



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## **ECONOMIC UPDATE**

### **2/2019**

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## ECONOMIC UPDATE 2/2019

### Summary<sup>1</sup>

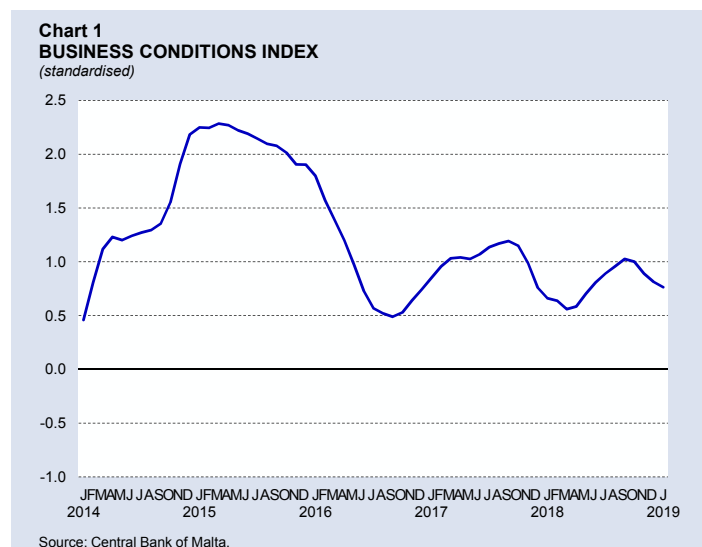
In January, the Bank's Business Conditions' Index (BCI) was stable when compared with the previous month, and continued to suggest above-average conditions. Economic sentiment fell, as lower confidence in industry and services as well as among consumers offset improved sentiment in construction and retail. In December, tourism activity accelerated compared with November. In contrast, both industrial production and retail trade fell on a year earlier. Conditions in the labour market remained favourable, with the number of registered unemployed low from a historical perspective and the unemployment rate declining further in annual terms. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) declined further to 1.2% in December, while inflation based on the Retail Price Index (RPI) eased marginally to 1.5%. The annual rate of change of Maltese residents' deposits reached 5.3%. Growth in credit to residents accelerated to 4.5%. As regards fiscal developments, in November, the cash-based Consolidated Fund stood in deficit compared with a surplus a year earlier.

### Central Bank's Business Conditions Index (BCI)<sup>2</sup>

In January, the Central Bank's BCI remained unchanged from the previous month, at 0.8 (see Chart 1). It thus continued to indicate above-average economic conditions. The BCI was supported by improvements in tourist arrivals, credit growth and the labour market, but was also affected by lower economic sentiment.

### Business and consumer confidence indicators

In January, the Economic Sentiment Indicator (ESI) fell further to 102, from 108 in the preceding month, but remained above its long-term average of 100 (see Table 1).<sup>3,4</sup> Lower sentiment was registered in services



<sup>1</sup> The cut-off date for information in this note is 13 February 2019.

<sup>2</sup> The methodology underlying the BCI has been updated for the sake of clarity. For further details on the changes carried out in the index, see Ellul, R. (2018), "Updates to the BCI," Central Bank of Malta.

<sup>3</sup> The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

<sup>4</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from November 2002.

**Table 1**  
**BUSINESS AND CONSUMER SURVEYS**

*Balances; percentage points; seasonally adjusted*

|   | 2017       | 2018       | 2018<br>Dec. | 2019<br>Jan. |
|---|------------|------------|--------------|--------------|
| <b>Economic Sentiment Indicator</b>                   | <b>112</b> | <b>112</b> | <b>108</b>   | <b>102</b>   |
| <b>Services confidence indicator</b>                  | <b>31</b>  | <b>35</b>  | <b>38</b>    | <b>25</b>    |
| Business situation development over the past 3 months | 27         | 31         | 36           | 20           |
| Evolution of the demand over the past 3 months        | 33         | 36         | 42           | 22           |
| Expectation of the demand over the next 3 months      | 32         | 37         | 36           | 32           |
| <b>Industrial confidence indicator</b>                | <b>8</b>   | <b>7</b>   | <b>-1</b>    | <b>-5</b>    |
| Assessment of order-book levels                       | -5         | -1         | -13          | -15          |
| Assessment of stocks of finished products             | -2         | 6          | 13           | 17           |
| Production expectations for the months ahead          | 27         | 28         | 25           | 18           |
| <b>Consumer confidence indicator</b>                  | <b>8</b>   | <b>10</b>  | <b>8</b>     | <b>4</b>     |
| Financial situation over the next 12 months           | 9          | 17         | 16           | 13           |
| General economic situation over the next 12 months    | 19         | 29         | 25           | 23           |
| Unemployment expectations over the next 12 months     | -18        | -30        | -26          | -22          |
| Savings over next 12 months                           | -14        | 17         | 13           | 12           |
| <b>Construction confidence indicator</b>              | <b>13</b>  | <b>21</b>  | <b>17</b>    | <b>33</b>    |
| Evolution of your current overall order books         | 2          | 17         | 9            | 39           |
| Employment expectations over the next 3 months        | 24         | 26         | 24           | 26           |
| <b>Retail trade confidence indicator</b>              | <b>9</b>   | <b>8</b>   | <b>-12</b>   | <b>-1</b>    |
| Business activity, past 3 months                      | 15         | 15         | -6           | 0            |
| Stocks of finished goods                              | 5          | 8          | 9            | 11           |
| Business activity, next 3 months                      | 16         | 17         | -22          | 7            |

Source: European Commission.

and industry as well as among consumers. In contrast, higher confidence was recorded in the construction and retail sectors.

Sentiment in the services sector fell to 25 in January, from 38 in December, but remained slightly above its long-term average of 23.<sup>5</sup> Lower sentiment reflected developments in all subcomponents, although a significant reduction in the share of firms reporting positive developments in the business situation and in demand over the past three months were the main drivers. Supplementary survey data indicate that in January, employment expectations were more optimistic than in the preceding month. Also, the share of participating firms anticipating a rise in prices in the months ahead was broadly unchanged from December.

Industrial confidence also declined, although by a relatively smaller amount.<sup>6</sup> It fell to -5 in January from -1 in the preceding month. Following this fall, it stood below its long-term average of -3. Firms' assessment deteriorated across all subcomponents.<sup>7</sup> Supplementary data show that a

<sup>5</sup> The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

<sup>6</sup> The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

<sup>7</sup> Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

larger share of respondents expected employment levels to rise in subsequent months. Similarly, a smaller number of firms anticipated a decline in selling prices in the three months ahead.

Meanwhile, consumer confidence edged down to 4 from 8 in the preceding month, but remained well above its long-term average of -12.<sup>8</sup> Looking forward, respondents were less optimistic of their financial situation, the general economic situation and their savings. Also, fewer respondents expected unemployment to fall in the months ahead.<sup>9</sup> Additionally, a larger share of respondents expected to make fewer major purchases over the following 12 months, while more consumers foresaw higher prices going forward.

In contrast, sentiment within the construction sector increased significantly.<sup>10</sup> Confidence in this sector almost doubled, rising to 33 in January from 17 in the preceding month, and hence rose up further above its long-term average of -15. Higher confidence was driven by increased orders and, to a lesser extent, by more optimistic employment expectations. Additional data show that more respondents reported an increase in building activity over the preceding three months. At the same time, more respondents expected prices to rise over the next three months.

In January, confidence in the retail sector rose significantly to -1 from -12 a month earlier, but still stood below its long-term average of 3.<sup>11</sup> The recent rise in sentiment was driven by both past and expected business activity. On the other hand, firms' assessment of stock levels deteriorated, as slightly more firms reported increasing stocks than before. Additional survey data indicate that on balance, firms predicted lower prices. Meanwhile, fewer firms expected an increase in their employment.

## Activity

In December, the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, fell by 2.6% in annual terms, following a rise of 2.6% in the preceding month (see Table 2).<sup>12</sup> This decline was largely driven by lower production among firms in the rubber and plastics as well as in the food sectors. Production also fell among manufacturers involved in the production of computer, electronics and optical products and within the energy sector although these declines were marginal. In contrast, output rose among firms that contribute to the production of pharmaceuticals, the printing and reproduction of recorded media as well as the production of beverages. Output also rose more in the "other manufacturing" sub-sector, which includes medical and dental instruments, toys and related products as well as among firms involved in the repair and installation of machinery and equipment.

In December, retail trade, which is a short-term indicator of final domestic demand fell further. It declined at an annual rate of 1.9%, following a contraction of 0.9% in November.

<sup>8</sup> The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

<sup>9</sup> A fall in unemployment expectations has a positive effect on the overall indicator. Thus, a decrease in the share of respondents expecting unemployment to fall has a negative effect on the overall indicator.

<sup>10</sup> The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

<sup>11</sup> The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

<sup>12</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data however, are used for the components.

**Table 2**  
**ACTIVITY INDICATORS**

Annual percentage changes

|                                      | 2017        |             | 2018        |             |             |             |             |             |             |             |             |             |             |             |             |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                      | 2017        | 2018        | Dec.        | Jan.        | Feb.        | Mar.        | Apr.        | May         | June        | July        | Aug.        | Sep.        | Oct.        | Nov.        | Dec.        |
| <b>Industrial production</b>         | <b>4.0</b>  | <b>-1.6</b> | <b>0.0</b>  | <b>0.4</b>  | <b>-5.3</b> | <b>-3.1</b> | <b>-3.1</b> | <b>-1.5</b> | <b>2.9</b>  | <b>-3.9</b> | <b>-1.8</b> | <b>-4.9</b> | <b>1.6</b>  | <b>2.6</b>  | <b>-2.6</b> |
| <b>Retail trade</b>                  | <b>5.1</b>  | <b>-0.1</b> | <b>8.5</b>  | <b>5.9</b>  | <b>2.7</b>  | <b>2.0</b>  | <b>-2.2</b> | <b>0.2</b>  | <b>-0.9</b> | <b>-1.2</b> | <b>-0.7</b> | <b>-0.7</b> | <b>-2.0</b> | <b>-0.9</b> | <b>-1.9</b> |
| <b>Number of tourist arrivals</b>    | <b>15.7</b> | <b>14.3</b> | <b>15.0</b> | <b>19.9</b> | <b>17.8</b> | <b>18.6</b> | <b>17.0</b> | <b>19.3</b> | <b>13.8</b> | <b>15.2</b> | <b>10.2</b> | <b>15.1</b> | <b>10.5</b> | <b>7.8</b>  | <b>11.0</b> |
| <b>Number of nights stayed</b>       | <b>10.3</b> | <b>12.5</b> | <b>17.3</b> | <b>15.1</b> | <b>11.2</b> | <b>26.9</b> | <b>16.9</b> | <b>20.2</b> | <b>15.5</b> | <b>12.9</b> | <b>5.7</b>  | <b>10.2</b> | <b>8.0</b>  | <b>8.0</b>  | <b>10.1</b> |
| Private accommodation <sup>(1)</sup> | 16.7        | 19.7        | 13.8        | 10.5        | 19.1        | 56.1        | 26.7        | 21.9        | 28.1        | 18.4        | 5.1         | 18.1        | 18.0        | 32.2        | 29.7        |
| Collective accommodation             | 6.0         | 7.1         | 20.0        | 18.5        | 7.4         | 14.6        | 11.0        | 19.0        | 6.9         | 8.0         | 6.3         | 2.8         | 1.2         | -3.9        | -4.8        |
| <b>Tourist expenditure</b>           | <b>13.9</b> | <b>8.0</b>  | <b>24.3</b> | <b>16.1</b> | <b>4.7</b>  | <b>20.2</b> | <b>3.9</b>  | <b>16.6</b> | <b>9.7</b>  | <b>9.5</b>  | <b>7.2</b>  | <b>4.8</b>  | <b>3.3</b>  | <b>2.6</b>  | <b>1.1</b>  |
| Package expenditure                  | 3.2         | 16.6        | 21.0        | 30.9        | 15.4        | 27.2        | 15.1        | 29.7        | 10.2        | 41.6        | 25.4        | 3.7         | -0.3        | -7.1        | 5.4         |
| Non-package expenditure              | 19.8        | 13.3        | 23.8        | 32.4        | 8.5         | 19.8        | 3.4         | 10.6        | 16.7        | 5.1         | 10.9        | 11.1        | 23.6        | 25.2        | 12.9        |
| Other                                | 17.3        | -2.2        | 26.4        | -2.7        | -5.0        | 15.0        | -3.6        | 12.6        | 3.6         | -6.8        | -6.5        | 0.3         | -9.0        | -7.4        | -9.8        |

<sup>(1)</sup> Private accommodation includes stays in both rented and non-rented accommodation.

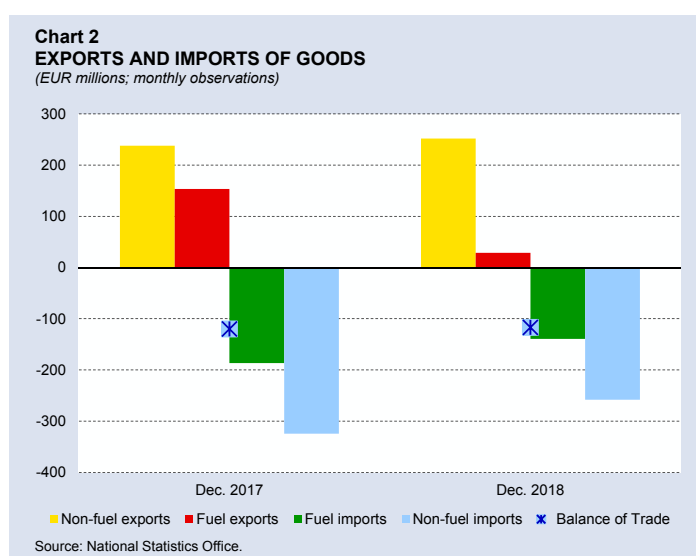
Sources: National Statistics Office; Eurostat.

Meanwhile, the number of inbound tourists rose at a faster rate of 11.0% in annual terms, compared with 7.8% growth in November. Nights stayed grew by 10.1%, due to an increase in nights spent in private accommodation, as those spent in collective accommodation fell further on a year earlier. Tourist spending in Malta rose at a modest rate of 1.1%, following a 2.6% rise in November. Spending on non-package holidays rose, as did expenditure on package holidays while the 'other' expenditure category recorded a decline.

During the third quarter of 2018, the total occupancy rate in collective accommodation establishments rose to 84.1%, from 81.9% a year earlier. Higher occupancy rates were recorded in three-star and, to a lesser extent, in four-star hotels and in the "other" collective accommodation category. In contrast, occupancy rates fell marginally in two-star and five-star hotels.

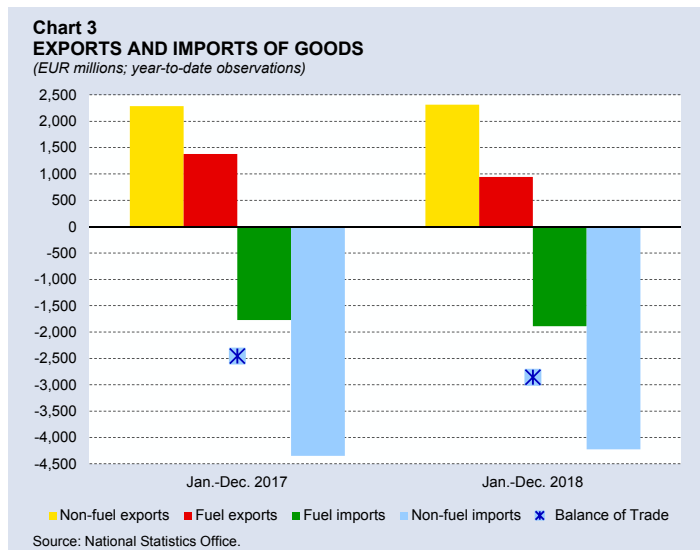
In the fourth quarter of 2018, there were 95 cruise liner calls, one more than a year earlier. Foreign passengers rose to 189,322, from 185,479 in the same period of 2017.

Customs data show that the merchandise trade deficit stood at €117.0 million in December, marginally lower than the €119.9 million recorded a year earlier (see Chart 2). This narrowing was driven by a drop in imports which outweighed a smaller decline in exports. The former decreased by €113.6 million, whereas exports contracted by €110.6 million on the same month of 2017. The decline in both exports and imports was partly on account of lower trade in fuels, although



capital imports also contributed to the fall in goods imports.

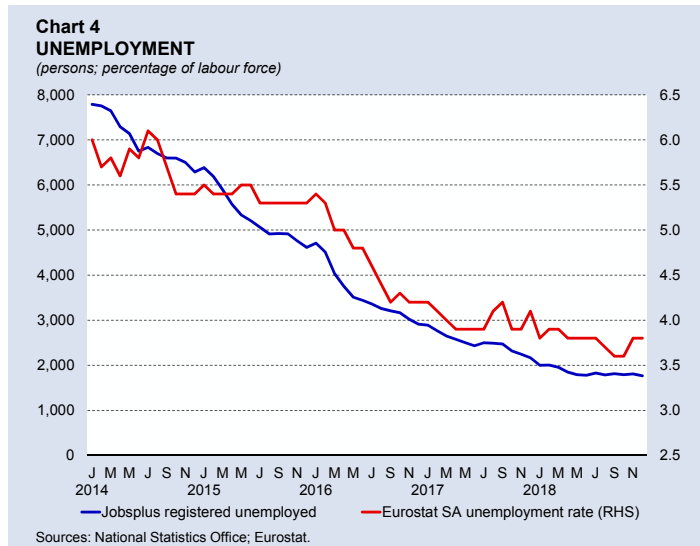
Over 2018 as a whole, the visible trade gap widened by €403.3 million on 2017, as exports fell much faster than imports, largely on account of lower fuel re-exports (see Chart 3). Excluding trade in fuels, the trade balance would have narrowed by €151.6 million, as non-fuel imports declined while non-fuel exports rose on a year earlier.



## Labour market

Jobsplus data show that in December the number of persons on the unemployment register dropped to 1,765, from 2,167 a year earlier, and from 1,808 in November (see Chart 4).

Eurostat's estimate of the seasonally-adjusted unemployment rate also declined in December, falling to 3.8%, from 4.1% in the corresponding month of 2017.



## BOX 1: GAINFULLY OCCUPIED POPULATION

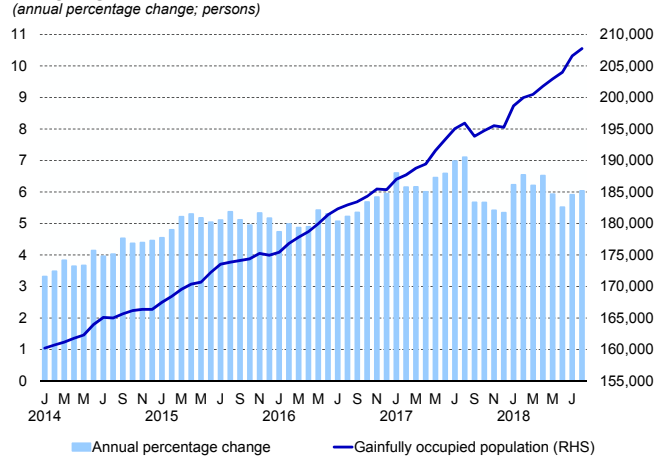
Jobsplus records show that in August 2018 the gainfully occupied population, defined to include all persons in full-time employment, rose by 6.0% on a year earlier, reaching 207,749 (see Chart 5). The rate of growth in August 2018 was marginally above the rate of 5.9% registered in the preceding month, but lower than that of 7.1% observed a year earlier.

In line with developments in recent months, growth in employment continued to be mainly driven by the private sector, although public sector employment also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 10,376, or 6.9%, on August 2017. Employment growth in this sector continued to be driven by market services, with the number of full-time job holders increasing by 9,010, or 7.8% in annual terms. This rise was distributed among all major sectors within this category.

The sector incorporating real estate, professional

**Chart 5**  
**GAINFULLY OCCUPIED POPULATION BASED ON JOBSPLUS RECORDS**  
(annual percentage change; persons)



Source: National Statistics Office.

**Table 3**

**LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS**

Persons; annual percentage changes

|  | 2017           | 2018           | Annual change     |            |
|--|----------------|----------------|-------------------|------------|
|  | August         | August         | Number of persons | %          |
| <b>Labour supply</b>   | <b>198,422</b> | <b>209,536</b> | <b>11,114</b>     | <b>5.6</b> |
| Gainfully occupied <sup>(1)</sup>                                      | 195,933        | 207,749        | 11,816            | 6.0        |
| Registered unemployed  | 2,489          | 1,787          | -702              | -28.2      |
| <b>Unemployment rate (%)</b>   | <b>1.3</b>     | <b>0.9</b>     |                   |            |
| <b>Private sector</b>  | <b>149,815</b> | <b>160,191</b> | <b>10,376</b>     | <b>6.9</b> |
| <b>Direct production<sup>(2)</sup></b>                                 | <b>34,424</b>  | <b>35,790</b>  | <b>1,366</b>      | <b>4.0</b> |
| Of which:  |                |                |                   |            |
| Manufacturing  | 21,190         | 21,860         | 670               | 3.2        |
| Construction   | 10,526         | 11,132         | 606               | 5.8        |
| <b>Market services</b>   | <b>115,391</b> | <b>124,401</b> | <b>9,010</b>      | <b>7.8</b> |
| Wholesale and retail trade   | 26,383         | 26,769         | 386               | 1.5        |
| Transportation and storage   | 8,416          | 9,083          | 667               | 7.9        |
| Accommodation and food service activities                              | 12,865         | 13,891         | 1,026             | 8.0        |
| Information and communication  | 6,926          | 7,067          | 141               | 2.0        |
| Financial and insurance activities                                     | 9,102          | 10,039         | 937               | 10.3       |
| Real estate, professional and administrative activities <sup>(3)</sup> | 28,736         | 31,889         | 3,153             | 11.0       |
| Arts, entertainment and recreation                                     | 8,057          | 9,078          | 1,021             | 12.7       |
| Education  | 5,243          | 5,534          | 291               | 5.6        |
| Other  | 9,663          | 11,051         | 1,388             | 14.4       |
| <b>Public sector</b>   | <b>46,118</b>  | <b>47,558</b>  | <b>1,440</b>      | <b>3.1</b> |

<sup>(1)</sup> This category measures full-time employment.

<sup>(2)</sup> This includes employment in agriculture, fishing, mining and quarrying, manufacturing, electricity, gas and water supply, and construction.

<sup>(3)</sup> This includes employment in real estate activities, professional, scientific and technical activities, and administrative and support service activities.

Source: National Statistics Office.



and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,153 in the year to August, and accounted for more than a third of the overall rise in private market services employment. The number of persons employed in the accommodation and food service activities sector rose by 1,026, while that in the arts, entertainment and recreation sector went up by 1,021. Employment also increased significantly in financial and insurance service activities.

Meanwhile, private sector employment in direct production grew by 1,366, or 4.0%, on a year earlier. Growth was recorded in both the manufacturing and construction sectors.

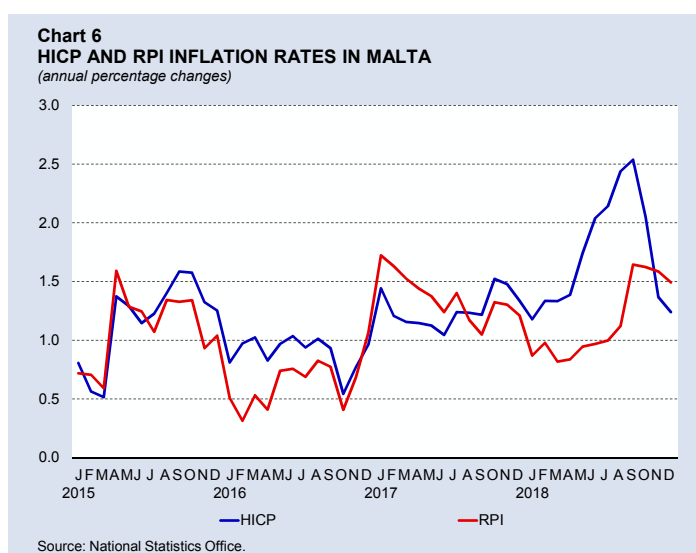
Public sector jobs rose by 1,440, or 3.1%, on a year earlier. Employment increased mostly in public administration and defence, in education as well as within the health care sector. These offset falls in construction as well as in sub-sectors such as employment agencies' activities. Nevertheless, the share of public sector employment in the total gainfully occupied population edged down to 22.9% in August 2018 from 23.5% a year earlier.

## Prices, costs and competitiveness

After having accelerated strongly earlier in the year, annual HICP inflation continued to moderate in December, falling to 1.2% from 1.4% in the previous month (see Chart 6).

The deceleration in overall inflation mainly reflected weaker growth in non-energy industrial goods inflation, reflecting downward pressures on import prices. Services prices also eased slightly. In particular, slower growth was observed in the prices of recreational services. On the other hand, food inflation remained robust, on account of recent price increases for a number of food items. Energy inflation was unchanged when compared with the previous month.

Inflation as measured by the RPI index eased marginally in December, going to 1.5% from 1.6% a month earlier (see Chart 6).<sup>13</sup> This reflected an easing of prices for clothing and footwear. Meanwhile, food inflation remained the main driver of RPI inflation during the month under review.



<sup>13</sup> The RPI differs from the HICP in that HICP weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households, thereby excluding tourism-related expenditure such as accommodation services.

Cost inflation for producers based on the Industrial Producer Price Index (PPI) remained robust during December, standing at 3.8%.<sup>14</sup> As in previous months, PPI inflation was supported by the intermediate goods subcomponent, which encompasses a wide range of items, such as computers and electronics. The contribution of consumer goods was also positive, while the contribution from capital goods and energy remained nil.

Malta's harmonised competitiveness indicators (HCI) continued to signal a deterioration in international price competitiveness, though the pace of deterioration slowed down in recent months.<sup>15</sup> Annual growth in the nominal HCI, based on trade-weighted exchange rates, stood at 1.9% in December, while the real HCI, which also takes into account relative price changes, grew by 2.1%. Malta's competitiveness was negatively affected by movements in the euro exchange rate and developments in relative prices vis-à-vis international trading partners over the past year.

## Public finance

During November 2018, the Consolidated Fund balance recorded a deficit of €11.0 million, compared to a surplus of €80.3 million in November 2017 (see Table 4). This was due to a surge in

**Table 4**  
**CONSOLIDATED FUND BALANCE**

EUR millions

|  | 2017           |                | 2018         |              | Change       |              |
|--|----------------|----------------|--------------|--------------|--------------|--------------|
|  | Jan.-Nov.      | Jan.-Nov.      | Nov.         | Nov.         | Amount       | %            |
| <b>Revenue</b>                               | <b>3,474.7</b> | <b>3,663.5</b> | <b>403.5</b> | <b>401.7</b> | <b>-1.9</b>  | <b>-0.5</b>  |
| <b>Direct tax</b>                            | <b>1,746.4</b> | <b>1,901.1</b> | <b>177.4</b> | <b>183.6</b> | <b>6.3</b>   | <b>3.5</b>   |
| Income tax                                   | 1,226.1        | 1,335.7        | 125.0        | 130.9        | 6.0          | 4.8          |
| Social security contributions <sup>(1)</sup> | 520.3          | 565.4          | 52.4         | 52.7         | 0.3          | 0.6          |
| <b>Indirect tax</b>                          | <b>1,339.2</b> | <b>1,473.5</b> | <b>182.4</b> | <b>191.5</b> | <b>9.1</b>   | <b>5.0</b>   |
| Value Added Tax                              | 760.6          | 842.6          | 136.4        | 146.7        | 10.3         | 7.6          |
| Customs and excise duties                    | 279.1          | 284.0          | 24.7         | 18.7         | -6.0         | -24.4        |
| Licences, taxes and fines                    | 299.4          | 347.0          | 21.3         | 26.0         | 4.8          | 22.3         |
| <b>Non-tax<sup>(2)</sup></b>                 | <b>389.1</b>   | <b>288.8</b>   | <b>43.8</b>  | <b>26.6</b>  | <b>-17.2</b> | <b>-39.3</b> |
| <b>Expenditure</b>                           | <b>3,390.1</b> | <b>3,698.7</b> | <b>323.2</b> | <b>412.6</b> | <b>89.4</b>  | <b>27.7</b>  |
| <b>Recurrent</b>                             | <b>3,120.9</b> | <b>3,291.7</b> | <b>291.0</b> | <b>331.7</b> | <b>40.7</b>  | <b>14.0</b>  |
| Personal emoluments                          | 695.7          | 744.8          | 67.2         | 66.7         | -0.5         | -0.7         |
| Operational and maintenance                  | 161.9          | 188.9          | 7.4          | 28.1         | 20.7         | 277.7        |
| Programmes and initiatives <sup>(1)</sup>    | 1,714.0        | 1,764.6        | 156.5        | 175.7        | 19.2         | 12.3         |
| Contributions to entities                    | 352.0          | 408.3          | 44.4         | 51.0         | 6.6          | 15.0         |
| Interest payments                            | 197.1          | 185.1          | 15.5         | 10.1         | -5.4         | -35.0        |
| <b>Capital</b>                               | <b>269.2</b>   | <b>407.0</b>   | <b>32.2</b>  | <b>80.9</b>  | <b>48.7</b>  | <b>151.5</b> |
| <b>Primary balance<sup>(3)</sup></b>         | <b>281.8</b>   | <b>149.9</b>   | <b>95.8</b>  | <b>-0.9</b>  | <b>-96.7</b> | <b>-</b>     |
| <b>Consolidated Fund balance</b>             | <b>84.6</b>    | <b>-35.2</b>   | <b>80.3</b>  | <b>-11.0</b> | <b>-91.3</b> | <b>-</b>     |

<sup>(1)</sup> Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

<sup>(2)</sup> Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

<sup>(3)</sup> Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

<sup>14</sup> The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

<sup>15</sup> HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

primary expenditure, coupled with a small decline in total revenue. Consequently, the primary balance registered a deficit of €0.9 million, compared with a €95.8 million surplus in the same month a year earlier.

Government revenue declined by €1.9 million or 0.5% in annual terms. Tax revenue rose on the back of a €6.0 million increase in income taxes and a €10.3 million growth in VAT inflows. However, these increases were offset by a €17.2 million decline in non-tax income, mainly due to lower inflows from the IIP scheme, and by lower excise duties.

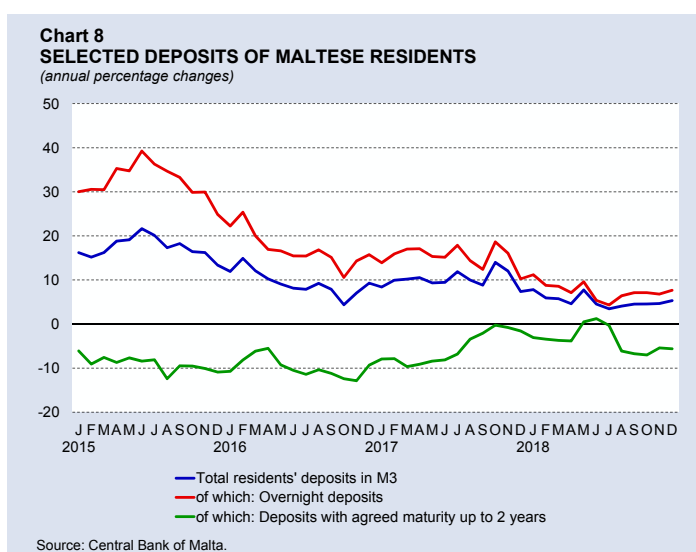
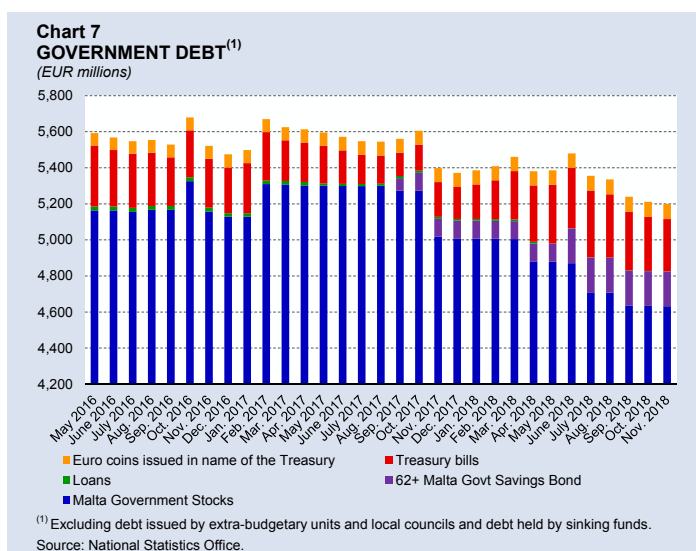
Government expenditure increased by €89.4 million, or 27.7% when compared with November 2017, due to higher capital and current outlays. The latter rose by €40.7 million on the back of higher operational and maintenance outlays, spending on health and the timing of Government contributions to church schools. Meanwhile, capital outlays increased by €48.7 million.

In the month under review, the total stock of government debt amounted to €5,199.6 million, a decrease of €12.2 million when compared with a month earlier (see Chart 7). This decline was mainly due to a lower volume of Treasury Bills outstanding.

### Deposits, credit and financial markets

Residents' M3 deposits held with monetary and financial institutions (MFI) based in Malta continued to expand in December, standing 5.3% above their year-ago level (see Chart 8). Growth in deposits continues to point towards a high level of liquidity, driven by robust income and employment growth, and low interest rates.

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 80% of the total amount. This component, which is the most liquid form of deposits,

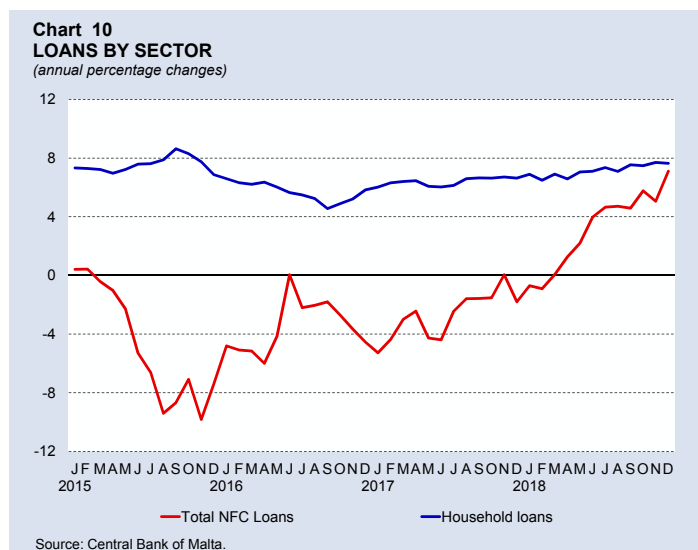
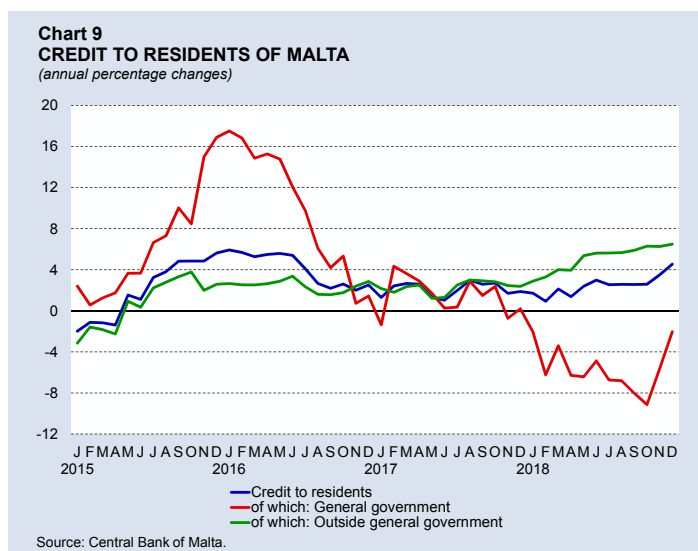


grew by 7.7% in the year to December. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 5.6% in annual terms. This suggests that residents continued to shift their demand away from longer-term time deposits and towards overnight deposits, a process that has been ongoing for a number of years.

Meanwhile, credit to Maltese residents grew at an annual rate of 4.5% in December, up from 3.5% in November (see Chart 9). Once again, growth in credit was influenced by contrasting developments in credit to general government and credit to residents outside general government. The former continued to contract, although the rate of decline eased compared with November, partly reflecting the take up of a new MGS issue by credit institutions. In contrast, credit to residents outside general government grew at a slightly faster rate of 6.5%.

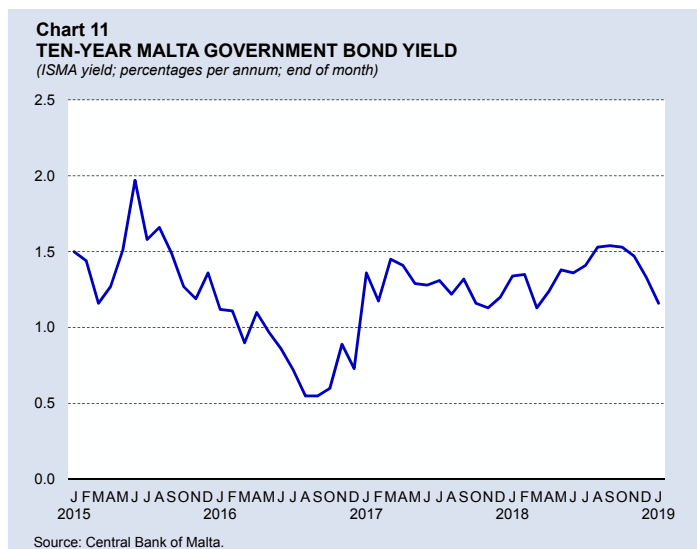
The continued strength in credit to residents outside general government is largely underpinned by growth in loans to households and to NFCs. Loans to households grew by 7.6%, mainly supported by strong growth in mortgage lending (see Chart 10). At the same time, loans to NFCs grew by 7.1% on an annual basis. Growth was observed across a number of sectors, including construction and real estate, accommodation and food services, and professional, scientific, and technical activities.

With regard to interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits fell marginally to 0.33% between November and December. On the other hand, the composite rate charged on outstanding loans rose by 1 basis point to 3.55%. The spread



between the two rates thus narrowed marginally to 322 basis points at the end of 2018, compared with 326 points a year earlier.

In the capital market, the secondary market yield on ten-year Maltese government bonds dropped to 1.2% in January 2019 (see Chart 11). At the same time, the Malta Stock Exchange (MSE) Equity Price Index fell by 1.8%. The MSE Total Return Index, which accounts for dividends as well as changes in equity prices, also dropped by 1.8% during the first month of 2019.



## Annex 1

### MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

|   | 2017 | 2018 | 2018  | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2019 |  |
|---|------|------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|--|
|   |      |      | Q1    | Q2   | Q3   | Q4   | Jan. | Feb. | Mar. | Apr. | May  | June | July | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. |      |      |  |
| <b>Prices and costs</b>                                 |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| HICP inflation  | 1.3  | 1.7  | 1.3   | 1.7  | 2.4  | 1.6  | 1.2  | 1.3  | 1.3  | 1.4  | 1.7  | 2.0  | 2.1  | 2.4  | 2.5  | 2.1  | 1.4  | 1.2  | -    |      |      |  |
| RPI inflation   | 1.4  | 1.2  | 0.9   | 0.9  | 1.3  | 1.6  | 0.9  | 1.0  | 0.8  | 0.8  | 0.9  | 1.0  | 1.0  | 1.1  | 1.6  | 1.6  | 1.6  | 1.5  | -    |      |      |  |
| Industrial producer price inflation                     | 1.6  | 4.7  | 4.5   | 6.6  | 3.9  | 3.7  | 3.3  | 3.5  | 6.6  | 7.0  | 6.2  | 6.6  | 4.1  | 3.7  | 3.9  | 3.4  | 3.9  | 3.8  | -    |      |      |  |
| HCI (nominal)   | 1.7  | 3.6  | 5.2   | 4.1  | 2.9  | 2.1  | 4.1  | 5.9  | 5.8  | 5.8  | 3.5  | 3.1  | 3.0  | 2.4  | 3.3  | 2.6  | 1.9  | 1.9  | -    |      |      |  |
| HCI (real)  | 1.8  | 5.2  | 8.1   | 6.3  | 4.2  | 2.4  | 6.1  | 9.2  | 9.0  | 9.4  | 5.3  | 4.4  | 4.3  | 3.4  | 4.9  | 3.3  | 1.9  | 2.1  | -    |      |      |  |
| Unit labour costs, whole economy <sup>(1)</sup>         | 0.6  | -    | 1.6   | 1.8  | 1.5  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Compensation per employee <sup>(1)</sup>                | 1.8  | -    | 2.5   | 2.2  | 1.9  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Labour productivity (per person) <sup>(1)</sup>         | 1.3  | -    | 0.9   | 0.5  | 0.5  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Property Price Index (Eurostat)                         | 5.3  | -    | 5.3   | 5.8  | 5.0  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| <b>Economic activity</b>                                |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| Nominal GDP   | 9.2  | -    | 7.3   | 8.8  | 9.5  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Real GDP  | 6.6  | -    | 4.8   | 6.2  | 7.5  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Real private consumption                                | 3.6  | -    | 5.2   | 8.9  | 8.2  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Real government consumption                             | 2.8  | -    | 2.2   | 10.2 | 1.9  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Real gross fixed capital formation                      | -7.7 | -    | -16.9 | 12.6 | 0.6  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Real exports of goods and services                      | 5.3  | -    | 1.9   | 0.3  | 2.6  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Real imports of goods and services                      | -0.1 | -    | -1.0  | 4.3  | 1.2  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| <b>Labour market developments</b>                       |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| LFS unemployment rate (% of labour force)               | 4.0  | -    | 3.9   | 3.8  | 3.7  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| LFS employment  | 6.0  | -    | 6.6   | 6.0  | 6.8  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Jobsplus gainfully occupied                             | 6.2  | -    | 6.3   | 6.0  | -    | -    | 6.2  | 6.5  | 6.2  | 6.5  | 5.9  | 5.5  | 5.9  | 6.0  | -    | -    | -    | -    | -    |      |      |  |
| <b>Balance of payments</b>                              |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| Current account (as a % of GDP) <sup>(2)</sup>          | 10.4 | -    | 11.3  | 10.3 | 10.6 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| <b>Credit and financial indicators</b>                  |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| Maltese residents' deposits and loans                   |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| Overnight deposits                                      | 10.2 | 7.7  | 8.6   | 5.4  | 7.1  | 7.7  | 11.2 | 8.8  | 8.6  | 7.1  | 9.6  | 5.4  | 4.3  | 6.4  | 7.1  | 7.1  | 6.8  | 7.7  | -    |      |      |  |
| Deposits with agreed maturity up to 2 years             | -1.6 | -5.6 | -3.7  | 1.2  | -6.7 | -5.6 | -3.1 | -3.4 | -3.7 | -3.8 | 0.5  | 1.2  | -0.3 | -6.1 | -6.7 | -7.0 | -5.4 | -5.6 | -    |      |      |  |
| Total residents' deposits in M3                         | 7.4  | 5.3  | 5.8   | 4.5  | 4.5  | 5.3  | 7.8  | 5.9  | 5.8  | 4.6  | 7.7  | 4.5  | 3.5  | 4.1  | 4.5  | 4.5  | 4.7  | 5.3  | -    |      |      |  |
| Credit to general government                            | 0.2  | -2.0 | -3.4  | -4.9 | -8.0 | -2.0 | -2.1 | -6.2 | -3.4 | -6.3 | -6.4 | -4.9 | -6.7 | -6.8 | -8.0 | -9.1 | -5.6 | -2.0 | -    |      |      |  |
| Credit to residents (excl. general government)          | 2.4  | 6.5  | 4.0   | 5.6  | 5.9  | 6.5  | 2.9  | 3.3  | 4.0  | 3.9  | 5.4  | 5.6  | 5.6  | 5.7  | 5.9  | 6.3  | 6.3  | 6.5  | -    |      |      |  |
| Total credit  | 1.9  | 4.5  | 2.1   | 3.0  | 2.6  | 4.5  | 1.7  | 0.9  | 2.1  | 1.4  | 2.4  | 3.0  | 2.5  | 2.6  | 2.6  | 2.6  | 3.5  | 4.5  | -    |      |      |  |
| 10-year interest rate (%) <sup>(3)</sup>                | 1.2  | 1.3  | 1.1   | 1.4  | 1.5  | 1.3  | 1.3  | 1.4  | 1.1  | 1.2  | 1.4  | 1.4  | 1.4  | 1.5  | 1.5  | 1.5  | 1.5  | 1.3  | 1.2  |      |      |  |
| Stock prices: Malta Stock Exchange Index <sup>(4)</sup> | -3.3 | 0.1  | -0.8  | -2.5 | 0.5  | 3.0  | -0.7 | 0.4  | -0.5 | -4.3 | 0.5  | 1.3  | -0.8 | -1.1 | 2.4  | 1.6  | 0.6  | 0.8  | -1.8 |      |      |  |
| <b>General government finances (% of GDP)</b>           |      |      |       |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |  |
| Surplus (+) / deficit (-) <sup>(2)</sup>                | 3.5  | -    | 3.1   | 3.9  | 3.6  | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |
| Gross debt <sup>(5)</sup>                               | 50.2 | -    | 49.8  | 49.0 | 45.9 | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |      |      |  |

<sup>(1)</sup> Four-quarter moving averages.

<sup>(2)</sup> Four-quarter moving sums.

<sup>(3)</sup> End of period. In January and February 2017, in the absence of bonds qualifying within the recommended residual maturity, the benchmark yield was calculated as an average of bonds close to the agreed maturity range.

<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(5)</sup> GDP data are four-quarter moving sums.

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.