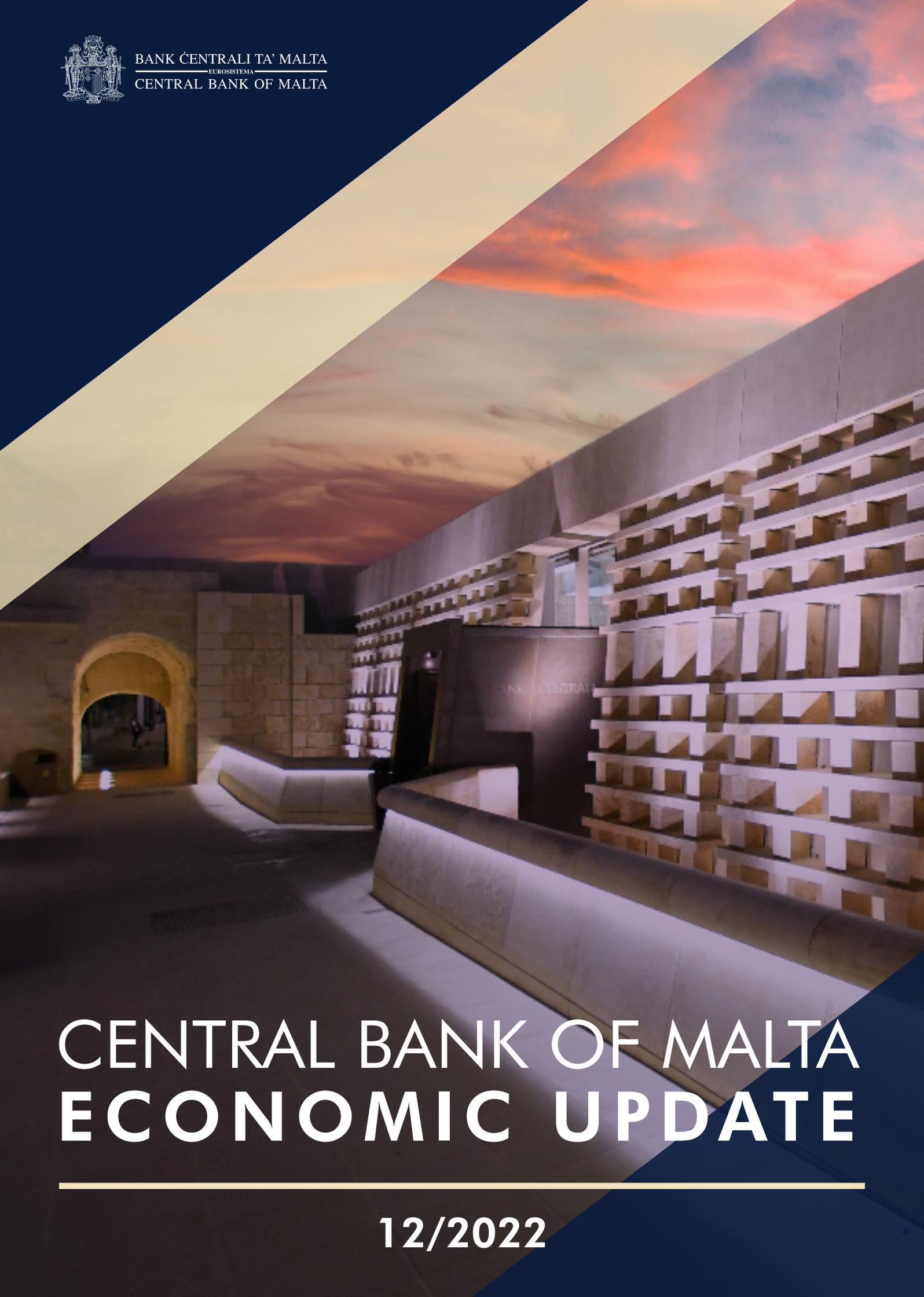




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CENTRAL BANK OF MALTA ECONOMIC UPDATE

12/2022

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ECONOMIC UPDATE 12/2022

Summary¹

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

The European Commission business sentiment survey shows that in November, sentiment in Malta edged up from a month earlier, but remained below its long-term average estimated since November 2002. When compared with October, sentiment improved across all sectors, bar among retailers.

Additional survey information shows that price expectations increased in industry and construction, but fell across the remaining sectors compared to October.

In November, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with October. Uncertainty fell mostly in industry, with smaller decreases recorded in the other productive sectors. By contrast, uncertainty among consumers increased.

In October, industrial production and retail trade increased at a slower pace in annual terms, compared to September. The unemployment rate stood at 3.1% in October, marginally higher than that registered in the previous month and a year earlier.

Commercial building permits declined in October relative to their year-ago level, while residential permits increased. In November, both the number of promise-of-sale agreements and final deeds of sale fell on a year-on-year basis, and they were also lower in month-on-month terms.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 7.2% in November, marginally down from 7.4% in the previous month. Inflation based on the Retail Price Index (RPI) also declined from the previous month, standing at 7.1% in November, down from 7.5% in October.

Maltese residents' deposits expanded at an annual rate of 6.8% in October, following an increase of 8.4% in the previous month, while annual growth in credit to Maltese residents stood at 8.1%, below the rate of 8.8% recorded a month earlier.

In October 2022, the deficit on the Consolidated Fund narrowed when compared with a year earlier, as government revenue outpaced expenditure.

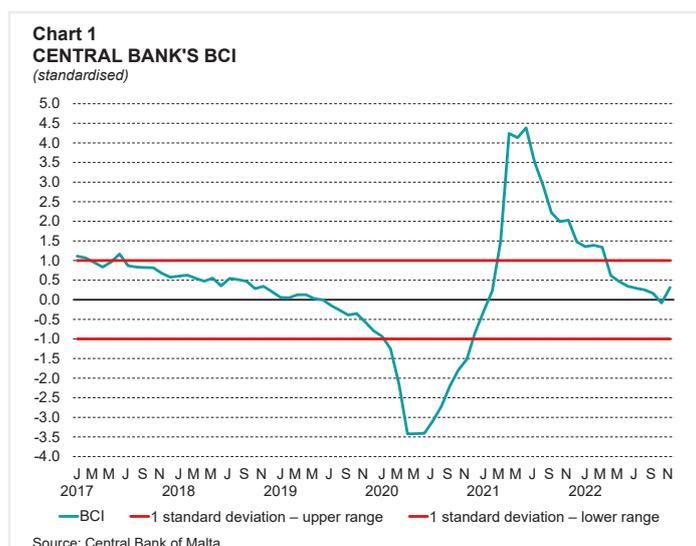
Central Bank's Business Conditions Index²

The Bank's BCI indicates that annual growth in business activity has normalised from its record highs registered in the first half of 2021, as activity in most sectors is close to, or is exceeding

¹ The cut-off date for information in this note is 16 December 2022. However, the cut-off date for the RPI is 21 December 2022. Most of the data reported in this issue of the *Economic Update* refer to October 2022. However, the latest data for the European Commission's confidence and uncertainty indicators, HICP, RPI, and the Bank's BCI refer to November.

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.

pre-pandemic levels (see Chart 1). Among BCI components, tourist arrivals, tax revenue, industrial production, and GDP experienced strong year-on-year growth. Moreover, the unemployment rate currently stands near historic lows although this edged up in the last two consecutive months. On the other hand, other variables, notably the Economic Sentiment Indicator (ESI), declined from their year-ago levels. Overall, growth is now slightly higher than its historical average estimated since January 2000.



Business and consumer confidence indicators

In November, the European Commission's ESI for Malta reached 95.9, up from 88.7 a month earlier. It was thus slightly higher than the euro area average of 93.7. Notwithstanding the latest increase, Malta's ESI remained below its level a year earlier (see Table 1).^{3,4,5,6} It also remained below its long-run average of around 100, which is estimated since November 2002.

In month-on-month terms, sentiment increased strongly in the services sector, albeit from a low level. It also improved in industry, in the construction sector, and to a lesser extent, among consumers. By contrast, sentiment deteriorated sharply among retailers.

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

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the increase in the overall sentiment between October and November was driven by developments in industry and the services sector (see Chart 2). Demeaned data also suggest that the confidence indicator for industry largely explains why the ESI stood below its long-term average in November.

In November, the sentiment indicator for the services sector stood at 20.2, up from 5.2 in the previous month, and marginally above its long-term average of 19.1.⁷ The strong increase in

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

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

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

⁶ From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. For further details on the methodology used by the European Commission, see [BCS User Guide](#).

⁷ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2020	2021	2021					2022							
			Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
ESI	82.6	105.0	105.1	94.7	101.7	117.6	108.1	103.6	103.7	102.3	100.1	97.7	94.4	88.7	95.9
<i>Services confidence indicator</i>	-23.2	13.6	20.9	-16.0	5.9	28.6	31.2	13.3	25.9	25.8	23.6	33.6	7.1	5.2	20.2
Business situation development over the past 3 months	-34.3	4.9	16.7	-14.3	-4.7	31.2	38.4	9.3	19.0	19.0	14.4	16.9	6.7	2.5	19.2
Evolution of the demand over the past 3 months	-33.6	10.7	13.6	-12.9	21.7	22.7	36.8	8.9	20.5	50.3	42.4	47.0	12.8	5.0	34.8
Expectation of the demand over the next 3 months	-1.6	25.4	32.5	-20.8	0.6	31.8	18.6	21.6	38.1	8.2	13.9	36.9	1.7	8.1	6.6
<i>Industrial confidence indicator</i>	-24.2	2.1	-8.5	-11.3	-4.2	25.1	1.4	-2.2	-14.8	-10.3	-14.3	-21.4	-11.4	-20.9	-16.7
Assessment of order-book levels	-47.8	-28.2	-36.7	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6	-40.7	-38.3	0.1	-5.4	-10.5
Assessment of stocks of finished products	26.6	-3.2	-13.2	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1	-8.3	29.6	50.0	51.9	2.7
Production expectations for the months ahead	1.9	31.3	-1.9	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5	-10.6	3.7	15.5	-5.4	-37.0
<i>Construction confidence indicator</i>	-4.5	7.3	4.0	5.1	9.8	5.2	3.4	15.1	18.1	15.1	5.2	8.7	5.9	-0.3	2.5
Evolution of your current overall order books	-4.9	1.4	3.1	-1.5	9.1	5.5	8.7	16.7	12.0	9.2	4.5	13.2	13.6	13.5	5.0
Employment expectations over the next 3 months	-4.1	13.2	4.9	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8	-14.1	0.0
<i>Consumer confidence indicator</i>	-5.7	3.4	4.1	0.0	-1.1	0.6	-2.6	2.0	0.0	-6.5	-10.3	-10.9	-9.7	-18.7	-17.8
Financial situation past 12 months	-2.2	-8.8	-6.3	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0	-25.6	-27.3	-20.5	-30.9	-32.4
Financial situation next 12 months	1.0	7.1	4.8	0.4	-0.9	-1.6	-2.9	-5.4	-11.2	-11.0	-16.6	-17.8	-15.5	-19.6	-21.2
Economic situation next 12 months	0.4	18.6	11.3	4.0	3.4	10.9	-1.7	8.9	3.5	1.8	-6.0	-8.5	-10.9	-16.0	-17.8
Major purchases next 12 months	-21.8	-3.4	6.8	5.3	4.1	6.1	3.0	12.6	21.5	4.3	7.1	10.0	7.9	-8.4	0.2
<i>Retail trade confidence indicator</i>	-30.3	-8.4	17.0	35.3	6.1	20.7	7.9	6.1	16.6	-3.0	0.6	-22.1	6.3	15.1	-10.6
Business activity, past 3 months	-21.8	-13.6	27.0	37.4	-17.6	18.7	13.0	17.5	43.1	16.2	30.5	-12.3	28.7	37.8	19.9
Stocks of finished goods	30.5	12.8	-0.3	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5	2.5	-2.4	-1.0	-0.4	15.9
Business activity, next 3 months	-38.4	1.2	23.6	32.7	0.1	26.3	9.7	4.5	4.4	-27.7	-26.2	-56.4	-10.7	7.2	-35.7
EI	87.0	104.1	105.6	99.6	105.2	78.0	113.6	105.0	117.6	117.0	113.7	116.7	99.5	112.6	98.3
Industry	-10.9	14.8	10.9	12.4	13.4	18.4	2.9	32.8	53.1	34.0	29.1	26.5	10.1	0.4	-39.2
Retail	-12.2	4.4	24.5	2.1	1.0	3.9	17.7	4.9	4.1	2.1	34.3	6.3	-0.3	64.7	25.9
Services	-0.7	25.1	22.5	14.7	31.0	-48.9	53.1	19.3	44.5	52.8	32.2	55.9	18.8	29.9	24.5
Construction	-4.1	13.2	4.9	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2	-1.8	-14.1	0.0
EUI^(1,2)	-	21.3	14.5	36.9	25.1	32.6	27.8	20.6	35.2	33.0	24.5	28.5	21.3	38.3	25.9
Industry	-	21.0	13.7	51.4	20.8	44.9	59.1	35.1	55.3	49.3	37.8	31.0	33.3	51.1	23.3
Retail	-	48.8	35.0	60.8	59.0	40.7	56.4	52.8	45.9	48.5	59.7	54.8	54.8	54.4	41.6
Services	-	32.2	23.1	42.8	45.1	38.1	-1.3	1.9	26.5	17.2	0.1	24.8	1.5	39.3	32.6
Construction	-	30.1	41.7	12.8	5.5	15.7	27.4	20.2	7.0	37.2	22.4	12.1	17.1	19.1	14.8
Consumers	-	-3.5	-8.9	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1	26.1	26.8	19.7	12.2	19.7
ESI demeaned	-17.4	5.0	5.1	-5.2	1.7	17.6	8.1	3.6	3.7	2.3	0.1	-2.3	-5.6	-11.3	-4.1
EI demeaned	-12.6	4.5	5.9	0.0	5.7	-22.0	14.2	5.5	18.3	17.7	14.1	17.4	-0.1	12.7	-1.5

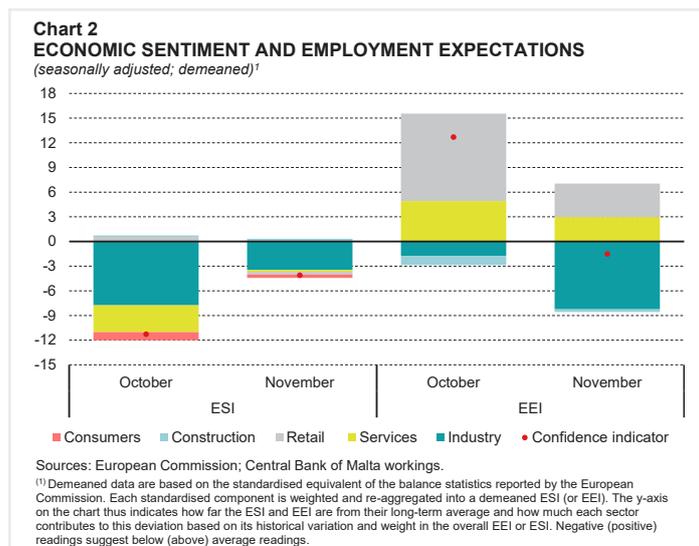
Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

confidence reflects a significant improvement in firms' assessment of demand, and of the business situation, registered in the previous three months. By contrast, expectations of demand over the next three months eased marginally, but remained positive.

Sentiment in industry averaged -16.7, up from -20.9 in October, though it remained below its long-term average of -4.2.⁸ Production expectations for the months ahead declined sharply compared with October. At the same time, a larger share of respondents assessed their order book levels to be below



⁸ 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.

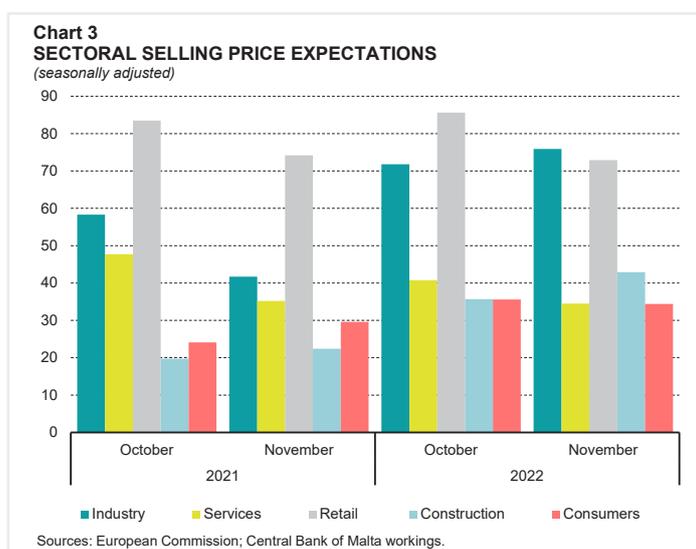
normal. However, the share of participants assessing their stocks of finished products to stand above normal levels decreased.⁹

The confidence indicator for the construction sector turned positive in the month under review. It reached 2.5, from -0.3 in October. In contrast to the previous month, when employment expectations were negative on balance, these expectations were broadly neutral in November. By contrast, the assessment of order book levels was less positive compared to October. Following the latest increase, sentiment in the sector remained well above its long-term average of -8.8.¹⁰

Consumer confidence was less negative compared to October, but stood below its long-term average of -10.2.¹¹ Sentiment edged up to -17.8, from -18.7 recorded a month earlier, reflecting an increase in expectations of major purchases for the coming months. This was offset by a weaker assessment of the financial situation in the past 12 months, and weaker expectations about the financial situation and the general economic situation in 12 months' time.

In November, the level of confidence in the retail sector turned negative. It decreased to -10.6, from 15.1 in October, falling well below its long-term average of -0.9.¹² The sharp decline in sentiment reflected a strong deterioration in retailers' expectations of business activity over the next three months. Their assessment of sales in recent months also weakened, but remained positive. Furthermore, in contrast to the previous month, retailers now assess their stock levels to be above normal.

Additional survey information shows that, in month-on-month terms, selling prices increased in industry and construction, but fell in all the other sectors. The largest decrease was recorded among retailers, although the net share of firms reporting price increases in this sector remained very high (see Chart 3). In fact, differences across sectors remained significant – while the net share of firms signalling price increases exceeded 70% in industry, and in the retail sector, that in other sectors stood between 34% and 43%.



⁹ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

¹⁰ The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

¹¹ The 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.

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

Price expectations stood above their year-ago level in all sectors, bar the services and retail sectors, where they stood marginally lower. The strongest increases were recorded in industry and construction.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased to 98.3 in November, from 112.6 a month earlier.¹³ Following this decline, the indicator fell below its long-term average or around 100.0, and below the euro area average of 107.4.

The decrease in employment expectations reflected a strong deterioration in industry, and the retail sector. Employment expectations in the services sector also weakened, albeit by a smaller degree. By contrast, expectations in the construction sector turned neutral from negative.

Demeaned data show that developments in industry largely explain why the overall EEI stood below its long-term average in November (see Chart 2).

In November, the European Commission's EUI – which is a composite indicator of how difficult it is for sectors to make predictions about their future financial or business situation – decreased to 25.9, from 38.3 in October, signalling lower uncertainty (see Table 1). The uncertainty indicator stood below that of the euro area, where the index reached 28.4. However, it exceeded its level recorded in November 2021.^{14,15}

In month-on-month terms, the decrease in Malta's uncertainty indicator was mainly driven by industry, although uncertainty also decreased in other productive sectors. By contrast, uncertainty among consumers increased from the previous month.

When accounting for the variation in weights of each sector, industry and services accounted for most of the uncertainty in November.

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 7.2%. This followed a rise of 13.2% in September (see Table 2).¹⁶

The recent increase in industrial production partly reflected a strong expansion in the output of firms that produce computer, electronic and optical products, followed by the sector associated

¹³ The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys, and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission (2020), *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

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

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

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

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2020	2021	2021		2022	
			Sep.	Oct.	Sep.	Oct.
Industrial production	-0.3	-0.3	-3.5	-5.1	13.2	7.2
Retail trade	-5.7	8.7	15.5	10.8	7.7	7.2
Number of tourist arrivals	-76.1	47.0	216.3	281.5	54.5	32.3
Number of nights stayed	-73.0	60.5	166.8	239.0	57.1	14.0
Rented accommodation	-76.8	73.8	225.8	295.8	60.6	14.4
Collective ⁽¹⁾	-76.5	74.3	263.4	311.7	30.2	11.9
Other rented ⁽²⁾	-77.3	72.9	162.8	266.4	130.9	19.7
Non-rented accommodation ⁽³⁾	-52.8	26.5	53.5	99.1	43.2	11.8
Tourist expenditure	-79.5	91.3	277.9	336.8	68.5	37.3
Package expenditure	-84.5	108.7	478.4	497.1	62.5	27.7
Non-package expenditure	-79.6	89.4	281.7	347.4	82.1	52.5
Other	-75.9	85.4	212.2	267.8	60.0	28.9

Sources: National Statistics Office; Eurostat.

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

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

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

with the manufacture of motor vehicles, trailers and semi-trailers, as well as the printing and reproduction of recorded media. Firms that manufacture chemical products and pharmaceutical goods also saw significant increases in their output in annual terms. Other increases in production were registered among firms that produce beverages, those that repair and install machinery and equipment, as well as those that manufacture wearing apparel. By contrast, the production of rubber and plastic products, textiles and other machinery, and equipment decreased in annual terms. Production in the energy sector also fell by 6.2% on an annual basis, after increasing by 9.7% in the previous month.

In October, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 7.2% in year-on-year terms, after rising by 7.7% in September.

In October, the tourism sector continued to report gains, even though tourist arrivals, guest nights and tourist expenditure were still below pre-pandemic levels. The number of inbound tourists stood at 236,872, up from 178,981 a year earlier. Nonetheless, it was still around 16.0% below the number of inbound tourists in October 2019. Guest nights also rose on a year earlier, and were equivalent to around 83% of those registered in October 2019. Total expenditure by tourists in Malta was also significantly higher than the level recorded in the corresponding period of 2021, and was equivalent to 93.0% of the pre-pandemic level.

In October, 218 development permits for commercial buildings were issued, 75 less than the number of permits issued in the same month a year earlier (see Table 3). Meanwhile, 776 new residential permits were issued, 326 more than the number issued in October 2021.

Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			Oct.	Nov.	Oct.	Nov.
Permits						
Commercial permits	2,687	2,770	293	260	218	-
Residential permits	7,837	7,578	450	646	776	-
Residential transactions						
Promise of sale	11,259	15,639	1,090	1,251	1,199	1,156
Final deeds of sale	11,057	14,368	1,157	1,330	1,449	1,262

Sources: National Statistics Office; Eurostat.

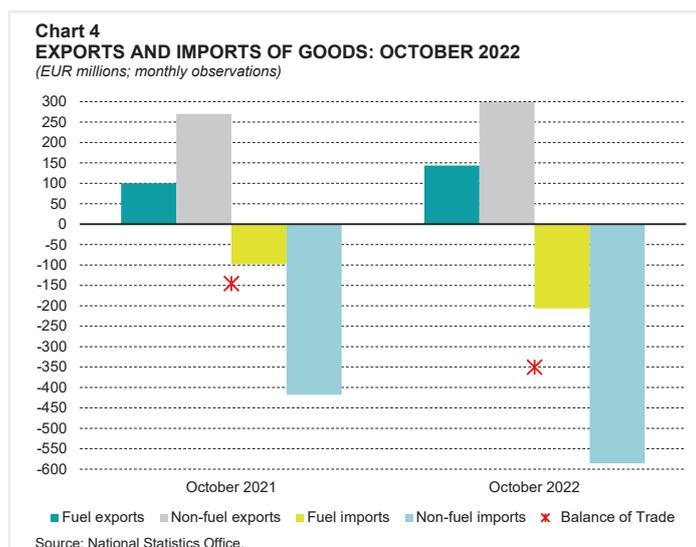
Data on residential property transactions show that 1,262 final deeds of sale were concluded in November, 187 less than the number concluded a month earlier, and 5.1% less than a year earlier. At 1,156, the number of promise-of-sale agreements was 43 less than a month earlier, and 7.6% below the amount registered in November 2021.

Customs data show that the merchandise trade deficit stood at €350.1 million in October, up from €145.7 million a year earlier. The larger deficit was due to a €276.5 million rise in imports which significantly offset a €72.0 million rise in exports (see Chart 4).

Higher imports were mainly on account of a substantial increase in the registration of aircrafts and fuel imports, together with a smaller increase in the imports of electrical machinery. Imports of optical instruments and plastics also contributed to the overall rise in imports. These offset lower registrations of sea vessels and, to a lesser extent, lower imports of fish and organic chemicals.

The increase in exports was due to higher fuel re-exports, followed by higher exports of fish. An increase in exports of electrical machinery, sea vessels, cereals and toys also contributed, but to a lesser extent. These outweighed lower exports of organic and other chemical products, as well as a decrease in exports of rubber articles and tobacco.

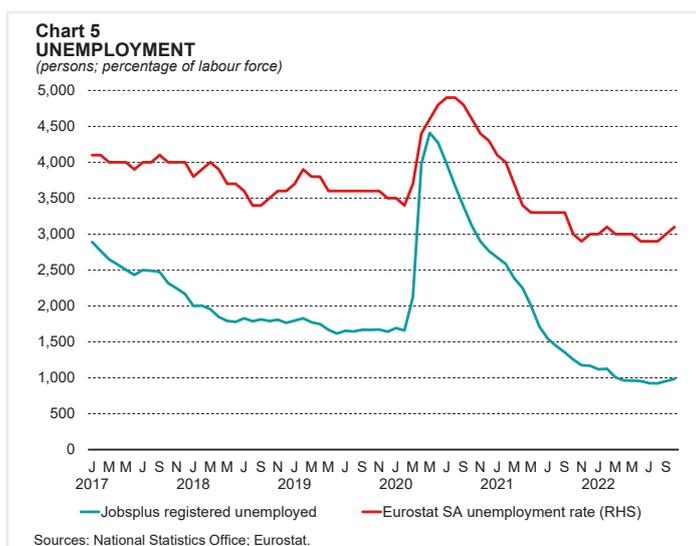
In the ten months to October, the visible trade gap widened to €4,111.4 million, from €2,438.1 million a year earlier, as the increase in imports was almost four times that in exports. The increase in imports was in large part driven by higher imports of fuels and higher registrations of aircraft and sea vessels.



Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 984 in October 2022, up from 955 in September, but lower than 1,254 a year earlier – when the labour market was still impacted by pandemic-related restrictions (see Chart 5). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

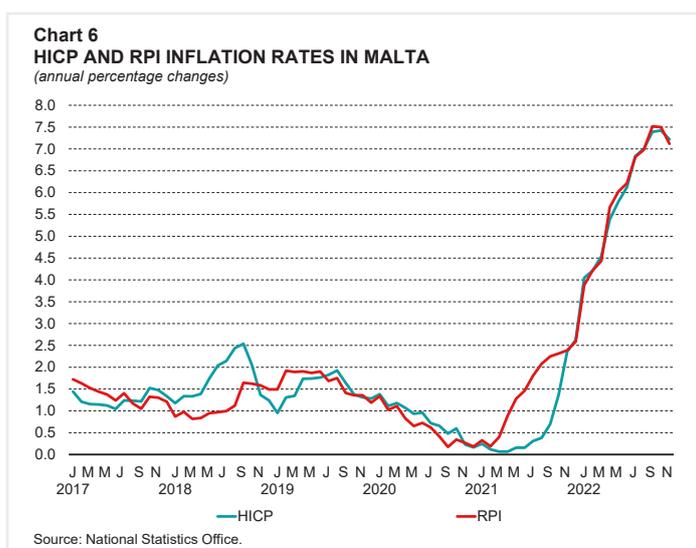
The seasonally-adjusted unemployment rate stood at 3.1% in October 2022, marginally above the rate of 3.0% registered in the previous month, and in October 2021.



Prices, costs and competitiveness

Annual HICP inflation was 7.2% in November, marginally down from 7.4% in the previous month (see Chart 6). This is the first time since 2021 that the annual rate of inflation has decreased. Food inflation (including alcohol and tobacco) fell to 11.5% in November, from 12.0% in October. This decline was driven by unprocessed food inflation, which fell to 10.0% from 14.4% in the previous month. On the other hand, processed food inflation edged up to 12.0%, from 11.3% in October. Services inflation also declined although to a lesser extent, standing at 6.5% in November, from 6.7% in the previous month. On the other hand, NEIG inflation edged up by 0.2 percentage point to 6.7% in November. As in recent months, energy prices remained unchanged, reflecting government measures aimed at shielding such prices from foreign price pressures.

Annual inflation according to the RPI stood at 7.1% in November, down from 7.5% in October (see Chart 6).¹⁷ In contrast to recent months, inflation in the food subcomponent declined in the month under review, although it



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

remained relatively elevated. Indeed, food inflation fell to 12.5% in November, down from 13.7% in the previous month. Inflation also declined in clothing and footwear as well as in recreation and culture. Prices of transport and communication also rose at a slower rate, although to a lesser extent. The latter is due to the abovementioned government measure to provide free public transport. On the other hand, prices of household equipment and house maintenance costs rose at a faster pace, with inflation in this subcomponent reaching 8.7%, up from 7.6% in October. Inflation of the beverage and tobacco sector as well as that of personal care and health also edged up. Inflation was unchanged for housing, standing at 19.0%, while prices remained unchanged in the energy sector.

Producer output inflation, as measured by the industrial producer price index, stood at 5.5% in October, up from 4.4% in September.¹⁸ The pick-up largely reflects faster growth in the prices of intermediate goods. Producer prices of consumer goods also rose at a slightly faster pace when compared to September. By contrast, producer prices for capital goods rose at a slower pace. Similar to recent months, energy prices remained unchanged, having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) was unchanged in the year to November 2022.¹⁹ The real HCI, which considers relative price changes, fell by 2.6% in annual terms in November, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage.

Public finance

During October 2022, the Consolidated Fund recorded a deficit of €145.5 million, a decrease of €13.9 million when compared to the deficit registered a year earlier (see Table 4). These developments reflect a rise in government revenue, which offset a smaller rise in government expenditure. In turn, the primary balance registered a deficit of €126.7 million, a decrease of €16.9 million from the primary deficit registered in October 2021.

Government revenue increased by €66.4 million, or 18.8%, with a rise in tax inflows offsetting a drop in non-tax revenue. Revenue from direct taxes rose by €62.2 million due to increases in both income taxes and social security contributions. The rise in the former is mainly driven by higher revenue from income taxes paid by companies, which outpaced a rise in those paid by households. Meanwhile, indirect taxes increased by €9.7 million, due to an increase in VAT receipts. Non-tax revenue decreased by €5.4 million, mainly on the back of lower grants.

Government expenditure increased by €52.6 million, or 10.2%, when compared to the corresponding period in 2021. This is due to a substantial increase in recurrent expenditure which offset a significantly smaller decrease in capital expenditure. The latter fell by €8.8 million, partly reflecting lower expenditure on road construction and maintenance.

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

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

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021		2022		Change	
	Jan.-Oct.	Jan.-Oct.	Oct.	Oct.	Amount	%
Revenue	3,727.9	4,215.2	353.8	420.2	66.4	18.8
Direct tax	2,059.0	2,357.1	196.6	258.8	62.2	31.6
Income tax	1,471.1	1,666.4	134.3	184.7	50.4	37.5
Social security contributions ⁽¹⁾	587.8	690.7	62.3	74.1	11.8	18.9
Indirect tax	1,282.4	1,484.2	102.4	112.1	9.7	9.5
Value Added Tax	769.7	968.8	51.0	65.9	14.9	29.3
Customs and excise duties	242.4	235.0	27.9	25.1	-2.8	-10.0
Licences, taxes and fines	270.3	280.5	23.5	21.1	-2.4	-10.3
Non-tax⁽²⁾	386.6	373.9	54.8	49.4	-5.4	-9.9
Expenditure	4,778.1	4,828.6	513.2	565.8	52.6	10.2
Recurrent	4,273.7	4,364.4	440.5	501.8	61.3	13.9
Personal emoluments	844.6	866.4	80.5	82.6	2.1	2.6
Operational and maintenance	217.6	196.8	27.2	22.3	-4.9	-18.2
Programmes and initiatives	2,514.6	2,579.5	260.1	317.5	57.4	22.1
Contributions to entities	544.1	576.7	57.0	60.7	3.7	6.6
Interest payments	152.8	145.0	15.7	18.8	3.1	19.4
Capital	504.4	464.2	72.7	63.9	-8.8	-12.0
Primary balance⁽³⁾	-897.3	-468.4	-143.7	-126.7	16.9	-
Consolidated Fund balance	-1,050.1	-613.4	-159.4	-145.5	13.9	-

Source: National Statistics Office.

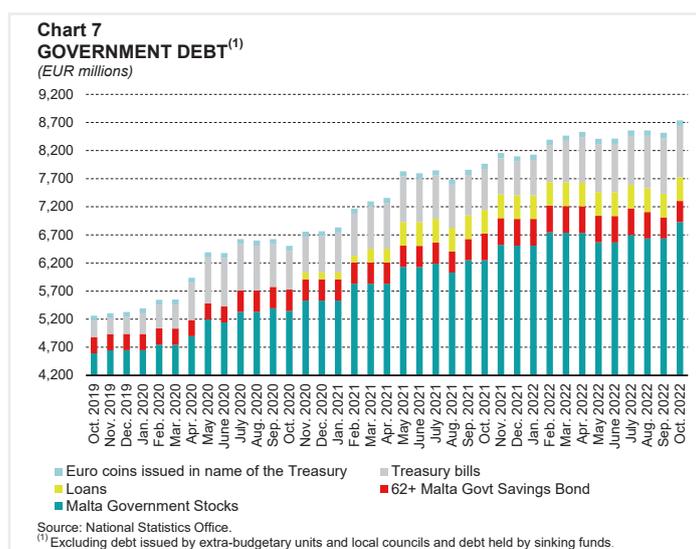
⁽¹⁾ Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

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

⁽³⁾ Revenue less expenditure excluding interest payments.

Meanwhile, recurrent expenditure increased by €61.3 million, largely on the back of higher expenditure on programmes and initiatives, which increased by €57.4 million. This reflects significant outlays on energy support. This was slightly offset by lower outlays on operation and maintenance, which declined by €4.9 million. The month of October also featured increased outlays on personal emoluments, contributions to entities and interest payments. These increased by €2.1 million, €3.7 million, and €3.1 million, respectively.

In October 2022, the total stock of outstanding government debt amounted to €8,738.0 million, an increase of €221.4 million when compared with September 2022 (see Chart 7). This rise was mainly attributable to the issue of Malta Government Stocks.



Deposits, credit and financial markets

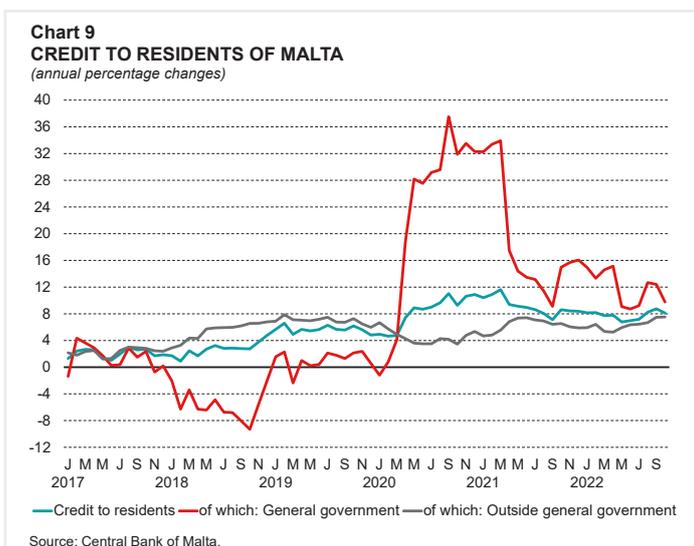
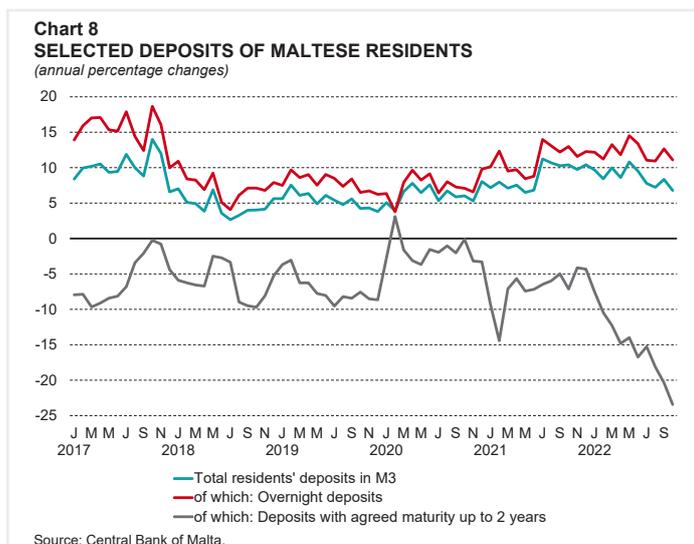
In October, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 6.8%, down from 8.4% a month earlier (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 91% of their M3 balances. This deposit category – which is the most liquid – grew by 11.1% in the year to October, below the 12.7% recorded in the previous month. At the same time, time deposits with a maturity of up to two years – the second largest deposit category – fell by 23.4% in annual terms, following a contraction of 20.4% in the year to September. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

Credit to Maltese residents grew at an annual rate of 8.1% in October, below the 8.8% recorded a month earlier (see Chart 9). This deceleration was driven by a smaller increase in credit to general government. Annual growth in this component stood at 9.8%, down 12.4% in September. Meanwhile, growth in credit to residents outside general government stood at 7.5%, unchanged from a month earlier.

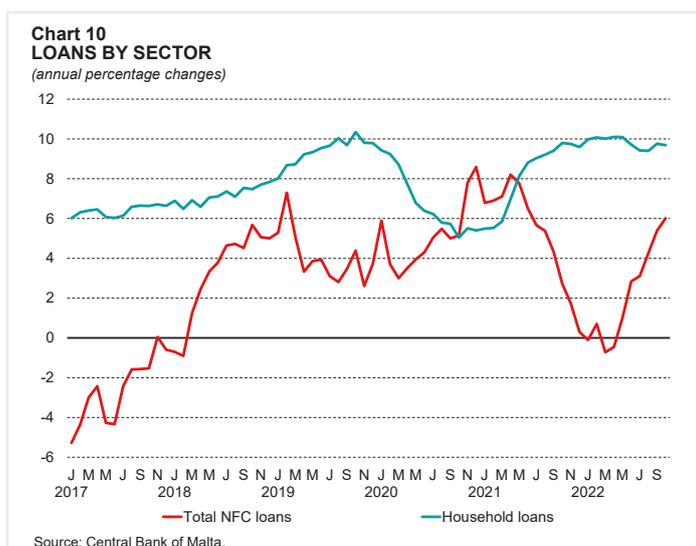
The annual rate of change of loans to households eased slightly to 9.7% in October, from 9.8% in the previous month (see Chart 10). Growth in mortgage lending stood at 10.4%, marginally below the 10.5% recorded in the year to September. On the other hand, consumer credit and other lending rose at a faster rate of 1.6%, following an increase of 1.1% a month earlier.

Meanwhile, the annual rate of change of loans to non-financial corporations (NFCs) reached 6.0% in October, from 5.4% in September. The acceleration was largely driven by faster growth in loans to the real estate sector. This was followed by a smaller contraction in loans to the construction sector, and the sector comprising administrative and support service activities. By contrast, loans to the energy sector, and to a smaller extent, in the accommodation and food services sector,



declined at a faster pace. At the same time, loans to the transportation, storage, information and communication sector increased at a slower pace.

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



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

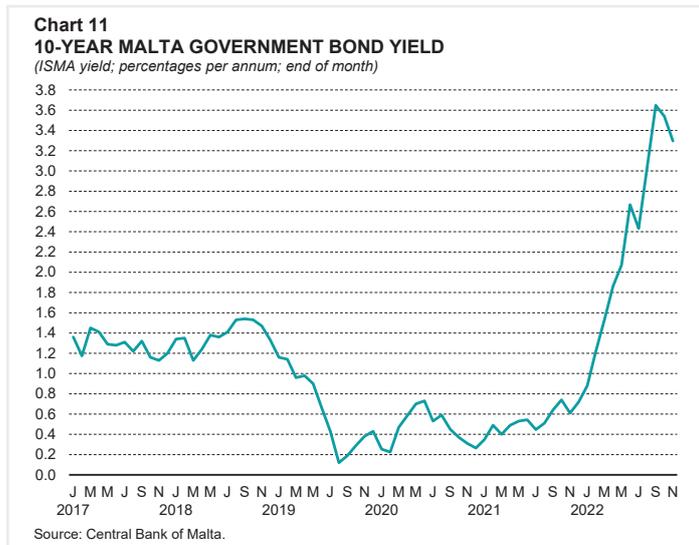
In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-October, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €13.0 million.

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

As regards interest rates, in October, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits remained unchanged from a month earlier, at 0.14%. Meanwhile, the composite rate charged on outstanding loans edged up by 1 basis point, to 3.24% in October. As a result, the spread between the two rates widened slightly, standing at 310 basis points.

²⁰ The CGS is administered by the Malta Development Bank for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See [MDB Working Capital Guarantee Scheme](#) for further details.

On the capital market, the secondary market yield on 10-year Maltese government bonds eased to 3.30% at the end of November, 24 basis points less than at the end of October. Nonetheless it remained elevated compared to its year-ago level, exceeding it by 269 basis points (see Chart 11). This reflects the recent increases in ECB policy rates, and expectations of monetary policy tightening in light of expected persistent, albeit declining, inflation above target.



Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index decreased by 3.1% when compared with October. Similar movements were observed in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.

MACROECONOMIC INDICATORS FOR MALTA																																
Annual percentage changes; non-seasonally adjusted data																																
	2019	2020	2021	2021	2021	2022	2022	2022	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	2022	2022	2022	2022	2022	2022			
				Q3	Q4	Q1	Q2	Q3	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	
Prices and costs																																
HICP inflation	1.5	0.8	0.7	0.5	2.1	4.3	5.8	7.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7	1.4	2.4	2.6	4.1	4.2	4.5	5.4	5.8	6.1	6.8	7.0	7.4	7.4	7.2	
RPI inflation	1.6	0.6	1.5	2.0	2.4	4.2	6.0	7.1	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2	2.3	2.4	2.6	3.9	4.2	4.4	5.7	6.0	6.2	6.8	7.0	7.5	7.5	7.1	
Industrial producer price inflation	2.2	0.3	3.2	3.8	6.5	7.0	5.3	4.4	0.9	0.5	1.1	1.2	1.8	2.3	1.4	4.4	5.6	5.7	6.3	7.5	7.2	6.7	7.0	5.7	5.3	4.9	5.0	3.7	4.4	5.5	-	
HCI (nominal)	-0.7	1.8	0.4	-0.8	-1.7	-1.3	-2.2	-2.4	3.8	3.6	0.8	1.6	1.7	0.7	-0.1	-1.2	-1.2	-1.6	-1.6	-1.9	-1.7	-1.0	-1.1	-2.3	-2.4	-1.8	-2.5	-2.6	-2.1	-1.0	0.0	
HCI (real)	-1.1	1.5	-1.9	-3.2	-4.5	-3.3	-4.8	-4.8	2.4	2.1	-1.2	-0.7	-0.8	-1.7	-2.3	-3.7	-3.7	-4.3	-4.4	-4.7	-3.2	-2.8	-3.7	-4.9	-5.0	-4.6	-4.9	-5.0	-4.6	-3.7	-2.6	
Unit labour costs, whole economy ⁽¹⁾	3.5	11.4	-2.3	0.6	-2.3	-4.0	-2.7	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Compensation per employee ⁽¹⁾	3.8	-0.8	4.9	4.1	4.9	3.7	2.0	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Labour productivity (per person) ⁽¹⁾	0.2	-10.9	7.4	3.3	7.4	8.0	4.9	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	5.1	5.9	4.5	6.8	7.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																																
Nominal GDP	9.5	-7.2	13.8	18.1	16.0	12.1	15.3	11.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.0	-8.6	11.7	15.8	13.4	8.3	9.4	5.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.0	-10.5	8.0	9.6	10.3	11.6	12.8	7.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	13.1	15.7	6.5	3.6	4.6	-2.0	13.7	-1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	11.8	-6.5	10.6	12.5	12.7	4.6	-7.0	-0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	10.3	-1.6	6.3	8.7	7.2	7.8	8.2	10.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	11.4	2.0	3.8	4.0	4.7	6.4	7.2	10.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																																
LFS unemployment rate (% of labour force)	3.6	4.4	3.4	3.3	3.0	2.9	2.9	2.9	4.0	3.9	3.7	3.4	3.4	3.4	3.3	3.4	3.3	3.1	3.0	3.0	2.9	3.0	2.9	2.9	3.0	2.9	2.9	2.9	3.0	3.1	-	
LFS employment	6.6	2.6	3.2	4.2	5.6	5.0	4.9	5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	6.6	4.2	2.7	3.6	3.9	5.1	5.5	-	0.7	0.4	1.1	2.0	2.8	3.1	3.2	3.6	3.8	3.6	3.9	4.2	4.6	5.3	5.3	5.2	5.4	5.9	5.9	-	-	-	-	-
Balance of payments																																
Current account (as a % of GDP) ⁽²⁾	5.0	-2.9	-4.6	-3.4	-4.6	-4.8	-4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																																
Maltese residents' deposits and loans																																
Overnight deposits	6.2	9.8	12.3	12.2	12.3	13.3	13.4	12.7	10.1	12.3	9.5	9.7	8.4	8.8	14.0	13.1	12.2	13.0	11.6	12.3	12.2	11.2	13.3	11.8	14.5	13.4	11.0	10.9	12.7	11.1	-	
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-5.0	-4.3	-12.3	-16.7	-20.4	-9.4	-14.4	-7.1	-5.7	-7.4	-7.2	-6.5	-6.0	-5.0	-7.1	-4.1	-4.3	-7.5	-10.5	-12.3	-14.8	-14.0	-16.7	-15.3	-18.1	-20.4	-23.4	-	
Total residents' deposits in M3	3.8	8.0	10.4	10.3	10.4	10.0	9.5	8.4	7.2	8.0	7.1	7.5	6.5	6.8	11.2	10.7	10.3	10.4	9.7	10.4	9.7	8.4	10.0	8.6	10.8	9.5	7.8	7.2	8.4	6.8	-	
Credit to general government	0.6	32.3	16.1	9.1	16.1	14.6	8.7	12.4	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.1	15.0	15.7	16.1	14.9	13.3	14.6	15.1	9.1	8.7	9.2	12.7	12.4	9.8	-	
Credit to residents (excl. general government)	6.0	5.3	5.9	6.4	5.9	5.3	6.3	7.5	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	6.4	6.5	6.0	5.9	5.9	6.4	5.3	5.2	5.9	6.3	6.4	6.7	7.5	7.5	-	
Total credit	4.8	10.9	8.4	7.1	8.4	7.7	7.0	8.8	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	7.1	8.6	8.4	8.1	8.2	7.7	7.8	6.8	7.0	7.2	8.2	8.8	8.1	-		
10-year interest rate (% ⁽³⁾)	0.4	0.3	0.7	0.6	0.7	1.5	2.7	3.6	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.6	0.7	0.6	0.7	0.9	1.2	1.5	1.9	2.1	2.7	2.4	3.0	3.6	3.5	3.3	
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	-4.5	-0.7	1.8	-8.2	1.1	-0.7	-2.4	-4.8	-1.3	6.2	-1.8	-1.3	-1.8	1.5	-0.4	-0.8	-2.3	5.0	-4.8	-2.1	-1.5	2.5	-0.3	-1.1	0.4	-1.6	0.5	0.9	-3.1	
Liquidity support measures related to COVID-19																																
Outstanding loans subject to a moratorium ⁽⁵⁾	-	691.9	14.1	36.4	14.1	-	-	-	680.7	645.6	411.7	234.4	144.2	99.6	87.0	75.1	36.4	28.6	25.4	14.1	0.0	-	-	-	-	-	-	-	-	-	-	
Sanctioned amount under the MDB CGS ⁽⁵⁾	-	408.1	505.9	508.8	505.9	489.3	482.6	482.6	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	508.8	508.6	507.3	505.9	505.5	497.8	489.3	489.1	486.6	482.6	482.6	482.6	482.6	482.6	-	
Disbursed amount under the MDB CGS ⁽⁵⁾	-	287.1	453.0	414.5	453.0	459.6	468.9	470.2	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	414.5	434.9	441.9	453.0	457.4	459.6	465.5	467.4	466.4	468.9	469.5	469.7	470.2	470.2	-	
General government finances (% of GDP)																																
Surplus (+) / deficit (-) ⁽²⁾	0.6	-9.4	-7.8	-7.9	-7.8	-7.8	-6.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross debt ⁽⁶⁾	40.7	53.3	56.3	56.2	56.3	57.4	55.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

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

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