



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

7/2023

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The cut-off date for information in this note is 19 July 2023. However, the cut-off date for the RPI is 24 July 2023. Figures in tables may not add up due to rounding.

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Summary¹

The Bank's Business Conditions Index (BCI) indicates that in June, annual growth in business activity edged up slightly compared to the previous month and thus remained above its long-term average, estimated since January 2000.

The European Commission confidence surveys show that sentiment in Malta decreased in June compared to May, but remained slightly above its long-term average, estimated since November 2002. In month-on-month terms, sentiment fell across all sectors bar the services sector, with the strongest decline recorded in the construction sector.

Additional survey information shows that price expectations stood firmly below their year-ago level in industry and in the retail sector. Price expectations among firms in services and consumers also edged down compared with a year earlier. By contrast, price expectations in the construction sector were significantly above the level recorded in June 2022.

In June, the European Commission's Economic Uncertainty Indicator (EUI) for Malta turned positive when compared with May, indicating higher uncertainty. Uncertainty increased mostly in industry and among services firms.

In May, industrial production grew at a slower pace compared to April, while retail trade grew at a marginally faster pace. The unemployment rate returned to the historic low of 2.8% in May, from 2.9% registered in the previous month, and 3.1% in May 2022.

Commercial building permits in May rose compared with month-ago levels but fell in annual terms. By contrast, residential permits declined on a month earlier but were slightly higher on a year earlier. In June, the number of promise-of-sale agreements rose on a year-on-year basis, while the number of final deeds of sales fell.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 6.2% in June, down from 6.3% in the previous month. Inflation based on the Retail Price Index (RPI) decreased to 5.4%, from 5.7% in May.

Maltese residents' deposits expanded at an annual rate of 0.9% in May, following an increase of 1.4% in the previous month, while annual growth in credit to Maltese residents moderated to 3.7%, from 4.2% a month earlier.

In May, the Consolidated Fund recorded a higher surplus compared to a year earlier, as government revenue rose, while timing-related factors contributed to a drop in expenditure.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that in June, annual growth in business activity increased marginally, standing above its long-term average, estimated since January 2000 (see Chart 1). Tourist arrivals

¹ The cut-off date for information in this note is 19 July 2023. However, the cut-off date for the RPI is 24 July 2023. Most of the data reported in this issue of the *Economic Update* refer to May 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures refer to June.

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.

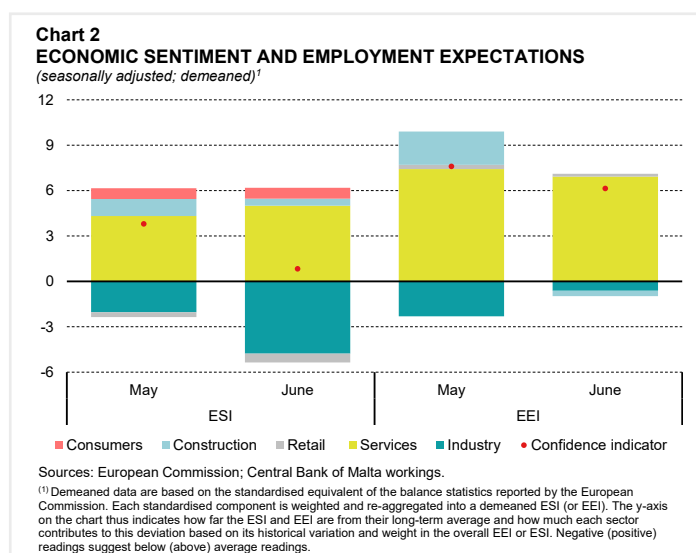
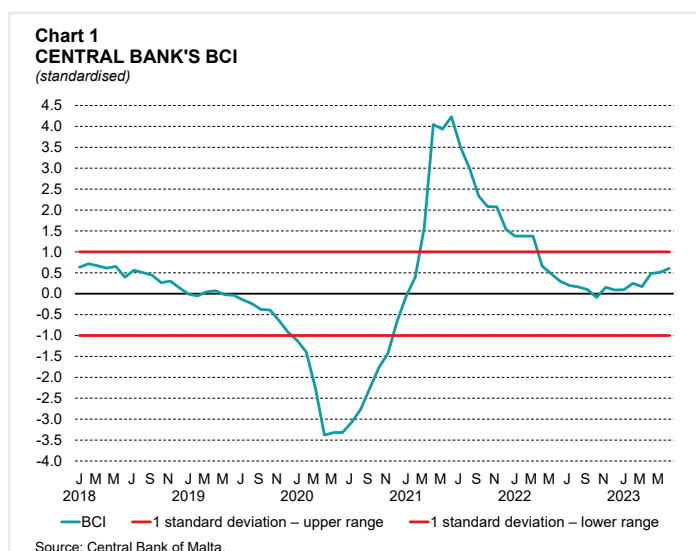
and industrial production experienced strong year-on-year growth and contributed to the above-average BCI level. Furthermore, the unemployment rate remained low from a historical perspective, indicating better business conditions. On the other hand, the Economic Sentiment Indicator (ESI) now stands only marginally above its long run average and has declined in annual terms.

Business and consumer confidence indicators

In June, the European Commission's ESI for Malta fell to 100.8, from 103.8 in May. Notwithstanding this decline, the ESI remained above its long-term average of around 100.0, estimated since November 2002 (see Table 1).^{3,4,5,6} Furthermore, sentiment stood above the euro area average of 95.3.

In month-on-month terms, sentiment decreased across all sectors, bar the services sector. The strongest decline was recorded in the construction sector, where sentiment, however, remained positive.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the deterioration in overall sentiment in June was driven by a more negative contribution from industry (see Chart 2). This was followed by a less positive contribution from the construction sector, while the contribution of the retail



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 indicators' data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

⁵ 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.

⁶ From May 2022, the seasonal adjustment method of all survey data has changed. As a result, all seasonally-adjusted past readings were revised slightly. See [BCS User Guide](#) for further details on the methodology used by the European Commission.

Table 1										
BUSINESS AND CONSUMER SURVEYS – MALTA										
<i>Balances; percentage points; seasonally adjusted</i>										
	2021	2022	2022				2023			
			June	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
ESI	104.8	100.9	102.5	98.0	102.3	105.5	112.0	114.6	103.8	100.8
Construction confidence indicator	7.3	7.0	15.1	-4.3	2.9	17.5	-0.2	24.7	22.5	8.4
Evolution of your current overall order books	1.4	8.7	9.2	-6.6	2.4	6.3	-15.9	3.6	-0.3	16.1
Employment expectations over the next 3 months	13.2	5.4	21.0	-2.0	3.4	28.8	15.5	45.7	45.2	0.7
Industrial confidence indicator	2.1	-9.4	-10.3	-23.5	-8.6	-3.2	6.8	8.5	-11.4	-20.0
Assessment of order-book levels	-28.2	-21.5	-40.6	-10.1	-4.3	-7.2	-50.3	-49.0	-39.6	-36.8
Assessment of stocks of finished products	-3.2	9.1	-5.1	2.2	2.6	19.2	3.6	-3.6	4.6	6.0
Production expectations for the months ahead	31.3	2.2	4.5	-58.1	-18.8	16.8	74.1	70.9	9.9	-17.3
Retail trade confidence indicator	-8.4	6.0	-3.0	27.3	25.4	-0.6	23.7	36.0	-9.1	-16.7
Business activity, past 3 months	-13.6	21.1	16.2	57.7	41.8	21.8	47.2	55.2	-0.1	-4.2
Stocks of finished goods	12.8	-3.2	-2.5	3.1	15.9	22.9	1.9	1.1	19.6	24.9
Business activity, next 3 months	1.2	-6.2	-27.8	27.2	50.2	-0.6	25.7	54.0	-7.7	-21.0
Consumer confidence indicator	3.4	-7.4	-7.1	-11.8	-10.3	-6.8	-10.9	-6.9	-9.9	-10.4
Financial situation past 12 months	-8.9	-19.7	-23.2	-22.7	-19.1	-16.2	-22.9	-21.4	-19.3	-21.4
Financial situation next 12 months	7.3	-11.8	-11.4	-13.4	-11.3	-8.8	-12.0	-8.6	-7.4	-8.4
Economic situation next 12 months	18.6	-3.5	1.8	-9.2	-10.0	-4.2	-11.0	-4.7	-11.5	-12.6
Major purchases next 12 months	-3.4	5.6	4.3	-1.8	-0.6	1.9	2.4	6.8	-1.4	0.7
Services confidence indicator	13.7	20.5	26.8	25.7	23.8	34.1	45.7	44.0	37.5	39.7
Business situation development over the past 3 months	4.9	15.7	21.1	16.6	25.3	38.9	48.0	36.6	32.5	37.3
Evolution of the demand over the past 3 months	10.8	26.1	45.7	18.3	19.1	39.0	32.3	40.1	42.7	35.9
Expectation of the demand over the next 3 months	25.4	19.7	13.7	42.2	26.9	24.5	56.6	55.3	37.4	45.8
EI	103.5	106.4	113.4	110.8	111.9	111.3	123.5	123.2	108.2	106.6
Construction	13.2	5.4	21.0	-2.0	3.4	28.8	15.5	45.7	45.2	0.7
Services	25.1	30.2	43.7	56.8	46.7	41.5	46.7	50.3	39.3	37.9
Retail	4.4	15.8	3.6	26.7	16.1	10.6	38.9	20.8	5.0	4.4
Industry	14.8	12.0	34.0	-37.4	8.2	13.6	60.2	57.1	-2.7	7.8
EUI^(1,2)	21.3	28.1	33.0	24.4	14.0	2.9	5.5	19.4	-3.2	11.0
Industry	21.0	39.4	49.3	32.0	10.9	-14.8	-10.8	35.8	-13.6	6.3
Services	32.2	20.3	17.2	17.2	16.4	16.4	17.2	-1.7	-6.8	10.1
Consumers	-3.5	13.7	19.1	13.5	13.9	12.2	11.9	19.8	12.3	19.2
Construction	30.1	19.5	37.2	35.2	19.7	14.5	36.6	25.2	9.0	10.1
Retail	48.8	50.8	48.5	40.4	18.7	14.2	9.0	7.3	27.9	22.0
ESI demeaned	4.8	0.9	2.5	-2.0	2.3	5.5	11.9	14.6	3.8	0.8
EI demeaned	3.4	6.2	13.4	9.0	11.4	11.0	24.1	23.7	7.6	6.1

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

sector stood more negative in the month under review. On the other hand, the confidence indicator for the services sector largely explains why the ESI stood above its long-term average in June.

In June, the confidence indicator for the construction sector stood at 8.4, down from 22.5 a month earlier. Notwithstanding this decrease, sentiment remained well above its long-term average of -8.1.⁷ The recent fall in sentiment reflected a sharp decline in employment expectations. On the other hand, while in May respondents perceived their order book levels to be broadly stable, in June, they considered them to have increased.

Confidence in industry decreased to -20.0, from -11.4 in the previous month, remaining well below its long-term average of -4.3.⁸ Production expectations for the months ahead turned negative.

⁷ The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

⁸ The 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.

At the same time, a larger share of firms assessed their stocks of finished products to be above normal.⁹ However, the share of respondents assessing their order book levels to be below normal edged down slightly from high levels.

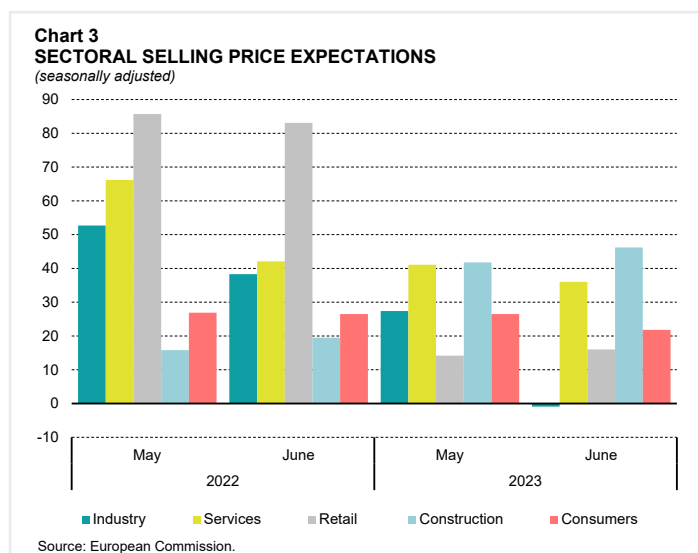
Sentiment in the retail sector fell further and below its long-term average of -0.3.¹⁰ The indicator decreased to -16.7, from -9.1 in May. The latest decline in sentiment was largely driven by a strong deterioration in retailers' expectations of business activity over the next three months, and to a smaller extent, by their assessment of sales in recent months. Furthermore, the share of respondents assessing their stock levels to be above normal, increased compared with May.

The consumer confidence indicator decreased to -10.4, from -9.9 in May, standing just below its long-term average of -10.2.¹¹ Consumers' assessment of their financial situation over the last 12 months deteriorated somewhat relative to May. This was followed by a more negative outlook of the general economic situation and the financial situation over the next 12 months. These developments offset an increase in expectations of major purchases over the next 12 months.

The sentiment indicator for the services sector reached 39.7 in June, higher than the 37.5 recorded in the previous month, and stood well above its long-term average of 19.7.¹² The latest increase was driven by firms' expectations of demand over the next three months, and to a lesser extent, their assessment of the business situation over the past three months. This offset movements in firms' assessment of demand over the past three months, which declined although it remained elevated.

Additional survey information shows that, in month-on-month terms, price expectations in industry decreased sharply, falling into negative territory (see Chart 3). This is the first time since 2021 that price expectations in this sector turned negative. Meanwhile, price expectations in the services sector and among consumers stood less positive compared to May. By contrast, price expectations increased in the construction and retail sectors.

Differences across sectors remained wide. While the net share of firms signalling price increases ranged between 36%



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

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 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.

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

and 46% in the services and construction sectors, respectively, that among retailers and consumers ranged between 16% and 22%.

Price expectations stood firmly below their year-ago level in the retail sector, and to a lesser degree, in industry. Price expectations among services firms and consumers also edged down, compared with a year earlier. By contrast, price expectations in the construction sector were significantly above the level recorded in June 2022.

While price expectations for construction and services remained elevated from a historic perspective, those for the retail sectors and consumers were broadly in line with their long run average.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged down to 106.6 in June, from 108.2 a month earlier.¹³ This indicator remained above its long-term average of around 100.0 and exceeded the euro area average of 105.0.

Demeaned data suggest that the decrease in employment expectations was mainly driven by the construction sector, whose contribution turned negative. The contributions of the services and retail sectors declined marginally on a month earlier but remained positive. Meanwhile, the contribution of industry stood less negative compared with May.

The services sector largely explains why the overall EEI stood above its long-term average in June (see Chart 2).

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 – turned positive. It stood at 11.0, up from -3.2 in May, signalling higher uncertainty (see Table 1). Nonetheless, the uncertainty indicator stood well below its level recorded in June 2022, when the index averaged 33.0. It was also significantly below that of the euro area.^{14,15}

In month-on-month terms, the increase in Malta's uncertainty indicator was largely driven by industry, and the services sector, where in contrast to May, respondents reported that they found difficulty in predicting their business situation. Uncertainty also increased among consumers, and in the construction sector. By contrast, uncertainty in the retail sector decreased.

When accounting for the variation in weights of each sector, consumers accounted for most of the uncertainty observed in June, followed by services firms.

¹³ 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*.

¹⁴ 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.

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

Activity indicators

In 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 12.3%. Annual growth moderated from 17.1% in April (see Table 2).¹⁶ However, it remained high from a historic perspective.

In the manufacturing sector, the most significant increases were recorded among firms involved in the production of printing and reproduction of recorded media, and basic pharmaceutical products. Other strong increases in output were registered among firms that manufacture computer, electronic and optical products, wearing apparel and certain non-metallic minerals.

Meanwhile, production in the energy sector increased at a slower pace of 10.7% in May, compared with 31.9% a month earlier. Activity also rose in the quarrying sector.

In May, the volume of retail trade – which is a short-term indicator of final domestic demand – increased at a marginally higher pace of 3.3% in year-on-year terms, after rising by 3.1% in April.

In May, the tourism sector registered further gains. The number of inbound tourists amounted to 284,944, up from 221,164 a year earlier. Guest nights also rose on a year earlier, although the average length of stay declined. Total expenditure by tourists in Malta rose over the level recorded in the corresponding period of 2022, with the largest increase in absolute terms stemming from non-package holidays.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2021	2022	2022		2023	
			Apr.	May	Apr.	May
Industrial production	0.1	2.0	-11.8	-5.6	17.1	12.3
Retail trade	9.4	9.8	18.5	11.1	3.1	3.3
Number of tourist arrivals	47.0	136.2	1,810.3	752.1	37.1	28.8
Number of nights stayed	60.5	98.0	592.2	376.6	32.9	24.1
Rented accommodation	73.8	111.3	965.5	592.7	34.5	24.1
Collective ⁽¹⁾	74.3	109.9	1,640.3	815.8	26.5	20.9
Other rented ⁽²⁾	72.9	113.8	458.3	352.5	53.2	31.0
Non-rented accommodation ⁽³⁾	26.5	50.8	156.6	55.9	25.4	24.2
Tourist expenditure	91.3	131.1	1,465.7	728.3	44.9	36.1
Package expenditure	108.7	129.8	3,234.1	1,386.6	71.1	48.2
Non-package expenditure	89.4	145.9	1,288.2	653.6	46.8	41.1
Other	85.4	118.3	1,261.3	625.8	29.4	24.4

Sources: National Statistics Office; Eurostat.

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

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

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

¹⁶ 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 3
PROPERTY MARKET

Levels

	2021	2022	2022			2023		
			Apr.	May	June	Apr.	May	June
Permits								
Commercial permits	2,770	2,984	324	278	235	183	269	-
Residential permits	7,578	9,599	861	786	593	878	791	-
Residential transactions								
Promise of sale	15,639	12,169	1,016	1,124	1,087	1,061	1,303	1,141
Final deeds of sale	14,368	14,331	1,122	1,251	1,194	929	1,080	978

Sources: National Statistics Office; Planning Authority.

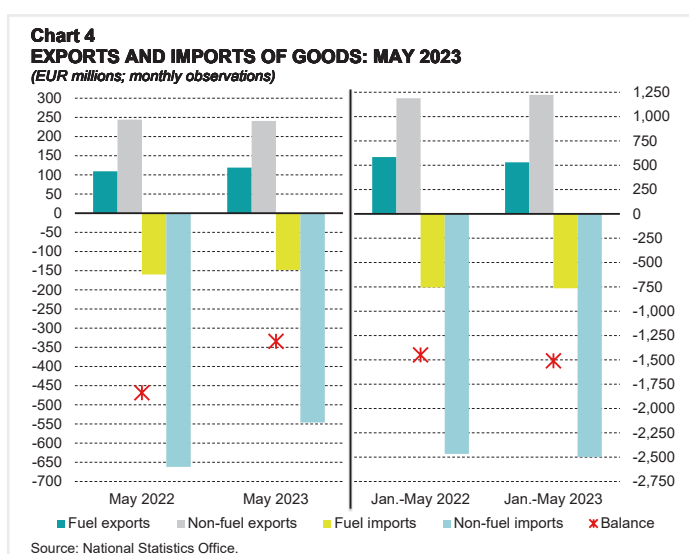
In May, 269 development permits for commercial buildings were issued, nine less than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 791 new residential permits were issued, five more than the number issued in May 2022. In month-on-month terms, commercial permits were higher while residential permits declined.

Data on residential property transactions show that 978 final deeds of sale were concluded in June, 102 less than the number concluded a month earlier, and 216 less than a year earlier. At 1,141, the number of promise-of-sale agreements was 162 less than a month earlier, but 54 more compared with a year earlier.

Customs data show that the merchandise trade deficit stood at €334.1 million in May, down from a deficit of €468.5 million a year earlier. This was due to a €127.9 million decline in imports, and a €6.5 million increase in exports (see Chart 4).

Lower imports were mainly on account of a substantial decrease in the registration of sea vessels. Imports of machinery and mechanical appliances, organic chemicals and fuels also decreased, but to a lesser extent. These offset higher registrations of aircraft and imports of pharmaceutical products, optical instruments, and printed material.

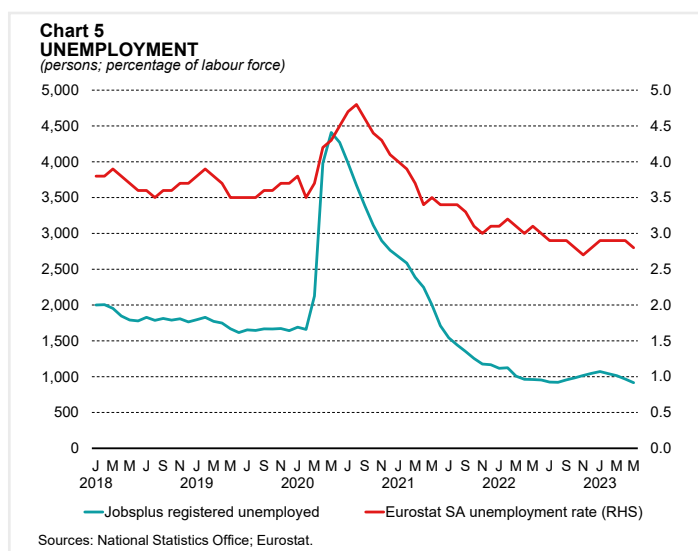
The increase in exports was mainly due to higher fuel re-exports, exports of printed material and electrical machinery. These offset lower exports of pharmaceutical products, organic chemicals, and to a lesser extent, sea vessels and aircraft parts.



Labour market

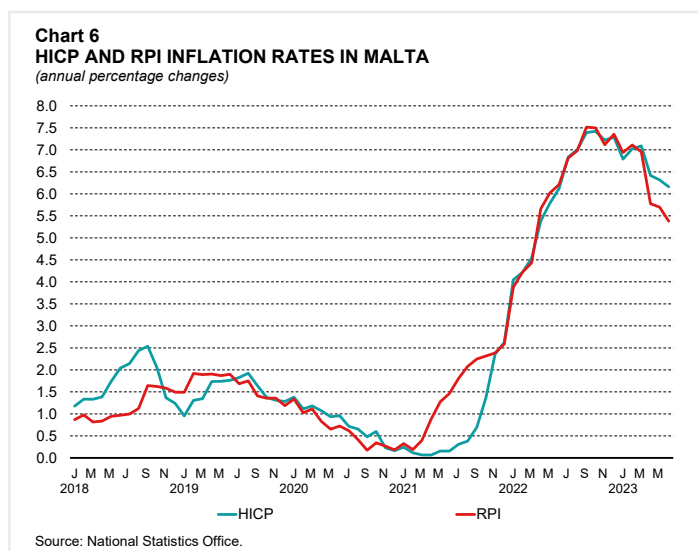
Jobsplus data show that the number of persons on the unemployment register stood at 916 in May, down from 966 in April, and down from 961 recorded a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate returned to the historic low of 2.8% in May, from 2.9% registered in the previous month, and 3.1% in May 2022.



Prices, costs and competitiveness

Annual HICP inflation edged down marginally in June, reaching 6.2%, from 6.3% in the previous month (see Chart 6). The easing reflects a decline in NEIG inflation. The latter dropped to 4.0% from 5.1% a month earlier, reflecting lower inflation in all sub-components. On the other hand, food inflation reached 10.3%, up from 9.6% in May. While this is largely due to faster growth in prices of dairy products, both processed and unprocessed food inflation increased. Processed food inflation increased to 10.9% from 10.4% a month earlier, while unprocessed food inflation stood at 8.4% from 7.0% in May. Meanwhile, services inflation remained unchanged at 6.1%, as did energy inflation, which stood at zero. The latter reflects government measures aimed at shielding consumers from foreign price pressures.



Processed food inflation increased to 10.9% from 10.4% a month earlier, while unprocessed food inflation stood at 8.4% from 7.0% in May. Meanwhile, services inflation remained unchanged at 6.1%, as did energy inflation, which stood at zero. The latter reflects government measures aimed at shielding consumers from foreign price pressures.

Annual inflation according to the RPI stood at 5.4% in June, down from 5.7% in May (see Chart 6).¹⁷ The decline was driven by lower inflation in most sub-components. The largest contributors to this decrease were inflation in household equipment and house maintenance, which fell to 5.2%, and inflation in transport and communication, which declined to 1.8%. Furthermore, there was a slight slowdown in housing inflation, as well as in beverages and tobacco, reaching 9.4% and 6.6% respectively. Clothing and footwear prices fell by 1.4% year-on-year, after declining by 0.8% in May. On the other hand, food inflation, the main contributor to overall inflation edged up to

¹⁷ The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only consider expenditure by Maltese households.

10.1%, from 10.0% a month earlier, on the back of faster growth in prices of dairy products. Inflation in recreation and culture, and on 'other goods and services' also increased. Energy prices remained unchanged.

The difference between HICP and RPI inflation mostly stems from services inflation and reflects the structure of weights applied to these indices. Different weight levels are allocated to each sub-component in the respective indices, such that RPI includes only domestic related activity while HICP also includes tourism related activity. Moreover, the 2023 set of weights applied to the HICP index have been revised compared with the 2022 weights. The weights of the RPI are not updated annually and are hence not affected by such changes.

Producer output inflation, as measured by the industrial producer price index, stood at 4.1% in May, down from 4.6% in April.¹⁸ This decline mostly reflects slower growth in the prices of intermediate goods. These grew by 2.3% on a year earlier, down from 3.6% in April. Producer prices of capital goods also decelerated when compared to the previous month, albeit to a lower extent. Their rate of increase declined from 5.2% in April to 4.5%. Meanwhile, annual growth in producer prices of consumer goods edged up to 8.3% from 7.9% in April, mirroring developments in the prices of non-durable goods. Energy producer prices continued to have no impact on producer prices.

Public finance

During May 2023, the Consolidated Fund recorded a surplus of €89.0 million, an improvement of €73.5 million from the surplus registered a year earlier (see Table 4). These developments reflect a drop in government expenditure, together with a rise in government revenue. In turn, the primary balance registered a surplus of €105.9 million, €75.1 million more than the primary surplus registered in May 2022.

Government revenue increased by €20.2 million, or 4.0%, mainly on the back of an increase in tax revenue. Revenue from direct taxes rose by €11.0 million, reflecting higher inflows from social security contributions. Moreover, revenue from indirect taxes increased slightly by €1.4 million. Meanwhile, inflows from non-tax revenue increased by €7.8 million, mainly due to higher miscellaneous receipts, which were partly offset by lower inflows from grants.

Government expenditure declined by €53.3 million, or 11.0% due to decreases in both recurrent expenditure and capital expenditure. Recurrent expenditure declined by €42.9 million, mainly due to a drop in expenditure on programmes and initiatives which fell by €63.1 million. This is mainly due to the timing of payments to the EU budget and to church schools, as well as the end of COVID-19 support measures.

Outlays on operational and maintenance and personal emoluments increased by €11.8 million and €4.1 million, respectively. Moreover, contributions to government entities and interest payments rose by €2.7 million and €1.6 million, respectively.

Capital expenditure decreased by €10.4 million, partly reflecting lower expenditure on road construction.

¹⁸ 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.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2022		2023		Change	
	Jan.-May	Jan.-May	May	May	Amount	%
Revenue	1,993.5	2,308.9	500.6	520.8	20.2	4.0
Direct tax	1,048.5	1,254.2	239.1	250.0	11.0	4.6
Income tax	718.1	897.7	168.1	168.4	0.3	0.2
Social security contributions ⁽¹⁾	330.4	356.5	71.0	81.6	10.6	15.0
Indirect tax	749.1	799.5	214.9	216.4	1.4	0.7
Value Added Tax	496.8	524.9	163.2	158.3	-4.9	-3.0
Customs and excise duties	108.7	114.6	24.2	24.1	-0.1	-0.6
Licences, taxes and fines	143.6	160.0	27.6	34.0	6.5	23.5
Non-tax⁽²⁾	195.9	255.2	46.6	54.4	7.8	16.8
Expenditure	2,367.0	2,412.4	485.1	431.8	-53.3	-11.0
Recurrent	2,148.0	2,189.9	425.6	382.7	-42.9	-10.1
Personal emoluments	429.9	452.0	84.9	89.0	4.1	4.9
Operational and maintenance	93.3	129.5	20.0	31.8	11.8	58.8
Programmes and initiatives	1,292.6	1,229.5	256.9	193.8	-63.1	-24.6
Contributions to entities	262.2	296.0	48.4	51.1	2.7	5.6
Interest payments	70.1	82.9	15.4	16.9	1.6	10.3
Capital	219.0	222.5	59.5	49.2	-10.4	-17.4
Primary balance⁽³⁾	-303.5	-20.6	30.8	105.9	75.1	-
Consolidated Fund balance	-373.6	-103.5	15.5	89.0	73.5	-

Source: National Statistics Office.

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

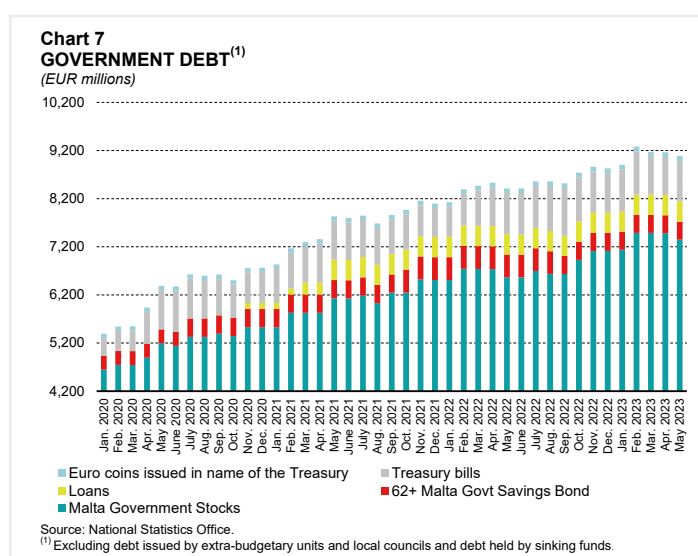
(2) Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

(3) Revenue less expenditure excluding interest payments.

In May 2023, the total stock of outstanding government debt amounted to €9,083.6 million, a decrease of €79.4 million when compared with April 2023 (see Chart 7). This mainly reflects lower MGS outstanding due to the redemption of an MGS.

Deposits, credit and financial markets

In May, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) continued to slow down. These expanded at



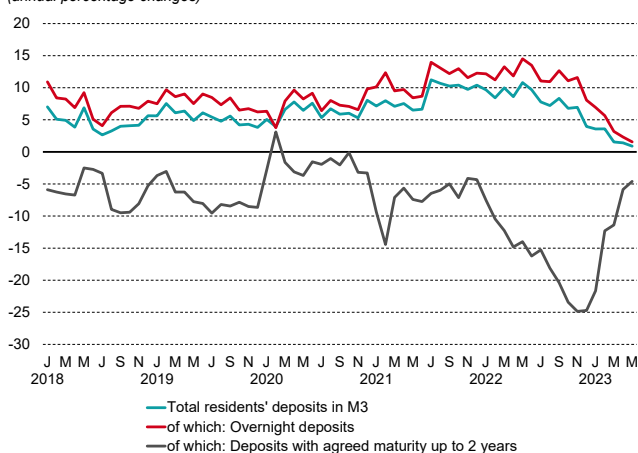
an annual rate of 0.9%, below the 1.4% recorded a month earlier (see Chart 8).

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 1.6% in the year to May, slowing from 2.3% in the previous month. Time deposits with agreed maturity of up to two years – the second largest deposit category – fell by 4.6% in annual terms, following a contraction of 5.9% in the year to April. The contraction in this category has slowed down in recent months, possibly due to more attractive terms on fixed deposit accounts by certain credit institutions.

Credit to Maltese residents grew by 3.7% in May, after increasing by an annual 4.2% a month earlier (see Chart 9). This deceleration was largely driven by a faster decline in credit to general government. This credit component fell by 7.1% over the 12 months to May, following a year-on-year contraction of 5.8% in April. Meanwhile, annual growth in credit to residents outside general government eased to 7.7%, down from 8.0% registered in the year to April.

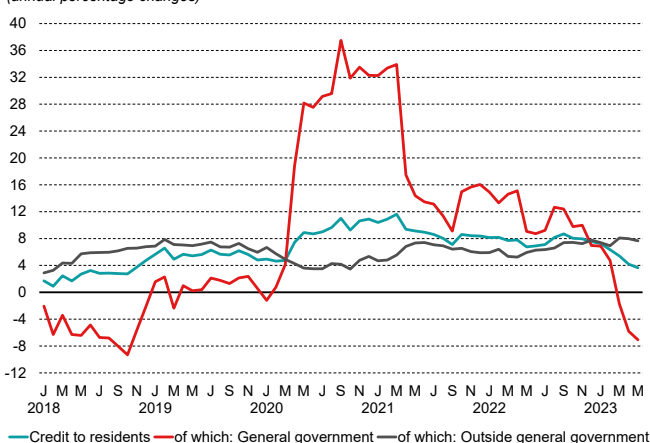
The annual rate of change in loans to households eased to 8.0% in May, from 8.1% in the previous month (see Chart 10). Growth in mortgage lending edged down to 7.9%, from

Chart 8
SELECTED DEPOSITS OF MALTESE RESIDENTS
(annual percentage changes)



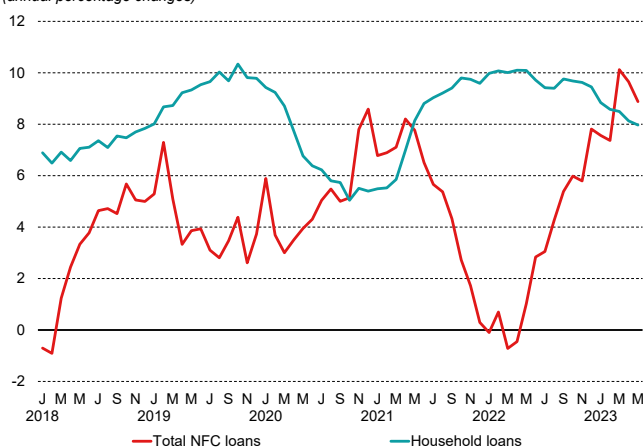
Source: Central Bank of Malta.

Chart 9
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)



Source: Central Bank of Malta.

Chart 10
LOANS BY SECTOR
(annual percentage changes)



Source: Central Bank of Malta.

8.2% in the year to April. By contrast, growth in consumer credit and other lending reached 8.4%, above the 7.4% recorded a month earlier.

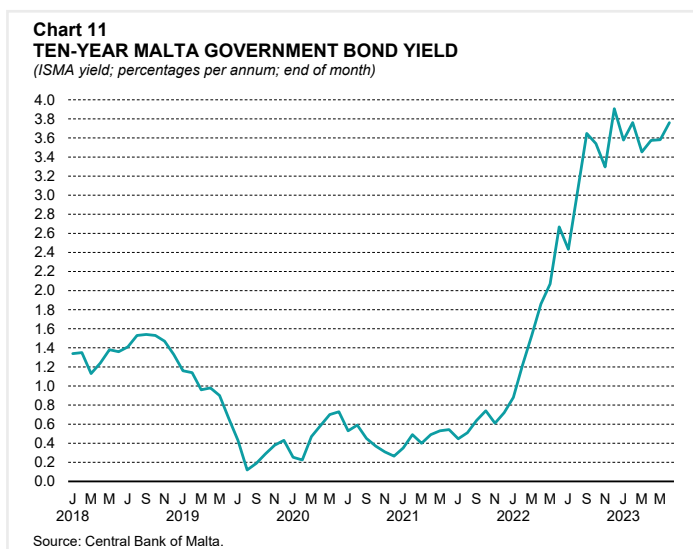
Meanwhile, the annual rate of change in loans to non-financial corporations stood at 8.9% in May, down from 9.7% in the year to April. The deceleration was largely driven by a contraction in loans to the energy sector. This was followed by slower growth in the construction and real estate sectors, as well as the manufacturing and wholesale and retail trade sectors. By contrast, loans to the sector comprising accommodation and food service activities increased, following a decline in the year to April. At the same time, loans to the transportation, storage, information and communication sector, increased at a faster pace compared to April.

By end-June, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.¹⁹ The number and value of facilities approved and still outstanding stood at €281.4 million.

In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-June, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding value of loans from this scheme stood at €7.4 million, down from €8.1 million in May.

In June 2022, the MDB launched the Liquidity Support Guarantee Scheme (LSGS), which consists of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B is specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans are available under LSGS-A and LSGS-B, respectively. Government guarantees cover 90% of each working capital loan under LSGS-A, and 80% under LSGS-B. By the end of June 2023, a total of €24.5 million was approved under one of these schemes, an unchanged amount compared to a month earlier. Meanwhile, the outstanding value of loans stood at €21.8 million by end-June.

As regards interest rates, in May, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits edged up to 0.22%, 1 basis point higher than that recorded a month earlier. Meanwhile, the composite rate charged on outstanding loans increased by 3 basis points compared to April,



¹⁹ The CGS is administered by the MDB for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls because of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See [MDB CGS](#) for further details.

standing at 3.45% in May. As a result, the spread between the two rates widened slightly to 323 basis points.

On the capital market, the secondary market yield on ten-year Maltese government bonds increased to 3.76% at the end of June, up from 3.58% recorded a month earlier. It also stood 109 basis points above its year-ago level (see Chart 11). This reflects the transmission of increases in European Central Bank policy rates to government bond yields.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index edged up slightly when compared with end-May, rising by 0.1%. Similar movements were recorded in the MSE Total Return Index, which accounts for dividends as well as changes in equity prices.

Annex 1

MACROECONOMIC INDICATORS FOR MALTA																					
Annual percentage changes; non-seasonally adjusted data																					
	2020	2021	2022	2021	2022	2022	2022	2022	2023	2022	2022	2022	2022	2022	2022	2023	2023	2023	2023	2023	2023
				Q4	Q1	Q2	Q3	Q4	Q1	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Prices and costs																					
HICP inflation	0.8	0.7	6.1	2.1	4.3	5.8	7.1	7.3	7.0	6.8	7.0	7.4	7.4	7.2	7.3	6.8	7.0	7.1	6.4	6.3	6.2
RPI inflation	0.6	1.5	6.2	2.4	4.2	6.0	7.1	7.3	7.0	6.8	7.0	7.5	7.5	7.1	7.4	6.9	7.1	7.0	5.8	5.7	5.4
Industrial producer price inflation	0.3	3.2	5.5	6.5	6.8	5.4	4.6	5.3	3.9	5.2	3.9	4.6	5.7	6.0	4.3	3.3	4.6	3.9	4.6	4.1	-
HCI (nominal)	1.8	0.4	-1.5	-1.7	-1.3	-2.2	-2.4	-0.1	1.6	-2.5	-2.6	-2.1	-1.0	0.0	0.8	1.4	1.3	2.0	3.8	3.5	-
HCI (real)	1.5	-1.9	-3.7	-4.5	-3.2	-4.7	-4.8	-2.2	0.4	-4.8	-4.9	-4.5	-3.6	-2.2	-0.8	-0.5	-0.1	1.8	3.3	3.0	-
Unit labour costs, whole economy ⁽¹⁾	12.1	-3.6	1.8	-3.6	-4.6	-3.0	-0.7	1.8	3.3	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	-0.4	4.7	2.7	4.7	4.1	3.3	2.8	2.7	2.1	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-11.1	8.6	0.8	8.6	9.0	6.5	3.4	0.8	-1.2	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	3.4	5.1	6.7	4.5	6.8	7.6	6.3	5.9	6.6	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																					
Nominal GDP	-7.1	13.9	12.7	16.0	12.1	15.5	11.9	11.6	9.1	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	-8.6	11.7	7.1	13.2	8.3	9.6	5.6	5.2	3.1	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	-10.6	8.2	9.8	10.2	11.7	13.5	7.8	6.8	3.2	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	15.8	6.9	2.4	4.4	-1.4	11.9	1.3	-1.4	1.1	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-6.6	11.0	29.5	13.7	24.1	19.1	33.8	40.7	-16.5	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-1.7	6.2	6.3	7.3	7.8	7.1	8.7	1.4	-3.0	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.9	3.8	9.2	5.1	9.0	9.6	12.9	5.4	-6.6	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																					
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.8	2.8	2.9	3.0	3.0	2.9	2.8	-	-
LFS employment	2.6	3.1	5.2	5.6	5.3	4.9	5.1	5.5	5.3	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	4.2	2.6	6.2	3.6	5.0	5.5	6.2	7.9	-	6.1	6.2	6.4	7.4	8.0	8.4	8.6	-	-	-	-	-
Balance of payments																					
Current account (as a % of GDP) ⁽²⁾	2.2	1.2	-3.0	1.2	-0.1	-0.6	-1.9	-3.0	-2.8	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																					
Maltese residents' deposits and loans																					
Overnight deposits	9.8	12.3	8.1	12.3	13.3	13.5	12.7	8.1	3.2	11.0	10.9	12.7	11.1	11.6	8.1	6.9	5.7	3.2	2.3	1.6	-
Deposits with agreed maturity up to 2 years	-3.3	-4.3	-24.7	-4.3	-12.3	-16.2	-20.4	-24.7	-11.4	-15.3	-18.1	-20.4	-23.4	-24.9	-24.7	-21.6	-12.3	-11.4	-5.9	-4.6	-
Total residents' deposits in M3	8.0	10.4	4.0	10.4	10.0	9.7	8.4	4.0	1.6	7.8	7.2	8.4	6.8	7.0	4.0	3.6	3.6	1.6	1.4	0.9	-
Credit to general government	32.3	16.1	7.0	16.1	14.6	8.7	12.4	7.0	-1.7	9.2	12.7	12.4	9.8	10.0	7.0	6.9	4.7	-1.7	-5.8	-7.1	-
Credit to residents (excl. general government)	5.3	5.9	7.8	5.9	5.3	6.3	7.4	7.8	8.1	6.4	6.6	7.4	7.4	7.2	7.8	7.4	6.9	8.1	8.0	7.7	-
Total credit	10.9	8.4	7.5	8.4	7.7	6.9	8.7	7.5	5.4	7.1	8.2	8.7	8.0	8.0	7.5	7.3	6.3	5.4	4.2	3.7	-
Ten-year interest rate (%) ⁽³⁾	0.3	0.7	3.9	0.7	1.5	2.7	3.6	3.9	3.5	2.4	3.0	3.6	3.5	3.3	3.9	3.6	3.8	3.5	3.6	3.6	3.8
Stock prices: Malta Stock Exchange Equity Price Index ⁽⁴⁾	-12.4	-4.5	-9.9	1.8	-8.2	1.1	-0.7	-2.2	-0.4	0.4	-1.6	0.5	0.9	-3.1	0.0	-0.1	2.5	-2.7	2.3	3.4	0.1
Liquidity support measures related to COVID-19																					
Outstanding loans subject to a moratorium ⁽⁵⁾	691.9	14.1	-	14.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS ⁽⁶⁾	408.1	505.9	482.6	505.9	489.3	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6	482.6
Disbursed amount under the MDB CGS ⁽⁶⁾	287.1	453.0	470.2	453.0	459.6	468.9	470.2	470.2	470.7	469.5	469.7	470.2	470.2	470.2	470.2	470.7	470.7	470.7	470.7	470.7	470.7
General government finances (% of GDP)																					
Surplus (+) / deficit (-) ⁽²⁾	-9.7	-7.8	-5.8	-7.8	-7.7	-6.5	-5.6	-5.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	52.9	55.1	53.2	55.1	56.0	53.7	52.8	53.2	-	-	-	-	-	-	-	-	-	-	-	-	-

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.