



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE

3/2020

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ECONOMIC UPDATE 3/2020

Summary¹

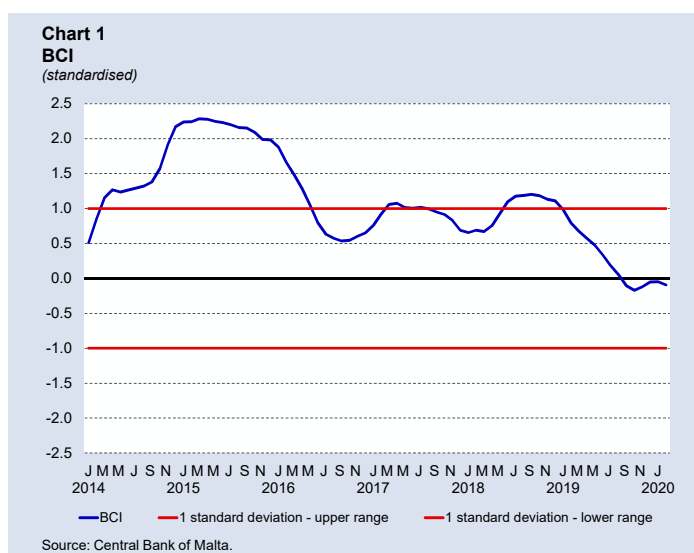
In February, the Bank's Business Conditions' Index (BCI) eased slightly when compared with the previous month, suggesting that economic conditions were close to their long-term average. The European Commission's Economic Sentiment Indicator (ESI) also fell, mainly reflecting significantly weaker confidence in industry. Confidence among consumers and retailers eased marginally, while sentiment in the services and construction sectors improved. In January, annual growth in the number of tourist arrivals was strong, though more moderate compared with a month earlier. Nights stayed and expenditure by tourists grew by a smaller annual pace when compared with the preceding month. The index of industrial production and the volume of retail trade also rose at a moderate pace in annual terms. Conditions in the labour market remained favourable, with the number of registered unemployed and the unemployment rate lower than levels a year ago. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) rose to 1.4% in January. Inflation based on the Retail Price Index (RPI) edged up to 1.3%. Meanwhile, Maltese residents' deposits grew by 4.7% over the year to January, while credit to Maltese residents expanded by 5.0%. In January, the deficit on the cash-based Consolidated Fund widened compared with a year earlier.

Central Bank's BCI²

The development of the BCI index in recent months suggests that the economy was operating below – but very close to – its long-run average. In February, it levelled off at -0.1, easing slightly from its updated value of 0.0 for January (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

In February, the ESI fell below its long-term average of 100.0. It stood at 93.9, down from 99.9 in the preceding month, and



¹ The cut-off date for information in this note is 11 March 2020. This issue of the Economic Update was compiled on the basis of information for the first two months of 2020, which precedes the reporting of COVID-19 cases in Malta.

² The methodology underlying the BCI can be found at <https://www.centralbankmalta.org/business-conditions-index>. 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.

below the 110.4 recorded a year earlier (see Table 1).^{3,4} The ESI also stood 9.6 points lower than that in the euro area.

The month-on-month decrease in sentiment largely reflects significantly weaker confidence in industry. Sentiment among consumers and retailers also eased, though very marginally. These developments offset improved confidence in the services and construction sectors.

In February, industrial confidence fell below its long-term average of -3.2. It edged down to -15.5, from -1.1 in the preceding month.⁵ The fall in sentiment reflected significantly weaker production expectations and, to a lesser extent, a higher share of firms that reported above normal stock levels. At the same time, firms' assessment of order book levels remained negative. Supplementary data indicate that, on balance, the number of respondents expecting employment to rise in the coming months edged down in February, but remained positive. Meanwhile, inflation expectations were unchanged.

Table 1
BUSINESS AND CONSUMER SURVEYS

Balances; percentage points; seasonally adjusted

| | 2018 | 2019 | 2020 Jan. | 2020 Feb. |
|---|--------------|--------------|--------------|--------------|
| ESI | 112.4 | 100.7 | 99.9 | 93.9 |
| <i>Industrial confidence indicator</i> | 6.9 | -6.7 | -1.1 | -15.5 |
| Assessment of order-book levels | -1.5 | -23.0 | -19.1 | -20.2 |
| Assessment of stocks of finished products | 5.8 | 15.5 | 20.0 | 33.2 |
| Production expectations for the months ahead | 27.9 | 18.4 | 35.8 | 6.9 |
| <i>Consumer confidence indicator</i> | 10.1 | 4.5 | 8.4 | 7.9 |
| Financial situation past 12 months | 16.9 | 11.3 | 13.4 | 11.6 |
| Financial situation next 12 months | 17.5 | 11.2 | 13.1 | 10.7 |
| Economic situation next 12 months | 28.9 | 20.9 | 18.0 | 19.8 |
| Major purchases next 12 months | -22.6 | -25.1 | -10.9 | -10.4 |
| <i>Retail trade confidence indicator</i> | 8.2 | 4.2 | 0.0 | -0.4 |
| Business activity, past 3 months | 15.4 | 18.9 | 3.0 | 4.8 |
| Stocks of finished goods | 7.7 | 17.4 | 7.2 | 10.0 |
| Business activity, next 3 months | 17.0 | 11.1 | 4.1 | 4.1 |
| <i>Services confidence indicator</i> | 34.6 | 20.7 | 7.9 | 11.4 |
| Business situation development over the past 3 months | 30.7 | 16.7 | -3.8 | 4.6 |
| Evolution of the demand over the past 3 months | 35.8 | 21.5 | 3.8 | 7.9 |
| Expectation of the demand over the next 3 months | 37.2 | 24.0 | 23.8 | 21.7 |
| <i>Construction confidence indicator</i> | 21.3 | 26.2 | 7.9 | 8.3 |
| Evolution of your current overall order books | 16.9 | 19.7 | 4.5 | 2.0 |
| Employment expectations over the next 3 months | 25.7 | 32.6 | 11.3 | 14.5 |

Source: European Commission.

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%.

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 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.

Consumer confidence eased to 7.9 in February, from 8.4 in the preceding month.⁶ Notwithstanding this decrease, it remained above its long-term average of -11.3. On balance, consumers were less optimistic in their expectations and assessment of the financial situation. However, expectations of the general economic situation over the next 12 months improved. Nonetheless, a marginally smaller share of respondents – relative to January – expected to make fewer major purchases over the next 12 months. Additional data show that, when compared with January, inflation expectations decreased. Meanwhile, on balance, a lower net share of consumers foresaw a decline in unemployment over the coming months.

In February, confidence within the retail sector turned marginally negative, and stood below its long-term average of 2.7.⁷ On balance, a higher share of respondents reported above normal stock levels.⁸ These developments offset an improved assessment of the business situation over the past three months. At the same time, retailers' expectations of business activity over the next three months remained unchanged. Supplementary data indicate that, on balance, a smaller share of respondents anticipated a rise in employment levels over the next three months. Meanwhile, retailers did not foresee price increases over the same period.

By contrast, sentiment within the services sector rose in February. Notwithstanding this increase, it remained below its long-term average of 22.7. It stood at 11.4, up from 7.9 in the preceding month.⁹ The recent rise in sentiment was driven by an increase in firms' assessment of the business situation and the evolution of demand over the past three months. By contrast, respondents' expectations of demand over the next three months weakened. Additional survey data show that firms' employment expectations improved significantly, while fewer firms anticipated higher prices in the months ahead.

Confidence in the construction sector edged up, standing at 8.3 from 7.9 in January.¹⁰ Following this marginal increase, it remained further above its long-term average of -11.6. The recent rise in sentiment was primarily driven by improved employment expectations over subsequent months. By contrast, fewer participants reported increasing orders. Additional survey data show that the share of respondents anticipating an increase in prices in the next three months eased, when compared with January.

In January, annual growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors was strong, though more moderate than that registered a month earlier. The index rose by 8.0% in annual terms, following an expansion of 10.1% 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

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.

⁷ 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.

⁸ 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.

⁹ 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.

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 | 2019 | | | | | | | | | | | | 2020 |
|---|-------------|------------|------------|-------------|-------------|------------|-------------|-------------|------------|------------|------------|------------|-------------|-------------|-------------|
| | | | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. | Oct. | Nov. | Dec. | |
| Industrial production | 1.2 | 1.7 | 0.9 | -1.3 | -4.6 | 2.6 | -1.2 | 0.7 | 1.3 | 7.2 | 5.1 | 2.4 | -1.6 | 10.1 | 8.0 |
| Retail trade | 0.5 | 4.5 | 2.2 | 3.0 | 3.1 | 6.9 | -0.7 | 4.8 | 5.1 | 4.8 | 7.4 | 6.3 | 4.4 | 5.8 | 3.3 |
| Number of tourist arrivals | 14.3 | 5.9 | 2.4 | 2.3 | 3.5 | 3.6 | 2.0 | 8.0 | 5.2 | 7.2 | 5.5 | 6.2 | 9.1 | 19.3 | 16.8 |
| Number of nights stayed | 12.5 | 4.1 | 7.6 | 3.5 | 2.2 | 2.6 | -3.6 | 5.1 | 1.6 | 5.8 | 2.1 | 6.5 | 9.0 | 15.1 | 3.5 |
| Rented accommodation | 10.7 | 4.6 | 4.5 | 3.3 | 2.5 | 5.8 | -5.0 | 6.7 | -1.7 | 7.4 | 2.8 | 12.1 | 9.6 | 13.9 | 7.7 |
| Collective ⁽¹⁾ | 7.1 | -0.1 | -10.4 | -6.9 | -1.0 | 1.1 | -10.3 | 2.0 | -2.9 | 3.2 | 4.5 | 4.2 | 2.9 | 9.9 | 11.0 |
| Other rented ⁽²⁾ | 18.0 | 13.5 | 56.4 | 34.7 | 12.5 | 17.0 | 6.3 | 15.3 | 0.0 | 13.0 | 0.3 | 28.5 | 26.6 | 19.7 | 1.0 |
| Non-rented accommodation ⁽³⁾ | 22.7 | 1.6 | 17.3 | 4.9 | -0.2 | -13.7 | 5.2 | -3.9 | 21.6 | -2.0 | -3.8 | -19.8 | 6.3 | 20.8 | -8.3 |
| Tourist expenditure | 8.0 | 5.7 | 3.0 | -2.8 | 0.5 | 7.7 | 3.3 | 10.7 | 1.8 | 2.8 | 5.9 | 7.1 | 10.3 | 25.4 | 11.2 |
| Package expenditure | 16.6 | -8.2 | 0.8 | -21.9 | -6.2 | -11.9 | -19.2 | 6.4 | -20.0 | -10.1 | -1.8 | -6.2 | 4.9 | 7.9 | -7.8 |
| Non-package expenditure | 13.3 | 17.1 | -6.8 | 6.8 | 4.5 | 23.8 | 23.8 | 17.1 | 21.4 | 15.1 | 18.4 | 14.8 | 13.5 | 41.3 | 33.1 |
| Other | -2.2 | 5.9 | 13.8 | 3.2 | 2.8 | 9.1 | 3.4 | 7.8 | 3.8 | 0.9 | -0.1 | 11.1 | 10.8 | 22.0 | 4.7 |

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.

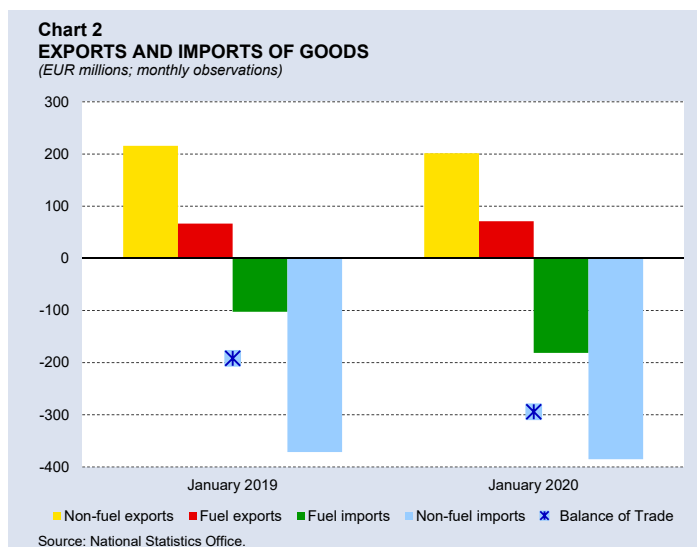
⁽³⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

also rose significantly within the “other manufacturing” sub-sector, which includes firms involved in the production of medical and dental instruments, toys and related products. Smaller increases were registered in the pharmaceuticals sector, among firms that produce rubber and plastics as well as in the energy sector. On the other hand, output declined strongly in the beverages and food sectors as well as among manufacturers of computer, electronics and optical products. A smaller decline was registered in the repair and installation of machinery and equipment sector.

The volume of retail trade, which is a short-term indicator of final domestic demand, also grew at a slower pace. It rose by an annual rate of 3.3%, following a 5.8% increase in December.

Meanwhile, the number of inbound tourists increased by 16.8% on a year earlier, following a 19.3% rise in December. Nights stayed rose by 3.5%, driven by an increase in rented accommodation, as nights spent in non-rented accommodation contracted. Tourist spending in Malta grew by 11.2% in annual terms, following an increase of 25.4% in December.

Customs data show that the merchandise trade deficit widened to €294.3 million in January, up from €191.9 million a year earlier. The widening of the merchandise gap was due to a €92.5 million increase in imports and a €9.9 million fall in exports (see Chart 2). Higher

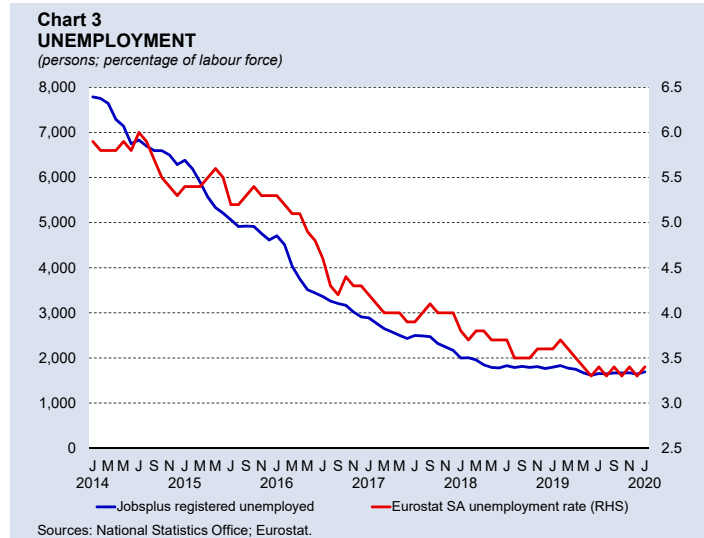


imports were due to registrations of aircraft and imported mineral fuels and oil, which offset a fall in registrations of sea vessels and in imported machinery and organic chemicals. Exports declined due to lower exports of fish, tools and electrical machinery, offsetting higher re-exports of aircraft parts and printed material.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,691 in January, marginally higher than 1,642 in December, but lower than 1,796 a year earlier (see Chart 3).

The seasonally-adjusted unemployment rate stood at 3.4% in January, marginally above the 3.3% registered in the previous month, but lower than the rate of 3.6% in the preceding year.



BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in September 2019, the gainfully occupied population, defined as all persons in full-time employment, rose by 5.7% on a year earlier reaching 221,361 (see Chart 4). Annual growth was faster than that of 5.2% registered in the preceding month, but lower than the 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 10,979, or 6.8% compared with September 2018. Employment growth in this sector continued to be driven

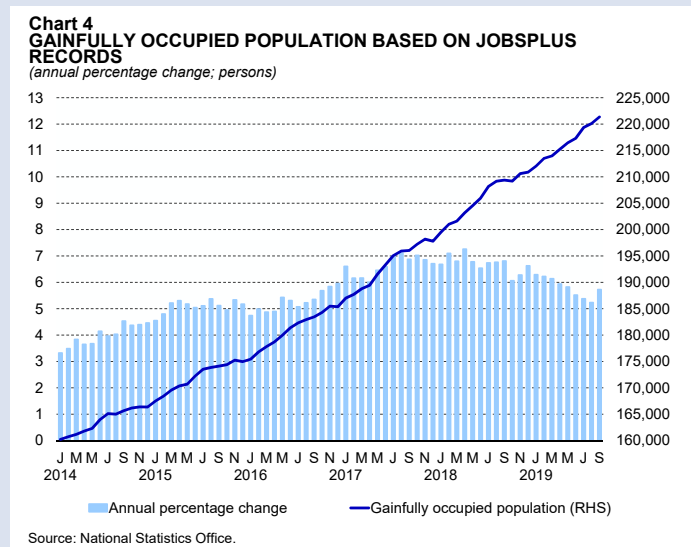


Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

| | 2018 | 2019 | Annual change | |
|--|----------------|----------------|-------------------|------------|
| | September | September | Number of persons | % |
| Labour supply | 211,191 | 223,029 | 11,838 | 5.6 |
| Gainfully occupied ⁽¹⁾ | 209,378 | 221,361 | 11,983 | 5.7 |
| Registered unemployed | 1,813 | 1,668 | -145 | -8.0 |
| Unemployment rate (%) | 0.9 | 0.7 | | |
| Private sector | 161,861 | 172,840 | 10,979 | 6.8 |
| Direct production⁽²⁾ | 35,718 | 37,992 | 2,274 | 6.4 |
| Of which: | | | | |
| Manufacturing | 21,687 | 21,846 | 159 | 0.7 |
| Construction | 11,192 | 13,118 | 1,926 | 17.2 |
| Market services | 126,143 | 134,848 | 8,705 | 6.9 |
| Wholesale and retail trade | 26,780 | 27,501 | 721 | 2.7 |
| Transportation and storage | 9,215 | 9,823 | 608 | 6.6 |
| Accommodation and food service activities | 13,996 | 15,165 | 1,169 | 8.4 |
| Information and communication | 7,080 | 7,338 | 258 | 3.6 |
| Financial and insurance activities | 10,095 | 10,582 | 487 | 4.8 |
| Real estate, professional and administrative activities ⁽³⁾ | 32,637 | 35,850 | 3,213 | 9.8 |
| Arts, entertainment and recreation | 9,369 | 10,232 | 863 | 9.2 |
| Education | 5,668 | 5,918 | 250 | 4.4 |
| Other | 11,303 | 12,439 | 1,136 | 10.1 |
| Public sector | 47,517 | 48,521 | 1,004 | 2.1 |

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.

by market services, where the number of full-time job holders increased by 8,705, or 6.9% in annual terms. This increase was distributed across 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 3,213 in the year to September, and accounted for almost 37.0% of the overall rise in private market services employment. Employment also rose strongly in accommodation and food services activities by 1,169 persons. The number of people employed in the “other services” sector also rose significantly, rising by 1,136, mostly reflecting increased employment in the health care sector. Meanwhile, 863 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 2,274, or 6.4% on a year earlier. Growth was mainly recorded in the construction sector, although employment in the manufacturing sector also increased but at a much lower rate.

Public sector employment rose by 1,004, or 2.1%, 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 22.7% a year earlier.

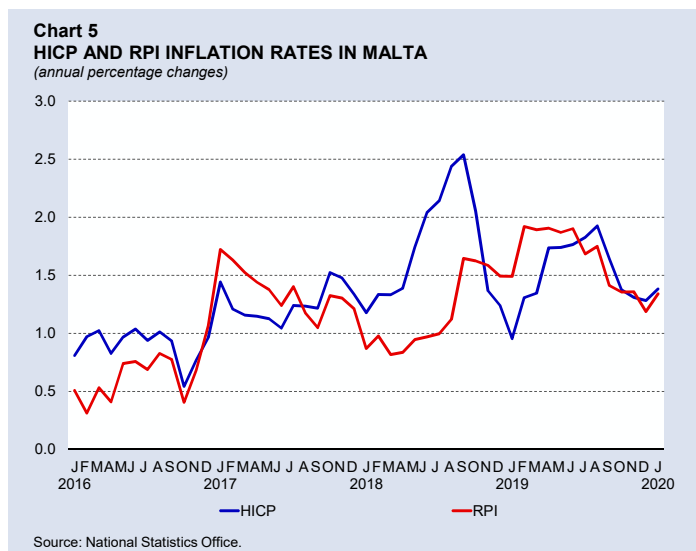
Prices, costs and competitiveness

Annual HICP inflation edged up to 1.4% in January, from 1.3% in the previous month (see Chart 5). Food inflation continued to recover, partly driven by faster annual growth in prices for fresh fish and seafood. At the same time, non-energy industrial goods inflation remained weak, with prices for imported goods acting as the main drag on overall inflation. Services inflation was unchanged compared with December, as was energy inflation.

Inflation as measured by the RPI rose to 1.3% during January, from 1.2% in the previous month (see Chart 5).¹² This mainly reflected faster growth in housing costs, while inflation in the clothing and footwear, and the household equipment and maintenance subcomponents turned slightly positive, following a contraction in December.

Annual producer price inflation, which measures producers' output prices, accelerated to 2.2% in January, from 1.6% in December.¹³ This reflected faster growth in the prices of intermediate goods. By contrast, the contributions from consumer goods and capital goods eased during the month, while energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) contracted by 1.0% in the year to January.¹⁴ This extends a



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. On top of this, 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.

prolonged pattern of decline in the index, suggesting an improvement in Malta's international competitiveness 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 by an even larger extent, to -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 January.

Public finance

In January 2020, the Consolidated Fund recorded a deficit of €75.9 million, a rise of €20.9 million when compared to the deficit registered in January 2019. This was due to an increase in expenditure which more than offset a rise in revenue (see Table 4). In turn, the primary balance registered a deficit of €63.6 million, in contrast to the €42.0 million registered a year earlier.

Total government revenue increased by €14.6 million, or 5.0% in annual terms, as a result of higher tax and non-tax revenue. Direct tax revenue increased by €5.9 million, due to higher income tax and social security contributions. Indirect tax revenue increased by €6.5 million, as a rise in customs and excise duties more than offset a slight fall in VAT receipts and in licences, taxes and fines. Meanwhile, non-tax revenue increased by a modest €2.1 million.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

| | 2019 | 2020 | Change | |
|--|--------------|--------------|--------------|-------------|
| | Jan. | Jan. | Amount | % |
| Revenue | 291.1 | 305.7 | 14.6 | 5.0 |
| Direct tax | 165.6 | 171.5 | 5.9 | 3.6 |
| Income tax | 105.1 | 109.5 | 4.4 | 4.2 |
| Social security contributions ⁽¹⁾ | 60.4 | 61.9 | 1.5 | 2.5 |
| Indirect tax | 96.1 | 102.6 | 6.5 | 6.8 |
| Value Added Tax | 45.5 | 43.3 | -2.2 | -4.9 |
| Customs and excise duties | 16.3 | 27.2 | 10.9 | 66.9 |
| Licences, taxes and fines | 34.3 | 32.2 | -2.1 | -6.2 |
| Non-tax⁽²⁾ | 29.5 | 31.6 | 2.1 | 7.3 |
| Expenditure | 346.1 | 381.6 | 35.5 | 10.3 |
| Recurrent | 320.8 | 350.6 | 29.8 | 9.3 |
| Personal emoluments | 69.6 | 72.1 | 2.4 | 3.5 |
| Operational and maintenance | 19.6 | 17.1 | -2.4 | -12.3 |
| Programmes and initiatives ⁽¹⁾ | 179.0 | 205.1 | 26.1 | 14.6 |
| Contributions to entities | 39.7 | 44.1 | 4.4 | 11.2 |
| Interest payments | 12.9 | 12.2 | -0.7 | -5.4 |
| Capital | 25.3 | 31.0 | 5.7 | 22.6 |
| Primary balance⁽³⁾ | -42.0 | -63.6 | -21.6 | - |
| Consolidated Fund balance | -55.0 | -75.9 | -20.9 | - |

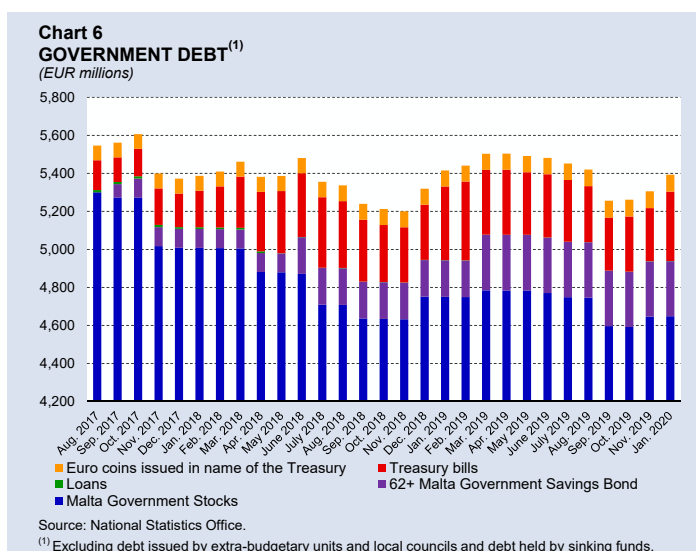
Source: National Statistics Office.

⁽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.

Government expenditure increased by €35.5 million, or 10.3% when compared with January 2019. Recurrent expenditure increased by €29.8 million, or 9.3% in annual terms. This increase mainly reflects higher outlays on programmes and initiatives and a larger contribution to government entities which increased by €14.6 and €11.2 million respectively. Moreover, personal emoluments also contributed positively towards the rise in total expenditure. On the other hand, operational and maintenance expenses and interest payments declined slightly. Meanwhile, capital expenditure increased by €5.7 million, further contributing to the increase in total expenditure.



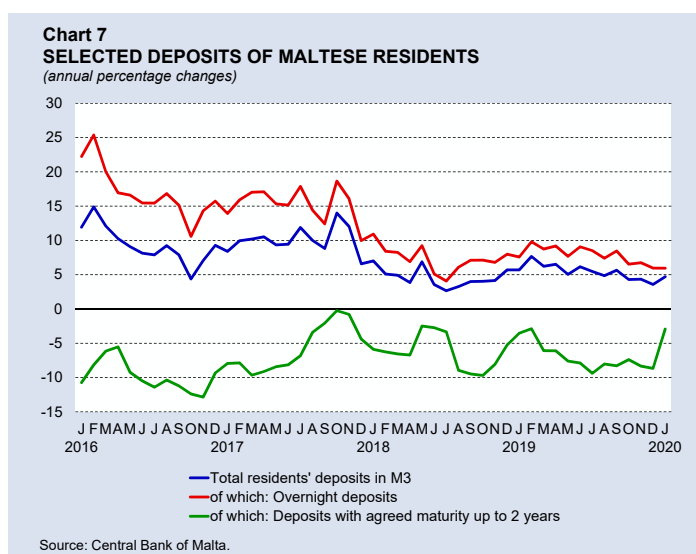
In January 2020, the total stock of government debt amounted to €5,392.7 million, an increase of €87.4 million when compared with a month earlier (see Chart 6). This was mainly due to an increase in Treasury Bills outstanding.

Deposits, credit and financial markets

In January, residents' deposits held with monetary financial institutions (MFI) forming part of broad money (M3) expanded further, by an annual 4.7% (see Chart 7).

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 5.9% in the year to January. On the other hand, time deposits with a maturity of up to two years continued to contract, albeit at a slower pace, falling by 2.9% 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 grew by an annual 5.0% in January, following a 4.9% increase in December 2019 (see Chart 8). Credit to general government contracted by 0.9%, after increasing by 0.6%



in the year to December. These developments were offset by faster annual growth in credit to residents outside general government, which rose by 6.7% in January, following a 6.1% increase a month earlier.

The annual rate of change in loans to NFCs reached 5.5% from 3.0% a month earlier, mainly driven by a smaller contraction in loans to the trade and vehicle repair sector, and faster growth in loans to construction (see Chart 9). Meanwhile, loans to households moderated to 8.9%, following an increase of 10.0% in December, driven by slower growth in lending for house purchases.

With regard to interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits eased to 0.29% in January, from 0.30% in December. The composite rate charged on outstanding loans rose by three basis points to 3.48%. Thus, the spread between the two rates widened marginally from a month earlier, standing at 319 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by 3 basis points, to 0.2% at the end of February (see Chart 10). The Malta Stock Exchange (MSE) Equity Price Index fell by 0.6% 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. The latter also contracted in the month under review.

Chart 8
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)

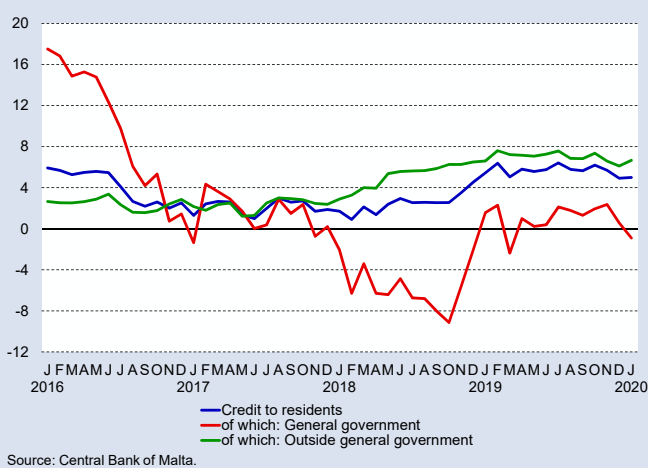


Chart 9
LOANS BY SECTOR
(annual percentage changes)

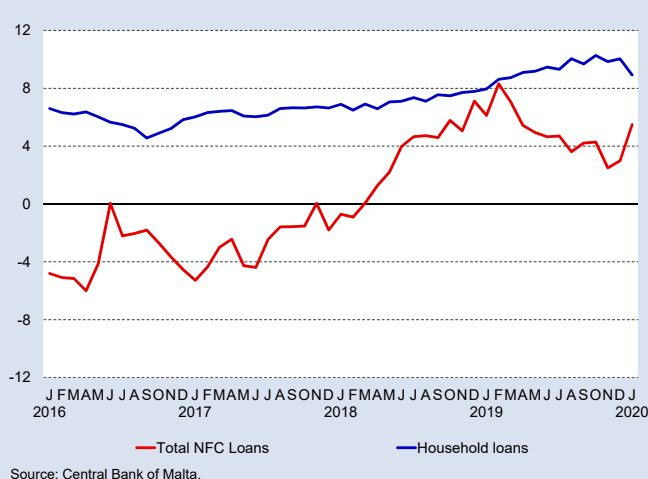
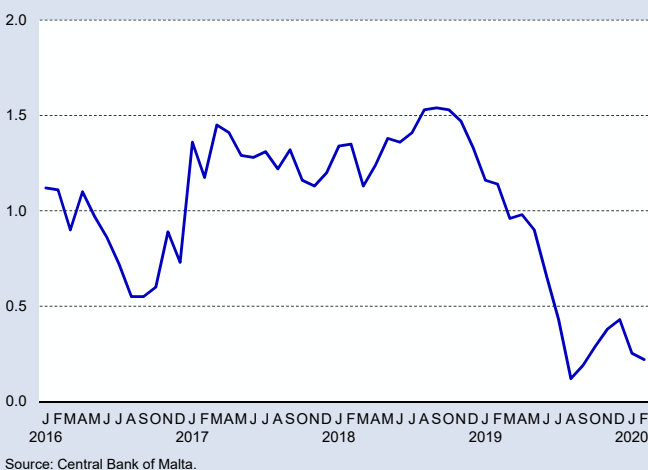


Chart 10
TEN-YEAR MALTA GOVERNMENT BOND YIELD
(ISMA yield; percentages per annum; end of month)



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 | 2020 | 2020 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | | | Q1 | Q2 | Q3 | Q4 | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. |
| Prices and costs | | | | | | | | | | | | | | | | | | | |
| HICP inflation | 1.7 | 1.5 | 1.2 | 1.7 | 1.8 | 1.3 | 1.3 | 1.3 | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 | 1.6 | 1.4 | 1.3 | 1.3 | 1.4 | - |
| RPI inflation | 1.2 | 1.6 | 1.8 | 1.9 | 1.6 | 1.3 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.7 | 1.7 | 1.4 | 1.4 | 1.4 | 1.2 | 1.3 | - |
| Industrial producer price inflation | 4.4 | 2.2 | 3.4 | 1.7 | 1.8 | 1.8 | 3.6 | 2.5 | 1.7 | 1.7 | 1.7 | 1.8 | 1.6 | 2.1 | 2.3 | 1.4 | 1.6 | 2.2 | - |
| HCI (nominal) | 3.6 | -0.7 | -0.2 | -0.1 | -1.3 | -1.3 | -0.7 | -1.1 | -1.0 | 0.2 | 0.5 | -0.9 | -0.8 | -2.2 | -1.5 | -1.2 | -1.3 | -1.2 | - |
| HCI (real) | 3.0 | -1.2 | -1.0 | -0.6 | -1.5 | -1.9 | -1.3 | -1.8 | -1.7 | -0.2 | 0.1 | -1.1 | -0.9 | -2.3 | -1.8 | -1.7 | -2.2 | -2.2 | - |
| Unit labour costs, whole economy ⁽¹⁾ | 0.9 | 3.4 | 0.1 | 0.4 | 1.8 | 3.4 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Compensation per employee ⁽¹⁾ | 2.1 | 2.4 | 1.4 | 1.1 | 1.6 | 2.4 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Labour productivity (per person) ⁽¹⁾ | 1.2 | -1.1 | 1.3 | 0.7 | -0.3 | -1.1 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Property Price Index (Eurostat) | 5.8 | - | 6.5 | 6.2 | 5.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Economic activity | | | | | | | | | | | | | | | | | | | |
| Nominal GDP | 9.6 | 6.8 | 8.1 | 6.8 | 5.5 | 7.0 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real GDP | 7.3 | 4.4 | 5.8 | 4.6 | 3.0 | 4.4 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real private consumption | 7.6 | 2.4 | 3.6 | 2.1 | 1.9 | 1.9 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real government consumption | 12.7 | 12.0 | 24.2 | 10.3 | 11.0 | 4.3 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real gross fixed capital formation | -2.1 | 7.2 | 29.3 | 1.7 | 4.4 | -2.3 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real exports of goods and services | 3.5 | 1.7 | 2.7 | 0.5 | 1.3 | 2.2 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real imports of goods and services | 3.4 | 2.1 | 6.5 | -0.6 | 2.2 | 0.2 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 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 | 5.4 | - | 6.2 | 6.1 | 5.9 | 5.8 | 5.5 | 5.4 | 5.2 | 5.7 | - | - | - | - | - |
| 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 | 9.8 | 8.7 | 9.2 | 7.7 | 9.1 | 8.5 | 7.4 | 8.5 | 6.5 | 6.7 | 6.0 | 5.9 | - |
| Deposits with agreed maturity up to 2 years | -5.2 | -8.7 | -6.1 | -7.9 | -8.3 | -8.7 | -2.9 | -6.1 | -6.1 | -7.6 | -7.9 | -9.4 | -8.0 | -8.3 | -7.4 | -8.3 | -8.7 | -2.9 | - |
| Total residents' deposits in M3 | 5.7 | 3.6 | 6.2 | 6.2 | 5.7 | 3.6 | 7.7 | 6.2 | 6.5 | 5.1 | 6.2 | 5.5 | 4.8 | 5.7 | 4.3 | 4.3 | 3.6 | 4.7 | - |
| Credit to general government | -2.0 | 0.6 | -2.4 | 0.4 | 1.3 | 0.6 | 2.3 | -2.4 | 1.0 | 0.2 | 0.4 | 2.1 | 1.8 | 1.3 | 1.9 | 2.4 | 0.6 | -0.9 | - |
| Credit to residents (excl. general government) | 6.5 | 6.1 | 7.2 | 7.3 | 6.8 | 6.1 | 7.6 | 7.2 | 7.2 | 7.1 | 7.3 | 7.6 | 6.8 | 6.8 | 7.3 | 6.6 | 6.1 | 6.7 | - |
| Total credit | 4.5 | 4.9 | 5.1 | 5.8 | 5.6 | 4.9 | 6.4 | 5.1 | 5.8 | 5.6 | 5.8 | 6.4 | 5.8 | 5.6 | 6.2 | 5.7 | 4.9 | 5.0 | - |
| 10-year interest rate (%) ⁽³⁾ | 1.3 | 0.4 | 1.0 | 0.7 | 0.2 | 0.4 | 1.1 | 1.0 | 1.0 | 0.9 | 0.7 | 0.4 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 | 0.3 | 0.2 |
| Stock prices: Malta Stock Exchange Index ⁽⁴⁾ | 0.1 | 4.4 | 4.3 | 2.2 | 2.1 | -4.0 | 2.0 | 4.1 | 0.1 | 2.2 | -0.2 | 0.7 | -1.0 | 2.4 | -1.6 | -2.5 | 0.0 | -1.2 | -0.6 |
| General government finances (% of GDP) | | | | | | | | | | | | | | | | | | | |
| Surplus (+) / deficit (-) ⁽²⁾ | 1.9 | - | 1.7 | 1.2 | 0.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Gross debt ⁽⁵⁾ | 45.6 | - | 46.2 | 45.5 | 43.2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

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.