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EUROSISTEMA
CENTRAL BANK OF MALTA

Economic Update
3/2021

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ECONOMIC UPDATE 3/2021

Summary[1]

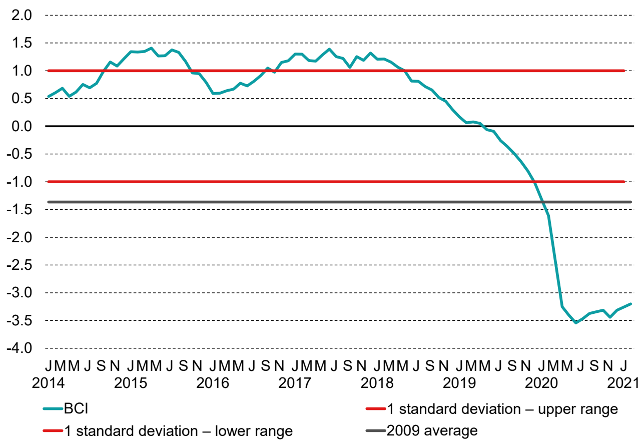
In February, the Central Bank of Malta's Business Conditions Index (BCI) improved marginally compared with the previous month and continued to signal low levels of economic activity reflecting the weak economic conditions triggered by COVID-19. The European Commission's Economic Sentiment Indicator (ESI) reached a 5-month high in February, but remained below its long-term average. In February, confidence rose in industry and, to a more limited extent, among retailers and in the services sector. On balance, confidence deteriorated considerably in the construction sector and, to a lesser degree, among consumers. Sentiment was negative in all sectors.

In January, industrial production contracted at a faster pace in annual terms. The volume of retail trade fell in annual terms following an expansion in the previous month. The number of registered unemployed decreased compared with December, while the unemployment rate was unchanged from a month earlier. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) was unchanged at 0.2% in January. Inflation based on the Retail Price Index (RPI) edged up but also remained low at 0.3%. Maltese residents' deposits expanded at an annual rate of 7.2% in January, from 8.0% in the previous month, while annual growth in credit to Maltese residents stood at 10.7%, following an increase of 11.1% a month earlier. In January, the deficit on the cash-based Consolidated Fund widened when compared with a year earlier, reflecting the negative impact of COVID-19 on economic activity and tax revenue, as well as an increase in primary government expenditure from ongoing government support.

Central Bank's BCI[2]

In February 2021, the Bank's BCI improved marginally to -3.2 from its revised value of -3.3 for January (see Chart 1). The BCI continued to signal low levels of economic activity, reflecting the weak economic environment triggered by COVID-19. In particular, the index is weak because of subdued activity in the tourism sector, as well as year-on-year declines in economic sentiment and industrial production. Overall business conditions continue to be worse than those observed during 2009, highlighting the severity of the pandemic relative to the Global Financial Crisis.

Chart 1
BCI
(standardised)



Source: Central Bank of Malta.

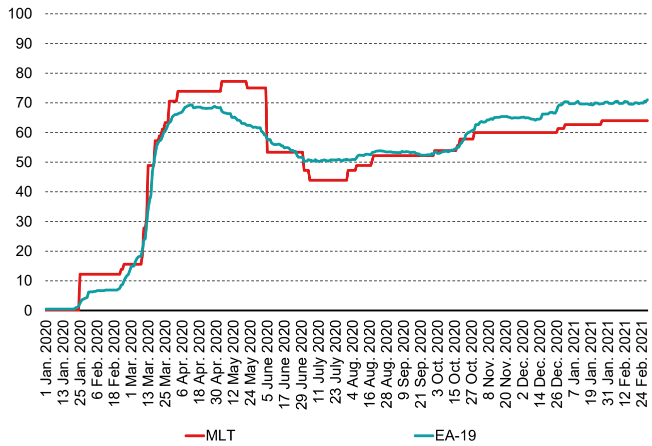
[1] The cut-off date for information in this note is 15 March 2021. Most of the data reported in this issue of the *Economic Update* refer to January 2021. The latest data for the European Commission's ESI and the Central Bank of Malta's BCI refer to February 2021, while the COVID-19 Government Response Index is for 15 March 2021.

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

BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX

In the absence of changes in containment measures during the month, as well as the continuation of the COVID-19 vaccine distribution programme, Malta's COVID-19 Government Response Index at the end of February was unchanged from its end-January level, at 64.0 (see Chart 2).[3] Following restrictions introduced during the first half of March, the Index reached 77.3 on 15 March.

Chart 2
GOVERNMENT RESPONSE INDEX
(standardised)



Sources: Central Bank of Malta; Oxford COVID-19 Government Response Tracker (OxCGRT).

Meanwhile, in the euro area – where the latest available data refers to February – the index rose slightly from 70.3 as at end-January 2021, to 71.0. This means that at the end of February, Malta's index stood 7.0 points below the euro area average. This reflects the higher level of containment and stringency in the euro area, which offsets a relatively stronger health response in Malta.

Business and consumer confidence indicators

In February, the European Commission's ESI edged up to 5-month high of 88.1, from 85.8 in January (see Table 1). Notwithstanding this increase, sentiment stood below the level of 96.8 recorded a year earlier and below its long-run average of around 100.0.[4,5,6] The ESI also stood 5.3 points lower than that in the euro area.

The month-on-month rise in sentiment was largely driven by an increase in confidence in industry. This was followed by improved sentiment among retailers and in the services sector. These developments offset weaker sentiment in the construction sector and, to a lesser extent, among consumers. Sentiment was negative in all sectors, with the most negative reading recorded in the retail sector.

[3] Chart 2 is based on information up to 28 February 2021. New containment measures introduced during March – which are estimated to have pushed up Malta's index – are not reflected in this Chart.

[4] 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%.

[5] 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.

[6] Data have been revised for previous periods following the annual updating of country weights and the inclusion of 2020 in the standardisation sample.

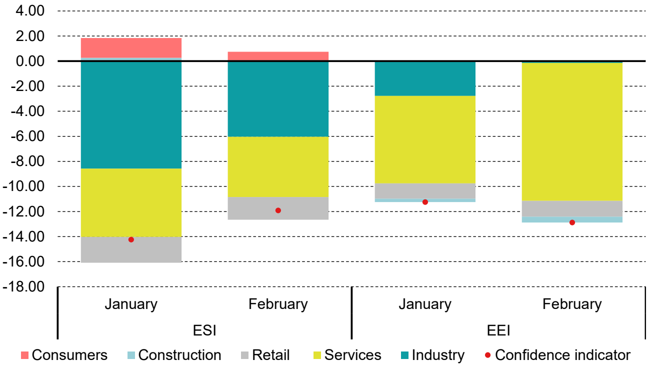
Table 1
BUSINESS AND CONSUMER SURVEYS
Balances; percentage points; seasonally adjusted

	2019	2020	2020		2021	
			Feb.	Dec.	Jan.	Feb.
ESI	**102.4**	**81.4**	**96.8**	**85.4**	**85.8**	**88.1**
Industrial confidence indicator	**-6.7**	**-25.1**	**-15.5**	**-23.9**	**-24.0**	**-18.6**
Assessment of order-book levels	-23.0	-48.8	-20.2	-38.6	-41.4	-53.8
Assessment of stocks of finished products	15.5	27.2	33.2	22.1	36.0	28.6
Production expectations for the months ahead	18.4	0.8	6.9	-11.0	5.5	26.6
Retail trade confidence indicator	**4.2**	**-31.0**	**-0.4**	**-14.2**	**-51.4**	**-49.0**
Business activity, past 3 months	18.9	-22.2	4.8	8.9	-51.6	-42.2
Stocks of finished goods	17.4	31.9	10.0	4.7	50.3	33.5
Business activity, next 3 months	11.1	-38.8	4.1	-46.7	-52.4	-71.4
Services confidence indicator	**20.7**	**-24.9**	**11.4**	**-16.9**	**-5.3**	**-3.7**
Business situation development over the past 3 months	16.7	-36.3	4.6	-29.6	-12.3	-12.4
Evolution of the demand over the past 3 months	21.5	-34.9	7.9	-35.1	-10.5	-16.8
Expectation of the demand over the next 3 months	24.0	-3.7	21.7	14.0	6.7	17.9
Consumer confidence indicator	**4.5**	**-5.6**	**7.9**	**-3.7**	**-3.2**	**-6.9**
Financial situation past 12 months	11.3	-1.6	11.6	-16.3	-15.4	-15.5
Financial situation next 12 months	11.2	0.8	10.7	5.7	4.3	-0.7
Economic situation next 12 months	20.9	-0.9	19.8	17.8	8.7	4.5
Major purchases next 12 months	-25.1	-20.5	-10.4	-22.2	-10.4	-15.8
Construction confidence indicator	**26.2**	**-5.7**	**8.3**	**-4.2**	**-1.2**	**-8.3**
Evolution of your current overall order books	19.7	-6.2	2.0	-7.4	-3.4	-13.6
Employment expectations over the next 3 months	32.6	-5.2	14.5	-1.0	0.9	-3.0
EEI	**102.7**	**86.0**	**103.8**	**93.5**	**88.8**	**87.0**
Services	17.5	-2.4	21.6	8.5	-1.6	-11.8
Construction	32.6	-5.2	14.5	-1.0	0.9	-3.0
Retail	4.7	-11.6	11.9	-12.1	-5.4	-5.7
Industry	12.8	-12.5	7.0	7.3	-5.7	10.3
ESI demeaned	**2.4**	**-18.6**	**-3.2**	**-14.6**	**-14.2**	**-11.9**
EEI demeaned	**2.7**	**-14.0**	**3.7**	**-6.4**	**-11.2**	**-12.9**

Source: European Commission.

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 February was driven primarily by improved confidence in industry. Smaller improvements were also seen in the services sector and, to a lesser degree, in the retail sector (see Chart 3). By contrast, the contributions of consumers and the construction sector were less positive in the month under review. That said,

Chart 3
ESI and EEI
(seasonally adjusted; demeaned)[1]



Sources: European Commission; Central Bank of Malta workings.

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

overall, demeaned data suggest that the ESI is mostly being held down by weak sentiment in industry and services.

In February, industrial confidence rose to -18.6, from -24.0 a month earlier and thus remained well below its long-term average of -4.5.[7] The rise in sentiment was notably driven by a significant increase in production expectations. At the same time, a smaller share of respondents reported above normal stock levels compared to January. Meanwhile, participants' assessment of order book levels turned more negative. Supplementary data show that fewer participants anticipate a fall in selling prices in the coming months.

Confidence within the retail sector edged up to -49.0, from -51.4 in January.[8] The latest increase in sentiment largely reflected a significant decrease in the share of firms reporting above normal stock levels. Furthermore, retailers' assessment about sales over previous months were less negative compared to January. By contrast, activity expectations worsened.[9] Supplementary data indicate that the share of retailers anticipating selling prices to rise over the next three months edged up slightly in February.

Sentiment within the services sector stood at -3.7, up from -5.3 in the previous month. However, it remained below its long-term average of 19.1.[10] Improved sentiment was entirely driven by respondents' demand expectations for the next three months. By contrast, firms' assessment of demand over the past three months stood more negative, while their assessment of the business situation was broadly unchanged from January. Additional survey data show that, on balance, the share of firms anticipating prices to fall in the months ahead edged down in the month under review.

Consumer confidence edged down to -6.9 in February, from -3.2 a month earlier. Notwithstanding this decline, sentiment remained above its long-term average of -11.1.[11] The recent fall in sentiment was broad-based across sub-components, but largely reflected an increase in the share of consumers reporting falling expectations of major purchases over the next 12 months. Furthermore, respondents' expectations about the financial situation over this period turned negative, while expectations of the general economic situation also weakened. Meanwhile, participants' assessment of the financial situation over the last 12 months decreased marginally. Supplementary data show that price expectations were marginally less negative in February. At the same time, there was a decrease in the share of respondents expecting higher unemployment.

Confidence within the construction sector fell to -8.3, from -1.2 a month earlier, but remained above its long-term average of -11.3.[12] Weaker sentiment in this sector was notably due to a significant

[7] 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.

[8] 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.

[9] 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.

[10] 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.

[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 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.

deterioration in the assessment of order books. Furthermore, employment expectations turned negative in February. Additional survey data indicate that a higher share of respondents anticipate prices to rise over the next three months.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged down in February.[13] The EEI fell to a 3-month low of 87.0 from 88.8 in January. The indicator remained below its long-run average of around 100.0 and stood 3.9 points lower than the euro area average.

Employment expectations were negative across all sectors, bar in industry – which recorded an improvement compared to January. Employment expectations deteriorated the most in the services sector and in the construction sector and, to a limited extent, among retailers. The services sector largely explains why the overall EEI remained below its long-term average in February, though expectations were below the long-term average in all sectors (see Chart 3).

Activity indicators

In January, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – continued to decline. The index fell by 6.0% in annual terms, following a contraction of 4.8% in December (see Table 2).[14]

Table 2
ACTIVITY INDICATORS
Annual percentage changes

	2019	2020	2019	2020												2021
			Dec.	Jan.	Feb.	Mar.(1)	Apr.(2)	May(2)	June(2)	July(3)	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Industrial production	1.2	-0.3	9.7	12.1	13.4	6.2	-7.3	-6.8	-6.7	-1.9	-3.3	-2.6	2.4	-1.9	-4.8	-6.0
Commercial permits	-2.5	-29.3	-8.1	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2	-9.8	-45.6	6.7	-23.3	-11.7	-10.7	-7.1
Residential permits	-3.1	-37.2	34.4	-24.2	-23.3	-19.6	-73.3	-53.6	-60.2	-8.1	27.0	-61.5	-31.1	-27.7	-51.8	-24.3
Retail trade	7.1	-6.5	7.0	7.3	12.7	-2.6	-25.2	-16.6	-7.4	-12.0	-8.6	-12.1	-8.0	-4.0	2.2	-3.4
Number of tourist arrivals	5.9	-76.1	19.3	16.8	16.5	-56.5	-	-	-	-84.0	-66.0	-82.4	-83.4	-92.2	-91.1	-90.7
Number of nights stayed	4.1	-73.0	15.1	3.5	10.1	-60.2	-	-	-	-75.3	-62.6	-77.4	-78.6	-82.3	-77.2	-79.8
Rented accommodation	4.6	-76.8	13.9	7.7	11.1	-62.2	-	-	-	-84.3	-67.4	-81.8	-82.5	-88.0	-86.6	-89.0
Collective(4)	-0.1	-76.5	9.9	11.0	14.9	-61.7	-	-	-	-85.4	-66.9	-81.2	-81.9	-91.6	-91.9	-92.1
Other rented(5)	13.5	-77.3	19.7	1.0	3.1	-63.5	-	-	-	-82.7	-67.9	-82.9	-83.5	-80.6	-79.5	-82.4
Non-rented accommodation(6)	1.6	-52.8	20.8	-8.3	3.9	-47.7	-	-	-	-31.4	-38.3	-57.1	-53.3	-53.8	-33.5	-48.9
Tourist expenditure	5.7	-79.5	25.4	11.2	22.0	-62.6	-	-	-	-88.1	-71.3	-84.5	-84.5	-90.3	-86.6	-87.6
Package expenditure	-8.2	-84.5	7.9	-7.8	25.8	-69.8	-	-	-	-93.5	-79.5	-90.5	-89.8	-	-	-
Non-package expenditure	17.1	-79.6	41.3	33.1	22.8	-58.8	-	-	-	-88.7	-71.5	-86.0	-85.1	-90.2	-86.4	-87.7
Other	5.9	-75.9	22.0	4.7	19.1	-60.2	-	-	-	-83.7	-65.3	-78.7	-79.8	-86.5	-82.0	-83.5

Sources: National Statistics Office; Eurostat.

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

(2) As a result of the COVID-19 situation, it was not possible for the NSO to issue the April, May and June 2020 news releases for Inbound Tourism.

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

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

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

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

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 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 was broad-based across sectors. However, the largest decreases were recorded among firms specialising in the repair and installation of machinery and equipment, wood products and fabricated metals. Other strong declines were recorded among firms within the motor vehicles, trailers and semi-trailers section, the food and chemicals sectors, as well as the 'other manufacturing' sector – which includes firms involved in the production of medical and dental instruments, toys and related products. These were followed by smaller falls in the production of beverages, printing and reproduction of recorded media as well as among firms that produce rubber and plastic products. These declines offset higher manufacturing output among firms producing pharmaceutical goods as well as those specialising in computer, electronic and optical goods.

Meanwhile, production in the energy sector decreased.

In January, development permits for commercial buildings declined by 7.1% in annual terms, after falling by 10.7% in December. Moreover, residential permits contracted by 24.3% in annual terms. Despite these declines, commercial and residential permits remain slightly above their long-term monthly average.

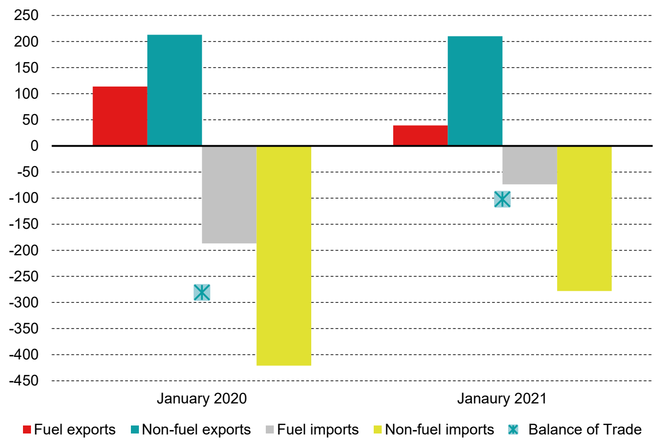
The volume of retail trade, which is a short-term indicator of final domestic demand, fell by 3.4% on an annual basis, after rising by 2.2% in December.

The tourism sector continued to be severely impacted by travel-related restrictions. The number of inbound tourists stood at 13,806 in January, a 90.7% drop compared with the same month a year earlier. Guest nights declined by 79.8%, with collective accommodation registering the sharpest decline in absolute terms. Total expenditure fell by 87.6% over the corresponding period in 2019.

Customs data show that the merchandise trade deficit stood at €102.1 million in January, down from €280.8 million a year earlier. The smaller deficit reflected a €256.1 million decline in imports which outweighed a €77.3 million fall in exports (see Chart 4). Lower imports continued to be observed across most broad economic categories; however, the decline in imports was mainly on account of a significantly lower fuel import bill and fewer registrations of aircraft. Imports of machinery and mechanical appliances, pharmaceutical products, vehicles, plastic, and knitted clothing also fell, although these decreases were much smaller. These declines more than outweighed a small increase in imports of organic chemicals.

The decline in exports was almost entirely driven by a significant fall in re-exports of mineral fuel and related products.

Chart 4
EXPORTS AND IMPORTS OF GOODS: JANUARY 2021
(EUR millions; monthly observations)



Source: National Statistics Office.

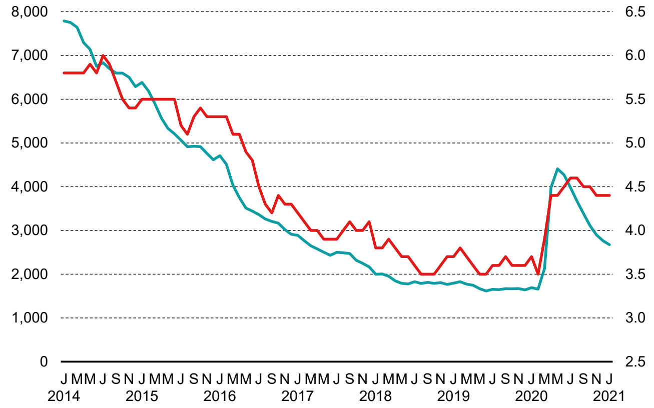
Lower exports of fish and, to a lesser extent, printed material, knitted clothing, tobacco and toys also contributed. Together, these offset a rise in exports of organic chemicals, aircraft parts and electrical machinery.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 2,675 in January 2021, down from 2,765 in December 2020 but higher than the 1,691 registered a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate stood at 4.4% in January, the same level as that registered in the previous month, but still higher than the rate of 3.7% registered in the same month of 2019.

Chart 5
UNEMPLOYMENT
(persons; percentage of labour force)



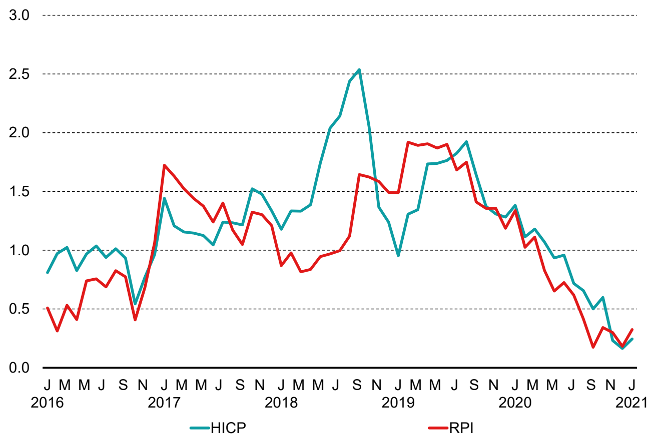
Sources: National Statistics Office; Eurostat.

Prices, costs and competitiveness

Annual HICP inflation stood at 0.2% in January, unchanged from December (see Chart 6).[15] While services inflation and processed food inflation moderated, unprocessed food inflation turned negative. These were offset by developments in non-energy industrial goods inflation, which turned positive. Energy inflation remained negative but unchanged from December.

Annual RPI inflation edged up to 0.3% in January, from 0.2% in December (see Chart 6).[16] A return to price increases of clothing and footwear, and faster growth in the prices of housing offset slower growth in the prices of food.

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



Source: National Statistics Office.

Producer output inflation, measured by the producer price index, turned positive to 0.6% in January, from -0.1% in

[15] It was unchanged when rounded to one decimal place.

[16] The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households.

December.[17] This reflected developments in intermediate goods prices, which recorded the first increase after a sequence of falls, offsetting a decrease in consumer and capital goods inflation. Energy prices remained unchanged.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 3.8% in the year to January, marginally down from 3.9% in December.[18] This suggests a slight improvement in the country's international competitiveness, due to an appreciation in the euro exchange rate against currencies of trading partners. The real HCI, which also takes into account relative price changes, rose by 3.3%, suggesting that the effect of a stronger euro was partly offset by favourable developments in relative prices vis-à-vis trading partners.

Public finance

In January 2021, the Consolidated Fund recorded a deficit of €324.4 million, a deterioration of €248.7 million when compared to that registered in January 2020 (see Table 3). In turn, the primary

Table 3
CONSOLIDATED FUND BALANCE
EUR millions

	2020	2021	Change	
	Jan.	Jan.	Amount	%
Revenue	**305.7**	**294.0**	**-11.7**	**-3.8**
Direct tax	**171.5**	**187.5**	**16.0**	**9.3**
Income tax	109.5	125.2	15.7	14.3
Social security contributions(1)	61.9	62.2	0.3	0.5
Indirect tax	**102.6**	**87.1**	**-15.6**	**-15.2**
Value Added Tax	43.3	49.7	6.4	14.8
Customs and excise duties	27.2	24.1	-3.1	-11.5
Licences, taxes and fines	32.2	13.3	-18.8	-58.6
Non-tax(2)	**31.6**	**19.5**	**-12.1**	**-38.4**
Expenditure	**381.4**	**618.4**	**237.0**	**62.1**
Recurrent	**350.4**	**560.8**	**210.4**	**60.0**
Personal emoluments	72.1	82.8	10.7	14.9
Operational and maintenance	17.1	39.8	22.6	131.8
Programmes and initiatives(1)	205.1	364.3	159.3	77.7
Contributions to entities	44.1	61.1	17.0	38.6
Interest payments	12.0	12.8	0.8	6.3
Capital	**31.0**	**57.6**	**26.6**	**85.9**
Primary balance(3)	**-63.6**	**-311.6**	**-247.9**	**-**
Consolidated Fund balance	**-75.7**	**-324.4**	**-248.7**	**-**

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.

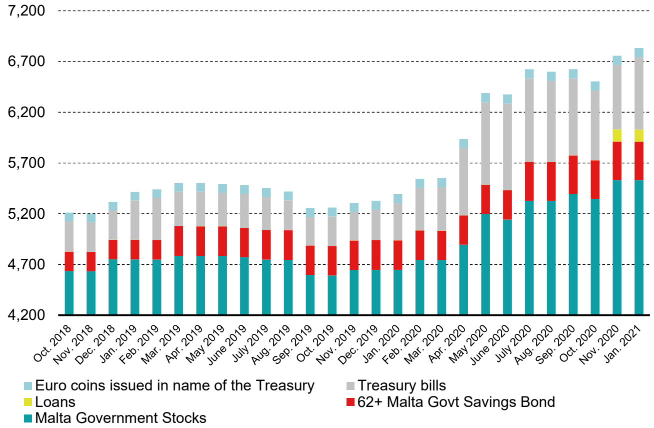
[17] The Industrial Producer Price Index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

[18] 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.

balance registered a deficit of €311.6 million, a deterioration of €247.9 million when compared to that of a year earlier.

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

Chart 7
GOVERNMENT DEBT[1]
(EUR millions)



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

Government revenue fell by €11.7 million, or 3.8% in annual terms. This was due to a drop in indirect tax and non-tax revenue, which more than offset an increase in direct tax revenue. Indirect tax revenue fell by €15.6 million, largely due to a fall in licences, taxes and fines. Non-tax revenue experienced a €12.1 million drop, partly reflecting lower inflows from fees of office and grants. On the other hand, direct tax revenue increased by €16.0 million mainly due to higher income tax receipts, suggesting that the repayment of tax dues under the tax deferral scheme, which expired in August 2020, may have started to impact revenue positively.

Government expenditure increased by €237.0 million, or 62.1% when compared to the corresponding period in 2020. This was mainly attributable to a significant rise in recurrent expenditure, coupled with a relatively moderate rise in capital expenditure. This is partly due to methodological differences; in 2021, outlays on COVID-related support measures were reclassified as current expenditure instead of capital spending.

Overall, recurrent expenditure rose by €210.4 million. Apart from the above-mentioned reclassification, this reflects higher costs on health treatment and the timing of transfers to the EU. Meanwhile, capital expenditure experienced a €26.6 million increase. This was mainly due to road construction.

In January 2021, the total stock of government debt amounted to €6,832.1 million, representing a €75.7 million increase when compared with November 2020 (see Chart 7). This was mainly reflected in higher outstanding Treasury Bills.

Deposits, credit and financial markets

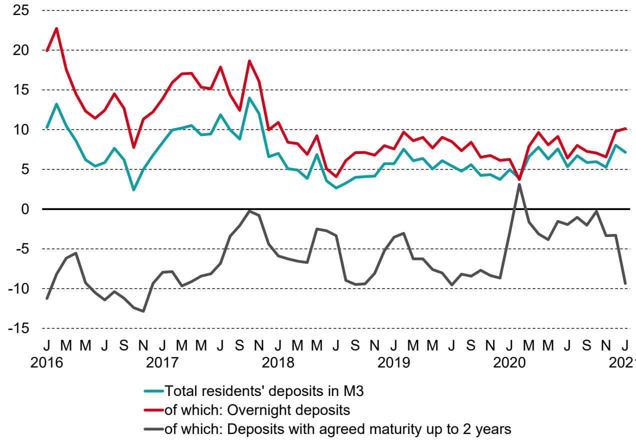
In January, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 7.2%, down from 8.0% in December (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising over 85% of their M3 balances. This deposit category – which is the most liquid – grew by 10.1% in the year to January, after adding 9.8% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 9.4% in annual terms, following a contraction of 3.3% in the previous month.

Credit to Maltese residents grew at an annual rate of 10.7% in January, below the 11.1% recorded a month earlier (see Chart 9). The deceleration in credit during January was driven by slower growth in credit outside general government. This stood at 5.0% in January, down from 5.6% in the previous month. At the same time, growth in credit to general government rose by 32.3% in January, unchanged from the previous month.

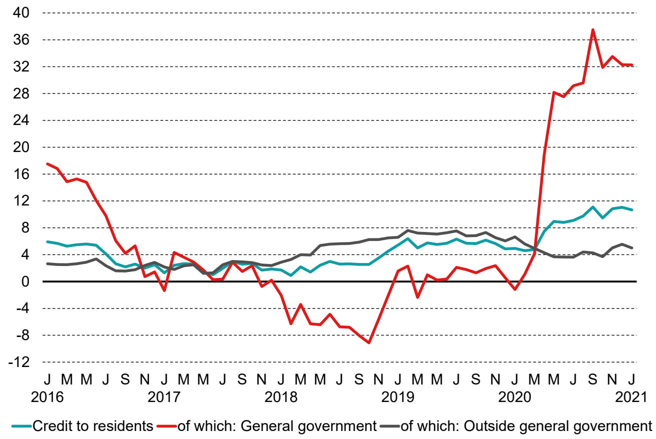
The annual rate of change in loans to non-financial corporations stood at 7.0%, down from the 8.4% registered in December (see Chart 10). The deceleration in growth was largely driven by a significantly slower increase in loans to the construction and real estate sector. This was followed by a larger contraction in loans to the wholesale and retail trade sector, and by a smaller expansion in credit to the ICT sector and energy sector. These developments were partly offset by an increase in loans to the sector comprising administrative and support services activities and, to a smaller extent, in the professional, scientific and technical activities sector. Meanwhile, the annual rate of change of loans to households reached 5.5%, marginally above the 5.4% registered in December.

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



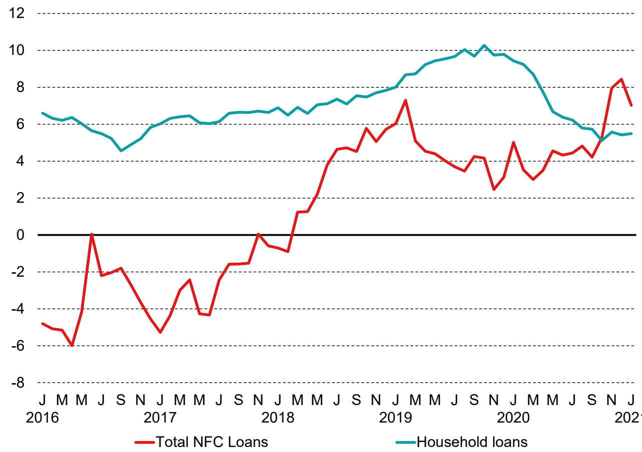
Source: Central Bank of Malta.

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



Source: Central Bank of Malta.

Chart 10
LOANS BY SECTOR
(annual percentage changes)



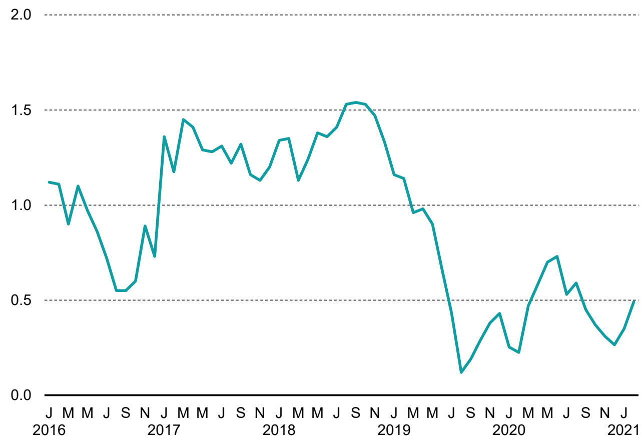
Source: Central Bank of Malta.

This reflected higher growth in mortgage lending, which rose by 7.0%, following an increase of 6.7% in December. At the same time, consumer credit and other lending fell by 8.2%, after contracting by 6.2% a month earlier.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits remained unchanged for the third consecutive month, standing at 0.21% in January. The composite rate charged on outstanding loans eased marginally to 3.34%, from 3.36% in December. Hence, the spread between the two rates remained broadly the same as in December at 314 basis points.

In the capital market, the secondary market yield on 10-year Maltese government bonds increased by 14 basis points from a month earlier, to 0.49% at the end of February (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 4.8% during the same period. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.

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



Source: Central Bank of Malta.

BOX 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 Table 4).[19]

As at end January, there were 1,690 loans subject to a moratorium on repayments. The total value of loans subject to a moratorium in January edged down further when compared with December. These declined by around €10.6 million and stood at €685.3 million, or 5.8% of total outstanding loans to Maltese residents. Loans subject to a moratorium declined for the fifth consecutive time since March 2020. However, this drop in loans subject to a moratorium was the smallest in the past five months. When compared with a month earlier, the largest declines in value and volume terms were observed among households and in the real estate sector. These were partly offset by an increase in loans extended to the accommodation sector and the sector comprising wholesale and retail trade.

[19] 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 allows borrowers to submit their applications for new moratoria or to extend their existing moratoria subject to a number of conditions, before 31 March 2021.

Table 4
LOANS SUBJECT TO MORATORIUM – AS AT END JANUARY 2021
Number of loans; EUR millions; percentage

	Volume of loans(1)	Outstanding amounts(2)	Share in sector's outstanding loans(3)
Households	925	89.8	1.4
Manufacturing	40	7.7	3.5
Construction	24	18.8	3.0
Wholesale and retail trade; repair of motor vehicles and motor cycles	121	30.4	4.7
Transportation and storage and information and communication	52	18.0	6.1
Accommodation and food service activities	215	212.4	41.4
Real estate activities	111	161.5	15.9
Other(4)	203	146.7	7.3
Total	**1,690**	**685.3**	**5.8**

Source: Central Bank of Malta.

(1) The number of loans subject to moratorium.

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

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

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

The largest number of loans covered by moratoria was held by households, with the sector accounting for 54.7% of the total volume of loans subject to a moratorium. However, the outstanding value of loans subject to a moratorium of Maltese households fell to €89.8 million, or 13.1%, of the total value of loans subject to a moratorium, equivalent to 1.4% of outstanding household loans.

Meanwhile, the accommodation and food services activities sector held €212.4 million in loans subject to a moratorium. This is the sector most affected by the containment measures and, indeed, 41.4% of the loans held by this sector were subject to a moratorium by the end of January. The real estate sector held €161.5 million in loans subject to a moratorium, or around 23.6% of such loans – equivalent to 15.9% of the sector's outstanding loans. Moreover, as at end January, the wholesale and retail trade sector held €30.4 million in loans subject to a moratorium, making up 4.4% of loans subject to a moratorium, or 4.7% of loans held by the sector.

To further alleviate liquidity challenges, the Government launched the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS) for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.[20]

[20] The CGS was approved by the European Commission on 2 April 2020. See https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx for further details.

By end January, 547 facilities were approved under the CGS, covering total sanctioned lending of €412.7 million (see Table 5). As the scheme provides loans for working capital, only €306.6 million were disbursed by the end of January, up from the €287.1 million disbursed by the end of December. Thus, by the end of January, around 53% of the scheme was sanctioned, while around 40% was disbursed.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities and had the largest value of sanctioned loans at €95.8 million. This was followed by accommodation and food services activities, with 123 facilities making up a total of €93.6 million in sanctioned loans, and the sector comprising transportation and ICT, which had a total sanctioned amount of €39.4 million.

Table 5
MDB CGS – AS AT JANUARY 2021
Number of facilities; EUR millions

	Total number of facilities[1]	Sanctioned amount[2]
Manufacturing	46	20.7
Construction	30	40.3
Wholesale and retail trade; repair of motor vehicles and motor cycles	158	95.8
Transportation and storage and information and communication	35	39.4
Accommodation and food service activities	123	93.6
Professional, scientific and technical activities	28	16.6
Administrative and support service activities	37	12.5
Real estate	17	6.4
Other[3]	73	87.5
Total	**547**	**412.7**

Source: Malta Development Bank.
(1) The number of facilities taken by various sectors.
(2) The total number of loans sanctioned under the scheme as at end month, in EUR millions.
(3) Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation and other services activities, activities of households, electricity, gas & water supply sector and agriculture, forestry and fishing.

Annex 1

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2018	2019	2020	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Prices and costs								
HICP inflation	1.7	1.5	0.8	1.3	1.2	1.0	0.6	0.3
RPI inflation	1.2	1.6	0.6	1.3	1.2	0.7	0.4	0.3
Industrial producer price inflation	4.4	2.2	0.3	1.8	1.2	0.3	0.2	-0.4
HCI (nominal)	2.6	-0.7	1.8	-1.1	-0.2	1.2	2.8	3.5
HCI (real)	2.1	-1.1	1.5	-1.6	-0.9	1.2	2.4	3.1
Unit labour costs, whole economy[1]	4.5	3.4	10.5	3.4	4.4	8.4	9.4	10.5
Compensation per employee[1]	3.3	2.5	1.0	2.4	2.4	1.3	0.1	0.1
Labour productivity (per person)[1]	-1.1	-0.5	-6.4	-1.0	-1.9	-6.1	-8.3	-9.4
Property Price Index (Eurostat)	5.8	6.1	3.9	5.7	5.5	3.9	2.4	-
Economic activity								
Nominal GDP	7.6	8.0	-5.7	8.4	3.9	-13.3	-7.6	-4.8
Real GDP	5.2	5.5	-7.0	5.8	2.2	-14.6	-8.8	-6.2
Real private consumption	8.4	4.5	-7.6	3.3	-2.1	-17.7	-6.0	-4.9
Real government consumption	12.1	13.8	16.1	10.3	3.0	18.6	20.3	22.5
Real gross fixed capital formation	3.3	9.5	-4.5	2.8	-5.2	-1.3	-2.9	-8.2
Real exports of goods and services	-0.4	6.4	-7.8	6.0	3.7	-11.5	-12.6	-10.1
Real imports of goods and services	0.4	7.9	-4.1	5.2	1.4	-4.3	-7.0	-6.5
Labour market developments								
LFS unemployment rate (% of labour force)	3.7	3.5	-	3.2	3.6	4.4	4.6	-
LFS employment	7.8	6.6	-	5.4	7.7	2.8	1.3	-
Jobsplus gainfully occupied	6.9	6.0	-	6.0	8.6	6.9	5.1	-
Balance of payments								
Current account (as a % of GDP)[2]	5.6	4.6	-	4.6	5.0	0.9	-2.1	-
Credit and financial indicators								
Maltese residents' deposits and loans								
Overnight deposits	8.0	6.1	9.8	6.1	7.9	9.1	7.3	9.8
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-3.3	-8.7	-1.6	-1.5	-2.0	-3.3
Total residents' deposits in M3	5.7	3.7	8.0	3.7	6.6	7.6	5.9	8.0
Credit to general government	-2.0	0.6	32.3	0.6	4.1	27.5	37.5	32.3
Credit to residents (excl. general government)	6.5	6.0	5.6	6.0	4.9	3.6	4.3	5.6
Total credit	4.5	4.9	11.1	4.9	4.8	8.8	11.1	11.1
10-year interest rate (%)[3]	1.3	0.4	0.3	0.4	0.5	0.7	0.5	0.3
Stock prices: Malta Stock Exchange Index[4]	0.1	4.4	-12.4	-4.0	-19.5	6.8	12.6	16.7
Liquidity support measures related to COVID-19								
Outstanding loans subject to a moratorium[5]	-	-	695.9	-	493.5	1,704.6	1,587.6	695.9
Sanctioned amount under the MDB COVID-19 Guarantee Scheme[5]	-	-	408.1	-	-	161.1	343.7	408.1
Disbursed amount under the MDB COVID-19 Guarantee Scheme[5]	-	-	287.1	-	-	64.9	165.6	287.1
General government finances (% of GDP)								
Surplus (+) / deficit (-)[2]	2.0	0.5	-	0.5	-1.5	-5.0	-7.8	-
Gross debt[6]	44.8	42.0	-	42.0	43.3	50.1	52.6	-

	2019 Aug.	2019 Sep.	2019 Oct.	2019 Nov.	2019 Dec.	2020 Jan.	2020 Feb.	2020 Mar.	2020 Apr.	2020 May	2020 June	2020 July	2020 Aug.	2020 Sep.	2020 Oct.	2020 Nov.	2020 Dec.	2021 Jan.	2021 Feb.
Prices and costs																			
HICP inflation	1.9	1.6	1.4	1.3	1.3	1.4	1.1	1.2	1.1	0.9	1.0	0.7	0.7	0.5	0.6	0.2	0.2	0.2	-
RPI inflation	1.7	1.4	1.4	1.4	1.2	1.3	1.0	1.1	0.8	0.7	0.7	0.6	0.4	0.2	0.3	0.3	0.2	0.3	-
Industrial producer price inflation	1.6	2.1	2.3	1.4	1.6	1.8	1.7	0.0	0.7	0.3	-0.2	1.2	0.5	-1.0	-0.6	-0.5	-0.1	0.6	-
HCI (nominal)	-0.5	-1.7	-1.1	-1.0	-1.3	-1.1	-1.0	1.7	1.3	0.9	1.3	2.3	2.7	3.3	3.3	3.3	3.9	3.8	-
HCI (real)	-0.5	-1.8	-1.4	-1.4	-2.0	-1.9	-1.9	1.2	1.4	1.1	1.3	1.9	2.5	2.9	3.1	2.9	3.4	3.3	-
Unit labour costs, whole economy[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person)[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																			
Nominal GDP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																			
LFS unemployment rate (% of labour force)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.2	5.7	5.7	5.9	6.3	7.8	9.2	8.8	7.6	6.7	6.3	5.5	5.1	4.6	4.1	-	-	-	-
Balance of payments				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current account (as a % of GDP)[2]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																			
Maltese residents' deposits and loans																			
Overnight deposits	7.4	8.4	6.5	6.7	6.1	6.3	3.7	7.9	9.6	8.1	9.1	6.4	8.0	7.3	7.1	6.6	9.8	10.1	-
Deposits with agreed maturity up to 2 years	-8.2	-8.4	-7.7	-8.3	-8.7	-2.9	3.1	-1.6	-3.1	-3.8	-1.5	-1.9	-1.0	-2.0	-0.3	-3.3	-3.3	-9.4	-
Total residents' deposits in M3	4.8	5.6	4.2	4.3	3.7	5.0	3.9	6.6	7.8	6.3	7.6	5.3	6.7	5.9	6.0	5.3	8.0	7.2	-
Credit to general government	1.8	1.3	1.9	2.4	0.6	-1.2	1.1	4.1	18.8	28.2	27.5	29.2	29.6	37.5	31.9	33.5	32.3	32.3	-
Credit to residents (excl. general government)	6.8	6.8	7.3	6.5	6.0	6.7	5.6	4.9	4.3	3.7	3.6	3.6	4.4	4.3	3.7	5.0	5.6	5.0	-
Total credit	5.7	5.6	6.2	5.7	4.9	4.9	4.6	4.8	7.5	9.0	8.8	9.1	9.8	11.1	9.5	10.8	11.1	10.7	-
10-year interest rate (%)[3]	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.5	0.6	0.7	0.7	0.5	0.6	0.5	0.4	0.3	0.3	0.4	0.5
Stock prices: Malta Stock Exchange Index[4]	-1.0	2.4	-1.6	-2.5	0.0	-1.2	-0.6	-18.0	6.1	-1.1	1.7	-3.5	-5.9	-3.8	-2.1	6.9	11.4	-2.4	-4.8
Liquidity support measures related to COVID-19																			
Outstanding loans subject to a moratorium[5]	-	-	-	-	-	-	-	493.5	1,259.9	1,548.1	1,704.6	1,795.9	1,769.3	1,587.6	1,133.3	886.4	695.9	685.3	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme[5]	-	-	-	-	-	-	-	-	-	68.5	161.1	238.0	285.1	343.7	351.1	388.5	408.1	412.7	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme[5]	-	-	-	-	-	-	-	-	-	7.4	64.9	88.9	121.4	165.6	204.6	252.7	287.1	306.6	-
General government finances (% of GDP)																			
Surplus (+) / deficit (-)[2]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt[6]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.