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EUROSISTEMA
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ECONOMIC UPDATE

4/2021

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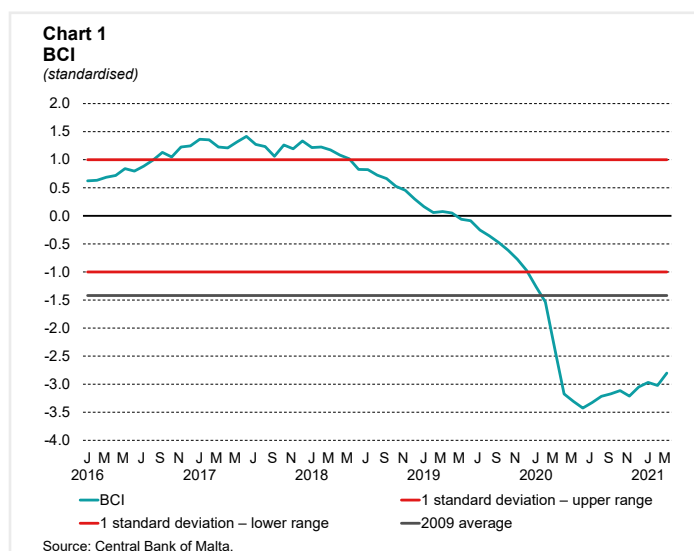
Summary¹

In March, the Central Bank of Malta's Business Conditions Index (BCI) improved compared with the previous month. However, it 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 6-month high in March but remained below its long-term average. In March, confidence rose in industry and, to a more limited extent, among retailers. By contrast confidence deteriorated considerably in the services sector and among consumers. On balance, sentiment in the construction sector was unchanged. Sentiment was negative in all sectors – particularly the retail sector.

In February, industrial production and the volume of retail trade contracted at a faster pace in annual terms. The number of registered unemployed fell compared with January, while the unemployment rate was unchanged from a month earlier. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) edged down to 0.1% in February, while inflation based on the Retail Price Index (RPI) fell to 0.2%. Maltese residents' deposits expanded at an annual rate of 8.0% in February, from 7.2% in the previous month, while annual growth in credit to Maltese residents stood at 11.1%, following an increase of 10.6% a month earlier. In February, the deficit on the cash-based Consolidated Fund narrowed when compared with a year earlier. Although government revenue increased in annual terms, it continued to reflect the negative impact of COVID-19 on economic activity while primary government expenditure increased, partly on account of ongoing government support to the private sector.

Central Bank's BCI²

In March 2021, the Bank's BCI improved to -2.8 from its revised value of -3.0 for February (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 was affected by subdued activity in the tourism sector, as well as year-on-year declines in 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.



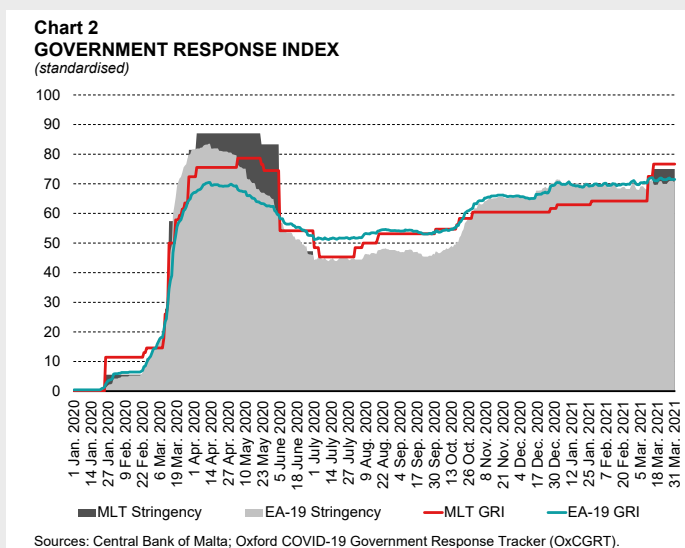
¹ The cut-off date for information in this note is 12 April 2021. Most of the data reported in this issue of the *Economic Update* refer to February 2021 and do not reflect the escalation of containment measures in March. However, the latest data for the European Commission's ESI, the Central Bank of Malta's BCI and the COVID-19 Government Response Index refer to 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 – MALTA

Malta's COVID-19 Government Response Index at the end of March 2021 stood at 76.7, a 12.5-point increase when compared to February (see Chart 2). This reflects the introduction of several containment measures during the month, including school closures, the closure of non-essential businesses, group restrictions as well as restrictions on non-essential travel to Gozo. Meanwhile, the euro area

average rose slightly from 71.1 as at end-February, to 71.5. Following these developments, Malta's index ended March 5.2 points above the euro area average. The stringency index stood at 75.0 by end-March 2021, up from 52.8 as at end-February. The level of stringency in Malta stood 4.2 points higher than that in the euro area.



Business and consumer confidence indicators

In March, the European Commission's ESI edged up to 95.0, from 88.1 in February (see Table 1). Following this increase, sentiment stood above the level of 91.4 recorded a year earlier, but remained below its long-run average of around 100.0.^{3,4,5} The ESI also stood 5.9 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. These developments offset weaker sentiment in the services sector and among consumers. At the same time, sentiment in the construction sector edged down marginally. Sentiment was negative in all sectors, with the most negative reading recorded in the retail sector.

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 March was driven primarily by improved

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 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.

⁵ 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

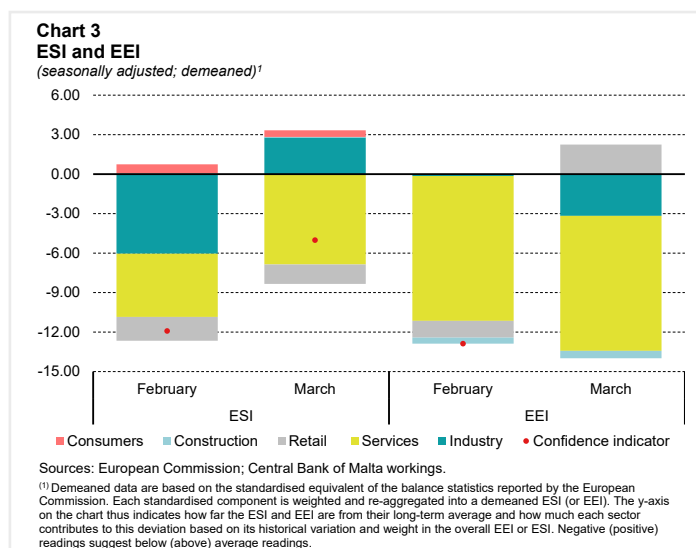
Balances; percentage points; seasonally adjusted

	2019	2020	2020			2021	
			Mar.	Dec.	Jan.	Feb.	Mar.
ESI	102.4	81.4	91.4	85.4	85.8	88.1	95.0
Industrial confidence indicator	-6.7	-25.1	-19.2	-23.9	-24.0	-18.6	-1.1
Assessment of order-book levels	-23.0	-48.8	-14.7	-38.6	-41.4	-53.8	-41.4
Assessment of stocks of finished products	15.5	27.2	13.3	22.1	36.0	28.6	-11.3
Production expectations for the months ahead	18.4	0.8	-29.7	-11.0	5.5	26.6	26.7
Retail trade confidence indicator	4.2	-31.0	-22.3	-14.2	-51.4	-49.0	-38.2
Business activity, past 3 months	18.9	-22.2	5.8	8.9	-51.6	-42.2	-58.6
Stocks of finished goods	17.4	31.9	9.7	4.7	50.3	33.5	37.2
Business activity, next 3 months	11.1	-38.8	-63.1	-46.7	-52.4	-71.4	-18.7
Construction confidence indicator	26.2	-5.7	14.3	-4.2	-1.2	-8.3	-8.5
Evolution of your current overall order books	19.7	-6.2	2.1	-7.4	-3.4	-13.6	-12.0
Employment expectations over the next 3 months	32.6	-5.2	26.5	-1.0	0.9	-3.0	-5.0
Consumer confidence indicator	4.5	-5.6	0.1	-3.7	-3.2	-6.9	-7.9
Financial situation past 12 months	11.3	-1.6	13.8	-16.3	-15.4	-15.5	-18.6
Financial situation next 12 months	11.2	0.8	5.1	5.7	4.3	-0.7	0.4
Economic situation next 12 months	20.9	-0.9	-3.0	17.8	8.7	4.5	3.6
Major purchases next 12 months	-25.1	-20.5	-15.5	-22.2	-10.4	-15.8	-16.8
Services confidence indicator	20.7	-24.9	0.4	-16.9	-5.3	-3.7	-11.1
Business situation development over the past 3 months	16.7	-36.3	-0.3	-29.6	-12.3	-12.4	-11.0
Evolution of the demand over the past 3 months	21.5	-34.9	11.4	-35.1	-10.5	-16.8	-19.1
Expectation of the demand over the next 3 months	24.0	-3.7	-9.9	14.0	6.7	17.9	-3.1
E EI	102.7	86.0	93.2	93.5	88.8	87.0	88.4
Services	17.5	-2.4	11.8	8.5	-1.6	-11.8	-9.9
Retail	4.7	-11.6	-8.6	-12.1	-5.4	-5.7	14.5
Construction	32.6	-5.2	26.5	-1.0	0.9	-3.0	-5.0
Industry	12.8	-12.5	-16.7	7.3	-5.7	10.3	-8.1
ESI demeaned	2.4	-18.6	-8.6	-14.6	-14.2	-11.9	-5.0
E EI demeaned	2.7	-14.0	-7.0	-6.4	-11.2	-12.9	-11.7

Source: European Commission.

confidence in industry and, to a lesser extent, retailers (see Chart 3). On balance, the contribution of the construction sector was broadly unchanged. By contrast, the contribution of services moved further into negative territory. Overall, demeaned data suggest that the ESI is mostly being held down by weak sentiment in the services sector and, to a lesser extent, by developments among retailers.

In March, industrial confidence rose to -1.1, from -18.6 a month



earlier and thus stood above its long-term average of -4.5.⁶ The rise in sentiment was notably driven by a significant increase in the share of respondents reporting stock levels of finished goods to be below normal, after having reported above normal levels in February. At the same time, participants' assessment of order book levels turned less negative. Meanwhile, production expectations were broadly unchanged. Supplementary data show that fewer participants anticipate a fall in selling prices in the coming months.

Confidence within the retail sector edged up to -38.2, from -49.0 in February.⁷ Business activity expectations improved significantly in the month under review, though remaining negative.⁸ By contrast, retailers' assessment about sales over previous months worsened compared to February, while a larger share of participants reported above normal stock levels. Supplementary data indicate that the share of respondents anticipating selling prices to rise over the next three months edged up slightly.

Confidence within the construction sector stood at -8.5, marginally below the -8.3 registered a month earlier, but above its long-term average of -11.3.⁹ This reflected slightly more negative employment expectations compared to February. By contrast order book levels were less negative. Additional survey data indicate that price expectations for the next three months turned negative in March.

Consumer confidence eased to -7.9 in March, from -6.9 a month earlier. Notwithstanding this decline, sentiment remained above its long-term average of -11.1.¹⁰ The recent fall in sentiment was broad-based across almost all sub-components, but largely reflected a more negative assessment of the financial situation over the last 12 months. Expectations of major purchases over the next 12 months also deteriorated, as did expectations of the general economic situation. By contrast, expectations of the financial situation improved over the same period. Supplementary data show that price expectations were marginally more negative in March. Furthermore, there was a significant increase in the share of respondents expecting higher unemployment.

Sentiment within the services sector fell to -11.1, from -3.7 in the previous month. Following this decline, sentiment stood further below its long-term average of 18.9.¹¹ Weaker sentiment largely reflected developments in respondents' demand expectations for the next three months. Firms' assessment of demand over the past three months also stood more negative in March. By contrast, firms' assessment of the business situation improved marginally in the month under review, while remaining negative. Additional survey data show that, on balance, the share of firms anticipating prices to fall in the months ahead rose slightly in the month under review.

⁶ 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.

⁷ The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

⁸ Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

⁹ The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

¹⁰ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

¹¹ The 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.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged up in March.¹² The EEI reached 88.4, up from 87.0 in February. Notwithstanding this increase, the indicator remained below its long-run average of around 100.0 and stood 9.3 points lower than the euro area average.

Employment expectations were negative across all sectors, bar the retail sector – where expectations turned positive after a sequence of negative readings. Demeaned data suggest that the services sector largely explains why the overall EEI remained below its long-term average in March, though expectations were below the long-term average in all sectors (see Chart 3).

Activity indicators

In February, 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 10.8% in annual terms, following a contraction of 6.2% in January (see Table 2).¹³

The recent decline in industrial production primarily reflected an output shortfall among those firms specialising in the repair and installation of machinery and equipment, as well as beverages and wearing apparel. There were smaller declines in a number of other sectors, including those producing rubber and plastic products as well as computer, electronic and optical products. These were followed by firms involved in the printing and reproduction of recorded media

	2019	2020	2020												2021	
			Jan.	Feb.	Mar. ⁽¹⁾	Apr. ⁽²⁾	May ⁽²⁾	June ⁽²⁾	July ⁽³⁾	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Industrial production	1.2	-0.3	12.1	13.4	6.2	-7.3	-6.8	-6.6	-1.9	-3.3	-2.6	2.5	-1.9	-4.8	-6.2	-10.8
Commercial permits	-2.5	-29.3	-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	3.3
Residential permits	-3.1	-37.2	-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	-15.2
Retail trade	7.1	-6.5	7.0	12.6	-2.8	-25.7	-17.0	-7.5	-11.7	-8.1	-11.9	-7.7	-3.9	2.2	-3.2	-8.9
Number of tourist arrivals	5.9	-76.1	16.8	16.5	-56.5	-	-	-	-84.0	-66.0	-82.4	-83.4	-92.2	-91.1	-90.7	-93.7
Number of nights stayed	4.1	-73.0	3.5	10.1	-60.2	-	-	-	-75.3	-62.6	-77.4	-78.6	-82.3	-77.2	-79.8	-86.7
Rented accommodation	4.6	-76.8	7.7	11.1	-62.2	-	-	-	-84.3	-67.4	-81.8	-82.5	-88.0	-86.6	-89.0	-91.8
Collective ⁽⁴⁾	-0.1	-76.5	11.0	14.9	-61.7	-	-	-	-85.4	-66.9	-81.2	-81.9	-91.6	-91.9	-92.1	-94.1
Other rented ⁽⁵⁾	13.5	-77.3	1.0	3.1	-63.5	-	-	-	-82.7	-67.9	-82.9	-83.5	-80.6	-79.5	-82.4	-86.3
Non-rented accommodation ⁽⁶⁾	1.6	-52.8	-8.3	3.9	-47.7	-	-	-	-31.4	-38.3	-57.1	-53.3	-53.8	-33.5	-48.9	-52.9
Tourist expenditure	5.7	-79.5	11.2	22.0	-62.6	-	-	-	-88.1	-71.3	-84.5	-84.5	-90.3	-86.6	-87.6	-90.4
Package expenditure	-8.2	-84.5	-7.8	25.8	-69.8	-	-	-	-93.5	-79.5	-90.5	-89.8	-	-	-	-
Non-package expenditure	17.1	-79.6	33.1	22.8	-58.8	-	-	-	-88.7	-71.5	-86.0	-85.1	-90.2	-86.4	-87.7	-89.0
Other	5.9	-75.9	4.7	19.1	-60.2	-	-	-	-83.7	-65.3	-78.7	-79.8	-86.5	-82.0	-83.5	-88.1

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).

¹² The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys, and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission (2020), *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

¹³ The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

and those in the ‘other manufacturing’ sector, which includes firms involved in the production of medical and dental instruments, toys and related products. Food production also fell, though marginally. These declines offset higher output generated by the pharmaceutical and chemical sections as well as firms within the motor vehicles, trailers and semi-trailers section.

Meanwhile, production in the energy sector recorded another strong decline.

In February, development permits for commercial buildings increased by 3.3% in annual terms, after falling by 7.1% in January. Moreover, residential permits contracted by 15.2% in annual terms – the weakest since September. Both residential and commercial permits stood slightly above their long-term average.

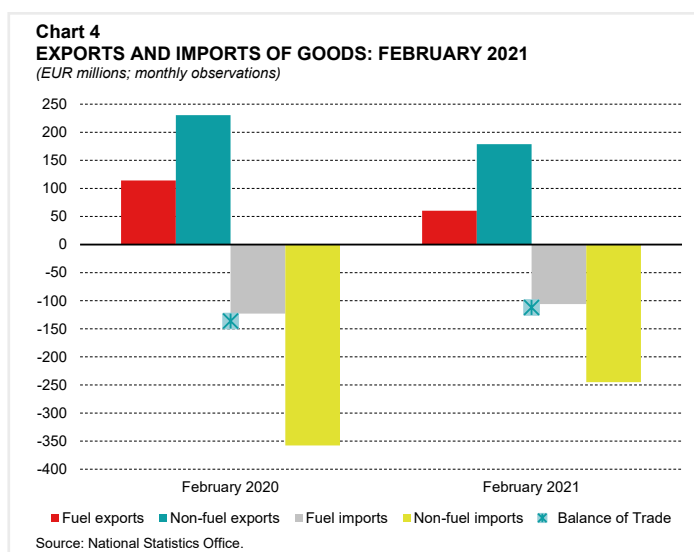
The volume of retail trade, which is a short-term indicator of final domestic demand, fell at a faster pace in February. It decreased by 8.9% on an annual basis, after declining by 3.2% in January.

The tourism sector continued to be severely impacted by travel-related restrictions. The number of inbound tourists stood at 9,151 in February, a 93.7% drop compared with the same month a year earlier. Guest nights declined by 86.7%, with collective accommodation continuing to register the sharpest decline in absolute terms. Total expenditure fell by 90.4% over the corresponding period in 2020.

Customs data show that the merchandise trade deficit stood at €112.0 million in February, down from €136.1 million a year earlier. The smaller deficit reflected a €129.7 million decline in imports which outweighed a €105.6 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 fewer registrations of aircrafts and sea vessels and a smaller fuel import bill. Lower imports of vehicles, vehicle parts and pharmaceutical products also contributed but to a much lesser extent. These declines more than outweighed increases in imports of tanning/dyeing extracts and paints, as well as imports of paper and paperboard articles.

The decline in exports was driven by a significant fall in re-exports of mineral fuels and related products, and lower exports of aircraft parts. Exports of fish and electrical machinery also contributed. Together, these offset a rise in exports of pharmaceutical products and organic chemicals.

In the first two months of this year, the visible trade gap narrowed to €212.4 million from €415.9 million in the corresponding period of 2020, driven by a fall in imports, which was



more than double the drop in exports (see Chart 5).

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 2,585 in February 2021, down from 2,675 in January but higher than 1,659 registered a year earlier (see Chart 6).

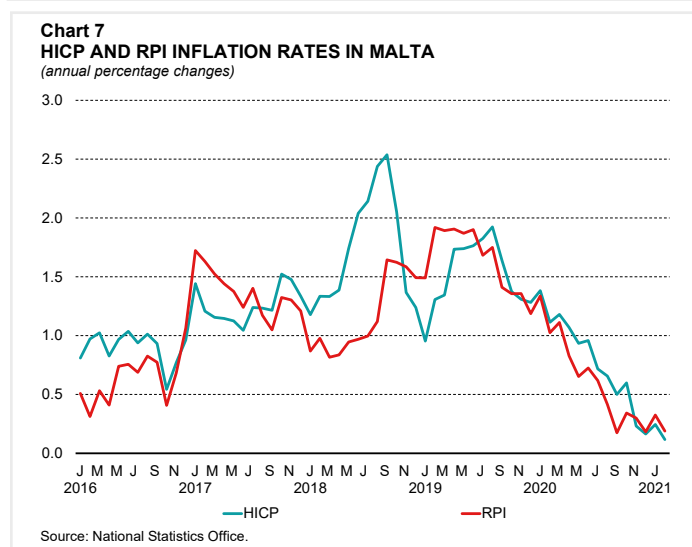
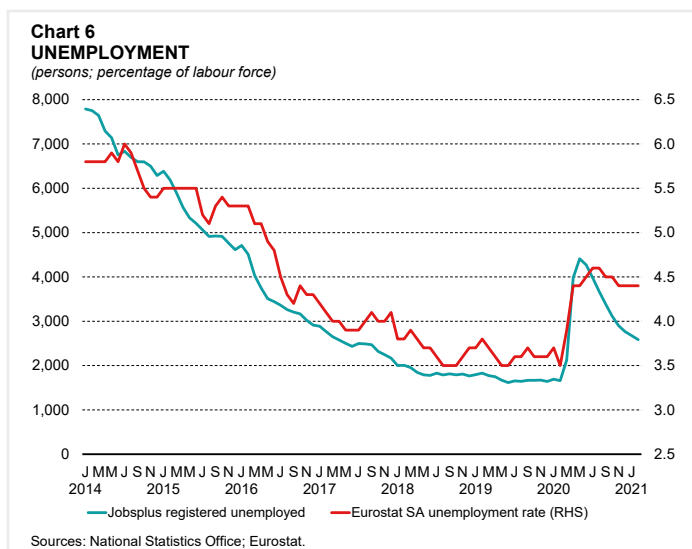
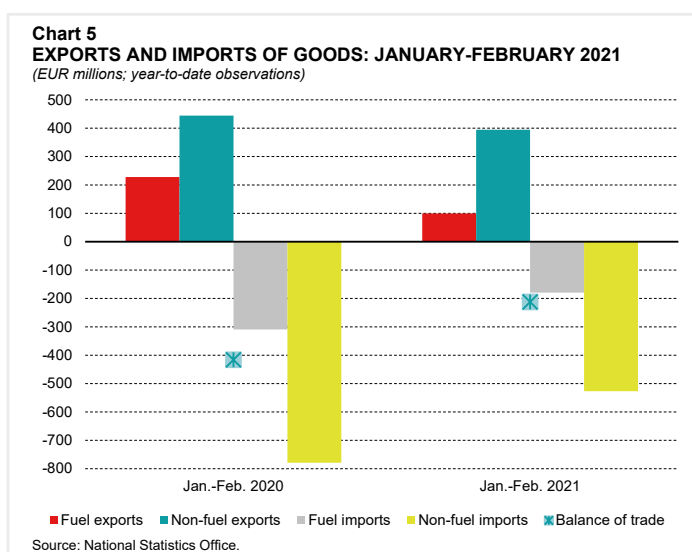
The seasonally-adjusted unemployment rate stood at 4.4% in February, the same level as that registered in the previous month, but still higher than the rate of 3.5% registered in the same month of the preceding year.

Prices, costs and competitiveness

Annual HICP inflation stood at 0.1% in February, marginally down from 0.2% in January (see Chart 7). This was driven by a moderation in services inflation, non-energy industrial goods inflation and processed food inflation. Conversely, unprocessed food inflation was less negative compared to January. Energy inflation was also negative but unchanged from January.

Annual RPI inflation edged down to 0.2% in February, from 0.3% in January (see Chart 7).¹⁴ This reflects small decreases in the prices of clothing and footwear and of food, which offset faster growth in the prices of recreation and culture services.

¹⁴ 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.



Producer output inflation, measured by the producer price index, moderated to 0.5% in February, from 0.8% in January.¹⁵ This reflected slower increases in intermediate goods prices and consumer goods prices, offsetting positive capital goods inflation. Energy prices remained unchanged.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 3.6% in the year to February, marginally down from 3.8% in January.¹⁶ This deterioration in international competitiveness over the year to February is 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 2.7%, 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 February 2021, the Consolidated Fund recorded a deficit of €3.3 million, an improvement of €19.2 million when compared to the deficit registered in February 2020 (see Table 3). In turn, the primary balance registered a surplus of €14.3 million, an improvement of €18.5 million when compared to the primary deficit registered a year earlier.

Table 3
CONSOLIDATED FUND BALANCE

EUR millions

	2020	2021	2020	2021	Change	
	Jan.-Feb.	Jan.-Feb.	Feb.	Feb.	Amount	%
Revenue	678.7	701.0	373.0	407.0	34.0	9.1
Direct tax	315.8	375.3	144.3	187.8	43.5	30.1
Income tax	199.0	221.0	89.5	95.7	6.2	7.0
Social security contributions ⁽¹⁾	116.8	154.3	54.8	92.1	37.3	67.9
Indirect tax	302.3	283.0	199.6	195.9	-3.7	-1.9
Value Added Tax	184.5	200.5	141.2	150.8	9.6	6.8
Customs and excise duties	52.1	39.9	24.9	15.8	-9.1	-36.6
Licences, taxes and fines	65.7	42.6	33.5	29.3	-4.2	-12.6
Non-tax⁽²⁾	60.6	42.8	29.1	23.3	-5.8	-19.8
Expenditure	776.9	1,028.7	395.5	410.3	14.8	3.8
Recurrent	710.4	944.6	359.9	383.8	23.8	6.6
Personal emoluments	146.7	181.0	74.6	98.2	23.6	31.6
Operational and maintenance	29.3	51.8	12.2	12.0	-0.1	-1.2
Programmes and initiatives ⁽¹⁾	398.1	554.8	193.1	190.4	-2.6	-1.4
Contributions to entities	105.9	126.6	61.7	65.5	3.7	6.0
Interest payments	30.3	30.4	18.3	17.6	-0.7	-3.7
Capital	66.5	84.1	35.6	26.6	-9.0	-25.3
Primary balance⁽³⁾	-67.8	-297.3	-4.2	14.3	18.5	-
Consolidated Fund balance	-98.2	-327.7	-22.5	-3.3	19.2	-

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.

¹⁵ 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.

¹⁶ 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.

Although government revenue increased in annual terms, it continued to reflect the impact on revenue of the slowdown in economic activity due to the global spread of COVID-19. Expenditure increased, partly on account of ongoing government support aimed at mitigating the economic effects of this pandemic.

Government revenue increased by €34.0 million, or 9.1% in annual terms. This was due to a rise in tax revenue, which more than offset a drop in non-tax revenue. Revenue from direct taxes increased by €43.5 million, mainly due to higher social security contributions. On the other hand, indirect tax revenue dropped by €3.7 million, as a rise in VAT receipts was more than offset by a drop in customs and excise duties, and licences, taxes and fines. Similarly, non-tax revenue fell by €5.8 million, partly reflecting lower inflows from rents and miscellaneous receipts.

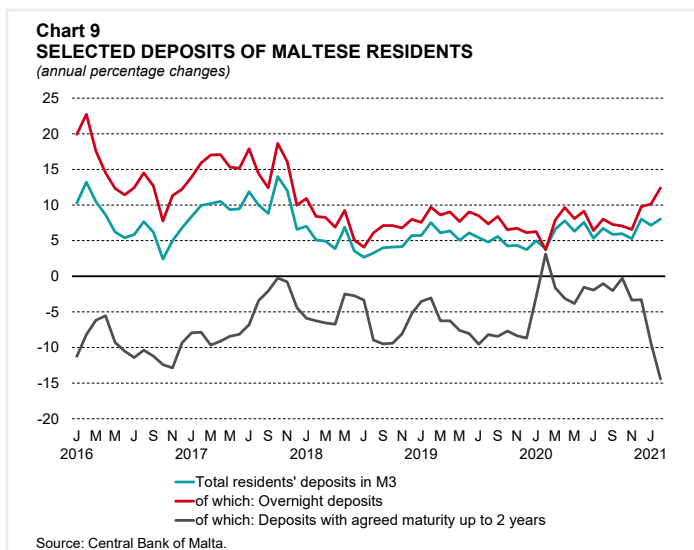
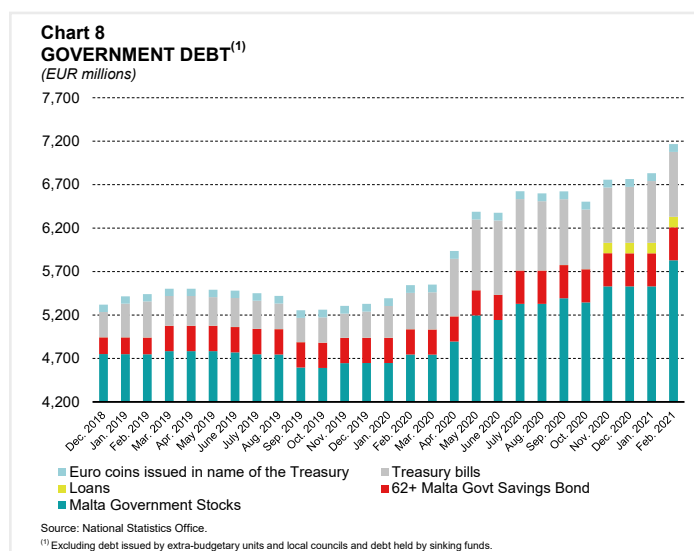
Government expenditure increased by €14.8 million, or 3.8% when compared to the corresponding period in 2020. This was mainly attributable to a rise in recurrent expenditure, which more than offset a drop in capital expenditure. Overall, recurrent expenditure rose by €23.8 million. This mainly reflects higher outlays on personal emoluments and to a lower extent a rise in contributions to government entities. Programmes and initiatives posted a €2.7 million drop, due to the timing of retirement pension spending during the month. Meanwhile, capital expenditure experienced a €9.0 million increase.

In February 2021, the total stock of government debt amounted to €7,166.8 million, a €334.6 million increase when compared with January 2021 (see Chart 8). This was mainly due to higher outstanding Malta Government Stocks and, to a lower extent, a rise in Treasury bills.

Deposits, credit and financial markets

In February, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 8.0%, up from 7.2% in January (see Chart 9).

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

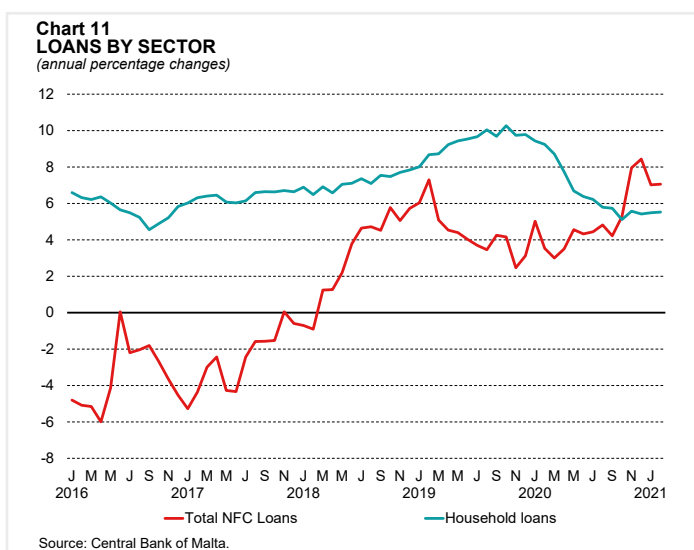
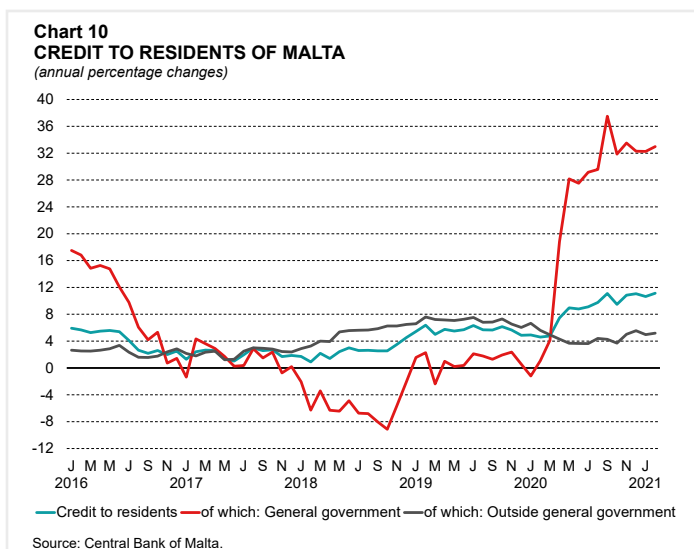


12.4% in the year to February, after adding 10.1% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 14.4% in annual terms, following a contraction of 9.4% in the previous month.

Credit to Maltese residents grew at an annual rate of 11.1% in February, above the 10.6% recorded a month earlier (see Chart 10). The acceleration in credit during February was driven by faster growth in credit to both the general government and that to other residents. Annual growth in credit to the general government stood at 33.0% in February, up from 32.3% in the previous month. Similarly, credit outside general government rose by 5.2%, following a 5.0% increase in January.

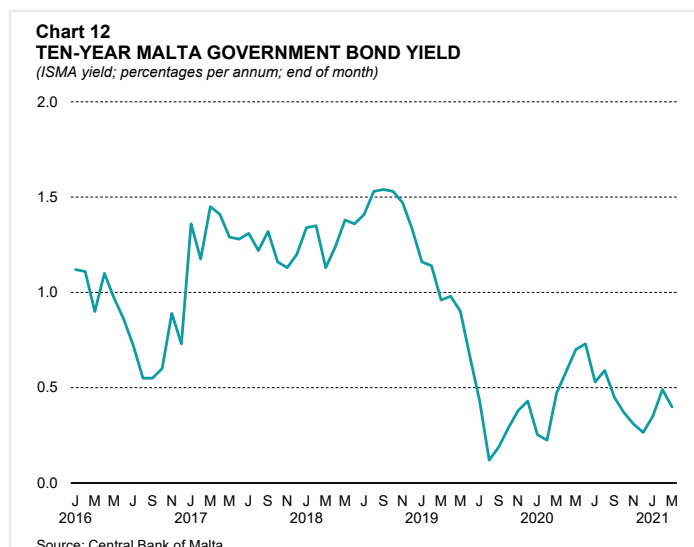
The annual rate of change in loans to non-financial corporations stood at 7.1%, marginally above the 7.0% registered in January (see Chart 11). The acceleration in growth was notably driven by a larger increase in loans to the construction and real estate sector. This was followed by an increase in loans to the manufacturing sector, as well as the sector comprising professional, scientific and technical activities, and the arts and entertainment sector. Furthermore, the wholesale and retail trade sector registered a smaller contraction in loans relative to January. These developments were partly offset by lower increases in loans to the sector comprising accommodation and food service activities, and, to a smaller extent, in the energy sector. Similarly lower annual increases in credit were also recorded in the sector comprising administrative and support services activities, as well as the education, health and social sector.

Meanwhile, the annual rate of change of loans to households stood at 5.5% in February, unchanged from a month earlier. Mortgage lending remained unchanged from the previous period, standing at 7.0% in February. At the same time, consumer credit and other lending fell by 7.9%, after contracting by 8.2% a month earlier.



As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits eased to 0.20% in February, from 0.21% a month earlier. The composite rate charged on outstanding loans edged down marginally to 3.33%, from 3.34% in January. Hence, the spread between the two rates remained unchanged at 313 basis points in February.

In the capital market, the secondary market yield on 10-year Maltese government bonds fell by 9 basis points from a month earlier, to 0.40% at the end of March (see Chart 12). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 1.3% 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.



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).¹⁷

As at end February, there were 1,687 loans subject to a moratorium on repayments. The total value of loans subject to a moratorium in February edged down further when compared with January. These declined by around €34.0 million and stood at €656.9 million, or 5.5% of total outstanding loans to Maltese residents. Loans subject to a moratorium declined for the seventh consecutive time since March 2020. However, in February, the drop in loans subject to a moratorium was larger than that observed in the preceding month, when the smallest decline was recorded. When compared with a month earlier, declines in value terms were observed in the real estate, wholesale and retail, and information and communication sectors, as well as 'other' categories'. These were partly offset by an increase in the value of loans extended to households, and the manufacturing, construction, transportation and accommodation sectors.

¹⁷ 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 FEBRUARY 2021

Number of loans; EUR millions; percentage

	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	930	92.7	1.4
Manufacturing	37	9.4	4.2
Construction	24	21.4	3.3
Wholesale and retail trade; repair of motor vehicles and motor cycles	120	29.3	4.3
Transportation and storage and information and communication	52	18.3	6.2
Accommodation and food service activities	214	215.5	41.6
Real estate activities	115	121.3	11.9
Other ⁽⁴⁾	196	149.1	7.4
Total	1,687	656.9	5.5

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 55.1% of the total volume of loans subject to a moratorium. The outstanding value of loans subject to a moratorium of Maltese households rose to €92.7 million, or 14.1%, 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 €215.5 million in loans subject to a moratorium. This is the sector most affected by the containment measures and, indeed, 41.6% of the loans held by this sector were subject to a moratorium by the end of February. The real estate sector held €121.3 million in loans subject to a moratorium, or around 18.5% of such loans – equivalent to 11.9% of the sector's outstanding loans. Moreover, as at end February, the wholesale and retail trade sector held €29.3 million in loans subject to a moratorium, making up 4.5% of loans subject to a moratorium, or 4.3% 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.¹⁸

¹⁸ 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 February, 558 facilities were approved under the CGS, covering total sanctioned lending of €420.1 million (see Table 5). As the scheme provides loans for working capital, €320.7 million were disbursed by the end of February, up from the €306.6 million disbursed by the end of January. Thus, by the end of February, around 54% of the scheme was sanctioned, while around 41% 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 126 facilities or €95.1 million in sanctioned loans, and the sector comprising transportation and ICT, which had a total sanctioned amount of €44.4 million.

Table 5
MDB CGS – AS AT FEBRUARY 2021

Number of facilities; EUR millions

	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	46	20.7
Construction	32	40.8
Wholesale and retail trade; repair of motor vehicles and motor cycles	161	95.8
Transportation and storage and information and communication	36	44.4
Accommodation and food service activities	126	95.1
Professional, scientific and technical activities	29	16.7
Administrative and support service activities	38	13.7
Real estate	17	6.4
Other ⁽³⁾	73	86.6
Total	558	420.1

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.

MACROECONOMIC INDICATORS FOR MALTA																											
Annual percentage changes; non-seasonally adjusted data																											
	2018	2019	2020	2019	2020	2020	2020	2020	2019	2019	2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2021	2021	2021	
				Q4	Q1	Q2	Q3	Q4	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Prices and costs																											
HICP inflation	1.7	1.5	0.8	1.3	1.2	1.0	0.6	0.3	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	0.1	-
RPI inflation	1.2	1.6	0.6	1.3	1.2	0.7	0.4	0.3	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	0.2	-
Industrial producer price inflation	4.4	2.2	0.3	1.8	1.2	0.3	0.2	-0.4	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	0.8	0.5	-
HCI (nominal)	2.6	-0.7	1.8	-1.1	-0.2	1.2	2.8	3.5	-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	3.6	-
HCI (real)	2.1	-1.1	1.5	-1.6	-0.9	1.2	2.4	3.1	-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	2.9	2.7	-
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	3.6	4.2	3.5	3.3	4.4	4.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	7.8	7.1	2.7	7.0	7.3	2.8	1.3	-0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.9	6.0	-	6.0	8.6	6.9	5.1	-	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⁾	6.2	5.8	-4.0	5.8	6.3	1.9	-1.3	-4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	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	12.4	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-3.3	-8.7	-1.6	-1.5	-2.0	-3.3	-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	-14.4	-
Total residents' deposits in M3	5.7	3.7	8.0	3.7	6.6	7.6	5.9	8.0	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	8.0	-
Credit to general government	-2.0	0.6	32.3	0.6	4.1	27.5	37.5	32.3	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	33.0	-
Credit to residents (excl. general government)	6.5	6.0	5.6	6.0	4.9	3.6	4.3	5.6	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	5.2	-
Total credit	4.5	4.9	11.1	4.9	4.8	8.8	11.1	11.1	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	10.6	11.1	-
10-year interest rate (%) ⁽³⁾	1.3	0.4	0.3	0.4	0.5	0.7	0.5	0.3	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	0.4
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	0.1	4.4	-12.4	-4.0	-19.5	6.8	12.6	16.7	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	-1.3
Liquidity support measures related to COVID-19																											
Outstanding loans subject to a moratorium ⁽⁵⁾	-	-	695.9	-	493.5	1,704.9	1,588.1	695.9	-	-	-	-	-	-	493.5	1,260.0	1,548.2	1,704.9	1,796.2	1,769.4	1,588.1	1,135.7	886.9	695.9	690.9	656.9	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁶⁾	-	-	408.1	-	-	161.1	343.7	408.1	-	-	-	-	-	-	-	-	68.5	161.1	238.0	285.1	343.7	351.1	388.5	408.1	412.7	420.1	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁶⁾	-	-	287.1	-	-	64.9	165.6	287.1	-	-	-	-	-	-	-	-	7.4	64.9	88.9	121.4	165.6	204.6	252.7	287.1	306.6	320.7	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.