



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

11/2021

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Address

Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone

(+356) 2550 0000

Fax

(+356) 2550 2500

Website

www.centralbankmalta.org

E-mail

info@centralbankmalta.org

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Summary¹

The Bank's Business Conditions Index shows that in October annual growth in business activity is gradually receding from recent historical highs but remains strong from a historical perspective. Nevertheless, the aggregate level of economic activity remained below pre-pandemic levels.

European Commission data show that sentiment eased in October but remained well above its level a year earlier and its historical average. The recent decrease in sentiment was driven by weaker sentiment in the services and retail sectors. By contrast sentiment improved in the construction sector, in industry and among consumers. Sentiment remained positive in all sectors.

In September, industrial production contracted on an annual basis for the second consecutive month. Meanwhile the volume of retail trade rose at a slower pace. The number of registered unemployed fell and the unemployment rate declined marginally from that in the previous month and stood well below last year's rate.

In September, residential permits increased relative to their year-ago levels, while commercial permits fell. In October, the number of final deeds of sale rose on an annual basis. Although the number of promise-of-sale agreements fell on a year earlier, it remained above the level recorded in October 2019 (before the pandemic).

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 10.0% in September, following an increase of 10.4% in the previous month, while annual growth in credit to Maltese residents eased to 7.1%, from 8.0% a month earlier. In September, the cash-based Consolidated Fund recorded a wider deficit when compared with a year earlier, as government expenditure increased while government revenue fell.

Central Bank's Business Conditions Index (BCI)²

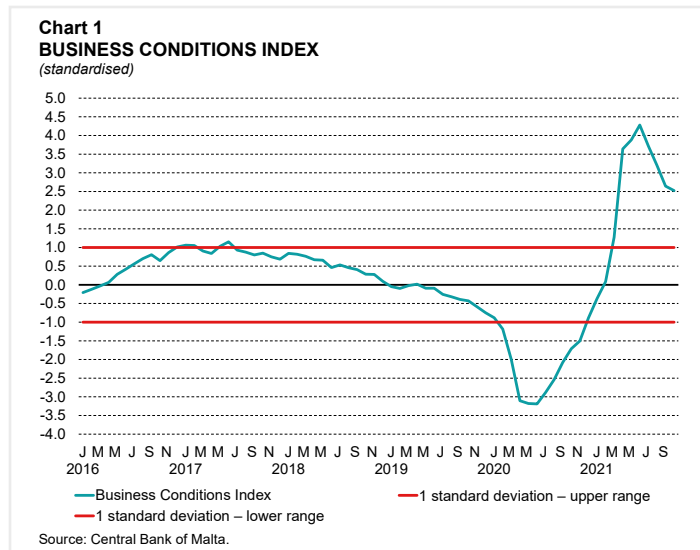
The Bank's BCI indicates that in October annual growth in business activity is gradually receding from recent historical highs but remains strong from a historical perspective. (see Chart 1). However, the economic expansion is from a very low base, as 2020 marked a historical low point for most economic 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 tourist arrivals, economic sentiment, and

¹ The cut-off date for information in this note is 10 November 2021. Most of the data reported in this issue of the *Economic Update* refer to September 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 October 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.

gross domestic product (GDP). 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

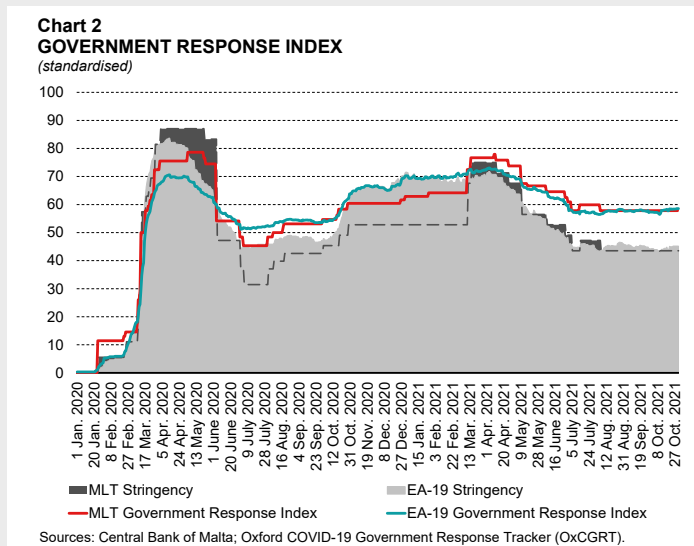


BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Some COVID-19 containment measures were relaxed during October, including those applicable to weddings, mass events as well as bars and restaurants. In particular, the distance between tables in hospitality venues can be reduced to 1.5m from 2m, and the number of people that can be seated together at a table was increased from 6 to 8 persons. These new rules apply only to hospitality venues that choose to

serve only fully vaccinated persons. In addition, the maximum capacity for seated events was increased to 300 for fully vaccinated people.⁴ Nonetheless, Malta's COVID-19 Government Response Index (GRI) ended October at 57.8, similar to the levels recorded at the end of the previous two months (see Chart 2). It stood 0.7 points lower than the euro area average.

Meanwhile, at 43.5, the Stringency Index retained the level recorded at the end of September. Malta's index ended October 1.7 points below that in the euro area.



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 October are however too small to change the classification, and hence they have zero impact on the GRI.

Business and consumer confidence indicators

In October, the European Commission's Economic Sentiment Indicator (ESI) stood at 109.0, down from 111.5 in September (see Table 1). Notwithstanding the recent decrease, sentiment remained well above its level in October 2020 and its long-term average of around 100.0, but stood below that in the euro area, where the index reached 118.6.^{5,6,7}

In month-on-month terms, sentiment in Malta fell in the services sector and among retailers. By contrast sentiment improved in the construction sector, and to a lesser degree, in industry and among consumers. Despite mixed developments in month-on-month terms, all components of the indicator were positive in October.

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 October was mainly driven by weaker sentiment among services firms, although a small decrease in the contribution of the retail sector also contributed (see Chart 3). By contrast, the contribution of industry more than doubled in the month under review. At the same time, consumers and the construction sector had a slightly more

	2019	2020	2021										
			Oct.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
ESI	102.4	81.4	84.6	85.8	88.1	95.0	117.3	115.2	113.5	110.0	115.6	111.5	109.0
Services confidence indicator	20.7	-24.9	-32.3	-5.3	-3.7	-11.1	5.4	30.8	36.7	34.7	17.8	32.8	11.8
Business situation development over the past 3 months	16.7	-36.3	-37.4	-12.3	-12.4	-11.0	-1.1	16.6	19.6	29.5	12.6	6.4	4.5
Evolution of the demand over the past 3 months	21.5	-34.9	-47.0	-10.5	-16.8	-19.1	-5.1	25.1	44.5	29.4	14.0	39.0	10.5
Expectation of the demand over the next 3 months	24.0	-3.7	-12.5	6.7	17.9	-3.1	22.5	50.8	46.0	45.2	26.9	53.1	20.4
Retail trade confidence indicator	4.2	-31.0	-42.7	-51.4	-49.0	-38.2	-50.3	-1.9	-8.7	-12.6	15.2	21.8	2.1
Business activity, past 3 months	18.9	-22.2	-54.7	-51.6	-42.2	-58.6	-70.3	-43.3	-46.9	-1.5	34.3	38.2	-11.7
Stocks of finished goods	17.4	31.9	24.4	50.3	33.5	37.2	42.4	-3.5	3.5	3.1	13.6	-2.9	7.4
Business activity, next 3 months	11.1	-38.8	-49.2	-52.4	-71.4	-18.7	-38.1	34.2	24.4	-33.2	24.8	24.2	25.5
Consumer confidence indicator	4.5	-5.6	-9.4	-3.2	-6.9	-7.9	5.2	8.3	6.0	3.8	9.0	7.4	10.0
Financial situation past 12 months	11.3	-1.6	-13.9	-15.4	-15.5	-18.6	-15.9	-11.7	-11.0	-6.8	-2.8	-5.7	-2.0
Financial situation next 12 months	11.2	0.8	0.5	4.3	-0.7	0.4	11.5	15.0	10.4	8.4	11.5	6.8	12.0
Economic situation next 12 months	20.9	-0.9	-2.4	8.7	4.5	3.6	30.7	35.3	31.3	19.4	24.7	22.3	24.9
Major purchases next 12 months	-25.1	-20.5	-21.8	-10.4	-15.8	-16.8	-5.5	-5.6	-6.5	-5.6	2.7	6.4	5.1
Industrial confidence indicator	-6.7	-25.1	-10.3	-24.0	-18.6	-1.1	36.0	9.4	8.7	3.0	22.8	0.1	5.6
Assessment of order-book levels	-23.0	-48.8	-40.0	-41.4	-53.8	-41.4	-16.7	-30.1	-39.0	-12.0	22.8	-29.2	-26.4
Assessment of stocks of finished products	15.5	27.2	21.6	36.0	28.6	-11.3	-42.5	-21.0	0.8	-1.1	-1.1	4.0	-4.8
Production expectations for the months ahead	18.4	0.8	30.7	5.5	26.6	26.7	82.1	37.2	65.9	20.0	44.7	33.5	38.3
Construction confidence indicator	26.2	-5.7	-4.9	-1.2	-8.3	-8.5	9.6	21.9	8.9	-4.8	5.9	12.5	27.0
Evolution of your current overall order books	19.7	-6.2	-8.8	-3.4	-13.6	-12.0	4.0	4.7	11.7	-13.5	-2.9	6.0	22.5
Employment expectations over the next 3 months	32.6	-5.2	-0.9	0.9	-3.0	-5.0	15.3	39.0	6.1	4.0	14.7	19.0	31.5
EI	102.7	86.0	89.3	88.8	87.0	88.4	96.6	108.4	110.8	113.4	112.6	118.7	115.1
Services	17.5	-2.4	1.9	-1.6	-11.8	-9.9	13.0	31.0	37.3	46.5	29.7	55.2	45.8
Retail	4.7	-11.6	-29.9	-5.4	-5.7	14.5	-18.4	7.3	6.0	6.0	11.2	17.7	-1.7
Construction	32.6	-5.2	-0.9	0.9	-3.0	-5.0	15.3	39.0	6.1	4.0	14.7	19.0	31.5
Industry	12.8	-12.5	17.8	-5.7	10.3	-8.1	18.0	9.3	21.4	15.3	44.2	8.6	27.9
ESI demeaned	2.4	-18.6	-15.4	-14.2	-11.9	-5.0	17.3	15.2	13.5	10.0	15.6	11.5	9.0
EI demeaned	2.7	-14.0	-10.4	-11.2	-12.9	-11.7	-3.1	8.2	10.8	13.3	12.9	18.4	15.1

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%.

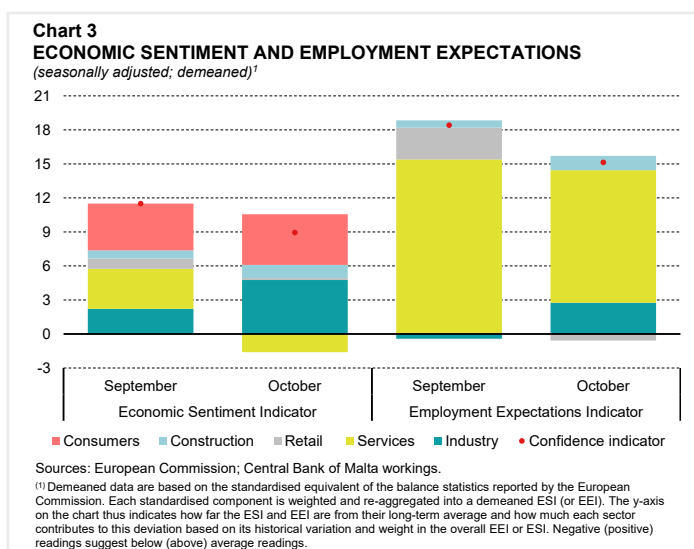
⁶ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. 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.

positive contribution relative to September.

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

In October, sentiment within the services sector fell sharply to 11.8, from 32.8 in the previous month. Following this decline, sentiment stood below its long-term average of 19.1.⁸ Weaker sentiment largely reflected developments in respondents' expectations of demand over the next three months and their assessment of demand over the past three months. At the same time, participants' assessment of the business situation over the past 3 months deteriorated marginally over the same period. Additional survey data show that, on balance, the share of respondents anticipating a rise in prices in the coming months increased significantly, reaching an all-time high.



Confidence within the retail sector declined to 2.1, from 21.8 in September, but remained above its long-term average of -2.0.⁹ The recent fall in sentiment was largely driven by retailers' assessment of sales over the past three months. At the same time, stock levels were assessed to be above normal in the month under review.¹⁰ By contrast, retailers' expectations about business activity during the coming months edged up slightly. Supplementary data shows that price expectations rose strongly relative to September.

Consumer confidence stood at 10.0, up from 7.4 a month earlier, remaining well above its long-term average of -10.5.¹¹ Higher 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 improved. By contrast, consumers' expectations of major purchases over the next 12 months stood less positive relative to September, although still close to their historical peak. Additional survey data show that price expectations increased from already elevated levels, while a larger share of respondents anticipated unemployment to decline compared to a month earlier.

⁸ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

⁹ 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.

¹⁰ 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.

¹¹ 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.

Industrial confidence reached 5.6, from 0.1 in the previous month. Following this increase, sentiment remained above its long-term average of -4.0.¹² The latest increase in sentiment was broad based across all sub-components of the indicator, but mostly reflected developments in firms' assessment of stocks of finished products. Supplementary data show that a significantly larger share of firms anticipated selling prices to rise in the coming months.

Confidence within the construction increased to 27.0, from 12.5 a month earlier, thus rising further above its long-term average of -10.3.¹³ The recent rise in sentiment largely reflected an improvement in order book levels and, to a lesser extent, more optimistic employment expectations relative to September. Additional survey data indicate that the share of respondents expecting prices to increase over the coming months increased compared to September.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased in October.¹⁴ The EEI stood at 115.1, below the 118.7 recorded in September, but remained above its long-run average of around 100.0 and slightly exceeded the euro area average. Employment expectations were positive across all sectors bar the retail sector.

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 September, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing, and energy sectors – stood at -3.3%. This is the second consecutive year-on-year decline, following a fall of 3.6% in August (see Table 2).¹⁵

The recent decline in industrial production primarily reflected lower output by firms that produce food products. Declines were also registered amongst firms involved in the production of wearing apparel, non-metallic mineral products, pharmaceutical products and the printing and reproduction of recorded media. On the other hand, higher output was reported among firms that specialise in “other manufacturing” goods – which includes firms involved in the production of medical and dental instruments, toys and related products – followed by rubber and plastic products.

Production in the energy sector fell for the first time since March 2021, with output falling by 3.1% in annual terms.

In September, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 14.0% on an annual basis, after rising by 19.6% in August.

¹² 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.

¹³ 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.

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 ⁽¹⁾	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr. ⁽¹⁾	May ⁽¹⁾	June ⁽¹⁾	July	Aug.	Sep.
Industrial production	1.2	-0.2	-2.2	-3.7	-3.1	2.8	-1.5	-4.5	-7.2	-12.8	-4.6	17.4	8.9	13.8	7.9	-3.6	-3.3
Retail trade	7.0	-6.1	-10.9	-9.0	-10.6	-7.7	-4.1	3.9	-4.3	-10.5	0.0	19.0	23.2	4.2	11.0	19.6	14.0
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	216.3
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	166.8
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	225.8
Collective ⁽²⁾	-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	263.4
Other rented ⁽³⁾	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	162.8
Non-rented accommodation ⁽⁴⁾	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	53.5
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	277.9
Package expenditure	-8.2	-84.5	-93.5	-79.5	-90.5	-89.8	-	-	-	-	-	-	-	-	480.2	126.7	478.4
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	281.7
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	212.2

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. The inbound tourism *News Release* has been issued since July 2020, following the reopening of Malta International Airport in the beginning of that month. Hence, year-on-year growth rates for April, May and June 2021 cannot be derived.

⁽²⁾ Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

⁽³⁾ Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

⁽⁴⁾ Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

The recovery in the tourism sector over 2020 has gained momentum in September, although tourist numbers remain below 2019 levels. At 159,304, the number of inbound tourists was more than three times that of September 2020, yet remained 44.4% below 2019 levels. Guest nights more than doubled, with collective accommodation registering the sharpest increase in absolute terms. Almost a four-fold increase was registered in total expenditure over the corresponding period of the previous year but this remained 41.5% below that in 2019.

In September, 227 development permits for commercial buildings were issued, a 24.6% decline over the same month a year earlier (see Table 3). Meanwhile, 615 new residential permits were issued, almost a third more than in September 2020.

Data on residential property transactions show that 1,134 final deeds of sale were concluded in October, 7.6% more than a year earlier. Conversely, at 1,091, the number of promise-of-sale agreements were 16.1% less than the amount registered in October 2020. These however, were 12.0% higher than in October 2019.

Customs data show that the merchandise trade deficit stood at €293.5 million in September, up from €143.1 million a year earlier. The larger deficit was due to a €114.5 million rise in imports, and a €35.9 million fall in exports (see Chart 4). Higher imports were largely on account of a significant

Table 3
PROPERTY MARKET

Levels

	2019	2020	2020				2021										
			Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	
Permits																	
Commercial permits	3,474	2,687	301	267	241	183	209	249	205	267	228	260	249	127	227	-	
Residential permits	12,485	7,837	475	657	672	549	784	654	569	763	667	429	645	903	615	-	
Residential transactions																	
Promise of sale	11,614	11,261	1,054	1,300	1,043	1,145	981	1,350	1,648	1,429	1,479	1,166	1,104	892	988	1,091	
Final deeds of sale	14,019	11,057	974	1,054	961	1,134	1,009	984	1,285	1,185	1,174	1,239	1,386	1,170	1,038	1,134	

Sources: National Statistics Office; Eurostat.

increase in the fuel-import bill. A rise in imports of fish, electrical machinery, pharmaceutical products, optical instruments, vehicles, and plastic also contributed – but to a lesser extent. These outweighed lower imports of organic chemicals and a decrease in ship registrations.

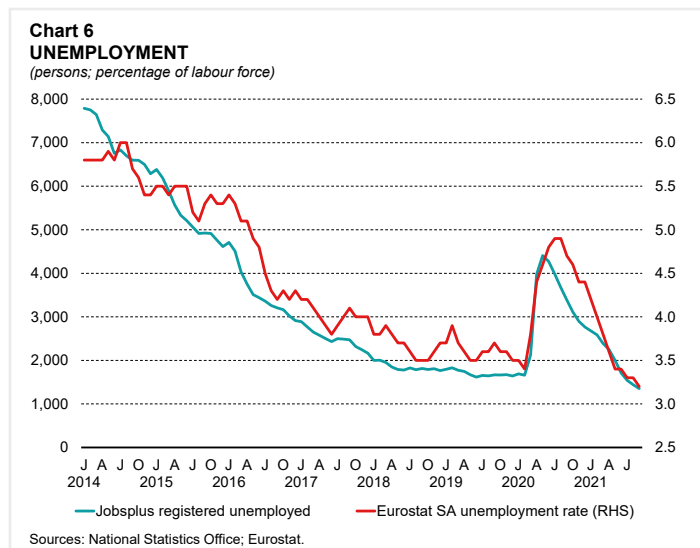
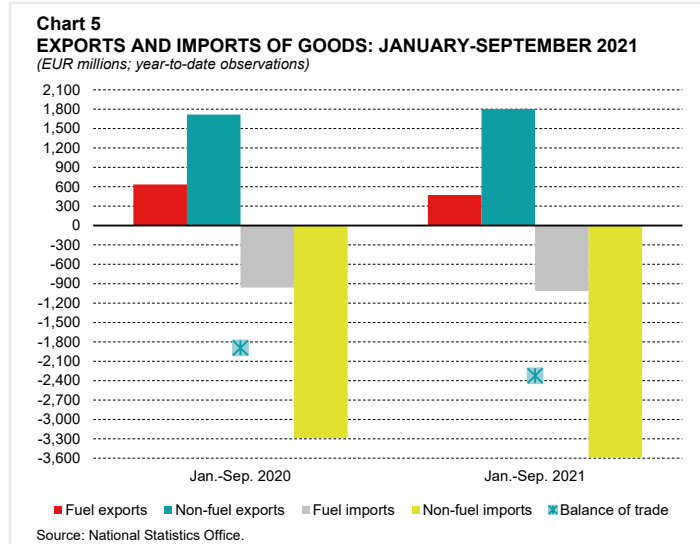
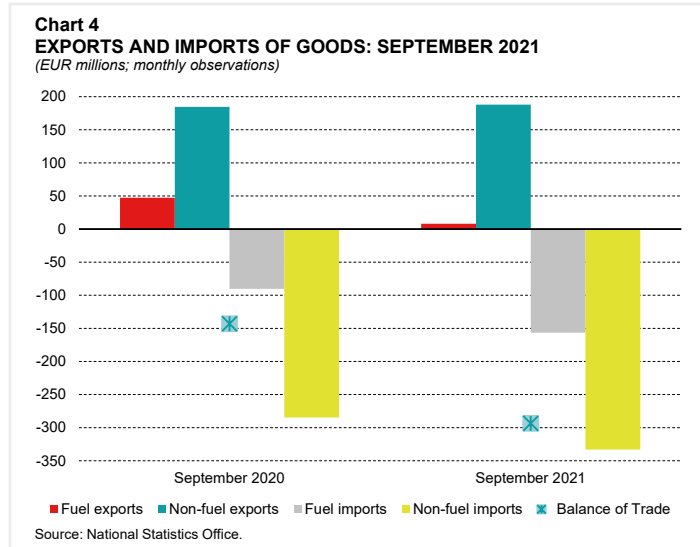
The decline in exports was driven by a fall in fuel re-exports, electrical machinery and optical instruments. These outweighed higher exports of pharmaceutical products.

In the nine months to September, the visible trade gap widened to €2,324.3 million from €1,893.6 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 1,352 in September 2021, down from 1,442 in September and from 3,385 a year earlier when the labour market was still impacted by the introduction of the first pandemic-related restrictions (see Chart 6). The number of registered unemployed is now below pre-pandemic levels.

The seasonally-adjusted unemployment rate stood at 3.2% in September, marginally lower than that registered in the previous month, and lower than the rate of 4.7% registered in the same month of 2020.



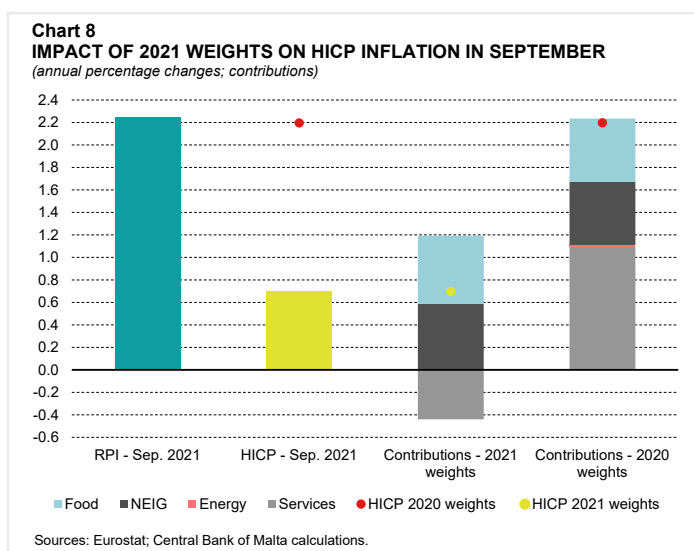
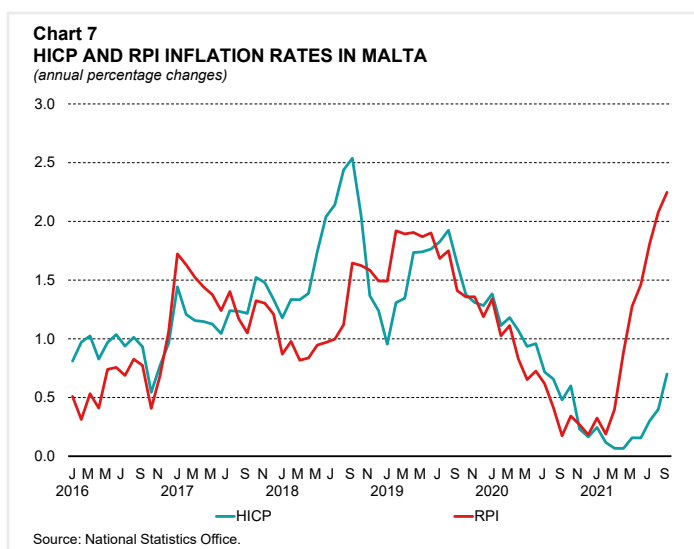
Prices, costs and competitiveness

Annual HICP inflation stood at 0.7% in September, up from 0.4% in the previous month (see Chart 7). The increase in inflation affected all main components except for non-energy industrial goods and energy inflation which remained broadly unchanged.

Annual inflation according to the RPI was much higher. Indeed, it stood at 2.2% in September, marginally up from 2.1% in August (see Chart 7).¹⁶ This mainly reflects faster growth in the prices of food.

The gap between the two measures of inflation is mostly 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 September using the 2020 weights (which are based on pre-pandemic spending patterns) would have stood at 2.2% as opposed to the actual rate of 0.7% using the 2021 weights, which would have been equivalent 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 September, 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 gap against the RPI-based measure.

Producer output inflation, measured by the industrial producer price index, rose by 5.3% in September, up from 4.3% in August.¹⁸ The latter might reflect the impact of the rising cost pressures due to ongoing



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](#).

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.

supply shortages on an international level. The increase in producer output inflation largely reflected a strong rise in intermediate goods inflation. In addition, consumer goods inflation rose and contributed strongly to the increase in producer output inflation. Capital goods inflation also increased though its contribution to the increase in industrial producer price inflation was smaller. 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 1.6% in the year to October, 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 3.7% in annual terms in October, which suggests that international competitiveness improved due to favourable developments in relative prices vis-à-vis trading partners.

Public finance

In September 2021, the Consolidated Fund recorded a deficit of €153.6 million, a deterioration of €100.8 million when compared to the deficit registered in September 2020 (see Table 4). This

	2020	2021	2020	2021	Change	
	Jan.-Sep.	Jan.-Sep.	Sep.	Sep.	Amount	%
Revenue	2,731.0	3,354.2	377.0	374.0	-3.0	-0.8
Direct tax	1,443.8	1,861.9	208.9	231.5	22.6	10.8
Income tax	985.4	1,336.8	149.4	169.5	20.0	13.4
Social security contributions ⁽¹⁾	458.4	525.1	59.4	62.0	2.6	4.4
Indirect tax	953.8	1,180.0	143.0	103.3	-39.8	-27.8
Value Added Tax	543.1	718.7	64.2	53.7	-10.5	-16.3
Customs and excise duties	189.5	214.5	59.9	26.4	-33.5	-56.0
Licences, taxes and fines	221.2	246.8	18.9	23.1	4.2	22.3
Non-tax⁽²⁾	333.4	312.3	25.1	39.3	14.2	56.5
Expenditure	3,870.1	4,261.0	429.8	527.7	97.8	22.8
Recurrent	3,259.6	3,829.4	344.0	473.3	129.3	37.6
Personal emoluments	680.5	761.5	76.0	88.2	12.2	16.1
Operational and maintenance	192.4	188.9	14.3	18.0	3.7	26.0
Programmes and initiatives	1,793.8	2,254.7	204.3	302.7	98.3	48.1
Contributions to entities	454.3	487.1	32.1	50.5	18.4	57.5
Interest payments	138.7	137.1	17.4	13.9	-3.4	-19.6
Capital	610.4	431.6	85.8	54.3	-31.5	-36.7
Primary balance⁽³⁾	-1,000.3	-769.8	-35.5	-139.7	-104.2	-
Consolidated Fund balance	-1,139.0	-906.8	-52.8	-153.6	-100.8	-

Source: National Statistics Office.

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

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

⁽³⁾ Revenue less expenditure excluding interest payments.

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.

occurred mainly due to an increase in government expenditure. In turn, the primary deficit reached €139.7 million, €104.2 million higher than the deficit registered a year earlier.

Government revenue decreased slightly by €3.0 million, or 0.8% in annual terms, reflecting a fall in indirect tax revenue. The latter declined by €39.8 million, due to a fall in customs and excise duties, reflecting timing issues. VAT receipts also declined, after registering a strong increase in the previous month. On the

other hand, inflows from direct taxes rose by €22.6 million, mainly on the back of a rise in inflows from income tax paid by companies. Moreover, inflows from non-tax revenue increased by €14.2 million, mainly due to higher revenue from dividends.

Government expenditure increased by €97.8 million, or 22.8% when compared to the corresponding period in 2020. This was due to a rise in recurrent expenditure, which more than offset a fall in capital expenditure. The latter declined by €31.5 million, partly reflecting the reclassification of the Wage Supplement Scheme from capital to current expenditure in 2021.

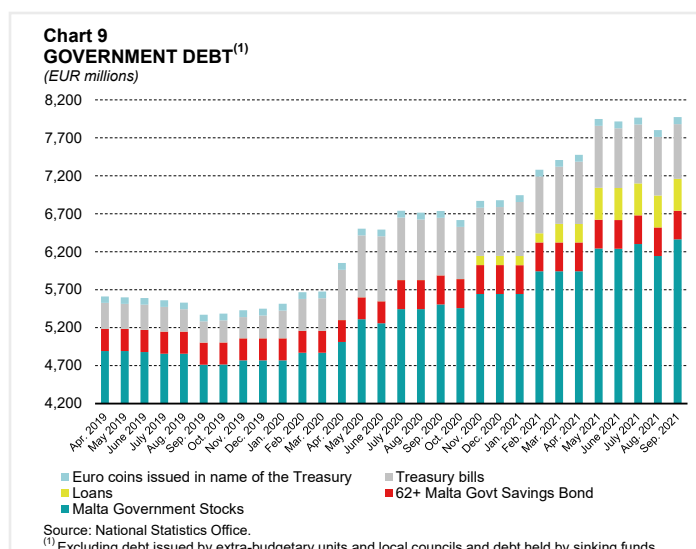
Meanwhile, recurrent expenditure rose by €129.3 million. This was largely due to higher outlays on programmes and initiatives – reflecting higher transfers to the EU budget and the above-mentioned reclassification to a lower extent. The month under review also featured higher spending on contributions to government entities and personal emoluments.

In September 2021, the total stock of government debt amounted to €7,859.2 million, an increase of €174.7 million when compared with August 2021 (see Chart 9). This increase is mainly attributable to a higher outstanding amount of Malta Government Stocks.

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 10.0%, down from 10.4% recorded a month earlier (see Chart 10).

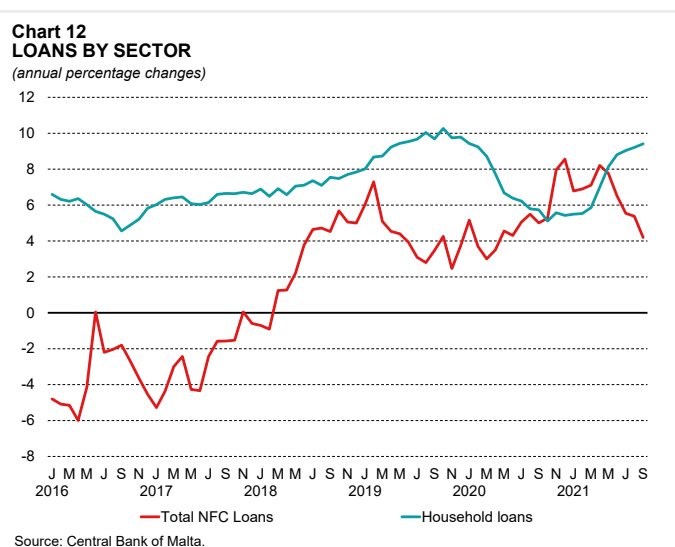
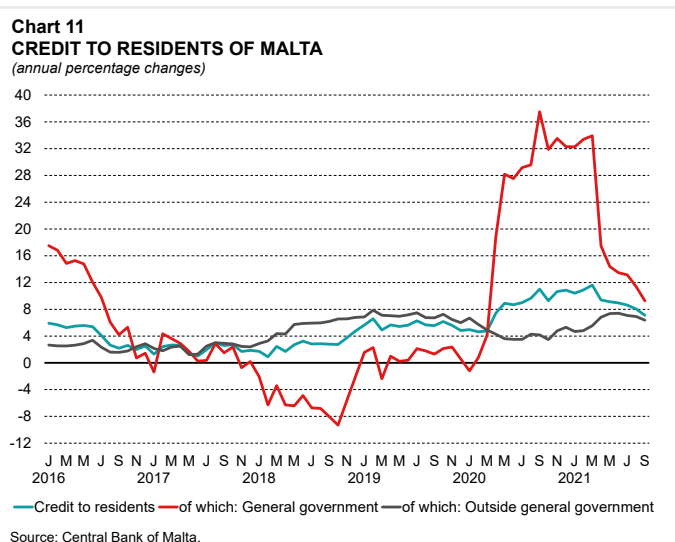
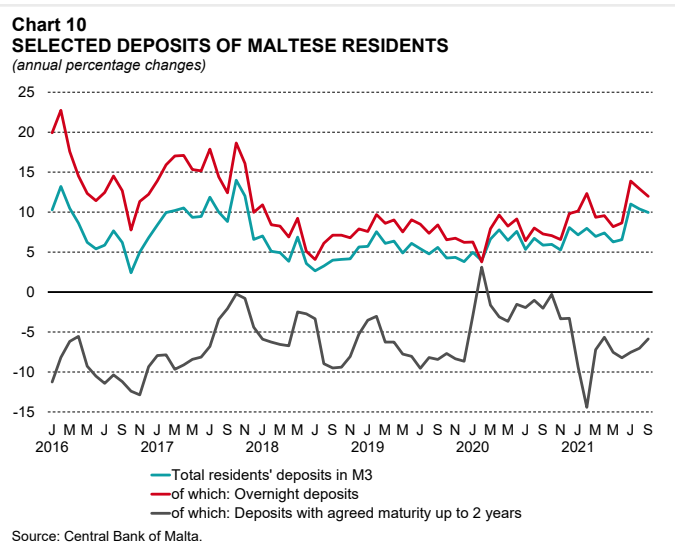
Overnight deposits remained the largest component of residents' M3 deposits, comprising over 87% of their M3 balances. This deposit category – which is the most liquid – grew by 12.0% in the year to September, after rising by 12.9% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 5.9% in annual terms, following a contraction of 7.0% in August.



Credit to Maltese residents grew at an annual rate of 7.1% in September, slightly below the 8.0% recorded a month earlier (see Chart 11). The deceleration in credit during September was largely driven by slower growth in credit to general government. Annual growth in this component stood at 9.3%, below the 11.4% recorded in August. At the same time, credit to residents outside general government eased to 6.4%, from 6.9% a month earlier.

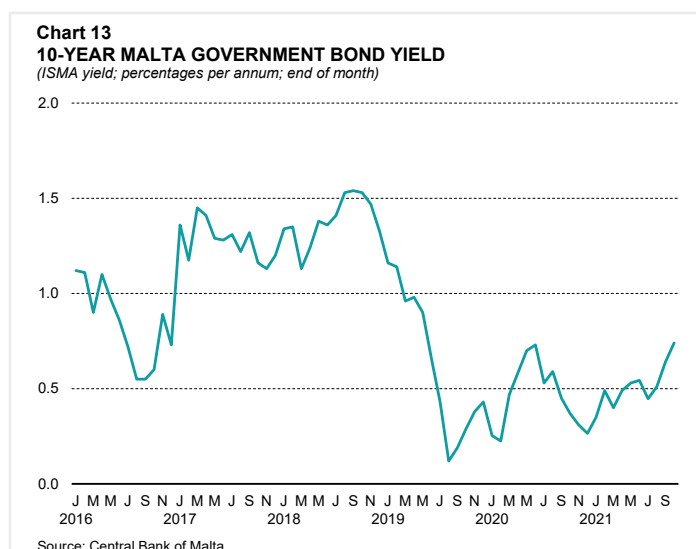
The annual rate of change in loans to non-financial corporations stood at 4.2% in September, below the 5.4% recorded a month earlier (see Chart 12). The deceleration was largely due to a decline in loans to the construction and real estate sector, and to a lesser extent, to the energy sector. Moreover, the sector comprising accommodation and food service activities, as well as the transportation and storage sector and administrative and support service activities experienced slower annual growth. In addition, credit to the sector comprising professional, scientific and technical activities contracted at a faster pace. These developments were partly offset by an increase in loans to the manufacturing and agriculture sectors, followed by the wholesale and retail trade sector, as well as the public administration and defence sector.

Meanwhile, the annual rate of change of loans to households stood at 9.4% in September,



slightly above the 9.2% recorded in August. Mortgage lending reached 10.6% in September, from 10.4% a month earlier. At the same time, consumer credit and other lending fell by 2.8%, following a contraction of 2.3% in August.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits remained unchanged for the fourth consecutive month, standing at 0.18% in September. The composite rate charged on outstanding loans eased marginally to 3.25% in September, from 3.26% a month earlier. Hence, the spread between the two rates edged down slightly to 307 basis points.



In the capital market, the secondary market yield on 10-year Maltese government bonds edged up by 10 basis points from a month earlier, to 0.74% at the end of October (see Chart 13). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 0.8% during the same period. Similar movements were observed in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.

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 Chart 14).²⁰

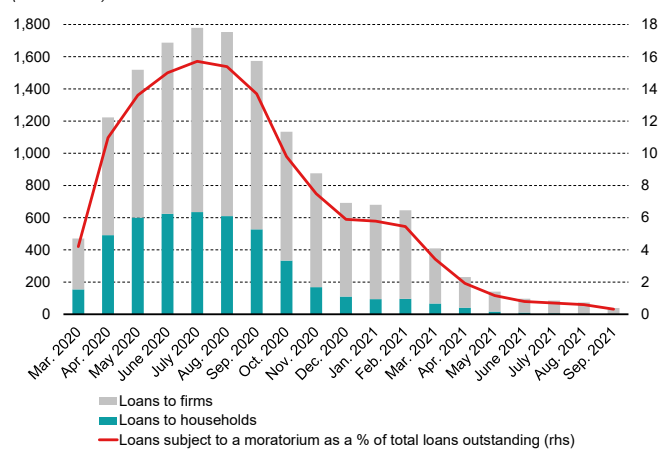
Loans subject to a moratorium have fallen consistently since August 2020 reaching very low levels recently, as the moratoria period is gradually expiring for many loans, and economic activity continued to normalise in most sectors.

Indeed, as at the end of September, only 54 loans were subject to a moratorium on repayments compared to 79 loans a month earlier. The value of such loans declined by €34.2 million and stood at €38.8 million, or 0.3% of total outstanding loans to Maltese residents.

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.

The outstanding value of loans subject to a moratorium of Maltese households fell to €1.2 million in September – equivalent to 3.1% of the total value of loans subject to a moratorium. This is down from a peak of €635.0 million in July 2020. Firms held €37.6 million in loans subject to a moratorium at the end of September, thus accounting for most of outstanding loans still covered by moratoria.

Chart 14
LOANS SUBJECT TO MORATORIUM ON REPAYMENTS
(EUR millions)



Source: Central Bank of Malta.

The largest number and value of loans subject to a moratorium were held in the accommodation and food service activities sector. This is the sector most affected by the containment measures and indeed, 2.6% of the loans held by this sector were subject to a moratorium by the end of September. This contrasts with the end of 2020, when over 40.0% of outstanding loans of this sector were subject to a moratorium.

Table 5
MALTA DEVELOPMENT BANK COVID-19 GUARANTEE SCHEME – AS AT SEPTEMBER 2021

Number of facilities; EUR millions

	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	57	26.1
Construction	38	49.9
Wholesale and retail trade; repair of motor vehicles and motor cycles	173	99.6
Transportation and storage and information and communication	40	50.2
Accommodation and food service activities	157	123.1
Professional, scientific and technical activities	40	22.2
Administrative and support service activities	41	14.2
Real estate	19	7.4
Other ⁽³⁾	87	116.1
Total	652	508.8

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.

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-September, 652 facilities were approved under the CGS, covering total sanctioned lending of €508.8 million (see Table 5). 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 September, €414.5 million were disbursed, up slightly from the €401.5 million disbursed by the end of August. Thus, by the end of September, 65.4% of the scheme was sanctioned, while 53.3% 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 €99.6 million in sanctioned loans. This was followed by accommodation and food service activities, with 157 facilities or €123.1 million in sanctioned loans.

In value terms, these were followed by the sector comprising transportation, storage, information and communication, and the construction sector, with €50.2 million and €49.9 million, respectively.

²¹ The CGS was approved by the European Commission on 2 April 2020. See [here](#) for further details.

Annex 1

MACROECONOMIC INDICATORS FOR MALTA																					
Annual percentage changes; non-seasonally adjusted data																					
	2019	2020	2020	2020	2021	2021	2021	2020	2020	2020	2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021
			Q3	Q4	Q1	Q2	Q3	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
Prices and costs																					
HICP inflation	1.5	0.8	0.6	0.3	0.1	0.1	0.5	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	2.0	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	3.6	-1.0	-0.6	-0.5	-0.1	0.8	0.5	1.1	1.2	1.8	2.2	1.2	4.3	5.3	-
HCI (nominal)	-0.7	1.8	2.8	3.5	2.7	1.3	-0.8	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	-1.6
HCI (real)	-1.1	1.5	2.4	3.2	1.5	-0.6	-2.8	2.9	3.1	2.9	3.5	2.8	2.4	-0.8	-0.3	-0.4	-1.3	-1.9	-3.3	-3.3	-3.7
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	4.7	4.4	3.8	3.4	3.2	4.7	4.6	4.4	4.4	4.2	4.0	3.8	3.6	3.4	3.4	3.3	3.3	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	1.8	2.6	-	-	-	-	-
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	12.0	7.3	7.1	6.6	9.8	10.1	12.3	9.4	9.6	8.2	8.6	13.9	12.9	12.0	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-2.0	-3.3	-7.2	-8.2	-5.9	-2.0	-0.3	-3.3	-3.3	-9.4	-14.4	-7.2	-5.7	-7.5	-8.2	-7.5	-7.0	-5.9	-
Total residents' deposits in M3	3.8	8.0	5.9	8.0	7.0	6.5	10.0	5.9	6.0	5.3	8.0	7.2	8.0	7.0	7.4	6.3	6.5	11.0	10.4	10.0	-
Credit to general government	0.6	32.3	37.5	32.3	33.9	13.5	9.3	37.5	31.9	33.5	32.3	32.3	33.4	33.9	17.5	14.4	13.5	13.3	11.4	9.3	-
Credit to residents (excl. general government)	6.0	5.3	4.2	5.3	5.5	7.4	6.4	4.2	3.5	4.8	5.3	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	6.4	-
Total credit	4.8	10.9	11.0	10.9	11.6	8.9	7.1	11.0	9.3	10.6	10.9	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	7.1	-
10-year interest rate (%) ⁽³⁾	0.4	0.3	0.5	0.3	0.4	0.5	0.6	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	0.7
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	12.6	16.7	-8.3	3.0	-0.7	-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	-0.8
Liquidity support measures related to COVID-19																					
Outstanding loans subject to a moratorium ⁽⁵⁾	-	693.0	1,573.8	691.9	409.0	96.5	38.8	1,573.8	1,133.5	875.4	691.9	680.2	645.6	409.0	231.0	140.3	96.5	84.9	73.0	38.8	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	408.1	343.7	408.1	439.6	451.5	508.8	343.7	351.1	388.5	408.1	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	508.8	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	287.1	165.6	287.1	340.5	372.5	414.5	165.6	204.6	252.7	287.1	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	414.5	-
General government finances (% of GDP)																					
Surplus (+) / deficit (-) ⁽²⁾	0.5	-9.7	-7.0	-9.7	-10.0	-8.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.7	53.4	51.5	53.4	57.5	59.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.