



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



# CENTRAL BANK OF MALTA OUTLOOK FOR THE MALTESE ECONOMY

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2025:2

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*The Bank's projections for the Maltese economy take into account the ECB technical assumptions transmitted on 16 May 2025 and have a cut-off date of 19 May 2025. Figures in tables may not add up due to rounding.*

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## OUTLOOK FOR THE MALTESE ECONOMY 2025-2027

### Overview<sup>1,2</sup>

Economic activity in Malta remained buoyant during 2024. High-frequency data suggest that economic activity remains resilient in the first months of 2025 despite the uncertain external environment, especially due to US tariff policy. Indeed, the Bank's Business Conditions Index is consistent with growth that is slightly above its historical average.

Nevertheless, economic growth is expected to moderate from the very high rates experienced in the last four years amid a weakening global outlook and elevated uncertainty, broadly converging to potential output growth by the end of the projection horizon.

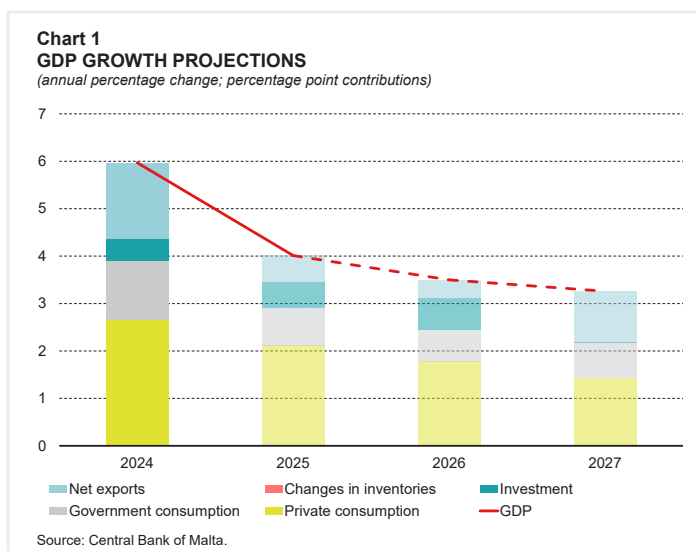
At the same time, the disinflationary process has gathered pace, with the annual rate of change of the Harmonised Index of Consumer Prices (HICP) averaging 2.1% during the first four months of this year. Inflation is expected to hover in a narrow range around the ECB's 2% inflation target. This, together with the recently enacted widening of the income tax bands, will boost real disposable income growth, which should remain robust and support private consumption.

These projections include a preliminary assessment of the impact of US tariff rates on the Maltese GDP growth and inflation, under the assumption, inter-alia, of 10% tariff on EU goods exports to the United States without retaliation (see Box 1).

### Economic outlook

According to the Bank's latest forecasts, Malta's real GDP growth is set to ease from 6.0% in 2024 to 4.0% in 2025 (see Table 1). Growth is set to moderate further in the following two years, reaching 3.3% in 2027. Compared to the Bank's previous projections, the outlook for GDP growth is broadly unchanged as some additional minor downward revisions related to the effects of additional US tariffs are counterbalanced by a reassessment of government consumption and investment growth.

Over the projection horizon, domestic demand is expected to be the main driver of growth (see Chart 1). The latter is expected to be led by private consumption, which is projected to continue to grow at a brisk pace, while investment should also continue to recover. Overall investment is expected to have no contribution to growth in the outer year as the positive contribution from private investment is expected to be offset by the negative contribution from government investment. The



<sup>1</sup> The Bank's projections for the Maltese economy take into account the ECB technical assumptions transmitted on 16 May 2025 and have a cut-off date of 19 May 2025. The GDP release for the first quarter of 2025, published on 29 May, as well as the May flash release of the HICP, published on 3 June, have not been taken into account.

<sup>2</sup> See [Outlook for the Maltese Economy 2025:1](#).

**Table 1****PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA<sup>(1)</sup>**

|  | 2024 <sup>(2)</sup> | 2025 | 2026 | 2027 |
|--|---------------------|------|------|------|
| <b>Real economic activity (% change)</b>                   |                     |      |      |      |
| GDP  | 6.0                 | 4.0  | 3.5  | 3.3  |
| Private consumption expenditure                            | 5.7                 | 4.5  | 3.8  | 3.1  |
| Government consumption expenditure                         | 7.3                 | 4.6  | 3.9  | 4.2  |
| Gross fixed capital formation                              | 2.4                 | 3.0  | 3.8  | 0.0  |
| Exports of goods and services                              | 5.3                 | 3.8  | 3.6  | 3.6  |
| Imports of goods and services                              | 4.7                 | 3.9  | 3.8  | 3.2  |
| <b>Contribution to real GDP growth (in percentage pts)</b> |                     |      |      |      |
| Final domestic demand                                      | 4.4                 | 3.4  | 3.1  | 2.2  |
| Net exports  | 1.6                 | 0.6  | 0.4  | 1.1  |
| Changes in inventories                                     | 0.0                 | 0.0  | 0.0  | 0.0  |
| <b>Balance of payments (% of GDP)</b>                      |                     |      |      |      |
| Goods and services balance                                 | 19.5                | 19.5 | 19.4 | 20.1 |
| Current account balance                                    | 5.7                 | 5.5  | 5.4  | 5.4  |
| <b>Labour market (% change)<sup>(3)</sup></b>              |                     |      |      |      |
| Total employment   | 5.1                 | 2.8  | 2.4  | 2.3  |
| Unemployment rate (% of labour supply)                     | 3.1                 | 3.0  | 3.0  | 3.0  |
| <b>Real disposable income</b>                              | 4.4                 | 5.7  | 3.6  | 2.7  |
| <b>Household saving ratio<sup>(4)</sup></b>                | 11.6                | 12.6 | 12.4 | 12.1 |
| <b>Prices and costs (% change)</b>                         |                     |      |      |      |
| GDP deflator   | 3.2                 | 2.6  | 2.4  | 2.3  |
| RPI  | 1.7                 | 2.0  | 1.9  | 1.8  |
| Overall HICP   | 2.4                 | 2.3  | 2.1  | 2.0  |
| HICP excluding energy                                      | 2.6                 | 2.4  | 2.2  | 2.2  |
| Compensation per employee                                  | 5.9                 | 4.4  | 3.6  | 3.5  |
| ULC  | 5.0                 | 3.2  | 2.5  | 2.6  |
| <b>Business cycle</b>                                      |                     |      |      |      |
| Potential output (% change)                                | 5.4                 | 4.2  | 4.0  | 3.7  |
| Output gap (% of GDP)                                      | 1.1                 | 0.9  | 0.4  | 0.0  |
| <b>Technical assumptions</b>                               |                     |      |      |      |
| EUR/USD exchange rate                                      | 1.08                | 1.11 | 1.13 | 1.13 |
| Oil price (USD per barrel)                                 | 82.0                | 66.7 | 62.8 | 64.2 |

Sources: NSO; Central Bank of Malta.

<sup>(1)</sup> Data on GDP were sourced from NSO *News Release* 035/2025 published on 27 February 2025, while RPI and HICP data were sourced, respectively, from NSO *News Releases* 071/2025 and 091/2025 (published on 23 April 2025 and 19 May 2025).

<sup>(2)</sup> Actual National Accounts data. BOP is Bank's projection.

<sup>(3)</sup> Employment data are consistent with the national accounts. The unemployment rate is based on the number of unemployed and employed as reported in the Labour Force Survey.

<sup>(4)</sup> The saving ratio for 2024 is a Central Bank of Malta projection as sectoral accounts data are available until 2023.

latter is mainly due to the profile of EU-funded investment, which is set to increase in 2026 but to drop in 2027 as projects financed by the Recovery and Resilience Facility (RRF) are completed.

Furthermore, net exports are projected to contribute positively to GDP growth over the forecast horizon, driven by trade in services. However, this contribution is set to be much smaller than that of domestic demand.

Private consumption growth is set to moderate to 4.5% this year, reflecting a moderation in disposable income growth and an expected continued normalisation in consumer demand following strong growth in recent years. Nevertheless, it is set to remain buoyant, as household disposable income will be supported by still favourable labour market conditions and the widening of the income tax bands. The latter adjustment will also contribute to some increase in the saving ratio this year, as higher income households with a lower average propensity to consume are expected to save some of the tax relief. In the following years, the saving ratio is envisaged to decline marginally but remain relatively elevated at 12.1% by 2027.

Real government consumption is set to grow at a slower rate of 4.6% in 2025, after having grown by 7.3% in 2024. Strong growth in 2024 reflected one-off payments on allowances due to newly signed collective agreements in the education sector and related arrears. Going forward, the impact of these one-off expenditures is partly offset by the impact of a collective agreement for the civil service, which becomes effective from 2025. Meanwhile, other elements of consumption expenditure, notably intermediate consumption, are set to grow at a declining pace. Overall, government consumption growth is set to decline to 3.9% in 2026 and to rise to 4.2% in 2027.

Overall investment is projected to rise at a faster rate of 3.0% in 2025 before it picks up further to 3.8% in 2026. Investment is projected to remain unchanged in the outer year, when government investment is projected to decline strongly.

Private investment began to recover in 2024. Growth is expected to remain positive in the forecast horizon, standing at 2.0% in 2025 and 3.1% and 3.2% in the outer years respectively. Growth in residential construction is expected to stand close to 2% this year and to be muted in the rest of the forecast horizon as investment outlays remain high from a historical perspective. Similarly, growth in non-dwelling private investment is expected to remain relatively contained during the projection horizon in view of the expected slowdown in economic activity.

Government investment is forecast to increase in 2025 and 2026, mostly due to a pick-up in EU-funded investment related to the RRF. Investment is then forecast to decline in 2027, as projects financed by the RRF are completed.

Export growth is set to moderate from 5.3% in 2024 to 3.8% in 2025 and edge down further to 3.6% in the outer years. Growth in services exports is expected to ease following an extended period of robust growth, while staying close to 4%. At the same time, goods exports are set to grow at a slower rate of 1.6% in 2025, after a 5.1% increase last year, partly reflecting the effect of US tariffs and expected developments in Malta's trading partners. Growth is then expected to increase slightly to just above 2% in the following two years. This reflects the recovery in Malta's foreign demand foreseen in the European Central Bank's (ECB) assumptions, though the latter is also envisaged to remain muted from a historical perspective.

Growth in imports is expected to moderate, falling from 4.7% in 2024 to 3.9% in 2025, before edging down to 3.8% and 3.2% in 2026 and 2027, respectively. This profile reflects the envisaged slowdown in aggregate demand over the projection horizon.

The current account in the balance of payments is expected to show a surplus of 5.5% of GDP this year, down from 5.7% in 2024. The surplus is underpinned by a strongly positive services balance. The current account surplus is set to narrow marginally to 5.4% of GDP in the rest of the projection horizon.



## BOX 1: US TARIFFS – MALTA’S EXPOSURE AND MACROECONOMIC IMPLICATIONS<sup>1</sup>

### Introduction

The new US administration led by President Trump has targeted international trade in goods through the imposition of numerous tariffs on US imports.<sup>2</sup> Among the first to be targeted were imports from China, Mexico, and Canada. Moreover, tariffs on imported products of iron and steel, aluminium products, and automobiles were made subject to an additional 25% *ad-valorem* duty, irrespective of their origin but with an exemption for their US content.

Another set of wide-ranging “reciprocal” tariffs were announced on 2 April 2025, referred to as “Liberation Day”. These tariffs targeted additional products imported into the United States from the rest of the world, with the United States imposing a baseline 10% minimum tariff on some countries (on top of tariffs prevailing before 2 April), and even higher rates for many. These included the European Union, whose exports to the United States were made subject to a 20% additional duty. At the time of finalisation of this publication, the US tariff policy also provided for some product-specific exemptions.<sup>3</sup> Notably, these commodities include some chemical products, pharmaceuticals, energy, and semiconductors.<sup>4</sup>

On 9 April, the US administration announced a temporary and partial pause to the tariffs announced on 2 April. Instead, a universal 10% minimum tariff rate on all countries was imposed for 90 days, after which, unless trade agreements are reached, tariffs would return to the 2 April announced tariffs. As part of the same revision to the tariff policy, tariffs on Chinese goods were raised further, while imports from Canada and Mexico remained subject to the higher tariffs imposed on them separately in previous weeks. At the same time, imports of automobiles, iron and steel, and aluminium products also remained subject to a (higher) 25% additional duty. In more recent weeks, the United States and China have agreed to a 90-day temporary reduction in tariffs, while a trade deal between the United States and United Kingdom foresees a relaxation of the tariffs imposed on US imports of UK steel, aluminium and motor vehicles.

The unpredictability and volatility in US trade policy, as well as trading partners’ responses to it continue to generate a high level of uncertainty in the international and macroeconomic environment. In the local context, the imposition of the US tariff rate on the EU, which at the time of writing stands at 10% excluding the product-specific exemptions and product-specific tariff rates described above, would also apply to Malta.

In this regard, this Box sheds light on Malta’s visible trade relations with the United States and analyses the country’s exposure to the recently announced tariffs based on the latest trade statistics covering 2024. In particular, we estimate the *effective* tariff rates on Maltese

<sup>1</sup> Prepared by Nathaniel Debono, a Principal Research Economist within the Modelling Office of the Central Bank of Malta and Abigail Marie Rapa, a Principal Economist and Lynn Cumbo, a Senior Economist within the Economic Projections and Conjunctural Analysis Office of the Central Bank of Malta.

<sup>2</sup> The tariff policy and all changes hitherto can be found in Chapter 99 of the [HTS](#).

<sup>3</sup> While these exemptions are still in place at the time of writing, President Donald J. Trump has previously hinted that these may be phased out. See for example [Trump threatens to end pharmaceuticals tariff exemption](#) and [Trump warns exemptions on smartphones, electronics will be short-lived, promises future tariffs](#).

<sup>4</sup> The detailed list of exempted products can be found in Chapter 99 of the HTS, subchapter III note 2 subdivision (v)(iii).

goods, taking into account product-specific exemptions and product-specific tariff rates from the tariff policy. In addition, this box will also evaluate the impacts included in the baseline GDP and inflation projections of the current tariff policy.

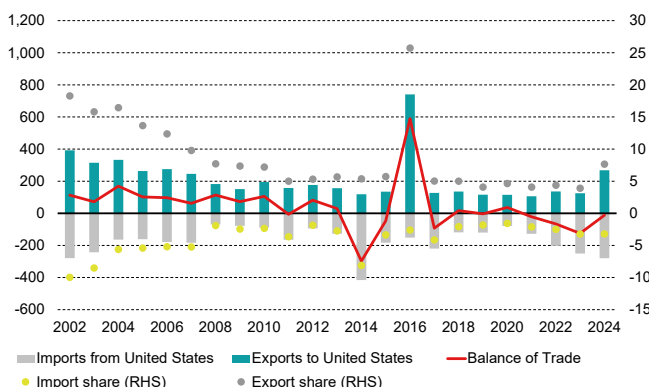
### Overview of Malta's visible trade with the United States

Malta generally ran a positive visible trade balance with the United States averaging around €84.0 million during the period 2002-2013 as exports outweighed imports (see Chart 1). In 2014, a negative trade balance of €297.4 million was registered with the United States due to substantial imports of petroleum products, while in 2016 exports of pharmaceutical products resulted in a merchandise trade surplus of €589.7 million. Since 2021, Malta has registered a negative visible trade balance with the United States.

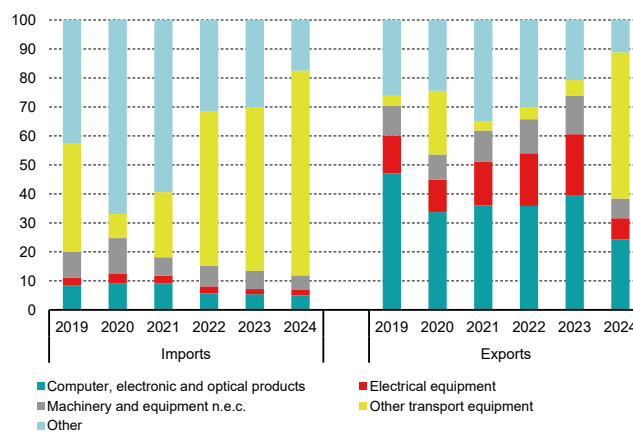
The share of the US market in Malta's exports and imports has dropped somewhat over time. Indeed, Chart 1 shows that, excluding the year 2014, the share of goods imported from the United States in Malta's total goods imports has averaged 2.6% since 2008. This marks a decline from the 6.7% average for the period 2002-2007. Similarly, the share of exports to the United States from Malta has also declined, dropping from an average of 14.4% between 2002-2007 to an average of 5.5% thereafter (excluding the year 2016).

Chart 2 shows the type of goods that were imported from and exported to the United States in recent years. During the past three years, merchandise imports from the United States have mostly consisted of 'other transport equipment' which includes imports of aircraft

**Chart 1**  
**MALTA'S VISIBLE TRADE WITH THE UNITED STATES**  
(EUR millions; % share in Malta's goods exports and goods imports)



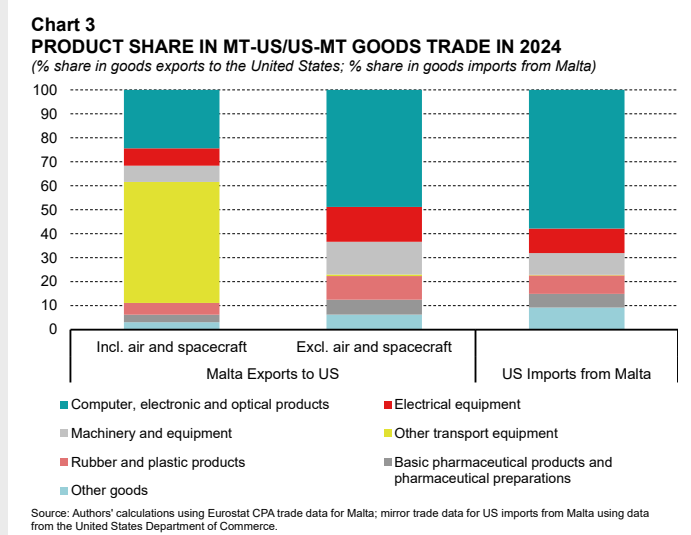
**Chart 2**  
**PRODUCT SHARE IN GOODS TRADE WITH THE UNITED STATES**  
(% share in goods imports from the United States; % share in goods exports to the United States)



and ships. These goods do not follow standard cross-border movement of goods and are recorded in Eurostat trade data when a change in economic ownership occurs.<sup>5</sup> Therefore, imports (exports) of these goods partly refer to a registration (de-registration) of an aircraft or sea vessel to (from) a Maltese legal or natural person and hence does not necessarily reflect the physical movement of the good. Imported products within the ‘*other*’ category shown in Chart 2 comprise of crude petroleum and natural gas (around 30.0% and 10.0% of goods imports during 2020-2021 and 2022-2023, respectively) and, to a lesser extent, imports of chemical and pharmaceutical products, and rubber and plastic products.

Turning to Malta’s exports to the United States, Eurostat trade data shows that, in 2024, these mainly consisted of ‘*other transport equipment*’ (50.4%) and ‘*computer, electronic and optical products*’ (24.4%). During the year, Maltese exports of ‘*other transport equipment*’ to the United States amounting to €135.2 million consisted of €134.3 million worth of goods related to air and spacecraft, which significantly inflated the value of Maltese exports to the United States and thus, the share of this product in total exports. When excluding these specific goods from the ‘*other transport equipment*’ data on Malta’s goods exports to the United States, the resulting composition of exports shows that the majority of Malta’s goods exports to the United States in 2024 consisted of ‘*computer, electronic and optical products*’ (48.8%), followed by ‘*electrical equipment*’ (14.5%) (see Chart 3, second bar). These patterns are qualitatively similar to previous years, in which ‘*computer, electronic and optical products*’ had also been the single largest commodity exported to the United States (see Chart 2). However, while the export of ‘*computer, electronic and optical products*’ represents a significant share in Maltese exports of goods to the United States, corresponding exports to euro area countries and the rest of the world are larger. Indeed, less than 10.0% of Malta’s exports of ‘*computer, electronic and optical products*’ went to the United States during the past five years (2020-2024).

It is well established that international trade statistics are often characterised by the presence of data asymmetries. In this context, data on Maltese goods exports to the United States in 2024 does not mirror precisely the data on US goods imports from Malta during the same year. Potential reasons for asymmetries in international trade data could include (i) a different classification of the



<sup>5</sup> See “[European business statistics compilers' manual for international trade in goods statistics – detailed data 2025 Edition](#)”.



same product, (ii) differences in the valuation of the good and (iii) errors in the declaration process.<sup>6</sup>

Chart 3 shows data on Maltese goods exports to the United States during 2024 using two datasets. The first captures goods exports to the United States as reported by Maltese customs data, while the second dataset utilises mirror data published by the US Department of Commerce, i.e., the value of imported goods declared to the US customs authorities. Clear discrepancies are observed between the two datasets despite applying the EU's *Classification of products by activity* (CPA) nomenclature to both data sources.<sup>7,8</sup> Such discrepancies will be particularly important in the next section of this Box, which utilises mirror data to calculate the *effective* tariff rate applicable to Malta through the US tariff policy.<sup>9</sup>

Much of the discrepancy between the two data sources results from the reporting of an export transaction of air and spacecraft in Malta's exports data. In contrast to the methodology applied to trade data in Malta, the United States records imports of air and spacecraft in trade statistics only if they physically cross the US border; otherwise, a change in ownership only will be reflected in the Balance of Payments.<sup>10</sup> As such, from the US perspective, 'other transport equipment' made up just 0.2% of their total value of imports from Malta, whereas in Malta, this product category comprised 50.4% of the total value of exports to the United States. As shown in Chart 3, excluding aircraft and spacecraft from the data on Malta's goods exports to the United States yields a composition of exports which is more reflective of the composition of the mirror data.

### Malta's exposure to the US tariff rates

While the tariffs announced recently by the current US administration impose a common baseline tariff on the entire EU bloc, each country's exposure to the higher tariff rates may differ substantially due to the composition of trade. In particular, the wide range of exemptions on commodities such as pharmaceuticals, semiconductors, energy, and some chemical products, as well as the different tariff regime imposed on the non-US content of automobiles and products of iron or steel, and aluminium imply that the *effective* tariff rate imposed on a particular country will largely depend on its respective export activity with the United States.

In this light, this section analyses Malta's exposure to the tariffs announced and imposed recently by the US administration, taking into account (i) the type and value of products imported by the United States from Malta in 2024, (ii) product-specific exemptions from the US tariff policy, and (iii) the differing tariff rates imposed specifically on automobiles,

<sup>6</sup> For a detailed description of some of the reasons behind trade statistics asymmetries, see Markhonko, V. (2014), "Asymmetries in official international trade statistics and analysis of globalization", International Conference on Trade and Economic Globalization, 29 September – 1 October 2014, Aguascalientes, Mexico.

<sup>7</sup> It should be noted that the value of Maltese exports to the United States is expressed in euro and amounts to €268.1 million while the value of US imports from Malta is expressed in US dollars and amounts to \$204.8 million (≈ €189.2 million assuming a constant average exchange rate during 2024). Therefore, the product shares in Chart 3 are based on different export/import totals, further emphasising the asymmetry in the bilateral trade data.

<sup>8</sup> The eight-digit level HS classification of products imported by the United States from Malta in 2024 are converted to the CPA nomenclature using correspondence tables provided by Eurostat.

<sup>9</sup> We rely on US import statistics rather than Malta's export statistics because the US HTS is ultimately imposed on the product classifications as determined from the US side.

<sup>10</sup> See the [Guide to the US International Trade Statistical Program](#).

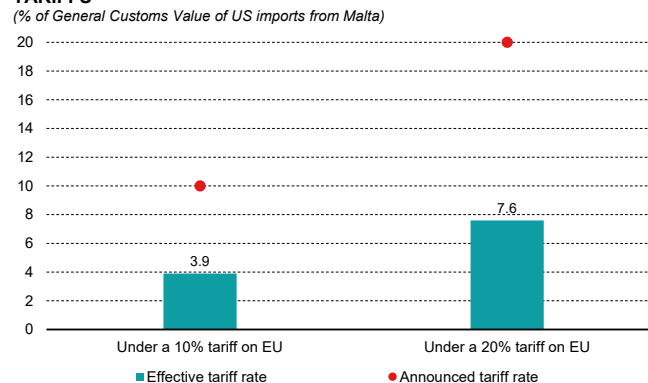
and products of iron or steel and aluminium (including their derivatives).<sup>11</sup> As a baseline scenario, we consider the tariff policy in place upon the publication of Revision 10 of the Harmonized Tariff Schedule (HTS) of 15 April.<sup>12</sup> As a result, we consider a 10% tariff by the United States on the EU, all the product-specific exemptions in place on that date, and all the product categories subject to the higher 25% tariff as effected on that date.<sup>13</sup>

To calculate Malta's *effective tariff* rate from the recently announced tariffs, we rely on US import statistics on the *General Customs Value* of every commodity imported by the United States from Malta in 2024, as classified under the *Harmonized System* (HS) at the eight-digit level (Chart 3, third bar).<sup>14</sup> The granularity of the US imports data allows for the precise identification of those products that are exempt from additional duties, and the products that are subject to the different tariff regime imposed on the non-US content of automobiles and products of iron or steel, and aluminium. As such, this exercise enables the identification of the applicable tariff rate (0%, 10% or 25%) on every commodity that the United States imported from Malta in 2024.

Chart 4 shows that on the basis of the 2024 data, the overall US import basket from Malta would be subject to a substantially lower *effective* tariff rate than those officially announced. Indeed, on the basis of the 9 April revision of the tariff policy, the overall *effective* tariff rate imposed on Malta is estimated at 3.9%, rather than the 10% tariff rate applied on imports from the EU (and hence, imports from Malta). Considering a scenario where the US trade policy reverts back to the 2 April "Liberation Day" announcements, US imports of Maltese products would be subject to an overall *effective* tariff rate of 7.6% (instead of 20%).

The tariff rates applicable to Malta are *effectively* lower because around 62% of the value of goods (measured in terms of *General Customs Value*) that the United States imported from Malta in 2024 comprise commodities that have been exempted from the tariffs imposed by the current US administration. Around 37% of the value of US imports from Malta would be subject to the 10% "reciprocal" tariff

**Chart 4**  
**OVERALL EFFECTIVE TARIFF RATE ON MALTA IMPLIED BY THE US TARIFFS**  
(% of General Customs Value of US imports from Malta)



Source: Authors' calculations using United States Department of Commerce data.  
Note: *Effective* tariff rates reflect the product-specific exemptions from the additional duties imposed by the United States and the (higher) 25% tariff imposed on the non-US content of automobiles and products of iron or steel, and aluminium.

<sup>11</sup> This analysis only considers the "new" tariffs imposed in 2025 during the second administration of President Trump, without considering any 'legacy' tariffs that have been in place over time.

<sup>12</sup> The tariff policy in place on 15 April can be found in Chapter 99 of the [HTS \(Revision 10\)](#).

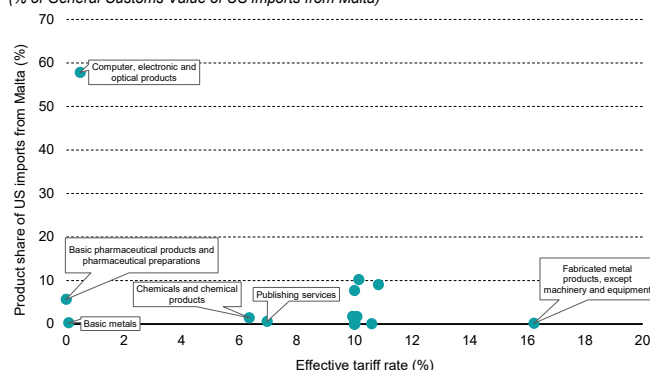
<sup>13</sup> The product-specific exemptions are defined in Chapter 99 of the HTS (Revision 10), subchapter III note 2 subdivision (v) (iii). The products subject to higher tariffs are defined in Chapter 99 of the HTS (Revision 10), subchapter III note 2 subdivision (v)(vi) to (v)(xi).

<sup>14</sup> This data can be accessed from the [USITC Dataweb](#).

imposed on the EU, while just 1% of the value of US imports from Malta would be subject to the 25% tariff imposed on articles of iron or steel, aluminium and motor vehicles.

Indeed, the 10% reciprocal tariff on the EU implies that very few product categories (five out of 24) imported by the United States from Malta would be subject to a tariff rate exceeding 10%, with the highest effective tariff rate estimated at 16.2% for ‘*fabricated metal products, except machinery and equipment*’ (see Chart 5). The latter is due to the 25% tariff levied on the non-US content of articles of steel and aluminium.<sup>15</sup>

**Chart 5**  
**EFFECTIVE TARIFF RATE ON MALTA BY COMMODITY**  
(% of General Customs Value of US imports from Malta)



Source: Authors' calculations using United States Department of Commerce data.  
Note: Workings are based on the assumption of a 10% "reciprocal" tariff levied on the EU. *Effective* tariff rates reflect the product-specific exemptions from the additional duties imposed by the United States and the (higher) 25% tariff imposed on the non-US content of automobiles and products of iron or steel, and aluminium.

On the other hand, certain products are subject to a much smaller *effective* tariff rate due to the exemptions currently in place. These products include ‘*basic pharmaceutical products*’ (0.0% *effective* tariff rate), ‘*basic metals*’ (0.1%) and ‘*computer, electronic and optical products*’ (0.5%). Concurrently, these three product categories cumulatively comprise 63.8% of the total value of US imports from Malta in 2024, with 57.8% attributed solely to the ‘*computer, electronic and optical products*’ category. As such, a significant portion of US imports from Malta in 2024 are commodities that have been exempted from the recent tariffs, thereby explaining the relatively low overall *effective* tariff rate applicable on US imports from Malta.

### The implications of the higher tariffs on the macroeconomic projections

In order to quantify the macroeconomic impact of the economic policy plans laid out by President Trump, this section summarises the results of a simulation exercise using STREAM.<sup>16</sup> These impacts have been included in the baseline projections implicitly through the technical assumptions, and hence, no additional judgement was imposed.

The scenario is based on the imposition of a 10% reciprocal tariff by the US vis-à-vis all its trading partners, except for China where tariffs are assumed to increase by 20%. In the baseline a number of temporary product-specific exemptions are also taken into account as outlined in the previous section. The *effective* tariff rate imposed on Malta is that estimated in the previous section, at 3.9%. Moreover, it is also assumed that the EU does not retaliate, while China responds with symmetric retaliation. With regards to the rest of the

<sup>15</sup> Note that these figures could be interpreted as an “upper bound” because of a simplifying assumption that no part of the applicable commodities imported by the United States from Malta comprises US content. As such, it is assumed that the commodities subject to a 25% tariff will be subject to this tariff rate in its entirety.

<sup>16</sup> Borg, I., Cumbo, L. and Rapa, N. (2024). Re-Estimation of STREAM – The Macro-Econometric Model of the Maltese Economy, Central Bank of Malta *Research Bulletin* 2024.

world (excluding the EU and China), it is assumed that retaliation measures are in line with those announced and implemented prior to 2 April 2025.

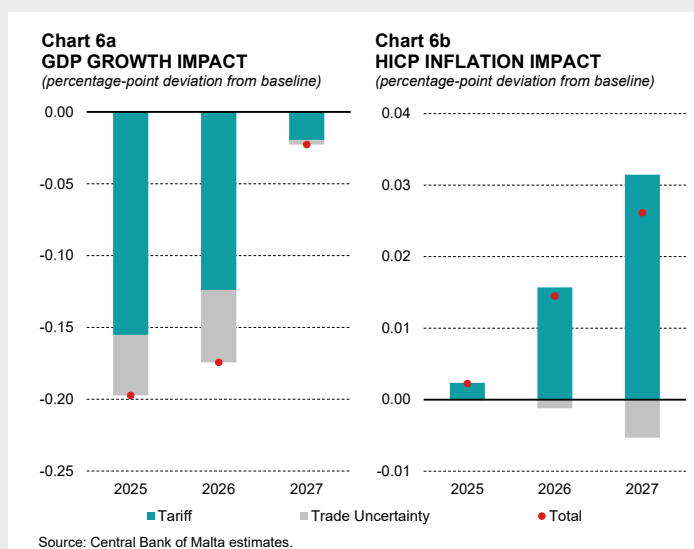
In addition, we include possible effects of trade policy uncertainty on foreign demand for Maltese exports. Trade policy uncertainty is assumed to only gradually return to the 2018 average over the projection horizon.

Hence, tariffs are assumed to dampen foreign demand and raise foreign prices.

Chart 6a shows that the overall impact on GDP growth is estimated to be negative, peaking at around -0.2 percentage points in 2025. The increase in international tariffs is expected to reduce the price competitiveness of EU and rest of the world exports while dampening global economic growth. These two effects will in turn dampen demand for Maltese exports. Higher uncertainty is also expected to weigh on foreign demand, acting as a further dampening force on Maltese export growth. The effects of the current trade policy according to this analysis are expected to be quite short-lived standing close to zero already by 2027. Overall, for the period 2025-2027, tariffs are expected to dampen GDP growth by 0.4 percentage points.

On the other hand, Chart 6b shows that inflation is expected to be only marginally impacted, with a cumulative impact of 0.04 percentage points over the period 2025-2027. The inflationary effect is solely driven by slightly higher foreign price assumptions, which reflect the inflationary effect that these policies are expected to have on US goods and services, given that the EU is assumed not to retaliate. Moreover, the impact of uncertainty on inflation is marginally negative due to lower foreign demand.

It is important to note that the situation regarding the tariff trade war is continually evolving, resulting in significant uncertainty on tariff rates and targeted products.<sup>17</sup> Furthermore, any escalation – including additional retaliatory measures by the various blocs – could lead to a different impact than the one outlined here. Furthermore, the analysis does not assume any monetary or fiscal policy response to tariffs in the euro area, nor does it consider any possible financial amplification effects or changes in the behaviour of economic agents from that implied by past data.

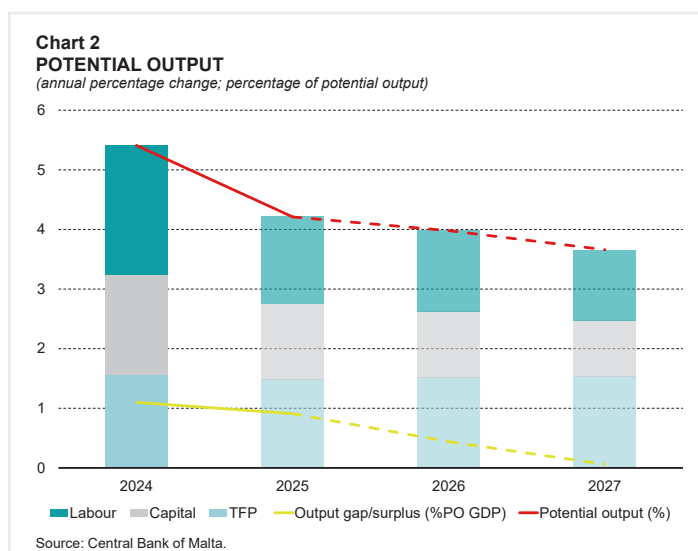


<sup>17</sup> On 23 May President Trump threatened to increase tariffs on EU goods to 50%.

## Potential output

Potential output growth is expected to moderate throughout the projection horizon. It is set to slow from 5.4% in 2024, to 4.2% in 2025, and further to 4.0% in 2026 and 3.7% in 2027. This reflects declines in the contributions of all components of potential output.

The capital contribution is expected to moderate due to the expected muted investment growth during 2025, while that from labour is envisaged to decline due to expected lower net migration flows and slower increases in participation. The contribution from total factor productivity is set to decline marginally towards its long-term average.



The positive output gap is expected to gradually narrow to 0.1% by 2027 largely reflecting the projected slowdown in GDP growth over the projection horizon (see Chart 2).

## Labour market

The labour market remains strong and demand for labour is envisaged to be high. However, employment is expected to moderate over the projection horizon, driven by the projected easing in economic growth and an assumed recovery in productivity. Inflows of foreign workers are also expected to slow down due to policies aimed at limiting inward migration flows such as the introduction of skills card requirements, the regulation of temping agencies, and the moratorium on food couriers and cab drivers. Also, in the beginning of 2025 the Government launched the Malta Labour Migration Policy with several proposed measures to regulate the entry of third country nationals. This is expected to come into force later this year. As a result, employment growth is expected to moderate gradually from 5.1% in 2024 to 2.3% by 2026 and 2027, as GDP growth slows down and the aforementioned factors weigh on recruitment.

The unemployment rate is forecast to edge down slightly to 3.0% in 2025 and remain at this rate throughout the forecast horizon. The labour market is envisaged to remain tight, as the NAIRU is projected at around 3.2%, so that the unemployment gap is forecast to be slightly negative in the outer years of the forecast horizon.

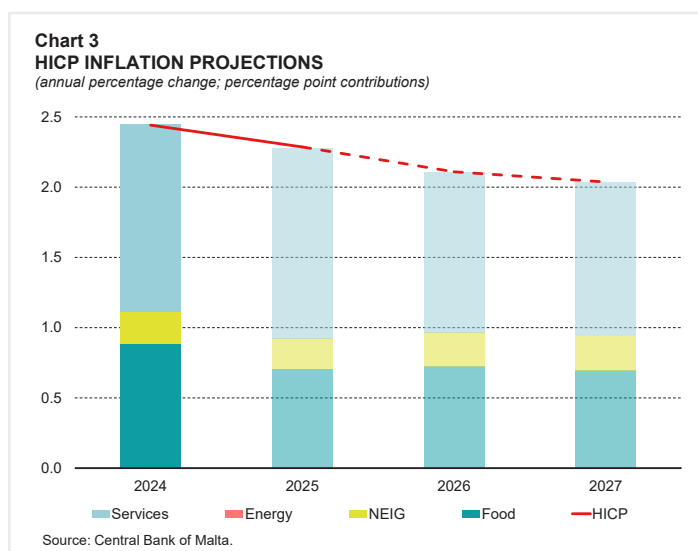
In view of tight labour market conditions, growth in compensation per employee is projected to remain relatively strong. A persistently negative unemployment gap implies that labour market tightness will be a key factor driving the wage outlook. However, as tightness dissipates over time and inflation continues to moderate, this should dampen upward pressure on wages in the outer years of the projection horizon. Wage growth is expected to moderate to 4.4% in 2025 from 5.9% last year. Growth in wages is then expected to edge further down to 3.6% and 3.5% in 2026 and 2027, respectively.



## Prices

In 2024, HICP inflation averaged 2.4%, down from 5.6% in the previous year. Data for the first four months of 2025 show an average inflation rate of 2.1%, but with a slight pick-up in recent months. Indeed, annual HICP inflation edged up to 2.6% in April from 1.8% in December 2024.

Going forward, HICP inflation is projected to stand at 2.3% in 2025, reflecting a decline in food inflation (see Chart 3). It is expected to ease further to 2.1% in 2026 and 2.0% in 2027, driven by lower services inflation. Meanwhile, HICP inflation excluding energy and food is projected to stand at 2.2% in 2025 and 1.9% in 2026 and 2027, with this measure mainly driven by services inflation, as goods inflation is set to be modest.



Compared to the Bank's previous forecast publication, overall HICP inflation has been revised up by 0.2 percentage points in 2025 and 0.1 percentage points in 2026, while it remains unchanged in 2027. In 2025, the upward revision was broad based, which reflects recent outcomes. The upward revision for 2026 reflects an upward revision in services inflation due to some spillover from the upward revisions in 2025.

Services inflation almost halved during 2024, averaging 2.8%. While most subcomponents are expected to moderate in 2025, communications services inflation is set to become less negative as previous cuts in the prices of mobile phone services drop out. At the same time, transport services inflation is set to remain elevated for most of 2025, reflecting faster growth in the prices of airfares, which tend to peak during the summer months. Consequently, services inflation is expected to average 3.0% in 2025 before easing to 2.5% and 2.4% in 2026 and 2027, respectively.

Non-energy industrial goods (NEIG) inflation has declined progressively during 2024. However, data for the first four months of 2025 point to a slight pick-up towards its historical mean. Going forward, NEIG inflation is expected to settle around its historical mean at 0.9% in 2026 and 2027.

Unprocessed food inflation exhibits high volatility and growth rates varied significantly during 2024. Unprocessed food inflation was also negative in the first two months of 2025, before it moved back to positive territory in March and April. Looking through this volatility, it is set to stand at 3.0% this year from 4.9% in 2024, and then settle at 3.5% by 2027. Similarly, processed food inflation more than halved in 2024 and is set to fall further to 3.1% by the end of the forecast horizon, which is in line with expected developments in international commodity prices. Reflecting these developments, overall food inflation is set to ease gradually over the forecast horizon reaching 3.3% in 2025 and 2026 and 3.2% in 2027.

Energy prices are projected to remain at current levels throughout the forecast horizon, reflecting the Government's commitment to keep these prices stable.

## Public finance

The general government deficit-to-GDP ratio is set to decline steadily over the forecast period. It is forecast to narrow from 3.7% in 2024 to 3.4% in 2025, to 3.0% in 2026 and to 2.7% by 2027 (see Table 2). This improvement in public finances is mostly driven by a declining share of expenditure in GDP, which is primarily due to the profile of inflation-mitigation measures and capital expenditure.

**Table 2**  
**PROJECTIONS FOR MAIN FISCAL ITEMS (% of GDP)**

|  | 2024 <sup>(1)</sup> | 2025 | 2026 | 2027 |
|--|---------------------|------|------|------|
| <b>Headline aggregates</b>                 |                     |      |      |      |
| Total Revenue                              | 34.6                | 32.9 | 32.9 | 32.5 |
| Total Expenditure                          | 38.3                | 36.3 | 36.0 | 35.2 |
| General Government Balance                 | -3.7                | -3.4 | -3.0 | -2.7 |
| of which: Primary Balance                  | -2.5                | -2.2 | -1.7 | -1.3 |
| General Government Debt                    | 47.4                | 48.2 | 48.6 | 48.6 |
| <b>Detailed Breakdown</b>                  |                     |      |      |      |
| Current Revenue                            | 33.7                | 31.7 | 31.6 | 31.7 |
| Current taxes on income and wealth         | 15.1                | 13.3 | 13.2 | 13.3 |
| Taxes on production and imports            | 9.4                 | 9.3  | 9.4  | 9.4  |
| Social contributions                       | 5.2                 | 5.2  | 5.1  | 5.1  |
| Other current revenue <sup>(2)</sup>       | 4.0                 | 3.9  | 3.9  | 3.9  |
| Current Expenditure                        | 32.0                | 32.0 | 31.8 | 31.7 |
| Compensation of employees                  | 9.9                 | 9.9  | 10.0 | 10.2 |
| Social benefits                            | 8.1                 | 8.2  | 8.1  | 7.9  |
| Intermediate consumption                   | 7.6                 | 7.9  | 7.9  | 7.9  |
| Interest payments                          | 1.2                 | 1.2  | 1.3  | 1.4  |
| Subsidies                                  | 2.5                 | 2.3  | 1.9  | 1.8  |
| Other current expenditure <sup>(3)</sup>   | 2.7                 | 2.7  | 2.6  | 2.6  |
| Gross Savings                              | 1.7                 | -0.4 | -0.1 | -0.1 |
| Capital Revenue                            | 1.0                 | 1.2  | 1.3  | 0.9  |
| Capital taxes                              | 0.2                 | 0.2  | 0.2  | 0.2  |
| Other capital revenue <sup>(4)</sup>       | 0.8                 | 1.1  | 1.2  | 0.7  |
| Capital Expenditure                        | 6.3                 | 4.2  | 4.2  | 3.5  |
| Gross fixed capital formation              | 3.3                 | 3.4  | 3.5  | 2.9  |
| Capital transfers                          | 3.0                 | 0.8  | 0.7  | 0.5  |
| Other capital expenditure <sup>(5)</sup>   | 0.1                 | 0.0  | 0.0  | 0.0  |
| Capital Revenue net of Capital Expenditure | -5.4                | -3.0 | -2.9 | -2.6 |
| <b>Underlying budgetary outcome</b>        |                     |      |      |      |
| Cyclical Component                         | 0.6                 | 0.5  | 0.3  | 0.1  |
| Temporary Government Measures              | 0.0                 | 0.0  | 0.0  | 0.0  |
| Structural Balance                         | -4.2                | -3.8 | -3.3 | -2.7 |

Sources: NSO; Central Bank of Malta.

<sup>(1)</sup> GDP ratios are estimated as per NSO *News Release 035/2025* (published on 27 February 2025).

<sup>(2)</sup> Mainly includes revenue from dividends, rents and sales.

<sup>(3)</sup> Mainly includes spending on education and contributions to the EU budget.

<sup>(4)</sup> Mainly includes grants from EU Programmes.

<sup>(5)</sup> Mainly reflects the value of changes in inventories and in the net acquisition of valuables and other assets.

The forecast deficit-to-GDP ratio between 2025 and 2027 is slightly higher compared with the Bank's March projections. Growth in tax revenue items was revised down, as a surge in corporate tax income in 2024 is not assumed to be repeated. Moreover, these projections assume no additional inflows from the citizenship by investment scheme, beyond what was received until April. This assumption is driven by the European Court of Justice ruling against Malta on 29 April, and the absence of detailed information from the Maltese Government about the possible implementation of a revised scheme.<sup>3</sup> On the other hand, forecast growth in capital expenditure was revised down, mainly due to the impact of a base effect stemming from exceptional capital transfers in 2024.

After declining in 2025, the share of current revenue in GDP is set to remain broadly stable in 2026 and 2027. The ratio of current taxes on income and wealth to GDP in 2025 is expected to be lower than that recorded in the previous year. This is due to the impact of the abovementioned one-off increase in corporate tax inflows, and from the widening of income tax brackets as announced in the 2025 Budget. Thereafter, direct taxes are expected to retain a broadly similar ratio in GDP.

Taxes on production and imports are forecast to retain broadly stable ratios to GDP throughout the forecast period. However, social contributions are set to grow by less than GDP over time. The share of non-tax current revenue to GDP is anticipated to remain unchanged.

Capital revenue as a share of GDP is projected to peak in 2026, before declining in 2027. This reflects the profile of EU-funded investment.

The share of current expenditure in GDP is forecast to decline from 2025 onwards, mainly due to the profile of subsidies. This reflects lower anticipated spending on inflation-mitigation measures, in line with the assumed profile for international energy prices.

Outlays on intermediate consumption are set to increase at a rate exceeding GDP growth in 2025, before stabilising at a similar level in the outer years of the forecast. Compensation of employees are meanwhile set to retain an unchanged ratio to GDP in 2025, after having grown robustly in the previous year. Thereafter, growth is assumed to be higher than GDP, driven by the implementation of a new collective agreement for the civil service.

The share of interest payments in GDP is set to incrementally rise each year throughout the projection period. This reflects the gradual pass-through of past interest rate increases and higher refinancing needs.

Meanwhile, the share of social benefits in GDP is set to decline each year from 2025 onwards. This partly reflects the impact of an increase in the pension retirement age in 2026 following the pension reforms of 2006.

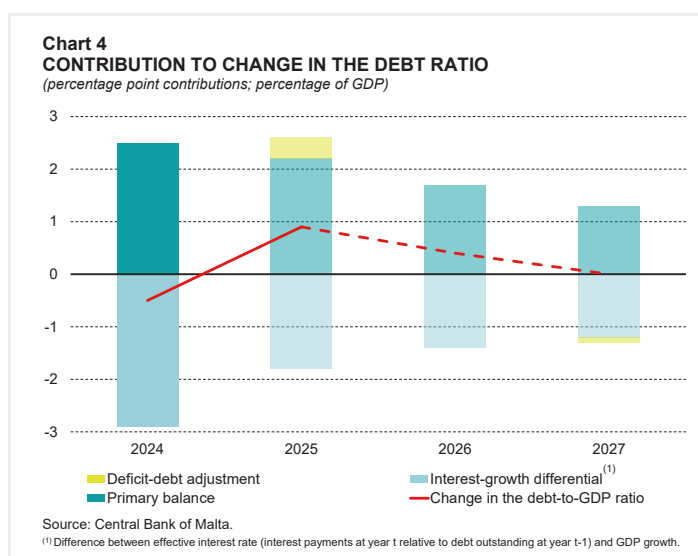
The share of capital expenditure in GDP is projected to decline in 2025, following exceptional outlays in the previous year. It is then set to remain unchanged in 2026, and to fall again in 2027. This reflects different profiles for the main components of capital expenditure, i.e. gross fixed capital formation (GFCF) and capital transfers.

<sup>3</sup> By the cut-off date of these projections, the Maltese Government had stated that it is studying the legal implications of the ruling, so that the regulatory framework on citizenship can then be brought in line with the principles outlined in the judgment. See [Press Release by the Government of Malta](#).

GFCF is forecast to grow by more than nominal GDP in 2025 and in 2026, driven by the profile of EU-funded investment (see Box 2). Following the end of the RRF programme in 2026, EU-funded outlays are set to decline in 2027. The share of domestically-funded investment to GDP is set to decline over the forecast period. Meanwhile, capital transfers are set to decline in both level terms and as a share in GDP.

The structural budget deficit is projected to narrow substantially over the projection horizon, reaching 2.7% of GDP by 2027, from 4.2% in 2024.<sup>4</sup> This partly reflects the declining profile of inflation mitigation measures, which are not treated as temporary outlays, and thus affect the structural position.

The general government debt ratio is set to increase to 48.6% in 2026 and level off in 2027. This is driven by the continuation of primary deficits, which are, however, set to decline over time (see Chart 4). Its impact is partly offset by the debt-decreasing impact of the interest-growth differential. Meanwhile, deficit-debt adjustments are set to exert a broadly neutral impact.



<sup>4</sup> The structural balance is defined as the cyclically-adjusted balance, net of temporary government measures.

## BOX 2: COMPOSITION OF GOVERNMENT CAPITAL EXPENDITURE<sup>1</sup>

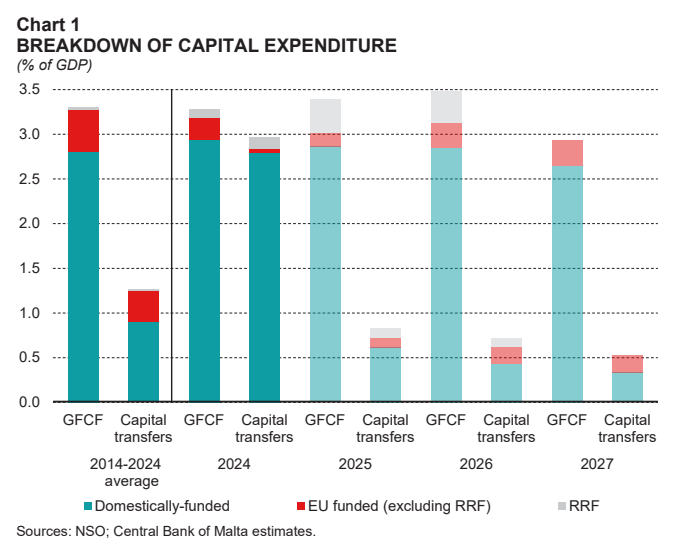
This box provides an overview of the key drivers shaping the Bank's projections of government capital expenditure projections. The term 'capital expenditure' is used to define outlays classified as GFCF and capital transfers. The Bank prepares separate forecasts for EU-financed capital expenditure and outlays entirely financed from domestic resources.<sup>2</sup>

### Outcome in 2024

In 2024, total capital expenditure rose to 6.3% of GDP, up from 5.2% in the previous year. Outlays on GFCF rose slightly in level terms but declined to 3.3% of GDP from 3.6% in 2023, remaining broadly in line with the average share in the last ten years (see Chart 1). In contrast, capital transfers surged markedly to 3.0% of GDP from 1.6% in 2023. Outlays on domestically-financed projects constituted the largest part of capital expenditure.

Domestically-financed investment stood at 2.9% of GDP, down from 3.2% in 2023, as outlays grew by less than nominal GDP. Higher outlays on road building and investment in buildings and equipment were partly offset by lower capital outlays by extra-budgetary units. Meanwhile, domestically-financed capital transfers amounted to 2.8% of GDP, far higher than the average ratio seen in the last ten years. This was driven by one-off outlays, related to the settlement of outstanding dues to Air Malta before it closed down, and the acquisition of aircraft for KM Malta Airlines. Together, these extraordinary outlays amounted to around 1.1% of GDP.

Capital expenditure on EU-funded projects was below its ten-year average relative to GDP. In level terms, EU-funded outlays classified as GFCF remained broadly stable compared with 2023, as did the level of outlays funded by the RRF. EU-funded capital transfers declined from their 2023 level and were mostly composed of RRF-funded outlays.



<sup>1</sup> This box was prepared by John Farrugia, Manager within the Fiscal Affairs and Reports Office, and Jessica Pace, Senior Economist within the Fiscal Affairs and Reports Office.

<sup>2</sup> The main EU-funded capital projects are financed from the European Regional Development Fund, the Cohesion Fund, the Just Transition Fund, and the RRF. For further details on EU-funded capital expenditure, refer to [Outlook-2024-2-Box-2.pdf](#)



## Decomposition of capital expenditure over the projection horizon

Over the projection horizon, the share of capital expenditure in GDP is expected to moderate and to fall below its ten-year average since 2014. During the forecast horizon, the Government is expected to complete major infrastructural projects related to roads, IT networks, electricity distribution, water and waste management.

The ratio of GFCF in GDP is projected to increase to 3.4% and 3.5% of GDP in 2025 and 2026 respectively, and then decline to 2.9% in 2027. This profile is primarily driven by EU-funded investment, particularly by projects financed by the RRF, which should be completed by 2026 under the terms of the plan submitted to the EU.<sup>3</sup> Meanwhile, domestically-financed investment is projected to grow at a slower pace than GDP.

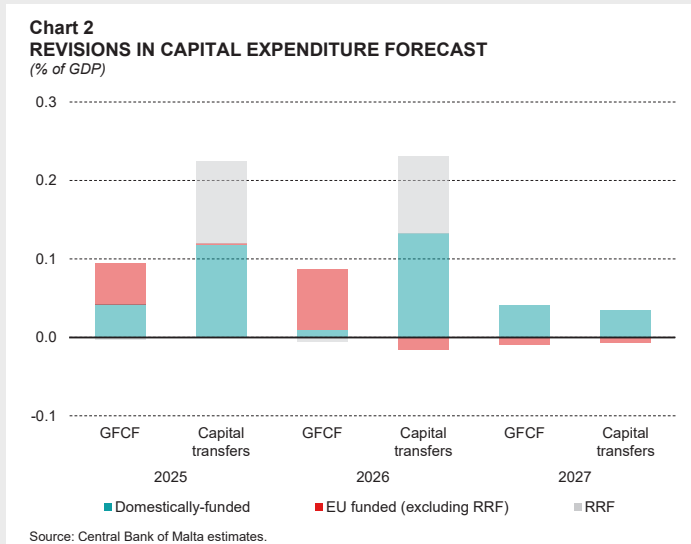
At the same time, capital transfers are expected to decline significantly, as the exceptional outlays recorded in 2024 are not set to be repeated. As a result, the share of domestically-financed transfers in GDP is set to decline substantially in 2025. Outlays are set to decline further in 2026 and in 2027 as ongoing capital projects are eventually completed. The share of EU-funded capital transfers in GDP is set to peak in 2026 before declining in 2027, mirroring the profile of EU-funded investment.

## Revisions compared with previous forecast exercise

Compared with the previous set of projections, the forecast share of capital expenditure in GDP was revised up between 2025 and 2027 (see Chart 2). This mostly reflects expectations of a stronger take-up of EU funds.

The projected take-up of RRF-financed expenditure was revised up, as the turnout in 2024 was less than envisaged at the time the previous set of projections were prepared. The revised forecasts thus imply a relatively higher degree of backloading of RRF-financed expenditure.

The revised profile of other EU-financed capital outlays reflects progress in the adjudication of projects financed by



<sup>3</sup> To benefit from RRF funds, EU governments submitted national recovery and resilience plans, outlining the reforms and investments they will qualify for fundings. Plans were required to have clear milestones and targets and projects were to be implemented by end-2026.

the 2021-2027 multiannual framework. In the last six months of 2024 – the latest data available at the time the projections were prepared – the ratio of committed ERDF, Cohesion and Just Transition Funds rose from around 32% of the total to just under 50%.<sup>4</sup>

The share of domestically-financed capital expenditure in GDP was revised up compared with the previous forecast exercise. Revisions mostly affect outlays classified as capital transfers in 2025 and 2026 and reflect a reassessment of the profile of ongoing capital programmes.

<sup>4</sup> Information on the take up of funds from the 2021-2027 Programming Period may be found here: [2021-2027 Programming Period - List of Beneficiaries - FONDI.eu](#)

## Risks

Risks to activity are broadly balanced. Downside risks largely emanate from possible adverse effects on foreign demand related to geopolitical tensions, higher US tariffs beyond those included in the baseline, and the possibility of retaliatory measures. A prolongation of uncertainty surrounding future EU-US trade relations, if it persists, could also weigh on foreign demand and activity, as would a prolongation of geopolitical uncertainty. On the other hand, the labour market could exhibit even stronger dynamics than envisaged in this projection round, both in terms of employment and wages. This could then result in stronger private consumption growth and thus stronger output growth than envisaged. Investment could also grow faster than projected. Another upside risk could stem from a stronger consumption response to the widening of the income tax bands.

Risks to inflation are broadly balanced over the projection horizon and mainly relate to external factors. Upside risks to inflation could stem from renewed supply-side bottlenecks that could be triggered by ongoing geopolitical conflicts as well as higher input costs and supply disruptions arising from changes in global trade policy. Any retaliatory tariff measures by the EU would also have an immediate upward impact on inflation in the near term. Having said that, such risks could also be counterbalanced by the rerouting of exports from competitor countries to the EU and heightened competitive pressures in markets targeted by tariffs. On the downside, imported inflation could fall more rapidly than expected if economic growth in the euro area is weaker than expected due to the adverse effects on global growth of barriers to trade or negative spillovers from the tighter market financing conditions that may be triggered by changes in trade policy.

On the fiscal side, risks are mostly tilted to the downside (deficit-increasing). These mainly reflect the likelihood of slippages in current expenditure, including higher-than-expected outlays on energy support measures if commodity prices turn out higher than assumed. They also reflect the likelihood of additional increases in pensions and wages in the outer years. These risks are partly offset by the likelihood of additional revenue, should the Government introduce a modified citizenship scheme.