



5. BALANCE OF PAYMENTS

During the first three quarters of 2022, the current account surplus on the balance of payments (BoP) narrowed when compared to the corresponding period of 2021. This decrease was on account of a significant rise in the merchandise trade deficit and higher net primary and secondary income outflows. These outweighed an increase in net services receipts. These developments are based on the 2022Q3 vintage of the BoP that the NSO issued in December 2022, and therefore may not be consistent with the most recent trade data reported for 2022 in other chapters, which are based on the GDP release covering the full year.

Between January and September net inflows on the capital account increased compared to the corresponding period of 2021. On the financial account, net borrowing was recorded as opposed to net lending during the same period of 2021. Net errors and omissions remained negative and increased substantially.¹

When measured over the four quarters to September 2022, the current account balance registered a surplus, equivalent to 2.2% of GDP. This contrasts with a current account deficit of 0.7% of GDP in the euro area.² The cyclically-adjusted current account balance was estimated to have recorded a surplus of 1.3% during the third quarter of 2022.

The current account

Between January and September 2022, the current account recorded a surplus of €165.1 million, down from €441.9 million a year earlier (see Table 5.1). This was driven by an increase in the merchandise trade deficit as well as higher net outflows on the primary and secondary income accounts. Together these offset an increase in net services receipts.

Table 5.1
BALANCE OF PAYMENTS

EUR millions

	2019	2020	2021	2021 Q1-Q3	2022 Q1-Q3
Current account	698.3	606.2	640.4	441.9	165.1
Goods	-1,653.3	-1,222.5	-1,930.7	-1,464.4	-2,127.8
Services	3,618.0	3,464.6	4,106.6	3,038.3	3,690.4
Primary income	-1,101.2	-1,443.1	-1,393.7	-1,022.9	-1,101.7
Secondary income	-165.2	-192.7	-141.8	-109.0	-295.8
Capital account	107.2	82.6	152.2	87.1	112.2
Financial account⁽¹⁾	253.8	-178.3	734.2	493.4	-1,201.7
Errors and omissions	-551.7	-867.2	-58.4	-35.6	-1,479.1

Source: NSO.

⁽¹⁾ Net lending (+) / net borrowing (-).

¹ Negative net errors and omissions indicate an overestimation of net inflows on the capital and current accounts and/or an underestimation of net lending on the financial account.

² BoP data for 2020-2022 for Malta and the euro area should be interpreted in the context of the unprecedented developments related to COVID-19 and the war in Ukraine.

When measured as a four-quarter moving sum, the balance on the current account showed a surplus of €363.6 million, less than half the €773.9 million surplus recorded a year earlier. The current account-to-GDP ratio stood at 2.2% in the third quarter of 2022, down from 5.4% in the corresponding quarter a year earlier (see Charts 5.1 and 5.2).

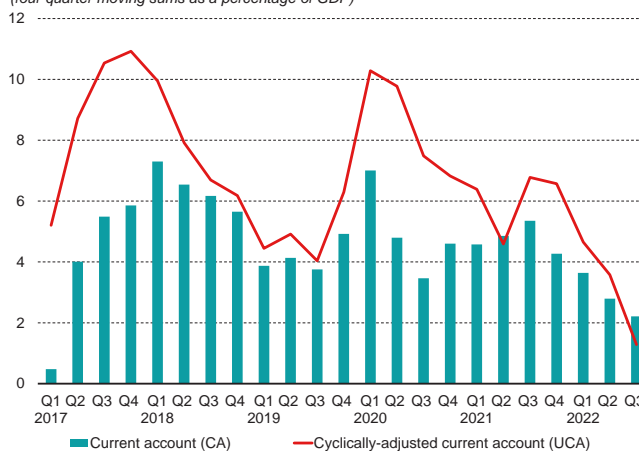
Malta's cyclically-adjusted current account balance is estimated to have stood at 1.3% of GDP in the year to September 2022. The cyclically-adjusted measure broadly exhibits similar developments to the unadjusted measure (see Chart 5.1). However, in the third quarter it stood below the headline measure.³

Goods deficit widens

In the first three quarters of 2022, the merchandise trade gap widened by €663.4 million when compared with the corresponding period of 2021, and stood at €2,127.8 million. This was mainly the result of a €1,111.9 million rise in imports, which was almost two and a half times larger than the increase in exports. Almost 60% of the rise in imports was due to a higher fuel import bill and higher imports of machinery and transport equipment.

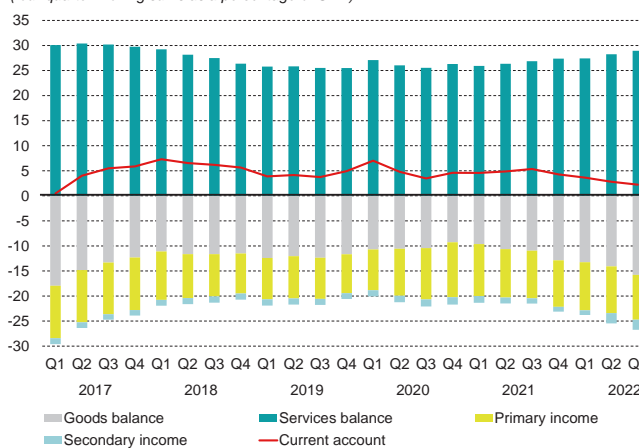
When measured on a four-quarter cumulative basis, the visible trade gap widened to €2,594.0 million, €1,011.3 million more than the deficit recorded a year earlier. This stemmed from a €1,433.9 million rise in goods imports, which outweighed a €422.6 million rise in goods exports. As a result, the share of the goods deficit in GDP rose to 15.8% in the year to September 2022, from 10.9% a year earlier (see Chart 5.3).

**Chart 5.1
CURRENT ACCOUNT**
(four-quarter moving sums as a percentage of GDP)



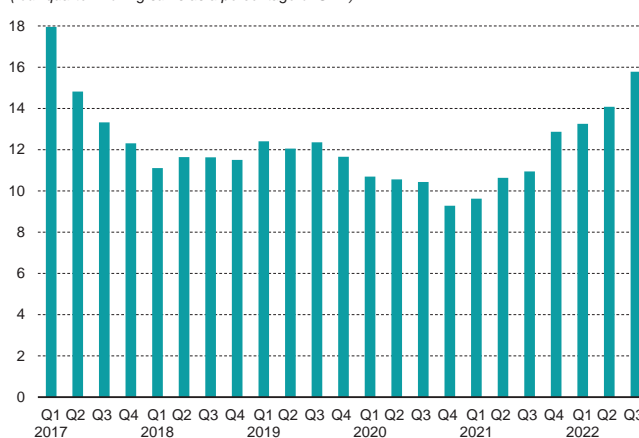
Source: NSO.

**Chart 5.2
COMPOSITION OF CURRENT ACCOUNT**
(four-quarter moving sums as a percentage of GDP)



Source: NSO.

**Chart 5.3
GOODS DEFICIT**
(four-quarter moving sums as a percentage of GDP)



Source: NSO.

³ For more information on Malta's cyclically-adjusted current account see Grech, A. G., & Rapa, N., "An evaluation of recent shifts in Malta's current account position", in Grech, A.G., & Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

The surplus on services also widens

Between January and September 2022, the surplus on services increased by €652.1 million on a year earlier, reaching €3,690.4 million, as the increase in services receipts was stronger than that in services payments.

In particular, net travel receipts increased by €601.0 million, as the increase in tourism exports outweighed a rise in expenditure by Maltese residents on travel abroad.

Additionally, net receipts on “other” services increased by €67.8 million when compared to a year earlier.

This increase stemmed from a rise in net receipts related to personal, cultural and recreational services, which include remote gaming. These offset higher net payments related to professional and management consulting services as well as technical, trade-related, and other business services. Conversely, net receipts on the transport account fell by €16.7 million when compared to the corresponding period of last year, as imports outpaced exports.

When measured over the year to September 2022, the overall surplus from services stood at €4,758.6 million, an increase of €874.7 million when compared with the corresponding period of 2021. The main contributor to this increase in surplus was by far the travel component. The share of net services receipts in GDP rose to 28.9%, from 26.9% over the same period last year (see Chart 5.4).

Net outflows related to primary income increase⁴

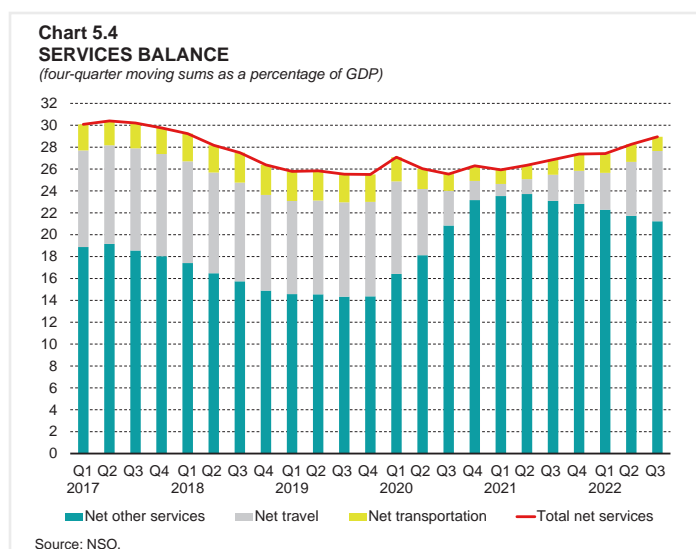
Between January and September 2022, net outflows related to primary income rose to €1,101.7 million, €78.8 million more than in the first three quarters of 2021. This was due to higher net outflows classified as direct investment, as well as lower net inflows related to ‘other investment’. These outweighed higher net interest and dividend income earned on portfolio investment. Movements on the primary income account continued to be strongly influenced by internationally oriented firms, including subsidiaries of foreign banks, which transact predominantly with non-residents.

When measured on a four-quarter cumulative basis, net outflows on this component also increased. However, at 9.0%, their share in GDP stood 0.5 percentage point less than in the four quarters to September 2021, due to the denominator effect (stronger GDP growth).

Net outflows from secondary income increase⁵

During the first nine months of 2022, net outflows on the secondary income account amounted to €295.8 million, up by €186.8 million on the corresponding period of 2021.

Such outflows also increased when measured over four quarters, reaching €328.5 million. These were equivalent to 2.0% of GDP, 0.9 percentage point more than in the four quarters to September 2021.



⁴ The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

⁵ The secondary income account shows current transfers between residents and non-residents.

Tourism

During 2022, the tourism sector continued to recover from the reopening of the economy after the restrictions related to the pandemic were lifted. The number of inbound tourists, nights stayed, and tourist expenditure in Malta rose significantly compared with 2021, but were still below the levels reached in 2019. However, by November the level of expenditure exceeded its pre-pandemic level.

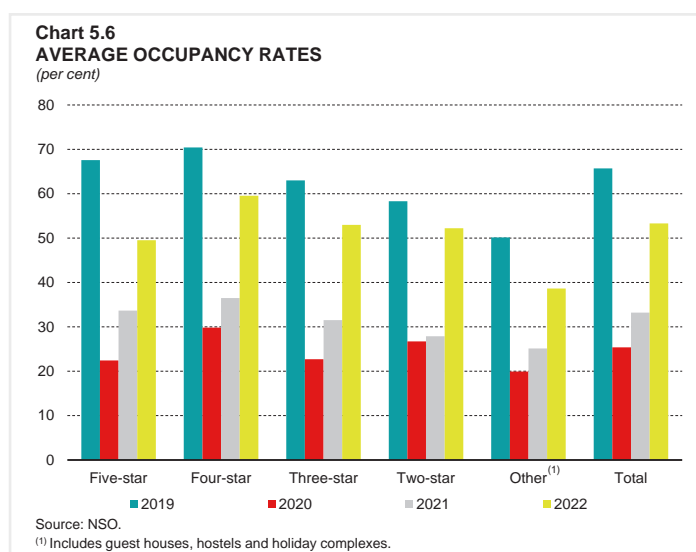
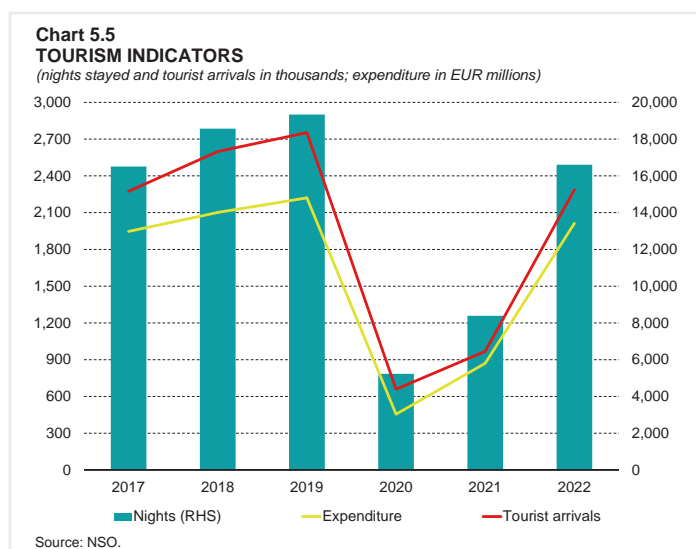
The number of tourists visiting Malta more than doubled during 2022, reaching 2,286,597, up from 968,136 in 2021 (see Chart 5.5). Nonetheless, tourist arrivals were still 16.9% below the number of inbound tourists in 2019, before the pandemic, with a shortfall recorded for most countries of origin. Exceptions were visitors from Poland, Austria, France and Italy.

Tourists visiting Malta for leisure purposes accounted for most of the increase in arrivals in absolute terms. This segment recorded 2,040,154 visitors, a significant increase over the 861,268 arrivals in 2021. Those coming over for business and other reasons also increased, but these segments accounted for just over a tenth of the total increase.

Increases in arrivals were reported from all major source markets, with the United Kingdom and Italy registering the largest increases in absolute terms. These two countries were the most important markets in 2022, accounting for 18.7% and 17.4% of total tourist arrivals, respectively. They were followed by France and Germany which made up 11.3% and 7.4% of arrivals, respectively.

The number of nights that tourists spent in Malta increased to 16.6 million in 2022, nearly double the number of nights stayed in 2021. This was mainly attributable to a rise in nights stayed in collective accommodation, followed by other rented accommodation. The increase in nights stayed in non-rented accommodation was much more muted. Nights stayed, however, remained below pre-pandemic levels by around 14%, though this gap mostly reflected developments in the first half of the year.

The total average occupancy rate in collective accommodation establishments rose to 53.3% in 2022, up from 33.2% a year earlier, but it remained short of that recorded in 2019 when it reached 65.7% (see Chart 5.6). Higher occupancy rates were registered across all accommodation categories compared to 2021.



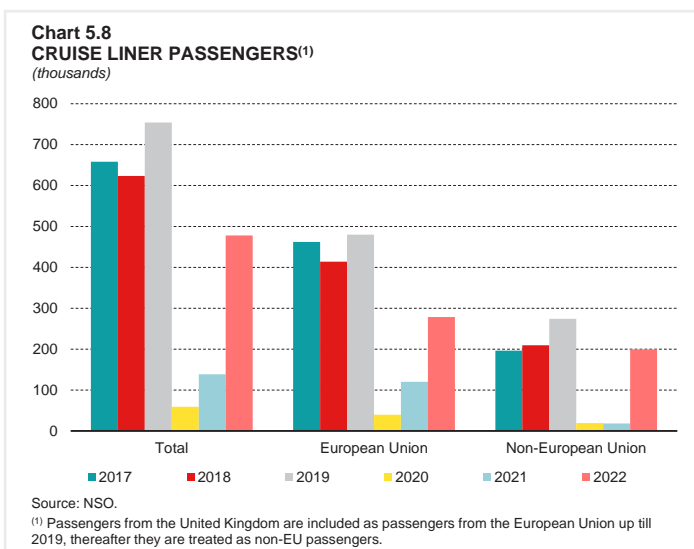
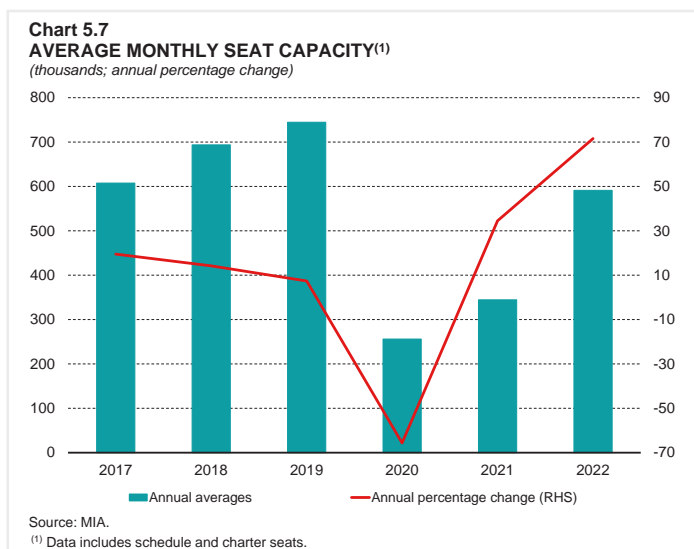
During 2022, the share of non-residents in the total number of guests using collective accommodation increased relative to a year earlier, to reach 86.0%, though it remained below that of 90.1% recorded in 2019.

Tourist expenditure more than doubled over 2021, to reach €2,012.5 million. The largest increase in absolute terms was in the non-package expenditure category, followed by 'other' expenditure, and package expenditure.

Since tourism expenditure increased at a slower pace compared with arrivals, expenditure per capita fell to €880.1, from €899.4 in 2021. It however stood around 9% higher than the €806.6 reported for 2019, with a full recovery to 2019 levels visible across all the main countries of origin.

For 2022 as a whole, overall tourist expenditure was 90.6% of the level registered in 2019. The gap in relation to 2019 narrowed as the year progressed, rising from just over 55% at the beginning of the year to exceed pre-pandemic levels by November.

According to Malta International Airport (MIA) data, seat capacity increased by 71.6% in 2022, reaching an average 591,122 seats per month (see Chart 5.7). This was almost four fifths of its 2019 level.



A total of 283 cruise liners visited Malta during 2022, up from 106 a year earlier, but still less than in 2019, when the number of cruise liners calls totalled 359. Foreign passengers reached 477,906 persons, more than three times the number that visited in 2021, but only 63.4% of the number recorded in 2019 (see Chart 5.8). Visitors from the United Kingdom comprised the largest share of cruise passengers during 2022, followed closely by visitors from Germany and Italy, with these nationalities jointly accounting for over 60% of all passengers.

The capital and financial accounts

The capital account recorded net inflows of €112.2 million in the first three quarters of 2022, an increase of €25.1 million on a year earlier (see Table 5.1). Similar developments were observed on a four-quarter moving sum basis, although in this case the increase was somewhat larger at €86.6 million.

Meanwhile, the financial account showed net borrowing of €1,201.7 million in the first nine months of 2022. This contrasts with net lending of €493.4 million in the same period of 2021. The shift to net borrowing reflected a reduction in net lending by the banking sector on the 'other investment' account as well as an increase in net acquisitions of direct investment liabilities. Similar movements were observed when financial accounts flows are measured on a four-quarter sum basis.