



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA



# CENTRAL BANK OF MALTA ECONOMIC UPDATE

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8/2023

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*The cut-off date for information in this note is 18 August 2023. However, the cut-off date for the RPI is 23 August 2023. Figures in tables may not add up due to rounding.*

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## ECONOMIC UPDATE 8/2023

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

*The Bank's Business Conditions Index (BCI) indicates that in July, annual growth in business activity remained broadly unchanged when compared to the previous month. It remained above its long-term average, estimated since January 2000.*

*The European Commission confidence surveys show that sentiment in Malta increased in July compared to June, and remained above its long-term average, estimated since November 2002. In month-on-month terms, sentiment increased strongly in the retail sector and in industry, but fell across the remaining sectors, with the sharpest decline recorded in the construction sector.*

*Additional data show that price expectations remained elevated, standing well above their long-term average in most sectors. Expectations stood firmly below their year-ago level in the retail sector, and to a lesser degree, in industry. By contrast, selling price expectations in the services and construction sectors stood firmly above the level recorded in July 2022. Price expectations among consumers also edged up compared with a year earlier, albeit to a lesser extent.*

*In July, the European Commission's Economic Uncertainty Indicator (EUI) for Malta decreased when compared with June, indicating lower uncertainty. Uncertainty decreased mostly among retailers and in industry.*

*In June, industrial production contracted on a year earlier, after growing strongly in May. Retail trade grew at a faster pace. The unemployment rate declined to a historic low of 2.6% in June, from 2.7% in the previous month, and 3.0% in June 2022.*

*Commercial building permits in June were lower than a month earlier and when compared with a year earlier. Residential building permits were slightly lower compared with month-ago levels but increased in annual terms. In July, 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 5.6% in July, down from 6.2% in the previous month. Inflation based on the Retail Price Index (RPI) decreased to 4.7%, from 5.4% in June.*

*Maltese residents' deposits expanded at an annual rate of 1.0% in June, following an increase of 0.9% in the previous month, while annual growth in credit to Maltese residents reached 3.9%, from 3.7% a month earlier.*

*In June, the Consolidated Fund recorded a higher deficit compared to a year earlier, as an increase in government expenditure offset a smaller rise in revenue.*

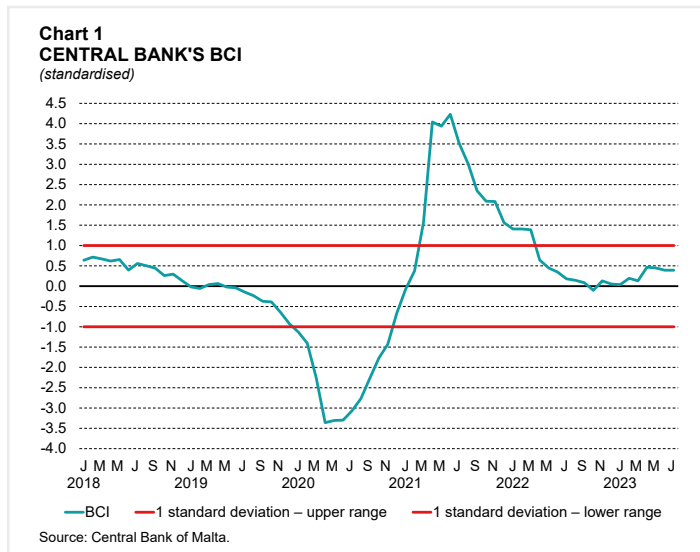
### Central Bank's Business Conditions Index<sup>2</sup>

The Bank's BCI indicates that in July, annual growth in business activity was broadly unchanged and remained above its long-term average, estimated since January 2000 (see Chart 1). The

<sup>1</sup> The cut-off date for information in this note is 18 August 2023. However, the cut-off date for the RPI is 23 August 2023. Most of the data reported in this issue of the *Economic Update* refer to June 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures refer to July.

<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.

number of building development permits issued, the ESI, and tourist arrivals experienced strong year-on-year growth, and contributed to the above-average BCI level. Furthermore, the unemployment rate declined further and reached an all-time low, indicating better business conditions. On the other hand, growth in tax revenue has decelerated in recent months, falling below its long-run average, dampening the BCI.

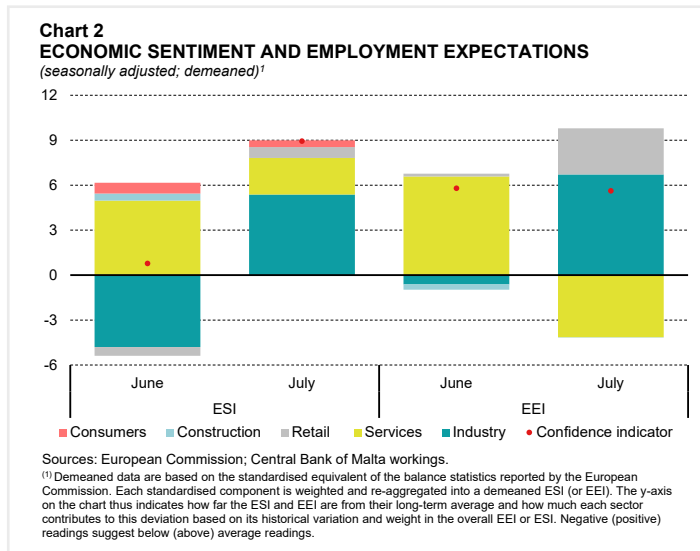


## Business and consumer confidence indicators

In July, the European Commission's Economic Sentiment Indicator (ESI) for Malta reached 109.0, from 100.8 in June. It was therefore above its long-term average of around 100.0, estimated since November 2002 (see Table 1).<sup>3,4</sup> Furthermore, sentiment stood above the euro area average of 94.5.

In month-on-month terms, sentiment increased strongly in the retail sector, and in industry, but fell across the remaining sectors. The sharpest decline was recorded in the construction sector, where sentiment turned negative.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the increase in overall sentiment in July was driven by a positive contribution from industry, and to a smaller extent, from the retail sector (see Chart 2). The improvement in industry follows two months



<sup>3</sup> The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%. 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.

<sup>4</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in December 2002, while the services and construction confidence indicators' data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from December 2002.

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

Balances; percentage points; seasonally adjusted

	2021	2022	2022					2023				
			July	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	
<b>ESI</b>	<b>104.9</b>	<b>100.9</b>	<b>101.8</b>	<b>96.9</b>	<b>101.3</b>	<b>104.8</b>	<b>111.3</b>	<b>114.2</b>	<b>103.6</b>	<b>100.8</b>	<b>109.0</b>	
<b>Retail trade confidence indicator</b>	<b>-8.4</b>	<b>6.0</b>	<b>1.0</b>	<b>27.4</b>	<b>25.5</b>	<b>-0.5</b>	<b>23.8</b>	<b>36.2</b>	<b>-9.0</b>	<b>-16.6</b>	<b>23.4</b>	
Business activity, past 3 months	-13.6	21.1	30.5	57.7	41.8	21.8	47.2	55.2	-0.1	-4.2	40.4	
Stocks of finished goods	12.8	-3.2	2.5	3.1	15.9	22.9	1.9	1.1	19.6	24.9	10.8	
Business activity, next 3 months	1.2	-6.3	-25.0	27.4	50.4	-0.3	26.0	54.4	-7.3	-20.6	40.6	
<b>Industrial confidence indicator</b>	<b>2.1</b>	<b>-9.4</b>	<b>-14.3</b>	<b>-23.5</b>	<b>-8.6</b>	<b>-3.2</b>	<b>6.8</b>	<b>8.5</b>	<b>-11.4</b>	<b>-20.0</b>	<b>10.6</b>	
Assessment of order-book levels	-28.2	-21.5	-40.7	-10.1	-4.3	-7.2	-50.3	-49.0	-39.6	-36.8	-15.9	
Assessment of stocks of finished products	-3.2	9.1	-8.3	2.2	2.6	19.2	3.6	-3.6	4.6	6.0	1.7	
Production expectations for the months ahead	31.3	2.2	-10.6	-58.1	-18.8	16.8	74.1	70.9	9.9	-17.3	49.4	
<b>Consumer confidence indicator</b>	<b>3.4</b>	<b>-7.4</b>	<b>-10.9</b>	<b>-11.8</b>	<b>-10.3</b>	<b>-6.8</b>	<b>-10.9</b>	<b>-6.9</b>	<b>-9.9</b>	<b>-10.4</b>	<b>-11.8</b>	
Financial situation past 12 months	-8.8	-19.7	-24.6	-22.7	-19.1	-16.2	-22.9	-21.3	-19.2	-21.4	-18.7	
Financial situation next 12 months	7.3	-11.8	-20.1	-13.4	-11.3	-8.8	-12.0	-8.6	-7.4	-8.4	-10.6	
Economic situation next 12 months	18.6	-3.5	-6.0	-9.2	-10.0	-4.2	-11.0	-4.7	-11.5	-12.6	-18.3	
Major purchases next 12 months	-3.4	5.6	7.1	-1.8	-0.6	1.9	2.4	6.8	-1.4	0.7	0.3	
<b>Services confidence indicator</b>	<b>13.7</b>	<b>20.5</b>	<b>31.6</b>	<b>20.6</b>	<b>19.2</b>	<b>31.0</b>	<b>43.3</b>	<b>42.0</b>	<b>37.1</b>	<b>40.1</b>	<b>29.3</b>	
Business situation development over the past 3 months	4.9	15.7	25.2	1.6	12.4	30.7	42.9	32.9	33.9	41.9	32.1	
Evolution of the demand over the past 3 months	10.8	26.2	47.0	18.2	18.6	38.1	30.9	38.2	40.4	33.2	19.9	
Expectation of the demand over the next 3 months	25.4	19.7	22.6	42.1	26.7	24.2	56.2	54.8	36.9	45.2	35.9	
<b>Construction confidence indicator</b>	<b>7.3</b>	<b>7.0</b>	<b>5.2</b>	<b>-4.3</b>	<b>2.9</b>	<b>17.5</b>	<b>-0.2</b>	<b>24.7</b>	<b>22.5</b>	<b>8.4</b>	<b>-11.7</b>	
Evolution of your current overall order books	1.4	8.7	4.5	-6.6	2.4	6.3	-15.9	3.6	-0.3	16.1	-29.9	
Employment expectations over the next 3 months	13.2	5.4	5.8	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	
<b>EEI</b>	<b>103.5</b>	<b>106.4</b>	<b>111.5</b>	<b>110.7</b>	<b>111.8</b>	<b>111.1</b>	<b>123.2</b>	<b>122.9</b>	<b>107.9</b>	<b>106.2</b>	<b>104.5</b>	
Services	25.1	30.2	30.8	56.7	46.4	41.1	46.2	49.7	38.5	37.0	6.6	
Construction	13.2	5.4	5.8	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	
Retail	4.4	15.8	31.4	26.7	16.1	10.6	38.9	20.8	5.0	4.4	22.3	
Industry	14.8	12.0	29.1	-37.4	8.2	13.6	60.2	57.1	-2.7	7.8	53.6	
<b>EUJ<sup>(1,2)</sup></b>	<b>21.3</b>	<b>28.1</b>	<b>24.5</b>	<b>24.4</b>	<b>14.0</b>	<b>2.9</b>	<b>5.5</b>	<b>19.4</b>	<b>-3.2</b>	<b>11.0</b>	<b>1.7</b>	
Retail	48.8	50.8	59.7	40.4	18.7	14.2	9.0	7.3	27.9	22.0	-9.8	
Industry	21.0	39.4	37.8	32.0	10.9	-14.8	-10.8	35.8	-13.6	6.3	-21.7	
Consumers	-3.5	13.7	26.1	13.5	13.9	12.2	11.9	19.8	12.3	19.2	16.3	
Services	32.2	20.3	0.1	17.2	16.4	16.4	17.2	-1.7	-6.8	10.1	20.4	
Construction	30.1	19.5	22.4	35.2	19.7	14.5	36.6	25.2	9.0	10.1	29.5	
<b>ESI demeaned</b>	<b>4.9</b>	<b>0.9</b>	<b>1.8</b>	<b>-3.1</b>	<b>1.3</b>	<b>4.8</b>	<b>11.3</b>	<b>14.2</b>	<b>3.6</b>	<b>0.8</b>	<b>8.9</b>	
<b>EEI demeaned</b>	<b>3.4</b>	<b>6.2</b>	<b>11.7</b>	<b>9.0</b>	<b>11.2</b>	<b>10.8</b>	<b>23.9</b>	<b>23.4</b>	<b>7.3</b>	<b>5.8</b>	<b>5.6</b>	

Source: European Commission.

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

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

of negative sentiment, in both May and June. Meanwhile, the contribution of the services sector and consumers was less positive compared with June. On the other hand, the contribution of the construction sector turned slightly negative in the month under review. The confidence indicators for industry and the services sector, largely explain why the ESI stood above its long-term average in July.

In July, sentiment in the retail sector stood well above its long-term average of -0.1.<sup>5</sup> The indicator increased to 23.4, from -16.6 in June. The latest rise in sentiment was largely driven by a strong amelioration in retailers' expectations of business activity over the next three months, and by their assessment of sales in recent months. Furthermore, the share of respondents assessing their stock levels to be above normal, decreased compared with June.<sup>6</sup>

<sup>5</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>6</sup> Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

Confidence in industry reached 10.6, from -20.0 in the previous month. Following this increase, sentiment stood above its long-term average of -4.2.<sup>7</sup> Production expectations for the months ahead turned strongly positive, compared with a month earlier. Moreover, a smaller share of respondents assessed their order book levels to be below normal. Meanwhile, the share of firms assessing their stocks of finished products to be above normal decreased compared with June.

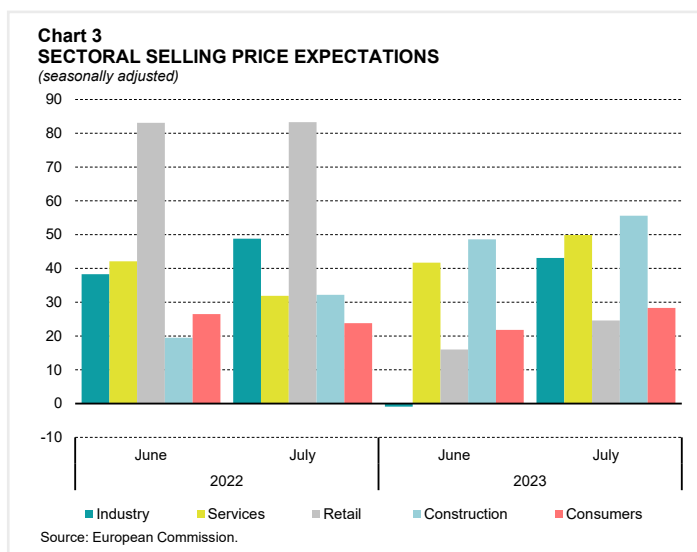
The consumer confidence indicator eased to -11.8, from -10.4 in June, standing below its long-term average of -10.2.<sup>8</sup> The fall in sentiment was largely driven by a more negative outlook of the general economic situation, and the financial situation over the next 12 months. At the same time, expectations of major purchases over the next 12 months stood less positive. These developments offset a less negative assessment of consumers' financial situation over the last 12 months.

The sentiment indicator for the services sector stood at 29.3 in July, below the 40.1 recorded a month earlier, but remained well above its long-term average of 19.8.<sup>9</sup> The latest decrease was driven by movements in firms' assessment of demand over the past three months. Firms' assessment of the business situation over the past three months, and their expectations of demand over the next three months weakened, although they remained elevated.

The confidence indicator for the construction sector fell below its long-term average of -8.1.<sup>10</sup> Sentiment decreased to -11.7, from 8.4 in June, reflecting a sharp deterioration in respondents' assessment of order book levels.

Additional survey information shows that, in month-on-month terms, price expectations increased across all sectors. Expectations rose the most in industry, and reversed a decline registered in June (see Chart 3).

Differences across sectors remained wide. While the net share of firms signalling price increases stood at 56% and 50% in the construction and services sectors, respectively, that among retailers and consumers stood at 25% and 28%.



<sup>7</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>8</sup> The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

<sup>9</sup> The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations for the subsequent three months.

<sup>10</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.

Price expectations stood firmly below their year-ago level in the retail sector, and to a lesser degree, in industry. By contrast, selling price expectations in the services and construction sectors stood firmly above the level recorded in July 2022. Price expectations among consumers also edged up compared with a year earlier, albeit to a lesser extent.

Price expectations remained elevated, standing well above their long run average in most sectors.

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 104.5 in July, from 106.2 a month earlier.<sup>11</sup> This indicator remained above its long-term average of around 100.0 and exceeded the euro area average of 103.0.

Demeaned data suggest that the decrease in employment expectations was driven by the services sector, whose contribution turned negative. By contrast, the contribution of the construction sector stood less negative compared with June. Meanwhile, the contributions of industry and the retail sector improved compared with June.

Industry largely explains why the overall EEI stood above its long-term average in July (see Chart 2).

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 – decreased. It stood at 1.7, down from 11.0 in June, signalling lower uncertainty (see Table 1). The uncertainty indicator stood well below its level recorded in July 2022, when the index averaged 24.5. It was also significantly below that of the euro area.<sup>12,13</sup>

In month-on-month terms, the decrease in Malta's uncertainty indicator was largely driven by the retail sector and industry, where in contrast to June, respondents reported that they were able to predict their business situation with ease. Uncertainty also decreased among consumers. By contrast, uncertainty in the services and construction sectors, increased.

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

## Activity indicators

In June, the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing, and energy sectors – fell by 3.8% on a year-on-year basis. This marks the first contraction since May 2022, and contrasts with an annual growth of 11.6% in May (see Table 2).<sup>14</sup>

<sup>11</sup> The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys, and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four-balance series expressed in standardised form. Further information on the compilation of the EEI is available in: European Commission (2020), *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

<sup>12</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>13</sup> Data on consumer uncertainty became available in October 2020, while data for industry, services, retail, and construction became available in May 2021.

<sup>14</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*

	2021	2022	2022		2023	
			May	June	May	June
Industrial production	0.1	2.8	-5.6	5.1	11.6	-3.8
Retail trade	9.4	9.9	11.2	10.8	2.7	3.6
Number of tourist arrivals	47.0	134.4	752.1	249.1	28.8	20.0
Number of nights stayed	60.5	96.3	376.6	148.5	24.1	22.4
Rented accommodation	73.8	110.0	592.7	196.1	24.1	22.9
Collective <sup>(1)</sup>	74.3	108.6	815.8	226.6	20.9	8.5
Other rented <sup>(2)</sup>	72.9	112.4	352.5	152.6	31.0	49.6
Non-rented accommodation <sup>(3)</sup>	26.5	48.1	55.9	19.3	24.2	19.1
Tourist expenditure	91.3	130.0	728.3	261.0	36.1	32.1
Package expenditure	108.7	128.9	1,386.6	423.0	48.2	39.4
Non-package expenditure	89.4	145.0	653.6	276.0	41.1	39.2
Other	85.4	116.8	625.8	199.6	24.4	20.7

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).

In the manufacturing sector, the most significant declines were recorded among firms involved in the production of food products. Other strong declines were registered among firms that produce basic pharmaceutical products and in 'other manufacturing' – which includes medical and dental instruments, toys, and related products. These declines offset annual increases in the output of printing and reproduction of recorded media, as well as the manufacture of computer, electronic and optical products, and non-metallic mineral products.

Meanwhile, production in the energy sector fell by 3.5% in June, after growing by 10.7% a month earlier. Activity also rose in the quarrying sector.

In June, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 3.6% in year-on-year terms, after rising by 2.7% in May.

In June, the tourism sector continued to perform well. The number of inbound tourists amounted to 294,488, up from 245,433 a year earlier. Guest nights also rose on a year earlier. Total expenditure by tourists in Malta increased over the level recorded in the corresponding period of 2022, with the largest increase in absolute terms stemming from non-package holidays. Per capita, both nights stayed, and spending rose slightly compared with June 2022.

In June, 227 development permits for commercial buildings were issued, eight less than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 784 new residential building permits were issued, 191 more than the number issued in June 2022. In month-on-month terms, both commercial and residential permits declined.



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

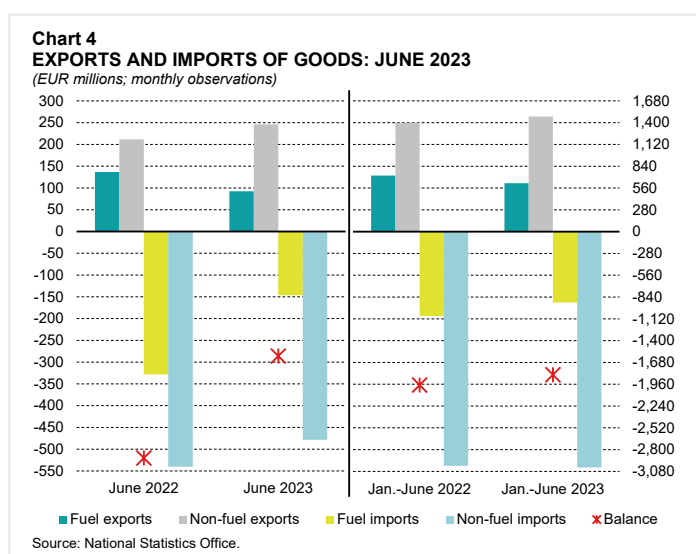
*Levels*

	2021	2022	2022			2023		
			May	June	July	May	June	July
<b>Permits</b>								
Commercial permits	2,770	2,984	278	235	233	269	227	-
Residential permits	7,578	9,599	786	593	565	791	784	-
<b>Residential transactions</b>								
Promise of sale	15,639	12,169	1,124	1,087	955	1,302	1,140	1,085
Final deeds of sale	14,368	14,331	1,251	1,194	1,268	1,083	993	1,024

Sources: National Statistics Office; Planning Authority.

Data on residential property transactions show that 1,024 final deeds of sale were concluded in July, 31 more than the number concluded a month earlier, but 244 less than a year earlier. At 1,085, the number of promise-of-sale agreements was 55 less than a month earlier, but 130 more compared with a year earlier.

Customs data show that the merchandise trade deficit stood at €286.1 million in June, down from a deficit of €520.1 million a year earlier. This was due to a €243.8 million decline in imports which offset a €9.8 million decrease in exports (see Chart 4).



Lower imports were mainly on account of a substantial decrease in fuel imports and registrations of sea vessels. Imports of fish and registrations of aircraft also decreased, but to a lesser extent. These offset higher imports of electrical machinery and vehicles, and to a lesser extent, imports of pharmaceutical products and machinery and mechanical appliances.

The decrease in exports was mainly due to lower fuel re-exports. Exports of organic chemicals, toys, and essential oils also decreased, but by a smaller amount. These offset higher exports of electrical machinery and sea vessels, and to a lesser extent, printed material, and aircraft parts.

## Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 875 in June, down from 916 in May, and down from 954 recorded a year earlier (see Chart 5).

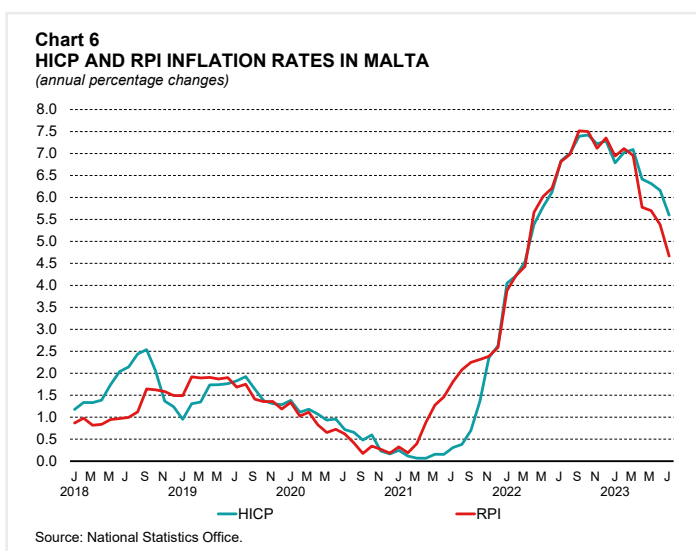
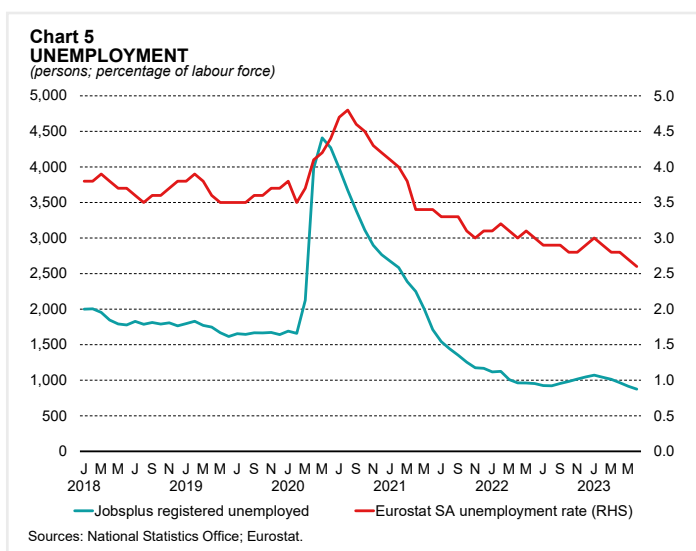
The seasonally-adjusted unemployment rate reached a new historic low of 2.6% in June, from 2.7% registered in the previous month, and 3.0% in June 2022.

### Prices, costs and competitiveness

Annual HICP inflation eased to 5.6% in July, from 6.2% a month earlier (see Chart 6). This reflects a decline in all major sub-components, except for energy inflation. The latter remained unchanged at zero, reflecting the government measures aimed at shielding consumers from international energy price pressures. Food inflation dropped to 8.8%, from 10.3% in June, as both processed and unprocessed food inflation slowed down. Processed food inflation decreased to 9.9% from 10.9% a month earlier, while unprocessed food inflation stood at 5.4%, down from 8.4% in June. At the same time, services inflation eased to 5.6% mainly reflecting a slow-down in transport and communication inflation. Meanwhile, NEIG inflation declined marginally to 3.8%, from 4.0% a month earlier.

Annual inflation according to the RPI stood at 4.7% in July, down from 5.4% in June (see Chart 6).<sup>15</sup> The decline was driven by lower inflation in most sub-components. The largest contributors to this decrease were inflation in transport and communication, which fell to 0.2%, and food inflation which eased to 8.8%. Meanwhile, inflation in recreation and culture eased to 1.0%. At the same time, housing inflation slowed down to 8.9%. Clothing and footwear inflation continued to decline, as prices fell by 2.2% year-on-year, after declining by 1.4% in June. On the other hand, inflation in furnishing and household equipment edged up to 6.4%, from 5.2% a month earlier, while beverages and tobacco inflation rose marginally to 6.8%. 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



<sup>15</sup> The RPI and the HICP both measure changes in consumer prices but through different methodologies. The HICP index weights are based on total expenditure in Malta, including that by tourists. In contrast, RPI weights only consider expenditure by Maltese households.

subcomponent in the respective indices, such that RPI includes only domestic related activity, whilst HICP also includes tourism related consumption. 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 4.0% in June, unchanged from May.<sup>16</sup> This reflects slower growth in the prices of consumer goods. These grew by 7.8% on a year earlier, down from 8.3% in May, due to developments in the prices of non-durable goods. On the other hand, producer prices of capital goods increased from 4.5% in May to 5.4%. Meanwhile, annual growth in producer prices of intermediate goods remained unchanged at 2.2%. Energy producer prices continued to have no impact on producer prices.

## Public finance

In June 2023, the Consolidated Fund recorded a deficit of €155.0 million, €64.4 million more than the deficit registered a year earlier (see Table 4). This was due to higher government expenditure,

	2022		2023		Change	
	Jan.-June	Jan.-June	June	June	Amount	%
<b>Revenue</b>	<b>2,395.1</b>	<b>2,734.2</b>	<b>401.6</b>	<b>425.3</b>	<b>23.7</b>	<b>5.9</b>
<b>Direct tax</b>	<b>1,293.4</b>	<b>1,484.2</b>	<b>244.8</b>	<b>230.0</b>	<b>-14.8</b>	<b>-6.1</b>
Income tax	889.3	1,053.4	171.2	155.7	-15.4	-9.0
Social security contributions <sup>(1)</sup>	404.1	430.8	73.7	74.3	0.6	0.8
<b>Indirect tax</b>	<b>890.4</b>	<b>955.6</b>	<b>141.3</b>	<b>156.1</b>	<b>14.8</b>	<b>10.5</b>
Value Added Tax	586.4	617.0	89.7	92.1	2.5	2.8
Customs and excise duties	132.6	139.0	23.8	24.4	0.6	2.5
Licences, taxes and fines	171.4	199.6	27.8	39.6	11.7	42.2
<b>Non-tax<sup>(2)</sup></b>	<b>211.3</b>	<b>294.4</b>	<b>15.5</b>	<b>39.2</b>	<b>23.7</b>	<b>153.4</b>
<b>Expenditure</b>	<b>2,859.3</b>	<b>2,992.7</b>	<b>492.3</b>	<b>580.4</b>	<b>88.1</b>	<b>17.9</b>
<b>Recurrent</b>	<b>2,588.4</b>	<b>2,677.4</b>	<b>440.3</b>	<b>487.6</b>	<b>47.2</b>	<b>10.7</b>
Personal emoluments	524.4	549.2	94.5	97.2	2.7	2.9
Operational and maintenance	110.8	153.1	17.5	23.5	6.0	34.5
Programmes and initiatives	1,547.7	1,496.7	255.1	267.2	12.1	4.7
Contributions to entities	319.9	378.5	57.7	82.5	24.9	43.1
Interest payments	85.7	100.0	15.6	17.1	1.5	9.9
<b>Capital</b>	<b>270.9</b>	<b>315.3</b>	<b>51.9</b>	<b>92.8</b>	<b>40.9</b>	<b>78.7</b>
<b>Primary balance<sup>(3)</sup></b>	<b>-378.6</b>	<b>-158.5</b>	<b>-75.1</b>	<b>-138.0</b>	<b>-62.9</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-464.2</b>	<b>-258.5</b>	<b>-90.6</b>	<b>-155.0</b>	<b>-64.4</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.

<sup>16</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.

which offset a smaller increase in government revenue. The primary balance registered a deficit of €138.0 million, €62.9 million more than the primary deficit registered in June 2022.

Government revenue increased by €23.7 million, or 5.9%, due to higher non-tax inflows. The latter reflects higher receipts from grants and from sales. Meanwhile, tax revenue registered zero growth as higher receipts from indirect taxes, driven by inflows from licences, was offset by a decline in direct tax revenue, due to lower income tax receipts.

Government expenditure rose by €88.1 million, or 17.9% due to increases in both recurrent and capital expenditure. Recurrent spending increased by €47.2 million, mainly due to the timing of contributions to government entities, which rose by €24.9 million. Meanwhile, outlays on programmes and initiatives increased by €12.1 million, reflecting higher spending on pensions and energy support measures. Personal emoluments and operational and maintenance expenses grew by €2.7 million and €6.0 million, respectively.

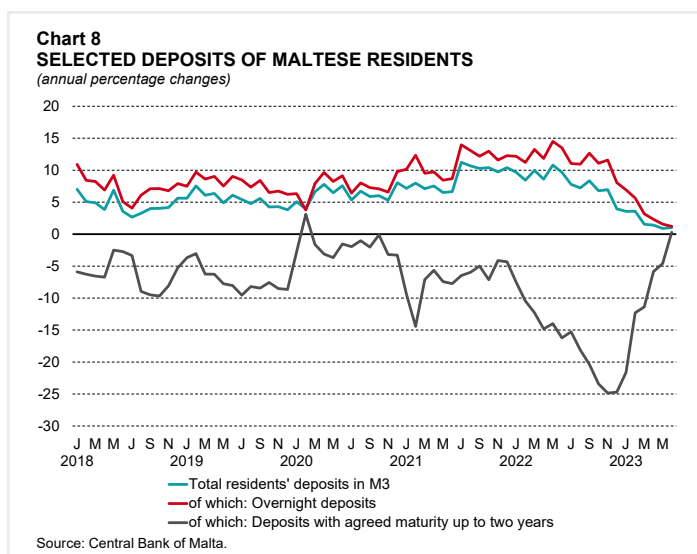
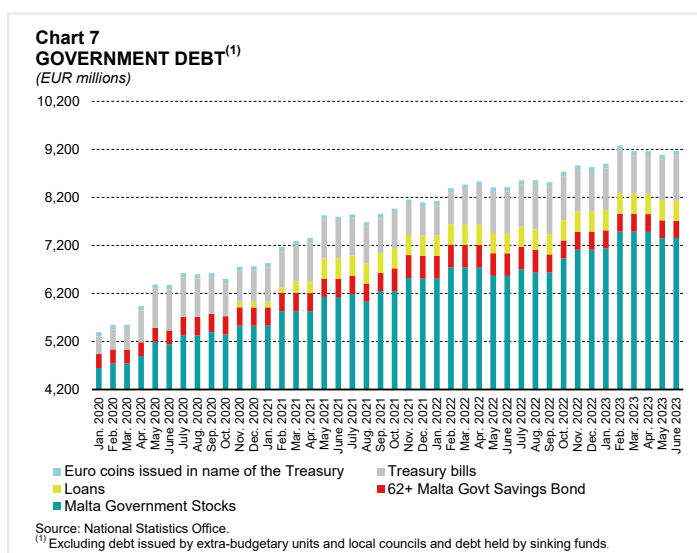
Capital expenditure surged by €40.9 million, driven by outlays on projects related to ICT, as well as EU-funded projects.

In June 2023, the total stock of outstanding government debt amounted to €9,170.7 million, an increase of €87.1 million when compared with May 2023 (see Chart 7). This mainly reflects a higher level of 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) continued to expand, albeit at a moderate pace. These increased at an annual rate of 1.0%, marginally above the 0.9% 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 1.2%



in the year to June, slowing down from 1.6% in the previous month. Meanwhile, time deposits with agreed maturity of up to two years – the second largest deposit category – increased by 0.3%. This is the first increase in this deposit category since February 2020, and possibly reflects more attractive terms on fixed deposit accounts by certain credit institutions.

Credit to Maltese residents grew by 3.9% in June, above the 3.7% recorded a month earlier (see Chart 9). This acceleration was driven by a smaller contraction in credit to general government. This credit component fell by 5.8% over the 12 months to June, following a year-on-year contraction of 7.1% in May. Meanwhile, annual growth in credit to residents outside general government moderated to 7.5%, down from 7.7% registered in the year to May.

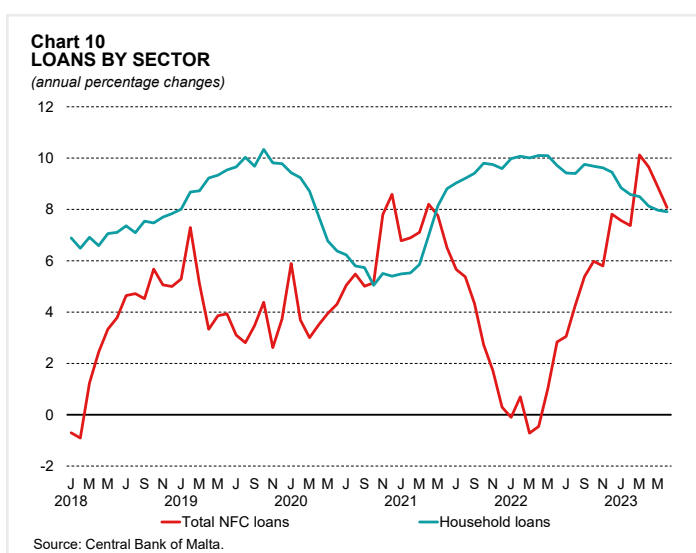
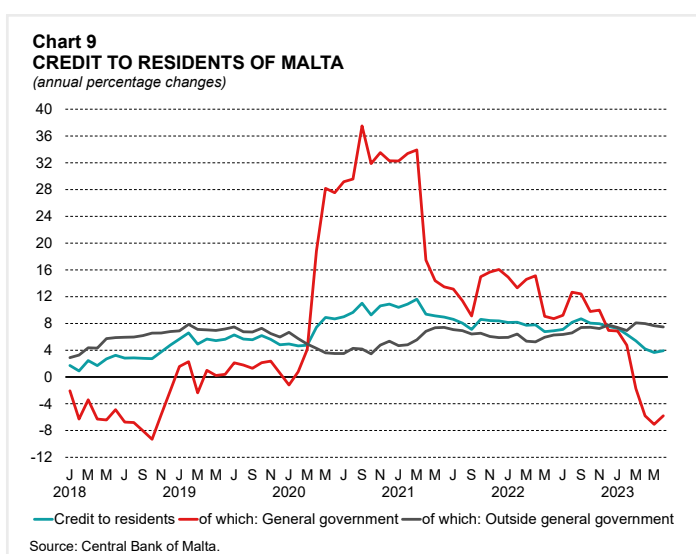
The annual rate of change in loans to households eased to 7.9% in June, from 8.0% in the previous month (see Chart 10).

Growth in consumer credit and other lending stood at 6.9%, below the 8.4% recorded in the year to May. By contrast, growth in mortgage lending reached 8.0%, from 7.9% a month earlier.

Meanwhile, the annual rate of change in loans to non-financial corporations stood at 8.1% in June, down from 8.9% in the year to May. The deceleration was largely driven by a contraction in the issue of loans to the wholesale and retail trade sector, and slower growth in loans to the manufacturing sector. Loans to the real estate sector and the sector comprising accommodation and food service activities, also increased at a slower pace compared to May. By contrast, loans to the transportation, storage, information and communication sector, and the construction sector, increased at a faster pace in the year to June.

By end-July, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.<sup>17</sup> The number and value of facilities approved and still outstanding stood at €281.4 million.

<sup>17</sup> The CGS is administered by the Malta Development Bank for the purpose of guaranteeing new loans granted by commercial banks for working capital purposes to businesses facing liquidity shortfalls because of the pandemic. The scheme enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million. It was approved by the European Commission on 2 April 2020. See <https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.



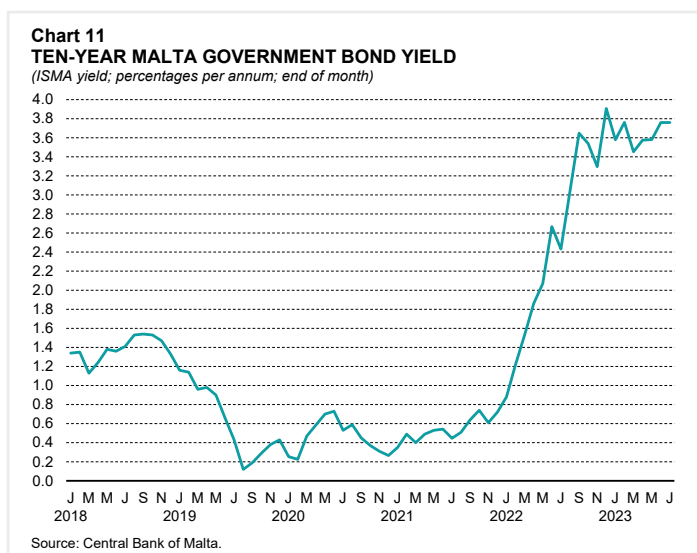
In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-July, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding value of loans from this scheme stood at €6.6 million, down from €7.4 million in June.

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 July 2023, a total of €24.5 million was approved under one of these schemes, an unchanged amount compared to a month earlier. Meanwhile, the full amount was withdrawn, and the outstanding value of loans stood at €24.5 million by end-July.

As regards interest rates, in June, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits edged up to 0.25%, 3 basis points higher than that recorded a month earlier. Meanwhile, the composite rate charged on outstanding loans increased by 14 basis points compared to May, standing at 3.59% in June. As a result, the spread between the two rates widened to 334 basis points.

In the capital market, at the end of July, the secondary market yield on ten-year Maltese government bonds was unchanged compared with end-June and stood at 3.76%. It however stood 133 basis points above its year-ago level (see Chart 11). This reflects the transmission of increases in ECB policy rates to government bond yields.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index edged up when compared with end-June, rising by 1.1%. 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	2022	2022	2022	2022	2023	2023	2022	2022	2022	2022	2022	2023	2023	2023	2023	2023	2023	2023
				Q1	Q2	Q3	Q4	Q1	Q2	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
<b>Prices and costs</b>																					
HICP inflation	0.8	0.7	6.1	4.3	5.8	7.1	7.3	7.0	6.3	7.0	7.4	7.4	7.2	7.3	6.8	7.0	7.1	6.4	6.3	6.2	5.6
RPI inflation	0.6	1.5	6.2	4.2	6.0	7.1	7.3	7.0	5.6	7.0	7.5	7.5	7.1	7.4	6.9	7.1	7.0	5.8	5.7	5.4	4.7
Industrial producer price inflation	0.3	3.2	5.5	6.8	5.4	4.6	5.3	4.0	4.2	3.9	4.6	5.7	6.0	4.3	3.3	4.6	4.1	4.6	4.0	4.0	-
HCI (nominal)	1.8	0.4	-1.5	-1.3	-2.2	-2.4	-0.1	1.6	3.6	-2.6	-2.1	-1.0	0.0	0.8	1.4	1.3	2.0	3.8	3.5	3.6	5.4
HCI (real)	1.5	-1.9	-3.7	-3.2	-4.7	-4.8	-2.2	0.4	3.6	-4.9	-4.5	-3.6	-2.2	-0.8	-0.5	-0.1	1.8	3.3	3.0	3.9	5.5
Unit labour costs, whole economy <sup>(1)</sup>	12.1	-3.6	1.8	-4.6	-3.0	-0.7	1.8	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	-0.4	4.7	2.7	4.1	3.3	2.8	2.7	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	-11.1	8.6	0.8	9.0	6.5	3.4	0.8	-1.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	3.4	5.1	6.7	6.8	7.6	6.3	5.9	6.6	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																					
Nominal GDP	-7.1	13.9	12.7	12.1	15.5	11.9	11.6	9.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	-8.6	11.7	7.1	8.3	9.6	5.6	5.2	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	-10.6	8.2	9.8	11.7	13.5	7.8	6.8	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	15.8	6.9	2.4	-1.4	11.9	1.3	-1.4	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-6.6	11.0	29.5	24.1	19.1	33.8	40.7	-16.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-1.7	6.2	6.3	7.8	7.1	8.7	1.4	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.9	3.8	9.2	9.0	9.6	12.9	5.4	-6.6	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																					
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	2.9	2.9	2.9	2.9	2.9	2.7	2.9	2.9	2.9	2.9	2.9	3.0	2.9	2.8	2.8	2.7	2.6	-
LFS employment	2.6	3.1	5.2	5.3	4.9	5.1	5.5	5.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	4.2	2.6	6.1	4.8	5.5	6.2	7.9	8.5	-	6.2	6.4	7.4	8.0	8.4	8.6	8.4	8.4	-	-	-	-
<b>Balance of payments</b>																					
Current account (as a % of GDP) <sup>(2)</sup>	2.2	1.2	-3.0	-0.1	-0.6	-1.9	-3.0	-2.8	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																					
Maltese residents' deposits and loans																					
Overnight deposits	9.8	12.3	8.1	13.3	13.5	12.7	8.1	3.2	1.2	10.9	12.7	11.1	11.6	8.1	6.9	5.7	3.2	2.3	1.6	1.2	-
Deposits with agreed maturity up to two years	-3.3	-4.3	-24.7	-12.3	-16.2	-20.4	-24.7	-11.4	0.3	-18.1	-20.4	-23.4	-24.9	-24.7	-21.6	-12.3	-11.4	-5.9	-4.6	0.3	-
Total residents' deposits in M3	8.0	10.4	4.0	10.0	9.7	8.4	4.0	1.6	1.0	7.2	8.4	6.8	7.0	4.0	3.6	3.6	1.6	1.4	0.9	1.0	-
Credit to general government	32.3	16.1	7.0	14.6	8.7	12.4	7.0	-1.7	-5.8	12.7	12.4	9.8	10.0	7.0	6.9	4.7	-1.7	-5.8	-7.1	-5.8	-
Credit to residents (excl. general government)	5.3	5.9	7.8	5.3	6.3	7.4	7.8	8.1	7.5	6.6	7.4	7.4	7.2	7.8	7.4	6.9	8.1	8.0	7.7	7.5	-
Total credit	10.9	8.4	7.5	7.7	6.9	8.7	7.5	5.4	3.9	8.2	8.7	8.0	8.0	7.5	7.3	6.3	5.4	4.2	3.7	3.9	-
Ten-year interest rate (%) <sup>(3)</sup>	0.3	0.7	3.9	1.5	2.7	3.6	3.9	3.5	3.8	3.0	3.6	3.5	3.3	3.9	3.6	3.8	3.5	3.6	3.6	3.8	3.8
Stock prices: Malta Stock Exchange Equity Price Index <sup>(4)</sup>	-12.4	-4.5	-9.9	-8.2	1.1	-0.7	-2.2	-0.4	5.9	-1.6	0.5	0.9	-3.1	0.0	-0.1	2.5	-2.7	2.3	3.4	0.1	1.1
<b>Liquidity support measures related to COVID-19</b>																					
Outstanding loans subject to a moratorium <sup>(5)</sup>	691.9	14.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sanctioned amount under the MDB CGS <sup>(5)</sup>	408.1	505.9	482.6	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	482.6
Disbursed amount under the MDB CGS <sup>(5)</sup>	287.1	453.0	470.2	459.6	468.9	470.2	470.2	470.7	470.7	469.7	470.2	470.2	470.2	470.2	470.7	470.7	470.7	470.7	470.7	470.7	470.7
<b>General government finances (% of GDP)</b>																					
Surplus (+) / deficit (-) <sup>(2)</sup>	-9.7	-7.8	-5.8	-7.7	-6.5	-5.6	-5.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(6)</sup>	52.9	55.1	53.2	56.0	53.7	52.8	53.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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

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

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

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

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

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