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ANALYSIS OF PROFIT TRENDS IN MALTESE COMPANIES (2023-2024)

BOX 1: ANALYSIS OF PROFIT TRENDS IN MALTESE COMPANIES (2023-2024)¹

The interaction between input costs and profitability is challenging for businesses across various sectors in Malta. As firms continue to deal with the aftereffects of a high inflationary period, managing costs while maintaining profits has become crucial.

This box explores the impact of cost fluctuations on profitability over the past two years from the perspective of firms. To limit double counting only insights from the most recent interview with each company in both 2023 and 2024 were considered. As such, this analysis is based on responses provided by 148 companies in 2023 and 164 companies in 2024.

Data collected from Maltese companies shows distinct patterns between changes in input costs, prices and total company profits over 2023 and 2024. Firstly, the share of companies reporting higher profits in 2024 is more than double that in 2023. In fact, 29% of companies interviewed in 2024 reported higher profits compared to 14% in 2023. Moreover, 37% of companies interviewed in 2024 reported lower profits, which is less than the 43% share in 2023.

Table 1 shows the replies regarding changes in profits conditional on responses about the evolution of costs. It shows that 30% of firms that experienced higher costs in 2024 were able to also raise their profits. Conversely, only 12% of firms that experienced higher costs in 2023 were able to increase their profits that year. This suggests that companies interviewed in 2024 were better able to absorb rising input costs by implementing mitigating strategies or increasing their margin than those who provided information for 2023. It also reflects that increases in costs in 2023 were of higher magnitude than those in 2024. Furthermore, the share of firms reporting lower profits and rising costs was smaller in the 2024 sample than in the 2023 one, though still significant at 40%.

Looking at specific sectors, the services sector, including catering and entertainment, accommodation and hospitality, audit and consultancy, and maritime and freight showed

Table 1
COSTS AND PROFITS

(percentage of companies contacted during the year)

	Costs increased		Unchanged costs		Costs decreased	
	2023	2024	2023	2024	2023	2024
Profit increased	12	30	21	21	0	54
Profit unchanged	40	31	52	44	40	31
Profit decreased	48	40	26	35	60	15
Total	100	100	100	100	100	100

Source: Central Bank of Malta Business Dialogue.

Note: Figures may not add up due to rounding.

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different trends in the two years. In 2023, rising costs in the services sector often caused profits to decline, as many companies were unable to adjust their pricing quickly. In 2024, however, some firms managed to stabilise profits despite higher costs, possibly through improved operational efficiencies or selective price adjustments.

In manufacturing, the difference between the two years was notable. In 2023, many companies faced falling profits as costs rose, but in 2024, there was better use of cost-management strategies, such as automation, bulk buying, sourcing alternatives, and other operational efficiencies which helped maintain profitability. These strategies were especially effective in sub-sectors like consumer durables, food and beverage and electronics manufacturing.

Wholesale and retail businesses, particularly in food and beverage, struggled with rising costs in both years. However, the impact was more severe in 2024, when fewer companies were able to adjust their prices to offset increased costs due to competitive pressures and consumer price sensitivity.

In construction and real estate, the effects also differed between the two sectors. Real estate firms broadly reported stable profits in both years as costs did not change significantly. Construction firms were more likely to report profit declines in both years due to rising material and compliance costs causing lower margins.

Another trend of interest is the performance of companies that reported unchanged or reduced costs. Such were more likely to report stable or improved profits in 2024 compared to 2023, which also reflects better cost-management strategies. In 2024, 54% of companies experiencing cost reductions reported profit increases, compared to none in 2023, and only 15% of such firms, compared to 60% of firms in 2023 reported lower profits.

When looking at price changes and profit outcomes, there were also noticeable patterns. Among companies that reported profit increases, around 60% also reported selling price increases. This share increased slightly in 2024 (see Table 2). This indicates a strong willingness or ability among businesses to pass on higher costs to consumers without losing competitiveness. Nonetheless, not all firms that saw an increase in profit raised prices. It

Table 2
PRICES AND PROFITS

(percentage of companies contacted during the year)

	Profit increased		Profit unchanged		Profit decreased	
	2023	2024	2023	2024	2023	2024
Increased prices	60	63	50	48	53	33
Unchanged prices	30	29	47	43	36	53
Decreased prices	10	8	3	9	11	13
Total	100	100	100	100	100	100

Source: Central Bank of Malta Business Dialogue.

Note: Figures may not add up due to rounding.

is notable that in both years, almost a third of firms reported higher profits with unchanged prices, while around a tenth even reduced them.

Meanwhile, around half of firms that reported unchanged profits reported an increase in selling prices. In such cases, price increases were likely just sufficient to counteract cost increases. Most of the remaining firms that reported unchanged profits also reported unchanged prices. This broadly applies to both 2023 and 2024.

In turn, while in 2023 just over a half of firms with decreasing profits also reported higher prices, by 2024 this share fell to one-third. This indicates that selling price increases may have been more effective in countering cost increases in 2024 compared to 2023 or that some of the price hike was a lagged response to earlier cost increases. It is also notable that in 2024, the share of firms with falling profits and unchanged prices increased.

Firms' responses indicated that the manufacturing sector was better able to pass on increases in costs to selling prices in 2024 when compared to 2023. In 2023, many firms hesitated to raise prices, leading to lower margins. By 2024, more manufacturing companies used moderate price adjustments to cover costs while maintaining competitiveness, especially in sub-sectors like food production, electronics and consumer durables.

In wholesale and retail, especially in food and beverages, the two years displayed contrasting trends. In 2023, while many firms faced cost challenges, many adopted selective price increases (especially clothing and footwear, and food and beverage sellers), which helped in maintaining profit outcomes. However, in 2024, most companies avoided price increases due to consumer price sensitivity and increased competition, which often led to declining profits.

The services sector showed little differences across the two years. Since demand remained relatively strong, businesses were more inclined to raise prices to offset rising costs, which helped maintain or improve their profitability.

In construction and real estate, real estate firms in both years did not raise prices as costs remained stable. On the other hand, costs in the construction sector increased considerably and hence firms that were unable to raise prices for their services experienced lower profits.

Overall, the replies show that for several firms selling price increases were effective in achieving higher profits or at least maintain stable profit levels. However, more than a third of firms were also able to increase their profits without changing prices, likely by reaping efficiency gains or sourcing cheaper products.