



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# ECONOMIC UPDATE

## 1/2020

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*The cut-off date for information in this publication is 14 January 2020. Figures in tables may not add up due to rounding.*

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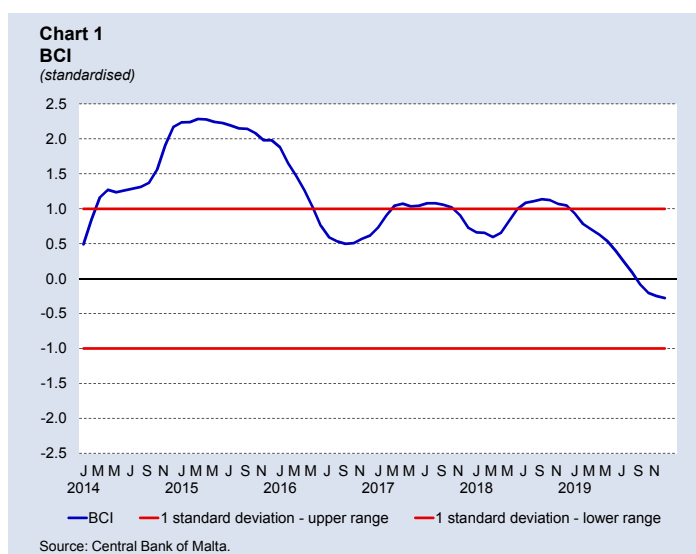
## ECONOMIC UPDATE 1/2020

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

In December, the Bank's Business Conditions' Index (BCI) fell slightly when compared with the previous month, to a level suggesting that economic conditions remain below their long run average. Economic sentiment also developed in a similar way. Confidence decreased significantly in the services sector and among retailers, and to a lesser extent in the construction sector, offsetting improved sentiment in industry and among consumers. In November, the number of tourist arrivals rose at a faster annual pace when compared with a month earlier. However, annual growth in industrial production and in the volume of retail trade moderated compared with October. 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 further in November, to 1.3%, while inflation based on the Retail Price Index (RPI) remained unchanged at 1.4%. Meanwhile, Maltese residents' deposits expanded further in the year to November, adding 3.8%, and credit to Maltese residents grew by 5.7% in the year to November. In the latter month, the deficit on the cash-based Consolidated Fund narrowed compared with a year earlier.

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

In recent months the development of the index suggests that the economy is now operating at below but very close to its long-run average. In December, the Central Bank's BCI reached -0.3, slightly below the updated value of -0.2 in November (see Chart 1), although economic conditions remain close to their long-term average. The BCI was affected by the continued deceleration in GDP growth and lower sentiment on a year-on-year basis. These factors were partly offset by slightly faster growth in industrial production. Box 1 provides further information about the interpretation of the BCI.



<sup>1</sup> The cut-off date for information in this note is 14 January 2020.

<sup>2</sup> The methodology underlying the BCI can be found [here](#). A zero value of the BCI is consistent with average business conditions, which in the case of Malta tends to be consistent with a real GDP growth rate of close to 4%. When the value of the BCI falls repeatedly below -1, economic activity would be significantly below normal.

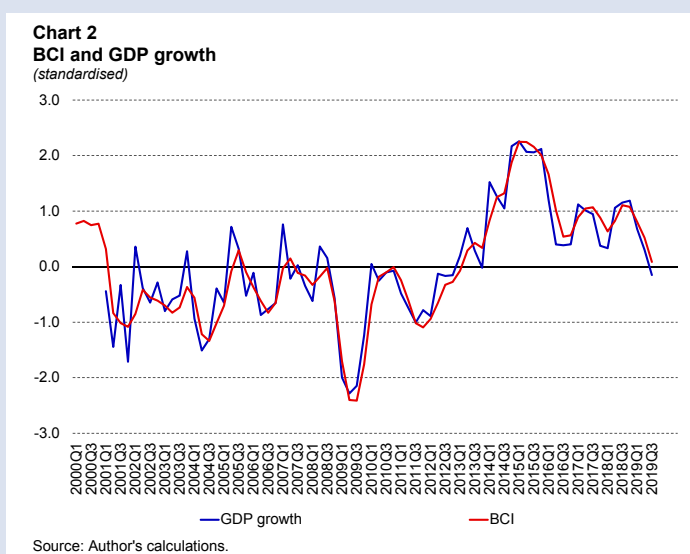
## BOX 1: INTERPRETING THE BCI<sup>3</sup>

The BCI is a concise summary of current economic conditions in Malta. It aims to be a simple indicator of business conditions, and its usefulness stems from its timeliness as it is available on a monthly frequency basis compared to other indicators such as the gross domestic product (GDP), which are produced on a quarterly basis.

As discussed in Ellul (2016),<sup>4</sup> and further updated in Ellul (2018),<sup>5</sup> the average value of the BCI is zero. A zero value is consistent with average business conditions. Positive values imply better-than-average conditions, and conversely for negative values. This behaviour follows from the BCI's nature as a standardised variable.<sup>6</sup> For example the average growth in GDP in Malta since 2001 stands at 3.9%.<sup>7</sup> A GDP growth rate of around 4.0% would be broadly consistent with a BCI value of 0.0. This rate is high when compared with long run averages of other developed economies.

Once GDP growth is standardised, it becomes closely tracked by the BCI (see Chart 2). Thus, for example, while the published growth rate of GDP stands at 3.4% in the third quarter of 2019 (2019Q3), when standardised this becomes -0.2. This means that GDP growth in that quarter, while still strong, even when compared to other developed economies, is slightly below the average value of GDP growth calculated from 2001 onwards (see Chart 3). Therefore, while GDP growth has remained consistently well above zero, in recent quarters rates are gradually easing towards, and below their long run average growth rate. The BCI is following a similar trend and is hence shifting towards negative territory.

However, it is important to consider that the average value of zero in the BCI refers to an economy growing at around 4.0%. Thus, a negative BCI value should not be interpreted as negative GDP



<sup>3</sup> Prepared by Reuben Ellul. The author is a *Principal Economist* within the Bank's Economic Analysis Department.

<sup>4</sup> Ellul, R. (2016). "A real-time measure of business conditions in Malta," WP-04-2016, Central Bank of Malta *Working Paper*, December 2016.

<sup>5</sup> Ellul, R. (2018). "Updates to the BCI," Central Bank of Malta.

<sup>6</sup> Standardisation is a rescaling process to facilitate comparisons of different series and implies the removal of the average value from a series, and its division by the series' standard deviation. Standardised variables have an average value of zero and a standard deviation of 1.0.

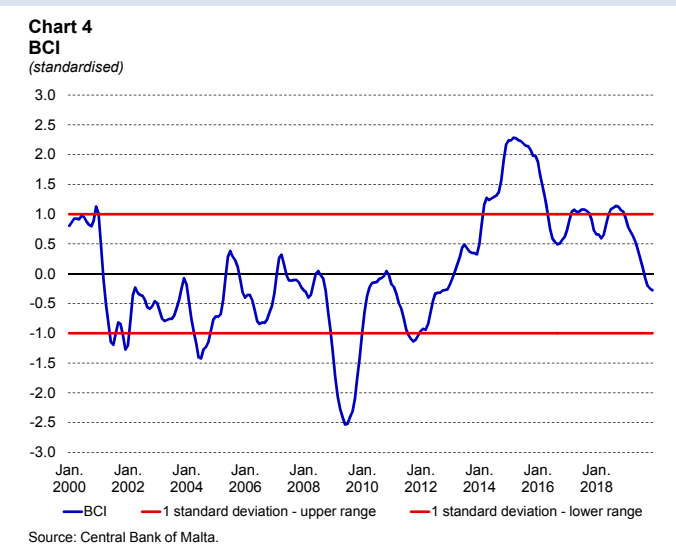
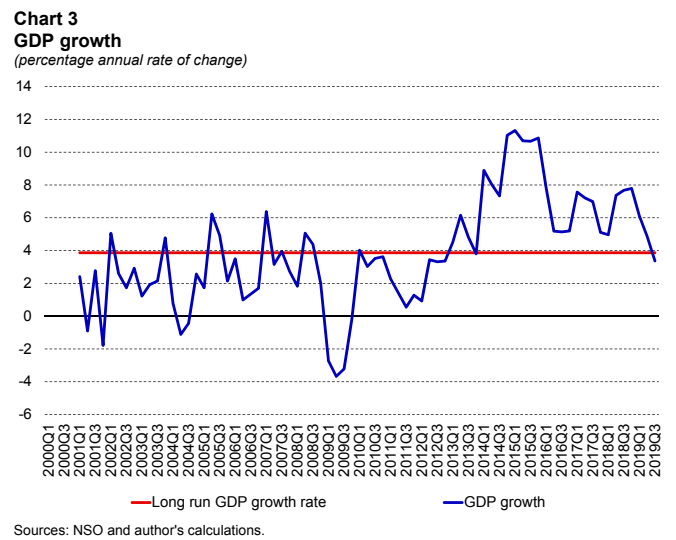
<sup>7</sup> Measured as annual growth in chain-linked volumes, as per National Statistics Office *Release NR199/2019*. Obviously, this figure is subject to change due to both new observations as well as revisions to past data.

growth. In fact, while the BCI was negative in 29 instances between 2001Q1 and 2019Q3, official GDP growth was below zero only eight times. Special care should be made to interpret the BCI figure as a comparison of current economic conditions with respect to long run averages, and not as a measure in absolute terms of how much or whether the economy is growing.

Moreover, those same long run average economic conditions are themselves liable to change, given the nature of revisions in Maltese national accounts data (Grech, 2018).<sup>8</sup>

In order to facilitate the interpretation of the BCI, and to continue improving transparency, the range enclosing one standard deviation on either side of the mean will also start to be shown in the Bank's publications (see Chart 4). When the BCI falls repeatedly below the lower band, one would be able to conclude that those episodes constitute periods of significantly below normal economic activity.

With this addition, it is apparent that while the BCI is slightly below average economic conditions, it is significantly above the lower confidence level. This is consistent with the normalisation in GDP growth rates in evidence over recent quarters, which while remaining high in absolute terms, have slowed down from the high rates seen in 2014 and 2015. The BCI was consistently below the lower confidence level only in 2001, 2004, 2009 and 2011.



<sup>8</sup> Grech, O. (2018). "An Analysis of Revisions to Maltese GDP Data," *Research Bulletin* 2018, Central Bank of Malta, pp. 27-34.

## Business and consumer confidence indicators

In December, the European Commission's Economic Sentiment Indicator (ESI) fell below its long-term average of 100.0. It stood at 91.5, down from 104.1 in the preceding month, and well below the 107.9 recorded a year earlier (see Table 1).<sup>9,10</sup> The ESI also stood 10.0 points lower than that in the euro area. The month-on-month decrease in sentiment reflects significantly weaker confidence in the services sector and among retailers, and to a lesser extent in the construction sector. Meanwhile, sentiment in industry and among consumers edged up marginally.

In December, sentiment within the services sector turned negative. It stood at -6.5, down from 30.4 in the preceding month.<sup>11</sup> Consequently, the confidence indicator fell significantly below its long-term average of 22.9. The fall in sentiment was driven by all sub-components, with the strongest decline being recorded in firms' assessment of demand over the past three months and their demand expectations for the next three months. Supplementary survey data indicate that, on balance, fewer firms expected prices and employment levels to increase over subsequent months.

In December, confidence within the retail sector also turned negative. It stood at -20.6, down from 8.7 in the previous month.<sup>12</sup> Following this sharp decline, sentiment stood significantly below its

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

*Balances; percentage points; seasonally adjusted*

	2017		2018		2019											
	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.		
<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>104.1</b>	<b>91.5</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>	<b>30.4</b>	<b>-6.5</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	17.9	-9.1				
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	-6.3				
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	-4.1				
<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>	<b>8.7</b>	<b>-20.6</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	18.5	-19.6				
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	25.6				
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	-16.7				
<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>	<b>22.7</b>	<b>19.4</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	10.7	34.7				
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	12.6	26.1				
<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>	<b>4.9</b>	<b>5.5</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	8.1	7.6				
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	9.3	8.0				
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	11.3				
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	-4.8				
<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>	<b>-8.3</b>	<b>-7.8</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	-28.4	-22.6				
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	18.0	26.5				
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	25.6				

Source: European Commission.

<sup>9</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>10</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 December 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 December 2002.

<sup>11</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>12</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.

long-term average of 2.8. Retailers' assessment of sales activity over the past three months and their expectations of business activity over subsequent months turned negative. At the same time, the share of respondents reporting above normal stock levels more than doubled.<sup>13</sup> Supplementary data indicate that, on balance, retailers' price expectations turned negative. Notwithstanding the deterioration in confidence, the share of retailers anticipating a rise in employment levels increased drastically.

Confidence in the construction sector eased to 19.4, from 22.7 in November.<sup>14</sup> Notwithstanding this decrease, it remained well above its long-term average of -11.9. The recent fall in sentiment was entirely driven by weaker employment expectations compared with the preceding month, although they remained strongly positive. Meanwhile, the number of participants reporting higher order book levels edged up marginally. Additional survey data show that the share of respondents anticipating higher prices in the next three months fell from a month earlier.

By contrast, consumer confidence rose to 5.5 from 4.9 in the preceding month,<sup>15</sup> and stood above its long-term average of -11.5. This increase was driven by a higher share of respondents expecting to make major purchases in the following 12 months. Conversely, consumers were marginally less optimistic in their assessment of the financial situation over the past year and in their expectations over the next 12 months. Consumers' assessment of the general economic situation over the same period also weakened. Additional data show that, when compared with November, a smaller share of respondents expected higher prices and unemployment levels to fall.

Industrial confidence edged up but remained negative in the month under review.<sup>16</sup> It stood at -7.8, marginally up from -8.3 a month earlier, and below its long-term average of -3.2. December's rise in sentiment reflected an improved assessment of order book levels and a rise in production expectations for the months ahead. Nonetheless, the share of respondents that reported above normal stock levels increased. Additional survey data show that the number of respondents expecting employment to rise in the coming months fell in December. At the same time, inflation expectations turned negative.

In November, growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, eased further. The index rose by 0.7% in annual terms, as against an expansion of 2.2% in the preceding month (see Table 2).<sup>17</sup> This month's increase was largely driven by higher production among firms involved in the printing and reproduction of recorded media. Output also rose strongly among firms that produce rubber and plastics as well as among manufacturers of computer, electronics and optical products. Smaller increases were registered in the "other manufacturing" sub-sector, which includes firms involved

<sup>13</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>14</sup> The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

<sup>15</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.

<sup>16</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>17</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

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

Annual percentage changes

	2017	2018	2019													
			Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
<b>Industrial production</b>	<b>8.5</b>	<b>1.3</b>	<b>2.3</b>	<b>10.7</b>	<b>-0.4</b>	<b>0.9</b>	<b>-1.3</b>	<b>-4.5</b>	<b>2.5</b>	<b>-1.2</b>	<b>0.8</b>	<b>1.5</b>	<b>7.9</b>	<b>5.5</b>	<b>2.2</b>	<b>0.7</b>
<b>Retail trade</b>	<b>5.4</b>	<b>0.5</b>	<b>1.2</b>	<b>0.6</b>	<b>-1.9</b>	<b>2.4</b>	<b>2.8</b>	<b>3.1</b>	<b>7.0</b>	<b>-0.7</b>	<b>5.0</b>	<b>6.5</b>	<b>5.7</b>	<b>8.2</b>	<b>4.4</b>	<b>2.7</b>
<b>Number of tourist arrivals</b>	<b>15.7</b>	<b>14.3</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>6.2</b>	<b>9.1</b>
<b>Number of nights stayed</b>	<b>10.3</b>	<b>12.5</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>	<b>6.5</b>	<b>9.0</b>
Rented accommodation	10.7	10.7	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	9.6
Collective <sup>(1)</sup>	6.0	7.1	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	2.9
Other rented <sup>(2)</sup>	21.7	18.0	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	26.6
Non-rented accommodation <sup>(3)</sup>	8.5	22.7	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	6.3
<b>Tourist expenditure</b>	<b>13.9</b>	<b>8.0</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>	<b>7.1</b>	<b>10.3</b>
Package expenditure	3.2	16.6	-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	4.9
Non-package expenditure	19.8	13.3	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	13.5
Other	17.3	-2.2	-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	10.8

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.

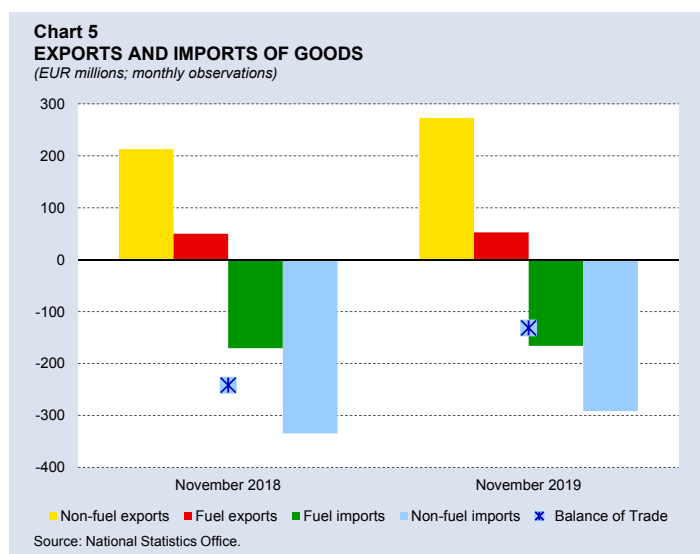
<sup>(3)</sup> Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

in the production of medical and dental instruments, toys and related products. Production in the repair and installation of machinery and equipment sector as well as in the energy sector also edged up on an annual basis. On the other hand, output declined strongly in the pharmaceuticals sector. Smaller declines were registered in the beverages and food sectors.

In November, the volume of retail trade, which is a short-term indicator of final domestic demand, rose by an annual rate of 2.7%, following a 4.4% increase in October.

Meanwhile, the number of inbound tourists increased by 9.1% on a year earlier, following a 6.2% rise in October. Nights stayed rose by 9.0%, following a 6.5% increase in the previous month. Nights spent in rented accommodation, particularly in the “other rented” category, increased significantly. Visitors also spent more nights in non-rented accommodation. Tourist spending in Malta grew by 10.3% in annual terms, following a 7.1% rise in October.

Customs data show that the merchandise trade deficit narrowed to €131.4 million in November, from €241.5 million a year earlier. The narrowing of the merchandise gap was on account of an increase of €62.6 million in exports and a contraction of €47.6 million in imports (see Chart 5). The rise in the former was mainly due to a substantial increase in organic chemicals and printed materials, and to a lesser extent re-exports of aircraft parts. Lower imports were largely driven by a decrease in





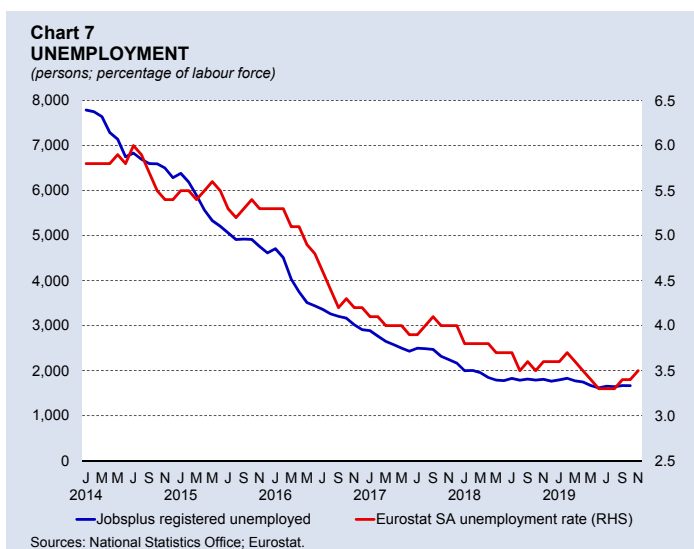
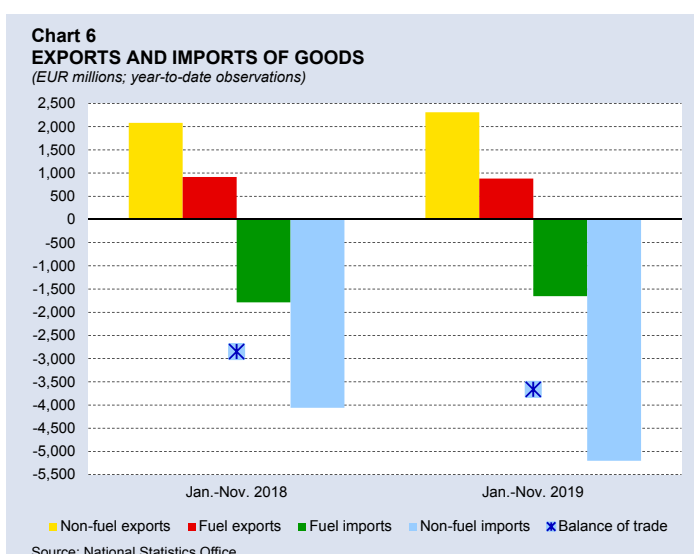
purchases of machinery and transport equipment, although a decline in imports of food also contributed.

In the first 11 months of 2019, the visible trade gap widened by €813.7 million on the same period of 2018, reaching €3,661.2 million (see Chart 6). Although exports increased, imports rose even faster, mostly due to a significant increase in registrations of sea vessels. If one were to exclude transactions related to the latter sector, the trade deficit would have narrowed by €182.6 million.

## Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,666 in October, marginally lower than 1,668 in September and 1,790 a year earlier (see Chart 7).

The seasonally-adjusted unemployment rate stood at 3.5% in November, marginally up from the 3.4% registered in the previous two months, but slightly lower than the rate of 3.6% recorded a year earlier.

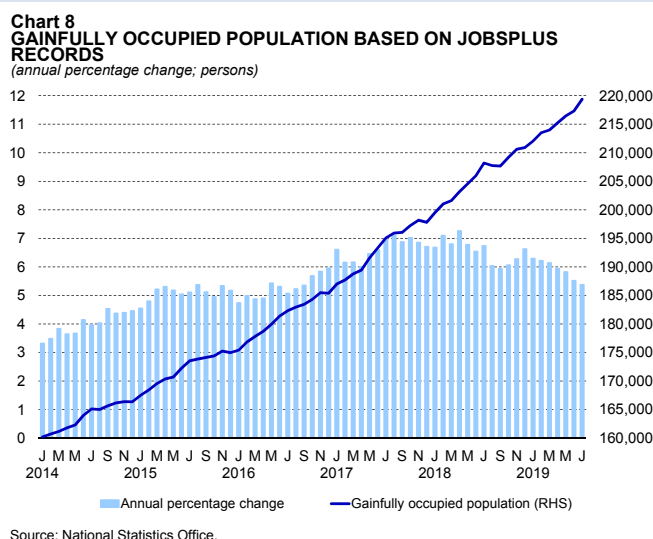


## BOX 2: GAINFULLY OCCUPIED POPULATION

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 8). The rate of growth was marginally 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, where 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 in the year to July, and

**Table 3**  
**LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS**

Persons; annual percentage changes

	2018 July	2019 July	Annual change	
			Number of persons	%
<b>Labour supply</b>	<b>210,018</b>	<b>221,029</b>	<b>11,011</b>	<b>5.2</b>
Gainfully occupied <sup>(1)</sup>	208,190	219,375	11,185	5.4
Registered unemployed	1,828	1,654	-174	-9.5
<b>Unemployment rate (%)</b>	<b>0.9</b>	<b>0.7</b>		
<b>Private sector</b>	<b>160,725</b>	<b>171,209</b>	<b>10,484</b>	<b>6.5</b>
<b>Direct production<sup>(2)</sup></b>	<b>35,917</b>	<b>37,783</b>	<b>1,866</b>	<b>5.2</b>
Of which:				
Manufacturing	22,021	21,946	-75	-0.3
Construction	11,118	12,867	1,749	15.7
<b>Market services</b>	<b>124,808</b>	<b>133,426</b>	<b>8,618</b>	<b>6.9</b>
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 <sup>(3)</sup>	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
<b>Public sector</b>	<b>47,465</b>	<b>48,166</b>	<b>701</b>	<b>1.5</b>

Source: National Statistics Office.

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.

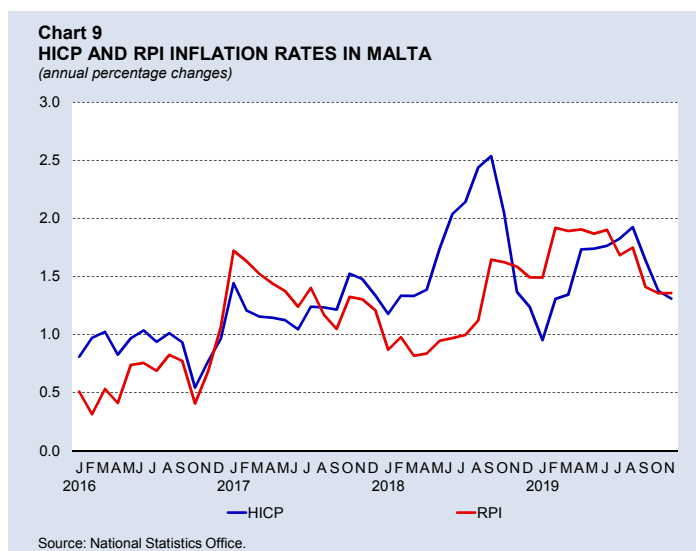
Public sector employment rose by 701, or 1.5%, on a year earlier. Employment increased mostly in public administration and defence, health and education sectors. The share of public sector employment in the total gainfully occupied population edged down to 22.0% in July 2019, from 22.8% a year earlier.

## Prices, costs and competitiveness

Annual HICP inflation moderated slightly to 1.3% in November, from 1.4% in October (see Chart 9). Food inflation eased further during the month, reflecting lower annual growth in processed food prices. Inflation in non-energy industrial goods also decelerated. On the other hand, services inflation picked up marginally, thereby remaining the main contributor to overall inflation. Energy inflation remained unchanged when compared with the previous month.

Inflation as measured by the RPI remained unchanged at 1.4% in November when compared with the previous month (see Chart 9).<sup>18</sup> A higher contribution from food inflation was offset by a lower contribution from the clothing and footwear subcomponent.

Annual cost inflation for producers, measured by the Industrial Producer Price Index, eased to 1.4% in November, from 2.2% in October.<sup>19</sup> This reflected slower growth in the prices of intermediate goods. The contribution



<sup>18</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.

<sup>19</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.

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

Malta's nominal harmonised competitiveness indicator (HCI) contracted by 1.2% in the year to November.<sup>20</sup> The real HCI, which also takes into account relative price changes, fell by 1.8%. Over this period Malta's international price competitiveness benefited from both a weaker euro exchange rate and favourable movements in relative prices.

## Public finance

In November 2019, the Consolidated Fund recorded a deficit of €2.1 million, a drop of €8.8 million when compared to the deficit registered in November 2018. This occurred since a rise in revenue offset a rise in expenditure (see Table 4). In turn, the primary balance registered a surplus of €7.8 million, in contrast to the €0.9 million primary deficit registered in November 2018.

Total government revenue increased by €17.9 million, or 4.5% in annual terms, on the back of higher non-tax revenue and indirect taxes, which more than offset a decline in direct tax revenue. Non-tax revenue increased by €11.0 million mainly due to the timing of grants received from the EU. Indirect

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

EUR millions

	2018	2019	2018	2019	Change	
	Jan.-Nov.	Jan.-Nov.	Nov.	Nov.	Amount	%
<b>Revenue</b>	<b>3,663.5</b>	<b>4,098.8</b>	<b>401.7</b>	<b>419.6</b>	<b>17.9</b>	<b>4.5</b>
<b>Direct tax</b>	<b>1,901.1</b>	<b>2,082.2</b>	<b>183.6</b>	<b>163.1</b>	<b>-20.6</b>	<b>-11.2</b>
Income tax	1,335.7	1,472.6	130.9	114.0	-17.0	-12.9
Social security contributions <sup>(1)</sup>	565.4	609.6	52.7	49.1	-3.6	-6.8
<b>Indirect tax</b>	<b>1,473.5</b>	<b>1,569.0</b>	<b>191.5</b>	<b>219.0</b>	<b>27.5</b>	<b>14.4</b>
Value Added Tax	842.6	905.6	146.7	161.5	14.8	10.1
Customs and excise duties	284.0	304.9	18.7	27.2	8.5	45.5
Licences, taxes and fines	347.0	358.5	26.0	30.3	4.3	16.4
<b>Non-tax<sup>(2)</sup></b>	<b>288.8</b>	<b>447.6</b>	<b>26.6</b>	<b>37.6</b>	<b>11.0</b>	<b>41.3</b>
<b>Expenditure</b>	<b>3,698.7</b>	<b>4,090.7</b>	<b>412.6</b>	<b>421.7</b>	<b>9.1</b>	<b>2.2</b>
<b>Recurrent</b>	<b>3,291.7</b>	<b>3,638.9</b>	<b>331.7</b>	<b>374.3</b>	<b>42.6</b>	<b>12.9</b>
Personal emoluments	744.8	808.8	66.7	72.9	6.2	9.2
Operational and maintenance	188.9	204.1	28.1	28.0	-0.1	-0.4
Programmes and initiatives <sup>(1)</sup>	1,764.6	1,969.2	175.7	201.6	25.8	14.7
Contributions to entities	408.3	483.1	51.0	61.9	10.9	21.4
Interest payments	185.1	173.7	10.1	9.9	-0.1	-1.3
<b>Capital</b>	<b>407.0</b>	<b>451.9</b>	<b>80.9</b>	<b>47.4</b>	<b>-33.5</b>	<b>-41.4</b>
<b>Primary balance<sup>(3)</sup></b>	<b>149.9</b>	<b>181.7</b>	<b>-0.9</b>	<b>7.8</b>	<b>8.7</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-35.2</b>	<b>8.0</b>	<b>-11.0</b>	<b>-2.1</b>	<b>8.8</b>	<b>-</b>

Source: National Statistics Office.

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

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

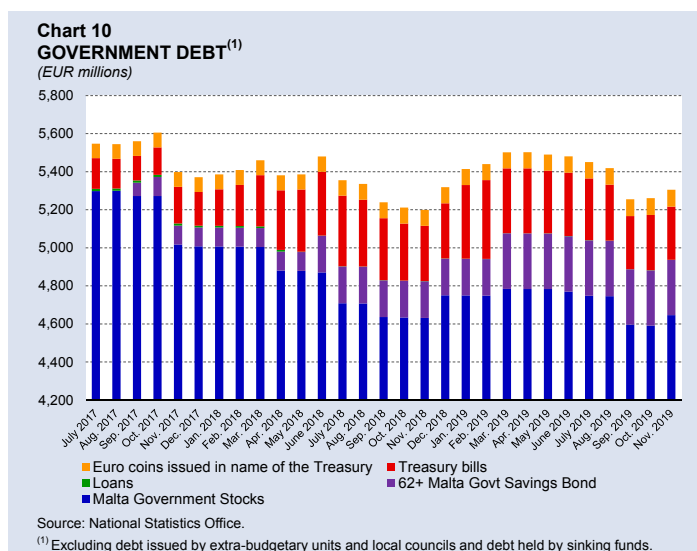
<sup>(3)</sup> Revenue less expenditure excluding interest payments.

<sup>20</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.

taxes increased by €27.5 million driven by higher receipts from all components, particularly from VAT. Meanwhile, revenue from direct taxes fell by €20.6 million, mainly on account of lower income tax receipts.

Government expenditure increased by €9.1 million, or 2.2% when compared to November 2018. This reflects an increase in recurrent expenditure, which more than offset a decline in capital expenditure. This increase in recurrent expenditure mainly reflected timing issues with respect to the payment of pensions. On the other hand, capital expenditure declined by €33.5 million when compared with the same month of 2018, in line with profile of EU-funded projects.

In November, the total stock of government debt amounted to €5,305.3 million, an increase of €44.1 million when compared with a month earlier (see Chart 10). This rise was mainly attributable to a new issue of Malta Government Stocks.

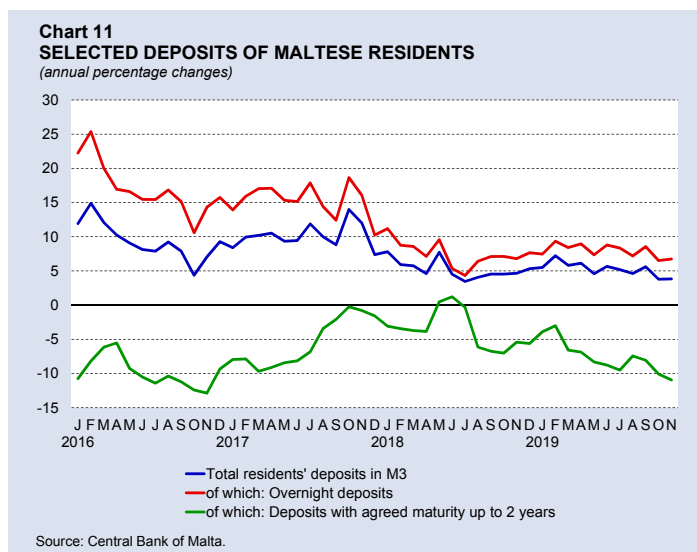


## Deposits, credit and financial markets

Annual growth in residents' deposits held with monetary financial institutions (MFI) forming part of broad money (M3) remained unchanged at 3.8% in November (see Chart 11).

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 6.7% in the year to November. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 10.9% 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 expanded further, albeit at a slower rate of 5.7% in the year to November (see Chart 12). Credit to general government picked up, with growth rising to 2.4%, while growth in credit to residents outside general government



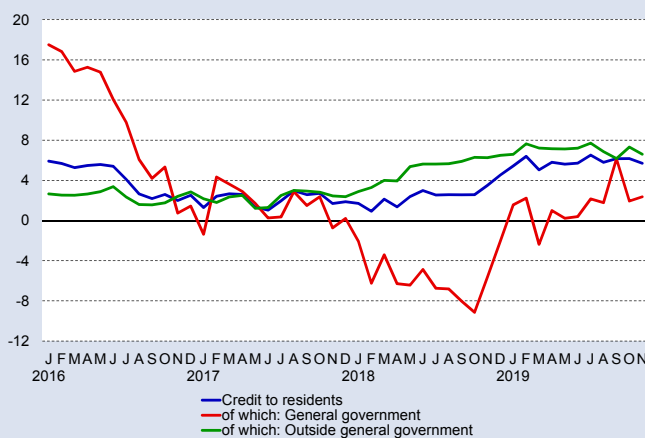
decelerated to 6.6% in annual terms.

The moderation in credit to residents outside general government was underpinned by slower growth in loans to non-financial corporations (NFCs) and, to a lesser extent, loans to households. Growth in loans to NFCs eased to 2.5% on an annual basis, mainly driven by weaker growth in loans to the manufacturing sector (see Chart 13). Meanwhile, loans to households eased slightly to 9.7%, reflecting slower growth in mortgages and in consumer credit and other lending.

With regard to interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits eased marginally to 0.30% between October and November. The composite rate charged on outstanding loans edged down by one basis point to 3.45%. The spread between the two rates thus stood unchanged from a month earlier, at 315 basis points.

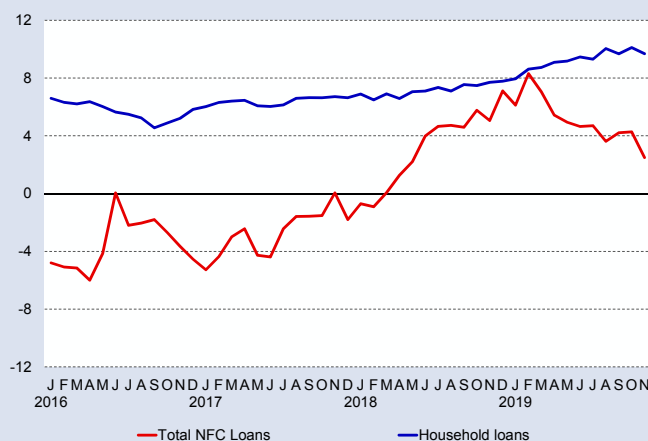
In the capital market, the secondary market yield on 10-year Maltese government bonds remained broadly unchanged, standing at 0.4% at the end of December (see Chart 14). The Malta Stock Exchange (MSE) Equity Price Index remained broadly unchanged during the same period. Similarly, the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, remained broadly stable.

**Chart 12**  
**CREDIT TO RESIDENTS OF MALTA**  
(annual percentage changes)



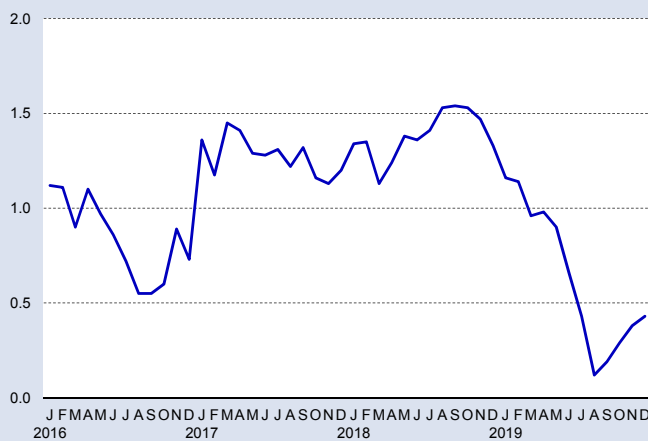
Source: Central Bank of Malta.

**Chart 13**  
**LOANS BY SECTOR**  
(annual percentage changes)



Source: Central Bank of Malta.

**Chart 14**  
**TEN-YEAR MALTA GOVERNMENT BOND YIELD**  
(ISMA yield; percentages per annum; end of month)



Source: Central Bank of Malta.

## MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2017	2018	2019	2019	2019	2019	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019
			Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
<b>Prices and costs</b>																			
HICP inflation	1.3	1.7	1.2	1.7	1.8	-	1.2	1.0	1.3	1.3	1.7	1.7	1.8	1.8	1.9	1.6	1.4	1.3	-
RPI inflation	1.4	1.2	1.8	1.9	1.6	-	1.5	1.5	1.9	1.9	1.9	1.9	1.9	1.7	1.7	1.4	1.4	1.4	-
Industrial producer price inflation	1.6	4.4	3.3	1.6	1.7	-	3.6	4.1	3.5	2.5	1.6	1.6	1.7	1.8	1.5	2.0	2.2	1.4	-
HCI (nominal)	1.7	3.6	-0.2	-0.1	-1.3	-	1.9	1.1	-0.7	-1.1	-1.0	0.2	0.5	-0.9	-0.8	-2.2	-1.5	-1.2	-
HCI (real)	0.9	3.0	-1.0	-0.6	-1.5	-	1.2	0.1	-1.3	-1.8	-1.8	-0.3	0.1	-1.2	-0.9	-2.3	-1.9	-1.8	-
Unit labour costs, whole economy <sup>(1)</sup>	0.7	1.2	0.2	0.2	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	-0.6	2.3	1.7	1.4	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	-1.3	1.2	1.6	1.3	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.3	5.8	6.6	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																			
Nominal GDP	9.3	9.2	8.2	7.1	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	6.7	7.0	6.1	4.9	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.4	7.1	4.3	2.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	2.5	12.7	21.7	11.3	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-7.2	-1.8	28.3	-0.5	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.8	2.9	3.2	0.7	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	-0.5	3.0	6.2	-1.1	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																			
LFS unemployment rate (% of labour force)	4.0	3.7	3.5	3.4	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	6.0	7.2	6.6	7.0	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	6.6	6.2	5.8	-	-	6.6	6.3	6.2	6.1	5.9	5.8	5.5	5.4	-	-	-	-	-
<b>Balance of payments</b>																			
Current account (as a % of GDP) <sup>(2)</sup>	10.5	10.4	8.8	9.1	10.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																			
<b>Maltese residents' deposits and loans</b>																			
Overnight deposits	10.2	7.7	8.4	8.8	8.6	-	7.7	7.5	9.4	8.4	8.9	7.3	8.8	8.3	7.2	8.6	6.5	6.7	-
Deposits with agreed maturity up to 2 years	-1.6	-5.6	-6.6	-8.8	-8.1	-	-5.6	-3.9	-3.0	-6.6	-6.9	-8.3	-8.8	-9.5	-7.4	-8.1	-10.1	-10.9	-
Total residents' deposits in M3	7.4	5.3	5.8	5.7	5.6	-	5.3	5.5	7.2	5.8	6.1	4.6	5.7	5.2	4.6	5.6	3.8	3.8	-
Credit to general government	0.2	-2.0	-2.4	0.4	6.1	-	-2.0	1.6	2.2	-2.4	1.0	0.2	0.4	2.1	1.8	6.1	1.9	2.4	-
Credit to residents (excl. general government)	2.4	6.5	7.2	7.2	6.2	-	6.5	6.6	7.6	7.2	7.2	7.1	7.2	7.7	6.9	6.2	7.3	6.6	-
Total credit	1.9	4.5	5.1	5.7	6.2	-	4.5	5.4	6.4	5.1	5.8	5.6	5.7	6.5	5.8	6.2	6.2	5.7	-
10-year interest rate (%) <sup>(3)</sup>	1.2	1.3	1.0	0.7	0.2	0.4	1.3	1.2	1.1	1.0	1.0	0.9	0.7	0.4	0.1	0.2	0.3	0.4	0.4
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	-2.6	0.1	4.3	2.2	2.1	-4.0	0.8	-1.8	2.0	4.1	0.1	2.2	-0.2	0.7	-1.0	2.4	-1.6	-2.5	0.0
<b>General government finances (% of GDP)</b>																			
Surplus (+) / deficit (-) <sup>(2)</sup>	3.4	1.9	1.7	1.2	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	50.3	45.8	46.4	45.7	43.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.