



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# ECONOMIC UPDATE

## 7/2020

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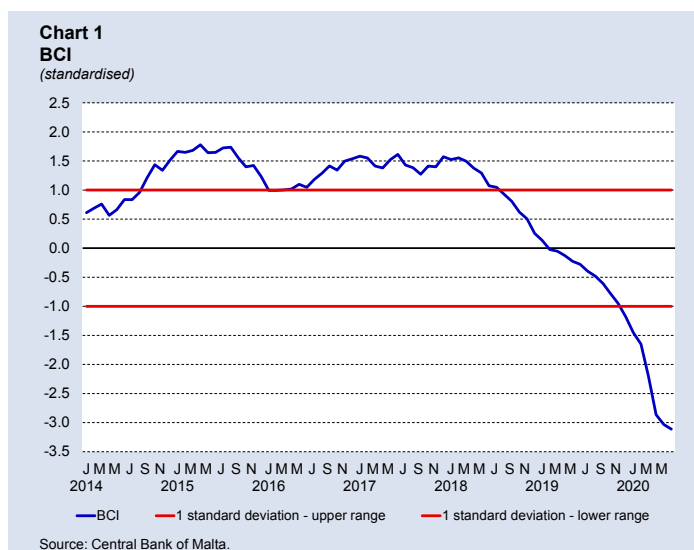
## ECONOMIC UPDATE 7/2020

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

In June, the Bank's Business Conditions' Index (BCI) fell slightly when compared with the previous month, suggesting that economic conditions may have reached their trough but remain significantly below their long-term average. The European Commission's Economic Sentiment Indicator (ESI) was virtually unchanged from the preceding month and remained well below its long-term average. Decreases in sentiment in services and industry were nearly offset by improvements in the retail sector and among consumers, with confidence in the latter returning above its historical average. Sentiment in the construction sector also edged up marginally. In May, the volume of retail trade and industrial production contracted again in annual terms, though by less when compared with April. Annual growth in development permits for both commercial and residential purposes remained negative, though in level terms the latter was still above its historical average. The number of registered unemployed and the unemployment rate edged up, though they remain historically low. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) eased to 0.9% in May, from 1.1% in April, while inflation based on the Retail Price Index (RPI) eased to 0.7%, from 0.8% in the previous month. Meanwhile, Maltese residents' deposits grew by an annual rate of 6.4% over the year to May, while annual growth in credit to Maltese residents reached 9.0%. In May, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, reflecting a significant increase in government expenditure and a large drop in revenue as a result of the impact of COVID-19.

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

In June, the Bank's BCI fell to -3.1, a further drop from its updated value of -3.0 for May (see Chart 1). The BCI in June continued to signal significantly low levels of economic activity, reflecting the exceptional economic environment triggered by COVID-19. The June 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. Overall business conditions were similar to those observed during 2009.



<sup>1</sup> The cut-off date for information in this note is 17 July 2020. Most of the data reported in this issue of the *Economic Update* refer to May 2020, and thus reflect the impact of the relaxation of COVID-19 containment measures. On 4 May, non-essential shops could re-open, while restrictive measures for restaurants, cafés, beauticians and hairdressers were lifted on 22 May. Data for the BCI and the ESI are for June 2020. Hence, these may reflect the impact of the further lifting of restrictive measures that came into effect on 5 June. In part, these relate to the removal of the suspension of organised events, the re-opening of child care centres and English language schools, and allowing the gathering of up to 75 persons in public places. Tourism data for April and May have not been published by National Statistics Office (NSO) as airports and ports were closed since March.

<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. From June 2020, the BCI methodology was updated to include a new variable, monthly development permits.

## Business and consumer confidence indicators

In June, the ESI stood at 56.5, virtually unchanged from 56.6 in the preceding month, and well below the 102.5 recorded a year earlier (see Table 1).<sup>3,4</sup> The ESI also stood 19.2 points lower than that in the euro area.

The marginal month-on-month change in sentiment masked contrasting developments across sectors. Confidence in services and industry weakened somewhat. By contrast, confidence improved in the retail sector and, to a lesser extent, among consumers. Sentiment in the construction sector also edged up, though marginally.

Sentiment was negative in all sectors, with the lowest readings recorded in services and industry. However, in the case of consumers, sentiment is now above the historical average.

<b>Table 1</b>									
<b>BUSINESS AND CONSUMER SURVEYS</b>									
<i>Balances; percentage points; seasonally adjusted</i>									
	2018	2019	2020						
			Jan.	Feb.	Mar.	Apr.	May	June	
<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>56.5</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>	<b>-53.5</b>	<b>-57.3</b>	
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3	-59.8	-66.3	-77.4	
Evolution of the demand over the past 3 months	35.8	21.5	3.8	7.9	11.4	-56.3	-66.0	-78.2	
Expectation of the demand over the next 3 months	37.2	24.0	23.8	21.7	-9.9	-54.1	-28.3	-16.3	
<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>	<b>-42.2</b>	
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7	-56.1	-76.0	-76.9	
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3	32.5	34.4	31.4	
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7	-47.6	-10.2	-18.3	
<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>	<b>-30.1</b>	
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8	12.4	-21.1	-28.1	
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7	65.6	53.0	54.8	
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1	-42.0	-55.5	-7.4	
<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>	<b>-6.9</b>	
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8	6.2	0.8	0.8	
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1	-14.5	-5.7	-2.1	
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0	-36.6	-17.7	-3.9	
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5	-18.4	-22.5	-22.4	
<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>	<b>-19.9</b>	
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1	-38.1	-13.0	-18.8	
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	
<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>	<b>71.8</b>	<b>71.0</b>	
Industry	31.1	12.8	16.5	7.0	-16.7	-61.2	-18.9	-40.3	
Services	33.9	17.5	6.7	21.6	11.8	-33.0	-16.6	-16.8	
Construction	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	
Retail	15.4	4.7	25.2	11.9	-8.6	-14.2	-15.5	-3.3	

Source: European Commission.

<sup>3</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>4</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.

Sentiment within the services sector fell to -57.3 in June, from -53.5 in the previous month, and remained below its long-term average of 21.1.<sup>5</sup> Weaker sentiment reflected a significant decrease in firms' assessment of demand in recent months. Firms' assessment of the business situation also weakened considerably over the same period. By contrast, respondents' demand expectations for the next three months improved, though remaining negative. Additional survey data show that fewer firms anticipated falling prices in the months ahead.

In June, industrial confidence fell to -42.2, from -40.2 a month earlier.<sup>6</sup> The recent fall in sentiment was in large part driven by more negative firms' production expectations. Firms' assessment of order book levels also edged down marginally. Meanwhile, the share of participants reporting above normal stock levels decreased slightly relative to May. Supplementary data show that, on balance, a smaller share of respondents anticipated a fall in selling prices in the coming months.

By contrast, confidence within the retail sector improved significantly. It rose to -30.1 from -43.2 in the previous month.<sup>7</sup> Notwithstanding this increase, sentiment remained below its long-term average of 1.5. The recent rise in sentiment was entirely driven by retailers' expectations of business activity over the next three months. By contrast, their assessment of business activity in recent months weakened. At the same time, a marginally higher share of respondents reported above normal stock levels.<sup>8</sup> Additional survey data indicate that price expectations rose in the month under review.

Consumer confidence also edged up in June. It rose to -6.9, from -11.3 in May.<sup>9</sup> Following this increase, sentiment stood above its long-term average of -11.2. Higher sentiment was driven by significantly less negative expectations about the general economic situation and the financial situation. Meanwhile, consumers' assessment of the financial situation over the last 12 months remained broadly stable. Respondents' expectations about major purchases over subsequent months were also broadly unchanged over the month. Supplementary data show that a smaller share of consumers anticipated an increase in prices and in unemployment.

Confidence in the construction sector stood at -19.9, marginally up from -20.3 in the previous month. Notwithstanding this increase, sentiment remained below its long-term average of -11.7 in June.<sup>10</sup> Compared to May, employment expectations were less negative. By contrast, a higher share of respondents reported falling orders in June. Additional survey data indicate that a smaller share of respondents expect a fall in prices over the next three months.

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

<sup>5</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>6</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>7</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>8</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.

<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 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.

down marginally in June.<sup>11</sup> The EEI stood at 71.0, marginally down from 71.8 in May, but remained well below its long-run average of around 100.0. Moreover, in June, Malta's EEI stood 11.8 points below the euro area average. Employment prospects weakened significantly in industry and, to a very small degree, in services. These developments offset improved expectations among retailers and, to a lesser extent, in construction. Nonetheless, employment expectations remained negative in all sectors surveyed.

In May, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – remained negative for the second consecutive month. The index fell by 4.6% in annual terms, following a contraction of 7.4% in April (see Table 2).<sup>12</sup> Although production fell in most sectors in annual terms, the strongest declines were registered among firms that produce beverages and food products, as well as those specialising in motor vehicles, trailers and semi-trailers. A marked decrease was also registered among firms 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 recorded in firms involved in the repair and installation of machinery and equipment, in the production of rubber and plastic goods as well as computer, electronic and optical products. By contrast, firms involved in the manufacturing of pharmaceutical products

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

*Annual percentage changes*

	2018	2019	2019										2020		
			May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>(1)</sup>	Apr. <sup>(2)</sup>	May <sup>(2)</sup>
<b>Industrial production</b>	<b>1.3</b>	<b>1.4</b>	<b>-0.9</b>	<b>0.4</b>	<b>1.4</b>	<b>6.6</b>	<b>4.2</b>	<b>2.1</b>	<b>-2.1</b>	<b>9.1</b>	<b>12.4</b>	<b>13.7</b>	<b>6.4</b>	<b>-7.4</b>	<b>-4.6</b>
<b>Commercial Permits</b>	<b>14.5</b>	<b>-2.4</b>	<b>-11.4</b>	<b>19.9</b>	<b>-0.3</b>	<b>-12.9</b>	<b>-10.8</b>	<b>-7.4</b>	<b>-12.8</b>	<b>-8.1</b>	<b>-24.2</b>	<b>-31.9</b>	<b>-56.8</b>	<b>-8.2</b>	<b>-25.2</b>
<b>Residential Permits</b>	<b>43.1</b>	<b>-3.1</b>	<b>51.8</b>	<b>-25.5</b>	<b>-45.3</b>	<b>-56.0</b>	<b>11.0</b>	<b>-6.5</b>	<b>12.3</b>	<b>34.4</b>	<b>22.2</b>	<b>-23.3</b>	<b>-19.6</b>	<b>-73.3</b>	<b>-53.6</b>
<b>Retail trade</b>	<b>0.6</b>	<b>4.5</b>	<b>0.6</b>	<b>5.2</b>	<b>5.1</b>	<b>5.1</b>	<b>8.1</b>	<b>4.5</b>	<b>3.8</b>	<b>4.8</b>	<b>4.6</b>	<b>8.1</b>	<b>-0.3</b>	<b>-24.0</b>	<b>-10.9</b>
<b>Number of tourist arrivals</b>	<b>14.3</b>	<b>5.9</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>-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	-5.0	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	-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	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	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>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	-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	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	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 and May 2020 news releases 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>11</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>12</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.

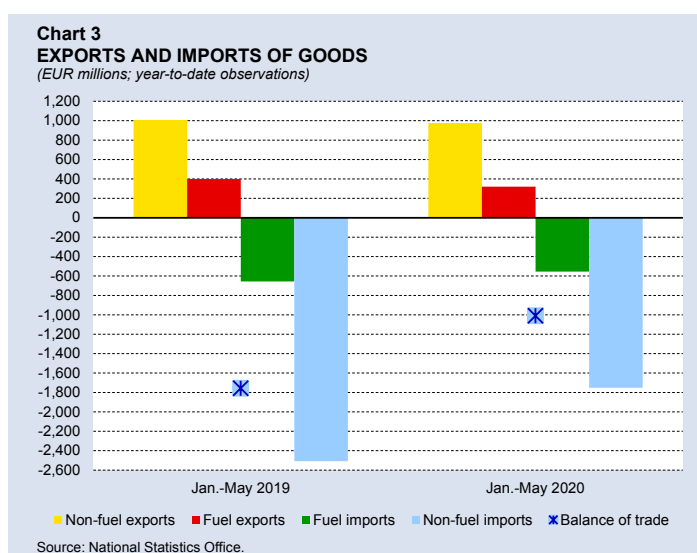
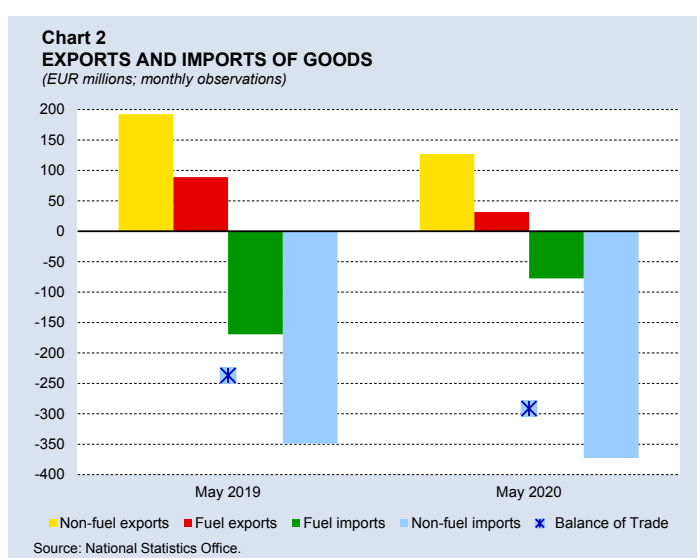
and in printing and reproduction of recorded media registered higher levels of production. Production in the energy sector decreased.

In May, annual growth in development permits for both commercial and residential purposes continued to decrease in annual terms. Commercial permits fell by an annual rate of -25.2%, while those for residential purposes declined by -53.6%. The number of residential permits, however, remained above its historical average.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the third consecutive time in May, though at a slower pace than that recorded in the previous month. It declined by an annual rate of -10.9%, following a fall of 24.0% in April.

Customs data show that the merchandise trade deficit stood at €291.5 million in May, up from €237.0 million a year earlier. The larger deficit reflected a €122.7 million fall in exports, which was partly offset by a contraction of €68.2 million in imports (see Chart 2). Lower exports were mainly due to a drop in re-exports of fuel, pharmaceutical products, electrical machinery and aircraft parts, which more than outweighed a rise in exports of printed material and organic chemicals. The decline in imports was mainly on account of a drop in the fuel import bill, imports of machinery and mechanical appliances and vehicles as well as a decline in registration of aircraft. Together these offset an increase in registration of sea vessels and in clothing imports.

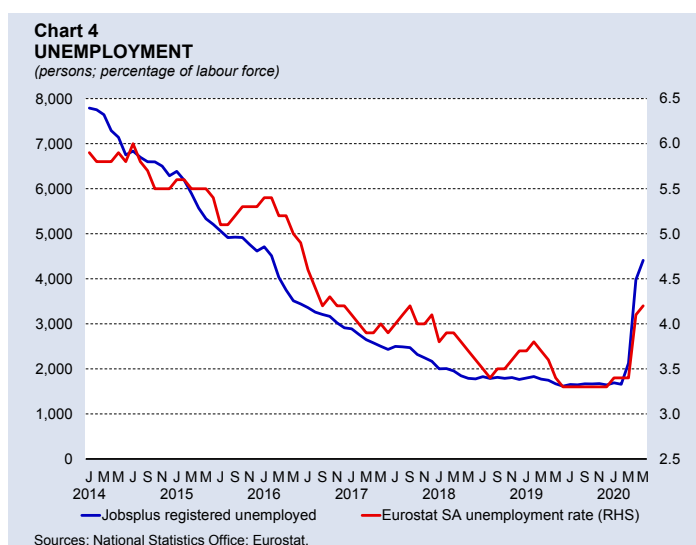
In the first five months of the year, the visible trade gap narrowed to €1,010.4 million down from €1,757.2 million in the corresponding period of 2019 (see Chart 3).



## Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 4,409 in May, up from 3,979 in April and 1,669 a year earlier (see Chart 4).

The seasonally-adjusted unemployment rate stood at 4.2% in May, higher than the 4.1% registered in the previous month and the rate of 3.4% in the same month of the preceding year.



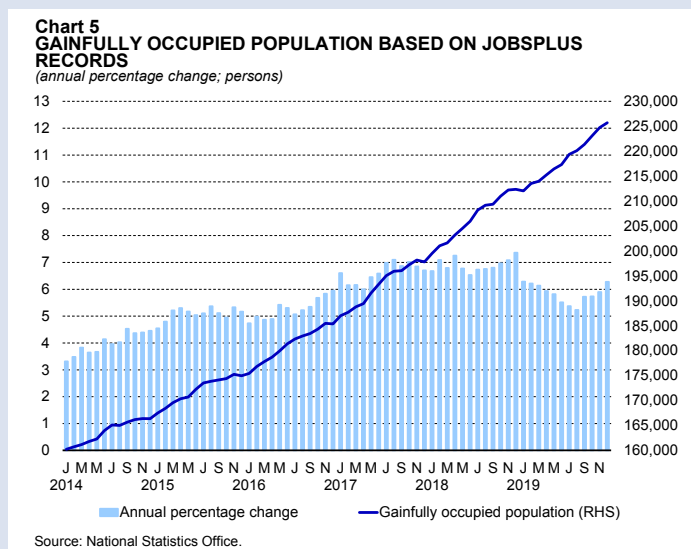
## BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in December 2019, the gainfully occupied population – defined as all persons in full-time employment – rose by 6.3% on a year earlier to 225,703 persons (see Chart 5 and Table 3). Annual growth was faster than the 5.9% registered in the preceding month, but lower than the 7.4% 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 12,249, or 7.4%, compared with December 2018. Employment growth in this sector continued to be driven by market services, where the number of full-time job holders increased by 9,493, or 7.4% 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 3,720 in the year to December and accounted for almost 40% of the overall rise in private market services





employment. Employment also rose strongly in accommodation and food services activities – by 1,264 persons. The number of persons employed in “other services” rose by 1,029, mostly reflecting increased employment in the health and residential care sector. Meanwhile, 984 additional persons were recruited in the arts, entertainment and recreation sector.

The number of persons employed in direct production rose by 2,756, or 7.7% on a year earlier. Growth was mainly recorded in the construction sector, although employment in manufacturing also increased.

Public sector employment rose by 1,086, or 2.3%, 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 21.6%, from 22.5% a year earlier.

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

*Persons; annual percentage changes*

	2018	2019	Annual change	
	December	December	Number of persons	%
<b>Labour supply</b>	<b>214,133</b>	<b>227,345</b>	<b>13,212</b>	<b>6.2</b>
Gainfully occupied <sup>(1)</sup>	212,368	225,703	13,335	6.3
Registered unemployed	1,765	1,642	-123	-7.0
<b>Unemployment rate (%)</b>	<b>0.8</b>	<b>0.7</b>		
<b>Private sector</b>	<b>164,681</b>	<b>176,930</b>	<b>12,249</b>	<b>7.4</b>
<b>Direct production<sup>(2)</sup></b>	<b>35,934</b>	<b>38,690</b>	<b>2,756</b>	<b>7.7</b>
Of which:				
Manufacturing	21,546	21,904	358	1.7
Construction	11,520	13,689	2,169	18.8
<b>Market services</b>	<b>128,747</b>	<b>138,240</b>	<b>9,493</b>	<b>7.4</b>
Wholesale and retail trade	27,320	28,034	714	2.6
Transportation and storage	9,410	10,038	628	6.7
Accommodation and food service activities	14,235	15,499	1,264	8.9
Information and communication	7,157	7,482	325	4.5
Financial and insurance activities	10,144	10,580	436	4.3
Real estate, professional and administrative activities <sup>(3)</sup>	33,581	37,301	3,720	11.1
Arts, entertainment and recreation	9,417	10,401	984	10.4
Education	5,779	6,172	393	6.8
Other	11,704	12,733	1,029	8.8
<b>Public sector</b>	<b>47,687</b>	<b>48,773</b>	<b>1,086</b>	<b>2.3</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 0.9% in May, from 1.1% in the previous month (see Chart 6). Services inflation declined marginally, particularly due to a fall in communication prices as well as other miscellaneous services.

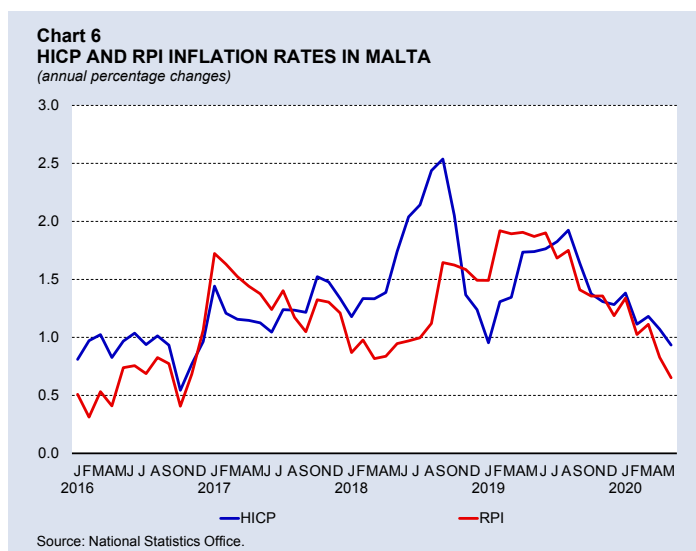
While energy inflation remained unchanged from April, food inflation fell significantly, reflecting slower growth in the prices of both unprocessed and processed food.

Meanwhile, prices for non-energy industrial goods continued to contract, in line with the recent trend of weak international price pressures, albeit at a marginally slower pace when compared with the previous month.

Annual RPI inflation also signalled an easing of consumer price pressures during May, falling to 0.7% from 0.8% in April (see Chart 6).<sup>13</sup> Similar to the HICP, this drop mainly reflected the sharp deceleration in food prices. The contribution of the remaining categories was broadly unchanged.

Producer output inflation, measured by the producer price index, fell to 0.3% in May, following growth of 0.6% in April.<sup>14</sup> This mainly reflected developments in prices of intermediate goods, which contracted at an increased pace as well as prices of capital goods which rose at a slower pace. This offset an increase in consumer goods inflation compared to the previous month, while energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 0.9% in the year to May.<sup>15</sup> This suggests a slight deterioration in the country's international competitiveness on account of movements in the euro exchange rate against currencies of trading partners. The real HCI, which also takes into account relative price changes, rose by 1.0%, suggesting that unfavourable developments in relative prices vis-à-vis trading partners amplified the impact of unfavourable exchange rate movements.



<sup>13</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>14</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>15</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.

## Public finance

In May 2020, the Consolidated Fund recorded a deficit of €66.3 million, a rise of €142.8 million when compared with the deficit registered in May 2019. This was a result of a significant rise in government expenditure, coupled with a large drop in revenue (see Table 4). Consequently, the primary balance registered a deficit of €54.3 million, a deterioration of €141.1 million when compared with the €86.8 million primary surplus registered a year earlier. These developments reflect the slowdown in economic activity due to the worldwide spread of COVID-19, and government support measures to mitigate the economic effects of this pandemic.

Government revenue declined by €90.3 million or 21.9% due to a drop in tax revenue, which was negatively impacted by the postponement of the collection of provisional tax, VAT and social security contributions for both self-employed and employers, as well as the decline in economic activity. Meanwhile, non-tax revenue increased by €21.5 million, on account of higher receipts from fees of office.

Government expenditure increased by €52.6 million, or 15.7% when compared with May 2019. Recurrent expenditure increased marginally by €0.8 million, or 0.3% in annual terms. However, capital spending increased by €51.8 million, or 141.5%, due to a higher subvention to Malta Enterprise, mainly to cover the COVID-19 Wage Supplement Scheme.

**Table 4**  
**CONSOLIDATED FUND BALANCE**

EUR millions

	2019	2020	2019	2020	Change	
	Jan.-May	Jan.-May	May	May	Amount	%
<b>Revenue</b>	<b>1,710.5</b>	<b>1,409.7</b>	<b>411.2</b>	<b>321.0</b>	<b>-90.3</b>	<b>-21.9</b>
<b>Direct tax</b>	<b>856.8</b>	<b>682.1</b>	<b>191.9</b>	<b>138.7</b>	<b>-53.2</b>	<b>-27.7</b>
Income tax	581.5	438.7	127.0	93.3	-33.7	-26.5
Social security contributions <sup>(1)</sup>	275.3	243.3	64.9	45.4	-19.5	-30.0
<b>Indirect tax</b>	<b>694.7</b>	<b>554.8</b>	<b>199.7</b>	<b>141.1</b>	<b>-58.5</b>	<b>-29.3</b>
Value Added Tax	404.7	334.0	137.6	98.8	-38.8	-28.2
Customs and excise duties	125.0	95.0	27.0	21.0	-6.0	-22.2
Licences, taxes and fines	164.9	125.8	35.1	21.3	-13.8	-39.2
<b>Non-tax<sup>(2)</sup></b>	<b>159.1</b>	<b>172.8</b>	<b>19.7</b>	<b>41.2</b>	<b>21.5</b>	<b>109.3</b>
<b>Expenditure</b>	<b>1,777.9</b>	<b>2,083.2</b>	<b>334.6</b>	<b>387.2</b>	<b>52.6</b>	<b>15.7</b>
<b>Recurrent</b>	<b>1,597.0</b>	<b>1,773.0</b>	<b>298.1</b>	<b>298.9</b>	<b>0.8</b>	<b>0.3</b>
Personal emoluments	364.9	373.5	69.8	73.7	3.9	5.6
Operational and maintenance	91.1	81.4	17.4	13.4	-4.0	-22.8
Programmes and initiatives <sup>(1)</sup>	867.8	995.9	158.7	157.0	-1.7	-1.1
Contributions to entities	196.8	248.5	41.9	42.7	0.8	1.9
Interest payments	76.4	73.7	10.2	12.0	1.8	17.2
<b>Capital</b>	<b>181.0</b>	<b>310.2</b>	<b>36.6</b>	<b>88.4</b>	<b>51.8</b>	<b>141.5</b>
<b>Primary balance<sup>(3)</sup></b>	<b>9.0</b>	<b>-599.7</b>	<b>86.8</b>	<b>-54.3</b>	<b>-141.1</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-67.4</b>	<b>-673.4</b>	<b>76.6</b>	<b>-66.3</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.

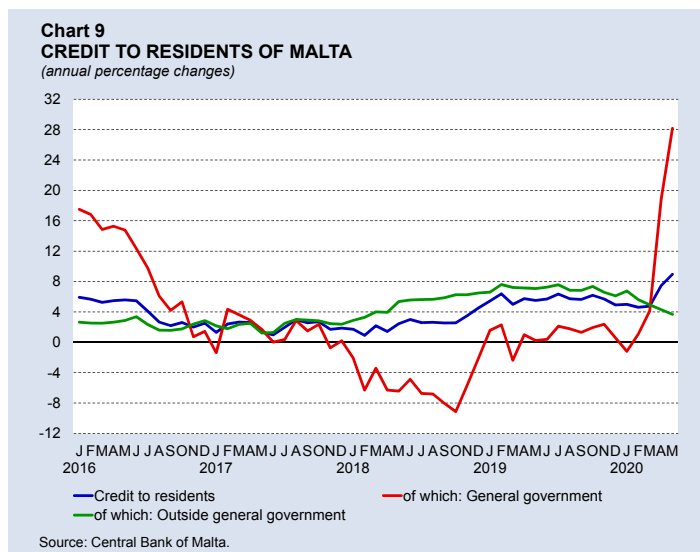
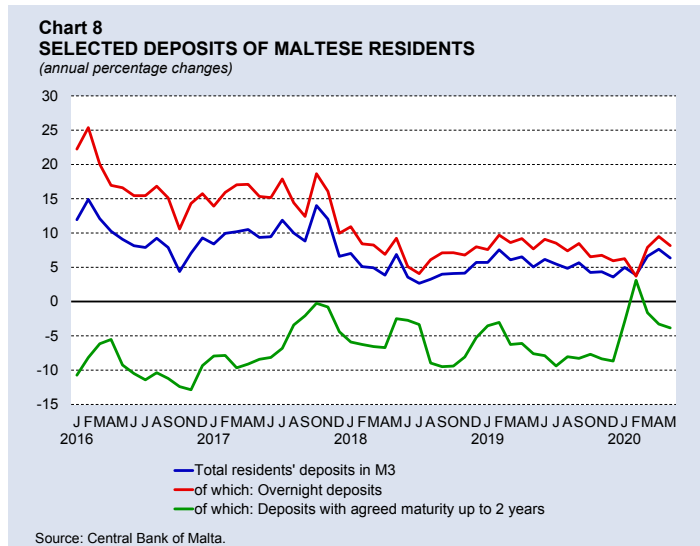
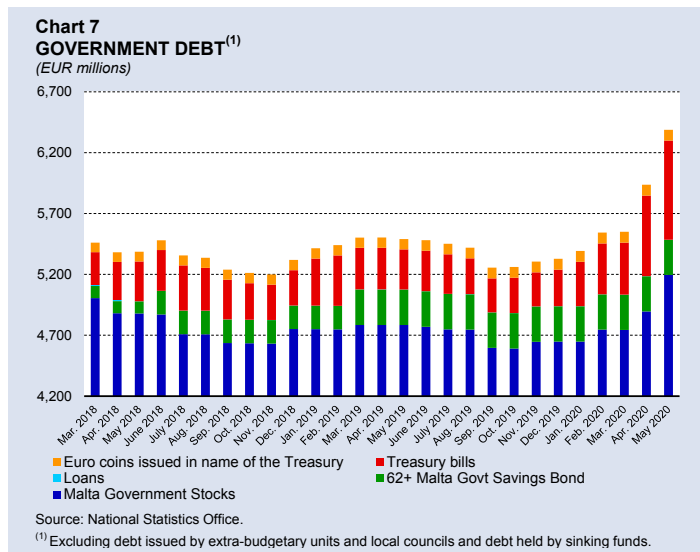
In May 2020, the total stock of government debt amounted to €6,388.2 million, an increase of €451.8 million when compared with a month earlier (see Chart 7), reflecting new issues of Malta Government stocks as well as a rise in Treasury bills outstanding to finance the fiscal deficit.

### Deposits, credit and financial markets

In May, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 6.4%, after growing by 7.6% in April (see Chart 8). The slower growth possibly reflects an increase in consumption following the easing of containment measures related to COVID-19, which had induced an element of forced savings while non-essential shops were closed.

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 8.2% in the year to May. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 3.8% in annual terms, following a contraction of 3.3% in the year to April.

Credit to Maltese residents grew at an annual rate of 9.0% in May, up from 7.5% a month earlier (see Chart 9). Annual growth in credit to general

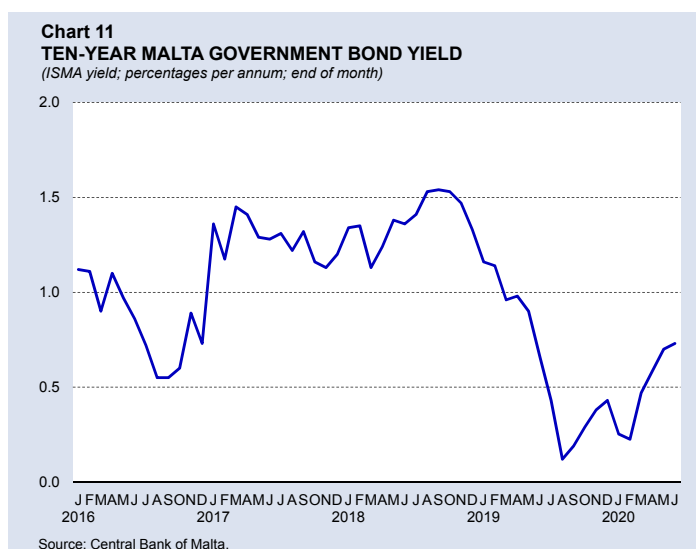
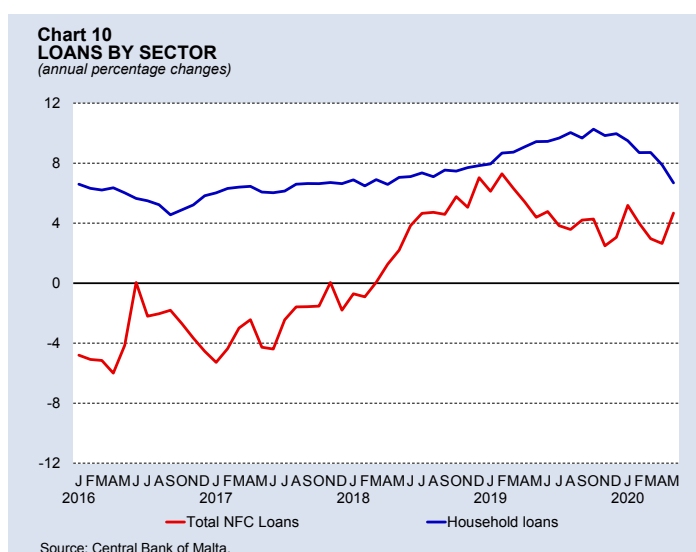


government rose sharply, reaching 28.2% in May, following an increase of 18.8% a month earlier. Meanwhile, credit outside general government grew by 3.7%, down from 4.3% in April.

The annual rate of change in loans to non-financial corporations accelerated to 4.7% from 2.6% in April (see Chart 10). These developments reflect a significant outturn in growth in loans to the construction and real estate sector, as well as growth in the transportation and storage sector. Moreover, credit to wholesale and retail trade sectors declined at a slower annual pace when compared with April. Meanwhile, the annual rate of change of loans to households eased to 6.7%, from 7.9% in April, driven by slower growth in mortgage loans and a contraction in consumer credit and other lending.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits remained broadly unchanged in May, at 0.26%. The composite rate charged on outstanding loans was also stable at 3.43% compared with April. Hence, the spread between the two rates remained constant at 317 basis points.

In the capital market, the secondary market yield on 10-year Maltese Government bonds rose by 3 basis points, to 0.73% at the end of June (see Chart 11). The Malta Stock Exchange (MSE) Equity Price Index rose by 1.7% 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.



## BOX 2: LIQUIDITY SUPPORT MEASURES RELATED TO COVID-19

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 thus applied with MFIs in Malta for a moratorium on loan repayments (see Table 5).<sup>1</sup>

As at end May, there were over 8,800 loans subject to a moratorium on repayments. The total value of loans subject to a moratorium stood at €1.6 billion, or 13.9% of total outstanding loans to Maltese residents. This is a relatively small increase when compared with April, when 11.3% of total loans were subject to a moratorium, indicating that liquidity needs may have started to stabilise in May.

The largest number of loans covered by moratoria was held by households, with this sector accounting for around three-fourths of the total volume of loans subject to a moratorium. Maltese households held €610.0 million, or 39.3% of the total value of loans subject to a moratorium, though covered amounts represented only 10.0% of outstanding household loans. This was followed by the real estate sector, which held €258.9 million in loans subject to a moratorium, or around 16.7% of all loans subject to a moratorium and equivalent to almost a third of this sector's outstanding loans. Another sector that benefited extensively from the moratorium is the sector comprising accommodation and food

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

(number of loans; EUR millions; percentage)

	Volume of loans <sup>(1)</sup>	Outstanding amounts <sup>(2)</sup>	Share in sector's outstanding loans <sup>(3)</sup>
Households	6,961	610.0	10.0
Manufacturing	135	44.4	21.3
Construction	93	33.6	5.5
Wholesale and retail trade; repair of motor vehicles and motor cycles	430	74.1	11.1
Transportation and storage and information and communication	85	62.7	23.8
Accommodation and food service activities	348	193.9	45.1
Real estate activities	384	258.9	27.1
Other <sup>(4)</sup>	408	272.9	14.4
<b>Total</b>	<b>8,844</b>	<b>1,550.5</b>	<b>13.9</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 millions.

<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>1</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 (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 already started to provide moratorium facilities voluntarily in March 2020.

services activities which held €193.9 million in loans subject to a moratorium. The latter was the first and most affected sector by the containment measures, and indeed, 45.1% of the loans held by this sector were subject to a moratorium by the end of May.

In order to further alleviate liquidity challenges, the Government launched the MDB COVID-19 Guarantee Scheme (CGS) for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.<sup>2</sup>

By end May 2020, 143 facilities had been approved under the CGS, covering total sanctioned lending of €68.5 million. Since the scheme provides loans for working capital and is relatively recent, only €7.4 million had been disbursed by the end of May (see Table 6).

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities, followed closely by accommodation and food services activities. The sector comprising professional, scientific, and technical activities, as well as the administrative and support services sector, which form part of the “other” sector, and manufacturing, also had a significant number of facilities approved. By contrast, the number of approved facilities in construction and real estate and in the sector comprising transport, storage and ICT remained low. Nevertheless, the category comprising transport and storage and information and communication, had the largest value of sanctioned loans at €19.9 million, followed by the wholesale and retail sector, with €16.2 million.

**Table 6**  
**MDB COVID-19 GUARANTEE SCHEME – AS AT MAY 2020**

(number of facilities; EUR millions)

	Total number of facilities <sup>(1)</sup>	Sanctioned Amount <sup>(2)</sup>
Manufacturing	17	9.2
Construction	3	5.2
Wholesale and retail trade; repair of motor vehicles and motor cycles	36	16.2
Transportation and storage and information and communication	9	19.9
Accommodation and food service activities	35	7.4
Real estate activities	4	0.4
Other <sup>(3)</sup>	39	10.3
<b>Total</b>	<b>143</b>	<b>68.5</b>

Source: Malta Development Bank.

<sup>(1)</sup> The number of facilities taken by various sectors.

<sup>(2)</sup> The total number of loans sanctioned under the scheme as at end month, in EUR millions.

<sup>(3)</sup> Includes loans to education, health and social work, financial and insurance activities, 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>2</sup> The MDB COVID-19 Guarantee Scheme has been approved by the European Commission on 2 April 2020. See <https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.

## 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	2020	
			Q2	Q3	Q4	Q1	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	
<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	0.9	1.0	
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	0.7	-	
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	0.3	-	
HCI (nominal)	2.6	-0.7	-0.2	-1.0	-1.1	-0.2	-1.0	0.1	0.4	-0.7	-0.5	-1.7	-1.1	-1.0	-1.3	-1.1	-1.0	1.7	1.3	0.9	-	
HCI (real)	2.1	-1.1	-0.6	-1.0	-1.6	-0.9	-1.7	-0.3	0.1	-0.9	-0.5	-1.8	-1.4	-1.4	-2.0	-1.9	-1.9	1.2	1.4	1.0	-	
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	6.3	6.0	5.7	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	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
LFS employment	7.8	5.8	7.0	4.5	5.4	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Jobsplus gainfully occupied	6.8	5.8	5.8	5.4	6.0	-	5.9	5.8	5.5	5.4	5.2	5.7	5.7	5.9	6.3	-	-	-	-	-	-	
<b>Balance of payments</b>																						
Current account (as a % of GDP) <sup>(2)</sup>	11.1	9.8	9.3	8.7	9.8	10.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<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	7.9	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	8.2	-	
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	-3.8	-	
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	7.6	6.4	-	
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	28.2	-	
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	3.7	-	
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	9.0	-	
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	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	1.7	
<b>General government finances (% of GDP)</b>																						
Surplus (+) / deficit (-) <sup>(2)</sup>	1.9	0.5	1.0	0.5	0.5	-1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross debt <sup>(5)</sup>	45.5	42.9	45.5	43.2	42.9	44.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

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.