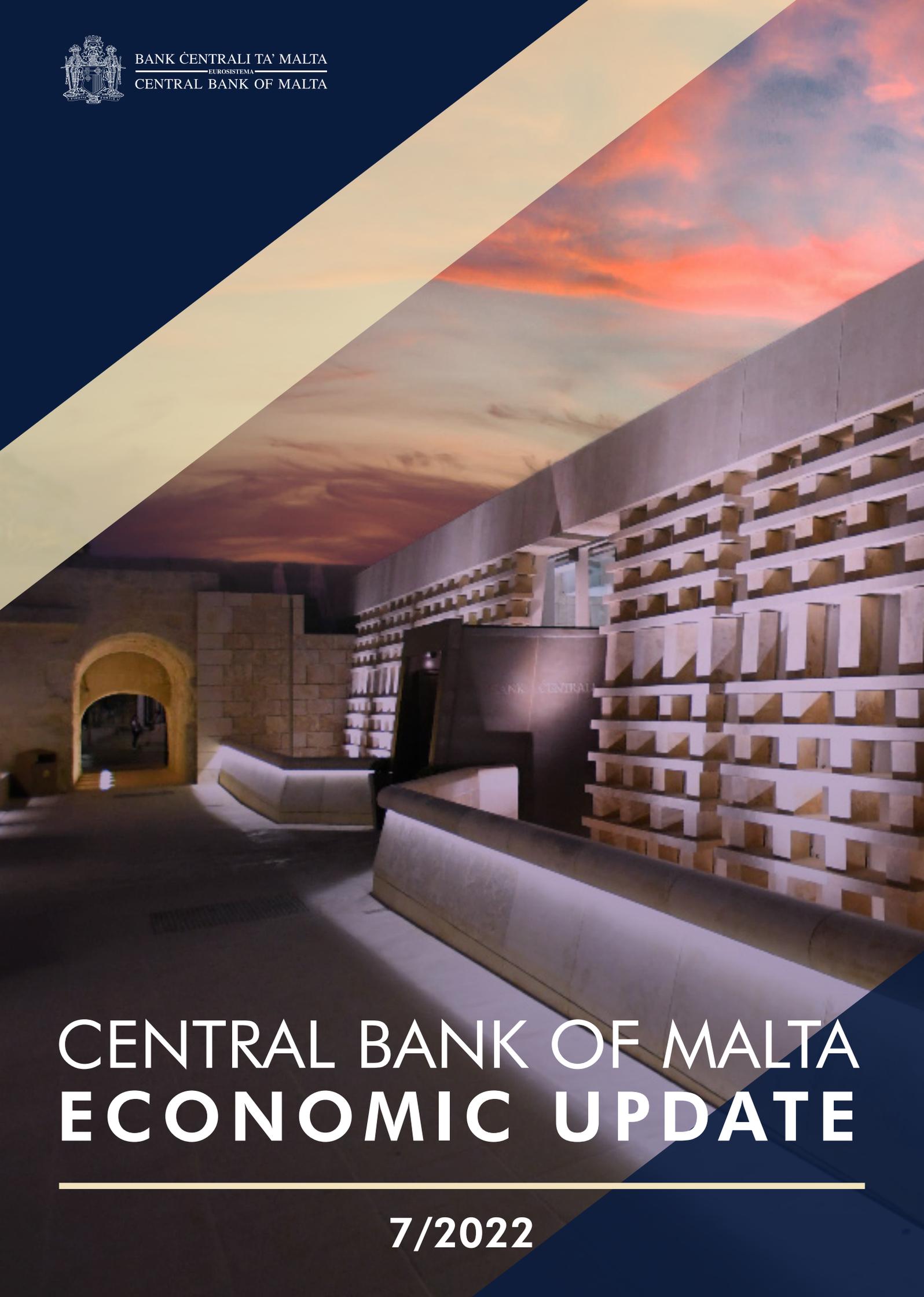




BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



# CENTRAL BANK OF MALTA ECONOMIC UPDATE

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7/2022

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*The cut-off date for information in this note is 14 July 2022. However, the cut-off dates for the HICP and the RPI are 19 and 22 July 2022, respectively. Figures in tables may not add up due to rounding.*

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## ECONOMIC UPDATE 7/2022

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

*The Bank's Business Conditions Index (BCI) indicates that annual growth in business activity has returned to its long-term average estimated since January 2000.*

*The European Commission survey shows that in June, economic sentiment in Malta remained above its long-term average, which is estimated since November 2002, but edged down from a month earlier. When compared with May, sentiment deteriorated strongly in the retail sector, and to a smaller extent, among consumers and in the construction sector. These developments offset an improvement in sentiment in industry and the services sector.*

*Additional survey information shows that price expectations eased across all sectors but remained at elevated levels. The largest decline was recorded in industry.*

*In June, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with May. Lower uncertainty was driven by developments in services and industry.*

*In May, industrial production contracted in annual terms, though at a smaller rate compared with a month earlier. The volume of retail trade rose at a slower pace. The unemployment rate was unchanged from a month earlier but below last year's rate.*

*Commercial and residential permits rose in May relative to their year-ago levels. In June, both the number of promise-of-sale agreements and final deeds of sale fell on a year-on-year basis.*

*The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 6.1% in June, up from 5.8% in the previous month. Inflation based on the Retail Price Index (RPI) edged up to 6.2% in June, from 6.0% a month earlier.*

*Maltese residents' deposits expanded at an annual rate of 11.1% in May, following an increase of 8.8% in the previous month while annual growth in credit to Maltese residents stood at 6.8%, below the rate of 7.8% recorded a month earlier.*

*The Consolidated Fund in May 2022 recorded a surplus compared with a deficit a year earlier as government revenue rose at a much faster pace than government expenditure.*

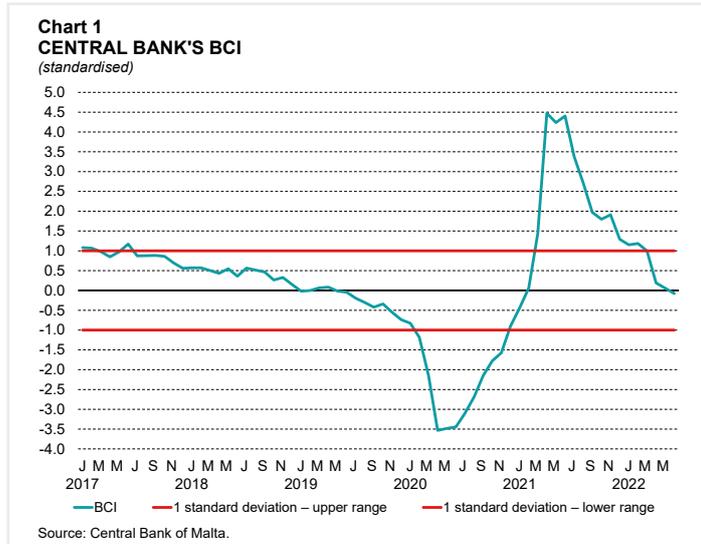
### Central Bank's Business Conditions Index<sup>2</sup>

The Bank's BCI indicates that annual growth in business activity has normalised from its record highs registered in the first half of 2021, as activity in most sectors is close to or is exceeding

<sup>1</sup> The cut-off date for information in this note is 14 July 2022. However, the cut-off dates for the HICP and the RPI are 19 and 22 July 2022, respectively. Most of the data reported in this issue of the Economic Update refer to May 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 June.

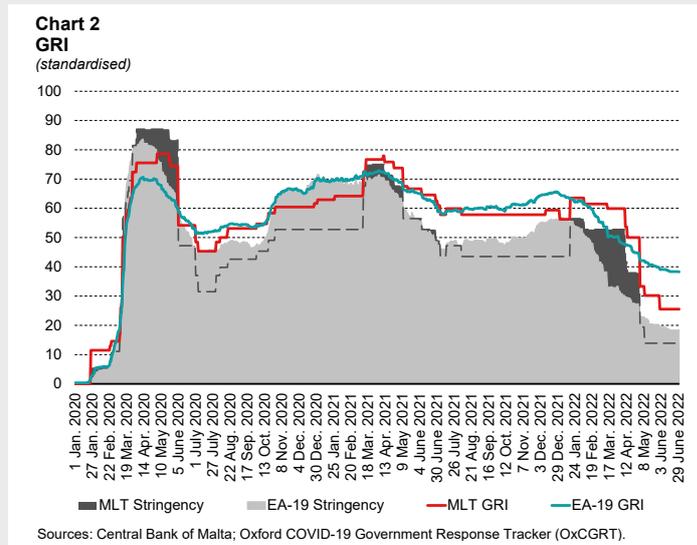
<sup>2</sup> The methodology underlying the BCI can be found [here](#). A zero value of the BCI is consistent with average business conditions, which in the case of Malta tends to be consistent with a real GDP growth rate of close to 4%. When the value of the BCI falls repeatedly below -1, economic activity would be significantly below normal. From June 2020, the BCI methodology was updated to include a new variable: monthly development permits.

pre-pandemic levels (see Chart 1).<sup>3</sup> It has now returned to its historical average estimated since January 2000. Among BCI components, growth was highest in the case of tourist arrivals, development permits and tax revenue. Moreover, the unemployment rate continued to fall in annual terms. On the other hand, other variables such as the economic sentiment indicator and the index of industrial production have fallen in recent months when compared to their year-ago levels.



## BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Malta's COVID-19 Government Response Index (GRI) at the end of June stood at 25.5, down by 4.7 points when compared to its level at the end of May (see Chart 2). The fall entirely reflects the expiration of all COVID-19 income support measures, following the termination of the wage supplement scheme at the end of May. Malta's index stood 12.8 percentage points lower than the euro area average, which closed the month at 38.3, 1.4 points lower than its level at end-May.



Meanwhile, at 13.9, Malta's Stringency Index retained the level recorded at end-May. It ended June 4.5 points lower than the euro area average, which closed the month at 18.4.

<sup>3</sup> The volatility caused by the pandemic in most economic variables and the variation in the timing of turning points across indicators implies that as new observations are introduced in the estimation of the BCI each month, estimates of the BCI for earlier periods can be revised significantly. This is due to the filtering process embedded within the BCI.

## Business and consumer confidence indicators

In June, the European Commission's Economic Sentiment Indicator (ESI) for Malta eased to 102.6, from 103.7 a month earlier, but remained above its long-term average of around 100.0, which is estimated since November 2002. Following this decrease, the indicator stood below the euro area average of 104.0 and its level in June 2021 (see Table 1).<sup>4,5,6,7</sup>

**Table 1**  
**BUSINESS AND CONSUMER SURVEYS – MALTA**

Balances; percentage points; seasonally adjusted

	2020	2021	2021				2022			
			June	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
<b>ESI</b>	<b>82.6</b>	<b>105.0</b>	<b>109.2</b>	<b>94.6</b>	<b>101.7</b>	<b>117.5</b>	<b>108.1</b>	<b>103.7</b>	<b>103.7</b>	<b>102.6</b>
<b>Services confidence indicator</b>	<b>-23.2</b>	<b>13.6</b>	<b>28.6</b>	<b>-16.2</b>	<b>5.9</b>	<b>28.1</b>	<b>30.9</b>	<b>13.7</b>	<b>25.5</b>	<b>27.0</b>
Business situation development over the past 3 months	-34.3	4.9	5.8	-14.0	-4.2	29.6	36.9	10.0	17.0	21.7
Evolution of the demand over the past 3 months	-33.6	10.7	35.9	-12.2	22.2	23.1	37.0	9.0	20.5	50.2
Expectation of the demand over the next 3 months	-1.7	25.3	44.1	-22.4	-0.2	31.6	18.8	22.2	38.9	9.2
<b>Retail trade confidence indicator</b>	<b>-30.3</b>	<b>-8.4</b>	<b>-9.4</b>	<b>35.4</b>	<b>6.3</b>	<b>21.0</b>	<b>8.3</b>	<b>6.4</b>	<b>17.0</b>	<b>-2.6</b>
Business activity, past 3 months	-21.8	-13.6	-62.7	37.4	-17.6	18.7	13.0	17.5	43.1	16.2
Stocks of finished goods	30.5	12.8	4.3	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5
Business activity, next 3 months	-38.4	1.2	38.9	33.0	0.6	27.1	10.7	5.6	5.6	-26.4
<b>Construction confidence indicator</b>	<b>-4.5</b>	<b>7.3</b>	<b>12.2</b>	<b>5.1</b>	<b>9.8</b>	<b>5.2</b>	<b>3.4</b>	<b>15.1</b>	<b>18.1</b>	<b>15.1</b>
Evolution of your current overall order books	-4.9	1.4	13.8	-1.5	9.1	5.5	8.7	16.7	12.0	9.2
Employment expectations over the next 3 months	-4.1	13.2	10.5	11.7	10.6	4.8	-1.9	13.4	24.3	21.0
<b>Consumer confidence indicator</b>	<b>-5.7</b>	<b>3.3</b>	<b>8.6</b>	<b>0.0</b>	<b>-1.0</b>	<b>0.7</b>	<b>-2.3</b>	<b>2.3</b>	<b>0.4</b>	<b>-6.1</b>
Financial situation past 12 months	-2.2	-8.8	-6.8	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0
Financial situation next 12 months	1.0	7.0	10.4	0.5	-0.6	-1.0	-2.0	-4.1	-9.6	-9.6
Economic situation next 12 months	0.4	18.6	37.0	4.0	3.4	10.9	-1.7	8.9	3.5	1.8
Major purchases next 12 months	-21.8	-3.4	-6.1	5.3	4.1	6.1	3.0	12.6	21.5	4.3
<b>Industrial confidence indicator</b>	<b>-24.2</b>	<b>2.1</b>	<b>3.8</b>	<b>-11.3</b>	<b>-4.2</b>	<b>25.1</b>	<b>1.4</b>	<b>-2.2</b>	<b>-14.8</b>	<b>-10.3</b>
Assessment of order-book levels	-47.8	-28.2	-41.1	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6
Assessment of stocks of finished products	26.6	-3.2	8.4	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1
Production expectations for the months ahead	1.9	31.3	60.9	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5
<b>EI</b>	<b>87.0</b>	<b>104.1</b>	<b>111.3</b>	<b>99.6</b>	<b>105.2</b>	<b>78.0</b>	<b>113.6</b>	<b>105.0</b>	<b>117.6</b>	<b>117.0</b>
Industry	-10.9	14.8	18.9	12.4	13.4	18.4	2.9	32.8	53.1	34.0
Construction	-4.1	13.2	10.5	11.7	10.6	4.8	-1.9	13.4	24.3	21.0
Retail	-12.2	4.4	2.2	2.1	1.0	3.9	17.7	4.9	4.1	2.1
Services	-0.7	25.1	45.3	14.7	31.0	-48.9	53.1	19.3	44.5	52.8
<b>EUI<sup>(1,2)</sup></b>	<b>-</b>	<b>21.3</b>	<b>32.2</b>	<b>36.9</b>	<b>25.1</b>	<b>32.6</b>	<b>27.8</b>	<b>20.6</b>	<b>35.2</b>	<b>33.0</b>
Services	-	32.2	47.3	42.8	45.1	38.1	-1.3	1.9	26.5	17.2
Industry	-	21.0	38.1	51.4	20.8	44.9	59.1	35.1	55.3	49.3
Retail	-	48.8	56.5	60.8	59.0	40.7	56.4	52.8	45.9	48.5
Consumers	-	-3.5	-5.1	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1
Construction	-	30.1	19.9	12.8	5.5	15.7	27.4	20.2	7.0	37.2
<b>ESI demeaned</b>	<b>-17.4</b>	<b>5.0</b>	<b>9.2</b>	<b>-5.3</b>	<b>1.7</b>	<b>17.5</b>	<b>8.1</b>	<b>3.7</b>	<b>3.7</b>	<b>2.6</b>
<b>EI demeaned</b>	<b>-12.6</b>	<b>4.5</b>	<b>12.0</b>	<b>0.0</b>	<b>5.7</b>	<b>-22.0</b>	<b>14.2</b>	<b>5.5</b>	<b>18.3</b>	<b>17.7</b>

Source: European Commission.

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

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

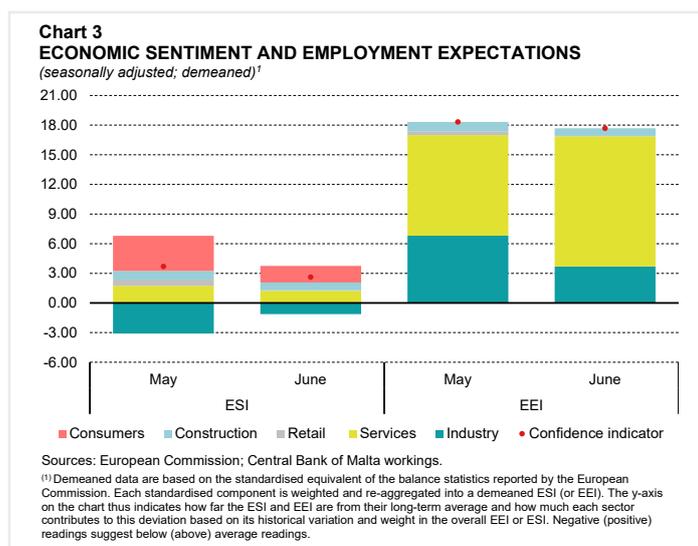
<sup>4</sup> The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

<sup>5</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 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.

<sup>6</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>7</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. For further details on the methodology used by the European Commission, see: [https://ec.europa.eu/info/sites/default/files/bcs\\_user\\_guide.pdf](https://ec.europa.eu/info/sites/default/files/bcs_user_guide.pdf)

In month-on-month terms, sentiment in Malta fell most in the retail sector, and to a smaller extent, among consumers and in the construction sector. However, it improved in industry and to a lesser degree, in the services sector. In June, sentiment was positive in services and construction, but negative in industry and among retailers and consumers.



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 May and June was broad based across all sectors, with the exception of industry (see Chart 3). The largest decline was recorded among consumers, which however retained a positive contribution. The contribution of the retail and services sectors and to a lesser extent that of the construction sector also eased in June. By contrast, the contribution of industry increased but remained negative. Demeaned data also suggest that the confidence indicators for consumers and services largely explain why the ESI is above its long-term average in June.

In June, sentiment in the retail sector turned negative. It stood at -2.6, down from 17.0 in May, and fell below its long-term average of -0.9.<sup>8</sup> This was driven by a significant deterioration in retailers’ assessment of business activity over the last three months and their expectations of sales over the coming months. At the same time, a marginally larger share of retailers assessed their stock levels to be below normal.<sup>9</sup>

Consumer confidence turned negative, falling to -6.1 in June, from 0.4 a month earlier, but remained above its long-term average of -10.1.<sup>10</sup> The recent fall in sentiment is largely reflected in developments in consumers’ expectations of major purchases in the coming months, and to a smaller extent, of their financial situation in the past 12 months. At the same time, a marginally smaller share of participants expects the general economic situation to improve over the coming months.

Confidence within the construction sector eased to 15.1, from 18.1 a month earlier, reflecting a decrease in both respondent’s employment expectations and in order book levels. Notwithstanding this decline, sentiment remained well above its long-term average of -9.2.<sup>11</sup>

<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: [https://ec.europa.eu/info/sites/info/files/esi\\_2019\\_01\\_en.pdf](https://ec.europa.eu/info/sites/info/files/esi_2019_01_en.pdf)

<sup>11</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 within the services sector reached 27.0 in June, from 25.5 in May, thus standing further above its long-term average of 19.2.<sup>12</sup> This increase in confidence largely stems from firms' assessment of demand, although their assessment of the business situation in recent months also improved somewhat. However, the share of participants expecting an increase in demand over the next three months declined sharply compared with the previous month.

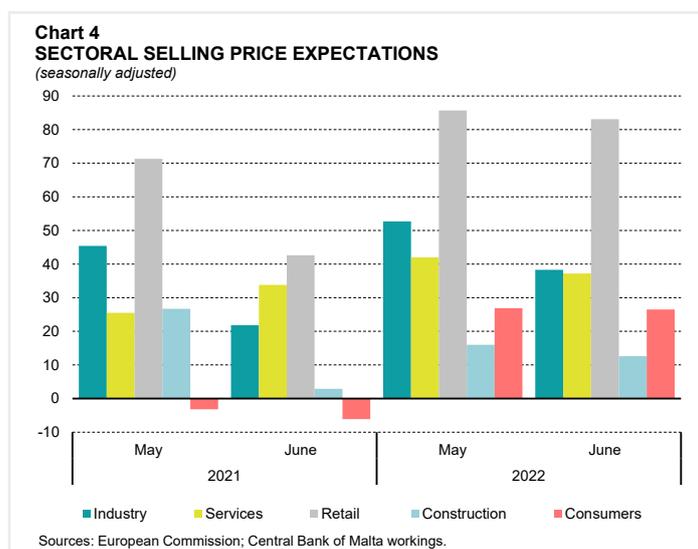
Confidence in industry increased in June but remained negative. It stood at -10.3, up from -14.8 in May. Notwithstanding this increase, sentiment remained below its long-term average of -3.9.<sup>13</sup> The recent increase in sentiment was mainly driven by improved production expectations for the months ahead. Furthermore, in contrast to the previous month, firms now assess their stocks of finished products to be below normal. This was partly offset by a more negative assessment of order book levels.

Additional survey information shows that selling price expectations eased across all sectors but remained at elevated levels (see Chart 4). The largest decline was recorded in industry.

Notwithstanding the fall in month-on-month terms, price expectations stood above their year-ago level in all sectors, notably in the retail sector and among consumers.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – eased in June.<sup>14</sup> The EEI stood at 117.0, slightly below the 117.6 recorded in May, but remained above its long-term average of around 100.0. It also stood above the euro area average of 110.9.

The recent month-on-month drop in employment expectations was mostly driven by industry. Employment expectations also weakened across the construction sector and among retailers. By contrast, there was a relatively strong amelioration in the services sector. Demeaned data show that the services sector largely explains why the overall EEI stood above its long-term average in June



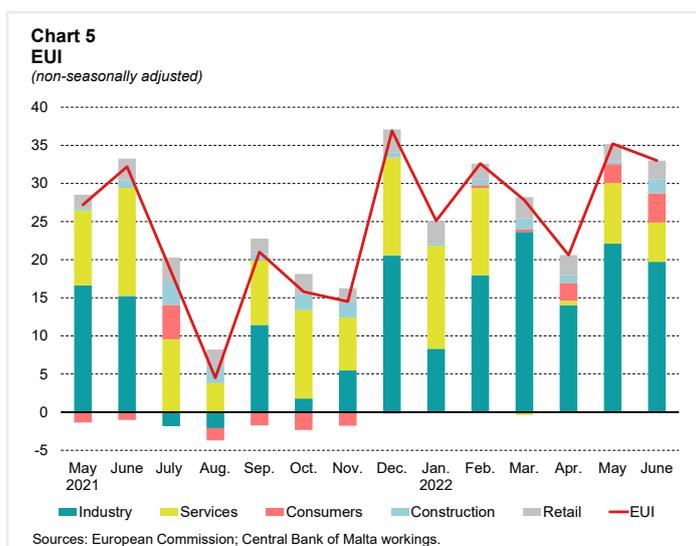
<sup>12</sup> The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

<sup>13</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>14</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.

(see Chart 3). Employment expectations were positive across all sectors.

In June, 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 – eased to 33.0, from 35.2 in May, signalling lower uncertainty (see Table 1). The uncertainty indicator stood below that of the euro area, where the index eased to 39.3, but exceeded its level recorded in June 2021 (see Chart 5).<sup>15,16</sup>



In month-on-month terms, the decrease in the uncertainty indicator was driven by lower uncertainty in the services sector and in industry. These developments offset higher uncertainty in the other surveyed sectors, notably in construction.

### Activity indicators

In May, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – stood at -4.3%. This follows from a fall of 8.1% in April (see Table 2).<sup>17</sup>

The recent decline in industrial production partly reflected a substantial decrease in the output of firms that print and reproduce recorded media and those that produce parts for motor vehicles, trailers and semi-trailers, those that manufacture non-metallic mineral products as well as wood products. Other smaller declines in production were registered amongst firms that produce beverages, fabricated metal products and firms in 'other manufacturing', which includes firms that produce medical and dental instruments and toys. These offset higher output in firms which repair and install machinery and equipment, and those which manufacture computer, electronic and optical goods. Production also increased in the pharmaceutical sector.

Production in the energy sector fell for the second consecutive time, declining by 5.4% in annual terms.

<sup>15</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>16</sup> Data on consumer uncertainty became available in October 2020, while data for industry, services, retail and construction became available in May 2021.

<sup>17</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.

**Table 2**  
**ACTIVITY INDICATORS**

*Annual percentage changes*

	2020	2021	2021		2022	
			Apr. <sup>(5)</sup>	May <sup>(5)</sup>	Apr.	May
Industrial production	-0.3	-0.3	17.4	9.4	-8.1	-4.3
Retail trade	-5.6	8.1	20.3	24.4	17.9	7.8
Number of tourist arrivals	-76.1	47.0	-	-	1,810.2	752.7
Number of nights stayed	-73.0	60.5	-	-	592.2	377.0
Rented accommodation	-76.8	73.8	-	-	965.5	593.1
Collective <sup>(1)</sup>	-76.5	74.3	-	-	1,640.3	816.3
Other rented <sup>(2)</sup>	-77.3	72.9	-	-	458.3	352.8
Non-rented accommodation <sup>(3)</sup>	-52.8	26.5	-	-	156.6	56.3
Tourist expenditure	-79.5	91.3	-	-	1,465.7	728.6
Package expenditure <sup>(4)</sup>	-84.5	108.7	-	-	3,234.1	1,387.1
Non-package expenditure	-79.6	89.4	-	-	1,288.2	653.8
Other	-75.9	85.4	-	-	1,261.3	626.3

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>(4)</sup> Package expenditure for April 2021 is under-represented. Hence, the annual percentage change for April 2022 should be interpreted with caution.

<sup>(5)</sup> As a result of the COVID-19 situation, it was not possible for the NSO to issue the April and May 2020 news releases for Inbound Tourism.

In May, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 7.8% in year-on-year terms, after rising by 17.9% in April.

In May, the tourism sector continued to recover from the effects of the pandemic, although tourist numbers remained below pre-pandemic levels. The number of inbound tourists stood at 221,299 in May, up from 25,954 a year earlier. Nonetheless, it was 15.6% less than the number of inbound tourists in May 2019. Guest nights were almost five times those registered in May 2021, with collective accommodation registering the highest rise in absolute terms. Total expenditure was also significantly higher than the level recorded in the corresponding period of 2021 but still below pre-pandemic levels.

In May, 278 development permits for commercial buildings were issued, compared with 228 permits issued in the same month a year earlier (see Table 3). Meanwhile, 786 new residential permits were issued in May, 119 more than the number issued in May 2021.

Data on residential property transactions show that 1,169 final deeds of sale were concluded in June, 5.6% less than a year earlier. At 1,088, the number of promise-of-sale agreements was 6.6% less than that registered in June 2021.

Customs data show that the merchandise trade deficit stood at €401.5 million in May, up from €329.0 million a year earlier. The larger deficit was partly due to a €126.9 million rise in imports which offset a €54.4 million increase in exports (see Chart 6).

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

Levels

	2020	2021	2021		2022	
			May	June	May	June
<b>Permits</b>						
Commercial permits	2,687	2,770	228	260	278	-
Residential permits	7,837	7,578	667	429	786	-
<b>Residential transactions</b>						
Promise of sale	11,259	15,643	1,477	1,165	1,126	1,088
Final deeds of sale	11,057	14,368	1,174	1,239	1,252	1,169

Sources: National Statistics Office; Eurostat.

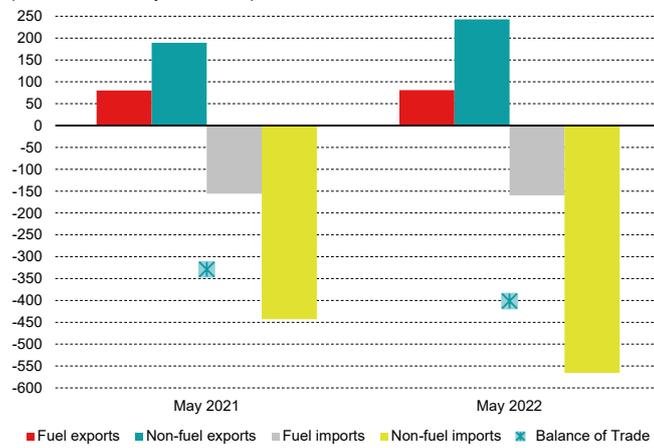
Higher imports were on account of a substantial increase in the registrations of sea vessels as well as an increase in imports of electrical machinery, organic chemicals, machinery and mechanical appliances. Higher imports of iron and steel, vehicles and parts, and cereals also contributed but to a lesser extent. These offset a decline in imports of optical instruments and paper.

The increase in exports was on account of a rise in exports of pharmaceutical products, electrical machinery and organic chemicals. These outweighed lower exports of printed material and toys.

### Labour market

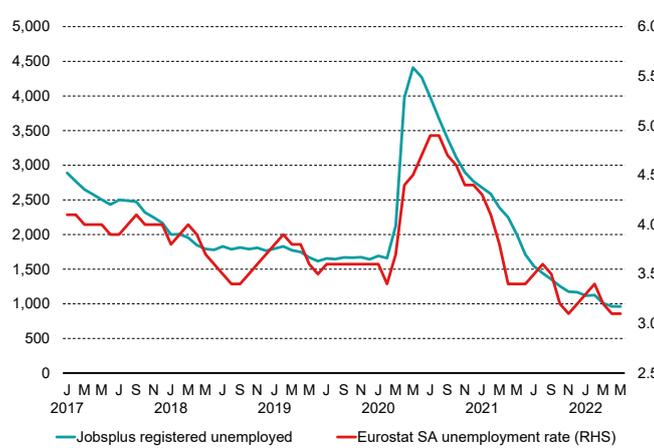
Jobsplus data show that the number of persons on the unemployment register stood at 961 in May 2022, down from 963 in April 2022 and from 2001 a year earlier – when the labour market was still impacted by the pandemic-related restrictions (see Chart 7). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

**Chart 6**  
**EXPORTS AND IMPORTS OF GOODS: MAY 2022**  
(EUR millions; monthly observations)



Source: National Statistics Office.

**Chart 7**  
**UNEMPLOYMENT**  
(persons; percentage of labour force)



Sources: National Statistics Office; Eurostat.

The seasonally-adjusted unemployment rate stood at 3.1% in May 2022, unchanged from a month earlier, and below the rate of 3.4% registered in May 2021.

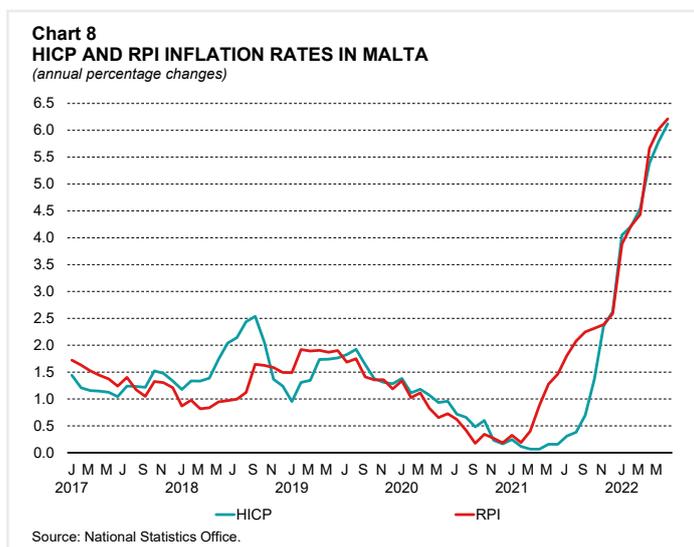
## Prices, costs, and competitiveness

Annual HICP inflation edged up to 6.1% in June, from 5.8% in the previous month (see Chart 8). This increase was driven by non-energy industrial goods (NEIG) and services inflation. Indeed, NEIG inflation rose to 5.4% from 4.5% in the previous month while services inflation edged up to 6.1%, from 5.8% in May. On the other hand, food including alcohol and tobacco edged down by 0.1 percentage point to 8.6%. This reflects developments in unprocessed food inflation which fell to 11.8%, from 14.9% in the previous month, as prices of processed food increased by 7.6% in June from 6.8% in May. Similar to recent months, energy prices remained unchanged reflecting government measures aimed at mitigating foreign price pressures on this subcomponent.

Annual inflation according to the RPI stood at 6.2% in June, up from 6.0% in May (see Chart 8).<sup>18</sup> Faster growth was recorded across most components, with the largest change registered for household equipment and house maintenance costs, where inflation reached 6.4% in June from 4.7% in May. Overall, housing and food contributed most to inflation in June, as prices for these categories rose by 14.9% and 10.0%, respectively.

Producer output inflation as measured by the industrial producer price index, stood at 5.3% in May, marginally down from 5.7% in April.<sup>19</sup> The deceleration was driven by slower growth in the prices of intermediate goods and non-durable consumer goods. These movements were slightly offset by a rise in inflation in capital goods. Growth in the prices of durable consumer goods was unchanged from the previous month while energy prices remained unchanged in the month under review.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 1.8% in the year to June 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.<sup>20</sup> The real HCI, which also considers relative price changes, fell by 4.3% in



<sup>18</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 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.

<sup>19</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>20</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 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.

annual terms in June, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

## Public finance

During May 2022, the Consolidated Fund recorded a surplus of €15.5 million, an improvement of €86.5 million when compared to the deficit registered in May 2021 (see Table 4). This occurred due to higher government revenue, which more than offset the rise in government expenditure. In turn, the primary balance registered a surplus of €30.8 million, in contrast to the primary deficit of €56.6 million registered a year earlier.

Government revenue increased by €100.0 million, or 24.9% in annual terms, mostly reflecting a surge in tax revenue. Revenue from direct taxes rose by €72.9 million, as inflows from income taxes and social contributions increased at a strong pace. Inflows from indirect taxes rose by €14.2 million, mainly due to an increase in VAT receipts. This was partly offset by a decline in customs and excise duties. Moreover, non-tax revenue rose by €12.8 million, mainly due to higher grants from the EU.

**Table 4**  
**CONSOLIDATED FUND BALANCE**

EUR millions

	2021		2022		Change	
	Jan.-May	Jan.-May	May	May	Amount	%
<b>Revenue</b>	<b>1,680.7</b>	<b>1,993.5</b>	<b>400.6</b>	<b>500.6</b>	<b>100.0</b>	<b>24.9</b>
<b>Direct tax</b>	<b>880.6</b>	<b>1,048.5</b>	<b>166.2</b>	<b>239.1</b>	<b>72.9</b>	<b>43.9</b>
Income tax	604.6	718.1	137.0	168.1	31.1	22.7
Social security contributions <sup>(1)</sup>	276.0	330.4	29.2	71.0	41.8	143.2
<b>Indirect tax</b>	<b>659.7</b>	<b>749.1</b>	<b>200.7</b>	<b>214.9</b>	<b>14.2</b>	<b>7.1</b>
Value Added Tax	422.0	496.8	141.4	163.2	21.8	15.4
Customs and excise duties	102.4	108.7	32.6	24.2	-8.4	-25.7
Licences, taxes and fines	135.3	143.6	26.7	27.6	0.8	3.1
<b>Non-tax<sup>(2)</sup></b>	<b>140.4</b>	<b>195.8</b>	<b>33.8</b>	<b>46.6</b>	<b>12.8</b>	<b>37.9</b>
<b>Expenditure</b>	<b>2,333.9</b>	<b>2,366.7</b>	<b>471.7</b>	<b>485.1</b>	<b>13.4</b>	<b>2.8</b>
<b>Recurrent</b>	<b>2,108.3</b>	<b>2,147.7</b>	<b>404.5</b>	<b>425.6</b>	<b>21.1</b>	<b>5.2</b>
Personal emoluments	428.5	429.9	80.8	84.9	4.0	5.0
Operational and maintenance	108.7	92.9	24.9	20.1	-4.9	-19.6
Programmes and initiatives	1,223.6	1,292.5	221.4	256.9	35.6	16.1
Contributions to entities	273.4	262.2	62.9	48.4	-14.4	-23.0
Interest payments	74.2	70.1	14.5	15.3	0.9	5.9
<b>Capital</b>	<b>225.7</b>	<b>219.0</b>	<b>67.2</b>	<b>59.5</b>	<b>-7.7</b>	<b>-11.4</b>
<b>Primary balance<sup>(3)</sup></b>	<b>-579.1</b>	<b>-303.1</b>	<b>-56.6</b>	<b>30.8</b>	<b>87.4</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-653.3</b>	<b>-373.2</b>	<b>-71.1</b>	<b>15.5</b>	<b>86.5</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.

Government expenditure rose by €13.4 million, or 2.8% when compared to the corresponding period in 2021. This was due to a rise in recurrent expenditure which offset a fall in capital expenditure. The latter declined by €7.7 million, reflecting lower expenditure on property and equipment.

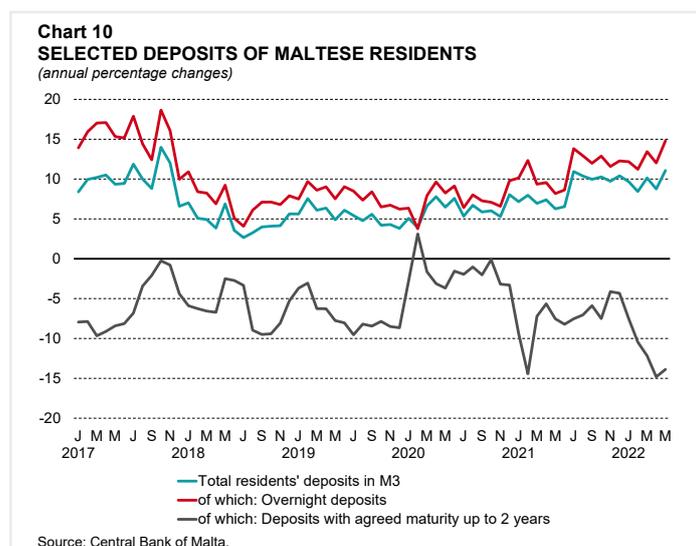
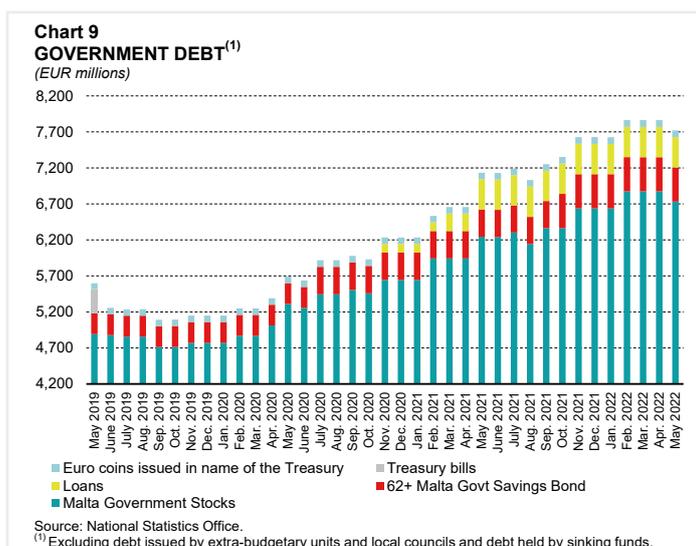
Meanwhile, recurrent expenditure rose by €21.1 million, mainly on the back of higher outlays classified as programmes and initiatives. The latter rose by €35.6 million, reflecting the timing of payments to church schools and higher outlays on social benefits. The month under review also saw higher spending on personal emoluments, which rose by €4.0 million. On the other hand, spending on contributions to government entities and operational and maintenance expenses declined by €14.4 million and €4.9 million respectively.

In May 2022, the total stock of outstanding government debt amounted to €8,409.9 million, a fall of €122.5 million when compared with April 2022 (see Chart 9). This fall was mainly attributable to a lower outstanding amount of Malta Government Stocks.

## Deposits, credit and financial markets

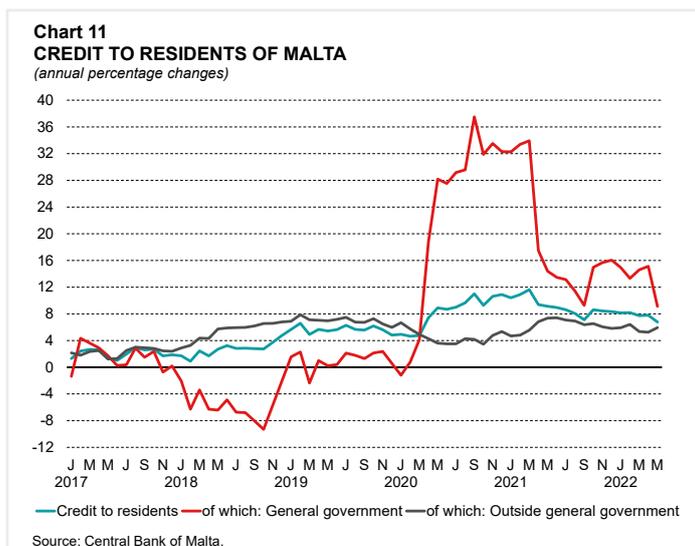
In May, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) expanded at an annual rate of 11.1%, up from 8.8% a month earlier (see Chart 10).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 90% of their M3 balances. This deposit category – which is the most liquid – grew by 14.8% in the year to May, above the 12.0% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 13.9% in annual terms, following a contraction of 14.8% in April. This may reflect efforts by certain credit institutions to



reduce the number of fixed term deposit accounts.

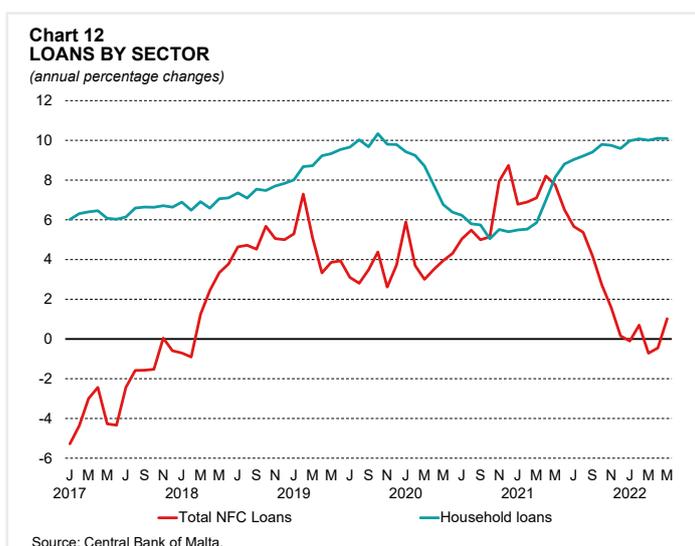
Credit to Maltese residents grew at an annual rate of 6.8% in May, below the 7.8% recorded a month earlier (see Chart 11). The slight decrease in growth was driven by a smaller rise in credit to general government. Annual growth in this component stood at 9.1%, following a 15.1% increase in April. By contrast, growth in credit to residents outside general government edged up to 5.9%, from 5.2% a month earlier.



The annual rate of change in loans to households stood at 10.1% in May, unchanged from the previous month. Mortgage lending increased by 11.4% in May, unchanged from a month earlier. By contrast, consumer credit and other lending fell by 3.7%, following a contraction of 4.3% in April.

Meanwhile, the annual rate of change in loans to non-financial corporations turned slightly positive in May. It stood at 1.0%, following a contraction of 0.5% a month earlier (see Chart 12). The swing to positive growth was largely driven by a recovery in the growth rate of credit to the energy sector. This was followed by a smaller contraction in loans to the information and communication sector. Additionally, loans to the construction sector and real estate activities increased at a faster pace compared to April. By contrast, loans to the sector comprising administrative and support service activities declined, while those to the accommodation and food service activities rose at a slower pace.

By end-May, 628 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €486.6



million.<sup>21,22</sup> Overall, €466.4 million were disbursed, down slightly from the €467.4 million disbursed by the end of April.

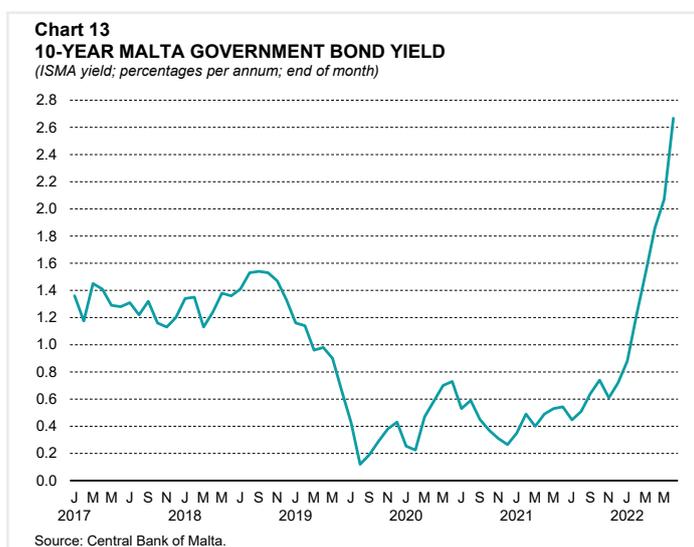
The sector comprising wholesale and retail activities had the largest number of facilities supported by the scheme and still outstanding by the end of May, followed by the sector comprising of accommodation and food service activities. These sectors were also the most important in value terms. On this basis, they were followed by the construction sector as well as the sector comprising transportation, storage and information and communication.

In May 2022, the Malta Development Bank 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-May three facilities were approved, covering total sanctioned lending of €15.6 million. The outstanding level of disbursements from this scheme stood at €6.0 million.

As regards interest rates, in May, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.15%, unchanged from a month earlier. Similarly, the composite rate charged on outstanding loans also remained unchanged from April, standing at 3.18% in May. As a result, 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 60 basis points from a month earlier to 2.67% at the end of June (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 June, the Malta Stock Exchange (MSE) Equity Price Index decreased by 1.1% when 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.



<sup>21</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 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.

<sup>22</sup> 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.

MACROECONOMIC INDICATORS FOR MALTA																										
Annual percentage changes; non-seasonally adjusted data																										
	2019	2020	2021	2021	2021	2021	2022	2022	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	2022	2022	2022	2022	
				Q2	Q3	Q4	Q1	Q2	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
<b>Prices and costs</b>																										
HICP inflation	1.5	0.8	0.7	0.1	0.5	2.1	4.3	5.8	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	5.8	6.1
RPI inflation	1.6	0.6	1.5	1.2	2.0	2.4	4.2	6.0	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	6.0	6.2
Industrial producer price inflation	2.2	0.3	3.2	1.8	3.8	6.5	7.1	-	0.9	0.5	1.1	1.2	1.8	2.3	1.4	4.4	5.6	5.7	6.3	7.5	7.3	6.8	7.1	5.7	5.3	-
HCI (nominal)	-0.7	1.8	0.4	1.3	-0.8	-1.7	-1.3	-2.2	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	-2.4	-1.8
HCI (real)	-1.1	1.5	-1.9	-1.0	-3.2	-4.5	-3.2	-4.6	2.5	2.1	-1.2	-0.6	-0.8	-1.7	-2.3	-3.6	-3.7	-4.3	-4.4	-4.7	-3.1	-2.8	-3.7	-4.8	-4.8	-4.3
Unit labour costs, whole economy <sup>(1)</sup>	3.5	11.4	-2.3	5.0	0.6	-2.3	-4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	3.8	-0.8	4.9	3.0	4.1	4.9	3.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	0.2	-10.9	7.4	-2.5	3.3	7.4	8.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	5.1	5.4	5.9	4.5	6.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																										
Nominal GDP	8.4	-7.0	12.4	18.1	16.3	14.4	10.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.3	10.4	16.4	14.1	11.8	7.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.6	-10.2	6.7	16.9	7.7	8.5	9.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	13.1	15.8	7.7	-0.6	6.0	5.3	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-7.6	17.0	23.5	29.0	25.3	6.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	7.0	-3.8	8.0	15.0	8.6	9.3	9.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.9	-0.1	6.7	12.2	6.3	8.9	7.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																										
LFS unemployment rate (% of labour force)	3.6	4.4	3.5	3.5	3.6	3.2	3.2	-	4.1	4.0	3.7	3.4	3.5	3.5	3.6	3.6	3.5	3.2	3.1	3.2	3.2	3.3	3.1	3.0	3.0	-
LFS employment	7.1	2.6	2.7	3.2	3.6	5.0	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.2	2.6	2.5	3.6	3.9	-	-	0.7	0.2	0.9	1.8	2.6	3.1	3.2	3.6	3.8	3.6	3.9	4.2	4.6	-	-	-	-	-
<b>Balance of payments</b>																										
Current account (as a % of GDP) <sup>(2)</sup>	5.0	-2.9	-4.9	-3.0	-3.5	-4.9	-4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																										
<b>Maltese residents' deposits and loans</b>																										
Overnight deposits	6.2	9.8	12.3	8.6	12.0	12.3	13.4	-	10.1	12.3	9.4	9.6	8.2	8.6	13.8	12.9	12.0	12.9	11.6	12.3	12.2	11.2	13.4	12.0	14.8	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-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	-14.8	-13.9	-
Total residents' deposits in M3	3.8	8.0	10.4	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	9.7	8.4	10.1	8.8	11.1	-
Credit to general government	0.6	32.3	16.0	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	15.1	9.1	-
Credit to residents (excl. general government)	6.0	5.3	5.8	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	5.2	5.9	-
Total credit	4.8	10.9	8.3	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	7.8	6.8	-
10-year interest rate (%) <sup>(3)</sup>	0.4	0.3	0.7	0.5	0.6	0.7	1.5	2.7	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	2.1	2.7
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	4.4	-12.4	-4.5	3.0	-0.7	1.8	-8.2	1.1	-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	-0.3	-1.1
<b>Liquidity support measures related to COVID-19</b>																										
Outstanding loans subject to a moratorium <sup>(5)</sup>	-	691.9	14.1	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 <sup>(6)</sup>	-	408.1	505.9	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	489.1	486.6	-
Disbursed amount under the MDB CGS <sup>(6)</sup>	-	287.1	453.0	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	467.4	466.4	-
<b>General government finances (% of GDP)</b>																										
Surplus (+) / deficit (-) <sup>(2)</sup>	0.6	-9.4	-7.9	-7.7	-8.0	-7.9	-8.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(6)</sup>	40.7	53.4	56.4	58.8	56.3	56.4	57.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.

<sup>(1)</sup> 4-quarter moving averages.<sup>(2)</sup> 4-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 4-quarter moving sums.