



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# **ECONOMIC UPDATE**

## **5/2020**

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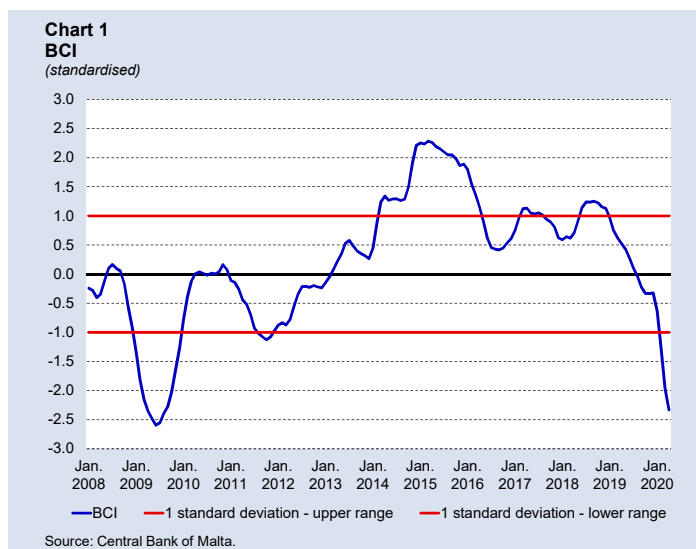
## ECONOMIC UPDATE 5/2020

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

In April, the Bank's Business Conditions' Index (BCI) fell when compared with the previous month, suggesting that economic conditions shifted significantly below their long-term average. The European Commission's Economic Sentiment Indicator (ESI) also decreased during this month. Sentiment weakened in all sectors, with the services and construction sectors recording the largest falls. In March, tourism activity contracted sharply as a result of the containment measures and subsequent travel ban introduced in response to COVID-19. The volume of retail trade also contracted, though by far less than tourism activity. Meanwhile growth in industrial production slowed down. Although the number of registered unemployed increased in March, the unemployment rate remained low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged up to 1.2% in March, from 1.1% in February. Inflation based on the Retail Price Index (RPI) also rose slightly, to 1.1%. Meanwhile, Maltese residents' deposits grew by 6.5% over the year to March, while credit to Maltese residents expanded by 4.7%. In March, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, partly reflecting the Government's decision to defer the collection of a number of tax revenue components in view of COVID-19.

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

In April, the Bank's BCI fell to -2.3, a further drop from its updated value of -2.0 for March 2020 (see Chart 1). As the exceptional economic environment triggered by COVID-19 becomes visible in published data, the BCI is beginning to signal significantly low levels of economic activity. Indeed, the BCI's current level is estimated to be comparable to readings during the Great Recession in early 2009.<sup>3</sup> The current reading was affected by strong negative outturns in most variables, in particular lower tourist arrivals, economic sentiment and government revenues, as well



<sup>1</sup> The cut-off date for information in this note is 13 May 2020. Most of the data reported in this issue of the Economic Update refer to March 2020, which coincides with the first phase of COVID-19 cases in Malta and intensification of the related containment measures. The impact of COVID-19 is also evident in ESI and BCI data for April.

<sup>2</sup> 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.

<sup>3</sup> For the historic time-series, kindly refer to the BCI's website marked above. In annual terms, the strong decreases in year-on-year growth of economic variables could yield volatile estimates of the BCI in the current period. This will be amplified once annual base-effects in input variables begin to affect the computation of the Index in 2021.

as higher unemployment. On the other hand, these were offset somewhat by growth in industrial production.

## Business and consumer confidence indicators

In April, the ESI stood at 52.1 down from 87.5 in the preceding month, and below the 92.0 recorded a year earlier (see Table 1).<sup>4,5</sup> The ESI also stood 14.9 points lower than that in the euro area.

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

*Balances; percentage points; seasonally adjusted*

	2018	2019	2020	2020	2020	2020
			Jan.	Feb.	Mar.	Apr.
<b>ESI</b>	<b>112.4</b>	<b>100.7</b>	<b>99.9</b>	<b>93.9</b>	<b>87.5</b>	<b>52.1</b>
<b>Services confidence indicator</b>	<b>34.6</b>	<b>20.7</b>	<b>7.9</b>	<b>11.4</b>	<b>0.4</b>	<b>-56.8</b>
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3	-59.8
Evolution of the demand over the past 3 months	35.8	21.5	3.8	7.9	11.4	-56.3
Expectation of the demand over the next 3 months	37.2	24.0	23.8	21.7	-9.9	-54.1
<b>Construction confidence indicator</b>	<b>21.3</b>	<b>26.2</b>	<b>7.9</b>	<b>8.3</b>	<b>14.3</b>	<b>-38.9</b>
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1	-38.1
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5	-39.6
<b>Industrial confidence indicator</b>	<b>6.9</b>	<b>-6.7</b>	<b>-1.1</b>	<b>-15.5</b>	<b>-19.2</b>	<b>-45.4</b>
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7	-56.1
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3	32.5
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7	-47.6
<b>Consumer confidence indicator</b>	<b>10.1</b>	<b>4.5</b>	<b>8.4</b>	<b>7.9</b>	<b>0.1</b>	<b>-15.8</b>
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8	6.2
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1	-14.5
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0	-36.6
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5	-18.4
<b>Retail trade confidence indicator</b>	<b>8.2</b>	<b>4.2</b>	<b>0.0</b>	<b>-0.4</b>	<b>-22.3</b>	<b>-31.7</b>
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8	12.4
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7	65.6
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1	-42.0
<b>EEI</b>	<b>114.1</b>	<b>101.2</b>	<b>100.2</b>	<b>102.7</b>	<b>90.0</b>	<b>56.2</b>
Construction	25.7	32.6	11.3	14.5	26.5	-39.6
Services	33.9	17.5	6.7	21.6	11.8	-33.0
Industry	31.1	12.8	16.5	7.0	-16.7	-61.2
Retail	15.4	4.7	25.2	11.9	-8.6	-14.2

Source: European Commission.

<sup>4</sup> The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

<sup>5</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

The month-on-month decrease in sentiment reflects weaker confidence across all sub-components, with the largest declines recorded in the services and construction sectors.

In April, sentiment within the services sector fell to a historical low of -56.8, from 0.4 in the preceding month. It thus fell significantly below its long-term average of 22.1.<sup>6</sup> The recent fall in sentiment mostly reflected respondents' negative assessment of demand over the past three months. However, on balance, firms' assessment of the business situation in recent months and their expectation of demand over the next three months also weakened sharply. Additional survey data show that price expectations turned negative.

Confidence in the construction sector fell below its long-term average of -11.6 in April.<sup>7</sup> It stood at -38.9, down from 14.3 in the previous month. Employment expectations turned strongly negative. Furthermore, in contrast to March, on balance respondents reported decreasing orders. Supplementary data indicate that respondents expect a fall in prices over the next three months.

In April, industrial confidence edged down to a historical low of -45.4, from -19.2 a month earlier.<sup>8</sup> The fall in sentiment was mostly driven by firms' assessment of order book levels. The net share of participants reporting above normal stock levels more than doubled, relative to March. Meanwhile, production expectations fell further in negative territory in the month under review. Additional survey data indicate that, on balance, a significantly higher share of respondents anticipated selling prices to fall in the coming months.

Consumer confidence turned negative in April. It stood at -15.8 in April, down from 0.1 in the preceding month.<sup>9</sup> Therefore, it fell below its long-term average of -11.2. On balance, a higher net share of consumers expected a deterioration in the general economic situation over the next 12 months while expectations about the financial situation turned negative. Respondents' assessment of the financial situation over the last 12 months also weakened but remained positive. Meanwhile, a higher share of respondents – relative to March – expected to make fewer major purchases over subsequent months. Supplementary data show that the share of consumers anticipating higher prices increased. While previously consumers expected unemployment to decline, in April they expected it to increase.

In April, confidence within the retail sector edged down to -31.7, from -22.3 in the previous month.<sup>10</sup> The recent fall in sentiment was entirely driven by a significant increase in the share of respondents reporting above normal stock levels.<sup>11</sup> At the same time, firms' anticipation of business activity over the next three months improved but remained negative. Meanwhile, retailers'

<sup>6</sup> The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

<sup>7</sup> The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

<sup>8</sup> The industrial confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

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

<sup>10</sup> The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

<sup>11</sup> Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

assessment of business activity in previous months improved. Additional survey data indicate that price expectations turned positive.

The European Commission's Employment Expectations Indicator (EEI), which is a composite indicator of employment expectations in industry, services, retail trade and construction, decreased in April.<sup>12</sup> Indeed, the EEI fell to 56.2, from 90.0 in March, thus standing below its long-run average of around 100.0. Moreover, in April, Malta's EEI stood 7.5 points below the euro area average. Employment prospects weakened across all sectors, with the largest decline recorded within the construction sector.

In March, the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, rose on a year earlier, although the annual rate of growth moderated strongly compared to that registered a month earlier. The index rose by 5.6% in annual terms, following an expansion of 13.7% in February (see Table 2).<sup>13</sup>

In the manufacturing sector, the latest increase was largely driven by higher production by firms involved in printing and reproduction of recorded media, followed by firms producing beverages. Higher output was also recorded among firms that produce computer, electronics and optical products. Smaller increases were registered among firms involved in the production of rubber and plastic products and in the repair and installation of machinery and equipment. On the other

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

*Annual percentage changes*

	2018	2019	2019												2020	
			Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>(1)</sup>	
<b>Industrial production</b>	<b>1.3</b>	<b>1.2</b>	<b>-5.0</b>	<b>2.1</b>	<b>-1.2</b>	<b>0.1</b>	<b>1.0</b>	<b>6.4</b>	<b>3.9</b>	<b>1.8</b>	<b>-2.2</b>	<b>9.7</b>	<b>12.8</b>	<b>13.7</b>	<b>5.6</b>	
<b>Retail trade</b>	<b>0.6</b>	<b>4.7</b>	<b>3.2</b>	<b>6.8</b>	<b>0.5</b>	<b>4.9</b>	<b>4.7</b>	<b>5.0</b>	<b>7.8</b>	<b>5.4</b>	<b>4.7</b>	<b>7.0</b>	<b>3.4</b>	<b>6.2</b>	<b>-0.4</b>	
<b>Number of tourist arrivals</b>	<b>14.3</b>	<b>5.9</b>	<b>3.5</b>	<b>3.6</b>	<b>2.0</b>	<b>8.0</b>	<b>5.2</b>	<b>7.2</b>	<b>5.5</b>	<b>6.2</b>	<b>9.1</b>	<b>19.3</b>	<b>16.8</b>	<b>16.5</b>	<b>-56.5</b>	
<b>Number of nights stayed</b>	<b>12.5</b>	<b>4.1</b>	<b>2.2</b>	<b>2.6</b>	<b>-3.6</b>	<b>5.1</b>	<b>1.6</b>	<b>5.8</b>	<b>2.1</b>	<b>6.5</b>	<b>9.0</b>	<b>15.1</b>	<b>3.5</b>	<b>10.1</b>	<b>-60.2</b>	
Rented accommodation	10.7	4.6	2.5	5.8	-5.0	6.7	-1.7	7.4	2.8	12.1	9.6	13.9	7.7	11.1	-62.2	
Collective <sup>(2)</sup>	7.1	-0.1	-1.0	1.1	-10.3	2.0	-2.9	3.2	4.5	4.2	2.9	9.9	11.0	14.9	-61.7	
Other rented <sup>(3)</sup>	18.0	13.5	12.5	17.0	6.3	15.3	0.0	13.0	0.3	28.5	26.6	19.7	1.0	3.1	-63.5	
Non-rented accommodation <sup>(4)</sup>	22.7	1.6	-0.2	-13.7	5.2	-3.9	21.6	-2.0	-3.8	-19.8	6.3	20.8	-8.3	3.9	-47.7	
<b>Tourist expenditure</b>	<b>8.0</b>	<b>5.7</b>	<b>0.5</b>	<b>7.7</b>	<b>3.3</b>	<b>10.7</b>	<b>1.8</b>	<b>2.8</b>	<b>5.9</b>	<b>7.1</b>	<b>10.3</b>	<b>25.4</b>	<b>11.2</b>	<b>22.0</b>	<b>-62.6</b>	
Package expenditure	16.6	-8.2	-6.2	-11.9	-19.2	6.4	-20.0	-10.1	-1.8	-6.2	4.9	7.9	-7.8	25.8	-69.8	
Non-package expenditure	13.3	17.1	4.5	23.8	23.8	17.1	21.4	15.1	18.4	14.8	13.5	41.3	33.1	22.8	-58.8	
Other	-2.2	5.9	2.8	9.1	3.4	7.8	3.8	0.9	-0.1	11.1	10.8	22.0	4.7	19.1	-60.2	

Sources: National Statistics Office; Eurostat.

<sup>(1)</sup> Tourism data for March 2020 should be interpreted in the context of the unprecedented containment measures and travel restrictions introduced in response to COVID-19.

<sup>(2)</sup> Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

<sup>(3)</sup> Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

<sup>(4)</sup> Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

<sup>12</sup> 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.

<sup>13</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

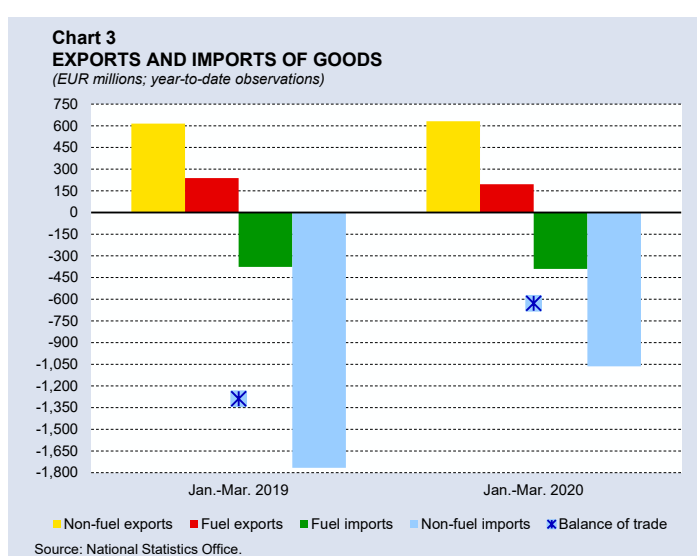
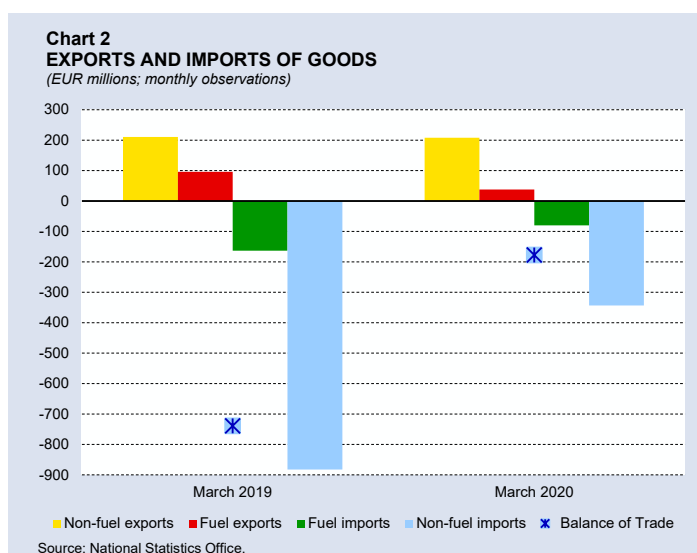
hand, output declined among firms involved in the production of motor vehicles, trailers and semi-trailers as well as those manufacturing food and pharmaceutical products. Smaller declines were also recorded in other sectors. Production in the energy sector increased.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the first time since December 2018. It declined by an annual rate of 0.4%, following an increase of 6.2% in February.

In March, tourism arrivals, nights stayed and expenditure all declined substantially when compared to their readings a year earlier, as several measures were taken to contain the spread of COVID-19, culminating with the suspension of all commercial inbound flights on 21 March 2020. The number of tourists visiting Malta totalled 75,157, a decline of 56.5% on a year earlier. Meanwhile, nights stayed fell by 60.2% and tourist spending in Malta declined by 62.6% in annual terms.

Customs data show that the merchandise trade deficit narrowed to €177.4 million in March, from €738.9 million a year earlier. This improvement reflected a year-on-year drop of €622.5 million in imports that was only partly dampened by a contraction of €60.9 million in exports (see Chart 2). Lower imports were due to a substantial decline in registration of sea vessels – which were exceptionally high a year earlier – and a lower fuel import bill. Nonetheless, a decrease in imports of machinery and consumer goods also contributed. At the same time, lower exports were mainly spurred by a drop in fuel re-exports.

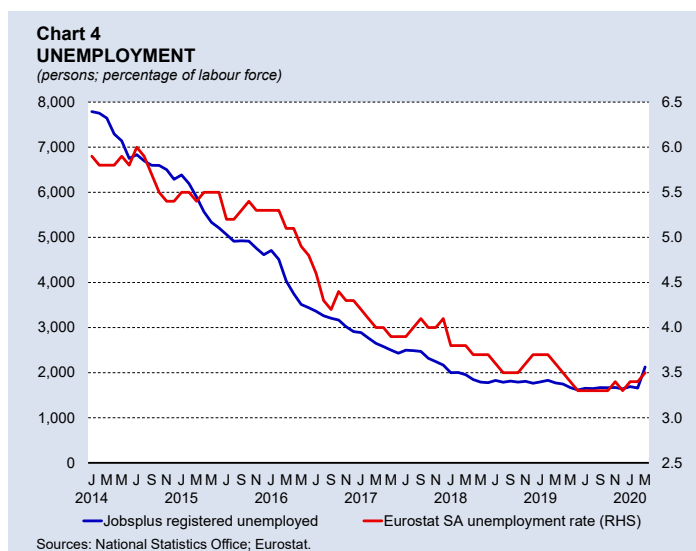
Partly reflecting developments in the month under review, the trade deficit halved in the first quarter of the year. During this period, it amounted to €627.8 million, down from €1,288.7 million in the first three months of 2019 (see Chart 3).



## Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 2,125 in March, higher than 1,659 in February and 1,772 a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 3.5% in March, marginally higher than the 3.4% registered in the previous month, but still lower than the rate of 3.6% in the preceding year.



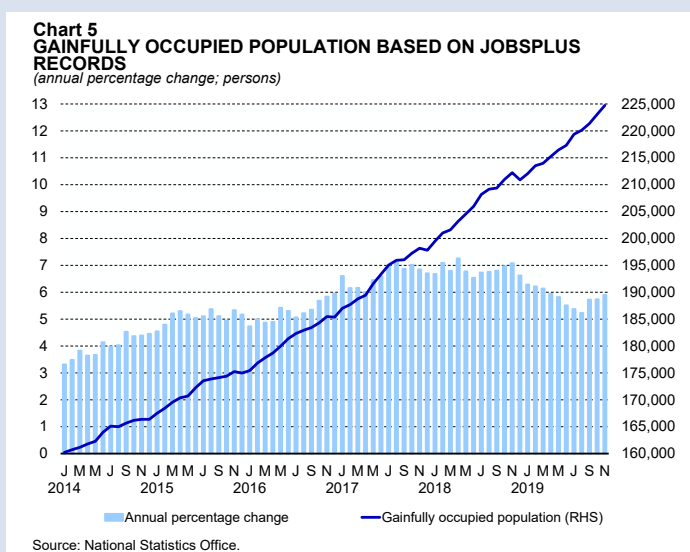
## BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in November 2019, the gainfully occupied population – defined as all persons in full-time employment – rose by 5.9% on a year earlier to 224,737 persons (see Chart 5). Annual growth was slightly faster than the 5.7% registered in the preceding month, but lower than the 7.1% 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 11,450, or 7.0%, compared with November 2018. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 8,855, or 6.9% in annual terms. This increase was distributed among all major sectors within this category.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,566 in the year to November, and accounted for 40% of the overall rise in private





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

*Persons; annual percentage changes*

	2018	2019	Annual change	
	November	November	Number of persons	%
<b>Labour supply</b>	<b>214,027</b>	<b>226,409</b>	<b>12,382</b>	<b>5.8</b>
Gainfully occupied <sup>(1)</sup>	212,219	224,737	12,518	5.9
Registered unemployed	1,808	1,672	-136	-7.5
<b>Unemployment rate (%)</b>	<b>0.8</b>	<b>0.7</b>		
<b>Private sector</b>	<b>164,531</b>	<b>175,981</b>	<b>11,450</b>	<b>7.0</b>
<b>Direct production<sup>(2)</sup></b>	<b>36,094</b>	<b>38,689</b>	<b>2,595</b>	<b>7.2</b>
Of which:				
Manufacturing	21,790	22,038	248	1.1
Construction	11,478	13,594	2,116	18.4
<b>Market services</b>	<b>128,437</b>	<b>137,292</b>	<b>8,855</b>	<b>6.9</b>
Wholesale and retail trade	27,125	27,716	591	2.2
Transportation and storage	9,356	10,016	660	7.1
Accommodation and food service activities	14,189	15,343	1,154	8.1
Information and communication	7,179	7,479	300	4.2
Financial and insurance activities	10,213	10,571	358	3.5
Real estate, professional and administrative activities <sup>(3)</sup>	33,494	37,060	3,566	10.6
Arts, entertainment and recreation	9,485	10,375	890	9.4
Education	5,746	6,130	384	6.7
Other	11,650	12,602	952	8.2
<b>Public sector</b>	<b>47,688</b>	<b>48,756</b>	<b>1,068</b>	<b>2.2</b>

Source: National Statistics Office.

<sup>(1)</sup> This category measures full-time employment.

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

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

market services employment. Employment also rose strongly in accommodation and food services activities – by 1,154 persons. The number of persons employed in “other services” rose by 952, mostly reflecting increased employment in the health and residential care sector. Meanwhile, 890 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 2,595, or 7.2% on a year earlier. Growth was mainly recorded in the construction sector, although employment in the manufacturing sector also increased.

Public sector employment rose by 1,068, or 2.2%, 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 21.7%, from 22.5% a year earlier.

## Prices, costs and competitiveness

Annual HICP inflation edged up marginally to 1.2% in March, from 1.1% in the previous month (see Chart 6). Nonetheless, price pressures remain contained and inflation remains low.

Overall HICP continued to be held down by falling prices for non-energy industrial goods, mainly reflecting strong competition and weak inflation in trading partners. Nonetheless, the annual rate of decline was smaller when compared with February. At the same time, services inflation moderated slightly during March. Food and energy inflation remained positive and unchanged when compared with the previous month.

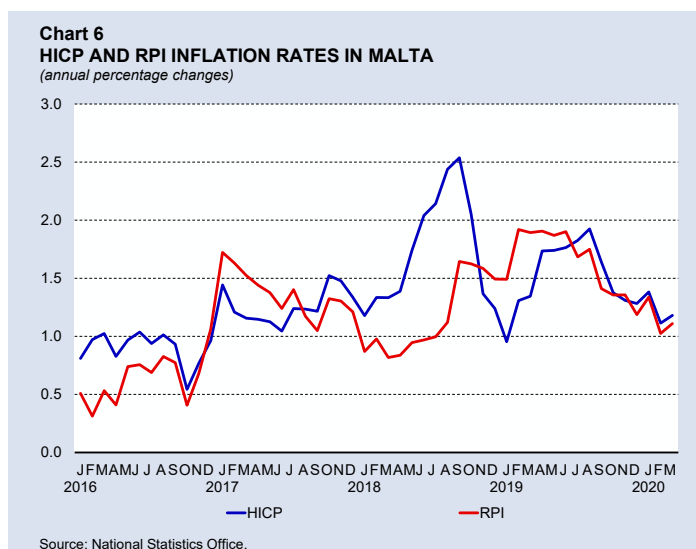
Inflation as measured by the RPI stood at 1.1% in March, marginally above the 1.0% recorded in the previous month (see Chart 6).<sup>14</sup> This slight change mainly reflected a weaker contraction in prices of clothing and footwear.

Annual producer price inflation, which measures producers' output prices, turned negative in March, standing at -0.1% compared with 1.6% in February.<sup>15</sup> This mainly reflected a year-on-year decrease in the prices of intermediate goods. The contribution from consumer goods prices also eased, though it remained positive. Meanwhile, the contribution from capital goods was unchanged when compared with the previous month, while energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 1.3% in the year to March.<sup>16</sup> This broke a prolonged pattern of decline in the index, suggesting a slight deterioration in Malta's international competitiveness recently. The latter in turn reflected an appreciation of the euro exchange rate against that of trading partners. The real HCI, which also takes into account relative price changes, rose by 0.7% as favourable developments in relative prices vis-à-vis trading partners partly offset unfavourable exchange rate movements.

## Public finance

In March 2020, the Consolidated Fund recorded a deficit of €214.1 million, a rise of €142.8 million when compared to the deficit registered in March 2019. This was a result of a significant drop in



<sup>14</sup> The RPI differs from the HICP in that HICP weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households.

<sup>15</sup> The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

<sup>16</sup> HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. 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.-Mar.	Jan.-Mar.	Mar.	Mar.	Amount	%
<b>Revenue</b>	<b>948.7</b>	<b>866.7</b>	<b>301.0</b>	<b>187.9</b>	<b>-113.0</b>	<b>-37.6</b>
<b>Direct tax</b>	<b>420.1</b>	<b>397.7</b>	<b>114.6</b>	<b>81.9</b>	<b>-32.7</b>	<b>-28.5</b>
Income tax	265.4	241.0	69.2	42.0	-27.2	-39.3
Social security contributions <sup>(1)</sup>	154.7	156.7	45.4	39.9	-5.5	-12.0
<b>Indirect tax</b>	<b>410.4</b>	<b>380.4</b>	<b>118.5</b>	<b>78.1</b>	<b>-40.4</b>	<b>-34.1</b>
Value Added Tax	240.0	231.5	54.7	47.0	-7.6	-14.0
Customs and excise duties	76.3	61.9	28.4	9.8	-18.5	-65.4
Licences, taxes and fines	94.2	87.0	35.5	21.3	-14.2	-40.0
<b>Non-tax<sup>(2)</sup></b>	<b>118.2</b>	<b>88.5</b>	<b>67.9</b>	<b>27.9</b>	<b>-40.0</b>	<b>-58.9</b>
<b>Expenditure</b>	<b>1,083.0</b>	<b>1,179.2</b>	<b>372.3</b>	<b>402.1</b>	<b>29.8</b>	<b>8.0</b>
<b>Recurrent</b>	<b>977.0</b>	<b>1,022.0</b>	<b>330.8</b>	<b>311.5</b>	<b>-19.4</b>	<b>-5.9</b>
Personal emoluments	222.9	225.3	77.6	78.6	1.0	1.3
Operational and maintenance	56.0	47.1	19.6	17.8	-1.8	-9.0
Programmes and initiatives <sup>(1)</sup>	533.5	561.0	177.0	162.8	-14.2	-8.0
Contributions to entities	114.8	143.0	43.7	37.1	-6.5	-15.0
Interest payments	49.7	45.7	13.0	15.1	2.1	16.3
<b>Capital</b>	<b>106.0</b>	<b>157.2</b>	<b>41.5</b>	<b>90.6</b>	<b>49.2</b>	<b>118.6</b>
<b>Primary balance<sup>(3)</sup></b>	<b>-84.5</b>	<b>-266.8</b>	<b>-58.3</b>	<b>-199.0</b>	<b>-140.7</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-134.2</b>	<b>-312.5</b>	<b>-71.3</b>	<b>-214.1</b>	<b>-142.8</b>	<b>-</b>

Source: National Statistics Office.

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

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

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

government revenue, coupled with higher expenditure (see Table 4). In turn, the primary balance registered a deficit of €199.0 million, an increase of €140.7 million when compared to the primary deficit registered a year earlier.

On 12 March, in response to the COVID-19 pandemic, the government announced the postponement of the collection of provisional tax, VAT and social security contributions for both self-employed and employers. The resulting decline in receipts from direct and indirect tax revenues explains a significant part of the drop in government revenue. This drop was equivalent to €113.0 million, or 37.6%. Direct tax revenues fell by €32.7 million, mainly due to the fall in income tax revenue. Revenue from indirect taxes decreased by €40.4 million, partly as a result of lower revenue from customs and excise duties.

Meanwhile, non-tax revenue decreased by €40.0 million in annual terms, driven by lower grants from the EU.

Government expenditure increased by €29.8 million, or 8.0% when compared to March 2019, as a decline in recurrent expenditure was more than offset by an increase in capital expenditure. The latter increased by €49.2 million, or 118.6% when compared to the respective period of 2019. On the other hand, recurrent expenditure fell by €19.4 million, or 5.9% in annual terms, reflecting lower outlays on programmes and initiatives and lower contributions to government entities. These fell by €14.2 million and €6.5 million, respectively, due to timing issues.

In March 2020, the total stock of government debt amounted to €5,550.3 million – €6.6 million more when compared with a month earlier (see Chart 7). This was mainly due to a rise in Treasury Bills outstanding.

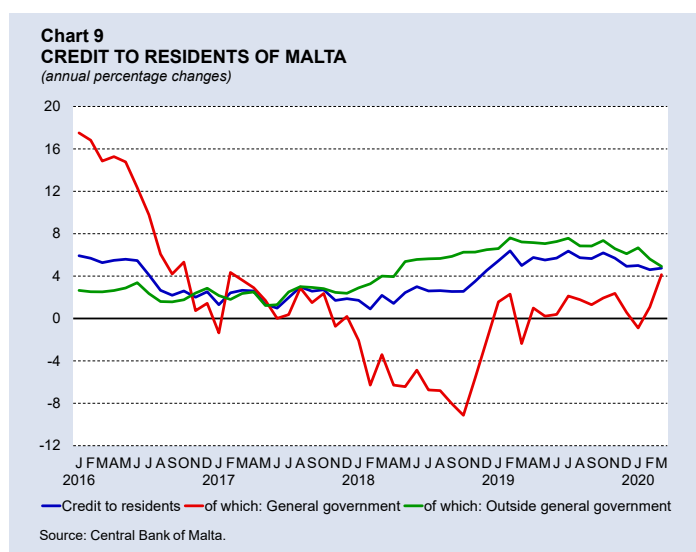
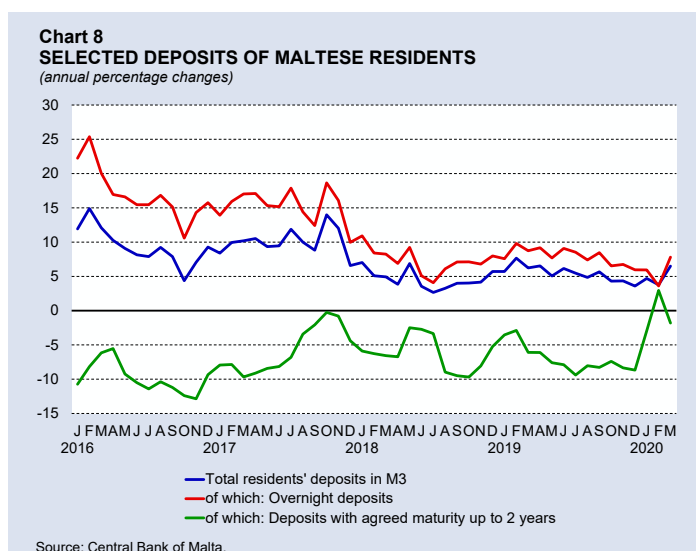
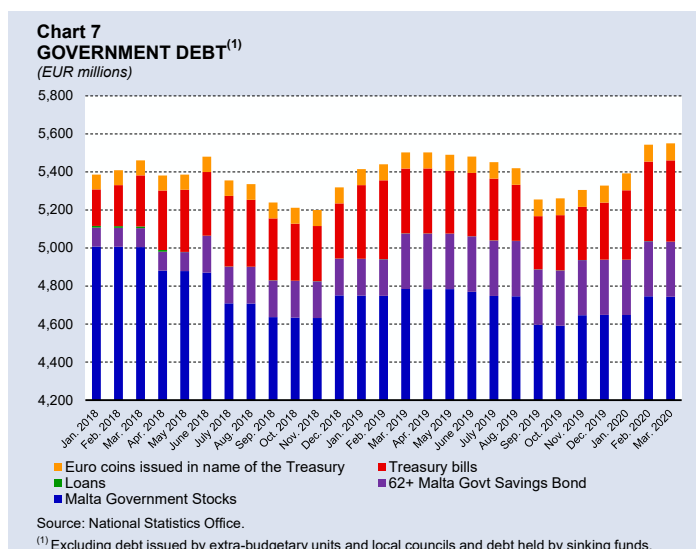
## Deposits, credit and financial markets

In March, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 6.5% (see Chart 8).

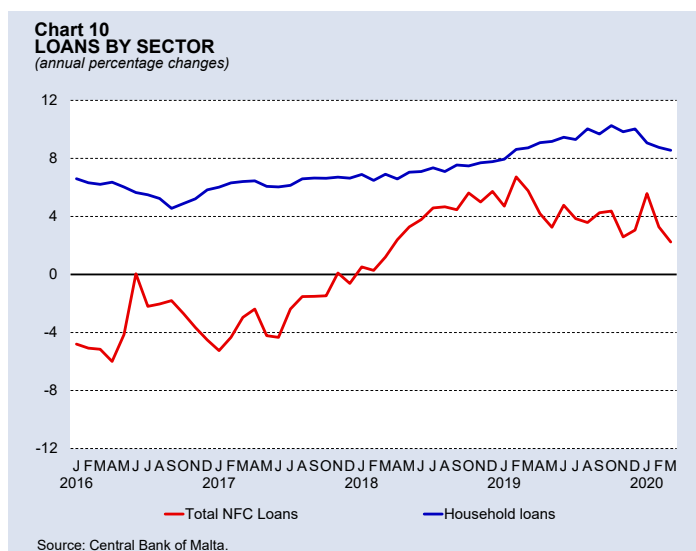
Overnight deposits remained the largest component of residents' M3 deposits, comprising over 80% of their total balances. This deposit category – which is the most liquid – grew by 7.8% in the year to March. Meanwhile, time deposits with a maturity of up to two years contracted by 1.8% in annual terms, following an expansion of 3.0% in the year to February.

Credit to Maltese residents grew by an annual 4.7% in March, marginally up from 4.6% a month earlier (see Chart 9). Annual growth in credit to general government rose by 4.1% over the year to March, following an increase of 1.1% a month earlier. By contrast, credit outside general government grew by 4.9% in the year to March, following an expansion of 5.6% in February.

The annual rate of change in loans to non-financial corporations eased to 2.2% from 3.3% in February (see Chart 10).



These developments reflect slower growth in loans to the sector comprising professional, scientific and technical activities and in loans to the real estate sector. A larger contraction in loans to the transportation and storage sector also contributed. Meanwhile, loans to households eased slightly to 8.6%, following an increase of 8.8% in February, driven by slower growth in consumer credit and other lending. By contrast, the annual rate of change of lending for house purchases edged up.



In response to the outbreak of COVID-19 during March and the subsequent containment measures, a number of businesses and households were faced with liquidity challenges, and have thus applied with MFIs in Malta for a moratorium on loan repayments (see Table 5).<sup>17</sup>

**Table 5  
LOANS SUBJECT TO MORATORIUM – AS AT END MARCH 2020**

(number of loans; EUR million, percentage)

	Volume of loans <sup>(1)</sup>	Outstanding amounts <sup>(2)</sup>	Share in sector's outstanding loans <sup>(3)</sup>
Households	1,836	157.2	2.6
Manufacturing	58	8.6	4.0
Construction	40	12.3	2.0
Wholesale and retail trade; repair of motor vehicles and motor cycles	225	36.9	5.5
Transportation and storage and information and communication	36	10.9	4.3
Accommodation and food service activities	187	113.8	27.2
Real estate activities	160	80.0	8.4
Other <sup>(4)</sup>	179	67.3	4.1
<b>Total</b>	<b>2,721</b>	<b>487.0</b>	<b>4.5</b>

Source: Central Bank of Malta

<sup>(1)</sup> The number of loans subject to moratorium.

<sup>(2)</sup> Outstanding amounts of loans subject to moratorium as at end of month, in EUR million.

<sup>(3)</sup> The percentage of loans subject to moratorium in total outstanding loans held by the sector as at end of month.

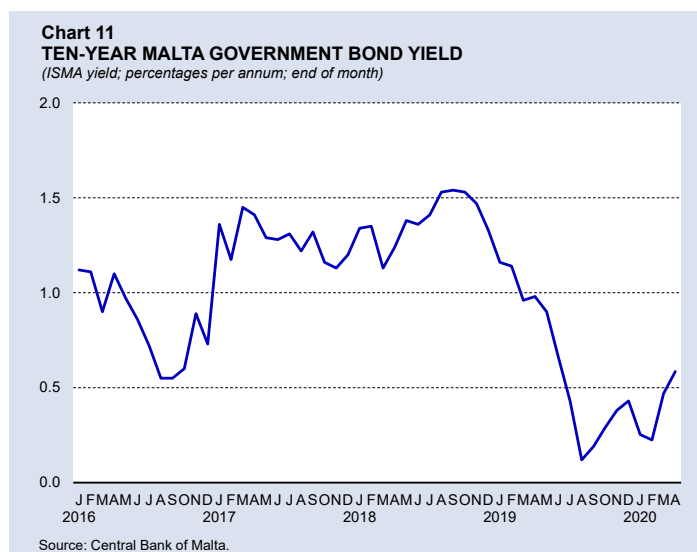
<sup>(4)</sup> Includes loans to agriculture and fishing, mining and quarrying, public administration, education, health and social work, financial and insurance activities (including interbank loans), professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other services activities and extra-territorial bodies & organisations. Loans to the electricity, gas & water supply sector are excluded.

<sup>17</sup> The loans subject to moratorium as at March 2020 precede the six-month moratorium on loan repayments issued in terms of Legal Notice 142 of 2020 on the Moratorium on Credit Facilities Regulations in Exceptional Circumstances (see <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=30087&l=1>) and Central Bank of Malta Directive No. 18. The latter entered into force on 13 April 2020. A number of banks had started to provide moratorium facilities voluntarily already in March 2020.

As at end March, there were just over 2,700 loans subject to a moratorium on loan repayments. The largest number of such loans were held by Maltese households, with this sector accounting for around two-thirds of the total volume of loans subject to a moratorium. In addition, as at end March, the total value of loans subject to a moratorium stood at €487.0 million, or 4.5% of total outstanding loans to Maltese residents outside the energy sector. Maltese households held €157.2 million, or a third of the value of loans subject to a moratorium, though accounting for only 2.6% of outstanding household debt with domestic credit institutions. This was followed by the accommodation and food services activities sector, which held €113.8 million in loans subject to a moratorium, or around 27.2% of the total value of loans subject to a moratorium. The latter, which was the first and most affected sector by the containment measures, had more than a quarter of loans extended to it as at end March subject to a moratorium on repayments. This was followed by the real estate sector, where 8.4% of loans were subject to a moratorium at the end of March. In all other sectors, the share of loans subject to a moratorium was close to or below 5%. Overall, the value of loans to firms that were granted a moratorium accounted for 6.9% of related lending to firms by domestic credit institutions.

As regards interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits eased to 0.27% in March, from 0.28% in February. The composite rate charged on outstanding loans fell by two basis points, to 3.44%. Thus, the spread between the two rates narrowed marginally from a month earlier, to 317 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds rose by 12 basis points, to 0.59% at the end of April (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index rose by 6.1% 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 increased in the month under review.



# Annex 1

## MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2018	2019	2019	2019	2019	2020	2019	2019	2019	2019	2019	2019	2019	2019	2019	2020	2020	2020	2020	
			Q2	Q3	Q4	Q1	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
<b>Prices and costs</b>																				
HICP inflation	1.7	1.5	1.7	1.8	1.3	1.2	1.3	1.7	1.7	1.8	1.8	1.9	1.6	1.4	1.3	1.3	1.4	1.1	1.2	-
RPI inflation	1.2	1.6	1.9	1.6	1.3	1.2	1.9	1.9	1.9	1.9	1.7	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	-
Industrial producer price inflation	4.4	2.2	1.7	1.8	1.8	1.1	2.5	1.7	1.7	1.7	1.8	1.6	2.1	2.3	1.4	1.6	1.8	1.6	-0.1	-
HCI (nominal)	3.6	-0.7	-0.1	-1.3	-1.3	-0.3	-1.1	-1.0	0.2	0.5	-0.9	-0.8	-2.2	-1.5	-1.2	-1.3	-1.2	-1.0	1.3	-
HCI (real)	3.0	-1.2	-0.6	-1.5	-1.9	-1.2	-1.8	-1.7	-0.2	0.1	-1.2	-0.9	-2.3	-1.8	-1.7	-2.1	-2.2	-2.1	0.7	-
Unit labour costs, whole economy <sup>(1)</sup>	0.9	3.4	0.4	1.8	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	2.1	2.4	1.1	1.6	2.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.2	-1.1	0.7	-0.3	-1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	6.2	5.9	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																				
Nominal GDP	9.6	6.8	6.8	5.5	7.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.3	4.4	4.6	3.0	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	7.6	2.4	2.1	1.9	1.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	12.7	12.0	10.3	11.0	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-2.1	7.2	1.7	4.4	-2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	3.5	1.7	0.5	1.3	2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	3.4	2.1	-0.6	2.2	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																				
LFS unemployment rate (% of labour force)	3.7	3.4	3.4	3.4	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	5.8	7.0	4.5	5.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.8	-	5.8	5.4	-	-	6.1	5.9	5.8	5.5	5.4	5.2	5.7	5.7	5.9	-	-	-	-	-
<b>Balance of payments</b>																				
Current account (as a % of GDP) <sup>(2)</sup>	11.1	9.7	9.2	8.2	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																				
<b>Maltese residents' deposits and loans</b>																				
Overnight deposits	8.0	6.0	9.1	8.5	6.0	7.8	8.7	9.2	7.7	9.1	8.5	7.4	8.5	6.5	6.7	6.0	5.9	3.6	7.8	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-7.9	-8.3	-8.7	-1.8	-6.1	-6.1	-7.6	-7.9	-9.4	-8.0	-8.3	-7.4	-8.3	-8.7	-2.9	3.0	-1.8	-
Total residents' deposits in M3	5.7	3.6	6.2	5.7	3.6	6.5	6.2	6.5	5.1	6.2	5.5	4.8	5.7	4.3	4.3	3.6	4.7	3.8	6.5	-
Credit to general government	-2.0	0.6	0.4	1.3	0.6	4.1	-2.4	1.0	0.2	0.4	2.1	1.8	1.3	1.9	2.4	0.6	-0.9	1.1	4.1	-
Credit to residents (excl. general government)	6.5	6.1	7.3	6.8	6.1	4.9	7.2	7.2	7.1	7.3	7.6	6.8	6.8	7.3	6.6	6.1	6.7	5.6	4.9	-
Total credit	4.5	4.9	5.7	5.6	4.9	4.7	5.0	5.7	5.5	5.7	6.4	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.7	-
10-year interest rate (%) <sup>(3)</sup>	1.3	0.4	0.7	0.2	0.4	0.5	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	0.6
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	0.1	4.4	2.2	2.1	-4.0	-19.5	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	6.1
<b>General government finances (% of GDP)</b>																				
Surplus (+) / deficit (-) <sup>(2)</sup>	1.9	0.5	1.1	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	45.6	43.1	45.7	43.4	43.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.

<sup>(1)</sup> Four-quarter moving averages.

<sup>(2)</sup> Four-quarter moving sums.

<sup>(3)</sup> End of period.

<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(5)</sup> GDP data are four-quarter moving sums.