



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## **ECONOMIC UPDATE**

### **4/2019**

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## ECONOMIC UPDATE 4/2019

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

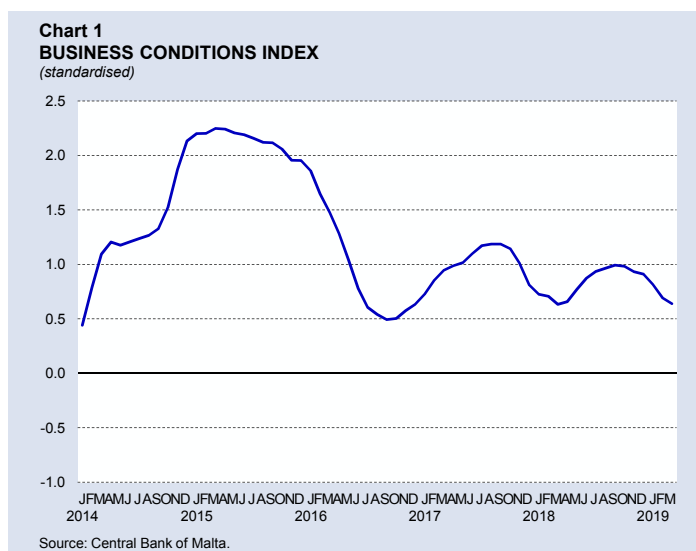
In March, the Bank's Business Conditions' Index (BCI) eased slightly when compared with the previous month, while continuing to suggest above-average conditions. Economic sentiment also decreased, as lower confidence was registered across all sectors, with the exception of the retail sector where confidence rebounded. In February, tourism arrivals grew moderately while expenditure decreased in annual terms. Industrial production also fell slightly when compared with February 2018. In contrast, retail trade rose on a year earlier. Conditions in the labour market remained favourable, with the number of registered unemployed and the unemployment rate remaining low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged up to 1.3% in February, whilst inflation based on the Retail Price Index (RPI) accelerated to 1.9%. Maltese residents' deposits grew by 7.1% on the same month of the preceding year, while credit to residents rose by 6.3%. As regards fiscal developments, in February the cash-based Consolidated Fund recorded a deficit. This contrasts with a surplus a year earlier.

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

In March, the Central Bank's BCI eased slightly, dropping to 0.6 from a revised value of 0.7 in February (see Chart 1). It continued to indicate above-average economic conditions. The BCI was affected by lower economic sentiment and industrial production, and supported by conditions in the labour market.

### Business and consumer confidence indicators

In March, the Economic Sentiment Indicator (ESI) fell to 102 from 110 in the preceding month, thus standing slightly above its long-term average of 100 (see Table 1).<sup>3,4</sup> The ESI stood 4 points lower than that recorded in the euro area. In March, lower sentiment was registered across all components



<sup>1</sup> The cut-off date for information in this note is 11 April 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	2019	2019	2019
			Dec.	Jan.	Feb.	Mar.
<b>Economic Sentiment Indicator</b>	<b>112</b>	<b>112</b>	<b>108</b>	<b>102</b>	<b>110</b>	<b>102</b>
<b>Services confidence indicator</b>	<b>31</b>	<b>35</b>	<b>38</b>	<b>25</b>	<b>40</b>	<b>22</b>
Business situation development over the past 3 months	27	31	36	20	43	21
Evolution of the demand over the past 3 months	33	36	42	22	43	26
Expectation of the demand over the next 3 months	32	37	36	32	35	20
<b>Consumer confidence indicator</b>	<b>8</b>	<b>10</b>	<b>8</b>	<b>4</b>	<b>6</b>	<b>-1</b>
Financial situation past 12 months	14	17	15	15	18	11
Financial situation next 12 months	9	17	16	13	16	11
Economic situation next 12 months	19	29	25	23	24	24
Major purchases next 12 months	-8	-23	-25	-34	-32	-49
<b>Construction confidence indicator</b>	<b>13</b>	<b>21</b>	<b>17</b>	<b>33</b>	<b>38</b>	<b>32</b>
Evolution of your current overall order books	2	17	9	39	30	26
Employment expectations over the next 3 months	24	26	24	26	46	38
<b>Industrial confidence indicator</b>	<b>8</b>	<b>7</b>	<b>-1</b>	<b>-5</b>	<b>1</b>	<b>-3</b>
Assessment of order-book levels	-5	-1	-13	-15	-3	-20
Assessment of stocks of finished products	-2	6	13	17	4	8
Production expectations for the months ahead	27	28	25	18	10	20
<b>Retail trade confidence indicator</b>	<b>9</b>	<b>8</b>	<b>-12</b>	<b>-1</b>	<b>5</b>	<b>29</b>
Business activity, past 3 months	15	15	-6	0	40	69
Stocks of finished goods	5	8	9	11	36	19
Business activity, next 3 months	16	17	-22	7	10	35

Source: European Commission.

with the exception of the retail sector. The largest declines were registered in the services sector and amongst consumers.

Sentiment in the services sector almost halved, standing at 22 in March, from 40 a month earlier. Following this fall, it stood below its long-term average of 23.<sup>5</sup> Lower sentiment reflected developments in all subcomponents. Supplementary survey data indicate that in March, employment expectations were less optimistic than in the preceding month. Meanwhile, the share of firms anticipating higher prices increased.

Consumer confidence declined to -1 from 6 in the preceding month, the first negative reading since September 2013, though it still remained above its long-term average of -12.<sup>6</sup> The recent decrease largely reflected a larger share of respondents expecting to make fewer major purchases over the next 12 months. However, consumers' assessment of their financial situation over the past year and their expectations for subsequent months also weakened. At the same time, expectations of the general economic situation remained broadly unchanged. Additional data show that fewer respondents expected unemployment to fall in the months ahead. A smaller

<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 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' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the January 2019 release of the European Commission – [https://ec.europa.eu/info/sites/info/files/esi\\_2019\\_01\\_en.pdf](https://ec.europa.eu/info/sites/info/files/esi_2019_01_en.pdf).

share of consumers expected their savings to increase, while fewer respondents foresaw higher prices going forward.

Similarly, sentiment within the construction sector also edged down, although by a relatively smaller amount compared with the other sectors. It fell to 32 in March from 38 in February, but remained well above its long-term average of -14.<sup>7</sup> The fall in confidence was driven by less optimistic employment expectations and, to a lesser extent, by a reduction in the share of respondents reporting increased order book levels. Additionally, fewer participants reported an increase in building activity over the preceding three months. At the same time, more respondents expected prices to increase over the next three months.

In March, industrial confidence also turned negative, reaching its long term average of -3 from 1 a month earlier.<sup>8</sup> The fall in sentiment was mainly driven by deterioration in firms' order book levels, which offset increases registered in other sub-components.<sup>9</sup> Supplementary data show that a smaller share of respondents expected employment levels to rise in subsequent months. Going forward, firms anticipated a decline in selling prices in the three months ahead.

In contrast, confidence in the retail sector accelerated to 29 from 5 a month earlier, and stood well-above its long-term average of 3.<sup>10</sup> The recent rise in sentiment was driven by both past and future expectations of business activity. Firms' improved assessment of stock levels also contributed, as a significantly smaller number of firms reported increasing stocks. Additional survey data indicate that on balance, fewer respondents predicted lower prices and an increase in their employment.

In February, the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, fell by 1.5% in annual terms, following a rise of 0.9% in the preceding month (see Table 2).<sup>11</sup> This contraction was largely driven by lower production of pharmaceuticals. Smaller declines were registered in the energy, rubber and plastics sectors as well as among firms that manufacture electrical equipment. These declines offset increased production among firms operating in the wearing apparel sector and in the "other manufacturing" sub-sector, which includes the production of medical and dental instruments, toys and related products. Output also rose among firms involved in the printing and reproduction of recorded media, in the food and beverages sectors, firms that produce computer, electronics and optical products as well as in the quarrying sector.

In February, retail trade, which is a short-term indicator of final domestic demand, rose at an annual rate of 4.2%, down from 5.5% in the preceding month.

Meanwhile, the number of inbound tourists rose by 2.3% in annual terms, compared with 2.4% growth in January. Nights stayed grew by 3.5% on the back of a strong increase in nights spent in private accommodation, as those spent in collective accommodation fell further on

<sup>7</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>8</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>9</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.

<sup>10</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>11</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												2019	
	2017	2018	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	
<b>Industrial production</b>	<b>8.5</b>	<b>1.3</b>	<b>1.9</b>	<b>1.7</b>	<b>-2.8</b>	<b>2.4</b>	<b>2.7</b>	<b>2.8</b>	<b>-1.2</b>	<b>-7.0</b>	<b>2.1</b>	<b>10.9</b>	<b>-0.5</b>	<b>0.9</b>	<b>-1.5</b>	
<b>Retail trade</b>	<b>5.2</b>	<b>0.5</b>	<b>2.6</b>	<b>2.0</b>	<b>-1.9</b>	<b>1.1</b>	<b>-0.1</b>	<b>-0.5</b>	<b>0.1</b>	<b>-0.7</b>	<b>0.0</b>	<b>1.1</b>	<b>-1.3</b>	<b>5.5</b>	<b>4.2</b>	
<b>Number of tourist arrivals</b>	<b>15.7</b>	<b>14.3</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>2.4</b>	<b>2.3</b>	
<b>Number of nights stayed</b>	<b>10.3</b>	<b>12.5</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>	<b>7.6</b>	<b>3.5</b>	
Private accommodation <sup>(1)</sup>	16.7	19.7	19.1	56.1	26.7	21.9	28.1	18.4	5.1	18.1	18.0	32.2	29.7	33.6	23.1	
Collective accommodation	6.0	7.1	7.4	14.6	11.0	19.0	6.9	8.0	6.3	2.8	1.2	-3.9	-4.8	-10.4	-6.9	
<b>Tourist expenditure</b>	<b>13.9</b>	<b>8.0</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>	<b>3.0</b>	<b>-2.8</b>	
Package expenditure	3.2	16.6	15.4	27.2	15.1	29.7	10.2	41.6	25.4	3.7	-0.3	-7.1	5.4	0.8	-21.9	
Non-package expenditure	19.8	13.3	8.5	19.8	3.4	10.6	16.7	5.1	10.9	11.1	23.6	25.2	12.9	-6.8	6.8	
Other	17.3	-2.2	-5.0	15.0	-3.6	12.6	3.6	-6.8	-6.5	0.3	-9.0	-7.4	-9.8	13.8	3.2	

Sources: National Statistics Office; Eurostat.

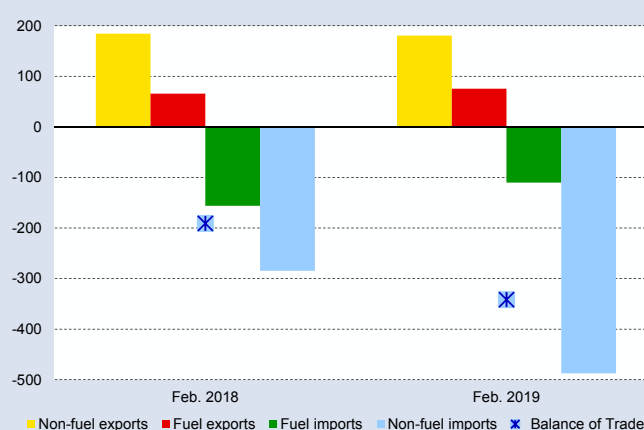
<sup>(1)</sup> Private accommodation includes stays in both rented and non-rented accommodation.

a year earlier. Tourist spending in Malta decreased by 2.8% following a 3.0% rise in January. Spending on package holidays fell markedly, offsetting higher expenditure on non-package holidays and the 'other' expenditure.

Customs data show that the merchandise trade deficit widened to €341.7 million in February, from €190.9 million a year earlier, as imports rose much faster than exports (see Chart 2). Imports increased by €156.7 million, whereas exports edged up by only €5.9 million on the same month of 2018. The rise in imports was predominantly on account of increased registration of ships. The rise in exports was partly due to higher sales of printed books and fuel re-exports.

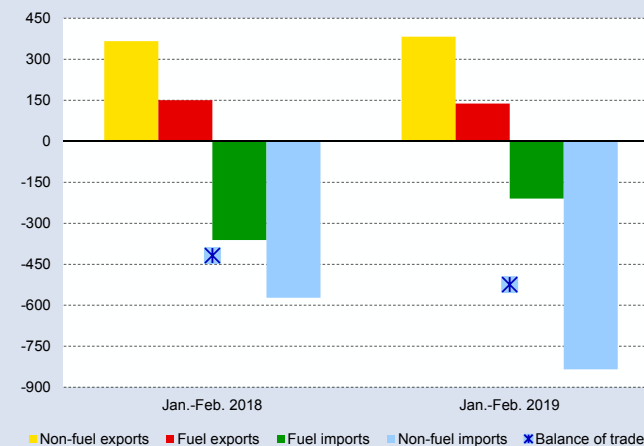
Over the first two months of 2019, the visible trade gap widened by €106.3 million on the same period of 2018, as imports rose at significantly faster pace than exports (see Chart 3).

**Chart 2**  
**EXPORTS AND IMPORTS OF GOODS**  
(EUR millions; monthly observations)



Source: National Statistics Office.

**Chart 3**  
**EXPORTS AND IMPORTS OF GOODS**  
(EUR millions; year-to-date observations)



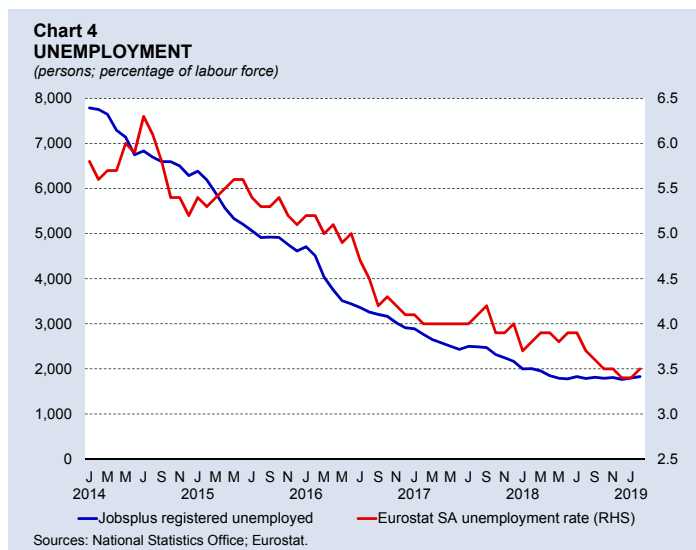
Source: National Statistics Office.

While the deficit from trade in fuels narrowed, excluding trade in fuels, the trade balance widened by €245.5 million, largely reflecting the aforementioned increase in ship registrations.

## Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,829 in February 2019, compared to 1,796 registered in January, but still down from 2,005 a year earlier (see Chart 4).

In February 2019, Eurostat's estimate of the seasonally-adjusted unemployment rate edged up to 3.5% from the 3.4% observed in the previous two months.



### BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in October 2018 the gainfully occupied population, defined to include all persons in full-time employment, rose by 6.1% on a year earlier, reaching 209,189 (see Chart 5). The rate of growth exceeded slightly the 5.9% registered in the preceding month, but was lower than that of 7.0% 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).

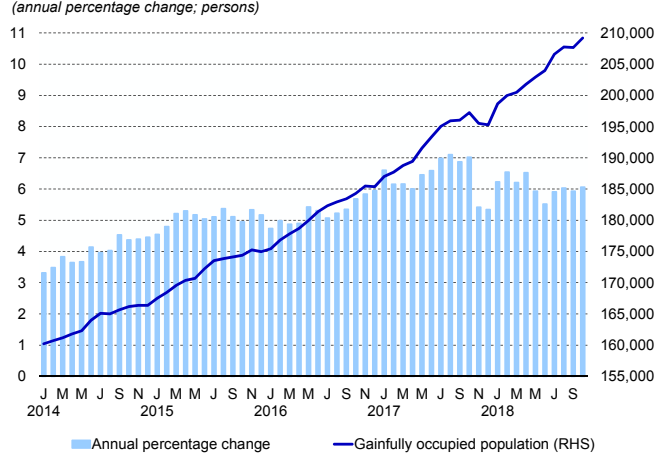
The number of full-timers in the private sector went up by 10,873, or 7.2% on October 2017. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 9,442, or 8.1% in annual terms. This rise was distributed among all major sectors within this category.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,341 in the year to October 2018, 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 also grew significantly in annual terms, going up by 1,190. Employment also increased significantly within the arts, entertainment and recreation sector, in the financial and insurance service activities as well as within the health care sector.

Meanwhile, employment in direct production within the private sector grew by 1,431 persons on a year earlier, or 4.2%. Growth was recorded in both the construction and manufacturing sectors.

Public sector jobs rose by 1,076, or 2.3%, on a year earlier. Employment increased mostly in public administration and defence, in education and within the health

**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	
	October	October	Number of persons	%
<b>Labour supply</b>	<b>199,559</b>	<b>210,979</b>	<b>11,420</b>	<b>5.7</b>
Gainfully occupied <sup>(1)</sup>	197,240	209,189	11,949	6.1
Registered unemployed	2,319	1,790	-529	-22.8
<b>Unemployment rate (%)</b>	<b>1.2</b>	<b>0.8</b>		
<b>Private sector</b>	<b>150,790</b>	<b>161,663</b>	<b>10,873</b>	<b>7.2</b>
<b>Direct production<sup>(2)</sup></b>	<b>34,389</b>	<b>35,820</b>	<b>1,431</b>	<b>4.2</b>
Of which:				
Manufacturing	21,176	21,718	542	2.6
Construction	10,525	11,319	794	7.5
<b>Market services</b>	<b>116,401</b>	<b>125,843</b>	<b>9,442</b>	<b>8.1</b>
Wholesale and retail trade	26,344	26,783	439	1.7
Transportation and storage	8,493	9,182	689	8.1
Accommodation and food service activities	12,779	13,969	1,190	9.3
Information and communication	6,960	7,050	90	1.3
Financial and insurance activities	9,160	10,066	906	9.9
Real estate, professional and administrative activities <sup>(3)</sup>	29,209	32,550	3,341	11.4
Arts, entertainment and recreation	8,241	9,283	1,042	12.6
Education	5,460	5,661	201	3.7
Other	9,755	11,299	1,544	15.8
<b>Public sector</b>	<b>46,450</b>	<b>47,526</b>	<b>1,076</b>	<b>2.3</b>

Source: National Statistics Office.

<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.



care sector. Employment also rose within the transportation and storage sector as well as in professional and administrative activities. 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 22.7% in October 2018 from 23.5% a year earlier.

## Prices, costs and competitiveness

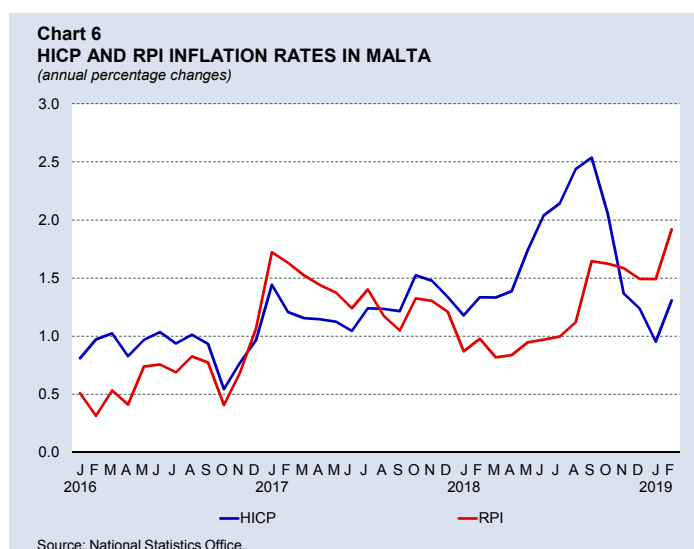
Annual HICP inflation accelerated in February, reaching 1.3% from 1.0% in January. Nonetheless, price pressures remain contained from a historic perspective (see Chart 6).

The recent pick-up in overall inflation reflected movements in food prices, with processed and unprocessed food inflation both higher than in January. As regards unprocessed food, prices for vegetables and meat rose at a faster pace, while those for fruit and fish decreased at a slower pace compared with January. Meanwhile prices for bread and dairy products rose at a faster pace, partly reflecting the lagged impact of higher international cereal prices on domestic production costs.

With regard to the other main subcomponents of HICP inflation, services and energy inflation remained largely unchanged when compared with January. Meanwhile, prices of non-energy industrial goods continued to contract on an annual basis, reflecting weak inflation in trading partners and the lagged pass-through of the appreciation of the euro against the pound sterling.

Inflation as measured by the RPI index also accelerated during February, reaching 1.9% from 1.5% a month earlier (see Chart 6).<sup>12</sup> As with the HICP index, food inflation was the main contributor to the increase in RPI inflation. However, this acceleration was also supported by an increase in the contribution of the household equipment and the recreation and culture subcomponents.

Annual cost inflation for producers based on the Industrial Producer Price Index, decelerated to 3.1% in February, from 3.6% a month earlier.<sup>13</sup> As in previous months, producer price inflation was supported by the intermediate goods subcomponent, which encompasses a wide range of



<sup>12</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.

<sup>13</sup> The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

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) signalled an improvement in international competitiveness during February.<sup>14</sup> Following two years of continuous annual growth, the nominal HCI contracted by 0.7%, while the real HCI, which also takes into account relative price changes, contracted by 2.2%. This suggests that the recent improvement in Malta's competitiveness was driven by movements in both the euro exchange rate and in relative prices vis-à-vis international trading partners.

## Public finance

During February 2019, the Consolidated Fund balance recorded a deficit of €8.0 million, compared to a €31.8 million surplus registered in February 2018 (see Table 4). This occurred as the rise in government expenditure was more pronounced than that in revenue. In turn, the primary balance registered a surplus of €15.8 million, a €34.0 million decline over that registered a year earlier.

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

EUR millions

	2018	2019	2018	2019	Change	
	Jan.-Feb.	Jan.-Feb.			Feb.	Feb.
<b>Revenue</b>	<b>625.5</b>	<b>647.8</b>	<b>349.3</b>	<b>356.7</b>	<b>7.4</b>	<b>2.1</b>
<b>Direct tax</b>	<b>273.4</b>	<b>305.5</b>	<b>125.8</b>	<b>139.9</b>	<b>14.1</b>	<b>11.2</b>
Income tax	174.6	196.2	78.2	91.0	12.9	16.4
Social security contributions <sup>(1)</sup>	98.8	109.3	47.6	48.9	1.3	2.7
<b>Indirect tax</b>	<b>285.5</b>	<b>291.9</b>	<b>190.1</b>	<b>195.8</b>	<b>5.7</b>	<b>3.0</b>
Value Added Tax	178.1	185.3	141.1	139.8	-1.2	-0.9
Customs and excise duties	49.5	47.9	23.2	31.6	8.4	36.1
Licences, taxes and fines	57.9	58.7	25.8	24.4	-1.4	-5.5
<b>Non-tax<sup>(2)</sup></b>	<b>66.5</b>	<b>50.4</b>	<b>33.4</b>	<b>20.9</b>	<b>-12.5</b>	<b>-37.4</b>
<b>Expenditure</b>	<b>606.8</b>	<b>710.7</b>	<b>317.4</b>	<b>364.6</b>	<b>47.2</b>	<b>14.9</b>
<b>Recurrent</b>	<b>580.9</b>	<b>646.1</b>	<b>300.9</b>	<b>325.3</b>	<b>24.4</b>	<b>8.1</b>
Personal emoluments	131.0	145.4	64.8	75.7	10.9	16.8
Operational and maintenance	33.1	36.5	15.8	16.9	1.1	7.3
Programmes and initiatives <sup>(1)</sup>	312.3	356.5	166.0	177.5	11.5	7.0
Contributions to entities	68.2	71.1	36.4	31.5	-5.0	-13.6
Interest payments	36.3	36.7	18.0	23.8	5.8	32.1
<b>Capital</b>	<b>25.8</b>	<b>64.5</b>	<b>16.5</b>	<b>39.3</b>	<b>22.8</b>	<b>137.9</b>
<b>Primary balance<sup>(3)</sup></b>	<b>55.0</b>	<b>-26.2</b>	<b>49.8</b>	<b>15.8</b>	<b>-34.0</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>18.7</b>	<b>-62.9</b>	<b>31.8</b>	<b>-8.0</b>	<b>-39.8</b>	<b>-</b>

Source: National Statistics Office.

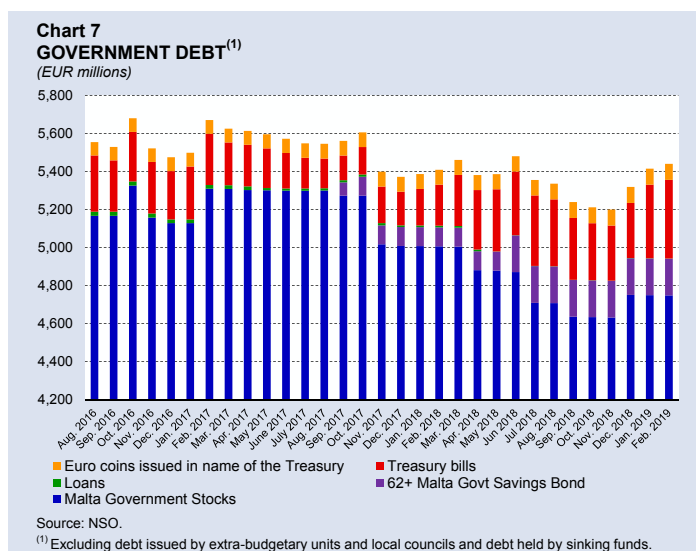
<sup>(1)</sup> Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

<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.

<sup>14</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.

Total government revenue increased by €7.4 million, or 2.1% when compared with the corresponding period of 2018. This predominantly reflected higher income from direct taxes, which increased by €14.1 million, mainly attributed to higher income tax revenues. Revenue from indirect taxes increased by €5.7 million, as declines in VAT and licences, taxes and fines were more than offset by an increase in customs and excise duties. Non-tax revenue fell by €12.5 million when compared with February 2018, mainly due to lower intakes from dividends and reimbursements.



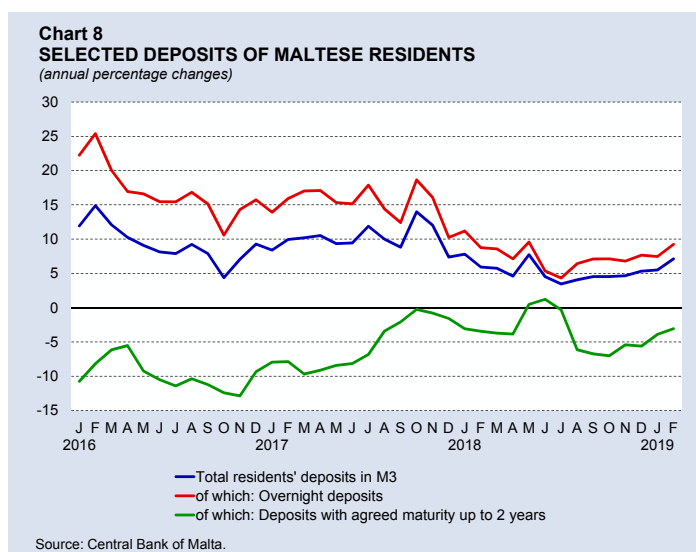
Government expenditure increased by €47.2 million, or 14.9% when compared with February 2018, on the back of increases in both recurrent and capital expenditure. Recurrent expenditure increased by €24.4 million, on the back of higher expenditure on personal emoluments and programmes and initiatives. The latter is mainly attributed to higher outlays on pensions and the timing of payments to the EU budget.

Meanwhile, capital expenditure increased by €22.8 million on a year earlier, mainly reflecting higher outlays on infrastructural projects.

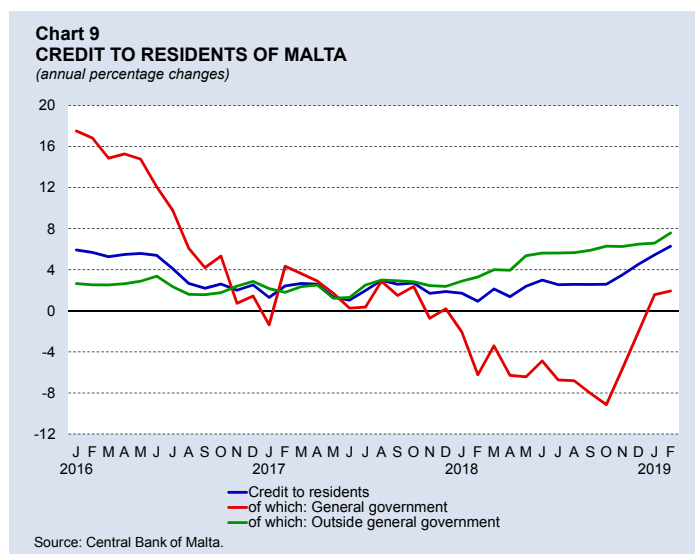
In February, the total stock of government debt amounted to €5,440.4 million, an increase of €25.7 million when compared with January 2019 (see Chart 7). This increase was mainly due to an increase in Treasury Bills outstanding.

## Deposits, credit and financial markets

Residents' M3 deposits held with monetary and financial institutions (MFI) based in Malta continued to expand in February, standing 7.1% above their year-ago level (see Chart 8). The expansion in deposits reflects the high level of liquidity across sectors, as well as robust income growth in the household sector in the context of a low interest rate environment.



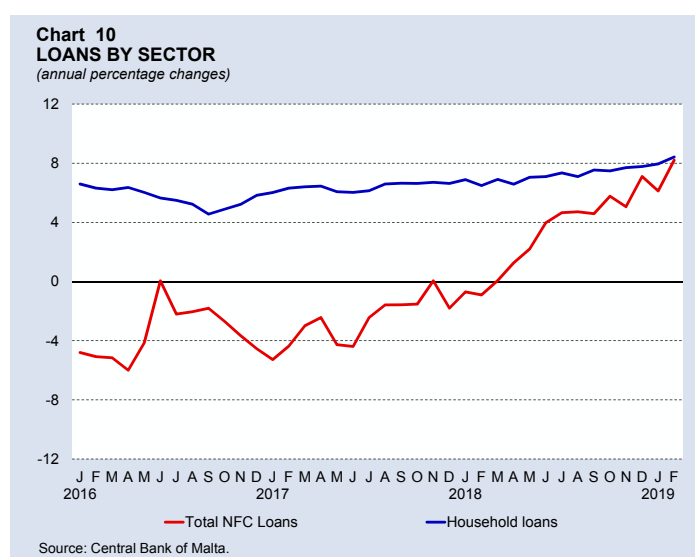
Overnight deposits remained the largest component of residents' M3 deposits, comprising over 80% of the total amount. This component, which is the most liquid form of deposits, grew by 9.2% in the year to February. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 3.1% 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.



Credit to Maltese residents grew at an annual rate of 6.3% in February, up from 5.4% in January (see Chart 9). Credit to general government rose at a slightly faster rate of 1.9%, mainly reflecting an annual increase in banks' holdings of Treasury Bills. Credit to residents outside general government picked up even more strongly, with the annual rate of change reaching 7.6%, from 6.6% in the previous month.

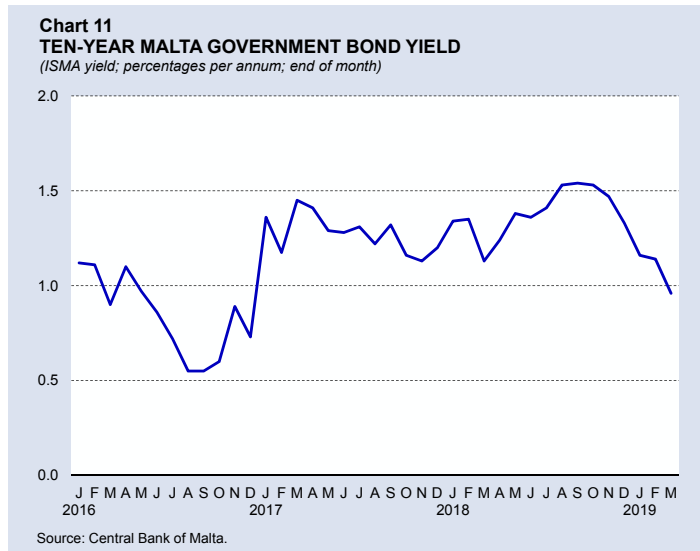
The continued strength in credit to residents outside general government is largely underpinned by growth in loans to households and to non-financial corporations (NFCs). Loans to households grew by 8.4%, mainly supported by mortgage lending (see Chart 10). At the same time, loans to NFCs grew by 8.2% 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 by 1 basis point to 0.32% between January and February. On the other hand, the composite rate charged on outstanding loans remained unchanged at 3.52%. The spread between the two rates stood at 320 basis points,



slightly lower than 325 points 12 months earlier.

In the capital market, the secondary market yield on ten-year Maltese government bonds dropped further to 1.0% in March, from 1.1% in February (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index gained 4.1% during the same period. The MSE Total Return Index, which accounts for dividends as well as changes in equity prices, also rose, by 4.3%.



## Annex 1

### MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2017	2018	2018	2018	2018	2019	2018	2018	2018	2018	2018	2018	2018	2018	2018	2019	2019	2019	
			Q2	Q3	Q4	Q1	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<b>Prices and costs</b>																			
HICP inflation	1.3	1.7	1.7	2.4	1.6	-	1.3	1.4	1.7	2.0	2.1	2.4	2.5	2.1	1.4	1.2	1.0	1.3	-
RPI inflation	1.4	1.2	0.9	1.3	1.6	-	0.8	0.8	0.9	1.0	1.0	1.1	1.6	1.6	1.6	1.5	1.5	1.9	-
Industrial producer price inflation	1.6	4.7	6.6	3.9	3.7	-	6.6	7.0	6.2	6.6	4.1	3.7	3.9	3.4	3.9	3.8	3.6	3.1	-
HCI (nominal)	1.7	3.6	4.1	2.9	2.1	-	5.8	5.8	3.5	3.1	3.0	2.4	3.3	2.6	1.9	1.9	1.1	-0.7	-
HCI (real)	1.8	5.2	6.4	4.2	2.5	-	9.1	9.5	5.3	4.4	4.3	3.4	4.9	3.3	2.0	2.1	0.4	-2.2	-
Unit labour costs, whole economy <sup>(1)</sup>	0.7	0.9	2.1	2.2	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	-0.3	1.7	1.4	2.2	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	-1.0	0.9	-0.6	0.1	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.3	5.7	6.0	5.6	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																			
Nominal GDP	9.4	8.9	9.1	9.6	9.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	6.7	6.6	6.6	7.1	7.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.6	7.3	8.8	7.8	7.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	2.1	11.7	11.0	5.7	27.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-7.4	-3.7	9.3	0.8	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	5.6	2.1	1.6	4.8	-2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	0.6	1.3	4.1	2.6	-2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																			
LFS unemployment rate (% of labour force)	4.0	3.7	3.8	3.6	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	6.0	6.2	6.0	6.8	5.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.4	-	6.3	6.0	-	-	6.2	6.5	5.9	5.5	5.9	6.0	5.9	6.1	-	-	-	-	-
<b>Balance of payments</b>																			
Current account (as a % of GDP) <sup>(2)</sup>	10.4	11.2	10.8	11.5	11.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																			
Maltese residents' deposits and loans																			
Overnight deposits	10.2	7.7	5.4	7.1	7.7	-	8.6	7.1	9.6	5.4	4.3	6.4	7.1	7.1	6.8	7.7	7.5	9.2	-
Deposits with agreed maturity up to 2 years	-1.6	-5.6	1.2	-6.7	-5.6	-	-3.7	-3.8	0.5	1.2	-0.3	-6.1	-6.7	-7.0	-5.4	-5.6	-3.9	-3.1	-
Total residents' deposits in M3	7.4	5.3	4.5	4.5	5.3	-	5.8	4.6	7.7	4.5	3.5	4.1	4.5	4.5	4.7	5.3	5.5	7.1	-
Credit to general government	0.2	-2.0	-4.9	-8.0	-2.0	-	-3.4	-6.3	-6.4	-4.9	-6.7	-6.8	-8.0	-9.1	-5.6	-2.0	1.6	1.9	-
Credit to residents (excl. general government)	2.4	6.5	5.6	5.9	6.5	-	4.0	3.9	5.4	5.6	5.6	5.7	5.9	6.3	6.3	6.5	6.6	7.6	-
Total credit	1.9	4.5	3.0	2.6	4.5	-	2.1	1.4	2.4	3.0	2.5	2.6	2.6	2.6	3.5	4.5	5.4	6.3	-
10-year interest rate (%) <sup>(3)</sup>	1.2	1.3	1.4	1.5	1.3	1.0	1.1	1.2	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.3	1.2	1.1	1.0
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	-3.3	0.1	-2.5	0.5	3.0	4.3	-0.5	-4.3	0.5	1.3	-0.8	-1.1	2.4	1.6	0.6	0.8	-1.8	2.0	4.1
<b>General government finances (% of GDP)</b>																			
Surplus (+) / deficit (-) <sup>(2)</sup>	3.5	-	3.9	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	50.1	-	48.8	45.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

<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.