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Economic Update
12/2020

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ECONOMIC UPDATE 12/2020

Summary[1]

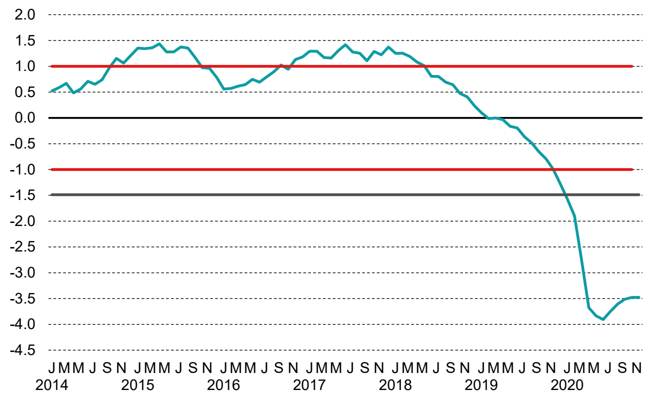
In November, the Central Bank of Malta's Business Conditions Index (BCI) was unchanged when compared with the previous month. The stabilisation in the index suggests that the pace of recovery in economic activity has slowed down. Although recent readings are higher than the estimates for May and June, the Index continues to signal low levels of economic activity reflecting the weak economic conditions triggered by COVID-19. Similarly, the European Commission's Economic Sentiment Indicator (ESI) deteriorated in November when compared with the previous month. Confidence fell sharply in industry and, to a more limited extent, in the services sector and among consumers. These developments offset improved sentiment in the construction sector and among retailers. Sentiment remained negative in all sectors, bar the construction sector, which turned positive for the first time since the start of the pandemic.

In October, industrial production rose marginally after having contracted for six consecutive months, while the volume of retail trade fell at a slower pace in annual terms. The number of registered unemployed fell when compared with a month earlier. Meanwhile, the unemployment rate was unchanged compared with September and remained low from a historical perspective. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged up marginally to 0.6% in October, from 0.5% in September. Similarly, inflation based on the Retail Price Index (RPI) rose to 0.3% from 0.2% over the same period. Maltese residents' deposits grew at an annual rate of 6.0% over the year to October, while annual growth in credit to Maltese residents eased to 9.5%. In October, the deficit on the cash-based Consolidated Fund widened when compared with a year earlier, as primary government expenditure more than offset an increase in government revenue.

Central Bank's BCI[2]

In November, the Bank's BCI stood at -3.5 – unchanged from an updated value for October (see Chart 1). The BCI continued to signal low levels of economic activity, reflecting the continued weak economic environment triggered by COVID-19, although recent readings are higher than the

Chart 1
BCI
(standardised)



Source: Central Bank of Malta.

1 The cut-off date for information in this note is 10 December 2020. Most of the data reported in this issue of the *Economic Update* refer to October 2020 and reflect the resurgence of COVID-19 cases and the introduction of additional containment measures. Data for the BCI and the ESI are for November 2020. Tourism data for April, May and June were not collected by the National Statistics Office (NSO) as airports and ports were closed in those months. Inbound tourism data for July were collected and published as the airport and seaport were reopened. With effect from 22 August, an amber list was added to the red and green travel lists, requiring tourists arriving from countries on this list to present a negative COVID-19 test result before boarding.

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.

readings seen in May and June. However, the improvement in the index has stalled in the last three months, which suggests that the pace of recovery in economic activity has been adversely affected by the re-introduction of some containment measures. Indeed, the index was adversely affected by lower economic sentiment, which offset a decline in the unemployment rate during the last few months. Overall business conditions were also worse than those observed during 2009, indicating the severity of the pandemic relative to the Global Financial Crisis.

Business and consumer confidence indicators

In November, the European Commission's ESI fell to 68.3, from 77.7 in October (see Table 1). Following this decline, sentiment stood below the 104.0 recorded a year earlier and its long-run average.[3,4] The ESI also stood 19.3 points lower than that in the euro area.

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

Table 1
BUSINESS AND CONSUMER SURVEYS
Balances; percentage points; seasonally adjusted

	2018	2019	2020										
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
ESI	**112.4**	**100.7**	**99.9**	**93.9**	**87.5**	**52.1**	**56.6**	**56.5**	**63.4**	**75.0**	**83.9**	**77.7**	**68.3**
Industrial confidence indicator	**6.9**	**-6.7**	**-1.1**	**-15.5**	**-19.2**	**-45.4**	**-40.2**	**-42.2**	**-35.6**	**-24.0**	**-13.2**	**-10.3**	**-30.0**
Assessment of order-book levels	-1.5	-23.0	-19.1	-20.2	-14.7	-56.1	-76.0	-76.9	-73.2	-74.1	-47.0	-40.0	-50.2
Assessment of stocks of finished products	5.8	15.5	20.0	33.2	13.3	32.5	34.4	31.4	40.4	20.1	16.4	21.6	40.4
Production expectations for the months ahead	27.9	18.4	35.8	6.9	-29.7	-47.6	-10.2	-18.3	6.8	22.3	23.7	30.7	0.7
Services confidence indicator	**34.6**	**20.7**	**7.9**	**11.4**	**0.4**	**-56.8**	**-53.5**	**-57.3**	**-41.1**	**-18.7**	**-3.5**	**-32.3**	**-38.8**
Business situation development over the past 3 months	30.7	16.7	-3.8	4.6	-0.3	-59.8	-66.3	-77.4	-68.9	-32.4	-2.4	-37.4	-61.3
Evolution of the demand over the past 3 months	35.8	21.5	3.8	7.9	11.4	-56.3	-66.0	-78.2	-60.2	-40.2	-0.1	-47.0	-58.6
Expectation of the demand over the next 3 months	37.2	24.0	23.8	21.7	-9.9	-54.1	-28.3	-16.3	5.7	16.4	-7.9	-12.5	3.5
Consumer confidence indicator	**10.1**	**4.5**	**8.4**	**7.9**	**0.1**	**-15.8**	**-11.3**	**-6.9**	**-3.3**	**-12.9**	**-9.1**	**-9.4**	**-10.7**
Financial situation past 12 months	16.9	11.3	13.4	11.6	13.8	6.2	0.8	0.8	-2.7	-10.6	-10.4	-13.9	-12.3
Financial situation next 12 months	17.5	11.2	13.1	10.7	5.1	-14.5	-5.7	-2.1	6.1	-5.6	-2.6	0.5	-0.7
Economic situation next 12 months	28.9	20.9	18.0	19.8	-3.0	-36.6	-17.7	-3.9	13.9	-10.6	-2.1	-2.4	-4.5
Major purchases next 12 months	-22.6	-25.1	-10.9	-10.4	-15.5	-18.4	-22.5	-22.4	-30.5	-24.7	-21.5	-21.8	-25.5
Construction confidence indicator	**21.3**	**26.2**	**7.9**	**8.3**	**14.3**	**-38.9**	**-20.3**	**-19.9**	**-5.9**	**-12.7**	**-3.0**	**-4.9**	**11.4**
Evolution of your current overall order books	16.9	19.7	4.5	2.0	2.1	-38.1	-13.0	-18.8	-5.0	-12.4	8.0	-8.8	12.7
Employment expectations over the next 3 months	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0	-0.9	10.0
Retail trade confidence indicator	**8.2**	**4.2**	**0.0**	**-0.4**	**-22.3**	**-31.7**	**-43.2**	**-30.1**	**-53.6**	**-49.9**	**-63.7**	**-42.7**	**-19.9**
Business activity, past 3 months	15.4	18.9	3.0	4.8	5.8	12.4	-21.1	-28.1	-49.2	-52.5	-67.6	-54.7	-28.5
Stocks of finished goods	7.7	17.4	7.2	10.0	9.7	65.6	53.0	54.8	46.3	50.6	52.6	24.4	4.2
Business activity, next 3 months	17.0	11.1	4.1	4.1	-63.1	-42.0	-55.5	-7.4	-65.3	-46.6	-70.8	-49.2	-27.0
EEI	**114.1**	**101.2**	**100.2**	**102.7**	**90.0**	**56.2**	**71.8**	**71.0**	**72.3**	**80.4**	**79.7**	**85.4**	**80.6**
Industry	31.1	12.8	16.5	7.0	-16.7	-61.2	-18.9	-40.3	-34.9	-26.0	2.8	17.8	-3.5
Services	33.9	17.5	6.7	21.6	11.8	-33.0	-16.6	-16.8	-7.1	1.9	-5.0	1.9	-2.1
Retail	15.4	4.7	25.2	11.9	-8.6	-14.2	-15.5	-3.3	-25.6	-13.2	-25.3	-29.9	-28.6
Construction	25.7	32.6	11.3	14.5	26.5	-39.6	-27.6	-21.1	-6.9	-13.0	-14.0	-0.9	10.0
ESI demeaned	**12.4**	**0.7**	**-0.1**	**-6.1**	**-12.5**	**-47.9**	**-43.4**	**-43.5**	**-36.6**	**-25.0**	**-16.1**	**-22.3**	**-31.7**
EEI demeaned	**14.3**	**1.0**	**0.0**	**2.1**	**-11.1**	**-46.0**	**-28.7**	**-30.8**	**-28.9**	**-20.7**	**-19.8**	**-13.5**	**-19.3**

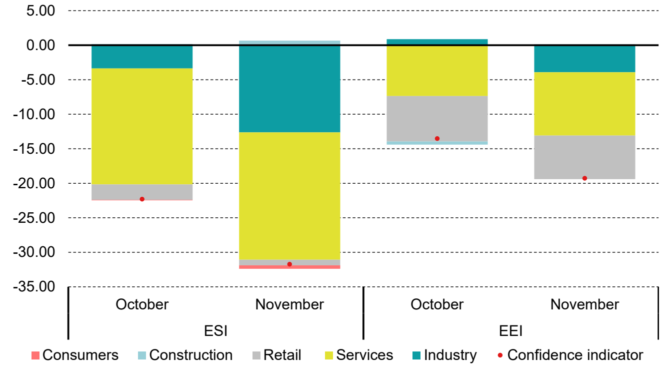
Source: European Commission.

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

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

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the deterioration in overall sentiment in November was driven primarily by the deterioration in industrial confidence and, to a lesser degree, by declines in the services sector and consumer confidence (see Chart 2). By contrast, the contribution of retail sector was less negative than a month earlier, while that of the construction sector rose.

Chart 2
ESI and EEI
(seasonally adjusted; demeaned)[1]



Sources: European Commission; Central Bank of Malta workings.

(1) Demeaned data are based on the standardised equivalent of the balance statistics reported by the European Commission Each standardised component is weighted and re-aggregated into a demeaned ESI (or EEI). The y-axis on the chart thus indicates how far the ESI and EEI are from their long-term average and how much each sector contributes to this deviation based on its historical variation and weight in the overall EEI or ESI. Negative (positive) readings suggest below (above) average readings.

In November, industrial confidence fell to -30.0, from -10.3 a month earlier.[5] This represents the first drop in confidence in this sector since the gradual and sustained recovery since June. Following this decline, sentiment stood further below its long-term average of -4.3. The recent decline in sentiment was mainly driven by firms' production expectations. These declined sharply in November, and have reached their lowest levels since June. On balance, a larger share of participants reported above normal stock levels relative to October, and order book levels worsened. Supplementary data show that a larger share of respondents anticipated a fall in selling prices in the coming months.

Sentiment within the services sector decreased to -38.8, from -32.3 in October, and thus remained below its long-term average of 19.6.[6] The fall in sentiment was largely driven by respondents' assessment of the business situation and, to a lesser extent, of demand over the past three months. This reflects the impact of the re-introduction of some containment measures on selected services industries. By contrast, participants' expectations of demand turned slightly positive in the month under review, following two consecutive months of declines, possibly reflecting some renewed optimism surrounding the discovery of a vaccine. Additional survey data show that, on balance, the share of firms anticipating prices to fall in the months ahead edged up when compared with October.

Consumer confidence eased slightly in November. It stood at -10.7, marginally below the -9.4 recorded in October, yet still above its long-term average of -11.2.[7] Lower sentiment largely reflected a weaker assessment of major purchases over the next 12 months. On balance, consumers' expectations of the general economic situation and their assessment of the financial situation over the same period also worsened. Meanwhile, their assessment of the financial situation

[5] 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.

[6] 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.

[7] 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.

over the last 12 months improved but remained negative. Supplementary data show that price expectations were less negative in November. At the same time, the share of respondents anticipating unemployment to rise in the coming months decreased.

By contrast, confidence in the construction sector turned positive in November. It increased to 11.4, from -4.9 in October, standing further above its long-term average of -11.4.[8] This is the first positive reading since the beginning of the pandemic in April. Improved sentiment was due to increasing orders, and an improvement in employment expectations, which has turned positive. Additional survey data indicate that price expectations were also positive in the month under review.

Similarly, confidence within the retail sector rose to -19.9 in November, from -42.7 in the previous month.[9] In the month under review, retailers' assessment about sales over previous months and their expectations of business activity over the next three months improved. At the same time, the share of respondents reporting above normal stock levels relative to October declined sharply.[10] Meanwhile, supplementary data indicate that price expectations were marginally less positive in November.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged down in November.[11] The EEI fell to 80.6, from 85.4 in October, and thus the indicator remained below its long-run average of around 100.0. Moreover, in November, Malta's EEI stood 6.0 points below the euro area average.

The decrease relative to October was largely driven by industry and, to a lesser degree, by the services sector. In both these sectors, employment expectations turned negative in November, following positive readings in October. Meanwhile, employment expectations improved among retailers and in the construction sector, and turned positive in the latter. The evolution of employment expectations in industry and in the services sector largely explains why the overall EEI has remained below its long-term average in November, though expectations in the retail sector were also below the long-term average. By contrast, sentiment in the construction sector rose above its long-term average in the month under review (see Chart 2).

Activity indicators

In October, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – turned positive for the first time after

[8] 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.

[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 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*.

six consecutive decreases. The index rose by 1.0% in annual terms, following a contraction of 1.1% in September (see Table 2).[12]

The latest annual increase largely reflects a rise in the output of firms in the pharmaceutical and food industries. Firms within the motor vehicles, trailers and semi-trailers sector also contributed significantly to the increase, and to a lesser extent rubber and plastic products. During this month, there was also higher production in firms specialising in textiles, ‘other manufacturing’ goods – which includes firms involved in the production of medical and dental instruments – toys and related products, as well as in wearing apparel. On the other hand, production declined among firms engaged in the repair and installation of machinery and equipment, as well as in those producing beverages. Smaller declines were registered in the printing and reproduction of recorded media as well as among firms specialising in computer, electronic and optical products.

Meanwhile, production in the energy sector fell on a year earlier, following an annual increase in the previous month.

In October, development permits for commercial buildings declined by 23.3% in annual terms, following an increase in the previous month. Moreover, residential permits in October contracted by 31.1% in annual terms, a slower decline than the 61.5% contraction registered in September.

The volume of retail trade, which is a short-term indicator of final domestic demand, contracted for the eighth consecutive month, with October’s fall slightly lower than that recorded in the previous month (7.2% vis-à-vis 11.5% in September).

Table 2
ACTIVITY INDICATORS
Annual percentage changes

	2018	2019	2019				2020									
			Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.(1)	Apr.(2)	May(2)	June(2)	July(3)	Aug.	Sep.	Oct.
Industrial production	1.3	1.2	3.9	1.6	-2.9	9.5	12.0	13.2	6.0	-7.4	-6.8	-6.8	-2.0	-2.7	-1.1	1.0
Commercial permits	14.5	-2.4	-10.8	-7.4	-12.8	-8.1	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2	-9.8	-45.6	6.7	-23.3
Residential permits	43.1	-3.1	11.0	-6.5	12.3	34.4	22.2	-23.3	-19.6	-73.3	-53.6	-60.2	-8.1	27.0	-61.5	-31.1
Retail trade	1.9	7.0	8.8	6.0	7.2	7.1	5.2	8.9	-4.2	-23.8	-16.3	-7.6	-11.1	-7.4	-11.5	-7.2
Number of tourist arrivals	14.3	5.9	5.5	6.2	9.1	19.3	16.8	16.5	-56.5	-	-	-	-84.0	-66.0	-82.4	-83.4
Number of nights stayed	12.5	4.1	2.1	6.5	9.0	15.1	3.5	10.1	-60.2	-	-	-	-75.3	-62.6	-77.4	-78.6
Rented accommodation	10.7	4.6	2.8	12.1	9.6	13.9	7.7	11.1	-62.2	-	-	-	-84.3	-67.4	-81.8	-82.5
Collective(4)	7.1	-0.1	4.5	4.2	2.9	9.9	11.0	14.9	-61.7	-	-	-	-85.4	-66.9	-81.2	-81.9
Other rented(5)	18.0	13.5	0.3	28.5	26.6	19.7	1.0	3.1	-63.5	-	-	-	-82.7	-67.9	-82.9	-83.5
Non-rented accommodation(6)	22.7	1.6	-3.8	-19.8	6.3	20.8	-8.3	3.9	-47.7	-	-	-	-31.4	-38.3	-57.1	-53.3
Tourist expenditure	8.0	5.7	5.9	7.1	10.3	25.4	11.2	22.0	-62.6	-	-	-	-88.1	-71.3	-84.5	-84.5
Package expenditure	16.6	-8.2	-1.8	-6.2	4.9	7.9	-7.8	25.8	-69.8	-	-	-	-93.5	-79.5	-90.5	-89.8
Non-package expenditure	13.3	17.1	18.4	14.8	13.5	41.3	33.1	22.8	-58.8	-	-	-	-88.7	-71.5	-86.0	-85.1
Other	-2.2	5.9	-0.1	11.1	10.8	22.0	4.7	19.1	-60.2	-	-	-	-83.7	-65.3	-78.7	-79.8

Sources: National Statistics Office; Eurostat.

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

(2) 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.

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

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

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

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

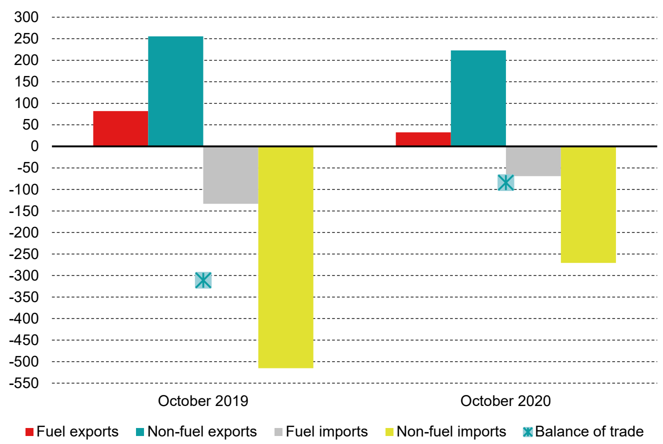
12 The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

Similar to the developments in previous months, the tourism sector in October continued to be severely affected by travel-related restrictions. The number of inbound tourists fell to 46,914, representing an 83.4% drop over the corresponding period in the previous year. Similarly, guest nights declined by 78.6%, with the largest decline in absolute terms registered in collective accommodation. Hence, total expenditure fell by 84.5% in annual terms, which is the same rate of decline as that recorded in the previous month. In turn, expenditure per capita declined to €764.3, from the €819.5 recorded a year earlier.

Customs data show that the merchandise trade deficit stood at €84.2 million in October, down from €311.1 million a year earlier. The smaller deficit reflected a €308.6 million fall in imports, which offset a €81.7 million decline in exports (see Chart 3). Lower imports continued to be observed across most categories. However, the fall in imports mostly reflected substantial declines in registrations of aircraft and sea vessels and a significantly lower fuel import bill. Lower imports of organic chemicals, vehicles and parts, machinery and mechanical appliances, electrical machinery and fish also contributed. The decline in exports was mostly on account of lower re-exports of mineral fuels and related products and, to a lesser extent, lower exports of machinery and mechanical appliances, organic chemicals, aircraft parts, electrical machinery, and toys and related products. Together these more than offset a rise in exports of fish, printed material, and optical and related instruments.

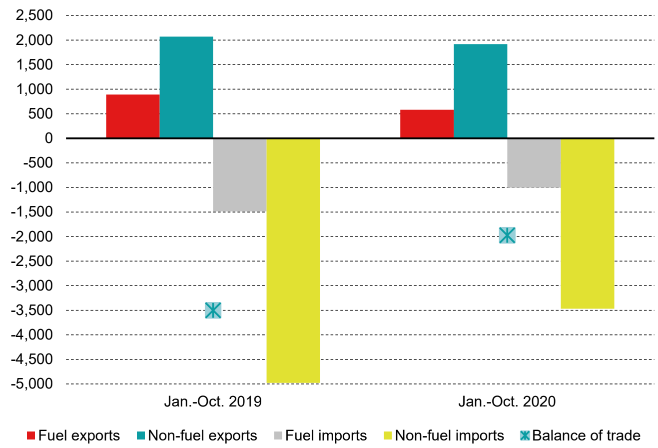
In the ten months to October, the visible trade gap narrowed to €1,974.0 million from €3,503.1 million in the corresponding period of 2019, driven by a sharp fall in imports, which outweighed the drop in exports (see Chart 4).

Chart 3
EXPORTS AND IMPORTS OF GOODS: OCTOBER 2020
(EUR millions; monthly observations)



Source: National Statistics Office.

Chart 4
EXPORTS AND IMPORTS OF GOODS: JANUARY-OCTOBER 2020
(EUR millions; year-to-date observations)



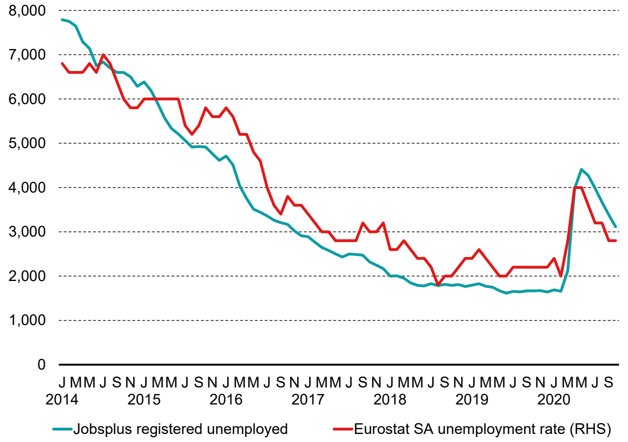
Source: National Statistics Office.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 3,114 in October, down from 3,385 in September but still higher than 1,666 registered a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate stood at 3.9% in October, the same rate registered in the previous month, but still slightly higher than the rate of 3.6% registered in the same month of the preceding year.

Chart 5
UNEMPLOYMENT
(persons; percentage of labour force)

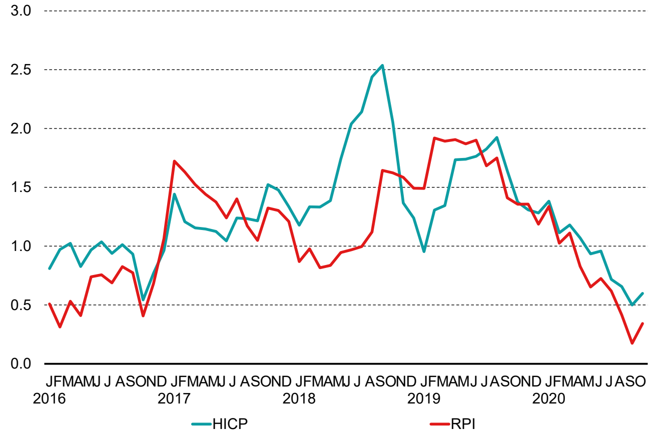


Sources: National Statistics Office; Eurostat.

Prices, costs and competitiveness

Annual HICP inflation stood at 0.6% in October, slightly up from 0.5% in September (see Chart 6) but still at a very low level. The higher inflation was driven by increased growth in services and unprocessed food prices. Processed food inflation increased marginally while energy inflation remained negative but unchanged from the previous month. Meanwhile, non-energy industrial goods inflation fell further, mainly on account of a stronger decline in semi-durable goods prices.

Chart 6
HICP AND RPI INFLATION RATES IN MALTA
(annual percentage changes)



Source: National Statistics Office.

Annual RPI inflation rose slightly to 0.3% in October, up from 0.2% in September (see Chart 6).[13] This was the result of a much smaller decline in recreation and culture prices, as well as an increase food inflation. These were partially offset by a large decline in clothing and footwear inflation, which turned negative, and a fall in housing inflation.

Producer output inflation, measured by the producer price index, recovered slightly but remained negative at -0.6% in October, from -1.0% in September.[14] This reflected a lower annual decline in

[13] 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.
[14] 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.

intermediate goods prices when compared with the previous months, as well as higher inflation in producer prices of consumer and capital goods. Energy inflation remained nil.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 3.3% in the year to October.[15] This suggests a continued deterioration in the country's international competitiveness due to an appreciation in the euro exchange rate against currencies of trading partners. The real HCI, which also takes into account relative price changes, also rose by 3.3%, suggesting that developments in relative prices vis-à-vis trading partners did not materially affect unfavourable exchange rate movements.

Public finance

In October 2020, the Consolidated Fund recorded a deficit of €103.2 million, an increase of €75.5 million when compared to the €27.7 million deficit registered in October 2019. This was a result of a rise in primary government expenditure, which more than offset an increase in government revenue for the period (see Table 3). In turn, the primary balance registered a deficit of €90.5 million, a deterioration of €79.4 million when compared to the primary deficit registered a year earlier.

Table 3
CONSOLIDATED FUND BALANCE
EUR millions

	2019 Jan.-Oct.	2020 Jan.-Oct.	2019 Oct.	2020 Oct.	Change Amount	Change %
Revenue	**3,679.2**	**3,089.4**	**347.7**	**358.3**	**10.6**	**3.0**
Direct tax	**1,919.2**	**1,661.0**	**207.1**	**217.2**	**10.1**	**4.9**
Income tax	1,358.7	1,137.0	147.7	151.6	3.9	2.7
Social security contributions(1)	560.5	524.0	59.4	65.6	6.2	10.5
Indirect tax	**1,350.0**	**1,061.5**	**115.0**	**107.6**	**-7.4**	**-6.4**
Value Added Tax	744.2	587.3	48.4	44.1	-4.2	-8.7
Customs and excise duties	277.7	216.2	31.1	26.7	-4.4	-14.1
Licences, taxes and fines	328.2	258.0	35.6	36.8	1.2	3.3
Non-tax(2)	**410.0**	**366.9**	**25.6**	**33.5**	**7.9**	**30.7**
Expenditure	**3,669.0**	**4,331.5**	**375.5**	**461.6**	**86.1**	**22.9**
Recurrent	**3,264.5**	**3,616.8**	**324.9**	**357.3**	**32.4**	**10.0**
Personal emoluments	735.9	753.3	72.4	72.8	0.4	0.5
Operational and maintenance	176.1	212.3	22.9	20.0	-2.9	-12.7
Programmes and initiatives(1)	1,767.6	1,986.1	166.6	192.4	25.8	15.5
Contributions to entities	421.2	513.7	46.3	59.4	13.1	28.3
Interest payments	163.7	151.5	16.7	12.8	-3.9	-23.3
Capital	**404.5**	**714.7**	**50.6**	**104.3**	**53.7**	**106.2**
Primary balance(3)	**173.9**	**-1,090.7**	**-11.0**	**-90.5**	**-79.4**	**-**
Consolidated Fund balance	**10.2**	**-1,242.1**	**-27.7**	**-103.2**	**-75.5**	**-**

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.

15 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.

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

Government revenue increased by €10.6 million, or 3.0% in annual terms. This was mainly due to higher non-tax revenue, which rose by €7.9 million on the back of increased inflows from miscellaneous receipts. Meanwhile, revenue from direct taxes increased by €10.1 million, chiefly due to a rise in social security contributions. On the other hand, inflows from indirect tax revenue fell by €7.4 million, on the back of lower customs and excise duties and VAT receipts. The improvement in direct tax revenue, which was the second consecutive monthly increase, suggests that the repayment of tax dues under the tax deferral scheme, which expired in August 2020, may have impacted revenue positively.

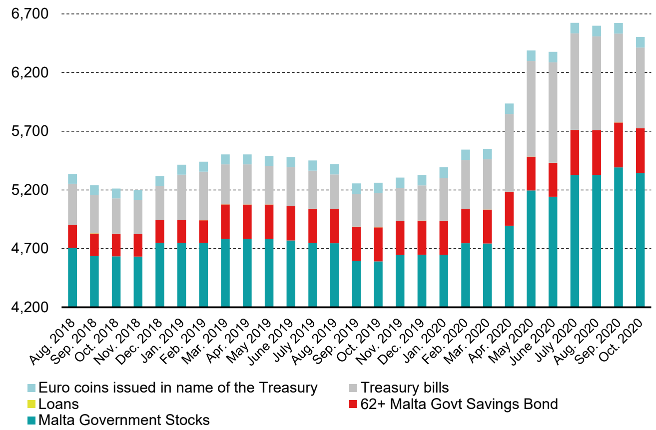
Government expenditure increased by €86.1 million, or 22.9% when compared to the corresponding period in 2019. This was driven by both an increase in capital and recurrent expenditure. Capital expenditure increased by €53.7 million, largely due to a higher subvention to Malta Enterprise to finance the COVID-19 Wage Supplement Scheme. Meanwhile, recurrent expenditure rose mainly on the back of higher outlays on programmes and initiatives, which were partly impacted by timing issues in church school transfers. The month under review also featured higher contributions to government entities.

In October 2020, the total stock of government debt amounted to €6,504.1 million, a €119.2 million drop when compared with a month earlier (see Chart 7). This was mainly due to a decline in outstanding Treasury Bills as well as lower outstanding Malta Government Stocks.

Deposits, credit and financial markets

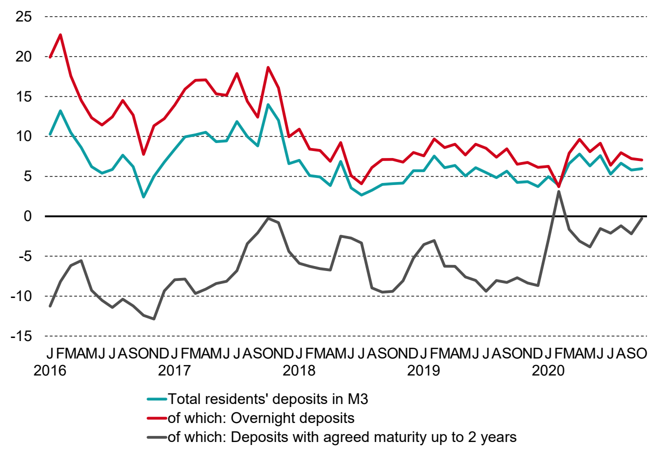
In October, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 6.0%, up from 5.8% in September (see Chart 8).

Chart 7
GOVERNMENT DEBT[1]
(EUR millions)



Source: National Statistics Office.
[1] Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

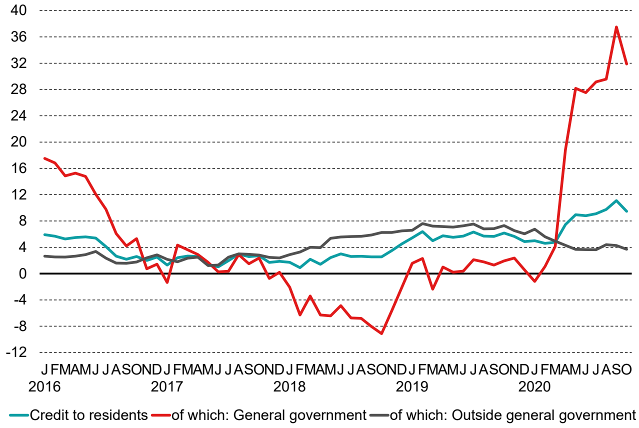
Chart 8
SELECTED DEPOSITS OF MALTESE RESIDENTS
(annual percentage changes)



Source: Central Bank of Malta.

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 85% of their M3 balances. This deposit category – which is the most liquid – grew by 7.1% in the year to October. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 0.3% in annual terms, following a contraction of 2.2% in the year to September.

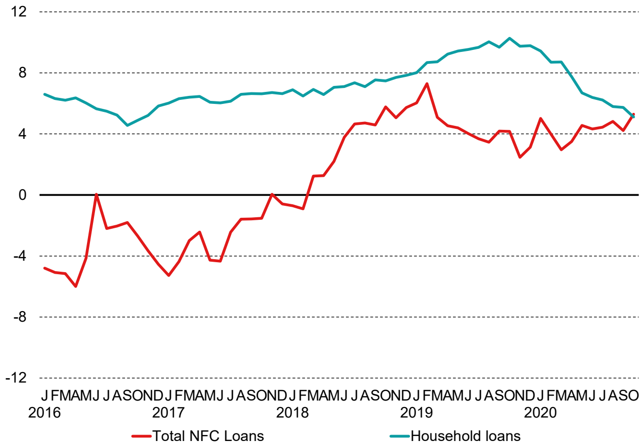
Chart 9
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)



Source: Central Bank of Malta.

Credit to Maltese residents grew at an annual rate of 9.5% in October, below the 11.1% recorded a month earlier (see Chart 9). Annual growth in credit to general government rose by 31.9% in October, following an increase of 37.5% in September. At the same time, growth in credit outside general government expanded at an annual rate of 3.7% in October, below the 4.3% growth registered in the previous month.

Chart 10
LOANS BY SECTOR
(annual percentage changes)



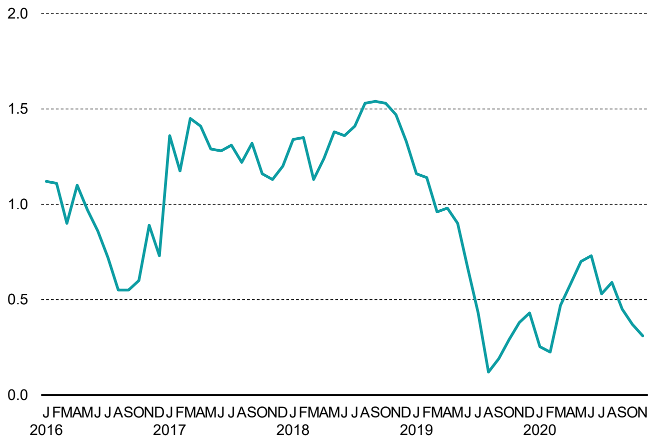
Source: Central Bank of Malta.

The annual rate of change in loans to non-financial corporations stood at 5.3%, up from 4.2% registered in September (see Chart 10). The acceleration in growth was broad-based across most economic sectors, notably reflecting a larger expansion in credit to real estate activities. This was followed by an increase in loans to the wholesale and retail trade and vehicle repair sector, and the sector comprising transportation and storage. These developments were partly offset by lower expansion in loans to the construction sector and, to a lesser extent, in loans to the professional, scientific and technical activities sector. Meanwhile, the annual rate of change of loans to households edged down to 5.1%, from 5.7% in September. This reflected a larger contraction in consumer credit and other lending, which fell by 8.9%, following a decline of 5.7% in September. Moreover, mortgage lending eased to 6.7% in October, from 7.0% a month earlier.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.22% in October, marginally below the 0.23% recorded in the previous month. The composite rate charged on outstanding loans remained unchanged from a month earlier, standing at 3.39%. Hence, the spread between the two rates rose marginally to 317 basis points, compared to September.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by six basis points from a month earlier, to 0.31% at the end of November (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index rose by 6.9% during the same period. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.

Chart 11
TEN-YEAR MALTA GOVERNMENT BOND YIELD
(ISMA yield; percentages per annum; end of month)



Source: Central Bank of Malta.

BOX 1: LIQUIDITY SUPPORT MEASURES RELATED TO COVID-19

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

Table 4
LOANS SUBJECT TO MORATORIUM – AS AT END OCTOBER 2020
(Number of loans; EUR millions; percentage)

	Volume of loans[(1)]	Outstanding amounts[(2)]	Share in sector's outstanding loans[(3)]
Households	3,732	336.8	5.4
Manufacturing	116	33.7	15.6
Construction	82	48.6	7.8
Wholesale and retail trade; repair of motor vehicles and motor cycles	346	132.0	20.3
Transportation and storage and information and communication	92	79.3	28.7
Accommodation and food service activities	350	248.7	51.6
Real estate activities	279	246.8	24.3
Other[(4)]	438	231.8	11.5
Total	**5,435**	**1,357.6**	**11.7**

Source: Central Bank of Malta.

[(1)] The number of loans subject to moratorium.

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

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

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

[16] The loans subject to moratorium include both pre and post the Legal Notice 142 of 2020 on the Moratorium on Credit Facilities Regulations in Exceptional Circumstances (see http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=30087&l=1) and Central Bank of Malta Directive No. 18. The latter entered into force on 13 April 2020. A number of banks had already started to provide moratorium facilities voluntarily in March 2020.

As at end October, there were 5,435 loans subject to a moratorium on repayments.[17] The total value of loans subject to a moratorium in October edged down further when compared with September. These declined by around €370 million and stood at €1.4 billion, or 11.7% of total outstanding loans to Maltese residents. Loans subject to a moratorium declined for the second consecutive time since March 2020, which suggests that some businesses and households have recommenced regular loan repayments, signalling a recovery in income flows. The largest declines in euro terms are observed in the household, manufacturing, real estate, wholesale and retail, and accommodation and food services activities sectors.

The largest number of loans covered by moratoria was held by households, with the sector accounting for around 68.7% of the total volume of loans subject to a moratorium. Maltese households held €336.8 million, or 24.8%, of the total value of loans subject to a moratorium, equivalent to 5.4% of outstanding household loans.

Meanwhile, the accommodation and food services activities sector held €248.7 million in loans subject to a moratorium. This was the sector most affected by the containment measures and, indeed more than half – 51.6% – of the loans held by this sector were subject to a moratorium by the end of October. This was followed by the real estate sector, which held €246.8 million in loans subject to a moratorium, or around 18.2% of such loans – equivalent to around a fourth of the sector's outstanding loans. Moreover, as at end October, the wholesale and retail trade sector held €132.0 million in loans subject to a moratorium, making up 9.7% of loans subject to a moratorium, or 20.3% of loans held by the sector. The manufacturing sector as well as the real estate sector experienced the strongest drops in the sector's share of loans subject to a moratorium.

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

By end October, 478 facilities were approved under the CGS, covering total sanctioned lending of €351.1 million (see Table 5). As the scheme provides loans for working capital, only €204.6 million were disbursed by the end of October, up from the €165.6 million disbursed by the end of September.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities and had the largest value of sanctioned loans at €85.6 million. This was followed by accommodation and food services activities, with 111 facilities making up a total of €70.0 million sanctioned loans, and the sector comprising transportation and ICT, which had a total of €49.5 million.

[17] These also include those loans falling under the Malta Development Bank COVID-19 Guarantee Scheme.
[18] The CGS was approved by the European Commission on 2 April 2020. See https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx for further details.

Table 5
MDB COVID-19 GUARANTEE SCHEME – AS AT OCTOBER 2020
(Number of facilities; EUR millions)

	Total number of facilities[1]	Sanctioned amount[2]
Manufacturing	41	18.3
Construction	21	34.1
Wholesale and retail trade; repair of motor vehicles and motor cycles	137	85.6
Transportation and storage and information and communication	34	49.5
Accommodation and food service activities	111	70.0
Professional, scientific and technical activities	27	12.8
Administrative and support service activities	34	11.7
Real estate	14	3.6
Other[3]	59	65.4
Total	**478**	**351.1**

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, and the electricity, gas & water supply sector.

Annex 1

MACROECONOMIC INDICATORS FOR MALTA

(Annual percentage changes; non-seasonally adjusted data)

	2018	2019	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2019 July	2019 Aug.	2019 Sep.	2019 Oct.	2019 Nov.	2019 Dec.	2020 Jan.	2020 Feb.	2020 Mar.	2020 Apr.	2020 May	2020 June	2020 July	2020 Aug.	2020 Sep.	2020 Oct.	2020 Nov.
Prices and costs																							
HICP inflation	1.7	1.5	1.3	1.2	1.0	0.6	1.8	1.9	1.6	1.4	1.3	1.3	1.4	1.1	1.2	1.1	0.9	1.0	0.7	0.7	0.5	0.6	-
RPI inflation	1.2	1.6	1.3	1.2	0.7	0.4	1.7	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	0.8	0.7	0.7	0.6	0.4	0.2	0.3	-
Industrial producer price inflation	4.4	2.2	1.8	1.2	0.2	0.2	1.8	1.6	2.1	2.3	1.4	1.6	1.8	1.7	0.0	0.6	0.3	-0.3	1.2	0.5	-1.0	-0.6	-
HCI (nominal)	2.6	-0.7	-1.1	-0.2	1.2	2.8	-0.7	-0.5	-1.7	-1.1	-1.0	-1.3	-1.1	-1.0	1.7	1.3	0.9	1.3	2.3	2.7	3.3	3.3	-
HCI (real)	2.1	-1.1	-1.6	-0.9	1.2	2.4	-0.9	-0.5	-1.8	-1.4	-1.4	-2.0	-2.0	-2.0	1.2	1.4	1.0	1.3	1.9	2.5	2.9	3.3	-
Unit labour costs, whole economy(1)	3.9	3.1	3.5	4.9	9.2	10.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee(1)	2.8	2.8	2.8	2.7	1.5	-0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person)(1)	1.0	0.3	-0.7	-1.9	-6.5	-9.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	5.7	5.5	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																-	-	-	-	-	-	-	-
Nominal GDP	7.1	7.6	8.0	2.5	-14.8	-8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	4.8	5.3	5.5	0.8	-16.1	-9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	8.4	4.8	1.8	-1.3	-9.6	-3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	11.4	13.9	1.6	0.8	2.7	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	3.1	9.3	0.6	-2.6	-1.8	-1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-0.6	6.2	7.7	4.7	-14.7	-17.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	0.4	7.9	-6.2	-0.9	5.6	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																			-	-	-	-	-
LFS unemployment rate (% of labour force)	3.7	3.4	3.2	3.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	6.5	5.4	7.7	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.8	5.8	6.0	-	-	-	5.4	5.2	5.7	5.7	5.9	6.3	6.6	-	-	-	-	-	-	-	-	-	-
Balance of payments											-	-	-	-	-	-	-	-	-	-	-	-	-
Current account (as a % of GDP)(2)	5.7	4.8	4.8	5.6	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																				-	-	-	-
Maltese residents' deposits and loans																				-	-	-	-
Overnight deposits	8.0	6.0	6.0	7.9	9.1	7.2	8.5	7.4	8.5	6.5	6.7	6.1	6.3	3.7	7.9	9.6	8.1	9.2	6.4	8.0	7.2	7.1	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-8.7	-1.6	-1.7	-2.2	-9.4	-8.0	-8.3	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.1	-3.8	-1.5	-2.1	-1.2	-2.2	-0.3	-
Total residents' deposits in M3	5.7	3.6	3.6	6.6	7.5	5.8	5.5	4.8	5.7	4.2	4.3	3.7	5.0	3.9	6.6	7.8	6.3	7.6	5.3	6.6	5.8	6.0	-
Credit to general government	-2.0	0.6	0.6	4.1	27.5	37.5	2.1	1.8	1.3	1.9	2.4	0.6	-1.2	1.1	4.1	18.8	28.2	27.5	29.2	29.6	37.5	31.9	-
Credit to residents (excl. general government)	6.5	6.1	6.1	4.9	3.6	4.4	7.5	6.8	6.8	7.3	6.5	6.0	6.8	5.6	4.9	4.3	3.7	3.6	3.6	4.4	4.3	3.7	-
Total credit	4.5	4.9	4.9	4.8	8.8	11.2	6.3	5.7	5.6	6.2	5.7	4.9	5.0	4.6	4.8	7.5	9.0	8.8	9.1	9.8	11.1	9.5	-
10-year interest rate (%)(3)	1.3	0.4	0.4	0.5	0.7	0.5	0.4	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.5	0.6	0.7	0.7	0.5	0.6	0.5	0.4	0.3
Stock prices: Malta Stock Exchange Index(4)	0.1	4.4	-4.0	-19.5	6.8	12.6	0.7	-1.0	2.4	-1.6	-2.5	0.0	-1.2	-0.6	-18.0	6.1	-1.1	1.7	-3.5	-5.9	-3.8	-2.1	6.9
General government finances (% of GDP)																							
Surplus (+) / deficit (-)(2)	2.0	0.5	0.5	-1.7	-5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt(5)	45.2	42.6	42.6	44.0	51.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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) GDP data are four-quarter moving sums.