



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE 2/2020

Date of issue: 21 February 2020

© Central Bank of Malta, 2020

Address

Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone

(+356) 2550 0000

Fax

(+356) 2550 2500

Website

www.centralbankmalta.org

E-mail

info@centralbankmalta.org

All rights reserved. Reproduction is permitted provided that the source is acknowledged.

The cut-off date for information in this publication is 13 February 2020. Figures in tables may not add up due to rounding.

ISSN 2410-8294 (online)

ECONOMIC UPDATE 2/2020

Summary¹

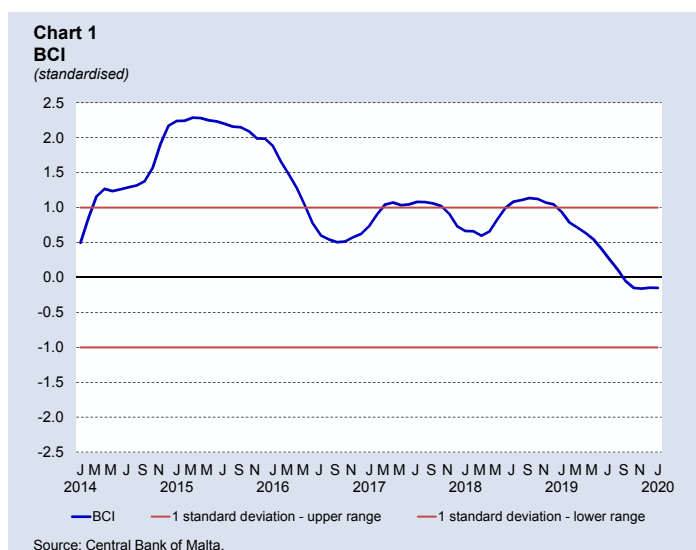
In January, the Bank's Business Conditions' Index (BCI) remained unchanged when compared with the previous month, at a level suggesting that economic conditions remain close to their long-term average. The Economic Sentiment Indicator (ESI) published by the European Commission rose significantly during the month, recovering most of the decline registered in December, and similar to the BCI, stood slightly below its long-term average. In January, confidence improved significantly in the retail and in the services sectors, and to a lesser extent in industry and among consumers. In December, the number of tourist arrivals rose at a significantly faster annual pace when compared with a month earlier. Nights spent and expenditure by tourists also grew substantially. The index of industrial production and the volume of retail trade also rose at a faster pace in annual terms. 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) stood unchanged at 1.3% in December, while inflation based on the Retail Price Index (RPI) moderated to 1.2%. Meanwhile, the annual rate of change of Maltese residents' deposits eased in December, to 3.6%, while credit to Maltese residents expanded at a slower rate of 4.9%. In November, the deficit on the cash-based Consolidated Fund narrowed compared with a year earlier.

Central Bank's BCI²

The development of the BCI index in recent months suggests that the economy continues to operate below, but very close to, its long-run average. In January, the Central Bank's BCI levelled off at -0.1, unchanged from its updated value for December (see Chart 1). The BCI was affected by lower sentiment on a year-on-year basis, although this was partly offset by faster growth in industrial production.

Business and consumer confidence indicators

The ESI rose to 99.9 in January, reversing most of the decline registered in December when it fell to 91.0. This suggests that the factors that led to the sharp decline in December were seen by respondents as having been largely addressed. Following this increase, sentiment returned again towards its long-term average of 100.0, and slightly less than the 102.1



¹ The cut-off date for information in this note is 13 February 2020.

² 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.

Table 1
BUSINESS AND CONSUMER SURVEYS

Balances; percentage points; seasonally adjusted

	2018	2019	2019 Dec.	2020 Jan.
ESI	112.4	100.7	91.0	99.9
Retail trade confidence indicator	8.2	4.2	-20.6	0.0
Business activity, past 3 months	15.4	18.9	-19.6	3.0
Stocks of finished goods	7.7	17.1	25.6	7.2
Business activity, next 3 months	17.0	11.1	-16.7	4.1
Services confidence indicator	34.6	20.7	-6.5	7.9
Business situation development over the past 3 months	30.7	16.7	-9.1	-3.8
Evolution of the demand over the past 3 months	35.8	21.5	-6.3	3.8
Expectation of the demand over the next 3 months	37.2	24.0	-4.1	23.8
Industrial confidence indicator	6.9	-6.7	-7.8	-1.1
Assessment of order-book levels	-1.5	-23.0	-22.6	-19.1
Assessment of stocks of finished products	5.8	15.5	26.5	20.0
Production expectations for the months ahead	27.9	18.4	25.6	35.8
Consumer confidence indicator	10.1	4.5	5.5	8.4
Financial situation past 12 months	16.9	11.3	7.6	13.4
Financial situation next 12 months	17.5	11.2	8.0	13.1
Economic situation next 12 months	28.9	20.9	11.3	18.0
Major purchases next 12 months	-22.6	-25.1	-4.8	-10.9
Construction confidence indicator	21.3	26.2	19.4	7.9
Evolution of your current overall order books	16.9	19.7	12.6	4.5
Employment expectations over the next 3 months	25.7	32.6	26.1	11.3

Source: European Commission.

recorded a year earlier (see Table 1).^{3,4} The ESI also stood 2.9 points lower than that in the euro area.

The month-on-month increase in sentiment reflected restored confidence among retailers and in the services sector, and to a lesser extent, further improved sentiment by industry and among consumers. Sentiment in the construction sector remained positive and above its long-term average.

In January, confidence within the retail sector increased to 0.0, from -20.6 in December, standing slightly below its long-term average of 2.7.⁵ The increase in sentiment was mainly driven by retailers' assessment of business activity over the past three months and by their expectations of business activity over subsequent months. At the same time, the share of respondents reporting above normal stock levels fell substantially.⁶ Supplementary data indicate that, on balance, retailers' price expectations over the next three months turned marginally positive. Meanwhile, a smaller share of respondents anticipated a rise in employment levels over the same period.

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 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.

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 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.

Sentiment within the services sector turned positive, but remained below its long-term average of 22.8. It stood at 7.9, up from -6.5 in the preceding month.⁷ The recent rise in sentiment was driven by all sub-components, with the strongest increase being recorded in firms' demand expectations for the next three months. Additional survey data show that firms' employment expectations increased marginally, while fewer firms anticipated higher prices over subsequent months.

Industrial confidence rose to -1.1 from -7.8 a month earlier.⁸ Following this increase, it stood marginally above its long-term average of -3.2. The rise in sentiment reflected a rise in production expectations and, to a lesser extent, an improved assessment of order book levels. At the same time, a smaller share of respondents reported above normal stock levels. Supplementary data indicate that, on balance, the number of respondents expecting employment to rise in the coming months edged up in January. Meanwhile, inflation expectations were significantly more negative.

Consumer confidence edged up to 8.4 in January, from 5.5 in the preceding month,⁹ thus rising further above its long-term average of -11.4. This increase was driven by improved expectations of the general economic situation over the next 12 months. Meanwhile, consumers were more optimistic in their assessment and expectations of the financial situation. Conversely, a larger share of respondents, relative to December, expected to make fewer major purchases over the next 12 months. Additional data show that, when compared with December, inflation expectations decreased. Meanwhile, on balance, a larger net share of consumers foresaw a decline in unemployment over the coming months.

By contrast, confidence in the construction sector fell to 7.9, from 19.4 in December.¹⁰ Notwithstanding this decrease, it remained well above its long-term average of -11.8. The recent fall in sentiment was largely driven by a lower share of respondents expecting to hire workers. At the same time, the number of participants reporting higher order book levels fell significantly. Additional survey data show that the share of respondents anticipating an increase in prices in the next three months remained broadly unchanged compared with a month earlier.

In December, the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors increased at a faster pace. The index rose by 7.3% in annual terms, following a marginal expansion of 0.1% in the preceding month (see Table 2).¹¹ The latest increase was largely driven by higher production among firms involved in the printing and reproduction of recorded media. Output also rose strongly within the energy sector, among firms that produce rubber and plastics as well as in the pharmaceuticals sector. Smaller increases were registered in the repair and installation of machinery and equipment sector, in the "other manufacturing" sub-sector, which includes firms involved in the production of medical and dental instruments, toys and related products, and in the food sector. On the other hand, output declined strongly in the beverages sector as well as among manufacturers of computer, electronics and optical products.

⁷ 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.

⁸ 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.

⁹ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

¹⁰ 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.

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

	2018	2019	2018												2019															
			Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Industrial production	1.3	1.6	10.7	-0.4	0.9	-1.3	-4.5	2.5	-1.1	0.8	1.5	7.5	5.3	1.7	0.1	7.3	10.7	-0.4	0.9	-1.3	-4.5	2.5	-1.1	0.8	1.5	7.5	5.3	1.7	0.1	7.3
Retail trade	0.5	4.0	0.9	-1.9	2.2	3.0	3.1	6.9	-0.7	4.6	4.4	4.0	6.5	4.7	3.5	5.6	0.9	-1.9	2.2	3.0	3.1	6.9	-0.7	4.6	4.4	4.0	6.5	4.7	3.5	5.6
Number of tourist arrivals	14.3	5.9	7.8	11.0	2.4	2.3	3.5	3.6	2.0	8.0	5.2	7.2	5.5	6.2	9.1	19.3	7.8	11.0	2.4	2.3	3.5	3.6	2.0	8.0	5.2	7.2	5.5	6.2	9.1	19.3
Number of nights stayed	12.5	4.1	8.0	10.1	7.6	3.5	2.2	2.6	-3.6	5.1	1.6	5.8	2.1	6.5	9.0	15.1	8.0	10.1	7.6	3.5	2.2	2.6	-3.6	5.1	1.6	5.8	2.1	6.5	9.0	15.1
Rented accommodation	10.7	4.6	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	13.9	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	13.9
Collective ⁽¹⁾	7.1	-0.1	-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	9.9	-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	9.9
Other rented ⁽²⁾	18.0	13.5	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	19.7	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	19.7
Non-rented accommodation ⁽³⁾	22.7	1.6	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	20.8	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	20.8
Tourist expenditure	8.0	5.7	2.6	1.1	3.0	-2.8	0.5	7.7	3.3	10.7	1.8	2.8	5.9	7.1	10.3	25.4	2.6	1.1	3.0	-2.8	0.5	7.7	3.3	10.7	1.8	2.8	5.9	7.1	10.3	25.4
Package expenditure	16.6	-8.2	-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	7.9	-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	7.9
Non-package expenditure	13.3	17.1	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	41.3	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	41.3
Other	-2.2	5.9	-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	22.0	-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	22.0

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).

The volume of retail trade, which is a short-term indicator of final domestic demand, also accelerated. This rose by an annual rate of 5.6%, following a 3.5% increase in November.

Meanwhile, the number of inbound tourists increased by 19.3% on a year earlier, following a 9.1% rise in November. Nights stayed rose by 15.1%, with this increase spread across both rented and non-rented accommodation. Tourist spending in Malta grew by 25.4% in annual terms, following a 10.3% rise in November.

Customs data show that the merchandise trade deficit narrowed to €58.7 million in December, from €95.0 million a year earlier. The narrowing of the merchandise gap was entirely on account of a €37.2 million increase in exports (see Charts 2 and 3). The latter was mainly due to substantial increases in organic chemicals as well as re-exports of aircraft parts and fuels and, to a lesser

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

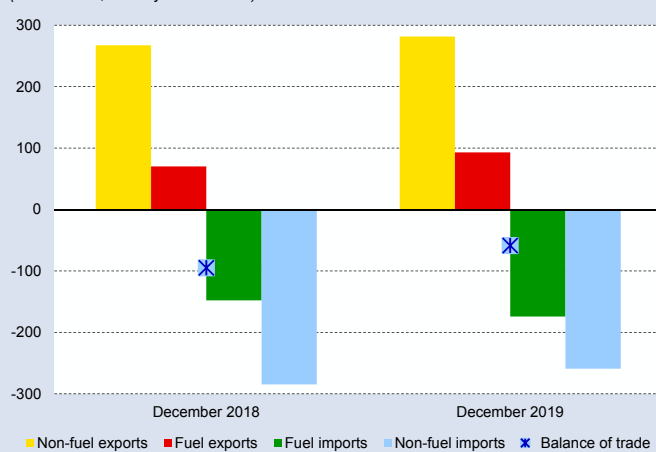
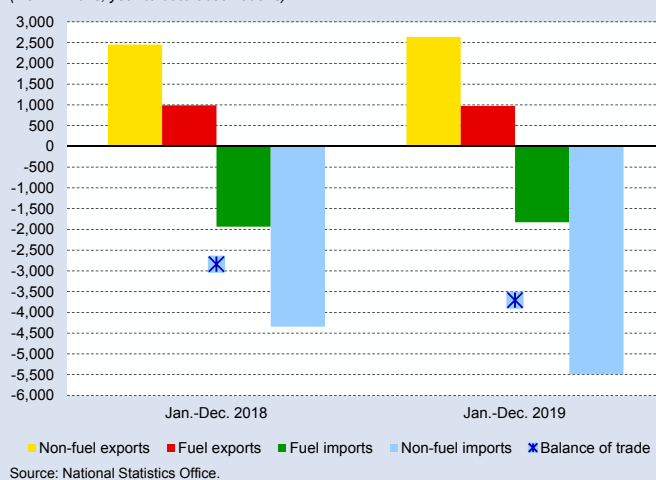


Chart 3
EXPORTS AND IMPORTS OF GOODS
(EUR millions; year-to-date observations)

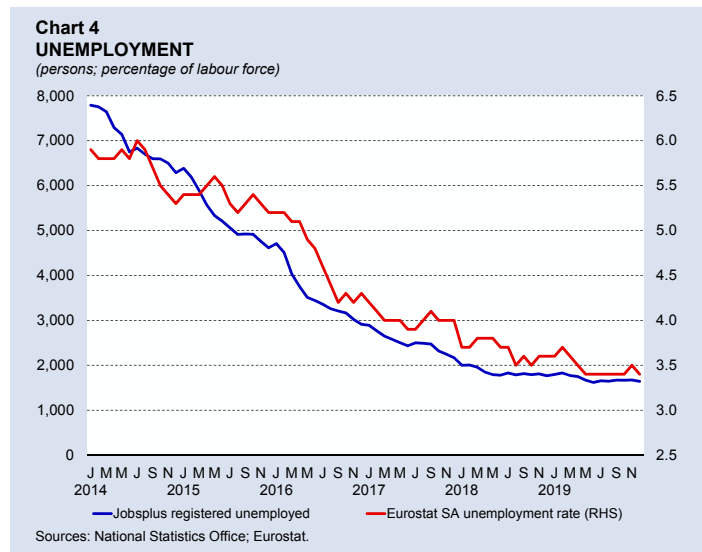


extent, higher exports of printed materials. Imports edged up by €0.9 million on the corresponding month of 2018.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,642 in December, marginally lower than 1,672 in November and 1,765 a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 3.4% in December, marginally down from the 3.5% registered in the previous month, and the rate of 3.6% recorded a year earlier.



BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in August 2019, the gainfully occupied population – defined as all persons in full-time employment – rose by 5.2% on a year earlier reaching 220,110 (see Chart 5). The rate of growth was marginally lower than that of 5.4% registered in the preceding month, and that of 6.8% observed a year earlier.

As 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 10,351, or 6.4% compared with August 2018. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 8,371, or 6.7% in annual terms. This increase was distributed among all major sectors within this category.

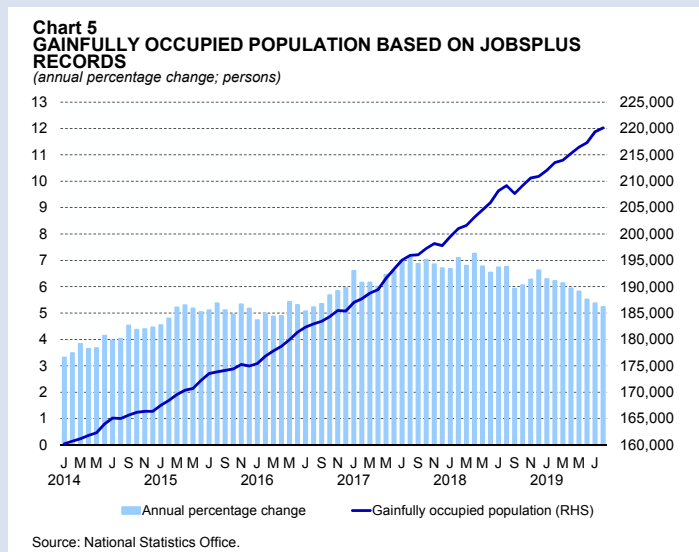


Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

	2018 August	2019 August	Annual change	
			Number of persons	%
Labour supply	210,958	221,755	10,797	5.1
Gainfully occupied ⁽¹⁾	209,171	220,110	10,939	5.2
Registered unemployed	1,787	1,645	-142	-7.9
Unemployment rate (%)	0.8	0.7		
Private sector	161,575	171,926	10,351	6.4
Direct production ⁽²⁾	35,969	37,949	1,980	5.5
Of which:				
Manufacturing	21,986	21,920	-66	-0.3
Construction	11,175	13,017	1,842	16.5
Market services	125,606	133,977	8,371	6.7
Wholesale and retail trade	26,916	27,484	568	2.1
Transportation and storage	9,191	9,752	561	6.1
Accommodation and food service activities	14,010	15,091	1,081	7.7
Information and communication	7,144	7,245	101	1.4
Financial and insurance activities	10,120	10,573	453	4.5
Real estate, professional and administrative activities ⁽³⁾	32,256	35,552	3,296	10.2
Arts, entertainment and recreation	9,191	10,017	826	9.0
Education	5,575	5,891	316	5.7
Other	11,203	12,372	1,169	10.4
Public sector	47,596	48,184	588	1.2

Source: National Statistics Office.

⁽¹⁾ This category measures full-time employment.

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

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

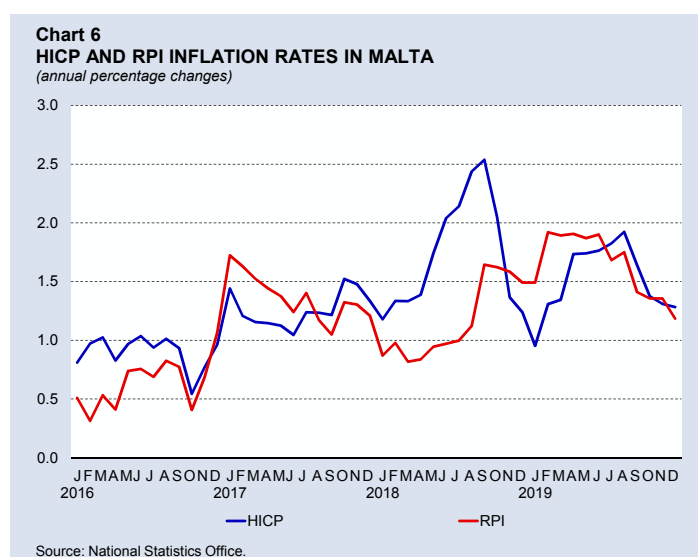
The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,296 in the year to August, and accounted for 39.4% of the overall rise in private market services employment. Employment also rose significantly in the “other services” sector, mostly reflecting 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 1,081. Meanwhile, 826 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 1,980, or 5.5% on a year earlier. Growth was recorded in the construction sector while employment in the manufacturing sector edged down.

Public sector employment rose by 588, or 1.2%, on a year earlier. Employment increased mostly in public administration and defence, health and education sectors. Nevertheless, the share of public sector employment in the total gainfully occupied population edged down to 21.9%, from 22.8% a year earlier.

Prices, costs and competitiveness

Annual HICP inflation stood at 1.3% in December, unchanged from November (see Chart 6). Food inflation recovered from low levels during the month, but this was offset by slower growth in non-energy industrial goods inflation and, to a lesser extent, in services inflation. This suggests that weak external price pressures for manufactured items are acting as a drag on inflation in Malta. Energy inflation remained unchanged when compared with the previous month.



Inflation as measured by the RPI moderated to 1.2% during December, from 1.4% in November (see Chart 6).¹² Despite a higher contribution from food inflation, overall price growth was held back by lower contributions from the clothing and footwear, the housing equipment and maintenance, and the transport and communication subcomponents.

Annual producer price inflation, which measures producers' output prices, accelerated to 1.6% in December, from 1.4% in November.¹³ This reflected faster growth in the prices of intermediate goods. On the other hand, the contribution from consumer goods and capital goods remained unchanged when compared with the previous month, while energy inflation was nil.

Malta's nominal harmonised competitiveness indicator (HCI) contracted by 1.3% in the year to December.¹⁴ This extends a prolonged pattern of decline in the index, suggesting an improvement in Malta's international competitiveness. This is on account of favourable developments in the euro exchange rate against that of trading partners. The real HCI, which also takes into account relative price changes, fell to an even larger extent, by 2.2%. This suggests that developments in relative prices vis-à-vis trading partners also contributed to an improvement in Malta's international competitiveness in the year to December.

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

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.

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.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2018		2019		Change	
	Jan.-Nov.	Jan.-Nov.	Nov.	Nov.	Amount	%
Revenue	3,663.5	4,098.8	401.7	419.6	17.9	4.5
Direct tax	1,901.1	2,082.2	183.6	163.1	-20.6	-11.2
Income tax	1,335.7	1,472.6	130.9	114.0	-17.0	-12.9
Social security contributions ⁽¹⁾	565.4	609.6	52.7	49.1	-3.6	-6.8
Indirect tax	1,473.5	1,569.0	191.5	219.0	27.5	14.4
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
Non-tax⁽²⁾	288.8	447.6	26.6	37.6	11.0	41.3
Expenditure	3,698.7	4,090.7	412.6	421.7	9.1	2.2
Recurrent	3,291.7	3,638.9	331.7	374.3	42.6	12.9
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 ⁽¹⁾	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
Capital	407.0	451.9	80.9	47.4	-33.5	-41.4
Primary balance⁽³⁾	149.9	181.7	-0.9	7.8	8.7	-
Consolidated Fund balance	-35.2	8.0	-11.0	-2.1	8.8	-

Source: National Statistics Office.

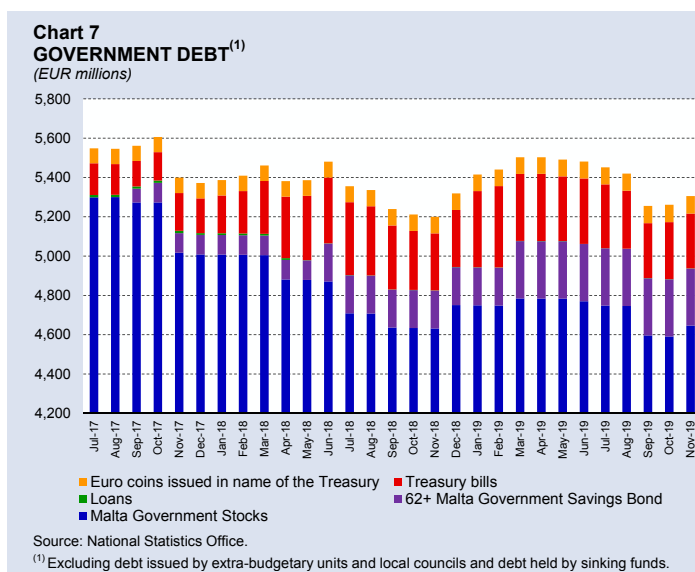
⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

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

⁽³⁾ Revenue less expenditure excluding interest payments.

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 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 the profile of EU-funded projects.

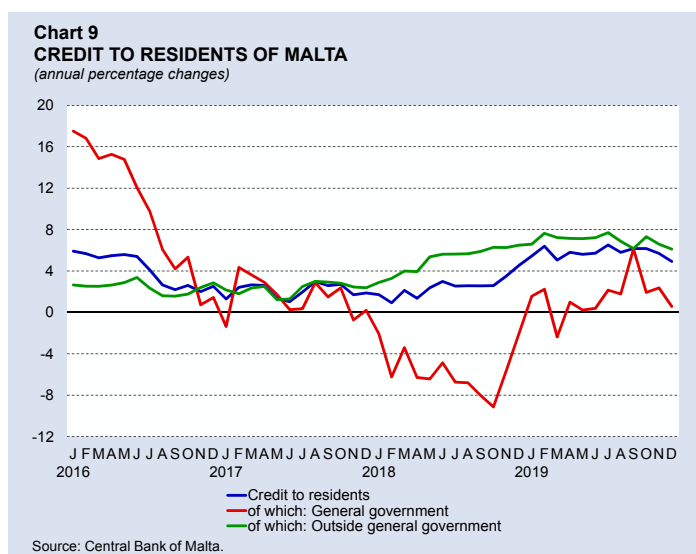
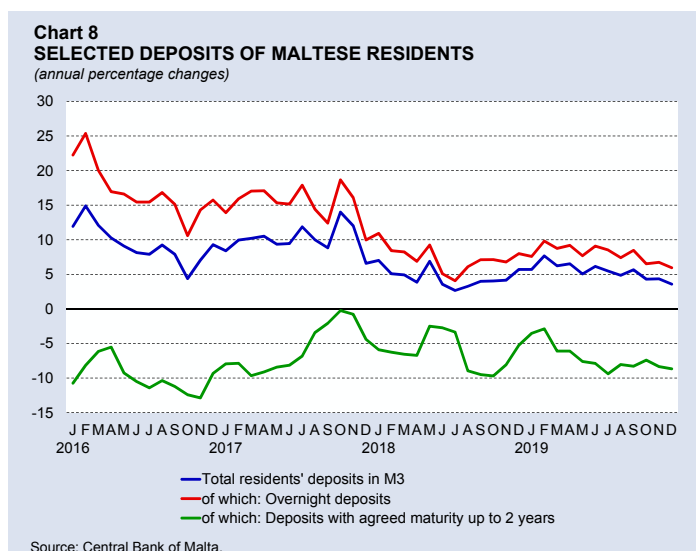
In November, the total stock of government debt amounted to €5,305.3 million, an increase of €44.1 million when compared with a month earlier (see Chart 7). This rise was mainly attributable to a new issue of Malta Government Stocks.

Deposits, credit and financial markets

Annual growth in residents' deposits held with monetary financial institutions (MFI) forming part of broad money (M3) eased to 3.6% in December (see Chart 8).

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 6.0% in the year to December. On the other hand, time deposits with a maturity of up to two years continued to contract, falling by 8.7% 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.

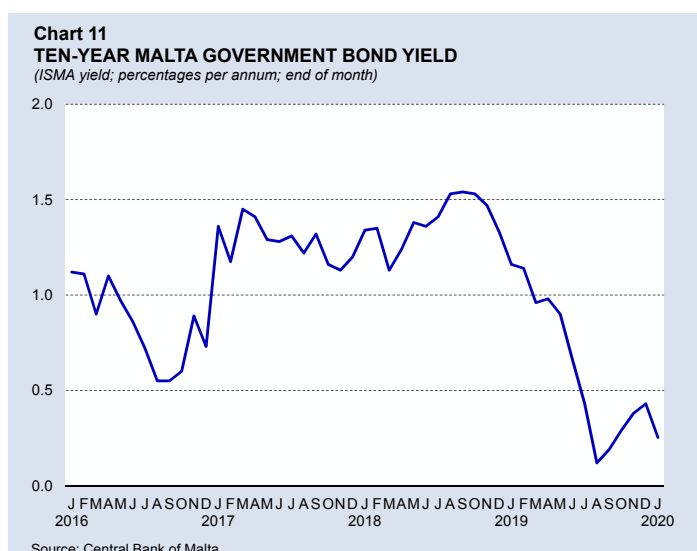
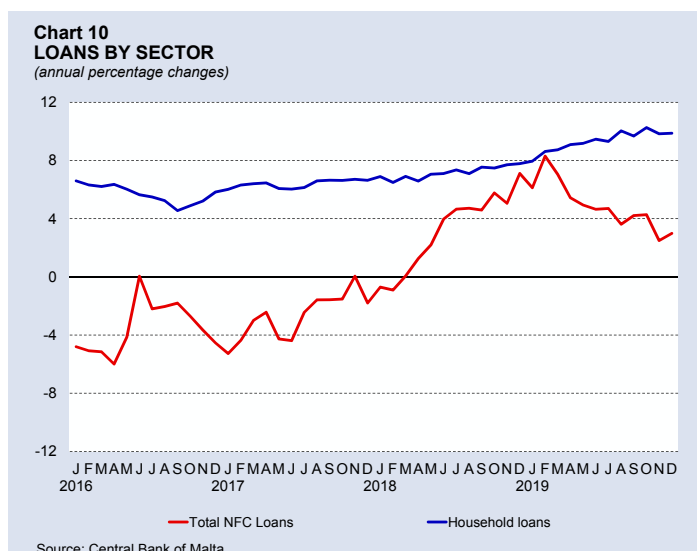
Credit to Maltese residents expanded further, albeit at a slower rate of 4.9% in the year to December (see Chart 9). Credit to general government rose at a significantly weaker pace of 0.6%, after increasing by 2.4% in the year to November. Annual growth in credit to residents outside general government also moderated, although to a lesser extent, to 6.1%, partly reflecting weaker growth in MFI holdings of securities issued by NFCs.



Loans to non-financial corporations (NFCs) and, to a lesser extent, loans to households edged up. The annual rate of change in loans to NFCs reached 3.0% from 2.5% a month earlier, mainly driven by faster growth in loans to the accommodation and food services sector and a smaller contraction in loans to the transportation and storage sector (see Chart 10). Meanwhile, loans to households edged up marginally to 9.9%, as faster growth in consumer credit and other lending offset some deceleration in loans for house purchase.

With regard to interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits increased to 0.40% between November and December, from 0.0%. The composite rate charged on outstanding loans rose by 149 basis points to 4.93%. The spread between the two rates thus widened from a month earlier, standing at 453 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by 10 basis points, to 0.3% at the end of January (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index fell during the same period. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, which contracted.



Annex 1

MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2020	
			Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	
Prices and costs																				
HICP inflation	1.7	1.5	1.2	1.7	1.8	1.3	1.0	1.3	1.3	1.7	1.7	1.8	1.8	1.9	1.6	1.4	1.3	1.3	-	
RPI inflation	1.2	1.6	1.8	1.9	1.6	1.3	1.5	1.9	1.9	1.9	1.9	1.9	1.7	1.7	1.4	1.4	1.4	1.2	-	
Industrial producer price inflation	4.4	2.1	3.3	1.6	1.8	1.8	4.1	3.5	2.5	1.6	1.6	1.7	1.8	1.5	2.0	2.2	1.4	1.6	-	
HCI (nominal)	3.6	-0.7	-0.2	-0.1	-1.3	-1.3	1.1	-0.7	-1.1	-1.0	0.2	0.5	-0.9	-0.8	-2.2	-1.5	-1.2	-1.3	-	
HCI (real)	3.0	-1.2	-1.0	-0.6	-1.4	-1.9	0.1	-1.3	-1.7	-1.7	-0.2	0.2	-1.1	-0.9	-2.3	-1.8	-1.7	-2.2	-	
Unit labour costs, whole economy ⁽¹⁾	1.2	-	0.2	0.2	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Compensation per employee ⁽¹⁾	2.3	-	1.7	1.4	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour productivity (per person) ⁽¹⁾	1.2	-	1.6	1.3	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Property Price Index (Eurostat)	5.8	-	6.5	6.2	5.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Economic activity																				
Nominal GDP	9.2	-	8.2	7.1	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP	7.0	-	6.1	4.9	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real private consumption	7.1	-	4.3	2.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real government consumption	12.7	-	21.7	11.3	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real gross fixed capital formation	-1.8	-	28.3	-0.5	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real exports of goods and services	2.9	-	3.2	0.7	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real imports of goods and services	3.0	-	6.2	-1.1	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour market developments																				
LFS unemployment rate (% of labour force)	3.7	-	3.5	3.4	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
LFS employment	7.2	-	6.6	7.0	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Jobsplus gainfully occupied	6.6	-	6.2	5.8	-	-	6.3	6.2	6.1	5.9	5.8	5.5	5.4	5.2	-	-	-	-	-	
Balance of payments																				
Current account (as a % of GDP) ⁽²⁾	10.4	-	8.8	9.1	10.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Credit and financial indicators																				
Maltese residents' deposits and loans																				
Overnight deposits	8.0	6.0	8.7	9.1	8.5	6.0	7.6	9.8	8.7	9.2	7.7	9.1	8.5	7.4	8.5	6.5	6.7	6.0	-	
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-6.1	-7.9	-8.3	-8.7	-3.5	-2.9	-6.1	-6.1	-7.6	-7.9	-9.4	-8.0	-8.3	-7.4	-8.3	-8.7	-	
Total residents' deposits in M3	5.7	3.6	6.2	6.2	5.7	3.6	5.7	7.7	6.2	6.5	5.1	6.2	5.5	4.8	5.7	4.3	4.3	3.6	-	
Credit to general government	-2.0	0.6	-2.4	0.4	1.3	0.6	1.6	2.3	-2.4	1.0	0.2	0.4	2.1	1.8	1.3	1.9	2.4	0.6	-	
Credit to residents (excl. general government)	6.5	6.1	7.2	7.3	6.8	6.1	6.6	7.6	7.2	7.2	7.1	7.3	7.6	6.8	6.8	7.3	6.6	6.1	-	
Total credit	4.5	4.9	5.1	5.8	5.6	4.9	5.4	6.4	5.1	5.8	5.6	5.8	6.4	5.8	5.6	6.2	5.7	4.9	-	
10-year interest rate (%) ⁽³⁾	1.3	0.4	1.0	0.7	0.2	0.4	1.2	1.1	1.0	1.0	0.9	0.7	0.4	0.1	0.2	0.3	0.4	0.4	0.3	
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	0.1	4.4	4.3	2.2	2.1	-4.0	-1.8	2.0	4.1	0.1	2.2	-0.2	0.7	-1.0	2.4	-1.6	-2.5	0.0	-1.5	
General government finances (% of GDP)																				
Surplus (+) / deficit (-) ⁽²⁾	1.9	-	1.7	1.2	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross debt ⁽⁵⁾	45.6	-	46.2	45.4	43.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

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.