2. OUTPUT AND EMPLOYMENT

Annual real GDP growth rose by 4.5% in the second quarter of 2026. Growth was driven by domestic demand, even when adjusting for imports.

Sectoral data show that the expansion in output was mainly driven by two large sectors. In nominal terms, compensation of employees contributed most to GDP growth.

During the second 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 but showed signs of moderation. Both the vacancy rate and the labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate decreased when compared to the second quarter of 2025.

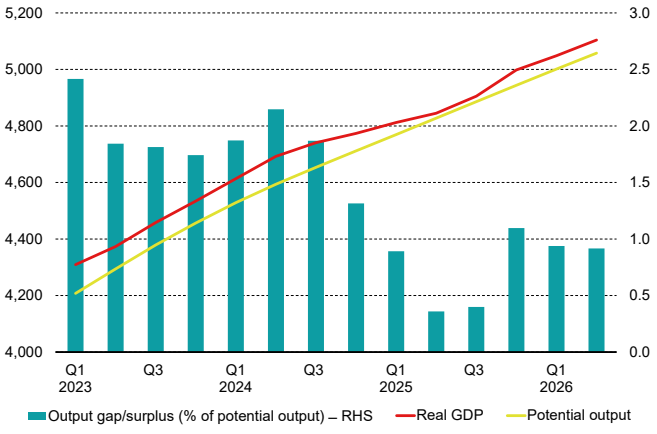
Potential output

Potential output growth remains strong

The Bank estimates that potential output grew by 4.6% in the second quarter of 2026, broadly in line with the 4.7% increase estimated for the previous quarter.

On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter was similar to that in GDP. As a result, the output surplus remained unchanged at 0.9% (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.

Business conditions and sentiment

BCI broadly in line with its historical average

Overall, the Bank's BCI indicates that the pace of economic activity during the second quarter remained broadly in line with its long-run average (see Chart 2.2).[1] The index moderated compared with the first quarter, reflecting

[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.

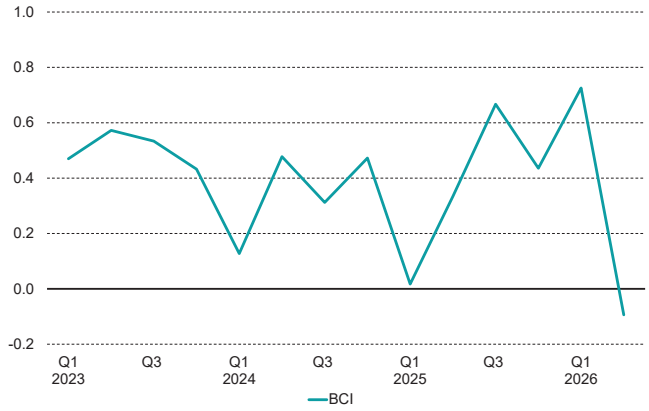
an increase in the unemployment rate.

Consumer Confidence Indicator increases

As from May, the European Commission suspended business survey results for Malta and Estonia due to changes in partner institutes. Consequently, it is not possible to compile the Economic Sentiment Indicator, the Employment Expectations Indicator and the Economic Uncertainty Indicator. However, consumer sentiment indicator remains available.

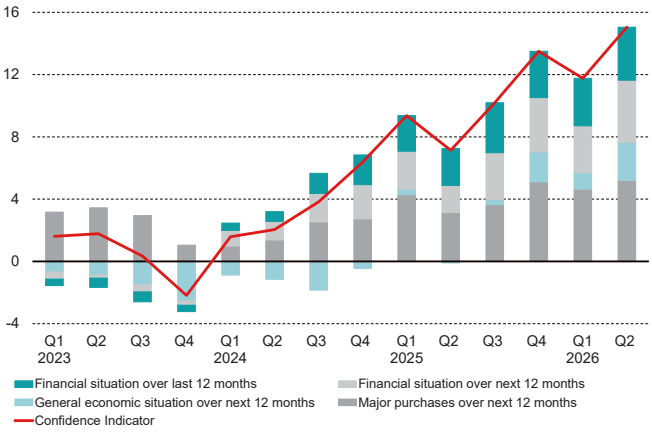
During the second quarter of 2026, consumer sentiment increased relative to the previous quarter, with increases observed across all components of the indicator, particularly consumers' expectations of the general economic situation and of their financial situation over the next 12 months (see Chart 2.3).[2]

Chart 2.2
BCI
(standardised)



Source: Central Bank of Malta.
(1) The BCI is standardised, which implies that values above (below) 0 imply that conditions are above (below) historical average. The latter is calculated since January 2000.

Chart 2.3
CONSUMER CONFIDENCE INDICATOR
(seasonally adjusted; demeaned)



Source: European Commission.

GDP and production

Real GDP growth increases at a faster pace

In the second quarter of 2026, real GDP rose by 4.5% on an annual basis, up from 4.2% in the previous quarter, with growth being driven by domestic demand (see Table 2.1).

Domestic demand rose by an annual 6.4% in the quarter under review, following an increase of 6.5% in the first quarter of 2026. It contributed 5.3 percentage points to GDP growth in the quarter under review, up from 5.1 percentage points in the previous quarter. This mainly reflected higher growth in government consumption which rose by 14.7%, up from 10.7% in the previous quarter. In the quarter under review, growth was mainly driven by outlays on intermediate consumption

[2] 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.

Table 2.1
GDP[1]

	2025			2026	
	Q2	Q3	Q4	Q1	Q2
	Annual percentage changes				
Private final consumption expenditure	5.3	6.7	4.2	3.1	3.7
Government final consumption expenditure	4.1	2.9	4.1	10.7	14.7
GFCF	5.3	0.1	1.5	11.9	5.1
Domestic demand	**5.5**	**4.9**	**4.2**	**6.5**	**6.4**
Exports of goods and services	2.0	-0.7	2.6	-0.6	3.0
Imports of goods and services	3.8	-1.7	-0.4	0.2	4.1
GDP	**2.8**	**4.9**	**7.8**	**4.2**	**4.5**
	Percentage point contributions				
Private final consumption expenditure	2.4	3.0	2.0	1.4	1.7
Government final consumption expenditure	0.7	0.4	0.8	1.8	2.5
GFCF	1.0	0.0	0.3	2.0	1.0
Changes in inventories	0.4	0.4	0.5	-0.1	0.1
Domestic demand	**4.5**	**3.9**	**3.6**	**5.1**	**5.3**
Exports of goods and services	2.8	-1.0	3.6	-0.7	4.0
Imports of goods and services	-4.5	2.0	0.7	-0.2	-4.7
Net exports	**-1.7**	**1.0**	**4.3**	**-1.0**	**-0.7**
GDP	**2.8**	**4.9**	**7.8**	**4.2**	**4.5**

Sources: NSO; Central Bank of Malta calculations.

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

due to spending by EBUs, outlays related to ongoing capital projects and spending on health. Overall, government consumption added 2.5 percentage points to GDP growth.

At the same time, private consumption expenditure increased by an annual 3.7%, up from 3.1% in the previous quarter. It added 1.7 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 all expenditure categories, with the biggest increase recorded in restaurants and accommodation services.[3]

Real GFCF rose by 5.1% year-on-year after increasing by 11.9% in the previous quarter. When measured in absolute terms, this increase was largely driven by higher outlays on intellectual property products. Dwelling investment also contributed to the growth in GFCF, though to a lesser extent. GFCF contributed 1.0 percentage point to GDP growth.

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

Meanwhile, imports rose by 4.1%, while exports rose by 3.0% on a year earlier. Consequently, net exports contributed negatively to GDP growth, although its impact was less negative than in the previous quarter.

[3] 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 decreased in year-on-year terms.

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

	2025			2026	
	Q2	Q3	Q4	Q1	Q2
Private final consumption expenditure	1.3	2.3	1.9	1.1	0.9
Government final consumption expenditure	0.5	0.4	0.8	1.5	1.9
GFCF	0.4	0.2	0.5	1.2	0.4
Changes in inventories	0.2	0.1	0.2	-0.1	0.1
Domestic demand	**2.5**	**3.1**	**3.3**	**3.6**	**3.4**
Exports of goods and services	**0.3**	**1.8**	**4.5**	**0.6**	**1.1**
GDP	**2.8**	**4.9**	**7.8**	**4.2**	**4.5**

Source: Central Bank of Malta estimates.

(1) Chain-linked volumes, reference year 2020. Import-adjusted contributions to GDP growth are derived from import intensities using NSO's 2020 input-output tables.

Import-adjusted contributions confirm that growth was mainly driven by domestic demand (see Table 2.2).[4] Within domestic demand, government consumption and private consumption were the largest contributors to GDP growth.

Services remain the main driver of economic growth

Data based on the output approach show that in the second quarter of 2026, real GVA rose by 5.0% in annual terms and contributed 4.7 percentage points to GDP growth (see Table 2.3).[5]

Services added 4.3 percentage points to real GDP growth and was mainly spurred by the sectors consisting of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage and services related to accommodation and food service activities as well as services related to information and communication. Other significant contributions came from the financial and insurance activities sector and public administration.

Overall, non-services sectors exhibited a small positive contribution to GDP growth during this quarter. The contribution from taxes net of subsidies on products was marginally negative.

Nominal GDP growth in line with previous quarter

Nominal GDP rose by 6.8% in annual terms in the second quarter of 2026, after increasing by 6.9% 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 contributor being compensation of employees.

The contribution from gross operating surplus almost doubled compared with the previous quarter while that of net taxes more than halved.

4 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.

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

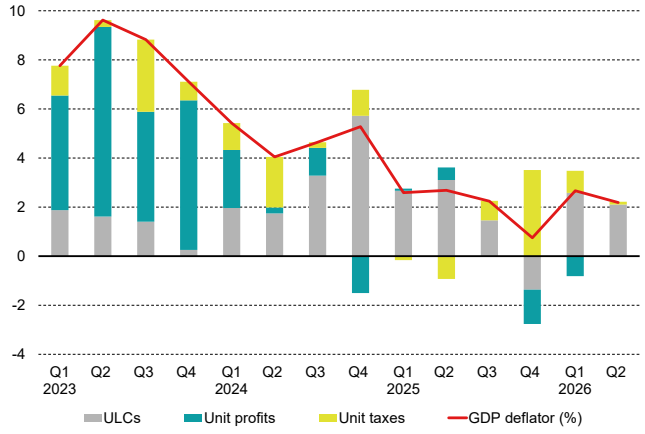
Table 2.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH
Percentage points

	2025			2026	
	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	-0.1	-0.2	0.1	-0.1	0.0
Mining and quarrying; utilities	0.3	0.1	-0.4	0.2	-0.1
Manufacturing	0.1	-0.1	-0.3	0.2	0.3
Construction	-0.1	0.1	0.2	0.0	0.1
Services	4.3	4.8	4.8	4.1	4.3
of which:					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	1.1	1.6	2.3	0.9	1.2
Information and communication	0.6	0.4	0.9	1.4	1.1
Financial and insurance activities	0.5	0.8	-0.3	0.5	0.9
Real estate activities	0.6	0.5	0.3	0.5	0.1
Professional, scientific, administrative and related activities	0.2	0.8	0.8	0.3	0.4
Public administration and defence; education; health and related activities	0.8	0.4	0.6	0.7	0.8
Arts, entertainment; household repair and related services	0.4	0.3	0.3	-0.1	-0.2
GVA	**4.4**	**4.6**	**4.4**	**4.4**	**4.7**
Taxes less subsidies on products	**-1.6**	**0.3**	**3.4**	**-0.2**	**-0.1**
Annual Real GDP growth (%)	**2.8**	**4.9**	**7.8**	**4.2**	**4.5**

Source: NSO.

Chart 2.4 shows the main contributors to growth in the GDP deflator. This rose by 2.2% in the second quarter of 2026, after increasing by 2.7% in the previous quarter. Growth was mainly driven by the contribution of ULCs. The contribution from unit profits and net taxes turned neutral.

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



Source: NSO.

Production in industry and services increases

Industrial production rose by 1.3% on a year-on-year basis in the second quarter of 2026,

with the pace of growth remaining broadly unchanged from the previous quarter's increase of 1.2%.[6]

Production in the manufacturing sector rose at a faster rate of 1.6%, following a 0.2% increase in the preceding quarter. Meanwhile, production in the energy sector contracted and fell by an annual 6.2% in the second quarter of the year, compared with a 14.9% increase a quarter earlier, reflecting the sector's volatile profile.[7] Production in the quarrying sector remained strong.

In the manufacturing sector, the strongest increases were reported by firms involved in the printing and reproduction of recorded media, those that manufacture computer, electronic and optical products, machinery and equipment, wood, paper products and beverages. 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 6.1% on an annual basis, following an increase of 3.8% in the first quarter of 2026. This expansion in services production points to a sustained turnaround, with growth accelerating in the second quarter of the year after remaining relatively subdued throughout most of last year.

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

The labour market[8]

Labour force and activity rate increase further

Labour Force Survey (LFS) data show that in the second quarter of 2026, the labour force grew by 13,356 persons, or 4.0% on an annual basis, following a 3.4% increase in the previous quarter (see Table 2.4).[9]

The activity rate stood at 82.8% in the quarter under review, from 82.0% recorded a year earlier, reflecting a higher activity rate for males.[10] Both male and female activity rates exceeded the corresponding rates for the euro area, with the rate for males exhibiting a larger difference.

Employment increases at a slightly faster pace

Employment rose by 3.4% in annual terms, following a rise of 3.3% in the previous quarter. The increase in absolute terms was driven by higher full-time employment within the sectors comprising information and communication, the administrative and support service activities and the real

[6] 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.

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

[8] 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.

[9] 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.

[10] 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.

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

	2025 Q2	2026 Q2	Annual change %
Labour force	**338,010**	**351,366**	**4.0**
Employed	328,737	339,935	3.4
By type of employment:			
Full-time	288,931	299,994	3.8
Part-time	39,806	39,941	0.3
Unemployed	9,273	11,431	23.3
Activity rate (%)	**82.0**	**82.8**	
Male	87.0	88.3	
Female	75.9	76.0	
Employment rate (%)	**79.7**	**80.1**	
Male	84.9	85.1	
Female	73.4	73.9	
Unemployment rate (%)	**2.8**	**3.3**	
Actual hours worked (per week)	**35.1**	**35.3**	

Source: NSO.

estate activities. The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – increased slightly.

In the second quarter of 2026, the overall employment rate increased to 80.1%, 0.4 percentage points higher than the rate prevailing during the same period of 2025.[11] This reflects a higher employment rate for both females and males.

During the quarter under review, average actual weekly hours worked derived from the LFS increased slightly to 35.3, from 35.1 a year earlier (see Table 2.4).[12]

The unemployment rate increased

The unemployment rate based on the LFS increased from a year earlier (see Table 2.4).[13] However, labour market conditions remained more favourable than those in the euro area, where the unemployment rate on average stood at 6.3%.

Jobsplus data show that the number of persons on the unemployment register increased both on a quarterly basis and in annual terms. During the second quarter of 2026, the average number of persons on the unemployment register stood at 1,372, compared with 1,297 in the first quarter

[11] 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.

[12] 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.

[13] 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.

of 2026 and with 1,028 a year earlier (see Chart 2.5). This was mainly driven by higher registered unemployment among clerical support workers and elementary occupations.

Chart 2.5
REGISTERED UNEMPLOYED
(number of persons)



Source: NSO.

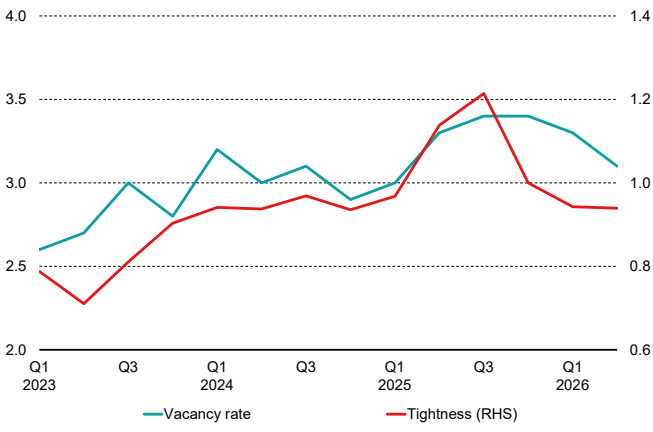
Labour market tightness shows signs of moderating

In absolute terms the number of vacancies remained broadly unchanged from a year earlier at 9,619.[14] However, it declined when compared with the previous quarter, during which there were just over 10,000 vacancies registered. Overall, when compared with the average level since 2017, the number of vacancies remained elevated.[15]

In the second quarter of the year, the largest year-on-year increases in vacancies were observed in the sectors comprising wholesale and retail trade, transport, accommodation and food service activities, construction and manufacturing, quarrying and other industry. Meanwhile, vacancies declined in the sectors comprising professional, scientific, technical, administration and support service activities, as well as in public administration and in arts, entertainment and recreation.

Eurostat's job vacancy rate for industry, construction and services decreased from a year earlier, and stood at 3.1% from 3.3% (see Chart 2.6).[16] This is the second consecutive quarter-on-quarter decline. The highest vacancy rates were recorded in the construction sector (6.2%), the accommodation and food service activities sector (5.2%) and the real estate activities sector (5.1%).

Chart 2.6
VACANCY RATE AND LABOUR MARKET TIGHTNESS INDICATOR
(per cent)



Sources: Eurostat; NSO; Central Bank of Malta.

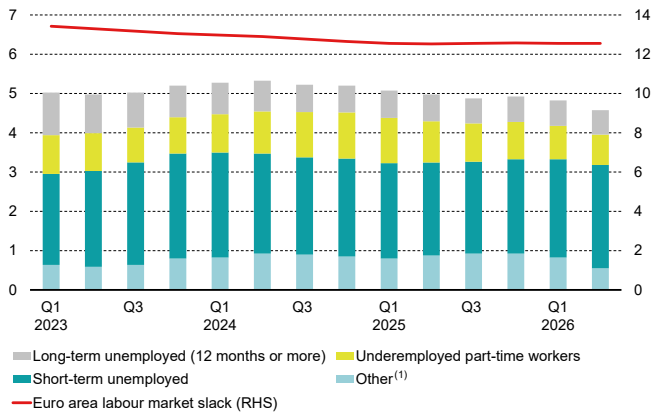
The ratio of the job vacancy rate to the unemployment rate is an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness. During the quarter under review, this ratio stood at 0.9, unchanged from the previous quarter but lower than the

[14] The NACE classification system, the Statistical Classification of Economic Activities in the European Community, has been updated to NACE Rev. 2.1. NSO are also updating the weights used to gross up the survey results based on the most recent target population estimates. The data may not be comparable with previous vintages.
[15] Data for Malta are available since 2017.
[16] The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant).

1.1 recorded a year earlier. Though easing, labour tightness remains higher than the euro area average, which stood at 0.3.

On a four-quarter moving average basis, labour market slack was equivalent to 4.6% of the extended labour force in the second quarter of the year (see Chart 2.7).[17] This rate stands well below its average of 7.6% estimated since 2010. It is also significantly lower than the rate of 12.6% recorded for the euro area over the four quarters to June 2026.

Chart 2.7
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.

The Bank estimates that during the four-quarters ending in June, around 70% 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 2.7).

[17] 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.