



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



# CENTRAL BANK OF MALTA QUARTERLY REVIEW

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**Address**

Pjazza Kastilja  
Valletta VLT 1060  
Malta

**Telephone**

(+356) 2550 0000

**Fax**

(+356) 2550 2500

**Website**

[www.centralbankmalta.org](http://www.centralbankmalta.org)

**Contact**

<https://www.centralbankmalta.org/contact-us>

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*The cut-off date for statistical information in this Review is 8 April 2025. However, the cut-off date for government finance, the euro area, monetary statistics and residential property transactions is extended to 22 April 2025. Figures in tables may not add up due to rounding.*

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## CONTENTS

<b>FOREWORD</b>	<b>5</b>
<b>ECONOMIC SURVEY</b>	<b>8</b>
<b>1. The External Environment and the Euro Area</b>	<b>8</b>
Key advanced economies	
The euro area	
Commodities	
<b>2. Output and Employment</b>	<b>17</b>
Potential output and Business Conditions Index	
Gross domestic product and industrial production	
Business and consumer surveys	
The labour market	
Box 1: Assessing the Impact of GDP Revisions: A Comparative Analysis of Pre- and Post-Revision Data	
<b>3. Prices, Costs and Competitiveness</b>	<b>39</b>
Inflation	
The housing market	
Cost indices	
<b>4. The Balance of Payments</b>	<b>49</b>
The current account	
Tourism	
The capital account	
<b>5. Government Finance</b>	<b>55</b>
Quarterly developments	
Headline and cyclically-adjusted developments	
Box 2: Fiscal developments in Malta during 2024	
Box 3: The transition between the Consolidated Fund and the general government balance	
<b>6. Monetary and Financial Developments</b>	<b>68</b>
Monetary and financial conditions	
The money market	
The capital market	

## ABBREVIATIONS

BCI	Business Conditions Index
BLS	Bank Lending Survey
CCI	construction cost index
COICOP	Classification of Individual Consumption by Purpose
COVID-19	coronavirus disease 2019
CPI	Consumer Price Index
DFR	deposit facility rate
EA	Euro Area
EBU	Extra-Budgetary Unit
ECB	European Central Bank
EEL	Employment Expectations Indicator
EER	Effective Exchange Rate
EFSF	European Financial Stability Facility
EPU	Economic Policy Uncertainty
ESA	European System of Accounts
ESI	Economic Sentiment Indicator
EU	European Union
EUI	Economic Uncertainty Indicator
EURIBOR	euro interbank offered rate
€STR	euro short-term rate
FC	financial corporation
FCI	Financial Conditions Index
FOMC	Federal Open Market Committee
GDP	gross domestic product
GFCF	gross fixed capital formation
GVA	gross value added
HICP	Harmonised Index of Consumer Prices
ICT	information and communication technology
ITU	International Tax Unit
LFS	Labour Force Survey
MFI	monetary financial institution
MGS	Malta Government Stocks
MPC	Monetary Policy Committee
MRO	main refinancing operation
MSE	Malta Stock Exchange
NEIG	non-energy industrial goods
NFC	non-financial corporation
NSO	National Statistics Office
PEPP	Pandemic Emergency Purchase Programme
PPP	Public Private Partnership
RPI	Retail Price Index
RPPI	Residential Property Price Index
ULC	unit labour cost
UK	United Kingdom
US	United States

## FOREWORD

During the fourth quarter of 2024, real gross domestic product (GDP) rose by 2.8% on an annual basis. Domestic demand remained the main engine of economic growth, as net exports had a limited contribution. When adjusting for imports, domestic demand still remained the main contributor to GDP growth.

Potential output growth is estimated to have stood at 4.6% in the fourth quarter of 2024, slightly below that of 4.9% estimated for the third quarter. On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter exceeded that in GDP. As a result, the output gap is estimated to have narrowed to 1.2% from 1.7%. This implies some moderation in the degree of over-utilisation of the economy's productive capacity.

The Bank's Business Conditions Index (BCI) improved slightly in the fourth quarter indicating that economic growth stood above its long-run average. This partly reflected above average growth in residential permits, tax receipts and industrial production, which offset below average growth in GDP.

The Bank's Economic Policy Uncertainty (EPU) Index, which monitors economic policy uncertainty by synthesising information gleaned from Maltese news portals, rose to 95.1 in the fourth quarter, up from 69.6 in the preceding quarter but nonetheless remained slightly below its historical average. The latest increase primarily reflected heightened economic and political uncertainty overseas.

Developments in the labour market remained positive. Although employment growth moderated compared to the previous quarter, it remained strong, at 4.2% according to the Labour Force Survey (LFS). The unemployment rate remained low and well below that in the euro area. Meanwhile, the job vacancy rate and the labour tightness indicator remained high from a historical perspective.

Consumer price pressures eased further during the quarter under review. Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP), stood at 1.8% in December, down from 2.1% in September. This was mainly driven by a smaller contribution from unprocessed food inflation. Meanwhile, annual inflation based on the Retail Price Index (RPI), which only considers expenditure by Maltese residents, was unchanged at 1.2%.

Non-labour cost indicators regularly monitored by the Bank continued to signal moderate price pressures, albeit with different dynamics. Annual inflation according to the industrial producer price index remained negative but rose to -0.4% on average in the fourth quarter of 2024, from -0.9% in the previous quarter. Other indicators moved sideways. The domestic producer price index rose at a slightly faster pace but remained subdued at 0.6%, while the imports of goods deflator showed somewhat weaker growth but stood relatively higher at 3.0%. Meanwhile, the construction cost index (CCI) for new residential buildings increased at a slightly higher rate than before, at 1.8%.

Meanwhile, Malta's unit labour cost (ULC) index, measured on a four-quarter moving average basis, rose at an annual rate of 5.0%, following a rise of 2.3% in the previous quarter, largely

reflecting an acceleration in compensation per employee. On a four-quarter moving average basis, the latter increased by 5.8%.

In the fourth quarter of 2024, the current account surplus narrowed compared with a year earlier. This was mainly due to higher net outflows on the primary and secondary income accounts. By contrast, the merchandise trade deficit narrowed and net receipts from services increased. On a four-quarter moving sum basis, the current account surplus was equivalent to 5.7% of GDP.

When measured on a four-quarter moving sum basis, the general government deficit ratio stood at 3.7% of GDP; it stood higher than in the third quarter of 2024, but below the 4.7% registered at end-2023. The general government debt-to-GDP ratio reached 47.4% at the end of December, higher than in September, but slightly lower than the 47.9% posted at end-2023.

In December, Maltese residents' deposits with monetary financial institutions (MFIs) in Malta increased from their year-ago level, reflecting higher balances belonging to both households and non-financial corporations (NFCs). The annual rate of change exceeded that recorded in September. Meanwhile, credit to Maltese residents also grew at a faster pace compared with the previous quarter, driven by faster growth in credit to general government. The Bank's Financial Conditions Index (FCI), in fact, suggests that financing conditions remained loose from a historical perspective and were marginally more favourable when compared with the third quarter of 2024.

The weighted average interest rate offered to households and NFCs on their outstanding deposits closed the year 9 basis points above its year-ago level, reaching 0.39%. The corresponding lending rate decreased by 22 basis points, to 3.36%. The spread between the two rates amounted to 297 basis points, from 328 basis points a year earlier.

Data on new business show an increase in both the weighted average deposit rate and the weighted average lending rate over the year to December, but decreased somewhat since September. The spread between the two rates stood at 75 basis points at the end of the year. Overall, these rates on new business continue to signal a modest degree of pass-through of the recent policy rate cuts by the European Central Bank (ECB).

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

In October and December, the Governing Council of the ECB lowered the deposit facility rate (DFR), the rate on the main refinancing operations (MROs) and the marginal lending facility rate 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. The Council noted that the disinflation process was well on track and most measures of underlying inflation suggested that inflation would settle around the 2% medium-term target on a sustained basis. The Governing Council restated that it would continue to follow a data-dependent and meeting-by-meeting approach in determining the appropriate monetary policy stance.

Meanwhile, securities held under the asset purchase programme (APP) continue to decline at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities. Securities under the pandemic emergency purchase programme (PEPP) portfolio are also decreasing, as the related reinvestments ended at the end of 2024.

In January, and again in March and April 2025, the Governing Council cut its policy rates further. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 2.25%, 2.40% and 2.65%, respectively. Especially in current conditions of exceptional uncertainty, the Council will continue to follow a data-dependent and meeting-by-meeting approach in determining the appropriate monetary policy stance.



## ECONOMIC SURVEY

### 1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

*In the fourth quarter of 2024, real GDP expanded at a slower pace in the United States, grew marginally in the United Kingdom and grew at a lower rate in the euro area. Meanwhile, the unemployment rate remained unchanged in the United States, rose slightly in the United Kingdom and eased modestly in the euro area.*

*Consumer price inflation rebounded in the United States, the United Kingdom and in the euro area, mainly reflecting energy price dynamics. In the United States, inflation rose to 2.9% in December from 2.4% in September, in the United Kingdom, inflation increased to 2.5% in December from 1.7% in September, while, in the euro area, inflation hit 2.4% in December, compared to 1.7% three months earlier. The Federal Reserve, the Bank of England and the ECB all lowered their key interest rates during the quarter under review.*

*Brent oil prices fell further in the review period, reflecting concerns about slowing growth in global oil demand amid improving supply conditions. By contrast, the price of European natural gas increased markedly further mainly on the back of heightened uncertainty over supply and a spike in demand.*

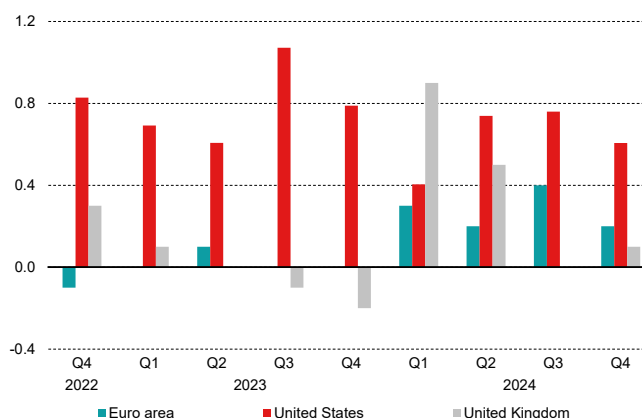
#### Key advanced economies

##### *US economic activity expands at a slightly slower pace*

In the United States, real GDP grew at a quarterly rate of 0.6% in the fourth quarter of 2024, down from almost 0.8% in the preceding quarter (see Chart 1.1). Higher personal consumption expenditure, which again rose at a faster pace compared to the previous quarter, was the main contributor to growth, followed by government consumption. Net exports also contributed to GDP growth, as a decrease in imports outweighed a marginal drop in exports. On the other hand, a decline in private inventory investment and a drop in fixed private investment deducted from economic growth. The latter occurred as a decline in non-residential fixed investment, mainly equipment, outweighed an increase in residential investment.

Meanwhile, labour market conditions remained favourable. Non-farm payroll data show that employment grew by 0.3% on average during the quarter, slightly higher than in the previous quarter. The increase during the last quarter of 2024 was largely driven by employment in private services which by far outweighed a further decline

**Chart 1.1**  
**REAL GDP GROWTH IN SELECTED ADVANCED ECONOMIES**  
(percentage changes over the preceding period)



Sources: Eurostat; Bureau of Economic Analysis, US; Office for National Statistics, UK.



in the manufacturing sector. In turn, within private services, employment growth was most pronounced in education and health, followed by leisure and hospitality as well as trade, transportation and utilities. Government employment also increased during the review period. The participation rate averaged 62.5% during the fourth quarter, down from 62.7% in the previous quarter. On average, the unemployment rate stood at 4.2% in the quarter under review, the same as in the previous quarter (see Chart 1.2).

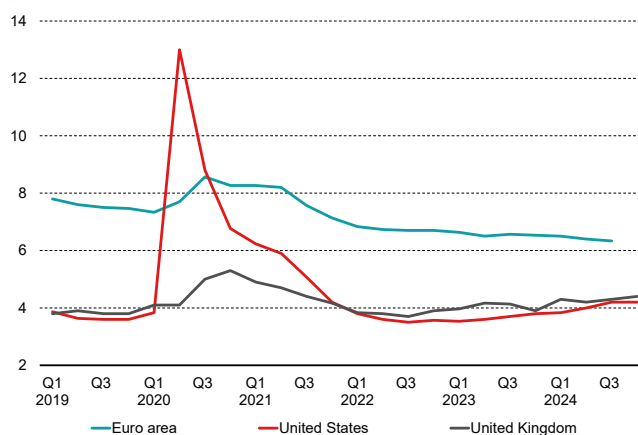
Headline inflation rebounded in the quarter under review, reflecting higher food and beverages inflation, as well as smaller declines in prices of energy and of goods, excluding food and energy. In contrast, services inflation slowed down. Thus, the annual inflation rate based on the consumer price index (CPI) stood at 2.9% in December, compared to 2.4% three months earlier (see Chart 1.3). Food and beverages inflation rose to 2.4% in December, from 2.2% three months before.

In addition, annual energy inflation rose to -0.5% in December, as against -6.8% in September. Also, the prices of goods, excluding food and energy, dropped by 0.5% in the year to December, a smaller fall than the 1.0% drop in the twelve months to September. On the other hand, services inflation eased further, but remained high, declining to 4.4% in December, from 4.7% in September. On its part, underlying inflation, as measured by inflation excluding food and energy, inched down to 3.2% in December, from 3.3% three months earlier.

On 7 November and again on 18 December 2024, the Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by 0.25 percentage points, bringing the target range down to 4.25% – 4.50% by the end of last year (see Chart 1.4). The Committee reaffirmed that it would continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The FOMC restated that it would be prepared to adjust the stance of monetary policy as appropriate if risks emerged that could impede the attainment

**Chart 1.2  
UNEMPLOYMENT RATE**

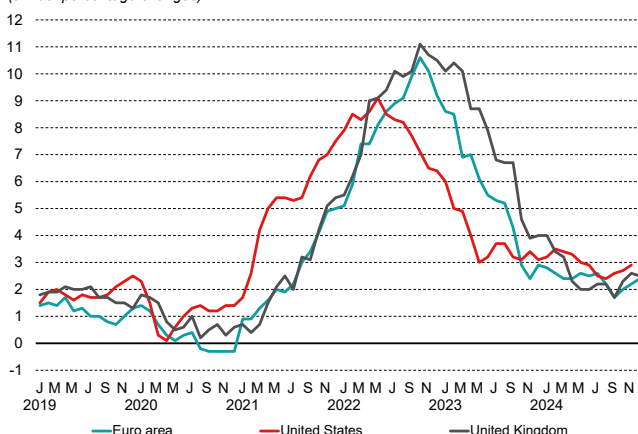
(percentage of the labour force; quarterly average; seasonally adjusted)



Sources: Bureau of Labor Statistics, US; Eurostat; Office for National Statistics, UK.

**Chart 1.3  
CONSUMER PRICE INFLATION**

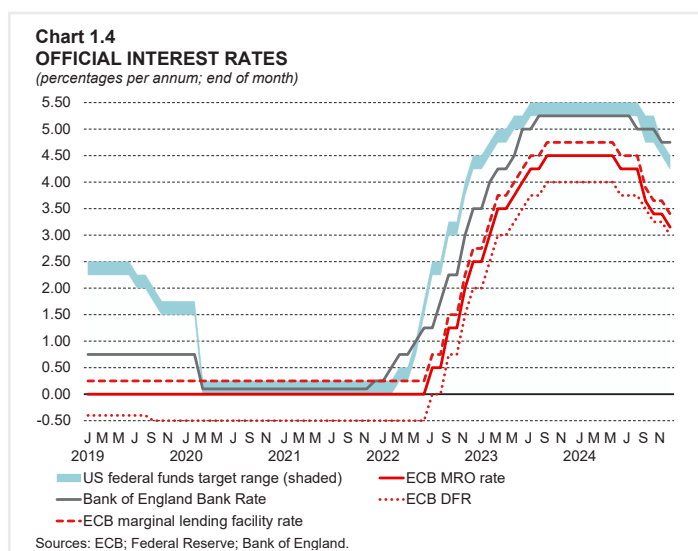
(annual percentage changes)



of its goals. It also reiterated its commitment to supporting maximum employment and returning inflation to its 2% objective.<sup>1</sup>

### UK economy expands marginally

Real GDP in the United Kingdom grew by 0.1% in the review period, after it had remained flat in the third quarter (see Chart 1.1). A marked expansion in inventories, coupled with increases in consumption expenditures by government and households, outweighed lower business investment as well as a deterioration in the trade balance. The latter reflected a rise in imports and a decrease in exports.



Labour market conditions remained stable. The employment rate rose to 75.0%, on a quarterly-average basis, from 74.9% in the previous three months, while the unemployment rate averaged 4.4% during the review period, up slightly from 4.3% in the previous quarter (see Chart 1.2).

After having reached a trough in September, consumer price inflation in the United Kingdom rebounded in October and November but then eased marginally in December, with the annual inflation rate hitting 2.5% that month, compared to 1.7% three months earlier (see Chart 1.3). In part this reflects a rise in energy prices during the quarter under review. Accordingly, the annual rate of energy price inflation rose to -6.0% in December, compared to -16.2% three months before. The other major components of inflation rebounded to various degrees during the quarter, except services inflation, which eased though it remained high. Thus, non-energy industrial goods (NEIG) inflation rose to 1.2% in December, from 0.2% in September, while food inflation rose to 2.8% in December, from 2.6% three months before. In contrast, services inflation dropped to 4.4% in December, from 4.9% in September. The annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco remained unchanged at 3.2% in December, when compared to three months earlier.

On 6 November 2024, the Bank of England's Monetary Policy Committee (MPC) reduced the Bank Rate by 25 basis points, to 4.75%, reflecting the continued progress in disinflation. The Committee restated that monetary policy needed to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term dissipated further. The Committee also reiterated that it would continue to monitor closely the risks of inflation persistence and would decide the appropriate degree of monetary policy restrictiveness at each meeting. On 18 December, the MPC kept the Bank Rate unchanged (see Chart 1.4).<sup>2</sup>

<sup>1</sup> In January 2025, the FOMC kept both the target range for the federal funds rate and the pace of quantitative tightening unchanged. In March, the Committee left the target range for the federal funds rate unchanged and announced that, beginning in April, it would slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from USD 25 billion to USD 5 billion.

<sup>2</sup> In its meeting ending on 5 February 2025, the MPC reduced the Bank Rate by 25 basis points, to 4.5%, citing substantial progress on disinflation. On 19 March, the MPC kept the Bank Rate unchanged amid an escalation of global trade tensions and a slightly higher than expected inflation rate for January 2025.

## The euro area

### Recovery in euro area GDP growth softens

Following an acceleration during the third quarter, which partly reflected the impact of one-off events, economic activity in the euro area expanded at a slower pace, in the fourth quarter of 2024. In real terms, GDP rose by 0.2% on a quarter-on-quarter basis, compared to 0.4% in the previous quarter, with domestic demand continuing to underpin economic growth (see Table 1.1). In terms of sectoral value added, growth continued to be mainly driven by services, while the construction sector returned to growth following contractions in the previous two quarters. In contrast, gross value added (GVA) in manufacturing was stable. Sentiment remained subdued, with the Economic Sentiment Indicator (ESI) falling on average, during the quarter under review, and remaining below the long-term average. Lower confidence in industry, services and among consumers more than offset an increase in confidence in construction and among retailers.

In the fourth quarter, domestic demand contributed 0.3 percentage points to GDP growth. In turn, the expansion in domestic demand reflected increases in private consumption expenditure, followed by government consumption as well as gross fixed capital formation (GFCF), which outweighed a contraction in business inventories. The increase in GFCF mainly reflected investment in transport equipment, machinery and equipment as well as in construction. Nevertheless, compared to the previous quarter, all components of domestic demand eased. Meanwhile, net exports exerted no impact on GDP growth, as exports were broadly flat while imports rose marginally.

**Table 1.1**

#### CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA<sup>(1)</sup>

*Percentage points; quarter-on-quarter percentage change*

	2022		2023				2024		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private consumption	-0.5	0.2	0.2	0.0	0.0	0.3	0.0	0.3	0.2
Government consumption	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.1
GFCF	0.0	0.3	-0.1	0.0	0.3	-0.4	-0.5	0.4	0.1
Changes in inventories <sup>(2)</sup>	0.0	-0.9	0.4	-0.5	-0.4	-0.2	0.2	0.5	-0.2
Exports	0.1	-0.4	-0.5	-0.5	0.2	0.6	0.7	-0.7	0.0
Imports	0.1	0.9	0.1	0.8	-0.2	0.1	-0.5	-0.2	0.0
<b>GDP</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>

Source: Eurostat.

<sup>(1)</sup> Data are seasonally and working day adjusted. Figures may not add up due to rounding.

<sup>(2)</sup> Including acquisitions less disposals of valuables.

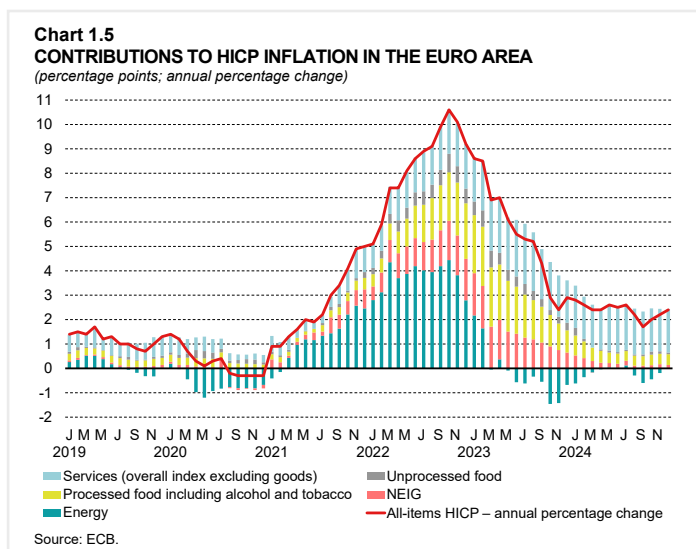
### Labour market remains strong

The labour market in the euro area remained robust, although it showed some signs of easing during the fourth quarter. Employment grew at a quarterly rate of 0.1% during the review period, down from 0.2% in the preceding quarter.<sup>3</sup> Meanwhile, the seasonally adjusted unemployment rate remained at historically low levels, falling to 6.2% in December, compared to 6.3% in September. Similarly, it averaged 6.2% in the quarter under review, down from 6.3% in the third quarter (see Chart 1.2).

<sup>3</sup> Employment data refer to the national accounts, total employment domestic concept. Data are seasonally and calendar adjusted.

### *Inflation rebounds, mainly reflecting energy price developments*

Inflation in the euro area picked up in the fourth quarter. The annual rate of inflation based on the HICP stood at 2.4% in December, up from 1.7% in September (see Chart 1.5). The increase in overall inflation reflected marginal increases in almost all the major HICP components, but it was mainly generated by developments in energy prices.



Turning to the major HICP components, energy prices rose at an annual rate of 0.1% in December, as against a drop of 6.1% in September. This partly reflected a base effect, as energy prices had fallen sharply during the final quarter of 2023, whereas they picked up marginally during the quarter under review. The annual rate of processed food inflation (including alcohol and tobacco) increased to 2.9% in December, from 2.6% in September, while the annual rate of NEIG inflation inched up to 0.5% in December, compared to 0.4% three months earlier. Services inflation remained persistent and, indeed, rose slightly to an annual rate of 4.0% in December, from 3.9% in September. Meanwhile, unprocessed food prices increased at an annual rate of 1.6% in December, the same as three months before.

Underlying inflationary pressures remained stable during the review period. Thus, one prominent measure of underlying inflation, the annual rate of HICP inflation excluding energy and food prices, stood at 2.7% in December, the same as in September.

### *Real GDP expected to continue to recover gradually, inflation projected to ease further*

According to the ECB staff macroeconomic projections for the euro area, published in March 2025, real GDP growth in the euro area is set to increase to 0.9% in 2025. Real GDP is then expected to expand further by 1.2% and 1.3% in 2026 and 2027, respectively (see Table 1.2). Compared to the December 2024 projections, real GDP growth was revised downwards by 0.2 percentage points for 2025 and 2026, respectively, but was kept unchanged for 2027.

Turning to the outlook for prices, ECB staff foresee HICP inflation to decline to an average of 2.3% in 2025 from 2.4% in 2024, and to ease further to 1.9% in 2026, before it inches up to 2.0% in 2027. Compared to the December 2024 projections, the outlook for headline HICP inflation was revised upwards by 0.2 percentage points for 2025, it remained unchanged for 2026 and was revised downwards by 0.1 percentage points for 2027.

HICP inflation excluding energy and food is expected to decline to an average of 2.2% in 2025 from 2.8% in 2024, and ease further to 2.0% in 2026 and 1.9% in 2027. Underlying inflation expectations were revised downwards by 0.1 percentage points for 2025 and revised upwards by 0.1 percentage points for 2026. For 2027, the expectations for HICP inflation excluding energy and food remained unaltered.

**Table 1.2****MACROECONOMIC PROJECTIONS FOR THE EURO AREA<sup>(1)</sup>***Annual percentage changes*

	2024	2025	2026	2027
<b>GDP</b>	<b>0.8</b>	<b>0.9</b>	<b>1.2</b>	<b>1.3</b>
Private consumption	1.0	1.4	1.2	1.2
Government consumption	2.5	1.2	1.1	1.0
GFCF	-1.8	1.2	1.7	1.4
Exports	0.9	0.8	2.3	2.7
Imports	0.1	1.9	2.6	2.8
<b>HICP</b>	<b>2.4</b>	<b>2.3</b>	<b>1.9</b>	<b>2.0</b>
HICP excluding energy and food	2.8	2.2	2.0	1.9

Source: ECB.

<sup>(1)</sup> ECB staff macroeconomic projections (March 2025).

Trade and fiscal policy announcements after the finalisation of these ECB staff projections resulted in considerably higher uncertainty regarding the outlook for economic growth and inflation in the euro area.<sup>4</sup>

**ECB cuts interest rates further**

On 17 October and again on 12 December 2024, the Governing Council decided to 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. The Council noted that the disinflation process was well on track and most measures of underlying inflation suggested that inflation would settle around the 2% medium-term target on a sustained basis. Although financing conditions were easing, they continued to be tight. The Governing Council restated that it would continue to follow a data-dependent and meeting-by-meeting approach in determining the appropriate monetary policy stance.

At the same meeting, the Governing Council reaffirmed that the APP portfolio was declining at a measured and predictable pace, as the Eurosystem no longer reinvested the principal payments from maturing securities. As to the PEPP portfolio, the Governing Council confirmed that it would discontinue reinvestments under this programme at the end of 2024.<sup>5</sup>

**Money market rates continue to decline**

Money market interest rates in the euro area fell further during the review period, reflecting the reductions in official interest rates and market expectations of further interest rate cuts. Hence, the euro short-term rate (€STR) averaged 3.06% in December, compared to 3.56% in September, as it responded to the reductions in official interest rates in October and in December (see

<sup>4</sup> A fuller account of the ECB Staff macroeconomic projections for the euro area, published in March 2025, is presented in the Bank's *Annual Report for 2024*, which can be accessed via this link: [Part-I-Chp-1.pdf](#).

<sup>5</sup> On 30 January, 6 March and 17 April 2025, the Governing Council lowered the three key ECB interest rates by 25 basis points on each of these occasions. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 2.25%, 2.40% and 2.65%, respectively. The Council reiterated that it was determined to ensure that inflation stabilised sustainably at its 2% medium-term target and that it was not pre-committing to a particular rate path. In the April meeting, the Council stated that especially in current conditions of exceptional uncertainty, it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance.

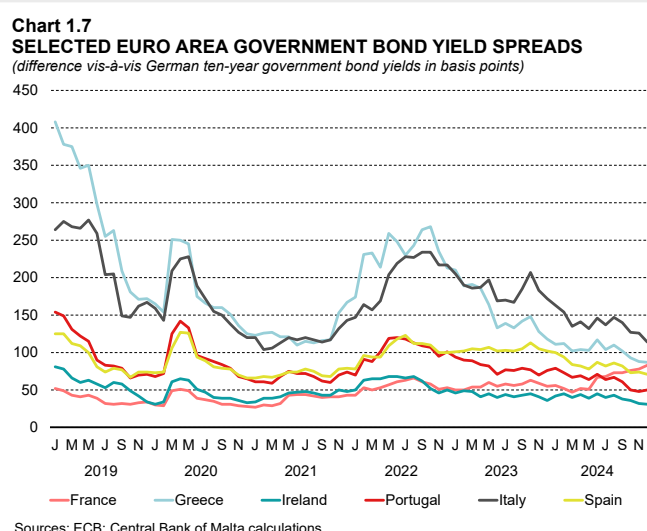
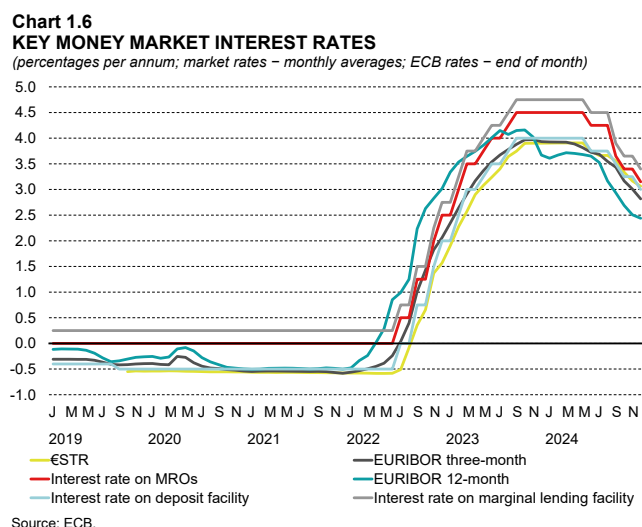
Chart 1.6).<sup>6</sup> The three-month euro interbank offered rate (EURIBOR) averaged 2.82% in December, as against 3.43% three months earlier. The 12-month EURIBOR averaged 2.44% in December, compared to 2.94% in September.<sup>7</sup> The 12-month EURIBOR thus remained 56 basis points below the DFR, indicating that market players expect further reductions in key policy rates.

### *Euro area government bond yields fall slightly further*

The euro area ten-year benchmark government bond yield fell marginally during the fourth quarter. This yield was 2.81% at end-December, compared to 2.83% three months earlier.

Individual sovereign bond yields fell to various extents across almost all euro area countries, mainly reflecting investors' evolving views regarding monetary policy developments going forward as well as changes in risk sentiment and spillovers from the US Treasury market. Thus, sovereign bond yields in the euro area rose somewhat in October through mid-November. However, they dropped notably in the wake of the US Presidential election, implying a small overall fall by the end of the quarter.

Yields rose by 11 basis points, to 3.01%, in France amid lingering uncertainty about the fiscal outlook. In Germany, ten-year sovereign bond yields fluctuated in a narrow range during the quarter, standing at 2.18% at end-December, up by 1 basis point when compared with end-September. They also increased marginally in Belgium and Luxembourg. By contrast, ten-year bond yields fell to various degrees in almost all the other euro area jurisdictions. Notably, in Italy the ten-year bond yield fell by 25 basis



<sup>6</sup> The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. The €STR is published on each T2 business day based on transactions conducted and settled on the previous T2 business day.

<sup>7</sup> The EURIBOR is an interest rate benchmark indicating the average rate at which principal European banks lend unsecured funds on the interbank market in euro for a given period.



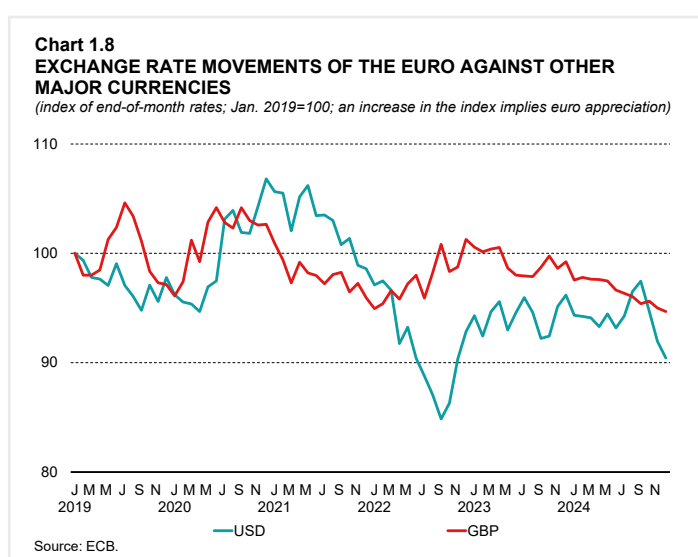
points, to 3.32%. Yields fell by 14 basis points, to 3.05%, in Greece and by around 10 basis points individually in Spain and Portugal to 2.89% and 2.68%, respectively.

As a result, spreads between yields on the ten-year German bonds and those on the bonds issued by most of the other euro area jurisdictions narrowed. As Chart 1.7 shows, this was notably the case in Italy, Greece, Spain and Portugal. On the other hand, the spread between German benchmark yields and those on French government bonds widened by the end of the quarter.

### *The euro depreciates versus the US dollar and in nominal effective terms*

The euro depreciated by 7.2% against the US dollar, more than reversing the gains recorded in the previous quarter, mainly as investors reassessed that the Federal Reserve might be slower in cutting interest rates than expected previously. Changes in the US international trade policy, likely to be implemented by the Trump Administration, favouring US firms, bolstered the allure of US financial assets, in turn underpinning the US dollar (see Chart 1.8). The euro fell by a further 0.7% versus the British pound as the latter continued to benefit from relatively high interest rates. The euro also depreciated against the Hong Kong dollar, the Chinese renminbi, the Swiss franc as well as the Singapore and Canadian dollars, and incurred minor losses versus the Norwegian krone and the Polish zloty. Overall, the nominal effective exchange rate (EER) of the euro against the EER-18 group of countries fell by 2.1% in the three months to end-December 2024.<sup>8</sup>

By contrast, the single currency rebounded against the Japanese yen, as the latter was again negatively affected by very low interest rates in Japan compared to other major jurisdictions. The euro also registered gains against the Hungarian forint, the Korean won, the Swedish krona, the Australian dollar and marginally versus the Czech koruna.



## **Commodities**

### *Oil prices drop slightly whereas natural gas prices continue to increase*

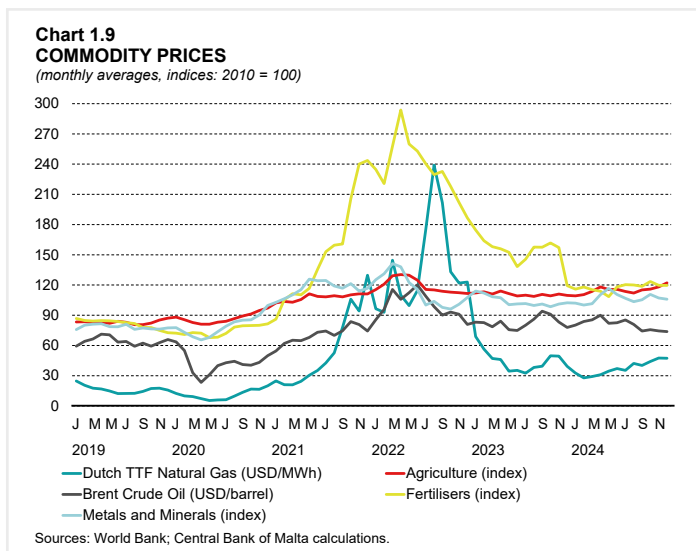
Oil prices fell slightly further in the fourth quarter, amid fluctuations mainly due to geopolitical developments and the global economic outlook. Escalating tensions in the Middle East exerted upward pressure on oil prices in early October. Subsequently, however, prices traded in a narrow range as concerns oscillated between oil supply security and weakening growth in oil demand. Eventually, weak demand from China, sluggish world economic growth and the resumption of Libyan crude output depressed oil prices. Thus, overall, the price of Brent crude oil averaged

<sup>8</sup> The EER-18 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.



USD 73.8 per barrel in December, 0.6% lower than the level prevailing three months earlier. By contrast, the price of European natural gas increased notably further in the quarter under review in anticipation of the expiration of the transit agreement between Russia and Ukraine at the year-end. However, uncertainty eased temporarily in the wake of the US presidential election result, as market participants envisaged a potentially favourable outlook for US fossil fuel exports, mitigating global supply constraints in the medium term. On the demand side, Europe experienced a sharp increase in gas consumption for power generation amid cold and windless weather conditions. Against this background, the average price of Dutch TTF natural gas stood at USD 47.3 per megawatt hour in December, or 17.6% higher than in September (see Chart 1.9).

World Bank data show that non-energy commodity prices rebounded by 4.2% during the quarter under review. This reflected higher prices for agricultural products and, to a lower extent, fertilizers as well as metals and minerals. Meanwhile, prices of precious metals were up by 2.8%.



## 2. OUTPUT AND EMPLOYMENT

Annual real GDP growth rose by 2.8% in the fourth quarter of 2024. Growth was mainly driven by domestic demand, as net exports expanded moderately. This narrative broadly also holds when adjusting the different components for their respective import content.

Sectoral data show that the expansion in output was primarily driven by the services sector, although the manufacturing sector also contributed to the economic expansion.

During the fourth quarter of 2024, developments in the labour market remained positive. The unemployment rate remained low and well below that in the euro area.

The labour market remained tight. The number of job vacancies increased by 3.4% when compared to the fourth quarter of 2023. Meanwhile, the job vacancy rate increased slightly and the labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate, remained unchanged at a high level on a quarterly basis and increased slightly on an annual basis.

### Potential output and Business Conditions Index

#### Potential output grows at a slower rate, output gap narrows

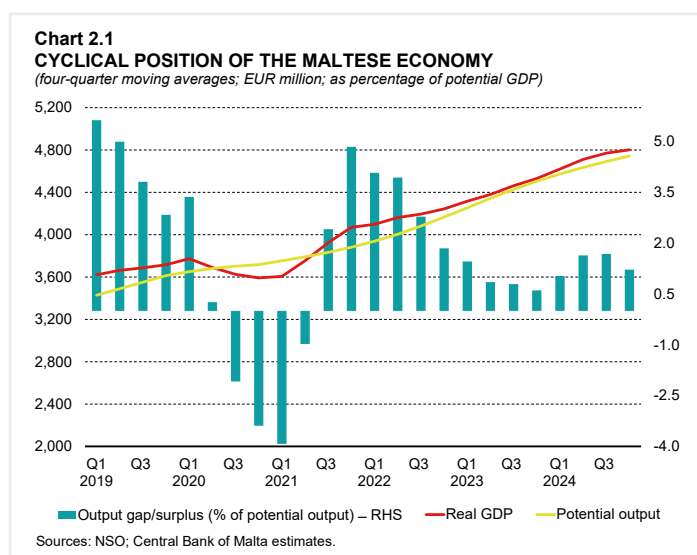
The Bank estimates that potential output growth stood at 4.6% in the fourth quarter of 2024, slightly below that of 4.9% estimated for the third quarter of 2024.

On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter exceeded that in GDP. As a result, the output gap narrowed to 1.2% from 1.7% (see Chart 2.1).

This implies some moderation in the degree of over-utilisation of the economy's productive capacity.

#### BCI stands above historical average

In the fourth quarter of 2024, the Bank's BCI improved slightly compared with the previous quarter. The index indicates that economic growth stands above its long-run average (see Chart 2.2).<sup>1</sup>



<sup>1</sup> The BCI is a synthetic indicator, which includes information from a number of economic variables such as the term structure of interest rates, industrial production, an indicator for the services sector, economic sentiment, tax revenues and private sector credit. By construction, it has an average value of zero over the estimation period since 2000. A full time series can be found at [Business Conditions Index section on the website](#). For further details on the methodology underlying the BCI, see Ellul, R., (2016), [A real-time measure of business conditions in Malta](#), Working Paper 04/2016, Central Bank of Malta.

This partly reflects above average growth in residential permits, tax receipts and industrial production, which offset below average growth in GDP.

### *EPU index increases*

The Bank's EPU index increased to 95.1 in the fourth quarter of 2024, from 69.6 in the third quarter. However, it remains slightly lower than its historical average (see Chart 2.3).<sup>2</sup>

This increase primarily reflects heightened economic and political uncertainty overseas. Key contributors include the aftermath of the US elections and related trade announcements, alongside escalating political uncertainty in Europe, particularly in France and Germany.

### **GDP and industrial production**

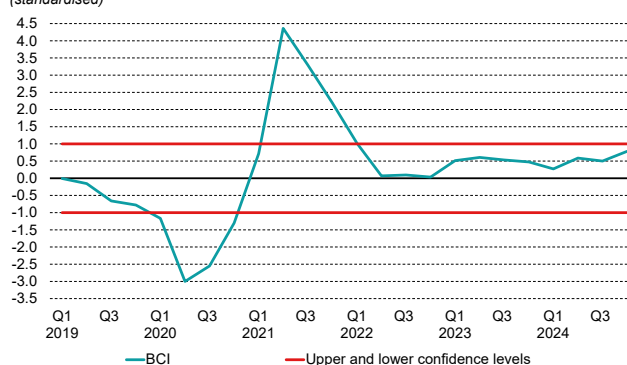
#### *Real GDP growth largely driven by domestic demand*

Real GDP rose by 2.8% on an annual basis, following a 5.0% increase in the previous quarter.<sup>3</sup> Growth was mainly driven by domestic demand, while net exports had a limited contribution (see Table 2.1).

Domestic demand rose by an annual 2.7% in the fourth quarter of 2024, following an increase of 6% in the third. This increase was largely driven by private consumption and government consumption, whilst GFCF contributed negatively to growth. Overall, domestic demand added 2.3 percentage points to GDP growth in the fourth quarter of 2024.

**Chart 2.2**

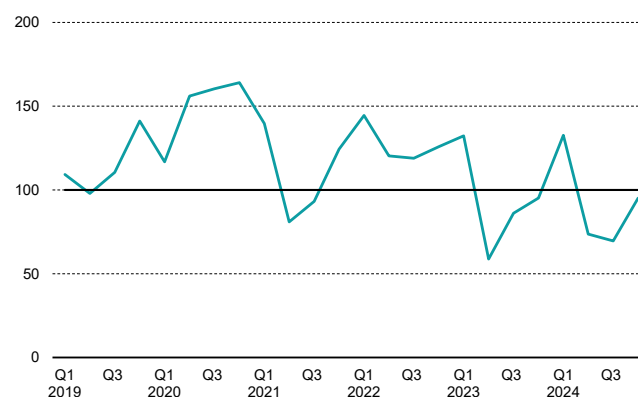
**BCI**  
(standardised)



Source: Central Bank of Malta.

The red lines in the Chart represent the range enclosing one standard deviation on either side of the BCI's long-run value. Repeated readings below the lower band signal that economic activity is significantly below normal economic activity. Readings above the upper band indicate that activity is significantly above normal levels.

**Chart 2.3**  
**EPU INDEX**



Source: Central Bank of Malta.

The index is normalized to 100. Higher values reflect elevated economic and political uncertainty in Malta, while lower values indicate reduced levels of uncertainty.

<sup>2</sup> The EPU Index measures the frequency of economic, policy, and uncertainty-related terms in news articles to quantify the level of policy uncertainty in Malta. By construction, it has an average value of 100 over the estimation period since 2004. A full time series can be found at [EPU Index section on the website](#). For further details on the methodology underlying Malta's EPU index, see Sant, K., Spiteri, S., (2024), [Economic Policy Uncertainty: An Index for Malta](#), Working Paper WP/07/2024, Central Bank of Malta.

<sup>3</sup> The analysis of GDP in this chapter of the *Quarterly Review* is based on NSO *News Release* 035/2025, which was published on 27 February 2025.

**Table 2.1**  
**GDP<sup>(1)</sup>**

	2023		2024		
	Q4	Q1	Q2	Q3	Q4
<i>Annual percentage changes</i>					
Private final consumption expenditure	11.8	8.8	6.0	4.4	4.1
Government final consumption expenditure	7.7	1.3	5.5	9.4	12.5
GFCF	-22.2	7.5	5.7	7.3	-9.3
<b>Domestic demand</b>	<b>0.5</b>	<b>6.9</b>	<b>5.7</b>	<b>6.0</b>	<b>2.7</b>
Exports of goods and services	7.2	8.0	5.9	3.9	3.9
Imports of goods and services	2.9	6.8	3.7	4.4	4.0
<b>GDP</b>	<b>6.3</b>	<b>8.4</b>	<b>8.1</b>	<b>5.0</b>	<b>2.8</b>
<i>Percentage point contributions</i>					
Private final consumption expenditure	5.2	4.0	2.8	2.1	2.0
Government final consumption expenditure	1.4	0.2	0.9	1.4	2.2
GFCF	-6.1	1.4	1.1	1.3	-1.9
Changes in inventories	0.0	0.0	0.0	0.0	0.0
<b>Domestic demand</b>	<b>0.5</b>	<b>5.7</b>	<b>4.8</b>	<b>4.8</b>	<b>2.3</b>
Exports of goods and services	9.2	9.9	7.3	4.8	4.8
Imports of goods and services	-3.4	-7.2	-3.9	-4.7	-4.4
<b>Net exports</b>	<b>5.8</b>	<b>2.7</b>	<b>3.4</b>	<b>0.1</b>	<b>0.4</b>
<b>GDP</b>	<b>6.3</b>	<b>8.4</b>	<b>8.1</b>	<b>5.0</b>	<b>2.8</b>

Sources: NSO; Central Bank of Malta calculations.

<sup>(1)</sup> Chain-linked volumes, reference year 2020.

Private consumption expenditure increased by an annual 4.1% in the fourth quarter of 2024, following a 4.4% increase in the previous quarter. It added 2.0 percentage points to real GDP growth in the quarter under review.

Data on the Classification of Individual Consumption by Purpose (COICOP) show increases in most expenditure categories, with the strongest in absolute terms recorded in spending on restaurant and accommodation services. This was followed by higher spending on housing and utilities and on recreation, sport and culture. On the other hand, spending on insurance and financial services declined from its relatively high level in the last quarter of 2023. Spending on personal care and related services also decreased, although to a significantly lesser degree.

COICOP data measure domestic consumption and thus, include the expenditure of non-residents in Malta while excluding the expenditure of Maltese residents abroad. Certain COICOP categories continued to be supported by a strong increase in non-residents' expenditure in Malta. Nonetheless, the remaining part of domestic consumption, referring to the expenditure of Maltese residents, also rose. Meanwhile, the expenditure of Maltese residents abroad also increased on its year-ago level, partly reflecting an increase in trips over the same period.

Government consumption expenditure increased by 12.5% in annual terms, following an increase of 9.4% in the third quarter of 2024. The latest increase is largely due to higher outlays on compensation of employees, followed by higher spending on intermediate consumption. The former surged partly due to new collective agreements in the education and health sectors. Intermediate

consumption rose mainly due to higher spending in the health and public administration sectors. Overall, government consumption added 2.2 percentage points to GDP growth.

Real GFCF decreased by 9.3% in the fourth quarter of 2024, following an increase of 7.3% in the previous quarter. The decrease in the quarter under review was largely driven by lower outlays on machinery and equipment. Smaller decreases, on dwellings and other buildings and structures were also recorded. On the other hand, outlays on intellectual property increased. A marginal increase was also recorded in spending on cultivated biological resources. GFCF lowered GDP growth by 1.9 percentage points.

The contribution of changes in inventories in the fourth quarter of 2024 was zero.

Meanwhile, imports rose by 4%, while exports increased by 3.9% on a year earlier. Nevertheless, when expressed in absolute terms, the increase in exports was stronger. As a result, net exports grew slightly and contributed 0.4 percentage points to annual real GDP growth. A lower deficit from trade in goods was counterbalanced by a smaller surplus from trade in services.

The contributions shown in Table 2.1 are consistent with the approach normally followed in official databases and economic publications. However, they do not account for the variation in import content across different expenditure components and thus, fail to represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 2.2 presents import-adjusted contributions, which address this limitation by apportioning imports to the respective demand components.<sup>4</sup>

As in the traditional approach, import-adjusted contributions show that domestic demand was the main contributor to real GDP growth in the fourth quarter of 2024, led by government consumption.

**Table 2.2**  
**IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH<sup>(1)</sup>**

	2023		2024		
	Q4	Q1	Q2	Q3	Q4
<i>Percentage point contributions</i>					
Private final consumption expenditure	3.3	2.7	2.1	1.3	0.9
Government final consumption expenditure	1.2	0.2	0.8	1.2	1.8
GFCF	-2.2	0.7	0.7	0.5	-0.9
Changes in inventories	-0.2	0.0	-0.1	0.0	0.0
<b>Domestic demand</b>	<b>2.1</b>	<b>3.6</b>	<b>3.5</b>	<b>3.0</b>	<b>1.9</b>
<b>Exports of goods and services</b>	<b>4.2</b>	<b>4.8</b>	<b>4.6</b>	<b>1.9</b>	<b>0.9</b>
<b>GDP</b>	<b>6.3</b>	<b>8.4</b>	<b>8.1</b>	<b>5.0</b>	<b>2.8</b>

Source: Central Bank of Malta estimates.

<sup>(1)</sup> Chain-linked volumes, reference year 2020.

<sup>4</sup> The process with which components are adjusted is currently being reviewed to consider the August 2024 benchmark revision to the national accounts.

### Services remain the main driver of economic growth

Data based on the output approach show that in the fourth quarter of 2024, real GVA rose by 0.9% in annual terms and added 0.9 percentage points to GDP growth (see Table 2.3).<sup>5</sup>

Services remained the main driver behind the latest economic expansion, adding 1.7 percentage points to real GDP growth. Growth in services was partly spurred by the financial and insurance activities sector and public administration, education and health sector, which both contributed around 0.9 percentage points each. The real sector comprising wholesale and retail trade and related activities contributed a further 0.6 points, while the real estate sector added 0.2 points to GDP growth. By contrast, the sectors comprising information and communication technology (ICT), professional services and arts and entertainment lowered GDP growth by 0.7 points.

The manufacturing sector added 0.3 percentage points to growth, while GVA in construction was broadly flat.

Net taxes on products increased on a year earlier. This partly reflects a year-on-year decline in subsidies, due to lower outlays on support measures towards retaining fixed energy prices and for winding down Air Malta.

**Table 2.3**

#### CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH

*Percentage points*

	2023		2024		
	Q4	Q1	Q2	Q3	Q4
Agriculture, forestry and fishing	0.5	0.1	0.5	-1.0	-1.2
Mining and quarrying; utilities	0.5	-0.3	-0.4	0.4	0.1
Manufacturing	0.2	0.4	0.4	0.7	0.3
Construction	0.2	0.5	0.4	0.1	0.0
Services	4.1	5.0	3.9	2.8	1.7
<i>of which:</i>					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	0.1	1.0	0.7	1.2	0.4
Information and communication	-0.2	0.1	0.2	-0.1	0.0
Financial and insurance activities	-0.1	0.5	0.5	0.1	0.9
Real estate activities	1.2	0.9	0.8	0.4	0.2
Professional, scientific, administrative and related activities	2.1	1.8	0.5	0.9	-0.6
Public administration and defence; education; health and related activities	0.7	0.7	0.9	0.9	0.9
Arts, entertainment; household repair and related services	0.2	0.0	0.2	-0.5	-0.1
<b>GVA</b>	<b>5.6</b>	<b>5.8</b>	<b>4.8</b>	<b>3.0</b>	<b>0.9</b>
<b>Taxes less subsidies on products</b>	<b>0.7</b>	<b>2.6</b>	<b>3.3</b>	<b>1.9</b>	<b>1.9</b>
<b>Annual real GDP growth (%)</b>	<b>6.3</b>	<b>8.4</b>	<b>8.1</b>	<b>5.0</b>	<b>2.8</b>

Source: NSO.

<sup>5</sup> The difference between GDP and GVA is made up of taxes on products, net of subsidies.

### Nominal GDP growth remains strong

Nominal GDP rose by 5.7% in annual terms in the fourth quarter of 2024, after increasing by 8.1% in the preceding quarter. This increase was mostly driven by compensation of employees. Operating surplus increased moderately in annual terms whilst net taxes slightly decreased. The slowdown in nominal GDP growth was mostly due to operating surplus.

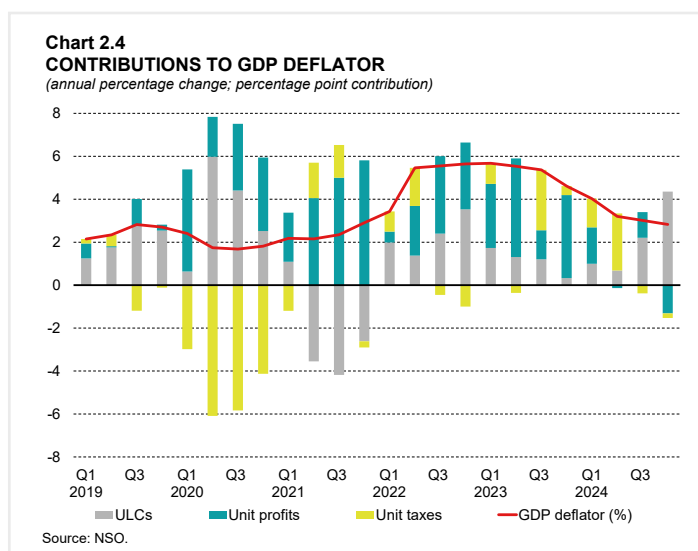


Chart 2.4 shows the main contributors to growth in the GDP deflator. Annual growth in the GDP deflator stood at 2.8% in the fourth quarter of 2024, following a 3% increase in the previous quarter.

Unit labour costs exhibited a larger contribution. Meanwhile, the contribution of unit profits turned negative following a positive contribution in the previous quarter. The contribution of unit taxes remained marginally negative. Unit profits explain the moderate decrease in the annual rate of change of the GDP deflator in the fourth quarter.

### Industrial production increases at a faster pace

Industrial production rose at an annual rate of 11.4% in the fourth quarter of 2024 – thus at a significantly faster pace when compared with the increase of 1.8% recorded in the third quarter.<sup>6</sup>

The acceleration partly mirrored developments in the manufacturing sector, where production increased at an annual rate of 11.9% in the final quarter of 2024, after rising by 2.2% in the preceding quarter. Meanwhile, production in the energy sector rose after having contracted since the third quarter of 2023. It rose by 5.6% in the last quarter of 2024, following a contraction of 7.6% in the preceding quarter.<sup>7</sup> By contrast, production in the quarrying sector contracted.

In the manufacturing sector, the strongest increase in output was reported among firms classified in the sectors of motor vehicles, trailers and semi-trailers, and those classified under ‘other manufacturing’ – which includes firms that produce medical and dental instruments. Production also increased significantly among firms that manufacture computer, electronic and optical goods and those that produce fabricated metal products, machinery and equipment, furniture, rubber, plastic and wood products. Higher production was also recorded among firms involved in the repair and installation of machinery and equipment, and in the production of electrical equipment and food, although growth in these sectors was more moderate relative to the aforementioned ones.

<sup>6</sup> Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added and is expressed in nominal terms. Industrial production is a measure of the volume of output and takes no account of input costs. The sectoral coverage between the two measures also differs since industrial production data also include the output of the energy and quarrying sectors.

<sup>7</sup> Industrial production in the energy sector excludes energy generated abroad and imported through the interconnector.



These increases offset decreases in the production of textiles and wearing apparel. Smaller but significant declines were also recorded among firms involved in the manufacture of chemical products and certain non-metallic mineral products. Production also contracted in the pharmaceuticals and beverages sectors and among firms involved in the printing and reproduction of recorded media.

By contrast to industrial production, during the fourth quarter of 2024, the index of services production – which measures the volume of activity in services industries excluding trade, financial and public services – slowed down. It rose by 4.8% on an annual basis compared with an increase of 12.3% recorded in the preceding quarter.

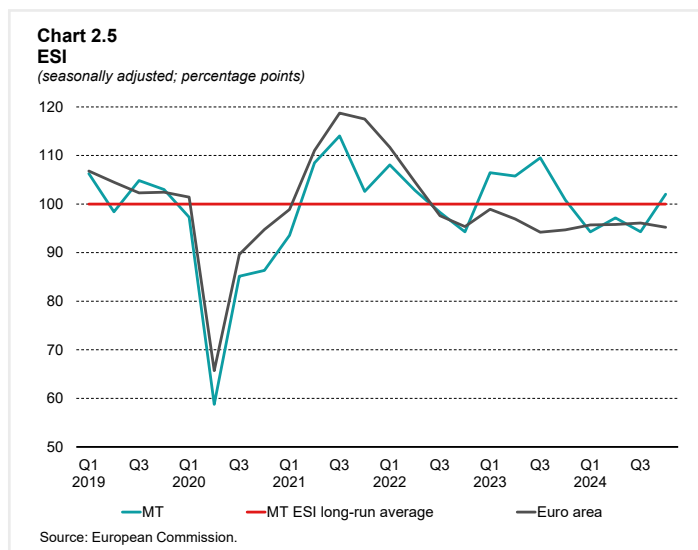
The strongest gains were recorded in the sector comprising real estate activities, transportation and storage as well as the accommodation sector. Smaller increases were reported by firms involved in information and communication and in professional, scientific and technical activities, while firms offering administrative and support services, and food and beverage services reported marginal growth.

### Business and consumer surveys

During the fourth quarter of 2024, the European Commission's ESI for Malta increased to 102.0, from 94.3 in the preceding quarter, thus rising above its long-term average of around 100.0. Furthermore, the overall indicator stood above that in the euro area, which averaged 95.2 (see Chart 2.5).<sup>8,9</sup>

When compared with the third quarter of 2024, confidence improved across all sectors, bar the retail sector. The strongest increases were recorded in the services and construction sectors. Notwithstanding the broad-based uptick compared with the previous quarter, confidence remained negative in most sectors.

When accounting for the weights assigned to each sector, and the time variation of the confidence indicator for each sector, the increase in the ESI relative to the third quarter of 2024 was largely driven by industry and the services sector.<sup>10</sup> The services sector and



<sup>8</sup> The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

<sup>9</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data for Malta became available in November 2002, while for services and construction data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. The long-term average of the ESI is computed from November 2002.

<sup>10</sup> Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

consumers explain why the overall ESI stood above the long-term average (see Chart 2.6).

### *Confidence in the services sector improves<sup>11</sup>*

The confidence indicator in the services sector increased to 29.3, from 15.9 in the previous quarter. Sentiment in this sector rose above its long-term average of 19.5 (see Chart 2.7). All components of the indicator contributed to the latest increase in sentiment, with the most significant increases visible in firms' assessment of the business situation and of demand over the past three months.

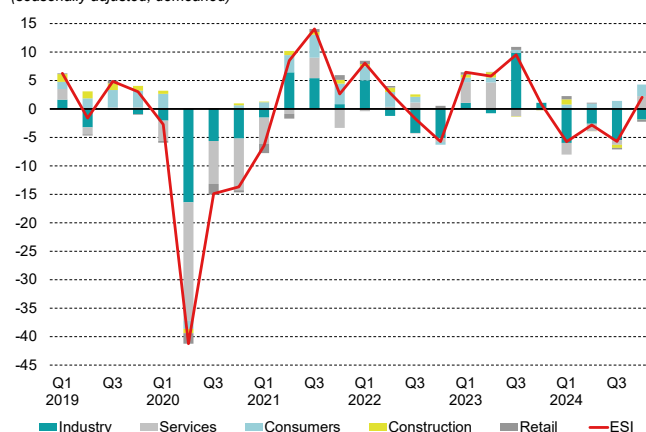
### *Confidence in the construction sector improves but remains negative<sup>12</sup>*

In the fourth quarter of 2024, the indicator measuring confidence in the construction sector remained below its long-term average of -7.9. It averaged -8.2, up from -20.3 in the previous three-month period (see Chart 2.8).

Both components of the indicator contributed to the latest improvement in sentiment, with the most significant one observed in employment expectations, although both elements kept the indicator negative.

**Chart 2.6**  
**ESI**

(seasonally adjusted; demeaned)

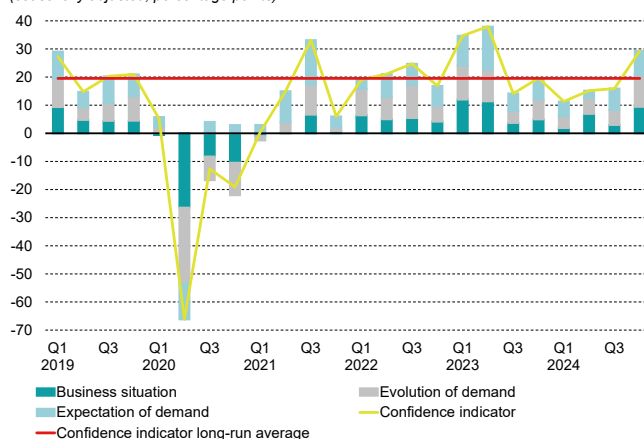


Sources: European Commission; Central Bank of Malta workings.

**Chart 2.7**

**SERVICES CONFIDENCE INDICATOR**

(seasonally adjusted; percentage points)

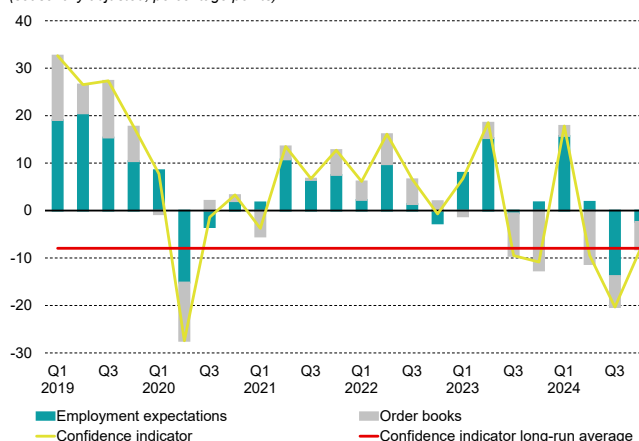


Source: European Commission.

**Chart 2.8**

**CONSTRUCTION CONFIDENCE INDICATOR**

(seasonally adjusted; percentage points)



Source: European Commission.

<sup>11</sup> The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months, and demand expectations in the subsequent three months.

<sup>12</sup> The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and to employment expectations over the subsequent three months.

### Industrial confidence remains below its long-term average<sup>13</sup>

The industrial confidence indicator increased to -9.2, from an average of -17.7 in the previous three-month period and remained below its long-term average of -4.4 (see Chart 2.9). The recent amelioration for this sector reflected improvements in all its components, particularly in the assessment of stocks of finished products.

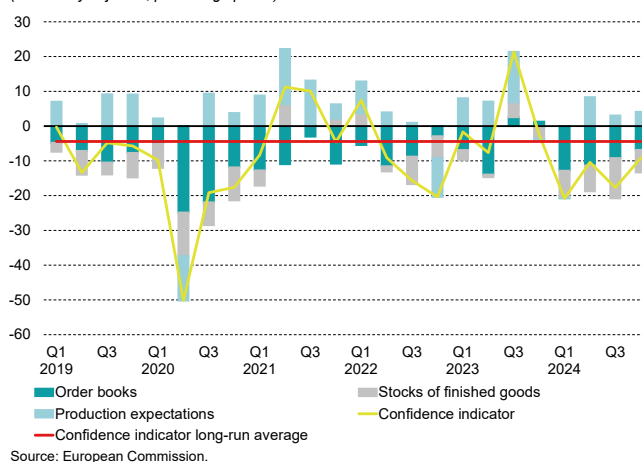
### Consumer confidence improves but remains negative<sup>14</sup>

The consumer confidence indicator averaged -2.5 during the fourth quarter of 2024, above the -5.9 recorded in the previous quarter, and its long-run average of -10.1 (see Chart 2.10). The recent amelioration reflected an improvement across all components of the confidence indicator. Nevertheless, the largest improvement was reflected in consumers' expectations about the general economic situation, which however remained negative.

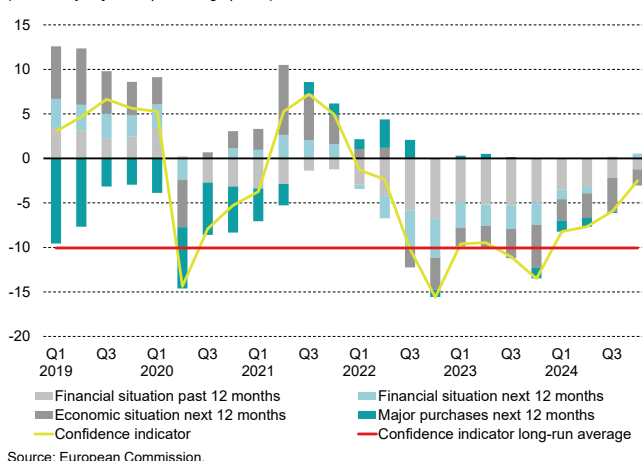
### Sentiment among retailers declined further<sup>15</sup>

The indicator of sentiment in the retail sector stood at -10.9 in the fourth quarter of 2024, down from -9.7 in the previous quarter, and fell further below its long-term average of 0.1. The recent fall in sentiment was driven by a significant deterioration in business expectations for the next three months, which fell significantly into negative territory. On the other hand, retailers' assessment of sales over the past three months improved, though remaining slightly negative. Furthermore,

**Chart 2.9**  
**INDUSTRIAL CONFIDENCE INDICATOR**  
(seasonally adjusted; percentage points)



**Chart 2.10**  
**CONSUMER CONFIDENCE INDICATOR**  
(seasonally adjusted; percentage points)



<sup>13</sup> The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

<sup>14</sup> The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation, and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

<sup>15</sup> The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

the net share of respondents assessing stocks of finished goods to be above normal levels remained unchanged (see Chart 2.11).

### *Employment Expectations Indicator (EEI) increases further above its long-run average*

The EEI – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased in the fourth quarter of 2024. During the fourth quarter of 2024, it averaged 103.9, above 101.7 in the preceding quarter, and above its long-term average of around 100.0. The index also stood above the euro area average of 98.3.<sup>16</sup>

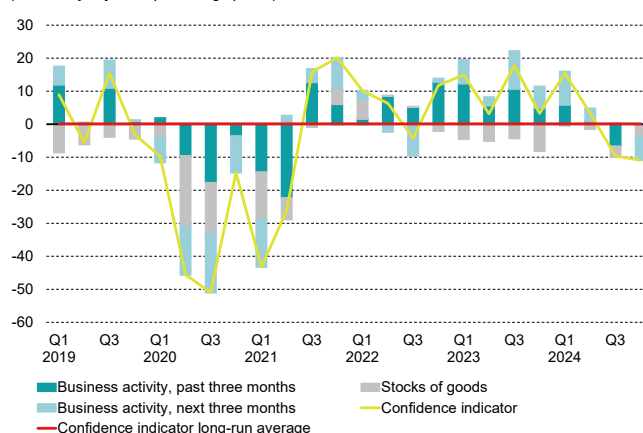
During the quarter under review, employment expectations were positive across all productive sectors, except in the construction and retail sectors. The most positive reading was recorded in the services sector.

Demeaned data suggest that the small increase relative to the preceding quarter was mostly driven by industry and the construction sector (see Chart 2.12). The services sector largely explains why the overall EEI stood above its long-term average.

### *Economic Uncertainty Indicator (EUI) increases slightly*

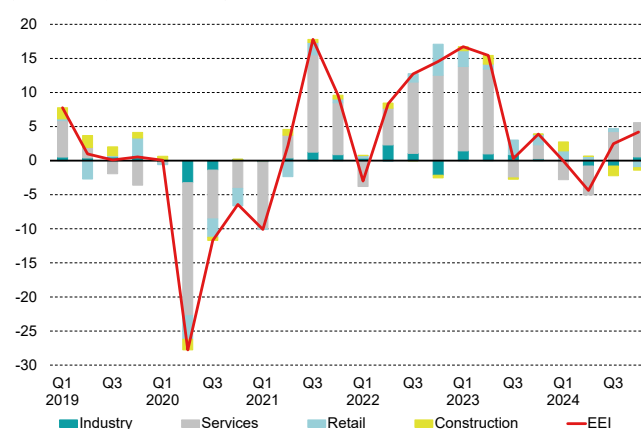
The European Commission's EUI is a composite indicator which measures how difficult it is for sectors to make predictions about their future financial or business situation. In Malta, this indicator increased to 15.1 in the fourth quarter of the year, from 14.6 in the preceding quarter (see Chart 2.13). The indicator however remained below that in the euro area, which averaged 18.4.<sup>17,18</sup>

**Chart 2.11**  
**RETAIL CONFIDENCE INDICATOR**  
(seasonally adjusted; percentage points)



Source: European Commission.

**Chart 2.12**  
**EEI**  
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

<sup>16</sup> The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four-balance series expressed in standardised form. Further information on the compilation of the EEI is available in European Commission (2020). *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

<sup>17</sup> The EUI is made up of five balances (in percentage points) which summarise managers'/consumers' answers to a question asking them to indicate how difficult it is to make predictions about their future business/financial situation. The series are not seasonally adjusted. The five-balance series are summarised in one composite indicator using the same weights used to construct the ESI. The questions asked correspond to Q51 of the industry survey, Q31 of the services survey, Q41 of the retail trade and construction surveys and Q21 of the consumer survey.

<sup>18</sup> Data on consumer uncertainty became available in October 2020, while data for industry, services, retail, and construction became available in May 2021.

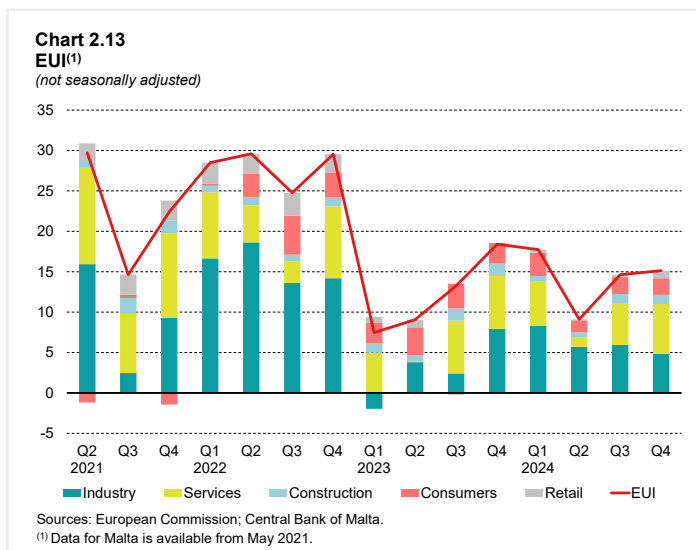
Uncertainty increased in the retail and services sectors, while it decreased in the remaining sectors. The strongest increase was recorded in the retail sector.

When considering each sector's weight and past volatility, the services sector and industry had the highest contributions to uncertainty during the quarter under review.

### The labour market<sup>19</sup>

#### *Labour force increases at a slightly slower pace, activity rate increases*

LFS data show that in the fourth quarter of 2024, the labour force grew by 12,820 persons, or 4.0% on an annual basis, following a 4.3% increase in the previous quarter (see Table 2.4).<sup>20</sup>



**Table 2.4**

#### **LABOUR MARKET INDICATORS BASED ON THE LFS**

*Persons; annual percentage changes*

	2023 Q4	2024 Q4	Annual change %
<b>Labour force</b>	<b>322,377</b>	<b>335,197</b>	<b>4.0</b>
Employed	312,365	325,631	4.2
<i>By type of employment:</i>			
Full-time	275,668	289,277	4.9
Part-time	36,697	36,354	-0.9
Unemployed	10,012	9,566	-4.5
<b>Activity rate (%)</b>	<b>81.3</b>	<b>83.3</b>	
Male	88.1	89.2	
Female	73.0	76.0	
<b>Employment rate (%)</b>	<b>78.7</b>	<b>80.8</b>	
Male	85.2	86.7	
Female	70.9	73.7	
<b>Unemployment rate (%)</b>	<b>3.1</b>	<b>2.9</b>	
<b>Actual hours worked (per week)</b>	<b>32.8</b>	<b>34.7</b>	

Source: NSO.

<sup>19</sup> This section draws mainly on labour market statistics from two sources: the LFS, which is a household survey conducted by the NSO based on definitions set by the International Labour Organization (ILO) and Eurostat; and administrative records compiled by Jobsplus according to definitions established by domestic legislation on employment and social security benefits.

<sup>20</sup> The LFS defines the labour force as all persons aged 15 and over who are active in the labour market. This includes those in employment, whether full-time or part-time, and the unemployed, defined as those persons without work but who were actively seeking a job during the previous four weeks and available for work within two weeks of the reference period.

The activity rate stood at 83.3% in the quarter under review, higher than the 81.3% recorded a year earlier.<sup>21</sup> This was due to increases in both the female participation rate, and that of males, although the increase in the former was more significant. While the male participation rate increased by 1.1 percentage points to 89.2%, that of females increased by 3.0 percentage points to 76.0%. Both rates exceeded the corresponding rates for the euro area, with the rate for males exhibiting a larger difference.

### *Employment increases at a slower pace*

Employment rose by 4.2% in annual terms, following a rise of 5.0% in the previous quarter. The increase in absolute terms was driven by full-time employment, as this rose by 13,609 persons, or 4.9% on a year earlier. This increase mainly stemmed from the sector comprising transportation and storage, the public administration, the sector comprising arts and entertainment, and construction.

The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – declined by 343, or 0.9% in annual terms. This decrease was mostly driven by the sector comprising financial and insurance activities, the sector comprising the arts and entertainment and manufacturing. A smaller decline was also reported for the education sector.

In the last quarter of 2024, the overall employment rate reached 80.8%, 2.1 percentage points higher than the rate prevailing during the same period of 2023.<sup>22</sup> Both the female and male employment rate increased in annual terms. However, the female rate recorded a more significant increase. The female employment rate rose by 2.9 percentage points to 73.7%, while that of males rose by 1.5 percentage points to 86.7%. These increases were driven by those in the 55 to 64 age bracket and, to a lesser extent, by those aged 25 to 54. Meanwhile, the employment rate for the 15 to 24 age bracket decreased, particularly among females.

During the quarter under review, average weekly hours worked derived from the LFS increased to 34.7, from 32.8 a year earlier (See Table 2.4).<sup>23</sup> This increase was reported by both full-time and part-time employees.

### *The unemployment rate reaches a new low*

The unemployment rate based on the LFS fell to 2.9%, from 3.1% a year earlier (see Table 2.4). This reflects continued strong demand for labour.<sup>24</sup> Labour market conditions remained more favourable than those in the euro area, where the unemployment rate on average stood at 6.1% (see Chart 2.14).

<sup>21</sup> The activity rate measures the number of persons in the labour force aged between 15 and 64 as a proportion of the working age population, which is defined as all those aged 15 to 64 years.

<sup>22</sup> The employment rate measures the number of persons aged between 15 and 64 employed on a full-time or part-time basis as a proportion of the working-age population.

<sup>23</sup> Actual hours refer to the number of hours actually spent at the place of work during the reference week for LFS. A person may work extra hours (e.g. overtime, variable hours) or work less hours than usual (e.g. vacation leave, education, sick leave or slack work) due to various reasons. Owing to increased flexibility at workplaces coupled with technology, the place of work may also include one's home. In this regard, actual hours worked also include the hours of work conducted by persons who telework.

<sup>24</sup> According to the LFS, the unemployed comprise persons aged between 15 and 74 years who are without work, available for work and who have actively sought work during the four weeks preceding the Survey. In contrast, the number of unemployed on the basis of the Jobsplus definition includes only those persons registering for work under Part 1 and Part 2 of the unemployment register.

During the quarter under review, the unemployment rate also stood below the Bank's structural measure of 3.5%.<sup>25</sup> This indicates a degree of labour market tightness, which is also confirmed by the Bank's Business Dialogue publication and other indicators (see below).

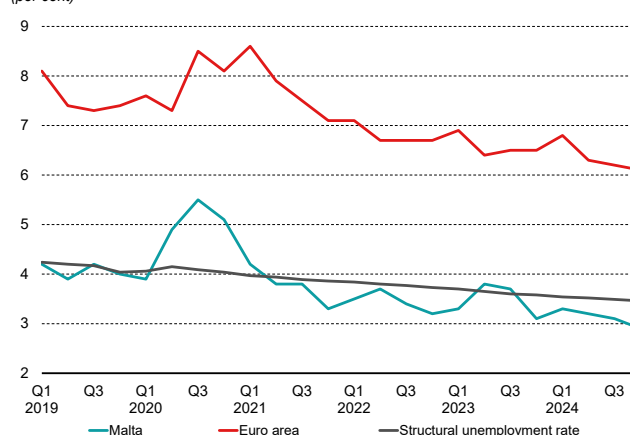
Jobsplus data show that the number of persons on the unemployment register decreased on a quarterly basis but increased in annual terms. During the fourth quarter of 2024, the average number of persons on the unemployment register stood at 1,090, compared with 1,123 in the third quarter of 2024 and with 955 a year earlier (see Chart 2.15).

### *The vacancy rate increases slightly, labour market tightness persists*

In absolute terms the number of vacancies increased from 7,630 in the fourth quarter of 2023 to 7,892 in the quarter under review, that is, a 3.4% increase. The sector comprising professional, scientific and technical activities accounted for most of this increase.

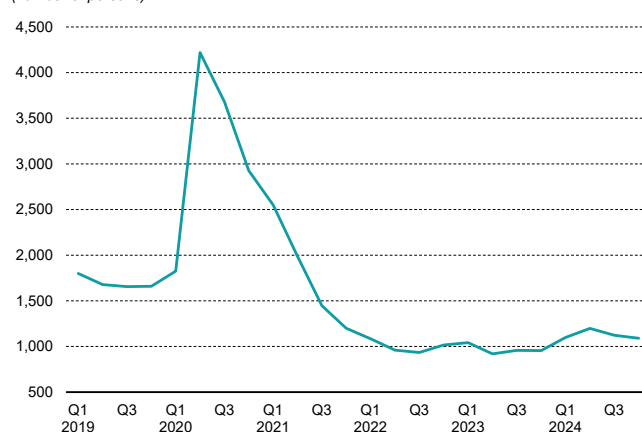
Eurostat's job vacancy rate for industry, construction and services also increased over this period, reaching 2.9% from 2.8% a year earlier (see Chart 2.16).<sup>26</sup> The highest vacancy rates were recorded in the mining and quarrying sector (5.4%), in the information and communication sector (5.3%), and in the sector comprising administrative and support service activities (4.4%). Vacancy rates were also high in the sectors comprising professional services, arts and entertainment activities, real estate, and transportation and storage; in all cases standing slightly above 4.0%.

**Chart 2.14**  
**UNEMPLOYMENT RATE**  
(per cent)



Sources: Eurostat; NSO; Central Bank of Malta.

**Chart 2.15**  
**REGISTERED UNEMPLOYED**  
(number of persons)



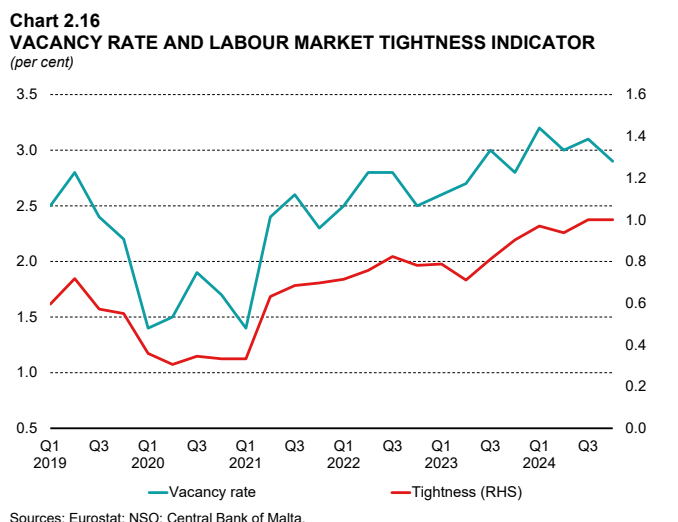
Source: NSO.

<sup>25</sup> The structural unemployment rate in this chapter refers to the non-accelerating inflation rate of unemployment (NAIRU), that is, the unemployment rate that is consistent with stable inflation. This measure of the unemployment rate is based on an unobserved components model (UCMPF). For further details, see Borg, I. (2023), Box 1: Latest Estimates of the NAIRU, *Outlook for the Maltese Economy 2023:1*, pp. 7-9 and Ellul, R. (2019), Box 1: An Unobserved Components Model for potential output in Malta, *Quarterly Review 2019:2*, pp. 17-21.

<sup>26</sup> The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant). Data for Malta are available since 2017.

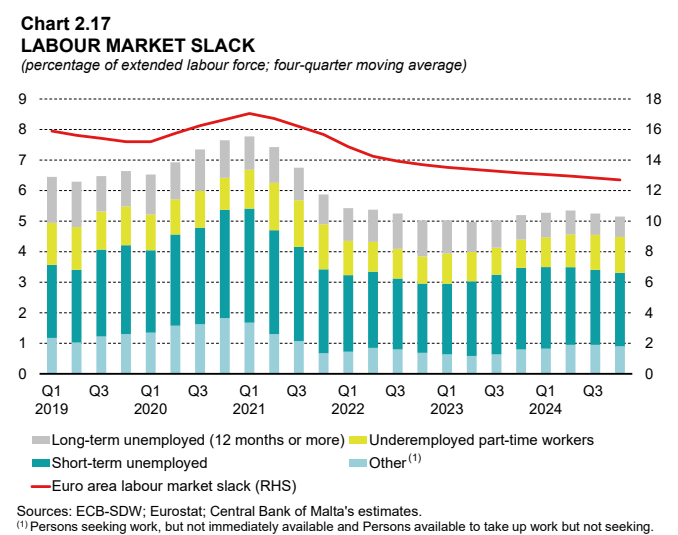


The ratio of the job vacancy rate to the unemployment rate is an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness. During the quarter under review, this ratio stood at 1.0, unchanged from the previous quarter, and just above the ratio of 0.9 recorded a year earlier. Market conditions thus remained very tight compared to recent outturns. This contrasts with the euro area average, where the tightness indicator declined to 0.4. Labour market conditions in the euro area continue to be significantly less tight compared to those in Malta.



To measure better labour market slack (unemployed and underutilised labour), one can consider an extended labour force definition, which in addition to the unemployed, also includes persons available to take up work but not seeking it, persons seeking work but not immediately available, and underemployed part-time workers. By this measure, on a four-quarter moving average basis, labour market slack was equivalent to 5.2% of the extended labour force in the fourth quarter of the year (see Chart 2.17).<sup>27</sup> This rate appears to have stabilised in recent quarters, to a level which is well below its average of 7.9% estimated since 2010. It is also significantly lower than the rate of 12.7% recorded for the euro area over the four quarters to December 2024.

The gap between the broader measure of labour market slack and the unemployment rate declined considerably since its recent peak in early 2021, indicating a reduction in the share of underutilised labour. However, this decline was somewhat interrupted in recent quarters with the gap widening from 1.5 percentage points in the third quarter of 2023 to around 2.1 percentage points in the quarter under review.



<sup>27</sup> For further details on the methodology underlying the measure of labour market slack, see Ellul, R. (2019). Labour Market Slack, *Quarterly Review* 2019:1, pp. 37–41, Central Bank of Malta. Given that this methodology partly relies on internal estimation, the slack indicator reported in this *Review* may differ slightly from that published by Eurostat.

During the four-quarters ending in December, 60% of the labour market slack in Malta stemmed from unemployment (primarily from short-term unemployment). The remaining part of slack was broadly equally distributed across underemployed part-time workers, i.e., those working part-time but willing and able to work additional hours, and the 'other' component in Chart 2.17.

## BOX 1: ASSESSING THE IMPACT OF GDP REVISIONS: A COMPARATIVE ANALYSIS OF PRE- AND POST-REVISION DATA<sup>1</sup>

This box examines the effects of the revisions to the national accounts data, conducted by the NSO during 2024, including the benchmark revision. More specifically, this analysis compares post-revision GDP data (“GDP-NEW”) for the period ending 2024Q4 – which is the last available vintage at the cut-off date of this *Quarterly Review* – with pre-revision data (“GDP-OLD”, i.e. the 2024Q1 vintage, which is the latest vintage preceding the benchmark revision).<sup>2</sup>

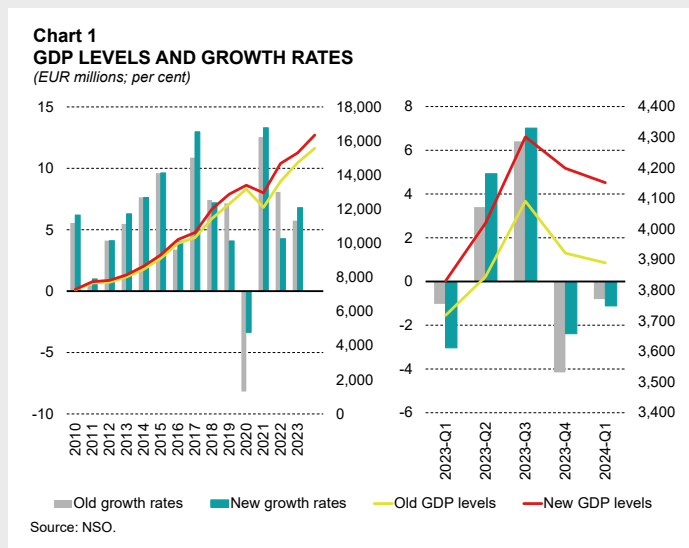
Each section of this study assesses revisions across key metrics derived from the national accounts data. The analysis focuses on annual data from 2010 up until 2023 and also assesses revisions in quarterly data between 2023Q1 and 2024Q1.

During this period, the NSO implemented significant revisions which affected the profile of Malta’s GDP. The main changes occurred as a result of the benchmark revision, which was completed in August 2024. These revisions are part of a coordinated effort across EU member states and aim to enhance national accounts through updated data sources, improved estimation methods, and compliance with international statistical standards. These exercises take place at relatively infrequent intervals.<sup>3</sup>

In addition to the benchmark revisions implemented in August 2024, the NSO also carries out routine revisions outside of this process. The data presented here incorporates both the benchmark revisions and any additional updates introduced in the subsequent two releases following the benchmark.

### Revisions in real GDP levels and growth

This section compares real GDP levels and growth rates before and after revisions. Chart 1 presents a side-by-side comparison of the old and revised GDP levels and growth rates. The chart shows an upward revision in both metrics, on average, over the period considered.



<sup>1</sup> Prepared by Eliza Farrugia, Economist within the Economic Analysis Department of the Bank. The views expressed in this article represent those of the author and should not be interpreted to reflect those of the Bank. Any errors are the author’s own.

<sup>2</sup> GDP-OLD refers to data according to NSO *News Release* 099/2024, which was published on 24 May 2024. GDP-NEW refers to data according to NSO *News Release* 035/2025, which was published on 27 February 2025.

<sup>3</sup> Further information on the nature and scope of the latest benchmark revision is available in a dedicated article by the NSO, available in *Quarterly Review* 2024:4 and on the NSO’s website. See: [Benchmark Revision 2024](#).

An upward revision is evident in the GDP level across all years since 2010. Firstly, a small revision can be seen for 2010, with ‘old’ and ‘new’ levels of €7,680 and €7,752, respectively. Moving forward, the most significant adjustment amounting to just above €1,000 million occurred in 2021, followed by smaller but nevertheless still significant adjustments in 2020 and 2023. Although the latest data continue to show a contraction in 2020, due to the adverse effects of the COVID-19 pandemic, the extent of deterioration was scaled down significantly following the revisions.

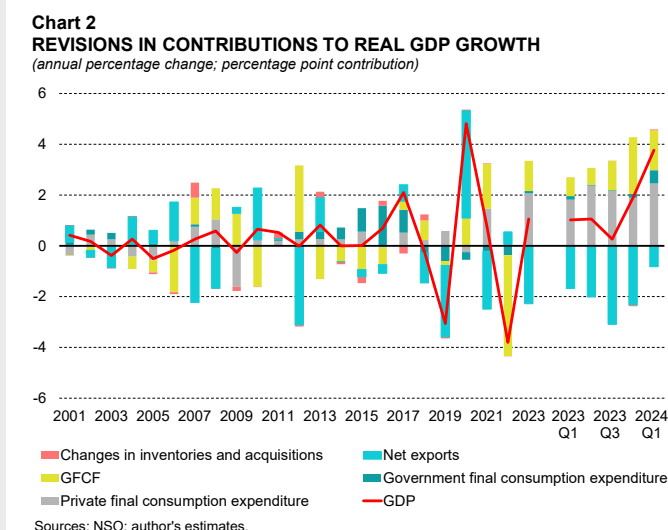
Growth rates have been revised upward overall. This is in line with previous revisions carried out by the NSO.<sup>4</sup> The average growth rate over the period 2010 – 2023 was revised upwards from 5.7% in the 2024Q1 vintage to 6.0% in the latest vintage. In 2020, the growth rate improved significantly, shifting from -8.2% to -3.4%. This is partly due to a base effect stemming from a downward revision to GDP growth in 2019 (from 7.1% to 4.1%). In turn, growth in 2021 was revised up from 12.5% to 13.3%.

The years representing positive or negative growth rates remained unchanged following these revisions. Therefore, all years remained positive apart from 2020 which had negative growth rates in both vintages used for this analysis.

Revisions to data for the first four quarters of 2023 and the first quarter of 2024 exhibit similar patterns, as seen on the right side of the chart. GDP levels have been scaled up while maintaining a similar trend compared with previous data. Meanwhile, revisions to year-on-year growth rates were mostly upward: positive growth rates became more positive while negative growth rates mostly became less negative.

### Revisions in contributions to real GDP growth – expenditure approach

Chart 2 shows revisions in the contribution to real GDP growth components. Until 2016, revisions to individual components mostly offset each other and revisions to real GDP growth over this subperiod were relatively small (less than half a percentage point on average and nil in some individual years). From 2016 onwards, revisions became more significant, and although the average revision was small (0.2



<sup>4</sup> Further information on revisions to Maltese national accounts data is available in a dedicated article by the Central Bank of Malta, available in *Quarterly Review* 2024:3 and on the [bank's website](#).

percentage points) there were revisions to GDP growth in each year, ranging from -3.8 to +4.8 points.

Between 2010 and 2023, the contribution of net exports was revised downwards by an average of 0.3 percentage points. The largest upward revision in the contribution of net exports to GDP growth occurred in 2020 which amounted to an increase by 4.2 percentage points. On the other hand, the largest downward revision occurred in 2013 and amounted to around 3.1 percentage points. Since 2010, net exports contributed positively in nine years, and negatively in six. This compares with four occurrences of a negative net export contribution in the old vintage.

From the domestic demand side, between 2010 and 2023 contributions to GDP growth were revised upwards by 0.6 percentage points on average. The largest positive revision can be observed in 2023, amounting to a 3.3 percentage-point increase. Furthermore, the largest negative revision in the contribution of domestic demand was seen in 2022, when the contribution of domestic demand was revised down by 4.3 percentage points.

On average, the contribution of private final consumption expenditure shows the largest upward revision among the different domestic demand components. This contribution was revised up by around 0.5 points on average since 2010. This reflects revisions to the growth rates of various subcomponents of private consumption. For the period 2010-2023, on average, there were large upward revisions in the growth rates of housing, water, electricity, gas, and other fuels sector. Large upward revisions are also observed in miscellaneous goods and services. On the other hand, on average throughout this period, spending on information and communication and education experienced smaller downward revisions.

The contribution of government final consumption expenditure was impacted to a lesser extent by the latest revisions, with this component's contribution revised up by 0.2 percentage points on average. This average figure, however, masks important differences over time, as the contribution of government consumption was revised up quite significantly through 2017, while it was revised downwards in later years.

Revisions in the contribution of GFCF were also small on average at -0.1 percentage points but show significant variation over time. In particular, there is a striking downward revision in 2022 of 4.0 percentage points, which is counterbalanced by upwards revisions of between 2.6 points in 2012, 1.8 points in 2021 and around 1 point in each of 2020 and 2023. The largest positive revision to growth rates was observed in dwellings investment. On the other hand, the growth rate for investment in other buildings and structures was negative on average. However, these were offset by the positive revisions in growth in the other components.

According to internal estimates, the contribution of changes in inventories was minimally revised on average during the period analysed in this box. Revisions, moreover, were concentrated in the period before 2019.

On a quarterly basis, all components apart from net exports showed positive revisions in their contributions since 2023Q1.

## Revisions in contributions to GDP growth – output approach

In both the GDP-NEW and GDP-OLD datasets, sectoral data indicate that the economic expansion was primarily driven by the services sector. While non-services sectors also contributed, their impact was much less significant, and negative in some years. This contrasts with services, whose contribution was only negative in 2020.

Chart 3 illustrates the revisions in the sectoral contributions to GDP growth.

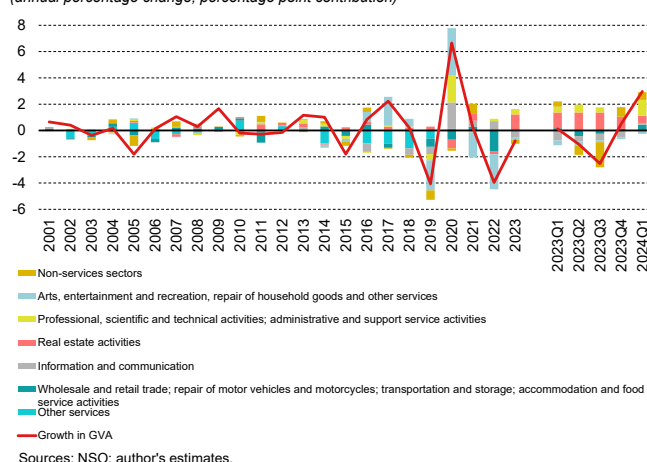
Revisions to GVA growth for the period 2010 to 2012 are small and downward (maximum of -0.3 points each year). However, from 2013 onwards, there were significant revisions to GVA growth, with a broadly neutral impact on average. These revisions ranged between -1.8 and 2.2 percentage points between 2013 and 2017 but were in a range of between -4.1 and 6.7 percentage points in subsequent years, with the largest revisions in absolute terms occurring in 2019, 2020 and 2022.

On average, revisions in the contributions of non-services sectors to GDP growth were small compared to those in services sectors.<sup>5</sup>

Within services, the sector comprising professional, scientific, and technical activities; administrative and support service activities, had the highest contribution according to the latest data, with an average contribution of 1.5 points between 2010 and 2023. This was followed by contributions of around 0.9 points each from the sectors comprising wholesale and retail trade (and related activities) and the ICT sector. Among them, the sector comprising professional services and related activities had the largest upward revision in its contribution of 0.2 percentage points. The real estate sector, whose contribution has been smaller, also saw a broadly similar revision.

After 2017, however, the largest revisions related to the arts and entertainment sector and the professional services sector. On average, the contribution of the former was revised down by 0.5 points, partly because the gaming sector diversified into other sectors than betting, while that of the latter was revised up by 0.4 points.

**Chart 3**  
**REVISIONS IN CONTRIBUTIONS OF SECTORAL DATA**  
(annual percentage change; percentage point contribution)



<sup>5</sup> The non-services sectors are grouped into three main components: (1) Agriculture, forestry and fishing; (2) Mining and quarrying – which includes manufacturing; electricity, gas, steam, and air conditioning supply; and water supply, sewerage, waste management, and remediation activities; and (3) Construction.

The most striking revision affects the year 2020, when GVA growth was revised up by 6.7 percentage points. This was driven by a 3.6 percentage-point contribution of the arts and entertainment sector and 2 percentage-point revisions in the contribution of the sectors comprising professional services and ICT. Despite these upward revisions, it is important to note that overall GVA declined in that year.

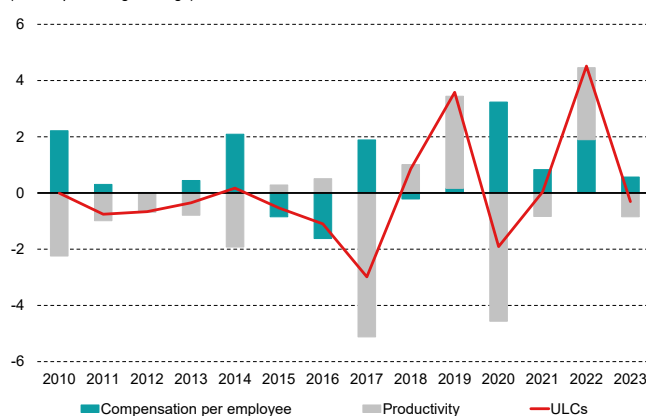
Looking at the more recent period since 2023, revisions to annual growth were up, except in the second and third quarters of 2023. The contributions of real estate activities and professional services were revised up most significantly in this period. On the other hand, on average, the contribution of non-services sectors as well as financial and ICT services were revised down (particularly in 2023).

### Revisions in ULCs

Chart 4 highlights revisions to the growth rate of ULC, with the latter calculated as the ratio of compensation per employee to labour productivity. These revisions were driven by the updated GDP data.

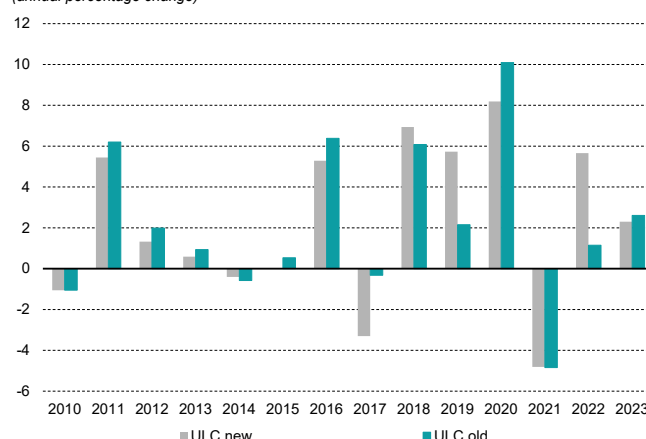
Overall, on average, there were marginal revisions to growth in ULC between 2010 and 2023. However, from 2017 onwards there were large revisions to the growth rate. The largest upward revisions in ULC growth occurred in 2019 and 2022 and amounted to around 3.6 points and 4.5 points, respectively (see Chart 5). On the other hand, the largest downward revisions occurred in 2017 and 2020. These revisions amounted to around 3 points and 2 points, respectively.

**Chart 4**  
**REVISIONS OF ULCs (PER PERSON) IN MALTA**  
(annual percentage change)



Sources: NSO; Central Bank of Malta estimates.  
(1) A rise (drop) in productivity contributes negatively (positively) to ULC growth.

**Chart 5**  
**ULC GROWTH**  
(annual percentage change)



Source: NSO.



In this period, revisions to the contribution of compensation per employee to ULC growth were upward in all years, apart from 2015, 2016 and, to some extent, 2018. On average between 2010 and 2023, the contribution of compensation per employee was revised up by 0.8 percentage points. Meanwhile, the contribution of productivity was revised down by 0.7 points. It should be noted that the contribution of productivity has an inverted sign. This downward revision reflects an upward revision in the rate of growth of this component.

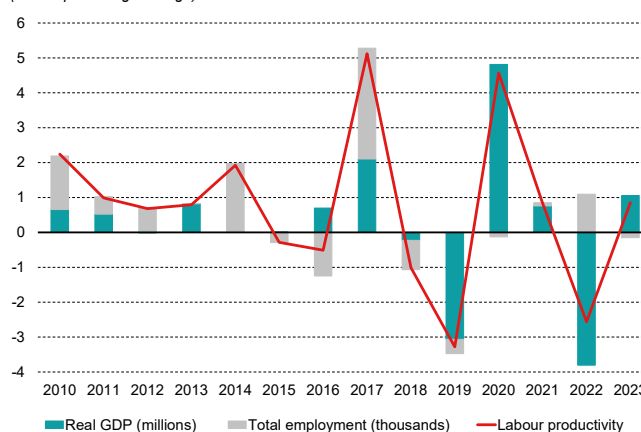
### Revisions in productivity growth

As shown in Chart 6, productivity growth revisions were most significant after 2017. The largest revisions to productivity occurred in 2017 and 2020, amounting to around 5.1 and 4.5 points, respectively (see Chart 7). On the other hand, the largest downward revisions occurred in 2019 and 2022 which amounted to around 3.3 points and 2.6 points, respectively.

Since 2010, the contribution of real GDP to productivity growth was revised up in most years; the largest upward revision occurred in 2020 and amounted to 4.8 points. On the other hand, the largest downward revision in the contribution of GDP stood at 3.8 percentage points and occurred in 2022. However, on average, GDP growth was revised up by only 0.2 points. By contrast, employment growth was revised down by 0.4 percentage points over this period and, in the first part of the period considered here it was the key driver behind the upward revision in productivity growth.

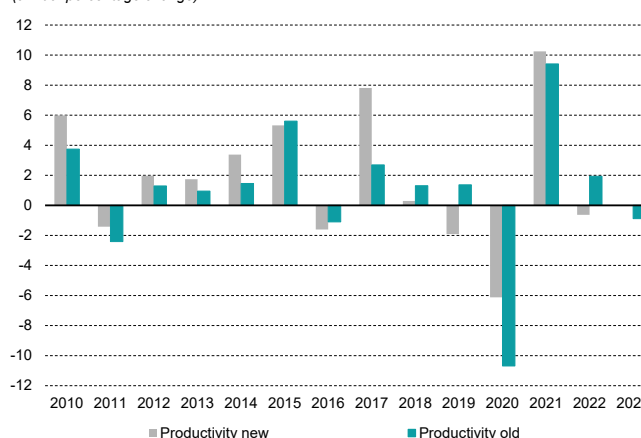
In conclusion, overall GDP levels have experienced upwards revisions, with the profile over time similar to that inherent in the pre-revision vintage,

**Chart 6**  
**REVISIONS IN PRODUCTIVITY**  
(annual percentage change)



Sources: NSO; Central Bank of Malta estimates.

**Chart 7**  
**PRODUCTIVITY GROWTH**  
(annual percentage change)



Source: NSO.

except for a milder contraction in 2020. Revisions to growth rates were largest since 2017, and mostly upward. With regards to revisions in the contributions to real GDP growth, private consumption was affected the most on average. Furthermore, significant positive revisions in the contributions of sectoral data were seen in recent years. These revisions in GDP led to positive revisions in productivity growth on balance, while on average since 2010 revisions to ULC growth were small. However, as the revisions in GDP growth were concentrated in the years since 2017, the growth profile of ULC and productivity changed markedly over this more recent period.

### 3. PRICES, COSTS AND COMPETITIVENESS

Consumer price pressures eased further during the quarter under review. Annual inflation, as measured by the HICP, stood at 1.8% in December, down from 2.1% in September. This was mainly driven by a smaller contribution from food inflation. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – remained unchanged at 1.2% over this period.

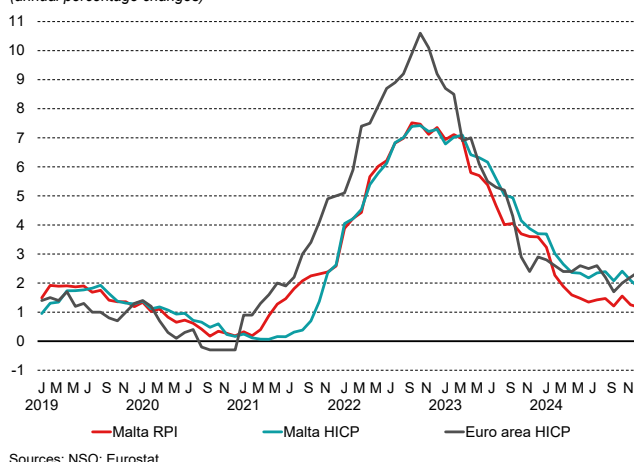
When measured over four quarters, ULCs increased at a faster pace of 5.0%, from 2.3% in the third quarter of 2024. Meanwhile, annual growth in other input cost indicators regularly monitored by the Bank showed mixed dynamics although in most cases they signalled falling price or modest price increases. Among these indicators the import goods deflator had the highest inflation rate, of 3.0%.

#### Inflation

##### HICP inflation eases

Annual HICP inflation eased to 1.8% in December, from 2.1% in September (see Table 3.1).<sup>1</sup> Chart 3.1 shows that this moderation contrasts with developments in the euro area, where inflation rose to end the year at 2.4%. Malta's lower inflation rate in December reflected a lower contribution from food and services inflation (see Chart 3.2). These two components also explain why inflation developments differed in the two economies. In Malta,

**Chart 3.1**  
INFLATION RATES IN MALTA AND IN THE EURO AREA  
(annual percentage changes)



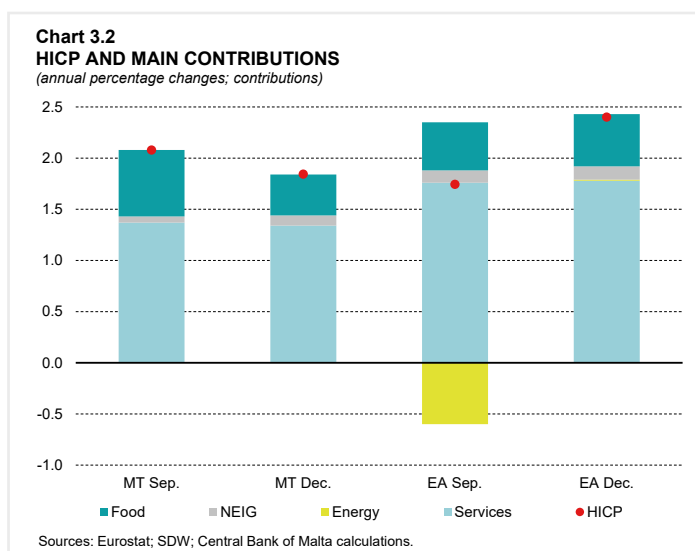
**Table 3.1**  
**HICP INFLATION**  
Annual percentage change

	2024											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Unprocessed food	13.4	5.2	3.5	4.3	5.2	3.7	5.8	3.9	4.5	7.0	4.3	-1.2
Processed food including alcohol and tobacco	7.4	6.1	5.4	4.7	3.9	3.1	3.0	2.8	2.7	2.5	2.6	2.8
Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEIG	1.6	1.7	1.2	1.3	0.9	1.1	0.7	0.4	0.2	0.7	0.1	0.4
Services (overall index excluding goods)	3.1	2.8	2.7	2.1	2.4	2.3	2.7	3.2	2.7	3.0	3.1	3.0
<b>All Items HICP</b>	<b>3.7</b>	<b>3.0</b>	<b>2.7</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.1</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>

Source: Eurostat.

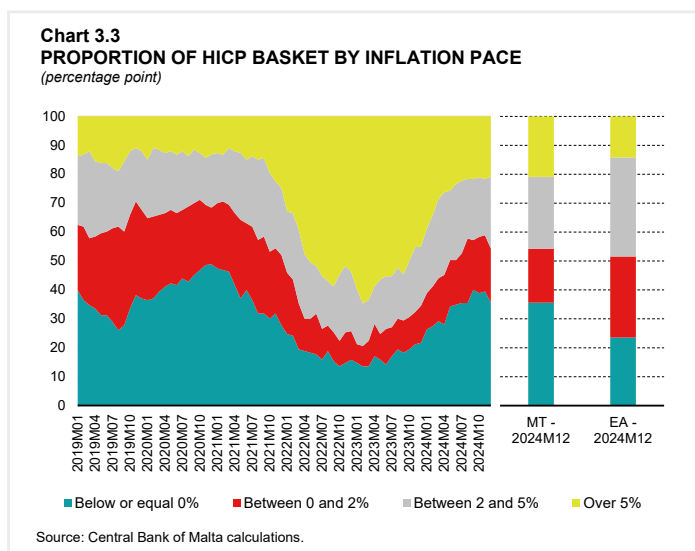
<sup>1</sup> The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2024, the weight allocated to services stood at 44.7%, while that of NEIG was 27.5%. Food accounted for 21.5% of the index, while the share allocated to energy stood at 6.2%. These were revised from 44.3% for services, 27.9% for NEIG, 21.4% for food and 6.5% for energy in 2023.

the contribution of food prices almost halved compared with the previous quarter, while in the euro area it was unchanged. At the same time, the contribution from services inflation in Malta eased marginally compared to that in September while it remained largely unchanged in the euro area. Furthermore, the contribution of energy inflation no longer remained negative in the euro area, in contrast with that in Malta where it remained at zero.



In December, the annual rate of change of HICP excluding energy and food, stood at 2.0% in Malta, and thus well below the 2.7% recorded in the euro area.

Chart 3.3 shows the distribution of price changes whereby subcomponents of the HICP are categorised into four classes of inflation rates: i) below or equal to 0%; ii) between 0% and 2%; iii) between 2% and 5%; and iv) over 5%.<sup>2</sup> This analysis indicates whether developments in inflation are broad-based across HICP items or driven only by selected components of the consumption basket.



During the quarter under review, there has been a shift from the extremes towards the central categories. Indeed, the share of subcomponents registering inflation rates of more than 5% eased further during the quarter under review. Compared to three months earlier, this ratio dropped by 0.8 percentage points to reach 20.9%. On the other hand, there was an increase in the brackets holding items with inflation rates between 0% and 5%, with the largest increase being in the bracket holding items with inflation between 2% and 5%. The increase in this bracket partly reflects a drop in inflation for a number of household goods including food processing appliances and cleaning and maintenance products. It also reflects a rise in the inflation rate of a few household furnishings including bed linen and fabrics.

<sup>2</sup> The calculation of the shares in this chart does not take into account the weights of individual HICP sub-components. This analysis includes 175 sub-indices of the HICP for Malta and 289 sub-indices for the euro area based on the five-digit COICOP classification. On average since 2001, 30.7% of items in Malta's basket fell in the 0% or negative inflation rates interval, while this figure stood at 17.7% for the euro area. Around 47% of the Maltese basket fell in the 0-2% and 2-5% intervals – in almost equal parts. These shares stood at 39.4% and 32.6%, respectively, in the euro area. While 22.4% of the Maltese basket fell in the over 5% interval, only 10.3% of the euro area basket fell in this interval.

The share of the bracket between 2% and 5% rose to account for almost a quarter of all items in December. Likewise, the bracket holding items with inflation between 0% and 2% increased by 1.5 percentage points since September 2024, to stand at 18.6%. On the other hand, the bracket holding items with negative inflation rates contracted by 4.4 percentage points, though still remaining the largest bracket, to stand at 35.6%. The decrease in this bracket mainly reflects a rise in the prices of a number of food items including selected dairy products, as well as an increase in the prices of a number of durable goods.

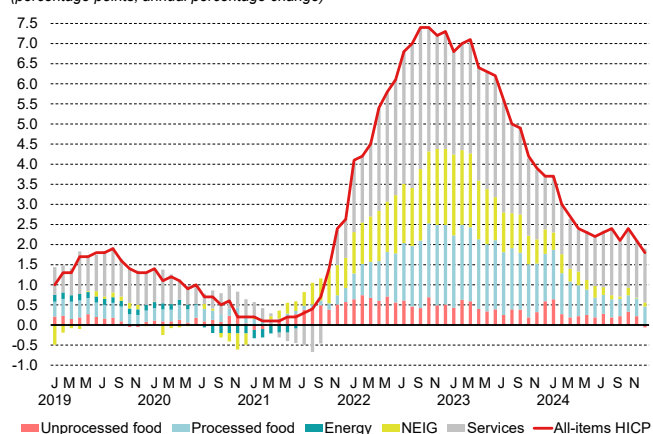
In the euro area, the share of items with negative inflation rates also decreased during the fourth quarter of 2024, but remained significantly lower than that in Malta, with a difference of 12.1 percentage points. The bracket holding items with inflation rates between 0% and 2% also recorded a decrease. On the other hand, there was a shift towards brackets of higher inflation rates. Indeed, the share of items in the bracket holding items with inflation rates between 2% and 5% increased by 2.1 percentage points to stand at 34.3%. Finally, the bracket with price increases exceeding 5% increased by 2.4 percentage points, though remaining lower than that in Malta, with a difference of 6.7 percentage points. This difference stems from lower inflation within the euro area, from some food and dairy products as well as in certain services, including educational services.

### Main components of inflation

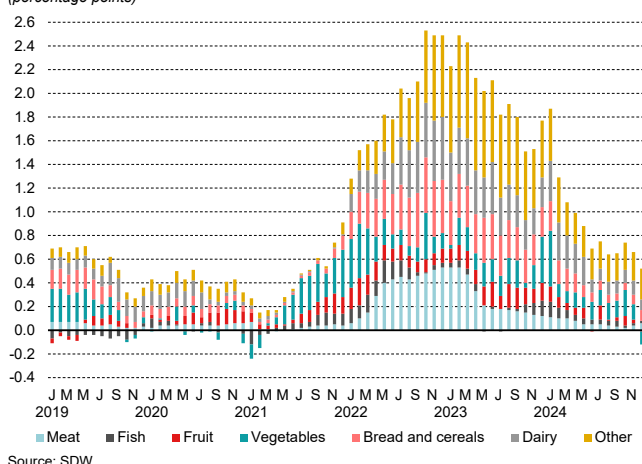
The drop in Malta's HICP inflation between September and December stemmed from unprocessed food inflation. The remaining components retained broadly the same contribution (see Chart 3.4).

Unprocessed food prices contracted by an annual 1.2% in December, after a 4.5% increase in September. The drop resulted from falling prices of vegetables and, to some extent, fruit (see Chart 3.5). A slower rate of increase in prices of fish also contributed. Consequently, the contribution of unprocessed food to HICP inflation decreased by 0.3 percentage points and stood at -0.1 percentage points in December.

**Chart 3.4**  
CONTRIBUTIONS TO YEAR-ON-YEAR HICP INFLATION  
(percentage points; annual percentage change)



**Chart 3.5**  
CONTRIBUTIONS FROM FOOD TO HICP INFLATION  
(percentage points)



Meanwhile, processed food inflation edged up to 2.8%, from 2.7% in the previous quarter, with its contribution standing at 0.5 percentage points in December. The increase in processed food inflation is partly due to faster growth in the prices of bread and cereals. Overall, food inflation including alcohol and tobacco eased to 1.9% by year-end as compared to 3.2% in September.

NEIG inflation edged up to 0.4% from 0.2% in September. Looking at the sub-components, prices of semi-durables grew by 1.2% in annual terms, as opposed to a drop of 0.1% three months earlier. On the other hand, prices of durables contracted at a slightly faster pace of 1.7% in annual terms, following a drop of 1.6% in September. At the same time, prices of non-durables rose at a slower pace of 2.3%, down from 2.7% in September. The contribution of NEIG inflation to HICP inflation stood at 0.1 percentage points, unchanged from September.

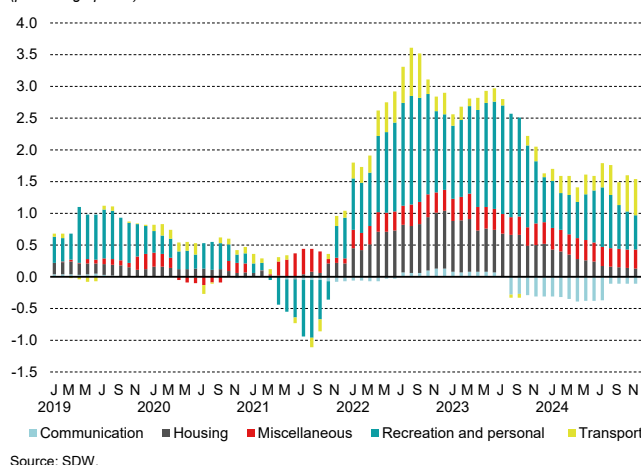
Services inflation increased from 2.7% in September to 3.0% in December. This stemmed mainly from higher inflation in transport services which increased on the back of higher prices for international flights. Services inflation contributed 1.3 percentage points to overall HICP inflation (see Chart 3.6).

Energy inflation remained at 0.0% in December, as electricity, gas, and transport fuel prices remained unchanged from their level a year earlier, through continued government subsidies on retail utility prices.

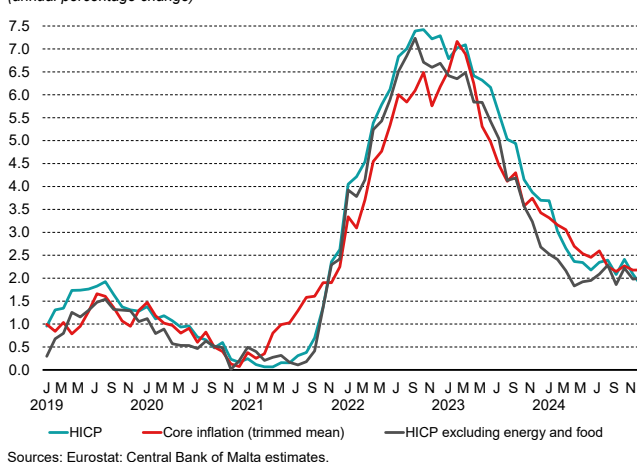
### Core HICP inflation rises slightly

The Bank's measure of core inflation, which excludes the more volatile items in each month, edged up to 2.2% in December 2024, from 2.1% three months earlier (see Chart 3.7).<sup>3</sup> An alternative measure of underlying inflationary pressures – HICP excluding energy and food

**Chart 3.6**  
**CONTRIBUTIONS FROM SERVICES TO HICP INFLATION**  
(percentage points)



**Chart 3.7**  
**HICP IN MALTA: OVERALL AND CORE MEASURE**  
(annual percentage change)



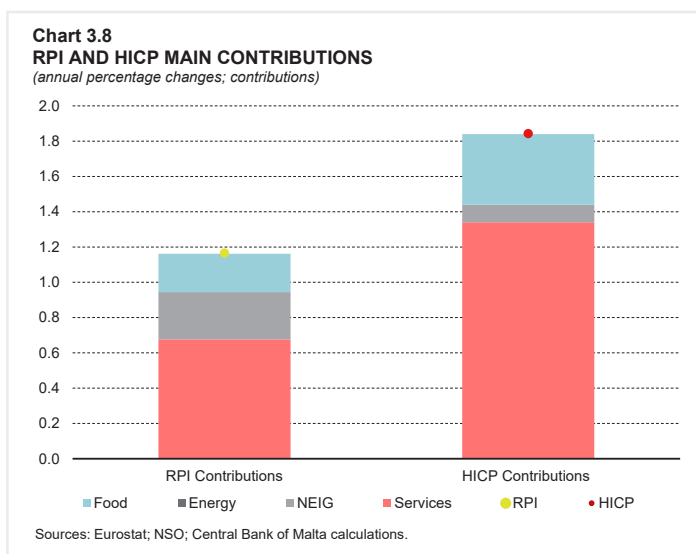
<sup>3</sup> The Bank uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile subcomponents of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), An Evaluation of Core Inflation Measures for Malta, *Quarterly Review* 2014(3), pp. 39-45, Central Bank of Malta.

and food – also increased slightly in December, reaching 2.0% in December, from 1.9% in September.

### RPI inflation remained unchanged

Annual inflation based on the RPI index remained unchanged at 1.2% in December. While the contribution of food decreased, the contribution of transport and communication services turned positive while that of recreation and culture also rose (see Table 3.2).<sup>4</sup> Most of the remaining components had an unchanged contribution.

While the methodology underlying RPI and HICP is similar, they differ in that the RPI includes private households only, while HICP covers also institutional households and foreign visitors to Malta. Consequently, the difference between HICP and RPI inflation in part reflects the different structure of weights applied to the two indices. Furthermore, unlike the RPI weights, which were last updated in 2017, weights applied to the HICP index are updated annually. Chart 3.8 shows the contributions of the main sub-components to overall RPI and HICP inflation, respectively. While the contributions of HICP are official Eurostat figures, the RPI contributions are internal estimates based



**Table 3.2**  
**CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION**

Percentage points

	2024											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Food	1.9	1.2	1.1	1.0	0.8	0.6	0.6	0.5	0.45	0.7	0.5	0.25
Beverages and tobacco	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.12
Clothing and footwear	0.0	0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	-0.1	0.0
Housing	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-0.01
Water, electricity, gas and fuels	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00
Household equipment and house maintenance costs	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.2	-0.10
Transport and communications	-0.4	-0.5	-0.6	-0.8	-0.5	-0.4	-0.2	0.0	-0.1	-0.1	0.1	0.06
Personal care and health	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.27
Recreation and culture	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.26
Other goods and services	0.4	0.4	0.4	0.5	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.2
<b>RPI (annual percentage change)</b>	<b>3.2</b>	<b>2.3</b>	<b>1.9</b>	<b>1.6</b>	<b>1.5</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	<b>1.2</b>	<b>1.6</b>	<b>1.3</b>	<b>1.2</b>

Source: NSO.

<sup>4</sup> The RPI index differs from the HICP index in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta, such as accommodation services. See Darmanin, J. (2018), Household Expenditure in Malta and the RPI Inflation Basket, *Quarterly Review* 2018(3), pp. 33-40, Central Bank of Malta.

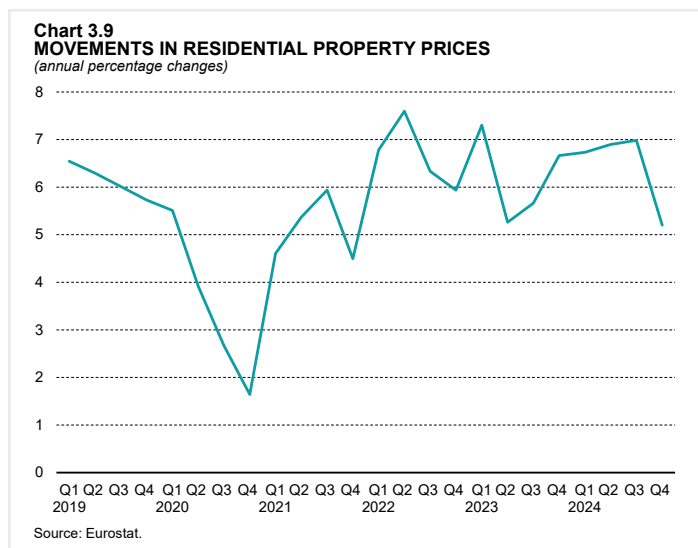


on an approximate mapping of individual RPI sub-items into corresponding HICP categories.<sup>5,6</sup> These estimates indicate that the largest difference between RPI and HICP inflation in December stemmed from services inflation.

## The housing market

### *Residential property price inflation increases at a slower rate*

The NSO's Residential Property Price Index (RPPI) – which is based on actual transactions involving apartments, maisonettes, and houses – continued to increase strongly in annual terms. However, the annual rate of change moderated to 5.2% in the last quarter of 2024, from 7.0% in the previous quarter (see Chart 3.9).<sup>7</sup> Meanwhile, in the euro area, prices on average increased at an annual rate of 4.2%.



Residential property prices in Malta continue to be supported by a number of Government schemes supporting demand for property, including the first-time and second-time buyers' schemes, the purchase of properties located in Urban Conservation Areas (UCA) and in Gozo, as well as refund schemes for restoration expenses. Moreover, a dynamic tourism sector, and significant (though moderating) migrant worker flows continue to support demand for accommodation and hence, property prices.

### *Misalignment indicator suggest prices are below fundamentals*

As part of its ongoing macroeconomic analysis, the Bank calculates a house price misalignment index to provide an indication of the evolution of house prices against fundamentals.<sup>8,9</sup> This indicator consists of five sub-indices that capture household, investor, and system-wide factors, with the weights being derived using principal component analysis.

<sup>5</sup> The RPI grouping of sub-components is intended to be as close as possible to the HICP grouping. For example, restaurants services and take-aways were included within 'Services' sub-component rather than within the 'Food' sub-component.

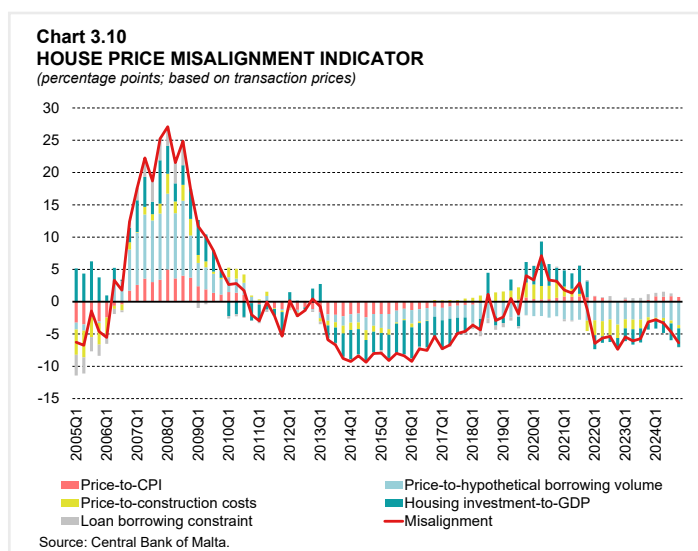
<sup>6</sup> The contributions of RPI sub-components are made to sum to the overall inflation by allocating a residual chain-linking component to the aforementioned sub-components.

<sup>7</sup> 'Apartments' are defined as dwellings with self-contained rooms or a suite of rooms that have a separate entrance accessible from a common passageway, landing or stairway. 'Maisonettes' have a separate entrance that is accessible from the street and are either at ground-floor level with overlying habitation, or at first-floor level with underlying habitation. 'Houses' are dwellings with at least two floors, own access at street level and airspace, and with no underlying structures that are not part of the house itself. They are attached to other structures on both sides.

<sup>8</sup> See Micallef, B. (2018), Constructing an index to examine house price misalignment with fundamentals in Malta, *International Journal of Housing Markets and Analysis*, 11(2), pp. 315-334.

<sup>9</sup> The actual numerical results presented in this section should not be overstated given the limitations in the construction of this indicator. For example, relevant variables such as foreign capital inflows are not included, and the unavailability of a long time series for the Housing Authority's rental index precludes the use of the price-to-rent ratio in the indicator.

According to this indicator, house prices, as measured by the NSO's RPPI, were below the level consistent with fundamentals in the last quarter of 2024. The degree of undervaluation increased somewhat when compared with the third quarter of 2024, largely reflecting a more negative contribution from the house price-to-hypothetical borrowing ratio (see Chart 3.10).<sup>10</sup> In addition, the loan-borrowing constraint is no longer seen as contributing positively to the index.



The house price-to-hypothetical borrowing ratio, and the house investment-to-GDP ratio explain most of the misalignment for this quarter. The house price-to-construction cost ratio and the loan borrowing constraint also contributed, albeit in a more limited way. By contrast, the house price-to-CPI ratio contributed positively to the misalignment index.

### Number of final deeds increases both in quarterly terms and in annual terms

NSO data on residential property transactions show that 3,243 final deeds of sale were registered in the quarter under review, an increase of 7.9% compared to the number of sales concluded in the previous quarter (see Table 3.3). They also exceeded the number of deeds registered in the same quarter a year earlier by 1.3%. Around 91% of transactions concluded in the last quarter of 2024 involved purchases by individuals.

The year-on-year increase in deeds in the last quarter of 2024 reflected a larger number of transactions in the Southern Harbour region and in the South Eastern region. Most other regions recorded modest decreases, with a more significant decline being recorded in Gozo. In value terms, there was a year-on-year increase of 12.9%, although the increase in the case of individual buyers was less significant, at around 8.8%.

**Table 3.3**  
**RESIDENTIAL PROPERTY TRANSACTIONS**

Levels

	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Residential transactions</b>								
Promise of sale	3,116	3,492	3,076	3,501	3,496	3,492	3,106	3,491
Final deeds of sale	3,101	3,007	2,870	3,202	3,161	3,187	3,006	3,243

Source: NSO.

<sup>10</sup> A separate assessment based on advertised house prices can be found in Gatt, W., Micallef, B. and Rapa, N. (2018), A macro-economic model of the housing market in Malta, *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

At 3,491 the number of promise-of-sale agreements was 12.4% higher than the number registered in the previous quarter, but 0.3% less from the same quarter of 2023. The year-on-year decrease in the quarter under review was mainly driven by fewer promise-of-sale agreements in Gozo.

### *Mortgage transactions increase year-on-year<sup>11</sup>*

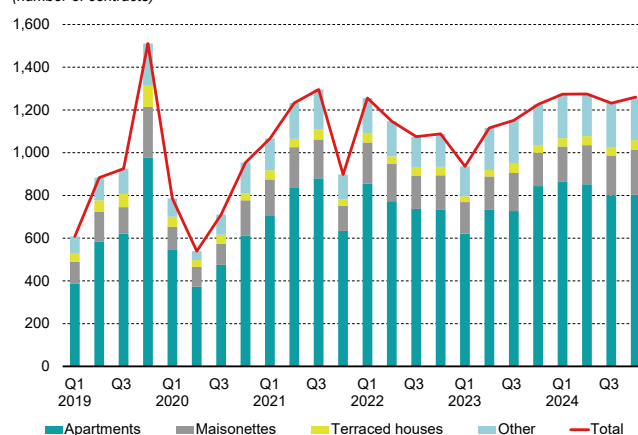
In the last quarter of 2024, the number of new mortgage contracts stood at 1,260. When compared with the fourth quarter of 2023, they rose by 2.8% (see Chart 3.11). Increases were observed mainly for maisonnettes, townhouses and terraced houses.

The total number of mortgage contracts in the fourth quarter of 2024 stood below the recent peak of 1,511 transactions recorded in the last quarter of 2019, but above the average of 983 transactions per quarter recorded since 2017.

### *Advertised rent prices record another strong increase*

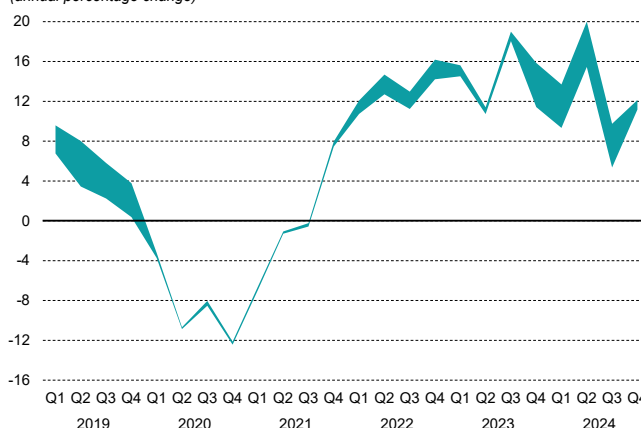
The annual rate of change of advertised rents collected by the Bank from internet sources recorded another significant increase in the last quarter of 2024.<sup>12</sup> The range of estimates from various methods indicate that rents have increased at annual rates of between 11.2% and 12.1% in the quarter under review (see Chart 3.12). Compared with the previous quarter, the range of estimated rent inflation has narrowed and shifted up. In the quarter under review, the level of advertised rents was around 30% higher than its average in recent years.<sup>13</sup>

**Chart 3.11**  
**MORTGAGE CONTRACTS**  
(number of contracts)



Source: Central Bank of Malta.

**Chart 3.12**  
**ADVERTISED RENTAL PRICES**  
(annual percentage change)



Source: Central Bank of Malta.

<sup>11</sup> The data used in the section are collected by the Central Bank of Malta from four commercial banks and relate only to properties which have been purchased with a mortgage. The dataset excludes properties that have either been transacted using other means of financing, as well as mortgages that have been refinanced. The property types included are flats, penthouses, maisonnettes, terraced houses, town houses, houses of character, farmhouses, bungalows, and villas. Other property types included in the previous section such as airspace, boathouses, garages, and plots of land are excluded.

<sup>12</sup> The empirical analysis is based on hedonic regression models as described in Debono et al., (2020) and different indices are constructed using alternative methodologies, namely the time dummy method, the rolling time dummy method with a window length of two periods (Q=2) and the average characteristics method chained using the Laspeyres, Paasche and Fisher methods. The properties considered in this analysis include apartments, maisonnettes, and penthouses.

<sup>13</sup> This index is available from 2017Q4.

## Cost indices

### *Most producer cost indicators show falling prices or moderate price increases*

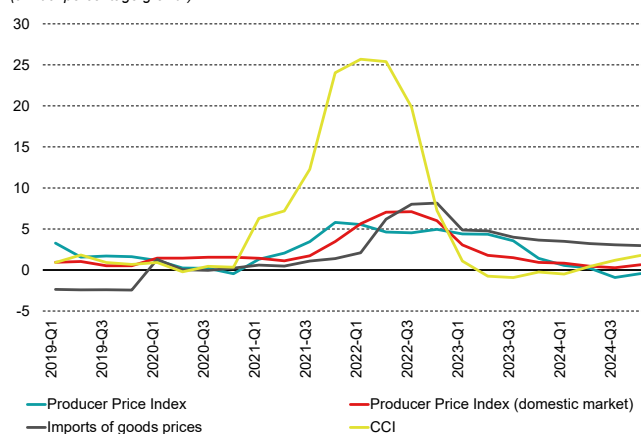
The industrial producer price index is a measure of the prices of goods sold by producers in the industrial sector. Annual inflation according to this index stood at -0.4% on average in the quarter under review, up from -0.9% in the previous quarter (see Chart 3.13).<sup>14</sup> The less pronounced contraction was driven by developments in producer prices for intermediate goods and consumer goods. The latter grew at a slightly faster pace of 0.9% in the last quarter of 2024, up from 0.8% in the third. At the same time, the annual rate of change of producer prices of intermediate goods became less negative, standing at -3.5% in the last quarter of 2024, compared to -5.0% in the third quarter. Meanwhile, the annual rate of change of producer prices of capital goods grew at a slower pace of 3.0% in the quarter under review, down from 3.5% in the previous quarter. Energy producer price inflation remained unchanged.

Other cost indicators moved sideways. The domestic producer price index rose at a slightly faster annual rate of 0.6%, from 0.3% in the third quarter, mainly driven by faster growth in producer prices across non-energy components.<sup>15</sup> The imports of goods deflator shows somewhat weaker growth of 3.0%, from 3.1% in the third quarter of 2024.<sup>16</sup> The CCI for new residential buildings published by Eurostat increased at a slightly higher rate in the last quarter of 2024, standing at 1.8% after it had increased by 1.2% in the previous quarter.

### *ULCs increase at a faster rate*

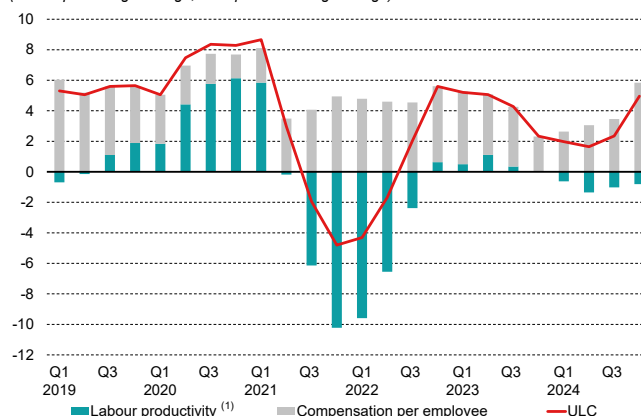
Malta's ULC index – measured as the ratio of compensation per employee to labour productivity – increased in annual terms as well as in quarter-on-quarter terms in the last quarter of 2024.

**Chart 3.13**  
**COST INDICATORS**  
(annual percentage growth)



Sources: Central Bank of Malta estimates; Eurostat data; NSO data.

**Chart 3.14**  
**DECOMPOSITION OF ULC (PER PERSON) IN MALTA**  
(annual percentage change, four-quarter moving average)



Sources: NSO; Central Bank of Malta estimates.

(1) A rise (drop) in productivity contributes negatively (positively) to ULC growth.

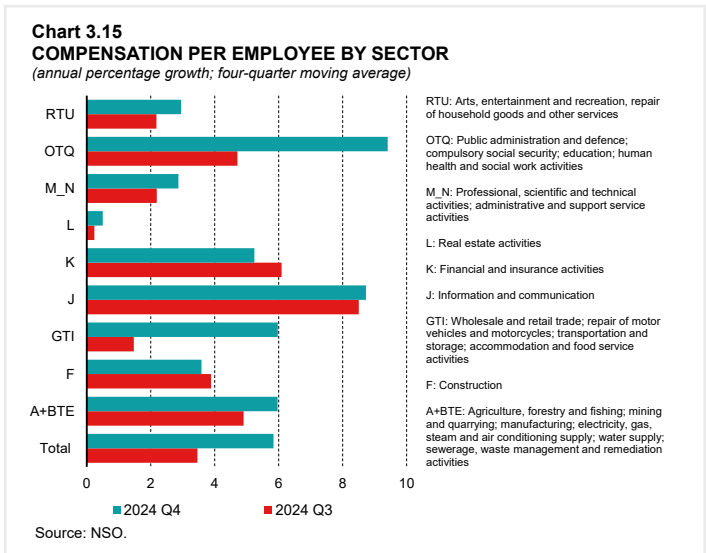
<sup>14</sup> The industrial producer price index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage. The index used here refers to the B-E36 aggregate of the EU's statistical classification of economic activities.

<sup>15</sup> The domestic producer price index refers to the producer prices relating to the domestic market only, whilst the producer price index relates to the total market, i.e., including both the domestic and non-domestic markets.

<sup>16</sup> This index is derived from national accounts data published by the NSO.

When measured on a four-quarter moving average basis in headcount terms, ULCs in Malta rose at an annual rate of 5.0%. This followed an increase of 2.3% in the previous quarter (see Chart 3.14). The pick-up in ULC growth largely reflects an acceleration in compensation per employee. This rose by 5.8% in annual terms, from 3.5% in the third quarter. To some extent, the increase in ULC growth also reflected slower growth in productivity per person. This rose by an annual rate of 0.8% in the last quarter of 2024, from 1.0% in the previous one.

When measured on a four-quarter moving average basis, growth in compensation per employee was fastest in the public sector, mostly reflecting the impact a new collective agreement for educators (see Chart 3.15). Wage growth was also significant in a number of other sectors, including the information and communication sector and the sector comprising wholesale and retail trade. Overall, compared with the previous quarter, compensation per employee grew at a faster rate in most sectors.



## 4. THE BALANCE OF PAYMENTS

During the fourth quarter of 2024, the current account surplus narrowed when compared to the same quarter of the previous year. This was mainly due to higher net outflows on the primary and secondary income accounts. By contrast, the merchandise trade deficit narrowed and net receipts from services increased.

In the quarter under review, net inflows on the capital account decreased when compared to the corresponding quarter of 2023, while the financial account showed lower net lending.

During the year 2024, the current account balance registered a surplus equivalent to 5.7% of GDP. This compares with a current account surplus of 2.8% of GDP in the euro area.

The cyclically-adjusted current account balance is estimated to have recorded a surplus of 7.8% during the quarter under review.

As balance of payments data are undergoing substantial revisions, readers are advised to exercise caution in interpreting changes over time.

In the fourth quarter of 2024, the tourism sector continued to perform well. The number of inbound tourists, nights stayed, and tourist expenditure in Malta all increased when compared with a year earlier.

### The current account

#### The current account surplus narrows

Between October and December 2024, the current account of the balance of payments recorded a surplus of €232.8 million, €112.4 million less than the surplus recorded in the same quarter of 2023 (see Table 4.1). This reflected higher net outflows on the primary and secondary income accounts, which offset a narrower merchandise trade deficit and higher net receipts from services.

**Table 4.1**  
**BALANCE OF PAYMENTS**

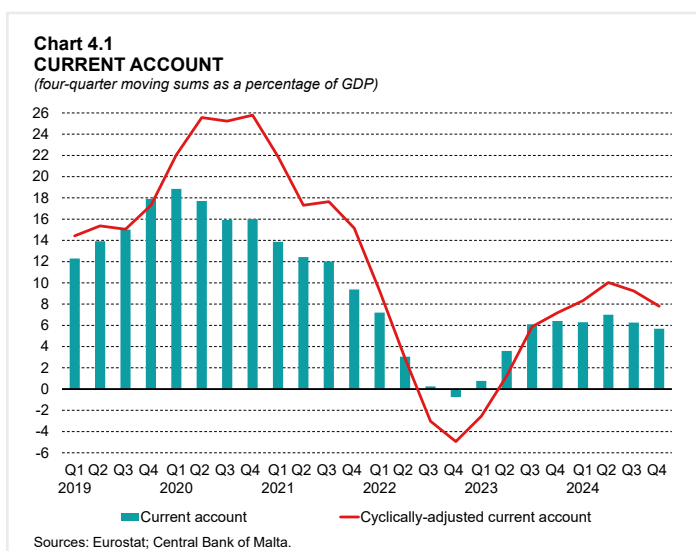
EUR millions

	Four-quarter moving sums						
	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2023 Q4	2024 Q4
<b>Current account</b>	<b>1,315.5</b>	<b>1,330.1</b>	<b>1,521.0</b>	<b>1,388.2</b>	<b>1,275.7</b>	<b>345.2</b>	<b>232.8</b>
Goods	-2,446.6	-2,449.1	-2,443.1	-2,617.3	-2,512.8	-536.1	-431.7
Services	6,153.2	6,292.4	6,606.1	6,711.3	6,894.5	1,500.9	1,684.1
Primary income	-2,303.1	-2,477.2	-2,599.6	-2,712.8	-3,018.0	-594.3	-899.4
Secondary income	-88.0	-36.1	-42.5	6.9	-88.0	-25.3	-120.3
<b>Capital account</b>	<b>255.8</b>	<b>306.1</b>	<b>366.6</b>	<b>343.6</b>	<b>323.1</b>	<b>108.0</b>	<b>87.5</b>
<b>Financial account<sup>(1)</sup></b>	<b>1,917.1</b>	<b>1,833.5</b>	<b>2,267.9</b>	<b>2,299.5</b>	<b>2,140.5</b>	<b>546.8</b>	<b>387.9</b>
<b>Errors and omissions</b>	<b>345.9</b>	<b>197.3</b>	<b>380.4</b>	<b>567.8</b>	<b>541.7</b>	<b>93.6</b>	<b>67.6</b>

Sources: Eurostat; Central Bank of Malta.

<sup>(1)</sup> Net lending (+) / net borrowing (-).

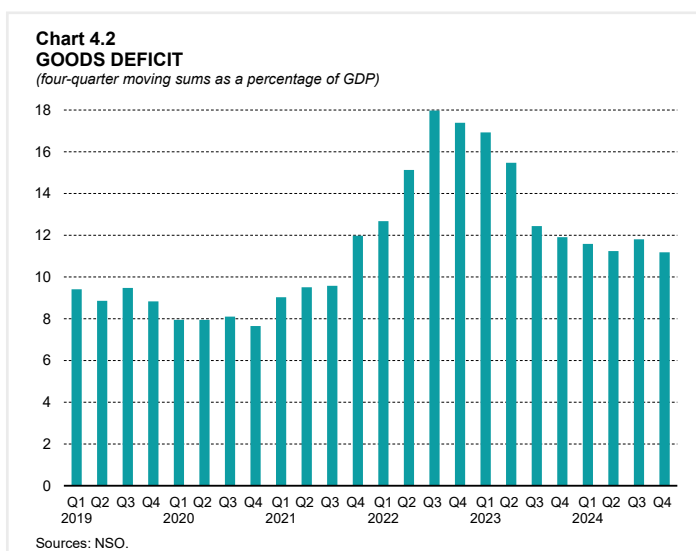
On a four-quarter moving sum basis, the current account surplus narrowed slightly to €1,275.7 million, from €1,315.5 million a year earlier. This reflected higher net outflows on the primary income account, and, to a lesser extent, a higher merchandise trade deficit. These offset higher net receipts from services. The current account balance-to-GDP ratio declined to 5.7%, from 6.4% a year earlier (see Chart 4.1). Malta's cyclically-adjusted current account surplus is estimated to have stood at 7.8% of GDP in the fourth quarter of 2024, and thus more positive than the headline measure (see Chart 4.1).<sup>1</sup>



### The merchandise trade deficit narrows

In the fourth quarter of 2024, the merchandise trade deficit stood at €431.7 million, down from €536.1 million in the corresponding period of 2023. This was driven by an increase in exports which offset a small increase in imports. The former mostly reflected an increase in exports of miscellaneous transactions and other commodities, and chemical products.

The visible trade gap widened when measured on a four-quarter cumulative basis, reaching €2,512.8 million, from €2,446.6 million in the same period a year earlier. This reflected a €292.1 million increase in goods imports, mainly because of an increase in imports of fuel, which offset an increase in exports of €225.9 million. The share of the goods deficit in GDP declined to 11.2% during the fourth quarter of 2024, from 11.9% a year earlier (see Chart 4.2).



<sup>1</sup> For more information on Malta's cyclically-adjusted current account, see Grech, A. G., & Rapa, N., "An evaluation of recent shifts in Malta's current account position", in Grech, A.G., & Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

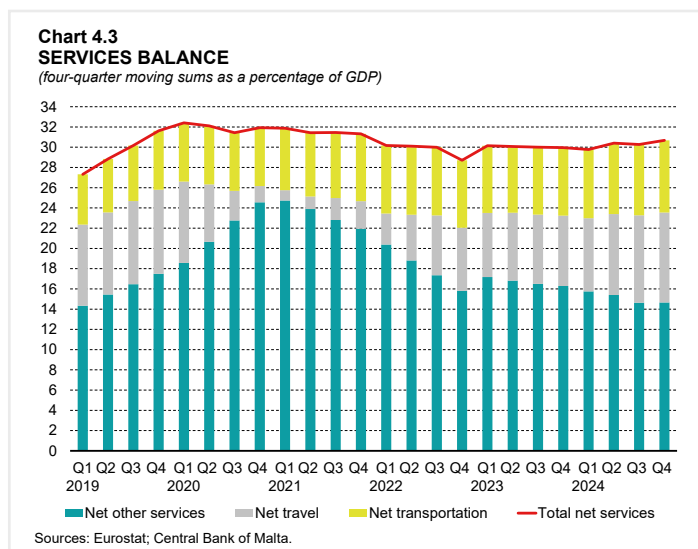


### *The surplus on services widens*

In the quarter under review, net receipts on the services account amounted to €1,684.1 million, €183.2 million more than in the corresponding period of 2023. Both services exports and imports increased on a year earlier, however, the increase in the former was stronger.

Higher net receipts from travel were the key factor behind the increase in the overall surplus on the services account. However, net receipts related to transport and ‘other’ services also contributed. The increase in the latter mainly reflected larger inflows stemming from financial services and, to a lesser extent, personal and recreational services.

On a four-quarter cumulative basis, the overall surplus from services stood at €6,894.5 million, an increase of €741.3 million over the surplus recorded a year earlier. This reflected higher net receipts related to travel and transport services. The surplus on ‘other’ services, however, narrowed as higher net inflows related to personal and recreational services and financial services were offset by higher net payments related to business services. The share of net services receipts in GDP stood at 30.7%, up from 30.0% registered during the same period of 2023 (see Chart 4.3).



### *Net outflows on the primary income account increase<sup>2</sup>*

During the quarter under review, net outflows on the primary income account stood at €899.4 million, €305.1 million more than in the final quarter of 2023. This was mainly due to higher net payments related to ‘other’ investment and direct investment.

In the four-quarter period to December 2024, net outflows on the primary income account increased by €714.9 million, to stand at €3,018.0 million. Transactions relating to primary income continued to be strongly influenced by internationally-oriented firms, which transact predominantly with non-residents. During this period, net outflows on the primary income account amounted to 13.4% of GDP, up from 11.2% a year earlier.

### *Net outflows on the secondary income account increase<sup>3</sup>*

In the fourth quarter of the year, net flows on the secondary income account increased to €120.3 million from €25.3 million a year earlier.

During the year 2024, these net outflows stood at €88.0 million; unchanged from those recorded in the same period of 2023. The share of net outflows on the secondary income account in GDP also remained unchanged from the previous year, at 0.4%.

<sup>2</sup> The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

<sup>3</sup> The secondary income account shows current transfers between residents and non-residents.

## Tourism

In the quarter under review, the number of inbound tourists amounted to 810,827, up from 691,673 a year earlier (see Chart 4.4). Visitors from the United Kingdom accounted for around a third of the increase. Visitors from Poland also contributed significantly to the increase. In absolute terms, tourists visiting for holiday purposes accounted for nearly all of this rise. Visitors coming for business purposes increased somewhat, while those citing 'other' motives declined.

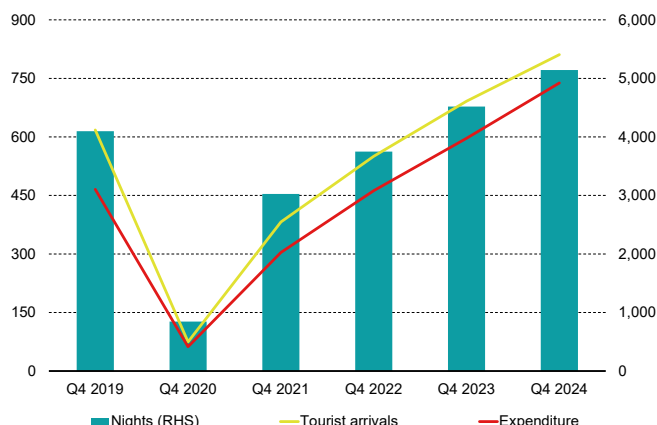
The total number of guest nights that tourists spent in Malta during the fourth quarter of 2024 totalled 5.1 million, up from 4.5 million a year earlier. Stays in rented accommodation accounted for this increase as nights spent in non-rented accommodation declined.<sup>4</sup>

In the final quarter of 2024, the share of non-residents in collective accommodation establishments stood at 87.5%, unchanged when compared with a year earlier (see Chart 4.5).

The total occupancy rate in collective accommodation establishments in the fourth quarter of 2024 rose to 59.0%, from 55.1% a year earlier (see Chart 4.6). The two-star category registered the largest increase of 4.8 percentage points. It was followed by the "other" and three-star accommodation categories, which recorded

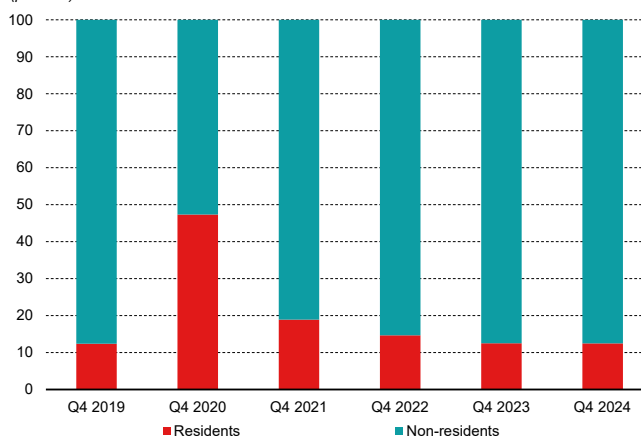
**Chart 4.4**  
**TOURISM INDICATORS**

(tourist arrivals and nights stayed in thousands; expenditure in EUR millions)



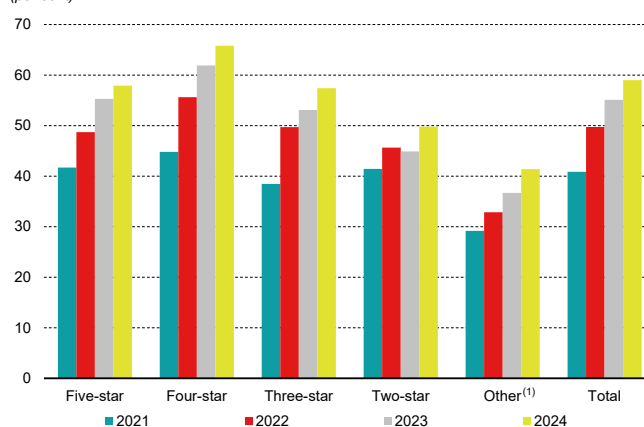
Source: NSO.

**Chart 4.5**  
**GUESTS IN COLLECTIVE ACCOMMODATION ESTABLISHMENTS**  
(per cent)



Source: NSO.

**Chart 4.6**  
**AVERAGE OCCUPANCY RATES IN THE FOURTH QUARTER**  
(per cent)



Source: NSO.

<sup>(1)</sup> Includes guest houses, hostels and holiday complexes.

<sup>4</sup> Accommodation is divided into two categories – rented accommodation and non-rented accommodation. Rented accommodation is further divided into collective accommodation (comprising hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites), and 'other rented' accommodation (holiday furnished premises, host families, marinas, paid convents, rented yachts and student dormitories). Non-rented accommodation comprises own private residence, staying with friends or relatives and other private accommodation.

increases of 4.7 and 4.3 percentage points, respectively. Meanwhile, occupancy in the four-star and five-star categories rose by 3.8 and 2.6 percentage points, respectively. At 41.4%, the lowest occupancy rate was registered in the “other” category, while the four-star category registered the highest occupancy rate, at 65.8%.

Tourist expenditure in Malta totalled €738.2 million in the fourth quarter of 2024, up from €596.6 million a year earlier. All expenditure categories registered gains over this period.

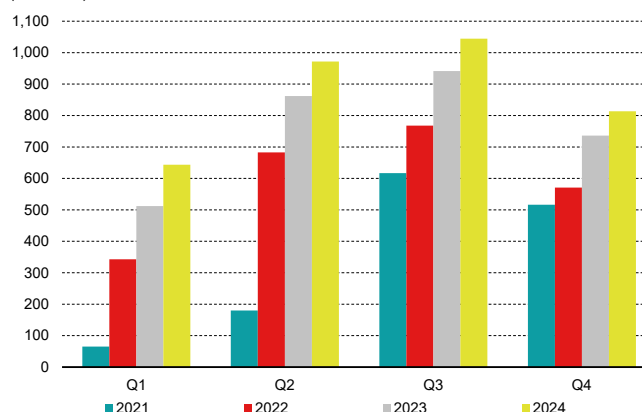
Expenditure per capita increased to €910.5, from €862.6 in the fourth quarter of 2023, as expenditure per night increased, offsetting a shorter length of stay, which stood at 6.3 nights from 6.5 nights a year earlier.

According to Malta International Airport data, in the final quarter of 2024, average seat capacity stood at 813,666 seats per month, up from 736,096 a year earlier (see Chart 4.7).

A total of 92 cruise liners visited Malta in the fourth quarter of 2024, ten more than a year earlier. Foreign passengers reached 175,815 persons, up from 166,913 visitors in the fourth quarter of 2023 (see Chart 4.8).

The United Kingdom and the United States were the most important source markets for cruise passengers. Together they made up over 40% of total cruise passengers. Visitors from Italy and Germany followed, with shares of 10.3% and 8.8%, respectively. In absolute terms, passengers from the United States recorded the largest increase compared with a year earlier. They were followed by Canadian passengers and passengers from the United Kingdom. The number of cruise passengers from the EU, by contrast, declined compared with a year earlier, reflecting primarily fewer calls from cruise liners popular with Italian visitors.

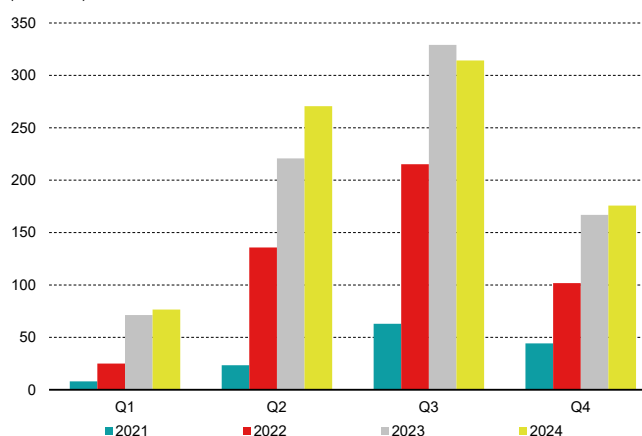
**Chart 4.7**  
**AVERAGE MONTHLY SEAT CAPACITY<sup>(1)</sup>**  
(thousands)



Source: MIA.

<sup>(1)</sup> Data include schedule and charter seats.

**Chart 4.8**  
**CRUISE LINER PASSENGERS**  
(thousands)



Source: NSO.

### The capital account

Net inflows on the capital account stood at €87.5 million in the fourth quarter of 2024, down from €108.0 million in the same quarter of 2023 (see Table 4.1). When measured on a four-quarter cumulative basis, however, capital inflows increased to €323.1 million, from €255.8 million during 2023. Their share in GDP increased to 1.4% from 1.2% in the fourth quarter of 2023.

## 5. GOVERNMENT FINANCE

In the fourth quarter of 2024, the general government deficit widened in level terms when compared to that recorded in the corresponding period of 2023. When measured on a four-quarter moving sum basis, the general government deficit ratio stood at 3.7% of GDP, being higher than in the third quarter of 2024, but below the 4.7% registered at end-2023. Similar movements can be observed in the Bank's estimate of the cyclically-adjusted balance.

The general government debt-to-GDP ratio reached 47.4% at the end of December, higher than in September, but slightly lower than the 47.9% posted at end-2023. The net financial worth as a share of GDP worsened in the quarter under review, both in quarterly and annual terms.

### Quarterly developments

#### General government balance registers a larger deficit in fourth quarter

In the fourth quarter of 2024, the general government registered a deficit of €750.4 million, an increase of €169.8 million when compared to the deficit registered in the corresponding period of 2023. This was due to a strong increase in government expenditure offsetting that in government revenue. The primary deficit widened to €678.4 million in the quarter under review, from €516.2 million a year earlier.

#### Tax inflows support revenue growth

In the fourth quarter of 2024, general government revenue increased by €335.9 million, or 19.1%, when compared with the same quarter of 2023 (see Table 5.1). Inflows from current

**Table 5.1**  
**REVENUE, EXPENDITURE AND DEBT**  
EUR millions

	2023	2024					Change 2024Q4-2023Q4	
	Q4	Q1	Q2	Q3	Q4	Amount	%	
<b>Revenue</b>	<b>1,754.2</b>	<b>1,690.4</b>	<b>1,993.4</b>	<b>2,010.3</b>	<b>2,090.1</b>	<b>335.9</b>	<b>19.1</b>	
Taxes on production and imports	505.2	518.0	562.6	565.5	463.9	-41.3	-8.2	
Current taxes on income and wealth	611.7	690.5	853.5	875.4	962.4	350.7	57.3	
Social contributions	296.7	273.8	284.1	286.5	327.6	30.9	10.4	
Capital and current transfers receivable	150.6	36.0	89.5	92.5	104.9	-45.7	-30.4	
Other <sup>(1)</sup>	190.0	172.1	203.6	190.4	231.3	41.4	21.8	
<b>Expenditure</b>	<b>2,334.7</b>	<b>1,807.1</b>	<b>1,969.0</b>	<b>1,992.9</b>	<b>2,840.5</b>	<b>505.8</b>	<b>21.7</b>	
Compensation of employees	493.7	513.1	518.1	556.3	628.6	134.9	27.3	
Intermediate consumption	458.0	348.5	429.9	398.6	531.9	73.9	16.1	
Social benefits	400.7	504.0	464.9	407.9	453.8	53.1	13.2	
Subsidies	275.2	118.8	92.8	156.5	183.5	-91.7	-33.3	
Interest	64.4	64.2	60.0	70.1	72.0	7.6	11.8	
Other current transfers payable	150.0	83.7	184.0	125.6	205.2	55.2	36.8	
GFCF	271.2	138.4	169.2	200.2	230.0	-41.2	-15.2	
Capital transfers payable	215.0	32.8	45.8	72.7	515.0	300.0	139.5	
Other <sup>(2)</sup>	6.5	3.5	4.3	4.8	20.5	14.0		
<b>Primary balance</b>	<b>-516.2</b>	<b>-52.5</b>	<b>84.4</b>	<b>87.5</b>	<b>-678.4</b>	<b>-162.2</b>		
<b>General government balance</b>	<b>-580.5</b>	<b>-116.7</b>	<b>24.4</b>	<b>17.4</b>	<b>-750.4</b>	<b>-169.8</b>		
<b>General government debt</b>	<b>9,830.7</b>	<b>10,038.1</b>	<b>10,112.1</b>	<b>10,170.3</b>	<b>10,648.4</b>			

Source: NSO.

(1) "Other" revenue includes market output as well as income derived from property and investments.

(2) "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

taxes on income and wealth, were the main contributor to the increase. These rose by €350.7 million, primarily as a result of higher income tax inflows from companies. Part of these inflows materialised earlier than usual, boosting revenue for December. Income from sales also increased significantly, and was the main factor behind the €41.4 million increase in 'other' revenue. Moreover, inflows from social contributions rose by €30.9 million, reflecting favourable labour market conditions.

On the other hand, inflows from capital and current transfers decreased by €45.7 million, mainly reflecting lower inflows from grants. Inflows from taxes on production and imports declined by €41.3 million, after rising at a strong pace throughout the rest of the year. The profile of this category of taxes is largely driven by the receipt of VAT revenue.

### *Capital spending main factor behind rise in expenditure*

Total government expenditure increased by €505.8 million, or 21.7%, when compared with the fourth quarter of 2023. This increase reflects mainly higher current expenditure, particularly higher spending on compensation of employees and intermediate consumption. Spending on compensation of employees increased by €134.9 million, in part due to higher payments on allowances. This was particularly due to a new collective agreement for educators, which included backdated payments. Outlays on intermediate consumption increased by €73.9 million largely due to higher outlays in the health, public administration, and education sectors.

Spending on social benefits rose by €53.1 million, largely on the back of higher spending on retirement pensions. Current transfers increased by €55.2 million due to higher transfers to the EU and an increase in transfers to church schools, following the recently agreed collective agreement. Moreover, interest payments increased by €7.6 million. On the other hand, spending on subsidies decreased by €91.7 million, mostly reflecting the reclassification of support to Air Malta plc.

Overall, capital expenditure increased strongly in the fourth quarter. GFCF decreased by €41.2 million, mostly due to a fall in domestically-financed projects. However, this was offset by a €300.0 million rise in capital transfers, due to one-off and exceptional payments. In part, this includes the abovementioned reclassification of transfers following the winding down of Air Malta. It also reflects a one-time injection following the setup of KM Malta Airlines. At the same time, there were strong increases in outlays on ongoing capital projects, mostly reflecting electricity distribution and ongoing work in industrial parks.

### *Debt increases*

In December 2024, the stock of general government debt amounted to €10,648.4 million, €478.1 million higher than in September. This reflects an increase in short-term debt securities outstanding (composed of Treasury bills), and a rise in long-term debt securities outstanding (composed of MGS). The former rose by €327.7 million, with its share in total debt increasing by 2.9 percentage points to 6.5%. While holdings of long-term debt securities increased by €135.1 million, their share in total debt declined by 2.4 percentage points to 80.0%.

The value of loans outstanding increased by €16.0 million, due to a rise in long-term loans. The share of loans outstanding in total debt declined slightly by 0.3 percentage points to stand at 9.5%.

## Headline and cyclically-adjusted developments

### Headline deficit and debt ratios higher compared to September

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio widened from the previous quarter, by 0.7 percentage points, to close 2024 at 3.7% (see Chart 5.1). This was driven by a 1.8 percentage-point rise in the expenditure-to-GDP ratio, which reached 38.3%, due to a rise in the share of capital expenditure in GDP from 36.6% in the third quarter. This offset an increase of 1.0 percentage point in the revenue-to-GDP ratio, which reached 34.6%. The latter increased due to a higher share of current revenue in GDP offsetting a small decline in the share of capital revenue.

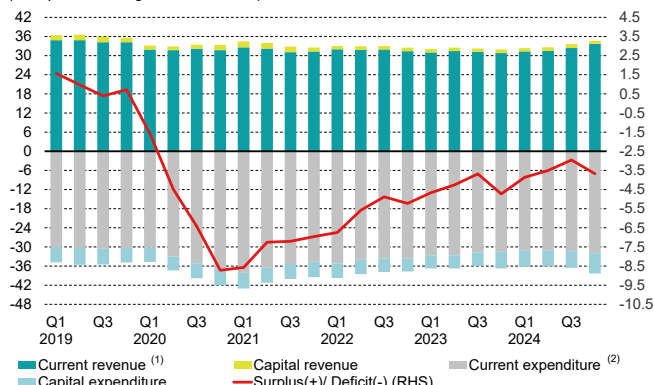
Over the year as a whole, the deficit shrank by 1.0 percentage point from 4.7% at end-2023. This was due to a 2.7 percentage-point increase in the share of revenue in GDP, mainly due to a higher current revenue share. This was more significant than the rise in the share of expenditure in GDP.

Between September and December 2024, the debt-to-GDP ratio increased by 1.5 percentage points, from 45.9% to 47.4% (see Chart 5.2). This was driven by the budget deficit as well as positive deficit-debt adjustments from net trade receivables.

### Net financial worth worsened

The market value of financial assets held by the general government declined to €5,664.0 million by December 2024, €904.0 million less than the level three months earlier. This was partly due to the earlier than usual receipt of company taxes, which led to a decline in accounts receivable. At the same time, government drew down on existing deposits to finance expenditure incurred in the final quarter of the year. Consequently, the share of financial assets in GDP decreased to

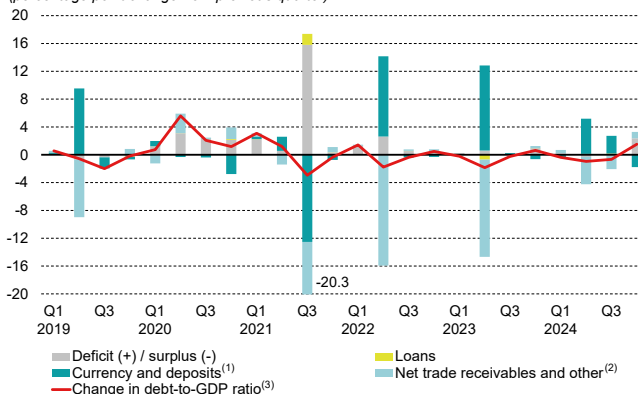
**Chart 5.1**  
**GENERAL GOVERNMENT REVENUE AND EXPENDITURE**  
(four-quarter moving sums; % of GDP)



Sources: NSO; Central Bank of Malta.

(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.  
(2) The term 'current expenditure' mainly represents spending on wages, social benefits and operational and maintenance expenses. 'Capital expenditure' mainly represents spending on investment and capital transfers.

**Chart 5.2**  
**CONTRIBUTION TO CHANGE IN DEBT**  
(percentage point change from previous quarter)



Source: Central Bank of Malta.

(1) Composed mainly of transactions in deposits held with the Central Bank of Malta.

(2) Also includes transactions related to shares and other equity and adjustments for valuation and volume effects.

(3) GDP data are four-quarter moving sums.



25.2% from 29.6% in the previous quarter (see Chart 5.3).

The market value of financial liabilities decreased by €129.4 million, to stand at €13,105.2 million. Balances on other accounts payable fell, owing to the processing of company tax refunds. This offset a rise in the value of debt securities. Consequently, the share of financial liabilities in GDP declined by 1.4 percentage points, to stand at 58.3%.

The resulting net financial worth of general government stood at -€7,441.2 million, a deterioration of €774.6 million compared with the previous quarter. The net financial worth of general government as a share of GDP worsened by 3.0 percentage points, standing at -33.1% by end-December.

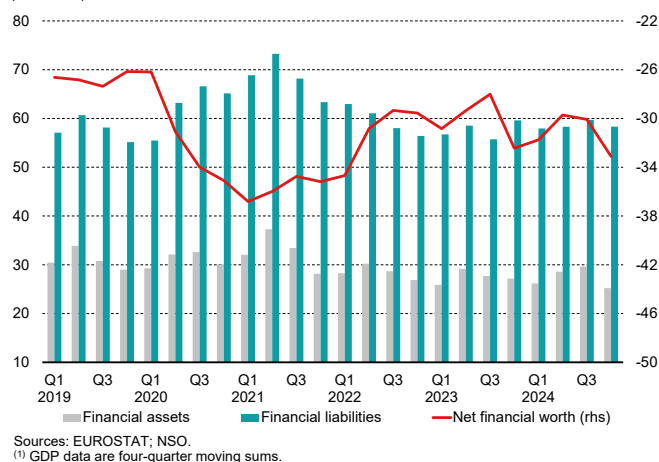
The net worth position of the Maltese general government remained more favourable than the euro area average, which closed the year at -57.3% of GDP.

#### *Debt ratio compares favourably with the euro area's while deficit ratio is higher*

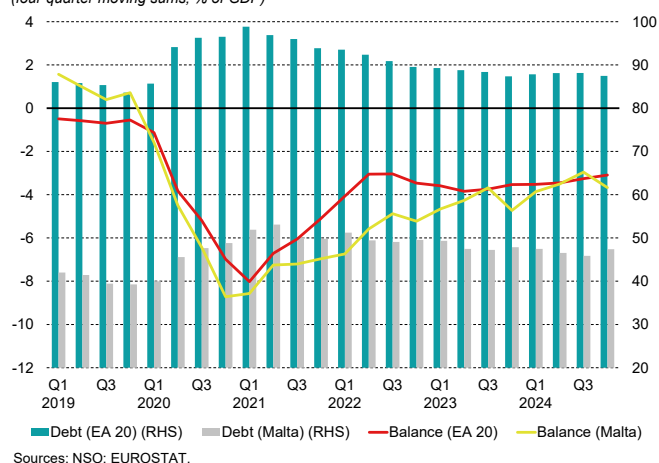
During the quarter under review, the euro area general government deficit stood at 3.1% of GDP on a four-quarter moving sum basis, down from a deficit of 3.3% of GDP at end-September (see Chart 5.4). Over the same period, the euro area debt ratio decreased to 87.5% of GDP from 88.1%. Over the year as a whole, the euro area general government deficit-to-GDP ratio declined by 0.4 percentage points, while the debt-to-GDP ratio increased by 0.1 percentage points.

The Maltese government deficit ratio widened compared to September and is now higher than the euro area average. This, despite having narrowed at a comparatively faster pace over the year as a whole. Meanwhile, Malta's debt-to-GDP ratio remained well below the euro area average.

**Chart 5.3**  
**GENERAL GOVERNMENT NET FINANCIAL WORTH**  
(% of GDP)<sup>(1)</sup>



**Chart 5.4**  
**GENERAL GOVERNMENT BALANCE AND DEBT**  
(four-quarter moving sums; % of GDP)



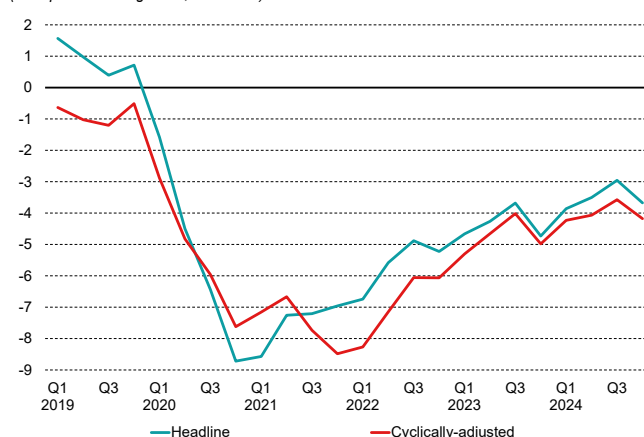
### Cyclically-adjusted deficit widens<sup>1</sup>

On a four-quarter moving sum basis, the cyclically-adjusted deficit widened by 0.6 percentage points compared to September, to stand at 4.2% of GDP in the quarter under review (see Chart 5.5). This is in line with the widening in the headline deficit ratio over the same period.

Over the year as a whole, the cyclically-adjusted deficit ratio declined by 0.8 percentage points, from 5.0% in 2023.

When compared with September, the share of cyclically-adjusted revenue in GDP increased by 1.0 percentage point (see Table 5.2). This was due to the abovementioned increase in the share of current taxes on income and wealth.

**Chart 5.5**  
**GENERAL GOVERNMENT BALANCE**  
(four-quarter moving sums; % of GDP)



Sources: NSO; Central Bank of Malta estimates.

**Table 5.2**  
**QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS**

Percentage points of GDP

	2023		2024		
	Q4	Q1	Q2	Q3	Q4
<b>Revenue</b>	<b>-0.3</b>	<b>0.4</b>	<b>0.3</b>	<b>1.0</b>	<b>1.0</b>
Current taxes on income and wealth	-0.5	0.4	0.0	0.9	1.4
Taxes on production and imports	0.0	0.1	0.2	0.0	-0.3
Social contributions	0.0	0.0	0.0	0.0	0.0
Other <sup>(1)</sup>	0.2	-0.1	0.2	0.1	-0.2
<b>Expenditure</b>	<b>0.7</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>1.6</b>
Compensation of employees	-0.1	-0.1	0.0	0.1	0.4
Intermediate consumption	0.2	-0.1	0.1	0.2	0.2
Social benefits	-0.2	0.0	0.1	0.0	0.1
Interest payments	0.1	0.1	0.0	0.1	0.0
GFCF	0.2	0.0	-0.1	0.1	-0.3
Other <sup>(2)</sup>	0.6	-0.3	0.1	0.1	1.1
<b>Primary balance</b>	<b>-0.9</b>	<b>0.8</b>	<b>0.2</b>	<b>0.6</b>	<b>-0.6</b>
<b>General government balance</b>	<b>-1.0</b>	<b>0.7</b>	<b>0.2</b>	<b>0.5</b>	<b>-0.6</b>

Sources: NSO; Central Bank of Malta estimates.

<sup>(1)</sup> Includes market output, income derived from property and investments and current and capital transfers received.

<sup>(2)</sup> Mainly includes subsidies, current and capital transfers.

<sup>1</sup> The cyclically-adjusted balance is corrected for the impact of the economic cycle on government tax revenue and unemployment assistance. This methodology is in line with the approach used by the European Commission but is based on own estimates for fiscal items' elasticities and the output gap. For an overview of the method used by the Commission, see Mourre, G., Astarita C., and Princen, S. (2014), Adjusting the budget balance for the business cycle: the EU methodology, *European Economy – Economic Papers* 536, (DG ECFIN), European Commission.

This offset declines in the share of taxes on production and imports and in the share of the 'other' component of revenue.

Meanwhile, the share of cyclically-adjusted expenditure increased by 1.6 percentage points. This was mainly due to a rise in the share of the 'other' component of expenditure, owing to the aforementioned rise in capital transfers. This was also complemented by increases in the shares of compensation of employees, intermediate consumption and social benefits. These increases offset a decline in the ratio of government investment.

## BOX 2: FISCAL DEVELOPMENTS IN MALTA DURING 2024<sup>1</sup>

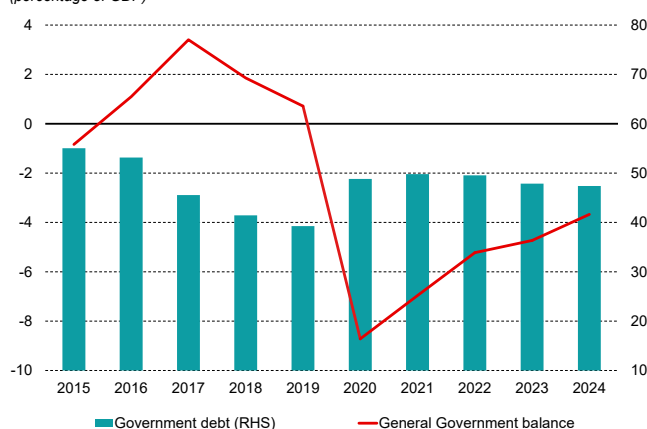
This Box analyses general government finances on an annual basis, complementing the quarterly assessment featured in the *Quarterly Review* publication which has a shorter perspective.

In 2024, Malta's fiscal position registered a notable improvement, with the general government deficit narrowing to 3.7% of GDP, down from 4.7% in 2023 (see Chart 1). This is the lowest deficit posted, both in level terms and as a share in GDP, since public finances deteriorated in 2020. The general government debt-to-GDP ratio also edged downwards, declining to 47.4% from 47.9% a year earlier. This is the lowest reading since 2016.

The lower deficit compared to 2023 was due to an 18.5% surge in revenue, which outweighed a 14.2% increase in expenditure.

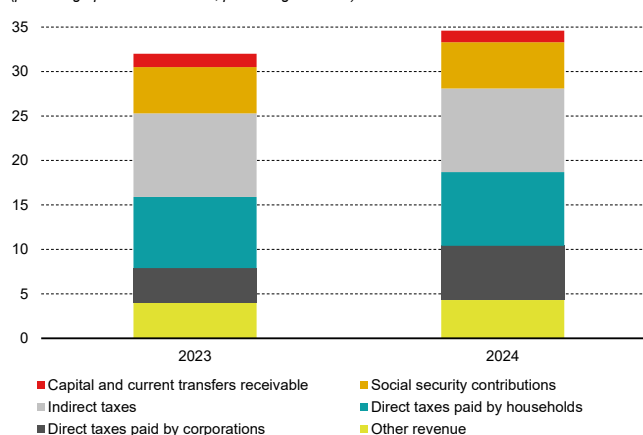
Total government revenue grew by €1,216.0 million in 2024, with its ratio to GDP rising to 34.6%, from 32.0% in the previous year. This is the highest revenue-to-GDP ratio since 2019. Chart 2 breaks down the main components of government revenue and expresses them as a share of GDP. It also shows an estimate of direct taxes paid by households, and direct taxes paid by companies.<sup>2</sup>

**Chart 1**  
**GENERAL GOVERNMENT DEFICIT AND DEBT RATIOS**  
(percentage of GDP)



Source: Central Bank of Malta.

**Chart 2**  
**DECOMPOSITION OF REVENUE COMPONENTS**  
(percentage point contributions; percentage of GDP)



Sources: NSO; author's estimate.

<sup>1</sup> Prepared by Jessica Pace, Senior Economist within the Economic Analysis Department of the Bank. The views expressed in this article represent those of the author and do not necessarily reflect those of the Central Bank of Malta. Any errors are the author's own.

<sup>2</sup> The NSO publish data on the total level of direct taxes, which in the ESA methodology is known as current taxes on income and wealth. A split is not officially available until the NSO publish a separate release on tax revenue, at the end of the year. The figures shown in the chart represent the author's estimate, based on cash data and other accruals adjustments carried out by the NSO. For more information on the transition between cash data and accruals-based data, refer to Box 3.

Taxes paid by corporations are estimated to have increased markedly to 6.1% of GDP, from 3.9% of GDP in 2023. This surge principally reflected exceptionally high profits recorded by internationally-oriented firms registered in Malta, though improvements in tax administration and compliance also contributed. In contrast, taxes paid by households (the larger component between the two) rose at a more modest pace. These increased to 8.3% of GDP, from 8.0% in the previous year, on the back of continued growth in employment and in the average wage.

Indirect taxes remained stable at 9.4% of GDP, as inflows from VAT, excise duties, stamp duties and other licence fees grew broadly in line with economic activity. The share of social security contributions in GDP also remained constant at 5.2%. This reflects the positive developments in the labour market.

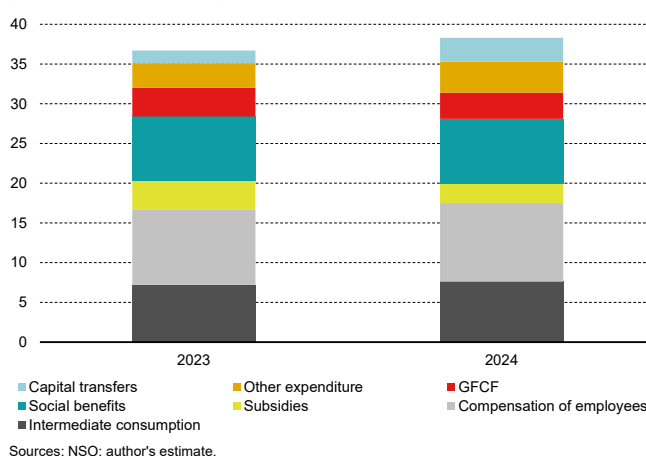
Capital and current transfers receivable declined in level terms, with their share in GDP falling to 1.3% from 1.5% in 2023, mostly due to lower capital revenue. However, the decline partly reflects a negative base effect stemming from the receipt of significant inflows under the 2014-2020 EU funding programme in 2023. Increased receipts from the Recovery and Resilience Facility (RRF) in 2024 only partially compensated for this decline. Meanwhile, 'other' revenue – mostly comprising property income and market output from public entities – increased to 4.1% from 3.8% of GDP. This growth was mainly attributable to higher income from sales generated by various services offered by Extra-Budgetary Units (EBUs).

Overall, therefore, the composition of government revenue in 2024 shifted towards more taxes on income, brought about by extraordinary growth in direct taxes paid by companies, partly reflecting greater efficiency in collection.

On the expenditure side, total outlays rose by €1,069.8 million, with their share of GDP increasing to 38.3%, up from 36.7% in 2023 (see Chart 3). This marks the highest expenditure-to-GDP ratio since 2020 and 2021, during which significant COVID-related support measures were introduced. In 2024, however, the surge in outlays mostly reflects an extraordinary increase in capital spending. Recurrent expenditure rose to 32.0% of GDP in 2024 from 31.5% of GDP a year earlier.

Intermediate consumption rose to 7.6% of GDP, from 7.2% in the previous year. This reflected higher costs across healthcare services, contract-based

**Chart 3**  
**DECOMPOSITION OF EXPENDITURE COMPONENTS**  
(percentage point contributions; percentage of GDP)



services (particularly for the provision of elderly care), and other operational commitments. Compensation of employees rose to 9.9% of GDP, compared to 9.5% in 2023, primarily due to a new collective agreement for educators, which also included backdated payments.

Subsidies, on the other hand, declined markedly to 2.5% of GDP from 3.6%, partly due to lower spending on energy-related support measures in line with the profile of international commodity prices. Outlays also declined due to a reclassification of support measures to Air Malta plc. Meanwhile, the share of social benefits in GDP remained stable at 8.1%, as increases in benefits announced in the 2024 Budget kept pace with economic activity.

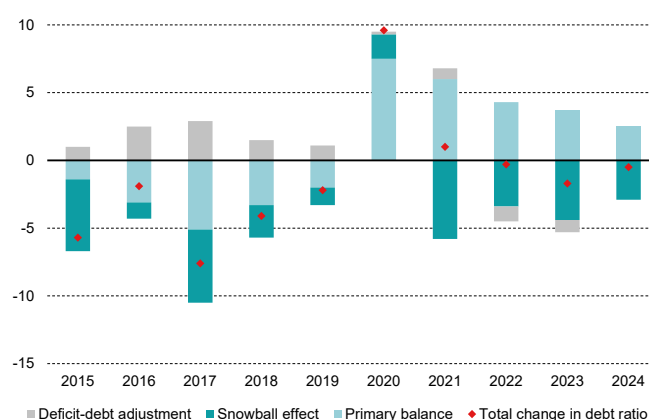
Outlays on GFCF rose slightly in level terms but declined to 3.3% of GDP from 3.6%. Internal estimates based on an assessment of cash data suggest that this profile mostly reflects the path of outlays on projects which were not co-financed by EU funds. Meanwhile, outlays related to EU-funded capital projects remained broadly unchanged from the previous year in level terms.

Capital transfers rose substantially to 3.0% of GDP, from 1.6% in 2023, largely due to one-off expenditures. These reflect support related to the winding down of Air Malta, and one-off injections following the set up of KM Malta Airlines. Excluding these exceptional airline-related outlays, overall government expenditure would have increased by 10.9% rather than by 14.2%. At the same time, outlays on other ongoing projects – mostly related to electricity distribution and investment in industrial parks – also rose significantly.

Other forms of expenditure increased to 3.9% of GDP from 3.1%, partly due to higher interest costs and increased EU budgetary contributions. The increase in spending also reflects higher transfers to pay for teachers' wages in Church schools, following the new collective agreement with educators.

The general government debt ratio declined by 0.5 percentage points in 2024 (see Chart 4). This is the third consecutive year which featured a narrowing deficit ratio. While the primary deficit exerted upward pressure on the ratio, contributing 2.5 percentage points, this was outweighed by a favourable interest-growth differential, which reduced the ratio by 2.9 percentage points. The size of these contributors declined compared to recent years, due to a declining deficit, a moderation in nominal GDP

**Chart 4**  
**CONTRIBUTION TO CHANGE IN DEBT RATIO**  
(percentage point change)



growth and higher effective interest rates on debt. For the first time since 2008, deficit-debt adjustments had a neutral effect on the change in the debt ratio.

The fiscal outcome for 2024 was more favourable than projected in the Ministry for Finance's *Draft Budgetary Plan 2025*, which had anticipated a general government deficit of 4.0% of GDP and a debt ratio of 49.5%. The stronger-than-expected revenue performance, particularly from corporate taxation and other non-tax sources, was the main driver of this positive deviation. At the same time, total expenditure also exceeded projections, mostly due to the above-mentioned one-off capital transfers.

When placed in a European context, Malta's deficit in 2024 remained higher than the euro area average of 3.1% of GDP, despite having narrowed at a comparatively faster pace. However, its debt ratio continued to be substantially lower, as the euro area's debt stood at 87.4% of GDP, nearly double that of Malta.



### BOX 3: THE TRANSITION BETWEEN THE CONSOLIDATED FUND AND THE GENERAL GOVERNMENT BALANCE<sup>1</sup>

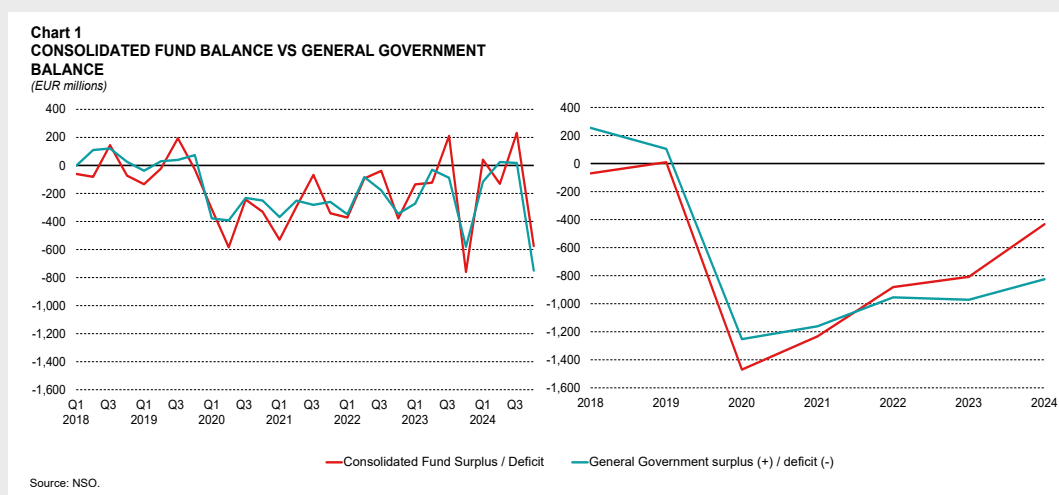
The general government balance assessed in this publication differs from the balance of the Consolidated Fund, which is the main account out of which Government finances its operations. This is due to methodological issues: according to the European System of Accounts (ESA) guidelines, the term 'general government' includes all sub-sectors of government, which in Malta's case also includes local government. Furthermore, its accounts are accruals-based, rather than cash-based.

To arrive at the general government balance, the NSO makes a series of adjustments to the Consolidated Fund balance. This box assesses the transition between the two sets of accounts in recent years.

#### Overview

Between 2018 and 2024 there were significant divergences between the Consolidated Fund and the general government balances (see Chart 1). In this period, the average absolute level of adjustments made by the NSO in each quarter stood at just over €115.0 million. When looking at full year data, the absolute level of adjustments stood at around €191.0 million. Between 2018 and 2021 this transition led to an amelioration in the balance. For instance, in 2018 the general government balance stood in surplus while the Consolidated Fund was in deficit.

More recently, the transition led to a less favourable general government balance. For instance, in 2024 the general government deficit stood at €825.3 million, while the Consolidated Fund deficit amounted to €432.7 million.



<sup>1</sup> Prepared by Laura Bigeni, Senior Economist within the Economic Analysis Department of the Bank. The views expressed in this article represent those of the author and do not necessarily reflect those of the Central Bank of Malta. Any errors are the author's own.

The level of adjustments carried out in 2023 and 2024 was larger than average. The largest adjustments were recorded in 2023Q3 and 2024Q3 and amounted to -€299.0 million and -€214.7 million, respectively.

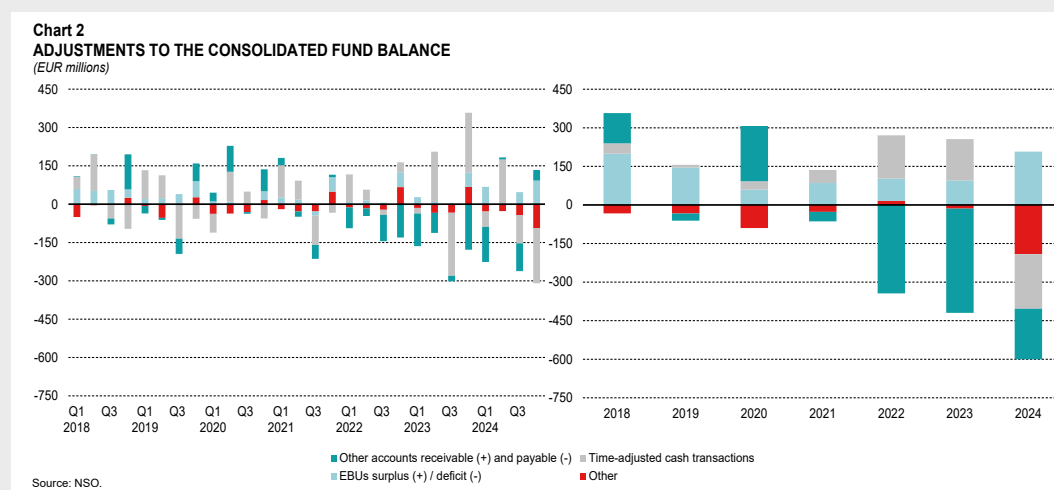
### Breakdown of adjustments

The NSO carry out various adjustments to transition from one set of accounts to the other. The largest types of adjustments will be assessed in detail. These reflect accounts receivables and payables, time-adjusted cash transactions and the balance of EBU's (see Chart 2).

Consolidated Fund operations are adjusted for accounts receivables and payables, to account for accruals. The main form of accruals reflect receipts and payments made by the Treasury Department, Ex-Church Property Agreement adjustments, the timing of receipt of EU Funds, emission trading permit auctions, interest receivable and tax repayments from the COVID-19 tax deferral scheme.

These adjustments tend to vary in magnitude and are typically larger for two quarters in each year. The largest adjustments were carried out in 2022 and 2023 amounting to -€343.9 million and -€405.6 million, respectively. These large negative adjustments reflected a buildup in account payables. In 2024 the adjustment was substantially smaller, at -€196.5 million, due to a decline in the stock of accounts payables.

Time-adjusted cash transactions are carried out to income tax, social contributions and VAT revenue, so that inflows in the general government accounts are recorded in the period in which the corresponding economic activity took place. It represents another form of accruals adjustment.<sup>2</sup>



<sup>2</sup> See Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96.

Some of the largest adjustments reflect the timing of receipt of income taxes paid by International Tax Units (ITUs).<sup>3</sup> These inflows vary significantly in amounts and timing. The adjustments covering the inflows by ITUs contributed to large and positive time adjustments in 2022 and 2023, and a large negative adjustment in 2024. The level of time adjustments in these years amounted to €167.9 million, €160.7 million and -€212.1 million, respectively.

Another significant adjustment is the inclusion of net lending or borrowing of the EBUs forming part of the Central Government Sector. The financial position of these EBUs is accounted for separately from the Consolidated Fund. These adjustments are typically positive in value, mainly due to the inflows recorded in the National Development and Social Fund. In quarterly terms, the largest adjustment tends to take place in the final quarter of the year. Overall, EBU balances during 2024 were the most positive since 2018 and amounted to €207.4 million.

The transition between the Consolidated Fund and the general government balances includes other adjustments. These include adjustments for financial transactions and equity injections, the treatment of tax credits and re-routing of EFSF and Public Private Partnership (PPP) operations, as well as the inclusion of local government.<sup>4</sup>

Overall, these adjustments tend to be negative and are small in magnitude. However, there were significant adjustments in 2020 and in 2024.<sup>5</sup> In 2020 these stood at -€89.6 million and mostly reflect higher than usual adjustments for tax credits and for differences in the recording of interest paid and accrued. Adjustments in 2024 stood at -€191.5 million and largely reflect equity acquisitions related to the setup of KM Malta Airlines.

<sup>3</sup> The term 'international tax units' refers to companies which are foreign owned and registered in Malta. Non-resident shareholders can claim back a large portion of taxes paid on the distributed profits by the company. Until tax refunds are requested and paid, tax balances are recorded in departmental accounts, held at the Central Bank of Malta. Once the refund is paid, the net income tax level is transferred to the Consolidated Fund and shown as revenue. For further information, refer to [Malta's Excessive Deficit Procedure Inventory](#).

<sup>4</sup> The European Financial Stability Facility (EFSF) was created as a temporary crisis resolution mechanism by euro area countries in June 2010. It has provided financial assistance to Ireland, Portugal and Greece. According to the ESA methodology, EFSF operations have to be rerouted onto individual governments' accounts. PPPs are used for many different types of long-term contracts between government and corporations for the provision of public infrastructure. In these partnerships, government agrees to buy services from a non-government unit over a long period of time, resulting from the use of specific "dedicated assets". The non-government unit builds a specifically designed asset to supply the service.

<sup>5</sup> Since 2018, the adjustments in respect of local government were small and, in most years, positive.

## 6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the fourth quarter of 2024, financing conditions were slightly looser compared to the previous quarter.

In December 2024, Maltese residents' deposits with MFIs in Malta increased from their year-ago level, reflecting higher balances belonging to both households and NFCs.<sup>1</sup> The annual rate of change exceeded that recorded in September. Credit to Maltese residents grew at a faster pace, reflecting faster growth in credit to general government.

The weighted average interest rate on outstanding deposits stood above its year-ago level, while the rate on outstanding loans decreased over this period. Thus, the spread between the two rates narrowed over this period.

The primary market yield on Treasury bills increased between September and December. Secondary market yields on five and ten-year MGS also rose. As the yield on the domestic ten-year bond rose while the corresponding euro area yield declined, the spread between the two widened. The MSE Equity Price Index fell between September and December and was also lower compared with a year earlier.

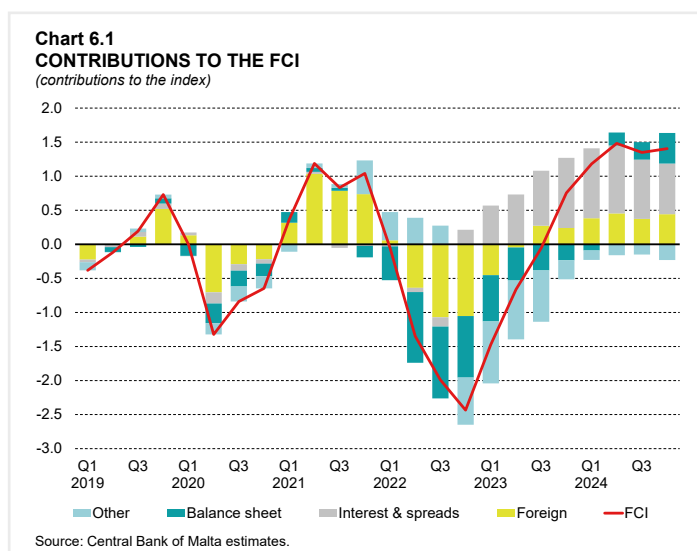
### Monetary and financial conditions

#### Financial conditions remain loose<sup>2</sup>

In the last quarter of 2024, the Bank's FCI continued to signal loose financial conditions from a historical perspective. Compared with the previous quarter, conditions were marginally more favourable (see Chart 6.1).

The loosening in financial conditions during the quarter under review was driven by foreign factors, notably equity prices. Domestic factors signalled marginally less favourable conditions compared to the previous quarter.

The marginal decrease in the contribution of domestic factors masks offsetting movements across different components. On the one hand, the 'interest and spreads' component became less supportive to financing conditions, as the negative spread between the MFI lending rate and the MRO rate narrowed.<sup>3</sup> Meanwhile, the



<sup>1</sup> Monetary data analysed in this chapter are compiled on the basis of the statistical standards found in the Statistics section of the Bank's website.

<sup>2</sup> This index is composed of various financial indicators, which are available at a high frequency. This section is based on quarterly averages for each indicator.

<sup>3</sup> Although the DFR is the rate through which the Governing Council steers the monetary policy stance, in the Bank's FCI model the policy spread has historically been computed as the difference between the lending rate and the MRO rate, reflecting the significant importance of MROs in the past and different liquidity conditions that prevailed at the time. This approach is maintained to avoid breaks in the FCI series over time and facilitate the interpretation of the index over long horizons. As the MRO and DFR rate normally track each other closely, adjusting the calculation of the lending rate to policy rate spread to reflect the DFR instead of the MRO should not significantly affect the short-term dynamics of the FCI.

‘Other’ component, recorded a slightly larger negative contribution compared with the previous quarter, as the contribution of issues of NFC securities turned negative.

On the other hand, the ‘balance sheet’ component signals more favourable conditions, driven by movements in real deposits. The contribution of real deposits turned positive during the quarter under review.

Compared with the final quarter of 2023, financial conditions remained significantly looser, predominantly due to developments in domestic factors, and in particular a more positive contribution from real deposits and real credit (part of the ‘balance sheet’ component). A less negative contribution from equity prices (part of the ‘other’ component) also contributed.<sup>4</sup>

### *Maltese residents’ deposits increase at a faster rate*

Total deposits held by Maltese residents with MFIs in Malta increased by 7.1% in the year to December, at a faster rate than that of 5.2% observed in the year to September (see Table 6.1).

<b>Table 6.1</b>		<b>DEPOSITS OF MALTESE RESIDENTS</b>					
	EUR millions 2024 Dec.	Annual percentage changes					
		2023 Dec.	Mar.	June	2024 Sep.	Dec.	
<b>Overnight deposits</b>	<b>21,215</b>	<b>-0.2</b>	<b>-0.7</b>	<b>-0.5</b>	<b>2.2</b>	<b>4.1</b>	
<i>of which</i>							
Households	14,863	1.8	1.2	2.3	3.8	4.2	
NFCs	3,906	-5.2	-1.7	-2.6	4.0	13.9	
<b>Deposits redeemable at notice of up to three months</b>	<b>72</b>	<b>-26.0</b>	<b>-23.5</b>	<b>-33.4</b>	<b>-43.2</b>	<b>-16.8</b>	
<i>of which</i>							
Households	8	-98.6	-99.0	-99.3	-98.0	1,202.6	
NFCs	49	30.4	43.2	23.0	-7.5	-19.7	
<b>Deposits with an agreed maturity of up to two years</b>	<b>3,147</b>	<b>25.7</b>	<b>28.9</b>	<b>30.7</b>	<b>35.4</b>	<b>37.4</b>	
<i>of which</i>							
Households	2,438	34.0	36.9	30.7	35.2	34.4	
NFCs	382	23.1	39.3	45.1	52.1	62.6	
<b>Deposits outside M3<sup>(1)</sup></b>	<b>1,006</b>	<b>0.8</b>	<b>0.8</b>	<b>2.9</b>	<b>3.9</b>	<b>-0.3</b>	
<i>of which</i>							
Households	878	-4.5	-5.5	-3.1	-1.6	-2.4	
NFCs	31	-2.8	3.8	5.7	31.3	-9.4	
<b>Total residents deposits<sup>(2)</sup></b>	<b>25,440</b>	<b>1.7</b>	<b>1.7</b>	<b>2.2</b>	<b>5.2</b>	<b>7.1</b>	
<i>of which</i>							
Households	18,186	3.8	3.7	4.5	6.5	7.1	
NFCs	4,368	-3.4	1.3	0.6	6.8	16.2	

Source: Central Bank of Malta.

<sup>(1)</sup> Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

<sup>(2)</sup> Total residents deposits exclude deposits belonging to Central Government.

<sup>4</sup> Equity prices in the FCI refer to the MSE Equity Price Index.

The annual rate of change of Maltese residents' overnight deposits, which are the most liquid component, rose to 4.1%, from 2.2% in September. The latest increase was driven by balances held by NFCs and households. The share of overnight deposits in total deposits increased to 83.4% in December, compared to 83.3% three months earlier.

Deposits with an agreed maturity of up to two years, registered robust growth of 37.4%, compared with 35.4% in September. Their share in overall deposits continued to increase, reaching 12.4% from 12.2% three months prior. The latest increase was driven by higher balances belonging to households. This strong growth reflects the fact that interest rates on fixed deposits are generally more attractive than they were a year ago, despite some easing impulse from the latest ECB policy rate cuts in recent months.

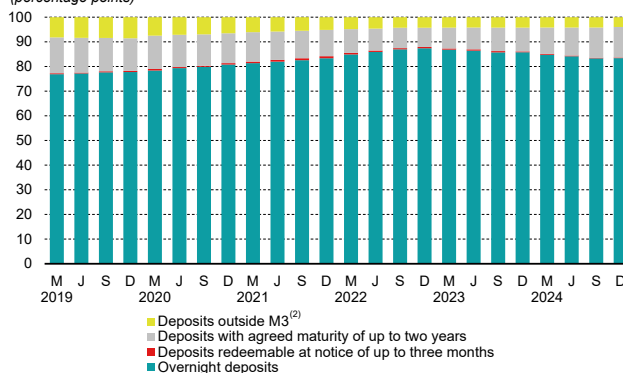
Deposits with an agreed maturity of up to three months (the smallest component) continued to decline, while retaining a small share of total deposits, at 0.3%.

Meanwhile, deposits classified outside M3 – which are mainly composed of deposits with agreed maturity of over two years – decreased by 0.3% during the 12 months to December, compared to a growth of 3.9% three months earlier (see Chart 6.2). Their share in total resident deposits decreased to 4.0%, from 4.2% in September.

### *Credit to residents grows at a faster pace*

The annual rate of change of credit to Maltese residents increased to 7.7% in December from 7.4% in September. This reflected a faster increase in lending to general government. By contrast, growth in credit to residents outside the general government sector moderated compared to September (see Table 6.2 and Chart 6.3).

**Chart 6.2**  
**DISTRIBUTION OF TOTAL RESIDENT DEPOSITS<sup>(1)</sup>**  
(percentage points)

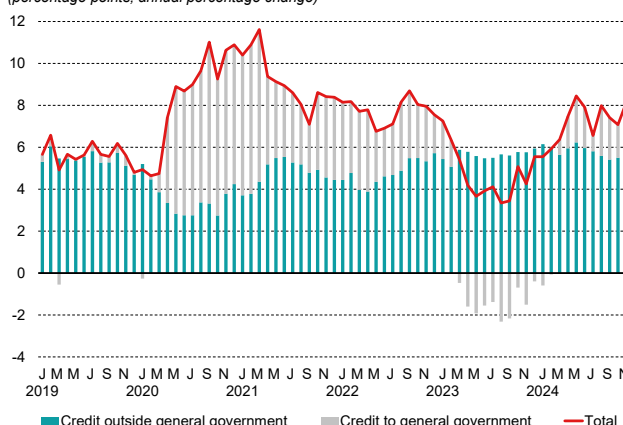


Source: Central Bank of Malta.

<sup>(1)</sup> Deposits exclude those belonging to central government.

<sup>(2)</sup> Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

**Chart 6.3**  
**CONTRIBUTIONS TO GROWTH IN CREDIT TO MALTESE RESIDENTS**  
(percentage points; annual percentage change)



Source: Central Bank of Malta.

**Table 6.2**  
**MFI CREDIT TO MALTESE RESIDENTS**

	EUR millions 2024 Dec.	Annual percentage changes				
		2023 Dec.	2024			
			Dec.	Mar.	June	Sep.
<b>Credit to general government</b>	<b>5,241</b>	<b>-1.5</b>	<b>2.9</b>	<b>8.0</b>	<b>8.4</b>	<b>10.8</b>
<b>Credit to residents outside general government</b>	<b>15,634</b>	<b>8.0</b>	<b>7.6</b>	<b>7.9</b>	<b>7.1</b>	<b>6.6</b>
Securities and equity	294	-4.6	-4.3	-4.7	-7.7	-5.0
Loans	15,341	8.4	7.8	8.2	7.4	6.9
<i>of which:</i>						
Loans to households	9,122	8.2	9.0	9.1	9.5	9.2
Mortgages	8,428	7.9	8.7	8.8	9.4	9.4
Consumer credit and other lending	695	12.2	12.4	13.4	10.8	7.0
Loans to NFCs <sup>(1)</sup>	5,097	8.8	5.4	6.3	3.0	2.2
<b>Total credit to residents</b>	<b>20,875</b>	<b>5.5</b>	<b>6.4</b>	<b>7.9</b>	<b>7.4</b>	<b>7.7</b>

Source: Central Bank of Malta.

<sup>(1)</sup> NFCs include sole proprietors and non-profit institutions serving households (NPISH).

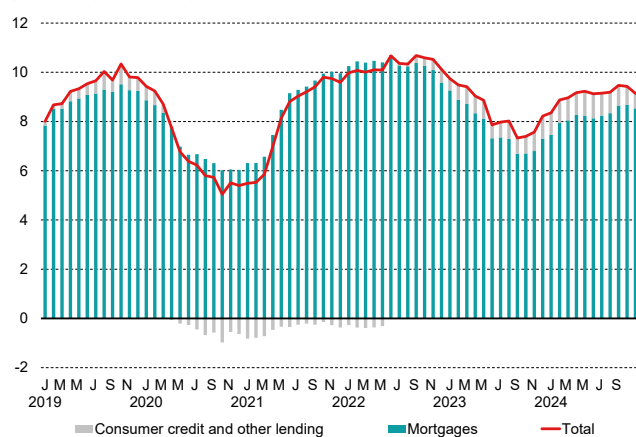
Credit to general government grew by an annual 10.8% in December, following an increase of 8.4% over the year to September. MFI holdings of Government stocks rose at a faster rate, while holdings of Treasury bills, which recorded a year-on-year fall in September, rose over the year to December.

The annual growth of credit to residents outside general government eased to 6.6% in December, from 7.1% three months prior. This mainly reflects slower growth in loans to the private sector, which offset a smaller contraction in MFI holdings of securities issued by the private sector.

Annual growth in loans to households moderated to 9.2%, compared to 9.5% three months earlier (see Chart 6.4). This moderation is driven by slower growth in consumer credit and 'other lending', which grew by 7.0%, following an increase of 10.8% in the year to September. Growth in mortgage lending remained unchanged, at 9.4%.

Meanwhile, loans to NFCs grew at an annual rate of 2.2%, following 3.0% growth three months earlier (see Chart 6.5).

**Chart 6.4**  
**CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS**  
(percentage points; annual percentage change)

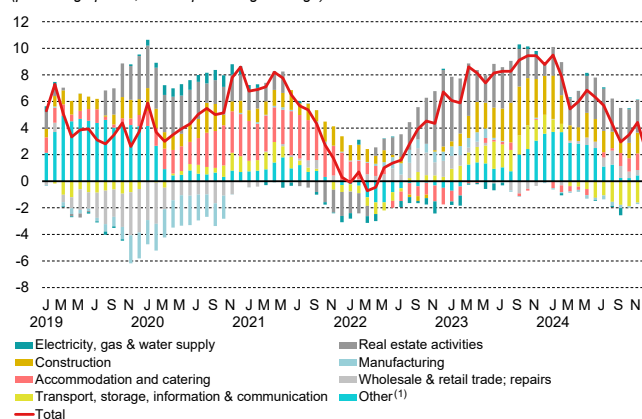


Source: Central Bank of Malta.



Sectoral data show that in absolute terms, the increase in loans to NFCs in the year to December, was largely driven by increased lending to the sector comprising accommodation and food sector, the real estate sector and the construction sector. Increases in these sectors offset declines in a number of other sectors, with the largest decline recorded in the sector comprising information, communication, transport and storage, and in the energy sector.

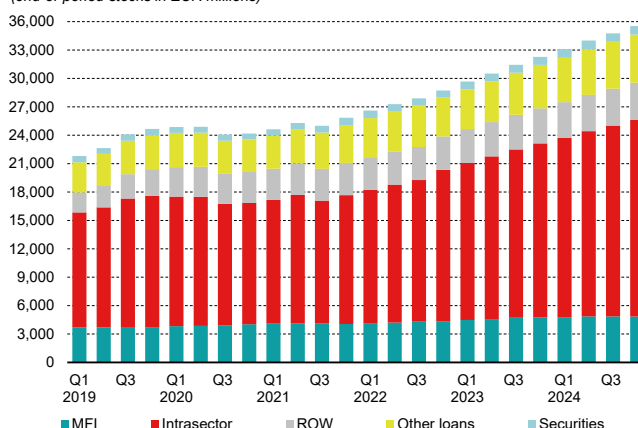
**Chart 6.5**  
**LOANS TO NFCs BY SECTOR**  
(percentage points; annual percentage change)



Financial accounts data show that the share of bank lending in total NFC debt in December 2024, decreased to 13.7%, compared to 14.0% in September, and from 14.7% recorded a year earlier (see Chart 6.6).

The share of intra-sectoral lending in total NFC debt reached a new high of 58.4%, from 58.0% recorded in September. This component continued to account for most of NFCs external financing.

**Chart 6.6**  
**NFC DEBT BY SOURCE**  
(end-of-period stocks in EUR millions)



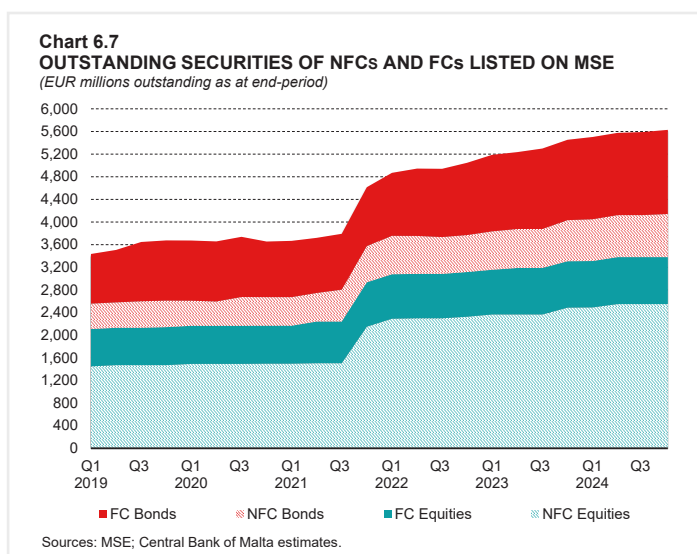
The share of debt financing sourced from non-residents decreased marginally to 11.1%, from 11.2% in September, and from 11.5% recorded a year earlier. Meanwhile, the share of 'other loans' remained unchanged during the quarter, at 14.3%. This component largely reflects loans from financial institutions other than MFIs and households.

The share of securities remained unchanged from September, at 2.5%, but marginally lower than the 2.6% recorded a year prior.

### Stock of listed securities of NFCs and financial corporations increases

By December 2024, around €2,249.5 million in outstanding corporate debt securities were listed on the MSE, 4.9% higher than the amount listed a year earlier (see Chart 6.7).<sup>5</sup> 66.1% of this amount was issued by financial entities other than credit institutions.

Meanwhile, the outstanding amount of equity listed by NFCs and financial corporations (FCs) on the MSE increased by 2.2% in annual terms, to reach €3,378.7 million. Over three fourths of this volume was issued by NFCs, with FCs playing a secondary role. The increase over the year to December, was mostly driven by NFCs that operated within the real estate sector. The total amount of outstanding listed equity as of December 2024, exceeded that of bonds by 50.2%.<sup>6</sup>



### Spread between deposit and lending rate on outstanding amounts narrows

The weighted average deposit rate on outstanding balances belonging to households and NFCs increased by 9 basis points since December 2023, to reach 0.39% (see Table 6.3). This was largely driven by higher rates on time deposits with agreed maturity of up to two years.

At the same time, the weighted average lending rate paid by households and NFCs on outstanding loans decreased by 22 basis points to 3.36%. This decrease reflected lower rates charged to both NFCs and households, with the decrease to NFCs being more significant, at around 41 basis points. Rates charged to households decreased by 10 basis points, with rates on mortgage lending, and on consumer credit and other lending decreasing by 8 and 18 basis points, respectively.

The spread between the weighted average lending rate and the deposit rate on outstanding balances in December closed at 297 basis points. This was lower than the spread recorded in the previous quarter and below the spread of 328 points recorded a year earlier.

During the year to December, both the deposit rate offered on new balances held by households and NFCs in Malta, and the lending rate of these sectors increased. By December, the weighted average deposit rate for households and NFCs increased to 2.45% while the lending rate of these two sectors increased to 3.20%.

<sup>5</sup> MSE data may differ from financial accounts data due to differences in valuation methodology and coverage. In particular, financial accounts data are at market value and include both listed and privately-placed securities. MSE data on corporates presented in Chart 6.7 are based on the official MSE list and thus exclude securities listed through Prospects. Chart 6.7 includes data on NFCs and FCs other than MFIs.

<sup>6</sup> Apart from the official MSE platform, small and medium-sized enterprises can also obtain finance through the specifically-g geared platform – Prospects.

**Table 6.3**  
**INTEREST RATES ON DEPOSITS AND LOANS**

*Percentages per annum to residents of Malta; weighted average rates as at end of period*

	2021 Dec.	2022 Dec.	2023 Dec.	2024			
				Mar.	June	Sep.	Dec.
<b>Total deposits<sup>(1)</sup></b>	<b>0.16</b>	<b>0.15</b>	<b>0.30</b>	<b>0.35</b>	<b>0.37</b>	<b>0.40</b>	<b>0.39</b>
<i>of which</i>							
<b>Overnight deposits</b>							
Households	0.02	0.02	0.05	0.05	0.05	0.05	0.05
NFCs	0.01	0.03	0.10	0.10	0.12	0.10	0.05
<b>Savings deposits redeemable at notice</b>							
Households	0.40	0.16	0.31	0.31	0.30	0.28	0.18
NFCs	0.04	0.12	0.47	0.74	0.60	0.57	0.73
<b>Time deposits (less than two years)</b>							
Households	0.51	0.72	1.79	2.05	2.07	2.15	2.17
NFCs	0.49	0.74	1.85	2.28	1.80	2.26	2.18
<b>Time deposits (more than two years)</b>							
Households	1.78	1.73	1.79	1.82	1.89	1.98	2.07
NFCs	1.12	1.60	1.74	1.83	1.38	1.92	1.81
<b>Total loans<sup>(1)</sup></b>	<b>3.23</b>	<b>3.32</b>	<b>3.58</b>	<b>3.52</b>	<b>3.51</b>	<b>3.41</b>	<b>3.36</b>
<i>of which</i>							
Households and NPISH	3.01	2.87	2.85	2.82	2.81	2.75	2.75
NFCs	3.63	4.16	4.95	4.83	4.81	4.69	4.54
<b>Spread<sup>(2)</sup></b>	<b>3.07</b>	<b>3.17</b>	<b>3.28</b>	<b>3.17</b>	<b>3.14</b>	<b>3.01</b>	<b>2.97</b>
ECB MROs rate	0.00	2.50	4.50	4.50	4.25	3.65	3.15

Source: Central Bank of Malta.

<sup>(1)</sup> Annualised agreed rates on outstanding euro-denominated amounts belonging to households (incl. NPISH) and NFCs.

<sup>(2)</sup> Difference between composite lending rate and composite deposit rate.

Compared to the third quarter of 2024, interest rates on outstanding deposits with MFIs decreased by 1 basis point, while rates on outstanding loans decreased by 5 basis points. As a result, the spread between the two rates narrowed by 4 basis points.

#### *Bank Lending Survey (BLS) mostly indicates unchanged credit standards, terms and conditions in the fourth quarter*

According to the January 2025 BLS, in the fourth quarter of 2024 all participating banks reported unchanged credit standards and terms and conditions for lending to NFCs, and for consumer credit and 'other lending'. In the case of mortgage lending, the majority of respondents also reported no changes. For the first quarter of 2025, no changes were foreseen. This applies to all types of credit.

As regards demand, surveyed banks generally did not report changes for the fourth quarter, except for some decline in demand for credit by NFCs. Meanwhile, all banks anticipated demand to remain unchanged in the first quarter of 2025.

The January BLS also posed ad hoc questions on changes in banks' access to wholesale and retail funding, and in their risk transfer capacity as a result of the prevailing situation in financial markets. No impacts were reported during the three months preceding the survey and this was expected to remain the case in the coming quarter.

Banks were also asked to report the impact of new regulatory or supervisory action on their balance sheet, their funding conditions as well as any effects on their lending standards and margins. For the preceding twelve-month period, the majority of banks did not report changes in their funding conditions, and in their total and risk weighted assets as a result of new regulatory or supervisory action. However, most reported an increase in their capital position, with capital issuance deemed to have played a more important role than retained earnings. Banks were less likely to expect an impact on their finances in the coming 12 months.

Moreover, all banks said that there were no changes relating to credit standards and margins as a result of the regulatory or supervisory requirements. These were also expected to remain unchanged over the next 12 months.

When asked whether the change in banks' excess liquidity held with the Eurosystem had led to a change in their bank's lending conditions and loan volumes, all banks reported no changes. For the next six months, the situation was expected to remain the same.

Participating banks claimed that their non-performing loan (NPL) ratio and other indicators of credit quality had not affected their lending policies in the preceding six-month period and expect no effects in the six months ahead.

Respondent banks were also asked to state how credit standards, terms and conditions on new loans, and the demand for loans had changed across different economic sectors. For most sectors, banks reported no change in credit standards, terms and conditions and demand. Some tightening in credit standards, terms and conditions was reported for commercial real estate loans, which was expected to continue in the next six months. In line with this tightening, demand for loans by this sector was also reported to have decreased somewhat. This assessment also holds for the first half of 2025.

### **The money market**

During the fourth quarter of 2024, the Government issued €628.2 million in Treasury bills, €350.9 million more than the amount issued in the third quarter.

In the domestic primary market, the yield on three-month Treasury bills rose to 3.01% by the end of December, from 2.64% at end-September.

### **The capital market**

During the final quarter of 2024, the Government issued two new MGS with a total value of €399.4 million.

Five private sector institutions launched new bond issues on the MSE. Agora Estates plc, VBL plc and Excel Finance plc issued secured bonds worth €9.0 million, €10.0 million and €50.0 million, respectively. Tum Finance plc issued €12.0 million in secured callable bonds, while Bank of Valletta plc issued €100.0 million in unsecured subordinated bonds.

By the end of 2024, 19 firms had bonds that were listed on the MSE through Prospects, an unchanged number compared with three months earlier.<sup>7</sup>

In the secondary market, turnover in government bonds increased to €60.9 million, from €54.8 million in the third quarter of 2024. On the contrary, turnover in corporate bonds decreased to €27.6 million from €30.9 million, previously.

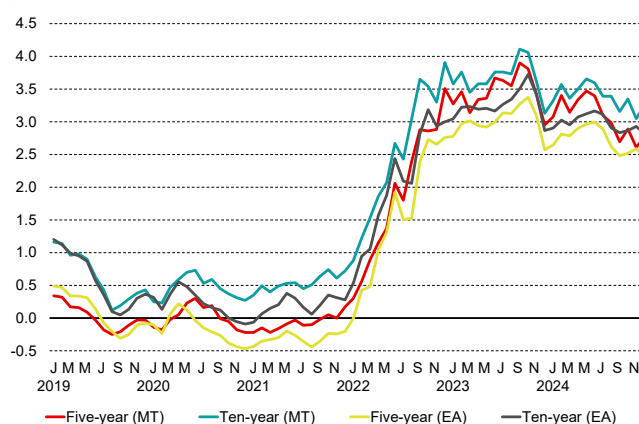
The yield on five-year Government bonds rose to 2.77% at the end of December, from 2.70% three months earlier (see Chart 6.8). The yield on ten-year bonds also increased, to reach 3.26% from 3.16% in September. Meanwhile, the euro area benchmark yield on five-year bonds fell marginally to 2.47% from 2.48%, and that on ten-year bonds decreased to 2.81% from 2.83%. As the yield on the domestic ten-year bond rose while the corresponding euro area yield declined, the spread between the two widened to 45 basis points from 32 basis points in September.

### *MSE Equity Price Index declined during the quarter*

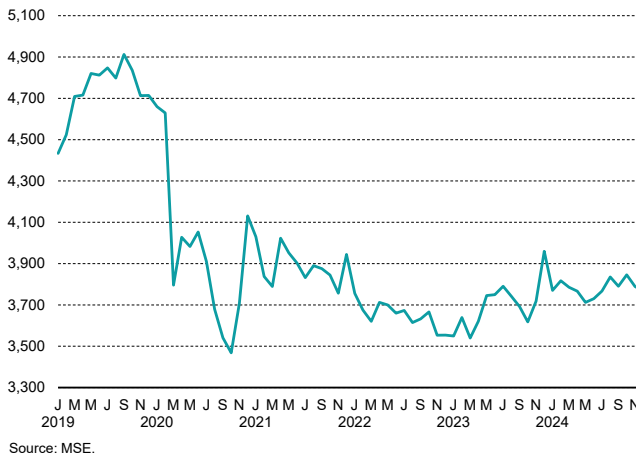
Share prices in Malta fell during the fourth quarter of 2024. The MSE Equity Price Index ended the quarter 0.6% below its level at end-September and was also 4.9% lower than its reading a year earlier (see Chart 6.9). On the other hand, the MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, was 0.4% higher than its level at end-September.

Equity turnover fell to €9.9 million during the fourth quarter of 2024, from €19.8 million in the previous quarter.

**Chart 6.8**  
**GOVERNMENT BOND YIELDS**  
(percentages per annum; end of month)



**Chart 6.9**  
**MSE EQUITY PRICE INDEX**  
(end of month)



<sup>7</sup> Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.