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ECONOMIC UPDATE

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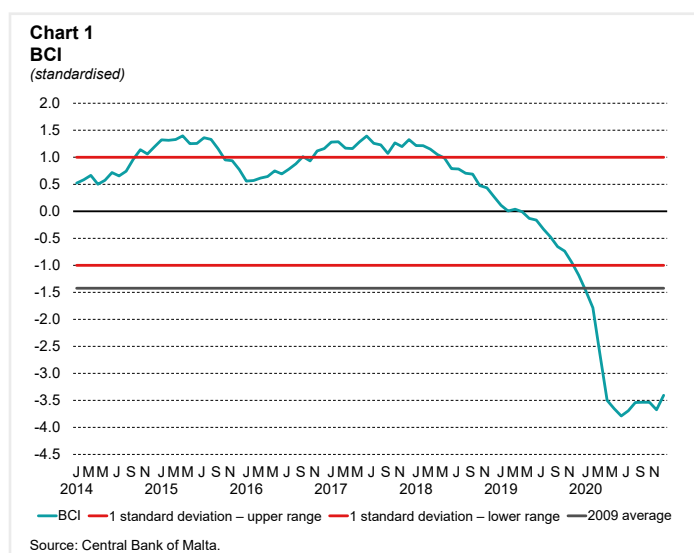
Summary¹

In December, the Central Bank of Malta's Business Conditions Index (BCI) improved when compared with the previous month, but continued to signal low levels of economic activity reflecting the weak economic conditions triggered by COVID-19. Similarly, the European Commission's Economic Sentiment Indicator (ESI) improved in December when compared with the previous month. Confidence rose in the services sector and, to a more limited extent, among consumers, in industry and among retailers. Meanwhile, confidence in the construction sector turned negative. Notwithstanding these developments, sentiment was negative in all sectors.

In November, industrial production contracted after having risen marginally in the previous month, while the volume of retail trade fell at a slower pace in annual terms. The number of registered unemployed decreased compared with October. The unemployment rate rose marginally, but remained low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged down to 0.2% in November, from 0.6% in October. Inflation based on the Retail Price Index (RPI) edged down marginally to 0.3% over the same period. Maltese residents' deposits grew at an annual rate of 5.3% over the year to November, below the 6.0% registered in the previous month, while annual growth in credit to Maltese residents expanded by 10.8%. In November, the deficit on the cash-based Consolidated Fund widened when compared with a year earlier, reflecting an increase in primary government expenditure and a drop in government revenue.

Central Bank's BCI²

In December, the Bank's BCI stood at -3.4, improving from a revised value of -3.7 in November (see Chart 1). The BCI continued to signal low levels of economic activity, reflecting the continued weak economic environment triggered by COVID-19. The latest reading is slightly higher than those recorded in May and June. While the index fell in November, it edged up somewhat in December. This improvement reflected a surge in economic sentiment – which



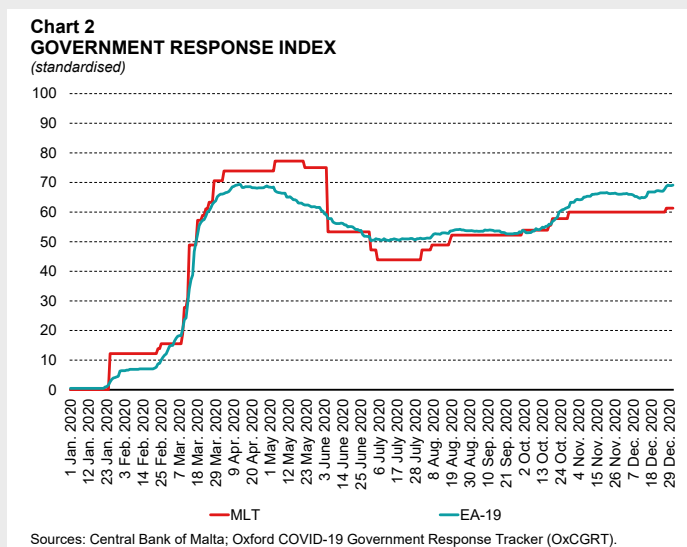
¹ The cut-off date for information in this note is 14 January 2021. Most of the data reported in this issue of the *Economic Update* refer to November 2020 while data for the BCI and the ESI are for December 2020. Tourism data for April, May and June were not collected by the National Statistics Office (NSO) as the airport and ports were closed in those months. Inbound tourism data since July were collected and published as the airport and seaport were reopened. With effect from 22 August, an amber list was added to the red and green travel lists, requiring tourists arriving from countries on this list to present a negative COVID-19 test result before boarding.

² The methodology underlying the BCI can be found [here](#). A zero value of the BCI is consistent with average business conditions, which in the case of Malta tends to be consistent with a real GDP growth rate of close to 4%. When the value of the BCI falls repeatedly below -1, economic activity would be significantly below normal. From June 2020, the BCI methodology was updated to include a new variable: monthly development permits.

although weaker on an annual basis – improved considerably in month-on-month terms. This offset weaker conditions in the tourism sector, lower tax revenues and higher unemployment. Overall business conditions continue to be worse than those observed during 2009, indicating the severity of the pandemic relative to the Global Financial Crisis.

BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

The government response index is a composite indicator which summarises various containment, economic and health-related measures for different countries using a common methodology.³ At the end of December 2020, Malta's index stood at 61.3, slightly up from 60.0 at the end of November (see Chart 2). This increase reflects the initiation of the vaccine distribution programme on 27 December. Malta's government response index stood 7.8 points below the euro area average. This reflects the higher level and stringency of containment measures in the euro area, as against a relatively stronger health sector response in Malta.



Business and consumer confidence indicators

In December, the European Commission's ESI rose to 79.5, from 68.3 in November (see Table 1). Notwithstanding this increase, sentiment stood below the level of 91.0 recorded a year earlier and its long-run average of 100.0.^{4,5} The ESI also stood 10.9 points lower than that in the euro area.

The month-on-month increase in sentiment was largely driven by a significant increase in confidence in the services sector. This was followed by improved sentiment among consumers, in industry and among retailers. These developments offset weaker sentiment in the construction sector. Sentiment was negative in all sectors.

³ This forms part of the Oxford COVID-19 Government Response Tracker (OxGRT). More stringent containment measures raise the index. Similarly higher economic assistance and a strong health response (e.g. testing) boost the index. For further information, see [here](#) and "Box 1: Measuring the level of COVID-19 stringency" in *Economic Projections 2020-2023*, (Central Bank of Malta).

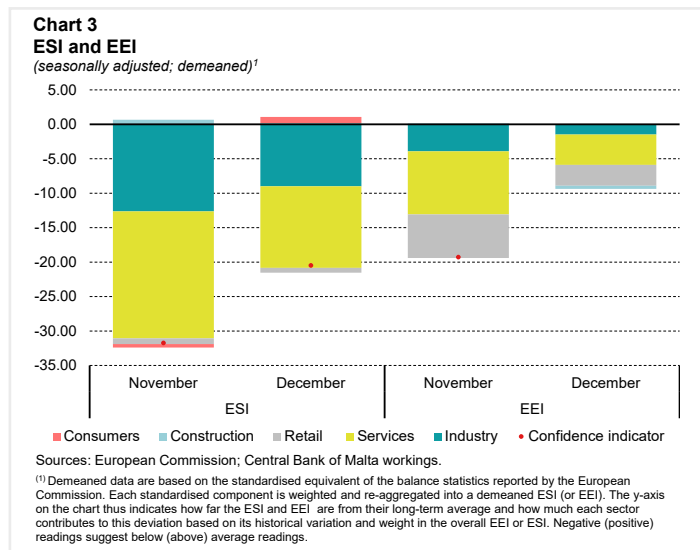
⁴ The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

⁵ 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 December 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 as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

Table 1 BUSINESS AND CONSUMER SURVEYS															
Balances: percentage points; seasonally adjusted															
	2019	2020	2020												
			Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
ESI	100.7	74.5	91.0	99.9	93.9	87.5	52.1	56.6	56.5	63.4	75.0	83.9	77.7	68.3	79.5
<i>Services confidence indicator</i>	20.7	-24.9	-6.5	7.9	11.4	0.4	-56.8	-53.5	-57.3	-41.1	-18.7	-3.5	-32.3	-38.8	-16.9
Business situation development over the past 3 months	16.7	-36.3	-9.1	-3.8	4.6	-0.3	-59.8	-66.3	-77.4	-68.9	-32.4	-2.4	-37.4	-61.3	-29.6
Evolution of the demand over the past 3 months	21.5	-34.9	-6.3	3.8	7.9	11.4	-56.3	-66.0	-78.2	-60.2	-40.2	-0.1	-47.0	-58.6	-35.1
Expectation of the demand over the next 3 months	24.0	-3.7	-4.1	23.8	21.7	-9.9	-54.1	-28.3	-16.3	5.7	16.4	-7.9	-12.5	3.5	14.0
<i>Consumer confidence indicator</i>	4.5	-5.6	5.5	8.4	7.9	0.1	-15.8	-11.3	-6.9	-3.3	-12.9	-9.1	-9.4	-10.7	-3.7
Financial situation past 12 months	11.3	-1.6	7.6	13.4	11.6	13.8	6.2	0.8	0.8	-2.7	-10.6	-10.4	-13.9	-12.3	-16.3
Financial situation next 12 months	11.2	0.8	8.0	13.1	10.7	5.1	-14.5	-5.7	-2.1	6.1	-5.6	-2.6	0.5	-0.7	5.7
Economic situation next 12 months	20.9	-0.9	11.3	18.0	19.8	-3.0	-36.6	-17.7	-3.9	13.9	-10.6	-2.1	-2.4	-4.5	17.8
Major purchases next 12 months	-25.1	-20.5	-4.8	-10.9	-10.4	-15.5	-18.4	-22.5	-22.4	-30.5	-24.7	-21.5	-21.8	-25.5	-22.2
<i>Industrial confidence indicator</i>	-6.7	-25.1	-7.8	-1.1	-15.5	-19.2	-45.4	-40.2	-42.2	-35.6	-24.0	-13.2	-10.3	-30.0	-23.9
Assessment of order-book levels	-23.0	-48.8	-22.6	-19.1	-20.2	-14.7	-56.1	-76.0	-76.9	-73.2	-74.1	-47.0	-40.0	-50.2	-38.6
Assessment of stocks of finished products	15.5	27.2	26.5	20.0	33.2	13.3	32.5	34.4	31.4	40.4	20.1	16.4	21.6	40.4	22.1
Production expectations for the months ahead	18.4	0.8	25.6	35.8	6.9	-29.7	-47.6	-10.2	-18.3	6.8	22.3	23.7	30.7	0.7	-11.0
<i>Retail trade confidence indicator</i>	4.2	-31.0	-20.6	0.0	-0.4	-22.3	-31.7	-43.2	-30.1	-53.6	-49.9	-63.7	-42.7	-19.9	-14.2
Business activity, past 3 months	18.9	-22.2	-19.6	3.0	4.8	5.8	12.4	-21.1	-28.1	-49.2	-52.5	-67.6	-54.7	-28.5	8.9
Stocks of finished goods	17.4	31.9	25.6	7.2	10.0	9.7	65.6	53.0	54.8	46.3	50.6	52.6	24.4	4.2	4.7
Business activity, next 3 months	11.1	-38.8	-16.7	4.1	4.1	-63.1	-42.0	-55.5	-7.4	-65.3	-46.6	-70.8	-49.2	-27.0	-46.7
<i>Construction confidence indicator</i>	26.2	-5.7	19.4	7.9	8.3	14.3	-38.9	-20.3	-19.9	-5.9	-12.7	-3.0	-4.9	11.4	-4.2
Evolution of your current overall order books	19.7	-6.2	12.6	4.5	2.0	2.1	-38.1	-13.0	-18.8	-5.0	-12.4	8.0	-8.8	12.7	-7.4
Employment expectations over the next 3 months	32.6	-5.2	26.1	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0	-0.9	10.0	-1.0
EI	101.2	81.7	102.1	100.2	102.7	90.0	56.2	71.8	71.0	72.3	80.4	79.7	85.4	80.6	90.5
Retail	4.7	-11.6	37.6	25.2	11.9	-8.6	-14.2	-15.5	-3.3	-25.6	-13.2	-25.3	-29.9	-28.6	-12.1
Industry	12.8	-12.5	13.6	16.5	7.0	-16.7	-61.2	-18.9	-40.3	-34.9	-26.0	2.8	17.8	-3.5	7.3
Services	17.5	-2.4	4.1	6.7	21.6	11.8	-33.0	-16.6	-16.8	-7.1	1.9	-5.0	1.9	-2.1	8.5
Construction	32.6	-5.2	26.1	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0	-0.9	10.0	-1.0
ESI demeaned	0.7	-25.5	-9.0	-0.1	-6.1	-12.5	-47.9	-43.4	-43.5	-36.6	-25.0	-16.1	-22.3	-31.7	-20.5
EI demeaned	1.0	-18.8	1.4	0.0	2.1	-11.1	-46.0	-28.7	-30.8	-28.9	-20.7	-19.8	-13.5	-19.3	-9.4

Source: European Commission.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the increase in overall sentiment in December was driven primarily by improved confidence in the services sector and in industry. At the same time, the contribution of consumer sentiment turned positive (see Chart 3). By contrast, the positive contribution of the construction sector faded away during the month under review, while that of the retail sector was broadly unchanged. Overall, demeaned data suggest that the ESI is being held down mostly by weak sentiment in industry and services.



In December, sentiment within the services sector recovered to -16.9, from -38.8 in the previous month. Notwithstanding this recovery, it remained below its long-term average of 19.4.⁶ The rise in sentiment was largely driven by respondents' assessment of the business situation

⁶ 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 in the subsequent three months.

and demand over the past three months. Participants' expectations of demand also improved, though its contribution was more limited. Additional survey data show that, on balance, the share of firms anticipating prices to fall in the months ahead edged down when compared with November.

Consumer confidence edged up in December. It stood at -3.7, up from -10.7 a month earlier and thus remained above its long-term average of -11.1.⁷ Higher sentiment largely reflected an amelioration in consumers' expectations of the general economic situation and, to a lesser extent, of their financial situation over the next 12 months. On balance, respondents' expectations of major purchases over the next 12 months improved slightly but remained negative. Meanwhile, their assessment of the financial situation over the last 12 months worsened relative to November. Supplementary data show that price expectations were more negative in December. At the same time, the share of respondents anticipating unemployment to rise in the coming months increased.

Industrial confidence stood at -23.9, up from -30.0 a month earlier. Notwithstanding the latest increase, it remained well below its long-term average of -4.4.⁸ The recent rise in sentiment largely reflected a decline in the share of respondents reporting above normal stock levels, and, to a lesser extent, an improved assessment of order book levels. By contrast, production expectations turned negative again following five positive consecutive readings. Supplementary data show that a smaller share of respondents anticipated a fall in selling prices in the coming months.

Confidence within the retail sector increased to -14.2, from -19.9 in November.⁹ In the month under review, higher sentiment was entirely driven by retailers' assessment about sales over previous months. By contrast, firms' expectations of business activity over the next three months stood significantly more negative. At the same time, the share of respondents reporting above normal stock levels relative to November edged up somewhat.¹⁰ Supplementary data indicate that price expectations were marginally less positive in December.

Confidence in the construction sector turned negative in December, falling to -4.2, from 11.4 in November. Notwithstanding this decline, sentiment stood well above its long-term average of -11.4.¹¹ Weaker sentiment was notably due to falling order books. On balance, employment expectations turned marginally negative in the month under review. Additional survey data indicate that price expectations were more positive relative to November.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged

⁷ 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.

⁸ 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, to current levels of order books and to stocks of finished goods.

⁹ 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.

¹⁰ Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

¹¹ 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.

up in December.¹² The EEI rose to 90.5 from 80.6 in November. Although the indicator remained below its long-run average of around 100.0, it stood 2.2 points above the euro area average.

Employment expectations improved in all sectors barring construction, turning positive in industry and the services sector. The evolution of employment expectations in the retail and services sectors largely explains why the overall EEI has remained below its long-term average in December, though expectations were below the long-term average in all sectors (see Chart 3).

Activity indicators

In November, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – turned negative again. The index contracted by 2.7% in annual terms, following marginal annual growth of 0.5% in October (see Table 2).¹³

The latest decline primarily reflected a fall in output of firms producing food items as well as those involved in the repair and installation of machinery and equipment. Firms manufacturing beverages also recorded a strong decline in their production. Smaller declines were recorded among other firms such as those that print and reproduce recorded media. On the other hand, pharmaceutical companies recorded robust growth. Higher production was also registered among firms that operate in the motor vehicles, trailers and semi-trailers sector as well as

Table 2		ACTIVITY INDICATORS														
Annual percentage changes																
	2018	2019	2020												Oct.	Nov.
			Oct.	Nov.	Dec.	Jan.	Feb.	Mar. ⁽¹⁾	Apr. ⁽²⁾	May ⁽²⁾	June ⁽²⁾	July ⁽³⁾	Aug.	Sep.		
Industrial production	1.3	1.2	1.7	-2.9	9.7	12.1	13.2	6.0	-7.4	-6.8	-6.8	-2.0	-2.6	-1.3	0.5	-2.7
Commercial permits	14.5	-2.4	-7.4	-12.8	-8.1	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2	-9.8	-45.6	6.7	-23.3	-11.7
Residential permits	43.1	-3.1	-6.5	12.3	34.4	22.2	-23.3	-19.6	-73.3	-53.6	-60.2	-8.1	27.0	-61.5	-31.1	-27.7
Retail trade	0.9	6.9	5.9	7.2	7.1	5.3	9.1	-4.7	-24.2	-16.7	-7.8	-11.8	-8.7	-12.2	-7.9	-2.7
Number of tourist arrivals	14.3	5.9	6.2	9.1	19.3	16.8	16.5	-56.5	-	-	-	-84.0	-66.0	-82.4	-83.4	-92.2
Number of nights stayed	12.5	4.1	6.5	9.0	15.1	3.5	10.1	-60.2	-	-	-	-75.3	-62.6	-77.4	-78.6	-82.3
Rented accommodation	10.7	4.6	12.1	9.6	13.9	7.7	11.1	-62.2	-	-	-	-84.3	-67.4	-81.8	-82.5	-88.0
Collective ⁽⁴⁾	7.1	-0.1	4.2	2.9	9.9	11.0	14.9	-61.7	-	-	-	-85.4	-66.9	-81.2	-81.9	-91.6
Other rented ⁽⁵⁾	18.0	13.5	28.5	26.6	19.7	1.0	3.1	-63.5	-	-	-	-82.7	-67.9	-82.9	-83.5	-80.6
Non-rented accommodation ⁽⁶⁾	22.7	1.6	-19.8	6.3	20.8	-8.3	3.9	-47.7	-	-	-	-31.4	-38.3	-57.1	-53.3	-53.8
Tourist expenditure	8.0	5.7	7.1	10.3	25.4	11.2	22.0	-62.6	-	-	-	-88.1	-71.3	-84.5	-84.5	-90.3
Package expenditure	16.6	-8.2	-6.2	4.9	7.9	-7.8	25.8	-69.8	-	-	-	-93.5	-79.5	-90.5	-89.8	-
Non-package expenditure	13.3	17.1	14.8	13.5	41.3	33.1	22.8	-58.8	-	-	-	-88.7	-71.5	-86.0	-85.1	-90.2
Other	-2.2	5.9	11.1	10.8	22.0	4.7	19.1	-60.2	-	-	-	-83.7	-65.3	-78.7	-79.8	-86.5

Sources: National Statistics Office; Eurostat.

⁽¹⁾ Tourism data for March 2020 should be interpreted in the context of the unprecedented containment measures and travel restrictions introduced in response to COVID-19.

⁽²⁾ As a result of the COVID-19 situation, it was not possible for the NSO to issue the April, May and June 2020 news releases for Inbound Tourism.

⁽³⁾ The inbound tourism news release was issued since July following the reopening of Malta International Airport in the beginning of July.

⁽⁴⁾ Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

⁽⁵⁾ Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

⁽⁶⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

¹² 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*.

¹³ The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

firms producing ‘other manufacturing’ goods, which includes firms involved in the production of medical and dental instruments, toys and related products. Firms producing textiles and wearing apparel, rubber and plastic goods as well as those specialising in computer, electronic and optical products also registered increases.

Meanwhile, production in the energy sector contracted at a faster pace when compared with a month earlier.

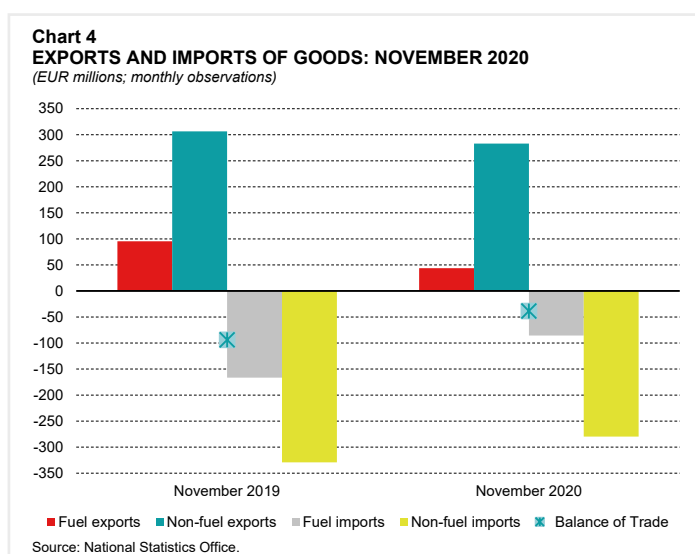
In November, development permits for commercial buildings declined by 11.7% in annual terms, after falling by almost a fourth in October. Moreover, residential permits contracted by 27.7% in annual terms, a slower decline than the 31.1% contraction registered in October.

The volume of retail trade – which is a short-term indicator of final domestic demand – contracted further, though the fall in November was the weakest since March. It declined by an annual rate of 2.7%, following a contraction of 7.9% in October.

In line with developments in previous months, the tourism sector continued to be severely affected by travel-related restrictions. The number of inbound tourists fell to 14,936 in November, a 92.2% drop over the corresponding period in 2019. Guest nights declined by 82.3%, with collective accommodation registering the sharpest decline in absolute terms. Similarly, total expenditure fell by 90.3% compared with the same month a year earlier.

Customs data show that the merchandise trade deficit stood at €38.4 million in November, down from €93.9 million a year earlier. The smaller deficit reflected a €130.4 million fall in imports, which offset a €75.0 million decline in exports (see Chart 4). Lower imports continued to be observed across most broad economic categories. However, the fall in imports mostly reflected a significantly lower fuel import bill, followed by consumer goods and industrial supplies. In particular, the latest data show significant falls in imports of fish, vehicles and vehicle parts as well as optical instruments. These outweighed higher imports of electrical machinery. The decline in exports was mostly on account of lower re-exports of mineral fuels and related products and organic chemicals. Falls in the exports of aircraft parts, printed material and ‘miscellaneous edible preparations’ were also noteworthy. Together these offset a rise in exports of pharmaceutical products and fish.

In the 11 months to November, the visible trade gap narrowed to €2,003.6 million from €3,582.0 million in the corresponding period of 2019, driven by a sharp fall in imports, which



was more than four times the drop in exports (see Chart 5).

Labour market

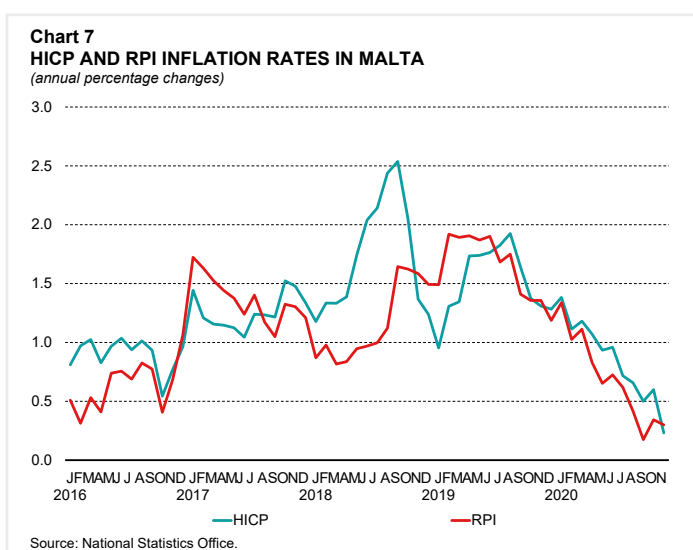
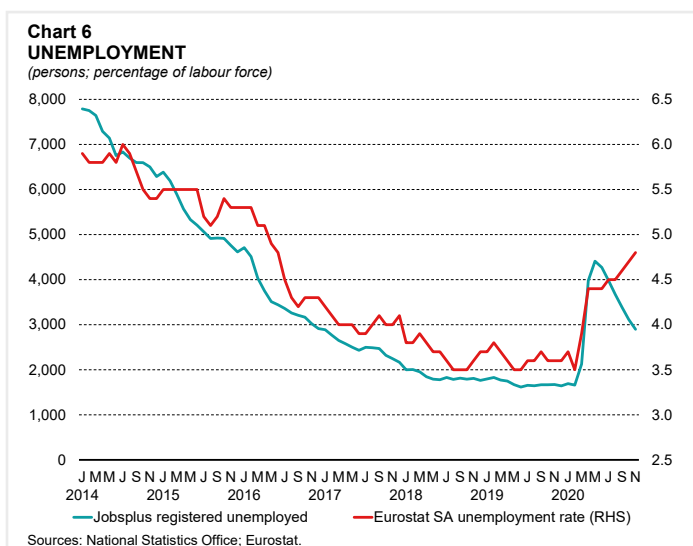
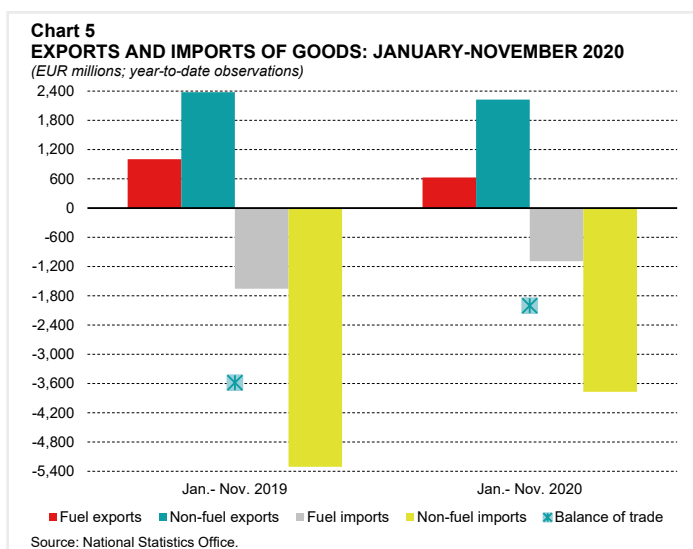
Jobsplus data show that the number of persons on the unemployment register stood at 2,898 in November, down from 3,114 in October, but higher than the 1,672 persons registered a year earlier (see Chart 6).

The seasonally-adjusted unemployment rate stood at 4.8% in November, marginally higher than that registered in the previous month, and still higher than the rate of 3.6% registered in the same month of the preceding year.

Prices, costs and competitiveness

Annual HICP inflation stood at 0.2% in November, down from 0.6% in October (see Chart 7). The lower inflation was partially a result of a faster decrease in the prices of non-energy industrial goods – particularly semi-durables. Meanwhile, services inflation fell as communication prices fell on a year earlier and prices of most other services components grew at a slower pace. Unprocessed and processed food inflation increased marginally while energy inflation remained negative but unchanged from the previous month.

Annual RPI inflation edged down marginally to 0.3% in November



(see Chart 7).^{14,15} While the contribution of recreation and culture services increased, that of clothing and footwear decreased. RPI inflation was above the HICP rate for the first time since November 2019.

Producer output inflation, measured by the producer price index, edged up to -0.5% in November, from -0.6% in October.¹⁶ This reflected a lower annual decline in intermediate goods prices when compared with the previous month, as well as the marginally faster rate of growth in producer prices of capital goods which offset a marginal decrease in consumer goods inflation. Energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 3.3% in the year to November.¹⁷ This suggests a continued deterioration in the country's international competitiveness due to an appreciation in the euro exchange rate against currencies of trading partners. The real HCI, which also takes into account relative price changes, also rose by 3.3%, suggesting that developments in relative prices vis-à-vis trading partners did not materially affect external price competitiveness.

Public finance

In November, the Consolidated Fund recorded a deficit of €91.8 million, an increase of €89.7 million when compared to the deficit registered in November 2019. This was a result of a rise in government expenditure, coupled with a drop in government revenue for the period (see Table 3). In turn, the primary balance registered a deficit of €78.5 million, a deterioration of €86.3 million when compared to the primary surplus registered a year earlier.

These developments reflect the impact on revenue of the slowdown in economic activity due to the global spread of COVID-19, as well as ongoing government support aimed at mitigating the economic effects of the pandemic.

Government revenue fell by €38.5 million, or 9.2% in annual terms. This was due to a drop in indirect tax and non-tax revenue, which more than offset an increase in direct tax revenue. In fact, indirect tax revenue fell by €49.9 million, largely due to a fall in VAT receipts. Non-tax revenue experienced a €13.8 million drop. On the other hand, direct tax revenue increased by €25.2 million, mainly due to higher income tax receipts. The improvement in direct tax revenue – which was the third consecutive monthly increase – suggests that the repayment of tax dues under the tax deferral scheme, which expired in August 2020, may have impacted revenue positively.

Government expenditure increased by €51.2 million, or 12.1% when compared to the corresponding period in 2019. This was attributable to a rise in capital expenditure, which more than offset a slight drop in recurrent expenditure. In fact, capital expenditure rose by €54.5 million, largely due to a higher subvention to Malta Enterprise to finance the COVID-19 Wage Supplement Scheme.

¹⁴ The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households.

¹⁵ It was unchanged when rounded to 1 decimal place.

¹⁶ The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

¹⁷ HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. On top of this, the real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

Table 3
CONSOLIDATED FUND BALANCE

EUR millions

	2019		2020		Change	
	Jan.-Nov.	Jan.-Nov.	Nov.	Nov.	Amount	%
Revenue	4,098.8	3,470.5	419.6	381.1	-38.5	-9.2
Direct tax	2,082.2	1,849.3	163.1	188.2	25.2	15.4
Income tax	1,472.6	1,269.0	114.0	132.0	18.0	15.8
Social security contributions ⁽¹⁾	609.6	580.3	49.1	56.3	7.2	14.6
Indirect tax	1,569.0	1,230.6	219.0	169.1	-49.9	-22.8
Value Added Tax	905.6	724.4	161.5	137.1	-24.4	-15.1
Customs and excise duties	304.9	232.1	27.2	16.0	-11.2	-41.3
Licences, taxes and fines	358.5	274.1	30.3	16.0	-14.3	-47.1
Non-tax⁽²⁾	447.6	390.6	37.6	23.8	-13.8	-36.7
Expenditure	4,090.7	4,804.5	421.7	472.9	51.2	12.1
Recurrent	3,638.9	3,987.9	374.3	371.0	-3.3	-0.9
Personal emoluments	808.8	823.6	72.9	70.3	-2.6	-3.5
Operational and maintenance	204.1	253.6	28.0	41.2	13.2	47.2
Programmes and initiatives ⁽¹⁾	1,969.2	2,166.4	201.6	180.2	-21.3	-10.6
Contributions to entities	483.1	579.6	61.9	66.0	4.0	6.5
Interest payments	173.7	164.8	9.9	13.3	3.4	33.7
Capital	451.9	816.6	47.4	101.9	54.5	115.0
Primary balance⁽³⁾	181.7	-1,169.3	7.8	-78.5	-86.3	-
Consolidated Fund balance	8.0	-1,334.0	-2.1	-91.8	-89.7	-

Source: National Statistics Office.

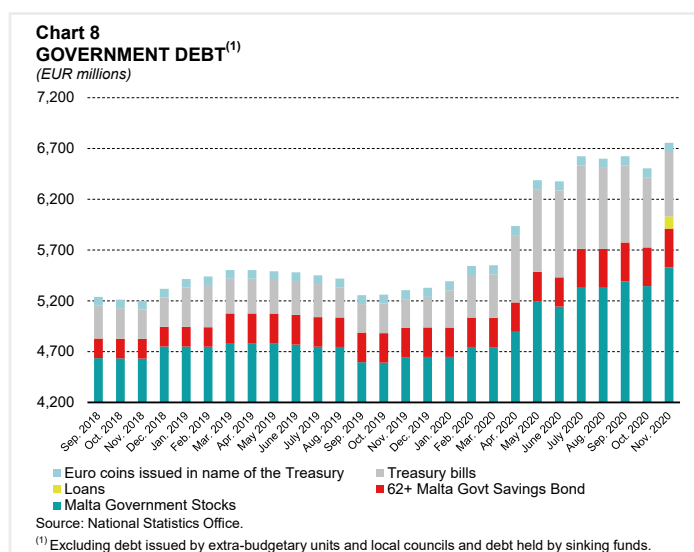
⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

⁽²⁾ Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

⁽³⁾ Revenue less expenditure excluding interest payments.

Meanwhile, recurrent expenditure dropped by €3.3 million. This was mainly due to lower outlays on programmes and initiatives – partly reflecting timing issues in church school transfers – offsetting an increase in operational and maintenance costs.

In November, the total stock of government debt amounted to €6,756.4 million, a €252.3 million increase when compared with a month earlier (see Chart 8). This was mainly due to higher outstanding Malta Government Stocks, as well as an increase in foreign loans outstanding. The latter reflects the first tranche of funds from the EU's Support to mitigate Unemployment Risks in an Emergency (SURE) instrument.



Deposits, credit and financial markets

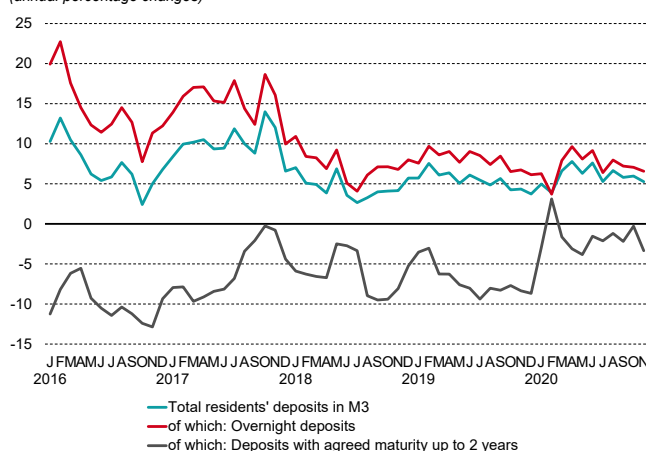
In November, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 5.3%, down from 6.0% in October (see Chart 9).

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 85% of their M3 balances. This deposit category – which is the most liquid – grew by 6.6% in the year to November, after adding 7.1% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 3.3% in annual terms, following a contraction of 0.3% in the year to October.

Credit to Maltese residents picked up. It grew at an annual rate of 10.8% in November, above the 9.5% recorded a month earlier (see Chart 10). Annual growth in credit to general government rose by 33.5% in November, following an increase of 31.9% in October. At the same time, growth in credit outside general government reached 5.0% in November, above the 3.7% growth registered in the previous month.

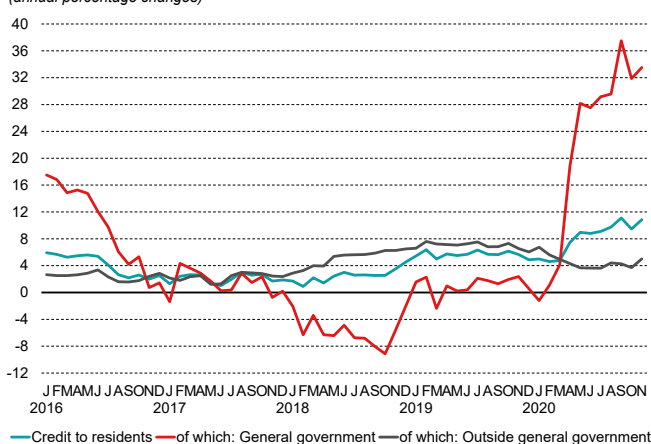
The annual rate of change in loans to non-financial corporations stood at 8.0%, up from 5.3% registered in October (see Chart 11). The acceleration in growth was driven by a faster

Chart 9
SELECTED DEPOSITS OF MALTESE RESIDENTS
(annual percentage changes)



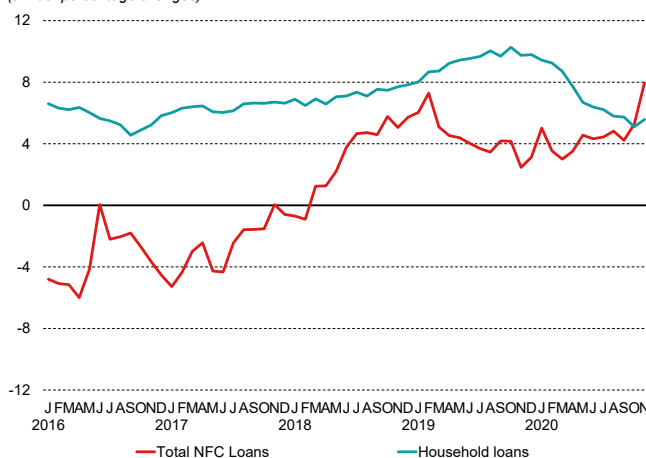
Source: Central Bank of Malta.

Chart 10
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)



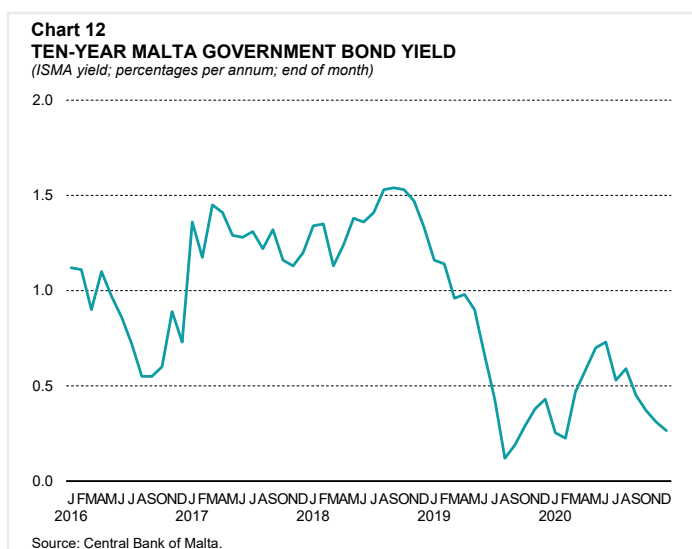
Source: Central Bank of Malta.

Chart 11
LOANS BY SECTOR
(annual percentage changes)



Source: Central Bank of Malta.

increase in the sector comprising transport, storage and ICT as well as a significantly smaller contraction in the manufacturing sector and in the wholesale and retail sectors. These developments were partly offset by a slower expansion in loans to the sector comprising real estate activities. Meanwhile, the annual rate of change of loans to households edged up to 5.6%, from 5.1% in October. This reflected a smaller contraction in consumer credit and other lending, which fell by 4.9%, following a decline of 8.9% in October. At the same time, mortgage lending grew by 6.7% in November, unchanged from a month earlier.



As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.21% in November, marginally below the 0.22% recorded in the previous month. The composite rate charged on outstanding loans eased to 3.37%, from 3.39% a month earlier. Hence, the spread between the two rates narrowed slightly to 315 basis points, from 317 basis points in October.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by five basis points from a month earlier, to 0.27% at the end of December (see Chart 12). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index rose by 11.4% during the same period. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.

BOX 2: LIQUIDITY SUPPORT MEASURES RELATED TO COVID-19

In response to the outbreak of COVID-19 and the subsequent containment measures, a number of businesses and households were faced with liquidity challenges, and thus applied with MFIs in Malta for a moratorium on loan repayments (see Table 4).¹⁸

As at end November, there were 3,085 loans subject to a moratorium on repayments.¹⁹ The total value of loans subject to a moratorium in November edged down when compared with October. These declined by around €234 million and stood at €924.4 million, or 7.9%

¹⁸ The loans subject to moratorium include both pre and post the Legal Notice 142 of 2020 on the Moratorium on Credit Facilities Regulations in Exceptional Circumstances (see <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=30087&l=1>) and Central Bank of Malta Directive No. 18. The latter entered into force on 13 April 2020. A number of banks had already started to provide moratorium facilities voluntarily in March 2020.

¹⁹ As from this edition of the Economic Update, data on moratoria refer to loans that were issued before the onset of the pandemic and which became subject to a moratorium as a result of COVID-19 pre Central Bank of Malta Directive No. 18 of 2020 or in terms of the same Directive. Revised back data are reported in the Annex.

Table 4
LOANS SUBJECT TO MORATORIUM – AS AT END NOVEMBER 2020

(Number of loans; EUR millions; percentage)

	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	2,074	187.9	3.0
Manufacturing	52	8.9	4.1
Construction	38	22.8	3.7
Wholesale and retail trade; repair of motor vehicles and motor cycles	178	78.3	12.0
Transportation and storage and information and communication	55	31.0	10.5
Accommodation and food service activities	232	215.2	43.6
Real estate activities	202	220.0	21.5
Other ⁽⁴⁾	255	160.3	7.9
Total	3,085	924.4	7.9

Source: Central Bank of Malta.

⁽¹⁾ The number of loans subject to moratorium.

⁽²⁾ Outstanding amounts of loans subject to moratorium as at end of month, in EUR millions.

⁽³⁾ The percentage of loans subject to moratorium in total outstanding loans held by the sector as at end of month.

⁽⁴⁾ Includes loans to agriculture and fishing, mining and quarrying, public administration, education, health and social work, financial and insurance activities (including interbank loans), professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other services activities and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

of total outstanding loans to Maltese residents. Loans subject to a moratorium declined for the third consecutive time since March 2020, which suggests that some businesses and households have recommenced regular loan repayments, signalling a recovery in income flows.²⁰ When compared with a month earlier, the largest declines in euro terms were observed in the household, real estate as well as manufacturing sectors.

The largest number of loans covered by moratoria was held by households, with the sector accounting for 67.2% of the total volume of loans subject to a moratorium. Maltese households held €187.9 million, or 20.3%, of the total value of loans subject to a moratorium, equivalent to 3.0% of outstanding household loans.

Meanwhile, the accommodation and food services activities sector held €215.2 million in loans subject to a moratorium. This was the sector most affected by the containment measures and, indeed, 43.6% of the loans held by this sector were subject to a moratorium by the end of November. The real estate sector held €220.0 million in loans subject to a moratorium, or around 23.8% of such loans – equivalent to slightly more than a fifth of the sector's outstanding loans. Moreover, as at end November, the wholesale and retail trade sector held €78.3 million in loans subject to a moratorium, making up 8.5% of loans subject to a moratorium, or 12.0% of loans held by the sector.

²⁰ In view of the protracted impact of the COVID-19 pandemic, on 14 January 2021, the Minister for Health, in consultation with the Ministry for Finance issued [Legal Notice \(LN\) 15 of 2021 on 'Moratorium on Credit Facilities in Exceptional Circumstances'](#), which relates to the reactivation of moratoria in Malta. This reactivation allows borrowers to submit their applications for new moratoria or to extend their existing moratoria subject to a number of conditions, before 31 March 2021.

In order to further alleviate liquidity challenges, the Government launched the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS) for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.²¹

By end November, 516 facilities were approved under the CGS, covering total sanctioned lending of €388.5 million (see Table 5). As the scheme provides loans for working capital, only €252.7 million were disbursed by the end of November, up from the €204.6 million disbursed by the end of October.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities and had the largest value of sanctioned loans at €92.0 million. This was followed by accommodation and food services activities, with 115 facilities making up a total of €73.6 million sanctioned loans, and the sector comprising transportation and ICT, which had a total sanctioned amount of €49.8 million.

Table 5
MDB COVID-19 GUARANTEE SCHEME – AS AT NOVEMBER 2020

(Number of facilities; EUR millions)

	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	42	18.4
Construction	24	37.1
Wholesale and retail trade; repair of motor vehicles and motor cycles	149	92.0
Transportation and storage and information and communication	37	49.8
Accommodation and food service activities	115	73.6
Professional, scientific and technical activities	25	12.2
Administrative and support service activities	36	12.0
Real estate	15	5.3
Other ⁽³⁾	73	88.0
Total	516	388.5

Source: Malta Development Bank.

⁽¹⁾ The number of facilities taken by various sectors.

⁽²⁾ The total number of loans sanctioned under the scheme as at end month, in EUR millions.

⁽³⁾ Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation and other services activities, activities of households, electricity, gas & water supply sector and agriculture, forestry and fishing.

²¹ The CGS was approved by the European Commission on 2 April 2020. See <https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.

MACROECONOMIC INDICATORS FOR MALTA																								
<i>(Annual percentage changes; non-seasonally adjusted data)</i>																								
	2018	2019	2019	2020	2020	2020	2019	2019	2019	2019	2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	
			Q4	Q1	Q2	Q3	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Prices and costs																								
HICP inflation	1.7	1.5	1.3	1.2	1.0	0.6	1.8	1.9	1.6	1.4	1.3	1.3	1.4	1.1	1.2	1.1	0.9	1.0	0.7	0.7	0.5	0.6	0.2	-
RPI inflation	1.2	1.6	1.3	1.2	0.7	0.4	1.7	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	0.8	0.7	0.7	0.6	0.4	0.2	0.3	0.3	-
Industrial producer price inflation	4.4	2.2	1.8	1.2	0.2	0.2	1.8	1.6	2.1	2.3	1.4	1.6	1.8	1.7	0.0	0.6	0.3	-0.3	1.2	0.5	-1.0	-0.6	-0.5	-
HCI (nominal)	2.6	-0.7	-1.1	-0.2	1.2	2.8	-0.7	-0.5	-1.7	-1.1	-1.0	-1.3	-1.1	-1.0	1.7	1.3	0.9	1.3	2.3	2.7	3.3	3.3	3.3	-
HCI (real)	2.1	-1.1	-1.6	-0.9	1.2	2.4	-0.9	-0.5	-1.8	-1.4	-1.4	-2.0	-2.0	-2.0	1.2	1.4	1.0	1.3	1.9	2.5	2.9	3.0	3.3	-
Unit labour costs, whole economy ⁽¹⁾	4.0	3.3	3.5	4.9	9.2	10.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	2.8	2.8	2.8	2.7	1.5	-0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	1.0	0.3	-0.7	-1.9	-6.5	-9.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	5.7	5.5	3.9	2.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																								
Nominal GDP	7.1	7.6	8.0	2.5	-14.8	-8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	4.8	5.3	5.5	0.8	-16.1	-9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	8.4	4.8	1.8	-1.3	-9.6	-3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	11.4	13.9	1.6	0.8	2.7	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	3.1	9.3	0.6	-2.6	-1.8	-1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-0.6	6.2	7.7	4.7	-14.7	-17.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	0.4	7.9	-6.2	-0.9	5.6	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																								
LFS unemployment rate (% of labour force)	3.7	3.5	3.2	3.6	4.4	4.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	6.6	5.4	7.7	2.8	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.9	6.0	6.0	8.6	-	-	5.4	5.2	5.7	5.7	5.9	6.3	7.8	9.2	8.8	7.6	6.7	-	-	-	-	-	-	-
Balance of payments																								
Current account (as a % of GDP) ⁽²⁾	5.7	4.6	4.6	5.1	0.9	-2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																								
Maltese residents' deposits and loans																								
Overnight deposits	8.0	6.0	6.1	7.9	9.2	7.2	8.5	7.4	8.5	6.5	6.7	6.1	6.3	3.7	7.9	9.6	8.1	9.2	6.4	8.0	7.2	7.1	6.6	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-8.7	-1.6	-1.5	-2.2	-9.4	-8.0	-8.3	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.1	-3.8	-1.5	-2.1	-1.2	-2.2	-0.3	-3.3	-
Total residents' deposits in M3	5.7	3.6	3.7	6.6	7.6	5.8	5.5	4.8	5.7	4.2	4.3	3.7	5.0	3.9	6.6	7.8	6.3	7.6	5.3	6.6	5.8	6.0	5.3	-
Credit to general government	-2.0	0.6	0.6	4.1	27.5	37.5	2.1	1.8	1.3	1.9	2.4	0.6	-1.2	1.1	4.1	18.8	28.2	27.5	29.2	29.6	37.5	31.9	33.5	-
Credit to residents (excl. general government)	6.5	6.1	6.0	4.9	3.6	4.3	7.5	6.8	6.8	7.3	6.5	6.0	6.8	5.6	4.9	4.3	3.7	3.6	3.6	4.4	4.3	3.7	5.0	-
Total credit	4.5	4.9	4.9	4.8	8.8	11.1	6.3	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.8	7.5	9.0	8.8	9.1	9.8	11.1	9.5	10.8	-
10-year interest rate (%) ⁽³⁾	1.3	0.4	0.4	0.5	0.7	0.5	0.4	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.5	0.6	0.7	0.7	0.5	0.6	0.5	0.4	0.3	0.3
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	0.1	4.4	-4.0	-19.5	6.8	12.6	0.7	-1.0	2.4	-1.6	-2.5	0.0	-1.2	-0.6	-18.0	6.1	-1.1	1.7	-3.5	-5.9	-3.8	-2.1	6.9	11.4
Liquidity support measures related to COVID-19																								
Outstanding loans subject to a moratorium ⁽⁶⁾	-	-	-	493.5	1,685.3	1,566.4	-	-	-	-	-	-	-	-	493.5	1,260.4	1,548.5	1,685.3	1,784.6	1,751.6	1,566.4	1,157.9	924.4	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁶⁾	-	-	-	-	161.1	343.7	-	-	-	-	-	-	-	-	-	-	68.5	161.1	238.0	285.1	343.7	351.1	388.5	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁶⁾	-	-	-	-	64.9	165.6	-	-	-	-	-	-	-	-	-	-	7.4	64.9	88.9	121.4	165.6	204.6	252.7	-
General government finances (% of GDP)																								
Surplus (+) / deficit (-) ⁽²⁾	2.0	0.5	0.5	-1.5	-5.1	-8.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁵⁾	45.1	42.4	42.4	43.9	51.0	53.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.

⁽¹⁾ Four-quarter moving averages.⁽²⁾ Four-quarter moving sums.⁽³⁾ End of period.⁽⁴⁾ Period-on-period percentage changes, based on end-of-month data.⁽⁵⁾ GDP data are four-quarter moving sums.⁽⁶⁾ Stock in EUR millions.