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 have a cut-off date of 6 February 2025, and thus pre-date the latest release of the national accounts of 27 February 2025. Furthermore, HICP projections include information from the January 2025 flash estimate, but they precede the publication of the final figure for January as well as the February 2025 flash estimate.

Malta's GDP growth is projected to moderate from 6.0% in 2024, to 4.0% in 2025, and to ease further to 3.6% and 3.3% in 2026 and 2027, respectively (see Table 1). Throughout the projection horizon, domestic demand is expected to remain the main driver of growth, although net exports are projected to retain a positive contribution.

Private consumption growth is set to moderate compared with the performance in recent years, reflecting an expected continued normalisation in consumer demand. Nevertheless, it is set to remain strong, as household disposable income in 2025 will be supported by a significant widening of the

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

	2024[2]	2025	2026	2027
Real economic activity (% change)				
GDP	6.0	4.0	3.6	3.3
Private consumption expenditure	5.7	4.8	3.8	3.1
Government consumption expenditure	7.3	2.8	4.2	4.6
Gross fixed capital formation	2.4	1.5	3.8	0.4
Exports of goods and services	5.3	4.0	3.6	3.6
Imports of goods and services	4.7	3.7	3.8	3.3
Contribution to real GDP growth (in percentage pts)				
Final domestic demand	4.4	3.0	3.2	2.3
Net exports	1.6	1.0	0.4	1.0
Changes in inventories	0.0	0.0	0.0	0.0
Labour market (% change)[2]				
Total employment	4.3	2.7	2.3	2.3
Unemployment rate (% of labour supply)	3.2	3.1	3.0	3.0
Prices and costs (% change)				
Overall HICP	2.4	2.1	2.0	2.0
Public Finances(% of GDP)[3]				
General government balance	-3.7	-3.4	-2.9	-2.6
General government debt	48.9	49.6	50.1	50.1

[1] Data on GDP for 2024 were sourced from NSO *News Release* 035/2025 published on 27 February 2025, while HICP was sourced from NSO *News Release* 009/2025 published on 17 January 2025.

[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.

income tax bands. This should support private consumption growth, while at the same time contributing to a limited increase in the saving ratio, as higher income households with a lower average propensity to consume are expected to save some of the foregone taxes. In the following years, the saving ratio is envisaged to decline marginally but remain broadly stable at 2024 levels.

Real government consumption growth is set to ease to 2.8% in 2025. Growth is then set to pick up to above 4% in 2026 and 2027. This profile is mainly driven by that of compensation of employees. In 2025 the latter is impacted by a negative base effect stemming from high payments on allowances in 2024 due to newly signed collective agreements. This impact is set to subside in subsequent years as the impact of a collective agreement for the civil service, effective from 2025, gains relevance.

Overall investment is projected to grow by 1.5% in 2025 before picking up to 3.8% in 2026. Investment is projected to grow by only 0.4% in the outer year as government investment is projected to decline strongly that year.

Private investment began to recover in 2024. Growth is expected to remain above 3% throughout the forecast horizon, standing at 3.5% in 2025 and 3.2% in the outer years. Growth in residential construction is expected to remain muted during the forecast horizon as the level of investment outlays remains high from a historical perspective. Moreover, growth in non-dwelling private investment is expected to remain close to 4%. The latter is below historical rates as the ongoing weakness in the private non-residential construction sector is expected to persist.

Government investment is forecast to decline by 6.8% in 2025. This reflects the expected profile of domestically-financed investment. Government investment is then set to grow by 7.0% in 2026 and to decline by 12.2% in 2027. This is mainly due to the profile of EU-funded investment, which is set to increase in 2026 but to drop in 2027, once projects financed by the Recovery and Resilience Facility (RRF) are completed.

Export growth is set to slow down from 5.3% in 2024 to 4.0% in 2025 and edge down further to 3.6% in the outer years. While growth in services exports is expected to moderate following an extended period of robust growth, goods exports are set to recover somewhat from the declines of 2023 and 2024. This reflects some recovery in foreign demand, though the latter is envisaged to remain muted from a historical perspective, in part reflecting the weak global recovery.

Growth in imports is expected to moderate in 2025, falling to 3.7%, before edging down to 3.3% in 2027. This profile is conditioned significantly by that of investment. Similar to services exports, growth in services imports is expected to decline throughout the forecast horizon.

The labour market remains strong and demand for labour is envisaged to be high. However, demand is expected to moderate over the projection horizon, driven by the projected easing in economic growth and an assumed recovery in productivity. Inflows of foreign workers are also expected to slow down somewhat due to the introduction of more restrictive labour market policies than before. Employment growth is thus expected to moderate gradually from 5.1% in 2024 to 2.3% by 2026 and 2027, as GDP growth slows down and the aforementioned factors weigh on recruitment. The unemployment rate is forecast to edge down slightly to 3.0% by 2026.

Annual HICP inflation is projected to stand at 2.1% in 2025, reflecting a decline in food, NEIG and services inflation when compared to 2024. Energy inflation is expected to remain unchanged as a result of government support measures. Services inflation is envisaged to remain the main contributor to HICP inflation in 2025, 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 2025. Inflation is set to ease steadily in the following years, standing at 2.0% in both 2025 and 2026.

The headline budget deficit is expected to narrow throughout the forecast horizon. This is partly driven by the declining profile of inflation mitigation measures. The deficit is set to decline to 3.4% of GDP in 2025 from an estimated 3.7% in 2024, and to eventually reach 2.6% of GDP by 2027. Meanwhile, the general government debt ratio is set to increase to 50.1% by 2026 and to level off in 2027.

Risks to activity are broadly balanced. Downside risks largely emanate from possible adverse effects on foreign demand related to geopolitical tensions, new US tariffs beyond those that were implemented before the cut-off date and included in the baseline, and the possibility of retaliatory measures. A prolongation of the current elevated economic and geopolitical uncertainty could also dampen activity. On the other hand, the labour market could exhibit even stronger dynamics than envisaged in this projection round, both in terms of employment and wages. This could then result in stronger private consumption growth and thus stronger output growth than envisaged. Investment could also grow faster than projected. Another upside risk could stem from a stronger consumption response to the widening of the income tax bands.

Risks to inflation are balanced over the projection horizon. Upside risks to inflation could stem from renewed supply-side bottlenecks that could be triggered by ongoing geopolitical conflicts as well as higher input costs arising from changes in global trade policy, especially in the event of retaliation to higher US tariffs. Having said that, such risks could also be counterbalanced by the subsequent monetary policy response and heightened competitive pressures in markets targeted by tariffs. Furthermore, from the domestic side, there is a risk that higher fees charged to producers and importers with respect to beverages' containers could be passed on to consumers. On the downside, imported inflation could fall more rapidly than expected if economic growth in the euro area is weaker than expected due to the adverse effects of barrier to trade on global growth.

On the fiscal side, risks are mostly tilted to the downside (deficit-increasing). These mainly reflect the likelihood of slippages in current expenditure, including higher-than-expected outlays on energy support measures if commodity prices are higher than assumed. They also reflect the likelihood of additional increases in pensions and wages in the outer years.