



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



# CENTRAL BANK OF MALTA BUSINESS DIALOGUE

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## MAIN FINDINGS FROM THE 2022Q4 ROUND OF CONTACTS WITH NON-FINANCIAL CORPORATIONS

### Summary

*Information gathered by the Central Bank of Malta during contacts with non-financial corporations made between October and December 2022 indicates that overall business conditions remained positive, but this assessment was less prevalent than in the previous round. A net 27% of respondents reported an increase in activity over the three months preceding the interview, down from a net share of 54% in the previous quarter. Conditions weakened most in the manufacturing and in the construction and real estate sectors.*

*Short-term expectations about improved business activity declined slightly. Around 47% of firms contacted during the last quarter of 2022 reported that they expect business activity to expand over the next three months, while 16% anticipated a decline. The net share of respondents expecting an amelioration thus stood at 31% – slightly less than the 35% in the preceding quarter. Meanwhile, the share of contacts reporting that the outlook was uncertain has remained stable at 11% and was highest amongst the wholesale and retail firms.*

*Cost pressures have remained elevated. Indeed, a net 82% of contacts reported that input prices have increased, slightly down from 88% in the previous quarter. In the period under review only a small share of companies (5%) experienced a decrease in input costs.*

*The net share of firms reporting higher selling prices remained at 52% as reported in the previous quarter. Such increases in selling prices were classified as significant by 30% of all companies surveyed, and less prominent by 25%.*

*In the quarter under review, a net 27% of respondents reported that they plan to invest more, down from 33% in the previous quarter. At the same time, a net 58% of firms planned to hire more staff, exceeding the 48% share observed in the previous quarter. Hiring intentions were particularly strong in services, with a net share of 71%.*

*In the fourth quarter of 2022, a total of 62 telephone/virtual meetings with leading non-financial corporations were conducted. These include 22 manufacturing companies, 21 services-oriented companies, 11 wholesale and retail companies, and eight construction and real estate companies.<sup>1</sup>*

### A small net share of firms reported positive business conditions

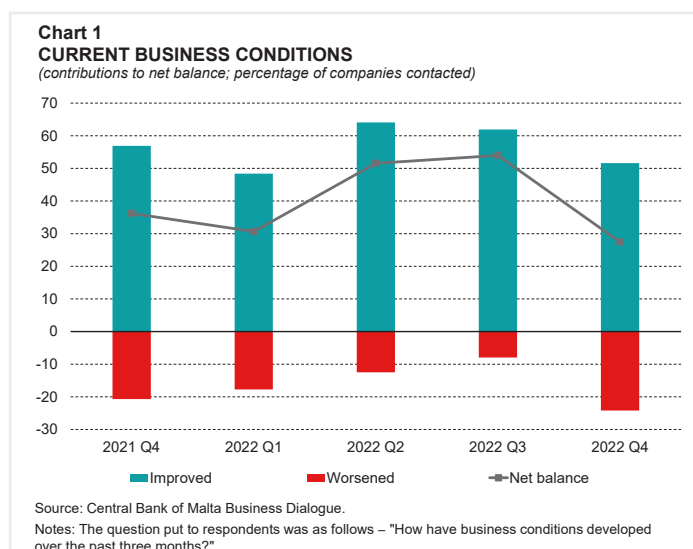
Information gathered between October and December 2022 indicates that – on balance – business conditions remained positive. This assessment was significantly less prevalent than in the previous round. The net share of respondents reporting an amelioration in business conditions declined to 27%, from 54% in the previous quarter. This is the lowest net balance since the second quarter of 2021.

During the quarter under review, 52% of firms stated that business conditions had improved over the past three months, down from 62% in the third quarter of the year (see Chart 1). At the

<sup>1</sup> See [CBM Business Dialogue exercise](#) for more information on the structure, methodology and evolution.

same time, the share of firms stating that business activity worsened increased to 24%, from 8% in the previous quarter. The number of firms stating that business conditions remained unchanged fell to 24%, from 30% in the previous quarter.

With the exception of the construction and real estate sector, all sectors reported positive conditions on balance, but significantly less so than in the previous quarter. The assessment of recent business conditions weakened most in the manufacturing sector.



The net balance of manufacturing companies reporting improved business conditions fell sharply to 18%, from 53% in the previous quarter. The percentage of firms reporting an improvement in activity declined from 59% to 50% over this period. Meanwhile, the share of firms reporting worsened conditions increased from 6% to 32%, while the share of manufacturing firms stating that conditions have remained unchanged dropped from 35% to 18%.

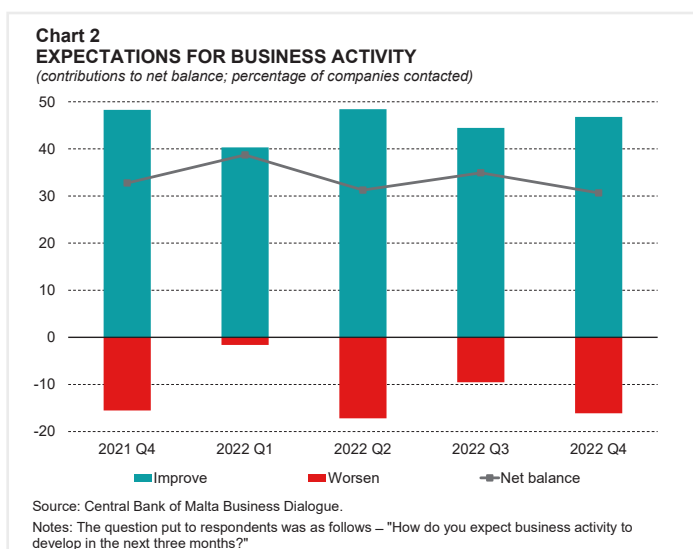
In the wholesale and retail trade sector, a net 55% of respondents assessed conditions to have improved in recent months, down from 60% in the previous quarter. Although the share of firms reporting improvements increased from 60% to 73% in the fourth quarter, those reporting worsening conditions increased even more significantly, from nil to 18%. The share of firms stating conditions remained the same has declined sharply from 40% to 9% in the quarter under review.

Similarly, the net balance in the services sector fell from 61% in the third quarter to 43% in the fourth quarter. While the share of services firms stating that conditions improved dropped to 57% from 68%, the share of firms reporting worse conditions more than doubled, from 6% in the preceding quarter to 14%. This assessment was especially observed in shipping-related services. Meanwhile, the share of services-oriented businesses reporting unchanged conditions increased from 26% to 29%.

Conditions in the construction and real estate sector were negative on balance. The share of firms reporting higher activity during the period under review fell from 40% to 13%, while the share of firms stating conditions worsened remained elevated, at just below 40%. The remaining 50% said that conditions remained the same. Therefore, the net balance of firms reporting an improvement stood at -25%, down from nil in the third quarter of the year. This sentiment was especially prevalent in the construction sector as most contacts argued that interest in the construction of new residential property by developers has moderated following very strong increase in the availability of new units on the market and the recent increases in construction costs. Construction firms are thus being more active in government projects with resulting higher competition for government tenders.

## Expectations for short term business conditions are slightly less positive

Business expectations for the next three months remain positive, though slightly below those in the third quarter of 2022. Indeed, 47% of the firms contacted during the fourth quarter of this year anticipated their business activity to improve further over the next three months, slightly up from 44% in the previous quarter (see Chart 2). Nonetheless, the share of firms which expected conditions to worsen over the next three months increased from 10% in the third quarter, to 16% in the quarter under review. Consequently, the net share of firms reporting an improvement in the near-term outlook fell slightly from 35% to 31%.



The share of respondents expecting similar conditions in the coming three months, dropped to 26% in the fourth quarter of 2022, from 35% in the third quarter. Meanwhile, the share of respondents reporting an uncertain outlook remained unchanged at 11%.

The strongest improvement in the near-term business outlook was reported by firms in the services sector. Indeed, the net balance rose from 35% to 57% in the quarter under review. The share of services firms expecting an improvement in their business activity over the next three months increased to 62% while these firms expecting conditions to worsen halved to 5%. Nevertheless, the share of firms which are uncertain of short-term business conditions has risen from 3% to 10%.

With regards to the wholesale and retail sector, a net 27% of firms contacted between October and December 2022 expected sales over the next three months to improve, up from 10% in the previous quarter. This reflected a strong increase in the share of respondents expecting an improvement in sales (from 20% to 55%), while those expecting worse conditions also increased but to a lesser extent (from 10% to 27%). Furthermore, uncertainty in this sector declined sharply from 40% to 18%.

The proportion of manufacturing firms anticipating business conditions to improve fell from 50% in the previous quarter, to 41% in the quarter under review. At the same time, the share of manufacturing firms expecting conditions to worsen increased from 11% to 23%. Consequently, the net balance of firms reporting improved business expectations within this sector declined to 18%, from 39% in the preceding quarter. Uncertainty in this sector fell marginally to 9% from 11%.

With regards to the construction and real estate sector, around two-thirds of firms expect business conditions to remain unchanged in the next three months. Only 13% of companies interviewed in the fourth quarter of 2022 expected an improvement in their business activity over the next three



months, significantly down from 75% in the previous quarter. At the same time, the share of firms expecting conditions to worsen increased from nil to 13%. As a result, the net balance in this sector fell sharply from 75% to nil.

## BOX 1: EXPECTATIONS VS REALITY. HOW ACCURATE ARE FIRMS IN PREDICTING SHORT TERM BUSINESS CONDITIONS?<sup>2</sup>

Although uncertainty has receded markedly when compared to 2020 and 2021, firms' expectations about their short-term business conditions might still be inaccurate given new uncertainties triggered by the war in Ukraine. This box suggests that the war has made it more challenging to make predictions about operating results even in the short-term.

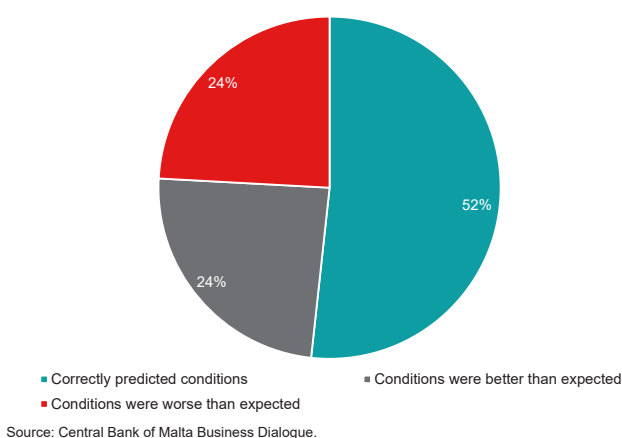
In order to assess firms' ability to accurately predict short-term business conditions during 2022, this box compares the predictions of firms as reported during the first contact made during 2022 to the outcomes reported during the second interview held in 2022. The analysis is based on the responses of 98 companies that were interviewed twice throughout 2022.

In the first meeting of 2022, 45% of these firms expected conditions to improve over the following three months, while the share of firms expecting conditions to worsen was 8%. As a result, the net balance exceeded 30%, while 36% expected unchanged conditions.

In comparison, 57% of firms participating in a second interview stated that current business conditions had improved in recent months, while 26% stated that conditions worsened, for a net balance of 32%. The remaining 17% claimed that conditions remained the same.

When we compare reported outcomes with the predictions made by these same firms in their first meeting for 2022, we find that 52% correctly predicted the direction of change in business conditions of their firm (see Chart 2a). The majority (68%) had anticipated an improvement which was confirmed in the second meeting. Additionally, the share that correctly predicted worsening business conditions stood at 9%, while the remaining 23% successfully predicted unchanged business conditions. Consequently, this means that

**Chart 2a**  
**EXPECTATIONS vs CURRENT BUSINESS CONDITIONS**  
(percentage of companies contacted)



<sup>2</sup> Prepared by Warren Deguara, Erica Maria Brincat and Aleandra Muscat, Principal economist, Senior Economist and Economist respectively, within the Economic Projections and Conjunctural Analysis Office of the Central Bank of Malta.

almost half of these firms incorrectly anticipated developments in activity. The number of firms that experienced conditions which were worse than what they had predicted in the first meeting was broadly equal to that which experienced conditions that were more favourable than what they had anticipated previously.

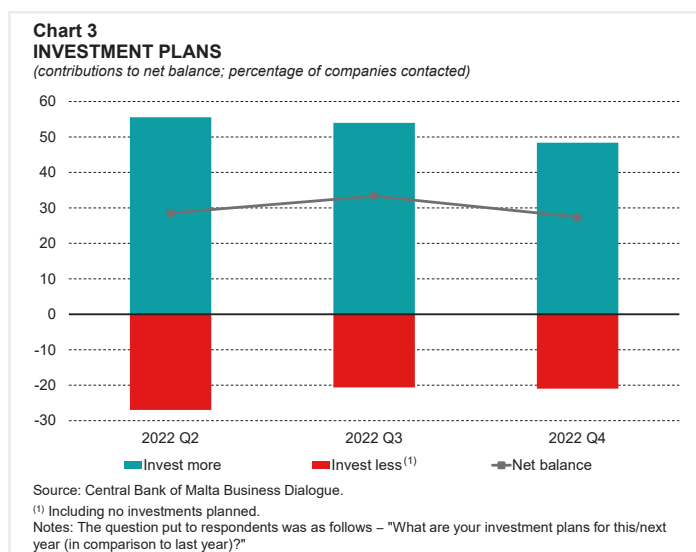
Such findings imply that many firms still find it challenging to forecast activity and budget accordingly. Despite the fact that 2022 marked a recovery period from the pandemic, the Russia-Ukraine war brought about new uncertainties related to costs, supply-chain disruptions and higher overall inflation, which could have made even short-term predictions more challenging than usual.

### Firms' investment and hiring plans remain strong but declined a bit

During the quarter under review, on balance, 27% of the companies interviewed said that they planned to invest more, compared to 33% in the previous quarter.<sup>3</sup> This was entirely on account of fewer firms planning to increase investment, as the share of firms that planned to invest less remained the same. In fact, most companies (48%) contacted planned to invest more, compared to 54% who replied so in the previous quarter (see Chart 3). Moreover, 31% of the companies interviewed in the final quarter said that they planned to keep the same level of investment, up from 25% recorded in the previous quarter. This reflects the overall optimistic long-term expectations, as well as the need to remain competitive. Still, 21% of the companies contacted said that they will be investing less, in part because they had completed large projects in the past few years and hence do not require significant investments in the near term.

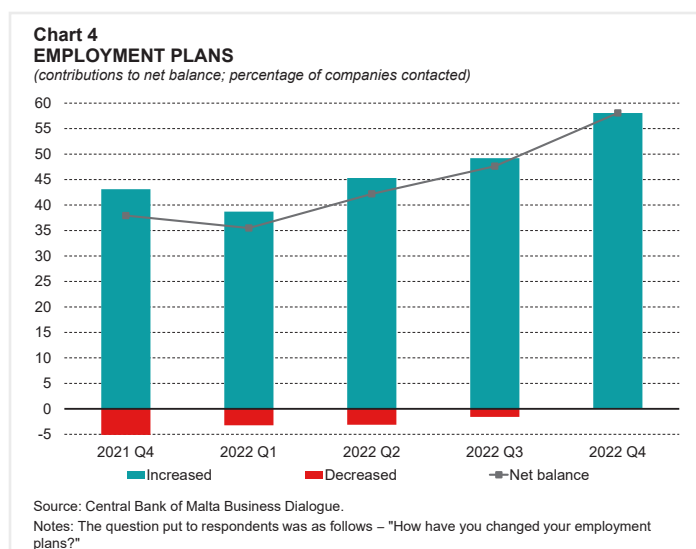
Looking at investment plans by sector, on balance, around 36% of the manufacturing companies planned to invest more, down from 56% in the previous quarter. Moreover, the net balance for the wholesale and retail trade sector turned positive, reaching 27% from -7% in the previous quarter, as more firms reported an increase in investment levels. In the services sector, on balance, 24% of the companies planned to invest more, unchanged from the previous quarter. A notable deterioration in the net balance can be observed in the real estate and construction sector as the share stood at 13%, down from 60% in the previous quarter.

During this round of contacts, the firms interviewed were also asked to comment on their main sources of financing for



<sup>3</sup> In previous editions of the business dialogue, this section focused on whether firms continued with their scheduled investments, or whether they have cancelled their investments. As from reference period 2022Q2, the question posed to firms was changed to ask whether firms plan to invest more or less when compared to last year. Hence, Chart 3 starts from the second quarter of 2022, in contrast to the other charts that start from 2021Q4.

investment. Around a quarter of the companies interviewed said that they have more than one source of finance. Around 68% noted that planned investments are expected to be self-financed. This is followed by bank financing facilities (37%). Around 10% of the companies, most of which operate in the manufacturing sector, said that their mother company finances their investments. Other sources of finance mentioned by a few firms include equity, bonds, and outside investors. Additionally, some companies said that their projects are funded by Malta Enterprise schemes.



When asked about employment plans, the responses collected reveal a continued increase in the demand for labour. In the latest round of contacts, a net 58% of respondents anticipated higher employment, 10 percentage points higher than in the previous quarter. The net balance was driven by companies reporting increased employment plans, as during this quarter no company expects to shed labour (see Chart 4).

The share of respondents that did not alter their employment plans declined to 42%, from 49% in the third quarter of the year. This mainly relates to companies that are only recruiting for replacement purposes.

On balance, hiring intentions were more prevalent in the services sector, with a net share of 71%. This is followed by manufacturing and real estate and construction sectors at 55% and 50%, respectively. The net balance was lower in the wholesale and retail sector at 45%.

### Labour shortages and wage pressures remain a major concern

As noted in previous quarters, companies participating in the Bank's Business Dialogue remained highly concerned about shortage of labour and skills. Most firms find it very difficult to employ new skilled workers. Some companies also noted that finding skilled workers is more challenging in roles related to information technology, compliance, and finance. Moreover, some companies expressed their concern with regards to retaining their current workforce, consequently leading to high staff turnover rates. This sentiment was expressed by firms in all sectors. One service-oriented company noted that it had to relocate part of its operations to another country to meet the lack of labour supply. Another company operating in the services sector highlighted that labour is a major limiting factor in satisfying demand.

In particular, companies are concerned about the lengthy process to obtain work permits for third-country nationals. As a result, those affected are forced to sub-contract workers, which is more



costly, and makes finding the right skills more challenging. This was mostly prominent within the services sector, particularly businesses related to accommodation and hospitality. In view of the increase in labour market tightness and inflation, the vast majority of companies claimed that wage pressures are another major concern.

### Supply chain disruptions have eased somewhat while cost pressures remain elevated

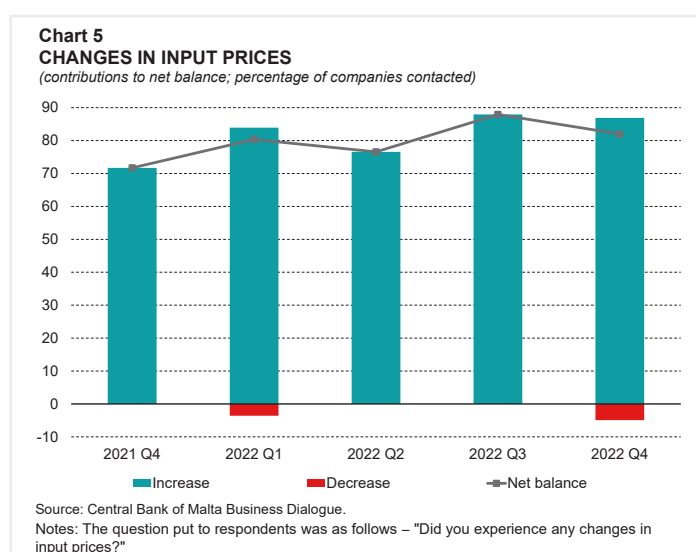
In the final quarter of 2022, companies noted that supply chain disruptions have eased somewhat. Many companies noted that although they are still facing long lead times, these have improved slightly in comparison to previous quarters, and companies have now become accustomed to such delays and are therefore frontloading orders to limit the risk of input shortages and related operational disruptions. Despite this, certain companies where demand is seasonal noted that delays are still having a significant impact on their operations since their stock varies and they cannot order in advance as much as other sectors. Additionally, chip shortages remain a persistent issue for many companies, affecting several manufacturing sub-sectors globally.

Many firms confirmed that transportation costs remained elevated, reflecting high demand and low competition in the global shipping market. However, transportation costs seem to have eased somewhat, especially those related to China, while prices of containers from mainland Europe remained elevated.

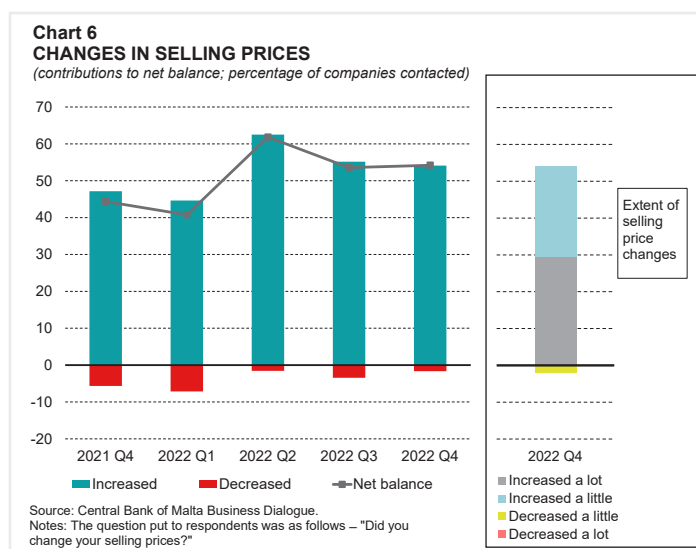
In the fourth quarter of 2022, around 87% of companies contacted reported an increase in their input costs (see Chart 5). Of the remaining firms, 8% indicated that their input costs remained unchanged, while 5% of firms reported a decrease in input costs. In net terms, the share of companies reporting an increase in input costs decreased from 88% in the third quarter of the year to 82% in the fourth quarter.

Cost pressures remained widespread in all sectors, reflecting the global price hikes of several commodities and the higher wage demands being faced by firms. The sector which reported most increases in input costs was the services sector (90%), followed closely by the manufacturing and the construction and real estate sector (86%). Lastly 82% of companies in the wholesale and retail sector reported increases in input costs. Decreases in input costs were reported by less than a tenth of firms in the trade sector, and by 5% of firms in the services and manufacturing sector (5%).

Companies were also asked about their unit cost expectations for the coming 12 months. The replies were broadly in line with those reported in the previous quarter except for the fact



that while in this quarter no company expects its unit costs to decrease. On the other hand, slightly more than half the companies contacted expect an increase in input costs, while another 27% of firms expect unit costs to remain unchanged. Around 22% of firms expect costs to increase by more than 5%, while 12% expect costs to increase between 3% and 5%. Meanwhile, around 18% of firms expect costs to increase between 1% and 3%, while 22% of companies were unable to determine how input costs will change over the coming 12 months.



During the quarter under review, the percentage of firms that have reported an increase in selling prices decreased marginally from 55% in the previous quarter to 54% (see Chart 6). Of those which reported higher selling prices, 30% said that prices increased by 'a lot' while the other 25% noted that they increased selling prices by 'a little'. Only 2% of firms were able to decrease selling prices slightly, while the remaining 44% kept prices unchanged. This is because most of these firms either have selling prices determined through long term contracts or through sealed bid auctions and are therefore forced to absorb cost increases. As the share of firms that cut selling prices fell marginally (from 3% to 2%), the net share of companies that increased selling prices stood unchanged when compared to the previous quarter, at 52%.

This increase in selling prices was most prominent in the construction sector (net share of 86%). This was followed by the trade sector where the net balance of companies reporting an increase in selling prices stood at 82%, and the manufacturing sector at 50%. A lower net share of 29% was observed in the services sector.

While some companies argued that consumers are becoming more accepting of price increases, some are still absorbing part of the costs in an effort to remain competitive. Despite some firms absorbing input cost increases, profitability does not seem to have been severely impacted. Some minor impacts were mentioned, but overall, firms managed to work their way around such cost increases and found ways to retain their profits. Some managed to increase sales levels, while others found measures to be more efficient or secure better pricing through bulk buying.

## Annex 1

**Table 1**  
**SECTORAL REPLIES**

*Percentage of companies contacted*

	Construction and Real Estate		Wholesale and Retail		Services		Manufacturing		Total	
	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4	2022 Q3	2022 Q4
How have business conditions developed over the past three months?										
Improved	40	13	60	73	68	57	59	50	62	52
Worsened	40	38	0	18	6	14	6	32	8	24
Remained the same	20	50	40	9	26	29	35	18	30	24
Net balance	0	-25	60	55	61	43	53	18	54	27
How do you expect business activity to develop in the next few months?										
Improve	75	13	20	55	45	62	50	41	44	47
Worsen	0	13	10	27	10	5	11	23	10	16
Remain the same	25	63	30	0	42	24	28	27	35	26
Uncertain	0	13	40	18	3	10	11	9	11	11
Net balance	75	0	10	27	35	57	39	18	35	31
How have you changed your investment plans for this year?										
Invest more	60	38	27	45	41	48	67	55	54	48
Invest less	0	25	33	18	16	24	11	18	21	21
Invest the same	40	38	7	36	27	29	17	27	25	31
Net balance	60	13	-7	27	24	24	56	36	33	27
How have you changed your employment plans?										
Increased	60	50	40	45	52	71	47	55	49	58
Decreased	0	0	0	0	3	0	0	0	2	0
Unchanged	40	50	60	55	45	29	53	45	49	42
Net balance	60	50	40	45	48	71	47	55	48	58
Did you experience any changes in input prices?										
Increased	100	86	100	82	90	90	88	86	88	87
Decreased	0	0	0	9	0	5	0	5	0	5
Unchanged	0	14	0	9	10	5	12	9	12	8
Net balance	100	86	100	73	90	85	88	82	88	82
Did you change your selling prices?										
Increased	100	86	60	82	50	33	59	50	55	54
Decreased	0	0	0	0	7	5	0	0	3	2
Unchanged	0	14	40	18	43	62	41	50	41	44
Net balance	100	86	60	82	43	29	59	50	52	52

Source: Central Bank of Malta Business Dialogue.