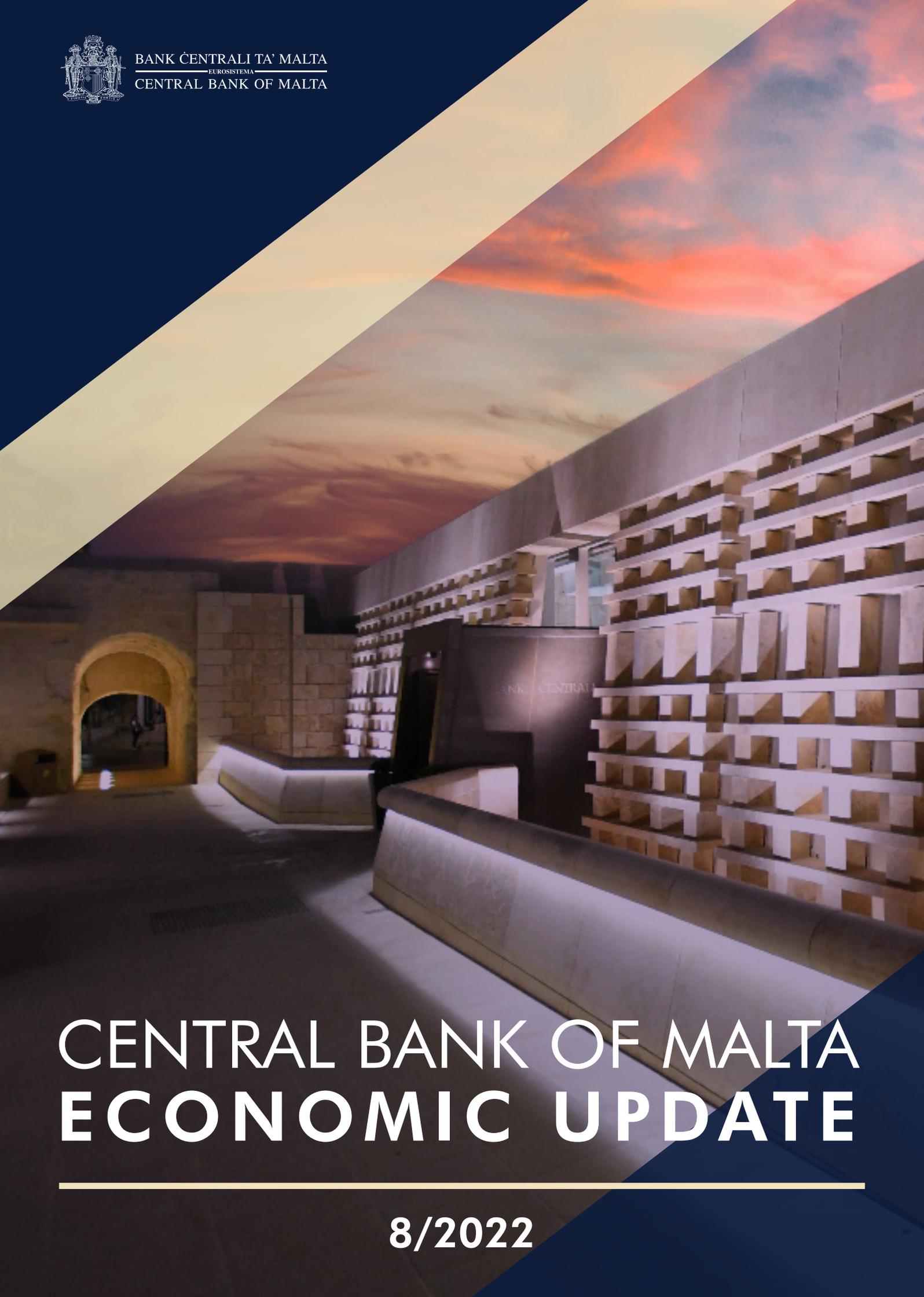




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EUROSISTEMA
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CENTRAL BANK OF MALTA ECONOMIC UPDATE

8/2022

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Address

Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone

(+356) 2550 0000

Fax

(+356) 2550 2500

Website

www.centralbankmalta.org

Contact

<https://www.centralbankmalta.org/contact-us>

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The cut-off date for information in this note is 10 August 2022. However, the cut-off dates for the HICP and the RPI are 18 and 23 August 2022, respectively. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 8/2022

Summary¹

The Bank's Business Conditions Index indicates that annual growth in business activity is at its long-term average estimated since January 2000.

The European Commission survey shows that in July, economic sentiment in Malta edged down from a month earlier, but stood at its long-term average, which is estimated since November 2002. When compared with June, sentiment deteriorated in all sectors covered by the survey, except in the retail sector.

Additional survey information shows that price expectations eased in the services sector and among consumers but rose in the remaining sectors. The largest increase was recorded in the construction sector.

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

In June, 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 stood at 3.0% in June, marginally lower from a month earlier and the lowest rate on record.

Commercial permits fell in June relative to their year-ago level, but residential permits rose. In July, 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 6.8% in July, up from 6.1% in the previous month. Inflation based on the Retail Price Index (RPI) edged up to 6.8% in July, from 6.2% a month earlier.

Maltese residents' deposits expanded at an annual rate of 9.8% in June, following an increase of 11.1% in the previous month, while annual growth in credit to Maltese residents stood at 7.0%, marginally above the rate of 6.8% recorded a month earlier.

In June 2022 the deficit on the Consolidated Fund narrowed substantially when compared with a year earlier as government revenue rose while government expenditure declined.

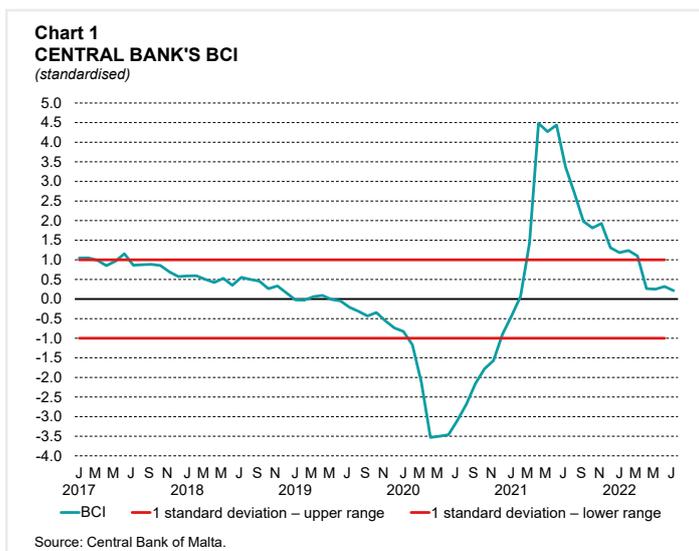
Central Bank's Business Conditions Index²

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 pre-pandemic

¹ The cut-off date for information in this note is 10 August 2022. However, the cut-off dates for the HICP and the RPI are 18 and 23 August 2022, respectively. Most of the data reported in this issue of the *Economic Update* refer to June 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 July.

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.

levels (see Chart 1). Growth has now returned close to its historical average estimated since January 2000. Among BCI components, year-on-year 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 recently have been standing below their year-ago levels.

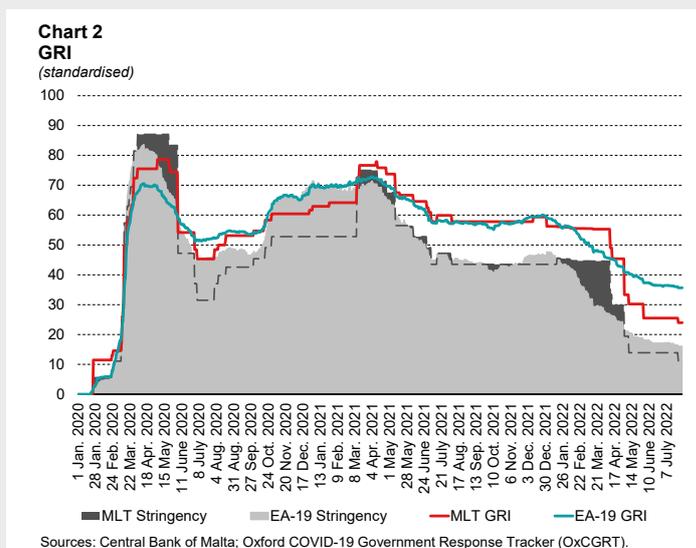


BOX 1: COVID-19 GOVERNMENT RESPONSE INDEX – MALTA

Malta's COVID-19 Government Response Index (GRI) at the end of July stood at 24.0, down by 1.6 points when compared to its level at the end of June (see Chart 2). The fall reflects the removal of one of the few remaining COVID-19 containment measures that were still in place. In particular, as from 25 July, all COVID-related travel restrictions to Malta were completely relaxed, as travellers no longer require vaccination, recovery or test certificates to enter Malta. As a result, by the end of the month, the GRI score entirely reflects policies such as the universal availability of testing and vaccinations, the mandatory use of facial coverings in hospitals, health clinics and elderly homes, the continued presence of public information campaigns and the recommended protection of elderly people against COVID-19.

Meanwhile, the index for the euro area average closed the month at 35.7, 0.7 point lower than its level at end-June. This is 11.7 percentage points higher from Malta's index, and mainly reflects the continued enforcement of restrictions on travel and social events, and the continuation of income support measures in some euro area countries.

Meanwhile, Malta's Stringency Index declined by 2.8 percentage points from its level at end-June, to stand at 11.1. It stood 5.0 points higher than the euro area average, which ended July at 16.1.



Business and consumer confidence indicators

In July, the European Commission's Economic Sentiment Indicator (ESI) for Malta fell back to its long-run average, which is estimated since November 2002. Sentiment eased to 100.2 from 102.6 a month earlier, and was thus broadly in line with the euro area average of 99.0. Following this decrease, the indicator stood below its level in July 2021 (see Table 1).^{3,4,5,6}

	2020	2021	2021					2022				
			July	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	
ESI	82.6	105.0	109.0	94.6	101.7	117.5	108.0	103.7	103.6	102.6	100.2	
Construction confidence indicator	-4.5	7.3	-2.0	5.1	9.8	5.2	3.4	15.1	18.1	15.1	5.2	
Evolution of your current overall order books	-4.9	1.4	-12.4	-1.5	9.1	5.5	8.7	16.7	12.0	9.2	4.5	
Employment expectations over the next 3 months	-4.1	13.2	8.5	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	
Industrial confidence indicator	-24.2	2.1	0.9	-11.3	-4.2	25.1	1.4	-2.2	-14.8	-10.3	-14.3	
Assessment of order-book levels	-47.8	-28.2	-19.1	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6	-40.7	
Assessment of stocks of finished products	26.6	-3.2	-3.0	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1	-8.3	
Production expectations for the months ahead	1.9	31.3	18.8	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5	-10.6	
Consumer confidence indicator	-5.7	3.4	6.2	-0.1	-1.1	0.6	-2.6	2.0	0.0	-6.5	-10.2	
Financial situation past 12 months	-2.2	-8.8	-6.7	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0	-25.6	
Financial situation next 12 months	1.0	7.1	8.4	0.3	-0.9	-1.7	-2.9	-5.4	-11.1	-10.9	-16.4	
Economic situation next 12 months	0.4	18.6	21.9	4.0	3.4	10.9	-1.7	8.9	3.5	1.8	-6.0	
Major purchases next 12 months	-21.8	-3.4	1.4	5.3	4.1	6.1	3.0	12.6	21.5	4.3	7.1	
Services confidence indicator	-23.2	13.6	29.8	-16.2	5.9	28.1	30.9	13.7	25.4	27.0	23.8	
Business situation development over the past 3 months	-34.3	4.9	21.4	-14.0	-4.2	29.5	36.8	9.8	16.7	21.4	13.6	
Evolution of the demand over the past 3 months	-33.6	10.7	24.7	-12.2	22.2	23.1	37.0	9.0	20.5	50.2	42.3	
Expectation of the demand over the next 3 months	-1.7	25.3	43.3	-22.3	-0.2	31.7	18.9	22.3	39.0	9.4	15.3	
Retail trade confidence indicator	-30.3	-8.4	-7.6	35.4	6.2	20.9	8.1	6.3	16.9	-2.7	0.9	
Business activity, past 3 months	-21.8	-13.6	9.3	37.4	-17.6	18.7	13.0	17.5	43.1	16.2	30.5	
Stocks of finished goods	30.5	12.8	-0.5	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5	2.5	
Business activity, next 3 months	-38.4	1.2	-32.7	32.9	0.4	26.8	10.3	5.2	5.2	-26.8	-25.2	
E EI	87.0	104.1	113.2	99.6	105.2	78.0	113.6	105.0	117.6	117.0	113.7	
Services	-0.7	25.1	54.1	14.7	31.0	-48.9	53.1	19.3	44.5	52.8	32.2	
Construction	-4.1	13.2	8.5	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	
Industry	-10.9	14.8	11.6	12.4	13.4	18.4	2.9	32.8	53.1	34.0	29.1	
Retail	-12.2	4.4	2.5	2.1	1.0	3.9	17.7	4.9	4.1	2.1	34.3	
EUI^(1,2)	-	21.3	18.4	36.9	25.1	32.6	27.8	20.6	35.2	33.0	24.5	
Services	-	32.2	31.9	42.8	45.1	38.1	-1.3	1.9	26.5	17.2	0.1	
Industry	-	21.0	-4.6	51.4	20.8	44.9	59.1	35.1	55.3	49.3	37.8	
Construction	-	30.1	58.6	12.8	5.5	15.7	27.4	20.2	7.0	37.2	22.4	
Retail	-	48.8	65.4	60.8	59.0	40.7	56.4	52.8	45.9	48.5	59.7	
Consumers	-	-3.5	22.5	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1	26.1	
ESI demeaned	-17.4	5.0	9.0	-5.3	1.7	17.5	8.0	3.7	3.6	2.6	0.2	
E EI demeaned	-12.6	4.5	13.9	0.0	5.7	-22.0	14.2	5.5	18.3	17.7	14.1	

Source: European Commission.
⁽¹⁾ Non-seasonally adjusted data.
⁽²⁾ Data for Malta are available from May 2021 onwards.

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.

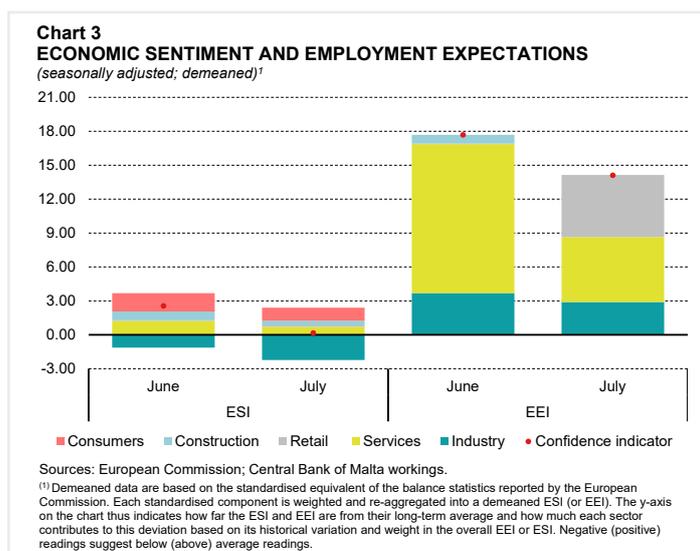
⁵ In January 2022, data were revised for previous periods following the annual updating of country weights and the inclusion of 2021 in the standardisation sample.

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. For further details on the methodology used by the European Commission, see: https://ec.europa.eu/info/sites/default/files/bcs_user_guide.pdf

In month-on-month terms, sentiment in Malta fell across all sectors with the exception of the retail sector. The largest decline was recorded in the construction sector. In July, sentiment was positive in the services, construction and retail sectors, but negative in industry and among 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 June and

July was broad based across all sectors, with the exception of the retail sector (see Chart 3). Most of the decline was driven by industry, which is also the only sector with a negative contribution. Demeaned data also suggest that the confidence indicators for consumers and services had the strongest positive contribution to the ESI.



In July, confidence within the construction sector more than halved but remained positive. It fell to 5.2, from 15.1 a month earlier, reflecting a decrease in respondents' employment expectations and, to a lesser extent, a smaller share of respondents who assessed order book levels to be above normal levels. Notwithstanding this decline, sentiment remained well above its long-term average of -9.1.⁷

Sentiment in industry stood more negative in July. It averaged -14.3, down from -10.3 in June. Following this decrease, sentiment indicator for this sector fell further below its long-term average of -4.0.⁸ The recent fall in sentiment was mainly driven by weaker production expectations for the months ahead.

Consumer confidence also weakened in July, falling to its long-term average of -10.2, from -6.5 a month earlier.⁹ This deterioration largely reflected developments in consumers' expectations of the general economic situation, and to a smaller extent, their assessment and expectations for their financial situation. By contrast, expectations of major purchases in the coming months stood more positive compared to June.

Sentiment within the services sector stood at 23.8, down from 27.0 in June, but remained above its long-term average of 19.2.¹⁰ This decrease in confidence largely stems from firms' assessment

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.

⁹ 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.

¹⁰ 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.

of demand and of the business situation in recent months. By contrast, demand expectations improved.

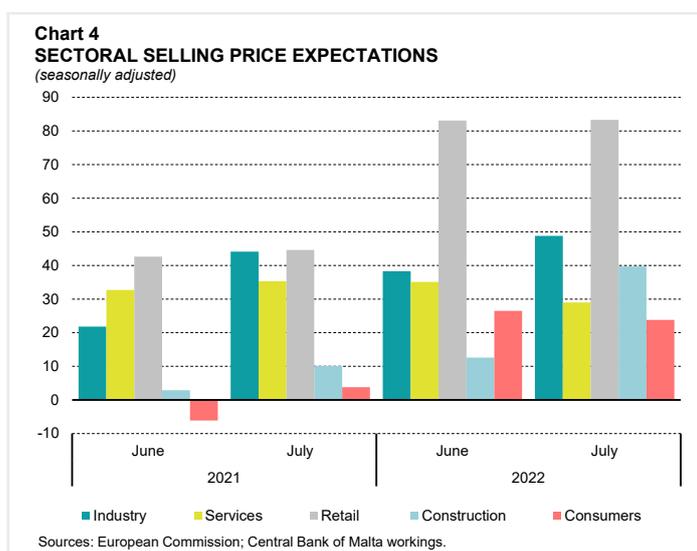
Confidence in the retail sector turned slightly positive. It reached 0.9 in July, up from -2.7 in June, and rose above its long-term average of -0.9.¹¹ This was driven by a strong amelioration in retailers' assessment of business activity over the last three months. Meanwhile, their expectation of sales over the next three months improved slightly but remained negative. However, in contrast to the previous month, retailers now assess their stock levels to be above normal.¹²

Additional survey information shows that selling price expectations increased significantly in the construction sector, and to a smaller extent in industry (see Chart 4). Meanwhile, the share of retailers anticipating selling prices to increase in the coming months was broadly unchanged, though at the highest level among the sectors. By contrast, price expectations eased in the services sector and among consumers.

Price expectations stood above their year-ago level in all sectors, bar the services sector, with the strongest increase recorded in retail.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – declined in July.¹³ The EEI stood at 113.7, below the 117.0 recorded in June, but remained above its long-term average of around 100.0. It also stood above the euro area average of 107.0.

The drop in employment expectations since June was most significant in the services and construction sectors. Employment expectations also weakened across industry, though by a smaller magnitude. By contrast, there was a relatively strong amelioration among retailers. Demeaned data show that the services and retail sectors largely explain why the overall EEI stood above its long-term average in July (see Chart 3). Employment expectations were positive across all sectors.

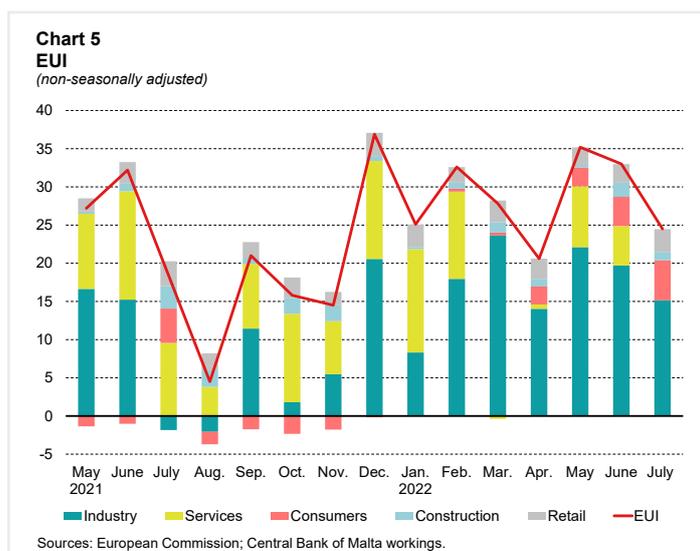


¹¹ The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

¹² Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

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*.

In July, 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 – fell to 24.5, from 33.0 in June, signalling lower uncertainty (see Table 1). The uncertainty indicator stood slightly below that of the euro area, where the index reached 26.1, but exceeded its level recorded in July 2021 (see Chart 5).^{14,15}



In month-on-month terms, the decrease in Malta's uncertainty indicator was mainly driven by lower uncertainty in the services sector and in industry. Uncertainty in the construction sector had a smaller impact on the overall uncertainty indicator due to the smaller weights of this sector. These developments offset higher uncertainty among consumers and in the retail sector.

Activity indicators

In June, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – stood at -0.5%. This followed a fall of 3.3% in May (see Table 2).¹⁶

The recent decline in industrial production partly reflected a substantial decrease in the output of firms that print and reproduce recorded media. This was closely followed by falls in the pharmaceutical industry and by those that produce parts for motor vehicles, trailers and semi-trailers. Other smaller declines in production were registered amongst firms that produce electrical equipment, rubber and plastic, non-metallic mineral products and 'other manufacturing', which includes firms that produce medical and dental instruments and toys. These offset higher output in the rest of firms, including those that manufacture food products, computer, electronic and optical goods, beverages, chemicals and chemical products as well as those that repair and install machinery and equipment.

Production in the energy sector fell for the third consecutive time, declining by 1.8% in annual terms.

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.

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 2
ACTIVITY INDICATORS

Annual percentage changes

	2020	2021	2021		2022	
			May ⁽⁴⁾	June ⁽⁴⁾	May	June
Industrial production	-0.3	-0.3	9.5	13.8	-3.3	-0.5
Retail trade	-5.6	8.2	24.6	5.0	9.3	8.2
Number of tourist arrivals	-76.1	47.0	-	-	752.7	247.0
Number of nights stayed	-73.0	60.5	-	-	377.0	146.6
Rented accommodation	-76.8	73.8	-	-	593.1	194.5
Collective ⁽¹⁾	-76.5	74.3	-	-	816.3	224.9
Other rented ⁽²⁾	-77.3	72.9	-	-	352.8	151.0
Non-rented accommodation ⁽³⁾	-52.8	26.5	-	-	56.3	16.8
Tourist expenditure	-79.5	91.3	-	-	728.6	259.5
Package expenditure	-84.5	108.7	-	-	1,387.1	421.3
Non-package expenditure	-79.6	89.4	-	-	653.8	274.9
Other	-75.9	85.4	-	-	626.3	197.9

Sources: National Statistics Office; Eurostat.

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

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

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

⁽⁴⁾ As a result of the COVID-19 situation, it was not possible for the NSO to issue the May and June 2020 news releases for Inbound Tourism.

In June, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 8.2% in year-on-year terms, after rising by 9.3% in May.

In June, further gains were registered in the tourism sector, although tourist numbers remained below pre-pandemic levels. The number of inbound tourists stood at 243,956 in June, up from 70,300 a year earlier. Nonetheless, it was 12.3% less than the number of inbound tourists in June 2019. Guest nights were almost three times those registered in June 2021, with collective accommodation accounting for over two-thirds of this increase. Total expenditure by tourists in Malta was also significantly higher than the level recorded in the corresponding period of 2021, but still below pre-pandemic levels.

In June, 235 development permits for commercial buildings were issued, compared with 260 permits issued in the same month a year earlier (see Table 3). Meanwhile, 593 new residential permits were issued in June, 164 more than the number issued in June 2021.

Data on residential property transactions show that 1,246 final deeds of sale were concluded in July, 10.1% less than a year earlier. At 956, the number of promise-of-sale agreements was 13.2% less than that registered in July 2021.

Customs data show that the merchandise trade deficit stood at €492.0 million in June, up from €274.7 million a year earlier. The larger deficit was due to a €233.9 million rise in imports which more than offset a €16.7 million increase in exports (see Chart 6).

Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			June	July	June	July
Permits						
Commercial permits	2,687	2,770	260	249	235	-
Residential permits	7,837	7,578	429	645	593	-
Residential transactions						
Promise of sale	11,259	15,643	1,165	1,102	1,089	956
Final deeds of sale	11,057	14,368	1,239	1,386	1,194	1,246

Sources: National Statistics Office; Eurostat.

Higher imports were mainly on account of a substantial increase in the fuel import bill as well as an increase in the registration of sea vessels. Higher imports of electrical machinery, fish, machinery and electrical appliances, vehicles, paper and beverages also contributed but to a lesser extent. These offset a decline in the registration of aircrafts and lower imports of organic chemicals and pharmaceutical products.

The increase in exports was mainly on account of higher fuel re-exports, while exports of electrical machinery and machinery and mechanical appliances also increased but their contribution was smaller. These exceeded significantly lower exports of pharmaceutical products, organic chemicals and aircraft parts.

Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 954 in June 2022, down from 961 in May and from 1,711 a year earlier – when the labour market was still impacted by 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: JUNE 2022
(EUR millions; monthly observations)

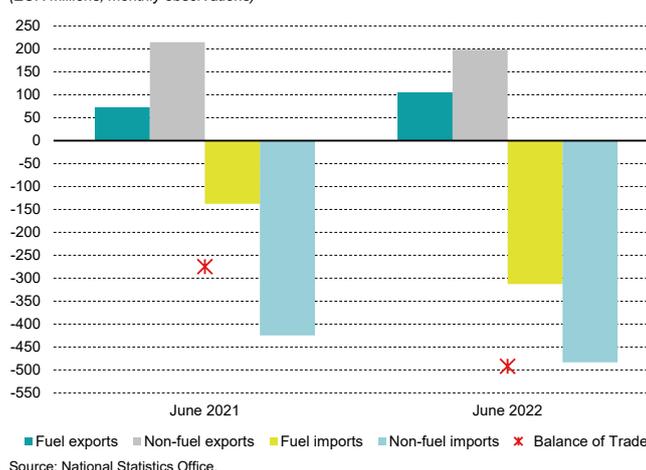
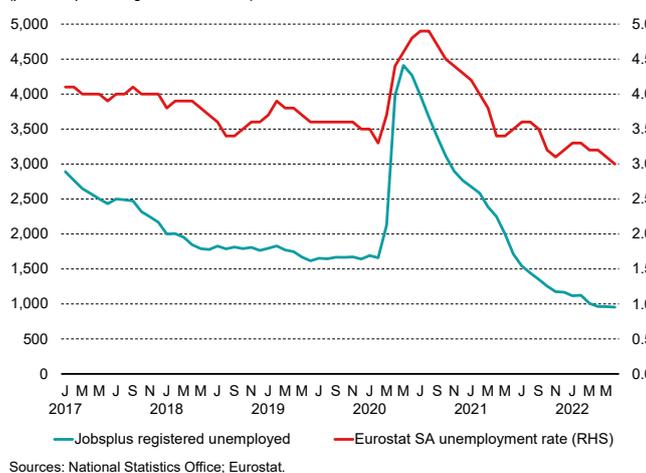


Chart 7
UNEMPLOYMENT
(persons; percentage of labour force)



The seasonally-adjusted unemployment rate stood at 3.0% in June 2022, marginally lower than a month earlier, and below the rate of 3.5% registered in June 2021. The rate observed in June 2022 was also the lowest rate ever recorded.

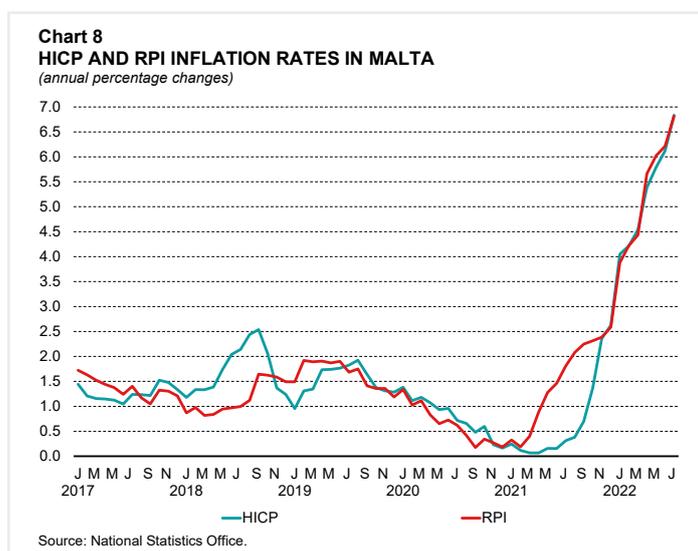
Prices, costs and competitiveness

Annual HICP inflation rose to 6.8% in July, from 6.1% in the previous month (see Chart 8). This increase was driven by all subcomponents except for energy. Food inflation (including alcohol and tobacco) was the main driver behind the increase in overall inflation. It rose by 1.3 percentage points to 9.9%. Processed food inflation rose by 1.3 percentage points to 8.9%, while unprocessed food inflation rose by 1.2 percentage points to 13.0%. Services inflation reached 6.9%, up from 6.1% in the previous month. Non-energy industrial goods (NEIG) inflation also increased, although marginally. Indeed, NEIG inflation reached 5.5%, up from 5.4%. 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 6.8% in July, up from 6.2% in June (see Chart 8).¹⁷ The fastest growth was registered amongst food products, where inflation reached 11.5%, from 10.0% on June. Apart from food, housing and transport and communication contributed most to inflation in July. The latter rose by 15.3% and 5.0% respectively.

Producer output inflation as measured by the industrial producer price index, stood at 5.0% in June, down from 5.4% in May.¹⁸ The deceleration was driven by slower growth in the prices of intermediate goods. These movements were slightly offset by a rise in inflation in non-durable consumer and capital goods. Growth in the prices of durable consumer goods and energy prices remained unchanged from the previous month.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 2.5% in the year to July 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.¹⁹ The real HCI,



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 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.

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.

¹⁹ 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.

which also considers relative price changes, fell by 5.1% in annual terms in July, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

Public finance

During June 2022, the Consolidated Fund recorded a deficit of €89.4 million, almost half that registered a year earlier (see Table 4). This occurred due to a rise in government revenue, and – albeit to a lower extent – a fall in government expenditure. In turn, the primary balance registered a deficit of €73.8 million, an improvement of €80.1 million from the primary deficit registered in the corresponding period, a year earlier.

Government revenue increased by €75.6 million, or 23.2% in annual terms, reflecting a surge in tax revenue. Revenue from direct taxes increased by €45.9 million, driven by higher inflows from income tax paid by households and social security contributions. Inflows from indirect taxes rose by €44.7 million, mainly due to an increase in VAT receipts. Meanwhile, non-tax revenue fell by €15.0 million, partly due to lower grants from the EU and transfer of Central Bank of Malta profits.

Government expenditure decreased by €5.3 million, or 1.1% when compared to the corresponding period in 2021, as a fall in recurrent expenditure offset a rise in capital expenditure. The

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021		2022		Change	
	Jan.-June	Jan.-June	June	June	Amount	%
Revenue	2,006.7	2,395.1	326.0	401.6	75.6	23.2
Direct tax	1,079.6	1,293.4	198.9	244.8	45.9	23.1
Income tax	746.7	889.3	142.1	171.2	29.1	20.5
Social security contributions ⁽¹⁾	332.9	404.1	56.9	73.7	16.8	29.5
Indirect tax	756.3	890.4	96.6	141.3	44.7	46.3
Value Added Tax	461.1	586.4	39.2	89.7	50.5	129.0
Customs and excise duties	133.6	132.6	31.2	23.8	-7.4	-23.6
Licences, taxes and fines	161.6	171.4	26.3	27.8	1.6	6.0
Non-tax⁽²⁾	170.9	211.3	30.5	15.5	-15.0	-49.2
Expenditure	2,830.3	2,857.7	496.3	491.0	-5.3	-1.1
Recurrent	2,561.9	2,586.8	453.6	439.1	-14.5	-3.2
Personal emoluments	517.0	523.4	88.5	93.5	5.0	5.7
Operational and maintenance	127.1	110.4	18.4	17.5	-0.9	-5.1
Programmes and initiatives	1,492.8	1,547.4	269.2	254.9	-14.3	-5.3
Contributions to entities	334.5	319.9	61.1	57.7	-3.5	-5.7
Interest payments	90.5	85.7	16.4	15.6	-0.8	-4.9
Capital	268.4	270.9	42.7	51.9	9.2	21.5
Primary balance⁽³⁾	-733.1	-376.9	-154.0	-73.8	80.1	-
Consolidated Fund balance	-823.6	-462.6	-170.3	-89.4	80.9	-

Source: National Statistics Office.

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

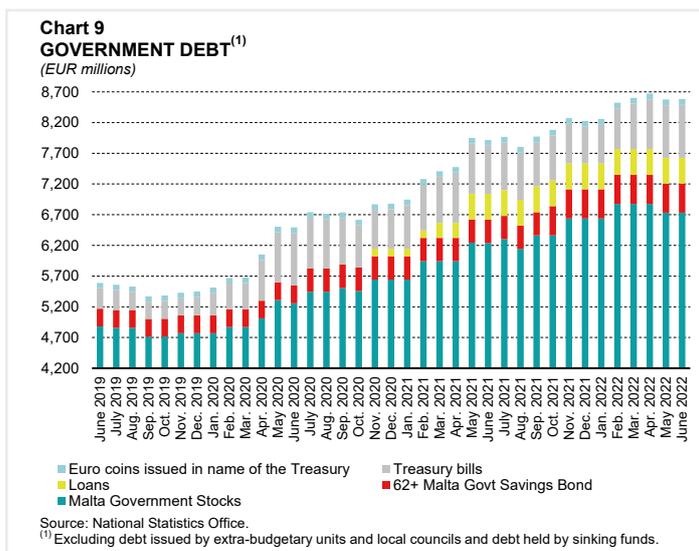
⁽²⁾ Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

⁽³⁾ Revenue less expenditure excluding interest payments.

latter increased by €9.2 million, reflecting higher expenditure on incentives to industry, which are classified as capital expenditure in the Consolidated Fund.

Meanwhile, recurrent expenditure fell by €14.5 million, almost entirely reflecting lower expenditure on programmes and initiatives. The latter fell by €14.3 million, mainly reflecting lower spending on COVID related outlays, as the Wage Supplement Scheme ended in May 2022. The month under review also saw lower spending on contributions to entities, which declined by €3.5 million. Moreover, outlays on operational and maintenance and interest payment fell by €0.9 million and €0.8 million respectively. This was partly offset by higher spending on personal emoluments, which increased by €5.0 million.

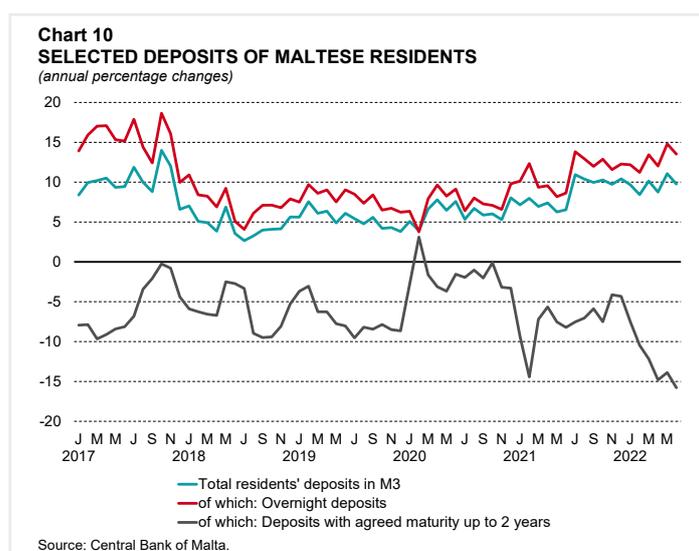
In June 2022, the total stock of outstanding government debt amounted to €8,413.9 million, a rise of €4.0 million when compared with May 2022 (see Chart 9). This increase was mainly attributable to higher outstanding Treasury bills.



Deposits, credit and financial markets

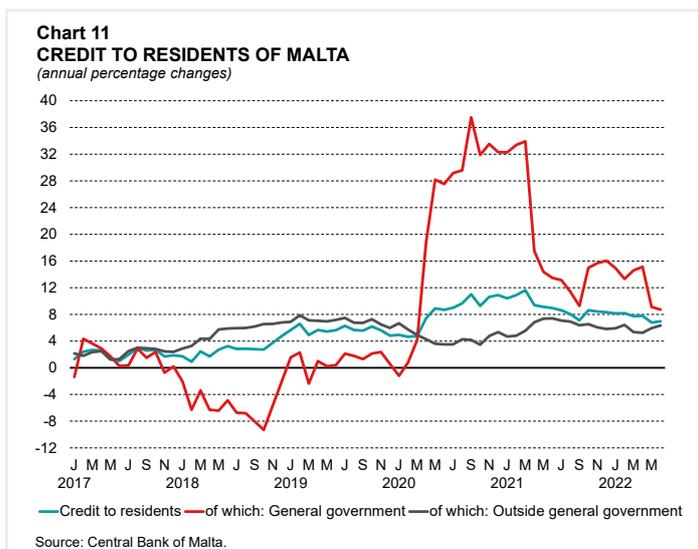
In June, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 9.8%, down from 11.1% a month earlier (see Chart 10).

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 13.5% in the year to June, below the 14.8% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 15.8% in annual terms, following a contraction of 13.9% in May. This may reflect efforts by certain credit institutions to



reduce the number of fixed term deposit accounts.

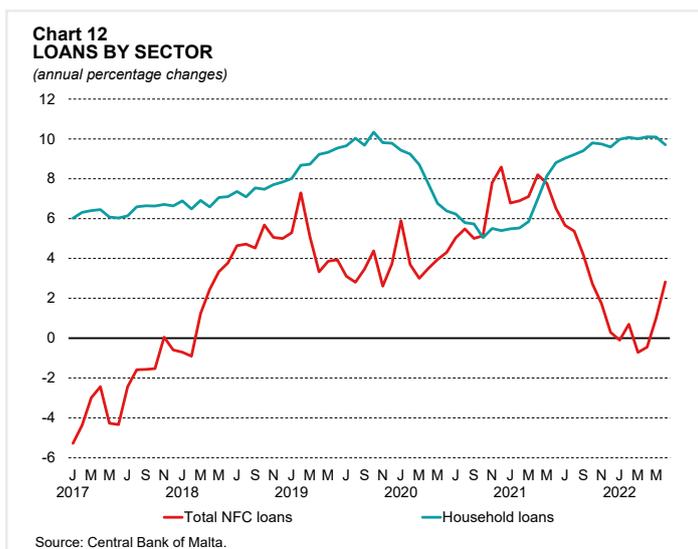
Credit to Maltese residents grew at an annual rate of 7.0% in June, slightly above the 6.8% recorded a month earlier (see Chart 11). The slight acceleration in growth was driven by a larger increase in credit to residents outside general government. Annual growth in this component stood at 6.3%, up from 5.9% in May. By contrast, growth in credit to general government rose by 8.7%, compared with a 9.1% increase a month earlier.



The annual rate of change in loans to households stood at 9.7% in June, following an increase of 10.1% in May. Mortgage lending eased to 10.9%, from 11.4% in May. By contrast, consumer credit and other lending fell by 3.3%, following a contraction of 3.7% in the previous month.

Meanwhile, the annual rate of change in loans to non-financial corporations edged up to 2.8% in June, up from 1.0% a month earlier (see Chart 12). The acceleration in growth was largely driven by faster growth in credit to real estate activities. This was followed by faster growth in loans to the agriculture and manufacturing sectors, as well as the wholesale and retail trade sector. Additionally, credit to the sector comprising professional, scientific and technical activities contracted at a slower pace. By contrast, growth in loans to accommodation and food service activities turned negative. At the same time, loans to the construction sector rose at a slower pace compared to May.

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.^{20,21} Overall, €468.9 million were disbursed, up slightly from the €466.4 million disbursed by the end of May.



²⁰ 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.

²¹ 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.

The sector comprising wholesale and retail activities had the largest number of facilities supported by the scheme and still outstanding by the end of June, followed by the accommodation and food service activities sector. 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.

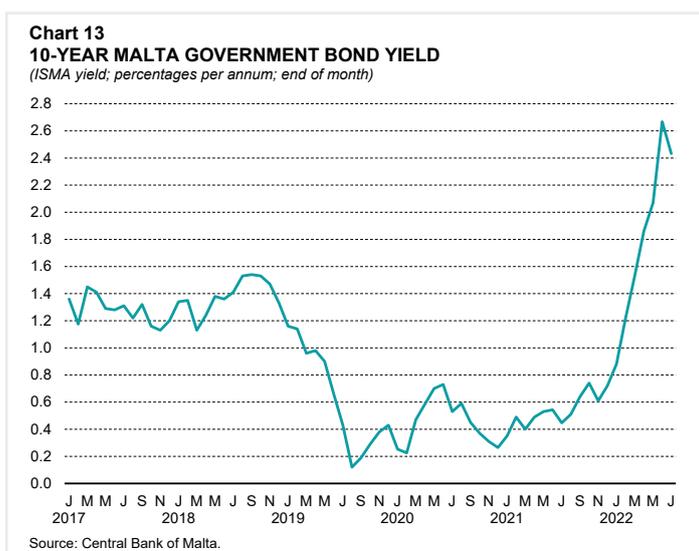
In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed thereby ensuring the security of supply of such products. By end-June, three facilities were approved, covering total sanctioned lending of €15.6 million. The outstanding level of disbursements from this scheme stood at €7.2 million.

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 these extraordinary circumstances, 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. No facilities have been approved under these schemes by June.

As regards interest rates, in June, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.15%, unchanged for the third consecutive month. Similarly, the composite rate charged on outstanding loans also remained unchanged since April, standing at 3.18% in June. 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 fell by 24 basis points from a month earlier, to 2.43% at the end of July (see Chart 13). That said, they remain at elevated levels, 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.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index increased by 0.4% 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.



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	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	July
Prices and costs																											
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	6.8
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	6.8
Industrial producer price inflation	2.2	0.3	3.2	1.8	3.8	6.5	7.1	5.4	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	5.8	5.4	5.0	-
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	-2.5
HCI (real)	-1.1	1.5	-1.9	-1.0	-3.2	-4.5	-3.2	-4.7	2.4	2.1	-1.2	-0.7	-0.8	-1.7	-2.3	-3.7	-3.7	-4.3	-4.4	-4.7	-3.2	-2.8	-3.6	-4.8	-4.9	-4.5	-5.1
Unit labour costs, whole economy ⁽¹⁾	3.5	11.4	-2.3	5.0	0.6	-2.3	-4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.8	-0.8	4.9	3.0	4.1	4.9	3.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																											
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																											
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	3.1	3.0	2.9	-
LFS employment	7.1	2.6	2.7	3.2	3.6	5.0	4.3	-	-	-	2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.2	2.6	2.5	3.6	3.9	-	-	0.7	0.4	0.9	1.8	2.6	3.1	3.2	3.6	3.8	3.6	3.9	4.2	4.6	5.3	-	-	-	-	-
Balance of payments																											
Current account (as a % of GDP) ⁽²⁾	5.0	-2.9	-4.9	-3.0	-3.5	-4.9	-4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																											
Maltese residents' deposits and loans																											
Overnight deposits	6.2	9.8	12.3	8.6	12.0	12.3	13.4	13.5	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	13.5	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-8.2	-5.9	-4.3	-12.2	-15.8	-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	-15.8	-
Total residents' deposits in M3	3.8	8.0	10.4	6.5	10.0	10.4	10.1	9.8	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	9.8	-
Credit to general government	0.6	32.3	16.0	13.5	9.3	16.0	14.6	8.7	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	8.7	-
Credit to residents (excl. general government)	6.0	5.3	5.8	7.4	6.4	5.8	5.3	6.3	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	6.3	-
Total credit	4.8	10.9	8.3	8.9	7.1	8.3	7.7	7.0	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	7.0	-
10-year interest rate (%) ⁽³⁾	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	2.4
Stock prices: Malta Stock Exchange Index ⁽⁴⁾	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	0.4
Liquidity support measures related to COVID-19																											
Outstanding loans subject to a moratorium ⁽⁵⁾	-	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 ⁽⁵⁾	-	408.1	505.9	451.5	508.8	505.9	489.3	482.6	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	482.6	-
Disbursed amount under the MDB CGS ⁽⁵⁾	-	287.1	453.0	372.5	414.5	453.0	459.6	468.9	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	468.9	-
General government finances (% of GDP)																											
Surplus (+) / deficit (-) ⁽²⁾	0.6	-9.4	-7.9	-7.7	-8.0	-7.9	-8.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt ⁽⁶⁾	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.

⁽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.