MFAC

MALTA FISCAL ADVISORY COUNCIL

Annual Report and Statement of Accounts

2025

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MFAC

MALTA FISCAL ADVISORY COUNCIL

ANNUAL REPORT

AND

STATEMENT OF ACCOUNTS

2025

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27 March 2026

The Hon Mr Clyde Caruana B.Com. (Hons) Economics, M.A. Economics
Minister for Finance
Maison Demandols,
South Street,
Valletta. VLT 2000

Dear Minister,

LETTER OF TRANSMITTAL

In terms of article 58 of the Fiscal Responsibility Act, 2014 (Cap 534), I have the honour to transmit to you a copy of the Annual Report of the Malta Fiscal Advisory Council for the year 2025.

In terms of article 56 of the Fiscal Responsibility Act, I am also transmitting a copy of the audited accounts of the Council for the financial year ended 31 December 2025.

Yours sincerely,

Moira Catania
Chairperson

Vision

‘To contribute to stronger fiscal governance in Malta and offer assurance about the quality of the official economic and fiscal projections, and about fiscal sustainability, through independent analysis and advice.’

Mission statement

The Malta Fiscal Advisory Council (MFAC) is an independent institution established under the Fiscal Responsibility Act (2014) which has the primary objective to contribute to sustainable public finances and sound economic policy making in Malta.

The MFAC seeks to carry out its statutory responsibilities by:

i. Assessing the plausibility of the Government's macroeconomic forecasts and fiscal projections and endorsing them as it considers appropriate;

ii. Assessing whether the fiscal stance is conducive to prudent economic and budgetary management;

iii. Assessing the extent to which the conduct of fiscal policy in Malta is consistent with the country's fiscal commitments as a member of the European Union;

iv. Assessing the extent to which the annual budgetary plan and medium-term fiscal plan comply with the Fiscal Responsibility Act and the Stability and Growth Pact;

v. Assessing the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved;

vi. Determining whether exceptional circumstances, which would allow for a departure from the announced fiscal plans, exist or have ceased to exist;

vii. Issuing opinions and formulating recommendations in the areas of public finances and economic management;

viii. Advising the Government and the Public Accounts Committee concerning the maintenance of fiscal discipline; and

ix. Disseminating information and analysis to the public to increase awareness and understanding of economic and fiscal issues.

The Malta Fiscal Advisory Council

Chairperson

Dr Moira Catania

Council Member

Prof Stephanie Fabri

Council Member

Dr Stephanie Vella

Staff

Chief Economist
Mr Gilmour Camilleri

Administrator and Council Secretary
Mrs Alison Bugeja Persiano

Senior Economist
Mr Christian Xuereb

Senior Economist
Mr Andrea Mallia

Economist
Ms Maria Grazzja Briffa

Economist
Ms Maria Giordmaina

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List of Acronyms

APR25	Annual Progress Report 2025
CBM	Central Bank of Malta
COFOG	Classification of the Functions of Government
COM	European Commission
DBP	Draft Budgetary Plan
DG ECFIN	Directorate-General for Economic and Financial Affairs
EFM	European Fiscal Monitor
EU	European Union
EUNIFI	European Union Network of Independent Fiscal Institutions
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IFIs	Independent Fiscal Institutions
IMF	International Monetary Fund
MFAC	Malta Fiscal Advisory Council
MFIN	Ministry for Finance
MTFSP	Medium-Term Fiscal Structural Plan
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
TSI	Technical Support Instrument
UN	United Nations

Chairperson's statement

I present with pleasure the eleventh Annual Report of the Malta Fiscal Advisory Council (MFAC), which provides an overview of the activities undertaken during 2025. The Report also contains two thematic chapters. The first chapter presents the development of a new macroeconomic "heatmap" by the MFAC, designed to strengthen its monitoring toolkit and support its expanding role in the assessment and endorsement of macroeconomic and fiscal forecasts. The heatmap functions as both an early-warning system and a structured monitoring instrument, enabling the Council to track emerging macroeconomic and sectoral developments in a clear and timely manner. In line with similar tools adopted by other Independent Fiscal Institutions, it provides a visual overview of key indicators relative to their historical trends. The chapter outlines the objectives underpinning the heatmap, the data sources utilised, and the methodological framework applied in its construction.

The second chapter examined the evolution and composition of general government expenditure in Malta over the period 2000–2024 using the COFOG classification. The analysis highlights the main stylised facts underlying expenditure developments, the structural differences between Malta and the EU, and the factors driving changes in the allocation of public spending across government functions. A decomposition analysis shows that a large share of expenditure growth is in line with macroeconomic expansion. Despite social protection remaining the largest expenditure function, the analysis identified several structural shifts in expenditure allocation, with functions such as economic affairs, health, environmental protection, and recreation, culture and religion gaining relative importance within the government budget. The chapter also analyses the distribution of key fiscal expenditure components, namely compensation of employees, intermediate consumption, capital expenditure, social payments and 'other expenditure' across COFOG categories, assessing the relative rigidity of these spending areas. The findings provide important policy insights, regarding the balance between productive investment and recurrent expenditure, particularly rigid components, and the expenditure pressures posed by demographic developments and age-related spending within the context of the newly reformed EU economic governance framework and its focus of limiting expenditure growth.

This Statement reflects on macroeconomic and fiscal policy developments over the past year, highlighting the principal challenges encountered and setting out the key priorities for the short- to medium-term. Throughout 2025, uncertainty remained a defining feature of the global economic environment. This was driven by ongoing geopolitical tensions across multiple regions, alongside evolving global trade dynamics that continued to reshape supply chains, investment flows, and external demand conditions. Notwithstanding prevailing tensions and heightened uncertainty in the international economic environment, the Maltese economy continued to demonstrate notable resilience. Following a robust expansion of 10.6 percent in 2023, real GDP growth moderated to 6.2 percent in 2024 and further eased to 4.0 percent in 2025. This rate of expansion, though having decelerated, remains significantly above the European Union average. Domestic economic growth was primarily underpinned by strong private and public consumption, complemented by a positive contribution from net exports, reflecting *inter alia*, sustained increases in tourist arrivals.

Labour market conditions remained favourable, with employment rising by 3.9 percent, sustained by continued immigration flows. The unemployment rate declined to historically low levels, close to 3.0 percent. In line with broader European trends, inflation in Malta continued to moderate, reaching 2.4 percent, although price dynamics remained largely driven by core inflation components.

From a fiscal standpoint, at an EU level, the new fiscal framework, adopted in April 2024, is already being tested by a more demanding fiscal environment. Heightened geopolitical tensions, including Russia’s continuing war against Ukraine and the conflicts in the Middle East, increased defence commitments, whilst intensifying global industrial competition, have strengthened the case for sustained public expenditure across many EU countries. The early and widespread activation of national escape clauses (by 16 EU member states), which temporarily permit deviations from agreed expenditure paths for defence-related spending, has provided some fiscal flexibility. However, such expenditure pressures are structural and persistent, rather than temporary or cyclical in nature.

Malta did not active the national escape clause for defence and is therefore not subject to added flexibility. At the same time, it is subject to the Excessive Deficit Procedure opened in July 2024. From the perspective of fiscal rule compliance, Malta's current fiscal position reflects a clear commitment to fiscal correction, but also some ongoing challenges. While the general government deficit remains above the 3 percent of GDP reference value, the Government has committed to a fiscal adjustment path aimed at restoring compliance. Current projections indicate that the deficit ratio is expected to fall below the 3 percent threshold earlier than the 2027 deadline required under the Council Recommendation. Moreover, Malta's government debt position remains comparatively favourable. The debt ratio is projected to remain well below the Maastricht reference value of 60 percent of GDP, standing at around 47 percent of GDP over the forecast horizon. This provides an important buffer within the fiscal framework.

On the other hand, adherence to the net expenditure path, as required under the revised EU fiscal governance framework, is proving to be somewhat more challenging. Malta is required to ensure that net expenditure growth does not exceed 6.0 percent in 2025 and 5.8 percent in 2026. The Government's projections respect the permissible annual deviations from this trajectory. However, due to the very strong increase registered in 2024, when assessed on a cumulative basis, net expenditure growth is projected to exceed the allowable deviation by a notable margin, reflecting stronger-than-recommended spending dynamics over the reference period.

Throughout the year, the Council's publications have identified a number of short- to medium-term economic and fiscal challenges, accompanied by specific policy recommendations aimed at safeguarding economic and fiscal sustainability. In particular, sub-section 1.9 of Chapter 1 sets out these challenges in detail and provides a consolidated overview of the actions recommended by the Council in its periodic reports.

Looking ahead, two overarching challenges merit particular emphasis. The first relates to the underlying drivers of Malta's economic growth. Since the pandemic, economic growth has remained predominantly driven by domestic demand, particularly private and government consumption. Current forecasts suggest that this pattern is likely to persist in the short-term. While this demand-driven momentum has supported economic activity in the near term, continued reliance on domestic demand as the principal engine of growth carries inherent risks. These include mounting pressures on infrastructure and public finances, as well as relatively limited gains in productivity and external competitiveness.

In this context, the Council reiterates the importance of gradually rebalancing the growth model towards a stronger export-oriented dimension. Transitioning towards export-led growth remains a pressing strategic priority. This will require sustained support for innovation, export diversification, productivity improvements and the upgrading of existing competitive sectors. Enhanced efforts are necessary to safeguard and expand Malta's export market share across a broad range of economic activities, thereby strengthening the economy's long-term resilience and growth potential.

The second major challenge for Malta lies in ensuring the efficiency of public spending, in the context of the need to restrain expenditure growth in accordance with the trajectory outlined in the Medium-Term Fiscal Structural Plan 2025 – 2028. Whilst the Council positively notes the government's commitment to reduce the fiscal balance below the 3% of GDP threshold and to keep a considerable margin from the 60% debt-to-GDP ratio, it shows concern about the current fiscal policy mix. Successive budgets have been characterised by high levels of expenditure and permanent revenue-reducing measures. Whilst the fiscal balance has nevertheless been reduced, on the back of strong revenue growth, this situation may not persist, particularly should Malta's macroeconomic conditions become less favourable. The MFAC therefore recommends that the Government refrains from further inflating expenditure, especially in areas of non-productive spending, to preserve the fiscal space necessary for adjustment, should the need arise. It also emphasises the importance to prioritise expenditure policies that enhance the quality, efficiency, and long-term sustainability of public finances.

Furthermore, the Council expresses its concern that the necessary revisions to the Fiscal Responsibility Act (FRA), as well as any other relevant laws, regulations, and administrative provisions required to ensure compliance with Directive (EU) 2024/1265 on the budgetary frameworks of the Member States, were not enacted by the established deadline of 31 December 2025. As consistently highlighted in the Council's Reports, the MFAC remains committed to engaging with all relevant stakeholders to review the FRA. The Council also reiterates that the forthcoming review of the Act should incorporate the lessons drawn from its implementation since its entry into force in 2014, with a view to strengthening the effectiveness and efficiency of Malta's national fiscal framework. Such an approach is essential to ensure the framework's continued relevance and its capacity to support long-term fiscal sustainability. Furthermore, the Council calls for a broad and inclusive discussion in Parliament to ensure that national fiscal objectives benefit from bipartisan support. Such engagement is vital to enhancing the legitimacy and long-term effectiveness of the FRA. Finally, on behalf of the Council members, I wish to convey our sincere appreciation for the continued support and constructive collaboration extended by all stakeholders in facilitating the work of the MFAC. In particular, the engagement with the Ministry for Finance, together with the information provided by the Economic Policy Department, the Budget Affairs Division within the Ministry, and the National Statistics Office, has been instrumental in supporting the preparation of the Council's periodic reports.

I also extend my sincere gratitude to my esteemed colleagues on the Council and to the dedicated staff for their professionalism and commitment throughout the year. Their expertise and steadfast dedication have been central to ensuring that the MFAC continues to fulfil its mandate with rigour, independence and efficiency.

Dr Moira Catania

Chairperson

Chapter 1

Developments during 2025

1.1 The Fiscal Council

The Council's composition remained unchanged from the previous year, with Dr. Moira Catania serving as Chairperson and Dr. Stephanie Vella and Prof. Stephanie Fabri as Council Members. In 2025, the **Malta Fiscal Advisory Council** (MFAC) convened ten Council meetings. These meetings addressed various administrative and operational matters, which involved decisions relating to the annual work programme, the Council's finances, operations, human resources, training programmes, and participation in official meetings and seminars. Thorough internal discussions and supplementary meetings were conducted to analyse macroeconomic trends and public finances, focusing on the relevant risks at the time. These discussions were a key input in shaping the Council's macro-fiscal evaluations and endorsement of the government's official forecasts. Considerable time was also devoted to discussing progress on the integrated macroeconomic–fiscal model that is currently being developed.

1.2 Relations with key stakeholders

Regular meetings were held with key domestic and international stakeholders. As in past years, regular dialogue was maintained with the **Ministry for Finance** (MFIN). Technical meetings were conducted to discuss and exchange views on the macroeconomic and fiscal forecasts, clarifying the assumptions and methodologies employed and the surrounding risk factors. Meetings with technical staff were held to discuss the implications of the EU's new Economic Governance Framework adopted in April 2024. Moreover, to keep abreast of data-related revisions and changes in statistical recording methodologies, the MFAC also attended meetings and maintained regular communication with the **National Statistics Office** (NSO).

Apart from its independent assessment, the MFAC also assesses the plausibility of the government's official projections by comparing them with those of other reputable institutions. In this regard, the MFAC takes note of the various reports published by other forecasting bodies. Locally, this includes the **Central Bank of Malta** (CBM). From time to time, meetings are held with CBM staff, primarily to discuss the Bank's projections and to exchange views on current issues. As part of their rating evaluations, a number of **credit rating agencies**, namely Morningstar DBRS, Scope ratings and Moody's, also met with the Council in 2025 to discuss the above-mentioned topics.

During these meetings, the MFAC discussed its views on macroeconomic and fiscal developments, which may inform the rating assessments carried out by these agencies.

The Council also participated in the 2025 Article IV consultation mission of the **International Monetary Fund** (IMF). Furthermore, the MFAC held meetings with officials from the Directorate-General for Economic and Financial Affairs (DG ECFIN) within the **European Commission** in April, October and November. During these technical meetings, the Council exchanged its perspective and insights on recent macroeconomic and fiscal developments. It also discussed possible risk factors that could derail the Ministry's official short- and medium-term economic outlook, especially considering the elevated geopolitical uncertainty during the period. Discussions with these key stakeholders were framed within the context of the newly reformed EU Economic and Governance Framework, particularly with respect to the net expenditure requirements and in the context of Malta's situation with respect to the excessive deficit procedure.

During this year, the Council also initiated a **structured process of bilateral engagement with key economic stakeholders**, with the aim of enhancing its institutional visibility and broadening the outreach and coverage of its work. During the year, meetings were held with **Trade Malta, the Malta Business Bureau and the CBM**.

Throughout the year, the MFAC actively participated in initiatives and meetings coordinated by the **EU Network of Independent Fiscal Institutions** (EUNIFI), engaging in discussions on prevailing economic and fiscal concerns. The MFAC staff were also actively involved in ad hoc working groups with other Independent Fiscal Institutions (IFIs).[1] Meetings were also regularly held with the Commission's DG Reform regarding the MFAC's participation in a joint project to develop an integrated macro-fiscal econometric model for the Maltese economy under the **Technical Support Instrument** (TSI).[2]

The MFAC participated in several other **meetings, seminars, workshops and conferences** that were organised by local and foreign organisations.

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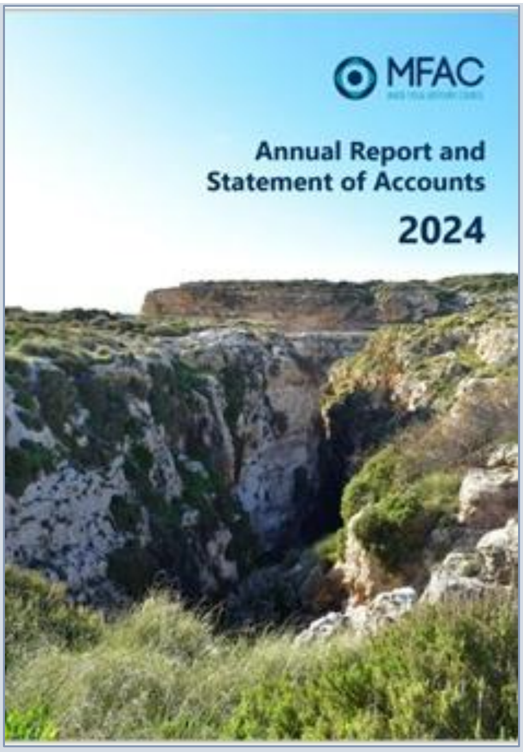
[1] More details on direct contributions to the EUNIFI are provided in a subsequent section within this Chapter.
[2] More details on the TSI are provided in a subsequent section within this Chapter.

The Fiscal Responsibility Act prescribes that the Chairperson of the Fiscal Council shall appear before the **Public Accounts Committee** (PAC) of the House of Representatives whenever requested to provide evidence regarding the activities concerning the Fiscal Council's operations. In 2025, the Public Accounts Committee did not make such requests to the Fiscal Council.

1.3 Publications and research

In 2025, the MFAC published **six reports**. The first publication of the year was the Annual Report and Statement of Accounts for 2024. This was followed by two assessments of the MFIN's Annual Progress Report for 2025 (APR25), one covering the macroeconomic projections and the other the fiscal forecasts, respectively. The fourth publication evaluated the MFIN's Half-Yearly Report for 2025. The final two reports separately assessed the macroeconomic projections and fiscal forecasts presented in the Draft Budgetary Plan for 2026 (DBP26).

Reports published by the MFAC during 2025



The tenth Annual Report outlined the activities of the Malta Fiscal Advisory Council (MFAC) during 2024 and presented its financial statements for the year. The report also included two thematic chapters. The first examined fiscal responsibility and expenditure control, in the context of national strategies within the EU fiscal framework, with a focus on Malta. The second analysed the sensitivity of the EU commonly agreed methodology used to estimate potential output and the output gap for Malta.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MALTA FISCAL ADVISORY COUNCIL

Assessment of the Macroeconomic Forecasts Underlying the Annual Progress Report 2025

Assessment Report
No. 01/2025

In its assessment of the macroeconomic projections within the Ministry's Annual Progress Report for 2025, the Council noted that, despite growth remaining robust, signs of economic moderation began to emerge from the final quarter of 2024. The economy was projected to grow at a rate of 4.0% in 2025, primarily driven by domestic demand, supported by a projected decline in inflation to 2.3% and a buoyant labour market. The Council considered the macroeconomic forecasts for 2025 to lie within its endorsable range although assessing an upside risk. This mainly stemmed from potentially stronger-than-anticipated external demand, and, albeit to a lesser extent, from private consumption growth.


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Assessment of the Fiscal Forecasts within the Annual Progress Report 2025

Assessment Report
No. 02/2025

In its assessment of the fiscal forecasts within the Ministry's Annual Progress Report for 2025, the Council observed that the fiscal deficit ratio for 2024 turned out better than the previous projection, by 0.3 pp. However, it noted that the nationally financed net primary expenditure growth significantly exceeded the 7.4% limit set in the Medium-Term Fiscal Structural Plan. Meanwhile, growth in net expenditure for 2025 was projected to decline marginally by 0.1% to compensate for the high increase in 2024.

The fiscal deficit ratio for 2025 was forecast to decline to 3.3% of GDP, while the debt ratio was forecast at 48.4% of GDP. These fiscal forecasts for 2025 were deemed plausible and to fall within the Council's endorsable range.

The Council identified an upside risk to both government revenue and expenditure in 2025, with the upside risk to revenue assessed to be slightly more pronounced, indicating that a better deficit outcome than that projected by MFIN could materialise.


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ASSESSMENT OF THE

HALF-YEARLY REPORT 2025

September 22, 2025

Assessment Report

No. 03/2025

Malta Fiscal Advisory Council
New Street in Regional Road, Msida, Malta
Phone: +356 21312442 | Website: www.mfac.org.mt

In its assessment of the Half-Yearly Report for 2025, the Council noted that the economy continued to expand, although first-quarter data indicates a deceleration in growth. Nonetheless, it identified upside potential to economic growth, supported primarily by stronger-than-anticipated private consumption.

On the fiscal side, the estimated mid-year deficit was still significantly less than the full-year forecast. The Council observed that both revenue and expenditure estimates were higher than their respective annual growth projections in line with the Council's earlier risk assessment. The Council continued to advise for vigilance in net expenditure growth.


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Assessment of the Macroeconomic Forecasts within the Draft Budgetary Plan 2026

Assessment Report

In its Autumn forecast round, the MFIN revised its projected GDP growth upward to 4.1% for both 2025 and 2026, with domestic demand remaining the primary driver of growth.

The Council considered the macroeconomic forecasts for 2025 and 2026 published in the DBP 2026 to lie within its endorsable range, although it expressed differing views from the MFIN on the composition of growth drivers. The Council identified downside risks to real GDP growth in 2025, stemming largely from weaker-than-projected economic performance in the year's first half, particularly from investment, while it judged the balance of risks for 2026 to be broadly neutral.


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Assessment of the Fiscal Forecasts within the Draft Budgetary Plan 2026

Assessment Report

In its assessment of the fiscal forecasts within the Draft Budgetary Plan 2026, the Council positively noted that Malta was close to reducing its deficit below the 3% of GDP threshold and that the debt ratio was projected to remain well below the 60% reference value over the forecast horizon.

For 2025, the fiscal balance was projected to improve to -3.3% of GDP, while gross debt was forecast to increase marginally to 47.1%. For 2026, the deficit was forecast to decline further to 2.8% of

GDP, while gross debt was projected to increase slightly to 47.3% of GDP. However, the Council expressed concern that the projections implied non-adherence to Malta’s cumulative expenditure commitments under the Medium-Term Fiscal Structural Plan, even when considering the Council’s downside risks to the expenditure projections for 2025.

In addition to these reports, the MFAC issued **two official letters to the MFIN**. On 29 April 2025, it formally endorsed the macroeconomic forecasts included in the Annual Progress Report for 2025. A second letter, sent on 15 October 2025, formally endorsed the macroeconomic projections presented in the Draft Budgetary Plan for 2026.

During the period under review, the MFAC also continued to contribute to the **European Fiscal Monitor** (EFM) as part of the EUNIFI initiative. Two publications were issued in February and July of 2025. The February edition highlighted the growing importance of the role of Independent Fiscal Institutions (IFIs) amid the first steps of implementing the new EU Economic Governance Framework. It forecasted that the EU economy was set on a path towards recovery, although the broader economic and fiscal landscape remained complex. While inflation in the EU remained above 2 percent in 2024, inflation was set to continue falling in 2025. EU IFIs undertook an extensive survey which assessed their macroeconomic outlook as well as their role in the first round of Medium-Term Fiscal-Structural Plans (MTFSPs).

The Summer edition of the EFM indicated that the macroeconomic and fiscal environment remains exposed to substantial risks, as persistent geopolitical uncertainty and global reordering of trade relationships, along with long-term issues, continued to pose challenges for economic stability and growth prospects. Drawing on survey responses, while many independent fiscal institutions viewed the national macroeconomic and fiscal forecasts as plausible, confidence in Member States’ ability to meet the new net expenditure benchmarks was more limited. Concerns around debt sustainability, transparency, and fiscal compliance remain pronounced, particularly in view of growing defence expenditures and the activation of escape clauses under the new rules.

Throughout the year, the MFAC staff also conducted additional **thematic research** on macroeconomic and public finance developments to enhance the institution's output quality. The most significant findings from its research were published as boxes within the reports issued throughout the year. These research boxes covered various topics, including fiscal revenue forecasts, a comparison of the MFIN's forecasts with those of other institutions, and an assessment of historical statistical revision in annual national accounts data.

1.4 Public relations and media coverage of the MFAC

During 2025, the MFAC issued several **press releases** which were made available in both English and Maltese. These press releases seek to inform the general public about the latest reports published by the MFAC and provide a non-technical summary of the Council's assessments. In 2025, press releases, usually issued following a publication of an assessment report, received relatively good media coverage in local newspapers and were referenced by other media and news outlets.

The MFAC continued to participate in public events, including panel discussions organised by **institutional bodies**. Additionally, the Council and staff were **interviewed** by the media on several occasions during this year on matters falling under its responsibility. These included participation in radio programmes and interviews, discussions on television and podcasts. Additionally, the Council's staff published **articles** in local newspapers and other news platforms on its assessments and research.

The MFAC's **website** was also routinely updated to ensure easy access to its reports and press releases issued during the year. It also features the research undertaken by the Council throughout the years. The website attracted around 2,500 visitors over the course of the year.

The MFAC continued to strengthen its public engagement and outreach by engaging more frequently on social media, aiming to enhance its public awareness and the understanding of its role and mandate. Through its **Facebook page**, the MFAC engaged with a broad audience by providing updates on its work and responsibilities, while its **LinkedIn page** served as a professional platform for engagement with industry stakeholders. The Council posts non-technical summaries of its work and reports on both platforms. In addition, it shares related media content, including videos and interviews, and communicates its participation in meetings and engagements with other stakeholders.

The Council considers more outreach as an important means to increase both fiscal transparency and elevate economic and fiscal literacy across the general public.

1.5 Human resources

As at the end of 2025, the MFAC's **staff totalled six**, and included a Chief Economist, two Senior Economists, two Economists, and an Administrator who also serves as the Council's secretary. Throughout the year, the Council remained dedicated to supporting professional growth among its staff, promoting and enabling active participation in macro-fiscal **training programmes** to strengthen their expertise.

1.6 Technical Support Instrument

The MFAC forms part of a multi-country project utilising EU funding for technical support under the Technical Support Instrument Programme (Regulation [EU] 2021/240), alongside seven other EU independent fiscal institutions (Greece, Belgium, Cyprus, Latvia, Lithuania, Slovenia, Spain). The wide-ranging project aims to enhance the analytical capacity of IFIs in support of their enhanced role in the new economic governance framework.

Together with Lithuania and Greece, the MFAC is actively participating in the first pillar of the project, entitled “Developing new tailored macroeconomic and fiscal models, and upgrading existing ones”. In this context, and with the support of external technical expertise, the Council has been working on the **development of an integrated macroeconomic-fiscal model**. This work is strengthening the MFAC's capacity to produce short- and medium-term macroeconomic and fiscal projections and to undertake a more systematic, quantitative assessment of official government forecasts and policy measures, thereby further contributing to fiscal prudence and sustainability.

Therefore, with the development of such model, the Council aims to:

a. Produce macroeconomic and fiscal projections

b. Simulate the impact of policies on macroeconomic and fiscal forecasts via feedback loops

c. Assess the impact of different external assumptions on macroeconomic and fiscal projections

d. Produce its own risk scenarios and quantitatively assess the risk surrounding the baseline projections produced by the Ministry for Finance.

During 2025, the MFAC staff worked closely with the experts engaged for this project, contributing actively to the overall design, structure and estimation approach of the model. The Council participated regularly in exchanges with the project steering committee and contributed to discussions with other IFIs involved in the TSI.

Since the project's inception, **Cambridge Econometrics**, one of the key experts supporting the MFAC in the project, has played a pivotal role in the development of the model. Weekly meetings were held to review the progress on the data pipeline and estimation of the main blocks of the Maltese economy, ensuring close alignment between the MFAC and the experts involved. In the final quarter of the year, a team from Cambridge Econometrics visited Malta, during which the first complete version of the core model was deployed and a simulated forecast exercise was undertaken to assess and refine the forecasting procedure and model structure. In December, a small group of MFAC staff also participated in an in-person workshop with Cambridge Econometrics and representatives from the Lithuanian IFI, which is developing a closely related model. This engagement facilitated peer learning and supported further enhancements to the core model, alongside the identification of priorities for its future extension. Both visits continued to build the knowledge and skills required to advance the project effectively.

By the end of 2025, key milestones had been achieved, including the completion of a full simulated forecast round of the core version of the model. Further refinements were made to selected components, notably those related to trade, alongside initial work on the fiscal block and enhancements to the underlying data pipeline. While the core model is now in place, additional refinements are required to fully capture the specific features of the Maltese economy. These improvements, including the introduction of feedback mechanisms to capture supply-side dynamics, will continue through 2026, with the aim of finalising it by the end of the same year.

1.7 Transposition of Council Directive (EU) 2024/1265 of 29 April 2024 on requirements for budgetary frameworks of the Member States

With the entry into force of the reformed EU economic governance framework, which places greater emphasis on debt sustainability through the use of expenditure limits, the transposition of EU Directive (EU) 2024/1265 into national legislation was a key area of focus during the year under review. Various workshops, meetings and seminars covering the revised fiscal rules were attended, and the **Council undertook preparatory and advisory work** in view of the changes to the national fiscal framework and to the Council's role under the new EU arrangements.

In this context, the Council participated in various **surveys** conducted by the EUNIFI and the European Commission. These surveys sought the Council's views on the new fiscal framework, its implications for the country, and its impact on the operational capacity and role of the Council.

In line with its obligations under Article 13(3)(f) of the Fiscal Responsibility Act, the MFAC prepared and submitted a **position paper** to the Ministry for Finance. This paper set out the Council's views on the transposition of the new EU fiscal rules into national legislation, including implications on national rules, reporting requirements and proposals regarding the role and modus operandi of the Fiscal Council. The Council's position paper also incorporates lessons learnt from the implementation of Malta's national fiscal legislation, the Fiscal Responsibility Act, since its entry into force in 2014.

Furthermore, the MFAC met with staff from the Ministry for Finance and delivered a presentation specifically focusing on the requirements imposed on fiscal councils under the new EU framework and the resulting implications for the Council's mandate, resources, and operations. During the year, the Council also made several requests for updates and requests for further meetings relating to the transposition.

Notwithstanding these preparatory efforts, the transposition of Directive (EU) 2024/1265 into national legislation had not yet been implemented by year-end, despite the established deadline of 31 December 2025.

1.8 Direct contributions to the EU IFI Network

During 2025, the MFAC continued to play an active and substantive role within the EU Independent Fiscal Institutions (IFI) Network, contributing directly to its analytical work and policy-oriented discussions through participation in two dedicated **Working Groups**. These engagements reinforced the Council's commitment to strengthening fiscal governance at both the national and European levels and enhanced its visibility and integration within the EU community of fiscal councils.

The first Working Group focused on the **assessment and endorsement roles of IFIs** in the context of the new EU fiscal governance framework, particularly in relation to the first round of MTFSP. In this context, the MFAC contributed to a policy paper that presented the results of a Network-wide survey examining national experiences with the preparation and assessment of MTFSPs. The analysis covered both countries that had already completed and submitted their plans to the European Commission and those where preparation was still underway.

The paper examined national procedures followed prior to submission, with particular attention to the involvement of key stakeholders, including governments, parliaments, and independent fiscal institutions. It then focused on the evolving role of IFIs in the process, the nature and content of the MTFSPs, and the scope and depth of IFI assessments. It further reported IFIs' general reflections on the first implementation cycle of the new framework and put forward recommendations aimed at improving the preparation, transparency, and analytical robustness of future plans. The paper concluded with broader reflections on how IFIs can strengthen their contribution to the design, assessment, and credibility of medium-term fiscal planning under the reformed EU fiscal rules.

Staff from the Council were directly involved in both the analytical and drafting stages of this work, contributing to data analysis, interpretation of survey results, and the formulation of policy-relevant conclusions. The paper was formally presented and discussed at the **EU IFI Network meeting held on 18–19 February 2025**, thereby positioning the MFAC as an active contributor to the collective assessment of the first operational phase of the new EU economic governance framework.

The Council was also actively involved in a second, ad-hoc Working Group dedicated to the **communication strategies of IFIs during periods in which escape clauses are activated**. This initiative recognised the increasingly central role of communication in ensuring the effectiveness, visibility, and credibility of independent fiscal institutions, particularly in exceptional macroeconomic circumstances when fiscal rules are temporarily relaxed.

This study analysed the communication practices of 28 IFIs from 26 EU Member States, drawing on data collected through a dedicated survey conducted in February 2025. It examined four key dimensions: the overall state of communication among IFIs; the links between communication characteristics, institutional design, and fiscal performance indicators; the identification of good practices; and recommendations for strengthening IFI communication frameworks. The analysis considered institutional arrangements related to governance, research dissemination, research promotion, and mechanisms for tracking influence and impact.

The findings highlighted significant heterogeneity across IFIs in terms of communication intensity and institutional setup, while also identifying a broad convergence in the use of both traditional and digital channels to reach diverse audiences. The study showed that more intensive communication typically requires greater human and financial resources but is associated with higher media visibility and stronger public presence. At the same time, it suggested a potential inverse relationship between the strength of comply-or-explain mechanisms and the intensity of communication, pointing to the importance of viewing these tools as complementary rather than substitutes.

Using a two-step cluster analysis, the study explored associations between communication features and selected fiscal outcomes, including deviations from the deficit rule and long-term government bond yields. The results indicated that improved communication characteristics were generally associated with better fiscal outcomes across different periods, although the relationship was not uniform and did not imply causality. Instead, the analysis reinforced the view that there is no single optimal communication model applicable to all IFIs, as outcomes depend on institutional design, legal frameworks, governance culture, and resource availability.

The paper also identified a set of good practices, stressing that while analytical quality remains the cornerstone of IFI credibility, effective communication is essential to ensure that rigorous analysis has real policy impact. By adopting stronger communication strategies, IFIs can enhance their legitimacy, reinforce their influence, and contribute more effectively to fiscal discipline and transparency. The study concluded with a set of recommendations addressed both to IFI practitioners and to policymakers responsible for designing institutional frameworks.

This work was presented at the **European Fiscal Board Conference held on 14 November 2025**, providing the MFAC with a high-profile platform to contribute to the European debate on fiscal governance and institutional effectiveness.

1.9 Recommendations made by the Council in 2025

As mentioned in section 1.3 of this Chapter, the MFAC published six reports in 2025 which evaluate the macroeconomic and fiscal developments as well as the projections produced by the MFIN. In these reports, the Council put forward a series of recommendations, which are summarised as follows:

Summary of Fiscal Council Recommendations during 2025

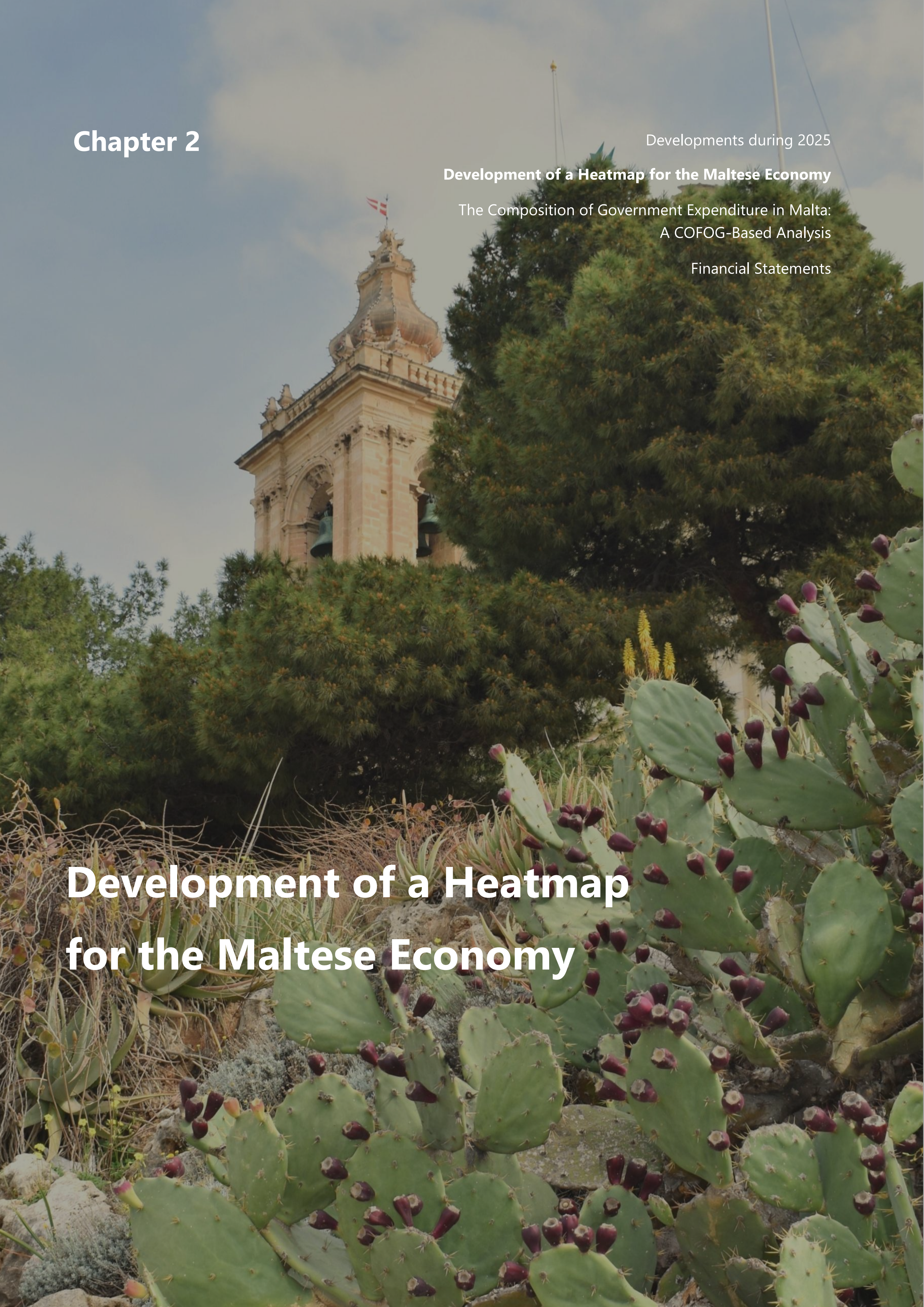
Recommendation	Publications
Recommendations to the Ministry for Finance	
On the composition of economic growth and long-term challenges	
a. The Council recommends a shift towards an export-led, productivity-driven growth model to safeguard Malta's medium-term economic sustainability. Strengthening competitiveness requires boosting labour productivity through structural reforms, including addressing skills mismatches via targeted education and vocational training, fostering innovation and research, and accelerating the digital and green transitions. At the same time, reducing reliance on population-driven growth necessitates a reorientation towards higher value-added activities. In this regard, prioritising quality over volume in sectors such as tourism is essential to alleviate pressures on infrastructure, public services, and natural resources, while preserving external competitiveness.	**Annual Progress Report 2025; Half-Yearly Report 2025; Draft Budgetary Plan 2026**
On the composition of fiscal policy stance	
a. The Council recommends adherence to the expenditure trajectory set out in the Medium-Term Fiscal Structural Plan 2025–2028. Given	

	that public consumption expenditure growth exceeded previous projections in 2024, the Council underscores the importance of continuous and rigorous expenditure monitoring. Within this context, efforts should focus on enhancing the efficiency of public spending. Particular attention should be given to budgetary components more prone to overspending, to ensure compliance with the expenditure rule and safeguard the credibility of the fiscal framework.	**Annual Progress Report 2025; Half-Yearly Report 2025; Draft Budgetary Plan 2026**
b.	Expenditure savings should not be achieved by curtailing planned productive capital investment. Additional efforts should be made to safeguard nationally financed public investment and ensure the timely absorption of RRF grants and other EU funding, thereby supporting the required investment to ensure long-term growth prospects.	**Annual Progress Report 2025; Half-Yearly Report 2025; Draft Budgetary Plan 2026**
c.	The MFAC reiterates that any windfall revenues should be allocated for sustainable fiscal consolidation and rebuilding fiscal buffers, and not towards non-productive spending, which tends to become ingrained and more persistent over time. This would provide the necessary flexibility to deploy fiscal space during periods of economic pressure.	**Draft Budgetary Plan 2026**
d.	The MFAC emphasises the importance of using fiscal policy as a strategic enabler to raise productivity and strengthen Malta's long-term competitiveness. Prioritising productive public investment, particularly in infrastructure, education, skills, and innovation, can improve labour and capital productivity, support higher	**Draft Budgetary Plan 2026**

value-added economic activity, and raise the country's growth potential in a sustainable manner. Spending should be efficient and focused on achieving measurable outcomes. Further efforts are needed to maximise the growth impact of fiscal policy, including by strengthening the quality and composition of both revenue and expenditure. High efficiency and effectiveness of public finances should be supported by strong fiscal governance that enhances prioritisation and medium-term fiscal planning.	
Transposition of the new EU fiscal framework into national legislation	
a. During the year, the Council made various recommendations regarding the alignment of national fiscal legislation with the revised EU economic governance framework. In the assessment of the DBP, the Council expressed its concern that the necessary revisions to the FRA, as well as any other relevant laws, regulations, and administrative provisions required to ensure compliance with Directive (EU) 2024/1265 on the budgetary frameworks of the Member States, were not going to be enacted by the established deadline of 31 December 2025. As consistently highlighted in previous Reports, the MFAC remains committed to engaging with all relevant stakeholders to review the FRA and formulate legislative amendments that reinforce fiscal discipline. The Council also reiterates that the	**Annual Progress Report 2025; Half-Yearly Report 2025; Draft Budgetary Plan 2026**

forthcoming review of the Act should incorporate the lessons drawn from its implementation since its entry into force in 2014, with a view to strengthening the effectiveness and efficiency of Malta's national fiscal framework. The Council calls for a broad and inclusive discussion in Parliament to ensure that national fiscal objectives benefit from bipartisan support.	
Other	
a. The MFIN should address gaps in compliance with Article 39(8) of the FRA, particularly: - Article 39(8)(h): reporting on the absorption of European funds, including approved programmes, achievements during the first half of the year, and updated forecasts for the remainder of the year. - Article 39(8)(i): reporting on all outstanding creditors for the first six months of the year.	**Half-Yearly Report 2025**
Recommendation to the European Commission	
b. The analysis of the net expenditure path involves methodological refinements that have not yet been formally codified or made publicly available. The adoption of a new Code of Conduct at an EU level remains pending. In parallel, an updated version of the Vade Mecum on the Stability and Growth Pact, the latest edition of which dates back to 2019, or	**Annual Progress Report 2025; Draft Budgetary Plan 2026**

an equivalent comprehensive reference, would consolidate the operational rules and procedures underpinning the new EU Economic Governance Framework. This document by the COM would provide authoritative guidance on the implementation of the revised Stability and Growth Pact.



Chapter 2

Development of a Heatmap for the Maltese Economy

2.1 Introduction

Effective macroeconomic and fiscal surveillance requires the continuous monitoring and interpretation of a broad set of economic indicators. In a small and highly open economy such as Malta's, market dynamics can shift rapidly, and signals from different aspects of the economy may not always move in tandem. For this reason, it is essential to have a structured framework that synthesises diverse indicators into a coherent and timely assessment of economic conditions.

To enhance its monitoring toolkit and support its role in the assessment and endorsement of macroeconomic and fiscal forecasts, the Malta Fiscal Advisory Council has developed a macroeconomic "heatmap" for Malta. The heatmap serves as both an early-warning system and a monitoring tool, designed to detect emerging macroeconomic and sectoral imbalances. Heatmaps have become increasingly popular as an effective visual tool for presenting a broad set of data in a clear and timely manner, particularly among other Independent Fiscal Institutions (IFIs). Examples of macroeconomic monitoring tools include the Latvian economy cycle heatmap (Fiscal Discipline Council of Latvia), the Lithuanian heatmap of economic developments (National Audit Office of Lithuania), and the Irish Fiscal Advisory Council's monitoring framework (Irish Fiscal Advisory Council)[1].

This thematic chapter documents the Council's approach at developing this heatmap, outlining its objectives, the underlying data sources, and the methodological framework applied in its construction.

For each indicator, each observation is evaluated against its long-run average over the period from 2010 onwards. This approach allows for the identification of economic indicators that lie above or below their historical norms. Deviations from the mean are expressed in terms of standard deviations, which determine the shading applied in the heatmap. Each cell corresponds to a specific indicator at a particular point in time, with

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[1] Fiscal Discipline Council of Latvia (n.d.) *Latvian economy cycle heatmap*. Available at: https://www.fdp.gov.lv/en/publications-and-reports/monitoring/siltuma-karte.

National Audit Office of Lithuania (n.d.) The heatmap of Lithuania's economy. Available at: https://www.valstybeskontrole.lt/EN/post/17560.

Irish Fiscal Advisory Council (2018) *A "Heatmap" for Monitoring Imbalances in the Irish Economy*. Analytical Note No.11. Available at: https://www.fiscalcouncil.ie/wp-content/uploads/2018/09/A-Heat-Map-for-Monitoring-Imbalances-in-the-Irish-Economy.pdf.

its colour reflecting the respective z-score for that period. The z-score measures how far an observation lies from its mean in terms of standard deviations.

The formula is:

$$z_t = \frac{x_t - \bar{x}_{2010:T}}{\sigma_{2010:T}}$$

where x_t is the value of the indicator at time t, $\bar{x}_{2010:T}$ is the long-run average over the period from 2010 until the latest observation in the sample T, and $\sigma_{2010:T}$ is the standard deviation over the same reference period.

The heatmap is constructed using a uniform framework for assigning colour shading to individual observations. Large positive deviations from the historical mean are depicted in progressively darker shades of orange, indicating values that exceed the indicator's historical mean. Conversely, large negative deviations are represented by increasingly darker shades of blue, corresponding to values below the historical mean. Observations equal to the long-run average have a z-score of zero and are therefore displayed in white, while values close to the mean are shown in progressively lighter tones converging towards white.

This colour coding scheme (Figure 1) provides a concise visual summary of economic conditions across a broad set of indicators, facilitating the identification of deviations from historical patterns that may signal emerging pressures or potential imbalances.

Figure 1: The Heatmap's Colour Scale

The analysis is conducted using quarterly data in order to capture more effectively fluctuations in economic conditions and so that the heatmap can better fulfil its intended function as an early warning mechanism. This frequency is particularly suited for the Maltese economy, which, being small and highly open, is inherently exposed to relatively pronounced short-term volatility. Moreover, for many of the indicators included in the heatmap, quarterly observations represent the highest frequency of data available over the full sample period.

The heatmap is structured into five thematic blocks, each corresponding to a key dimension of economic activity:

- Prices and Competitiveness
- Labour Market
- External Balances
- Credit and Financial
- Business Trends

The development of the heatmap is an iterative and evolving process. The selection of indicators will be reviewed periodically to ensure their continued relevance, analytical robustness, and data consistency. Refinements may be required to address temporary distortions, methodological revisions, or changes in data availability, which could result in the inclusion of additional indicators or the removal of existing ones.

2.2 Data and Methodology

This section outlines the data sources and methodological approach underpinning the construction of the heatmap indicators.

2.2.1 Data and Indicators

The data used to compile the heatmap indicators are sourced from Eurostat, the Central Bank of Malta, and the European Commission (COM)[2]. Indicators are selected based on their relevance in capturing the main dynamics within each thematic block of the heatmap.

The analysis covers the period from the first quarter of 2010 to the third quarter of 2025. Extending the sample further back is considered inappropriate, given the substantial structural transformations experienced by the Maltese economy since the early 2000s. These include, inter alia, a more diversified economy in high-end services sectors, increased inward migration, rising female labour force participation, EU accession, and the adoption of the euro. Consequently, benchmarking current

[2] A table listing all indicators included in the heatmap, together with their respective data sources, is provided in the Appendix.

observations against long-term averages derived from a structurally different economic environment could lead to misleading inferences.

Prices and Competitiveness

Developments in Prices and Competitiveness indicators provide important signals regarding emerging macroeconomic pressures, particularly through their interaction with aggregate demand, labour market conditions and inflation expectations. Their interpretation is most meaningful when assessed in conjunction with a broader set of macroeconomic indicators.

Economic theory dictates that during periods of strong economic growth, rising aggregate demand typically exerts upward pressure on prices, resulting in higher inflation. As output increases in response to stronger demand, labour market conditions tend to tighten, placing upward pressure on wages. Higher wage growth, in turn, supports households' disposable income and stimulates private consumption, thereby reinforcing aggregate demand. If inflation expectations are adaptive, this interaction between rising prices and wages may give rise to a wage-price spiral, whereby higher inflation feeds into wage increases, which subsequently amplify inflationary pressures (Blanchard, 1986). Having said that, high inflation may also be a result of a terms-of-trade shock driven by higher foreign prices, rather than a rise in aggregate demand. In this case, inflation rises because imported goods become more expensive, either due to higher commodity prices, disruptions to supply chain, or depreciation of the exchange rate. Unlike demand-pull inflation, such cost-push pressures can coincide with slower output growth, thus requiring a more accommodative policy response.

Economic downturns are generally characterised by subdued aggregate demand, weaker labour market conditions, and disinflationary or subdued price pressures. In such environments, both price and wage growth typically remain contained. However, historical experience, most notably in the United States and the United Kingdom during the 1970s, demonstrates that elevated inflation can coexist with weak economic performance (Friedman, 1968). Similar dynamics were observed globally during the COVID-19 pandemic and the subsequent period, when supply chain disruptions and geopolitical tensions contributed to elevated inflation despite weakening economic conditions. This phenomenon, commonly referred to as stagflation, underscores the importance of interpreting price and cost developments within a comprehensive macroeconomic framework rather than in isolation.

The following indicators are considered within the Prices and Competitiveness block:

- **Core Inflation (year-on-year percentage change)**

  This indicator captures underlying inflationary pressures by excluding the more volatile components of the Harmonised Index of Consumer Prices (HICP), namely energy and unprocessed food. By filtering out these components, core inflation provides a clearer assessment of persistent and underlying price dynamics. The series is constructed on a quarterly basis as the average of the corresponding monthly observations within each quarter.

- **House Price Index (year-on-year percentage change)**

  This indicator measures price developments in the residential property market. It is based on transaction prices of both new and existing dwellings and captures price changes across all types of residential properties purchased by households, including apartments, maisonettes and houses. Only dwellings that have been transacted on the market are included, while self-built properties are excluded. The value of the land component is incorporated in the index.

- **Private Consumption Deflator (year-on-year percentage change)**

  This indicator reflects the growth in the prices of private consumption goods and services. It is derived from National Accounts data as the ratio of nominal private consumption expenditure to real private consumption, thereby capturing changes in the overall price level of private consumption.

- **Labour Productivity (year-on-year percentage change)**

  This indicator measures the efficiency of labour input by capturing the average economic output produced per hour worked. It reflects how effectively labour contributes to value added in the economy.

- **Nominal Unit Labour Costs (year-on-year percentage change)**

  This indicator measures the average cost of labour per unit of output. It is calculated as the ratio of average compensation per employee to labour productivity and serves as a key gauge of cost pressures originating from the labour market and their potential impact on price developments.

The following table (Table 1) presents a summary of the descriptive statistics for the indicators included in the Prices and Competitiveness block.

Table 1: Summary Statistics for the Prices and Competitiveness block (Q3 2025)

Indicator	Value	Long-term Mean	Standard Deviation	Z-score
Core Inflation	2.6	2.0	1.7	0.3
House Price Index	5.7	4.2	2.9	0.5
Private Consumption Deflator	2.7	2.2	1.7	0.3
Real Labour Productivity per hour worked	1.9	2.4	5.1	-0.1
Nominal Unit Labour Costs per hour worked	4.4	2.6	4.6	0.4

Source: Authors' calculations

Labour Market

Developments in the labour market provide important signals regarding underlying economic imbalances, particularly through wage pressures, labour shortages, and capacity constraints. In a small and open economy such as Malta, labour market conditions play a central role in shaping inflation dynamics, external competitiveness, and potential output, thereby underscoring the importance of close macroeconomic surveillance.

For the economy to operate at its productive potential, the available factors of production, most notably labour, must be efficiently employed. When labour resources are underutilised, the economy operates below its full potential, resulting in foregone income, subdued aggregate demand, and weaker growth prospects. Conversely, a shortage of labour inputs may give rise to capacity constraints, contribute to accelerating wage growth, and broader macroeconomic imbalances.

The following indicators are included in the Labour Market block:

- **Average Wage (year-on-year percentage change)**

  The average wage is defined as the ratio of total compensation of employees to the total number of employees:

$$Average\ Wage = \frac{Compensation\ of\ Employees}{Total\ Number\ of\ Employees}$$

  This indicator measures the year-on-year percentage change in the average wage. In the National Accounts framework, compensation of employees comprises wages and salaries, as well as employers' social contributions. As such, this indicator provides insights into wage pressures within the economy.

- **Unemployment Rate (percent)**

  This indicator measures the proportion of the labour force that is unemployed. According to the International Labour Organization definition adopted by Eurostat, an unemployed person is defined as an individual aged 15 to 74 who is not in employment, is currently available for work, and is actively seeking employment. The unemployment rate is an important measure of labour market slack.

- **Employment Rate (percent)**

  This indicator measures the proportion of the working-age population that is in employment. It reflects the degree of labour market participation and the extent to which available labour resources are utilised within the economy.

- **Employment (year-on-year percentage change)**

  This indicator measures the annual percentage change in the number of employed persons, which includes both employees and self-employed. It provides insight into the pace of labour market expansion or contraction and contributes to the assessment of cyclical conditions and potential capacity constraints.

The following table (Table 2) presents a summary of the descriptive statistics for the indicators included in the Labour Market block.

Table 2: Summary Statistics for the Labour Market (Q3 2025)

Indicator	Value	Long-term Mean	Standard Deviation	Z-score
Average Wage	4.1	4.4	2.0	-0.1
Employment	2.9	4.2	1.9	-0.7
Employment Rate	73.0	60.8	6.6	1.9
Unemployment Rate	2.7	4.7	1.2	-1.6

Source: Authors' calculations

External Balances

Developments in external balances provide important insights into underlying domestic economic conditions. Variations in interest rates, economic uncertainty, external demand, competitiveness and purchasing power influence consumption and investment, which in turn affect the economy's external position. During periods of strong economic growth, higher consumption and investment typically raise import demand, thereby exerting downward pressure on the external balance. Conversely, during economic downturns, subdued demand and lower investment tend to supress import growth, contributing to an improvement in external positions.

Persistent deviations of external balances from levels consistent with underlying economic fundamentals may signal the accumulation of macroeconomic imbalances. Large and sustained external deficits, in particular, can signal potentially unsustainable economic and fiscal dynamics, increasing vulnerability to abrupt adjustments.

At the same time, external balance indicators must be interpreted with caution. Given the small size of the economy, Malta's balance of payments can be influenced by the activities of large multinational enterprises, whose cross-border transactions may distort headline figures. Accordingly, external balances are most informative when assessed in conjunction with a broader set of macroeconomic indicators.

The following indicators are included in the External Balances block:

- **Trade Balance (percent of GDP)**

  This indicator measures the difference between exports and imports of goods and services, expressed as a percentage of GDP. A positive trade balance indicates that exports exceed imports, resulting in a trade surplus, while a negative trade balance indicates that imports exceed exports, resulting in a trade deficit. The trade balance provides insight into the contribution of net trade to overall economic activity.

- **Current Account Balance (percent of GDP)**

  This indicator measures the difference between exports and imports of goods and services, including net primary income and net current transfers from abroad. A current account surplus indicates that the economy is a net lender to the rest of the world, while a current account deficit implies that the economy is a net borrower.

- **Net International Investment Position (percent of GDP)**

  This indicator measures a country's net financial position vis-à-vis the rest of the world. It is defined as the difference between external financial assets held by residents and the liabilities owed to non-residents. A positive position indicates that the country is a net creditor internationally, while a negative position indicates that it is a net debtor.

- **Real Effective Exchange Rate (year-on-year percentage change)**

  This indicator assesses a country's price competitiveness relative to its trading partners. It is calculated by deflating the nominal effective exchange rate by a consumer price index for 42 trading partners. An appreciation in the real effective exchange rate suggests a deterioration in price competitiveness, while a depreciation indicates an improvement.

The following table (Table 3) presents a summary of the descriptive statistics for the indicators included in the External Balances block.

Table 3: Summary Statistics for the External Balances Block (Q3 2025)

Indicator	Value	Long-term Mean	Standard Deviation	Z-score
Trade Balance	20.9	12.9	6.8	1.2
Current Account Balance	10.1	5.8	8.5	0.5
Net International Investment Position	496.9	600.9	223.6	-0.5
Real Effective Exchange Rate	2.7	-0.1	2.9	0.9

Source: Authors' calculations

Credit and Financial

Credit and Financial indicators provide important insights into prevailing financing conditions and risk perceptions within the economy. They reflect how financial markets assess short- and long-term risks, which in turn influence borrowing costs for both the government and the private sector. These indicators also influence households' saving and investment decisions, as higher interest rate environments tend to encourage saving whereas lower interest rate conditions typically support credit expansion and investment activity. Moreover, since the setting of policy interest rates is a conventional tool for central banks to achieve price stability, changes in interest rates also reflect price pressures and inflation expectations.

The following indicators are included in the Credit and Financial block:

- **Long-Term Government Bond Spreads (percentage points)**

  This indicator measures the yield difference between 10-year Maltese government bonds and 10-year German government bonds (German Bunds). German Bunds are commonly regarded as the benchmark risk-free asset in the euro area, given their high credit quality and minimal default risk. The resulting spread reflects market perceptions of Malta's long-term sovereign risk relative to this benchmark. A widening spread signals higher perceived sovereign risk in the long-term, while a narrowing spread indicates improved market confidence. As government indebtedness rises, this spread is expected to widen, reflecting investors' heightened concerns regarding fiscal sustainability (Agius et al., 2025).

- **Yield Curve (percentage points)**

  This indicator measures the difference between yields on 10-year Maltese government bonds and 3-month Maltese government bonds. The slope of the yield curve captures market expectations regarding monetary policy, future economic activity, and inflation. A positive spread, where long-term yields exceed short-term yields, corresponds to a normal upward-sloping yield curve and generally reflects expectations of economic expansion and inflation. Conversely, a negative spread, where short-term yields exceed long-term yields, results in an inverted yield curve, often interpreted as a signal of anticipated economic slowdown or elevated recession risk (Sabes and Sahuc, 2023).

The following table (Table 4) presents a summary of the descriptive statistics for the indicators included in the Credit and Financial block.

Table 4: Descriptive Statistics for the Credit and Financial Block (Q3 2025)

Indicator	Value	Long-term Mean	Standard Deviation	Z-score
Yield Curve	1.6	1.8	0.9	-0.2
Interest Rate Spread	0.9	1.3	0.5	-0.8

Source: Authors' calculations

Business Trends

Business trend indicators provide timely and forward-looking insights into economic conditions that are not immediately observable in official macroeconomic statistics.

They also capture qualitative dimensions of economic activity that are not directly observable through conventional quantitative data.

This section draws on indicators derived from the COM's Business and Consumer Surveys (BCS), a harmonised survey framework covering industry, construction, services, retail trade, and consumers across EU Member States. The BCS indicators are widely used for short-term economic monitoring and are designed to reflect both current business conditions and expectations over the near future.

All indicators are expressed as seasonally adjusted balances, defined as the difference between the weighted percentages of positive and negative responses. Incorporating these indicators into the heatmap strengthens its capacity to summarise economic sentiment and sectoral developments in a consistent and comparable manner across different areas of the economy.

The following indicators are included in the Business Trends block:

- **Capacity Utilisation in manufacturing industry**

  The capacity utilisation rate measures the proportion of production capacity that firms in the manufacturing sector are currently using. It provides an indication of how intensively existing productive resources are being employed and serves as a proxy for potential capacity constraints or underutilisation within the sector. Data for this indicator is gathered through the COM's industry survey.

- **Building Activity Development Over the Past Three Months**

  This indicator, derived from the construction survey, captures firms' assessments of changes in building activity over the preceding three months. Respondents classify activity as having increased, remained unchanged, or decreased compared to the previous period. The balance between positive and negative responses constitutes a quantitative measure of recent building sector performance.

- **Employment Expectations Over the Next 3 months**

  The Employment Expectations Indicator provides a forward-looking signal of anticipated changes in total employment. It is constructed as a weighted average of managers' expectations regarding employment developments within their respective sectors. Respondents indicate whether they expect employment levels to increase, remain unchanged, or decrease over the coming three months. The resulting balance of responses offers insight into short-term labour market dynamics. For the purpose of the heatmap, employment expectations in the construction, services and retail sectors are incorporated.

- **Confidence Indicators**

  For each surveyed sector, the COM compiles confidence indicators as composite summary measures of firms' and consumers' overall assessments and expectations. As such, these indicators are designed to capture prevailing economic sentiment and short-term outlook within each sector. They thus provide timely and sector-specific information on current conditions and anticipated developments. For the purpose of this heatmap, confidence indicators for the construction, services and retail sectors are included, as well as the confidence indicator for consumers.

- **Demand in Industry**

  Demand in industry is proxied by the new orders in recent months indicator from the industry survey. This measure is expressed as a seasonally adjusted balance of responses, capturing firms' assessments of recent demand conditions. As such, it provides a timely gauge of order inflows and underlying momentum in industrial activity.

- **Economic Sentiment Indicator**

  The Economic Sentiment Indicator (ESI) provides an overarching measure of economic activity and confidence. Drawing on the complete set of balance series underlying the individual confidence indicators across the surveyed sectors, it combines the judgements and expectations of producers and consumers through a weighted aggregation of standardised input series. The ESI thus provides a comprehensive summary measure of confidence across the five main economic sectors: industry, construction, services, retail trade, and consumers.

The following table (Table 5) presents a summary of the descriptive statistics for the indicators included in the Business Trends block.

Table 5: Descriptive Statistics of the Business Trends Block (Q3 2025)

Indicator	Value	Long-term Mean	Standard Deviation	Z-score
Industry – Capacity Utilisation (Manufacturing)	68.0	75.8	5.8	-1.3
Construction – Building Activity Development (past 3 months)	-6.6	4.3	18.7	-0.6
Construction – Employment Expectations (next 3 months)	6.1	6.4	18.6	-0.1
Construction – Confidence indicator	-2.6	-4.6	21.1	0.0
Industry – New Orders (recent months)	50.7	15.1	24.9	1.4
Industry – Confidence indicator	-2.8	-3.4	10.6	0.0
Services – Employment Expectations (next 3 months)	27.0	18.7	14.1	0.5
Services – Confidence Indicator	29.3	19.7	15.0	0.5
Retail – Employment Expectations (next 3 months)	-5.8	4.1	12.5	-0.8
Retail trade – Confidence Indicator	4.5	0.2	15.1	0.2
Consumer Confidence Indicator	2.1	-5.4	13.5	0.5
Economic Sentiment Indicator	105.6	101.6	8.8	0.4

Source: Authors' calculations

2.3 Results

The heatmap indicates that, during 2025 Q3, the Maltese economy continued to operate above its long-term historical average, albeit with a visible moderation in growth momentum relative to the post-pandemic expansion. The pronounced "heat" that characterised the recovery phase has gradually eased, signalling a transition toward a more mature stage of the business cycle. This suggests that, while underlying macroeconomic fundamentals remain robust, the rapid pace of growth observed in recent years is gradually normalising towards the long-term historical average.

The Prices and Competitiveness block indicates that inflationary pressures have moderated since the post-pandemic recovery period and the induced price pressures from the terms-of-trade shock. However, whilst both core inflation and the private consumption deflator have declined from the peaks observed during 2022-2023, they remain above their long-term averages. Similarly, house price inflation remains above historical norms but has shown signs of deceleration compared with recent years. In addition, building activity in Q3 stood below its long-term average, supporting the notion of a property market transitioning towards more moderate growth. Overall, this block suggests a gradual easing in price pressures across the economy, even though both inflation and house price growth continue to exceed their long-term averages.

Labour market indicators continue to signal persistent structural tightness. The unemployment rate remains substantially below its long-term average, while the employment rate stands significantly above trend, indicating that the economy is operating close to full capacity. With unemployment at a historically record low 2.7% and the employment rate reaching a record high of 73.0%, recent employment growth is increasingly being supported by inflows of foreign workers to meet labour demand, thereby easing pressures on wage growth.

Indeed, in 2025 Q3, average nominal wages increased by 4.1%, below its long-term average, after strong increases over the previous year, driven by public sector collective agreements. In the context of subdued labour productivity growth, this has led to nominal unit labour costs (ULCs) exceeding their long-term average. Persistently elevated ULCs may generate cost-push inflationary pressures and, if not offset by productivity gains, could gradually erode Malta’s external competitiveness. Meanwhile, capacity utilisation in the manufacturing sector lies below its long-term average, signalling spare capacity amidst weaker external environment and heightened global trade uncertainty for certain industrial sectors. Together with weak productivity performance, this may suggest the presence of some underutilised resources in certain economic sectors.

The External Balances block presents a mixed assessment. The real effective exchange rate was above its long-term average, signalling a deterioration in price competitiveness. Although Malta’s net international investment position remains positive, it stands below its historical average, pointing to a partial weakening of the external balance sheet. By contrast, both the current account balance and the trade balance remain above their long-term norms, reflecting sustained activity in export of services.

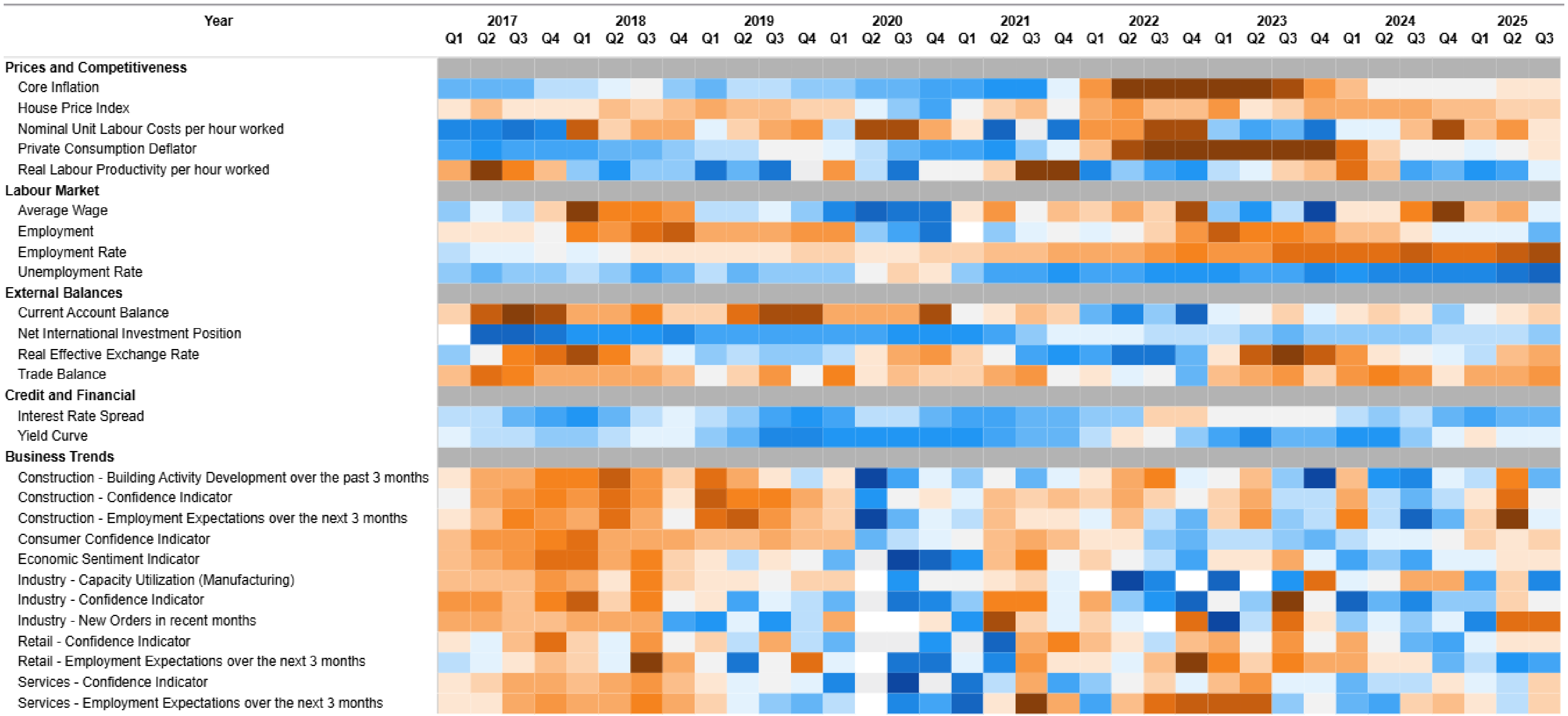
Credit and Financial indicators suggest broadly accommodative monetary and financing conditions. The interest rate spread relative to German Bunds lies below its long-term average, primarily reflecting a marked increase in long-term German sovereign yields. This rise in Bund yields followed a significant fiscal expansion in Germany, including the approval of large-scale defence and infrastructure spending, which substantially increased expected government borrowing and bond issuance. The yield curve, while below its long-term average, remains positively sloped, a scenario typically associated with stable macroeconomic conditions and favourable growth expectations. An upward-sloping yield curve reflects the presence of a term premium, compensating investors for the higher risk associated with longer maturity bonds. In theory, during periods of strong economic performance, improved investment opportunities tend to reduce the demand for long-term government bonds, lowering their prices and raising their yields, reinforcing the positive slope of the yield curve.

The Business Trends block comprises a range of survey-based indicators capturing the sentiment of different economic agents across sectors. The economic sentiment indicator lies slightly above its long-term average, following a period of below historical readings, thereby signalling a recovery in overall confidence. Similarly, the consumer confidence indicator has rebounded and currently stands above its long-term average, suggesting increased optimism regarding future economic prospects.

Sectoral confidence indicators remain largely above their long-term averages. Confidence in retail and services remains above the long-term average, while manufacturing and construction confidence are broadly in line with historical norms. This follows a period of subdued sentiment, indicating an improvement in the outlook of economic agents.

Employment expectations, however, display some sectoral heterogeneity. Expectations in the services sector lie slightly above their long-term average, reflecting continued positive hiring prospects. In construction, expectations remain broadly in line with their long-run average, while retail employment expectations are marginally below trend.

Figure 2: Heatmap of the Maltese Economy



2.4 Conclusion

This chapter presents the development of a new macroeconomic heatmap by the MFAC, designed to strengthen its monitoring toolkit and support its expanding role in the assessment and endorsement of macroeconomic and fiscal forecasts. The heatmap functions as both an early-warning system and a structured monitoring instrument, enabling the Council to track emerging macroeconomic and sectoral developments in a clear and timely manner. In line with similar tools adopted by other Independent Fiscal Institutions, it provides a visual overview of key indicators relative to their historical trends.

Overall, the heatmap suggests that in 2025 Q3, the Maltese economy continued to perform above its long-term historical average, although the strong momentum observed during the post-pandemic recovery has gradually moderated as the economy moves toward a more mature phase of the business cycle. Inflationary pressures have eased but remain somewhat above historical norms, while the labour market continues to exhibit structural tightness with record-high employment and very low unemployment. At the same time, wage growth combined with subdued productivity has kept unit labour costs elevated, posing potential risks to external competitiveness. External balances present a mixed picture, with strong current account and trade balances offset by some deterioration in price competitiveness and the net international investment position. Financial conditions remain broadly accommodative, and survey-based indicators point to an improvement in economic sentiment across most sectors. In conclusion, these developments indicate a resilient economy transitioning from a period of rapid expansion towards more moderate growth, albeit with signs of normalisation and emerging structural pressures.

The heatmap constitutes a valuable analytical tool, which the Council aims to further develop and monitor on an ongoing basis. Nonetheless, several important caveats warrant consideration when interpreting its results, and these should be clearly acknowledged.

The heatmap provides insight into where the indicators currently stand relative to their long-term averages. However, these long-term benchmarks do not necessarily represent sustainable or equilibrium economic conditions. Deviations from historical norms may therefore reflect not only cyclical fluctuations but also structural changes and evolving economic dynamics. As a result, departures from historical norms should not automatically be interpreted as signalling the presence of economic imbalances.

Z-scores should also be interpreted in context, as they are calculated relative to historical averages that may be affected by structural breaks and extreme observations. While the use of a long time series mitigates this effect, the heatmap will be monitored to ensure that such factors are appropriately considered in its interpretation.

Moreover, the heatmap is inherently descriptive and, while it serves as a useful diagnostic and monitoring instrument, it does not allow for the identification of the underlying drivers of observed developments. In addition, the assessment of whether an indicator lying above or below its long-term average is economically favourable or unfavourable requires sound economic judgement, as the implications depend critically on the nature, definition, and institutional context of each variable. Accordingly, the heatmap is best viewed as a complementary analytical tool, to be used in conjunction with formal econometric modelling and expert judgement.

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Appendix A

Category	Indicator	Source
Prices and Competitiveness	Core Inflation	Eurostat; Prices
	House Price Index	Eurostat; Prices
	Private Consumption deflator	Eurostat; National Accounts
	Real Labour productivity per hour worked	Eurostat; National Accounts
	Nominal Unit Labour Costs per hour worked	Eurostat; National Accounts
Labour Market	Average Wage	
	Compensation of Employees	Eurostat; National Accounts
	Total Number of Employees	Eurostat; National Accounts
	Employment	Eurostat; National Accounts
	Employment Rate	Eurostat; Labour Force Survey
	Unemployment Rate	Eurostat; Labour Force Survey
External Balances	Current Account Balance	Eurostat; Balance of Payments
	Net International Investment Position	Eurostat; Balance of Payments
	Real effective exchange rate	Eurostat; Exchange Rates
	Trade Balance	
	Exports of goods and services	Eurostat; National Accounts
	Imports of goods and services	Eurostat; National Accounts
	Nominal GDP	Eurostat; National Accounts
Credit and Financial	Long-Term Government Bond Spreads	
	Long term government bond yields - Malta	Central Bank; Monetary Interest Rate Statistics
	Long term government bond yields - Germany	Eurostat; Interest Rates
	Yield Curve	
	3-month bond yield - Malta	Central Bank; Monetary Interest Rate Statistics
	Long term government bond yields - Malta	Central Bank; Monetary Interest Rate Statistics

Business Trends	Construction - Building activity development over the past 3 months	European Commission; Business and Consumer surveys
	Construction - Confidence Indicator	European Commission; Business and Consumer surveys
	Construction - Employment Expectations over the next 3 months	European Commission; Business and Consumer surveys
	Consumer confidence indicator	European Commission; Business and Consumer surveys
	Economic sentiment indicator	European Commission; Business and Consumer surveys
	Industry – Capacity Utilisation (Manufacturing)	European Commission; Business and Consumer surveys
	Industry - Confidence Indicator	European Commission; Business and Consumer surveys
	Industry - New Orders in recent months	European Commission; Business and Consumer surveys
	Retail - Confidence Indicator	European Commission; Business and Consumer surveys
	Retail - Employment Expectations over the next 3 months	European Commission; Business and Consumer surveys
	Services - Confidence Indicator	European Commission; Business and Consumer surveys
	Services - Employment Expectations over the next 3 months	European Commission; Business and Consumer surveys

Chapter 3

The Composition of Government Expenditure in Malta: A COFOG-Based Analysis

3.1 Introduction

This chapter examines the evolution and composition of general government expenditure in Malta using the **Classification of the Functions of Government (COFOG)** framework. While aggregate expenditure indicators provide an overall picture of fiscal developments, analysing expenditure by function and by fiscal component offers additional insight into how public resources are allocated and how spending patterns evolve over time.

The analysis covers the period 2000 to 2024 and considers both the functional distribution of government expenditure and its composition across the main fiscal expenditure components, with particular focus on compensation of employees, intermediate consumption, and capital expenditure.[1] To place developments in Malta in a broader context, the chapter also presents selected comparisons with expenditure patterns observed across the European Union (EU).

COFOG is an international statistical classification that groups government expenditure according to the purpose of public spending. Developed in its current form in 1999 by the Organisation for Economic Co-operation and Development (OECD) and subsequently adopted by the United Nations (UN) Statistics Division, it provides a consistent framework for analysing how governments allocate resources across different areas of public activity. The main COFOG divisions include general public services, defence, public order and safety, economic affairs, environmental protection, housing and community amenities, health, recreation, culture and religion, education, and social protection. A detailed list of sub-items within each category is provided in Appendix B.

In addition, the chapter applies a three-effect decomposition framework to examine changes in government expenditure at COFOG level. This analytical approach distinguishes between expenditure increments that were in line with economic growth, changes in the size of government relative to GDP, and structural shifts in the allocation of expenditure across functions.

[1] Data on government expenditure by function (COFOG) is published by the National Statistics Office in December of the year following the reference period. The most recent release in this regard is News Release NR236/2025, titled *Expenditure of General Government Sector by Function: 2024*, which covers the period 2020-2024.

For earlier years, COFOG data is available through the Eurostat database. However, as at the cut-off date of this Report, Eurostat's COFOG dataset is available only up to 2023.

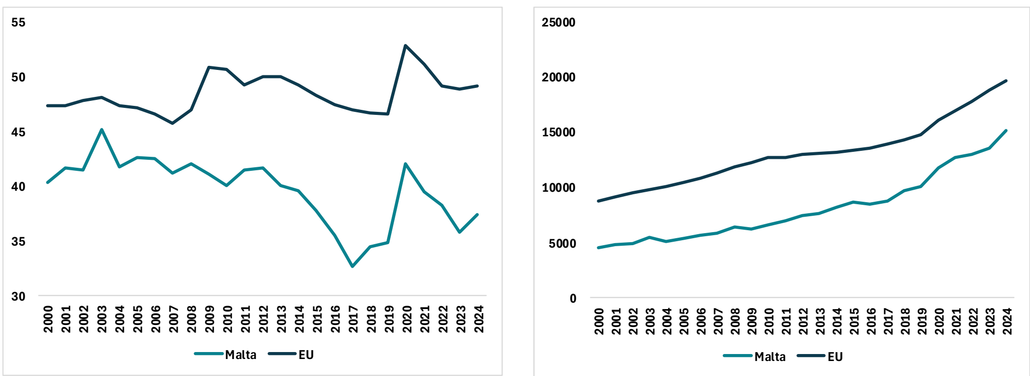
The chapter proceeds by first presenting stylised facts on government expenditure developments in Malta by COFOG. This is followed by a comparison of Malta's expenditure structure with that observed across the EU. The analysis then examines the composition of expenditure within each COFOG function by exploring developments across their underlying sub-items. Subsequently, the chapter presents a decomposition analysis of expenditure growth across COFOG functions in order to distinguish between the roles of economic growth, changes in the size of government, and structural shifts in expenditure allocation. The final sections analyse the main fiscal expenditure components according to their economic composition and rigidity, followed by a discussion on some observations within these expenditure developments.

3.2 Stylised facts on government expenditure in Malta

This section presents a set of stylised facts describing the evolution of general government expenditure in Malta over the period under review. The analysis first considers aggregate expenditure developments before examining how spending has evolved across COFOG functions.

Chart 1: Expenditure developments, Malta and the EU (2000-2024)

Government expenditure-to-GDP ratio (%) | Government expenditure per capita (€)

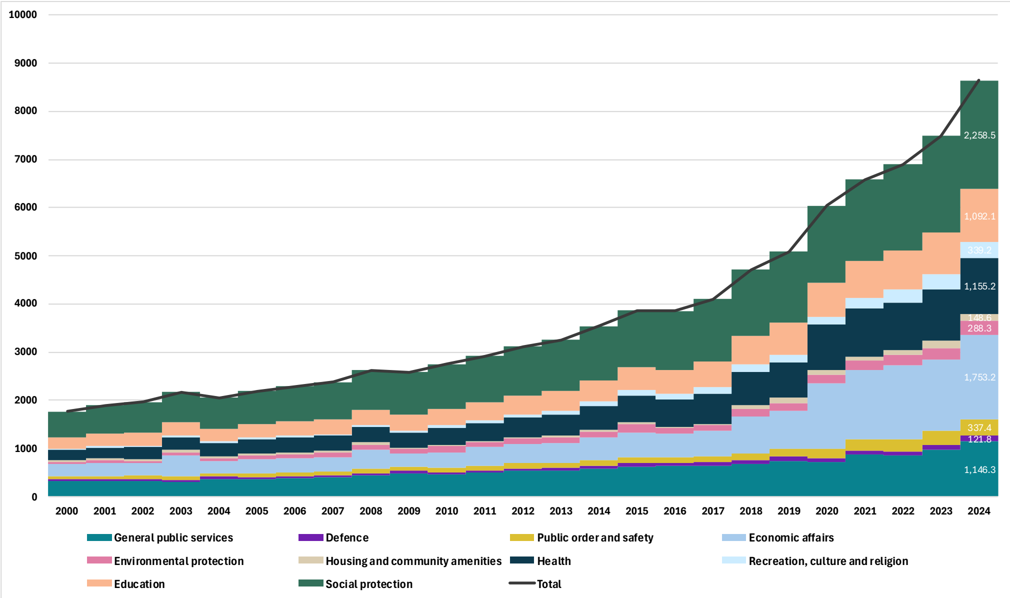


Source: Eurostat

Chart 1 illustrates the evolution of Malta's government expenditure-to-GDP ratio together with government expenditure per capita. Over the period since 2000, Malta's expenditure-to-GDP ratio has averaged 39.7%, remaining below the EU average throughout the period. Historically, Malta's ratio fluctuated around 40% and 42% for most years between 2000 and 2013, before shifting to below 40% thereafter. This indicates that GDP recorded increments that were, in relative terms, higher overall than those in expenditure. The only notable deviation from this pattern occurred in 2020, when expenditure temporarily recorded a significant increase in response to pandemic-related support measures. By 2024, government expenditure stood at 37.4% of GDP.

Chart 2: COFOG expenditure (2000-2024)

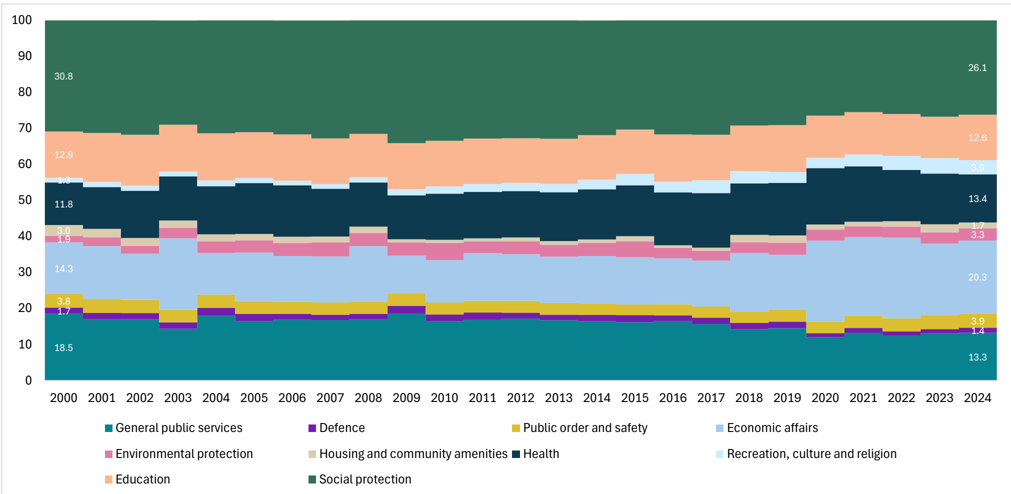
(EUR millions)



Source: NSO, Eurostat

Chart 3: COFOG expenditure: 2000-2024

(share of total expenditure, %)



Source: NSO, Eurostat

Examining expenditure by COFOG function provides further insight into how public spending has evolved over time (see Charts 2 and 3). Social protection consistently represented the largest category of government expenditure throughout the period analysed. In 2024, spending on social protection amounted to €2,258.5 million, accounting for 26.1% of total expenditure (€8,640.6 million). While the share allocated to this category increased from 30.8% in 2000 to a peak of 34.1% in 2009, it declined gradually thereafter, falling below 30% after 2018, as the other expenditure functions increased by higher growth rates.

Economic affairs constituted the second-largest expenditure category in 2024 and recorded the fastest growth over the period under review. Its share of total expenditure increased by 6.0 percentage points, reaching 20.3% in 2024. This development was largely driven by increased spending on transport and fuel and energy, the latter reflecting energy price support measures introduced from 2022 onwards.

Health, general public services and education accounted for the next largest shares of expenditure. The share allocated to health increased over time, reaching 13.4% of total expenditure in 2024, partly reflecting demographic developments, expanded healthcare provision and rising costs of medical products. By contrast, education expenditure remained relatively stable over the period, maintaining a share of around 12.6% of total expenditure.

General public services recorded a notable decline in their share of total expenditure, falling from 18.5% in 2000 to 13.3% in 2024. This largely reflects reductions in public debt transactions, particularly interest payments which also declined in absolute terms between 2015 and 2022, and costs associated with debt issuance.

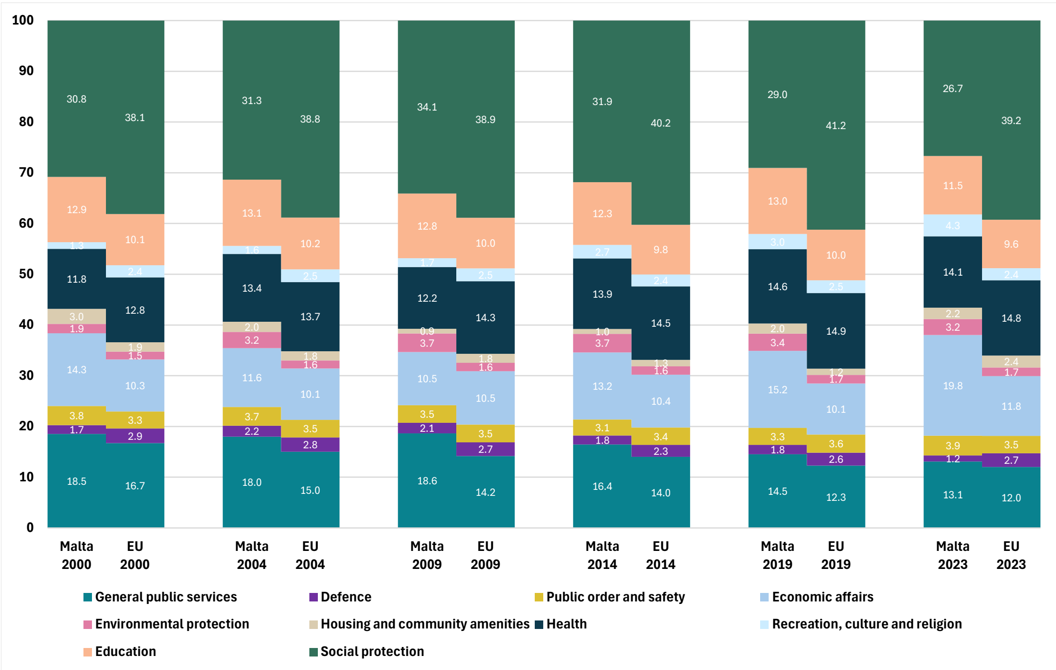
The remaining COFOG categories account for comparatively small shares of total government expenditure, each representing less than 4% of spending. Among these, recreation, culture and religion and environmental protection recorded gradual increases in their shares over time. By contrast, expenditure shares for public order and safety and defence remained broadly stable, while housing and community amenities declined in relative importance.

3.3 Comparison with the EU[2]

To place Malta's expenditure patterns in an international context, this section compares the allocation of government expenditure across COFOG functions with the corresponding structure observed across the EU.

Chart 4: COFOG expenditure shares: comparison with EU (5-year staggers)

(share of total expenditure, %)



Source: NSO, Eurostat

As illustrated in Chart 4, the most notable difference between Malta and the EU relates to social protection. Across the EU, social protection accounts for by far the largest share of public expenditure, averaging around 40% of total spending. In Malta, while social protection also represents the largest expenditure category, its share is significantly lower, by around 12 percentage points compared with the EU average. This difference is also reflected in per capita spending. In 2023, Malta spent €3,615.8 per capita on social protection compared with €7,375.1 in the EU, reflecting differences mostly in pension income, and a tighter labour market (see Table 1).

[2] Data for the EU by COFOG at Eurostat level was available up to 2023 by the cut-off date of this Report.

Table 1: COFOG expenditure on a per capita basis in 2023

(€)

COFOG	General public services	Defence	Public order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
Malta	1,772.9	159.9	528.1	2,687.3	430.6	300.3	1,906.6	580.8	1,561.4	3,615.8
EU	2,254.6	505.7	648.8	2,215.2	315.9	442.7	2,787.9	447.7	1,797.6	7,375.1

Source: NSO, Eurostat.

By contrast, Malta allocates a significantly larger share of its expenditure to economic affairs. This difference has persisted for most of the period analysed and largely reflects Malta's relatively strong use of government support measures and other discretionary spending aimed at supporting economic activity.

Spending on health represented a relatively smaller share of government expenditure in Malta compared with the EU, on average, over the period reviewed, by 0.6 pp (see Table 2). By contrast, education accounts for a slightly larger share of expenditure in Malta, exceeding the EU average by around 2.7 percentage points on average over the period analysed.

Table 2: COFOG expenditure statistics for Malta and the EU: 2000-2023

(share of total expenditure, %)

COFOG	General public services	Defence	Public order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
Median	16.5 (14.3)	1.7 (2.6)	3.4 (3.5)	13.3 (10.3)	3.2 (1.6)	1.6 (1.7)	13.7 (14.3)	2.2 (2.5)	12.7 (9.9)	31.4 (39.2)
Mean	15.9 (14.0)	1.7 (2.6)	3.4 (3.5)	15.0 (10.6)	3.2 (1.6)	1.6 (1.6)	13.6 (14.3)	2.4 (2.4)	12.6 (9.9)	30.6 (39.4)
Minimum	12.0 (11.4)	1.1 (2.3)	2.9 (3.3)	10.5 (9.9)	1.9 (1.5)	0.7 (1.2)	11.6 (12.8)	1.3 (2.3)	11.5 (9.3)	25.5 (38.0)
Maximum	18.6 (16.7)	2.2 (2.9)	3.9 (3.6)	22.5 (12.7)	4.8 (1.7)	3.0 (2.4)	15.7 (15.7)	4.3 (2.6)	14.1 (10.3)	34.1 (41.3)
St. dev.	1.9 (1.5)	0.3 (0.2)	0.3 (0.1)	3.7 (0.8)	0.6 (0.0)	0.6 (0.3)	1.1 (0.7)	1.0 (0.1)	0.6 (0.3)	2.5 (1.1)

Note: the values in brackets represent those for the EU average
Source: NSO, Eurostat

A common feature between Malta and the EU is the gradual decline in the share of expenditure allocated to general public services, largely reflecting lower interest payments over the second half of the years under review. Defence expenditure accounts for a smaller share of government spending in Malta than in the EU, while the share allocated to public order and safety is broadly comparable between the two. Environmental protection accounts for a somewhat higher share of expenditure in

Malta, while spending on housing and community amenities as well as recreation, culture and religion were, on average, broadly similar (see Table 2).[3]

3.4 COFOG categories explained by their sub-items

Chart 5 provides a more detailed breakdown of expenditure within each COFOG category by presenting the distribution of spending across their respective sub-items. These shares should be interpreted in conjunction with the absolute expenditure levels and the relative importance of each COFOG division in total government expenditure, as presented earlier in Charts 2 and 3.

The composition of expenditure within COFOG divisions varies considerably across categories. In particular, economic affairs display the most pronounced fluctuations over time, reflecting its role as one of the more policy-driven expenditure categories. Changes within this division have largely been driven by developments in fuel and energy, transport, and general economic, commercial and labour affairs, mostly in the form of subsidies, investment and transfers to public entities. During periods requiring fiscal intervention or policy responses to external shocks, adjustments have often been concentrated within this category. A notable example occurred during 2020 and 2021, when the sub-category general economic, commercial and labour affairs increased sharply due to the implementation of the Covid-19 wage supplement scheme introduced in response to the pandemic.

By contrast, social protection exhibits a comparatively stable internal composition, with expenditure dominated by old-age spending. In 2024, expenditure on old-age benefits amounted to €1,366.4 million, equivalent to 15.8% of total government expenditure. Over time, the share of old-age expenditure from social protection has increased by more than 6 percentage points, reflecting demographic developments in Malta, particularly the rising number of pension beneficiaries. Indeed, the number of individuals receiving a contributory retirement pension increased from 56,088 in 2010 to 83,638 in 2024, representing an increase of approximately 49% (Pensions Strategy

[3] Recreation and culture and religion gained more share over the latter part of the period in Malta, exceeding the EU's allocation by 1.9 pp.

Group, 2025).[4] Policy-driven increases in pension benefits have also contributed to the increase in the old-age expenditure.

Within the health category, hospital services account for the largest share of expenditure. However, over time, spending on outpatient services and medical products, appliances and equipment have also increased as a share of total health expenditure, reflecting changes in healthcare delivery and the increasing role of outpatient treatment and medical technologies.

As discussed earlier, the composition of expenditure within general public services has shifted away from public debt transactions, in particular, interest payments and other costs associated with public debt. On the other hand, the largest contribution to expenditure within this category increasingly originates from administrative costs related to general public services, particularly those classified under executive and legislative organs, financial and fiscal affairs, and external affairs.

Within education, expenditure is distributed across the different levels of the education system. Over the period analysed, the share allocated to pre-primary and primary education increased gradually, reaching 30.9% of total education spending in 2024. Secondary education remained the largest component of education expenditure, accounting for 33.8% in 2024. Spending on subsidiary services to education also increased its share.[5] The share of tertiary education expenditure averaged 17.1% over the 25-year period. Whilst the number of tertiary students increased significantly, expenditure at primary and secondary levels increased more rapidly.

The remaining COFOG divisions exhibit greater volatility in their internal composition. This is particularly evident in housing and community amenities, where expenditure priorities have differed considerably over time from more focus on water supply to community development. Within environmental protection, waste management accounts for the largest share of expenditure, although spending on pollution abatement increased steadily during the most recent years analysed.

Within public order and safety, expenditure on police services increased steadily over time. However, the rate of increase in spending on law courts and prisons has been

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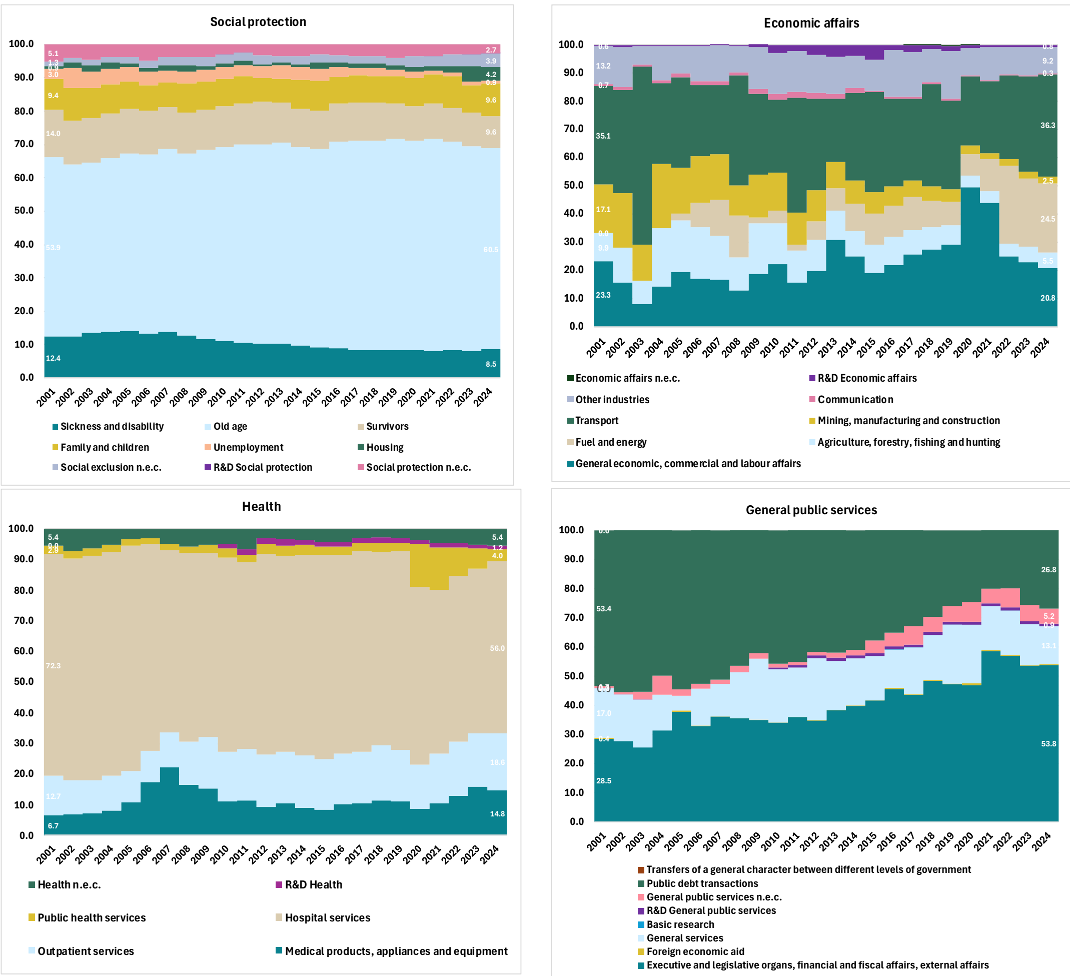
[4] Pension Strategy Group (2025) *Strategic Review on the Adequacy, Sustainability, and Solidarity of Malta's Pension System*. Available at: https://familja.gov.mt/wp-content/uploads/2026/01/2025-PensionStrategyGroupReportforPublicConsultation-FINAL.pdf.

[5] Amongst others this includes school transport schemes, maintenance grants and meal programmes.

stronger, with these two components together accounting for 45.6% of expenditure within this category in 2024. Within the recreation, culture and religion division, cultural services represent the dominant component of spending, while defence expenditure in Malta is almost entirely concentrated in military defence.

A common feature across all COFOG categories is the relatively limited allocation to research and development (R&D). R&D expenditure represents only a small share within the functional distribution of government spending. Government expenditure on R&D in Malta remains among the lowest in the EU, amounting to less than 0.2% of GDP compared with an EU average of around 0.7% of GDP.[6]

Chart 5: COFOG expenditure functions by sub-items[7]
(percentage share of expenditure in respective COFOG division)



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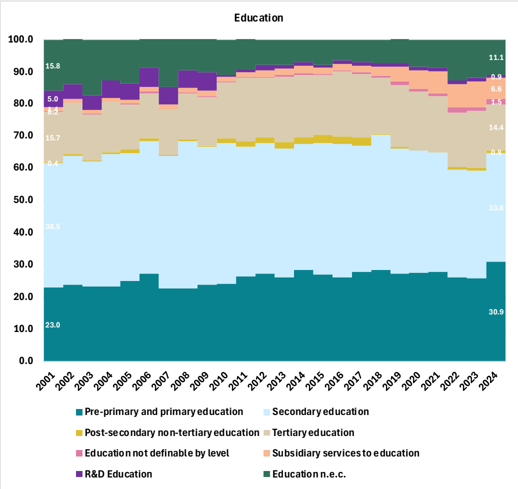
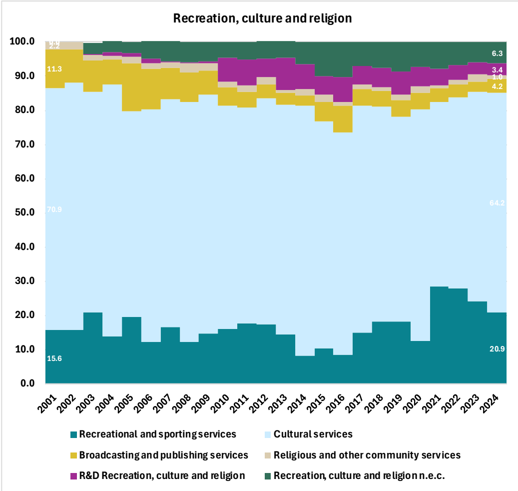
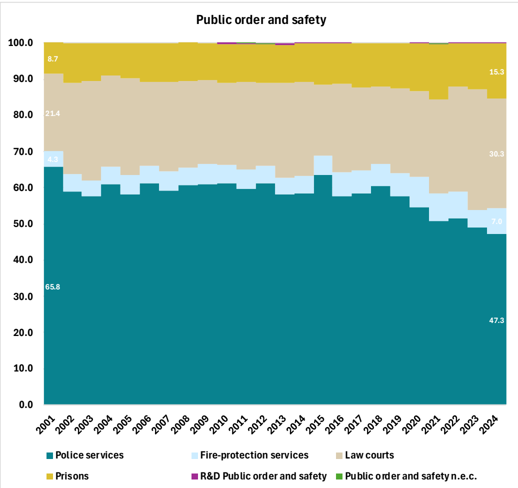
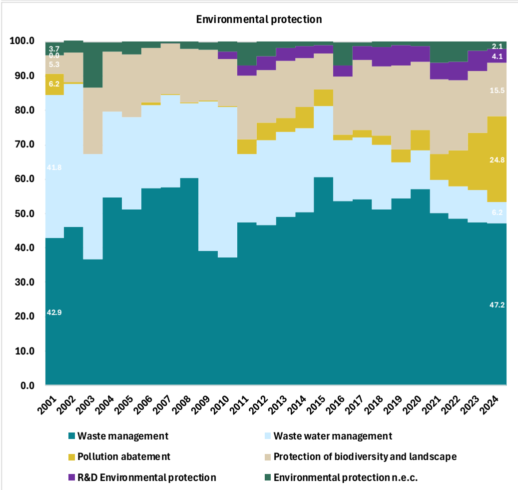
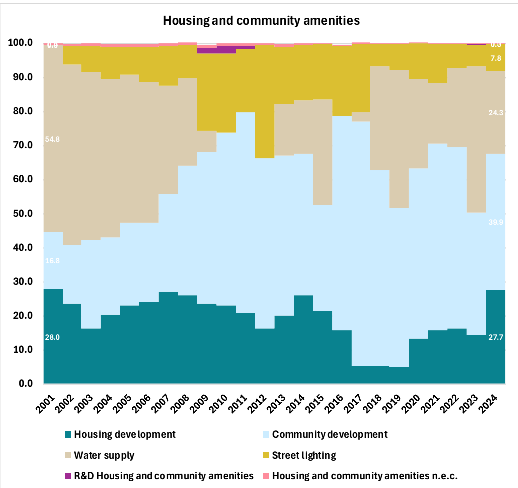
[6] More information on government budgetary allocations on R&D can be found here.
[7] Data by sub-item is available as from 2001.

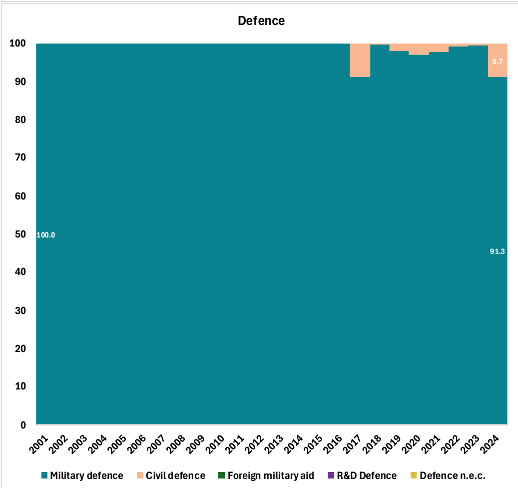












Source: NSO, Eurostat

3.5 A Decomposition of Government Expenditure Growth

Changes in government expenditure may arise from several sources. In many cases, increases in public spending reflect broader macroeconomic developments, such as economic growth, demographic dynamics, and price developments, which naturally lead to an expansion in government expenditure over time. However, expenditure changes may also reflect deliberate policy decisions, whereby governments reallocate resources across functional areas in ways which are consistent with specific policy priorities.

Distinguishing between these different drivers is therefore important when interpreting expenditure developments. An observed increase in spending within a particular COFOG category does not necessarily imply that the government has assigned greater priority to that policy area. Such increases may be in line with the overall expansion of a country's economy. Conversely, expenditure growth exceeding what would be expected based on overall fiscal expansion may indicate a structural shift in the allocation of public resources.

To disentangle these effects, the analysis applies a three-effect decomposition framework, commonly used in fiscal policy analysis. This framework allows the growth in government expenditure across COFOG functions to be decomposed into three components:

a. the proportional economic growth effect,
b. changes in the size of government relative to GDP, and
c. structural reallocations across expenditure categories.

By separating these components, the framework provides a clearer understanding of whether observed expenditure developments have primarily moved in line with macroeconomic expansion, shifts in the overall fiscal stance, or changes in government spending priorities.

3.5.1 Methodology

The decomposition is based on the identity that government expenditure in a given COFOG category can be expressed as the product of three elements: the size of the economy, the size of government relative to GDP, and the share of the category within total government expenditure. Formally, government expenditure in category *i* at time *t*, denoted $E_{i,t}$, can be expressed as:

$$E_{i,t} = GDP_t * \frac{E_t}{GDP_t} * \frac{E_{i,t}}{E_t}$$

where, GDP_t represents nominal gross domestic product, E_t denotes total government expenditure, and $E_{i,t}$ / E_t represents the share of government expenditure allocated to COFOG category *i*.

Changes in expenditure between two periods can therefore be explained by the variations in any of these three components. The overall change in expenditure for category *i* between the initial period *0* and the final period *T* can be expressed as:

$$\Delta E_i = E_{i,T} - E_{i,0}$$

This change is decomposed into three effects.

The **GDP effect** captures the increase in expenditure that is perfectly in line with the level of change in economic activity, assuming that the size of government relative to GDP and the allocation of expenditure across functions remaining unchanged.

The **government size effect** reflects changes in total government expenditure relative to GDP. This component captures the additional change in expenditure arising from variations in the overall scale of government activity relative to the size of the economy.

The **structural allocation effect** captures shifts in the share of expenditure allocated to individual COFOG functions. This component records changes in the budgetary composition across functions and shows whether a particular category has increased or decreased as a share of total government expenditure over the period considered.

It must be noted that this method represents an accounting-based decomposition framework, and no causal effects are being inferred. A more complete assessment of the interaction between public expenditure and economic growth would require a structural or econometric framework capable of capturing these causal and feedback effects, which lies beyond the scope of the present analysis.

3.5.2 Results

The decomposition of government expenditure across COFOG functions provides important insights into the evolution of public spending between 2000 and 2024. All COFOG categories increased in absolute terms, though by varying degrees. Chart 6 shows these increments as decomposed by the three effects.

The first effect shows the proportion of expenditure growth in each COFOG category that scaled one-to-one with GDP growth. It reflects the substantial expansion of Malta's economy over the period analysed. This component captures the share of expenditure growth that would have occurred if spending in each category had simply expanded in proportion to nominal GDP, holding constant both the expenditure-to-GDP ratio and the composition of expenditure.

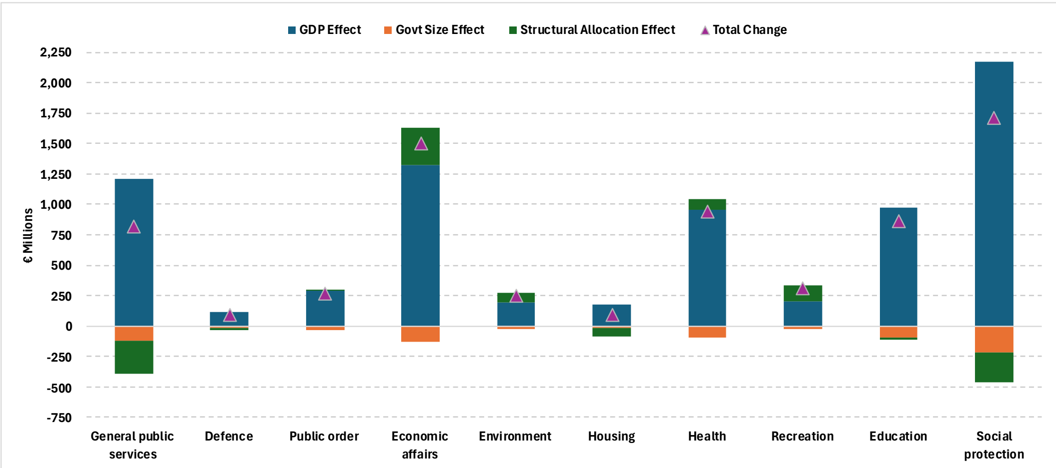
By contrast, the government size effect makes a comparatively limited and negative contribution to the overall change in expenditure. This shows that the ratio of government expenditure to GDP declined over the period considered. While government spending rose significantly in absolute terms, the overall fiscal footprint of the public sector relative to the economy narrowed slightly. This implies that the expansion of public expenditure largely occurred in line with economic growth rather than through an increase in the relative size of government.

Notwithstanding the strong influence of macroeconomic developments, the decomposition also reveals important structural shifts in the allocation of public expenditure across COFOG functions. Several expenditure categories recorded increases that exceeded what would be expected based solely on economic growth and overall fiscal expansion, indicating an increase in their relative share within the government budget. In particular, economic affairs, health, recreation, culture and religion, and environmental protection recorded positive structural contributions, indicating that these areas accounted for a larger share of total expenditure over the period analysed (see Chart 6).

The structural allocation effect was largest towards economic affairs. In this case, the structural allocation effect offset the decrease from the government size effect, resulting in expenditure growth above that implied by the GDP effect alone. This pattern is consistent with stronger growth in expenditure items classified under this heading, including subsidies, energy-related spending, and other expenditure connected with economic-supporting activities, relative to other COFOG functions. However, this accounting result should not be interpreted as evidence of policy intent or causation.

Conversely, other categories display negative structural contributions, indicating that their expenditure growth was slower than implied by aggregate expenditure growth. In particular, social protection, housing and community amenities, general public services, and defence experienced declines in their relative share of total expenditure.

Chart 6: Drivers of Government Expenditure Growth by COFOG Function: GDP, Government Size and Structural Effects (2000–2024)



Source: Eurostat, Author's calculations

The decomposition further indicates that structural shifts in expenditure allocation have largely occurred within a relatively stable, albeit declining, government expenditure-to-GDP ratio. This suggests that changes in expenditure composition were associated primarily with reallocations in relative shares across functions, rather than with an expansion of the overall fiscal envelope as a share of GDP.

Taken together, these findings highlight the importance of distinguishing between macroeconomic developments and structural fiscal developments when analysing the evolution of public expenditure. As limitations, this method provides accounting-based decomposition rather than a causal framework. Moreover, alternative methods for the decomposition can be explored, such as decomposing by growth rates rather than levels, which could lead to varying results.

3.6 Fiscal expenditure components

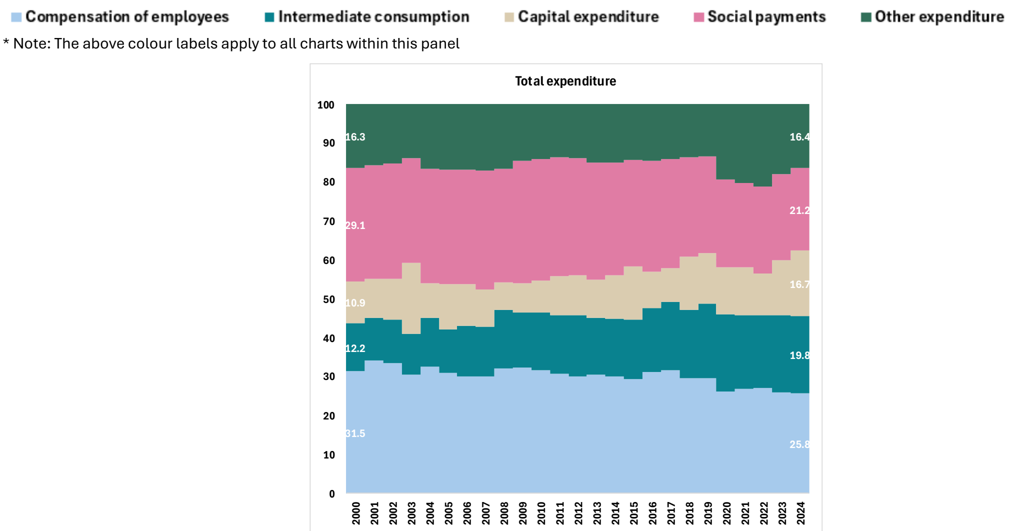
Government expenditure can also be analysed according to its economic composition, which provides additional insight into the dynamics of fiscal policy and the degree of flexibility within the expenditure structure.

Chart 7 presents the distribution of total government expenditure across the main fiscal expenditure components over time, namely compensation of employees, intermediate consumption, capital expenditure, social payments, and other expenditure. [8,9]

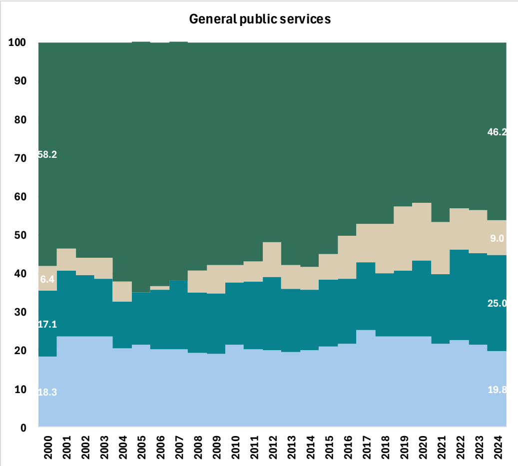
Over the period analysed, intermediate consumption recorded the strongest increase, rising from 12.2% of total expenditure at the beginning of the period to 19.8% in 2024. Compensation of employees remained the largest expenditure component, accounting for 25.8% of total spending in 2024, followed by social payments (21.2%). By contrast, the share of capital expenditure exhibited greater variability over time, reflecting fluctuations in public investment.

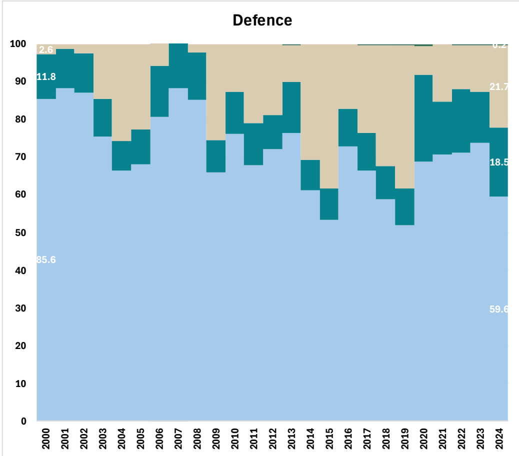
Chart 7: COFOG functions split by main fiscal expenditure components

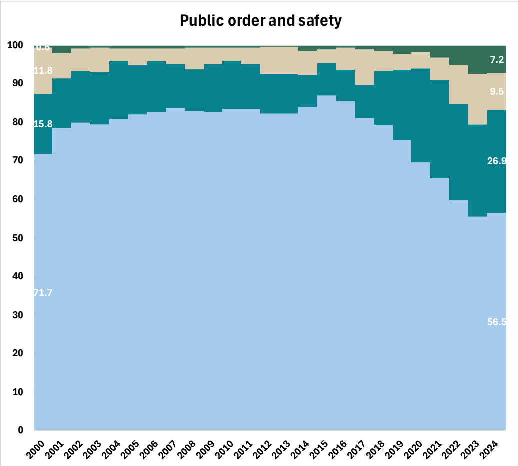
(% of total expenditure)

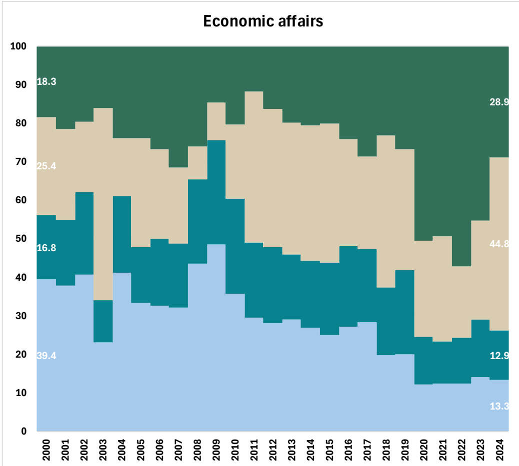


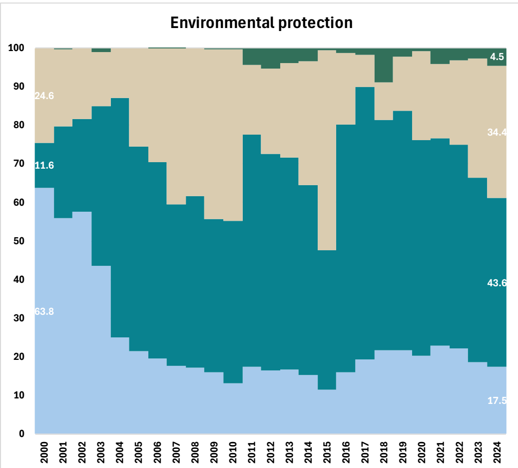
[8] Capital expenditure comprises investment expenditure: gross capital formation (which consists of gross fixed capital formation, plus changes in inventories, and acquisitions less disposals of valuables); and acquisitions less disposals of non-produced non-financial assets, as well as capital transfers, in the form of investment grants and other capital transfers.
[9] Other expenditure is categorised as residual they mainly include subsidies, other current transfers and interest expenditure.

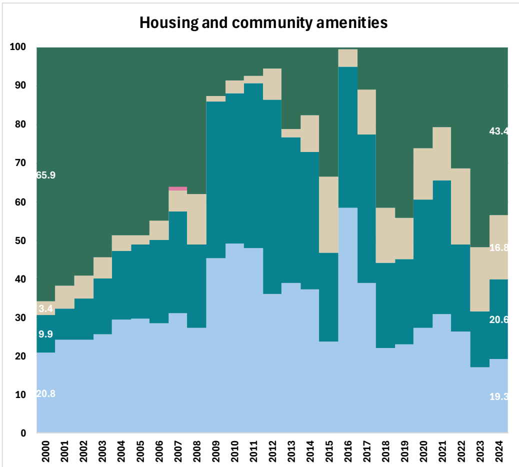

General public services
58.2
6.4
17.1
18.3
46.2
9.0
25.0
19.8

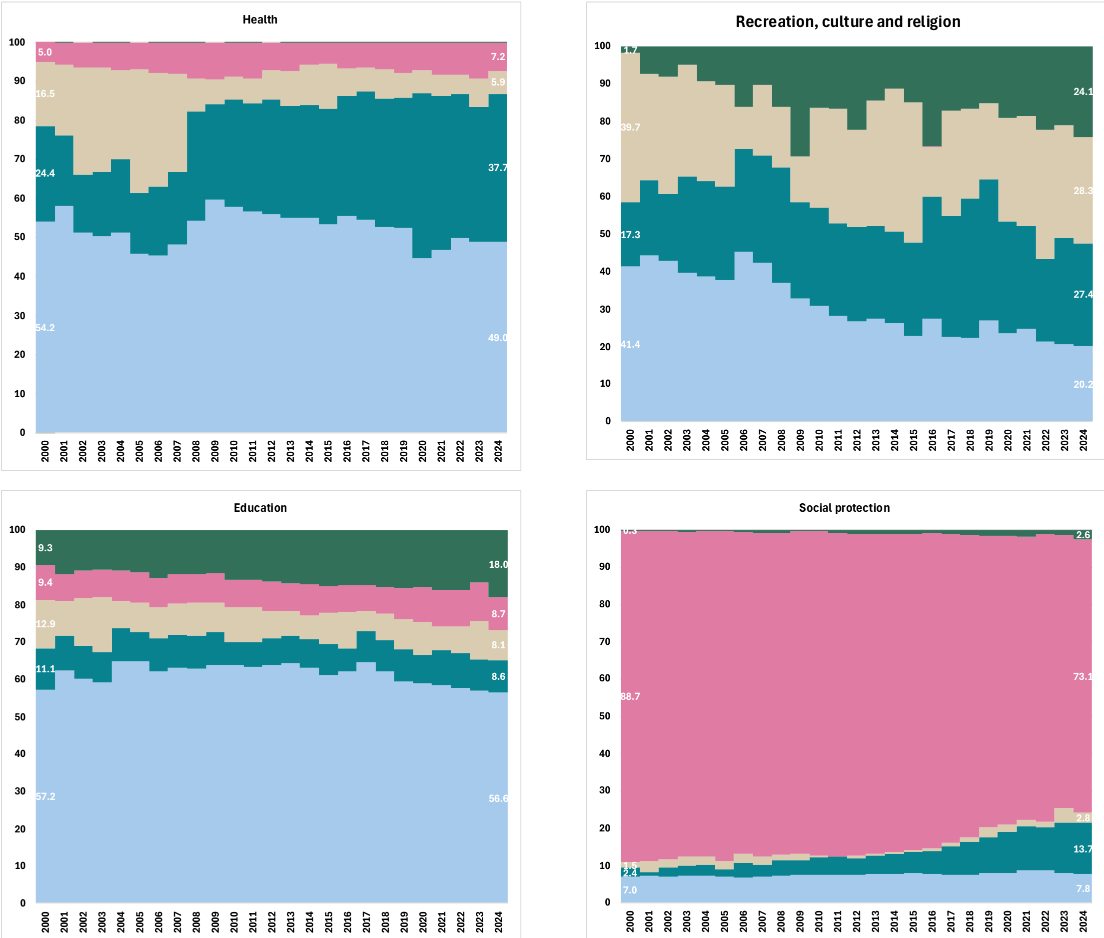

Defence
2.6
11.8
85.6
21.7
18.5
59.6


Public order and safety
11.8
15.8
71.7
7.2
9.5
26.9
56.5


Economic affairs
18.3
25.4
16.8
39.4
28.9
44.8
12.9
13.3


Environmental protection
24.6
11.6
63.8
4.5
34.4
43.6
17.5


Housing and community amenities
65.9
3.4
9.9
20.8
43.4
16.8
20.6
19.3



Source: NSO, Eurostat

Expenditure can be broadly grouped into rigid expenditure components, operational expenditure, and discretionary expenditure. Budget rigidities are constraints that limit the ability of the government to change the size and structure of the public budget in the short term. Rigid components typically include compensation of employees, social payments, and interest expenditure (Muñoz and Olaberria, 2019).[10] Broadly, intermediate consumption is categorised as constituting operational spending for this analysis, while the other expenditure components, which includes capital expenditure, are being categorised as discretionary expenditure.

[10] Muñoz, E. and Olaberría, E. (2019), *Are Budget Rigidities a Source of Fiscal Distress and a Constraint for Fiscal Consolidation?*, Policy Research Working Paper No. 8957, World Bank, Washington, DC.

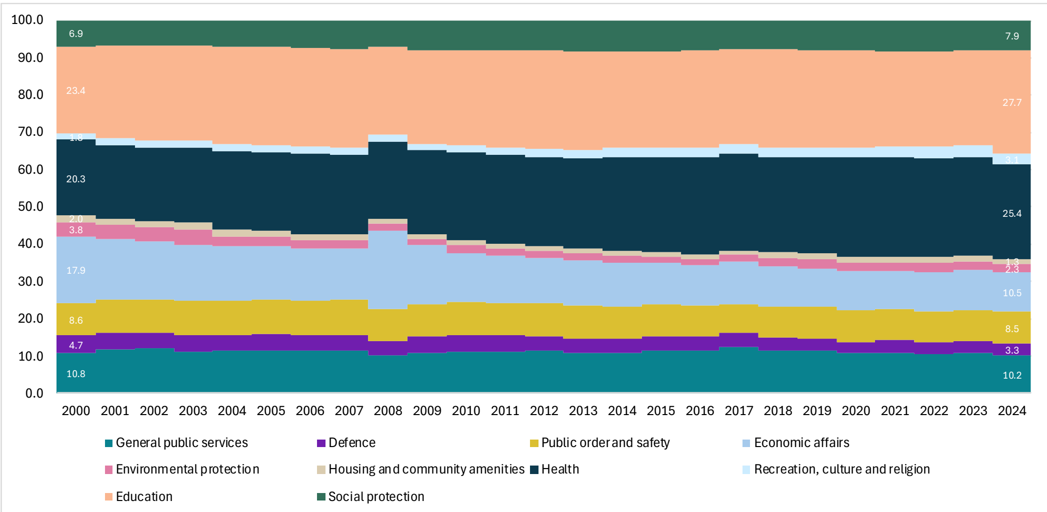
3.6.1 Rigid expenditure components

Expenditure components that are categorised as rigid are compensation of employees, social payments and interest expenditure, which together represent a substantial share of total government spending. Compensation of employees represents a recurrent and relatively inflexible component of public spending. Social payments are often governed by eligibility rules and law and are heavily dependent on demographic developments. Interest expenditure is also relatively rigid as they depend and arise from binding commitments.

Compensation of employees increased fourfold between 2000 and 2024, rising from €556.7 million to €2,232.1 million. The distribution of the government wage bill across COFOG functions shows that education and health consistently accounted for the largest shares of compensation, together representing more than half of total wage expenditure since 2012. The relative importance of these sectors reflects the labour-intensive nature of healthcare and education. By contrast, the share of compensation allocated to economic affairs declined, while general public services and public order and safety remained broadly stable (see Chart 8).

Chart 8: Compensation of employees – shares among COFOG divisions

(%)

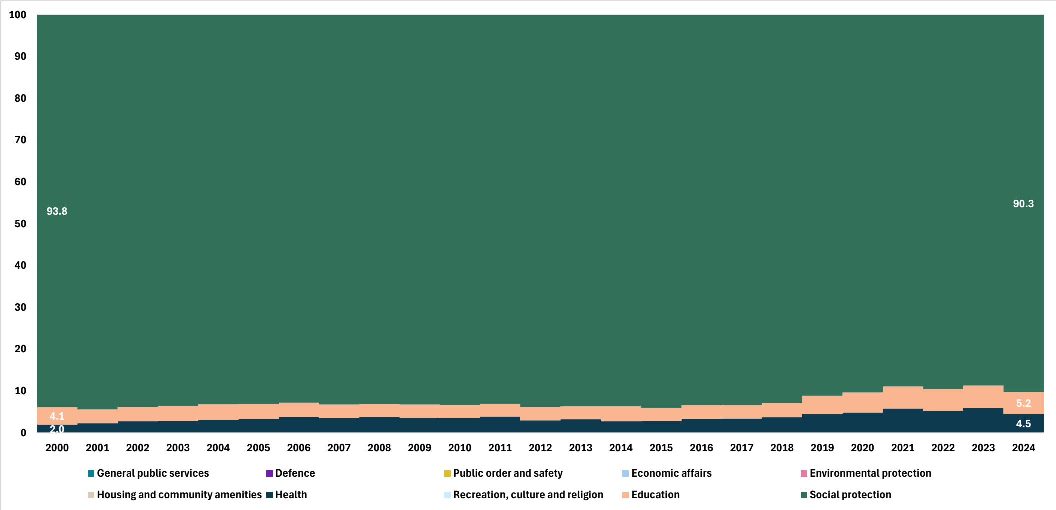


Source: NSO, Eurostat

Social payments, which amounted to €1,830.4 million in 2024, are almost entirely concentrated within the social protection COFOG category. This represents a level that is 3.6 times the initial level in 2000, of €515.0 million (see Chart 9).

Chart 9: Social payments – shares among COFOG divisions

(%)



Source: NSO, Eurostat

Interest expenditure represents a relatively smaller proportion of total expenditure, with the share declining from around 10% in 2000 to around 3% of total expenditure at the end of the period. Declines were also the case in absolute terms. Indeed, interest expenditure declined from €235.0 million in 2014 to €163.7 million in 2022 but increased abruptly in 2023 and 2024 to €266.5 million.

Despite increasing substantially in absolute terms, the share of compensation of employees and social protection from total expenditure, when aggregated, decreased from 60.6% of total expenditure in 2000 to 47.0% in 2024. When including interest expenditure, the disparity in the share increases, from 70.7% in 2000 to 50.1% in 2024. This suggests that the share of these relatively more rigid expenditures has declined, with other expenditure categories increasing at a faster rate of growth.

3.6.2 Operational expenditure

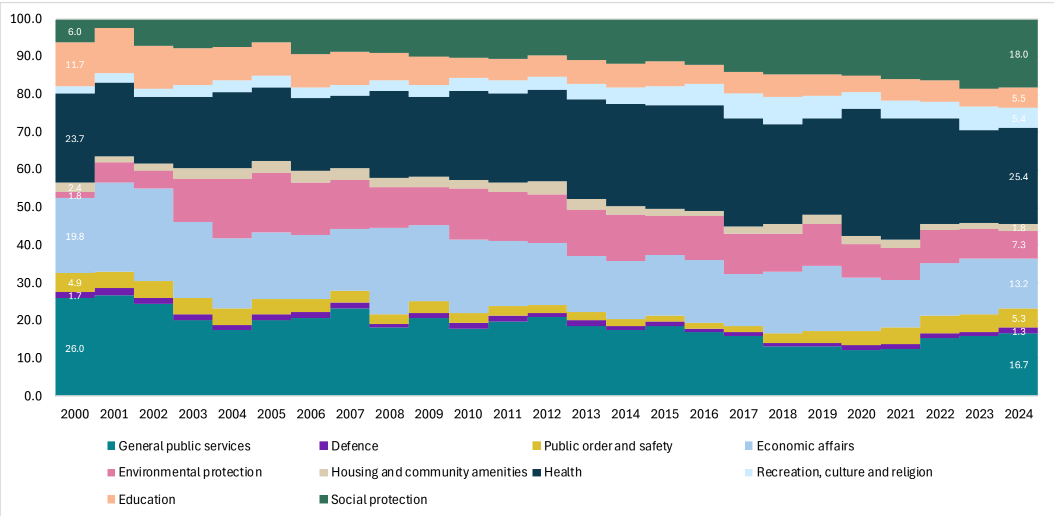
Operational expenditure is primarily captured by intermediate consumption, which includes spending on goods and services required for the day-to-day provision of public services.

The functional distribution of intermediate consumption points to a gradual shift towards social sectors, particularly health and social protection. At the beginning of the period, intermediate consumption was concentrated in general public services, health and economic affairs. By 2024, however, health (25.4%), social protection (18.0%) and general public services (16.7%) accounted for the largest shares (see Chart 10). Some variation is indeed observed over time, but changes across COFOG have overall been gradual over time.

Despite listed as operational expenditure, some elements within intermediate consumption are still relatively rigid, such as contracted out services which includes cleaning, security and some healthcare services, amongst others. It also includes contracts in relation to intermediary supplies. The share of intermediate consumption from total expenditure increased from 12.2% in 2000 to 19.8% in 2024, highlighting the increased cost and portion of operational expenditure within the governments budget. While necessary to maintain existing services, growth in operational expenses should be matched with improvements in output to maintain efficiency.

Chart 10: Intermediate consumption – shares among COFOG divisions

(%)



Source: NSO, Eurostat

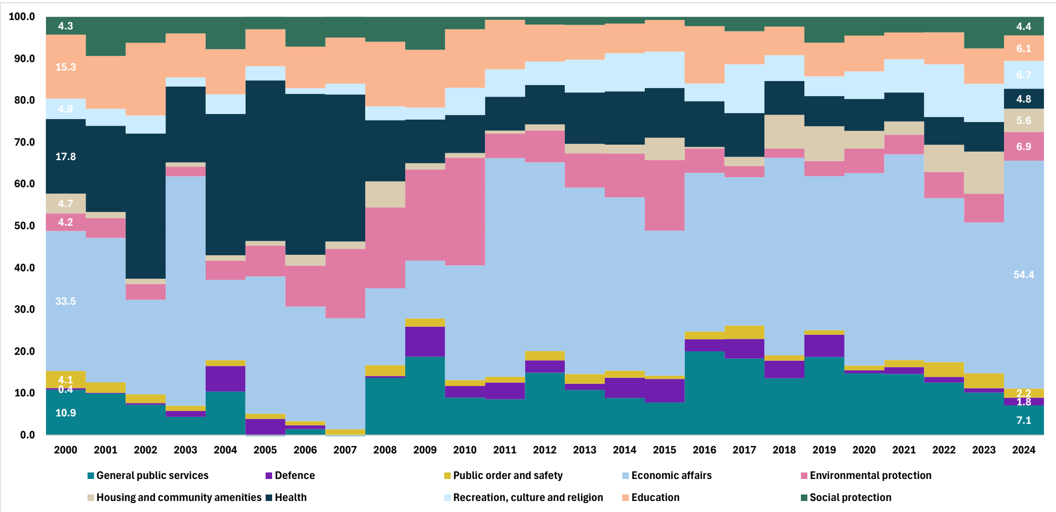
3.6.3 Discretionary expenditure

Discretionary expenditure is being portrayed as capital expenditure and ‘other expenditure’. These tend to be more closely linked to policy choices and discretionary interventions.

Capital expenditure, which finances investment in infrastructure and other fixed assets, exhibited significant variation over time (see Chart 11). The variability across COFOG items corroborates the discretionary nature of this component. In the early part of the period, substantial investment was directed towards the health sector, particularly in connection with the construction of Mater Dei Hospital. Since 2011, however, economic affairs have accounted for the largest share of capital expenditure, largely reflecting sustained investment in transport infrastructure. In fact, transport accounted on average for around half of the economic affairs component, with its share increasing to close to 60% since 2018. More recently, the distribution of capital expenditure was also influenced by large one-off capital transfers, primarily in the form of investment grants.

Chart 11: Capital expenditure – shares among COFOG divisions

(%)

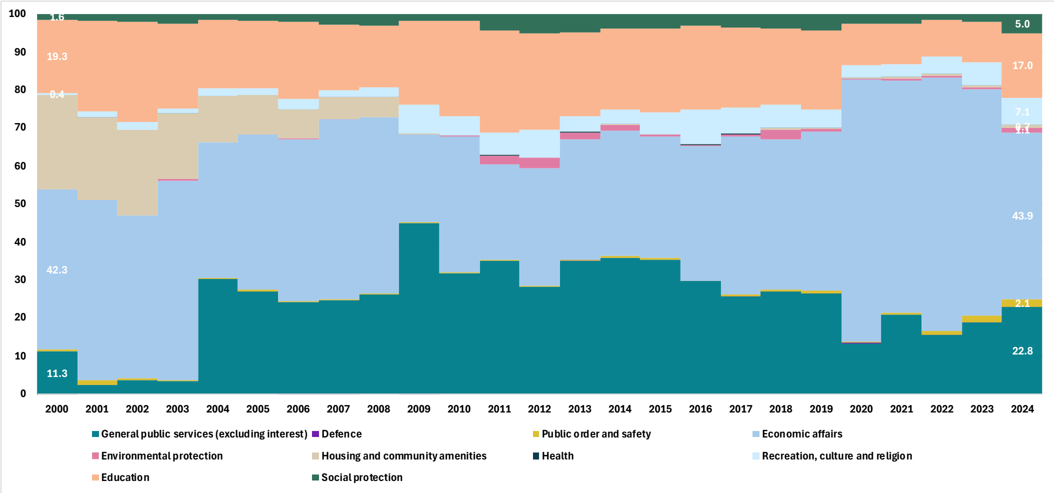


Source: NSO, Eurostat

Other expenditure consists mainly of other current transfers, interest payments, and subsidies. The relative share of economic affairs experienced a significant increase from 2020 onwards due to the introduction of subsidies aimed at mitigating the economic effects of the pandemic and from 2022, to cushion the impact of rising energy prices (see Chart 12). Other large shares reflect administrative and other general public services, while in education, this mostly reflects transfers to other educational non-government institutions.

Chart 12: Other expenditure – shares among COFOG divisions

(%)



Note: Interest payments are excluded from 'other expenditure' in this section

Source: NSO, Eurostat

From a fiscal perspective, the discretionary nature of capital expenditure and subsidy policies provides governments with some flexibility in adjusting spending priorities. However, a well-established body of research finds that expenditure-based consolidations tend to be more lasting and growth-friendly than those driven by cuts in public investment (de Mello and Jalles, 2025).[11] Despite that subsidies are often discretionary when initially implemented, they can eventually become of a permanent nature, particularly when committed politically.[12]

3.6.4 Expenditure by category

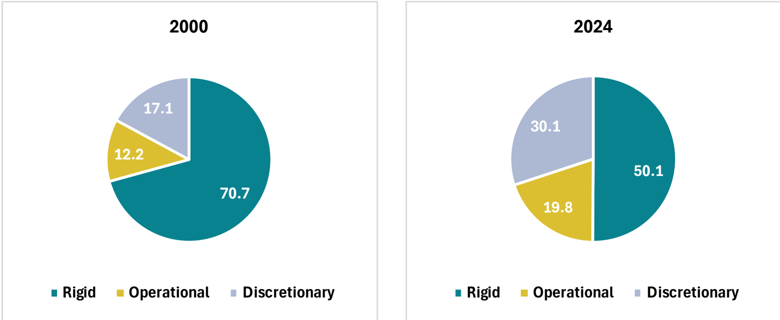
Using the categorisation within this section, expenditures listed as discretionary and operational gained share within the total expenditure budget, over the 25-year period (see Chart 13).

[11] de Mello, L. and Jalles, J.T. (2026), *Turning the fiscal tanker: The role of spending rigidity in adjustment*, REM Working Paper No. 0407-2026, Universidade de Lisboa (ISEG).

[12] For example, Mattina and Gunnarsson (2007), considered subsidies in Slovenia as being rigid to short-term expenditure adjustment, along with social benefits and employee compensation.
Source: Mattina, T. D., & Gunnarsson, V. (2007). *Budget rigidity and expenditure efficiency in Slovenia* (IMF Working Paper No. 07/131). International Monetary Fund.

Chart 13: Shares in rigid, operational and discretionary expenditure

(% of total expenditure)



Source: NSO, Eurostat

This is consistent with previous findings within this Chapter. The decrease in the share of components considered as rigid coincides with the increased share of COFOG categories such as economic affairs within the share of 'capital expenditure' and 'other expenditure'. This accentuates the increased role of subsidies and other relatively more flexible expenditures. On the other hand, despite listed as operational, intermediate consumption also includes a large share that is less amenable to adjustment, particularly in the case of outsourced contracts, operational demands, and the purchase of necessary recurrent goods and services. The share of operational spending in total expenditure did however increase by 7.6 pp over the period analysed.

It is noteworthy that as indicated for certain categories in the previous sub-sections, this analysis provides a very broad overview of components that are clearly identified as rigid components vis-à-vis other more discretionary components. However, expenditure items falling within the latter categories may still contain elements that are relatively rigid in practice. Accordingly, the classification should be interpreted as indicative and stylised rather than definitive. Future research could further refine the delineation of expenditure items across these categories.

3.7 Discussion

The analysis presented in this chapter highlights several structural features of Malta's public expenditure that are of relevance to the assessment of fiscal sustainability.

First, a significant share of government spending is concentrated in social sectors such as social protection, health and education, which accounted for 52.1% of total expenditure in 2024. These sectors are generally associated with relatively high levels of institutional rigidity. Expenditure in these areas is often driven by demographic developments, entitlement-based programmes and long-term policy commitments. As a result, these categories typically exhibit limited short-term flexibility and may be less amenable to rapid adjustment in response to fiscal pressures. Despite accounting for a major share of expenditure, the share of these social sectors within total expenditure declined marginally by 3.4 pp since 2000.

Second, the increasing weight of health and social protection within compensation of employees and operational spending is consistent with a gradual expansion of recurrent expenditure commitments. While these developments reflect evolving service demands, they may also be associated with persistent expenditure pressures over the medium-term, particularly in the case of intermediate consumption.

Third, the analysis indicates that capital expenditure and most spending within the economic affairs COFOG function remain more discretionary in nature, insofar as they are more likely to be shaped by budgetary decisions, public investment planning, and support measures, including subsidies. While this provides governments with some flexibility in adjusting expenditure composition, it may also contribute to greater volatility in expenditure patterns, particularly where investment decisions involve large project-based spending or one-off transfers. Subsidies are often discretionary when initially implemented, however, some may over time take on a more recurrent nature.

Fourth, when classifying fiscal expenditure components broadly into rigid, operational and discretionary, the latter two increased their share of total expenditure over the years. This indicates that they grew more rapidly than components classified here as more rigid, namely compensation of employees, social payments and interest expenditure.

3.8 Conclusion

This chapter examined the evolution and composition of general government expenditure in Malta over the period 2000–2024 using the COFOG classification. The analysis highlighted the main stylised facts underlying expenditure developments, the structural differences between Malta and the EU, and the factors driving changes in the allocation of public spending across government functions.

The analysis of expenditure by fiscal components shows that a large share of public spending is directed towards 'social' COFOG categories that include health, education and social protection (52.1% of total expenditure in 2024). The allocations towards these social, typically more rigid functions, which are generally linked to demographic developments and service demands, were particularly prominent in compensation of employees and intermediate consumption.

A decomposition analysis was used to disentangle the change in the level of expenditure by COFOG, whether increasing in line with economic growth (scale), by the change in the overall size of government relative to GDP, and by structural shifts in expenditure allocation across the COFOG categories (compositional effect). The size of government relative to GDP declined over the period considered, thus having a comparatively limited role in the change by COFOG. The analysis identified several structural shifts in expenditure allocation, with functions such as economic affairs, health, environmental protection, and 'recreation, culture and religion' gaining relative importance within the government budget.

The chapter also highlighted differences in the structure of government spending between Malta and the EU. In particular, Malta allocates a lower share of expenditure to social protection, which is mostly offset by a higher share allocated to economic affairs. Malta's orientation of government spending became more concentrated towards economic affairs, particularly over the last decade under review. Within this function, increased expenditure was recorded in subsidies and capital expenditure over time.

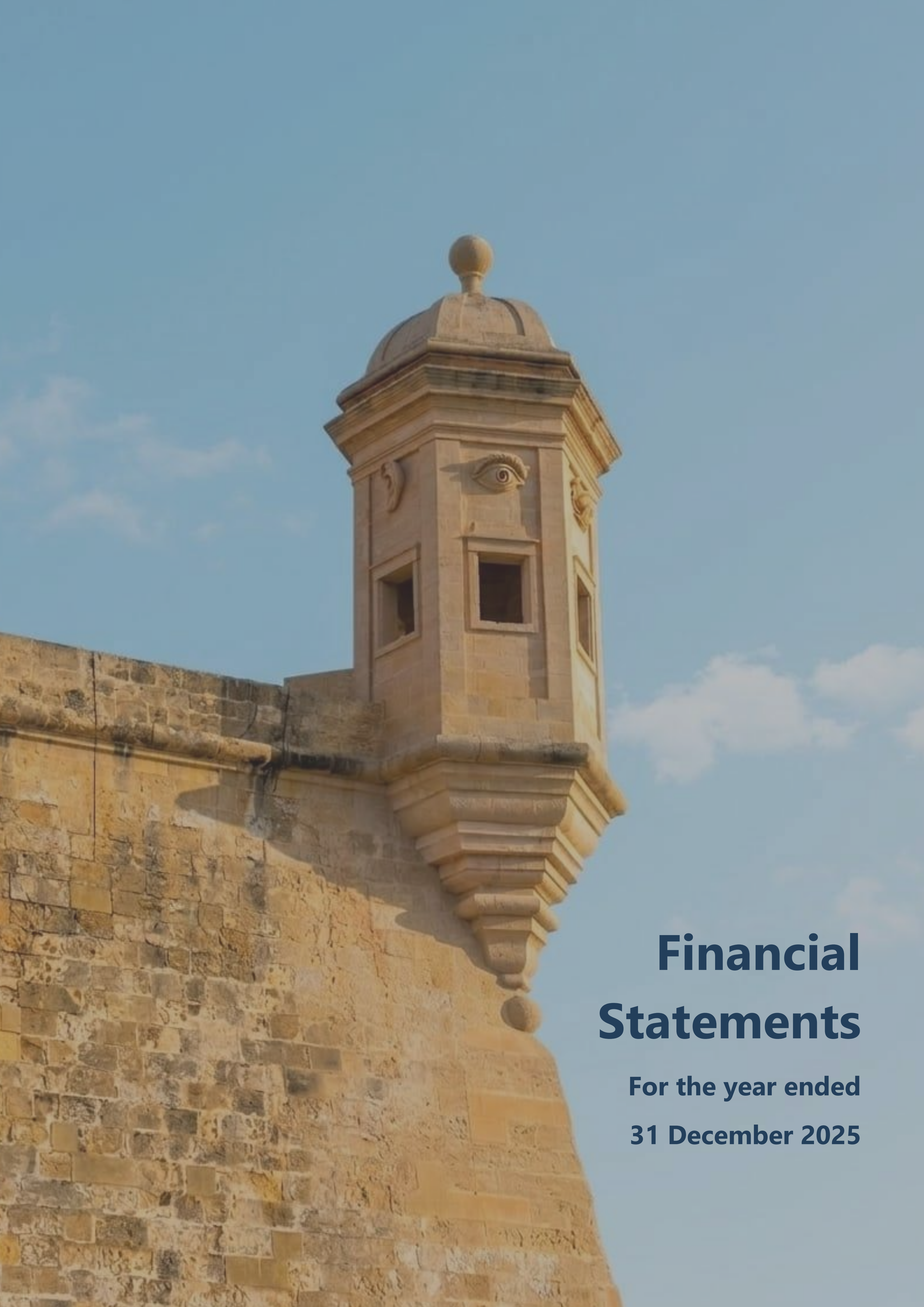
By means of a broad categorisation of expenditure into rigid, operational and discretionary components, the analysis portrayed the increased importance of the latter two categorisations as a share of expenditure over time. This classification also suggest that a growing share of expenditure was accounted for by components considered operational or discretionary within the framework adopted in this Chapter. In the case of operational expenditure, sustained growth may warrant continued attention to the relationship between resource use and service delivery outcomes. The higher share of discretionary expenditure is consistent with the observed increase in expenditure items that are comparatively more flexible within this broad classification. Volatility across each expenditure component by COFOG function over time was clearly visible in capital expenditure, both due to volatility in gross capital formation across COFOG categories and the recently high expenditures related to capital transfers.

Overall, understanding the drivers and composition of government expenditure remains important for assessing how changes in expenditure materialised over time, and how allocations towards different functions of expenditure have shifted depending on economic circumstances and policy priorities. Monitoring how expenditure evolves across both functional and economic classifications can provide valuable insights for fiscal policy design and medium-term budget planning. Less rigidity amongst expenditure allocations can provide more room for fiscal manoeuvre if needed. At the same time, it may also introduce volatility in expenditure patterns, particularly when decisions involve large project-based spending or one-off transfers. This is particularly relevant in view of the new EU economic governance framework, which focuses on limiting expenditure growth. In this context, preserving the quality and composition of expenditure remains important, particularly with regard to investment spending.

Appendix B

Government broad objective (division)	Sub-items (groups)
General public services	Executive and legislative organs, financial and fiscal affairs, and external affairs; foreign economic aid; general services; basic research; R&D related to general public services; general public services n.e.c.; public debt transactions; transfers of a general character between different levels of government.
Defence	Military defence; civil defence; foreign military aid; R&D related to defence; defence n.e.c.
Public order and safety	Police services; fire-protection services; law courts; prisons; R&D related to public order and safety; public order and safety n.e.c.
Economic affairs	General economic, commercial and labour affairs; agriculture, forestry, fishing and hunting; fuel and energy; mining, manufacturing and construction; transport; communication; other industries; R&D related to economic affairs; economic affairs n.e.c.
Environmental protection	Waste management; wastewater management; pollution abatement; protection of biodiversity and landscape; R&D related to environmental protection; environmental protection n.e.c.
Housing and community amenities	Housing development; community development; water supply; street lighting; R&D related to housing and community amenities; housing and community amenities n.e.c.
Health	Medical products, appliances and equipment; outpatient services; hospital services; public health services; R&D related to health; health n.e.c.
Recreation, culture and religion	Recreational and sporting services; cultural services; broadcasting and publishing services; religious and other community services; R&D related to recreation,

	culture and religion; recreation, culture and religion n.e.c.
Education	Pre-primary and primary education; secondary education; post-secondary non-tertiary education; tertiary education; education not definable by level; subsidiary services to education; R&D related to education; education n.e.c.
Social protection	Sickness and disability; old age; survivors; family and children; unemployment; housing; social exclusion n.e.c.; R&D related to social protection; Social protection n.e.c.



Financial Statements

For the year ended

31 December 2025

MALTA FISCAL ADVISORY COUNCIL

Annual Report and Financial Statements

31 December 2025

CONTENTS

Report of the Council Members

The Members of the Council present the annual report and the audited financial statements of the Malta Fiscal Advisory Council (the "Council") for the year ended 31 December 2025.

Principal Activity

The Malta Fiscal Advisory Council ("the Council") was established by the Minister for Finance with effect from 1 January 2015 in terms of the Fiscal Responsibility Act, 2014, Cap 534 (the "Act"). The Council's aim is to review and assess the extent to which the fiscal and economic policy objectives proposed by the Government are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy. The Council is independent in the performance of its functions.

Performance Review

The Council received €307,000 in Government Subvention during the year ended 31 December 2025 (2024: €300,000) in terms of the Fiscal Responsibility Act and incurred €312,436 in expenditure (2024: €319,327). The Council registered a deficit of €2,553 for the year ended 31 December 2025 (2024: €18,618) as shown in the statement of comprehensive income on page 9.

Going concern

The Council registered a deficit of €2,553 during the year under review, which has been financed by the accumulated surplus. Nonetheless, the Council anticipates that current services will continue to be provided with full support from the Government of Malta. For this reason, the Council does not foresee a significant impact on its operational performance. Therefore, the financial statements have been prepared on the going concern basis which assumes that the Council will continue in operational existence for the foreseeable future and that adequate support will continue to be made available by the Government through the subventions to enable the Council to meet its commitments as and when they fall due.

Future Developments

The Council is not envisaging to change its principal activity.

Council Members

In accordance with the Fiscal Responsibility Act, the Council shall consist of the Chairperson and two other members.

The Council constitutes of the following members:

Dr. Moira Catania — Chairperson
Prof. Stephanie Fabri — Council Member
Dr. Stephanie Vella — Council Member

Statement of Responsibilities of the Council

The Council members are required to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Council at the end of the financial year and of the income and expenditure of the Council for that year.

Report of the Council Members - *continued*

Statement of Responsibilities of the Council- *continued*

In preparing these financial statements, the Council members are required to: -

- Adopt the going concern basis, unless it is inappropriate to presume that the Council will continue in business;
- Select suitable accounting policies and apply them consistently from one accounting year to another;
- Make judgement and estimates that are reasonable and prudent;
- Account for income and charges relative to the accounting year on the accrual's basis; and
- Value separately the components of assets and liability items on a prudent basis.

The Council Members are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time. the financial position of the Council and to enable them to ensure that the financial statements have been properly prepared. The Council Members are also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to the Auditors

So far as the Council Members are aware. all relevant information has been brought to the attention of the Council's Auditors.

Auditors

CLA Malta, Registered Auditors, have intimated their willingness to continue in office.

Approved by the Council and signed on 26 March 2026 by:

Dr. Moira Catania
Chairperson

Prof. Stephanie Fabri
Council member

Dr. Stephanie Vella
Council member

INDEPENDENT AUDITORS' REPORT

To the Malta Fiscal Advisory Council

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements (the "financial statements") of Malta Fiscal Advisory Council (the "Council"):

- Give a true and fair view of the financial position of the Council as at 31 December 2025, and of its financial performance and its cashflows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs'); and
- Have been prepared in accordance with the requirements of the Fiscal Responsibility Act, 2014, Cap 534 (the "Act").

What we have audited

The Council's financial statements, which comprise:

- the statement of financial position as at 31 December 2025;
- the statement of profit or loss & other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include material accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities* for the *Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Other information

The Council Members are responsible for the other information. The other information comprises of The Report of the Council members but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Council for the financial statements

The Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs and are properly prepared in accordance with the provisions of the Act and for such internal control as the Council Member determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether to due to fraud or error.

In preparing the financial statements the Council Members are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council Members either intend to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

The Council Members are also responsible for overseeing the financial reporting process.

Auditors' responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls.

Auditors' responsibility for the audit of the financial statements – continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council Members.

- Conclude on the appropriateness of the Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Council Members to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matter

The financial statements of Malta Fiscal Advisory Council for the year ended 31 December 2024, were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2025.

The Principal authorised to sign on behalf of CLA Malta on the audit resulting in this independent auditors' report is Brian Farrugia.

CLA Malta
Registered Auditors

26 March 2026

Statement of financial position

	Note	As at 31 December 2025 €	2024 €
ASSETS			
Non-current assets			
Intangible assets	6	**-**	-
Property plant and equipment	7	**8,058**	7,027
Total non-current assets		**8,058**	**7,027**
Current assets			
Other receivables	8	**574**	574
Cash and cash equivalents	9	**262,857**	287,026
Total current assets		**263,431**	287,600
Total assets		**271,489**	294,627
CAPITAL AND LIABILITIES			
Accumulated funds	10	**243,023**	245,576
Current liabilities			
Trade and other payables	11	**28,466**	49,051
Total capital and liabilities		**271,489**	294,627

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 8 to 23 were authorised for issue by the Malta Fiscal Advisory Council on 26 March 2026 and were signed on its behalf by:

Moira Catania

Dr. Moira Catania
Chairperson

Prof. Stephanie Fabri
Council member

Dr. Stephanie Vella
Council member

Statement of profit or loss & other comprehensive income

	Note	Year ended 31 December	
		2025	2024
		€	€
Income	12	**307,000**	300,000
Administrative expenses	13	**(312,436)**	(319,327)
Other income		**2,883**	709
Deficit for the year		**(2,553)**	(18,618)

The accompanying notes form an integral part of these financial statements.

Statement of changes in accumulated funds

	Accumulated funds €
As at 1 January 2025	245,576
Deficit for the year	(2,553)
As at 31 December 2025	**243,023**
As at 1 January 2024	264,194
Deficit for the year	(18,618)
As at 31 December 2024	**245,576**

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

	Note	2025	2024
		€	€
Cash flow from operating activities			
Deficit for the year		**(2,553)**	(18,618)
Adjustments for:			
Depreciation		**2,872**	1,992
Movement in working capital for:			
Trade and other payables		**(20,584)**	26,780
Net cash (used in)/generated from operating		**(20,265)**	10,154
Cash flow from investing activities			
Acquisition of property, plant and equipment		**(3,903)**	(809)
Net cash used in investing activities		**(3,903)**	(809)
Movement in cash and cash equivalents		**(24,168)**	9,435
Cash and cash equivalents at the beginning of the year		**287,026**	277,680
Cash and cash equivalents at the end of the year	9	**262,857**	287,026

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1 Basis of preparation

1.1 Basis of measurement and statement of compliance

These financial statements of Malta Fiscal Advisory Council (the 'Council') have been prepared and presented in accordance with the International Financial Reporting Standards as adopted by the EU ("IFRSs") and with the requirements of the Fiscal Responsibility Act, 2014, Cap 534 (the "Act").

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the Council Members to exercise their judgement in the process of applying the Council's accounting policies (Note 4 - Critical accounting estimates and judgements).

These financial statements have been prepared under the historical cost convention.

1.2 Functional and presentation currency

The financial statements are presented in Euro (€), which is the Council's functional currency.

2 Summary of material accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Council at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognised in profit or loss.

2.2 Property, plant and equipment

Property, plant and equipment are initially recorded at historical cost. Property, plant and equipment are subsequently stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are changed to profit or loss during the financial period in which they are incurred.

2 Summary of material accounting policies - continued

2.2 Property, plant and equipment - continued

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Fixtures and fittings	10
Computer and office equipment	25
Library books	10
Air conditioners	16.67

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss.

2.3 Impairment of non-financial assets

Assets that are subject for depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period.

2.4 Financial instruments

2.4.1 Recognition and initial measurement

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

2 Summary of material accounting policies - continued

2.4 Financial instruments - continued

2.4.2 Classification and subsequent measurement

(i) Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Council changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Financial liabilities – Subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

2.4.3 Derecognition

(i) Financial assets

The Council derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - the Council neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Council enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

2 Summary of material accounting policies - continued

2.4 Financial instruments - continued

2.4.4 Derecognition – continued

(ii) Financial liabilities

The Council derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Council also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

2.4.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Council currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.5 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks.

2.6 Government subvention

Government grants are assistance by government, inter-governmental agencies and similar bodies whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to operating activities of the Council. Government grants are recognised when there is reasonable assurance that the Council will comply with the conditions attaching to them and the grants will be received. Grants related to assets are presented in the statement of financial position as deferred income, which is recognised as income on a systematic basis over the useful life of the asset.

2.7 Trade and other receivables

Three trade and other receivables compromise of other receivables which are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

2 Summary of material accounting policies - continued

2.8 Trade and other payables

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are stated at their nominal value unless the effect of discounting is material, in which case trade and other payables are measured at amortised cost using the effective interest method.

3 New or revised standards or interpretations

3.1 New standards, interpretations and amendments adopted from 1 January 2024

During the year ended 31 December 2024, the Council has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2024. Their adoption did not have any material impact on the disclosures or on the amounts reported in these financial statements.

a. **Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after 1 January 2024.

b. **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements**

On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The amendments also provide guidance on characteristics of supplier finance arrangements.

3.2 New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Council has decided not to adopt early.

The following amendments are effective for the annual reporting period beginning 1 January 2025:

- Lack of Exchangeability (Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates);

3 New or revised standards or interpretations – continued

3.2 New standards, interpretations and amendments not yet effective - continued

The following amendments are expected to be effective for the annual reporting period beginning 1 January 2026 (following the EU endorsement process):

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 Financial Instruments and IFRS 7)
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS7)
- Annual Improvements Volume 11 (issued on 18 July 2024)

The following standards and amendments are expected to be effective for the annual reporting period beginning 1 January 2027 (following the EU endorsement process):

- IFRS 18 Presentation and Disclosure in Financial Statements
- IFRS 19 Subsidiaries without Public Accountability: Disclosures

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Council Members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

5 Financial risk factors

The Council is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Council's risk management is coordinated by the Council Members and focuses on actively securing the Council's short to medium term cash flows by minimising the exposure to financial risk.

(a) Market risk

(i) *Interest rate risk*

The Council is not exposed to interest risk on its financial assets and liabilities since these do not bear any interest.

(ii) Foreign currency risk

The Council is not significantly exposed to foreign currency risk since mainly its transactions are carried out in Euro.

5 Financial risk factors - continued

(b) Credit risk

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting year.

As at statement of financial position date, the Council have significant financial assets, as follows:

	Note	**2025**	2024
		€	€
Other receivables	8	**574**	574
Cash in bank	9	**262,857**	287,026
		263,431	287,600

(i) Cash and cash equivalents

The Council's cash and cash equivalents are held with local financial institutions with high quality standing or rating and are held on demand. The Council Members consider the probability of default to be close to zero as the financial institutions have a strong capacity to meet their contractual obligations in the near term.

As a result, while cash and cash equivalents are subject to the impairment requirements of IFRS 9, the identified impairment loss is insignificant in view of the demand deposits that have no fixed maturity and can be withdrawn by the Council on very short notice.

(ii) Trade and other receivables

The Council monitors the performance of its receivables on a regular basis to identify incurred collection losses, which are inherent in the Council's trade receivables, taking into account historical experience in collection of accounts receivable. The credit quality of the trade receivables, which are not impaired or past due financial assets, reflects the nature of these assets which are principally debts in respect of transactions with counterparties for whom there is no history of default. Management does not expect any losses from non-performance of these parties.

The Council applies the IFRS 9 simplified approach to measure expected credit losses which uses lifetime expected credit loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The Council uses judgement in estimating the expected credit losses. Credit loss allowance include specific provisions against credit impaired individuals exposures with the amount of provisions being equivalent to the balances attributable to credit impaired receivables. Provisions for impairment of credit impaired balances with corporate customers related to entities which are in adverse trading and operational circumstances. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Council does not hold collateral as security in respect of credit impaired assets. The movements in credit loss allowances of these receivables are disclosed separately in surplus or deficit.

5 Financial risk factors - Continued

(b) Credit risk – continued

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Council. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating surplus. Subsequent recoveries of amounts written off are credited against the same line item. The credit risk on the amounts due from related parties is considered to be limited in view that these are dues from Government agencies.

(c) Liquidity risk

The Council is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally of the trade and other payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Council's obligations.

The Council Members monitor liquidity risk by reviewing expected cash flows and ensures that no additional financing facilities are expected to be required over the coming year. The Council's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments. In this respect the Council Members do not consider liquidity risk to the Council as significant taking into account the liquidity management process referred to above.

Financial liabilities consist of:

	2025	2024
	€	€
Trade payables	**1,500**	8,710
Accruals	**26,966**	40,341
	28,466	49,051

All financial liabilities are due on demand.

6 Intangible assets

The council has a computer software, amounting to €4,053, which was fully amortised in 2019.

7 Property, plant and equipment

	Furniture & fittings €	Computer and Office Equipment €	Library Books €	Air Conditioner €	Totals €
Cost					
As at 1 January 2024	9,190	13,488	1,091	1,130	24,899
Additions	-	809	-	-	809
As at 31 December 2024	9,190	14,297	1,091	1,130	25,708
As at 1 January 2025	9,190	14,297	1,091	1,130	25,708
Additions	-	3,903	-	-	3,903
As at 31 December 2025	**9,190**	**18,200**	**1,091**	**1,130**	**29,611**
Depreciation					
As at 1 January 2024	2,867	11,810	882	1,130	16,689
Charge for the year	919	964	109	-	1,992
As at 31 December 2024	3,786	12,774	991	1,130	18,681
As at 1 January 2025	3,786	12,774	991	1,130	18,681
Charge for the year	860	1,939	73	-	2,872
As at 31 December 2025	**4,646**	**14,713**	**1,064**	**1,130**	**21,553**
NBV as at 31 December 2025	**4,544**	**3,487**	**27**	**-**	**8,058**
NBV as at 31 December 2024	5,404	1,523	100	-	7,027

8 Other receivables

	2025	2024
	€	€
Other receivables	**574**	574

9 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2025	2024
	€	€
Cash at bank	**262,857**	287,026

10 Accumulated Reserve – Recurrent Vote and operating activities

The recurrent vote and operating activities represent the accumulated surplus resulting from operations.

11 Trade and other payables

	2025	2024
	€	€
Trade payables	**1,500**	8,710
Accruals	**26,966**	40,341
	28,466	49,051

12 Income

Income represents the subvention voted to the Council by the Government of Malta and is analysed as follows:

	2025	2024
	€	€
Government subvention	**307,000**	300,000

The Government subvention as per Article 55 sub-articles (2), (4a) and (4b) of the Fiscal Responsibility Act amounts to not less than €250,000 annually and increases by the Index of Inflation as established and published by the National Statistics Office in each subsequent year.

13 Administrative expenses

	2025	2024
	€	€
Salaries and social security costs (note 15)	**227,926**	236,675
Council Honoraria (note 14)	**42,000**	42,000
Audit fees	**1,682**	1,475
Professional fees	**1,050**	1,510
Bank charges	**572**	456
Insurance	**1,342**	1,264
Subscriptions	**9,055**	5,602
Training and travelling costs	**5,265**	6,324
General office expenses	**5,279**	2,956
Depreciation (note 7)	**2,872**	1,992
Per diem allowance	**7,826**	-
Telecommunications	**4,868**	5,617
Printing and stationery	**1,550**	1,533
Marketing and advertising	**889**	120
Other	**260**	11,803
	312,436	319,327

14 Council Honoraria

	2025	2024
	€	€
Honoraria	**42,000**	42,000
Number of council members	**3**	**3**

15 Salaries and social security costs

	2025	2024
	€	€
Wages and salaries	**213,556**	220,785
Social security costs	**14,370**	15,890
	227,926	236,675

The number of persons excluding directors employed as at the end of the year was 6 (2024:5).

16 Taxation

The income of the council is exempt from the tax in pursuant to Article 12(2) of the Income Tax Act Cap. 123 of the Laws of Malta.

17 Related party transactions

The Malta Fiscal Advisory Council is an independent fiscal institution and submits its annual report to Parliament on an annual basis. The Council Members are appointed by the Government of Malta. In terms of the Fiscal Responsibility Act, 2014, Cap 534 (the "Act"), Council Members will not seek or receive instructions from public authorities or from any other institution or council.

	2025	2024
	€	€
Transactions with related parties:		
Government subvention	**307,000**	300,000
Honoraria	**42,000**	42,000

18 Contingencies

At year end, the Council had no contingent liabilities.

19 Other information

The Malta Fiscal Advisory Council is an independent fiscal institution. The Council Members are appointed by the Government of Malta. The registered office is MFAC, Level -1, New Street in Regional Road, Msida.

Malta Fiscal Advisory Council
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