3. OUTPUT AND EMPLOYMENT

The Bank's Business Conditions Index (BCI) stood slightly above its long-term average, estimated since 2000.

Real GDP growth moderated to 5.6% in 2023, following an increase of 8.1% a year earlier. The expansion in economic activity was driven by net exports. By contrast, domestic demand contributed negatively to growth, as a negative base effect in private investment offset growth in household and government consumption. Real gross value added (GVA) data show that the increase in real GDP was largely driven by the services sector. The largest gain within the services sector stemmed from the sector comprising professional, scientific, administrative, and related activities.

Labour Force Survey (LFS) data for the first three quarters of 2023 show that employment continued to increase, and it did so at a faster pace when compared with the same period of 2022.[1] *The number of foreign workers also rose and increased at a faster rate than that of the previous year.*

The unemployment rate remained low from a historical perspective and was less than half of that reported for the euro area. It was also lower than the Bank's estimate of structural unemployment.

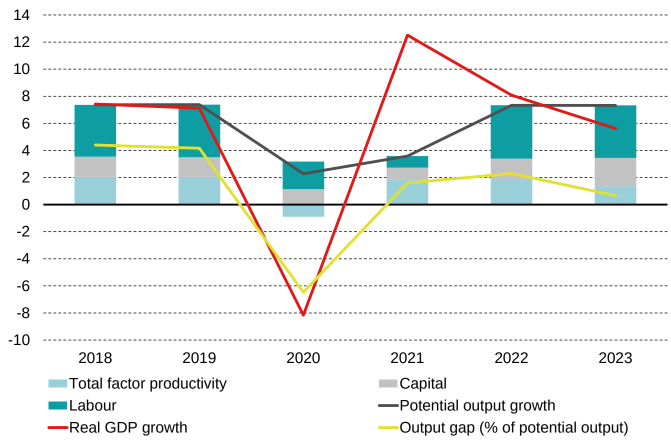
Administrative data show that in 2023, the average number of registered unemployed persons fell by 30, to 968 persons. Meanwhile the job vacancy rate reached 2.7% during the first three quarters of the year, marginally above the rate of 2.6% recorded a year earlier. Another indicator of labour tightness, which is the ratio of the job vacancy rate to the unemployment rate, also increased and remained at elevated levels from a historical perspective.

Potential output and Business Conditions Index

Malta's output gap narrows[2]

The Central Bank of Malta estimates that in 2023, potential output growth remained unchanged at 7.3% (see Chart 3.1). As GDP growth moderated, the output gap narrowed to 0.7%, from 2.3% in 2022. Although to a lesser extent

Chart 3.1
CYCLICAL POSITION OF THE MALTESE ECONOMY
(annual percentage change; percentage of potential output; percentage points)



Sources: NSO; Central Bank of Malta estimates.

[1] LFS data in this report do not take into account NSO *News Release* 044/2024 which was published on 8 March 2024. https://nso.gov.mt/labour-force-survey-reweighting-based-on-2021-census-q1-2018-q3-2023/.

[2] Potential output measures the medium-to-long-term level of real output which is sustainable in an economy. The estimates presented here are derived using a production function approach. For further details on the methodology adopted see Micallef, B., and Ellul, R. (2017), "Medium-term Estimates of Potential Output Growth in Malta", in Grech, A. G., and Zerafa, S. (Eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta.

than the year before, this implies that there is still some degree of overutilization of the economy's productive capacity.[3]

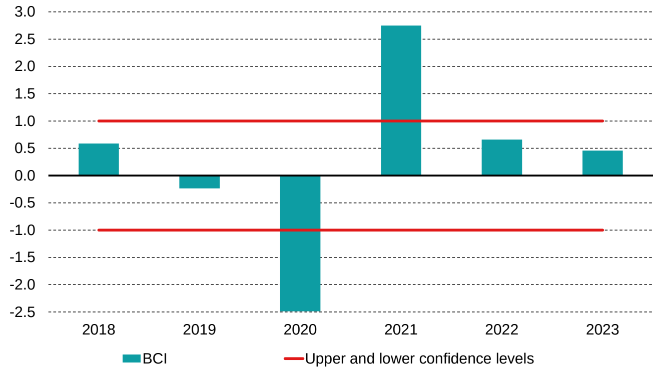
The main contributor to potential output growth in 2023 was labour which continued to be characterised by significant inflows of migrant workers and, to a lesser extent, further increases in the participation rate. Although the contribution of labour edged down, it continued to account for more than half of potential output growth. The contribution of total factor productivity eased from the previous year's high, while that of capital increased in line with recent dynamics in investment.

BCI close to its long-term average[4]

The Bank's BCI continued to move closer to its long-run average measure of economic growth. The index averaged 0.5 during 2023, compared with 0.7 in 2022 (see Chart 3.2). The decrease in the index mainly mirrors a decline in the issuance of development permits for residential buildings. At the same time, growth in both inbound tourism and GDP eased, despite remaining above their respective long-term average, and thus still contributing to an above average BCI.

This offset faster growth in tax revenues, industrial production and the economic sentiment indicator (ESI) (despite these variables also outperforming their long-term average), and lower unemployment.

Chart 3.2
BCI
(standardised)



Source: Central Bank of Malta.
The red lines in the Chart represent the range enclosing one standard deviation on either side of the BCI's long-run value. Repeated readings below the lower band signal that ecomic activity is significantly below normal economic activity. Readings above the upper band indicate that activity is signficantly above normal levels.

GDP and industrial production

Real GDP growth driven by net exports

Economic activity in Malta continued to register robust growth, albeit at a more moderate one than that of 2022. Real GDP rose by 5.6%, after increasing by 8.1% a year earlier.[5] Growth in 2023 reflects a large positive contribution from net exports, which offset a negative contribution from domestic demand (see Table 3.1).

Domestic demand rose by 0.2% during the year under review, following a 13.6% increase in 2022, with the slowdown largely driven by a sharp decline in GFCF. This, in turn, mostly reflected a correction in import-intensive investment in the aviation sector from the high level recorded in the previous year. Overall, domestic demand shed 1.7 percentage points from GDP growth in the year under review.

Private consumption rose by 7.7%, following a 10.9% increase in 2022, and added 3.2 percentage points to GDP growth. Data on the Classification of Individual Consumption by Purpose (COICOP) show that the

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[3] The output gap may be viewed as a gauge of over- or underutilisation of the productive capacity of the economy over the business cycle. A positive gap signals over-utilisation of resources, whereas a negative one indicates underutilised resources.

[4] The BCI is a synthetic indicator, which includes information from a number of economic variables such as the term-structure of interest rates, industrial production, an indicator for the services sector, economic sentiment, tax revenues and private sector credit. By construction, it has an average value of zero over the estimation period since 2000. A full time series can be found at https://www.centralbankmalta.org/business-conditions-index. For further details on the methodology underlying the BCI, see Ellul, R., (2016), "A real-time measure of business conditions in Malta," *Working Paper* 05/2016.

[5] The analysis of GDP in this Chapter is based on data published in *News Release* 039/2024 published on 28 February 2024.

Table 3.1
GROSS DOMESTIC PRODUCT[(1)]

	2018	2019	2020	2021	2022	2023
	Annual percentage changes					
Private final consumption expenditure	9.6	4.3	-10.7	8.2	10.9	7.7
Government final consumption expenditure	11.3	13.4	14.8	6.8	1.9	3.3
GFCF	3.9	10.3	-6.0	14.2	31.4	-22.2
Domestic demand	**8.2**	**8.0**	**-3.7**	**8.7**	**13.6**	**0.2**
Exports of goods and services	8.4	9.7	-1.8	7.6	8.6	8.7
Imports of goods and services	9.1	10.5	1.5	5.1	11.7	4.6
GDP	**7.4**	**7.1**	**-8.2**	**12.5**	**8.1**	**5.6**
	Percentage point contributions					
Private final consumption expenditure	4.4	2.0	-4.8	3.5	4.5	3.2
Government final consumption expenditure	1.6	2.1	2.4	1.4	0.4	0.6
GFCF	0.8	2.0	-1.2	2.8	6.4	-5.6
Changes in inventories	-0.1	0.4	0.5	-0.3	-0.1	0.0
Domestic demand	**6.7**	**6.5**	**-3.0**	**7.4**	**11.2**	**-1.7**
Exports of goods and services	13.4	15.6	-3.0	13.2	14.2	14.4
Imports of goods and services	-12.6	-14.9	-2.2	-8.1	-17.4	-7.1
Net exports	**0.8**	**0.6**	**-5.2**	**5.1**	**-3.1**	**7.3**
GDP	**7.4**	**7.1**	**-8.2**	**12.5**	**8.1**	**5.6**

Sources: NSO; Central Bank of Malta calculations.
[(1)] Chain-linked volumes, reference year 2015.

rise in private consumption was broad-based across most expenditure categories. The strongest increase in absolute terms was recorded in spending on miscellaneous goods and services, which includes expenditure on personal care, insurance, and financial services among others. This was followed by higher spending on restaurants and hotels, transport, as well as recreation and culture. Expenditure on these items benefitted from the continued strong growth in tourism activity. On the other hand, spending on housing, water, electricity, gas and other fuels contracted significantly. Smaller declines were also reported in spending on furnishings, household equipment and routine household maintenance, and on food and non-alcoholic beverages.

In the national accounts, private consumption data by COICOP category are based on the domestic concept, and thus include the expenditure of non-residents in Malta. Given that tourist arrivals exceeded the previous year's levels, certain COICOP categories of expenditure were affected by a strong increase in non-residents' expenditure in Malta. Nevertheless, the remaining component of domestic consumption – the expenditure of residents of Malta – also rose on a year earlier. Meanwhile, the expenditure of Maltese residents abroad was over a third above its year-ago level, partly reflecting an increase in trips over the same period.

In 2023, government consumption grew by 3.3%, above the 1.9% recorded in 2022. This acceleration is due to higher growth in spending on intermediate consumption and compensation of employees. Overall, government consumption added 0.6 percentage point to annual GDP growth.

Following an increase of 31.4% in 2022, GFCF contracted sharply by 22.2% in 2023, shedding 5.6 percentage points from GDP growth. The most significant decrease was recorded in expenditure on transport equipment, reflecting a decrease in registrations of aircraft from the very high level recorded a year earlier. Investment in other buildings and dwellings also declined. On the other hand, investment in intellectual property increased, while investment in cultivated biological resources remained broadly stable.

Table 3.2
IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH[1]

	2018	2019	2020	2021	2022	2023
	Percentage point contributions					
Private final consumption expenditure	2.3	0.9	-3.5	2.5	2.4	1.9
Government final consumption expenditure	1.3	1.7	1.8	1.3	0.3	0.5
GFCF	0.2	0.5	-1.0	1.3	2.0	-1.8
Changes in inventories	0.0	0.2	0.3	-0.2	-0.1	0.0
Domestic demand	**3.8**	**3.3**	**-2.3**	**4.9**	**4.6**	**0.6**
Exports of goods and services	**3.6**	**3.8**	**-5.9**	**7.6**	**3.5**	**5.0**
GDP	**7.4**	**7.1**	**-8.2**	**12.5**	**8.1**	**5.6**

[1] Chain-linked volumes, reference year 2015.

Source: Central Bank of Malta estimates.

Meanwhile, changes in inventories had a neutral contribution to GDP growth in 2023.

During 2023, imports grew by 4.6% and exports increased by 8.7% on a year earlier. As exports grew faster than imports, net exports increased, adding 7.3 percentage points to annual real GDP growth. This reflected a smaller trade deficit in goods (in volume terms), which in part reflected the aforementioned correction in aircraft imports, and a higher surplus from trade in services.

The contributions shown in Table 3.1 are consistent with the approach traditionally followed in official databases and economic publications. However, this approach does not account for the fact that the import content varies across the different expenditure components. Consequently, such contributions fail to represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 3.2 addresses this limitation by apportioning imports to the respective domestic demand components and exports. Overall, import-adjusted contributions show that exports remained the main contributor to real GDP growth in 2023, despite recording a much smaller positive contribution compared with the traditional approach. Meanwhile, GFCF recorded a much smaller negative contribution than the traditional approach indicates. As a result, and in contrast with that approach, domestic demand had a small positive contribution to growth in the year under review. The main driver behind the growth in domestic demand remains private consumption.

Sectoral developments in GVA

GDP data from the output approach show that real GVA grew by 5.7%, following a 10.0% increase in 2022, and added 5.3 percentage points to real GDP growth (see Table 3.3).

Services remained the main driver behind the rise in economic activity, adding 4.9 percentage points to real GDP growth. Most of the increase stemmed from the sector comprising professional, scientific, administrative, and related activities, which contributed 1.6 percentage points to GDP growth. The sector comprising wholesale and retail trade, transportation, accommodation, and related activities, and that of financial and insurance activities, jointly added 1.6 percentage points, while the remaining services sectors together added another 1.7 percentage points. The manufacturing sector added 0.3 percentage point to growth, while the construction sector lowered it by 0.3 percentage point as GVA in this sector fell for the second consecutive year.

Meanwhile, the contribution of net taxes on products turned marginally positive in annual terms.

Table 3.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH
Percentage points

	2018	2019	2020	2021	2022	2023
Agriculture, forestry and fishing	0.0	-0.2	0.3	0.4	-0.1	-0.1
Mining and quarrying; utilities	0.3	0.1	-0.1	0.3	0.1	0.4
Manufacturing	0.4	0.4	0.1	0.2	0.6	0.3
Construction	0.5	1.1	0.0	0.1	-0.3	-0.3
Services	5.2	6.0	-6.5	10.9	8.8	4.9
of which:						
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	1.9	0.9	-6.3	3.8	4.7	0.7
Information and communication	1.1	1.2	-0.4	1.5	1.1	0.5
Financial and insurance activities	0.0	0.4	0.8	0.3	0.1	0.9
Real estate activities	0.0	0.3	-0.2	0.4	0.1	0.2
Professional, scientific, administrative and related activities	0.8	1.8	-1.3	2.3	1.6	1.6
Public administration and defence; education; health and related activities	0.7	1.1	0.1	1.0	0.6	0.5
Arts, entertainment; household repair and related services	0.7	0.3	0.7	1.6	0.7	0.5
GVA	**6.5**	**7.4**	**-6.2**	**11.8**	**9.1**	**5.3**
Net taxation on products	**1.0**	**-0.2**	**-2.0**	**0.7**	**-1.0**	**0.4**
Annual real GDP growth (%)	**7.4**	**7.1**	**-8.2**	**12.5**	**8.1**	**5.6**

Source: NSO.

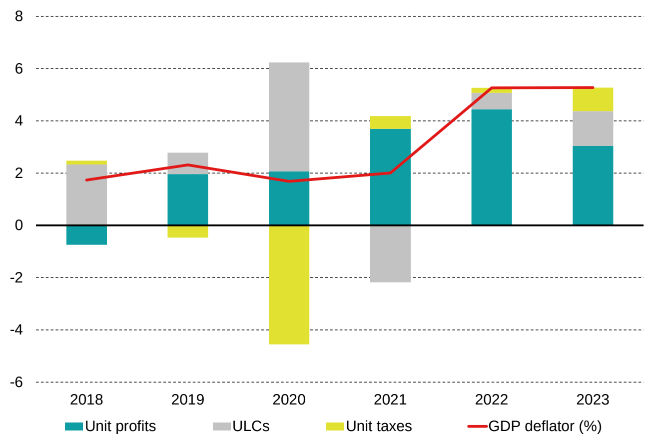
Nominal GDP growth remains strong

Nominal GDP rose by 11.2% in 2023, after increasing by 13.8% in the previous year, and thereby registering double digit annual growth rates for the third consecutive year. All components from the income side – compensation of employees, operating surplus, and net taxes – contributed positively to nominal GDP growth. While gross operating surplus continued to exert the largest impact on growth, its contribution moderated compared with 2022.

Chart 3.3 shows the main contributors to growth in the GDP deflator. Annual growth in the latter remained elevated from a historical perspective. It stood at 5.3% in 2023, unchanged from the previous year.

Growth continued to be mainly driven by the unit profits component, although its contribution was less significant compared with 2022. Compared with a year earlier, the positive contribution from ULCs and unit taxes both increased. The latter partly reflects a decline in subsidies following the end of the Wage Supplement Scheme in mid-2022.

Chart 3.3
CONTRIBUTIONS TO GDP DEFLATOR
(annual percentage change; percentage point contribution)



Source: NSO.

Industrial production[6]

Industrial production rose at a faster pace of 5.8% in 2023, following an increase of 2.8% in 2022. After recording double-digit growth rates in the first five months of the year, industrial production rose at a slower pace in the second half, amid some volatility.

The faster rate of increase in production when compared to the previous year reflected higher developments in the manufacturing sector. On the other hand, output in the energy sector, which excludes energy generated abroad and imported through the interconnector, rose at a slower pace compared with 2022.

The volume of production in the manufacturing sector rose by 6.4% in 2023, compared with 3.1% in 2022.

Production rose strongly in the sector involved in the printing and reproduction of recorded media, and in the manufacture of computer, electronic and optical products. Significant increases were also reported in the pharmaceutical industry, and by firms that manufacture machinery and equipment. These increases offset strong falls in the manufacture of wearing apparel, and textiles. Smaller declines were also reported, on average, by firms that produce chemical and chemical products, and by firms involved in the manufacture of motor vehicles, trailers and semi-trailers, as well as those that produce paper and paper products.

Data on manufacturing sales point to a slower increase in turnover of 11.0% in 2023, following a 17.1% increase in 2022.[7] Although sales increased in both the domestic and non-domestic market, the former slowed markedly compared to 2022.

Construction

The number of permits for residential units issued by the Planning Authority declined in 2023, after increasing significantly in 2022. Permits issued stood at 8,112, down from 9,599 in the previous year (see Table 3.4). The number of permits in 2023 exceeded the historical average of around 7,000 permits per year.

The latest decline in permits mostly reflects fewer permits for apartments, followed by those for maisonettes and terraced houses. On the other hand, the number of permits issued for other property categories increased slightly.

The number of development permits for commercial buildings decreased by 15.1% in 2023, following a rise of 7.7% in the preceding year. In 2023, 2,532 commercial permits were issued, below the 2,984 permits approved in 2022, and also below the long-term average of around 2,700 permits.

During 2023, construction investment decreased by around a tenth in real terms, following a decrease of around 7.5% in the preceding year. The latest decrease was largely driven by a fall in non-residential investment, which was down by over a tenth and accounted for around two-thirds of the decrease in construction investment.

Table 3.4
PERMITS ISSUED FOR THE CONSTRUCTION OF DWELLING UNITS BY TYPE

	2018	2019	2020	2021	2022	2023
Apartments	11,211	10,726	6,735	6,451	8,280	7,026
Maisonettes	1,166	1,226	727	738	910	712
Terraced houses	396	402	299	290	333	292
Other	112	131	76	99	76	82
Total	**12,885**	**12,485**	**7,837**	**7,578**	**9,599**	**8,112**

Source: Planning Authority.

[6] Industrial production data are based on samples of firms engaged in quarrying, manufacturing, and energy production. Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added. Industrial production measures the volume of output without considering input costs. The sectorial coverage also differs, as industrial production data include the output of the energy sector, as well as mining and quarrying.

[7] Data on manufacturing sales are sourced from Eurostat.

Table 3.5
CONSTRUCTION ACTIVITY INDICATORS

	2020	2021	2022	2023
Real GVA (EUR millions)	**571.8**	**579.5**	**540.6**	**496.5**
Share in total economy GVA (%)	5.2	4.7	4.0	3.4
Total employment[(1)]	**14,965**	**15,810**	**17,131**	**18,777**
of which private employment	14,373	15,258	16,586	18,239
Share in total gainfully occupied population (%)	6.4	6.7	6.8	6.9

Source: NSO.

[(1)] Employment data are averages for the first nine months of the year, and are sourced from administrative records.

Residential investment contracted at a steeper rate of 7.3% in the year under review, following a decrease of 3.1% in 2022.

Meanwhile, GVA in the construction sector decreased by 8.2%, following a decrease of 6.7% in the preceding year (see Table 3.5). Its share in GVA for the total economy declined to 3.4%, from 4.0% in 2022.

Nevertheless, employment in construction continued to grow (see Table 3.5). Jobsplus data for the first nine months of 2023 show that the number of persons employed on a full-time basis in this sector rose by 1,647 or 9.6% on a year-on-year basis. This followed an 8.4% increase in the same period of 2022. Job growth in 2023, which remained driven by the private sector, was also above that registered in the economy as a whole.

The construction sector's share in the total gainfully occupied population edged up to 6.9% in the first nine months of 2023, from 6.8% in the corresponding period of 2022. According to national accounts data for the full year, compensation of employees in the sector increased by 9.0%, following an increase of similar magnitude in 2022.

The labour market[8]

Labour force grows further

On average, the labour force expanded by 5.1% in the first nine months of 2023, a faster pace than that of 4.3% registered in the same period of 2022 (see Table 3.6).

The activity rate went up by 1.7 percentage points on a year earlier, to 81.3%, exceeding the euro area average of 75.0%.[9] The increase in the activity rate partly reflects a higher male activity rate, as the latter edged up by 1.7 percentage points to 87.7%. At the same time, the female activity rate rose by 1.6 percentage points to 74.0%. Both rates exceeded those for the euro area, which stood at 79.6% and 70.5%, respectively.[10]

In the first three quarters of 2023, the number of actual weekly hours worked averaged 34.1, broadly in line with the number of hours reported in the same period of 2022. The average number of hours worked in the first three quarters of the year has thus remained broadly at the same levels since 2021.[11]

Employment grows at a faster pace

During the first three quarters of 2023, employment expanded at an average annual rate of 5.4% (see Table 3.6). This compares with 5.0% during the corresponding period of 2022 and exceeds the average increase

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[8] This section draws mainly on labour market statistics from two sources: the LFS, which is a household survey conducted on a quarterly basis by the NSO based on definitions set by the International Labour Organization (ILO) and Eurostat; and administrative records compiled monthly by Jobsplus, according to definitions established by domestic legislation on employment and social security benefits.

[9] The activity rate measures the number of persons in the labour force aged 15-64 years (whether employed or seeking work) as a proportion of the working-age population, which is defined as all those aged 15-64 years.

[10] The LFS defines the labour force as all persons aged 15 and over who are active in the labour market. This includes those in employment, whether full-time or part-time, and the unemployed, defined as those persons without work but who were actively seeking a job during the previous four weeks and available for work within two weeks of the reference period.

[11] Actual hours refer to the number of hours actually spent at the place of work during the reference week for the main job. Data cited in this report are sourced from the NSO, which may differ from Eurostat data due to differences in the methodology.

Table 3.6

LABOUR MARKET INDICATORS BASED ON THE LFS(1)

Persons; annual percentage changes

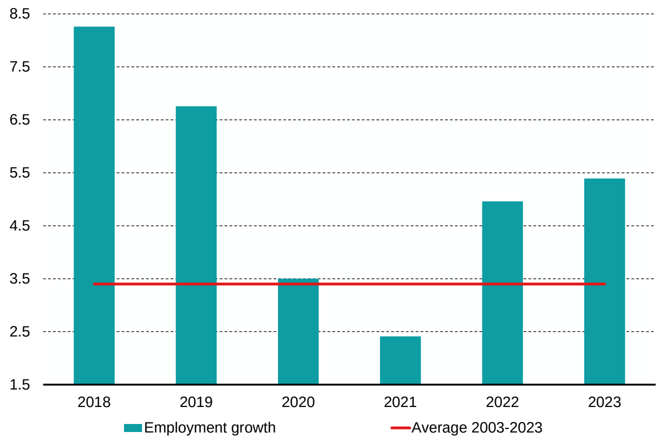
	2022 (revised) Jan.-Sep.	2023 Jan.-Sep.	Annual change %
Labour force	**289,100**	**303,800**	**5.1**
Employed	280,700	295,800	5.4
By type of employment:			
Full-time	246,300	259,700	5.4
Part-time	34,400	36,200	5.2
Unemployed	8,400	8,000	-5.5
Activity rate (%)	**79.7**	**81.3**	
Male	86.0	87.7	
Female	72.4	74.0	
Employment rate (%)	**77.3**	**79.1**	
Male	83.3	85.3	
Female	70.5	72.1	
Unemployment rate (%)	**2.9**	**2.6**	
Male	3.2	2.7	
Female	2.6	2.5	
Actual hours worked (per week)	**34.0**	**34.1**	

Sources: NSO; Eurostat.

(1) Labour force figures are based on averages for the first three quarters published by Eurostat and are rounded to the nearest 100 persons. Growth rates reported in this Table are derived from Eurostat period averages.

of 3.4% estimated since 2003 (see Chart 3.4). This is in line with the strong rate of economic growth and the recent increase in the activity rate.

Chart 3.4
EMPLOYMENT GROWTH BASED ON THE LFS: JANUARY-SEPTEMBER
(annual percentage changes)



Sources: Eurostat; Central Bank of Malta estimates.

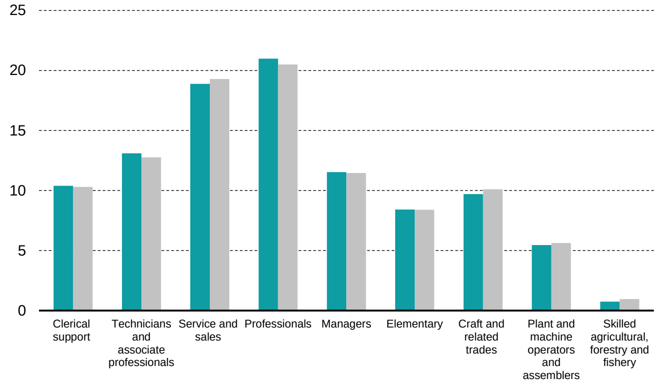
In absolute terms, the rise in the number of employed persons during the first three quarters of the year was primarily driven by full-time jobs, which went up by around 13,400. Part-time employment also increased, with the number of such jobs rising by around 1,800. Over the same period, the number of unemployed persons fell by just under 500, to 8,000 persons – a decrease of almost 5.5%.

When looking at data on employment by occupation, the largest increases in absolute terms were recorded among persons interested in jobs relating to services and sales, and in craft and related trades.

When expressed as a share in total employment, those who work in services and sales, and in craft and related trades, experienced the largest increase in their relative share compared to 2022 (see Chart 3.5).

The share of persons employed in the operation and assembly of plant and machinery, and in skilled agriculture and fishing also increased, but to a lesser degree. Meanwhile, albeit being the highest, the share of persons employed in professional jobs decreased. Those employed in the roles of technician or associate professional declined by a slightly lower rate. Moreover, those in clerical, managerial, and elementary occupations declined marginally.

Chart 3.5
EMPLOYMENT BY MAIN TYPE OF OCCUPATION: JANUARY-SEPTEMBER(1)
(per cent)



Sources: Eurostat; Central Bank of Malta estimates.
(1) Figures may not add up due to rounding and missing data of other categories.

The overall employment rate rose by 1.8 percentage points to 79.1% in the first three quarters of 2023, (see Table 3.6), well above the 70.0% registered in the euro area.[12] The male employment rate registered the strongest increase, gaining 2.0 percentage points, to reach 85.3%. This compares with 74.6% in the euro area. The female employment rate rose by 1.6 percentage point, to 72.1%, remaining also higher than the average rate of 65.5% recorded for the euro area.

Foreign employment grows

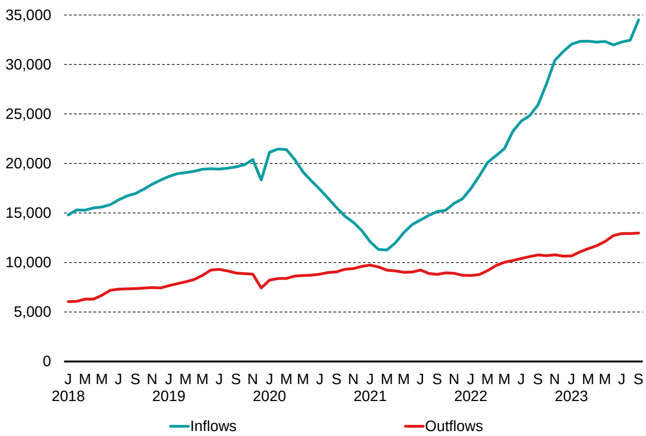
The stock of foreign workers in September 2023 stood at 111,030, up from 89,549 in September 2022.

In this period, the number of foreigners in employment rose for all types of occupation. The largest increases in absolute terms – amounting to just over half the total level increase – were recorded in elementary occupations and in services and sales jobs. These were also the two most prevalent jobs held by foreign employees.

When expressed as a share in total foreign employment, those who work in elementary occupations experienced the largest increase in their relative share compared to 2022. The share of persons employed in the operation and assembly of plant and machinery, and in services and sales also increased, but to a lesser extent. Meanwhile, the shares of persons employed in clerical, professional, and managerial jobs decreased. Those employed in the roles of craft and related trade also declined but by less.

Additional administrative data indicates that the number of foreign workers arriving in Malta increased strongly during 2023, rising by almost 8,600 workers, to exceed 34,500 by September 2023 (see Chart 3.6).[13] Outflows of foreign workers increased at a milder pace by almost 2,200 persons, to reach almost 13,000 persons by September 2023.

Chart 3.6
INFLOWS AND OUTFLOWS OF FOREIGN WORKERS
(number of persons)



Source: Jobsplus.

12 The employment rate measures the number of persons aged 15-64 years, employed on a full-time or part-time basis as a proportion of the working-age population, which is defined as all those aged 15-64 years.

13 Data on worker flows may not add up to the stock of workers, due to methodological differences in the administrative data.

Unemployment rate falls to record lows

The LFS unemployment rate averaged 2.6% during the first three quarters of 2023, compared to 2.9% in the same period of 2022 (see Table 3.6).

Monthly data up to December, which covers LFS data up to the third quarter as well as more recent administrative data, show that the unemployment rate averaged 2.6% in 2023, lower than the rate of 2.9% recorded in 2022 (see Chart 3.7). For most of the year, it stood at or near historic lows. The unemployment rate also remained well below that of 6.5% recorded in the euro area.

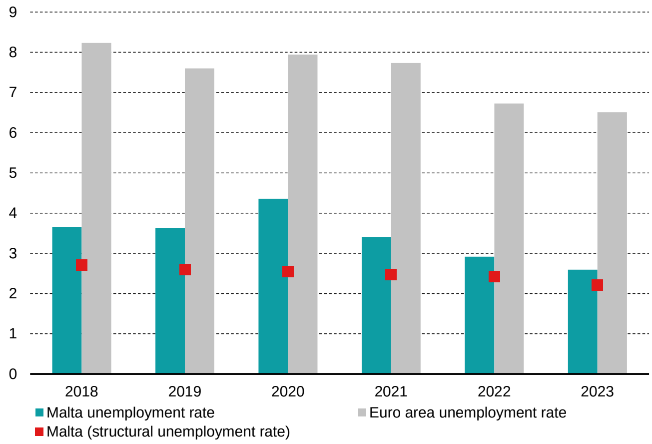
It also stood below the Bank's estimate of the structural unemployment measure of 3.4% for 2023.[14] This indicates a degree of labour market tightness, which is also confirmed by the Bank's Business Dialogue publication.

The decline in unemployment is confirmed by administrative sources. According to Jobsplus data, on average, the number of unemployed persons fell by 30 persons over 2023, to 968 (see Chart 3.8).[15]

This decrease was recorded in almost all age cohorts, with the largest drop being observed among those aged 45 years and over, which fell by 19 persons, to 450. This was followed by those aged between 25 and 29, which fell by eight persons to 71, and those aged between 20 and 24 which fell by six persons to 97. On the other hand, the unemployed aged under 20 increased by three persons to 70, and those aged between 30 to 44 remained unchanged at 281 persons.

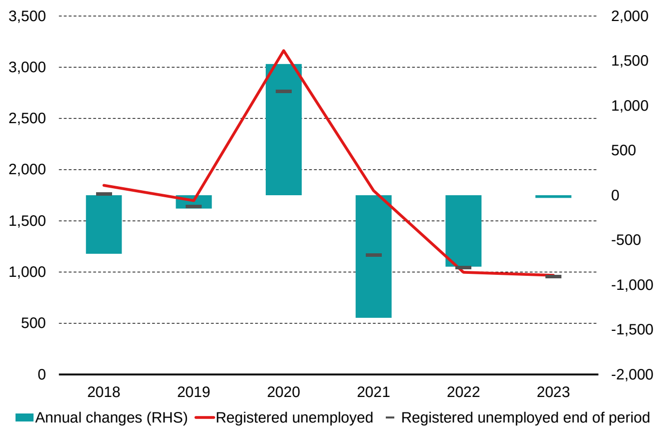
In terms of duration, the decline in the number of unemployed reflected a fall in long-term unemployed (unemployed for more than a year), which declined by around 49 persons. This outweighed a rise in short-term unemployment (unemployed for less than a year). Those unemployed for less than 21 weeks increased by around 26

Chart 3.7
UNEMPLOYMENT RATE
(not seasonally adjusted; per cent)



Sources: Eurostat; Central Bank of Malta estimates.

Chart 3.8
REGISTERED UNEMPLOYED
(persons; absolute changes)



Source: NSO.

[14] The structural unemployment rate in this chapter refers to the non-accelerating inflation rate of unemployment (NAIRU), that is, the unemployment rate that is consistent with stable inflation. This measure of the unemployment rate is based on an unobserved components model as described in Ellul, R., (2019). "*An Unobserved Components Model for potential output in Malta*", Article published in the *Quarterly Review* 2019:2, pp. 17-21.

[15] The annual number of registered unemployed is based on the average of the total registered unemployed published by NSO on a monthly basis.

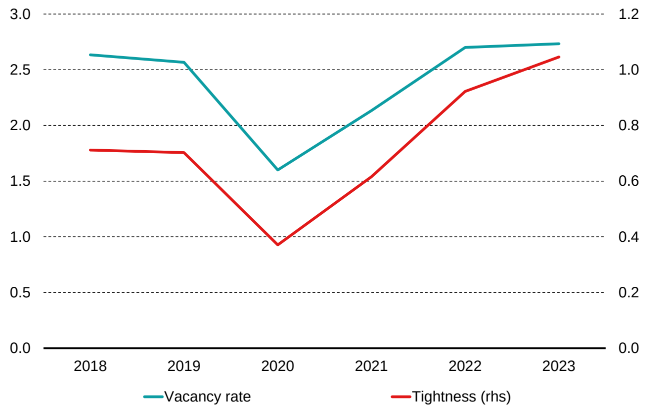
people, and those unemployed for a period of between 21 to 52 weeks, increased marginally by about three persons.

During the year under review, over a fourth of those on the unemployment register were looking for clerical support work. The second and third most sought-after occupation categories were those of service and sales workers, and technician or associate professionals. Together, these two categories accounted for just under a third of persons on the unemployment register.

The job vacancy rate for industry, construction and services stood at elevated levels in the first three quarters of 2023, on a par with 2019 rates (see Chart 3.9). It stood at the same level of 2.7%, as recorded in the same period a year earlier.[16] The vacancy rate was highest in the other services sector (7.9%), which includes activities of membership organisations, the repair of computers and personal and household goods, and related activities. This is followed by the information and communication sector (4.2%).

The ratio of the job vacancy rate to the unemployment rate – an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness – also rose marginally. This is the result of a higher vacancy rate and a lower unemployment rate compared to last year. At 1.0, this indicator thus stands at elevated levels from a historical perspective.

Chart 3.9
VACANCY RATE AND LABOUR MARKET TIGHTNESS INDICATOR: JANUARY-SEPTEMBER
(per cent)



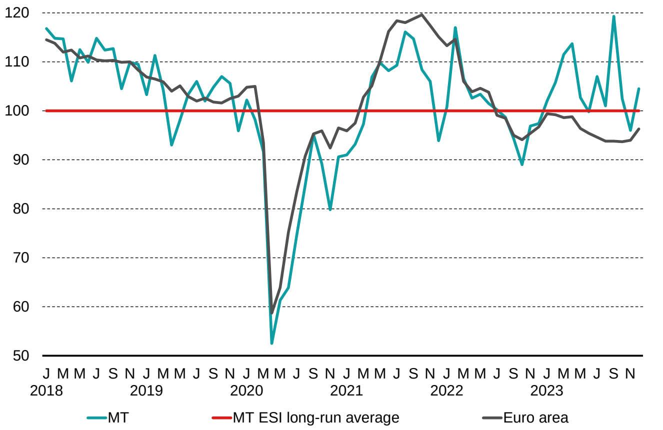
Sources: Eurostat; Central Bank of Malta estimates.

Business and Consumer Surveys

Economic sentiment rises and remains above its long-term average

During 2023, the European Commission's ESI for Malta averaged 105.5, up from 100.7 in 2022 (see Table 3.7). Following this increase, the ESI rose further above its long-term average of around 100.0. This strongest increase was recorded in industry. Smaller gains were also registered in the services and retail sectors. By contrast, sentiment among consumers and in the construction sector decreased.[17,18]

Chart 3.10
ESI
(seasonally adjusted; percentage points)



Source: European Commission.

[16] The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant). Data for Malta are available since 2017.

[17] 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 November 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 since May 2011, when it was first published. The long-term average of the ESI is computed from November 2002.

[18] The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers).

Table 3.7
SENTIMENT INDICATOR BY SECTOR
Annual average; absolute change

	2021	2022	2023	Change	2023			
					Mar.	June	Sep.	Dec.
ESI	**104.6**	**100.7**	**105.5**	**4.8**	**111.6**	**99.8**	**119.2**	**104.5**
Industrial confidence indicator	2.1	-9.4	2.4	11.9	6.8	-20.0	44.4	-2.8
Services confidence indicator	13.7	20.5	26.6	6.1	45.9	36.0	16.2	31.2
Retail trade confidence indicator	-8.4	6.0	9.8	3.8	23.3	-15.2	9.6	15.3
Consumer confidence indicator	3.4	-7.3	-10.9	-3.6	-10.9	-10.4	-9.9	-12.6
Construction confidence indicator	7.3	7.0	1.2	-5.8	-0.2	8.4	-2.7	-23.4
Employment expectations indicator	**102.8**	**105.7**	**107.2**	**1.5**	**122.1**	**106.1**	**95.8**	**111.9**
Industry	14.8	12.0	19.3	7.3	60.2	7.8	-1.2	19.8
Services	25.1	30.2	30.1	-0.2	46.0	38.3	12.1	42.9
Retail	4.4	15.8	17.2	1.4	38.9	4.4	8.6	21.8
Construction	13.2	5.4	12.2	6.8	15.5	0.7	-2.1	-3.2
ESI demeaned	**4.6**	**0.7**	**5.5**	**4.8**	**11.5**	**-0.2**	**19.2**	**4.5**
EEI demeaned	**3.0**	**6.0**	**7.0**	**1.0**	**20.0**	**7.3**	**-4.0**	**12.4**

Source: European Commission.

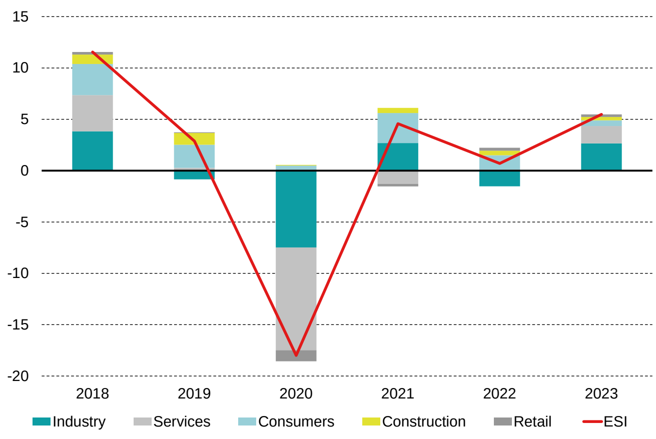
The index rose from below 100 at the end of 2022 to 113.8 in April, before retreating towards its long-term average in June, driven by a sharp decline in the construction sector. Subsequently, the overall indicator recovered and reached an all-time high of 119.2 in September, largely reflecting a significant increase in industry. Sentiment moderated thereafter, closing the year at 104.5 (see Chart 3.10).

Malta's ESI indicator stood well above that of the euro area, which averaged 96.4. Confidence indicators exceeded those in the euro area across all sectors, although the largest differences stemmed from services firms and from the retail sector.

Table 3.7 presents the annual average reading for each sector included in the ESI and the absolute change relative to 2022. During 2023, positive sentiment was registered across all sectors, with the exception of consumers. The most positive reading was recorded in the services sector.

Demeaned data, which take into account the weights assigned to each sector, and the time variation of each sector, show that most of the increase was driven by developments in industry, and to a lesser extent, in services (see Chart 3.11).[19] These sectors also largely explain why the overall ESI stood above its long-term average during the year under review.

Chart 3.11
ESI
(seasonally adjusted; demeaned)



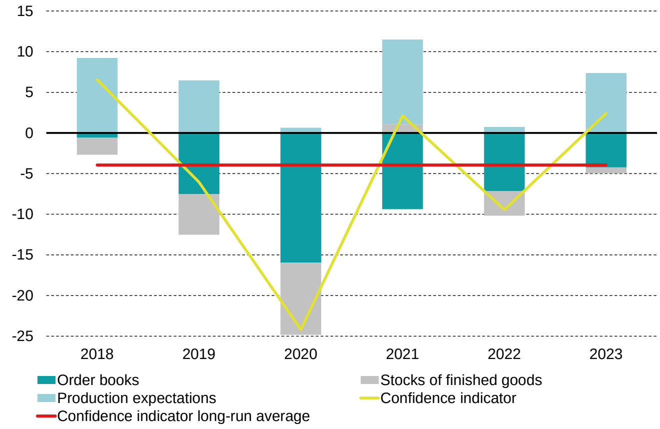
Sources: European Commission; Central Bank of Malta workings.

[19] Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

Industrial confidence turns positive, rising above its long-term mean[20]

Sentiment among manufacturing firms increased to 2.4, from -9.4 in 2022, thus rising above its long-term mean of -3.9 (see Chart 3.12). The amelioration in sentiment largely reflected a strong increase in production expectations. At the same time, a smaller share of respondents deemed order book levels to be below normal. Furthermore, the net share of firms assessing their stocks of finished goods to be above normal levels, decreased.[21]

Chart 3.12
INDUSTRIAL CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



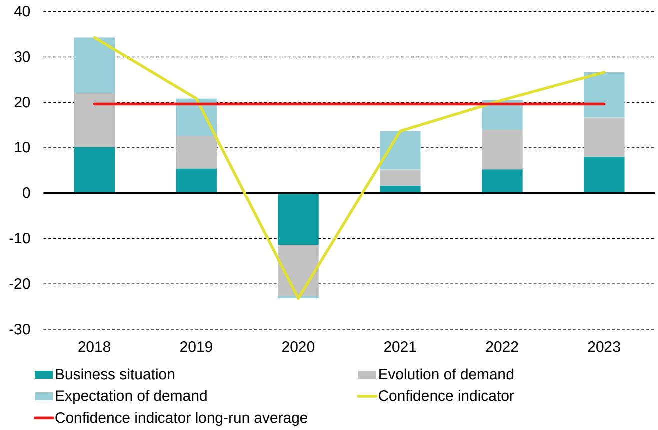
Source: European Commission.

After reaching an all-time high of 44.4 in September, sentiment in industry fell below its long-term average in November and stood at -2.8 in December.

Confidence in the services sector improves further[22]

The confidence indicator within the services sector reached 26.6, up from 20.5 in the preceding year (see Chart 3.13). This increase reflected higher positive expectations of demand over the next three months, and a more positive assessment of the business situation over the past three months. By contrast, respondents' assessment of demand edged down slightly but remained positive. Following this increase, confidence in the services sector stood well above its long-term average of 19.6.

Chart 3.13
SERVICES CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

Sentiment in services was positive during all of 2023, with the highest readings recorded in the first half of the year, notably in March and April when the confidence indicator crossed the 40 mark.

Confidence in the retail sector continues to increase[23]

The retail confidence indicator stood at 9.8 in 2023, up from 6.0 a year earlier, rising further above its long-term average of 0.1 (see Chart 3.14). The rise in sentiment was driven by expectations of business

[20] 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, current levels of order books and stocks of finished goods (the last with inverted sign).

[21] A rise in the stock levels indicates lower turnover and affects the overall indicator in a negative way. Such decreases are thus represented by bars below the 0 mark in Chart 3.12.

[22] 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 for the subsequent three months.

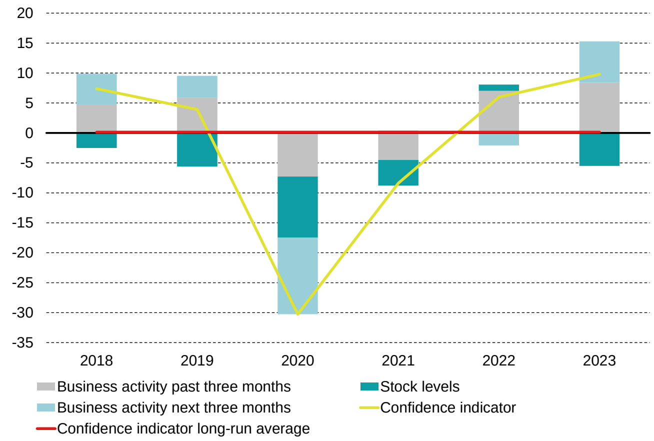
[23] The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

activity over the next three months, which turned positive in 2023. At the same time, respondents were more optimistic of sales over the past three months. However, in contrast to the previous year, participants assessed stock levels to be well above normal.

Sentiment in this sector was positive for most of the year. The best monthly reading was reached in April, when the index stood at 35.9.

Additional survey data indicate that, on balance, a smaller net share of retailers anticipated order book levels to stand above normal levels in 2023.

Chart 3.14
RETAIL CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)

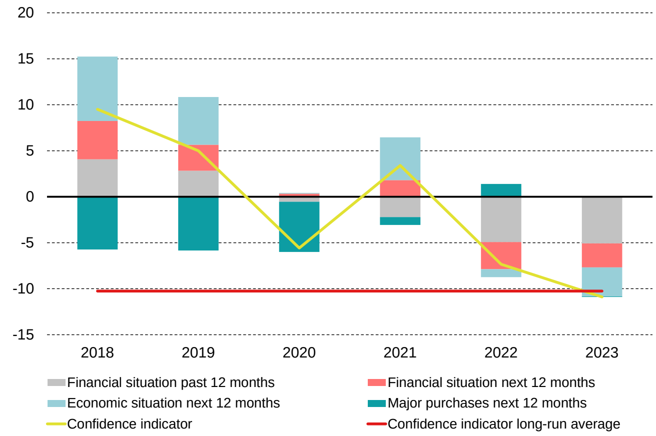


Source: European Commission.

Consumer confidence deteriorates further[24]

Consumer confidence declined to -10.9, from -7.3 in 2022. Following this decrease, sentiment fell below its long-term average of -10.3 (see Chart 3.15).

Chart 3.15
CONSUMER CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

The fall in sentiment, when compared to 2022, largely reflected a deterioration in consumers' expectations of the general economic situation over the next 12 months. At the same time, households, on balance, signalled that they did not intend to undertake major purchases in subsequent months. This contrasts with 2022, when expectations of major purchases stood positive. Furthermore, while consumers assessment of their finances over the last 12 months worsened, expectations of their financial situation improved but remained negative.

Additional survey information suggests that in contrast to 2022, respondents expected unemployment to rise in the following 12 months. Meanwhile, savings expectations edged down compared to a year earlier, but remained positive. The survey also reveals that inflation perceptions increased, reaching unprecedent levels, while price expectations eased but remained elevated.

Confidence in construction decreases but remains positive[25]

The sentiment indicator for the construction sector averaged 1.2 during 2023, down from 7.0 in the preceding year. Notwithstanding this decrease, confidence remained firmly above its long-term average of

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[24] 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. https://economy-finance.ec.europa.eu/system/files/2019-01/esi_2019_01_en.pdf.

[25] 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.

-8.1 (see Chart 3.16). Respondents assessed order book levels to be below normal levels in 2023, compared with a positive assessment a year earlier. Meanwhile, employment expectations for the next three months stood more positive.

Additional survey data show that respondents' assessment of building activity over the past three months turned negative. Furthermore, insufficient demand and financial constraints were the most important impediment to production signalled by respondents during the year under review, followed by labour shortages.

Chart 3.16
CONSTRUCTION CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)

Source: European Commission.

Selling price expectations remain elevated

In 2023, selling price expectations decreased across all sectors, except in construction. The most significant decreases were recorded among retail firms and in industry (see Chart 3.17). Smaller declines were also recorded among services firms and consumers.

Differences across sectors remained wide – while the net share of firms signalling price increases hovered around 40% in the construction and services sectors, that in other sectors ranged between 19% and 26%.

Chart 3.17
SECTORAL SELLING PRICE EXPECTATIONS
(seasonally adjusted)

Source: European Commission.

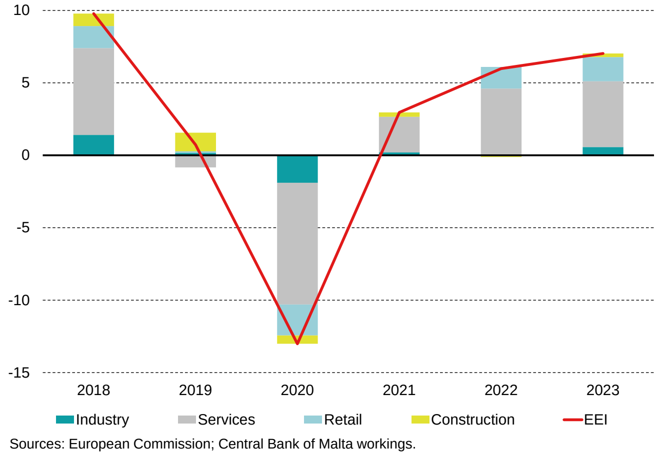
Employment Expectations Indicator increased somewhat

The Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased.[26] It reached 107.2, up from 105.7 a year earlier, and stood above its long-term average of around 100.0.

Employment expectations were positive across all sectors, with the most positive reading recorded in the services sector. When accounting for the variation in the weights assigned to each sector in the overall index, the increase in expectations relative to 2022 was largely driven by industry (see Chart 3.18). The construction and retail sectors also contributed to the increase in the EEI, but in a more limited way. Meanwhile,

[26] 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*.

the contribution of the services sector eased slightly but remained positive. The latter largely explains why the overall EEI stood above its long-term average in 2023.



Economic uncertainty decreases

The European Commission's Economic Uncertainty Indicator (EUI) for Malta averaged 12.1 in 2023, compared with 28.1 in the previous year, and stood well below the euro area average of 21.9.[27,28] During this period, uncertainty was below that in the euro area in all sectors, apart from construction and among consumers (see Table 3.8).

During 2023, on balance, uncertainty decreased most in the retail sector and in industry, with the former recording the lowest uncertainty for the year. The services sector also recorded lower uncertainty compared to 2022, albeit to a more limited extent. By contrast, uncertainty increased in the construction sector, and to a lesser degree, among consumers.

Table 3.8
EUI BY SECTOR
Period average; absolute change

	2021 May-Dec.[1]	2022	2023	Change	2023 Mar.	June	Sep.	Dec.
Euro area	**15.5**	**25.0**	**21.9**	**-3.1**	**22.3**	**20.2**	**21.1**	**21.1**
Retail	32.3	40.4	35.8	-4.6	38.2	34.2	34.3	35.0
Services	17.1	20.5	16.5	-4.0	16.6	13.8	16.8	14.7
Industry	27.9	40.3	36.9	-3.4	36.7	36.0	36.3	37.1
Construction	14.4	24.9	23.3	-1.7	22.0	22.7	21.5	24.3
Consumers	-15.7	-2.8	-4.0	-1.1	-1.9	-5.9	-6.0	-5.7
Malta	**21.3**	**28.1**	**12.1**	**-16.1**	**5.5**	**11.0**	**27.9**	**4.2**
Retail	48.8	50.8	6.5	-44.3	9.0	22.0	4.1	-1.2
Services	32.2	20.3	15.2	-5.0	17.2	10.1	35.8	-7.5
Industry	21.0	39.4	7.6	-31.8	-10.8	6.3	32.6	6.9
Construction	30.1	19.5	24.9	5.5	36.6	10.1	32.5	34.0
Consumers	-3.5	13.7	14.4	0.7	11.9	19.2	11.6	10.4

Source: European Commission.
(1) Data for 2021 are estimated for the period May-Dec. 2021, as data for Malta is only available from May 2021.

27 The EUI is made up of five balances (in percentage points) which summarise managers'/consumers' answers to a question asking them to indicate how difficult it is to make predictions about their future business/financial situation. The series are not seasonally adjusted. The five balance series are summarised in one composite indicator using the same weights used to construct the ESI. The questions asked correspond to Q51 of the industry survey, Q31 of the services survey, Q41 of the retail trade and construction surveys and Q21 of the consumer survey.
28 Data on consumer uncertainty in Malta became available in October 2020, while data for industry, services, retail and construction became available in May 2021.

BOX 2: ECONOMIC PROJECTIONS

Economic outlook

The Bank's latest economic projections had a cut-off date of 6 February 2024, and thus pre-date the latest release of the national accounts of 28 February 2024. Also, HICP projections precede the February 2024 flash estimate. As at the cut-off date, there was insufficient information to quantify the impact of government measures aimed at mitigating food price inflation that became effective on 1 February 2024. Such factors could have significant implications for the below projections, which will be updated in forthcoming forecast rounds.

Malta's GDP growth is projected to moderate from 5.6% in 2023, to 4.4% in 2024, and to ease further to 3.6% and 3.3% in 2025 and 2026, respectively (see Table 1).

Private consumption growth is set to slow down in 2024 following three years of elevated growth. It is expected to remain relatively robust despite the high-inflationary period. Indeed, growth in private consumption is projected to moderate from 7.7% in 2023 to 4.9% in 2024. Thus, in 2024 consumption

Table 1
PROJECTIONS FOR THE MAIN MACROECONOMIC AGGREGATES FOR MALTA[(1)]

	2023[(2)]	2024	2025	2026
Real economic activity (% change)				
GDP	5.6	4.4	3.6	3.3
Private consumption expenditure	7.7	4.9	4.0	3.7
Government consumption expenditure	3.3	5.3	4.1	3.9
GFCF	-22.2	2.0	3.6	2.6
Exports of goods and services	8.7	3.8	3.0	3.0
Imports of goods and services	4.6	3.7	3.1	3.1
Contribution to real GDP growth (in percentage pts)				
Final domestic demand	-1.7	3.5	3.1	2.8
Net exports	7.3	0.9	0.5	0.5
Changes in inventories	0.0	0.0	0.0	0.0
Labour market (% change)[(2)]				
Total employment	6.5	3.2	2.5	2.4
Unemployment rate (% of labour supply)	2.6	2.6	2.7	2.9
Prices and costs (% change)				
Overall HICP	5.6	2.9	2.2	1.9
Public Finances(% of GDP)[(3)]				
General government balance	-4.5	-4.0	-3.5	-3.1
General government debt	50.7	52.7	53.5	54.3

[(1)] Data on GDP were sourced from NSO *News Release* 039/2024 published on 28 February 2024, while HICP was sourced from *News Release* 009/2024 published on 27 January 2024.

[(2)] Data on the number of employed are consistent with national accounts data. The unemployment rate is based on the number of unemployed and employed as reported in the LFS.

[(3)] Central Bank of Malta projections.

growth is set to outpace the Bank's estimate of real disposable income. For the rest of the projection horizon, growth in this GDP component is expected to embark on a normalisation path. In view of the strong decline in the saving ratio in 2023 and 2024, private consumption is foreseen to grow in line with the Bank's estimate of real disposable income in the last two years of the projection horizon. Thus, the saving ratio is envisaged to decline slightly in 2024 but stabilise at around its average seen in the last ten years by 2025.

Meanwhile, growth in government consumption is set to peak at 5.3% by 2024, and moderate slightly to 4.1% and 3.9% in 2025 and 2026, respectively. This profile is mainly driven by outlays on compensation of employees and intermediate consumption. The profile of intermediate consumption is mainly driven by operational expenses by extra budgetary units.

After a significant contraction in 2023, mainly due to a base effect in the aviation sector, investment is forecast to grow by 2.0% in 2024, 3.6% in 2025, and 2.6% in the outer year. Residential construction is set to decline marginally in 2024, as sentiment in this sector remains weak and labour shortages have become increasingly binding. Thereafter the outlook for this investment component and for non-residential construction is one of modest growth, while the remaining part of private investment is set to recover as the aforementioned base effect fades out.

After rising by 0.8% in 2023, government investment is expected to decline by 2.4% in 2024. Thereafter, it is projected to rise by 4.8% in 2025, and to decline by 0.6% in 2026. This profile is partly driven by the expected take up of EU funds, notably the base effect stemming from the full absorption of funds from the 2014-2020 financing framework by 2023. Work on projects financed by the 2021-2027 framework is expected to gather steam by the outer years of the forecast horizon. Meanwhile, the take up of grants from the Recovery and Resilience Facility (RRF) is envisaged to peak in 2024. Most RRF grants are expected to be utilised by 2025. The profile of domestically funded investment is set to remain at elevated levels throughout the projection horizon.

Following strong growth in both exports and imports in 2023, these are expected to decelerate in 2024. Export growth is set to moderate from 8.7% to 3.8% in 2024, largely driven by a moderation in services exports. This is then expected to decelerate further to just around 3.0% in the following two years and grow broadly in line with foreign demand. With regard to imports, growth is set to moderate to 3.7%, from 4.6% in 2022. It is expected to decelerate further to 3.1% in the following two years. Reflecting these developments, the net export contribution is set to remain positive but to decrease over the projection horizon.

The labour market is expected to remain robust, but activity is expected to slow down from 2024. Employment growth is set to broadly halve to 3.2% in 2024, which partly reflects the envisaged slowdown in economic activity in line with potential growth. Employment is set to expand by 2.5% and 2.4% in 2025 and 2026, respectively. The unemployment rate is expected to remain at 2.6% in 2024, before edging up gradually to 2.9% by 2026.

Annual HICP inflation is projected to moderate to 2.9% in 2024 from 5.6% in 2023, as international price pressures continue to ease. The fall in inflation in 2024 reflects a broad-based decrease across all sub-components of HICP, except for energy inflation, which is expected to remain unchanged as a result of government support measures. Services inflation is envisaged to be the main contributor to HICP inflation in 2024, although the contribution from overall food inflation is projected to follow closely. NEIG inflation is also projected to contribute somewhat to annual HICP inflation in 2024. HICP inflation is set to ease steadily in the following years, standing at 2.2% and 1.9% in 2025 and 2026.

The headline budget balance is expected to remain in deficit throughout the forecast horizon. but to improve over time. This is mainly due to the profile of government expenditure, which in turn is driven by outlays on price mitigation measures. It is set to decline to 4.0% of GDP in 2024, and to continue declining over the rest of the forecast horizon, reaching 3.1% of GDP by 2026. Meanwhile, the general government debt ratio is set to increase gradually throughout the forecast horizon, reaching 54.3% by 2026.

Risks to activity are tilted to the downside in 2024. In part this reflects the ongoing geopolitical tensions, which could weigh on international trade. In particular, an intensification or prolongation of disruptions to shipping around the Suez Canal, could give rise to some supply bottlenecks or longer waiting times, apart from higher costs. On the other hand, wage pressures could be stronger than expected in view of the ongoing tightness in the labour market. Risks are more balanced in the following years.

Risks to inflation are on the downside in 2024, especially following the February flash estimate for HICP. For 2025-2026, risks are balanced. Upside risks to inflation could stem from extreme weather events and effects of geopolitical developments (such as disruptions arising from the conflict near the Red Sea). Other upside risks to headline inflation include the potential impact of measures to combat climate change. Furthermore, if the abovementioned wage pressures materialise, these could slow the envisaged decline in inflation. On the other hand, if global demand proves weaker than expected, this should dampen import price pressures. A stronger pass-through from recent monetary tightening to domestic financial and real economic conditions could ease inflationary pressures in the medium-term.

On the fiscal side, risks are tilted to the downside (deficit-increasing). These mainly reflect the likelihood of higher-than-expected outlays on energy support measures, in the event that commodity prices are higher than envisaged. They also reflect the likelihood of additional increases in pensions and public sector wages. These risks are partly offset by the likelihood of a pick-up in the pace of fiscal consolidation in the outer years of the forecast horizon to comply with EU fiscal rules.