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EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

10/2021

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ECONOMIC UPDATE 10/2021

Summary¹

In September, business conditions continued to improve when compared to a year earlier when activity was hit hard by the pandemic, but are gradually receding from recent historical highs. This is reflected in large annual percentage changes for several indicators. Nevertheless, the aggregate level of economic activity remained below pre-pandemic levels.

European Commission data show that sentiment eased in September, particularly reflecting a sharp decline in industrial confidence and to a lesser extent lower consumer confidence. It however remains well above its level a year earlier and its historical average.

In August, industrial production contracted on an annual basis following four consecutive months of growth. Meanwhile the volume of retail trade rose at a faster pace. The number of registered unemployed fell, while the unemployment rate remained unchanged from that in the previous month and well below last year's rate.

In August, commercial and residential permits rose on their year-ago levels. Meanwhile, in September the number of final deeds of sale for residential property also rose on an annual basis while promise-of-sale agreements decreased.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 0.7% in September, up from 0.4% in the previous month. Inflation based on the Retail Price Index (RPI) rose to 2.2% in September from 2.1% a month earlier. The large difference between these two measures of inflation is primarily due to technical factors related to the revision of HICP weights in 2021.

Maltese residents' deposits expanded at an annual rate of 10.4% in August, following an increase of 11.0% in the previous month, while annual growth in credit to Maltese residents eased to 8.0%, from 8.6% a month earlier. In August, the cash-based Consolidated Fund recorded a surplus when compared with a deficit a year earlier, reflecting an increase in government revenue, which more than offset a rise in government expenditure.

Central Bank's Business Conditions Index (BCI)²

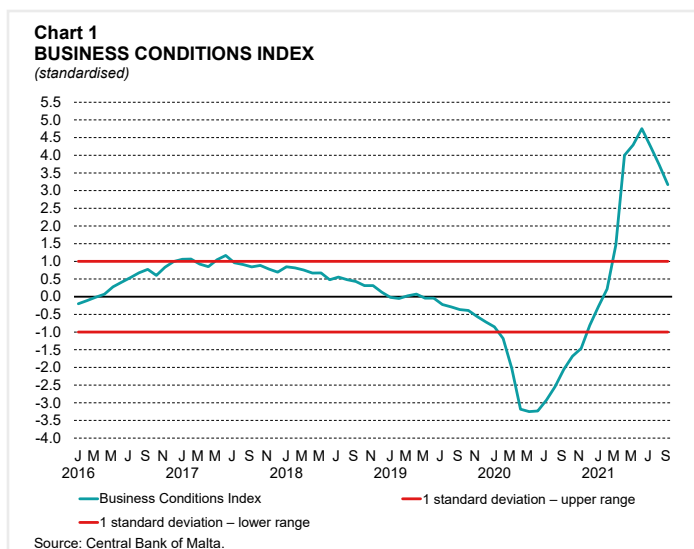
The Bank's BCI indicates that in September business activity continued to improve on a year-on-year basis, though it is gradually receding from recent historical highs (see Chart 1). The improvement in recent months is from a very low base, as 2020 marked a historical low point for most economic variables. As a result, strong annual growth rates are being recorded in several BCI components in recent months, reflecting positive base-effects from the low levels seen a year earlier. This was mostly evident in the case of gross domestic product (GDP), tourist arrivals, economic

¹ The cut-off date for information in this note is 12 October 2021. Most of the data reported in this issue of the *Economic Update* refer to August 2021 and reflect the further relaxation of COVID-19 containment measures during the month. However, the latest data for the European Commission's confidence indicators, the Bank's BCI and the COVID-19 Government Response Index refer to September 2021.

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.

sentiment, and selected government revenue items. Moreover, the unemployment rate continued to fall in annual terms.

The high reading for the BCI follows a period of subdued activity and thus should not be interpreted as implying that economic activity necessarily returned to pre-pandemic levels. At the current juncture, the BCI readings should be interpreted as indicating an improvement from the trough of 2020.³

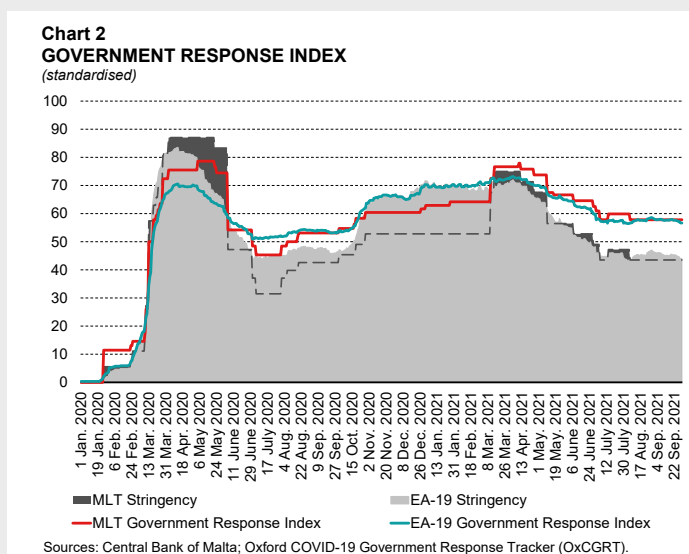


BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Some COVID-19 containment measures were relaxed during September, including the easing of rules for recreational establishments, the re-introduction of both indoor and outdoor standing events for those fully vaccinated capped at 100 persons, an increase in the maximum number of persons who can attend seated events as well as a reduction in the distance between bubbles for seated events, from two metres to one metre.⁴ However, Malta's COVID-19 Government Response Index (GRI) ended September at 57.8, similar to the level recorded at end-August (see Chart 2).

The Stringency Index also retained the level recorded at the end of August, at 43.5. Malta's index ended September 0.5 points below that in the euro area.

Meanwhile, the GRI ended the month 1.1 points higher than the euro area average, which closed the month at 56.7.



³ The volatility caused by the pandemic in most economic variables and the variation in the timing of turning points across indicators implies that as new observations are introduced in the estimation of the BCI each month, estimates of the BCI for earlier periods can be revised significantly. This is due to the filtering process embedded within the BCI.

⁴ In terms of the computation of the GRI, these measures would affect components C3 (cancel public events), and C4 (restrictions on gatherings). All measures eased during September were however too small to change the classification, and hence they had zero impact on the GRI.

Business and consumer confidence indicators

In September, the European Commission's Economic Sentiment Indicator (ESI) stood at 111.5, down from 115.6 in August (see Table 1). Sentiment remained well above its level in September 2020 and its long-term average of around 100.0, but stood below that in the euro area, where the index reached 117.8.^{5,6,7}

The month-on-month fall in sentiment in Malta was largely driven by industry, and to a lesser extent, by developments in consumer confidence. By contrast sentiment improved among services firms, and to a lesser degree, in the retail and construction sectors. Despite mixed developments in month-on-month terms, all components of the indicator were positive in September.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the decrease in overall sentiment in September was mainly driven by weaker sentiment in industry, although a marginal decrease in the contribution of consumers also contributed (see Chart 3). By contrast, the contribution of the services sector turned positive in the month

	2019	2020	2020					2021				
			Sep.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
ESI	102.4	81.4	88.8	85.8	88.1	95.0	117.3	115.2	113.5	110.0	115.6	111.5
Industrial confidence indicator	-6.7	-25.1	-13.2	-24.0	-18.6	-1.1	36.0	9.4	8.7	3.0	22.8	0.1
Assessment of order-book levels	-23.0	-48.8	-47.0	-41.4	-53.8	-41.4	-16.7	-30.1	-39.0	-12.0	22.8	-29.2
Assessment of stocks of finished products	15.5	27.2	16.4	36.0	28.6	-11.3	-42.5	-21.0	0.8	-1.1	-1.1	4.0
Production expectations for the months ahead	18.4	0.8	23.7	5.5	26.6	26.7	82.1	37.2	65.9	20.0	44.7	33.5
Consumer confidence indicator	4.5	-5.6	-9.1	-3.2	-6.9	-7.9	5.2	8.3	6.0	3.8	9.0	7.4
Financial situation past 12 months	11.3	-1.6	-10.4	-15.4	-15.5	-18.6	-15.9	-11.7	-11.0	-6.8	-2.8	-5.7
Financial situation next 12 months	11.2	0.8	-2.6	4.3	-0.7	0.4	11.5	15.0	10.4	8.4	11.5	6.8
Economic situation next 12 months	20.9	-0.9	-2.1	8.7	4.5	3.6	30.7	35.3	31.3	19.4	24.7	22.3
Major purchases next 12 months	-25.1	-20.5	-21.5	-10.4	-15.8	-16.8	-5.5	-5.6	-6.5	-5.6	2.7	6.4
Retail trade confidence indicator	4.2	-31.0	-63.7	-51.4	-49.0	-38.2	-50.3	-1.9	-8.7	-12.6	15.2	21.8
Business activity, past 3 months	18.9	-22.2	-67.6	-51.6	-42.2	-58.6	-70.3	-43.3	-46.9	-1.5	34.3	38.2
Stocks of finished goods	17.4	31.9	52.6	50.3	33.5	37.2	42.4	-3.5	3.5	3.1	13.6	-2.9
Business activity, next 3 months	11.1	-38.8	-70.8	-52.4	-71.4	-18.7	-38.1	34.2	24.4	-33.2	24.8	24.2
Construction confidence indicator	26.2	-5.7	-3.0	-1.2	-8.3	-8.5	9.6	21.9	8.9	-4.8	5.9	12.5
Evolution of your current overall order books	19.7	-6.2	8.0	-3.4	-13.6	-12.0	4.0	4.7	11.7	-13.5	-2.9	6.0
Employment expectations over the next 3 months	32.6	-5.2	-14.0	0.9	-3.0	-5.0	15.3	39.0	6.1	4.0	14.7	19.0
Services confidence indicator	20.7	-24.9	-3.5	-5.3	-3.7	-11.1	5.4	30.8	36.7	34.7	17.8	32.8
Business situation development over the past 3 months	16.7	-36.3	-2.4	-12.3	-12.4	-11.0	-1.1	16.6	19.6	29.5	12.6	6.4
Evolution of the demand over the past 3 months	21.5	-34.9	-0.1	-10.5	-16.8	-19.1	-5.1	25.1	44.5	29.4	14.0	39.0
Expectation of the demand over the next 3 months	24.0	-3.7	-7.9	6.7	17.9	-3.1	22.5	50.8	46.0	45.2	26.9	53.1
EI	102.7	86.0	84.4	88.8	87.0	88.4	96.6	108.4	110.8	113.4	112.6	118.7
Services	17.5	-2.4	-5.0	-1.6	-11.8	-9.9	13.0	31.0	37.3	46.5	29.7	55.2
Retail	4.7	-11.6	-25.3	-5.4	-5.7	14.5	-18.4	7.3	6.0	6.0	11.2	17.7
Construction	32.6	-5.2	-14.0	0.9	-3.0	-5.0	15.3	39.0	6.1	4.0	14.7	19.0
Industry	12.8	-12.5	2.8	-5.7	10.3	-8.1	18.0	9.3	21.4	15.3	44.2	8.6
ESI demeaned	2.4	-18.6	-11.2	-14.2	-11.9	-5.0	17.3	15.2	13.5	10.0	15.6	11.5
EI demeaned	2.7	-14.0	-15.4	-11.2	-12.9	-11.7	-3.1	8.2	10.8	13.3	12.9	18.4

Source: European Commission.

⁵ 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%.

⁶ 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.

⁷ In January 2021, data were revised for previous periods following the annual updating of country weights and the inclusion of 2020 in the standardisation sample.

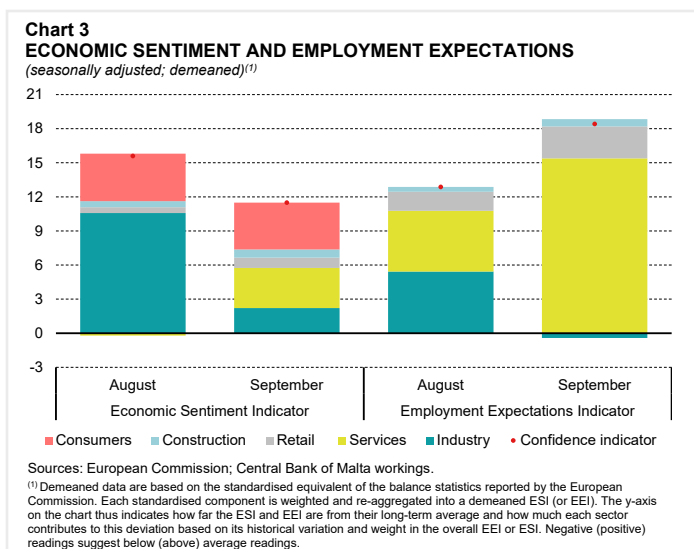
under review. At the same time, the construction and retail sectors contributed more positively relative to August.

Demeaned data show that the ESI is above its long-term average, primarily due to relatively strong sentiment among consumers and firms in the services sector.

Industrial confidence fell to 0.1 in September, from 22.8 in the previous month. Notwithstanding this decline, sentiment remained above its long-term average of -4.1.⁸ The latest decrease in sentiment was broad based across all sub-components of the indicator, largely reflecting developments in firms' assessment of order book levels. Supplementary data show that the share of firms anticipating selling prices to rise in the coming months declined to a six-month low, but nonetheless remained elevated from a historical perspective.

In September, consumer confidence eased to 7.4, from 9.0 a month earlier, remaining well above its long-term average of -10.6.⁹ Weaker sentiment was mainly driven by consumers' expectations of their financial situation over the coming months and, to a lesser extent, by their assessment of their financial situation over the last 12 months. Expectations about the general economic outlook also weakened. By contrast, consumers' expectations of major purchases over the next 12 months stood more positive compared to August. Additional survey data show that price expectations increased, while a marginally smaller share of respondents anticipated unemployment to decline compared to August.

Confidence within the retail sector stood at 21.8, up from 15.2 in August, and well above its long-term average of -2.1.¹⁰ While in August, stock levels were assessed to be above normal, in the month under review, participants reported stock levels to be below normal.¹¹ At the same time, retailers' assessment of sales over the previous three months improved. By contrast, their expectations about business activity during the coming months eased slightly. Additional survey information shows that price expectations edged down relative to August but remained well above their historical average.



⁸ The industrial confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

⁹ The 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 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.

¹¹ 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.

Confidence within the construction reached 12.5, from 5.9 a month earlier, thus rising further above its long-term average of -10.5.¹² The recent rise in sentiment largely reflected improved order book levels and, to a lesser extent, more optimistic employment expectations relative to August. Additional survey data indicate that a smaller share of respondents expected prices to increase over the coming months compared to August, although this share remained high from a long-term perspective.

Sentiment within services rose sharply to 32.8 in the month of September, from 17.8 in the previous month. Following this increase, sentiment stood above its long-term average of 19.2.¹³ Stronger sentiment largely reflected developments in respondents' expectations of demand over the next three months and their assessment of demand over the past three months. By contrast, participants' assessment of the business situation over the past three months deteriorated. Additional survey data show that, on balance, the share of respondents anticipating a rise in prices in the coming months increased significantly, standing at a 3-year high.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased in September.¹⁴ The EEI stood at 118.7, up from 112.6 in August, standing above its long-run average of around 100.0 and exceeding the euro area average. Employment expectations were positive across all sectors, but decreased in industry.

Demeaned data suggest that the services sector largely explains why the overall EEI remained above its long-term average in recent months (see Chart 3).

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 – turned negative at -4.1%. This followed an increase of 7.5% in July (see Table 2).¹⁵

The recent decline in industrial production primarily reflected lower output by firms that produce food products, closely followed by those that specialise in “other manufacturing” goods – which includes medical and dental instruments, toys and related products. Production also fell among firms that print and reproduce recorded media, those specialising in the manufacturing of motor vehicles, trailers and semi-trailers as well as textiles and wearing apparel. On the other hand, output rose among firms producing rubber and plastic products and those that repair and install machinery and equipment.

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.

¹³ 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.

¹⁴ 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*.

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

	2019	2020	2020						2021							
			July ⁽²⁾	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr. ⁽¹⁾	May	June	July	Aug.
Industrial production	1.2	-0.2	-2.2	-3.7	-3.1	2.8	-1.4	-4.5	-7.2	-12.9	-4.5	17.3	8.3	13.7	7.5	-4.1
Retail trade	7.0	-6.1	-10.9	-9.0	-10.5	-7.8	-4.5	3.7	-4.3	-10.5	-0.6	18.5	23.0	3.9	11.8	19.7
Number of tourist arrivals	5.9	-76.1	-84.0	-66.0	-82.4	-83.4	-92.2	-91.1	-90.7	-93.7	-86.3	-	-	-	148.9	45.0
Number of nights stayed	4.1	-73.0	-75.3	-62.6	-77.4	-78.6	-82.3	-77.2	-79.8	-86.7	-65.2	-	-	-	87.7	33.1
Rented accommodation	4.6	-76.8	-84.3	-67.4	-81.8	-82.5	-88.0	-86.6	-89.0	-91.8	-75.0	-	-	-	191.2	47.9
Collective ⁽³⁾	-0.1	-76.5	-85.4	-66.9	-81.2	-81.9	-91.6	-91.9	-92.1	-94.1	-88.5	-	-	-	231.7	75.7
Other rented ⁽⁴⁾	13.5	-77.3	-82.7	-67.9	-82.9	-83.5	-80.6	-79.5	-82.4	-86.3	-40.0	-	-	-	143.7	13.4
Non-rented accommodation ⁽⁵⁾	1.6	-52.8	-31.4	-38.3	-57.1	-53.3	-53.8	-33.5	-48.9	-52.9	-20.7	-	-	-	-27.8	-7.0
Tourist expenditure	5.7	-79.5	-88.1	-71.3	-84.5	-84.5	-90.3	-86.6	-87.6	-90.4	-76.1	-	-	-	274.0	79.0
Package expenditure	-8.2	-84.5	-93.5	-79.5	-90.5	-89.8	-	-	-	-	-	-	-	-	480.2	126.7
Non-package expenditure	17.1	-79.6	-88.7	-71.5	-86.0	-85.1	-90.2	-86.4	-87.7	-89.0	-71.0	-	-	-	288.0	69.3
Other	5.9	-75.9	-83.7	-65.3	-78.7	-79.8	-86.5	-82.0	-83.5	-88.1	-71.9	-	-	-	203.8	68.3

Sources: National Statistics Office; Eurostat.

⁽¹⁾ 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. Hence, comparison with April, May and June 2021 figures cannot be made.

⁽²⁾ The inbound tourism News Release has been issued since July following the reopening of Malta International Airport in the beginning of July.

⁽³⁾ Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

⁽⁴⁾ Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

⁽⁵⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

Production in the energy sector increased in annual terms for the fifth consecutive time, although the pace of expansion was the lowest since May.

In August, the volume of retail trade increased by 19.7% on an annual basis, after rising by 11.8% in July.

The tourism sector has continued to recover from the slowdown in 2020, although tourist numbers remain below 2019 levels. The number of inbound tourists stood at 165,932 in August, a 45.0% increase compared with the same month a year earlier, but remained around half that of 2019. Guest nights increased by 33.1%, with collective accommodation registering the sharpest increase in absolute terms. Total expenditure rose by 79.0% over the corresponding period in 2020, but remained slightly less than half that of 2019.

In August, 127 development permits for commercial buildings were issued, a 38.0% increase over the same month a year earlier (see Table 3). This follows a year-on-year decrease of 7.1% in July. Meanwhile, at 903, new residential permits increased by 36.0% in annual terms in August, a sharper increase relative to the 4.0% recorded in July.

Table 3
PROPERTY MARKET

Levels

	2019	2020	2020					2021								
			Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
Permits																
Commercial permits	3,474	2,687	92	301	267	241	183	209	249	205	267	228	260	249	127	-
Residential permits	12,485	7,837	664	475	657	672	549	784	654	569	763	667	429	645	903	-
Residential transactions																
Promise of sale	11,614	11,262	1,074	1,054	1,300	1,044	1,145	981	1,350	1,650	1,428	1,479	1,166	1,104	892	988
Final deeds of sale	14,019	11,057	940	974	1,054	961	1,134	1,009	984	1,285	1,185	1,174	1,239	1,386	1,161	1,017

Sources: National Statistics Office; Eurostat.

Data on residential property transactions show that there were 1,017 final deeds of sale in September, 4.4% more than the previous year. Conversely, at 988, the number of promise-of-sale agreements were 6.3% less than the amount registered in September 2020. These, however, were still 15.6% higher than in September 2019.

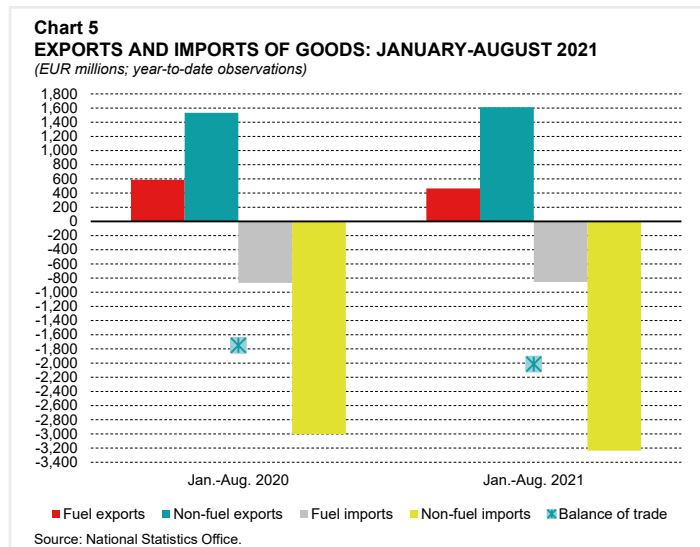
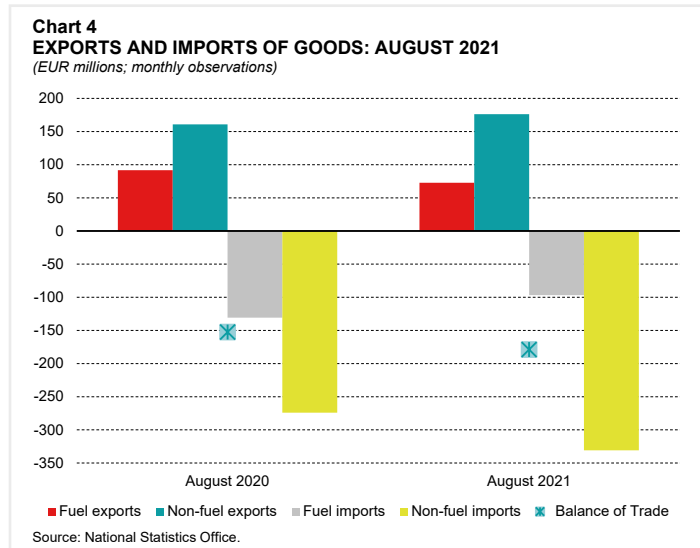
Customs data show that the merchandise trade deficit stood at €178.9 million in August, up from €152.6 million a year earlier. The larger deficit was due to a €22.7 million rise in imports, and a €3.6 million fall in exports (see Chart 4). Higher imports were largely driven by an increase in registration of sea vessels. A rise in imports of electrical machinery, vehicles, and other machinery and mechanical appliances also contributed – but to a lesser extent. Together these were enough to outweigh lower imports of fuel, organic chemicals, and pharmaceutical products.

Exports declined marginally due to a fall in re-exports of fuel, electrical machinery, pharmaceutical products, and optical instruments. These outweighed higher exports of printed material, organic chemicals, and fish.

In the first eight months of this year, the visible trade gap widened to €2,013.7 million from €1,750.4 million in the corresponding period of 2020, as imports increased while exports declined (see Chart 5).

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,442 in August 2021, down from 1,542 in July and 3,672 a year earlier when the labour market was heavily impacted by the introduction of the first pandemic-related restrictions (see Chart 6). The number of registered unemployed is below pre-pandemic levels.



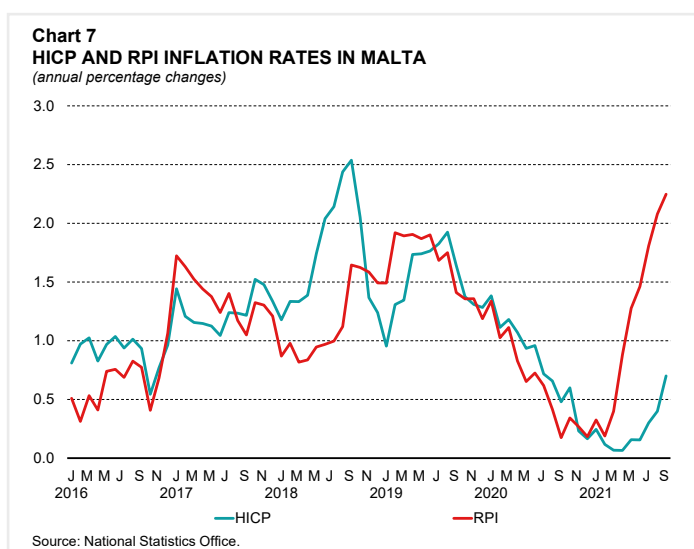
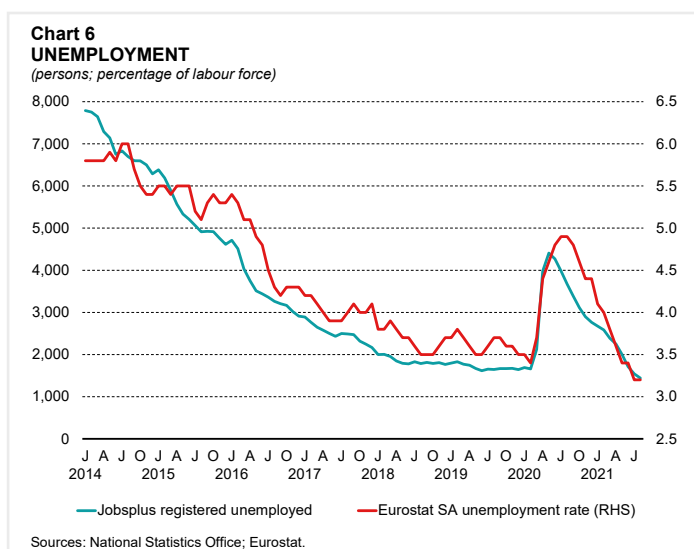
The seasonally-adjusted unemployment rate stood at 3.2% in August, the same rate as that registered in the previous month, but lower than the rate of 4.9% registered in the same month of the preceding year.

Prices, costs and competitiveness

Annual HICP inflation stood at 0.4% in August, marginally up from 0.3% registered in the previous month (see Chart 7). Inflation increased in all sub-components except for services inflation which edged down. HICP inflation increased further in September, reaching 0.7%.

Annual inflation according to the RPI was much higher. Indeed, it stood at 2.1% in August, up from 1.8% in July (see Chart 7).¹⁶ This mainly reflects faster growth in the prices of clothing and footwear as well as transport, and communication services. RPI inflation edged up to 2.2% in September.

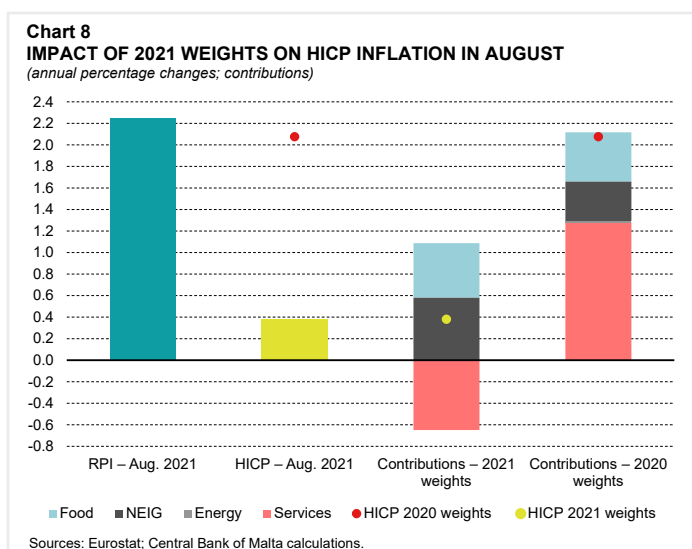
The gap between the two measures of inflation is related to the large change in HICP weights in 2021 due to the COVID-19 pandemic.¹⁷ On the other hand, the weights of the RPI are not updated annually and are hence not affected by such changes. Indeed, annual HICP inflation for August using the 2020 weights (which are based on pre-pandemic spending patterns) would have stood at 2.1% as opposed to the actual rate of 0.4% using the 2021 weights, which would have been similar to the RPI outcome. The main difference lies in the services contribution to HICP (see Chart 8). Whereas services contributed negatively to HICP inflation in August, these would have contributed positively had the old weights been applied. Thus, the changes to certain components of services in HICP are negatively impacting headline HICP inflation, which is in turn being reflected in a growing gap with the RPI-based measure.



¹⁶ 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.

¹⁷ For more details see Box 1: The implications of the 2021 HICP weights on inflation forecasts, in [Outlook for the Maltese Economy 2021:2](#)

Producer output inflation, measured by the industrial producer price index, rose sharply to 4.2% in August, from 1.2% in July.¹⁸ This largely reflected a strong rise in intermediate goods inflation. The latter might reflect the impact of the rising cost pressures due to ongoing supply shortages on an international level. In addition, capital goods inflation also rose and contributed to the increase in producer output inflation. On the other hand, inflation in consumer goods edged down compared to the previous month. Similar to the previous months, energy prices remained unchanged when compared to their level a year earlier.



Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.2% in the year to August, reflecting a depreciation of the euro exchange rate against currencies of trading partners.¹⁹ This follows a 0.1% decline in July. Moreover, in September the HCI declined by 1.2% on a year earlier. The real HCI, which also considers relative price changes, fell by 3.2% in annual terms in September, which suggests that international competitiveness improved due to favourable developments in relative prices vis-à-vis trading partners.

Public finance

In August 2021, the Consolidated Fund recorded a surplus of €129.3 million, a significant improvement of €163.7 million when compared to the deficit registered in August 2020 (see Table 4). This occurred due to a surge in government revenue, which more than offset the rise in government expenditure. In turn, the primary balance registered a surplus of €148.9 million, a €168.5 million rise from the primary deficit registered in the corresponding period a year earlier.

Government revenue increased by €181.2 million, or 46.1% in annual terms, mostly reflecting a surge in tax revenue. This is primarily driven by the recovery in economic activity in 2021 and base effects from 2020. Revenue from indirect taxes rose by €90.2 million, due to an increase in VAT receipts and to a lower extent customs and excise duties. Inflows from direct taxes increased by €64.4 million, on the back of a rise in inflows from income taxes paid by companies. Moreover, inflows from non-tax revenue increased by €26.6 million, due to higher grants from the European Union.

Government expenditure increased by €17.5 million, or 4.1% when compared to the corresponding period in 2020. This was due to a rise in recurrent expenditure coupled with an increase in

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.

¹⁹ HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. On top of this, the real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2020	2021	2020	2021	Change	
	Jan.-Aug.	Jan.-Aug.	Aug.	Aug.	Amount	%
Revenue	2,354.0	2,980.1	393.1	574.3	181.2	46.1
Direct tax	1,234.9	1,630.4	222.2	286.6	64.4	29.0
Income tax	835.9	1,167.4	164.8	212.4	47.6	28.9
Social security contributions ⁽¹⁾	399.0	463.1	57.4	74.1	16.8	29.2
Indirect tax	810.8	1,076.7	131.8	222.0	90.2	68.4
Value Added Tax	478.9	665.0	100.4	161.0	60.7	60.5
Customs and excise duties	129.5	188.1	3.0	28.4	25.4	847.2
Licences, taxes and fines	202.3	223.7	28.5	32.6	4.2	14.6
Non-tax⁽²⁾	308.3	273.0	39.1	65.7	26.6	68.1
Expenditure	3,440.2	3,733.3	427.5	445.0	17.5	4.1
Recurrent	2,915.6	3,356.1	381.0	390.5	9.5	2.5
Personal emoluments	604.5	673.3	76.6	82.8	6.2	8.2
Operational and maintenance	178.1	171.0	31.0	15.8	-15.2	-49.0
Programmes and initiatives	1,589.4	1,952.1	178.8	218.8	40.0	22.4
Contributions to entities	422.2	436.6	79.9	53.5	-26.4	-33.1
Interest payments	121.3	123.1	14.7	19.6	4.9	32.9
Capital	524.6	377.3	46.4	54.5	8.0	17.3
Primary balance⁽³⁾	-964.9	-630.1	-19.6	148.9	168.5	-
Consolidated Fund balance	-1,086.2	-753.2	-34.4	129.3	163.7	-

Source: National Statistics Office.

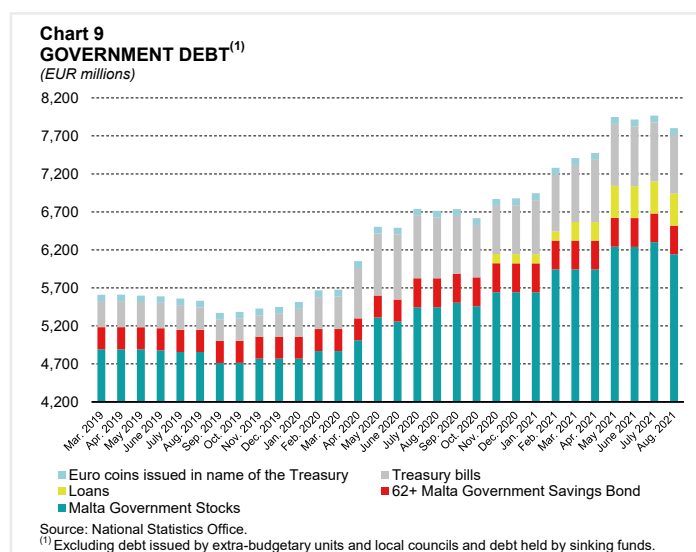
⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

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

capital expenditure. The latter increased by €8.0 million, mainly reflecting higher expenditure on road construction improvements.

Meanwhile, recurrent expenditure rose by €9.5 million. This was largely due to higher outlays on programmes and initiatives – reflecting the reclassification of the Wage Supplement Scheme from capital to current expenditure in 2021 and, to a lesser extent, the timing of transfers to the EU budget. Meanwhile, the month under review saw lower outlays on contributions to government entities as well as operational and maintenance expenses.

In August 2021, the total stock of government debt amounted to €7,684.5 million, a decrease of €163.9 million when compared with July (see Chart 9). This decline is mainly attributable to a lower outstanding amount of Malta Government Stocks.



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 10.4%, down from 11.0% recorded a month earlier (see Chart 10).

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 87% of their M3 balances. This deposit category – which is the most liquid – grew by 13.0% in the year to August, after rising by 13.9% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 7.0% in annual terms, following a contraction of 7.5% in July.

Credit to Maltese residents grew at an annual rate of 8.0% in August, slightly below the 8.6% recorded a month earlier (see Chart 11). The deceleration in credit during August was largely driven by slower growth

in credit to general government. Annual growth in this component stood at 11.4%, below the 13.1% recorded in July. At the same time, credit to residents outside general government eased to 6.9%, from 7.1% a month earlier.

The annual rate of change in loans to non-financial corporations stood at 5.4% in August, marginally below the 5.5% recorded a month earlier (see Chart 12). The slight deceleration was largely due to slower growth in loans to administrative and support service activities, followed by the sector comprising accommodation and food service activities, and to a lesser extent, the energy sector. In addition, credit to the sector comprising professional, scientific and technical activities contracted on a year earlier, while loans to the agriculture and manufacturing sectors declined at a faster pace. These developments were partly offset by an increase in loans to the construction and real estate sector, the wholesale and retail trade sector, as well as the arts and entertainment sector.

Chart 10
SELECTED DEPOSITS OF MALTESE RESIDENTS
(annual percentage changes)

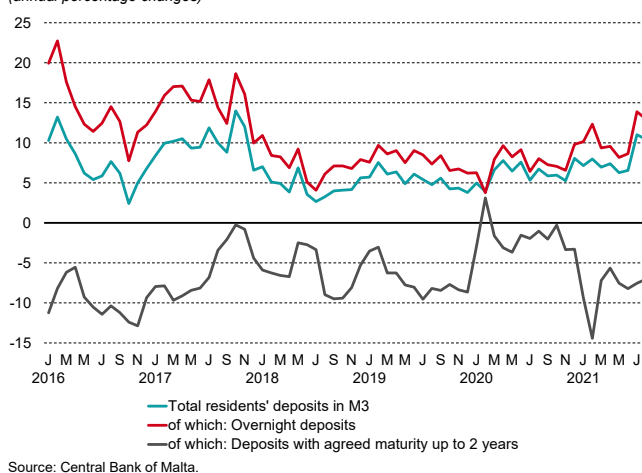
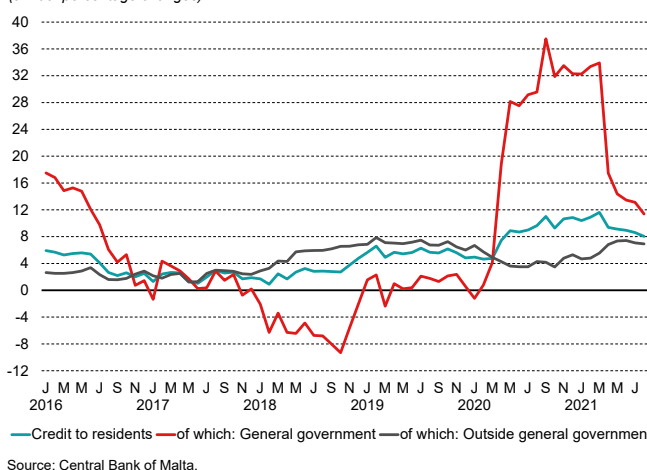


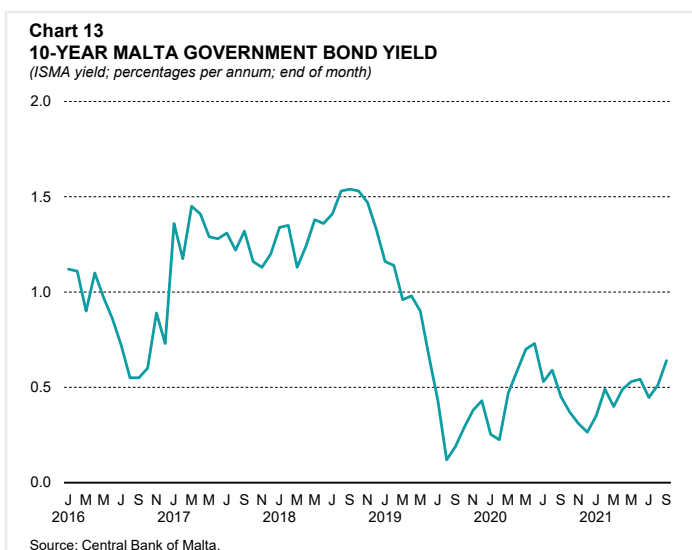
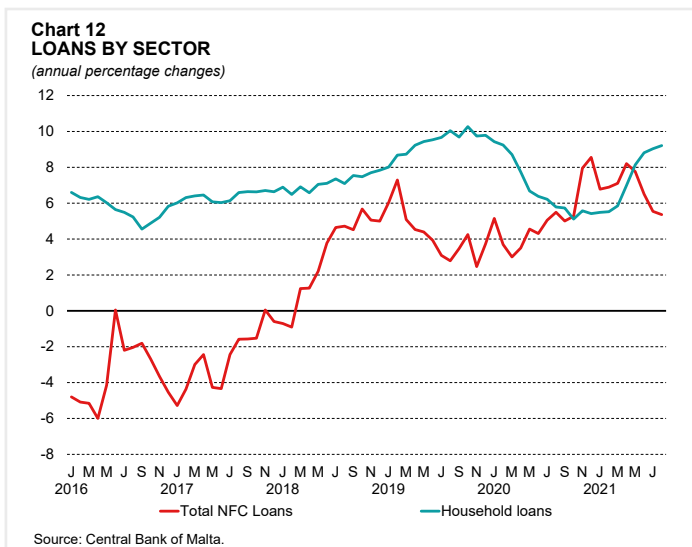
Chart 11
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)



Meanwhile, the annual rate of change of loans to households stood at 9.2% in August, slightly above the 9.0% recorded in July. Mortgage lending reached 10.4% in August, from 10.2% a month earlier. At the same time, consumer credit and other lending fell by 2.3%, following a contraction of 2.8% in July.

With regard to interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits remained unchanged for the third consecutive month, standing at 0.18% in August. The composite rate charged on outstanding loans eased marginally to 3.26% in August, from 3.27% a month earlier. Hence, the spread between the two rates edged down slightly to 308 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds edged up by 13 basis points from a month earlier, to 0.64% at the end of September (see Chart 13). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 0.4% during the same period. At the same time, the MSE Total Return Index, which accounts for dividends as well as changes in equity prices, declined by 0.3%.



BOX 2 – LIQUIDITY SUPPORT MEASURES RELATED TO COVID-19

In response to the outbreak of COVID-19 and the subsequent containment measures, several businesses and households were faced with liquidity challenges, and thus applied with MFIs in Malta for a moratorium on loan repayments (see Table 5).²⁰

In August 2021, loans subject to a moratorium continued to decline, as the moratoria period is gradually expiring for many loans, and economic activity continued to normalise in most sectors.

Indeed, as at the end of August, only 79 loans were subject to a moratorium on repayments compared to 135 loans a month earlier. The value of such loans declined by €15.6 million and stood at €63.3 million, or 0.5% of total outstanding loans to Maltese residents. Loans subject to a moratorium have fallen consistently since August 2020. During August 2021, declines in both value and volume terms were observed across almost all sectors – with the largest drops in value terms registered in the construction and real sectors. Meanwhile, the

Table 5
LOANS SUBJECT TO MORATORIUM – AS AT END-AUGUST 2021

Number of loans; EUR millions; percentage

	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	31	3.6	0.1
Manufacturing	1	0.1	0.1
Construction	1	1.8	0.3
Wholesale and retail trade; repair of motor vehicles and motor cycles	2	0.7	0.1
Transportation and storage and information and communication	1	0.1	0.0
Accommodation and food service activities	16	15.9	2.7
Real estate activities	11	6.6	0.7
Other ⁽⁴⁾	16	34.4	1.7
Total	79	63.3	0.5

Source: Central Bank of Malta.

⁽¹⁾ The number of loans subject to moratorium.

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

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

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

²⁰ Data on moratoria refer to loans that were issued before the onset of the pandemic and which became subject to a moratorium as a result of COVID-19 in terms of Directive No. 18 of 2020, which entered into force on 13 April 2020 and even before the same Directive entered into force (a number of banks had already started to provide moratorium facilities voluntarily in March 2020). Revised back data are reported in the Annex. In view of the protracted impact of the COVID-19 pandemic, on 14 January 2021, the Minister for Health, in consultation with the Ministry for Finance issued [Legal Notice \(LN\) 15 of 2021 on 'Moratorium on Credit Facilities in Exceptional Circumstances'](#), which relates to the reactivation of moratoria in Malta. This reactivation allowed borrowers to submit their applications for new moratoria or to extend their existing moratoria subject to a number of conditions, before 31 March 2021.

loans subject to a moratorium in the manufacturing and the transportation and information and communication sectors remained unchanged.

The outstanding value of loans subject to a moratorium of Maltese households fell to €3.6 million – equivalent to 5.7% of the total value of loans subject to a moratorium and 0.1% of outstanding household loans. This is down from a peak of €635.0 million in July 2020.

Meanwhile, the accommodation and food service activities sector held €15.9 million in loans subject to a moratorium. This is the sector most affected by the containment measures and, indeed, 2.7% of the loans held by this sector were subject to a moratorium by the end of August. This contrasts with the end of 2020, when over 40.0% of outstanding loans of this sector were subject to a moratorium.

Moreover, loans subject to a moratorium in the real estate sector stood at €6.6 million in August, equivalent to 0.7% of the sector's outstanding loans, while the construction sector held €1.8 million in loans subject to a moratorium, or 0.3% of loans held by the sector.

These three sectors jointly accounted for 38.4% of all loans covered by moratoria.

The 'other category' sector which contains loans subject to a moratorium in agriculture and fishing, education, health, and financial and insurance activities among others, held €34.4 million in loans subject to a moratorium – 54.4% of loans subject to a moratorium – but only 1.7% of the outstanding loans held by the sectors falling under this category.

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

By end-August, 625 facilities were approved under the CGS, covering total sanctioned lending of €478.6 million (see Table 6). As the scheme provides guarantees on new loans for working capital and on loan repayments, the amount of loans disbursed under the scheme may be lower than the sanctioned amount. By the end of August, €401.5 million were disbursed, up slightly from the €395.7 million disbursed by the end of July. Thus, by the end of August, 61.5% of the scheme was sanctioned, while 51.6% was disbursed.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities and had €99.1 million in sanctioned loans. This was followed by accommodation and food service activities, with 149 facilities or €121.5 million in sanctioned loans.

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

Table 6
MALTA DEVELOPMENT BANK COVID-19 GUARANTEE SCHEME – AS AT AUGUST

Number of facilities; EUR millions

	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	54	24.0
Construction	37	49.4
Wholesale and retail trade; repair of motor vehicles and motor cycles	170	99.1
Transportation and storage and information and communication	41	50.3
Accommodation and food service activities	149	121.5
Professional, scientific and technical activities	38	21.9
Administrative and support service activities	37	13.6
Real estate	18	6.7
Other ⁽³⁾	81	92.2
Total	625	478.6

Source: Malta Development Bank.

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

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

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

In value terms, these were followed by the sector comprising transportation, storage, information and communication, and by the construction sector, with €50.3 million and €49.4 million, respectively.

Annex 1

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2019	2020	2020	2020	2021	2021	2020	2020	2020	2020	2021	2021	2021	2021	2021	2021	2021	2021	2021
			Q3	Q4	Q1	Q2	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
Prices and costs																			
HICP inflation	1.5	0.8	0.6	0.3	0.1	0.1	0.5	0.6	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7
RPI inflation	1.6	0.6	0.4	0.3	0.3	1.2	0.2	0.3	0.3	0.2	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2
Industrial producer price inflation	2.2	0.3	0.2	-0.4	0.8	1.7	-1.0	-0.6	-0.5	-0.1	0.8	0.5	1.1	1.2	1.7	2.2	1.2	4.2	-
HCI (nominal)	-0.7	1.8	2.8	3.5	2.7	1.3	3.3	3.3	3.3	3.9	3.8	3.6	0.8	1.6	1.7	0.7	-0.1	-1.2	-1.2
HCI (real)	-1.1	1.5	2.4	3.2	1.5	-0.6	2.9	3.1	2.9	3.5	2.8	2.4	-0.8	-0.3	-0.4	-1.3	-1.9	-3.3	-3.2
Unit labour costs, whole economy ⁽¹⁾	3.4	0.1	10.0	12.0	11.3	5.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.4	0.1	0.5	0.1	0.4	2.9	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	0.0	-10.6	-8.4	-10.6	-9.9	-3.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	2.7	1.6	4.6	5.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																			
Nominal GDP	8.2	-7.1	-10.2	-6.8	-0.2	14.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.7	-8.3	-11.0	-8.0	-1.3	13.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.6	-10.0	-11.1	-7.4	-5.4	14.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	14.2	15.1	21.0	17.6	21.5	-1.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.2	-6.5	-4.0	-13.9	-8.5	23.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	5.8	-6.3	-11.0	-7.0	-3.8	10.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	6.8	-2.7	-5.4	-4.1	-3.2	10.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																			
LFS unemployment rate (% of labour force)	3.6	4.3	4.6	4.4	3.9	3.5	4.8	4.6	4.4	4.4	4.1	4.0	3.8	3.6	3.4	3.4	3.2	3.2	-
LFS employment	7.1	2.7	1.3	-0.8	-1.1	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.1	2.9	1.9	0.5	-	2.5	2.1	2.1	1.6	0.5	0.2	0.9	-	-	-	-	-	-
Balance of payments																			
Current account (as a % of GDP) ⁽²⁾	5.4	-2.9	-1.2	-2.9	-3.7	-4.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																			
Maltese residents' deposits and loans																			
Overnight deposits	6.2	9.8	7.3	9.8	9.4	8.6	7.3	7.1	6.6	9.8	10.1	12.3	9.4	9.6	8.2	8.6	13.9	13.0	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-2.0	-3.3	-7.2	-8.2	-2.0	-0.3	-3.3	-3.3	-9.4	-14.4	-7.2	-5.7	-7.5	-8.2	-7.5	-7.0	-
Total residents' deposits in M3	3.8	8.1	5.9	8.1	7.0	6.5	5.9	6.0	5.3	8.1	7.2	8.0	7.0	7.4	6.3	6.5	11.0	10.4	-
Credit to general government	0.6	32.3	37.5	32.3	33.9	13.5	37.5	31.9	33.5	32.3	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	-
Credit to residents (excl. general government)	6.0	5.3	4.2	5.3	5.5	7.4	4.2	3.5	4.8	5.3	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	-
Total credit	4.8	10.9	11.0	10.9	11.6	8.9	11.0	9.3	10.6	10.9	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	-
10-year interest rate (%) ⁽³⁾	0.4	0.3	0.5	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.6
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	12.6	16.7	-8.3	3.0	-3.8	-2.1	6.9	11.4	-2.4	-4.8	-1.3	6.2	-1.8	-1.3	-1.8	1.5	-0.4
Liquidity support measures related to COVID-19																			
Outstanding loans subject to a moratorium ⁽⁵⁾	-	693.0	1,575.0	693.0	426.6	126.2	1,575.0	1,136.2	877.1	693.0	697.6	663.3	426.6	282.4	156.0	126.2	78.9	63.3	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	408.1	343.7	408.1	439.6	451.5	343.7	351.1	388.5	408.1	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	287.1	165.6	287.1	340.5	372.5	165.6	204.6	252.7	287.1	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	-
General government finances (% of GDP)																			
Surplus (+) / deficit (-) ⁽²⁾	0.4	-9.9	-7.1	-9.9	-10.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.6	53.3	51.4	53.3	57.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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⁾ Stock in EUR millions.

⁽⁶⁾ GDP data are four-quarter moving sums.