BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC PROJECTIONS

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BOX 2: ECONOMIC PROJECTIONS

Economic outlook

The Bank's latest economic projections had a cut-off date of 6 February 2024, and thus pre-date the latest release of the national accounts of 28 February 2024. Also, HICP projections precede the February 2024 flash estimate. As at the cut-off date, there was insufficient information to quantify the impact of government measures aimed at mitigating food price inflation that became effective on 1 February 2024. Such factors could have significant implications for the below projections, which will be updated in forthcoming forecast rounds.

Malta's GDP growth is projected to moderate from 5.6% in 2023, to 4.4% in 2024, and to ease further to 3.6% and 3.3% in 2025 and 2026, respectively (see Table 1).

Private consumption growth is set to slow down in 2024 following three years of elevated growth. It is expected to remain relatively robust despite the high-inflationary period. Indeed, growth in private consumption is projected to moderate from 7.7% in 2023 to 4.9% in 2024. Thus, in 2024 consumption

Table 1
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA[1]

	2023[2]	2024	2025	2026
Real economic activity (% change)				
GDP	5.6	4.4	3.6	3.3
Private consumption expenditure	7.7	4.9	4.0	3.7
Government consumption expenditure	3.3	5.3	4.1	3.9
GFCF	-22.2	2.0	3.6	2.6
Exports of goods and services	8.7	3.8	3.0	3.0
Imports of goods and services	4.6	3.7	3.1	3.1
Contribution to real GDP growth (in percentage pts)				
Final domestic demand	-1.7	3.5	3.1	2.8
Net exports	7.3	0.9	0.5	0.5
Changes in inventories	0.0	0.0	0.0	0.0
Labour market (% change)[2]				
Total employment	6.5	3.2	2.5	2.4
Unemployment rate (% of labour supply)	2.6	2.6	2.7	2.9
Prices and costs (% change)				
Overall HICP	5.6	2.9	2.2	1.9
Public Finances(% of GDP)[3]				
General government balance	-4.5	-4.0	-3.5	-3.1
General government debt	50.7	52.7	53.5	54.3

[1] Data on GDP were sourced from NSO *News Release* 039/2024 published on 28 February 2024, while HICP was sourced from *News Release* 009/2024 published on 27 January 2024.

[2] Data on the number of employed are consistent with national accounts data. The unemployment rate is based on the number of unemployed and employed as reported in the LFS.

[3] Central Bank of Malta projections.

growth is set to outpace the Bank's estimate of real disposable income. For the rest of the projection horizon, growth in this GDP component is expected to embark on a normalisation path. In view of the strong decline in the saving ratio in 2023 and 2024, private consumption is foreseen to grow in line with the Bank's estimate of real disposable income in the last two years of the projection horizon. Thus, the saving ratio is envisaged to decline slightly in 2024 but stabilise at around its average seen in the last ten years by 2025.

Meanwhile, growth in government consumption is set to peak at 5.3% by 2024, and moderate slightly to 4.1% and 3.9% in 2025 and 2026, respectively. This profile is mainly driven by outlays on compensation of employees and intermediate consumption. The profile of intermediate consumption is mainly driven by operational expenses by extra budgetary units.

After a significant contraction in 2023, mainly due to a base effect in the aviation sector, investment is forecast to grow by 2.0% in 2024, 3.6% in 2025, and 2.6% in the outer year. Residential construction is set to decline marginally in 2024, as sentiment in this sector remains weak and labour shortages have become increasingly binding. Thereafter the outlook for this investment component and for non-residential construction is one of modest growth, while the remaining part of private investment is set to recover as the aforementioned base effect fades out.

After rising by 0.8% in 2023, government investment is expected to decline by 2.4% in 2024. Thereafter, it is projected to rise by 4.8% in 2025, and to decline by 0.6% in 2026. This profile is partly driven by the expected take up of EU funds, notably the base effect stemming from the full absorption of funds from the 2014-2020 financing framework by 2023. Work on projects financed by the 2021-2027 framework is expected to gather steam by the outer years of the forecast horizon. Meanwhile, the take up of grants from the Recovery and Resilience Facility (RRF) is envisaged to peak in 2024. Most RRF grants are expected to be utilised by 2025. The profile of domestically funded investment is set to remain at elevated levels throughout the projection horizon.

Following strong growth in both exports and imports in 2023, these are expected to decelerate in 2024. Export growth is set to moderate from 8.7% to 3.8% in 2024, largely driven by a moderation in services exports. This is then expected to decelerate further to just around 3.0% in the following two years and grow broadly in line with foreign demand. With regard to imports, growth is set to moderate to 3.7%, from 4.6% in 2022. It is expected to decelerate further to 3.1% in the following two years. Reflecting these developments, the net export contribution is set to remain positive but to decrease over the projection horizon.

The labour market is expected to remain robust, but activity is expected to slow down from 2024. Employment growth is set to broadly halve to 3.2% in 2024, which partly reflects the envisaged slowdown in economic activity in line with potential growth. Employment is set to expand by 2.5% and 2.4% in 2025 and 2026, respectively. The unemployment rate is expected to remain at 2.6% in 2024, before edging up gradually to 2.9% by 2026.

Annual HICP inflation is projected to moderate to 2.9% in 2024 from 5.6% in 2023, as international price pressures continue to ease. The fall in inflation in 2024 reflects a broad-based decrease across all sub-components of HICP, except for energy inflation, which is expected to remain unchanged as a result of government support measures. Services inflation is envisaged to be the main contributor to HICP inflation in 2024, although the contribution from overall food inflation is projected to follow closely. NEIG inflation is also projected to contribute somewhat to annual HICP inflation in 2024. HICP inflation is set to ease steadily in the following years, standing at 2.2% and 1.9% in 2025 and 2026.

The headline budget balance is expected to remain in deficit throughout the forecast horizon. but to improve over time. This is mainly due to the profile of government expenditure, which in turn is driven by outlays on price mitigation measures. It is set to decline to 4.0% of GDP in 2024, and to continue declining over the rest of the forecast horizon, reaching 3.1% of GDP by 2026. Meanwhile, the general government debt ratio is set to increase gradually throughout the forecast horizon, reaching 54.3% by 2026.

Risks to activity are tilted to the downside in 2024. In part this reflects the ongoing geopolitical tensions, which could weigh on international trade. In particular, an intensification or prolongation of disruptions to shipping around the Suez Canal, could give rise to some supply bottlenecks or longer waiting times, apart from higher costs. On the other hand, wage pressures could be stronger than expected in view of the ongoing tightness in the labour market. Risks are more balanced in the following years.

Risks to inflation are on the downside in 2024, especially following the February flash estimate for HICP. For 2025-2026, risks are balanced. Upside risks to inflation could stem from extreme weather events and effects of geopolitical developments (such as disruptions arising from the conflict near the Red Sea). Other upside risks to headline inflation include the potential impact of measures to combat climate change. Furthermore, if the abovementioned wage pressures materialise, these could slow the envisaged decline in inflation. On the other hand, if global demand proves weaker than expected, this should dampen import price pressures. A stronger pass-through from recent monetary tightening to domestic financial and real economic conditions could ease inflationary pressures in the medium-term.

On the fiscal side, risks are tilted to the downside (deficit-increasing). These mainly reflect the likelihood of higher-than-expected outlays on energy support measures, in the event that commodity prices are higher than envisaged. They also reflect the likelihood of additional increases in pensions and public sector wages. These risks are partly offset by the likelihood of a pick-up in the pace of fiscal consolidation in the outer years of the forecast horizon to comply with EU fiscal rules.