



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

5/2021

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ECONOMIC UPDATE 5/2021

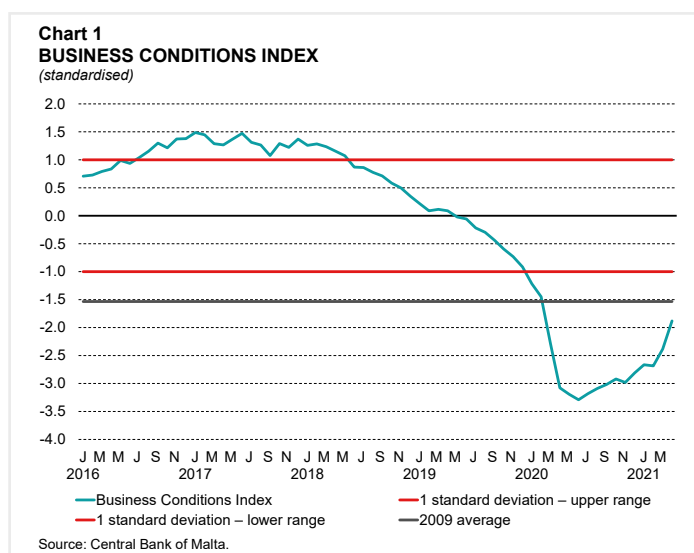
Summary¹

In April, business conditions improved significantly with respect to the previous month. However, economic activity levels remained low, reflecting the weak economic conditions triggered by COVID-19. European Commission data show that economic sentiment rose significantly in April and reached the highest level recorded since January 2018. It also stood above its long-term average for the first time since the onset of the pandemic. In April, confidence turned positive in industry, the construction and services sectors as well as among consumers. However, sentiment declined significantly – and remained negative – in the retail sector.

In March, industrial production and the volume of retail trade contracted at a slower pace in annual terms. The number of registered unemployed fell compared with February, while the unemployment rate edged down from a month earlier. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) remained unchanged at 0.1% in March, while inflation based on the Retail Price Index (RPI) rose to 0.4%. Maltese residents' deposits expanded at an annual rate of 7.0% in March, following an increase of 8.0% in the previous month, while annual growth in credit to Maltese residents rose to 11.8%, from 11.1% a month earlier. In March, the deficit on the cash-based Consolidated Fund widened when compared with a year earlier, mainly as a result of higher expenditure which continued to be affected by COVID-19 related support to the private sector.

Central Bank's Business Conditions Index (BCI)²

In April, the Bank's BCI improved to -1.9 from its revised value of -2.4 for March (see Chart 1). This follows a surge in economic sentiment, as well as an improvement in selected government revenue items. Notwithstanding the recent increase, the BCI continued to signal low levels of economic activity, reflecting the weak economic environment triggered by COVID-19 and thus still negative year-on-year outturns in many variables. Overall business conditions continue to be



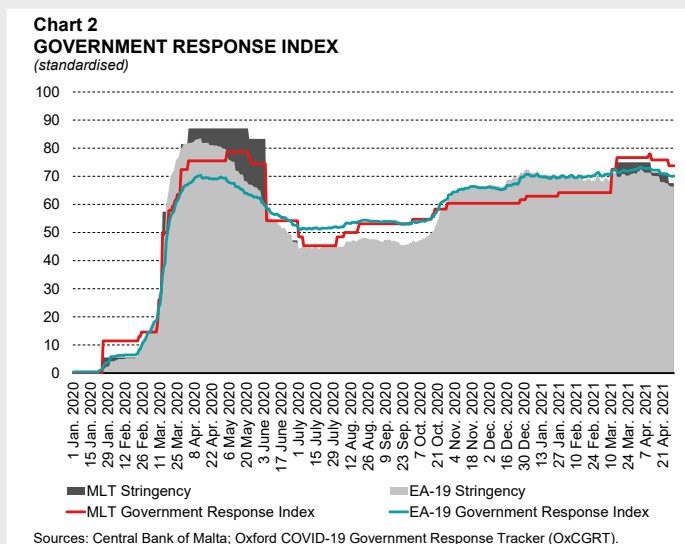
¹ The cut-off date for information in this note is 11 May 2021. Most of the data reported in this issue of the *Economic Update* refer to March 2021 and do not reflect the partial relaxation of COVID-19 containment measures from April. However, the latest data for the European Commission's confidence indicators, the Central Bank of Malta's Business Conditions Index and the COVID-19 Government Response Index refer to April 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.

worse than those observed during 2009, highlighting the severity of the pandemic relative to the Global Financial Crisis, although there has been a marked improvement in recent months.

BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Malta's COVID-19 Government Response Index at the end of April stood at 73.8, a 2.9-point drop when compared to March (see Chart 2). This mainly reflects the re-opening of education institutions and several non-essential businesses which were forced to close in March. Similarly, the euro area average dropped slightly, from 72.5 as at end-March, to 70.1 a month later. Following these developments, Malta's index ended April 3.6 points higher than that for the euro area. The stringency index stood at 67.6 points, down from 75.0 as at end-March. The level of stringency in Malta was broadly similar to that of the euro area average, standing only 1.2 points higher than the latter.



Business and consumer confidence indicators

In April, the European Commission's Economic Sentiment Indicator (ESI) rose to 117.3, from 95.0 in March (see Table 1). It exceeded the long-run average – of around 100.0 – for the first time since the pandemic.^{3,4,5} The ESI also stood 7.0 points above that in the euro area.

The month-on-month rise in sentiment reflected positive developments across all sub-components bar the retail sector, which is the only sector where sentiment remained negative.

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 April was driven primarily by improved confidence in industry and, to a lesser extent, in the services sector and among consumers (see Chart 3). The contribution of the construction sector also edged up in the month under review, though

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

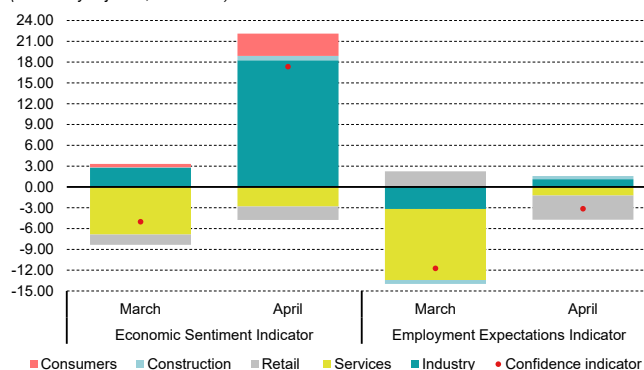
	2019	2020	2020		2021		
			Apr.	Jan.	Feb.	Mar.	Apr.
ESI	102.4	81.4	62.7	85.8	88.1	95.0	117.3
Industrial confidence indicator	-6.7	-25.1	-45.4	-24.0	-18.6	-1.1	36.0
Assessment of order-book levels	-23.0	-48.8	-56.1	-41.4	-53.8	-41.4	-16.7
Assessment of stocks of finished products	15.5	27.2	32.5	36.0	28.6	-11.3	-42.5
Production expectations for the months ahead	18.4	0.8	-47.6	5.5	26.6	26.7	82.1
Construction confidence indicator	26.2	-5.7	-38.9	-1.2	-8.3	-8.5	9.6
Evolution of your current overall order books	19.7	-6.2	-38.1	-3.4	-13.6	-12.0	4.0
Employment expectations over the next 3 months	32.6	-5.2	-39.6	0.9	-3.0	-5.0	15.3
Services confidence indicator	20.7	-24.9	-56.8	-5.3	-3.7	-11.1	5.4
Business situation development over the past 3 months	16.7	-36.3	-59.8	-12.3	-12.4	-11.0	-1.1
Evolution of the demand over the past 3 months	21.5	-34.9	-56.3	-10.5	-16.8	-19.1	-5.1
Expectation of the demand over the next 3 months	24.0	-3.7	-54.1	6.7	17.9	-3.1	22.5
Consumer confidence indicator	4.5	-5.6	-15.8	-3.2	-6.9	-7.9	5.2
Financial situation past 12 months	11.3	-1.6	6.2	-15.4	-15.5	-18.6	-15.9
Financial situation next 12 months	11.2	0.8	-14.5	4.3	-0.7	0.4	11.5
Economic situation next 12 months	20.9	-0.9	-36.6	8.7	4.5	3.6	30.7
Major purchases next 12 months	-25.1	-20.5	-18.4	-10.4	-15.8	-16.8	-5.5
Retail trade confidence indicator	4.2	-31.0	-31.7	-51.4	-49.0	-38.2	-50.3
Business activity, past 3 months	18.9	-22.2	12.4	-51.6	-42.2	-58.6	-70.3
Stocks of finished goods	17.4	31.9	65.6	50.3	33.5	37.2	42.4
Business activity, next 3 months	11.1	-38.8	-42.0	-52.4	-71.4	-18.7	-38.1
E EI	102.7	86.0	64.1	88.8	87.0	88.4	96.6
Services	17.5	-2.4	-33.0	-1.6	-11.8	-9.9	13.0
Industry	12.8	-12.5	-61.2	-5.7	10.3	-8.1	18.0
Construction	32.6	-5.2	-39.6	0.9	-3.0	-5.0	15.3
Retail	4.7	-11.6	-14.2	-5.4	-5.7	14.5	-18.4
ESI demeaned	2.4	-18.6	-37.3	-14.2	-11.9	-5.0	17.3
E EI demeaned	2.7	-14.0	-36.3	-11.2	-12.9	-11.7	-3.1

Source: European Commission.

moderately. By contrast, the contribution of retail moved further into negative territory. Overall, demeaned data suggest that, from a long-term perspective, the ESI is mostly being held down by weak sentiment in the services sector and, to a lesser extent, among retailers.

In April, industrial confidence soared to 36.0, from -1.1 a month earlier and thus stood well above its long-term

Chart 3
ECONOMIC SENTIMENT AND EMPLOYMENT EXPECTATIONS
(seasonally adjusted, demeaned)¹



Sources: European Commission; Central Bank of Malta workings.

⁽¹⁾ Demeaned data are based on the standardised equivalent of the balance statistics reported by the European Commission. Each standardised component is weighted and re-aggregated into a demeaned ESI (or EEI). The y-axis on the chart thus indicates how far the ESI and EEI are from their long-term average and how much each sector contributes to this deviation based on its historical variation and weight in the overall EEI or ESI. Negative (positive) readings suggest below (above) average readings.

average of -4.3.⁶ The rise in sentiment was notably driven by a significant improvement in production expectations. However, the share of respondents reporting stock levels of finished goods to be below normal also increased considerably. At the same time, participants' assessment of order book levels stood less negative relative to March. Supplementary data show that participants anticipate an increase in selling prices in the coming months.

Confidence within the construction sector also turned positive, rising to 9.6 in April, from -8.5 a month earlier, and thereby remaining above its long-term average of -11.2.⁷ This mainly reflected a return to positive employment expectations. At the same time, order book levels turned positive for the first time since November 2020. Additional survey data indicate that price expectations for the next three months also turned positive in April.

Sentiment within the services sector rose to 5.4, from -11.1 in the previous month. Notwithstanding this increase, sentiment stood below its long-term average of 18.8.⁸ Improved sentiment largely reflected developments in respondents' demand expectations for the next three months. Participants' assessment of demand and of the business situation over the past three months also improved in the month under review but remained negative. Additional survey data show that, on balance, firms anticipate prices to increase in the coming months.

Consumer confidence increased to 5.2 in April, from -7.9 a month earlier, standing above its long-term average of -11.0.⁹ The recent rise in sentiment was broad-based across all sub-components, but largely reflected a more positive assessment of the general economic situation. Consumers' expectations of the financial situation and of major purchases over the next 12 months also improved, as did their assessment of the prevailing financial situation over the last 12 months, although in this case the amelioration was limited. Furthermore, respondents expect unemployment levels to fall over the next 12 months.

Confidence within the retail sector weakened further in the month of April. It fell to -50.3, from -38.2 in March.¹⁰ Business activity expectations for the coming months and, to lesser degree, assessment of sales over the past three months, deteriorated significantly in the month under review.¹¹ Furthermore, on balance, a larger share of participants reported above normal stock levels. Supplementary data indicate that price expectations turned slightly negative in April.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – increased

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 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.

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 in the subsequent three months.

⁹ 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.

¹⁰ The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

¹¹ Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

in April.¹² The EEI stood at 96.6, up from 88.4 in March. Notwithstanding this increase, the indicator remained below its long-run average of around 100.0 and stood 10.5 points lower than the euro area average.

Employment expectations were positive across all sectors, bar the retail sector – where expectations turned strongly negative. Demeaned data suggest that the retail sector largely explains why the overall EEI remained below its long-term average in recent months, followed by services, even though the latter was the main contributor to the increase in sentiment in April (see Chart 3).

Activity indicators

In March, 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 2.9% in annual terms, following a contraction of 11.8% in February (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 in beverages and food products. There were smaller declines in several other sectors, including those specialising in printing and reproduction of recorded media, computer, electronic and optical products as well as paper, rubber, and plastic products. These declines offset higher output generated by firms within the sector of motor vehicles, trailers and semi-trailers, the pharmaceutical sectors and the ‘other manufacturing’ sector, which includes firms involved in the production of medical and dental instruments, toys and related products.

	2019	2020	2020												2021		
			Jan.	Feb.	Mar. ⁽¹⁾	Apr. ⁽²⁾	May ⁽²⁾	June ⁽²⁾	July ⁽³⁾	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Industrial production	1.2	-0.2	12.7	14.0	6.7	-7.3	-6.8	-6.6	-2.3	-3.7	-3.0	2.5	-1.9	-4.9	-6.7	-11.8	-2.9
Retail trade	7.1	-6.5	6.9	13.1	-2.1	-25.2	-17.2	-7.5	-11.7	-8.1	-12.0	-7.9	-4.0	2.2	-3.0	-9.6	-0.1
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	-86.3
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	-65.2
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	-75.0
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	-88.5
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	-40.0
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	-20.7
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	-76.1
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	-71.0
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	-71.9

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 the 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.

Meanwhile, production in the energy sector recorded another strong decline which was, however, less significant than that recorded in February.

The volume of retail trade, which is a short-term indicator of final domestic demand, fell marginally in March. It decreased by 0.1% on an annual basis, after declining by 9.6% in February.

The tourism sector continued to be severely impacted by travel-related restrictions. The number of inbound tourists stood at 10,291 in March, an 86.3% drop compared with March 2020, when tourism started to decline. Guest nights declined by 65.2%, with collective accommodation continuing to register the sharpest decline in absolute terms. Total expenditure was down by 76.1% over the corresponding month of 2020.

In March, development permits for commercial buildings increased by 42.4% in annual terms, after increasing by 3.3% in February. By contrast, residential permits contracted by 31.6% in annual terms (see Table 3).

Data on residential property transactions show that on an annual basis, the number of final deeds in April rose sharply by 91.5%, a further increase from the 38.6% registered in March. Moreover, the number of promise of sale agreements signed during the month was more than five times its year ago levels. The strong increase in deeds and promises of sale largely reflects base effects from the declines experienced last year during the partial lockdown, as well as government schemes intended at supporting the property market.

Customs data show that the merchandise trade deficit stood at €165.6 million in March, down from €190.9 million a year earlier. The smaller deficit reflected a €48.5 million decline in imports which outweighed a €23.2 million fall in exports (see Chart 4). Lower imports were largely driven by a substantial decline in registrations of aircraft. Fewer

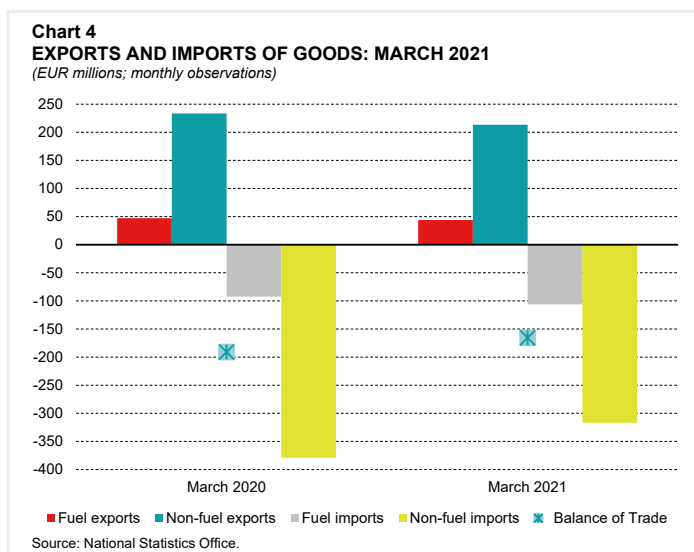


Table 3
PROPERTY MARKET
Annual percentage changes

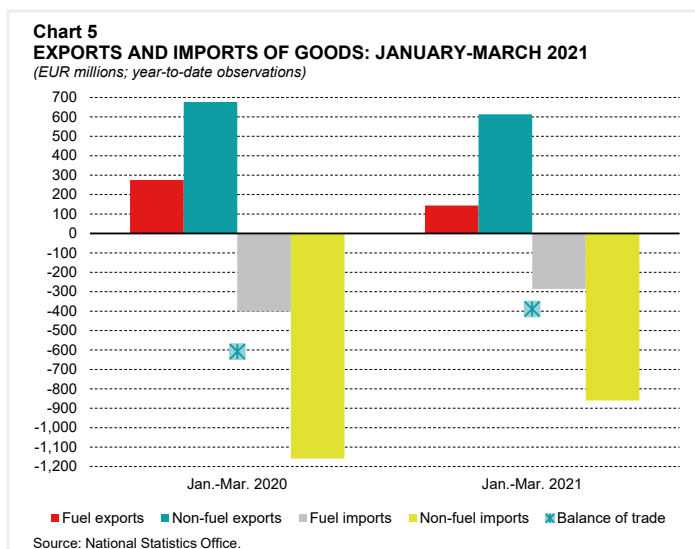
	2019	2020	2020												2021			
			Jan.	Feb.	Mar. ⁽¹⁾	Apr. ⁽²⁾	May ⁽²⁾	June ⁽²⁾	July ⁽³⁾	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Permits																		
Commercial permits	-2.5	-29.3	-24.2	-31.9	-56.8	-8.2	-25.2	-26.2	-9.8	-45.6	6.7	-23.3	-11.7	-10.7	-7.1	3.3	42.4	-
Residential permits	-3.1	-37.2	22.2	-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	-31.6	-
Residential transactions																		
Promise of sale	-22.2	-2.9	-12.3	-19.7	-25.4	-76.7	-55.4	-1.6	43.8	21.6	23.2	33.6	31.2	61.0	30.1	51.2	85.0	431.6
Final deeds of sale	5.3	-21.2	-3.4	-18.2	-24.8	-48.9	-53.8	-27.7	-9.7	-17.4	-6.8	-18.8	-17.3	-5.7	-2.3	-1.8	38.6	91.5

Sources: National Statistics Office; Eurostat.

registrations of sea vessels also contributed, but to a much lesser extent. These declines outweighed a larger fuel import bill and increases in imports of organic chemicals, works of art and related valuable items, pharmaceutical products, electrical machinery, and tanning/dyeing extracts and paints.

The fall in exports was mostly on account of a significant decline in exported aircraft parts. However, lower exports of electrical machinery, tobacco and plastics as well as lower re-exports of mineral fuels also contributed. Together, these offset a rise in exports of printed material and organic chemicals.

In the first three months of this year, the visible trade gap narrowed to €388.7 million from €608.4 million in the corresponding period of 2020, driven by a fall in imports, which was more than double that in exports (see Chart 5).



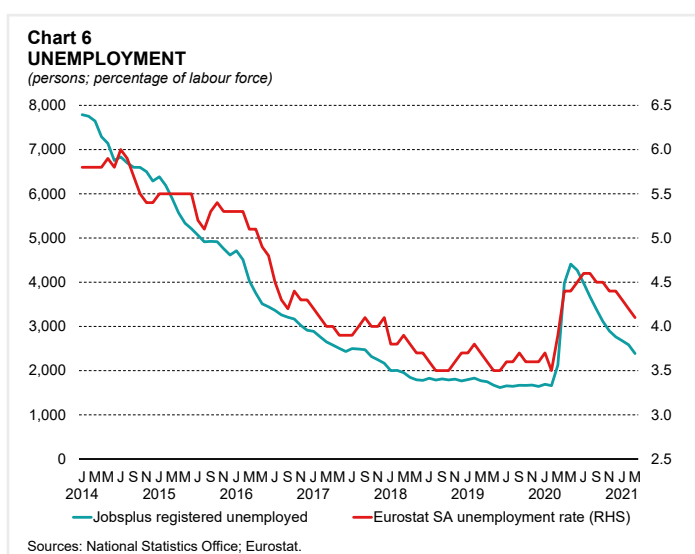
Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 2,387 in March 2021, down from 2,585 in February but higher than 2,125 registered a year earlier (see Chart 6).

The seasonally-adjusted unemployment rate stood at 4.1% in March, 0.1 percentage point lower than that registered in the previous month, yet slightly higher than the rate of 3.9% registered in the same month of the preceding year.

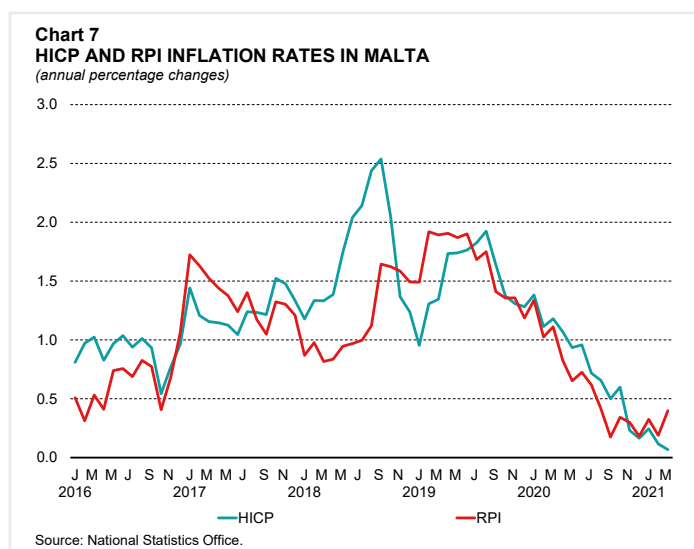
Prices, costs and competitiveness

Annual HICP inflation stood at 0.1% in March, unchanged from the rate in February (see Chart 7).¹⁴ When compared



¹⁴ Unchanged to 1 decimal place.

to February, services inflation and, to a lesser extent, processed food inflation declined. This was offset by an increase in unprocessed food inflation which turned positive following two months of declining prices. In addition, non-energy industrial goods inflation rose but to a lower extent. During March, energy inflation remained negative and unchanged from February.



Annual RPI inflation rose to 0.4% in March, from 0.2% in February (see Chart 7).¹⁵ This

reflects renewed increases in the prices of clothing and footwear and food, which offset marginal decreases in the contributions of other subcomponents.

Producer output inflation, measured by the producer price index, increased to 1.0% in March, from 0.5% in February.¹⁶ This reflected stronger increases in intermediate goods prices and capital goods prices, which offset lower consumer goods inflation. Energy prices remained unchanged.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 0.8% in the year to March, down from 3.6% in February.¹⁷ The increase is due to an appreciation in the euro exchange rate against currencies of trading partners. The real HCI, which also considers relative price changes, fell by 0.8%, suggesting that the loss in international competitiveness arising from a stronger euro was offset by favourable developments in relative prices vis-à-vis trading partners.

Public finance

In March 2021, the Consolidated Fund recorded a deficit of €238.1 million, a deterioration of €24.5 million when compared to the deficit registered in March 2020 (see Table 4). This reflects an increase in government expenditure coupled with a slight decline in government revenue. In turn, the primary deficit reached €224.1 million, €25.1 million higher compared with the deficit a year earlier.

These developments reflect the impact on revenue of the slowdown in economic activity due to COVID-19, as well as ongoing government support aimed at mitigating the economic effects of this pandemic.

¹⁵ 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.

¹⁶ 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.

¹⁷ 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

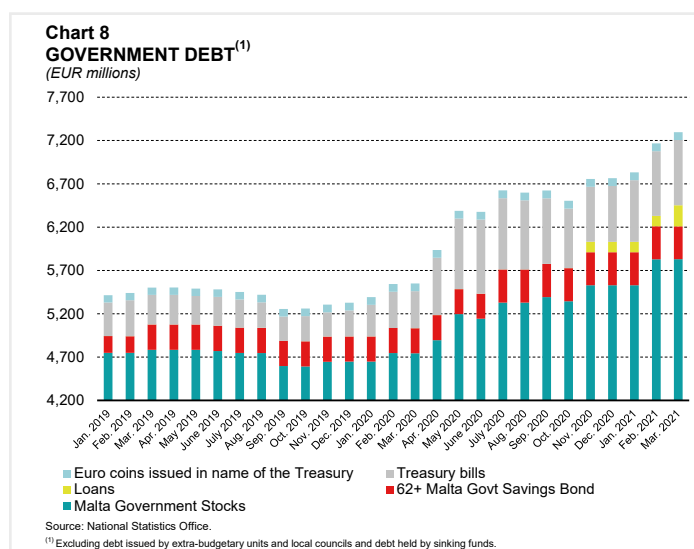
	2020		2021		Change	
	Jan.-Mar.	Jan.-Mar.	Mar.	Mar.	Amount	%
Revenue	925.6	913.2	213.4	212.2	-1.2	-0.5
Direct tax	456.7	479.4	107.4	104.2	-3.2	-3.0
Income tax	241.0	282.6	42.0	61.6	19.6	46.7
Social security contributions	215.6	196.8	65.3	42.5	-22.8	-34.9
Indirect tax	380.4	368.3	78.1	85.3	7.1	9.1
Value Added Tax	231.5	250.9	47.0	50.3	3.3	7.0
Customs and excise duties	61.9	54.9	9.8	15.0	5.2	53.0
Licences, taxes and fines	87.0	62.5	21.3	19.9	-1.4	-6.4
Non-tax⁽²⁾	88.5	65.5	27.9	22.8	-5.1	-18.3
Expenditure	1,237.3	1,479.0	426.9	450.3	23.3	5.5
Recurrent	1,080.2	1,356.5	336.3	411.9	75.6	22.5
Personal emoluments	225.3	281.5	78.6	100.5	22.0	28.0
Operational and maintenance	47.1	71.6	17.8	19.8	2.0	11.4
Programmes and initiatives	619.9	807.6	188.3	252.9	64.6	34.3
Contributions to entities	143.0	151.3	37.1	24.7	-12.4	-33.4
Interest payments	44.9	44.4	14.6	13.9	-0.6	-4.3
Capital	157.2	122.5	90.6	38.4	-52.2	-57.6
Primary balance⁽³⁾	-266.8	-521.4	-199.0	-224.1	-25.1	-
Consolidated Fund balance	-311.7	-565.8	-213.6	-238.1	-24.5	-

Source: National Statistics Office.

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

(2) Revenue less expenditure excluding interest payments.

Government revenue declined by €1.2 million, or 0.5% in annual terms. Revenue from direct taxes dropped by €3.2 million, as higher income tax revenue was more than offset by lower social security contributions. Inflows from indirect taxes rose by €7.1 million, as increases in custom and excise duties, and VAT receipts more than offset a decline in inflows from licences, taxes and fines. On the other hand, non-tax revenue fell by €5.1 million, mainly reflecting lower inflows from grants.



Government expenditure increased by €23.3 million, or 5.5% 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. This partly reflects the reclassification of outlays on certain COVID-related support measures, including the Wage Supplement Scheme, from capital to current expenditure in 2021.

Overall, recurrent expenditure rose by €75.6 million. This mainly reflects higher outlays on programmes and initiatives – which were affected by the above-mentioned reclassification – and, to a lesser extent, a rise in personal emoluments.

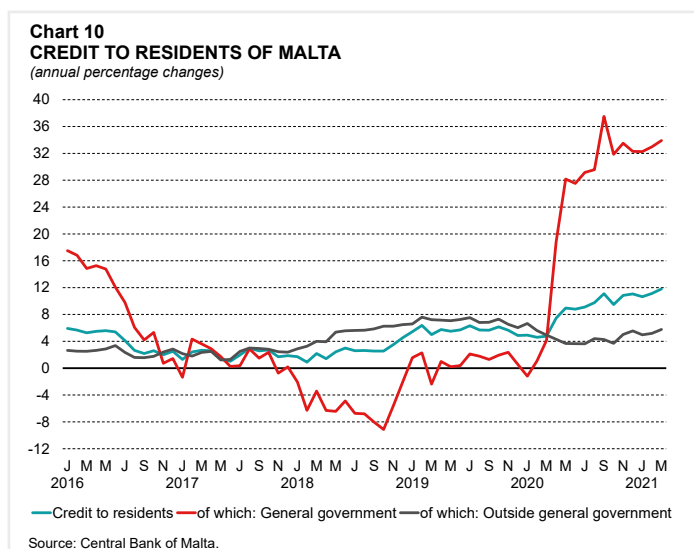
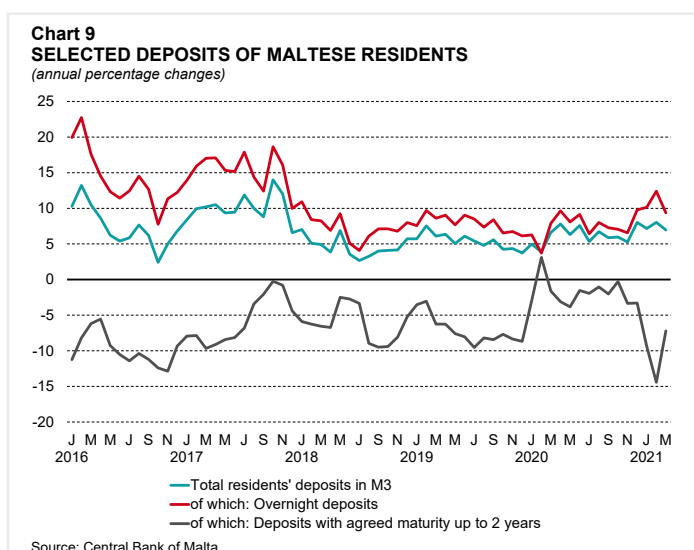
In March, the total stock of government debt amounted to €7,295.5 million, a €128.7 million increase when compared with February (see Chart 8). This was mainly due to an increase in foreign loans outstanding, reflecting the issue of the second tranche of funds from the EU’s Support to mitigate Unemployment Risks in an Emergency (SURE) instrument.

Deposits, credit and financial markets

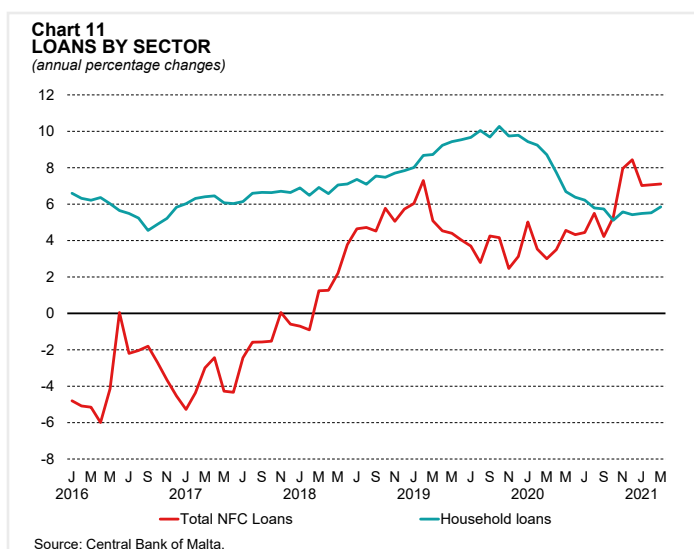
In March, residents’ deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 7.0%, below the 8.0% recorded a month earlier (see Chart 9).

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 9.4% in the year to March, after rising by 12.4% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 7.2% in annual terms, following a contraction of 14.4% in February.

Credit to Maltese residents grew at an annual rate of 11.8% in March, above the 11.1% recorded a month earlier (see Chart 10). The acceleration in credit during March 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 33.9% in March, up from 33.0% in the previous month. Similarly, credit outside general government rose by 5.8%, following a 5.2% increase in February.



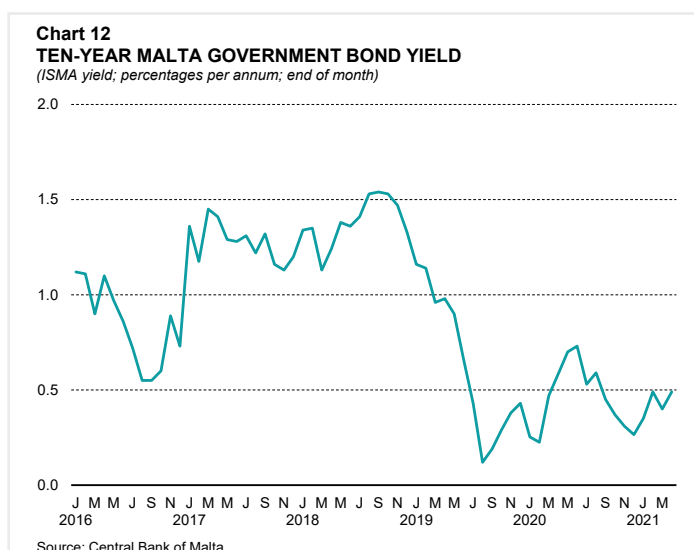
The annual rate of change in loans to non-financial corporations stood at 7.1% in March, unchanged from a month earlier (see Chart 11). Growth was mainly driven by an increase in loans to the transportation and storage sector, and the wholesale and retail trade sector. This was followed by a smaller contraction in credit to the agricultural sector relative to February. Furthermore, the information and communication sector, the arts and entertainment sector, as well as the sector comprising professional, scientific and technical activities, also rose in the year end to March. These developments were partly offset by a decline in credit issued to the energy sector and, to a lesser degree, in the education, health and social sector. Similarly, lower increases in loans were recorded in the construction and real estate sector, as well as the sector comprising administrative and support service activities.



Meanwhile, the annual rate of change of loans to households stood at 5.9% in March, marginally above the 5.5% registered in February. Mortgage lending rose by 7.3% in March, up from 7.0% a month earlier. At the same time, consumer credit and other lending fell by 7.4%, following a contraction of 7.9% in February.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits remained unchanged at 0.20% in March, when compared to a month earlier. The composite rate charged on outstanding loans edged down marginally to 3.32%, from 3.33% in February. Hence, the spread between the two rates edged down marginally to 312 basis points in March.

In the capital market, the secondary market yield on 10-year Maltese government bonds increased by 9 basis points from a month earlier, to 0.49% at the end of April (see Chart 12). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index rose by 6.2% 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 5).¹⁸

As at end-March, there were 1,175 loans subject to a moratorium on repayments. The total value of loans subject to a moratorium in March edged down further when compared with February. These declined by €242.1 million and stood at €416.6 million, or 3.5% of total outstanding loans to Maltese residents. Loans subject to a moratorium declined for the eighth consecutive time since March 2020. The decline was significantly larger than the drop recorded in the preceding month. When compared with a month earlier, declines in both value and volume terms were observed across all sectors. The largest decreases in value terms were registered in the accommodation and food services, and the real estate sectors as well as among households.

Table 5
LOANS SUBJECT TO MORATORIUM – AS AT END-MARCH 2021

Number of loans; EUR millions; percentage

	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	735	65.2	1.0
Manufacturing	21	8.5	3.9
Construction	21	21.9	3.4
Wholesale and retail trade; repair of motor vehicles and motor cycles	58	18.8	2.8
Transportation and storage and information and communication	35	3.6	1.2
Accommodation and food service activities	114	124.3	23.5
Real estate activities	87	56.3	5.6
Other ⁽⁴⁾	105	118.1	5.8
Total	1,175	416.6	3.5

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.

¹⁸ 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.

The largest number of loans covered by moratoria was held by households, with the sector accounting for 62.5% of the total volume of loans subject to a moratorium. The outstanding value of loans subject to a moratorium of Maltese households fell to €65.2 million, or 15.6%, of the total value of loans subject to a moratorium, equivalent to 1.0% of outstanding household loans.

Meanwhile, the accommodation and food services activities sector held €124.3 million in loans subject to a moratorium. This is the sector most affected by the containment measures and, indeed, almost a quarter of the loans held by this sector were subject to a moratorium by the end of March. The real estate sector held €56.3 million in loans subject to a moratorium, or around 13.5% of such loans – equivalent to 5.6% of the sector's outstanding loans. Moreover, as at end-March, the wholesale and retail trade sector held €18.8 million in loans subject to a moratorium, making up 4.5% of loans subject to a moratorium, or 2.8% 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.¹⁹

By end-March, 576 facilities were approved under the CGS, covering total sanctioned lending of €439.6 million (see Table 6). As the scheme provides loans for working capital,

Table 6
MALTA DEVELOPMENT BANK COVID-19 GUARANTEE SCHEME – AS AT
MARCH 2021

Number of facilities; EUR millions

	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	50	23.5
Construction	34	41.0
Wholesale and retail trade; repair of motor vehicles and motor cycles	161	94.2
Transportation and storage and information and communication	37	49.2
Accommodation and food service activities	131	105.1
Professional, scientific and technical activities	33	19.0
Administrative and support service activities	39	13.9
Real estate	17	6.4
Other ⁽³⁾	74	87.3
Total	576	439.6

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.

¹⁹ 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.

€340.5 million were disbursed by the end of March, up from the €320.7 million disbursed by the end of February. Thus, by the end of March, 56.5% of the scheme was sanctioned, while 43.8% 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 €94.2 million in sanctioned loans. This was followed by accommodation and food services activities, with 131 facilities or €105.1 million in sanctioned loans, and the sector comprising transportation and ICT, which had a total sanctioned amount of €49.2 million.

MACROECONOMIC INDICATORS FOR MALTA																														
Annual percentage changes; non-seasonally adjusted data																														
	2018	2019	2020	2019	2020	2020	2020	2020	2021	2019	2019	2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2021	2021	2021	2021		
				Q4	Q1	Q2	Q3	Q4	Q1	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	
Prices and costs																														
HICP inflation	1.7	1.5	0.8	1.3	1.2	1.0	0.6	0.3	0.1	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	0.1	-	
RPI inflation	1.2	1.6	0.7	1.3	1.2	0.7	0.4	0.3	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	0.4	-	
Industrial producer price inflation	4.4	2.2	0.3	1.8	1.2	0.3	0.2	-0.4	0.8	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	1.0	-	
HCI (nominal)	2.6	-0.7	1.8	-1.1	-0.2	1.2	2.8	3.5	2.7	-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	0.8	-	
HCI (real)	2.1	-1.1	1.5	-1.6	-0.9	1.3	2.4	3.2	1.5	-1.8	-1.4	-1.4	-2.0	-1.9	-1.9	1.2	1.4	1.1	1.3	1.9	2.4	2.9	3.1	2.9	3.5	2.8	2.4	-0.8	-	
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	3.5	5.7	5.5	3.9	2.7	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	9.4	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	9.4	-	-
Deposits with agreed maturity up to 2 years	-5.2	-8.7	-3.3	-8.7	-1.6	-1.5	-2.0	-3.3	-7.2	-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	-7.2	-	-
Total residents' deposits in M3	5.7	3.7	8.0	3.7	6.6	7.6	5.9	8.0	7.0	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	7.0	-	-
Credit to general government	-2.0	0.6	32.3	0.6	4.1	27.5	37.5	32.3	33.9	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	33.9	-	-
Credit to residents (excl. general government)	6.5	6.0	5.6	6.0	4.9	3.6	4.3	5.6	5.8	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	5.8	-	-
Total credit	4.5	4.9	11.1	4.9	4.8	8.8	11.1	11.1	11.8	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	11.8	-	-
10-year interest rate (%) ⁽³⁾	1.3	0.4	0.3	0.4	0.5	0.7	0.5	0.3	0.4	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	0.5	-
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	0.1	4.4	-12.4	-4.0	-19.5	6.8	12.6	16.7	-8.3	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	6.2	-
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	416.6	-	-	-	-	-	-	493.5	1,260.0	1,548.2	1,704.9	1,796.2	1,769.4	1,588.1	1,135.7	880.9	695.9	692.6	658.6	416.6	-	-
Sanctioned amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	-	408.1	-	-	161.1	343.7	408.1	439.6	-	-	-	-	-	-	-	-	68.5	161.1	238.0	285.1	343.7	351.1	388.5	408.1	412.7	420.1	439.6	-	-
Disbursed amount under the MDB COVID-19 Guarantee Scheme ⁽⁵⁾	-	-	287.1	-	-	64.9	165.6	287.1	340.5	-	-	-	-	-	-	-	-	7.4	64.9	88.9	121.4	165.6	204.6	252.7	287.1	306.6	320.7	340.5	-	-
General government finances (% of GDP)																														
Surplus (+) / deficit (-) ⁽²⁾	1.9	0.4	-10.1	0.4	-2.0	-5.1	-7.0	-10.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	44.8	42.0	54.3	42.0	43.3	50.1	52.6	54.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.