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EUROSISTEMA
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ECONOMIC UPDATE

12/2019

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ECONOMIC UPDATE 12/2019

Summary¹

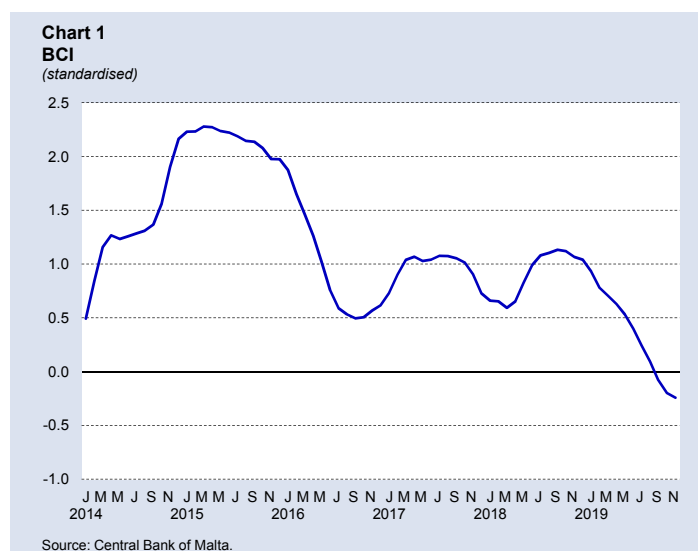
In November, the Bank's Business Conditions' Index (BCI) remained unchanged when compared with the previous month, at a level suggesting that economic conditions are no longer above average. By contrast, economic sentiment edged up and remained above its long-term average. Higher confidence in the retail sector and among consumers – and to a lesser extent – in the construction sector, offset lower sentiment among industrial firms. Meanwhile, sentiment in the services sector remained broadly unchanged. In October, the number of tourist arrivals rose at a faster annual pace when compared with a month earlier. Conversely, annual growth in industrial production and in the volume of retail trade moderated compared with September. 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) moderated to 1.4% in October. Similarly, inflation based on the Retail Price Index (RPI) remained unchanged at 1.4%. Maltese residents' deposits expanded further in the year to October, albeit at a slower annual growth rate of 3.8%. Meanwhile, credit to Maltese residents grew by 6.2% in the year to October. As regards fiscal developments, the deficit on the cash-based Consolidated Fund was marginally higher than that recorded a year earlier.

Central Bank's BCI²

In recent months the development of the index suggests that the economy is no longer operating at above normal business conditions. In November, the Central Bank's BCI reached -0.2, similar to the updated value of -0.2 in October (see Chart 1), indicating that economic conditions are statistically close to their long-term average. The BCI was affected by the continued deceleration in GDP growth and industrial production, weaker declines in unemployment and lower sentiment on a year-on-year basis. These factors were partly offset by slightly faster growth in tourist arrivals.

Business and consumer confidence indicators

In November, the European Commission's Economic Sentiment Indicator (ESI), at 104.1, was well below its level a year earlier, when it had stood at 111.7. However, it was slightly higher than the 103.8 observed in the preceding month. Economic sentiment remained



¹ The cut-off date for information in this note is 12 December 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.

Table 1
BUSINESS AND CONSUMER SURVEYS

Balances; percentage points; seasonally adjusted

	2017		2018		2019						
			Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
ESI	112.5	112.0	101.8	91.8	95.9	102.4	103.3	99.9	101.5	103.8	104.1
Retail trade confidence indicator	8.5	8.2	28.6	5.7	-10.8	5.1	27.8	2.9	0.7	-1.5	8.7
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	18.5
Stocks of finished goods	5.5	7.7	18.6	17.7	16.9	20.3	9.4	7.9	28.4	7.8	9.4
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	16.9
Consumer confidence indicator	8.5	10.1	-0.6	3.2	6.6	3.9	8.1	6.5	3.1	2.4	4.9
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	8.1
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	9.3
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	15.6
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	-13.3
Construction confidence indicator	12.8	21.3	32.3	21.7	10.5	37.4	39.2	24.7	14.3	21.5	22.7
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	10.7
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	34.7
Services confidence indicator	30.8	34.6	22.4	20.8	10.1	18.0	18.2	16.9	22.9	30.4	30.4
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	17.9
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	35.9	36.3
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	34.6	37.0
Industrial confidence indicator	7.9	6.9	-2.5	-22.4	-9.6	-0.8	-6.3	-9.1	-5.3	-4.9	-8.3
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	-28.4
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	18.0
Production expectations for the months ahead	26.9	27.9	20.3	-7.8	-0.7	32.9	23.1	24.1	25.7	27.9	21.4

Source: European Commission.

above its long-term average of 100.1 and 2.8 points above that in the euro area (see Table 1).^{3,4} The month-on-month rise in sentiment reflects higher confidence in the retail sector and among consumers, and to a lesser extent in the construction sector. Meanwhile, sentiment within the services sector remained broadly unchanged. By contrast, lower sentiment was recorded in industry.

In November, confidence within the retail sector turned positive. It rose to 8.7 from -1.5 in the preceding month. Following this increase, sentiment stood above its long-term average of 3.0.⁵ The rise in sentiment was primarily driven by retailers' assessment of business activity over the past three months and, to a lesser extent, by their expectations of activity in the coming months. By contrast, the share of above normal stock levels held edged up. Supplementary data indicate that on balance, retailers' price expectations turned positive. Meanwhile, the share of retailers anticipating a rise in employment levels fell marginally.

Consumer confidence more than doubled in the month under review. It edged up to 4.9 from 2.4 in the preceding month. Hence, it stood above its long-term average of -11.5.⁶ Sentiment was largely driven by a higher share of respondents expecting to make major purchases in the 12

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.

⁵ 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.

⁶ 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.

months ahead. Meanwhile, consumers were marginally more optimistic in their assessment of the financial situation during the past year and, to a lesser extent, in their expectations over the next 12 months. In contrast, consumers' assessment of the general economic situation over the same period weakened. Additional data show that when compared with October, a higher share of respondents expected higher prices. At the same time, the number of consumers anticipating a fall in unemployment over subsequent months increased.

Confidence in the construction sector rose to 22.7 in November, from 21.5 in October. It remained well above its long-term average of -12.1.⁷ Improved sentiment was almost entirely driven by an increase in the share of respondents reporting higher employment expectations over the next three months. At the same time, the number of participants reporting higher order book levels almost halved. Additional survey data show that the share of respondents anticipating higher prices in the next three months fell from a month earlier.

In November, sentiment within the services sector remained broadly unchanged at 30.4, well above its long-term average of 23.1.⁸ Firms' assessment of demand over the past three months remained broadly unchanged, while assessment of the business situation over the same period was weaker. These were offset by marginally higher demand expectations for the next three months. Supplementary survey data indicate that, on balance, a larger number of firms expected prices and employment levels to increase in the three months ahead.

Industrial confidence fell to -8.3 from -4.9 a month earlier, and stood below its long-term average of -3.2.⁹ The recent fall in sentiment was notably driven by a decline in production expectations for the months ahead, and to a limited extent, by a weaker assessment of order book levels.¹⁰ 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 declined sharply. At the same time, inflation expectations turned positive in the month under review.

In October, 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 1.0% in annual terms, as against an expansion of 5.2% 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 beverages sector. Smaller increases were registered in the repair and installation of machinery and equipment. On the other hand, output declined in the food sector and in the "other manufacturing" sub-sector, which includes firms involved in the production of medical and dental instruments, toys and related products. Smaller declines were registered among firms that produce rubber and

⁷ 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.

⁸ 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.

⁹ 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.

¹⁰ 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.

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	2019													
			Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
Industrial production	8.5	1.3	-6.9	2.3	10.7	-0.6	0.8	-1.0	-4.3	2.5	-1.2	0.8	1.1	7.9	5.2	1.0
Retail trade	5.4	0.2	-1.3	0.5	0.6	-1.9	2.4	3.2	3.6	6.9	-0.4	5.1	5.4	3.8	5.9	5.1
Number of tourist arrivals	15.7	14.3	15.1	10.5	7.8	11.0	2.4	2.3	3.5	3.6	2.0	8.0	5.2	7.2	5.5	6.2
Number of nights stayed	10.3	12.5	10.2	8.0	8.0	10.1	7.6	3.5	2.2	2.6	-3.6	5.1	1.6	5.8	2.1	6.5
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	12.1
Collective ⁽¹⁾	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	4.2
Other rented ⁽²⁾	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	28.5
Non-rented accommodation ⁽³⁾	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	-19.8
Tourist expenditure	13.9	8.0	4.8	3.3	2.6	1.1	3.0	-2.8	0.5	7.7	3.3	10.7	1.8	2.8	5.9	7.1
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	-6.2
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	14.8
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	11.1

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.

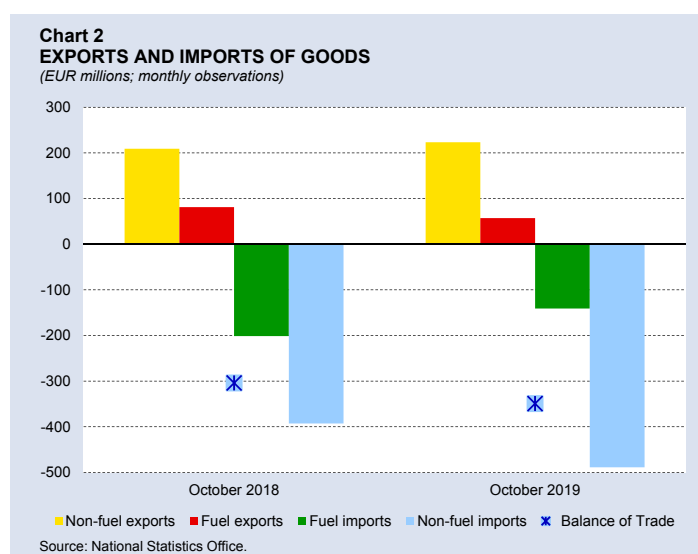
⁽³⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

plastics as well as among manufacturers of computer, electronics and optical products. A minor decline was registered in the energy sector.

In October, 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 5.9% increase in September.

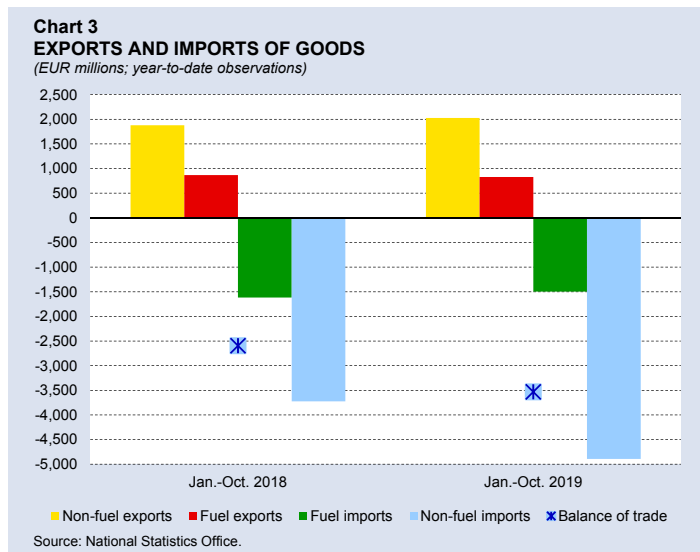
Meanwhile, the number of inbound tourists grew further. It increased by 6.2% on a year earlier, following a 5.5% rise in September. Nights stayed rose by 6.5%, following a 2.1% rise in the previous month. Nights spent in rented accommodation, particularly in the “other rented” category, increased significantly, while visitors spent fewer nights in non-rented accommodation. Tourist spending in Malta grew by 7.1% in annual terms, following a 5.9% rise in September.

Customs data show that the merchandise trade deficit widened to €349.3 million in October, up from €304.1 million a year earlier. The widening merchandise gap was driven by an increase of €35.6 million in imports, whereas exports fell by €9.6 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 lesser extent, organic chemicals. At the same time, lower exports were spurred by a decrease in fuel re-exports and fish exports. To an extent, the latter were offset



by a rise in exports of machinery and mechanical appliances, and organic chemicals.

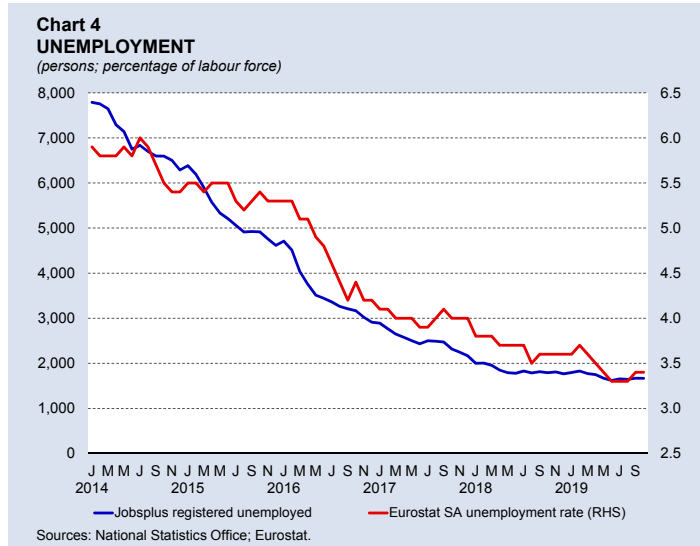
In the first ten months of 2019, the visible trade gap widened by €935.2 million on the same period of 2018, reaching €3,531.4 million (see Chart 3). This widening was mostly due to a significant increase in registrations of sea vessels. If one were to exclude transactions related to ships, the trade deficit would have narrowed by €63.9 million.



Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,666 in October, marginally lower from 1,668 in September and 1,790 a year earlier (see Chart 4).

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



BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in July 2019, the gainfully occupied population, defined as all persons in full-time employment, rose by 5.4% on a year earlier reaching 219,375 (see Chart 5). The rate of growth was slightly lower than that of 5.5% registered in the preceding month, and that of 6.7% observed a year earlier.

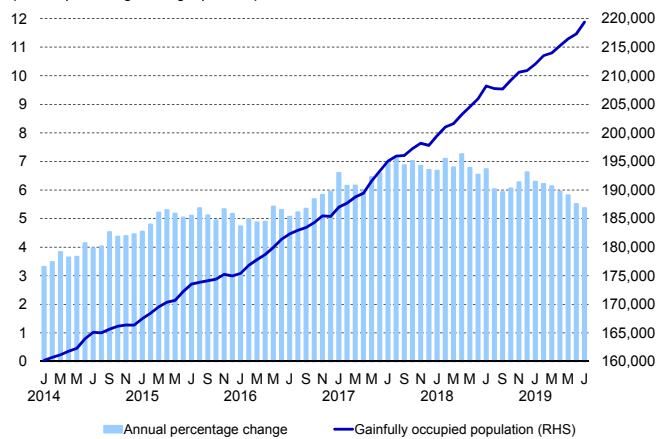
In line with developments in recent months, growth in employment continued to be mainly driven by the private sector (see Table 3).

The number of full-timers in the private sector went up by 10,484, or 6.5% compared with July 2018. Employment growth in this sector continued to be driven by market services,

as the number of full-time job holders increased by 8,618, or 6.9% 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 3,478

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 July	2019 July	Annual change	
			Number of persons	%
Labour supply	210,018	221,029	11,011	5.2
Gainfully occupied ⁽¹⁾	208,190	219,375	11,185	5.4
Registered unemployed	1,828	1,654	-174	-9.5
Unemployment rate (%)	0.9	0.7		
Private sector	160,725	171,209	10,484	6.5
Direct production⁽²⁾	35,917	37,783	1,866	5.2
Of which:				
Manufacturing	22,021	21,946	-75	-0.3
Construction	11,118	12,867	1,749	15.7
Market services	124,808	133,426	8,618	6.9
Wholesale and retail trade	26,847	27,482	635	2.4
Transportation and storage	9,093	9,663	570	6.3
Accommodation and food service activities	13,861	14,911	1,050	7.6
Information and communication	7,140	7,279	139	1.9
Financial and insurance activities	10,086	10,530	444	4.4
Real estate, professional and administrative activities ⁽³⁾	31,885	35,363	3,478	10.9
Arts, entertainment and recreation	9,147	9,952	805	8.8
Education	5,684	6,004	320	5.6
Other	11,065	12,242	1,177	10.6
Public sector	47,465	48,166	701	1.5

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.

in the year to July, and accounted for 40.4% 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 1,050 persons. Meanwhile, 805 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 1,866, or 5.2% on a year earlier. Growth was recorded in the construction sector while employment in the manufacturing sector edged down.

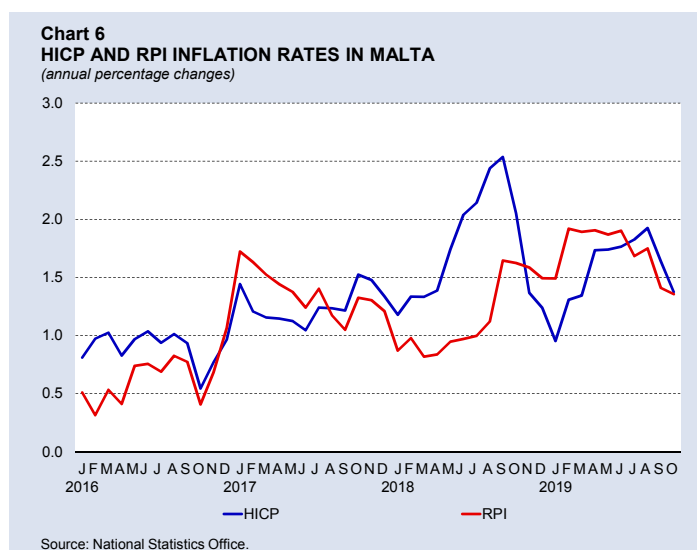
Public sector employment rose by 701, or 1.5%, on a year earlier. Employment increased mostly in the public administration and defence, health and education sectors. The share of public sector employment in the total gainfully occupied population edged down to 22.0% in July 2019, from 22.8% a year earlier.

Prices, costs and competitiveness

Annual HICP inflation moderated to 1.4% in October, from 1.6% in September (see Chart 6). Food inflation decelerated during the month, reflecting lower annual growth in the prices of fresh produce and the diminished impact of last year’s increase in dairy prices. At the same time, services inflation was unchanged when compared with September, though remaining the main contributor to overall inflation. Inflation in non-energy industrial goods picked up marginally from low levels, while energy inflation remained unchanged when compared with the previous month.

Inflation as measured by the RPI remained unchanged at 1.4% in October, when compared with September (see Chart 6).¹² A lower contribution from food inflation was offset by higher contributions from clothing and footwear, as well as recreation and culture.

Annual cost inflation for producers, measured by the Industrial Producer Price Index, accelerated to 2.2% in October, from 2.0% in September.¹³ This reflected faster growth in the prices of intermediate goods.



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.

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.

The contribution from consumer goods and capital goods remained unchanged when compared with September, while energy inflation was nil.

Malta's nominal harmonised competitiveness indicator (HCI) contracted by 1.5% in the year to October.¹⁴ The real HCI, which also takes into account relative price changes, fell by 1.9%. 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 October 2019, the Consolidated Fund recorded a deficit of €27.7 million, a rise of €0.6 million when compared to that registered in October 2018. This slight increase occurred since a rise in expenditure slightly offset an increase in revenue (see Table 4). In turn, the primary balance registered a deficit of €11.0 million, a €0.4 million increase from the primary deficit recorded in the corresponding period a year earlier.

Total government revenue increased by €8.3 million, or 2.5% in annual terms, on the back of higher non-tax revenue and indirect taxes. The former increased by €5.8 million mainly due to a rise in inflows from the Individual Investor Programme (IIP). Indirect taxes increased by €2.7 million, as

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2018	2019	2018	2019	Change	
	Jan.-Oct.	Jan.-Oct.	Oct.	Oct.	Amount	%
Revenue	3,261.8	3,679.2	339.4	347.7	8.3	2.5
Direct tax	1,717.5	1,919.2	207.2	207.1	-0.1	-0.1
Income tax	1,204.7	1,358.7	150.5	147.7	-2.8	-1.9
Social security contributions ⁽¹⁾	512.7	560.5	56.7	59.4	2.6	4.7
Indirect tax	1,282.1	1,350.0	112.4	115.0	2.7	2.4
Value Added Tax	695.8	744.2	56.4	48.4	-8.0	-14.3
Customs and excise duties	265.3	277.7	22.8	31.1	8.2	36.0
Licences, taxes and fines	320.9	328.2	33.2	35.6	2.5	7.4
Non-tax⁽²⁾	262.3	410.0	19.8	25.6	5.8	29.3
Expenditure	3,285.8	3,669.0	366.5	375.5	8.9	2.4
Recurrent	2,959.8	3,264.5	306.7	324.9	18.2	5.9
Personal emoluments	678.0	735.9	65.6	72.4	6.8	10.4
Operational and maintenance	160.8	176.1	21.3	22.9	1.6	7.7
Programmes and initiatives ⁽¹⁾	1,588.9	1,767.6	161.1	166.6	5.5	3.4
Contributions to entities	357.1	421.2	42.3	46.3	4.0	9.5
Interest payments	175.0	163.7	16.5	16.7	0.2	1.1
Capital	326.1	404.5	59.9	50.6	-9.3	-15.5
Primary balance⁽³⁾	150.9	173.9	-10.6	-11.0	-0.4	-
Consolidated Fund balance	-24.1	10.2	-27.1	-27.7	-0.6	-

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.

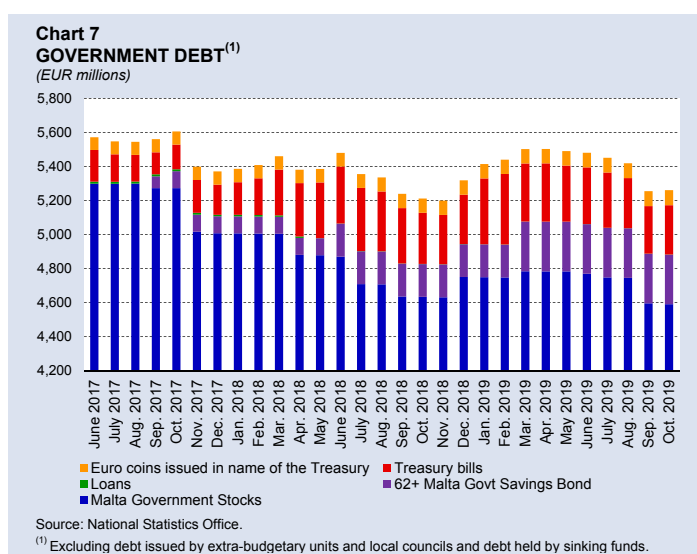
⁽³⁾ Revenue less expenditure excluding interest payments.

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.

a rise in Customs and excise duties offset a drop in VAT receipts. Meanwhile, direct taxes fell by a marginal €0.1 million as a fall in income tax slightly outweighed a rise in intakes from social security contributions.

Government expenditure increased by €8.9 million, or 2.4% when compared with October 2018. This mainly reflects an increase in recurrent expenditure, which more than offset a decline in capital expenditure. This increase in recurrent expenditure mainly reflects higher outlays on personal emoluments, outlays on health care and the timing of allocations to local councils. On the other hand, capital expenditure declined by €9.3 million when compared with the same month of 2018, reflecting the timing of some EU-funded projects.

In October 2019, the total stock of government debt amounted to €5,261.3 million, an increase of €5.8 million when compared with a month earlier (see Chart 7). This rise is mainly attributable to a higher amount of Treasury bills outstanding.

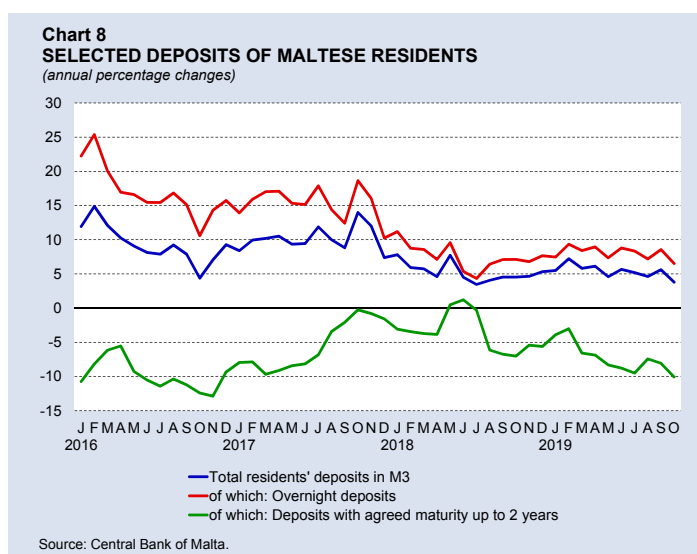


Deposits, credit and financial markets

In October, residents' M3 deposits held with monetary financial institutions (MFIs) based in Malta expanded further, albeit at a slower annual growth rate of 3.8% (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 6.5% in the year to October. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 10.1% 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 October

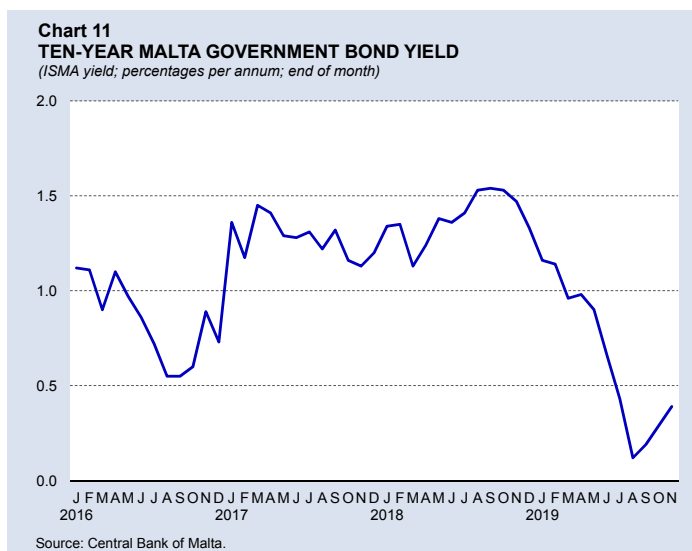
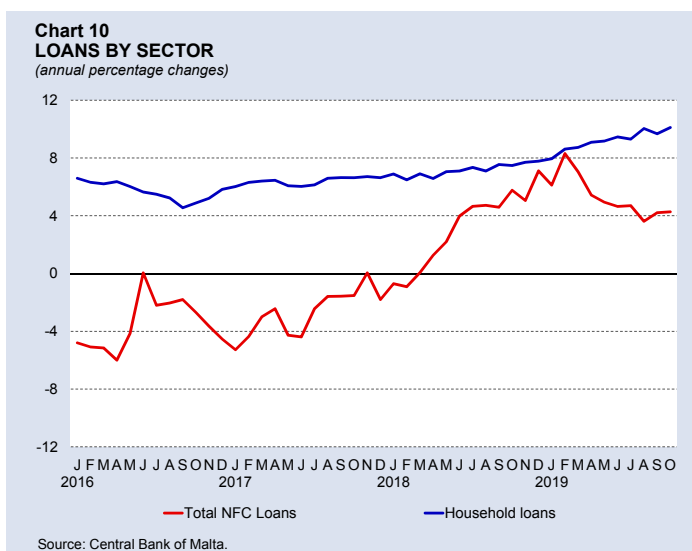
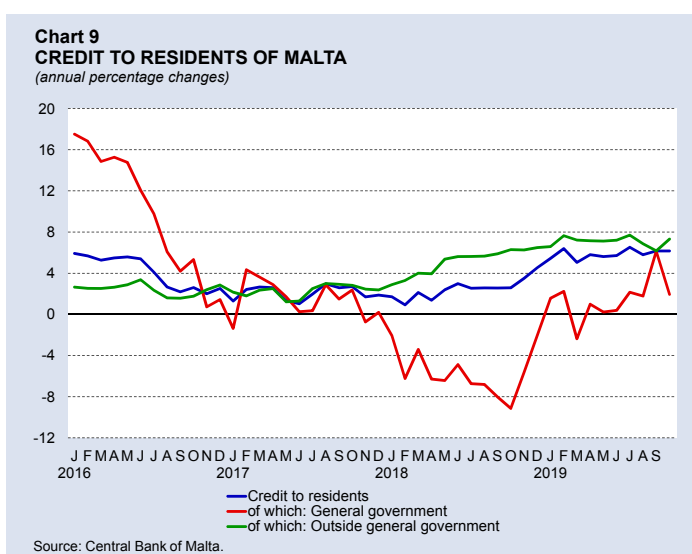


(see Chart 9). Credit to general government decelerated, with growth falling to 1.9%, while growth in credit to residents outside general government picked up to 7.3% in annual terms.

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 10.1%, mainly supported by mortgage lending (see Chart 10). Meanwhile, loans to NFCs rose by 4.3% 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 September and October, at 0.31%. The composite rate charged on outstanding loans fell by two basis points, to 3.46%. The spread between the two rates thus stood at 315 basis points, slightly lower than that of 322 basis points registered a year earlier.

In the capital market, the secondary market yield on 10-year Maltese government bonds rose slightly to 0.4% at the end of November (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index dropped by 2.5% during the same period. Similarly, the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, fell by 2.5%.



MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2017	2018	2018	2019	2019	2019	2018	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
			Q4	Q1	Q2	Q3	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
Prices and costs																			
HICP inflation	1.3	1.7	1.6	1.2	1.7	1.8	1.4	1.2	1.0	1.3	1.3	1.7	1.7	1.8	1.8	1.9	1.6	1.4	-
RPI inflation	1.4	1.2	1.6	1.8	1.9	1.6	1.6	1.5	1.5	1.9	1.9	1.9	1.9	1.9	1.7	1.7	1.4	1.4	-
Industrial producer price inflation	1.6	4.4	3.5	3.3	1.6	1.7	3.8	3.6	4.1	3.5	2.5	1.6	1.6	1.7	1.8	1.5	2.0	2.2	-
HCI (nominal)	1.7	3.6	2.1	-0.2	-0.1	-1.3	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	0.9	1.2	0.1	-1.3	-1.8	-1.8	-0.3	0.1	-1.2	-0.9	-2.3	-1.9	-
Unit labour costs, whole economy ⁽¹⁾	0.7	1.2	1.2	0.2	0.2	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	-0.6	2.3	2.3	1.7	1.4	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-1.3	1.2	1.2	1.6	1.3	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.3	5.8	6.2	6.6	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																			
Nominal GDP	9.3	9.2	9.9	8.2	7.1	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	6.7	7.0	7.8	6.1	4.9	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.4	7.1	7.0	4.3	2.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	2.5	12.7	26.9	21.7	11.3	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-7.2	-1.8	-1.1	28.3	-0.5	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.8	2.9	0.1	3.2	0.7	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	-0.5	3.0	-0.2	6.2	-1.1	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-
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	6.6	6.3	6.2	5.8	-	6.3	6.6	6.3	6.2	6.1	5.9	5.8	5.5	5.4	-	-	-	-
Balance of payments																			
Current account (as a % of GDP) ⁽²⁾	10.5	10.4	10.4	8.8	9.1	10.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																			
Maltese residents' deposits and loans																			
Overnight deposits	10.2	7.7	7.7	8.4	8.8	8.6	6.8	7.7	7.5	9.4	8.4	8.9	7.3	8.8	8.3	7.2	8.6	6.5	-
Deposits with agreed maturity up to 2 years	-1.6	-5.6	-5.6	-6.6	-8.8	-8.1	-5.4	-5.6	-3.9	-3.0	-6.6	-6.9	-8.3	-8.8	-9.5	-7.4	-8.1	-10.1	-
Total residents' deposits in M3	7.4	5.3	5.3	5.8	5.7	5.6	4.7	5.3	5.5	7.2	5.8	6.1	4.6	5.7	5.2	4.6	5.6	3.8	-
Credit to general government	0.2	-2.0	-2.0	-2.4	0.4	6.1	-5.6	-2.0	1.6	2.2	-2.4	1.0	0.2	0.4	2.1	1.8	6.1	1.9	-
Credit to residents (excl. general government)	2.4	6.5	6.5	7.2	7.2	6.2	6.3	6.5	6.6	7.6	7.2	7.2	7.1	7.2	7.7	6.9	6.2	7.3	-
Total credit	1.9	4.5	4.5	5.1	5.7	6.2	3.5	4.5	5.4	6.4	5.1	5.8	5.6	5.7	6.5	5.8	6.2	6.2	-
10-year interest rate (%) ⁽³⁾	1.2	1.3	1.3	1.0	0.7	0.2	1.5	1.3	1.2	1.1	1.0	1.0	0.9	0.7	0.4	0.1	0.2	0.3	0.4
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	-2.6	0.1	3.0	4.3	2.2	2.1	0.6	0.8	-1.8	2.0	4.1	0.1	2.2	-0.2	0.7	-1.0	2.4	-1.6	-2.5
General government finances (% of GDP)																			
Surplus (+) / deficit (-) ⁽²⁾	3.4	1.9	1.9	1.8	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁵⁾	50.1	45.6	45.6	46.2	45.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.