



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

4/2023

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The cut-off date for information in this note is 19 April 2023. However the cut-off date for the RPI is 24 April 2023. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 4/2023

Summary¹

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

The European Commission confidence surveys show that sentiment in Malta increased compared to February, and stood above its long-term average, estimated since November 2002. In month-on-month terms, sentiment increased in the retail and services sectors and in industry but declined in the construction sector and among consumers.

Additional survey information shows that price expectations stood firmly above their year-ago level in the construction sector, and to a lesser extent, among services firms. By contrast, price expectations among retailers and consumers as well as in industry stood lower.

In March, the European Commission's Economic Uncertainty Indicator (EUI) for Malta increased when compared with February, indicating higher uncertainty. Uncertainty increased mostly in the construction sector.

In February, industrial production grew at a faster rate compared to January. By contrast, retail trade increased at a slower pace in annual terms. The unemployment rate stood at 3.0% in February, unchanged from the rate registered in the previous month, and marginally lower than that registered in February 2022.

Commercial building and residential permits decreased in February relative to their year-ago level but exceeded those issued in January. In March, 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 7.1% in March, up from 7.0% in the previous month. On the other hand, inflation based on the Retail Price Index (RPI) decreased to 7.0%, from 7.1% in February.

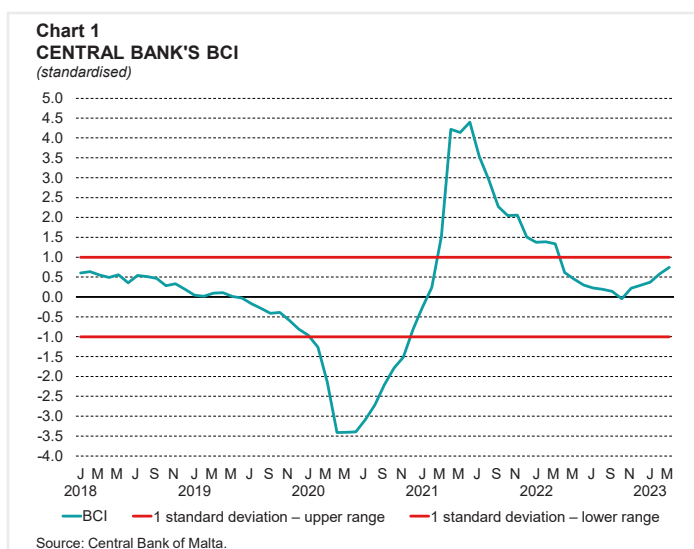
Maltese residents' deposits expanded at an annual rate of 3.6% in February, following an increase of 3.9% in the previous month, while annual growth in credit to Maltese residents moderated to 6.4% from 7.3% a month earlier.

In February, the Consolidated Fund swung to a surplus from a deficit a year earlier, as government revenue surged while government expenditure declined slightly.

¹ The cut-off date for information in this note is 19 April 2023. However, the cut-off date for the RPI is 24 April 2023. Most of the data reported in this issue of the *Economic Update* refer to February 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures refer to March 2023.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that in March, annual growth in business activity stood above its long-term average estimated since January 2000 (see Chart 1). Among BCI components, tourist arrivals, tax revenue, industrial production, and GDP experienced strong year-on-year growth in recent months. The ESI also stood above its long-term average. Furthermore, the unemployment rate remained low from a historical perspective.

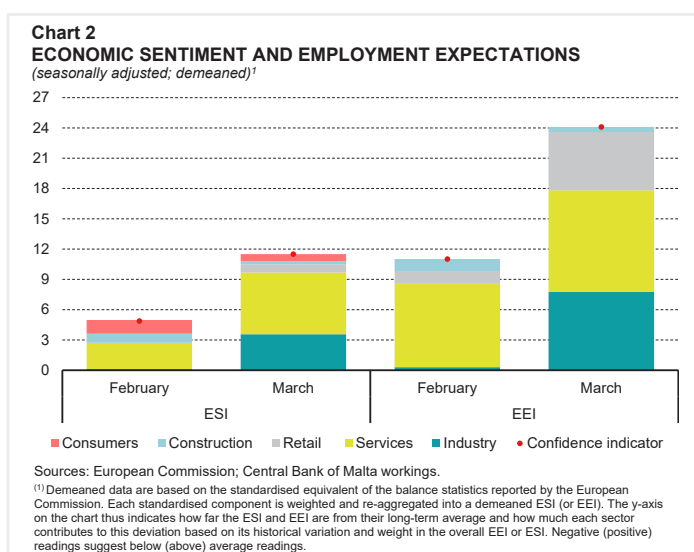


Business and consumer confidence indicators

In March, the European Commission's Economic Sentiment Indicator (ESI) for Malta reached a twelve month-high of 111.5, from 104.9 in February. The ESI also exceeded its long-term average of around 100.0, estimated since November 2002 (see Table 1).^{3,4,5,6} Furthermore, sentiment stood above the euro area average of 99.3.

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

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 March was driven



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.

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	
			Mar.	Dec.	Jan.	Feb.	Mar.
ESI	104.9	100.9	106.7	96.9	101.4	104.9	111.5
Retail trade confidence indicator	-8.4	6.0	7.8	27.3	25.4	-0.5	23.7
Business activity, past 3 months	-13.6	21.1	13.0	57.7	41.8	21.8	47.2
Stocks of finished goods	12.8	-3.2	-1.1	3.1	15.9	22.9	1.9
Business activity, next 3 months	1.2	-6.2	9.2	27.3	50.3	-0.5	25.9
Services confidence indicator	13.7	20.5	26.0	20.6	19.5	31.4	44.0
Business situation development over the past 3 months	4.9	15.7	30.7	1.6	12.4	30.7	42.9
Evolution of the demand over the past 3 months	10.8	26.1	32.0	18.2	19.1	39.1	32.6
Expectation of the demand over the next 3 months	25.4	19.6	15.2	42.1	26.8	24.5	56.5
Industrial confidence indicator	2.1	-9.4	1.4	-23.5	-8.6	-3.2	6.8
Assessment of order-book levels	-28.2	-21.5	-35.2	-10.1	-4.3	-7.2	-50.3
Assessment of stocks of finished products	-3.2	9.1	-6.8	2.2	2.6	19.2	3.6
Production expectations for the months ahead	31.3	2.2	32.6	-58.1	-18.8	16.8	74.1
Consumer confidence indicator	3.4	-7.4	-2.7	-11.8	-10.3	-6.8	-10.9
Financial situation past 12 months	-8.9	-19.7	-10.1	-22.7	-19.1	-16.2	-22.9
Financial situation next 12 months	7.3	-11.8	-1.9	-13.4	-11.3	-8.8	-12.0
Economic situation next 12 months	18.6	-3.5	-1.7	-9.2	-10.0	-4.2	-11.0
Major purchases next 12 months	-3.4	5.6	3.0	-1.8	-0.6	1.9	2.4
Construction confidence indicator	7.3	7.0	3.4	-4.3	2.9	17.5	-0.2
Evolution of your current overall order books	1.4	8.7	8.7	-6.6	2.4	6.3	-15.9
Employment expectations over the next 3 months	13.2	5.4	-1.9	-2.0	3.4	28.8	15.5
E EI	103.5	106.4	111.3	110.8	112.0	111.3	123.5
Industry	14.8	12.0	2.9	-37.4	8.2	13.6	60.2
Retail	4.4	15.8	19.9	26.7	16.1	10.6	38.9
Services	25.1	30.2	46.0	56.8	46.7	41.6	46.7
Construction	13.2	5.4	-1.9	-2.0	3.4	28.8	15.5
EUI^(1,2)	21.3	28.1	27.8	24.4	14.0	2.9	5.5
Construction	30.1	19.5	27.4	35.2	19.7	14.5	36.6
Industry	21.0	39.4	59.1	32.0	10.9	-14.8	-10.8
Services	32.2	20.3	-1.3	17.2	16.4	16.4	17.2
Consumers	-3.5	13.7	1.9	13.5	13.9	12.2	11.9
Retail	48.8	50.8	56.4	40.4	18.7	14.2	9.0
ESI demeaned	4.9	0.9	6.7	-3.1	1.4	4.9	11.5
E EI demeaned	3.4	6.2	10.6	9.1	11.4	11.0	24.1

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

by the services sector and industry (see Chart 2). Furthermore, the confidence indicators for the services sector largely explains why the ESI stood above its long-term average in March.

In March, sentiment in the retail sector turned positive and stood above its long-term average of -0.4.⁷ It increased to 23.7, up from -0.5 a month earlier. In contrast to the previous month,

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.

expectations of business activity over the next three months turned positive in March. At the same time, the assessment of sales in recent months also improved significantly. Furthermore, the share of retailers assessing their stock levels to be above normal decreased sharply compared with February.

The sentiment indicator for the services sector averaged 44.0 in March, above the 31.4 recorded in the previous month. Following the latest increase, sentiment stood well above its long-term average of 19.4.⁸ Firms' expectations of demand over the next three months, and to a lesser extent, their assessment of the business situation over the past three months, improved strongly. This offset a moderation in firms' assessment of demand over the past three months.

Confidence in industry rose to 6.8, from -3.2 in February, standing above its long-term average of -4.2.⁹ This development mainly reflects a sharp increase in production expectations. At the same time, a smaller share of firms assessed their stocks of finished products to be above normal.¹⁰ By contrast, the share of firms assessing order book levels to be below normal, increased.

Consumer confidence fell below its long-term average of -10.2 in March. It stood at -10.9, down from -6.8 a month earlier. This development mainly reflects a more negative assessment of the general economic situation over the next 12 months as well as consumers' assessment of their financial situation over the last 12 months.¹¹ Albeit to a lesser extent, expectations of their finances in the coming months, also worsened. By contrast, expectations of major purchases over the next 12 months stood more positive relative to February.

The confidence indicator for the construction sector turned slightly negative in March, standing at -0.2, down from 17.5 in February. Notwithstanding this decline, sentiment remained above its long-term average of -8.5.¹² In contrast to the previous month, respondents assessed order book levels to be below normal. At the same time, employment expectations deteriorated strongly, but remained positive.

Additional survey information shows that, in month-on-month terms, price expectations fell in industry, and were broadly unchanged in the services sector. By contrast, price expectations increased strongly in the retail sector, with smaller increases recorded among consumers and in the construction sector (see Chart 3). Differences across sectors remained wide – while the net share of firms signalling price increases ranged between 54% and 41% in the construction and services sectors, respectively, that in other sectors ranged between 17% and 27%.

Price expectations stood firmly above their year-ago level in the construction sector and were marginally higher in the services sector. By contrast, price expectations among retailers, and

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.

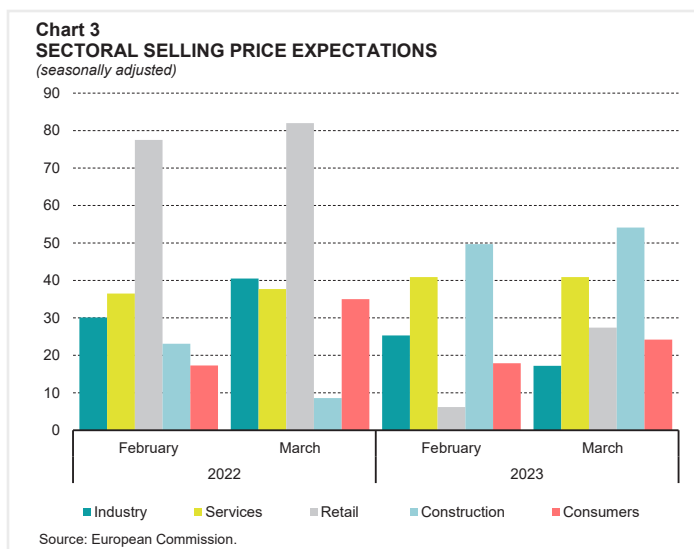
¹⁰ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

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 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 industry, were significantly below the level recorded in March 2022, followed by consumers.

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 123.5 in March, above the 111.3 recorded a month earlier.¹³ The indicator remained above its long-term average of around 100.0 and exceeded the euro area average of 109.0.



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

The services sector largely explains why the overall EEI stood above its long-term average in March, followed by industry and the retail sector (see Chart 2).

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 – edged up to 5.5, from 2.9 in February, signalling higher uncertainty (see Table 1). The uncertainty indicator stood well below its level recorded in March 2022, when the index averaged 27.8. It was also below that of the euro area.^{14,15}

In month-on-month terms, the increase in Malta's uncertainty indicator was mainly driven by developments in construction, and to a lower extent, in the services sector. At the same time, a smaller share of respondents was able to predict their business situation with ease in industry. Meanwhile, uncertainty among retailers and consumers eased compared with February.

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

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.

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 17.1%. This followed a rise of 12.4% in January (see Table 2).¹⁶

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

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

In February, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 4.3% in year-on-year terms, after rising by 6.2% in January.

In February, the tourism sector continued to perform well. While tourist arrivals and nights spent in Malta were still somewhat below pre-pandemic levels, tourist expenditure was just above the

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2021	2022	2022		2023	
			Jan.	Feb.	Jan.	Feb.
Industrial production	-0.2	3.1	-4.7	-4.3	12.4	17.1
Retail trade	9.3	9.6	10.4	8.0	6.2	4.3
Number of tourist arrivals	47.0	136.2	332.7	606.2	128.0	105.1
Number of nights stayed	60.5	98.0	202.1	358.9	79.0	57.0
Rented accommodation	73.8	111.3	465.0	566.5	81.8	72.7
Collective ⁽¹⁾	74.3	109.9	496.0	740.6	111.4	85.5
Other rented ⁽²⁾	72.9	113.8	434.3	389.3	49.3	50.4
Non-rented accommodation ⁽³⁾	26.5	50.8	14.2	115.2	68.8	-0.3
Tourist expenditure	91.3	131.1	301.1	378.9	111.1	117.4
Package expenditure	108.7	129.8	635.8	714.1	197.4	198.5
Non-package expenditure	89.4	145.9	311.3	303.2	84.3	124.5
Other	85.4	118.3	245.9	380.6	109.2	85.2

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.

pre-pandemic level. The number of inbound tourists amounted to 132,513, up from 64,623 a year earlier. Guest nights also rose on a year earlier although the average length of stay declined. Total expenditure by tourists in Malta increased over the level recorded in the corresponding period of 2022, with the largest increase in spending stemming from non-package trips.

In February, 196 development permits for commercial buildings were issued, 50 less than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 932 new residential permits were issued, 260 less than the number issued in February 2022. Both residential and commercial permits, however, increased in month-on-month terms.

Data on residential property transactions show that 1,036 final deeds of sale were concluded in March, 97 more than the number concluded a month earlier, but 154 less than a year earlier. At 1,172, the number of promise-of-sale agreements was 139 more than a month earlier, and 59 more compared with a year earlier.

Customs data show that the merchandise trade deficit stood at €257.5 million in February, up from a deficit of €205.9 million a year earlier. This was due to a €13.5 million rise in imports, and a €38.1 million decline in exports (see Chart 4).

Higher imports were mainly on account of a substantial increase in imports of essential oils and toilet preparations. An increase in imports of organic chemicals, electrical machinery, paper articles and optical instruments also contributed, but to a lesser extent. These offset lower imports of fuels, and pharmaceutical products.

The decline in exports was mainly due to lower exports of pharmaceutical products, and printed material. Exports

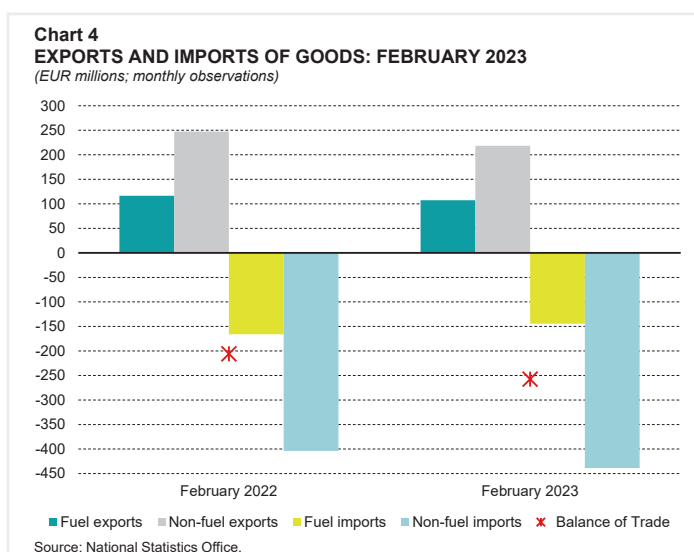


Table 3
PROPERTY MARKET

Levels

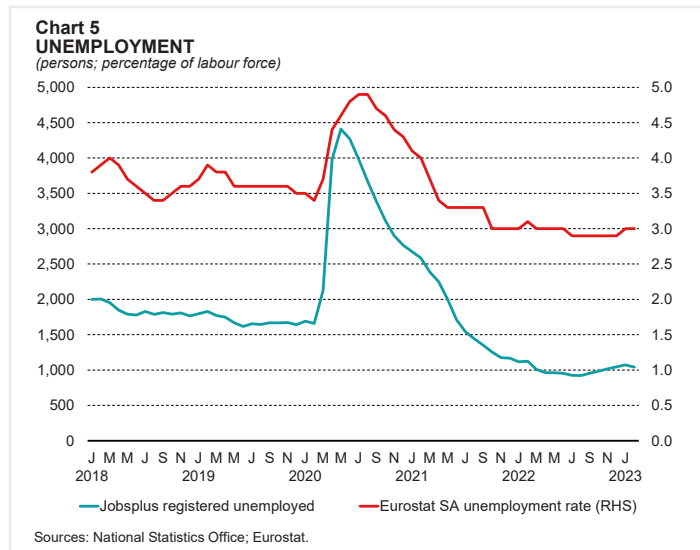
	2021	2022	2022			2023		
			Jan.	Feb.	Mar.	Jan.	Feb.	Mar.
Permits								
Commercial permits	2,770	2,984	244	246	478	167	196	-
Residential permits	7,578	9,599	951	1,192	1,060	885	932	-
Residential transactions								
Promise of sale	15,639	12,173	663	965	1,113	920	1,033	1,172
Final deeds of sale	14,368	14,331	1,149	1,068	1,190	1,113	939	1,036

Sources: National Statistics Office; Planning Authority.

of organic chemicals, fuels, and iron and steel articles, also decreased. These outweighed higher exports of electrical machinery and, to a lesser extent, higher exports of tobacco and toys.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,041 in February, down from 1,072 in January, and from 1,125 recorded a year earlier (see Chart 5).

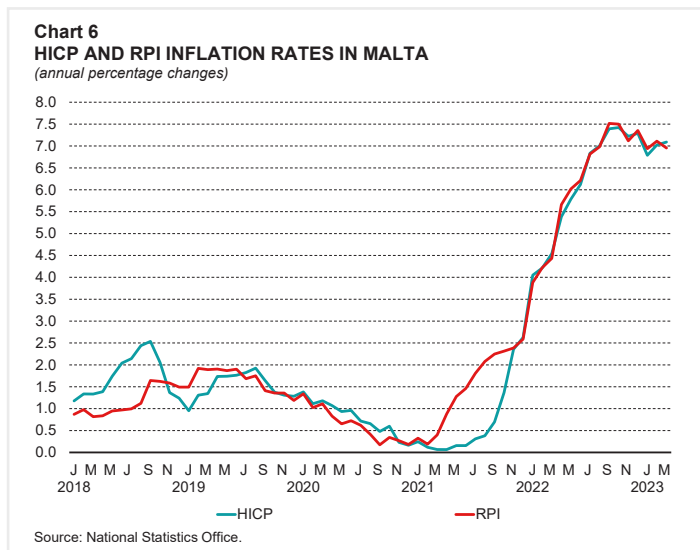


The seasonally-adjusted unemployment rate stood at 3.0% in February, the same rate registered in the previous month, and marginally lower than the rate of 3.1% registered in February 2022.

Prices, costs and competitiveness

Annual HICP inflation edged slightly upwards in March, reaching 7.1% from 7.0% in the previous month (see Chart 6). This reflects developments in services inflation, which increased to 6.4% in March, up from 6.1% a month earlier. Higher inflation was recorded in all the main subcomponents of services. On the other hand, food inflation stood at 11.3% in March, down from 11.4% in February, on the back of lower unprocessed food inflation. The latter stood at 12.3% in March, from 13.0% in February, while processed food inflation remained unchanged at 11.0%. At the same time, NEIG inflation declined marginally to 6.6%, from 6.7% 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 7.0% in March, down from 7.1% in February (see Chart 6).¹⁷ The decline was mainly driven by lower inflation in clothing and footwear as well as in other goods and services, which stood at 4.9% and 7.8%,



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.

respectively. Food inflation also declined slightly, and stood at 11.8%, from 12.2% in February. On the other hand, prices of household equipment and house maintenance, as well as housing inflation, rose at a faster pace when compared to the previous month. Inflation in these sub-components stood at 6.1% and 14.6% respectively in March. Similarly, inflation in beverages and tobacco edged up as well as in recreation and cultural activities. Energy prices remained unchanged.

Producer output inflation, as measured by the industrial producer price index, stood at 4.6% in February, up from 3.2% in January.¹⁸ This acceleration reflects a rise in the prices of intermediate goods, following negative growth rate in the previous month. Indeed, prices of intermediate goods rose by an annual rate of 1.3% following a decrease of 1.4% in January. Also, inflation of capital goods rose to 9.1% from 6.9% in January. On the other hand, consumer goods inflation edged down compared to January, although it remained relatively high at 9.3%. This reflects slower growth in producer prices of non-durable consumer. As in recent months, energy producer prices remained unchanged, having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 2.0% in the year to March 2023, up from 1.3% a month earlier.¹⁹ The real HCI, which considers relative price changes, also increased on a year earlier, rising by 1.7%. These figures suggest a deterioration in Malta's international competitiveness when compared with a year earlier, on account of unfavourable movements in exchange rates which offset a narrowing in inflation differential against trading partners.

Public finance

During February 2023, the Consolidated Fund recorded a surplus of €235.2 million, an improvement of €249.6 million when compared to the deficit registered a year earlier (see Table 4). These developments mainly reflect a rise in government revenue, which was complemented by a relatively small decline in government expenditure. The primary balance registered a surplus of €246.4 million, an improvement of €251.0 million from the primary deficit registered in February 2022.

Government revenue increased by €236.2 million, or 58.5%, mainly on the back of an increase in tax revenue. In fact, revenue from direct taxes surged by €144.6 million, reflecting the timing of income tax paid by companies. Meanwhile, revenue from indirect taxes increased by €38.4 million, mainly on the back of higher inflows from Value Added Tax. Moreover, non-tax revenue increased by €53.3 million, mainly due to higher inflows from grants.

Government expenditure decreased by €13.4 million, or 3.2%, when compared to the corresponding period in 2022. This is due to a €17.3 million fall in recurrent expenditure, reflecting lower outlays on programmes and initiatives. The latter mainly decreased due to the timing of retirement pensions, following higher than usual payments in the previous month. Meanwhile, outlays on personal emoluments and operational and maintenance expenditure increased by

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	2022	2023	Change	
	Jan.-Feb.	Jan.-Feb.	Feb.	Feb.	Amount	%
Revenue	756.1	992.2	404.0	640.3	236.2	58.5
Direct tax	391.9	555.2	183.8	328.4	144.6	78.6
Income tax	260.9	416.3	122.1	262.9	140.8	115.2
Social security contributions ⁽¹⁾	131.1	138.9	61.7	65.5	3.8	6.2
Indirect tax	301.6	336.3	202.3	240.7	38.4	19.0
Value Added Tax	206.1	237.8	153.6	180.6	27.0	17.6
Customs and excise duties	47.2	46.5	29.3	31.9	2.6	8.8
Licences, taxes and fines	48.3	52.0	19.4	28.2	8.8	45.4
Non-tax⁽²⁾	62.6	100.8	17.9	71.2	53.3	297.4
Expenditure	836.7	878.0	418.5	405.1	-13.4	-3.2
Recurrent	784.1	827.7	387.3	369.9	-17.3	-4.5
Personal emoluments	167.2	176.7	83.7	88.2	4.4	5.3
Operational and maintenance	29.2	46.5	13.3	25.2	11.9	89.5
Programmes and initiatives	460.8	475.2	232.5	195.4	-37.1	-16.0
Contributions to entities	103.8	103.6	47.8	49.8	2.1	4.3
Interest payments	23.1	25.8	9.9	11.3	1.4	13.7
Capital	52.6	50.3	31.2	35.2	4.0	12.7
Primary balance⁽³⁾	-57.5	140.0	-4.5	246.4	251.0	-
Consolidated Fund balance	-80.6	114.2	-14.4	235.2	249.6	-

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.

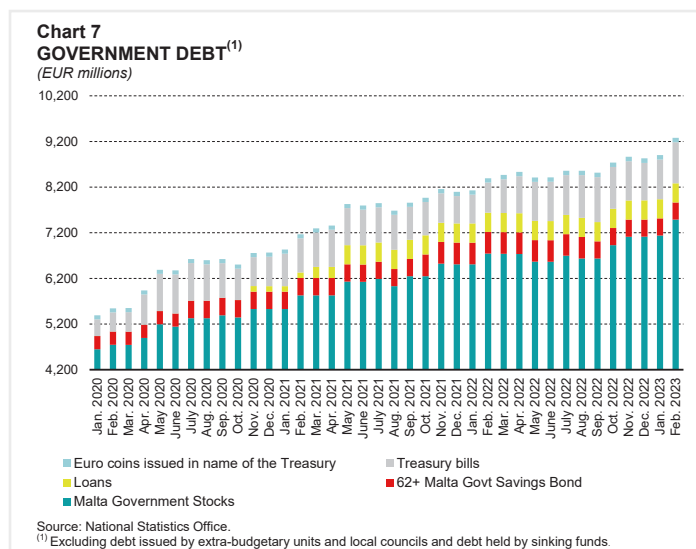
€4.4 million and €11.9 million, respectively. Furthermore, outlays on contributions to entities and interest payments also increased by €2.1 million and €1.4 million, respectively.

Meanwhile, capital expenditure increased by €4.0 million, reflecting ongoing works on various projects.

In February 2023, the total stock of outstanding government debt amounted to €9,280.3 million, an increase of €377.8 million when compared with January 2023 (see Chart 7). This mainly reflects new issues of 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

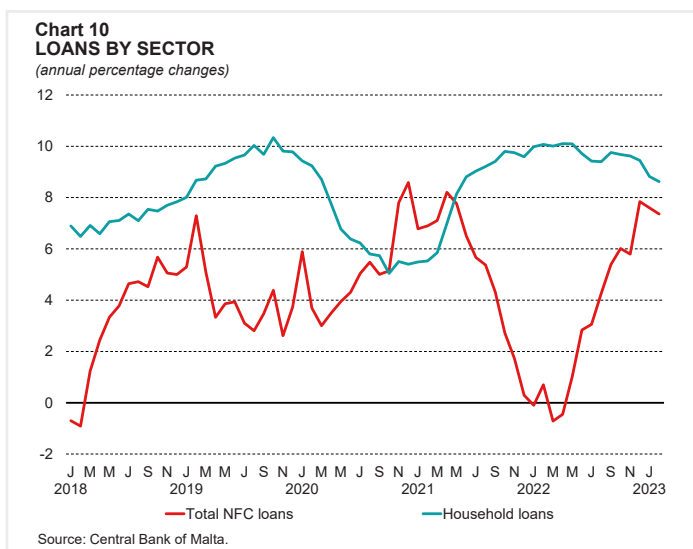
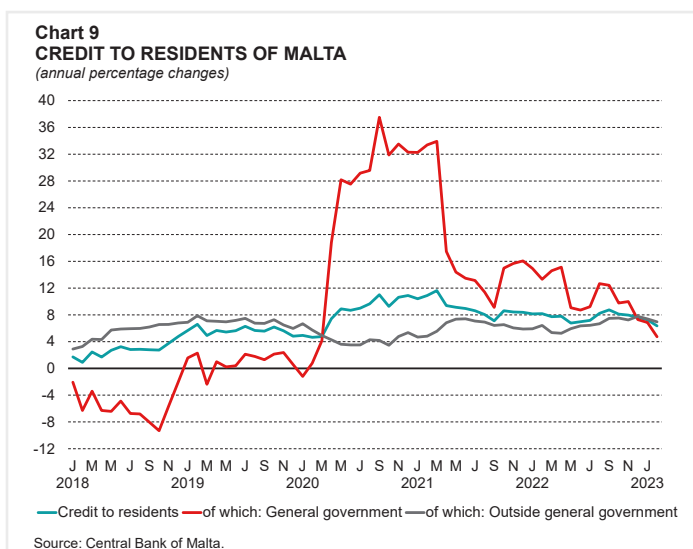
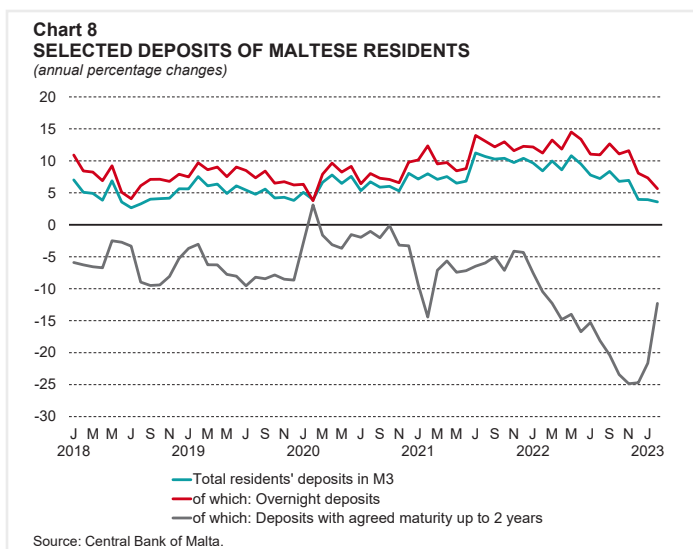


institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 3.6%, below the 3.9% recorded a month earlier (see Chart 8).

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 5.7% in the year to February, slowing from 7.3% 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 12.3% in annual terms, following a contraction of 21.6% in the year to January. The contraction in this category has slowed down considerably, possibly due to more attractive terms on deposit accounts by certain credit institutions.

Credit to Maltese residents grew by 6.4% in February, after increasing by an annual 7.3% a month earlier (see Chart 9). This deceleration was largely driven by a smaller increase in credit to general government. Annual growth in this component edged down to 4.7%, from 6.9% in January. Credit to residents outside general government also increased at a slower pace, rising by 7.0%, below the 7.4% registered in the year to January.

The annual rate of change in loans to households eased to 8.6% in February, from 8.8% in the previous month (see Chart 10). Growth in mortgage lending



stood at 8.9%, below the 9.2% recorded in the year to January. By contrast, growth in consumer credit and other lending accelerated in February, standing at 5.8%, following an increase of 3.9% a month earlier.

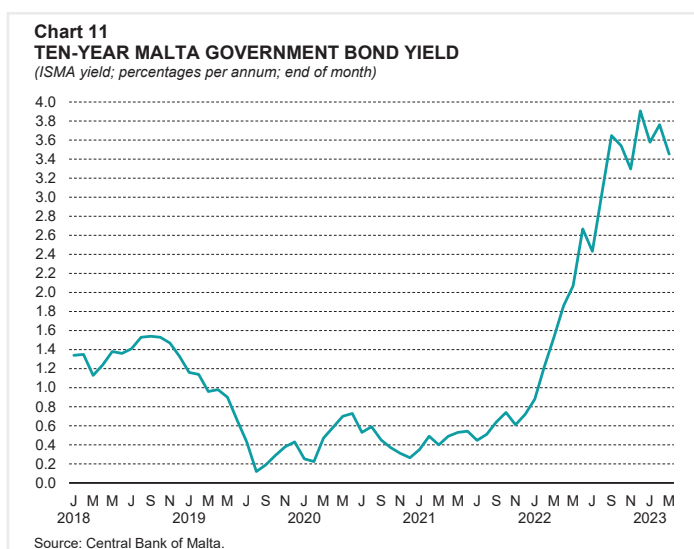
Meanwhile, the annual rate of change in loans to non-financial corporations stood at 7.4% in February, down from 7.6% in the year to January. The slight deceleration was largely driven by slower growth in loans to the real estate, and the wholesale and retail trade sectors. Furthermore, loans to the energy sector declined at a faster pace. By contrast, loans to the construction sector, and the transportation, storage, information and communication sector, increased at a faster pace.

By end-March, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.²⁰ 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 February.

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 (SLS) 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-March, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €9.6 million, down from €10.3 million in February.

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 March 2023, a total of €24.5 million was approved under one of these schemes, an unchanged amount compared to a month earlier. Meanwhile, the outstanding level of disbursement stood at €15.0 million by end-March.

As regards interest rates, in February, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.18%, broadly unchanged from a



²⁰ 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 [MDB CGS](#) for further details.

month earlier. Meanwhile, the composite rate charged on outstanding loans stood at 3.35% in February, in line with that recorded in January. As a result, the spread between the two rates remained unchanged at 317 basis points.

On the capital market, the secondary market yield on ten-year Maltese government bonds decreased to 3.45% at the end of March, 31 basis points lower than at the end of February. However, it stood 192 basis points higher than its year-ago level (see Chart 11). This reflects the transmission of increases in ECB policy rates to government bond yields.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 2.7% when compared with February. 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																	
<i>Annual percentage changes; non-seasonally adjusted data</i>																	
	2020	2021	2022	2021	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2023	2023	2023
				Q4	Q1	Q2	Q3	Q4	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Prices and costs																	
HICP inflation	0.8	0.7	6.1	2.1	4.3	5.8	7.1	7.3	6.8	7.0	7.4	7.4	7.2	7.3	6.8	7.0	7.1
RPI inflation	0.6	1.5	6.2	2.4	4.2	6.0	7.1	7.3	6.8	7.0	7.5	7.5	7.1	7.4	6.9	7.1	7.0
Industrial producer price inflation	0.3	3.2	5.5	6.5	6.8	5.3	4.5	5.3	5.2	3.8	4.6	5.7	6.0	4.3	3.2	4.6	-
HCI (nominal)	1.8	0.4	-1.5	-1.7	-1.3	-2.2	-2.4	-0.1	-2.5	-2.6	-2.1	-1.0	0.0	0.8	1.4	1.3	2.0
HCI (real)	1.5	-1.9	-3.7	-4.5	-3.2	-4.7	-4.8	-2.2	-4.8	-4.9	-4.5	-3.6	-2.2	-0.8	-0.5	-0.1	1.7
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	6.7	4.5	6.8	7.6	6.3	5.9	-	-	-	-	-	-	-	-	-
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	2.9	2.9	2.9	2.9	2.9	2.9	3.0	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	4.2	2.6	-	3.8	5.1	5.5	6.2	-	6.1	6.2	6.4	7.4	8.0	-	-	-	-
Balance of payments																	
Current account (as a % of GDP) ⁽²⁾	2.2	1.2	-5.8	1.2	-0.4	-1.7	-4.0	-5.8	-	-	-	-	-	-	-	-	-
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	11.0	10.9	12.7	11.1	11.6	8.1	7.3	5.7	-
Deposits with agreed maturity up to 2 years	-3.3	-4.3	-24.7	-4.3	-12.3	-16.7	-20.4	-24.7	-15.3	-18.1	-20.4	-23.4	-24.9	-24.7	-21.6	-12.3	-
Total residents' deposits in M3	8.0	10.4	4.0	10.4	10.0	9.5	8.4	4.0	7.8	7.2	8.4	6.8	7.0	4.0	3.9	3.6	-
Credit to general government	32.3	16.1	7.3	16.1	14.6	8.7	12.4	7.3	9.2	12.7	12.4	9.8	10.0	7.3	6.9	4.7	-
Credit to residents (excl. general government)	5.3	5.9	7.8	5.9	5.3	6.3	7.5	7.8	6.4	6.7	7.5	7.5	7.2	7.8	7.4	7.0	-
Total credit	10.9	8.4	7.6	8.4	7.7	7.0	8.8	7.6	7.2	8.2	8.8	8.1	8.0	7.6	7.3	6.4	-
Ten-year interest rate (%) ⁽³⁾	0.3	0.7	3.9	0.7	1.5	2.7	3.6	3.9	2.4	3.0	3.6	3.5	3.3	3.9	3.6	3.8	3.5
Stock prices: Malta Stock Exchange Equity Price Index ⁽⁴⁾	-12.4	-4.5	-9.9	1.8	-8.2	1.1	-0.7	-2.2	0.4	-1.6	0.5	0.9	-3.1	0.0	-0.1	2.5	-2.7
Liquidity support measures related to COVID-19																	
Outstanding loans subject to a moratorium ⁽⁵⁾	691.9	14.1	-	14.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS ⁽⁵⁾	408.1	505.9	482.6	505.9	489.3	482.6	482.6	482.6	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	469.5	469.7	470.2	470.2	470.2	470.2	470.7	470.7	470.7
General government finances (% of GDP)																	
Surplus (+) / deficit (-) ⁽²⁾	-9.7	-7.8	-5.8	-7.8	-7.7	-6.5	-5.7	-5.8	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	52.9	55.1	53.4	55.1	56.1	53.8	52.9	53.4	-	-	-	-	-	-	-	-	-

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.