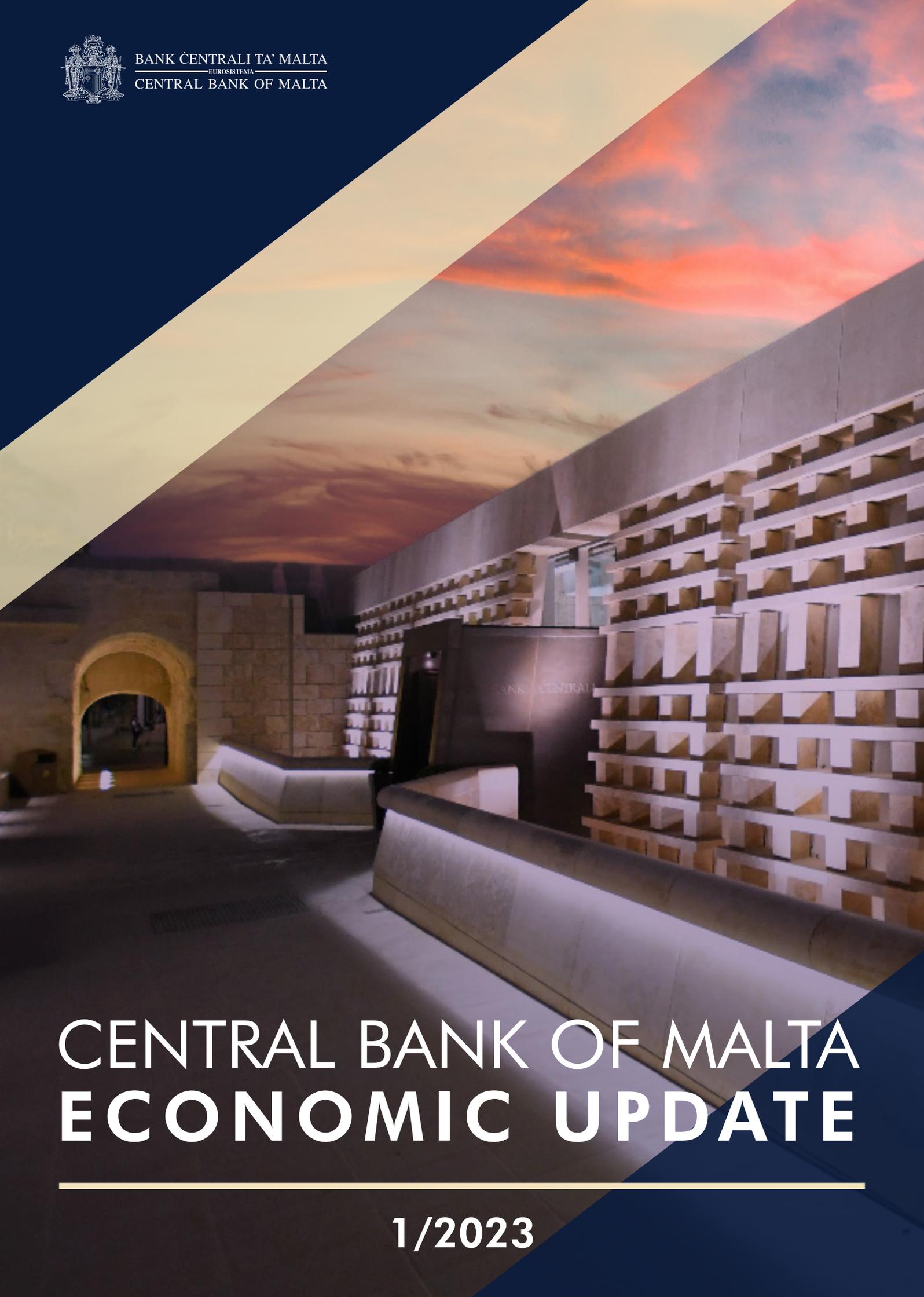




BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

1/2023

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ECONOMIC UPDATE 01/2023

Summary¹

The Bank's Business Conditions Index indicates that in December, annual growth in business activity stood slightly above its long-term average estimated since January 2000.

The European Commission confidence surveys show that in December, sentiment in Malta edged up from a month earlier, but remained below its long-term average, estimated since November 2002. When compared with the previous month, the improvement was largely driven by the retail and services sectors.

Additional survey information shows that in month-on-month terms, price expectations increased in the services sector but fell across the remaining sectors compared to November.

In December, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with November. Uncertainty fell mostly in the services sector, with smaller decreases recorded among consumers and in the retail sector. By contrast, uncertainty in industry and the construction sector increased.

In November, the rate of growth of industrial production more than doubled in annual terms, compared to October. Meanwhile, retail trade increased at a slower pace in annual terms. The unemployment rate stood at 3.2% in November, marginally higher than that registered in the previous month and a year earlier.

Commercial building and residential permits increased in November relative to their year-ago level. In December, both the number of promise-of-sale agreements and final deeds of sale fell on a year-on-year basis, and they were also lower in month-on-month terms.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 7.3% in December, marginally up from 7.2% in the previous month. Inflation based on the Retail Price Index (RPI) also increased, standing at 7.4% in December, up from 7.1% in November.

Maltese residents' deposits expanded at an annual rate of 7.0% in November, following an increase of 6.8% in the previous month, while annual growth in credit to Maltese residents stood at 8.0%, slightly below the rate of 8.1% recorded a month earlier.

In November 2022, the deficit on the Consolidated Fund narrowed when compared with a year earlier, as government revenue increased at a faster pace than expenditure.

Central Bank's Business Conditions Index²

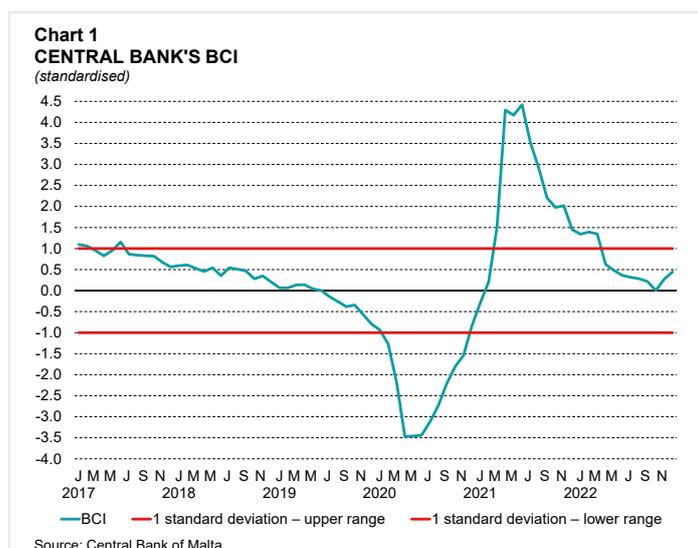
The Bank's BCI indicates that annual growth in business activity has normalised from its exceptional highs registered in the first half of 2021, although it has edged up marginally in recent

¹ The cut-off date for information in this note is 18 January 2023. However, the cut-off date for the RPI is 23 January 2023. Most of the data reported in this issue of the *Economic Update* refer to November 2022. However, the latest data for the European Commission's confidence and uncertainty indicators, HICP, RPI, and the Bank's BCI refer to December.

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.

months (see Chart 1). Among BCI components, tourist arrivals, industrial production, tax revenue, and GDP experienced strong year-on-year growth. The ESI also increased from its year-ago level. Meanwhile, the unemployment rate slightly exceeded its level in November 2021. Overall, growth is now slightly higher than its historical average estimated since January 2000.

Business and consumer confidence indicators



In December, the European Commission's Economic Sentiment Indicator (ESI) for Malta reached 97.1, up from 96.2 a month earlier and from 94.2 a year earlier. It was also slightly higher than the euro area average of 95.8. Notwithstanding the latest increase, Malta's ESI remained below its long-run average of around 100, estimated since November 2002 (see Table 1).^{3,4,5,6}

In month-on-month terms, sentiment increased strongly in the retail sector, albeit from a low level. It also improved among consumers, and to a lesser extent, among operators in the services sector. By contrast, sentiment deteriorated in industry and in the construction sector.

In December, sentiment was negative in industry, among consumers and in the construction sector. However, it was positive in the services and retail sectors.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the increase in the overall sentiment between November and December was largely driven by developments in the services and retail sectors (see Chart 2). Furthermore, the confidence indicator for industry fully explains why the ESI stood below its long-term average in December.

In December, the sentiment indicator for the services sector stood at 23.0, up from 20.9 in the previous month, and above its long-term average of 19.2.⁷ The increase in confidence reflects a significant improvement in firms' expectations of demand over the next three months. This offset

³ 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%.

⁴ 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 indicators' 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.

⁵ In January 2022, data were revised for previous periods following the annual updating of country weights and the inclusion of 2021 in the standardisation sample.

⁶ From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. See [BCS User Guide](#) for further details on the methodology used by the European Commission.

⁷ 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.

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2021	2022	2021					2022							
			Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
ESI	105.0	101.0	94.2	101.4	117.4	108.1	103.6	103.8	102.4	100.3	97.9	94.7	89.0	96.2	97.1
<i>Retail trade confidence indicator</i>	-8.4	6.0	34.3	6.1	20.7	8.0	6.1	16.7	-2.9	0.7	-21.9	6.5	15.3	-10.4	27.1
Business activity, past 3 months	-13.6	21.1	37.4	-17.6	18.7	13.0	17.5	43.1	16.2	30.5	-12.3	28.7	37.8	19.9	57.7
Stocks of finished goods	12.8	-3.2	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5	2.5	-2.4	-1.0	-0.4	15.9	3.1
Business activity, next 3 months	1.2	-6.3	29.8	-0.1	26.3	9.8	4.6	4.7	-27.4	-25.8	-55.9	-10.2	7.6	-35.2	26.6
<i>Consumer confidence indicator</i>	3.4	-7.2	-0.2	-1.2	0.5	-2.6	2.0	0.0	-6.4	-10.1	-10.7	-9.4	-18.3	-17.5	-12.4
Financial situation past 12 months	-8.8	-19.7	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0	-25.6	-27.3	-20.5	-30.9	-32.4	-23.9
Financial situation next 12 months	7.1	-11.0	-0.3	-1.2	-1.8	-3.0	-5.3	-11.0	-10.6	-16.0	-16.8	-14.1	-17.8	-19.9	-14.7
Economic situation next 12 months	18.6	-3.5	4.0	3.4	10.9	-1.7	8.9	3.5	1.8	-6.0	-8.5	-10.9	-16.0	-17.8	-9.2
Major purchases next 12 months	-3.4	5.6	5.3	4.1	6.1	3.0	12.6	21.5	4.3	7.1	10.0	7.9	-8.4	0.2	-1.8
<i>Services confidence indicator</i>	13.6	20.5	-17.8	4.9	28.1	31.1	13.4	26.2	26.3	24.2	34.3	7.8	5.9	20.9	23.0
Business situation development over the past 3 months	4.9	15.7	-14.5	-4.7	31.1	38.4	9.3	19.0	19.1	14.5	17.0	6.8	2.6	19.3	16.0
Evolution of the demand over the past 3 months	10.7	26.1	-12.1	22.3	23.1	37.0	9.0	20.4	50.1	42.2	46.7	12.4	4.5	34.2	10.7
Expectation of the demand over the next 3 months	25.4	19.8	-26.9	-3.0	30.0	18.0	22.0	39.1	9.8	15.9	39.2	4.1	10.8	9.3	42.3
<i>Industrial confidence indicator</i>	2.1	-9.4	-11.3	-4.2	25.1	1.4	-2.2	-14.8	-10.3	-14.3	-21.4	-11.4	-20.9	-16.7	-23.5
Assessment of order-book levels	-28.2	-21.5	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6	-40.7	-38.3	0.1	-5.4	-10.5	-10.1
Assessment of stocks of finished products	-3.2	9.1	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1	-8.3	29.6	50.0	51.9	2.7	2.2
Production expectations for the months ahead	31.3	2.2	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5	-10.6	3.7	15.5	-5.4	-37.0	-58.1
<i>Construction confidence indicator</i>	7.3	7.0	5.1	9.8	5.2	3.4	15.1	18.1	15.1	5.2	8.7	5.9	-0.3	2.5	-4.3
Evolution of your current overall order books	1.4	8.7	-1.5	9.1	5.5	8.7	16.7	12.0	9.2	4.5	13.2	13.6	13.5	5.0	-6.6
Employment expectations over the next 3 months	13.2	5.4	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8	-14.1	0.0	-2.0
EEl	104.1	107.1	99.6	105.2	78.0	113.6	105.0	117.6	117.0	113.7	116.7	99.5	112.6	98.3	107.6
Services	25.1	30.2	14.7	31.0	-48.9	53.1	19.3	44.5	52.8	32.2	55.9	18.8	29.9	24.5	49.6
Industry	14.8	12.0	12.4	13.4	18.4	2.9	32.8	53.1	34.0	29.1	26.5	10.1	0.4	-39.2	-37.4
Retail	4.4	16.0	2.1	1.0	3.9	17.7	4.9	4.1	2.1	34.3	6.3	-0.3	64.7	25.9	27.0
Construction	13.2	5.4	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8	-14.1	0.0	-2.0
EUI^(1,2)	21.3	28.1	36.9	25.1	32.6	27.8	20.6	35.2	33.0	24.5	28.5	21.3	38.3	25.9	24.4
Services	32.2	20.3	42.8	45.1	38.1	-1.3	1.9	26.5	17.2	0.1	24.8	1.5	39.3	32.6	17.2
Consumers	-3.5	13.7	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1	26.1	16.8	19.7	12.2	19.7	13.5
Retail	48.8	50.8	60.8	59.0	40.7	56.4	52.8	45.9	48.5	59.7	54.8	54.8	54.4	41.6	40.4
Industry	21.0	39.4	51.4	20.8	44.9	59.1	35.1	55.3	49.3	37.8	31.0	33.3	51.1	23.3	32.0
Construction	30.1	19.5	12.8	5.5	15.7	27.4	20.2	7.0	37.2	22.4	12.1	17.1	19.1	14.8	35.2
ESI demeaned	5.0	1.0	-5.8	1.4	17.4	8.1	3.6	3.8	2.4	0.3	-2.1	-5.4	-10.9	-3.8	-2.9
EEl demeaned	4.5	7.5	0.0	5.7	-22.0	14.2	5.5	18.3	17.7	14.1	17.4	-0.1	12.7	-1.5	7.9

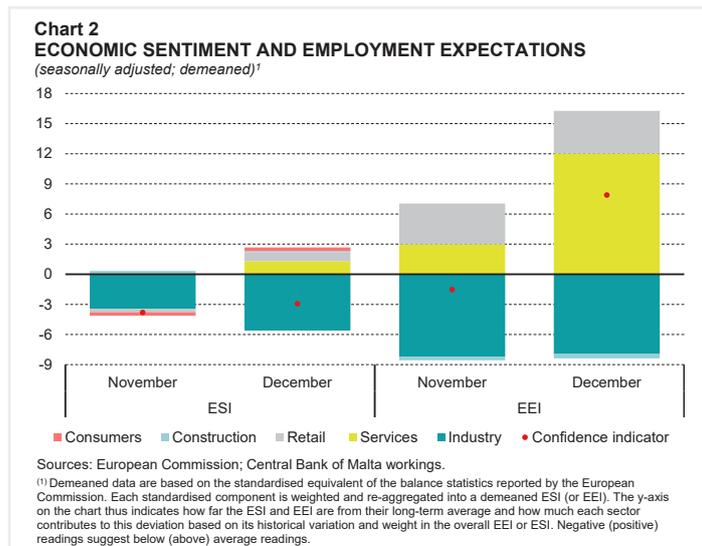
Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

⁽²⁾ Data for Malta are available from May 2021 onwards.

a deterioration in consumers' assessment of demand, and to a lesser extent, of the business situation in the previous three months.

The level of the confidence indicator for the retail sector turned positive. It increased sharply to 27.1, from -10.4 in November, rising well above its long-term average of -0.7.⁸ The latest amelioration in sentiment largely reflected developments in retailers' expectations of business activity over the next three months. Their assessment of



⁸ 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.

sales in recent months also improved significantly. Furthermore, the share of retailers assessing their stock levels to be above normal, declined.

Consumer confidence was less negative compared to November, but stood below its long-term average of -10.2.⁹ Sentiment edged up to -12.4, from -17.5 recorded a month earlier, reflecting improved expectations about the general economic situation over the next 12 months, and improved assessment of their financial situation over the last 12 months. At the same time, consumers' expectations of their financial situation in 12 months' time stood less negative. On the other hand, expectations of major purchases in the coming months, turned marginally negative.

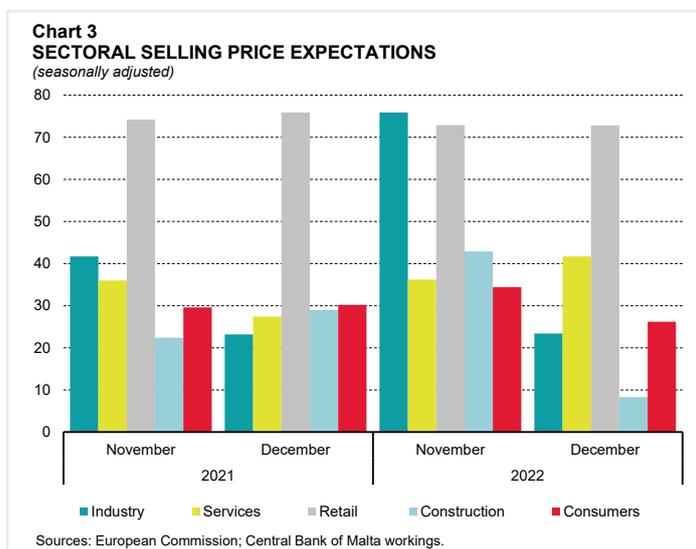
Sentiment in industry averaged -23.5, down from -16.7 in November, standing well below its long-term average of -4.3.¹⁰ Production expectations for the months ahead declined sharply compared with November, offsetting minor improvements in the assessment of stocks and order books.¹¹

The confidence indicator for the construction sector turned negative in the month under review. It stood at -4.3, from 2.5 in November. In contrast to the previous month, respondents assessed order book levels to be below normal levels. Furthermore, employment expectations fell in negative territory. Notwithstanding the latest decrease, sentiment in the sector remained above its long-term average of -8.8.¹²

Additional survey information shows that, in month-on-month terms, selling price expectations increased in the services sector but fell across the remaining sectors. The largest decrease was recorded in industry, and to a smaller extent, in the construction sector (see Chart 3). Differences across sectors remained significant – while the net share of firms signalling price increases exceeded 70% in the retail sector, that in other sectors ranged between 8% and 42%.

Price expectations stood below or around their year-ago level in all sectors, bar the services sector. The strongest decrease was recorded in the construction sector.

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



⁹ 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.

¹⁰ 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.

¹¹ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

¹² 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.

construction – stood at 107.6 in December, up from 98.3 a month earlier.¹³ Following this increase, the indicator rose above its long-term average or around 100.0 and stood slightly higher than the euro area average of 107.3.

Demeaned data suggest that the amelioration in employment expectations was almost entirely driven by a sharp increase in the services sector. Employment expectations in industry and among retailers also improved, albeit by a smaller degree. By contrast, expectations in the construction sector turned slightly more negative.

Furthermore, the services sector largely explains why the overall EEI stood above its long-term average in December (see Chart 2).

In December, the European Commission's EUI – which is a composite indicator of how difficult it is for sectors to make predictions about their future financial or business situation – decreased to 24.4, from 25.9 in November, signalling lower uncertainty (see Table 1). The uncertainty indicator stood below that of the euro area, where the index averaged 27.5, and well below its level recorded in December 2021.^{14,15}

In month-on-month terms, the decrease in Malta's uncertainty indicator was mainly driven by the services sector, although uncertainty also decreased among consumers, and to a lesser extent in the retail sector. By contrast, uncertainty in industry and the construction sector increased from the previous month.

When accounting for the variation in weights of each sector, industry and services accounted for most of the uncertainty in December.

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 – stood at 15.0%. This followed a rise of 7.2% in October (see Table 2).¹⁶

The recent increase in industrial production partly reflected a strong expansion in the output of firms that produce pharmaceutical products, followed by firms that manufacture computer, electronic and optical products. Firms that manufacture motor vehicles, trailers and semi-trailers also saw significant increases in their output in annual terms. Other increases in production were registered among firms that produce food, chemicals and chemical products as well as those that

¹³ 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*.

¹⁴ 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.

¹⁵ Data on consumer uncertainty became available in October 2020, while data for industry, services, retail and construction became available in May 2021.

¹⁶ 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.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2020	2021	2021		2022	
			Oct.	Nov.	Oct.	Nov.
Industrial production	-0.3	-0.3	-5.1	-4.7	7.2	15.0
Retail trade	-5.7	8.9	11.3	9.7	6.1	5.5
Number of tourist arrivals	-76.1	47.0	281.5	751.5	32.3	37.2
Number of nights stayed	-73.0	60.5	239.0	312.9	14.0	36.3
Rented accommodation	-76.8	73.8	295.8	524.2	14.4	29.5
Collective ⁽¹⁾	-76.5	74.3	311.7	783.9	11.9	29.7
Other rented ⁽²⁾	-77.3	72.9	266.4	291.1	19.7	29.1
Non-rented accommodation ⁽³⁾	-52.8	26.5	99.1	38.6	11.8	76.0
Tourist expenditure	-79.5	91.3	336.8	598.5	37.3	55.8
Package expenditure	-84.5	108.7	497.1	1,403.5	27.7	56.6
Non-package expenditure	-79.6	89.4	347.4	591.3	52.5	65.5
Other	-75.9	85.4	267.8	466.9	28.9	46.9

Sources: National Statistics Office; Eurostat.

⁽¹⁾ Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

⁽²⁾ Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

⁽³⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

print and reproduce recorded media. By contrast, the firms that produce wearing apparel, wood products as well as those that specialise in 'other manufacturing' – which includes medical and dental instruments, toys and related products – saw a decline in their output on an annual basis.

Meanwhile, production in the energy sector increased, after falling in October.

In November, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 5.5% in year-on-year terms, after rising by 6.1% in October.

In November, the tourism sector registered further gains. While tourist arrivals were still below pre-pandemic levels, tourist nights nearly reached the level registered in November 2019 and tourist expenditure surpassed the pre-pandemic level. The number of inbound tourists amounted to 174,460, up from 127,183 a year earlier. Nonetheless, it was still around 9.0% below the number of inbound tourists in November 2019. Guest nights also rose on a year earlier and were almost at par with those registered in November 2019. Total expenditure by tourists in Malta was also significantly higher than the level recorded in the corresponding period of 2021 and surpassed the pre-pandemic level.

In November, 262 development permits for commercial buildings were issued, two more than the number of permits issued in the same month a year earlier (see Table 3). Meanwhile, 894 new residential permits were issued, 248 more than the number issued in November 2021.

Data on residential property transactions show that 1,003 final deeds of sale were concluded in December, 283 less than the number concluded a month earlier, and 406 less than a year earlier.

Table 3
PROPERTY MARKET

Levels

	2021	2022	2021		2022	
			Nov.	Dec.	Nov.	Dec.
Permits						
Commercial permits	2,770	-	260	196	262	-
Residential permits	7,578	-	646	453	894	-
Residential transactions						
Promise of sale	15,639	12,177	1,251	2,273	1,156	1,002
Final deeds of sale	14,368	14,305	1,330	1,409	1,286	1,003

Sources: National Statistics Office; Eurostat.

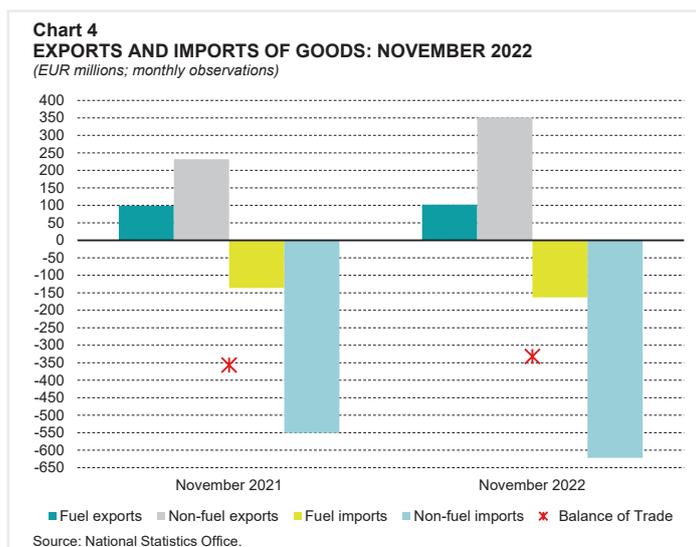
At 1,002, the number of promise-of-sale agreements was 154 less than a month earlier, and less than half the amount registered in December 2021, when there was a substantial increase in promise of sale agreements ahead of the expected expiration of a tax incentive related to the acquisition of property.

Customs data show that the merchandise trade deficit stood at €331.9 million in November, down from €356.5 million a year earlier. The smaller deficit was due to a €122.8 million rise in exports which offset a €98.2 million rise in imports (see Chart 4).

Higher imports were mainly on account of a substantial increase in the registration of aircrafts and a larger fuel import bill, together with a smaller increase in the imports of organic chemicals. Imports of machinery and mechanical appliances, and vehicles and vehicle parts also contributed to the overall rise in imports. These offset lower registrations of sea vessels.

The increase in exports was due to higher exports of fish, electrical machinery and printed material. An increase in exports of aluminium, miscellaneous edible products, machinery and mechanical appliances and certain chemical products also contributed, but to a lesser extent. These more than outweighed lower exports of aircraft parts and optical instruments.

In the 11 months to November, the visible trade gap widened to €4,361.0 million, from €2,795.7 million a year earlier, as the increase in imports was almost three times that in exports. The increase in imports was in large part driven by higher imports of fuels and higher registrations of aircraft.



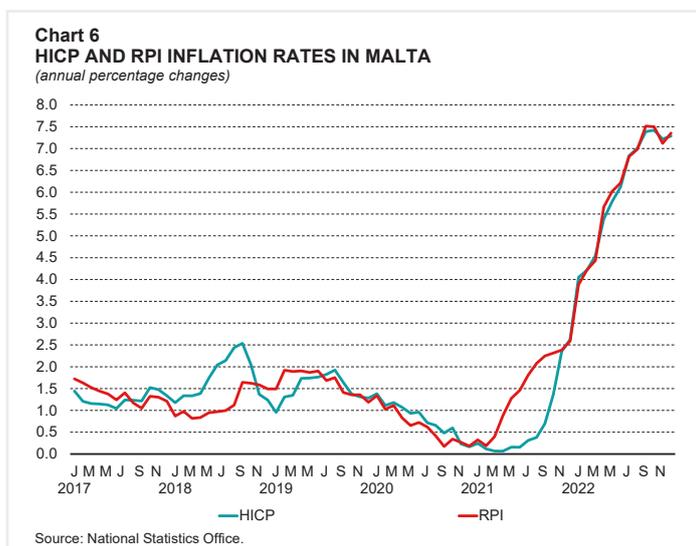
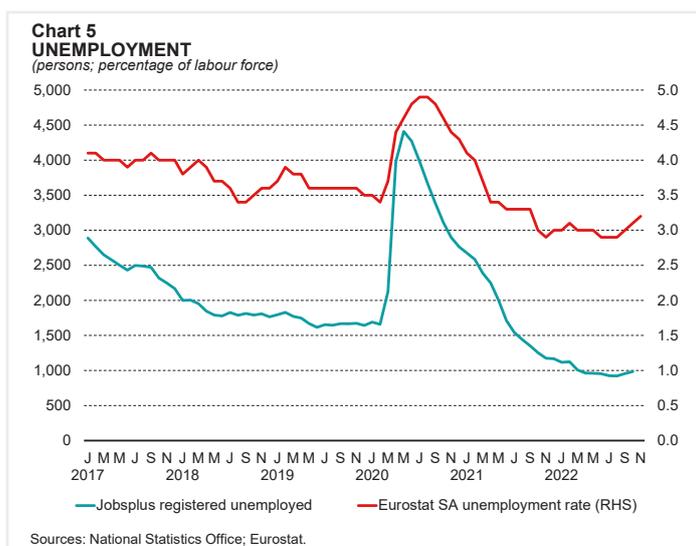
Labour market

The seasonally-adjusted unemployment rate stood at 3.2% in November, marginally above the rate of 3.1% registered in the previous month, and higher than the 2.9% registered in November 2021 (see Chart 5).

Prices, costs and competitiveness

Annual HICP inflation was 7.3% in December, marginally up from 7.2% in the previous month (see Chart 6). The rise in inflation reflects developments in services inflation. Indeed, services inflation stood at 6.7% in December, up from 6.5% in November. This was largely driven by higher inflation in services related to transport, which in turn reflects developments in prices of air and sea transport. NEIG inflation was broadly unchanged at 6.7% in December. Food inflation was also broadly unchanged at 11.5%, although developments in its subcomponents were mixed. Indeed, while processed food inflation edged down by 0.2 percentage point to 11.8%, unprocessed food inflation edged up to 10.3%, from 10.0% in the previous month. As in recent months, energy prices remained unchanged, reflecting government measures aimed at shielding such prices from foreign price pressures.

Annual inflation according to the RPI stood at 7.4% in December, up from 7.1% in November (see Chart 6).¹⁷ This increase was largely driven by higher inflation in recreation and culture, which rose to 3.3% in December, up from 2.0% in the previous month. Inflation also edged up for personal care and health, transport and communication and housing, reaching 5.8%, 2.7% and 19.3% respectively. The increase in the housing sub-index partly reflects strong growth in the prices charged by carpenters, electricians and painters. Food inflation also edged up, reaching



¹⁷ 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. Due to the strong impact of the pandemic on tourist expenditure, the two measures are expected to deviate significantly as weights in the HICP have changed significantly while those of the RPI have not been adjusted.

12.7% in December, from 12.5% in November. On the other hand, inflation of clothing and footwear eased to 0.5%, from 1.3% in the previous month. Inflation of the beverage and tobacco sector as well as that of household equipment and house maintenance also edged down, while prices remained unchanged in the energy sector.

Producer output inflation, as measured by the industrial producer price index, stood at 5.7% in November, marginally up from 5.5% in October.¹⁸ The pick-up largely reflects faster growth in the prices of intermediate goods. Producer prices of capital goods also rose at a slightly faster pace when compared to October. By contrast, producer prices for consumer goods rose at a marginally slower pace, reflecting developments in producer prices for non-durables. As in recent months, energy prices remained unchanged, having no impact on producer prices.

Public finance

In November 2022, the Consolidated Fund recorded a deficit of €7.1 million, a decrease of €50.3 million when compared to the deficit registered a year earlier (see Table 4). These developments reflect a rise in government revenue which offset a slight increase in government expenditure. In turn, the primary balance registered a surplus of €4.4 million, an increase of €47.5 million from the primary deficit registered in November 2021.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021	2022	2021	2022	Change	
	Jan.-Nov.	Jan.-Nov.	Nov.	Nov.	Amount	%
Revenue	4,246.5	4,757.5	490.3	542.3	52.0	10.6
Direct tax	2,317.6	2,605.8	230.4	248.7	18.3	7.9
Income tax	1,639.2	1,829.8	168.1	163.3	-4.7	-2.8
Social security contributions ⁽¹⁾	678.4	776.0	62.3	85.3	23.0	36.9
Indirect tax	1,497.8	1,715.3	215.5	231.1	15.6	7.2
Value Added Tax	924.0	1,160.0	154.3	191.2	36.9	23.9
Customs and excise duties	270.8	250.2	28.5	15.2	-13.3	-46.7
Licences, taxes and fines	303.0	305.1	32.7	24.7	-8.0	-24.6
Non-tax⁽²⁾	431.1	436.4	44.5	62.6	18.1	40.7
Expenditure	5,354.1	5,378.0	547.8	549.4	1.6	0.3
Recurrent	4,743.3	4,823.9	441.3	459.5	18.2	4.1
Personal emoluments	926.5	951.7	81.9	85.3	3.3	4.1
Operational and maintenance	246.4	235.0	28.8	38.2	9.4	32.7
Programmes and initiatives	2,766.6	2,825.4	223.7	245.9	22.2	9.9
Contributions to entities	636.7	655.3	92.6	78.6	-13.9	-15.0
Interest payments	167.2	156.5	14.4	11.5	-2.8	-19.8
Capital	610.9	554.1	106.5	89.9	-16.6	-15.6
Primary balance⁽³⁾	-940.4	-464.0	-43.1	4.4	47.5	-
Consolidated Fund balance	-1,107.6	-620.5	-57.5	-7.1	50.3	-

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.

¹⁸ 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.

Government revenue increased by €52.0 million, or 10.6%, due to increases in tax and non-tax revenue. The latter increased by €18.1 million, mainly on the back of higher grants. Revenue from direct taxes rose by €18.3 million due to an increase in social security contributions, which offset lower income tax receipts; the latter driven by lower income taxes paid by companies. Revenue from indirect taxes increased by €15.6 million, due to an increase in VAT receipts that offset lower inflows from customs and excise duties.

Government expenditure increased by €1.6 million, or 0.3%, when compared to the corresponding period in 2021, as an increase in recurrent expenditure was partly offset by a decrease in capital expenditure. The latter decreased by €16.6 million, partly reflecting lower expenditure on road construction and maintenance.

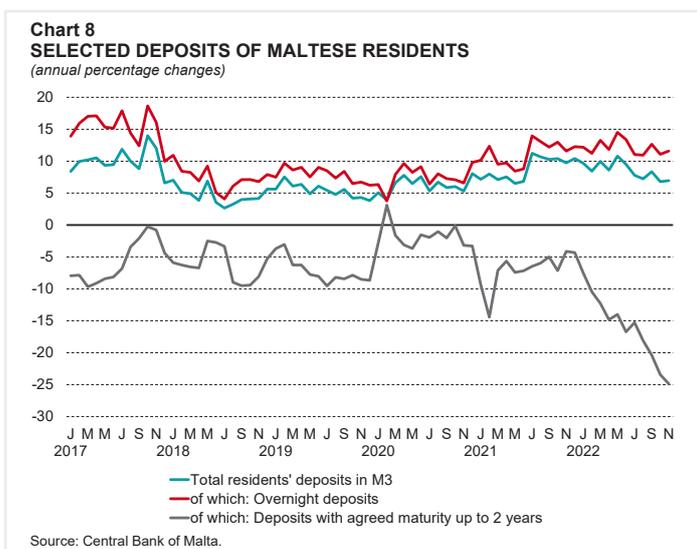
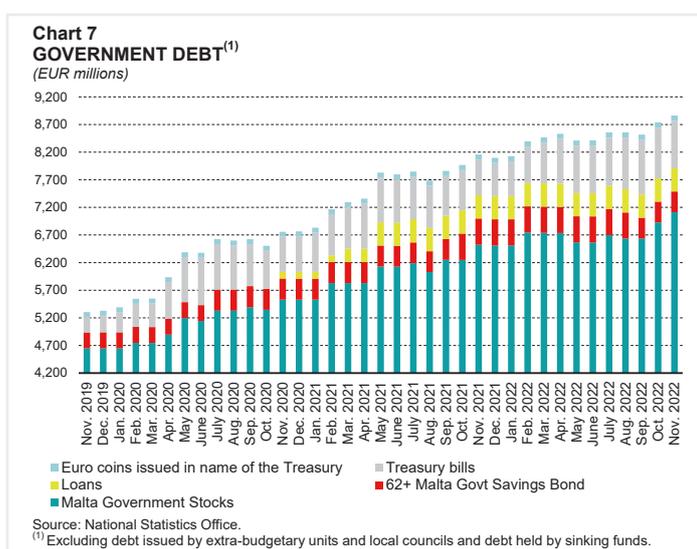
Meanwhile, recurrent expenditure increased by €18.2 million, largely on the back of higher expenditure on programmes and initiatives, which increased by €22.2 million. This reflects significant outlays on carbon credits. This was partly offset by lower outlays on contributions to entities and lower interest payments, which declined by €13.9 million and €2.8 million, respectively. The month under review also featured increased outlays on personal emoluments and operation and maintenance. These increased by €3.3 million, and €9.4 million, respectively.

In November 2022, the total stock of outstanding government debt amounted to €8,864.5 million, an increase of €126.5 million when compared with October 2022 (see Chart 7). This rise was attributable to the issuance of Malta Government Stocks.

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 7.0%, above the 6.8% recorded a month earlier (see Chart 8).

Overnight deposits remained the largest component of



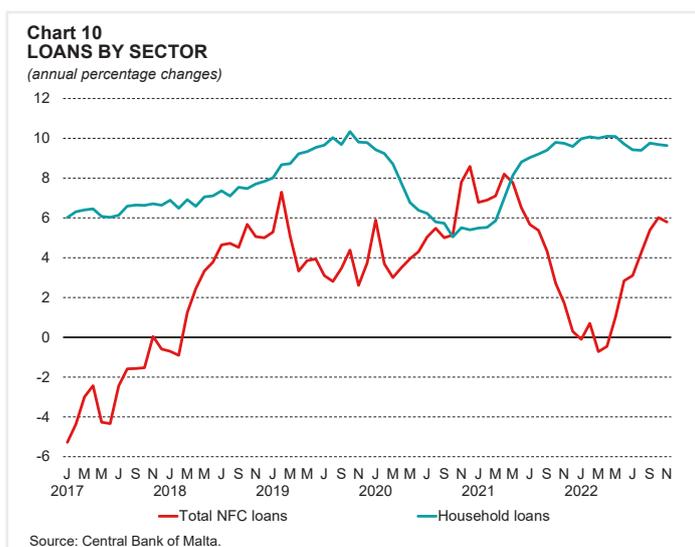
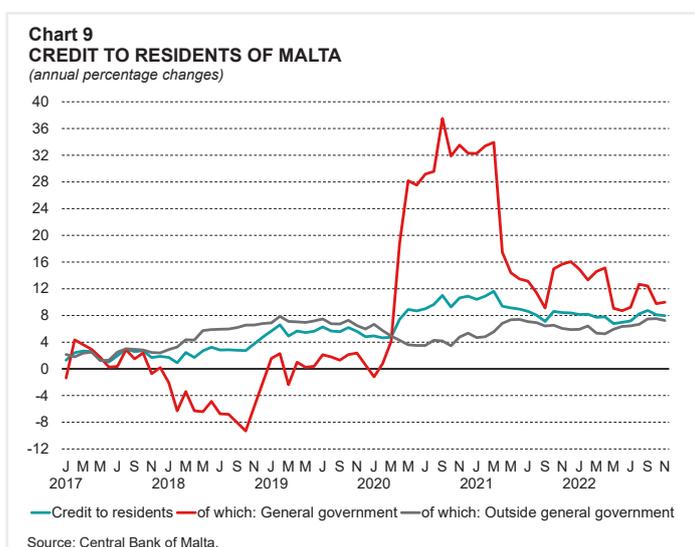
residents' M3 deposits, comprising around 91% of their M3 balances. This deposit category – which is the most liquid – grew by 11.6% in the year to October, above the 11.1% recorded in the previous month. At the same time, time deposits with a maturity of up to two years – the second largest deposit category – fell by 24.9% in annual terms, following a contraction of 23.4% in the year to October. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

Credit to Maltese residents grew at an annual rate of 8.0% in November, marginally below the 8.1% recorded a month earlier (see Chart 9). This deceleration was driven by a smaller increase in credit to residents outside general government. Annual growth in this component eased to 7.2%, from 7.5% in October. Meanwhile, growth in credit to general government stood at 10.0%, slightly above the 9.8% registered in the year to October.

The annual rate of change of loans to households eased slightly to 9.6% in November, from 9.7% in the previous month (see Chart 10). Growth in mortgage lending stood at 10.2%, marginally below the 10.4% recorded in the year to October. On the other hand, consumer credit and other lending rose at a faster rate of 2.9%, following an increase of 1.6% a month earlier.

Meanwhile, the annual rate of change of loans to non-financial corporations stood at 5.8% in November, down from 6.0% in October. The deceleration was largely driven by slower growth in loans to the wholesale and retail trade sector. This was followed by a larger contraction in loans to the energy sector and in the accommodation and food services sector. By contrast, loans to the real estate sector increased at a faster pace. At the same time, loans to the construction sector increased, following a decline in the year to October.

By end-November, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS),



covering total sanctioned lending of €482.6 million.¹⁹ The number and value of facilities approved and still outstanding was unchanged from the previous month. Overall, €470.2 million were disbursed, up slightly from the amount disbursed by the end of October.

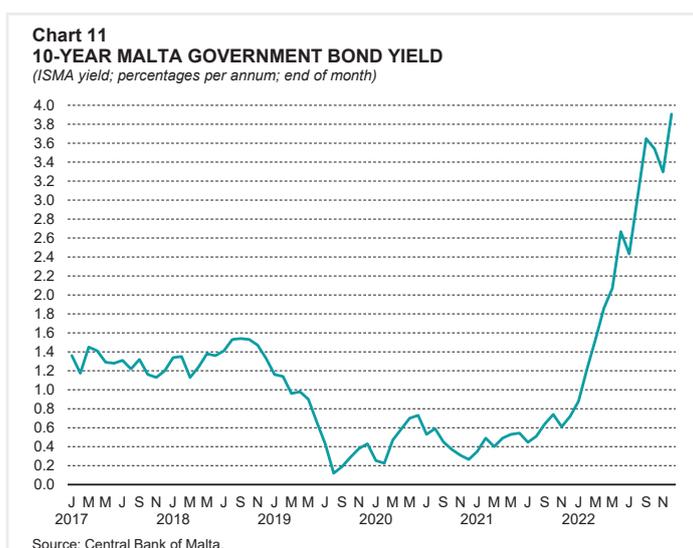
In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-November, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €12.5 million.

In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS), which consists of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans are available under LSGS-A and LSGS-B, respectively. Government guarantees cover 90% of each working capital loan under LSGS-A and 80% under LSGS-B. No facilities have been approved under these schemes by November.

As regards interest rates, in November, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits edged up from a month earlier, to 0.15%. Meanwhile, the composite rate charged on outstanding loans edged up by 6 basis points, to 3.30% in November. As a result, the spread between the two rates widened slightly, standing at 315 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased to 3.91% at the end of December, 61 basis points more than at the end of November. It also remained elevated compared to its year-ago level, exceeding it by 319 basis points (see Chart 11). This reflects the recent increases in ECB policy rates, and expectations of further rate increases in light of expected persistent, albeit declining, inflation above target.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index was broadly unchanged when compared with November. At the same time, the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, eased by 1.2% over the same period.



¹⁹ The CGS is administered by the Malta Development Bank 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. It was approved by the European Commission on 2 April 2020. See [MDB-Working-Capital-Guarantee-Scheme](#) for further details.

