



Malta Economic Outlook



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Contents



4

**Trends in Income
Inequality**

13

Interest Rates

9

**Gross Domestic
Product**

14

The Labour Market

12

Inflation

15

The Property Market

The cut-off date for the statistics included in this issue was 30th July 2024.

Economic Spotlight



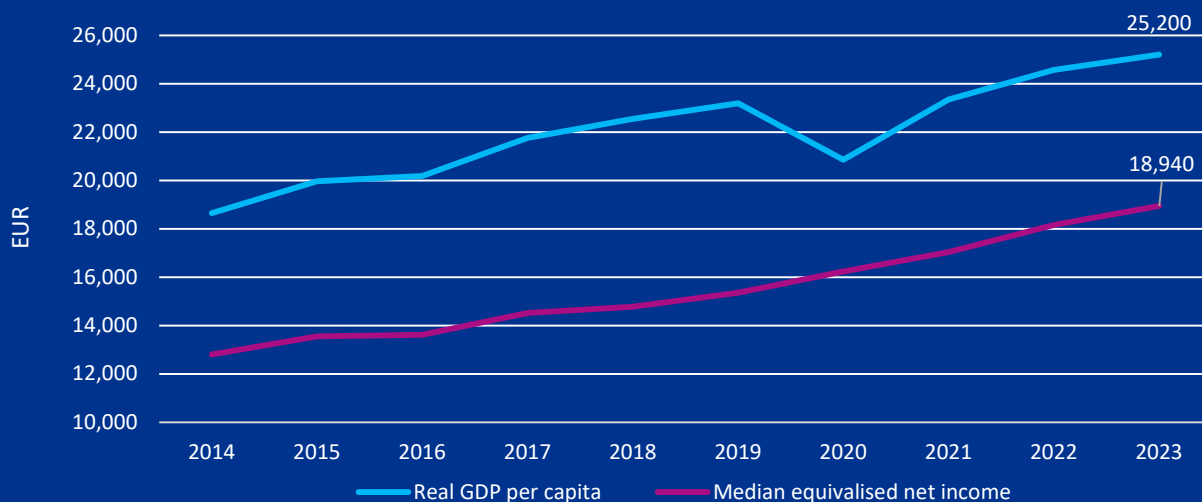
Trends in Income Inequality

Economic growth is often cited as the key pathway to improving people's lives by way of increased opportunities and higher incomes. Yet, while growing the economy as a whole is one challenge, ensuring that growth is distributed as equitably as possible is entirely another. Both are important objectives for policymakers as rising income inequality can hurt social cohesion within communities, and risks creating large gaps in quality of life between different segments of society.

GDP per capita is a widely used measure to indicate economic prosperity and standard of living. A growing GDP per capita implies that on average, wealth created for each individual in an economy is rising. This is an important finding when considering that population is increasing, and therefore more output would have to be shared with increasingly more people. The below chart depicts how real GDP (based on 2010 prices) per individual in Malta has been increasing since 2014 – reaching €25,200 in 2023¹ (bar the dip during 2019-2020 related to the COVID-19 pandemic).

Similarly, while the median equivalised income is an indicative measure of incomes in Malta, it still does not provide clarity on how incomes are being distributed. Trend data for the median equivalised income² indicates how the median level of national incomes is rising, thereby suggesting people are generally financially better off (though this is not necessarily always the case in time of high inflation when inflation outstrips any growth in nominal incomes).

Figure 1: Real GDP per capita (volumes in 2010 prices) and median equivalised net income



Source: Eurostat data

¹ Eurostat. Real GDP per capita. Accessed 22 July 2024. [Linked here.](#)

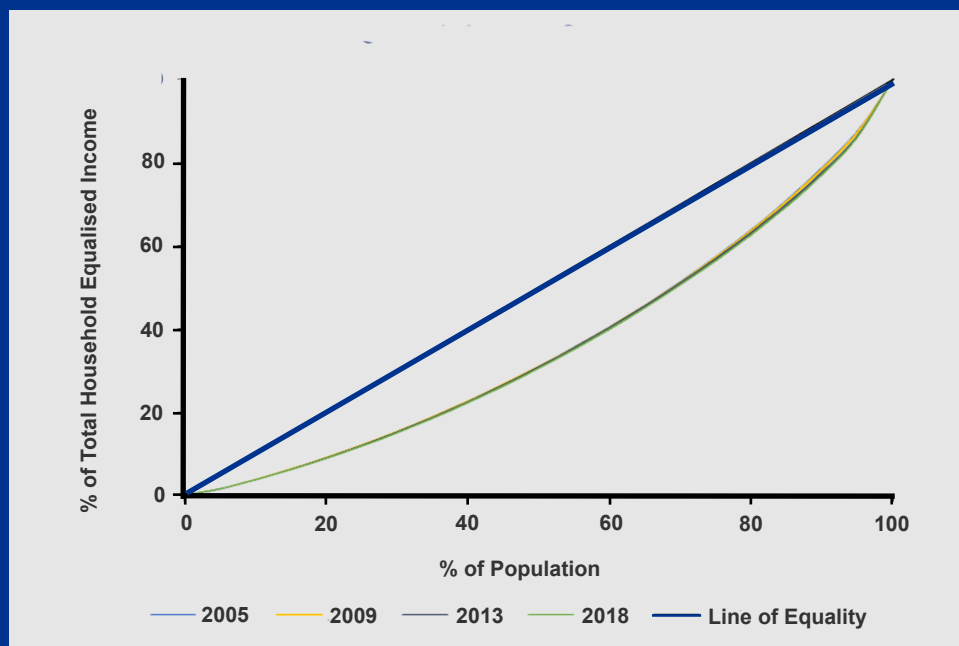
² Eurostat. Mean and median income by age and sex - EU-SILC and ECHP surveys. Accessed 22 July 2024. [Linked here.](#)

However, GDP and GDP per capita have long been a source of criticism for failing to account for other important metrics that measure standard of living, including education, health, and environmental quality. Moreover, this measure can also mask how income is truly being distributed, thereby potentially misleading how the country's wealth is being distributed.

The Gini coefficient of equivalised disposable income³ is a more effective way of tracking how income is being distributed among individuals. It comes in the form of a value between 0% and 100%, where 100% represents perfect inequality, and 0% represents perfect equality. The coefficient is based on the Lorenz curve, which is a graphical representation of cumulative percentages of total income received within a nation against the cumulative percentages of the population receiving that income.

The below chart depicts a 2021 study by the Centre of Labour Studies at the University of Malta showing how as of 2018 the curve bends away from the Line of Equality. In this case, a Gini coefficient of 28.7% was recorded in 2018, resulting in the scenario where the bottom 40% of the population earned just 22% of the total income, while the bottom 80% of the population only mustered 63% of the total income, with the rest going to the top 20% (as depicted by the green curve)⁴.

Figure 2: Lorenz curve



Source: Centre of Labour Studies (2021)

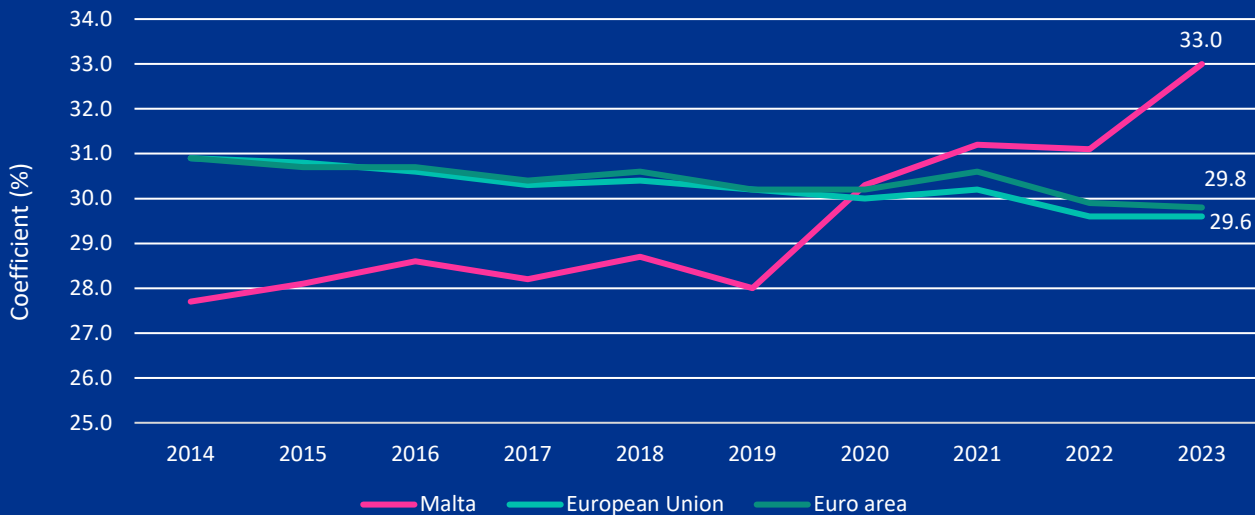
It is important to note that these figures are inclusive of social transfers intended to protect vulnerable strands of society and which are resultant of direct taxation from wealthier income groups. Excluding these would have depicted inequality to be far larger, with a greater proportion of income concentrated at the top.

³ Equivalised disposable income refers to household income that is available for spending or saving (i.e. after taxes), adjusted for differences in household size and composition.

⁴ Centre for Labour Studies (2021). [Linked here](#).

Since 2018, data from Eurostat reveals that the Gini coefficient for Malta has been climbing, albeit modestly, reaching 33.0% in 2023, indicating a shift towards more income inequality. When excluding social transfers, the Maltese Gini coefficient jumps to 44.0% which further highlights how important the welfare system is in creating a more equitable society⁵. The largest jump recorded in recent years was observed between 2019 and 2020, which suggests that the COVID-19 pandemic could have played a role. However, as evident below, this contrasts with the trends observed for the EU and Euro area averages, both of which have been on a downward, improving trend since 2014. With a Gini coefficient reaching 29.8% and 29.6% as at 2023, respectively, income distribution across the EU and the Euro area has become more equal than in Malta over time⁶.

Figure 3: Gini coefficient



Source: Eurostat data

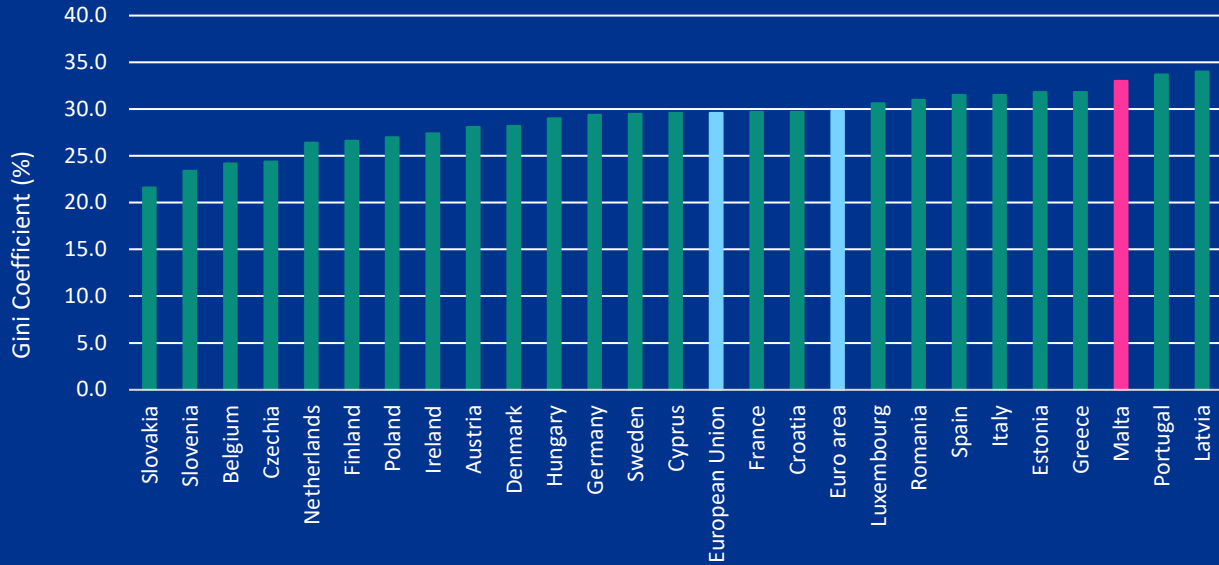


⁵ Eurostat. Gini coefficient of equivalised disposable income before social transfers (pensions included in social transfers). Accessed 22 July 2024. [Linked here](#).

⁶ Eurostat. Gini coefficient of equivalised disposable income. Accessed 22 July 2024. [Linked here](#).

Compared against individual countries in the EU, Malta ranks as the 5th most unequal in terms of income distribution in 2023, with the most unequal being Bulgaria at 37.2% and the least unequal being Slovakia at 21.6%⁷.

Figure 4: Gini coefficient



Source: Eurostat data

Overall, Malta’s Gini coefficient is not significantly far off from that of other EU member states or the EU average. However, the recent upward trend in this statistic warrants ongoing monitoring by policymakers who should find that a more equitable society is in everybody’s interest.

⁷ Eurostat. Gini coefficient of equivalised disposable income. Accessed 22 July 2024. [Linked here](#).

Main Economic Indicators

Gross Domestic Product

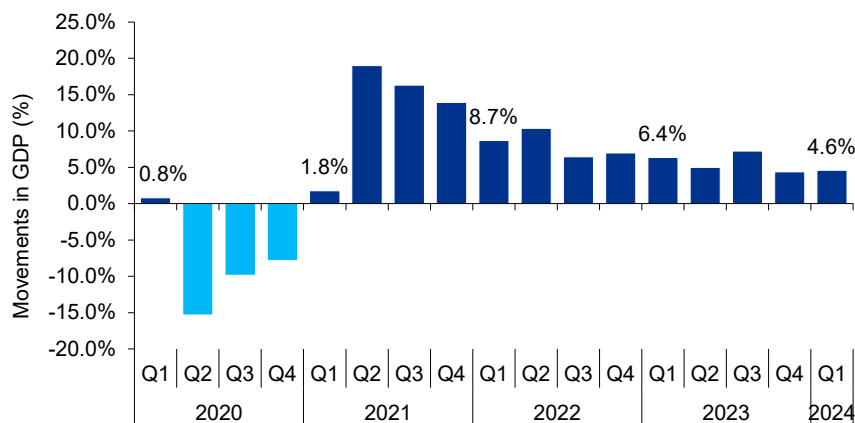
1.1 Annual GDP Growth Rates

The Maltese economy has maintained a similar trend to that of 2023 in terms of economic growth. In Q1 2024, the Maltese economy grew by 4.6% in real terms when compared to the same quarter in the previous year [Q1 2023: 6.4%]⁸.

The Central Bank of Malta's (CBM) Outlook⁹ for the second quarter of 2024 attributes the stabilisation and resilience seen in the first quarter to robust domestic demand. Indeed, domestic demand is projected to be the main driver of growth in 2024, with private consumption continuing to increase.

Figure 5 shows the quarterly real GDP growth rates between 2020 up until Q1 2024.

Figure 5: Quarterly Movement in GDP in Real Terms



Source: NSO data; KPMG Analysis

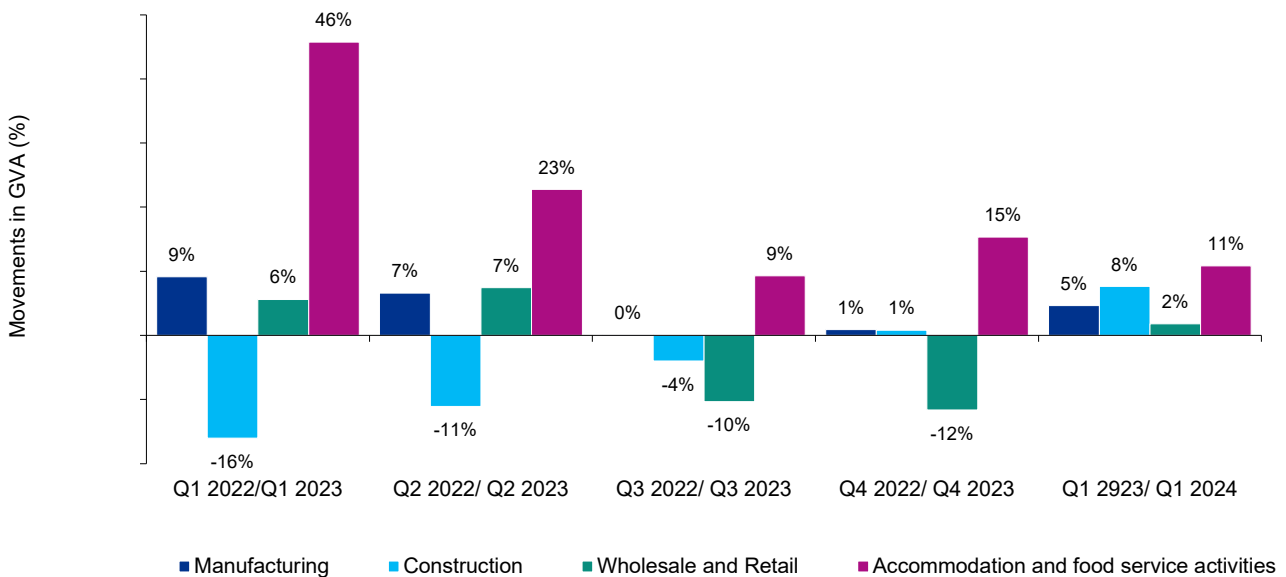
⁸ NSO (2024), Gross Domestic Product: Q1/2024, News Release 099/2024 dated 29 May 2024. [Linked here.](#)

⁹ Central Bank of Malta (2024), Outlook for the Maltese Economy 2024:2. [Linked here.](#)

In terms of sectoral movements, the following outlines the movements in the Gross Value Added (GVA) of key sectors, specifically manufacturing, construction, wholesale and retail trade, and accommodation and food services:

- In the first quarter of 2024, the manufacturing sector exhibited a gradual recovery, achieving a 5% growth compared to Q1 2023.
- In the same quarter, the construction sector registered an 8% expansion in real GVA compared to Q1 2023. This growth follows a prolonged period of contraction.
- The wholesale and retail trade sector saw an average quarterly growth of 2% in real GVA over Q1 2023. Despite a contraction at the end of 2023 compared to the same period in the previous year, the sector has shown recovery in the first quarter of 2024.
- The accommodation and food service activities sector continues to exhibit positive growth, with Q1 2024 recording an 11% increase over Q1 2023.

Figure 6: Movements in GVA by sector



Source: NSO data; KPMG Analysis



In terms of GDP outlook, according to the CBM¹⁰, the country's economic growth is expected to stabilise further from its previously high levels. This potential slower growth is attributed to several factors:

- A decrease in the contribution of net exports, though this is expected to remain positive (with an upward revision in imports, and a slowdown in growth of tourism exports);
- Stabilisation in private consumption growth;
- Marginal increases in government consumption and investment;
- A decline in residential construction activity;
- A projected decrease in government investment in 2024; and
- Increased EU-funded investment due to higher uptake of Recovery and Resilience Facility (RRF)¹¹ grants.

| Table 1: Projections for Real Economic Activity | | | | |
|--------------------------------------------------------|-------------|-----------------|-----------------|-----------------|
| % Change on previous period | 2023 | 2024 (f) | 2025 (f) | 2026 (f) |
| GDP | 5.6 | 4.3 | 3.5 | 3.5 |
| Private consumption expenditure | 7.7 | 4.9 | 4.0 | 3.7 |
| Government consumption expenditure | 7.3 | 5.4 | 4.3 | 4.3 |
| Gross fixed capital formation | -22.2 | 2.0 | 3.5 | 3.7 |
| Exports of goods and services | 8.7 | 4.3 | 3.0 | 3.0 |
| Imports of goods and services | 4.6 | 4.3 | 3.2 | 3.2 |

(f) - forecast

Source: Central Bank of Malta (2024), Outlook for the Maltese Economy 2024:2



¹⁰ Central Bank of Malta (2024), Outlook for the Maltese Economy 2024:2. [Linked here](#).

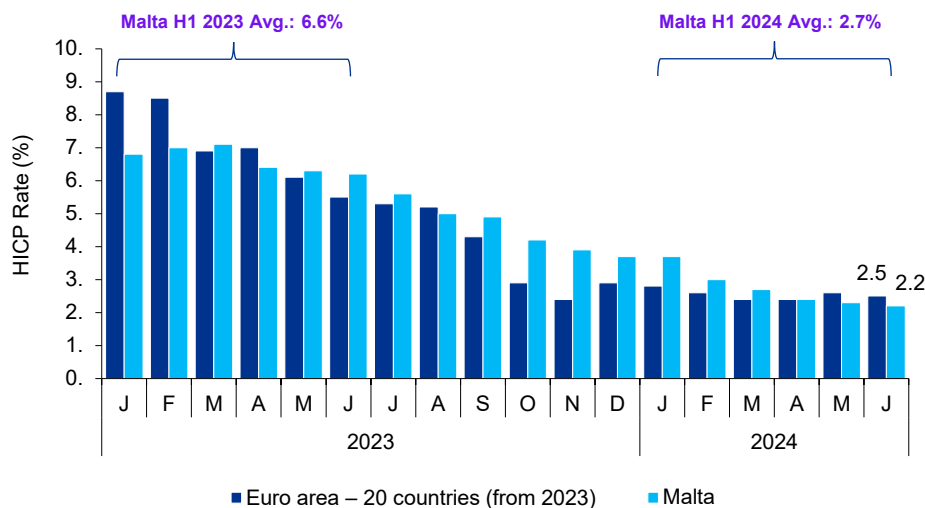
¹¹ "Through the Facility, the Commission raises funds by borrowing on the capital markets (issuing bonds on behalf of the EU). These are then available to its Member States." Available at: https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en.

Inflation

2.1 Consumer Inflation

In the first half of 2024, the EU's Harmonised Index of Consumer Prices (HICP) for the Euro area stood at an average rate of 2.6% [H1 2023: 7.1%], and Malta at an average rate of 2.7% [H1 2023: 6.6%]¹². Although for most of 2023, Malta's inflation rate exceeded the Euro area average, in May 2024, this trend seems to have overturned. Such inflation figures reflect Government's support in the form of emergency energy support measures, activated in 2021 and budgeted till at least 2026. Nonetheless, according to the EC, such measures are forecasted to not be winding down fast enough in 2024, and risks not being in line with EC recommendations¹³.

Figure 7: HICP rate (%)



Source: NSO data; Eurostat data; KPMG Analysis

2.2 Inflation Outlook

The CBM forecasts a decline in consumer price inflation by 2024, with the rate anticipated to drop to 2.4%¹⁴. By 2026, it is projected that inflation will align with the EU's target of approximately 2%.

Table 2: % Change on previous period

| | 2023 | 2024 | 2025* | 2026* |
|--------------|------|------|-------|-------|
| Overall HICP | 5.6 | 2.4 | 2.0 | 1.9 |

*2025 and 2026 are forecasts.

Source: CBM Projections; KPMG Analysis

¹² National Statistics Office - Harmonised Index of Consumer Prices (HICP): June 2024. News Release 130/2024 dated 17th June 2024.

¹³ European Commission (2024), Report from the Commission. [Linked here](#).

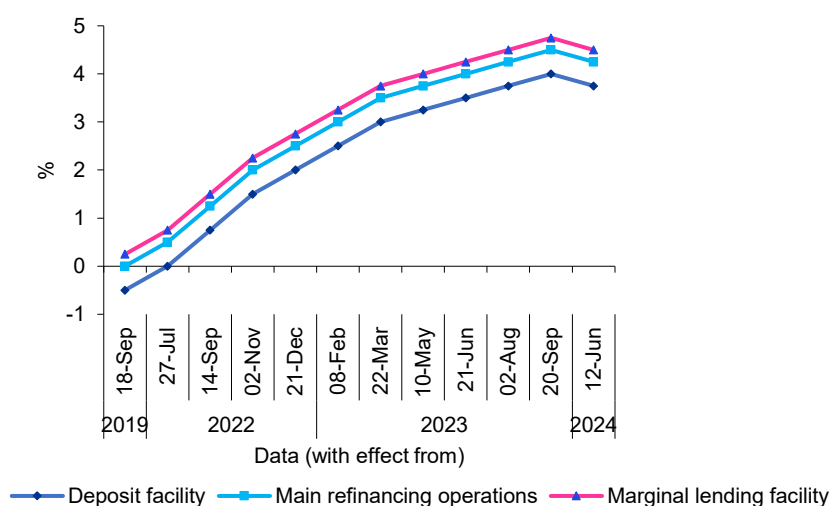
¹⁴ Central Bank of Malta - Economic Projections. [Linked here](#).

Interest Rates

In June 2024, the European Central Bank (ECB) lowered its key interest rates by 25 basis points to stimulate the sluggish EU economy, which has been weighed down by high borrowing costs. As of June 12th, 2024, the ECB's main refinancing operations rate, marginal lending facility rate, and deposit facility rate all decreased to 4.25%, 4.50%, and 3.75%, respectively¹⁵.

This decision came after a phase of historically high interest rates aimed at bringing inflation back to its medium-term target of 2%. With prices now rising more slowly and inflation expected to reach its 2% target, the ECB's Governing Council has opted to reduce interest rates following a nine-month period of keeping them elevated¹⁶.

Figure 8: Recent changes in KEY ECB interest rates



Source: ECB¹⁷; KPMG Analysis

In April 2024, Maltese monetary financial institutions (MFIs) reported a composite interest rate of 0.36% on deposits held by local residents, a slight increase of 1 basis point from March. Conversely, the composite rate on outstanding loans decreased to 3.48%, down by 3 basis points from the previous month. As a result, the spread between these rates narrowed to 312 basis points from 316 basis points in March¹⁸.

Additionally, the composite rate paid by MFIs on new deposits from Maltese residents stood at 2.64% in April, showing a decline from March's 2.88% but surpassing the 1.81% recorded a year earlier in April 2023. Meanwhile, the composite rate charged on new loans increased to 3.58%, up 16 basis points from the previous month and 14 basis points higher than April 2023. This widened the spread between new deposit and loan rates to 94 basis points in April, up from 54 basis points in March, though still below the 163 basis points seen a year ago¹⁹.

¹⁵ ECB (2024), Monetary Policy decisions. [Linked here](#).

¹⁶ ECB (2024), We have cut interest rates. Why did we do it and what does that mean for you? [Linked here](#).

¹⁷ ECB (2024), Key ECB interest rates. [Linked here](#).

¹⁸ Central Bank of Malta - Monthly Economic Update 06/2024. [Linked here](#).

¹⁹ Ibid.

The Labour Market

Malta's labour market remains robust, with unemployment declining and expected to remain stable until 2026. According to the Labour Force Survey for Q1 2024, the employed workforce totalled 306,571 individuals, marking a notable 4.6% increase from the same period in the preceding year. Concurrently, the unemployment rate (for age groups 15-74) fell to 3.0% in the first quarter of 2024, down from 3.4% in the first quarter in 2023, unemployment rate for quarter four in 2023 was 2.9%. Across various occupational categories, average monthly basic salaries ranged from €3,132 for *managers* to €1,223 for *employees in elementary occupations*²⁰. In March 2024, terminations (7,149) exceeded engagements (6,649)²¹. During January and February engagements exceeded terminations by 5,106 and 2,166 respectively. According to the latest CBM projections released, the unemployment rate is projected to remain stable at 3.1% throughout the projection horizon up until 2026²².



²⁰ 'Managers' and 'elementary occupations' refer to terminology as utilised by the NSO. NSO Labour Force Survey: Q1/2024, News Release 108/2024 dated 13 June 2024. [Linked here](#).

²¹ Engagements refer to all remunerated employment performed on Maltese Territory registered with Jobsplus. [Linked here](#).

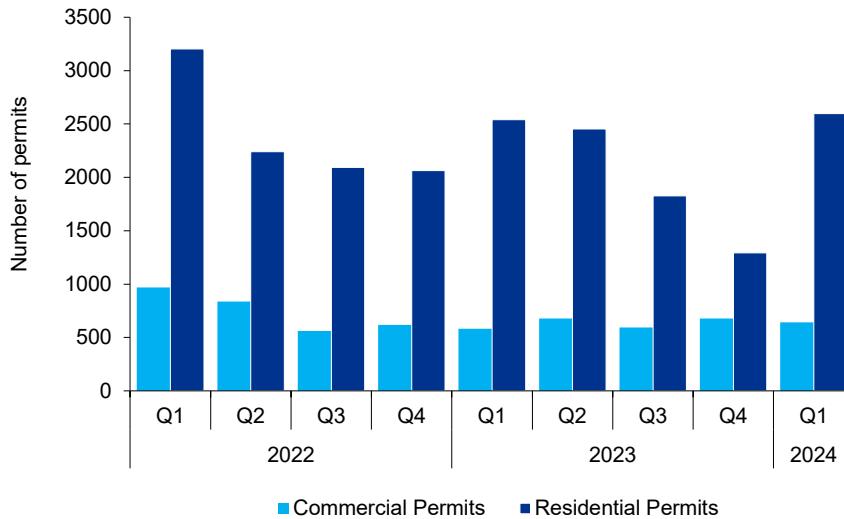
²² Central Bank of Malta - Outlook for the Maltese Economy 2024:2. [Linked here](#).

The Property Market

5.1 Residential and Commercial Approved New Dwellings

In the first quarter in 2024, a 2% increase [2024 Q1: 2,596] in residential approved new dwellings²³ was recorded when compared to 2023 Q1 [2023 Q1: 2,450]. Commercial approved new dwellings²⁴ increased by 10% in Q1 2024²⁵ over the same quarter in the previous year, with 642 and 581 approved new dwellings respectively in each quarter. Total commercial approved new dwellings in 2022 amounted to 2,984, which decreased to 2,532 in 2023. Similarly, residential approved new dwellings decreased from 9,599 in 2022 to 8,112 in 2023.

Figure 9: Residential and Commercial Approved New Dwellings



Source: NSO data; CBM Projections; KPMG Analysis

²³ Comprises of apartments, maisonettes, penthouses, terraced houses, bungalows, farmhouses, and villas.

²⁴ Also includes the installation of satellite dishes and swimming pools, the display of advertisements, demolitions, change of use, minor new works and others.

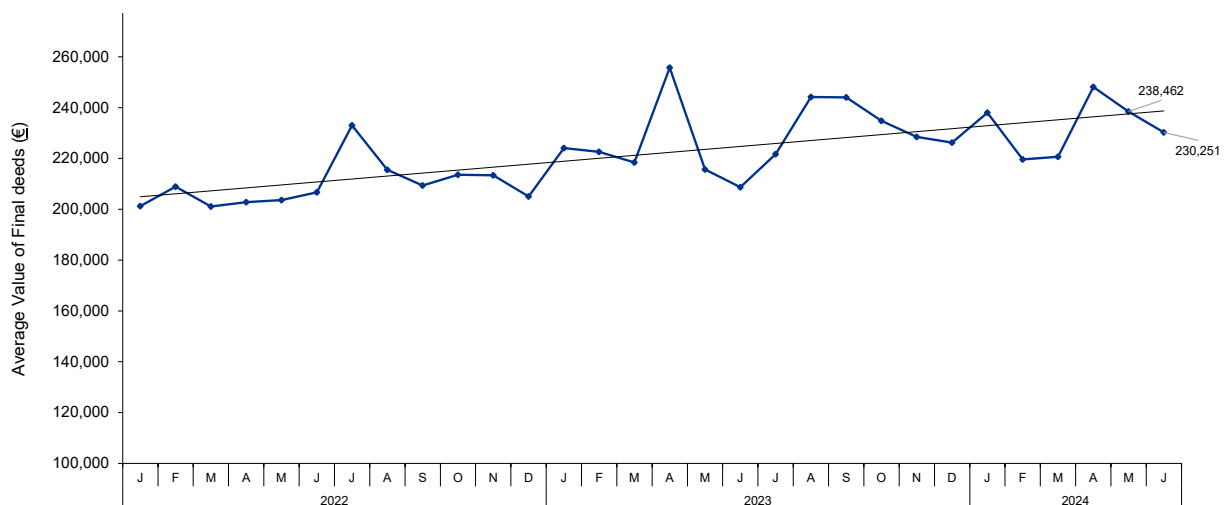
²⁵ Central Bank of Malta - Outlook for the Maltese Economy 2024:2. [Linked here.](#)

5.2 Final Deeds of Sale

In terms of final deeds of sale, during the period of January to June 2024, a total of 5,838 final deeds of sale²⁶ were recorded involving individuals as buyers, an increase of 4.12% over the same period of the previous year. The monthly average value of these deeds during this period was €226.6 million, representing an 8.41% increase from the same period last year.

The figure below shows the monthly average value of final deeds involving individual buyers. In June 2024, the average value of final deeds was €230,251, showing a 10.33% increase over June 2023.

Figure 10: Monthly Average Value of Final Deeds Involving Individual Buyers



Source: NSO data; KPMG Analysis

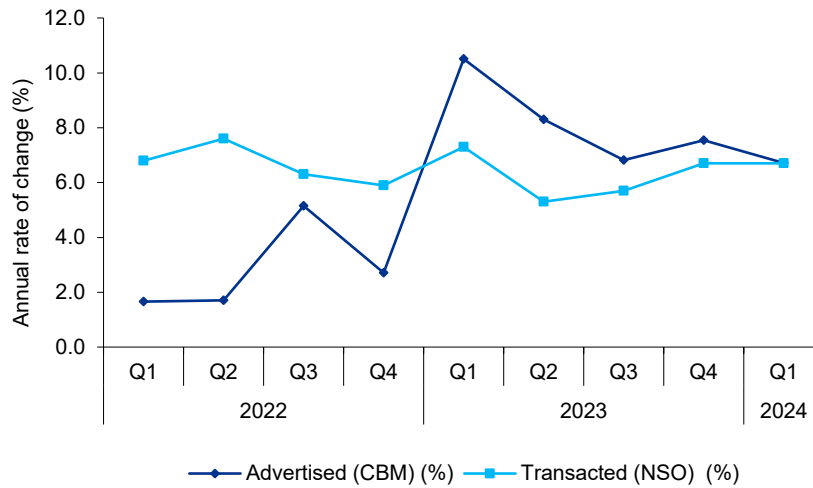


²⁶ National Statistics Office - Residential Property Transactions: June 2024. News Release 123/2024 dated 09th July 2024.

5.3 Property Prices

When comparing the annual changes in advertised prices from the CBM²⁷ with the changes in transacted prices from the NSO²⁸, latest data shows that for Q1 2024, both indices converge at approximately 7% annual change. This means that both contracted prices and advertised prices grew, on average, by the same rate, highlighting the trend that increases in advertised prices (seller expectations) reflect market realities.

Figure 11: Residential Property Price Indices



Source: NSO data; CBM Projections; KPMG Analysis

²⁷ Central Bank of Malta, Real Economy Indicators. [Linked here](#).

²⁸ National Statistics Office - Property Price Index (PPI): Q1 2024, News Release 121/2024 dated 4th July 2024.

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