



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# **ECONOMIC UPDATE**

## **6/2020**

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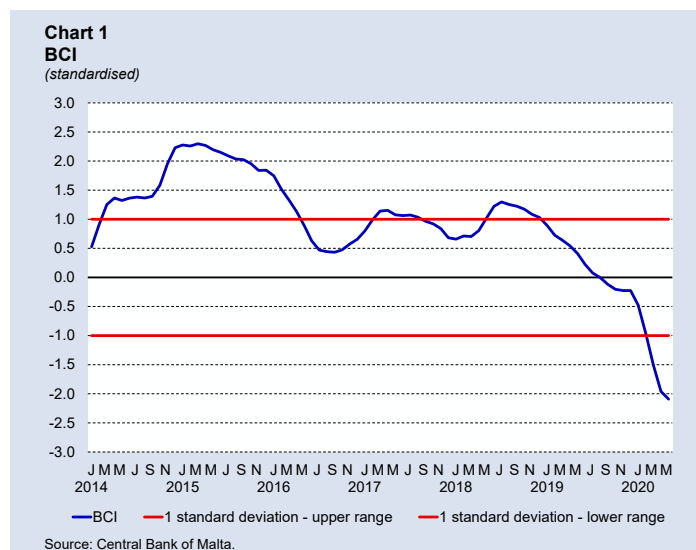
## ECONOMIC UPDATE 6/2020

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

In May, the Bank's Business Conditions' Index (BCI) fell slightly when compared with the previous month, suggesting that economic conditions remain significantly below their long-term average. By contrast, the European Commission's Economic Sentiment Indicator (ESI) rose somewhat from the very low reading registered in April. The largest increase in confidence during the month was recorded in the construction sector, although sentiment improved in all other sectors except among retailers. In April, the volume of retail trade contracted in annual terms. Similarly, annual growth in industrial production turned negative. The number of registered unemployed and the unemployment rate edged up, although the latter remained relatively low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) eased to 1.1% in April, from 1.2% in March, while inflation based on the Retail Price Index (RPI) fell to 0.8%, from 1.0% in March. Meanwhile, Maltese residents' deposits grew by an annual rate of 7.7% over the year to April, while annual growth in credit to Maltese residents accelerated by 7.5%. In April, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, reflecting a significant rise in government expenditure and a large drop in revenue in view of COVID-19.

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

In May, the Bank's BCI fell to -2.1, a further drop from its updated value of -2.0 for April (see Chart 1). The BCI in May continued to be affected by the exceptional economic environment triggered by COVID-19 and the impact of the related containment measures. It thus continues to signal significantly low levels of economic activity. The BCI's current level is comparable to readings during the Great Recession, in early 2009.<sup>3</sup> The May estimate was affected by strong negative outturns in almost all variables, in particular year-on-year falls in economic sentiment and government revenue, as well as higher unemployment.



<sup>1</sup> The cut-off date for information in this note is 9 June 2020. Most of the data reported in this issue of the *Economic Update* refer to April 2020, and coincide with the peak of containment measures related to COVID-19. However, data for the BCI and the ESI are for May 2020. Hence, readings for these two indicators may already reflect the impact of relaxation measures that started to come into place on 4 May, when non-essential shops were allowed to re-open. This was followed by the lifting of restrictive measures for restaurants, cafes, beauticians and hairdressers on 22 May. Meanwhile, tourism data for April have not been published by NSO as airports and ports have been closed since March in view of COVID-19.

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

<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.

## Business and consumer confidence indicators

In May, the ESI stood at 56.6, up from 52.1 in the preceding month, but was still well below the 95.8 recorded a year earlier (see Table 1).<sup>4,5</sup> The ESI also stood 10.9 points lower than that in the euro area.

The month-on-month increase in sentiment reflects improved confidence across almost all sub-components, with the largest increases recorded in the construction sector, although sentiment also improved in industry and services, and among consumers. By contrast, sentiment among retailers weakened further.

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

*Balances; percentage points; seasonally adjusted*

	2018	2019	2020	2020	2020	2020	2020
			Jan.	Feb.	Mar.	Apr.	May
<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>56.6</b>
<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>	<b>-20.3</b>
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1	-38.1	-13.0
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6
<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>	<b>-40.2</b>
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7	-56.1	-76.0
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3	32.5	34.4
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7	-47.6	-10.2
<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>	<b>-11.3</b>
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8	6.2	0.8
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1	-14.5	-5.7
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0	-36.6	-17.7
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5	-18.4	-22.5
<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>	<b>-53.5</b>
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3	-59.8	-66.3
Evolution of the demand over the past 3 months	35.8	21.5	3.8	7.9	11.4	-56.3	-66.0
Expectation of the demand over the next 3 months	37.2	24.0	23.8	21.7	-9.9	-54.1	-28.3
<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>	<b>-43.2</b>
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8	12.4	-21.1
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7	65.6	53.0
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1	-42.0	-55.5
<b>E EI</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>	<b>71.8</b>
Industry	31.1	12.8	16.5	7.0	-16.7	-61.2	-18.9
Services	33.9	17.5	6.7	21.6	11.8	-33.0	-16.6
Construction	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6
Retail	15.4	4.7	25.2	11.9	-8.6	-14.2	-15.5

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.

Confidence in the construction sector stood at -20.3, up from -38.9 in the previous month. Notwithstanding this increase, sentiment remained below its long-term average of -11.7 in May.<sup>6</sup> Compared to April, a significantly smaller share of respondents reported falling orders. Meanwhile, employment expectations were also less negative. Supplementary data indicate that a higher share of respondents expect a fall in prices over the next three months.

In May, industrial confidence edged up to -40.2, from -45.4 a month earlier.<sup>7</sup> The rise in sentiment was entirely driven by firms' production expectations. By contrast, a higher net share of participants reported above normal stock levels. Furthermore, firms' assessment of order book levels fell further into negative territory. Additional survey data indicate that, on balance, a smaller share of respondents anticipated selling prices to fall in the coming months.

In May, sentiment within the services sector stood at -53.5, above the -56.8 recorded in the previous month, and below its long-term average of 21.6.<sup>8</sup> Increase in sentiment was entirely driven by respondents' improved demand expectations over the next three months. On balance, firms' assessment of demand and of the business situation over the past three months weakened further. Additional survey data show that price expectations edged up but remained negative.

Consumer confidence remained negative in May. It stood at -11.3, marginally up from -15.8 in April.<sup>9</sup> Therefore, sentiment is now close to its long-term average of -11.2, but significantly below readings since 2013. On balance, a smaller share of consumers expected a deterioration in the general economic situation and in the financial situation over the next 12 months. Meanwhile, respondents' assessment of the financial situation over the last 12 months weakened and a higher share of respondents – relative to April – expected to make fewer major purchases over subsequent months. Supplementary data show that a smaller share of consumers anticipated an increase in prices and in unemployment.

In May, confidence within the retail sector fell to -43.2, from -31.7 in the previous month.<sup>10</sup> The recent fall in sentiment was mainly driven by retailers' assessment of business activity in previous months, and to a lesser extent, by their expectations of business activity over the next three months. These developments offset the fall in share of respondents reporting above normal stock levels.<sup>11</sup> Additional survey data indicate that price expectations turned more positive.

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

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<sup>6</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>7</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>8</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>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.

May.<sup>12</sup> Indeed, the EEI rose to 71.8, from 56.2 in April, but remained below its long-run average of around 100.0. Moreover, in May, Malta's EEI stood 1.6 points above the euro area average. Employment prospects improved across all sectors, except among retailers. Nonetheless, they remained negative in all sectors surveyed.

In April, annual growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, turned negative. The index fell by 2.9% in annual terms, following an expansion of 6.6% in the preceding month (see Table 2).<sup>13</sup> The strongest declines were recorded among firms that produce motor vehicles, trailers and semi-trailers, pharmaceutical products and food products. Output also fell in the "other manufacturing" sub-sector, which includes firms involved in the production of medical and dental instruments, toys and related products. A lower level of production was also registered in firms specialising in the repair and installation of machinery and equipment sector as well as those producing rubber and plastic products. On the other hand, firms involved in the printing and reproduction of recorded media and in the production of computer, electronics and optical products rose. Production also increased in the energy sector.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the second consecutive month. It declined by an annual rate of -24.8% in April after it had declined marginally by 0.1% in March.

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

*Annual percentage changes*

	2018		2019										2020			
	2018	2019	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>(1)</sup>	Apr. <sup>(2)</sup>	
<b>Industrial production</b>	<b>1.2</b>	<b>1.4</b>	<b>2.4</b>	<b>-0.9</b>	<b>0.3</b>	<b>1.3</b>	<b>6.6</b>	<b>4.2</b>	<b>2.1</b>	<b>-2.1</b>	<b>9.8</b>	<b>12.7</b>	<b>13.1</b>	<b>6.6</b>	<b>-2.9</b>	
<b>Retail trade</b>	<b>0.6</b>	<b>4.8</b>	<b>7.0</b>	<b>0.6</b>	<b>5.2</b>	<b>5.1</b>	<b>5.2</b>	<b>8.2</b>	<b>5.4</b>	<b>4.8</b>	<b>7.0</b>	<b>3.7</b>	<b>6.7</b>	<b>-0.1</b>	<b>-24.8</b>	
<b>Number of tourist arrivals</b>	<b>14.3</b>	<b>5.9</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>2.6</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	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>(3)</sup>	7.1	-0.1	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>(4)</sup>	18.0	13.5	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>(5)</sup>	22.7	1.6	-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>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	-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	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	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> As a result of the COVID-19 situation, it was not possible for the NSO to issue the April 2020 news release for Inbound Tourism.

<sup>(3)</sup> Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

<sup>(4)</sup> Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

<sup>(5)</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.

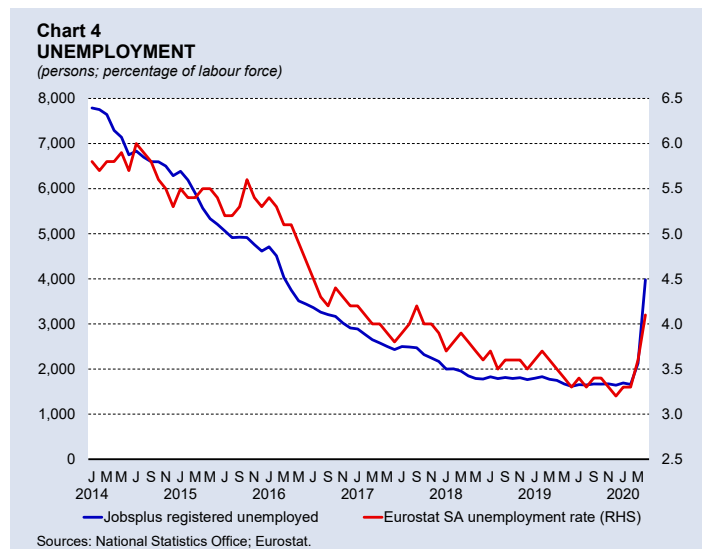
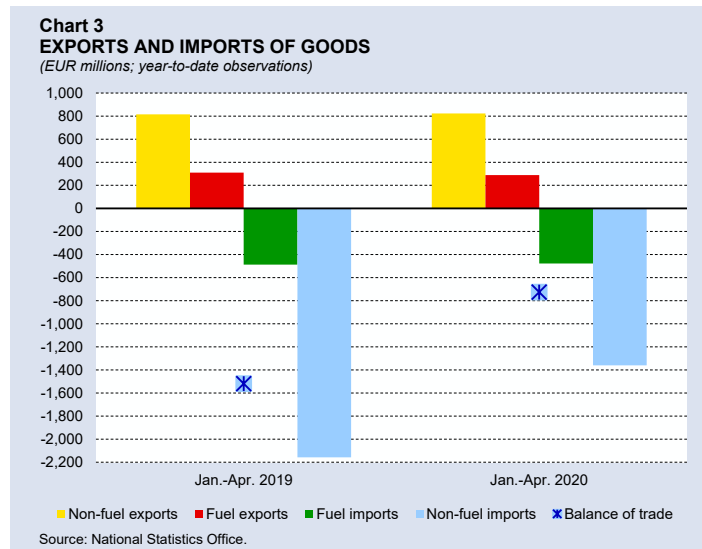
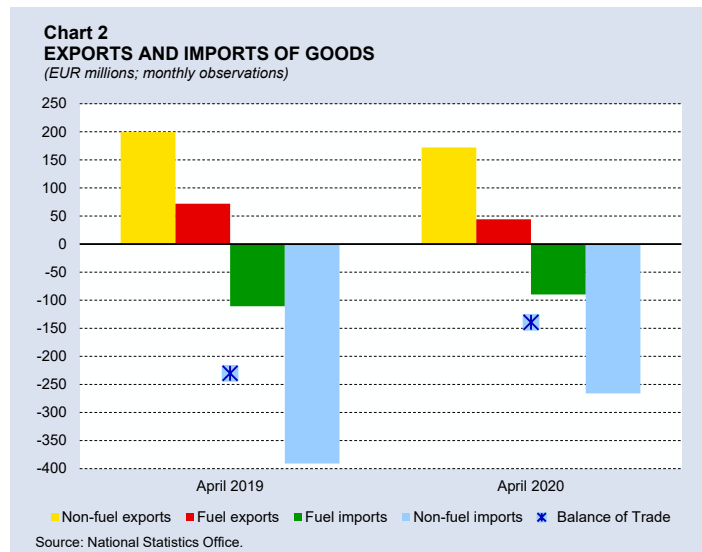
Customs data show that the merchandise trade deficit stood at €139.4 million in April, down from €230.2 million a year earlier. This improvement reflected a year-on-year drop of €146.0 million in imports that was only partly dampened by a contraction of €55.2 million in exports (see Chart 2). Lower imports were mainly due to a substantial decline in registration of sea vessels, but also due to a decrease in imports of industrial supplies and consumer goods, and a lower fuel import bill. At the same time, lower exports were mainly attributable to a drop in re-exports of fuel and aircraft parts, which outweighed a rise in exports of printed material.

Partly reflecting developments in the month under review, the trade deficit also narrowed in the first four months of the year. During this period, the gap in merchandise trade amounted to €725.4 million, approximately half the €1,519.2 million in the corresponding four months of 2019 (see Chart 3).

## Labour market

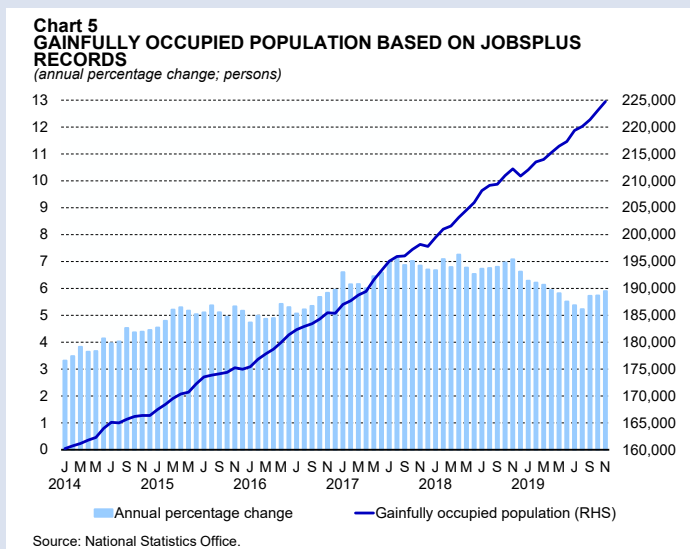
Jobsplus data show that the number of persons on the unemployment register stood at 3,979 in April, up from 2,125 in March and 1,748 persons a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 4.0% in April, higher than the 3.6% registered in the previous month and the rate of 3.4% 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 and Table 3). 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 previous 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 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 3,566 in the year to November and accounted for around 40% of the overall rise in private 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.



**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.

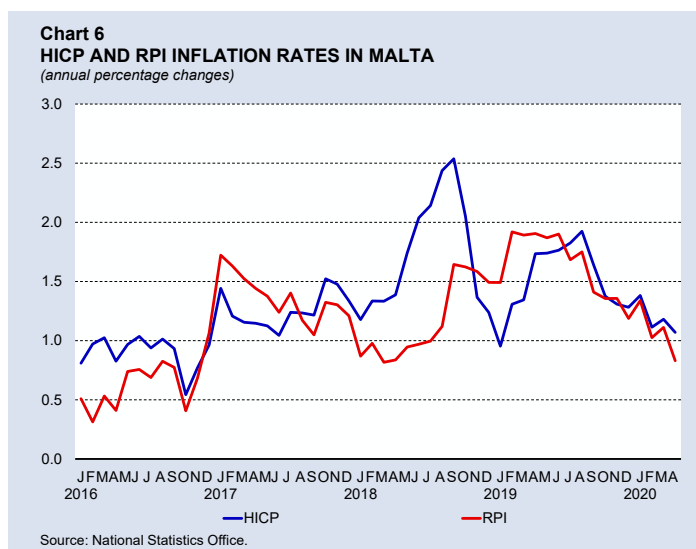
## Prices, costs and competitiveness

Annual HICP inflation decelerated to 1.1% in April, from 1.2% in the previous month (see Chart 6). This drop was driven by slower growth, or even declines, in the prices for a number of services that were severely affected by the impact of the COVID-19 restrictions, including catering services, package holidays, personal grooming services and education services.

Energy inflation also decelerated during April, albeit marginally, reflecting a drop in gas prices. On the other hand, food inflation accelerated, reflecting developments in prices for fresh vegetables and a number of processed food items.

Meanwhile, prices for non-energy industrial goods continued to contract, in line with the recent trend. This mainly reflects weak international price pressures.

Annual RPI inflation also signalled an easing of consumer price pressures during April, falling to 0.8% from 1.1% in March (see Chart 6).<sup>14</sup> As with the HICP, this drop mainly reflected developments in prices for recreation and culture, partly offset by higher food prices. At the same time, prices for goods such as clothing and footwear, and household equipment and maintenance continued to contract.



Producer output inflation, measured by the producer price index, picked up to 0.6% in April, following a marginal contraction of 0.1% in March.<sup>15</sup> This mainly reflected developments in prices of intermediate goods, which contracted at a slower pace. At the same time, consumer goods prices accelerated when compared with the previous month. The contribution from capital goods was unchanged, while energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 1.0% in the year to April.<sup>16</sup> This suggests a slight deterioration in Malta's international competitiveness, on account of movements in the euro exchange rate against that of trading partners. The real HCI, which also takes into account relative price changes, rose by a slower 0.9%, suggesting that favourable developments in relative prices vis-à-vis trading partners partly offset the impact of unfavourable exchange rate movements.

## Public finance

In April 2020, the Consolidated Fund recorded a deficit of €295.4 million, a rise of €285.6 million when compared to the deficit registered in April 2019. This was a result of a significant rise in government expenditure, coupled with a large drop in revenue (see Table 4). In turn, the primary balance registered a deficit of €278.6 million, which contrasts with the €6.7 million primary surplus registered a year earlier.

As in March, government revenue was negatively impacted by the postponement in the collection of provisional tax, VAT and social security contributions for both self-employed and employers, in an effort to mitigate the economic effects of the COVID-19 pandemic. As a result, when compared

<sup>14</sup> The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index 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.-Apr.	Jan.-Apr.	Apr.	Apr.	Amount	%
<b>Revenue</b>	<b>1,299.3</b>	<b>1,088.8</b>	<b>350.6</b>	<b>222.1</b>	<b>-128.5</b>	<b>-36.6</b>
<b>Direct tax</b>	<b>664.9</b>	<b>543.4</b>	<b>244.8</b>	<b>145.7</b>	<b>-99.1</b>	<b>-40.5</b>
Income tax	454.4	345.4	189.0	104.4	-84.7	-44.8
Social security contributions <sup>(1)</sup>	210.4	198.0	55.8	41.3	-14.5	-26.0
<b>Indirect tax</b>	<b>495.0</b>	<b>413.7</b>	<b>84.6</b>	<b>33.3</b>	<b>-51.3</b>	<b>-60.6</b>
Value Added Tax	267.1	235.2	27.1	3.7	-23.5	-86.5
Customs and excise duties	98.1	74.1	21.8	12.1	-9.6	-44.3
Licences, taxes and fines	129.8	104.5	35.7	17.5	-18.2	-50.9
<b>Non-tax<sup>(2)</sup></b>	<b>139.4</b>	<b>131.7</b>	<b>21.2</b>	<b>43.2</b>	<b>22.0</b>	<b>103.7</b>
<b>Expenditure</b>	<b>1,443.3</b>	<b>1,695.9</b>	<b>360.3</b>	<b>517.5</b>	<b>157.2</b>	<b>43.6</b>
<b>Recurrent</b>	<b>1,298.9</b>	<b>1,474.1</b>	<b>321.9</b>	<b>452.9</b>	<b>130.9</b>	<b>40.7</b>
Personal emoluments	295.1	299.7	72.1	74.5	2.3	3.2
Operational and maintenance	73.7	68.0	17.7	20.9	3.2	18.0
Programmes and initiatives <sup>(1)</sup>	709.1	838.9	175.6	277.9	102.3	58.3
Contributions to entities	154.9	205.8	40.1	62.8	22.7	56.7
Interest payments	66.2	61.7	16.5	16.8	0.3	2.1
<b>Capital</b>	<b>144.4</b>	<b>221.8</b>	<b>38.4</b>	<b>64.7</b>	<b>26.3</b>	<b>68.4</b>
<b>Primary balance<sup>(3)</sup></b>	<b>-77.8</b>	<b>-545.4</b>	<b>6.7</b>	<b>-278.6</b>	<b>-285.3</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-144.0</b>	<b>-607.1</b>	<b>-9.8</b>	<b>-295.4</b>	<b>-285.6</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.

with April 2019, government revenue declined by €128.5 million or 36.6% mainly due to a drop in tax revenue. Inflows from direct taxes dropped by €99.1 million, mainly due to a fall in income tax revenue, while indirect taxes declined by €51.3 million driven by lower inflows in all categories.

On the other hand, non-tax revenue increased by €22.0 million in annual terms, driven by higher miscellaneous receipts.

Government expenditure increased by €157.2 million, or 43.6% when compared to April 2019, with both recurrent and capital expenditure contributing to this increase. The former increased by €130.9 million, or 40.7% in annual terms. This is mainly the result of higher outlays on medicines and surgical materials and contributions to church schools, as well as the timing of retirement pensions.

Capital spending increased by €26.3 million, or 68.4% when compared with the respective period of 2019. This was largely due to a higher subvention to Malta Enterprise to finance the COVID-19 Wage Supplement scheme. At the same time, outlays on road construction also increased.

In April, the total stock of government debt amounted to €5,936.4 million, an increase of €386.0 million when compared with a month earlier (see Chart 7). This was mainly due to a rise in

Treasury Bills outstanding as well as new issues of Malta Government Stocks.

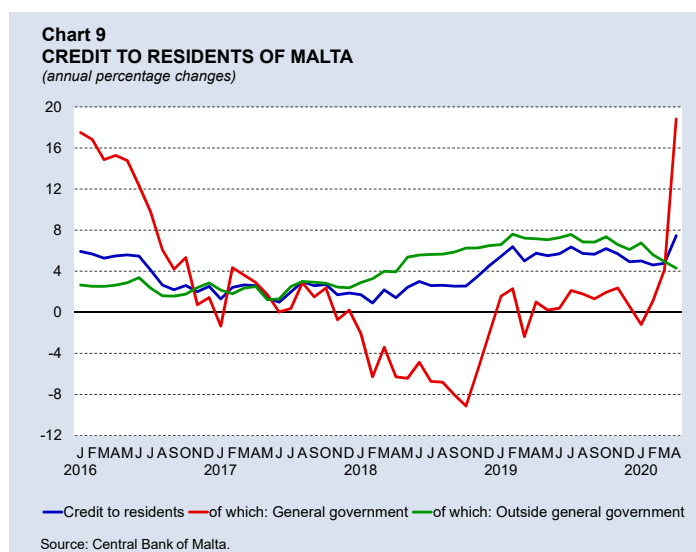
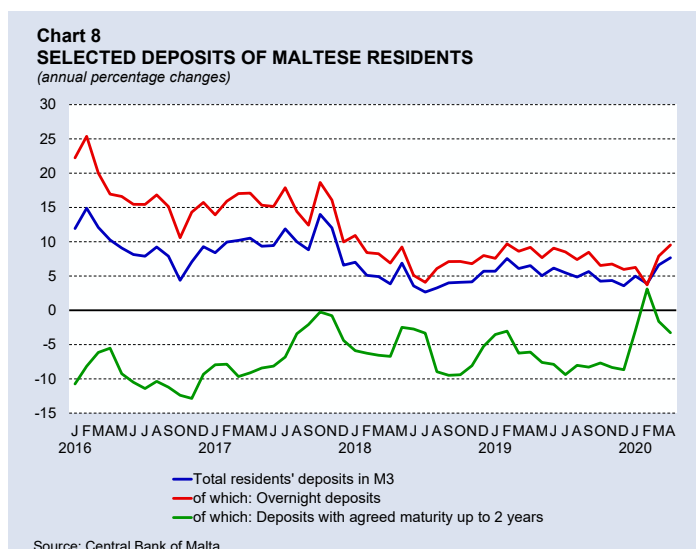
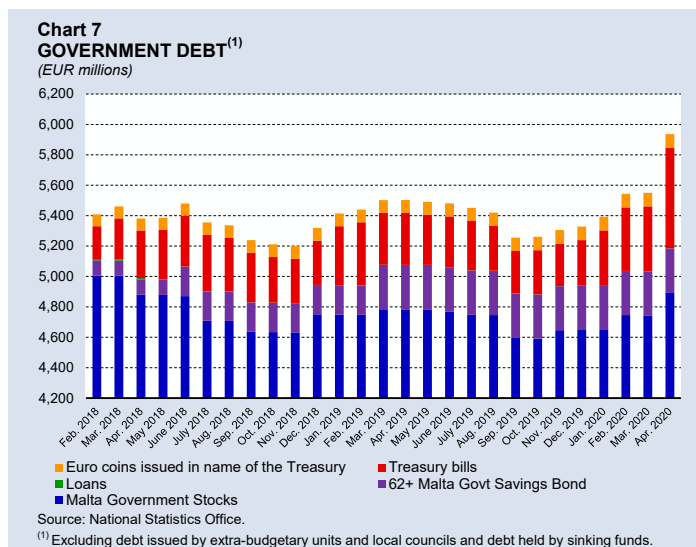
## Deposits, credit and financial markets

In April, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 7.7% (see Chart 8).

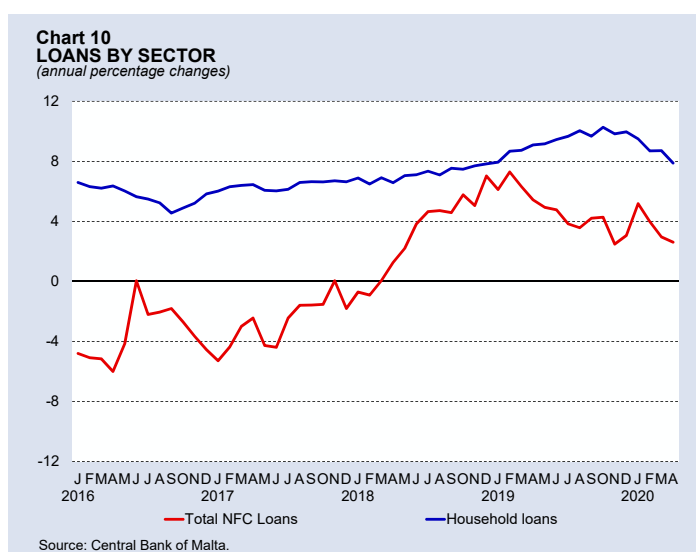
Overnight deposits remained the largest component of residents' M3 deposits, comprising over 85% of their M3 balances. This deposit category – which is the most liquid – grew by 9.5% in the year to April. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 3.3% in annual terms, following a contraction of 1.6% in the year to March.

Credit to Maltese residents grew at an annual rate of 7.5% in April, up from 4.8% a month earlier (see Chart 9). Annual growth in credit to general government rose by 18.8% over the year to April, following an increase of 4.1% a month earlier. Meanwhile, credit outside general government grew by 4.3% in the year to April, following an expansion of 4.9% in March.

The annual rate of change in loans to non-financial corporations eased to 2.6% from 3.0% in March (see Chart 10). These developments reflect a



contraction in loans to the sector comprising administrative and support services activities as well as slower growth in loans to the real estate sector. Loans to the manufacturing sector also fell at a slightly faster pace than before. Meanwhile, loans to households eased slightly to 7.9%, following an increase of 8.7% in March, driven by slower growth in consumer credit and other lending as well as mortgage loans.



In response to the outbreak of COVID-19 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**  
**MALTESE RESIDENTS' LOANS SUBJECT TO MORATORIUM - AS AT END APRIL 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	5,656	491.2	8.0
Manufacturing	114	34.0	16.0
Construction	87	30.2	5.0
Wholesale and retail trade; repair of motor vehicles and motor cycles	398	68.3	10.1
Transportation and storage and information and communication	66	29.6	11.9
Accommodation and food service activities	322	174.2	41.1
Real estate activities	310	181.9	19.1
Other <sup>(4)</sup>	375	246.2	13.0
<b>Total</b>	<b>7,327</b>	<b>1255.7</b>	<b>11.3</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, and the electricity, gas & water supply sector.

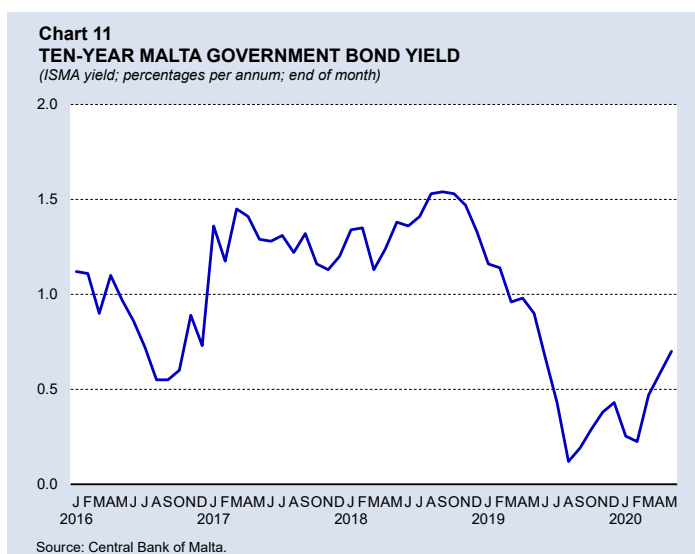
<sup>17</sup> The loans subject to moratorium include both pre and post the Legal Notice 142 of 2020 on the [Moratorium on Credit Facilities Regulations in Exceptional Circumstances](#) and Central Bank of Malta Directive No. 18. The latter entered into force on 13 April 2020. A number of banks had already started to provide moratorium facilities voluntarily in March 2020.

As at end April, there were just over 7,300 loans subject to a moratorium on loan repayments. The largest number of such loans was held by Maltese households, with this sector accounting for around three-fourths of the total volume of loans subject to a moratorium.

The total value of loans subject to a moratorium stood at €1.3 billion, or 11.3% of total outstanding loans to Maltese residents. Maltese households held €491.2 million, or 39.1% of the value of loans subject to a moratorium, though accounting for only 8.0% of outstanding household loans with domestic credit institutions. This was followed by the real estate sector, which held €181.9 million in loans subject to a moratorium, or around 14.4% of all loans subject to a moratorium and equivalent to almost a fifth of this sector's outstanding loans. Another sector that benefited extensively from the moratorium is the sector comprising accommodation and food services activities which held €174.2 million in loans subject to a moratorium. The latter was the first and most affected sector by the containment measures, and indeed, 41.1% of the loans held by this sector were subject to a moratorium by the end of April.

As regards interest rates, the composite interest rate paid by MFIs on residents' outstanding deposits eased marginally to 0.26% in April, from 0.27% in March. The composite rate charged on outstanding loans fell by one basis point, to 3.43%. Thus, the spread between the two rates remained unchanged at 317 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds rose by 12 basis points, to 0.70% at the end of May (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index fell by 1.1% 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 decreased 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	2020
			Q2	Q3	Q4	Q1	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
<b>Prices and costs</b>																				
HICP inflation	1.7	1.5	1.7	1.8	1.3	1.2	1.7	1.7	1.8	1.8	1.9	1.6	1.4	1.3	1.3	1.4	1.1	1.2	1.1	-
RPI inflation	1.2	1.6	1.9	1.6	1.3	1.2	1.9	1.9	1.9	1.7	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	0.8	-
Industrial producer price inflation	4.4	2.2	1.7	1.8	1.8	1.1	1.7	1.7	1.7	1.8	1.6	2.1	2.3	1.4	1.6	1.8	1.6	-0.1	0.6	-
HCI (nominal)	3.6	-0.7	-0.1	-1.3	-1.3	-0.3	-1.0	0.2	0.5	-0.9	-0.8	-2.2	-1.5	-1.2	-1.3	-1.2	-1.0	1.3	1.0	-
HCI (real)	2.9	-1.2	-0.6	-1.5	-1.9	-1.2	-1.7	-0.2	0.1	-1.2	-0.9	-2.3	-1.8	-1.8	-2.2	-2.2	-2.1	0.7	0.9	-
Unit labour costs, whole economy <sup>(1)</sup>	1.7	2.4	0.4	1.6	2.4	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	2.9	1.5	0.9	1.5	1.5	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.3	-1.0	0.6	-0.2	-1.0	-2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	6.2	5.9	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																				
Nominal GDP	9.5	7.1	6.5	6.2	7.1	1.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.3	4.7	4.2	3.7	4.8	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	7.8	2.9	1.8	4.1	1.9	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	12.2	12.9	10.0	10.5	8.1	9.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-1.8	6.2	2.7	-2.2	-0.9	-18.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	3.4	2.5	0.9	2.5	3.9	-4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	3.0	3.0	-0.2	5.4	0.2	-7.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<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	-	-	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>	11.0	9.7	9.2	8.2	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																				
Maltese residents' deposits and loans																				
Overnight deposits	8.0	6.0	9.1	8.5	6.0	7.9	9.2	7.7	9.1	8.5	7.4	8.5	6.5	6.7	6.0	6.3	3.7	7.9	9.5	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-7.9	-8.3	-8.7	-1.6	-6.1	-7.6	-7.9	-9.4	-8.0	-8.3	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.3	-
Total residents' deposits in M3	5.7	3.6	6.2	5.7	3.6	6.6	6.5	5.1	6.2	5.5	4.8	5.7	4.2	4.3	3.6	5.0	3.9	6.6	7.7	-
Credit to general government	-2.0	0.6	0.4	1.3	0.6	4.1	1.0	0.2	0.4	2.1	1.8	1.3	1.9	2.4	0.6	-1.2	1.1	4.1	18.8	-
Credit to residents (excl. general government)	6.5	6.1	7.3	6.8	6.1	4.9	7.2	7.1	7.3	7.6	6.8	6.8	7.3	6.6	6.1	6.8	5.6	4.9	4.3	-
Total credit	4.5	4.9	5.7	5.6	4.9	4.8	5.7	5.5	5.7	6.4	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.8	7.5	-
10-year interest rate (%) <sup>(3)</sup>	1.3	0.4	0.7	0.2	0.4	0.5	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	0.7
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	0.1	4.4	2.2	2.1	-4.0	-19.5	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	-1.1
<b>General government finances (% of GDP)</b>																				
Surplus (+) / deficit (-) <sup>(2)</sup>	1.9	0.5	1.0	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	45.5	42.9	45.5	43.2	42.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.