



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA ECONOMIC UPDATE

11/2022

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The cut-off date for information in this note is 10 November 2022. However, the cut-off dates for the HICP and the RPI are 17 and 22 November 2022, respectively. Figures in tables may not add up due to rounding.

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Summary¹

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

The European Commission survey shows that in October, economic sentiment in Malta edged down from a month earlier, falling further below its long-term average, which is estimated since November 2002. When compared with September, sentiment improved in the retail sector but deteriorated in all the others, most notably in industry.

Additional survey information shows that price expectations increased across all other sectors compared to September.

In October, the European Commission's Economic Uncertainty Indicator (EUI) for Malta increased when compared with September. Uncertainty rose mostly in services and industry, with a smaller increase recorded in the construction sector.

In September, industrial production and retail trade increased at a faster pace in annual terms, compared to August. The unemployment rate stood at 3.0% in September, marginally higher than that registered in the previous month, but below that of a year earlier.

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

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 7.4% in October, unchanged from the previous month. Inflation based on the Retail Price Index (RPI) was also unchanged from the previous month, standing at 7.5% in October.

Maltese residents' deposits expanded at an annual rate of 8.4% in September, following an increase of 7.2% in the previous month, while annual growth in credit to Maltese residents stood at 8.8%, above the rate of 8.2% recorded a month earlier.

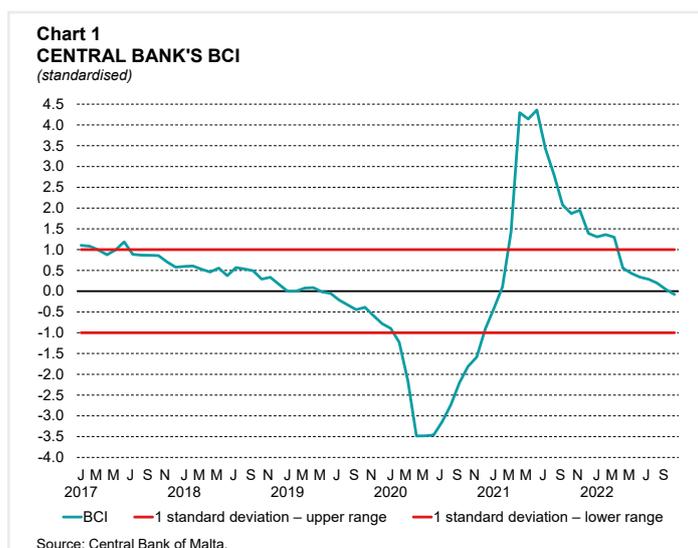
In September 2022, the deficit on the Consolidated Fund narrowed when compared with a year earlier, reflecting a rise in government revenue and a marginal decline in expenditure.

¹ The cut-off date for information in this note is 10 November 2022. However, the cut-off dates for the HICP and the RPI are 17 and 22 November 2022, respectively. Most of the data reported in this issue of the Economic Update refer to September 2022. However, the latest data for the European Commission's confidence and uncertainty indicators, HICP, RPI, and the Bank's BCI refer to October.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that annual growth in business activity has normalised from its record highs registered in the first half of 2021, as activity in most sectors is close to, or is exceeding pre-pandemic levels (see Chart 1). Among BCI components, tourist arrivals, industrial production, tax revenue and GDP experienced strong year-on-year growth. Moreover, the unemployment rate currently stands near historic lows.

On the other hand, other variables, notably the Economic Sentiment Indicator (ESI), declined from their year-ago levels. Overall, growth is now slightly lower than its historical average estimated since January 2000.



Business and consumer confidence indicators

In October, the European Commission's ESI for Malta stood further below its long-run average of around 100, which is estimated since November 2002. Sentiment edged down to 88.8, from 94.4 a month earlier. Following the latest decrease, Malta's ESI stood well below the euro area average of 92.5, and its level in October 2021 (see Table 1).^{3,4,5,6}

In month-on-month terms, sentiment fell strongly in industry, among consumers, and in the construction sector. It also decreased in the services sectors, albeit to a lesser extent. By contrast, sentiment improved significantly in the retail sector, albeit from a low level.

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

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the decline in the overall sentiment between September and

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

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

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

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

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

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2020		2021					2022						
			Oct.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.
ESI	82.6	105.0	108.3	94.8	101.8	117.5	108.0	103.6	103.5	102.4	100.0	97.9	94.4	88.8
<i>Industrial confidence indicator</i>	-24.2	2.1	6.2	-11.3	-4.2	25.1	1.4	-2.2	-14.8	-10.3	-14.3	-21.4	-11.4	-20.9
Assessment of order-book levels	-47.8	-28.2	-28.2	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6	-40.7	-38.3	0.1	-5.4
Assessment of stocks of finished products	26.6	-3.2	-2.7	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1	-8.3	29.6	50.0	51.9
Production expectations for the months ahead	1.9	31.3	44.2	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5	-10.6	3.7	15.5	-5.4
<i>Consumer confidence indicator</i>	-5.7	3.4	7.9	-0.1	-1.1	0.6	-2.6	2.0	0.0	-6.4	-10.2	-10.8	-9.6	-18.6
Financial situation past 12 months	-2.2	-8.8	-4.3	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0	-25.6	-27.3	-20.5	-30.9
Financial situation next 12 months	1.0	7.1	8.5	0.3	-0.9	-1.6	-2.9	-5.3	-11.1	-10.8	-16.3	-17.4	-15.1	-19.2
Economic situation next 12 months	0.4	18.6	23.7	4.0	3.4	10.9	-1.7	8.9	3.5	1.8	-6.0	-8.5	-10.9	-16.0
Major purchases next 12 months	-21.8	-3.4	3.6	5.3	4.1	6.1	3.0	12.6	21.5	4.3	7.1	10.0	7.9	-8.4
<i>Construction confidence indicator</i>	-4.5	7.3	29.1	5.1	9.8	5.2	3.4	15.1	18.1	15.1	5.2	8.7	5.9	-0.3
Evolution of your current overall order books	-4.9	1.4	29.8	-1.5	9.1	5.5	8.7	16.7	12.0	9.2	4.5	13.2	13.6	13.5
Employment expectations over the next 3 months	-4.1	13.2	28.5	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8	-14.1
<i>Services confidence indicator</i>	-23.2	13.6	12.6	-15.7	6.2	28.1	30.8	13.5	25.0	26.5	23.1	34.2	7.1	5.4
Business situation development over the past 3 months	-34.3	4.9	6.1	-13.7	-4.1	29.6	36.8	9.7	16.5	21.1	13.2	18.7	7.2	3.5
Evolution of the demand over the past 3 months	-33.6	10.7	8.3	-11.8	22.4	23.1	37.0	8.8	20.2	49.8	41.8	46.3	12.0	4.0
Expectation of the demand over the next 3 months	-1.7	25.3	23.3	-21.5	0.2	31.7	18.6	21.8	38.4	8.6	14.4	37.4	2.2	8.6
<i>Retail trade confidence indicator</i>	-30.2	-8.4	5.5	35.3	6.1	20.7	8.0	6.2	16.7	-2.9	0.7	-21.9	6.5	15.3
Business activity, past 3 months	-21.8	-13.6	-9.9	37.4	-17.6	18.7	13.0	17.5	43.1	16.2	30.5	-12.3	28.7	37.8
Stocks of finished goods	30.5	12.8	-6.3	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5	2.5	-2.4	-1.0	-0.4
Business activity, next 3 months	-38.4	1.2	20.1	32.6	0.1	26.4	9.9	4.7	4.7	-27.4	-25.8	-55.9	-10.2	7.6
EEl	87.0	104.1	110.0	99.6	105.2	78.0	113.6	105.0	117.6	117.0	113.7	116.7	99.5	112.6
Retail	-12.2	4.4	-1.2	2.1	1.0	3.9	17.7	4.9	4.1	2.1	34.3	6.3	-0.3	64.7
Services	-0.7	25.1	33.7	14.7	31.0	-48.9	53.1	19.3	44.5	52.8	32.2	55.9	18.8	29.9
Industry	-10.9	14.8	33.8	12.4	13.4	18.4	2.9	32.8	53.1	34.0	29.1	26.5	10.1	0.4
Construction	-4.1	13.2	28.5	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8	-14.1
EUI^(1,2)	-	21.3	15.8	36.9	25.1	32.6	27.8	20.6	35.2	33.0	24.5	28.5	21.3	38.3
Services	-	32.2	38.6	42.8	45.1	38.1	-1.3	1.9	26.5	17.2	0.1	24.8	1.5	39.3
Industry	-	21.0	4.5	51.4	20.8	44.9	59.1	35.1	55.3	49.3	37.8	31.0	33.3	51.1
Construction	-	30.1	41.9	12.8	5.5	15.7	27.4	20.2	7.0	37.2	22.4	12.1	17.1	19.1
Retail	-	48.8	53.1	60.8	59.0	40.7	56.4	52.8	45.9	48.5	59.7	54.8	54.8	54.4
Consumers	-	-3.5	-11.7	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1	26.1	26.8	19.7	12.2
ESI demeaned	-17.4	5.0	8.3	-5.2	1.8	17.5	8.0	3.6	3.5	2.4	0.0	-2.2	-5.6	-11.2
EEl demeaned	-12.6	4.5	10.6	0.0	5.7	-22.0	14.2	5.5	18.3	17.7	14.1	17.4	-0.1	12.7

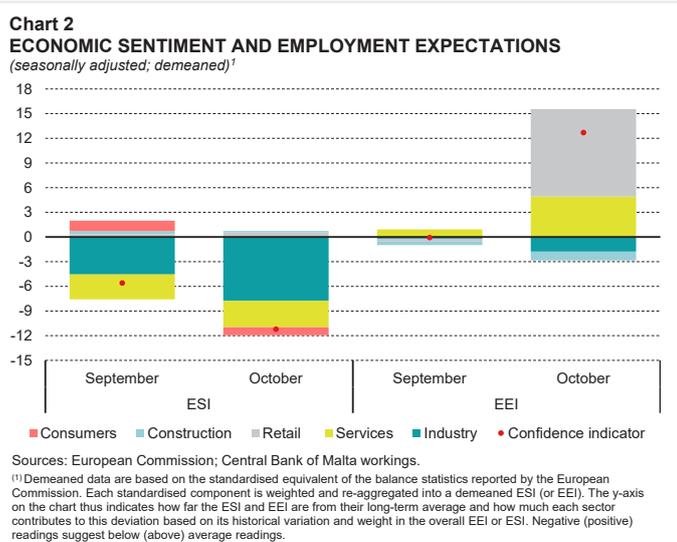
Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

October was largely driven by developments in industry and among consumers. The contribution of the latter turned negative in the month under review (see Chart 2). Demeaned data also suggest that industry and services largely explain why the ESI stood below its long-term average in October.

In October, sentiment in industry stood more negative compared to a month earlier. It averaged -20.9, down from -11.4 in September, thus standing further below its long-term average



of -4.1.⁷ The recent deterioration in sentiment reflected a negative assessment of production expectations for the months ahead. At the same time, in contrast to the previous month, when orders were deemed to be in line with normal levels, respondents assessed their order books to be weak. Furthermore, the share of respondents assessing their stocks of finished products to stand above normal levels edged up marginally.⁸

Consumer confidence worsened compared to September. It fell to -18.6, from -9.6 a month earlier, and stood below its long-term average of -10.2.⁹ The strong decline in sentiment was largely driven by expectations of major purchases for the coming months, which turned negative for the first time since June 2021, and a weaker assessment of the financial situation in the previous 12 months. Expectations about the financial situation as well as those of the general economic situation in 12 months ahead also became more negative.

The confidence indicator within the construction sector turned slightly negative in October. It stood at -0.3, down from 5.9 in September, due to more negative employment expectations, as the assessment of order book levels remained positive and broadly unchanged from September. Notwithstanding the latest decline, sentiment in the sector remained well above its long-term average of -8.9.¹⁰

The sentiment indicator for the services sector edged down to 5.4, from 7.1 in the previous month, and thus remained well below its long-term average of 19.1.¹¹ The latest decrease in confidence largely reflects a less positive assessment of demand, and of the business situation in recent months. By contrast, expectations of demand over the next three months improved.

The confidence reading in the retail sector more than doubled compared with September. It increased to 15.3, from 6.5 a month earlier, exceeding its long-term average of -0.8.¹² This was driven by a strong amelioration in retailers' expectations of business activity over the next three months, and their assessment of sales in recent months. On the other hand, the share of retailers assessing their stock levels to be below normal decreased slightly.

Additional survey information shows that, in month-on-month terms, all sectors registered higher selling price expectations. The largest increase was recorded among consumers (see Chart 3). Nonetheless differences across sectors remained significant – while the share of firms signalling price increases exceeded 70% and 85% in industry and in the retail sector, respectively, that in other sectors stood between 30% and 40%.

Price expectations stood above their year-ago level in all sectors, bar the services sector.

⁷ 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.

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

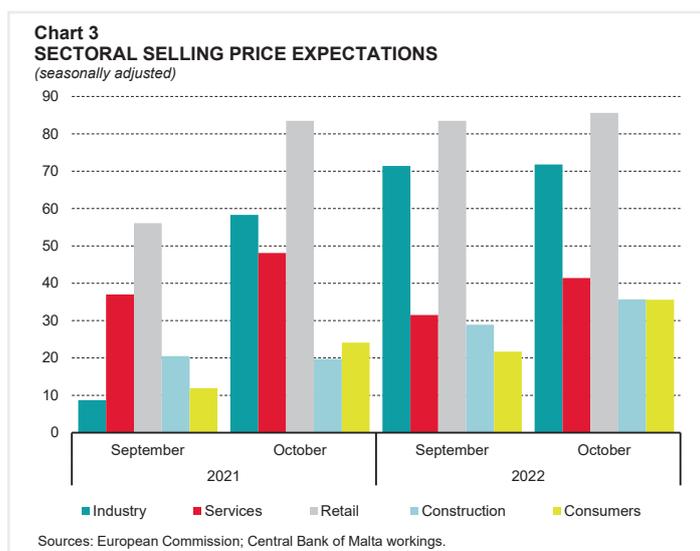
⁹ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

¹⁰ The 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.

¹¹ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

¹² The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – returned above its long-term average or around 100.0. It stood at 112.6 in October, up from 99.5 recorded a month earlier.¹³ The indicator also exceeded its year-ago level, and the euro area average of 104.9.



The increase in employment expectations since September reflected stronger expectations in the retail sector, and to a smaller extent, in services. By contrast, employment expectations edged down to just above zero in industry and stood more negative in the construction sector.

Demeaned data show that the retail and services sectors explain why the overall EEI stood above its long-term average in October (see Chart 2).

In October, the European Commission's EUI – which is a composite indicator of how difficult it is for sectors to make predictions about their future financial or business situation – edged up to 38.3, from 21.3 in September, signalling higher uncertainty (see Table 1). The uncertainty indicator stood above that of the euro area, where the index reached 30.8, and was more than double its level recorded in October 2021.^{14,15}

In month-on-month terms, the increase in Malta's uncertainty indicator was mainly driven by the services sector, although uncertainty in industry, and to a smaller extent, in the construction sector, also edged up. Uncertainty among retailers was broadly unchanged from the previous month, while it decreased among consumers.

When accounting for the variation in weights of each sector, the services sector accounted for most of the increase in uncertainty during October. Developments in industry explain most of the uncertainty recorded during October.

¹³ The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys, and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the 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.

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

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

Activity indicators

In 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 13.5%. This followed a rise of 11.1% in August (see Table 2).¹⁶

The recent increase in industrial production partly reflected a strong expansion in the output of firms that produce computer, electronic and optical products, as well as pharmaceutical products. Firms that repair and install machinery and equipment, and those that produce food products also saw significant increases in their output in annual terms. Other increases in production were registered among firms that produce chemical products, beverages, wearing apparel, and among those classified in the sector associated with the manufacture of motor vehicles, trailers and semi-trailers. By contrast, the production of textiles, rubber and plastic products as well as that of ‘other non-metallic mineral products’ decreased in annual terms.

Production in the energy sector rose by 9.7% on an annual basis, after increasing by 0.5% in the previous month.

In September, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 7.4% in year-on-year terms, after rising by 2.3% in August.

In September, tourism continued to recover. Tourist arrivals and guest nights were still below pre-pandemic levels, but tourist expenditure almost reached the level registered in September 2019, before the pandemic. The number of inbound tourists stood at 246,066, up from 159,304 a year

Table 2
ACTIVITY INDICATORS
Annual percentage changes

	2020	2021	2021		2022	
			Aug.	Sep.	Aug.	Sep.
Industrial production	-0.3	-0.3	-3.9	-3.5	11.1	13.5
Retail trade	-5.7	8.3	21.0	15.4	2.3	7.4
Number of tourist arrivals	-76.1	47.0	45.0	216.3	84.2	54.5
Number of nights stayed	-73.0	60.5	33.1	166.8	74.4	57.1
Rented accommodation	-76.8	73.8	47.9	225.8	78.3	60.6
Collective ⁽¹⁾	-76.5	74.3	75.7	263.4	57.0	30.2
Other rented ⁽²⁾	-77.3	72.9	13.4	162.8	119.1	130.9
Non-rented accommodation ⁽³⁾	-52.8	26.5	-7.0	53.5	57.8	43.2
Tourist expenditure	-79.5	91.3	79.0	277.9	86.9	68.5
Package expenditure	-84.5	108.7	126.7	478.4	74.1	62.5
Non-package expenditure	-79.6	89.4	69.3	281.7	106.4	82.1
Other	-75.9	85.4	68.3	212.2	76.0	60.0

Sources: National Statistics Office; Eurostat.

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

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

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

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

earlier. Nonetheless, it was still around 14.0% below the number of inbound tourists in September 2019. Guest nights rose markedly and were equivalent to almost 95% of those registered in September 2019. Total expenditure by tourists in Malta was also significantly higher than the level recorded in the corresponding period of 2021, and stood only 1.4% below pre-pandemic levels.

In September, 195 development permits for commercial buildings were issued, 32 less than the number of permits issued in the same month a year earlier (see Table 3). Meanwhile, 595 new residential permits were issued, 20 less than the number issued in September 2021.

Data on residential property transactions show that 1,404 final deeds of sale were concluded in October, 352 more than the number concluded a month earlier, and 21.3% more than a year earlier. At 1,199, the number of promise-of-sale agreements was 10.0% above that registered in October 2021, and 226 more than a month earlier.

Customs data show that the merchandise trade deficit stood at €284.5 million in September, up from €259.7 million a year earlier. The larger deficit was due to a €130.3 million rise in imports which more than offset a €105.5 million rise in exports (see Chart 4).

Higher imports were mainly on account of a substantial increase in the registration of sea vessels as well as higher imports of fuels and electrical machinery. An increase in imports of fish, machinery and mechanical appliances and precious stones and jewellery also contributed, though to a lesser extent. These offset lower imports of optical instruments, pharmaceutical products and organic chemicals.

The increase in exports was due to higher fuel re-exports,

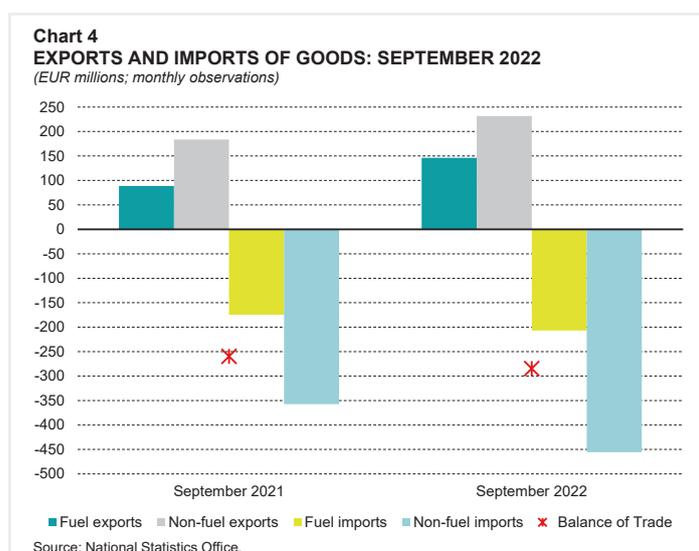


Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			Sep.	Oct.	Sep.	Oct.
Permits						
Commercial permits	2,687	2,770	227	293	195	-
Residential permits	7,837	7,578	615	450	595	-
Residential transactions						
Promise of sale	11,259	15,640	988	1,090	973	1,199
Final deeds of sale	11,057	14,368	1,040	1,157	1,052	1,404

Sources: National Statistics Office; Eurostat.

followed by higher electrical machinery exports. Exports of printed material, machinery and mechanical appliances and optical instruments also increased. These outweighed lower exports of pharmaceutical products and organic chemicals.

In the nine months to September, the visible trade gap widened to €3,755.4 million, from €2,291.2 a year earlier, as the increase in imports was almost four times the increase in exports. The increase in imports was in large part driven by higher imports of fuel, although an increase in aircraft and ship registrations as well as higher imports of electrical machinery also contributed.

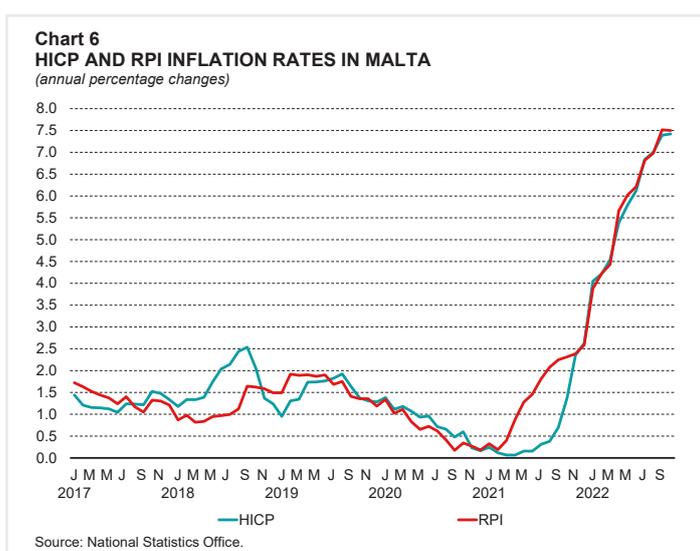
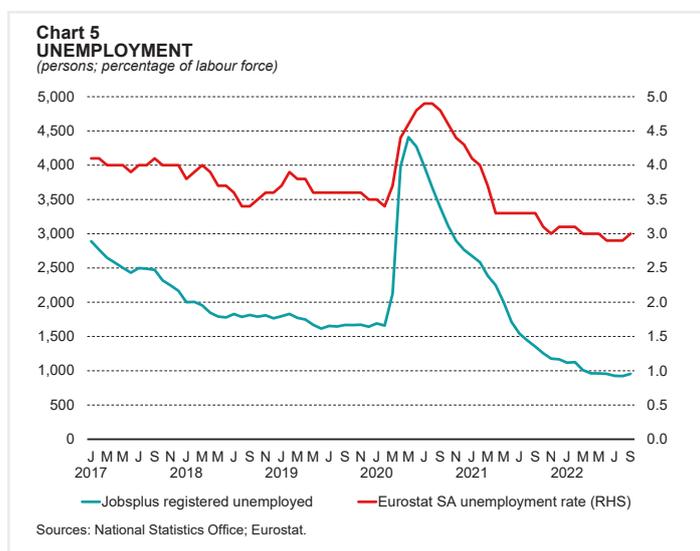
Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 955 in September 2022, up from 922 in August, but lower than 1,352 a year earlier – when the labour market was still impacted by pandemic-related restrictions (see Chart 5). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

The seasonally-adjusted unemployment rate stood at 3.0% in September 2022, marginally above the rate of 2.9% registered in the previous month. However, it was lower than the rate of 3.3% registered in September 2021.

Prices, costs and competitiveness

Annual HICP inflation was 7.4% in October, as in the previous month (see Chart 6). This is the first time since 2021 that the annual rate of inflation has not increased. Food inflation (including alcohol and tobacco) increased strongly, reaching 12.0% in October, up from 10.0% in September. This increase was mainly driven by unprocessed food inflation, which reached 14.4% from 8.7% in the previous month. On the other hand, services inflation declined by 0.7 percentage point to 6.7%. This was largely



driven by services related to transport, which in turn reflects the government measure to provide free public transport as from October 2022. NEIG inflation edged down by 0.1 percentage point to 6.5% in October, reflecting developments in the durable goods prices. As in recent months, energy prices remained unchanged reflecting government measures aimed at shielding such prices from foreign price pressures.

Annual inflation according to the RPI stood at 7.5% in October, broadly unchanged from September (see Chart 6).¹⁷ Inflation rose sharply in housing, reaching 19.0% in October. Similarly, food inflation reached 13.7%, from 11.8% in the previous month. Prices of beverages and tobacco as well as personal care and health also rose at a faster rate. On the other hand, prices of transport and communication rose at a slower pace, increasing by 2.8% in October, down from 5.5% in September. This is due to the abovementioned government measure to provide free public transport. Inflation of the recreation and culture sector as well as that of household equipment and house maintenance also edged down.

Producer output inflation, as measured by the industrial producer price index, stood at 4.4% in September, up from 3.7% in August.¹⁸ The pick-up largely reflects faster growth in the prices of intermediate goods. Producer prices of consumer goods also rose at a slightly faster pace when compared to August. By contrast, producer prices for capital goods rose at a slower pace. Similar to recent months, energy prices remained unchanged, having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.0% in the year to October 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.¹⁹ The real HCI, which also considers relative price changes, fell by 3.3% in annual terms in October, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

Public finance

During September 2022, the Consolidated Fund recorded a deficit of €108.9 million, a decrease of €32.8 million when compared to the deficit registered a year earlier (see Table 4). These developments reflect a rise in government revenue, coupled with a marginal fall in government expenditure. In turn, the primary balance registered a deficit of €95.0 million, a decrease of €32.7 million from the primary deficit registered in September 2021.

Government revenue increased by €31.0 million, or 8.1%, with a rise in tax inflows offsetting a drop in non-tax revenue. The latter decreased by €6.9 million, mainly on the back of lower dividends on investments. Meanwhile, indirect taxes increased by €10.7 million, largely due to an increase in VAT receipts and, to a lesser extent, a rise in inflows from licenses, taxes and fines.

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

¹⁸ The industrial producer price index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

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

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021		2022		Change	
	Jan.-Sep.	Jan.-Sep.	Sep.	Sep.	Amount	%
Revenue	3,374.1	3,795.0	380.5	411.5	31.0	8.1
Direct tax	1,862.4	2,098.3	231.9	259.1	27.2	11.7
Income tax	1,336.8	1,481.7	169.5	187.5	18.0	10.6
Social security contributions ⁽¹⁾	525.5	616.6	62.4	71.6	9.2	14.7
Indirect tax	1,180.0	1,372.2	102.3	113.1	10.7	10.5
Value Added Tax	718.7	902.9	53.7	60.2	6.4	12.0
Customs and excise duties	214.5	209.9	26.4	27.1	0.7	2.6
Licences, taxes and fines	246.8	259.4	22.2	25.8	3.6	16.2
Non-tax⁽²⁾	331.8	324.5	46.3	39.4	-6.9	-14.9
Expenditure	4,264.9	4,262.8	522.1	520.3	-1.8	-0.3
Recurrent	3,833.2	3,862.6	473.5	472.9	-0.6	-0.1
Personal emoluments	764.1	783.9	88.2	92.8	4.6	5.2
Operational and maintenance	190.4	174.6	18.1	19.8	1.7	9.3
Programmes and initiatives	2,254.5	2,262.0	302.7	270.7	-32.0	-10.6
Contributions to entities	487.1	516.0	50.5	75.7	25.2	49.9
Interest payments	137.1	126.2	13.9	13.8	-0.1	-1.0
Capital	431.7	400.2	48.6	47.4	-1.2	-2.4
Primary balance⁽³⁾	-753.7	-341.7	-127.7	-95.0	32.7	-
Consolidated Fund balance	-890.7	-467.8	-141.7	-108.9	32.8	-

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.

Revenue from direct taxes rose by €27.2 million due to increases in both income taxes and social security contributions. The rise in the former is mainly driven by higher revenue from income taxes paid by households, which outpaced a smaller rise in those paid by companies.

Government expenditure decreased by €1.8 million, or 0.3%, when compared to the corresponding period in 2021. This is due to small decrease in both recurrent and capital expenditure. The latter decreased by €1.2 million, partly reflecting lower expenditure on road construction and maintenance.

Meanwhile, recurrent expenditure decreased by €0.6 million, largely on the back of lower expenditure on programmes and initiatives, which decreased by €32.0 million. This reflects lower outlays on pandemic assistance measures and the timing of transfers to the EU budget and tax refunds to households. This was partly offset by higher contributions to government entities, which rose by €25.2 million. The month under review also featured increased outlays on personal emoluments and operational and maintenance expenses. These increased by €4.6 million and €1.7 million, respectively.

In September 2022, the total stock of outstanding government debt amounted to €8,516.6 million, a decline of €42.4 million when compared with August 2022 (see Chart 7). This decrease

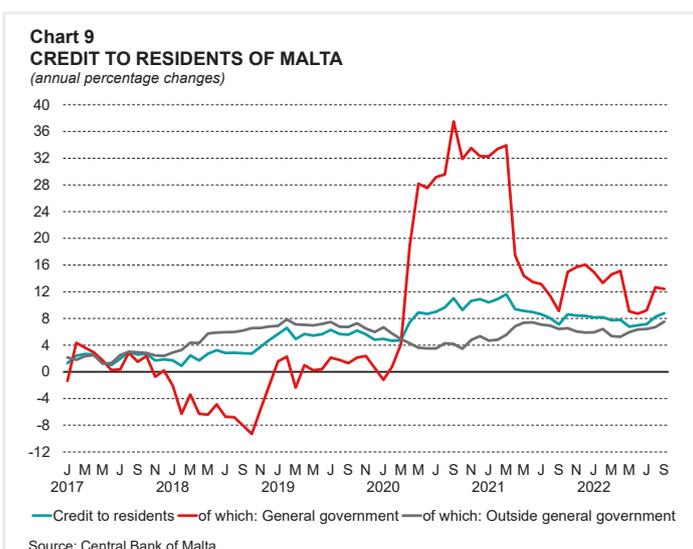
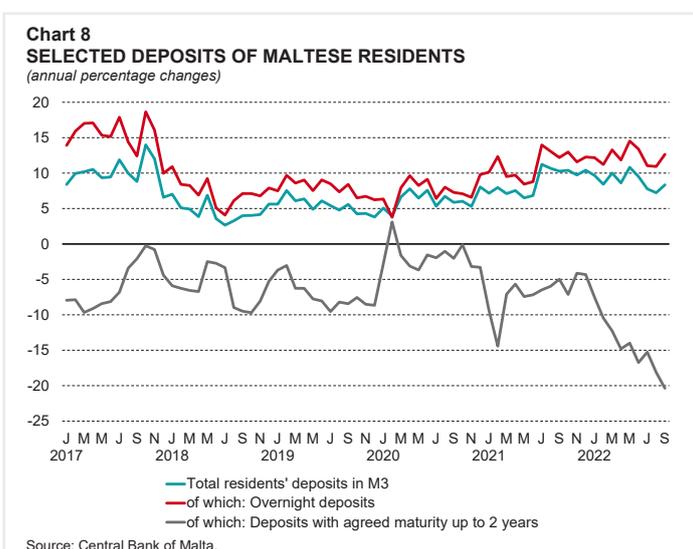
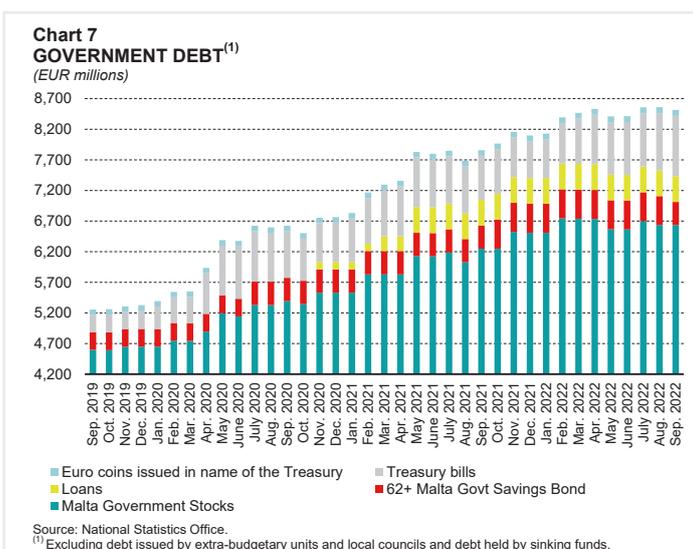
was mainly attributable to the redemption of a tranche of 62+ Malta Government Savings Bonds.

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 8.4%, up from 7.2% a month earlier (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 91% of their M3 balances. This deposit category – which is the most liquid – grew by 12.7% in the year to September, above the 10.9% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 20.4% in annual terms, following a contraction of 18.1% in the year to August. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

Credit to Maltese residents grew at an annual rate of 8.8% in September, above the 8.2% recorded a month earlier (see Chart 9). This acceleration was driven by a larger increase in credit to residents outside general government. Annual growth in this component stood at 7.5%, up from 6.7% in August. Growth in credit to



general government remained strong but rose at a slightly slower rate of 12.4%, following a 12.7% increase in August.

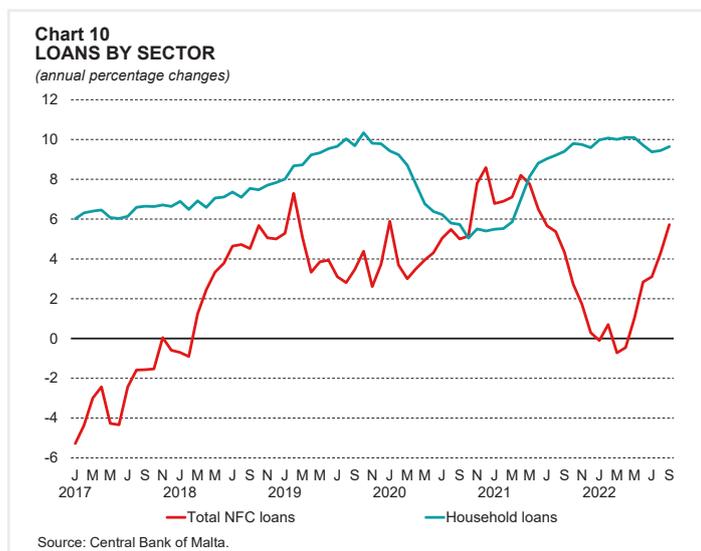
The annual rate of change of loans to households reached 9.6% in September, from 9.4% in the previous month. Growth in mortgage lending stood at 10.5%, marginally above the 10.4% recorded in the year to August. At the same time, consumer credit and other lending fell at a slower rate of 0.6%, following a contraction of 1.1% a month earlier.

Meanwhile, the annual rate of change of loans to non-financial corporations edged up to 5.7% in September, from 4.3% in August (see Chart 10). The acceleration in growth was largely driven by faster growth in loans to the wholesale and retail trade sector. Loans to the real estate sector and the transportation and storage sector also increased at a faster pace in the year to September. Additionally, loans to the energy sector and accommodation, and food services sector declined at a slower pace. By contrast, loans to the manufacturing sector rose at a slower pace, while loans to the construction sector contracted at a faster pace.

By end-September, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.²⁰ The number and value of facilities approved and still outstanding was unchanged from the previous month. Overall, €470.2 million were disbursed, up slightly from the €469.7 million disbursed by the end of August.

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

In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-September, three facilities were approved, with total sanctioned



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

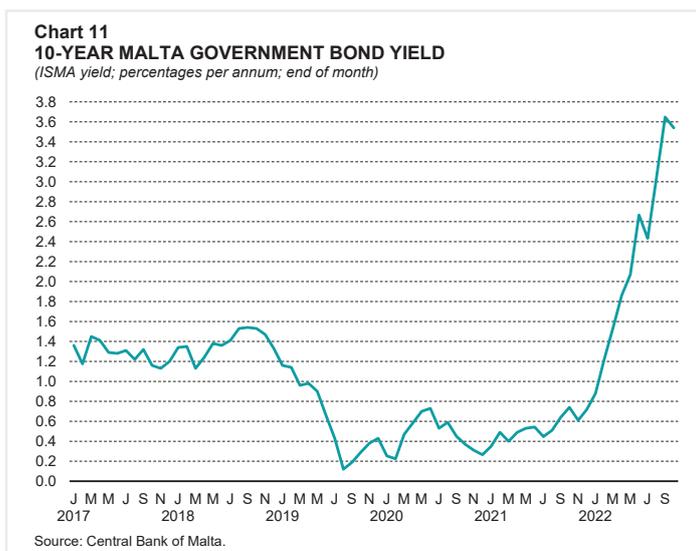
lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €12.2 million.

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

As regards interest rates, in September, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits eased to 0.14%, compared with 0.15% in August. Meanwhile, the composite rate charged on outstanding loans edged up by 3 basis points to 3.23% in September. As a result, the spread between the two rates widened slightly, standing at 309 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds eased to 3.54% at the end of October, 11 basis points less than at the end of September. Nonetheless it remained elevated compared to its year-ago level, exceeding it by 280 basis points (see Chart 11). This reflects the recent increases in ECB policy rates and expectations of further monetary policy normalisation in light of continued increases in inflation.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index increased by 0.9% when compared with September. Similar movements were observed in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



MACROECONOMIC INDICATORS FOR MALTA																														
Annual percentage changes; non-seasonally adjusted data																														
	2019	2020	2021	2021	2021	2022	2022	2022	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	2022	2022	2022	2022				
				Q3	Q4	Q1	Q2	Q3	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July			
Prices and costs																														
HICP inflation	1.5	0.8	0.7	0.5	2.1	4.3	5.8	7.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7	1.4	2.4	2.6	4.1	4.2	4.5	5.4	5.8	6.1	6.8	7.0	7.4	7.4
RPI inflation	1.6	0.6	1.5	2.0	2.4	4.2	6.0	7.1	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2	2.3	2.4	2.6	3.9	4.2	4.4	5.7	6.0	6.2	6.8	7.0	7.5	7.5
Industrial producer price inflation	2.2	0.3	3.2	3.8	6.5	7.0	5.3	4.4	0.9	0.5	1.1	1.2	1.8	2.3	1.4	4.4	5.6	5.7	6.3	7.5	7.2	6.7	7.0	5.7	5.3	4.9	5.0	3.7	4.4	-
HCI (nominal)	-0.7	1.8	0.4	-0.8	-1.7	-1.3	-2.2	-2.4	3.8	3.6	0.8	1.6	1.7	0.7	-0.1	-1.2	-1.2	-1.6	-1.6	-1.9	-1.7	-1.0	-1.1	-2.3	-2.4	-1.8	-2.5	-2.6	-2.1	-1.0
HCI (real)	-1.1	1.5	-1.9	-3.2	-4.5	-3.3	-4.8	-4.8	2.4	2.1	-1.2	-0.6	-0.8	-1.7	-2.3	-3.7	-3.7	-4.3	-4.4	-4.7	-3.2	-2.8	-3.7	-4.9	-5.0	-4.6	-4.9	-5.0	-4.6	-3.3
Unit labour costs, whole economy ⁽¹⁾	3.5	11.4	-2.3	0.6	-2.3	-4.0	-2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.8	-0.8	4.9	4.1	4.9	3.7	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	0.2	-10.9	7.4	3.3	7.4	8.0	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	5.1	5.9	4.5	6.8	7.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																														
Nominal GDP	8.4	-6.9	12.3	16.3	14.4	11.8	14.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.3	10.3	14.0	11.7	8.1	8.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.6	-10.2	7.1	8.7	9.0	10.5	12.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	13.1	15.7	6.7	4.8	4.6	-2.1	12.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-7.7	17.3	29.4	26.3	5.2	-12.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	7.0	-3.8	9.0	10.7	11.3	10.4	6.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.9	-0.2	8.0	8.7	11.4	9.0	3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																														
LFS unemployment rate (% of labour force)	3.6	4.4	3.4	3.3	3.0	2.9	2.9	2.9	4.0	3.9	3.7	3.4	3.4	3.4	3.3	3.4	3.3	3.1	3.0	3.0	2.9	3.0	2.9	2.9	3.0	2.9	2.9	2.9	3.0	-
LFS employment	6.6	2.6	3.2	4.2	5.6	5.0	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	6.6	4.2	2.7	3.6	3.9	5.1	-	-	0.7	0.4	1.1	2.0	2.8	3.1	3.2	3.6	3.8	3.6	3.9	4.2	4.6	5.3	5.3	5.2	5.4	-	-	-	-	-
Balance of payments																														
Current account (as a % of GDP) ⁽²⁾	5.0	-2.9	-4.6	-3.4	-4.6	-4.8	-4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																														
Maltese residents' deposits and loans																														
Overnight deposits	6.2	9.8	12.3	12.2	12.3	13.3	13.4	12.7	10.1	12.3	9.5	9.7	8.4	8.8	14.0	13.1	12.2	13.0	11.6	12.3	12.2	11.2	13.3	11.8	14.5	13.4	11.0	10.9	12.7	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-5.0	-4.3	-12.3	-16.7	-20.4	-9.4	-14.4	-7.1	-5.7	-7.4	-7.2	-6.5	-6.0	-5.0	-7.1	-4.1	-4.3	-7.5	-10.5	-12.3	-14.8	-14.0	-16.7	-15.3	-18.1	-20.4	-
Total residents' deposits in M3	3.8	8.0	10.4	10.3	10.4	10.0	9.5	8.4	7.2	8.0	7.1	7.5	6.5	6.8	11.2	10.7	10.3	10.4	9.7	10.4	9.7	8.4	10.0	8.6	10.8	9.5	7.8	7.2	8.4	-
Credit to general government	0.6	32.3	16.1	9.1	16.1	14.6	8.7	12.4	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.1	15.0	15.7	16.1	14.9	13.3	14.6	15.1	9.1	8.7	9.2	12.7	12.4	-
Credit to residents (excl. general government)	6.0	5.3	5.9	6.4	5.9	5.3	6.3	7.5	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	6.4	6.5	6.0	5.9	5.9	6.4	5.3	5.2	5.9	6.3	6.4	6.7	7.5	-
Total credit	4.8	10.9	8.4	7.1	8.4	7.7	7.0	8.8	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	7.1	8.6	8.4	8.4	8.1	8.2	7.7	7.8	6.8	7.0	7.2	8.2	8.8	-
10-year interest rate (%) ⁽³⁾	0.4	0.3	0.7	0.6	0.7	1.5	2.7	3.6	0.4	0.5	0.4	0.5	0.5	0.4	0.5	0.6	0.7	0.6	0.7	0.9	1.2	1.5	1.9	2.1	2.7	2.4	3.0	3.6	3.5	-
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	-4.5	-0.7	1.8	-8.2	1.1	-0.7	-2.4	-4.8	-1.3	6.2	-1.8	-1.3	-1.8	1.5	-0.4	-0.8	-2.3	5.0	-4.8	-2.1	-1.5	2.5	-0.3	-1.1	0.4	-1.6	0.5	0.9
Liquidity support measures related to COVID-19																														
Outstanding loans subject to a moratorium ⁽⁵⁾	-	691.9	14.1	36.4	14.1	-	-	-	680.7	645.6	411.7	234.4	144.2	99.6	87.0	75.1	36.4	28.6	25.4	14.1	0.0	-	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS ⁽⁶⁾	-	408.1	505.9	508.8	505.9	489.3	482.6	482.6	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	508.8	508.6	507.3	505.9	505.5	497.8	489.3	489.1	486.6	482.6	482.6	482.6	482.6	-
Disbursed amount under the MDB CGS ⁽⁶⁾	-	287.1	453.0	414.5	453.0	459.6	468.9	470.2	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	414.5	434.9	441.9	453.0	457.4	459.6	465.5	467.4	466.4	468.9	469.5	469.7	470.2	-
General government finances (% of GDP)																														
Surplus (+) / deficit (-) ⁽²⁾	0.6	-9.4	-7.8	-7.9	-7.8	-7.8	-6.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.7	53.3	56.3	56.2	56.3	57.4	55.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

⁽¹⁾ 4-quarter moving averages.⁽²⁾ 4-quarter moving sums.⁽³⁾ End of period.⁽⁴⁾ Period-on-period percentage changes, based on end-of-month data.⁽⁵⁾ Stock in EUR millions.⁽⁶⁾ GDP data are 4-quarter moving sums.