



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



# CENTRAL BANK OF MALTA ECONOMIC UPDATE

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5/2023

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*The cut-off date for information in this note is 17 May 2023. However the cut-off date for the RPI is 23 May 2023. Figures in tables may not add up due to rounding.*

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## ECONOMIC UPDATE 5/2023

### Summary<sup>1</sup>

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

*The European Commission confidence surveys show that sentiment in Malta increased compared to March, and stood above its long-term average, estimated since November 2002. In month-on-month terms, sentiment increased across all sectors, bar the services sector, with the strongest increase recorded in the construction sector.*

*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 in industry, the retail sector and among consumers, stood considerably lower.*

*The European Commission's Economic Uncertainty Indicator (EUI) for Malta increased when compared with March, though it was still lower than last year's April level. Uncertainty increased mostly in industry.*

*In March, industrial production and retail trade grew at a slower rate compared to February. The unemployment rate stood at 2.9% in March, marginally lower than the rate of 3.0% registered in the previous month, and that registered in March 2022.*

*Commercial building and residential permits decreased in March relative to their year-ago level. In month-on-month terms, commercial permits increased while residential permits declined. In April, the number of promise-of-sale agreements rose on a year-on-year basis, while the number of final deeds of sales fell. Meanwhile, both the number of promise-of-sale agreements and the number of final deeds of sale fell on a month-on-month terms.*

*The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 6.4% in April, down from 7.1% in the previous month. Inflation based on the Retail Price Index (RPI) decreased to 5.8% from 7.0% in March.*

*Maltese residents' deposits expanded at an annual rate of 1.6% in March, following an increase of 3.6% in the previous month, while annual growth in credit to Maltese residents moderated to 5.4%, from 6.4% a month earlier.*

*In March, the Consolidated Fund recorded a lower deficit compared to a year earlier, as higher government revenue outweighed a smaller rise in government expenditure.*

### Central Bank's Business Conditions Index<sup>2</sup>

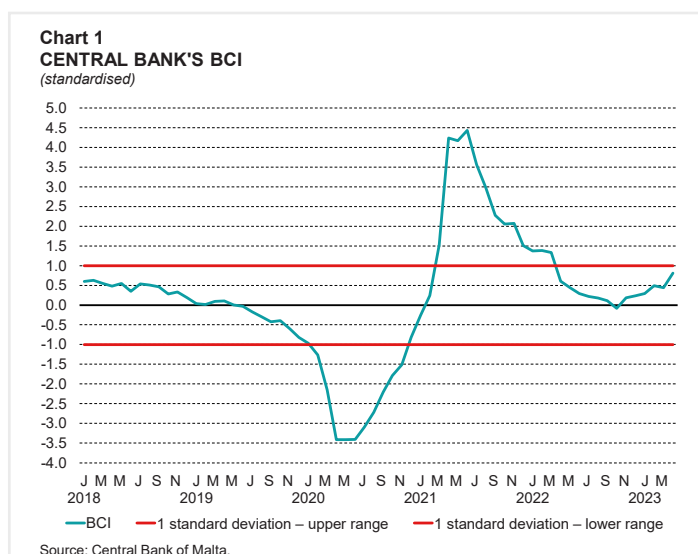
The Bank's BCI indicates that in April, annual growth in business activity rose further above its long-term average estimated since January 2000 (see Chart 1). Among BCI components,

<sup>1</sup> The cut-off date for information in this note is 17 May 2023. However, the cut-off date for the RPI is 23 May 2023. Most of the data reported in this issue of the *Economic Update* refer to March 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures refer to April.

<sup>2</sup> 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.

tourist arrivals, industrial production, tax revenue, and GDP experienced strong year-on-year growth in recent months. The ESI also stood firmly above its long-term average in April. Furthermore, the unemployment rate remained low from a historical perspective. On the other hand, the number of residential permits declined on a year earlier.

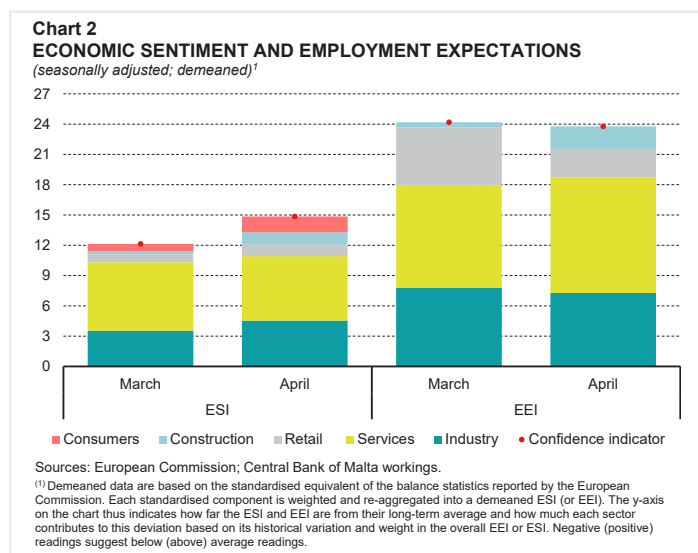
## Business and consumer confidence indicators



In April, the European Commission's Economic Sentiment Indicator (ESI) for Malta reached a 14 month-high of 114.9, from 112.2 in March. The ESI also exceeded its long-term average of around 100.0, estimated since November 2002 (see Table 1).<sup>3,4,5,6</sup> Furthermore, sentiment stood above the euro area average of 99.3.

In month-on-month terms, sentiment increased strongly in the construction sector, and to a lower extent, among retailers. It also improved in industry. At the same time, sentiment among consumers edged up but remained negative. By contrast, sentiment eased in the services sector, though remaining elevated from a historical perspective.

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 April was driven by industry (see Chart 2). This was followed by a more positive contribution from consumers and the construction sector. Furthermore, the



<sup>3</sup> 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%.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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		
			Apr.	Dec.	Jan.	Feb.	Mar.	Apr.
<b>ESI</b>	<b>104.8</b>	<b>100.9</b>	<b>103.7</b>	<b>98.1</b>	<b>102.4</b>	<b>105.7</b>	<b>112.2</b>	<b>114.9</b>
<b>Construction confidence indicator</b>	<b>7.3</b>	<b>7.0</b>	<b>15.1</b>	<b>-4.3</b>	<b>2.9</b>	<b>17.5</b>	<b>-0.2</b>	<b>24.7</b>
Evolution of your current overall order books	1.4	8.7	16.7	-6.6	2.4	6.3	-15.9	3.6
Employment expectations over the next 3 months	13.2	5.4	13.4	-2.0	3.4	28.8	15.5	45.7
<b>Retail trade confidence indicator</b>	<b>-8.4</b>	<b>6.0</b>	<b>5.3</b>	<b>27.5</b>	<b>25.6</b>	<b>-0.4</b>	<b>23.9</b>	<b>36.3</b>
Business activity, past 3 months	-13.6	21.1	17.5	57.7	41.8	21.8	47.2	55.2
Stocks of finished goods	12.8	-3.2	3.7	3.1	15.9	22.9	1.9	1.1
Business activity, next 3 months	1.2	-6.3	2.2	27.7	50.8	0.0	26.4	54.8
<b>Consumer confidence indicator</b>	<b>3.4</b>	<b>-7.4</b>	<b>1.9</b>	<b>-11.8</b>	<b>-10.3</b>	<b>-6.8</b>	<b>-10.9</b>	<b>-6.9</b>
Financial situation past 12 months	-8.9	-19.7	-10.0	-22.7	-19.1	-16.2	-22.9	-21.4
Financial situation next 12 months	7.3	-11.8	-3.9	-13.4	-11.3	-8.8	-12.0	-8.6
Economic situation next 12 months	18.6	-3.5	8.9	-9.2	-10.0	-4.2	-11.0	-4.7
Major purchases next 12 months	-3.4	5.6	12.6	-1.8	-0.6	1.9	2.4	6.8
<b>Industrial confidence indicator</b>	<b>2.1</b>	<b>-9.4</b>	<b>-2.2</b>	<b>-23.5</b>	<b>-8.6</b>	<b>-3.2</b>	<b>6.8</b>	<b>8.5</b>
Assessment of order-book levels	-28.2	-21.5	-28.4	-10.1	-4.3	-7.2	-50.3	-49.0
Assessment of stocks of finished products	-3.2	9.1	14.5	2.2	2.6	19.2	3.6	-3.6
Production expectations for the months ahead	31.3	2.2	36.5	-58.1	-18.8	16.8	74.1	70.9
<b>Services confidence indicator</b>	<b>13.7</b>	<b>20.5</b>	<b>15.3</b>	<b>26.1</b>	<b>24.3</b>	<b>34.8</b>	<b>46.4</b>	<b>44.8</b>
Business situation development over the past 3 months	4.9	15.7	10.6	16.7	25.4	39.0	48.2	36.8
Evolution of the demand over the past 3 months	10.8	26.1	14.3	18.5	19.5	39.6	33.1	41.0
Expectation of the demand over the next 3 months	25.4	19.7	21.2	43.1	27.9	25.7	57.8	56.6
<b>E EI</b>	<b>103.5</b>	<b>106.4</b>	<b>98.8</b>	<b>110.9</b>	<b>112.0</b>	<b>111.4</b>	<b>123.6</b>	<b>123.3</b>
Retail	4.4	15.8	3.8	26.7	16.1	10.6	38.9	20.8
Industry	14.8	12.0	32.8	-37.4	8.2	13.6	60.2	57.1
Services	25.1	30.2	6.2	56.9	46.9	41.7	47.0	50.6
Construction	13.2	5.4	13.4	-2.0	3.4	28.8	15.5	45.7
<b>EUI<sup>(1,2)</sup></b>	<b>21.3</b>	<b>28.1</b>	<b>20.6</b>	<b>24.4</b>	<b>14.0</b>	<b>2.9</b>	<b>5.5</b>	<b>19.4</b>
Industry	21.0	39.4	35.1	32.0	10.9	-14.8	-10.8	35.8
Consumers	-3.5	13.7	11.7	13.5	13.9	12.2	11.9	19.8
Retail	48.8	50.8	52.8	40.4	18.7	14.2	9.0	7.3
Construction	30.1	19.5	20.2	35.2	19.7	14.5	36.6	25.2
Services	32.2	20.3	1.9	17.2	16.4	16.4	17.2	-1.7
<b>ESI demeaned</b>	<b>4.8</b>	<b>0.9</b>	<b>3.8</b>	<b>-1.9</b>	<b>2.4</b>	<b>5.7</b>	<b>12.1</b>	<b>14.9</b>
<b>E EI demeaned</b>	<b>3.4</b>	<b>6.2</b>	<b>-0.5</b>	<b>9.1</b>	<b>11.4</b>	<b>11.0</b>	<b>24.2</b>	<b>23.8</b>

Source: European Commission.

<sup>(1)</sup> Non-seasonally adjusted data.

<sup>(2)</sup> Data for Malta are available from May 2021 onwards.

confidence indicator for the services sector, followed by industry, largely explain why the ESI stood above its long-term average in April.

In April, the confidence indicator for the construction sector increased to 24.7, from -0.2 a month earlier, thus standing well above its long-term average of -8.3.<sup>7</sup> The recent increase largely reflected a sharp amelioration in employment expectations. Furthermore, and in contrast to the previous month, respondents assessed order book levels to be above normal.

<sup>7</sup> 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.



Sentiment in the retail sector averaged 36.3, above the 23.9 recorded in March, and remained well above its long-term average of -0.1.<sup>8</sup> The recent rise in confidence largely reflects a more positive assessment of retailers' expectations of business activity over the next three months. The assessment of sales in recent months also improved, albeit by a lower extent. Furthermore, the share of retailers assessing their stock levels to be above normal, edged down compared with March.<sup>9</sup>

Consumer confidence rose above its long-term average of -10.2 in April but remained negative. It stood at -6.9, up from -10.9 in March.<sup>10</sup> All sub-components of the indicator improved compared to March, with the most significant increase observed in expectations about the general economic situation over the next 12 months. Yet, apart from expectations about major purchases, the various subcomponents that make up the consumer confidence indicator remained negative.

Confidence in industry edged up to 8.5, from 6.8 in March, standing above its long-term average of -4.2.<sup>11</sup> In contrast to the previous month, firms assessed their stocks of finished products to be below normal. At the same time, the share of respondents assessing their order book levels to be below normal, decreased slightly. Meanwhile, production expectations for the months ahead, stood less positive, but remained elevated around the 70% mark.

The sentiment indicator for the services sector stood at 44.8, below the 46.4 recorded in the previous month, but remained well above its long-term average of 19.6.<sup>12</sup> The decrease was driven by firms' assessment of the business situation over the past three months, and to a lesser extent, their expectations of demand over the next three months, although both remained positive. This offset an increase in firms' assessment of demand over the past three months.

Additional survey information shows that, in month-on-month terms, price expectations increased in the construction sector, and to a smaller extent, in the services sector. By contrast, price expectations halved in industry, with smaller decreases recorded among consumers and in the retail sector (see Chart 3). Differences across sectors remained wide – while the net share of firms signalling price increases ranged between 43% and 65% in the services and construction sectors, respectively, that in other sectors ranged between 9% and 27%.

Price expectations stood firmly above their year-ago level in the construction sector, and to a lesser degree, in the services sector. By contrast, price expectations in industry, and among retailers and consumers were significantly below the level recorded in April 2022.

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

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<sup>8</sup> 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.

<sup>9</sup> Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

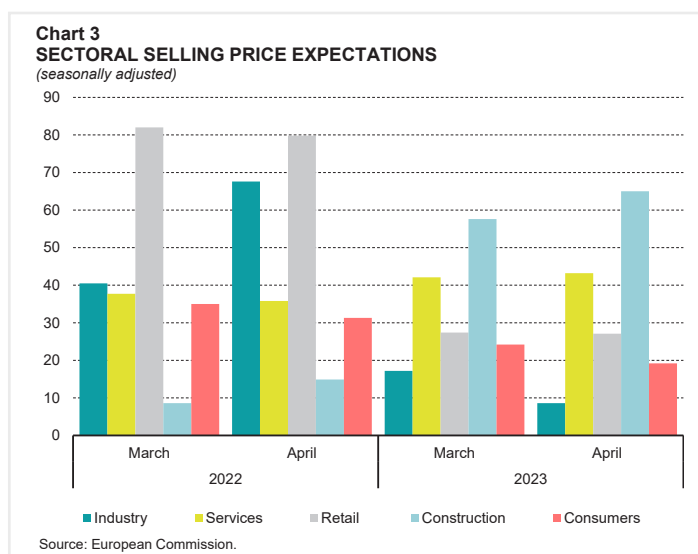
<sup>10</sup> The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic 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.

<sup>11</sup> 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.

<sup>12</sup> 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.

to 123.3 in April, from 123.6 a month earlier.<sup>13</sup> The indicator remained above its long-term average of around 100.0, and exceeded the euro area average of 107.4.

Demeaned data suggest that the marginal deterioration in employment expectations was mainly driven by the retail sector. The contribution of industry also edged down on a month earlier. By contrast, the contributions of the construction and services sectors improved compared with March.



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

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 – increased to 19.4, from 5.5 in March, signalling higher uncertainty (see Table 1). However, the uncertainty indicator stood slightly below its level recorded in April 2022, when the index averaged 20.6. It was also below that of the euro area.<sup>14,15</sup>

In month-on-month terms, the increase in Malta’s uncertainty indicator was largely driven by developments in industry, where in contrast to March, respondents reported difficulty in assessing their future business situation. Higher uncertainty was also recorded among consumers, albeit to a lower extent. By contrast, uncertainty in the construction sector and among retailers eased compared with March. Meanwhile, contrary to a month earlier, firms in the services sector reported that they were able to predict their business situation with ease.

When accounting for the variation in weights of each sector, industry accounted for most of the uncertainty observed in April.

<sup>13</sup> 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*.

<sup>14</sup> 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.

<sup>15</sup> 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 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 12.5%. This followed a rise of 18.5% in February (see Table 2).<sup>16</sup>

The most significant increases were recorded among firms that manufacture machinery and equipment, those that produce computer, electronic and optical products as well as the sector comprising the printing and reproduction of reported media. Other strong increases in output were registered among firms that manufacture basic pharmaceutical products and firms that specialize in ‘other manufacturing’, which includes medical and dental instruments, toys and related products. By contrast, firms that produce textiles, certain non-metallic mineral products and metals, motor vehicles, trailers and semi-trailers reported a decrease in production. Output also fell among firms producing paper and paper products, as well as food products.

Meanwhile, production in the energy sector increased at a slower pace of 2.7% in March, compared with 8.8% a month earlier.

In March, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 2.0% in year-on-year terms, after rising by 5.0% in January.

In March, the tourism sector continued to perform well. Tourist arrivals and expenditure were above pre-pandemic levels, while nights spent in Malta remained somewhat below. The number

**Table 2**  
**ACTIVITY INDICATORS**  
*Annual percentage changes*

	2021	2022	2022		2023	
			Feb.	Mar.	Feb.	Mar.
Industrial production	-0.2	3.1	-4.4	1.7	18.5	12.5
Retail trade	9.3	9.6	8.0	18.4	5.0	2.0
Number of tourist arrivals	47.0	136.2	606.2	978.0	105.1	57.2
Number of nights stayed	60.5	98.0	358.9	381.0	57.0	43.1
Rented accommodation	73.8	111.3	566.5	584.2	72.7	45.7
Collective <sup>(1)</sup>	74.3	109.9	740.6	1,314.4	85.5	47.4
Other rented <sup>(2)</sup>	72.9	113.8	389.3	220.2	50.4	42.0
Non-rented accommodation <sup>(3)</sup>	26.5	50.8	115.2	88.7	-0.3	29.5
Tourist expenditure	91.3	131.1	378.9	670.0	117.4	57.7
Package expenditure	108.7	129.8	714.1	1,329.7	198.5	139.2
Non-package expenditure	89.4	145.9	303.2	490.0	124.5	61.6
Other	85.4	118.3	380.6	708.6	85.2	25.9

Sources: National Statistics Office; Eurostat.

<sup>(1)</sup> Collective accommodation comprises hotels, guesthouses, hostels, tourist villages, holiday complex, bed & breakfast and campsites.

<sup>(2)</sup> Other rented accommodation comprises holiday furnished premises (farmhouses, flats and villas), host families, marinas, paid-convents, rented yachts and student dormitories.

<sup>(3)</sup> Non-rented accommodation includes own private residence, staying with friends or relatives and other private accommodation (e.g. free-convents or timeshare).

<sup>16</sup> 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.



of inbound tourists amounted to 174,382, up from 110,938 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 package holidays.

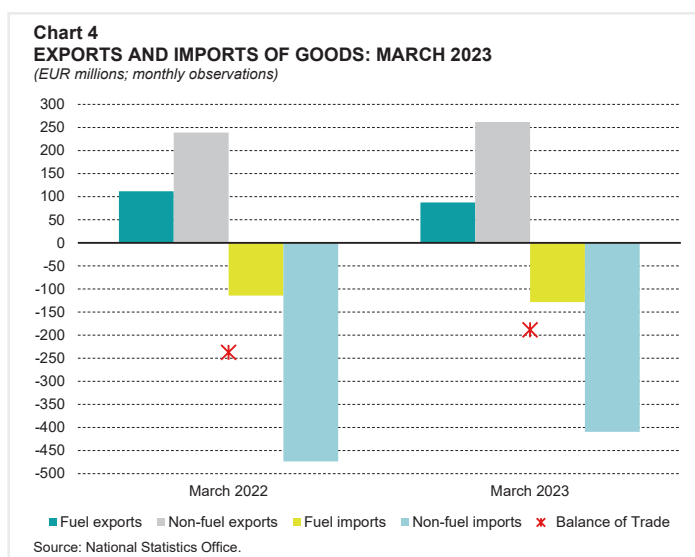
In March, 218 development permits for commercial buildings were issued, 260 less than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 723 new residential permits were issued, 337 less than the number issued in March 2022. In month-on-month terms, commercial permits were higher while residential permits declined.

Data on residential property transactions show that 918 final deeds of sale were concluded in April, 129 less than the number concluded a month earlier, and 204 less than a year earlier. At 1,061, the number of promise-of-sale agreements was 111 less than a month earlier, but 45 more compared with a year earlier.

Customs data show that the merchandise trade deficit stood at €188.3 million in March, from a deficit of €237.1 million a year earlier. This was due to a €50.3 million decline in imports which offset a €1.5 million decline in exports (see Chart 4).

Lower imports were mainly on account of a substantial decrease in the registration of aircraft and aircraft parts. Imports of iron and steel and organic chemicals also declined, but to a much lesser extent. These offset higher imports of sugar, fuels, and paper articles.

The marginal decline in exports was mainly due to lower fuel re-exports. Exports of pharmaceutical products and organic chemicals also decreased, but to a lesser extent. These were partly offset by higher exports of



**Table 3**  
**PROPERTY MARKET**

Levels

	2021	2022	2022			2023		
			Feb.	Mar.	Apr.	Feb.	Mar.	Apr.
<b>Permits</b>								
Commercial permits	2,770	2,984	246	478	324	196	218	-
Residential permits	7,578	9,599	1,192	1,060	861	932	723	-
<b>Residential transactions</b>								
Promise of sale	15,639	12,174	966	1,113	1,016	1,033	1,172	1,061
Final deeds of sale	14,368	14,331	1,068	1,190	1,122	939	1,047	918

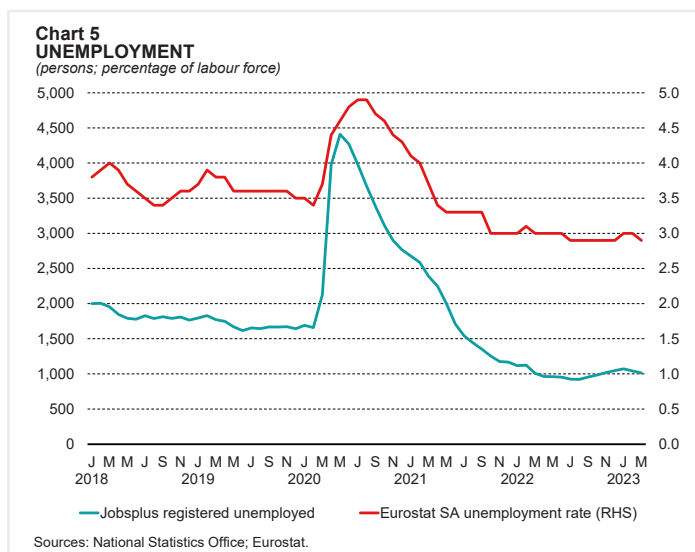
Sources: National Statistics Office; Planning Authority.

fish, printed books, and newspapers, as well as electrical machinery.

### Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 1,013 in March, down from 1,041 in February, and up slightly from 1,008 recorded a year earlier (see Chart 5).

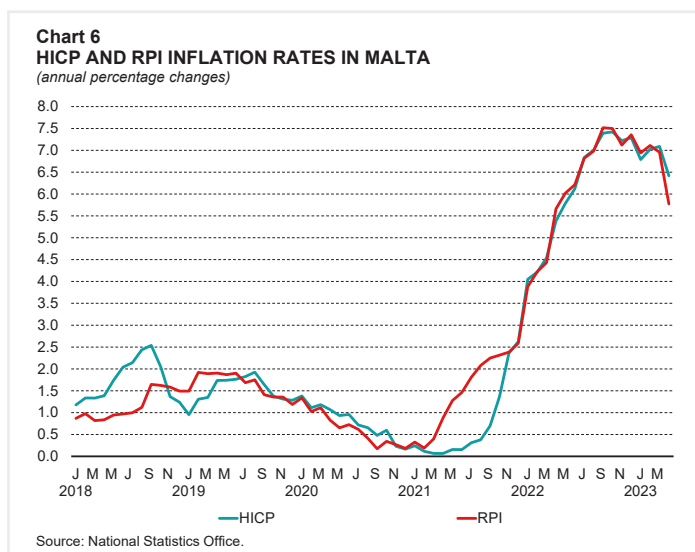
The seasonally-adjusted unemployment rate stood at 2.9% in March, marginally lower than the rate of 3.0% registered in the previous month, and the rate of 3.0% registered in March 2022.



### Prices, costs and competitiveness

Annual HICP inflation eased in April, reaching 6.4% from 7.1% in the previous month (see Chart 6). The easing reflects a decline in inflation in all the main subcomponents, except for energy inflation, which remained unchanged. Food inflation stood at 10.1% in April, down from 11.3% in March, mainly on the back of lower unprocessed food inflation. The latter stood at 8.3% in April, from 12.3% in March, while processed food inflation decreased to 10.6% from 11.0% a month earlier. At the same time, NEIG inflation declined to 5.4%, from 6.6% in the previous month, mainly reflecting lower inflation in semi-durable goods. Meanwhile, services inflation stood at 6.0% in April, down from 6.4% in March. Energy prices remain unchanged, reflecting government measures aimed at shielding consumers from foreign price pressures.

Annual inflation according to the RPI stood at 5.8% in April, down from 7.0% in March (see Chart 6).<sup>17</sup> The decline was driven by lower inflation in several sub-components. In particular, clothing and footwear prices fell by 1.2% year-on-year, after increasing by 4.9% in March. Furthermore, housing



<sup>17</sup> 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.

inflation and food inflation both eased to 10.2% in April. Inflation in recreational and cultural activities also moderated, and stood at 0.9%, from 3.6% in March. On the other hand, inflation in household equipment and house maintenance, as well as in transport and communication, rose. Inflation in these subcomponents stood at 7.6% and 2.5% respectively in April. Similarly, inflation in beverages and tobacco also edged up, though marginally. Energy prices remain unchanged.

Producer output inflation, as measured by the industrial producer price index, stood at 3.9% in March, down from 4.6% in February.<sup>18</sup> This deceleration reflects a small decline in the prices of intermediate goods and slower growth in consumer goods prices. Prices of intermediate goods contracted by 0.2% on a year earlier. Producer prices of consumer goods decelerated when compared to the previous month. Indeed, inflation in this subcomponent fell to 8.9% from 9.3%, although it remained elevated from a historical perspective. This deceleration solely reflects developments in the prices of non-durable consumer goods as inflation of durables was unchanged from the previous month. On the other hand, capital goods inflation rose further. As in recent months, energy producer prices remained unchanged, having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 3.8% in the year to April 2023, up from 2.0% a month earlier.<sup>19</sup> The real HCI, which considers relative price changes, also increased on a year earlier, rising by 3.7%. 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 was partly offset by a narrowing in the inflation differential against trading partners.

## Public finance

During March 2023, the Consolidated Fund recorded a deficit of €249.7 million, an improvement of €41.2 million when compared to the deficit registered a year earlier (see Table 4). These developments reflect a rise in government revenue, which outweighed a smaller rise in government expenditure. In turn, the primary balance registered a deficit of €230.2 million, an improvement of €47.2 million from the primary deficit registered in March 2022.

Government revenue increased by €52.0 million, or 16.2%, mainly on the back of an increase in non-tax revenue. The latter increased by €44.5 million, mainly due to higher inflows from grants. Revenue from direct taxes rose by €5.9 million, reflecting higher inflows from social security contributions. Meanwhile, revenue from indirect taxes increased by €1.6 million, mainly on the back of higher inflows from customs and excise duties.

Government expenditure increased by €10.8 million, or 1.8%, due to a rise in recurrent expenditure which offset a small drop in capital expenditure. Recurrent expenditure increased by €12.5 million, mainly due to the timing of payments on contributions to entities which increased by €34.5 million. Personal emoluments and operational and maintenance expenses rose by €5.5 million and €5.3 million, respectively. Moreover, outlays on interest payments also increased by €5.9 million.

<sup>18</sup> 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.

<sup>19</sup> 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 considers 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		Change	
	Jan.-Mar.	Jan.-Mar.	Mar.	Mar.	Amount	%
<b>Revenue</b>	<b>1,076.4</b>	<b>1,364.5</b>	<b>320.3</b>	<b>372.3</b>	<b>52.0</b>	<b>16.2</b>
<b>Direct tax</b>	<b>541.2</b>	<b>710.4</b>	<b>149.3</b>	<b>155.2</b>	<b>5.9</b>	<b>4.0</b>
Income tax	349.1	504.1	88.2	87.8	-0.5	-0.5
Social security contributions <sup>(1)</sup>	192.1	206.3	61.1	67.4	6.4	10.4
<b>Indirect tax</b>	<b>439.1</b>	<b>475.3</b>	<b>137.5</b>	<b>139.0</b>	<b>1.6</b>	<b>1.2</b>
Value Added Tax	288.5	320.2	82.5	82.5	0.0	0.0
Customs and excise duties	63.4	68.4	16.2	22.0	5.8	35.8
Licences, taxes and fines	87.2	86.7	38.8	34.6	-4.2	-10.8
<b>Non-tax<sup>(2)</sup></b>	<b>96.1</b>	<b>178.8</b>	<b>33.5</b>	<b>78.0</b>	<b>44.5</b>	<b>132.9</b>
<b>Expenditure</b>	<b>1,448.0</b>	<b>1,500.0</b>	<b>611.2</b>	<b>622.0</b>	<b>10.8</b>	<b>1.8</b>
<b>Recurrent</b>	<b>1,323.2</b>	<b>1,379.3</b>	<b>539.1</b>	<b>551.5</b>	<b>12.5</b>	<b>2.3</b>
Personal emoluments	257.9	272.9	90.7	96.2	5.5	6.1
Operational and maintenance	51.8	74.4	22.6	27.9	5.3	23.4
Programmes and initiatives	818.8	794.4	358.0	319.2	-38.8	-10.8
Contributions to entities	158.0	192.2	54.2	88.7	34.5	63.6
Interest payments	36.7	45.4	13.6	19.5	5.9	43.7
<b>Capital</b>	<b>124.7</b>	<b>120.7</b>	<b>72.1</b>	<b>70.5</b>	<b>-1.7</b>	<b>-2.3</b>
<b>Primary balance<sup>(3)</sup></b>	<b>-334.9</b>	<b>-90.1</b>	<b>-277.3</b>	<b>-230.2</b>	<b>47.2</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-371.6</b>	<b>-135.5</b>	<b>-290.9</b>	<b>-249.7</b>	<b>41.2</b>	<b>-</b>

Source: National Statistics Office.

<sup>(1)</sup> Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

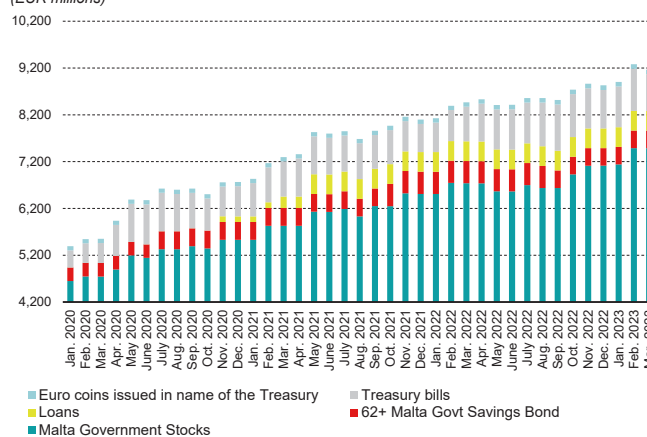
<sup>(2)</sup> Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

<sup>(3)</sup> Revenue less expenditure excluding interest payments.

Outlays on programmes and initiatives declined by €38.8 million, partly due to a base effect stemming from the one-off economic stimulus payment distributed to households in 2022, and the end of support measures related to the COVID-19 pandemic. The decline in outlays is also partly due to the timing of the tax refund measure.

Meanwhile, capital expenditure decreased by €1.7 million, partly reflecting lower expenditure on investment incentives.

**Chart 7**  
**GOVERNMENT DEBT<sup>(1)</sup>**  
(EUR millions)



Source: National Statistics Office.

<sup>(1)</sup> Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

In March 2023, the total stock of outstanding government debt amounted to €9,166.4 million, a decrease of €113.9 million when compared with February 2023 (see Chart 7). This mainly reflects lower outstanding Treasury Bills.

## Deposits, credit and financial markets

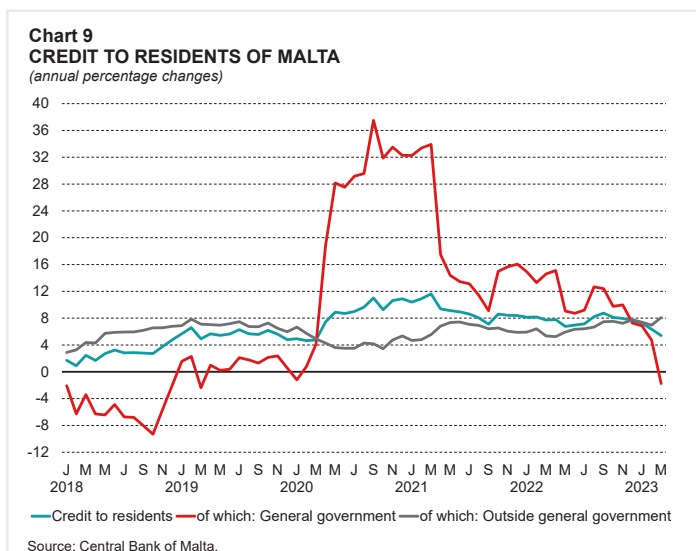
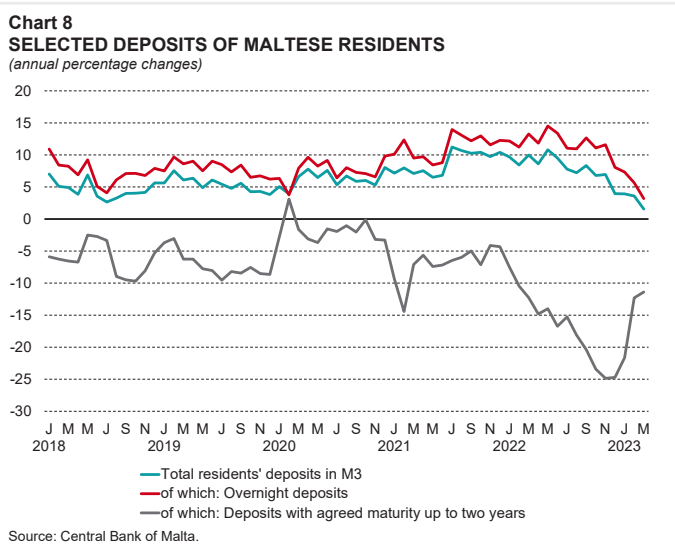
In March, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 1.6%, below the 3.6% recorded a month earlier (see Chart 8).

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 3.2% in the year to March, slowing from 5.7% 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 11.4% in annual terms, following a contraction of 12.3% in the year to February. The contraction in this category has slowed down in recent months, possibly due to more attractive terms on deposit accounts by certain credit institutions.

Credit to Maltese residents grew by 5.4% in March, after increasing by an annual 6.4% a month earlier (see Chart 9). This deceleration was driven by a decline in credit to general government. This credit component fell by 1.8%, following a 4.7% increase in February. Meanwhile, credit to residents outside general government increased at a faster pace, rising by 8.1%, above the 7.0% registered in the year to February.

The annual rate of change in loans to households eased to 8.5% in March, from 8.6% in the previous month (see Chart 10). Growth in mortgage lending stood at 8.6%, below the 8.9% recorded in the year to February. By contrast, growth in consumer credit and other lending accelerated in March, standing at 7.3%, following an increase of 5.8% a month earlier.

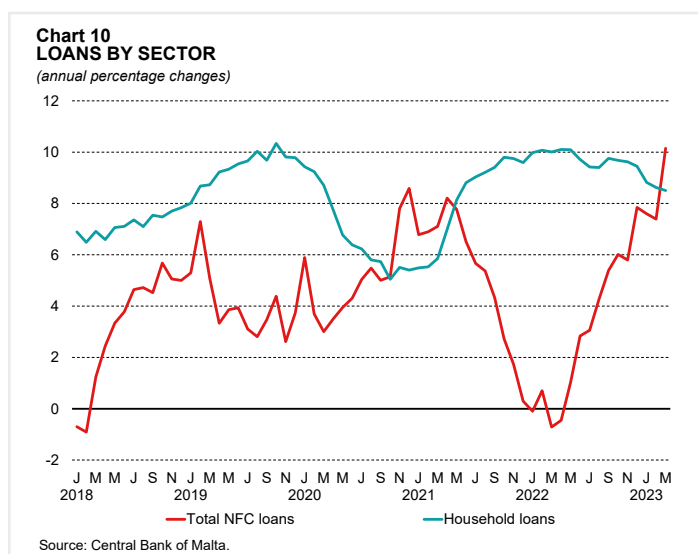
Meanwhile, the annual rate of change in loans to non-financial corporations stood at 10.1% in March, up from 7.4% in the year to February. This is the highest rate of growth in recent years. The acceleration was largely driven by a recovery in loans to the sector comprising professional, scientific and technical activities, and faster growth in loans to the construction sector. Furthermore,





loans to the energy sector, and accommodation and food service activities, declined at a slower pace. By contrast, loans to the wholesale and retail trade sector, and real estate activities increased at a slower pace. Slower growth was also recorded in loans to the transportation, storage, information, and communication sector.

By end-April, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.<sup>20</sup> The number and value of facilities approved and still outstanding was unchanged from the previous month. The outstanding value of loans stood at €308.0 million.



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-April, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding level of disbursements in terms of this scheme stood at €8.8 million, down from €9.6 million in March.

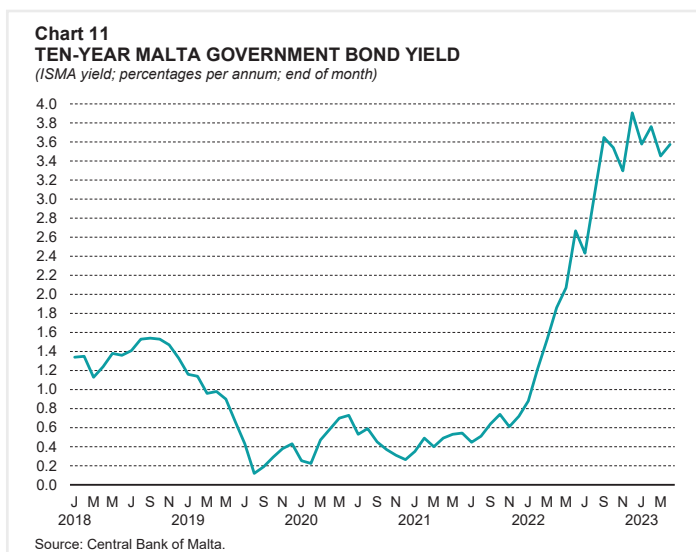
In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS), which consists of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total 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 April 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 €18.8 million by end-April.

As regards interest rates, in March, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits edged up to 0.19%, 1 basis point higher than that recorded a month earlier. Meanwhile, the composite rate charged on outstanding loans increased by 6 basis points, to 3.41% in March. As a result, the spread between the two rates widened, standing at 321 basis points.

<sup>20</sup> The CGS is administered by the Malta Development Bank for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls because 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.

On the capital market, the secondary market yield on ten-year Maltese government bonds increased to 3.58% at the end of April, 12 basis points higher than at the end of March. It also stood 172 basis points above its year-ago level (see Chart 11). This reflects the transmission of recent increases in ECB policy rates to government bond yields.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index rose by 2.3% when compared with March. 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																			
Annual percentage changes; non-seasonally adjusted data																			
	2020	2021	2022	2021	2022	2022	2022	2022	2023	2022	2022	2022	2022	2022	2023	2023	2023	2023	
				Q4	Q1	Q2	Q3	Q4	Q1	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
<b>Prices and costs</b>																			
HICP inflation	0.8	0.7	6.1	2.1	4.3	5.8	7.1	7.3	7.0	6.8	7.0	7.4	7.4	7.2	7.3	6.8	7.0	7.1	6.4
RPI inflation	0.6	1.5	6.2	2.4	4.2	6.0	7.1	7.3	7.0	6.8	7.0	7.5	7.5	7.1	7.4	6.9	7.1	7.0	5.8
Industrial producer price inflation	0.3	3.2	5.5	6.5	6.8	5.4	4.6	5.3	3.9	5.2	3.9	4.6	5.7	6.0	4.3	3.3	4.6	3.9	-
HCI (nominal)	1.8	0.4	-1.5	-1.7	-1.3	-2.2	-2.4	-0.1	1.6	-2.5	-2.6	-2.1	-1.0	0.0	0.8	1.4	1.3	2.0	3.8
HCI (real)	1.5	-1.9	-3.7	-4.5	-3.2	-4.7	-4.8	-2.2	0.4	-4.8	-4.9	-4.5	-3.6	-2.2	-0.8	-0.5	-0.1	1.8	3.7
Unit labour costs, whole economy <sup>(1)</sup>	12.1	-3.7	1.9	-3.7	-4.7	-3.2	-0.9	1.9	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	-0.4	4.6	2.8	4.6	3.9	3.1	2.5	2.8	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	-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	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																			
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	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																			
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	3.0	2.9	2.9	2.9	2.9	3.0	2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.0	2.9	-
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	6.2	3.6	5.1	5.5	6.2	7.9	-	6.1	6.2	6.4	7.4	8.0	8.4	-	-	-	-
<b>Balance of payments</b>																			
Current account (as a % of GDP) <sup>(2)</sup>	2.2	1.2	-5.8	1.2	-0.4	-1.7	-4.0	-5.8	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																			
<b>Maltese residents' deposits and loans</b>																			
Overnight deposits	9.8	12.3	8.1	12.3	13.3	13.4	12.7	8.1	3.2	11.0	10.9	12.7	11.1	11.6	8.1	7.3	5.7	3.2	-
Deposits with agreed maturity up to two years	-3.3	-4.3	-24.7	-4.3	-12.3	-16.7	-20.4	-24.7	-11.4	-15.3	-18.1	-20.4	-23.4	-24.9	-24.7	-21.6	-12.3	-11.4	-
Total residents' deposits in M3	8.0	10.4	4.0	10.4	10.0	9.5	8.4	4.0	1.6	7.8	7.2	8.4	6.8	7.0	4.0	3.9	3.6	1.6	-
Credit to general government	32.3	16.1	7.3	16.1	14.6	8.7	12.4	7.3	-1.8	9.2	12.7	12.4	9.8	10.0	7.3	6.9	4.7	-1.8	-
Credit to residents (excl. general government)	5.3	5.9	7.8	5.9	5.3	6.3	7.5	7.8	8.1	6.4	6.7	7.5	7.5	7.2	7.8	7.4	7.0	8.1	-
Total credit	10.9	8.4	7.6	8.4	7.7	7.0	8.8	7.6	5.4	7.2	8.2	8.8	8.1	8.0	7.6	7.3	6.4	5.4	-
Ten-year interest rate (%) <sup>(3)</sup>	0.3	0.7	3.9	0.7	1.5	2.7	3.6	3.9	3.5	2.4	3.0	3.6	3.5	3.3	3.9	3.6	3.8	3.5	3.6
Stock prices: Malta Stock Exchange Equity Price Index <sup>(4)</sup>	-12.4	-4.5	-9.9	1.8	-8.2	1.1	-0.7	-2.2	-0.4	0.4	-1.6	0.5	0.9	-3.1	0.0	-0.1	2.5	-2.7	2.3
<b>Liquidity support measures related to COVID-19</b>																			
Outstanding loans subject to a moratorium <sup>(5)</sup>	691.9	14.1	-	14.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS <sup>(5)</sup>	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	482.6	482.6
Disbursed amount under the MDB CGS <sup>(5)</sup>	287.1	453.0	470.2	453.0	459.6	468.9	470.2	470.2	470.2	469.5	469.7	470.2	470.2	470.2	470.2	470.7	470.7	470.7	470.7
<b>General government finances (% of GDP)</b>																			
Surplus (+) / deficit (-) <sup>(2)</sup>	-9.7	-7.8	-5.8	-7.8	-7.7	-6.5	-5.7	-5.8	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(6)</sup>	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.

<sup>(1)</sup> Four-quarter moving averages.

<sup>(2)</sup> Four-quarter moving sums.

<sup>(3)</sup> End of period.

<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(5)</sup> Stock in EUR millions.

<sup>(6)</sup> GDP data are four-quarter moving sums.