



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

6/2021

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ECONOMIC UPDATE 6/2021

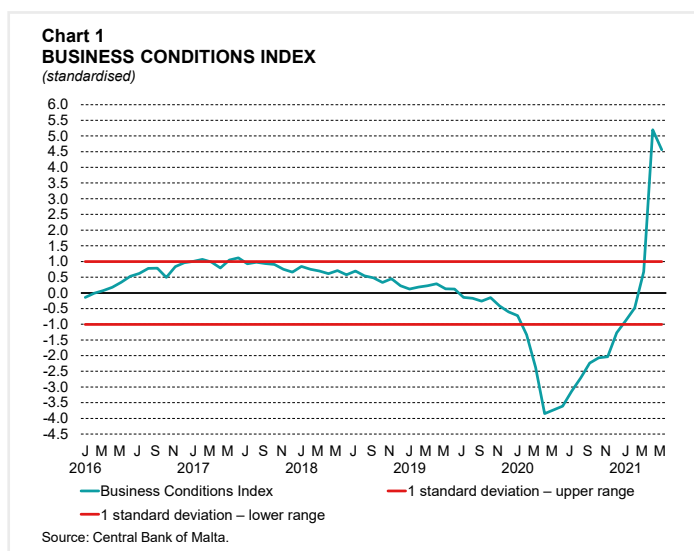
Summary¹

In May, business conditions were positive, reflecting the fact that most macroeconomic variables are improving from the very low levels observed in 2020. It is important to take the latter factor into consideration when considering year-on-year growth rates. European Commission data show that sentiment was positive across all sectors – bar the retail sector, which stood marginally negative. Overall economic sentiment edged down in May, but remained above its long-term average.

In April, annual growth in industrial production turned positive after five consecutive negative readings. The volume of retail trade rebounded strongly in annual terms. The number of registered unemployed fell compared with March, while the unemployment rate remained unchanged. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) remained unchanged at 0.1% in April, while inflation based on the Retail Price Index (RPI) accelerated to 0.9%. Maltese residents' deposits expanded at an annual rate of 7.4% in April, following an increase of 7.0% in the previous month, while annual growth in credit to Maltese residents decelerated to 9.4%, from 11.6% a month earlier. In April, the deficit on the cash-based Consolidated Fund narrowed considerably when compared with a year earlier, reflecting a strong increase in government revenue, coupled with a decline in government expenditure.

Central Bank's Business Conditions Index (BCI)²

The Bank's BCI indicates that in recent months, business activity started to improve on a year-on-year basis (see Chart 1). However, it is important to keep in mind that this improvement is from a very low base, as the second quarter of 2020 marked a historical low point for most economic variables. The BCI's readings are therefore being buoyed by very strong and positive annual growth rates recorded in its components in recent months, which constitute base-effects, reflecting the strong negative rates seen a year earlier. This occurred most strongly in tourist arrivals, selected government revenue items and economic sentiment. Moreover, unemployment has continued to fall.



¹ The cut-off date for information in this note is 10 June 2021. Most of the data reported in this issue of the *Economic Update* refer to April 2021 and reflect the partial relaxation of COVID-19 containment measures from that month. However, the latest data for the European Commission's confidence indicators, the Central Bank of Malta's BCI and the COVID-19 Government Response Index refer to May 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.

While these developments imply a better economic situation in recent months than that in 2020, the level of the BCI should not be interpreted as implying that economic activity has necessarily returned to pre-pandemic levels. Rather, at the current juncture, the high BCI readings should be interpreted as indicating a turnaround in trends in macroeconomic variables, which – while now in positive territory – are still below pre-pandemic levels.

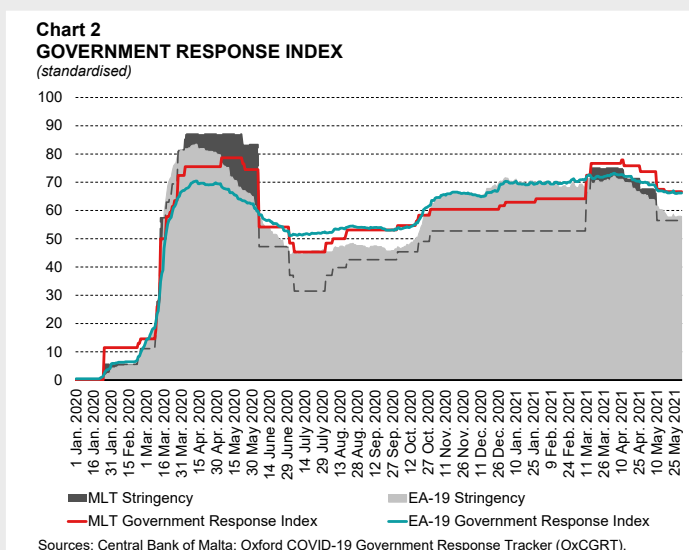
BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Malta's COVID-19 Government Response Index (GRI) at the end of May stood at 66.7, a 7.1-point drop when compared to April (see Chart 2). This mainly reflects the continued easing of restrictions, including the re-opening of restaurants, gyms and pools, and the resumption of non-essential travel to Gozo. Furthermore, restrictions aimed at protecting elderly persons were relaxed. In

particular, visitor allowance was increased, day centres re-opened, and outings resumed. The vaccination programme progressed further during May, with access extended to any individual aged 16 and over. This had an upward impact on the GRI, partly offsetting the decrease resulting from the relaxation of social distancing measures.

Meanwhile, the euro area average dropped slightly, from 70.1 as at end-April to 66.2 a month later. Following these developments, Malta's index ended May at a similar level to that in the euro area, with the latter standing only 0.5 points lower.

Following the above developments, the stringency index stood at 56.5, down from 67.6 at end-April. The level of stringency in Malta closed May 1.4 points lower than the euro area average.



Business and consumer confidence indicators

In May, the European Commission's Economic Sentiment Indicator (ESI) eased to 115.2, from 117.3 in April (see Table 1). Notwithstanding this decline, sentiment remained above its long-term average of around 100.0.^{3,4,5} The ESI also stood 0.7 point above that in the euro area.

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 In January 2021, data were 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

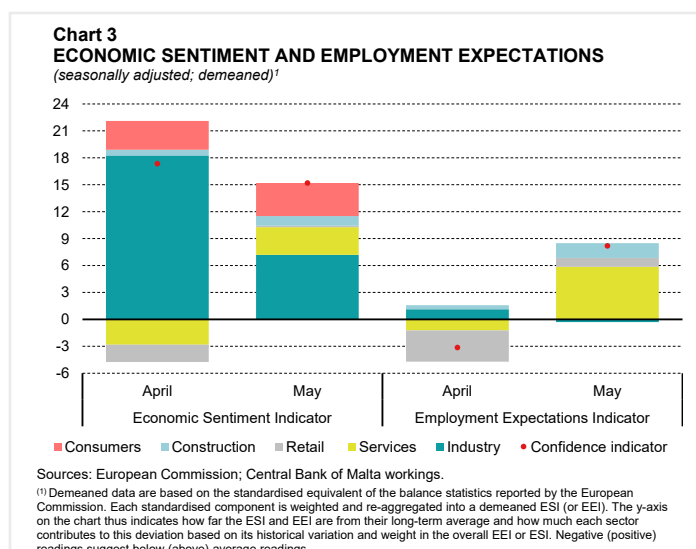
	2019	2020	2020		2021			
			May	Jan.	Feb.	Mar.	Apr.	May
ESI	102.4	81.4	66.9	85.8	88.1	95.0	117.3	115.2
<i>Industrial confidence indicator</i>	-6.7	-25.1	-40.2	-24.0	-18.6	-1.1	36.0	9.4
Assessment of order-book levels	-23.0	-48.8	-76.0	-41.4	-53.8	-41.4	-16.7	-30.1
Assessment of stocks of finished products	15.5	27.2	34.4	36.0	28.6	-11.3	-42.5	-21.0
Production expectations for the months ahead	18.4	0.8	-10.2	5.5	26.6	26.7	82.1	37.2
<i>Consumer confidence indicator</i>	4.5	-5.6	-11.3	-3.2	-6.9	-7.9	5.2	8.3
Financial situation past 12 months	11.3	-1.6	0.8	-15.4	-15.5	-18.6	-15.9	-11.7
Financial situation next 12 months	11.2	0.8	-5.7	4.3	-0.7	0.4	11.5	15.0
Economic situation next 12 months	20.9	-0.9	-17.7	8.7	4.5	3.6	30.7	35.3
Major purchases next 12 months	-25.1	-20.5	-22.5	-10.4	-15.8	-16.8	-5.5	-5.6
<i>Construction confidence indicator</i>	26.2	-5.7	-20.3	-1.2	-8.3	-8.5	9.6	21.9
Evolution of your current overall order books	19.7	-6.2	-13.0	-3.4	-13.6	-12.0	4.0	4.7
Employment expectations over the next 3 months	32.6	-5.2	-27.6	0.9	-3.0	-5.0	15.3	39.0
<i>Services confidence indicator</i>	20.7	-24.9	-53.5	-5.3	-3.7	-11.1	5.4	30.8
Business situation development over the past 3 months	16.7	-36.3	-66.3	-12.3	-12.4	-11.0	-1.1	16.6
Evolution of the demand over the past 3 months	21.5	-34.9	-66.0	-10.5	-16.8	-19.1	-5.1	25.1
Expectation of the demand over the next 3 months	24.0	-3.7	-28.3	6.7	17.9	-3.1	22.5	50.8
<i>Retail trade confidence indicator</i>	4.2	-31.0	-43.2	-51.4	-49.0	-38.2	-50.3	-1.9
Business activity, past 3 months	18.9	-22.2	-21.1	-51.6	-42.2	-58.6	-70.3	-43.3
Stocks of finished goods	17.4	31.9	53.0	50.3	33.5	37.2	42.4	-3.5
Business activity, next 3 months	11.1	-38.8	-55.5	-52.4	-71.4	-18.7	-38.1	34.2
E EI	102.7	86.0	77.5	88.8	87.0	88.4	96.6	108.4
Retail	4.7	-11.6	-15.5	-5.4	-5.7	14.5	-18.4	7.3
Construction	32.6	-5.2	-27.6	0.9	-3.0	-5.0	15.3	39.0
Services	17.5	-2.4	-16.6	-1.6	-11.8	-9.9	13.0	31.0
Industry	12.8	-12.5	-18.9	-5.7	10.3	-8.1	18.0	9.3
ESI demeaned	2.4	-18.6	-33.1	-14.2	-11.9	-5.0	17.3	15.2
E EI demeaned	2.7	-14.0	-22.5	-11.2	-12.9	-11.7	-3.1	8.2

Source: European Commission.

The month-on-month fall in sentiment was driven by weaker confidence in industry, which offset positive developments across the remaining sub-components. All components of the indicator were positive in May – bar that in the retail sector, which improved significantly compared to April, but still stood slightly negative.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that the decrease in overall sentiment in May was driven solely by a decline in confidence in industry (see Chart 3). The positive contribution of the construction sector and consumers edged up in the month under review, though moderately. Meanwhile, the contribution of services and, to a lesser extent, retail moved into positive territory. Overall, demeaned data suggest that, from a long-term perspective, the ESI is mostly above its long-term average due to relatively strong sentiment in industry and, to a lesser extent, in the services sector and among consumers.

In May, industrial confidence weakened but remained positive. It stood at 9.4, down from 36.0 a month earlier but stood well above its long-term average of -4.3.⁶ The fall in sentiment was largely driven by a significant deterioration in production expectations. At the same time, their assessment of order book levels was more negative relative to April. However, the share of firms reporting above normal stock levels decreased. Supplementary data show that a larger share of participants anticipated an increase in selling prices in the coming months.



Consumer confidence edged up to 8.3 in May, from 5.2 a month earlier, thus remaining above its long-term average of -10.9.⁷ The recent rise in sentiment was broad-based across almost all sub-components, but largely reflected more positive expectations about the general economic situation and a more positive assessment of the financial situation over the last 12 months. Consumers' expectations about the financial situation for the coming months also improved, although to a lesser extent. Meanwhile, participants' expectations of major purchases over the next 12 months weakened marginally.

Confidence within the construction sector also improved in the month under review, rising to 21.9 in May, from 9.6 a month earlier, thus remaining above its long-term average of -11.0.⁸ The recent increase mainly reflected more positive employment expectations. At the same time, order book levels edged up marginally relative to April. Additional survey data indicate that the share of respondents expecting prices to increase over the coming months rose significantly.

Sentiment within the services sector rose to 30.8, from 5.4 in the previous month. Following this increase, sentiment stood well above its long-term average of 18.9.⁹ Improved sentiment largely reflected developments in respondents' assessment of demand for the past three months. Participants' demand expectations also improved in the month under review. At the same time, firms' assessment of the business situation over the past three months turned positive for the first time since February 2020. Additional survey data show that, on balance, a smaller share of respondents anticipates a rise in prices in the coming months.

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 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.

⁸ 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.

⁹ 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.

Confidence within the retail sector soared to -1.9, from -50.3 in April, and thus stood slightly above its long-term average of -2.3.¹⁰ This mostly reflected business activity expectations for the coming months, which turned positive, although the assessment of business activity in recent months also improved.¹¹ Furthermore, participants reported stocks held to be below normal in May. Supplementary data indicate that price expectations turned strongly positive relative to 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 in May.¹² The EEI stood at 108.4, up from 96.6 in April and above its long-run average of around 100.0, though 1.7 points lower than the euro area average. Employment expectations were positive across all sectors.

Demeaned data suggest that the services sector largely explains why the overall EEI remained above its long-term average in recent months, followed by retail, even though the latter was the main contributor to the increase in sentiment in May (see Chart 3).

Activity indicators

In April, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – turned positive after five consecutive months. The index rose by 16.4% in annual terms, following a contraction of 4.3% in March (see Table 2).¹³

The recent increase in industrial production primarily reflected a strong increase in output from firms producing beverages. This was followed by higher output in the pharmaceutical sector as well as in the 'other manufacturing' sector, which includes firms involved in the production of medical and dental instruments, toys and related products. There were smaller increases in several other sectors, including those producing rubber and plastic products as well as those specialising in computer, electronic and optical products. On the other hand, output fell among firms that produce food, those that repair and install machinery and equipment as well as those that print and reproduce recorded media.

Production in the energy sector also increased in annual terms, for the first time since September 2020.

The volume of retail trade, which is a short-term indicator of final domestic demand, rebounded strongly in April. It increased by 17.7% on an annual basis, after rising by 0.6% in March.

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.

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.

Table 2																		
ACTIVITY INDICATORS																		
<i>Annual percentage changes</i>																		
	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. ⁽²⁾
Industrial production	1.2	-0.2	12.7	14.0	6.7	-7.2	-6.8	-6.6	-2.3	-3.7	-3.0	2.5	-1.9	-4.8	-7.0	-12.8	-4.3	16.4
Retail trade	7.1	-6.5	6.8	13.2	-2.3	-25.2	-17.2	-7.4	-11.7	-8.2	-11.9	-8.0	-3.9	2.0	-2.9	-10.4	0.6	17.7
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 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).

The tourism sector continued to be severely impacted by travel-related restrictions. The number of inbound tourists stood at 10,184 in April, which – while much better than in April 2020 – it is nevertheless just 4.2% of 2019 levels.¹⁴ Guest nights stood at 0.18 million (11.6% of 2019 levels), with collective accommodation continuing to register the sharpest decline in absolute terms. Total tourism expenditure stood at €8.8 million in April, 5.1% of expenditure levels recorded in the corresponding month in 2019.

In April, development permits for commercial buildings increased by 14.1% in annual terms, after increasing by 42.4% in March. Residential permits more than doubled in annual terms, following a sharp decline registered in the corresponding month a year earlier (see Table 3). However, the number remains below 2019 levels.

Data on residential property transactions show that on an annual basis, the number of final deeds more than doubled in May. Moreover, the number of promise-of-sale agreements signed during the month almost tripled from their year-ago level. 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.

Table 3																			
PROPERTY MARKET																			
<i>Annual percentage changes</i>																			
	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.	May
Permits																			
Commercial permits	-2.5	-22.7	-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	14.1	-
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	101.3	-
Residential transactions																			
Promise of sale	-22.2	-2.9	-12.3	-19.8	-25.4	-76.7	-55.4	-1.6	43.8	21.6	23.2	33.5	31.2	61.0	30.1	51.3	85.0	431.6	189.2
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	-2.1	-1.7	38.8	100.8	109.8

Sources: National Statistics Office; Eurostat.

¹⁴ Comparisons are made with 2019 as scheduled passenger flights were not in operation in April 2020.

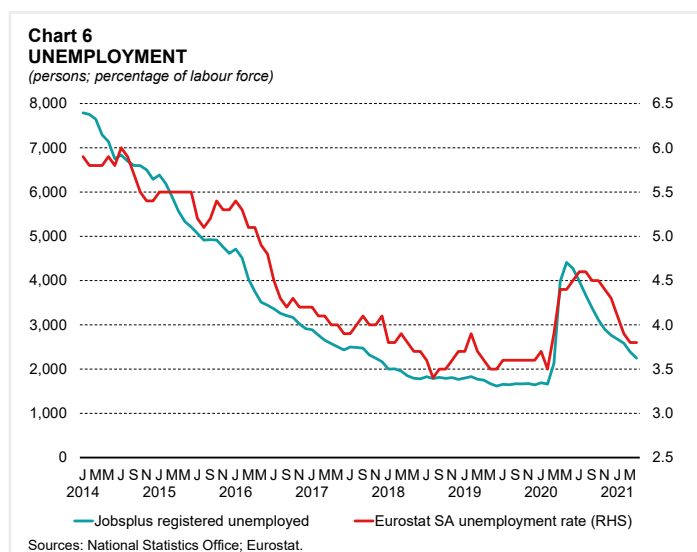
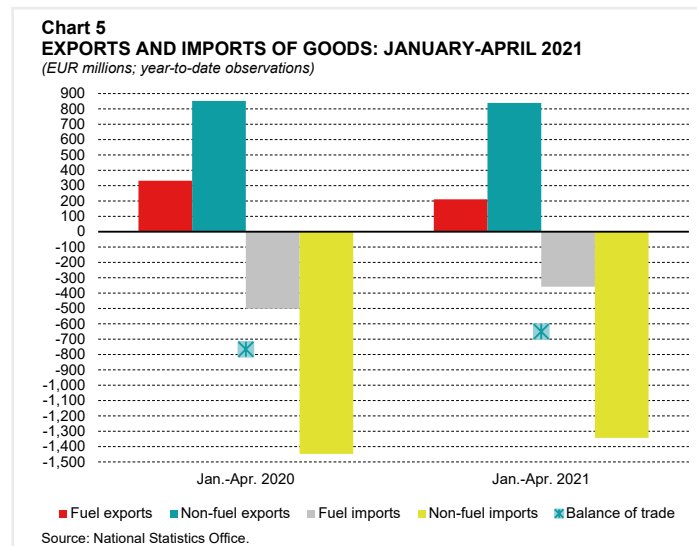
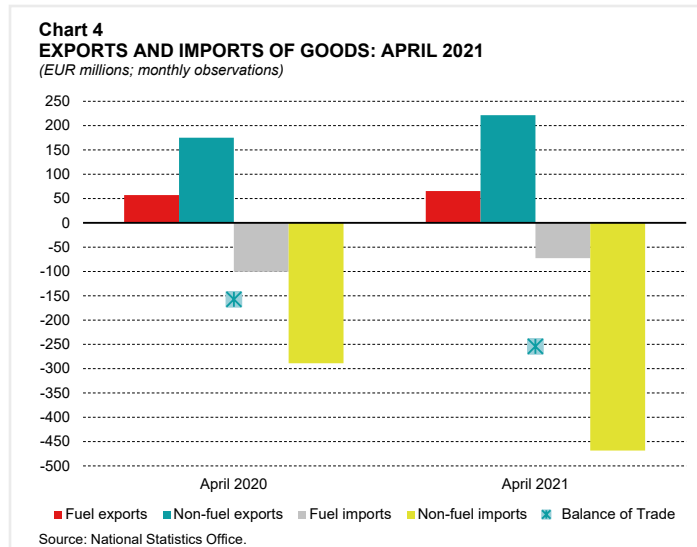
Customs data show that the merchandise trade deficit stood at €254.2 million in April, up from €157.4 million a year earlier. The larger deficit reflected a €151.6 million rise in imports which outweighed a €54.9 million increase in exports (see Chart 4). Higher imports were largely driven by a substantial increase in registrations of aircraft and sea vessels. An increase in the imports of electrical machinery, works of art and related items, other machinery and mechanical appliances, and articles of plastics also contributed, but to a much lesser extent. These increases outweighed a lower fuel import bill and fewer imports of paper.

The rise in exports was mostly on account of an increase in exported pharmaceutical products. However, higher exports of electrical machinery, toys, organic chemicals as well as higher re-exports of mineral fuels also contributed. These offset a fall in exports of printed material and tobacco articles.

In the first four months of this year, the visible trade gap narrowed to €651.1 million from €765.8 million in the corresponding period of 2020, driven by a fall in imports, which was almost double that in exports (see Chart 5).

Labour market

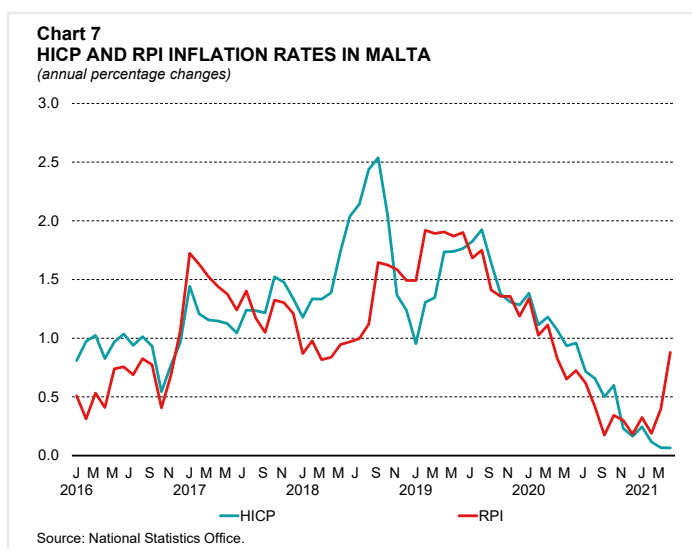
Jobsplus data show that the number of persons on the unemployment register stood at 2,248 in April 2021, down from 2,387 in March and 3,979 a year earlier when the labour market was heavily impacted by the first restrictions introduced as a result of the pandemic (see Chart 6).



The seasonally-adjusted unemployment rate stood at 3.8% in April, the same rate as that registered in the previous month, but lower than the rate of 4.4% registered in the same month of the preceding year.

Prices, costs and competitiveness

Annual HICP inflation stood at 0.1% in April, unchanged from the rate in March (see Chart 7). When compared to March, services inflation, non-energy industrial goods (NEIG) inflation and unprocessed food inflation all increased while energy prices decreased at a slower rate. These movements were counterbalanced by a decrease in processed food inflation.



Annual RPI inflation rose to 0.9% in April, from 0.4% in March (see Chart 7).¹⁵ This mainly reflects faster growth in the prices of clothing and footwear, and recreation and culture services.

Producer output inflation, measured by the industrial producer price index, decreased to 0.4% in April, from 1.1% in March.¹⁶ This reflected a slower increase in intermediate goods prices and capital goods prices, while consumer goods inflation turned negative. Energy prices remained unchanged when compared to their level a year earlier.

Malta's nominal harmonised competitiveness indicator (HCI) increased by 1.6% in the year to April, up from 0.8% in March.¹⁷ This deterioration in international competitiveness over the year to April 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 0.5%, 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 April 2021, the Consolidated Fund recorded a deficit of €47.9 million. This is a considerable improvement from the €295.4 million deficit registered in April 2020, and reflects a strong increase in government revenue, coupled with a decline in government expenditure (see Table 4). The

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. 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.

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	2020	2021	Change	
	Jan.-Apr.	Jan.-Apr.	Apr.	Apr.	Amount	%
Revenue	1,088.8	1,278.6	222.1	426.8	204.6	92.1
Direct tax	543.4	714.5	145.7	296.4	150.8	103.5
Income tax	345.4	467.6	104.4	185.0	80.6	77.3
Social security contributions	198.0	246.8	41.3	111.4	70.1	169.9
Indirect tax	413.7	451.3	33.3	83.0	49.7	149.2
Value Added Tax	235.2	283.4	3.7	32.6	28.9	789.1
Customs and excise duties	74.1	69.8	12.1	14.9	2.8	22.7
Licences, taxes and fines	104.5	98.1	17.5	35.6	18.1	103.1
Non-tax⁽²⁾	131.7	112.9	43.2	47.3	4.2	9.7
Expenditure	1,695.9	1,892.3	517.5	474.7	-42.9	-8.3
Recurrent	1,474.1	1,721.9	452.9	426.9	-26.0	-5.7
Personal emoluments	299.7	365.8	74.5	84.3	9.8	13.2
Operational and maintenance	68.0	84.0	20.9	12.4	-8.5	-40.7
Programmes and initiatives	838.9	1,002.0	277.9	255.7	-22.2	-8.0
Contributions to entities	205.8	210.5	62.8	59.2	-3.6	-5.8
Interest payments	61.7	59.7	16.8	15.3	-1.5	-9.0
Capital	221.8	170.4	64.7	47.8	-16.8	-26.0
Primary balance⁽³⁾	-545.4	-554.0	-278.6	-32.6	246.0	-
Consolidated Fund balance	-607.1	-613.7	-295.4	-47.9	247.5	-

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.

primary deficit reached €32.6 million, an improvement of €246.0 million when compared with the deficit a year earlier.

Government revenue rose strongly by €204.6 million, almost doubling in annual terms. This reflects a surge in tax revenue.

Revenue from direct taxes increased by €150.8 million, on the back of higher inflows from income taxes and the timing of social security contributions. Inflows from indirect taxes increased by €49.7 million, due to increased inflows from VAT receipts and licences, taxes and fines. Meanwhile, non-tax revenue also increased slightly, by €4.2 million, mainly reflecting higher inflows from grants and fees of office.

Government expenditure fell by €42.9 million, or 8.3% when compared to the corresponding period in 2020. This was due to a drop in both recurrent expenditure and capital expenditure. The former declined by €26.0 million, driven by lower outlays on programmes and initiatives. Despite being boosted by the reclassification of COVID-related support measures from capital expenditure, programmes and initiatives declined partly due to the timing of social payments and health-related expenditure, which had been boosted by outlays on equipment and medicine to treat for COVID-19 a year earlier. Outlays on operations and maintenance also declined in the month under review. These increases were partly offset by higher spending on personal emoluments.

Capital expenditure declined by €16.8 million, due to the above mentioned reclassification of COVID support measures.

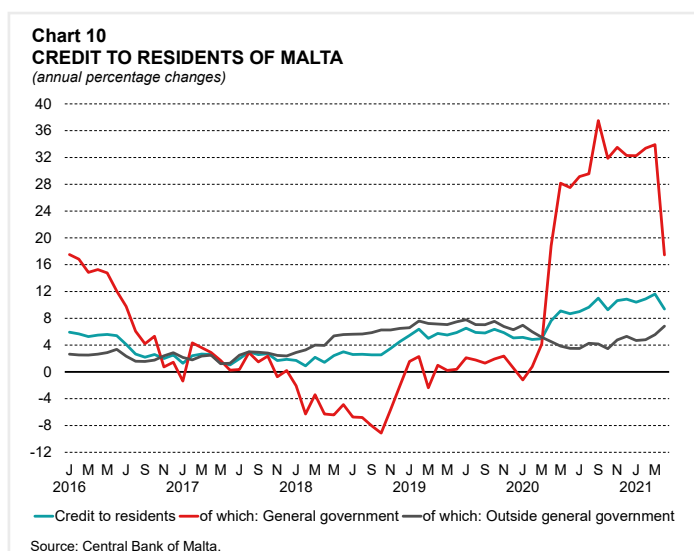
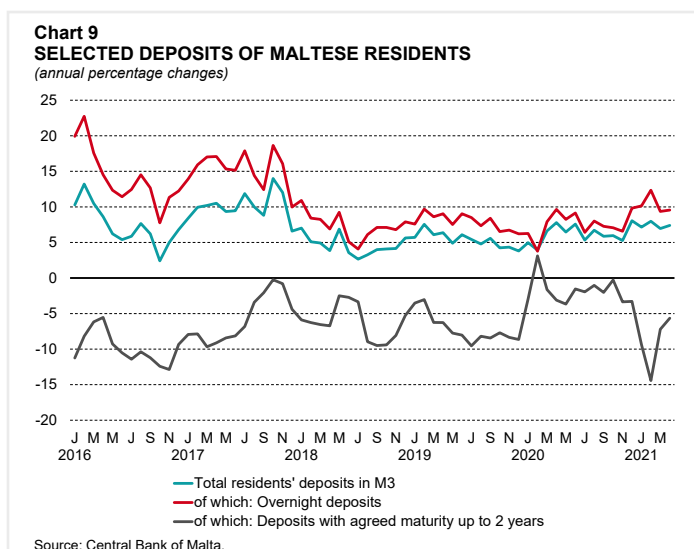
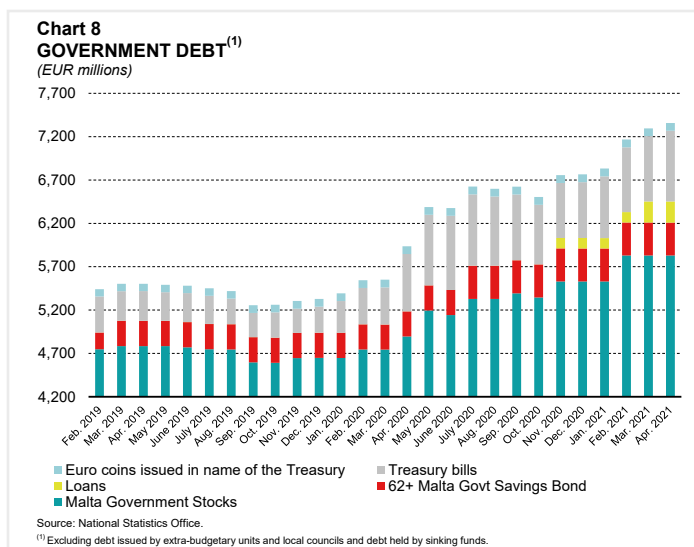
In April 2021, the total stock of government debt amounted to €7,357.8, a €62.4 million increase when compared with March 2021 (see Chart 8). This was due to an increase in Treasury bills outstanding.

Deposits, credit and financial markets

In April, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 7.4%, slightly above the 7.0% 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 9.6% in the year to April, after rising by 9.4% in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 5.7% in annual terms, following a contraction of 7.2% in March.

Credit to Maltese residents grew at an annual rate of 9.4% in April, below the 11.6% recorded a month earlier (see Chart 10). The deceleration in credit during April was driven by slower growth in credit to general government. Annual growth in this component stood at 17.5% in



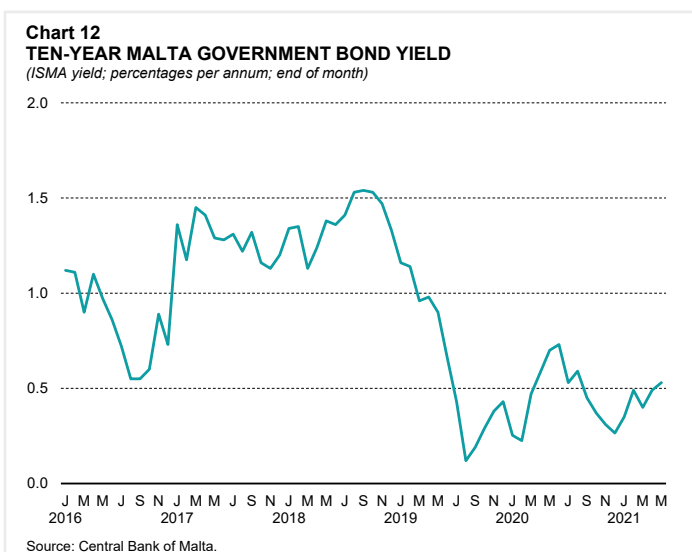
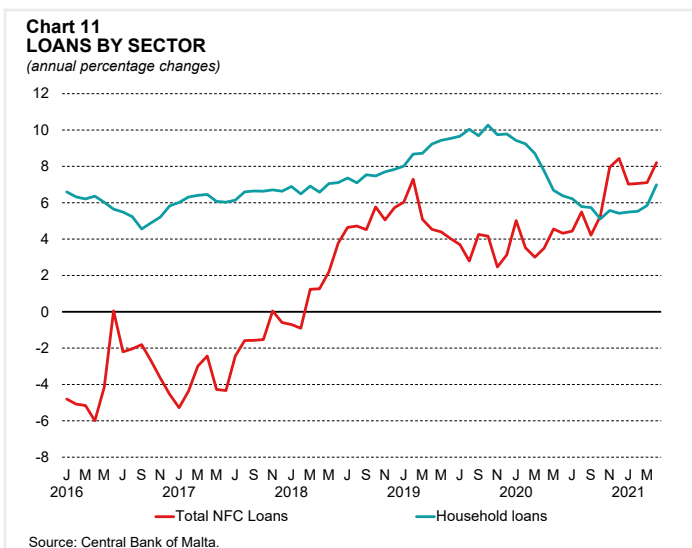
April, approximately half the 33.9% increase in the previous month. By contrast, credit outside general government rose by 6.8%, following a 5.8% increase in March.

The annual rate of change in loans to non-financial corporations stood at 8.2% in April, up from 7.1% a month earlier (see Chart 11). The increase was broad-based across almost all sectors. The main driver of growth was the energy sector, which registered a smaller contraction in credit relative to March. This was followed by an increase in loans to the transportation and storage sector, and the sector comprising education, health and social activities. Furthermore, credit to the construction and real estate sector, the agriculture sector and the sectors comprising professional, scientific, technical and administrative, and support service activities also rose over the year end to April. These developments were partly offset by slower growth in loans to the sector comprising accommodation and food services activities as well as public administration and defence.

Meanwhile, the annual rate of change of loans to households stood at 7.0% in April, above the 5.9% in March. Mortgage lending rose by 8.2% in April, up from 7.3% a month earlier. At the same time, consumer credit and other lending fell at a slower rate of 4.9%, following a contraction of 7.4% in March.

As regards interest rates, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits eased to 0.19% in April, from 0.20% a month earlier. The composite rate charged on outstanding loans also fell marginally to 3.31%, from 3.32% in March. Hence, the spread between the two rates declined slightly to 311 basis points in April.

In the capital market, the secondary market yield on 10-year Maltese government bonds increased by 4 basis points from a month earlier, to 0.53% at the end of May (see Chart 12). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell by 1.8% 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 the end of April, 750 loans were subject to a moratorium on repayments compared to 1,206 loans a month earlier. These declined by €139.6 million and stood at €281.8 million, or 2.3% of total outstanding loans to Maltese residents. Loans subject to a moratorium have fallen consistently since August 2020. However, the drop in April was smaller than that recorded in the preceding month. During April, 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.

The outstanding value of loans subject to a moratorium of Maltese households fell to €49.3 million – equivalent to 17.5% of the total value of loans subject to a moratorium and 0.8% of outstanding household loans. This is down from €635.0 million in July 2020.

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

Number of loans; EUR millions; percentage

	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	493	49.3	0.8
Manufacturing	7	3.1	1.4
Construction	13	17.8	2.7
Wholesale and retail trade; repair of motor vehicles and motor cycles	40	11.8	1.8
Transportation and storage and information and communication	11	2.3	0.7
Accommodation and food service activities	70	68.3	12.9
Real estate activities	48	36.7	3.6
Other ⁽⁴⁾	69	92.6	4.5
Total	750	281.8	2.3

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.

Meanwhile, the accommodation and food services activities sector held €68.3 million in loans subject to a moratorium. This is the sector most affected by the containment measures and, indeed, around one-eighth of the loans held by this sector were subject to a moratorium by the end of April. At the end of 2020, over 40.0% of the loans of this sector had been subject to a moratorium. The real estate sector held €36.7 million in loans subject to a moratorium, or around 13.0% of such loans – equivalent to 3.6% of the sector's outstanding loans. Moreover, as at end-April, the construction sector held €17.8 million in loans subject to a moratorium, making up 6.3% of loans subject to a moratorium, or 2.7% of loans held by the sector. The 'other category' sector which contains loans subject to a moratorium in agriculture and fishing, education, health, and financial and insurance activities among others, held €92.6 million in loans subject to a moratorium, almost a third of loans subject to a moratorium, or 4.5% of loans held by the sectors falling under this category.

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-April, 587 facilities were approved under the CGS, covering total sanctioned lending of €444.4 million (see Table 6). As the scheme provides loans for working capital and loan repayments, €354.9 million were disbursed by the end of April, up from the €340.5

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

Number of facilities; EUR millions

	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	51	25.0
Construction	34	41.0
Wholesale and retail trade; repair of motor vehicles and motor cycles	162	94.3
Transportation and storage and information and communication	38	49.3
Accommodation and food service activities	135	105.8
Professional, scientific and technical activities	34	19.2
Administrative and support service activities	40	14.2
Real estate	17	6.4
Other ⁽³⁾	76	89.2
Total	587	444.4

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.

million disbursed by the end of March. Thus, by the end of April, 57.1% of the scheme was sanctioned, while 45.6% 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 €94.3 million in sanctioned loans. This was followed by accommodation and food services activities, with 135 facilities or €105.8 million in sanctioned loans.

MACROECONOMIC INDICATORS FOR MALTA

Annual percentage changes; non-seasonally adjusted data

	2018	2019	2020	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2021	2021	2021	2021	2021		
				Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May			
Prices and costs																													
HICP inflation	1.7	1.5	0.8	1.3	1.2	1.0	0.6	0.3	0.1	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	0.1	0.1	-		
RPI inflation	1.2	1.6	0.6	1.3	1.2	0.7	0.4	0.3	0.3	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	0.9	-	-		
Industrial producer price inflation	4.4	2.2	0.3	1.8	1.2	0.3	0.2	-0.4	0.8	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	1.1	0.4	-	-		
HCI (nominal)	2.6	-0.7	1.8	-1.1	-0.2	1.2	2.8	3.5	2.7	-1.1	-1.0	1.7	1.3	0.9	1.3	2.3	2.7	3.3	3.3	3.9	3.9	3.8	3.6	0.8	1.6	-	-		
HCI (real)	2.1	-1.1	1.5	-1.6	-0.9	1.3	2.4	3.2	1.5	-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	-0.5	-	-		
Unit labour costs, whole economy ⁽¹⁾	3.7	3.3	8.8	4.0	5.0	8.9	10.2	11.4	10.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Compensation per employee ⁽¹⁾	2.9	2.8	1.1	2.9	2.7	1.6	0.4	-0.2	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-0.7	-0.5	-6.8	-1.1	-2.0	-6.3	-8.6	-10.4	-9.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.8	6.1	3.4	5.7	5.5	3.9	2.7	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																													
Nominal GDP	7.5	7.9	-6.5	8.3	3.7	-13.5	-8.9	-6.6	-0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP	5.2	5.5	-7.8	5.8	1.9	-14.7	-9.9	-7.8	-1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	9.1	4.5	-8.0	3.4	-2.1	-16.8	-7.7	-5.4	-4.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	12.1	14.7	15.2	11.5	2.9	19.9	20.9	17.3	24.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	3.2	8.5	-7.1	2.5	-7.4	-2.6	-5.0	-12.8	-11.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-0.6	7.0	-7.0	6.9	4.0	-11.4	-12.4	-7.7	-4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	0.5	8.5	-3.3	6.3	1.5	-3.7	-6.7	-4.2	-2.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	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	6.2	9.8	6.2	7.9	9.1	7.3	9.8	9.4	6.3	3.8	7.9	9.6	8.3	9.1	6.4	8.0	7.3	7.1	6.6	9.8	10.1	12.3	9.4	9.6	-	-	-	-
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	-2.9	3.1	-1.6	-3.1	-3.7	-1.5	-1.9	-1.0	-2.0	-0.3	-3.3	-3.3	-9.4	-14.4	-7.2	-5.7	-	-	-	-
Total residents' deposits in M3	5.7	3.8	8.1	3.8	6.6	7.6	5.9	8.1	7.0	5.0	3.9	6.6	7.8	6.5	7.6	5.3	6.7	5.9	6.0	5.3	8.1	7.2	8.0	7.0	7.4	-	-	-	-
Credit to general government	-2.0	0.6	32.3	0.6	4.1	27.5	37.5	32.3	33.9	-1.2	0.8	4.1	18.8	28.2	27.5	29.2	29.6	37.5	31.9	33.5	32.3	32.3	33.4	33.9	17.5	-	-	-	-
Credit to residents (excl. general government)	6.5	6.3	5.3	6.3	5.2	3.5	4.2	5.3	5.5	7.0	6.0	5.2	4.5	3.8	3.5	3.5	4.3	4.2	3.5	4.8	5.3	4.7	4.8	5.5	6.8	-	-	-	-
Total credit	4.5	5.1	10.9	5.1	5.0	8.7	11.0	10.9	11.6	5.2	4.8	5.0	7.6	9.1	8.7	9.0	9.6	11.0	9.3	10.6	10.9	10.4	10.9	11.6	9.4	-	-	-	-
10-year interest rate (%) ⁽³⁾	1.3	0.4	0.3	0.4	0.5	0.7	0.5	0.3	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	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	-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	-1.8	-	-	-
Liquidity support measures related to COVID-19																													
Outstanding loans subject to a moratorium ⁽⁵⁾	-	-	695.9	-	493.5	1,704.9	1,586.8	700.8	421.4	-	-	493.5	1,260.0	1,548.2	1,704.9	1,796.2	1,769.4	1,586.8	1,148.1	888.9	700.8	697.9	663.6	421.4	281.8	-	-	-	-
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	444.4	451.3	-	-	-	-
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	354.9	364.4	-	-	-	-
General government finances (% of GDP)																													
Surplus (+) / deficit (-) ⁽²⁾	1.9	0.4	-10.2	0.4	-2.0	-5.2	-7.1	-10.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	44.8	42.0	54.8	42.0	43.3	50.1	52.9	54.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.