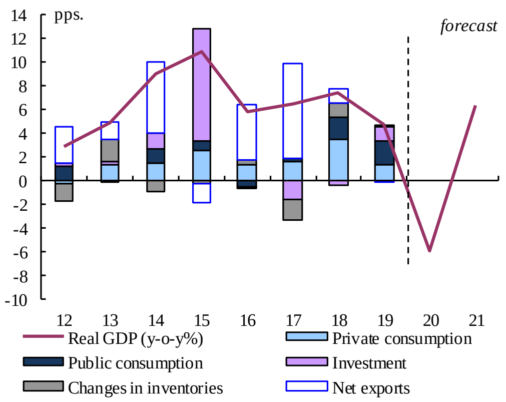
2.13. MALTA

After several years of high growth fuelled mainly by domestic demand, Malta's economy was beginning to slow down even before the COVID-19 pandemic. The disease and the containment measures it has necessitated, however, are expected to cause the economy to swing from growth of 7.3% in 2018 and 4.7% in 2019 to a contraction of 6.0% in 2020.

Malta will be significantly affected by the pandemic this year mainly because of its impact on the tourism sector but also because of the country's partial lockdown and the disruption to international supply-chains. As a result, investment and net exports are expected to be severely hit by the crisis, as well as private consumption. Numerous financial aid packages from the government, however, should help to cushion the economic impact. Recent economic indicators, in particular in the construction and manufacturing sectors suggest a modest recovery. In addition, upward revisions in GDP figures from the second half of 2019 may add an artificially negative statistical effect in 2020 rates.

The easing in general restrictions is expected to re-launch domestic demand, pushing GDP annual growth to 6¼% in 2021. The main driver of the recovery is set to come from investment, supported by the recovery packages announced by the authorities. Net exports are also set to contribute significantly to the rebound as global trade gradually normalises.

Graph 2.13: **Malta - Real GDP growth and contributions**



HICP inflation is set to decrease from 1.5% in 2019 to 0.8% in 2020, driven mainly by falling services inflation, impacted by demand contraction and wage reductions. Headline inflation is expected to rise to 1.2% in 2021 in line with a recovery in domestic demand and a revival in tourist demand for non-essential services.