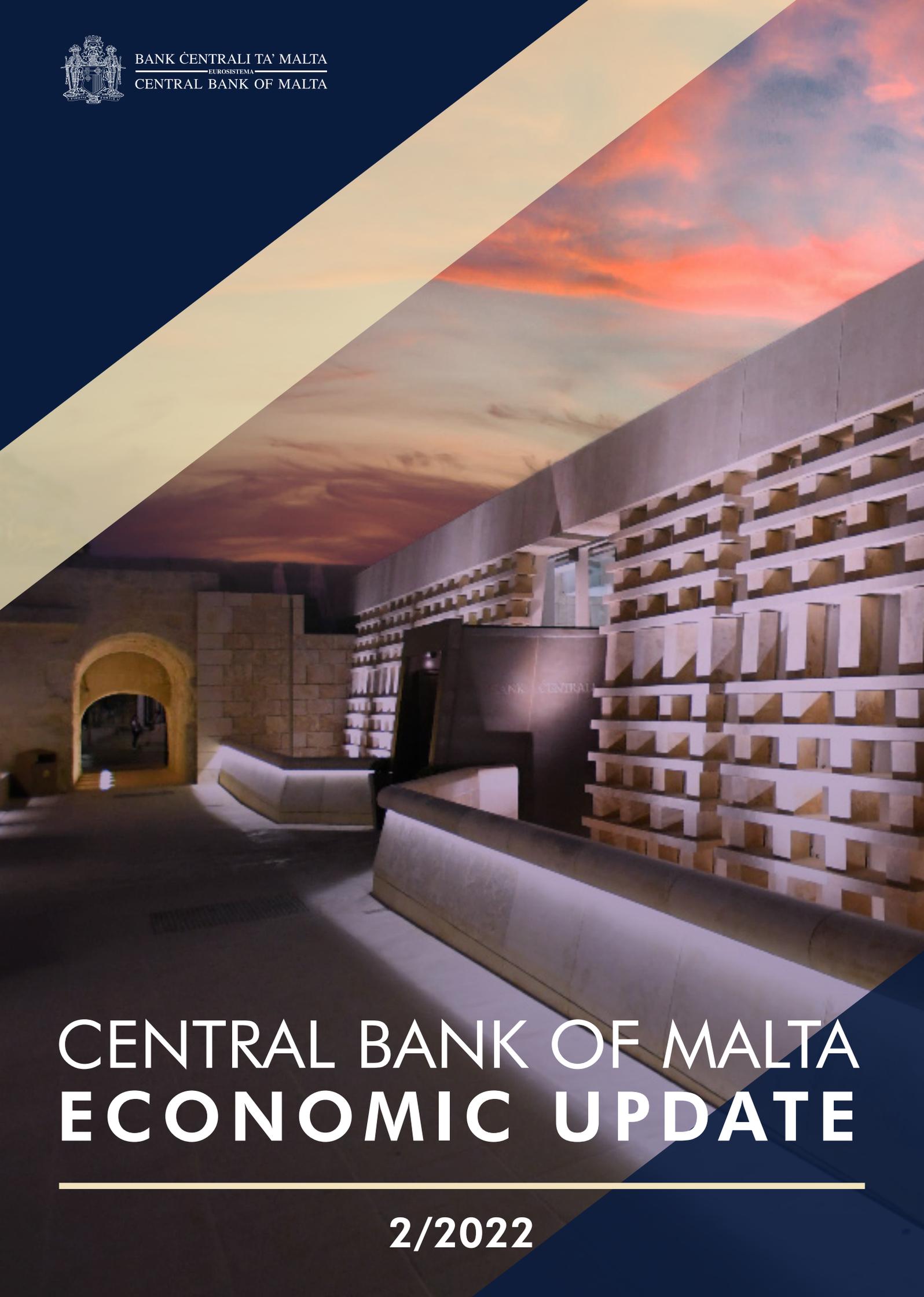




BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

2/2022

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ECONOMIC UPDATE 2/2022

Summary¹

The Bank's Business Conditions Index shows that in January annual growth in business activity remained well above its historical average, though it is gradually normalising, as many economic variables are reaching their pre-pandemic levels.

European Commission data show that economic sentiment in Malta rose in January when compared with December. It stood well above its level a year earlier and was marginally higher than its long-term average. The recent increase was driven by improved sentiment across all sectors but fell in the retail sector and to a lower extent among consumers.

In January, the European Commission's Economic Uncertainty Indicator (EUI) eased when compared with December. The recent decrease in uncertainty was largely driven by developments in industry, and to a lesser degree, in the construction and retail sectors. On balance, consumers continued to report that they were able to predict their household's financial situation with relative ease but less so relative to December. Meanwhile, uncertainty increased in the services sector.

In December, industrial production contracted on an annual basis for the fifth consecutive month and fell at a faster pace when compared with November. The volume of retail trade conversely rose, though at a slower pace when compared to a month earlier. The unemployment rate was unchanged from that recorded in November and well below last year's rate.

Commercial permits increased slightly in December relative to their year-ago levels, while residential permits fell. In January, the number of final deeds of sale rose on an annual basis but the number of promise-of-sale agreements declined.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 2.6% in December, up from 2.4% in the previous month. Similarly, inflation based on the Retail Price Index (RPI) rose to 2.6% in December from 2.4% a month earlier.

Maltese residents' deposits expanded at an annual rate of 10.4% in December, following an increase of 9.7% in the previous month, while annual growth in credit to Maltese residents stood at 8.3%, slightly below the rate of 8.4% recorded a month earlier.

Central Bank's Business Conditions Index (BCI)²

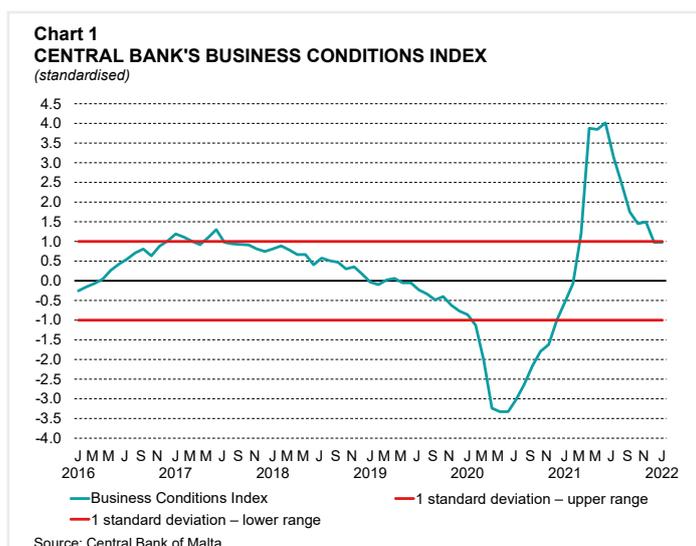
The Bank's BCI indicates that annual growth in business activity remains well above its historical average. Though it has receded from its historical highs registered in the first half of 2021, it still remains strong (see Chart 1). Strong annual growth rates are still being recorded in several

¹ The cut-off date for information in this note is 14 February 2022. Most of the data reported in this issue of the *Economic Update* refer to December 2021. However, the latest data for the European Commission's confidence and uncertainty indicators, the Bank's BCI and the COVID-19 Government Response Index refer to January 2022.

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.

BCI components, reflecting the ongoing recovery from the historically low levels recorded during the pandemic. This was mostly evident in the case of tourist arrivals, economic sentiment, selected government revenue items and gross domestic product (GDP). Moreover, the unemployment rate continued to fall in annual terms.

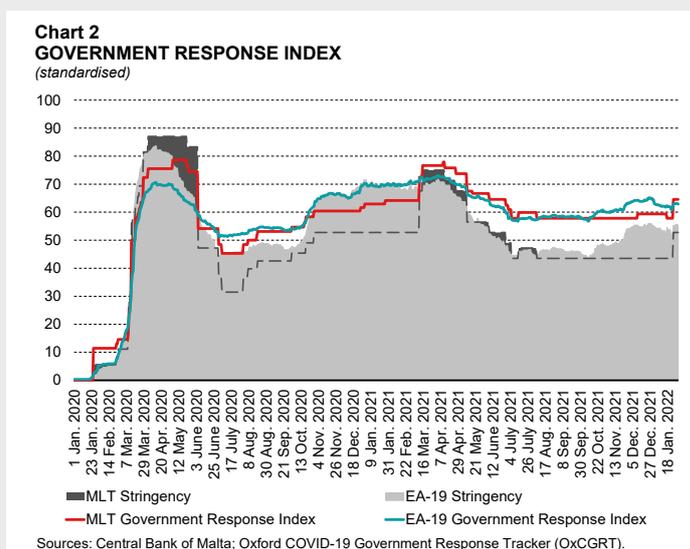
While still signalling strong growth, the BCI has returned to levels within one standard deviation of its historical level as economic activity levels are reaching pre-pandemic levels, which implies that growth rates are also beginning to normalise.³



BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Malta's COVID-19 Government Response Index at the end of January 2022 stood at 64.6, up by 5.2 points from December 2021 (see Chart 2). The increase mainly reflects the tightening of containment measures for the unvaccinated during the first month of 2022. In January, entry into restaurants, gyms and other recreational establishments was restricted to fully vaccinated people and employees of such venues working in direct contact with consumers were required to be fully vaccinated. Social distancing regulations were eased in such settings, though mask-wearing remained mandatory. In mid-January, the obligatory use of face masks outdoors was lifted for fully vaccinated people in groups of two or less, although it was retained for non-vaccinated individuals.⁴

Meanwhile, the euro area average declined slightly



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 affect components C2 (workplace closing), C3 (cancel public events), and H6 (facial coverings). Differentiated coding has been introduced to the OxCGR as of 25 January 2022, allowing for a differentiation between policies that apply to vaccinated and non-vaccinated individuals. Despite a relaxation in restrictions for the fully-vaccinated, the score for restrictions targeting the unvaccinated increased, causing the GRI and Stringency indices to increase in January.

from 64.4 at end-December to 62.9 at end-January. Malta's index was broadly similar to that of the euro area average, standing only 1.7 points higher than the latter.

Following the above developments, Malta's stringency index rose by 9.3 percentage points from its level at end-December, to reach 52.3. However, it stood 2.5 points below that in the euro area, which remained relatively unchanged from its level at end-December, at 55.2.

Business and consumer confidence indicators

In January, the European Commission's Economic Sentiment Indicator (ESI) for Malta stood at 102.2, up from 97.5 in December. Following the recent increase, sentiment rose marginally above

Table 1

BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2020	2021	2021		2022
			Jan.	Dec.	
ESI	81.5	105.2	86.1	97.5	102.2
Services confidence indicator	-24.9	13.5	-5.3	-9.0	4.4
Business situation development over the past 3 months	-36.3	4.7	-12.3	-16.1	-5.5
Evolution of the demand over the past 3 months	-34.9	9.9	-10.5	-7.4	23.2
Expectation of the demand over the next 3 months	-3.7	26.1	6.7	-3.7	-4.4
Construction confidence indicator	-5.7	6.6	-1.2	6.4	13.8
Evolution of your current overall order books	-6.2	0.8	-3.4	-0.3	11.5
Employment expectations over the next 3 months	-5.2	12.4	0.9	13.2	16.2
Industrial confidence indicator	-25.1	2.7	-24.0	-8.7	-3.4
Assessment of order-book levels	-48.8	-28.0	-41.4	-34.9	-12.7
Assessment of stocks of finished products	27.2	-3.5	36.0	-8.1	-19.1
Production expectations for the months ahead	0.8	32.8	5.5	0.6	-16.8
Consumer confidence indicator	-5.6	3.0	-3.2	-0.3	-0.7
Financial situation past 12 months	-1.6	-10.1	-15.4	-9.0	-11.3
Financial situation next 12 months	0.8	7.2	4.3	0.2	-0.9
Economic situation next 12 months	-0.9	18.9	8.7	6.5	4.4
Major purchases next 12 months	-20.5	-3.9	-10.4	1.0	5.0
Retail trade confidence indicator	-31.0	-11.4	-51.4	35.9	9.0
Business activity, past 3 months	-22.2	-18.1	-51.6	35.5	-13.5
Stocks of finished goods	31.9	14.2	50.3	-29.5	-36.3
Business activity, next 3 months	-38.8	-2.0	-52.4	42.8	4.1
E EI	85.9	104.1	88.6	104.4	107.2
Services	-2.4	24.6	-1.6	26.1	36.3
Construction	-5.2	12.4	0.9	13.2	16.2
Retail	-11.6	3.7	-5.4	-3.4	-3.2
Industry	-12.5	14.7	-5.7	21.2	13.2
EUJ^{(1),(2)}	-	21.3	-	36.9	25.1
Industry	-	21.0	-	51.4	20.8
Construction	-	30.1	-	12.8	5.5
Retail	-	48.8	-	60.8	59.0
Consumers	-	-5.4	-11.6	-0.9	-0.1
Services	-	32.2	-	42.8	45.1
ESI demeaned	-18.4	5.2	-13.9	-2.5	2.2
E EI demeaned	-14.0	4.6	-11.3	5.1	8.0

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

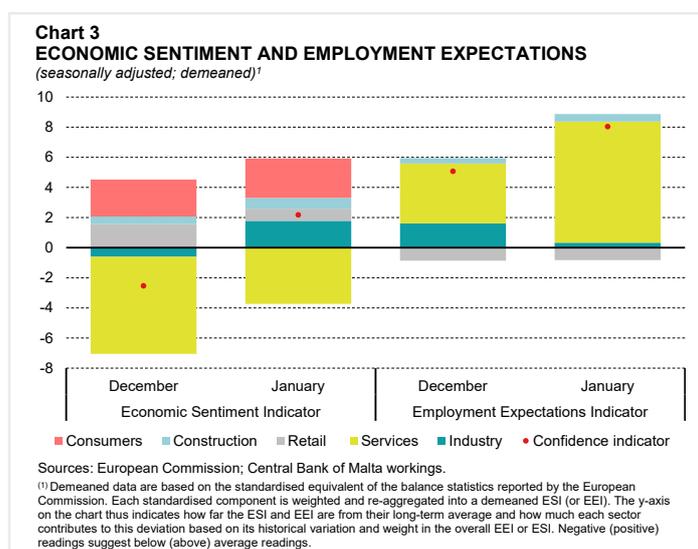
its long-term average of around 100.0 and remained well above its level in January 2021 (see Table 1).^{5,6,7} However, it stood below the euro area average of 112.7.

In month-on-month terms, sentiment in Mata rose across all sectors, with the exception of consumers and the retail sector. The largest increase was recorded in the services sector. In January, sentiment stood in positive territory in the construction, services and retail sectors, while it was negative in industry, and to a lesser extent, among consumers.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the increase in overall sentiment in January was mainly driven by developments in the services sector and industry (see Chart 3). The contribution of consumers and the construction sector also edged up slightly in January. By contrast, the contribution of the retail sector fell relative to December but remained positive. Demeaned data suggest that industry and consumers largely explain why the ESI stood above its long-term average in January.

In January, confidence within the services sector turned positive. It stood at 4.4, up from -9.0 in the previous month. Notwithstanding this increase, sentiment remained below its long-term average of 18.9.⁸ Firms' assessment of demand over the past three months was the main contributor to the increase in confidence, although respondents' assessment of the business situation in recent months also improved. By contrast, participants' demand expectations for the coming three months stood slightly more negative relative to December. Additional survey data show that, on balance, a larger share of respondents anticipates a rise in prices in the coming months.

Confidence within the construction sector more than doubled in the month under review. It increased to 13.8 from 6.4 in December, and remained above its long-term average of -9.9.⁹ Higher sentiment was largely driven by developments in respondents' assessment of their order book levels. At the same time employment expectations rose marginally relative to December. Additional survey data indicate that price expectations strongly increased in January.



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

⁸ 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.

⁹ 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.

Sentiment in industry stood at -3.4, above the -8.7 recorded in the previous month. Following the recent increase, sentiment rose marginally above its long-term average of -4.0.¹⁰ The recent rise in sentiment largely reflected firms' assessment of order book levels. At the same time, a higher share of respondents assessed their stock levels to be below normal levels. By contrast, participants' production expectations deteriorated sharply relative to the previous month. Supplementary data show that the share of firms anticipating selling prices to rise in the coming months increased, compared to December.

Consumer confidence stood at -0.7, down from -0.3 in December, yet remaining well above its long-term average of -10.4.¹¹ Consumers expressed lower confidence in their assessment of the financial situation in the past 12 months and of the financial and economic situation in the next 12 months. At the same time however, they registered positive and improving expectations of major purchases in the coming months. Additional survey data show that price expectations increased slightly from already elevated levels, reaching the highest level since February 2013. Meanwhile a smaller share of respondents anticipated unemployment to decline compared to a month earlier.

Sentiment in the retail sector edged down in January but remained positive. It stood at 9.0, below the 35.9 recorded in the preceding month. Notwithstanding this recent decline, sentiment remained above its long-term average of -1.6.¹² Retailers' assessment of business activity over the past three months, and to a lesser extent, their expectations of sales over the next months, weakened considerably during the month under review. By contrast, a higher share of participants assessed their stock levels to be below normal, compared to December.¹³ Supplementary data for January show that more retailers anticipated prices to increase in the coming months.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased in January.¹⁴ The EEI stood at 107.2, above the 104.4 recorded in December but below the euro area average of 113.3. Following this increase, the indicator remained above its long-run average of around 100.0. Employment expectations improved across all sectors, with the exception of industry.

Demeaned data suggest that the services sector largely explains why the overall EEI remained above its long-term average in January (see Chart 3).

¹⁰ 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.

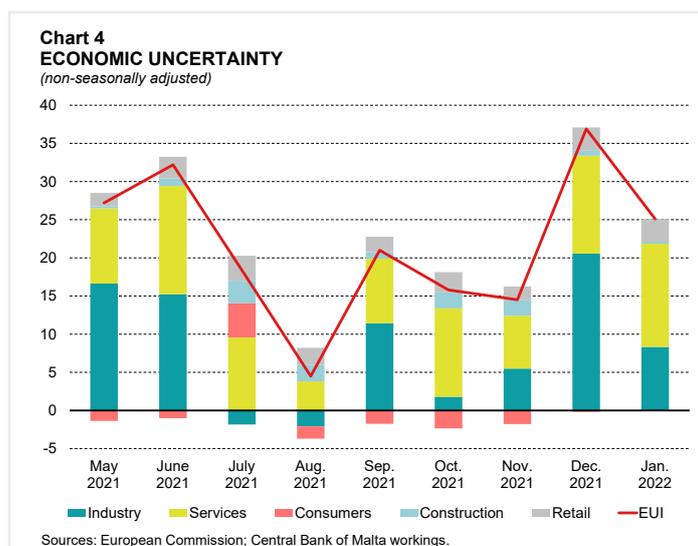
¹¹ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation 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.

¹³ 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.

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*.

In January, 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 – eased to 25.1 from the 36.9 recorded in December, and stood slightly below that recorded in May 2021, the month when the first reading is available for Malta (see Table 1). Notwithstanding the latest decrease, the indicator remained above that in the euro area, where the index stood at 17.9.^{15,16}



In month-on-month terms, the recent fall in uncertainty was largely driven by developments in industry, and to a more limited extent, in the construction and retail sectors (see Chart 4). Consumers on balance continued to report that they were able to predict their household's financial situation with relative ease, but somewhat less so relative to December. By contrast, uncertainty edged up slightly in the services sector.

Activity indicators

In December, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – stood at -6.6%. This is the fifth consecutive year-on-year decline and follows a fall of 5.8% in November (see Table 2).¹⁷

Table 2
ACTIVITY INDICATORS

	Annual percentage changes		2020												2021											
	2020	2021	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr. ⁽¹⁾	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.						
Industrial production	-0.2	-0.5	-2.2	-3.7	-3.2	2.8	-1.4	-4.5	-7.3	-12.8	-4.6	17.4	9.0	13.8	7.2	-4.1	-3.5	-5.0	-5.8	-6.6						
Retail trade	-5.8	8.0	-10.5	-8.8	-10.3	-7.3	-3.7	4.3	-4.2	-10.0	0.2	19.4	23.3	4.1	10.6	19.8	14.4	8.5	10.5	4.8						
Number of tourist arrivals	-76.1	47.0	-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	751.5	485.3							
Number of nights stayed	-73.0	60.5	-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	312.9	239.7							
Rented accommodation	-76.8	73.8	-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	524.2	437.7							
Collective ⁽²⁾	-76.5	74.3	-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	783.9	705.7							
Other rented ⁽³⁾	-77.3	72.9	-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	291.1	296.0							
Non-rented accommodation ⁽⁴⁾	-52.8	26.5	-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	38.6	53.7							
Tourist expenditure	-79.5	91.3	-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	598.5	316.6							
Package expenditure	-84.5	108.7	-93.5	-79.5	-90.5	-89.8	-	-	-	-	-	-	-	480.2	126.7	478.4	497.1	1,403.5	877.3							
Non-package expenditure	-79.6	89.4	-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	591.3	265.1							
Other	-75.9	85.4	-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	466.9	277.7							

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).

¹⁵ 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 five balance series are summarised in one composite indicator using the same weights used to construct the ESI. The series are not seasonally adjusted. 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.

¹⁶ Data on consumer uncertainty became available in October 2020, while data for industry, services, retail and construction became available in May 2021.

¹⁷ 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.

The recent decline in industrial production primarily reflected lower output by firms that produce food products and those involved in the production of “other manufacturing” goods – which includes medical and dental instruments, toys and related products. Other significant declines were also registered among firms that produce rubber and plastic products, those classified within the industry that manufactures motor vehicles, trailers and semi-trailers, firms that produce pharmaceutical products and those that print and reproduce recorded media. On the other hand, higher output was registered among firms that repair and install machinery and equipment, those that produce beverages and wearing apparel.

Production in the energy sector increased strongly, with output rising by 14.2% in annual terms.

In December, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 4.8% on an annual basis, after rising by 10.5% in November.

The tourism sector registered additional gains over 2020, although tourist numbers remained below the 2019 levels. The number of inbound tourists stood at 75,738 in December, almost six times the 12,940 a year earlier. Nonetheless it was still half the 2019 level. Likewise, guest nights were more than three times those registered in December 2020, with collective accommodation registering the highest rise in absolute terms. Total expenditure was more than four times that registered in the corresponding period of 2020 but was still only around 56% of the level registered in December 2019.

In December, 196 development permits for commercial buildings were issued, a 7.1% increase over the same month a year earlier (see Table 3). During the month, 453 new residential permits were issued, a decline of 17.5% compared with December 2020.

Data on residential property transactions show that 1,114 final deeds of sale were concluded in January, 10.4% more than a year earlier. At 664, the number of promise-of-sale agreements was nearly a third less than that registered in January 2021.

Customs data show that the merchandise trade deficit stood at €310.6 million in December, up from €78.2 million a year earlier. The larger deficit was due to a €178.1 million rise in imports and a €54.3 million fall in exports (see Chart 5).

Higher imports were largely on account of a significant increase in registrations of aircrafts. An increase in imports of organic chemicals, electrical machinery, pharmaceutical products as well as vehicles and vehicle parts also contributed, although to a much lesser extent. These more than offset fewer registrations of sea vessels and a decrease in the fuel-import bill.

Table 3		PROPERTY MARKET														
<i>Levels</i>																
	2020	2021	2020	2021												2022
			Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Permits																
Commercial permits	2,687	2,770	183	209	249	205	267	228	260	249	127	227	293	260	196	-
Residential permits	7,837	7,578	549	784	654	569	763	667	429	645	903	615	450	646	453	-
Residential transactions																
Promise of sale	11,261	15,653	1,145	981	1,350	1,648	1,429	1,478	1,166	1,104	891	989	1,091	1,250	2,276	664
Final deeds of sale	11,057	14,362	1,134	1,009	984	1,285	1,185	1,174	1,239	1,386	1,170	1,040	1,157	1,330	1,403	1,114

Sources: National Statistics Office; Eurostat.

The fall in exports was mainly driven by lower fuel re-exports as well as fewer exports of electrical machinery, and to a lesser extent, fish and miscellaneous edible preparations. These outweighed higher exports of aircraft parts, pharmaceutical products, printed material, organic chemicals, iron and steel.

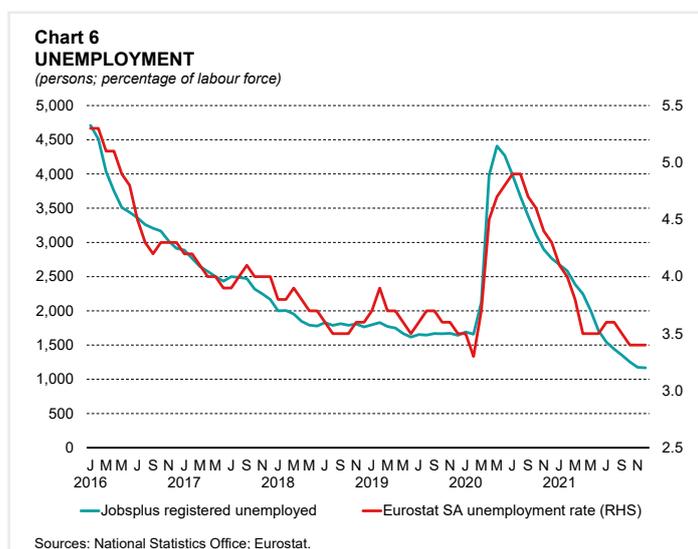
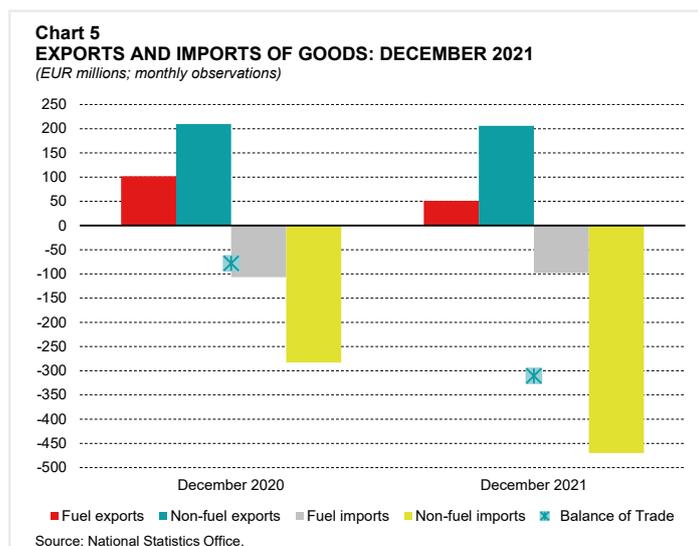
Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,167 in December 2021, down from 1,176 in November and from 2,765 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 3.4% in December, the same rate registered in the previous month, but well below the rate of 4.3% registered in the same month of 2020.

Prices, costs and competitiveness

Annual HICP inflation stood at 2.6% in December, up from 2.4% in the previous month (see Chart 7). This slight acceleration was primarily driven by faster growth in food inflation, which continued to accelerate following relatively high growth rates in recent months. Services inflation also contributed more positively during the last month of the year, following months where growth in this sector had been relatively muted throughout the year due to a negative impact from pandemic-related changes to HICP weights. Non-energy industrial goods inflation moderated in December, although it remained elevated from a historical perspective, with its contribution to overall HICP inflation remaining broadly unchanged from November's. Energy prices were unchanged from a year earlier.



Annual inflation according to the RPI also stood at 2.6% in December, marginally up from 2.4% in November (see Chart 7).¹⁸ Faster growth in prices was recorded across all main components except in clothing and footwear as well as in recreation and culture sector, where prices increased at a slower pace in December.

The gap between the two measures of inflation registered throughout most of 2021 was primarily related to the large change in HICP weights in 2021 due to the COVID-19 pandemic.¹⁹ On the other hand, the weights of the RPI are not updated annually and are hence not affected by such changes. However, the impact on headline HICP inflation as well as the gap between HICP and RPI has declined sharply since November.

The change in weights had a marginal negative impact of 0.1 percentage point on annual HICP inflation for December, equivalent to that in November (see Chart 8). The gap detected in November and December was the smallest one since the latest revision in weights.

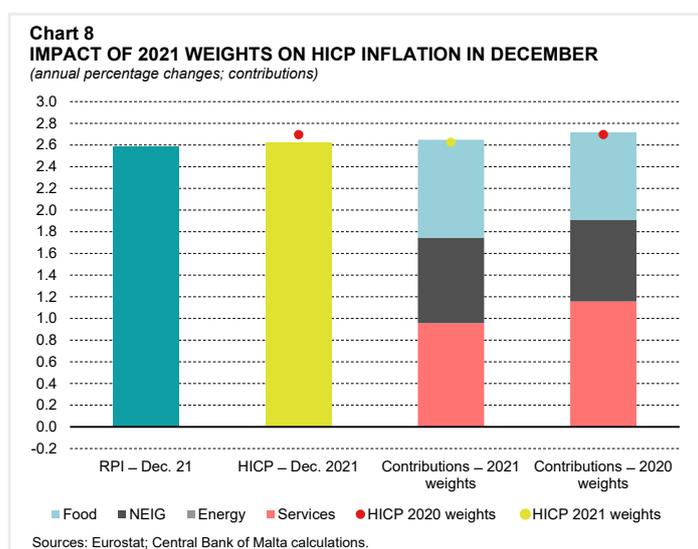
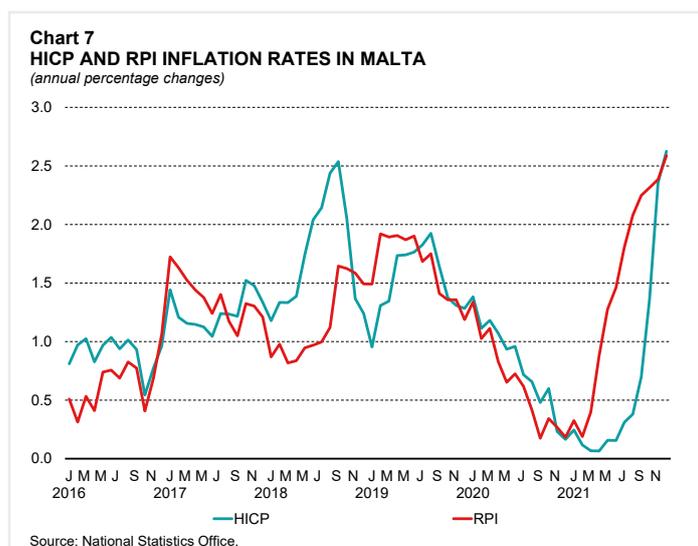
When using the 2020 weights (which are based on pre-pandemic spending patterns), HICP inflation would have stood at 2.7% as opposed to the actual rate of 2.6% using the 2021 weights.

Producer output inflation, measured by the industrial producer price index, reached 7.1% in December, up from 6.0% in November.²⁰ This reflects faster growth in the prices of intermediate goods, and to a lesser extent, in those of capital and consumer goods. Energy prices remained unchanged when compared to their level a year earlier. The relatively elevated producer price

¹⁸ 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.

¹⁹ For more details see Box 1: The implications of the 2021 HICP weights on inflation forecasts, in [Outlook for the Maltese Economy 2021:2](#).

²⁰ 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.



inflation might reflect the impact of the rising cost pressures due to ongoing global supply bottlenecks.

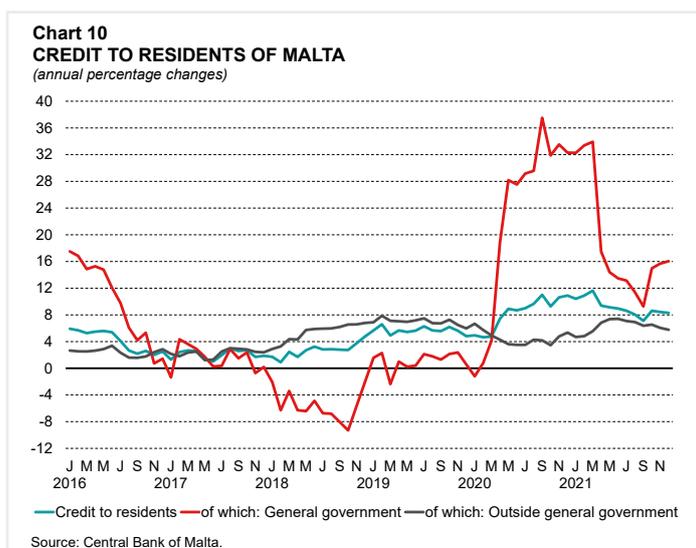
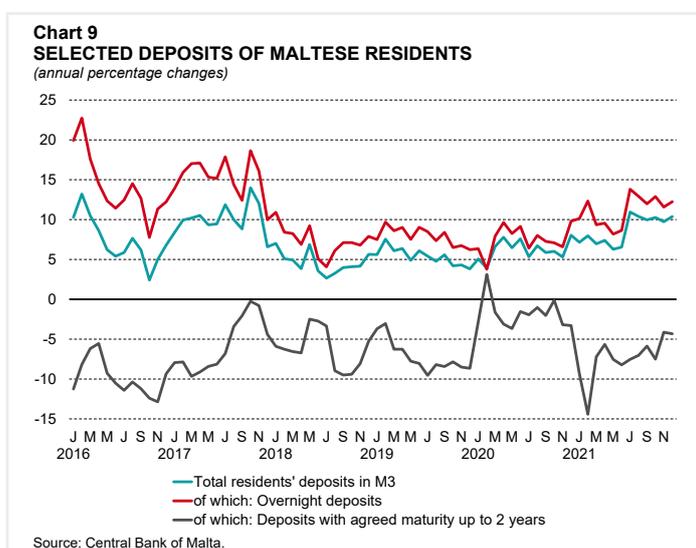
Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.7% in the year to January 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.²¹ The real HCI, which also considers relative price changes, fell by 3.9% in annual terms in January, which suggests that favourable developments in relative prices vis-à-vis trading partners amplified the competitive advantage from a weaker euro.

Deposits, credit and financial markets

In December, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 10.4%, up from 9.7% a month earlier (see Chart 9).

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 88% of their M3 balances. This deposit category – which is the most liquid – grew by 12.2% in the year to November, after rising by 11.6% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 4.3% in annual terms, following a contraction of 4.1% in November. 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 8.3% in December, marginally below the 8.4% recorded a month earlier (see Chart 10). The deceleration in credit during December was driven by slower growth in credit to residents outside general government. Annual growth



²¹ 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.

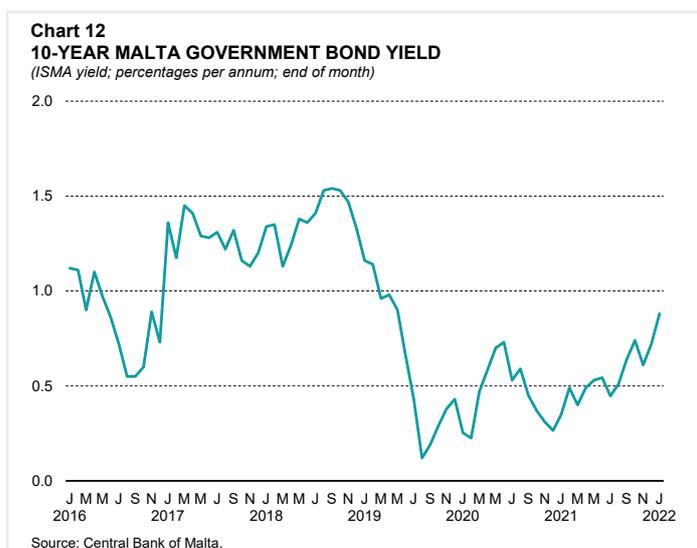
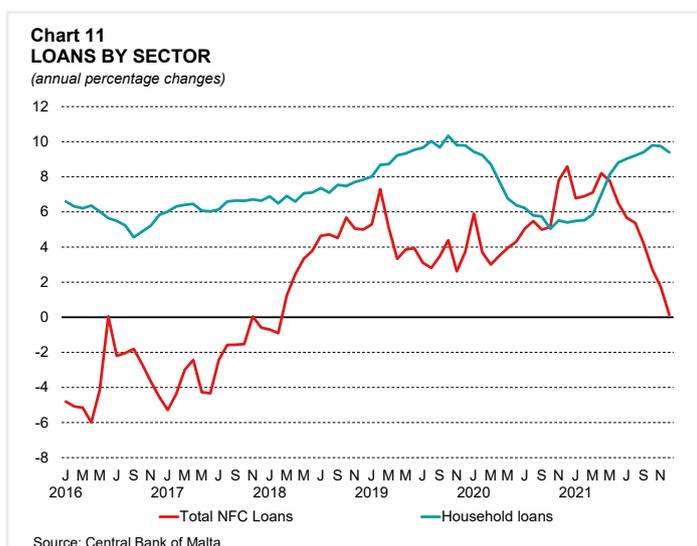
in this component stood at 5.8%, following a 6.0% increase in November. By contrast, growth in credit to general government edged up to 16.0%, from 15.7% a month earlier.

The annual rate of change in loans to non-financial corporations continued to decelerate in December and stood at 0.1%, below the 1.7% recorded a month earlier (see Chart 11). The deceleration was broad-based across most sectors but mostly reflected a larger contraction in loans to the sector comprising energy, heat and water supply, and to a lesser extent, to the construction and real estate sector. This was followed by a smaller increase in loans to the wholesale and retail trade sector as well as to the sector comprising accommodation and food service activities. These developments were partly offset by a smaller contraction in loans to the transportation and storage sector as well as faster growth in loans to the manufacturing sector.

Meanwhile, the annual rate of change in loans to households edged down to 9.4% in December, from 9.7% in November. Consumer credit and other lending fell by 4.2%, following a contraction of 3.1% in November. Furthermore, the annual rate of change in mortgage lending eased to 10.7% in December, from 11.0% a month earlier.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.16% in December, marginally below the 0.17% recorded in the previous month. Meanwhile, the composite rate charged on outstanding loans stood at 3.23%, equivalent to that registered in November. Hence, the spread between the two rates remained unchanged at 306 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased by 16 basis points from a month earlier to 0.88% at the end of January (see Chart 12). At the same time, the Malta Stock Exchange (MSE) Equity Price Index fell by 4.8% 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

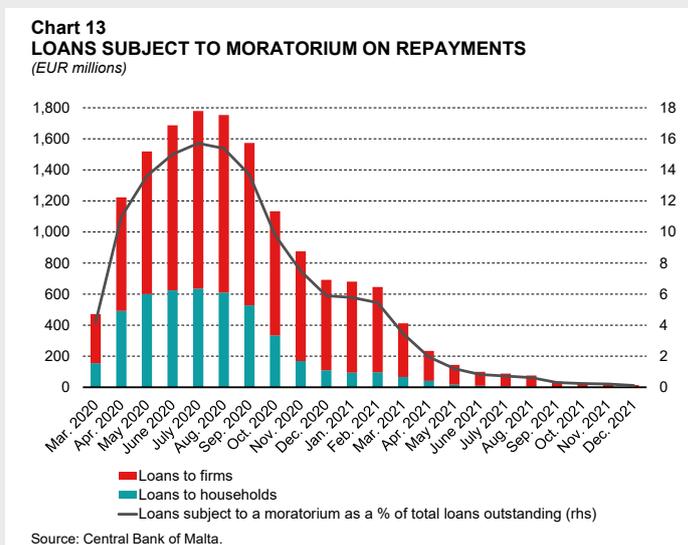
In response to the outbreak of COVID-19 and the subsequent containment measures, several businesses and households were faced with liquidity challenges and thus applied with MFIs in Malta for a moratorium on loan repayments (see Chart 13).²²

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 2021, only seven loans were still subject to a moratorium on repayments compared to 17 loans a month earlier. The value of such loans declined by €12.2 million from November and stood at €14.1 million, or 0.1% of total outstanding loans to Maltese residents. All the outstanding loans covered by moratoria were held by firms, as Maltese households no longer held such loans.

The largest number and value of loans subject to a moratorium was held in the sector comprising professional, scientific and technical activities. This was followed by the accommodation and food services activities sectors, with 0.6% of the loans held by this sector subject to a moratorium by the end of December. This contrasts with the end of 2020, when over 40.0% of outstanding loans of this sector were subject to a moratorium.

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.²³



²² 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.

²³ The CGS was approved by the European Commission on 2 April 2020.

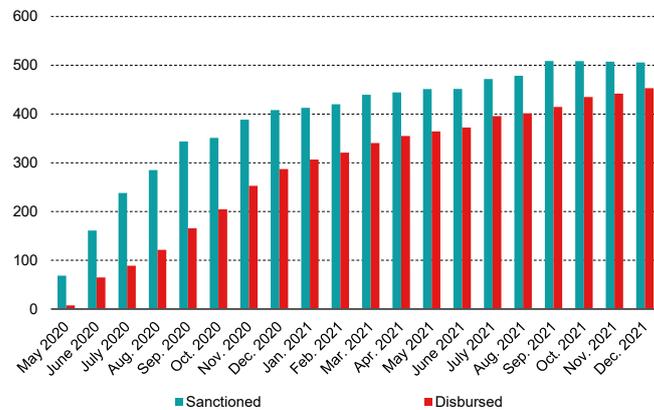
By end-December, 654 facilities were approved under the CGS, covering total sanctioned lending of €505.9 million (see Chart 14).²⁴

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 December,

€453.0 million were disbursed, up slightly from the €441.9 million disbursed by the end of November. Thus, by the end of December, 65.0% of the scheme was sanctioned while 58.2% was disbursed.

By end-December, 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.

Chart 14
SANCTIONED AND DISBURSED LOANS UNDER THE MDB COVID-19 GUARANTEE SCHEME
(EUR millions)



Sources: Malta Development Bank; Central Bank of Malta.

²⁴ A drop in the number and value of sanctioned facilities compared with the preceding month may imply the repayment in full of the facility by the customer, or else in the latter case, the reduction of the facility value.

MACROECONOMIC INDICATORS FOR MALTA																					
Annual percentage changes; non-seasonally adjusted data																					
	2019	2020	2021	2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022
				Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Prices and costs																					
HICP inflation	1.5	0.8	0.7	0.3	0.1	0.1	0.5	2.1	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7	1.4	2.4	2.6	-
RPI inflation	1.6	0.6	1.5	0.3	0.3	1.2	2.0	2.4	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2	2.3	2.4	2.6	-
Industrial producer price inflation	2.2	0.3	3.1	-0.4	0.8	1.7	3.7	6.2	0.8	0.5	1.1	1.2	1.8	2.2	1.3	4.4	5.5	5.5	6.0	7.1	-
HCI (nominal)	-0.7	1.8	0.4	3.5	2.7	1.3	-0.8	-1.7	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
HCI (real)	-1.1	1.5	-1.9	3.2	1.1	-1.0	-3.2	-4.5	2.4	2.0	-1.2	-0.6	-0.7	-1.7	-2.3	-3.7	-3.7	-4.3	-4.3	-4.7	-3.9
Unit labour costs, whole economy ⁽¹⁾	2.7	8.6	-	11.7	11.2	5.7	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.3	1.4	-	-0.2	0.5	3.6	5.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	0.5	-6.4	-	-10.6	-9.7	-2.5	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	-	1.6	4.6	5.4	5.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																					
Nominal GDP	8.4	-6.9	-	-6.6	0.2	16.2	11.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.2	-	-7.8	-0.9	14.9	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.5	-10.3	-	-7.6	-4.8	14.6	7.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	14.0	14.9	-	17.3	21.2	0.3	8.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-6.9	-	-13.6	-6.4	25.2	32.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	5.8	-6.0	-	-6.5	-3.8	13.4	1.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	6.7	-2.7	-	-3.9	-3.2	11.2	2.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																					
LFS unemployment rate (% of labour force)	3.6	4.4	-	4.4	3.9	3.5	3.6	-	4.1	4.0	3.8	3.5	3.5	3.5	3.6	3.6	3.5	3.4	3.4	3.4	-
LFS employment	7.1	2.5	-	-0.8	-1.1	3.2	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.1	-	1.9	0.5	2.5	-	-	0.5	0.2	0.9	1.8	2.6	3.1	3.2	3.6	-	-	-	-	-
Balance of payments																					
Current account (as a % of GDP) ⁽²⁾	5.4	-3.1	-	-3.1	-3.8	-4.1	-4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																					
Maltese residents' deposits and loans																					
Overnight deposits	6.2	9.8	12.2	9.8	9.4	8.6	12.0	12.2	10.1	12.3	9.4	9.6	8.2	8.6	13.8	12.9	12.0	12.9	11.6	12.2	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-3.3	-7.2	-8.2	-5.9	-4.3	-9.4	-14.4	-7.2	-5.7	-7.5	-8.2	-7.5	-7.0	-5.9	-7.5	-4.1	-4.3	-
Total residents' deposits in M3	3.8	8.0	10.4	8.0	7.0	6.5	10.0	10.4	7.2	8.0	7.0	7.4	6.3	6.5	10.9	10.4	10.0	10.3	9.7	10.4	-
Credit to general government	0.6	32.3	16.0	32.3	33.9	13.5	9.3	16.0	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.3	15.0	15.7	16.0	-
Credit to residents (excl. general government)	6.0	5.3	5.8	5.3	5.5	7.4	6.4	5.8	4.7	4.8	5.5	6.8	7.3	7.4	7.1	6.9	6.4	6.5	6.0	5.8	-
Total credit	4.8	10.9	8.3	10.9	11.6	8.9	7.1	8.3	10.4	10.9	11.6	9.4	9.1	8.9	8.6	8.0	7.1	8.6	8.4	8.3	-
10-year interest rate (%) ⁽³⁾	0.4	0.3	0.7	0.3	0.4	0.5	0.6	0.7	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.6	0.7	0.9
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	-4.5	16.7	-8.3	3.0	-0.7	1.8	-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
Liquidity support measures related to COVID-19																					
Outstanding loans subject to a moratorium ⁽⁵⁾	-	691.9	14.1	691.9	411.7	99.6	37.4	14.1	680.7	645.6	411.7	234.4	144.2	99.6	88.0	76.1	37.4	29.5	26.3	14.1	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁶⁾	-	408.1	505.9	408.1	439.6	451.5	508.8	505.9	412.7	420.1	439.6	444.4	451.3	451.5	471.8	478.6	508.8	508.6	507.3	505.9	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁶⁾	-	287.1	453.0	287.1	340.5	372.5	414.5	453.0	306.6	320.7	340.5	354.9	364.4	372.5	395.7	401.5	414.5	434.9	441.9	453.0	-
General government finances (% of GDP)																					
Surplus (+) / deficit (-) ⁽²⁾	0.5	-9.7	-	-9.7	-9.9	-8.4	-8.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.7	53.3	-	53.3	57.3	59.1	57.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.