



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA



CENTRAL BANK OF MALTA ECONOMIC UPDATE

9/2023

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The cut-off date for information in this note is 19 September 2023. However, the cut-off date for the RPI is 25 September 2023. Figures in tables may not add up due to rounding.

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ECONOMIC UPDATE 09/2023

Summary¹

The Bank's Business Conditions Index indicates that in August, annual growth in business activity stood broadly in line with its historical average, estimated since January 2000.

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

Additional data show that price expectations stood firmly below their year-ago level in the retail sector, and to a lesser degree, in both the services sector and among consumers. By contrast, selling price expectations in the construction sector, and in industry, exceeded the levels recorded in August 2022.

In August, the European Commission's Economic Uncertainty Indicator (EUI) for Malta increased when compared with July, indicating higher uncertainty. Uncertainty increased mostly in industry.

In July, industrial production rose on a year earlier, after contracting in June. Retail trade grew at a faster pace. The unemployment rate stood at the historic low of 2.5% in July, remaining the same as the previous month, and down from 2.9% in July 2022.

Commercial building permits in July were lower than a month earlier, and also when compared with a year earlier. Residential building permits were lower compared with month-ago levels but increased in annual terms. In August, 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 5.0% in August, down from 5.6% in the previous month. Inflation based on the Retail Price Index (RPI) decreased to 4.0%, from 4.7% in July.

The level of Maltese residents' deposits stood broadly unchanged in July, compared with a year earlier, while annual growth in credit to Maltese residents reached 4.1%, from 3.9% a month earlier.

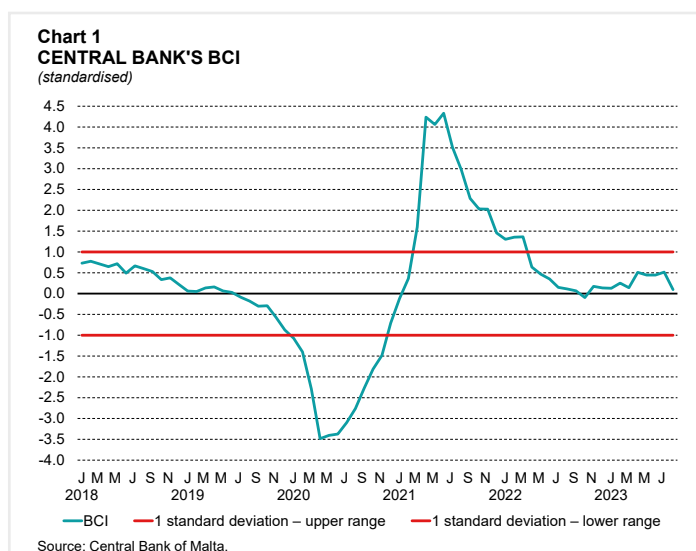
In July, the Consolidated Fund recorded a lower deficit compared to a year earlier, as an increase in government revenue offset a smaller rise in expenditure.

¹ The cut-off date for information in this note is 19 September. However, the cut-off date for the RPI is 25 September. Most of the data reported in this issue of the *Economic Update* refer to July 2023. However, European Commission survey data, inflation data, the BCI, residential transactions and liquidity support measures refer to August.

Central Bank's Business Conditions Index²

The Bank's BCI indicates that in August, annual growth in business activity stood very close to its long-term average, estimated since January 2000 (see Chart 1). The number of building development permits issued, the ESI, and tax revenue experienced strong year-on-year growth, and contributed to the above-average BCI level. Furthermore, the unemployment rate stood at an all-time low, indicating positive business conditions.

On the other hand, growth in tourist arrivals and GDP has decelerated in recent months, falling below their long-run average, thus bringing the BCI closer to its historical average.



Business and consumer confidence indicators

In August, the European Commission's Economic Sentiment Indicator (ESI) for Malta fell to 102.5, from 107.7 in July. It therefore remained above its long-term average of around 100.0, estimated since November 2002 (see Table 1).^{3,4,5} Furthermore, sentiment stood above the euro area average of 93.3.

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

Demeaned data – which account for the variation in weights assigned to each sector in the overall index – show that most of the decrease in overall sentiment in August was driven by a negative contribution from the services sector, although the other sectors' contribution was also less favourable compared with July (see Chart 2). The confidence indicator for industry largely explains why the ESI stood above its long-term average in 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.

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%. 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.

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

⁵ Past ESI and EEI results were slightly revised due to seasonal adjustment.

Table 1												
BUSINESS AND CONSUMER SURVEYS – MALTA												
<i>Balances; percentage points; seasonally adjusted</i>												
	2021	2022	2022					2023				
			Aug.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
ESI	104.8	100.9	99.8	98.0	102.2	105.3	111.5	114.1	103.1	100.1	107.7	102.5
Services confidence indicator	13.8	20.6	41.6	25.8	23.2	33.0	44.0	41.8	34.8	36.5	23.5	5.7
Business situation development over the past 3 months	4.9	15.7	21.7	16.8	25.1	38.4	47.2	35.4	31.0	35.5	19.8	-5.5
Evolution of the demand over the past 3 months	10.9	26.3	52.9	18.5	18.5	37.5	29.9	36.8	38.5	30.9	17.1	6.6
Expectation of the demand over the next 3 months	25.5	19.8	50.3	42.0	26.1	23.2	54.8	53.1	34.9	43.0	33.6	16.0
Retail trade confidence indicator	-8.4	6.0	-21.6	27.4	25.5	-0.4	23.8	36.2	-8.9	-16.5	23.5	18.3
Business activity, past 3 months	-13.6	21.1	-12.3	57.7	41.8	21.8	47.2	55.2	-0.1	-4.2	40.4	34.3
Stocks of finished goods	12.8	-3.2	-2.4	3.1	15.9	22.9	1.9	1.1	19.6	24.9	10.8	16.2
Business activity, next 3 months	1.2	-6.3	-54.8	27.5	50.6	-0.1	26.2	54.6	-7.1	-20.4	40.9	36.7
Construction confidence indicator	7.3	7.0	8.7	-4.3	2.9	17.5	-0.2	24.7	22.5	8.4	-11.7	-14.1
Evolution of your current overall order books	1.4	8.7	13.2	-6.6	2.4	6.3	-15.9	3.6	-0.3	16.1	-29.9	-20.5
Employment expectations over the next 3 months	13.2	5.4	4.2	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	-7.7
Industrial confidence indicator	2.1	-9.4	-21.4	-23.5	-8.6	-3.2	6.8	8.5	-11.4	-20.0	10.6	9.1
Assessment of order-book levels	-28.2	-21.5	-38.3	-10.1	-4.3	-7.2	-50.3	-49.0	-39.6	-36.8	-15.9	-1.8
Assessment of stocks of finished products	-3.2	9.1	29.6	2.2	2.6	19.2	3.6	-3.6	4.6	6.0	1.7	3.2
Production expectations for the months ahead	31.3	2.2	3.7	-58.1	-18.8	16.8	74.1	70.9	9.9	-17.3	49.4	32.3
Consumer confidence indicator	3.4	-7.4	-11.3	-11.8	-10.3	-6.8	-10.9	-6.9	-9.9	-10.4	-11.8	-12.8
Financial situation past 12 months	-8.9	-19.7	-26.2	-22.7	-19.1	-16.2	-22.9	-21.3	-19.3	-21.4	-18.8	-21.9
Financial situation next 12 months	7.3	-11.8	-20.4	-13.4	-11.3	-8.8	-12.0	-8.6	-7.4	-8.4	-10.6	-16.0
Economic situation next 12 months	18.6	-3.5	-8.5	-9.2	-10.0	-4.2	-11.0	-4.7	-11.5	-12.6	-18.3	-14.8
Major purchases next 12 months	-3.4	5.6	10.0	-1.8	-0.6	1.9	2.4	6.8	-1.4	0.7	0.3	1.4
E EI	103.5	106.4	118.3	110.7	111.8	111.1	123.2	122.8	107.9	106.2	104.4	102.5
Services	25.1	30.2	60.4	56.8	46.4	41.1	46.1	49.6	38.5	37.0	6.5	17.8
Construction	13.2	5.4	4.2	-2.0	3.4	28.8	15.5	45.7	45.2	0.7	6.4	-7.7
Retail	4.4	15.8	8.5	26.7	16.1	10.6	38.9	20.8	5.0	4.4	22.3	30.9
Industry	14.8	12.0	26.5	-37.4	8.2	13.6	60.2	57.1	-2.7	7.8	53.6	4.8
EUJ^(1,2)	21.3	28.1	28.5	24.4	14.0	2.9	5.5	19.4	-3.2	11.0	1.7	10.2
Industry	21.0	39.4	31.0	32.0	10.9	-14.8	-10.8	35.8	-13.6	6.3	-21.7	7.1
Retail	48.8	50.8	54.8	40.4	18.7	14.2	9.0	7.3	27.9	22.0	-9.8	-8.5
Consumers	-3.5	13.7	26.8	13.5	13.9	12.2	11.9	19.8	12.3	19.2	16.3	17.8
Construction	30.1	19.5	12.1	35.2	19.7	14.5	36.6	25.2	9.0	10.1	29.5	28.4
Services	32.2	20.3	24.8	17.2	16.4	16.4	17.2	-1.7	-6.8	10.1	20.4	9.4
ESI demeaned	4.9	0.9	-0.2	-2.0	2.2	5.3	11.5	14.1	3.1	0.1	7.7	2.5
E EI demeaned	3.4	6.2	17.9	9.0	11.2	10.8	23.8	23.4	7.3	5.8	5.6	2.3

Source: European Commission.

⁽¹⁾ Non-seasonally adjusted data.

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

In August, the sentiment indicator for the services sector fell below its long-term average of 19.6.⁶ It decreased to 5.7, from 23.5 in July, largely driven by a negative assessment of the business situation over the past three months. Firms' expectations of demand over the next three months, and their assessment of sales in recent months, also weakened but remained positive.

Confidence in the retail sector stood at 18.3, below the 23.5 recorded in the previous month, but well above its long-term average of 0.0.⁷ Retailers' assessment of sales in recent months and their expectations of business activity over the next three months, stood less positive in the month under review. Furthermore, the share of respondents assessing their stock levels to be above normal, increased compared with July.⁸

⁶ 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.

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.

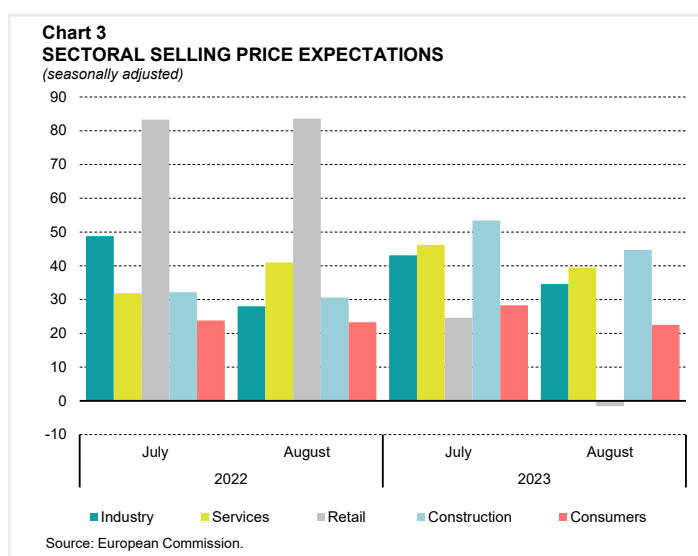
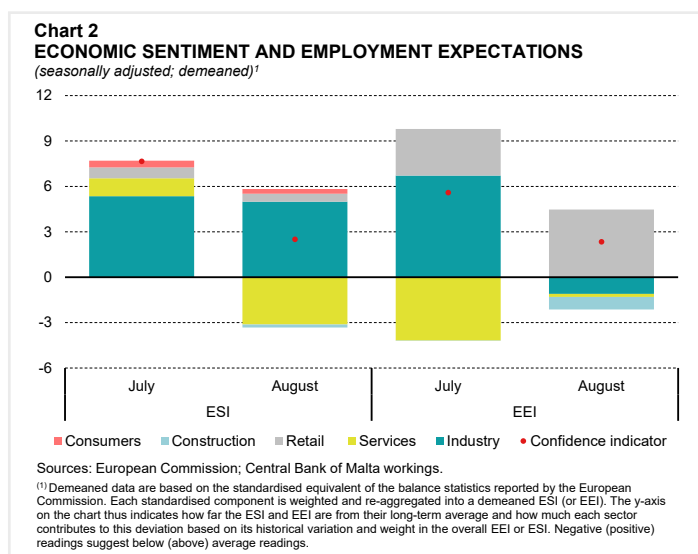
⁸ Above normal stocks of finished goods have a negative effect on the overall indicator, and vice versa.

The confidence indicator for the construction sector edged down to -14.1 in August, from -11.7 a month earlier, falling further below its long-term average of -8.1.⁹ The recent decrease in sentiment reflected a deterioration in employment expectations, which turned negative. By contrast, the share of respondents assessing order book levels to be below normal, decreased.

Sentiment in industry eased to 9.1, from 10.6 in the previous month, but remained well above its long-term average of -4.2.¹⁰ Production expectations for the months ahead stood less positive compared with a month earlier. Moreover, the share of firms assessing their stocks of finished products to be above normal increased in August. Meanwhile, a smaller share of respondents assessed their order book levels to be below normal.

The consumer confidence indicator remained below its long-term average of -10.2, standing at -12.8 in August, down from -11.8 in the previous month.¹¹ The fall in sentiment was largely driven by a more negative assessment as well as expectations about their financial situation. By contrast, consumers' expectations of the general economic situation over the next 12 months improved, although remaining negative, while expectations of major purchases stood more positive compared with July.

Additional survey information shows that, in month-on-month terms, price expectations decreased across all sectors when compared with July, with the most significant decrease recorded in the retail sector (see Chart 3). Expectations in this sector turned negative for



⁹ 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.

¹⁰ 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.

¹¹ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

the first time since 2021. Price expectations remained elevated, standing well above their long run average in all sectors, except for consumers and in the retail sector.

Differences across sectors remained wide. While the net share of firms signalling price increases ranged between 40% and 45% in the services and construction sectors, respectively, that among consumers stood at 23%.

Price expectations stood firmly below their year-ago level in the retail sector, and to a lesser degree, in the services sector, and marginally so among consumers. By contrast, selling price expectations in the construction sector and in industry exceeded the levels recorded in August 2022.

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 102.5 in August, from 104.4 in July.¹² This indicator remained above its long-term average of around 100.0 and was broadly in line with the euro area average of 102.1.

Demeaned data suggest that the decrease in employment expectations largely reflected developments in industry, whose contribution turned negative. At the same time, the contribution of the construction sector stood more negative compared to July. Meanwhile, the contributions of the services and retail sectors improved.

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

In August, 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 – increased. It stood at 10.2, up from 1.7 in July, signalling higher uncertainty (see Table 1). Notwithstanding this increase, the uncertainty indicator stood well below its level recorded in August 2022, when the index averaged 28.5. It was also significantly below that of the euro area.^{13,14}

In month-on-month terms, the increase in Malta's uncertainty indicator was largely driven by industry, where in contrast to July, respondents reported difficulty in predicting their business situation. Uncertainty also increased among consumers. At the same time, a smaller net share of retailers expressed confidence in predicting their business situation. By contrast, uncertainty in the services sector, and to a smaller extent, in the construction sector, decreased compared to July.

¹² 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*.

¹³ 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.

¹⁴ Data on consumer uncertainty became available in October 2020, while data for industry, services, retail, and construction became available in May 2021.

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

Activity indicators

In July, the index of industrial production – which is a measure of economic activity in the quarrying, manufacturing, and energy sectors – rose by 2.2% on a year-on-year basis. This follows a contraction of 3.8% in June (see Table 2).¹⁵

In the manufacturing sector, strong increases were recorded among firms that produce basic pharmaceutical products, computer, electronic and optical products, as well as among those involved in the printing and reproduction of recorded media. Output also increased strongly among firms that manufacture wood and wood products and wearing apparel. These offset annual decreases in ‘other manufacturing’ output – which includes medical and dental instruments, toys and related products – and in the manufacture of certain non-metallic minerals and textiles.

Meanwhile, production in the energy sector fell by 3.2% in July – a marginally smaller decline than that of 3.5% a month earlier. By contrast, activity in the quarrying sector rose.

In July, the volume of retail trade – which is a short-term indicator of final domestic demand – increased by 3.5% in year-on-year terms, after rising by 3.1% in June.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

	2021	2022	2022		2023	
			June	July	June	July
Industrial production	0.1	2.8	5.1	3.7	-3.8	2.2
Retail trade	9.4	10.2	11.6	11.3	3.1	3.5
Number of tourist arrivals	47.0	134.4	249.1	128.3	20.0	17.5
Number of nights stayed	60.5	96.3	148.5	105.7	22.4	10.0
Rented accommodation	73.8	110.0	196.1	109.6	22.9	11.2
Collective ⁽¹⁾	74.3	108.6	226.6	97.0	8.5	6.3
Other rented ⁽²⁾	72.9	112.4	152.6	129.8	49.6	17.9
Non-rented accommodation ⁽³⁾	26.5	48.1	19.3	88.0	19.1	4.3
Tourist expenditure	91.3	130.0	261.0	119.1	32.1	20.8
Package expenditure	108.7	128.9	423.0	106.2	39.4	35.9
Non-package expenditure	89.4	145.0	276.0	135.3	39.2	22.6
Other	85.4	116.8	199.6	110.3	20.7	10.5

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).

¹⁵ The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data, however, are used for the components.

Table 3
PROPERTY MARKET

Levels

	2021	2022	2022			2023		
			June	July	Aug.	June	July	Aug.
Permits								
Commercial permits	2,770	2,984	235	233	134	227	195	-
Residential permits	7,578	9,599	593	565	932	784	676	-
Residential transactions								
Promise of sale	15,639	12,168	1,087	955	919	1,140	1,085	970
Final deeds of sale	14,368	14,331	1,194	1,268	1,258	995	1,043	949

Sources: National Statistics Office; Planning Authority.

In July, the tourism sector continued to perform well. The number of inbound tourists amounted to 325,457, up from 276,985 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, nights stayed decreased when compared with July 2022, while expenditure per capita was broadly unchanged.

In July, 195 development permits for commercial buildings were issued, 38 less than the number of permits issued in the same month of 2022 (see Table 3). Meanwhile, 676 new residential building permits were issued, 111 more than the number issued in July 2022. In month-on-month terms, both commercial and residential permits declined.

Data on residential property transactions show that 949 final deeds of sale were concluded in August, 94 less than the number concluded a month earlier, and 309 less than a year earlier. At 970, the number of promise-of-sale agreements was 115 less than a month earlier, but 51 more compared with a year earlier.

Customs data show that the merchandise trade deficit stood at €410.7 million in July, down from a deficit of €817.3 million a year earlier. This was due to a €412.2 million decline in imports which offset a €5.6 million decrease in exports (see Chart 4).

Lower imports were mainly on account of a substantial decrease in registrations of aircraft. Fuel imports, registrations of sea vessels, and imports of organic chemicals also decreased, but to a lesser

Chart 4
EXPORTS AND IMPORTS OF GOODS: JULY 2023
(EUR millions; monthly observations)



extent. These offset higher imports of vehicles and fish, and to a lesser extent, imports of electrical machinery.

The decrease in exports mainly reflected lower fuel re-exports. Exports of pharmaceutical products and toys also decreased, but by a smaller amount. These offset higher registrations of sea vessels, and to a lesser extent, electrical machinery, and printed material.

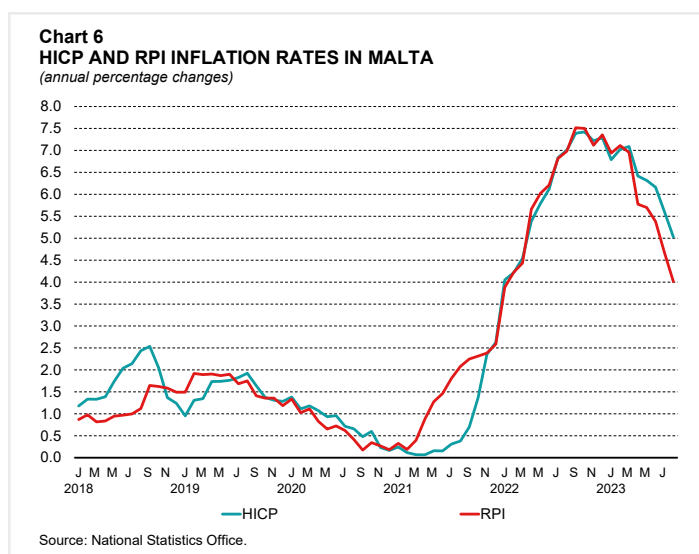
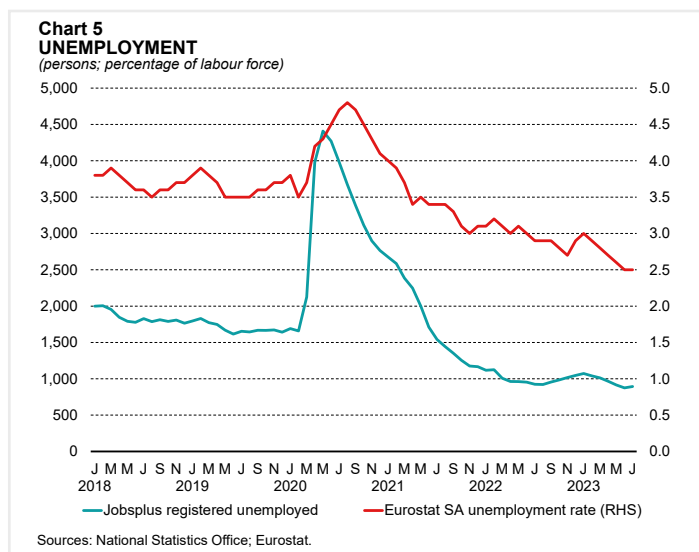
Labour market

Jobsplus data show that the number of persons on the unemployment register stood at 893 in July, up from 875 in June, but down from 925 recorded a year earlier (see Chart 5).

The seasonally-adjusted unemployment rate stood at the historic low of 2.5% in July, unchanged from the previous month, and down from 2.9% in July 2022.

Prices, costs and competitiveness

Annual HICP inflation eased to 5.0% in August, from 5.6% a month earlier (see Chart 6). This was driven by slower growth in the prices of services and, to a lesser extent, prices of NEIG. Services inflation decreased to 4.3%, from 5.6% a month earlier, reflecting a slowdown in all subcomponents. The largest decline stemmed from communication services inflation which stood negative as a result of lower prices of mobile phone services. Meanwhile, NEIG inflation eased to 3.4%, from 3.8% a month earlier. On the other hand, food inflation rose to 9.4%, from 8.8% in July, on the back of higher unprocessed food inflation. The latter grew by 8.5% in August, up from 5.4% a month earlier. Conversely, processed food inflation moderated to 9.7%, from 9.9% in July. Energy inflation remained unchanged at zero, reflecting the government measures aimed at shielding consumers from international energy prices pressures.



Annual inflation according to the RPI stood at 4.0% in August, down from 4.7% in July (see Chart 6).¹⁶ The decline was driven by lower inflation in most sub-components. The largest contributors to this decrease were inflation in transport and communication, with prices falling by 2.7% year-on-year, following a decrease of 0.2% in July, and furnishings and household equipment with inflation easing to 3.6% from 6.4% previously. At the same time, beverages and tobacco inflation and housing inflation slowed down to 6.4% and 8.7%, respectively. Meanwhile, prices of clothing and footwear fell by 1.1% year-on-year, after falling by 2.2% in the previous month. On the other hand, food inflation rose to 9.3%, from 8.8% a month earlier. Energy prices remained unchanged.

The difference between HICP and RPI inflation mostly stems from services inflation and reflects the structure of weights applied to these indices. Different weight levels are allocated to each sub-component in the respective indices, such that RPI includes only domestic related activity, 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, eased to 3.8% in July, from 4.0% in June.¹⁷ This mostly reflects slower growth in producer prices of capital goods, which grew by 4.8% in July, down from 5.4%. Producer prices of consumer goods also slowed down. These grew by 7.5% on a year earlier, from 7.8% in June, mainly due to developments in the prices of non-durable goods. Prices of intermediate goods eased to 2.1% from 2.2%. Energy producer prices continued to have no impact on producer prices.

Public finance

In July 2023, the Consolidated Fund recorded a deficit of €43.8 million, €7.2 million less than the deficit registered a year earlier (see Table 4). This was due to higher government revenue, which offset an increase in government expenditure. The primary balance registered a deficit of €24.6 million, €11.3 million less than the primary deficit registered in July 2022.

Government revenue increased by €61.9 million, or 15.0%, mainly due to higher revenue from direct taxes. This was due to higher income tax receipts, mainly from companies. Revenue from indirect taxes also increased, but to a lesser extent. Meanwhile, non-tax revenue declined, mainly due to lower miscellaneous receipts.

Government expenditure increased by €54.7 million, or 11.8% due to increases in both recurrent and capital expenditure. Capital expenditure increased by €11.7 million, while recurrent spending rose by €43.0 million. The latter was mainly due to higher expenditure on programmes and initiatives, which increased by €34.9 million. In turn, the increase in outlays on this item of expenditure mostly reflected the timing of tax refunds to households. Expenditure on personal emoluments and interest payments increased by €7.1 million and €4.1 million, respectively. Meanwhile, outlays on operational and maintenance, and contributions to government entities declined by €2.5 million and €0.6 million, respectively.

¹⁶ 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.

¹⁷ The industrial producer price index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

	2022		2023		Change	
	Jan-Jul.	Jan-Jul.	Jul.	Jul.	Amount	%
Revenue	2,807.0	3,208.0	411.9	473.8	61.9	15.0
Direct tax	1,545.5	1,816.7	252.2	332.5	80.4	31.9
Income tax	1,075.3	1,316.2	186.0	262.8	76.7	41.2
Social security contributions ⁽¹⁾	470.2	500.5	66.1	69.7	3.6	5.5
Indirect tax	989.7	1,062.0	99.3	106.4	7.0	7.1
Value Added Tax	634.4	664.1	48.0	47.1	-0.9	-1.9
Customs and excise duties	157.3	169.1	24.7	30.1	5.4	22.0
Licences, taxes and fines	198.1	228.7	26.7	29.2	2.5	9.3
Non-tax⁽²⁾	271.7	329.3	60.4	34.9	-25.5	-42.2
Expenditure	3,322.2	3,510.4	462.9	517.6	54.7	11.8
Recurrent	3,006.8	3,138.9	418.4	461.4	43.0	10.3
Personal emoluments	603.5	635.4	79.1	86.2	7.1	9.0
Operational and maintenance	132.4	172.2	21.6	19.2	-2.5	-11.4
Programmes and initiatives	1,778.4	1,762.3	230.7	265.6	34.9	15.1
Contributions to entities	391.7	449.7	71.8	71.2	-0.6	-0.9
Interest payments	100.8	119.3	15.2	19.2	4.1	26.9
Capital	315.4	371.5	44.5	56.2	11.7	26.3
Primary balance⁽³⁾	-414.5	-183.1	-35.9	-24.6	11.3	-
Consolidated Fund balance	-515.3	-302.4	-51.1	-43.8	7.2	-

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.

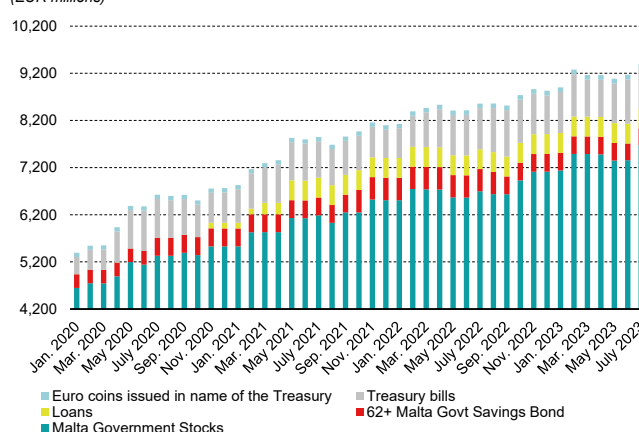
In July 2023, the total stock of outstanding government debt amounted to €9,396.2 million, an increase of €225.5 million when compared with June 2023 (see Chart 7). This mainly reflects a higher level of outstanding Malta Government Stocks, which outweighed a decline in the level of Treasury Bills outstanding.

Deposits, credit and financial markets

In July, residents' deposits held with monetary financial institutions (MFI) and forming part of broad money (M3) stood unchanged from their level in July 2022. This follows an increase of 1.0% recorded a month earlier (see Chart 8).

Overnight deposits remained the largest component of residents' M3 deposits, comprising around 90% of their M3 balances. Growth in this deposit category – which is the most liquid – was broadly

Chart 7
GOVERNMENT DEBT⁽¹⁾
(EUR millions)



Source: National Statistics Office.

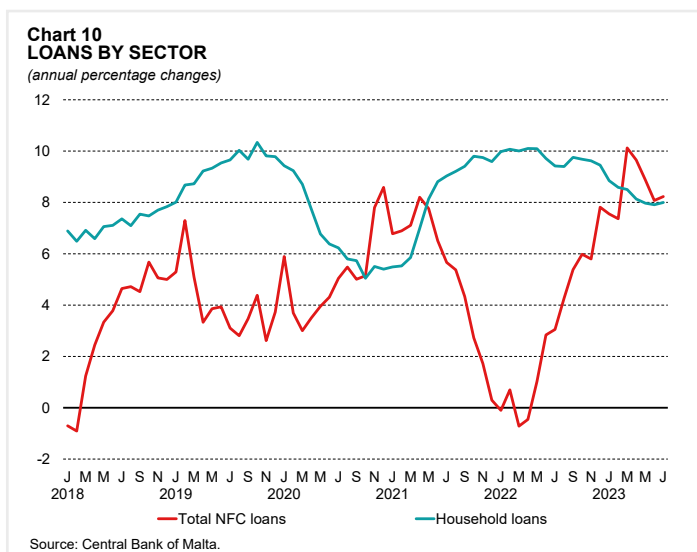
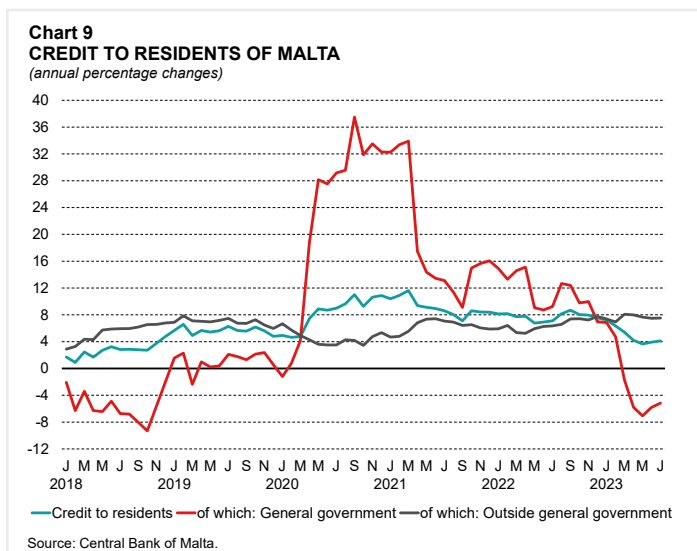
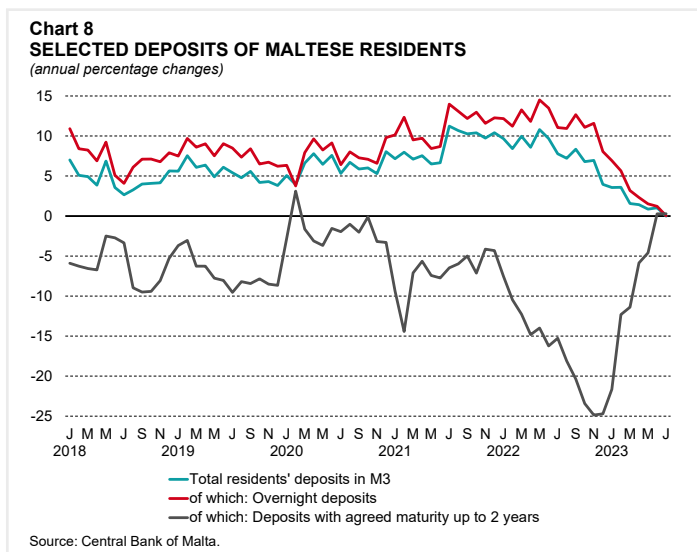
⁽¹⁾ Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.

neutral in the year to July, slowing down from 1.2% in the previous month. The deceleration in this category was mostly driven by slower growth in household deposits, and a sharper contraction in overnight deposits belonging to private financial intermediaries.

Meanwhile, time deposits with agreed maturity of up to two years – the second largest deposit category – increased by 0.3%, unchanged from June and following from more than two years of declines. This outcome possibly reflects more attractive terms on fixed deposit accounts by certain credit institutions.

Credit to Maltese residents grew by 4.1% in July, above the 3.9% 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 5.2% over the 12 months to July, following a year-on-year contraction of 5.8% in June. Meanwhile, annual growth in credit to residents outside general government stood at 7.5% in the year to July, unchanged from the previous month.

The annual rate of change in loans to households edged up to 8.0% in July, from 7.9% in the previous month (see Chart 10). Growth in consumer credit and other lending reached 7.8%, above the 6.9% recorded in the year to June. At the same time, growth in mortgage lending stood at 8.0% in the 12 months to July, unchanged from a month earlier.



Meanwhile, the annual rate of change in loans to non-financial corporations stood at 8.2% in July, up from 8.1% in the year to June. The acceleration was largely driven by a smaller contraction in loans to the energy sector, and to a smaller extent, to the wholesale and retail trade sector. This was followed by a faster increase in loans to the construction sector and, to a smaller degree, to the sector comprising accommodation and food service activities. By contrast, loans to the transportation, storage, information and communication sector increased at a slower pace compared to June. Slower growth was also recorded in loans issued to the manufacturing sector and the real estate sector.

By end-August, 622 facilities were approved and still outstanding under the COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €482.6 million.¹⁸ The number and value of facilities approved and still outstanding stood at €281.4 million.

In May 2022, the Malta Development Bank (MDB) launched the first of three support measures in response to the war in Ukraine and high inflation. The Subsidised Loans Scheme (SLS) provides temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products. By end-August, three facilities were approved, with total sanctioned lending of €14.2 million. The outstanding value of loans from this scheme stood at €5.9 million, down from €6.6 million in July.

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 August 2023, a total of €24.5 million was approved under one of these schemes, unchanged from a month earlier. The facility was withdrawn in full, and the outstanding value of loans stood at €24.5 million by end-August.

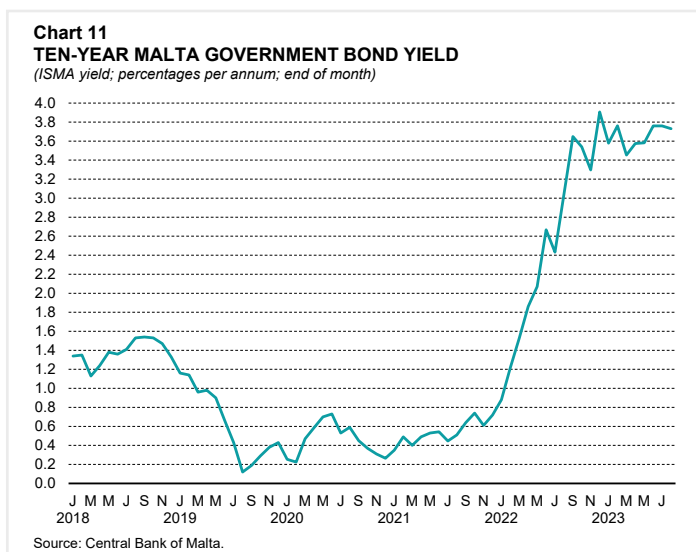
As regards interest rates, in July, the composite interest rate paid by MFIs on Maltese residents' outstanding deposits stood at 0.24%, unchanged from that recorded a month earlier. Meanwhile, the composite rate charged on outstanding loans edged down by 1 basis point compared to June, standing at 3.58% in July. As a result, the spread between the two rates eased slightly to 334 basis points.

The composite rate paid by MFIs on Maltese residents' new business deposits stood at 2.07% in July, above the 1.91% recorded in June. It was also higher than the rate recorded for July 2022, which stood at 1.14%. Meanwhile, the composite rate charged on new business loans increased by 45 basis points on a month earlier, standing at 3.63%. It also exceeded the rate recorded a year earlier. As a result, the spread between the two rates widened to 155 basis points.

¹⁸ 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 MDB [COVID-19 Guarantee Scheme](#) for further details.

In the capital market, at the end of August, the secondary market yield on ten-year Maltese government bonds was broadly unchanged from its end-July level and stood at 3.73%. It however stood 69 basis points above its year-ago level (see Chart 11). The year-on-year increase reflects the transmission of increases in ECB policy rates to government bond yields.

Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index edged down when compared with end-July, falling by 1.28%. 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	2023	2023		2022	2022	2022	2022	2023	2023	2023	2023	2023	2023	2023	2023
				Q1	Q2	Q3	Q4	Q1	Q2	2022	2022	2022	2022	2023	2023	2023	2023	2023	2023	2023	2023
				Q1	Q2	Q3	Q4	Q1	Q2	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Prices and costs																					
HICP inflation	0.8	0.7	6.1	4.3	5.8	7.1	7.3	7.0	6.3	7.4	7.4	7.2	7.3	6.8	7.0	7.1	6.4	6.3	6.2	5.6	5.0
RPI inflation	0.6	1.5	6.2	4.2	6.0	7.1	7.3	7.0	5.6	7.5	7.5	7.1	7.4	6.9	7.1	7.0	5.8	5.7	5.4	4.7	4.0
Industrial producer price inflation	0.3	3.2	5.5	6.8	5.4	4.6	5.3	4.0	4.2	4.6	5.7	6.0	4.3	3.3	4.6	4.1	4.6	4.0	4.0	3.8	-
HCI (nominal)	1.8	0.3	-1.4	-1.2	-2.0	-2.3	-0.1	1.4	3.4	-2.0	-0.9	0.0	0.6	1.2	1.2	1.8	3.6	3.3	3.2	5.0	5.5
HCI (real)	1.5	-1.9	-3.6	-3.0	-4.5	-4.6	-2.1	0.3	3.4	-4.3	-3.4	-2.1	-0.8	-0.6	-0.2	1.7	3.2	3.4	3.6	5.0	5.4
Unit labour costs, whole economy ⁽¹⁾	11.1	-4.4	2.3	-5.1	-3.2	-0.6	2.3	3.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee ⁽¹⁾	-0.8	4.4	3.1	4.0	3.3	2.9	3.1	2.8	2.3	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) ⁽¹⁾	-10.6	9.2	0.7	9.5	6.8	3.4	0.7	-0.8	-2.1	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	3.4	5.1	6.7	6.8	7.6	6.3	5.9	6.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																					
Nominal GDP	-6.5	14.5	12.6	11.7	16.0	11.0	11.7	11.0	9.7	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	-8.1	12.3	6.9	8.0	9.9	4.7	5.3	5.0	3.9	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	-10.6	8.3	9.5	10.9	13.3	7.3	7.0	8.1	5.9	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	14.9	6.5	2.3	-0.7	10.9	1.4	-1.7	2.0	-3.8	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	-5.8	12.7	31.2	26.6	21.0	34.6	42.2	-16.7	-18.3	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-1.8	7.5	6.8	9.5	7.1	9.4	1.0	-1.5	2.5	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.5	5.0	10.1	11.2	9.4	14.4	5.2	-5.0	-1.6	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																					
LFS unemployment rate (% of labour force)	4.4	3.4	2.9	2.9	2.9	2.9	2.9	2.9	2.5	2.9	2.9	2.9	2.9	3.0	2.8	2.8	2.6	2.5	2.4	2.5	-
LFS employment	2.6	3.1	5.2	5.3	4.9	5.1	5.5	5.3	4.9	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus registered employed	4.2	2.6	6.1	4.8	5.4	6.2	7.9	8.5	-	6.4	7.4	8.0	8.4	8.6	8.4	8.4	8.2	-	-	-	-
Balance of payments																					
Current account (as a % of GDP) ⁽²⁾	2.2	1.2	-3.0	-0.1	-0.6	-1.9	-3.0	-2.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																					
Maltese residents' deposits and loans																					
Overnight deposits	9.8	12.3	8.1	13.3	13.5	12.7	8.1	3.2	1.2	12.7	11.1	11.6	8.1	6.9	5.7	3.2	2.3	1.5	1.2	0.0	-
Deposits with agreed maturity up to 2 years	-3.3	-4.3	-24.7	-12.3	-16.2	-20.4	-24.7	-11.4	0.3	-20.4	-23.4	-24.9	-24.7	-21.6	-12.3	-11.4	-5.9	-4.6	0.3	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	8.4	6.8	7.0	4.0	3.6	3.6	1.6	1.4	0.9	1.0	0.0	-
Credit to general government	32.3	16.1	7.0	14.6	8.7	12.4	7.0	-1.7	-5.8	12.4	9.8	10.0	7.0	6.9	4.7	-1.7	-5.8	-7.1	-5.8	-5.2	-
Credit to residents (excl. general government)	5.3	5.9	7.8	5.3	6.3	7.4	7.8	8.1	7.5	7.4	7.4	7.2	7.8	7.4	6.9	8.1	8.0	7.7	7.5	7.5	-
Total credit	10.9	8.4	7.5	7.7	6.9	8.7	7.5	5.4	3.9	8.7	8.0	8.0	7.5	7.3	6.3	5.4	4.2	3.7	3.9	4.1	-
Ten-year interest rate (%) ⁽³⁾	0.3	0.7	3.9	1.5	2.7	3.6	3.9	3.5	3.8	3.6	3.5	3.3	3.9	3.6	3.8	3.5	3.6	3.6	3.8	3.8	3.7
Stock prices: Malta Stock Exchange Equity Price Index ⁽⁴⁾	-12.4	-4.5	-9.9	-8.2	1.1	-0.7	-2.2	-0.4	5.9	0.5	0.9	-3.1	0.0	-0.1	2.5	-2.7	2.3	3.4	0.1	1.1	-1.3
General government finances (% of GDP)⁽⁵⁾																					
Surplus (+) / deficit (-) ⁽²⁾	-9.5	-7.7	-5.7	-7.5	-6.4	-5.6	-5.7	-4.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt	52.2	54.0	52.3	55.1	52.7	51.9	52.3	52.4	-	-	-	-	-	-	-	-	-	-	-	-	-

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⁾ GDP data are four-quarter moving sums.