BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA
QUARTERLY REVIEW

2026 Vol. 59 No. 4

© **Central Bank of Malta, 2026**

Address
Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone
(+356) 2550 0000

Fax
(+356) 2550 2500

Website
www.centralbankmalta.org

Contact
https://www.centralbankmalta.org/contact-us

All rights reserved. Reproduction is permitted provided that the source is acknowledged.

The cut-off date for statistical information in this Review is 1 October 2026. However, the cut-off date for residential property prices is extended to 14 October, while that for government finance statistics is extended to 21 October. Figures in tables may not add up due to rounding.

ISSN 1811-1254 (online)

CONTENTS

FOREWORD 5

ECONOMIC SURVEY 7

1. The Euro Area and the External Environment 7
2. Output and Employment 16
3. Prices, Costs and Competitiveness 25
4. The Balance of Payments 32
5. Government Finance 37
6. Monetary and Financial Developments 42

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
EER	effective exchange rate
EU	European Union
EURIBOR	euro interbank offered rate
€STR	euro short-term rate
FC	financial corporation
FCI	Financial Conditions Index
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
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 second quarter of 2026, annual real gross domestic product (GDP) rose by 4.5%, following a 4.2% increase in the preceding quarter. Growth was driven by domestic demand, even when adjusting for imports.

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

Overall, the Bank's Business Conditions Index (BCI) indicated that the pace of economic activity moderated compared to the first quarter but remained broadly in line with its long-run average.

The labour market continued to perform positively with activity and employment rates rising. In the second quarter of 2026, the unemployment rate rose on a year earlier but was well below that in the euro area. The labour market remained tight but showed some signs of moderation, with both the vacancy rate and the labour market tightness indicator decreasing.

Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP) declined to 2.0% in June, from 2.3% in March. This mostly reflected lower contributions from food and services inflation. Meanwhile, annual inflation based on the Retail Price Index (RPI), which amongst other methodological differences only considers expenditure by Maltese residents, stood at 2.5% in June, down from 2.7% in March.

In the second 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. This reflected slower growth in compensation per employee and faster growth in productivity per person. Other non-labour cost indicators regularly monitored by the Bank showed mixed results.

In the second quarter of 2026, the current account surplus decreased when compared with a year earlier. This mostly reflected higher net outflows in the primary and secondary income account, and lower net receipts from services. When measured on a four-quarter moving sum basis, the current account surplus stood at 5.5% of GDP.

Meanwhile, the general government deficit-to-GDP ratio widened owing to strong growth in expenditure. When measured on a four-quarter moving sum basis, the deficit stood at 3.5% of GDP. The general government debt-to-GDP ratio increased to 47.0% in June, from 45.7% in March.

The Bank's Financial Conditions Index (FCI) suggests that financing conditions in the second quarter of 2026 were more favourable compared with the previous quarter. In June, 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 faster 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 unchanged. The spread between the two rates thus widened over this period.

During the second quarter of 2026, the Governing Council tightened the monetary policy stance in response to the inflationary pressures generated by the war in the Middle East. In June, the Governing Council raised the three key European Central Bank (ECB) interest rates 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 rate, the main refinancing operations (MROs) and the marginal lending facility were 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.

In September, the Governing Council raised the key ECB interest rates by a further 25 basis points. The Council reaffirmed that it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance.

ECONOMIC SURVEY

1. THE EURO AREA AND THE EXTERNAL ENVIRONMENT

In the second quarter of 2026, real GDP rebounded in the euro area, while it grew at a constant pace in the United States and expanded at a slower pace in the United Kingdom. The unemployment rate remained unchanged in both the euro area and the United States but decreased slightly in the United Kingdom.

The conflict in the Middle East continued to drive major economic developments, particularly regarding inflation and inflation expectations, in the advanced economies during the review period. In the euro area, inflation rose to 2.8% in June, from 2.6% in March, while in the United States inflation increased to 3.5% in June, compared to 3.3% three months earlier. In contrast, in the United Kingdom inflation dropped to 2.6% in June, from 3.3% in March. The ECB raised key interest rates, while both the US Federal Reserve Bank and the Bank of England kept policy rates unchanged during the quarter under review.

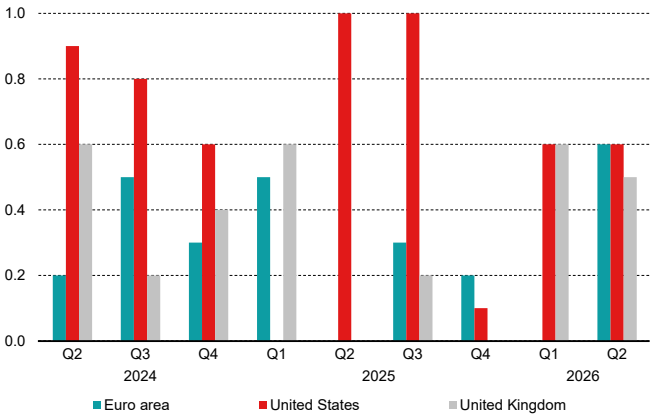
Brent oil prices receded by the end of the quarter, following an interim agreement between the United States and Iran over the conflict in the Middle East, though they remained at elevated levels. European natural gas prices also fell amid new sources of supply coupled with lower demand.[1]

Economic and financial developments in the euro area

Economic activity in the euro area expands

Economic activity in the euro area returned to growth in the second quarter. In real terms, GDP grew by 0.6% on a quarter-on-quarter basis, compared to zero growth in the previous quarter (see Chart 1.1). These movements were influenced by developments in Ireland, where a sharp drop in GDP in the first quarter was followed by a strong recovery in the second quarter. In terms of sectoral gross value added (GVA), in real terms the growth in GDP was broad-based across sectors and was especially pronounced in manufacturing.

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.

In terms of expenditure components, net exports was the main contributor to GDP growth, adding 0.9 percentage points to economic growth, as exports surged and outpaced a rise in imports. In contrast, domestic demand pulled GDP down by 0.3 percentage points, as a 0.5 percentage point decrease in the contribution from inventory

[1] After the end of the quarter, hostilities resumed, leading to renewed increases in prices of energy commodities.

Table 1.1
CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA[1]

Percentage points; quarter-on-quarter percentage change

	2024			2025				2026	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	0.1	0.3	0.3	0.2	0.1	0.1	0.3	0.0	0.2
Government consumption	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0
GFCF	-0.5	0.3	0.2	0.5	-0.3	0.2	0.2	0.0	0.0
Changes in inventories[2]	0.2	0.5	-0.3	0.0	0.3	0.0	-0.4	0.4	-0.5
Exports	0.8	-0.6	0.3	0.9	-0.3	0.3	0.2	-0.3	1.6
Imports	-0.5	-0.2	-0.2	-1.0	0.1	-0.5	-0.2	-0.3	-0.7
GDP	**0.2**	**0.5**	**0.3**	**0.5**	**0.0**	**0.3**	**0.2**	**0.0**	**0.6**

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.

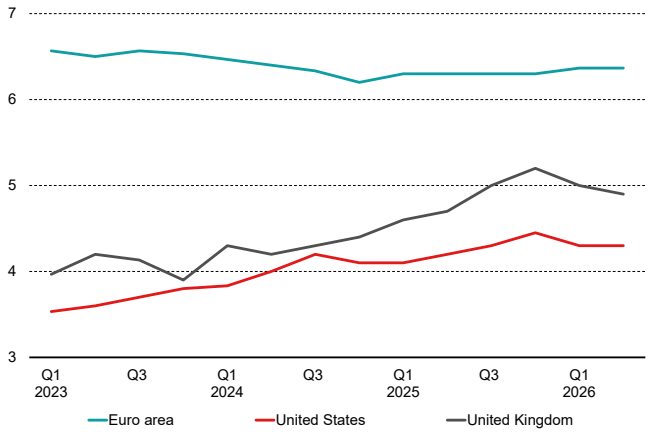
changes more than offset a 0.2 percentage point increase in the contribution from private consumption, which picked up compared to the previous quarter. Meanwhile, the contributions from government consumption expenditures and gross fixed capital formation (GFCF) remained practically unchanged during the quarter under review, together resulting in a negligible contribution to GDP growth (see Table 1.1).

During the quarter reviewed, the European Commission's Economic Sentiment Indicator (ESI) declined on average compared to the previous quarter. The ESI for the euro area dropped further in April in the context of the conflict in the Middle East. It rebounded slightly in May and increased noticeably in June, though it remained below its level in March as well as the historical average. The decrease in the ESI over the quarter reflected a drop in confidence in all sectors, particularly among consumers.

Labour market remains resilient

The labour market in the euro area remained resilient. Employment grew at a quarterly rate of 0.1% during this period, the same as in the preceding quarter.[2] Meanwhile, the seasonally adjusted unemployment rate stood at 6.4% in June, unchanged from March. It averaged 6.4% in the quarter under review, up slightly from the previous quarter, signalling a possible weakening of labour demand (see Chart 1.2).

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



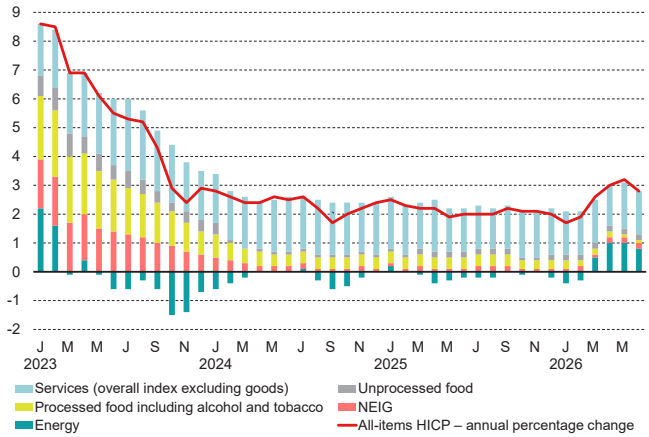
Sources: Bureau of Labor Statistics, US; Eurostat; Office for National Statistics, UK.

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

Inflation rises further

Inflation in the euro area continued to increase in the second quarter. The annual rate of inflation based on the HICP stood at 2.8% in June, compared to 2.6% in March (see Chart 1.3), further exceeding the ECB's 2% medium-term target. The increase in overall inflation mainly reflected an increase in energy prices, reinforced by a higher contribution from non-energy industrial goods (NEIG). These factors were dampened by an easing in food price inflation, while the contribution from services to HICP inflation, though still significant, remained largely unchanged.

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



Source: ECB.

Turning to the major HICP components in more detail, the annual rate of change of energy prices reached 8.5% in June, up from 5.1% in March. This reflected elevated energy prices in the context of the impact of the conflict in the Middle East on energy commodity prices, as well as base effects. The annual rate of NEIG inflation increased to 0.7% in June, from 0.5% in March. By contrast, the annual rate of unprocessed food inflation declined to 3.1% in June from 4.2% in March and the annual rate of processed food inflation fell to 0.9% in June, from 1.7% three months earlier. Meanwhile, services inflation stood at an annual rate of 3.2% in June, unchanged from March.

Underlying inflationary pressures intensified somewhat during the review period, with the annual rate of HICP inflation excluding energy and food (HICPX) edging up to 2.4% in June, from 2.3% three months earlier.

Real GDP growth and inflation projections revised upwards

According to the ECB staff macroeconomic projections for the euro area, published in September 2026, real GDP growth is expected to rebound to 1.4% and 1.5% in 2027 and 2028, respectively, after having slowed down to 0.9% in 2026 (see Table 1.2).[3]

Economic growth is expected to be robust in the near term, as uncertainty recedes, confidence improves and the energy supply shock stemming from the Middle East conflict is assumed to ease gradually. Over the medium term, domestic demand is expected to continue to be supported by a recovery in real incomes in the context of lower energy inflation and a resilient labour market. Rising government spending on infrastructure and defence, coupled with investments related to artificial intelligence (AI), is also expected to support growth in the later years of the projection horizon. Export growth is expected to pick up as foreign demand strengthens, although persistent competitiveness challenges will continue to dampen export performance.

Compared to the previous projection exercise, the latest projections were conditioned on lower oil and euro area farm gate prices as well as a weaker euro. On the other hand, taking into account

[3] The cut-off date for the technical assumptions and the global economy was 19 August 2026.

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

	2025	2026	2027	2028
Real GDP	**1.3**	**0.9**	**1.4**	**1.5**
Private consumption	1.5	1.0	1.0	1.3
Government consumption	1.5	1.9	1.1	1.3
GFCF	2.9	1.8	2.0	2.0
Exports	2.0	2.1	3.2	2.9
Imports	3.6	2.6	3.0	2.9
HICP	**2.1**	**3.0**	**2.5**	**2.1**
HICPX	2.4	2.5	2.6	2.3

Source: ECB.
[1] ECB staff macroeconomic projections for the euro area, September 2026.

developments until mid-August, gas and especially electricity price assumptions were revised markedly upwards, while international food prices and equity prices were also revised up. Meanwhile, interest-rates assumptions were broadly unchanged over the projection horizon.

Compared to the June projections, real GDP growth was revised upwards by 0.1 and 0.2 percentage points for 2026 and 2027, respectively, and it was kept unchanged for 2028. The upward revision of real GDP growth in 2026 mainly related to an improvement in the short-term investment outlook, stronger private consumption and a more benign international environment. The upward revisions for the second half of 2026 also led to significant carry-over effects in 2027.

Turning to the outlook for prices, ECB staff foresee headline HICP inflation rising to an average of 3.0% in 2026 from 2.1% in 2025, before easing to 2.5% in 2027 and 2.1% in 2028. The increase in headline inflation in 2026 reflects a sharp rise in energy inflation. Inflation is expected to decline in 2027 and 2028 as the energy shock is set to fade, albeit amid high uncertainty.

Compared to the June projections, headline HICP inflation was revised up by 0.2 percentage points for 2027 and 0.1 percentage points for 2028. Downward revisions to food inflation are broadly offset by upward revisions to energy inflation, leaving the inflation outlook in 2026 unchanged. For 2027, higher energy inflation and, to a lesser extent, NEIG inflation, outweighed downward revisions to food inflation. For 2028, a small upward revision to headline inflation is driven by the services component.

HICPX is expected to increase from 2.4% in 2025 to an average of 2.5% in 2026 and 2.6% in 2027, but then ease to 2.3% in 2028. Compared to the June projections, the outlook for underlying inflation was revised upwards by 0.1 percentage points for 2027 as well as for 2028. The revisions in underlying inflation reflect more elevated NEIG inflation in 2027 and higher services inflation in 2028, in consonance with a small upward revision to compensation per employee growth throughout the projection horizon.

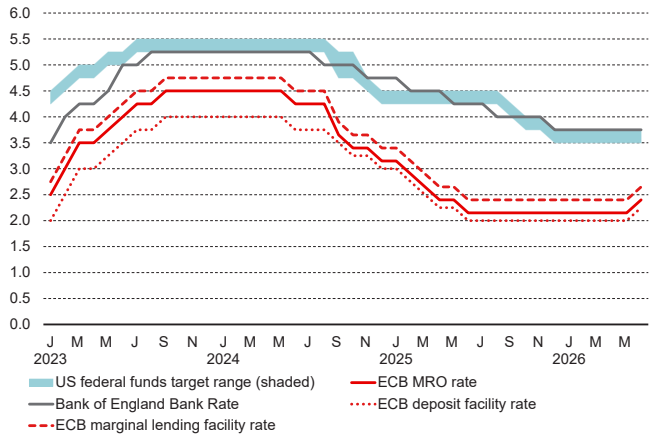
The ECB staff projections include updates of the milder, adverse and severe scenarios contained in the June 2026 projections as the war in the Middle East continued to create high uncertainty. In the milder scenario, inflation would moderate faster, while GDP growth would be slightly stronger

than in the baseline scenario. On the other hand, in the adverse and, in particular, the severe scenarios inflation would be higher and GDP growth lower.

ECB raises interest rates in response to inflationary pressures

During the quarter reviewed, the Governing Council tightened the monetary policy stance in response to the inflationary pressures generated by the war in the Middle East. In June, the Governing Council raised the three key ECB interest rates 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 rate, the MROs and the marginal lending facility were increased to 2.25%, 2.40% and 2.65%, respectively (see Chart 1.4). The Council stated that with this decision, it remained well positioned to navigate the uncertainty caused by the war in the Middle East and reaffirmed that it would follow a data-dependent and meeting-by-meeting approach to determine the appropriate monetary policy stance.[4]

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

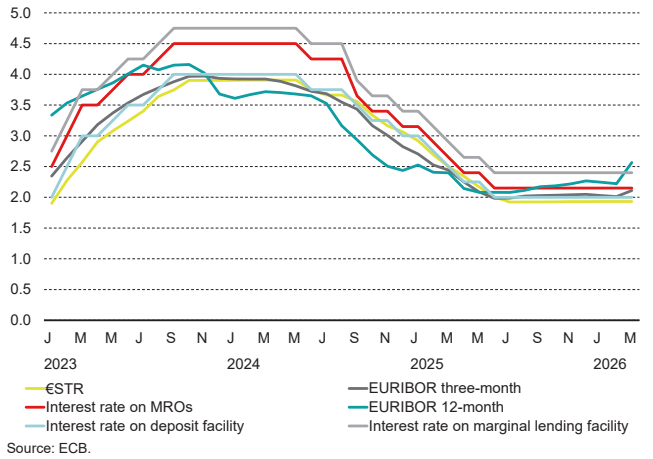


Sources: ECB; Federal Reserve; Bank of England.

Money market rates rise

Short-term interest rates in the euro area rose during the review period, as the tightening of the ECB's monetary policy stance began to be transmitted to the money market. Hence, the euro short-term rate (€STR) averaged 2.04% in June, up from 1.93% three months before (see Chart 1.5).[5] The three-month euro interbank offered rate (EURIBOR) increased to 2.34% on average in June, compared to 2.11% in March. The 12-month EURIBOR averaged 2.80% in June, up from 2.57% three months earlier.[6] It thus stood further

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



Source: ECB.

[4] In September, the Governing Council raised the key ECB interest rates by a further 25 basis points. Accordingly, the interest rates on the deposit facility rate, the MROs and the marginal lending facility increased to 2.50%, 2.65% and 2.90%, respectively. The Governing Council reaffirmed that it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance.

[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.

[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.

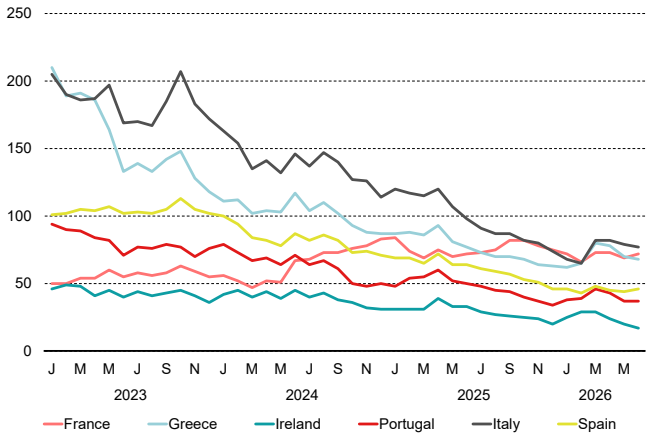
above the deposit facility rate, compared to March, indicating that market players factored in the possibility of further monetary policy tightening in the year ahead.

Euro area government bond yields rise slightly further

Sovereign bond yields rose modestly further in the euro area mainly on the back of elevated energy prices, which generated inflation concerns, and better-than-expected economic conditions, which led market players to expect higher interest rates in the future. Thus, the ten-year benchmark government bond yield in the euro area increased marginally, to 3.40% at end-June from 3.39% three months earlier. This apparent stability masks an increase during the first two months of the quarter, which was largely reversed in June as energy prices fell.

Looking at individual sovereign bonds, German ten-year bond yields increased further during the quarter, standing at 2.96% at end-June, up by 5 basis points when compared to end-March. Increased German government borrowing to finance higher spending on infrastructure and defence helped push up yields. French bond yields followed, rising by 4 basis points, to 3.68% at end-June. Government bond yields also rose in most other jurisdictions, including Spain. In contrast, sovereign bond yields fell in Ireland, Greece and Portugal, among others. Meanwhile, Italian bond yields ended the quarter at 3.73%, unchanged when compared to three months earlier.

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



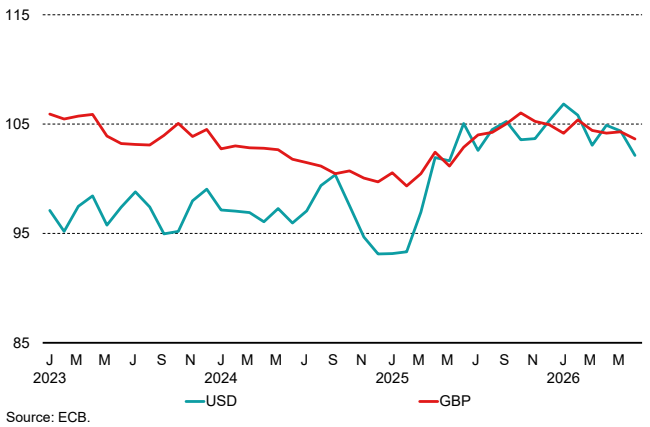
Sources: ECB; Central Bank of Malta calculations.

Consequently, spreads against the ten-year German bond narrowed marginally in France as well as in Spain, and narrowed more substantially in Greece, Ireland, Portugal and Italy (see Chart 1.6). By contrast, in most of the other euro area countries, spreads against the German benchmark widened to various extents.

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

During the quarter under review, the euro exchange rate weakened further against the US dollar, falling by 0.9% amid market concerns that elevated oil prices could fuel inflationary pressures especially in case of energy-importing economies (see Chart 1.7). Moreover, the

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.

release of strong economic data from the United States led market players to expect higher US interest rates, which would widen the interest rate gap between the euro area and the United States. The euro also weakened versus the British pound, losing 0.8% over the quarter, as the latter benefitted from better-than-expected economic growth in the United Kingdom, the unwinding of sterling short positions and favourable interest-rate differentials. The euro also lost ground against other currencies, including the Hungarian forint, the Chinese renminbi, and the Czech koruna. Overall, the nominal effective exchange rate (EER) of the euro against the EER-17 group of countries dropped by 0.8% in the three months to end-June.[7]

In contrast, the euro appreciated by 0.9% against the Japanese yen, mainly reflecting notable interest-rate differentials between the euro area and Japan. The euro also rose against other currencies, including the Romanian leu, the Swedish krona, and the Canadian dollar. The euro registered modest gains versus the Swiss franc.

Other advanced economies

US economy expands steadily

In the United States, real GDP grew at a quarterly rate of 0.6% in the second quarter, unchanged from the preceding quarter (see Chart 1.1). The expansion in economic activity was primarily driven by an increase in personal consumption, followed by fixed investment, mainly equipment and software, driven by the boom in artificial intelligence. To a marginal degree, residential investment also increased. On the other hand, imports rose more than exports. The deterioration in net trade, together with a further drop in private inventory investment and a small decrease in government expenditures, dampened real GDP growth.

Labour market conditions continued to improve. Non-farm payroll data show that employment increased by 0.2% on average during the review period, up from 0.1% in the previous quarter. Increased employment in the private sector accounted for almost all the rise during the second quarter, with government employment increasing marginally. In turn, within the private sector, employment growth was largely driven by services and, to a much lower extent, by the goods sector. Within the services sector, education and health, followed by trade, transportation and utilities, recorded the most pronounced growth in employment. Meanwhile, the unemployment rate stood at 4.3% in the quarter under review, unchanged from the previous one (see Chart 1.2).[8] The participation rate averaged 61.7% during the second quarter, compared to 62.0% during the previous quarter.

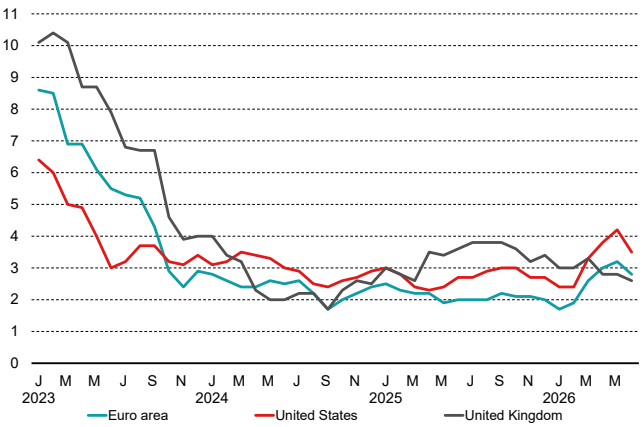
Headline inflation rose in the quarter under review, mainly driven by higher energy prices. A rebound in food and beverages inflation and a marginal increase in services inflation, also pushed inflation up. Hence, the annual consumer price inflation rate stood at 3.5% in June, up from 3.3% three months earlier (see Chart 1.8). Annual energy inflation rose to 15.7% in June, from 12.5% in March. Food and beverages inflation stood at 3.0% in June, up from 2.6% three months earlier. Services inflation edged up to 3.2% in June, from 3.1% in March. By contrast, the annual rate

[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.

of change of prices of goods, excluding food and energy, dropped to 0.8% in June, compared to 1.2% in March. As a result, underlying inflation, as measured by inflation excluding food and energy, stood at 2.6% in June, 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 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.[9]

UK economic growth eases slightly

Real GDP in the United Kingdom grew by 0.5%, on a quarter-on-quarter basis, in the second quarter, compared to 0.6% in the previous three months (see Chart 1.1). Looking at the main expenditure components, growth was mainly driven by exports, followed by GFCF and by household consumption. In turn, net trade improved as exports rose while imports remained unchanged. Meanwhile, the growth in GFCF mainly reflected a strong increase in spending on Information and Communication Technology equipment and other machinery and equipment, followed by dwellings. By contrast, a decline in government consumption expenditure and a contraction in inventories deducted from GDP.

Labour market conditions continued to improve modestly. The employment rate inched up to 75.1%, on a quarterly-average basis in the second quarter, from 75.0% in the previous three months. Meanwhile, the unemployment rate fell slightly further to 4.9%, on average, during the review period, compared to 5.0% in the previous quarter (see Chart 1.2).

Consumer price inflation in the United Kingdom fell during the quarter under review, with the annual inflation rate standing at 2.6% in June, compared to 3.3% three months earlier (see Chart 1.8). This reflected lower inflation in the food, alcoholic beverages and tobacco component, a decrease in services inflation as well as marginally lower NEIG inflation, which outweighed higher energy inflation. Thus, the annual rate of change of food, alcoholic beverages and tobacco prices fell to 1.8% in June from 3.6% three months earlier. Services inflation declined to 3.6% in June, from 4.5% in March. NEIG inflation eased to 0.7% in June, compared to 0.8% three months before. By contrast, the annual rate of change of energy prices increased to 5.7% in June from 4.9% in March. Consequently, underlying inflationary pressures abated further, though remaining elevated, with the annual rate of inflation based on the Consumer Price Index (CPI) excluding energy, food, alcoholic beverages and tobacco dropping to 2.6% in June, compared to 3.1% in March.

[9] In September, the FOMC decided to raise the target range for the federal funds rate by 25 basis points to 3.75%-4.00%. The FOMC stated that this policy action would support a timelier return to the Committee's 2% inflation goal.

During the quarter under review, the Bank of England decided to maintain the Bank Rate at 3.75%. The Bank reiterated that it would continue to monitor closely the situation in the Middle East and how its impact propagated through the economy. It 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.[10]

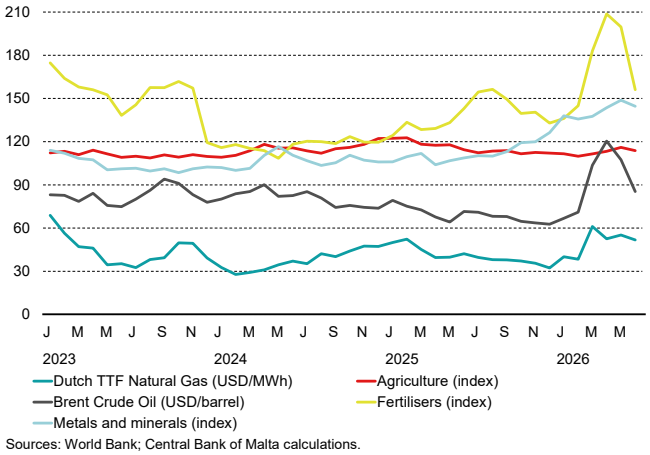
Commodities

Oil and natural gas prices decline during the second quarter

After having peaked in April, oil prices receded during the remainder of the second quarter. In June, oil prices dropped sharply following news of an interim agreement between the United States and Iran to end the war in the Middle East that underpinned a strong recovery in oil flows through the Strait of Hormuz.[11] Overall, the price of Brent crude oil averaged USD 85.40 per barrel in June, 17.6% lower than the level prevailing in March. The price of European natural gas also declined, amid strong volatility. Higher liquefied natural gas (LNG) output from new projects in North America and Africa as well as the improved supply from producers in Africa, Asia and Russia partly offset a decline in gas supply from the Middle East. Global demand for gas also fell, putting downward pressure on prices.[12] Accordingly, the average price of Dutch TTF natural gas stood at USD 51.76 per megawatt hour in June, 15.3% lower than in March (see Chart 1.9).

World Bank data show that non-energy commodity prices rose by 2.2% during the quarter under review as higher prices for metals and minerals as well as agricultural products outweighed lower prices for fertilisers. Meanwhile, the prices of precious metals fell by 13.2%, amid significant volatility, characterised by a sharp correction from record highs in January in the context of rising interest rate expectations, as well as profit-taking, despite heightened geopolitical tensions.[13]

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



Sources: World Bank; Central Bank of Malta calculations.

[10] In the July and September 2026 meetings, the Bank decided to maintain the Bank Rate at 3.75%. Following both meetings, the Bank stated that it judged the risks to the inflation outlook were tilted to the upside and it considered that the outlook could change materially as events in the Middle East unfolded. The Bank reiterated 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 - July 2026. In the following quarter, the ceasefire agreement between the United States and Iran broke down, leading to renewed increases in prices of oil and gas.

[12] Gas Market Report, Q3-2026.

[13] Precious metals retreat from record highs.

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.

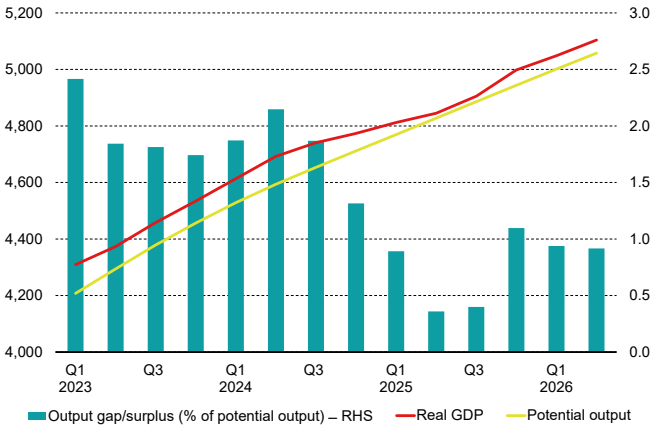
Potential output

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.

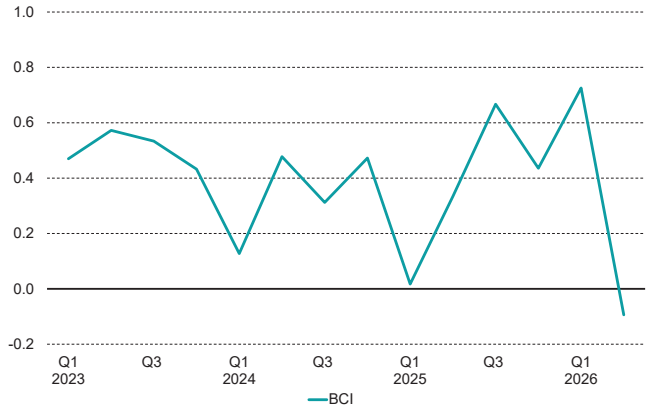
an increase in the unemployment rate.

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.

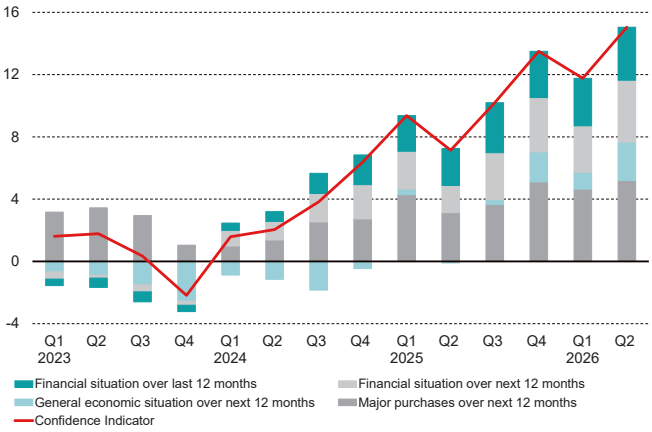
During the second quarter of 2026, consumer sentiment increased relative to the previous quarter, with increases observed across all components of the indicator, particularly consumers' expectations of the general economic situation and of their financial situation over the next 12 months (see Chart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

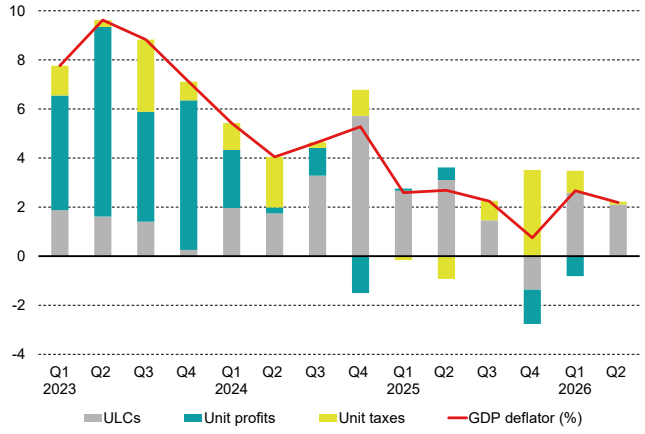
Table 2.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH
Percentage points

	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.

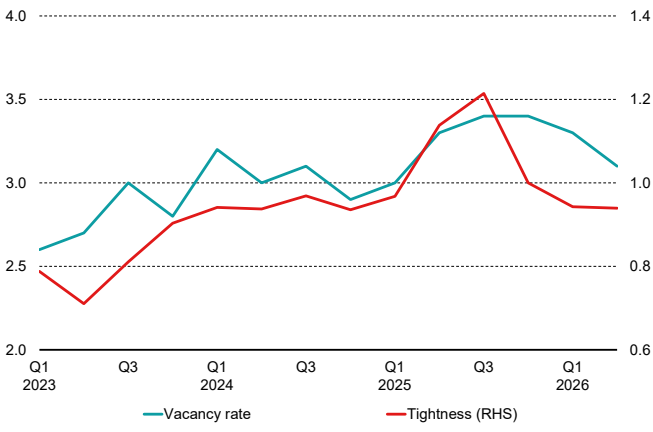
Labour market tightness shows signs of moderating

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.

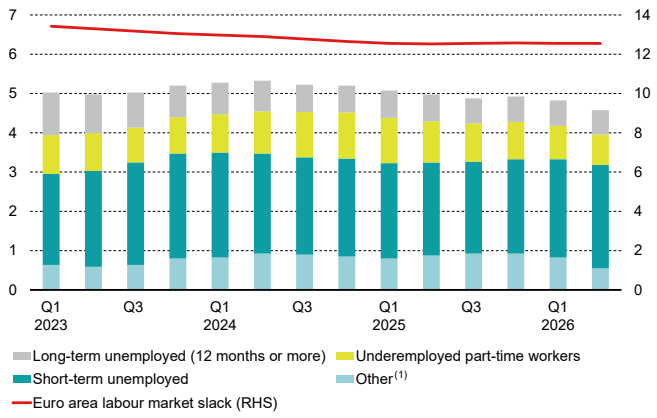
The ratio of the job vacancy rate to the unemployment rate is an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness. During the quarter under review, this ratio stood at 0.9, unchanged from the previous quarter but lower than the

[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.

3. PRICES, COSTS AND COMPETITIVENESS

Consumer price inflation, as measured by the HICP, stood at 2.0% in June, down from 2.3% in March. This was mostly driven by lower contributions from food and services inflation. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – stood at 2.5% in June, down from 2.7% in March.

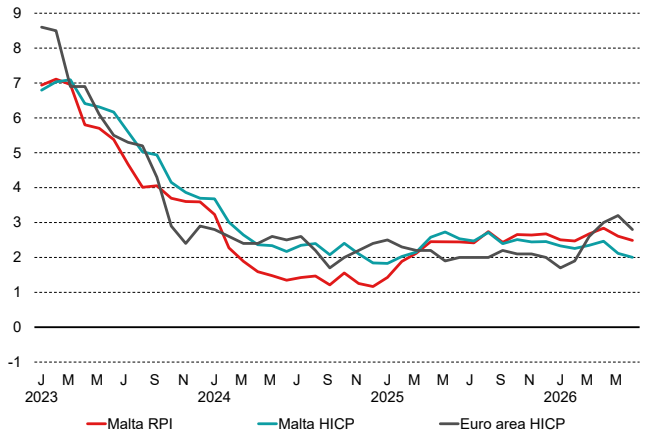
When measured over four quarters, ULCs increased at a slower pace in the second quarter of 2026. Growth amongst other input cost indicators regularly monitored by the Bank was mixed.

Inflation

HICP inflation decreases

Annual HICP inflation decreased to 2.0% in June, from 2.3% in March (see Table 3.1).[1] In this period, HICP inflation in the euro area was higher, standing at 2.8% (see Chart 3.1). This difference emanates from higher contributions from energy inflation in the euro area, which rose compared with March. Meanwhile, energy prices in Malta remained unchanged (see Chart 3.2).

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



Sources: NSO; Eurostat.

Turning to inflationary developments in Malta, the slight decrease in HICP inflation since

Table 3.1
HICP INFLATION
Annual percentage change

	2025						2026					
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Unprocessed food	5.0	6.0	4.3	3.3	4.1	6.5	5.2	7.1	6.3	7.8	2.8	2.1
Processed food including alcohol and tobacco	3.0	2.8	2.9	2.8	2.8	2.3	2.6	1.5	1.6	1.7	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	0.8	1.5	1.1	0.6	0.6	0.9	0.7	0.6	0.7	0.6	0.5	0.7
Services (overall index excluding goods)	3.2	3.3	3.0	3.7	3.5	3.2	3.1	3.2	3.3	3.4	3.3	3.0
All Items HICP	2.5	2.7	2.4	2.5	2.4	2.5	2.3	2.3	2.3	2.5	2.1	2.0

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.

March mainly reflects a lower contribution from food and services inflation (see Chart 3.3).

Main components of inflation

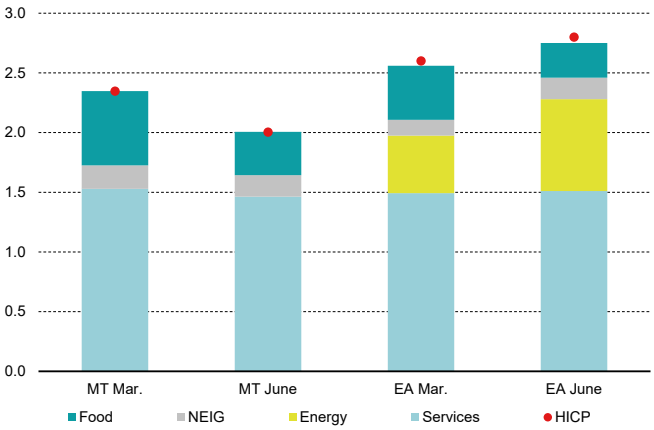
Unprocessed food prices increased at a much slower pace by an annual 2.1% in June, after rising by 6.3% in March, driven by lower inflation of meat and vegetables, and a faster contraction in fruit and nuts prices. Consequently, the contribution of unprocessed food to HICP inflation decreased to 0.1 percentage points from 0.4 percentage points in March.

Meanwhile, processed food inflation (including alcohol and tobacco) remained unchanged at 1.6% from March. Consequently, its contribution stood at 0.2 percentage points, unchanged from March. Overall, food inflation including alcohol and tobacco decreased to 1.8% in June when compared to 2.9% in March.

NEIG inflation remained unchanged at 0.7% in June. Prices of durable goods rose by 1.7%, from 1.5% in March. The prices of semi-durables contracted by 2.3% in annual terms, after a contraction of 1.7% three months earlier. Meanwhile, non-durables prices inflation increased by 1.7% in June, unchanged from March. The contribution of NEIG inflation to HICP inflation stood at 0.2 percentage points, unchanged from March.

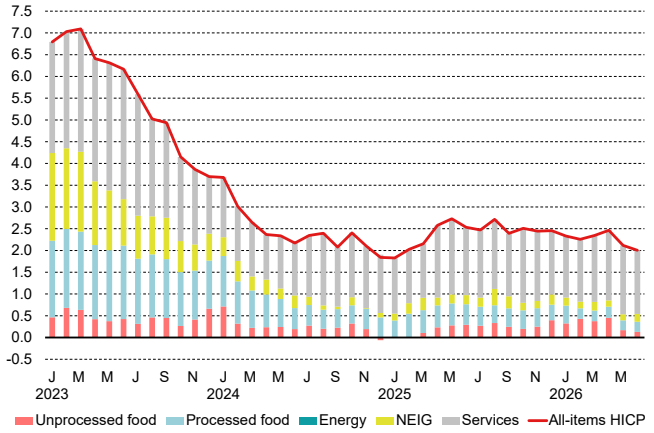
Services inflation declined from 3.3% in March to 3.0% in June. It contributed 1.5 percentage points to overall HICP inflation, in line with its contribution in March (see Chart 3.4). A higher contribution

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



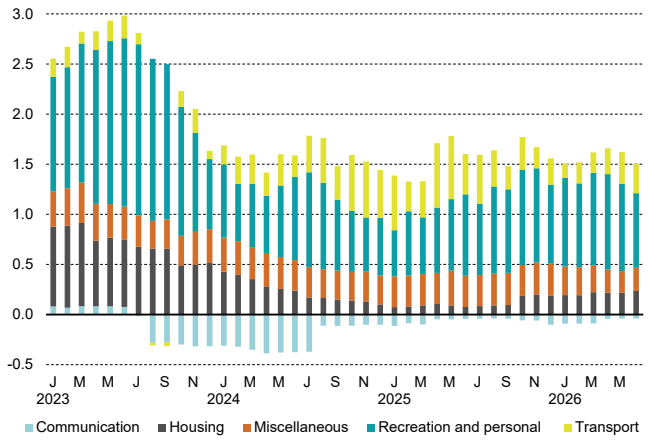
Sources: Eurostat; SDW; Central Bank of Malta calculations.

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



Source: SDW.

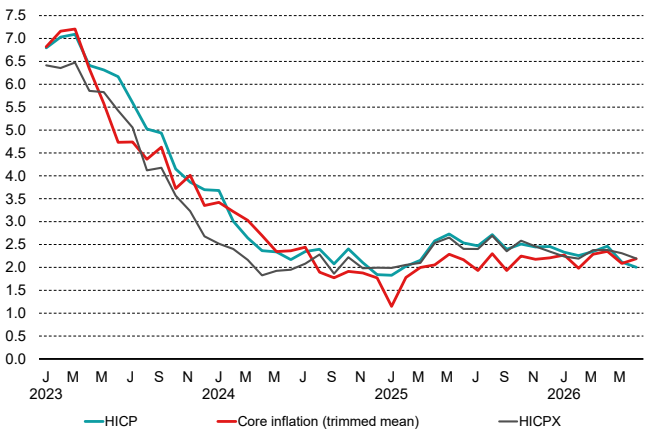
Chart 3.4
CONTRIBUTIONS FROM SERVICES TO HICP INFLATION
(percentage points)



Source: SDW.

from transport services inflation was offset by a smaller contribution from services related to recreation and personal care. Prices for the latter grew at a slower pace compared to March.

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



Sources: Eurostat; Central Bank of Malta estimates.

Core HICP inflation decreases slightly

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

RPI inflation decreases

Annual inflation based on the RPI index stood at 2.5% in June, from 2.7% in March. The contribution of food decreased by 0.3 percentage points, while that of other goods and services declined by 0.1 percentage points. These offset higher contributions from transport inflation, household equipment, household maintenance, and that of beverages and tobacco inflation (see Table 3.2).

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]

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

	2025						2026					
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Food	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.5	0.4
Beverages and tobacco	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Clothing and footwear	0.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2
Housing	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.5	0.5	0.5	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	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Transport and communications	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.4	0.4	0.3
Personal care and health	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Recreation and culture	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other goods and services	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.2
RPI (annual percentage change)	**2.4**	**2.7**	**2.4**	**2.7**	**2.6**	**2.7**	**2.5**	**2.5**	**2.7**	**2.8**	**2.6**	**2.5**

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.

[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.

The housing market

Residential property prices continued to increase at a robust pace

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 remained broadly unchanged at 6.9% in the second quarter of 2026, from 6.8% in the previous quarter (see Chart 3.6).[4] Meanwhile, in the euro area, prices on average increased at an annual rate of 4.0%.

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.

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



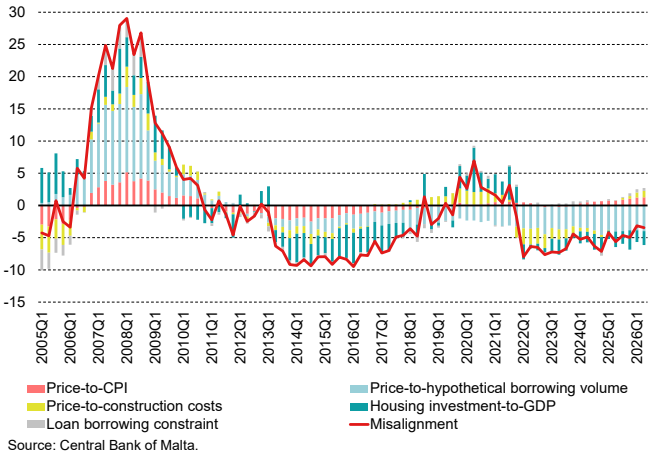
Source: Eurostat.

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 second quarter of 2026 (see Chart 3.7).[7] The

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



Source: 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 macroeconometric model of the housing market in Malta", *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

negative readings in this indicator continue to be driven by the house price-to-hypothetical borrowing volume ratio and the housing investment-to-GDP ratios. 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 house price-to-construction costs ratio and the loan borrowing constraint. That said, the contribution of these indices has been steadily becoming more positive since the first quarter of 2025.

Property transactions increase over a year earlier

NSO data on residential property transactions show that 3,441 final deeds of sale were registered in the quarter under review, a 1.7% increase 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 5.8%. Most transactions (over 90%) concluded in the second quarter of 2026 involved purchases by individuals.

The year-on-year increase in deeds mainly reflected a larger number of transactions in the Northern district. Overall, across Malta, there was a year-on-year increase of 11.9% in value terms.

At 3,757 the number of promise-of-sale agreements was 2.6% lower than the number registered in the previous quarter and 1.6% less than those concluded a year earlier. The largest year-on-year decreases in the number of promise-of-sale agreements were recorded mainly in the Southern Harbour and Northern districts.

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 second quarter of 2026.[8] The range of estimates from various methods indicate that rents have increased at annual rates of between 7.1% and 7.6% in the quarter under review (see Chart 3.8).

Chart 3.8
ADVERTISED RENTAL PRICES
(annual percentage change)



Source: Central Bank of Malta.

Table 3.3
RESIDENTIAL PROPERTY TRANSACTIONS
Levels

	2024		2025				2026	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Residential transactions								
Promise of sale	3,106	3,490	3,460	3,818	3,337	3,954	3,859	3,757
Final deeds of sale	3,006	3,244	3,143	3,252	3,394	3,562	3,383	3,441

Source: NSO.

[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.

Rental prices exhibit a volatile quarterly pattern. In recent quarters, rental prices have been growing at a slower pace compared with the double-digit rates observed for most of the period between 2022 and 2024. Growth is getting closer to the average observed since 2018, which ranges between 5.0% and 6.3%.

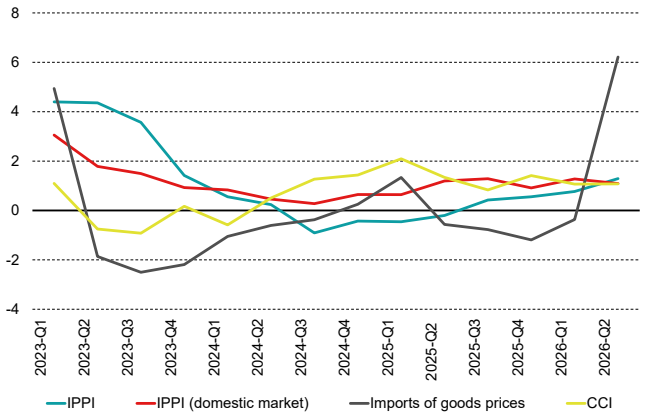
Cost indices

Producer cost indicators signal mixed 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 1.3% on average in the quarter under review, after having increased by 0.8% in the first quarter (see Chart 3.9).[9] Producer prices of intermediate goods increased at a much faster rate while growth in producer prices of consumer and capital goods was broadly unchanged.

Meanwhile, annual growth in the domestic producer price index decreased to 1.1% from 1.3% in the previous quarter.[10] On the other hand, the imports of goods deflator grew strongly by 6.2%, after having declined by 0.4% in the first quarter of 2026.[11] This may have reflected rising international energy prices, although domestic production costs may have been shielded from these price increases through government subsidies.

Chart 3.9
COST INDICATORS
(annual percentage growth)



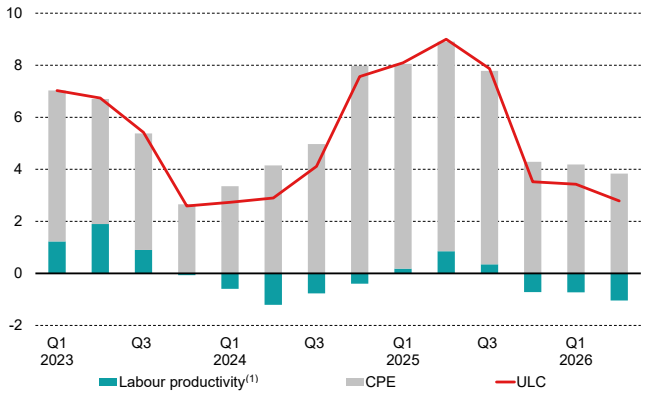
Sources: Central Bank of Malta estimates; Eurostat data; NSO data.

The construction cost index (CCI) for new residential buildings published by Eurostat remained unchanged at 1.1% in the second quarter of 2026.

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 2.8%. This followed an increase of 3.4% in the previous quarter (see Chart 3.10). It is the slowest year-on-year increase since the first quarter of 2024.

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

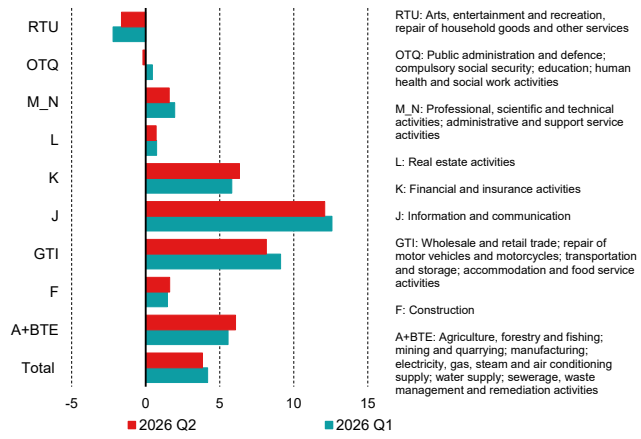


Sources: NSO; Central Bank of Malta estimates.
(1) A rise (drop) in productivity contributes negatively (positively) to ULC growth.

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

The decline in ULC growth reflects slower growth in compensation per employee and faster growth in productivity per person. The latter rose by 1.0%, from 0.7% in the first quarter. Meanwhile, compensation per employee rose by 3.8% in the second quarter, after having increased by 4.2% previously.

Chart 3.11
CPE BY SECTOR
(annual percentage growth; four-quarter moving average)



RTU: Arts, entertainment and recreation, repair of household goods and other services

OTQ: Public administration and defence; compulsory social security; education; human health and social work activities

M_N: Professional, scientific and technical activities; administrative and support service activities

L: Real estate activities

K: Financial and insurance activities

J: Information and communication

GTI: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities

F: Construction

A+BTE: Agriculture, forestry and fishing; mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities

Source: NSO.

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. Meanwhile, compensation per employee in the arts, entertainment and recreation sector continued to decline.

4. THE BALANCE OF PAYMENTS

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

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 lower net lending.

In the year to June 2026, the current account balance registered a surplus equivalent to 5.5% 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 7.0% during the quarter under review.

In the second quarter of 2026, the tourism sector remained strong. The number of inbound tourists, nights stayed, and tourist expenditure in Malta all increased when compared with a year earlier. While expenditure per capita declined, driven by a shorter length of stay, spending per night increased.

The current account

The current account surplus decreases

Between April and June 2026, the current account recorded a surplus of €227.3 million, €154.6 million less than the surplus recorded in the same quarter of 2025 (see Table 4.1). This reflected higher net outflows on the primary and secondary income accounts, and lower net receipts from services. These outweighed a smaller merchandise trade deficit.

On a four-quarter moving sum basis, the current account surplus increased to €1,413.7 million, from €514.9 million a year earlier. This reflected lower net outflows on the primary income account, and a narrower merchandise trade deficit. These offset higher net outflows on the secondary

Table 4.1
BALANCE OF PAYMENTS
EUR millions

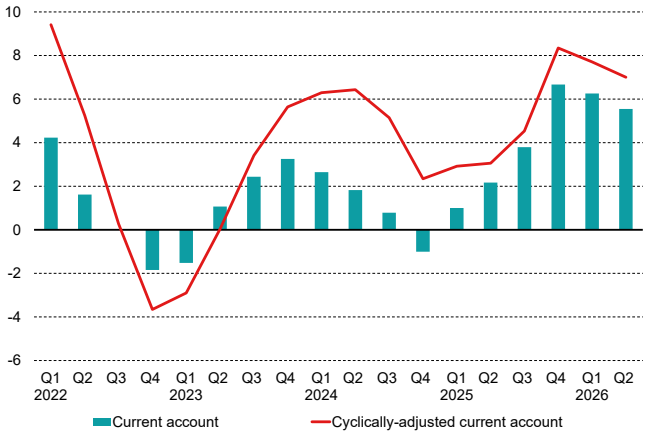
	Four-quarter moving sums						
	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2025 Q2	2026 Q2
Current account	**514.9**	**915.7**	**1,645.0**	**1,568.4**	**1,413.7**	**381.9**	**227.3**
Goods	-3,785.6	-3,568.2	-3,511.2	-3,308.7	-3,267.1	-1,006.6	-965.0
Services	8,008.1	7,933.1	8,198.9	8,001.6	7,930.0	2,124.2	2,052.6
Primary income	-3,601.4	-3,293.3	-2,892.8	-2,852.5	-2,925.7	-687.7	-761.0
Secondary income	-106.2	-155.9	-149.9	-272.1	-323.4	-48.0	-99.3
Capital account	**63.5**	**48.8**	**105.5**	**189.5**	**267.9**	**-4.6**	**73.9**
Financial account[(1)]	**614.4**	**1,192.8**	**1,510.7**	**1,590.6**	**1,347.6**	**478.8**	**235.8**
Errors and omissions	**36.0**	**228.3**	**-239.9**	**-167.2**	**-334.0**	**101.5**	**-65.4**

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

income account and lower net receipts from services.

The current account surplus-to-GDP ratio increased to 5.5% from 2.2% a year earlier (see Chart 4.1). Malta's cyclically-adjusted current account surplus is estimated to have stood at 7.0% of GDP in the second 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)



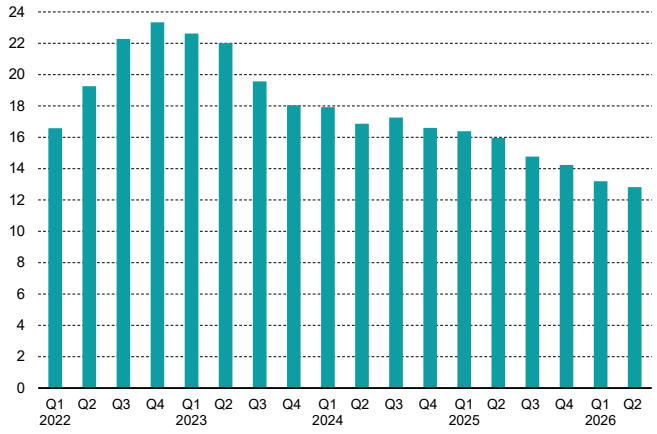
Sources: NSO; Central Bank of Malta.

The merchandise trade deficit narrows

In the second quarter of 2026, the merchandise trade deficit stood at €965.0 million, down from €1,006.6 million in the corresponding period of 2025. The smaller deficit was driven by higher exports which outweighed a rise in imports.

The visible trade gap also narrowed when measured on a four-quarter cumulative basis, reaching €3,267.1 million, from €3,785.6 million in the same period a year earlier. This reflected a decrease of €349.0 million in imports, mostly due to a decrease in imports of mineral fuels, lubricants and related materials, as well as an increase of €169.5 million in exports, mainly due to an increase in exports of machinery and transport equipment. The share of the goods deficit in GDP decreased to 12.8% during the second quarter of 2026, from 16.0% a year earlier (see Chart 4.2). This ratio is the lowest since 2022.

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



Sources: NSO; Central Bank of Malta.

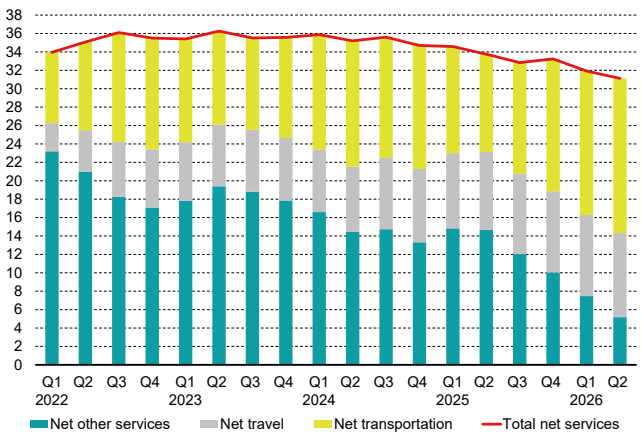
The surplus on services narrows

In the quarter under review, net receipts on the services account amounted to €2,052.6 million, €71.6 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 'services not allocated',[2] personal, cultural, and recreational services and other business services were the key factors behind the decrease in the overall surplus on the services account, offsetting higher net receipts from transport and 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 €7,930.0 million, €78.1 million lower than the surplus recorded a year earlier. This mainly reflected lower net receipts from 'services not allocated' and other business services such as technical and trade-related business, as well as professional and management consulting services. Together these offset higher net receipts from transport and travel. The share of net services receipts in GDP stood at 31.1%, down from 33.8% registered during the same period of 2025 (see Chart 4.3). Net transportation has become an increasingly large component of the services balance, accounting for 54.0% of the total in the latest quarter and the highest level recorded to date.

Net outflows on the primary income account increased[3]

During the quarter under review, net outflows on the primary income account stood at €761.0 million, €73.3 million higher than in the second quarter of 2025. Higher net payments on direct and other investment offset higher net income receipts from portfolio investment.

Conversely, in the four-quarter period to June 2026, net outflows on the primary income account decreased by €675.7 million, to stand at €2,925.7 million. This was due to lower net payments related to direct and other investment which offset lower net income receipts on portfolio 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 11.5% of GDP, down from 15.2% a year earlier.

Net outflows on the secondary income account increased[4]

In the second quarter of the year, net outflows on the secondary income account increased to €99.3 million from €48.0 million a year earlier.

Similarly, during the year to June 2026, net outflows increased to €323.4 million from €106.2 million in the same period of last year. Their share in GDP remained small, at 1.3%.

[2] "Services not allocated" is a residual item within the services account. Following a methodological revision in the latest release, BOP total exports and imports data are fully aligned with the National Accounts. This component captures those transactions that cannot be attributed to any other specific services category, which are mostly reflected on the import side.
[3] The primary income account shows income flows related mainly to cross-border investment and compensation of employees.
[4] The secondary income account shows current transfers between residents and non-residents.

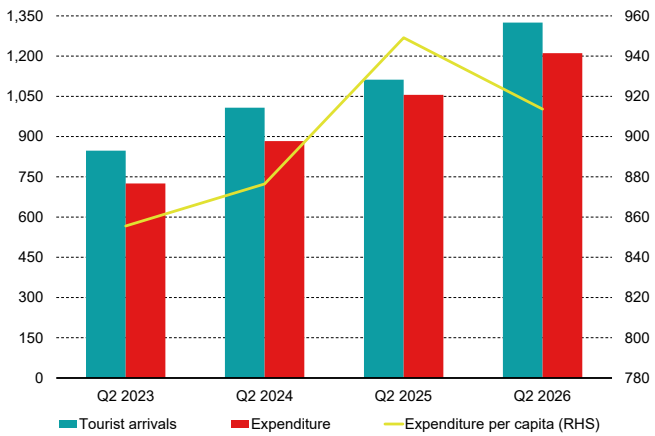
Tourism

The tourism sector remained strong in the second quarter of 2026. Tourist expenditure rose by 14.7% to reach €1,210.9 million (see Chart 4.4). This is a moderation from the 19.5% increase registered in the same period a year earlier. The increase in expenditure was broad-based across all expenditure categories.

Expenditure per capita declined to €913.7 from €949.1 a year earlier. It was driven by a shorter length of stay which fell to 5.5 nights from 6.0 nights previously, as spending per night increased by 5.2% (see Chart 4.5).

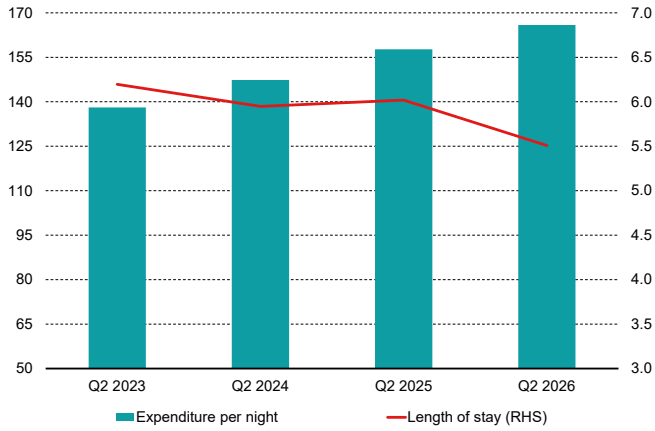
The number of tourists visiting Malta totalled 1,325,262 in the second quarter of 2026, up from 1,112,238 a year earlier. In annual terms this is equivalent to a rise of 19.2%, compared with 10.4% in the same period a year earlier. Visitors from Poland accounted for almost a quarter of this increase. They were followed by visitors from the United Kingdom.

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.

Tourists spent 7.3 million nights in Malta in the second quarter of 2026, a rise of 9% on a year earlier. Nights stayed in rented accommodation accounted for most of the rise.[5]

The total occupancy rate in collective accommodation establishments in the second quarter of 2026 stood at 71.3%, from 71.6% a year earlier (see Chart 4.6). On the one hand, the three-star and four-star categories registered some declines in occupancy. On the other hand, occupancy levels in the five-star category and the "other" category increased, while they remained unchanged in

[5] 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.

two-star accommodation. In the second quarter of 2026, the highest net-use of bed places was reported in four-star accommodation, where the occupancy rate reached 75.3%.

According to Malta International Airport (MIA) data, in the quarter under review, average seat capacity stood at 1,265,236 seats per month, up from 1,065,982 a year earlier (see Chart 4.7).

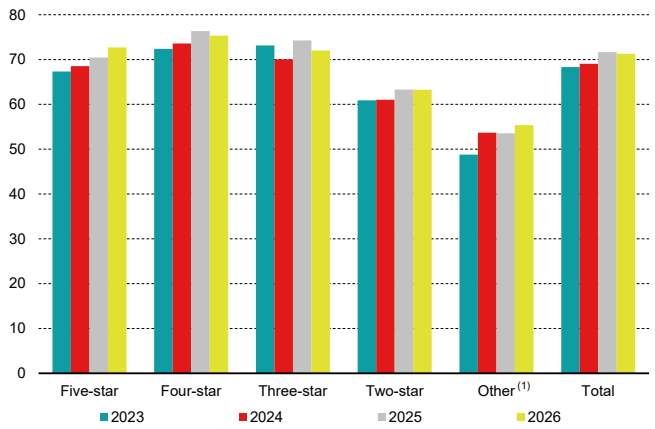
A total of 126 cruise liners visited Malta in the second quarter of 2026, three more than a year earlier. Foreign passengers however declined to 252,939 from 253,421 in the second quarter of 2025 (see Chart 4.8). In absolute terms, the United States reported the largest decline in cruise passenger arrivals.

The United Kingdom and the United States were the most important source markets, along with Italy, Germany and Spain. Together they made up two-thirds of total cruise passenger arrivals.

The capital account

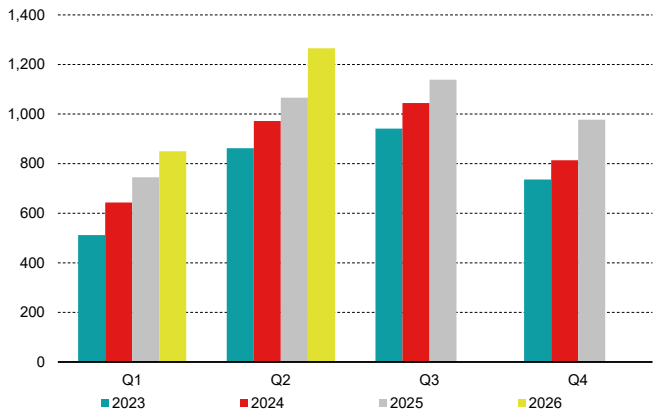
The capital account closed the quarter under review at €73.9 million, up from -€4.6 million a year earlier (see Table 4.1). When measured on a four-quarter cumulative basis, the capital account rose to €267.9 million, from €63.5 million a year earlier. Its share in GDP increased to 1.1% from 0.3% in the same period of 2025.

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



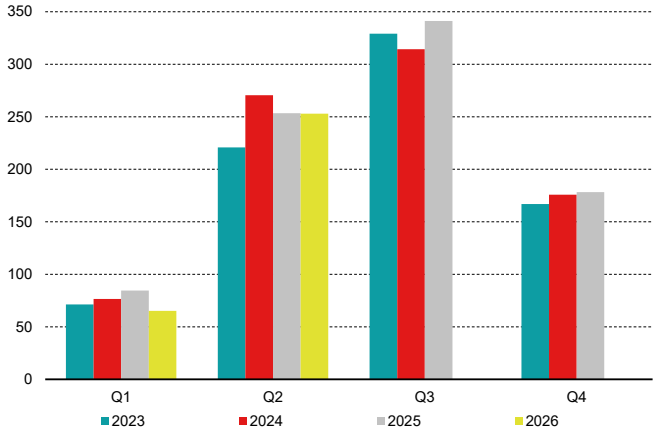
Source: NSO.
(1) Includes guest houses, hostels and holiday complexes.

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.

5. GOVERNMENT FINANCE

In the second quarter of 2026, the general government deficit widened further. When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio rose to 3.5%, from 3.1% in the first quarter of 2026. The Bank's estimate of the cyclically adjusted deficit widened at a similar pace.

The general government debt-to-GDP ratio stood at 47.0%, higher than the 45.7% ratio recorded a quarter earlier. The net financial worth as a share of GDP deteriorated in the quarter under review.

Quarterly developments

General government deficit widens

In the second quarter of 2026, the general government registered a deficit of €344.1 million, higher than the €234.9 million deficit registered in the corresponding period of 2025. This reflected a strong increase in government expenditure, which offset a rise in government revenue. The primary deficit amounted to €258.2 million in the quarter under review, €94.2 million higher than the primary deficit recorded a year earlier.

Tax receipts support revenue growth

General government revenue rose by €212.3 million, or 10.8%, in the second quarter of 2026 when compared with the same quarter of 2025 (see Table 5.1). This was mostly due to higher tax revenue, in particular current taxes on income and wealth, which rose by €141.2 million mainly as a result of higher income tax inflows paid by companies. Other tax revenue items exhibited more modest growth. Revenue from taxes on production and imports increased by €23.0 million, mainly due to higher VAT receipts. Moreover, receipts from social contributions rose by €32.4 million.

Intakes from capital and current transfers increased by €29.3 million, mainly due to the receipt of EU grants. Meanwhile, 'other' revenue declined by €13.6 million due to lower receipts from sales.

Expenditure driven by higher recurrent outlays

Total government expenditure rose by €321.5 million, or 14.6%, when compared with the second quarter of 2025. This mostly reflects higher current expenditure, particularly intermediate consumption which increased by €87.6 million. This is mainly due to higher outlays on health care, contractual obligations and spending related to ongoing capital projects. Compensation of employees and social benefits also rose largely on the back of higher spending on retirement pensions.

Current transfers increased by €32.4 million, mainly due to higher transfers to the EU budget. Moreover, interest payments increased by €15.0 million. On the other hand, subsidies decreased by €6.9 million.

The increase in capital expenditure in the second quarter was far more modest than the rise in current outlays, and was mostly due to a one-off event. Capital transfers rose by €47.2 million, reflecting the payment to MIDI plc to take over Manoel Island and Fort Tigné. Meanwhile, GFCF increased by €30.8 million driven mostly by domestically financed projects.

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2025			2026		Change 2026Q2-2025Q2	
	Q2	Q3	Q4	Q1	Q2	Amount	%
Revenue	**1,965.2**	**2,179.1**	**2,533.1**	**2,018.6**	**2,177.5**	**212.3**	**10.8**
Taxes on production and imports	570.3	633.4	684.9	591.9	593.3	23.0	4.0
Current taxes on income and wealth	764.9	924.9	1118.3	809.0	906.1	141.2	18.5
Social contributions	292.9	309.9	355.6	317.3	325.3	32.4	11.1
Capital and current transfers receivable	95.5	73.5	110.1	73.0	124.9	29.3	30.7
Other(1)	241.5	237.3	264.1	227.3	227.9	-13.6	-5.6
Expenditure	**2,200.1**	**2,149.2**	**2,755.5**	**2,373.0**	**2,521.6**	**321.5**	**14.6**
Compensation of employees	603.8	605.8	611.2	650.7	664.6	60.8	10.1
Intermediate consumption	494.4	446.7	607.6	524.3	581.9	87.6	17.7
Social benefits	504.6	461.1	477.3	613.6	557.9	53.3	10.6
Subsidies	140.5	149.2	120.3	116.6	133.6	-6.9	-4.9
Interest	70.9	74.5	79.8	76.7	85.9	15.0	21.1
Other current transfers payable	104.3	146.0	293.5	182.9	136.7	32.4	31.1
GFCF	197.5	171.0	265.7	154.5	228.3	30.8	15.6
Capital transfers payable	80.3	88.7	296.4	43.4	127.6	47.2	58.8
Other(2)	3.7	6.1	3.5	10.2	5.1	1.4	
Primary balance	**-164.0**	**104.4**	**-142.6**	**-277.7**	**-258.2**	**-94.2**	
General government balance	**-234.9**	**29.8**	**-222.4**	**-354.4**	**-344.1**	**-109.2**	
General government debt	**11,086.4**	**11,193.5**	**11,410.1**	**11,461.1**	**11,977.2**		

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.

Debt increases

In June 2026, the stock of general government debt amounted to €11,977.2 million, €516.0 million higher than in March 2026. This reflects an increase in long-term debt securities outstanding (composed of Malta Government Stocks (MGS)), which rose by €481.0 million, with its share in total debt increasing slightly by 0.5 percentage points to reach 82.0%. Holdings of short-term debt securities increased by €34.2 million, with their share in total debt remaining unchanged at 6.4%.

The value of loans outstanding increased slightly by €1.0 million, reflecting a rise in long-term loans. The share of loans outstanding in total debt declined by 0.4 percentage points to stand at 8.3%.

Headline and cyclically adjusted developments

Headline deficit and debt ratios increase

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio widened by 0.4 percentage points from the first quarter of 2026, to stand at 3.5% in the quarter

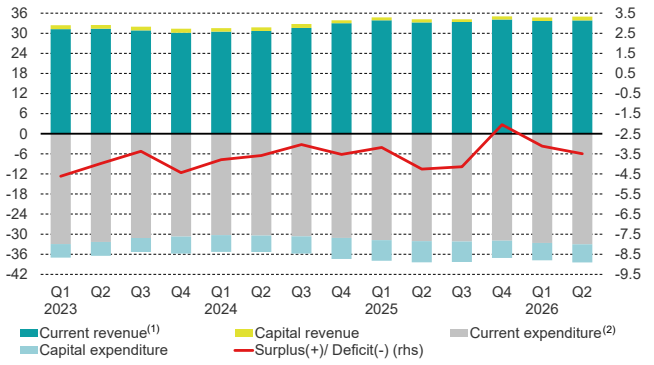
under review (see Chart 5.1). This was driven by a 0.6 percentage point increase in the expenditure-to-GDP ratio, which rose to 38.5%, mainly due to a higher share of current expenditure in GDP. This offset a smaller increase in the revenue-to-GDP ratio which rose by 0.3 percentage points, to stand at 35.0%. The latter increase was due to a higher share of current revenue in GDP.

The debt-to-GDP ratio increased by 1.3 percentage points rising to 47.0% (see Chart 5.2). The level increase in debt was larger than the deficit incurred during this quarter, and reflected a build-up in deposits, which offset debt-reducing transactions in net trade receivables. The quarterly impact of these transactions varies significantly, in line with the settlement of tax refunds owed by eligible firms.

Net financial worth deteriorates

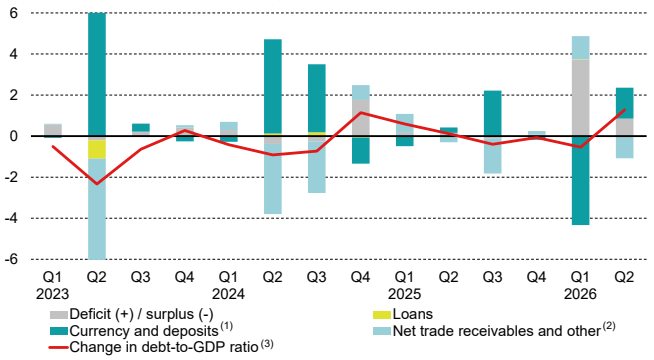
The market value of financial assets held by the general government increased to €6,937.7 million by June 2026, €725.4 million more than the level three months earlier. This was driven by a rise in the level of deposits held with banks. As a result, the share of financial assets in GDP rose to 27.2% from 24.8% in the previous quarter (see Chart 5.3). The market value of financial liabilities increased by €1,126.3 million, to stand at €15,213.9 million. This was mainly driven by a rise in the value of debt securities coupled with an increase in the value of other accounts

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



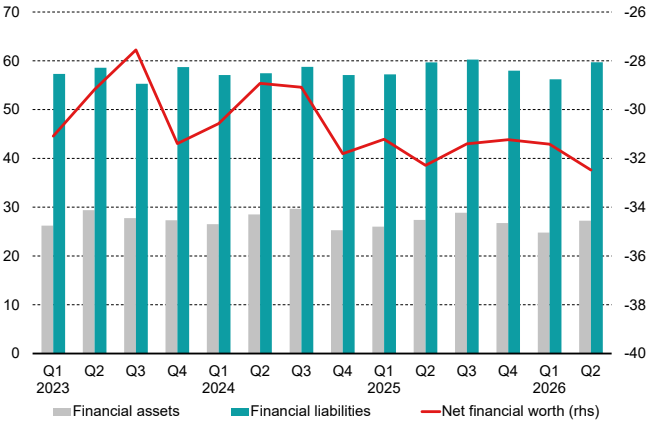
Sources: NSO; Central Bank of Malta.
(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.
(2) The term 'current expenditure' mainly represents spending on wages, social benefits 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 15.5.
(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 -17.9.
(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.

payable. Consequently, the share of financial liabilities in GDP increased by 3.5 percentage points to stand at 59.7%.

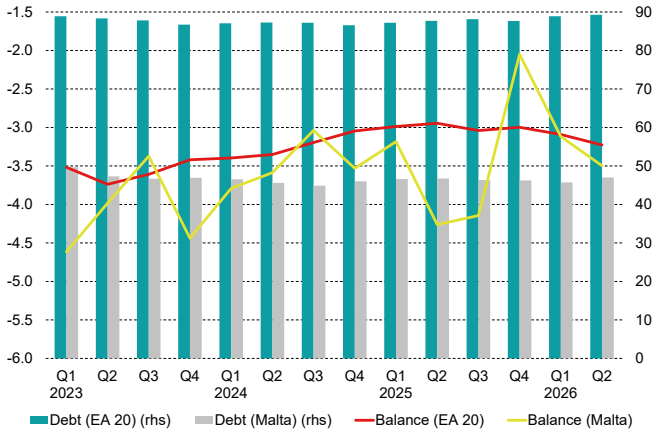
The resulting net financial worth of general government stood at -€8,276.3 million, a deterioration of €400.9 million compared with the previous quarter. The net financial worth of general government as a share of GDP stood at -32.5% by end-June.

The net worth position of the Maltese general government remained more favourable than the euro area average, which stood at -54.0% of GDP.

Debt ratio remains below the euro area, despite higher-than-average deficit ratio

During the quarter under review, the euro area general government deficit stood at 3.2% of GDP on a four-quarter moving sum basis, slightly up from a deficit of 3.1% of GDP at end-March 2026 (see Chart 5.4). Over the same period, the euro area debt ratio increased to 89.3% of GDP from 88.9%.

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



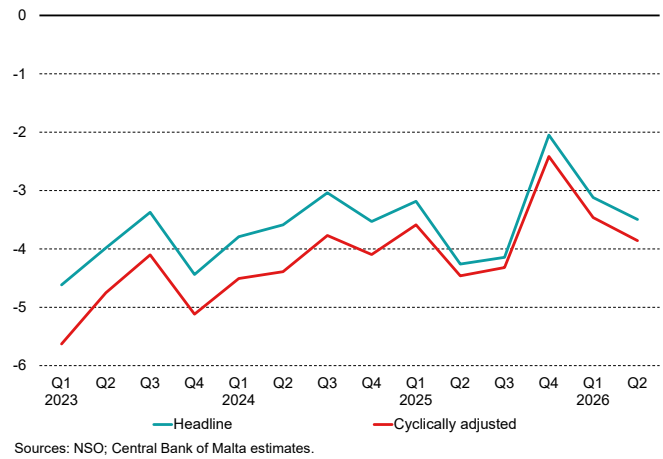
Sources: NSO; EUROSTAT.

In the first half of the year, the Maltese general government deficit widened and became larger than the euro area average. However, Malta's debt-to-GDP ratio remained well below the euro area average.

Cyclically adjusted deficit widens[1]

On a four-quarter moving sum basis, the cyclically adjusted deficit widened by 0.4 percentage points compared with March 2026, to stand at 3.9% of GDP in the quarter under review (see Chart 5.5). This is in line with the 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 rose

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

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.

by 0.2 percentage points (see Table 5.2). This was mainly due to a strong rise in the share of current taxes on income and wealth in GDP.

Meanwhile, the share of cyclically adjusted expenditure increased by 0.6 percentage points. This mostly reflects a rise in the ratio of intermediate consumption and the aforementioned one-off capital transfer to MIDI plc, which is shown in the 'other' expenditure category.

6. MONETARY AND FINANCIAL DEVELOPMENTS

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

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

The weighted average interest rate on outstanding deposits stood below its respective level a year earlier. The rate for outstanding loans remained unchanged. The spread between the two rates thus widened over this period.

In June, the primary market yield on Treasury bills rose from that prevailing three months earlier. On the other hand, domestic secondary market yields on five and ten-year MGS declined. As domestic ten-year yields declined while the yield on the euro area benchmark increased, the spread between the two narrowed. The Malta Stock Exchange (MSE) Equity Price Index increased between March and June and was also higher compared with a year earlier.

Monetary and financial conditions

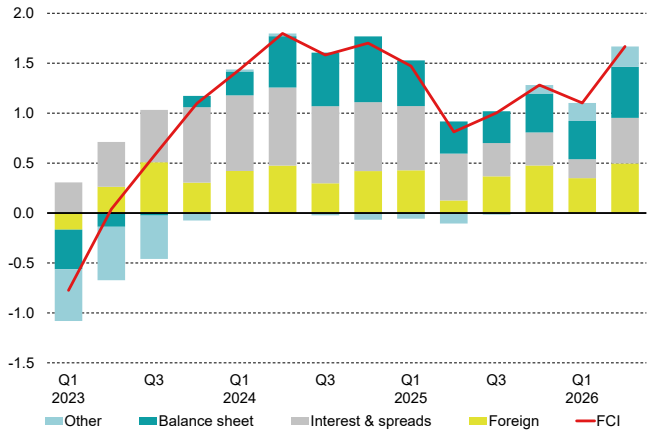
Financial conditions remain loose[2]

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

Domestic factors had a more positive contribution compared to the previous quarter, mainly reflecting a more positive contribution from sovereign spreads (part of the 'interest and spread' component). Foreign factors also suggested more favourable conditions, owing to a more positive contribution from euro area equity prices and lower uncertainty.

Compared with the second quarter of 2025, financial conditions were also more favourable. This shift is driven by more positive contributions from NFC

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.

securities issuance and real credit (part of the 'other' and 'balance sheet' components, respectively).

Maltese residents' deposits increase at a slightly faster pace

In the year to June, total deposits held by Maltese residents with MFIs in Malta increased by 7.7% in June, from 7.5% in March (see Table 6.1). The slight acceleration in growth was mainly driven by deposits with an agreed maturity of up to two years, which declined at a much slower pace and offset lower growth in overnight deposits.

The annual rate of change of Maltese residents' overnight deposits, which are the most liquid component, grew by 9.8%, down from 10.5% three months earlier. Balances held by households increased at a slower pace unlike those belonging to NFCs. Overnight deposits contributed 8.3 percentage points to overall growth in deposits.

Deposits with an agreed maturity of up to two years, decreased by 3.5% in annual terms, following a 10.5% decline in March, and shed 0.4 percentage points to overall growth.

Table 6.1
DEPOSITS OF MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2026	2025			2026	
	June	June	Sep.	Dec.	Mar.	June
Overnight deposits	**24,152**	**8.2**	**10.8**	**10.1**	**10.5**	**9.8**
of which						
Households	17,503	9.6	11.7	12.7	12.5	10.5
NFCs	4,137	9.6	6.8	5.7	9.6	14.6
Deposits redeemable at notice of up to three months	**83**	**-3.7**	**-9.4**	**3.0**	**-0.7**	**9.2**
of which						
Households	2	878.4	23.3	-96.9	-79.8	-31.4
NFCs	52	-18.4	-13.1	-9.1	4.9	4.4
Deposits with an agreed maturity of up to two years	**2,889**	**9.9**	**-3.0**	**-6.9**	**-10.5**	**-3.5**
of which						
Households	2,202	7.6	-5.7	-11.0	-13.9	-3.6
NFCs	263	8.4	-11.5	-21.7	-18.3	-23.6
Deposits outside M3[(1)]	**940**	**-1.9**	**-4.3**	**-0.9**	**-1.1**	**-5.3**
of which						
Households	813	-1.1	-2.2	-0.1	-4.1	-8.8
NFCs	19	-11.2	-52.8	-35.7	-32.9	-36.3
Total residents deposits[(2)]	**28,064**	**7.9**	**8.4**	**7.5**	**7.5**	**7.7**
of which						
Households	20,519	8.8	8.7	8.9	8.3	7.9
NFCs	4,471	8.9	4.4	2.9	6.5	10.9

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.

Deposits with an agreed maturity of up to three months increased after having somewhat declined in the previous quarter. Their contribution to overall growth remained zero.

Meanwhile, deposits classified outside M3, which are mainly composed of deposits with agreed maturity of over two years, continued to decrease, falling by 5.3% during the year to June, following a year-on-year decline of 1.1% recorded in March. They shed 0.2 percentage points to overall growth.

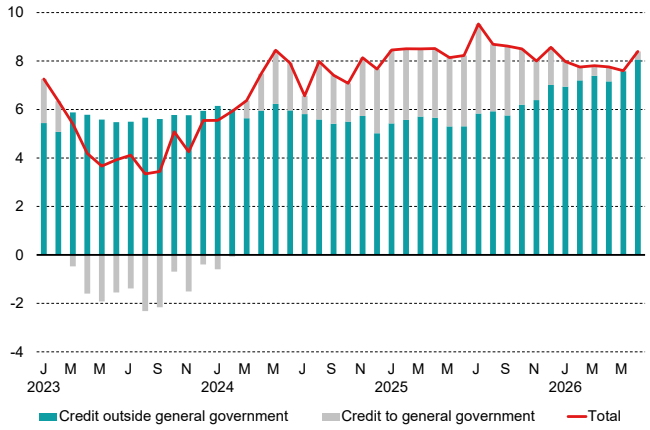
Credit to residents grows at a faster rate

The annual rate of change of credit to Maltese residents accelerated to 8.4% in June from 7.8% three months earlier. This was driven by faster growth in lending to residents outside general government (see Table 6.2 and Chart 6.2).

Credit to general government grew annually by 1.3% in June, after increasing by 1.6% in March, due to slower growth in MFI holdings of Treasury bills.

The annual growth of credit to residents outside general government increased to 10.8% in June, from 9.9% three months earlier. This mainly reflected a faster increase in loans to the private sector.

Chart 6.2
CONTRIBUTIONS TO GROWTH IN CREDIT TO MALTESE RESIDENTS
(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	
	June	June	Sep.	Dec.	Mar.	June
Credit to general government	**5,535**	**12.0**	**11.9**	**6.2**	**1.6**	**1.3**
Credit to residents outside general government	**18,004**	**7.0**	**7.6**	**9.4**	**9.9**	**10.8**
Securities and equity	281	-8.2	-6.0	-6.2	-6.4	0.5
Loans	17,723	7.3	7.8	9.7	10.2	11.0
of which:						
Loans to households	10,478	9.1	9.2	9.6	9.7	9.9
Mortgages	9,699	9.2	9.2	9.8	10.0	10.2
Consumer credit and other lending	779	8.4	9.8	6.9	5.9	6.2
Loans to NFCs[(1)]	6,032	3.7	6.7	11.8	13.7	14.4
Total credit to residents	**23,539**	**8.2**	**8.6**	**8.6**	**7.8**	**8.4**

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

Annual growth in loans to households increased by 9.9%, from 9.7% in June (see Chart 6.3). This was driven by faster growth in both mortgage lending and consumer credit and other lending.

Meanwhile loans to NFCs grew at an annual rate of 14.4%, following a 13.7% increase in the year to March.

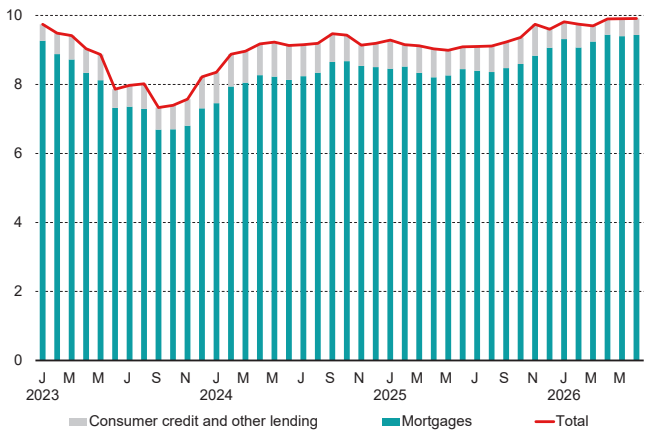
Sectoral data show that in absolute terms, the increase in loans to NFCs compared to the previous quarter, was largely driven by higher lending to the sector comprising construction and real estate and the trade and vehicle repair sector (see Chart 6.4). Higher lending was also reported in the accommodation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

Financial accounts data show that the share of bank lending in total NFC debt was unchanged at 13.6% in June 2026 compared with March, but was higher than a year earlier, when it stood at 12.9% (see Chart 6.5).

The share of intra-sectoral lending in total NFC debt edged up to 60.9% from 60.8% in the first quarter of 2026. This component thus continued to account for the bulk of NFCs' external financing.

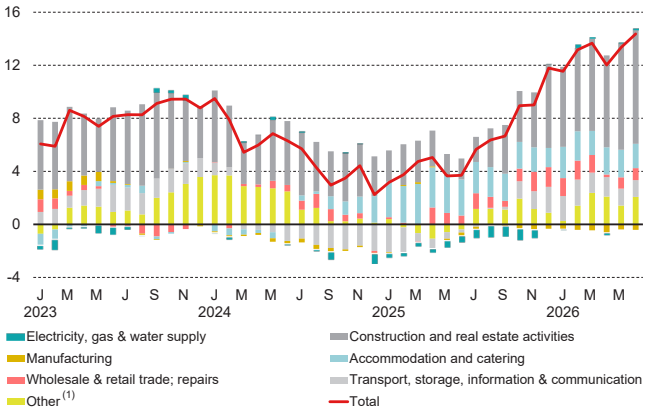
The remaining components were also stable, with the share of 'other loans' (largely from

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



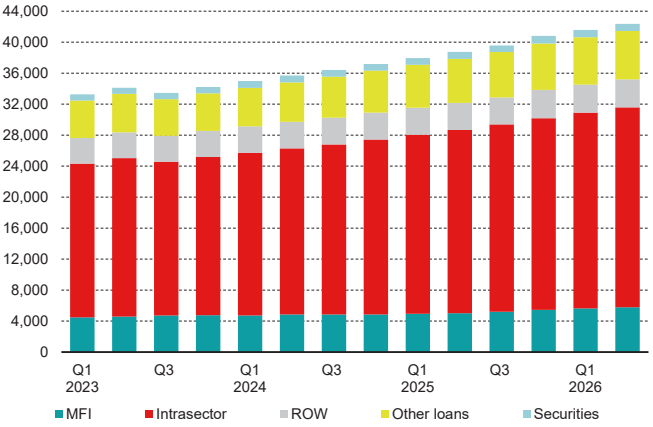
Source: Central Bank of Malta.

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)



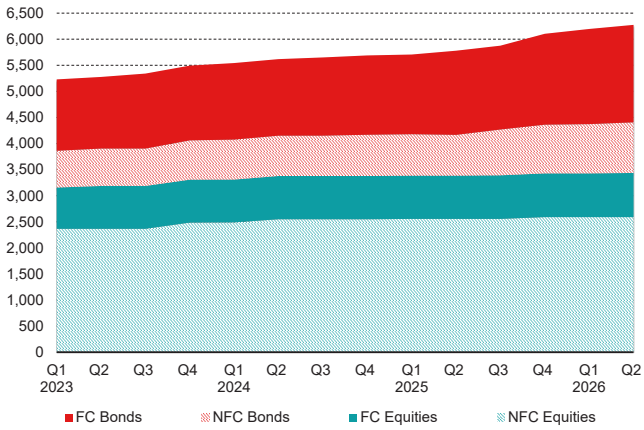
Source: Financial Accounts.

non-MFIs and households) at 14.7% and that of securities at 2.2%.

Stock of listed securities of NFCs and financial corporations' (FC) increases

By June 2026, around €2,838.7 million in outstanding corporate debt securities were listed on the MSE, 18.5% 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.

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.

Meanwhile, the outstanding amount of equity listed by NFCs and FC on the MSE increased by 1.5% in annual terms, to reach €3.436.4 million. Over three fourths of this volume was issued by NFCs, with FC playing a secondary role. The total outstanding listed equity as of June 2026, exceeded that of bonds by 21.1%.[4]

Spread between rates on outstanding deposit and lending balances widens

The weighted average deposit rate on outstanding balances belonging to households and NFCs decreased by six basis points over the year to June, to 0.27% (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 on outstanding loans was unchanged at 3.31%.

The spread between the weighted average lending rate and the deposit rate on outstanding balances ended June at 303 basis points, above the spread of 299 points recorded a year earlier.

Compared with the first quarter of 2026, interest rates on outstanding deposits with MFIs fell marginally, as did the rate on outstanding loans. As a result, the spread between the two narrowed slightly.

During the year to June, 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 1.88%, and 3.90%, respectively.

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

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

[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 FC 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	
	June	June	June	Sep.	Dec.	Mar.	June
Total deposits[1]	**0.24**	**0.37**	**0.33**	**0.30**	**0.27**	**0.28**	**0.27**
of which							
Overnight deposits							
Households	0.04	0.05	0.05	0.05	0.05	0.06	0.05
NFCs	0.07	0.12	0.03	0.03	0.03	0.03	0.04
Savings deposits redeemable at notice							
Households	0.15	0.30	0.22	0.25	0.27	0.63	0.68
NFCs	0.72	0.60	0.32	0.22	0.22	0.93	0.86
Time deposits (less than two years)							
Households	1.32	2.07	1.87	1.72	1.64	1.66	1.64
NFCs	1.15	1.80	1.50	1.47	1.35	1.44	1.56
Time deposits (more than two years)							
Households	1.76	1.89	2.12	2.16	2.08	2.25	2.33
NFCs	1.26	1.38	1.88	2.56	2.83	2.93	2.62
Total loans[1]	**3.58**	**3.51**	**3.31**	**3.36**	**3.34**	**3.32**	**3.31**
of which							
Households and NPISH	2.90	2.81	2.70	2.77	2.75	2.71	2.69
NFCs	4.87	4.81	4.52	4.53	4.45	4.46	4.46
Spread[2]	**3.34**	**3.14**	**2.99**	**3.07**	**3.06**	**3.04**	**3.03**
Memo Item: ECB's deposit facility rate	3.50	3.75	2.00	2.00	2.00	2.00	2.25

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.

Credit standards for house purchases and consumer credit and other lending were generally unchanged and were expected to remain so in the third quarter. Terms and conditions for these credit categories were also mostly unchanged during the second 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 second quarter of 2026, the Government issued €637.8 million in Treasury bills, €179.1 million more than the amount issued in the first quarter and €74.5 million more compared with the amount issued a year earlier.

In the domestic primary market, the yield on three-month Treasury bills rose to 2.27% by the end of June, from 2.05% at end-March.

The capital market

During the second quarter of 2026, the Government issued two new MGS with a total value of €499.3 million.

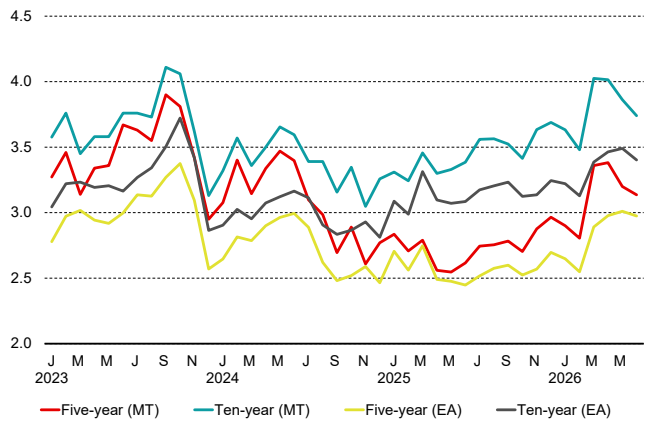
Five institutions launched new bond issues on the MSE, totalling €120.7 million. These included €63.7 million in secured bonds and €57.0 million in unsecured bonds.

By the end of June, 14 firms had bonds that were listed on the MSE through Prospects, one less compared with three months earlier.[5]

In the secondary market, turnover in government bonds increased to €57.2 million, from €32.6 million in the first quarter of 2026. On the other hand, turnover in corporate bonds was largely unchanged, standing at €42.9 million from €42.2 million, previously.

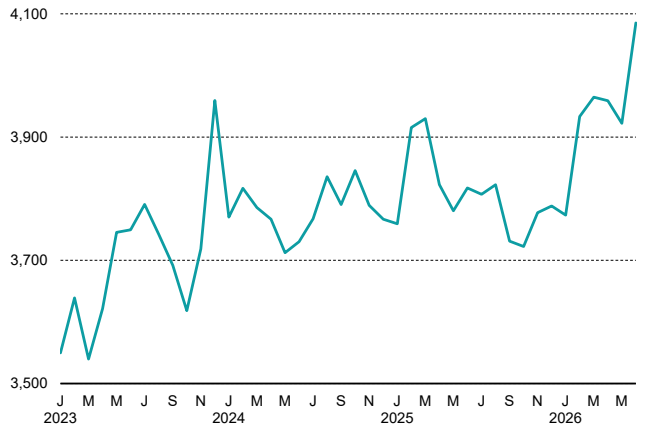
The yield on five-year Government bonds declined to 3.14% at the end of June, from 3.36% three months earlier (see Chart 6.7). The yield on ten-year bonds also decreased, to reach 3.74% from 4.03% in March. Meanwhile, the euro area benchmark yield on five-year bonds reached 2.98% from 2.89%, while the ten-year rate rose marginally to 3.40% from 3.39%. As domestic ten-year yields declined while the yield on the euro area benchmark increased, the spread between the two narrowed to 34 basis points in June from 64 basis points in March.

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



Sources: Central Bank of Malta; ECB.

Chart 6.8
MSE EQUITY PRICE INDEX
(end of month)



Source: MSE.

MSE Equity Price Index rose during the quarter

Share prices in Malta rose during the second quarter of 2026. The MSE Equity Price Index ended the quarter 3.0% above its level at end-March and was also 7.0% above its reading a year earlier (see Chart 6.8). The MSE Equity Total Return Index, which accounts for changes in

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

equity prices and dividends, rose by 5.9% since end-March and gained 12.6% compared with a year earlier.

Equity turnover decreased to €17.4 million during the second quarter of 2026, from €23.4 million in the previous quarter.