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CENTRAL BANK OF MALTA
OUTLOOK FOR THE MALTESE ECONOMY

2026:3

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The Bank's projections for the Maltese economy are based on information available up to 19 August 2026. Figures in tables may not add up due to rounding.

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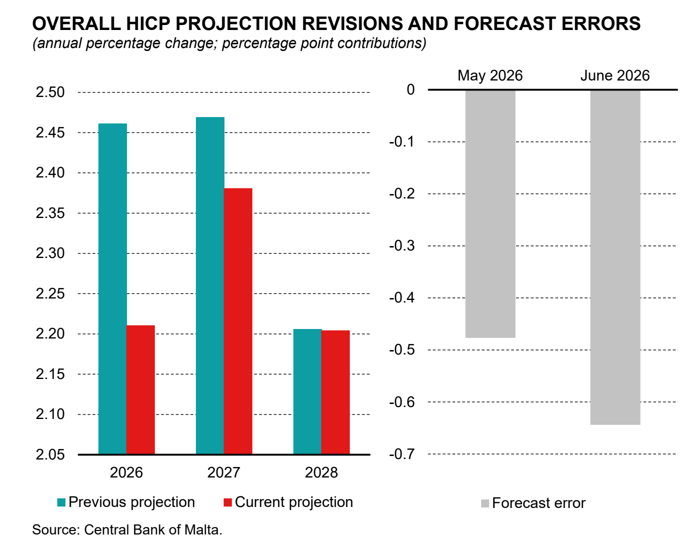
Economic outlook

The Maltese economy continues to show strong growth and buoyant activity against an external environment still characterised by uncertainty related to developments in the Middle East. As disruptions to supply chains remain concentrated in the region and commodity prices have evolved broadly in line with assumptions embedded in previous projection exercises, the outlook for economic growth in Malta remains robust with gross domestic product (GDP) growth expected at 3.8% in 2026 from 4.0% in 2025. Some lagged impact from geopolitical tensions is expected to materialise in 2027 as growth is envisaged at 3.6%. GDP growth is projected to pick-up to 3.8% in 2028 as effects from global spillovers gradually fade away.

The outlook for the Maltese economy is broadly unchanged from our previous projections in June.[1] GDP growth has been revised up by just 0.1 percentage points in 2026 on account of stronger private consumption growth amid lower-than-expected inflationary pressures. The growth projection remained unchanged for 2027 and 2028.

Featured chart

Compared to the Bank's previous forecast publication, overall Harmonised Index of Consumer Prices (HICP) inflation has been revised down by 0.2 percentage points in 2026 and 0.1 percentage points in 2027. This mainly reflects recent outcomes in overall HICP, which were lower than previously projected, resulting in negative forecast errors for the months of May and June 2026.



Private consumption growth is set to pick up to 4.3% in 2026 and should maintain a slightly slower rate of expansion in the following years. Growth in private consumption is expected to be supported by the recent revisions in income tax brackets which would boost disposable income growth and savings. Disposable income is also expected to be supported by some easing in inflationary pressures (see Table 1).

[1] See Outlook for the Maltese Economy 2026:2.

Table 1
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA[1]

	2025	2026	2027	2028
Real economic activity (% change)				
GDP	4.0	3.8	3.6	3.8
Private consumption expenditure	3.6	4.3	4.1	4.1
Government consumption expenditure	5.0	3.2	3.6	3.1
GFCF	0.2	5.7	1.4	3.6
Exports of goods and services	4.5	4.3	3.5	3.5
Imports of goods and services	4.4	4.8	3.2	3.4
Contribution to real GDP growth (in percentage pts)				
Final domestic demand	2.9	3.5	2.7	3.1
Net exports	1.0	0.3	0.9	0.7
Changes in inventories	0.4	0.0	0.0	0.0
Labour market (% change)[2]				
Total employment	4.1	2.9	2.5	2.3
Unemployment rate (% of labour supply)	3.1	3.4	3.4	3.4
Prices and costs (% change)				
Overall HICP	2.4	2.2	2.4	2.2
HICP excluding food and energy	2.4	2.3	2.3	2.1
Public Finances (% of GDP)[3]				
General government balance	-2.2	-1.9	-1.7	-1.6
General government debt	46.4	46.1	45.2	44.2
Structural government balance	-2.4	-2.2	-1.9	-1.9

[1] Data on GDP for 2025 were sourced from NSO *News Release* 033/2026 published on 26 February 2026, while HICP was sourced from NSO *News Releases* 0312026 published on 25 February 2026. Data on government finances were sourced from NSO *News Release* 117/2026.

[2] Data on the number of employed are consistent with national accounts data. The unemployment rate is based on the number of unemployed and employed as reported in the Labour Force Survey.

[3] Central Bank of Malta projections.

Real government consumption is projected to grow by 3.2% in 2026, 3.6% in 2027 and 3.1% in 2028, respectively. This profile is mainly driven by outlays on compensation of employees and intermediate consumption. The latter reflects significant, albeit declining, growth in outlays by extra budgetary units and on contractual services. Meanwhile, the forecast growth in employee compensation reflects the implementation of ongoing collective agreements covering most of the general government sector.

Growth in overall investment is projected to pick up in 2026 after a sharp slowdown in 2025, and to moderate in 2027. This is partly driven by the path of EU-funded government investment, as all projects financed through the EU's Recovery and Resilience Facility (RRF) are expected to be completed by 2026. This decline is expected to offset growth in private investment. Overall gross fixed capital formation (GFCF) is expected to be upheld by private investment in 2028.

Private investment is expected to increase in 2026 following a decline in 2025. This partly reflects the impact of Budget 2026 incentives aimed at stimulating investment. In 2027 and 2028, growth in private investment is expected at slightly over 4.0% driven by non-dwelling investment.

Government investment is projected to increase by 17.0% in 2026, mostly driven by higher RRF-financed projects, as well as other large-scale initiatives, notably the second electricity interconnector. Growth is then expected to drop in 2027, once these projects are completed. In 2028 government investment is expected to grow only marginally.

Export growth is set to moderate over the projection horizon, which reflects the expected easing of growth in foreign demand. Slower growth in services exports is also expected following an extended period of robust growth. Nevertheless, overall export growth is set to remain above growth in external demand throughout the forecast horizon, partly reflecting continued strong growth in tourism activity. On the other hand, goods exports are set to recover slightly this year following a strong decline in 2025. Growth in goods exports is set to be lower than the envisaged growth in external demand in the following years, in line with recent trends and increasing competitive pressure outside the EU.

Import growth is expected to increase to 4.8% in 2026 as goods imports are projected to recover from a decline in 2025 whilst imports of services grow at a slower rate. The dynamics of imports are partly affected by those of government investment, which are set to decline in 2027.

The labour market remains strong and demand for labour is envisaged to stay high. However, employment growth is expected to moderate over the projection horizon, driven by the projected easing in economic growth and an expected improvement in productivity. Inflows of foreign workers are also expected to slow down due to recent labour migration measures. As a result, employment growth is projected at 2.9% in 2026 – after 4.1% last year – and is set to moderate gradually to 2.3% by 2028.

Annual HICP inflation is projected to decrease to 2.2% in 2026, reflecting a decline in food inflation. Inflation is set to increase slightly in 2027 due to inflationary pressures arising from the geopolitical situation which are expected to peak in 2027, whilst easing steadily in the following year, falling to 2.2% by 2028. Services inflation is set to remain above its historical average although it is expected to gradually slow down throughout the projection horizon. NEIG inflation is expected to moderate in 2026 standing at 0.7%, whilst increasing to 1.2% and 1.1% in 2027 and 2028, respectively. Overall food inflation is set to stand at 2.6% in 2026 and increase to 3.2% in 2027 and 2028. This is in line with expected developments in international commodity prices available at the cut-off date for these projections. Energy prices are projected to remain at current levels throughout the forecast horizon, reflecting the Government's commitment to keep such prices stable.

The Bank expects the fiscal deficit to decline to around 1.9% of GDP in 2026 and to narrow further in 2027 and 2028, such that it amounts to around 1.6% of GDP by the end of the forecast horizon. This is due to the declining profile of capital expenditure throughout the forecast horizon, and a lower share of energy support measures in GDP (see below). Compared with the previous forecast exercise, the projection for the general government balance remains unchanged.

Overall, tax revenue is set to grow at or just below nominal GDP. Meanwhile, the share of expenditure in GDP is driven by dynamic growth in the largest current spending items – mainly compensation of employees and intermediate consumption – and declining levels of capital expenditure in 2026 and 2027. This is due to a base effect stemming from a court-awarded payment in 2025, which is classified as capital transfers, and the completion of major EU-funded projects by 2027.

The Bank expects outlays on energy support measures to rise in 2026, due to the increase in commodity prices following the start of the war in Iran. This is the first time that outlays are set to increase since 2022. Spending is then set to decline as a share of GDP from 2027 onwards.

The structural budget deficit is projected to narrow from 2.2% of GDP in 2026 to 1.9% by 2028. The largest year-on-year improvement is set to take place in 2027, driven by the forecast profile of energy support measures, which are not considered to be of a temporary nature and therefore affect the estimated structural position.

The debt-to-GDP ratio is projected to decline from its peak in 2025, to around 46% in 2026 and eventually to just over 44% by 2028. This is broadly unchanged when compared to the previous projection.

Risks to activity are broadly balanced. Downside risks largely emanate from still high geopolitical uncertainty and supply bottlenecks surrounding the situation in the Middle East. On the other hand, growth in employment and wages could be more robust than expected, especially in the medium term. This would pose an upward risk to private consumption growth and thus, growth in activity.

Risks to inflation are tilted to the upside over the projection horizon. Upside risks to inflation could stem from higher services inflation. Furthermore, disruptions to energy supplies and other commodities resulting from the conflict in the Middle East may present significant upward risks to global inflation, potentially leading to spillover effects on non-energy inflation in Malta. Having said this, some downside risks remain, particularly arising from the re-routing of exports from competitor countries to the EU and heightened competitive pressures in markets targeted by tariffs.

On the fiscal side, risks are tilted to the downside (deficit increasing), mainly reflecting potential current expenditure overruns, particularly on energy support measures.