



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE

4/2020

Date of issue: 24 April 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 April 2020. Figures in tables may not add up due to rounding.

ISSN 2410-8294 (online)

ECONOMIC UPDATE 4/2020

Summary¹

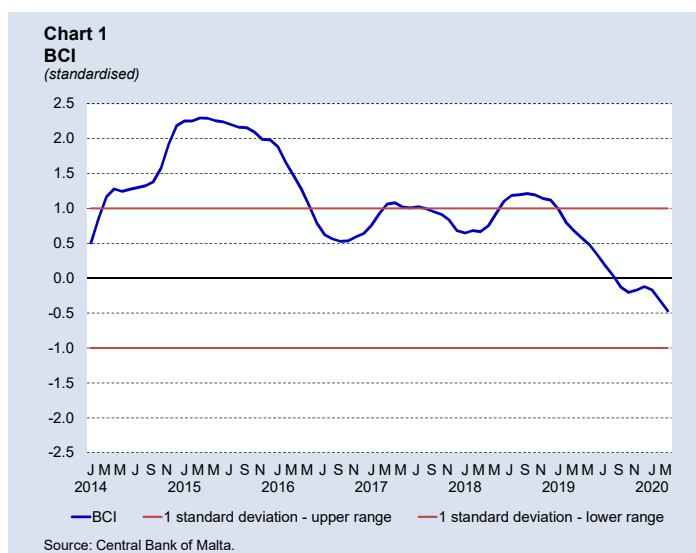
In March, the Bank's Business Conditions' Index (BCI) fell when compared with the previous month, and continued to suggest that economic conditions remain below their long-term average. The European Commission's Economic Sentiment Indicator (ESI) also decreased. Sentiment weakened in all sectors, except construction, with the retail and services sectors recording the largest falls. In February, annual growth in the number of tourist arrivals remained strong and close to that recorded a month earlier, while nights stayed and expenditure by tourists rose at a faster pace. The volume of retail trade also rose at a quicker rate. Meanwhile growth in industrial production slowed down, while remaining robust. Conditions in the labour market remained favourable, with the number of registered unemployed and the unemployment rate lower than year ago levels. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) eased to 1.1% in February. Inflation based on the Retail Price Index (RPI) fell to 1.0%. Meanwhile, Maltese residents' deposits grew by 3.8% over the year to February, while credit to Maltese residents expanded by 4.7%. In February, the deficit on the cash-based Consolidated Fund widened compared with a year earlier.

Central Bank's BCI²

In recent months, the BCI index has been indicating that the economy was operating below – but close to – its long-run average. In March, the index fell to -0.5, a further drop from its updated value of -0.3 for February (see Chart 1). The BCI was affected strongly by declining economic sentiment on a year-on-year basis – reflecting the exceptional economic environment triggered by COVID-19 from mid-March onward – although this was partly offset by strong growth in other variables, in particular industrial production.

Business and consumer confidence indicators

In March, the ESI stood at 87.5 down from 93.9 in the preceding month, and below the 102.3



¹ The cut-off date for information in this note is 13 April 2020. Most of the data reported in this issue of the Economic Update precede the reporting of COVID-19 cases in Malta, although confidence indicators and the BCI already start to reflect some of the impact of the pandemic on the economy.

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.

recorded a year earlier (see Table 1).^{3,4} The ESI also stood 7.0 points lower than that in the euro area.

The month-on-month decrease in sentiment largely reflects significantly weaker confidence among retailers and in the services sector. Confidence among consumers and in industry also edged down, although to a lesser extent. These developments offset improved sentiment in the construction sector.

In March, confidence within the retail sector fell further below its long-term average of 2.5. It stood at -22.3, down from -0.4 in the previous month.⁵ The recent fall in sentiment was almost entirely

Table 1
BUSINESS AND CONSUMER SURVEYS

Balances; percentage points; seasonally adjusted

	2018	2019	2020 Jan.	2020 Feb.	2020 Mar.
ESI	112.4	100.7	99.9	93.9	87.5
Retail trade confidence indicator	8.2	4.2	0.0	-0.4	-22.3
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1
Services confidence indicator	34.6	20.7	7.9	11.4	0.4
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3
Evolution of the demand over the past 3 months	35.8	21.5	3.8	7.9	11.4
Expectation of the demand over the next 3 months	37.2	24.0	23.8	21.7	-9.9
Consumer confidence indicator	10.1	4.5	8.4	7.9	0.1
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5
Industrial confidence indicator	6.9	-6.7	-1.1	-15.5	-19.2
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7
Construction confidence indicator	21.3	26.2	7.9	8.3	14.3
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5
E EI	114.1	101.2	100.2	102.7	90.0
Industry	31.1	12.8	16.5	7.0	-16.7
Retail	15.4	4.7	25.2	11.9	-8.6
Services	33.9	17.5	6.7	21.6	11.8
Construction	25.7	32.6	11.3	14.5	26.5

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 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.

driven by retailers' expectations of business activity over the next three months, which offset a slightly improved assessment of the business situation over the past three months. Meanwhile, the share of respondents reporting above normal stock levels eased marginally.⁶ Supplementary data indicate that price expectations turned negative.

Sentiment within the services sector fell to 0.4 in March, from 11.4 in the preceding month. It thus remained well below its long-term average of 22.5.⁷ Weaker sentiment mainly reflected a decrease in firms' demand expectations for the next three months. On balance, firms' assessment of the business situation over the past three months also weakened. By contrast, respondents' assessment of demand in recent months improved. Additional survey data show that fewer firms anticipated higher prices in the months ahead.

Consumer confidence edged down to 0.1 in March, from 7.9 in the preceding month.⁸ Notwithstanding this decrease, it remained above its long-term average of -11.2. On balance, consumers were less optimistic in their expectations of the general economic and financial situation over the next 12 months. At the same time, a higher share of respondents – relative to February – expected to make fewer major purchases over the same period. However, respondents' assessment of the financial situation over the last 12 months improved. Supplementary data show that inflation expectations increased. Meanwhile, a significantly lower net share of consumers anticipated a decline in unemployment over the coming months.

In March, industrial confidence stood below its long-term average of -3.3. It eased to -19.2, from -15.5 a month earlier.⁹ Production expectations turned negative in the month under review. At the same time, firms' assessment of order book levels improved, although it remained negative. On the other hand, fewer firms reported above normal stock levels, relative to February. Additional survey data indicate that, on balance, fewer respondents anticipated selling prices to fall in the coming months.

By contrast, confidence in the construction sector reached 14.3, from 8.3 in February.¹⁰ Following this increase, it rose further above its long-term average of -11.4. The recent rise in sentiment mostly reflected improved employment expectations over subsequent months, as the share of participants reporting increased orders remained broadly unchanged. Supplementary data indicate that the share of respondents anticipating an increase in prices in the next three months eased when compared with February.

The European Commission's Employment Expectations Indicator (EEI), which is a composite indicator of employment expectations in industry, services, retail trade and construction, decreased

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.

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 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.

⁹ The industrial confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

¹⁰ 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.

in March.¹¹ Indeed, the EEI edged down from 102.7 in February to 90.0 in March, thus standing below its long-run average of around 100.0. Moreover, in March, Malta's EEI stood 4.1 points below the euro area average. Although employment prospects continued to improve within the construction sector, they were less positive in services and turned negative in industry and in the retail sector. The EEI, nevertheless, remained more positive than the ESI, suggesting that firms' employment expectations remain better than overall business sentiment.

In February, annual growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors remained strong, though more moderate than that registered a month earlier. The index rose by 10.1% in annual terms, following an expansion of 12.7% in the preceding month (see Table 2).¹² The latest increase was recorded within the "other manufacturing" sub-sector, which includes firms involved in the production of medical and dental instruments, toys and related products. Higher production was also recorded in the energy sector, as well as among firms involved in the printing and reproduction of recorded media, and the repair and installation of machinery and equipment as well as in the pharmaceuticals and beverages sectors. On the other hand, output declined strongly among firms producing food. Smaller declines were registered in the production of rubber and plastic products, as well as computer, electronics and optical products.

The volume of retail trade, which is a short-term indicator of final domestic demand, grew at a faster pace. It rose by an annual rate of 4.8%, following a 3.3% increase in January.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2018		2019												2020	
	2018	2019	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	
Industrial production	1.2	1.3	-1.8	-5.0	2.1	-1.2	0.4	1.2	6.7	4.3	1.8	-2.2	9.9	12.7	10.1	
Retail trade	0.5	4.3	3.0	3.0	6.9	-0.6	4.8	5.0	4.6	7.2	4.7	4.6	5.6	3.3	4.8	
Number of tourist arrivals	14.3	5.9	2.3	3.5	3.6	2.0	8.0	5.2	7.2	5.5	6.2	9.1	19.3	16.8	16.5	
Number of nights stayed	12.5	4.1	3.5	2.2	2.6	-3.6	5.1	1.6	5.8	2.1	6.5	9.0	15.1	3.5	10.1	
Rented accommodation	10.7	4.6	3.3	2.5	5.8	-5.0	6.7	-1.7	7.4	2.8	12.1	9.6	13.9	7.7	11.1	
Collective ⁽¹⁾	7.1	-0.1	-6.9	-1.0	1.1	-10.3	2.0	-2.9	3.2	4.5	4.2	2.9	9.9	11.0	14.9	
Other rented ⁽²⁾	18.0	13.5	34.7	12.5	17.0	6.3	15.3	0.0	13.0	0.3	28.5	26.6	19.7	1.0	3.1	
Non-rented accommodation ⁽³⁾	22.7	1.6	4.9	-0.2	-13.7	5.2	-3.9	21.6	-2.0	-3.8	-19.8	6.3	20.8	-8.3	3.9	
Tourist expenditure	8.0	5.7	-2.8	0.5	7.7	3.3	10.7	1.8	2.8	5.9	7.1	10.3	25.4	11.2	22.0	
Package expenditure	16.6	-8.2	-21.9	-6.2	-11.9	-19.2	6.4	-20.0	-10.1	-1.8	-6.2	4.9	7.9	-7.8	25.8	
Non-package expenditure	13.3	17.1	6.8	4.5	23.8	23.8	17.1	21.4	15.1	18.4	14.8	13.5	41.3	33.1	22.8	
Other	-2.2	5.9	3.2	2.8	9.1	3.4	7.8	3.8	0.9	-0.1	11.1	10.8	22.0	4.7	19.1	

Sources: National Statistics Office; Eurostat.

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

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

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

¹¹ The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission. (2020). *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

¹² 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.

Meanwhile, the number of inbound tourists increased by 16.5% on a year earlier, following a 16.8% rise in January. Nights stayed rose by 10.1%, driven mainly by an increase in rented accommodation. Tourist spending in Malta grew by 22.0% in annual terms, following an increase of 11.2% in January.

Customs data show that the merchandise trade deficit narrowed to €134.2 million in February, down from €357.8 million a year earlier. The narrowing of the merchandise gap was due to a €196.5 million fall in imports and a €27.1 million rise in exports (see Chart 2). Lower imports were on account of substantially lower registration of sea vessels, which more than offset an increase in registration of aircraft and imported mineral fuels and related products. Exports increased largely due to higher re-exports of aircraft parts, mineral fuels and related products, fish, printed material and electrical machinery. These offset lower exports of pharmaceutical products. The trade deficit also narrowed on a cumulative basis (see Chart 3).

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,659 in February, lower than the 1,691 reported in January and 1,829 a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 3.3% in February, marginally lower than the 3.4% registered in the previous month, as well as the rate of 3.7% in the preceding year.

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

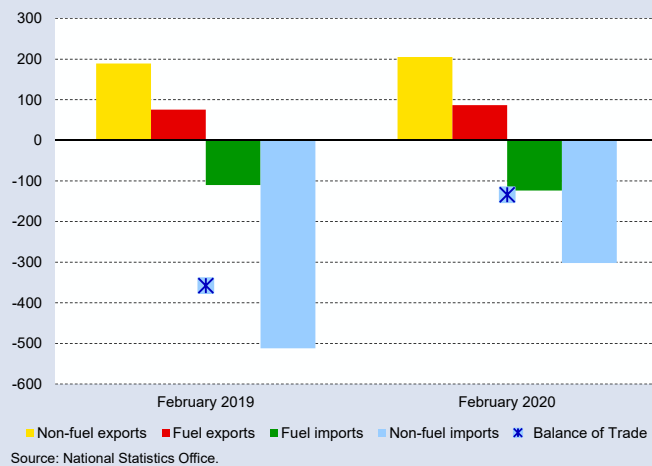


Chart 3
EXPORTS AND IMPORTS OF GOODS
(EUR millions; year-to-date observations)

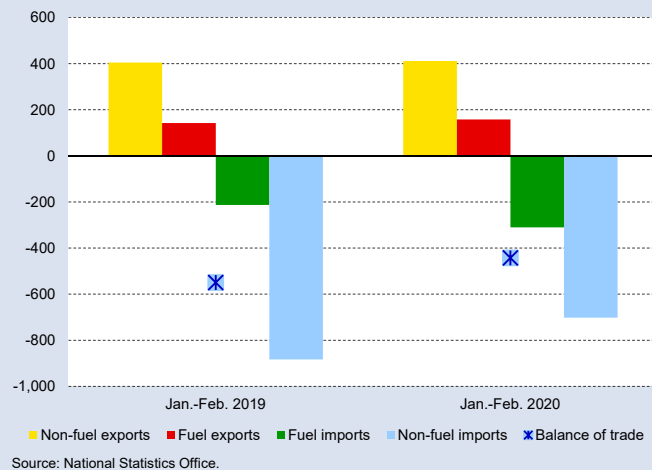
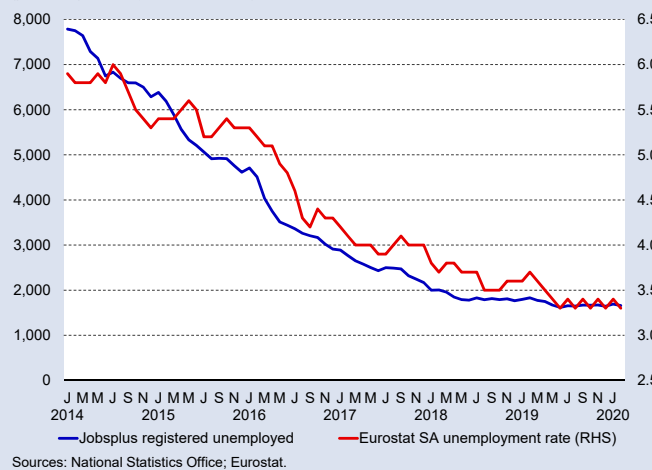
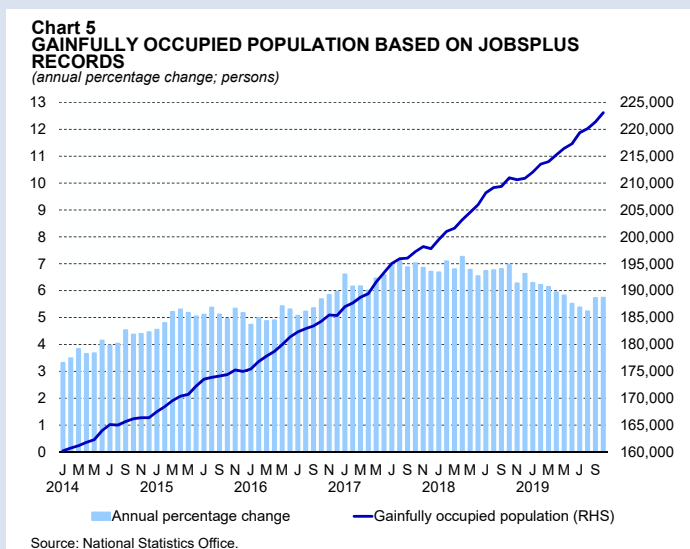


Chart 4
UNEEMPLOYMENT
(persons; percentage of labour force)



BOX 2: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in October 2019, the gainfully occupied population – defined as all persons in full-time employment – rose by 5.7% on a year earlier, reaching 223,078 (see Chart 5). Annual growth was equivalent to that registered in the preceding month, but lower than the 7.0% 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 11,045, or 6.8% compared with October 2018. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 8,694, or 6.8% in annual terms. This increase was distributed among all major sectors within this category.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,387 in the year to October, and accounted for almost 40 per cent of the overall rise in private market services employment. Employment also rose strongly in accommodation and food services activities, by 1,115 persons. The number of people employed in the “other services” sector also grew significantly, increasing by 1,100, mostly reflecting higher employment in the health and residential care sector. Meanwhile, 872 additional persons were employed in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 2,351, or 6.5% on a year earlier. Growth was mainly recorded in the construction sector. Although employment in the manufacturing sector also increased, it did so at a much lower rate.

Public sector employment rose by 1,054, or 2.2%, on a year earlier. Employment increased mostly in public administration and defence, and in the health and education sectors. Nevertheless, the share of public sector employment in the total gainfully occupied population edged down to 21.8%, from 22.6% a year earlier.

Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

	2018	2019	Annual change	
	October	October	Number of persons	%
Labour supply	212,769	224,744	11,975	5.6
Gainfully occupied ⁽¹⁾	210,979	223,078	12,099	5.7
Registered unemployed	1,790	1,666	-124	-6.9
Unemployment rate (%)	0.8	0.7		
Private sector	163,393	174,438	11,045	6.8
Direct production ⁽²⁾	36,016	38,367	2,351	6.5
Of which:				
Manufacturing	21,797	21,935	138	0.6
Construction	11,386	13,389	2,003	17.6
Market services	127,377	136,071	8,694	6.8
Wholesale and retail trade	26,936	27,616	680	2.5
Transportation and storage	9,298	9,900	602	6.5
Accommodation and food service activities	14,120	15,235	1,115	7.9
Information and communication	7,137	7,402	265	3.7
Financial and insurance activities	10,147	10,483	336	3.3
Real estate, professional and administrative activities ⁽³⁾	33,123	36,510	3,387	10.2
Arts, entertainment and recreation	9,427	10,299	872	9.3
Education	5,727	6,064	337	5.9
Other	11,462	12,562	1,100	9.6
Public sector	47,586	48,640	1,054	2.2

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.

Prices, costs and competitiveness

Annual HICP inflation edged down to 1.1% in February, from 1.4% in the previous month (see Chart 6). This moderation mainly reflected an annual contraction of 0.9% in prices for non-energy industrial goods. Prices for imported manufactured goods remain restrained by a number of factors, including strong competition and weak price pressures in the euro area.

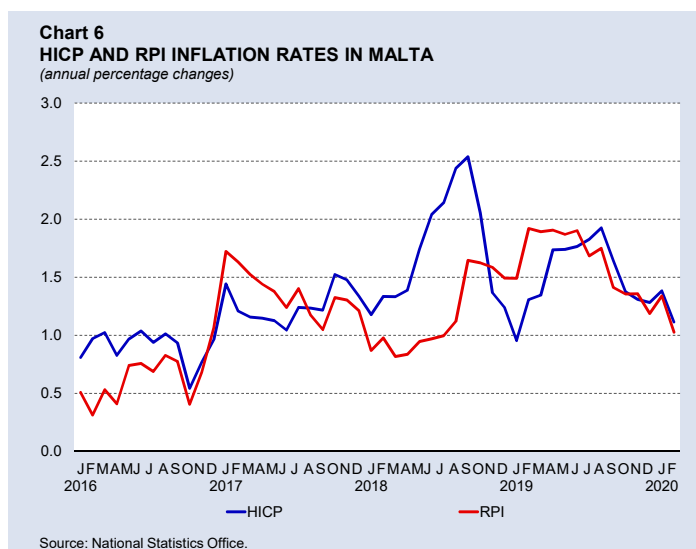
Food inflation also moderated, though marginally. Energy inflation remained positive and unchanged when compared with the previous month, while services inflation remained robust and exceeded marginally the reading for January.

Inflation as measured by the RPI fell to 1.0% in February, from 1.3% in the previous month (see Chart 6).¹³ This mainly reflected weaker growth in prices of goods, such as clothing and footwear, and household equipment and maintenance.

¹³ 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.

Annual producer price inflation, which measures producers' output prices, decelerated to 1.2% in February, from 1.5% in the previous month.¹⁴ This mainly reflected slower growth in the prices of intermediate goods. The contributions from consumer goods and capital goods remained positive and unchanged, while energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) dropped by 1.0% in the year to February.¹⁵ This prolonged pattern of decline in the index suggests an improvement in Malta's international competitiveness on account of favourable movements in the euro exchange rate against that of trading partners. The real HCI, which also takes into account relative price changes, contracted by 2.1%, suggesting that favourable developments in relative prices augmented the improvement in Malta's international competitiveness arising from the exchange rate.



Public finance

In February, the Consolidated Fund recorded a deficit of €22.5 million, a rise of €14.5 million when compared to the deficit registered in February 2019. This was the result of higher expenditure offsetting a rise in revenue (see Table 4). In turn, the primary balance registered a deficit of €4.2 million, in contrast to the €15.8 million primary surplus registered a year earlier.

Total government revenue increased by €16.4 million, or 4.6% when compared with the corresponding period of 2019. This partly reflected higher income from direct taxes, which increased by €4.4 million, due to higher social security contributions. Revenue from indirect taxes increased by €3.8 million, as increases in licences, taxes and fines and VAT receipts offset lower customs and excise duties. Meanwhile, non-tax revenue also contributed positively towards the rise in total revenue, as it increased by €8.2 million in annual terms.

Government expenditure increased by €30.9 million, or 8.5% when compared to February 2019, on the back of higher recurrent expenditure. This increased by €34.6 million, or 10.6% in annual terms, reflecting higher contributions to government entities and outlays on programmes and initiatives. These rose by €30.3 million and €15.6 million, respectively. On the other hand, expenditure on interest payments, operational and maintenance and personal emoluments declined slightly.

¹⁴ 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.

¹⁵ 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.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2019	2020	2019	2020	Change	
	Jan.-Feb.	Jan.-Feb.	Feb.	Feb.	Amount	%
Revenue	647.8	678.7	356.7	373.0	16.4	4.6
Direct tax	305.5	315.8	139.9	144.3	4.4	3.2
Income tax	196.2	199.0	91.0	89.5	-1.6	-1.7
Social security contributions ⁽¹⁾	109.3	116.8	48.9	54.8	6.0	12.2
Indirect tax	291.9	302.3	195.8	199.6	3.8	1.9
Value Added Tax	185.3	184.5	139.8	141.2	1.4	1.0
Customs and excise duties	47.9	52.1	31.6	24.9	-6.7	-21.2
Licences, taxes and fines	58.7	65.7	24.4	33.5	9.1	37.3
Non-tax⁽²⁾	50.4	60.6	20.9	29.1	8.2	39.0
Expenditure	710.7	777.1	364.6	395.5	30.9	8.5
Recurrent	646.1	710.5	325.3	359.9	34.6	10.6
Personal emoluments	145.4	146.7	75.7	74.6	-1.1	-1.4
Operational and maintenance	36.5	29.3	16.9	12.2	-4.7	-28.0
Programmes and initiatives ⁽¹⁾	356.5	398.1	177.5	193.1	15.6	8.8
Contributions to entities	71.1	105.9	31.5	61.7	30.3	96.2
Interest payments	36.7	30.5	23.8	18.3	-5.4	-22.9
Capital	64.5	66.5	39.3	35.6	-3.7	-9.5
Primary balance⁽³⁾	-26.2	-67.8	15.8	-4.2	-20.0	-
Consolidated Fund balance	-62.9	-98.4	-8.0	-22.5	-14.5	-

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.

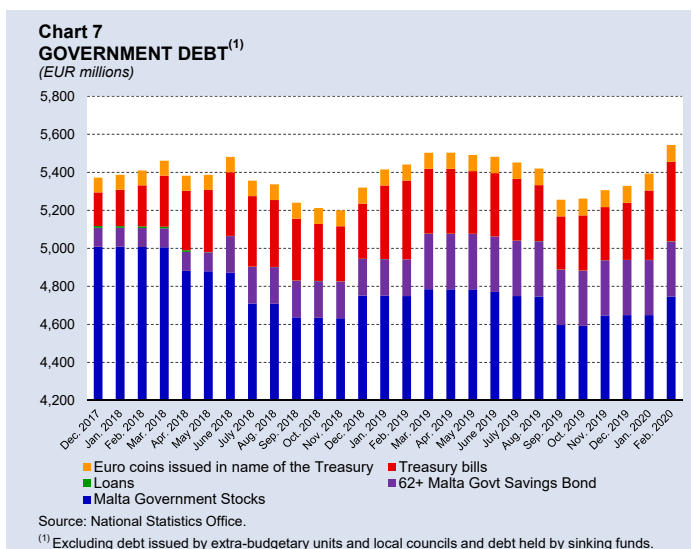
⁽³⁾ Revenue less expenditure excluding interest payments.

Meanwhile, capital expenditure decreased by €3.7 million when compared to the respective period of 2019.

In February, the total stock of government debt amounted to €5,543.7 million, an increase of €151.0 million when compared with a month earlier (see Chart 7). This was mainly due to new issues of Malta Government Stocks as well as a rise in Treasury Bills outstanding.

Deposits, credit and financial markets

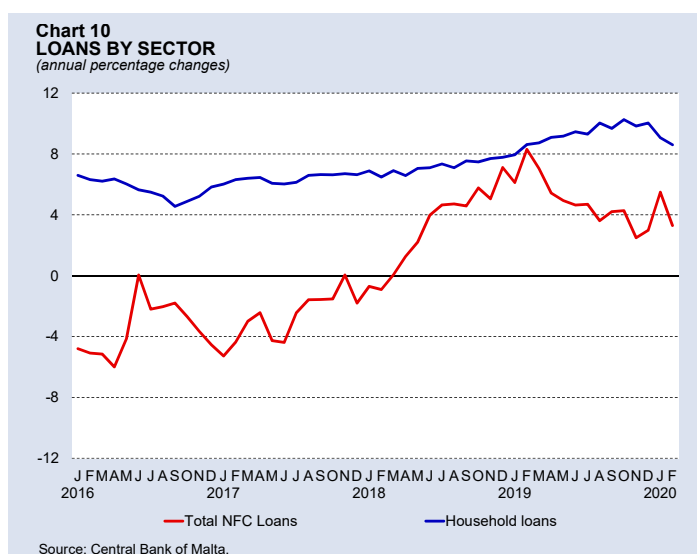
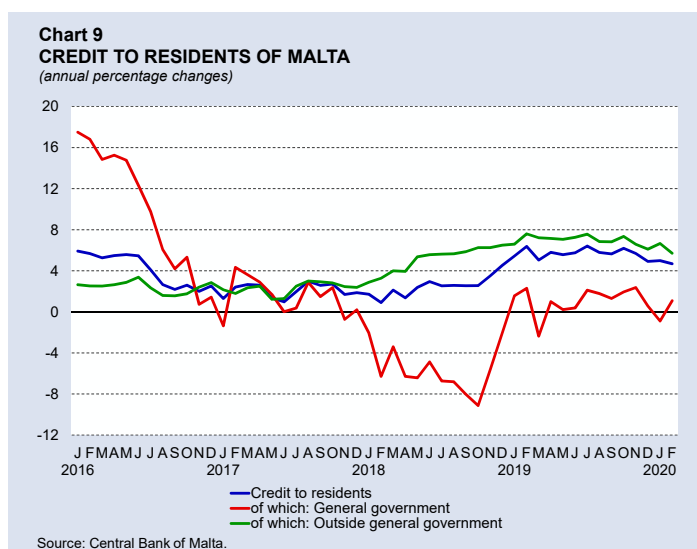
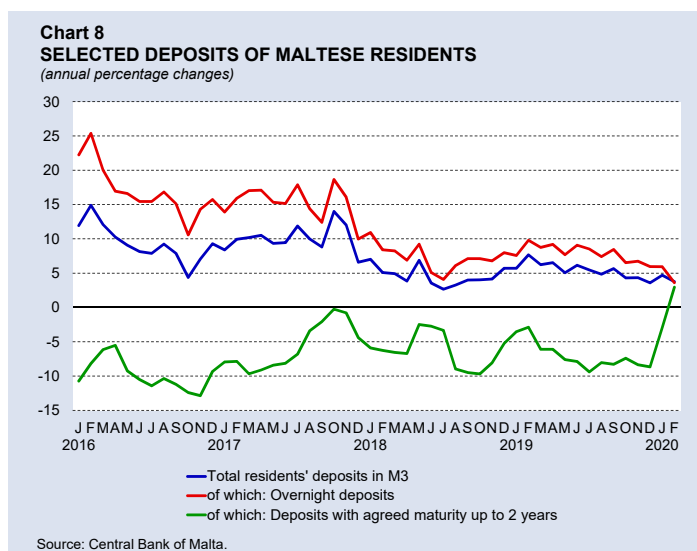
In February, residents' deposits held with monetary financial institutions (MFI) forming part of broad money (M3) expanded at an annual rate of 3.8% (see Chart 8).



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 3.6% in the year to February. Meanwhile, time deposits with a maturity of up to two years expanded by 3.0% in annual terms, following a contraction of 2.9% in the year to January.

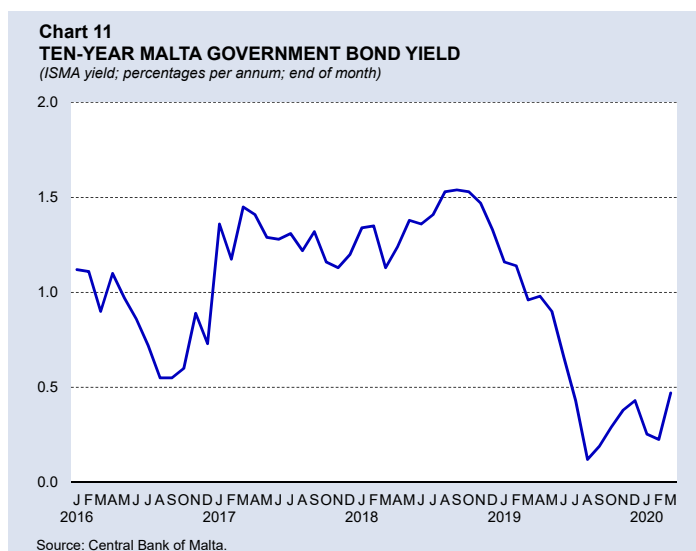
Credit to Maltese residents grew by an annual 4.7% in February, following a 5.0% increase in January (see Chart 9). The slower rate of growth reflected developments in credit outside general government. In the year to February, this component grew by 5.7%, following an increase of 6.7% in January. By contrast, annual growth in credit to general government rose by 1.1% over the year to February, after contracting by 0.9% a month earlier.

The annual rate of change in loans to non-financial corporations eased to 3.3% from 5.5% in January, mainly driven by slower growth in loans to administrative and support services activities, and a larger contraction in loans to firms engaged in wholesale and retail trade and repairs sector (see Chart 10). Meanwhile, loans to households moderated to 8.6%, following an increase of 9.1% in January driven by slower growth in lending for house purchases. The annual rate of change of consumer credit and other lending was unchanged from January.



With regard to interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits eased to 0.28% in February, from 0.29% in January. The composite rate charged on outstanding loans fell by two basis points, to 3.46%. Thus, the spread between the two rates narrowed marginally from a month earlier, standing at 318 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds rose by 25 basis points, to 0.47% at the end of March (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index fell by 18.0% 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.



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	2020
			Q1	Q2	Q3	Q4	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
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	1.1	-
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	1.4	1.4	1.4	1.4	1.2	1.3	1.0	-
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	1.5	1.2	-
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	-1.0	-
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	-2.1	-
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	6.1	6.5	6.2	5.9	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	3.4	3.5	3.4	3.4	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	5.8	6.6	7.0	4.5	5.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	5.7	-	-	-	-	-
Balance of payments																				
Current account (as a % of GDP) ⁽²⁾	11.1	9.7	9.3	9.2	8.2	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	3.6	-
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	3.0	-
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	3.8	-
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	1.1	-
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	5.7	-
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	4.7	-
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	0.5
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	-18.0
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.