



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

5/2022

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The cut-off date for information in this publication is 11 May 2022. However, the cut-off dates for the HICP and the RPI are 18 and 24 May 2022, respectively. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 5/2022

Summary¹

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

Similarly, the European Commission survey shows that in April economic sentiment in Malta remained above its long-term average, though it stood below its year-ago level and its level a month earlier. The recent decrease was driven by weaker sentiment in the services sector, and to a lesser extent, among industrial firms and retailers. By contrast, it improved among consumers and in construction.

Additional survey information shows that a smaller share of respondents in the services and retail sectors, as well as consumers expected prices to increase in the coming months. Prices were expected to increase in construction in contrast to expectations of lower prices a month earlier. At the same time, price expectations reached a record high in industry.

In April, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with March. This decrease in uncertainty was largely driven by developments in industry and to a smaller degree, in the construction and retail sectors.

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

Commercial and residential permits increased in March relative to their year-ago levels. However, in April, 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 5.4% in April, up from 4.5% in the previous month. Inflation based on the Retail Price Index (RPI) rose to 5.7% in April, from 4.4% a month earlier.

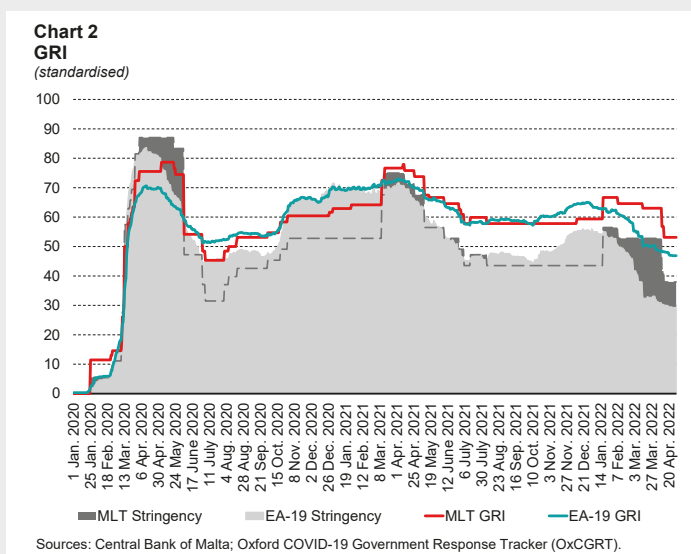
Maltese residents' deposits expanded at an annual rate of 10.1% in March following an increase of 8.4% in the previous month, while annual growth in credit to Maltese residents stood at 7.7%, below the rate of 8.2% recorded a month earlier.

The Consolidated Fund deficit in March 2022 widened compared with a year earlier as expenditure increased at a faster pace than revenue.

¹ The cut-off date for information in this note is 11 May 2022. However, the cut-off dates for the HICP and the RPI are 18 and 24 May 2022, respectively. Most of the data reported in this issue of the *Economic Update* refer to March 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 April.

Notwithstanding the recent decline, Malta's index stood 6.2 percentage points higher than the euro area average, which closed the month at 46.9.

Meanwhile, Malta's Stringency Index declined by 14.8 percentage points from its level at end-March, to stand at 38.0. However, it stood 8.7 points higher than that in the euro area, where the Stringency Index ended April at 29.3.

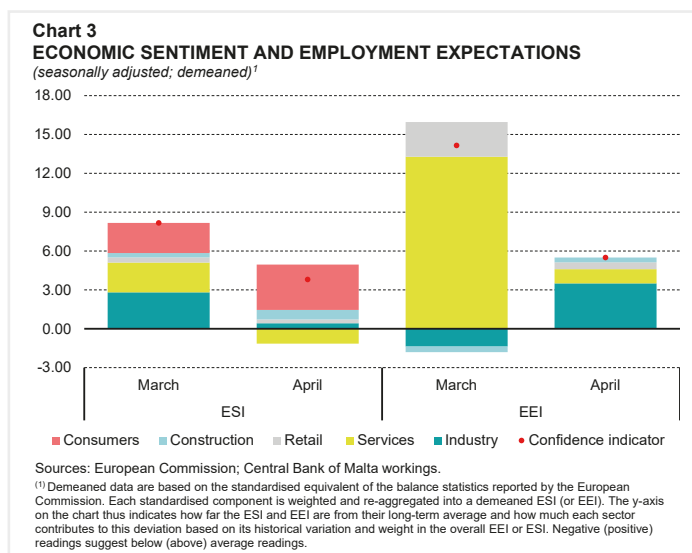


Business and consumer confidence indicators

In April, the European Commission's Economic Sentiment Indicator (ESI) for Malta stood at 103.8, and thus remained above its long-term average of around 100.0 (see Table 1).^{4,5,6,7} The ESI was below its level in April 2021 and also decreased from March's reading of 108.2. It also stood below the euro area average of 105.0.

In month-on-month terms, sentiment in Malta fell most in the services sector, and to a smaller extent, in industry and in the retail sector. However, it improved among consumers and in the construction sector. In April, sentiment was positive across all sectors, bar industry.

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 March and April was mainly driven by developments in the services sector (see Chart 3).



⁴ 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%.

⁵ 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.

⁶ 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.

⁷ From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. For further details on the methodology used by the European Commission, see: https://ec.europa.eu/info/sites/default/files/bcs_user_guide.pdf

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2020	2021	2021		2022			
			Apr.	Dec.	Jan.	Feb.	Mar.	Apr.
ESI	87.0	104.1	108.6	94.7	101.8	117.6	108.2	103.8
Industrial confidence indicator	-24.2	2.1	25.7	-11.3	-4.2	25.1	1.4	-2.2
Assessment of order-book levels	-47.8	-28.2	-22.5	-32.2	-9.4	-4.5	-35.2	-28.4
Assessment of stocks of finished products	26.6	-3.2	-41.6	-3.3	-10.4	-15.9	-6.8	14.5
Production expectations for the months ahead	1.9	31.3	58.2	-4.9	-13.7	63.8	32.6	36.5
Retail trade confidence indicator	-30.3	-8.4	-59.0	35.6	6.5	21.1	8.4	6.7
Business activity, past 3 months	-21.8	-13.6	-78.6	37.4	-17.6	18.7	13.0	17.5
Stocks of finished goods	30.5	12.8	56.3	-35.9	-36.0	-17.2	-1.1	3.7
Business activity, next 3 months	-38.4	1.3	-42.0	33.4	1.1	27.6	11.3	6.2
Construction confidence indicator	-4.5	7.3	4.5	5.1	9.8	5.2	3.4	15.1
Evolution of your current overall order books	-4.9	1.4	-3.9	-1.5	9.1	5.5	8.7	16.7
Employment expectations over the next 3 months	-4.1	13.2	13.0	11.7	10.6	4.8	-1.9	13.4
Consumer confidence indicator	-5.7	3.4	1.0	0.2	-0.7	1.2	-1.8	2.7
Financial situation past 12 months	-2.2	-8.8	-12.9	-9.8	-11.0	-13.1	-8.6	-8.2
Financial situation next 12 months	1.0	7.0	9.2	1.3	0.7	0.8	0.2	-2.3
Economic situation next 12 months	0.4	18.6	24.0	4.0	3.4	10.9	-1.7	8.9
Major purchases next 12 months	-21.8	-3.4	-16.5	5.3	4.1	6.1	3.0	12.6
Services confidence indicator	-23.2	13.6	-2.1	-16.3	5.8	27.9	30.7	13.5
Business situation development over the past 3 months	-34.3	4.9	-8.6	-14.0	-4.2	29.5	36.8	9.8
Evolution of the demand over the past 3 months	-33.6	10.7	-12.5	-12.7	21.5	22.1	35.9	7.7
Expectation of the demand over the next 3 months	-1.7	25.3	14.9	-22.1	0.2	32.2	19.5	23.0
EEI	87.0	104.1	91.5	99.6	105.2	78.0	113.6	105.0
Services	-0.7	25.1	17.5	14.7	31.0	-48.9	53.1	19.3
Retail	-12.2	4.4	-46.1	2.1	1.0	3.9	17.7	4.9
Industry	-10.9	14.8	8.4	12.4	13.4	18.4	2.9	32.8
Construction	-4.1	13.2	13.0	11.7	10.6	4.8	-1.9	13.4
EUI^(1,2)	-	21.3	-	36.9	25.1	32.6	27.8	20.6
Industry	-	21.0	-	51.4	20.8	44.9	59.1	35.1
Construction	-	30.1	-	12.8	5.5	15.7	27.4	20.2
Retail	-	48.8	-	60.8	59.0	40.7	56.4	52.8
Services	-	32.2	-	42.8	45.1	38.1	-1.3	1.9
Consumers	-	-3.5	0.3	-0.9	-0.1	1.9	1.9	11.7
ESI demeaned	-17.4	5.0	8.6	-5.3	1.8	17.6	8.2	3.8
EEI demeaned	-12.6	4.5	-7.8	0.0	5.7	-22.0	14.2	5.5

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

The contributions of industry and the retail sector also eased in April but remained positive. By contrast, the contribution of consumers, and to a lesser extent of the construction sector, increased relative to March. Demeaned data also suggest that the confidence indicator for consumers largely explains why the ESI stood above its long-term average in April.

In April, confidence within the services sector more than halved. It fell to 13.5, from 30.7 in March, thus standing below its long-term average of 19.1.⁸ This decrease in confidence stems from firms' assessment of demand and of the business situation in recent months. By contrast, the share of

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.

participants expecting an increase in demand over the next three months edged up relative to the previous month.

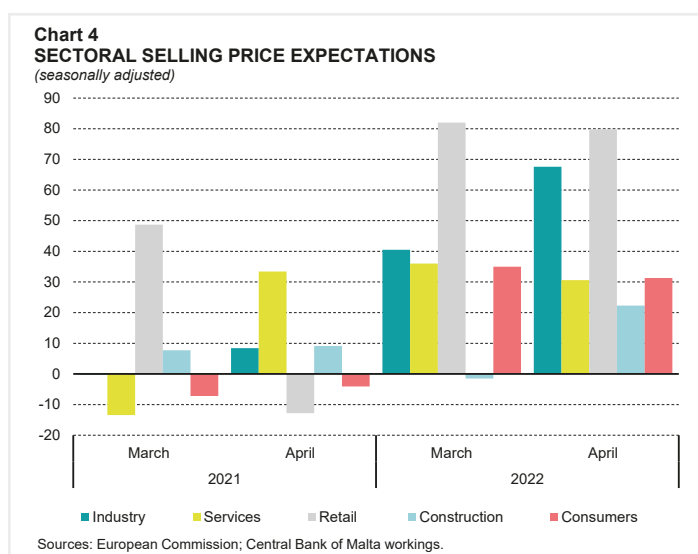
Sentiment in industry turned slightly negative in April, at -2.2, down from 1.4 in March. Notwithstanding this decline, sentiment remained above its long-term average of -3.8.⁹ In contrast to the previous month, firms now assess their stocks of finished products to be above normal.¹⁰ This was partly offset by improved production expectations for the months ahead, and a less negative assessment of order book levels.

Sentiment in the retail sector eased to 6.7 from 8.4 in March, while remaining above its long-term average of -1.0.¹¹ Retailers' expectations of sales over the next three months deteriorated. At the same time, and in contrast to March, participants assessed their stock levels to be above normal.

Consumer confidence turned positive in April. It stood at 2.7, up from -1.8 in March, and remained well above its long-term average of -10.2.¹² The recent rise in sentiment is largely reflected in developments in consumers' expectations of major purchases, and of the general economic situation, over the next 12 months. A marginally smaller share of participants assessed their financial situation to have deteriorated over the last 12 months. However, consumers' outlook for the financial situation in coming months turned negative in the month under review.

Sentiment within the construction sector increased sharply. It rose to 15.1, from 3.4 a month earlier, and stood further above its long-term average of -9.5.¹³ Higher sentiment was largely driven by developments in participants' employment expectations, which turned positive in the month under review. At the same time, the share of respondents assessing their order book levels to exceed normal levels almost doubled relative to March.

Additional survey information shows that price expectations rose to a record high in industry (see Chart 4). Prices were expected to increase



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.

¹¹ 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.

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 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 construction in contrast to expectations of lower prices a month earlier. Price expectations decreased in other sectors, with the largest decrease recorded in the services sector.

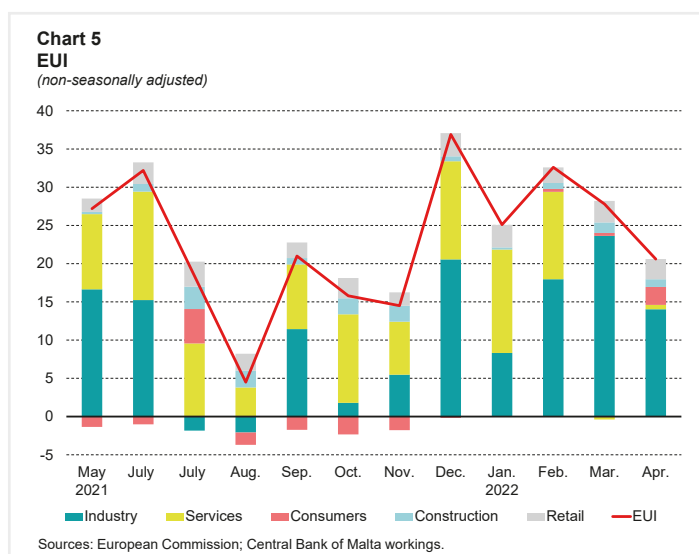
Notwithstanding mixed developments in month-on-month terms, price expectations were significantly above their year-ago level in all sectors, barring services.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased in April.¹⁴ The EEI stood at 105.0, below the 113.6 recorded in March, but remained above its long-term average of around 100.0. Following the recent fall in expectations, the EEI stood below the euro area average of 112.4.

The recent month-on-month drop in employment expectations was mostly driven by the services sector. Employment expectations also weakened across the retail sector. By contrast, there was a strong amelioration in industry, while expectations in the construction sector turned positive. Demeaned data show that industry largely explains why the overall EEI stood above its long-term average in April (see Chart 3). Employment expectations were positive across all sectors.

In April, 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 20.6 from 27.8 in March, signalling lower uncertainty (see Table 1). Following the latest decline, the uncertainty indicator stood below that of the euro area, where the index eased to 26.4, and below its level recorded in May 2021, when the first reading is available for Malta (see Chart 5).^{15,16}

In month-on-month terms, the fall in the uncertainty indicator was largely driven by lower uncertainty in industry, and to a smaller extent, in the construction and retail sectors. These developments offset higher uncertainty among consumers and services. Firms in this



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*.

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.

sector expressed relative difficulty in assessing their business situation in the coming months. This is in contrast to March.

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 – stood at -0.1%. This is the eighth consecutive year-on-year decline and follows a fall of 3.6% in February (see Table 2).¹⁷

The recent decline in industrial production partly reflected a substantial decrease in the output of firms involved in the production of motor vehicles, trailers and semi-trailers. Other significant declines were also recorded among firms that produce “other manufacturing” goods – which includes medical and dental instruments, toys and related products – and firms that print and reproduce recorded media. The mining and quarrying sector also registered strong declines. Smaller falls were recorded in the manufacturing of electrical equipment and rubber and plastic products. On the other hand, higher output was registered among firms producing beverages, those that repair and install machinery and equipment, firms that manufacture paper products, as well as food.

Production in the energy sector increased for the sixth consecutive month in March, with output rising by 15.1% in annual terms.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2020	2021	2021		2022	
			Feb.	Mar.	Feb.	Mar.
Industrial production	-0.2	-0.4	-12.8	-4.6	-3.6	-0.1
Retail trade	-5.5	8.0	-9.8	0.2	7.3	16.4
Number of tourist arrivals	-76.1	47.0	-93.7	-86.3	606.2	978.0
Number of nights stayed	-73.0	60.5	-86.7	-65.2	358.9	381.0
Rented accommodation	-76.8	73.8	-91.8	-75.0	566.5	584.2
Collective ⁽¹⁾	-76.5	74.3	-94.1	-88.5	740.6	1,314.4
Other rented ⁽²⁾	-77.3	72.9	-86.3	-40.0	389.3	220.2
Non-rented accommodation ⁽³⁾	-52.8	26.5	-52.9	-20.7	115.2	88.7
Tourist expenditure	-79.5	91.3	-90.4	-76.1	378.9	670.0
Package expenditure ⁽⁴⁾	-84.5	108.7	-96.2	-90.7	714.1	1,329.7
Non-package expenditure	-79.6	89.4	-89.0	-71.0	303.2	490.0
Other	-75.9	85.4	-88.1	-71.9	380.6	708.6

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).

⁽⁴⁾ Package expenditure for February and March 2021 is under-represented. Hence, annual percentage changes for February and March 2021 and February and March 2022 should be interpreted with caution.

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.

In March, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 16.4% in year-on-year terms, after rising by 7.3% in February.

In March, the tourism sector registered strong gains over a year earlier, although tourist numbers remained below pre-pandemic levels. The number of inbound tourists stood at 110,938 in March, more than ten times the number of visitors a year earlier. Nonetheless, it was still nearly a quarter less than the number of inbound tourists just before the onset of the pandemic. Guest nights were more than four times those registered in March 2021, with collective accommodation registering the highest rise in absolute terms. Total expenditure was more than seven times the level recorded in the corresponding period of 2021 but still below pre-pandemic levels.

In March 2022, 478 development permits for commercial buildings were issued, more than double the number of permits issued in the same month a year earlier (see Table 3). Meanwhile, 1,060 new residential permits were issued in March, nearly twice the number issued in March 2021.

Data on residential property transactions show that 1,109 final deeds of sale were concluded in April, 6.4% less than a year earlier. At 1,018, the number of promise-of-sale agreements was around a quarter less than that registered in April 2021.

Customs data show that the merchandise trade deficit stood at €246.3 million in March, up from €180.3 million a year earlier. The larger deficit was due to a €80.6 million rise in imports which offset a €14.7 million increase in exports (see Chart 6).

Higher imports were largely on account of a substantial increase in registrations of aircrafts. Higher imports of iron and steel and optical instruments also contributed but to a much lesser extent. These

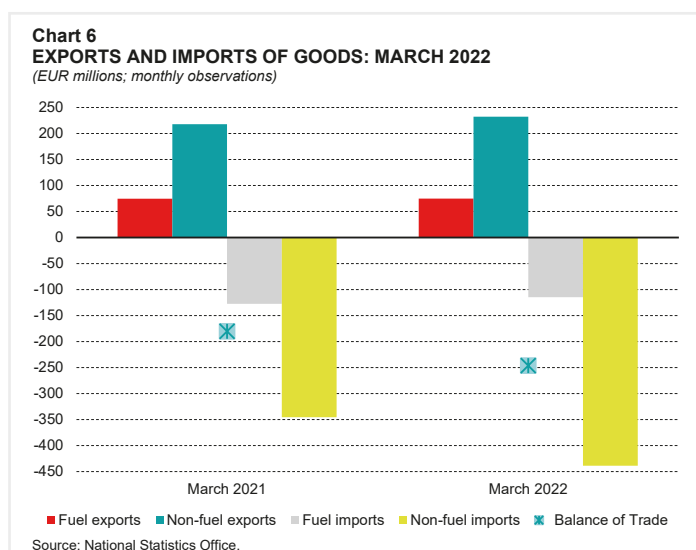


Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			Mar.	Apr.	Mar.	Apr.
Permits						
Commercial permits	2,687	2,770	205	267	478	-
Residential permits	7,837	7,578	569	763	1,060	-
Residential transactions						
Promise of sale	11,259	15,648	1,648	1,428	1,113	1,018
Final deeds of sale	11,057	14,368	1,285	1,185	1,190	1,109

Sources: National Statistics Office; Eurostat.

offset lower imports of works of art, fuel, pharmaceutical products, organic chemicals, and electrical machinery.

The increase in exports was driven by higher exports of electrical machinery, pharmaceutical products, and other machinery and electrical appliances. These offset lower exports of printed material, organic chemicals, and toys.

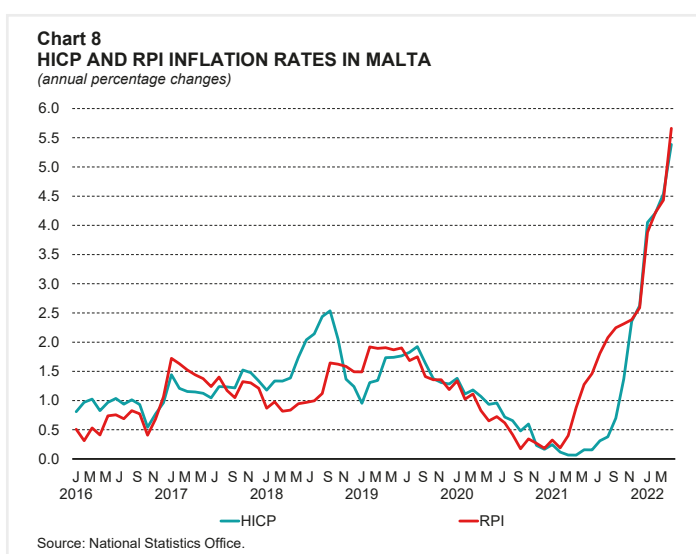
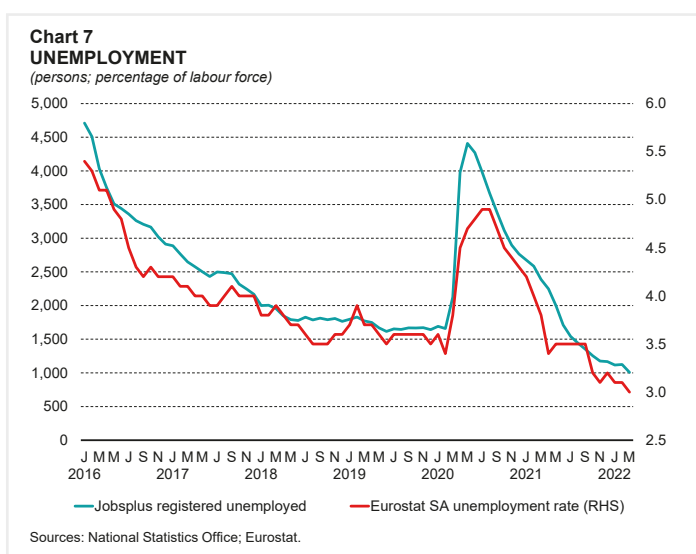
Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,008 in March 2022, down from 1,125 in February 2022 and down from 2,387 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.

The seasonally-adjusted unemployment rate stood at 3.0% in March 2022, marginally lower than the rate registered in the previous month, and well below the rate of 3.8% registered in March 2021.

Prices, costs and competitiveness

Annual HICP inflation rose to 5.4% in April, from 4.5% 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. The largest increase was registered in services inflation which rose to 5.6% from 4.2% in March. Inflation in non-energy industrial goods reached 4.5% in April from 4.0% in the previous month. Food inflation also edged up, reaching 7.5% from 7.2% in March. The increase in the latter was entirely driven by processed food inflation which rose to 6.0% from 5.3% in the



previous month. By contrast, unprocessed food inflation eased, although it remained elevated from a historical perspective, standing at 12.2% in April.

Annual inflation according to the RPI stood at 5.7% in April, up from 4.4% in March (see Chart 8).¹⁸ Faster growth was recorded across most components, reaching double-digit growth in the case of housing. However, the annual rate of change of prices of household equipment and house maintenance edged down. Furthermore, as in recent months, prices of water and energy remained unchanged. Inflation of the 'other goods and services' component, which mainly includes non-durable household goods as well as insurances, financial services and other services, was also unchanged from the previous month.

HICP and the RPI indices grew at very similar rates in April 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 April 2022 is negligible.

Producer output inflation, measured by the industrial producer price index, stood at 6.6% in March, marginally up from 6.4% in February.¹⁹ The acceleration largely reflects faster growth in the prices of intermediate goods as inflation rose to 10.0% in the month under review. Growth in capital goods prices also picked up. These movements were slightly offset by a decline in inflation in consumer goods, although growth remained elevated. The increased inflation in producer prices is likely to mainly reflect the impact of the rising cost pressures due to ongoing global supply bottlenecks.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 2.3% in the year to April 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 5.3% in annual terms in April, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

Public finance

During March 2022, the Consolidated Fund recorded a deficit of €290.9 million, a deterioration of €69.9 million when compared to the deficit registered in March 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 €277.3 million, a deterioration of €70.2 million from the primary deficit registered in the corresponding period a year earlier.

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.

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.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021		2022		Change	
	Jan.-Mar.	Jan.-Mar.	Mar.	Mar.	Amount	%
Revenue	869.1	1,069.5	199.2	313.4	114.2	57.4
Direct tax	418.0	534.4	73.8	142.4	68.6	92.9
Income tax	282.6	349.1	61.6	88.2	26.6	43.1
Social security contributions ⁽¹⁾	135.4	185.3	12.2	54.2	42.0	344.2
Indirect tax	380.5	439.1	97.5	137.5	40.0	41.0
Value Added Tax	250.9	288.5	50.3	82.5	32.1	63.8
Customs and excise duties	54.9	63.4	15.0	16.2	1.2	7.7
Licences, taxes and fines	74.7	87.2	32.1	38.8	6.7	20.8
Non-tax⁽²⁾	70.6	96.1	27.8	33.5	5.7	20.4
Expenditure	1,398.9	1,441.1	420.2	604.3	184.1	43.8
Recurrent	1,276.5	1,316.3	381.9	532.2	150.3	39.3
Personal emoluments	263.4	257.9	101.4	90.7	-10.8	-10.6
Operational and maintenance	71.4	51.8	19.5	22.6	3.1	15.8
Programmes and initiatives	746.0	811.9	222.3	351.1	128.8	57.9
Contributions to entities	151.3	158.0	24.7	54.2	29.5	119.3
Interest payments	44.4	36.7	13.9	13.6	-0.3	-2.4
Capital	122.4	124.7	38.3	72.1	33.8	88.4
Primary balance⁽³⁾	-485.5	-334.9	-207.1	-277.3	-70.2	-
Consolidated Fund balance	-529.9	-371.6	-221.1	-290.9	-69.9	-

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.

Government revenue increased by €114.2 million, or 57.4% in annual terms, largely on the back of an increase in tax revenue. Revenue from direct taxes rose by €68.6 million, mainly due to an increase in social security contributions. Meanwhile, indirect tax revenue increased by €40.0 million, largely on the back of higher VAT receipts. At the same time, inflows from non-tax revenue increased by €5.7 million.

Government expenditure rose by €184.1 million, or 43.8% when compared to the corresponding period in 2021. This was largely due to a rise in recurrent expenditure which increased by €150.3 million, mainly on the back of higher expenditure on programmes and initiatives. The latter surged by €128.8 million, reflecting the timing of social benefits, as well as the distribution of economic stimulus cheques to compensate for high inflation. The month under review also saw higher spending on contributions to government entities and operational and maintenance which rose by €29.5 million and €3.1 million respectively. The increase in recurrent expenditure was partly offset by lower spending on personal emoluments which declined by €10.8 million. The latter reflects a base effect from high payments on allowances in the health sector in 2021.

During the period under review, spending on capital expenditure increased by €33.8 million. This increase partly reflects higher outlays on investment incentives.

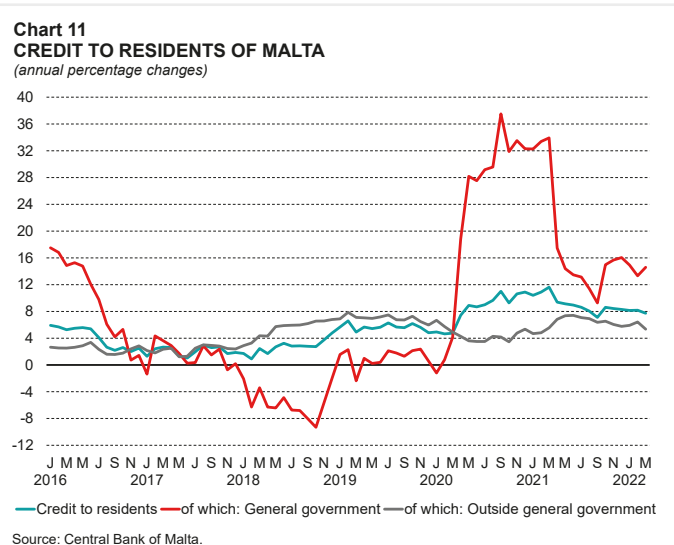
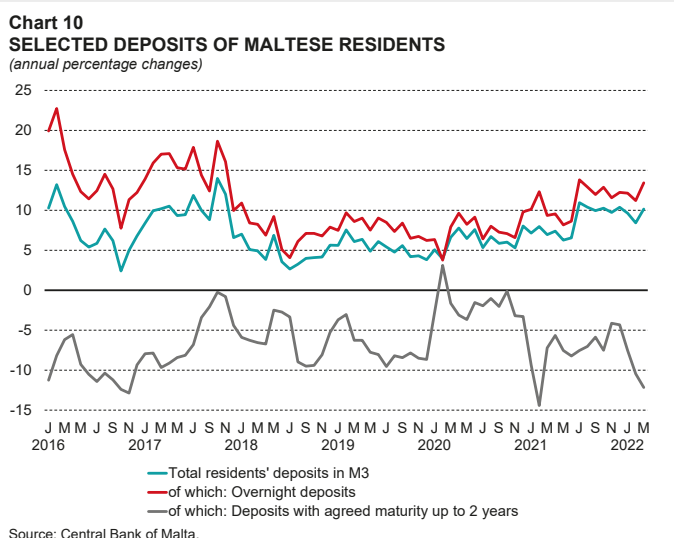
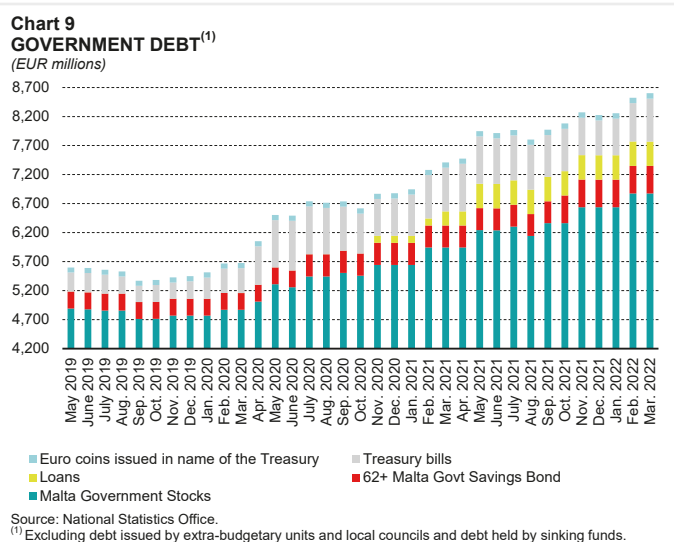
In March 2022, the total stock of government debt amounted to €8,466.3 million, an increase of €72.4 million when compared with February (see Chart 9). This was due to a rise in outstanding Treasury bills.

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 10.1%, up from 8.4% 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 13.4% in the year to March, above the 11.2% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 12.2% in annual terms, following a contraction of 10.5% in February. 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 7.7% in March, below the 8.2% recorded a month earlier (see Chart 11). The marginal slowdown in growth was driven by slower growth in credit to residents outside general government. Annual growth in this



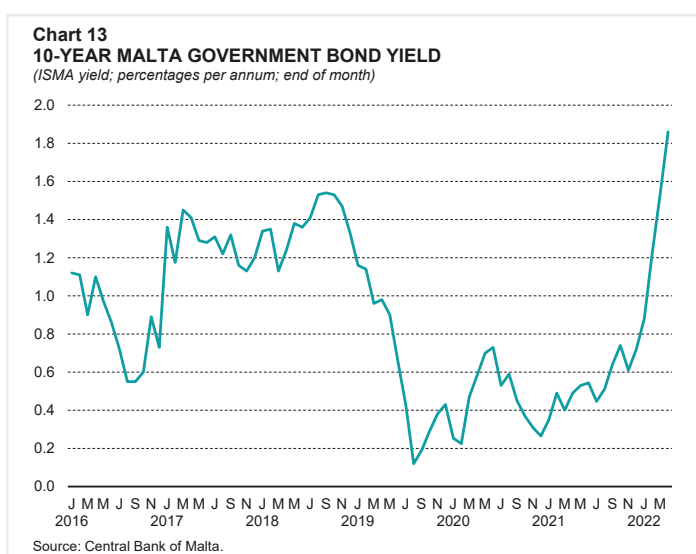
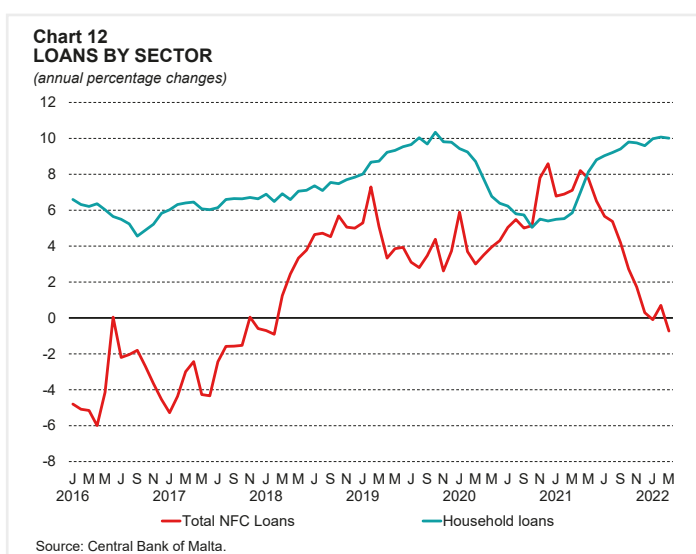
component stood at 5.3%, following a 6.4% increase in February. By contrast, growth in credit to general government reached 14.6%, from 13.3% a month earlier.

The annual rate of change in loans to households stood at 10.0% in March, broadly unchanged from 10.1% in February. Mortgage lending increased by 11.4% in March, unchanged from a month earlier. By contrast, consumer credit and other lending fell by 4.5%, following a contraction of 4.3% a month earlier.

Meanwhile, the annual rate of change in loans to non-financial corporations (NFCs) turned negative in March. It stood at -0.7%, following an increase of 0.7% a month earlier (see Chart 12). The small decrease in March was largely driven by a contraction in credit to the energy, heat and water supply sector. This was followed by a larger decline in loans to the sector comprising professional, scientific and technical activities, and to smaller extent, slower growth in loans in accommodation and food service activities. These developments were partly offset by a smaller contraction in loans to the real estate sector, as well as higher credit to the wholesale and retail trade sector.

As regards interest rates, in March, 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 by 1 basis point to 3.18% compared to February. Hence, the spread between the two rates was broadly unchanged at 303 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased by 33 basis points from a month earlier to 1.86% at the end of April (see Chart 13). Maltese sovereign yields have been trending upwards in line with other euro area yields. This reflects the persistent high inflation in major advanced economies, which is resulting in higher interest rate expectations.



In April, the Malta Stock Exchange (MSE) Equity Price Index increased by 2.5% 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.

By end-March, 640 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €489.3 million.^{21,22} Overall, €465.5 million were disbursed, up slightly from the €459.6 million disbursed by the end of February.

The sector comprising wholesale and retail activities had the largest number of facilities supported by the scheme by the end of March, 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 is administered by the Malta Development Bank (MDB) for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls as a result of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See <https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.

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.

Annex 1

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	2022	
				Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
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	5.4
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	5.7
Industrial producer price inflation	2.2	0.3	3.2	-0.4	0.8	1.8	3.8	6.4	6.7	0.9	0.5	1.1	1.2	1.8	2.3	1.4	4.4	5.5	5.6	6.2	7.4	7.0	6.4	6.6	-
HCI (nominal)	-0.7	1.8	0.4	3.5	2.7	1.3	-0.8	-1.7	-1.3	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	-1.1	-2.3
HCI (real)	-1.1	1.5	-1.9	3.2	1.1	-1.0	-3.2	-4.5	-3.2	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	-3.6	-5.3
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	3.6	3.5	3.2	-	4.2	4.0	3.8	3.4	3.5	3.5	3.5	3.5	3.5	3.2	3.1	3.2	3.1	3.1	3.0	-
LFS employment	7.1	2.6	2.7	-0.4	-1.1	3.2	3.6	5.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.2	-	2.1	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	3.9	-	-	-	-	-
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	13.4	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	13.4	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-3.3	-7.2	-8.2	-5.9	-4.3	-12.2	-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	-12.2	-
Total residents' deposits in M3	3.8	8.0	10.4	8.0	7.0	6.5	10.0	10.4	10.1	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	10.1	-
Credit to general government	0.6	32.3	16.0	32.3	33.9	13.5	9.3	16.0	14.6	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	14.6	-
Credit to residents (excl. general government)	6.0	5.3	5.8	5.3	5.5	7.4	6.4	5.8	5.3	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	5.3	-
Total credit	4.8	10.9	8.3	10.9	11.6	8.9	7.1	8.3	7.7	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	7.7	-
10-year interest rate (%) ⁽³⁾	0.4	0.3	0.7	0.3	0.4	0.5	0.6	0.7	1.5	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	1.9
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	4.4	-12.4	-4.5	16.7	-8.3	3.0	-0.7	1.8	-8.2	-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	2.5
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	489.3	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	489.3	-
Disbursed amount under the MDB CGS ⁽⁵⁾	-	287.1	453.0	287.1	340.5	372.5	414.5	453.0	459.6	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	465.5	-
General government finances (% of GDP)																									
Surplus (+) / deficit (-) ⁽²⁾	0.6	-9.5	-8.0	-9.5	-9.2	-7.7	-8.1	-8.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	40.7	53.4	57.0	53.4	57.3	58.9	56.6	57.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.