



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA ECONOMIC UPDATE

10/2022

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The cut-off date for information in this note is 11 October 2022. However, the cut-off dates for the HICP and the RPI are 19 and 24 October 2022, respectively. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 10/2022

Summary¹

The Bank's Business Conditions Index (BCI) indicates that annual growth in business activity has returned to its long-term average estimated since January 2000.

The European Commission survey shows that in September, economic sentiment in Malta edged down from a month earlier, falling further below its long-term average, which is estimated since November 2002. When compared with August, sentiment deteriorated strongly in the services sector, and to a lesser extent, in the construction sector. By contrast, it improved in the retail sector, in industry and to a lesser degree among consumers.

Additional survey information shows that price expectations increased significantly in industry, but fell in all the other sectors compared to August.

In September, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with August. Uncertainty fell most in the services sector, with a smaller decrease recorded among consumers.

In August, industrial production increased at a faster pace in annual terms, following a smaller increase in the previous month. The volume of retail trade rose at a slower rate in year-on-year terms compared with July. The unemployment rate stood at 2.9% in August, unchanged from a month earlier, and the lowest rate on record.

Commercial permits increased in August relative to their year-ago level, as did residential permits. In September, both the number of promise-of-sale agreements and final deeds of sale declined on a year-on-year basis.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 7.4% in September, up from 7.0% in the previous month. Inflation based on the Retail Price Index (RPI) also rose, reaching 7.5% in September from 7.0% a month earlier.

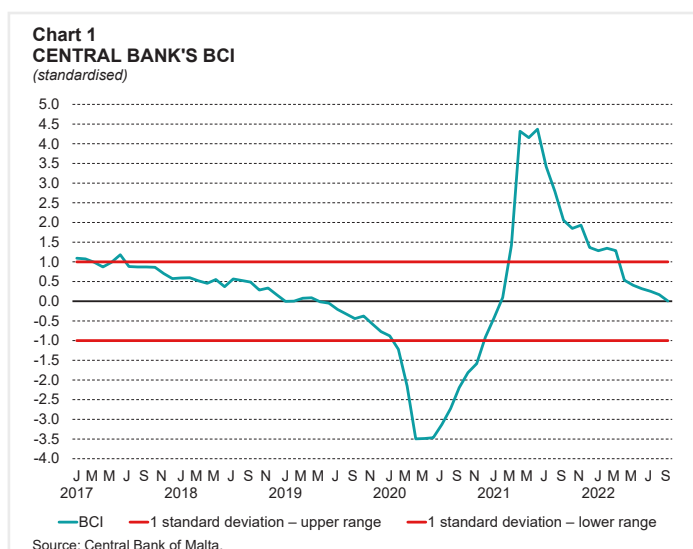
Maltese residents' deposits expanded at an annual rate of 7.2% in August, following an increase of 7.8% in the previous month, while annual growth in credit to Maltese residents stood at 8.2%, above the rate of 7.2% recorded a month earlier.

In August 2022, the surplus on the Consolidated Fund widened slightly when compared with a year earlier reflecting a decline in government expenditure.

¹ The cut-off date for information in this note is 11 October 2022. However, the cut-off dates for the HICP and the RPI are 19 and 24 October 2022, respectively. Most of the data reported in this issue of the *Economic Update* refer to August 2022. However, the latest data for the European Commission's confidence and uncertainty indicators, HICP, RPI, the Bank's BCI and the COVID-19 Government Response Index refer to September.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that annual growth in business activity has normalised from its record highs registered in the first half of 2021, as activity in most sectors is close to, or is exceeding pre-pandemic levels (see Chart 1). Growth has now returned to its historical average estimated since January 2000. Among BCI components, tourist arrivals, industrial production, tax revenue and GDP experienced strong year-on-year growth. Moreover, the unemployment rate currently stands at historic lows. On the other hand, other variables such as the Economic Sentiment Indicator (ESI), declined from their year-ago levels.



Business and consumer confidence indicators

In September, the European Commission's ESI for Malta fell further below its long-run average, which is estimated since November 2002. Sentiment edged down to 94.4 from 97.8 a month earlier and was thus slightly higher than the euro area average of 93.7. Following the latest decrease, Malta's ESI stood significantly below its level in September 2021 (see Table 1).^{3,4,5,6}

In month-on-month terms, sentiment fell strongly in the services sector and, to a lesser extent in construction. By contrast, it improved significantly in the retail sector, in industry and to a lesser degree among consumers.

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

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the decline in the overall sentiment between August and September was largely driven by developments in the services sector, whose contribution turned negative.

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

³ The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

⁴ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence 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.

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

⁶ From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. For further details on the methodology used by the European Commission, see: https://ec.europa.eu/info/sites/default/files/bcs_user_guide.pdf

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances: percentage points; seasonally adjusted

	2020	2021	2021					2022					
			Sep.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
ESI	82.6	105.0	114.7	94.7	101.7	117.6	108.1	103.6	103.7	102.3	100.1	97.8	94.4
Services confidence indicator	-23.2	13.6	46.6	-15.9	6.0	28.7	31.4	13.3	25.9	25.8	23.6	33.6	7.0
Business situation development over the past 3 months	-34.3	4.9	16.7	-14.4	-4.5	31.2	38.5	9.4	19.1	19.0	14.4	16.9	6.7
Evolution of the demand over the past 3 months	-33.6	10.7	56.1	-11.9	22.4	23.1	37.0	8.9	20.3	49.9	41.9	46.4	12.1
Expectation of the demand over the next 3 months	-1.7	25.4	67.1	-21.5	0.2	31.7	18.6	21.8	38.4	8.6	14.3	37.4	2.2
Construction confidence indicator	-4.5	7.3	11.7	5.1	9.8	5.2	3.4	15.1	18.1	15.1	5.2	8.7	5.9
Evolution of your current overall order books	-4.9	1.4	8.1	-1.5	9.1	5.5	8.7	16.7	12.0	9.2	4.5	13.2	13.6
Employment expectations over the next 3 months	-4.1	13.2	15.3	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8
Consumer confidence indicator	-5.7	3.4	6.3	-0.1	-1.1	0.6	-2.5	2.0	0.1	-6.3	-10.0	-10.6	-9.5
Financial situation past 12 months	-2.2	-8.8	-7.6	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0	-25.6	-27.3	-20.5
Financial situation next 12 months	1.0	7.1	3.6	0.2	-1.0	-1.6	-2.8	-5.2	-10.7	-10.4	-15.6	-16.6	-14.5
Economic situation next 12 months	0.4	18.6	20.2	4.0	3.4	10.9	-1.7	8.9	3.5	1.8	-6.0	-8.5	-10.9
Major purchases next 12 months	-21.8	-3.4	9.1	5.3	4.1	6.1	3.0	12.6	21.6	4.3	7.1	10.0	7.9
Industrial confidence indicator	-24.2	2.1	1.8	-11.3	-4.2	25.1	1.4	-2.2	-14.8	-10.3	-14.3	-21.4	-11.4
Assessment of order-book levels	-47.8	-28.2	-32.0	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6	-40.7	-38.3	0.1
Assessment of stocks of finished products	26.6	-3.2	2.7	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1	-8.3	29.6	50.0
Production expectations for the months ahead	1.9	31.3	40.1	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5	-10.6	3.7	15.5
Retail trade confidence indicator	-30.3	-8.4	28.7	35.3	6.1	20.7	8.0	6.1	16.7	-3.0	0.6	-22.0	6.4
Business activity, past 3 months	-21.8	-13.6	53.7	37.4	-17.6	18.7	13.0	17.5	43.1	16.2	30.5	-12.3	28.7
Stocks of finished goods	30.5	12.8	-2.9	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5	2.5	-2.4	-1.0
Business activity, next 3 months	-38.4	1.2	29.5	32.6	0.0	26.3	9.8	4.6	4.5	-27.6	-26.0	-56.2	-10.5
EI	87.0	104.1	118.5	99.6	105.2	78.0	113.6	105.0	117.6	117.0	113.7	116.7	99.5
Services	-0.7	25.1	53.0	14.7	31.0	-48.9	53.1	19.3	44.5	52.8	32.2	55.9	18.8
Industry	-10.9	14.8	17.0	12.4	13.4	18.4	2.9	32.8	53.1	34.0	29.1	26.5	10.1
Retail	-12.2	4.4	28.0	2.1	1.0	3.9	17.7	4.9	4.1	2.1	34.3	6.3	-0.3
Construction	-4.1	13.2	15.3	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8
EUJ^(1,2)	-	21.3	21.0	36.9	25.1	32.6	27.8	20.6	35.2	33.0	24.5	28.5	21.3
Services	-	32.2	28.2	42.8	45.1	38.1	-1.3	1.9	26.5	17.2	0.1	24.8	1.5
Consumers	-	-3.5	-8.7	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1	26.1	26.8	19.7
Retail	-	48.8	40.6	60.8	59.0	40.7	56.4	52.8	45.9	48.5	59.7	54.8	54.8
Industry	-	21.0	28.6	51.4	20.8	44.9	59.1	35.1	55.3	49.3	37.8	31.0	33.3
Construction	-	30.1	16.8	12.8	5.5	15.7	27.4	20.2	7.0	37.2	22.4	12.1	17.1
ESI demeaned	-17.4	5.0	14.7	-5.3	1.7	17.6	8.1	3.6	3.7	2.3	0.1	-2.2	-5.6
EI demeaned	-12.6	4.5	19.1	0.0	5.7	-22.0	14.2	5.5	18.3	17.7	14.1	17.4	-0.1

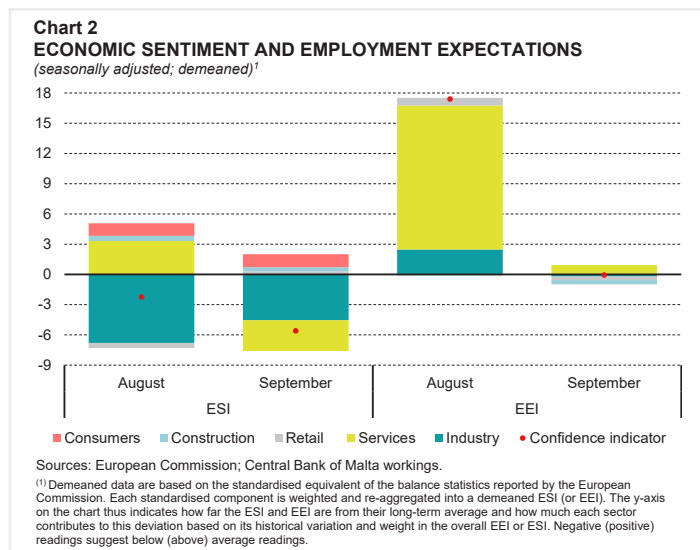
Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

The contribution of the construction sector also eased in the month under review, though it remained positive (see Chart 2). Demeaned data also suggest that the confidence indicators for industry and services explain why the ESI stood below its long-term average in September.

In September, the sentiment indicator for the services sector stood at 7.0, down from 33.6 in August, and well below its



long-term average of 19.2.⁷ This strong decrease in confidence largely reflects a deterioration in firms' assessment and expectations of demand, though their assessment of the business situation in recent months also deteriorated.

The confidence indicator within the construction sector fell to 5.9 in September, from 8.7 in the previous month, due to a deterioration in employment expectations which turned slightly negative in the month under review. By contrast, the share of respondents who assessed order book levels to be above normal levels, edged up marginally.⁸ Notwithstanding the latest decline, sentiment in the sector remained well above its long-term average of -8.9.⁹

Consumer confidence was less negative compared to August. It edged up to -9.5, from -10.6 a month earlier, thus standing somewhat above its long-term average of -10.2.¹⁰ This amelioration reflected an improvement in respondents' assessment and expectations of their financial situation, which stood less negative compared to August. By contrast, the share of consumers expecting to make major purchases in the coming months decreased, while expectations about the general economic situation in 12 months became more negative.

Sentiment in industry stood less negative in September. It averaged -11.4, up from -21.4 in August, but remained below its long-term average of -4.1.¹¹ In contrast to the previous month, when orders were deemed to be weak, respondents assessed their order books to be in line with normal levels. At the same time, production expectations stood more positive in September. However, the share of respondents assessing their stocks of finished products to stand above normal levels increased.

In September, confidence in the retail sector recovered to 6.4, from -22.0 a month earlier, exceeding its long-term average of -1.0.¹² This was driven by a strong amelioration in retailers' assessment of business activity over the last three months, and their expectations of sales for the coming months. A smaller percentage of surveyed retailers assessed their stock levels to be below normal.

Additional survey information shows that, in month-on-month terms, selling price expectations increased significantly in industry but fell in all the other sectors (see Chart 3). Nonetheless differences across sectors remained significant – with the share of firms signalling price increases exceeding 70% and 80% in industry and in the retail sectors, respectively, while that in other sectors standing between 20 and 30%.

Price expectations stood above their year-ago level in all sectors, bar the services sector, with the strongest increase recorded in industry and in the retail sector.

⁷ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

⁸ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

⁹ 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.

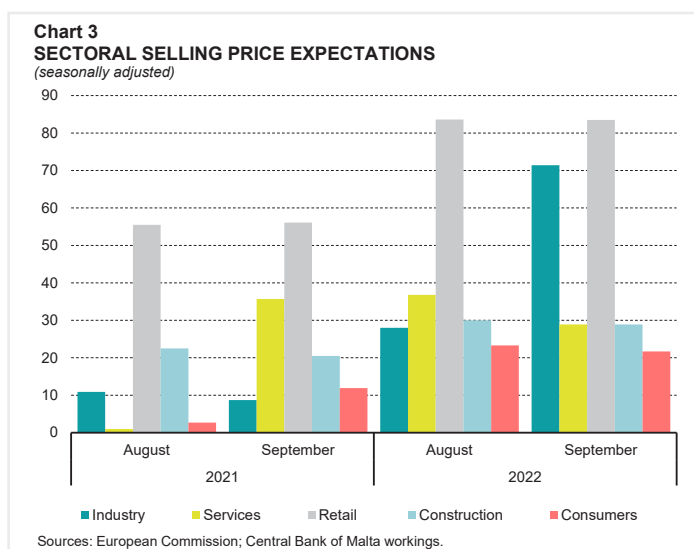
¹⁰ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the January 2019 release of the European Commission: https://ec.europa.eu/info/sites/info/files/esi_2019_01_en.pdf

¹¹ 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.

¹² 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.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased to 99.5 in September, from 116.7 recorded a month earlier.¹³ Following this decline, the indicator fell below its long-term average of around 100.0 and below the euro area average of 106.7.

The decrease in employment expectations since August reflected weaker expectations across all sectors, notably in the services sector, and to a smaller extent, in industry. Employment expectations were slightly negative in the construction and retail sectors, but stood firmly positive across services and industry.



Demeaned data show that the construction and retail sectors largely explain why the overall EEI stood below its long-term average in September, followed by industry (see Chart 2).

In September, the European Commission's EUI – which is a composite indicator of how difficult it is for sectors to make predictions about their future financial or business situation – edged down to 21.3, from 28.5 in August, signalling lower uncertainty (see Table 1). The uncertainty indicator stood below that of the euro area, where the index reached 29.3, and was broadly in line with its level recorded in September 2021.^{14,15}

In month-on-month terms, the decrease in Malta's uncertainty indicator was mainly driven by the services sector, although uncertainty among consumers also eased. Uncertainty among retailers was broadly unchanged from the previous month but increased in construction and industry.

When accounting for the variation in weights of each sector, industry accounted for most of the uncertainty. Developments in the services sector also explain most of the decrease in uncertainty during September.

¹³ The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys, and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the 4-balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission (2020), *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

¹⁴ The EUI is made up of five balances (in percentage points) which summarise managers'/consumers' answers to a question asking them to indicate how difficult it is to make predictions about their future business/financial situation. The series are not seasonally adjusted. The 5-balance series are summarised in one composite indicator using the same weights used to construct the ESI. The questions asked correspond to Q51 of the industry survey, Q31 of the services survey, Q41 of the retail trade and construction surveys and Q21 of the consumer survey.

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

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 – stood at 12.2%. This followed a rise of 6.0% in July (see Table 2).¹⁶

The recent increase in industrial production partly reflected a strong expansion in the output of firms that produce textiles as well as those producing computer, electronic and optical products. The production of pharmaceutical and food products also showed significant increases in annual terms. Other increases in production were registered among firms that are classified in the sector associated with the manufacture of motor vehicles, trailers and semi-trailers and in the “other manufacturing” sector – which includes firms that produce medical and dental instruments and toys. These offset falls in the production of wearing apparel, non-metallic mineral products as well as rubber and plastic products.

Production in the energy sector rose by 0.5% on an annual basis, after increasing by 1.5% in the previous month.

In August, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 1.8% in year-on-year terms, after rising by 9.5% in July.

In August, tourism continued to recover, although tourist numbers remained below pre-pandemic levels. The number of inbound tourists stood at 305,624 in August, up from 165,932 a year earlier. Nonetheless, it was still almost a tenth below the number of inbound tourists in August 2019,

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2020	2021	2021		2022	
			July	Aug.	July	Aug.
Industrial production	-0.3	-0.3	7.3	-3.9	6.0	12.2
Retail trade	-5.6	8.2	11.0	20.9	9.5	1.8
Number of tourist arrivals	-76.1	47.0	148.9	45.0	125.6	84.2
Number of nights stayed	-73.0	60.5	87.7	33.1	103.3	74.4
Rented accommodation	-76.8	73.8	191.2	47.9	107.7	78.3
Collective ⁽¹⁾	-76.5	74.3	231.7	75.7	95.1	57.0
Other rented ⁽²⁾	-77.3	72.9	143.7	13.4	127.9	119.1
Non-rented accommodation ⁽³⁾	-52.8	26.5	-27.8	-7.0	83.2	57.8
Tourist expenditure	-79.5	91.3	274.0	79.0	117.5	86.9
Package expenditure	-84.5	108.7	480.2	126.7	105.0	74.1
Non-package expenditure	-79.6	89.4	288.0	69.3	134.1	106.4
Other	-75.9	85.4	203.8	68.3	108.1	76.0

Sources: National Statistics Office; Eurostat.

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

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

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

¹⁶ The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			Aug.	Sep.	Aug.	Sep.
Permits						
Commercial permits	2,687	2,770	127	227	134	-
Residential permits	7,837	7,578	903	615	932	-
Residential transactions						
Promise of sale	11,259	15,642	888	988	919	972
Final deeds of sale	11,057	14,368	1,170	1,040	1,258	1,016

Sources: National Statistics Office; Eurostat.

before the pandemic. Guest nights rose markedly and were equivalent to 86.7% of those registered in August 2019. Total expenditure by tourists in Malta was also significantly higher than the level recorded in the corresponding period of 2021 and stood only 4% below pre-pandemic levels.

In August, 134 development permits for commercial buildings were issued, slightly above the amount of 127 permits issued in the same month a year earlier (see Table 3). Meanwhile, 932 new residential permits were issued, 29 more than the number issued in August 2021.

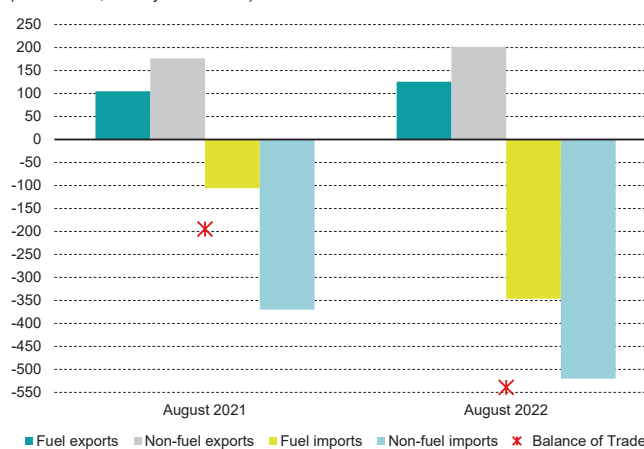
Data on residential property transactions show that 1,016 final deeds of sale were concluded in September, 242 lower than the number concluded a month earlier and 2.3% less than a year earlier. At 972, the number of promise-of-sale agreements was 1.6% below that registered in September 2021. However, promise-of-sale agreements were higher than in August.

Customs data show that the merchandise trade deficit stood at €539.1 million in August, up from €194.8 million a year earlier. The larger deficit was due to a €390.2 million rise in imports which more than offset a €45.9 million rise in exports (see Chart 4).

Higher imports were mainly on account of a substantial increase in the fuel import bill and in registrations of aircraft. Higher imports of organic chemicals, electrical machinery, cereals and pharmaceutical products also contributed, though to a lesser extent. These offset lower imports of sea vessels, fish, iron and steel as well as furniture.

The increase in exports was mainly on account of higher fuel re-exports. This was followed by increases in the exports of organic chemicals and electrical machinery. These outweighed lower exports of printed material, pharmaceutical products and miscellaneous chemical products.

Chart 4
EXPORTS AND IMPORTS OF GOODS: AUGUST 2022
(EUR millions; monthly observations)



Source: National Statistics Office.

In the eight months to August, the visible trade gap widened to €3,349.0 million, from €2,030.5 million in the corresponding period of 2021, as the increase in imports was more than four times the increase in exports. The increase in imports was in large part driven by higher imports of fuel and registrations of aircraft.

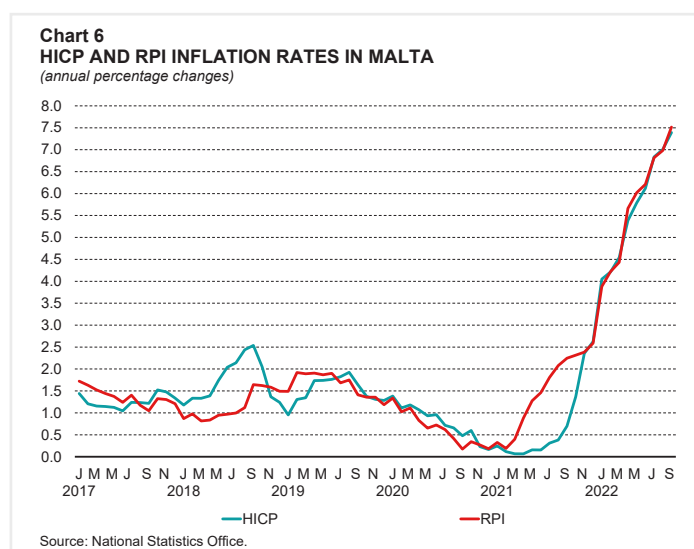
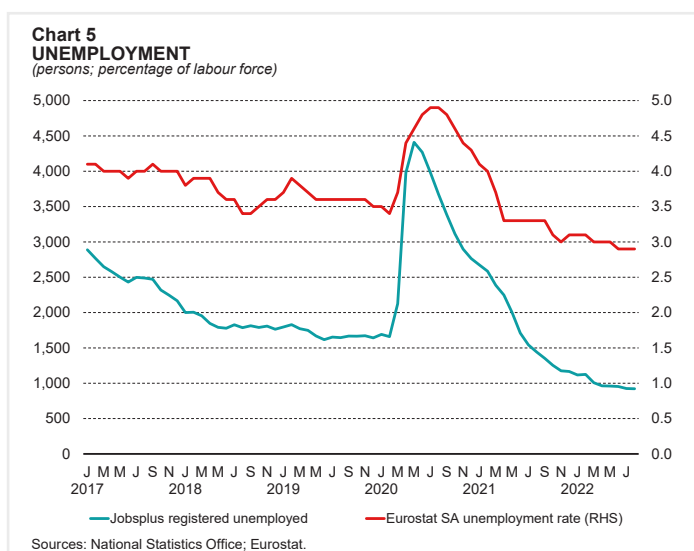
Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 922 in August 2022, down from 925 in July, and from 1,442 a year earlier – when the labour market was still impacted by pandemic-related restrictions (see Chart 5). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

The seasonally-adjusted unemployment rate stood at 2.9% in August 2022, the same rate as that recorded in June and July 2022, and below the rate of 3.3% registered in August 2021. The rate observed in the past three months was also the lowest rate ever recorded.

Prices, costs and competitiveness

Annual HICP inflation rose to 7.4% in September, from 7.0% in the previous month (see Chart 6). This increase was driven by NEIG inflation which reached 6.6%, up from 5.4% in the previous month. This was in turn largely driven by the semi-durables, where inflation reached 5.9%, up from 3.5% in August. Food inflation (including alcohol and tobacco) also edged up although to a lesser extent, rising by 0.5 percentage point to 10.0%. This was solely driven by processed food inflation, which reached 10.4% from 9.4% in August. On the other hand, unprocessed food inflation moderated to 8.7% in September, from 9.6% in the previous month. Also, services inflation edged down by 0.1 percentage point to 7.4% in September. As



in recent months, energy prices remained unchanged reflecting government measures aimed at shielding such prices from foreign price pressures.

Annual inflation according to the RPI stood at 7.5% in September, up from 7.0% in August (see Chart 6).¹⁷ The highest change was registered in the clothing and footwear sub-index, where inflation turned positive and stood at 2.5%, up from -0.8% in August. Nevertheless, food, housing as well as transport and communication were the biggest contributors to inflation in September. Prices of these items rose by 11.8%, 16.4% and 5.5%, respectively.

Producer output inflation as measured by the industrial producer price index, stood at 3.6% in August, down from 5.0% in July.¹⁸ The decrease largely reflects slower growth in the prices of intermediate goods. Producer prices of capital goods also rose at a slower pace when compared to July. These movements offset a rise in the inflation rate for consumer goods. Similar to recent months, energy prices remained unchanged having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 2.1% in the year to September 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.¹⁹ The real HCI, which also considers relative price changes, fell by 4.4% in annual terms in September, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

Public finance

During August 2022, the Consolidated Fund recorded a surplus of €155.9 million, an improvement of €23.9 million when compared to the surplus registered in August 2021 (see Table 4). These developments reflect a drop in government expenditure. In turn, the primary balance registered a surplus of €167.5 million, an increase of €15.9 million from the primary surplus registered in the corresponding period a year earlier.

Government revenue decreased by €0.3 million as the rise in tax inflows was more than offset by a drop in non-tax revenue. The latter decreased by €57.5 million, mainly on the back of lower grants receivable. Meanwhile, indirect taxes increased by €46.4 million largely due to an increase in VAT receipts. Revenue from direct taxes rose by €10.9 million due to increases in income taxes and social security contributions, with the rise in the former being driven by higher income taxes paid by households which outpaced a decline in revenue collected from firms.

Government expenditure decreased by €24.2 million, or 5.4% when compared to the corresponding period in 2021. This reflects a fall in capital expenditure coupled with a smaller drop in recurrent expenditure. The former decreased by €17.1 million, due to lower outlays on EU co-funded as well domestically-funded projects.

¹⁷ The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households. Due to the strong impact of the pandemic on tourist expenditure, the two measures are expected to deviate significantly as weights in the HICP have changed significantly while those of the RPI have not been adjusted.

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

	2021	2022	2021	2022	Change	
	Jan.-Aug.	Jan.-Aug.	August	August	Amount	%
Revenue	2,993.6	3,383.5	576.8	576.5	-0.3	0.0
Direct tax	1,630.5	1,839.3	282.9	293.7	10.9	3.8
Income tax	1,167.4	1,294.3	212.4	218.9	6.5	3.0
Social security contributions ⁽¹⁾	463.1	545.0	70.4	74.8	4.4	6.2
Indirect tax	1,077.7	1,259.1	223.0	269.4	46.4	20.8
Value added tax	665.0	842.7	161.0	208.3	47.3	29.4
Customs and excise duties	188.1	182.8	28.4	25.5	-2.8	-9.9
Licences, taxes and fines	224.6	233.5	33.6	35.5	1.9	5.7
Non-tax⁽²⁾	285.5	285.1	71.0	13.4	-57.5	-81.1
Expenditure	3,742.7	3,742.5	444.8	420.6	-24.2	-5.4
Recurrent	3,359.7	3,389.7	390.3	383.2	-7.1	-1.8
Personal emoluments	675.9	691.1	82.8	87.6	4.8	5.7
Operational and maintenance	172.2	154.8	15.8	22.7	6.9	43.4
Programmes and initiatives	1,951.8	1,991.3	218.6	212.9	-5.8	-2.6
Contributions to entities	436.6	440.2	53.5	48.5	-5.0	-9.3
Interest payments	123.1	112.4	19.6	11.6	-8.0	-41.0
Capital	383.1	352.8	54.5	37.4	-17.1	-31.3
Primary balance⁽³⁾	-626.0	-246.6	151.6	167.5	15.9	-
Consolidated Fund balance	-749.1	-359.0	132.0	155.9	23.9	-

Source: National Statistics Office.

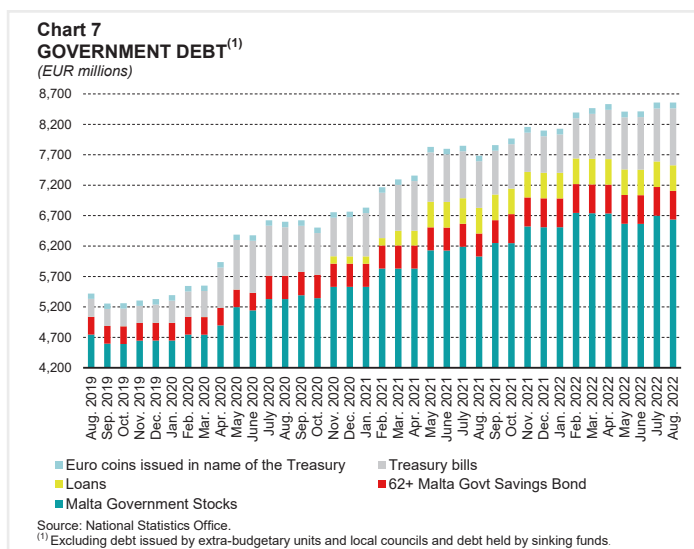
⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

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

⁽³⁾ Revenue less expenditure excluding interest payments.

Meanwhile, recurrent expenditure decreased by €7.1 million, largely on the back of lower expenditure on interest payments, which decreased by €8.0 million. This reflects the maturing profile of Malta Government Stocks. The month under review also saw lower outlays on programmes and initiatives and contributions to government entities, which declined by €5.8 million and €5.0 million, respectively. The decline in programmes and initiatives mainly reflect lower outlays on COVID-19 support measures, which just offset outlays on energy support measures. Meanwhile, outlays on personal emoluments increased by €4.8 million while operational and maintenance expenses increased by €6.9 million.

In August 2022, the total stock of outstanding government debt amounted to €8,559.0 million, a rise of €1.2 million when compared with August 2021 (see Chart 7). This increase was mainly attributable to higher issues of Treasury bills.



Deposits, credit and financial markets

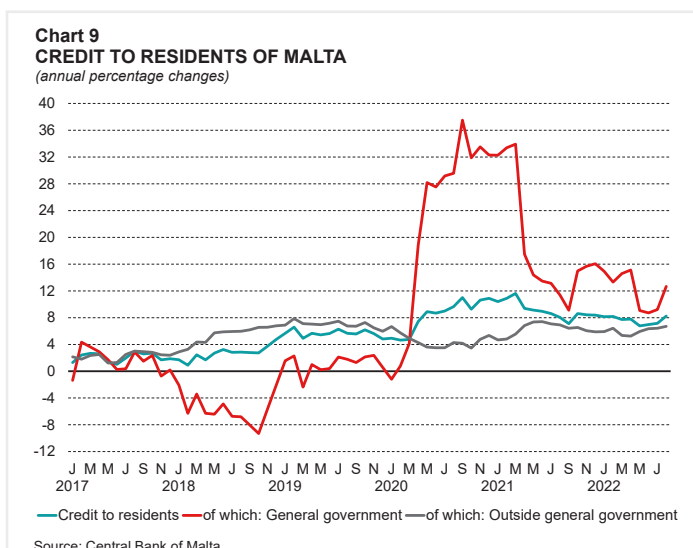
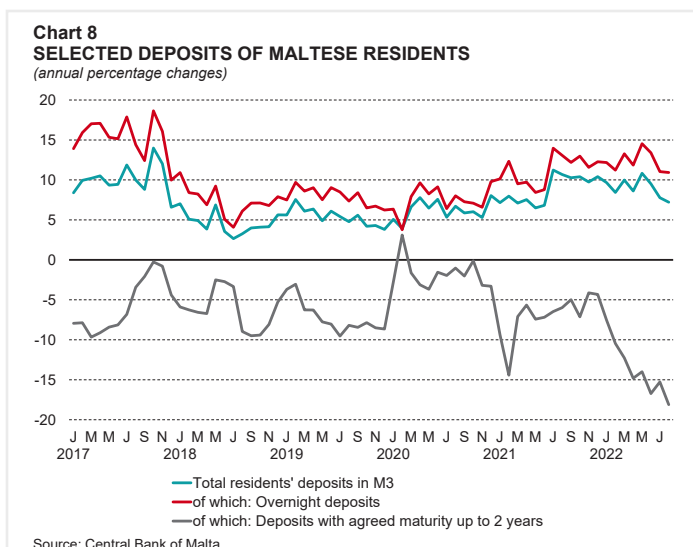
In August, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 7.2%, down from 7.8% a month earlier (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 90% of their M3 balances. This deposit category – which is the most liquid – grew by 10.9% in the year to August, marginally below the 11.0% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 18.1% in annual terms, following a contraction of 15.3% in the year to July. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

Credit to Maltese residents grew at an annual rate of 8.2% in August, above the 7.2% recorded a month earlier (see Chart 9). The acceleration in growth was partly driven by a larger increase in credit to general government. Annual growth in this component stood at 12.7%, up from 9.2% in July. At the same time, growth in credit to residents outside general government rose by 6.7%, marginally above the 6.4% increase recorded a month earlier.

The annual rate of change of loans to households stood at 9.4% in August, unchanged from the previous month's rate. Growth in mortgage lending was broadly unchanged from July, standing at 10.4%. By contrast, consumer credit and other lending fell at a slower rate of 1.1%, following a contraction of 2.5% a month earlier.

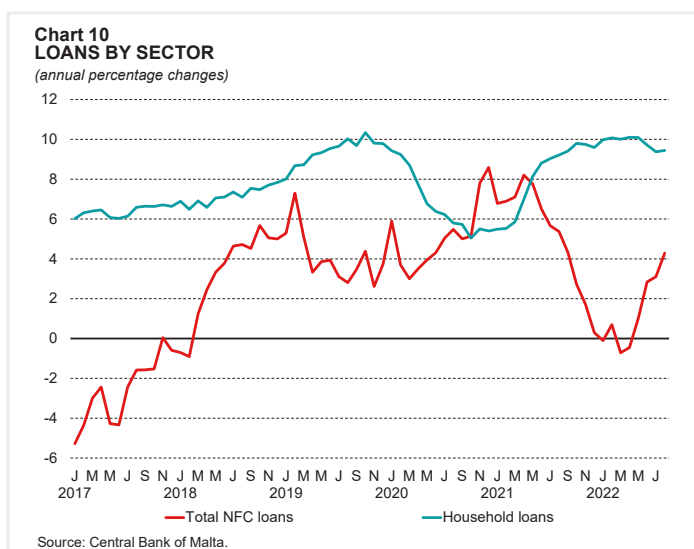
Meanwhile, the annual rate of change of loans to non-financial corporations edged up to 4.3% in August, from 3.1% in July (see Chart 10). The acceleration in growth was largely driven by faster growth in loans to the wholesale and retail trade sector, and in loans to the real estate sector. Additionally, loans to the information and communication sector increased in the year to August,



following a decline in the previous month. By contrast, loans to the construction sector declined after they had increased in the year to July, while loans to the sector comprising accommodation and food service activities contracted at a faster pace.

By end-August, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.²⁰ The number and value of facilities approved and still outstanding

was unchanged from the previous month. Overall, €469.7 million were disbursed, up slightly from the €469.5 million disbursed by the end of July.



The sector comprising wholesale and retail activities had the largest number of facilities supported by the scheme and still outstanding by the end of August, followed by the accommodation and food service activities sector. These sectors were also the most important in value terms. On this basis, they were followed by the construction sector as well as the sector comprising transportation, storage and information and communication.

In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-August, three facilities were approved, with total sanctioned lending to €15.6 million. The outstanding level of disbursements in terms of this scheme stood at €10.9 million.

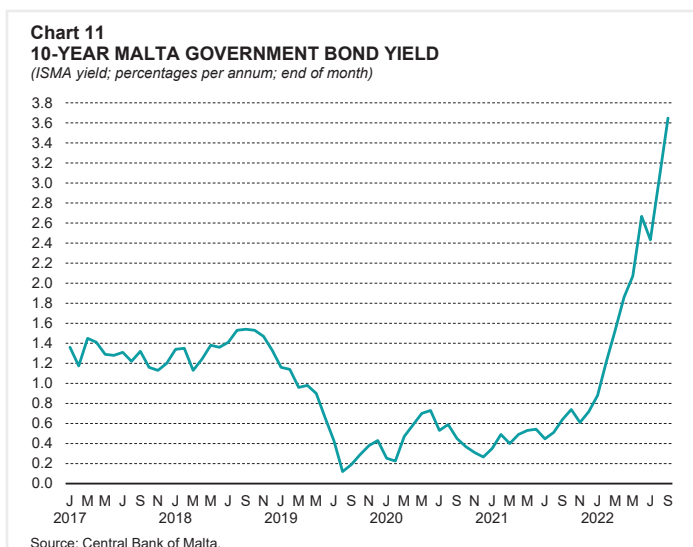
In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS), which consists of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total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

As regards interest rates, in August, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.15%, unchanged for the fifth consecutive month. Meanwhile, the composite rate charged on outstanding loans edged up by 1 basis point to 3.20% in August. As a result, the spread between the two rates widened slightly, standing at 306 basis points.

²⁰ The CGS is administered by the MDB for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See <https://mdb.org/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased to 3.65% at the end of September, 61 basis points more than at the end of August, and around 300 basis points above its year-ago level (see Chart 11). This reflects expectations of further increases in policy rates in light of continued increases in inflation.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index increased by 0.5% when compared with August. Similar movements were observed in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



MACROECONOMIC INDICATORS FOR MALTA																													
Annual percentage changes; non-seasonally adjusted data																													
	2019	2020	2021	2021	2021	2022	2022	2022	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	2022	2022	2022	2022	2022		
				Q3	Q4	Q1	Q2	Q3	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
Prices and costs																													
HICP inflation	1.5	0.8	0.7	0.5	2.1	4.3	5.8	7.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7	1.4	2.4	2.6	4.1	4.2	4.5	5.4	5.8	6.1	6.8	7.0	7.4
RPI inflation	1.6	0.6	1.5	2.0	2.4	4.2	6.0	7.1	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2	2.3	2.4	2.6	3.9	4.2	4.4	5.7	6.0	6.2	6.8	7.0	7.5
Industrial producer price inflation	2.2	0.3	3.2	3.8	6.5	7.0	5.3	-	0.9	0.5	1.1	1.2	1.8	2.3	1.4	4.4	5.6	5.7	6.3	7.5	7.2	6.7	7.0	5.7	5.3	4.9	5.0	3.6	-
HCI (nominal)	-0.7	1.8	0.4	-0.8	-1.7	-1.3	-2.2	-2.4	3.8	3.6	0.8	1.6	1.7	0.7	-0.1	-1.2	-1.2	-1.6	-1.6	-1.9	-1.7	-1.0	-1.1	-2.3	-2.4	-1.8	-2.5	-2.6	-2.1
HCI (real)	-1.1	1.5	-1.9	-3.2	-4.5	-3.3	-4.8	-4.7	2.4	2.1	-1.2	-0.6	-0.8	-1.7	-2.3	-3.7	-3.7	-4.3	-4.4	-4.7	-3.2	-2.8	-3.7	-4.9	-5.0	-4.6	-4.9	-5.0	-4.4
Unit labour costs, whole economy ⁽¹⁾	3.5	11.4	-2.3	0.6	-2.3	-4.0	-2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.8	-0.8	4.9	4.1	4.9	3.7	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	0.2	-10.9	7.4	3.3	7.4	8.0	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	5.1	5.9	4.5	6.8	7.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																													
Nominal GDP	8.4	-6.9	12.3	16.3	14.4	11.8	14.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.3	10.3	14.0	11.7	8.1	8.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.6	-10.2	7.1	8.7	9.0	10.5	12.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	13.1	15.7	6.7	4.8	4.6	-2.1	12.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-7.7	17.3	29.4	26.3	5.2	-12.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	7.0	-3.8	9.0	10.7	11.3	10.4	6.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.9	-0.2	8.0	8.7	11.4	9.0	3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																													
LFS unemployment rate (% of labour force)	3.6	4.4	3.4	3.3	3.0	2.9	2.9	-	4.0	3.9	3.7	3.4	3.4	3.4	3.3	3.4	3.3	3.1	3.0	3.0	2.9	3.0	2.9	2.9	3.0	2.9	2.9	2.9	-
LFS employment	6.6	2.6	3.2	4.2	5.6	5.0	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.2	2.7	3.6	3.9	5.1	-	-	0.7	0.4	1.1	2.0	2.6	3.1	3.2	3.6	3.8	3.6	3.9	4.2	4.6	5.3	5.3	5.2	-	-	-	-	-
Balance of payments																													
Current account (as a % of GDP) ⁽²⁾	5.0	-2.9	-4.6	-3.4	-4.6	-4.8	-4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																													
Maltese residents' deposits and loans																													
Overnight deposits	6.2	9.8	12.3	12.2	12.3	13.3	13.4	-	10.1	12.3	9.5	9.7	8.4	8.8	14.0	13.1	12.2	13.0	11.6	12.3	12.2	11.2	13.3	11.8	14.5	13.4	11.0	10.9	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-5.0	-4.3	-12.3	-16.7	-	-9.4	-14.4	-7.1	-5.7	-7.4	-7.2	-6.5	-6.0	-5.0	-7.1	-4.1	-4.3	-7.5	-10.5	-12.3	-14.8	-14.0	-16.7	-15.3	-18.1	-
Total residents' deposits in M3	3.8	8.0	10.4	10.3	10.4	10.0	9.5	-	7.2	8.0	7.1	7.5	6.5	6.8	11.2	10.7	10.3	10.4	9.7	10.4	9.7	8.4	10.0	8.6	10.8	9.5	7.8	7.2	-
Credit to general government	0.6	32.3	16.1	9.1	16.1	14.6	8.7	-	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.1	15.0	15.7	16.1	14.9	13.3	14.6	15.1	9.1	8.7	9.2	12.7	-
Credit to residents (excl. general government)	6.0	5.3	5.9	6.4	5.9	5.3	6.3	-	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	6.4	6.5	6.0	5.9	5.9	6.4	5.3	5.2	5.9	6.3	6.4	6.7	-
Total credit	4.8	10.9	8.4	7.1	8.4	7.7	7.0	-	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	7.1	8.6	8.4	8.4	8.1	8.2	7.7	7.8	6.8	7.0	7.2	8.2	-
10-year interest rate (% ⁽³⁾)	0.4	0.3	0.7	0.6	0.7	1.5	2.7	3.6	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.7	0.6	0.7	0.9	1.2	1.5	1.9	2.1	2.7	2.4	3.0	3.6	
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	-4.5	-0.7	1.8	-8.2	1.1	-0.7	-2.4	-4.8	-1.3	6.2	-1.8	-1.3	-1.8	1.5	-0.4	-0.8	-2.3	5.0	-4.8	-2.1	-1.5	2.5	-0.3	-1.1	0.4	-1.6	0.5
Liquidity support measures related to COVID-19																													
Outstanding loans subject to a moratorium ⁽⁵⁾	-	691.9	14.1	36.4	14.1	-	-	-	680.7	645.6	411.7	234.4	144.2	99.6	87.0	75.1	36.4	28.6	25.4	14.1	0.0	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS ⁽⁵⁾	-	408.1	505.9	508.8	505.9	489.3	482.6	-	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	508.8	508.6	507.3	505.9	505.5	497.8	489.3	489.1	486.6	482.6	482.6	482.6	-
Disbursed amount under the MDB CGS ⁽⁵⁾	-	287.1	453.0	414.5	453.0	459.6	468.9	-	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	414.5	434.9	441.9	453.0	457.4	459.6	465.5	467.4	466.4	468.9	469.5	469.7	-
General government finances (% of GDP)																													
Surplus (+) / deficit (-) ⁽²⁾	0.6	-9.4	-7.9	-8.0	-7.9	-8.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.7	53.4	56.4	56.3	56.4	57.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

⁽¹⁾ 4-quarter moving averages.⁽²⁾ 4-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 4-quarter moving sums.