



### 3. ECONOMIC ANALYSIS AND RESEARCH

The Central Bank of Malta monitors and assesses economic developments and prospects in support of its key policy-making function. The Bank also carries out economic research and develops and maintains a suite of econometric models.

The Bank conducted four projection exercises in 2023, two of which form part of the Eurosystem's Broad Macroeconomic Projection Exercise. Staff carried out further work to enhance the tools used in the forecasting processes, including a review of Basic Model Elasticities. The latter represent the model-based responses of key economic variables to several hypothetical economic shocks agreed at the Eurosystem level. The collection of information on fiscal measures with relevance to climate change was improved. The commentary on the Bank's projections continued to feature boxes on specific aspects of the forecasts. In 2023, these boxes explored issues related to the passthrough of higher interest rates to retail lending rates, labour market tightness, profits and inflation persistence. Other boxes focused on the composition of government subsidies and an assessment of measures announced in the 2024 Budget. As in previous years, staff held meetings with officials from the European Commission, the IMF and major credit rating agencies to discuss the local economic situation and outlook.

The Bank maintained its regular dialogue with business firms' representatives and public sector institutions to obtain timelier information on the economic situation and prospects. The Bank published the main results of this exercise on a quarterly basis in the Bank's Business Dialogue publication. As part of an effort to improve the accessibility of this data, the Bank launched a website dashboard specifically focused on this exercise. The Bank carried out an ad-hoc survey on the impact of climate change on Maltese firms. Results will be published in 2024.

The Bank also communicated its analysis of domestic and foreign economic and financial developments in its *Quarterly Review* and *Annual Report*. Moreover, the Bank continued to publish a monthly *Economic Update*. Apart from commenting on official statistics, these publications included commentaries on several internally developed indicators, such as the Bank's estimate of potential output and structural unemployment, a BCI, the FCI and cyclically adjusted fiscal and current account balances. The regular economic publications began to report on indicators of labour market tightness, while the analysis of prices started to feature information on a broader set of cost indicators as well as a short commentary on wage developments by sector. In addition, the *Economic Update* included for the first time information on the level of engagements and terminations in the labour market based on administrative sources.

The Central Bank of Malta continued to collaborate with statistical compilers in other institutions and participated in the work of the ECB's Statistics Committee in relation to government finance statistics and general macroeconomic statistics. Staff finalised the validation of the fourth wave of the HFCS. The Bank published the relevant data, together with papers and articles documenting the results for Malta and comparisons with the euro area. Staff also initiated work on a dashboard covering HFCS data which is at its final stages. In addition, the Bank continued to collaborate with the ECB on an experimental set of distributional wealth statistics. This dataset, still under development, links distributional information collected from the HFCS at three-year intervals with quarterly financial accounts data. In 2023, the dataset was updated to reflect the results of the HFCS fourth wave. Once available, this dataset could be used to better assess the heterogeneous effects of economic and policy shocks on different households. The Bank also collaborated with the

NSO to produce additional fiscal data, following Malta's adherence to the IMF's Special Data Dissemination Standard (SDDS) Plus.

Bank staff undertook specialised research which resulted in six working papers, two policy notes, 31 boxes and two articles that featured in the Bank's regular publications. Two working papers covered the latest HFCS results, while another paper looked at possible unintended long run effects from macroprudential policy, and whether these effects are affected by wealth inequality. The other working papers focused on the effects of oil price shocks on the Maltese economy, the development of a new Computable General Equilibrium model and household debt dynamics and the housing market in Malta.

The policy notes dealt with the extent of labour turnover in Malta and the effects of the pandemic on labour and skill shortages in Malta. The articles focused on the logistics sector in Malta and the role of women in the labour market.

Staff continued to participate in the Rental Observatory, set up by the Housing Authority. In 2023, the emphasis of the Observatory was the design of a questionnaire aiming at understanding the extent of knowledge, the experience and satisfaction with the new residential rent regime following the introduction of The Private Residential Leases Act of 2020. In addition, staff also provided input to several ECB working groups and task forces and presented research results in local and external virtual conferences or webinars on a diverse range of topics.

In 2023, the Bank organised its sixth Annual Research Workshop. The keynote speech by Dr Hannes Muel-ler from the Barcelona School of Economics focused on predictive textual analysis by using a dynamic early warning and action model. It was followed by a presentation from two Bank's economists on the recently developed Economic Policy Uncertainty index. During the workshop, the Bank launched the sixth edition of the Research Bulletin. The five articles of the Bulletin dealt with the compilation of a new dataset covering rental prices as advertised on Facebook's Marketplace, the estimation of the time-varying impact of global oil shocks on the Maltese economy, the use of a data revisions to improve our understanding of real-time economic data, the development of a rich energy block in the Bank's dynamic stochastic general equilibrium (DSGE) model and the development of a new euro area-rest of the world DSGE model.

The Bank continued working on the upkeep of its existing models as well as the development of new model-ling tools to be used in future policy and research work. During this year, Bank staff together with economists from the University of Macerata finalised the development a new Computable General Equilibrium model for the Maltese economy named MaCGE-MOD. MaCGE-MOD will complement the current model suite by expanding the Bank's ability to analyse the complex interactions in the economy arising from the sectoral links that exist in the production process of the economy. Moreover, during this year, staff re-estimated the Bank's macroeconomic model, STREAM, ensuring that it remained a faithful representation of the way the Maltese economy works. The Bank continued to develop its structural models with climate and environmental features allowing the study of policy questions related to the physical and transitional climate change costs.

The Bank organised regular internal seminars to stimulate economic discussion and debate on its studies prior to their publication. Staff members kept regular contact with academia, both locally and abroad. In this regard, during this year, the Bank hosted the 17<sup>th</sup> Annual Dynare Conference. In addition, the Bank sought assistance from external institutions for the peer-review of technical studies. The Bank remained active in domestic fora, such as the National Productivity Board, the Building Industry Consultative Council and the Rental Observatory.

Research plans for 2024 relate to studies on long-term structural trends in the Maltese economy, focusing primarily on the physical and transitional impacts of climate change. Fiscal policies, inflationary pressures and monetary policy transmission topics are also expected to feature in future work, together with analysis on sectoral linkages, labour skills shortages and other issues affecting the labour market. In addition, the Bank will continue to assess the impact of the recent commodity price shock on the economy. Efforts to aug-ment the research capacity of the Bank's econometric and structural models will also be pursued.