

## 2. OUTPUT AND EMPLOYMENT

Annual real GDP growth rose by 3.0% in the third quarter of 2025. Growth was driven by domestic demand and net exports in almost equal proportion. When adjusting for imports, the growth in GDP was mainly driven by external trade.

Sectoral data show that the expansion in output continued to be driven by the services sector, with the sector consisting of wholesale and retail trade, repair of motor vehicles, transportation, accommodation and related activities being the main contributor to the economic expansion.

During the third quarter of 2025, the labour market continued to perform positively amid a further increase in activity and employment rates. The unemployment rate declined further, remaining well below that in the euro area.

The labour market remained tight. Indeed, the number of job vacancies increased by 14.2% when compared to the third quarter of 2024. Additionally, the job vacancy rate increased slightly. The labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate, remained elevated and increased both on a quarterly and annual basis.

### Potential output, business conditions and economic policy uncertainty (EPU) indices

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

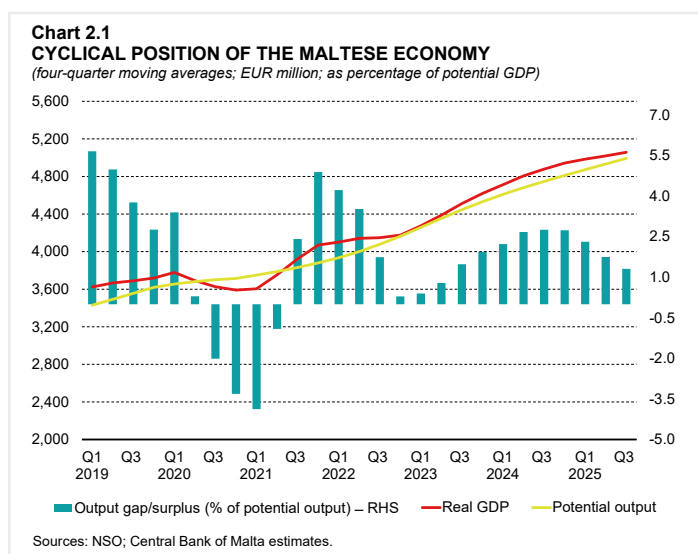
The Bank estimates that potential output grew by 4.9% in the third quarter of 2025, slightly below that of 5.1% estimated for the previous quarter.

On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter exceeded that in GDP. As a result, the output surplus narrowed to 1.3% from 1.7% (see Chart 2.1).

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

#### BCI continues to stand slightly above its historical average

In the third quarter of 2025 the Bank's BCI remained relatively unchanged from the previous quarter, indicating that the pace of economic activity remains



slightly above its long-run average (see Chart 2.2).<sup>1</sup>

Most indicators included within the BCI experienced above average growth. On the other hand, growth in GDP moderated and was below its long run average in recent quarters.

### EPU increases

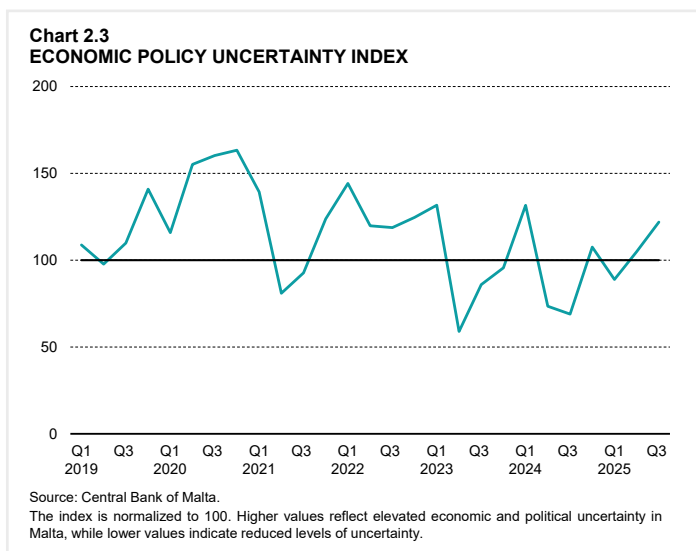
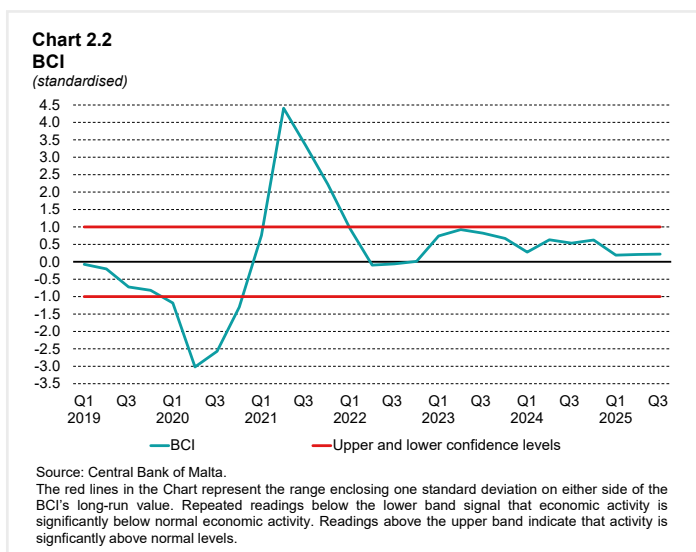
In the third quarter of 2025, the Bank's EPU Index averaged 121.9, marking the highest quarterly reading of the year and remaining well above the historical benchmark of 100 (see Chart 2.3).<sup>2</sup>

The increase was driven primarily by domestic factors, including political developments, discussions related to the sale of HSBC, and ongoing policy discussions, most notably on the Planning Reform Bill. At the same time, international developments also contributed to the elevated level of uncertainty, particularly during the first two months of the quarter, when concerns surrounding trade tariffs and their potential impact on investment markets intensified.

## GDP and industrial production

### Real GDP growth increases at a faster pace

In the third quarter of 2025, real GDP rose by 3.0% on an annual basis, following a 2.8% increase in the previous quarter.<sup>3</sup> Growth was driven by domestic demand and net exports in almost equal proportion (see Table 2.1).



<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 Bank'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* 04/2016.

<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 Bank's [Economic Policy Uncertainty 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* 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* 220/2025, which was published on 27 November 2025.

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

	2024		2025		
	Q3	Q4	Q1	Q2	Q3
<i>Annual percentage changes</i>					
Private final consumption expenditure	3.3	6.0	3.8	3.0	3.0
Government final consumption expenditure	11.8	16.8	8.7	8.0	0.8
GFCF	8.3	-1.4	-3.6	1.5	-1.4
<b>Domestic demand</b>	<b>5.8</b>	<b>6.1</b>	<b>3.7</b>	<b>4.1</b>	<b>2.0</b>
Exports of goods and services	4.5	5.7	0.9	6.7	3.9
Imports of goods and services	4.0	6.3	0.4	8.7	3.1
<b>GDP</b>	<b>6.0</b>	<b>5.4</b>	<b>3.6</b>	<b>2.8</b>	<b>3.0</b>
<i>Percentage point contributions</i>					
Private final consumption expenditure	1.6	2.7	1.7	1.3	1.4
Government final consumption expenditure	1.8	3.0	1.4	1.3	0.1
GFCF	1.5	-0.3	-0.7	0.3	-0.3
Changes in inventories	-0.2	-0.3	0.5	0.4	0.3
<b>Domestic demand</b>	<b>4.6</b>	<b>5.2</b>	<b>2.9</b>	<b>3.3</b>	<b>1.6</b>
Exports of goods and services	5.4	6.8	1.0	7.9	4.5
Imports of goods and services	-4.1	-6.5	-0.4	-8.5	-3.1
<b>Net exports</b>	<b>1.3</b>	<b>0.3</b>	<b>0.6</b>	<b>-0.5</b>	<b>1.5</b>
<b>GDP</b>	<b>6.0</b>	<b>5.4</b>	<b>3.6</b>	<b>2.8</b>	<b>3.0</b>

Sources: NSO; Central Bank of Malta calculations.

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

Domestic demand rose by an annual 2.0% in the third quarter of 2025, following an increase of 4.1% in the second quarter. Growth in government consumption moderated when compared to the previous quarter, whilst GFCF contracted. Hence, domestic demand contributed 1.6 percentage points to GDP growth in the third quarter of 2025, down from a 3.3 percentage point contribution in the second quarter.

Private consumption expenditure increased by an annual 3.0% in the third quarter of 2025, an unchanged rate of growth compared with that recorded in the previous quarter. It added 1.4 percentage points to real GDP growth in the quarter under review.

Data on the Classification of Individual Consumption by Purpose (COICOP) show a year-on-year increase in most expenditure categories, except for a significant decrease on insurance and financial services. This is due to the impact of the calculation of the financial intermediation services indirectly measured (FISIM), which in turn reflects the recent easing of monetary policy interest rates combined with its weak transmission to retail lending and deposit rates offered by domestic banks.<sup>4</sup>

Government consumption expenditure increased by 0.8% in annual terms, following an increase of 8.0% in the previous quarter. In the quarter under review, growth was mainly driven by outlays on intermediate consumption within the public administration and health sectors. Overall, government consumption added 0.1 percentage points to GDP growth.

<sup>4</sup> COICOP data measure domestic consumption and thus, include the expenditure of non-residents in Malta while excluding the expenditure of Maltese residents abroad. The latter increased in year-on-year terms.

Real GFCF contracted by 1.4% year-on-year after increasing by 1.5% in the previous quarter. When measured in absolute terms, the increase in the quarter under review was largely driven by higher outlays on dwellings, intellectual property and to a smaller extent higher spending on cultivated biological resources. These offset declines in investment in machinery and equipment and non-residential construction. GFCF shed 0.3 percentage points off GDP growth.

The contribution of changes in inventories in the third quarter of 2025 was 0.3 percentage points.

Meanwhile, imports rose by 3.1%, while exports rose by 3.9% on a year earlier. As a result, net exports rose and contributed 1.5 percentage points to annual real GDP growth as the surplus from trade in services offset a trade deficit on 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.

This approach confirms that growth was driven by both domestic demand and net exports. However, in contrast with the traditional approach, the import-adjusted contributions from external trade exceeded that of domestic demand. Within domestic demand components, private consumption was the largest contributor to GDP.

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

	2024		2025		
	Q3	Q4	Q1	Q2	Q3
Private final consumption expenditure	1.1	1.5	1.2	0.4	0.9
Government final consumption expenditure	1.5	2.5	1.2	1.0	0.1
GFCF	0.7	-0.3	-0.2	-0.2	-0.1
Changes in inventories	-0.1	-0.1	0.2	0.2	0.1
<b>Domestic demand</b>	<b>3.2</b>	<b>3.6</b>	<b>2.4</b>	<b>1.4</b>	<b>1.0</b>
<b>Exports of goods and services</b>	<b>2.7</b>	<b>1.8</b>	<b>1.1</b>	<b>1.3</b>	<b>2.0</b>
<b>GDP</b>	<b>6.0</b>	<b>5.4</b>	<b>3.6</b>	<b>2.8</b>	<b>3.0</b>

Source: Central Bank of Malta estimates.

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

### *Services remain the main driver of economic growth*

Data based on the output approach show that in the third quarter of 2025, real gross value added (GVA) rose by 2.3% in annual terms and contributed 2.1 percentage points to GDP growth (see Table 2.3).<sup>5</sup>

Services remained the main driver behind the latest expansion in economic activity, adding 2.2 percentage points to real GDP growth. Growth in services was mainly spurred by the sector

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

**Table 2.3**  
**CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH**

*Percentage points*

	2024		2025		
	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	1.1	-0.3	-0.1	-0.1	-0.2
Mining and quarrying; utilities	0.4	0.1	0.2	0.2	0.1
Manufacturing	0.5	0.6	0.0	0.1	-0.1
Construction	-0.1	-0.1	-0.1	0.0	0.1
Services	3.2	3.1	4.4	2.7	2.2
<i>of which:</i>					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	1.4	0.8	1.4	0.8	1.2
Information and communication	0.5	0.1	0.8	0.6	0.2
Financial and insurance activities	0.0	1.1	0.2	0.1	0.3
Real estate activities	0.3	0.4	0.2	-0.1	-0.2
Professional, scientific, administrative and related activities	0.2	-0.6	0.6	-0.1	0.5
Public administration and defence; education; health and related activities	0.9	1.4	1.1	1.0	0.3
Arts, entertainment; household repair and related services	0.0	-0.2	0.2	0.3	-0.1
<b>GVA</b>	<b>5.0</b>	<b>3.4</b>	<b>4.4</b>	<b>2.9</b>	<b>2.1</b>
<b>Taxes less subsidies on products</b>	<b>0.9</b>	<b>2.0</b>	<b>-0.8</b>	<b>-0.2</b>	<b>0.9</b>
<b>Annual real GDP growth (%)</b>	<b>6.0</b>	<b>5.4</b>	<b>3.6</b>	<b>2.8</b>	<b>3.0</b>

Source: NSO.

consisting of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, as well as accommodation and food service activities. This sector contributed 1.2 percentage points to GDP growth. Other significant contributions came from the sectors comprising professional, scientific, administrative and related activities, which raised GDP by 0.5 percentage points. Meanwhile, financial and insurance activities, and public administration, each contributed 0.3 percentage points. The sector comprising information and communication raised GDP by 0.2 percentage points while the sector consisting of arts, entertainment, household repair and related services shed off 0.1 percentage points from GDP growth.

The contribution from taxes on products turned positive compared with a year earlier.

#### *Nominal GDP growth increases at a faster pace*

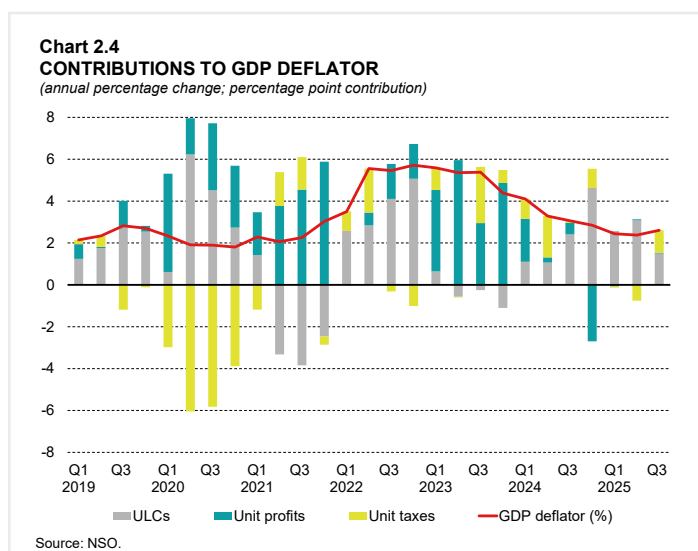
Nominal GDP rose by 5.7% in annual terms in the third quarter of 2025, after increasing by 5.2% in the preceding quarter. Almost half of this increase reflects higher compensation of employees, while operating surplus accounted for another third. Net taxes on production and imports also increased in annual terms.

Chart 2.4 shows the main contributors to growth in the GDP deflator. Annual growth in the GDP deflator stood at 2.6% in the third quarter of 2025, marginally higher than the rate

of 2.4% in the previous quarter, with the increase reflecting volatility in the contribution of unit taxes. The latter's contribution turned positive in the third quarter of this year. Meanwhile, ULCs exhibited a smaller positive increase, while the contribution of unit profits was flat.

*Industrial production grew at a more moderate pace, services production contracted*

Industrial production rose by 2.6% on a year-on-year basis in the third quarter of 2025, and thus at a more moderate pace when compared with an increase of 4.9% recorded in the preceding quarter.<sup>6</sup>



This profile was driven by production in the manufacturing sector, which rose at an annual rate of 2.7%, after having increased by 4.9% in the preceding quarter. Meanwhile, production in the energy sector rose by an annual 2.2% in the third quarter of the year, compared with 3.1% a quarter earlier.<sup>7</sup> Production in the quarrying sector also increased, though at a more moderate pace than that recorded in the previous quarter.

In the manufacturing sector, the strongest increases in output were reported by firms that manufacture textiles, wearing apparel, computer, electronic and optical products as well as wood. Significant increases were also recorded by firms that form part of the sector of motor vehicles, trailers and semi-trailers and those that repair and install machinery and equipment. Production grew at double digit rates in these sectors. Smaller annual increases were recorded in the sectors that manufacture fabricated metal products, food and beverages as well as furniture.

By contrast, production contracted in the 'other manufacturing' sector, which includes production of medical and dental instruments, and among firms that manufacture electrical equipment, and machinery. Production also declined among firms that produce rubber and plastic products, those involved in the printing and reproduction of recorded media as well as basic pharmaceutical products.

Meanwhile, the index of services production – which measures the volume of activity in services industries excluding trade, financial and public services – contracted in the third quarter of 2025. It fell by 1.4% on an annual basis following a contraction of 2.1% recorded in the preceding quarter. According to this index, services production has been declining since the first quarter of 2025.

<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.

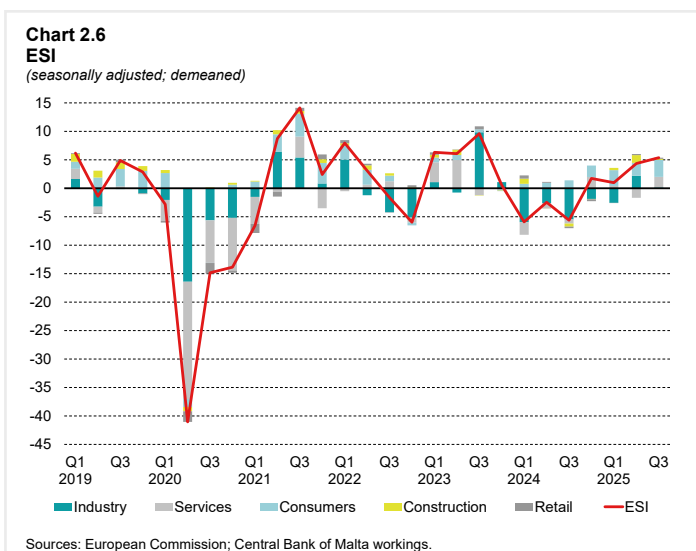
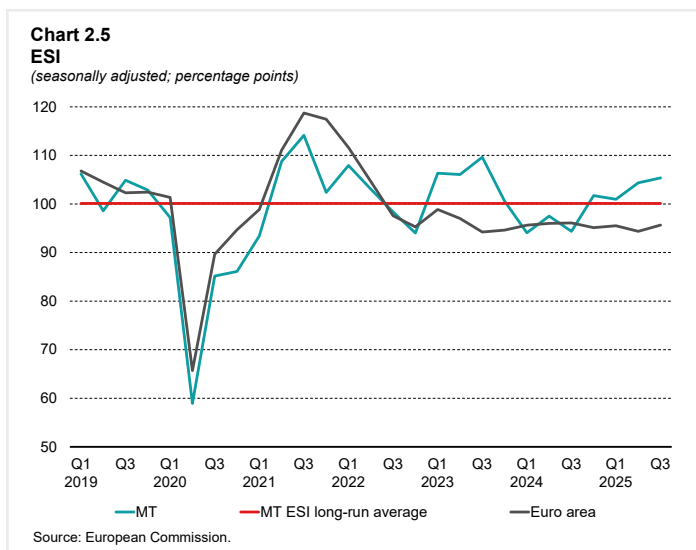
Lower activity was reported by firms involved in services related to information and communication as well as those related to professional, scientific and technical activities. These contractions offset higher activity levels in transportation and storage, accommodation and food services, and to a lesser extent in administrative and support services and real estate.

## Business and consumer surveys

During the third quarter of 2025, the European Commission's ESI for Malta increased slightly to 105.4, from 104.4 in the preceding quarter, and thus remained above its long-term average of around 100.0. Moreover, the overall indicator stood above that in the euro area, which averaged 95.7 (see Chart 2.5).<sup>8,9</sup>

When compared with the second quarter of 2025, confidence improved in the services sector, and to a lesser extent among consumers and in the retail sector. However, it fell in the construction sector and in industry.

When accounting for the weights assigned to each sector, and the time variation of the confidence indicator for each sector, the increase in the ESI relative to the second quarter of 2025 was mainly driven by the services sector, although consumer sentiment also contributed.<sup>10</sup> These two sectors largely also explain why the overall ESI stood above the long-term average (see Chart 2.6).



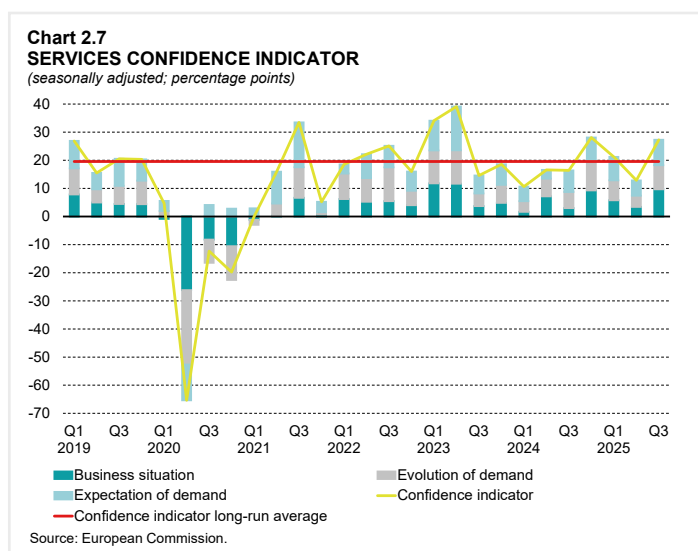
<sup>8</sup> The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

<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%.

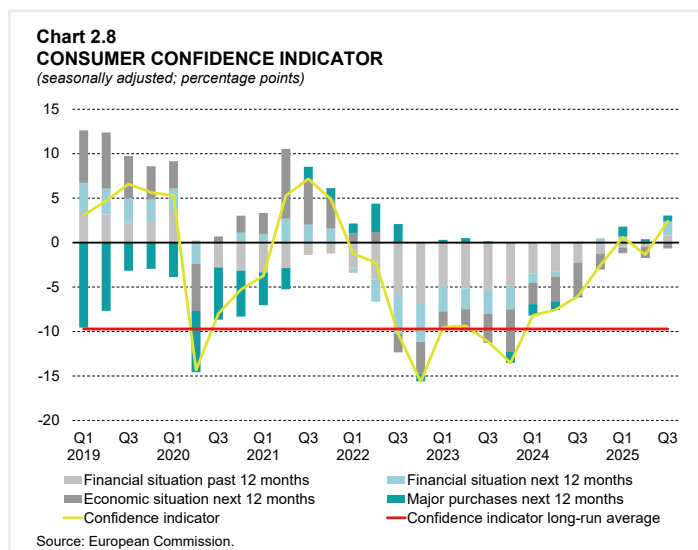
### Services sector signals more optimism<sup>11</sup>

The confidence indicator in the services sector increased to 27.3, from 12.9 in the previous quarter. Sentiment in this sector also rose above its long-term average of 19.6 (see Chart 2.7). All components of the indicator contributed to the latest increase in sentiment, with firms' assessment of the business situation over the past three months being the key driver.



### Consumer confidence turns positive<sup>12</sup>

The consumer confidence indicator averaged 2.4 during the third quarter of 2025, above the -1.4 recorded in the previous quarter, and its long-run average of -9.7 (see Chart 2.8). The recent amelioration reflected an improvement across all components of the confidence indicator, although the largest improvements were reflected in consumers' assessment and expectations about their financial situation.



### Sentiment among retailers improves slightly<sup>13</sup>

The sentiment indicator in the retail sector stood at 4.6 in the third quarter of 2025, up from 4.1 in the previous quarter, and remains above its long-term average of 0.2. An improvement in sales over the past three months was largely offset by a deterioration in short-term business expectations and in

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

<sup>13</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.

firms' assessment of stocks (see Chart 2.9).

### Industrial confidence turns negative<sup>14</sup>

The industrial confidence indicator declined to -2.8, from an average of 3.3 in the previous quarter but remained above its long-term average of -4.4 (see Chart 2.10). The recent decline for this sector reflected weaker, though still positive, production expectations and an increase in the share of firms reporting higher than normal stocks of finished products. On the other hand, the share of firms reporting below normal order book levels declined.

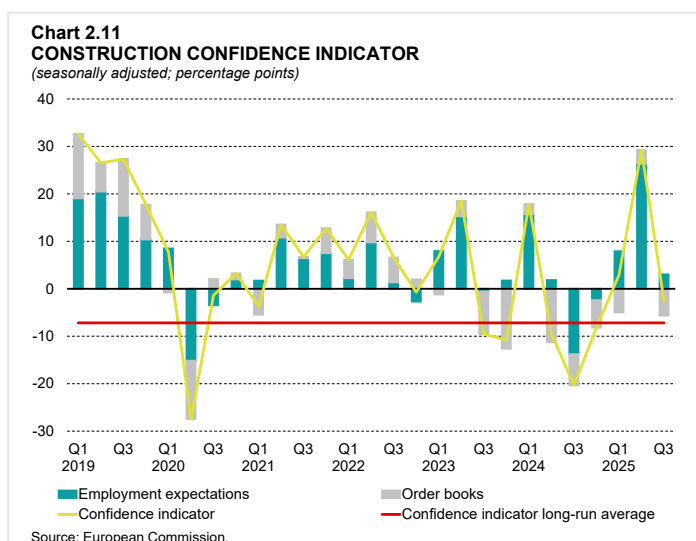
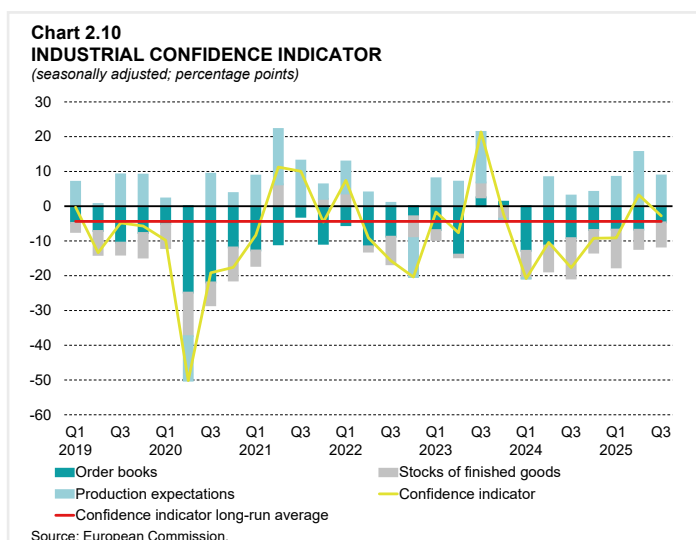
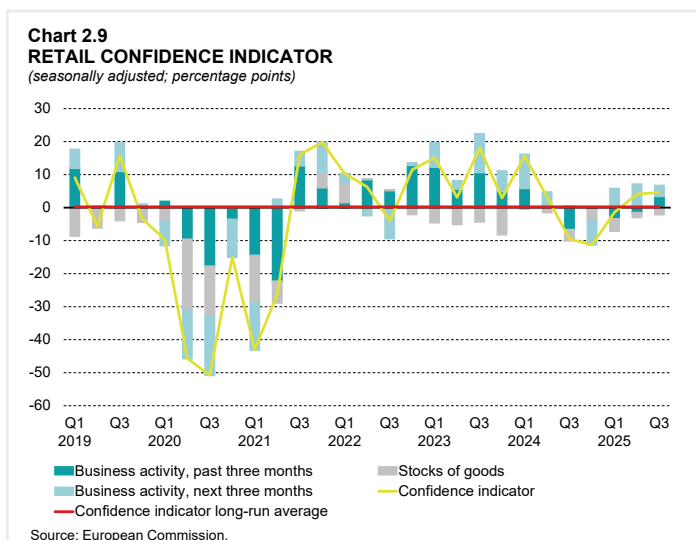
### Confidence in the construction sector turns negative<sup>15</sup>

Over the summer, the indicator measuring confidence in the construction sector worsened, pushing down the third quarter average into negative territory. Nevertheless, the indicator remained above its long-term average of -7.2 (see Chart 2.11).

Both components of the indicator contributed to the latest deterioration, with employment expectations being the key driver. Sentiment for this sector needs to be interpreted with caution, due to a low response rate among enterprises.

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

The EEI – which is a composite indicator of employment



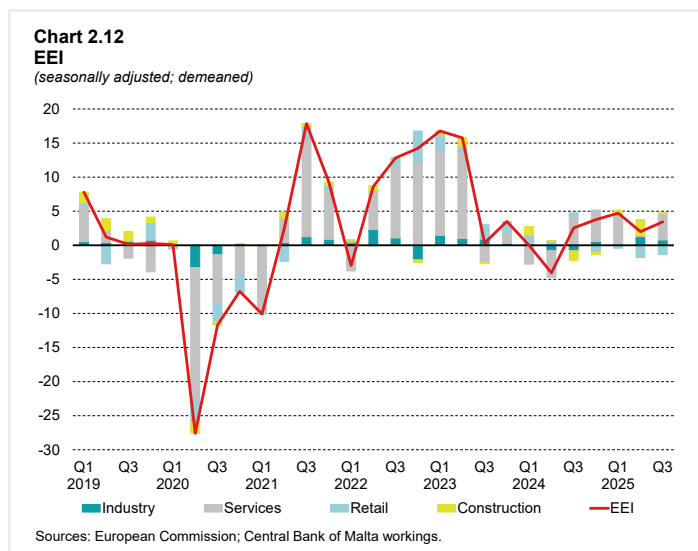
<sup>14</sup> The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

<sup>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 third quarter of 2025. During the third quarter of 2025, it averaged 103.4, above 102.8 in the preceding quarter, and rose further above its long-term average of around 100.0. The index also stood above the euro area average of 97.2.<sup>16</sup>

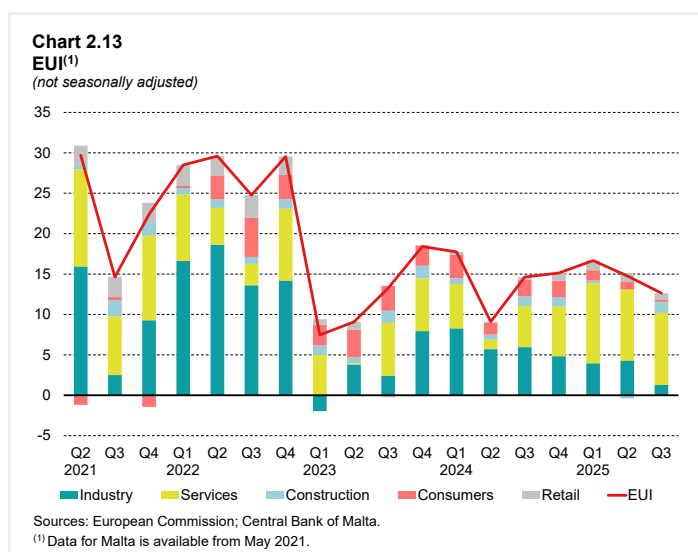
During the quarter under review, employment expectations were positive across all productive sectors, except in the retail sector. The most positive reading was recorded in the services sector.

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



### Economic Uncertainty Indicator (EUI) decreases

The European Commission's EUI is a composite indicator which measures how difficult it is for sectors to make predictions about their future financial or business situation. In Malta, this indicator decreased to 12.6 in the third quarter of the year, from 14.8 in the preceding quarter and remained below its average level in recent years (see Chart 2.13).<sup>17</sup> The indicator also remained below that in the euro area, which averaged 17.6.<sup>18</sup>



<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 decreased in industry and in the retail sector, and to a lesser extent among consumers, while it increased in the remaining sectors.

However, when considering each sector's weight in each component of the EUI, the decrease is mainly attributed to industry. The services sector continued to have the highest contribution to uncertainty during the quarter under review.

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

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

LFS data show that in the third quarter of 2025, the labour force grew by 14,593 persons, or 4.4% on an annual basis, following a 4.2% increase in the previous quarter (see Table 2.4).<sup>20</sup>

The activity rate stood at 84.0% in the quarter under review, higher than the 82.7% recorded a year earlier.<sup>21</sup> This was mostly due to a higher female participation rate. While the male participation rate increased by 0.9 percentage points to 89.6%, that of females increased by 1.8 percentage points to 77.1%. Both rates exceeded the corresponding rates for the euro area, with the rate for males exhibiting a larger difference.

### Employment increases at a faster pace

Employment rose by 4.8% in annual terms, following a rise of 4.5% in the previous quarter. The increase in absolute terms was driven by full-time employment, as this rose by 14,914 persons,

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

*Persons; annual percentage changes*

	2024	2025	Annual change
	Q3	Q3	%
<b>Labour force</b>	<b>332,075</b>	<b>346,668</b>	<b>4.4</b>
Employed	321,636	337,234	4.8
<i>By type of employment:</i>			
Full-time	285,330	300,244	5.2
Part-time	36,306	36,990	1.9
Unemployed	10,439	9,434	-9.6
<b>Activity rate (%)</b>	<b>82.7</b>	<b>84.0</b>	
Male	88.8	89.6	
Female	75.2	77.1	
<b>Employment rate (%)</b>	<b>80.0</b>	<b>81.6</b>	
Male	85.9	87.0	
Female	72.9	75.1	
<b>Unemployment rate (%)</b>	<b>3.2</b>	<b>2.7</b>	
<b>Actual hours worked (per week)</b>	<b>33.9</b>	<b>33.3</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.

or 5.2% on a year earlier. The sector comprising wholesale and retail trade, transportation and storage, professional, scientific and technical activities and the sector comprising arts and entertainment recorded the strongest increases.

The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – increased by 684, or 1.9% in annual terms.

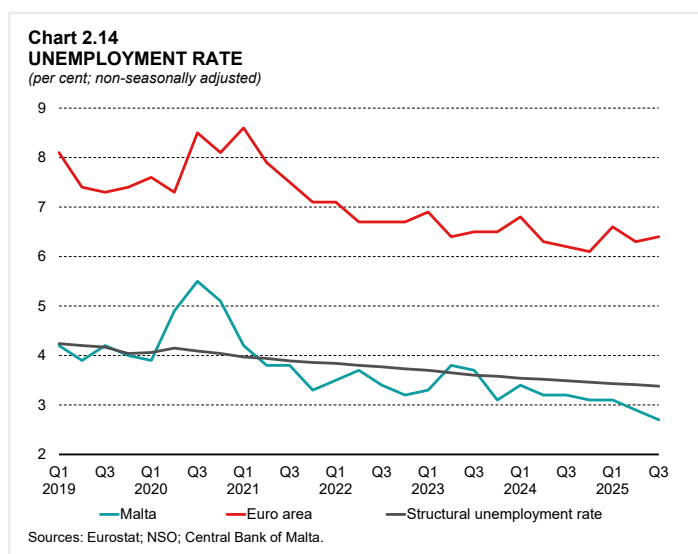
In the third quarter of 2025, the overall employment rate reached 81.6%, 1.6 percentage points higher than the rate prevailing during the same period of 2024.<sup>22</sup> Both the female and male employment rate increased in annual terms. However, the female rate recorded a more significant increase; it rose by 2.2 percentage points to 75.1%, while that of males rose by 1.2 percentage points to 87.0%. Employment rates for males increased the most among the 55 to 64 age bracket and in the 15 to 24 age bracket. For females, employment rates increased in all age groups apart from those aged in the 15 to 24 age bracket.

During the quarter under review, average actual weekly hours worked derived from the LFS decreased slightly to 33.3, from 33.9 a year earlier (see Table 2.4).<sup>23</sup> This decrease was reported by both full-time and part-time employees.

### The unemployment rate reaches a historic low

The unemployment rate based on the LFS fell to 2.7%, from 3.2% a year earlier (see Table 2.4).<sup>24</sup> With this decline, the unemployment rate reached a new historic low. Labour market conditions remained more favourable than those in the euro area, where the unemployment rate on average stood at 6.4% (see Chart 2.14).

During the quarter under review, the unemployment rate also stood below the Bank’s structural measure of 3.4%.<sup>25</sup> This indicates a degree of labour



<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.

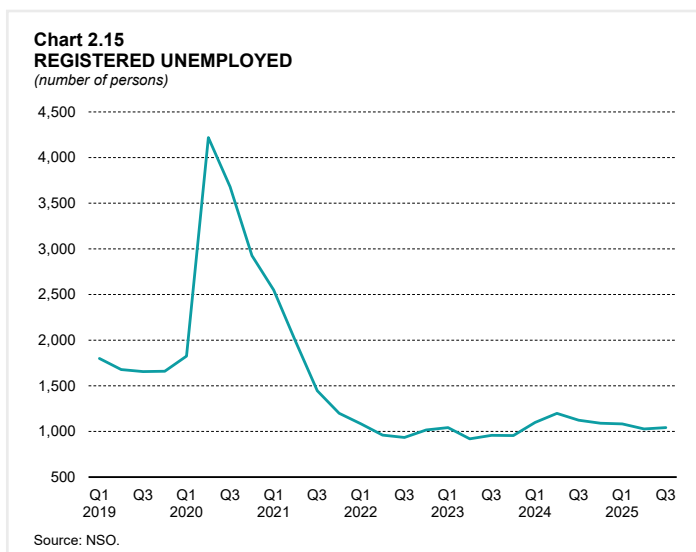
<sup>23</sup> Actual hours refer to the number of hours actually spent at the place of work during the reference week for LFS. A person may work extra hours (e.g. overtime, variable hours) or work less hours than usual (e.g. vacation leave, education, sick leave or slack work) due to various reasons. 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. Unemployment data in this section is not seasonally-adjusted and hence may differ slightly from figures shown in the chapter on external developments and the euro area.

<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.

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 increased on a quarterly basis but decreased in annual terms. During the third quarter of 2025, the average number of persons on the unemployment register stood at 1,042, compared with 1,028 in the second quarter of 2025 and with 1,123 a year earlier (see Chart 2.15).

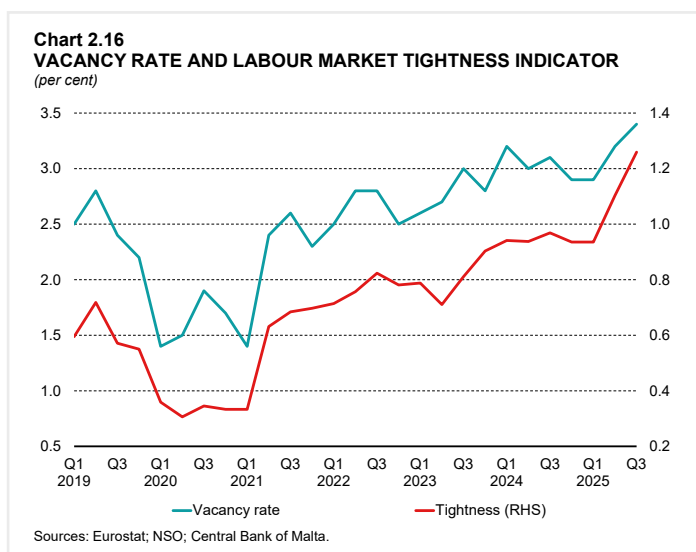


*The vacancy rate increases slightly in annual terms, labour market tightness persists*

In absolute terms the number of vacancies increased from 8,579 in the third quarter of 2024 to 9,798 in the quarter under review, that is, a 14.2% increase. The sector comprising wholesale and retail trade, transportation and storage, accommodation and food service activities accounted for 52% of this increase and the sector comprising public administration, defence, education, human health and social work activities accounted for 43% of this increase. Overall, when compared with the average level since 2017, the number of vacancies has reached a new peak.<sup>26</sup>

Eurostat's job vacancy rate for industry, construction and services also increased standing at 3.4% from 3.1% a year earlier (see Chart 2.16).<sup>27</sup> The highest vacancy rates were recorded in the quarrying sector (8.8%), the information and communication sector (5.1%), and the sector comprising administrative and support service activities (4.7%).

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 1.3, higher than the 1.1 recorded in the previous quarter and the 1.0 recorded a year earlier. Market conditions thus remained very tight compared to recent



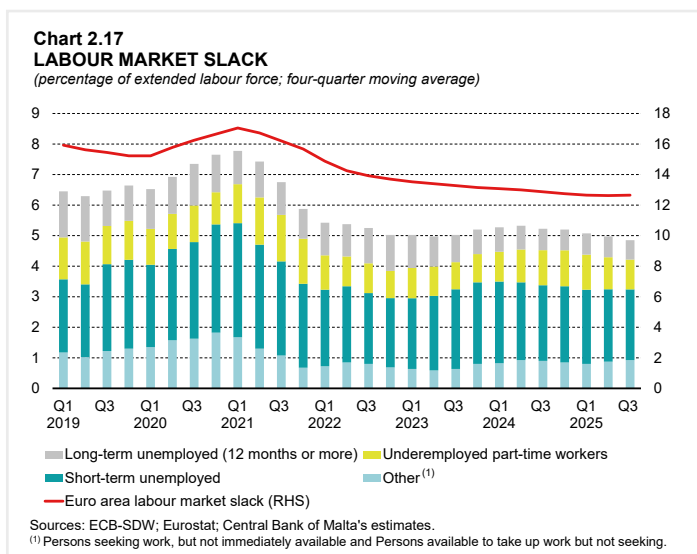
<sup>26</sup> Data for Malta are available since 2017.

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

outturns. This contrasts with developments in the euro area, where the tightness indicator declined to 0.3.

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 third quarter of the year (see Chart 2.17).<sup>28</sup> This rate stands well below its average of 7.8% estimated since 2010. It is also significantly lower than the rate of 12.7% recorded for the euro area over the four quarters to September 2025.

The Bank estimates that during the four-quarters ending in September, 60% of the labour market slack in Malta stemmed from unemployment (primarily from short-term unemployment). 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.

## BOX 1: RECENT DEVELOPMENTS IN POVERTY AND SOCIAL EXCLUSION INDICATORS FOR MALTA<sup>1</sup>

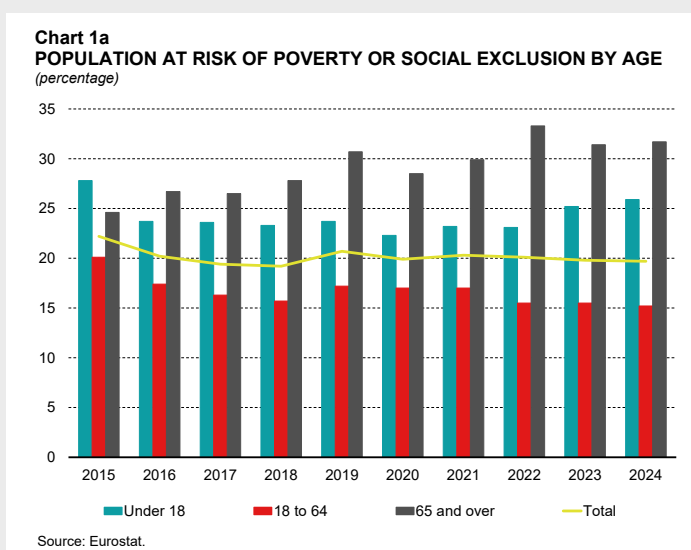
Over just a decade Malta's GDP doubled, while the employment rate rose from being the second lowest in Europe to being the second highest.<sup>2</sup> Household bank deposits also more than doubled, while median net wealth of those in the bottom quintile rose from around €95,000 to €159,000, when the overall price level increased by much less at around 21%.<sup>3</sup> Yet, despite this surge in economic growth and wealth, even of the lowest income categories, Malta's performance in terms of the EU's 2030 target indicator of the proportion of the population at risk of poverty or social exclusion (AROPE) is similar to that of countries with much weaker economic performance. This box will explain briefly the sources of this paradox.

### Trends in poverty reduction and social inclusion

The main indicator used by the EU to measure poverty is known as AROPE and is the sum of persons who are either at risk of poverty (ARP), severely materially and socially deprived or living in a household with a very low work intensity.

Eurostat defines persons at-risk-of-poverty (ARP) as those people with an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income. For someone to be classified as being severely materially and socially deprived (SMSD), they would have stated that they cannot afford seven out of 13 deprivation items.<sup>4</sup> Finally, the indicator for low work intensity is based on the number of persons who state that they live in a household where working-age members worked for less than 20% of their work-time potential during the previous year.

Chart 1a shows that there have been different trends for this indicator for Malta if one looks at the three main population breakdowns, namely those under 18 (henceforth 'children'), those



<sup>1</sup> Prepared by Dr. Aaron G. Grech. Dr Grech is the Chief Officer of the Economics Division at the Central Bank of Malta. The author would like to thank Mr Alexander F. Demarco, Mr Noel Rapa, Mr Etienne Caruana and Mr Mark Musu for their comments. This paper is a summary of *Discussion Paper 5/2025* 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 or any other institutions. Any errors are the author's own.

<sup>2</sup> Grech, A.G. (2025), Understanding recent labour supply dynamics in Malta, Central Bank of Malta *Discussion Paper*, DP/01/2025.

<sup>3</sup> [Data on net wealth by quintile.](#)

<sup>4</sup> [Full list of the 13 deprivation items.](#)

aged 18 to 64 (henceforth ‘working age’) and those 65 and over (henceforth ‘elderly’). There has been an upward trend for the elderly, with an increase of nearly 7 percentage points, an improvement for working age households, with a decline of 5 percentage points and a somewhat cyclical performance for children.

If one breaks down these age groups by gender, one notes that the group that has seen the largest rise in the AROPE are women aged 65 and over, where there was an increase of 9.5 percentage points. By contrast, the group that has seen the largest drop are women of working age, where there was a decline of 5 percentage points. When one looks at the population in SMSD, trends are completely different. Firstly, while the AROPE for children has not fallen by much, the proportion of children in SMSD has more than halved from 11.6% to 4.8%. Among elderly women, where there was the largest rise in the AROPE, one finds a decline in the share of those in SMSD from 6.3% to 5.2%.

Table 1a tries to place these trends within the broader euro area perspective. This international comparison shows how much Malta outperformed the rest of the countries in the monetary union, with two exceptions – the ARP for the elderly and children.

Malta stands out mainly when it comes to those of working age, with a sharp reduction in both AROPE and SMSD. That said, even as regards children in SMSD, there has been a very strong drop since 2015, much sharper than the decline in the AROPE of children. As for the elderly, one finds a rather confusing development that while the proportion of those in SMSD has fallen by more than the drop observed for euro area average, the AROPE of the elderly in Malta has risen at a much faster rate than in the rest of the monetary union.

**Table 1a**  
**TRENDS IN AROPE, ARP, SMSD AND LOW WORK INTENSITY ACROSS**  
**THE EURO AREA (2024 vs 2015)**

*Per cent*

	Malta	Euro area
AROPE (total)	-2.5	-1.6
AROPE (children)	-1.9	-0.9
AROPE (work age)	-4.9	-3.0
AROPE (elderly)	7.1	2.8
ARP (total)	0.2	-0.7
ARP (children)	0.7	-0.9
ARP (work age)	-1.5	-2.0
ARP (elderly)	8.4	3.5
SMSD (total)	-4.2	-1.8
SMSD (children)	-6.8	-2.3
SMSD (work age)	-4.2	-1.8
SMSD (elderly)	-1.6	-0.9
Low work intensity	-4.7	-2.3

Source: Author's workings using Eurostat data.

### Understanding better the measurement of poverty

This conundrum can be resolved however, if one understands better the two measures. The approach taken by the EU to define the amount of income which means someone is not considered ARP is based on relativity to the median income. Changes in this threshold depend on changes in median income and do not have a direct relation to changes in the cost of what is required to have a decent standard of living, either because of inflation or because of changes in what is considered a decent standard of living.

In the case of Malta, the income threshold used to define those ARP rose by almost 51% over ten years, a period during which the cost of living rose by about 21%. Chart 1b shows how the 60% income poverty threshold for two adults with two dependent children evolved over time, rising from €16,138 in 2014 to €25,741 in 2024. This reflected the rapid growth of median income during this period. If one instead had defined the poverty threshold in line with what €16,138 was able to purchase in 2014, and then increased it in line with inflation, the threshold would have increased to €19,825. Hence to maintain the same living standard this household had in 2014, by 2024 the required increase in income was nearly a quarter less than the rise implied by the official poverty threshold.

To further explain how rapid the increase in the income threshold was, one can compare the one for Malta to that for France. Between 2015 and 2024, the cost of living as measured by the HICP in both Malta and France rose by roughly the same percentage rate. Yet while in Malta the income threshold used to define those ARP rose by almost 51%, that in France rose by a third of that rate. With the result that while in 2014, the income threshold used to define those ARP in Malta was equivalent to 60% of that applied in France, by 2024 it had reached 80%.

Besides the measure of poverty based on an ever-changing income threshold, Eurostat also publish what they call the “subjective poverty rate”. This is computed through a direct question to households about their difficulties in making ends meet. This assessment considers the households’ material wellbeing situation including income, expenditure, debt and wealth.

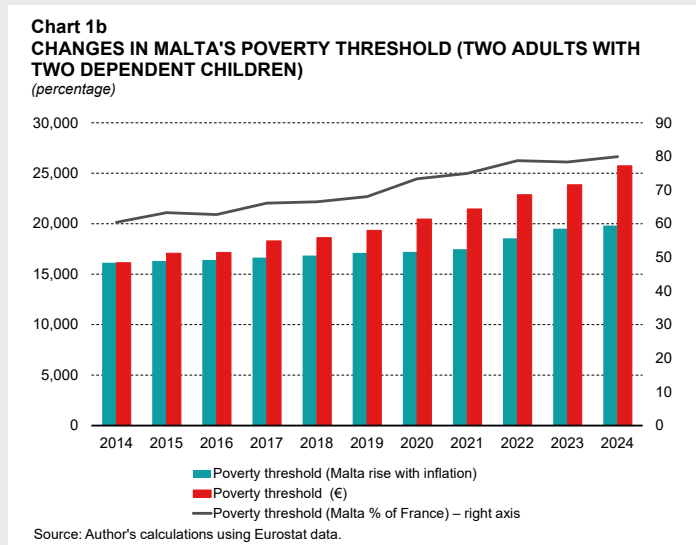
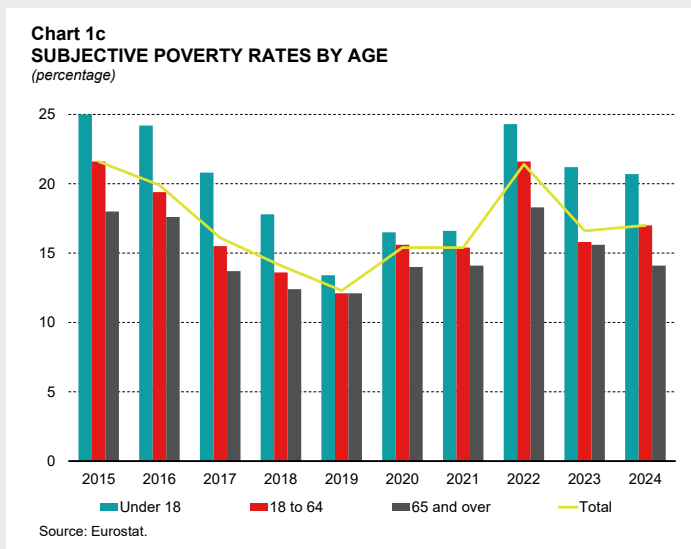


Chart 1c displays the subjective poverty rate by age. When compared to Chart 1a, which shows the ARP indicator, the share of those who consider themselves poor in that they face difficulties in making ends meet shows a much stronger improvement over time.

When looking at the different age groups, one notes that those of working age are more likely to consider themselves poor

than what the ARP measure would imply. There is a much starker difference between the subjective and relative income poverty measures for the elderly. The data suggests that over time the elderly's belief of their ability to make ends meet has not diverged greatly from that of other population groups, whereas their ARP measure would imply a steady deterioration. The elderly subjective poverty rate is about half the ARP rate.

Table 1b, which shows how median disposable equivalised income rose since 2013, may explain why the elderly believe they are much more materially well off. Among the elderly in



**Table 1b**  
**TRENDS IN MEDIAN DISPOSABLE EQUIVALISED INCOME ACROSS THE EURO AREA (2024 vs 2013)**

*Per cent*

	Malta	Euro area
Total	69.6	36.1
Children	64.7	37.6
Working age	77.0	38.5
Elderly	53.2	30.5
Men	69.6	36.5
Children	62.9	37.6
Working age	73.5	38.5
Elderly	55.2	30.3
Women	66.5	35.7
Children	65.4	37.9
Working age	78.7	38.2
Elderly	50.2	30.9

Source: Author's workings using Eurostat data.

Malta median disposable income increased by 53.2%, which is far higher than the 30.5% average increase observed across the euro area. If one focuses only on male pensioners, the rise in disposable income in Malta was nearly double than that experienced in the rest of the euro area.

Maltese persons aged 65 and over saw percentage increases in their income that exceeded by far those seen not just by their euro area counterparts, but also by euro area working age households. However, the income poverty threshold in Malta was buoyed upwards by the fact that during the last decade most Maltese working age families became two-earner households as more and more women successfully joined the labour market. The income of working age persons in Malta rose by 77%, double the increase observed in the rest of the euro area. By contrast, most Maltese pensioners remained dependent on just one pension. Therefore, even in a situation where their pension was increasing at historically unprecedented rates, it could not match that of the working age household income brought by the female partner starting to work.

### Understanding better the impact of policies

Table 1c shows the trends in median disposable equivalised income, material and social deprivation (MSD) and the ARP by household type between 2012 and 2024. This indicates that the pace of income growth was very sharp, but this acceleration was not the same across household types. In the case of household types with children the surge in income was more pronounced. The prime case is single persons. The median equivalised income of a single person rose by 66% between 2012 and 2024, but amongst single persons with dependent children the rise was of 72%. Moreover, the ARP of single persons with dependent children, though remaining the highest in absolute terms out of all household types, saw a decline of 3.8 percentage points.

Households comprising two adults of working age saw their income rise by 86% between 2012 and 2024, and their ARP fall by 5.5 percentage points. Yet, households with dependent

**Table 1c**  
**TRENDS IN MEDIAN DISPOSABLE EQUIVALISED INCOME BY**  
**HOUSEHOLD TYPE AND IN ARP AND MSD – 2024 OVER 2012**

	Change in income	Change in ARP	Change in MSD <sup>(1)</sup>
Total	€8,981 (78%)	+1.7 p.p.	-14.5 p.p.
Households without dependent children	€8,975 (72%)	+4.9 p.p.	-13.1 p.p.
Households with dependent children	€8,768 (85%)	-1.8 p.p.	-15.6 p.p.
Single person	€5,924 (66%)	+13.9 p.p.	-16.2 p.p.
Single person with dependent children	€5,196 (72%)	-3.8 p.p.	-43.5 p.p.
Two adults, at least one aged 65 or over	€5,625 (63%)	+12.3 p.p.	-13.4 p.p.
Two adults younger than 65	€12,967 (86%)	-5.5 p.p.	-11.9 p.p.
Two adults with one dependent child	€8,910 (72%)	+0.9 p.p.	-6.0 p.p.
Two adults with two dependent children	€7,666 (72%)	-1.8 p.p.	-11.4 p.p.

Source: Author's workings using Eurostat data.

<sup>(1)</sup> Change from 2014 as earlier data unavailable. Data for SMSD by household type unavailable.

children saw an increase of 85%. In the case of households comprised of two adults with one child, the ARP still rose slightly, by 0.9 percentage points, but amongst those with two children there was a drop of 1.8 percentage points. If one looks at trends in MSD, the largest drop is amongst single parents, but there are also significant declines for other households with children, which exceed those for households without children.

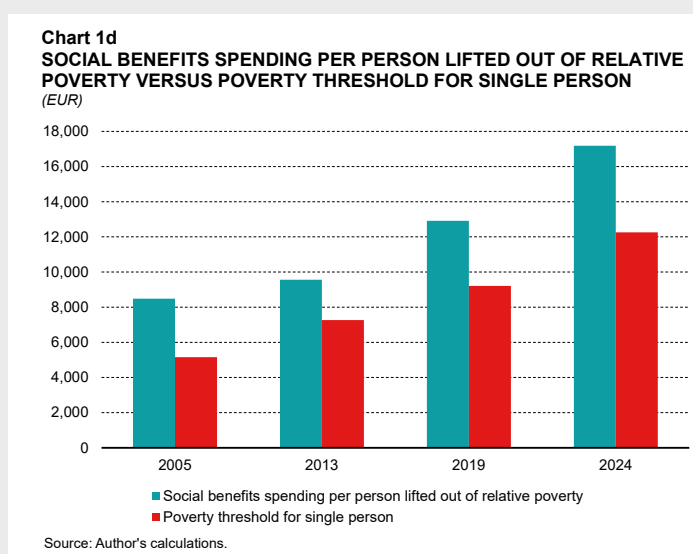
Eurostat data show that in 2005 76% of all children in Malta aged under three were cared for only by their parents. By 2014, this proportion had fallen to 60.6%, and to 43.6% in 2024. More importantly, the proportion of children aged under three with zero hours in formal childcare went down from 95.4% in 2005 to 81.4% in 2014 to 55.9% in 2024. These trends all suggest that the introduction of free childcare to working parents in 2014 resulted in a shift of caring responsibilities from parents to formal childcare institutions.

The employment rate of women aged 25 to 49 went from 39.6% in 2005 to 67% in 2014 to 84.7% in 2024. More importantly while in 2005 nearly a fifth of women in employment aged 25 to 49 were in part-time work, rising to nearly a quarter in 2014, by 2024 the proportion had fallen to 14%. This means that the income earned from employment by women improved not just because more joined the workforce but also because more women could go for full-time employment rather than part-time jobs.

Following this change in employment, the ARP of women aged 25 to 49 dropped by more than a quarter, from 15.6% in 2013 to 11.1% in 2024. At the same time the SMSD rate among this age bracket has more than halved, from 7.2% to 3.3%. If one focuses on specific groups of women, such as single parents, the change is even more pronounced.

That said, while the improvement in employment rates certainly helped to take thousands of working age persons out of poverty, by raising the income poverty threshold it also made those not in employment appear relatively poorer. Though the strength of the economy resulted in more funds being made available for social security benefits, these could not match the extraordinary pace of income growth caused by the rise in the employment rate. NSO data indicate that by 2023, social security benefits improved household disposable income by €1,532 million, up from €920 million in 2013. Nonetheless, when expressed as a proportion of income, social security benefits decreased from 25% to 17% precisely because employment income increased so substantially.

Chart 1d shows that in 2005 €595 million in social benefits lifted



70,000 out of the risk of poverty, or an average spend of €8,486, while by 2024 to lift 89,000 individuals cost an average spend of €17,186. In effect the social benefit cost per individual taken out of poverty doubled over twenty years. Yet, against that one needs to consider that the income poverty threshold for a single individual over the same period rose from €5,155 to €12,258, or by a factor of 2.4 times. While in 2005 the per capita social spending to lift one person out of poverty was two thirds higher than the income poverty threshold, in 2024, it was just two fifths higher. This implies that given the growth in the income poverty threshold, social security benefits have become relatively speaking more effective or more targeted.

However, this improved effectiveness and the rise in absolute spending on social benefits have not been enough to offset the very large rise in the income poverty threshold. To lift someone from relative poverty is becoming even more expensive. Just in the five years since 2019, the per capita spend for every person lifted out of relative poverty has increased by a third.

One could argue that Government could tackle this issue by further improving the generosity of social benefits, particularly pensions, reflecting the fact that ARP is rising the most among elderly households. However, in coming years the trend of one-income pensioner households will reverse quite quickly. In 2005, the employment rate among men aged 55-59 was 68.2% whereas that among women was 18.8%. Twenty years after, the employment rate among men aged 55-69 is 87.4% and that among women is 60.4%. Thus, employment data suggest that among the pensioner couples who will be retiring in the next few years, dependence on one pension will be half that of pensioner couples who retired twenty years ago. Among those who will retire in just over a decade from now, dependence on a single pension will likely halve yet again, as the employment rate among women currently aged 45-49 is well above 80%.

In essence, the rise in female employment rates which has raised so much the income poverty threshold and thus contributed to the increase in the proportion of elderly population in relative poverty over the next decade should start to have an opposite effect. On the one hand, it is highly unlikely that employment rates can increase much further, and so the increase we have had in recent years in the poverty threshold should decelerate, making it less onerous for social benefit generosity to keep up with a rising threshold. More importantly, while working age households will continue to benefit from better wage conditions, in the coming years pensioner couples will not just benefit from better pensions but also from an additional pension. Furthermore, the gender pension gap is likely to decrease sharply because the type of employment that women have has greatly improved, meaning that women's pensions should align much closer to those of men.