



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

# ECONOMIC UPDATE

## 11/2020

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## ECONOMIC UPDATE 11/2020

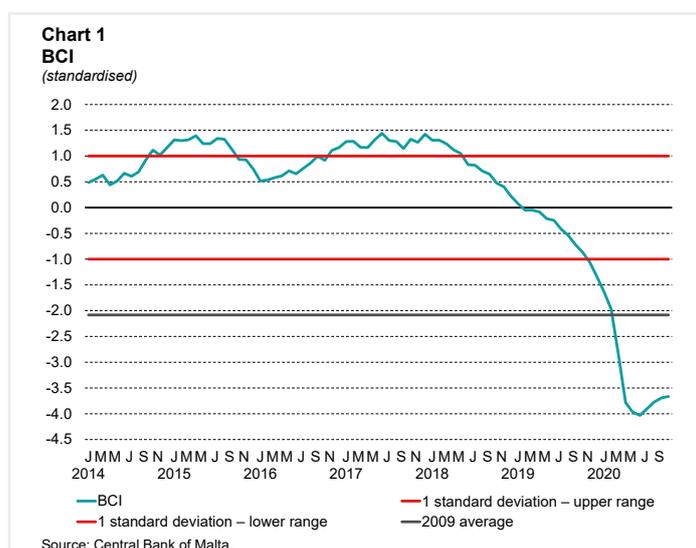
### Summary<sup>1</sup>

In October, the Central Bank of Malta's Business Conditions Index (BCI) was unchanged when compared with the previous month, stabilising above the low levels estimated around June, although it continues to signal very low levels of economic activity. After recovering somewhat in September, the European Commission's Economic Sentiment Indicator (ESI) fell again in October, standing slightly above its August level yet well below the level recorded before the onset of COVID-19. The latest deterioration occurred amid a resurgence of COVID-19 cases. Confidence fell sharply in the services sector and, to a more limited extent, in the construction sector and among consumers. These developments offset improved sentiment in industry and among retailers. Sentiment remained negative in all sectors.

In September, the volume of retail trade and industrial production contracted again in annual terms. The number of registered unemployed and the unemployment rate fell when compared with a month earlier, with the latter remaining low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) eased to 0.5% in September, from 0.7% in August, while inflation based on the Retail Price Index (RPI) edged down to 0.2% from 0.4% over the same period. Maltese residents' deposits grew at a slightly slower annual rate of 5.8% over the year to September, while annual growth in credit to Maltese residents rose to 11.2%. In September, the deficit on the cash-based Consolidated Fund widened when compared with a year earlier, reflecting the impact on revenue from lower economic activity due to the global spread of COVID-19, and the impact of ongoing government support measures to mitigate the economic effects of the pandemic.

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

In October, the Bank's BCI stood at -3.7 – unchanged from the updated value for September (see Chart 1). The BCI signalled low levels of economic activity, reflecting the continued weak economic environment triggered by COVID-19, although recent readings are higher than the lowest readings



<sup>1</sup> The cut-off date for information in this note is 10 November 2020. Most of the data reported in this issue of the *Economic Update* refer to September 2020, and thus reflect the effects of the lifting of restrictive measures related to COVID-19, as from May. Data for the BCI and the ESI are for October 2020. As from 19 August, some containment measures were re-introduced following a resurgence of infections, affecting predominantly the entertainment sector. Tourism data for April, May and June have not been collected by the National Statistics Office (NSO) as airports and ports were closed in those months. Inbound tourism data for July were collected and published as the airport and seaport were reopened. With effect from 22 August, an amber list was added to the red and green travel lists, requiring tourists arriving from countries on this list to present a negative COVID-19 test result before boarding.

<sup>2</sup> 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.

estimate seen in May and June. The index continued to be affected by strong negative outturns in almost all variables, especially year-on-year decreases in inbound tourists and economic sentiment, as well as higher unemployment, compared to a year earlier. Overall business conditions were worse than those observed during 2009, indicating the higher severity of the pandemic relative to the Global Financial Crisis of 2007-2009.

## Business and consumer confidence indicators

In October, the European Commission's ESI fell to 77.7, from 83.9 in September (see Table 1). Following this decline, sentiment stood below the 104.0 recorded a year earlier and its long-run average.<sup>3,4</sup> The ESI also stood 13.2 points lower than that in the euro area.

The month-on-month decrease in sentiment was largely driven by a significant decline in confidence in the services sector. Sentiment also decreased slightly in the construction sector and among consumers. These developments offset improved sentiment in industry and among retailers.

<b>Table 1</b>		<b>BUSINESS AND CONSUMER SURVEYS</b>											
<i>Balances; percentage points; seasonally adjusted</i>													
		2018	2019	2020									
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
<b>ESI</b>		<b>112.4</b>	<b>100.7</b>	<b>99.9</b>	<b>93.9</b>	<b>87.5</b>	<b>52.1</b>	<b>56.6</b>	<b>56.5</b>	<b>63.4</b>	<b>75.0</b>	<b>83.9</b>	<b>77.7</b>
<b>Services confidence indicator</b>		<b>34.6</b>	<b>20.7</b>	<b>7.9</b>	<b>11.4</b>	<b>0.4</b>	<b>-56.8</b>	<b>-53.5</b>	<b>-57.3</b>	<b>-41.1</b>	<b>-18.7</b>	<b>-3.5</b>	<b>-32.3</b>
Business situation development over the past 3 months		30.7	16.7	-3.8	4.6	-0.3	-59.8	-66.3	-77.4	-68.9	-32.4	-2.4	-37.4
Evolution of the demand over the past 3 months		35.8	21.5	3.8	7.9	11.4	-56.3	-66.0	-78.2	-60.2	-40.2	-0.1	-47.0
Expectation of the demand over the next 3 months		37.2	24.0	23.8	21.7	-9.9	-54.1	-28.3	-16.3	5.7	16.4	-7.9	-12.5
<b>Construction confidence indicator</b>		<b>21.3</b>	<b>26.2</b>	<b>7.9</b>	<b>8.3</b>	<b>14.3</b>	<b>-38.9</b>	<b>-20.3</b>	<b>-19.9</b>	<b>-5.9</b>	<b>-12.7</b>	<b>-3.0</b>	<b>-4.9</b>
Evolution of your current overall order books		16.9	19.7	4.5	2.0	2.1	-38.1	-13.0	-18.8	-5.0	-12.4	8.0	-8.8
Employment expectations over the next 3 months		25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0	-0.9
<b>Consumer confidence indicator</b>		<b>10.1</b>	<b>4.5</b>	<b>8.4</b>	<b>7.9</b>	<b>0.1</b>	<b>-15.8</b>	<b>-11.3</b>	<b>-6.9</b>	<b>-3.3</b>	<b>-12.9</b>	<b>-9.1</b>	<b>-9.4</b>
Financial situation past 12 months		16.9	11.3	13.4	11.6	13.8	6.2	0.8	0.8	-2.7	-10.6	-10.4	-13.9
Financial situation next 12 months		17.5	11.2	13.1	10.7	5.1	-14.5	-5.7	-2.1	6.1	-5.6	-2.6	0.5
Economic situation next 12 months		28.9	20.9	18.0	19.8	-3.0	-36.6	-17.7	-3.9	13.9	-10.6	-2.1	-2.4
Major purchases next 12 months		-22.6	-25.1	-10.9	-10.4	-15.5	-18.4	-22.5	-22.4	-30.5	-24.7	-21.5	-21.8
<b>Industrial confidence indicator</b>		<b>6.9</b>	<b>-6.7</b>	<b>-1.1</b>	<b>-15.5</b>	<b>-19.2</b>	<b>-45.4</b>	<b>-40.2</b>	<b>-42.2</b>	<b>-35.6</b>	<b>-24.0</b>	<b>-13.2</b>	<b>-10.3</b>
Assessment of order-book levels		-1.5	-23.0	-19.1	-20.2	-14.7	-56.1	-76.0	-76.9	-73.2	-74.1	-47.0	-40.0
Assessment of stocks of finished products		5.8	15.5	20.0	33.2	13.3	32.5	34.4	31.4	40.4	20.1	16.4	21.6
Production expectations for the months ahead		27.9	18.4	35.8	6.9	-29.7	-47.6	-10.2	-18.3	6.8	22.3	23.7	30.7
<b>Retail trade confidence indicator</b>		<b>8.2</b>	<b>4.2</b>	<b>0.0</b>	<b>-0.4</b>	<b>-22.3</b>	<b>-31.7</b>	<b>-43.2</b>	<b>-30.1</b>	<b>-53.6</b>	<b>-49.9</b>	<b>-63.7</b>	<b>-42.7</b>
Business activity, past 3 months		15.4	18.9	3.0	4.8	5.8	12.4	-21.1	-28.1	-49.2	-52.5	-67.6	-54.7
Stocks of finished goods		7.7	17.4	7.2	10.0	9.7	65.6	53.0	54.8	46.3	50.6	52.6	24.4
Business activity, next 3 months		17.0	11.1	4.1	4.1	-63.1	-42.0	-55.5	-7.4	-65.3	-46.6	-70.8	-49.2
<b>EI</b>		<b>114.1</b>	<b>101.2</b>	<b>100.2</b>	<b>102.7</b>	<b>90.0</b>	<b>56.2</b>	<b>71.8</b>	<b>71.0</b>	<b>72.3</b>	<b>80.4</b>	<b>79.7</b>	<b>85.4</b>
Industry		31.1	12.8	16.5	7.0	-16.7	-61.2	-18.9	-40.3	-34.9	-26.0	2.8	17.8
Construction		25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0	-0.9
Services		33.9	17.5	6.7	21.6	11.8	-33.0	-16.6	-16.8	-7.1	1.9	-5.0	1.9
Retail		15.4	4.7	25.2	11.9	-8.6	-14.2	-15.5	-3.3	-25.6	-13.2	-25.3	-29.9
<b>ESI demeaned</b>		<b>12.4</b>	<b>0.7</b>	<b>-0.1</b>	<b>-6.1</b>	<b>-12.5</b>	<b>-47.9</b>	<b>-43.4</b>	<b>-43.5</b>	<b>-36.6</b>	<b>-25.0</b>	<b>-16.1</b>	<b>-22.3</b>
<b>EI demeaned</b>		<b>14.3</b>	<b>1.0</b>	<b>0.0</b>	<b>2.1</b>	<b>-11.1</b>	<b>-46.0</b>	<b>-28.7</b>	<b>-30.8</b>	<b>-28.9</b>	<b>-20.7</b>	<b>-19.8</b>	<b>-13.5</b>

Source: European Commission.

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

<sup>4</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

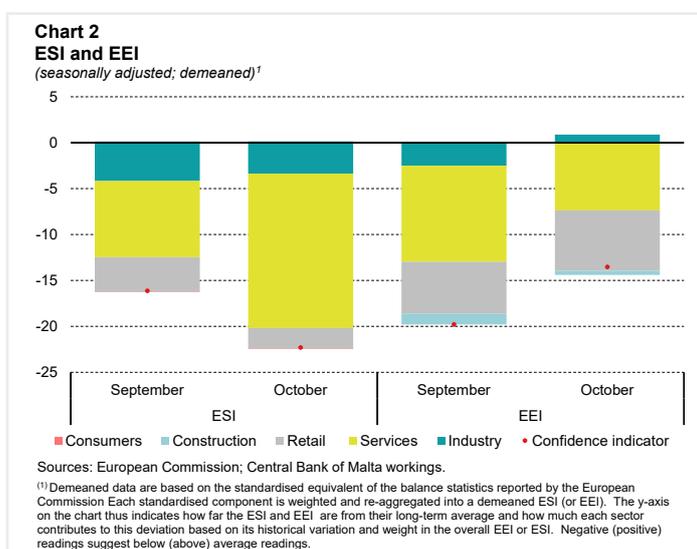
Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the deterioration in overall sentiment in October was driven by the services sector (see Chart 2). By contrast, the contributions of industry and the retail sector were less negative than a month earlier. Meanwhile, the contribution from consumers and the construction sector were broadly unchanged.

In October, sentiment within the services sector decreased to -32.3, from -3.5 a month earlier. Following this decline, sentiment fell further below its long-term average of 20.0.<sup>5</sup> The fall in sentiment was largely driven by respondents’ assessment of demand and, to a lesser extent, of the business situation over the past three months. Participants’ expectations of demand also weakened in the month under review. Additional survey data show that the share of firms anticipating prices to fall in the months ahead more than doubled when compared with September.

Confidence in the construction sector decreased to -4.9, from -3.0 in September. Notwithstanding this decline, sentiment remained above its long-term average of -11.6.<sup>6</sup> Weaker sentiment was entirely due to falling orders. By contrast, employment expectations were less negative than before. Supplementary data indicate that a smaller share of respondents expected falling prices over the next three months.

Consumer confidence also edged down in October. It stood at -9.4, marginally below the -9.1 recorded in September, yet still above its long-term average of -11.2.<sup>7</sup> The recent decline in sentiment largely reflected a weaker assessment of the financial situation over the last 12 months. Consumers’ expectations of major purchases, as well as expectations of the general economic situation over subsequent months, eased marginally. Meanwhile, their assessment of the financial situation over the next 12 months improved. Additional survey data show that price expectations were more negative in October. At the same time, the share of respondents anticipating unemployment to rise in the coming months decreased marginally.

By contrast, industrial confidence rose to -10.3 in October, from -13.2 a month earlier.<sup>8</sup>



<sup>5</sup> The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

<sup>6</sup> The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

<sup>7</sup> The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households’ assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

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

Notwithstanding this increase, sentiment remained below its long-term average of -4.2. The recent increase in sentiment was mainly driven by firms' assessment of order book levels and improved production expectations. By contrast, a larger share of participants reported above normal stock levels, relative to September. Supplementary data show that, on balance, a smaller share of respondents anticipated a fall in selling prices in the coming months.

Similarly, confidence within the retail sector rose to -42.7, from -63.7 in the previous month.<sup>9</sup> In the month under review, respondents reported below normal stock levels relative to September.<sup>10</sup> At the same time, retailers' expectations of business activity over the next three months and their assessment about sales over previous months improved. Additional survey data indicate that price expectations were more positive in October.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged up in October.<sup>11</sup> The EEI rose to 85.4, from 79.7 in September. Notwithstanding this increase, the indicator remained below its long-run average of around 100.0. Moreover, in October, Malta's EEI stood 4.4 points below the euro area average. Employment prospects improved in all sectors bar in the retail sector.

The increase relative to September was largely driven by industry and services and, to a smaller extent, by the construction sector. The evolution of sentiment in the services sector and the retail sector largely explains why the overall EEI has remained below its long-term average in October, though sentiment also remained below its long-term average in the construction sector (see Chart 2).

## Activity indicators

In September, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – remained negative for the sixth consecutive month. The index fell by 3.2% in annual terms, following a contraction of 3.4% in August (see Table 2).<sup>12</sup>

The latest decline largely reflected a fall in output by firms in the 'other manufacturing' sector, which includes firms involved in the production of medical and dental instruments, toys and related products, followed by those involved in the repair and installation of machinery and equipment. Firms that manufacture beverages also contributed significantly to the decline. Other drivers behind the fall in output include firms producing rubber and plastic goods as well those specialising in food products. On the other hand, production rose among firms engaged in the production of pharmaceutical goods, as well as those producing motor vehicles, trailers and semi-trailers. Higher manufacturing

<sup>9</sup> The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

<sup>10</sup> Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

<sup>11</sup> The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission. (2020), *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

<sup>12</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

<b>Table 2</b>		<b>ACTIVITY INDICATORS</b>														
<i>Annual percentage changes</i>																
	2018	2019	2020												Aug.	Sep.
			Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>(1)</sup>	Apr. <sup>(2)</sup>	May <sup>(2)</sup>	June <sup>(2)</sup>	July <sup>(3)</sup>		
<b>Industrial production</b>	1.3	1.2	6.2	3.9	1.7	-2.9	9.6	12.0	13.2	6.0	-7.6	-9.6	-4.1	-1.6	-3.4	-3.2
<b>Commercial permits</b>	14.5	-2.4	-12.9	-10.8	-7.4	-12.8	-8.1	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2	-9.8	-45.6	6.7
<b>Residential permits</b>	43.1	-3.1	-56.0	11.0	-6.5	12.3	34.4	22.2	-23.3	-19.6	-73.3	-53.6	-60.2	-8.1	27.0	-61.5
<b>Retail trade</b>	1.8	6.9	6.4	9.1	6.4	7.6	6.8	5.1	8.8	-4.0	-24.7	-16.3	-7.8	-10.9	-7.8	-12.2
<b>Number of tourist arrivals</b>	14.3	5.9	7.2	5.5	6.2	9.1	19.3	16.8	16.5	-56.5	-	-	-	-84.0	-66.0	-82.4
<b>Number of nights stayed</b>	12.5	4.1	5.8	2.1	6.5	9.0	15.1	3.5	10.1	-60.2	-	-	-	-75.3	-62.6	-77.4
Rented accommodation	10.7	4.6	7.4	2.8	12.1	9.6	13.9	7.7	11.1	-62.2	-	-	-	-84.3	-67.4	-81.8
Collective <sup>(4)</sup>	7.1	-0.1	3.2	4.5	4.2	2.9	9.9	11.0	14.9	-61.7	-	-	-	-85.4	-66.9	-81.2
Other rented <sup>(5)</sup>	18.0	13.5	13.0	0.3	28.5	26.6	19.7	1.0	3.1	-63.5	-	-	-	-82.7	-67.9	-82.9
Non-rented accommodation <sup>(6)</sup>	22.7	1.6	-2.0	-3.8	-19.8	6.3	20.8	-8.3	3.9	-47.7	-	-	-	-31.4	-38.3	-57.1
<b>Tourist expenditure</b>	8.0	5.7	2.8	5.9	7.1	10.3	25.4	11.2	22.0	-62.6	-	-	-	-88.1	-71.3	-84.5
Package expenditure	16.6	-8.2	-10.1	-1.8	-6.2	4.9	7.9	-7.8	25.8	-69.8	-	-	-	-93.5	-79.5	-90.5
Non-package expenditure	13.3	17.1	15.1	18.4	14.8	13.5	41.3	33.1	22.8	-58.8	-	-	-	-88.7	-71.5	-86.0
Other	-2.2	5.9	0.9	-0.1	11.1	10.8	22.0	4.7	19.1	-60.2	-	-	-	-83.7	-65.3	-78.7

Sources: National Statistics Office; Eurostat.

<sup>(1)</sup> Tourism data for March 2020 should be interpreted in the context of the unprecedented containment measures and travel restrictions introduced in response to COVID-19.

<sup>(2)</sup> As a result of the COVID-19 situation, it was not possible for the NSO to issue the April, May and June 2020 news releases for Inbound Tourism.

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

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

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

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

output was also recorded among firms involved in the production of computer, electronic and optical products as well as those engaged in printing and reproduction of recorded media.

Meanwhile, production in the energy sector increased.

In September, development permits for commercial buildings rose by 6.7% in annual terms, the first annual increase in over a year. Conversely, residential permits in September contracted by 61.5% in annual terms, following an increase in the previous month.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the seventh consecutive time, with September's fall stronger than that recorded in the previous month. It declined by an annual rate of 12.2%, following a fall of 7.8% in August.

The number of tourist arrivals, nights stayed and expenditure remained substantially below those recorded in 2019, as a result of quarantine and travel restrictions. September data also show that the modest improvement recorded in August – in the form of a weakening contraction – was reversed. The number of inbound tourists declined by 82.4%, while the nights stayed decreased by 77.4% on a year earlier. Furthermore, tourist spending in Malta decreased by 84.5% in annual terms.

Customs data show that the merchandise trade deficit stood at €131.8 million in September, down from €323.1 million a year earlier. The smaller deficit reflected a €262.1 million fall in imports, which offset a €70.7 million decline in exports (see Chart 3). Lower imports continued to be observed across most categories. However, the fall in imports mostly reflected a significantly lower fuel import bill and substantial decreases in registrations of aircraft and sea vessels. Lower imports of organic chemicals, electrical machinery and of 'machinery and mechanical appliances' also contributed. These more than outweighed higher imports of fish and pharmaceutical products. The decline in exports was due to lower re-exports of mineral fuels and related

products and, to a lesser extent, lower exports of machinery and mechanical appliances, pharmaceutical products, toys and related products, and aircraft parts. Together these offset a rise in exports of organic chemicals, optical and related instruments, and printed material.

In the nine months to September, the visible trade gap narrowed to €1,880.1 million from €3,192.0 million in the corresponding period of 2019, driven by a sharp fall in imports, which outweighed the drop in exports (see Chart 4).

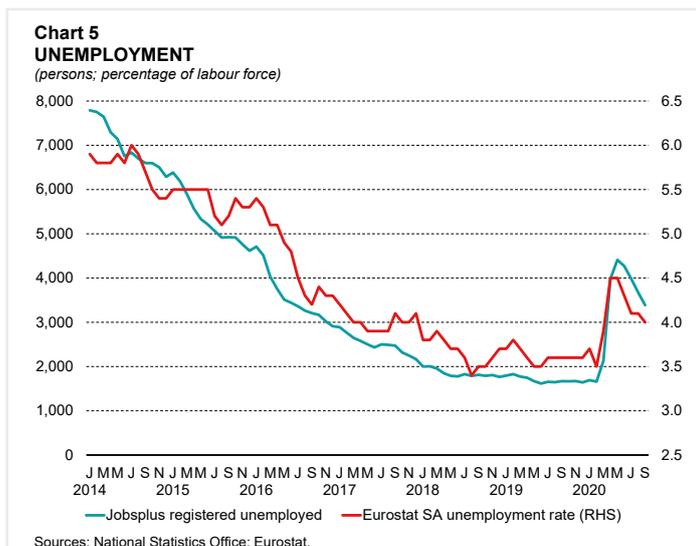
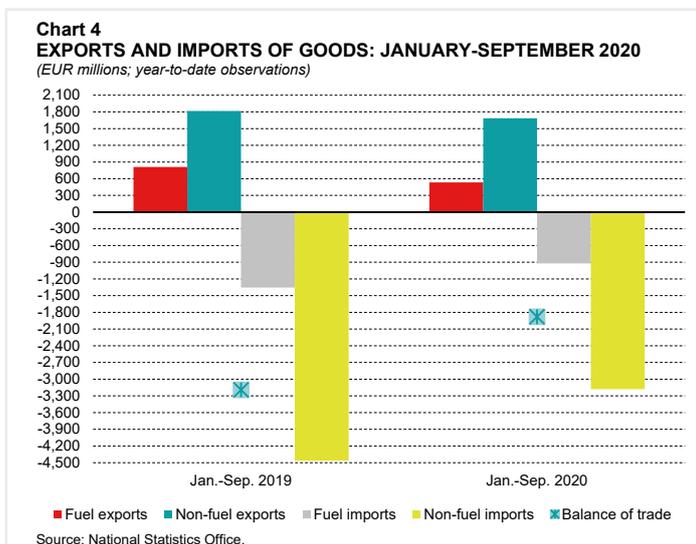
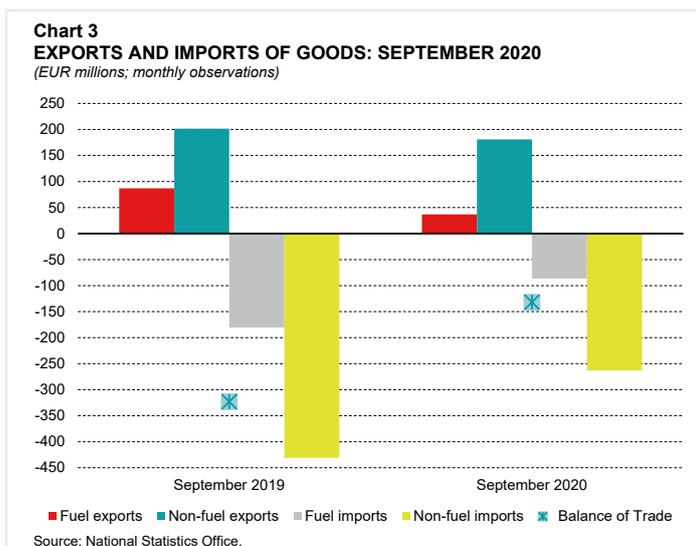
### Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 3,385 in September, down from 3,672 in August but higher than the 1,668 registered a year earlier (see Chart 5).

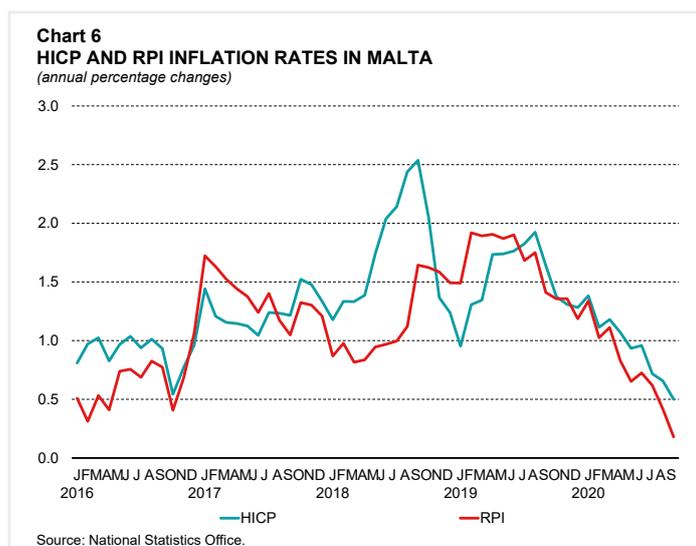
The seasonally-adjusted unemployment rate stood at 4.0% in September, marginally lower than the 4.1% registered in the previous month, but still higher than the rate of 3.6% registered in the same month of the preceding year.

### Prices, costs and competitiveness

Annual HICP inflation stood at 0.5% in September, down from 0.7% in August (see Chart 6). In particular, annual inflation in processed and unprocessed food declined. Moreover,



non-energy industrial goods inflation turned negative, driven by a drop in durable and semi-durable prices. Conversely, services inflation picked up in September, due to higher transport prices. Meanwhile, energy inflation remained negative but unchanged from the previous month, which reflects a base effect corresponding to the same period of the previous year.



Annual RPI inflation declined to 0.2% in September, from 0.4% in August (see Chart 6).<sup>13</sup> This was driven by lower food and clothing and footwear inflation as well as further price reductions in household equipment and maintenance, and recreation and culture. These were partially offset by higher prices in housing and, to a lesser extent, in transport.

Producer output inflation, measured by the producer price index, turned negative to -1.0% in September, from 0.5% in August.<sup>14</sup> This reflected a strong contraction in intermediate goods prices, as well as lower inflation in producer prices of consumer and capital goods. Energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 3.3% in the year to September.<sup>15</sup> This suggests a continued deterioration in the country's international competitiveness due to an appreciation in the euro exchange rate against currencies of trading partners. The real HCI, which also takes into account relative price changes, rose by 2.9%, suggesting that favourable developments in relative prices vis-à-vis trading partners help offset unfavourable exchange rate movements.

## Public finance

In September 2020, the Consolidated Fund recorded a deficit of €52.8 million, an increase of €6.7 million when compared to the €46.1 million deficit registered in September 2019. This was a result of a rise in government expenditure, which more than offset an increase in government revenue for the period (see Table 3). In turn, the primary balance registered a deficit of €35.5 million, higher than the €25.5 million primary deficit registered in September 2019.

<sup>13</sup> The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households.

<sup>14</sup> The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

<sup>15</sup> HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. On top of this, the real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

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

EUR millions

	2019		2020		Change	
	Jan.-Sep.	Jan.-Sep.	Sep.	Sep.	Amount	%
<b>Revenue</b>	<b>3,331.4</b>	<b>2,731.0</b>	<b>340.4</b>	<b>377.0</b>	<b>36.7</b>	<b>10.8</b>
<b>Direct tax</b>	<b>1,712.1</b>	<b>1,443.8</b>	<b>197.3</b>	<b>208.9</b>	<b>11.6</b>	<b>5.9</b>
Income tax	1,211.0	985.4	139.7	149.4	9.7	6.9
Social security contributions <sup>(1)</sup>	501.1	458.4	57.5	59.4	1.9	3.3
<b>Indirect tax</b>	<b>1,234.9</b>	<b>953.8</b>	<b>102.6</b>	<b>143.0</b>	<b>40.4</b>	<b>39.4</b>
Value Added Tax	695.8	543.1	39.6	64.2	24.6	62.3
Customs and excise duties	246.6	189.5	32.6	59.9	27.3	83.8
Licences, taxes and fines	292.5	221.2	30.4	18.9	-11.5	-37.8
<b>Non-tax<sup>(2)</sup></b>	<b>384.4</b>	<b>333.4</b>	<b>40.5</b>	<b>25.1</b>	<b>-15.4</b>	<b>-38.0</b>
<b>Expenditure</b>	<b>3,293.5</b>	<b>3,870.1</b>	<b>386.4</b>	<b>429.8</b>	<b>43.4</b>	<b>11.2</b>
<b>Recurrent</b>	<b>2,939.6</b>	<b>3,259.6</b>	<b>345.5</b>	<b>344.0</b>	<b>-1.5</b>	<b>-0.4</b>
Personal emoluments	663.5	680.5	78.3	76.0	-2.2	-2.8
Operational and maintenance	153.2	192.4	16.5	14.3	-2.2	-13.5
Programmes and initiatives <sup>(1)</sup>	1,601.0	1,793.8	175.1	204.3	29.2	16.7
Contributions to entities	374.9	454.3	55.1	32.1	-23.0	-41.7
Interest payments	147.1	138.7	20.6	17.4	-3.2	-15.7
<b>Capital</b>	<b>353.9</b>	<b>610.4</b>	<b>40.9</b>	<b>85.8</b>	<b>44.9</b>	<b>109.8</b>
<b>Primary balance<sup>(3)</sup></b>	<b>184.9</b>	<b>-1,000.3</b>	<b>-25.5</b>	<b>-35.5</b>	<b>-10.0</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>37.9</b>	<b>-1,139.0</b>	<b>-46.1</b>	<b>-52.8</b>	<b>-6.7</b>	<b>-</b>

Source: National Statistics Office.

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

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

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

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

Government revenue increased by €36.7 million, or 10.8% in annual terms. This is the first annual increase registered since February and is driven by higher tax revenue. The latter mainly reflects a €40.4 million increase in indirect tax revenue, due to higher inflows from VAT and the timing of receipt of customs and excise duties. At the same time, revenue from direct taxes increased by €11.6 million, chiefly due to a rise in income tax receipts. On the other hand, inflows from non-tax revenue declined by €15.4 million, due to lower inflows from dividends on investments and fees of office. The improvement in tax revenue suggests that economic activity has started to gradually pick up. In addition, repayment of tax dues under the tax deferral scheme, which expired in August 2020, may have also impacted revenue positively.

Government expenditure increased by €43.4 million, or 11.2% when compared to the corresponding period of 2019. This was driven by an increase in capital expenditure. This increased by €44.9 million largely due to a higher subvention to Malta Enterprise to finance the COVID-19 Wage Supplement Scheme. On the other hand, recurrent spending fell slightly by €1.5 million. Outlays on programmes and initiatives increased by €29.2 million on the back of higher payments related to COVID-19 measures, in particular the voucher scheme. This was largely offset by a drop in contribution to entities, reflecting the timing of transfers to the University of Malta. Moreover, other categories of

government expenditure also experienced a slight decline.

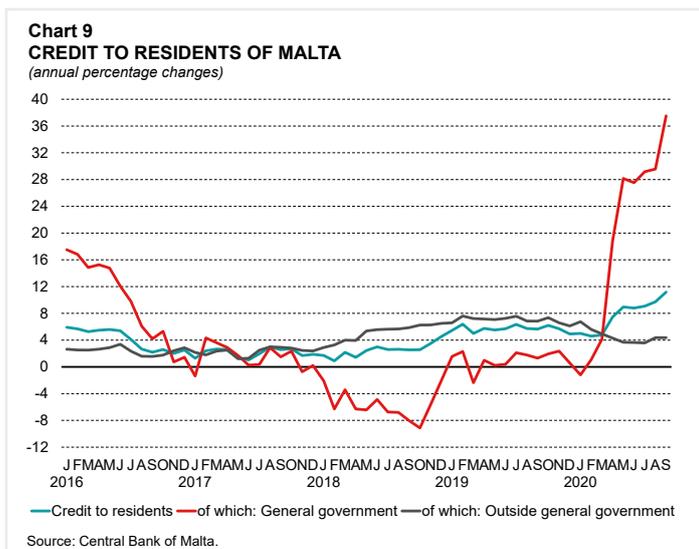
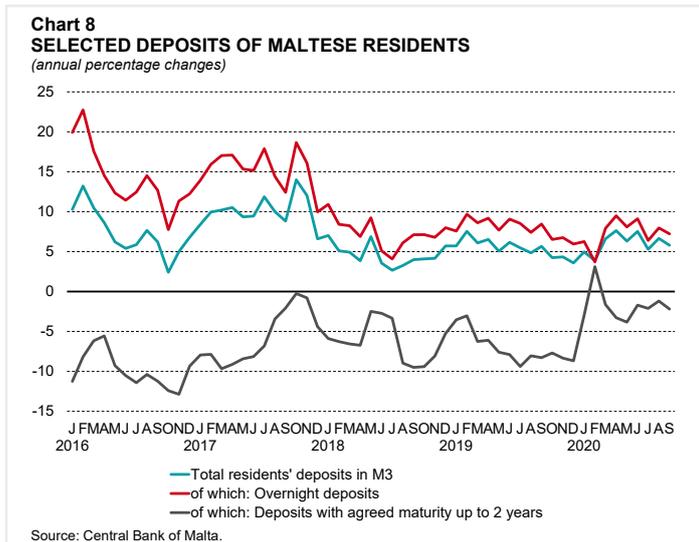
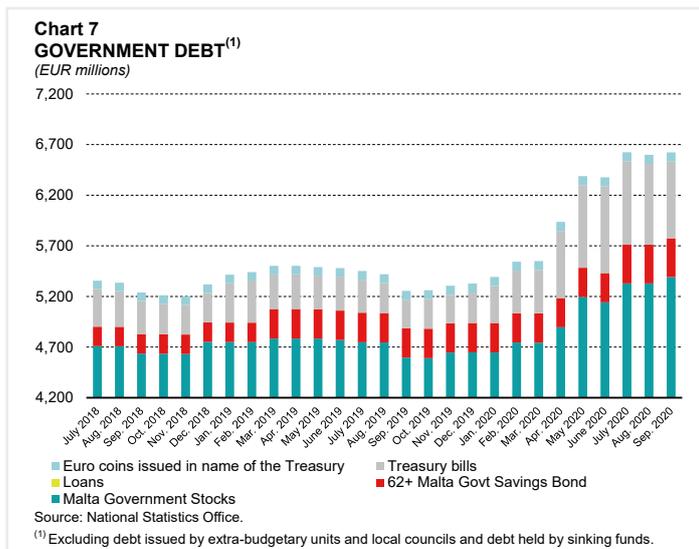
In September 2020, the total stock of government debt amounted to €6,623.4 million, a €24.3 million increase when compared with a month earlier (see Chart 7). This was mainly due to higher outstanding Malta Government Stocks, which more than offset a decline in outstanding Treasury Bills.

## Deposits, credit and financial markets

In September, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 5.8%, down from 6.6% in August (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 85% of their M3 balances. This deposit category – which is the most liquid – grew by 7.2% in the year to September. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 2.2% in annual terms, following a contraction of 1.2% in the year to August.

Credit to Maltese residents grew at an annual rate of 11.2% in September, above the 9.7% recorded a month earlier (see Chart 9). Annual growth in credit to general government rose by 37.5% in September, following an increase of 29.6% in August. At the same time, growth in

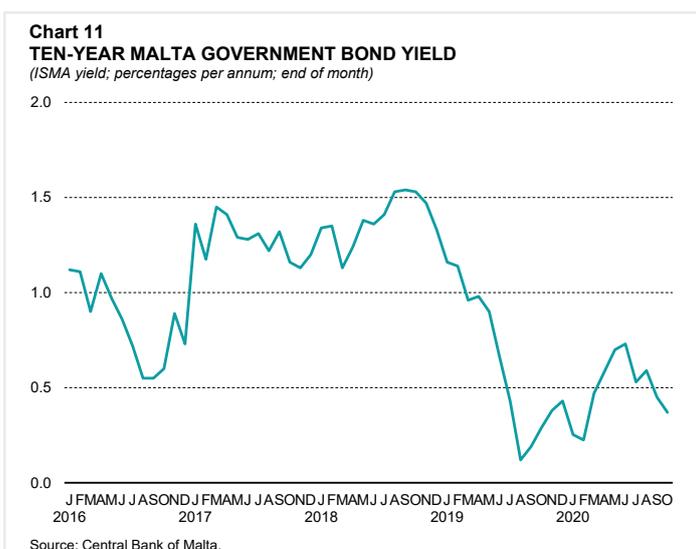
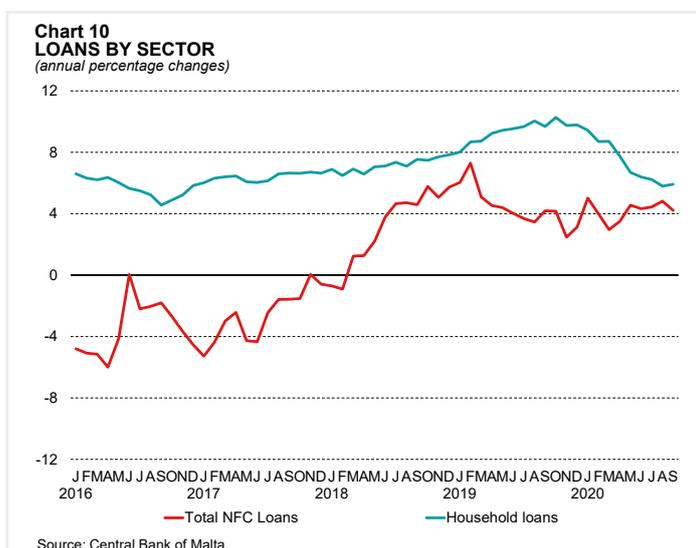


credit outside general government expanded at an annual rate of 4.4% in September, unchanged from a month earlier.

The annual rate of change in loans to non-financial corporations stood at 4.2%, down from 4.8% registered in August (see Chart 10). The deceleration in growth was broad-based across almost all economic sectors, notably reflecting a larger contraction in loans to the wholesale and retail trade and vehicle repair sector. This was followed by slower growth in credit to the construction sector and the sector comprising information and communication. These developments were partly offset by faster growth in credit to real estate activities, followed by an increase in loans to the sector comprising accommodation and food services activities and, to a lesser extent, in credit to the professional, scientific and technical activities sector. Meanwhile, the annual rate of change of loans to households edged up marginally to 5.9%, from 5.8% in August. This reflected a smaller contraction in consumer credit and other lending, which fell by 3.9%, following a decline of 6.7% in August. By contrast, mortgage lending eased to 7.0% in September, from 7.2% a month earlier.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.23% in September, marginally below the 0.24% recorded in the previous month. The composite rate charged on outstanding loans eased marginally to 3.39%, when compared with 3.40% in August. Hence, the spread between the two rates remained unchanged from a month earlier, at 316 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by eight basis points from a month earlier, to 0.37% at the end of October (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index declined by 2.1% during the same period. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



## BOX 1: LIQUIDITY SUPPORT MEASURES RELATED TO COVID-19

In response to the outbreak of COVID-19 and the subsequent containment measures, a number of businesses and households were faced with liquidity challenges, and thus applied with MFIs in Malta for a moratorium on loan repayments (see Table 4).<sup>16</sup>

As at end September, there were 8,335 loans subject to a moratorium on repayments.<sup>17</sup> The total value of loans subject to a moratorium in September edged down when compared with August, and stood at €1.8 billion, or 15.6% of total outstanding loans to Maltese residents. This is the first monthly decline in loans subject to a moratorium since it started in March 2020, which suggests that some businesses and households have recommenced regular loan repayments. The largest declines are observed in the household, transportation and storage, and the real estate sectors. Conversely, the accommodation and food services activities sector have continued to increase the amount of loans subject to a moratorium, which suggests that this sector remains in dire need of liquidity.

The largest number of loans covered by moratoria was held by households, with the sector accounting for around 72.0% of the total volume of loans subject to a moratorium. Maltese households held €554.0 million, or 30.8%, of the total value of loans subject to a moratorium, equivalent to 8.8% of outstanding household loans.

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

(Number of loans; EUR millions; percentage)

	Volume of loans <sup>(1)</sup>	Outstanding amounts <sup>(2)</sup>	Share in sector's outstanding loans <sup>(3)</sup>
Households	6,022	554.0	8.8
Manufacturing	169	51.2	23.4
Construction	126	62.2	9.7
Wholesale and retail trade; repair of motor vehicles and motor cycles	503	141.0	22.1
Transportation and storage and information and communication	111	86.7	32.2
Accommodation and food service activities	439	258.2	55.0
Real estate activities	408	317.1	32.0
Other <sup>(4)</sup>	558	326.3	16.3
<b>Total</b>	<b>8,335</b>	<b>1,796.8</b>	<b>15.6</b>

Source: Central Bank of Malta.

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

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

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

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

<sup>16</sup> The loans subject to moratorium include both pre and post the Legal Notice 142 of 2020 on the Moratorium on Credit Facilities Regulations in Exceptional Circumstances (see [here](#)) and Central Bank of Malta Directive No. 18. The latter entered into force on 13 April 2020. A number of banks had already started to provide moratorium facilities voluntarily in March 2020.

<sup>17</sup> These also include those loans falling under the Malta Development Bank COVID-19 Guarantee Scheme.

Meanwhile, the real estate sector held €317.1 million in loans subject to a moratorium, or around 18.0% of such loans – equivalent to a third of this sector’s outstanding loans. This was followed by the accommodation and food services activities, which held €258.2 million in loans subject to a moratorium. The latter was the sector most affected by the containment measures and, indeed, more than half – 55.5% – of the loans held by this sector were subject to a moratorium by the end of September. Moreover, as at end September, the wholesale and retail trade sector held €141.0 million in loans subject to a moratorium, making up 7.8% of loans subject to a moratorium, or 22.1% of loans held by the sector.

In order to further alleviate liquidity challenges, the Government launched the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS) for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.<sup>18</sup>

By end September 2020, 453 facilities were approved under the CGS, covering total sanctioned lending of €343.7 million (see Table 5). As the scheme provides loans for working capital, only €165.6 million were disbursed by the end of September, up from the €121.4 million disbursed by the end of August.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities and had the largest value of sanctioned loans at €81.9 million. This was followed by accommodation and food services activities, with 106 facilities making up a total of €69.8 million sanctioned loans, and the sector comprising transportation and ICT, which had a total of €49.4 million.

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

(Number of facilities; EUR millions)

	Total number of facilities <sup>(1)</sup>	Sanctioned amount <sup>(2)</sup>
Manufacturing	39	18.1
Construction	21	33.2
Wholesale and retail trade; repair of motor vehicles and motor cycles	129	81.9
Transportation and storage and information and communication	32	49.4
Accommodation and food service activities	106	69.8
Professional, scientific and technical activities	29	12.8
Administrative and support service activities	31	11.6
Real estate	12	3.6
Other <sup>(3)</sup>	54	63.5
<b>Total</b>	<b>453</b>	<b>343.7</b>

Source: Malta Development Bank.

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

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

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

<sup>18</sup> The CGS was approved by the European Commission on 2 April 2020. See [here](#) for further details.

## MACROECONOMIC INDICATORS FOR MALTA

(Annual percentage changes; non-seasonally adjusted data)

	2018	2019	2019	2020	2020	2020	2019	2019	2019	2019	2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	
			Q4	Q1	Q2	Q3	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	
<b>Prices and costs</b>																							
HICP inflation	1.7	1.5	1.3	1.2	1.0	0.6	1.8	1.9	1.6	1.4	1.3	1.3	1.4	1.1	1.2	1.1	0.9	1.0	0.7	0.7	0.5	-	
RPI inflation	1.2	1.6	1.3	1.2	0.7	0.4	1.7	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	0.8	0.7	0.7	0.6	0.4	0.2	-	
Industrial producer price inflation	4.4	2.2	1.8	1.2	0.2	0.2	1.8	1.6	2.1	2.3	1.4	1.6	1.8	1.7	0.0	0.6	0.3	-0.3	1.2	0.5	-1.0	-	
HCI (nominal)	2.6	-0.7	-1.1	-0.2	1.2	2.8	-0.7	-0.5	-1.7	-1.1	-1.0	-1.3	-1.1	-1.0	1.7	1.3	0.9	1.3	2.3	2.7	3.3	3.3	
HCI (real)	2.1	-1.1	-1.6	-0.9	1.2	2.4	-0.9	-0.5	-1.8	-1.4	-1.4	-2.0	-2.0	-2.0	1.2	1.4	1.0	1.3	1.9	2.5	2.9	3.3	
Unit labour costs, whole economy <sup>(1)</sup>	3.9	3.1	3.6	5.0	10.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Compensation per employee <sup>(1)</sup>	2.8	2.8	2.8	2.8	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour productivity (per person) <sup>(1)</sup>	1.0	0.3	-0.8	-2.0	-6.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Property Price Index (Eurostat)	5.8	6.1	5.7	5.5	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Economic activity</b>																							
Nominal GDP	7.3	7.2	7.4	3.2	-14.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP	5.2	4.9	5.0	1.4	-16.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real private consumption	8.5	5.2	4.5	-1.5	-20.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real government consumption	12.0	11.5	6.7	12.9	11.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real gross fixed capital formation	3.1	8.8	2.2	-14.5	-11.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real exports of goods and services	-0.5	6.1	5.6	2.6	-12.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real imports of goods and services	0.4	7.9	5.2	0.3	-7.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Labour market developments</b>																							
LFS unemployment rate (% of labour force)	3.7	3.4	3.2	3.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
LFS employment	7.8	6.5	5.4	7.7	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Jobsplus gainfully occupied	6.8	5.8	6.0	-	-	-	5.4	5.2	5.7	5.7	5.9	6.3	6.6	-	-	-	-	-	-	-	-	-	
<b>Balance of payments</b>																							
Current account (as a % of GDP) <sup>(2)</sup>	5.7	4.8	4.8	5.6	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Credit and financial indicators</b>																							
Maltese residents' deposits and loans																							
Overnight deposits	8.0	6.0	6.0	7.9	9.1	7.2	8.5	7.4	8.5	6.5	6.7	6.0	6.3	3.7	7.9	9.5	8.1	9.1	6.4	8.0	7.2	-	
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-8.7	-1.6	-1.7	-2.2	-9.4	-8.0	-8.3	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.3	-3.8	-1.7	-2.1	-1.2	-2.2	-	
Total residents' deposits in M3	5.7	3.6	3.6	6.6	7.5	5.8	5.5	4.8	5.7	4.2	4.3	3.6	5.0	3.9	6.6	7.6	6.3	7.5	5.3	6.6	5.8	-	
Credit to general government	-2.0	0.6	0.6	4.1	27.5	37.5	2.1	1.8	1.3	1.9	2.4	0.6	-1.2	1.1	4.1	18.8	28.2	27.5	29.2	29.6	37.5	-	
Credit to residents (excl. general government)	6.5	6.1	6.1	4.9	3.6	4.4	7.6	6.8	6.8	7.3	6.6	6.1	6.8	5.6	4.9	4.3	3.7	3.6	3.6	4.4	4.4	-	
Total credit	4.5	4.9	4.9	4.8	8.8	11.2	6.4	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.8	7.5	9.0	8.8	9.1	9.7	11.2	-	
10-year interest rate (%) <sup>(3)</sup>	1.3	0.4	0.4	0.5	0.7	0.5	0.4	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.5	0.6	0.7	0.7	0.5	0.6	0.5	0.4	
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	0.1	4.4	-4.0	-19.5	6.8	12.6	0.7	-1.0	2.4	-1.6	-2.5	0.0	-1.2	-0.6	-18.0	6.1	-1.1	1.7	-3.5	-5.9	-3.8	-2.1	
<b>General government finances (% of GDP)</b>																							
Surplus (+) / deficit (-) <sup>(2)</sup>	2.0	0.5	0.5	-1.7	-5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross debt <sup>(5)</sup>	45.2	42.6	42.6	44.0	51.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

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

<sup>(1)</sup> Four-quarter moving averages.<sup>(2)</sup> Four-quarter moving sums.<sup>(3)</sup> End of period.<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.<sup>(5)</sup> GDP data are four-quarter moving sums.