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The cut-off date for statistical information in this Review is 24 June 2026. However, the cut-off date for balance of payments and residential property price statistics is extended to 6 July, while that for general government statistics is extended to 21 July. Figures in tables may not add up due to rounding.

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ABBREVIATIONS

BCI	Business Conditions Index
BLS	Bank Lending Survey
CCI	construction cost index
COICOP	Classification of Individual Consumption by Purpose
CPI	consumer price index
EA	euro area
ECB	European Central Bank
EEI	employment expectations indicator
EER	effective exchange rate
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
HICPX	HICP inflation excluding energy and food
IPPI	industrial producer price index
LFS	Labour Force Survey
MFI	monetary financial institution
MGS	Malta Government Stocks
MIA	Malta International Airport
MPC	Monetary Policy Committee
MRO	main refinancing operation
MSE	Malta Stock Exchange
NEIG	non-energy industrial goods
NFC	non-financial corporation
NPISH	non-profit institutions serving households
NSO	National Statistics Office
RPI	Retail Price Index
RPPI	Residential Property Price Index
SME	small and medium-sized enterprises
ULC	unit labour cost
UK	United Kingdom
US	United States

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.

ECONOMIC SURVEY

1. THE EURO AREA AND THE EXTERNAL ENVIRONMENT[1]

In the first quarter of 2026, real GDP contracted in the euro area, whereas it grew at a faster pace in both the United States and the United Kingdom. The unemployment rate remained unchanged in the euro area but decreased slightly in both the United States and the United Kingdom.

The outbreak of the conflict in the Middle East led to a surge in energy prices, pushing up inflation in key advanced economies. In the euro area, inflation rebounded to 2.6% in March, compared to 2.0% in December, while in the United States inflation rose to 3.3% in March, from 2.7% three months earlier. In contrast, in the United Kingdom inflation dropped to 3.3% in March from 3.4% in December. The ECB, the US Federal Reserve (Fed) Bank and the Bank of England kept interest rates unchanged during the quarter under review.

Brent oil and European natural gas prices rebounded strongly amid supply disruptions resulting from the conflict in the Middle East, which started on 28 February 2026.

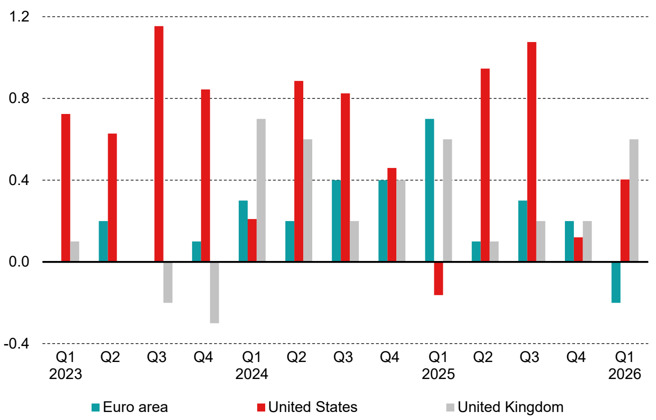
Economic and financial developments in the euro area

Economic activity in the euro area contracts

Economic activity in the euro area shrank in the first quarter. In real terms, GDP fell by 0.2% on a quarter-on-quarter basis, as against a 0.2% increase in the previous quarter (see Chart 1.1). The contraction in economic activity was heavily influenced by a double-digit fall in GDP in Ireland. In terms of sectoral gross value added (GVA), in real terms the decline in GDP mainly stemmed from a decline in manufacturing, while smaller falls were recorded in construction as well as in financial services. Taken together, these outweighed modest growth in wholesale and retail trade, real estate activities and other services sector categories.

In terms of expenditure components, domestic demand contributed marginally to GDP during the quarter under review. Higher private as well as government consumption expenditures were almost completely offset by declines in gross fixed capital formation (GFCF) and inventories. Net exports pulled GDP down by 0.3 percentage points, reflecting a combination of an increase in imports and a decrease in exports (see Table 1.1).

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



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

[1] On 1 January 2026, Bulgaria became the 21st member of the euro area after the Council of the European Union (EU) had formally approved the country's accession in July 2025, with a Bulgarian lev conversion rate of 1.95583 levs per euro. Accordingly, all data series concerning the euro area comprise statistics pertaining to the group of 21 Member States that constitute the euro area. The only exception relates to HICP inflation data. In this case, the statistics pertain exclusively to the countries forming the euro area taking into consideration the changing composition of the euro area.

Table 1.1
CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA[(1)]
Percentage points; quarter-on-quarter percentage change

	2024				2025				2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	0.3	0.1	0.3	0.2	0.2	0.1	0.1	0.2	0.1
Government consumption	0.0	0.2	0.1	0.1	-0.1	0.1	0.2	0.1	0.1
GFCF	-0.5	-0.5	0.3	0.2	0.6	-0.3	0.3	0.2	-0.1
Changes in inventories[(2)]	-0.1	0.3	0.5	-0.1	-0.4	0.5	0.1	0.1	-0.1
Exports	0.1	0.8	-0.7	0.1	1.4	-0.4	0.3	-0.3	-0.1
Imports	0.5	-0.6	-0.2	-0.1	-1.0	0.1	-0.6	-0.1	-0.2
GDP	**0.3**	**0.2**	**0.4**	**0.4**	**0.7**	**0.1**	**0.3**	**0.2**	**-0.2**

Source: Eurostat.
[(1)] Data are seasonally and working day adjusted. Figures may not add up due to rounding.
[(2)] Including acquisitions less disposals of valuables.

Meanwhile, the European Commission's Economic Sentiment Indicator (ESI) rose on average compared to the previous quarter. The ESI for the euro area rose to 99 in January, its highest level since April 2023, albeit it dropped in the following two months, after the outbreak of the war in the Middle East. The increase in the ESI over the quarter mainly reflected an improvement in sentiment in industry, services and in retail trade. By contrast, sentiment among consumers and in the construction sector worsened.

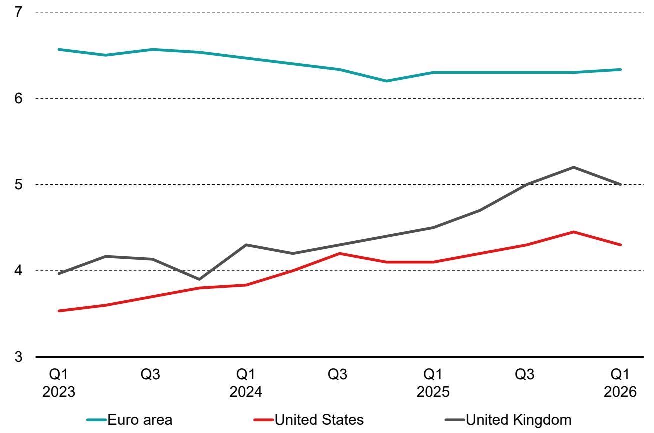
Labour market remains reasonably strong

The labour market in the euro area remained reasonably resilient, though there were some signs of weakening demand. Employment growth moderated, easing to a quarterly rate of 0.1% during this period, down from 0.2% in the preceding quarter.[2] Meanwhile, the seasonally adjusted unemployment rate stood at 6.3% in March, unchanged from December 2025. It averaged 6.3% in the quarter under review, also unchanged from the previous quarter (see Chart 1.2).

Inflation rebounds

Inflation in the euro area rebounded in the first quarter, exceeding the ECB's 2% medium-term target. The annual rate of inflation based on the HICP stood at 2.6% in March, compared to 2.0% in December 2025 (see Chart 1.3). The increase in overall inflation mainly reflected a surge in energy prices, reinforced by

Chart 1.2
UNEMPLOYMENT RATE
(percentage of the labour force; quarterly average; seasonally adjusted)

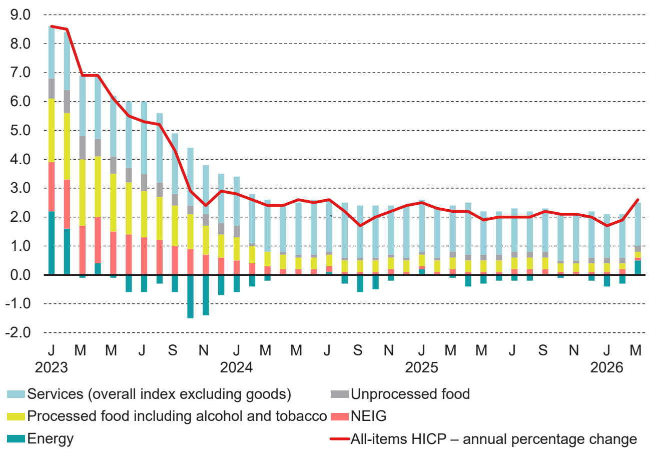


Sources: Bureau of Labor Statistics, US; Eurostat; Office for National Statistics, UK.

[2] Employment data refer to the national accounts, total employment domestic concept. Data are seasonally and calendar adjusted.

higher contributions from unprocessed food and non-energy industrial goods (NEIG). On the other hand, the contributions from processed food (including alcohol and tobacco) and services to inflation declined.

Chart 1.3
CONTRIBUTIONS TO HICP INFLATION IN THE EURO AREA
(percentage points; annual percentage change)



Source: ECB.

Turning to the major HICP components, the annual rate of change of energy prices turned markedly positive, as it reached 5.1% in March, as against -1.9% in December. This reflected a spike in energy prices in the wake of the war in the Middle East as well as base effects. The annual rate of unprocessed food inflation rose to 4.2% in March, from 3.5% three months before, while annual NEIG inflation increased to 0.5% in March, from 0.3% in December. By contrast, the annual rate of processed food inflation fell to 1.7% in March, from 2.1% three months earlier, and services inflation decreased slightly to an annual rate of 3.3% in March, from 3.4% in December.

Underlying inflationary pressures remained stable during the review period, with the annual rate of HICP inflation excluding energy and food (HICPX) standing at 2.3% in March, unchanged from December.

Real GDP growth projections revised down, inflation revised up in 2026 and 2027

According to the Eurosystem staff macroeconomic projections for the euro area, published in June 2026, real GDP growth is expected to slow down to 0.8% in 2026.[3] Economic growth is then projected to rebound to 1.2% in 2027 and to 1.5% in 2028 (see Table 1.2).

Table 1.2
MACROECONOMIC PROJECTIONS FOR THE EURO AREA[(1)]
Annual percentage changes

	2025	2026	2027	2028
Real GDP	**1.5**	**0.8**	**1.2**	**1.5**
Private consumption	1.5	0.8	1.0	1.4
Government consumption	1.6	1.6	1.0	1.3
GFCF	3.1	1.8	1.7	2.1
Exports	2.1	1.1	2.6	2.9
Imports	3.8	1.6	2.4	3.0
HICP	**2.1**	**3.0**	**2.3**	**2.0**
HICP excluding energy and food	2.4	2.5	2.5	2.2

Source: ECB.

[(1)] Eurosystem staff macroeconomic projections for the euro area, June 2026.

[3] The cut-off date for the technical assumptions was 21 May 2026. The projections for the international environment were finalised on 20 May and those for the euro area were finalised on 27 May 2026.

Economic growth is expected to remain subdued in the near term, as higher energy prices and greater uncertainty weigh on domestic demand. Private consumption is projected to slow down considerably in 2026, before recovering in line with rising real disposable income. Over the medium term, increased government spending on infrastructure and defence as well as investment related to artificial intelligence (AI) should boost domestic demand. On the external side, export growth is expected to remain constrained by persistent competitiveness challenges.

Compared to the previous projection exercise, the latest projections were conditioned on notably higher oil prices for 2026 and higher oil prices for 2027-28 amid the war in the Middle East, a slightly stronger euro, higher interest rates and an increase in the effective US tariff rate on imports from the euro area. On the other hand, gas price assumptions were revised down modestly for the short term but they were revised upwards later in the horizon. Electricity prices were revised up slightly on average over the projection horizon.

Compared to the March projections, real GDP growth was revised downwards by 0.1 percentage points for both 2026 and 2027 and revised up by 0.1 percentage points for 2028. The downward revision of real GDP growth in 2026 mainly related to a weaker outlook for consumption as the conflict in the Middle East is now assumed to last slightly longer than previously foreseen, with a stronger impact on real incomes. Towards the end of the projection horizon, the reduction in energy commodity prices, a recovery in real disposable income and improving confidence implied slightly stronger growth in 2028.

Turning to the outlook for prices, the Eurosystem staff foresee headline HICP inflation rising to an average of 3.0% in 2026 from 2.1% in 2025, before easing to 2.3% in 2027 and 2.0% in 2028. The increase in headline inflation in 2026 reflects a sharp rise in energy inflation. As the energy shock is set to fade, inflation is expected to decline to target in 2028.

Compared to the March projections, headline HICP inflation was revised up by 0.4 percentage points for 2026 and 0.3 percentage points for 2027, whereas it was revised downwards by 0.1 percentage points for 2028. The upward revisions to headline inflation resulted from revisions to all components, and reflected recent upside surprises, higher energy and food commodity price assumptions and stronger likely effects of the war in the Middle East on NEIG. On the other hand, the downward revision of headline inflation for 2028 reflected likely developments in the price of oil, as captured by futures prices.

HICPX is expected to increase to an average of 2.5% in both 2026 and 2027, from 2.4% in 2025, but then ease to 2.2% in 2028. Compared to the March projections, the outlook for underlying inflation was revised upwards by 0.2, 0.3 and 0.1 percentage points for 2026, 2027 and 2028, respectively. The revisions in underlying inflation over the projection horizon reflect higher services in 2026 and 2027 and more elevated NEIG inflation throughout the projection horizon.

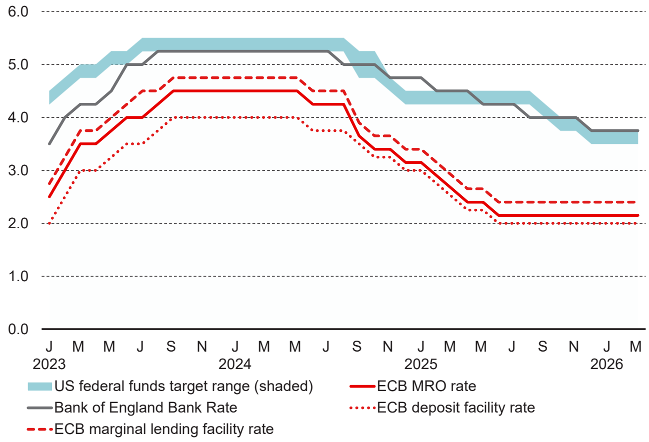
The Eurosystem staff projections were prepared against a backdrop of high uncertainty, related to the war in the Middle East and the size and persistence of the consequent energy price shock. Accordingly, Eurosystem staff prepared three distinct scenarios, namely an adverse, a severe and a milder scenario. The adverse and, in particular, the severe scenarios assume a sharper and more persistent increase in energy prices and higher uncertainty than those considered in the baseline. This results in higher inflation and a lower GDP growth, when compared to the baseline.

On the other hand, the milder scenario assumes that oil prices would normalise more quickly than in the baseline. Hence, inflation would moderate faster while GDP growth would recover earlier and more robustly than foreseen in the baseline scenario.

ECB keeps interest rates unchanged

During the quarter under review, the Governing Council kept the three key ECB interest rates unchanged. Thus, the interest rates on the deposit facility, the MROs and the marginal lending facility stood at 2.00%, 2.15% and 2.40%, respectively. In March, the Governing Council noted that inflation had been at around the 2% target, longer-term inflation expectations were well anchored, and the economy had shown resilience over recent quarters. However, the Council acknowledged the war in the Middle East had made the outlook significantly more uncertain, affirming that it was well positioned to navigate this uncertainty. The Governing Council also stated that it would continue to 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 (see Chart 1.4).[4]

Chart 1.4
OFFICIAL INTEREST RATES
(percentages per annum; end of month)

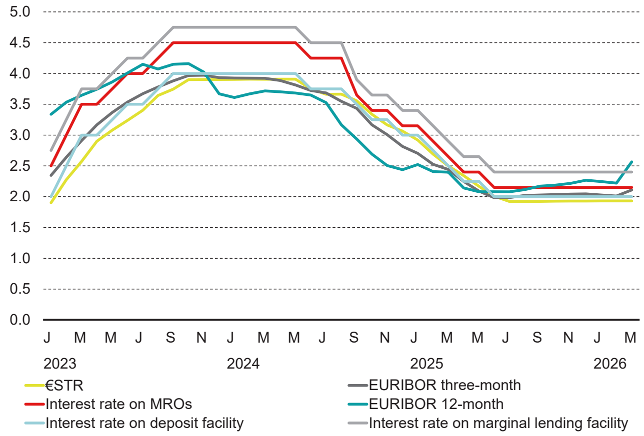


Sources: ECB; Fed; Bank of England.

Money market rates rise further out the curve

Money market interest rates in the euro area remained unchanged in the short term but rose gradually further out the curve. Hence, the euro short-term rate (€STR) averaged 1.93% in March, unchanged from three months before (see Chart 1.5).[5] The three-month euro interbank offered rate (EURIBOR) edged up to average 2.11% in March, compared to 2.05% in December. The 12-month EURIBOR

Chart 1.5
KEY MONEY MARKET INTEREST RATES
(percentages per annum; market rates – monthly averages; ECB rates – end of month)



Source: ECB.

[4] After having left the three key ECB interest rates unchanged in April, in June, 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 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. The Governing Council reaffirmed that it was not pre-committing to a particular rate path.

[5] 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.

averaged 2.57% in March, up from 2.27% three months earlier.[6] It thus stood further above the deposit facility rate, compared to December, indicating that market players had started to factor in the possibility of monetary policy tightening in the year ahead.

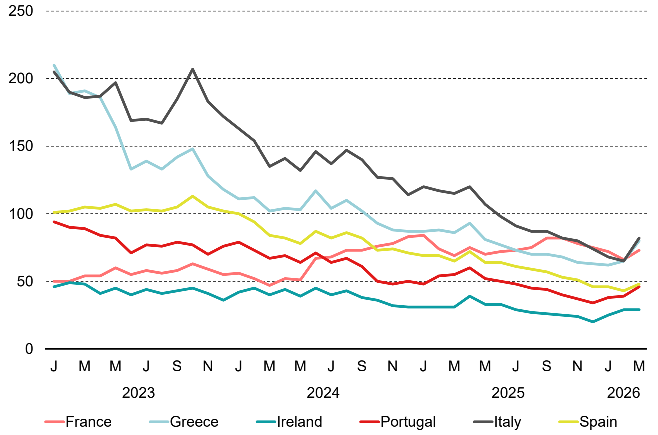
Euro area government bond yields rise slightly further

Sovereign bond yields rose modestly in the euro area, in the context of surging energy prices, large sovereign debt issuance by European governments and decreased bond demand as institutional pension funds shifted their investment strategies. The ten-year benchmark government bond yield in the euro area increased to 3.39% at end-March 2026, from 3.24% three months earlier.

Looking at individual sovereign bonds, German ten-year bond yields continued to increase during the quarter, standing at 2.91% at end-March, up by 10 basis points when compared to end-December 2025. Increased German government borrowing to finance higher spending on infrastructure and defence helped push up yields. French bond yields followed, rising by 8 basis points, to 3.64% at end-March. Government bond yields also rose in most other jurisdictions, including Italy, Greece, Spain, Portugal and Ireland.

Consequently, spreads against the ten-year German bond narrowed slightly in France, widened modestly in Spain and saw more pronounced increases in Italy, Portugal and Greece (see Chart 1.6). As regards the other euro area countries, spreads against the German benchmark tended to narrow.

Chart 1.6
SELECTED EURO AREA GOVERNMENT BOND YIELD SPREADS
(difference vis-à-vis German ten-year government bond yields in basis points)



Sources: ECB; Central Bank of Malta.

The euro weakens against both the US dollar and in nominal effective terms

During the quarter under review, the euro exchange rate depreciated by 2.1% against the US dollar. The euro started the year on a continued strong footing versus the US currency, but it lost ground in the wake of the outbreak of the war in the Middle East. The latter boosted the US dollar especially against the currencies of energy-importing economies. This reflected the United States' position as a major energy exporter and its relative resilience to spikes in oil and gas prices as well as the euro area's dependence on energy imports (see Chart 1.7). The euro weakened slightly versus the British pound, losing 0.5% over the quarter, amid narrow fluctuations. Favourable interest-rate differentials in light of persistently elevated inflation in the United Kingdom and the country's position as a smaller net energy importer supported the British pound.

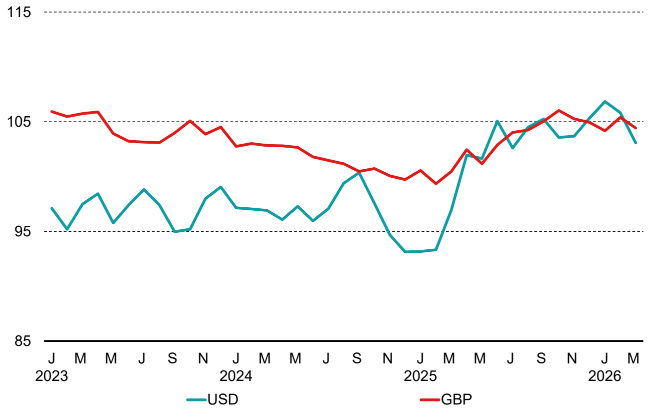
The euro depreciated by 0.4% against the Japanese yen, mainly reflecting narrowing interest-rate differentials between Japan and the euro area. The euro also fell against other major

[6] 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.

currencies, including the Norwegian krone, the Australian dollar, the Chinese renminbi, the Singapore and Hong Kong dollars and the Swiss franc. By contrast, the euro rose against other major currencies, including the Korean won, the Polish zloty, the Swedish krona and the Czech koruna.

Overall, the nominal effective exchange rate (EER) of the euro against the EER-17 group of countries dropped by 1.2% in the three months to end-March.[7]

Chart 1.7
EXCHANGE RATE MOVEMENTS OF THE EURO AGAINST OTHER MAJOR CURRENCIES
(index of end-of-month rates; Jan. 2022=100; an increase in the index implies euro appreciation)



Source: ECB.

Other advanced economies

US economic growth rebounds

In the United States, real GDP grew at a quarterly rate of 0.4% in the first quarter, up from 0.1% in the preceding quarter (see Chart 1.1). The expansion in economic activity was primarily driven by an increase in fixed investment, with AI-related spending driving a rise in non-residential investment. Real GDP growth was also supported by personal consumption as well as government expenditures, which recovered following the shutdown in the previous quarter. On the other hand, imports rose more than exports, which, together with a further drop in private inventory investment, exerted a contractionary impact on real GDP growth.

Labour market conditions improved modestly. Non-farm payroll data show that employment increased by 0.1% on average during the review period, as against a marginal drop in the previous quarter. The rise during the first quarter reflected an increase in employment in the private sector that outpaced a decline in government employment. In turn, within the private sector, employment growth was driven by services and construction. Within the services sector, education and health, followed by professional and business services, recorded the most pronounced growth in employment. Meanwhile, the unemployment rate eased to 4.3% in the quarter under review, from 4.5% recorded in the previous one (see Chart 1.2).[8] The participation rate averaged 62.0% during the first quarter.

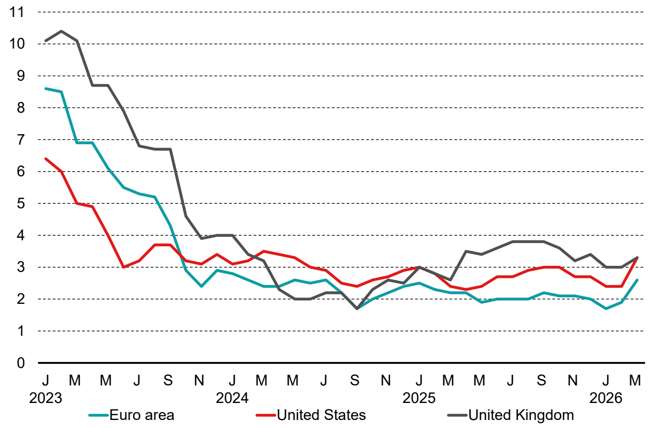
Headline inflation rose in the quarter under review, reflecting a surge in energy prices that outpaced an easing in inflation across all the other major components of the consumer price index (CPI). Thus, the annual CPI inflation rate stood at 3.3% in March, up from 2.7% three months earlier (see Chart 1.8). Annual energy inflation rose to 12.5% in March, from 2.3% in December 2025. By contrast, food and beverages inflation fell to 2.6% in March, compared to 3.0% three months earlier. Services inflation declined, while remaining elevated, falling to 3.1% in March, from 3.3%

[7] The EER-17 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Canada, China, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

[8] Unemployment data for October 2025 were not available due to the shutdown in the federal government. Therefore, the quarterly figure is the average of the observations for November and December 2025.

in December. The annual rate of change of prices of goods, excluding food and energy, dropped to 1.2% in March, compared to 1.4% in December. As a result, underlying inflation, as measured by inflation excluding food and energy, stood at 2.6% in March, unchanged from three months before.

Chart 1.8
CONSUMER PRICE INFLATION
(annual percentage changes)



Sources: Bureau of Labor Statistics, US; Eurostat; Office for National Statistics, UK.
Note: US Consumer Price Inflation data for October 2025 are unavailable.

During the review period, the Federal Open Market Committee (FOMC) decided to maintain the target range for the federal funds rate at 3.50%-3.75% (see Chart 1.4). Following its March meeting, the FOMC stated that economic activity was expanding at a solid pace, job gains remained low, while inflation remained somewhat elevated. The FOMC added that the implications of developments in the Middle East for the US economy were uncertain. The Committee reaffirmed that it was attentive to the risks to both sides of its dual mandate and reiterated its commitment to supporting maximum employment and returning inflation to its 2% objective.[9]

UK economic growth expands at a faster pace

Real GDP in the United Kingdom grew by 0.6%, on a quarter-on-quarter basis, in the first quarter, compared to 0.2% in the previous three months (see Chart 1.1). Growth was mainly driven by households and, to a lower extent, government consumption expenditure. An increase in inventories also contributed to real GDP growth. Meanwhile, GFCF deducted from GDP growth as lower investment in intellectual property products and dwellings outweighed an increase in business investment. GDP growth was also negatively affected by a deterioration in net trade, which reflected an increase in imports that outpaced a rise in exports.

Labour market conditions improved somewhat. The employment rate stood at 75.0%, on a quarterly-average basis in the first quarter, unchanged from the previous three months. Meanwhile, the unemployment rate, which had been on a general upward trend since the second quarter 2024, appears to have stabilised, falling to 5.0%, on average, during the review period, compared to 5.2% in the previous quarter (see Chart 1.2).

Consumer price inflation in the United Kingdom eased marginally during the quarter under review, with the annual inflation rate falling to 3.3% in March, compared to 3.4% three months earlier (see Chart 1.8). This mainly reflected lower inflation in the food, alcoholic beverages and tobacco component, as well as lower NEIG inflation, which outweighed higher energy inflation. Thus, the annual rate of change of food, alcoholic beverages and tobacco prices fell to 3.6% in March from 4.7% three months earlier. NEIG inflation eased to 0.8% in March, from 1.0% in December 2025. By contrast, the annual rate of change of energy prices surged to 4.9% in March from 1.7% in

[9] In April and June 2026 meetings, the FOMC decided to maintain the target range for the federal funds rate at 3.50%-3.75%. Following its June meeting, the FOMC stated that inflation remained elevated relative to the Committee's 2% goal, in part reflecting supply shocks, and that it would deliver price stability.

December. Meanwhile, services inflation remained unchanged at 4.5%. Consequently, underlying inflationary pressures eased slightly further though remaining elevated, with the annual rate of inflation based on the CPI excluding energy, food, alcoholic beverages and tobacco dropping to 3.1% in March, compared to 3.2% in December.

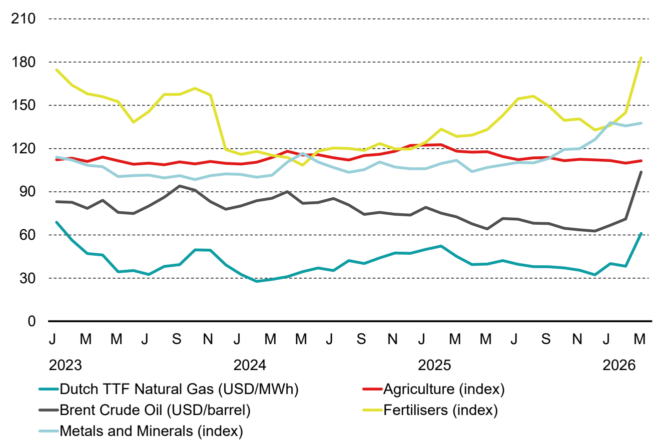
During the quarter under review, the Monetary Policy Committee (MPC) decided to maintain the Bank Rate at 3.75%. Following its March meeting, the Committee stated that it would continue to monitor closely the situation in the Middle East and its impact on global energy supply and energy prices. The MPC affirmed that it stood ready to act as necessary to ensure that CPI inflation remained on track to meet the 2% target in the medium term.[10]

Commodities

Oil and natural gas prices increase sharply

Oil prices surged during the first quarter as the outbreak of war between the United States and Iran led to attacks on energy infrastructure in the Middle East and disruptions to tanker movements through the Strait of Hormuz that severely curtailed supply.[11] Overall, the price of Brent crude oil averaged USD 103.69 per barrel in March, 65.3% higher than the level prevailing three months earlier. Similarly, the price of European natural gas soared. The conflict in the Middle East resulted in an abrupt shift in market conditions, that reversed a trend of market rebalancing observed earlier. Accordingly, the average price of Dutch TTF natural gas stood at USD 61.11 per megawatt hour in March, 88.9% higher than in December 2025 (see Chart 1.9).

Chart 1.9
COMMODITY PRICES
(monthly averages, USD, indices: 2010 = 100)



Sources: World Bank, Central Bank of Malta calculations.

World Bank data show that non-energy commodity prices rose by 4.2% during the quarter under review as higher prices for fertilizers as well as metals and minerals outweighed slightly lower prices for agricultural products. Meanwhile, the prices of precious metals were up by 14.8%, mainly reflecting record central bank buying, retail and investment demand, amid heightened geopolitical uncertainty and elevated inflation.[12]

[10] In April and June 2026 meetings, the MPC decided to maintain the Bank Rate at 3.75%. Following each of these meetings, the Committee reiterated that it would continue to monitor closely the situation in the Middle East and how its impact propagated through the economy. The MPC reaffirmed that it stood ready to act as necessary to ensure that CPI inflation remained on track to meet the 2% target in the medium term.

[11] Oil Market Report - April 2026.

[12] Central Bank Gold Buying 2026.

2. OUTPUT AND EMPLOYMENT

Annual real GDP growth rose by 3.9% in the first quarter of 2026. Growth was mainly driven by domestic demand. When adjusting for imports, the growth in GDP was more broadly balanced between domestic demand and external trade.

Sectoral data show that the expansion in output was mainly driven by the sector consisting of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage and services related to accommodation and food service activities. In nominal terms, compensation of employees contributed most to GDP growth.

During the first quarter of 2026, the labour market continued to perform positively with activity and employment rates rising. The unemployment rate increased but remained well below that in the euro area.

The labour market remained tight. Indeed, both the number of job vacancies and the vacancy rate increased when compared to the first quarter of 2025. The labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate, remained elevated.

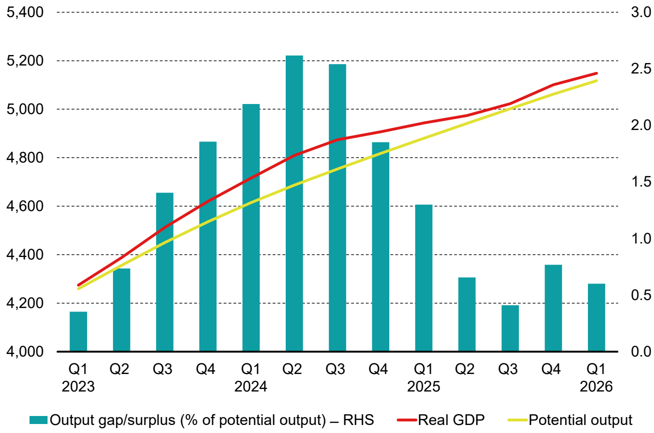
Potential output and business conditions

Potential output growth remains strong

The Bank estimates that potential output grew 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. As a result, the output surplus decreased to 0.6% from 0.8% (see Chart 2.1).

Chart 2.1
CYCLICAL POSITION OF THE MALTESE ECONOMY
(four-quarter moving averages; EUR million; as percentage of potential GDP)



Sources: NSO; Central Bank of Malta estimates.

BCI continues to stand above its historical average

The Bank's BCI rose slightly from the previous quarter, thereby indicating that the pace of economic activity remained above its long-run average (see Chart 2.2).[1] This reflects above

[1] 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 website. For further details on the methodology underlying the BCI, see Ellul, R., (2016), "A real-time measure of business conditions in Malta," *Working Paper* 05/2016.

average growth in most indicators included within the BCI, particularly building permits, tax revenue and economic sentiment.

GDP and industrial production

Real GDP growth increases at a slower pace

In the first quarter of 2026, real GDP rose by 3.9% on an annual basis, following a 6.5% increase in the previous quarter, with growth being driven largely by domestic demand (see Table 2.1).

Chart 2.2
BCI
(standardised)

Source: Central Bank of Malta.

Domestic demand rose by an annual 4.5% in the quarter under review, following an increase of 3.6% in the last quarter of 2025. It contributed 3.6 percentage points to GDP growth in the first quarter of 2026, up from 3.0 percentage points in the previous quarter.

Table 2.1
GDP[(1)]

	2025				2026
	Q1	Q2	Q3	Q4	Q1
	Annual percentage changes				
Private final consumption expenditure	3.7	3.1	4.2	3.4	3.7
Government final consumption expenditure	7.2	4.8	4.1	4.0	8.5
GFCF	-3.2	2.1	0.8	1.0	3.6
Domestic demand	**3.5**	**3.6**	**3.9**	**3.6**	**4.5**
Exports of goods and services	0.8	6.8	4.3	6.0	4.9
Imports of goods and services	0.6	8.7	4.4	3.7	5.6
GDP	**3.1**	**2.5**	**3.8**	**6.5**	**3.9**
	Percentage point contributions				
Private final consumption expenditure	1.7	1.3	1.9	1.6	1.6
Government final consumption expenditure	1.2	0.8	0.6	0.8	1.5
GFCF	-0.6	0.4	0.2	0.2	0.6
Changes in inventories	0.6	0.3	0.4	0.5	-0.1
Domestic demand	**2.8**	**2.9**	**3.1**	**3.0**	**3.6**
Exports of goods and services	0.9	8.0	5.1	7.3	5.6
Imports of goods and services	-0.6	-8.4	-4.3	-3.9	-5.3
Net exports	**0.3**	**-0.4**	**0.8**	**3.4**	**0.3**
GDP	**3.1**	**2.5**	**3.8**	**6.5**	**3.9**

Sources: NSO; Central Bank of Malta calculations.

[(1)] Chain-linked volumes, reference year 2020.

The acceleration in domestic demand mainly reflected higher growth in government consumption which rose by 8.5%, up from 4.0% in the previous quarter. In the quarter under review, growth was mainly driven by outlays on intermediate consumption within the residential care and health sectors. Overall, government consumption added 1.5 percentage points to GDP growth.

At the same time, private consumption expenditure increased by an annual 3.7%, up from 3.4% in the previous quarter. It added 1.6 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 almost all expenditure categories.[2]

Real GFCF rose by 3.6% year-on-year after increasing by 1.0% in the previous quarter. When measured in absolute terms, the increase in the quarter under review was largely driven by higher outlays on intellectual property products and investment in non-residential construction. These offset declines in dwellings investment and in machinery and equipment. GFCF contributed 0.6 percentage points to GDP growth.

Overall, changes in inventories had a marginal negative impact on GDP growth in the first quarter of 2026.

Meanwhile, imports rose by 5.6%, while exports rose by 4.9% on a year earlier. Nonetheless, when expressed in absolute terms, the increase in exports exceeded that in imports. Consequently, net exports contributed positively to GDP growth, although its impact – at 0.3 percentage points – was less than the 3.4 percentage points registered in the previous quarter.

Import-adjusted contributions confirms that growth was mainly driven by domestic demand (see Table 2.2).[3] Within domestic demand, private consumption and government consumption remained the largest contributors to GDP growth.

Table 2.2
IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH[(1)]

	2025				2026
	Q1	Q2	Q3	Q4	Q1
Private final consumption expenditure	1.2	0.4	1.2	1.2	0.9
Government final consumption expenditure	1.0	0.6	0.5	0.7	1.2
GFCF	-0.2	-0.1	0.0	0.3	0.2
Changes in inventories	0.2	0.2	0.2	0.2	0.0
Domestic demand	**2.2**	**1.1**	**1.9**	**2.4**	**2.2**
Exports of goods and services	**0.9**	**1.4**	**2.0**	**4.1**	**1.7**
GDP	**3.1**	**2.5**	**3.8**	**6.5**	**3.9**

Source: Central Bank of Malta estimates.
[(1)] Chain-linked volumes, reference year 2020.

[2] 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.
[3] The contributions shown in Table 2.1 are consistent with the approach normally followed in official databases and economic publications. However, this approach does not account for the fact that the import content varies across different expenditure components. Consequently, it does not accurately represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 2.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH
Percentage points

	2025				2026
	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	-0.1	-0.1	-0.3	0.1	-0.1
Mining and quarrying; utilities	0.2	0.3	0.1	-0.4	0.2
Manufacturing	0.0	0.1	-0.1	-0.3	0.1
Construction	-0.1	0.0	0.1	0.2	0.1
Services	4.4	3.0	3.2	4.4	3.2
of which:					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	1.4	0.9	1.6	2.2	0.8
Information and communication	1.0	0.8	0.5	1.1	0.7
Financial and insurance activities	0.2	0.1	0.5	-0.2	0.6
Real estate activities	0.2	0.0	-0.2	-0.3	0.2
Professional, scientific, administrative and related activities	0.5	-0.1	0.4	0.6	0.3
Public administration and defence; education; health and related activities	1.0	0.9	0.5	0.7	0.6
Arts, entertainment; household repair and related services	0.2	0.3	0.0	0.2	0.1
GVA	**4.5**	**3.2**	**3.0**	**3.9**	**3.4**
Taxes less subsidies on products	**-1.4**	**-0.7**	**0.8**	**2.5**	**0.4**
Annual real GDP growth (%)	**3.1**	**2.5**	**3.8**	**6.5**	**3.9**

Source: NSO.

Services remain the main driver of economic growth

Data based on the output approach show that in the first quarter of 2026, real GVA rose by 3.7% in annual terms and contributed 3.4 percentage points to GDP growth (see Table 2.3).[4]

Services added 3.2 percentage points to real GDP growth and was mainly spurred by the sector consisting of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage and services related to accommodation and food service activities. This sector contributed 0.8 percentage points to GDP growth. Other significant contributions came from the information and communication sector, the financial and insurance activities sector and public administration.

Overall, non-services sectors exhibited a small positive contribution to GDP growth during this quarter. Similarly, the contribution from taxes on products was marginally positive.

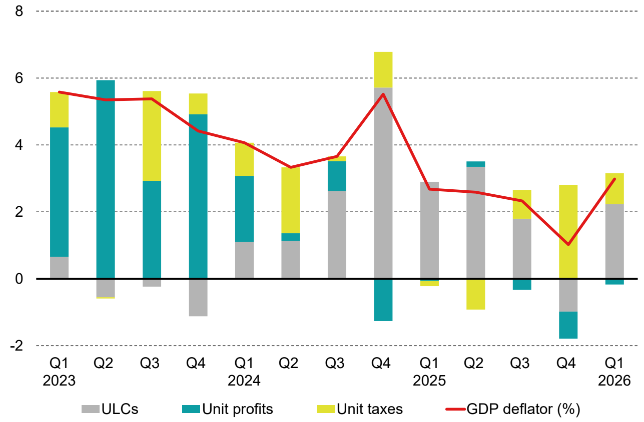
Nominal GDP growth increases at a slightly slower pace

Nominal GDP rose by 7.0% in annual terms in the first quarter of 2026, after increasing by 7.5% in the preceding quarter. All components from the income side – compensation of employees, operating surplus and net taxes – contributed positively to nominal GDP growth with the largest

[4] The difference between GDP and GVA is made up of taxes on products, net of subsidies.

contributor being compensation of employees. The contribution from the latter was significantly bigger when compared to the previous quarter, which was affected by a base effect stemming from the implementation of collective agreements in the public sector.

Chart 2.3
CONTRIBUTIONS TO GDP DEFLATOR
(annual percentage change; percentage point contribution)



Source: NSO.

The contributions from gross operating surplus and net taxes were less positive compared with the previous quarter.

Chart 2.3 shows the main contributors to growth in the GDP deflator. This rose by 3.0% in the first quarter of 2026, after increasing by 1.0% in the previous quarter. Growth was mainly driven by the contribution of ULCs. The contribution from unit profits turned less negative while the contribution from net taxes decreased.

Production in industry and services increases

Industrial production rose by 1.1% on a year-on-year basis in the first quarter of 2026, after having declined for the first time in more than a year in the last quarter of 2025.[5]

Production in the manufacturing sector rose marginally at an annual rate of 0.1%, after having contracted by 4.3% in the preceding quarter. Meanwhile, production in the energy sector accelerated and rose by an annual 14.9% in the first quarter of the year, compared with a 5.2% increase a quarter earlier.[6] Production in the quarrying sector accelerated.

In the manufacturing sector, the strongest increases were reported by firms that manufacture computer, electronic and optical products, those involved in the printing and reproduction of recorded media, pharmaceutical products, wearing apparel, rubber and plastic products. These offset declines among other manufacturing subsectors.

Meanwhile, the index of services production – which measures the volume of activity in services industries excluding trade, financial and public services – grew at a faster pace. It rose by 5.1% on an annual basis, following a marginal increase of 0.4% in the last quarter of 2025. This expansion in services production indicates a turnaround as growth has been muted during most of last year.

Higher activity levels were recorded in sectors related to real estate, accommodation and food services, administrative and support services, information and communication, as well as transportation and storage services. These increases offset lower activity reported by firms involved in services related to professional, scientific and technical activities.

[5] 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.
[6] Industrial production in the energy sector excludes energy generated abroad and imported through the interconnector.

Business and consumer surveys

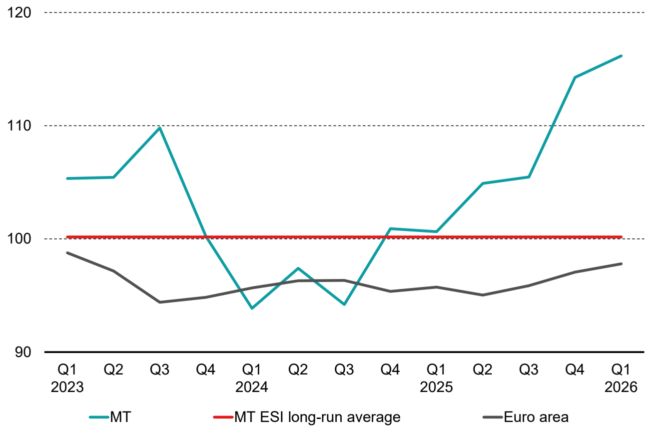
Economic Sentiment Indicator (ESI) increases

During the first quarter of 2026, the European Commission's ESI for Malta increased to 116.2, from 114.3 in the preceding quarter, and thus moved further above its long-term average of around 100.0. As a result, the overall indicator stood significantly above that in the euro area, which averaged 97.8 (see Chart 2.4).[7,8]

When compared with the last quarter of 2025, confidence improved across all sectors, bar in the construction sector and among consumers. The strongest increase was recorded in industry.

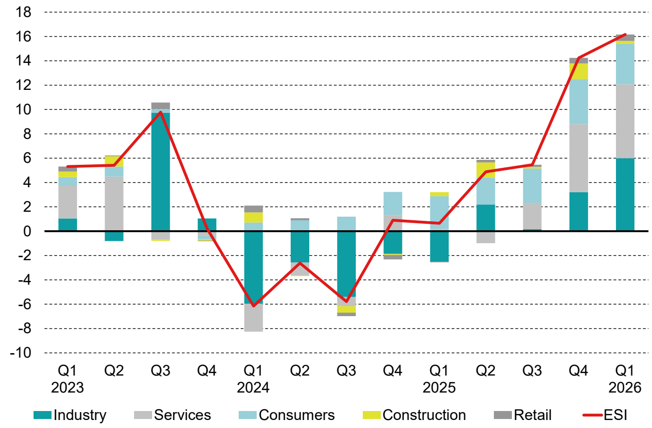
When accounting for the weights assigned to each sector, and the time variation of the confidence indicator for each sector, the increase in the ESI relative to the fourth quarter of 2025 was mainly driven by industry.[9] All sectors, particularly the services sector and industry, explain why the overall ESI stood above the long-term average (see Chart 2.5).

Chart 2.4
ESI
(seasonally adjusted; percentage points)



Source: European Commission.

Chart 2.5
ESI BY SECTOR
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

The industrial confidence indicator increased to 12.2, from an average of 5.2 in the previous quarter and remained well above its long-term average of -4.1.[10] Fewer respondents assessed their stocks of finished products to be above normal and production expectations for the months ahead improved.

[7] The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

[8] 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.

[9] Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

[10] 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.

The confidence indicator in the services sector increased to 45.0, from 42.8 in the previous quarter.[11] Sentiment in this sector moved further above its long-term average of 20.3, with firms' assessment of the business situation over the past three months being the key driver.

The sentiment indicator in the retail sector stood at 16.1 in the first quarter of 2026, up from 14.7 in the previous quarter, and remained above its long-term average of 0.8.[12] Fewer retailers assessed their stocks of finished goods to be above normal levels and business expectations for the next three months improved.

The consumer confidence indicator averaged 4.0 during the first quarter of 2026, below the 5.8 recorded in the previous quarter, but above its long-run average of -9.4.[13] Compared with the previous quarter, there was a decline in all forward-looking components of the indicator.

The indicator measuring confidence in the construction sector turned negative but stood above its long-term average of -6.6.[14] This reflected strong decreases in order book levels and in employment expectations. Sentiment for this sector needs to be interpreted with caution, due to a low response rate among enterprises.

Employment Expectations Indicator (EEI) declines

The EEI – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased in the first quarter of 2026. During the first quarter of 2026, it averaged 108.6, below 114.6 in the preceding quarter, but stood above its long-term average of around 100.0. The index also stood above the euro area average of 97.3.[15]

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

Demeaned data suggest that the decrease relative to the preceding quarter was largely driven by the services sector (see Chart 2.6). This sector also mostly 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 -12.1 in the first quarter of the year, from 6.9 in the preceding quarter and

[11] 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.

[12] 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.

[13] 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.

[14] 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.

[15] 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*.

remained well below its average level in recent years (see Chart 2.7).[16] This indicates a greater ability of respondents to make predictions about their future financial or business situation. The indicator also remained below that in the euro area, which averaged 18.7.[17]

In the first quarter of 2026, lower uncertainty was recorded across all surveyed sectors, except for the construction sector, while uncertainty among consumers remained unchanged. The strongest decrease was recorded in the services sector.

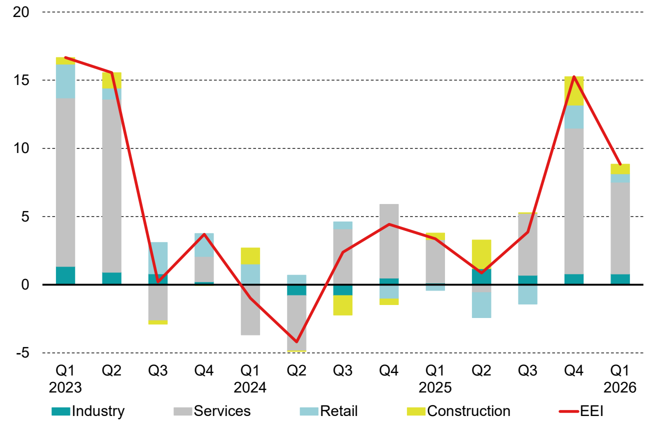
When considering each sector's weight in each component of the EUI, the decrease is mainly attributed to the services sector.

The labour market[18]

Labour force and activity rate rose

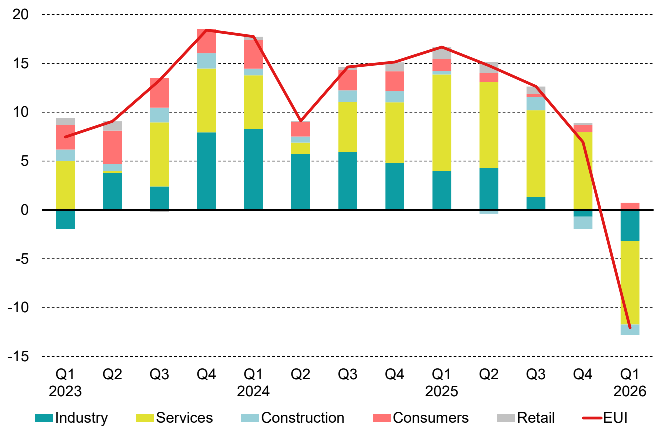
Labour Force Survey (LFS) data show that in the first quarter of 2026, the labour force grew by 11,402 persons, or 3.4% on an annual basis, following a 3.3% increase in the previous quarter (see Table 2.4).[19]

Chart 2.6
EEI
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

Chart 2.7
EUI(1)
(not seasonally adjusted)



Sources: European Commission; Central Bank of Malta.

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

[17] 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.

[18] 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.

[19] 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.

Table 2.4
LABOUR MARKET INDICATORS BASED ON THE LFS
Persons; annual percentage changes

	2025 Q1	2026 Q1	Annual change %
Labour force	**334,373**	**345,775**	**3.4**
Employed	323,048	333,682	3.3
By type of employment:			
Full-time	285,861	294,973	3.2
Part-time	37,187	38,709	4.1
Unemployed	11,325	12,093	6.8
Activity rate (%)	**81.6**	**82.6**	
Male	87.3	87.7	
Female	74.6	76.2	
Employment rate (%)	**78.8**	**79.6**	
Male	84.4	84.5	
Female	71.9	73.7	
Unemployment rate (%)	**3.4**	**3.5**	
Actual hours worked (per week)	**35.3**	**35.0**	

Source: NSO.

The activity rate stood at 82.6% in the quarter under review, higher than the 81.6% recorded a year earlier.[20] This reflects a higher activity rate for both males and females. Overall, 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 3.3% in annual terms, following a rise of 2.9% in the previous quarter. The increase in absolute terms was driven by a 3.2% rise in full-time employment. The strongest increases in full-time employment occurred within the sectors comprising arts and entertainment and the accommodation and food service activities. The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – increased by 4.1% in annual terms.

In the first quarter of 2026, the overall employment rate increased to 79.6%, 0.9 percentage points higher than the rate prevailing during the same period of 2025.[21] This reflects a higher employment rate for both females and males, which respectively stood at 73.7% and 84.5%.

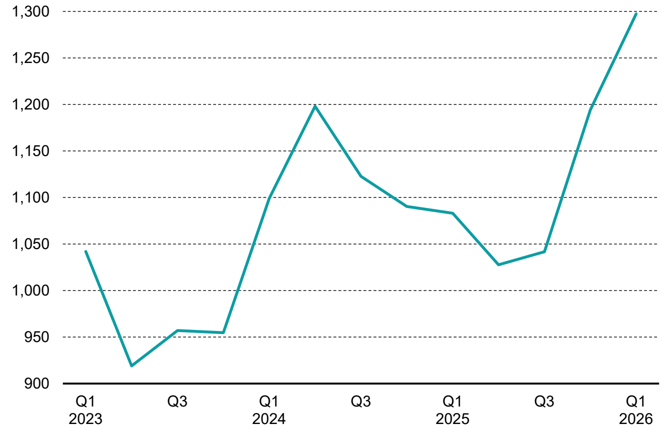
During the quarter under review, average actual weekly hours worked derived from the LFS decreased slightly to 35.0, from 35.3 a year earlier (see Table 2.4).[22]

[20] 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.
[21] 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.
[22] 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.

The unemployment rate increased

The unemployment rate based on the LFS increased from a year earlier (see Table 2.4).[23] However, labour market conditions remained more favourable than those in the euro area, where the unemployment rate on average stood at 6.5%.

Chart 2.8
REGISTERED UNEMPLOYED
(number of persons)



Source: NSO.

Jobsplus data show that the number of persons on the unemployment register increased both on a quarterly basis and in annual terms. During the first quarter of 2026, the average number of persons on the unemployment register stood at 1,297, compared with 1,194 in the fourth quarter of 2025 and with 1,083 a year earlier (see Chart 2.8). Unemployment among services and sales workers and clerical support workers, rose the most when compared to the fourth quarter of 2025.

Labour market tightness remained elevated though slightly moderating

In absolute terms the number of vacancies increased from 8,841 in the first quarter of 2025 to 10,022 in the quarter under review, that is, a 13.4% increase. The sector comprising wholesale and retail trade, transport, accommodation and food service activities accounted for nearly 60% of this increase and the sector comprising professional, scientific, technical, administration and support service activities accounted for most of the remainder. Overall, when compared with the average level since 2017, the number of vacancies remained elevated.[24]

Chart 2.9
VACANCY RATE AND LABOUR MARKET TIGHTNESS INDICATOR
(per cent)

Sources: Eurostat; NSO; Central Bank of Malta.

NSO's job vacancy rate for industry, construction and services also increased standing at 3.3% from 3.0% a year earlier (see Chart 2.9).[25] The highest vacancy rates were recorded in the construction sector (5.3%),

[23] 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.

[24] Data for Malta are available since 2017.

[25] The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant).

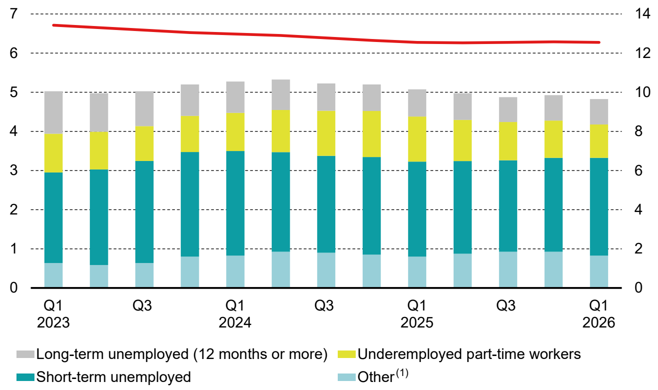
and the professional, scientific, technical, administration and support service activities sector (4.8%).

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 0.9, slightly lower than the 1.0 recorded in the previous quarter and a year earlier. This contrasts with developments in the euro area, where the tightness indicator stood at 0.4.

On a four-quarter moving average basis, labour market slack was equivalent to 4.8% of the extended labour force in the first quarter of the year (see Chart 2.10).[26] This rate stands well below its average of 7.7% estimated since 2010. It is also significantly lower than the rate of 12.6% recorded for the euro area over the four quarters to March 2026.

The Bank estimates that during the four-quarters ending in March, around 65% 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, and the 'other' component, which accounted for a slightly smaller share (see Chart 2.10).

Chart 2.10
LABOUR MARKET SLACK
(percentage of extended labour force; four-quarter moving average)



Sources: ECB-SDW; Eurostat; Central Bank of Malta's estimates.
(1) Persons seeking work, but not immediately available and Persons available to take up work but not seeking.

[26] The term "labour market slack" reflects the stock of unemployed and underutilised labour. In addition to the unemployed, the term also includes persons available to take up work but not seeking it, persons seeking work but not immediately available, and underemployed part-time workers. 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, as measured by the HICP, stood at 2.3% in March 2026, down from 2.5% in December 2025. This was mostly driven by lower contributions from food. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – stood at 2.7% in March, unchanged from December.

When measured over four quarters, ULCs increased at a slower pace in the first quarter of 2026. Annual growth in other input cost indicators regularly monitored by the Bank was mixed.

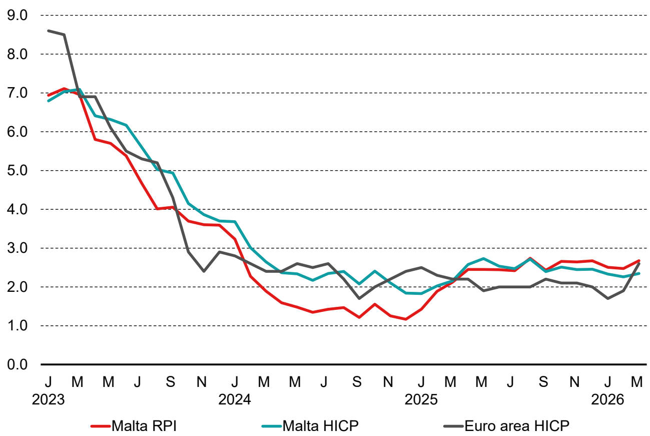
Inflation

HICP inflation decreases

Annual HICP inflation decreased to 2.3% in March, from 2.5% in December (see Table 3.1).[1] In this period, HICP inflation in the euro area was higher, standing at 2.6% (see Chart 3.1). This difference emanates from higher contributions from energy inflation in the euro area, which rose compared with December. Meanwhile, energy prices in Malta remained unchanged (see Chart 3.2).

Turning to inflationary developments in Malta, the slight decrease in HICP inflation since December mainly reflects a lower contribution

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



Sources: NSO; Eurostat.

Table 3.1
HICP INFLATION
Annual percentage change

	2025									2026		
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Unprocessed food	4.2	5.0	5.4	5.0	6.0	4.3	3.3	4.1	6.5	5.2	7.1	6.3
Processed food including alcohol and tobacco	3.3	3.4	3.2	3.0	2.8	2.9	2.8	2.8	2.3	2.6	1.5	1.6
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	0.7	0.8	0.8	0.8	1.5	1.1	0.6	0.6	0.9	0.7	0.6	0.7
Services (overall index excluding goods)	3.6	3.7	3.3	3.2	3.3	3.0	3.7	3.5	3.2	3.1	3.2	3.3
All Items HICP	2.6	2.7	2.5	2.5	2.7	2.4	2.5	2.4	2.5	2.3	2.3	2.3

Source: Eurostat.

[1] The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2026, the weight allocated to services stood at 45.6%, while that of NEIG was 26.8%. Food accounted for 21.6% of the index, while the share allocated to energy stood at 6.0%. These were revised from 45.1% for services, 27.1% for NEIG, 21.7% for food and 6.2% for energy in 2025.

from food and NEIG inflation (see Chart 3.3).

Main components of inflation

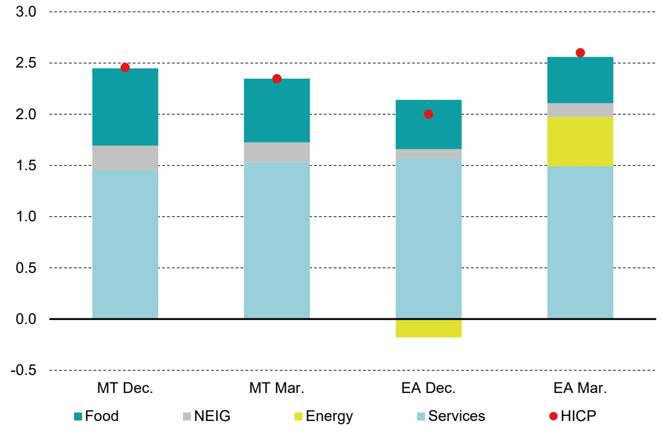
Unprocessed food prices increased by an annual 6.3% in March, after rising by 6.5% in December. Consequently, the contribution of unprocessed food to HICP inflation remained unchanged at 0.4 percentage points.

Meanwhile, processed food inflation (including alcohol and tobacco) decreased to 1.6% in March from 2.3% in December. Consequently, its contribution declined to 0.2 percentage points from 0.4 percentage points in December. Overall, food inflation including alcohol and tobacco decreased to 2.9% in March when compared to 3.5% in December.

NEIG inflation decreased to 0.7% from 0.9% in December, driven by a faster contraction in the inflation of semi-durable goods, in particular reflecting a decline in the prices of clothing and footwear. Prices of durable goods rose by 1.5%, unchanged from December. The prices of semi-durables contracted by 1.7% in annual terms, after a contraction of 0.9% three months earlier. Meanwhile, non-durables prices inflation increased from 1.4% in December to 1.7% in March. The contribution of NEIG inflation to HICP inflation stood at 0.2 percentage points, unchanged from December.

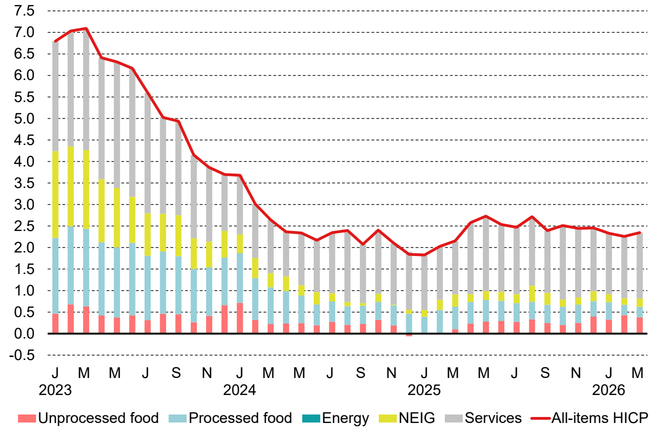
Services inflation increased slightly from 3.2% in December to 3.3% in March. It contributed 1.5 percentage points to overall HICP inflation, in line with its contribution in December (see Chart 3.4).

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



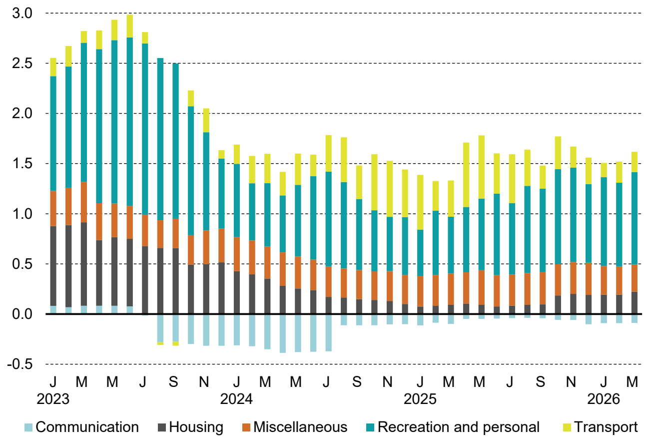
Sources: Eurostat; SDW; Central Bank of Malta calculations.

Chart 3.3
CONTRIBUTIONS TO YEAR-ON-YEAR HICP INFLATION
(percentage points; annual percentage change)



Source: SDW.

Chart 3.4
CONTRIBUTIONS FROM SERVICES TO HICP INFLATION
(percentage points)



Source: SDW.

This mainly reflected faster growth in the prices of services related to recreation and personal care and housing.

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.

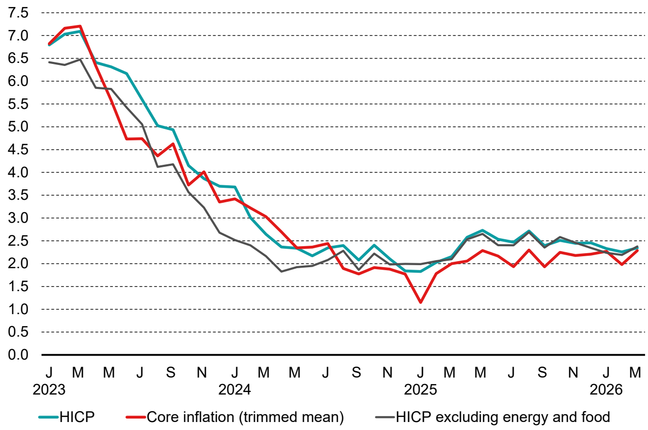
Core HICP inflation increases slightly

The Bank's measure of core inflation, which excludes the more volatile items in each month, increased slightly to 2.3% in March from 2.2% in December (see Chart 3.5).[2] An alternative measure of underlying inflationary pressures – HICP excluding energy and food – also increased slightly, standing at 2.4% in March, from 2.3% previously.

RPI inflation remains unchanged

Annual inflation based on the RPI index stood at 2.7% in March, unchanged from December. The contribution of beverages and tobacco decreased by 0.1 percentage points, while that of clothing and footwear became more negative. These offset a higher contribution from housing inflation (see Table 3.2). The remaining components had an unchanged contribution.

Chart 3.5
HICP IN MALTA: OVERALL AND CORE MEASURE
(annual percentage change)



Sources: Eurostat; Central Bank of Malta estimates.

Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION[(1)]
Percentage points

	2025									2026		
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Food	0.7	0.8	1.0	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Beverages and tobacco	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Clothing and footwear	0.1	0.1	0.1	0.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.2
Housing	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.5
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	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.3
Transport and communications	0.5	0.3	0.2	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2
Personal care and health	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Recreation and culture	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Other goods and services	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.3
RPI (annual percentage change)	**2.4**	**2.4**	**2.4**	**2.4**	**2.7**	**2.4**	**2.7**	**2.6**	**2.7**	**2.5**	**2.5**	**2.7**

Source: NSO.

[(1)] Contributions may not add up due to rounding and methodological issues.

[2] 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.

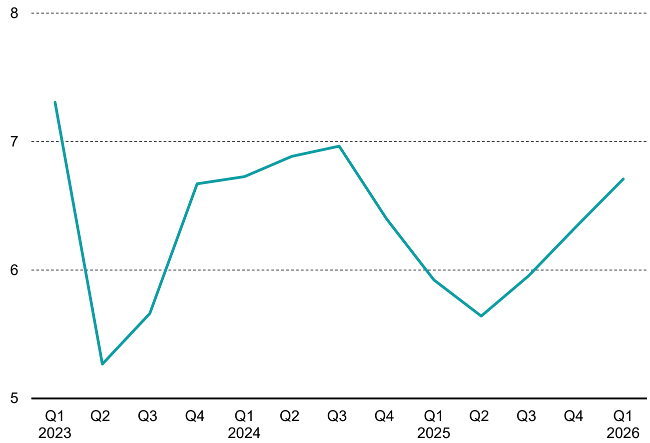
The profile of RPI inflation has varied from the HICP indicator in recent months, owing to methodological issues. For instance, the weights used in the RPI index differ from those used for the estimation of the HICP. RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta, such as accommodation services.[3]

The housing market

Residential property prices increase at a slightly faster rate

The NSO's Residential Property Price Index (RPPI) – which is based on actual transactions involving apartments, maisonettes, and houses – continued to increase at a robust pace. The annual rate of change rose to 6.7% in the first quarter of 2026, from 6.3% in the previous quarter (see Chart 3.6).[4] Meanwhile, in the euro area, prices on average increased at an annual rate of 4.6%.

Chart 3.6
MOVEMENTS IN RESIDENTIAL PROPERTY PRICES
(annual percentage change)



Source: Eurostat.

Residential property prices in Malta continue to be supported by several factors. A dynamic tourism sector and migrant worker flows continue to support demand for accommodation and hence, property prices. Various government schemes aimed at first-time buyers in the property market also contributed to supporting demand.

Misalignment indicator continues to suggest prices are below fundamentals

As part of its ongoing macroeconomic analysis, the Bank calculates a house price misalignment index to infer the evolution of house prices against fundamentals.[5,6] 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 2026, though by less than in the previous quarter (see Chart 3.7).[7] The negative readings in this indicator continue to be driven by

[3] See Darmanin, J. (2018), "Household Expenditure in Malta and the RPI Inflation Basket", *Quarterly Review* 2018(3), pp. 33-40, Central Bank of Malta.

[4] '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.

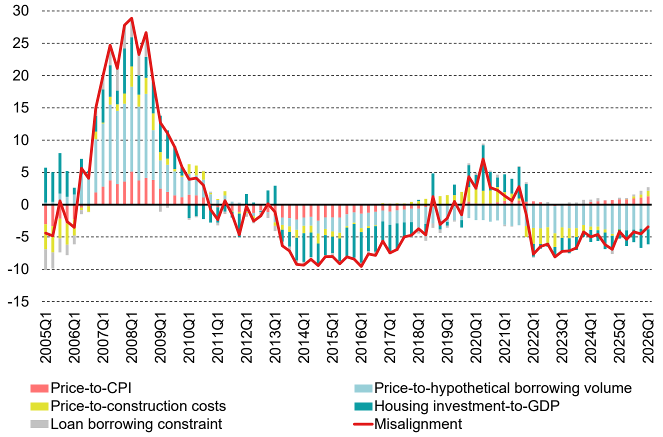
[5] See Micallef, B. (2018), "Constructing an index to examine house price misalignment with fundamentals in Malta", *International Journal of Housing Markets and Analysis*, 11(2), pp. 315-334.

[6] 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.

[7] A separate assessment based on advertised house prices can be found in Gatt, W., Micallef, B. and Rapa, N. (2018), "A macro-econometric model of the housing market in Malta", *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

the house price-to-hypothetical borrowing volume ratio and the housing investment-to-GDP ratio. The former represents households' affordability, while the latter indicator represents the relative level of dwelling investment compared against economic activity. These offset positive contributions from the house price-to-CPI ratio, the loan borrowing constraint and the house price-to-construction costs ratio.

Chart 3.7
HOUSE PRICE MISALIGNMENT INDICATOR
(percentage points; based on transaction prices)



Source: Central Bank of Malta.

Property transactions increase over a year earlier

NSO data on residential property transactions show that 3,383 final deeds of sale were registered in the quarter under review, a 5.0% decrease 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 quarter of 2025, final deeds of sale increased by 7.6%. Most transactions (around 90%) concluded in the first quarter of 2026 involved purchases by individuals.

The year-on-year increase in deeds in the first quarter of 2026 mainly reflected a larger number of transactions in the Northern and Southern Harbour districts. In value terms, there was a year-on-year increase of 22.5%, which was mostly driven by a strong increase in the value of transacted properties carried out by non-individual buyers.

At 3,862 the number of promise-of-sale agreements was 2.3% lower than the number registered in the previous quarter but 11.7% more than those concluded a year earlier. Year-on-year increases in the number of promise-of-sale agreements were recorded across all districts. The largest increases were recorded in the Southern Harbour and Northern Harbour districts.

Table 3.3
RESIDENTIAL PROPERTY TRANSACTIONS
Levels

	2024			2025				2026
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Residential transactions								
Promise of sale	3,489	3,106	3,490	3,459	3,818	3,337	3,954	3,862
Final deeds of sale	3,187	3,006	3,244	3,143	3,252	3,394	3,562	3,383

Source: NSO.

Advertised rent prices grow at a faster pace

The annual rate of change of advertised rents collected by the Bank from internet sources grew faster in the first quarter of 2026.[8] The range of estimates from various methods indicate that rents have increased at annual rates of between 4.9% and 5.3% in the quarter under review (see Chart 3.8).

Chart 3.8
ADVERTISED RENTAL PRICES
(annual percentage change)

Source: Central Bank of Malta.

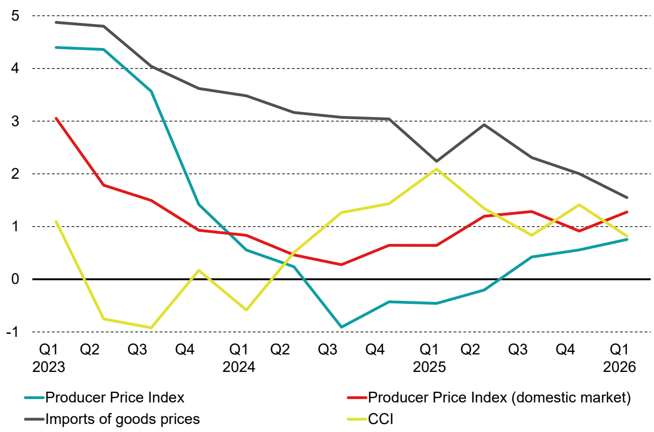
Rental prices exhibit a volatile quarterly pattern. In recent quarters, rental prices have been growing at a lower pace compared with the double-digit rates observed in 2023 and in the first half of 2024.

Cost indices

Producer cost indicators signal mixed price growth patterns

The industrial producer price index (IPPI) is a measure of the prices of goods sold by producers in the industrial sector. Annual inflation according to this index stood at 0.8% on average in the quarter under review, after having increased by 0.6% in the fourth quarter (see Chart 3.9).[9] The annual rate of change of producer prices of intermediate goods turned positive and increased at a faster rate. This offset slower growth in producer prices of consumer and capital goods.

Chart 3.9
COST INDICATORS
(annual percentage growth)



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

Meanwhile, annual growth in the domestic producer price index increased to 1.3% from 0.9% in the previous quarter.[10] On the other hand, the imports of goods deflator shows weaker growth of 1.5%, from 2.0% in

[8] 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. This index is available from 2017Q4.

[9] The IPPI 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.

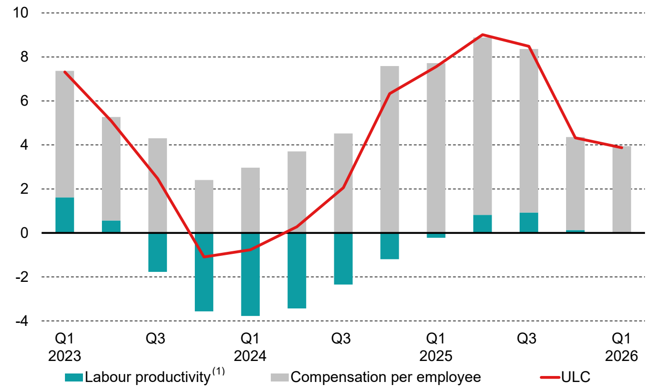
[10] The domestic producer price index refers to the producer prices relating to the domestic market only, whilst the producer price index relates to the total market, i.e., including both the domestic and non-domestic markets.

the fourth quarter of 2025.[11] The construction cost index (CCI) for new residential buildings published by Eurostat increased at a slower rate in the first quarter of 2026, standing at 0.8% after it had increased by 1.4% in the previous quarter.

ULCs increase at a slower rate

Malta's ULC index – measured on a four-quarter moving average basis in headcount terms – rose at an annual rate of 3.9%. This followed an increase of 4.3% in the previous quarter (see Chart 3.10). The slight decline in ULC growth mainly reflects slower growth in compensation per employee. The latter rose by 3.9%, from 4.2% in the fourth quarter. Meanwhile, productivity per person experienced no growth in annual terms, after having contracted by 0.1% in the fourth quarter.

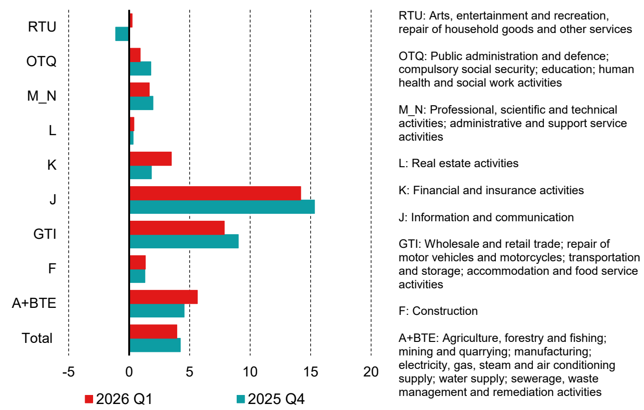
Chart 3.10
DECOMPOSITION OF ULC (PER PERSON) IN MALTA
(annual percentage change; four-quarter moving average)



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

When measured on a four-quarter moving average basis, growth in compensation per employee was fastest in the information and communication sector (see Chart 3.11). Wage growth was also significant in the sector comprising wholesale and retail trade. Overall, compensation per employee in most sectors grew at a similar rate as in the previous quarter, with the exception of the arts and entertainment sector. In the latter, compensation per employee increased by 0.3%, when compared to a contraction of 1.1% in the previous quarter.

Chart 3.11
COMPENSATION PER EMPLOYEE BY SECTOR
(annual percentage growth; four-quarter moving average)



Source: NSO.

[11] This index is derived from national accounts data published by the NSO.

4. THE BALANCE OF PAYMENTS

During the first quarter of 2026, the current account surplus decreased when compared to the same quarter of 2025. This mostly reflected lower net receipts from services and a transition from net inflows to net outflows in the secondary income account. These outweighed a smaller merchandise trade deficit and lower net outflows on the primary income account.

In the quarter under review, net inflows on the capital account increased when compared to the corresponding quarter of 2025, while the financial account showed higher net lending.

In the year to March 2026, the current account balance registered a surplus equivalent to 8.0% of GDP. This compares with a current account surplus of 1.7% of GDP in the euro area.

Meanwhile, the cyclically-adjusted current account balance is estimated to have recorded a surplus of 8.8% during the quarter under review.

In the first quarter of 2026, the tourism sector continued to perform well. The number of inbound tourists, nights stayed, and tourist expenditure in Malta all increased when compared with a year earlier, but expenditure per capita declined driven by a shorter length of stay.

The current account

The current account surplus decreases

Between January and March 2026, the current account of the balance of payments recorded a surplus of €290.4 million, €108.5 million less than the surplus recorded in the same quarter of 2025 (see Table 4.1). This reflected lower net receipts from services and a transition from net inflows to net outflows in the secondary income account. These outweighed a smaller merchandise trade deficit and lower net outflows on the primary income account.

On a four-quarter moving sum basis, the current account surplus increased to €2,008.6 million, from €1,619.8 million a year earlier. This reflected higher net receipts from services, and to a much lesser extent, lower net outflows on the primary income account. These offset a wider

Table 4.1
BALANCE OF PAYMENTS
EUR millions

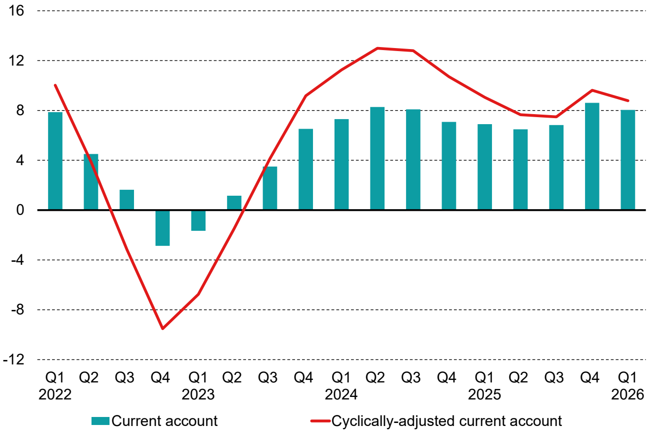
	Four-quarter moving sums						
	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2025 Q1	2026 Q1
Current account	**1,619.8**	**1,540.4**	**1,648.4**	**2,117.1**	**2,008.6**	**398.9**	**290.4**
Goods	-2,884.9	-3,048.8	-3,040.2	-3,068.8	-2,945.1	-779.2	-655.5
Services	7,089.4	7,181.4	7,379.4	7,872.7	7,731.1	1,739.1	1,597.5
Primary income	-2,605.2	-2,569.3	-2,621.2	-2,604.0	-2,561.5	-590.9	-548.4
Secondary income	20.6	-22.8	-69.6	-82.7	-215.9	30.0	-103.2
Capital account	**350.5**	**302.9**	**264.4**	**247.5**	**336.0**	**46.4**	**135.0**
Financial account[1]	**1,850.2**	**1,929.7**	**2,005.3**	**2,464.7**	**2,625.7**	**391.9**	**552.9**
Errors and omissions	**-120.1**	**86.4**	**92.5**	**100.1**	**281.0**	**-53.4**	**127.5**

Sources: NSO; Central Bank of Malta.
[1] Net lending (+) / net borrowing (-).

merchandise trade deficit and a shift from net inflows to net outflows in the secondary income account.

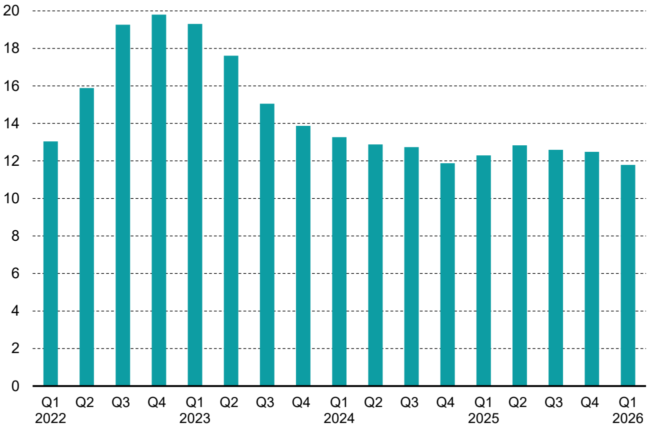
The current account surplus-to-GDP ratio increased to 8.0% from 6.9% a year earlier (see Chart 4.1). Malta's cyclically-adjusted current account surplus is estimated to have stood at 8.8% of GDP in the first quarter of 2026, and thus wider than the headline measure (see Chart 4.1).[1]

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



Sources: NSO; Central Bank of Malta.

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



Sources: NSO; Central Bank of Malta.

The merchandise trade deficit narrows

In the first quarter of 2026, the merchandise trade deficit stood at €655.5 million, down from €779.2 million in the corresponding period of 2025. The smaller deficit was mainly driven by lower imports and higher exports.

The visible trade gap increased when measured on a four-quarter cumulative basis, reaching €2,945.1 million, from €2,884.9 million in the same period a year earlier. This reflected a decrease of €174.4 million in exports, mostly due to a decrease in exports of mineral fuels, lubricants and related materials, and miscellaneous transaction and commodities. This offset a decrease of €114.2 million in imports, mainly due to a drop in imports of mineral fuels, lubricants and related materials. The share of the goods deficit in GDP decreased to 11.8% during the first quarter of 2026, from 12.3% a year earlier (see Chart 4.2).

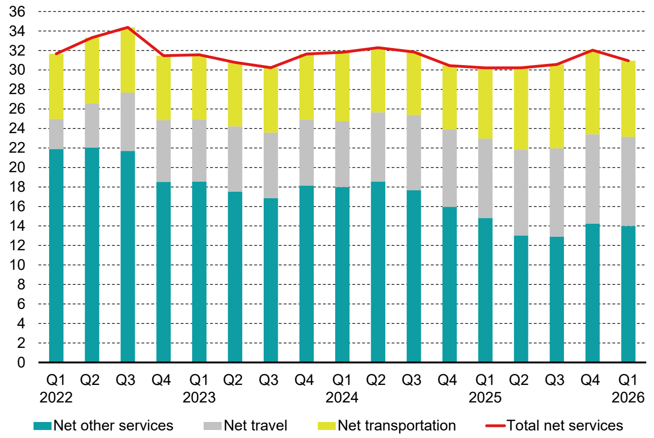
The surplus on services narrows

In the quarter under review, net receipts on the services account amounted to €1,597.5 million, €141.6 million less than in the corresponding period of 2025. Both services exports and imports increased on a year earlier though the increase in the latter was larger.

[1] 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.

Lower net receipts from transport and 'other' business services were the key factors behind the decrease in the overall surplus on the services account, offsetting higher net receipts from personal, cultural, and recreational services and, to a lesser extent, higher net receipts from travel.

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



Sources: NSO; Central Bank of Malta.

On a four-quarter cumulative basis, the overall surplus from services stood at €7,731.1 million, an increase of €641.7 million over the surplus recorded a year earlier. This mainly reflected higher net receipts from travel and transport services, though several other services components contributed. The share of net services receipts in GDP stood at 30.9%, up from 30.2% registered during the same period of 2025 (see Chart 4.3).

Net outflows on the primary income account decreased[2]

During the quarter under review, net outflows on the primary income account stood at €548.4 million, €42.5 million less than in the first quarter of 2025. Lower net income receipts on portfolio investment were offset by lower net payments from other investment.

In the four-quarter period to March 2026, net outflows on the primary income account decreased by €43.7 million, to stand at €2,561.5 million. This was due to lower net payments related to other investment which offset lower net income receipts on portfolio investment and higher net payments related to direct investment. Transactions relating to primary income continued to be strongly influenced by internationally-oriented institutions, which transact predominantly with non-residents. During this period, net outflows on the primary income account amounted to 10.3% of GDP, down from 11.1% a year earlier.

Net inflows on the secondary income account turned negative[3]

In the first quarter of the year, net flows on the secondary income account decreased to -€103.2 million from €30.0 million a year earlier.

During the year to March 2026, net flows turned negative to -€215.9 million from €20.6 million in the same period of last year. Their share in GDP remained small, at 0.9%.

Tourism

In the first quarter of 2026, the tourism sector continued to perform well. Tourist expenditure rose by 15.0% to €584.7 million (see Chart 4.4). The increase in expenditure was broad-based across all expenditure categories. However, growth slowed down from 24.6% registered in the same period a year earlier.

[2] The primary income account shows income flows related mainly to cross-border investment and compensation of employees.
[3] The secondary income account shows current transfers between residents and non-residents.

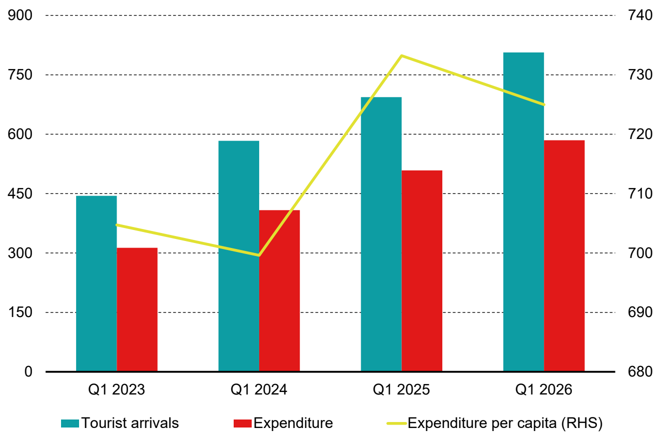
Expenditure per capita decreased to €725.0 from €733.2 a year earlier. It was driven by a decline in the average length of stay which fell to 5.5 nights from 5.7 nights previously, as spending per night increased by 2.7% (see Chart 4.5).

The number of tourists visiting Malta totalled 806,563 in the first quarter of 2026, up from 693,492 a year earlier. In annual terms this is equivalent to a rise of 16.3%, compared with 18.9% in the same period a year earlier. Visitors from Poland accounted for a third of this increase. They were followed by visitors from the United Kingdom, who accounted for just over a quarter of the rise in arrivals. In absolute terms, tourists coming over for vacation purposes made up most of the increase in arrivals.

Tourists spent 4.5 million nights in Malta in the first quarter of 2026, a rise of almost 12% on a year earlier. Nights stayed in rented accommodation accounted for most of the rise. Stays in non-rented accommodation also rose, but the increase was less pronounced.[4]

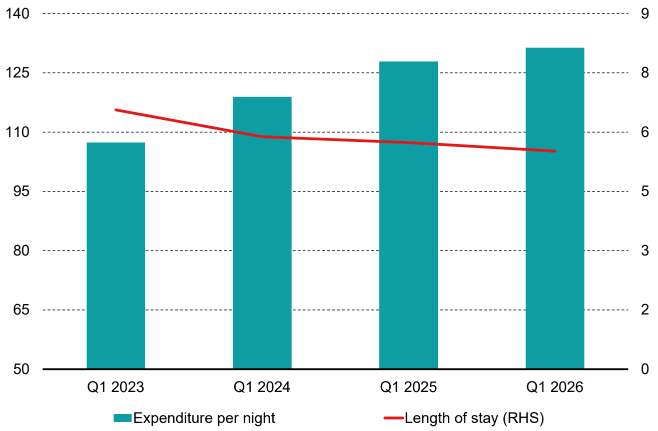
The total occupancy rate in collective accommodation establishments in the first quarter of 2026 reached 52.9%, from 52.5% a year earlier (see Chart 4.6). The five-star category registered the largest increase of 4.3 percentage points. It was

Chart 4.4
TOURISM INDICATORS
(tourist arrivals in thousands; expenditure in EUR millions; expenditure per capita in EUR)



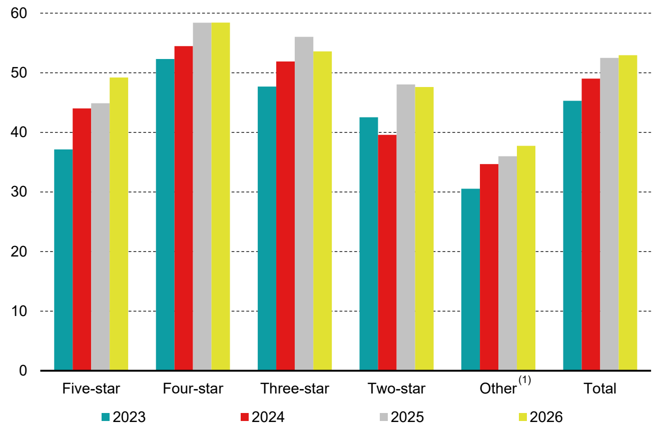
Source: NSO.

Chart 4.5
EXPENDITURE PER NIGHT AND LENGTH OF STAY
(expenditure per night in EUR; length of stay in days)



Source: NSO.

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



Source: NSO.
(1) Includes guest houses, hostels and holiday complexes.

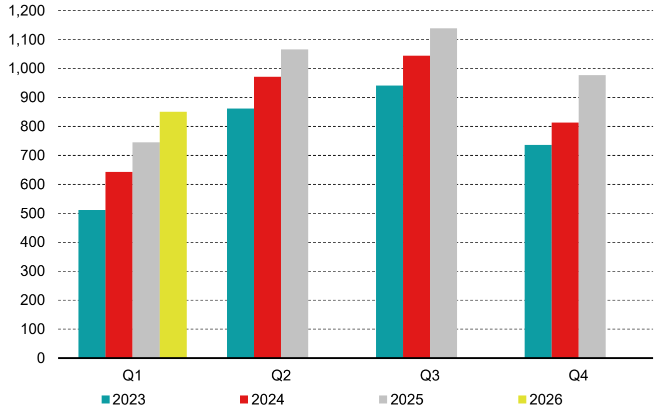
[4] Accommodation is divided into two categories – rented accommodation and non-rented accommodation. Rented accommodation is further divided into collective accommodation (comprising hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites), and 'other rented' accommodation (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.

followed by the "other" category which recorded a rise of 1.7 percentage points. Occupancy rates in the four-star category were unchanged. On the contrary, occupancy levels in the three-star and the two-star categories declined. In the first three months of 2026, the highest net-use of bed places was reported in four-star accommodation, where the occupancy rate reached 58.4%.

According to Malta International Airport (MIA) data, in the quarter under review, average seat capacity stood at 850,181 seats per month, up from 745,075 a year earlier (see Chart 4.7).

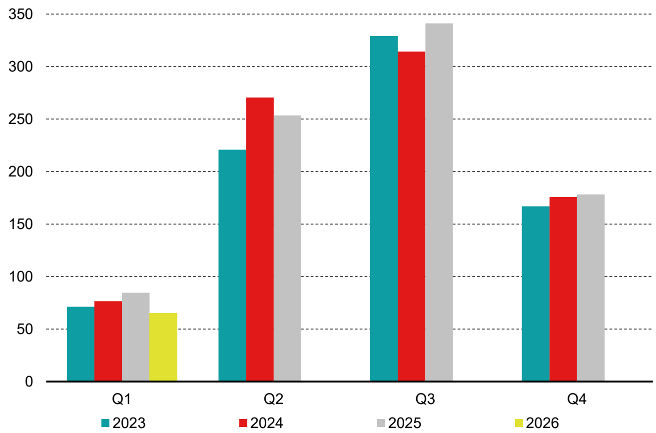
A total of 33 cruise liners visited Malta in the first quarter of 2026, two more than a year earlier. Nonetheless, foreign passengers declined by 22.9% on a year earlier, to 65,231 persons (see Chart 4.8). In absolute terms, the most significant declines stemmed from EU countries, namely Italy, Germany, France and Spain.

Chart 4.7
AVERAGE MONTHLY SEAT CAPACITY[1]
(thousands)



Source: MIA.
[1] Data include schedule and charter flights.

Chart 4.8
CRUISE LINER PASSENGERS
(thousands)



Source: NSO.

Nonetheless, Italy and Spain were the most important source markets along with the United States and the United Kingdom, together making up over half of total cruise passenger arrivals.

The capital account

Net inflows on the capital account closed the quarter under review at €135.0 million, up from €46.4 million a year earlier (see Table 4.1). When measured on a four-quarter cumulative basis, capital inflows decreased to €336.0 million, from €350.5 million a year earlier. Their share in GDP decreased to 1.3% from 1.5% in the first quarter of 2025.

5. GOVERNMENT FINANCE

In the first quarter of 2026, the general government deficit widened from that recorded in the corresponding period of 2025. This in part reflects the timing of income tax receipts. When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio rose to 3.2%, from 2.2% at end-2025. The Bank's estimate of the cyclically-adjusted deficit widened at a similar pace.

The general government debt-to-GDP ratio stood at 45.9%, lower than the 46.4% ratio recorded at end-2025. The net financial worth as a share of GDP deteriorated slightly in the quarter under review.

Quarterly developments

General government deficit widens

In the first quarter of 2026, the general government registered a deficit of €339.0 million, a significant increase from the €85.3 million deficit registered in the corresponding period of 2025. This was due to a strong increase in government expenditure which offset a relatively small increase in government revenue. The primary deficit amounted to €262.0 million in the quarter under review, €249.1 million lower than the primary deficit recorded a year earlier.

Timing of tax revenue depresses revenue growth

General government revenue rose by €42.5 million, or 2.2%, in the first quarter of 2026 (see Table 5.1). This relatively small rate of increase was due to a negative contribution from tax revenue,

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2025				2026	Change 2026Q1-2025Q1	
	Q1	Q2	Q3	Q4	Q1	Amount	%
Revenue	**1,959.7**	**1,961.1**	**2,177.3**	**2,455.7**	**2,002.3**	**42.5**	**2.2**
Taxes on production and imports	528.0	569.6	632.7	638.7	594.2	66.2	12.5
Current taxes on income and wealth	902.7	761.0	921.0	1114.4	809.0	-93.7	-10.4
Social contributions	302.7	292.9	309.9	355.6	317.3	14.6	4.8
Capital and current transfers receivable	34.5	94.2	71.1	90.7	66.0	31.5	91.1
Other(1)	191.7	243.4	242.5	256.2	215.7	24.0	12.5
Expenditure	**2,045.0**	**2,214.1**	**2,147.0**	**2,692.8**	**2,341.3**	**296.3**	**14.5**
Compensation of employees	589.7	603.4	606.1	609.5	644.1	54.4	9.2
Intermediate consumption	416.8	505.4	456.7	611.7	510.1	93.3	22.4
Social benefits	547.1	504.6	461.1	477.3	613.7	66.5	12.2
Subsidies	122.0	140.5	149.2	124.9	119.0	-2.9	-2.4
Interest	72.4	71.2	75.0	80.3	77.0	4.7	6.5
Other current transfers payable	129.5	100.7	140.0	287.2	176.1	46.5	35.9
GFCF	115.6	204.2	168.1	273.5	156.2	40.6	35.1
Capital transfers payable	45.5	78.0	82.4	222.1	35.5	-10.0	-22.0
Other(2)	6.5	6.1	8.4	6.4	9.7	3.1	
Primary balance	**-12.9**	**-181.9**	**105.2**	**-156.9**	**-262.0**	**-249.1**	
General government balance	**-85.3**	**-253.1**	**30.3**	**-237.2**	**-339.0**	**-253.7**	
General government debt	**10,908.2**	**11,083.5**	**11,188.7**	**11,397.1**	**11,457.6**		

Source: NSO.

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

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

reflecting a large drop in receipts from current taxes on income and wealth. The latter declined by €93.7 million due to the timing of income taxes paid by companies. This offset higher inflows from taxes on production and imports, which rose by €66.2 million, mainly due to higher VAT receipts. Meanwhile, social contributions rose by €14.6 million.

Overall, non-tax revenue increased by modest amounts. Receipts from capital and current transfers increased mainly due to EU grants. Meanwhile, 'other' revenue rose due to higher inflows from sales.

Expenditure buoyed by higher recurrent outlays

Total government expenditure rose by €296.3 million, or 14.5%, when compared with the first quarter of 2025. This mostly reflects higher current expenditure, particularly intermediate consumption which increased by €93.3 million. This is mainly due to higher outlays on residential care, health care and to a lesser extent in the provision of education. Spending on social benefits rose by €66.5 million, largely on the back of higher spending on retirement pensions. At the same time, compensation of employees increased by €54.4 million.

Current transfers increased by €46.5 million mainly due to higher payments to the EU budget. Moreover, interest payments increased by €4.7 million. On the other hand, spending on subsidies decreased slightly by €2.9 million.

Overall, capital expenditure increased in the first quarter. GFCF increased significantly by €40.6 million, mainly due to higher outlays on domestically financed projects. This offset a €10.0 million decrease in capital transfers.

Debt increases

In March 2026, the stock of general government debt amounted to €11,457.6 million, €60.5 million higher than in December 2025. This reflects an increase in long-term debt securities outstanding (composed of Malta Government Stocks (MGS)), which outweighed a fall in short-term debt securities outstanding (composed of Treasury bills). Long-term debt securities outstanding rose by €95.5 million, with its share in total debt increasing slightly by 0.4 percentage points to reach 81.5%. Holdings of short-term debt securities declined by €41.7 million, and their share in total debt declined by 0.4 percentage points to stand at 6.4%.

The value of loans outstanding increased slightly by €7.1 million, due to a rise in long-term loans. The share of loans outstanding in total debt remained unchanged at 8.6%.

Headline and cyclically-adjusted developments

Headline deficit ratio increases while debt ratio decreases

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio rose by 1.0 percentage points from the last quarter of 2025, to stand at 3.2% in the quarter under review (see Chart 5.1). This was driven by a 0.6 percentage point increase in the expenditure-to-GDP ratio, which rose to 37.6%, mainly due to a higher share of current expenditure in GDP. At the same time, the revenue-to-GDP ratio narrowed by 0.4 percentage points, to stand at 34.4%, due to a decline in the share of current revenue in GDP. The latter mostly reflects the aforementioned decline in tax revenue due to timing of direct taxes paid by companies.

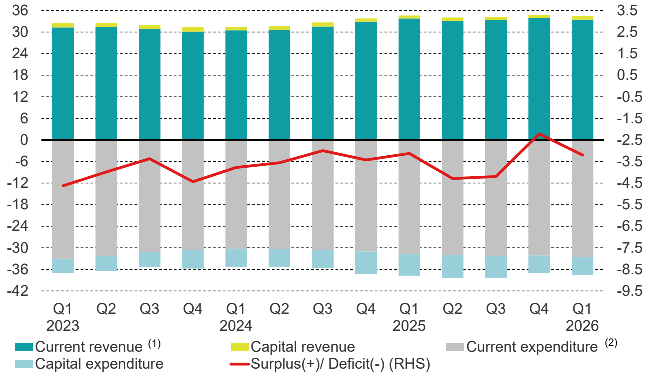
The debt-to-GDP ratio decreased by 0.5 percentage points falling to 45.9%, from 46.4% in December. This was because debt increased by much less than the corresponding deficit for the quarter, as financing needs were partly covered by a drawdown in government deposits. Hence, the level increase in debt was too small to offset the denominator effect (higher nominal GDP) (see Chart 5.2).

Net financial worth deteriorates slightly

The market value of financial assets held by the general government decreased to €6,194.0 million by March 2026, €374.1 million less than the level three months earlier. This was due a decline in the level of deposits held with banks. Consequently, the share of financial assets in GDP fell to 24.8% from 26.7% in the previous quarter (see Chart 5.3). The market value of financial liabilities declined by €188.7 million, to stand at €14,133.9 million. This was mainly driven by a fall in the value of other accounts payable. Consequently, the share of financial liabilities in GDP decreased by 1.7 percentage points to stand at 56.6%.

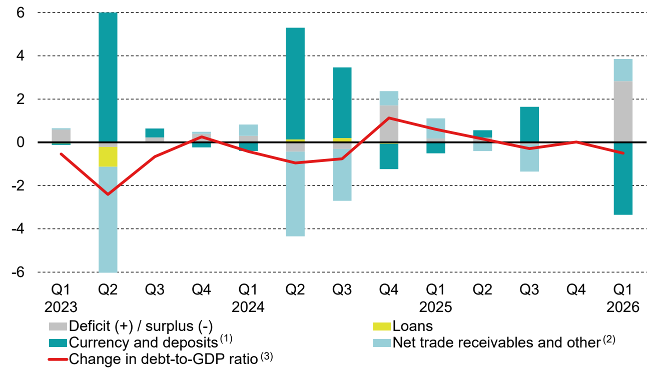
The resulting net financial worth of general government stood at -€7,939.9 million, a deterioration of €185.4 million compared with the previous quarter. The

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



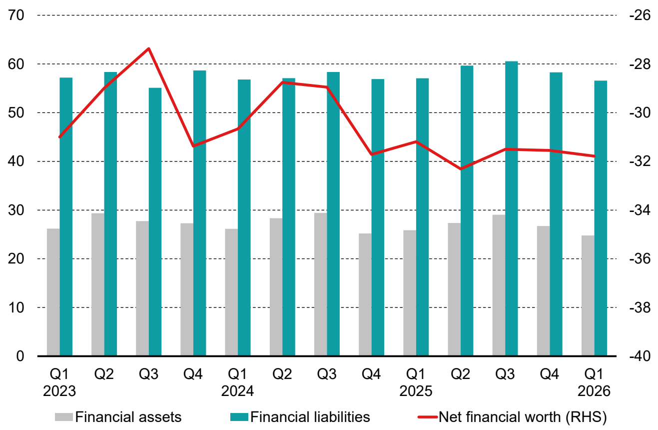
Sources: NSO; Central Bank of Malta.
(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.
(2) The term 'current expenditure' mainly represents spending on wages, social benefits 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. Values in 2023Q2 have been truncated. These amount to 16.1.
(2) Also includes transactions related to shares and other equity and adjustments for valuation and volume effects. Values in 2023Q2 have been truncated. These amount to -17.3.
(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.

net financial worth of general government as a share of GDP deteriorated slightly from the previous quarter, standing at -31.8% by end-March.

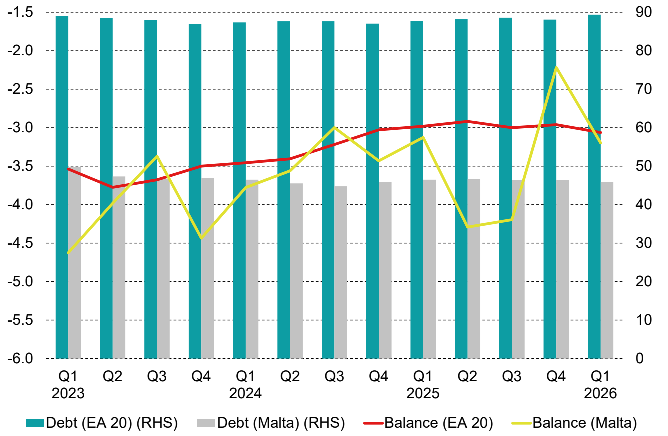
The net worth position of the Maltese general government remained more favourable than the euro area average, which closed the year at -53.9% of GDP.

Deficit and debt ratios stand below those in the euro area

During the quarter under review, the euro area general government deficit stood at 3.1% of GDP on a four-quarter moving sum basis, slightly up from a deficit of 3.0% of GDP at end-December 2025 (see Chart 5.4). Over the same period, the euro area debt ratio increased to 89.4% of GDP from 88.1%.

Although broadly in line with the euro area average, the Maltese government deficit ratio widened at a faster pace. Meanwhile, Malta's debt-to-GDP ratio remained well below the euro area average.

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

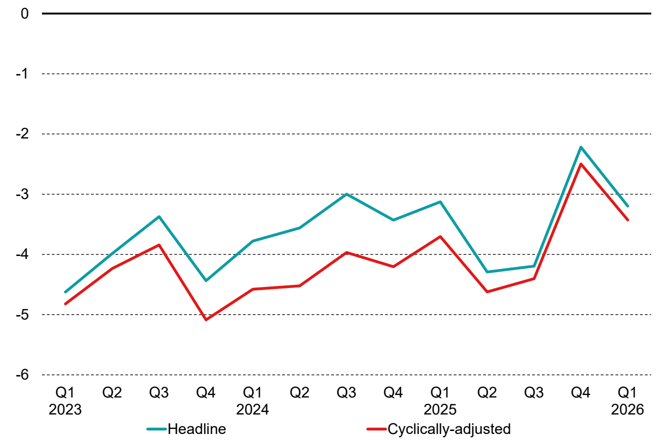


Sources: NSO; EUROSTAT.

Cyclically-adjusted deficit widened[1]

On a four-quarter moving sum basis, the cyclically-adjusted deficit widened by 0.9 percentage points compared with December 2025, to stand at 3.4% of GDP in the quarter under review (see Chart 5.5). This is similar to the 1.0 percentage point deterioration in the headline deficit ratio over the same period.

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



Sources: NSO; Central Bank of Malta estimates.

When compared with previous period, the share of cyclically-adjusted revenue in GDP declined by 0.4 percentage points (see Table 5.2). This was mainly due to the drop in the share of current taxes on income and wealth in GDP.

[1] 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.

Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS
Percentage points of GDP

	2025				2026
	Q1	Q2	Q3	Q4	Q1
Revenue	**0.8**	**-0.6**	**0.1**	**0.7**	**-0.4**
Current taxes on income and wealth	0.8	-0.5	-0.1	0.2	-0.6
Taxes on production and imports	-0.1	-0.1	0.1	0.6	0.1
Social contributions	0.0	0.0	0.0	0.1	0.0
Other(1)	0.0	0.0	0.0	-0.1	0.1
Expenditure	**0.3**	**0.3**	**-0.1**	**-1.2**	**0.5**
Compensation of employees	0.2	0.2	0.0	-0.3	0.0
Intermediate consumption	0.2	0.2	0.1	0.1	0.2
Social benefits	0.0	0.0	0.1	0.0	0.1
Interest payments	0.0	0.0	0.0	0.0	0.0
GFCF	-0.1	0.1	-0.2	0.1	0.1
Other(2)	0.0	-0.2	-0.1	-1.0	0.0
Primary balance	**0.5**	**-0.9**	**0.2**	**1.9**	**-0.9**
General government balance	**0.5**	**-0.9**	**0.2**	**1.9**	**-0.9**

Sources: NSO; Central Bank of Malta estimates.

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

(2) Mainly includes subsidies, current and capital transfers.

Meanwhile, the share of cyclically-adjusted expenditure rose by 0.5 percentage points. This mostly reflects a rise in the ratio of intermediate consumption, as well as an increase in the share of social benefits and GFCF.

6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the first quarter of 2026, financing conditions were slightly more favourable compared to the previous quarter.

In March 2026, Maltese residents' deposits with MFIs in Malta continued to increase at a relatively strong pace.[1] Credit to Maltese residents grew at a slower rate compared with the previous quarter, as lending to general government increased at a more muted pace.

The weighted average interest rate on outstanding deposits stood below its respective level a year earlier, while that for outstanding loans was marginally higher. The spread between the two rates thus widened over this period.

In March, the primary market yield on Treasury bills fell from that prevailing three months earlier. On the other hand, secondary market yields on five and ten-year MGS rose. As the increase in the domestic ten-year yield was more pronounced than that in the euro area benchmark, the spread between the two widened. The Malta Stock Exchange (MSE) Equity Price Index increased between December 2025 and March 2026 and was also higher compared with a year earlier.

Monetary and financial conditions

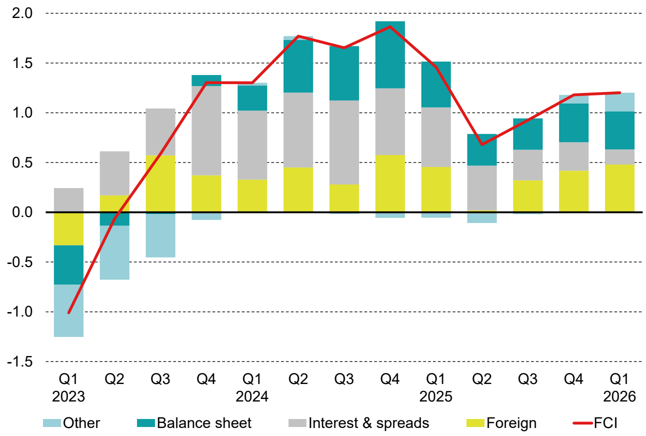
Financial conditions remain loose[2]

In the first quarter of 2026, the Bank's FCI continued to signal loose financial conditions from a historical perspective. Compared with the previous quarter, conditions were slightly more favourable (see Chart 6.1).

This was due to more favourable foreign factors, arising from a more positive contribution from euro area equity prices. Compared to the previous quarter, the contribution of domestic factors was marginally less positive. While the contribution from sovereign spreads (part of the 'interest and spread' component), turned negative during the quarter, this was mostly offset through a more positive contribution from NFC security issues (part of the 'other' component).

Compared with the first quarter of 2025, financial conditions were less favourable. This shift is driven by lower contributions from the deposit interest rate, the lending-to-policy rate spread and the sovereign spread (all part of the 'interest and spread' component).

Chart 6.1
CONTRIBUTIONS TO THE FCI
(contributions to the index)



Source: Central Bank of Malta estimates.

[1] 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.
[2] 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.

Maltese residents' deposits increase at an unchanged pace

In the year to March, total deposits held by Maltese residents with MFIs in Malta increased at an unchanged rate of 7.5% when compared with December 2025 (see Table 6.1). Growth continued to be driven by overnight deposits, which is the largest component of Maltese residents' deposits.

The annual rate of change of Maltese residents' overnight deposits, which are the most liquid component, grew by 10.5%, up from 10.1% in December. Balances held by NFCs increased at a faster pace unlike those belonging to households, which grew at a marginally slower rate. Overnight deposits contributed 8.8 percentage points to overall growth in deposits.

Deposits with an agreed maturity of up to two years, decreased by 10.7% in annual terms, following a 6.9% decline in December, and shed 1.3 percentage points to overall growth.

Deposits with an agreed maturity of up to three months declined after having increased (from a low base) in the previous quarter. Their contribution to overall growth was zero.

Meanwhile, deposits classified outside M3, which are mainly composed of deposits with agreed maturity of over two years, continued to decrease, falling by 0.3% during the year to March, following a year-on-year decline of 0.9% recorded in December. Their contribution to overall growth was also zero.

Table 6.1
DEPOSITS OF MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2026	2025				2026
	Mar.	Mar.	June	Sep.	Dec.	Mar.
Overnight deposits	**23,777**	**6.2**	**8.2**	**10.8**	**10.1**	**10.5**
of which						
Households	17,314	7.6	9.6	11.7	12.7	12.5
NFCs	3,896	7.0	9.6	6.8	5.7	9.6
Deposits redeemable at notice of up to three months	**76**	**-10.6**	**-3.7**	**-9.4**	**3.0**	**-0.7**
of which						
Households	2	2,039.6	878.4	23.3	-96.9	-79.8
NFCs	46	-34.0	-18.4	-13.1	-9.1	4.9
Deposits with an agreed maturity of up to two years	**2,830**	**24.6**	**9.9**	**-3.0**	**-6.9**	**-10.7**
of which						
Households	2,074	21.4	7.6	-5.7	-11.0	-13.9
NFCs	324	35.5	8.4	-11.5	-21.7	-18.3
Deposits outside M3(1)	**974**	**-1.8**	**-1.9**	**-4.3**	**-0.9**	**-0.3**
of which						
Households	838	-1.2	-1.1	-2.2	-0.1	-4.1
NFCs	20	-15.9	-11.2	-52.8	-35.7	-32.9
Total residents deposits(2)	**27,656**	**7.8**	**7.9**	**8.4**	**7.5**	**7.5**
of which						
Households	20,228	8.8	8.8	8.7	8.9	8.3
NFCs	4,286	8.3	8.9	4.4	2.9	6.5

Source: Central Bank of Malta.

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

(2) Total residents deposits exclude deposits belonging to central Government.

Credit to residents grows at a slower rate

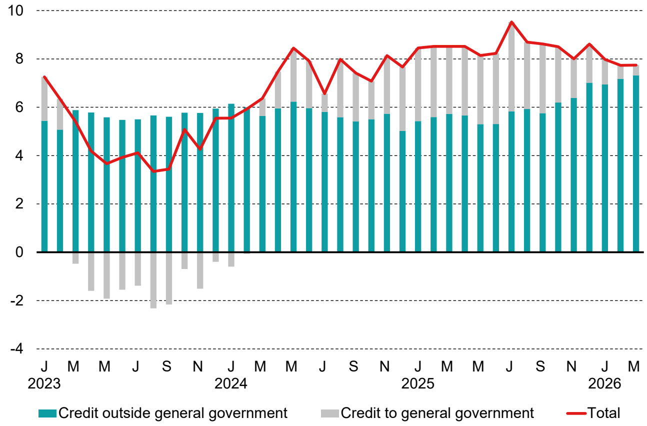
The annual rate of change of credit to Maltese residents slowed down to 7.7% in March from 8.6% three months earlier. This was driven by slower growth in lending to general government (see Table 6.2 and Chart 6.2).

Credit to general government grew annually by 1.7% in March, after increasing by 6.4% in December, due to slower growth in MFI holdings of government stocks.

The annual growth of credit to residents outside general government increased to 9.8% in March, from 9.4% three months earlier. This mainly reflected a faster increase in loans to the private sector.

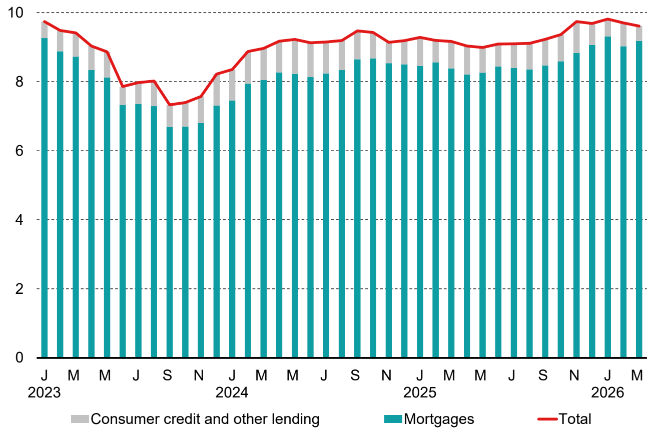
Annual growth in loans to households increased by 9.6%, marginally lower than the rate of 9.7%, three months earlier (see Chart 6.3). This was driven

Chart 6.2
CONTRIBUTIONS TO GROWTH IN CREDIT TO MALTESE RESIDENTS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

Chart 6.3
CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2026	2025				2026
	Mar.	Mar.	June	Sep.	Dec.	Mar.
Credit to general government	**5,485**	**11.3**	**12.0**	**11.9**	**6.4**	**1.7**
Credit to residents outside general government	**17,530**	**7.6**	**7.0**	**7.6**	**9.4**	**9.8**
Securities and equity	273	-4.8	-8.2	-6.0	-6.1	-6.4
Loans	17,257	7.9	7.3	7.8	9.7	10.1
of which:						
Loans to households	10,240	9.2	9.1	9.2	9.7	9.6
Mortgages	9,481	9.1	9.2	9.2	9.8	10.0
Consumer credit and other lending	758	10.2	8.4	9.8	8.1	5.5
Loans to NFCs(1)	5,874	4.7	3.7	6.7	11.6	13.6
Total credit to residents	**23,015**	**8.5**	**8.2**	**8.6**	**8.6**	**7.7**

Source: Central Bank of Malta.
(1) NFCs include sole proprietors and non-profit institutions serving households (NPISH).

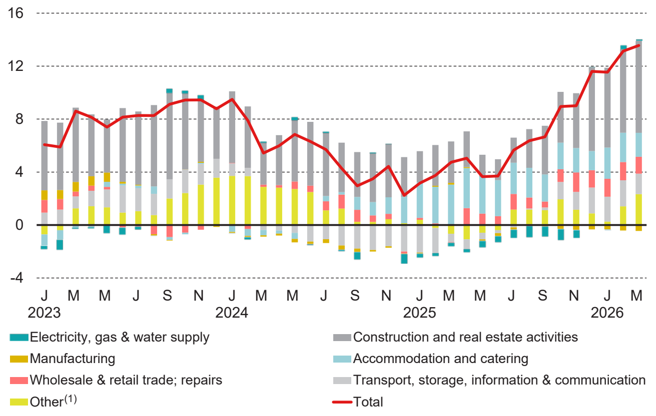
by slower growth in consumer credit and other lending. On the other hand, mortgage lending grew at a faster pace.

Meanwhile loans to NFCs grew at an annual rate of 13.6%, following an 11.6% increase in the year to December.

Sectoral data show that in absolute terms, the increase in loans to NFCs compared to the previous quarter, was largely driven by increased lending to the sector comprising accommodation and food services activities and the construction and real estate sector (see Chart 6.4). Higher lending was also reported in the trade and vehicle repair sector and the energy sector. These increases more than offset a decline in credit to the manufacturing sector.

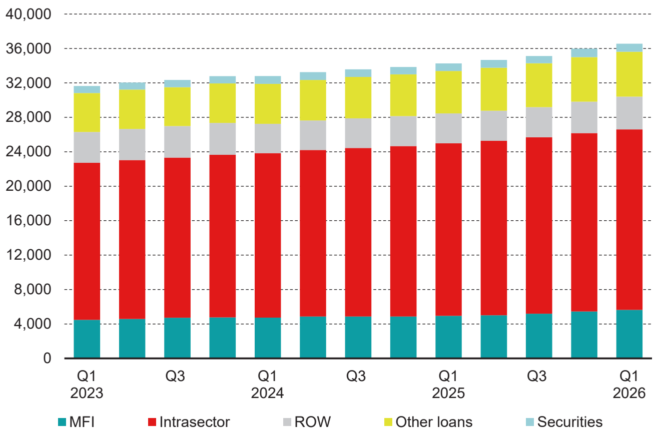
Financial accounts data show that the share of bank lending in total NFC debt in March 2026, increased to 15.4%, compared to 15.1% in December and 14.4% a year earlier (see Chart 6.5).

Chart 6.4
LOANS TO NFCs BY SECTOR
(percentage points; annual percentage change)



Source: Central Bank of Malta.
(1) Mainly includes entertainment, health, education, professional services, and administration.

Chart 6.5
NFC DEBT BY SOURCE
(end-of-period stocks in EUR millions)



Source: Financial Accounts.

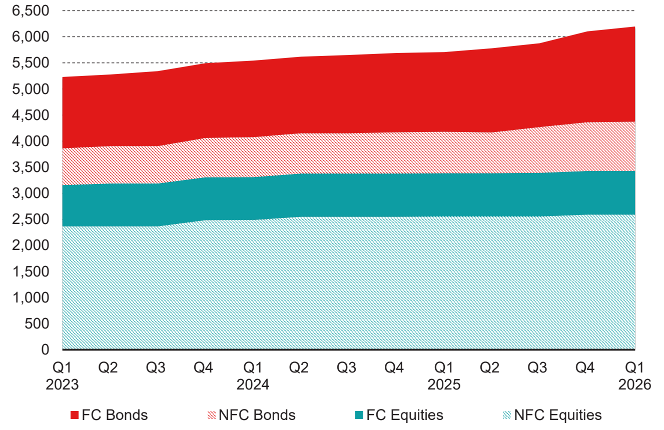
The share of intra-sectoral lending in total NFC debt decreased to 57.3%, compared to 57.6% in the fourth quarter of 2025. Nonetheless, this component continued to account for most of NFCs external financing.

The share of debt financing sourced from non-residents increased to 10.4%, compared to 10.2% recorded in the previous quarter and a year earlier. Meanwhile, the share of 'other loans' decreased marginally to 14.3% during the first quarter of 2026, compared to 14.4% in the previous quarter. This component largely reflects loans from financial institutions other than MFIs and households.

The share of securities moderated during the first quarter, decreasing to 2.6%, form 2.7% recorded three months earlier.

Stock of listed securities of NFCs and financial corporations (FCs) increases

Chart 6.6
OUTSTANDING SECURITIES OF NFCs AND FCs LISTED ON MSE
(EUR millions outstanding as at end-period)



Sources: MSE; Central Bank of Malta estimates.

By March 2026, around €2,769.4 million in outstanding corporate debt securities were listed on the MSE, 19.3% higher than the amount listed a year earlier (see Chart 6.6).[3] 65.8% of this amount was issued by financial entities other than credit institutions.

Meanwhile, the outstanding amount of equity listed by NFCs and FCs on the MSE increased by 1.3% in annual terms, to reach €3,427.6 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 2026, exceeded that of bonds by 23.8%.[4]

Spread between deposit and lending rate on outstanding amounts widens

The weighted average deposit rate on outstanding balances belonging to households and NFCs decreased by 13 basis points over the year to March, to 0.25% (see Table 6.3). This was primarily driven by lower rates on deposits with agreed maturity of up to two years.

At the same time, the weighted average lending rate paid by households and NFCs on outstanding loans rose by just around one basis point to 3.31%. This marginal increase reflected higher rates charged to NFCs.

The spread between the weighted average lending rate and the deposit rate on outstanding balances ended March at 306 basis points, above the spread of 292 points recorded a year earlier.

Compared with the fourth quarter of 2025, interest rates on outstanding deposits with MFIs decreased by three basis points, as did the rate on outstanding loans. As a result, the spread between the two rates was unchanged.

During the year to March, the deposit rate offered on new balances held by households and NFCs in Malta decreased, while the lending rate increased. These closed the quarter at 2.09%, and 3.46%, respectively.

[3] 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 6.6 are based on the official MSE list and thus exclude securities listed through Prospects. Chart 6.6 includes data on NFCs and FCs other than MFIs.

[4] Apart from the official MSE platform, small and medium-sized enterprises (SMEs) can also obtain finance through the specifically-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

	2023	2024	2025		2025		2026
	Mar.	Mar.	Mar.	June	Sep.	Dec.	Mar.
Total deposits(1)	**0.19**	**0.35**	**0.37**	**0.33**	**0.30**	**0.27**	**0.25**
of which							
Overnight deposits							
Households	0.03	0.05	0.05	0.05	0.05	0.05	0.05
NFCs	0.07	0.10	0.08	0.03	0.03	0.03	0.03
Savings deposits redeemable at notice							
Households	0.16	0.31	0.16	0.22	0.25	0.27	0.58
NFCs	0.06	0.74	0.30	0.32	0.22	0.22	0.24
Time deposits (less than two years)							
Households	0.95	2.05	2.04	1.87	1.72	1.64	1.43
NFCs	0.95	2.28	1.79	1.50	1.47	1.35	1.25
Time deposits (more than two years)							
Households	1.73	1.82	2.11	2.12	2.16	2.08	2.09
NFCs	1.49	1.83	1.84	1.88	2.56	2.83	2.93
Total loans(1)	**3.41**	**3.52**	**3.29**	**3.30**	**3.36**	**3.34**	**3.31**
of which							
Households and NPISH	2.84	2.82	2.72	2.70	2.77	2.75	2.69
NFCs	4.46	4.83	4.41	4.49	4.53	4.45	4.46
Spread(2)	**3.21**	**3.16**	**2.92**	**2.98**	**3.07**	**3.06**	**3.06**
Memo Item: ECB's deposit facility rate	3.00	4.00	2.50	2.00	2.00	2.00	2.00

Source: Central Bank of Malta.
(1) Annualised agreed rates on outstanding euro-denominated amounts belonging to households (incl. NPISH) and NFCs.
(2) Difference between composite lending rate and composite deposit rate.

The Bank Lending Survey (BLS) indicates unchanged credit standards in the first quarter

Results from the April BLS show that credit standards, terms and conditions on loans to NFCs in Malta were unchanged in the first quarter of 2026. Credit standards were also expected to remain unchanged in the second quarter. Furthermore, half of the surveyed banks saw an increase in demand for this type of credit while surveyed banks were not expecting any changes in the second quarter.

Credit standards for house purchases and consumer credit and other lending were also unchanged and were expected to remain so in the second quarter. Terms and conditions for these credit categories were also generally unchanged during the first quarter of 2026. Demand for mortgages and consumer credit and other lending was unchanged, with no changes expected in the following quarter either.

The money market

During the first quarter of 2026, the Government issued €458.7 million in Treasury bills, €255.1 million less than the amount issued in the fourth quarter of 2025 but €56.9 million more compared with the amount issued a year earlier.

In the domestic primary market, the yield on three-month Treasury bills declined to 2.05% by the end of March, from 2.10% at end-December.

The capital market

There were no new MGS issues in the first quarter of 2026.

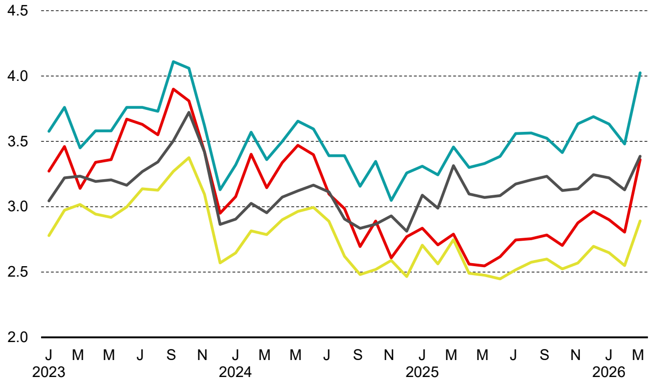
Four institutions launched new bond issues on the MSE, totalling €140.8 million. These included €70.0 million in secured bonds and €70.8 million in unsecured bonds.

By the end of March, 15 firms had bonds that were listed on the MSE through Prospects, two less compared with three months earlier.[5]

In the secondary market, turnover in government bonds decreased to €32.6 million, from €58.3 million in the fourth quarter of 2025. On the other hand, turnover in corporate bonds more than doubled, increasing to €42.2 million from €20.3 million, previously.

The yield on five-year Government bonds rose to 3.36% at the end of March, from 2.97% three months earlier (see Chart 6.7). The yield on ten-year bonds also increased, to reach 4.03% from 3.69% in December. Meanwhile, the euro area benchmark yield on five-year bonds reached 2.89% from 2.70%, while the ten-year rate rose to 3.39% from 3.24%. As the increase in the domestic ten-year yield was larger than that in the euro area benchmark, the spread between the two widened to 64 basis points in March from 44 basis points in December.

Chart 6.7
GOVERNMENT BOND YIELDS
(percentages per annum; end of month)



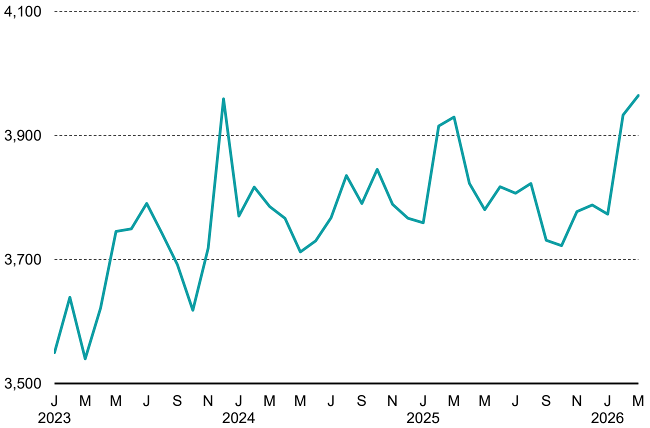
Sources: Central Bank of Malta; ECB.

MSE Equity Price Index rose during the quarter

Share prices in Malta rose during the first quarter of 2026. The MSE Equity Price Index ended the quarter 4.7% above its level at end-December and was also 0.9% above its reading a year earlier (see Chart 6.8). The MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, rose by 5.1% since end-December and gained 6.1% compared with a year earlier.

Equity turnover increased to €23.4 million during the first quarter of 2026, from €11.7 million in the previous quarter.

Chart 6.8
MSE EQUITY PRICE INDEX
(end of month)



Source: MSE.

[5] Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.