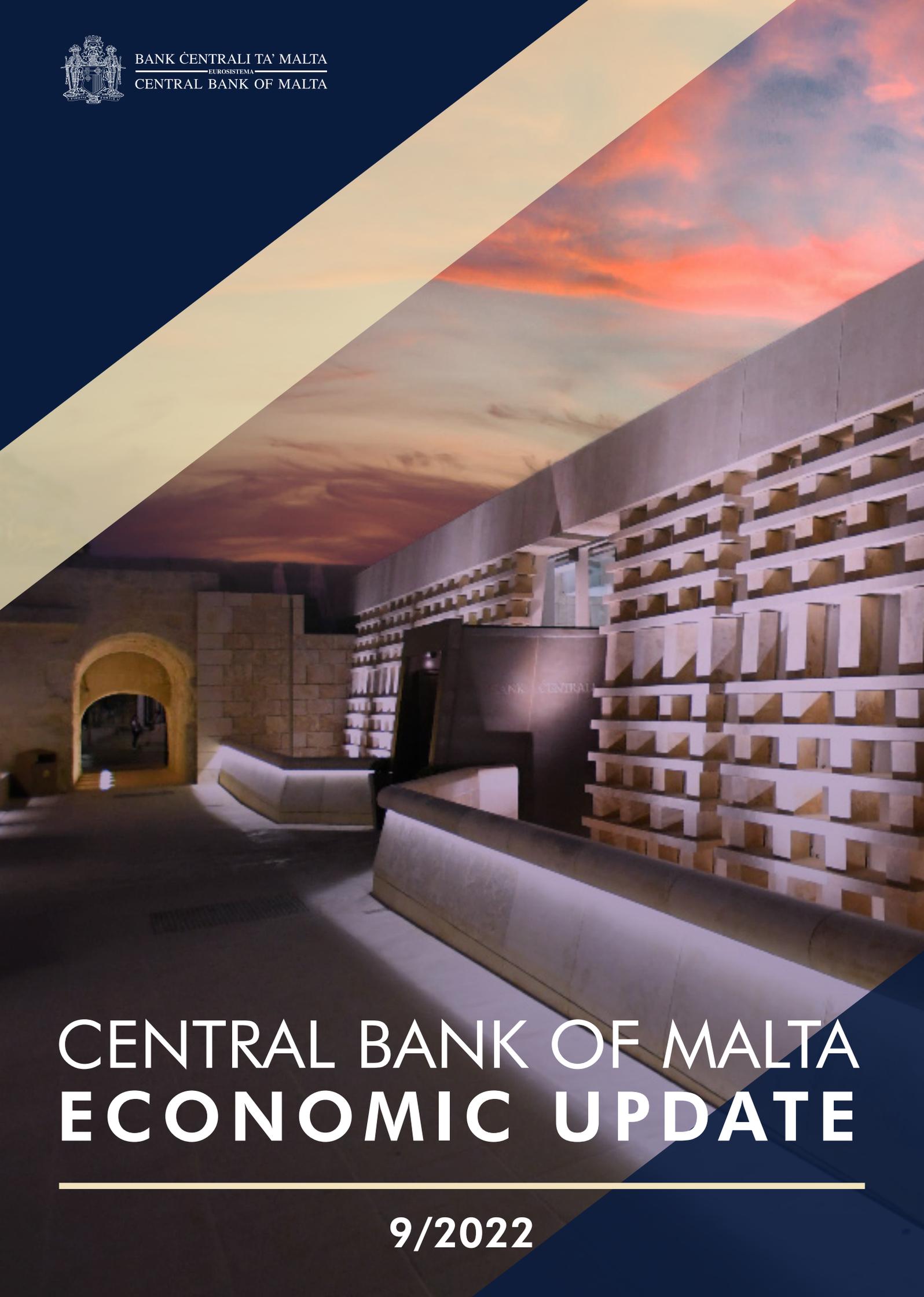




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CENTRAL BANK OF MALTA ECONOMIC UPDATE

9/2022

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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 15 September 2022. However, the cut-off dates for the HICP and the RPI are 16 and 22 September 2022, respectively. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 9/2022

Summary¹

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

The European Commission survey shows that in August, economic sentiment in Malta edged down from a month earlier, standing below its long-term average, which is estimated since November 2002. When compared with July, sentiment deteriorated strongly in the retail sector and, to a lesser extent, in industry and among consumers. By contrast, it improved in the services and construction sectors.

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

In August, the European Commission's Economic Uncertainty Indicator (EUI) for Malta increased when compared with July. Higher uncertainty was notably driven by developments in the services sector.

In July, industrial production increased in annual terms, following a contraction in the previous month. The volume of retail trade increased in year-on-year terms. The unemployment rate stood at 2.9% in July, unchanged from a month earlier, and the lowest rate on record.

Commercial permits fell in July relative to their year-ago level, as did residential permits. In August, both the number of promise-of-sale agreements and final deeds of sale increased on a year-on-year basis but stood lower than in July.

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 7.0% in August, up from 6.8% in the previous month. Inflation based on the Retail Price Index (RPI) also rose, reaching 7.0% in August from 6.8% a month earlier.

Maltese residents' deposits expanded at an annual rate of 7.8% in July, following an increase of 9.5% in the previous month, while annual growth in credit to Maltese residents stood at 7.2%, marginally above the rate of 7.0% recorded a month earlier.

In July 2022, the deficit on the Consolidated Fund narrowed slightly when compared with a year earlier as government revenue rose marginally while government expenditure declined.

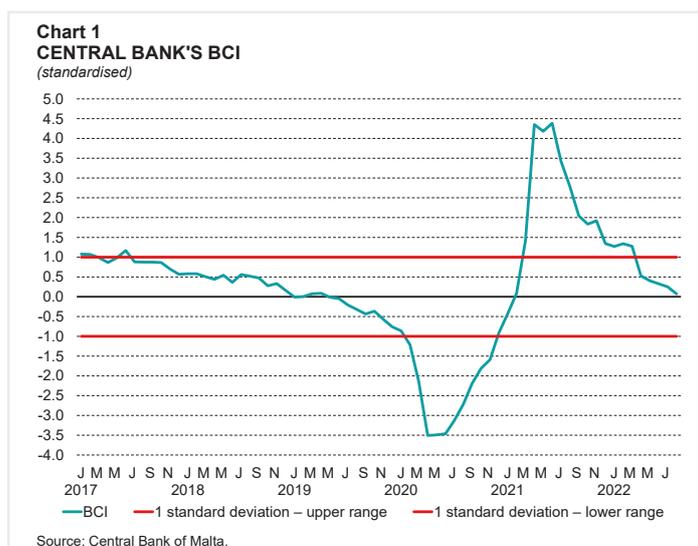
Central Bank's Business Conditions Index²

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

¹ The cut-off date for information in this note is 15 September 2022. However, the cut-off dates for the HICP and the RPI are 16 and 22 September 2022, respectively. Most of the data reported in this issue of the *Economic Update* refer to July 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 August.

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.

pre-pandemic levels (see Chart 1). Growth has now returned close to its historical average estimated since January 2000. Among BCI components, tourist arrivals, GDP and industrial production experienced strong year-on-year growth. Moreover, the unemployment rate continued to fall in annual terms. On the other hand, other variables such as the ESI, developments permits and tax revenue declined from their year-ago levels.



Business and consumer confidence indicators

In August, the European Commission's Economic Sentiment Indicator (ESI) for Malta fell below its long-run average, which is estimated since November 2002. Sentiment eased to 98.3 from 100.4 a month earlier, and was thus slightly higher than the euro area average of 97.6. Following the latest decrease, the indicator stood below its level in August 2021 (see Table 1).^{3,4,5,6}

In month-on-month terms, sentiment fell strongly in the retail sector and to a lesser extent in industry and among consumers. By contrast, it improved in the services and construction sectors.

In August, sentiment was negative in the retail sector, in industry and among consumers. However, it stood in positive territory in the services sector and construction.

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the decline in the overall sentiment between July and August was largely driven by developments in industry, although the contribution of the retail sector also edged down in the month under review (see Chart 2). Demeaned data also suggest that the confidence indicators for services and consumers had the strongest positive contribution to the ESI in August.

In August, confidence in the retail sector fell into negative territory. It declined sharply to -22.0, from 0.6 in July, and stood well below its long-term average of -1.0.⁷ This was driven by a

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

⁷ 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.

Table 1
BUSINESS AND CONSUMER SURVEYS – MALTA

Balances; percentage points; seasonally adjusted

	2020	2021	2021					2022				
			Aug.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
ESI	82.6	105.0	115.9	94.6	101.8	117.6	108.2	103.8	103.8	102.7	100.4	98.3
Retail trade confidence indicator	-30.3	-8.4	24.4	35.3	6.1	20.7	8.0	6.1	16.7	-3.0	0.6	-22.0
Business activity, past 3 months	-21.8	-13.6	51.4	37.4	-17.6	18.7	13.0	17.5	43.1	16.2	30.5	-12.3
Stocks of finished goods	30.5	12.8	11.2	-35.9	-36.0	-17.2	-1.1	3.7	-2.4	-2.5	2.5	-2.4
Business activity, next 3 months	-38.4	1.2	33.1	32.6	0.0	26.3	9.8	4.5	4.5	-27.6	-26.0	-56.2
Industrial confidence indicator	-24.2	2.1	27.5	-11.3	-4.2	25.1	1.4	-2.2	-14.8	-10.3	-14.3	-21.4
Assessment of order-book levels	-47.8	-28.2	23.7	-32.2	-9.4	-4.5	-35.2	-28.4	-34.8	-40.6	-40.7	-38.3
Assessment of stocks of finished products	26.6	-3.2	-2.3	-3.3	-10.4	-15.9	-6.8	14.5	4.2	-5.1	-8.3	29.6
Production expectations for the months ahead	1.9	31.3	56.5	-4.9	-13.7	63.8	32.6	36.5	-5.4	4.5	-10.6	3.7
Consumer confidence indicator	-5.7	3.4	7.1	-0.1	-1.1	0.5	-2.6	1.9	-0.1	-6.5	-10.3	-10.8
Financial situation past 12 months	-2.2	-8.8	-5.4	-9.8	-11.0	-13.1	-8.6	-8.2	-13.9	-21.0	-25.6	-27.3
Financial situation next 12 months	1.0	7.1	8.2	0.3	-1.0	-1.7	-3.1	-5.6	-11.4	-11.2	-16.6	-17.4
Economic situation next 12 months	0.4	18.6	19.6	4.0	3.4	10.9	-1.7	8.9	3.5	1.8	-6.0	-8.5
Major purchases next 12 months	-21.8	-3.4	6.0	5.3	4.1	6.1	3.0	12.6	21.5	4.3	7.1	10.0
Construction confidence indicator	-4.5	7.3	10.5	5.1	9.8	5.2	3.4	15.1	18.1	15.1	5.2	8.7
Evolution of your current overall order books	-4.9	1.4	6.1	-1.5	9.1	5.5	8.7	16.7	12.0	9.2	4.5	13.2
Employment expectations over the next 3 months	-4.1	13.2	14.8	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2
Services confidence indicator	-23.2	13.6	15.3	-16.1	6.2	28.5	31.4	14.4	26.1	27.8	24.5	35.7
Business situation development over the past 3 months	-34.3	4.9	12.7	-14.0	-4.2	29.5	36.8	9.9	16.8	21.6	13.8	19.4
Evolution of the demand over the past 3 months	-33.6	10.7	11.3	-12.3	22.2	23.2	37.2	9.3	20.8	50.5	42.7	47.2
Expectation of the demand over the next 3 months	-1.7	25.2	21.8	-22.1	0.6	32.9	20.3	23.9	40.8	11.3	17.2	40.3
E EI	87.0	104.1	112.3	99.6	105.2	78.0	113.6	105.0	117.6	117.0	113.7	116.7
Services	-0.7	25.1	25.2	14.7	31.0	-48.9	53.1	19.3	44.5	52.8	32.2	55.9
Construction	-4.1	13.2	14.8	11.7	10.6	4.8	-1.9	13.4	24.3	21.0	5.8	4.2
Industry	-10.9	14.8	44.7	12.4	13.4	18.4	2.9	32.8	53.1	34.0	29.1	26.5
Retail	-12.2	4.4	23.2	2.1	1.0	3.9	17.7	4.9	4.1	2.1	34.3	6.3
EU I^(1,2)	-	21.3	4.5	36.9	25.1	32.6	27.8	20.6	35.2	33.0	24.5	28.5
Services	-	32.2	12.7	42.8	45.1	38.1	-1.3	1.9	26.5	17.2	0.1	24.8
Consumers	-	-3.5	-8.1	-0.9	-0.1	1.9	1.9	11.7	12.3	19.1	26.1	26.8
Retail	-	48.8	44.5	60.8	59.0	40.7	56.4	52.8	45.9	48.5	59.7	54.8
Industry	-	21.0	-5.2	51.4	20.8	44.9	59.1	35.1	55.3	49.3	37.8	31.0
Construction	-	30.1	43.5	12.8	5.5	15.7	27.4	20.2	7.0	37.2	22.4	12.1
ESI demeaned	-17.4	5.0	15.9	-5.3	1.8	17.6	8.2	3.8	3.8	2.7	0.4	-1.7
E EI demeaned	-12.6	4.5	12.7	0.0	5.7	-22.0	14.2	5.5	18.3	17.7	14.1	17.4

Source: European Commission.

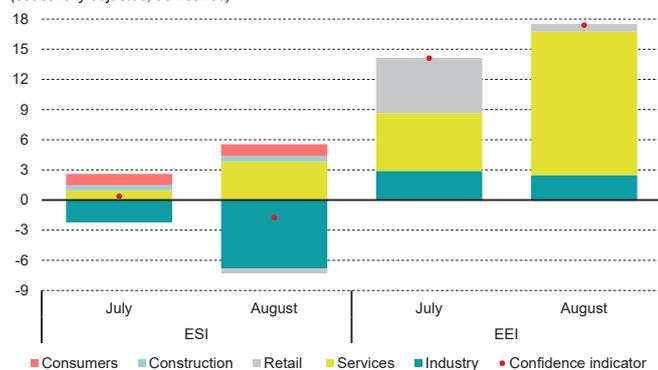
⁽¹⁾ Non-seasonally adjusted data.

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

strong deterioration in retailers' assessment of business activity over the last three months, and their expectations of sales for the coming months. Meanwhile, in contrast to the previous month, retailers assessed their stock levels to be below normal.⁸

Sentiment in industry stood more negative in August. It averaged -21.4, down from -14.3 in July. Following this decrease, sentiment in this sector fell further below its long-term average

Chart 2
ECONOMIC SENTIMENT AND EMPLOYMENT EXPECTATIONS
(seasonally adjusted; demeaned)¹



Sources: European Commission; Central Bank of Malta workings.

⁽¹⁾ Demeaned data are based on the standardised equivalent of the balance statistics reported by the European Commission. Each standardised component is weighted and re-aggregated into a demeaned ESI (or EEI). The y-axis on the chart thus indicates how far the ESI and EEI are from their long-term average and how much each sector contributes to this deviation based on its historical variation and weight in the overall EEI or ESI. Negative (positive) readings suggest below (above) average readings.

⁸ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

of -4.0.⁹ The latest decline stems from an increase in the share of respondents assessing their stocks of finished products to stand above normal levels. This offset an improvement in production expectations and order books.

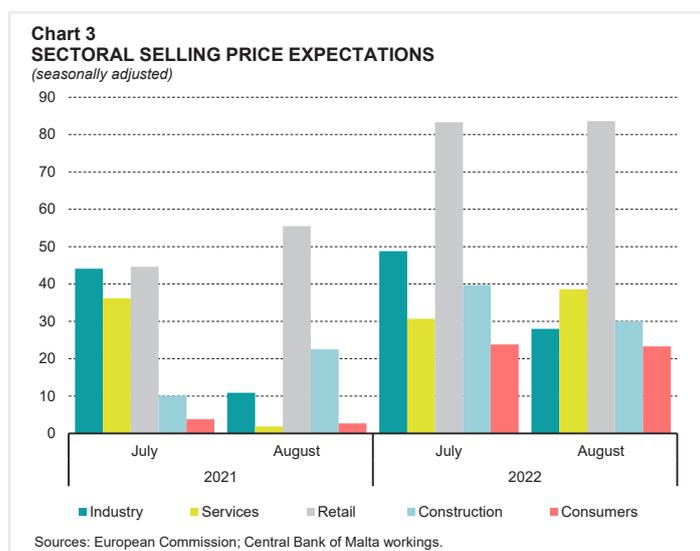
Consumer confidence also weakened in August. It decreased to -10.8, from -10.3 a month earlier, standing marginally below its long-term average of -10.2.¹⁰ This deterioration largely reflected developments in consumers' expectations of the general economic situation, and to a smaller extent, their assessment and expectations for their financial situation. By contrast, expectations of major purchases in the coming months stood more positive compared to July.

The confidence indicator within the construction sector edged up in August. It reached 8.7, from 5.2 in the previous month, reflecting an increase in the share of respondents who assessed order book levels to be above normal levels. By contrast, respondents' employment expectations edged down but remained positive. Sentiment in the sector remained well above its long-term average of -9.0.¹¹

The sentiment indicator for the services sector stood at 35.7, up from 24.5 in July, rising further above its long-term average of 19.3.¹² This strong increase in confidence largely reflects firms' expectations of demand for the coming three months, though their assessment of demand and of the business situation in recent months also improved.

Additional survey information shows that, in month-on-month terms, selling price expectations declined significantly in industry, and to a smaller extent, in the construction sector (see Chart 3). By contrast, price expectations edged up in the services sector. Price expectations among consumers and in the retail sector were broadly unchanged.

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



⁹ 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.

¹⁰ 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.

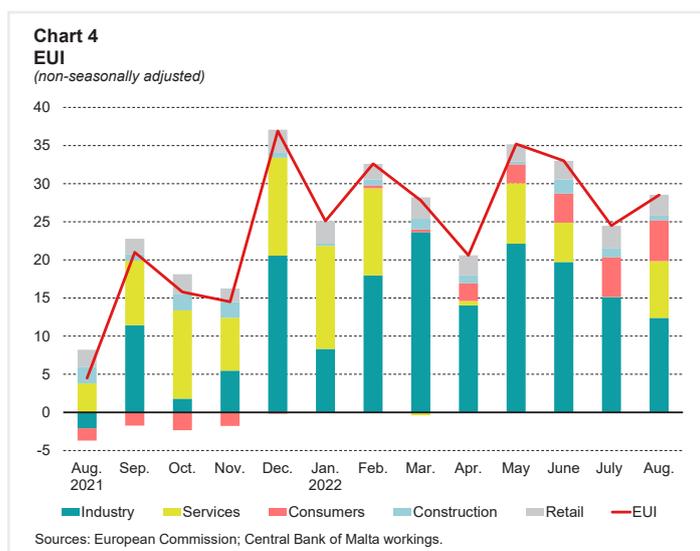
¹¹ The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

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.

The European Commission's Employment Expectations Indicator (EEI) – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged up to 116.7 in August, from 113.7 recorded a month earlier.¹³ Following this increase, the indicator remained above its long-term average of around 100.0 and exceeded the euro area average of 108.0.

The increase in employment expectations since July reflected a strong amelioration

in the services sector, which offset weaker expectations in the other surveyed sectors. Demeaned data show that the services sector largely explains why the overall EEI stood above its long-term average in August (see Chart 2). Employment expectations were positive across all sectors.



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 – reached 28.5, up from 24.5 in July, signalling higher uncertainty (see Table 1 and Chart 4). The uncertainty indicator stood slightly above that of the euro area, where the index reached 25.4, and exceeded its level recorded in August 2021.^{14,15}

In month-on-month terms, the increase in Malta's uncertainty indicator was mainly driven by the services sector, while uncertainty among consumers edged up marginally and fell in the remaining sectors.

When accounting for the variation in weights of each sector, industry and services accounted for most of the uncertainty. Developments in the services sector also explain most of the increase in uncertainty during August.

Activity indicators

In July, annual growth in the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing and energy sectors – stood at 5.9%. This followed a fall of 0.5% in June (see Table 2).¹⁶

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.

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	
			June ⁽⁴⁾	July	June	July
Industrial production	-0.3	-0.3	13.7	7.3	-0.5	5.9
Retail trade	-5.6	8.2	5.0	10.9	9.0	9.0
Number of tourist arrivals	-76.1	47.0	-	148.9	247.0	125.6
Number of nights stayed	-73.0	60.5	-	87.7	146.6	103.3
Rented accommodation	-76.8	73.8	-	191.2	194.5	107.7
Collective ⁽¹⁾	-76.5	74.3	-	231.7	224.9	95.1
Other rented ⁽²⁾	-77.3	72.9	-	143.7	151.0	127.9
Non-rented accommodation ⁽³⁾	-52.8	26.5	-	-27.8	16.8	83.2
Tourist expenditure	-79.5	91.3	-	274.0	259.5	117.5
Package expenditure	-84.5	108.7	-	480.2	421.3	105.0
Non-package expenditure	-79.6	89.4	-	288.0	274.9	134.1
Other	-75.9	85.4	-	203.8	197.9	108.1

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 June 2020 news release for Inbound Tourism.

The recent increase in industrial production partly reflected a strong increase in the output of firms that produce food products. This was closely followed by higher output among firms that manufacture computer, electronic and optical products as well as pharmaceutical goods. Other smaller increases in production were registered by firms that manufacture paper and paper products, those in the “other manufacturing” sub-sector, which includes firms that produce medical and dental instruments and toys, as well as firms that repair and install machinery and equipment. These offset falls in the production of wearing apparel, textiles, wood and wood products. Firms that print and reproduce recorded media also reported lower activity.

Production in the energy sector rose by 1.5% on an annual basis, after declining in the previous three months.

In July, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 9.0% in year-on-year terms, after rising by the same rate in June.

In July, tourism continued to recover, although tourist numbers were still below pre-pandemic levels. The number of inbound tourists stood at 273,646 in July, up from 121,311 a year earlier. Nonetheless, it was still a tenth below the number of inbound tourists in July 2019. Guest nights were more than double those registered in July 2021, with both collective accommodation and “other” rented accommodation reporting significant increases. Total expenditure by tourists in Malta was also significantly higher than the level recorded in the corresponding period of 2021 and stood at just 3% below pre-pandemic levels.

Table 3
PROPERTY MARKET

Levels

	2020	2021	2021		2022	
			July	Aug.	July	Aug.
Permits						
Commercial permits	2,687	2,770	249	127	233	-
Residential permits	7,837	7,578	645	903	565	-
Residential transactions						
Promise of sale	11,259	15,642	1,102	888	956	918
Final deeds of sale	11,057	14,368	1,386	1,170	1,267	1,228

Sources: National Statistics Office; Eurostat.

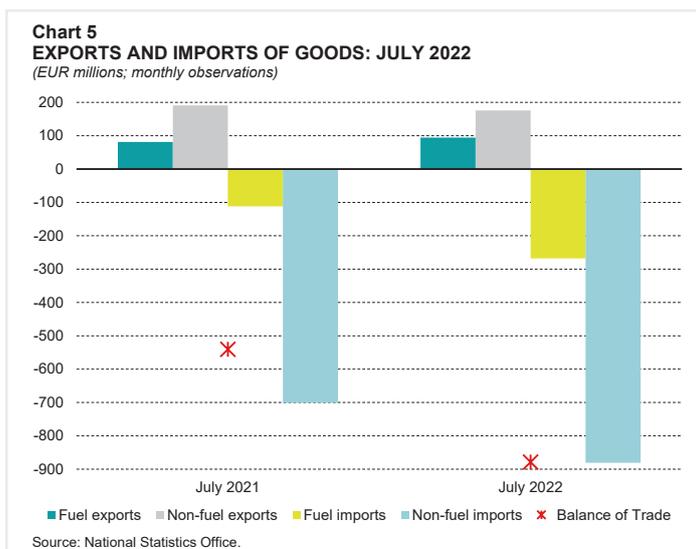
In July, 233 development permits for commercial buildings were issued, slightly below the amount of 249 permits issued in the same month a year earlier (see Table 3). Meanwhile, 565 new residential permits were issued in July, 80 less than the number issued in July 2021.

Data on residential property transactions show that 1,228 final deeds of sale were concluded in August, 5.0% more than a year earlier. At 918, the number of promise-of-sale agreements was 3.4% higher than that registered in August 2021. Both final deeds and promise-of-sale agreements were however lower than in July.

Customs data show that the merchandise trade deficit stood at €878.6 million in July, up from €540.5 million a year earlier. The larger deficit was due to a €336.4 million rise in imports and a €1.8 million decrease in exports (see Chart 5).

Higher imports were mainly on account of a substantial increase in the fuel import bill and a significant increase in registrations of aircraft. Higher imports of electrical machinery, fish, vehicles as well as higher registrations of sea vessels also contributed, though to a lesser extent. These offset lower imports of pharmaceutical products, iron and steel and machinery and mechanical appliances.

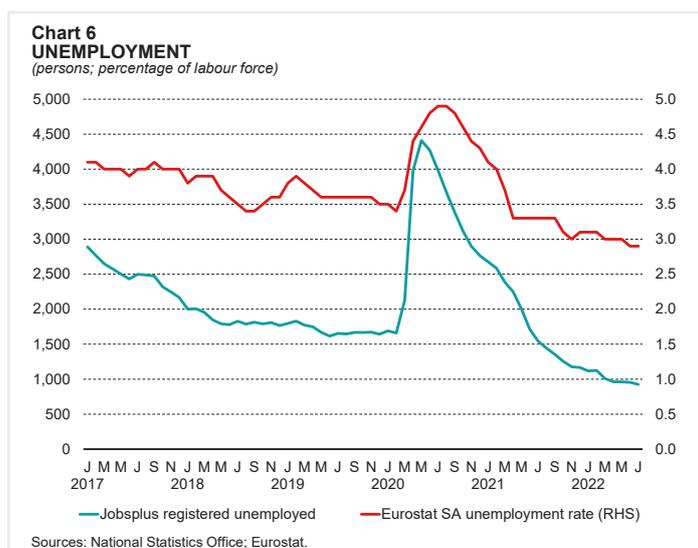
The decrease in exports was mainly on account of lower exports of pharmaceutical products and printed material which outweighed higher fuel re-exports, and exports of electrical machinery.



Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 925 in July 2022, down from 954 in June and from 1,542 a year earlier – when the labour market was still impacted by pandemic-related restrictions (see Chart 6). The number of registered unemployed has now stood below pre-pandemic levels since mid-2021.

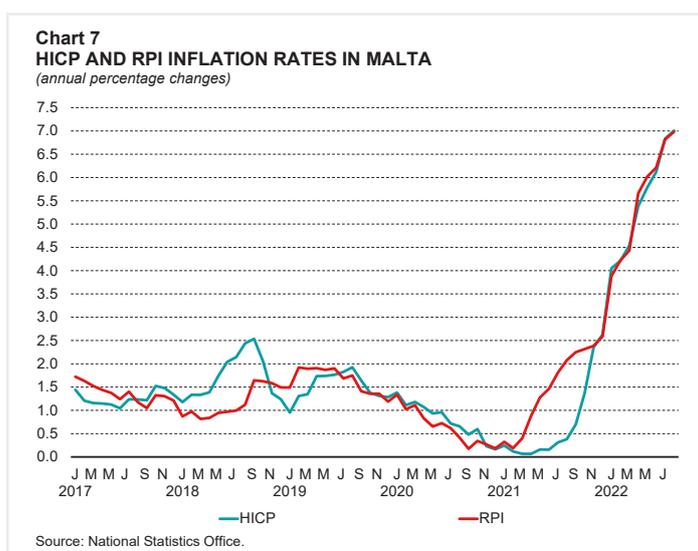
The seasonally-adjusted unemployment rate stood at 2.9% in July 2022, the same rate recorded a month earlier, and below the rate of 3.3% registered in July 2021. The rate observed in July 2022 was also the lowest rate ever recorded.



Prices, costs and competitiveness

Annual HICP inflation rose to 7.0% in August, from 6.8% in the previous month (see Chart 7). This increase was driven by services inflation which reached 7.5%, up from 6.9% in the previous month. This was in turn largely driven by the prices of services related to transport. On the other hand, food inflation (including alcohol and tobacco) declined by 0.4 percentage point to 9.5% with unprocessed food inflation being the driver behind this decline. Indeed, unprocessed food inflation declined to 9.6%, from 13.0% in the previous month. On the other hand, processed food inflation rose by 0.5 percentage point to 9.4%. NEIG inflation declined marginally to 5.4% in August, from 5.5% in the previous month. 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 7.0% in August, up from 6.8% in July (see Chart 7).¹⁷ The highest sectoral increase was registered among transport and communication,



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.

where inflation reached 6.1%, up from 5.0% in July. Food and housing were the biggest contributors to inflation in August. These rose by 11.1% and 15.5%, respectively.

Producer output inflation as measured by the industrial producer price index, stood at 5.0% in July, marginally up from 4.9% in June.¹⁸ The increase was driven by faster growth in the prices of consumer and intermediate goods. These movements offset a fall in the inflation rate for capital goods. Similar to recent months, energy prices remained unchanged having no impact on producer prices.

Malta's nominal harmonised competitiveness indicator (HCI) declined by 2.6% in the year to August 2022, reflecting the depreciation of the euro exchange rate against currencies of trading partners.¹⁹ The real HCI, which also considers relative price changes, fell by 4.9% in annual terms in August, as favourable developments in relative prices vis-à-vis trading partners have amplified the competitive advantage from a weaker euro.

Public finance

During July 2022, the Consolidated Fund recorded a deficit of €52.3 million, a modest improvement of €5.2 million when compared to the deficit registered in July 2021 (see Table 4). These developments reflect a drop in government expenditure coupled with a marginal increase in government revenue. In turn, the primary balance registered a deficit of €37.1 million, an improvement of €7.4 million from the primary deficit registered in the corresponding period a year earlier.

Government revenue rose by €1.7 million, or 0.4% in annual terms, reflecting an increase in non-tax revenue. The latter increased by €16.7 million, mainly due to higher concession fees. The rise in non-tax revenue was largely offset by lower inflows from direct taxes. The latter decreased by €15.9 million, reflecting lower inflows from income tax paid by companies. Meanwhile, revenue from indirect taxes rose by €0.9 million, due to an increase in VAT receipts which outpaced the decline in licenses, taxes, and fines, and customs and excise duties.

Government expenditure decreased by €3.5 million, or 0.7% when compared to the corresponding period of 2021. This was due to a fall in capital expenditure offsetting a rise in recurrent expenditure. The former decreased by €15.7 million, reflecting lower expenditure on road construction improvements.

Meanwhile, recurrent expenditure increased by €12.2 million, largely due to the timing of contributions to government entities which increased by €23.2 million. Furthermore, outlays on personal emoluments and interest payments rose by €4.0 million and €2.2 million, respectively. The rise in these expenditure items was partly offset by lower outlays on programmes and initiatives and, operational and maintenance. The former declined by €9.5 million, partly on the back

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.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2021		2022		Change	
	Jan.-July	Jan.-July	July	July	Amount	%
Revenue	2,416.9	2,807.0	410.2	411.9	1.7	0.4
Direct tax	1,347.6	1,545.5	268.1	252.2	-15.9	-5.9
Income tax	954.9	1,075.3	208.2	186.0	-22.2	-10.7
Social security contributions ⁽¹⁾	392.7	470.2	59.8	66.1	6.3	10.5
Indirect tax	854.7	989.7	98.4	99.3	0.9	0.9
Value Added Tax	503.9	634.4	42.8	48.0	5.1	11.9
Customs and excise duties	159.7	157.3	26.1	24.7	-1.4	-5.4
Licences, taxes and fines	191.0	198.1	29.5	26.7	-2.8	-9.5
Non-tax⁽²⁾	214.5	271.7	43.7	60.4	16.7	38.3
Expenditure	3,297.9	3,321.9	467.6	464.2	-3.5	-0.7
Recurrent	2,969.3	3,006.4	407.4	419.7	12.2	3.0
Personal emoluments	593.1	603.5	76.1	80.1	4.0	5.2
Operational and maintenance	156.4	132.0	29.3	21.6	-7.6	-26.1
Programmes and initiatives	1,733.2	1,778.4	240.4	230.9	-9.5	-3.9
Contributions to entities	383.1	391.7	48.6	71.8	23.2	47.7
Interest payments	103.5	100.8	13.0	15.2	2.2	16.7
Capital	328.6	315.4	60.2	44.5	-15.7	-26.1
Primary balance⁽³⁾	-777.5	-414.1	-44.5	-37.1	7.4	-
Consolidated Fund balance	-881.1	-514.9	-57.5	-52.3	5.2	-

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.

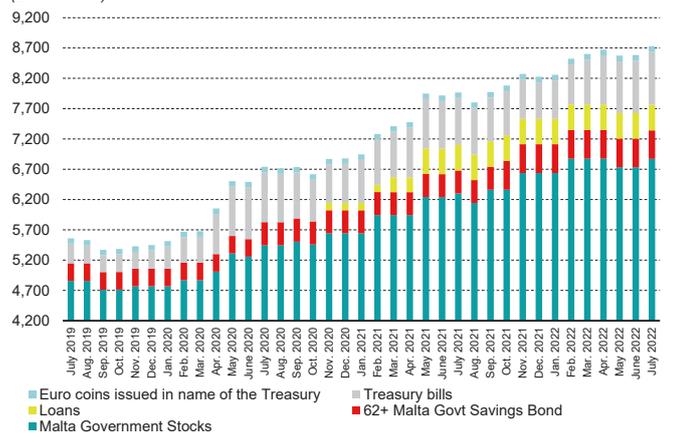
of lower spending on COVID-related outlays, as the Wage Supplement Scheme ended in May 2022.

In July, the total stock of outstanding government debt amounted to €8,557.8 million, a rise of €143.9 million when compared with June 2022 (see Chart 8). This increase was mainly attributable to new issues of Malta Government Stocks.

Deposits, credit and financial markets

In July, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3), expanded at an annual rate of 7.8%, down from 9.5% a month earlier (see Chart 9).

Chart 8
GOVERNMENT DEBT⁽¹⁾
(EUR millions)



Source: National Statistics Office.

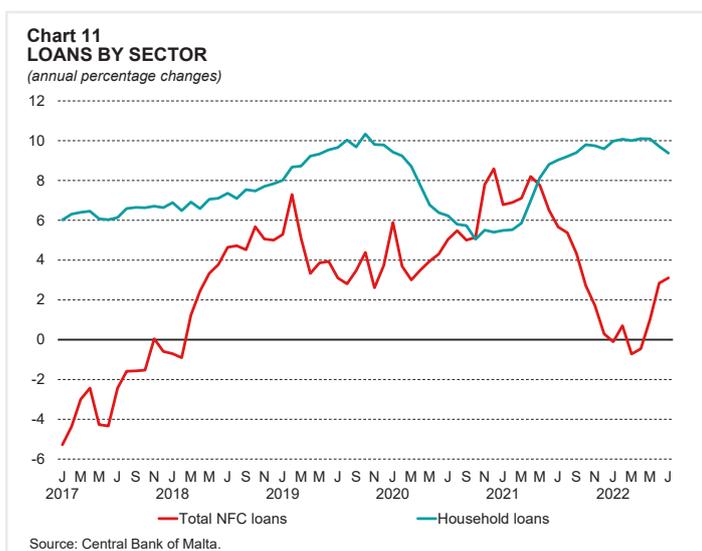
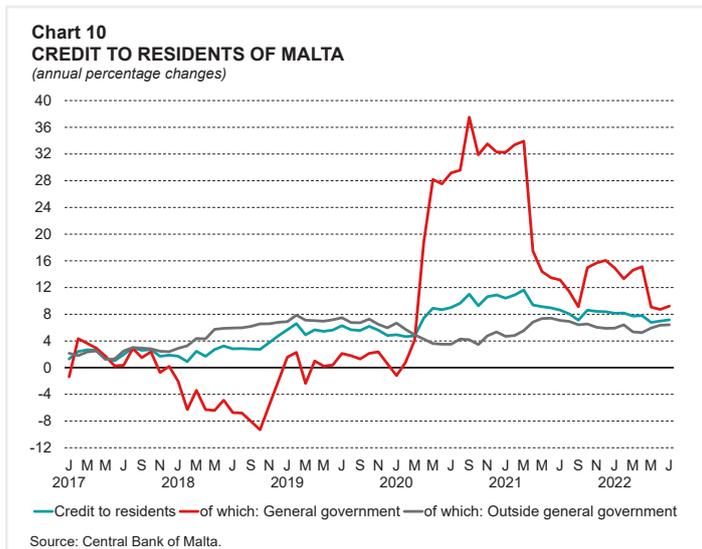
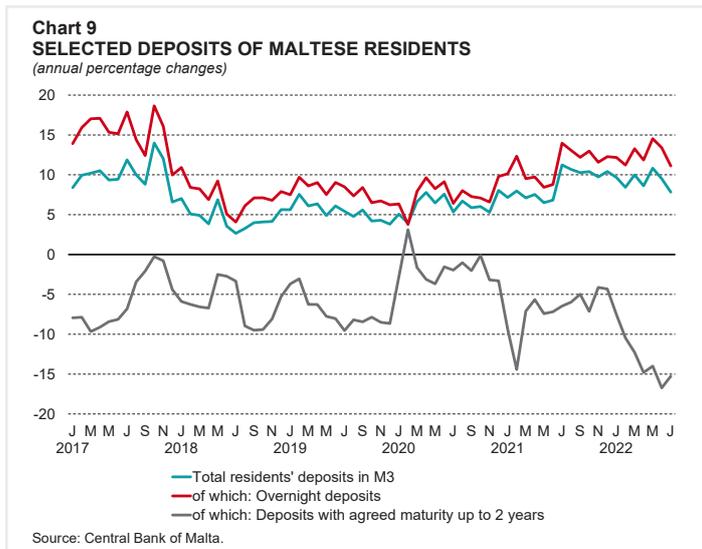
⁽¹⁾ Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

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 11.1% in the year to July, below the 13.4% recorded in the previous month. Meanwhile, time deposits with a maturity of up to two years – the second largest deposit category – fell by 15.3% in annual terms, following a contraction of 16.7% in the year to June. 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 7.2% in July, slightly above the 7.0% recorded a month earlier (see Chart 10). The slight acceleration in growth was driven by a larger increase in credit to general government. Annual growth in this component stood at 9.2%, up from 8.7% in June. At the same time, growth in credit to residents outside general government rose by 6.4%, marginally above the 6.3% increase recorded a month earlier.

The annual rate of change of loans to households stood at 9.4% in July, following an increase of 9.7% in June. Mortgage lending eased to 10.4%, from 10.9% in the previous month. By contrast, consumer credit and other lending fell at a slower rate of 2.5%, following a contraction of 3.3% in June.

Meanwhile, the annual rate of change in loans to non-financial corporations edged up to 3.1% in July, up from 2.8% a month earlier (see Chart 11).



The acceleration in growth was largely driven by faster growth in loans to the construction sector and real estate activities, and in loans to the manufacturing sector. Additionally, loans to the transportation and storage sector, and the sector comprising professional, scientific and technical activities, contracted at a more moderate pace compared to June. By contrast, loans to the energy sector declined, while loans to the wholesale and retail trade sector increased at a slower pace.

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.²⁰ Overall, €469.5 million were disbursed, up slightly from the €468.9 million disbursed by the end of June.

The sector comprising wholesale and retail activities had the largest number of facilities supported by the scheme and still outstanding by the end of July, 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-July, three facilities were approved, increasing total sanctioned lending to €15.6 million. The outstanding level of disbursements from this scheme stood at €10.2 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 July.

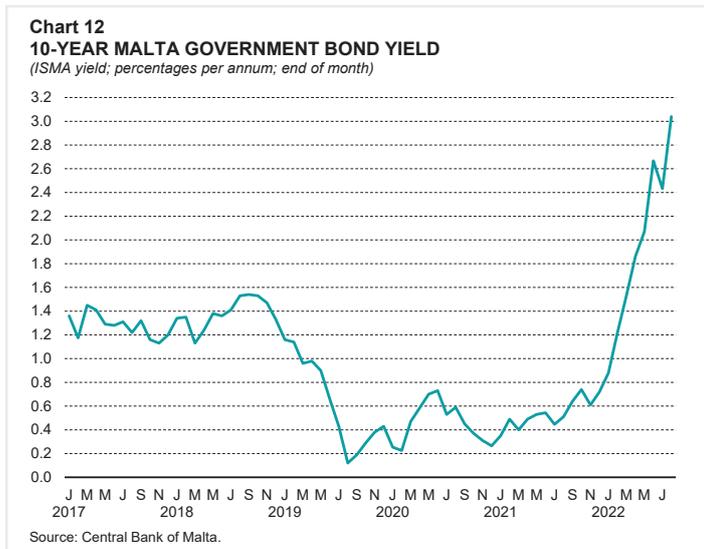
As regards interest rates, in July, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.15%, unchanged for the fourth consecutive month. Meanwhile, the composite rate charged on outstanding loans edged up marginally to 3.19% in July. As a result, the spread between the two rates widened slightly, standing at 304 basis points.

On the capital market, the secondary market yield on 10-year Maltese government bonds increased by 61 basis points from a month earlier, to 3.04% at the end of August (see Chart

²⁰ 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 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.

12). This reflects the start of the interest rate hikes in the euro area in July, and expectations of further increases in policy rates in light of continued increases in inflation.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index decreased by 1.6% 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	2022	2022	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2022	2022	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	Aug.	
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	0.2	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	7.0		
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	7.0	
Industrial producer price inflation	2.2	0.3	3.2	1.8	3.8	6.5	7.0	5.3	0.9	0.5	1.1	1.2	1.8	2.3	1.4	4.4	5.6	5.7	6.3	7.5	7.2	6.7	7.0	5.7	5.3	4.9	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	-2.6	
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	-4.8	-4.9	
Unit labour costs, whole economy ⁽¹⁾	3.5	11.4	-2.3	5.0	0.6	-2.3	-4.0	-2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	3.8	-0.8	4.9	3.0	4.1	4.9	3.7	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	0.2	-10.9	7.4	-2.5	3.3	7.4	8.0	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	6.1	3.4	5.1	5.4	5.9	4.5	6.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																													
Nominal GDP	8.4	-6.9	12.3	17.9	16.3	14.4	11.8	14.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.9	-8.3	10.3	16.3	14.0	11.7	8.1	8.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	4.6	-10.2	7.1	16.8	8.7	9.0	10.5	12.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	13.1	15.7	6.7	-1.6	4.8	4.6	-2.1	12.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.4	-7.7	17.3	22.9	29.4	26.3	5.2	-12.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	7.0	-3.8	9.0	15.3	10.7	11.3	10.4	6.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.9	-0.2	8.0	12.3	8.7	11.4	9.0	3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																													
LFS unemployment rate (% of labour force)	3.6	4.4	3.5	3.5	3.6	3.2	3.2	-	4.0	3.9	3.7	3.4	3.4	3.4	3.3	3.4	3.3	3.1	3.0	3.0	2.9	3.0	2.9	2.9	3.0	2.9	2.9	-	-
LFS employment	7.1	2.6	2.7	3.2	3.6	5.0	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	6.6	4.2	2.7	2.6	3.6	3.9	5.1	-	0.7	0.4	1.1	2.0	2.6	3.1	3.2	3.6	3.8	3.6	3.9	4.2	4.6	5.3	5.3	5.2	-	-	-	-	-
Balance of payments																													
Current account (as a % of GDP) ⁽²⁾	5.0	-2.9	-4.6	-3.0	-3.4	-4.6	-4.8	-4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																													
Maltese residents' deposits and loans																													
Overnight deposits	6.2	9.8	12.3	8.8	12.2	12.3	13.3	13.4	10.1	12.3	9.5	9.7	8.4	8.8	14.0	13.1	12.2	13.0	11.6	12.3	11.2	11.2	13.3	11.8	14.5	13.4	11.1	-	-
Deposits with agreed maturity up to 2 years	-8.7	-3.3	-4.3	-7.2	-5.0	-4.3	-12.3	-16.7	-9.4	-14.4	-7.1	-5.7	-7.4	-7.2	-6.5	-6.0	-5.0	-7.1	-4.1	-4.3	-7.5	-10.5	-12.3	-14.8	-14.0	-16.7	-15.3	-	-
Total residents' deposits in M3	3.8	8.0	10.4	6.8	10.3	10.4	10.0	9.5	7.2	8.0	7.1	7.5	6.5	6.8	11.2	10.7	10.3	10.4	9.7	10.4	9.7	8.4	10.0	8.6	10.8	9.5	7.8	-	-
Credit to general government	0.6	32.3	16.1	13.5	9.1	16.1	14.6	8.7	32.3	33.4	33.9	17.5	14.4	13.5	13.1	11.4	9.1	15.0	15.7	16.1	14.9	13.3	14.6	15.1	9.1	8.7	9.2	-	-
Credit to residents (excl. general government)	6.0	5.3	5.9	7.4	6.4	5.9	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	5.9	5.9	6.4	5.3	5.2	5.9	6.3	6.4	-	-
Total credit	4.8	10.9	8.4	8.9	7.1	8.4	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	8.1	8.2	7.7	7.8	6.8	7.0	7.2	-	-	
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	0.6	0.6	0.7	0.6	0.7	0.9	1.2	1.5	1.9	2.1	2.7	2.4	3.0	
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	-1.6	
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	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	469.5	-	-
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	57.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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.