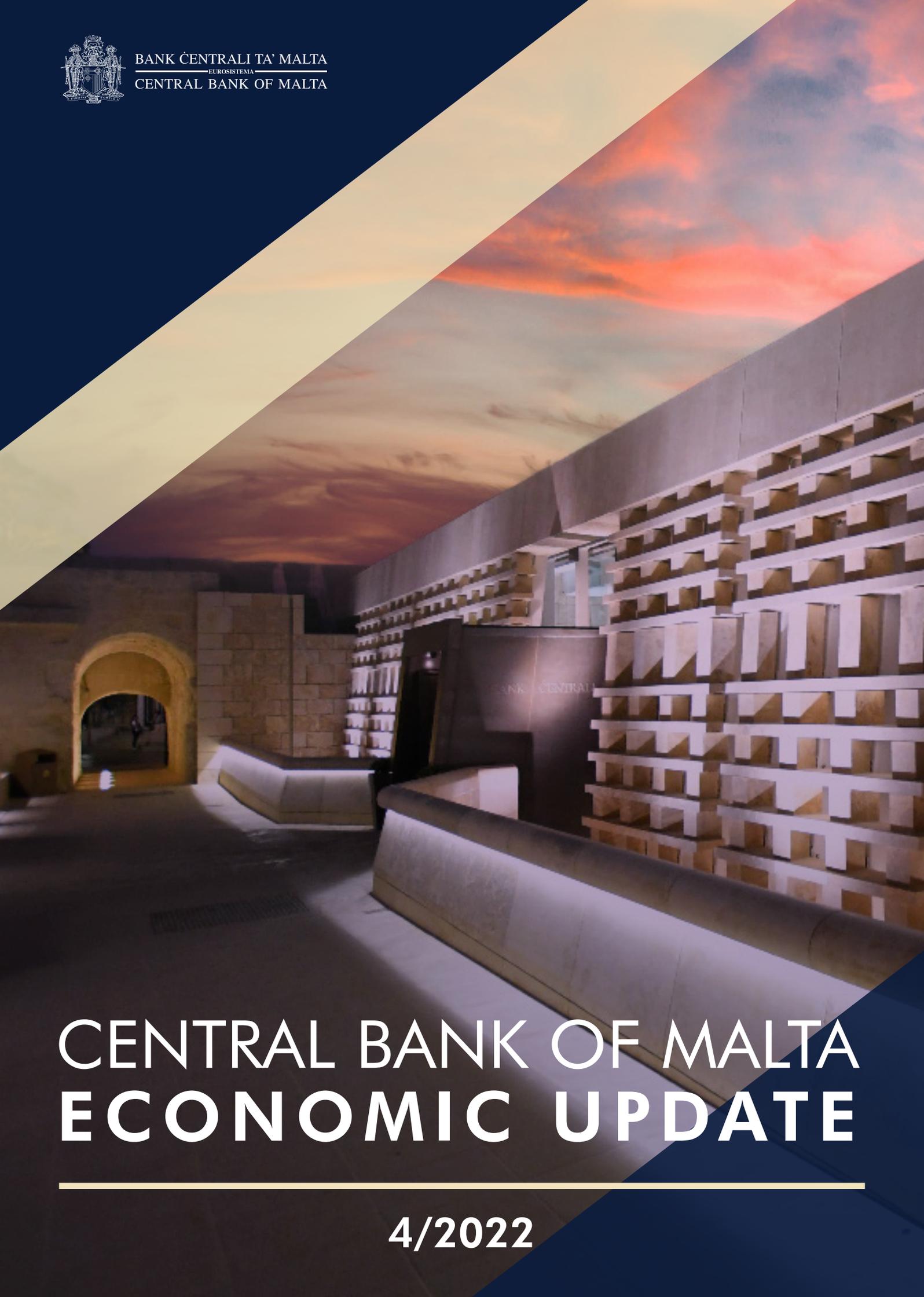




BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

A photograph of the interior of the Central Bank of Malta building. The space is characterized by a high ceiling with a grid of recessed lighting fixtures. The walls are made of stone, and there are several arches. A large, curved reception desk is visible in the foreground. The lighting is warm and dramatic, with a sunset or sunrise sky visible through the arches.

CENTRAL BANK OF MALTA ECONOMIC UPDATE

4/2022

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The cut-off date for information in this publication is 12 April 2022. However, the cut-off dates for the HICP and the RPI are 21 and 25 April 2022, respectively. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 4/2022

Summary¹

The Bank's Business Conditions Index indicates that annual growth in business activity remains above its long-term average, though normalising from previous months.

Similarly, the European Commission survey shows that in March economic sentiment in Malta stood well above its year-ago level and its long-term average, though it declined when compared with the previous month. The recent decrease was driven by weaker sentiment in industry and in the construction and retail sectors, while sentiment in the services sector and that of consumers improved.

Additional survey information shows that a higher share of respondents in industry, the services sector and consumers expected prices to increase in the coming months. The share of retailers anticipating price increases edged down from the previous month but remained elevated. On the contrary, price expectations in construction turned negative.

In March, the European Commission's Economic Uncertainty Indicator (EUI) decreased when compared with February, signalling lower uncertainty. This decrease in uncertainty was entirely driven by developments in the services sector.

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

Commercial permits decreased in February relative to their year-ago levels, while residential permits increased markedly. In March, the number of final deeds of sale and promise-of-sale agreements fell on a year-on-year basis.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 4.5% in March, up from 4.2% in the previous month. Inflation based on the Retail Price Index (RPI) rose to 4.4% in March, from 4.2% a month earlier.

Maltese residents' deposits expanded at an annual rate of 8.4% in February following an increase of 9.6% in the previous month, while annual growth in credit to Maltese residents stood at 8.2%, slightly above the rate of 8.1% recorded a month earlier.

The Consolidated Fund deficit in February 2022 deteriorated compared with a year earlier as an increase in expenditure offset higher tax revenue.

Central Bank's Business Conditions Index²

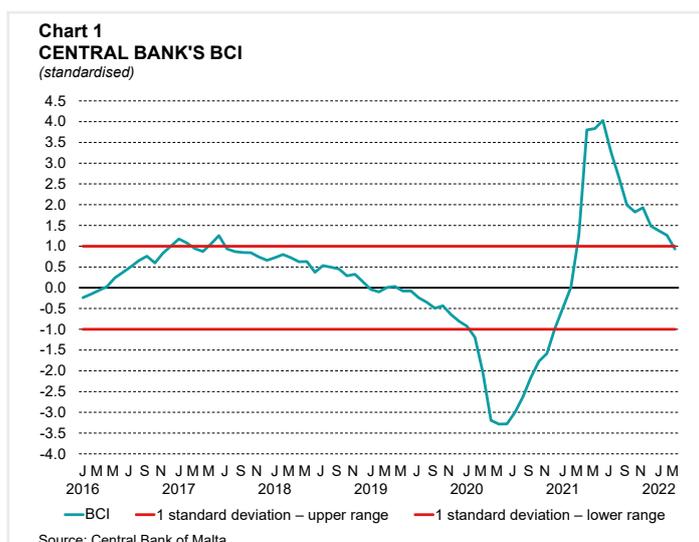
The Bank's BCI indicates that annual growth in business activity continues to recede from its historical highs registered in the first half of 2021, as several economic indicators have started normalising (see Chart 1). Nonetheless, the index continues to suggest that year-on-year growth remains above its historical average, reflecting the ongoing recovery from the historically low levels recorded

¹ The cut-off date for information in this note is 12 April 2022. However, the cut-off dates for the HICP and the RPI are 21 and 25 April 2022, respectively. Most of the data reported in this issue of the *Economic Update* refer to February 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 March.

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.

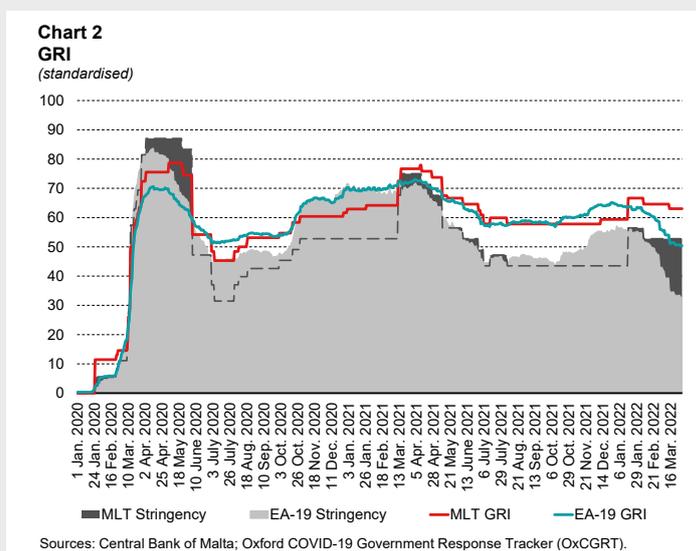
during the pandemic. Amongst BCI components, this was mostly evident in the case of tourist arrivals, economic sentiment, selected government revenue items and gross domestic product (GDP). Moreover, the unemployment rate continued to fall in annual terms. Nonetheless, other variables such as the index of industrial production have registered negative growth rates in recent months.

Overall, while still signalling strong growth, the BCI implies that growth rates are beginning to normalise.³



BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

In March, COVID-19 containment measures continued to ease compared with the previous month. In particular, mandatory mask-wearing was lifted for everyone in outdoor public locations and was only retained for indoor public spaces and mass events. In addition, the night-time curfew on entertainment establishments was removed while the quarantine period for travellers arriving from countries on the Dark Red List was decreased to seven days following a negative test. Contact tracing protocols were also relaxed in March, as mandatory quarantine for vaccinated primary contacts of positive cases was removed, while quarantine for primary non-vaccinated contacts was reduced to five days following a negative test. Overall, Malta's COVID-19 Government Response Index (GRI) ended March at 63.0, down by 1.6 points from February (see Chart 2).⁴



³ The volatility caused by the pandemic in most economic variables and the variation in the timing of turning points across indicators implies that as new observations are introduced in the estimation of the BCI each month, estimates of the BCI for earlier periods can be revised significantly. This is due to the filtering process embedded within the BCI.

⁴ In terms of the computation of the GRI, the abovementioned measures affect components C2 (workplace closing), C8 (international travel controls), H3 (contact tracing) and H6 (facial coverings). Most of the measures eased during March were however too small to change the classification, and hence had zero impact on the GRI. The removal of mandatory mask-wearing in outdoor spaces was the only measure that impacted the GRI.

Meanwhile, the euro area average declined significantly from 58.5 at end-February to 50.4 at end-March. Consequently, Malta's index ended March 12.7 points above the euro area average.

Meanwhile, at 52.8, Malta's Stringency Index retained the level recorded at end-February. It ended March 14.0 points higher than that in the euro area.

Business and consumer confidence indicators

In March, the European Commission's Economic Sentiment Indicator (ESI) for Malta stood at 108.6, and thus remained well above its long-term average of around 100.0 and its level in March

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2020	2021	2021			2022	
			Mar.	Dec.	Jan.	Feb.	Mar.
ESI	81.5	105.2	94.5	97.5	102.2	115.7	108.6
Industrial confidence indicator	-25.1	2.7	-1.1	-8.7	-3.4	20.1	0.7
Assessment of order-book levels	-48.8	-28.0	-41.4	-34.9	-12.7	-13.0	-34.0
Assessment of stocks of finished products	27.2	-3.5	-11.3	-8.1	-19.1	-18.9	1.2
Production expectations for the months ahead	0.8	32.8	26.7	0.6	-16.8	54.5	37.2
Retail trade confidence indicator	-31.0	-11.4	-38.2	35.9	9.0	22.1	18.0
Business activity, past 3 months	-22.2	-18.1	-58.6	35.5	-13.5	14.6	19.0
Stocks of finished goods	31.9	14.2	37.2	-29.5	-36.3	-26.8	-9.0
Business activity, next 3 months	-38.8	-2.0	-18.7	42.8	4.1	25.0	25.9
Construction confidence indicator	-5.7	6.6	-8.5	6.4	13.8	7.8	4.2
Evolution of your current overall order books	-6.2	0.8	-12.0	-0.3	11.5	11.0	11.2
Employment expectations over the next 3 months	-5.2	12.4	-5.0	13.2	16.2	4.7	-2.7
Consumer confidence indicator	-5.6	3.0	-7.9	-0.3	-0.7	-0.5	1.3
Financial situation past 12 months	-1.6	-10.1	-18.6	-9.0	-11.3	-14.7	-10.2
Financial situation next 12 months	0.8	7.2	0.4	0.2	-0.9	-2.4	-0.3
Economic situation next 12 months	-0.9	18.9	3.6	6.5	4.4	9.2	6.6
Major purchases next 12 months	-20.5	-3.9	-16.8	1.0	5.0	5.9	9.2
Services confidence indicator	-24.9	13.5	-11.1	-9.0	4.4	23.7	28.9
Business situation development over the past 3 months	-36.3	4.7	-11.0	-16.1	-5.5	21.6	32.5
Evolution of the demand over the past 3 months	-34.9	9.9	-19.1	-7.4	23.2	19.0	34.0
Expectation of the demand over the next 3 months	-3.7	26.1	-3.1	-3.7	-4.4	30.5	20.3
EI	85.9	104.1	88.5	104.4	107.2	79.5	114.7
Services	-2.4	24.6	-9.9	26.1	36.3	-38.3	48.0
Retail	-11.6	3.7	14.5	-3.4	-3.2	0.9	20.1
Industry	-12.5	14.7	-8.1	21.2	13.2	16.2	11.5
Construction	-5.2	12.4	-5.0	13.2	16.2	4.7	-2.7
EUI^(1,2)	-	21.3	-	36.9	25.1	32.6	27.8
Services	-	32.2	-	42.8	45.1	38.1	-1.3
Consumers	-	-3.5	-9.7	-0.9	-0.1	1.9	1.9
Construction	-	30.1	-	12.8	5.5	15.7	27.4
Industry	-	21.0	-	51.4	20.8	44.9	59.1
Retail	-	48.8	-	60.8	59.0	40.7	56.4
ESI demeaned	-18.4	5.2	-5.5	-2.5	2.2	15.7	8.6
EI demeaned	-14.0	4.6	-11.8	5.1	8.0	-21.1	15.5

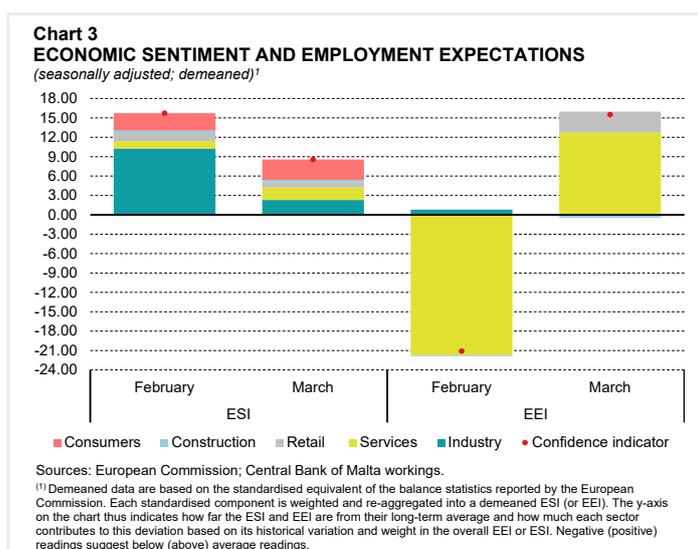
Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

2021 (see Table 1).^{5,6,7} It was also in line with the euro area average of 108.5. However, it decreased from February's reading of 115.7.

In month-on-month terms, sentiment in Malta fell in industry and in the retail and construction sectors. However, it improved in the services sector and among consumers. The largest decline was recorded in industry. In March, sentiment stood in positive territory across all sectors.



Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the decrease in overall sentiment between February and March was mainly driven by developments in industry (see Chart 3). The contribution of the retail sector and construction also eased slightly in March but remained positive. By contrast, the contribution of the services sector, and to a lesser extent of consumers, edged up marginally relative to February. Demeaned data also suggest that the confidence indicator for consumers and those for industry and services largely explain why the ESI stood above its long-term average in March.

In March, sentiment in industry fell sharply but remained marginally positive. It decreased to 0.7 from 20.1 in February. Notwithstanding this decline, sentiment remained above its long-term average of -3.9.⁸ All sub-components of the sentiment indicator for this sector recorded significant declines.

Sentiment in the retail sector eased to 18.0 from 22.1 in February but nonetheless stood above its long-term average of -1.3.⁹ A smaller share of participants assessed their stock levels to be below normal compared to a month earlier.¹⁰ By contrast, retailers' assessment of business activity over the past three months, and to a lesser extent, their expectations of sales over the next months improved.

Confidence within the construction sector fell to 4.2 from 7.8 a month earlier but remained above its long-term average of -9.7.¹¹ Weaker sentiment was driven by developments in participants'

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 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.

⁷ In January 2022, data were revised for previous periods following the annual updating of country weights and the inclusion of 2021 in the standardisation sample.

⁸ The 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 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.

¹⁰ 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.

¹¹ 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.

employment expectations, which turned negative in the month under review and offset an amelioration in order books.

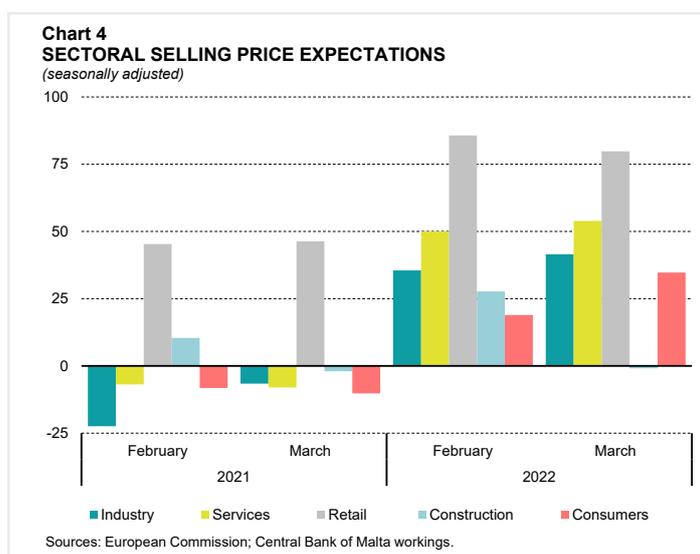
Consumer confidence turned positive in March. It stood at 1.3, up from -0.5 in February. Following a marginal improvement in March, it remained well above its long-term average of -10.3.¹² The assessment and outlook for the financial situation were less negative compared to February while expectations of major purchases over the next 12 months continued to increase. However, a smaller share of respondents expected general economic conditions to improve.

Confidence within the services sector improved. It rose to 28.9, from 23.7 in February, thus standing further above its long-term average of 19.0.¹³ This increase in confidence stems from firms' assessment of demand over the past three months, and to a smaller degree, of the business situation in recent months. By contrast, the share of participants' expecting an increase in demand over the next three months decreased relative to the previous month but remained elevated.

Additional survey information shows that price expectations continued to rise across industry, the services sector and consumers (see Chart 4). The largest increase was recorded among consumers. Price expectations reached a record high in the services sector. The share of retailers anticipating price increases edged down from the previous month but remained elevated. On the contrary, price expectations in construction turned negative.

When compared to a year earlier, price expectations increased across all sectors. This largely reflected developments in the services sector and in industry, although considerable changes were also recorded among consumers and retailers. Meanwhile, price expectations stood less negative in the construction sector.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased by over a third in March.¹⁴ The EEI stood at

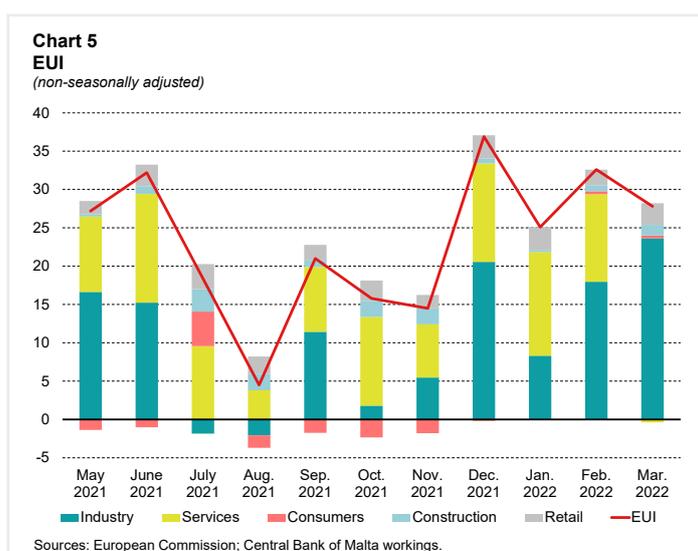


¹² The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation 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 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.

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*.

114.7, above the 79.5 recorded in February, and stood well above its long-term average of around 100.0. Notwithstanding the recent rise in expectations, the EEI was slightly below the euro area average of 115.5. This positive turnaround in employment expectations was almost entirely driven by the services sector, overturning negative expectations for this sector a month earlier. Employment expectations also improved in the retail sector. By contrast, there was some deterioration in industry while expectations in the construction sector turned negative. Demeaned data show that the services sector largely explains why the overall EEI stood above its long-term average in March (see Chart 3). Sentiment in the retail sector also had a positive contribution.



In March, 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 27.8 from 32.6 in February, signalling lower uncertainty (see Table 1). This indicator was slightly above its level recorded in May 2021, the month when the first reading is available for Malta (see Chart 5). Following the latest decline in sentiment, the indicator was slightly above that of the euro area, where the index rose to 26.8.^{15,16}

In month-on-month terms, the fall in the uncertainty indicator was entirely driven by developments in the services sector (see Chart 5). This offset higher uncertainty in the other productive sectors. By contrast, consumers continued to report that they can predict their financial situation with relative ease.

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 – stood at -3.2%. This is the seventh consecutive year-on-year decline and follows a fall of 4.2% in January (see Table 2).¹⁷

The recent decline in industrial production partly reflected a significant decrease in the output of 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 those that fall within the sector that manufactures motor

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	2021		2022	
			Jan.	Feb.	Jan.	Feb.
Industrial production	-0.2	-0.4	-7.3	-12.8	-4.2	-3.2
Retail trade	-5.5	8.0	-4.2	-10.0	10.3	6.9
Number of tourist arrivals	-76.1	47.0	-90.7	-93.7	332.7	606.2
Number of nights stayed	-73.0	60.5	-79.8	-86.7	202.1	358.9
Rented accommodation	-76.8	73.8	-89.0	-91.8	465.0	566.5
Collective ⁽¹⁾	-76.5	74.3	-92.1	-94.1	496.0	740.6
Other rented ⁽²⁾	-77.3	72.9	-82.4	-86.3	434.3	389.3
Non-rented accommodation ⁽³⁾	-52.8	26.5	-48.9	-52.9	14.2	115.2
Tourist expenditure	-79.5	91.3	-87.6	-90.4	301.1	378.9
Package expenditure	-84.5	108.7	-	-	635.8	714.1
Non-package expenditure	-79.6	89.4	-87.7	-89.0	311.3	303.2
Other	-75.9	85.4	-83.5	-88.1	245.9	380.6

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).

vehicles, trailers and semi-trailers. Smaller falls were recorded in the printing and reproduction of recorded media, the production of food products, and in other smaller sectors. On the other hand, higher output was registered among firms that repair and install machinery and equipment, firms that specialise in computer, electronic and optical products, paper products as well as beverages.

Production in the energy sector increased for the fifth consecutive month in February, with output rising by 5.9% in annual terms.

In February, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 6.9% on an annual basis after rising by 10.3% in January.

In February, the tourism sector registered gains over a year earlier, although tourist numbers remained below pre-pandemic levels. The number of inbound tourists stood at 64,623 in February, more than seven times the number of visitors a year earlier. Nonetheless, it was still less than half the February 2020 level. Guest nights and total expenditure were more than four times the level recorded in the corresponding period of 2021 but still well below the level in February 2020.

In February, 246 development permits for commercial buildings were issued, a 1.2% decline over the same month a year earlier (see Table 3). On the other hand, 1,192 new residential permits were issued, approximately twice the 654 new residential permits issued in February 2021.

Data on residential property transactions show that 1,165 final deeds of sale were concluded in March, 9.3% less than a year earlier. At 1,113, the number of promise-of-sale agreements was almost a third less than that registered in March 2021.

Customs data show that the merchandise trade deficit stood at €238.1 million in February, up from €110.7 million a year earlier. The larger deficit was due to a €159.8 million rise in imports which

Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			Feb.	Mar.	Feb.	Mar.
Permits						
Commercial permits	2,687	2,770	249	205	246	-
Residential permits	7,837	7,578	654	569	1,192	-
Residential transactions						
Promise of sale	11,259	15,649	1,350	1,648	967	1,113
Final deeds of sale	11,057	14,368	984	1,285	1,067	1,165

Sources: National Statistics Office; Eurostat.

offset a €32.3 million increase in exports (see Chart 6).

Higher imports were largely on account of an increase in registrations of aircraft as well as an increase in imported fuel. Higher imports of pharmaceutical products, vehicles and vehicle parts, electric machinery and plastic also contributed but to a much lesser extent. These more than offset lower imports of paper and tobacco products.

The increase in exports was driven by higher exports of printed material, iron and steel, organic chemicals, and higher re-exports of fuel. These offset lower exports of toys, tobacco products and electrical machinery.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,125 in February 2022, slightly up from 1,117 in January 2022 but down from 2,585 a year earlier – when the labour market was still impacted by the pandemic-related restrictions (see Chart 7). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

Chart 6
EXPORTS AND IMPORTS OF GOODS: FEBRUARY 2021
(EUR millions; monthly observations)

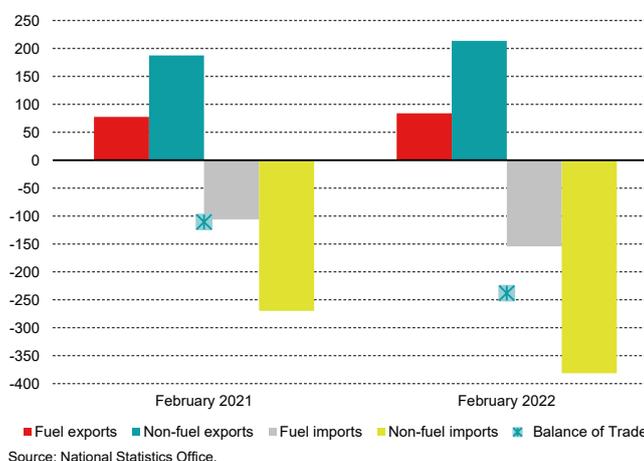
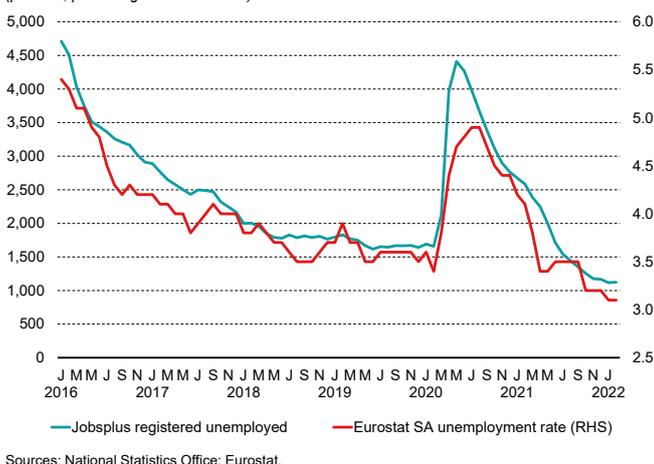


Chart 7
UNEMPLOYMENT
(persons; percentage of labour force)



The seasonally-adjusted unemployment rate stood at 3.1% in February 2022, the same rate as that registered in the previous month, and well below the rate of 4.1% registered in February 2021.

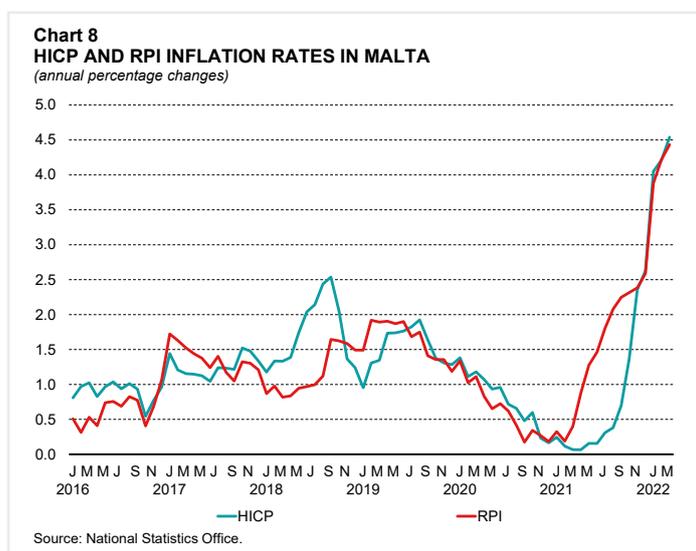
Prices, costs and competitiveness

Annual HICP inflation rose to 4.5% in March, from 4.2% in the previous month (see Chart 8). This increase was driven by all components except energy inflation where similar to recent months, prices remained unchanged. Services inflation rose to 4.2% from 3.8% in February. Similarly, inflation in non-energy industrial goods reached 4.0% in March from 3.7% in the previous month. Food inflation also edged up, reaching 7.2% from 7.0% in February. The increase in food inflation was entirely driven by processed food inflation which rose to 5.3% from 4.6% in the previous month. By contrast, unprocessed food inflation eased, although it remained elevated from a historical perspective, standing at 13.8% in March.

Annual inflation according to the RPI stood at 4.4% in March, up from 4.2% in February (see Chart 8).¹⁸ Faster growth was recorded across almost all main components except for the prices of clothing and footwear as well as transport and communication services, where inflation edged down but remained positive. Similar to recent months, prices of water and energy remained unchanged.

Thus, HICP and the RPI indices grew at very similar rates in March 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 March 2022 is negligible.

Producer output inflation, measured by the industrial producer price index, stood at 7.7% in February, up from 6.5% in January.¹⁹ The acceleration largely reflects faster growth in the prices of intermediate goods as inflation rose to 13.9% in the month under review. This was slightly offset by a decline in inflation in capital goods, although growth remained elevated. The increased inflation in producer prices might reflect the impact of the rising cost pressures due to ongoing global supply bottlenecks.



¹⁸ The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households. Due to the strong impact of the pandemic on tourist expenditure, the two measures are expected to deviate significantly as weights in the HICP have changed significantly while those of the RPI have not been adjusted.

¹⁹ 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.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.4% in the year to March 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 3.0% in annual terms in March, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

Public finance

During February 2022, the deficit on the Consolidated Fund reached €14.4 million, a deterioration of €11.1 million when compared with February 2021 (see Table 4). This occurred due to a surge in government expenditure, which more than offset the rise in government revenue. In turn, the primary balance registered a deficit of €4.5 million, a deterioration of €18.8 million from the primary surplus registered in the corresponding period a year earlier.

Government revenue increased by €28.1 million, or 7.5% in annual terms, on the back of an increase in tax revenue. Revenue from direct taxes rose by €27.1 million, reflecting higher inflows from income tax paid by companies. Meanwhile, indirect tax revenue increased by €6.4 million,

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021	2022	2021	2022	Change	
	Jan.-Feb.	Jan.-Feb.	Feb.	Feb.	Amount	%
Revenue	669.9	756.1	375.9	404.0	28.1	7.5
Direct tax	344.2	391.9	156.7	183.8	27.1	17.3
Income tax	221.0	260.9	95.7	122.1	26.4	27.6
Social security contributions ⁽¹⁾	123.2	131.1	61.0	61.7	0.7	1.1
Indirect tax	283.0	301.6	195.9	202.3	6.4	3.3
Value Added Tax	200.5	206.1	150.8	153.6	2.8	1.8
Customs and excise duties	39.9	47.2	15.8	29.3	13.5	85.6
Licences, taxes and fines	42.6	48.3	29.3	19.4	-9.9	-33.8
Non-tax⁽²⁾	42.8	62.6	23.3	17.9	-5.4	-23.1
Expenditure	997.6	836.8	379.3	418.5	39.2	10.3
Recurrent	913.5	784.1	352.7	387.2	34.5	9.8
Personal emoluments	181.0	167.3	98.2	83.7	-14.4	-14.7
Operational and maintenance	51.8	29.2	12.0	13.3	1.2	10.2
Programmes and initiatives	523.7	460.8	159.4	232.5	73.2	45.9
Contributions to entities	126.6	103.8	65.5	47.8	-17.7	-27.0
Interest payments	30.4	23.1	17.6	9.9	-7.7	-43.6
Capital	84.1	52.6	26.6	31.2	4.7	17.5
Primary balance⁽³⁾	-297.3	-57.5	14.3	-4.5	-18.8	-
Consolidated Fund balance	-327.7	-80.7	-3.3	-14.4	-11.1	-

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.

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.

largely on the back of higher receipts from customs and excise duties. On the other hand, inflows from non-tax revenue declined by €5.4 million partly due to lower inflows from profits transferred by the Central Bank of Malta and revenue from the Individual Investor Programme (IIP).

Government expenditure rose by €39.2 million, or 10.3% when compared to the corresponding period in 2021. This was largely due to a rise in recurrent expenditure which increased by €34.5 million, mostly on the back of higher expenditure on programmes and initiatives. The latter surged by €73.2 million, partly reflecting the timing of social benefits. This reversed a decline in outlays on social spending in the previous month. Meanwhile, spending on contributions to entities, personal emoluments and interest payments declined by €17.7 million, €14.4 million and €7.7 million respectively.

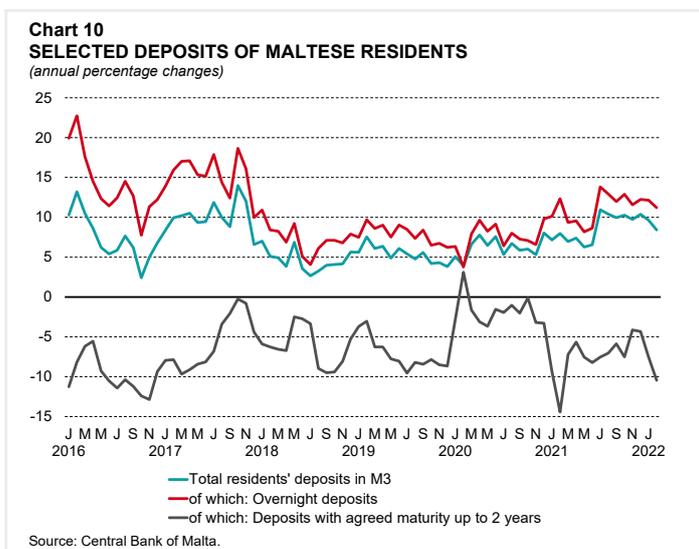
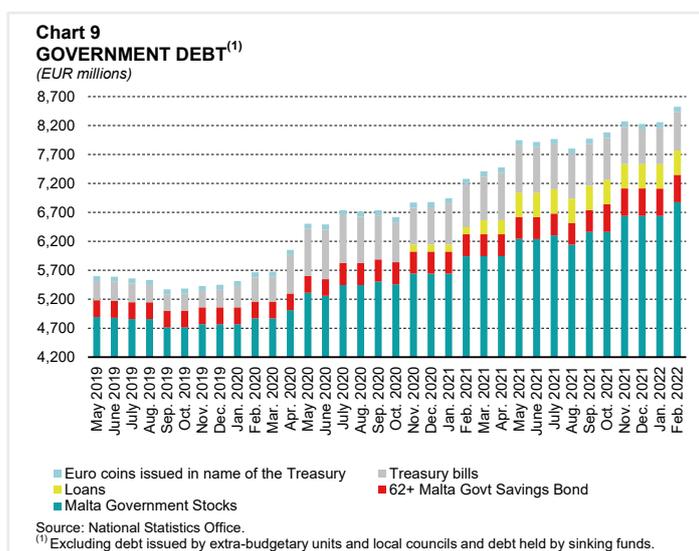
Spending on capital expenditure increased by €4.7 million during the period under consideration, reflecting higher outlays on road construction.

In February 2022, the total stock of government debt amounted to €8,393.9 million, an increase of €266.1 million when compared with January 2022 (see Chart 9). This increase is mainly attributable to higher outstanding Malta Government Stocks and, to a lower extent, a rise in outstanding Treasury bills.

Deposits, credit and financial markets

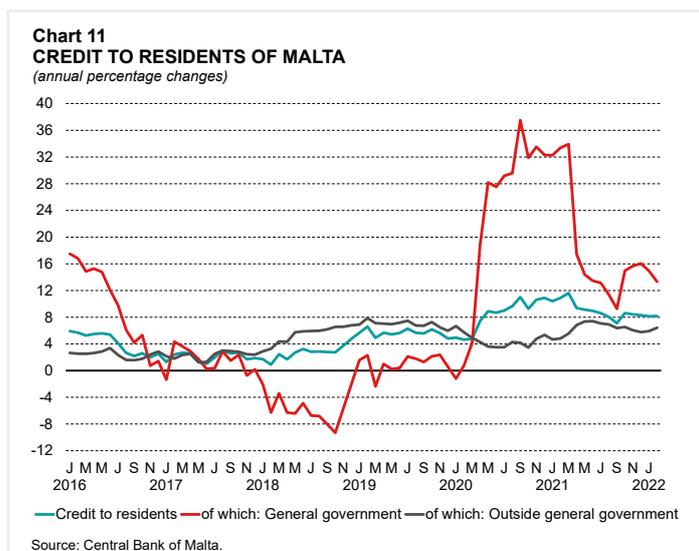
In February, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 8.4%, down from 9.6% a month earlier (see Chart 10).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 89% of their M3 balances. This deposit category – which is the most liquid – grew by 11.2% in the year to February, slightly below the 12.1% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the



second largest deposit category – fell by 10.5% in annual terms, following a contraction of 7.5% in January. This may reflect efforts by certain credit institutions to reduce the number of fixed term deposit accounts.

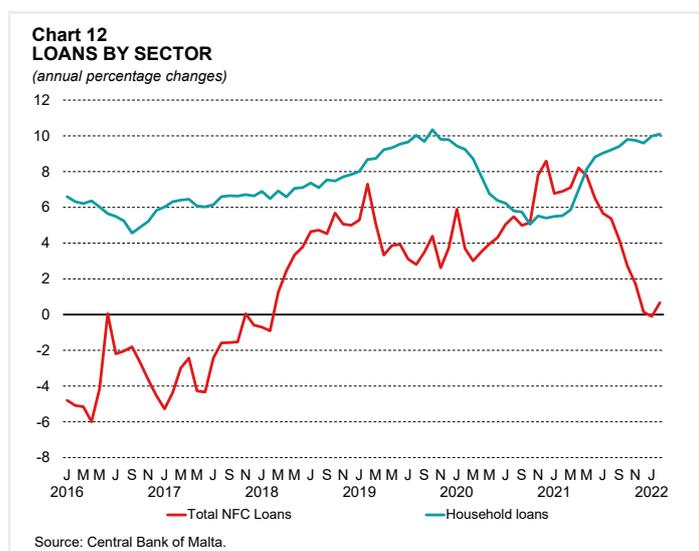
Credit to Maltese residents grew at an annual rate of 8.2% in February, marginally above the 8.1% recorded a month earlier (see Chart 11). The marginal uptick in growth was driven by faster growth in credit to residents outside general government. Annual growth in this component stood at 6.4%, following a 5.9% increase in January. By contrast, growth in credit to general government edged down to 13.3%, from 14.9% a month earlier.



The annual rate of change in loans to households reached 10.1% in February, marginally above the 10.0% recorded in January. Mortgage lending increased by 11.4% in February, from 11.2% in January. By contrast, consumer credit and other lending fell by 4.0%, following a contraction of 3.2% a month earlier.

Meanwhile, the annual rate of change in loans to non-financial corporations turned positive in February. It stood at 0.7%, following a contraction of 0.1% a month earlier (see Chart 12). The small increase in February was largely driven by an increase in credit to the energy, heat and water supply sector. This was followed by higher credit to the education, health and social sector, as well as an increase in loans to the wholesale and retail trade sector and the transportation and storage sector. These developments were partly offset by a decline in loans to the sector comprising administrative and support service activities, as well as a larger contraction in credit to the information and communication sector.

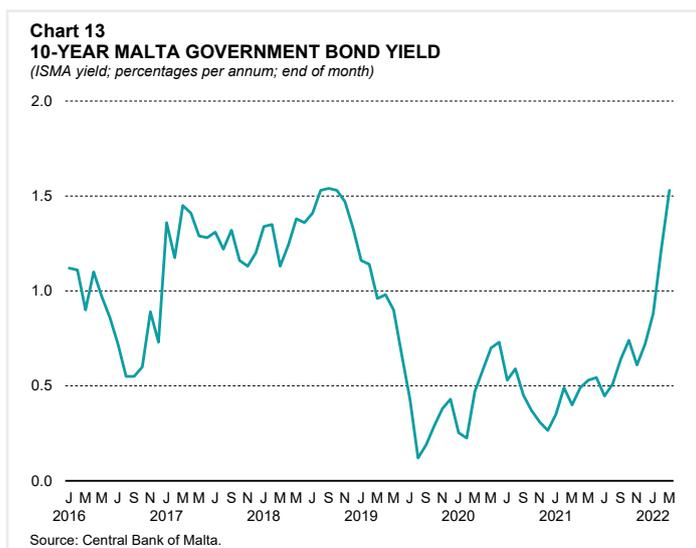
As regards interest rates, in February, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood unchanged from the previous month, at 0.16%. Meanwhile, the composite rate charged on outstanding loans edged down to 3.19%, from



3.20% in January. Hence, the spread between the two rates decreased slightly to 303 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased by 31 basis points from a month earlier to 1.53% at the end of March (see Chart 13). This is the highest yield since 2018.

In March, the Malta Stock Exchange (MSE) Equity Price Index fell by 1.5% compared with the previous month. 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 (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 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.²¹

By end-February, 648 facilities were approved under the CGS, covering total sanctioned lending of €497.8 million.²²

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 February, €459.6 million were disbursed, up slightly from the €457.4 million disbursed by the end of January. Thus, by the end of February, 64.0% of the scheme was sanctioned while 59.1% was disbursed.

By end-February, 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 construction sector as well as the sector comprising transportation, storage and information and communication.

²¹ 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.

²² The number and value of sanctioned facilities fell when compared with the preceding month reflecting the repayment in full of some facilities as well as the withdrawal and cancellation of other facilities.

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2019	2020	2021	2020	2021	2021	2021	2021	2022	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	2022	
				Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Prices and costs																								
HICP inflation	1.5	0.8	0.7	0.3	0.1	0.1	0.5	2.1	4.3	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	4.5
RPI inflation	1.6	0.6	1.5	0.3	0.3	1.2	2.0	2.4	4.2	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	4.4
Industrial producer price inflation	2.2	0.3	3.2	-0.4	0.8	1.7	3.8	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	6.5	7.7	-
HCI (nominal)	-0.7	1.8	0.4	3.5	2.7	1.3	-0.8	-1.7	-1.4	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	-1.4
HCI (real)	-1.1	1.5	-1.9	3.2	1.1	-1.0	-3.2	-4.5	-3.0	2.4	2.0	-1.2	-0.6	-0.8	-1.7	-2.3	-3.7	-3.7	-4.3	-4.3	-4.7	-3.1	-2.8	-3.0
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	5.1	1.6	4.6	5.4	5.9	4.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	4.2	4.1	3.8	3.4	3.4	3.5	3.5	3.5	3.5	3.2	3.2	3.2	3.1	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	3.6	-	-	-	-	-
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	11.2	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-3.3	-7.2	-8.2	-5.9	-4.3	-	-9.4	-14.4	-7.2	-5.7	-7.5	-8.2	-7.5	-7.0	-5.9	-7.5	-4.1	-4.3	-7.5	-10.5	-
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	9.6	8.4	-
Credit to general government	0.6	32.3	16.0	32.3	33.9	13.5	9.3	16.0	-	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.3	15.0	15.7	16.0	14.9	13.3	-
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	6.4	-
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	8.2	-
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	1.5
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	-1.5
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 CGS ⁽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	497.8	-
Disbursed amount under the MDB CGS ⁽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	459.6	-
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.