



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# ECONOMIC UPDATE

## 11/2019

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## ECONOMIC UPDATE 11/2019

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

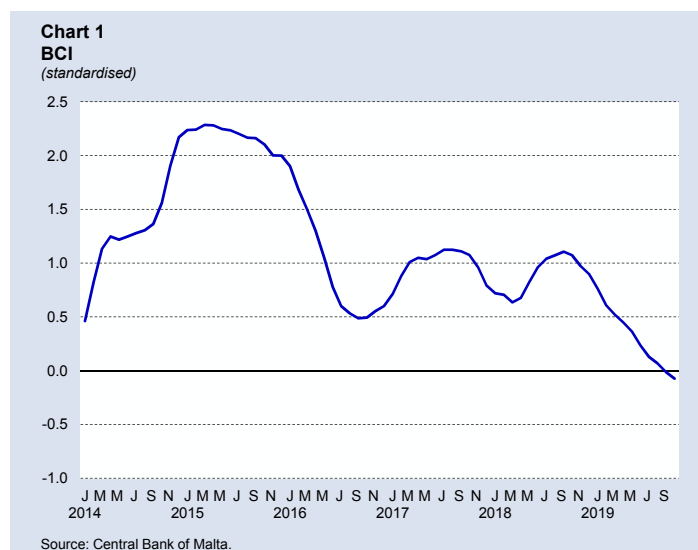
In October, the Bank's Business Conditions' Index (BCI) fell when compared with the previous month, suggesting slightly below-average conditions. Conversely, economic sentiment edged up and remained above its long-term average. Higher confidence in the services and construction sectors, and to a lesser extent in industry, offset lower sentiment in the retail sector and among consumers. In September, the number of tourist arrivals rose on a year earlier, albeit at a slower pace when compared with August. Similarly, industrial production increased at a slower rate. The volume of retail trade grew at a faster annual pace compared with August. 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) eased to 1.6% in September. Similarly, inflation based on the Retail Price Index (RPI) moderated to 1.4%. Maltese residents' deposits grew at a faster annual rate of 5.6% in the year to September, while credit to Maltese residents rose by 6.2% over this period. As regards fiscal developments, the cash-based Consolidated Fund recorded a deficit compared with a surplus a year earlier.

### Central Bank's BCI<sup>2</sup>

In October, the Central Bank's BCI fell to -0.1 from its updated value of 0.0 in September (see Chart 1). This indicates that economic conditions were slightly below their long-term average. The BCI was affected by a slow-down in taxation revenues compared to recent years. However, it was supported by continued favourable conditions in other components.

### Business and consumer confidence indicators

In October, the European Commission's Economic Sentiment Indicator (ESI) edged up to 103.8 from 101.5 in the preceding month, and remained above its long-term average of 100.1 (see Table 1).<sup>3,4</sup> Following



<sup>1</sup> The cut-off date for information in this note is 11 November 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%. Consumer survey data for July were not available at the time of writing.

<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	2019							
			Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
<b>ESI</b>	<b>112.5</b>	<b>112.0</b>	<b>101.8</b>	<b>91.8</b>	<b>95.9</b>	<b>102.4</b>	<b>103.3</b>	<b>99.9</b>	<b>101.5</b>	<b>103.8</b>
<b>Services confidence indicator</b>	<b>30.8</b>	<b>34.6</b>	<b>22.4</b>	<b>20.8</b>	<b>10.1</b>	<b>18.0</b>	<b>18.2</b>	<b>16.9</b>	<b>22.9</b>	<b>30.4</b>
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	20.7
Evolution of demand over the past 3 months	33.2	35.8	25.8	20.9	10.6	15.4	16.6	19.1	18.0	35.9
Expectation of demand over the next 3 months	32.4	37.2	20.2	16.2	7.1	25.7	26.4	20.9	37.1	34.6
<b>Construction confidence indicator</b>	<b>12.8</b>	<b>21.3</b>	<b>32.3</b>	<b>21.7</b>	<b>10.5</b>	<b>37.4</b>	<b>39.2</b>	<b>24.7</b>	<b>14.3</b>	<b>21.5</b>
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	21.9
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	21.0
<b>Industrial confidence indicator</b>	<b>7.9</b>	<b>6.9</b>	<b>-2.5</b>	<b>-22.4</b>	<b>-9.6</b>	<b>-0.8</b>	<b>-6.3</b>	<b>-9.1</b>	<b>-5.3</b>	<b>-4.9</b>
Assessment of order-book levels	-5.4	-1.5	-20.1	-30.7	-14.5	-21.6	-27.1	-34.9	-31.6	-26.6
Assessment of stocks of finished products	-2.1	5.8	7.9	28.6	13.5	13.7	14.9	16.5	10.0	16.1
Production expectations for the months ahead	26.9	27.9	20.3	-7.8	-0.7	32.9	23.1	24.1	25.7	27.9
<b>Retail trade confidence indicator</b>	<b>8.5</b>	<b>8.2</b>	<b>28.6</b>	<b>5.7</b>	<b>-10.8</b>	<b>5.1</b>	<b>27.8</b>	<b>2.9</b>	<b>0.7</b>	<b>-1.5</b>
Business activity, past 3 months	14.6	15.4	69.4	31.9	-19.3	21.0	58.4	13.4	13.3	-0.2
Stocks of finished goods	5.5	7.7	18.6	17.7	16.9	20.3	9.4	7.9	28.4	7.8
Business activity, next 3 months	16.4	17.0	35.2	2.9	3.8	14.7	34.5	3.1	17.3	3.5
<b>Consumer confidence indicator</b>	<b>8.5</b>	<b>10.1</b>	<b>-0.6</b>	<b>3.2</b>	<b>6.6</b>	<b>3.9</b>	<b>8.1</b>	<b>6.5</b>	<b>3.1</b>	<b>2.4</b>
Financial situation past 12 months	13.8	16.9	11.1	16.3	12.3	10.9	11.1	9.4	8.6	6.6
Financial situation next 12 months	8.6	17.5	11.4	12.5	11.8	10.6	12.9	10.0	10.5	8.1
Economic situation next 12 months	19.3	28.9	23.9	27.0	22.7	23.5	21.7	20.4	18.8	19.0
Major purchases next 12 months	-7.8	-22.6	-48.6	-42.9	-20.4	-29.4	-13.3	-13.5	-25.4	-24.0

Source: European Commission.

this increase, the ESI was 3 points above that in the euro area. The recent increase in sentiment reflects higher confidence in the services and construction sectors, and to a lesser extent in industry. By contrast, lower sentiment was recorded in the retail sector and among consumers.

In October, sentiment within the services sector increased to 30.4 from 22.9 in September, and stood above its long-term average of 23.0.<sup>5</sup> The rise in sentiment was primarily driven by firms' assessment of demand during the last three months, and to a lesser extent, by their assessment of the business situation over the same period. In contrast, demand expectations for the next three months weakened marginally. Supplementary survey data indicate that the number of firms expecting employment levels to rise in the three months ahead declined sharply. At the same time, a smaller share of respondents anticipated higher prices.

Confidence in the construction sector rose to 21.5 in October, from 14.3 in September. Hence, it remained well above its long-term average of -12.4.<sup>6</sup> Sentiment was largely driven by a significant increase in the share of respondents reporting higher order book levels. Although employment expectations over the next three months declined when compared with the preceding month, they still remained positive. Additional survey data show that the share of respondents anticipating higher prices in the next three months edged down from a month earlier.

<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 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.

Industrial confidence stood below its long-term average of -3.1, despite rising to -4.9 from -5.3 a month earlier.<sup>7</sup> The recent rise in sentiment was notably driven by a less negative assessment of order book levels and, to a limited extent, by a marginal improvement in production expectations in the three months ahead.<sup>8</sup> Meanwhile, a larger share of respondents reported above normal stock levels. Additional survey data show that the number of respondents expecting employment to rise in the coming months increased substantially, while fewer respondents expected prices to fall in the three months ahead.

In October, confidence within the retail sector turned negative. It fell to -1.5 from 0.7 in the preceding month, and declined further below its long-term average of 2.9.<sup>9</sup> The share of respondents reporting above normal stock levels fell by almost a threefold. At the same time, retailers' assessment of business activity in the previous three months turned negative, while their expectations of business activity for the coming months declined sharply. Supplementary data indicate that on balance, retailers' price expectations turned negative, while a marginally higher share of retailers anticipated a rise in employment levels.

Consumer confidence declined to 2.4 from 3.1 in the preceding month, but still stood above its long-term average of -11.6.<sup>10</sup> The fall in sentiment was primarily driven by weaker expectations of the financial situation over the next 12 months, and to a lesser extent, by a less positive assessment of the financial situation during the past year. On balance, a lower share of consumers expected to make major purchases in the 12 months ahead. By contrast, consumers were slightly more optimistic of the general economic situation over the same period. Additional data show that when compared with September, a higher share of respondents expected selling prices to rise. Meanwhile, the number of consumers anticipating a fall in unemployment over subsequent months edged up marginally.

In September, growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors moderated. It rose by 3.9% in annual terms, following an expansion of 7.9% in the preceding month (see Table 2).<sup>11</sup> 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, 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 within the beverages sector. On the other hand, output declined among firms producing computer, electronics and optical products, in the energy sector

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<sup>7</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>8</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>9</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>10</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)

<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	2018					2019							
			Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
<b>Industrial production</b>	<b>8.5</b>	<b>1.3</b>	<b>-6.9</b>	<b>2.3</b>	<b>10.7</b>	<b>-0.6</b>	<b>0.8</b>	<b>-1.0</b>	<b>-4.2</b>	<b>2.6</b>	<b>-1.6</b>	<b>1.2</b>	<b>0.3</b>	<b>7.9</b>	<b>3.9</b>
<b>Retail trade</b>	<b>5.4</b>	<b>0.3</b>	<b>-1.2</b>	<b>0.8</b>	<b>1.0</b>	<b>-1.7</b>	<b>2.4</b>	<b>3.0</b>	<b>3.3</b>	<b>6.5</b>	<b>-0.4</b>	<b>6.0</b>	<b>5.9</b>	<b>4.3</b>	<b>5.1</b>
<b>Number of tourist arrivals</b>	<b>15.7</b>	<b>14.3</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>3.5</b>	<b>3.6</b>	<b>2.0</b>	<b>8.0</b>	<b>5.2</b>	<b>7.2</b>	<b>5.5</b>
<b>Number of nights stayed</b>	<b>10.3</b>	<b>12.5</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>	<b>2.2</b>	<b>2.6</b>	<b>-3.6</b>	<b>5.1</b>	<b>1.6</b>	<b>5.8</b>	<b>2.1</b>
Rented accommodation	10.7	10.7	10.1	2.3	2.2	4.66	4.5	3.3	2.5	5.8	-5.0	6.7	-1.7	7.4	2.8
Collective <sup>(1)</sup>	6.0	7.1	2.8	1.2	-3.9	-4.8	-10.4	-6.9	-1.0	1.1	-10.3	2.0	-2.9	3.2	4.5
Other rented <sup>(2)</sup>	21.7	18.0	22.9	4.8	22.2	22.3	56.4	34.7	12.5	17.0	6.3	15.3	0.0	13.0	0.3
Non-rented accommodation <sup>(3)</sup>	8.5	22.7	10.3	46.0	49.0	47.8	17.3	4.9	-0.2	-13.7	5.2	-3.9	21.6	-2.0	-3.8
<b>Tourist expenditure</b>	<b>13.9</b>	<b>8.0</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>	<b>0.5</b>	<b>7.7</b>	<b>3.3</b>	<b>10.7</b>	<b>1.8</b>	<b>2.8</b>	<b>5.9</b>
Package expenditure	3.2	16.6	3.7	-0.3	-7.1	5.4	0.8	-21.9	-6.2	-11.9	-19.2	6.4	-20.0	-10.1	-1.8
Non-package expenditure	19.8	13.3	11.1	23.6	25.2	12.9	-6.8	6.8	4.5	23.8	23.8	17.1	21.4	15.1	18.4
Other	17.3	-2.2	0.3	-9.0	-7.4	-9.8	13.8	3.2	2.8	9.1	3.4	7.8	3.8	0.9	-0.1

Sources: National Statistics Office; Eurostat.

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

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

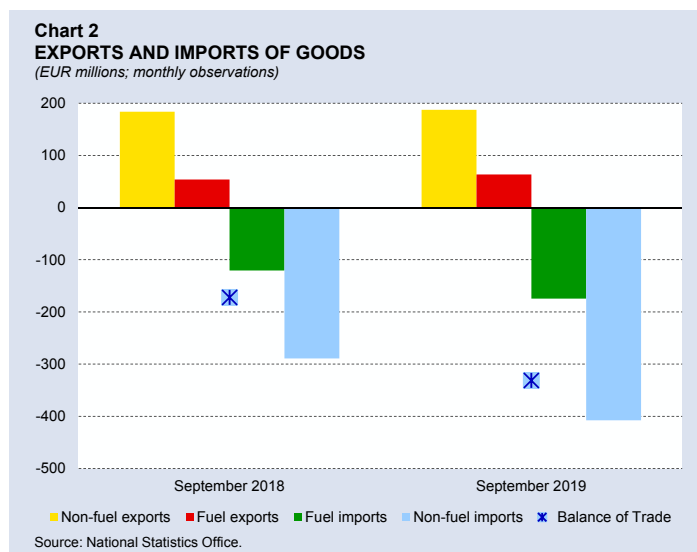
<sup>(3)</sup> Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

and among firms involved in the production of wearing apparel. A smaller decline was also registered among firms that produce rubber and plastics as well as foods.

In September, the volume of retail trade, which is a short-term indicator of final domestic demand, rose by an annual rate of 5.1%, following a 4.3% increase in August.

Meanwhile, the number of inbound tourists increased by 5.5% on a year earlier, following a 7.2% rise in August. Nights stayed grew by 2.1%, following a 5.8% rise in the previous month. Nights spent in rented accommodation, particularly in the “collective” category increased, while visitors spent fewer nights in non-rented accommodation. Tourist spending in Malta grew by 5.9% in annual terms, following a 2.8% rise in August.

Customs data show that the merchandise trade deficit widened to €331.3 million in September, up from €172.3 million a year earlier. The widening merchandise gap was driven by an increase of €172.4 million in imports, whereas exports rose by €13.3 million (see Chart 2). The rise in the former was mainly on account of a substantial increase in registrations of aircraft and ships, and to a lesser extent fuels. At



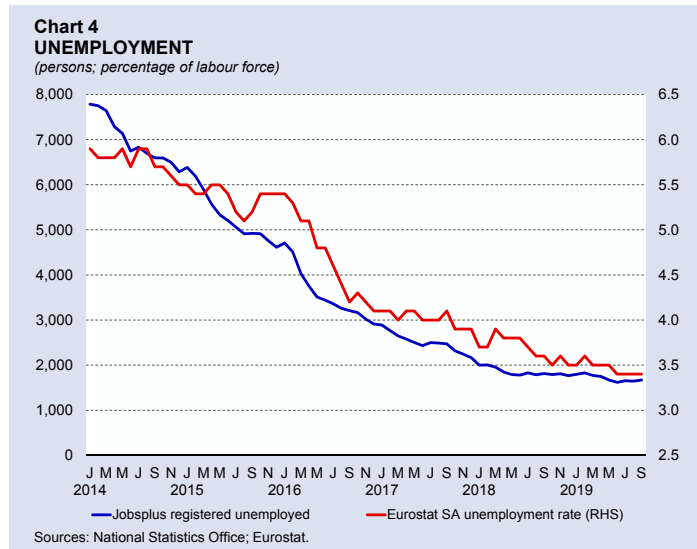
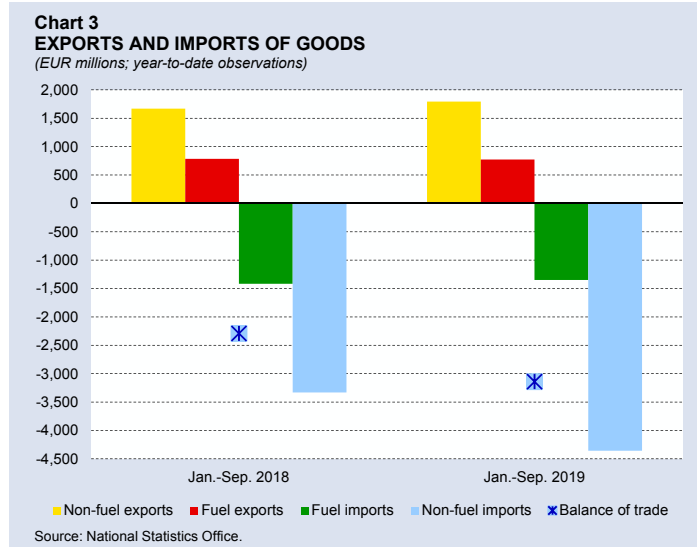
the same time, higher exports were spurred by an increase in organic chemicals.

In the first three quarters of 2019, the visible trade gap widened by €848.4 million on the same period of 2018, reaching €3,140.5 million (see Chart 3). This widening was mostly due to a significant increase in registrations of aircraft and sea vessels. Excluding transactions related to aircraft and ships, the trade deficit would have narrowed by €14.2 million.

### Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,668 in September, slightly up from 1,645 in August, but lower than 1,813 a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 3.4%, unchanged from the preceding three months. Furthermore, this is lower than the rate of 3.6% recorded a year earlier.



### BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in May 2019, the gainfully occupied population, defined as all persons in full-time employment, rose by 5.8% on a year earlier reaching 216,453 (see Chart 5). The rate of growth was slightly lower than that of 5.9% registered in the preceding month, and that of 6.8% observed a year earlier.

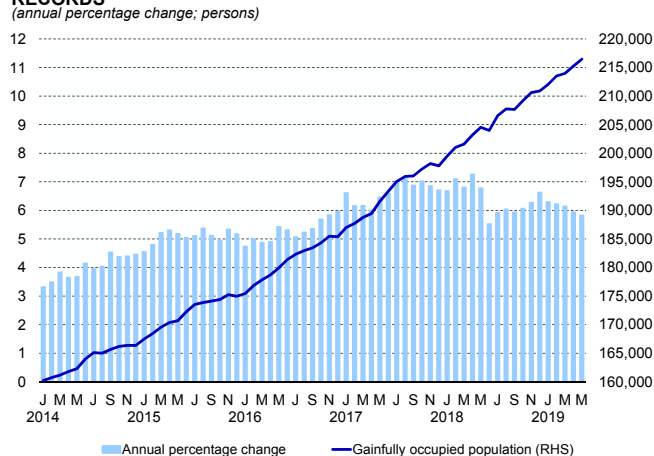
In line with developments in recent months, growth in employment continued to be mainly driven by the private sector (see Table 3).

The number of full-timers in the private sector went up by 11,069, or 7.0% compared with May 2018. Employment growth in this sector continued to be driven by market services,

as the number of full-time job holders increased by 9,456, or 7.8% in annual terms. This increase 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 4,015 in the year to May, and

**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 May	2019 May	Annual change	
			Number of persons	%
<b>Labour supply</b>	<b>206,338</b>	<b>218,122</b>	<b>11,784</b>	<b>5.7</b>
Gainfully occupied <sup>(1)</sup>	204,547	216,453	11,906	5.8
Registered unemployed	1,791	1,669	-122	-6.8
<b>Unemployment rate (%)</b>	<b>0.9</b>	<b>0.8</b>		
<b>Private sector</b>	<b>157,443</b>	<b>168,512</b>	<b>11,069</b>	<b>7.0</b>
<b>Direct production<sup>(2)</sup></b>	<b>35,543</b>	<b>37,156</b>	<b>1,613</b>	<b>4.5</b>
Of which:				
Manufacturing	21,742	21,697	-45	-0.2
Construction	11,034	12,541	1,507	13.7
<b>Market services</b>	<b>121,900</b>	<b>131,356</b>	<b>9,456</b>	<b>7.8</b>
Wholesale and retail trade	26,625	27,329	704	2.6
Transportation and storage	8,920	9,590	670	7.5
Accommodation and food service activities	13,592	14,604	1,012	7.4
Information and communication	6,904	7,213	309	4.5
Financial and insurance activities	9,899	10,360	461	4.7
Real estate, professional and administrative activities <sup>(3)</sup>	30,667	34,682	4,015	13.1
Arts, entertainment and recreation	9,020	9,765	745	8.3
Education	5,561	5,835	274	4.9
Other	10,712	11,978	1,266	11.8
<b>Public sector</b>	<b>47,104</b>	<b>47,941</b>	<b>837</b>	<b>1.8</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.



accounted for 42.5% 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 1,012 persons. Meanwhile, 745 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 1,613, or 4.5% on a year earlier. Growth was recorded in the construction sector while employment in the manufacturing sector edged down.

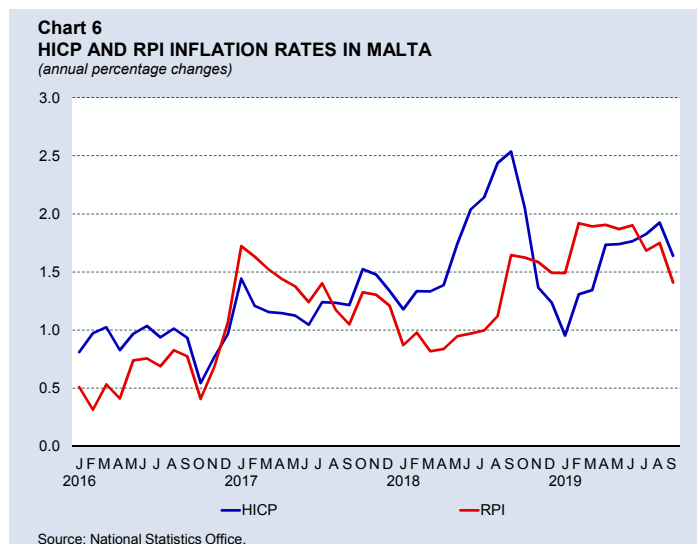
Public sector employment rose by 837, or 1.8%, on a year earlier. Employment increased mostly in public administration and defence, transportation and storage as well as in education. The share of public sector employment in the total gainfully occupied population edged down to 22.1% in May 2019, from 23.0% a year earlier.

## Prices, costs and competitiveness

Annual HICP inflation moderated to 1.6% in September, from 1.9% in August (see Chart 6). Services inflation decelerated during the month, mainly reflecting developments in transport services. Food inflation also eased, on account of slower price growth for fruit, vegetables, and bread. Inflation in non-energy industrial goods and in energy remained unchanged when compared with the previous month.

Inflation as measured by the RPI eased to 1.4% in September, from 1.7% in August (see Chart 6).<sup>12</sup> This mainly reflected an easing in food inflation.

Annual cost inflation for producers, measured by the Industrial Producer Price Index, accelerated to 2.0% in September, from 1.5% in August.<sup>13</sup> This reflected faster growth in the prices of intermediate goods. In contrast, the contribution from consumer goods dropped, while inflation in capital goods and in energy was unchanged when compared with August.



<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.

Malta's nominal harmonised competitiveness indicator (HCI) contracted by 2.2% in the year to September.<sup>14</sup> The real HCI, which also takes into account relative price changes, fell by 2.3%. This suggests that Malta's international competitiveness was impacted by favourable exchange rate movements during the period, augmented by movements in relative prices.

## Public finance

In September 2019, the Consolidated Fund recorded a deficit of €46.1 million, a drop of €52.5 million compared with the surplus registered in September 2018. This occurred due to an upsurge in expenditure, which more than offset a rise in revenue (see Table 4). Consequently, the primary balance registered a deficit of €25.5 million, a €51.1 million decline from the primary surplus recorded in the corresponding period a year earlier.

Total government revenue increased by €9.0 million, or 2.7% in annual terms, as a rise in direct and non-tax revenue offset a strong decline in indirect taxes. Direct taxes rose by €34.0 million, mainly due to an increase in social security contributions. On the other hand, indirect taxes declined by €50.3 million when compared with September 2018. This fall is mainly due to a drop

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

EUR millions

	2018	2019	2018	2019	Change	
	Jan.-Sep.	Jan.-Sep.	Sep.	Sep.	Amount	%
<b>Revenue</b>	<b>2,922.4</b>	<b>3,331.4</b>	<b>331.4</b>	<b>340.4</b>	<b>9.0</b>	<b>2.7</b>
<b>Direct tax</b>	<b>1,510.3</b>	<b>1,712.1</b>	<b>163.3</b>	<b>197.3</b>	<b>34.0</b>	<b>20.8</b>
Income tax	1,054.3	1,211.0	133.4	139.7	6.4	4.8
Social security contributions <sup>(1)</sup>	456.0	501.1	29.9	57.5	27.6	92.4
<b>Indirect tax</b>	<b>1,169.7</b>	<b>1,234.9</b>	<b>152.9</b>	<b>102.6</b>	<b>-50.3</b>	<b>-32.9</b>
Value Added Tax	639.4	695.8	81.7	39.6	-42.1	-51.6
Customs and excise duties	242.5	246.6	37.8	32.6	-5.2	-13.7
Licences, taxes and fines	287.7	292.5	33.4	30.4	-3.0	-8.9
<b>Non-tax<sup>(2)</sup></b>	<b>242.4</b>	<b>384.4</b>	<b>15.2</b>	<b>40.5</b>	<b>25.3</b>	<b>166.6</b>
<b>Expenditure</b>	<b>2,919.3</b>	<b>3,293.5</b>	<b>325.2</b>	<b>386.4</b>	<b>61.3</b>	<b>18.8</b>
<b>Recurrent</b>	<b>2,653.1</b>	<b>2,939.6</b>	<b>271.7</b>	<b>345.5</b>	<b>73.8</b>	<b>27.2</b>
Personal emoluments	612.4	663.5	71.2	78.3	7.0	9.9
Operational and maintenance	139.5	153.2	18.8	16.5	-2.3	-12.3
Programmes and initiatives <sup>(1)</sup>	1,427.8	1,601.0	119.2	175.1	55.9	46.9
Contributions to entities	314.8	374.9	43.1	55.1	12.0	27.7
Interest payments	158.5	147.1	19.4	20.6	1.2	6.1
<b>Capital</b>	<b>266.2</b>	<b>353.9</b>	<b>53.4</b>	<b>40.9</b>	<b>-12.5</b>	<b>-23.5</b>
<b>Primary balance<sup>(3)</sup></b>	<b>161.6</b>	<b>184.9</b>	<b>25.6</b>	<b>-25.5</b>	<b>-51.1</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>3.1</b>	<b>37.9</b>	<b>6.2</b>	<b>-46.1</b>	<b>-52.2</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.

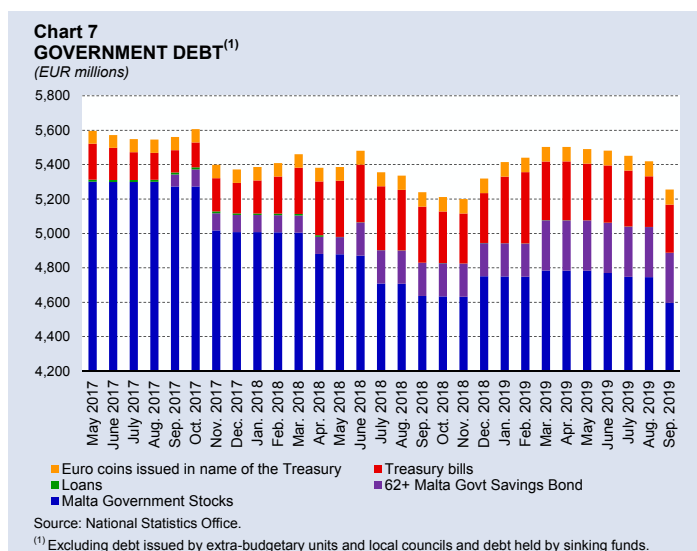
<sup>(3)</sup> Revenue less expenditure excluding interest payments.

<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.

in VAT receipts, complemented with slight declines in customs and excise duties and licences, taxes and fines. Meanwhile, non-tax revenue increased by €25.3 million when compared with the same period of 2018.

Government expenditure increased by €61.3 million, or 18.8% when compared with September 2018. This reflects a sizeable rise in recurrent expenditure, which more than offset a decline in capital expenditure. The increase in recurrent expenditure amounted to €73.8 million, mainly due to a €55.9 million increase in programmes and initiatives outlays, attributed to timing issues. On the other hand, capital expenditure declined by €12.5 million when compared with the same month of 2018, reflecting timing issues with respect to EU funds.

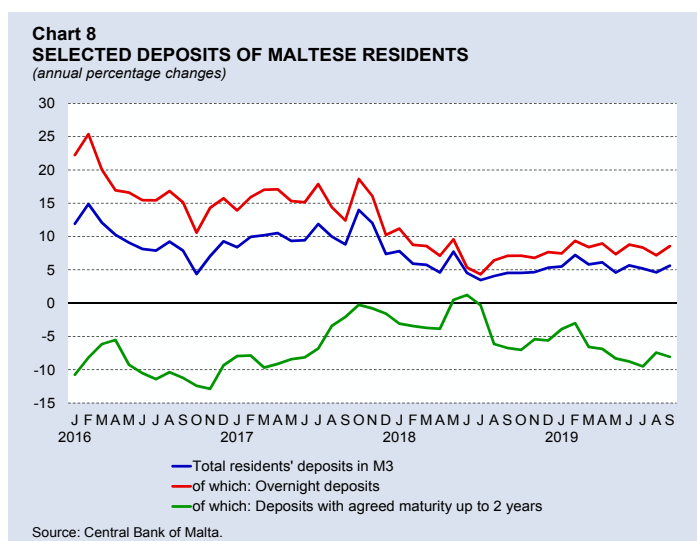
In September 2019, the total stock of government debt amounted to €5,255.4 million, a €164.0 million decrease when compared with a month earlier (see Chart 7). This decline is mainly attributable to a lower outstanding amount of Malta Government Stocks.



## Deposits, credit and financial markets

In September, residents' M3 deposits held with monetary financial institutions (MFIs) based in Malta expanded further, by an annual 5.6% (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 8.6% in the year to September. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 8.1% 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.

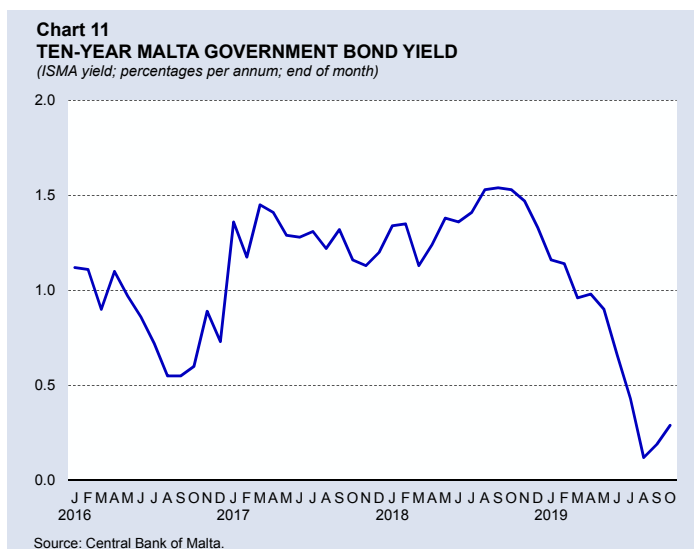
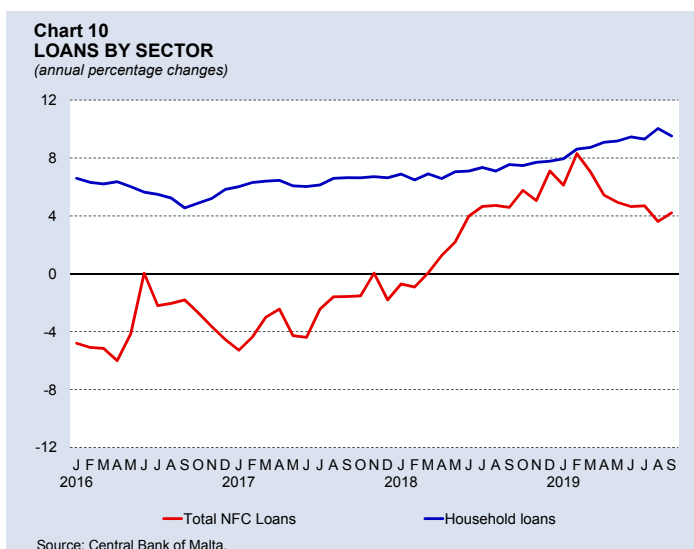
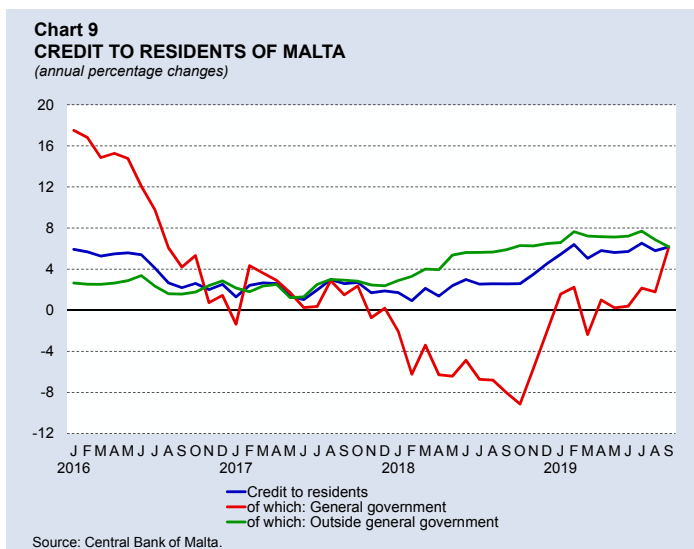


Credit to Maltese residents grew by 6.2% in the year to September (see Chart 9). Credit to general government accelerated strongly, with growth reaching 6.1%, while growth in credit to residents outside general government eased slightly to 6.2% in annual terms.

The continued strength in credit growth is underpinned by an increase in loans to households and, to a lesser extent, loans to non-financial corporations (NFCs). Loans to households grew by 9.5%, mainly supported by mortgage lending (see Chart 10). Meanwhile, loans to NFCs rose by 4.2% 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 August and September, at 0.31%. The composite rate charged on outstanding loans was also unchanged, at 3.48%. The spread between the two rates thus 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 0.3% at the end of October (see Chart 11).



Nonetheless, yields remain low from a historical perspective. The Malta Stock Exchange (MSE) Equity Price Index dropped by 1.6% during the same period. Similarly, the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, fell by 1.5%.

## Annex 1

### MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2017	2018	2018	2019	2019	2019	2018	2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
			Q4	Q1	Q2	Q3	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
<b>Prices and costs</b>																			
HICP inflation	1.3	1.7	1.6	1.2	1.7	1.8	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	1.4	-
Industrial producer price inflation	1.6	4.4	3.5	3.3	1.6	1.7	3.2	3.8	3.6	4.1	3.5	2.5	1.6	1.6	1.7	1.8	1.5	2.0	-
HCI (nominal)	1.7	3.6	2.1	-0.2	-0.1	-1.3	2.6	1.9	1.9	1.1	-0.7	-1.1	-1.0	0.2	0.5	-0.9	-0.8	-2.2	-1.5
HCI (real)	0.9	3.0	1.3	-1.0	-0.6	-1.5	1.8	0.9	1.2	0.1	-1.3	-1.8	-1.8	-0.3	0.1	-1.2	-0.9	-2.3	-1.3
Unit labour costs, whole economy <sup>(1)</sup>	0.5	1.1	1.1	0.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	-0.7	2.3	2.3	1.9	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	-1.2	1.3	1.3	1.7	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.3	5.8	6.2	6.6	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																			
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																			
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	6.4	6.3	6.2	-	-	6.1	6.3	6.6	6.3	6.2	6.1	5.9	5.8	-	-	-	-	-
<b>Balance of payments</b>																			
Current account (as a % of GDP) <sup>(2)</sup>	11.5	11.3	11.3	9.8	9.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																			
Maltese residents' deposits and loans																			
Overnight deposits	10.2	7.7	7.7	8.4	8.8	8.6	7.1	6.8	7.7	7.5	9.4	8.4	8.9	7.3	8.8	8.3	7.2	8.6	-
Deposits with agreed maturity up to 2 years	-1.6	-5.6	-5.6	-6.6	-8.8	-8.1	-7.0	-5.4	-5.6	-3.9	-3.0	-6.6	-6.9	-8.3	-8.8	-9.5	-7.4	-8.1	-
Total residents' deposits in M3	7.4	5.3	5.3	5.8	5.7	5.6	4.5	4.7	5.3	5.5	7.2	5.8	6.1	4.6	5.7	5.2	4.6	5.6	-
Credit to general government	0.2	-2.0	-2.0	-2.4	0.4	6.1	-9.1	-5.6	-2.0	1.6	2.2	-2.4	1.0	0.2	0.4	2.1	1.8	6.1	-
Credit to residents (excl. general government)	2.4	6.5	6.5	7.2	7.2	6.2	6.3	6.3	6.5	6.6	7.6	7.2	7.2	7.1	7.2	7.7	6.9	6.2	-
Total credit	1.9	4.5	4.5	5.1	5.7	6.2	2.6	3.5	4.5	5.4	6.4	5.1	5.8	5.6	5.7	6.5	5.8	6.2	-
10-year interest rate (%) <sup>(3)</sup>	1.2	1.3	1.3	1.0	0.7	0.2	1.5	1.5	1.3	1.2	1.1	1.0	1.0	0.9	0.7	0.4	0.1	0.2	0.3
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	-2.6	0.1	3.0	4.3	2.2	2.1	1.6	0.6	0.8	-1.8	2.0	4.1	0.1	2.2	-0.2	0.7	-1.0	2.4	-1.6
<b>General government finances (% of GDP)</b>																			
Surplus (+) / deficit (-) <sup>(2)</sup>	3.4	1.9	1.9	1.8	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	50.3	45.8	45.8	46.4	45.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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

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

<sup>(3)</sup> End of period.

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

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