

2.13. MALTA

The Maltese economy registered a severe contraction in 2020. Limitations on air traffic, tourism and social activities were mainly to blame for an expected fall in real GDP of around 9%, which came after robust growth of 5.3% in 2019.

Investment fell, mainly due to a surprise drop in construction, while private consumption was dampened by contractions in sectors such as retail and hospitality. The toll on the economy, however, has been partially mitigated by government stimulus measures. The second wave of restrictions globally has placed additional strain on the highly open economy in the last quarter of 2020 and continues to weigh in the first quarter of 2021.

The expected rollout of vaccinations in 2021 and a gradual easing of restrictions in the EU should set the tourism sector back on the path to recovery and re-invigorate domestic demand. In 2021, real GDP growth is expected to reach 4.5%. Growth is set to be mainly driven by net exports and domestic consumption, as inbound tourism and global trade recover gradually. The EU-UK Free Trade Agreement reduced a part of the negative impact assumed by the WTO-rules based assumption in the Autumn Forecast. The potential growth impact from policy measures related to the Next Generation EU programme is not yet included in this forecast and, thus, constitutes an upside risk to the growth outlook.

In 2022, Malta's economy is forecast to expand by 5.4% as net exports return as the main contributor to GDP growth while domestic demand makes a slower but steady contribution. By the end of 2022, the tourism sector is expected to recover close to pre-pandemic levels and international trade should be significantly restored.

HICP inflation averaged 0.8% in 2020, lower than the 1.5% in 2019, driven mainly by subdued energy prices and lower inflation in services, against the background of the contraction in demand. In 2021, inflation is expected to rise to 1.3% on the back of recovering domestic demand and a higher demand for tourism services. In line with a stronger economic recovery in 2022, inflation should pick up further to around 1.6%.

