



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

1/2024

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The cut-off date for information in this note is 17 January 2024. However, the cut-off date for the RPI is 22 January 2024. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 1/2024

Summary¹

The Bank's Business Conditions Index (BCI) indicates that in December, annual growth in business activity stood slightly above its historical average, estimated since January 2000.

The European Commission confidence surveys show that sentiment in Malta increased in December, rising above its long-term average, estimated since November 2002. In month-on-month terms, sentiment improved in the retail and services sectors, as well as in industry, while it deteriorated among consumers and in construction.

Additional data show that in month-on-month terms, price expectations edged down among retailers, among firms in industry, and in the construction sector but rose in the services sector and among consumers. The most significant decrease was recorded in the retail sector.

In December, the European Commission's Economic Uncertainty Indicator (EUI) for Malta fell compared with November, indicating lower uncertainty. Uncertainty decreased mostly in the services sector and in industry.

In November, industrial production rose at a slower pace, while retail trade increased on a year-on-year basis following a contraction a month earlier. The unemployment rate remained unchanged at 2.5%, and stood below that of 2.9% in November 2022.

Commercial and residential building permits in November were lower than a month earlier and were also lower when compared with a year ago. In December, the number of residential promise-of-sale agreements rose on a year-on-year basis, as did the number of final deeds of sales.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 3.7% in December, down from 3.9% in the previous month. Inflation based on the Retail Price Index (RPI) remained unchanged at 3.6%.

In November, the level of Maltese residents' deposits decreased below its year ago level, though at a slower rate than in October. This decline reflects lower balances belonging to financial intermediaries and, to a lesser extent firms. By contrast, household deposits increased. Meanwhile, annual growth in credit to Maltese residents increased at a slower pace compared with a month earlier.

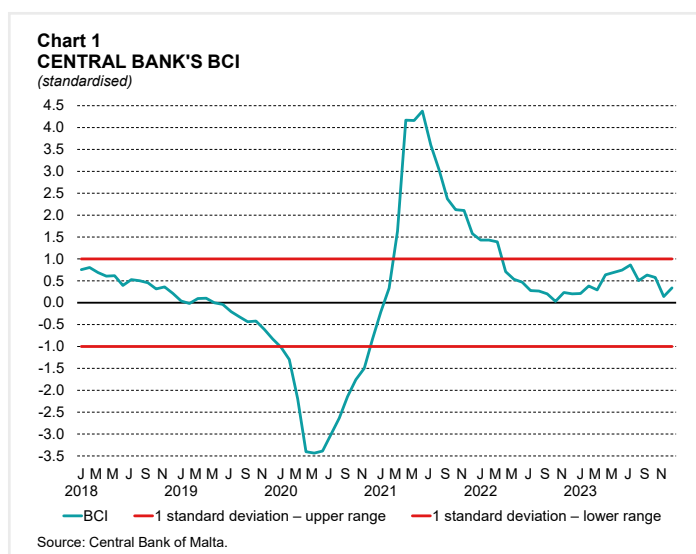
In November, the Consolidated Fund recorded a larger deficit compared to a year earlier. This reflects a rise in government expenditure and a decline in government revenue.

¹ The cut-off date for information in this note is 17 January 2024. However, the cut-off date for the RPI is 22 January 2024. Most of the data reported in this issue of the *Economic Update* refer to November 2023. However, European Commission survey data, inflation data, the BCI and residential transactions refer to December.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that in December, annual growth in business activity stood slightly above its long-term average, estimated since January 2000 (see Chart 1). In part this reflects the fact that the Economic Sentiment Indicator (ESI) has increased and stood above its long-run average. Growth in gross domestic product (GDP) also exceeded its long-term average, pushing the index upwards. Also, average growth

in the index of industrial production in recent periods, as well as lower unemployment rates indicate better than average economic conditions. On the other hand, the issuance of development permits for residential buildings declined strongly in year-on-year terms, while growth in inbound tourism eased recently despite remaining substantial.



Business and consumer confidence indicators

In December, the European Commission's ESI for Malta increased to 103.6, from 96.7 in November. It thus exceeded its long-term average of around 100.0, estimated since November 2002, and reversed the decline registered in the previous month (see Table 1).^{3,4,5} Furthermore, sentiment stood above the euro area average of 96.4.

In month-on-month terms, sentiment increased most in the retail and services sectors. It also improved in industry, though remaining negative. By contrast, sentiment in the construction sector declined sharply, falling into negative territory, while sentiment among consumers was broadly unchanged from the previous month.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the increase in the overall sentiment in December was driven by the developments in the services sector, and in industry. Furthermore, these sectors largely explain why the ESI stood above its long-term average in December (see Chart 2).

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.

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%. 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.

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 Past ESI and Employment Expectations Indicator (EEI) results were slightly revised due to seasonal adjustment.

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

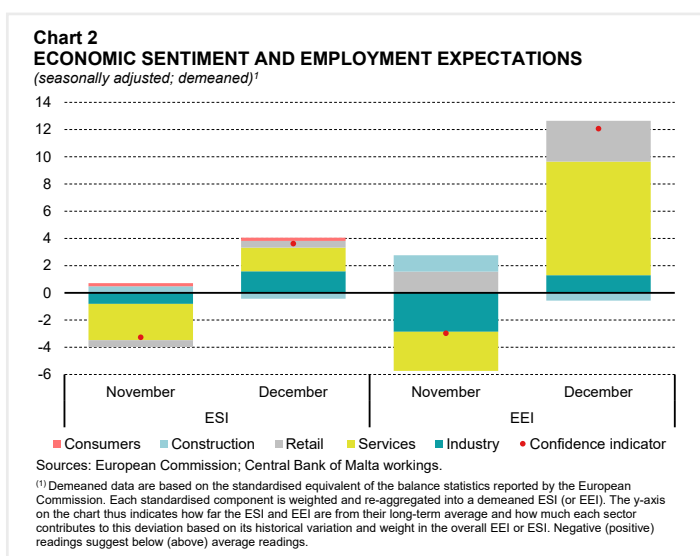
	2022	2023	2022					2023							
			Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
ESI	100.9	105.8	96.5	101.2	104.6	111.1	113.8	103.2	100.4	108.5	103.1	120.1	103.0	96.7	103.6
Retail trade confidence indicator	6.0	9.8	27.0	25.5	-0.4	23.8	36.2	-8.9	-16.5	23.5	18.3	9.6	0.1	-9.1	15.4
Business activity, past 3 months	21.1	25.2	57.7	41.8	21.8	47.2	55.2	-0.1	-4.2	40.4	34.3	21.3	11.5	7.2	25.5
Stocks of finished goods	-3.2	16.5	3.1	15.9	22.9	1.9	1.1	19.6	24.9	10.8	16.2	11.5	18.9	44.4	10.0
Business activity, next 3 months	-6.2	20.7	26.2	50.6	-0.2	26.2	54.6	-7.1	-20.4	40.9	36.7	19.1	7.7	9.9	30.7
Services confidence indicator	20.6	26.7	19.2	18.9	30.2	42.3	40.7	35.6	38.5	27.6	8.1	17.9	26.1	7.7	27.0
Business situation development over the past 3 months	15.7	24.0	1.6	12.4	30.7	42.9	32.9	33.9	41.9	32.1	1.6	21.0	14.5	7.3	16.8
Evolution of the demand over the past 3 months	26.3	26.1	14.9	17.9	37.2	29.8	36.9	38.8	31.4	17.9	7.6	23.1	34.3	1.2	37.6
Expectation of the demand over the next 3 months	19.8	30.0	41.2	26.2	22.7	54.3	52.4	34.1	42.2	32.8	15.1	9.5	29.6	14.7	26.6
Industrial confidence indicator	-9.4	2.4	-23.5	-8.6	-3.2	6.8	8.5	-11.4	-20.0	10.6	9.1	44.4	0.3	-4.7	-2.8
Assessment of order-book levels	-21.5	-12.7	-10.1	-4.3	-7.2	-50.3	-49.0	-39.6	-36.8	-15.9	-1.8	40.5	1.1	10.8	-0.2
Assessment of stocks of finished products	9.1	2.2	2.2	2.6	19.2	3.6	-3.6	4.6	6.0	1.7	3.2	-43.5	3.1	30.8	-1.7
Production expectations for the months ahead	2.2	22.1	-58.1	-18.8	16.8	74.1	70.9	9.9	-17.3	49.4	32.3	49.1	2.9	5.8	-10.0
Consumer confidence indicator	-7.3	-10.9	-11.8	-10.3	-6.8	-10.9	-6.9	-9.9	-10.4	-11.8	-12.8	-9.9	-16.2	-12.3	-12.6
Financial situation past 12 months	-19.7	-20.3	-22.7	-19.1	-16.2	-22.9	-21.4	-19.3	-21.4	-18.7	-21.8	-23.1	-19.9	-19.5	-20.1
Financial situation next 12 months	-11.8	-10.5	-13.4	-11.3	-8.8	-12.0	-8.6	-7.4	-8.4	-10.6	-16.0	-10.1	-13.2	-8.0	-11.2
Economic situation next 12 months	-3.5	-12.6	-9.2	-10.0	-4.2	-11.0	-4.7	-11.5	-12.6	-18.3	-14.8	-6.5	-21.7	-18.1	-17.7
Major purchases next 12 months	5.6	-0.3	-1.8	-0.6	1.9	2.4	6.8	-1.4	0.7	0.3	1.4	0.1	-9.8	-3.4	-1.5
Construction confidence indicator	7.0	1.2	-4.3	2.9	17.5	-0.2	24.7	22.5	8.4	-11.7	-14.1	-2.7	-11.9	2.8	-23.4
Evolution of your current overall order books	8.7	-9.8	-6.6	2.4	6.3	-15.9	3.6	-0.3	16.1	-29.9	-20.5	-3.4	-9.7	-22.3	-43.6
Employment expectations over the next 3 months	5.4	12.2	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	-7.7	-2.1	-14.1	27.8	-3.2
EEI	106.4	107.9	110.0	111.6	110.9	123.1	122.7	107.8	106.2	104.5	102.6	96.6	99.5	97.2	112.3
Industry	12.0	19.3	-37.4	8.2	13.6	60.2	57.1	-2.7	7.8	53.6	4.8	-1.2	16.6	-6.2	19.8
Retail	15.8	17.2	26.7	16.1	10.6	38.9	20.8	5.0	4.4	22.3	30.9	8.6	13.9	12.9	21.8
Services	30.2	30.1	54.9	46.0	40.7	45.8	49.5	38.4	37.0	6.6	18.0	12.9	13.6	10.2	42.1
Construction	5.4	12.2	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	-7.7	-2.1	-14.1	27.8	-3.2
EUJ^(1,2)	28.1	12.1	24.4	14.0	2.9	5.5	19.4	-3.2	11.0	1.7	10.2	27.9	26.9	24.1	4.2
Industry	39.4	7.6	32.0	10.9	-14.8	-10.8	35.8	-13.6	6.3	-21.7	7.1	32.6	28.7	23.9	6.9
Retail	50.8	6.5	40.4	18.7	14.2	9.0	7.3	27.9	22.0	-9.8	-8.5	4.1	-18.9	12.9	-1.2
Services	20.3	15.2	17.2	16.4	16.4	17.2	-1.7	-6.8	10.1	20.4	9.4	35.8	37.7	35.2	-7.5
Consumers	13.7	14.4	13.5	13.9	12.2	11.9	19.8	12.3	19.2	16.3	17.8	11.6	15.9	11.3	10.4
Construction	19.5	24.9	35.2	19.7	14.5	36.6	25.2	9.0	10.1	29.5	28.4	32.5	37.5	22.1	34.0
ESI demeaned	0.9	5.8	-3.5	1.2	4.6	11.1	13.8	3.2	0.3	8.5	3.1	20.1	3.0	-3.3	3.6
EEI demeaned	6.2	7.9	8.3	11.0	10.6	23.7	23.3	7.2	5.8	5.6	2.4	-3.6	-0.4	-3.0	12.1

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

In December, confidence in the retail sector turned positive and rose well above its long-term average of 0.1.⁶ It stood at 15.4, up from -9.1 in the previous month. The amelioration in sentiment largely reflected a sharp decrease in the net share of respondents assessing stocks of finished goods to be above normal.⁷ At the same time, retailers' assessment of sales over the past three months, and their expectations of business activity over the next three months, stood more positive compared to November.



⁶ 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.

⁷ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

The sentiment indicator for the services sector increased to 27.0, from 7.7 a month earlier, thus standing well above its long-term average of 19.7.⁸ All sub-components of the indicator improved compared to November, with the most significant increase observed in firms' assessment of demand over the past three months.

The sentiment indicator in industry rose to -2.8 in December from -4.7 in November, thus standing above its long-term average of -3.9.⁹ In contrast to the previous month, on balance, respondents assessed their stock of finished products to be below normal levels. This was partly offset by a deterioration in production expectations for the months ahead, and in firms' assessment of order book levels, with both indicators turning negative in December.

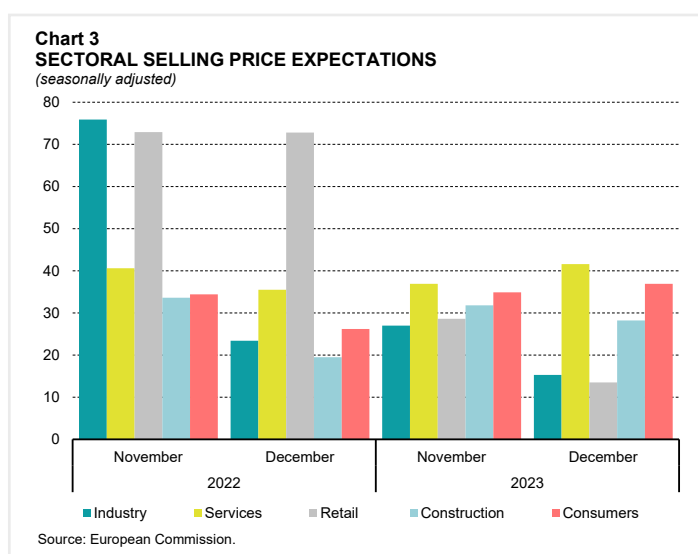
Consumer confidence averaged -12.6, marginally below the -12.3 recorded a month earlier, and thus remained below its long-term average of -10.3.¹⁰ While expectations about major purchases and the general economic situation over the next 12 months were less negative than before, the other components of consumer confidence showed a deterioration.

The confidence indicator for the construction sector fell to -23.4, down from 2.8 in November, thus standing well below its long-term average of -8.1.¹¹ On balance, respondents anticipated employment to decrease in the coming months. At the same time, the net share of participants assessing their order book levels to be below normal, almost doubled.

Additional survey information shows that, in month-on-month terms, price expectations rose among services firms and consumers, but fell in the remaining sectors (see Chart 3). The largest decreases were recorded in the retail sector and in industry.

The net share of respondents signalling price increases ranged from around 14% in the retail sector to around 42% in the services sector.

Compared with the average for 2022, average price expectations in 2023 declined



⁸ 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.

⁹ 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.

¹⁰ 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.

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.

significantly in retail and in industry but rose strongly in the construction sector. They remained broadly unchanged in other sectors.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased sharply to 112.3 in December, from 97.2 in November.¹² Following this increase, the indicator stood above its long-term average of around 100.0, and the euro area average of 102.8.

Demeaned data suggest that the increase in employment expectations was largely driven by developments in the services sector. This sector mostly also 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, signalling lower uncertainty. It fell to 4.2, from 24.1 in November, and stood below that of the euro area (see Table 1).^{13,14} Contrary to a month earlier, on balance, firms in the services sector and retailers reported that they were able to predict their business situation with ease. Lower uncertainty was recorded in industry, and to a more limited extent, among consumers. By contrast, uncertainty in the construction sector increased.

When accounting for the variation in weights of each sector, industry and consumers accounted for most of the uncertainty observed in December, followed by construction.

Activity indicators

In November, the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing, and energy sectors – rose by 1.0% on a year-on-year basis, though at a slower pace compared to 2.0% in October (see Table 2).¹⁵

In the manufacturing sector, production rose at a faster annual rate of 4.4%, after increasing by 0.9% in October. In November, strong increases were recorded among firms involved in the manufacture of wearing apparel, and in 'other manufacturing', which includes medical and dental instruments. Output also increased among firms that produce wood and wood products as well as beverages. These offset annual decreases among firms involved in the manufacturing of selected non-metallic mineral products, and electrical equipment. Output also fell somewhat among firms involved in the printing and reproduction of recorded media, textiles, and manufacture of motor vehicles.

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 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.

¹⁴ Data on consumer uncertainty became available in October 2020, while data for industry, services, retail, and construction became available in May 2021.

¹⁵ 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

	2021	2022	2022		2023	
			Oct.	Nov.	Oct.	Nov.
Industrial production	0.1	2.8	5.0	11.7	2.0	1.0
Retail trade	9.7	10.1	8.5	7.3	-0.3	5.3
Number of tourist arrivals	47.0	134.4	33.7	37.2	31.1	24.7
Number of nights stayed	60.5	96.3	15.4	36.3	30.7	14.7
Rented accommodation	73.8	110.0	15.6	29.5	33.9	22.9
Collective ⁽¹⁾	74.3	108.6	12.9	29.7	26.7	20.3
Other rented ⁽²⁾	72.9	112.4	21.1	29.1	47.8	28.2
Non-rented accommodation ⁽³⁾	26.5	48.1	14.8	76.0	14.7	-20.4 ⁽⁴⁾
Tourist expenditure	91.3	130.0	38.2	55.8	39.0	23.6
Package expenditure	108.7	128.9	28.3	56.6	54.1	40.9
Non-package expenditure	89.4	145.0	53.2	65.5	32.9	24.4
Other	85.4	116.8	30.1	46.9	36.6	14.6

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).

⁽⁴⁾ Based on less than 1,500 tourists, should be treated with caution.

Meanwhile, production in the energy sector contracted by 15.2% in November – after rising by 8.3% a month earlier.

The volume of retail trade – which is a short-term indicator of final domestic demand – rose by 5.3% in year-on-year terms, following a contraction of 0.3% in October.

During November, the tourism sector continued to perform well. The number of inbound tourists amounted to 217,487, an increase of 24.7% on a year earlier. Guest nights also rose on a year earlier. Total expenditure by tourists in Malta increased by 23.6% over the level recorded in the corresponding period of 2022, with the increase being broad-based across all expenditure categories. Expenditure per capita decreased marginally, reflecting a shorter length of stay.

In November, 251 development permits for commercial buildings were issued, 11 less than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 466 new residential building permits were issued, 428 less than the number issued in November 2022. In month-on-month terms, commercial permits fell marginally, while residential permits declined at a more pronounced rate.

In December, 1,047 final deeds of sale were concluded, 31 more than a month earlier, and 26 more than a year earlier. At 1,052, the number of promise-of-sale agreements was 179 less than a month earlier, but 51 more compared with a year earlier.

Table 3
PROPERTY MARKET

Levels

	2022	2023	2022			2023		
			Oct.	Nov.	Dec.	Oct.	Nov.	Dec.
Permits								
Commercial permits	2,984	-	218	262	137	257	251	-
Residential permits	9,599	-	776	894	394	577	466	-
Residential transactions								
Promise of sale	12,164	13,216	1,197	1,155	1,001	1,225	1,231	1,052
Final deeds of sale	14,331	12,178	1,449	1,294	1,021	1,137	1,016	1,047

Sources: National Statistics Office; Planning Authority.

Customs data show that the merchandise trade deficit narrowed to €187.4 million in November, from a deficit of €310.6 million a year earlier. This was due to a €187.5 million decline in imports offsetting a €64.3 million decrease in exports (see Chart 4).

Lower imports were mainly on account of a substantial decrease in the registration of aircrafts and sea vessels. Imports of machinery and mechanical appliances, printed material, paper products and furniture also decreased, but to a lesser extent. These offset higher imports of fuel, and to a lesser extent, higher imports of electrical machinery, fish, pharmaceutical products, and organic chemicals.

The decrease in exports mainly reflected lower exports of fish. Exports of toys, organic chemicals and pharmaceutical products also declined but to a lesser extent. These offset higher fuel re-exports, and to a lesser extent exports of printed material.

Labour market

Jobsplus data show that the level of engagements in the labour market stood at 10,196 in October, down from 10,420 in September, and from 12,260 recorded a year earlier. Moreover, the level of terminations stood at 7,541 in October, down from 12,349 in September, and less than 8,098 recorded a year earlier. Engagements were above the average in recent years, while terminations stood lower.¹⁶

¹⁶ Averages are estimated since January 2020.

Chart 4
EXPORTS AND IMPORTS OF GOODS: NOVEMBER 2023
(EUR millions; monthly observations)

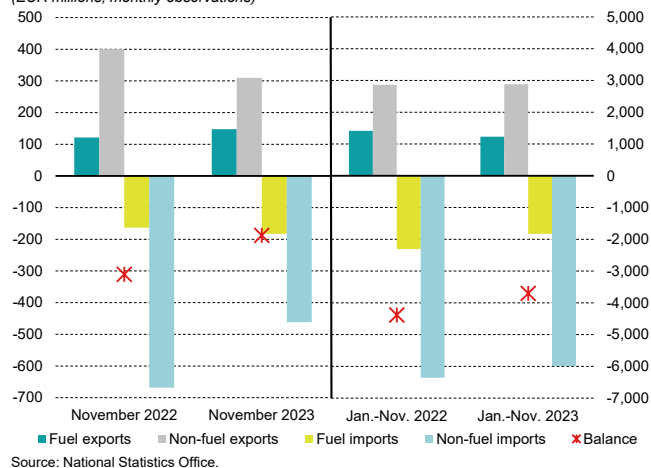


Table 4
NET ENGAGEMENTS

Levels

	2021	2022	2022			2023		
			Aug.	Sep.	Oct.	Aug.	Sep.	Oct.
Engagements	113,456	130,728	10,766	11,208	12,260	9,515	10,420	10,196
Terminations	93,124	102,229	9,968	13,272	8,098	8,790	12,349	7,541
Net Engagements	20,332	28,499	798	-2,064	4,162	725	-1,929	2,655

Source: Jobsplus.

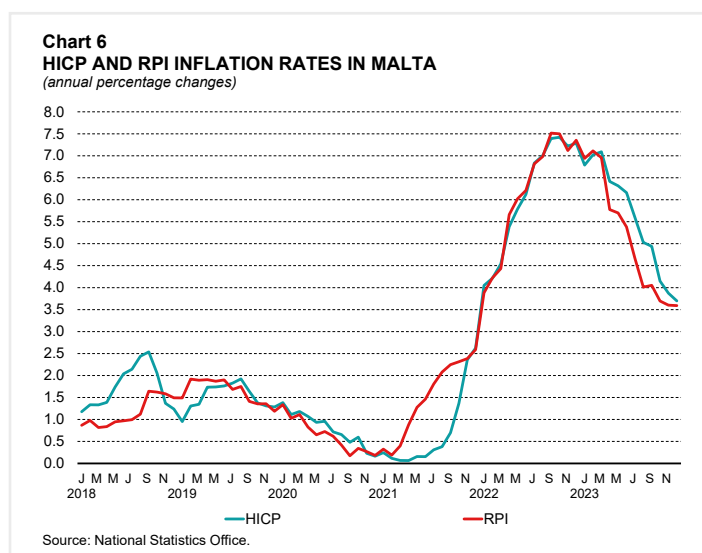
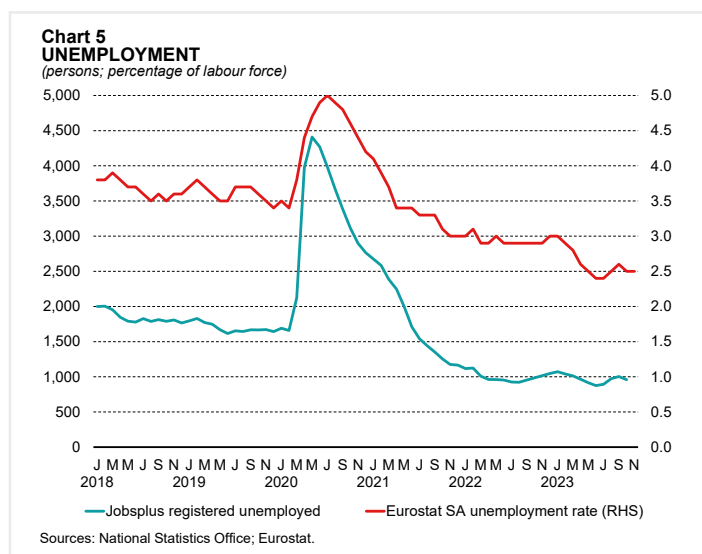
Data are provisional and thus subject to change.

Overall, the level of net engagements in October stood at 2,655, up from -1,929 in September, but down from 4,162 recorded a year earlier (see Table 4).

The seasonally-adjusted unemployment rate, remained unchanged at 2.5% in November, and stood lower than 2.9% in November 2022 (see Chart 5).

Prices, costs and competitiveness

Annual HICP inflation eased to 3.7% in December, from 3.9% a month earlier (see Chart 6). This was driven by slower growth in services inflation. The latter eased to 3.0% from 3.9% a month earlier, on the back of lower price increases in transport services and recreational and personal care services. On the other hand, food inflation rose to 8.3% in December, as a drop in processed food inflation was counteracted by a sharp rise in unprocessed food inflation. While inflation in the former eased to 7.1%, from 7.3% a month earlier, unprocessed food inflation accelerated to 12.2%, from 6.7% in November. Meanwhile, non-energy industrial goods (NEIG) inflation remains



unchanged at 2.2%, as did energy inflation, with the latter reflecting the government measures aimed at shielding consumers from international energy price pressures.

Annual inflation according to the RPI stood at 3.6% in December, unchanged from the previous month (see Chart 6).¹⁷ Food inflation rose to 8.7%, from 7.5% in November. Similarly, inflation in furnishings and household equipment stood at 4.1% in December, up from 3.2% in the previous month. On the other hand, transport and communication inflation contracted by 1.4%, after falling by 0.3% in November while housing inflation eased to 5.1%, from 5.7%. At the same time, personal care and health inflation and beverages and tobacco inflation slowed down to 4.2% and 3.6%, respectively. Energy prices remained unchanged.

Producer output inflation, as measured by the industrial producer price index, continued to ease, standing at 0.4% in November, from 2.4% in October.¹⁸ This mostly reflects a fall in producer prices of intermediate goods. These decreased by 4.5% in November, after increasing by an annual rate of only 0.1% in October. Meanwhile producer prices of consumer goods rose at a slightly faster pace, growing by 5.9% in November from 5.8% in October. Producer prices of capital goods rose at an unchanged rate of 4.0%, while domestic energy producer prices remained unchanged, and thus had no impact on overall producer prices.

Public finance

In November 2023, the Consolidated Fund recorded a deficit of €191.0 million, a deterioration when compared with the deficit of €7.1 million registered a year earlier (see Table 5). This was due to a rise in government expenditure, coupled with a decline in government revenue. The primary balance registered a deficit of €173.2 million, €177.6 million lower than the surplus registered in November 2022.

Government expenditure increased by €157.6 million, or 28.7%, due to an increase in both recurrent and capital expenditure. Recurrent spending increased by €94.7 million, due to higher expenditure on programmes and initiatives, which increased by €72.4 million. The latter mostly reflects the timing of spending on energy support measures. Spending on contributions to entities also increased, albeit at a lower extent, rising by €18.3 million. Spending on interest payments and personal emoluments rose slightly, by €6.2 million and €4.2 million, respectively. Meanwhile, operation and maintenance expenses declined by €6.5 million. Capital expenditure increased by €62.9 million, mainly due to the timing of domestically financed projects.

Government revenue declined by €26.2 million, or 4.8%. This mostly reflected lower receipts from direct taxes which declined by €50.0 million, mainly in the form of income taxes paid by corporations. It also reflected a decline in non-tax revenue of €25.1 million, mainly due to lower grants from the EU. Meanwhile, inflows from indirect taxes increased by €48.9 million.

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. Moreover, the 2023 set of weights applied to the HICP index have been revised compared with the 2022 weights. The weights of the RPI are not updated annually and are hence not affected by such changes.

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.

Table 5
CONSOLIDATED FUND BALANCE

EUR millions

	2022	2023	2022	2023	Change	
	Jan.-Nov.	Jan.-Nov.	Nov.	Nov.	Amount	%
Revenue	4,757.5	5,397.6	542.3	516.1	-26.2	-4.8
Direct tax	2,605.8	3,046.1	248.7	198.7	-50.0	-20.1
Income tax	1,829.8	2,211.9	163.3	117.7	-45.6	-27.9
Social security contributions ⁽¹⁾	776.0	834.2	85.3	80.9	-4.4	-5.1
Indirect tax	1,715.3	1,886.3	231.1	279.9	48.9	21.1
Value Added Tax	1,160.0	1,237.0	191.2	209.8	18.6	9.7
Customs and excise duties	250.2	279.9	15.2	31.9	16.7	109.9
Licences, taxes and fines	305.1	369.4	24.7	38.2	13.6	55.1
Non-tax⁽²⁾	436.4	465.2	62.6	37.5	-25.1	-40.1
Expenditure	5,413.0	5,744.3	549.4	707.1	157.6	28.7
Recurrent	4,823.9	5,046.7	459.5	554.2	94.7	20.6
Personal emoluments	951.7	1,002.3	85.3	89.5	4.2	4.9
Operational and maintenance	235.0	285.4	38.2	31.7	-6.5	-17.1
Programmes and initiatives	2,825.4	2,831.6	245.9	318.3	72.4	29.5
Contributions to entities	655.3	734.7	78.6	97.0	18.3	23.3
Interest payments	156.5	192.7	11.5	17.7	6.2	54.2
Capital	589.1	697.6	89.9	152.9	62.9	70.0
Primary balance⁽³⁾	-499.0	-153.9	4.4	-173.2	-177.6	-
Consolidated Fund balance	-655.5	-346.6	-7.1	-191.0	-183.8	-

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.

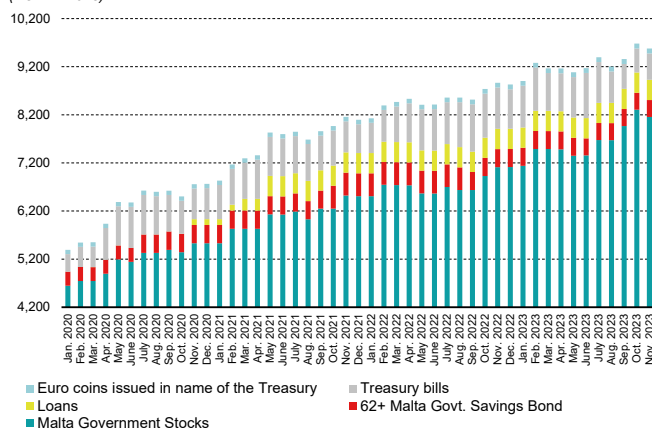
⁽³⁾ Revenue less expenditure excluding interest payments.

In November 2023, the total stock of outstanding government debt amounted to €9,578.0 million, €102.9 million less than the level in the previous month (see Chart 7). This primarily reflects redemptions of Malta Government Stocks.

Deposits, credit and financial markets

During the 12 months to November, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3)

Chart 7
GOVERNMENT DEBT⁽¹⁾
(EUR millions)



Source: National Statistics Office.
⁽¹⁾ Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

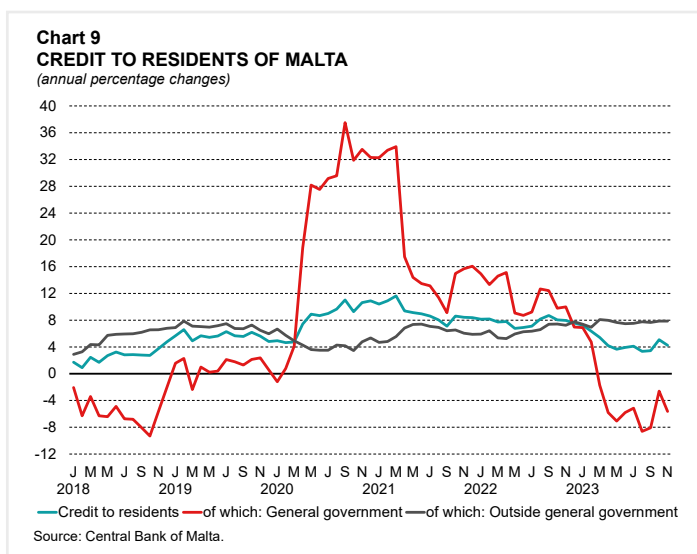
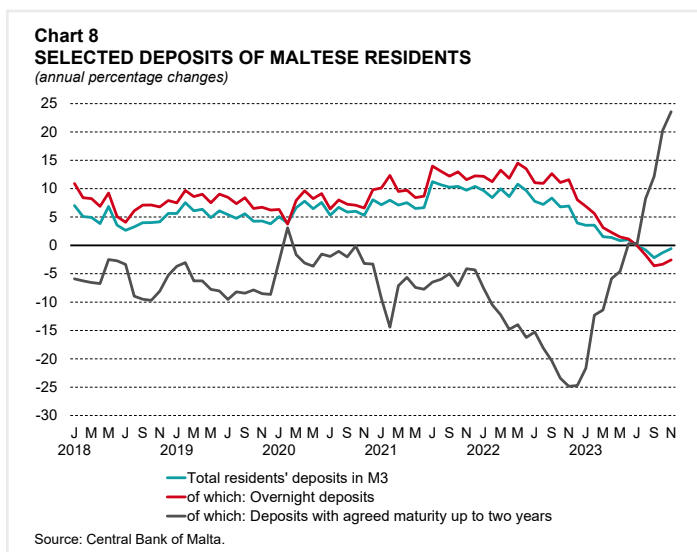
decreased by 0.6%. This follows a decline of 1.3% during the year to October (see Chart 8). The latest contraction was mostly driven by balances belonging to financial intermediaries and, to a lesser extent, firms. By contrast, M3 deposits belonging to households and general government increased.

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 89% of their M3 balances. These deposits – which are the most liquid – fell by 2.6% in the year to November, following a contraction of 3.3% in the previous month. This decrease reflects a shift in behaviour – following years of growth – in response to the tightening of monetary policy.

Meanwhile, growth in time deposits with agreed maturity of up to two years – the second largest deposit category – remained robust at 23.6%, above the 20.3% registered in the year to October. This outcome reflects more attractive terms on fixed deposit accounts by certain credit institutions. The latest increase was driven by higher balances belonging to households, as balances held by NFCs increased to a lesser extent.

Credit to Maltese residents grew by 4.2% in November, compared with 5.1% a month earlier (see Chart 9). In part, this reflected a larger contraction in credit to general government. This credit component fell by 5.6% over the 12 months to November, following a year-on-year contraction of 2.6% in October. At the same time, annual growth in credit to residents outside general government remained unchanged compared with a month earlier, standing at 7.9%.

The annual rate of change in loans to households reached 8.5% in November, up from 8.0% in the previous month (see Chart 10). Growth in mortgage lending stood at 8.1%, above the 7.7% recorded in the year to October. Furthermore, growth in consumer credit and other lending edged up to



13.0%, from 12.0% in the previous month.

Meanwhile, the annual rate of change in loans to non-financial corporations stood at 7.7% in November, down from 8.7% in the year to October. Loans to the real estate sector increased at a slower pace. A similar pattern can be observed in lending to the sector comprising accommodation and food service activities. Loans to the construction sector and the transport, storage information and communication sector also rose at a

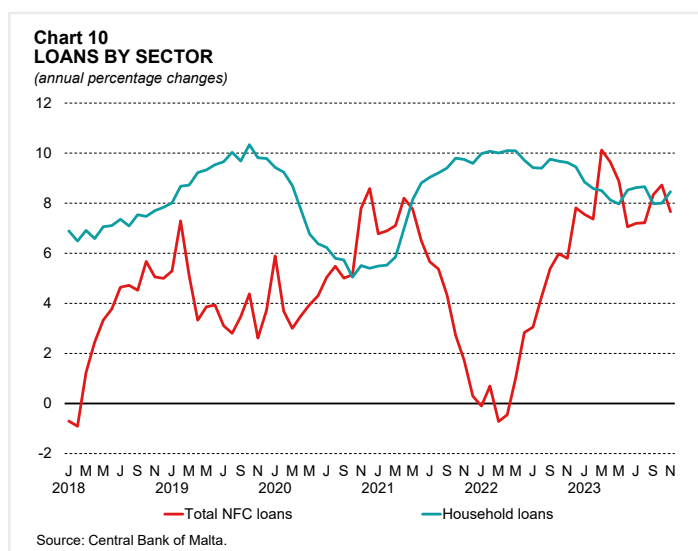
slower pace. By contrast, loans to the energy and manufacturing sectors rose at a faster pace, while the contraction in loans to the sector comprising trading activities and repair lost momentum.

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).¹⁹ The value of loans in November was unchanged when compared with October.

In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS).²⁰ The value of loans was unchanged in November when compared with the preceding month.

As regards interest rates, in November, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits edged up by 2 basis point compared to October, standing at 0.30%. Meanwhile, the composite rate charged on outstanding loans stood unchanged from that recorded a month earlier, at 3.60%. As a result, the spread between the two rates decreased to 330 basis points in November.

The composite rate paid by MFIs on Maltese residents' new deposits reached 2.49% in November, above the 2.39% recorded in October. It was also higher than the rate recorded for November 2022, which stood at 1.15%. Meanwhile, the composite rate charged on new loans decreased by 18 basis points on a month earlier, standing at 2.73%. It also stood below the rate recorded a year earlier. As a result, the spread between the two rates fell to 24 basis points.

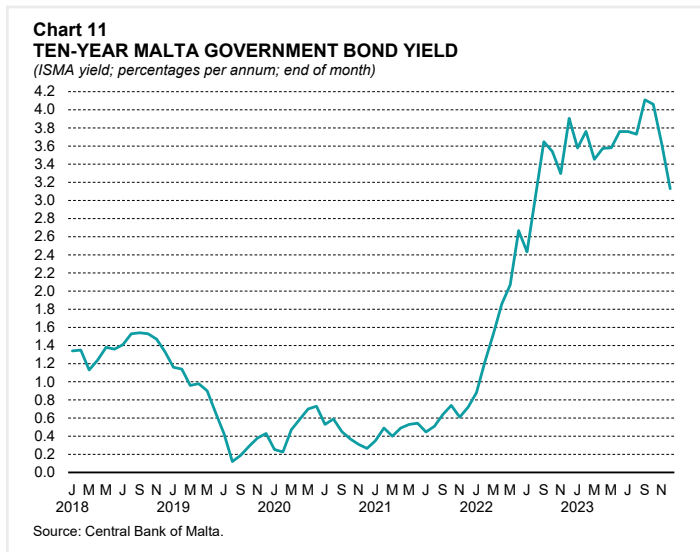


¹⁹ The SLS provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. The total portfolio allocated for this scheme is €30.0 million.

²⁰ The LSGS 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.

In the capital market, at the end of November, the secondary market yield on ten-year Maltese government bonds decreased from its end-November level and stood at 3.13%. It also stood 78 basis points below its year-ago level (see Chart 11).

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index increased when compared with end-November, rising by 6.5%. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



Annex 1

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2020	2021	2022	2022	2022	2022	2023	2023	2023	2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	
				Q2	Q3	Q4	Q1	Q2	Q3	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	
Prices and costs																							
HICP inflation	0.8	0.7	6.1	5.8	7.1	7.3	7.0	6.3	5.2	7.3	6.8	7.0	7.1	6.4	6.3	6.2	5.6	5.0	4.9	4.2	3.9	3.7	
RPI inflation	0.6	1.5	6.2	6.0	7.1	7.3	7.0	5.6	4.2	7.4	6.9	7.1	7.0	5.8	5.7	5.4	4.7	4.0	4.1	3.7	3.6	3.6	
Industrial producer price inflation	0.3	3.2	5.5	5.4	4.6	5.3	4.5	4.8	4.1	4.3	3.7	5.1	4.6	5.1	4.5	4.7	4.5	4.6	3.2	2.3	0.4	-	
HCI (nominal)	1.8	0.3	-1.4	-2.0	-2.3	-0.1	1.4	3.4	5.0	0.6	1.2	1.2	1.8	3.6	3.3	3.2	5.0	5.5	4.5	3.9	3.6	-	
HCI (real)	1.5	-1.9	-3.6	-4.5	-4.6	-2.1	0.4	3.5	4.9	-0.8	-0.6	-0.1	1.8	3.3	3.5	3.8	5.1	5.0	4.6	4.0	3.3	-	
Unit labour costs, whole economy ⁽¹⁾	10.3	-4.8	1.2	-3.7	-1.4	1.2	2.4	3.0	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	
Compensation per employee ⁽¹⁾	-1.6	4.1	3.3	3.2	2.9	3.3	3.3	2.7	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour productivity (per person) ⁽¹⁾	-10.7	9.4	2.0	7.3	4.3	2.0	0.8	-0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	
Property Price Index (Eurostat)	3.4	5.1	6.7	7.6	6.3	5.9	6.6	4.5	4.6	-	-	-	-	-	-	-	-	-	-	-	-	-	
Economic activity																							
Nominal GDP	-6.6	14.8	13.9	16.6	12.7	13.8	12.5	12.1	13.3	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP	-8.1	12.6	8.2	10.6	6.4	7.3	6.4	5.9	7.1	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real private consumption	-10.7	8.1	10.8	14.2	9.3	6.8	8.9	7.6	7.5	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real government consumption	14.9	6.5	2.4	10.6	2.7	-2.3	1.8	-3.7	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real gross fixed capital formation	-5.9	12.5	31.4	20.6	35.2	42.7	-14.8	-18.1	-26.8	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real exports of goods and services	-1.8	7.7	7.1	7.3	9.7	2.4	9.7	11.9	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real imports of goods and services	1.5	4.9	10.1	9.4	14.4	5.3	7.0	7.8	-0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour market developments																							
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	2.9	2.9	2.9	2.9	2.5	2.5	2.9	3.0	2.9	2.8	2.7	2.5	2.4	2.4	2.5	2.6	2.5	2.5	-	
LFS employment	2.6	3.1	5.2	4.9	5.1	5.5	5.3	4.9	5.9	-	-	-	-	-	-	-	-	-	-	-	-	-	
Jobsplus registered employed	4.2	2.6	6.0	5.1	6.3	7.9	8.5	7.9	-	8.4	8.6	8.4	8.4	8.2	8.0	7.6	7.5	7.3	-	-	-	-	
Balance of payments																							
Current account (as a % of GDP) ⁽²⁾	2.2	1.2	-2.9	-1.1	-2.1	-2.9	-2.8	-1.3	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	
Credit and financial indicators																							
Maltese residents' deposits and loans																							
Overnight deposits	9.8	12.3	8.0	13.5	12.7	8.0	3.2	1.1	-3.6	8.0	6.9	5.6	3.2	2.3	1.5	1.1	0.0	-1.7	-3.6	-3.3	-2.6	-	
Deposits with agreed maturity up to two years	-3.3	-4.3	-24.7	-16.2	-20.4	-24.7	-11.4	0.3	12.1	-24.7	-21.6	-12.3	-11.4	-5.9	-4.6	0.3	0.3	8.3	12.1	20.3	23.6	-	
Total residents' deposits in M3	8.0	10.4	3.9	9.7	8.4	3.9	1.5	1.0	-2.2	3.9	3.5	3.6	1.5	1.4	0.8	1.0	0.0	-0.8	-2.2	-1.3	-0.6	-	
Credit to general government	32.3	16.1	7.0	8.7	12.4	7.0	-1.7	-5.8	-8.1	7.0	6.9	4.7	-1.7	-5.8	-7.1	-5.8	-5.1	-8.6	-8.1	-2.6	-5.6	-	
Credit to residents (excl. general government)	5.3	5.9	7.8	6.3	7.4	7.8	8.1	7.5	7.7	7.8	7.4	6.9	8.1	8.0	7.7	7.5	7.5	7.8	7.7	7.9	7.9	-	
Total credit	10.9	8.4	7.5	6.9	8.7	7.5	5.4	3.9	3.4	7.5	7.3	6.3	5.4	4.2	3.7	3.9	4.1	3.3	3.4	5.1	4.2	-	
Ten-year interest rate (%) ⁽³⁾	0.3	0.7	3.9	2.7	3.6	3.9	3.5	3.8	4.1	3.9	3.6	3.8	3.5	3.6	3.6	3.8	3.8	3.7	4.1	4.1	3.6	3.1	
Stock prices: Malta Stock Exchange Equity Price Index ⁽⁴⁾	-12.4	-4.5	-9.9	1.1	-0.7	-2.2	-0.4	5.9	-1.5	0.0	-0.1	2.5	-2.7	2.3	3.4	0.1	1.1	-1.3	-1.3	-2.0	2.8	6.5	
General government finances (% of GDP)																							
Surplus (+) / deficit (-) ⁽²⁾	-9.6	-7.4	-5.6	-5.9	-5.3	-5.6	-4.8	-4.2	-3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross debt ⁽⁵⁾	52.2	53.9	51.6	52.5	51.5	51.6	51.5	49.6	49.3	-	-	-	-	-	-	-	-	-	-	-	-	-	

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.