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EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE

10/2019

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ECONOMIC UPDATE 10/2019

Summary¹

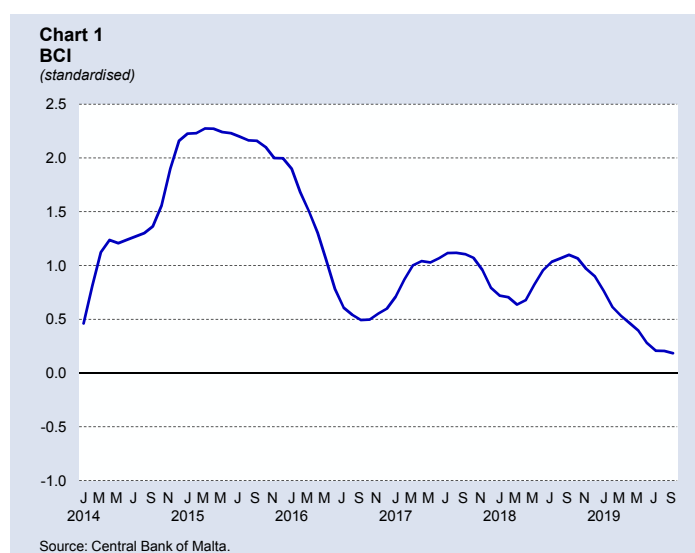
In September, the Bank's Business Conditions' Index (BCI) remained unchanged when compared with the previous month, while continuing to suggest slightly above-average conditions. Economic sentiment rose slightly and stood above its long-term average. Higher confidence in the services and industrial sectors offset lower sentiment across all other sub-components, notably in construction. In August, annual growth in the number of tourist arrivals was higher than that registered in July. Similarly, industrial production rose at a faster pace. The volume of retail trade grew significantly on a year earlier, albeit at a marginally slower pace compared with July. Conditions in the labour market continued to be 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 1.9% in August. Inflation based on the Retail Price Index (RPI) remained unchanged at 1.7%. Maltese residents' deposits grew at a slower annual rate of 4.6% in the year to August, while credit to Maltese residents rose by 5.8% over this period. As regards fiscal developments, the cash-based Consolidated Fund recorded a larger surplus compared with a year earlier.

Central Bank's BCI²

In September, the Central Bank's BCI remained unchanged from its updated value of 0.2 in August (see Chart 1). This indicates that economic conditions were just slightly better than their long-term average. The BCI was affected by a year-on-year fall in economic sentiment, but was supported by continued favourable conditions in most other components, notably government revenues and industrial production.

Business and consumer confidence indicators

In September, the European Commission's Economic Sentiment Indicator (ESI) edged up to 101.5 from 99.9 in the preceding month, thus returning above its long-term average of 100.0 (see Table 1).^{3,4} Notwithstanding this increase, the ESI stood 0.2 points below that in



¹ The cut-off date for information in this note is 11 October 2019.

² 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.

³ 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%. Consumer survey data for July were not available at the time of writing.

⁴ 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		2019						
					Mar.	Apr.	May	June	July	Aug.	Sep.
ESI	112.5	112.0	101.8	91.8	95.9	102.4	103.3	99.9	101.5		
Services confidence indicator	30.8	34.6	22.4	20.8	10.1	18.0	18.2	16.9	22.9		
Business situation development over the past 3 months	26.9	30.7	21.2	25.3	12.7	12.9	11.5	10.7	13.7		
Evolution of the demand over the past 3 months	33.2	35.8	25.8	20.9	10.6	15.4	16.6	19.1	18.0		
Expectation of the demand over the next 3 months	32.4	37.2	20.2	16.2	7.1	25.7	26.4	20.9	37.1		
Industrial confidence indicator	7.9	6.9	-2.5	-22.4	-9.6	-0.8	-6.3	-9.1	-5.3		
Assessment of order-book levels	-5.4	-1.5	-20.1	-30.7	-14.5	-21.6	-27.1	-34.9	-31.6		
Assessment of stocks of finished products	-2.1	5.8	7.9	28.6	13.5	13.7	14.9	16.5	10.0		
Production expectations for the months ahead	26.9	27.9	20.3	-7.8	-0.7	32.9	23.1	24.1	25.7		
Construction confidence indicator	12.8	21.3	32.3	21.7	10.5	37.4	39.2	24.7	14.3		
Evolution of your current overall order books	1.7	16.9	26.2	9.3	0.1	21.8	37.5	22.4	4.8		
Employment expectations over the next 3 months	24.0	25.7	38.3	34.2	20.9	52.9	40.9	26.9	23.8		
Consumer confidence indicator	8.5	10.1	-0.6	3.2	6.6	3.9	8.1	6.5	3.1		
Financial situation past 12 months	13.8	16.9	11.1	16.3	12.3	10.9	11.1	9.4	8.6		
Financial situation next 12 months	8.6	17.5	11.4	12.5	11.8	10.6	12.9	10.0	10.5		
Economic situation next 12 months	19.3	28.9	23.9	27.0	22.7	23.5	21.7	20.4	18.8		
Major purchases next 12 months	-7.8	-22.6	-48.6	-42.9	-20.4	-29.4	-13.3	-13.5	-25.4		
Retail trade confidence indicator	8.5	8.2	28.6	5.7	-10.8	5.1	27.8	2.9	0.7		
Business activity, past 3 months	14.6	15.4	69.4	31.9	-19.3	21.0	58.4	13.4	13.3		
Stocks of finished goods	5.5	7.7	18.6	17.7	16.9	20.3	9.4	7.9	28.4		
Business activity, next 3 months	16.4	17.0	35.2	2.9	3.8	14.7	34.5	3.1	17.3		

Source: European Commission.

the euro area. The recent increase in sentiment reflects higher confidence in the services and industrial sectors. Meanwhile, lower sentiment was recorded across all other sub-components, notably in construction.

In September, sentiment within the services sector increased significantly to 22.9 from 16.9 in August, nearly reaching its long-term average of 23.0.⁵ Firms' demand expectations for the next three months improved substantially. Sentiment was also supported by a more positive assessment of developments in the business situation over the previous three months. In contrast, the assessment of demand during the last three months weakened marginally. Supplementary survey data indicate that the number of firms expecting employment levels to rise in the three months ahead rose threefold. At the same time, a larger share of respondents anticipated higher prices.

Industrial confidence remained below its long-term average of -3.1, despite rising to -5.3 from -9.1 a month earlier.⁶ The recent rise in sentiment was primarily driven by a smaller share of respondents reporting above normal stock levels and, to a limited extent, by a less negative assessment of order book levels.⁷ Meanwhile, production expectations improved marginally. Additional survey

⁵ 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.

⁶ 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.

⁷ 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.

data show that fewer respondents expected prices to fall in the three months ahead, while on balance, the share of respondents expecting employment levels to rise in the coming months almost halved.

Confidence in the construction sector fell substantially to 14.3, from 24.7 in August. Notwithstanding this decrease, it remained well above its long-term average of -12.6.⁸ The recent fall in sentiment was largely driven by a sharp decline in the share of respondents reporting higher order book levels. Employment expectations also weakened compared with the preceding month, although they remained positive. Additional survey data show that the share of respondents anticipating an increase in prices in the next three months increased significantly compared with the preceding month.

Consumer confidence fell to 3.1 from 6.5 in the preceding month, but still stood above its long-term average of -11.7.⁹ Fall in sentiment was primarily driven by a sharp decline in the share of respondents expecting to make major purchases over the next 12 months. Consumers were also somewhat less optimistic of the general economic situation over the same period. On balance, consumers' assessment of their financial situation during the past year weakened compared with a month earlier, while expectations of the financial situation in the year ahead remained broadly unchanged. Additional data show that compared with August, a marginally higher share of respondents anticipate a rise in selling prices and a fall in unemployment over subsequent months. On balance, fewer consumers expect an increase in savings.

In September, sentiment within the retail sector edged down to 0.7, from 2.9 in the preceding month, and declined further below its long-term average of 3.0.¹⁰ The recent fall in sentiment was primarily driven by a substantially larger share of respondents reporting above normal stock levels. In contrast, expectations of business activity for the next three months improved, while retailers' assessment of business activity in the previous three months remained broadly unchanged. Supplementary data indicate that on balance, retailers' price expectations turned positive, while they now predict a rise in employment levels.

In August, the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, rose by 7.4% in annual terms, following an expansion of 0.9% in the preceding month (see Table 2).¹¹ This increase was largely driven by higher production among firms producing pharmaceuticals. Output also rose strongly among firms involved in the printing and reproduction of recorded media and in the "other manufacturing" sub-sector, which includes firms involved in the production of medical and dental instruments, toys and related products. Smaller increases were registered in the repair and installation of machinery and equipment and in the energy sector. On the other hand, output declined among firms producing computer,

⁸ 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.

⁹ 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

¹⁰ 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.

¹¹ 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	2018						2019						
			Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Industrial production	8.5	1.3	-1.6	-6.9	2.3	10.7	-0.6	0.5	-1.5	-4.5	1.9	-2.2	2.2	0.9	7.4
Retail trade	5.2	0.6	0.5	-0.6	0.5	1.0	-1.5	2.9	3.7	3.7	7.3	-0.4	5.6	6.7	6.2
Number of tourist arrivals	15.7	14.3	10.2	15.1	10.5	7.8	11.0	2.4	2.3	3.5	3.6	2.0	8.0	5.2	7.2
Number of nights stayed	10.3	12.5	5.7	10.2	8.0	8.0	10.1	7.6	3.5	2.2	2.6	-3.6	5.1	1.6	5.8
Rented accommodation	10.7	10.7	5.6	10.1	2.3	2.2	4.66	4.5	3.3	2.5	5.8	-5.0	6.7	-1.7	7.4
Collective ⁽¹⁾	6.0	7.1	6.3	2.8	1.2	-3.9	-4.8	-10.4	-6.9	-1.0	1.1	-10.3	2.0	-2.9	3.2
Other rented ⁽²⁾	21.7	18.0	4.7	22.9	4.8	22.2	22.3	56.4	34.7	12.5	17.0	6.3	15.3	0.0	13.0
Non-rented accommodation ⁽³⁾	8.5	22.7	5.9	10.3	46.0	49.0	47.8	17.3	4.9	-0.2	-13.7	5.2	-3.9	21.6	-2.0
Tourist expenditure	13.9	8.0	7.2	4.8	3.3	2.6	1.1	3.0	-2.8	0.5	7.7	3.3	10.7	1.8	2.8
Package expenditure	3.2	16.6	25.4	3.7	-0.3	-7.1	5.4	0.8	-21.9	-6.2	-11.9	-19.2	6.4	-20.0	-10.1
Non-package expenditure	19.8	13.3	10.9	11.1	23.6	25.2	12.9	-6.8	6.8	4.5	23.8	23.8	17.1	21.4	15.1
Other	17.3	-2.2	-6.5	0.3	-9.0	-7.4	-9.8	13.8	3.2	2.8	9.1	3.4	7.8	3.8	0.9

Sources: National Statistics Office; Eurostat.

⁽¹⁾ Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

⁽²⁾ Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

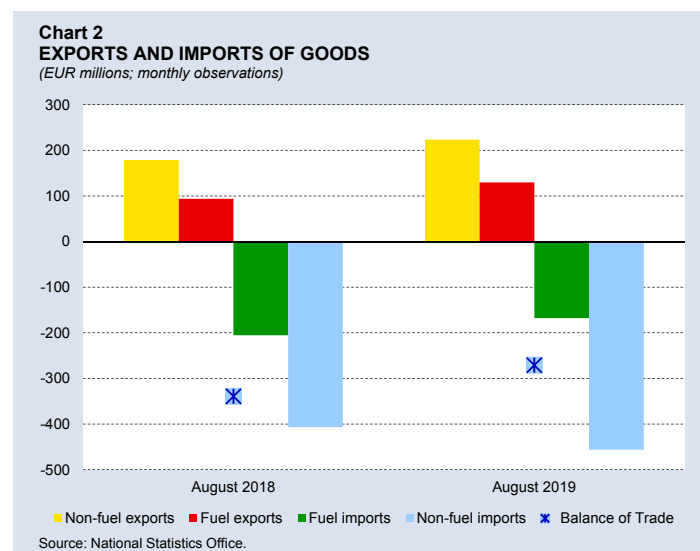
⁽³⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

electronics and optical products, food as well as rubber and plastics. A smaller decline was also registered among firms that produce beverages.

In August, the volume of retail trade, which is a short-term indicator of final domestic demand, rose by an annual 6.2%, following a 6.7% increase in July.

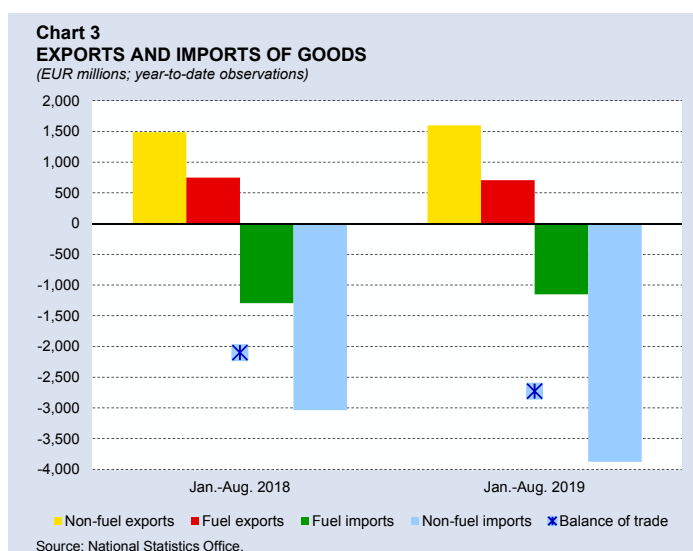
Meanwhile, the number of inbound tourists increased by 7.2% on the preceding year, following an increase of 5.2% in July. Consequently, nights stayed grew by 5.8%, following a 1.6% rise in the previous month. This increase reflected a rise in nights stayed in rented accommodation, particularly in the “other rented” category. Tourist spending in Malta grew by 2.8% in annual terms, following a 1.8% increase in July.

Customs data show that the merchandise trade deficit narrowed to €270.9 million in August, from €339.2 million a year earlier. This improvement was driven by an increase of €80.3 million in exports, whereas imports rose by €12.1 million (see Chart 2). The rise in the former was mainly driven by higher exports of machinery and mechanical appliances and higher fuel re-exports. At the same time, imports edged up on account of a substantial increase in registrations of ships



and boats, which more than offset a notable decline in fuel imports.

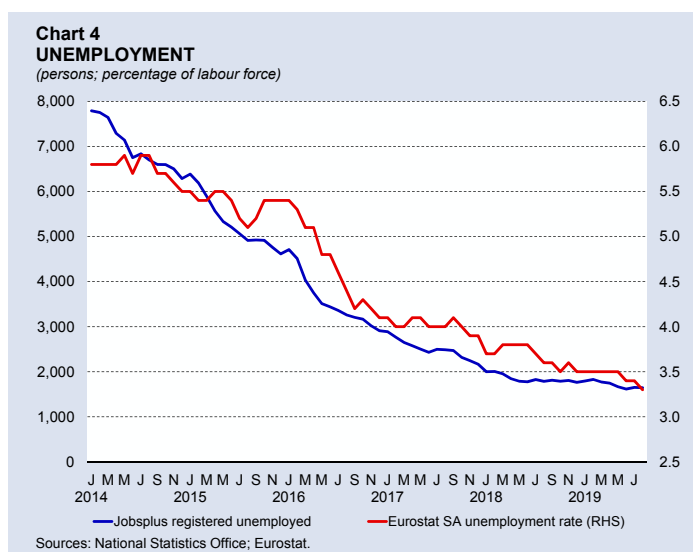
In the first eight months of 2019, the visible trade gap widened by €627.1 million on the same period of 2018, reaching €2,726.5 million (see Chart 3). This widening was mostly due to a significant increase in registrations of sea vessels. Excluding transactions related to ships, the trade deficit would have narrowed by €261.1 million.



Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,645 in August, slightly down from 1,654 in July, and lower than 1,787 a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 3.3%, below the rate of 3.4% registered in the preceding two months. This is also lower than the 3.6% recorded a year earlier.



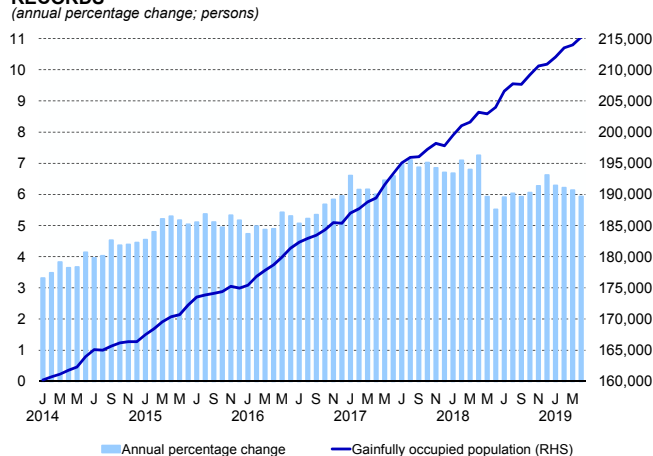
BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in April 2019, the gainfully occupied population, defined as all persons in full-time employment, rose by 5.9% on a year earlier, reaching 215,239 (see Chart 5). The rate of growth was lower than that of 6.1% registered in the preceding month, and that of 7.3% observed a year earlier.

In line with developments in recent months, growth in employment continued to be mainly driven by the private sector (see Table 3). Although public sector employment also rose on an annual basis, the share of public sector employment in the gainfully occupied population declined compared with the corresponding month of 2018.

The number of full-timers in the private sector went up by 11,211, or 7.2% compared with April 2018. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 9,731, or 8.1% in annual terms. This increase was distributed among all major sectors within this category.

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

	2018	2019	Annual change	
	April	April	Number of persons	%
Labour supply	205,026	216,987	11,961	5.8
Gainfully occupied ⁽¹⁾	203,179	215,239	12,060	5.9
Registered unemployed	1,847	1,748	-99	-5.4
Unemployment rate (%)	0.9	0.8		
Private sector	156,230	167,441	11,211	7.2
Direct production⁽²⁾	35,381	36,861	1,480	4.2
Of which:				
Manufacturing	21,680	21,761	81	0.4
Construction	10,934	12,208	1,274	11.7
Market services	120,849	130,580	9,731	8.1
Wholesale and retail trade	26,529	27,246	717	2.7
Transportation and storage	8,789	9,519	730	8.3
Accommodation and food service activities	13,333	14,485	1,152	8.6
Information and communication	6,907	7,173	266	3.9
Financial and insurance activities	9,572	10,337	765	8.0
Real estate, professional and administrative activities ⁽³⁾	30,882	34,359	3,477	11.3
Arts, entertainment and recreation	8,820	9,729	909	10.3
Education	5,532	5,795	263	4.8
Other	10,485	11,937	1,452	13.8
Public sector	46,949	47,798	849	1.8

Source: National Statistics Office.

⁽¹⁾ This category measures full-time employment.

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

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

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,477 in the year to April, and accounted for 35.7% of the overall rise in private market services employment. Employment also rose significantly in the “other services” sector, which largely reflects increased employment in the health care sector. The number of persons employed in accommodation and food service activities also grew strongly in annual terms, going up by 1,152 persons. Meanwhile, 909 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 1,480, or 4.2% on a year earlier. Growth was recorded in both the construction and manufacturing sectors, though the pace of job creation was much stronger in the former.

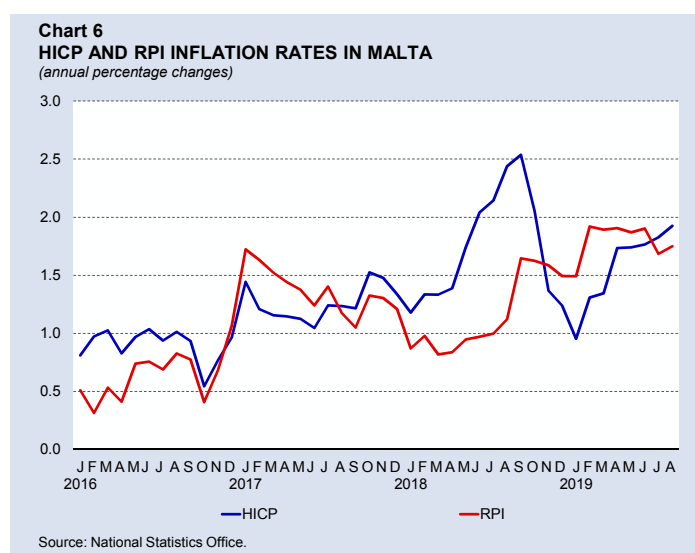
Public sector employment rose by 849, or 1.8%, on a year earlier. Employment increased mostly in public administration and defence, transportation and storage as well as in the professional, scientific and technical activities sector. The share of public sector employment in the total gainfully occupied population edged down to 22.2% in April 2019, from 23.1% a year earlier.

Prices, costs and competitiveness

Annual HICP inflation stood at 1.9% in August, marginally higher than the rate of 1.8% registered a month earlier (see Chart 6). Food inflation accelerated during the month, mainly reflecting an increase in milk prices. Inflation in non-energy industrial goods also picked up, albeit from low levels. Services inflation was unchanged when compared with July, although at 2.0% it remained the main driver of overall inflation. Energy inflation eased slightly when compared with July.

More recent data suggest that overall inflation moderated in September, to 1.6%.

Inflation as measured by the RPI stood unchanged at 1.7% in August (see Chart 6).¹² As in previous months, food inflation was the main driver of overall inflation.



¹² 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.

Annual cost inflation for producers, measured by the industrial producer price index, edged down to 1.4% in August, from 1.7% in July.¹³ This reflected slower growth in the prices of intermediate goods. In contrast, the contribution from consumer goods increased, while capital goods also contributed positively to overall inflation. Energy costs were unchanged in annual terms.

Malta's nominal harmonised competitiveness indicator (HCI) contracted by 0.8% in the year to August.¹⁴ The real HCI, which also takes into account relative price changes, fell by 0.9%. This suggests that Malta's international competitiveness was impacted by favourable exchange rate movements in the year to August, augmented by movements in relative prices.

Public finance

In August 2019, the Consolidated Fund recorded a surplus of €209.9 million, an increase of €95.8 million when compared with the surplus registered in August 2018. This occurred due to an upsurge in revenue which complemented a fall in expenditure (see Table 4). The primary surplus,

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2018		2019		Change	
	Jan.-Aug.	Jan.-Aug.	Aug.	Aug.	Amount	%
Revenue	2,591.0	2,991.0	463.0	524.2	61.2	13.2
Direct tax	1,347.0	1,514.8	234.1	260.0	25.9	11.1
Income tax	920.9	1,071.2	151.2	193.4	42.2	27.9
Social security contributions ⁽¹⁾	426.1	443.6	82.9	66.6	-16.4	-19.7
Indirect tax	1,016.8	1,132.3	186.9	225.8	38.9	20.8
Value Added Tax	557.7	656.2	124.1	162.3	38.2	30.8
Customs and excise duties	204.7	214.0	28.3	31.1	2.9	10.1
Licences, taxes and fines	254.3	262.1	34.5	32.3	-2.1	-6.2
Non-tax⁽²⁾	227.3	343.9	42.1	38.4	-3.6	-8.6
Expenditure	2,594.1	2,907.1	349.0	314.3	-34.6	-9.9
Recurrent	2,381.3	2,594.1	323.3	283.7	-39.6	-12.2
Personal emoluments	541.2	585.2	69.2	73.8	4.6	6.7
Operational and maintenance	120.7	136.7	12.3	14.7	2.4	19.3
Programmes and initiatives ⁽¹⁾	1,308.6	1,425.8	192.5	154.6	-37.9	-19.7
Contributions to entities	271.7	319.8	31.0	23.3	-7.7	-24.9
Interest payments	139.1	126.5	18.3	17.4	-1.0	-5.4
Capital	212.8	313.0	25.7	30.6	4.9	19.1
Primary balance⁽³⁾	136.0	210.4	132.4	227.3	94.8	-
Consolidated Fund balance	-3.1	83.9	114.1	209.9	95.8	-

Source: National Statistics Office.

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

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

⁽³⁾ Revenue less expenditure excluding interest payments.

¹³ 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.

¹⁴ 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.

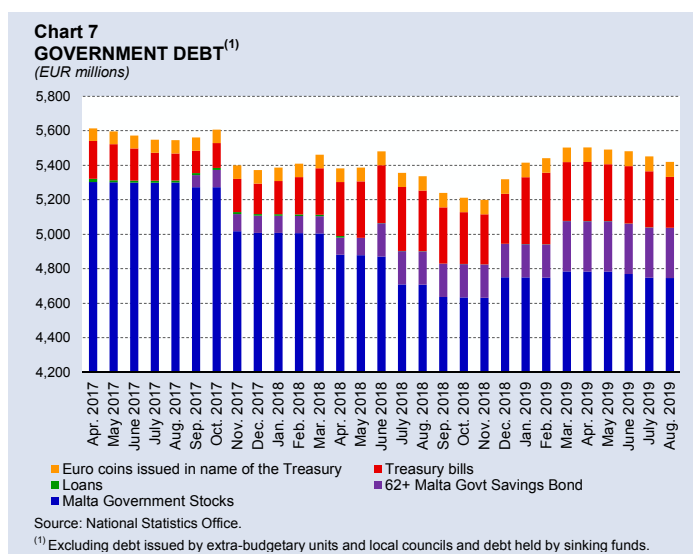
which excludes the impact of interest payments, reached €227.3 million, a €94.8 million rise over that registered a year earlier.

Total government revenue increased by €61.2 million, or 13.2% in annual terms, mainly due to higher inflows from direct and indirect tax revenues. The former rose by €25.9 million, as a decline in social security contributions was more than offset by a rise in income tax.

Revenue from indirect taxes increased by €38.9 million, on the back of higher VAT receipts. Meanwhile, non-tax revenue fell by a modest €3.6 million when compared with the same period of 2018.

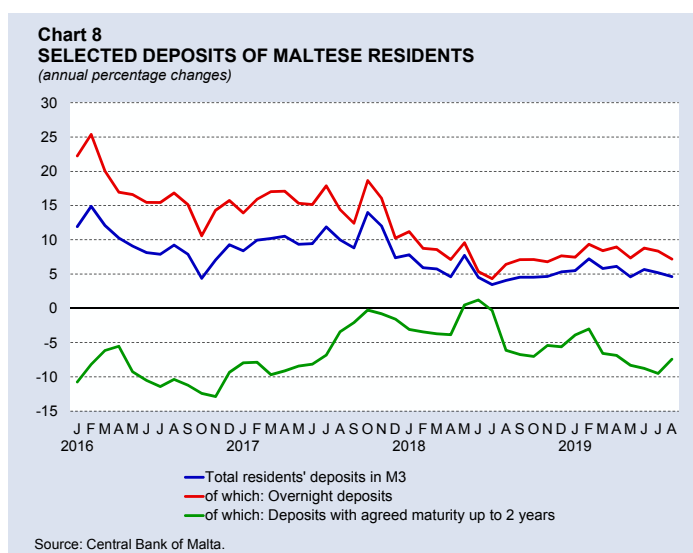
Government expenditure declined by €34.6 million, or 9.9% when compared with August 2018. This predominantly reflected lower recurrent expenditure, which decreased by €39.6 million, mainly attributed to timing issues regarding programmes and initiatives. Meanwhile, capital expenditure increased by €4.9 million when compared with same month of 2018, reflecting ongoing spending on infrastructural projects.

In August 2019, the total stock of government debt amounted to €5,419.4 million, a €31.8 million decrease when compared with a month earlier (see Chart 7). This decline is mainly due to a lower outstanding amount of Treasury bills.



Deposits, credit and financial markets

Residents' M3 deposits held with monetary financial institutions (MFIs) based in Malta continued to expand in August, although at a slower annual pace of 4.6% compared with the previous month (see Chart 8). Continued growth in deposits reflects the high level of liquidity across sectors, in an



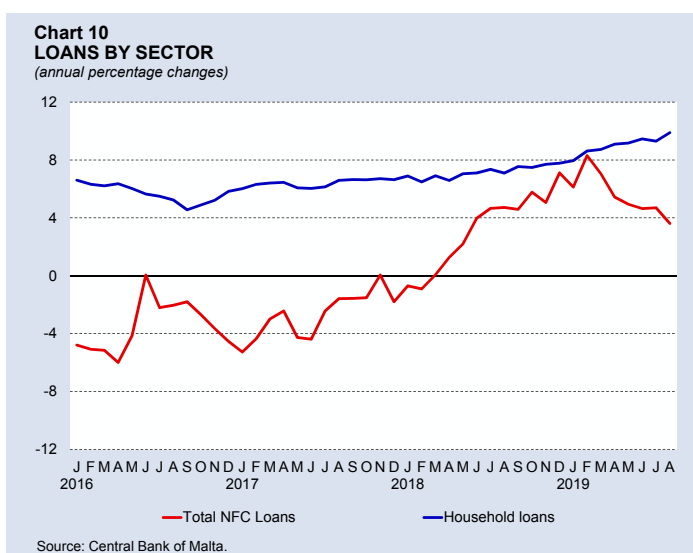
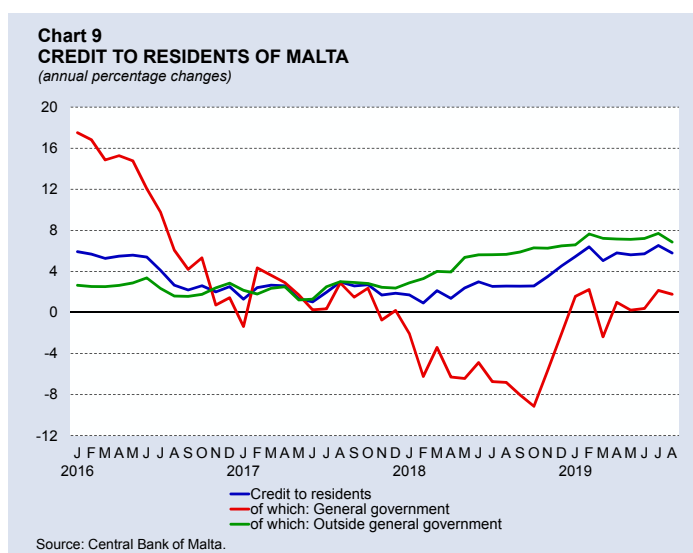
environment of robust income growth.

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 80% of their total balances. This component, which is the most liquid form of deposits, grew by 7.2% in the year to August. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 7.4% 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.

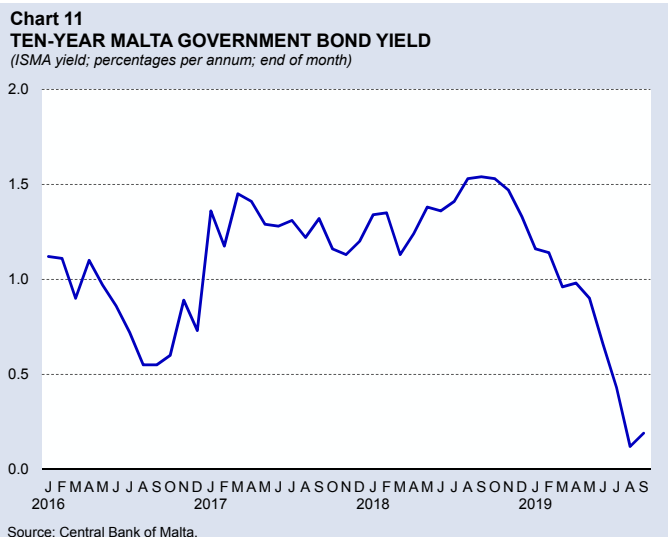
Credit to Maltese residents grew by 5.8% in the year to August (see Chart 9). This comprises credit to general government, which rose by 1.8%, and credit to residents outside general government, which increased by 6.9% in annual terms.

The continued strength in credit to residents outside general government is underpinned by growth in loans to households and, to a lesser extent, loans to non-financial corporations (NFCs). Loans to households grew by 9.9%, mainly supported by mortgage lending (see Chart 10). Meanwhile, loans to NFCs grew by 3.6% on an annual basis. The strongest increases in absolute terms were recorded among firms involved in professional, scientific, and technical activities, in the construction and real estate sector, and in administrative and support services.

With regard to interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits stood unchanged between July and August, at 0.31%. The composite rate charged on outstanding loans fell by 1 basis point, to 3.48%. The spread between the two rates stood at 317 basis points, slightly lower than that of 323 basis points registered a year earlier.



In the capital market, the secondary market yield on 10-year Maltese government bonds rose slightly to 0.2% at the end of September (see Chart 11). Nonetheless, yields remain low from a historical perspective. The Malta Stock Exchange (MSE) Equity Price Index rose by 2.4% during the same period. Similarly, the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, rose by 2.5%.



Annex 1

MACROECONOMIC INDICATORS FOR MALTA																			
<i>(annual percentage changes; non-seasonally adjusted data)</i>																			
	2017	2018	2018	2019	2019	2019	2018	2018	2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019
			Q4	Q1	Q2	Q3	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
Prices and costs																			
HICP inflation	1.3	1.7	1.6	1.2	1.7	1.8	2.5	2.1	1.4	1.2	1.0	1.3	1.3	1.7	1.7	1.8	1.8	1.9	1.6
RPI inflation	1.4	1.2	1.6	1.8	1.9	-	1.6	1.6	1.6	1.5	1.5	1.9	1.9	1.9	1.9	1.9	1.7	1.7	-
Industrial producer price inflation	1.6	4.8	3.8	3.2	1.5	-	4.0	3.5	4.1	3.9	4.0	3.3	2.3	1.5	1.5	1.5	1.6	1.4	-
HCI (nominal)	1.7	3.6	2.1	-0.2	-0.1	-1.3	3.3	2.6	1.9	1.9	1.1	-0.7	-1.1	-1.0	0.2	0.5	-0.9	-0.8	-2.2
HCI (real)	0.9	3.0	1.3	-1.0	-0.6	-1.5	2.9	1.8	0.9	1.2	0.1	-1.3	-1.8	-1.8	-0.3	0.1	-1.2	-0.9	-2.2
Unit labour costs, whole economy ⁽¹⁾	0.5	1.1	1.1	0.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	-0.7	2.3	2.3	1.9	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-1.2	1.3	1.3	1.7	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.3	5.8	6.2	6.6	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																			
Nominal GDP	9.2	9.0	9.0	8.1	6.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	6.7	6.8	7.1	5.4	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.3	7.3	7.5	5.3	3.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	2.5	12.6	26.6	20.8	7.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-7.2	-1.8	-1.0	29.1	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.8	2.6	-0.5	3.2	-0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	-0.4	2.6	-1.1	6.6	-2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																			
LFS unemployment rate (% of labour force)	4.0	3.7	3.5	3.5	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	6.0	6.6	5.4	6.6	7.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	6.3	6.3	6.2	-	-	5.9	6.1	6.3	6.6	6.3	6.2	6.1	5.9	-	-	-	-	-
Balance of payments																			
Current account (as a % of GDP) ⁽²⁾	11.5	11.3	11.3	9.8	9.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																			
Maltese residents' deposits and loans																			
Overnight deposits	10.2	7.7	7.7	8.4	8.8	-	7.1	7.1	6.8	7.7	7.5	9.4	8.4	8.9	7.3	8.8	8.3	7.2	-
Deposits with agreed maturity up to 2 years	-1.6	-5.6	-5.6	-6.6	-8.8	-	-6.7	-7.0	-5.4	-5.6	-3.9	-3.0	-6.6	-6.9	-8.3	-8.8	-9.5	-7.4	-
Total residents' deposits in M3	7.4	5.3	5.3	5.8	5.7	-	4.5	4.5	4.7	5.3	5.5	7.2	5.8	6.1	4.6	5.7	5.2	4.6	-
Credit to general government	0.2	-2.0	-2.0	-2.4	0.4	-	-8.0	-9.1	-5.6	-2.0	1.6	2.2	-2.4	1.0	0.2	0.4	2.1	1.8	-
Credit to residents (excl. general government)	2.4	6.5	6.5	7.2	7.2	-	5.9	6.3	6.3	6.5	6.6	7.6	7.2	7.2	7.1	7.2	7.7	6.9	-
Total credit	1.9	4.5	4.5	5.1	5.7	-	2.6	2.6	3.5	4.5	5.4	6.4	5.1	5.8	5.6	5.7	6.5	5.8	-
10-year interest rate (%) ⁽³⁾	1.2	1.3	1.3	1.0	0.7	0.2	1.5	1.5	1.5	1.3	1.2	1.1	1.0	1.0	0.9	0.7	0.4	0.1	0.2
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	-2.6	0.1	3.0	4.3	2.2	2.1	2.4	1.6	0.6	0.8	-1.8	2.0	4.1	0.1	2.2	-0.2	0.7	-1.0	2.4
General government finances (% of GDP)																			
Surplus (+) / deficit (-) ⁽²⁾	3.4	2.0	2.0	1.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁵⁾	50.3	46.0	46.0	46.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

⁽¹⁾ Four-quarter moving averages.

⁽²⁾ Four-quarter moving sums.

⁽³⁾ End of period.

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

⁽⁵⁾ GDP data are four-quarter moving sums.