FOREWORD

In the first quarter of 2026, real gross domestic product (GDP) rose by 3.9% in annual terms, following a 6.5% increase in the previous quarter. Growth was largely driven by domestic demand, even after adjusting for imports.

Potential output is estimated to have grown by 4.4% in the first quarter of 2026, below that of 4.9% 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, and hence the output surplus decreased.

The Bank's Business Conditions Index (BCI) rose slightly from the preceding quarter, confirming earlier indications that the pace of economic activity remained above its long-run average. This reflected above-average growth in most indicators included within the BCI, particularly building permits, tax revenue and economic sentiment.

The labour market continued to perform positively with activity and employment rates rising. In the first quarter of 2026, the unemployment rate rose to 3.5% from 3.4% a year earlier but remained well below that in the euro area (EA). The labour market remained tight with both the number of job vacancies and the vacancy rate increasing on a year earlier.

Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP) declined to 2.3% in March 2026, from 2.5% in December 2025. This mostly reflected lower contribution from food. Meanwhile, annual inflation based on the Retail Price Index (RPI), which only considers expenditure by Maltese residents, stood at 2.7% in March, unchanged from December.

In the first quarter of 2026, Malta's unit labour cost (ULC) index, measured on a four-quarter moving average basis, rose at a slower annual rate compared with the previous quarter, reflecting slower growth in compensation per employee. Other non-labour cost indicators regularly monitored by the Bank showed mixed results.

In the first quarter of 2026, the current account surplus decreased when compared with a year earlier. This mostly reflected lower net receipts from services and, a transition from net inflows to net outflows in the secondary income account. When measured on a four-quarter moving sum basis, the current account surplus was equivalent to 8.0% of GDP.

Meanwhile, the general government deficit-to-GDP ratio widened when measured on a four-quarter moving sum basis and stood at 3.2%. The general government debt-to-GDP declined to 45.9% in March, from 46.4% in December.

The Bank's Financial Conditions Index (FCI) suggests that during the first quarter of 2026 financing conditions were slightly more favourable compared with the previous quarter. In March, Maltese residents' deposits with monetary financial institutions (MFIs) in Malta continued to increase at a strong pace. Meanwhile, credit to Maltese residents grew at a slower pace compared with the previous quarter.

The weighted average interest rate offered to households and non-financial corporations (NFCs) on their outstanding deposits declined when compared to a year earlier, while that for outstanding loans was marginally higher. The spread between the two rates thus widened over this period.

During the first quarter of 2026, the Governing Council of the European Central Bank (ECB) kept its key interest rates unchanged. In June, however, the Governing Council raised them by 25 basis points in line with its commitment to setting monetary policy to ensure that inflation stabilises at the 2% target in the medium term. Accordingly, the interest rates on the deposit facility, the main refinancing operations (MROs) and the marginal lending facility increased to 2.25%, 2.40% and 2.65%, respectively. The Council stated that with this decision, it remained well positioned to navigate the uncertainty caused by the war in the Middle East.