



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# ECONOMIC UPDATE

## 10/2020

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## ECONOMIC UPDATE 10/2020

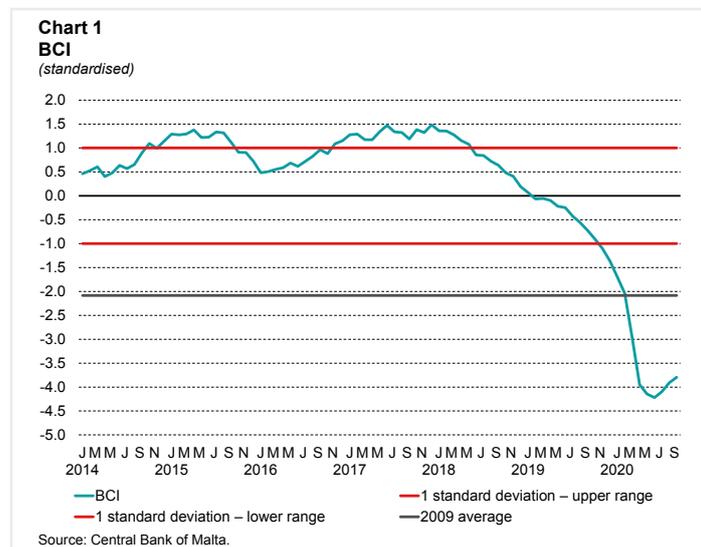
### Summary<sup>1</sup>

In September, the Bank's Business Conditions Index (BCI) improved marginally when compared with the previous month, suggesting that economic conditions are bottoming out, even though the index continues to signal very low levels of economic activity. The European Commission's Economic Sentiment Indicator (ESI) rose, but remained well below the level recorded before the onset of COVID-19. In August sentiment improved in all sectors barring the retail sector, where sentiment reached a new record low. Confidence remained negative in all sectors.

In August, the volume of retail trade and industrial production contracted again in annual terms. The number of registered unemployed and the unemployment rate fell when compared with a month earlier, with the latter remaining low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) eased to 0.5% in September, from 0.7% in August, while inflation based on the Retail Price Index (RPI) edged down to 0.2% from 0.4% over the same period. Maltese residents' deposits grew at a faster annual rate of 6.6% over the year to August, while annual growth in credit to Maltese residents rose to 9.7%. In August, the cash-based Consolidated Fund recorded a deficit compared with a surplus a year earlier, reflecting the impact on revenue from lower economic activity due to the global spread of COVID-19, and the impact of ongoing government support measures to mitigate the economic effects of the pandemic.

### Central Bank's BCI<sup>2</sup>

In September, the Bank's BCI stood at -3.8, marginally above its revised value of -3.9 in August (see Chart 1). The BCI continued to signal low levels of economic activity, reflecting the exceptional economic environment triggered by COVID-19, although recent readings are higher than the lowest estimate seen in June. The estimate continued to be affected by strong negative outturns in almost all variables, especially year-on-year falls in inbound tourists,



economic sentiment and government revenue, as well as higher unemployment, compared to a year earlier. Overall business conditions were worse than those observed during 2009, indicating the higher severity of the pandemic relative to the Global Financial Crisis of 2007-2009.

## Business and consumer confidence indicators

In September, the European Commission's Economic Sentiment Indicator (ESI) stood at 83.9, up from 75.0 in August (see Table 1). Notwithstanding this improvement, it remained well below the 101.7 recorded a year earlier and its long-run average.<sup>3,4</sup> The ESI also stood 7.2 points lower than that in the euro area.

The month-on-month increase in sentiment reflects improved confidence across all sectors, barring retailers, where sentiment fell further into negative territory.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the amelioration in overall sentiment in September was attributed to developments in industry and in the services sector (see Chart 2). Although still relatively

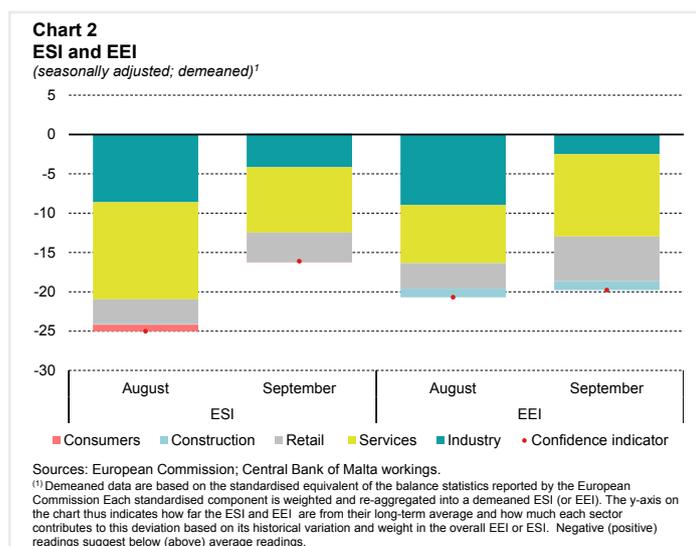
	2018	2019	2020								
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
<b>ESI</b>	<b>112.4</b>	<b>100.7</b>	<b>99.9</b>	<b>93.9</b>	<b>87.5</b>	<b>52.1</b>	<b>56.6</b>	<b>56.5</b>	<b>63.4</b>	<b>75.0</b>	<b>83.9</b>
<b>Services confidence indicator</b>	<b>34.6</b>	<b>20.7</b>	<b>7.9</b>	<b>11.4</b>	<b>0.4</b>	<b>-56.8</b>	<b>-53.5</b>	<b>-57.3</b>	<b>-41.1</b>	<b>-18.7</b>	<b>-3.5</b>
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3	-59.8	-66.3	-77.4	-68.9	-32.4	-2.4
Evolution of the demand over the past 3 months	35.8	21.5	3.8	7.9	11.4	-56.3	-66.0	-78.2	-60.2	-40.2	-0.1
Expectation of the demand over the next 3 months	37.2	24.0	23.8	21.7	-9.9	-54.1	-28.3	-16.3	5.7	16.4	-7.9
<b>Industrial confidence indicator</b>	<b>6.9</b>	<b>-6.7</b>	<b>-1.1</b>	<b>-15.5</b>	<b>-19.2</b>	<b>-45.4</b>	<b>-40.2</b>	<b>-42.2</b>	<b>-35.6</b>	<b>-24.0</b>	<b>-13.2</b>
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7	-56.1	-76.0	-76.9	-73.2	-74.1	-47.0
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3	32.5	34.4	31.4	40.4	20.1	16.4
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7	-47.6	-10.2	-18.3	6.8	22.3	23.7
<b>Construction confidence indicator</b>	<b>21.3</b>	<b>26.2</b>	<b>7.9</b>	<b>8.3</b>	<b>14.3</b>	<b>-38.9</b>	<b>-20.3</b>	<b>-19.9</b>	<b>-5.9</b>	<b>-12.7</b>	<b>-3.0</b>
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1	-38.1	-13.0	-18.8	-5.0	-12.4	8.0
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0
<b>Consumer confidence indicator</b>	<b>10.1</b>	<b>4.5</b>	<b>8.4</b>	<b>7.9</b>	<b>0.1</b>	<b>-15.8</b>	<b>-11.3</b>	<b>-6.9</b>	<b>-3.3</b>	<b>-12.9</b>	<b>-9.1</b>
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8	6.2	0.8	0.8	-2.7	-10.6	-10.4
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1	-14.5	-5.7	-2.1	6.1	-5.6	-2.6
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0	-36.6	-17.7	-3.9	13.9	-10.6	-2.1
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5	-18.4	-22.5	-22.4	-30.5	-24.7	-21.5
<b>Retail trade confidence indicator</b>	<b>8.2</b>	<b>4.2</b>	<b>0.0</b>	<b>-0.4</b>	<b>-22.3</b>	<b>-31.7</b>	<b>-43.2</b>	<b>-30.1</b>	<b>-53.6</b>	<b>-49.9</b>	<b>-63.7</b>
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8	12.4	-21.1	-28.1	-49.2	-52.5	-67.6
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7	65.6	53.0	54.8	46.3	50.6	52.6
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1	-42.0	-55.5	-7.4	-65.3	-46.6	-70.8
<b>EI</b>	<b>114.1</b>	<b>101.2</b>	<b>100.2</b>	<b>102.7</b>	<b>90.0</b>	<b>56.2</b>	<b>71.8</b>	<b>71.0</b>	<b>72.3</b>	<b>80.4</b>	<b>79.7</b>
Retail	15.4	4.7	25.2	11.9	-8.6	-14.2	-15.5	-3.3	-25.6	-13.2	-25.3
Services	33.9	17.5	6.7	21.6	11.8	-33.0	-16.6	-16.8	-7.1	1.9	-5.0
Construction	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0
Industry	31.1	12.8	16.5	7.0	-16.7	-61.2	-18.9	-40.3	-34.9	-26.0	2.8
<b>ESI demeaned</b>	<b>12.4</b>	<b>0.7</b>	<b>-0.1</b>	<b>-6.1</b>	<b>-12.5</b>	<b>-47.9</b>	<b>-43.4</b>	<b>-43.5</b>	<b>-36.6</b>	<b>-25.0</b>	<b>-16.1</b>
<b>EI demeaned</b>	<b>14.3</b>	<b>1.0</b>	<b>0.0</b>	<b>2.1</b>	<b>-11.1</b>	<b>-46.0</b>	<b>-28.7</b>	<b>-30.8</b>	<b>-28.9</b>	<b>-20.7</b>	<b>-19.8</b>

Source: European Commission.

<sup>3</sup> 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%.

<sup>4</sup> 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.

low from a historic perspective, sentiment in these two sectors was considerably less negative than in August. Similar developments were observed among consumers, while the contribution of the construction sector turned slightly positive, as sentiment in the latter sector, though still negative, exceeded its long-term average. By contrast, the contribution of the retail sector was more negative in September, as sentiment here reached new lows.



In September, sentiment within the services sector stood at -3.5, up from -18.7 a month earlier, but still below its long-term average of 20.3.<sup>5</sup> Enhanced sentiment reflected an improvement in respondents' assessment of demand and, to a lesser extent, of the business situation over the past three months. By contrast, expectations of demand for the next three months turned negative. Additional survey data show that a significantly smaller share of firms anticipated falling prices in the months ahead.

Industrial confidence rose to -13.2, from -24.0 a month earlier.<sup>6</sup> Notwithstanding this increase, sentiment remained below its long-term average of -4.1. The recent improvement in sentiment was mainly driven by firms' assessment of order book levels. At the same time, a smaller share of participants reported above normal stock levels, relative to August, while production expectations improved marginally. Supplementary data show that, on balance, a smaller share of respondents anticipated a fall in selling prices in the coming months.

Confidence in the construction sector rose to -3.0 in September, from -12.7 in the previous month. Following this increase, sentiment stood above its long-term average of -11.6.<sup>7</sup> The recent rise in sentiment was entirely due to increasing orders. By contrast, employment expectations were slightly more negative. Additional survey data indicate that the share of respondents expecting falling prices over the next three months decreased slightly.

Consumer confidence also edged up in September. It rose to -9.1, from -12.9 in August.<sup>8</sup> Following this increase, sentiment stood above its long-term average of -11.2. Improved sentiment was largely driven by expectations of the general economic situation over the next 12 months.

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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.

Consumers' expectations of major purchases, as well as expectations of the financial situation over subsequent months edged up, while their assessment of the financial situation over the next 12 months also improved, although to a lesser extent. The assessment of the financial situation over the last 12 months was broadly unchanged. Supplementary data show that price expectations were less negative in September. Meanwhile, the share of respondents anticipating unemployment to rise in the coming months decreased.

By contrast, confidence within the retail sector fell to a historic low of -63.7, from -49.9 a month earlier.<sup>9</sup> The recent decline in sentiment largely reflected retailers' expectations of business activity over the next three months and their assessment about sales over previous months. At the same time, a slightly higher share of respondents reported above normal stock levels relative to August.<sup>10</sup> Additional survey data indicate that price expectations were less positive in the month under review.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged down in September.<sup>11</sup> The EEI eased to 79.7, from 80.4 in August, thus moving further below its long-run average of around 100.0. Moreover, in September, Malta's EEI stood 12.1 points below the euro area average. Employment prospects weakened from already negative levels across all sectors, barring industry, where they turned positive.

When accounting for the variation in weights assigned to each sector in the overall index, it appears that the decline relative to August was largely driven by the services sector and, to a smaller extent, by the retail sector and construction. The evolution of sentiment in the services sector and, to a lesser degree, in industry and the retail sector, largely explains why the overall EEI has remained below its long-term average in recent months (see Chart 2).

## Activity indicators

In August, annual growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors remained negative for the fifth consecutive month. The index fell by 2.5% in annual terms, following a contraction of 1.4% in July (see Table 2).<sup>12</sup>

The latest decline largely reflected a fall in output by firms involved in the repair and installation of machinery and equipment, followed by those in the 'other manufacturing' sector, which includes firms involved in the production of medical and dental instruments, toys and related products. Firms that produce rubber and plastic goods also contributed significantly to the decline. Other key drivers include the beverages sector, the sectors of wearing apparel and textiles and firms

<sup>9</sup> 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.

<sup>10</sup> 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.

<sup>11</sup> 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*.

<sup>12</sup> 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

	2018	2019	2019								2020					
			July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>(1)</sup>	Apr. <sup>(2)</sup>	May <sup>(2)</sup>	June <sup>(2)</sup>	July <sup>(3)</sup>	Aug.
<b>Industrial production</b>	1.3	1.2	1.3	6.2	3.9	1.7	-2.9	9.5	12.1	13.2	6.0	-7.5	-9.5	-3.9	-1.4	-2.5
<b>Commercial permits</b>	14.5	-2.4	-0.3	-12.9	-10.8	-7.4	-12.8	-8.1	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2	-9.8	-45.6
<b>Residential permits</b>	43.1	-3.1	-45.3	-56.0	11.0	-6.5	12.3	34.4	22.2	-23.3	-19.6	-73.3	-53.6	-60.2	-8.1	27.0
<b>Retail trade</b>	1.8	5.4	6.7	5.6	7.9	4.7	5.3	4.8	2.7	5.5	-5.5	-24.6	-14.5	-7.9	-10.9	-7.5
<b>Number of tourist arrivals</b>	14.3	5.9	5.2	7.2	5.5	6.2	9.1	19.3	16.8	16.5	-56.5	-	-	-	-84.0	-66.0
<b>Number of nights stayed</b>	12.5	4.1	1.6	5.8	2.1	6.5	9.0	15.1	3.5	10.1	-60.2	-	-	-	-75.3	-62.6
Rented accommodation	10.7	4.6	-1.7	7.4	2.8	12.1	9.6	13.9	7.7	11.1	-62.2	-	-	-	-84.3	-67.4
Collective <sup>(4)</sup>	7.1	-0.1	-2.9	3.2	4.5	4.2	2.9	9.9	11.0	14.9	-61.7	-	-	-	-85.4	-66.9
Other rented <sup>(5)</sup>	18.0	13.5	0.0	13.0	0.3	28.5	26.6	19.7	1.0	3.1	-63.5	-	-	-	-82.7	-67.9
Non-rented accommodation <sup>(6)</sup>	22.7	1.6	21.6	-2.0	-3.8	-19.8	6.3	20.8	-8.3	3.9	-47.7	-	-	-	-31.4	-38.3
<b>Tourist expenditure</b>	8.0	5.7	1.8	2.8	5.9	7.1	10.3	25.4	11.2	22.0	-62.6	-	-	-	-88.1	-71.3
Package expenditure	16.6	-8.2	-20.0	-10.1	-1.8	-6.2	4.9	7.9	-7.8	25.8	-69.8	-	-	-	-93.5	-79.5
Non-package expenditure	13.3	17.1	21.4	15.1	18.4	14.8	13.5	41.3	33.1	22.8	-58.8	-	-	-	-88.7	-71.5
Other	-2.2	5.9	3.8	0.9	-0.1	11.1	10.8	22.0	4.7	19.1	-60.2	-	-	-	-83.7	-65.3

Sources: National Statistics Office; Eurostat.

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> The inbound tourism news release was issued for July following the reopening of Malta International Airport in the beginning of July.

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

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

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

producing computer, electronic and optical products. On the other hand, manufacturing output rose among firms engaged in the production of motor vehicles, trailers and semi-trailers, as well as food products. Higher production was also recorded in the pharmaceuticals sector and among firms engaged in printing and reproduction of recorded media.

Meanwhile, production in the energy sector declined.

In August, development permits for commercial buildings declined by 45.6% in annual terms, a much stronger pace of contraction than that recorded in the previous month. Conversely, residential permits in August rose for the first time in seven months, posting an annual growth rate of 27.0%.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the sixth consecutive time in August, however, at a slower pace than that recorded in the previous month. It declined by an annual rate of 7.5%, following a fall of 10.9% in July.

The number of total inbound visitors, nights stayed and tourism expenditure were substantially below their level a year earlier. Tourist arrivals declined by 66.0% on a year earlier, whilst tourist spending in Malta fell by 71.3% in annual terms. Furthermore, nights stayed declined by 62.6%, primarily due to a decrease in rented accommodation. Though significant, these falls were less pronounced than those recorded in July.

Customs data show that the merchandise trade deficit stood at €139.5 million in August, down from €278.8 million a year earlier. The smaller deficit reflected a €272.0 million fall in imports, which offset a €132.8 million decline in exports (see Chart 3). Lower imports were observed across most categories. However, the fall in imports mainly reflected a substantial decrease

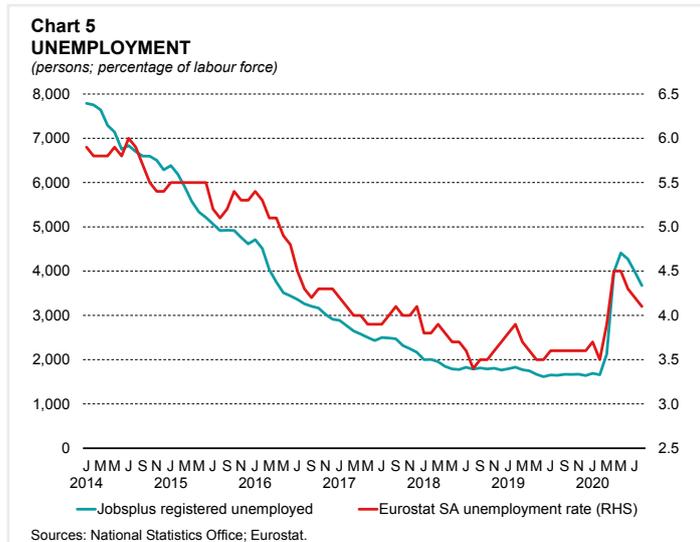
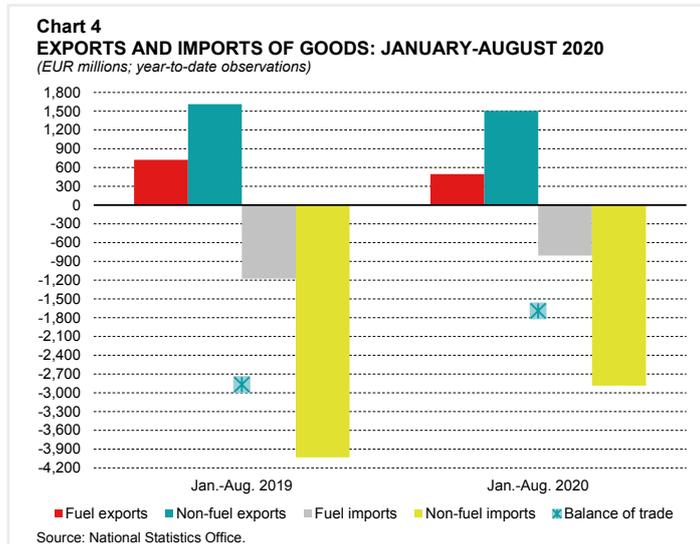
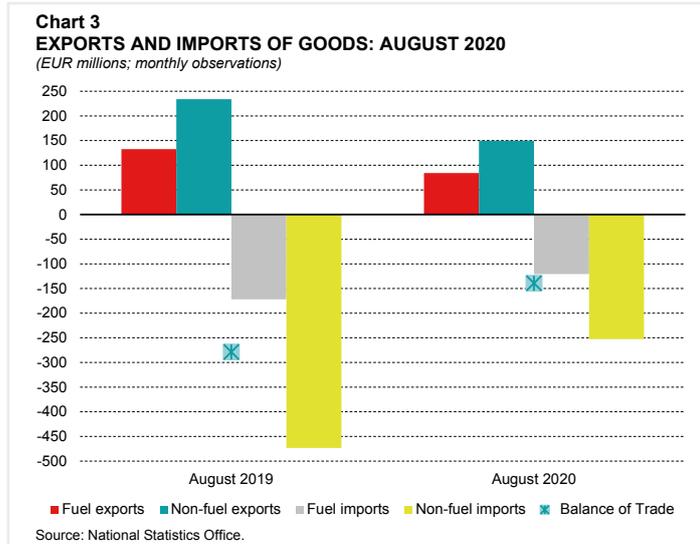
in registrations of sea vessels and a lower fuel import bill. Lower imports of electrical machinery, other machinery and mechanical appliances, vehicles and vehicle parts, and printed material also contributed. These outweighed higher imports of fish, pharmaceutical products, and organic chemicals. The decline in exports was due to lower re-exports of mineral fuels and related products, machinery and mechanical appliances, electrical machinery, and aircraft parts. Together these more than offset a rise in exports of optical and related instruments and pharmaceutical products.

In the eight months to August, the visible trade gap narrowed to €1,691.2 million from €2,868.9 million in the corresponding period of 2019, driven by a sharp fall in imports (see Chart 4).

### Labour market

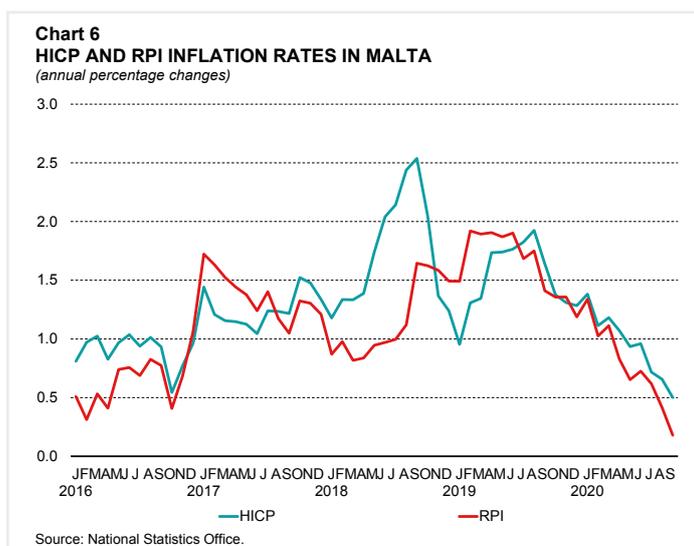
Jobsplus data show that the number of persons on the unemployment register stood at 3,672 in August, down from 3,981 in July but higher than 1,645 registered a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate stood at 4.1% in August, marginally lower than the 4.2% registered in the previous month, but still higher than the rate of 3.6% in the same month of the preceding year.



## Prices, costs and competitiveness

Annual HICP inflation stood at 0.7% in August, unchanged from July (see Chart 6). Annual inflation in processed food and non-energy industrial goods slowed down during the month of August. The latter reflects a lower semi-durable inflation. Moreover, energy inflation fell significantly due to a base effect corresponding to the same period of the previous year despite an unchanged price from July 2020.



Conversely, unprocessed food inflation and services inflation picked-up during the month of August. The latter was driven by lower declines in miscellaneous prices and transport prices.

Annual RPI inflation declined to 0.4% in August, from 0.6% in July (see Chart 6).<sup>13</sup>

Both HICP and RPI inflation eased further in September, standing at 0.5% and 0.2%, respectively. The easing primarily reflects slower growth in food, clothing, and restaurant and hotel prices.

Producer output inflation, measured by the producer price index, eased to 0.5% in August, from 1.2% in July.<sup>14</sup> This reflected a contraction in intermediate goods prices, as well as lower inflation in producer prices of consumer and capital goods. Energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 2.7% in the year to August.<sup>15</sup> 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, rose by 1.9%, suggesting that favourable developments in relative prices vis-à-vis trading partners partly offset unfavourable exchange rate movements.

## Public finance

In August 2020, the Consolidated Fund recorded a deficit of €34.4 million, a deterioration of €244.3 million when compared to the €209.9 million surplus registered in August 2019. This was a result of a significant drop in government revenue coupled with a rise in government expenditure

<sup>13</sup> 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.

<sup>14</sup> 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.

<sup>15</sup> 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.

(see Table 3). In turn, the primary balance registered a deficit of €19.6 million, in contrast to the €227.3 million primary surplus registered in August 2019.

These developments reflect the impact on revenue of the slowdown in economic activity due to the global spread of COVID-19. Moreover, ongoing government support aimed at mitigating the economic effects of this pandemic affect both revenue and expenditure.

Government revenue declined by €131.1 million or 25.0% in annual terms, driven by a drop in indirect tax receipts and, to a lesser extent, direct tax revenue. Indirect tax revenue fell by €94.0 million, predominantly due to lower VAT receipts and customs and excise duties. Revenue from direct taxes declined by €37.8 million, mainly due to a fall in income taxes. On the other hand, inflows from non-tax revenue increased slightly by €0.6 million, as higher fees of office and income from rents offset a decline in grants.

Government expenditure increased by €113.1 million, or 36.0% when compared to the corresponding period of 2019. This was mainly driven by an increase in recurrent spending. This increased by €97.3 million, chiefly due to the timing of contributions to government entities and church schools. Spending increases also reflected outlays on the voucher scheme, health and operational and maintenance expenses. Meanwhile, capital expenditure increased by €15.8 million due to a higher subvention to Malta Enterprise, to finance the COVID-19 Wage Supplement Scheme.

**Table 3**  
**CONSOLIDATED FUND BALANCE**

EUR millions

	2019 Jan.-Aug.	2020 Jan.-Aug.	2019 Aug.	2020 Aug.	Change	
					Amount	%
<b>Revenue</b>	<b>2,991.0</b>	<b>2,354.0</b>	<b>524.2</b>	<b>393.1</b>	<b>-131.1</b>	<b>-25.0</b>
<b>Direct tax</b>	<b>1,514.8</b>	<b>1,234.9</b>	<b>260.0</b>	<b>222.2</b>	<b>-37.8</b>	<b>-14.5</b>
Income tax	1,071.2	835.9	193.4	164.8	-28.6	-14.8
Social security contributions <sup>(1)</sup>	443.6	399.0	66.6	57.4	-9.2	-13.8
<b>Indirect tax</b>	<b>1,132.3</b>	<b>810.8</b>	<b>225.8</b>	<b>131.8</b>	<b>-94.0</b>	<b>-41.6</b>
Value Added Tax	656.2	478.9	162.3	100.4	-62.0	-38.2
Customs and excise duties	214.0	129.5	31.1	3.0	-28.1	-90.4
Licences, taxes and fines	262.1	202.3	32.3	28.5	-3.9	-12.0
<b>Non-tax<sup>(2)</sup></b>	<b>343.9</b>	<b>308.3</b>	<b>38.4</b>	<b>39.1</b>	<b>0.6</b>	<b>1.7</b>
<b>Expenditure</b>	<b>2,907.1</b>	<b>3,440.2</b>	<b>314.3</b>	<b>427.5</b>	<b>113.1</b>	<b>36.0</b>
<b>Recurrent</b>	<b>2,594.1</b>	<b>2,915.6</b>	<b>283.7</b>	<b>381.0</b>	<b>97.3</b>	<b>34.3</b>
Personal emoluments	585.2	604.5	73.8	76.6	2.8	3.8
Operational and maintenance	136.7	178.1	14.7	31.0	16.3	111.3
Programmes and initiatives <sup>(1)</sup>	1,425.8	1,589.4	154.6	178.8	24.2	15.6
Contributions to entities	319.8	422.2	23.3	79.9	56.6	243.5
Interest payments	126.5	121.3	17.4	14.7	-2.6	-15.1
<b>Capital</b>	<b>313.0</b>	<b>524.6</b>	<b>30.6</b>	<b>46.4</b>	<b>15.8</b>	<b>51.6</b>
<b>Primary balance<sup>(3)</sup></b>	<b>210.4</b>	<b>-964.9</b>	<b>227.3</b>	<b>-19.6</b>	<b>-246.9</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>83.9</b>	<b>-1,086.2</b>	<b>209.9</b>	<b>-34.4</b>	<b>-244.3</b>	<b>-</b>

Source: National Statistics Office.

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

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

<sup>(3)</sup> Revenue less expenditure excluding interest payments.

In August 2020, the total stock of government debt amounted to €6,599.1 million, a drop of €25.1 million when compared with a month earlier (see Chart 7). This was mainly due to lower outstanding amount of Treasury bills.

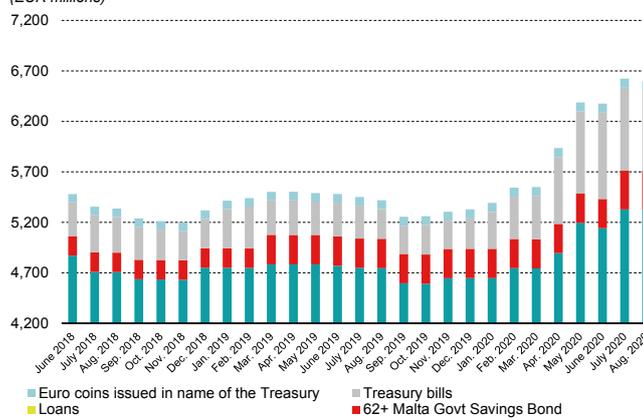
## Deposits, credit and financial markets

In August, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 6.6%, after growing by 5.3% in July (see Chart 8).

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 8.0% in the year to August. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 1.2% in annual terms, following a contraction of 2.1% in the year to July.

Credit to Maltese residents grew at an annual rate of 9.7% in August, above the 9.1% recorded a month earlier (see Chart 9). Annual growth in credit to general government rose by 29.6% in August, following an increase of 29.2% in July. At the same time, growth in credit outside general government expanded at an annual rate of 4.4% in August, above the 3.6% recorded in July.

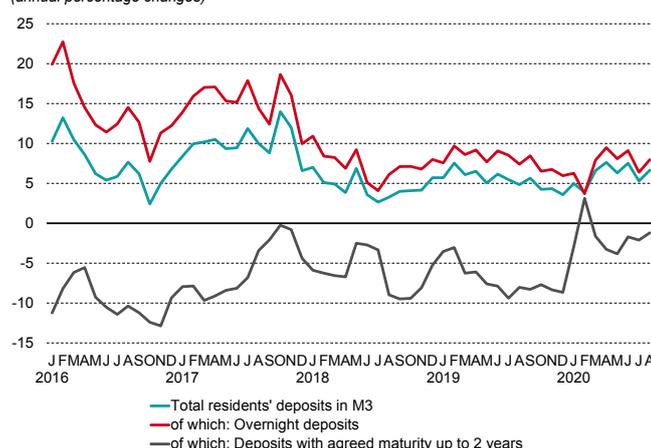
**Chart 7**  
**GOVERNMENT DEBT<sup>(1)</sup>**  
(EUR millions)



Source: National Statistics Office.

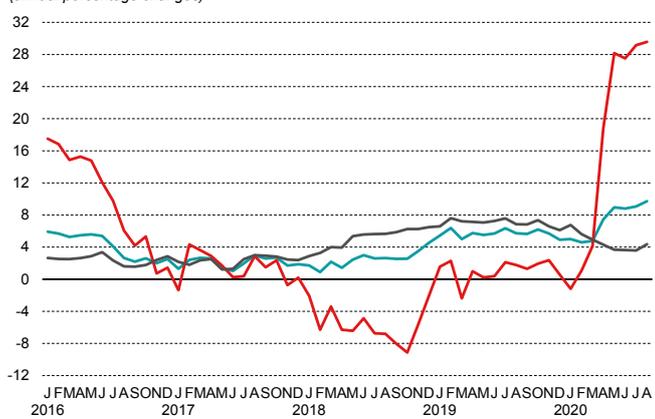
<sup>(1)</sup> Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

**Chart 8**  
**SELECTED DEPOSITS OF MALTESE RESIDENTS**  
(annual percentage changes)



Source: Central Bank of Malta.

**Chart 9**  
**CREDIT TO RESIDENTS OF MALTA**  
(annual percentage changes)

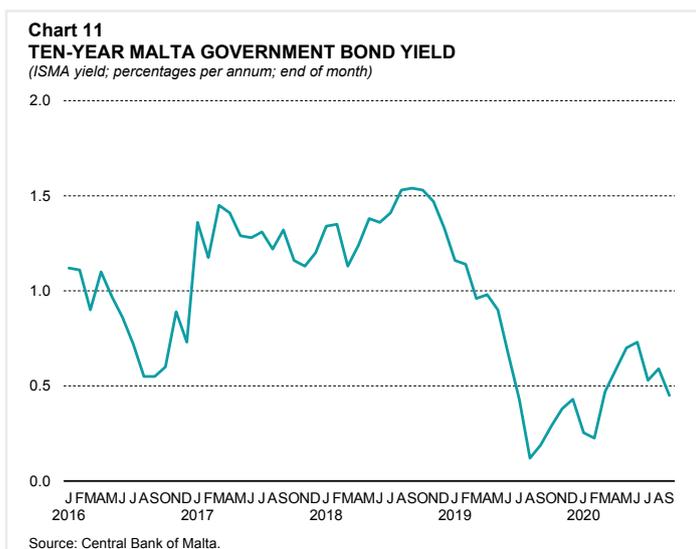
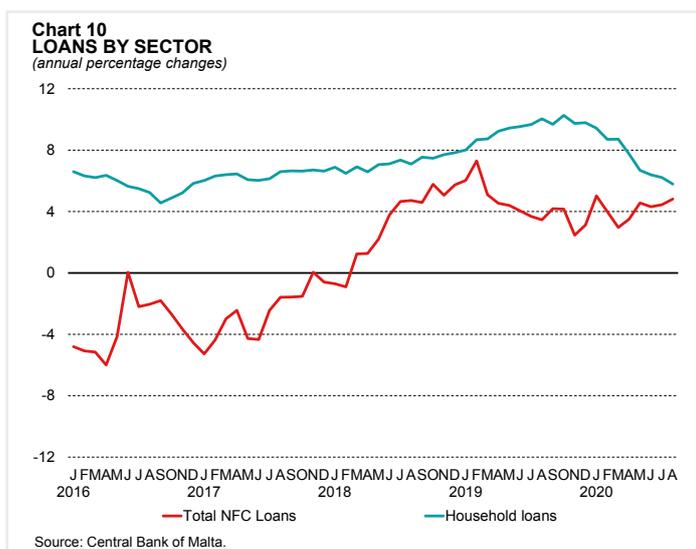


Source: Central Bank of Malta.

The annual rate of change in loans to non-financial corporations stood at 4.8% up from 4.4% registered in July (see Chart 10). The increase in growth was largely driven by faster growth in credit to the sector comprising accommodation and food services activities and, to a lesser extent, in loans to the sector comprising administrative and support services, the energy sector and the agricultural sector. In addition, loans to the manufacturing sector declined at a slower rate. These developments were partly offset by a deceleration in loans to the construction and real estate sector, professional, scientific and technical activities, and the sector comprising transportation and storage. Meanwhile, the annual rate of change of loans to households eased to 5.8%, from 6.2% in July. This reflected a faster contraction in consumer credit and other lending, which fell by 6.7%, following a contraction of 4.5% in July, as well as a deceleration in mortgage loans growth. The latter eased marginally to 7.2% in August, from 7.4% a month earlier.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.24% in August, unchanged from the previous month. The composite rate charged on outstanding loans eased marginally to 3.40%, when compared with 3.41% in July. Hence, the spread between the two rates narrowed marginally to 316 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by 14 basis points from a month earlier, to 0.45% at the end of September (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index declined by 3.8% 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 1 – 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).<sup>16</sup>

As at end August, there were 9,818 loans subject to a moratorium on repayments.<sup>17</sup> The total value of loans subject to a moratorium in August edged up slightly when compared with July, and stood at €1.9 billion, or 16.9% of total outstanding loans to Maltese residents.

The largest number of loans covered by moratoria was held by households, with the sector accounting for around 73.0% of the total volume of loans subject to a moratorium. Maltese households held €627.3 million, or 32.6%, of the total value of loans subject to a moratorium, equivalent to 10.1% of outstanding household loans.

Meanwhile, the real estate sector held €327.9 million in loans subject to a moratorium, or around 17.0% of such loans and equivalent to a third of this sector's outstanding loans. This was followed by the accommodation and food services activities, which held €250.8 million in loans subject to a moratorium. The latter was the sector most affected by the containment measures and, indeed, more than half – 54.7% – of the loans held by this

**Table 4**  
**LOANS SUBJECT TO MORATORIUM – AS AT END AUGUST 2020**

(Number of loans; EUR millions; percentage)

	Volume of loans <sup>(1)</sup>	Outstanding amounts <sup>(2)</sup>	Share in sector's outstanding loans <sup>(3)</sup>
Households	7,207	627.3	10.1
Manufacturing	189	56.8	25.8
Construction	148	70.1	11.1
Wholesale and retail trade; repair of motor vehicles and motor cycles	600	144.5	22.5
Transportation and storage and information and communication	127	105.5	38.9
Accommodation and food service activities	455	250.8	54.7
Real estate activities	468	327.9	33.8
Other <sup>(4)</sup>	626	344.1	17.5
<b>Total</b>	<b>9,818</b>	<b>1,927.1</b>	<b>16.9</b>

Source: Central Bank of Malta.

<sup>(1)</sup> The number of loans subject to moratorium.

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

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

<sup>(4)</sup> 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.

<sup>16</sup> 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 [here](#)) 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.

<sup>17</sup> From this publication, we are also including the MDB guarantee scheme loans which are subject to a moratorium.

sector were subject to a moratorium by the end of August. Moreover, as at end August, the wholesale and retail trade sector held €144.5 million in loans subject to a moratorium, making up 7.5% of such loans subject to a moratorium, or 22.5% of loans held by the sector.

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.<sup>18</sup>

By end August 2020, 412 facilities were approved under the CGS, covering total sanctioned lending of €285.1 million (see Table 5). As the scheme provides loans for working capital, only €121.4 million were disbursed by the end of August, up from the €88.9 million disbursed by the end of July.

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 €71.9 million. This was followed by accommodation and food services activities, with 95 facilities making up a total of €59.5 million sanctioned loans, and the sector comprising transportation and ICT, which had a total of €46.0 million.

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

(Number of facilities; EUR millions)

	Total number of facilities <sup>(1)</sup>	Sanctioned amount <sup>(2)</sup>
Manufacturing	37	17.2
Construction	19	32.2
Wholesale and retail trade; repair of motor vehicles and motor cycles	117	71.9
Transportation and storage and information and communication	30	46.0
Accommodation and food service activities	95	59.5
Professional, scientific and technical activities	27	14.0
Administrative and support service activities	29	8.8
Real estate	12	3.1
Other <sup>(3)</sup>	46	32.5
<b>Total</b>	<b>412</b>	<b>285.1</b>

Source: Malta Development Bank.

<sup>(1)</sup> The number of facilities taken by various sectors.

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

<sup>(3)</sup> Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation, other services activities, activities of households as employers and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

<sup>18</sup> The MDB COVID-19 Guarantee Scheme was approved by the European Commission on 2 April 2020. See [here](#) for further details.

# Annex 1

<b>MACROECONOMIC INDICATORS FOR MALTA</b>																					
<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
			Q4	Q1	Q2	Q3	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
<b>Prices and costs</b>																					
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
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
Industrial producer price inflation	4.4	2.2	1.8	1.1	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	-
HCI (nominal)	2.6	-0.7	-1.1	-0.2	1.2	-	-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	-
HCI (real)	2.1	-1.1	-1.6	-0.9	1.2	-	-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	1.9	-
Unit labour costs, whole economy <sup>(1)</sup>	1.7	2.4	3.6	5.0	10.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	2.9	1.5	2.8	2.8	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.3	-1.0	-0.8	-2.0	-6.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	5.7	5.5	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																					
Nominal GDP	7.3	7.2	7.4	3.2	-14.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.2	4.9	5.0	1.4	-16.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	8.5	5.2	4.5	-1.5	-20.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	12.0	11.5	6.7	12.9	11.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	3.1	8.8	2.2	-14.5	-11.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-0.5	6.1	5.6	2.6	-12.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	0.4	7.9	5.2	0.3	-7.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																					
LFS unemployment rate (% of labour force)	3.7	3.4	3.2	3.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	6.5	5.4	7.7	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.8	5.8	6.0	-	-	-	5.4	5.2	5.7	5.7	5.9	6.3	6.6	-	-	-	-	-	-	-	-
<b>Balance of payments</b>																					
Current account (as a % of GDP) <sup>(2)</sup>	5.7	4.8	4.8	5.6	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																					
<b>Maltese residents' deposits and loans</b>																					
Overnight deposits	8.0	6.0	6.0	7.9	9.1	-	8.5	7.4	8.5	6.5	6.7	6.0	6.3	3.7	7.9	9.5	8.1	9.1	6.4	8.0	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-8.7	-1.6	-1.7	-	-9.4	-8.0	-8.3	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.3	-3.8	-1.7	-2.1	-1.2	-
Total residents' deposits in M3	5.7	3.6	3.6	6.6	7.5	-	5.5	4.8	5.7	4.2	4.3	3.6	5.0	3.9	6.6	7.6	6.3	7.5	5.3	6.6	-
Credit to general government	-2.0	0.6	0.6	4.1	27.5	-	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	-
Credit to residents (excl. general government)	6.5	6.1	6.1	4.9	3.6	-	7.6	6.8	6.8	7.3	6.6	6.1	6.8	5.6	4.9	4.3	3.7	3.6	3.6	4.4	-
Total credit	4.5	4.9	4.9	4.8	8.8	-	6.4	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.8	7.5	9.0	8.8	9.1	9.7	-
10-year interest rate (%) <sup>(3)</sup>	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
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	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
<b>General government finances (% of GDP)</b>																					
Surplus (+) / deficit (-) <sup>(2)</sup>	1.9	0.5	0.5	-1.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	45.2	42.6	42.6	43.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

<sup>(1)</sup> Four-quarter moving averages.

<sup>(2)</sup> Four-quarter moving sums.

<sup>(3)</sup> End of period.

<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(5)</sup> GDP data are four-quarter moving sums.