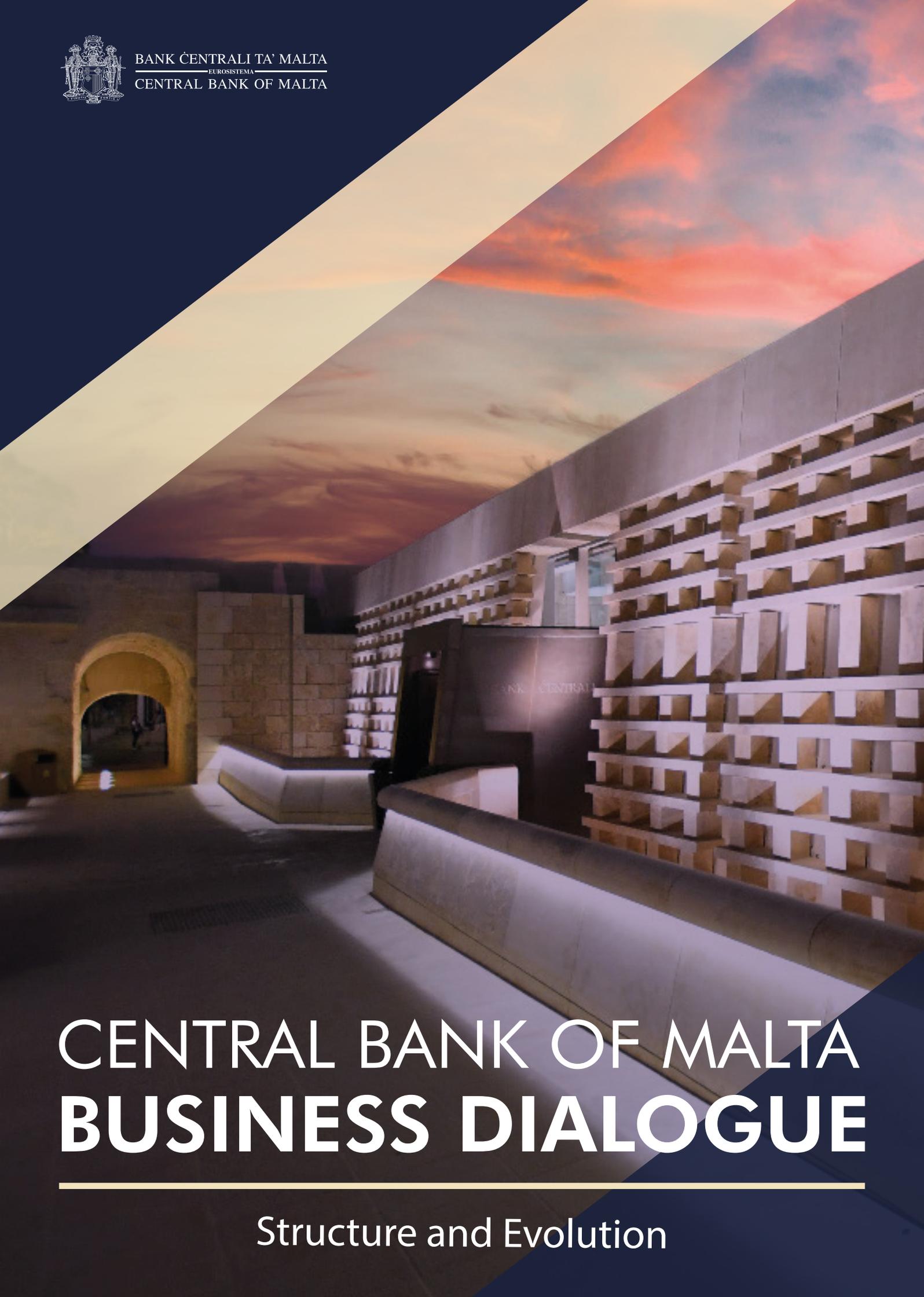




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CENTRAL BANK OF MALTA **BUSINESS DIALOGUE**

Structure and Evolution

The CBM Business Dialogue Exercise Structure and Evolution¹

As part of its efforts to obtain a deeper insight into the main developments and trends on a sectoral level, in 2016 the Central Bank of Malta (the Bank) launched a business dialogue exercise. This involves establishing and maintaining regular contact with major non-financial corporations, authorities and other institutions in Malta to obtain real-time insights on recent performance, expectations for business activity, employment and prices. Similar exercises are carried out by other central banks including the European Central Bank (ECB).²

This exercise has been instrumental in enhancing economic analysis at the Bank. The information collected is also an essential input in the Bank's projections. Its purpose is to supplement official economic indicators, which are often published with a lag and provide limited insights into the main issues faced by firms. In addition, respondents are given the opportunity to share their perceptions regarding sectoral developments or topical issues of economic relevance. Such qualitative information provides the Bank with an opportunity to better and more fully understand the underlying drivers of current and anticipated economic developments. These insights are then utilised as a source of information to better analyse data in the Bank's reports, to supplement existing models for forecasting purposes, as well as to inspire research.

The aim of this article is to briefly describe the process that underlines the CBM Business Dialogue exercise and how it has developed over time.³

The structure of the CBM Business Dialogue Exercise

The selection of companies utilises convenience sampling, which is a type of non-probability sampling method that relies on data collection from population members who are conveniently available to participate in a study. Although in convenience sampling no inclusion criteria are identified for the selection of subjects, the selected firms for this exercise are generally large companies. This sampling framework is chosen due to its simplicity and ease to carry out. It is also quite flexible and cost effective, and thus, it is very ideal for this sort of exercise given the limited resources. Moreover, large companies tend to have more breadth of information regarding specific sectoral developments and they would also cover a significant share of activity in their respective sector. Given that the sampling method is non-probabilistic, and it over-represents large companies, the information collected during these dialogues might not be fully representative of overall sentiment. Nevertheless, the Bank also holds conversations with representatives from authorities and institutions which themselves maintain regular contacts with small and medium-sized businesses.

¹ Prepared by Warren Deguara, Erica Caruana and Jude Darmanin, Senior Economists within the Economic Analysis Department of the Central Bank of Malta.

² More information on the ECB's dialogue with non-financial companies can be found on the following link: https://www.ecb.europa.eu/pub/economic-bulletin/articles/2021/html/ecb.ebart202101_01~2760392b32.en.html

³ The exact content of these conversations is strictly confidential, anonymised and protected in terms of the Data Protection Act. Confidentiality is protected by ensuring that only the small team of economists working on the survey have access to information identifying individual companies.

The meetings are conducted by a team of the Bank's economists, generally with top-level representatives of the corporations, using a semi-structured survey. This partly includes common questions that are largely unchanged from one round to the next, although the Bank occasionally puts forward ad hoc questions to selected institutions when deemed relevant. These meetings take the form of a discussion rather than a survey, and thus, respondents can deviate towards any other topic relating to their business or the environment in which they operate. This allows a far greater wealth of information and provides deeper insights that are otherwise very difficult to obtain. Conversations usually focus on developments during the previous year and the outlook for the current year and the next. The companies also provide an overview of their operations and whether these have changed since the previous meeting. Participants are also asked to provide their assessment of developments in company revenue, production levels, order books, market trends and competition in the previous months. In the case of companies operating in multiple sectors, company representatives are asked to provide a more disaggregated overview on how different segments of the business are performing, including developments in export performance where relevant.

The interviews also focus on developments in input costs and selling prices, as well as employment and working conditions, investment plans and company financing. From time to time, participants are also asked open-ended questions on topical issues such as climate change and digitalisation, as well as factors restricting business success. The last question offers an opportunity for participants to raise any remaining issues that may be of concern to them which were not covered in the survey.

The CBM Business Dialogue before and during the COVID-19 pandemic

Given the unprecedented circumstances brought about by the pandemic, the CBM Business Dialogue exercise underwent significant changes. Before the COVID-19 pandemic and the subsequent containment measures, the exercise took the form of 30 to 45-minute face-to-face meetings with participating institutions at the companies' premises. Due to the restrictions brought about by the COVID-19 pandemic, the CBM contacts shifted to telephone or video call meetings.

To accommodate telephone interviewing and shorter conversations, and to account for the rapidly changing environment as a result of the pandemic, the structure of the interview was modified. Conversations started to focus on developments in the preceding quarter and the outlook for the current quarter and beyond instead of the previous, current and next years. Since the start of the pandemic, respondents have also been asked to comment on disruptions in supply chains resulting from the pandemic and to comment on any changes in input costs and selling prices. Conversations are then steered towards changes in short-term employment and investment plans, as well as the take up and effectiveness of COVID-related government assistance, such as the wage supplement scheme. More recently, the potential impact of Brexit on the company's operations, where relevant, was also addressed.

Secondly, since information regarding the impact of the pandemic was very scarce during its early stages, the exercise changed from a quarterly to a daily exercise. Between January 2016 and February 2020, between 20 and 25 meetings were held each quarter. Over this period, more than 200 different companies and institutions operating in different sectors were contacted. Given the increase in the frequency of meetings since the outbreak of the COVID-

19 pandemic, a significantly higher number of meetings were carried out. The overall distribution of the companies contacted before and during the COVID-19 pandemic did not change much. However, one should note that a few small to medium-sized firms contacted before the pandemic were no longer surveyed since the onset of the pandemic, whereas a small number of new larger firms have been interviewed over the past year.