



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 27 June 2025. However, the cut-off date for government finance, monetary and residential property price statistics is extended to 7 July 2025, while that for euro area government finance statistics is extended to 21 July 2025. Figures in tables may not add up due to rounding.*

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## ABBREVIATIONS

APP	Asset Purchase Programme
AWP	Average-Weighted Prices
AWY	Average-Weighted Yield
BCI	Business Conditions Index
BLS	Bank Lending Survey
CCI	construction cost index
COICOP	Classification of Individual Consumption by Purpose
CPI	Consumer Price Index
DFR	deposit facility rate
EA	Euro Area
ECB	European Central Bank
EEI	Employment Expectations Indicator
EER	Effective Exchange Rate
EPU	Economic Policy Uncertainty
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
Fed	Federal Reserve
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
IMF	International Monetary Fund
LFS	Labour Force Survey
LTRO	longer-term refinancing operations
MCH	Malta Clearing House
MFI	monetary financial institution
MGS	Malta Government Stocks
MGSB	Malta Government Savings Bond
MIP	Macroeconomic Imbalance Procedure
MP	maintenance period
MPC	Monetary Policy Committee
MRO	main refinancing operation
MRR	Minimum Reserve Requirement
MSE	Malta Stock Exchange
NADIE	net assets denominated in euro
NEIG	non-energy industrial goods
NFA	net foreign assets
NFC	non-financial corporation
NSO	National Statistics Office
PEPP	Pandemic Emergency Purchase Programme
PPI	Producer Price Index
PSPP	Public Sector Purchase Programme
RPI	Retail Price Index
RPPI	Residential Property Price Index
SAFE	Survey on Access to Finance of Enterprises
SEPA	Single Euro Payments Area
SME	small and medium-sized enterprises
SMP	Securities Markets Programme
TLTRO	targeted longer-term refinancing operations
ULC	unit labour cost
UK	United Kingdom
US	United States
YTM	yield to maturity

## FOREWORD

During the first quarter of 2025, real gross domestic product (GDP) rose by 3.0% in annual terms. Growth was mainly driven by domestic demand, while net exports had a limited contribution. When adjusting for imports, the contributions from domestic demand and external trade were similar.

Potential output growth is estimated to have stood at 4.5% in the first quarter of 2025, slightly below that of 4.7% estimated for the fourth quarter of 2024. On a four-quarter moving average basis, the level increase in potential output relative to the previous three months exceeded that of GDP. As a result, in the quarter under review, the output surplus narrowed to 0.6% from 1.0% in the last quarter of 2024, implying some moderation in the degree of over-utilisation of the economy's productive capacity.

The Bank's Business Conditions Index (BCI) edged down slightly in the first quarter, though it still indicated that economic growth stood above its long-run average. This quarter-on-quarter dip mainly reflected a shift to declines in residential permits and specific tax receipts. A slight moderation in the growth rate of GDP compared with the final quarter of 2024, as well as slower growth in industrial production, also contributed.

The Bank's Economic Policy Uncertainty (EPU) index, which monitors economic policy uncertainty by synthesising information gleaned from Maltese news portals, averaged 89.1 in the first quarter, a significant decline from 108.4 in the previous quarter, and its historical average of 100. Uncertainty during this quarter was primarily driven by international developments, including heightened geopolitical tensions, lack of clarity about future trade policy, and uncertainty about future defence spending plans in Europe. However, domestic factors also played a role, with policy discussions on Malta's economic vision and demographic challenges also contributing.

The labour market continued to show resilience amid tentative signs of moderating demand. According to the Labour Force Survey (LFS), employment rose by 4.3% in annual terms, following a rise of 4.2% in the previous quarter. The unemployment rate reached a new low and remained well below that in the euro area. Meanwhile, the job vacancy rate decreased slightly, but the labour market tightness indicator remained elevated and rose slightly.

Although inflation increased during the first quarter of 2025, it was close to the European Central Bank's (ECB) inflation target. Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP) increased to 2.1% in March, from 1.8% in December. This mainly reflected a slightly higher contribution from non-energy industrial goods (NEIG) and food inflation. Meanwhile, annual inflation based on the Retail Price Index (RPI), which only considers expenditure by Maltese residents, increased to 2.1% in March from 1.1% in December, reflecting higher contributions from the prices of food and clothing.

Non-labour cost indicators regularly monitored by the Bank signalled falling prices or moderate price pressures, albeit with different dynamics. Annual inflation according to the industrial producer price index (PPI) remained negative, standing at -0.5% on average in the first quarter of 2025 from -0.4% in the previous quarter. Other indicators moved sideways. The domestic producer

price index remained unchanged at 0.6%, while the imports of goods deflator showed weaker growth. Meanwhile, the construction cost index (CCI) for new residential buildings increased at a faster rate of 2.3% after it had increased by an annual rate of 1.3% in the previous quarter.

Meanwhile, Malta's unit labour cost (ULC) index, measured on a four-quarter moving average basis, rose at an annual rate of 6.1%, following a rise of 5.7% in the previous quarter, largely reflecting developments in productivity per person.

In the first quarter of 2025, the current account surplus widened when compared with a year earlier. This was due to higher net receipts from services and net inflows on the secondary income account. By contrast, the merchandise trade deficit widened and net outflows on the primary income account increased. On a four-quarter moving sum basis, the current account surplus was equivalent to 6.0% of GDP.

In the first quarter of the year, the general government balance was in surplus, in contrast with the same period a year earlier. When measured on a four-quarter moving sum basis, the general government deficit ratio narrowed by 0.6 percentage points between December and March, to stand at 3.1% of GDP. However, the general government debt-to-GDP ratio rose, reaching 48.1% at the end of March, from 47.4% in December 2024.

In March 2025, 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 December. Meanwhile, credit to Maltese residents also grew at a faster pace compared with the previous quarter, driven by faster growth in both credit to general government and credit to other residents. The Bank's Financial Conditions Index (FCI) suggests that financing conditions remained loose from a historical perspective, but were less favourable when compared with the fourth quarter of 2024.

The weighted average interest rate offered to households and NFCs on their outstanding deposits stood marginally above its year-ago level, while the rate on outstanding loans decreased over this period. The spread between the two rates narrowed from 317 basis points to 292 basis points.

During the year to March, both the deposit rate offered on new balances held by households and NFCs in Malta, and the lending rate paid by these sectors decreased. By March, the weighted average deposit rate for households and NFCs decreased to 2.14%, while the lending rate of these two sectors decreased to 3.15%.

In March 2025, the primary market yield on Treasury bills decreased from that prevailing three months earlier. On the other hand, secondary market yields on five and ten-year Malta Government Stocks (MGS) rose over this period, as did the MSE Equity Price Index.

In January and March, the Governing Council of the ECB lowered its policy rates, bringing the deposit facility rate (DFR), which is the relevant rate that steers the monetary stance, to 2.50%. At the March meeting, the Governing Council stated that monetary policy was becoming meaningfully less restrictive, as the interest rate cuts were making new borrowing less expensive for firms and households, while loan growth was picking up. The Governing Council stated that,



especially in current conditions of rising uncertainty, it would continue to follow a data-dependent and meeting-by-meeting approach in determining the appropriate monetary policy stance. The Council reaffirmed that it was not pre-committing to a particular rate path.

Further rate cuts were announced in the second quarter, such that the DFR decreased to 2.00% by June. The Council reiterated its determination to ensure that inflation stabilised sustainably around the 2% medium-term target. 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 and will not pre-commit to a particular rate path.

## ECONOMIC SURVEY

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

Against a backdrop of heightened global trade policy uncertainty, in the first quarter of 2025, real GDP contracted marginally in the United States and continued to recover in the United Kingdom and in the euro area. Meanwhile, whereas the unemployment rate fell marginally in the United States, it rose slightly in the United Kingdom and in the euro area.

Consumer price inflation eased in the United States, rose slightly further in the United Kingdom and fell modestly in the euro area, mainly reflecting energy price dynamics. In the United States, inflation fell to 2.4% in March from 2.9% in December 2024, in the United Kingdom, inflation increased to 2.6% in March from 2.5% three months earlier, while, in the euro area, inflation declined to 2.2% in March, compared to 2.4% in December. The Federal Reserve Bank kept interest rates unchanged during the quarter under review, whereas the Bank of England and the ECB both lowered their key interest rates.

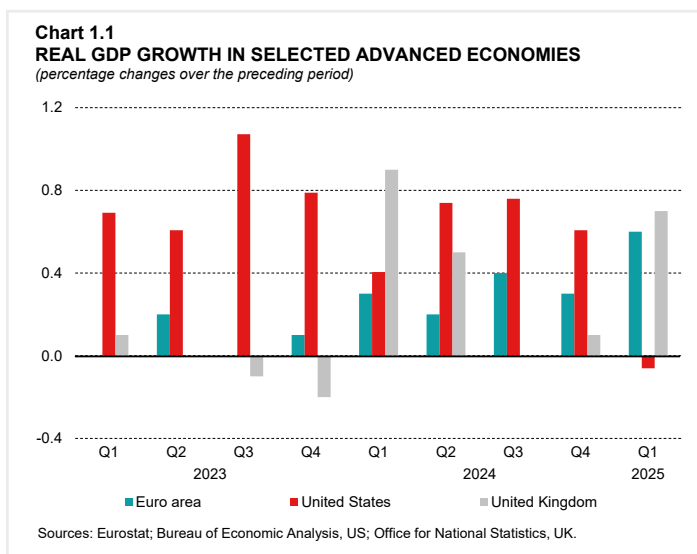
Brent oil prices fell slightly further in the review period amid escalating international trade tensions. The price of European natural gas also dropped, mainly on the back of lower demand.

#### Key advanced economies

##### US economic activity contracts marginally

In the United States, real GDP shrank at a quarterly rate of 0.1% in the first quarter of 2025, against an expansion of 0.6% in the preceding quarter (see Chart 1.1). This contraction mainly reflected a marked deterioration in net exports. Imports rose notably, probably reflecting the front-loading of purchases ahead of the coming into force of tariffs imposed by the new administration, while exports increased rather modestly. A decline in government consumption also weighed on GDP. The other components of domestic demand held up fairly well. Private inventory investment rebounded heavily. Fixed private investment also recovered, largely reflecting a rebound in non-residential fixed investment, that outweighed a drop in residential investment. Higher personal consumption expenditure also helped contain the contraction in economic activity, even though it rose at a slower pace compared to the previous quarter.

Meanwhile, labour market conditions remained favourable. Non-farm payroll data show that employment grew by 0.3% on average during the quarter, unchanged from the previous one. The increase during



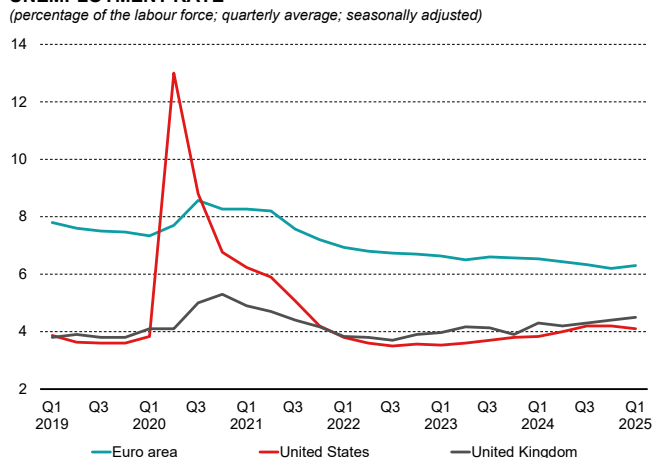


the first quarter of 2025 was largely driven by employment in private services, as increases in the construction and manufacturing sectors were marginal. In turn, within private services, employment growth was most pronounced in education and health, followed by trade, transportation and utilities. Government employment also increased during the review period. The participation rate averaged 62.5% during the first quarter, unchanged from the previous quarter. On average, the unemployment rate stood at 4.1% in the quarter under review, down from 4.2% recorded in the previous quarter (see Chart 1.2).

Headline inflation eased in the quarter under review, mainly reflecting lower prices of energy, as well as a decline in services inflation. In contrast, food and beverages inflation continued to rise. Thus, the annual inflation rate based on the consumer price index (CPI) stood at 2.4% in March, compared to 2.9% three months earlier (see Chart 1.3). Annual energy inflation fell to -3.3% in March, as against -0.5% in December. In addition, services inflation eased further, but remained high, falling to 3.7% in March, from 4.4% in December. The prices of goods, excluding food and energy, dropped by 0.1% in the year to March, a smaller fall than the 0.5% decline recorded in the twelve months to December. On the other hand, food and beverages inflation rose to 2.9% in March, from 2.4% three months before. Meanwhile, underlying inflation, as measured by inflation excluding food and energy, declined to 2.8% in March, from 3.2% three months earlier.

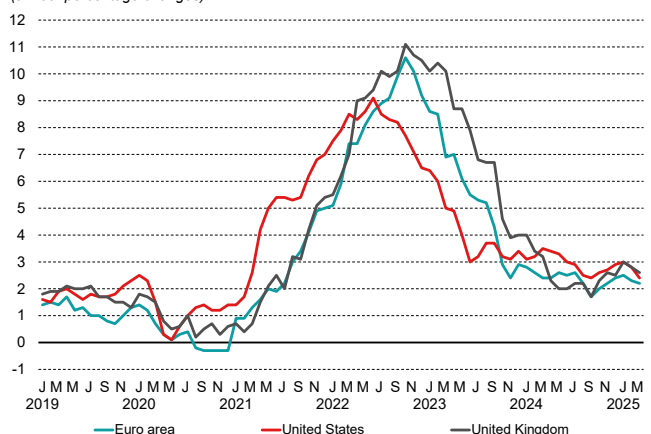
In January 2025, the Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 4.25% to 4.50% (see Chart 1.4). It also left the pace of quantitative tightening unaltered. In March, the FOMC kept the target range for the federal funds rate unchanged and announced that, beginning in April, the Committee would slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from USD 25 billion

**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)



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

to USD 5 billion while keeping that on agency debt and agency mortgage-backed securities unchanged at USD 35 billion. 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 of its goals. It also reiterated its commitment to supporting maximum employment and returning inflation to its 2% objective over the longer run.<sup>1</sup>

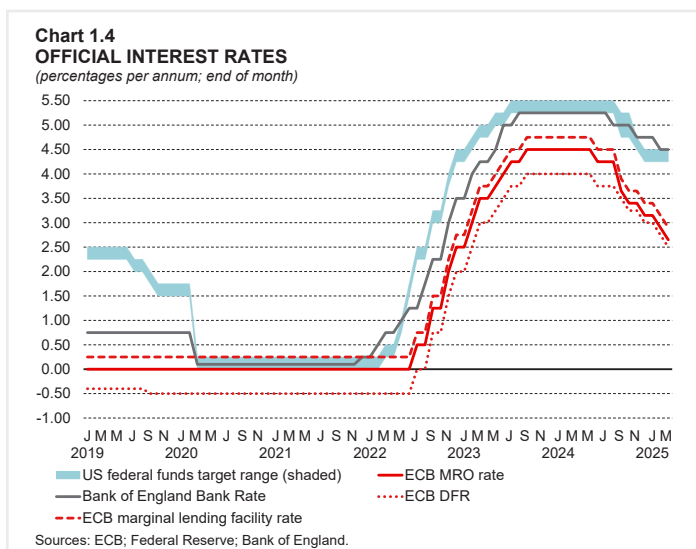
### UK economic growth rebounds further

Real GDP in the United Kingdom grew by 0.7% in the review period, up from 0.1% in the fourth quarter, 2024 (see Chart 1.1). Growth was driven by a marked improvement in the trade balance, reflecting a recovery in exports that outpaced an increase in imports. A rebound in gross fixed capital formation (GFCF), and higher household consumption expenditure also contributed to GDP growth. Together, these outweighed lower government consumption and a negative contribution from business inventories.

Labour market conditions remained stable. The employment rate stood at 75.0%, on a quarterly-average basis, unchanged when compared to the previous three months, while the unemployment rate averaged 4.5% during the review period, up from 4.4% in the previous quarter (see Chart 1.2).

Consumer price inflation in the United Kingdom rose slightly further during the quarter under review, with the annual inflation rate hitting 2.6% in March, compared to 2.5% three months earlier (see Chart 1.3). This mainly reflected higher food, alcoholic beverages and tobacco inflation as well as services inflation, which offset a sharper fall in energy prices and a marginal decline in NEIG inflation. Food inflation rose to 3.6% in March, from 2.8% three months before, while services inflation remained persistent, rising to 4.7% in March, compared to 4.4% in December. On the other hand, the annual rate of energy price inflation decreased to -8.0% in March, compared to -6.0% three months before. NEIG inflation fell to 1.1% in March, from 1.2% in December. Underlying inflationary pressures remained sustained, with the annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco rising to 3.4% in March, from 3.2% three months earlier.

On 5 February 2025, the Bank of England's Monetary Policy Committee (MPC) reduced the Bank Rate by 25 basis points, to 4.5%, citing substantial progress on disinflation, although some inflation components showed persistence. On 19 March, the MPC kept the Bank Rate unchanged amid an escalation of global trade tensions, increased geopolitical uncertainties and a slightly higher than expected inflation rate for January 2025. The Committee reiterated that it would continue



<sup>1</sup> On 7 May and on 18 June 2025, the FOMC kept both the target range for the federal funds rate and the pace of quantitative tightening unchanged. The Committee reiterated that it was attentive to the risks to both sides of its dual mandate. In June, the FOMC stated that although uncertainty about the economic outlook had diminished, it remained elevated.

to monitor closely the risks of inflation persistence and would decide the appropriate degree of monetary policy restrictiveness at each meeting. The MPC 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 (see Chart 1.4).<sup>2</sup>

## The euro area

### *Economic activity in the euro area gathers momentum*

Economic activity in the euro area continued to expand and did so at a faster pace in the first quarter of 2025. In real terms, GDP rose by 0.6% on a quarter-on-quarter basis, compared to 0.3% in the previous quarter, driven by both domestic demand and net exports (see Table 1.1). This occurred mainly in light of a pre-emptive surge in European exports to the United States ahead of the implementation of tariffs policy by President Trump's administration. In terms of sectoral value added, growth was broad-based and continued to be mainly driven by services and, to a lesser extent, industry. Nevertheless, the European Commission's Economic Sentiment Indicator (ESI) remained below the long-term average during the quarter under review. Compared to the previous quarter, it rose on average. Improved sentiment in industry and in the construction sector more than offset lower confidence in services, retail trade and among consumers.

Domestic demand contributed 0.3 percentage points to GDP growth during the quarter under review. In turn, this reflected an increase in GFCF, that mainly reflected volatile Irish intellectual property products, and higher private consumption expenditure, underpinned by improving real incomes. Meanwhile, government consumption remained unchanged, whereas changes in inventories were negative. Exports rose strongly, possibly reflecting the anticipation of US tariffs on goods trade, while imports increased to a lesser degree, resulting in a positive contribution of net exports to GDP growth of 0.3 percentage points.

**Table 1.1**

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

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

	2023				2024				2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	0.2	0.2	0.0	0.0	0.2	0.1	0.3	0.2	0.1
Government consumption	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.1	0.0
GFCF	0.2	0.0	0.0	0.3	-0.4	-0.5	0.4	0.2	0.4
Changes in inventories <sup>(2)</sup>	-0.9	0.2	-0.4	-0.4	-0.2	0.2	0.6	-0.3	-0.2
Exports	-0.5	-0.4	-0.5	0.2	0.4	1.1	-0.8	0.0	0.9
Imports	0.9	0.1	0.8	-0.1	0.3	-0.7	-0.2	0.1	-0.6
<b>GDP</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>0.6</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.

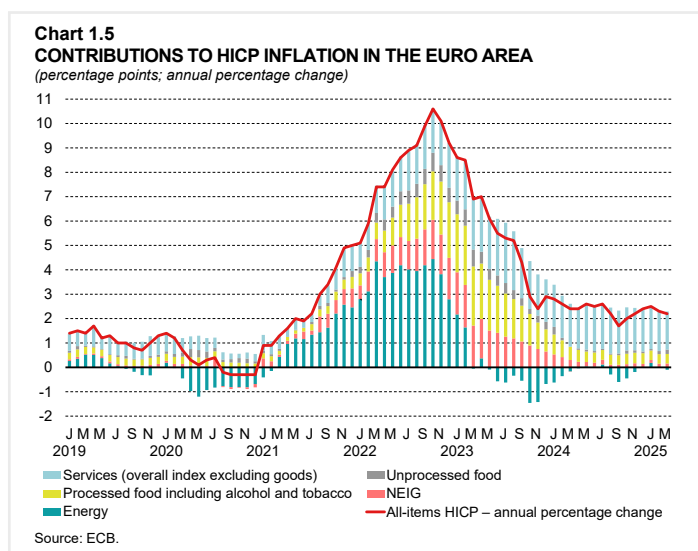
<sup>2</sup> On 7 May 2025, the MPC reduced the Bank Rate by 25 basis points, to 4.25%, citing substantial progress on disinflation. The MPC stated that monetary policy was not on a pre-set path and a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate. The Committee would remain sensitive to heightened unpredictability in the economic environment. On 18 June 2025, the MPC kept the Bank Rate unchanged.

### Labour market remains robust

The labour market in the euro area remained strong during the first quarter of 2025. Employment grew at a quarterly rate of 0.2% during this period, up from 0.1% in the preceding quarter.<sup>3</sup> Meanwhile, the seasonally adjusted unemployment rate rose to 6.3% in March, compared to 6.2% in December. Similarly, it averaged 6.3% in the quarter under review, up from 6.2% in the fourth quarter of 2024 (see Chart 1.2).

### Inflation eases slightly

Inflation in the euro area decreased in the first quarter of 2025. The annual rate of inflation based on the HICP stood at 2.2% in March, compared to 2.4% in December 2024 (see Chart 1.5). The decrease in overall inflation reflected lower energy prices and declines in services and processed food inflation, which outweighed higher unprocessed food inflation and a marginal increase in NEIG inflation, although the latter remained well below services and food inflation.



Turning to the major HICP components, energy prices dropped at an annual rate of 1.0% in March, as against an increase of 0.1% in December. Services inflation eased to an annual rate of 3.5% in March, from 4.0% in December, driven by a moderation in transport services inflation as well as inflation related to package holidays and accommodation services on account of the later timing of Easter this year. The annual rate of processed food inflation (including alcohol and tobacco) decreased to 2.6% in March, from 2.9% in December. By contrast, unprocessed food prices increased at an annual rate of 4.2% in March, compared to 1.6% in December, partly reflecting base effects as unprocessed food prices fell in the early months of 2024. The annual rate of NEIG inflation inched up to 0.6% in March, compared to 0.5% three months earlier.

Underlying inflationary pressures eased, though they remained elevated, during the review period. Thus, one prominent measure of underlying inflation, the annual rate of HICP inflation excluding energy and food prices, stood at 2.4% in March, down from 2.7% in December.

### Real GDP expected to continue recovering, inflation likely to return to target

According to the Eurosystem staff macroeconomic projections for the euro area, published in June 2025, real GDP is expected to grow by 0.9% in 2025. It is then projected to expand by 1.1% and 1.3% in 2026 and 2027, respectively (see Table 1.2).

In the near term, Eurosystem staff envisage a slowdown in economic growth, as the strong export growth in the first quarter of 2025 unwinds and is reinforced by new tariffs and by substantial trade policy uncertainty. In the medium term, however, economic recovery is expected to strengthen.

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

**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>1.1</b>	<b>1.3</b>
Private consumption	1.0	1.2	1.2	1.2
Government consumption	2.6	1.6	1.2	1.0
GFCF	-1.8	0.7	1.7	1.9
Exports	1.1	0.5	1.6	2.6
Imports	0.2	1.9	2.0	2.7
<b>HICP</b>	<b>2.4</b>	<b>2.0</b>	<b>1.6</b>	<b>2.0</b>
HICP excluding energy and food	2.8	2.4	1.9	1.9

Source: ECB.

<sup>(1)</sup> Eurosystem staff macroeconomic projections (June 2025).

Improving real disposable income is set to support growth in private consumption. Meanwhile, the gradual decline of uncertainty, the deployment of Next Generation EU (NGEU) funds and improving demand conditions will likely bolster investment. Whereas announced defence and infrastructure spending should support economic growth, weak foreign demand and the strong euro are likely to exert a negative impact on the euro area's export performance.

Compared to the March 2025 projections, real GDP growth was kept unchanged for 2025, it was revised downwards by 0.1 percentage points for 2026 and was kept unaltered for 2027. The unrevised projection for 2025 reflects the combination of a strong outcome in the first quarter and weaker growth in the second and third quarters amid higher tariffs, the related uncertainty and the appreciation of the euro. The latter factors are expected to protract to 2026 and hence lead to the downward revision to growth for that year.

The latest projections are conditioned on markedly lower commodity prices compared to the March 2025 projections, a significantly stronger exchange rate and higher long-term interest rates. The baseline also assumes that US tariffs on EU goods will remain in place at 10% over the entire projection horizon. They also assume that the EU does not retaliate.

Turning to the outlook for prices, the Eurosystem staff forecast headline HICP inflation to decline to an average of 2.0% in 2025 from 2.4% in 2024, and to ease further to 1.6% in 2026. This is expected to occur mainly on the back of lower energy, food and core inflation, in particular services. Subsequently, HICP inflation is expected to rebound, and hit the ECB's 2.0% target in 2027. This largely reflects a temporary upward impact from energy inflation, especially owing to the introduction of a new Emissions Trading System (ETS2) to combat climate change. Compared to the March 2025 projections, the outlook for headline HICP inflation was revised downwards by 0.3 percentage points for both 2025 and 2026, and was left unchanged for 2027. The downward revision for 2025 is completely driven by weaker than expected energy inflation, partly on account of lower technical assumptions for energy commodities. Energy inflation was also revised down for 2026. Furthermore, both underlying inflation and food inflation were revised slightly downwards. By contrast, marginal upward revisions to food and energy inflation for 2027 and unrevised underlying inflation for that year imply that headline inflation remains largely unaltered.

HICP inflation excluding energy and food is expected to decline to an average of 2.4% in 2025 from 2.8% in 2024, and ease further to 1.9% in 2026 and 2027, as the effects of past large shocks on services inflation continue to fade and as labour cost pressures moderate. The appreciation of the euro, a downward impact from moderating indirect effects of energy price movements and the continued effects from past monetary policy tightening are expected to support the disinflationary process.

Compared to the March 2025 projections, the outlook for underlying inflation expectations was revised upwards by 0.2 percentage points for 2025 and revised downwards by 0.1 percentage points for 2026. For 2027, the expectations for HICP inflation excluding energy and food remained unaltered.

In light of the risks associated with US tariff policies and the elevated uncertainty surrounding the euro area baseline projections, Eurosystem staff prepared two hypothetical scenarios. A mild scenario foresees the removal of bilateral tariffs between the United States and the European Union and a rapid containment in trade policy uncertainty. Under this scenario, economic growth would be 0.3-0.4 percentage points stronger in 2025-2026 than in the baseline, while inflation would be marginally higher in 2026-2027. On the other hand, a severe scenario foresees a further increase in US tariffs to the levels announced by President Trump on 2 April, symmetric retaliation by the EU and persistently heightened trade-policy induced uncertainty. Under this scenario, the cumulative euro area growth would be around 1 percentage point weaker than in the baseline while inflation would be up to 0.2 percentage points lower in 2026-2027.

### *ECB cuts interest rates further*

On 30 January and on 6 March 2025, the Governing Council lowered the three key ECB interest rates by 25 basis points on each occasion. Accordingly, the DFR, the rate on the MROs and the marginal lending facility rate were decreased to 2.50%, 2.65% and 2.90%, respectively. At the March meeting, the Governing Council stated that monetary policy was becoming meaningfully less restrictive, as the interest rate cuts were making new borrowing less expensive for firms and households while loan growth was picking up. The Council reiterated its determination to ensure that inflation stabilised sustainably around the 2% medium-term target. The Governing Council stated that, especially in current conditions of rising uncertainty, it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. The Council reaffirmed that it was not pre-committing to a particular rate path.<sup>4</sup>

### *Money market rates continue to decline*

Money market interest rates in the euro area continued to fall 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 2.50% in March 2025, compared to 3.06% in December 2024, as it responded to the reductions in official interest rates in January and in March (see Chart 1.6).<sup>5</sup> The three-month euro interbank offered rate (EURIBOR) also decreased, averaging 2.44% in March, as against 2.82% three months earlier. The 12-month EURIBOR averaged 2.40%

<sup>4</sup> On 17 April and 5 June 2025, the Governing Council again lowered the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 2.00%, 2.15% and 2.40%, respectively. 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. The Council reiterated that it was not pre-committing to a particular rate path.

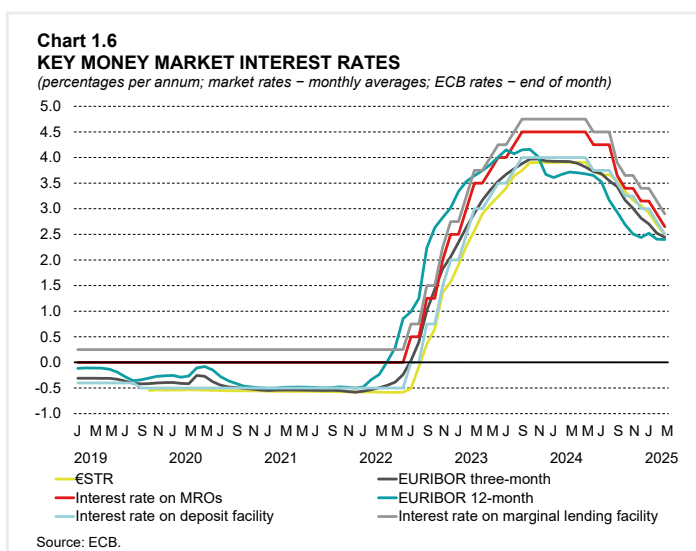
<sup>5</sup> The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. The €STR is published on each T2 business day based on transactions conducted and settled on the previous T2 business day.



in March, compared to 2.44% in December.<sup>6</sup> The 12-month EURIBOR thus stood at 10 basis points below the DFR, indicating that market players expected some further easing in key policy rates.

### *Euro area government bond yields rebound notably*

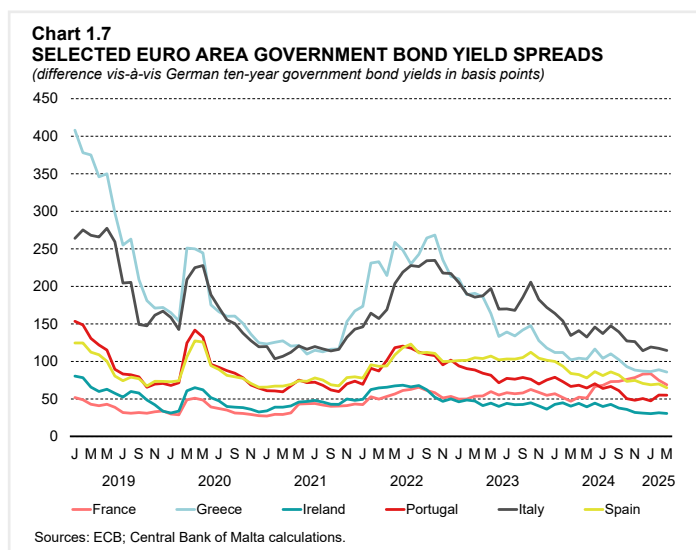
The euro area ten-year benchmark government bond yield rebounded during the first quarter. This yield was 3.31% at end-March, compared to 2.81% three months earlier.



Individual sovereign bond yields generally rose in the euro area. This occurred largely on the back of the announcement of higher defence spending plans in Europe in the context of the evolving geopolitical dynamics.

In Germany, ten-year sovereign bond yields went up during the quarter, standing at 2.74% at end-March, up by 56 basis points when compared to end-December. This increase in yields mainly occurred in March, after the incoming German government was able to secure plans to loosen Germany's fiscal borrowing limits to enable higher spending on defence and infrastructure. In Portugal, the ten-year bond yield rose by 61 basis points, to 3.29%, while in Italy and Ireland yields rose by 57 basis points, to 3.89%, and 56 basis points, to 3.05%, respectively. Yields rose by 51 basis points, to 3.39%, and by 42 basis points, to 3.43%, in Spain and France, respectively, and increased to various degrees, but by less than in Germany, in all the other euro area jurisdictions except for Croatia, where yields fell marginally.

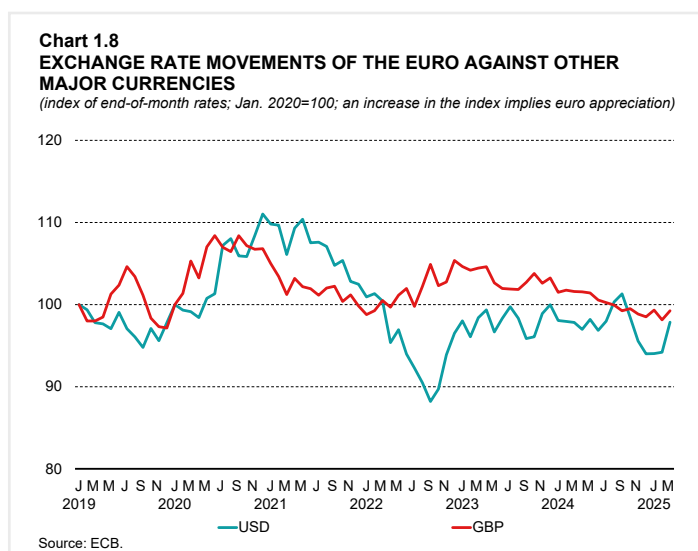
As a result, spreads between yields on the ten-year German bonds and those on the bonds issued by most of the other euro area jurisdictions narrowed except in Portugal, where the spread widened slightly, and in Ireland and Italy, where spreads remained practically unchanged (see Chart 1.7).



<sup>6</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.

### *The euro strengthens against the US dollar and in nominal effective terms*

The euro appreciated by 4.1% against the US dollar, partly reversing the loss registered in the previous quarter. This occurred mainly on account of investor concerns regarding the US trade policy, that undermined both the US dollar and US equities, as well as the publication of German spending plans, which bolstered markets in the euro area (see Chart 1.8). The euro also rebounded versus the British pound, gaining 0.7% over the quarter, as the pound sterling was adversely affected by rising public sector borrowing costs. Meanwhile, the euro also rose against the Korean won, the Canadian, Australian and Hong Kong dollars, the Chinese renminbi, the Swiss franc as well as the Singapore dollar. Overall, the nominal effective exchange rate (EER) of the euro against the EER-18 group of countries rose by 1.5% in the three months to end-March 2025, partly recovering losses incurred in the previous quarter.<sup>7</sup>



By contrast, the single currency depreciated against the Swedish krona, the Hungarian forint, the Polish zloty and the Norwegian krone. The euro fell to a lower extent against the Japanese yen, as the latter was supported by an increase in the Bank of Japan's basic discount rate in January, positive inflation and wage growth data, rising Japanese government bond yields and higher public defence spending. Moreover, the euro fell marginally against the Czech koruna.

## **Commodities**

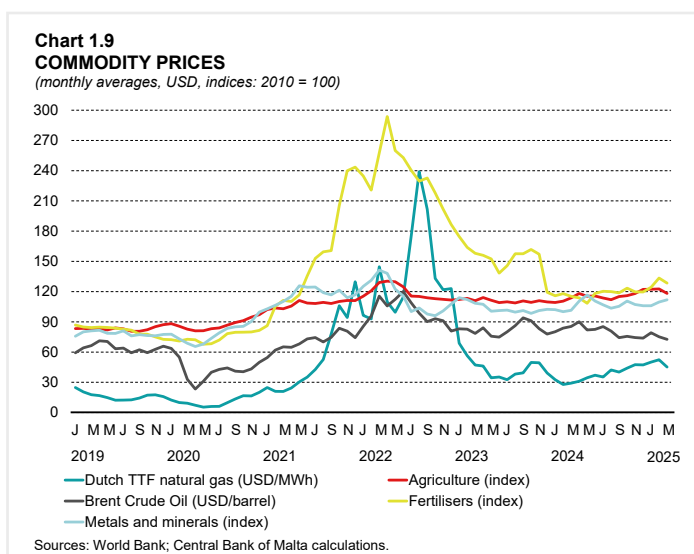
### *Oil prices drop modestly further while natural gas prices ease*

Oil prices fell slightly further in the first quarter, amid concerns about lower growth in oil demand and increasing supply in the United States as well as escalating trade tensions and retaliatory measures, which exerted a notably adverse impact on the global economic outlook. On the other hand, an announcement that OPEC+ members would extend a 2.2 million barrel per day production cut into the second quarter supported the market somewhat. Thus, overall, the price of Brent crude oil averaged USD 72.6 per barrel in March, 1.7% lower than the level prevailing three months earlier. Meanwhile, the price of European natural gas continued to increase in January and February, reflecting tight market conditions amid increasing consumption in the context of a colder-than-normal winter. However, in March, natural gas prices eased, mainly reflecting a slowdown in demand as the

<sup>7</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.

cold spell receded. Against this background, the average price of Dutch TTF natural gas stood at USD 45.2 per megawatt hour in March, or 4.5% lower than in December (see Chart 1.9).

World Bank data show that non-energy commodity prices fell by 0.3% during the quarter under review as lower prices for agricultural products outweighed higher prices for fertilizers as well as for metals and minerals. Meanwhile, prices of precious metals were up by 11.9%.



## 2. OUTPUT AND EMPLOYMENT

Annual real GDP growth rose by 3.0% in the first quarter of 2025. Growth was mainly driven by domestic demand, although net exports also contributed positively. When adjusting for imports, the contributions from domestic demand and external trade were similar.

Sectoral data show that the expansion in output was driven by the services sector, with the wholesale and retail trade sector being the main contributor to the economic expansion.

During the first quarter of 2025, the labour market continued to show resilience amid tentative signs of moderating demand. The unemployment rate reached a new low and stood well below that in the euro area.

The number of job vacancies decreased by 4.8% when compared to the first quarter of 2024. Additionally, the job vacancy rate decreased slightly. However, the labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate, remained elevated and increased slightly both on a quarterly and annual basis.

### Potential output, business conditions and Economic Policy Uncertainty indices

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

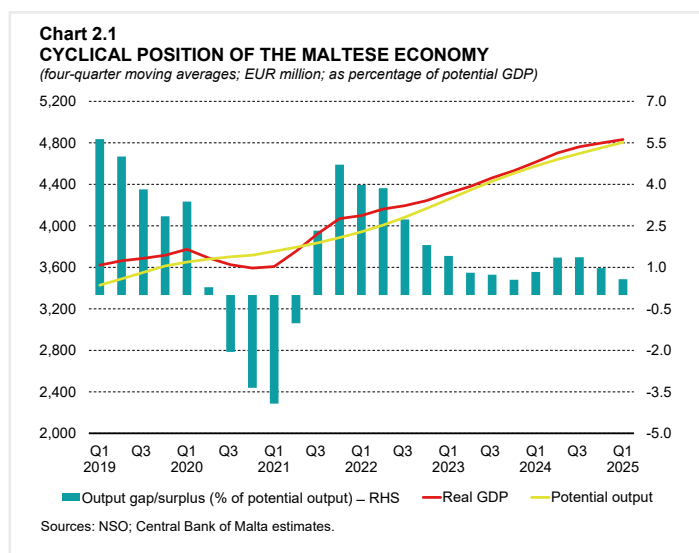
The Bank estimates that potential output growth stood at 4.5% in the first quarter of 2025, marginally below that of 4.7% estimated for the fourth quarter of 2024.

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 surplus narrowed to 0.6% from 1.0% (see Chart 2.1).

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

#### BCI declines but remains above its historical average

In the first quarter of 2025 the Bank's BCI edged down slightly. However, the index still indicated that economic growth stood 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 on the [Central Bank of Malta's Business Conditions Index page](#). For further details on the methodology underlying the BCI, see Ellul, R., (2016), "A real-time measure of business conditions in Malta," *Working Paper* 05/2016.

The quarter-on-quarter dip mainly reflected a shift to year-on-year declines in residential permits and certain tax receipts. A slight moderation in the growth rate of GDP compared with the final quarter of 2024 as well as slower growth in industrial production also contributed.

### *Economic Policy Uncertainty decreases*

The Bank's EPU index averaged 89.1 in the first quarter of 2025, down from 108.4 in the previous quarter. This brought the index below its historical average of 100 (see Chart 2.3).<sup>2</sup>

Uncertainty during this quarter was primarily driven by international developments, including heightened geopolitical tensions, lack of clarity about future trade policy, and uncertainty about future defence spending plans in Europe. However, domestic factors also played a role, as policy discussions on Malta's economic vision and demographic challenges also contributed.

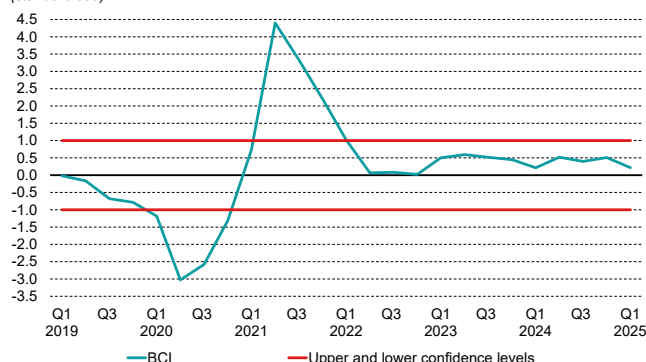
## **GDP and industrial production**

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

Real GDP rose by 3.0% on an annual basis, following a 3.1% 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 3.1% in the first quarter of 2025, following an increase of 4.6% in the final quarter of 2024. This increase spread across the main demand components.

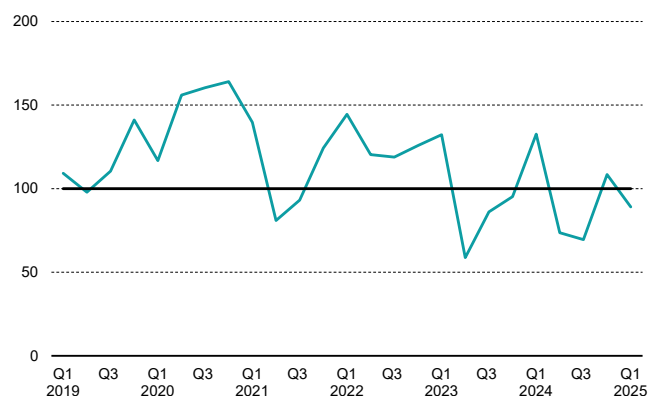
**Chart 2.2**  
**BCI**  
(standardised)



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 on the [Central Bank of Malta's EPU Index page](#). 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* 098/2025, which was published on 29 May 2025.

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

	2024				2025
	Q1	Q2	Q3	Q4	Q1
<i>Annual percentage changes</i>					
Private final consumption expenditure	9.4	6.6	5.2	5.3	1.7
Government final consumption expenditure	0.3	5.3	8.8	12.6	3.8
GFCF	7.1	5.5	7.3	-2.1	3.2
<b>Domestic demand</b>	<b>6.4</b>	<b>5.5</b>	<b>5.9</b>	<b>4.6</b>	<b>3.1</b>
Exports of goods and services	7.5	5.4	3.7	3.3	2.7
Imports of goods and services	6.3	3.2	4.2	4.5	2.7
<b>GDP</b>	<b>7.9</b>	<b>7.9</b>	<b>4.9</b>	<b>3.1</b>	<b>3.0</b>
<i>Percentage point contributions</i>					
Private final consumption expenditure	4.3	3.0	2.5	2.5	0.8
Government final consumption expenditure	0.0	0.9	1.3	2.2	0.6
GFCF	1.3	1.1	1.3	-0.4	0.6
Changes in inventories	-0.4	-0.4	-0.3	-0.4	0.5
<b>Domestic demand</b>	<b>5.3</b>	<b>4.6</b>	<b>4.8</b>	<b>3.9</b>	<b>2.5</b>
Exports of goods and services	9.3	6.7	4.7	4.1	3.3
Imports of goods and services	-6.7	-3.4	-4.5	-4.9	-2.8
<b>Net exports</b>	<b>2.6</b>	<b>3.3</b>	<b>0.2</b>	<b>-0.8</b>	<b>0.5</b>
<b>GDP</b>	<b>7.9</b>	<b>7.9</b>	<b>4.9</b>	<b>3.1</b>	<b>3.0</b>

Sources: NSO; Central Bank of Malta calculations.

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

Overall, domestic demand had a positive contribution of 2.5 percentage points to GDP growth in the first quarter of 2025.

Private consumption expenditure increased by an annual 1.7% in the first quarter of 2025, following a 5.3% increase in the previous quarter. It added 0.8 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 food and non-alcoholic beverages. Spending on insurance and financial services, and on personal care and related services, were the only categories which decreased in level terms.

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.

Government consumption expenditure increased by 3.8% in annual terms, following an increase of 12.6% in the last quarter of 2024. In the quarter under review, growth was mainly driven by



higher outlays on compensation of employees, although intermediate consumption also contributed. The increase in the former partly reflects the impact of a new collective agreement for the civil service, which entered into force this year. Intermediate consumption rose mainly due to higher spending in the public administration and health sectors. Overall, government consumption added 0.6 percentage points to GDP growth.

Real GFCF grew by 3.2% in the first quarter of 2025, following a contraction of 2.1% in the previous quarter. The increase in the quarter under review was largely driven by higher outlays on intellectual property, although investment in machinery and equipment, and, to a lesser extent, investment in dwellings also increased. GFCF contributed 0.6 percentage points towards GDP growth.

The contribution of changes in inventories in the first quarter of 2025 was 0.5 percentage points.

Meanwhile, both imports and exports increased by 2.7% on a year earlier. Nevertheless, when expressed in absolute terms, the increase in exports was stronger. As a result, net exports rose and contributed 0.5 percentage points to annual real GDP growth. This mainly reflected a smaller deficit from trade in goods.

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>

In contrast with the traditional approach, the import-adjusted contributions from domestic demand and external trade were similar. Within domestic demand components, private consumption remained among the largest contributors to GDP growth.

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

	2024				2025
	Q1	Q2	Q3	Q4	Q1
Private final consumption expenditure	2.9	2.3	1.5	1.2	0.5
Government final consumption expenditure	0.1	0.8	1.1	1.8	0.5
GFCF	0.7	0.7	0.5	-0.3	0.3
Changes in inventories	-0.2	-0.2	-0.2	-0.1	0.2
<b>Domestic demand</b>	<b>3.4</b>	<b>3.5</b>	<b>3.0</b>	<b>2.6</b>	<b>1.5</b>
<b>Exports of goods and services</b>	<b>4.5</b>	<b>4.3</b>	<b>1.9</b>	<b>0.5</b>	<b>1.5</b>
<b>GDP</b>	<b>7.9</b>	<b>7.9</b>	<b>4.9</b>	<b>3.1</b>	<b>3.0</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 revisions to the national accounts.

### Services remain the main driver of economic growth

Data based on the output approach show that in the first quarter of 2025, real gross value added (GVA) rose by 3.3% in annual terms and contributed 3.1 percentage points to GDP growth (see Table 2.3).<sup>5</sup>

Services remained the main driver behind the latest economic expansion, adding 3.8 percentage points to real GDP growth. Growth in services was mainly spurred by the sector comprising wholesale and retail trade and related activities, which contributed 1.1 percentage points to GDP growth. Another significant contribution came from the sector comprising financial and insurance activities which contributed 0.9 percentage points. The sectors comprising public administration, education and health services and, professional services contributed 0.7 percentage points and 0.6 percentage points, respectively. Meanwhile, the sectors comprising ICT and real estate increased GDP growth by 0.5 percentage points.

Conversely, GVA in the arts and entertainment sector was flat while the remaining sectors contracted, with the largest decline in GVA being in the agriculture and fishing sector.

Net taxes on products decreased slightly on a year earlier.

**Table 2.3**

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

Percentage points

	2024				2025
	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	0.1	0.5	-1.0	-1.1	-0.6
Mining and quarrying; utilities	0.1	0.0	1.2	0.5	-0.1
Manufacturing	0.4	0.4	0.8	0.4	-0.3
Construction	0.5	0.5	0.1	0.0	-0.1
Services	4.3	3.5	2.6	1.5	3.8
<i>of which:</i>					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	0.8	0.8	1.3	0.7	1.1
Information and communication	-0.1	0.1	-0.2	-0.4	0.3
Financial and insurance activities	0.3	0.3	0.0	0.7	0.9
Real estate activities	1.0	0.8	0.4	0.2	0.2
Professional, scientific, administrative and related activities	1.7	0.5	0.9	-0.8	0.6
Public administration and defence; education; health and related activities	0.7	0.9	0.9	1.2	0.7
Arts, entertainment; household repair and related services	-0.1	0.2	-0.5	0.0	0.0
<b>GVA</b>	<b>5.1</b>	<b>4.5</b>	<b>2.9</b>	<b>0.9</b>	<b>3.1</b>
<b>Taxes less subsidies on products</b>	<b>2.8</b>	<b>3.3</b>	<b>2.1</b>	<b>2.2</b>	<b>-0.1</b>
<b>Annual real GDP growth (%)</b>	<b>7.9</b>	<b>7.9</b>	<b>4.9</b>	<b>3.1</b>	<b>3.0</b>

Source: NSO.

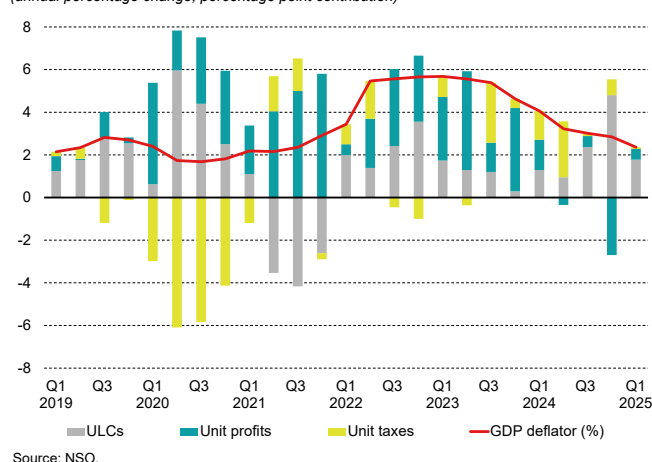
<sup>5</sup> The difference between GDP and GVA is made up of taxes on products, net of subsidies.

### *Nominal GDP growth remains strong but moderates*

Nominal GDP rose by 5.4% in annual terms in the first quarter of 2025, after increasing by 6.1% in the preceding quarter. This latest increase was mostly driven by compensation of employees, with operating surplus explaining around a third of it. Meanwhile net taxes slightly increased in annual terms.

Chart 2.4 shows the main contributors to growth in the GDP deflator. Annual growth in the GDP deflator stood at 2.4% in the first quarter of 2025, following a 2.8% increase in the previous quarter.

**Chart 2.4**  
**CONTRIBUTIONS TO GDP DEFLATOR**  
(annual percentage change; percentage point contribution)



While ULCs exhibited the largest contribution, its impact was less strong when compared with the previous quarter, due to a moderation in the growth rate of compensation of employees. Meanwhile, the contribution of unit profits turned mildly positive following a negative contribution in the previous quarter, while unit taxes had a broadly neutral impact. The profile of ULCs largely explains the slower annual rate of change of the GDP deflator compared to the last quarter of 2024.

### *Industrial production expands, services production down*

Industrial production rose at an annual rate of 7.5% in the first quarter of 2025, a strong but slower pace when compared with the 11.3% increase recorded in the fourth quarter of 2024.<sup>6</sup>

The latest increase was driven by production in the manufacturing sector, which increased at an annual rate of 8.5%, after having increased by 11.9% in the preceding quarter. Meanwhile, production also rose in the quarrying sector. By contrast, production in the energy sector declined by 8.8% in the first quarter of the year following an increase of 5.6% in the previous quarter.<sup>7</sup>

In the manufacturing sector, the strongest increases in output were reported among firms classified in the sector of motor vehicles, trailers and semi-trailers, and those classified under 'other manufacturing' – which includes firms that produce medical and dental instruments. Higher production was also reported among firms involved in the repair and installation of machinery and equipment, those that manufacture fabricated metal products, wood, food and beverages, as well as those involved in the printing and reproduction of recorded media.

By contrast, production of wearing apparel and textiles fell sharply. Smaller declines were also recorded among firms that manufacture chemical, paper, rubber and plastic products. Production also contracted in the pharmaceuticals sector.

<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.

By contrast to industrial production, the index of services production – which measures the volume of activity in services industries excluding trade, financial and public services – contracted in the first quarter of 2025. It fell by 1.2% on an annual basis compared with an increase of 6.2% recorded in the preceding quarter.

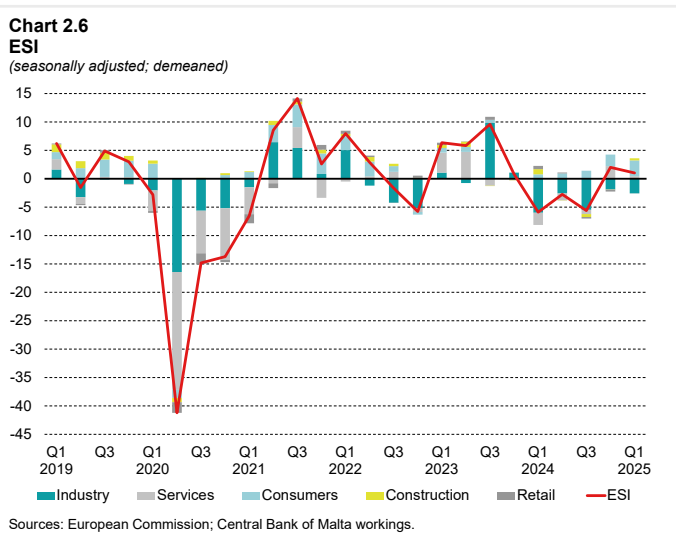
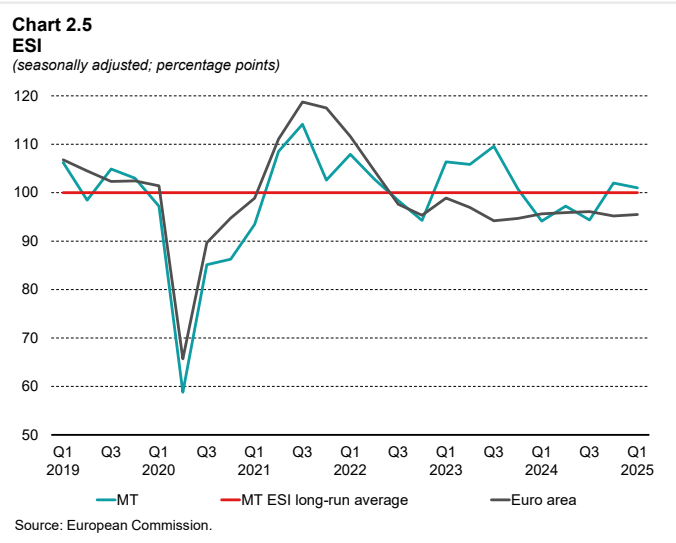
Gains were reported by firms involved in transportation and storage activities, accommodation and food service activities, and to a lesser extent in services related to information and communication. These were offset by lower activity levels in real estate, professional, scientific and technical services and those related to administrative and support services.

## Business and consumer surveys

During the first quarter of 2025, the European Commission's ESI for Malta decreased slightly to 101.0, from 102.0 in the preceding quarter, but remained above its long-term average of around 100.0. Moreover, the overall indicator stood above that in the euro area, which averaged 95.5 (see Chart 2.5).<sup>8,9</sup>

When compared with the fourth quarter of 2024, confidence deteriorated in the services sector, while it improved in the remaining sectors.

When accounting for the weights assigned to each sector, and the time variation of the confidence indicator for each sector, the decrease in the ESI relative to the final quarter of 2024 was driven by the services sector and by industry.<sup>10</sup> Consumer sentiment mainly explains why the overall ESI stood above the long-term average (see Chart 2.6).



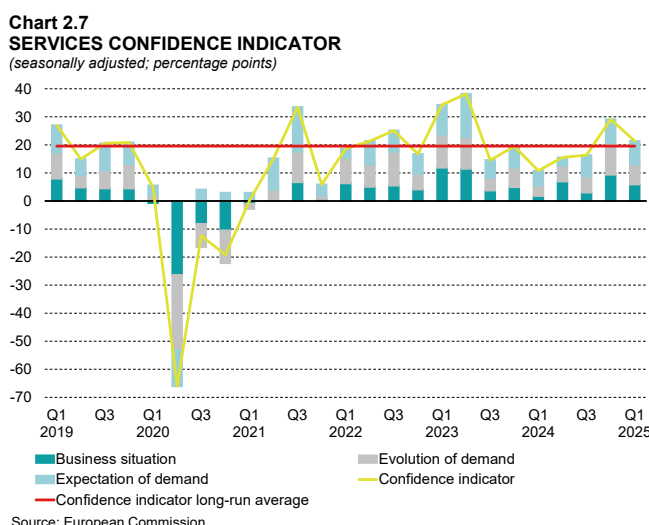
<sup>8</sup> The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

<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%.

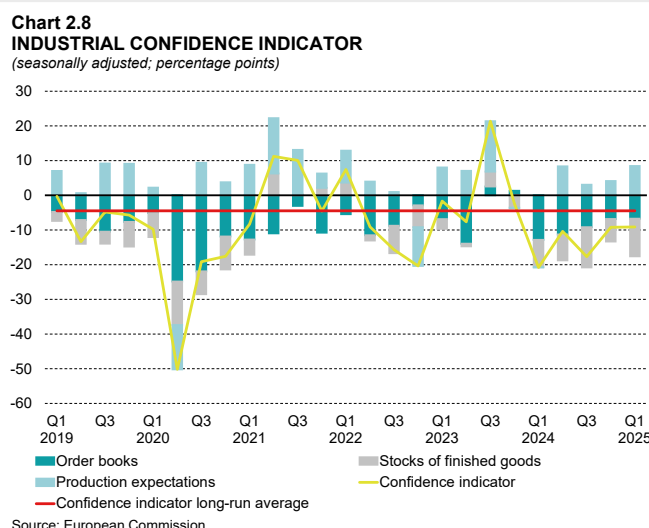
### Confidence in the services sector eases from a high level<sup>11</sup>

The confidence indicator in the services sector decreased to 21.4, from 29.1 in the previous quarter. Sentiment in this sector remained above its long-term average of 19.6 (see Chart 2.7). All components of the indicator contributed to the latest decrease in sentiment, with firms' assessment of demand and the business situation over the past three months showing the most significant declines.



### Industrial confidence remains below its long-term average<sup>12</sup>

The industrial confidence indicator edged up to -9.1, from an average of -9.2 in the previous three-month period and remained below its long-term average of -4.5 (see Chart 2.8). An improvement in production expectations was partly offset by a higher share of firms with above normal stock levels.



### Consumer confidence turns marginally positive<sup>13</sup>

The consumer confidence indicator averaged 0.6 during the first quarter of 2025, above the -2.5 recorded in the previous quarter, and its long-run average of -9.9 (see Chart 2.9). The recent amelioration reflected an improvement across all components of the confidence indicator. The largest improvements were reflected in consumers' expectations about the general economic situation,

<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 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>13</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.

which however remained negative, and in their expectations of major purchases which turned positive.

### *Sentiment among retailers improves but remains negative<sup>14</sup>*

The indicator of sentiment in the retail sector stood at -1.5 in the first quarter of 2025, up from -10.8 in the previous quarter, but remained below its long-term average of 0.1. The recent improvement in sentiment was driven by business expectations for the next three months, which turned positive. This offset a more negative assessment of sales over the past three months (see Chart 2.10).

### *Confidence in the construction sector rises above its long-term average<sup>15</sup>*

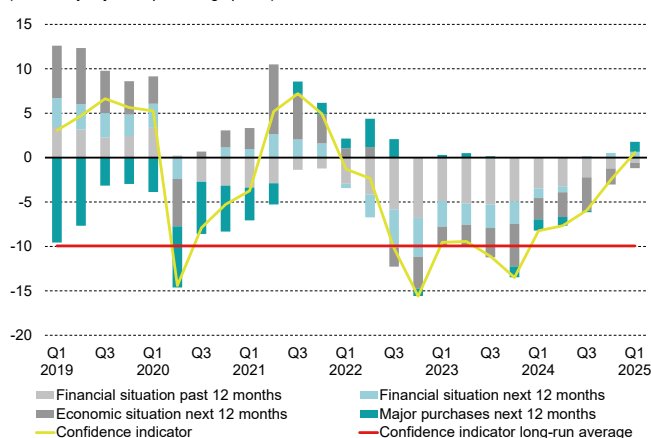
In the first quarter of 2025, the indicator measuring confidence in the construction sector rose above its long-term average of -7.8. It averaged 2.9, up from -8.2 in the previous three-month period (see Chart 2.11).

Both components of the indicator contributed to the latest improvement in sentiment, with the most significant one observed in employment expectations, which turned positive.

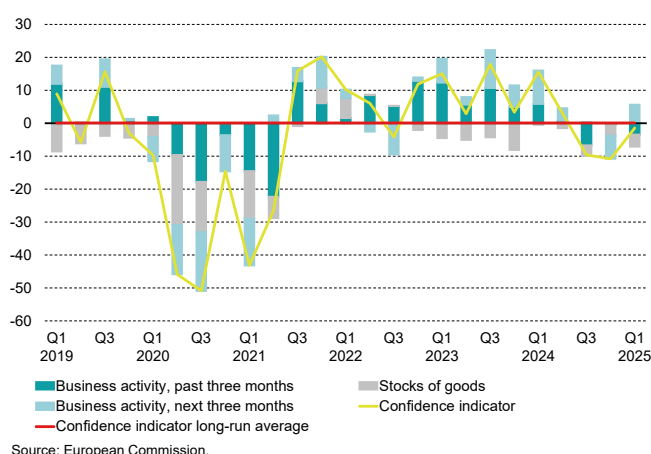
### *Employment Expectations Indicator increases further above its long-run average*

The Employment Expectations Indicator (EEI) – which is a composite indicator of employment

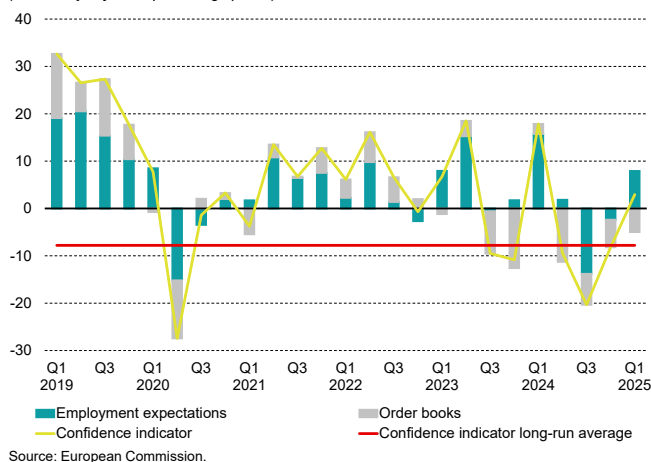
**Chart 2.9**  
**CONSUMER CONFIDENCE INDICATOR**  
(seasonally adjusted; percentage points)



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



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



<sup>14</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.

<sup>15</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.

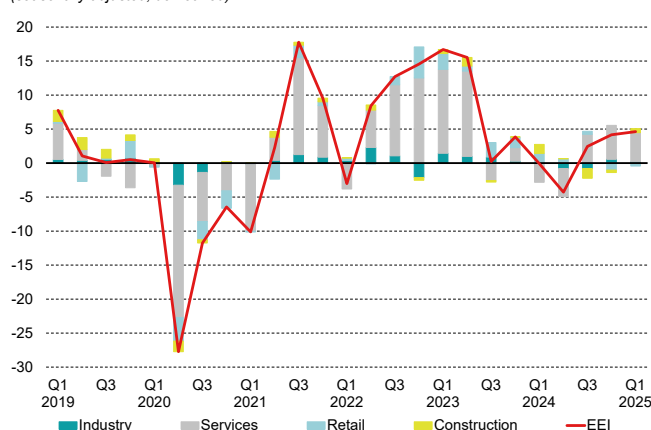


expectations in industry, services, retail trade and construction – increased slightly in the first quarter of 2025. During the first quarter of 2025, it averaged 104.3, above 103.9 in the preceding quarter, and also stood above its long-term average of around 100.0. The index also stood above the euro area average of 97.5.<sup>16</sup>

During the quarter under review, employment expectations were positive across all productive sectors. The most positive readings were recorded in the services and construction sectors.

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

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

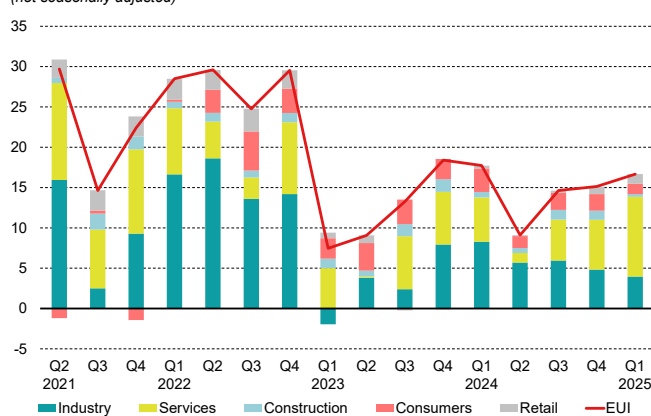


Sources: European Commission; Central Bank of Malta workings.

### Economic Uncertainty Indicator increases

The European Commission's Economic Uncertainty Indicator (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 16.7 in the first quarter of the year, from 15.1 in the preceding quarter although it remained below its average level in recent years (see Chart 2.13).<sup>17</sup> The indicator however remained slightly below that in the euro area, which averaged 17.9.<sup>18</sup>

**Chart 2.13**  
**EUI<sup>(1)</sup>**  
(not seasonally adjusted)



Sources: European Commission; Central Bank of Malta.

<sup>(1)</sup> Data for Malta is available from May 2021.

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

<sup>18</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.

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

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

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

### Labour force and activity rate increase at a slower pace

LFS data show that in the first quarter of 2025, the labour force grew by 11,891 persons, or 3.7% on an annual basis, following a 4.0% increase in the previous quarter (see Table 2.4).<sup>20</sup>

The activity rate stood at 82.7% in the quarter under review, higher than the 81.2% recorded a year earlier.<sup>21</sup> This was mostly due to a higher female participation rate. While the male participation rate increased by 0.4 percentage points to 88.0%, that of females increased by 2.8 percentage points to 76.2%. Both rates exceeded the corresponding rates for the euro area, with the rate for males exhibiting a larger difference.

**Table 2.4**  
**LABOUR MARKET INDICATORS BASED ON THE LFS**

*Persons; annual percentage changes*

	2024 Q1	2025 Q1	Annual change %
<b>Labour force</b>	<b>324,806</b>	<b>336,697</b>	<b>3.7</b>
Employed	313,997	327,643	4.3
<i>By type of employment:</i>			
Full-time	278,547	290,759	4.4
Part-time	35,450	36,884	4.0
Unemployed	10,809	9,054	-16.2
<b>Activity rate (%)</b>	<b>81.2</b>	<b>82.7</b>	
Male	87.6	88.0	
Female	73.4	76.2	
<b>Employment rate (%)</b>	<b>78.4</b>	<b>80.4</b>	
Male	84.4	85.6	
Female	71.2	74.1	
<b>Unemployment rate (%)</b>	<b>3.3</b>	<b>2.7</b>	
<b>Actual hours worked (per week)</b>	<b>34.2</b>	<b>35.5</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.

<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.

### Employment increases at a slightly faster pace

Employment rose by 4.3% in annual terms, following a rise of 4.2% in the previous quarter. The increase in absolute terms was driven by full-time employment, as this rose by 12,212 persons, or 4.4% on a year earlier. This increase mainly stemmed from the sector comprising transportation and storage, industry and the sector comprising arts and entertainment.

The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – increased by 1,434, or 4.0% in annual terms. This increase was mostly driven by the sector comprising human health, the arts and entertainment and the administrative and support service activities.

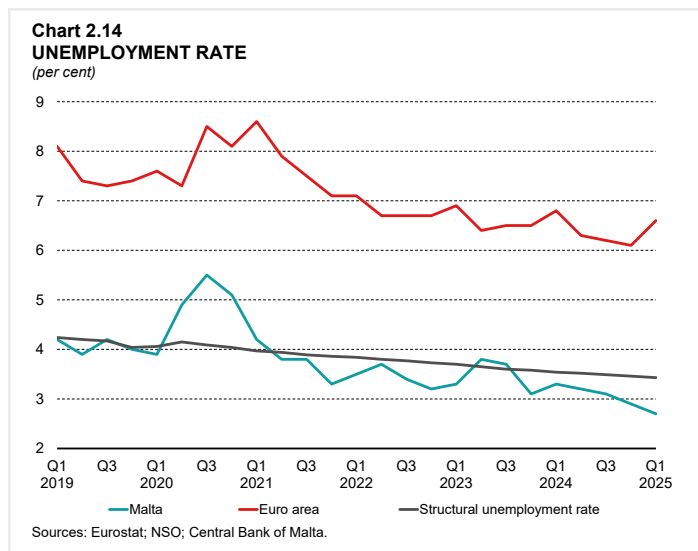
In the first quarter of 2025, the overall employment rate reached 80.4%, 2.0 percentage points higher than the rate prevailing during the same period of 2024.<sup>22</sup> Both the female and male employment rate increased in annual terms. However, the female rate recorded a more significant increase; it rose by 2.9 percentage points to 74.1%, while that of males rose by 1.2 percentage points to 85.6%. These increases were most significant among those in the 55 to 64 age bracket. Employment rates also rose in the 25 to 54 age bracket, although these increases were smaller. Meanwhile, the employment rate for the 15 to 24 age bracket decreased among males but increased among females.

During the quarter under review, average weekly hours worked derived from the LFS increased to 35.5, from 34.2 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 a new low of 2.7%, from 3.3% a year earlier (see Table 2.4). The demand for labour continued to outpace growth in the labour supply.<sup>24</sup> Labour market conditions remained more favourable than those in the euro area, where the unemployment rate on average stood at 6.6% (see Chart 2.14).

During the quarter under review, the unemployment rate also



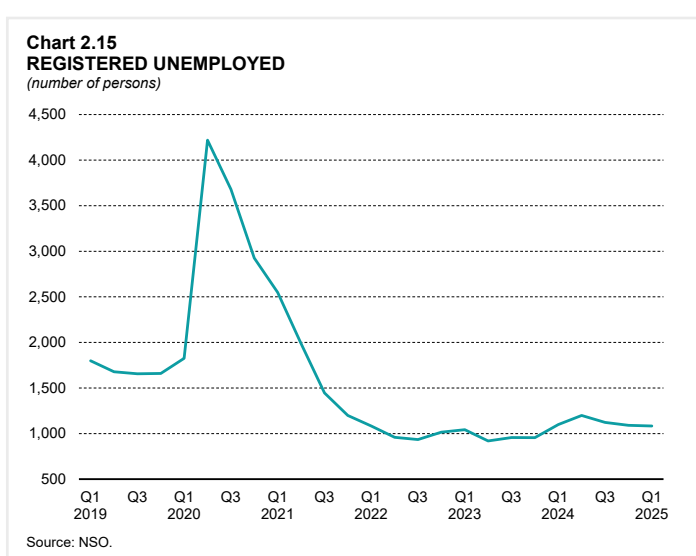
<sup>22</sup> The employment rate measures the number of persons aged between 15 and 64 employed on a full-time or part-time basis as a proportion of the working-age population.

<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 carried out 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.

stood below the Bank's structural measure of 3.4%.<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).

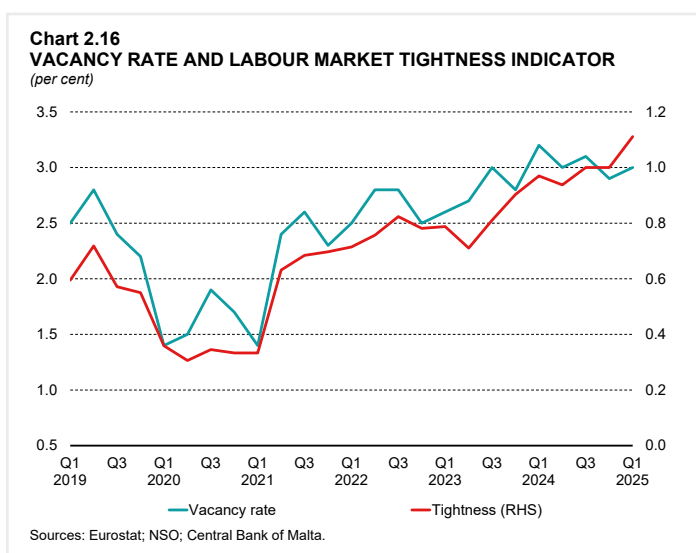
Jobsplus data show that the number of persons on the unemployment register decreased slightly, both on a quarterly basis and in annual terms. During the first quarter of 2025, the average number of persons on the unemployment register stood at 1,083, compared with 1,090 in the final quarter of 2024 and with 1,099 a year earlier (see Chart 2.15).



### *The vacancy rate decreases slightly in annual terms, labour market tightness persists*

In absolute terms the number of vacancies decreased from 8,694 in the first quarter of 2024 to 8,273 in the quarter under review, that is, a 4.8% decline. The sector comprising public administration, defence, education, human health and social work activities accounted for most of this decrease. Overall, when compared with the average level since 2017, the number of vacancies remained elevated.<sup>26</sup>

Eurostat's job vacancy rate for industry, construction and services also decreased over this period to 3.0% from 3.2% a year earlier (see Chart 2.16).<sup>27</sup> The highest vacancy rates were recorded in the construction sector (4.8%), the information and communication sector (4.6%), the transportation and storage sector (4.4%), and the sector comprising administrative and support service activities (4.4%). Vacancy rates were also high in the sectors comprising professional services



<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> Data for Malta are available since 2017.

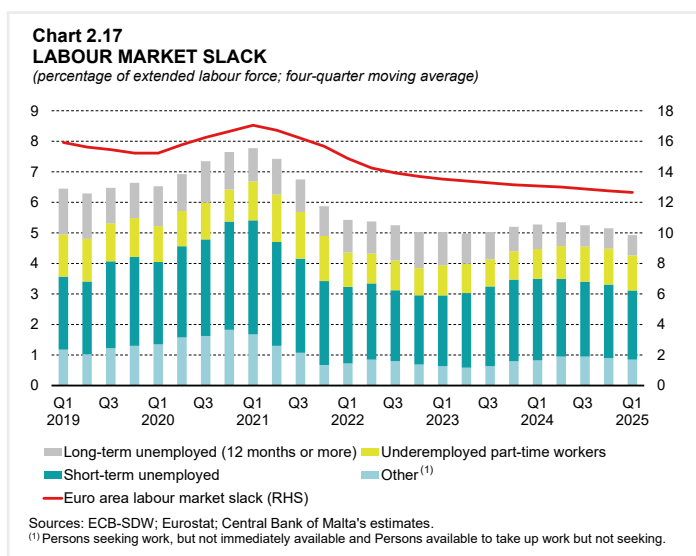
<sup>27</sup> The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant).

and the arts and entertainment activities. In both cases the vacancy rate stood slightly above 4.0%.

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 1.1, slightly higher than the 1.0 recorded in both the previous quarter, and a year earlier. Market conditions thus remained very tight compared to recent outturns. This contrasts with developments in the euro area, where the tightness indicator declined to 0.4. Labour market conditions in the euro area thus 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 4.9% of the extended labour force in the first quarter of the year (see Chart 2.17).<sup>28</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 March 2025.

During the four quarters ending in March, 60% of the labour market slack in Malta stemmed from unemployment (primarily from short-term unemployment, as the long-term unemployment rate has stabilised at very low levels). The remaining part of slack was skewed towards underemployed part-time workers, i.e., those working part-time but willing and able to work additional hours, with the 'other' component accounted for a slightly smaller share (see Chart 2.17).



<sup>28</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.

### 3. PRICES, COSTS AND COMPETITIVENESS

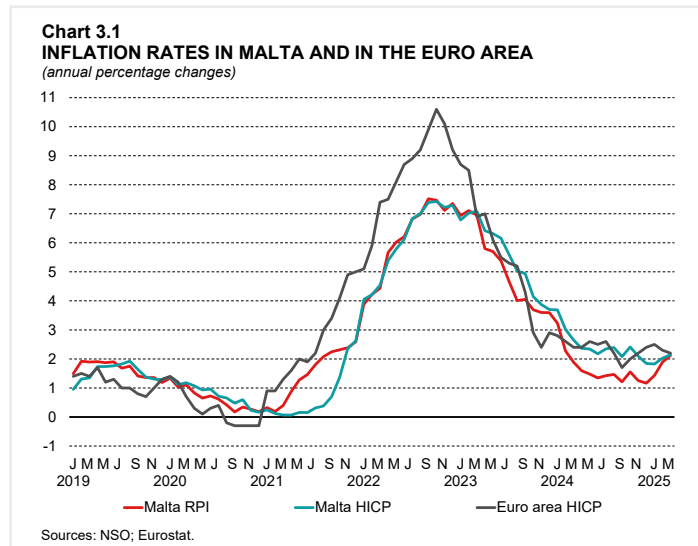
Consumer price inflation was close to the ECB's inflation target in the first quarter of 2025. Annual inflation, as measured by the HICP, stood at 2.1% in March, up from 1.8% in December. This was driven by larger contributions from NEIG and food inflation. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – increased to 2.1% up from 1.2% in December.

When measured over four quarters, ULCs increased at a faster pace of 6.1%, from 5.7% in the last quarter of 2024, as the dampening effect of earlier gains in productivity disappeared. Meanwhile, annual growth in other input cost indicators regularly monitored by the Bank showed mixed dynamics although in most cases they signalled falling prices. Among these indicators the CCI had the highest inflation rate, of 2.3%.

#### Inflation

##### HICP inflation increases

Annual HICP inflation increased to 2.1% in March, from 1.8% in December (see Table 3.1).<sup>1</sup> Chart 3.1 shows that inflation also rose in the euro area, reaching 2.2% in March. Malta's higher inflation rate in March when compared with December mainly reflected a slightly higher contribution from NEIG and food inflation (see Chart 3.2). Meanwhile, the contribution of energy inflation became negative in the euro area, in contrast with that in Malta where it remained at zero.



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

	2024										2025		
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.		Jan.	Feb.	Mar.
Unprocessed food	4.3	5.2	3.7	5.8	3.9	4.5	7.0	4.3	-1.2	-0.3	-0.5	1.1	
Processed food including alcohol and tobacco	4.7	3.9	3.1	3.0	2.8	2.7	2.5	2.6	2.8	2.4	3.4	3.5	
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	1.3	0.9	1.1	0.7	0.4	0.2	0.7	0.1	0.4	0.6	0.9	1.0	
Services (overall index excluding goods)	2.1	2.4	2.3	2.7	3.2	2.7	3.0	3.1	3.0	2.8	2.7	2.7	
<b>All items HICP</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.1</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</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.

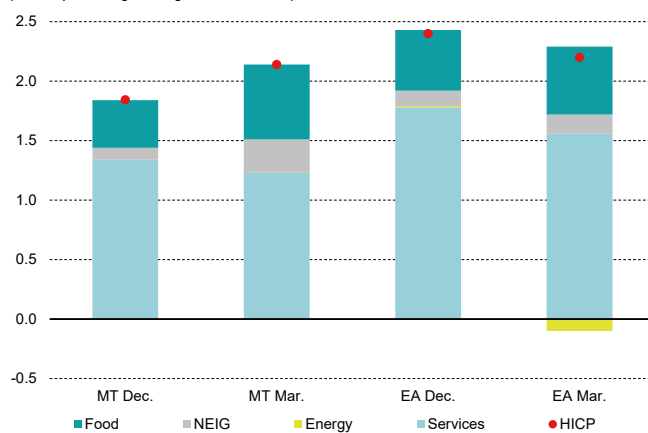


In March, the annual rate of change of HICP excluding energy and food, stood at 2.1% in Malta, and thus below the 2.4% recorded in the euro area.

Chart 3.3 shows the distribution of price changes whereby sub-components 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.

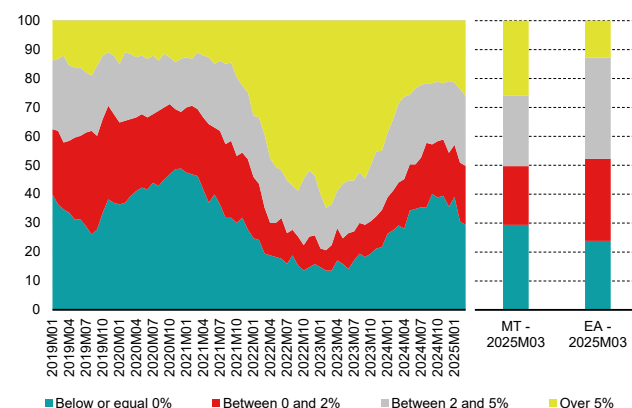
During the quarter under review, the largest changes occurred in the bottom and upper categories. Indeed, the share of subcomponents with negative inflation rates declined significantly during the quarter under review. The latter's share decreased by 6.2 percentage points, to 29.4%, although such items remained the largest bracket. The decrease in this bracket mainly reflects a rise in the inflation rate of a number of food items including selected dairy products, as well as an increase in the inflation rate of furniture and furnishings as well as selected durable goods, such as second-hand cars. On the other hand, the share of subcomponents registering inflation rates of more than 5% experienced the largest increase during the first quarter of 2025. The increase in this bracket partly reflects a rise in inflation for a number of food items including non-alcoholic beverages, some confectionary items and oils and fats. It also reflects a rise in the inflation rate of insurance and financial services. Compared to three months earlier, the share of items with price increases of more than 5% rose to 26.0%, from 20.9%.

**Chart 3.2**  
**HICP AND MAIN CONTRIBUTIONS**  
(annual percentage changes; contributions)



Sources: Eurostat; SDW; Central Bank of Malta calculations.

**Chart 3.3**  
**PROPORTION OF HICP BASKET BY INFLATION PACE**  
(percentage point)



Source: Central Bank of Malta calculations.

<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 177 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 17.8% 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 39.3% 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 changes in the bracket holding items with inflation between 2% and 5% were more modest. The bracket holding items with inflation between 0% and 2% increased by 1.7 percentage points since December 2024, to stand at 20.3% in the first quarter of 2025. Meanwhile, the share of the bracket between 2% and 5% decreased by 0.6 percentage points, to stand at 24.3%.

When compared with the euro area, the share of items with negative rates remained higher than that in the euro area, as was the share of items with inflation rates above 5%. By contrast, the euro area had a relatively higher concentration of items with inflation rates between 2 and 5% (see left panel of Chart 3.3).

### Main components of inflation

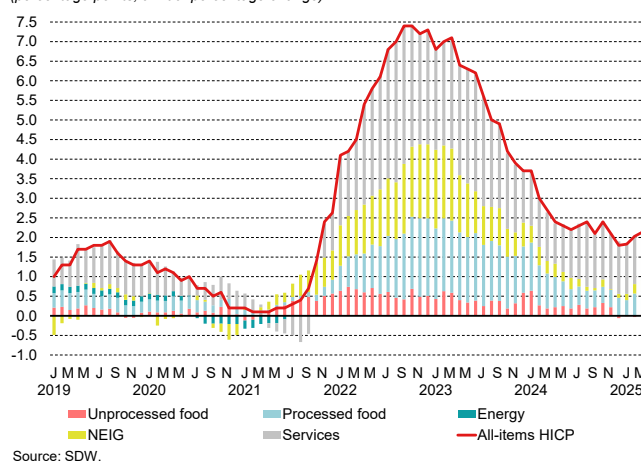
The increase in Malta's HICP inflation between December and March stemmed from higher NEIG and food inflation (see Chart 3.4).

NEIG increased by an annual 1.0% from 0.4% in the fourth quarter of 2024. This was mainly due to an increase in semi-durables of 2.1% in March, from 1.2% in December. Durables also contracted at a slower pace contributing to this increase.

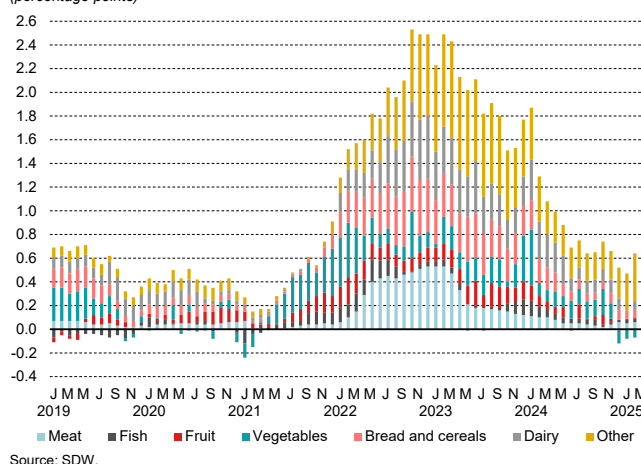
Unprocessed food prices increased by an annual 1.1% in March, after contracting by 1.2% in December. The swing resulted from a faster rate of increase in the prices of meat and fish (see Chart 3.5). Consequently, the contribution of unprocessed food to HICP inflation increased by switching from -0.1 to 0.1 percentage points over this period.

Meanwhile, processed food inflation (including alcohol and tobacco) edged up to 3.5%, from 2.8% in the previous quarter, with its contribution standing at 0.6 percentage points in March. The increase in processed food inflation is partly due to faster growth in the prices of processed meat and fish and seafood. Overall, food

**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)



inflation including alcohol and tobacco increased to 3.0% by March as compared to 1.9% in December.

NEIG inflation edged up to 1.0% from 0.4% in December. Looking at the sub-components, prices of semi-durables grew by 2.1% in annual terms, as opposed to a smaller increase of 1.2% three months earlier. Meanwhile, prices of durables contracted at a slower pace of 0.2% in annual terms, following a drop of 1.7% in December. By contrast, prices of non-durables rose at a slower pace of 1.7%, down from 2.3% in December. The contribution of NEIG inflation to HICP inflation stood at 0.3 percentage points, up from 0.1 percentage points in December.

Services inflation decreased from 3.0% in December to 2.7% in March. Services inflation contributed 1.2 percentage points to overall HICP inflation (see Chart 3.6). This moderation was mostly due to slower growth in the prices of transport services, in particular airfares.

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

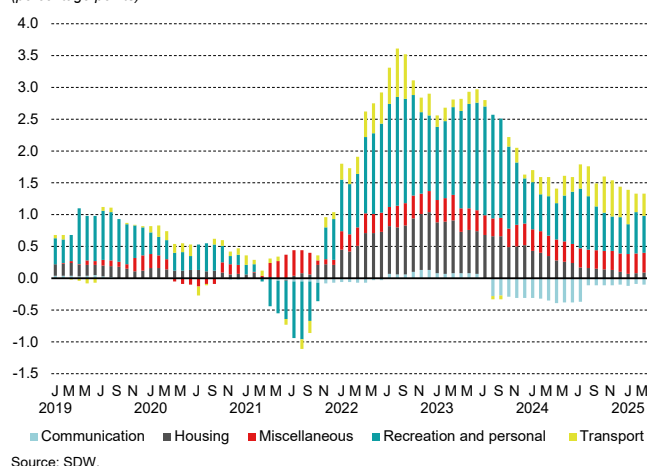
### Core HICP inflation unchanged

The Bank's measure of core inflation, which excludes the more volatile items in each month, remained unchanged at 2.2% in March 2025 (see Chart 3.7).<sup>3</sup> An alternative measure of underlying inflationary pressures – HICP excluding energy and food – increased slightly in March, reaching 2.1% in March, from 2.0% in December.

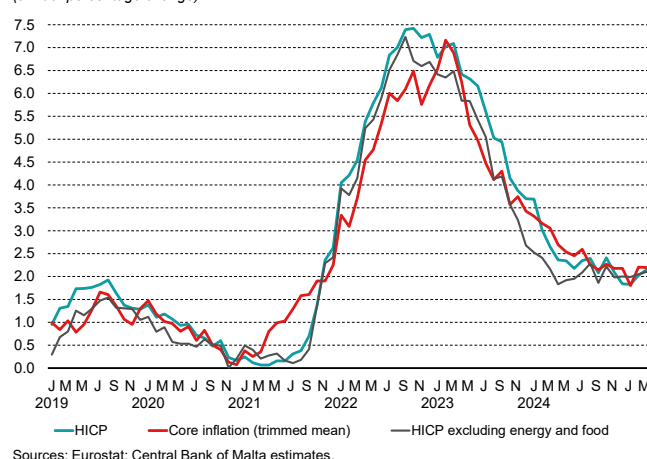
### RPI inflation increases

Annual inflation based on the RPI index increased to 2.1% in March from 1.2% in December.

**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.

**Table 3.2**  
**CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION<sup>(1)</sup>**

Percentage points

	2024												2025		
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.			
Food	1.0	0.8	0.6	0.6	0.5	0.5	0.7	0.5	0.3	0.3	0.5	0.6			
Beverages and tobacco	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2			
Clothing and footwear	0.0	0.0	0.0	0.1	0.0	0.0	0.0	-0.1	0.0	0.1	0.2	0.3			
Housing	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
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	0.0			
Household equipment and house maintenance costs	0.1	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.2	-0.1	0.0	0.1	0.1			
Transport and communications	-0.8	-0.5	-0.4	-0.2	0.0	-0.1	-0.1	0.1	0.1	0.2	0.1	0.2			
Personal care and health	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3			
Recreation and culture	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.1	0.2	0.2			
Other goods and services	0.5	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3			
<b>RPI (annual percentage change)</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>	<b>1.4</b>	<b>1.9</b>	<b>2.1</b>			

Source: NSO.

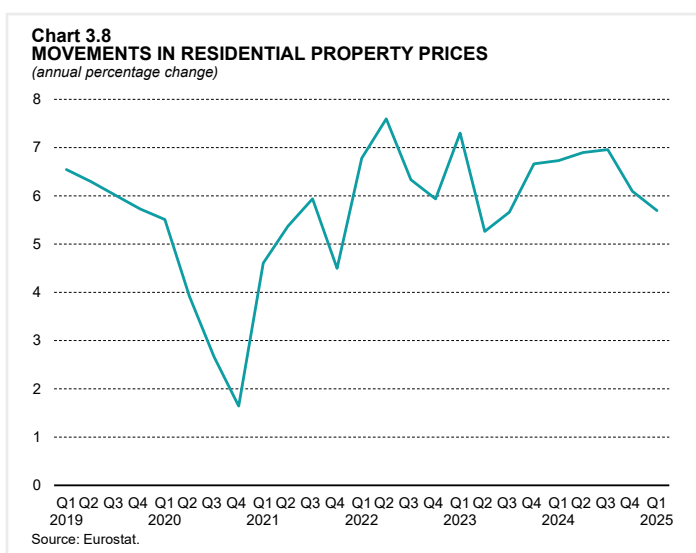
<sup>(1)</sup> Contributions may not add up due to rounding and methodological issues.

This mostly reflected higher contributions from the prices of food and clothing. An increase in the contributions of household equipment and maintenance, and in transport and communication costs also contributed. These movements were partly offset by a smaller contribution from recreation and culture (see Table 3.2).<sup>4</sup> Most of the remaining components had an unchanged contribution.

## The housing market

### Residential property prices increase 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 show increases in annual terms. However, the annual rate of change moderated to 5.7% in the first quarter of 2025, from 6.1% in the previous quarter (see Chart 3.8).<sup>5</sup> Meanwhile, in the euro area, prices on average increased at an annual rate of 5.4%.



<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.

<sup>5</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.

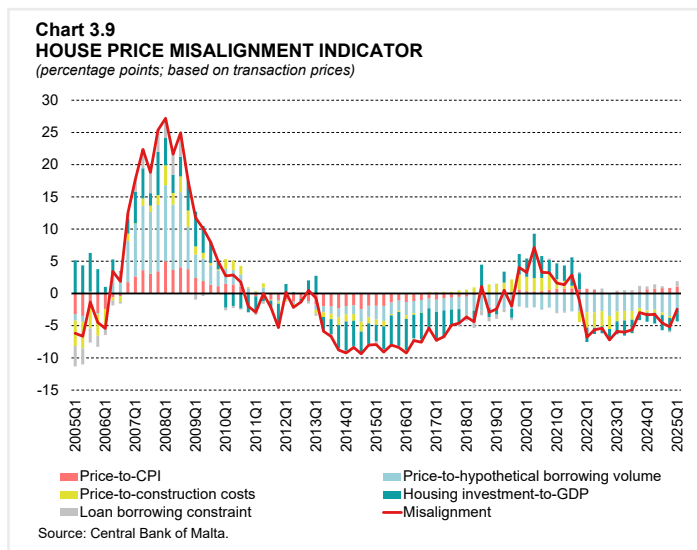
Residential property prices in Malta continue to be supported by a number of Government schemes supporting demand for property, including the first-time and second-time buyers' schemes, the purchase of properties located in Urban Conservation Areas (UCA) and in Gozo, as well as refund schemes for restoration 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 suggests 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>6,7</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.

According to this indicator, house prices, as measured by the NSO's RPPI, were below the level consistent with fundamentals in the first quarter of 2025. However, the degree of undervaluation decreased when compared with the last quarter of 2024, with all indicators contributing to this change. In particular, in contrast with the previous quarter, the loan borrowing constraint is no longer seen as contributing negatively to the index (see Chart 3.9).<sup>8</sup>

The house price-to-hypothetical borrowing volume ratio, and the house investment-to-GDP ratio had the largest negative contributions to the misalignment for this quarter. These offset positive contributions from the house price-to-CPI ratio and the loan borrowing constraint. The contribution from the house price-to-construction cost ratio was broadly neutral; this is the first time since end-2021 where this indicator did not contribute negatively.



### *Number of final deeds decreases both in quarterly terms and in annual terms*

NSO data on residential property transactions show that 3,143 final deeds of sale were registered in the quarter under review, a decline of 3.1% compared to the number of sales concluded in the previous quarter (see Table 3.3). When compared to the number of deeds registered in the same

<sup>6</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>7</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.

<sup>8</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.

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

*Levels*

	2023				2024			2025
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Residential transactions</b>								
Promise of sale	3,492	3,076	3,501	3,495	3,492	3,106	3,490	3,465
Final deeds of sale	3,007	2,870	3,202	3,161	3,187	3,006	3,244	3,143

Source: NSO.

quarter of 2024, final deeds of sale decreased by 0.6%. Around 91% of transactions concluded in the first quarter of 2025 involved purchases by individuals.

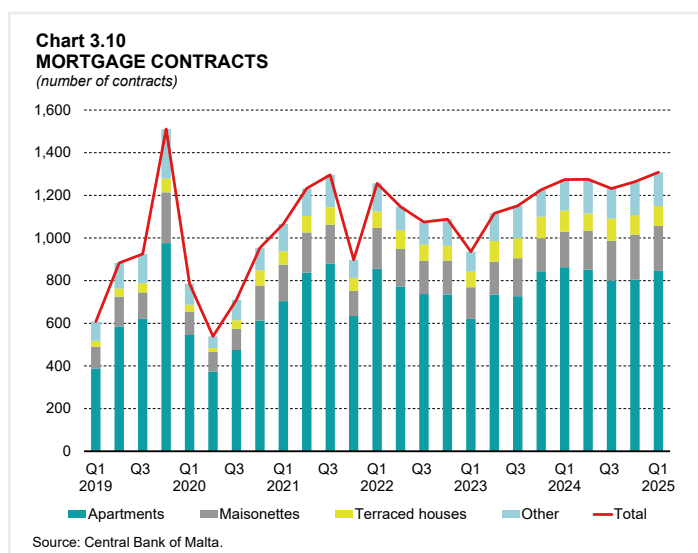
The year-on-year decrease in deeds in the first quarter of 2025 mainly reflected a smaller number of transactions in the Northern region and in Gozo. Smaller declines were recorded in the Northern Harbour and Southern Harbour districts. These offset increases in the South Eastern and Western districts. In value terms, there was a year-on-year increase of 5.8%, although the increase in the case of individual buyers was more significant, at 9.1%.

At 3,465 the number of promise-of-sale agreements was 0.7% lower than the number registered in the previous quarter and 0.9% less from the same quarter of 2024. The year-on-year decrease in the quarter under review was almost entirely driven by fewer promise-of-sale agreements in the Southern Harbour district, as in the other districts such agreements either increased or fell only marginally.

### *Mortgage transactions increase year-on-year<sup>9</sup>*

In the first quarter of 2025, the number of new mortgage contracts stood at 1,308. When compared with the first quarter of 2024, they rose by 2.7% (see Chart 3.10). Increases were observed mainly for maisonnettes.

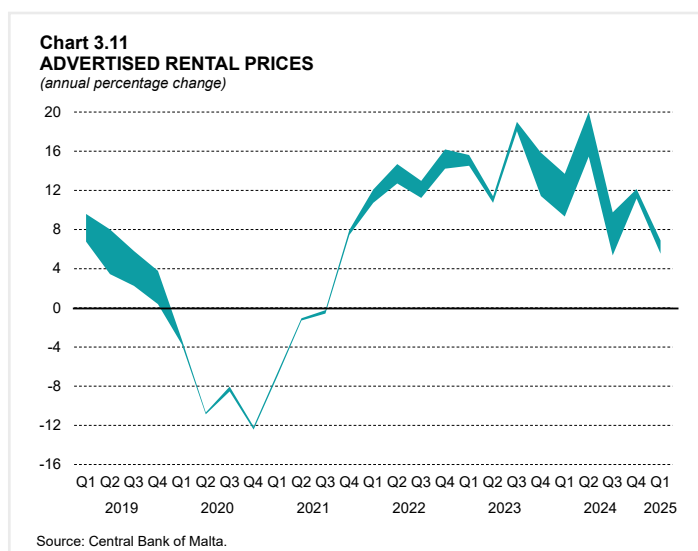
The total number of mortgage contracts in the first quarter of 2025 stood below the recent peak of 1,511 transactions recorded in the last quarter of 2019, but above the average of 993 transactions per quarter recorded since 2017.



<sup>9</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.

### Advertised rents continue to increase

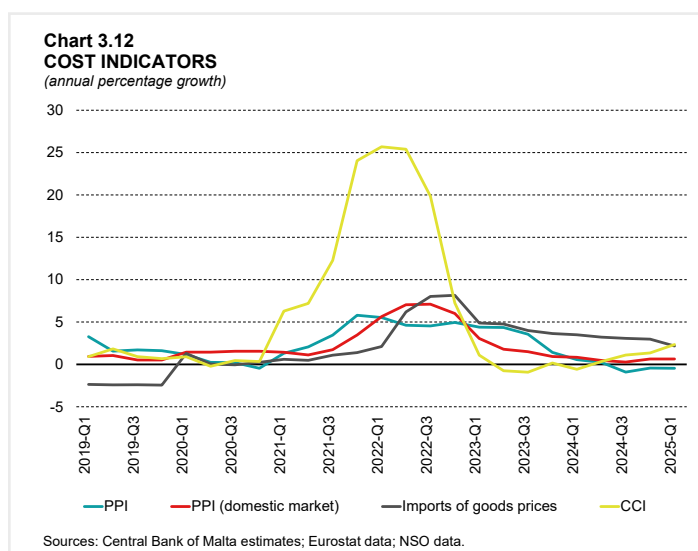
The annual rate of change of advertised rents collected by the Bank from internet sources continued to increase in the first quarter of 2025.<sup>10</sup> The range of estimates from various methods indicate that rents have increased at annual rates of between 5.5% and 6.9% in the quarter under review (see Chart 3.11). Compared with the previous quarter, the range of estimated rent inflation has shifted down although it widened slightly. In the quarter under review, the level of advertised rents was almost 30% higher than its average in recent years.<sup>11</sup>



### Cost indices

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

The industrial PPI is a measure of the prices of goods sold by producers in the industrial sector. Annual inflation according to this index stood at -0.5% on average in the quarter under review, down from -0.4% in the previous quarter (see Chart 3.12).<sup>12</sup> The annual rate of change of producer prices of intermediate goods became slightly more negative, standing at -3.7% in the first quarter of 2025, compared to -3.5% in the fourth quarter. Capital goods prices inflation more than halved, falling to 1.2%, from 3.0% over this period. Meanwhile, the annual rate of change of producer prices of consumer goods reached 1.7% in the quarter under review, up from 0.9% in the previous quarter. Energy producer price inflation remained unchanged.



<sup>10</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, maisonettes, and penthouses.

<sup>11</sup> This index is available from 2017Q4.

<sup>12</sup> The industrial PPI 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.



Other cost indicators moved sideways. The domestic PPI remained unchanged at 0.6%.<sup>13</sup> The imports of goods deflator shows weaker growth of 2.2%, from 3.0% in the fourth quarter of 2024.<sup>14</sup> The CCI for new residential buildings published by Eurostat increased at a higher rate in the first quarter of 2025, standing at 2.3% after it had increased by 1.3% in the previous quarter.

### *ULCs increase at a faster rate on a four-quarter moving average basis*

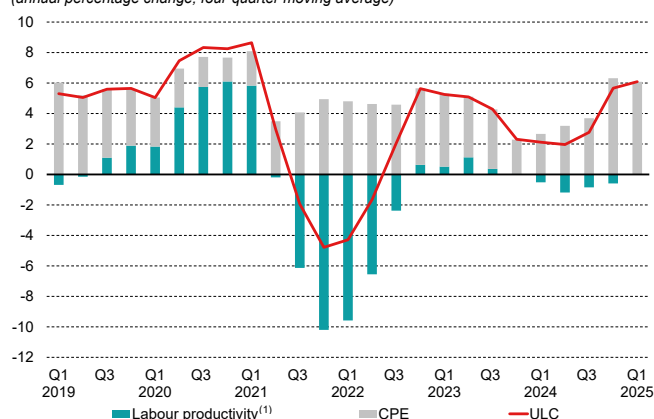
In the first quarter of 2025, Malta's ULC index – measured as the ratio of compensation per employee to labour productivity – increased in annual terms while it was broadly stable in quarter-on-quarter terms.

When measured on a four-quarter moving average basis in headcount terms, ULCs in Malta rose at an annual rate of 6.1%.

This followed an increase of 5.7% in the previous quarter (see Chart 3.13). The slight pick-up in ULC growth largely reflects developments in productivity per person. This contracted marginally in annual terms, from a growth of 0.6% in the fourth quarter. Meanwhile, growth in compensation per employee rose at a slightly slower pace of 6.1% in the first quarter of 2025, from 6.3% 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 of a new collective agreement for educators (see Chart 3.14). 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 slower rate in most sectors.

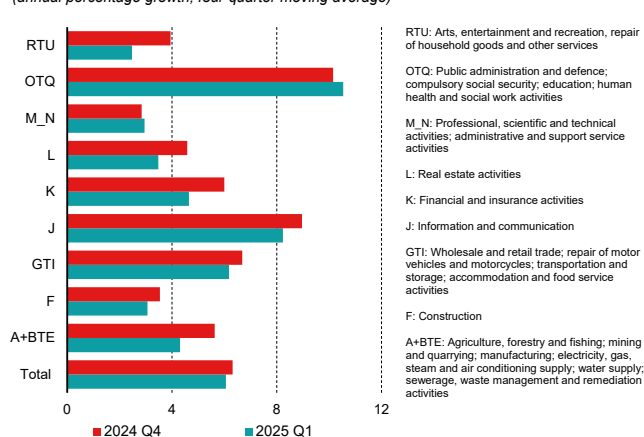
**Chart 3.13**  
**DECOMPOSITION OF ULC (PER PERSON) IN MALTA**  
(annual percentage change; four-quarter moving average)



Sources: NSO; Central Bank of Malta estimates.

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

**Chart 3.14**  
**CPE BY SECTOR**  
(annual percentage growth; four-quarter moving average)



Source: NSO.

<sup>13</sup> The domestic PPI refers to the producer prices relating to the domestic market only, whilst the PPI relates to the total market, i.e., including both the domestic and non-domestic markets.

<sup>14</sup> This index is derived from national accounts data published by the NSO.

## 4. THE BALANCE OF PAYMENTS

During the first quarter of 2025, the current account surplus widened when compared to the same quarter of the previous year. This was due to higher net receipts from services and net inflows on the secondary income account. By contrast, the merchandise trade deficit widened and net outflows on the primary income account increased.

In the quarter under review, net inflows on the capital account decreased when compared to the corresponding quarter of 2024, while the financial account showed higher net lending.

In the year to March 2025, the current account balance registered a surplus equivalent to 6.0% of GDP. This compares with a current account surplus of 2.9% of GDP in the euro area.

The cyclically-adjusted current account balance is estimated to have recorded a surplus of 7.0% 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 first quarter of 2025, the tourism sector reported further gains. The number of inbound tourists, nights stayed, and tourist expenditure in Malta all increased strongly when compared with a year earlier, although the annual rate of change moderated.

### The current account

#### The current account surplus widens

Between January and March 2025, the current account of the balance of payments recorded a surplus of €269.4 million, €84.2 million more than the surplus recorded in the same quarter of 2024 (see Table 4.1). This reflected higher net receipts from services and a return to net inflows on the secondary income account. These offset a wider merchandise trade deficit and higher net outflows on the primary income account.

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

EUR millions

	Four-quarter moving sums						
	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2024 Q1	2025 Q1
<b>Current account</b>	<b>1,330.1</b>	<b>1,521.0</b>	<b>1,388.2</b>	<b>1,275.7</b>	<b>1,359.9</b>	<b>185.2</b>	<b>269.4</b>
Goods	-2,449.1	-2,443.1	-2,617.3	-2,512.8	-2,672.8	-592.9	-752.9
Services	6,292.4	6,606.1	6,711.3	6,894.5	7,142.5	1,536.9	1,784.9
Primary income	-2,477.2	-2,599.6	-2,712.8	-3,018.0	-3,036.4	-758.6	-777.0
Secondary income	-36.1	-42.5	6.9	-88.0	-73.5	-0.1	14.4
<b>Capital account</b>	<b>306.1</b>	<b>366.6</b>	<b>343.6</b>	<b>323.1</b>	<b>288.4</b>	<b>102.8</b>	<b>68.1</b>
<b>Financial account<sup>(1)</sup></b>	<b>1,833.5</b>	<b>2,267.9</b>	<b>2,299.5</b>	<b>2,140.5</b>	<b>2,150.9</b>	<b>382.1</b>	<b>392.4</b>
<b>Errors and omissions</b>	<b>197.3</b>	<b>380.4</b>	<b>567.8</b>	<b>541.7</b>	<b>502.6</b>	<b>94.1</b>	<b>55.0</b>

Sources: NSO; Central Bank of Malta.

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

On a four-quarter moving sum basis, the current account surplus widened slightly to €1,359.9 million, from €1,330.1 million a year earlier. This reflected higher net receipts from services which offset higher net outflows on the primary and secondary income accounts and a higher merchandise trade deficit.

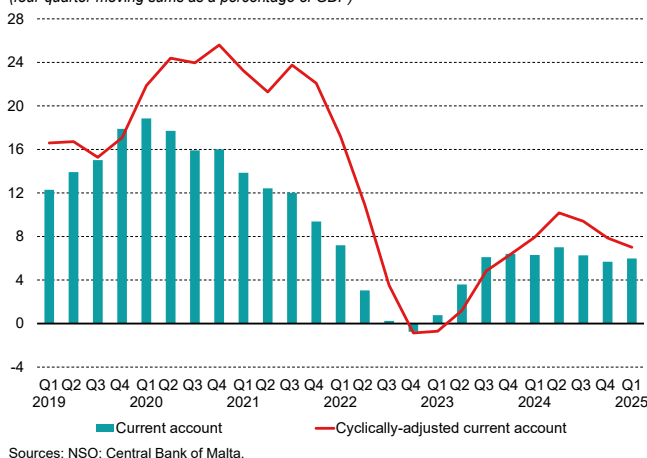
The current account balance-to-GDP ratio declined to 6.0%, from 6.3% a year earlier (see Chart 4.1). Malta's cyclically-adjusted current account surplus is estimated to have stood at 7.0% of GDP in the first quarter of 2025, and thus wider than the headline measure (see Chart 4.1).<sup>1</sup>

### *The merchandise trade deficit widens*

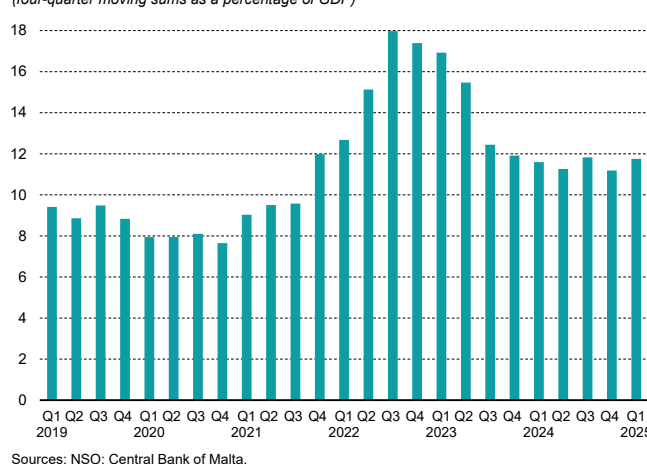
In the first quarter of 2025, the merchandise trade deficit stood at €752.9 million, up from €592.9 million in the corresponding period of 2024. The wider deficit was driven by a decrease in exports which offset a smaller fall in imports. The former mostly reflected lower exports of machinery and transport equipment and to a lesser extent, fuels.

The visible trade gap also widened when measured on a four-quarter cumulative basis, reaching €2,672.8 million, from €2,449.1 million in the same period a year earlier. This reflected a €153.2 million drop in goods exports, mainly because of a drop in exports of machinery and transport equipment. Furthermore, imports increased by €70.6 million mostly due to higher imports of fuel and chemicals. The share of the goods deficit in GDP rose to 11.8% during the first quarter of 2025, from 11.6% a year earlier (see Chart 4.2).

**Chart 4.1**  
**CURRENT ACCOUNT**  
(four-quarter moving sums as a percentage of GDP)



**Chart 4.2**  
**GOODS DEFICIT**  
(four-quarter moving sums as a percentage of GDP)



<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 €1,784.9 million, €248.0 million more than in the corresponding period of 2024. Both services exports and imports increased on a year earlier, however, the increase in the former was more than twice that in the latter.

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

On a four-quarter cumulative basis, the overall surplus from services stood at €7,142.5 million, an increase of €850.1 million over the surplus recorded a year earlier. This reflected higher net receipts related to travel and transport services. The surplus on ‘other’ services also widened as higher net inflows related to financial services and personal and recreational services offset higher net payments related to business services. The share of net services receipts in GDP stood at 31.4%, up from 29.8% registered during the same period of 2024 (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 €777.0 million, €18.4 million more than in the first quarter of 2024. This was mainly due to higher net payments related to ‘other’ investment offsetting higher net income flows related to portfolio investment.

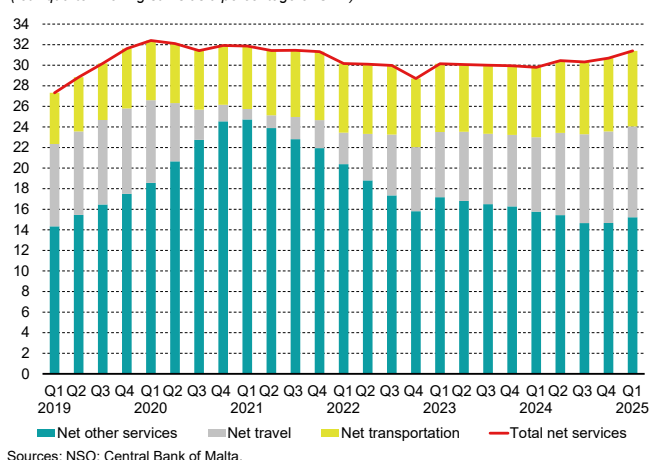
In the four-quarter period to March 2025, net outflows on the primary income account increased by €559.2 million, to stand at €3,036.4 million. Higher net payments related to direct and ‘other’ investment offset an increase in net income receipts on portfolio investment. Transactions relating to primary 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 13.3% of GDP, up from 11.7% a year earlier.

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

In the first quarter of the year, net flows on the secondary income account increased to €14.4 million from -€0.1 million a year earlier.

During the year to March 2025, net outflows stood at €73.5 million; up from €36.1 million in the same period of last year. Their share in GDP rose to -0.3% from -0.2% in the previous year.

**Chart 4.3**  
**SERVICES BALANCE**  
(four-quarter moving sums as a percentage of GDP)



<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 693,492, up from 583,259 a year earlier; an increase of 18.9% (see Chart 4.4). Visitors from Poland accounted for almost a third of the increase, followed by those from the United Kingdom. In absolute terms, tourists coming over for holiday purposes increased, while those visiting for business purposes and ‘other’ motives declined.

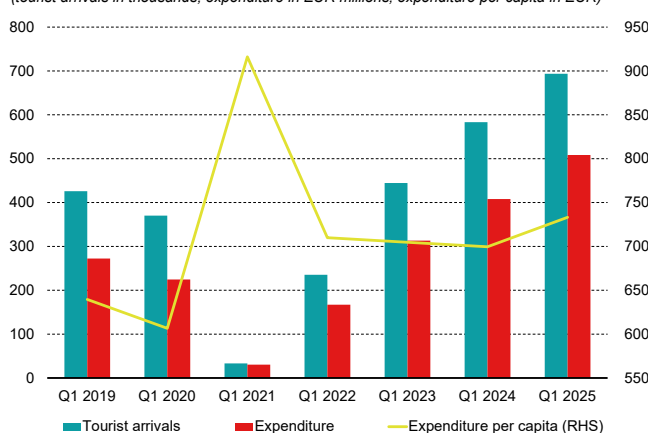
The total number of guest nights that tourists spent in Malta during the first quarter of 2025 totalled 4.0 million, up from 3.4 million a year earlier. The increase was driven entirely by stays in rented accommodation as nights spent in non-rented accommodation declined.<sup>4</sup>

Over this period, the share of non-residents in collective accommodation establishments rose marginally to 85.3%, from 85.2%.

The total occupancy rate in collective accommodation establishments in the first quarter of 2025 rose to 52.6%, from 49.0% a year earlier (see Chart 4.5). The two-star category registered the largest increase of 8.5 percentage points. It was followed by the three-star and four-star accommodation categories, which recorded increases of 4.1 and 3.9 percentage points, respectively. Meanwhile, occupancy rates in the five-star category and the “other” category, each registered an increase of 1.4 percentage points. At 58.3%, the highest occupancy rate was registered in the four-star category, while the “other” category registered the lowest occupancy rate, of 36.0%.

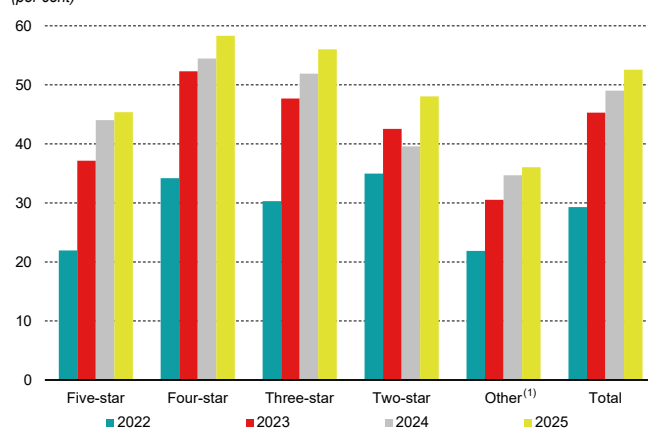
**Chart 4.4**  
**TOURISM INDICATORS**

(tourist arrivals in thousands; expenditure in EUR millions; expenditure per capita in EUR)



Source: NSO.

**Chart 4.5**  
**AVERAGE OCCUPANCY RATES IN THE FIRST 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.

Tourist expenditure in Malta totalled €508.5 million in the first quarter of 2025, up from €408.1 million a year earlier, or 24.6%. All expenditure categories registered gains over this period.

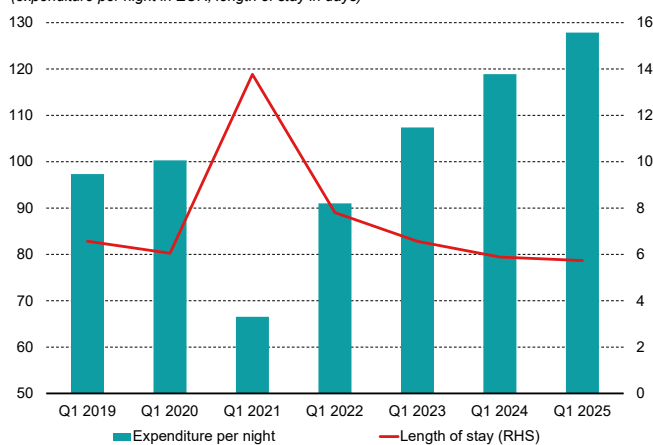
Expenditure per capita increased to €733.2, from €699.6 in the first quarter of 2024, as expenditure per night increased, offsetting a shorter length of stay, which stood at 5.7 nights from 5.9 nights a year earlier (see Chart 4.4 and Chart 4.6).

According to Malta International Airport (MIA) data, in the quarter under review, average seat capacity stood at 745,075 seats per month, up from 643,408 a year earlier (see Chart 4.7).

A total of 31 cruise liners visited Malta in the first quarter of 2025, 12 more than a year earlier. Foreign passengers reached 84,554 persons, up from 76,539 visitors in the first quarter of 2024 (see Chart 4.8).

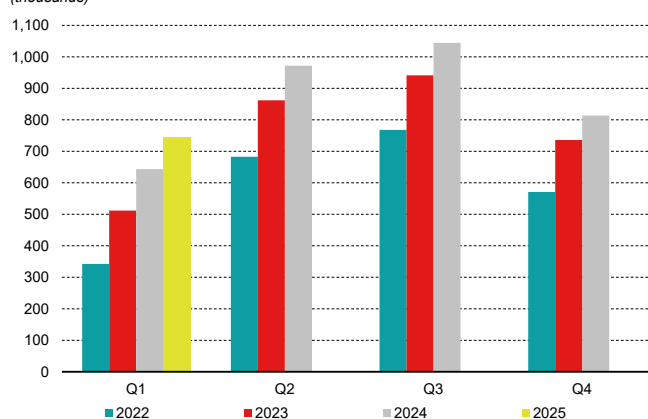
Italy was the most important source market, accounting for over a fifth of total cruise passengers. Visitors from Spain and France followed, with shares of 8.9% and 8.8%, respectively. In absolute terms, passengers from the United States recorded the largest increase compared with a year earlier. They were followed by passengers from Germany and Canada. By contrast, the number of cruise passengers from Italy and Spain declined compared with a year earlier.

**Chart 4.6**  
**EXPENDITURE PER NIGHT AND LENGTH OF STAY**  
(expenditure per night in EUR; length of stay in days)



Source: NSO.

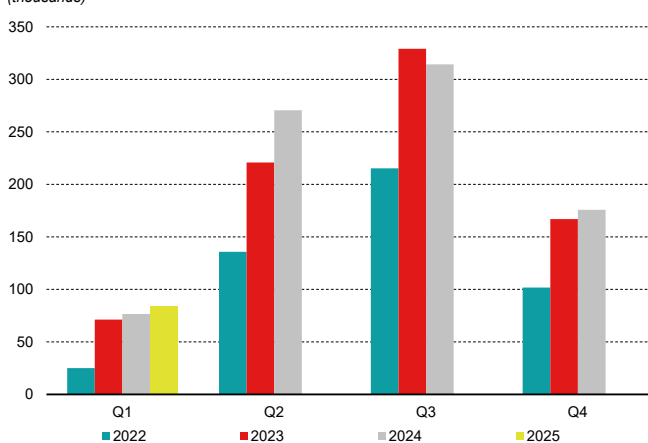
**Chart 4.7**  
**AVERAGE MONTHLY SEAT CAPACITY<sup>(1)</sup>**  
(thousands)



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 closed the quarter under review at €68.1 million, down from €102.8 million a year earlier (see Table 4.1). Similarly, when measured on a four-quarter cumulative basis, capital inflows decreased to €288.4 million, from €306.1 million a year earlier. Their share in GDP decreased to 1.3% from 1.4% in the first quarter of 2024.



## BOX 1: EU AND MALTA'S TRADE WITH CHINA<sup>1</sup>

### Introduction

According to the International Monetary Fund (IMF), China is the world's second largest economy. With an estimated GDP of USD 19.53 trillion in 2025 and a population of more than 1.4 billion, China is one of the largest global players in international trade.<sup>2</sup> In fact, in 2023, China was the largest exporter in the world, as well as the third largest importer. It is also one of the main trade partners of the European Union (EU).<sup>3</sup> On 30 December 2020, the EU and China concluded in principle negotiations on the [Comprehensive Agreement on Investment](#) (CAI).<sup>4</sup>

In 2023, China was the EU's main partner for imports of goods and the EU's third largest partner for exports of goods.<sup>5</sup> The EU is currently China's second-largest export market and top import source.<sup>6</sup> China plays a vital role as a supplier of essential inputs for many European manufacturing companies, and any disruptions in this supply chain could have significant consequences. Therefore, understanding these risks are critical to evaluate the potential impact of weaponizing critical supplies (ECB, 2024).

This box deals with developments in international trade in goods with China from the point of view of the EU and Malta. This is particularly relevant for various reasons, including but not limited to the current geopolitical landscape, the potential need for the EU to deepen ties with countries other than the United States of America, and the EU's strong dependence on China in terms of some critical raw materials imports, such as in imports of magnesium.<sup>7</sup> The EU has publicly shown interest in exploring a deeper cooperation with China although the relationship is complex and major differences, such as China's relations with Russia, remain.

The first section of the box explores trade relations between the EU and China, while the second part focuses on Malta's trade with China. A final section concludes.

### China as a trade partner of the EU<sup>8,9</sup>

Throughout the years in review, from 2013 to 2023, the EU has continuously registered a merchandise trade deficit with China, peaking at USD 418.8 billion in 2022 (see Chart 1). The deficit decreased to USD 316.6 billion in 2023, with EU imports from China amounting to USD 555.3 billion, while exports stood at USD 238.7 billion.<sup>10</sup> EU imports from China

<sup>1</sup> This box was prepared by Ms Lorraine Bonavia, International Relations Officer in the International Relations and Communications Department of the Central Bank of Malta. The box was reviewed by Dr Kalina Koleva and Mr Silvio Galea. The views expressed are the author's own and do not necessarily reflect the views of the Bank.

<sup>2</sup> *The IMF DataMapper.*

<sup>3</sup> *Eurostat.*

<sup>4</sup> [EU trade relations with China](#)

<sup>5</sup> [EU trade in goods with China: Less deficit in 2023](#)

<sup>6</sup> *Financial Times.*

<sup>7</sup> [European Commission: Critical raw materials](#)

<sup>8</sup> Data for China extracted from UN Comtrade excludes data for Taiwan Province of China, Hong Kong Special Administrative Region and Macao Special Administrative Region.

<sup>9</sup> For consistency purposes, the EU refers to the 27 EU countries throughout this box, which means that the United Kingdom is treated as a non-EU country and excluded from EU data, even in the years before Brexit.

<sup>10</sup> Trade values in this box all correspond to [FOB](#) (free on board) values for exports and [CIF](#) (cost, insurance, freight) values for imports.

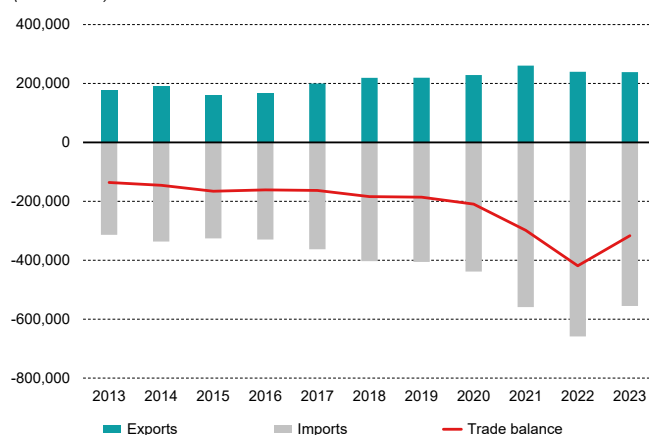
increased by 49.6% between 2013 and 2023, while exports grew by 34.5%.

By contrast, the EU registered a continuous trade surplus in services with China, amounting to EUR 15.8 billion in 2023.<sup>11</sup>

Chart 2 shows that EU exports to China consisted of 8.6% of total EU exports in 2023, thus declining from 10.1% and 12.1% recorded in 2013 and 2018, respectively. By contrast, dependency on Chinese imports increased, as the share of goods imported by the EU from China rose from 19.8% of all EU imports in 2013 to 24.1% in 2018, but then eased to 20.5% in 2023.

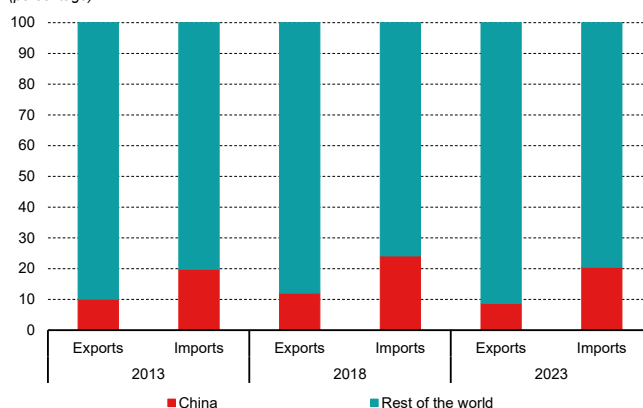
EU exports to China were more contained, but rose from 7.6% of total extra-EU exports in 2013 to 8.7% by 2023 (see Chart 3). Meanwhile, EU imports from China amounted to a significant 20.6% of total extra-EU imports, increasing from the share of 14.7% and 17.9% registered in 2013 and 2018, respectively. In 2023, China was the EU's main partner for imports of

**Chart 1**  
**EU TRADE IN GOODS WITH CHINA**  
(USD millions)



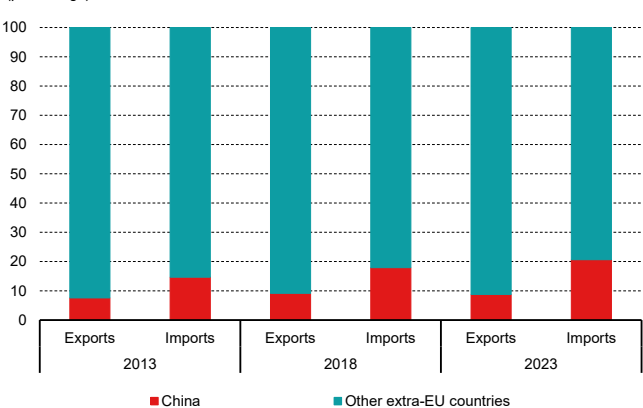
Source: UN Comtrade.

**Chart 2**  
**EU TRADE IN GOODS WITH CHINA AS A SHARE OF TOTAL EU TRADE IN GOODS**  
(percentage)



Source: UN Comtrade.

**Chart 3**  
**EU TRADE IN GOODS WITH CHINA AS A SHARE OF TOTAL EXTRA-EU TRADE IN GOODS**  
(percentage)



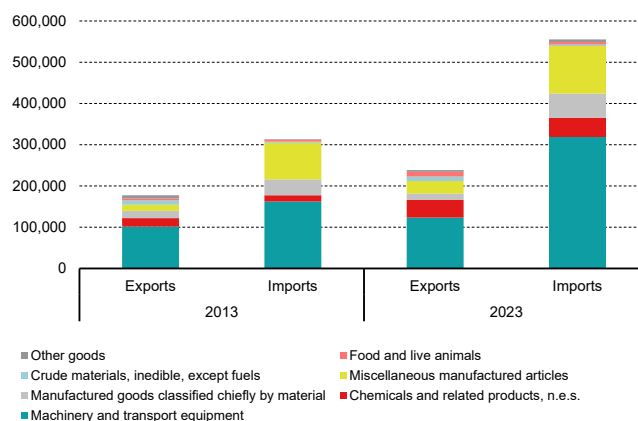
Source: Eurostat.

<sup>11</sup> [Eurostat: International trade in services – Database](#)

goods and the EU's third largest partner for exports of goods.<sup>12</sup>

Chart 4 shows EU trade with China broken down by main product categories.<sup>13</sup> In 2023, the most exported products by the EU to China were machinery and transport equipment (51.7%), followed by chemicals and related products (17.9%), manufactured goods classified chiefly by material (17.9%), miscellaneous manufactured articles (12.8%) and manufactured goods classified chiefly by material (6.5%). The most imported products in 2023 by the EU from China were machinery and transport equipment (57.4%), followed by miscellaneous manufactured articles (20.7%), manufactured goods classified chiefly by material (10.6%) and chemicals and related products (8.4%).

**Chart 4**  
**EU TRADE WITH CHINA BY MAIN PRODUCT CATEGORIES**  
(USD millions)



Source: UN Comtrade.

### Exports

The three most exported goods in 2023 from the EU to China under the category of machinery and transport equipment were road vehicles (26.1%), electrical machinery, apparatus and appliances, and electrical parts thereof (23.1%), and machinery specialised for particular industries (15.4%). Exports of chemicals and related products mainly included medicinal and pharmaceutical products (53.6%), chemical materials and products (12.4%), and plastics in primary forms (8.7%). The three most exported products related to miscellaneous manufactured articles consisted of professional, scientific and controlling instruments and apparatus (44.8%), miscellaneous manufactured articles (19.7%), and articles of apparel and clothing accessories (12.3%). Exports of manufactured goods classified chiefly by material mostly included manufactures of metals (29.7%), non-ferrous metals (16.5%), and iron and steel (14.5%).

### Imports

In 2023, the three most imported products by the EU from China under the category of machinery and transport equipment were electrical machinery, apparatus and appliances, and electrical parts thereof (37.0%), telecommunications and sound-recording and reproducing apparatus and equipment (21.5%), and office machines and automatic data-processing machines (15.3%). Imports of miscellaneous manufactured articles consisted mostly of miscellaneous manufactured articles (32.3%), articles of apparel and clothing accessories (23.6%), and professional, scientific and controlling instruments and apparatus (11.2%). The three most imported goods related to manufactured goods classified chiefly by material included manufactures of metals (37.7%), textile yarn, fabrics, made-up articles, and related products (17.9%), and

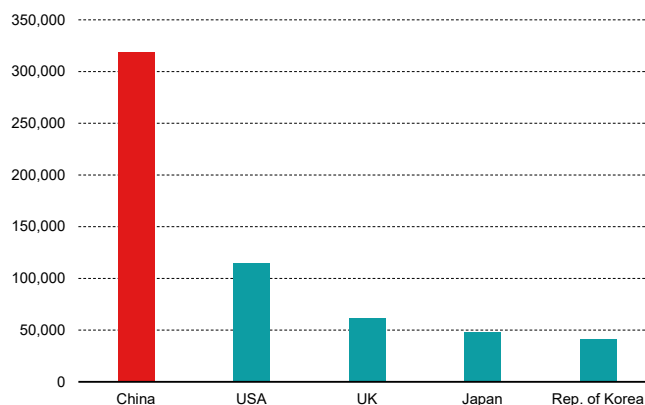
<sup>12</sup> See footnote 5.

<sup>13</sup> Data is categorised according to the Standard International Trade Classification (SITC).

iron and steel (10.8%). Imports of chemicals and related products mainly included organic chemicals (51.9%), chemical materials and products (14.5%), and medicinal and pharmaceutical products (10.1%).

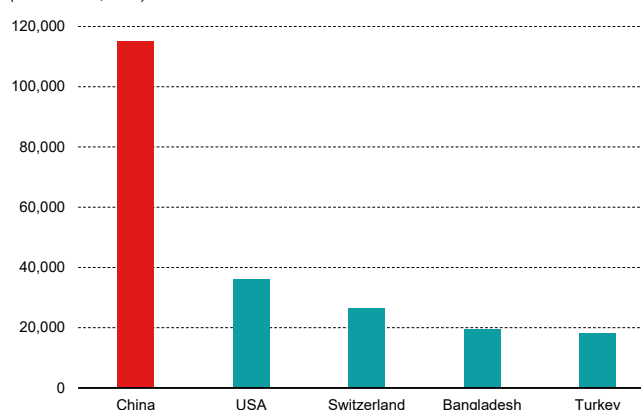
Throughout the observed period, there was a significant increase in EU imports from China of machinery and transport equipment, as well as miscellaneous manufactured articles, which were the two biggest imports of goods in 2023. In fact, China was the EU's main trading partner for imports of both these product categories in 2023. China was the EU's top trading partner for imports of machinery and transport equipment, which amounted to USD 318.6 billion, followed by imports from the United States which stood at USD 114.1 billion (see Chart 5). The EU's main trading partner for imports of miscellaneous manufactured articles was also China, with a total of USD 115.0 billion, followed by the United States at USD 35.9 billion (see Chart 6).

**Chart 5**  
**EU IMPORTS OF MACHINERY AND TRANSPORT EQUIPMENT BY TOP TRADING PARTNERS**  
(USD millions; 2023)



Source: UN Comtrade.

**Chart 6**  
**EU IMPORTS OF MISCELLANEOUS MANUFACTURED ARTICLES BY TOP TRADING PARTNERS**  
(USD millions; 2023)



Source: UN Comtrade.

### China as a trade partner of Malta

Over the decade under review, Malta also has had a continuous trade deficit in goods with China, which was at its lowest in 2017 at USD 101.3 million, and then peaked in 2020 at the height of the pandemic at USD 359.5 million, as illustrated in Chart 7. In 2023, the deficit stood at USD 338.8 million, with Malta's imports from China amounting to USD 378.6 million while exports stood at USD 39.8 million. When compared to the figures registered in 2013, Malta's imports from China more than doubled<sup>14</sup> in 2023, while exports decreased by 34.2%.

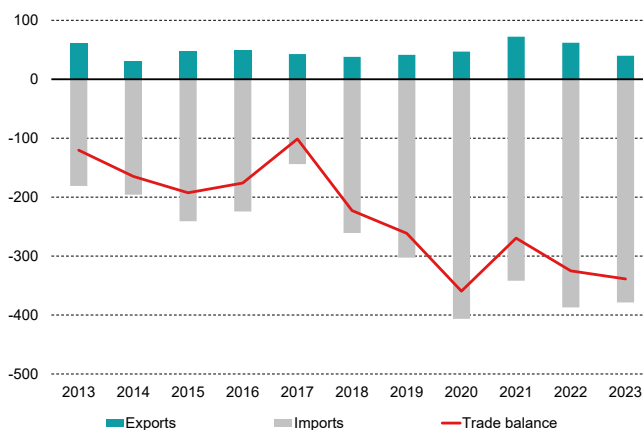
<sup>14</sup> This significant increase between 2013 and 2023 is mainly related to a rise in imports of three merchandise categories (one digit), namely machinery and transport equipment, miscellaneous manufactured articles and manufactured goods classified chiefly by material.

Chart 8 shows that the share of goods exported by Malta to China was quite low and stable over the observed years, amounting to only 1.2%, 1.0% and 1.1% of Malta's total exports in 2013, 2018 and 2023, respectively. On the other hand, Malta's imports from China have slowly increased over the same period, rising to 4.5% of Malta's total imports in 2023, from 2.4% in 2013 and 3.6% in 2018. In 2023, China ranked in seventh place among Malta's import trading partners.<sup>15</sup>

Malta's exports to China amounted to 2.5% of its total extra-EU imports in 2023, slightly lower than the share of 2.9% and 2.6% recorded in 2013 and 2018, respectively (see Chart 9). On the other hand, Malta's imports from China as a share of its total extra-EU imports increased over the same period, rising to 12.1% in 2023, from 8.2% in 2013 and 10.0% in 2018.

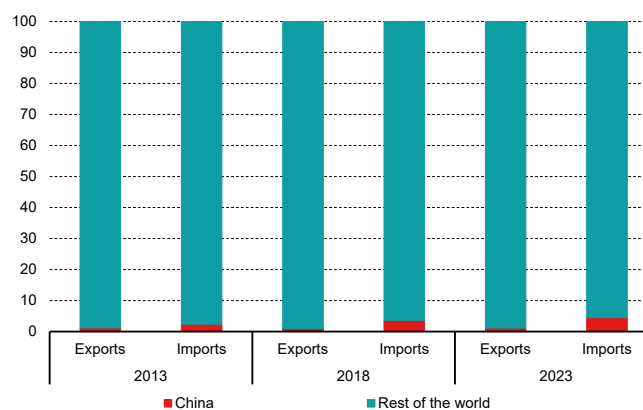
Chart 10 illustrates Malta's trade in goods with China according to the main product categories. In 2023, the most exported products by

**Chart 7**  
**MALTA'S TRADE IN GOODS WITH CHINA**  
(USD millions)



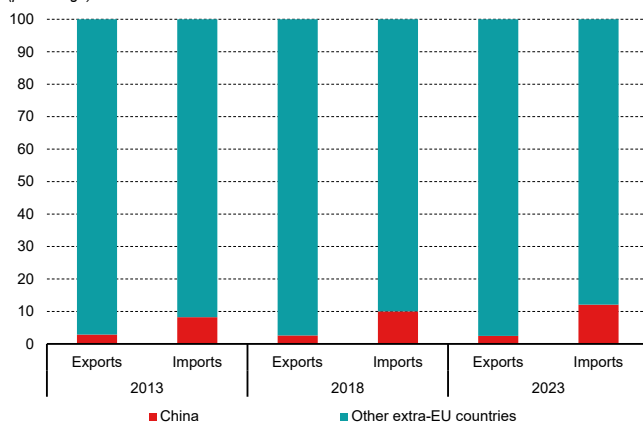
Source: UN Comtrade.

**Chart 8**  
**MALTA'S TRADE IN GOODS WITH CHINA AS A SHARE OF MALTA'S TOTAL TRADE IN GOODS**  
(percentage)



Source: UN Comtrade.

**Chart 9**  
**MALTA'S TRADE IN GOODS WITH CHINA AS A SHARE OF MALTA'S TOTAL EXTRA-EU TRADE IN GOODS**  
(percentage)

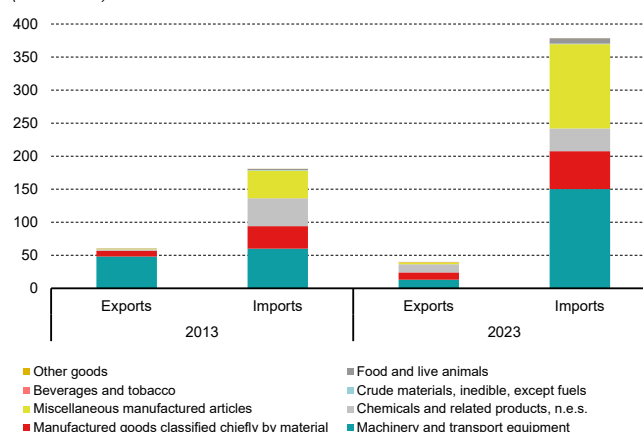


Source: Eurostat.

<sup>15</sup> NSO: International Trade in Goods Statistics MALTA 2024 (reference years 2018-2023)

Malta to China were machinery and transport equipment (32.6%), closely followed by chemicals and related products (31.3%) and manufactured goods classified chiefly by material (27.6%). The biggest imports of goods by Malta from China consisted mainly of machinery and transport equipment (39.7%), miscellaneous manufactured articles (33.7%), manufactured goods classified chiefly by material (15.2%), and chemicals and related products (9.1%).

**Chart 10**  
**MALTA'S TRADE WITH CHINA BY MAIN PRODUCT CATEGORIES**  
(USD millions)



Source: UN Comtrade.

### Exports

In 2023, the three most exported products from Malta to China relating to machinery and transport equipment were electrical machinery, apparatus and appliances, and electrical parts thereof (64.7%), machinery specialised for particular industries (12.9%), and general industrial machinery and equipment, and machine parts (6.5%). Exports of chemicals and related products primarily included plastics in non-primary forms (93.5%), while exports of manufactured goods classified chiefly by material consisted mainly of rubber manufactures (98.9%).

On a more granular level (three-digit trade data), Malta's overall top three exported products to China in 2023 were plates, sheets, film, foil and strip, of plastics (29.2%), articles of rubber (22.7%), and thermionic, cold cathode or photo-cathode valves and tubes, diodes, transistors and similar semiconductor devices (13.2%).

### Imports

The three most imported goods by Malta from China in 2023 under the category of machinery and transport equipment were electrical machinery, apparatus and appliances, and electrical parts thereof (28.0%), followed by general industrial machinery and equipment, and machine parts (24.4%), and road vehicles (15.0%). Imports of miscellaneous manufactured articles mainly included articles of apparel and clothing accessories (35.3%), miscellaneous manufactured articles (25.8%), and travel goods, handbags and similar containers (15.4%). The three most imported goods related to manufactured goods classified chiefly by material were manufactures of metals (32.3%), textile yarn, fabrics, made-up articles, and related products (20.1%), and non-metallic mineral manufactures (12.9%). Imports of chemicals and related products consisted primarily

of organic chemicals (63.4%), chemical materials and products (10.5%), and plastics in non-primary forms (9.0%).

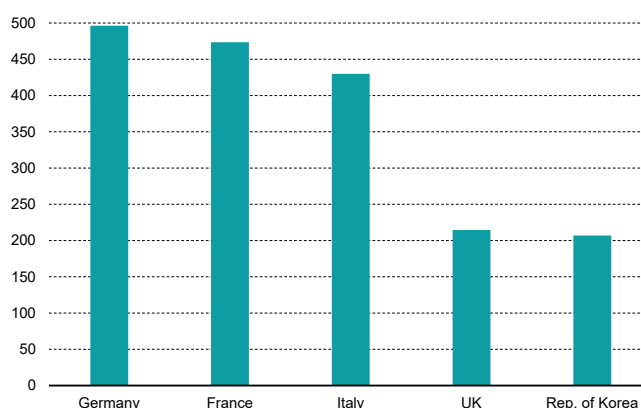
On a more granular level (three-digit trade data), Malta's top three products imported from China in 2023 were heating and cooling equipment and parts thereof (5.7%), articles of apparel, of textile fabrics, whether or not knitted or crocheted (5.7%), and trunks, suitcases, etc. (5.2%).

Chart 11 shows that China was not among the main trading partners for Malta when it came to imports of machinery and transport equipment, which was the top imported product by Malta from China in 2023. Malta's top trading partner in 2023 for this category was in fact Germany with USD 496.2 million, followed closely by France and Italy, while China ranked in sixth place with USD 150.2 million.

As for imports of miscellaneous manufactured articles, which was the second most imported product by Malta from China in 2023, China ranked in second place among Malta's top trading partners for this category in 2023, with imports amounting to USD 127.6 million, while the main partner was Italy with imports of USD 261.2 million (see Chart 12).

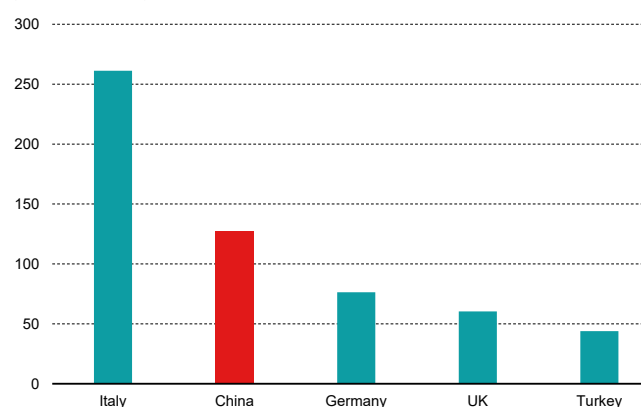
Malta is less dependent on China than other European countries, as its imports and exports with China are relatively low. Chart 13 shows that China accounts for 11.4% of Malta's extra-EU imports in 2024, while the EU's weighted

**Chart 11**  
**MALTA'S IMPORTS OF MACHINERY AND TRANSPORT EQUIPMENT**  
**BY TOP TRADING PARTNERS**  
(USD millions; 2023)



Source: UN Comtrade.

**Chart 12**  
**MALTA'S IMPORTS OF MISCELLANEOUS MANUFACTURED**  
**ARTICLES BY TOP TRADING PARTNERS**  
(USD millions; 2023)



Source: UN Comtrade.



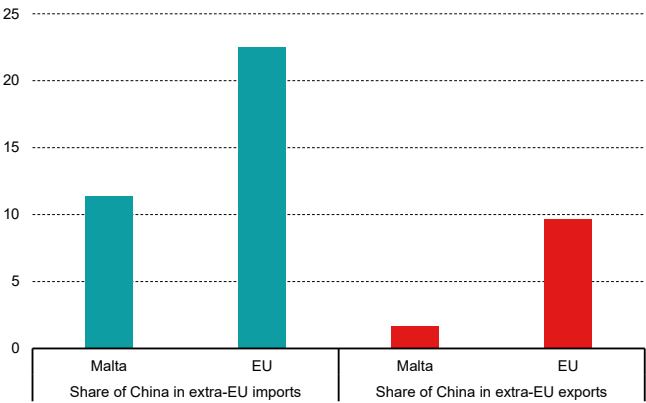
average of imports from China is 22.5%. Conversely, China accounts for only 1.7% of Malta's extra-EU exports, while the EU's weighted average for exports to China is 9.7%.

### Conclusion

The EU and China are among the world's most important trading partners. In 2023, China was the largest supplier of goods to the EU as well as the third largest recipient of EU exports, with the main categories of goods traded being machinery and transport equipment, and miscellaneous manufactured articles. The EU's trade deficit with China is rather substantial, with the EU being quite dependent on certain Chinese imports.

Malta's trade links with China are relatively weaker than those of the EU, especially in relation to exports. Although Malta's imports of goods from China have steadily increased over the years 2013 to 2023, with a continuous trade deficit registered in these years, this analysis concludes that Malta has a lower direct dependence on China, as its import and export shares with China are relatively lower compared to other European countries. However, this analysis excludes any indirect dependencies, such as export of goods to other countries that are used as inputs in their production which are subsequently exported to China.

**Chart 13**  
**TRADE IN GOODS WITH CHINA AS A SHARE OF EXTRA-EU TRADE IN GOODS IN 2024**  
*(percentage)*



Source: Eurostat.

## 5. GOVERNMENT FINANCE

*In the first quarter of 2025, the general government registered a surplus, in contrast to the deficit recorded in the corresponding period of 2024. When measured on a four-quarter moving sum basis, however, the general government balance showed a deficit. The deficit-to-GDP ratio stood at 3.1% of GDP, 0.6 percentage points lower than in the last quarter of 2024. The Bank's estimate of the cyclically-adjusted deficit narrowed at a similar pace.*

*The general government debt-to-GDP ratio reached 48.1% at the end of March, higher than the 47.4% posted at end-2024. However, the net financial worth as a share of GDP improved in the quarter under review.*

### Quarterly developments

#### General government registers a surplus in the first quarter

In the first quarter of 2025, the general government registered a surplus of €7.7 million, an improvement of €124.4 million when compared to the deficit registered in the corresponding period of 2024. This was due to a strong increase in government revenue offsetting an increase in government expenditure. The primary balance showed a surplus of €79.3 million in the quarter under review, improving from a primary deficit of €52.5 million a year earlier.

#### Tax inflows support revenue growth

In the first quarter of 2025, general government revenue increased by €289.3 million, or 17.1%, when compared with the same quarter of 2024 (see Table 5.1). This was mostly due

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

	2024				2025	Change 2025Q1-2024Q1	
	Q1	Q2	Q3	Q4	Q1	Amount	%
<b>Revenue</b>	<b>1,690.4</b>	<b>1,993.4</b>	<b>2,010.3</b>	<b>2,090.6</b>	<b>1,979.7</b>	<b>289.3</b>	<b>17.1</b>
Taxes on production and imports	518.0	562.6	565.5	463.9	534.7	16.7	3.2
Current taxes on income and wealth	690.5	853.5	875.4	962.4	902.5	212.0	30.7
Social contributions	273.8	284.1	286.5	327.6	302.9	29.1	10.6
Capital and current transfers receivable	36.0	89.5	92.5	104.9	37.2	1.1	3.2
Other <sup>(1)</sup>	172.1	203.6	190.4	231.8	202.4	30.3	17.6
<b>Expenditure</b>	<b>1,807.1</b>	<b>1,969.0</b>	<b>1,992.9</b>	<b>2,840.9</b>	<b>1,972.0</b>	<b>164.9</b>	<b>9.1</b>
Compensation of employees	513.1	518.1	556.3	628.6	580.5	67.4	13.1
Intermediate consumption	347.3	426.9	394.9	530.1	384.1	36.8	10.6
Social benefits	504.0	464.9	407.9	453.8	547.1	43.1	8.6
Subsidies	120.0	95.8	160.2	185.2	115.3	-4.8	-4.0
Interest	64.2	60.0	70.1	72.0	71.6	7.4	11.5
Other current transfers payable	83.7	184.0	125.6	205.2	106.2	22.6	27.0
GFCF	138.4	169.2	200.2	230.5	110.6	-27.8	-20.1
Capital transfers payable	32.8	45.8	72.7	515.0	50.9	18.1	55.0
Other <sup>(2)</sup>	3.5	4.3	4.8	20.5	5.7	2.2	
<b>Primary balance</b>	<b>-52.5</b>	<b>84.4</b>	<b>87.5</b>	<b>-678.4</b>	<b>79.3</b>	<b>131.8</b>	
<b>General government balance</b>	<b>-116.7</b>	<b>24.4</b>	<b>17.4</b>	<b>-750.4</b>	<b>7.7</b>	<b>124.4</b>	
<b>General government debt</b>	<b>10,038.1</b>	<b>10,112.1</b>	<b>10,170.3</b>	<b>10,652.7</b>	<b>10,939.9</b>		

Source: NSO.

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

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

to higher revenue from taxes, in particular current taxes on income and wealth. The latter rose by €212.0 million as a result of higher income tax inflows from both households and companies, with firms contributing the most. Moreover, receipts from social contributions rose by €29.1 million, reflecting favourable labour market conditions. Revenue from taxes on production and imports increased by €16.7 million, being largely driven by the receipt of VAT revenue. Income from sales also increased significantly and was the main factor behind the €30.3 million increase in 'other' revenue. Meanwhile, capital and current transfers increased slightly by €1.1 million.

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

Total government expenditure increased by €164.9 million, or 9.1%, when compared with the first quarter of 2024. This increase mainly reflects higher current expenditure particularly higher spending on compensation of employees, which increased by €67.4 million, in part due to higher payments on allowances. It also reflected the coming into force of a new collective agreement for the civil service as from this year. Spending on social benefits rose by €43.1 million, largely on the back of higher spending on retirement pensions. Outlays on intermediate consumption increased by €36.8 million largely due to higher outlays in the public administration and health sectors.

Current transfers increased by €22.6 million partly due to higher transfers to church schools. Moreover, interest payments increased by €7.4 million. On the other hand, spending on subsidies decreased by €4.8 million.

Overall, capital expenditure declined in the first quarter. GFCF decreased by €27.8 million, mostly due to lower outlays on domestically-financed projects. This offset a €18.1 million rise in capital transfers.

### *Debt increases*

In March 2025, the stock of general government debt amounted to €10,939.9 million, €287.2 million higher than in December 2024. This reflects an increase in long-term debt securities outstanding (composed of MGS), which outweighed a fall in short-term debt securities outstanding (composed of Treasury bills). The former rose by €437.5 million, with its share in total debt increasing by 1.9 percentage points to reach 81.9%. Holdings of short-term debt securities declined by €150.4 million, and their share in total debt declined by 1.5 percentage points to 4.9%.

The value of loans outstanding increased slightly by €1.4 million, due to a rise in long-term loans. The share of loans outstanding in total debt declined slightly by 0.2 percentage points, to stand at 9.3%.

## **Headline and cyclically-adjusted developments**

### *Headline deficit ratio declines while debt ratio increases*

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio narrowed by 0.6 percentage points from the previous quarter to stand at 3.1% in the quarter under review (see Chart 5.1). This was driven by a 0.8 percentage point rise in the revenue-to-GDP ratio, which reached 35.5%, due to a rise in the share of current revenue in GDP. This offset a smaller increase of 0.2 percentage points in the expenditure-to-GDP ratio, which increased to 38.6%. The latter increase was due to a higher share of current expenditure in

GDP offsetting a small decline in the share of capital expenditure.

The debt-to-GDP ratio increased by 0.7 percentage points to reach 48.1% in March, from 47.4% in December (see Chart 5.2). This was driven by positive deficit-debt adjustments from net trade receivables.

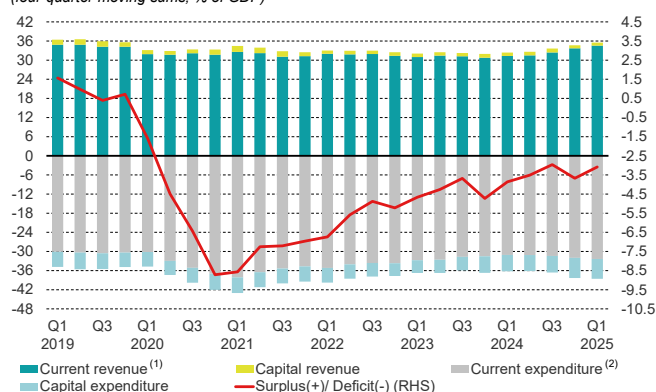
### Net financial worth improves

The market value of financial assets held by the general government increased to €6,064.2 million by March 2025, €387.1 million more than the level three months earlier. This was partly due a rise in accounts receivables. At the same time, government increased its holdings in shares and equity. Together, these offset a draw down of deposits. Consequently, the share of financial assets in GDP increased to 26.7% from 25.3% in the previous quarter (see Chart 5.3).

The market value of financial liabilities increased by €264.4 million, to stand at €13,381.3 million. This was almost entirely due to a rise the value of outstanding debt securities. Consequently, the share of financial liabilities in GDP rose slightly by 0.4 percentage points, to stand at 58.8%.

The resulting net financial worth of general government stood at -€7,317.1 million, an improvement of €122.7 million compared with the previous quarter. The net financial worth of general government as a share of

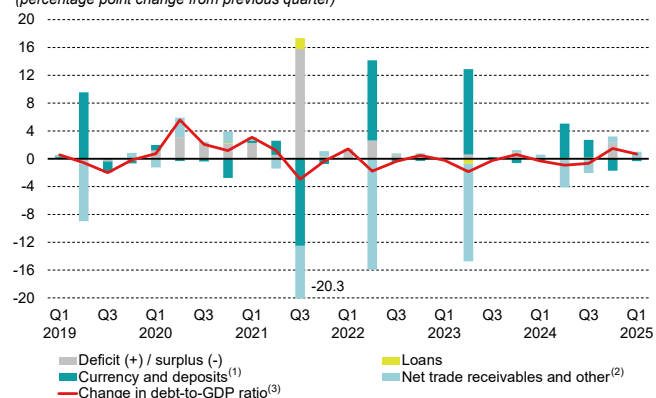
**Chart 5.1**  
**GENERAL GOVERNMENT REVENUE AND EXPENDITURE**  
(four-quarter moving sums; % of GDP)



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.

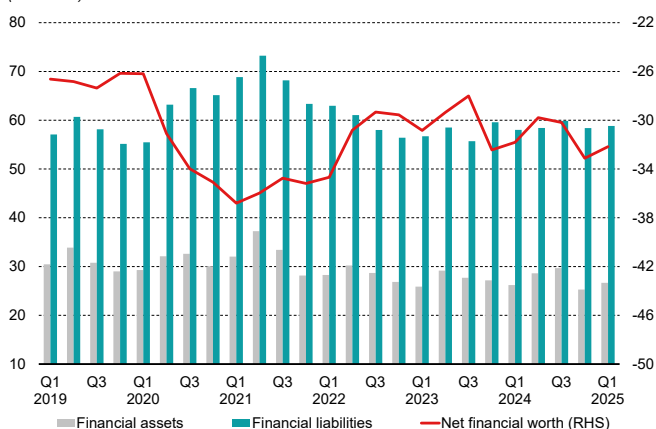
**Chart 5.2**  
**CONTRIBUTION TO CHANGE IN DEBT**  
(percentage point change from previous quarter)



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.

**Chart 5.3**  
**GENERAL GOVERNMENT NET FINANCIAL WORTH**  
(% of GDP) (1)



Sources: EUROSTAT; NSO.

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

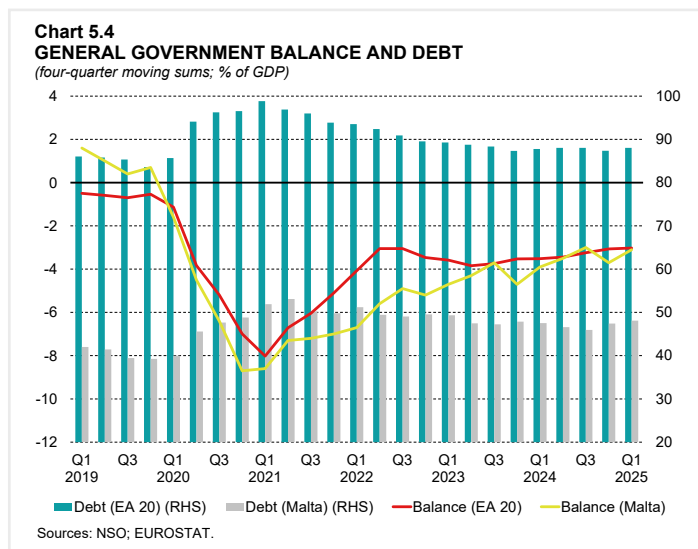
GDP was less negative compared to December, by 1.0 percentage point. It stood at -32.2% by end-March.

The net worth position of the Maltese general government remained more favourable than the euro area average, which closed the year at -56.1% of GDP.

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

During the quarter under review, the euro area general government deficit stood at 3.0% of GDP on a four-quarter moving sum basis, down from a deficit of 3.1% of GDP at end-December 2024 (see Chart 5.4). Over the same period, the euro area debt ratio increased to 88.0% of GDP from 87.4%. On the same period, the euro area debt ratio increased to 88.0% of GDP from 87.4%.

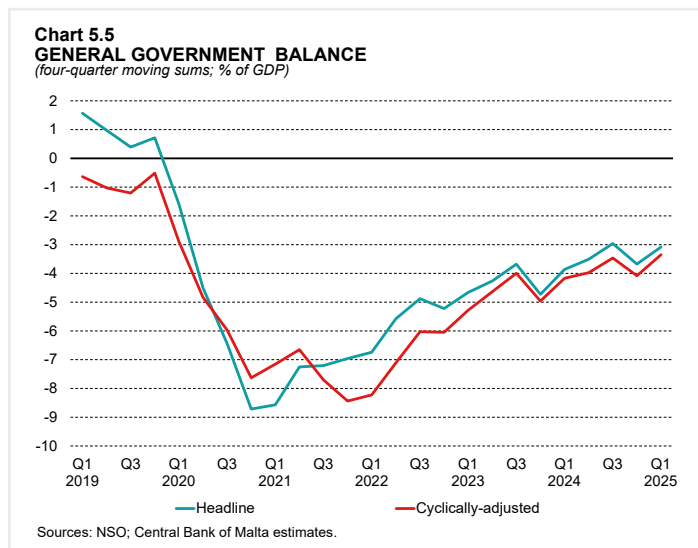
The Maltese government deficit ratio decreased at a faster pace compared with the euro area average but remained slightly higher by end-March. Meanwhile, Malta's debt-to-GDP ratio remained well below the euro area average.



### *Cyclically-adjusted deficit narrows<sup>1</sup>*

On a four-quarter moving sum basis, the cyclically-adjusted deficit narrowed by 0.7 percentage points compared to December, to stand at 3.4% of GDP in the quarter under review (see Chart 5.5). This is broadly in line with the 0.6 percentage point narrowing in the headline deficit ratio over the same period.

When compared with December, the share of cyclically-adjusted revenue in GDP increased by 0.8 percentage



<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.

points (see Table 5.2). This was due to the aforementioned increase in the share of current taxes on income and wealth.

Meanwhile, the share of cyclically-adjusted expenditure increased marginally by 0.1 percentage points. This was mainly due to a rise in the share of compensation of employees. A rise in the shares of other forms of current expenditure also contributed, although individually they increased by small amounts. Altogether, these offset a decline in the ratio of government investment.

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

*Percentage points of GDP*

	2024				2025
	Q1	Q2	Q3	Q4	Q1
<b>Revenue</b>	<b>0.4</b>	<b>0.3</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>
Current taxes on income and wealth	0.5	0.0	0.9	1.4	0.8
Taxes on production and imports	0.1	0.2	0.0	-0.3	0.0
Social contributions	0.0	0.0	0.0	0.0	0.0
Other <sup>(1)</sup>	-0.1	0.2	0.1	-0.2	0.0
<b>Expenditure</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.5</b>	<b>1.6</b>	<b>0.1</b>
Compensation of employees	-0.1	0.0	0.1	0.4	0.1
Intermediate consumption	-0.1	0.1	0.2	0.2	0.0
Social benefits	0.0	0.1	0.0	0.1	0.0
Interest payments	0.1	0.0	0.1	0.0	0.0
GFCF	0.0	-0.1	0.1	-0.3	-0.2
Other <sup>(2)</sup>	-0.3	0.1	0.1	1.1	0.0
<b>Primary balance</b>	<b>0.9</b>	<b>0.2</b>	<b>0.6</b>	<b>-0.6</b>	<b>0.7</b>
<b>General government balance</b>	<b>0.8</b>	<b>0.2</b>	<b>0.5</b>	<b>-0.6</b>	<b>0.7</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.

## 6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the first quarter of 2025, financing conditions were less loose compared to the previous quarter.

In March 2025, 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 December. Credit to Maltese residents also grew at a faster pace, reflecting faster growth in both credit to general government and credit to other residents.

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. Rates on new business declined.

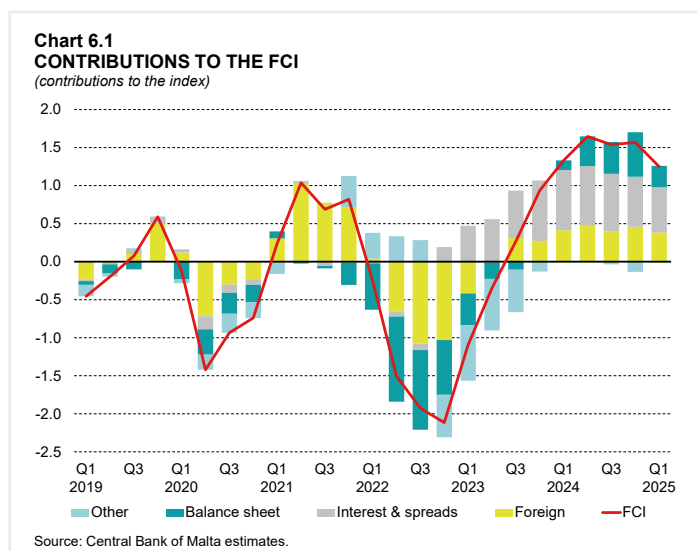
In March, the primary market yield on Treasury bills decreased from that prevailing three months earlier. Meanwhile, secondary market yields on five and ten-year MGS rose. However, as the increase in the domestic ten-year yield was smaller than that in the corresponding euro area benchmark, the spread between the two narrowed. Domestic share prices rose between December and March and were also higher compared with a year earlier.

### Monetary and financial conditions

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

In the first quarter of 2025, the Bank's FCI continued to signal loose financial conditions from a historical perspective. Compared with the previous quarter, however, conditions were less favourable, primarily driven by less support from domestic factors (see Chart 6.1). Foreign factors also signalled marginally less favourable conditions compared to the previous quarter.

The decrease in the contribution of domestic factors masks offsetting movements across different components. On the one hand, the 'balance sheet' component became less supportive of financial conditions, mainly due to a negative contribution from banks' return on equity. Meanwhile, the 'interest and spread' component registered a less positive contribution compared with the previous quarter, as the spread



<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.



between the MFI lending rate to NFCs and the DFR, while still low from a historical perspective, widened and thus resulted in a smaller gap with respect to its long-term average.<sup>3</sup>

On the other hand, the ‘other’ component which had a small tightening effect in the previous quarter signals broadly neutral conditions, driven by the contribution from issues of NFC securities, which turned positive.

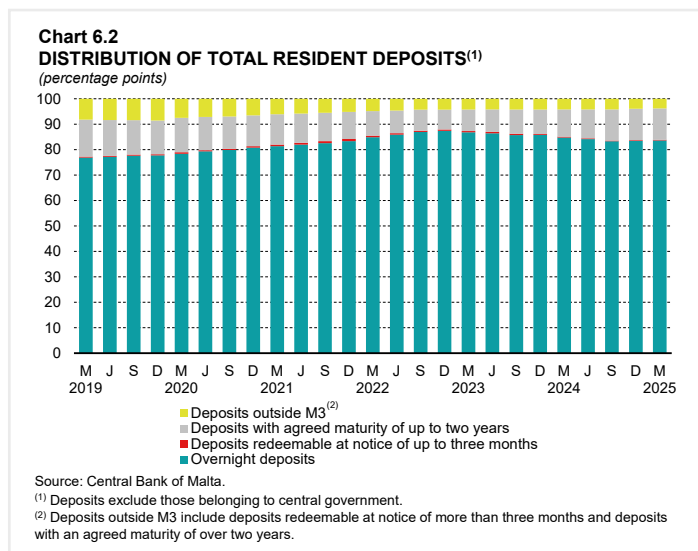
Compared with the first quarter of 2024, financial conditions were marginally less favourable. This small change masks larger annual shifts in the contributions of individual domestic factors, while the contribution of foreign factors was broadly unchanged. In particular, a smaller positive contribution from the lending to policy-rate spread (part of ‘interest and spreads’ component) and a larger negative contribution from banks’ return on equity (part of the ‘balance sheet’ component), offset a larger positive contribution from real deposits (part of the ‘balance sheet’ component) and the spread on sovereign bonds (part of the ‘interest and spreads’ component).

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

Total deposits held by Maltese residents with MFIs in Malta increased by 8.3% in the year to March, thereby rising at a faster rate than the 7.1% observed in the year to December (see Table 6.1).

The annual rate of change of Maltese residents’ overnight deposits, which are the most liquid component, grew by 6.8%, from 4.1% in December. This was driven by balances held by both households and NFCs. The share of overnight deposits in total deposits increased to 83.4% in March, compared to 83.3% three months prior.

Deposits with an agreed maturity of up to two years, registered strong growth of 24.6%, which moderated compared with 37.4% growth registered over the 12 months to December (see Chart 6.2). Their share in overall deposits decreased marginally from December, to 12.3%. This growth reflects the fact that interest rates on fixed deposits have become more attractive compared to a year ago, despite some easing impulse due to cuts in the ECB policy rates.



<sup>3</sup> The policy spread in the Bank’s FCI model has traditionally been calculated as the difference between the lending rate and the main refinancing operation (MRO) rate, reflecting the latter’s historical significance. However, as the DFR is now the primary instrument through which the Governing Council determines the monetary stance, and to maintain the continuity of the FCI series and to facilitate its interpretation over extended horizons, the MRO rate has been supplanted by the DFR in the spread calculation from this edition of the *Quarterly Review*. Given that the MRO and DFR normally exhibit a close correlation, this amendment exerts only small effects on the FCI’s short-term dynamics.

**Table 6.1**  
**DEPOSITS OF MALTESE RESIDENTS**

	EUR millions 2025 Mar.	Annual percentage changes 2024				
		Mar.	June	Sep.	Dec.	2025 Mar.
<b>Overnight deposits</b>	<b>21,514</b>	<b>-0.7</b>	<b>-0.5</b>	<b>2.2</b>	<b>4.1</b>	<b>6.8</b>
<i>of which</i>						
Households	15,389	1.2	2.3	3.8	4.2	7.6
NFCs	3,667	-1.7	-2.6	4.0	13.9	10.4
<b>Deposits redeemable at notice of up to three months</b>	<b>71</b>	<b>-23.5</b>	<b>-33.4</b>	<b>-43.2</b>	<b>-16.8</b>	<b>-16.8</b>
<i>of which</i>						
Households	3	-99.0	-99.3	-98.0	1,202.6	617.5
NFCs	54	43.2	23.0	-7.5	-19.7	-19.5
<b>Deposits with an agreed maturity of up to two years</b>	<b>3,170</b>	<b>28.9</b>	<b>30.7</b>	<b>35.4</b>	<b>37.4</b>	<b>24.6</b>
<i>of which</i>						
Households	2,409	36.9	30.7	35.2	34.4	21.4
NFCs	397	39.3	45.1	52.1	62.6	35.7
<b>Deposits outside M3<sup>(1)</sup></b>	<b>977</b>	<b>0.8</b>	<b>2.9</b>	<b>3.9</b>	<b>-0.3</b>	<b>-1.8</b>
<i>of which</i>						
Households	874	-5.5	-3.1	-1.6	-2.4	-1.2
NFCs	29	3.8	5.7	31.3	-9.4	-15.9
<b>Total residents deposits<sup>(2)</sup></b>	<b>25,732</b>	<b>1.7</b>	<b>2.2</b>	<b>5.2</b>	<b>7.1</b>	<b>8.3</b>
<i>of which</i>						
Households	18,675	3.7	4.5	6.5	7.1	8.7
NFCs	4,147	1.3	0.6	6.8	16.2	11.6

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.

Deposits with an agreed maturity of up to three months (the smaller component) continued to decline, while its share of total deposits remained unchanged at 0.3%.

Meanwhile, deposits classified outside M3, which are mainly composed of deposits with agreed maturity of over two years, decreased by 1.8% during the 12 months to March, following a decrease of 0.3% three months earlier. Their share in total resident deposits decreased marginally to 3.8%, from 4.0% in December.

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

The annual rate of change of credit to Maltese residents increased by 8.5% in March, from 7.7% in December. This reflected faster growth in lending to both general government and to residents outside general government (see Table 6.2 and Chart 6.3).

Credit to general government grew by an annual rate of 11.3% in March, following a growth rate of 10.8% over the year to December. MFI holdings of government stocks grew at a slower pace when compared to December, but holdings of Treasury bills grew at a faster pace.

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

	EUR millions 2025 Mar.	Annual percentage changes				
		2024				2025
		Mar.	June	Sep.	Dec.	Mar.
<b>Credit to general government</b>	<b>5,397</b>	<b>2.9</b>	<b>8.0</b>	<b>8.4</b>	<b>10.8</b>	<b>11.3</b>
<b>Credit to residents outside general government</b>	<b>15,955</b>	<b>7.6</b>	<b>7.9</b>	<b>7.1</b>	<b>6.6</b>	<b>7.5</b>
Securities and equity	292	-4.3	-4.7	-7.7	-5.0	-4.8
Loans	15,663	7.8	8.2	7.4	6.9	7.8
<i>of which:</i>						
Loans to households	9,331	9.0	9.1	9.5	9.2	9.0
Mortgages	8,630	8.7	8.8	9.4	9.2	9.2
Consumer credit and other lending	701	12.4	13.4	10.8	8.8	7.6
Loans to NFCs <sup>(1)</sup>	5,173	5.4	6.3	3.0	2.2	4.7
<b>Total credit to residents</b>	<b>21,352</b>	<b>6.4</b>	<b>7.9</b>	<b>7.4</b>	<b>7.7</b>	<b>8.5</b>

Source: Central Bank of Malta.

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

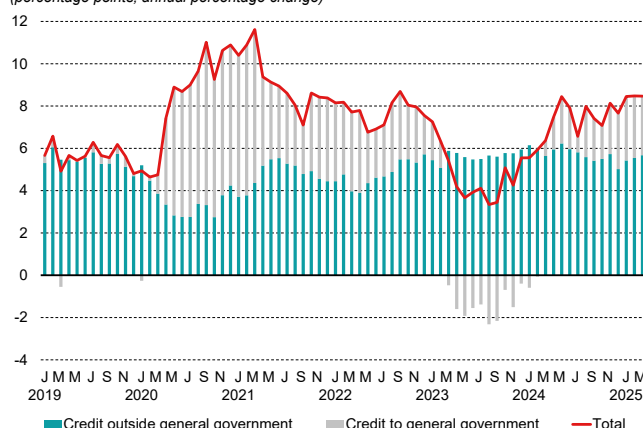
The annual growth of credit to residents outside general government increased to 7.5%, from 6.6% three months prior. This mainly reflects faster growth in loans to the private sector, and a smaller contraction in MFI holdings of securities issued by the private sector.

Annual growth in loans to households moderated to 9.0%, compared to 9.2% three months earlier (see Chart 6.4). This was driven by slower growth in consumer credit and 'other lending', which grew by 7.6% following an increase of 8.8% in the year to December. Growth in mortgage lending remained unchanged at 9.2%.

Meanwhile loans to NFCs grew at an annual rate of 4.7%, following 2.2% growth three months earlier (see Chart 6.5).

Sectoral data show that in absolute terms, the increase in loans to NFCs in the year to March, was largely driven by increased lending to the accommodation and food services sector, the real estate sector, and the construction sector. A small increase in lending was also reported within the manufacturing sector. These increases offset decreases in credit to other sectors, with the

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



largest decline recorded in the sector comprising information, communication, transport and storage, and the energy sector.

Financial accounts data show that the share of bank lending in total NFC debt decreased to 13.6% in March, compared to 13.7% in December, and from 14.3% recorded a year earlier (see Chart 6.6).

The share of intra-sectoral lending in total NFC debt reached a new high of 58.7%, from 58.4% recorded in December. This component continued to account for most of NFCs' external financing.

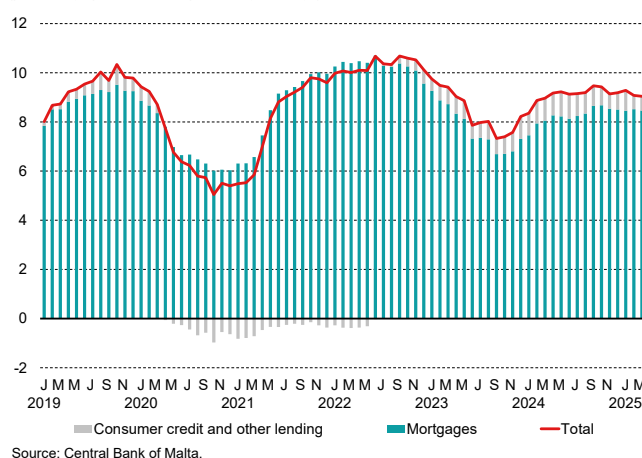
The share of debt financing sourced from non-residents decreased marginally to 10.9%, from 11.1% in December, and from 11.5% recorded a year earlier. Meanwhile, the share of 'other loans' remained unchanged during the quarter, at 14.3%. This component largely reflects loans from financial institutions other than MFIs and households.

The share of securities decreased marginally to 2.4% from 2.5% three months prior. This was also lower than the 2.7% share recorded a year prior.

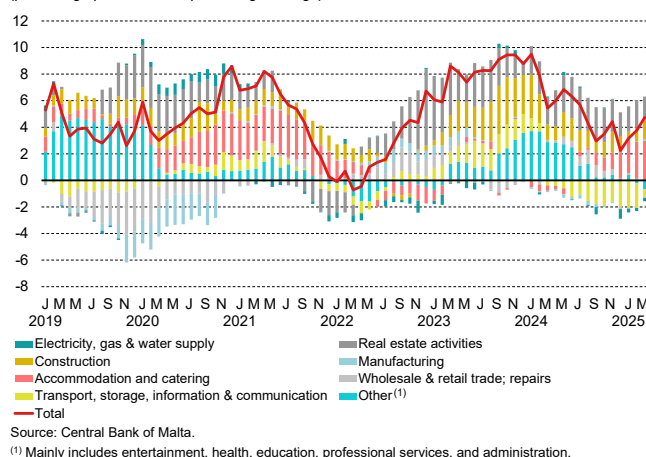
### *Stock of listed securities of NFCs and financial corporations increases*

By March 2025, around €2,260.1 million in outstanding corporate debt securities were listed on the MSE, 3.1% higher

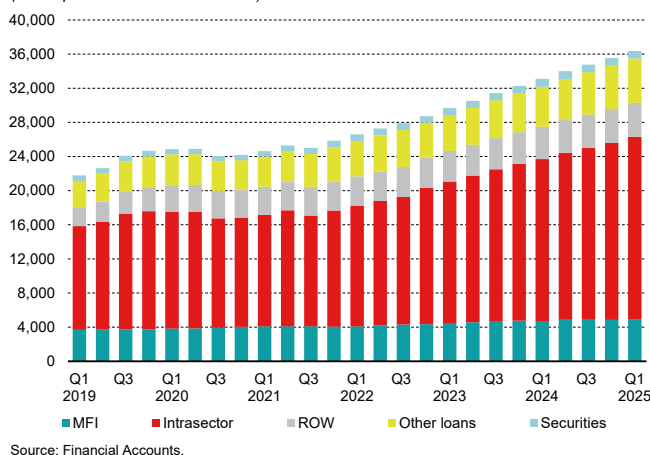
**Chart 6.4**  
**CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS**  
(percentage points; annual percentage change)



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

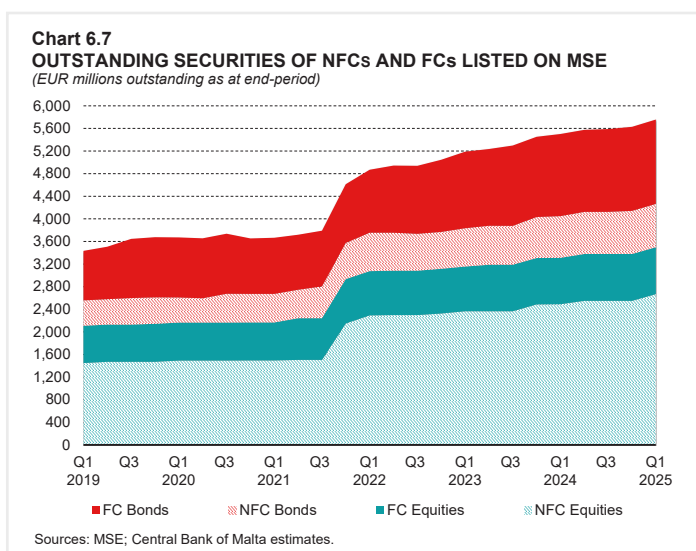


**Chart 6.6**  
**NFC DEBT BY SOURCE**  
(end-of-period stocks in EUR millions)



than the amount listed a year earlier (see Chart 6.7).<sup>4</sup> 66.0% 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 5.6% in annual terms, to reach €3.497.2 million. Over three fourths of this volume was issued by NFCs, with FCs playing a secondary role. The increase over the year to March, was mostly driven by NFCs that operated within the information technology sector. The total outstanding listed equity as of March 2025, exceeded that of bonds by 54.7%.<sup>5</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 2 basis points since March 2024, to reach 0.37% (see Table 6.3). This was largely driven by higher rates on time deposits held by households with agreed maturity of over two years.

Meanwhile, the weighted average lending rate paid by households and NFCs on outstanding loans decreased by 23 basis points to 3.29%. This decrease reflected lower rates charged to both NFCs and households, with the decrease to NFCs being more significant at around 42 basis points. Rates charged to households decreased by 10 basis points, with this decrease visible in both mortgage interest rates, and in rates on consumer credit and other lending.

The spread between the weighted average lending rate and the deposit rate on outstanding balances in March closed at 292 basis points. This was lower than the spread recorded in the previous quarter and below the spread of 317 points recorded a year earlier.

Compared to the last quarter of 2024, interest rates on outstanding deposits with MFIs decreased by 2 basis points, while the rate on outstanding loans decreased by 7 basis points. As a result, the spread between the two rates narrowed by 5 basis points.

During the year to March, both the deposit rate offered on new balances held by households and NFCs in Malta, and the lending rate paid by these sectors decreased. These rates also declined over the shorter period since December. By March, the weighted average deposit

<sup>4</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>5</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*

	2022 Mar.	2023 Mar.	2024 Mar.	2024				2025 Mar.
				June	Sept.	Dec.		
<b>Total deposits<sup>(1)</sup></b>	<b>0.16</b>	<b>0.19</b>	<b>0.35</b>	<b>0.37</b>	<b>0.40</b>	<b>0.39</b>		<b>0.37</b>
<i>of which</i>								
<b>Overnight deposits</b>								
Households	0.02	0.03	0.05	0.05	0.05	0.05		0.05
NFCs	0.03	0.07	0.10	0.12	0.10	0.05		0.08
<b>Savings deposits redeemable at notice</b>								
Households	0.38	0.16	0.31	0.30	0.28	0.18		0.23
NFCs	0.08	0.06	0.74	0.60	0.57	0.73		0.65
<b>Time deposits (less than two years)</b>								
Households	0.53	0.95	2.05	2.07	2.15	2.17		2.04
NFCs	0.44	0.95	2.28	1.80	2.26	2.18		1.79
<b>Time deposits (more than two years)</b>								
Households	1.78	1.73	1.82	1.89	1.98	2.07		2.11
NFCs	1.11	1.49	1.83	1.38	1.92	1.81		1.84
<b>Total loans<sup>(1)</sup></b>	<b>3.18</b>	<b>3.41</b>	<b>3.52</b>	<b>3.51</b>	<b>3.41</b>	<b>3.36</b>		<b>3.29</b>
<i>of which</i>								
Households and NPISH	2.97	2.84	2.82	2.81	2.75	2.75		2.72
NFCs	3.59	4.46	4.83	4.81	4.69	4.54		4.41
<b>Spread<sup>(2)</sup></b>	<b>3.02</b>	<b>3.22</b>	<b>3.17</b>	<b>3.14</b>	<b>3.01</b>	<b>2.97</b>		<b>2.92</b>
<i>Memo Item: ECB's DFR</i>	-0.50	3.00	4.00	3.75	3.50	3.00		2.50

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.

rate for households and NFCs decreased to 2.14%, while the lending rate of these two sectors decreased to 3.15%.

#### *The Bank Lending Survey indicates unchanged credit standards in the first quarter*

According to the April Bank Lending Survey (BLS), in the first quarter of 2025 all participating banks reported unchanged credit standards and terms and conditions for lending to NFCs, and for consumer credit and 'other lending' to households. In the case of mortgage lending, the majority of respondents also reported no changes. For the second 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 first quarter, except for some decline in demand for credit by NFCs. Meanwhile, all banks expected demand for all types of credit to remain unchanged in the second quarter of 2025.

The April BLS also posed ad hoc questions on possible 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 as regards access to interbank unsecured money markets, debt securities, securitisation, and the ability to transfer risks off balance sheet in the preceding three months. However, some isolated tightening effect was reported in terms of access

to long-term retail sources of funding. By contrast, a limited improvement was reported in terms of access to short-term deposits. This assessment was corroborated in expectations for the following three months.

Respondent banks were also asked whether the ECB's monetary asset portfolio has led to a change in their assets, or affected their cost of funds and balance sheet constraints. The majority of surveyed banks reported no changes in their cost of funds and balance sheet constraints, while some isolated increase in holdings of euro area sovereign bonds was reflected in higher assets. This assessment was expected to hold also for the six months ahead. With regards to the effects on profitability, the latest results indicate some isolated positive effects on net interest income in the first quarter, while no changes were expected over the next six months. Moreover, most surveyed banks reported no changes in their capital position and expected no changes in the coming six months.

Participating banks reported no changes in credit standards and terms and conditions, as a result of the ECB's monetary policy portfolio. Banks also assessed that there was no impact on their lending volumes. For the following six months, banks also expected no impact.

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.

Finally, participating banks were asked whether the ECB key interest rates decisions (both those already taken and those expected) led to a change in their interest and non-interest income. In this regard, while non-interest income was assessed to have been unaffected, mixed responses were collected for interest income. Responses were also mixed for the six months ahead.

### The money market

During the first quarter of 2025, the Government issued €401.8 million in Treasury bills, €226.3 million less than the amount issued in the fourth quarter of 2024 but €91.2 million more compared with the amount issued a year earlier.

In the domestic primary market, the yield on three-month Treasury bills declined to 2.41% by the end of March 2025, from 3.01% at end-2024.

### The capital market

During the first quarter of 2025, the Government issued two new MGS with a total value of €449.8 million.

Three private sector institutions launched new bond issues on the MSE totalling €54.5 million. Together Gaming Solutions plc issued €12.5 million in unsecured callable bonds, while Best Deal Properties Holding plc and International Hotel Investments plc issued unsecured bonds worth €7.0 and €35.0 million, respectively.

By the end of March, 18 firms had bonds that were listed on the MSE through Prospects, one less compared with three months earlier.<sup>6</sup>

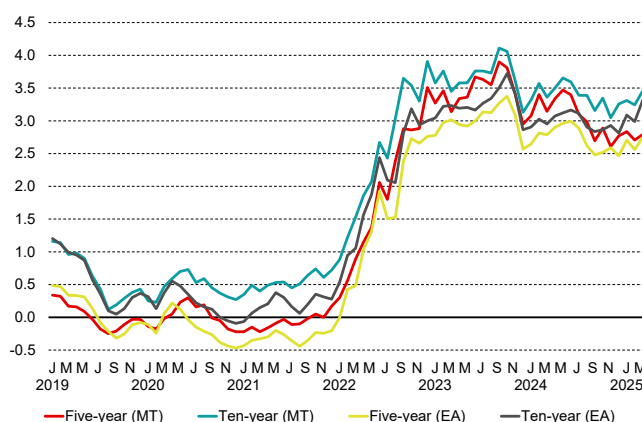
<sup>6</sup> Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.



In the secondary market, turnover in government bonds decreased to €50.9 million, from €60.9 million in the fourth quarter of 2024. On the contrary, turnover in corporate bonds increased to €30.4 million from €27.6 million, previously.

The yield on five-year Government bonds rose to 2.79% at the end of March, from 2.77% three months earlier (see Chart 6.8). The yield on ten-year bonds also increased, to reach 3.46% from 3.26% in December. Meanwhile, the euro area benchmark yield on five-year bonds also rose to reach 2.75% from 2.47%, and the ten-year rate increased to 3.31% from 2.81%. As the increase in the domestic ten-year yield was smaller than that in the euro area benchmark, the spread between the two narrowed to 14 basis points from 45 basis points in December.

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

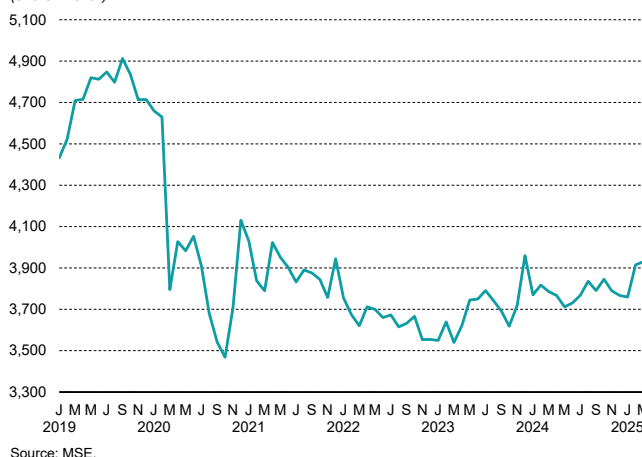


### *MSE Equity Price Index rose during the quarter*

Share prices in Malta rose during the first quarter of 2025. The MSE Equity Price Index ended the quarter 4.3% above its level at end-2024 and was also 3.8% higher than its reading a year earlier (see Chart 6.9). The MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, gained 4.4% since end-December and 7.8% compared to a year earlier.

Equity turnover increased to €12.6 million during the first quarter of 2025, from €9.9 million in the previous quarter.

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



## BOX 2: THE USAGE OF CHEQUES IN MALTA<sup>1</sup>

### Introduction

Cheques are one of the oldest non-cash paper-based payment instruments used in financial systems worldwide. Although the use of cheques has declined in recent years due to the rise of electronic and digital payment methods, such instruments continue to play a role, particularly for business transactions, government disbursements, and in contexts where digital access is limited. This box explores the role, usage trends, and regulatory developments surrounding cheques, with a specific focus on their evolution in Malta.

This box focuses primarily on cheques which have been negotiated by Malta Clearing House (MCH) participants between 2015 and 2024. The MCH is responsible for the clearing and settlement of cheques between institutions in Malta, ensuring that cheque payments are processed efficiently, securely, and within the established timeframes. This process facilitates the seamless exchange of funds between financial institutions.

### A ten-year analysis

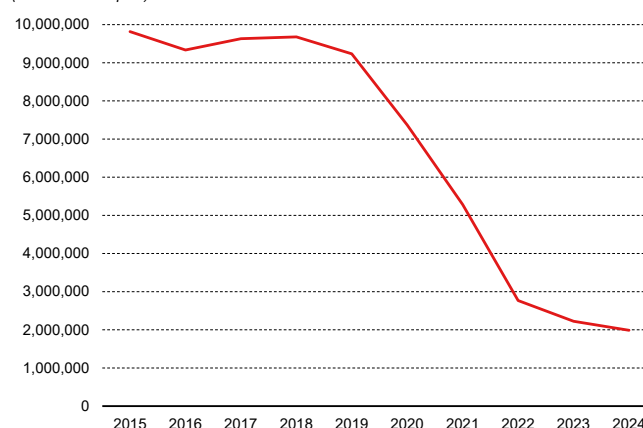
#### Volume

Chart 1 illustrates the total volume of cheques over a ten-year period, spanning from 2015 to 2024. It shows that after a stable period between 2015 and 2019, cheque volumes embarked on a sharp decline after 2019, dropping from over nine million cheques in the previous five years to less than two million by 2024.

#### Value

Similarly, in terms of value, the issuance of cheques peaked in 2019 at just under €18 billion, and thereafter embarked on a downward trend, as

**Chart 1**  
**VOLUME OF CHEQUES: 2015-2024**  
(number of cheques)



Source: Central Bank of Malta.

<sup>1</sup> Prepared by Ms Silvine Cassar, Senior Oversight Officer within the Payment Policy & Compliance Office of the Bank. The author would like to thank Ms Gianella Azzopardi, Ms Victoria Briffa and Ms Ruth Cassar Gatt for their valid contributions. Additionally, the author would also like to show their appreciation to Mr Claudio Ghirlando, Head Anti-Financial Crime and Payments Policy and Compliance Department and Mr Kirsten Ellul, Manager Payments Policy and Compliance Office for their comments and suggestions. 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.

shown in Chart 2, falling to just €7.5 million by 2024, equivalent to less than half of the peak in 2019.

### Average value per cheque

While both the volume and value of cheques have declined after 2019, the average value per cheque has more than doubled during the period under review. Chart 3 shows that the average value per cheque, has increased from €1,495 in 2015 to €3,775 by 2024.

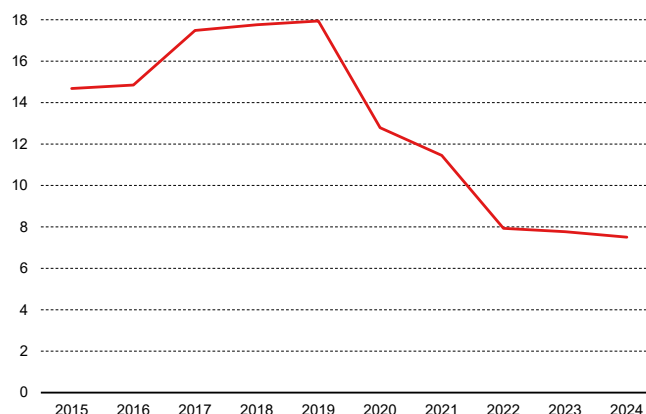
This trend indicates that cheques are increasingly being used for higher-value transactions. This has been largely driven by the issuance of Directive No. 19 by the Central Bank of Malta in July of 2021, effective as from January 2022, where a minimum threshold of €20 was introduced to abolish very low value payments by cheque, thus raising the average value of cheques, apart from a significant reduction in volumes in 2022, which were almost halved over the previous year.

### Government cheques

Historically, the Government of Malta issued cheques for a wide range of payments, including social benefits, pensions, salary disbursements, tax refunds, and payments to contractors. Effecting such payments through cheque issuance involved manual processing of significant volumes of such paper-based instrument issued by various Government departments.

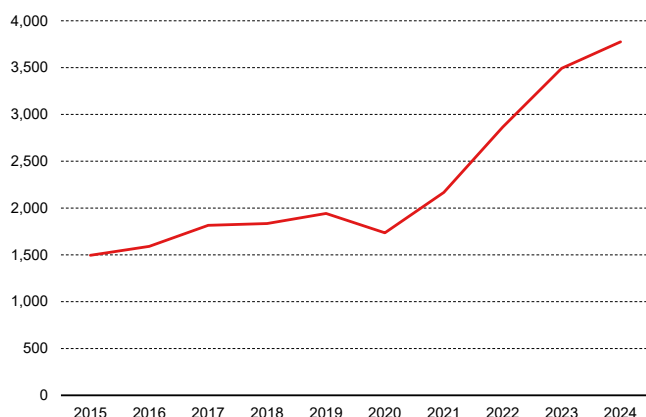
However, the Government has overhauled its payment methods as it shifted towards electronic payment systems such as credit transfers, direct debits and mobile payments.

**Chart 2**  
**VALUE OF CHEQUES: 2015-2024**  
(EUR, billions)



Source: Central Bank of Malta.

**Chart 3**  
**AVERAGE VALUE PER CHEQUE: 2015-2024**  
(EUR)



Source: Central Bank of Malta.

The decrease in volume is shown in Chart 4 whereby the volume decreased from 893,989 in 2015 to 374,728 in 2024. It is worth mentioning that the spike in 2022 was due to budgetary measures introduced by the government, more specifically the issuance of two types of cheques to eligible individuals. One to ease the burden of inflation and the other as a tax rebate.

According to the information provided by the Treasury Department, during 2022 the Government issued a total of 680,000 cheques in line with the announced budgetary measures. Of these, 615,094 cheques were encashed or deposited, resulting in an encashment rate of 90.5%.

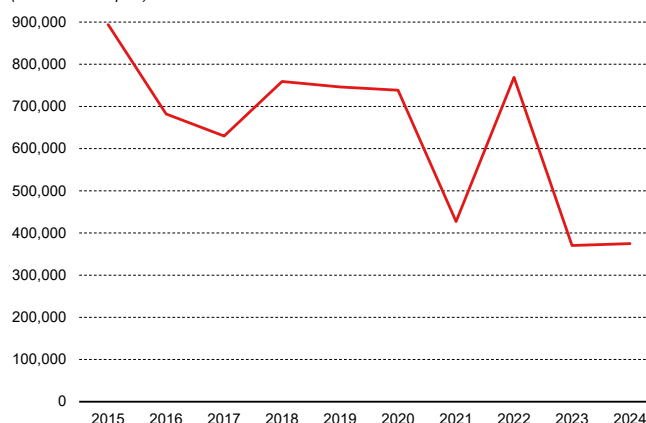
As expected, the value of Government cheques has experienced a significant decline in recent

years (see Chart 5). The total value of cheque issuance decreased markedly from €671.2m in 2015 to €135.5m in 2024, representing a fifth of the issuance in 2015. Notably, there was a sharp drop between 2019 and 2020 as shown in Chart 5, amounting to a 51.5% decrease. The reason behind the sharp decline in the value of Government cheques for 2020 was due to the fact that Government cheque payments were shifted to electronic means of payment. However, the volume did not reflect this sharp drop because of the issuance of more than 200,000 budgetary measure cheques that had a lower value than the previous cheque payments that were shifted to electronic means.

### The cost of cheques

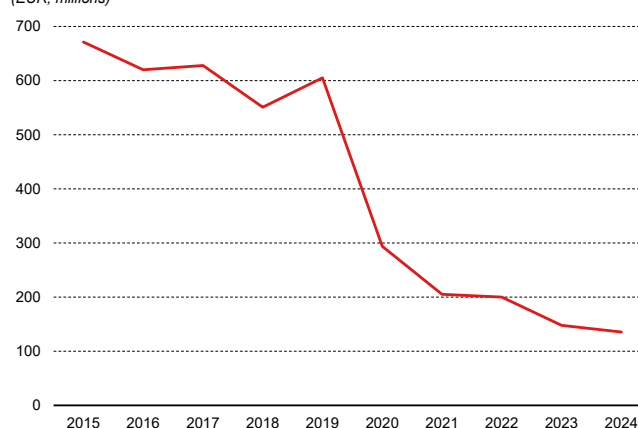
This section examines two perspectives on the costs associated with cheques, these being costs borne by individuals and costs incurred by institutions to process such cheques.

**Chart 4**  
**VOLUME OF GOVERNMENT CHEQUES: 2015-2024**  
(number of cheques)



Source: Central Bank of Malta.

**Chart 5**  
**VALUE OF GOVERNMENT CHEQUES: 2015-2024**  
(EUR; millions)



Source: Central Bank of Malta.

From the consumer's standpoint, Maltese commercial banks have implemented a range of fees related to cheque usage. These include charges for cheque book issuance, returned cheques, high-volume cheque issuance, and cheque encashment by non-customers. Such fees are not universal given that these vary across different credit institutions. In the case of local banks, individuals may incur various charges, such as fees for cheque-related offences (like cheques referred to or drawn against insufficient funds, which range from €5 to €75. Additional fees include cheque encashment for non-account holders, ranging from €3 to €10, and cheque book order fees, which typically range from €1.50 to €3.50. Additionally, individuals can face regulatory penalties for misuse of cheques.

Costs incurred by credit institutions involve: (a) administrative expenses (including salaries paid to employees working within the clearing section); (b) the investment costs in relation to the maintenance of any processing infrastructures; and (c) contractual expenses for the outsourcing of cheque processing, if any. Following an exercise with cheque issuing banks, it transpires that the average cost incurred to issue cheques amounts to €0.79 per cheque. In addition to direct costs, cheque usage also incurs various indirect costs. These include extended processing times, manual reconciliation efforts, increased risk of fraud, and the potential for lost or delayed payments. Environmental impacts and logistical costs related to paper-based processing and physical transportation also contribute to the overall inefficiency of cheque transactions.

### **Reasons behind the decrease in cheques**

This analysis shows that there has been a significant decline in the use of cheques in Malta. This trend can be attributed to several factors. This section of the box will delve into the likely factors behind the decrease in volumes and values of cheques.

#### *Increased use of mobile and online banking*

Mobile and online banking have rapidly expanded and may have contributed to the decline in cheque use. In Malta, several credit institutions offer services that make it easy to complete transactions through a smartphone. The rise of global digital wallets and payment platforms has further accelerated this shift by offering faster and more convenient payment options.

The introduction of fintech companies and neo-banks has also transformed the payment landscape. These digital-first institutions provide seamless, app-based services that prioritize speed, accessibility, security of payment, and user experience, features that traditional cheque payments lack. As a result, more consumers and businesses are embracing these innovative alternatives rather than continuing making use of paper-based methods like cheques.

#### *Generational and behavioural shifts*

Younger generations, particularly those who have grown up with digital technology, are much more inclined to adopt electronic payment methods rather than relying on cheques. Millennials and Generation Z are comfortable using mobile apps and digital wallets for their transactions, further contributing to the decline in cheque usage. These generations prioritize convenience and speed, and the need to write and deposit cheques is increasingly

seen as an outdated and inefficient process. This was confirmed by the Payment Habits Survey<sup>1</sup> which the Central Bank of Malta conducted in 2024 to analyse the payment habits by Maltese residents in Malta.

As the demand for contactless payments continues to grow, instant payments and digital solutions are becoming increasingly the go-to methods in Malta. The ease of use, combined with the added convenience of immediate settlement, has led to a broader societal shift towards cashless payments, leaving cheques behind.

### *Security and fraud concerns with cheques*

Cheques have long been susceptible to various forms of fraud, such as cheque washing, theft, and alterations. As digital payments rise, consumers and businesses in Malta are opting for more secure options. The Payment Services Directive 2 (PSD2) which is transposed in CBM Directive No. 1 has introduced stronger security like two-factor authentication and encryption, making digital transactions more trustworthy.

Digital payments also offer better traceability and real-time tracking, providing greater transparency. In contrast, cheques lack immediate confirmation and can be delayed or lost, making them less appealing in today's fast-paced, digital financial environment.

### *Introduction of Central Bank of Malta Directive No. 19*

CBM Directive No. 19 which came into effect on 1 January 2022, regulates the use of cheques and bank drafts. The Directive was issued by the Central Bank of Malta aiming to reduce cheques and minimize the misuse of such payment instrument. The main changes brought about by Directive No. 19 include:

- Cheques must not be post-dated; however, if they are, banks may still process them upon presentation before the stated date.
- Cheques payable to natural persons exceeding €5,000 must be deposited directly into the account of the named beneficiary, while cheques of any amount payable to corporates and legal persons are to be deposited.
- Cheques cannot be issued for amounts of €20 or less.
- Cheque issuance facilities may be suspended if a person repeatedly issues cheques that are not honoured.
- Anyone who violates these rules may face penalties of up to €200 for each breach.

The implementation of this Directive aims to reduce the risk of these paper-based instruments being used for money laundering. Furthermore, it will bring a lasting transformation to Malta's payment landscape, encouraging a move towards more efficient electronic payment methods.

### *Cost of handling cheques*

The cost of handling cheques has also driven their decline. As indicated above, institutions charge fees for services like cheque processing, issuance, and deposits. These costs,

<sup>1</sup> Savo, S. and Galea, B. (2025), "[Analysis of the Payment Habits in Malta](#)", Central Bank of Malta Working Paper 3/25.

along with the time and effort involved, make cheques less appealing than faster, digital payments like Single Euro Payments Area (SEPA) instant credit transfers.

For businesses, managing cheque payments can be cumbersome, requiring manual processing and reconciliation, which takes more time and resources. In contrast, instant payments offer a streamlined, automated process that reduces the administrative burden, making them a more attractive option.

## Conclusion

In conclusion, the usage of cheques in Malta has experienced a notable decline in recent years, driven by the widespread adoption of digital payment methods and evolving regulatory frameworks. The shift towards instant payments, SEPA transfers, and mobile banking solutions will continue to significantly reduce the reliance on traditional paper-based instruments.

While cheques continue to serve specific purposes, their usage is steadily declining as consumers and businesses increasingly prefer faster, more secure, and more convenient electronic payment methods. Nevertheless, cheque usage in Malta still remains relatively high compared to other European countries. The Government continues to be a main issuer of cheques, which are particularly used for tax rebates and incentives. Further measures may therefore be needed to discourage cheque usage given their inherent inefficiencies when compared to electronic alternatives.

In this context, a follow-up analysis to assess the impact of the implementation of Regulation (EU) 2024/886 on instant credit transfers in Malta is warranted. This Regulation mandates banks and financial institutions that offer traditional credit transfers to also provide instant payment services, enabling consumers to make immediate payments across all institutions. As one of the perceived advantages of cheques has traditionally been the notion of immediate settlement – though this is not always the case – the widespread availability of instant payments will offer a superior electronic alternative, further reducing the relevance of cheques. Instant payments are being mandated by the updated SEPA Regulation,<sup>2</sup> whereby banks are obliged to offer the service of instant payments by October 2025, while financial institutions are obliged to do so by April 2027.

Such policy direction, coupled with the embracement of a modern payment infrastructure, Malta can accelerate its progress towards a more efficient payments ecosystem.

<sup>2</sup> Regulation (EU) 2024/886 of the European Parliament and of the Council of 13 March 2024 amending Regulations (EU) No. 260/2012 and (EU) 2021/1230 and Directives 98/26/EC and (EU) 2015/2366 as regards instant credit transfers in euro.



## BOX 3: SURVEY ON THE ACCESS TO FINANCE OF ENTERPRISES (SAFE) 2024: KEY INSIGHTS FOR SMEs<sup>1</sup>

The European Commission and the ECB carry out the Survey on Access to Finance of Enterprises (SAFE) to assess the financial and operational landscape of firms in the European Union.<sup>2</sup> Although the survey covers firms of different sizes, the results focus on small and medium-sized enterprises (SMEs) – firms which employ less than 250 employees – as these form a critical part of the EU economy. According to Malta's statistical business register, 99.9% of registered business units in Malta in 2024 were classified as SMEs.<sup>3</sup> These generate most of the employment and value added in the economy.

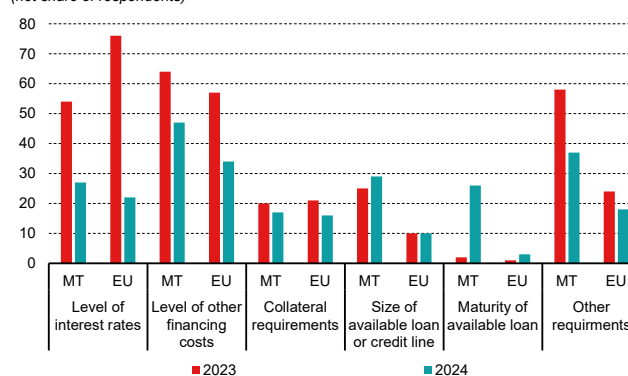
This box reports the main insights of the latest round of the SAFE that has results for Malta. This round (the 32<sup>nd</sup> one) was conducted for all EU countries between 2 September and 16 October 2024 and gathered information on 16,820 enterprises across the European Union and selected neighbouring countries. This box reports the main insights for firms classified as SMEs, with a focus on the 9,715 firms, where 95 Maltese SMEs participated in this survey.<sup>4</sup>

### Changes in the terms and conditions of bank financing

SMEs participating in the SAFE which received overdrafts and credit lines were asked about the developments in the terms and conditions for bank financing. Chart 1 presents these replies in terms of net changes, which are calculated by subtracting the proportion of respondents that reported a decrease from the proportion of those that reported an increase.

SMEs continued to indicate an increase in bank

**Chart 1**  
**TERMS AND CONDITIONS OF BANK FINANCING<sup>(1)</sup>**  
(net share of respondents)



Source: SAFE, various editions.

<sup>(1)</sup> Net percentages are the difference between the percentage of enterprises reporting an increase for a given factor and the percentage reporting a decrease. The data included in the chart refer to Question 10 of the Survey, namely "We will now turn now to the terms and conditions of bank financing, such as bank loans, overdrafts and credit lines. Please indicate whether the above items increased, remained unchanged or decreased during the previous quarter and the current quarter?"

<sup>1</sup> Prepared by Sandra Zerafa. Ms Zerafa is the coordinator of economic publications within the Economic Analysis Department of the Central Bank of Malta. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the author's own.

<sup>2</sup> Since 2024, the survey is carried out every quarter. Three rounds are carried out by the ECB for the euro area, while another round is carried out jointly by the ECB and the European Commission for all EU countries and some neighbouring countries. The results for Malta are available from the joint round.

<sup>3</sup> National Statistics Office; *News Release* 80/2024.

<sup>4</sup> Firms that participated in this survey were split into two groups with one group answering questions about conditions covering a six-months' time frame (previous quarter and current quarter), and the other group referring to a three-months' time frame (current period). This box analyses data from SAFE that reports only on firms who referred to a six-months' time frame.

interest rates on lending. However, fewer firms reported rising bank interest rates in net terms when compared to the previous year. This is in line with the shift in the ECB's monetary policy stance with the start of rate cuts in June 2024.

In 2024, the net share of Maltese firms reporting an increase in bank interest rates fell to 27% compared with 54% of respondents who reported a net increase in 2023. Similar developments were observed across the EU, where this share declined to 22% from 76% a year earlier.

Furthermore, in 2024 the net share of firms that reported increases in other financing costs such as charges, fees and commissions, collateral and 'other' requirements fell when compared with 2023, both in Malta and across the EU, though the drop in the net percentage change was smaller than that in bank interest rates. Meanwhile, a larger net proportion of domestic SMEs reported an increase in the maturity and size of available loan or credit line.

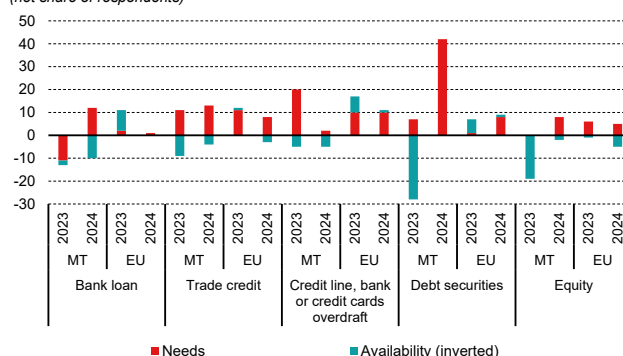
### Needs and availability of external financing

SMEs participating in the SAFE were asked to report on the availability of a range of external finance options: bank loans, credit line or bank or credit card overdrafts, trade credit, debt securities and equity capital. Chart 2 illustrates these results, with the proportion of firms reporting increasing needs minus that share reporting an increase in availability indicated of the financing gap.

In 2024, SMEs in Malta reported higher needs for bank loans (a net 12% stated increasing needs for such loans as opposed to a net 11% which indicated a decline in their need for bank loans in 2023). Meanwhile, a net 10% of SMEs reported an improvement in the availability of bank loans compared with a net 2% a year earlier. Consequently, the financing gap for this type of funding turned mildly positive, as needs exceeded slightly availability. In the EU, the financing gap was also mildly positive in 2024 as SMEs reported broadly unchanged availability and small increase in needs. The gap, though, was smaller than in 2023, when the availability of bank loans had reportedly declined and amplified an increase in needs.

As to credit lines, bank or credit cards overdraft, a net 5% of Maltese SMEs indicated higher availability for this type of financing – an unchanged share compared with a year earlier. Meanwhile, the net share of SMEs that reported higher needs for this type

**Chart 2**  
**AVAILABILITY OF AND NEED FOR BANK FINANCING AND OTHER CREDIT<sup>(1)</sup>**  
(net share of respondents)



Source: SAFE, various editions.

<sup>(1)</sup> **Net percentages** are the difference between the percentage of enterprises reporting an increase for a given factor and the percentage reporting a decrease. The data included in the chart refer to Questions 5 and 9 of the Survey, namely "For each of the following types of financing, would you say that their need (and availability) have improved, remained unchanged or deteriorated for your enterprise during the previous quarter and the current quarter?"

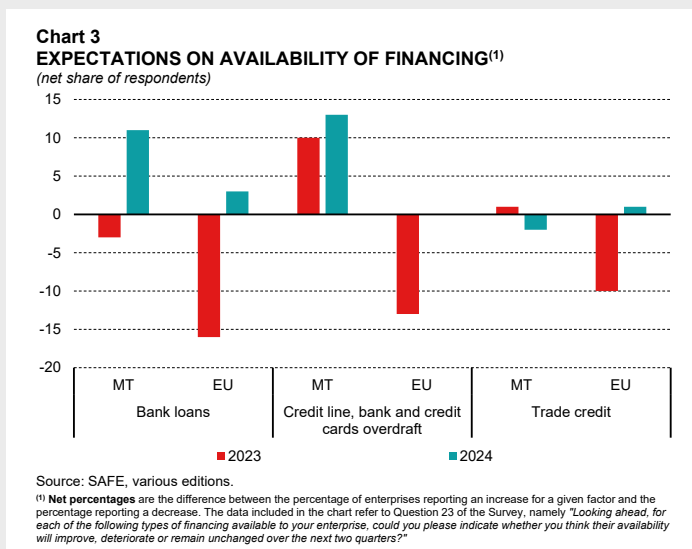
of financing, decreased, though still positive, causing the financing gap to turn negative. By contrast, the financing gap for credit line and overdrafts in the EU remained positive, as a net 10% of SMEs reported higher needs for this finance type – an unchanged share from 2023 – while only a net 1% of EU firms indicated a decrease in availability in 2024.

In this survey round, a net 13% of SMEs in Malta reported increased needs for trade credit – up from 11% in 2023, while continuing to signal a decline in availability (4%, down from 9%). As a result, the financing gap for trade credit widened. This contrasts with developments across their EU counterparts, where the financing gap, while also positive, narrowed.

Meanwhile, a significantly higher net share of domestic SMEs reported increased needs for debt securities and equity while their availability deteriorated. Hence, the financing gap for these financing instruments widened when compared with 2023. The financing gap for debt securities also widened in the EU, while it narrowed in the case of equities. For both instruments, and especially debt securities, the financing gap in Malta was larger.

### Expectations regarding the availability of financing

SAFE respondents were asked about their expectations of the availability of various sources of financing in the six months ahead. Looking ahead, domestic SMEs expected an improvement in the availability of bank loans, credit lines, bank and credit cards overdrafts when compared with 2023. However, they were less optimistic about the availability of trade credit as opposed to SMEs in the EU. Maltese firms expected the availability of this type of financing to decline on balance, in contrast to the EU, where a small net percentage of firms anticipated an improvement (see Chart 3).



### Factors that have an impact on the availability of external financing

In Malta and across the EU, SMEs perceived the general economic outlook as negatively affecting the availability of external finance. This coincided with a period of slowing (but still positive) GDP growth in Malta, and with rising economic and geopolitical uncertainty globally. In Malta, a net 14% of firms reported that a deterioration in the general economic outlook had reduced the availability of external financing, marginally up from a net 13% in 2023. The net share of SMEs in the EU reporting a deterioration in the availability of external financing from this factor almost halved when compared to a year earlier and stood at 21% from 39% a year earlier. However, this figure was above that recorded locally.

Regarding firm-specific outlook as a factor affecting the availability of external financing, the perception of domestic SMEs and that in the EU differed. In Malta, a higher net share of SMEs (11%) continued to signal an improvement, as opposed to a net 5% of firms across the EU which perceived a negative impact on financing from the firm-specific outlook.

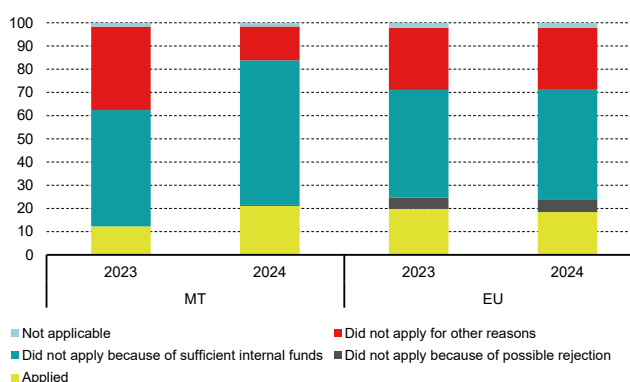
Similarly, there were divergences between Maltese and EU firms' expectations regarding the effect on financing of their own capital position and credit history. While in the case of Malta, the net share of SMEs reporting more positive positions in each of these cases rose to 20%, in the EU, the net proportion of firms, was smaller and largely unchanged from the preceding year. A higher net share of domestic SMEs reported an improvement in the willingness of banks to provide credit to their enterprise. Meanwhile, a lower net share of SMEs continued to signal a positive willingness of business partners to provide their credit. SMEs in the EU also signalled an improvement in these factors when compared to 2023.

### Applications for bank loans

From a demand-side perspective, SMEs in Malta continued to report low applications for bank loans, although recourse to bank loans appears to have increased. In 2024, the proportion of Maltese SMEs that applied for bank loans stood at 21% in 2024, up from 12% in the preceding year (see Chart 4). Hence, the share of SMEs that applied for this type of finance was back to that recorded in 2021 and marginally above the share of bank loan applications in the EU. This increase follows two years of consecutive declines in the proportion of SMEs that had applied for such financing.

The most common reason given by SMEs for not applying was that they had sufficient internal funds at their disposal with which they could finance their business plans. This share rose when compared with a year earlier, and at 62% was four times the share of those who did not apply for other reasons (15%). The latter share, moreover, more than halved. Also, none of the surveyed firms opted not to apply because of possible rejection. Meanwhile, the proportion of SMEs in the EU that applied for bank loans fell marginally to 18% in 2024, from 20% a year earlier. In contrast

**Chart 4**  
**APPLICATIONS FOR BANK LOANS<sup>(1)</sup>**  
(share of respondents)



Source: SAFE, various editions.

<sup>(1)</sup> The data included in the chart refer to those who answered Question 7 of the Survey, namely "Have you applied for the following types of financing during the previous quarter and current quarter?"

to Malta, however, 5% of firms mentioned fear of rejection as a fact that kept them from applying for a bank loan.

When the outcomes of bank loan applications by SMEs were tracked, 38% of domestic applicants reported that they had applied and got everything – significantly lower than the share of 66% SMEs in the EU which claimed that they got all the amount that they applied for, and broadly around half the share observed in 2023 when 71% of domestic applicants received the full amount requested.

In 2024, a higher share of SMEs in Malta reported that they partially got the amount of the loan that they applied for, 26% of firms, up from 14% in 2023. This outcome was reported by a tenth of EU firms.

No domestic firms refused to take the loan because costs were too high, as opposed to 3% of SMEs across the EU. This marks a significant improvement from 2023, when 15% of domestic firms had refused a loan on cost considerations.

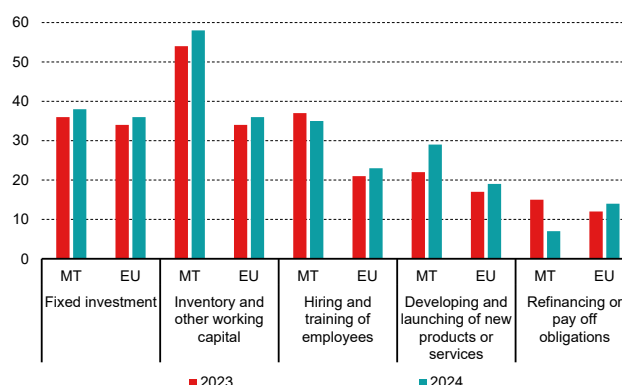
On the other hand, the rejection rate in Malta rose to 8% from 0% in 2023, while remaining marginally below that in the EU (9%).

### Purpose for obtaining finance

The SAFE also reveals the purpose for which SMEs in Malta and in the EU used external financing (both from external sources and from funds generated by the SMEs) obtained during 2024. Chart 5 shows that domestically, the largest share of firms (58%) obtained external financing for inventory and working capital, up from 54% a year earlier. Across the EU, most SMEs used external financing for inventory and working capital (36%) and fixed investment in property, plant or equipment (36%). In Malta, the proportion of SMEs that used financing for the latter type of investment rose marginally to 38%. Meanwhile, both domestically and across the EU, the share of SMEs that resorted to external financing for the development and launching of new products or refinancing purposes remained comparatively low.

Meanwhile, over a third of SMEs in Malta used external financing for the hiring and training of employees, although this share decreased slightly from 2023 (35% in 2024 from 37% in the preceding

**Chart 5**  
**PURPOSE OF FINANCING<sup>(1)</sup>**  
(share of respondents)



Source: SAFE, various editions.

<sup>(1)</sup> The data included in the chart refer to those who answered in the affirmative to Question 6 of the Survey, namely "For what purpose was financing used by your enterprise during previous quarter and current quarter?"

year). Notwithstanding the latest decline, this share remained significantly above that of the EU (23%).

### Conclusion

In 2024, fewer firms reported rising bank interest rates in net terms compared to 2023, reflecting the ECB's shift towards a less restrictive monetary policy. There was also a slight decline in the number of firms reporting increases in other financing costs. Collateral and maturity terms also improved.

For most instruments, except credit lines, bank or credit cards overdraft, the financing gap in Malta widened or remained broadly unchanged compared to 2024. The most significant increase in the financing gap pertained to bonds, where the need for this type of financing increased significantly compared to 2023. With some exceptions, the financing gap was also wider than that indicated by the EU responses, particularly for bonds.

When it came to bank loan applications, only about one-fifth of SMEs in both Malta and the EU applied for such financing. While Maltese firms were more likely to request bank loans than in 2023, they were less successful in obtaining the required amounts. Furthermore, a significant share of firms continued to refrain from using banking loans due to sufficient internal funds.

Looking ahead, SMEs in Malta anticipate an improvement in the availability of bank loans, though they remain less optimistic about trade credit.

Overall, domestic firms in Malta expressed a more positive sentiment regarding the external and internal factors influencing external financing availability compared to their EU counterparts.

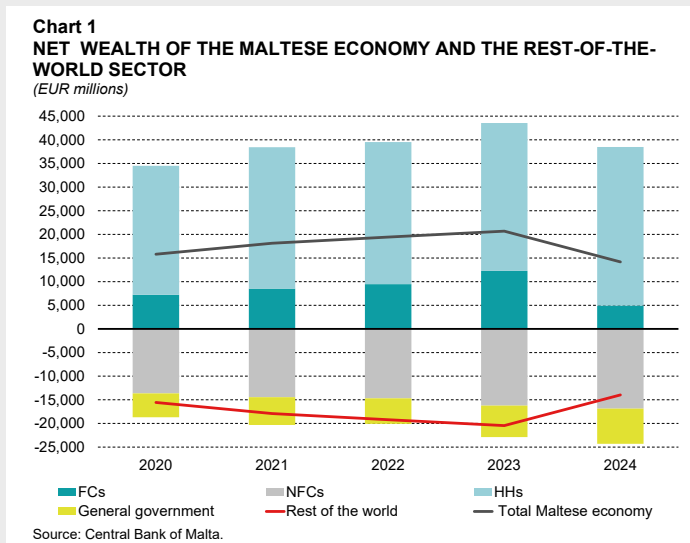
## BOX 4: OVERVIEW OF THE FINANCIAL ASSETS AND LIABILITIES OF THE MALTESE ECONOMY BY INSTITUTIONAL SECTOR<sup>1,2</sup>

The Central Bank of Malta has been compiling Malta's financial accounts statistics since 2004. The latest available statistics refer to end-December 2024.<sup>3</sup> Financial accounts statistics provide comprehensive information on the financial assets and liabilities of the Maltese economy classified by institutional sector, namely households, non-financial companies (NFCs), credit and financial institutions, the general government, and the 'rest-of-the-world' sector.<sup>4,5</sup>

This Box includes three sections: The first section contains an analysis of the net financial wealth of each sector of the economy. The second provides an analysis of private sector debt on the basis of the European Commission's Macroeconomic Imbalance Procedure (MIP) framework, and the final section outlines the financial interlinkages among the resident sectors.<sup>6</sup>

### Net financial wealth of the Maltese economy

Sectoral level balance sheet statistics on net financial wealth show that, overall, the resident economic sectors continued to be net lenders in December 2024 (see Chart 1). The net financial wealth of the resident economy amounted to €14,169.8 million at end-December 2024, decreasing from €20,674.1 million in December 2023.<sup>7</sup> The decrease was mainly driven by a drop in the net financial wealth of FCs, namely the investment funds sector, and to a lesser extent that of NFCs and the general government which offset the improvement in the net financial wealth of households.<sup>8</sup>



<sup>1</sup> Prepared by Kimberly Vatter, Senior Economist Statistician, and Janica Borg, Senior Expert at the External, Payments and Securities Statistics Office within the Statistics Department. The views expressed are those of the authors and do not necessarily reflect those of the Central Bank of Malta.

<sup>2</sup> For the purpose of this Box, the term 'Maltese economy' is used interchangeably with the term 'resident sectors/economy'.

<sup>3</sup> This box covers data for the period 2020 – 2024.

<sup>4</sup> See also *Annual Report 2016*, "Sectoral Financial Linkages Using Malta's Financial Accounts", pp. 30-35, Central Bank of Malta.

<sup>5</sup> The 'rest of the world' sector comprises non-resident units engaging in transactions with resident institutions.

<sup>6</sup> Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances sets out the MIP procedure.

<sup>7</sup> Net financial wealth is defined as the difference between financial assets and liabilities; it shows which sectors are net lenders and which are net borrowers.

<sup>8</sup> In line with *ESA 2010*, FCs include the central bank, depositary-taking corporations except the central bank, money market funds, non-money market investment funds, insurance corporations, pension funds, other financial intermediaries, financial auxiliaries, and captive financial institutions and money lenders.



## Financial assets and liabilities of the financial corporations' sector

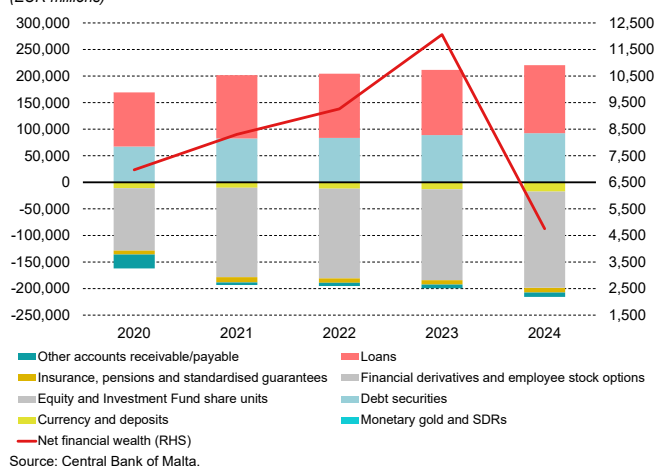
The aggregate net financial wealth of Malta's FCs amounted to €4,753.1 million in December 2024 (see Chart 2 RHS). The decrease from €12,061.9 million since December 2023 was mainly due to higher net liabilities in the form of equity and Investment fund shares, followed by, deposits, other accounts payable, financial derivatives and insurance technical reserves. These offset increases in net assets arising from loans and debt securities.

The primary changes in the net financial wealth of FCs were predominantly influenced by the investment funds sector. In line with the established statistical methodology, while the liabilities of an investment fund, in the form of investment fund shares, are included in financial accounts statistics, the investments of such funds in cryptocurrencies issued by non-monetary authority financial institutions are classified as non-financial assets, and thus not included in Financial accounts statistics.

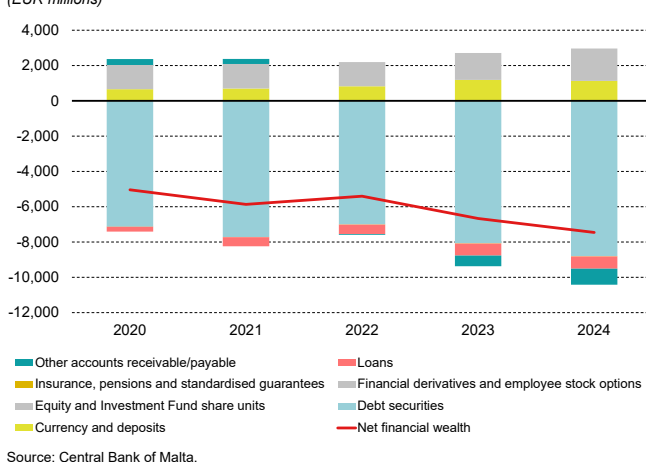
## Financial assets and liabilities of the general government

The net financial wealth position of the general government has been persistently in negative territory over the period 2020 to 2024. In December 2024, the net financial position stood at -€7,457.2 million, decreasing by €793.2 million when compared to December 2023. The drop in the net financial wealth position as at end-2024 was driven mainly by an increase in issued debt securities outstanding, other accounts payable, deposits and loans. This offset the increase in equity held. As shown in Chart 3, the general government remained a net asset holder of currency

**Chart 2**  
**FINANCIAL SECTOR'S NET FINANCIAL WEALTH BY INSTRUMENT**  
(EUR millions)



**Chart 3**  
**GENERAL GOVERNMENT'S NET FINANCIAL WEALTH BY INSTRUMENT**  
(EUR millions)



and deposits as well as equity, but a net liability holder of other instruments, mainly of debt securities.

### Financial assets and liabilities of NFCs

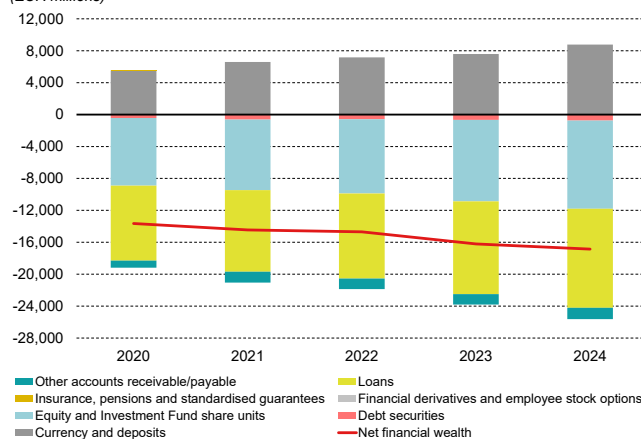
Chart 4 shows that NFCs had net financial liabilities of €16,855.3 million as at December 2024, a decrease of €644.1 million since December 2023. In December 2024, NFCs were net asset holders of currency and

deposits and financial derivatives. They were net liability holders mainly of equity, loans, other accounts receivable and debt securities. When compared with December 2023, the increase in the NFCs' net liability position was due to a rise in their financing through equity, followed by loans, other accounts receivable and debt securities. These offset an increase in holdings of currency and deposits, and financial derivatives.

### Financial assets and liabilities of households

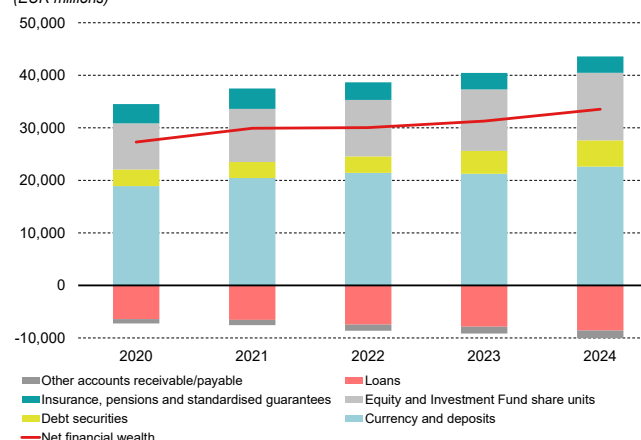
In December 2024, households' net financial wealth reached €33,537.9 million, an increase of €2,256.0 million or 7.2%, when compared with December 2023. This was due to an increase in holdings of financial assets surpassing the increase in liabilities. Chart 5 shows that households maintained large net assets in the form of currency and deposits, equity and investment fund units, but also held smaller net asset positions related to debt securities as well as insurance products. By contrast, this sector was a net liability holder of loans and other accounts payable. The increase in net financial wealth position since 2023 was mostly driven by an increase in currency and deposits, equity and investment fund units, and debt securities which offset a decrease in holdings of insurance technical reserves and increase in loans and other accounts payable.

**Chart 4**  
NFCs' NET FINANCIAL WEALTH BY INSTRUMENT  
(EUR millions)



Source: Central Bank of Malta.

**Chart 5**  
HOUSEHOLDS' NET FINANCIAL WEALTH BY INSTRUMENT  
(EUR millions)



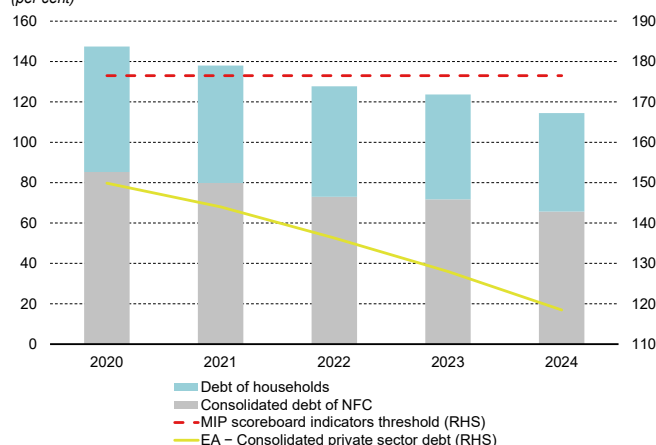
Source: Central Bank of Malta.

## Malta's private sector debt

Financial accounts statistics also shed light on Malta's private sector debt. In line with the methodology of the EU's MIP, which inter alia prescribes such indicators on an annual basis, Chart 6 shows Malta's consolidated private sector debt as a percentage of GDP by sector (LHS) and compares it to those of the euro area (RHS). In recent years, this ratio has been on average within the debt-to-GDP threshold of 133% set by the MIP.<sup>9,10</sup> In fact, as at December 2024, the indicator stood at 114.4%, registering a drop of 9.2% when compared to December 2023. This drop was brought about by an increase in GDP which outweighed the increase of corporate and households' debt in level terms. Over the period 2020 to 2024 the indicator stood below the euro area average (see Chart 6).<sup>11</sup>

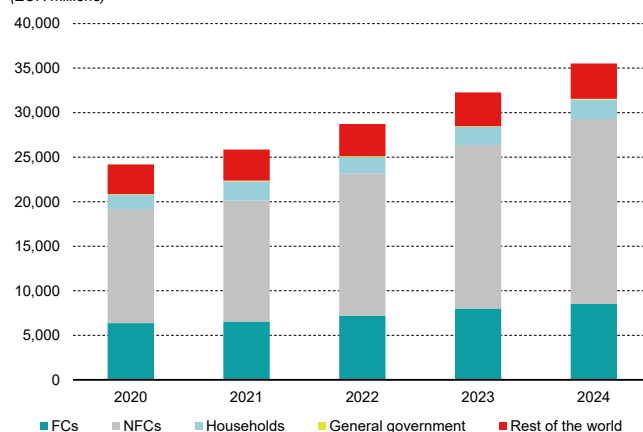
Corporate debt since 2020 constitutes on average 57.6% of the consolidated private sector debt. Chart 7 shows the unconsolidated debt

**Chart 6**  
PRIVATE SECTOR'S DEBT AS % OF GDP (CONSOLIDATED)  
(per cent)



Sources: Central Bank of Malta; Eurostat; ECB.

**Chart 7**  
NFC DEBT BY CREDITOR SECTOR  
(EUR millions)



Source: Central Bank of Malta.

<sup>9</sup> The private sector debt is the stock of liabilities in the form of loans and securities other than shares held by NFCs, Households, and Non-Profit institutions Serving Households. Transactions within sectors are eliminated (i.e. statistics are thus on a consolidated basis). The proposed threshold of 133% of GDP is derived from the upper quartile of the statistical distribution of the indicator. Annual data for the period 1995-2007 were used by the EU Commission to establish this threshold. The definition of private sector debt is in line with the EU's MIP definitions.

<sup>10</sup> In terms of EU Regulation No. 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances.

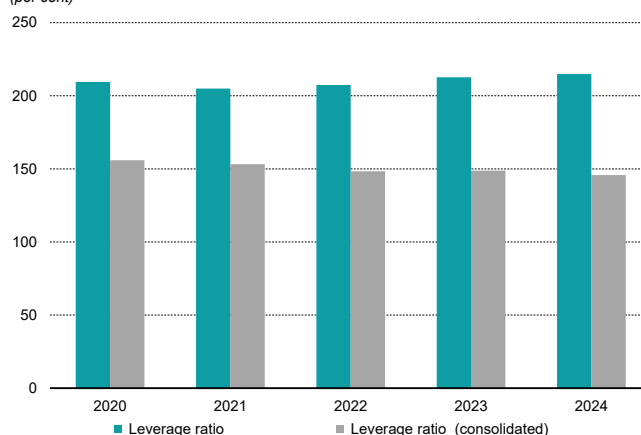
<sup>11</sup> Eurostat statistics for the euro area are only available annually. On the other hand, the ECB's Statistical Data Warehouse contains quarterly data. There are discrepancies between the two sources due to different vintages. For this analysis, Eurostat's data were used until 2023, while ECB data were used for 2024 data.

of NFCs in the form of debt securities and loans by creditor sectors, the latter constituting FCs, households, NFCs, general government, and the rest of the world sectors. From this perspective, the largest exposures stemmed from liabilities to the NFC sector itself, followed by liabilities to FCs.

Firms in Malta rely significantly more on loans than on debt securities to finance their activities. Even though the issuance of debt securities increased over the years, this remained relatively low, amounting to 2.5% of total NFCs' debt in the fourth quarter of 2024. Over the years, bank credit has always been the main source of financing for NFCs, although the importance of this source of funding has been declining over time. In turn, non-bank financing became more significant, particularly taking the form of intra-group lending or lending from related parties.<sup>12</sup> In fact, as at December 2024, debt from other corporates amounted to €20,761.9 million, or 58.4% of total NFCs' unconsolidated debt. Debt from FCs, mainly bank loans, amounted to €8,534.5 million, or 24.0% of total NFCs' debt. Another important source of finance for resident corporates was debt from abroad, which amounted to €3,963.7 million in December 2024, partly reflecting the number of foreign-owned subsidiaries operating in Malta. Meanwhile, debt from households (mainly loans from directors and shareholders) amounted to €2,181.5 million in December 2024. NFCs' leverage ratio has decreased in 2021 but has been increasing marginally year on year with the latest figure increasing slightly to 214.9% in December 2024 from 212.7% in December 2023 (see Chart 8).<sup>13</sup> The chart also shows NFCs' leverage ratio on a consolidated basis, which has exhibited a slight year-on-year decline, with the most recent value recorded at 145.8% in December 2024.

Chart 9 shows that households' debt as at end-December 2024 stood at €10,952.3 million, increasing by €879.4 million since end-December 2023 – primarily due to an increased take up of loans from credit institutions. Indeed, household debt mainly comprises loans from banks, which amounted to 86.0% of the sector's total debt. The remaining debt mainly consisted of loans

**Chart 8**  
NFCs' LEVERAGE RATIO  
(per cent)



Source: Central Bank of Malta.

<sup>12</sup> See [Box 2: Non-Financial Corporations' loans from other corporates – evidence from Malta's Financial Accounts Statistics, Financial Stability Report 2017](#).

<sup>13</sup> Leverage ratio is defined as total unconsolidated debt divided by total equity. Total debt in Chart 8 includes debt securities, loans, other accounts payable and financial derivatives.

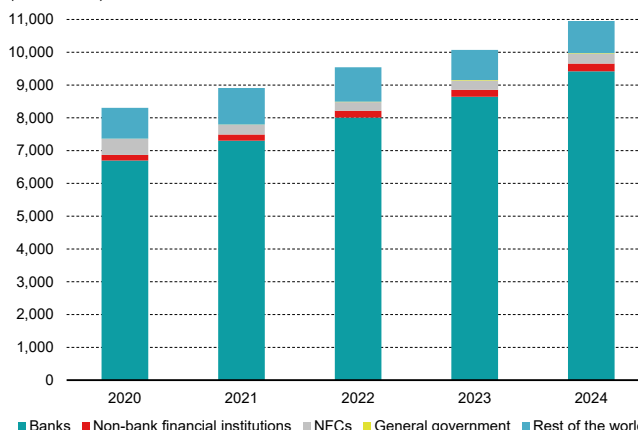
from abroad, directors/ shareholders' loans from NFCs and non-bank financial institutions, and dues to government.

### Financial interlinkages between resident sectors

Financial accounts statistics also identify financial linkages among economic sectors, whereby one sector is an asset holder while the counterpart sector is the borrower. Such accounts

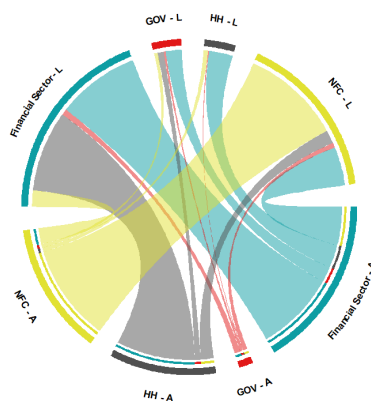
are also referred to as 'from-whom-to-whom' accounts. Chart 10 shows the interlinkages between the resident sectors as at December 2024.<sup>14</sup> The largest asset position of the financial sector, including banks, reflects intra-sectoral holdings, that is, holdings with other credit institutions and FCs, mainly in the form of equity and investments funds, and deposits. These amounted to 38.3% of their total domestic holdings in the fourth quarter of 2024, a decrease of 2.1% from 40.5% in December 2023. Chart 10 also shows that the financial sector has significant interlinkages with households and NFCs, mainly through banks' funding. Moreover, the general government holds around 44.3% of its total domestic financial assets with the financial sector, primarily in the form of deposits, increasing from 44.0% in December 2023. With regards to NFCs, most of their assets are held by other NFCs. These decreased marginally to 80.4% of NFC's total domestic assets in December

**Chart 9**  
**HOUSEHOLDS' DEBT**  
(EUR millions)



Source: Central Bank of Malta.

**Chart 10**  
**FINANCIAL INTERLINKAGES BETWEEN RESIDENT SECTORS**  
(as at December 2024)



NFC - A: NFCs' assets  
Financial Sector - A: Financial sector assets  
GOV - A: Central government assets  
HH - A: Households' assets  
NFC - L: NFCs' liabilities  
Financial Sector - L: Financial sector liabilities  
GOV - L: Central government liabilities  
HH - L: Households' liabilities

Source: Central Bank of Malta.  
Note: Nodes along the circle represent the total financial assets (A) and liabilities (L) of each economic sector. Each sector is represented by a different colour and the arc's width is proportional to financial assets and liabilities with other sectors.

<sup>14</sup> The interlinkages between resident sectors as at December 2023 is not being shown graphically since there were no major changes.

2024, from 80.5% in December 2023. Finally, households' domestic asset holdings continued to be held mainly with the financial sector. Households' domestic financial asset holdings with the financial sector marginally decreased to 80.6% of their total assets in December 2024, from 80.9% in December 2023.

Further statistical information can be found on the [Central Bank of Malta's website](#).

## BOX 5: LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS FROM MAINTENANCE PERIOD 1 TO MAINTENANCE PERIOD 8 OF 2024<sup>1,2</sup>

This box describes the liquidity conditions in the Maltese banking system, and the monetary policy operations conducted by the Central Bank of Malta (the Bank), as part of the Eurosystem's single monetary policy framework during the eight maintenance periods (MPs), starting from 31 January 2024 and ending on 4 February 2025.

### The operational framework review

The operational framework is the set of tools, procedures and market operations through which the monetary policy stance of the ECB's Governing Council is implemented. The purpose of the operational framework is to steer short-term money market rates closely in line with the policy rates set by the Governing Council. The review of the operational framework was needed to ensure that it remains appropriate as the Eurosystem balance sheet normalises. On 13 March 2024, the Governing Council agreed on the following set of key parameters and features for its operational framework:

- The Governing Council will continue to steer the monetary policy stance through the DFR.
- The Eurosystem will provide liquidity through a broad mix of instruments, including short-term credit operations (MROs) and three-month longer-term refinancing operations (LTROs).
- The MROs are expected to play a central role in meeting banks' liquidity needs and will continue to be conducted through fixed-rate tenders with full allotment.
- The LTROs will also continue to be conducted through fixed-rate tender procedures with full allotment.
- The rate on the MROs was adjusted such that the spread between this rate and the DFR was reduced to 15 basis points from 50 basis points. Furthermore, the rate on the marginal lending facility rate was adjusted such that the spread between this rate and the rate on the MROs will remain unchanged at 25 basis points. These changes came into effect as from 18 September 2024.
- New structural LTRO and a structural portfolio of securities will be introduced at a later stage once the Eurosystem balance sheet begins to grow durably again, taking into account legacy bond holdings.
- The reserve ratio for determining banks' minimum reserve requirements remains unchanged at 1% and the remuneration of minimum reserves remains unchanged at 0%.
- A broad collateral framework will be maintained for refinancing operations.

The Governing Council stated that it will monitor the evolution and distribution of excess liquidity, the formation of money market rates, the evolution of banks' demand for reserves,

<sup>1</sup> Prepared by Rittlen Abela, Assistant Executive, Monetary Operations and Government Securities Office and reviewed by Josette Grech, Head, Monetary Operations and Government Securities Department and André Psaila, Chief Officer, Financial Markets Division. The views expressed in the Box are the author's own and do not necessarily reflect the views of the Bank.

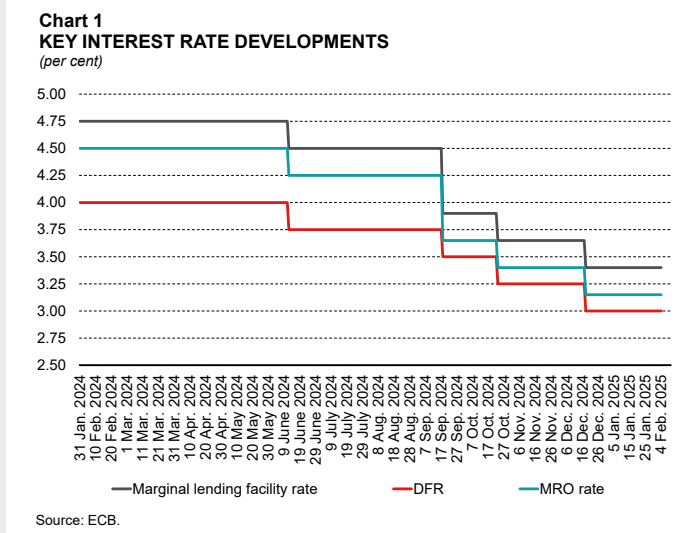
<sup>2</sup> MP2024 01 (31 January – 12 March); MP2024 02 (13 March – 16 April); MP2024 03 (17 April – 11 June); MP2024 04 (12 June – 23 July); MP2024 05 (24 July – 17 September); MP2024 06 (18 September – 22 October); MP2024 07 (23 October – 17 December); MP2024 08 (18 December – 4 February 2025).



and the functioning of money markets and broader financial markets within the parameters announced. Based on the experience gained, the Governing Council will review the key parameters of the operational framework in 2026 and stands ready to adjust the design and parameters of the framework earlier, if necessary, to ensure that the implementation of monetary policy remains in line with the established principles.

### Key ECB rates

In line with the Governing Council's strong commitment to its price stability mandate, the ECB's key interest rates were cut four times during the review period, to ensure that inflation stabilises at its 2% target over the medium term. The first rate cut of 25 basis points came into effect on 12 June 2024, following nine months of steady rates and given a steady decline in inflation. Rates were cut again on 18 September 2024, when the DFR was cut by 25 basis points. Further cuts of 25 basis points each became effective on 23 October and 18 December 2024. Accordingly at the end of the review period, the rates on the overnight deposit facility, the MROs, and the marginal lending facility stood at 3.00%, 3.15% and 3.40%, respectively (see Chart 1).



### Excess liquidity

Throughout the eight MPs under review, the Maltese banking system remained characterised by high, albeit declining levels of excess liquidity. Excess liquidity is defined as the amount of deposits placed by credit institutions at the overnight deposit facility of the Bank, net of the recourse to the marginal lending facility, together with the current account holdings, net of the minimum reserve requirements (excess reserves).

At the beginning of the first MP, excess liquidity stood at €5,348.9 million, consisting of €8.9 million in excess reserves and €5,340.0 million in overnight deposits. Excess liquidity steadily declined throughout the period under review, closing at €3,469.5 million on 4 February 2025, reflecting the decrease in the overnight deposit facility participation by several banks. The daily average excess liquidity was €4,268.1 million, reaching a peak of €5,502.0 million on 20 February 2024.

During the period under review, daily average excess reserves stood at €9.9 million, with minimal fluctuations through the period. The small fluctuations occurred during

the second half of the year (starting from MP5) when one bank started front-loading its Minimum Reserve Requirement (MRR) and then transferring all funds to the Deposit Facility for the rest of the MP.

Developments in excess liquidity also reflect the use of standing facilities. Standing facilities are monetary policy instruments that facilitate the provision and absorption

of overnight liquidity. The Eurosystem provides two types of standing facilities: the marginal lending facility and the overnight deposit facility. The marginal lending facility allows counterparties to quickly cover short-term liquidity needs. On the other hand, the deposit facility allows counterparties to deposit funds overnight with the Eurosystem.

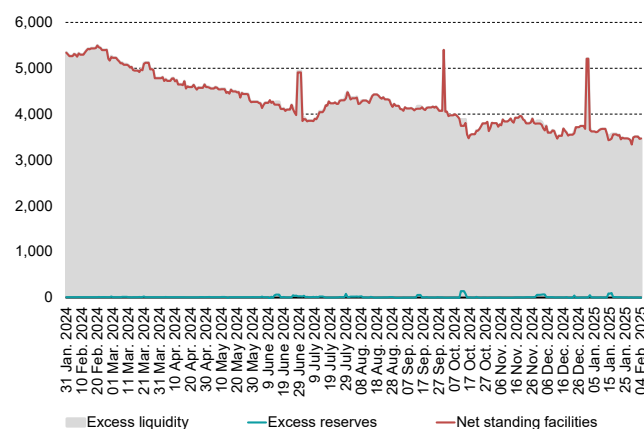
During the reporting period, there was no utilisation of the marginal lending facility by local credit institutions. Additionally, along the eight MPs reviewed, the daily average overnight deposits amounted to €4,258.2 million, reaching a peak of €5,494.8 million on 20 February 2024. As from the end of June, one bank started depositing relatively large amounts in the deposit facility at every end of the quarter. Also, in November a bank surrendered its licence as a credit institution and thus was no longer liable to hold an MRR or able to participate in the deposit facility (see Chart 2).

By the end of MP8, excess liquidity in Malta was equivalent to around 15% of GDP. This compares with 19% in the euro area. When expressed as a share of GDP, Malta's excess liquidity was the twelfth highest in the euro area.

### Autonomous liquidity factors

Autonomous liquidity factors are items in the central bank balance sheet that are neither monetary policy operations nor current account holdings of credit institutions. As the transactions driving autonomous factors involve central bank money, they have a liquidity-providing or liquidity-absorbing effect.<sup>3,4</sup> Essentially, increases in central bank assets entail the provision of liquidity, while increases in central bank liabilities involve the absorption of liquidity, and vice-versa.

**Chart 2**  
**EXCESS LIQUIDITY BETWEEN MP1 AND MP8 2024**  
(EUR millions)



Source: Central Bank of Malta.

<sup>3</sup> Liquidity-providing factors include net foreign assets and net assets denominated in euro.

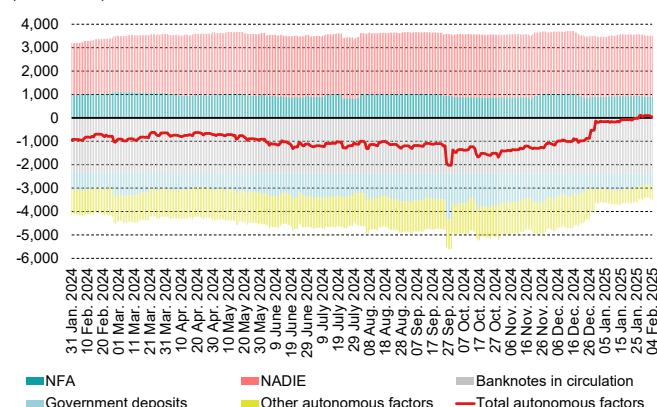
<sup>4</sup> Liquidity-absorbing factors consist of government deposits, banknotes in circulation and other autonomous factors.

Autonomous factors were net liquidity absorbing throughout most of the period under review, however, they became net liquidity providing from 30 December 2024 onwards. This occurred following a change in the Bank's investment strategy which resulted in a drop in liabilities, thereby increasing liquidity provision via a decrease in other autonomous factors. Throughout the eight MPs, on average autonomous factors were liquidity absorbing and stood at €952.5 million.<sup>5</sup>

Autonomous factors were relatively stable throughout the period, apart from the other autonomous factors (as explained above) and government deposits. The fluctuations in government deposits stemmed from the standard issuances of Malta Government bonds which raise government deposits as well as high non-residential CIR receipts<sup>6</sup> further increasing government deposits, which as a result reached a historical peak of €1,955.6 million on 27 September 2024. Due to this increase in government deposits, total autonomous factors reached the lowest point of the period under review on 27 September 2024 with an amount of €2,021.8 million (see Chart 3).

On average, when compared to the previous year, autonomous factors increased, hence becoming less liquidity absorbing and becoming liquidity providing towards the end of the year. The drivers behind the year-on-year increase in autonomous factors were an increase in the liquidity providing components; net assets denominated in euro (NADIE) and net foreign assets (NFA). NADIE and NFA increased due to higher bond purchases in both euro and foreign currency portfolios, respectively. In fact, NADIE increased from an average of €1,852.0 million in 2023 to €2,588.0 million in 2024, and NFA increased from an average of €811.2 million in 2023 to €965.5 million in 2024. This increase was then partially offset by an increase in the liquidity absorbing components; other autonomous factors, government deposits and banknotes in circulation (which also includes the excess over the allocation based on the capital key).

**Chart 3**  
**AUTONOMOUS FACTORS EVOLUTION BETWEEN MP1 AND MP8 2024<sup>(1)</sup>**  
(EUR millions)



Source: Central Bank of Malta.

<sup>(1)</sup> Liquidity providing factors are shown in positive figures whilst liquidity absorbing factors are shown in negative figures.

<sup>5</sup> Given that total autonomous factors were net liquidity-absorbing, in the Chart these are depicted with a negative sign and depicted with a positive sign following 30 December 2024.

<sup>6</sup> Tax payments by non-resident entities/individuals on income and chargeable gains arising in Malta.

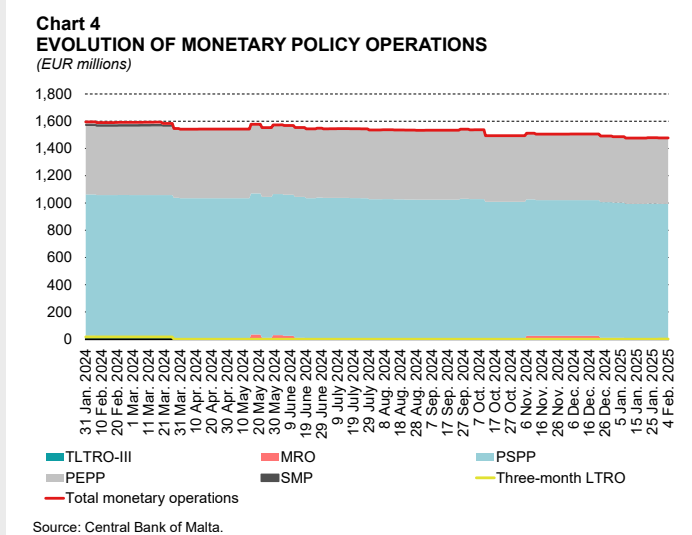
## Monetary policy instruments

### Open market operations

The Eurosystem uses open market operations to provide liquidity in euro to monetary policy eligible counterparties.

At the beginning of the period, outstanding open market operations stood at €42.0 million, consisting of €20.0 million in the third series of the targeted longer-term refinancing operations (TLTRO-III), €17.0 million in three-month LTROs, and €5.0 million in the MRO. On 27 March 2024, the €20.0 million in TLTRO-III matured. Also, on 27 March, the outstanding three-month LTRO matured and was not rolled over, resulting in a period whereby there was no participation by Maltese counterparties in LTROs. It was only on 29 January 2025, that local counterparties participated again in the three-month LTRO with only €1.0 million. Additionally, participation by Maltese counterparties in the MROs, ranged between €1.0 million and €35.0 million, during the period.

Overall, during the reviewed period, the volume of liquidity injected into the domestic banking system through open market operations decreased by €41.0 million. Therefore, at the end of MP8, the outstanding open market operations stood at just €1.0 million in three-month LTROs (see Chart 4).



### Asset purchases

As at 4 February 2025, the outstanding assets under the Monetary Policy Outright Purchase programmes amounted to €1,476.5 million, while the average for the whole period stood at €1,522.9 million.

During the period under review, the asset purchase programme (APP) continued to decline at a measured and predictable pace, as the Eurosystem had stopped reinvesting the principal payments from maturing securities in July 2023. Public Sector Purchase Programme (PSPP) holdings under the APP stood at €1,038.2 million at the start of MP1 and decreased to €993.1 million by the end of MP8 due to maturities occurring during the interim as well as due to the quarterly portfolio revaluations.

Until the end of June 2024, the Eurosystem continued with the reinvestment phase of the pandemic emergency purchase programme (PEPP) that was introduced on 18 March 2020, in response to the COVID-19 pandemic. Over the second half of the year, the PEPP portfolio started being reduced by an average of €7.5 billion per month and discontinued reinvesting the principal payments from maturing securities at the end of the year. The Bank only purchases public sector debt securities under the PEPP. PEPP holdings decreased from €505.2 million at the start of MP1, to €483.4 million by the end of MP8. This decrease reflects the quarterly portfolio revaluations along with net maturities of securities during the period which offset the purchased amounts under the reinvestments.

Overall, the Bank's holdings of securities in terms of the Eurosystem's PSPP and PEPP decreased by €66.9 million since the start of MP1, implying a net absorption of liquidity during the period reviewed.

The Bank's holdings of debt instruments under the Securities Markets Programme (SMP) stood at €9.9 million until the final security in this programme matured on 20 March 2024.<sup>7</sup>

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<sup>7</sup> The SMP was announced by the Governing Council of the ECB on 10 May 2010, with the intention of ensuring depth and liquidity in malfunctioning segments of the debt securities markets and to restore an appropriate functioning of the monetary policy transmission mechanism. The SMP was terminated as from 6 September 2012 with the purchased securities held to maturity.

## BOX 6: MARKET FOR MALTA GOVERNMENT STOCKS: 2024 IN REVIEW<sup>1</sup>

### Introduction

This box examines the developments in the primary and secondary markets for Malta Government Stocks (MGS) during 2024. In the primary market, a total of €1.29 billion in MGS was offered, as part of the Treasury's €1.70 billion planned<sup>2</sup> issuance for the year. Offerings were spread across three regular issuances and one private placement.<sup>3</sup> Observations on overall demand by wholesale and retail investors are presented, also looking into investors' bond preferences across the three regular issuances. Furthermore, allotment patterns by the Treasury are also explored. This is followed by an overview of participation and allocation across the five main investor categories. The analysis further explores the return demanded by wholesale investors, focusing on the difference between the Average-Weighted Yield (AWY) of their bids and the pricing set for retail investors. The box closes with an overview of the secondary market, considering yield movements, top traded securities and MGS holdings by different investor categories.

### Primary market developments

In 2024, strong demand was received for the €1.29 billion worth of MGSs offered by the Treasury. Total applications amounted to €1.83 billion, with the Treasury allotting a total of €1.26 billion. When accounting for the year's maturities, the net issuance resulted in an addition of €771.30 million to the total debt outstanding. Investment opportunities in such domestic paper were offered through three regular issuances and one private placement with maturities that ranged between three and ten years. Coupon rates spanned between 2.80% up to 3.50% per annum. Table 1 below summarises the 2024 issuance results in terms of amounts offered, applied for, allotted and bid-to-cover ratios.

**Table 1**  
**LIST OF 2024 ISSUANCES**  
EUR

	Feb. 3.15% MGS 2027 VII 3.35% MGS 2029 V	Mar. 62+ MGSB Issue 2024 <sup>(1)</sup>	Aug. 40% MGS 2027 VI F.I. 3.50% MGS 2034 III	Oct. 2.80% MGS 2030 III 3.25% MGS 2034 IV	Totals
<b>Total amount on offer</b>	<b>400,000,000</b>	<b>91,557,600</b>	<b>400,000,000</b>	<b>400,000,000</b>	<b>1,291,557,600</b>
Original Issue	270,000,000	91,557,600	270,000,000	270,000,000	901,557,600
Overallotment Option	130,000,000	-	130,000,000	130,000,000	390,000,000
<b>Total applications</b>	<b>510,895,600</b>	<b>72,224,800</b>	<b>630,936,100</b>	<b>620,350,800</b>	<b>1,834,407,300</b>
Retail	107,995,600	72,224,800	102,436,100	89,850,800	372,507,300
Wholesale	402,900,000	-	528,500,000	530,500,000	1,461,900,000
<b>Total amount allotted</b>	<b>399,145,600</b>	<b>72,224,800</b>	<b>388,436,100</b>	<b>399,350,800</b>	<b>1,259,157,300</b>
Retail <sup>(2)</sup>	107,995,600	72,224,800	102,436,100	89,850,800	372,507,300
Wholesale	291,150,000	-	286,000,000	309,500,000	886,650,000
<b>Bid-to-cover ratio<sup>(3)</sup></b>	<b>1.89</b>	<b>-</b>	<b>2.34</b>	<b>2.30</b>	

Source: Malta Treasury Department.

<sup>(1)</sup> Eligible bondholders of this security were offered to rollover their maturing holdings in the new savings bond issue.

<sup>(2)</sup> Total applications from Retail investors were fully allotted.

<sup>(3)</sup> Bid-to-cover ratio is estimated on the original issue amount.

<sup>1</sup> Prepared by Kimberley C. Agius, Senior Expert, and Emmanuel Farrugia, Senior Research Analyst, Monetary Operations and Government Securities Office and reviewed by Josette Grech, Head, Monetary Operations and Government Securities Department and André Psaila, Chief Officer, Financial Markets Division. The views expressed in the box are the author's own and do not necessarily reflect the views of the Bank.

<sup>2</sup> The Treasury of Malta publishes its borrowing plan on its official website at the beginning of each year.

<sup>3</sup> Private placement refers to the rollover of the 62+ Malta Government Savings Bond (MGSB).

The robust demand received suggests that it was possible for the Treasury to fully subscribe the €1.70 billion indicated in its borrowing plan. In 2023, the borrowing requirement was slightly lower at €1.60 billion, with €1.59 billion offered by the Treasury. Despite the higher amount on offer in 2023, overall investor demand was lower, totalling €1.73 billion. Unlike 2024, four regular issuances were held in 2023, with bonds offered having a wider range of maturities and higher annual coupon rates. A private placement was also available for retail investors in 2023.

Wholesale investor demand reached €1.46 billion, of which €886.65 million were allotted, whilst retail applications<sup>4</sup> accounted for the remaining €372.51 million. Total retail applications include the roll-over of €72.22 million in a new 62+ MGSB, offered at 3.35% per annum and maturing in 2029. Wholesale interest was strongest in the October issuance with €530.50 million in nominal bids. Retail applications peaked in the first issuance of the year at €108.00 million. Overall, total demand was highest in August, driven by €528.50 million in wholesale bids and €102.44 million in retail applications. This resulted in a bid-to-cover ratio of 2.34 times, the highest for the year.

When compared to 2023, wholesale investors increased their bids by a total of €239.00 million, despite the lower number of issuances in 2024, underscoring the robust wholesale demand. In contrast, retail demand in 2024 fell by €138.43 million when compared to the three retail issuances held in 2023. Individual issuance bid-to-cover ratios in 2024 were higher than in 2023, suggesting stronger overall demand, despite the lower coupons offered in 2024 than those issued in 2023.

Details of the three regular issuances are given through Table 2 below, highlighting coupons, maturity terms<sup>5</sup> offered, applications and allotments by both investor types. For each issuance, both retail and wholesale investors consistently preferred the bond with the relatively longer maturity term. Retail investors least preferred the 2.80% MGS 2030 III, a short-term bond with the lowest coupon, offered in October. In contrast, the 3.25% MGS 2034 IV,

**Table 2**

**2024 ISSUANCES: MATURITIES, COUPONS, APPLICATIONS AND WHOLESALE ALLOTMENT**

Coupon			Term to maturity	Total applications		Wholesale allotment	
				Retail	Wholesale	Nominal allotment	Percentage allotment
		%	Years	EUR	EUR	EUR	%
Feb.	3.15% MGS 2027 VII	3.15	3	31,917,000	49,500,000	30,500,000	61.6
	3.35% MGS 2029 V	3.35	6	76,078,600	353,400,000	260,650,000	73.8
Aug.	3.40% MGS 2027 VI F.I.	3.40	3	30,653,300	170,500,000	82,000,000	48.1
	3.50% MGS 2034 III	3.50	10	71,782,800	358,000,000	204,000,000	57.0
Oct.	2.80% MGS 2030 III	2.80	6	11,416,400	244,500,000	117,000,000	47.9
	3.25% MGS 2034 IV	3.25	10	78,434,400	286,000,000	192,500,000	67.3
				<b>300,282,500</b>	<b>1,461,900,000</b>	<b>886,650,000</b>	

Source: Malta Treasury Department.

<sup>4</sup> Terms “applications” and “allotment” will be used interchangeably throughout the report when referring to retail investors.

<sup>5</sup> Maturity terms between one and six years are categorised as short-term bonds, including both years. Those of seven till 14 years are medium-term bonds, whilst those of 15 years and higher are considered long-term issues.



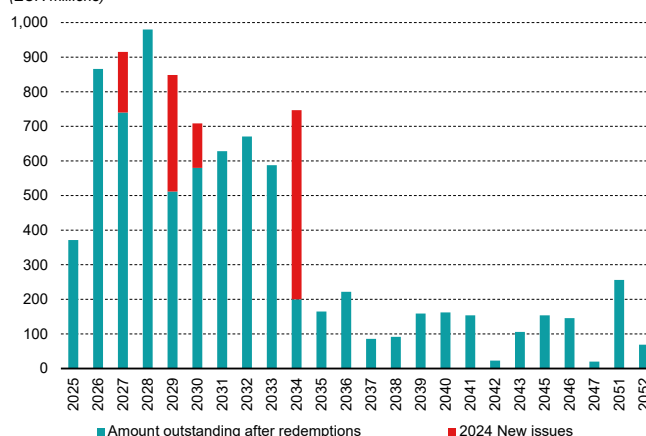
a medium-term bond in the same issuance, received the highest demand by retail investors, with €78.43 million in applications. Wholesale investors showed least interest in the 3.15% MGS 2027 VII, attracting €49.50 million in competitive bids in February. Conversely, the 3.50% MGS 2034 III, issued in August, generated the highest wholesale demand, with a total of €358.00 million in bids. The preference for bonds with longer maturities may be driven by several factors, one of which is the expectation of a declining interest rate environment. Investors may want to lock-in bonds with prevailing coupon rates for longer, thus decreasing the risk of re-investing at lower rates of return. Longer maturities generally come with higher coupon rates, which improve the income stream and thus makes these instruments more attractive in relative terms. There may also be a portfolio management rationale in which investors, especially institutional ones, may be aiming to extend portfolio duration to match long-term liabilities.

However, when aggregating applications by maturity, retail investors showed almost equal preference towards short and medium-term issuances, whereas wholesale investors bid more in short-term bonds. One can note, that during the year, the Treasury issued a larger number of short-term bonds.

When compared to 2023, retail investors directed 45.3% of their applications towards short-term bonds, with the remaining 54.7% being split between the medium and long-term bonds on offer. Similar to 2024, wholesale investors also preferred short-term MGS in 2023, tendering 59.0% of total bids to the four short-term issues on offer.

It is evident that at each issuance, the Treasury preferred to allot more MGS with a longer maturity relative to the amount bid by wholesale investors. Such allotment preferences may be better understood when considering the Treasury's MGS maturity profile before its 2024 issuances, displayed in Chart 1. Notably, 77.2% of the MGS outstanding amount mature within ten years, with 43.6% due to mature in just five years, indicating a challenging refinancing risk level. However, the Treasury still chose to issue MGSs with maturities lower than ten years, possibly due to expectations of further rate cuts going into 2025, and to meet investor demand. Nevertheless, the Treasury seemed to seek balance by allotting the largest share to the 2034 maturity bracket.

**Chart 1**  
**MGS TREASURY MATURITY LADDER**  
(EUR millions)



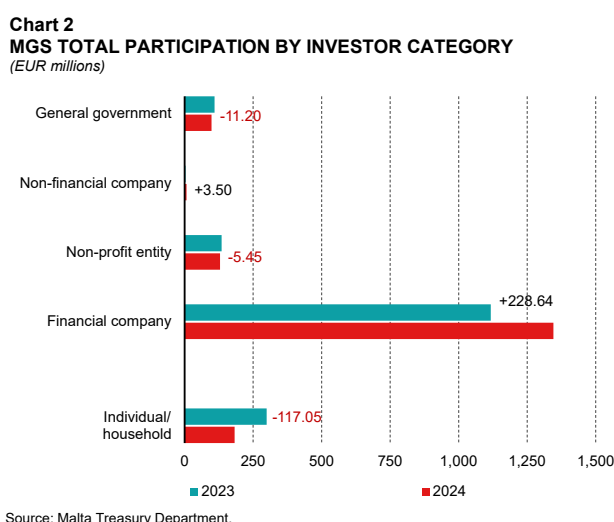
Source: Treasury of Malta.

### Participation and allotment by investor category

Participating investors in regular issuances are classified in five categories as compiled by the Treasury Department: Financial Companies, Individuals and Households, Non-Profit Entities, Non-financial Companies, and General Government. The categorised participation amounts from all regular issuances held in 2024 against those of 2023 are shown in Chart 2. In 2024 Financial Companies showed most interest by submitting €1.35 billion, equivalent to 76.4% of total regular issuances applications, of which €170.80 million were placed by non-resident investors. Individuals and Households<sup>6</sup> followed with €182.40 million and Non-Profit Entities with €129.29 million. The largest portion of the Non-Profit Entities classification is made up of resident nominees who are not necessarily non-profit. These investors do not hold a direct account with the Malta Stock Exchange (MSE) and place their applications through a broker. A total of €117.29 million submitted under the Non-Profit Entities category were done through retail submissions. The General Government<sup>7</sup> and Non-Financial Company investor categories only accounted for €104.75 million together.

Two categories increased their applications in 2024 when compared to 2023. Most notably, Financial Companies submissions increased by a nominal value of €228.64 million, whereas Non-Financial Companies rose by €3.50 million. All other investment categories saw drops in demand, with the Individual and Households category declining the most by €117.05 million.

In terms of wholesale allotment, the Treasury accepted bids from three main categories. The General Government category saw the highest percentage of allotment at 87.2% of bids for a nominal amount of €85.50 million. The Financial Company category followed in percentage terms with 59.3% of bids being allotted, with 12.5% being allotted to non-resident investors. The third and final category which saw allocations was the Non-Profit Entity category, with an allocation of €4.50 million from an amount bid of €12.00 million. Bids by Individuals and households, and Non-Financial Companies amounted to €4.00 million and €4.50 million respectively, yet no bids were accepted. The Treasury's allotment is dependent on the yields at which bids are submitted.



<sup>6</sup> The Individual and Households category accounted for 59.4% of total retail applications, with 39.1% coming from Non-Profit entities. The remaining 1.5% was split almost evenly between Financial and Non-Financial Companies.

<sup>7</sup> The General Government category mainly refers to government agencies and public sector entities.

### Wholesale investor demand reflected through average-weighted yield trends

Yield movements in the early months of the year were volatile but generally followed an upward trajectory. Economic data releases, especially stronger growth and inflation figures from the United States, along with signals of a delay in the easing of monetary policy, were behind such increases. However, this narrative changed from May onwards, as sovereign bond yields saw mostly decreases. The ECB started to ease its monetary policy in June with a 25 basis-point cut and continued to lower rates in September, October, and December with the same magnitude. That brought the DFR to 3.00% by the end of the year. In August, yields temporarily spiked due to political instability in France, following snap elections. Furthermore, in September, German state election setbacks led to tensions in Germany's ruling coalition. In November, the collapse of Germany's governing coalition and the announcement of federal elections scheduled for February 2025 continued to unsettle markets. Also in the same month, Donald Trump's return to the US presidency sent Treasury yields higher, as expectations that his policies could drive inflation led to a reassessment of future Federal Reserve (Fed) actions. In December, the US Fed surprised markets by signalling fewer rate cuts in 2025 than previously expected, prompting a global bond sell-off and pushing eurozone yields upward.

Such events may have formed the basis for the Treasury's coupon selection and, in response, wholesale investors yield requirements, as shown through the resultant successful AWYs from the wholesale applications. The price guidance set for retail investors against these AWYs, and corresponding Average-Weighted Prices (AWPs) are outlined in Table 3 below.

The 3.15% MGS 2027 VII, issued in February, was offered to retail investors at €100.00, corresponding to a yield to maturity (YTM) of 3.15%. Successful wholesale investors, however, bid at a lower weighted-average price of €99.38, locking in a higher AWY of 3.35%, 20 basis points over that offered to retail investors. The 3.35% MGS 2029 V saw an even larger spread, with retail investors purchasing at €100.00 for a YTM of 3.35%, while successful wholesale bidders received an AWY of 3.73%, implying a premium of 38 basis points over the retail offering. Accounts of the ECB's January 2024 monetary policy meeting were published a day before the wholesale auction. Minutes showed that there was broad consensus among members that it was premature to discuss rate cuts. This may have fuelled the requested yield premia by wholesale investors.

**Table 3**  
**2024 COMBINED ISSUANCES: RETAIL PRICE GUIDANCE AND WHOLESAL YIELD REQUIREMENTS**

		Retail issuances		Wholesale issuances		Wholesale
		Price	YTM	Successful AWP	Successful AWY	AWY vs. Retail yield
		EUR	%	EUR	%	Bps
Feb.	3.15% MGS 2027 VII	100.00	3.15	99.38	3.35	20
	3.35% MGS 2029 V	100.00	3.35	98.04	3.73	38
Aug.	3.40% MGS 2027 VI F.I.	100.90	3.10	101.37	2.94	-16
	3.50% MGS 2034 III	100.00	3.50	99.43	3.57	7
Oct.	2.80% MGS 2030 III	100.00	2.80	99.99	2.80	0
	3.25% MGS 2034 IV	100.00	3.25	99.89	3.26	1

Source: Malta Treasury Department.

In the August issuance, the 3.40% MGS 2027 VI F.I. was priced for retail investors at €100.90, resulting in a YTM of 3.10%. However, successful wholesale investors bid at an AWP of €101.37 for a lower AWY of 2.94%, resulting in a 16 basis-point discount when compared to the retail YTM. This wholesale pricing could possibly reflect prevailing market conditions around the time of the auction. Signals by the Fed that it may start the monetary policy easing in September, coupled with weak economic data for the eurozone, drove yields lower across the curve. However, the 3.50% MGS 2034 III which was priced by the Treasury at €100.00, was allotted at a higher AWY of 3.57% compared to the retail YTM of 3.50%, for a 7 basis-point premium. This may suggest that other factors may have influenced the results. The short-term bond may have been more appealing to investors, prompting more competitive bids close to secondary market pricing. Additionally, Treasury allocation preferences may have also impacted the AWY, possibly preferring to allot more to the medium-term bond to extend the weighted-average maturity of its MGS debt profile.

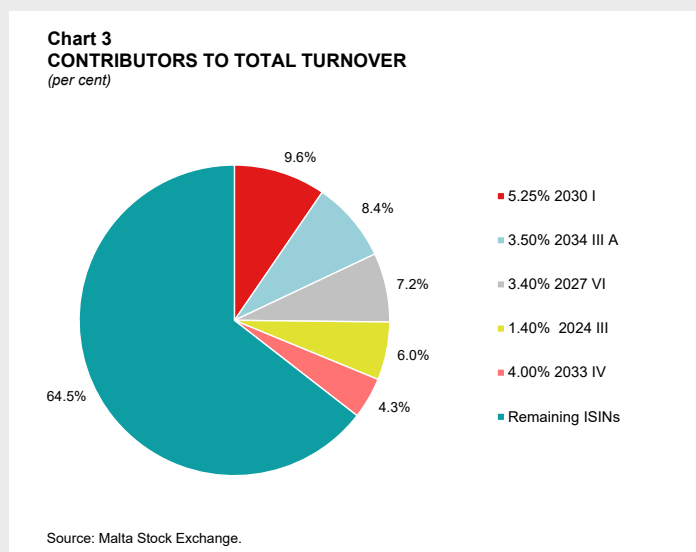
The 2.80% MGS 2030 III issued in October with the lowest coupon of the year, was priced at €100.00 for retail investors, resulting in a YTM of 2.80%. The AWP of successful wholesale investors was very close to par at €99.99, securing an AWY of 2.80%, with no yield advantage over retail investors. Similarly, wholesale AWY for the 3.25% MGS 2034 IV was quite close to that offered to the retail investor, with a premium spread of only 1 basis point.

One may note that the yields demanded by wholesale investors in the second and third issuances were more closely aligned with the price guidance provided by the Treasury. This is particularly evident when considering the successful AWYs from issuances in 2023,<sup>8</sup> where the demanded premium over yields offered to retail investors was, at instances, wider.

### Secondary market

In 2024, on-exchange trading in MGS reached a five-year high, with total nominal turnover rising to €178.51 million, 24.4% higher than that seen in 2023. Activity in MGS accounted for 49.5% of the total turnover on the MSE, considering trading in corporates, equities, and Treasury bills. However, when expressed as a percentage of the total outstanding amount, MGS turnover was at just 2.0%.

On-exchange trading in MGS during 2024 was distributed across 60 ISINs. As illustrated in Chart 3, the five most actively traded securities together accounted for 35.5% of total turnover,

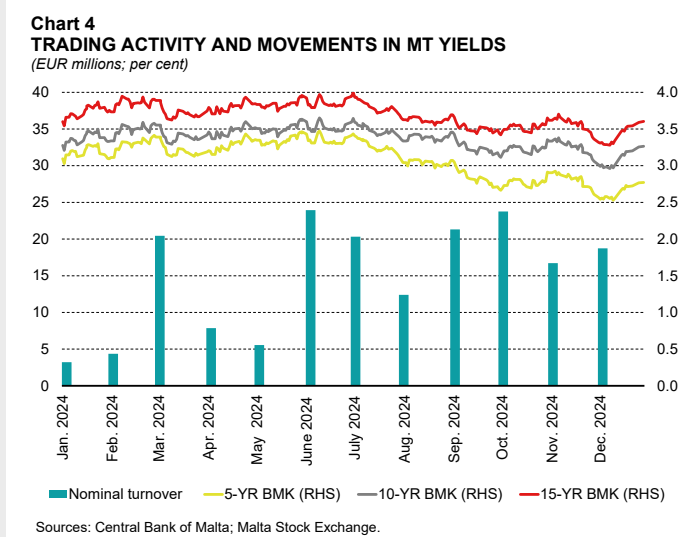


<sup>8</sup> Lethridge et al. (2023); [The Malta Government Stocks Market: 2023 in Review](#)

whilst the remaining MGS made up 64.5% of turnover. Like the previous year, the top-traded MGS for 2024 was once again the 5.25% 2030 I, commanding a notable 9.6% of the total MGS turnover. One must highlight that this MGS has the highest outstanding amount of €440.00 million, which may explain its elevated trading. This MGS was initially issued in 2010 together with two fungible issues in the same year and re-offered twice in 2011, at prices ranging from €99.50 (offered to retail investors) to €102.93 (AWP secured by wholesale auction). Furthermore, the secondary market price of this bond is one of the highest among the outstanding ISINs. Possibly, this bond still yielded capital gains to its holders, which may have led to increased trading. The 3.50% 2034 III A<sup>9</sup> emerged as the second most traded security, despite being issued in early August 2024, responsible for 8.4% of total turnover. This bond had an AWP of €99.43 at issuance, however, the secondary market price published by the Central Bank of Malta on its first trading day was of €101.05. Additionally, its secondary market price never fell below par, peaking at €104.83. Therefore, this bond's popularity may have been driven by prospects of profit taking by investors. The 3.40% 2027 VI was the third most active MGS, accounting for 7.2% of total turnover. A fungible issue of this bond was also offered in the August 2024 issuance which then merged with the original bond a month later. It was offered at a price of €100.90 to retail investors, whereas wholesale bidding resulted in an AWP of €101.37. After the August issuance, its secondary market price never fell below €101.46 until the end of the year, peaking at €102.86 in December. It is likely that investors offloaded such MGS to take profits. In fact, 95.8% of the trading within this MGS took place between August and December.

The larger portion of the on-exchange trading occurred throughout the second half of the year, accounting for 63.4% of total turnover. This period was characterised by a general retreat in yields, likely contributing to the heightened activity. This trading activity and movements in yields are presented in Chart 4. In the first half of the year, on-exchange trading was mostly subdued with March and June being notable exceptions. Increased trading during these two months may be explained by an element of decreasing yields observed during both months.

As in the previous year, the Central Bank of Malta remained the main market participant involved in MGS trading in 2024, effecting 77.7% of total on-exchange turnover. This includes trades brokered



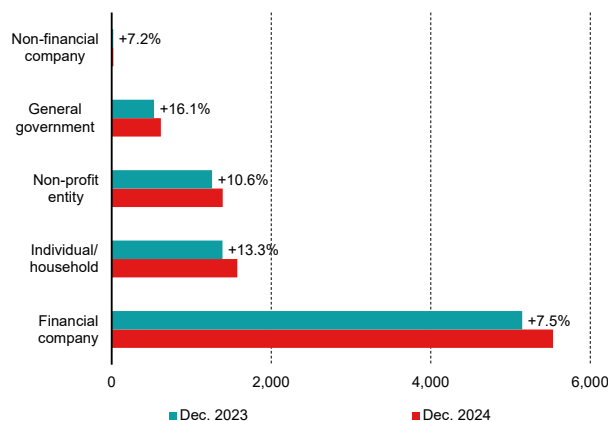
<sup>9</sup> When a bond is issued to both retail and wholesale investors, two separate ISINs for the same bonds are used, merging after the first coupon payment. In this case, this MGS pertained to wholesale investors.

by the Bank on behalf of public institutional clients. Most of the presented percentage of trades by the Central Bank of Malta represent buy-side trades, with sell-side transactions accounting for only 1.9%.

All the five main investor groups increased their holdings in comparison to the previous year's balance, as a direct result of higher outstanding Government debt, as shown in Chart 5. Finan-

cial Companies held the largest share of MGS, with Individual/Household and Non-Profit Entities ranking second and third, respectively. The largest portion of the Non-Profit Entities classification is made up of resident nominees who, as previously explained, might not necessarily be non-profit. The General Government group experienced the largest percentage increase in holdings, rising by 16.1%, followed by Individual/Household with a 13.3% increase. In terms of absolute changes, the Financial Company category saw the largest increase, with a nominal rise of €385.83 million.

**Chart 5**  
**MOVEMENTS IN HOLDINGS BY CATEGORY**  
(EUR millions)



Source: Malta Stock Exchange.

### Concluding remarks

The Treasury Department offered €1.29 billion worth of MGS during 2024 through three regular issuances, all of which were made available to both retail and wholesale investors, and a 62+ MGSB roll-over. Investor demand was strong, offering €1.83 billion, of which the Treasury department allotted a total of €1.26 billion. Participation by the wholesale category in primary issuances added €239.00 million to total bids in 2023, contrasting that of retail investors who decreased their applications by €138.43 million. The August issuance had the highest bid-to-cover ratio recorded for the year at 2.34 times, possibly reflecting the higher coupons offered in comparison to other issuances. All the offered MGS were issued with short-to-medium term maturity, with both investor types showing a stronger preference towards the latter when considering individual issuance results. This paired well with the Treasury's inclination to allot more at the longer end of the terms made available, given the high maturity levels in the coming ten-year period. When examining participation through the five main investing categories, Financial Companies emerged as the largest participating group, increasing its bidding volume over the previous year. The Individual/Household category was the second most active group in primary issuances, although its participation decreased from the previous year. Return requirements of wholesale investors were analysed through the difference between successful AWYs and the yield offered to retail investors. Notable differences were observed in the first issuance held in 2024, however these subsided in the following issuance, with an instance of a negative spread

in the 3.40% MGS 2027 VI F.I. Additional yield requirements by wholesale investors over retail pricing were almost non-existent in the August and October issuances.

MGS on-exchange turnover in the secondary market continued to rise, registering the fifth year of growth, despite turnover expressed as a percentage of total outstanding remaining subdued at just 2.0%. Overall, on-exchange trading was distributed over 60 MGS, with 35.5% occurring over the five top traded MGS. The 5.25% 2030 I maintained its popularity, remaining the top traded security, as in 2023. One can note that most trading took place in the second half of the year, possibly influenced by declining yields. The Central Bank of Malta, through its market making role, remained a key market player as it effected 77.7% of total on-exchange turnover. Through the movements in holdings by category analysis, it was revealed that, as in the previous year, the Financial Company group remained the largest holder of government debt in MGS, followed by the Individual/Household category. In percentage terms, the General Government grouping saw the largest year-on-year increase in holdings, by 16.1%.