FOREWORD

During the third quarter of 2024, real gross domestic product (GDP) rose by 4.9% on an annual basis. Growth was driven by domestic demand as net exports had a broadly neutral effect. When adjusting for imports, domestic demand remained the main driver of economic growth.

Potential output growth is estimated to have stood at 5.0% in the third quarter of 2024, below that of 5.5% estimated for the second quarter. On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter was comparable to that in GDP. As a result, the output gap is estimated to have remained unchanged from that of the second quarter, at 1.6%. This implies some degree of over-utilisation of the economy's productive capacity.

The Bank's Business Conditions Index (BCI) edged down marginally in the third quarter but remained slightly above its historical average. The positive index partly reflected GDP growth which was broadly in line with its long run average. At the same time, growth in credit, tax receipts, and industrial production was also above average.

The Bank's Economic Policy Uncertainty (EPU) Index, which monitors economic policy uncertainty by synthesising information gleaned from Maltese news portals, declined to 69.6 in the third quarter, from 73.7 in the preceding quarter and thus remained well below its historical average. The decline reflected subdued economic and political uncertainty during the summer months, following heightened uncertainty earlier in the year due to discussions around inflation and the EU parliamentary elections.

Developments in the labour market remained positive. The unemployment rate remained low and was well below that in the euro area. Meanwhile, the job vacancy rate increased slightly and the labour tightness indicator, also increased.

Consumer price pressures eased further during the quarter under review. Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP), stood at 2.1% in September, down from 2.2% in June. This was driven by a smaller contribution from processed food and non-energy industrial goods (NEIG) inflation. Meanwhile, annual inflation based on the Retail Price Index (RPI), which only considers expenditure by Maltese residents, eased to 1.2% in September, from 1.3% in June.

Industrial producer prices fell by an annual 0.9% after they had increased marginally in the second quarter. Other indicators such as the domestic producer price index, and the goods imports deflator also show some easing in cost pressures. On the other hand, the construction cost index (CCI) recorded a slightly higher annual growth rate. Malta's unit labour cost (ULC) index, measured on a four-quarter moving average basis, rose at an annual rate of 2.3%, following a rise of 1.4% in the previous quarter, largely reflecting an acceleration in compensation per employee (CPE).

In the third quarter of 2024, the current account surplus narrowed compared with a year earlier. This was mainly due to a wider merchandise trade deficit and higher net outflows on the primary income account. By contrast, net receipts from services increased and the balance on the secondary income account turned positive. On a four-quarter moving sum basis, the current account surplus was equivalent to 6.3% of GDP.

When measured on a four-quarter moving sum basis, the general government deficit ratio narrowed by 0.5 percentage points to 2.9%. Meanwhile, the general government debt-to-GDP ratio declined by 1.1 percentage points to 45.3%.

Over the 12 months to September, Maltese residents' deposits with monetary financial institutions (MFIs) in Malta increased, mostly reflecting higher balances belonging to households. The annual rate of change exceeded that recorded in June. Meanwhile, credit to Maltese residents grew at a more moderate pace, due to slower growth in credit to residents outside the general government. By contrast, credit to general government rose at a faster pace. According to the Bank's Financial Conditions Index (FCI), in the third quarter of 2024, financial conditions remained loose from a historical perspective but were marginally less favourable compared with the previous quarter. The less favourable financial conditions reflected changes in both foreign and domestic factors.

During the year to September, the weighted average interest rate offered to households and non-financial corporations (NFCs) on their outstanding deposits stood 13 basis points above its year-ago level, reaching 0.40%. This was largely driven by higher rates on time deposits belonging to NFCs and households, as well as by rates on household deposits redeemable at notice up to three months. Meanwhile, over the same period, the weighted average lending rate paid by households and NFCs to resident MFIs decreased by 20 basis points, to 3.41%, driven by lower rates charged to both households and NFCs, although the decline in the latter was more significant. The spread between the two rates amounted to 301 basis points and was lower both in annual and quarterly terms.

Data on new business, which may be more indicative of the transmission of monetary policy impulses, show an increase in both the weighted average deposit rate and the weighted average lending rate over the year to September. The spread between the two rates stood at 58 basis points.

The primary market yield on Treasury bills decreased between June and September. The secondary market yields on five-year and ten-year Malta Government Stocks (MGS) also declined over this period, while the Malta Stock Exchange (MSE) Equity Price Index rose.

In September, following an updated assessment of its inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, the Governing Council of the European Central Bank (ECB) lowered the deposit facility rate (DFR) – the rate through which it steers the monetary policy stance – by 25 basis points, to 3.50%. Additionally, in September, changes in the interest rate corridor which had been announced back in March 2024 became effective. In particular, the spread between the interest rate on the main refinancing operations (MROs) and the DFR was reduced to 15 basis points, while the spread between the rate on the marginal lending facility and the rate on the MROs was kept unchanged at 25 basis points. As a result, the rate on MROs and the rate on the marginal lending facility were decreased to 3.65% and 3.90%, respectively.

The Governing Council reiterated that it would keep policy rates sufficiently restrictive for as long as necessary to ensure that inflation would return to its 2% medium-term target in a timely manner. The Governing Council restated that it would continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction.

In October and again in December, the Governing Council decided to successively lower the three key ECB interest rates by 25 basis points. Accordingly, the DFR, the rate on MROs and the marginal lending facility rate were decreased to 3.00%, 3.15% and 3.40%, respectively. At the December meeting, whilst reiterating that it was not pre-committing to a particular rate path, the Governing Council dropped its restrictive bias with regard to policy rates.