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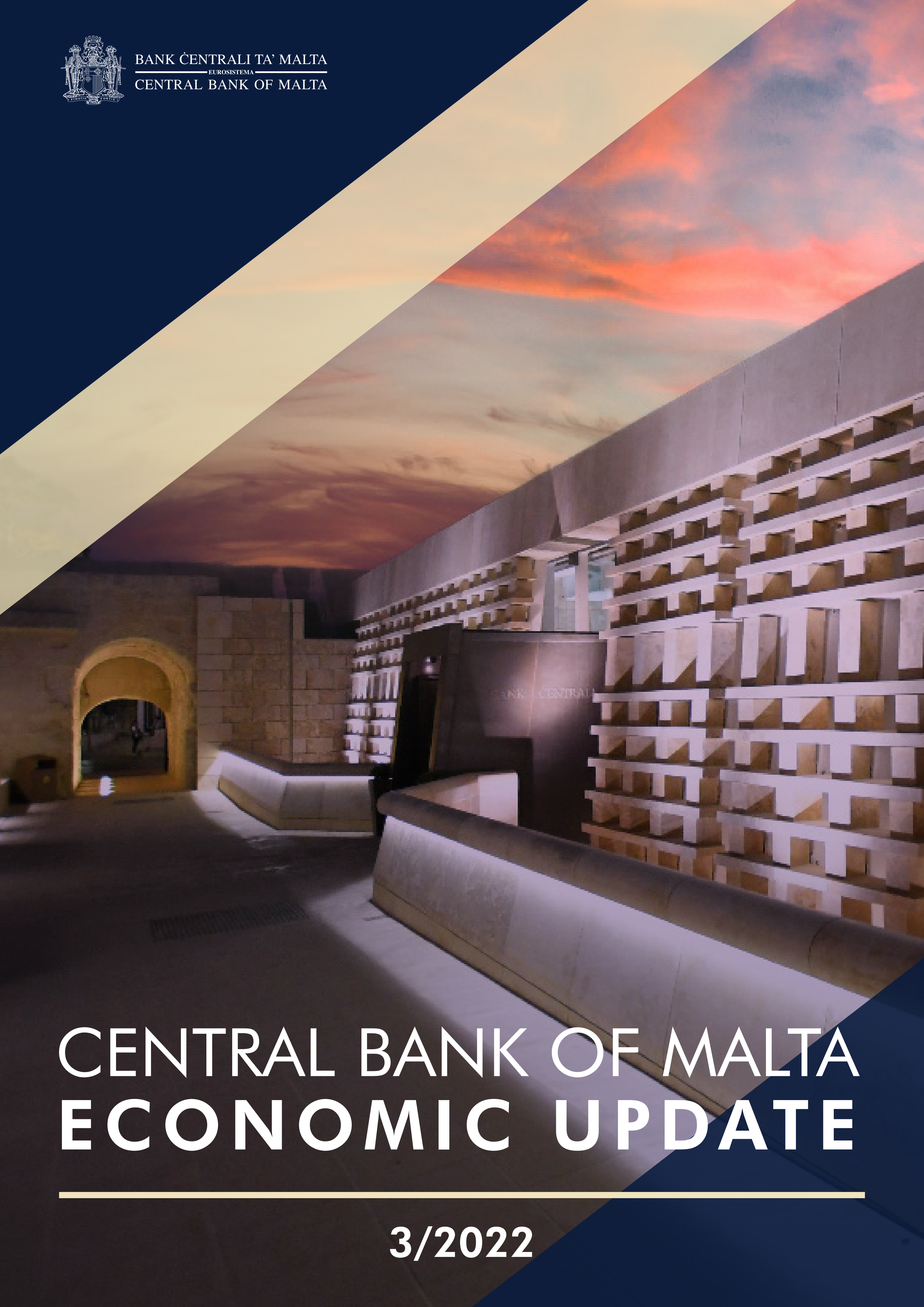

CENTRAL BANK OF MALTA
ECONOMIC UPDATE

3/2022

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The cut-off date for information in this publication is 15 March 2022. However, the cut-off date for inbound tourism, the HICP and the RPI is 23 March 2022. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 3/2022

Summary[1]

The Bank's Business Conditions Index indicates that annual growth in business activity remains above its long-term average, though it has receded from the high levels registered in the first half of 2021.

European Commission data show that economic sentiment in Malta rose in February when compared with the previous month. It stood well above its level a year earlier and its long-term average. The recent increase was driven by improved sentiment across all sectors with the exception of the construction sector, where sentiment however remained positive.

In February, the European Commission's Economic Uncertainty Indicator (EUI) increased when compared with January. The recent rise in uncertainty was largely driven by developments in industry and, to a lesser extent, in the construction sector and among consumers. By contrast, the indicator edged down among retailers and, to a smaller degree, in the services sector.

In January, industrial production contracted again, though at a slower annual rate when compared with December. The volume of retail trade conversely rose at a faster pace. The unemployment rate was marginally lower from that recorded in December and well below last year's rate.

Commercial permits increased in January relative to their year-ago levels, as did residential permits. In February, 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 4.2% in February, marginally up from 4.1% in the previous month. Inflation based on the Retail Price Index (RPI) rose to 4.2% in February, from 3.9% a month earlier.

Maltese residents' deposits expanded at an annual rate of 9.7% in January following an increase of 10.4% in the previous month, while annual growth in credit to Maltese residents stood at 8.1%, slightly below the rate of 8.3% recorded a month earlier.

The Consolidated Fund deficit in January 2022 narrowed significantly compared with a year earlier mainly due to the timing of selected expenditure items but also reflecting higher tax revenue.

Central Bank's Business Conditions Index (BCI)[2]

The Bank's BCI indicates that annual growth in business activity has receded from its historical highs registered in the first half of 2021, as several economic indicators have started to recover from the low levels of 2020 (see Chart 1). Nonetheless, the index continues to suggest that growth remains well above its historical average, as there remains scope for further normalisation in some sectors. Strong annual growth rates are still being recorded in several BCI components,

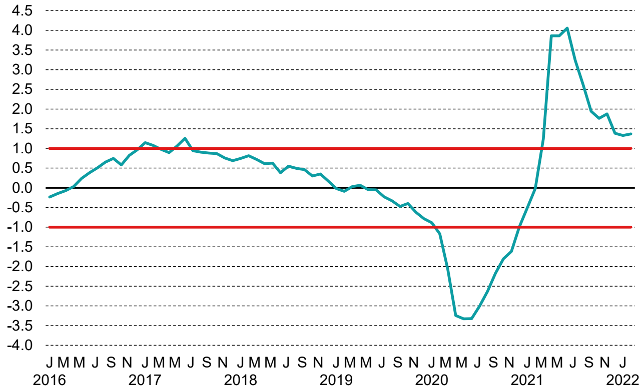
[1] The cut-off date for information in this note is 15 March 2022. However, the cut-off date for inbound tourism, the HICP and the RPI is 23 March 2022. Most of the data reported in this issue of the *Economic Update* refer to January 2022. However, the latest data for the European Commission's confidence and uncertainty indicators, HICP, RPI, the Bank's BCI and the COVID-19 Government Response Index refer to February.

[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.

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 implies that growth rates are also beginning to normalise.[3]

Chart 1
CENTRAL BANK'S BUSINESS CONDITIONS INDEX
(standardised)



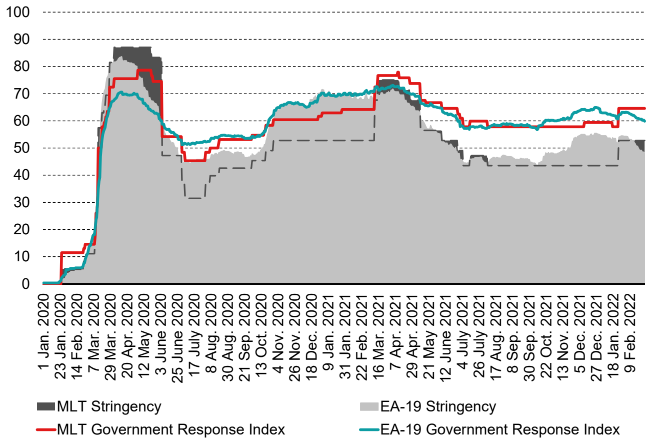
Source: Central Bank of Malta.

BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Some COVID-19 containment measures were relaxed during February 2022, including those affecting travellers, gatherings in private residences and access into establishments. In particular, the quarantine period for fully vaccinated passengers from the list of dark red countries was cut from 14 to 10 days, and the limit on the number of persons who can gather in private households was eliminated. Moreover, vaccination certificates were no longer required for access to restaurants, gyms, cinemas and some other establishments. However, certificates were still required for entry to gaming halls, sports events and night clubs. Despite these measures, Malta's COVID-19 Government Response Index at the end of February remained unchanged from its level at end-January, at 64.6 (see Chart 2).[4] Malta's index stood 4.7 percentage points higher than the euro area average, which closed the month at 59.9.

Meanwhile, at 52.8, Malta's Stringency index retained the level recorded at end-January. Malta's Stringency index ended February 4.8 points higher than that in the euro area.

Chart 2
GOVERNMENT RESPONSE INDEX
(standardised)



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

[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] All measures eased during February were however too small to change the classification, and hence they had zero impact on the GRI. The GRI does not explicitly include an indicator that measures quarantine requirements. Moreover, the GRI records the most stringent requirements regarding groups of persons outside private residences and is not affected by the recent relaxation of rules.

Business and consumer confidence indicators

In February, the European Commission's Economic Sentiment Indicator (ESI) for Malta stood at 115.7, up from 102.2 in January. Following the recent increase, sentiment rose well above its long-term average of around 100.0 and its level in February 2021 (see Table 1).[5,6,7] It also marginally exceeded the euro area average of 114.0.

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

	2020	2021	2021			2022
			Feb.	Dec.	Jan.	Feb.
ESI	**81.5**	**105.2**	**88.2**	**97.5**	**102.2**	**115.7**
Industrial confidence indicator	**-25.1**	**2.7**	**-18.6**	**-8.7**	**-3.4**	**20.1**
Assessment of order-book levels	-48.8	-28.0	-53.8	-34.9	-12.7	-13.0
Assessment of stocks of finished products	27.2	-3.5	28.6	-8.1	-19.1	-18.9
Production expectations for the months ahead	0.8	32.8	26.6	0.6	-16.8	54.5
Services confidence indicator	**-24.9**	**13.5**	**-3.7**	**-9.0**	**4.4**	**23.7**
Business situation development over the past 3 months	-36.3	4.7	-12.4	-16.1	-5.5	21.6
Evolution of the demand over the past 3 months	-34.9	9.9	-16.8	-7.4	23.2	19.0
Expectation of the demand over the next 3 months	-3.7	26.1	17.9	-3.7	-4.4	30.5
Retail trade confidence indicator	**-31.0**	**-11.4**	**-49.0**	**35.9**	**9.0**	**22.1**
Business activity, past 3 months	-22.2	-18.1	-42.2	35.5	-13.5	14.6
Stocks of finished goods	31.9	14.2	33.5	-29.5	-36.3	-26.8
Business activity, next 3 months	-38.8	-2.0	-71.4	42.8	4.1	25.0
Consumer confidence indicator	**-5.6**	**3.0**	**-6.9**	**-0.3**	**-0.7**	**-0.5**
Financial situation past 12 months	-1.6	-10.1	-15.5	-9.0	-11.3	-14.7
Financial situation next 12 months	0.8	7.2	-0.7	0.2	-0.9	-2.4
Economic situation next 12 months	-0.9	18.9	4.5	6.5	4.4	9.2
Major purchases next 12 months	-20.5	-3.9	-15.8	1.0	5.0	5.9
Construction confidence indicator	**-5.7**	**6.6**	**-8.3**	**6.4**	**13.8**	**7.8**
Evolution of your current overall order books	-6.2	0.8	-13.6	-0.3	11.5	11.0
Employment expectations over the next 3 months	-5.2	12.4	-3.0	13.2	16.2	4.7
EEI	**85.9**	**104.1**	**87.0**	**104.4**	**107.2**	**79.5**
Services	-2.4	24.6	-11.8	26.1	36.3	-38.3
Construction	-5.2	12.4	-3.0	13.2	16.2	4.7
Industry	-12.5	14.7	10.3	21.2	13.2	16.2
Retail	-11.6	3.7	-5.7	-3.4	-3.2	0.9
EUI(1,2)	**-**	**21.3**	**-**	**36.9**	**25.1**	**32.6**
Industry	-	21.0	-	51.4	20.8	44.9
Construction	-	30.1	-	12.8	5.5	15.7
Consumers	-	-5.4	-15.8	-0.9	-0.1	1.9
Services	-	32.2	-	42.8	45.1	38.1
Retail	-	48.8	-	60.8	59.0	40.7
ESI demeaned	**-18.4**	**5.2**	**-11.8**	**-2.5**	**2.2**	**15.7**
EEI demeaned	**-14.0**	**4.6**	**-13.0**	**5.1**	**8.0**	**-21.1**

Source: European Commission.
(1) Non-seasonally adjusted data.
(2) Data for Malta is available from May 2021 onwards.

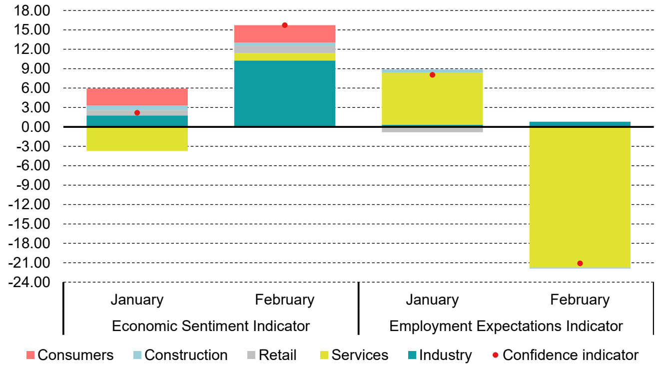
5 The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

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.

In month-on-month terms, sentiment in Malta rose across all sectors, bar the construction sector. The largest increase was recorded in industry. In February, sentiment stood in positive territory across all sectors, with the exception of consumers.

Chart 3
ECONOMIC SENTIMENT AND EMPLOYMENT EXPECTATIONS
(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.

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 mainly driven by developments in industry and in the services sector (see Chart 3). The contribution of the retail sector and consumers also edged up slightly in February. By contrast, the contribution of the construction sector fell relative to January but remained positive. Demeaned data also suggest that developments in industry largely explain why the ESI stood above its long-term average in February.

In February, sentiment in industry turned positive. It increased sharply to 20.1, from -3.4 in January. Following this increase, sentiment rose well above its long-term average of -3.9.[8] The rise in sentiment reflected developments in firms' production expectations for the months ahead. By contrast, participants' assessment of stocks of finished products and of order book levels remained negative and broadly unchanged from a month earlier. Supplementary data show that the share of firms anticipating selling prices to rise in the coming months edged down slightly compared to January but remained high.

Confidence within the services sector improved by almost a fifth. It stood at 23.7, up from 4.4 in January, and rose above its long-term average of 18.9.[9] This increase in confidence stems from firms' assessment of the business situation in recent months as well as their expectations of demand over the next three months. By contrast, participants' assessment of demand over the past three months decreased relative to January. Additional survey data show that, on balance, a record high share of respondents anticipates a rise in prices in the coming months.

Sentiment in the retail sector more than doubled in the month under review. It increased to 22.1 from 9.0 in January and stood above its long-term average of -1.5.[10] Retailers' assessment of business activity over the past three months, and to a lesser extent, their expectations of sales over the next months, improved considerably during the month of February. By contrast, a smaller

[8] The industrial confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.
[9] 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.
[10] 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.

share of participants assessed their stock levels to be below normal, compared to January.[11] Supplementary data show that a very high share of retailers anticipated prices to increase over the next three months.

Consumer confidence stood at -0.5, marginally up from -0.7 in January. Following a marginal improvement in February, it remained well above its long-term average of -10.3.[12] Consumers' expectations of the general economic situation over the next 12 months were the main driver contributing to the recent increase in confidence. At the same time, consumers signalled improving expectations of major purchases in the coming months. By contrast, their assessment of the financial situation in the past 12 months and, to a lesser extent, the outlook for finances over the next 12 months turned more negative. Additional survey data show that price expectations decreased compared with January. Meanwhile a smaller share of respondents anticipated unemployment to decline relative to the previous month.

Confidence within the construction sector deteriorated in February. It fell to 7.8, from 13.8 in January, but remained above its long-term average of -9.8.[13] Weaker sentiment was largely driven by developments in participants' employment expectations. At the same time, a marginally smaller share of respondents assessed their order books to be above normal levels. Supplementary survey data indicate that price expectations decreased in February.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased significantly below its long-term average in February.[14] The EEI stood at 79.5, below the 107.2 recorded in January and below the euro area average of 116.2. Following this decline, the indicator fell below its long-run average of around 100.0. This negative turnaround in employment expectations was entirely driven by the services sector, which however, is sharply at odds with the improvement in the business situation reported in recent months as well as demand expectations for the next three months by this sector in this survey. Employment expectations eased in the construction sector but remained positive. By contrast, there was some improvement in the retail sector, and to a smaller extent, in industry.

Demeaned data show that the services sector largely explains why the overall EEI stood below its long-term average in February (see Chart 3).

In February, 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 – increased to 32.6, from 25.1 in January and exceeded its level recorded in May 2021, the month when the first reading is available for Malta (see Table 1). Following the latest rise in sentiment, the indicator

[11] 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.

[12] 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.

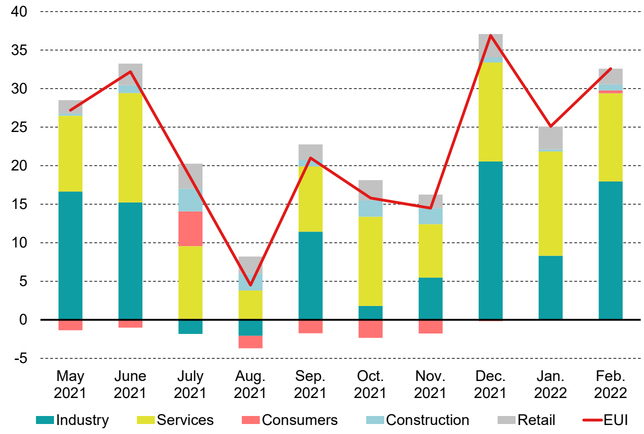
[13] The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

[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*.

remained above that in the euro area, where the index stood at 15.7.[15,16]

In month-on-month terms, the increase in the uncertainty indicator was largely driven by developments in industry and to a more limited extent, in the construction sector (see Chart 4). Additionally, in contrast to January, consumers now reported some difficulty in predicting their household's financial situation. Meanwhile, the uncertainty indicator edged down among retailers and, to a smaller degree, in the services sector.

Chart 4
EUI
(non-seasonally adjusted)



Sources: European Commission; Central Bank of Malta workings.

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 – stood at -3.7%. This is the sixth consecutive year-on-year decline and follows a fall of 5.6% in December (see Table 2).[17]

The recent decline in industrial production primarily reflected lower output by firms 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 wearing apparel and certain fabricated metals as well as those that print and reproduce recorded media. On the other hand, higher output was registered among firms that produce beverages, certain non-metallic products, paper and wood products as well as computer, electronic and optical products. Other smaller increases were reported by firms that repair and install machinery and equipment and also by those that produce food products.

Production in the energy sector increased strongly, with output rising by 12.5% in annual terms.

In January, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 11.6% on an annual basis, after rising by 4.4% in December.

In January, the tourism sector registered additional gains over a year earlier, although tourist numbers remained below pre-pandemic levels. The number of inbound tourists stood at 59,734

[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 series are not seasonally adjusted. The five balance series are summarised in one composite indicator using the same weights used to construct the ESI. The questions asked correspond to Q51 of the industry survey, Q31 of the services survey, Q41 of the retail trade and construction surveys and Q21 of the consumer survey.

[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.

Table 2
ACTIVITY INDICATORS
Annual percentage changes

	2020	2021	2020	2021		2022
			Dec.	Jan.	Dec.	Jan.
Industrial production	-0.2	-0.5	-4.5	-7.3	-5.6	-3.7
Retail trade	-5.5	8.1	5.2	-4.2	4.4	11.6
Number of tourist arrivals	-76.1	47.0	-91.1	-90.7	485.3	332.7
Number of nights stayed	-73.0	60.5	-77.2	-79.8	239.7	202.1
Rented accommodation	-76.8	73.8	-86.6	-89.0	437.7	465.0
Collective[1]	-76.5	74.3	-91.9	-92.1	705.7	496.0
Other rented[2]	-77.3	72.9	-79.5	-82.4	296.0	434.3
Non-rented accommodation[3]	-52.8	26.5	-33.5	-48.9	53.7	14.2
Tourist expenditure	-79.5	91.3	-86.6	-87.6	316.6	301.1
Package expenditure	-84.5	108.7	-	-	877.3	635.8
Non-package expenditure	-79.6	89.4	-86.4	-87.7	265.1	311.3
Other	-75.9	85.4	-82.0	-83.5	277.7	245.9

Sources: National Statistics Office; Eurostat.
[1] Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.
[2] Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.
[3] Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

in January, more than four times the number of visitors a year earlier. Nonetheless it was still less than half the January 2020 level. Likewise, guest nights were more than three times those registered in January 2021, with collective accommodation registering the highest rise in absolute terms. Total expenditure was more than four times that registered in the corresponding period of 2021 but was still around half the level in January 2020.

In January, 244 development permits for commercial buildings were issued, a 16.7% increase over the same month a year earlier (see Table 3). During the month, 951 new residential permits were issued, a rise of 21.3% compared with January 2021.

Data on residential property transactions show that 1,050 final deeds of sale were concluded in February, 6.7% more than a year earlier. On the other hand, at 967, the number of promise-of-sale agreements was 28.4% less than that registered in February 2021.

Table 3
PROPERTY MARKET
Levels

	2020	2021	2021		2022	
			Jan.	Feb.	Jan.	Feb.
Permits						
Commercial permits	2,687	2,770	209	249	244	-
Residential permits	7,837	7,578	784	654	951	-
Residential transactions						
Promise of sale	11,259	15,650	980	1,350	663	967
Final deeds of sale	11,057	14,386	1,009	984	1,140	1,050

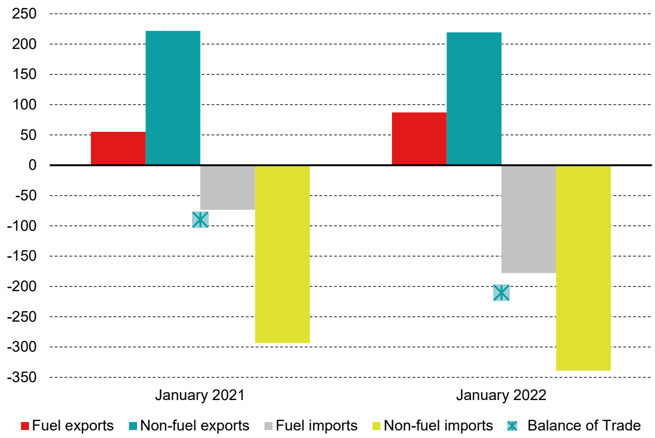
Sources: National Statistics Office; Eurostat.

Customs data show that the merchandise trade deficit stood at €210.2 million in January, up from €89.9 million a year earlier. The larger deficit was due to a €150.0 million rise in imports which offset a €29.7 million increase in exports (see Chart 5).

Higher imports were largely on account of a significant increase in the fuel-import bill, although smaller increases were also recorded in several other categories. These more than offset fewer registrations of aircrafts.

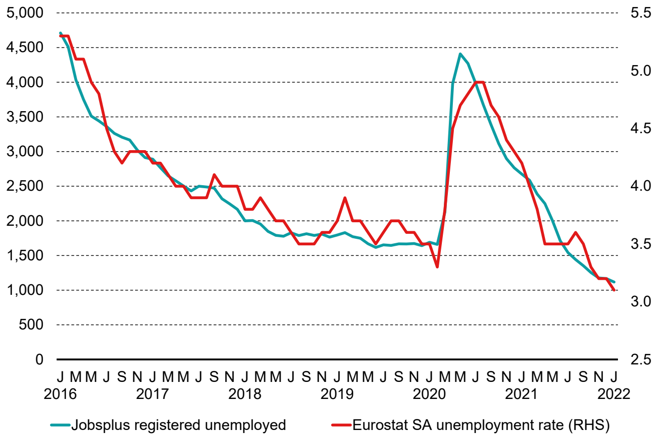
The increase in exports was mainly driven by higher fuel re-exports and an increase in fish, articles of iron and steel, pharmaceutical products, optical instruments and printed material. These were partly offset by lower exports of aircraft parts, electrical machinery, and organic chemicals.

Chart 5
EXPORTS AND IMPORTS OF GOODS: JANUARY 2021
(EUR millions; monthly observations)



Source: National Statistics Office.

Chart 6
UNEMPLOYMENT
(persons; percentage of labour force)



Sources: National Statistics Office; Eurostat.

Labour market

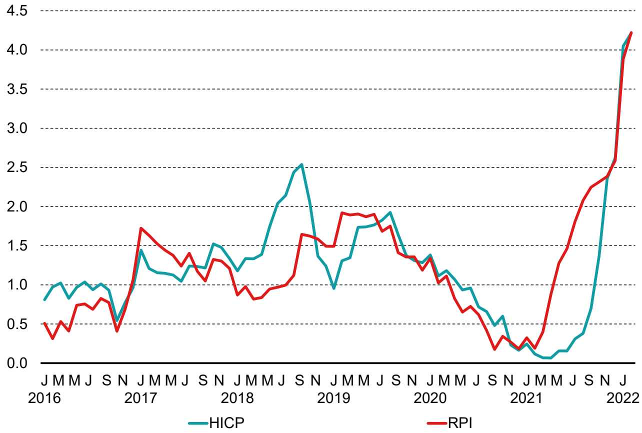
Jobsplus data show that the number of persons on the unemployment register stood at 1,117 in January 2022, down from 1,167 in December 2021 and from 2,675 a year earlier – when the labour market was still impacted by the pandemic-related restrictions (see Chart 6). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

The seasonally-adjusted unemployment rate stood at 3.1% in January 2022, marginally lower than the rate registered in the previous month, and well below the rate of 4.2% registered in January 2021.

Prices, costs and competitiveness

Annual HICP inflation rose to 4.2% in February, from 4.1% in the previous month (see Chart 7). This slight increase was solely driven by faster growth in food prices as processed food inflation reached 4.6% from 3.7% in the previous month, while unprocessed food inflation stood at 15.1%, up from 12.7% in January. On the other hand, services inflation eased, although it remained relatively elevated from a historical perspective, standing at 3.8% in February. Non-energy industrial goods inflation was unchanged at 3.7% in the month under review, while energy prices were unchanged from a year earlier.

Chart 7
HICP AND RPI INFLATION RATES IN MALTA
(annual percentage changes)



Source: National Statistics Office.

Annual inflation according to the RPI stood at 4.2% in February, up from 3.9% in January (see Chart 7).[18] Faster growth was recorded across almost all main components except for the prices of clothing and footware as well as recreation and culture, where inflation edged down but remained positive. Prices in transport and communication increased at the same pace as in the previous month while prices for water and energy remained unchanged.

Thus, the HICP and the RPI grew at the same rate in February 2022. This is unlike what occurred during most of 2021 when HICP weights were revised to take into account the effect of the pandemic on spending patterns. In 2022, the HICP weights show only a partial return to those that prevailed before the pandemic and thus do not diverge significantly from those of 2021. Consequently, the impact of changes in weights on overall inflation in February 2022 is negligible.

Producer output inflation, measured by the industrial producer price index, stood at 6.4% in January, down from 7.4% in December.[19] The slowdown reflects slower growth in the prices of most components. Despite the relative slowdown, producer output inflation was still elevated from a historical perspective. This might reflect the impact of the rising cost pressures due to ongoing global supply bottlenecks.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.0% in the year to February 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.[20] The real HCI, which also considers relative price changes, fell by 2.4% in annual terms in February, which suggests that favourable developments in relative prices vis-à-vis trading partners amplified the competitive advantage from a weaker euro.

[18] The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP 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] 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.

[20] 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.

Public finance

During the first month of 2022, the Consolidated Fund recorded a deficit of €66.2 million, a significant improvement when compared to the deficit of €324.4 million registered in January 2021 (see Table 4). This mainly occurred due to a drop in government expenditure and – albeit to a lower extent – a rise in government revenue. In turn, the primary deficit reached €53.1 million, €258.5 million lower than the deficit registered a year earlier.

Government revenue increased by €58.0 million, or 19.7% in annual terms, on the back of an increase in both tax and non-tax revenue. Revenue from direct taxes rose by €20.7 million, partly due to higher inflows from income tax paid by households. Meanwhile, indirect tax revenue increased by €12.2 million, largely on the back of higher receipts from stamp duty. At the same time, inflows from non-tax revenue rose by €25.2 million reflecting higher grants from the European Union.

Government expenditure declined by €200.1 million, or 32.4% when compared to the corresponding period in 2021. This was mainly due to a drop in recurrent expenditure. This largely reflects lower expenditure on programmes and initiatives, which dropped by €136.0 million partly reflecting the timing of social benefits and transfers to the European Union. The month under review also saw lower spending on operational and maintenance costs and – albeit by a lower extent – contributions to government entities. On the other hand, personal emoluments and interest payments registered a slight increase.

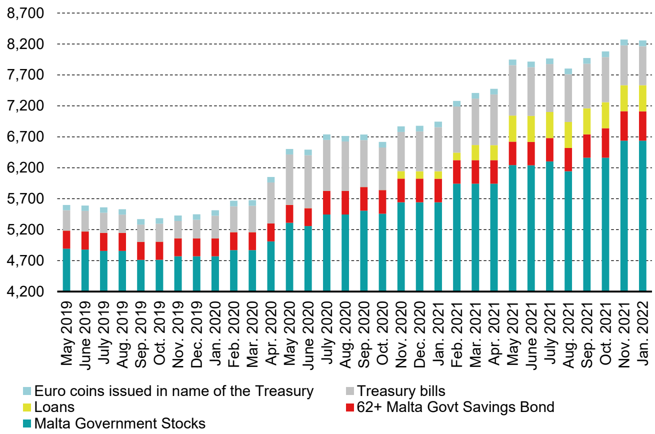
Table 4
CONSOLIDATED FUND BALANCE
EUR millions

	2021 Jan.	2022 Jan.	Change Amount	Change %
Revenue	**294.0**	**352.1**	**58.0**	**19.7**
Direct tax	**187.5**	**208.1**	**20.7**	**11.0**
Income tax	125.2	138.7	13.5	10.8
Social security contributions[(1)]	62.2	69.4	7.2	11.5
Indirect tax	**87.1**	**99.3**	**12.2**	**14.0**
Value Added Tax	49.7	52.5	2.8	5.6
Customs and excise duties	24.1	17.9	-6.2	-25.8
Licences, taxes and fines	13.3	29.0	15.6	117.2
Non-tax[(2)]	**19.5**	**44.6**	**25.2**	**129.3**
Expenditure	**618.4**	**418.3**	**-200.1**	**-32.4**
Recurrent	**560.8**	**396.9**	**-163.9**	**-29.2**
Personal emoluments	82.8	83.5	0.7	0.9
Operational and maintenance	39.8	15.9	-23.9	-60.0
Programmes and initiatives	364.3	228.3	-136.0	-37.3
Contributions to entities	61.1	56.0	-5.1	-8.4
Interest payments	12.8	13.2	0.4	3.0
Capital	**57.6**	**21.4**	**-36.2**	**-62.8**
Primary balance[(3)]	**-311.6**	**-53.1**	**258.5**	**-**
Consolidated Fund balance	**-324.4**	**-66.2**	**258.1**	**-**

Source: National Statistics Office.
[(1)] Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.
[(2)] Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.
[(3)] Revenue less expenditure excluding interest payments.

Meanwhile, capital expenditure decreased by €36.2 million, reflecting a decline in outlays on road construction. In January 2022, the total stock of government debt amounted to €8,127.8 million, a decline of €29.2 million when compared with November 2021 (see Chart 8).[21] This decrease is mainly attributable to lower outstanding Treasury bills and Malta Government Stocks.

Chart 8
GOVERNMENT DEBT[(1)]
(EUR millions)

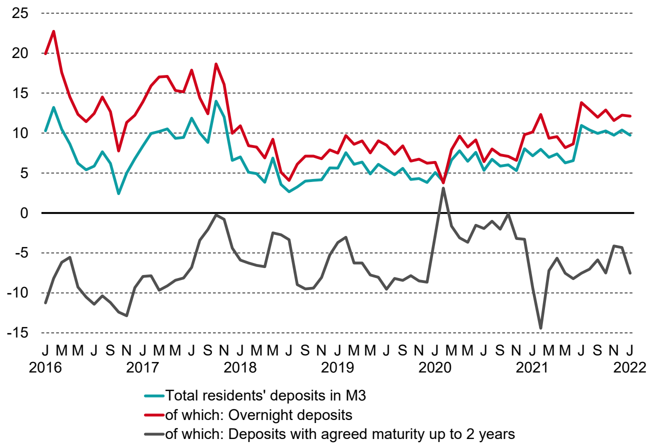


Source: National Statistics Office.
[(1)] Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

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 9.7%, down from 10.4% a month earlier (see Chart 9).

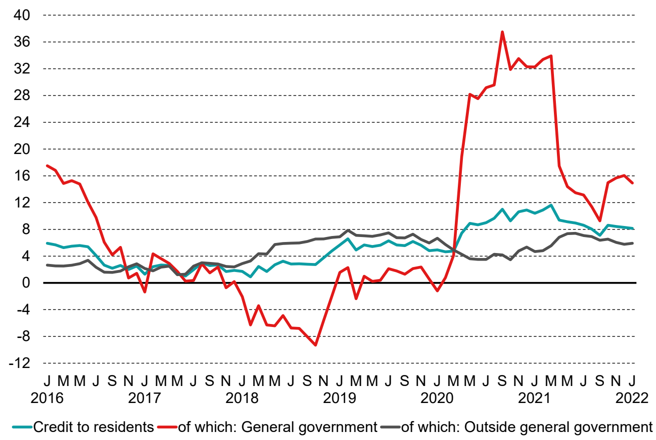
Chart 9
SELECTED DEPOSITS OF MALTESE RESIDENTS
(annual percentage changes)



Source: Central Bank of Malta.

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 12.1% in the year to January, slightly below the 12.2% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 7.5% in annual terms, following a contraction of 4.3% in December. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

Chart 10
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)



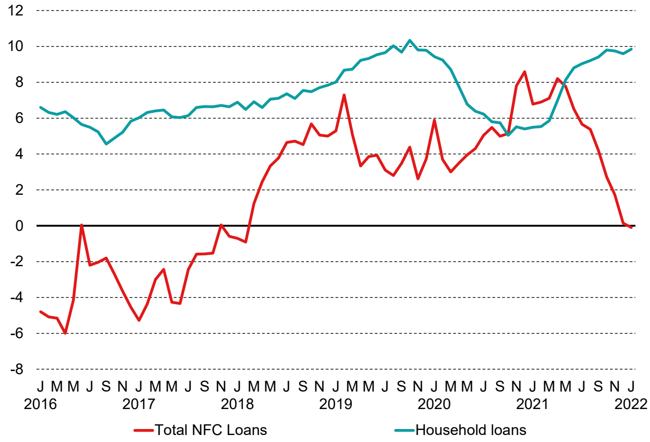
Source: Central Bank of Malta.

Credit to Maltese residents grew at an annual rate of 8.1% in January, marginally below the 8.3% recorded a month earlier (see Chart 10). The deceleration

[21] The comparison is with November 2021 because data for December 2021 were not available by the cut-off date for this edition.

in credit during January was driven by slower growth in credit to general government. Annual growth in this component stood at 14.9%, following a 16.0% increase in December. By contrast, growth in credit to residents outside general government edged up to 5.9% from 5.8% a month earlier.

Chart 11
LOANS BY SECTOR
(annual percentage changes)



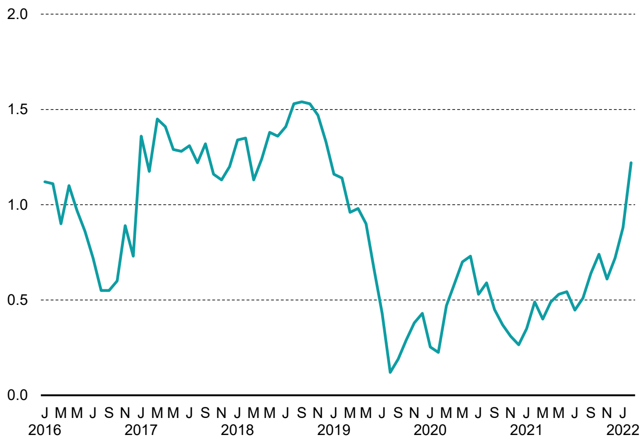
Source: Central Bank of Malta.

The annual rate of change in loans to non-financial corporations declined in January and stood at -0.1%, slightly below the 0.1% recorded a month earlier (see Chart 11). The small decline in January reflects mixed developments across sectors. Compared with a month earlier, the decline in growth largely reflected slower growth in credit in accommodation and food service activities. This was followed by a larger contraction in loans to the sector comprising professional, scientific and technical activities and a fall in loans to the wholesale and retail trade sector. These developments were partly offset by a smaller decline in loans in real estate activities and an increase in loans in administrative and support service activities.

Meanwhile, the annual rate of change in loans to households reached 9.8% in January, from 9.6% in December. Consumer credit and other lending fell by 3.2%, following a contraction of 4.1% a month earlier. Furthermore, the annual rate of change in mortgage lending edged up to 11.1% in January, from 10.9% in December.

As regards interest rates, in January, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood unchanged from the previous month, at 0.16%. Meanwhile, the composite rate charged on outstanding loans edged down to 3.19%, from 3.23% in December. Hence, the spread between the two rates decreased slightly to 303 basis points.

Chart 12
10-YEAR MALTA GOVERNMENT BOND YIELD
(ISMA yield; percentages per annum; end of month)



Source: Central Bank of Malta.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased by 34 basis points from a month earlier to 1.22% at the end of February (see Chart 12).

At the same time, the Malta Stock Exchange (MSE) Equity Price Index fell by 2.1% 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.

Liquidity support measures related to COVID-19

To alleviate liquidity challenges, in 2020 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 was later extended to cover the refinancing of loans. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.[22]

By end-January, 653 facilities were approved under the CGS, covering total sanctioned lending of €505.5 million.[23]

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 January, €457.4 million were disbursed, up slightly from the €453.0 million disbursed by the end of December. Thus, by the end of January, 65.0% of the scheme was sanctioned while 58.8% was disbursed.

By end-January, the sector comprising wholesale and retail activities had the largest number of facilities supported by the scheme, 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.

[22] 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.

[23] 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 the reduction of the facility value.

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2019	2020	2021	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2021 Jan.	2021 Feb.	2021 Mar.	2021 Apr.	2021 May	2021 June	2021 July	2021 Aug.	2021 Sep.	2021 Oct.	2021 Nov.	2021 Dec.	2022 Jan.	2022 Feb.
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	4.1	4.2
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	3.9	4.2
Industrial producer price inflation	2.2	0.3	3.2	-0.4	0.8	1.7	3.7	6.4	0.8	0.5	1.1	1.2	1.8	2.2	1.3	4.4	5.5	5.6	6.2	7.4	6.4	-
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	-1.0
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	-3.6	-3.7	-4.3	-4.3	-4.7	-3.1	-2.4
Unit labour costs, whole economy(1)	3.6	11.4	-2.1	11.4	11.1	5.0	0.9	-2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee(1)	3.8	-0.7	5.5	-0.7	0.7	3.5	5.0	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person)(1)	0.2	-10.8	7.7	-10.8	-9.5	-2.0	3.8	7.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	-	1.6	4.6	5.4	5.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																						
Nominal GDP	8.4	-7.0	11.3	-6.6	0.9	17.5	15.0	12.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.3	9.4	-8.0	-0.3	16.1	12.7	10.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.6	-10.2	6.2	-6.4	-4.8	15.6	7.2	8.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	13.1	15.8	6.1	19.3	22.2	-1.2	6.5	-0.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-7.6	19.3	-14.6	-8.0	24.5	32.8	30.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	7.0	-5.6	8.2	-7.1	-2.3	14.5	12.0	9.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	8.0	-2.2	7.6	-4.0	-2.1	11.5	11.3	10.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																						
LFS unemployment rate (% of labour force)	3.6	4.4	3.5	4.4	3.9	3.5	3.6	3.2	4.1	4.0	3.7	3.4	3.5	3.5	3.6	3.6	3.5	3.3	3.2	3.2	3.1	-
LFS employment	7.1	2.6	2.7	-0.4	-1.1	3.2	3.6	5.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.1	-	1.9	0.5	2.5	3.6	-	0.5	0.2	0.9	1.8	2.6	3.1	3.2	3.6	3.8	-	-	-	-	-
Balance of payments																						
Current account (as a % of GDP)(2)	5.0	-2.9	-5.9	-2.9	-3.3	-3.5	-4.1	-5.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	12.1	-
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	-7.5	-
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	9.7	-
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	14.9	-
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	5.9	-
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	8.1	-
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	1.2
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	-2.1
Liquidity support measures related to COVID-19																						
Outstanding loans subject to a moratorium(5)	-	691.9	14.1	691.9	411.7	99.6	36.4	14.1	680.7	645.6	411.7	234.4	144.2	99.6	87.0	75.1	36.4	28.6	25.4	14.1	0.0	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme(5)	-	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	505.5	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme(5)	-	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	457.4	-
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	53.4	-	53.4	57.3	58.9	56.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.