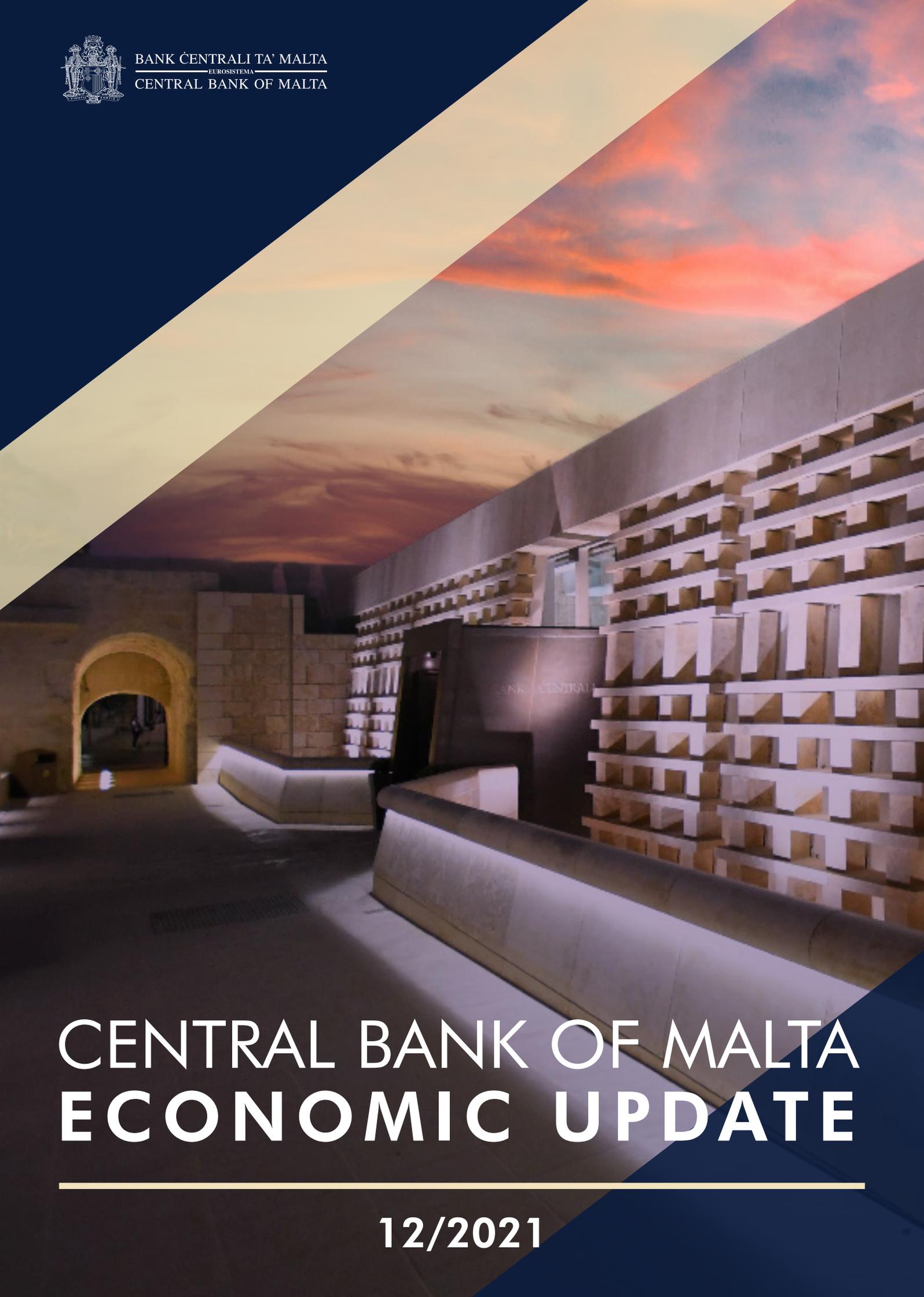




BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

A photograph of the interior of the Central Bank of Malta building. The space is modern and minimalist, with a large, curved reception desk in the foreground. The walls are made of light-colored stone or concrete, and there are large windows on the right side. The ceiling is high and has a grid of recessed lighting. The overall atmosphere is clean and professional.

CENTRAL BANK OF MALTA ECONOMIC UPDATE

12/2021

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ECONOMIC UPDATE 12/2021

Summary¹

The Bank's Business Conditions Index shows that in November annual growth in business activity receded somewhat from recent historical highs, but remained strong from a historical perspective as aggregate economic activity continued to recover from the record low level of 2020.

European Commission data show that sentiment eased in November but remained well above its level a year earlier and its historical average. The recent decrease in sentiment was driven by weaker sentiment across all sectors, bar the services sector. Following recent developments, and in contrast to October, sentiment turned mildly negative in industry and in the retail sector.

In October, industrial production contracted on an annual basis for the third consecutive month and fell at a faster pace when compared with September. Meanwhile the volume of retail trade rose at a slower pace. The number of registered unemployed fell during the month. The unemployment rate was marginally above September's, yet still well below last year's rate.

Commercial permits increased in October relative to their year-ago levels, while residential permits fell. In November, the number of final deeds of sale rose on an annual basis, as did the number of promise-of-sale agreements.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 1.4% in October, up from 0.7% in the previous month. Inflation based on the Retail Price Index (RPI) rose to 2.3% in October, from 2.2% a month earlier. The difference between these two measures of inflation is primarily due to technical factors related to the revision of HICP weights in 2021. In November, both the annual HICP and RPI inflation rates rose to 2.4%.

Maltese residents' deposits expanded at an annual rate of 10.3% in October, following an increase of 10.0% in the previous month, while annual growth in credit to Maltese residents reached 8.6%, up from 7.1% a month earlier. In October, the cash-based Consolidated Fund recorded a wider deficit when compared with a year earlier, as government expenditure increased while government revenue was broadly unchanged.

Central Bank's Business Conditions Index (BCI)²

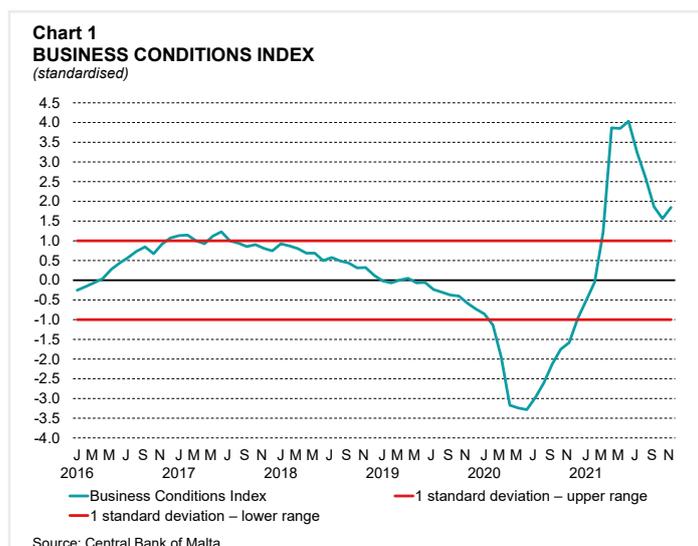
The Bank's BCI indicates that recently, annual growth in business activity has receded somewhat from recent historical highs, but remains strong from a historical perspective (see Chart 1). However, the economic expansion is from a very low base as 2020 marked a historical low point for most economic variables. As a result, strong annual growth rates are being recorded in several BCI components in recent months, reflecting positive base-effects from the low levels seen a year earlier. This was mostly evident in the case of tourist arrivals, economic sentiment and

¹ The cut-off date for information in this note is 20 December 2021. Most of the data reported in this issue of the *Economic Update* refer to October 2021 and reflect the further relaxation of COVID-19 containment measures during the month. However, the latest data for the European Commission's confidence indicators, the Bank's BCI and the COVID-19 Government Response Index refer to November 2021.

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

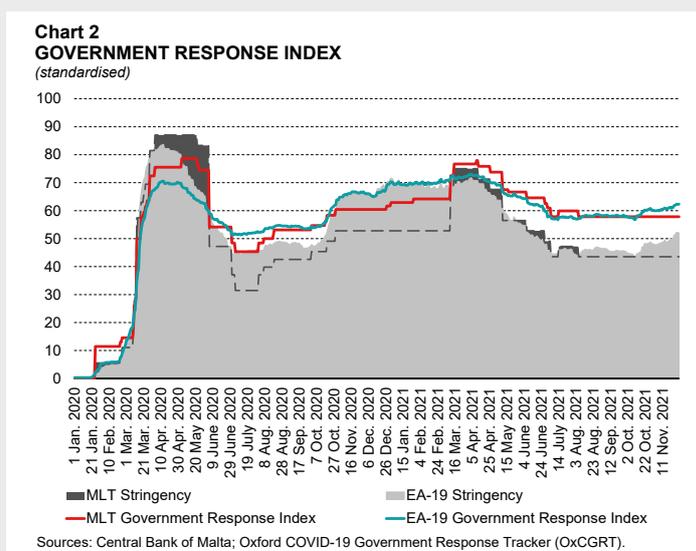
gross domestic product (GDP). Moreover, the unemployment rate continued to fall in annual terms.

The high reading for the BCI follows a period of subdued activity and thus should not be interpreted as implying that economic activity necessarily returned to pre-pandemic levels. At the current juncture, the BCI readings should be interpreted as indicating an improvement from the trough of 2020.³



BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Some COVID-19 containment measures were relaxed during November, including those applicable to restaurants, seated events and visitors of residential homes. In particular, restaurants and seated events that restrict entry to fully vaccinated people are now allowed to remove social distancing measures, as long as entry is capped at 300 people. Nonetheless, mask-wearing remained obligatory in such settings. In addition, restrictions on residential homes for the elderly were also eased in November, with the length of visits extended to 4 hours from the previous limit of 90 minutes.⁴



Nonetheless, Malta's COVID-19 Government Response Index (GRI) ended November at 57.8, unchanged from its level at the end of October (see Chart 2). It stood 4.5 points lower than the euro area average, which closed the month at 62.3.

³ The volatility caused by the pandemic in most economic variables and the variation in the timing of turning points across indicators implies that as new observations are introduced in the estimation of the BCI each month, estimates of the BCI for earlier periods can be revised significantly. This is due to the filtering process embedded within the BCI.

⁴ In terms of the computation of the GRI, these measures would affect components C3 (cancel public events), and H8 (Protection of elderly people). All measures eased during November were, however, too small to change the classification, and hence they had zero impact on the GRI.

The Stringency Index also retained the level recorded at end-October. At 43.5, Malta's index ended November 8.5 points below that in the euro area, which rose to 52.0 as several countries re-introduced containment measures amid rising positive cases.

Business and consumer confidence indicators

In November, the European Commission's Economic Sentiment Indicator (ESI) stood at 108.6, marginally below the 109.0 recorded in October (see Table 1). Notwithstanding the recent decrease, sentiment remained well above its level in November 2020 and its long-term average of around 100.0, but stood below that in the euro area, where the index reached 117.5.^{5,6,7}

In month-on-month terms, sentiment in Malta fell across all sectors, with the exception of the services sector. The largest decline was recorded in the construction sector, with smaller declines also recorded in industry and among consumers, followed by retail. Following recent developments, and in contrast to October, sentiment turned mildly negative in industry and in the retail sector.

	2019	2020	2021											
			Nov.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
ESI	102.4	81.4	76.4	85.8	88.1	95.0	117.3	115.2	113.5	110.0	115.6	111.5	109.0	108.6
Construction confidence indicator	26.2	-5.7	11.4	-1.2	-8.3	-8.5	9.6	21.9	8.9	-4.8	5.9	12.5	27.0	10.1
Evolution of your current overall order books	19.7	-6.2	12.7	-3.4	-13.6	-12.0	4.0	4.7	11.7	-13.5	-2.9	6.0	22.5	6.5
Employment expectations over the next 3 months	32.6	-5.2	10.0	0.9	-3.0	-5.0	15.3	39.0	6.1	4.0	14.7	19.0	31.5	13.6
Industrial confidence indicator	-6.7	-25.1	-30.0	-24.0	-18.6	-1.1	36.0	9.4	8.7	3.0	22.8	0.1	5.6	-0.3
Assessment of order-book levels	-23.0	-48.8	-50.2	-41.4	-53.8	-41.4	-16.7	-30.1	-39.0	-12.0	22.8	-29.2	-26.4	-34.4
Assessment of stocks of finished products	15.5	27.2	40.4	36.0	28.6	-11.3	-42.5	-21.0	0.8	-1.1	-1.1	4.0	-4.8	-21.7
Production expectations for the months ahead	18.4	0.8	0.7	5.5	26.6	26.7	82.1	37.2	65.9	20.0	44.7	33.5	38.3	11.9
Consumer confidence indicator	4.5	-5.6	-10.7	-3.2	-6.9	-7.9	5.2	8.3	6.0	3.8	9.0	7.4	10.0	4.8
Financial situation past 12 months	11.3	-1.6	-12.3	-15.4	-15.5	-18.6	-15.9	-11.7	-11.0	-6.8	-2.8	-5.7	-2.0	-7.0
Financial situation next 12 months	11.2	0.8	-0.7	4.3	-0.7	0.4	11.5	15.0	10.4	8.4	11.5	6.8	12.0	6.5
Economic situation next 12 months	20.9	-0.9	-4.5	8.7	4.5	3.6	30.7	35.3	31.3	19.4	24.7	22.3	24.9	15.4
Major purchases next 12 months	-25.1	-20.5	-25.5	-10.4	-15.8	-16.8	-5.5	-5.6	-6.5	-5.6	2.7	6.4	5.1	4.3
Retail trade confidence indicator	4.2	-31.0	-19.9	-51.4	-49.0	-38.2	-50.3	-1.9	-8.7	-12.6	15.2	21.8	2.1	-0.2
Business activity, past 3 months	18.9	-22.2	-28.5	-51.6	-42.2	-58.6	-70.3	-43.3	-46.9	-1.5	34.3	38.2	-11.7	1.5
Stocks of finished goods	17.4	31.9	4.2	50.3	33.5	37.2	42.4	-3.5	3.5	3.1	13.6	-2.9	7.4	15.6
Business activity, next 3 months	11.1	-38.8	-27.0	-52.4	-71.4	-18.7	-38.1	34.2	24.4	-33.2	24.8	24.2	25.5	13.4
Services confidence indicator	20.7	-24.9	-38.8	-5.3	-3.7	-11.1	5.4	30.8	36.7	34.7	17.8	32.8	11.8	21.6
Business situation development over the past 3 months	16.7	-36.3	-61.3	-12.3	-12.4	-11.0	-1.1	16.6	19.6	29.5	12.6	6.4	4.5	19.7
Evolution of the demand over the past 3 months	21.5	-34.9	-58.6	-10.5	-16.8	-19.1	-5.1	25.1	44.5	29.4	14.0	39.0	10.5	14.9
Expectation of the demand over the next 3 months	24.0	-3.7	3.5	6.7	17.9	-3.1	22.5	50.8	46.0	45.2	26.9	53.1	20.4	30.1
EI	102.7	86.0	85.2	88.8	87.0	88.4	96.6	108.4	110.8	113.4	112.6	118.7	115.1	110.3
Construction	32.6	-5.2	10.0	0.9	-3.0	-5.0	15.3	39.0	6.1	4.0	14.7	19.0	31.5	13.6
Industry	12.8	-12.5	-3.5	-5.7	10.3	-8.1	18.0	9.3	21.4	15.3	44.2	8.6	27.9	13.8
Services	17.5	-2.4	-2.1	-1.6	-11.8	-9.9	13.0	31.0	37.3	46.5	29.7	55.2	45.8	33.3
Retail	4.7	-11.6	-28.6	-5.4	-5.7	14.5	-18.4	7.3	6.0	6.0	11.2	17.7	-1.7	16.4
ESI demeaned	2.4	-18.6	-23.6	-14.2	-11.9	-5.0	17.3	15.2	13.5	10.0	15.6	11.5	9.0	8.6
EI demeaned	2.7	-14.0	-14.7	-11.2	-12.9	-11.7	-3.1	8.2	10.8	13.3	12.9	18.4	15.1	10.1

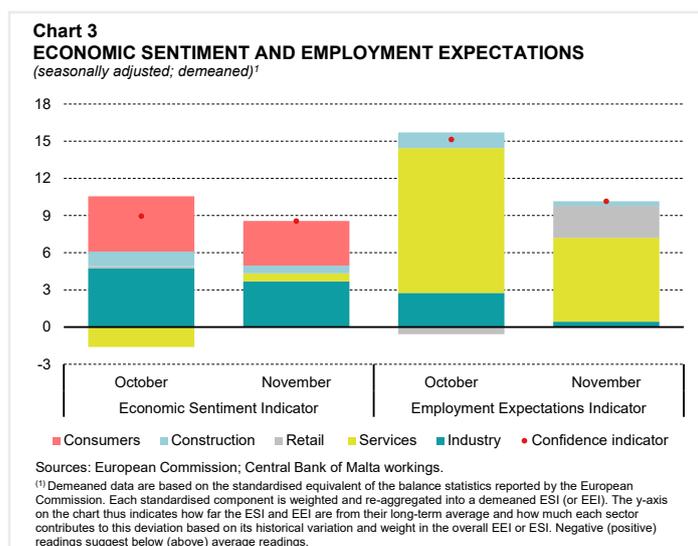
Source: European Commission.

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

⁶ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

⁷ In January 2021, data were revised for previous periods following the annual updating of country weights and the inclusion of 2020 in the standardisation sample.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the small decrease in overall sentiment in November was mainly driven by weaker sentiment in industry, and to a lesser degree, among consumers and the construction sector (see Chart 3). At the same time, the contribution of the retail sector turned slightly negative relative to October. By contrast, the contribution of the services sector turned positive in the month under review.



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

In November, confidence within the construction sector more than halved compared to a month earlier.⁸ Notwithstanding this decline, at 10.1 sentiment remained above its long-term average of -10.2. Weaker sentiment during the month was driven in almost equal measure by weaker employment expectations and order books. Additional survey data indicate that the share of respondents expecting prices to increase over the coming months reached a six-month high in November.

Sentiment in industry turned slightly negative in the month under review. It stood at -0.3, from 5.6 in the previous month, but remained above its long-term average of -4.0.⁹ The latest decrease in sentiment largely reflected developments in production expectations. At the same time, a larger share of respondents assessed order book levels to be below normal levels. These developments offset an improved assessment of stocks of finished products. Supplementary data show that in November the share of firms anticipating selling prices to rise in the coming months eased slightly from October's record high.

Consumer confidence stood at 4.8, down from 10.0 in October, yet remaining well above its long-term average of -10.4.¹⁰ Lower sentiment was recorded in all components of the indicator, with the largest decline recorded in consumers' expectations of the general economic outlook. This was followed by weaker expectations of their financial situation over the next 12 months, and their assessment of their financial situation over the last 12 months. Expectations about major purchases also decreased, though marginally. Additional survey data show that price expectations

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 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.

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

increased from already elevated levels, while a significantly smaller share of respondents anticipated unemployment to decline compared to a month earlier.

Confidence within the retail sector marginally fell in negative territory, standing at -0.2 in November, from 2.1 in the preceding month.¹¹ The recent fall in sentiment was driven by retailers' expectations about business activity during the coming months, which offset a more upbeat assessment of sales over the past three months and a decrease in the share of retailers that assessed their stock levels to be above normal.¹² Supplementary data show that price expectations edged up slightly relative to October.

Sentiment within the services sector increased to 21.6, from 11.8 in the previous month. Following this increase, sentiment stood above its long-term average of 19.2.¹³ Higher sentiment largely reflected developments in respondents' assessment of the business situation over the past three months. At the same time, expectations of demand over the next three months, and to a lesser extent, their assessment of demand over the past three months, improved compared to October. Additional survey data show that, on balance, the share of respondents anticipating a rise in prices in the coming months decreased but remained elevated.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased in November.¹⁴ The EEI stood at 110.3, below the 115.1 recorded in October, and also below the euro area average. Notwithstanding this decline, the indicator remained above its long-run average of around 100.0. Employment expectations eased across all sectors, with the exception of the retail sector, which turned positive in the month under review.

Demeaned data suggest that the services and retail sectors largely explain why the overall EEI remained above its long-term average in November (see Chart 3).

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 – stood at -4.5%. This is the third consecutive year-on-year decline, following a fall of 3.2% in September (see Table 2).¹⁵

The recent decline in industrial production primarily reflected lower output by firms that produce pharmaceutical products. Declines were also registered among firms involved in chemical products, printing and reproduction of recorded media and “other manufacturing” goods – which

¹¹ 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.

¹² 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.

¹³ 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.

¹⁴ The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys, and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission (2020), *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

¹⁵ The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

Table 2																		
ACTIVITY INDICATORS																		
<i>Annual percentage changes</i>																		
	2019	2020	2020						2021									
			July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr. ⁽¹⁾	May	June	July	Aug.	Sep.	Oct.
Industrial production	1.2	-0.2	-2.2	-3.7	-3.1	2.8	-1.4	-4.5	-7.2	-12.8	-4.6	17.4	9.0	13.8	7.4	-4.1	-3.2	-4.5
Retail trade	7.0	-6.1	-11.6	-7.8	-11.0	-8.0	-3.0	2.6	-3.5	-10.2	1.3	18.4	23.0	3.5	11.8	19.4	14.6	9.5
Number of tourist arrivals	5.9	-76.1	-84.0	-66.0	-82.4	-83.4	-92.2	-91.1	-90.7	-93.7	-86.3	-	-	-	148.9	45.0	216.3	281.5
Number of nights stayed	4.1	-73.0	-75.3	-62.6	-77.4	-78.6	-82.3	-77.2	-79.8	-86.7	-65.2	-	-	-	87.7	33.1	166.8	239.0
Rented accommodation	4.6	-76.8	-84.3	-67.4	-81.8	-82.5	-88.0	-86.6	-89.0	-91.8	-75.0	-	-	-	191.2	47.9	225.8	295.8
Collective ⁽²⁾	-0.1	-76.5	-85.4	-66.9	-81.2	-81.9	-91.6	-91.9	-92.1	-94.1	-88.5	-	-	-	231.7	75.7	263.4	311.7
Other rented ⁽³⁾	13.5	-77.3	-82.7	-67.9	-82.9	-83.5	-80.6	-79.5	-82.4	-86.3	-40.0	-	-	-	143.7	13.4	162.8	266.4
Non-rented accommodation ⁽⁴⁾	1.6	-52.8	-31.4	-38.3	-57.1	-53.3	-53.8	-33.5	-48.9	-52.9	-20.7	-	-	-	-27.8	-7.0	53.5	99.1
Tourist expenditure	5.7	-79.5	-88.1	-71.3	-84.5	-84.5	-90.3	-86.6	-87.6	-90.4	-76.1	-	-	-	274.0	79.0	277.9	336.8
Package expenditure	-8.2	-84.5	-93.5	-79.5	-90.5	-89.8	-	-	-	-	-	-	-	-	480.2	126.7	478.4	497.1
Non-package expenditure	17.1	-79.6	-88.7	-71.5	-86.0	-85.1	-90.2	-86.4	-87.7	-89.0	-71.0	-	-	-	288.0	69.3	281.7	347.4
Other	5.9	-75.9	-83.7	-65.3	-78.7	-79.8	-86.5	-82.0	-83.5	-88.1	-71.9	-	-	-	203.8	68.3	212.2	267.8

Sources: National Statistics Office; Eurostat.

⁽¹⁾ As a result of the COVID-19 situation, it was not possible for the NSO to issue the April, May and June 2020 *News Releases* for Inbound Tourism. The inbound tourism *News Release* has been issued since July 2020, following the reopening of Malta International Airport in the beginning of that month. Hence, year-on-year growth rates for April, May and June 2021 cannot be derived.

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

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

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

includes firms involved in the production of medical and dental instrument, toys and related products. Firms which fall within the industry that manufactures motor vehicles, trailers and semi-trailers and those producing food products also registered declines. On the other hand, higher output was registered amongst firms that repair and install machinery and equipment, beverages and computer, electronic and optical products.

Production in the energy sector increased strongly, with output rising by 9.7% in annual terms.

In October, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 9.5% on an annual basis, after rising by 14.6% in September.

The recovery in the tourism sector over 2020 continued in October, although tourist numbers remained below 2019 levels. The number of inbound tourists stood at 178,981 in October, more than three times the level registered in October 2020, but still 36.5% below 2019 levels. Likewise, guest nights more than tripled compared to October 2020, with collective accommodation registering the sharpest rise in absolute terms. Total expenditure was more than four times that registered in the corresponding period of 2020, but was less than a third of that recorded in 2019.

In October, 293 development permits for commercial buildings were issued, a 9.7% increase over the same month a year earlier (see Table 3). During the month, 450 new residential permits were issued, a decline of over a third compared with October 2020.

Table 3																
PROPERTY MARKET																
<i>Levels</i>																
	2019	2020	2020			2021										
			Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
Permits																
Commercial permits	3,474	2,687	267	241	183	209	249	205	267	228	260	249	127	227	293	-
Residential permits	12,485	7,837	657	672	549	784	654	569	763	667	429	645	903	615	450	-
Residential transactions																
Promise of sale	11,614	11,261	1,300	1,043	1,145	981	1,350	1,648	1,429	1,479	1,166	1,104	891	989	1,091	1,251
Final deeds of sale	14,019	11,057	1,054	961	1,134	1,009	984	1,285	1,185	1,174	1,239	1,386	1,170	1,040	1,157	1,324

Sources: National Statistics Office; Eurostat.

Data on residential property transactions show that 1,324 final deeds of sale were concluded in November, 37.8% more than a year earlier. At 1,251, the number of promise-of-sale agreements was nearly 20% higher than the amount registered in November 2020. These were also significantly higher than in November 2019.

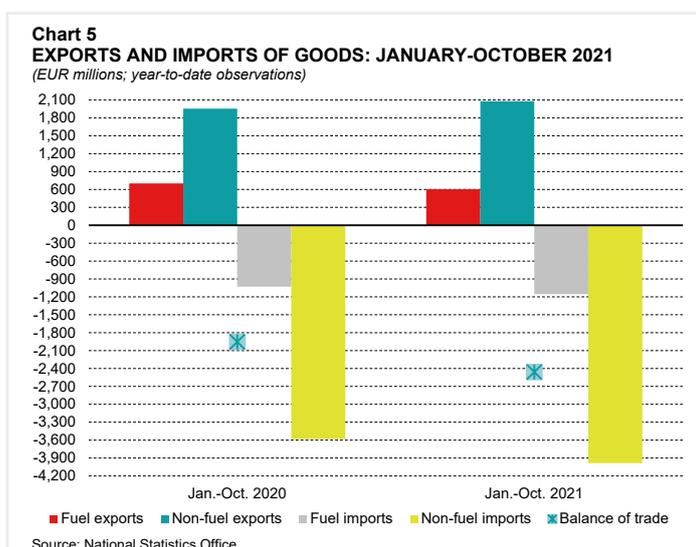
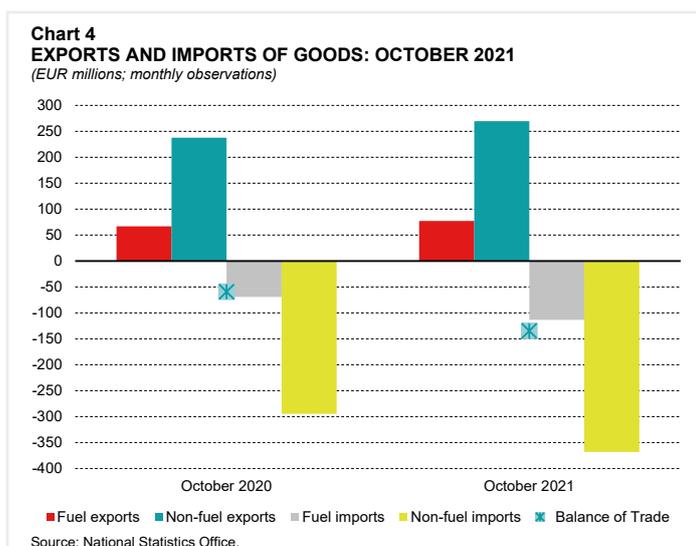
Customs data show that the merchandise trade deficit stood at €134.6 million in October, up from €59.1 million a year earlier. The larger deficit was due to a €117.7 million rise in imports, which outweighed a €42.3 increase in exports (see Chart 4). Higher imports were largely on account of a significant increase in the fuel-import bill and in registrations of aircraft. Smaller, though still significant, increases were also recorded in imports of organic chemicals and electrical machinery. These more than outweighed lower imports of paper, vehicles and plastic.

The increase in exports was driven by higher exports of fish and miscellaneous edible preparations as well as fuel re-exports. These offset lower exports of printed material and toys.

In the ten months to October, the visible trade gap widened to €2,458.6 million from €1,952.5 million in the corresponding period of 2020, as imports outpaced exports (see Chart 5).

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,254 in October 2021, down from 1,352 in September and from 3,114 a year earlier – when the labour market was still impacted by the pandemic-related restrictions (see Chart 6). The number of registered unemployed has now stood below pre-pandemic levels for a number of months.



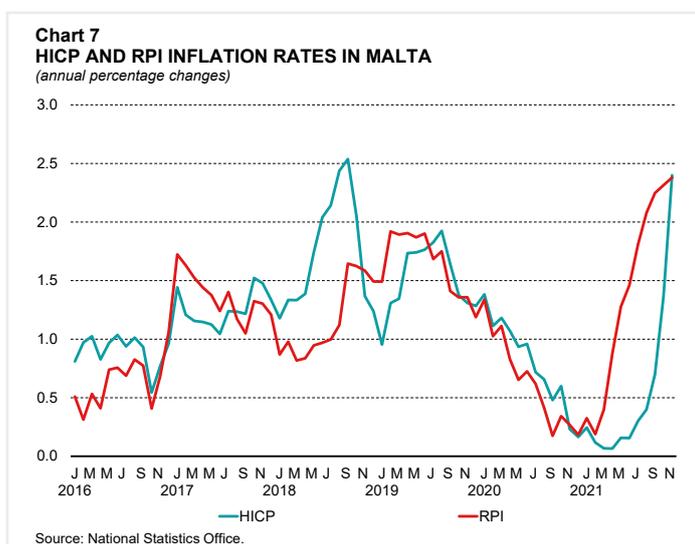
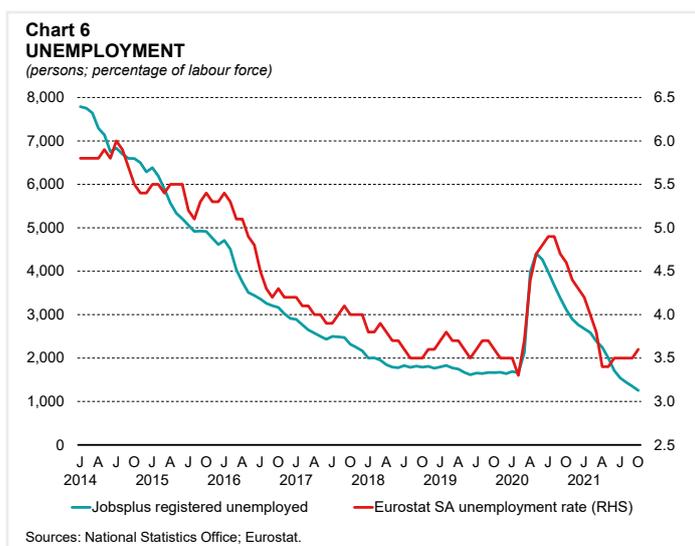
The seasonally-adjusted unemployment rate stood at 3.6% in October, marginally higher than that of 3.5% registered in the previous month, but well below the rate of 4.6% registered in the same month of 2020.

Prices, costs and competitiveness

Annual HICP inflation stood at 1.4% in October, up from 0.7% in the previous month (see Chart 7). The increase in inflation was driven by faster growth in prices of all main components, except for unprocessed food. Inflation for the latter moderated, although it remained elevated. Energy prices remained unchanged in the month under review.

Annual inflation according to the RPI was much higher. Indeed, it stood at 2.3% in October, marginally up from 2.2% in September (see Chart 7).¹⁶ This mainly reflected faster growth in the prices of clothing and footwear, household equipment and house maintenance, as well as in other goods and services. This offset slower growth in prices for recreation and culture and food.

It is worth noting that the gap between the two measures of inflation is mostly related to the large change in HICP weights in 2021 due to the COVID-19 pandemic.¹⁷ On the other hand, the weights of the RPI are not updated annually and are hence not affected by such changes. Indeed, were annual HICP inflation for October to be based on the 2020 weights (which are based on pre-pandemic spending patterns) it would have stood at 2.4% as opposed to the actual rate of 1.4% using the 2021 weights, which would have been very similar to the RPI outcome. The main difference lies in the services contribution to HICP (see Chart 8). Whereas services contributed very



¹⁶ The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households. Due to the strong impact of the pandemic on tourist expenditure, the two measures are expected to deviate significantly as weights in the HICP have changed significantly while those of the RPI have not been adjusted.

¹⁷ For more details see Box 1: The implications of the 2021 HICP weights on inflation forecasts, in [Outlook for the Maltese Economy 2021:2](#).

slightly to HICP inflation in October, these would have contributed much more had the old weights been applied. Thus, the changes to certain components of services in HICP are negatively impacting headline HICP inflation, which is in turn being reflected in a gap against the RPI-based measure.

In November, both the annual HICP and RPI inflation rates rose to 2.4%.

Producer output inflation, measured by the industrial producer

price index, rose by 5.1% in October, marginally down from 5.4% in September.¹⁸ This reflects slower growth in intermediate goods prices. On the other hand, consumer and capital goods inflation rose further when compared with September. Similar to previous months, energy prices remained unchanged when compared to their level a year earlier. Despite the slower growth in prices, producer output inflation remains relatively elevated, which might reflect the impact of the rising cost pressures due to ongoing global supply bottlenecks.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.6% in the year to November, reflecting the depreciation of the euro exchange rate against currencies of trading partners.¹⁹ The real HCI, which also considers relative price changes, fell by 3.7% in annual terms in November, which suggests that international competitiveness improved due to favourable developments in relative prices vis-à-vis trading partners.

Public finance

In October 2021, the Consolidated Fund recorded a deficit of €158.1 million, a deterioration of €54.9 million when compared to the deficit registered in October 2020 (see Table 4). This mainly occurred due to an increase in government expenditure, as revenue was broadly stable. In turn, the primary deficit reached €141.3 million, €50.8 million higher than that registered a year earlier.

For the same month of October Government revenue increased slightly by €1.1 million, or 0.3% in annual terms, as an increase in non-tax revenue was largely offset by a fall in tax revenue. The former rose by €26.5 million, mainly due to higher grants from the EU. Meanwhile, indirect tax revenue declined by €5.3 million, reflecting lower receipts from licences. Revenue from direct taxes declined by €20.1 million, on the back of a fall in income tax paid by companies and, to a lower extent a fall in social security contributions.

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.

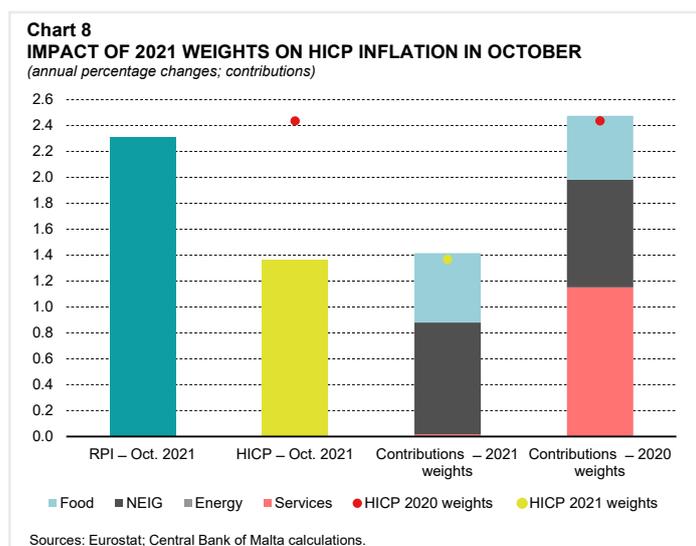


Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2020		2021		Change	
	Jan.-Oct.	Jan.-Oct.	Oct.	Oct.	Amount	%
Revenue	3,089.4	3,713.6	358.3	359.4	1.1	0.3
Direct tax	1,661.0	2,059.0	217.2	197.1	-20.1	-9.3
Income tax	1,137.0	1,471.1	151.6	134.3	-17.3	-11.4
Social security contributions ⁽¹⁾	524.0	587.8	65.6	62.8	-2.8	-4.3
Indirect tax	1,061.5	1,282.3	107.6	102.3	-5.3	-4.9
Value Added Tax	587.3	769.6	44.1	50.9	6.8	15.3
Customs and excise duties	216.2	242.4	26.7	27.9	1.2	4.5
Licences, taxes and fines	258.0	270.3	36.8	23.5	-13.3	-36.1
Non-tax⁽²⁾	366.9	372.3	33.5	60.0	26.5	79.3
Expenditure	4,331.5	4,778.5	461.6	517.5	56.0	12.1
Recurrent	3,616.8	4,274.2	357.3	444.8	87.5	24.5
Personal emoluments	753.3	844.5	72.8	82.9	10.2	14.0
Operational and maintenance	212.3	216.9	20.0	28.0	8.0	39.8
Programmes and initiatives	1,986.1	2,514.9	192.4	260.1	67.7	35.2
Contributions to entities	513.7	544.1	59.4	57.0	-2.4	-4.0
Interest payments	151.4	153.9	12.8	16.8	4.0	31.5
Capital	714.7	504.3	104.3	72.7	-31.6	-30.3
Primary balance⁽³⁾	-1,090.7	-911.1	-90.5	-141.3	-50.8	-
Consolidated Fund balance	-1,242.1	-1,064.9	-103.2	-158.1	-54.9	-

Source: National Statistics Office.

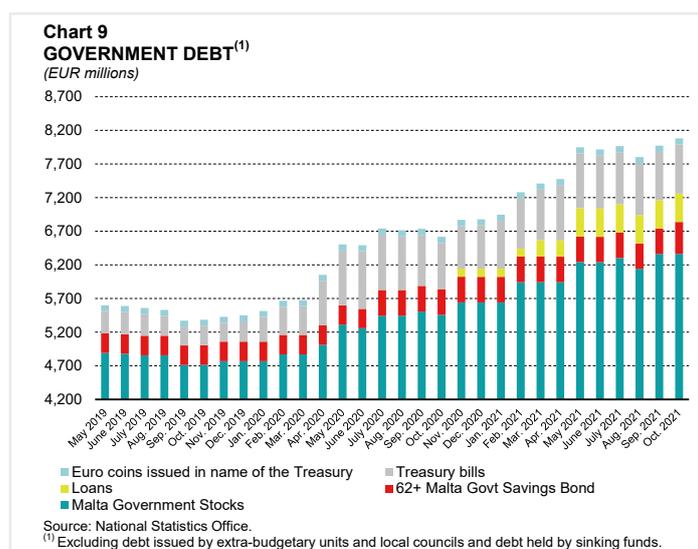
⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

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

⁽³⁾ Revenue less expenditure excluding interest payments.

Government expenditure increased by €56.0 million, or 12.1% when compared to the corresponding month in 2020. This was due to a rise in recurrent expenditure, which more than offset a fall in capital expenditure. The latter declined by €31.6 million, mainly reflecting the reclassification of outlays on certain COVID-related support measures, including the Wage Supplement Scheme, from capital to current expenditure in 2021.

Meanwhile, recurrent expenditure rose by €87.5 million. This was largely due to higher expenditure on programmes and initiatives, reflecting the above-mentioned reclassification and the timing of outlays on hospital concession agreements. The month under review



also saw higher spending on operational and maintenance, personal emoluments and interest payments.

In October 2021, the total stock of government debt amounted to €7,966.7 million, an increase of €107.5 million when compared with September 2021 (see Chart 9). This increase is mainly attributable to new issues of 62+ Savings Bonds.

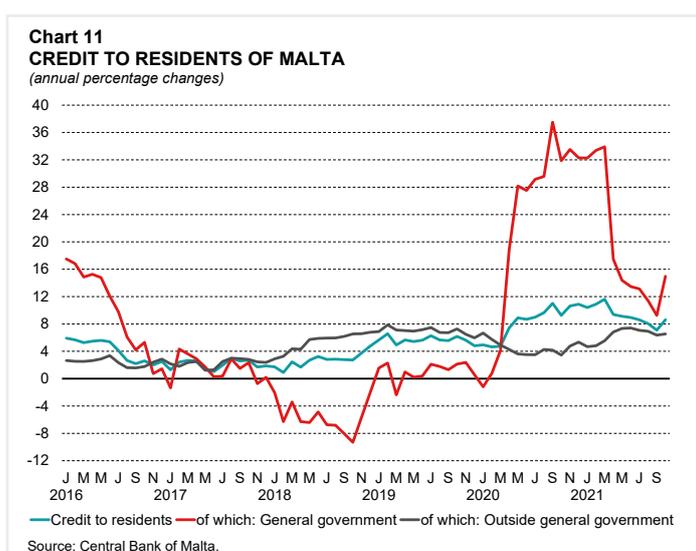
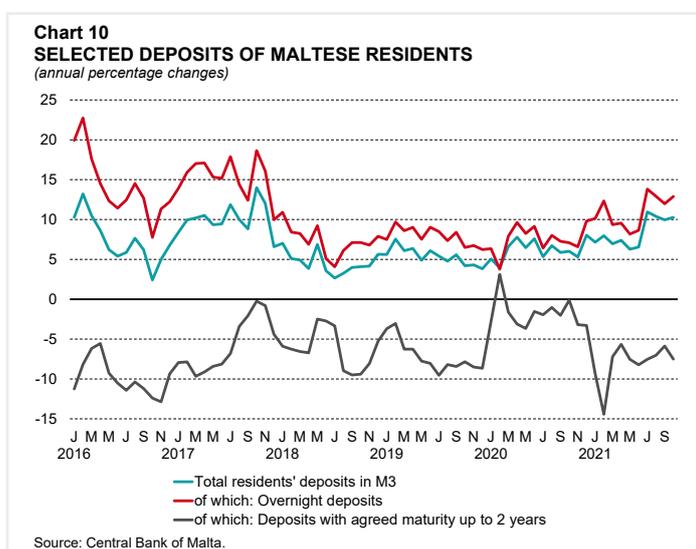
Deposits, credit and financial markets

In October, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 10.3%, marginally above the 10.0% recorded a month earlier (see Chart 10).

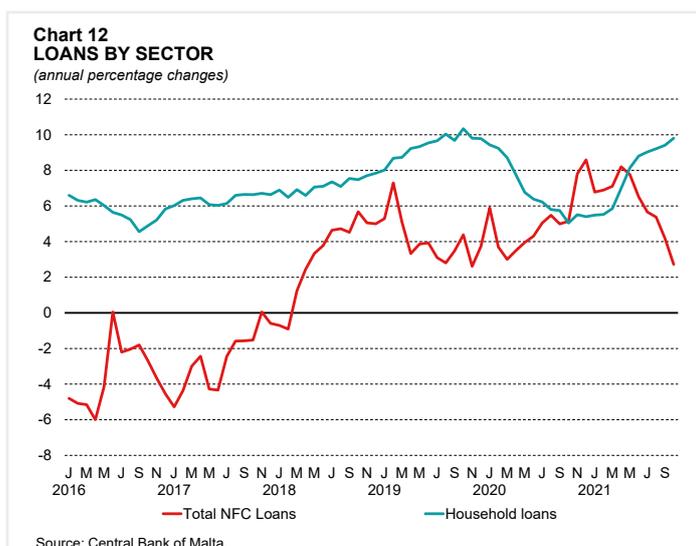
Overnight deposits remained the largest component of residents' M3 deposits, comprising over 87% of their M3 balances. This deposit category – which is the most liquid – grew by 12.9% in the year to October, after rising by 12.0% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 7.5% in annual terms, following a contraction of 5.9% in September.

Credit to Maltese residents grew at an annual rate of 8.6% in October, above the 7.1% recorded a month earlier (see Chart 11). The acceleration in credit during October was primarily driven by faster growth in credit to general government. Annual growth in this component stood at 15.0%, above the 9.3% recorded in September. At the same time, credit to residents outside general government edged up to 6.5%, from 6.4% a month earlier.

The annual rate of change in loans to non-financial corporations continued to decelerate



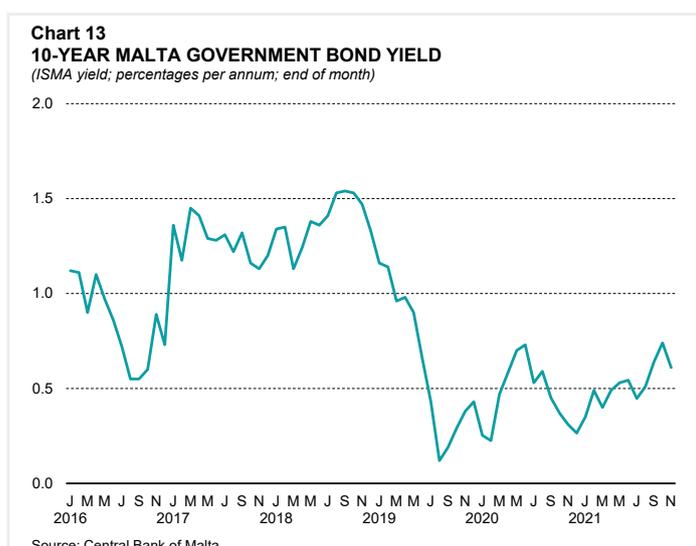
in October and stood at 2.7%, well below the 4.2% recorded a month earlier (see Chart 12). The deceleration was largely due to a contraction in loans to the wholesale and retail trade sector, as well as to the sector comprising accommodation and food service activities. Additionally, loans to the sector comprising professional, scientific and technical activities fell at a faster pace. The developments were partly offset by an increase in loans to the construction and real estate sector, and to a smaller degree, the manufacturing sector. Moreover, loans to the energy sector declined at a slower rate.



Meanwhile, the annual rate of change in loans to households stood at 9.8% in October, above the 9.4% recorded in September. Mortgage lending reached 10.9% in October, from 10.6% a month earlier. At the same time, consumer credit and other lending fell by 1.6%, following a contraction of 2.8% in September.

As regards to interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits eased slightly to 0.17% in October. Meanwhile, the composite rate charged on outstanding loans fell to 3.17%, from 3.25% a month earlier. Hence, the spread between the two rates edged down by 7 points to 300 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds edged down by 13 basis points from a month earlier, to 0.61% at the end of November (see Chart 13). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 2.3% during the same period. Similar movements were observed in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



BOX 2 – LIQUIDITY SUPPORT MEASURES RELATED TO COVID-19

In response to the outbreak of COVID-19 and the subsequent containment measures, several businesses and households were faced with liquidity challenges, and thus applied with MFIs in Malta for a moratorium on loan repayments (see Chart 14).²⁰

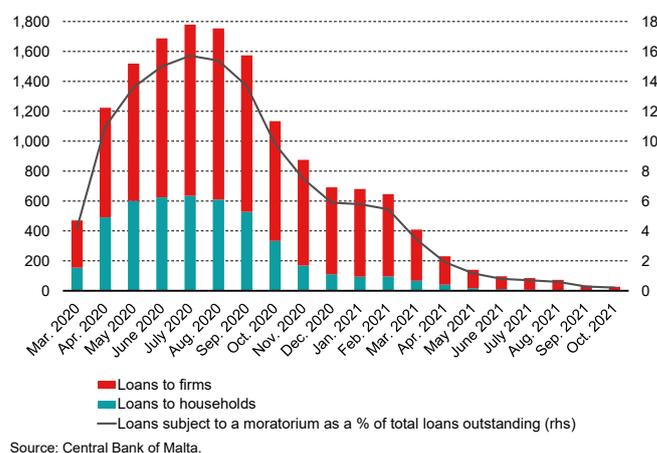
Loans subject to a moratorium have fallen consistently since August 2020 reaching very low levels recently, as the moratoria period is gradually expiring for many borrowers and economic activity continued to normalise in most sectors.

Indeed, as at the end of October, only 28 loans were still subject to a moratorium on repayments compared to 54 loans a month earlier. The value of such loans declined by €7.8 million from September and stood at €26.5 million, or 0.2% of total outstanding loans to Maltese residents.

The outstanding value of loans subject to a moratorium of Maltese households fell to €0.4 million in October – equivalent to 1.4% of the total value of loans subject to a moratorium. This is down from a peak of €635.0 million in July 2020. Firms held €26.1 million in loans subject to a moratorium at the end of October, thus accounting for most of outstanding loans still covered by moratoria.

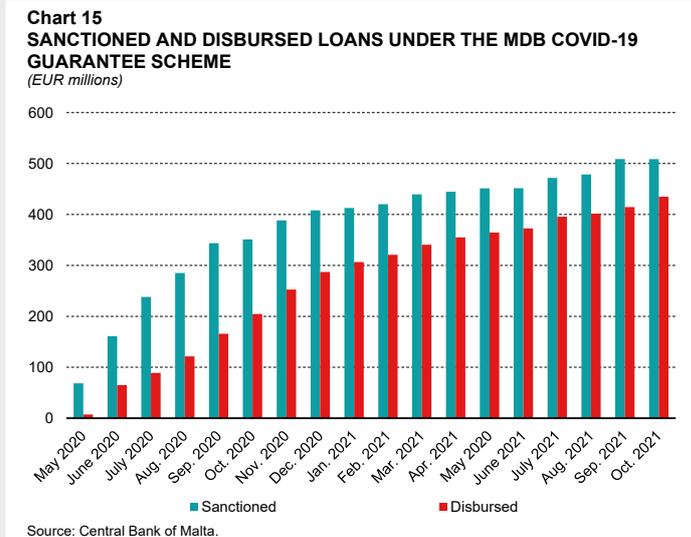
The largest number and value of loans subject to a moratorium were held in the accommodation and food service activities sector. This is the sector most affected by the containment measures and indeed, 1.5% of the loans held by this sector were subject to a moratorium by the end of October. This contrasts with the end of 2020, when over 40.0% of outstanding loans of this sector were subject to a moratorium.

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



²⁰ Data on moratoria refer to loans that were issued before the onset of the pandemic and which became subject to a moratorium as a result of COVID-19 in terms of Directive No. 18 of 2020, which entered into force on 13 April 2020 and even before the same Directive entered into force (a number of banks had already started to provide moratorium facilities voluntarily in March 2020). Revised back data are reported in the Annex. In view of the protracted impact of the COVID-19 pandemic, on 14 January 2021, the Minister for Health, in consultation with the Ministry for Finance issued [Legal Notice \(LN\) 15 of 2021 on 'Moratorium on Credit Facilities in Exceptional Circumstances'](#), which relates to the reactivation of moratoria in Malta. This reactivation allowed borrowers to submit their applications for new moratoria or to extend their existing moratoria subject to a number of conditions, before 31 March 2021.

To further alleviate liquidity challenges, the Government launched the Malta Development Bank COVID-19 Guarantee Scheme (CGS) for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.²¹



By end-October, 652 facilities were approved under the CGS, covering total sanctioned lending of €508.6 million (see Chart 15). Sanctioned amounts declined marginally compared to the previous month due to the reduction and repayment of two facilities.

As the scheme provides guarantees on new loans for working capital and on loan repayments, the amount of loans disbursed under the scheme may be lower than the sanctioned amount. By the end of October, €434.9 million were disbursed, up slightly from the €414.5 million disbursed by the end of September. Thus, by the end of October, 65.4% of the scheme was sanctioned, while 55.9% was disbursed.

By end-October, the sector comprising wholesale and retail activities applied for the largest number of facilities, followed by the sector comprising of accommodation and food service activities. In value terms, these were followed by the sector comprising transportation, storage, information and communication, and the construction sector.

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

Annex 1

MACROECONOMIC INDICATORS FOR MALTA																						
Annual percentage changes; non-seasonally adjusted data																						
	2019	2020	2020	2020	2021	2021	2021	2020	2020	2020	2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021
			Q3	Q4	Q1	Q2	Q3	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
Prices and costs																						
HICP inflation	1.5	0.8	0.6	0.3	0.1	0.1	0.5	0.5	0.6	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7	1.4	2.4
RPI inflation	1.6	0.6	0.4	0.3	0.3	1.2	2.0	0.2	0.3	0.3	0.2	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2	2.3	2.4
Industrial producer price inflation	2.2	0.3	0.2	-0.4	0.8	1.7	3.6	-1.0	-0.6	-0.5	-0.1	0.8	0.5	1.1	1.2	1.8	2.2	1.2	4.3	5.4	5.1	-
HCI (nominal)	-0.7	1.8	2.8	3.5	2.7	1.3	-0.8	3.3	3.3	3.3	3.9	3.8	3.6	0.8	1.6	1.7	0.7	-0.1	-1.2	-1.2	-1.6	-1.6
HCI (real)	-1.1	1.5	2.4	3.2	1.5	-0.6	-2.8	2.9	3.1	2.9	3.5	2.8	2.4	-0.8	-0.3	-0.4	-1.3	-1.9	-3.3	-3.3	-3.9	-3.7
Unit labour costs, whole economy ⁽¹⁾	2.7	8.6	10.0	11.7	11.2	5.7	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.3	1.4	0.6	-0.2	0.5	3.6	5.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	0.5	-6.4	-8.4	-10.6	-9.7	-2.5	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	2.7	1.6	4.6	5.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																						
Nominal GDP	8.4	-6.9	-10.0	-6.6	0.2	16.2	11.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.2	-10.9	-7.8	-0.9	14.9	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.5	-10.3	-11.2	-7.6	-4.8	14.6	7.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	14.0	14.9	20.6	17.3	21.2	0.3	8.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-6.9	-4.3	-13.6	-6.4	25.2	32.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	5.8	-6.0	-10.6	-6.5	-3.8	13.4	1.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	6.7	-2.7	-5.0	-3.9	-3.2	11.2	2.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																						
LFS unemployment rate (% of labour force)	3.6	4.3	4.7	4.4	3.8	3.4	3.2	4.7	4.6	4.4	4.4	4.2	4.0	3.8	3.6	3.4	3.4	3.3	3.3	3.2	-	-
LFS employment	7.1	2.7	1.3	-0.8	-1.1	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.1	2.9	1.9	0.5	-	-	2.5	2.1	2.1	1.6	0.5	0.2	0.9	1.8	2.6	-	-	-	-	-	-
Balance of payments																						
Current account (as a % of GDP) ⁽²⁾	5.4	-2.9	-1.2	-2.9	-3.7	-3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																						
Maltese residents' deposits and loans																						
Overnight deposits	6.2	9.8	7.3	9.8	9.4	8.6	12.0	7.3	7.1	6.6	9.8	10.1	12.3	9.4	9.6	8.2	8.6	13.8	12.9	12.0	12.9	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-2.0	-3.3	-7.2	-8.2	-5.9	-2.0	-0.1	-3.2	-3.3	-9.4	-14.4	-7.2	-5.7	-7.5	-8.2	-7.5	-7.0	-5.9	-7.5	-
Total residents' deposits in M3	3.8	8.0	5.9	8.0	7.0	6.5	10.0	5.9	6.0	5.3	8.0	7.2	8.0	7.0	7.4	6.3	6.5	10.9	10.4	10.0	10.3	-
Credit to general government	0.6	32.3	37.5	32.3	33.9	13.5	9.3	37.5	31.9	33.5	32.3	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.3	15.0	-
Credit to residents (excl. general government)	6.0	5.3	4.2	5.3	5.5	7.4	6.4	4.2	3.5	4.8	5.3	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	6.4	6.5	-
Total credit	4.8	10.9	11.0	10.9	11.6	8.9	7.1	11.0	9.3	10.6	10.9	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	7.1	8.6	-
10-year interest rate (%) ⁽³⁾	0.4	0.3	0.5	0.3	0.4	0.5	0.6	0.5	0.4	0.3	0.3	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.6
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	12.6	16.7	-8.3	3.0	-0.7	-3.8	-2.1	6.9	11.4	-2.4	-4.8	-1.3	6.2	-1.8	-1.3	-1.8	1.5	-0.4	-0.8	-2.3
Liquidity support measures related to COVID-19																						
Outstanding loans subject to a moratorium ⁽⁵⁾	-	691.9	1,573.8	691.9	409.1	96.5	34.3	1,573.8	1,133.5	875.4	691.9	680.7	645.6	409.1	230.4	140.3	96.5	84.9	73.0	34.3	26.5	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	408.1	343.7	408.1	439.6	451.5	508.8	343.7	351.1	388.5	408.1	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	508.8	508.6	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	287.1	165.6	287.1	340.5	372.5	414.5	165.6	204.6	252.7	287.1	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	414.5	434.9	-
General government finances (% of GDP)																						
Surplus (+) / deficit (-) ⁽²⁾	0.5	-9.7	-7.0	-9.7	-10.0	-8.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.7	53.3	51.4	53.3	57.3	59.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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⁾ Stock in EUR millions.

⁽⁶⁾ GDP data are four-quarter moving sums.