



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA ECONOMIC UPDATE

3/2023

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ECONOMIC UPDATE 3/2023

Summary¹

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

The European Commission confidence surveys show that in February, sentiment in Malta edged up from a month earlier, and stood above its long-term average, estimated since November 2002. When compared with the previous month, the improvement was largely driven by the construction and services sectors.

Additional survey information shows that price expectations stood around their year-ago level among consumers as well as in industry and services, with larger deviations for the remaining two sectors. In particular, price expectations stood firmly above their year ago level in the construction sector, while standing significantly lower in the retail sector.

In February, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with January, indicating lower uncertainty. Uncertainty fell mostly in industry.

In January, industrial production grew at a strong, yet slower rate on a year earlier. Meanwhile, retail trade also increased at a slower pace in annual terms. The unemployment rate stood at 3.0% in January, marginally higher than the rate registered in the previous month, and unchanged from that registered in January 2022.

Commercial building and residential permits decreased in January relative to their year-ago level but exceeded those issued in December. In February, the number of promise-of-sale agreements rose on a year-on-year basis, while the number of final deeds of sales fell.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 7.0% in February, up from 6.8% in the previous month. Inflation based on the Retail Price Index (RPI) also increased, standing at 7.1% in February, from 6.9% in January.

Maltese residents' deposits expanded at an annual rate of 3.9% in January, following an increase of 4.0% in the previous month, while annual growth in credit to Maltese residents moderated to 7.3% from 7.6% a month earlier.

In January, the deficit on the Consolidated Fund widened when compared with a year earlier, as government expenditure rose while revenue remained broadly stable.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that annual growth in business activity remained slightly above its long-term average estimated since January 2020 (see Chart 1). Among BCI components, tourist

¹ The cut-off date for information in this note is 21 March 2023. Most of the data reported in this issue of the *Economic Update* refer to January 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures 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.

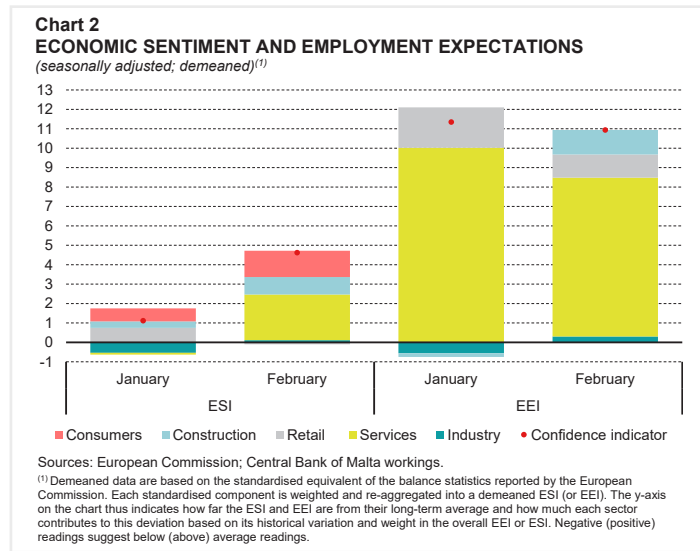
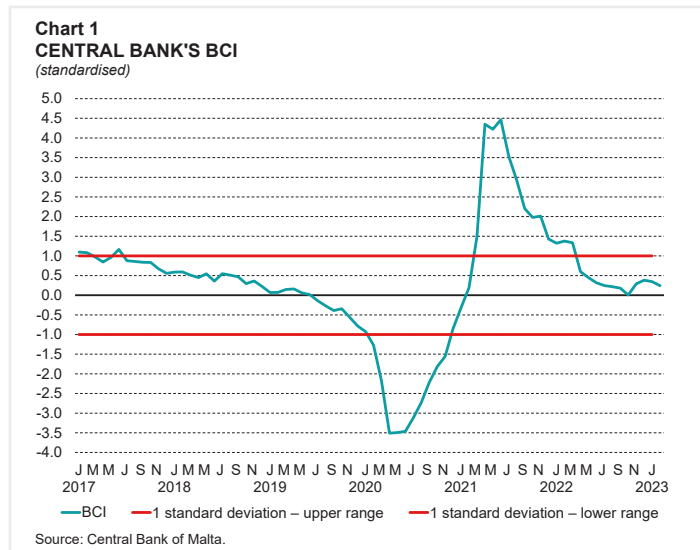
arrivals, industrial production, tax revenue, and gross domestic product (GDP) experienced strong year-on-year growth in recent months. On the other hand, in February, the ESI decreased from its year-ago level. Furthermore, in January, the unemployment rate was unchanged when compared to a year earlier.

Business and consumer confidence indicators

In February, the European Commission’s Economic Sentiment Indicator (ESI) for Malta reached a nine month-high of 104.6, from 101.1 in January. However, it remained below the February 2022 level (see Table 1).^{3,4,5,6} Following the recent increase, sentiment was above its long-term average of around 100.0, estimated since November 2002, and stood above the euro area average of 99.7.

In month-on-month terms, sentiment increased strongly in the construction and services sectors. It also improved in industry and among consumers, albeit remaining negative. By contrast, sentiment turned negative in the retail sector.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the improvement in the overall sentiment in February was driven by the services sector, where its contribution turned positive (see Chart 2).



³ The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.
⁴ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicators' data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.
⁵ In January 2022, data were revised for previous periods following the annual updating of country weights and the inclusion of 2021 in the standardisation sample.
⁶ From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. See [BCS User Guide](#) for further details on the methodology used by the European Commission.

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2021	2022	2022		2023	
			Feb.	Dec.	Jan.	Feb.
ESI	104.9	100.9	116.1	96.7	101.1	104.6
Construction confidence indicator	7.3	7.0	5.2	-4.3	2.9	17.5
Evolution of your current overall order books	1.4	8.7	5.5	-6.6	2.4	6.3
Employment expectations over the next 3 months	13.2	5.4	4.8	-2.0	3.4	28.8
Services confidence indicator	13.7	20.4	22.5	19.9	18.7	30.6
Business situation development over the past 3 months	4.9	15.7	22.9	1.6	12.4	30.7
Evolution of the demand over the past 3 months	10.8	26.1	15.5	18.6	19.6	39.7
Expectation of the demand over the next 3 months	25.3	19.5	29.2	39.5	24.0	21.4
Industrial confidence indicator	2.1	-9.4	25.1	-23.5	-8.6	-3.2
Assessment of order-book levels	-28.2	-21.5	-4.5	-10.1	-4.3	-7.2
Assessment of stocks of finished products	-3.2	9.1	-15.9	2.2	2.6	19.2
Production expectations for the months ahead	31.3	2.2	63.8	-58.1	-18.8	16.8
Consumer confidence indicator	3.4	-7.3	0.6	-11.7	-10.2	-6.8
Financial situation past 12 months	-8.8	-19.7	-13.7	-22.6	-19.0	-16.0
Financial situation next 12 months	7.3	-11.8	-1.0	-13.4	-11.3	-8.8
Economic situation next 12 months	18.6	-3.5	10.9	-9.2	-10.0	-4.2
Major purchases next 12 months	-3.4	5.6	6.1	-1.8	-0.6	1.9
Retail trade confidence indicator	-8.4	6.0	21.3	27.3	25.4	-0.6
Business activity, past 3 months	-13.6	21.1	18.7	57.7	41.8	21.8
Stocks of finished goods	12.8	-3.2	-17.2	3.1	15.9	22.9
Business activity, next 3 months	1.3	-6.3	28.1	27.1	50.1	-0.7
E EI	103.5	106.4	74.4	110.8	111.9	111.3
Retail	4.4	15.8	3.9	26.7	16.1	10.6
Services	25.1	30.2	-52.9	56.7	46.6	41.4
Industry	14.8	12.0	18.4	-37.4	8.2	13.6
Construction	13.2	5.4	4.8	-2.0	3.4	28.8
EUI^(1,2)	21.3	28.1	32.6	24.4	14.0	2.9
Industry	21.0	39.4	44.9	32.0	10.9	-14.8
Construction	30.1	19.5	15.7	35.2	19.7	14.5
Retail	48.8	50.8	40.7	40.4	18.7	14.2
Consumers	-3.5	13.7	1.9	13.5	13.9	12.2
Services	32.2	20.3	38.1	17.2	16.4	16.4
ESI demeaned	4.9	0.9	16.1	-3.3	1.1	4.6
E EI demeaned	3.4	6.2	-24.2	9.0	11.3	10.9

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

Furthermore, the confidence indicators for the services sector and consumers largely explain why the ESI stood above its long-term average in February.

In February, the confidence indicator for the construction sector stood at 17.5, up from 2.9 in January, and remained well above its long-term average of -8.6.⁷ This mainly reflected an improvement

⁷ 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.

in employment expectations. Furthermore, a larger share of respondents' assessed order book levels to be above normal levels.

The sentiment indicator for the services sector averaged 30.6, above the 18.7 recorded in the previous month. Following the latest increase, sentiment stood well above its long-term average of 19.3.⁸ Firms' assessment of demand, and of the business situation over the past three months improved strongly. This offset a slight moderation in firms' expectations of demand over the next three months.

Confidence in industry rose to -3.2, from -8.6 in January, standing marginally above its long-term average of -4.3.⁹ The latest increase was largely driven by a sharp increase in production expectations, which turned positive in February. By contrast, a larger share of firms assessed their stocks of finished products to be above normal.¹⁰ At the same time, the share of firms assessing order book levels to be below normal, increased.

Consumer confidence edged up to -6.8, from the level of -10.2, consistent with the long-term average recorded a month earlier. This development mainly reflects a less negative assessment of the general economic situation over the next 12 months.¹¹ Consumers' assessment of their financial situation over the last 12 months, and expectations of their finances in the coming months, also improved. Expectations of major purchases over the next 12 months turned marginally positive relative to January.

Sentiment in the retail sector fell broadly in line with its long-term average of -0.5.¹² It decreased sharply to -0.6 in February, from 25.4 a month earlier. In contrast to the previous month, expectations of business activity over the next three months turned slightly negative in February. At the same time, the assessment of sales in recent months almost halved, but remained positive. Furthermore, the share of retailers assessing their stock levels to be above normal increased compared with January.

Additional survey information shows that, in month-on-month terms, price expectations fell sharply in the retail sector, with smaller declines recorded among consumers and services firms. By contrast, price expectations increased strongly in construction, and marginally in industry (see Chart 3). Differences across sectors narrowed but remained wide – while the net share of firms signalling price increases ranged between 41% and 47% in the services and construction sectors, respectively, that in other sectors ranged between 6% and 25%.

Price expectations stood around their year-ago level among consumers, as well as in industry and services, with larger deviations for the remaining two sectors. In particular, price expectations

⁸ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

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

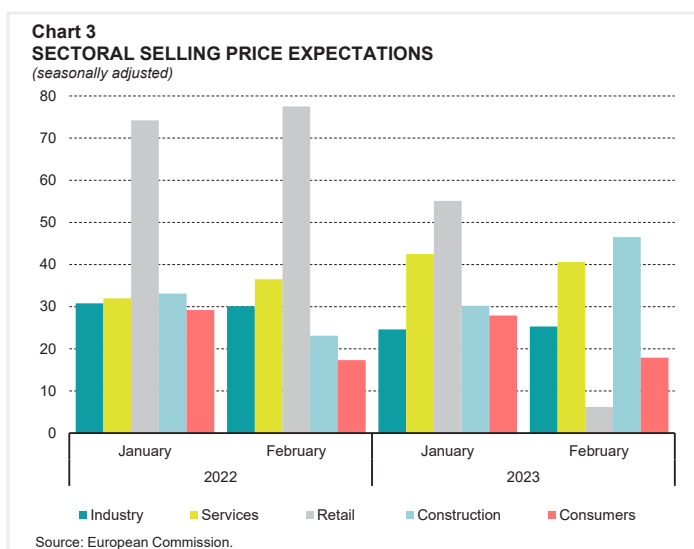
¹⁰ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

¹¹ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

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

stood firmly above their year ago level in the construction sector, while standing significantly lower in the retail sector.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – stood at 111.3 in February, slightly below the 111.9 recorded a month earlier.¹³ The indicator remained above its long-term average of around 100.0, and exceeded the euro area average of 109.4.



Demeaned data suggest that the marginal decrease in employment expectations was largely driven by developments in the services sector. Employment expectations in the retail sector also weakened, albeit by a smaller degree. By contrast, the contributions of industry and construction turned positive.

The services sector largely explains why the overall EEI stood above its long-term average in February (see Chart 2).

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 – decreased to 2.9, from 14.0 in January, signalling lower uncertainty (see Table 1). The uncertainty indicator stood well below its level recorded in February 2022, when the index averaged 32.6. It was also below that of the euro area.^{14,15}

In month-on-month terms, the decrease in Malta's uncertainty indicator was mainly driven by developments in industry, whereby, in contrast to January, firms were able to predict their business situation with ease. Uncertainty also decreased in the construction and retail sectors, and among consumers albeit at a lower extent. Meanwhile, uncertainty in the services sector remained broadly unchanged compared with January.

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

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

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

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

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 12.4%. This followed a rise of 14.9% in December (see Table 2).¹⁶

The recent increase in industrial production primarily reflected a strong expansion in the output of firms that produce computer, electronic and optical products. Other strong increases in output were registered among firms that manufacture other non-metallic mineral products, the sector comprising the manufacturing of motor vehicles, trailers and semi-trailers, as well as those that produce chemicals and chemical products. Production also rose among firms involved in printing and those that specialise in ‘other manufacturing’ – which includes medical and dental instruments, toys and related products. By contrast, firms that produce textiles, paper and paper products, wearing apparel, and food products reported a decrease in activity.

Meanwhile, production in the energy sector increased in January, at a slightly slower pace compared to December.

In January, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 5.7% in year-on-year terms, after rising by 7.7% in December.

	2021	2022	2021 Dec.	2022 Jan.	2022 Dec.	2023 Jan.
Industrial production	-0.2	2.9	-6.0	-4.7	14.9	12.4
Retail trade	8.8	9.1	3.3	10.1	7.7	5.7
Number of tourist arrivals	47.0	136.2	485.3	332.7	80.1	128.0
Number of nights stayed	60.5	98.0	239.7	202.1	24.8	79.0
Rented accommodation	73.8	111.3	437.7	465.0	35.6	81.8
Collective ⁽¹⁾	74.3	109.9	705.7	496.0	70.3	111.4
Other rented ⁽²⁾	72.9	113.8	296.0	434.3	-1.7	49.3
Non-rented accommodation ⁽³⁾	26.5	50.8	53.7	14.2	-10.9	68.8
Tourist expenditure	91.3	131.1	316.6	301.1	85.0	111.1
Package expenditure	108.7	129.8	877.3	635.8	112.9	197.4
Non-package expenditure	89.4	145.9	265.1	311.3	109.4	84.3
Other	85.4	118.3	277.7	245.9	55.8	109.2

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).

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

In January, the tourism sector registered further gains. While tourist arrivals were still somewhat below pre-pandemic levels, tourist expenditure and nights spent in Malta exceeded pre-pandemic levels. The number of inbound tourists amounted to 136,167, up from 59,734 a year earlier. Nonetheless, it was still 8.8% below the number of inbound tourists in January 2020. Guest nights also rose on a year earlier, and exceeded the pre-pandemic level by 9.3%. Total expenditure by tourists in Malta increased over the level recorded in the corresponding period of 2022, and was 5.2% more than its pre-pandemic level.

In January 2023, 167 development permits for commercial buildings were issued, 77 less than the number of permits issued in the same month a year earlier (see Table 3). Meanwhile, 885 new residential permits were issued, 66 less than the number issued in January 2022. Both residential and commercial permits, however, increased in month-on-month terms.

Data on residential property transactions show that 931 final deeds of sale were concluded in February, 177 less than the number concluded a month earlier, and 137 less than a year earlier. At 1,032, the number of promise-of-sale agreements was 111 more than a month earlier, and 67 more compared with a year earlier.

Customs data show that the merchandise trade deficit stood at €250.5 million in January, up from a deficit of €173.0 million a year earlier. This was due to a €76.4 million rise in imports and a €1.1 million decline in exports (see Chart 4).

Higher imports were mainly on account of a substantial increase in registrations of aircraft and imports of vehicles. An increase in imports of electrical machinery and fuel also contributed but to a lesser extent. These offset lower imports of organic chemicals, plastics and pharmaceutical products.

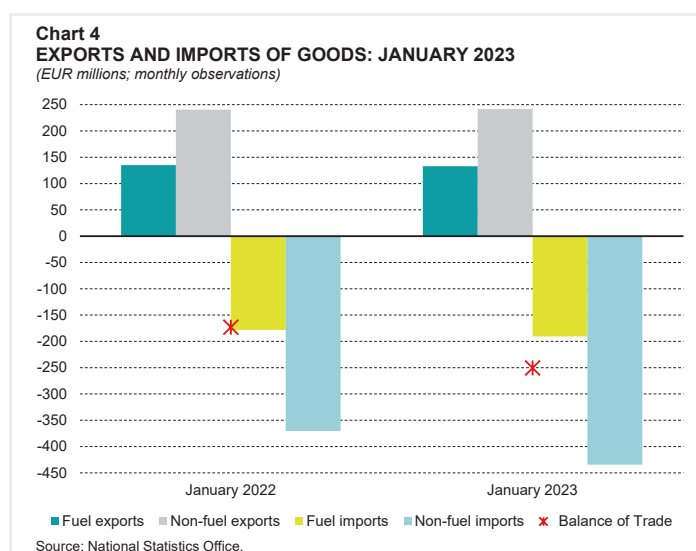


Table 3
PROPERTY MARKET

Levels

	2021	2022	2022			2023	
			Jan.	Feb.	Dec.	Jan.	Feb.
Permits							
Commercial permits	2,770	2,984	244	246	137	167	-
Residential permits	7,578	9,599	951	1,192	394	885	-
Residential transactions							
Promise of sale	15,639	12,174	663	965	1,002	921	1,032
Final deeds of sale	14,368	14,331	1,149	1,068	1,021	1,108	931

Sources: National Statistics Office; Eurostat.

The decline in exports was due to lower exports of fish, iron and steel articles, organic chemicals, pharmaceutical products and optical instruments. These outweighed higher exports of electrical machinery and, to a lesser extent, higher exports of machinery and mechanical appliances and printed material.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,072 in January, up from 1,046 in December, but lower than 1,117 recorded a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate stood at 3.0% in January, marginally higher than the rate of 2.9% registered in the previous month, and equal to the rate registered in January 2022.

Prices, costs and competitiveness

Annual HICP inflation was 7.0% in February, up from 6.8% in the previous month (see Chart 6). The rise in inflation largely reflects developments in food inflation. Services inflation also edged up, although to a lesser extent. Food inflation stood at 11.4% in February, up from 10.1% in January. This was in turn driven by both unprocessed and processed food inflation. Unprocessed food inflation stood at 13.0% in February, after 8.5% in January, while processed food inflation stood at 11.0% up from 10.6% previously. Services inflation also increased to 6.1% in February, up from 5.8% a month earlier. This was driven by higher inflation in all subcomponents, except for services related to communication, where inflation edged down. Meanwhile, NEIG inflation eased to 6.7%, from 7.3% registered in the previous month. As in recent months, energy prices remained unchanged, reflecting government measures aimed at shielding consumers from foreign price pressures.

Annual inflation according to the RPI stood at 7.1% in February, up from 6.9% in January (see

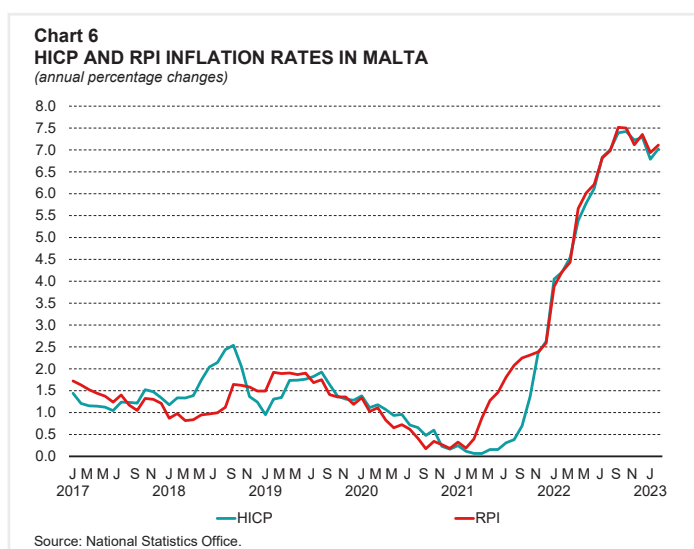
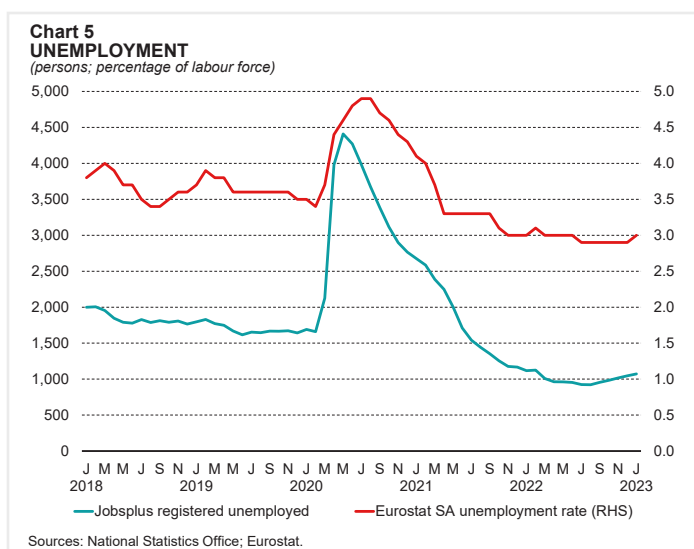


Chart 6).¹⁷ This increase was largely driven by higher food inflation, which rose to 12.2%, up from 10.6% in January. Inflation for transport and communication services, as well as in beverages and tobacco edged up when compared to the previous month, standing at 2.0% and 6.7% respectively. On the other hand, prices of household equipment and house maintenance rose at a slower pace when compared to January, with inflation of this subcomponent standing at 5.7% in February. Similarly, housing inflation also declined, although it remained high from a historical perspective. Indeed, the latter stood at 14.3%, down from 16.0% in January. Inflation in clothing and footwear also declined, although to a lesser extent. Energy prices remained unchanged.

Producer output inflation, as measured by the industrial producer price index, stood at 2.3% in January, down from 4.3% in December.¹⁸ This moderation reflects a fall in the prices of intermediate goods, while the prices of consumer goods grew at a slower pace. Indeed, prices of intermediate goods declined by 1.4%, following an expansion of 3.5% in December. Prices of consumer goods grew at an annual rate of 6.8% in January, following an inflation rate of 8.4% a month earlier. This largely reflects a slowdown in durable consumer goods inflation which stood at 4.1%, down from 12.6% in December. By contrast, producer prices for capital goods rose at a faster pace, with inflation reaching 6.5% in January, from 2.4% in the previous month. As in recent months, energy prices remained unchanged, having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 1.3% in the year to February 2023, marginally down from 1.4% a month earlier.¹⁹ The real HCI, which considers relative price changes, was unchanged when compared to the same indicator a year earlier, suggesting that the loss in international competitiveness arising from a stronger euro was offset by favourable developments in relative prices vis-à-vis trading partners.

Public finance

In January 2023, the Consolidated Fund recorded a deficit of €120.9 million, an increase of €54.7 million when compared to the deficit registered a year earlier (see Table 4). These developments mainly reflect a rise in government expenditure. In turn, the primary balance registered a deficit of €106.4 million, an increase of €53.4 million from the primary deficit registered in January 2022.

Government revenue remained broadly unchanged as it decreased by €0.1 million. An increase in tax intakes was offset by lower non-tax revenue. The latter decreased by €15.1 million, on the back of lower grants and a decline in other miscellaneous receipts. Meanwhile, revenue from direct taxes rose by €18.7 million due to higher inflows from income tax paid by households. Revenue from indirect taxes fell by €3.7 million, due to lower inflows from excise duties and the timing of inflows from indirect taxes other than VAT.

Government expenditure increased by €54.6 million, or 13.1%, when compared to the corresponding period in 2022. This is due to a rise in recurrent expenditure which offset a decline in capital expenditure.

¹⁷ The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only consider expenditure by Maltese households.

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

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

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2022	2023	Change	
	Jan.	Jan.	Amount	%
Revenue	352.1	352.0	-0.1	0.0
Direct tax	208.1	226.8	18.7	9.0
Income tax	138.7	153.4	14.7	10.6
Social security contributions ⁽¹⁾	69.4	73.4	4.0	5.7
Indirect tax	99.3	95.6	-3.7	-3.7
Value Added Tax	52.5	57.2	4.7	8.9
Customs and excise duties	17.9	14.6	-3.3	-18.4
Licences, taxes and fines	29.0	23.9	-5.1	-17.6
Non-tax⁽²⁾	44.7	29.6	-15.1	-33.7
Expenditure	418.3	472.9	54.6	13.1
Recurrent	396.9	457.8	60.9	15.4
Personal emoluments	83.5	88.5	5.0	6.0
Operational and maintenance	15.9	21.3	5.4	34.2
Programmes and initiatives	228.3	279.7	51.4	22.5
Contributions to entities	56.0	53.7	-2.3	-4.1
Interest payments	13.2	14.5	1.3	10.1
Capital	21.4	15.1	-6.3	-29.5
Primary balance⁽³⁾	-53.0	-106.4	-53.4	-
Consolidated Fund balance	-66.2	-120.9	-54.7	-

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.

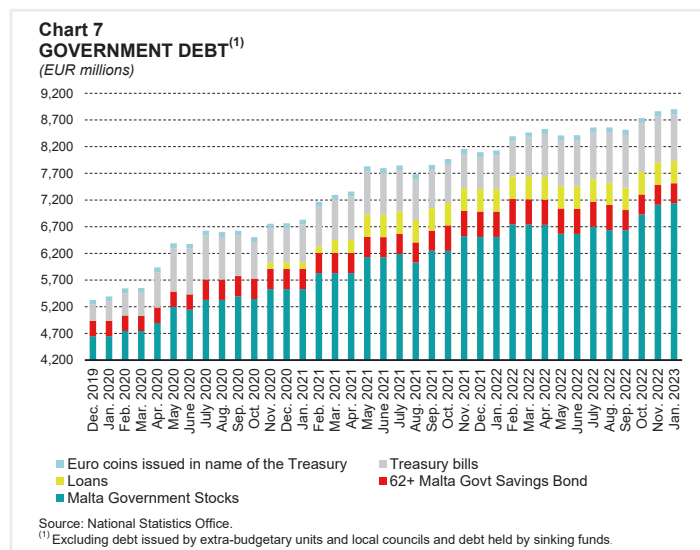
⁽²⁾ Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

⁽³⁾ Revenue less expenditure excluding interest payments.

Recurrent expenditure increased by €60.9 million, largely on the back of higher outlays on programmes and initiatives. These increased by €51.4 million, mainly due to the timing of payments of retirement pensions. The month under review also featured higher outlays on personal emoluments and operational and maintenance expenditure, which increased by €5.0 million and €5.4 million, respectively. Furthermore, outlays on interest payments increased by €1.3 million, whilst contributions to entities declined by €2.3 million.

Capital expenditure decreased by €6.3 million, partly reflecting lower expenditure on road construction and improvements.

In January 2023, the total stock of outstanding government debt amounted to €8,902.6 million,



an increase of €38.1 million when compared with November 2022 (see Chart 7).²⁰ This partly reflects higher outstanding MGS, after accounting for investments in Sinking Funds. Furthermore, the level of outstanding Treasury Bills also increased.

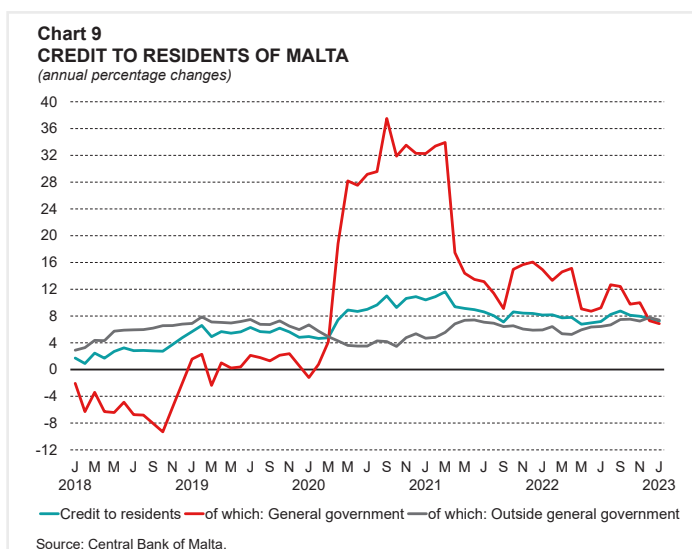
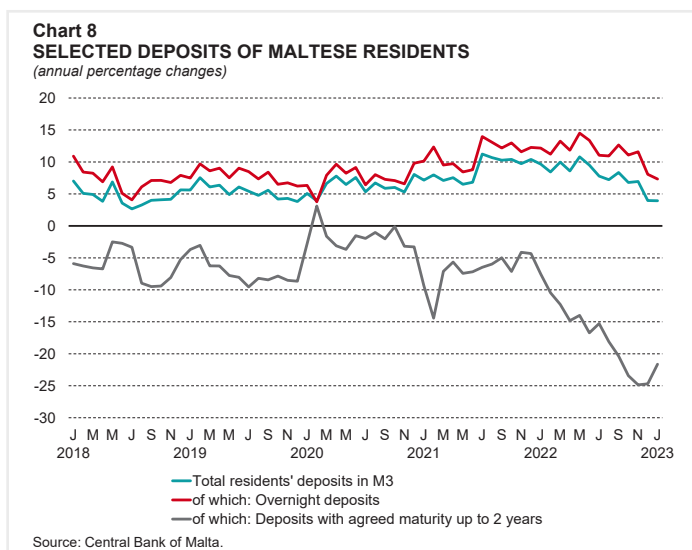
Deposits, credit and financial markets

In January, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 3.9%, slightly below the 4.0% recorded a month earlier (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 91% of their M3 balances. This deposit category – which is the most liquid – grew by 7.3% in the year to January, slowing from 8.1% in the previous month. At the same time, time deposits with a maturity of up to two years – the second largest deposit category – fell by 21.6% in annual terms, following a contraction of 24.7% in the year to December. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

Credit to Maltese residents grew by 7.3% in January, after increasing by an annual 7.6% a month earlier (see Chart 9). This deceleration was largely driven by a smaller increase in credit to residents outside general government. Annual growth in this component eased to 7.4%, from 7.8% in December. At the same time, credit to general government also increased at a slower pace, rising by 6.9%, below the 7.3% registered in the year to December.

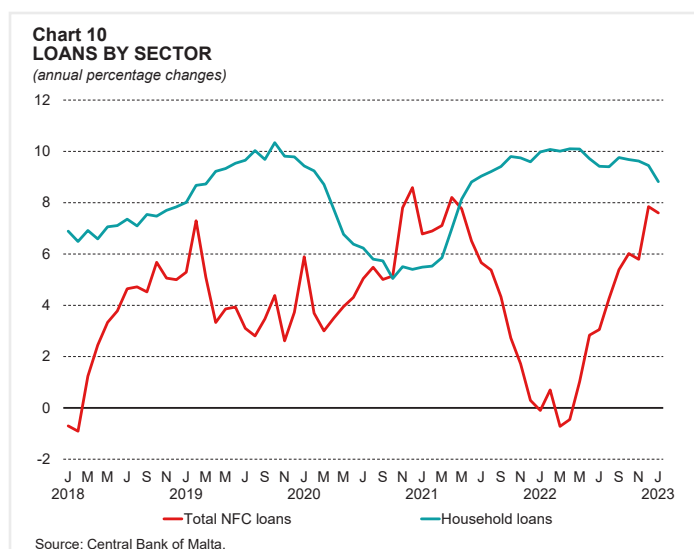
The annual rate of change in loans to households edged down to 8.8% in January, from 9.4% in the previous month (see Chart 10). Growth in mortgage lending stood at 9.2%, below the 9.8% recorded in the year to December. At the same time,



²⁰ Data for December 2022 was not yet available at the time this analysis was prepared.

growth in consumer credit and other lending also decelerated in January, standing at 3.9%, following an increase of 4.8% a month earlier.

Meanwhile, the annual rate of change in loans to non-financial corporations eased to 7.6% in January, from 7.8% in the year to December. The deceleration was largely driven by slower growth in loans to the real estate, and the wholesale and retail trade sector. Furthermore, loans to the energy sector contracted, following a small increase in December. January also saw a faster decline in loans to the sector comprising administrative and support service activities. By contrast, loans to the transportation, storage, information and communication sector increased at a faster pace, while loans to the accommodation and food service activities sector decreased at a slower pace.



By end-February, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.²¹ The number and value of facilities approved and still outstanding was unchanged from the previous month. Overall, €470.7 million were disbursed, an unchanged amount from that disbursed by the end of January.

In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-February, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €10.3 million, down from €11.0 million in January.

In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS), which consists of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans are available under LSGS-A and LSGS-B, respectively. Government guarantees cover 90% of each working capital loan under LSGS-A, and 80% under LSGS-B. By the end of February 2023, a total of €24.5 million was approved under one of these schemes.

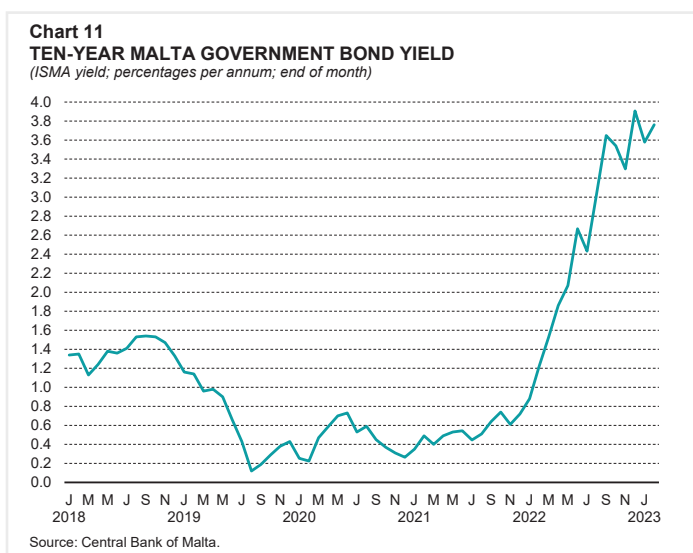
As regards interest rates, in January, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.18%, up from 0.15% a month earlier. Meanwhile, the

²¹ The CGS is administered by the MDB for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See <https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.

composite rate charged on outstanding loans edged up by 3 basis points, to 3.35% in January. As a result, the spread between the two rates widened slightly, standing at 317 basis points.

On the capital market, the secondary market yield on ten-year Maltese government bonds increased to 3.76% at the end of February, 18 basis points higher than at the end of January. It also stood 254 basis points higher than its year-ago level (see Chart 11). This reflects the transmission of recent increases in ECB policy rates to government bond yields, and the market's expectations of further rate increases in light of expected persistent, albeit declining, inflation above target.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index increased by 2.5% when compared with January. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.



Annex 1

MACROECONOMIC INDICATORS FOR MALTA																						
Annual percentage changes; non-seasonally adjusted data																						
	2020	2021	2022	2021	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2023	2023	
				Q4	Q1	Q2	Q3	Q4	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Prices and costs																						
HICP inflation	0.8	0.7	6.1	2.1	4.3	5.8	7.1	7.3	4.1	4.2	4.5	5.4	5.8	6.1	6.8	7.0	7.4	7.4	7.2	7.3	6.8	7.0
RPI inflation	0.6	1.5	6.2	2.4	4.2	6.0	7.1	7.3	3.9	4.2	4.4	5.7	6.0	6.2	6.8	7.0	7.5	7.5	7.1	7.4	6.9	7.1
Industrial producer price inflation	0.3	3.2	5.5	6.5	6.8	5.3	4.5	5.3	7.0	6.5	7.0	5.6	5.3	5.0	5.2	3.8	4.6	5.7	6.0	4.3	2.3	-
HCI (nominal)	1.8	0.4	-1.5	-1.7	-1.3	-2.2	-2.4	-0.1	-1.7	-1.0	-1.1	-2.3	-2.4	-1.8	-2.5	-2.6	-2.1	-1.0	0.0	0.8	1.4	1.3
HCI (real)	1.5	-1.9	-3.7	-4.5	-3.2	-4.7	-4.7	-2.2	-3.1	-2.8	-3.6	-4.8	-4.9	-4.5	-4.8	-4.9	-4.5	-3.6	-2.2	-0.8	-0.4	0.0
Unit labour costs, whole economy ⁽¹⁾	12.1	-3.7	1.9	-3.7	-4.7	-3.2	-0.9	1.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	-0.4	4.6	2.8	4.6	3.9	3.1	2.5	2.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-11.1	8.6	0.8	8.6	9.1	6.5	3.3	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	3.4	5.1	-	4.5	6.8	7.6	6.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																						
Nominal GDP	-7.1	13.9	12.5	16.1	12.0	15.4	11.7	11.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	-8.6	11.8	6.9	13.4	8.2	9.4	5.3	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	-10.5	8.1	10.1	10.2	12.5	13.8	8.3	6.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	15.8	6.9	2.4	4.7	-2.1	12.6	1.7	-1.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-6.6	10.9	30.4	13.7	25.9	19.6	33.5	42.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-1.6	6.3	6.4	7.4	8.0	7.3	8.8	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	2.0	3.8	9.7	5.0	9.5	10.1	13.3	5.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																						
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	3.0	2.9	2.9	2.9	3.2	2.9	3.0	2.9	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.9	3.0	3.0	-
LFS employment	2.6	3.1	5.0	5.6	4.3	4.9	5.1	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	4.7	2.7	-	3.8	5.1	5.5	6.2	-	4.6	5.3	5.3	5.2	5.4	5.9	6.1	6.2	6.4	7.4	-	-	-	-
Balance of payments																						
Current account (as a % of GDP) ⁽²⁾	4.6	4.3	-	4.3	3.6	2.8	2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																						
Maltese residents' deposits and loans																						
Overnight deposits	9.8	12.3	8.1	12.3	13.3	13.4	12.7	8.1	12.2	11.2	13.3	11.8	14.5	13.4	11.0	10.9	12.7	11.1	11.6	8.1	7.3	-
Deposits with agreed maturity up to 2 years	-3.3	-4.3	-24.7	-4.3	-12.3	-16.7	-20.4	-24.7	-7.5	-10.5	-12.3	-14.8	-14.0	-16.7	-15.3	-18.1	-20.4	-23.4	-24.9	-24.7	-21.6	-
Total residents' deposits in M3	8.0	10.4	4.0	10.4	10.0	9.5	8.4	4.0	9.7	8.4	10.0	8.6	10.8	9.5	7.8	7.2	8.4	6.8	7.0	4.0	3.9	-
Credit to general government	32.3	16.1	7.3	16.1	14.6	8.7	12.4	7.3	14.9	13.3	14.6	15.1	9.1	8.7	9.2	12.7	12.4	9.8	10.0	7.3	6.9	-
Credit to residents (excl. general government)	5.3	5.9	7.8	5.9	5.3	6.3	7.5	7.8	5.9	6.4	5.3	5.2	5.9	6.3	6.4	6.7	7.5	7.5	7.2	7.8	7.4	-
Total credit	10.9	8.4	7.6	8.4	7.7	7.0	8.8	7.6	8.1	8.2	7.7	7.8	6.8	7.0	7.2	8.2	8.8	8.1	8.0	7.6	7.3	-
10-year interest rate (%) ⁽³⁾	0.3	0.7	3.9	0.7	1.5	2.7	3.6	3.9	0.9	1.2	1.5	1.9	2.1	2.7	2.4	3.0	3.6	3.5	3.3	3.9	3.6	3.8
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	-12.4	-4.5	-9.9	1.8	-8.2	1.1	-0.7	-2.2	-4.8	-2.1	-1.5	2.5	-0.3	-1.1	0.4	-1.6	0.5	0.9	-3.1	0.0	-0.1	2.5
Liquidity support measures related to COVID-19																						
Outstanding loans subject to a moratorium ⁽⁵⁾	691.9	14.1	-	14.1	-	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS ⁽⁵⁾	408.1	505.9	482.6	505.9	489.3	482.6	482.6	482.6	505.5	497.8	489.3	489.1	486.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6
Disbursed amount under the MDB CGS ⁽⁵⁾	287.1	453.0	470.2	453.0	459.6	468.9	470.2	470.2	457.4	459.6	465.5	467.4	466.4	468.9	469.5	469.7	470.2	470.2	470.2	470.2	470.7	470.7
General government finances (% of GDP)																						
Surplus (+) / deficit (-) ⁽²⁾	-9.3	-7.5	-	-7.5	-7.5	-6.7	-5.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	52.9	55.1	-	55.1	56.1	53.8	53.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.