 training hours to 823 employees. It also concluded a landmark six-year Collective Agreement covering 90.0 per cent of the workforce, providing enhanced career development opportunities and long-term stability. The Corporation's Future Vision envisages a 'Net Zero' and 'Smart' water utility and is fully integrated into the National Investment Plan for Water & Wastewater (2023–2033), which is currently under review to cover the period 2026–2036 in line with the latest EU Directive recasts and demand forecasts. Planned initiatives and key projects for 2026–2031 include, among others, the upgrade of national seawater desalination capacity, including a new plant in Hal Far (€86 million), as well as upgrades to the Gozo and Malta North Wastewater Treatment Plants and a Phase II retrofit of Sant Antrnin, in line with the new EU Urban Wastewater Treatment Directive (EU 2024/3019) (€56 million). WSC is finalising the Malta South New Water project extension, funded under the EU EAFRD 2021–27 programme with an investment of over €21 million, and has signed grant agreements to co-finance further initiatives under the EU 2021–27 programme.

REWS also administers several grant schemes to support household water efficiency. In March 2025, Malta launched the 'Iftaħ u Ixrob' (Open and Drink) national campaign to raise awareness of the quality of local tap water and encourage its consumption in place of bottled water. Malta's tap water now exceeds the strictest European safety standards and ranks among the top 20 countries worldwide for tap water safety. The campaign was underpinned by a 30.0 per cent reduction in chloride and chlorine levels, improving taste and customer confidence, as well as by the standardisation of water taste across localities through a single water quality zone. The campaign has been associated with the production of approximately one million fewer plastic water bottles produced in 2025 compared with the previous year, equivalent to around 1.75 million litres of bottled water. Targeted support will help the sector improve water and energy efficiency, reduce waste and adopt more sustainable operational practices, thereby reinforcing its contribution to national climate goals and the long-term sustainability of Malta's tourism industry.

Furthermore, in 2025 Lapsi RO produced around 25,000m<sup>3</sup> of potable water per day. The Water Services Corporation has issued a €35 million tender for the construction of a new reverse osmosis plant at Għar Lapsi. The proposed facility, known as "Plant B", will be built within the existing Għar Lapsi Reverse Osmosis complex and is expected to produce around 30,000m<sup>3</sup> of potable water per day. The project forms part of ongoing investment to strengthen Malta's water infrastructure and increase the country's capacity to produce drinking water through seawater desalination. The new plant will help meet growing water demand and improve security of supply. The Għar Lapsi project also contributes to a wider programme aimed at increasing Malta's freshwater production capacity by approximately 81,000m<sup>3</sup> per day.

## 4.4 Greening and Open Space Projects

Malta's public open-space network continues to expand as part of a broader effort to improve quality of life, environmental sustainability and climate resilience. Investment in parks, urban green spaces, tree planting, and habitat restoration is increasing access to quality open spaces while supporting biodiversity, healthier lifestyles, community wellbeing, and urban regeneration.

Work is progressing on Malta's three new National Parks: White Rocks, Manoel Island and Fort Campbell, alongside a growing portfolio of urban and community projects across Malta and Gozo. These include Park I-Inħawi in Fgura, San Anton Gardens in Attard, the Bormla Bike Park, the Għaxaq Picnic Site and Triq ta' Ġorġ Kalči in Marsaxlokk, as well as larger green infrastructure projects such as Ġnien Monsinjur Victor Grech, the San Ġwann Link, Sant'Anna in Floriana and the Siċċa Sustainable Innovation Hub. Together, these projects aim to increase green coverage in urban areas and make open spaces more accessible to communities.

Tree planting also contributes to climate adaptation, improved air quality, and biodiversity. Between April and June 2026, 42,000 tree-planting vouchers were distributed to eligible beneficiaries, while the Government has planted around 137,000 trees and 108,000 shrubs since 2020 under the May My Tree initiative. Community participation remains an important aspect of this investment. The 2026 parks events programme attracted 15,774 attendees, while the Shape Your Space campaign generated more than 12,000 public interactions in relation to the three National Parks. These initiatives encourage greater use of green spaces while giving communities a role in shaping their development.

Investment is also extending to the countryside and to habitat restoration, including works along the Victoria Lines and at the Bidnija Olive Grove. Project Silva Green Pathways, completed with an investment of more than €1 million, rehabilitated approximately 55,000 square metres of afforestation areas at Aħrax ta' Ġewwa and Miżieb. In addition, €12 million in ERDF and Cohesion Fund support has been secured for Project E-CORE, which will restore and strengthen protected habitats in Wied il-Luq and Wied il-Buskett. Meanwhile, the €180,000 MEDMAQUIS project supports the restoration of Mediterranean Maquis habitats in Malta and Sicily.

Wied Inċita is another major example of the Government's approach to combining environmental restoration with public access and recreation. Following the opening of the first phase in December 2024, Phase II is expanding the park by a further 7,000 square metres, with works including the restoration of rubble walls and reservoirs, the planting of new indigenous and climate-resilient trees and shrubs, and improvements to pedestrian routes, irrigation, recreational infrastructure and safety measures. The wider masterplan envisages transforming more than 90,000 square metres into a significant public green park. Including Phase III, the overall investment in Wied Inċita amounts to approximately €5.02 million, making it one of Malta's flagship green regeneration projects.

## 4.5 Waste Management and the Circular Economy

Malta continues to strengthen its waste management infrastructure while accelerating the transition to a resource-efficient circular economy. WasteServ has awarded the contract for the ECOHIVE project, which will process 74,000 tonnes of organic waste annually to produce renewable energy and high-quality compost for the agricultural sector. The Waste-to-Energy project remains a key priority for reducing Malta's long-standing reliance on landfill. At the same time, a new skip management facility will support the diversion of bulky waste from landfill towards recycling. The rehabilitation of the Wied Fulija and Qortin sites has also been completed, contributing to the wider regeneration of the surrounding areas.

ERA will also continue to implement Malta's Waste Management Plan, focusing on waste separation, recycling, waste prevention, and priority waste streams. This includes new food waste initiatives, extended producer responsibility measures for packaging, textiles, batteries, and WEEE, as well as the implementation of new EU waste legislation. Enforcement will remain central, with 4,845 inspections carried out in 2025, resulting in 1,032 fines and 1,007 warnings.

Circular Economy Malta (CEMalta) supports the transition through infrastructure, regulation, behavioural-change initiatives, reuse and repair programmes, and improved recycling performance. The Beverage Container Refund Scheme (BCRS) has continued to expand, reaching 348 active reverse vending machines by the end of 2025, while collection and recycling performance has remained strong and on track to meet the 2026 targets. The Bring Your Own Container (BYOC) initiative had 336 registered establishments by July 2026, with participating businesses reporting approximately 165,689 reusable-container transactions in 2025.

CEMalta is also piloting new approaches to waste collection and separation through Smart Waste Depots in Gozo, while developing monitoring tools and indicators to track Malta's progress towards the circularity and recycling objectives set out in Vision 2050. Together, these measures support a shift away from landfill and single-use consumption towards waste prevention, reuse, recycling, and more sustainable resource management.





05



# Strengthening Families, Living Standards and Demographic Resilience

Strong families and good living standards are fundamental to societal wellbeing, stability, and resilience. A society in which individuals and families feel secure, supported and able to plan for the future is better placed to respond to social and economic change. Strengthening these foundations is therefore essential to enabling people to build fulfilling lives, contribute to their communities and have confidence in the future. At the same time, demographic resilience is an important component of long-term national prosperity, requiring a balanced approach that supports both current wellbeing and the needs of future generations.

## 5.1 Strengthening Families for Malta's Future

The Government remains committed to improving citizens' living standards, particularly those of families. Families are central to Malta's long-term economic and social prosperity, with household wellbeing influencing labour market participation, child outcomes, consumption, savings behaviour and the sustainability of public finances. At the same time, family-related decisions are increasingly shaped not only by personal circumstances but also by broader economic factors, including disposable income, housing affordability, work-life balance and the financial cost of raising children. In this context, policies that support families should be regarded not only as social interventions but also as strategic investments in Malta's future. By strengthening household financial resilience and creating conditions that encourage family formation, such measures can help address demographic challenges, support labour market participation, and promote inclusive and sustainable economic growth over the long term.

Low fertility has implications for the future size and age structure of the population, the domestic labour supply, the tax base and the long-term sustainability of pension and health-related expenditure. While migration has supported population and employment growth in recent years, demographic resilience also requires policies that make it easier for residents to form and sustain families.

Against this background, the Government has continued to strengthen measures to support families and improve disposable income. The measures announced in the last Budget, including targeted income tax reductions for families with children and enhancements to family-related benefits, form part of this broader policy approach. These measures seek to ease financial pressures, reward work, support parents during the child-rearing years, and improve household wellbeing.

The following sections provide an overview of key trends affecting families in Malta and the impact of the main Budget measures introduced to support disposable income.

## 5.2 Demographic Trends and Family Formation

Demographic trends are an important part of the context within which family policy is being strengthened. Malta has continued to register population growth, supported by strong employment performance and inward migration. At the end of 2025, the estimated resident population of Malta and Gozo stood at 588,254, an increase of 2.4 per cent compared with the previous year. This increase was mainly driven by net migration, which amounted to 13,906 persons in 2025.

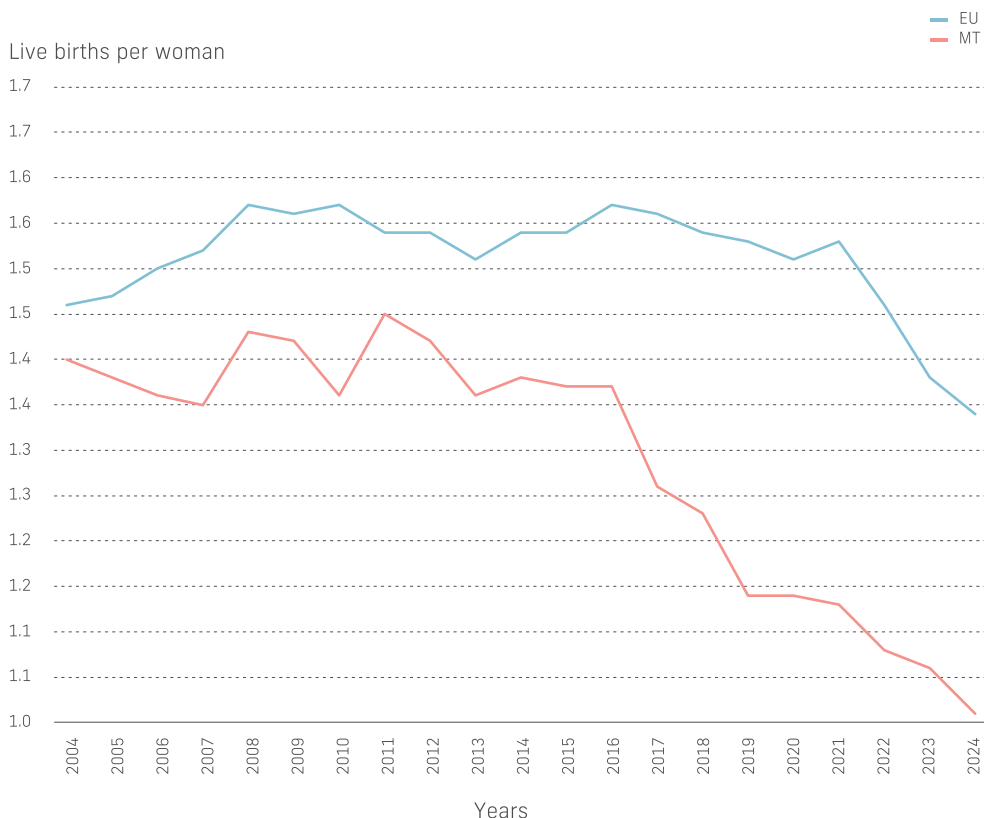
At the same time, natural increase has continued to narrow. In 2025, the natural increase declined from 193 in 2024 to 98, reflecting both fewer resident live births and more resident deaths. Resident live births decreased by 0.8 per cent compared with the previous year, while resident deaths increased by 1.4 per cent. This points to a demographic pattern in which population growth is increasingly sustained by migration rather than by natural increase.

Malta's demographic challenge has become more pronounced. Over the past few decades, Malta has experienced a decline in fertility rates, which has accelerated over the past 15 years. Malta registered the lowest total fertility rate among the European Union Member States in 2024, at 1.01 live births per woman, compared with the EU average of 1.34 (Figure 5.1), itself well below the replacement level of around 2.1 live births per woman.

Fig 5.1

## Total Fertility Rate

Source: Eurostat



The timing of family formation is also relevant. In 2024, 38.5 per cent of parents who gave birth were aged 30–34. This reflects a wider pattern in which family formation tends to take place later in life, influenced by a range of economic and social factors, including education, labour market participation, housing affordability, income security and work-life balance. The postponement of childbearing is often cited as a factor contributing to lower fertility, as individuals and couples may delay family formation due to longer time spent in education, labour-market considerations, housing-related pressures, or financial constraints. However, in Malta's case, postponement alone does not appear sufficient to explain the extent of the fertility challenge. The mean age of women at childbirth in Malta has converged towards the EU average, while the total fertility rate has continued to diverge from it.

In 2024, the mean age of women at childbirth was 31.3 years in both Malta and the EU27. This suggests that Malta's low fertility rate is not simply due to women having children later than their EU counterparts. Rather, the challenge also appears to be linked to smaller completed family sizes and the transition from the first to subsequent children.

This is also reflected in birth-order patterns. In 2024, firstborn children accounted for a higher share of live births in Malta than the EU average, highlighting the importance of understanding the factors that influence whether families have a second or subsequent child. This is consistent with research commissioned by the National Commission for the Promotion of Equality (NCPE)<sup>12</sup>, which found that many parents with one child did not intend to have another, citing financial pressures, work-life balance and the cost of raising children. These findings suggest that policy can help to ease the financial and practical constraints that affect family formation decisions.

Population ageing also has implications for the long-term financing of pensions and age-related expenditure. At the end of 2025, persons under 18 accounted for 14.3 per cent of the population, while persons aged 65 and over accounted for 18.4 per cent. In this context, dependency ratios provide a useful indication of the balance between the older population and the working-age or employed population that supports the system. The old-age dependency ratio stood at 26.6 in 2025, indicating approximately four working-age persons for every person aged 65 or over. This indicator provides a broad measure of the demographic pressure on the working-age population. The economic old-age dependency ratio, which stood at 28.9, provides a closer link to pension financing, as it compares inactive persons aged 65 and over with those in employment.

---

<sup>12</sup> Borg, A. and Camilleri, L. (2024). Perceptions and Attitudes of Women and Men in Malta towards Work-Life Balance: With a Specific Focus on Family Size A Research Study commissioned by the National Commission for the Promotion of Equality (NCPE). [online] Available at: [https://www.um.edu.mt/library/oar/bitstream/123456789/130666/1/Perceptions\\_and\\_attitudes\\_of\\_women\\_and\\_men\\_in\\_Malta\\_towards\\_work\\_life\\_balance.pdf](https://www.um.edu.mt/library/oar/bitstream/123456789/130666/1/Perceptions_and_attitudes_of_women_and_men_in_Malta_towards_work_life_balance.pdf).

At the same time, the ageing of the aged ratio stood at 23.2, indicating that almost one in every four persons aged 65 and over was aged 80 or above. This is relevant from a public finance perspective, as older cohorts are more likely to have been receiving a pension for a longer period and to require more intensive health and long-term care support. Taken together, these indicators show that low fertility and population ageing are not only demographic issues but also have broader implications for labour supply, pension sustainability and age-related expenditure. This reinforces the importance of policies that support family formation, sustain labour market participation and strengthen Malta's long-term economic and social resilience.

A sustained decline in fertility, if not balanced by higher participation, productivity and an adequate working-age population, can affect the size of the future labour force and the contribution base that supports pensions and other public services. In this context, family policy plays an important role. Measures that support parents and children can contribute to household wellbeing in the short term while also advancing broader long-term objectives linked to labour supply, social cohesion, and intergenerational sustainability.

### 5.3 Household Disposable Income and Living Standards

Household disposable income is a key indicator of family wellbeing, as it reflects the resources available to households after taxes, social contributions and other compulsory payments. It therefore provides an important measure of the extent to which households can meet day-to-day needs, absorb unexpected expenses, save, and make long-term decisions, including decisions related to family formation and housing.

Over the past decade, disposable income has risen significantly. The mean equivalised income for a two-adult household with one dependent child increased from €17,275 in 2015 to €27,877 in 2025, representing an increase of 61.4 per cent. Moreover, over the same period, the mean equivalised disposable income for a two-adult household with two dependent children rose by 93.5 per cent, from €14,514 to €28,079.

Since these figures are equivalised, household income is adjusted for differences in household size and composition using the modified OECD equivalence scale. As a result, the figures represent income per equivalent adult rather than total household income. Consequently, larger families require a higher total household income to achieve a similar level of equivalised disposable income. For example, in 2025, a two-adult and one-dependent-child household with an equivalised income of €27,877 had a mean total income of €50,179.

By comparison, a family comprising two adults and two dependent children had a corresponding mean total household income of €58,966.

Despite the overall increase in household incomes, poverty and social exclusion indicators show that certain households continue to face greater pressures. In 2025, the at-risk-of-poverty threshold was estimated at €13,220, while the at-risk-of-poverty or social exclusion rate (AROPE) stood at 19.4 per cent. Older people and children continue to be the most exposed to poverty risks. In 2025, the AROPE rate for persons aged 65 and over stood at 30.3 per cent, underscoring the continued relevance of pension adequacy and income support for older households. The AROPE rate for persons below 18 years of age stood at 23.3 per cent, compared with 15.7 per cent for persons aged 18 to 64. These figures point to the importance of measures that support both families with children and older persons, while also strengthening labour market participation and income from work.

Against this background, measures that support disposable income play an important role in strengthening household resilience. Tax reductions, family benefits, in-work support and other targeted measures can help ease the financial pressures faced by families, particularly when combined with policies that support employment, childcare, housing affordability and work-life balance.

## 5.4 Social Implications of Selected 2026 Budget Measures

In recent years, the Government has introduced a range of reforms aimed at strengthening Malta's social protection system and improving household living standards, particularly for pensioners, low-income households and families with children. These measures form part of a broader policy effort to maintain an effective social safety net while addressing poverty and income inequality. Building on this approach, the 2026 Budget introduced several tax and benefit measures intended to increase disposable income, support vulnerable groups and improve the overall distribution of income.

This section examines the impact of selected policy measures announced in the 2026 Budget on household income distribution and poverty levels<sup>13</sup>. The analysis focuses on income tax reform, an increase in the children's allowance, and measures to support the elderly population. The latter includes the weekly pension increase of €5.34<sup>14</sup>, a €75 increase in the elderly grant and the pension income tax exemption for pensioners. The impact of these measures is estimated using EUROMOD<sup>15</sup>. As EUROMOD is a static model, the results show the impact of the measures on the assumption that all other factors remain constant. Two scenarios are compared: a baseline scenario reflecting the 2025 tax and benefit system and a reform scenario incorporating the selected 2026 measures. The difference between the two scenarios is used to estimate the impact of each policy measure. The poverty rate calculations are based on a fixed poverty threshold of 60.0 per cent, equivalent to €13,708.

---

<sup>13</sup> The measures are selected based on what can be modelled within EUROMOD using the EU-SILC microdata. For further details on the measures modelled in EUROMOD, see the latest Country Report.

<sup>14</sup> The total pension increase amounted to €10 per week, consisting of a €4.66 cost-of-living adjustment (COLA) and a €5.34 discretionary increase. For the purposes of this analysis, only the discretionary component was included to isolate the direct impact of the policy measure. The COLA element was excluded, as it reflects automatic indexation rather than a discretionary policy change.

<sup>15</sup> EUROMOD is a tax-benefit microsimulation model used across the EU to assess, on a comparable basis, the impact of taxes and social benefits on household incomes, poverty, income distribution and work incentives. For this analysis, the baseline scenario reflects Malta's 2025 tax and benefit system.

Table 5.1

## Distributional Impact of Selected 2026 Budget Measures

Source: Economic Policy Department Calculations using EUROMOD and 2024 EU-SILC data

|                                             | Income Tax Reform      |                        |                        | Increase in Children Allowance | Benefits Targeted to Elderly Population |
|---------------------------------------------|------------------------|------------------------|------------------------|--------------------------------|-----------------------------------------|
|                                             | 2026 Income Tax Reform | 2027 Income Tax Reform | 2028 Income Tax Reform |                                |                                         |
| <b>Poverty rate of Total Population</b>     |                        |                        |                        |                                |                                         |
|                                             | -0.40pp                | -0.41pp                | -0.54pp                | -0.41pp                        | -0.18pp                                 |
| <b>Poverty rates by Household Type</b>      |                        |                        |                        |                                |                                         |
| One adult < 65, no children                 | 0.00pp                 | 0.00pp                 | 0.00pp                 | 0.00pp                         | 0.00pp                                  |
| One adult >= 65, no children                | 0.00pp                 | 0.00pp                 | 0.00pp                 | 0.00pp                         | -1.21pp                                 |
| One adult with children                     | -0.26pp                | -0.26pp                | -0.26pp                | -0.26pp                        | 0.00pp                                  |
| Two adults < 65, no children                | 0.00pp                 | 0.00pp                 | 0.00pp                 | 0.00pp                         | -0.05pp                                 |
| Two adults, at least one >= 65, no children | 0.00pp                 | 0.00pp                 | 0.00pp                 | 0.00pp                         | -1.11pp                                 |
| Two adults with one child                   | -0.07pp                | -0.12pp                | -1.39pp                | -0.07pp                        | 0.00pp                                  |
| Two adults with two children                | -3.94pp                | -3.94pp                | -3.94pp                | -3.94pp                        | 0.00pp                                  |
| Two adults with three or more children      | -2.43pp                | -2.43pp                | -2.43pp                | 0.00pp                         | 0.00pp                                  |
| Three or more adults, no children           | 0.00pp                 | 0.00pp                 | 0.00pp                 | 0.00pp                         | 0.00pp                                  |
| Three or more adults with children          | -0.11pp                | -0.11pp                | -0.11pp                | -0.51pp                        | -0.06pp                                 |
| <b>Income Inequality - Gini Coefficient</b> |                        |                        |                        |                                |                                         |
|                                             | -0.0005                | -0.0003                | 0.0002                 | -0.0017                        | -0.0001                                 |

### Income Tax Reform

The 2026 Budget introduced the first phase of a three-year income tax reform designed to provide additional tax relief to households taxed under the 'married' and 'parent' computations with dependent children. The reform is being implemented gradually between 2026 and 2028 through annual adjustments to the income tax bands. In particular, the tax-free thresholds and the lower-rate tax bands will be progressively expanded, allowing a larger proportion of taxable income to be either exempt from tax or taxed at lower rates. This is expected to increase disposable income and provide greater financial support to working families with dependent children.

Table 5.2 summarises the income tax schedules applicable throughout the implementation period. The 2025 schedule serves as the baseline, reflecting the tax system in place prior to the reform. The schedules for 2026, 2027 and 2028 illustrate the phased introduction of the revised tax bands, with each successive year providing additional tax relief to eligible households.

The distributional analysis compares the 2025 baseline with the corresponding respective reform scenarios for each year. Since the reform applies exclusively to taxpayers assessed under the 'married' (with children) computation and the 'parent' computation, households taxed under the 'single' computation are unaffected. Consequently, the changes observed in the EUROMOD simulations reflect the impact of the revised tax schedules on the households eligible for the reform.

**Table 5.2**  
**Income Tax Brackets (2025-2028)**

Source: MTCA

#### 2025 Income Tax Brackets Computation

| <b>Single</b>   |      | <b>Married</b>  |      | <b>Parent</b>   |      |
|-----------------|------|-----------------|------|-----------------|------|
| Income Category | Rate | Income Category | Rate | Income Category | Rate |
| 0 – 12,000      | 0%   | 0 – 15,000      | 0%   | 0 – 13,000      | 0%   |
| 12,001 – 16,000 | 15%  | 15,001 – 23,000 | 15%  | 13,001 – 17,500 | 15%  |
| 16,001 – 60,000 | 25%  | 23,001 – 60,000 | 25%  | 17,501 – 60,000 | 25%  |
| 60,001+         | 35%  | 60,001+         | 35%  | 60,001+         | 35%  |

Table 5.2

## Income Tax Brackets (2025-2028)

Source: MTCA

### 2026 Income Tax Brackets Computation

| Married - 1 Child |      | Married - 2 or more Children |      | Parent - 1 Child |      | Parent - 2 or more Children |      |
|-------------------|------|------------------------------|------|------------------|------|-----------------------------|------|
| Income Category   | Rate | Income Category              | Rate | Income Category  | Rate | Income Category             | Rate |
| 0 – 17,500        | 0%   | 0 – 22,500                   | 0%   | 0 – 14,500       | 0%   | 0 – 18,500                  | 0%   |
| 17,501 – 26,500   | 15%  | 22,501 – 32,000              | 15%  | 14,501 – 21,000  | 15%  | 18,501 – 25,500             | 15%  |
| 26,501 – 60,000   | 25%  | 32,001 – 60,000              | 25%  | 21,001 – 60,000  | 25%  | 25,501 – 60,000             | 25%  |
| 60,001+           | 35%  | 60,001+                      | 35%  | 60,001+          | 35%  | 60,001+                     | 35%  |

### 2027 Income Tax Brackets Computation

| Married - 1 Child |      | Married - 2 or more Children |      | Parent - 1 Child |      | Parent - 2 or more Children |      |
|-------------------|------|------------------------------|------|------------------|------|-----------------------------|------|
| Income Category   | Rate | Income Category              | Rate | Income Category  | Rate | Income Category             | Rate |
| 0 – 20,000        | 0%   | 0 – 30,000                   | 0%   | 0 – 16,000       | 0%   | 0 – 24,000                  | 0%   |
| 20,001 – 30,000   | 15%  | 30,001 – 41,000              | 15%  | 16,001 – 24,500  | 15%  | 24,001 – 33,500             | 15%  |
| 30,001 – 60,000   | 25%  | 41,001 – 60,000              | 25%  | 24,501 – 60,000  | 25%  | 33,501 – 60,000             | 25%  |
| 60,001+           | 35%  | 60,001+                      | 35%  | 60,001+          | 35%  | 60,001+                     | 35%  |

### 2028 Income Tax Brackets Computation

| Married - 1 Child |      | Married - 2 or more Children |      | Parent - 1 Child |      | Parent - 2 or more Children |      |
|-------------------|------|------------------------------|------|------------------|------|-----------------------------|------|
| Income Category   | Rate | Income Category              | Rate | Income Category  | Rate | Income Category             | Rate |
| 0 – 22,500        | 0%   | 0 – 37,000                   | 0%   | 0 – 18,000       | 0%   | 0 – 30,000                  | 0%   |
| 22,501 – 33,500   | 15%  | 37,001 – 50,000              | 15%  | 18,001 – 28,000  | 15%  | 30,001 – 42,000             | 15%  |
| 33,501 – 60,000   | 25%  | 50,001 – 60,000              | 25%  | 28,001 – 60,000  | 25%  | 42,001 – 60,000             | 25%  |
| 60,001+           | 35%  | 60,001+                      | 35%  | 60,001+          | 35%  | 60,001+                     | 35%  |

As presented in Table 5.1, the income tax reform is projected to reduce the overall at-risk-of-poverty rate by 0.40 percentage points in 2026, 0.41 percentage points in 2027, and 0.54 percentage points in 2028. The largest improvements are expected among households with dependent children, reflecting the reform's design. In particular, the at-risk-of-poverty rate is estimated to decline by up to 3.94 percentage points for two-adult households with two children and by 2.43 percentage points for two-adult households with three or more children over the reform period. Smaller but positive reductions are estimated for one-parent households (0.26 percentage points) and two-adult households with one child. For the latter, the impact increases gradually from 0.07 percentage points in 2026 to 1.39 percentage points by 2028 as the reform is progressively implemented. Consistent with the reform's objective of supporting families, the greatest reduction in poverty is expected among children and young people (under 18 years of age), with the at-risk-of-poverty rate declining by between 1.38 and 1.69 percentage points over the three-year implementation period.

Fig 5.2

## Distributional Impact of the Income Tax Reform based on Equivalised Disposable Income

Source: Economic Policy Department Calculations using EUROMOD and 2024 EU-SILC data



Figure 5.2 illustrates the estimated impact of the 2026–2028 income tax reform on equivalised disposable income across the income distribution. The results indicate that all income deciles are expected to benefit from the reform, although the magnitude of the gains varies across households. The largest increases are expected to be concentrated among middle-income households. By 2028, the seventh income decile is projected to experience the greatest increase in equivalised disposable income (2.53 per cent), followed by the fifth decile (2.32 per cent). Households in the highest income decile are expected to experience comparatively smaller proportional gains, with equivalised disposable income increasing by 0.80 per cent. Overall, the reform is projected to improve disposable income across the entire income distribution, with the greatest benefits accruing to middle-income households while also providing additional support to lower- and higher-income groups. The adjustment of the tax bands means that those earning around the mean income level are expected to benefit the most. Once the tax cuts have been fully phased in, a household comprising two adults can benefit from annual tax savings of up to a maximum of €10,000, with the average tax saving per parent projected to be €3,500 per year.

**Table 5.3**

## Marginal Tax Rate (MTR)<sup>16</sup>

Source: Economic Policy Department Calculations using EUROMOD and 2024 EU-SILC data

|                                                       | Baseline | 2026<br>Income<br>Tax<br>Reform | 2027<br>Income<br>Tax<br>Reform | 2028<br>Income Tax<br>Reform |
|-------------------------------------------------------|----------|---------------------------------|---------------------------------|------------------------------|
| MTR for Working Age Population                        | 27.93%   | 27.12%                          | 26.42%                          | 25.88%                       |
| MTR by Income Quantile of the Working Age Population: |          |                                 |                                 |                              |
| Quantile 1 - €11,607                                  | 28.41%   | 26.09%                          | 24.21%                          | 23.70%                       |
| Quantile 2 - €17,517                                  | 29.21%   | 27.33%                          | 26.23%                          | 25.55%                       |
| Quantile 3 - €23,096                                  | 27.74%   | 26.92%                          | 26.10%                          | 25.61%                       |
| Quantile 4 - €30,430                                  | 26.80%   | 26.49%                          | 25.93%                          | 25.14%                       |
| Quantile 5 - €50,662                                  | 28.26%   | 28.10%                          | 27.98%                          | 27.74%                       |

<sup>16</sup> The Marginal Tax Rate (MTR) represents the proportion of an additional euro of earnings that is taxed. It is calculated as the ratio of the change in taxes paid to the change in income, after accounting for transfers and other relevant policies. For this analysis, earnings are assumed to increase by 3 per cent in both the baseline and income tax reform scenarios, in line with EUROMOD's default assumption for METR calculations. The results are obtained using the EUROMOD MTR Add-on. Further information is available in the document MTR\_add-on\_note\_J1.0+.pdf.

The impact of the income tax reform on work incentives was assessed using the Marginal Tax Rate (MTR), which measures the proportion of an additional euro of earnings that is taxed as income increases. As presented in Table 5.3, the average MTR for the working-age population (18–64 years) is projected to decrease from 27.93 per cent under the baseline scenario to 25.88 per cent by 2028, indicating a lower tax burden on additional earnings and thereby strengthening financial incentives to participate in the labour market. The reduction in MTRs is expected to be more pronounced among lower- and middle-income earners. Individuals in the first income quantile (€11,607) are expected to experience the largest decline, from 28.41 per cent to 23.70 per cent, while those in the second quantile (€17,517) are projected to see their MTR fall from 29.21 per cent to 25.55 per cent. Overall, these findings suggest that the reform strengthens work incentives primarily for lower- and middle-income households, for which the reduction in the tax burden on additional earnings is greatest.

### Increase in Children's Allowance

From 2026, families with an annual income below €30,000 will receive an additional €250 per year for each dependent child<sup>17</sup> through an increase in the children's allowance. Relative to the 2025 baseline, this measure is estimated to reduce the overall at-risk-of-poverty rate by 0.41 percentage points (Table 5.1). The greatest reductions in poverty are concentrated among households with dependent children, reflecting the policy's targeted nature. Moreover, when considered alongside the 2026 income tax reform, the combined effect of these measures is estimated to reduce the at-risk-of-poverty rate by approximately 0.63 percentage points, demonstrating how tax and benefit policies can work together to strengthen income adequacy for families with children.

---

<sup>17</sup> Dependent children are defined as children under the age of 16, or under the age of 23 if still in education, in line with the eligibility criteria for the Children's Allowance.

Fig 5.3

## Distributional Impact of selected 2026 Budget Measures based on Equivalised Disposable Income

Source: Economic Policy Department Calculations using EUROMOD and 2024 EU-SILC data

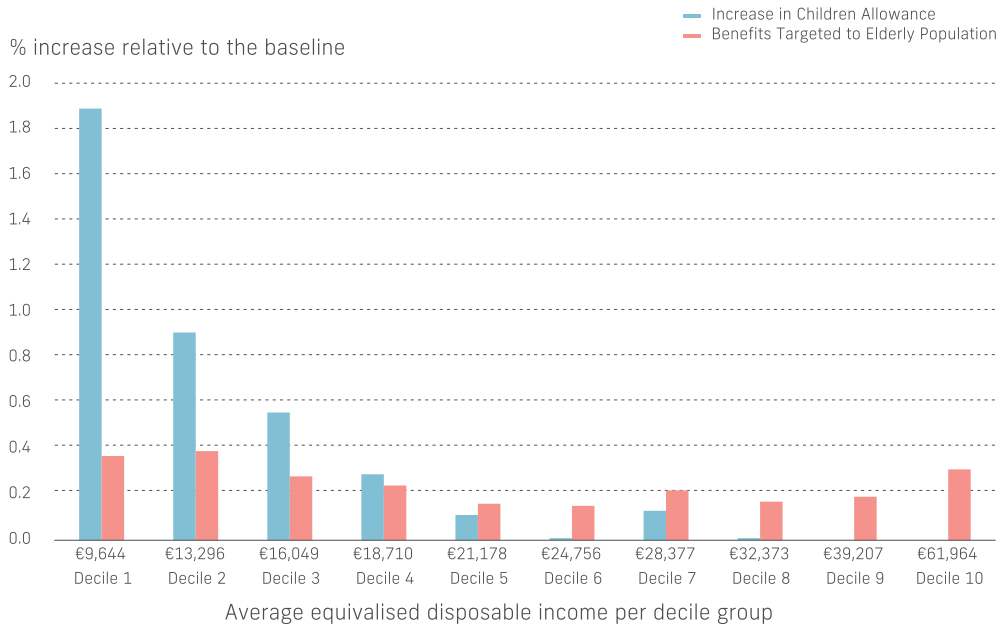


Figure 5.3 illustrates the distributional impact of the measure. The increase in the children's allowance is projected to raise equivalised disposable income across the income distribution, with the largest proportional gains accruing to lower-income households. The largest increase is projected for the first income decile (1.89 per cent), followed by the second (0.91 per cent) and third deciles (0.56 per cent). These gains are accompanied by a modest reduction in the Gini coefficient, indicating that the measure contributes to a more equal distribution of income.

## Measures Targeted at the Elderly Population

The 2026 Budget also introduced a package of measures to strengthen income support for pensioners. These include a weekly increase of €5.34 in contributory and non-contributory pensions, in addition to the statutory €4.66 Cost-of-Living Adjustment (COLA), a €75 increase in the elderly grant for individuals aged 75 years and over living independently or in private residential care, and the introduction of a full income tax<sup>18</sup> exemption on pension income up to €37,104. The effects of these measures are assessed against the 2025 tax and benefit system.

The simulations indicate that, collectively, these measures are expected to reduce the overall at-risk-of-poverty rate by approximately 0.18 percentage points (Table 5.1). The reduction is driven primarily by improvements in the income position of individuals aged 65 years and over, resulting in a noticeable decline in the poverty rate for this age group. As shown in Figure 5.3, the package also increases equivalised disposable income across all income deciles.

Taken together, the measures and trends examined in this chapter underline the importance of placing families, living standards and demographic resilience at the centre of Malta's long-term social and economic policy. Supporting family formation, strengthening household financial security and ensuring that people can maintain a decent standard of living are mutually reinforcing objectives. Looking ahead, policy must continue to balance immediate improvements in wellbeing with the structural challenges posed by demographic changes. By investing in families, protecting living standards and responding proactively to demographic trends, Malta can strengthen the conditions necessary for a society that is resilient today and well prepared for future generations.

---

<sup>18</sup> Under the 2025 policy framework, 80.0 per cent of pension income was exempt from income tax up to €13,309.





06



# Empowering Communities Through Education and Inclusion

Economic growth has long been regarded as a key measure of a country's progress, reflecting its ability to create jobs, raise incomes, and improve living standards. Since 2013, Malta's strong economic performance has enabled sustained investment in people, enabling the Government to strengthen the country's social protection system while expanding educational and skills development opportunities. As Malta looks to the future, economic success must continue to be matched by social progress, ensuring that growth is inclusive, opportunities are accessible to all, and no one is left behind. Achieving this vision requires continued investment in education, lifelong learning and social inclusion, empowering individuals to realise their full potential and enabling communities to thrive.

The Government is proud of the significant progress achieved in strengthening Malta's social protection framework and expanding access to quality education, recognising that both are fundamental to building a fairer and more resilient society. While education equips people with the knowledge and skills needed to participate fully in an evolving economy, a modern welfare system provides the support and security that individuals and families need to overcome challenges, reduce inequality and live with dignity. Together, these pillars create opportunities, foster social mobility, strengthen community resilience, and help ensure that the benefits of Malta's economic prosperity are shared across society.

## 6.1 Advancing Social Justice and Inclusion

The Government regards social welfare as a cornerstone of social justice and inclusion, helping to ensure that the benefits of economic growth are shared across society. By reducing inequality and supporting those most in need, the social protection system creates opportunities for upward mobility while safeguarding people against poverty and economic hardship. This commitment is reflected in Malta's continued investment in social protection. In 2024, social protection expenditure amounted to €3,080.8 million, representing a 12.4 per cent increase compared with the previous reference year.

As a share of the national economy, social protection expenditure also increased, with the social protection-to-GDP ratio rising from 13.1 per cent in 2023 to 13.4 per cent in 2024. This sustained increase highlights the Government's ongoing commitment to strengthening social support, protecting vulnerable groups and fostering a more inclusive, equitable and cohesive society.

These policies are reflected in Malta's low levels of material deprivation, which demonstrate the effectiveness of a strong social safety net in improving living standards and providing people with the stability to pursue education, develop new skills, and participate in the labour market. Social protection also promotes social mobility, with 15.2 per cent of the population moving up by one income decile in 2025, while 8.8 per cent moved up by more than one income decile. Over a three-year period, these figures rose to 16.5 per cent and 15.8 per cent, respectively, highlighting the long-term impact of policies that create opportunities for progress (Eurostat). Beyond its economic impact, social welfare strengthens social cohesion by fostering solidarity, community participation and a shared sense of responsibility.

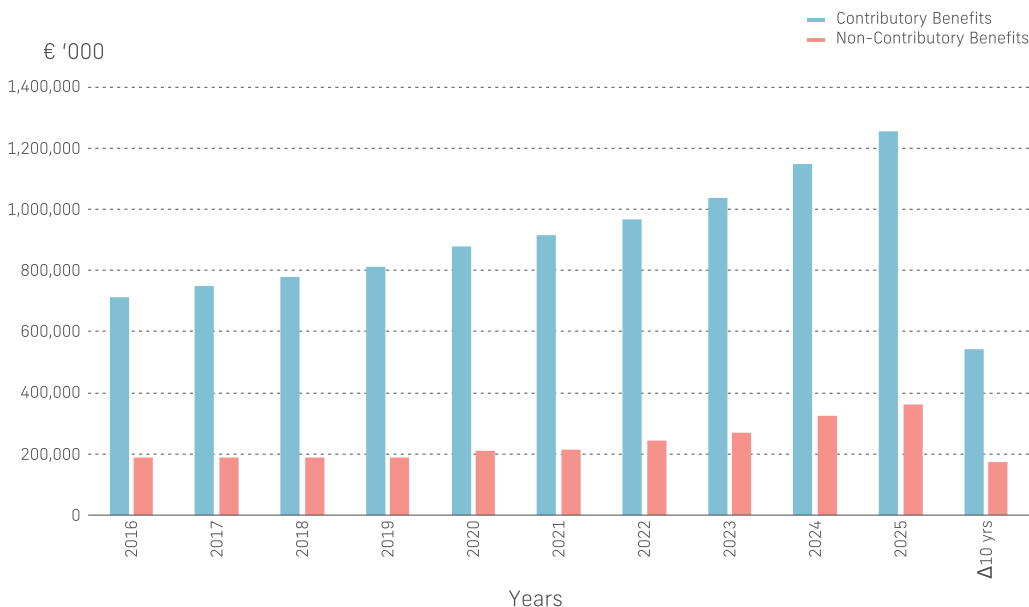
### Social Security Benefits Expenditure

Government expenditure on social security benefits reached €1.62 billion in 2025, representing a 79.5 per cent increase between 2016 and 2025. This growth was driven by higher spending on both contributory and non-contributory benefits, which increased by €542 million and €174 million, respectively.

Fig 6.1

## Social Benefits Expenditure

Source: NSO, Ministry for Social Policy and the Family



The largest increase in social security expenditure was recorded in retirement and widowhood pensions, which rose by €474 million to €1.08 billion over the decade. Between 2015 and 2025, the Government invested a cumulative €875 million in new and enhanced social security benefits for families with children, persons with disabilities, carers, older persons and low-income households. These targeted measures strengthened financial security, promoted greater social inclusion, and contributed to a 57.7 per cent reduction in the number of people relying on social assistance, from 16,449 in 2016 to 6,953 in 2025.

### Pensions

Malta's pension system remains a cornerstone of the country's social protection framework, providing income security and financial stability to an ageing population. In 2026, expenditure on contributory and non-contributory pensions, together with additional bonus payments, is projected to exceed €1.3 billion. This increase reflects both demographic developments and the Government's continued commitment to improving pension adequacy.

A growing pensioner population, longer life expectancy, annual cost-of-living adjustments, across-the-board pension increases, and targeted reforms to address historical inequalities have all contributed to higher pension expenditure. By 2025, the number of contributory and non-contributory pensioners had exceeded 106,800, representing an increase of more than 25,000 beneficiaries over the preceding decade.

Successive Budgets have prioritised improving pension adequacy while preserving fiscal sustainability. Pensioners continue to benefit from the annual Cost-of-Living Adjustment (COLA), coupled with additional increases beyond the standard COLA, helping to ensure that pensions retain their purchasing power in the face of inflation. These statutory increases have been consistently complemented by additional budgetary measures, including progressive improvements to retirement, widowhood, and invalidity pensions; reforms to narrow the pension gap between persons born before and after 1962; and the alignment of widowhood pensions with the full pension entitlement of deceased spouses. Targeted supplements have also been expanded for pensioners with lower incomes, those living alone, and households whose equivalised income falls below the national median, ensuring that support is directed towards those most at risk of financial vulnerability.

Alongside annual increases, the Government has continued to strengthen the pension system through structural reforms aimed at improving its long-term adequacy. The pension deferment mechanism rewards individuals who choose to remain in employment beyond pensionable age by providing higher pension entitlements, thereby supporting both retirement income and labour market participation. Reforms to credited contributions for parents, carers and persons with interrupted employment histories have also helped to ensure that career breaks do not disproportionately reduce pension entitlements. Complementary social measures, including free public transport, assistance with energy costs, housing support and access to free medicines through the Pharmacy of Your Choice scheme, further enhance the wellbeing and financial security of older persons.

Looking ahead, demographic change remains one of the most significant long-term challenges facing Malta's pension system. Rising life expectancy, lower fertility rates and an increasing old-age dependency ratio are placing sustained pressure on pension expenditure and the wider social protection system. Longer retirement periods, together with growing demand for healthcare and long-term care services, underline the importance of maintaining a pension framework that remains both adequate and financially sustainable. At the same time, maintaining high levels of labour market participation and strengthening contribution records will remain essential for preserving the long-term resilience of the contributory pension system.

The Government remains committed to strengthening Malta's pension framework through evidence-based reforms that balance social adequacy with fiscal responsibility. Ongoing work by the Pensions Strategy Group, the continued digitalisation of pension services, improvements to contribution records and administrative processes, and policies that encourage longer working lives, all form part of this strategy. Pension policy will continue to be developed alongside wider initiatives that promote active ageing, improved healthcare, affordable housing and family-friendly measures. Together, these reforms will help to ensure that Malta's pension system continues to provide security, dignity and opportunity for current and future generations of pensioners while remaining resilient in the face of the demographic challenges of the decades ahead.

### A Strategy that Works

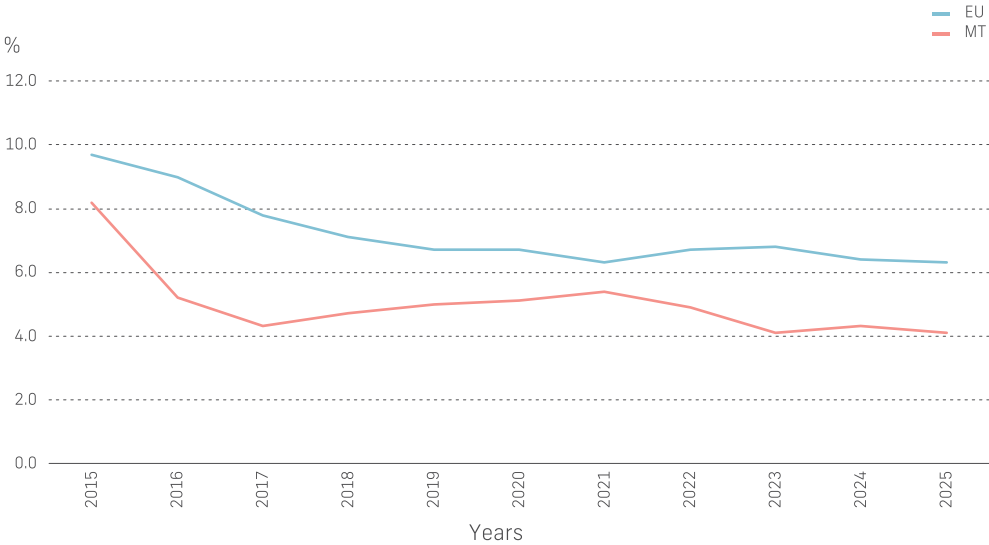
The effectiveness of the Government's social strategy is reflected in Malta's strong performance across key EU social indicators. In 2025, Malta's at-risk-of-poverty or social exclusion rate (AROPE) stood at 19.4 per cent, 1.5 percentage points below the EU average. Furthermore, income distribution remains favourable, with Malta recording an S80/S20 income ratio of 4.49, which is lower than the EU average, indicating a better distribution. The Gini coefficient of equivalised disposable income (ranging from 0 for perfect equality to 100 for perfect inequality) stood at 29.2, equal to the EU average.

Significant progress has also been achieved in reducing deprivation. Between 2015 and 2025, Malta's Material and Social Deprivation rate declined substantially, falling from 10.2 per cent to 6.2 per cent among employed persons and from 11.1 per cent to 5.2 per cent among retired persons. Sustained improvements over the past decade have enabled Malta to close the gap with the EU and record rates well below the corresponding EU averages. The Severe Material and Social Deprivation rate also declined substantially, falling by half, from 8.2 per cent in 2015 to 4.1 per cent in 2025, compared with the EU average of 6.3 per cent (Figure 6.2). Among employed persons, pensioners and unemployed individuals, Malta consistently recorded lower severe deprivation rates than the European Union.

Fig 6.2

# Severe Material and Social Deprivation

Source: Eurostat



The improvement in household wellbeing is further reflected in financial resilience indicators. In 2025, 4.6 per cent of the population reported great difficulty in making ends meet, compared with 6.4 per cent across the EU, while 18.7 per cent were unable to meet unexpected financial expenses, significantly below the EU average of 29.2 per cent. Housing affordability also remained comparatively strong, with housing costs accounting for 12.6 per cent of disposable income, compared with 18.9 per cent across the EU. In comparison, Malta's severe housing deprivation rate stood at just 0.5 per cent, compared with 4.0 per cent in the EU.

The Government remains committed to ensuring that the benefits of Malta's continued economic growth are shared fairly across society, with a significant proportion of national prosperity reinvested in improving people's quality of life. This includes safeguarding pension adequacy, supporting household incomes, and helping families withstand rising living costs, while maintaining the fiscal discipline needed to invest in other national priorities such as healthcare, education and infrastructure.

## 6.2 Improving Educational Attainment for Future Success

Education remains one of the Government's highest priorities and a key investment in Malta's future social and economic prosperity. Through sustained investment in evidence-informed policymaking, curriculum transformation, targeted learner support, and strategic foresight planning, Malta continues to strengthen educational attainment whilst ensuring that every learner has the opportunity to reach their full potential.

Over recent years, Malta has registered significant progress in reducing Early Leaving from Education and Training (ELET), strengthening literacy interventions, expanding family engagement, and promoting learner wellbeing. These achievements have been supported by system-wide transformation, including the launch of the National Education Strategy (NES) and the implementation of the National Strategy on Early Leaving from Education and Training, the Family Community School Link (FCSL) programme, curriculum transformation initiatives, strategic foresight education programmes delivered locally and internationally and continued investment in future-ready learning environments.

Key investment priorities are centred on transforming and strengthening Malta's education system through a range of strategic initiatives. These include curriculum transformation and assessment evaluation, measures to address Early Leaving from Education and Training (ELET), the expansion of the Family Community School Link (FCSL) programme, and initiatives such as Reading Recovery and literacy support.

Further priorities include strengthening strategic foresight through EduFutures; Educators4EduFutures; establishing a Transformation Hub; continuing investment in educational infrastructure; developing a new National Inclusion Policy; and advancing digital equity and student support to ensure that all learners have access to the opportunities and resources needed to succeed. These investments contribute directly to Malta Vision 2050, the National Education Strategy, and the Sustainable Development Goals by fostering greater educational equity, improving learner outcomes and strengthening lifelong learning opportunities.

Against this backdrop, the Government is currently implementing an integrated programme of transformation aimed at improving learning outcomes across compulsory education, strengthening transitions into vocational, post-compulsory and tertiary education, modernising curriculum and assessment frameworks, and promoting learner engagement and wellbeing. This programme also seeks to reduce educational inequalities, strengthen family and community engagement, and equip learners with the skills and competencies needed to succeed in an increasingly digital, rapidly changing world. These priorities build on the progress achieved through previous reforms while responding to emerging national and international educational challenges.

## Curriculum Transformation and Assessment Evaluation

The Government aims to continue investing in curriculum transformation to ensure that Malta's education system remains responsive to the needs of today's learners while preparing them for future societal, technological and economic developments. Building on the work initiated last year, curriculum transformation has entered a new phase focused on reviewing learning outcomes, strengthening learner agency and embedding future-oriented competencies across compulsory education. This work is being informed by international evidence, collaboration with the OECD and UNESCO, and extensive stakeholder engagement.

A central component of this process is the review of assessment practices. Balanced approaches that recognise learner progression, formative assessment and competency development are being considered in light of the feedback received. The review seeks to ensure that assessment becomes an integral part of learning by:

- strengthening formative assessment practices;
- improving feedback mechanisms;
- recognising a broader range of learner competencies;
- promoting authentic assessment approaches;
- supporting learner wellbeing and motivation; and
- improving educational attainment through evidence-informed assessment.

This transformation aligns with the broader objectives of the National Education Strategy and supports Malta's ambition to develop an education system that promotes excellence, equity and lifelong learning.

The Directorate for Digital Literacy and Transversal Skills (DDLTS) is developing a coordinated national approach to artificial intelligence in compulsory education, moving beyond the adoption of individual tools towards sustainable AI literacy. This work is aligned with the National Education Strategy, the Digital Education Strategy 2025–2030, and European requirements including the EU AI Act and GDPR. AI literacy is being embedded within digital literacy and citizenship, supported by the development of National AI Guidelines for Compulsory Education, professional development, the AI in Education resource hub, Erasmus+ PAIDEIA, eTwinning, digital literacy workshops and the AI Pilot Project in Mathematics.

This work is complemented by the AI Għal Kulhadd initiative, which has achieved an uptake of around 40,000 people, supporting wider awareness and engagement with AI. More broadly, the development of digital skills, logical sequencing and computational thinking remains a key priority, as these skills are increasingly important for enabling learners to solve problems systematically, adapt to technological change and participate effectively in the future workforce. The overall aim is a human-centred approach in which AI augments teaching and learning, while learners develop the ability to use AI critically, understand its limitations and recognise when it adds genuine educational value.

### Early Leaving from Education and Training (ELET)

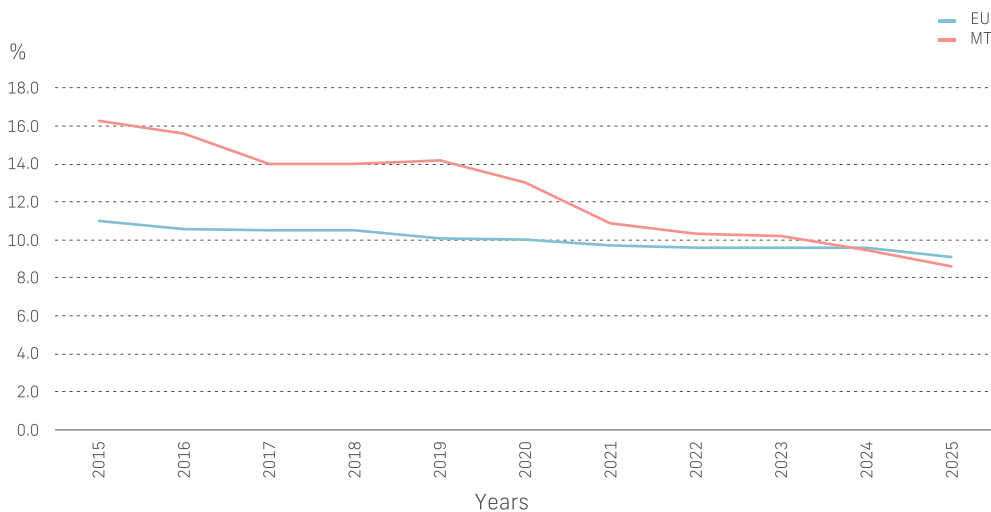
Reducing Early Leaving from Education and Training remains one of the Government's principal priorities. It continues to underpin wider efforts to improve educational attainment, strengthen social inclusion, and enhance Malta's future competitiveness. Over the past decade, Malta has made substantial progress in reducing ELET through a coordinated, system-wide approach that combines preventive, intervention, and compensatory measures. These measures have been implemented through sustained collaboration among stakeholders in education, social services, health and the community, ensuring that learners receive timely and appropriate support throughout their educational journey.

Between 2015 and 2025, Malta reduced its ELET rate from 16.3 per cent to 8.6 per cent (Figure 6.3), representing one of the most significant improvements recorded across the European Union. Importantly, Malta has now reduced its ELET rate to a level below the current EU average (9.1 per cent), demonstrating the effectiveness of long-term educational reforms and positioning the country favourably within the European education landscape.

Fig 6.3

## Early Leavers from Education and Training

Source: Eurostat



The next phase of transformation aims to further reduce the ELET rate to 8.0 per cent while ensuring that these improvements remain sustainable and responsive to future educational and socio-economic developments.

The Family Community School Link (FCSL) programme continues to play a central role in Malta's preventative framework for reducing Early Leaving from Education and Training. Through stronger collaboration between schools, families and local communities, the programme identifies educational challenges at an early stage and provides timely, coordinated support to learners and their families. Following the successful implementation of the pilot phase, the programme has now been expanded across compulsory education. It currently operates in 30 schools, with further expansion planned over the coming years to reach all schools and, subsequently, extend to childcare settings. This phased expansion reflects the Government's commitment to strengthening early intervention, improving parental engagement and supporting educators and learners throughout key educational transitions.

Moreover, improving literacy remains fundamental to raising educational attainment at all levels. To this end, investment in Reading Recovery and complementary literacy initiatives provides intensive, early intervention for learners experiencing difficulties with reading and writing during the early years of compulsory education. These interventions aim to identify and address literacy difficulties early, before they become long-term barriers to educational achievement. Reading Recovery contributes to improved literacy attainment, greater learner confidence and engagement, smoother progression through compulsory education, a reduced risk of educational disengagement, and stronger transitions into post-secondary education.

Digital technologies also continue to play a central role in teaching, learning and educational participation. The Government remains committed to ensuring equitable access to high-quality digital learning opportunities by investing in infrastructure, connectivity and digital resources that support learners throughout their educational journey. Building on previous investments, the Government will continue to implement the One Device per Child programme, ensuring that learners have access to appropriate digital devices that enhance learning, promote digital literacy, and support the effective integration of technology in the classroom. This initiative complements wider investments in curriculum transformation, digital education, educator professional development, and equitable access to learning, ensuring that no learner is disadvantaged by a lack of digital resources.

## Supporting Participation in Post-Secondary and Tertiary Education

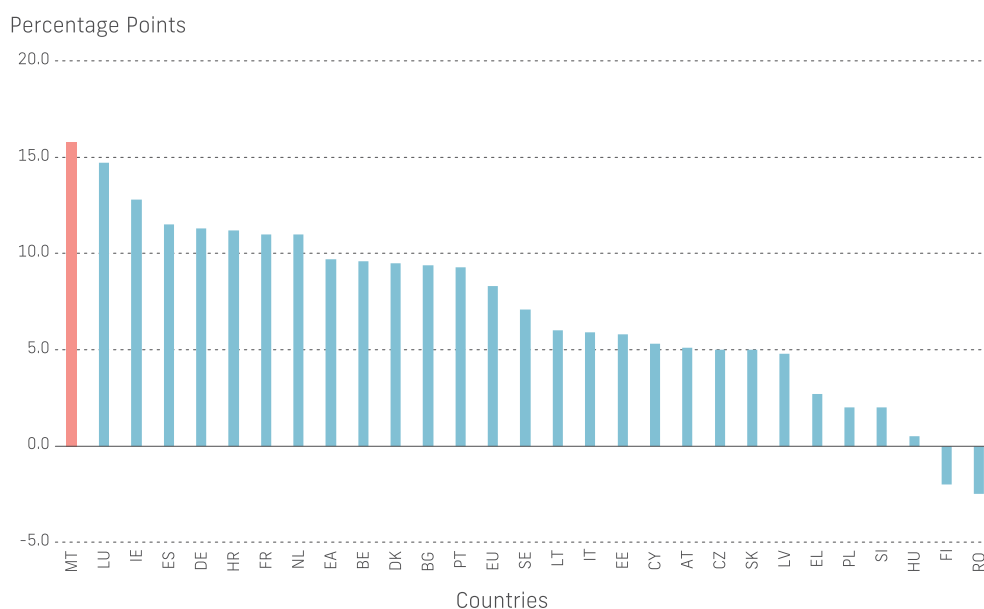
Increasing educational attainment requires continued investment in measures that remove financial and social barriers to participation. The Government has therefore continued to invest directly in learners through initiatives that, among other objectives, strengthen digital inclusion and improve access to post-secondary education. A notable example is the Internet Voucher Scheme, which supports eligible post-secondary students by providing a €300 voucher for one year of internet connectivity. During the 2025/2026 academic year, more than 3,300 students are expected to benefit from the scheme, representing an investment of over €1 million. Since its introduction in 2021, more than 9,200 students have benefited from the initiative, supporting equitable access to digital learning resources and reducing financial barriers to educational participation.

The Government's sustained investment in education is delivering tangible results, as reflected in the steady improvement in educational attainment. Malta's tertiary educational attainment rate among people aged 25–34 has increased significantly over the past decade, reflecting growing participation in higher education and continued progress towards national and European education targets. Between 2015 and 2025, the tertiary educational attainment rate rose by 15.8 percentage points, from 31.9 per cent to 47.7 per cent. As illustrated in Figure 6.4, over this period, Malta recorded the largest increase in the share of individuals aged 25–34 with tertiary educational attainment across the EU.

Fig 6.4

## Change in the Share of Tertiary Educational Attainment (aged 25-34)

Source: Eurostat



The Government continues to support thousands of students through maintenance grants, stipends and targeted financial assistance, ensuring that economic circumstances do not pose a barrier to educational progression.

### Strategic Foresight for Future-Ready Education

Education systems are operating in an increasingly complex and rapidly changing environment shaped by technological advances, demographic shifts, climate change, labour market transformation and evolving learner needs. In response, the Government continues to invest in strategic foresight to ensure that educational policy remains proactive, evidence-informed and future-oriented.

Strategic foresight enables the anticipation of emerging trends, the identification of future opportunities and challenges, and support for long-term planning through collaborative policy development. Over the coming years, foresight will continue to inform key areas, including curriculum transformation, assessment, inclusion, educational infrastructure and learner wellbeing, ensuring that the education system remains responsive to national priorities and global developments.

The Malta Education Foresight Forum (MEFF) serves as the Government's main platform for long-term educational planning and innovation, bringing together policymakers, educators, researchers, students, employers and other stakeholders to explore emerging trends and shape future priorities.

Investment in educational infrastructure remains central to improving educational outcomes and ensuring that learning environments evolve to meet the needs of learners and educators. The Government will continue to implement an integrated approach to the planning of educational spaces that promotes innovation, inclusion and wellbeing. Future investment will prioritise flexible and inclusive learning environments, digital technologies, sustainable and accessible infrastructure, learner wellbeing, and collaborative teaching spaces. Modern educational infrastructure plays a vital role in supporting curriculum transformation, effective assessment, learner engagement and the delivery of high-quality teaching.

These measures form part of a wider Government effort to increase participation in post-secondary and tertiary education, improve educational attainment and reduce Early Leaving from Education and Training. Through continued investment in student support, digital inclusion, curriculum transformation, infrastructure and inclusive practices, the Government is strengthening Malta's human capital and building an education system that is equitable, future-ready and responsive to evolving needs. By promoting evidence-informed policy, innovation and collaboration across the sector, the Government remains committed to ensuring that every learner is equipped with the knowledge, skills and competencies needed to succeed.





07



# Investing in Health for Wellbeing and Social Resilience

Health is fundamental to individual wellbeing, social inclusion and sustainable economic growth. A healthy population is better able to participate in education, employment and community life. At the same time, a resilient healthcare system contributes to higher productivity, improved quality of life and greater social cohesion. In recent years, Malta has continued to strengthen its health system through sustained investment in healthcare services, infrastructure, medical technology and the health workforce, ensuring that high-quality care remains accessible to all.

Looking ahead, the Government remains committed to building a modern, patient-centred and sustainable healthcare system that responds to the evolving needs of the population. Continued investment will focus on expanding healthcare capacity, strengthening primary and community care, promoting prevention and early intervention, supporting digital transformation and improving health outcomes across all stages of life. Through these priorities, the Government seeks to ensure that every person has access to timely, equitable and high-quality healthcare, while safeguarding the long-term resilience and sustainability of Malta's health system.

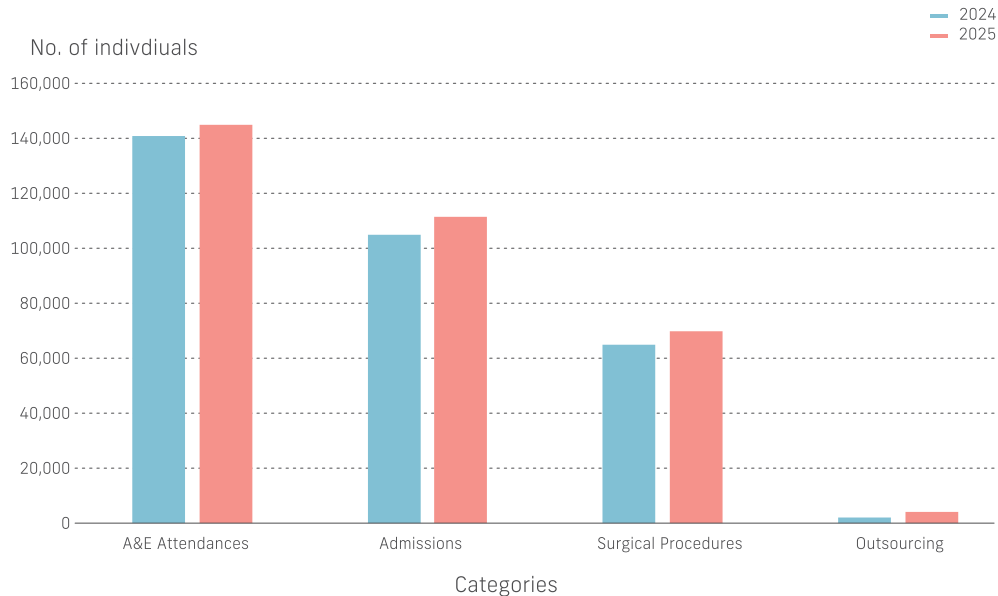
## 7.1 Mater Dei Hospital

Mater Dei Hospital (MDH) remains the cornerstone of Malta's public acute healthcare system, providing secondary, tertiary and highly specialised healthcare services to an increasingly complex patient population. Population growth, demographic ageing, and advances in medical treatment continue to drive sustained increases in demand across all clinical specialities. Throughout 2025, MDH continued to strengthen service delivery through targeted investment in workforce capacity, digital transformation, expanded specialist services and innovative models of care designed to improve patient access, quality of care and operational efficiency. These initiatives have enhanced MDH's ability to respond effectively to growing healthcare needs while supporting the long-term sustainability of Malta's public health system. MDH activity continued to increase throughout 2025 (Figure 7.1), reflecting sustained demand for acute healthcare services. This upward trend across activities continued in 2026.

Fig 7.1

## Key Performance Indicators

Source: Mater Dei Hospital (MDH) – Central Performance Unit



These figures highlight the increasing pressures on Malta's principal acute hospital while demonstrating its continued ability to respond effectively to growing healthcare demand. The increased demand for services was addressed through greater utilisation of operating theatres, the outsourcing of services, and the leasing of facilities. Furthermore, the 1400 Medical Helpline, introduced in 2025, helped to improve the efficiency of the response to the growing demand for A&E services. A total of 40,879 calls were received between June 2025 and June 2026, with 70.0 per cent redirected to services outside the MDH A&E department. The paediatric helpline similarly managed 3,158 calls, with over half of the children appropriately referred for hospital assessment and almost one-third successfully managed through telemedicine.

The Government continued to ensure that patients requiring highly specialised care had access to treatments and clinical services abroad whenever such services were not available locally (Table 7.1). Through the Treatment Abroad Office, the Government maintained equitable access to specialised healthcare, with expenditure reaching €0.8 million in 2025. This reflects the Government's continued commitment to ensuring that patients receive timely, high-quality care, irrespective of where the treatment is provided.

Table 7.1  
Treatments Abroad (2025)

Source: MDH - Treatment Abroad Office

|                       |     |                         |    |                           |     |
|-----------------------|-----|-------------------------|----|---------------------------|-----|
| UK Centres            | 482 | Air Ambulance Transfers | 16 | European Centres          | 62  |
| UK Treatment Episodes | 700 | Medical Repatriations   | 41 | Foreign Consultant Visits | 146 |

Cancer services continued to expand significantly through the coordinated efforts of the Cancer Care Pathways Directorate and the Sir Anthony Mamo Oncology Centre. The electronic fast-track referral system registered approximately 500 community doctors, with referrals increasing from 626 in 2024 to 1,938 in 2025 (+210.0 per cent), facilitating earlier diagnosis and more timely specialist assessment.

The introduction of innovative radiotherapy using the MR Linac also saw patient numbers increase from 50 in 2024 to 225 in 2025, enabling more patients to benefit from advanced cancer treatment techniques. The expansion of services, including nurse navigator services, outreach and practice nurses, is ongoing, while plans to upgrade radiotherapy services through the introduction of brachytherapy and the installation of modern equipment are also underway.

The Medical Imaging Department is strengthening diagnostic services through the continued recruitment of specialist staff and investment in advanced imaging technologies. These efforts are complemented by targeted initiatives to reduce waiting times through twilight services and improved access to imaging services in community settings. Upgrades to medical imaging equipment are ongoing, with advanced technologies being introduced to improve diagnostic accuracy, reduce scan times, and enhance patient outcomes.

In fulfilment of Government's commitment to bolster Malta's healthcare infrastructure, construction works on the Emergency Department Extension and the new Acute Mental Health Unit (MDH) commenced in August 2026. Initial works include the installation of site-hoarding and access gates, the implementation of temporary pedestrian routes, pavement modifications, service diversions, vibration-monitoring measures, site-clearance works and the initiation of soil-removal activities.

The projects are expected to address Malta's growing healthcare needs, to enhance service quality, capacity, and accessibility, as well as promote a patient-centred approach within the wider objective of securing service excellence.

## 7.2 Gozo General Hospital

The Gozo General Hospital has 302 beds: 142 for acute care and 160 for long-term care. In 2025, the hospital served 41,000 residents and 2.4 million visitors. Investment is primarily focused on strengthening access, safety, dignity, resilience and the quality of care. This is being achieved through the expansion of diagnostic, outpatient, and specialist services; the enhancement of emergency care pathways and local service capacity; the reduction of avoidable journeys to Malta; and the continued reduction of waiting times.

Recent improvements have already yielded positive outcomes. The Cardio-Respiratory Unit expanded from three to eight clinics. Consequently, comparing activity levels between 2023 and 2025, cardiology services increased by 21.3 per cent, lung function testing by 106.0 per cent, and heart failure activity by 48.0 per cent, while more than 300 patients per annum received support through the Heart Failure Clinic. Sleep studies are now conducted locally, with 154 studies conducted between June and December 2025 and a further 99 between January and April 2026.

Diagnostic capacity has increased by approximately 50.0 per cent since 2023. As a result, MRI waiting times fell from 14 weeks to two weeks, and more than 11,000 MRI scans were performed, including over 5,300 for Maltese residents. In addition, investment in the multi-patient Hyperbaric Unit helped to strengthen emergency and specialist treatment capacity. Further investment in the Early Pregnancy Room enhanced patient dignity and privacy. At the same time, improvements to mortuary facilities, as well as the consolidation and strengthening of child and youth services, improved the quality of care. Moreover, the introduction of a hospital-wide backup power system enhanced resilience, ensured service continuity, and enabled uninterrupted patient care.

Capacity expansion under the GGH modernisation plan remains a central feature of ongoing developments. These developments are complemented by the helipad and drone service, which strengthen logistics and patient transfers. In 2024, 81 helicopter transfers were carried out. The Mental Health Community Outreach Service, introduced in April 2025, is also helping to strengthen community-based care, with 467 home visits conducted to date.

Continued investment in service provision is aimed at responding directly to substantial annual demand, including:

- 1,935 general surgical interventions;
- 1,482 obstetrics and gynaecology procedures;
- over 400 colonoscopies;
- an increase in ophthalmic procedures from 1,869 to 2,808;
- 30.0 per cent of theatre activity dedicated to day-case surgery; and
- 27.0 per cent of theatre activity is dedicated to endoscopic procedures.

These developments will be further supported through telemedicine services, shared specialist service models with Malta, strengthened governance, enhanced emergency preparedness, robust risk management, customer care initiatives, staff wellbeing programmes, training, psychological safety measures, digital health coordination, and the implementation of electronic medical records.

The long-term campus masterplan provides for a new 400-bed acute hospital, parking facilities, a Research and Development Centre, doctors' accommodation and additional capacity for future expansion. The new hospital, which forms part of the Gozo Healthcare Campus, is designed to meet Gozo's healthcare needs over the next 50 years while enhancing capacity, adjacencies, patient flow, staff environments, and emergency preparedness.

Investment in the Gozo General Hospital reflects the Government's unparalleled commitment to safer care, improved access, greater dignity, stronger resilience and more equitable health outcomes in Gozo and across the national healthcare system.

## 7.3 Primary Health Care

Primary Health Care continues to play a pivotal role in strengthening Malta's healthcare system by bringing care closer to the community, facilitating timely clinical interventions, reducing avoidable pressure on acute hospital services, and supporting patients through more integrated, preventive, and digitally enabled models of care. The current programme of work is centred on tangible operational improvements already underway, as well as planned initiatives to enhance daily service delivery, patient flow, waiting times, continuity of care, and clinical outcomes.

Primary Health Care is consolidating its position as the first point of contact for patients by expanding and refining service models across health centres and community clinics. A key operational priority is to increase the proportion of patients managed through appointment-based care, while maintaining walk-in access for urgent and immediate clinical needs. This model supports longer, more structured consultations, improves continuity of care between patients and clinicians, and creates opportunities for brief preventive interventions during routine encounters, particularly in relation to non-communicable diseases. Decision-support tools, including point-of-care blood testing and point-of-care ultrasound, are also being actively explored, with point-of-care testing also supporting Primary Health Care Malta's contribution to antimicrobial stewardship.

GP appointment clinics are also being expanded across community clinics and health centres. These clinics enable more planned, holistic, and patient-centred care, allowing clinicians to address the patient's presenting concern while also reviewing chronic disease risk factors, medication needs, follow-up requirements, and opportunities for early intervention.

Over the coming years, the service model will continue to evolve towards stronger continuity of care, with patients increasingly supported by defined clinical teams and, where feasible, by the same or a related group of doctors.

A significant operational reform currently being introduced is clinical streaming within health centres. This model is designed to ensure that patients are assessed according to clinical priority rather than the order of arrival. The process is doctor-led and supports safer decision-making by distinguishing between emergency, urgent, and low-acuity presentations. Patients presenting with higher clinical risk are prioritised, while low-acuity patients may be offered an appointment-based alternative rather than remaining in the walk-in queue. The clinical streaming model has been piloted in selected centres, including Mosta and other high-demand settings. Early operational feedback indicates a substantial reduction in waiting times, from approximately two to three hours to around thirty minutes in the piloted areas. The model will be progressively refined and extended to improve patient safety, reduce crowding in waiting areas, strengthen infection prevention and control, and ensure that clinical capacity is directed to the patients who need it most.

The re-engineering of patient flow for persons living with diabetes, implemented in 2024, is being complemented by wider national initiatives, including access to continuous glucose monitoring for persons living with Type 1 diabetes, free capillary blood glucose monitors and strips for persons living with Type 2 diabetes, and the development of the National Diabetes Strategy 2025–2030. Such measures are expected to improve patient empowerment, strengthen follow-up, reduce complications, and support more effective utilisation of specialist and hospital services.

Primary Health Care is also contributing to improved population health outcomes through expanded vaccination, screening, and outreach services. The PCV20 vaccination programme is now offered to all individuals aged 18 years and over, while the HPV vaccination programme has been extended to both males and females born in 2000 or later. These measures aim to strengthen prevention, reduce the future disease burden, and promote equitable access to preventive healthcare. Additional preventive services include the podo-paediatric screening programme for Year 2 students, delivered annually in state schools, together with ongoing opportunistic cardiovascular risk assessments within community clinics. These services are designed to identify health risks earlier in the life course and support timely referral, intervention, and follow-up within the community setting.

Telemedicine and remote support services are being further embedded in operational pathways. The Client Support Centre provides appointment booking, call handling, and patient routing to telemedicine doctors for medical advice following registration. These services improve access for patients who may not require immediate in-person care, reduce unnecessary visits, and support vulnerable patients, including during periods of increased pressure on the healthcare system, such as heatwaves or other public health contingencies.

During periods of extreme heat, Primary Health Care contributes to the wider national response by supporting vulnerable cohorts, promoting telemedicine where clinically appropriate, and coordinating access to cooling centres for eligible persons. This operational role is particularly important for older persons and patients living with chronic conditions, including chronic kidney disease, diabetes, respiratory disease, heart failure, motor neurone disease, and malignant disease.

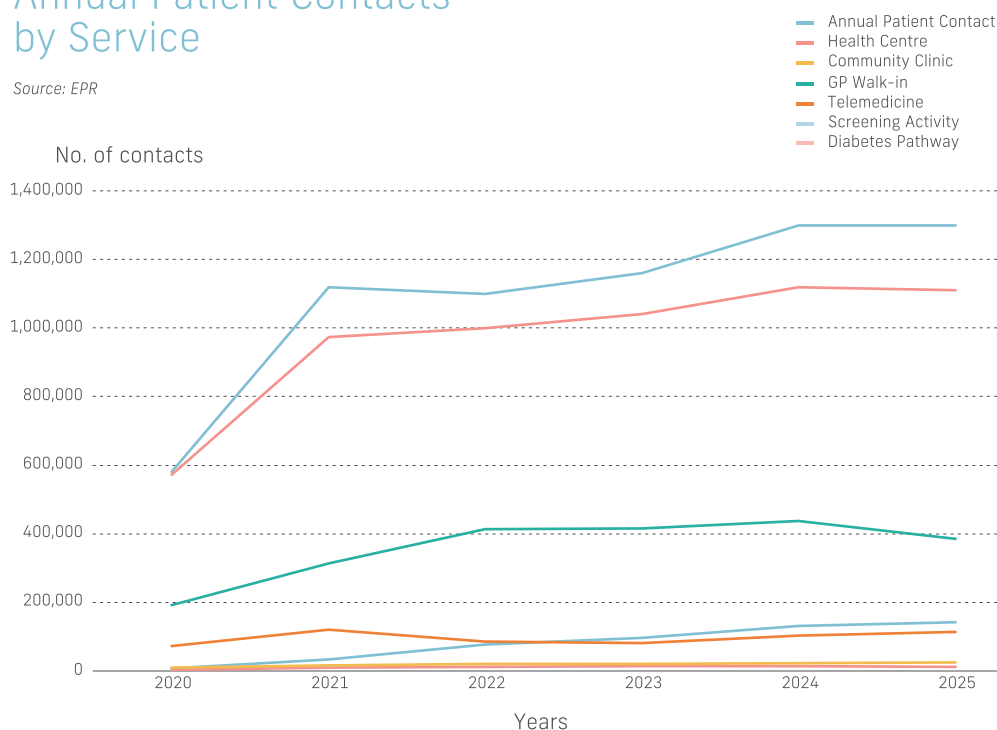
Quality improvement is also being advanced through more structured patient pathways, improved triage and streaming, enhanced use of digital records, standard operating procedures for emerging services, and stronger coordination between Primary Health Care, Mater Dei Hospital, public health authorities, and other Ministry stakeholders. These measures are expected to directly improve the patient experience, reduce avoidable hospital attendances, make better use of clinical resources, and enable more sustainable healthcare delivery.

Primary Health Care services have experienced substantial growth in activity and accessibility in recent years, with annual patient episodes more than doubling from 580,100 in 2020 to approximately 1.3 million in both 2024 and 2025, representing an increase of around 124.0 per cent (Figure 7.2). This expansion reflects increased utilisation across a range of services, including health centre attendances, which rose from 571,100 in 2020 to approximately 1.11 million in 2025, as well as significant growth in community-based services, where attendances increased from 7,260 to 141,300 over the same period.

Fig 7.2

## Annual Patient Contacts by Service

Source: EPR



The expansion of service pathways has further enhanced access to care, with the introduction of GP Appointment Clinics in 2023, the continued development of GP walk-in services, the launch of the streaming service in 2025, and the sustained use of telemedicine, which reached 114,100 contacts in 2025. Preventive and chronic disease management services have also expanded, with diabetes pathway contacts increasing from 8,390 in 2020 to 23,720 in 2025, while screening activity remained steady at around 12,000–15,000 contacts annually. Together, these trends demonstrate the continued strengthening of Primary Health Care services through greater accessibility, expanded community-based care and more diversified models of service delivery.

## 7.4 Ċensu Moran Regional Hub

The Ċensu Moran Regional Hub (CMRH) plays a strategic role in strengthening Malta's secondary healthcare services and supporting the Government's healthcare decentralisation strategy by bringing outpatient, screening, diagnostic, medical imaging, rehabilitation, day-case and elective surgical services closer to the community. Clinical activity continues to increase, with the Hub treating tens of thousands of patients annually through outpatient consultations, diagnostic investigations, rehabilitation therapy and elective procedures, making it an integral component of Malta's secondary healthcare network.

Since its launch and the phased migration of services, CMRH has treated over 190,000 patients, reflecting the growing demand for specialist healthcare services closer to the community and the increasing utilisation of the Hub's facilities. The Hub hosts multidisciplinary outpatient clinics and services, including General Practice, Medical Imaging services, Physiotherapy, Respiratory Medicine, Paediatrics, Vascular outpatients, Oncology, Speech and Language Therapy, Diabetes, Cardiology, Rheumatology, Perinatal Mental Health, Well Woman, Gynaecology and Obstetrics, Well Baby, Parentcraft, Gastroenterology, Orthopaedics, Plastic Surgery, Orthotics and Prosthetics, Acute Medicine, Nephrology, Ophthalmology, Pain Management, Nutrition and Dietetics, Psychology, Neurology, Podiatry and Audiology. In addition, CMRH provides day-case ophthalmology and pain management procedures and is supported by an on-site pharmacy serving the clinical services and operating theatres.

Capital investment programmes aim to ensure that CMRH remains equipped with modern clinical infrastructure and technology to meet growing healthcare demand. Infrastructure projects currently in progress include the development of the Medical Investigation and Treatment Unit (MITU) and the construction of two temporary procedure theatres, together with associated recovery and support areas. These facilities will serve as an interim solution while plans progress for a dedicated Endoscopy Suite at CMRH.

The MITU will further strengthen national healthcare capacity by providing infusion therapies and other planned treatments, while continuing to support the delivery of accessible, high-quality specialist care closer to the community. Specialist Pain Surgery, introduced in January 2026, and Ophthalmic Surgery, introduced in July 2026, will continue to expand throughout 2027, increasing national capacity for minimally invasive pain procedures, cataract surgery and ophthalmic diagnostics, while further reducing pressure on Mater Dei Hospital.

CMRH will continue to plan and implement the phased expansion of clinical services through the introduction of Dermatology procedural services, including minor procedures performed under local anaesthesia, Urology outpatient clinics, Health Promotion and Disease Prevention (HPDP) classes, Obesity services, Oncology Outreach, Ear, Nose and Throat (ENT) clinics and day procedures, as well as the further expansion of Dental and Oral Health services. These developments will further strengthen CMRH's role as a comprehensive regional healthcare centre, increasing access to specialist care closer to the community and positioning the Hub as one of the country's principal regional healthcare facilities. CMRH will provide a wider range of specialist diagnostics, treatments and ambulatory services while supporting the sustainability of Mater Dei Hospital and improving patient access to care.

## 7.5 National Mental Health Services

Over the past year, the National Mental Health Services (NMHS) have made significant progress across a range of key initiatives. One of the year's key milestones was the inauguration of Block 1, which now houses two modern admission wards. Fully equipped to meet patients' needs, these wards provide high-quality care in a safe, comfortable, and welcoming environment. A new Connected Living & Inclusion Centre (CLiC) was also inaugurated and now provides Mount Carmel Hospital clients with safe, supervised online access and a space connect with others and meet with relatives. In addition, numerous projects and initiatives to modernise facilities at Mount Carmel Hospital are progressing well.

The first Public Social Partnership (PSP) Agreement between the ODPM–Ministry for Health and Fondazzjoni Suret il-Bniedem was officially signed in July 2026. This agreement strengthens the governance, continuity, and long-term sustainability of essential residential services provided at Dar Imelda, Dar Frangisk, and Dar Victoria. These homes offer stability, dignity, and professional care to individuals with complex social and mental health needs. The PSP provides for an investment of €2.78 million over three years, ensuring a clear, modern framework for the operation of these services.

The Government remains committed to placing mental health at the centre of its healthcare priorities, recognising that mental wellbeing is fundamental to quality of life, social inclusion and overall health. Continued investment in modern facilities, community-based services, residential care and integrated support models reflects this commitment to ensuring that individuals experiencing mental health challenges receive timely, dignified and person-centred care. Looking ahead, the National Mental Health Services will continue to advance towards a more accessible, inclusive and community-focused mental health system, aligned with international best practices and responsive to the evolving needs of the population.

## 7.6 Active Ageing and Community Care

During 2025, the Active Ageing and Community Care (AACC) sector continued to strengthen and modernise its services to meet the evolving needs of Malta's ageing population. In response to demographic change and increasing life expectancy, AACC recorded continued growth across its range of services while introducing new initiatives that directly and indirectly promote active ageing, support independent living, and enhance the quality of life of older persons.

Community care schemes were further enhanced to enable more older persons to continue living independently in their own homes. The Carer at Home Scheme increased its annual subsidy by €500, raising the maximum benefit from €8,500 to €9,000 and supporting 1,204 beneficiaries. Similarly, the Home Helper of Your Choice Scheme increased its subsidised hourly rate to €10 from January 2026, with the number of beneficiaries rising to 882, reflecting growing demand and improved accessibility. AACC also continued to invest in services that encourage active community participation. A new Active Ageing Centre was inaugurated in Rabat, bringing the total number of centres across Malta and Gozo to 36.

In line with the National Dementia Strategy – Reaching New Heights 2024–2031, a new Dementia Activity Centre was established in Sliema in collaboration with the Curia, which made the premises available through a Memorandum of Understanding signed in March 2025. Backed by an investment of approximately €80,000 in refurbishment works, the centre provides specialised therapeutic programmes, social support and respite services for persons living with dementia and their families, while strengthening dementia services within the community. Recognising the importance of awareness and lifelong learning, dementia awareness training will be delivered to members of the Curia and other voluntary organisations to strengthen community support for persons living with dementia. In addition, new digital literacy initiatives will equip older persons with the knowledge and skills needed to use artificial intelligence safely and confidently, enabling them to benefit from emerging technologies while protecting themselves from potential risks.

During the year, AACC also launched the Home Diabetes Management Service, a community-based initiative designed to support older persons living with diabetes, particularly those who are homebound. Individuals already receiving AACC services are identified by CommCare and other healthcare professionals and referred to the multidisciplinary Home Diabetes Management Team, which provides holistic assessments, education and ongoing clinical support in the home environment.

Looking ahead, community-based services will be further strengthened. The Government will continue to invest in both infrastructure and community services. Renovation works at Mtarfa and Mosta Homes will continue, while construction and infrastructure works at Bormla and Msida Homes are expected to commence once all the necessary permits are in place. Furthermore, a pilot project will be launched to extend the operating hours of two existing Active Ageing Centres, one in the northern region and the other in the southern region, providing greater flexibility and accessibility for service users.

### St Vincent De Paul

St Vincent De Paul (SVP) remains a key pillar of Malta's strategy to provide high-quality, specialised healthcare and long-term care for an ageing population. As demand for geriatric services continues to grow, sustained investment in specialised clinical services, infrastructure, workforce development and innovation will be essential for expanding capacity, improve patient outcomes and ensure the long-term sustainability of the national healthcare system.

A key priority will be the continued development of specialised healthcare services within SVP through the expansion of consultant-led outpatient clinics, multidisciplinary teams and diagnostic facilities. These investments will improve access to timely specialist care while reducing pressure on acute hospital services. Planned developments include enhanced geriatric, orthopaedic and musculoskeletal services, supported by modern diagnostic technologies such as musculoskeletal ultrasound and Point-of-Care Testing laboratories, enabling earlier diagnosis, more effective intervention and improved continuity of care.

One of the most significant developments will be the introduction of the Intermediate Care Hospital, which will provide approximately 300 intermediate care beds to strengthen the continuum of care between acute hospital treatment and longer-term care. This facility will support rehabilitation, recovery, and transitional care following discharge from Mater Dei Hospital, improving patient flow, facilitating earlier discharge, and ensuring that patients receive care in the most appropriate setting. Alongside capacity expansion, SVP will continue to prioritise quality improvement through internationally recognised standards, including further ISO certifications across clinical, operational and support services, thereby strengthening governance, patient safety and continuous improvement.

Investment in people will remain central to SVP's future development. Continuous professional development, specialised clinical training, leadership programmes and competency-based learning will equip healthcare professionals with the skills required to manage increasingly complex geriatric needs while supporting staff retention and professional excellence. Similarly, improvements to the physical environment, including enhanced landscaping, therapeutic gardens, and accessible outdoor spaces, will contribute to a more welcoming, dementia-friendly setting that promotes wellbeing, social interaction, and quality of life for residents, visitors, and staff.

Together, these initiatives will continue to position St Vincent de Paul as a centre of excellence for geriatric healthcare and long-term care in Malta. Through expanded specialist services, increased intermediate care capacity, workforce development, digital innovation, quality standards and improved infrastructure, SVP will play a central role in delivering a more integrated, resilient and sustainable healthcare system that responds to the needs of Malta's growing elderly population.

The Government remains committed to building a healthcare system that is accessible, resilient, and centred on the needs of individuals at every stage of life. Continued investment across acute care, primary healthcare, mental health services, community care, active ageing, and specialised facilities reflects a comprehensive approach to improving the quality of care, strengthening capacity, and ensuring that services evolve with the population's changing needs.

Through sustained investment in infrastructure, technology, healthcare professionals and innovative models of care, the Government is advancing a more integrated healthcare system that places greater emphasis on prevention, early intervention, rehabilitation and care within the community. These efforts will continue to support better health outcomes, enhance the wellbeing and independence of older persons, and ensure that patients receive timely, high-quality and person-centred care. Looking ahead, the Government remains committed to safeguarding the long-term sustainability of Malta's health system.



# Concluding Remarks



Malta enters the coming years from a position of strength, underpinned by a resilient economy, improving public finances and continued investment in the wellbeing and prosperity of its people.

The progress achieved in recent years has demonstrated the capacity of the Maltese economy and society to withstand significant external pressures while continuing to create opportunities, improve living standards and support sustainable development. This resilience provides a solid foundation from which to address the challenges and opportunities that lie ahead.

Maintaining this momentum requires a continued focus on sound economic and fiscal management. Sustainable public finances remain essential to preserving the Government's capacity to respond to changing circumstances while supporting investment in Malta's long-term priorities. Fiscal prudence must therefore continue to go hand in hand with policies that promote growth, competitiveness and social wellbeing, ensuring that the country remains well positioned to respond to future shocks without compromising the sustainability of public finances.

Nonetheless, economic progress must continue to translate into improved living standards, stronger families and communities, and greater opportunities for all. This requires continued investment in people through education, skills and quality healthcare, alongside support for households and businesses to safeguard purchasing power, competitiveness and resilience. Looking ahead, Malta must also address demographic, technological, energy and climate-related pressures through forward-looking investments in human capital, innovation, productivity and sustainable infrastructure, ensuring that the transition to a cleaner, more efficient economy remains affordable, inclusive and supportive of competitiveness and quality of life.

Ultimately, the objective of economic policy extends beyond growth alone. It is to create the conditions for a stronger, fairer and more sustainable Malta, where economic progress supports social wellbeing, provides opportunities that are accessible to all and ensures that the country is equipped to withstand future challenges.

By building on the progress already achieved, maintaining sustainable public finances, investing in people and communities, and continuing to protect households and businesses, Malta can strengthen its capacity to navigate an increasingly uncertain international environment. In a world where volatility in international markets can rapidly affect domestic conditions, resilience will depend on preserving the right balance between fiscal sustainability, economic growth and continued protection of the people and businesses that underpin Malta's prosperity.

## NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



**bis-saħħa  
tiegħek**



**GOVERNMENT OF MALTA**  
MINISTRY FOR FINANCE