

FOREWORD

In the third quarter of 2025, real gross domestic product (GDP) rose by 3.0% in annual terms, following a 2.8% increase in the previous quarter. Growth was driven by domestic demand and net exports in almost equal proportion. When adjusting for imports, exports were the main contributor to growth.

Potential output is estimated to have grown by 4.9% in the third quarter of 2025, slightly below the growth of 5.1% estimated for the second quarter. 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, the output surplus narrowed to 1.3% from 1.7% in the second quarter, implying a further moderation in the degree of over-utilisation of the economy's productive capacity.

The Bank's Business Conditions Index (BCI) remained relatively unchanged in the third quarter, indicating that the pace of economic activity remained slightly above its long-run average. While GDP growth stood below its long-term average, other indicators included in the BCI mostly outperformed their historic average.

In the third quarter of 2025, the Bank's Economic Policy Uncertainty (EPU) Index, which monitors economic policy uncertainty by synthesising information gleaned from Maltese news portals, reached the highest quarterly reading since the beginning of the year. The increase was driven primarily by domestic factors, including discussions on the sale of a major local bank, though international developments also contributed to the elevated level of uncertainty.

The labour market continued to perform positively amid a further rise in activity and employment rates. According to the Labour Force Survey (LFS), employment increased by 4.8% in annual terms, following a rise of 4.5% in the preceding quarter. The unemployment rate during the third quarter of the year reached a historical low, of 2.7%, and remained well below that in the euro area. Meanwhile, the job vacancy rate increased slightly, and the labour market tightness indicator remained elevated.

Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP) decreased slightly to 2.4% in September, from 2.5% in June. This reflected a lower contribution from food and services inflation. Meanwhile, annual inflation based on the Retail Price Index (RPI), which only considers expenditure by Maltese residents, remained unchanged at 2.4%.

Non-labour cost indicators regularly monitored by the Bank on a quarterly basis mostly showed slower annual growth. Meanwhile, Malta's unit labour cost (ULC) index, measured on a four-quarter moving average basis, rose at an annual rate of 7.3%, following a rise of 7.8% in the previous quarter, driven by slower growth in compensation per employee (CPE).

In the third quarter of 2025, the current account surplus widened when compared with a year earlier. This mostly reflected higher net receipts from services and, to a much lesser extent, a narrower merchandise trade deficit. On a four-quarter moving sum basis, the current account surplus was equivalent to 6.8% of GDP.

Meanwhile, the general government balance registered a higher surplus compared with a year earlier. When measured on a four-quarter moving sum basis, the general government deficit-to-GDP

ratio narrowed by 0.4 percentage points between June and September, to stand at 3.9% of GDP. The general government debt-to-GDP ratio decreased to 46.5% at the end of September, from 46.7% at end-June.

In September, the annual rate of change of Maltese residents' deposits with monetary financial institutions (MFIs) exceeded that recorded in June. Meanwhile, credit to Maltese residents also grew at a faster pace, driven by faster growth in credit to residents outside general government. The Bank's Financial Conditions Index (FCI) suggests that during the third quarter of 2025 financing conditions were slightly more favourable compared with the previous quarter.

The weighted average interest rate offered to households and non-financial corporations (NFCs) on their outstanding deposits and loans decreased on a year earlier. The spread between the two rates was broadly stable compared to June and to September 2024.

During the year to September, 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 September, the weighted average deposit rate for households and NFCs decreased to 1.93%, while the lending rate of these two sectors stood at 2.79%.

In September, 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 Stock (MGS) rose over this period. The Malta Stock Exchange (MSE) Equity Price Index fell between June and September and was also lower compared with a year earlier.

During the third quarter, the Governing Council of the European Central Bank (ECB) kept its key interest rates unchanged. Accordingly, the interest rates on the deposit facility (DFR), the main refinancing operations (MROs) and the marginal lending facility stood at 2.00%, 2.15% and 2.40%, respectively. The Council stated that it was determined to ensure that inflation would stabilise at its 2% target in the medium term. It reaffirmed that it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance and that it was not pre-committing to a particular rate path.

During the final quarter of 2025, the Governing Council kept its policy rates unchanged. It reaffirmed that it stood ready to adjust all its instruments within its mandate to ensure that inflation would stabilise at its 2% target in the medium term and to preserve the smooth functioning of monetary policy transmission.