



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA ECONOMIC UPDATE

12/2023

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The cut-off date for information in this note is 14 December 2023. However, the cut-off date for the HICP and RPI is 19 December and 21 December 2023, respectively. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 12/2023

Summary¹

The Bank's Business Conditions Index (BCI) indicates that in November, annual growth in business activity returned towards its historical average, estimated since January 2000.

The European Commission confidence surveys show that sentiment in Malta decreased in November, falling below its long-term average, estimated since November 2002. In month-on-month terms, sentiment deteriorated in the services and retail sectors and in industry, while it improved in construction and among consumers.

Additional data show that in month-on-month terms, price expectations edged down among firms in industry and in the services sector but rose in the remaining sectors. The most significant increase was recorded in the retail sector.

In November, the European Commission's Economic Uncertainty Indicator (EUI) for Malta edged down compared with October, indicating lower uncertainty. Uncertainty decreased mostly in the construction sector.

In October, industrial production rose at a slower pace, while retail trade contracted at faster pace, compared with a year earlier. The unemployment rate remained unchanged at 2.5% over the last three consecutive months and stood below that of 2.8% in October 2022.

Commercial building permits in October were marginally higher than a month earlier and were also higher when compared with a year earlier. Meanwhile, residential building permits rose compared with the previous month, but were lower on a year earlier. In November, the number of residential promise-of-sale agreements rose on a year-on-year basis, while the number of final deeds of sales fell.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 3.9% in November, down from 4.2% in the previous month. Inflation based on the Retail Price Index (RPI) eased to 3.6%, from 3.7% in October.

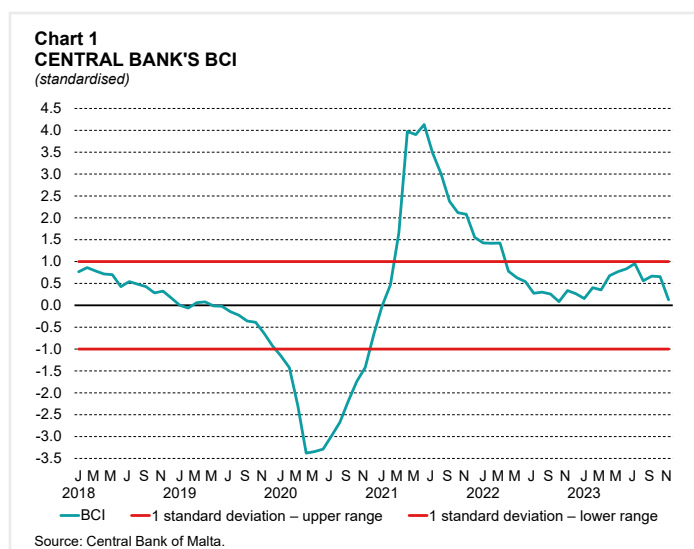
The level of Maltese residents' deposits decreased from their year ago level. This decline reflects lower balances belonging to financial intermediaries and, to a lesser extent, those belonging to firms, while household deposits increased. Meanwhile, annual growth in credit to Maltese residents increased at a faster pace compared with a month earlier.

In October, the Consolidated Fund recorded a smaller deficit compared with a year earlier. This reflects a rise in government revenue and a decline in government expenditure.

¹ The cut-off date for information in this note is 14 December 2023. However, the cut-off date for the HICP and RPI is 19 December and 21 December 2023, respectively. Most of the data reported in this issue of the *Economic Update* refer to October 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures refer to November.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that in November, annual growth in business activity declined towards its long-term average, estimated since January 2000 (see Chart 1). The issuance of development permits for residential buildings declined strongly in year-on-year terms, while the ESI also decreased, although marginally. On the other hand, GDP growth stood strongly above its long-term average, pushing the index upwards. Moreover, tax revenue and inbound tourism continue to register higher than average growth. Furthermore, the unemployment rate remained at very low levels.



Business and consumer confidence indicators

In November, the European Commission's Economic Sentiment Indicator (ESI) for Malta decreased to 96.4, from 102.8 in October. It thus dipped below its long-term average of around 100.0, estimated since November 2002 (see Table 1).^{3,4,5} However, sentiment stood above the euro area average of 93.8.

In month-on-month terms, sentiment deteriorated in the services and retail sectors, as well as in industry, while it improved in construction and among consumers.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the services sector largely explains why the ESI stood below its long-term average in November (see Chart 2).

In November, the sentiment indicator for the services sector decreased to 6.5, from 25.1 a month earlier. Following this decline, sentiment in this sector stood below its long-term average of 19.6.⁶

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

³ The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%. From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. See [BCS User Guide](#) for further details on the methodology used by the European Commission.

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 Past ESI and EEI results were slightly revised due to seasonal adjustment.

⁶ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances: percentage points; seasonally adjusted

	2021	2022	2022					2023							
			Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
ESI	104.9	100.9	96.9	97.0	101.4	104.7	111.2	113.9	103.2	100.3	108.4	102.9	119.9	102.8	96.4
<i>Services confidence indicator</i>	13.8	20.6	23.3	21.2	19.5	30.7	42.7	40.9	35.5	38.2	27.1	7.4	17.0	25.1	6.5
Business situation development over the past 3 months	4.9	15.7	21.6	1.6	12.4	30.7	42.9	32.9	33.9	41.9	32.1	1.6	21.0	14.5	7.3
Evolution of the demand over the past 3 months	10.9	26.2	33.9	20.0	19.7	38.5	30.7	37.2	38.7	30.8	16.7	5.9	20.8	31.5	-2.1
Expectation of the demand over the next 3 months	25.5	19.8	14.4	42.1	26.5	23.0	54.4	52.4	34.0	42.0	32.5	14.8	9.2	29.2	14.3
<i>Retail trade confidence indicator</i>	-8.4	6.0	-10.2	27.4	25.5	-0.5	23.8	36.2	-9.0	-16.5	23.4	18.2	9.6	0.1	-9.2
Business activity, past 3 months	-13.6	21.1	19.9	57.7	41.8	21.8	47.2	55.2	-0.1	-4.2	40.4	34.3	21.3	11.5	7.2
Stocks of finished goods	12.8	-3.2	15.9	3.1	15.9	22.9	1.9	1.1	19.6	24.9	10.8	16.2	11.5	18.9	44.4
Business activity, next 3 months	1.2	-6.2	-34.6	27.5	50.5	-0.2	26.2	54.5	-7.2	-20.5	40.7	36.6	18.9	7.6	9.7
<i>Industrial confidence indicator</i>	2.1	-9.4	-16.7	-23.5	-8.6	-3.2	6.8	8.5	-11.4	-20.0	10.6	9.1	44.4	0.3	-4.7
Assessment of order-book levels	-28.2	-21.5	-10.5	-10.1	-4.3	-7.2	-50.3	-49.0	-39.6	-36.8	-15.9	-1.8	40.5	1.1	10.8
Assessment of stocks of finished products	-3.2	9.1	2.7	2.2	2.6	19.2	3.6	-3.6	4.6	6.0	1.7	3.2	-43.5	3.1	30.8
Production expectations for the months ahead	31.3	2.2	-37.0	-58.1	-18.8	16.8	74.1	70.9	9.9	-17.3	49.4	32.3	49.1	2.9	5.8
<i>Consumer confidence indicator</i>	3.4	-7.3	-17.5	-11.8	-10.3	-6.8	-10.9	-6.9	-9.9	-10.4	-11.8	-12.8	-9.9	-16.2	-12.3
Financial situation past 12 months	-8.9	-19.7	-30.8	-22.7	-19.1	-16.2	-22.9	-21.4	-19.3	-21.4	-18.7	-21.8	-23.1	-19.9	-19.5
Financial situation next 12 months	7.3	-11.8	-21.8	-13.4	-11.3	-8.8	-12.0	-8.6	-7.4	-8.4	-10.6	-10.1	-13.2	-8.0	
Economic situation next 12 months	18.6	-3.5	-17.8	-9.2	-10.0	-4.2	-11.0	-4.7	-11.5	-12.6	-18.3	-14.8	-6.5	-21.7	-18.1
Major purchases next 12 months	-3.4	5.6	0.2	-1.8	-0.6	1.9	2.4	6.8	-1.4	0.7	0.3	1.4	0.1	-9.8	-3.4
<i>Construction confidence indicator</i>	7.3	7.0	2.5	-4.3	2.9	17.5	-0.2	24.7	22.5	8.4	-11.7	-14.1	-2.7	-11.9	2.8
Evolution of your current overall order books	1.4	8.7	5.0	-6.6	2.4	6.3	-15.9	3.6	-0.3	16.1	-29.9	-20.5	-3.4	-9.7	-22.3
Employment expectations over the next 3 months	13.2	5.4	0.0	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	-7.7	-2.1	-14.1	27.8
EEl	103.5	106.4	103.5	110.8	111.8	111.1	123.2	122.8	107.8	106.1	104.4	102.4	96.3	99.2	96.9
Industry	14.8	12.0	-39.2	-37.4	8.2	13.6	60.2	57.1	-2.7	7.8	53.6	4.8	-1.2	16.6	-6.2
Retail	4.4	15.8	27.3	26.7	16.1	10.6	38.9	20.8	5.0	4.4	22.3	30.9	8.6	13.9	12.9
Services	25.1	30.2	37.5	56.9	46.5	41.1	46.1	49.5	38.3	36.7	6.2	17.5	12.3	12.9	9.3
Construction	13.2	5.4	0.0	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	-7.7	-2.1	-14.1	27.8
EUl^(1,2)	21.3	28.1	25.9	24.4	14.0	2.9	5.5	19.4	-3.2	11.0	1.7	10.2	27.9	26.9	24.1
Industry	21.0	39.4	23.3	32.0	10.9	-14.8	-10.8	35.8	-13.6	6.3	-21.7	7.1	32.6	28.7	23.9
Retail	48.8	50.8	41.6	40.4	18.7	14.2	9.0	7.3	27.9	22.0	-9.8	-8.5	4.1	-18.9	12.9
Services	32.2	20.3	32.6	17.2	16.4	16.4	17.2	-1.7	-6.8	10.1	20.4	9.4	35.8	37.7	35.2
Consumers	-3.5	13.7	19.7	13.5	13.9	12.2	11.9	19.8	12.3	19.2	16.3	17.8	11.6	15.9	11.3
Construction	30.1	19.5	14.8	35.2	19.7	14.5	36.6	25.2	9.0	10.1	29.5	28.4	32.5	37.5	22.1
ESI demeaned	4.9	0.9	-3.2	-3.0	1.4	4.7	11.1	13.8	3.2	0.3	8.4	2.9	19.9	2.7	-3.5
EEl demeaned	3.4	6.2	2.1	9.0	11.2	10.8	23.8	23.3	7.2	5.7	5.5	2.2	-3.8	-0.6	-3.3

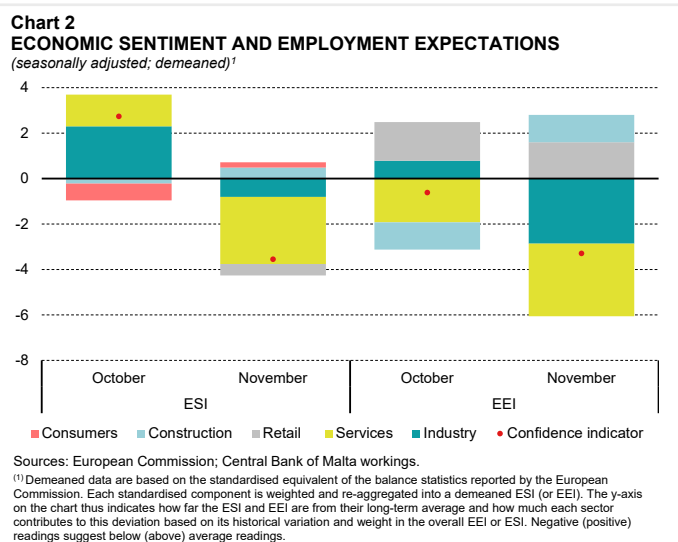
Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

Contrary to the previous month, firms' assessment of demand in recent months turned negative. At the same time, the share of respondents with positive expectations of demand over the next three months, and a positive assessment of sales over the past three months, decreased.

Confidence in the retail sector also fell below its long-term average of 0.0 in November.⁷ It stood at -9.2, down from 0.1 in the previous month. The net share of respondents reporting stocks of finished goods to be above normal, more than doubled.⁸ At the same time, retailers' assessment of sales in recent months stood less positive compared



⁷ 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.

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

with October. These developments offset an increase in the share of participants with positive expectations for business activity over the next three months.

Sentiment in industry turned negative in November. It stood at -4.7, down from 0.3 in the previous month, and falling further below its long-term average of -3.9.⁹ The recent decline in sentiment was driven by a significant increase in the share of firms assessing their stocks of finished products to be above normal levels. On the other hand, a larger net share of respondents assessed order book levels to be above normal. At the same time, on balance, firms were slightly more optimistic about production expectations for the months ahead.

The consumer confidence indicator reached -12.3, above the -16.2 recorded in the previous month, but below its long-term average of -10.2.¹⁰ The improvement was visible in all subcomponents, although all were negative on balance.

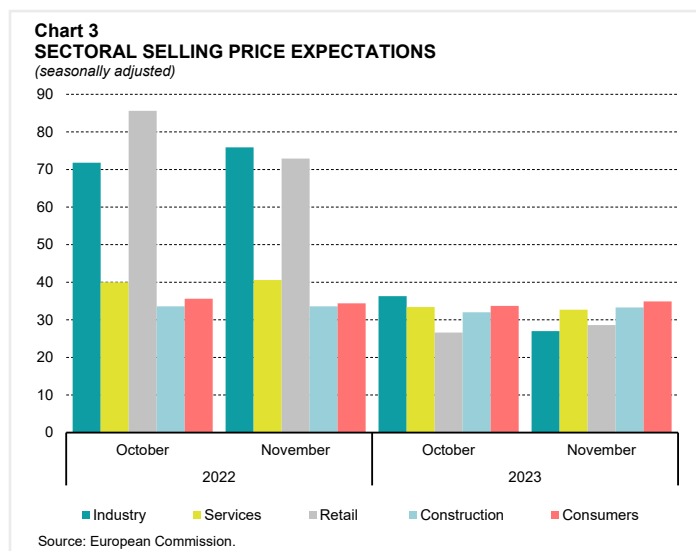
The confidence indicator for the construction sector was positive for the first time since June.¹¹ It stood at 2.8, up from -11.9 in October, and above its long-term average of -8.1. Contrary to the previous three months, respondents held positive employment expectations. By contrast, a higher share of participants assessed order book levels to be below normal.

Additional survey information shows that, in month-on-month terms, price expectations edged down among firms in industry and in the services sector but rose in the remaining sectors (see Chart 3). The largest increase was recorded in the retail sector.

The net share of respondents signalling price increases ranged from 27% in industry to around 35% among consumers.

Price expectations stood firmly below their year-ago level in industry and in the retail sector. Those in the services and construction sectors have also adjusted down, though to a lesser degree. By contrast, price expectations among consumers stood slightly higher. Price expectations stood above their long-run average in all sectors.

The European Commission's Employment Expectations Indicator (EEI) – which is a



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](#).

¹¹ 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.

composite indicator of employment expectations in industry, services, retail trade and construction – eased to 96.9 in November, from 99.2 in October.¹² The indicator stood below its long-term average of around 100.0, and the euro area average of 102.1.

Demeaned data suggest that the decrease in employment expectations was largely driven by developments in industry, and in the services sector. These sectors also 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 – edged down, signalling lower uncertainty. It fell to 24.1, from 26.9 in October (see Table 1). However, it exceeded that of the euro area.^{13,14} In month-on-month terms, the decrease was largely driven by lower uncertainty in the construction sector. Uncertainty also eased in all other sectors except for retailers. In contrast to the previous month, the latter reported difficulty in assessing their financial situation.

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

Activity indicators

In October, the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing, and energy sectors – rose by 1.9% on a year-on-year basis, at a slower pace compared to 3.2% in September (see Table 2).¹⁵

In the manufacturing sector, production rose at a faster annual rate of 2.6%, after increasing by 0.9% in September. In October, strong increases were recorded among firms involved in the production of basic pharmaceutical products, and in 'other manufacturing' which includes medical and dental instruments. Output also increased among firms that produce machinery and equipment, and furniture. These offset annual decreases among firms involved in the manufacturing of wearing apparel, motor vehicles, trailers, and semi-trailers. Output also fell somewhat among firms that manufacture chemicals and chemical products, and fabricated metal products.

Meanwhile, production in the energy sector rose by 8.3% in October – after rising by 6.6% a month earlier. Likewise, activity in the quarrying sector rose significantly on an annual basis.

¹² 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*.

¹³ 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.

¹⁴ Data on consumer uncertainty became available in October 2020, while data for industry, services, retail, and construction became available in May 2021.

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

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2021	2022	2022		2023	
			Sep.	Oct.	Sep.	Oct.
Industrial production	0.1	2.8	10.5	5.0	3.2	1.9
Retail trade	9.7	10.1	7.4	8.4	-0.2	-0.6
Number of tourist arrivals	47.0	134.4	56.3	33.7	20.2	31.1
Number of nights stayed	60.5	96.3	59.0	15.4	8.0	30.7
Rented accommodation	73.8	110.0	62.1	15.6	8.9	33.9
Collective ⁽¹⁾	74.3	108.6	31.6	12.9	17.1	26.7
Other rented ⁽²⁾	72.9	112.4	132.8	21.1	-1.8	47.8
Non-rented accommodation ⁽³⁾	26.5	48.1	46.6	14.8	3.8	14.7
Tourist expenditure	91.3	130.0	69.6	38.2	21.9	39.0
Package expenditure	108.7	128.9	63.3	28.3	18.5	54.1
Non-package expenditure	89.4	145.0	83.0	53.2	32.6	32.9
Other	85.4	116.8	61.6	30.1	13.1	36.6

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).

The volume of retail trade – which is a short-term indicator of final domestic demand – contracted by 0.6% in year-on-year terms, following a contraction of 0.2% in September. The contractions in the past two months mark the first year-on-year declines since February 2021.

During October, the tourism sector continued to perform well. The number of inbound tourists amounted to 313,705, an increase of 31.1% on a year earlier. Guest nights also rose on a year earlier. Total expenditure by tourists in Malta increased by almost 40% over the level recorded in the corresponding period of 2022, with the increase being broad-based across all expenditure categories. Per capita, nights stayed was practically unchanged compared with October 2022, while expenditure per capita increased.

In October, 257 development permits for commercial buildings were issued, 39 more than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 577 new residential building permits were issued, almost 200 less than the number issued in October 2022. In month-on-month terms, commercial permits rose only marginally, while residential permits rose at a more pronounced rate.

Data on residential property transactions show that 1,001 final deeds of sale were concluded in November, 136 less than the number concluded a month earlier, and 293 less than a year earlier. At 1,232, the number of promise-of-sale agreements was six more than a month earlier, and 77 more compared with a year earlier.

Table 3
PROPERTY MARKET

Levels

	2021	2022	2022			2023		
			Sep.	Oct.	Nov.	Sep.	Oct.	Nov.
Permits								
Commercial permits	2,770	2,984	195	218	262	254	257	-
Residential permits	7,578	9,599	595	776	894	435	577	-
Residential transactions								
Promise of sale	15,639	12,164	974	1,197	1,155	1,027	1,226	1,232
Final deeds of sale	14,368	14,331	1,067	1,449	1,294	836	1,137	1,001

Sources: National Statistics Office; Planning Authority.

Customs data show that the merchandise trade deficit stood at €318.1 million in October, down from a deficit of €343.9 million a year earlier. This was due to a €126.4 million decline in imports, which offset a €100.5 million decrease in exports (see Chart 4).

Lower imports were mainly on account of a substantial decrease in the registration of aircrafts. Imports of fuel, organic chemicals and machinery and mechanical appliances also decreased, but to a lesser extent. These offset higher registrations of sea vessels, and to a lesser extent, higher imports of fish, vehicles and vehicle parts and pharmaceutical products.

The decrease in exports mainly reflected lower fuel re-exports and exports of fish. Registrations of ships also declined, together with exports of toys and machinery and mechanical appliances. These offset higher exports of electrical machinery, and to a lesser extent, exports of printed material, iron and steel, and footwear.

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Labour market

Jobsplus data show that the level of engagements in the labour market stood at 9,993 in September, up from 9,260 in August, but down from 11,191 a year earlier (see Table 4). Meanwhile, the level of terminations stood at 12,091 in September, up from 8,661 in August, but down from 13,250 recorded a year earlier. This level of activity is above the average level of engagements and terminations in recent years.¹⁶

¹⁶ Averages are estimated since January 2020.

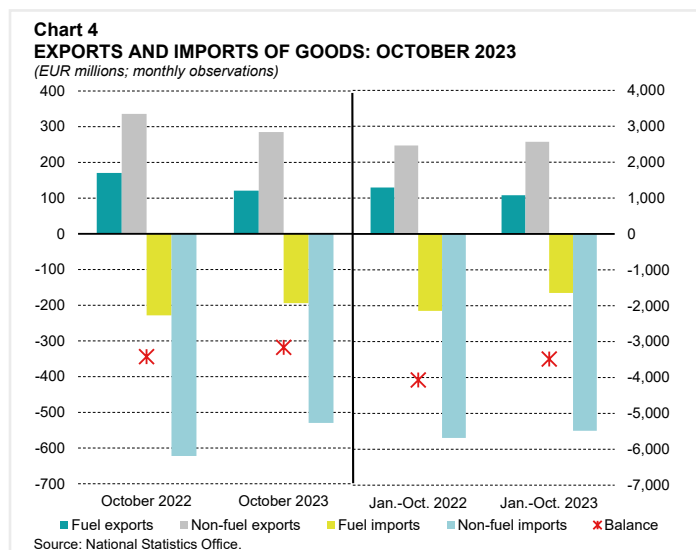


Table 4
NET ENGAGEMENTS

Levels

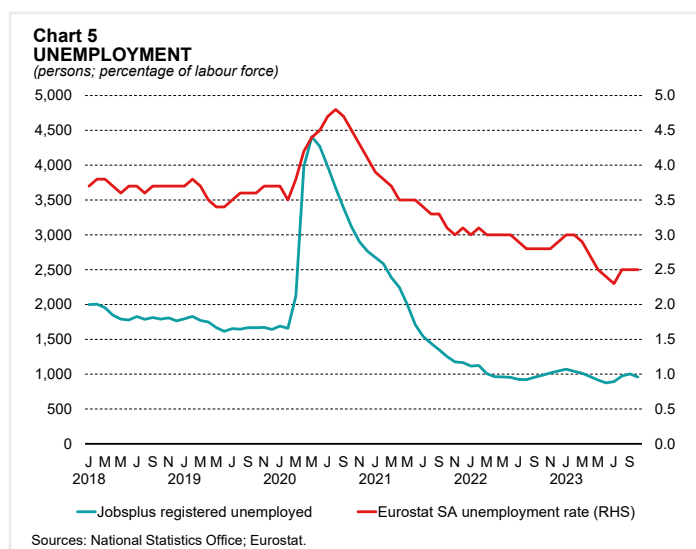
	2021	2022	2022			2023		
			July	Aug.	Sep.	July	Aug.	Sep.
Engagements	113,407	130,589	16,148	10,751	11,191	14,706	9,260	9,993
Terminations	93,035	101,993	8,252	9,942	13,250	7,659	8,661	12,091
Net Engagements	20,372	28,596	7,896	809	-2,059	7,047	599	-2,098

Source: Jobsplus.

Data are provisional and thus subject to change.

As the number of terminations exceeded that of engagements, the level of net engagements in September stood at -2,098, down from 599 in August, and from -2,059 a year earlier.

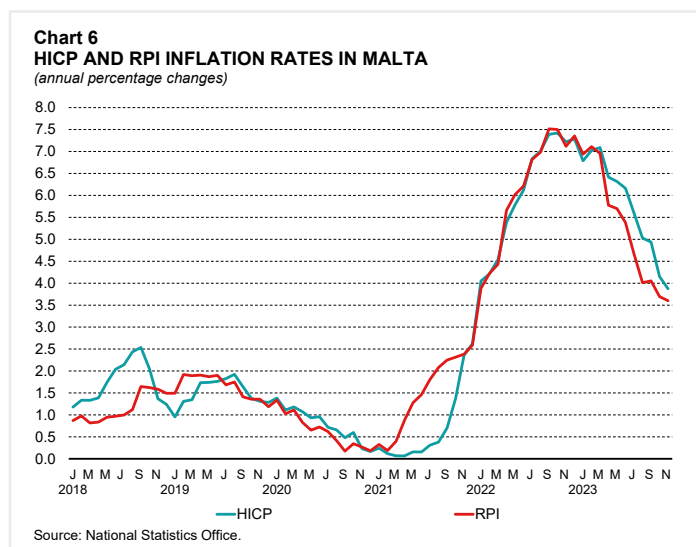
Jobsplus data show that the number of persons on the unemployment register stood at 959 in October, down from 1,004 in September, and from 984 recorded a year earlier (see Chart 5).



The seasonally-adjusted unemployment rate remained unchanged at 2.5% over the last three consecutive months. It went down from 2.8% in October 2022.

Prices, costs and competitiveness

Annual HICP inflation eased to 3.9% in November, from 4.2% a month earlier (see Chart 6). This was driven by slower growth in processed food inflation, services inflation as well as NEIG inflation. Overall, food inflation remained unchanged at 7.2% in November, as a drop in processed food inflation was counteracted by a rise in unprocessed food inflation. While inflation in the former eased to 7.3% from 8.2% a month earlier,



unprocessed food inflation rose to 6.7% from 4.0% in October. Meanwhile, NEIG inflation slowed down to 2.2%, from 2.6% in October, mainly on the back of lower price increases of durable goods. At the same time, services inflation eased marginally to 3.9% from 4.0% a month earlier. Energy inflation remained unchanged at zero reflecting the government measures aimed at shielding consumers from international energy price pressures.

Annual inflation according to the RPI stood at 3.6% in November, 0.1 percentage point lower than in October (see Chart 6).¹⁷ The easing in inflation was driven by lower inflation in several sub-components. Transport and communication inflation dipped into negative territory, at -0.3%. Inflation in furnishings and household equipment slowed down to 3.2%, from 4.5% in October. Meanwhile, inflation in beverages and tobacco slowed down to 3.9%, from 5.0% in the previous month. On the other hand, food inflation rose to 7.5%, from 6.8% in October. Clothing and footwear inflation fell by 0.8% in November, following a drop of 1.4% in October. Energy prices remained unchanged.

Producer output inflation, as measured by the industrial producer price index, continued to ease, standing at 2.0% in October, from 3.0% in September.¹⁸ This mostly reflects slower growth in producer prices of intermediate goods, which grew by 0.2% in October, after increasing by an annual rate of 3.0% in September. Producer prices of capital and consumer goods also rose at a slower pace. The former rose by 4.0%, after a 4.8% increase in October. Meanwhile, the annual rate of change of consumer goods prices decreased from 5.7% to 5.1%. Domestic energy producer prices remained unchanged and thus had no impact on overall producer prices.

Public finance

In October 2023, the Consolidated Fund recorded a deficit of €107.8 million, an improvement compared with the deficit of €145.5 million registered a year earlier (see Table 5). This was due to a rise in government revenue, coupled by a decline in government expenditure. The primary balance registered a deficit of €87.1 million, €39.7 million less than the deficit registered in October 2022.

Government revenue increased by €20.4 million, or 4.8%, due to higher tax revenue. This mostly reflected higher receipts from direct taxes, in the form of income taxes and social contributions. It also reflected an increase in inflows from licences, taxes, and fines due to timing of receipts from the annual circulation tax. Meanwhile, non-tax revenue decreased, mainly due to lower miscellaneous receipts and grants from the EU.

Government expenditure decreased by €17.3 million, or 3.1%, due to a decrease in recurrent expenditure, coupled with a small decline in capital expenditure. Recurrent spending fell by €16.0 million, due to lower expenditure on programmes and initiatives, which declined by €40.4 million. The latter mostly reflects the timing of spending on energy support measures. All other forms of recurrent spending increased, albeit by relatively lower levels. Capital expenditure declined slightly by €1.3 million, mainly reflecting a decline in outlays on road construction.

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. Moreover, the 2023 set of weights applied to the HICP index have been revised compared with the 2022 weights. The weights of the RPI are not updated annually and are hence not affected by such changes.

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.

Table 5
CONSOLIDATED FUND BALANCE

EUR millions

	2022	2023	2022	2023	Change	
	Jan.-Oct.	Jan.-Oct.	Oct.	Oct.	Amount	%
Revenue	4,215.2	4,881.5	420.2	440.6	20.4	4.8
Direct tax	2,357.1	2,847.5	258.8	286.2	27.4	10.6
Income tax	1,666.4	2,094.2	184.7	201.4	16.7	9.0
Social security contributions ⁽¹⁾	690.7	753.3	74.1	84.8	10.7	14.5
Indirect tax	1,484.2	1,606.3	112.1	124.4	12.3	11.0
Value Added Tax	968.8	1,027.1	65.9	54.9	-10.9	-16.6
Customs and excise duties	235.0	248.1	25.1	26.5	1.4	5.5
Licences, taxes and fines	280.5	331.1	21.1	43.0	21.9	103.8
Non-tax⁽²⁾	373.9	427.7	49.4	30.0	-19.4	-39.3
Expenditure	4,863.6	5,037.2	565.8	548.4	-17.3	-3.1
Recurrent	4,364.4	4,492.5	501.8	485.8	-16.0	-3.2
Personal emoluments	866.4	912.9	82.6	89.6	7.1	8.6
Operational and maintenance	196.8	253.8	22.3	32.2	10.0	44.7
Programmes and initiatives	2,579.5	2,513.2	317.5	277.0	-40.4	-12.7
Contributions to entities	576.7	637.7	60.7	66.1	5.4	8.9
Interest payments	145.0	175.0	18.8	20.8	2.0	10.5
Capital	499.2	544.7	63.9	62.6	-1.3	-2.1
Primary balance⁽³⁾	-503.4	19.3	-126.7	-87.1	39.7	-
Consolidated Fund balance	-648.4	-155.7	-145.5	-107.8	37.7	-

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.

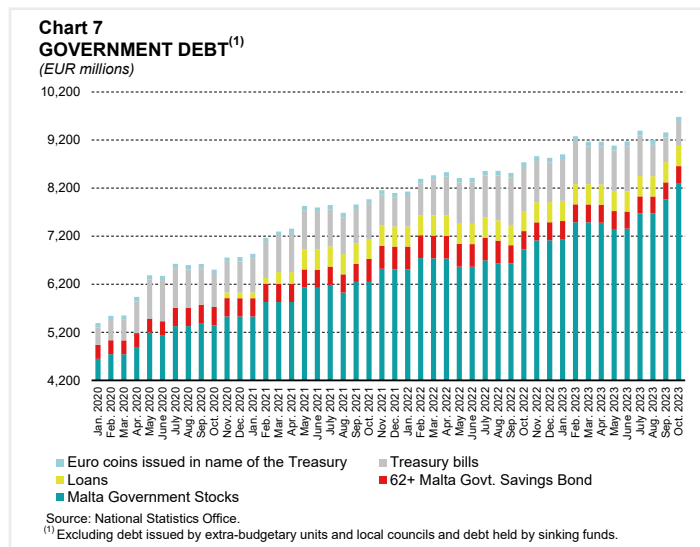
(2) Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

(3) Revenue less expenditure excluding interest payments.

In October 2023, the total stock of outstanding government debt amounted to €9,680.9 million, €322.0 million more than the level in September 2023 (see Chart 7). This primarily reflects new issues of Malta Government Stocks.

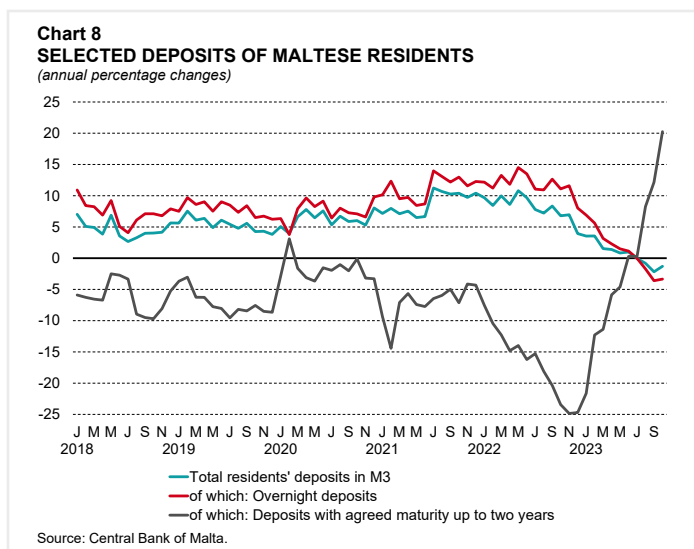
Deposits, credit and financial markets

During the 12 months to October, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) decreased by 1.3%. This follows a decline of 2.2% during the year to September (see Chart 8). The latest



contraction was mostly driven by balances belonging to financial intermediaries, and to a lesser extent, those belonging to NFCs. By contrast, M3 deposits belonging to households increased.

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 89% of their M3 balances. These deposits – which are the most liquid – fell by 3.3% in the year to October, following a decrease of 3.6% in the previous month. This decrease reflects a shift in behaviour, in response to the tightening of monetary policy.

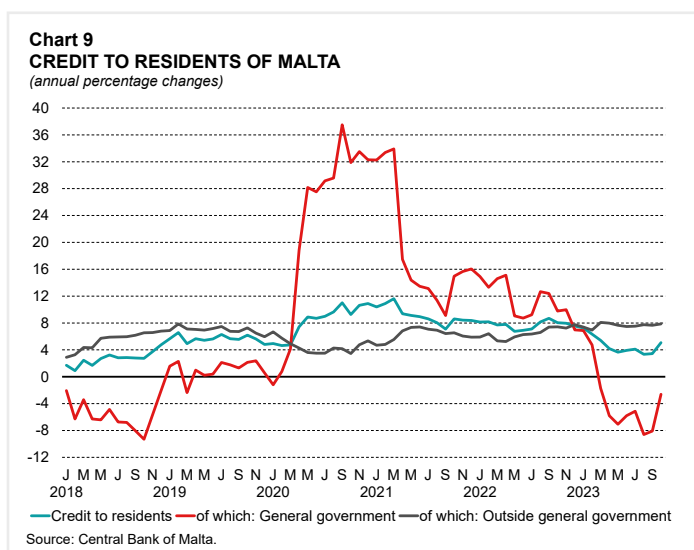


Meanwhile, time deposits with agreed maturity of up to two years – the second largest deposit category – registered a strong increase of 20.3%, compared with 12.1% in the year to September. This outcome reflects more attractive terms on fixed deposit accounts by certain credit institutions. The latest increase was driven by higher balances belonging to households, as balances held by NFCs increased to a lesser extent.

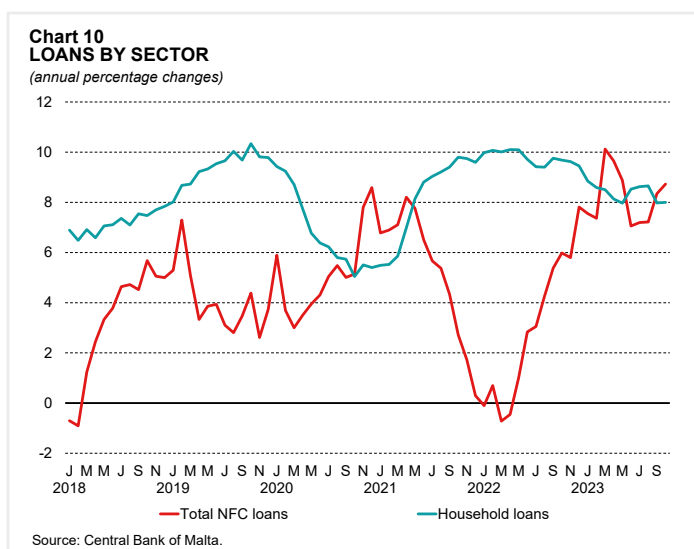
Credit to Maltese residents grew by 5.1% in October, up from 3.4% a month earlier (see Chart 9). In part, this reflected a smaller contraction in credit to general government. This credit component fell by 2.6% over the 12 months to October, following a year-on-year contraction of 8.1% in September. At the same time, annual growth in credit to residents outside general government edged up to 7.9%, from 7.7% a month earlier.

The annual rate of change in loans to households stood at 8.0% in October, unchanged from the previous month (see Chart 10). Growth in mortgage lending remained unchanged when compared with a month earlier, standing at 7.7% in the 12 months to October. By contrast, growth in consumer credit and other lending reached 12.0%, above the 11.3% recorded in the year to September.

Meanwhile, the annual rate of change in loans to non-financial



corporations stood at 8.7% in October, above the 8.3% recorded a month earlier. Loans for professional, scientific and technical activities rose at a faster pace. A similar pattern can be observed in lending to the sector comprising transport, storage, information and communication activities. At the same time, loans to the wholesale and retail trade sector decreased at a slower pace. These developments were partly offset by slower growth in loans to the real estate sector. Slower growth was also recorded in loans to the construction and energy sectors.



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).¹⁹ The value of loans in November was unchanged when compared with October. By end-November 2023, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding value of loans from this scheme stood unchanged at €4.4 million.

In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS).²⁰ The value of loans was unchanged in November when compared with the preceding month. By the end of November 2023, a total of €24.5 million was approved under one of these schemes. The outstanding value of loans stood unchanged at €24.1 million.

As regards interest rates, in October, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits edged up by 1 basis point compared to September, standing at 0.28%. Meanwhile, the composite rate charged on outstanding loans stood at 3.59% in October, 2 basis points lower than that recorded a month earlier. As a result, the spread between the two rates decreased to 331 basis points in October.

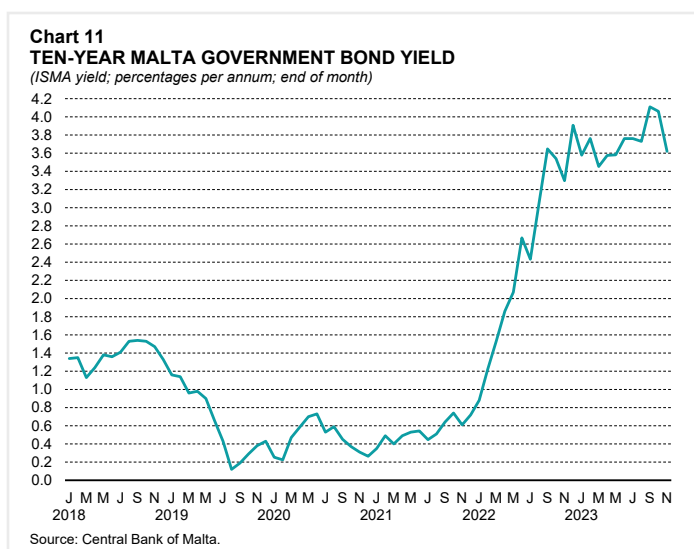
The composite rate paid by MFIs on Maltese residents' new deposits reached 2.49% in October, above the 2.17% recorded in September. It was also higher than the rate recorded for October 2022, which stood at 1.19%. Meanwhile, the composite rate charged on new loans increased by 43 basis points on a month earlier, standing at 3.02%. However, it was below the rate recorded a year earlier. As a result, the spread between the two rates increased to 54 basis points.

¹⁹ The 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. The total portfolio allocated for this scheme is €30.0 million.

²⁰ The LSGS 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.

In the capital market, at the end of November, the secondary market yield on ten-year Maltese government bonds decreased from its end-October level and stood at 3.62%. However, it stood 32 basis points above its year-ago level (see Chart 11). The year-on-year increase reflects the transmission of increases in ECB policy rates to government bond yields.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index increased when compared with end-October, rising by 2.8%. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



Annex 1

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2020	2021	2022	2022	2022	2022	2023	2023	2023	2022	2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	
				Q2	Q3	Q4	Q1	Q2	Q3	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	
Prices and costs																							
HICP inflation	0.8	0.7	6.1	5.8	7.1	7.3	7.0	6.3	5.2	7.2	7.3	6.8	7.0	7.1	6.4	6.3	6.2	5.6	5.0	4.9	4.2	4.2	3.9
RPI inflation	0.6	1.5	6.2	6.0	7.1	7.3	7.0	5.6	4.2	7.1	7.4	6.9	7.1	7.0	5.8	5.7	5.4	4.7	4.0	4.1	3.7	3.6	3.6
Industrial producer price inflation	0.3	3.2	5.5	5.4	4.6	5.3	4.5	4.7	3.9	6.0	4.3	3.7	5.1	4.6	5.1	4.5	4.5	4.3	4.4	3.0	2.2	-	-
HCI (nominal)	1.8	0.3	-1.4	-2.0	-2.3	-0.1	1.4	3.4	5.0	0.0	0.6	1.2	1.2	1.8	3.6	3.3	3.2	5.0	5.5	4.5	3.9	3.6	3.6
HCI (real)	1.5	-1.9	-3.6	-4.5	-4.6	-2.1	0.4	3.5	4.9	-2.1	-0.8	-0.6	-0.1	1.8	3.3	3.5	3.8	5.1	5.0	4.6	4.0	3.3	3.3
Unit labour costs, whole economy ⁽¹⁾	10.3	-4.8	1.2	-3.7	-1.4	1.2	2.4	3.0	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	-1.6	4.1	3.3	3.2	2.9	3.3	3.3	2.7	3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-10.7	9.4	2.0	7.3	4.3	2.0	0.8	-0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	3.4	5.1	6.7	7.6	6.3	5.9	6.6	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																							
Nominal GDP	-6.6	14.8	13.9	16.6	12.7	13.8	12.5	12.1	13.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	-8.1	12.6	8.2	10.6	6.4	7.3	6.4	5.9	7.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	-10.7	8.1	10.8	14.2	9.3	6.8	8.9	7.6	7.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	14.9	6.5	2.4	10.6	2.7	-2.3	1.8	-3.7	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-5.9	12.5	31.4	20.6	35.2	42.7	-14.8	-18.1	-26.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-1.8	7.7	7.1	7.3	9.7	2.4	9.7	11.9	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.5	4.9	10.1	9.4	14.4	5.3	7.0	7.8	-0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																							
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	2.9	2.9	2.9	2.9	2.5	2.5	2.9	2.9	3.0	2.9	2.8	2.7	2.5	2.4	2.4	2.5	2.6	2.5	-	-
LFS employment	2.6	3.1	5.2	4.9	5.1	5.5	5.3	4.9	5.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	4.2	2.6	6.0	5.1	6.2	7.9	8.5	7.9	-	8.0	8.4	8.6	8.4	8.4	8.2	8.0	7.6	7.5	-	-	-	-	-
Balance of payments																							
Current account (as a % of GDP) ⁽²⁾	2.2	1.2	-3.0	-1.1	-2.2	-3.0	-2.9	-1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																							
Maltese residents' deposits and loans																							
Overnight deposits	9.8	12.3	8.0	13.5	12.7	8.0	3.2	1.1	-3.6	11.6	8.0	6.9	5.6	3.2	2.3	1.5	1.1	0.0	-1.7	-3.6	-3.3	-	-
Deposits with agreed maturity up to two years	-3.3	-4.3	-24.7	-16.2	-20.4	-24.7	-11.4	0.3	12.1	-24.9	-24.7	-21.6	-12.3	-11.4	-5.9	-4.6	0.3	0.3	8.3	12.1	20.3	-	-
Total residents' deposits in M3	8.0	10.4	3.9	9.7	8.4	3.9	1.5	1.0	-2.2	7.0	3.9	3.5	3.6	1.5	1.4	0.8	1.0	0.0	-0.8	-2.2	-1.3	-	-
Credit to general government	32.3	16.1	7.0	8.7	12.4	7.0	-1.7	-5.8	-8.1	10.0	7.0	6.9	4.7	-1.7	-5.8	-7.1	-5.8	-5.1	-8.6	-8.1	-2.6	-	-
Credit to residents (excl. general government)	5.3	5.9	7.8	6.3	7.4	7.8	8.1	7.5	7.7	7.2	7.8	7.4	6.9	8.1	8.0	7.7	7.5	7.5	7.8	7.7	7.9	-	-
Total credit	10.9	8.4	7.5	6.9	8.7	7.5	5.4	3.9	3.4	8.0	7.5	7.3	6.3	5.4	4.2	3.7	3.9	4.1	3.3	3.4	5.1	-	-
Ten-year interest rate (%) ⁽³⁾	0.3	0.7	3.9	2.7	3.6	3.9	3.5	3.8	4.1	3.3	3.9	3.6	3.8	3.5	3.6	3.6	3.8	3.8	3.7	4.1	4.1	3.6	3.6
Stock prices: Malta Stock Exchange Equity Price Index ⁽⁴⁾	-12.4	-4.5	-9.9	1.1	-0.7	-2.2	-0.4	5.9	-1.5	-3.1	0.0	-0.1	2.5	-2.7	2.3	3.4	0.1	1.1	-1.3	-1.3	-2.0	2.8	2.8
General government finances (% of GDP)																							
Surplus (+) / deficit (-) ⁽²⁾	-9.6	-7.5	-5.7	-6.0	-5.4	-5.7	-4.9	-4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁵⁾	52.2	54.0	52.3	52.7	51.9	52.3	52.4	50.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

⁽¹⁾ Four-quarter moving averages.

⁽²⁾ Four-quarter moving sums.

⁽³⁾ End of period.

⁽⁴⁾ Period-on-period percentage changes, based on end-of-month data.

⁽⁵⁾ GDP data are four-quarter moving sums.