



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE 8/2020

Date of issue: 19 August 2020

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The cut-off date for information in this publication is 10 August 2020. Figures in tables may not add up due to rounding.

ISSN 2410-8294 (online)

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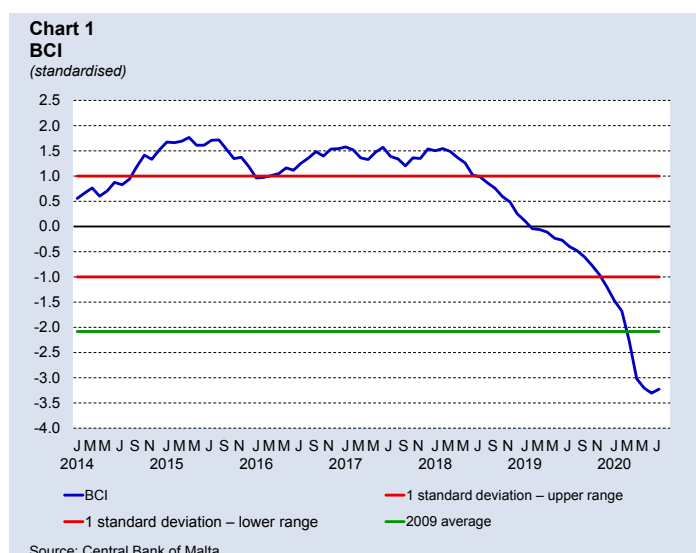
Summary¹

In July, the Bank's Business Conditions' Index (BCI) improved slightly when compared with the previous month, suggesting that economic conditions may have reached their trough. However, it remained significantly below its long-term average. The European Commission's Economic Sentiment Indicator (ESI) rose, but remained well below the level recorded before the onset of COVID-19. The increase in sentiment largely reflects improved confidence in the services sector and in industry. Sentiment also improved in the construction sector and among consumers, but reached a new historical low among retailers. The below average reading for the overall ESI mainly reflects weaker than usual sentiment in services and industry. In all other sectors, sentiment is either above or only marginally below the long-term average.

In June, the volume of retail trade and industrial production contracted again in annual terms, though at a slower pace when compared with May. The number of registered unemployed and the unemployment rate fell when compared with a month earlier, with the latter remaining low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged up to 1.0% in June, from 0.9% in May, while inflation based on the Retail Price Index (RPI) stood unchanged at 0.7%. Maltese residents' deposits expanded by an annual rate of 7.6% over the year to June, while annual growth in credit to Maltese residents eased to 8.8%. In June, the deficit on the cash-based Consolidated Fund widened significantly compared with a year earlier, reflecting a significant increase in government expenditure and, to a lesser extent, a drop in revenue.

Central Bank's BCI²

In July, the Bank's BCI stood at -3.2, marginally above its updated value of -3.3 for June (see Chart 1). The BCI in July continued to signal low levels of economic activity, reflecting the exceptional economic environment triggered by COVID-19. The July estimate was again affected by strong negative outturns in almost all variables, especially year-on-year falls in economic sentiment and government revenue, as well as higher unemployment. Overall business conditions were worse than those observed during 2009.



¹ The cut-off date for information in this note is 10 August 2020. Most of the data reported in this issue of the *Economic Update* refer to June 2020, and thus reflect the impact of the lifting of restrictive measures related to COVID-19, which began in May and continued in June. Data for the BCI and the ESI are for July 2020. Tourism data for April, May and June have not been published by National Statistics Office as the airport and ports were closed in those months.

² 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 July, the ESI stood at 63.4, up from 56.5 in the preceding month, but still well below the 103.1 recorded a year earlier (see Table 1).^{3,4} The ESI also stood 18.9 points lower than that in the euro area and remained well below its long-term average.

The month-on-month increase in sentiment reflects improved confidence across almost all sub-components, barring retailers, where sentiment remained on a declining path and reached a new historical low. Demeaned data – which accounts for the variation in weights assigned to each sector in the overall index – show that most of the amelioration in overall sentiment in July can be attributed to developments in the services sector, and, to a lesser extent, in industry (see Chart 2). Although still very low from a historic perspective, sentiment in these two sectors was much less negative than in June.

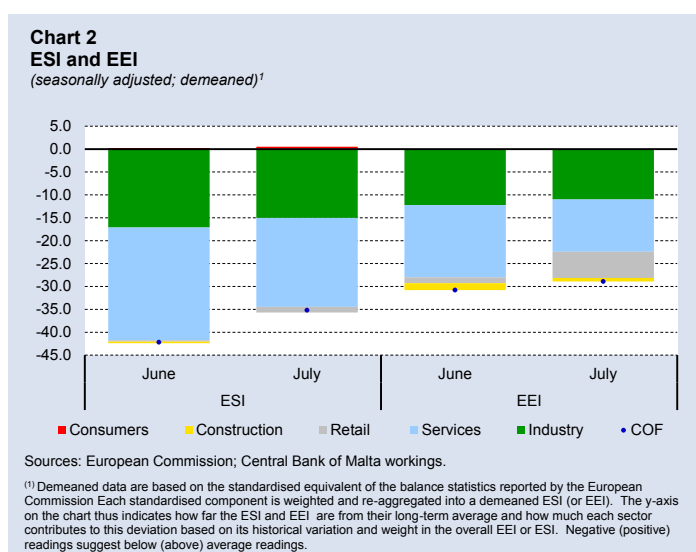
Table 1									
BUSINESS AND CONSUMER SURVEYS									
<i>Balances; percentage points; seasonally adjusted</i>									
	2018	2019	2020	2020	2020	2020	2020	2020	2020
			Jan.	Feb.	Mar.	Apr.	May	June	July
ESI	112.4	100.7	99.9	93.9	87.5	52.1	56.6	56.5	63.4
Services confidence indicator	34.6	20.7	7.9	11.4	0.4	-56.8	-53.5	-57.3	-41.1
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3	-59.8	-66.3	-77.4	-68.9
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	-60.2
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	5.7
Construction confidence indicator	21.3	26.2	7.9	8.3	14.3	-38.9	-20.3	-19.9	-5.9
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1	-38.1	-13.0	-18.8	-5.0
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9
Industrial confidence indicator	6.9	-6.7	-1.1	-15.5	-19.2	-45.4	-40.2	-42.2	-35.6
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7	-56.1	-76.0	-76.9	-73.2
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3	32.5	34.4	31.4	40.4
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7	-47.6	-10.2	-18.3	6.8
Consumer confidence indicator	10.1	4.5	8.4	7.9	0.1	-15.8	-11.3	-6.9	-3.3
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8	6.2	0.8	0.8	-2.7
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1	-14.5	-5.7	-2.1	6.1
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0	-36.6	-17.7	-3.9	13.9
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5	-18.4	-22.5	-22.4	-30.5
Retail trade confidence indicator	8.2	4.2	0.0	-0.4	-22.3	-31.7	-43.2	-30.1	-53.6
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8	12.4	-21.1	-28.1	-49.2
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7	65.6	53.0	54.8	46.3
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1	-42.0	-55.5	-7.4	-65.3
EI	114.1	101.2	100.2	102.7	90.0	56.2	71.8	71.0	72.3
Industry	31.1	12.8	16.5	7.0	-16.7	-61.2	-18.9	-40.3	-34.9
Services	33.9	17.5	6.7	21.6	11.8	-33.0	-16.6	-16.8	-7.1
Construction	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9
Retail	15.4	4.7	25.2	11.9	-8.6	-14.2	-15.5	-3.3	-25.6
ESI demeaned	12.4	0.8	-0.2	-6.2	-12.7	-46.7	-42.2	-42.2	-35.2
EI demeaned	14.3	1.0	0.0	2.1	-11.1	-46.0	-28.7	-30.8	-28.9

Source: European Commission.

³ The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

⁴ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

Sentiment was also less negative than before among consumers and in the construction sector, standing marginally above the respective long-term average. However, the contribution of these two sectors to the recent improvement in the ESI was marginal. This reflects the small scale of the improvement among consumers. Furthermore, although sentiment in construction improved by a wide margin in July, this sector has a low weight in the overall index.



In July, sentiment within the services sector stood at -41.1, above the -57.3 recorded in the previous month, but remained below its long-term average of 20.7.⁵ Enhanced sentiment largely reflected an improvement in respondents' demand expectations for the next three months and firms' assessment of demand in recent months. Their assessment of the business situation over recent months also improved, although to a lesser extent. Additional survey data show that a larger share of firms anticipated falling prices in the months ahead.

Industrial confidence rose to -35.6, from -42.2 a month earlier.⁶ The recent improvement in sentiment was in large part driven by firms' production expectations, which turned positive for the first time since February. On balance, firms' assessment of order book levels also improved marginally, although still negative. Meanwhile, the share of participants reporting above normal stock levels increased relative to June. Supplementary data show that, on balance, a higher share of respondents anticipated a fall in selling prices in the coming months.

Confidence in the construction sector stood at -5.9 in July, up from -19.9 in June and above its long-term average of -11.7.⁷ Compared to June, employment expectations were significantly less negative. Meanwhile, a considerably smaller share of respondents reported orders falling below normal levels. Additional survey data indicate that the share of respondents expecting prices to decrease over the next three months more than halved.

Consumer confidence also edged up in July. It stood at -3.3, slightly above the -6.9 recorded in the previous month.⁸ Following this increase, sentiment remained above its long-term average of

⁵ 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.

⁶ 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.

⁷ 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.

⁸ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

-11.2. Higher sentiment was driven by positive expectations about the general economic situation and the financial situation over the coming months. These offset a deterioration in consumers' assessment of the financial situation over the last 12 months and in expectations of major purchases over subsequent months. Supplementary data show that price expectations turned negative in July (for the first time since November 2017). Meanwhile, a smaller share of consumers anticipated an increase in unemployment.

Confidence within the retail sector fell to a new historical low of -53.6, from -30.1 in the previous month.⁹ The recent fall in sentiment was mainly driven by retailers' expectations of business activity over the next three months and, to a lesser extent, by their assessment of business activity in previous months. These developments offset a fall in the share of respondents reporting above normal stock levels.¹⁰ Additional survey data indicate that price expectations turned negative in the month under review.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged up marginally in July.¹¹ Indeed, the EEI rose to 72.3, from 71.0 in June, but remained below its long-run average of around 100.0. Moreover, in July Malta's EEI stood 14.7 points below the euro area average. Employment prospects improved considerably across all sectors, with the exception of retailers. Nonetheless, employment expectations remained negative in all sectors surveyed.

When accounting for the variation in weights assigned to each sector in the overall index, it appears that the increase relative to June was largely driven by the services sector and industry and, to a smaller extent, by the construction sector. Meanwhile, employment expectations among retailers weakened further. Nonetheless, the evolution of sentiment in the services sector and, to a lesser degree, in industry, largely explains why the overall EEI has remained below its long-term average in recent months (see Chart 2).

In June, 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 third consecutive month. The index fell by 3.2% in annual terms, following a contraction of 7.7% in May (see Table 2).¹²

This decline largely reflected lower output by firms in the 'other manufacturing' sector, which includes firms involved in the production of medical and dental instruments, toys and related products. It also reflected a decline in the output of firms that specialise in the repair and installation of machinery and equipment as well as those producing motor vehicles, trailers and semi-trailers. A smaller fall was also registered by firms involved in the production of beverages and

⁹ 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.

¹⁰ 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.

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

¹² The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2018	2019	2020												
			June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. ⁽¹⁾	Apr. ⁽²⁾	May ⁽²⁾	June ⁽²⁾
Industrial production	1.3	1.3	0.3	1.4	6.6	4.0	1.6	-2.8	8.8	11.8	13.7	6.6	-5.9	-7.7	-3.2
Commercial permits	14.5	-2.4	19.9	-0.3	-12.9	-10.8	-7.4	-12.8	-8.1	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2
Residential permits	43.1	-3.1	-25.5	-45.3	-56.0	11.0	-6.5	12.3	34.4	22.2	-23.3	-19.6	-73.3	-53.6	-60.2
Retail trade	0.8	4.9	5.8	5.9	4.9	7.5	4.7	4.2	5.1	4.8	8.4	-1.7	-23.1	-12.2	-8.4
Number of tourist arrivals	14.3	5.9	8.0	5.2	7.2	5.5	6.2	9.1	19.3	16.8	16.5	-56.5	-	-	-
Number of nights stayed	12.5	4.1	5.1	1.6	5.8	2.1	6.5	9.0	15.1	3.5	10.1	-60.2	-	-	-
Rented accommodation	10.7	4.6	6.7	-1.7	7.4	2.8	12.1	9.6	13.9	7.7	11.1	-62.2	-	-	-
Collective ⁽³⁾	7.1	-0.1	2.0	-2.9	3.2	4.5	4.2	2.9	9.9	11.0	14.9	-61.7	-	-	-
Other rented ⁽⁴⁾	18.0	13.5	15.3	0.0	13.0	0.3	28.5	26.6	19.7	1.0	3.1	-63.5	-	-	-
Non-rented accommodation ⁽⁵⁾	22.7	1.6	-3.9	21.6	-2.0	-3.8	-19.8	6.3	20.8	-8.3	3.9	-47.7	-	-	-
Tourist expenditure	8.0	5.7	10.7	1.8	2.8	5.9	7.1	10.3	25.4	11.2	22.0	-62.6	-	-	-
Package expenditure	16.6	-8.2	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	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	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.

⁽¹⁾ 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.

⁽²⁾ As a result of the COVID-19 situation, it was not possible for the NSO to issue the April, May and June 2020 news releases for Inbound Tourism.

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

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

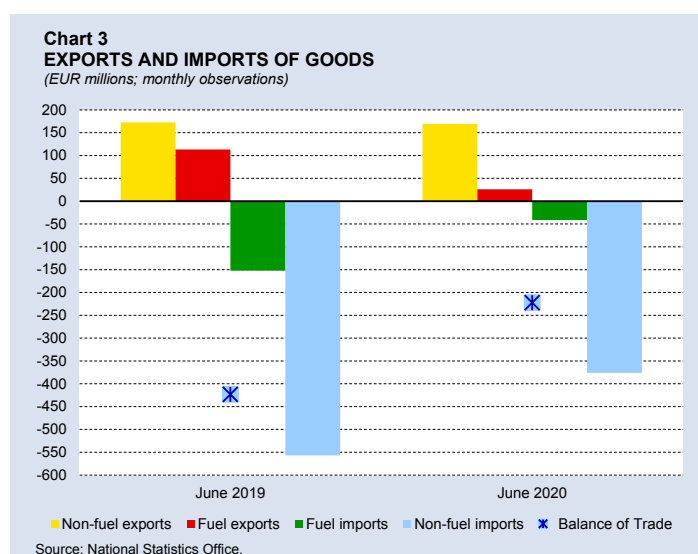
⁽⁵⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

in the production of electronic and optical products. On the other hand, firms involved in printing and reproduction of recorded media as well as food and pharmaceutical products registered higher levels of production. The production of rubber and plastic goods also increased, though to a lesser extent.

Meanwhile, production in the energy sector decreased.

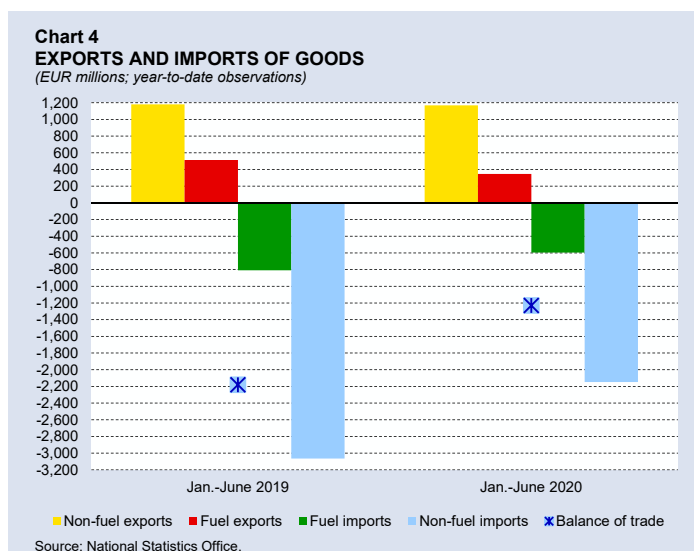
In June, annual growth in development permits for both commercial and residential buildings remained negative. Commercial permits fell by an annual rate of -26.2%, while those for residential purposes declined by -60.2%. The number of permits issued in the first six months of this year, though, remains above its historical average.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the fourth consecutive time in June, however, at a slower pace than that recorded in the previous month. It declined by an annual rate of 8.4%, following a fall of 12.2% in May.



Customs data show that the merchandise trade deficit stood at €222.3 million in June, almost half the €423.3 million registered a year earlier. The significantly smaller deficit reflected a €291.6 million fall in imports, which offset a €90.6 million decline in exports (see Chart 3). Lower imports were mainly due to a substantial decrease in registration of sea vessels, a lower fuel import bill and to a lesser extent, fewer imports of industrial supplies. Consumer goods imports also fell slightly in annual terms. Together these more than offset an increase in aircraft registrations and higher imports of printed material, organic chemicals and pharmaceutical products. The decline in exports was almost entirely driven by lower re-exports of mineral fuels and related products, and of exports of electrical machinery, which outweighed a rise in exports of printed material, aircraft parts and pharmaceutical products.

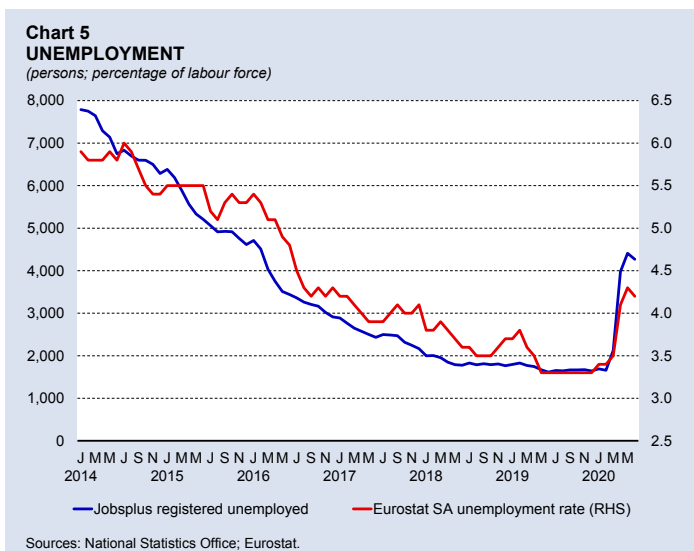
In the first six months of the year, the visible trade gap narrowed to €1,230.7 million from €2,181.7 million in the corresponding period of 2019, driven by a sharp fall in imports (see Chart 4).



Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 4,270 in June, down from 4,409 in May but higher than 1,616 registered a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate stood at 4.2% in June, marginally lower than the 4.3% registered in the previous month, but still higher than the rate of 3.3% 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 6 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. Notwithstanding, the share of public sector employment in the total gainfully occupied population edged down to 21.6%, from 22.5% a year earlier.

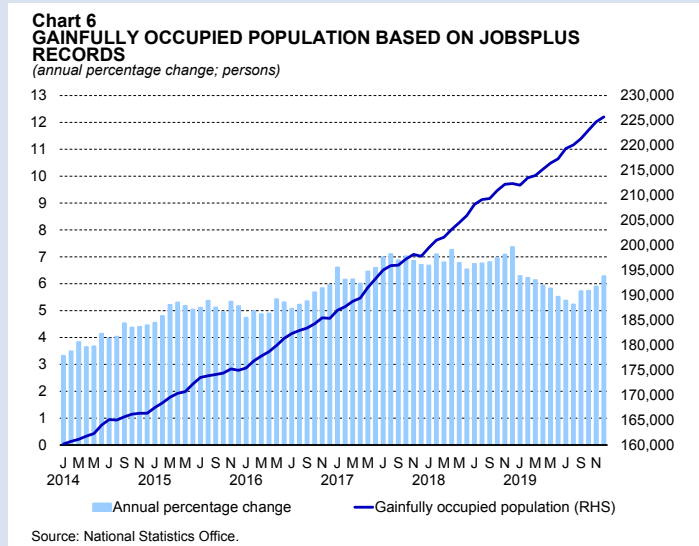


Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

	2018	2019	Annual change	
	December	December	Number of persons	%
Labour supply	214,133	227,345	13,212	6.2
Gainfully occupied ⁽¹⁾	212,368	225,703	13,335	6.3
Registered unemployed	1,765	1,642	-123	-7.0
Unemployment rate (%)	0.8	0.7		
Private sector	164,681	176,930	12,249	7.4
Direct production⁽²⁾	35,934	38,690	2,756	7.7
Of which:				
Manufacturing	21,546	21,904	358	1.7
Construction	11,520	13,689	2,169	18.8
Market services	128,747	138,240	9,493	7.4
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 ⁽³⁾	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
Public sector	47,687	48,773	1,086	2.3

Source: National Statistics Office.

⁽¹⁾ This category measures full-time employment.

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

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

Prices, costs and competitiveness

Annual HICP inflation edged up to 1.0% in June, from 0.9% in the previous month (see Chart 7). This was driven by faster growth in unprocessed food prices. At the same time, the prices of non-energy industrial goods rose marginally in annual terms.

Movements in these components offset a sharp decline in energy inflation, due to reduced fuel prices as from June. Services inflation also fell slightly, reflecting a larger fall in prices of communication services and slower growth in the prices of recreation services.

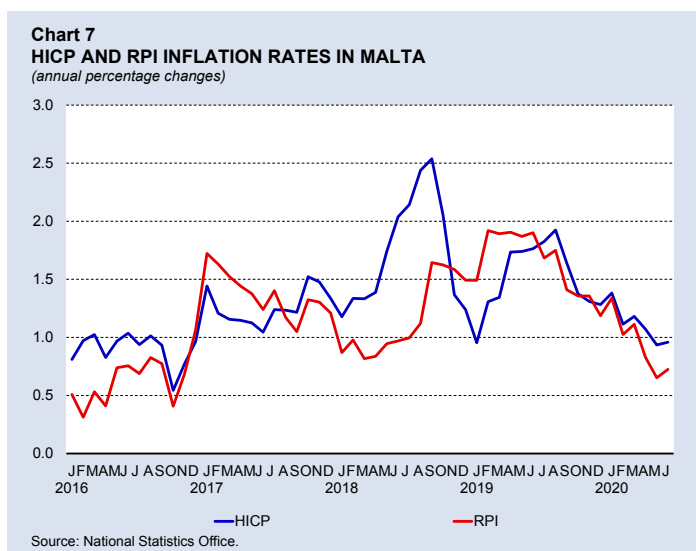
Meanwhile, processed food inflation was broadly unchanged from May.

In contrast, annual RPI inflation remained unchanged at 0.7% in June (see Chart 7).¹³

¹³ 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.

Producer output inflation, measured by the producer price index, fell to -0.3% in June, following 0.3% in May.¹⁴ This reflected slower paced growth across all main sub-indices, with the exception of intermediate goods, which contracted at a faster pace. Energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 1.3% in the year to June.¹⁵ This suggests an increased deterioration in the country's international competitiveness due to movements in the euro exchange rate against currencies of trading partners. The real HCI, which also takes into account relative price changes, also rose by 1.3%, suggesting that developments in relative prices vis-à-vis trading partners did not have a significant impact on competitiveness.



Public finance

In June, the Consolidated Fund recorded a deficit of €222.2 million, a rise of €133.5 million when compared to the deficit registered in June 2019. This was a result of a significant rise in government expenditure, coupled with a drop in revenue (see Table 4). Consequently, the primary deficit reached €202.9 million, compared with €71.0 million a year earlier.

These developments reflect the slowdown in economic activity due to COVID-19, and on-going government measures to mitigate the economic effects of the pandemic.

Government revenue declined by €17.9 million or 5.9% in annual terms, on the back of lower inflows from indirect taxes. These declined by €36.4 million, mainly due to lower receipts from VAT and licences, taxes and fines. In turn, the latter reflects lower intakes from motor vehicle licences and registration tax, as well as the timing of payment of gaming taxes.

Meanwhile, direct taxes rose by €14.4 million following three months of very strong declines (which partly reflect the impact of tax deferrals for both self-employed and employers). The increase in revenue in June was due to higher inflows from income taxes. At the same time, non-tax revenue increased by €4.1 million, mainly due to higher grants.

Government expenditure increased by €115.6 million, or 29.3% when compared to June 2019, driven by a rise in both recurrent and capital spending. Recurrent expenditure increased by €77.4 million, chiefly driven by the timing of operational and maintenance expenditure and contributions

¹⁴ The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

¹⁵ HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. On top of this, the real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2019	2020	2019	2020	Change	
	Jan.-June	Jan.-June	June	June	Amount	%
Revenue	2,016.1	1,697.4	305.5	287.7	-17.9	-5.9
Direct tax	1,007.4	847.1	150.6	165.0	14.4	9.6
Income tax	685.2	557.0	103.7	118.3	14.6	14.0
Social security contributions ⁽¹⁾	322.2	290.1	46.9	46.8	-0.1	-0.3
Indirect tax	803.8	627.6	109.1	72.7	-36.4	-33.3
Value Added Tax	448.1	361.6	43.4	27.6	-15.8	-36.3
Customs and excise duties	153.5	118.2	28.5	23.1	-5.4	-18.9
Licences, taxes and fines	202.2	147.8	37.2	22.0	-15.3	-41.0
Non-tax⁽²⁾	204.9	222.7	45.8	49.9	4.1	8.9
Expenditure	2,172.2	2,593.0	394.3	509.9	115.6	29.3
Recurrent	1,952.7	2,206.1	355.8	433.2	77.4	21.8
Personal emoluments	441.6	454.4	76.7	80.9	4.2	5.4
Operational and maintenance	104.8	131.2	13.7	49.8	36.1	262.9
Programmes and initiatives ⁽¹⁾	1,089.2	1,227.0	221.4	231.1	9.6	4.4
Contributions to entities	222.9	300.5	26.1	52.0	26.0	99.6
Interest payments	94.2	93.1	17.8	19.4	1.5	8.7
Capital	219.5	386.9	38.5	76.7	38.2	99.1
Primary balance⁽³⁾	-61.9	-802.5	-71.0	-202.9	-131.9	-
Consolidated Fund balance	-156.2	-895.6	-88.8	-222.2	-133.5	-

Source: National Statistics Office.

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

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

⁽³⁾ Revenue less expenditure excluding interest payments.

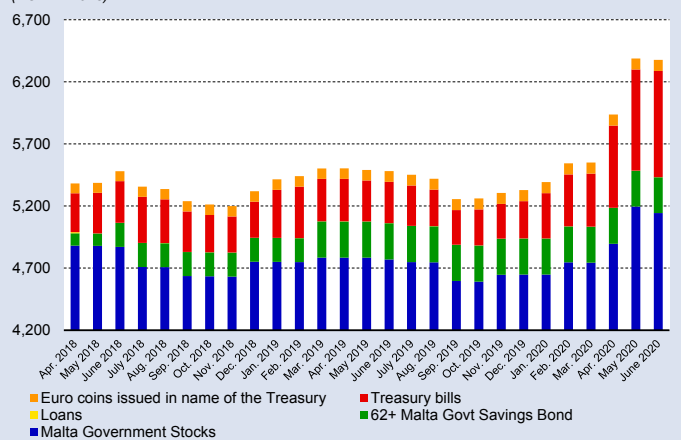
to entities. Capital expenditure increased by €38.2 million, due to a higher subvention to Malta Enterprise relating to the COVID-19 Wage Supplement Scheme.

In June 2020, the total stock of government debt amounted to €6,376.6 million, a decrease of €11.5 million when compared with a month earlier (see Chart 8). This was mainly due to lower holdings of Malta Government Stocks which more than offset a rise in outstanding Treasury bills.

Deposits, credit and financial markets

In June, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded

Chart 8
GOVERNMENT DEBT⁽¹⁾
(EUR millions)



Source: National Statistics Office.

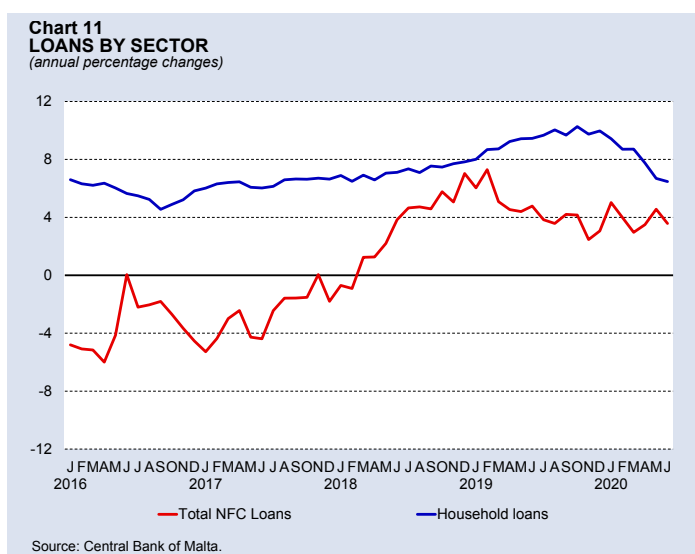
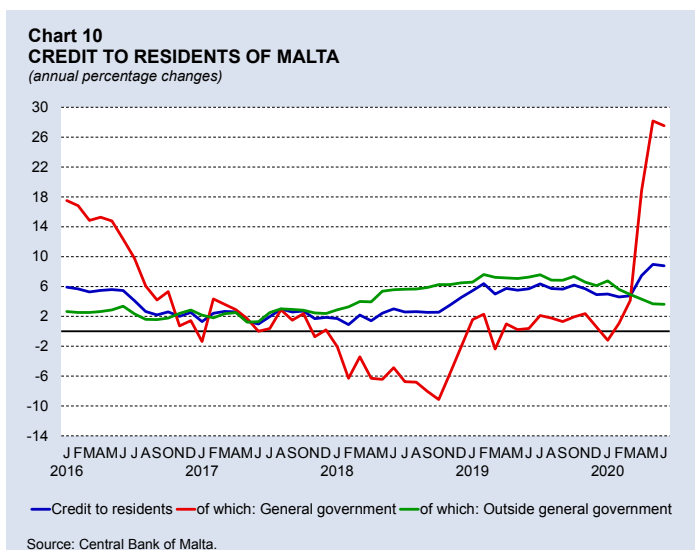
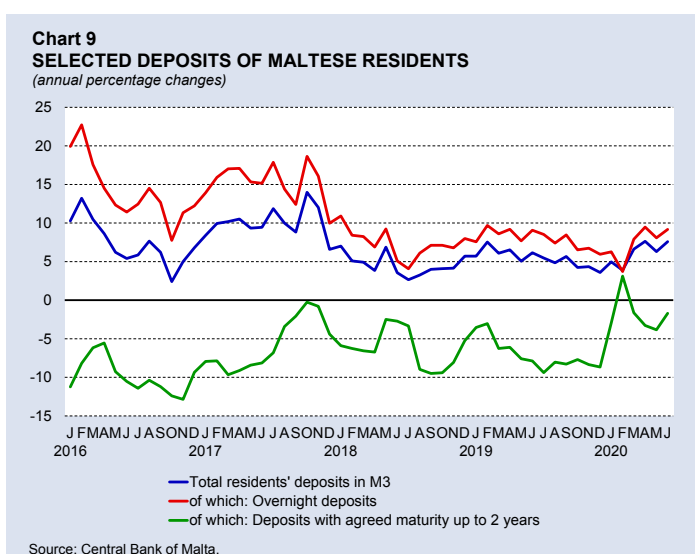
⁽¹⁾ Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

at an annual rate of 7.6%, after growing by 6.3% in May (see Chart 9).

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 9.2% in the year to June. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 1.7% in annual terms, following a contraction of 3.8% in the year to May.

Credit to Maltese residents grew at an annual rate of 8.8% in June, marginally below the 9.0% recorded a month earlier (see Chart 10). Annual growth in credit to general government eased to 27.5% in June, following an increase of 28.2% a month earlier. At the same time, credit outside general government grew by 3.6%, marginally down from 3.7% in May.

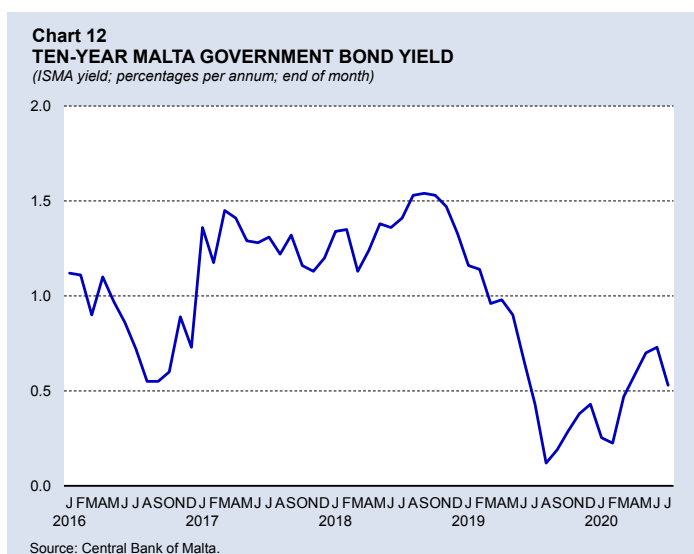
The annual rate of change in loans to non-financial corporations stood at 3.6%, down from 4.6% in May (see Chart 11). This deceleration was largely driven by slower growth in credit to construction and real estate sector and, to a lesser extent, in loans to the sector comprising accommodation and food services activities and the energy sector. These developments offset an increase in loans to professional, scientific and technical activities and the administrative and support services sector. Similarly, the



annual rate of change of loans to households eased to 6.5%, from 6.7% in May, driven by slower growth in mortgage loans. Meanwhile, consumer credit and other lending fell by 1.5%, following a contraction of 2.5% a month earlier.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits eased marginally to 0.25% in June, from 0.26% in May. The composite rate charged on outstanding loans remained broadly stable at 3.43% this month, when compared with May. Hence, the spread between the two rates widened marginally to 318 basis points.

In the capital market, the secondary market yield on 10-year Maltese Government bonds fell by 20 basis points, to 0.53% at the end of July (see Chart 12). The Malta Stock Exchange (MSE) Equity Price Index declined by 3.5% 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).¹⁶

As at end June, there were almost 14,000 loans subject to a moratorium on repayments, compared with around 8,800 loans as at the end of the preceding month. The total value of loans subject to a moratorium stood at €1.7 billion, or 15.0% of total outstanding loans to Maltese residents. Although in absolute terms this is a relatively small increase when compared with May – when 13.9% of total loans were subject to a moratorium – the number of businesses and households that are benefitting from a moratorium on loan repayments increased substantially in June. The increase in the number of loans subject to a moratorium since May was mostly driven by higher take up among households and firms active in the sector incorporating wholesale and retail trade.

¹⁶ 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 [here](#)) 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.

Table 5
LOANS SUBJECT TO MORATORIUM – AS AT END JUNE 2020

(Number of loans; EUR million; percentage)

	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	11330	620.7	10.1
Manufacturing	193	46.2	21.5
Construction	162	45.6	7.4
Wholesale and retail trade; repair of motor vehicles and motor cycles	765	85.5	12.8
Transportation and storage and information and communication	153	70.4	26.5
Accommodation and food service activities	362	213.4	48.5
Real estate activities	400	305.2	31.8
Other ⁽⁴⁾	440	299.4	15.5
Total	13805	1686.3	15.0

Source: Central Bank of Malta.

⁽¹⁾ The number of loans subject to moratorium.

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

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

⁽⁴⁾ 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.

The largest number of loans covered by moratoria was held by households, with this sector accounting for around 82.0% of the total volume of loans subject to a moratorium. Maltese households held €620.7 million, or 36.8% of the total value of loans subject to a moratorium, though covered amounts represented only 10.1% of outstanding household loans. This was followed by the real estate sector, which held €305.2 million in loans subject to a moratorium, or around 18.1% of such loans 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 services activities, which held €213.4 million in loans subject to a moratorium. The latter was the first and most affected sector by the containment measures and, indeed, 48.5% of the loans held by this sector were subject to a moratorium by the end of June.

In order to further alleviate liquidity challenges, the Government launched the Malta Development Bank (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.¹⁷

By end June 2020, 255 facilities were approved under the CGS, covering total sanctioned lending of €161.1 million. Since the scheme provides loans for working capital and is relatively recent, €64.9 million were disbursed by the end of June (see Table 6). The latter is,

¹⁷ The MDB COVID-19 Guarantee Scheme has been approved by the European Commission on 2 April 2020. See [here](#) for further details.

Table 6
MDB COVID-19 GUARANTEE SCHEME – AS AT JUNE 2020
(Number of facilities; EUR millions)

	Total number of facilities ⁽¹⁾	Sanctioned Amount ⁽²⁾
Manufacturing	22	11.1
Construction	7	20.0
Wholesale and retail trade; repair of motor vehicles and motor cycles	73	36.5
Transportation and storage and information and communication	18	25.7
Accommodation and food service activities	61	40.4
Professional, scientific and technical activities	18	2.8
Administrative and support service activities	19	5.1
Real estate activities	9	1.3
Other ⁽³⁾	28	18.1
Total	255	161.1

Source: Malta Development Bank.

⁽¹⁾ The number of facilities taken by various sectors.

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

⁽³⁾ 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.

however, a substantial increase from the €7.4 million disbursed by the end of May, suggesting that firms are increasingly making use of the allocated funds.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities, followed by accommodation and food services activities. The manufacturing sector; the sector comprising professional, scientific and technical activities; the administrative and support services sector as well as the sector covering transport, storage and ICT, also had a significant number of facilities approved. By contrast, the number of approved facilities in construction and real estate remained low. Meanwhile, the category comprising accommodation and food service activities had the largest value of sanctioned loans at €40.4 million, followed closely by the wholesale and retail sector, with €36.5 million.

MACROECONOMIC INDICATORS FOR MALTA

(Annual percentage changes; non-seasonally adjusted data)

	2018	2019	2019	2019	2020	2020	2019	2019	2019	2019	2019	2019	2020	2020	2020	2020	2020	2020	2020
			Q3	Q4	Q1	Q2	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
Prices and costs																			
HICP inflation	1.7	1.5	1.8	1.3	1.2	1.0	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	1.6	1.3	1.2	0.7	1.7	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	0.8	0.7	0.7	-
Industrial producer price inflation	4.4	2.2	1.8	1.8	1.1	0.2	1.8	1.6	2.1	2.3	1.4	1.5	1.8	1.7	0.0	0.6	0.3	-0.3	-
HCI (nominal)	2.6	-0.7	-1.0	-1.1	-0.2	1.2	-0.7	-0.5	-1.7	-1.1	-1.0	-1.3	-1.1	-1.0	1.7	1.3	0.9	1.3	-
HCI (real)	2.1	-1.1	-1.0	-1.6	-0.9	1.2	-0.9	-0.5	-1.8	-1.4	-1.4	-2.0	-1.9	-1.9	1.2	1.4	1.0	1.3	-
Unit labour costs, whole economy ⁽¹⁾	1.7	2.4	1.6	2.4	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	2.9	1.5	1.5	1.5	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	1.3	-1.0	-0.2	-1.0	-2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	6.0	5.7	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																			
Nominal GDP	9.5	7.1	6.2	7.1	1.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.3	4.7	3.7	4.8	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	7.8	2.9	4.1	1.9	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	12.2	12.9	10.5	8.1	9.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-1.8	6.2	-2.2	-0.9	-18.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	3.4	2.5	2.5	3.9	-4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	3.0	3.0	5.4	0.2	-7.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																			
LFS unemployment rate (% of labour force)	3.7	3.4	3.4	3.2	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	5.8	4.5	5.4	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.8	5.8	5.4	6.0	-	-	5.4	5.2	5.7	5.7	5.9	6.3	-	-	-	-	-	-	-
Balance of payments																			
Current account (as a % of GDP) ⁽²⁾	11.1	9.8	8.7	9.8	10.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																			
Maltese residents' deposits and loans																			
Overnight deposits	8.0	6.0	8.5	6.0	7.9	9.2	8.5	7.4	8.5	6.5	6.7	6.0	6.3	3.7	7.9	9.5	8.1	9.2	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-8.3	-8.7	-1.6	-1.7	-9.4	-8.0	-8.3	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.3	-3.8	-1.7	-
Total residents' deposits in M3	5.7	3.6	5.7	3.6	6.6	7.6	5.5	4.8	5.7	4.2	4.3	3.6	5.0	3.9	6.6	7.6	6.3	7.6	-
Credit to general government	-2.0	0.6	1.3	0.6	4.1	27.5	2.1	1.8	1.3	1.9	2.4	0.6	-1.2	1.1	4.1	18.8	28.2	27.5	-
Credit to residents (excl. general government)	6.5	6.1	6.8	6.1	4.9	3.6	7.6	6.8	6.8	7.3	6.6	6.1	6.8	5.6	4.9	4.3	3.7	3.6	-
Total credit	4.5	4.9	5.6	4.9	4.8	8.8	6.4	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.8	7.5	9.0	8.8	-
10-year interest rate (% ⁽³⁾)	1.3	0.4	0.2	0.4	0.5	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	0.5
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	0.1	4.4	2.1	-4.0	-19.5	6.8	0.7	-1.0	2.4	-1.6	-2.5	0.0	-1.2	-0.6	-18.0	6.1	-1.1	1.7	-3.5
General government finances (% of GDP)																			
Surplus (+) / deficit (-) ⁽²⁾	1.9	0.5	0.5	0.5	-1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁵⁾	45.5	42.9	43.2	42.9	44.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

⁽¹⁾ Four-quarter moving averages.⁽²⁾ Four-quarter moving sums.⁽³⁾ End of period.⁽⁴⁾ Period-on-period percentage changes, based on end-of-month data.⁽⁵⁾ GDP data are four-quarter moving sums.