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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 statistical information published in the Economic Survey of this Review is 13 April 2022. However, the cut-off date for monetary and government finance statistics as well as euro area GDP and balance of payments data is extended to 22 April 2022. Figures in tables may not add up due to rounding.

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ABBREVIATIONS

APP	asset purchase programme
BCI	Business Conditions Index
BLS	Bank Lending Survey
CBM	Central Bank of Malta
CIS	credit impact score
COICOP	Classification of Individual Consumption by Purpose
COVID-19	coronavirus disease 2019
CGS	COVID-19 Guarantee Scheme
CPI	consumer price index
ECB	European Central Bank
ESCB	European System of Central Banks
EEI	Employment Expectations Indicator
EER	effective exchange rate
EIB	European Investment Bank
EIBIS	European Investment Bank Group Survey on Investment and Investment Finance
EONIA	Euro OverNight Index Average
ESA	European System of Accounts
ESG	Environmental, Social and Governance
ESI	economic sentiment indicator
EU	European Union
EUI	Economic Uncertainty Indicator
EURIBOR	Euro Interbank Offered Rate
€STR	euro short-term rate
FCI	Financial Conditions Index
FOMC	Federal Open Market Committee
GDP	gross domestic product
GFCF	gross fixed capital formation
GVA	gross value added
HCI	harmonised competitiveness indicator
HICP	Harmonised Index of Consumer Prices
ICT	information and communications technology
ILO	International Labour Organization
LFS	Labour Force Survey
LMP	labour market policy
MDB	Malta Development Bank
MFI	monetary financial institution
MGS	Malta Government Stocks
MIA	Malta International Airport
MPC	monetary policy committee
MRO	main refinancing operation
MSE	Malta Stock Exchange
NAIRU	non-accelerating inflation rate of unemployment
NEIG	non-energy industrial goods
NFC	non-financial corporation
NPISH	non-profit institutions serving households
NPL	non-performing loan
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
PEPP	pandemic emergency purchase programme
PPI	Property Price Index
RPI	Retail Price Index
SURE	Support to mitigate Unemployment Risks in an Emergency
UCA	Urban Conservation Areas
ULC	unit labour cost
UK	United Kingdom
US	United States
VAT	value added tax
WGI	Worldwide Governance Indicators

FOREWORD

During the fourth quarter of 2021, annual real gross domestic product (GDP) growth remained robust, standing at 10.0%, as activity continued to recover from the impact of COVID-19. By the end of the year, the GDP exceeded slightly the level that prevailed in the corresponding quarter of 2019. Domestic demand was the main driver behind year-on-year GDP growth as the contribution of net exports, while positive, was marginal. However, when data are adjusted for the import content of the various GDP components, growth was led by exports, with a moderately lower contribution from domestic demand components.

Potential output growth is estimated to have stood at 4.3% in the fourth quarter of 2021, up from 3.8% in the previous quarter. The output gap is estimated to have remained negative but narrowed to -0.4% when measured as a 4-quarter moving average, from the -1.7% estimated by the Bank for the third quarter. This indicates that while there is still some degree of underutilisation of the economy's productive capacity especially in tourism and entertainment-related sectors, the economy is gradually approaching normal levels of activity.

Meanwhile, the Bank's Business Conditions Index (BCI) stood above its average historical level in the fourth quarter of 2021. It continued to be affected by strong annual increases in several sub-components particularly in tourist arrivals, economic sentiment and GDP, as well as by significant falls in unemployment. This reflects the fact that in the fourth quarter of 2020 most economic variables were still being adversely affected by the COVID-19 pandemic and thus at low levels from a historical perspective.

Developments in the labour market remained positive and indeed, employment remained above pre-pandemic levels. At the same time, activity rates rose further in the fourth quarter. The unemployment rate continued to decline and remained well below that in the euro area.

Inflation picked up during the quarter under review. The annual rate of change of the the Harmonised Index of Consumer Prices (HICP) stood at 2.6% in December, well above the 0.7% observed in September. All components except energy prices registered faster growth, although services inflation was the main driver behind the increase in inflation. Annual inflation based on the Retail Price Index (RPI), which only takes into account purchases made by Maltese households, rose from 2.2% in September to 2.6% in December. Meanwhile, annual inflation based on the industrial producer price index reached 7.4% in December from 5.5% in September. Malta's unit labour cost (ULC) index, measured on a 4-quarter moving average basis, declined by 2.1% in the fourth quarter as productivity rebounded more strongly than compensation per employee. Malta's harmonised competitiveness indicators (HCIs) improved between September and December 2021.

In the fourth quarter of 2021, the current account turned into a deficit from a surplus a year earlier. This was mainly due to a significant increase in the merchandise trade deficit. An increase in net outflows on the primary income account also contributed but to a much lesser extent. By contrast net services receipts increased and net outflows on the secondary income account decreased. When measured over four quarters, the current account balance showed a deficit equivalent to 5.9% of GDP.

During the quarter under review, the general government deficit widened when compared to that recorded in the corresponding period of 2020. On a 4-quarter moving sum basis, the general

government balance registered a deficit of 8.0% of GDP in the fourth quarter of 2021, somewhat lower than the level of 8.1% registered in the preceding quarter. The general government debt-to-GDP ratio however, increased to 57.0% from 56.6% at end-September.

In December, Maltese residents' deposits with monetary financial institutions (MFIs) in Malta continued to expand at a strong pace. The shift to overnight deposits persisted in an environment of low interest rates and a continued preference for liquidity. Credit to Maltese residents continued to grow, reflecting increased lending to both general government and other sectors. According to the Bank's Financial Conditions Index (FCI), in the fourth quarter of 2021 financial conditions remained favourable from a historical perspective and loosened compared to the previous quarter.

In December, the weighted average deposit rate offered to households and non-financial corporations (NFCs) in Malta was down by four basis points on a year earlier, standing at 0.16%. The weighted average lending rate paid by households and NFCs to resident MFIs fell by 13 basis points, to 3.23% over the same period. Thus, the spread between the two narrowed.

Meanwhile, the primary market yield on Treasury bills fell marginally from that prevailing at the end of September. The secondary market yields on 5-year and 10-year Malta Government Stocks (MGS) increased between September and December while domestic share prices rose over this period.

During the fourth quarter, loans subject to a moratorium continued to decline from already low levels. As at end-December, there were only seven loans subject to a moratorium on loan repayments with a value of €14.1 million, with all such loans held by NFCs. This is equivalent to 0.1% of total loans outstanding to Maltese residents.

By end-December, 654 facilities were approved under the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS), covering total sanctioned lending of €505.9 million. As the scheme provides guarantees on loans for working capital and loan repayment purposes, the amounts disbursed may fall short of those sanctioned. In fact, €453.0 million were disbursed by the end of 2021. Hence, by end-December, 65.0% of the scheme's target size was sanctioned while 58.2% was disbursed.

The Governing Council of the European Central Bank (ECB) maintained an accommodative monetary policy stance during the fourth quarter of 2021. The ECB's key interest rates were held unchanged.

During its December meeting, the Governing Council stated that the progress in economic recovery and in reaching its medium-term inflation objective permitted a step-by-step reduction in the pace of its asset purchases over the coming quarters. It also considered that, given progress towards the medium-term inflation target and an improving outlook for activity, favourable financing conditions could be maintained with a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) in the first quarter of 2022. Furthermore, such purchases would cease at the end of March 2022.

The Governing Council also decided on a monthly net purchase pace under the asset purchase programme (APP) of €40 billion in the second quarter of 2022, €30 billion in the third quarter

of 2022 and €20 billion from October 2022 onwards, for as long as necessary to reinforce the accommodative impact of its policy rates.

The reinvestment period for the principal payments from maturing securities purchased under the PEPP was extended until at least the end of 2024. The Governing Council also confirmed that the reinvestment of maturing principal amounts under the APP would continue for an extended period of time after it began to raise the key ECB interest rates and, in any case, for as long as necessary to maintain favourable liquidity conditions and ample monetary policy accommodation. The monetary stance was reviewed in March and April 2022 in view of a further increase in inflation during the first months of this year and further inflationary pressures expected to arise as a result of the war in Ukraine. In particular, in March the Governing Council revised down the pace of net asset purchases planned for the second quarter of the year under the APP. Furthermore, if incoming data supported the expectation that the inflation outlook would not weaken even after the end of net asset purchases, net APP purchases could end in the third quarter. The Council also stated that any adjustments to interest rates would take place some time after the end of net purchases under this programme and would be gradual.

In April, the Council judged that incoming data reinforced its expectation that APP purchases should end in the third quarter, as inflationary pressures had continued to broaden. At the same time, given the high uncertainty, it emphasized again the need for optionality, gradualism and flexibility in the conduct of monetary policy.

ECONOMIC SURVEY

1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

In the fourth quarter of 2021 real GDP grew at a faster pace in the United States and the United Kingdom while growth in the euro area slowed down. During the quarter, unemployment fell but remained above pre-pandemic levels in the United States and the United Kingdom.

Inflationary pressures rose markedly in all the three economies. Annual consumer price inflation in the United States reached 7.0% in December, up from 5.4% in September. Meanwhile, in the United Kingdom inflation stood at 5.4%, up from 3.1% in September. In the euro area, inflation rose to 5.0% from 3.4% in September. During the quarter under review, the Federal Reserve and the ECB kept their key interest rates unchanged. The Bank of England however, raised its Bank Rate in December. The Federal Reserve began to scale down the pace of its asset purchases, while the Bank of England announced that such reductions were expected in 2022.

Brent oil prices rose above USD 80 per barrel in early October and remained at this elevated level for most of November, amid signs of global economic recovery and the substitution from gas to oil due to high gas prices. Thereafter, following news of the Omicron variant and uncertainty about the strength of the global recovery, oil prices returned on a downward path. Meanwhile, non-energy commodity prices also rose during the quarter under review.

Key advanced economies

US economy grows at a faster pace

In the final quarter of 2021, the US economy grew at a faster pace with real GDP increasing by 1.7% in quarter-on-quarter terms, following a rise of 0.6% in the third quarter (see Table 1.1). Gross private domestic investment grew at a significantly faster pace compared with the preceding quarter while personal consumption growth edged up marginally. On the other hand, government expenditure, which had increased marginally during the third quarter, declined during the last quarter of 2021. The trade deficit widened further as imports outpaced exports in level terms. In the fourth quarter of 2021, the GDP level stood more than 3.0% above its level in the last quarter of 2019, which is the one before the start of the pandemic.

In the labour market, the participation rate averaged 61.8% in the fourth quarter, slightly above the rate of 61.7% registered in the previous quarter. It thus remained below its pre-pandemic level of

Table 1.1
REAL GDP GROWTH IN SELECTED ADVANCED ECONOMIES

Quarter-on-quarter percentage changes; seasonally and working day adjusted

	2019		2020			2021			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	0.5	-1.3	-8.9	7.5	1.1	1.5	1.6	0.6	1.7
Euro area	-0.1	-3.5	-11.6	12.6	-0.3	-0.1	2.2	2.3	0.3
United Kingdom	0.0	-2.5	-19.4	17.6	1.5	-1.2	5.6	0.9	1.3

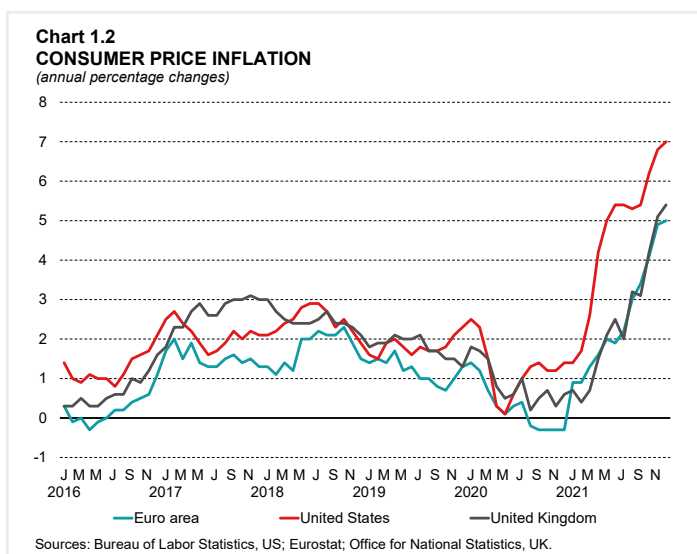
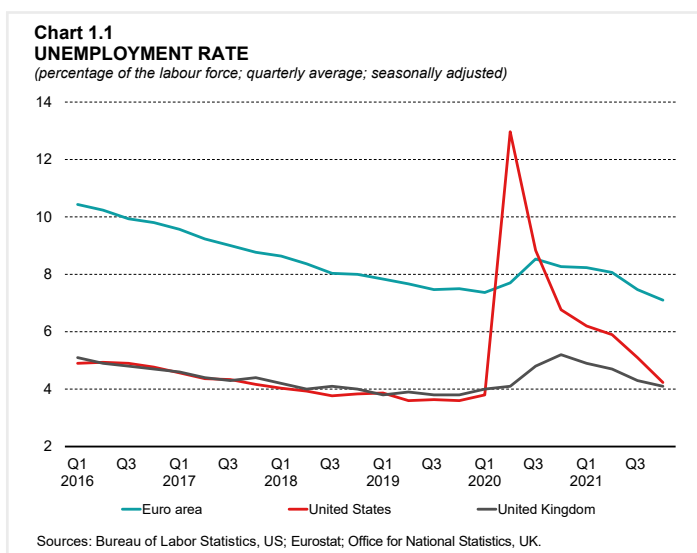
Sources: Bureau of Economic Analysis, US; Eurostat; Office for National Statistics, UK.

around 63.0%. Meanwhile, employment increased by 1.3% in quarter-on-quarter terms, following a 1.2% increase during the third quarter. Compared to the fourth quarter of 2019, there were 2.1% fewer people in employment.

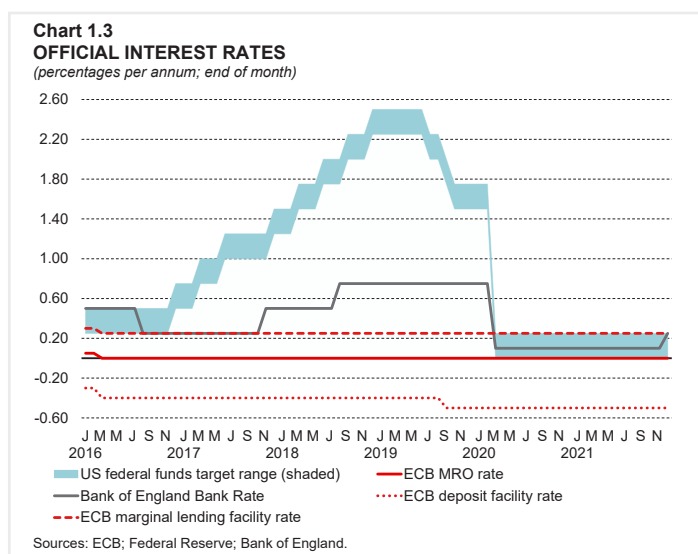
Non-farm payroll data suggest that compared with the preceding quarter, the rate of job creation increased in construction. Moderately faster growth in employment was also recorded in the financial, professional and business services sectors and in health and education. However, slower growth in employment was recorded in the leisure and hospitality sector, the information sector, the mining and logging sector and the public sector. The average unemployment rate declined further to 4.2%, from 5.1% in the preceding quarter but was still higher than pre-pandemic rates (see Chart 1.1).

Inflationary pressures continued to build, with the annual inflation based on the consumer price index (CPI) reaching 7.0% in December, up from 5.4% in September (see Chart 1.2). Energy inflation increased from 24.8% in September to 29.3% in December. Food price inflation also rose – from 4.5% to 6.0%. Prices of commodities excluding food and energy as well as those of services also increased at a faster rate. Inflation excluding food and energy reached 5.5% in December, from 4.0% three months earlier.

During the fourth quarter of 2021, the Federal Open Market Committee (FOMC) reiterated its commitment to use its full range of tools to support the economy in this challenging time thereby promoting its maximum employment and price stability goals. The target range for the federal funds rate was kept unchanged in a range between 0.00% and 0.25% (see Chart 1.3). In December, the FOMC said that with inflation having exceeded 2.0% for some time, the Committee expected that it will be appropriate to maintain an unchanged target range until labour market conditions have reached levels consistent with the Committee’s assessments of maximum employment.



As inflationary pressures rose and conditions in the labour market improved, in December, the Committee also decided to reduce the monthly pace of its net asset purchases by USD 20 billion for Treasury securities and by USD 10 billion for agency mortgage-backed securities, adding that similar reductions in the pace of net asset purchases would likely be appropriate each month, but was prepared to adjust the pace of purchases if warranted by changes in the economic outlook.¹



The Committee also stated that in assessing the appropriate stance of monetary policy, it will continue to monitor a wide range of information and its implications for the economic outlook, with the monetary policy stance adjusted as needed if risks emerge that could impede the attainment of its goals.

UK economic activity picks up

Following the deceleration in the previous quarter, real GDP in the United Kingdom grew at a stronger pace during the fourth quarter. It rose at a quarterly rate of 1.3% after rising by 0.9% in the third quarter (see Table 1.1). Growth in government consumption turned again positive and gross fixed capital formation rose at a faster pace. Meanwhile, the contribution of net trade turned positive. On the other hand, household expenditure increased at a slower pace. The GDP level stood broadly equal to its level at the end of 2019.

After having risen in the preceding three quarters, in the fourth quarter employment fell by 0.1% on a quarterly basis. The annual rate of change, however, rose to 1.0%, from 0.5% in the third quarter. The employment level was still around 1.4% below its pre-pandemic level. Meanwhile, the unemployment rate averaged 4.1% in the quarter under review, down from 4.3% in the previous quarter. Notwithstanding this recent decline, the unemployment rate was still 0.3 percentage point above that prevailing in the last quarter of 2019 (see Chart 1.1).

Consumer price inflation in the United Kingdom edged up further to 5.4% in December, from 3.1% in September (see Chart 1.2). The acceleration in energy price inflation, to 24.5% in December from 9.5% in September, was the main reason behind the increase in CPI inflation. Meanwhile, food prices, prices of non-energy industrial goods (NEIG) and those of services all grew at a

¹ This decision was confirmed in January 2022, when the Committee also announced that net asset purchases will end in early March 2022. The Committee also noted that given the high inflation rate and a strong labour market, it expected that the target range for the federal funds rate would increase soon. In March, the FOMC added that the implications for the US economy following Russia's invasion of Ukraine were highly uncertain, but in the near term the invasion and related events would likely create additional upward pressure on inflation and weigh on economic activity. It thus decided to raise the target range for the federal funds rate to between 0.25% and 0.50% and anticipated that ongoing increases in the target range will be appropriate. In addition, the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

faster pace. The annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco increased to 4.2% in December, from 2.9% in September.

In its meeting held in November, the Bank of England kept the Bank Rate unchanged, but in December the Monetary Policy Committee (MPC) increased this rate by 0.15 percentage point to 0.25%, amid signs of greater persistence in domestic cost and price pressures and further tightening in the labour market. The Committee maintained the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 20 billion. The Committee also agreed to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 875 billion, and the target for the total stock of asset purchases at GBP 895 billion.

The Committee said that it will continue to focus on the medium-term prospects for inflation and noted that some modest tightening of monetary policy is likely to be necessary to meet the 2.0% inflation target sustainably.²

The euro area

GDP growth in the euro area slows down

After two quarters of rapid economic expansion, GDP in the euro area grew at a more modest rate in the fourth quarter of 2021. In real terms, GDP grew by 0.3% on a quarter-on-quarter basis, from 2.3% in the third quarter (see Table 1.2). In the last quarter of 2021, gross value added (GVA) in some services sub-sectors declined, following new containment measures amid the resurgence in COVID-19 cases, whereas output in the industrial sector excluding construction increased marginally further.

Table 1.2

CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA⁽¹⁾

Percentage points; quarter-on-quarter percentage change

	2019		2020				2021			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Private consumption	0.1	-2.3	-6.7	7.4	-1.6	-1.2	1.9	2.2	-0.2	
Government consumption	0.0	0.0	-0.6	1.3	0.1	-0.1	0.5	0.1	0.1	
GFCF	2.0	-1.0	-4.6	3.0	0.5	0.0	0.3	-0.2	0.7	
Changes in inventories ⁽²⁾	-0.2	0.3	-0.1	-1.4	0.4	1.1	-0.5	-0.1	0.2	
Exports	-0.1	-1.7	-9.0	7.3	2.0	0.6	1.3	0.9	1.4	
Imports	-2.0	1.3	9.4	-4.9	-1.9	-0.5	-1.4	-0.6	-2.0	
GDP	-0.1	-3.5	-11.6	12.6	-0.3	-0.1	2.2	2.3	0.3	

Source: Eurostat.

⁽¹⁾ Data are seasonally and working day adjusted. Figures may not add up due to rounding.

⁽²⁾ Including acquisitions less disposals of valuables.

² In its meeting held in February 2022, the MPC increased the Bank Rate by 0.25 percentage point to 0.50%. The Committee also decided to begin reducing the stock of UK government bond purchases, and the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, by stopping reinvestments. Furthermore, in the case of corporate bonds, a sales programme is expected to be completed no earlier than towards the end of 2023, with a view to fully unwind the stock of these purchases. In March, the Bank Rate was increased by an additional 0.25 percentage point, to 0.75% amid continuing signs of rising domestic cost and price pressures.

The modest expansion in economic activity during the quarter under review was entirely driven by domestic demand, which contributed 0.9 percentage point to GDP growth. In turn, this mostly stemmed from gross fixed capital formation, which contributed 0.7 percentage point to GDP growth, as a result of higher investment in construction and in machinery and transport equipment. This was followed by changes in inventories and government consumption, which pushed GDP growth up by 0.2 and 0.1 percentage points, respectively. On the other hand, private consumption fell compared with the previous quarter, lowering GDP growth by 0.2 percentage point. Weaker household spending reflected a resurgence of the pandemic and the reintroduction of some containment measures, while rising inflation also eroded real disposable income. Meanwhile, net exports lowered GDP growth by 0.6 percentage point, as the negative contribution of imports outweighed the positive contribution of exports.

Labour market conditions continue to improve

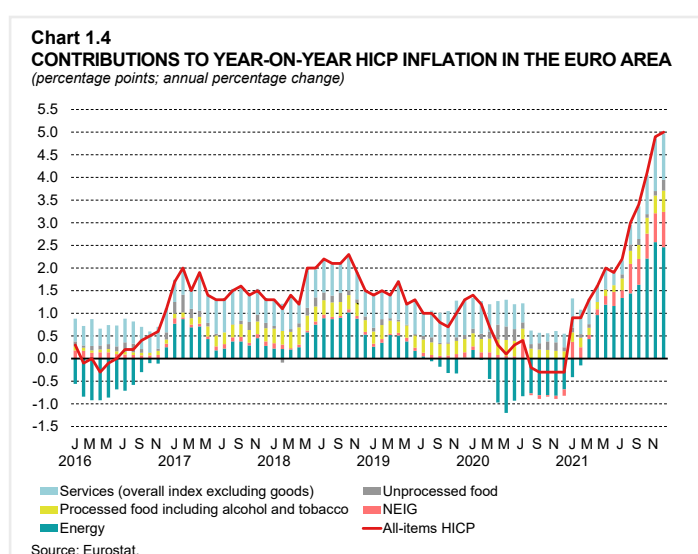
Labour market conditions in the euro area improved further during the quarter under review. The seasonally adjusted unemployment rate fell by 0.3 percentage point between September and December 2021, to 7.0%. Similarly, the 3-month average rate declined by 0.4 percentage point to 7.1% (see Chart 1.1).

Turning to employment, the annual growth rate stood at 2.1% during the fourth quarter of 2021, unchanged from the previous quarter.³ The number of people in employment surpassed its pre-pandemic levels during the quarter under review. Employment was still supported by job retention schemes aimed at preventing redundancies in response to the outbreak of the pandemic.

Inflation surges further

The significant increases in inflation in the euro area that had started in the third quarter of 2021 intensified in the fourth quarter, reaching levels that had not been seen since July 1991. The annual rate of inflation based on the HICP stood at 5.0% in December 2021, compared to 3.4% in September 2021 (see Chart 1.4). This implies that the rate of inflation in December more than doubled since July. This high inflation primarily resulted from higher energy costs. Moreover, recovering demand continued to outpace supply in certain sectors, mostly in the durable goods and high-contact services sectors that were reopened.

All major HICP components pushed inflation up during the fourth quarter. However, more than half of the increase in HICP inflation stemmed from energy inflation, which rose from 17.6% in September to 25.9% by the end of the year. This reflected a sharp increase in prices of fuels, gas and electricity. In terms of contributions to overall inflation, this was followed by services inflation



³ Employment data refer to the national accounts, total employment domestic concept. Data are seasonally and calendar adjusted.

which rose from 1.7% to 2.4% over the same period, as the services sector continued to recuperate. Similarly, the contribution of NEIG prices also increased, with the annual rate of change rising from 2.1% in September to 2.9% in December. Lastly, albeit to a lower extent, food prices also contributed positively to inflation, reflecting seasonal factors and higher input costs, including fertiliser and transport. Thus, the annual growth rate of processed food rose to 2.8% in December, while that of unprocessed food increased to 4.7%.

Consequently, the annual rate of HICP inflation excluding energy and food rose to 2.6% in December 2021 compared with 1.9% three months earlier.

ECB revises projections for economic activity down and inflation up

According to the ECB staff macroeconomic projections published in March 2022, the outlook for euro area activity and inflation has become very uncertain. The evolution of the Russian invasion in Ukraine, the impact of sanctions and of possible additional measures will be key factors shaping economic developments in the euro area over the projection horizon.⁴

Real GDP in the euro area is expected to expand by 3.7% in 2022, with growth then moderating to 2.8% and 1.6% in 2023 and 2024, respectively (see Table 1.3). In the near term, domestic demand will be held back by the steep increase in energy prices and negative confidence effects. In addition, the announced sanctions and sharp deterioration in the prospects for the Russian economy will weaken prospects for euro area trade. The baseline projections assume that disruptions to energy supplies and negative impacts on confidence linked to the conflict are temporary and that the conflict does not disrupt global supply chains significantly. Consequently, the conflict will have a significant adverse impact on euro area growth in 2022. Nevertheless, the projections envisage relatively strong growth in the coming quarters, given the robust performance of the labour market in the euro area and the fact that adverse effects related to the pandemic and supply bottlenecks fade away. Over the medium term, against a backdrop of a tighter fiscal policy stance and higher interest rates, growth is projected to converge towards historical average rates.

Compared with the December 2021 projections, real GDP growth has been revised downwards by 0.5 percentage point for 2022, and by 0.1 percentage point for 2023. The growth projections are unchanged for 2024. The revision for 2022 reflects the impact of the Ukraine crisis on energy

Table 1.3

MACROECONOMIC PROJECTIONS FOR THE EURO AREA⁽¹⁾

Annual percentage changes

	2021	2022	2023	2024
GDP	5.4	3.7	2.8	1.6
Private consumption	3.4	4.6	2.6	0.9
Government consumption	3.8	0.1	0.3	1.1
Gross fixed capital formation	3.5	3.0	3.8	2.5
Exports	10.6	7.8	6.3	3.1
Imports	7.8	7.0	5.8	2.8
HICP	2.6	5.1	2.1	1.9

Source: ECB.

⁽¹⁾ ECB staff macroeconomic projections (March 2022).

⁴ These projections include an initial assessment of the impact of the war on the euro area economy based on the information available up to 2 March 2022.

prices, confidence and trade. This is partly offset by positive effects stemming from a better than expected outcome in 2021.

Turning to the outlook for prices, according to the March 2022 projections, HICP inflation is envisaged to rise significantly to average 5.1% in 2022, before moderating to 2.1% and 1.9% in 2023 and 2024, respectively. The high inflation expected in 2022 follows a series of exceptional energy price shocks and the conflict in Ukraine. Price pressures have built up significantly in the near term, reflecting developments in prices of oil and gas, and are expected to last longer than previously envisaged. These factors are expected to outweigh the dampening effects on demand from lower confidence and from weaker trade growth related to the conflict. In the absence of further upward shocks to commodity prices, however, energy inflation is projected to drop significantly over the projection horizon.

Compared with the December 2021 projections, HICP inflation has been revised upwards by 1.9 percentage points for 2022, by 0.3 percentage point for 2023 and by 0.1 percentage point for 2024. The upward revision for 2022 reflects the fact that recent outcomes exceeded expectations, higher energy commodity prices, more persistent upward pressures from supply disruptions and stronger wage growth. Moreover, survey-based indicators of medium-term inflation expectations have also risen to levels consistent with the ECB's inflation target.

In view of the significant uncertainty related to the impact of the conflict in Ukraine on the euro area economy, ECB staff have prepared two alternative scenarios for the euro area. An adverse scenario assumes that stricter sanctions are imposed on Russia, leading to some disruptions in global value chains. Persistent cuts in Russian gas supplies would lead to higher energy costs and to temporary production cuts in the euro area. In addition, prolonged geopolitical tensions would lead to additional financial disruptions and more persistent uncertainty. Under this scenario, euro area GDP growth would be 2.5% and inflation 5.9% in 2022. Effects on 2023 would be limited. In 2024, growth would be somewhat stronger than the baseline, at 2.1%, as the economy catches up after the larger negative impact on economic activity in the previous two years. In this scenario, inflation would fall to 1.6% by 2024, as the earlier increases in energy prices would gradually unwind.

A more severe scenario includes – besides the features of the adverse scenario – an even stronger reaction of energy prices to more stringent cuts in supply, and a larger adverse impact in financial markets. In addition, the rise in energy prices would have more substantial effects on other prices and wages. In this scenario, real GDP growth would stand at 2.3% in both 2022 and 2023. It would then slow further to 1.9% in 2024, as the disruptions triggered by the war would be more persistent. Inflation would climb to 7.1% in 2022, before moderating to 2.7% and 1.9% over the remainder of the forecast horizon.

ECB announces changes to its monetary policy stance

The ECB's Governing Council maintained an accommodative monetary policy stance during the fourth quarter of 2021. The interest rates on the main refinancing operations (MROs), on the marginal lending facility and on the deposit facility were held unchanged at 0.00%, 0.25%, and -0.50%, respectively during the period under review (see Chart 1.3).

During its December meeting, the Governing Council stated that the progress on economic recovery and towards its medium-term inflation target permitted a step-by-step reduction in the pace

of its asset purchases over the coming quarters. However, monetary accommodation was still needed for inflation to stabilise at the 2% inflation target over the medium term. In addition, the Governing Council said that it needed to maintain flexibility and optionality in the conduct of monetary policy.

It also considered that, given progress towards the medium-term inflation target and an improving outlook for activity, favourable financing conditions could be maintained with a moderately lower pace of net asset purchases under the PEPP in the first quarter of 2022. Furthermore, such purchases would cease at the end of March 2022.

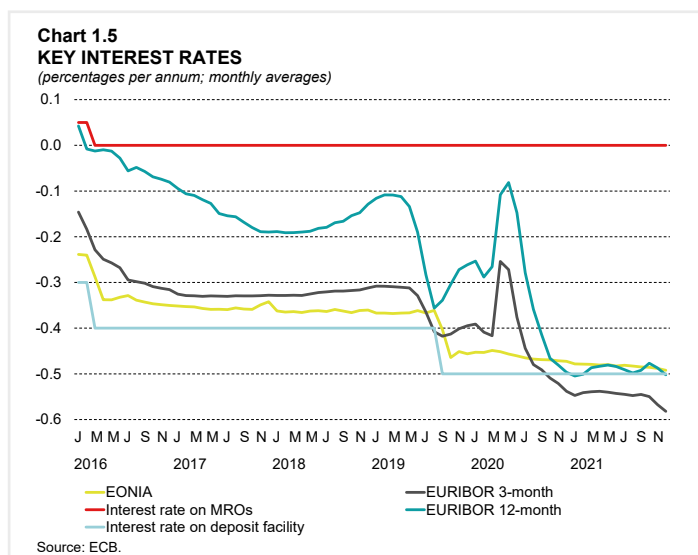
At the same time, it decided on a monthly net purchase pace under the APP of €40 billion in the second quarter of 2022, €30 billion in the third quarter of 2022, and €20 billion from October 2022 onwards, for as long as necessary to reinforce the accommodative impact of its policy rates.

The Governing Council also extended the reinvestment period for the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. In any case, it announced that the future roll-off of the PEPP portfolio would be managed to avoid interference with the appropriate monetary policy stance. The Governing Council also confirmed that the reinvestment of maturing principal amounts under the APP would continue for an extended period of time after it began to raise the key ECB interest rates and, in any case, for as long as necessary to maintain favourable liquidity conditions and ample monetary policy accommodation.

Finally, the Governing Council would continue to monitor bank funding conditions and the contribution of targeted lending operations to the monetary policy stance.⁵

Money market rates broadly unchanged

Money market interest rates in the euro area remained broadly unchanged during the quarter under review as the market remained conditioned by the ECB's accommodative monetary policy stance and ample excess liquidity. The Euro Overnight Index Average (EONIA) rate remained unchanged at -0.49% during the fourth quarter, remaining slightly above the interest rate on the ECB's deposit facility (see Chart 1.5).⁶



⁵ In March 2022, the Governing Council revised down the pace of net asset purchases planned for the second quarter of the year under the APP. Furthermore, if incoming data supported the expectation that the inflation outlook would not weaken even after the end of net asset purchases, net APP purchases could end in the third quarter. The Council also stated that any adjustments to interest rates would take place some time after the end of net purchases under this programme and would be gradual.

⁶ The EONIA is a measure of the effective interest rate prevailing in the euro overnight market. Until 30 September 2019, it was measured as the weighted average of the interest rates on unsecured interbank overnight lending transactions, in euro, as reported by a panel of contributing banks. As of 2 October 2019, and until its discontinuation on 3 January 2022, the EONIA was calculated as the euro short-term rate (€STR) plus a fixed spread of 8.5 basis points. The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area.

See: https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/index.en.html

On the other hand, the 3-month euro interbank offered rate (EURIBOR) edged down to -0.58% from -0.55%, while the 12-month EURIBOR rate decreased marginally from -0.49% in September to -0.50% in December.⁷

Euro area bond yields increase

Ten-year benchmark government bond yields in the euro area increased during the fourth quarter of 2021, rising from 0.20% in September to 0.28% three months later. This

is in line with rising inflation expectations, although the accommodative monetary policy stance of the ECB and the spread of the Omicron variant of the coronavirus dampened upward pressure on yields.

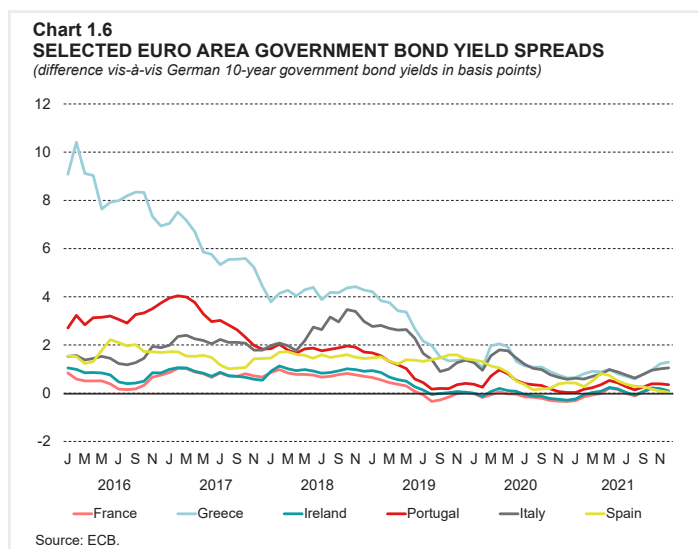
Individual sovereign bond yields generally increased during the period under review. The most notable increases were registered in Greek bond yields, which gained 49 basis points to 1.29% and those on Cypriot bond yields, which edged up by 41 basis points to 1.29%. In contrast, German bond yields declined by 2 basis points to -0.38%.

Consequently, all spreads between yields on 10-year German bonds and those on bonds issued by other euro area governments widened during the review period (see Chart 1.6). In particular, spreads on Greek bonds widened by 51 basis points, followed by those on Cypriot and Italian bonds, which increased by 43 basis points and 29 basis points, respectively.

Euro exchange rate depreciates in effective terms

At the end of December, the nominal effective exchange rate (EER) of the euro against the EER-19 group of countries depreciated by 2.1% compared with the end of September.⁸ Divergence between the monetary policy stance of the ECB and that of other major central banks was the main driver of movements in the euro during the period under review. Heightened risks from the faster spread of the Omicron variant of COVID-19 in Europe compared to other regions also weakened the euro by supporting safe haven currencies.

Over this period, the euro lost ground by 2.2% against the US dollar, continuing its recent downward trend. This reflected the further widening of the short-term interest rate differential between the euro area and the United States. The latter was driven by the faster rebound in economic activity and higher inflation in the United States that led market players to expect a stronger tightening



⁷ The EURIBOR is an interest rate benchmark indicating the average rate at which principal European banks lend unsecured funds on the interbank market in euro for a given period.

⁸ The EER-19 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

of US monetary policy (see Chart 1.7). Similarly, the euro depreciated by 2.4% against the British pound. During the review period, the euro also lost ground significantly against the Chinese yuan renminbi, Swiss franc, Hong Kong dollar, Korean won and the Canadian dollar. On the other hand, the euro appreciated against some currencies of non-euro area EU member states, notably the Hungarian forint.

Commodities

Oil prices rise above USD 80 per barrel amid volatility

During the first week of October, the price of oil rose above USD 80 per barrel, a level last reached in 2018. Oil prices remained at this elevated level until the third week of November amid the ongoing global economic recovery and increased substitution towards oil from natural gas due to relatively stronger increases in gas prices. Thereafter, following the emergence of the Omicron variant, oil prices returned on a downward path amid increasing doubts about the strength of the global recovery in demand. Nevertheless, at USD 78.6 per barrel, the price of Brent crude oil ended the fourth quarter 1.1% above the level prevailing at the end of the third quarter (see Chart 1.8).

World Bank data show that non-energy commodity prices rose by 5.2% during the fourth quarter of 2021, largely reflecting higher prices for fertilisers and other agricultural products.

Chart 1.7
EXCHANGE RATE MOVEMENTS OF THE EURO AGAINST OTHER MAJOR CURRENCIES
(index of end of month rates; Jan. 2016=100; an increase in the index implies euro appreciation)

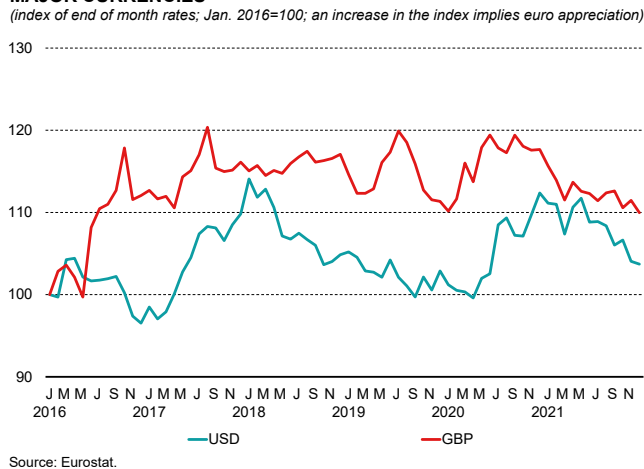
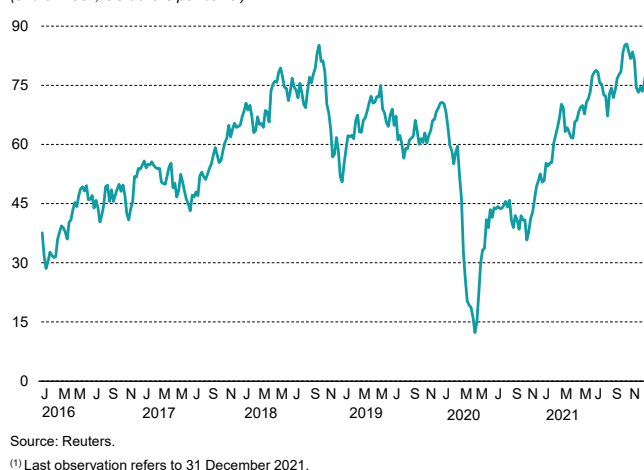


Chart 1.8
PRICE OF BRENT CRUDE OIL⁽¹⁾
(end of week; US dollars per barrel)



2. OUTPUT AND EMPLOYMENT

Annual real GDP growth remained robust, standing at 10.0%, as activity continued to recover from the impact of COVID-19. Indeed, the GDP level was 1.2% above the level that prevailed in the corresponding quarter of 2019.

Domestic demand was the main driver behind GDP growth in the quarter under review as the contribution of net exports, while positive, was marginal. Sector data show that the expansion was primarily driven by the services sector, especially the sector comprising wholesale and retail trade, transportation, accommodation and related activities. Nevertheless, this sector has not fully recovered from the impact of the pandemic, with its GVA standing almost 6.0% lower than its level in the fourth quarter of 2019. GVA in the construction sector also rose when compared with the fourth quarter of 2020 while supply bottlenecks constrained activity in the manufacturing sector, whose contribution to GDP growth turned slightly negative in the quarter under review.

During the fourth quarter of 2021, the developments in the labour market remained positive and indeed, employment remained above pre-pandemic levels. At the same time, activity rates rose further. The unemployment rate continued to decline and remained well below that in the euro area.

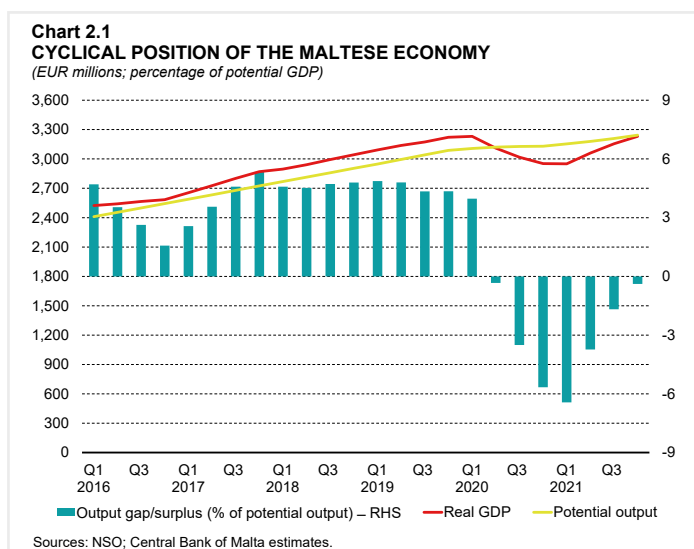
Employment increased on an annual basis as it continued to benefit from the ongoing normalisation of economic activity in the context of a tight labour market, although Government measures – such as the Wage Supplement Scheme – also provided some support to employment.

Potential output and Business Conditions Index

Potential output grows at a slightly faster pace

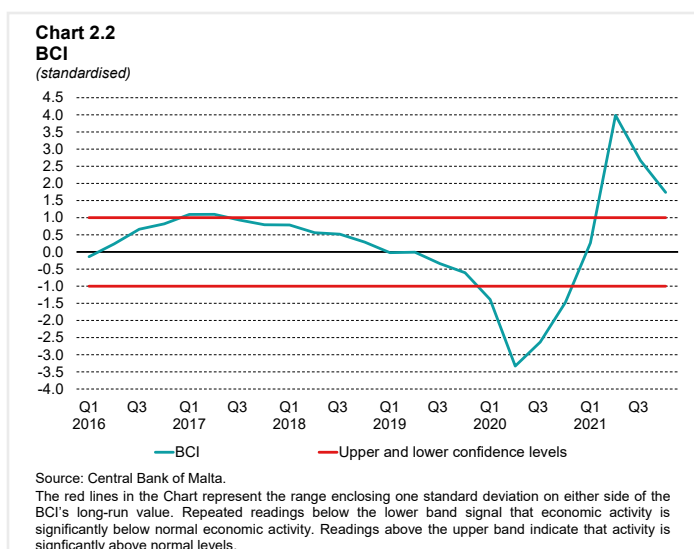
Potential output growth is estimated to have stood at 4.3% in the fourth quarter of 2021, up from 3.8% in the previous quarter (see Chart 2.1). As GDP grew by 10.0% in annual terms, the output gap, while still negative, narrowed. It stood at -0.4% when measured as a 4-quarter moving average, up from -1.7% estimated for the previous quarter.

This implies that while there is still some degree of under-utilisation of the economy's productive capacity, especially in tourism and entertainment-related sectors, the economy is gradually approaching normal levels of activity.



Business Conditions Index declines but continues to signal strong growth

In the fourth quarter of 2021, the Bank's BCI stood above its average historical level (see Chart 2.2).¹ During the quarter under review, the BCI was affected by strong annual increases in several sub-components particularly in tourist arrivals, economic sentiment and GDP, as well as by significant falls in unemployment.² This reflects the fact that in the fourth quarter of 2020 most economic variables were still being adversely affected by the COVID-19 pandemic and thus at low levels from a historical perspective.

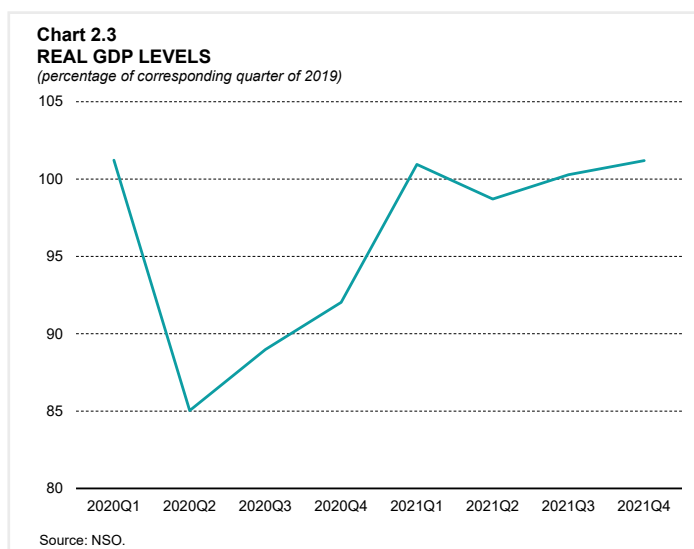


At the same time, the BCI decreased from its recent peak indicating that annual growth in business activity has receded from its historical highs registered in the first half of 2021. The BCI thus implies that while still strong, growth rates are beginning to normalise.

Gross domestic product and industrial production

Real GDP grows strongly, exceeding pre-pandemic levels

Real GDP rose by an annual 10.0% in the fourth quarter of the year, following an increase of 12.7% in the preceding quarter.³ This strong increase in growth on an annual basis partly reflects the relatively low activity levels recorded in the fourth quarter of 2020. The GDP level closed the quarter under review 1.2% above its level in the fourth quarter of 2019, i.e. before COVID-19 began to affect economic activity (see Chart 2.3).

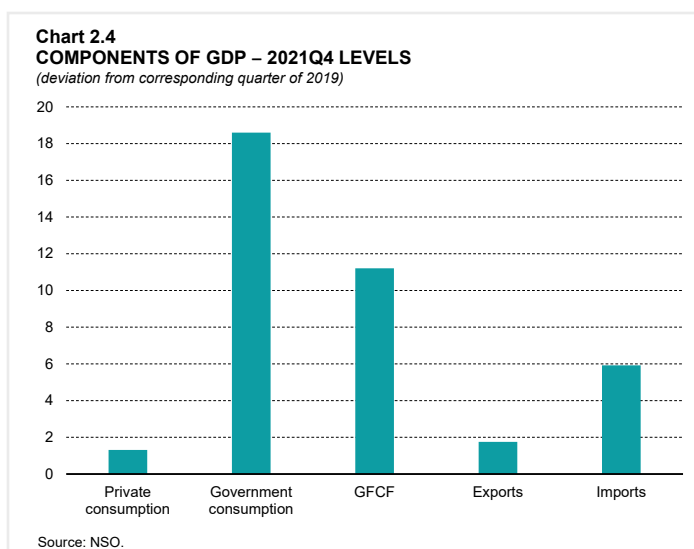


¹ The BCI is a synthetic indicator, which includes information from a number of economic variables such as the term structure of interest rates, industrial production, an indicator for the services sector, economic sentiment, tax revenues and private sector credit. By construction, it has an average value of zero over the estimation period since 2000. A full time series can be found at <https://www.centralbankmalta.org/business-conditions-index>. For further details on the methodology underlying the BCI, see Ellul, R., (2016), "A real-time measure of business conditions in Malta," *Working Paper* 05/2016, Central Bank of Malta.

² Additional information on the interpretation of the BCI is available in the January 2020 edition of the Bank's *Economic Update*.

³ The analysis of GDP in this chapter of the *Quarterly Review* is based on data published in NSO *News Release* 037/2022, which was published on 1 March 2022.

During the quarter under review, all expenditure items exceeded pre-pandemic levels, with government consumption recording the largest positive gap (see Chart 2.4). The level of government consumption stood almost a fifth above the level that prevailed in the fourth quarter of 2019, partly as a result of treatment and vaccination for COVID-19.



Gross fixed capital formation (GFCF) also stood strongly above its pre-pandemic level, exceeding it by 11.2%. This was driven by a recovery in investment following the postponement of investment plans that were suspended in 2020 as well as extraordinary investment in the aviation sector.

Private consumption exceeded its pre-pandemic level by 1.3%. The more modest recovery in private consumption compared to other domestic demand components reflects the fact that travel and expenditure on related services – such as transport services – had not yet fully recovered from the pandemic shock. By contrast, the expenditure of residents in Malta stood above its pre-pandemic level by almost 4.0%.

Exports exceeded the 2019 level by 1.8%, reflecting improved services exports. On the other hand, imports stood 5.9% over the 2019 level, partly reflecting the aforementioned investment in the aviation sector.

Domestic demand remains the main driver of economic growth

In the fourth quarter of 2021, GDP growth was largely underpinned by strong positive contributions from GFCF and private consumption. As a result, domestic demand added 9.7 percentage points to GDP growth following a contribution of 10.4 percentage points in the previous quarter. Meanwhile, the contribution of net exports was positive but small, as imports grew broadly in line with exports (see Table 2.1).

Private consumption expenditure increased by an annual 8.2% in the fourth quarter of 2021 following a 7.2% increase in the third quarter of the year – adding 3.7 percentage points to real GDP growth.

Data on the Classification of Individual Consumption by Purpose (COICOP) show the increase in consumption was broad based across expenditure categories. The strongest increase in absolute terms was recorded in spending on restaurants and accommodation services. This was followed by higher spending on recreation and culture as well as transport. Expenditure on these items benefitted from the high vaccination rate achieved by the end of the year as well as some easing in restrictions on travel and mobility compared to the last quarter of 2020. These developments offset lower spending on clothing and footwear, and to a lesser extent, on communication services.

Table 2.1
GDP⁽¹⁾

	2020	2021			
	Q4	Q1	Q2	Q3	Q4
	<i>Annual percentage changes</i>				
Private final consumption expenditure	-6.4	-4.8	15.6	7.2	8.2
Government final consumption expenditure	19.3	22.2	-1.2	6.5	-0.6
GFCF	-14.6	-8.0	24.5	32.8	30.2
Domestic demand	-3.3	0.6	11.5	11.8	11.1
Exports of goods and services	-7.1	-2.3	14.5	12.0	9.6
Imports of goods and services	-4.0	-2.1	11.5	11.3	10.3
GDP	-8.0	-0.3	16.1	12.7	10.0
	<i>Percentage point contributions</i>				
Private final consumption expenditure	-2.8	-2.1	6.5	3.3	3.7
Government final consumption expenditure	3.4	4.0	-0.3	1.3	-0.1
GFCF	-3.1	-1.7	5.5	6.4	5.9
Changes in inventories	-0.2	0.3	-1.4	-0.7	0.2
Domestic demand	-2.7	0.5	10.3	10.4	9.7
Exports of goods and services	-10.3	-3.6	22.2	17.6	13.8
Imports of goods and services	5.0	2.8	-16.4	-15.3	-13.6
Net exports	-5.2	-0.8	5.8	2.3	0.2
GDP	-8.0	-0.3	16.1	12.7	10.0

Sources: NSO; Central Bank of Malta calculations.

⁽¹⁾ Chain-linked volumes, reference year 2015.

In the national accounts however, COICOP data measure domestic consumption and thus include the expenditure of non-residents in Malta while excluding the expenditure of Maltese residents abroad. Given that tourist arrivals exceeded last year's levels, certain COICOP categories of expenditure were affected by a statistical base effect, reflecting a significant increase in non-residents' expenditure in Malta. At the same time, the remaining part of domestic consumption – the expenditure of Maltese residents in Malta – also rose compared to the same period a year earlier. Similarly, the expenditure of Maltese residents abroad rose on its year-ago level as trips abroad continued to normalise, although it was still almost a third below its level in the fourth quarter of 2019.

Government consumption expenditure fell marginally, by 0.6% in annual terms, as an increase in compensation of employees was offset by lower outlays on intermediate consumption and social benefits in kind. At the same time, sales revenue – which is netted out from government consumption expenditure – increased slightly. Overall, government consumption shed 0.1 percentage point from annual GDP growth.

Real GFCF rose by almost a third in the fourth quarter of the year, following a similarly strong rate of increase in the previous quarter. The recent rise in GFCF was in large part driven by a significant increase in expenditure on transport equipment and machinery, followed by higher investment in non-residential and residential construction. Investment in intellectual property products also increased on a year earlier. GFCF added 5.9 percentage points to real GDP growth.

Changes in inventories added 0.2 percentage point to real GDP growth in the fourth quarter.

Exports rose by an annual 9.6%, following a 12.0% increase in the preceding quarter, with this increase driven entirely by higher service exports. Meanwhile, imports increased by 10.3%, reflecting an increase in both goods and service imports. As the increase in imports broadly matched that in exports in absolute terms, the contribution of net exports, while positive, was small – at 0.2 percentage point.

The contributions shown in Table 2.1 are consistent with the approach normally followed in official databases and economic publications. However, they do not account for the variation in import content across different expenditure components and thus, fail to represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 2.2 presents import-adjusted contributions which address this limitation by apportioning imports to the respective demand components.⁴ In the quarter under review, the majority of the import-adjusted contributions were smaller than those based on the traditional approach, reflecting the strong increase in imports (see Table 2.1). This is particularly the case for exports and GFCF.

After accounting for the effect of imports, the largest contributor to growth in real GDP in the fourth quarter was exports rather than domestic demand components. Furthermore, unlike in the traditional approach, GFCF and private consumption contribute almost equally to GDP growth.

GDP data based on the output approach show that in the fourth quarter of 2021, real GVA rose by 11.1% in annual terms, following an 11.2% increase in the preceding quarter. It added 9.9 percentage points to GDP growth (see Table 2.3).⁵

Services remained the main driver behind the rise in economic activity, adding 9.6 percentage points to real GDP growth. Most of the increase in GVA in this sector stemmed from the sub-sector comprising wholesale and retail trade, transportation, accommodation and related

Table 2.2
IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH⁽¹⁾

	2020	2021			
	Q4	Q1	Q2	Q3	Q4
	<i>Percentage point contributions</i>				
Private final consumption expenditure	-2.3	-1.3	4.2	2.2	2.3
Government final consumption expenditure	2.7	3.3	-0.1	1.2	-0.1
GFCF	-1.6	-0.7	2.3	2.4	2.2
Changes in inventories	0.2	0.2	-0.7	-0.4	-0.1
Domestic demand	-1.1	1.5	5.8	5.4	4.4
Exports of goods and services	-6.9	-1.7	10.3	7.3	5.6
GDP	-8.0	-0.3	16.1	12.7	10.0

Source: Central Bank of Malta estimates.

⁽¹⁾ Chain-linked volumes, reference year 2015.

⁴ The import intensities utilised for this exercise are based on internal estimates using the 2015 input-output tables, which were published by NSO in [News Release 005/2021](#). These new weights differ slightly from those published by Dr Aaron G. Grech and Mr Noel Rapa in the 2016 [Annual Report](#).

⁵ The difference between GDP and GVA is made up of taxes on products, net of subsidies.

Table 2.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH

Percentage points

	2020		2021		
	Q4	Q1	Q2	Q3	Q4
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	0.0
Mining and quarrying; utilities	0.0	0.2	0.5	0.0	0.3
Manufacturing	-0.2	-0.2	1.2	0.4	-0.3
Construction	-0.2	0.1	0.2	0.3	0.3
Services	-7.0	-1.0	11.9	9.6	9.6
<i>of which:</i>					
Wholesale and retail trade; repair of motor vehicles; Transportation; accommodation and related activities	-6.7	-3.4	3.7	5.5	6.1
Information and communication	0.3	0.6	1.4	1.0	1.5
Financial and insurance activities	0.7	0.2	1.0	0.3	0.1
Real estate activities	-0.2	0.2	0.8	0.6	0.4
Professional, scientific, Administrative and related activities	-1.2	-0.5	1.6	0.9	0.6
Public administration and defence; Education; health and related activities	-0.1	1.3	1.8	0.7	0.1
Arts, entertainment; household repair and related services	0.3	0.6	1.6	0.6	0.8
GVA	-7.3	-0.8	13.9	10.2	9.9
Taxes less subsidies on products	-0.7	0.5	2.2	2.5	0.1
Annual real GDP growth (%)	-8.0	-0.3	16.1	12.7	10.0

Source: NSO.

activities, which contributed 6.1 percentage points to GDP growth. However, the GVA of the sub-sector stood almost 6.0% lower than its level in the fourth quarter of 2019. This indicates that the sub-sector – which includes value added from tourism activity – is still operating below capacity.

At the same time, the information and communication sector and the sector comprising arts, entertainment, household repair and related activities collectively added a further 2.3 percentage points to real GDP growth in the last quarter of 2021. The remaining services sector also supported growth, though with much smaller contributions.

Meanwhile, the contribution of the manufacturing sector turned slightly negative in the quarter under review. The contribution to growth of this sector has been progressively declining since the second quarter of 2021. This may reflect the impact of global supply chain disruptions on this sector. Meanwhile, the contribution to growth in the construction and quarrying sectors amounted to 0.3 percentage point.

Nominal GDP growth decelerates but remains robust

Nominal GDP rose by 12.5% in annual terms in the fourth quarter of 2021, after increasing by 15.0% in the previous quarter. This deceleration was mostly underpinned by slower growth in net taxes on production and imports, although compensation of employees also increased at a slower pace (see Chart 2.5). Meanwhile, gross operating surplus recorded a higher positive contribution when compared with a year earlier.

Compensation of employees grew by 7.0% in the fourth quarter of 2021 compared with 8.1% in the previous quarter. Its contribution to GDP growth eased to 3.2 percentage points.

Compensation of employees increased in all sectors, with the sector comprising public administration, health and education registering the highest increase in absolute terms. Other increases were recorded in the sectors comprising professional, scientific and technical activities and administrative and support service activities, followed by the wholesale and retail trade together with repair of motor vehicles and motorcycles and the information and communication sector.

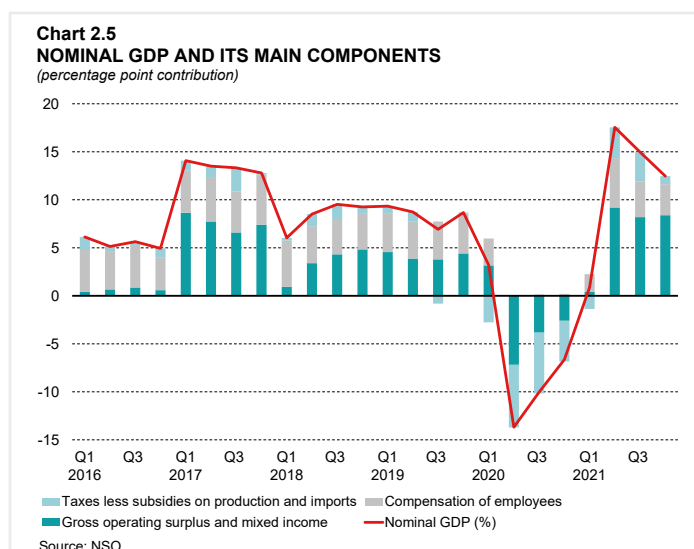
Gross operating surplus grew at annual rate of 17.5%, after rising by 16.4% in the preceding quarter – adding 8.4 percentage points to nominal GDP growth.

When compared with the same quarter a year earlier, the increase in gross operating surplus was broad-based across most sectors. This primarily reflected a rise in the operating surplus of the transportation and storage sector as well as accommodation and food service activities. It was followed by an increase in the operating surplus of the information and communication sector, the sector comprising wholesale and retail trade, and the arts, entertainment and recreation sector.

During the quarter under review, subsidies on production and imports declined compared to the same quarter last year, reflecting lower payments in terms of the Wage Supplement Scheme. On the other hand, due to the recovery in economic activity, taxes on production and imports rose, albeit at significantly slower pace compared to the third quarter. As the latter rose while subsidies decreased, ‘net taxes on production and imports’ increased by an annual 13.8% in the last quarter of 2021.

Industrial production declines

After a marginal decline of 0.2% in the previous quarter, industrial production contracted by 5.2% in the fourth quarter of 2021, reflecting a stronger contraction in manufacturing activity (see Table 2.4).⁶ The index stood 6.1% below its corresponding level in the fourth quarter of 2019 (the latest comparable period before the pandemic).



⁶ Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added, and is expressed in nominal terms. Industrial production is a measure of the volume of output and takes no account of input costs. The sectoral coverage between the two measures also differs, since industrial production data also include the output of the energy and quarrying sectors.

Table 2.4
INDUSTRIAL PRODUCTION⁽¹⁾
Percentages; annual percentage changes

	Shares	2020		2021		
		Q4	Q1	Q2	Q3	Q4
Industrial production	100.0	-0.9	-8.2	13.3	-0.2	-5.2
Manufacturing	87.1	1.6	-5.3	13.7	-1.6	-9.4
<i>of which:</i>						
Food products	15.4	-4.8	-7.5	-5.5	-17.5	-12.7
"Other" manufacturing	10.3	12.3	7.5	50.2	-2.0	-22.8
Repair and installation of machinery and equipment	7.9	-26.0	-32.2	5.4	13.9	24.6
Basic pharmaceutical products and pharmaceutical preparations	7.3	69.0	46.2	25.5	-3.4	-22.4
Printing and reproduction of recorded media	7.3	-5.5	-9.3	-10.0	-12.7	-15.2
Beverages	5.6	-32.0	-22.4	31.5	8.2	43.4
Rubber and plastic products	5.4	20.2	-7.5	10.7	22.3	-14.2
Computer, electronic and optical products	5.0	8.2	-2.8	8.3	1.7	-0.7
Energy	12.5	-13.5	-21.7	10.8	5.2	16.8
Mining and quarrying	0.5	-29.0	-24.3	25.2	17.8	61.5

Sources: NSO; Eurostat.

⁽¹⁾ The annual growth rates of the industrial production index are averages for the quarter based on working-day adjusted data. The annual growth rates of the components are based on unadjusted data.

The decline in industrial production in the quarter under review reflected a 9.4% contraction in production in the manufacturing sector. This offset higher production in the energy and the quarrying sectors.⁷

A few sub-sectors recorded significant declines in production, in particular those producing "other manufacturing" products – which includes the medical and dental instruments, the toys and related products – pharmaceutical products and output from firms that manufacture motor vehicles, trailers and semi-trailers. Other strong declines in production were recorded by firms producing chemical products, those that print and reproduce recorded media, those that manufacture rubber and plastic products as well as the food sector.

On the other hand, higher output was registered among firms that produce beverages, those that repair and install machinery and equipment as well as those that produce wearing apparel.

Production continued to recover strongly in the energy and in the quarrying sector, with both registering positive year-on-year changes for the third consecutive quarter. In both sectors, production exceeded pre-pandemic levels.

⁷ Industrial production in the energy sector excludes energy generated abroad and imported through the interconnector.

BOX 1: BUSINESS INVESTMENT AND INVESTMENT FINANCE IN MALTA – EVIDENCE FROM THE EIBIS 2021 SURVEY¹

The EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide, annual survey of some 13,500 firms, 180 of which are operating in Malta.² It collects data on firms' characteristics and performance, investment outlook, access to finance, barriers to investment, as well as other challenges firms face, such as climate change and digital transformation. Using a stratified sampling methodology, the EIBIS is representative across the 27 Member States of the European Union, the United Kingdom and the United States, as well as firm size (from micro to large) and four main sectors (manufacturing, services, construction and infrastructure). For the sixth wave of EIBIS, telephone interviews with Maltese firms were carried out between March and July 2021. As a result, the data presented reflect the impact of the pandemic and the effect of the policy support implemented, but they pre-date the war in Ukraine and its consequences on the Maltese economy. The survey results remain however extremely relevant, as they present a snapshot of structural features of the economy, which is crucial to assess resilience to the current period of repeated shocks.

Investment in Malta – the pandemic, policy support and outlook

In 2021, the Maltese economy was recovering from the pandemic, relying on substantial policy response. By mid-2021, real GDP and investment were around pre-pandemic levels. The impact of the pandemic was strong, but policy support allowed firms to recover quickly.

In 2021, 58% of firms in Malta reported a decline in sales compared to the beginning of 2020, well above the EU average (49%). The policy response was widespread in Malta, with 74% of firms having received financial support, a higher share than in the European Union (56% of firms). Support was mostly in terms of subsidies and tax deferrals (in both cases, the share of firms receiving support was higher than the EU average). Around a quarter of firms (26% of Maltese firms) increased their debt position, which is more than the average

Table 1
COVID-19 IMPACT ON FIRMS' SALES, FINANCIAL SUPPORT RECEIVED AND INCREASE IN DEBT

(% of firms)

	Share of firms recording decline in sales	Share of firms receiving support	Of which subsidies	Of which deferrals of payments	Share of firms increasing debt
EU 2021	49.0	56.0	36.0	16.0	16.0
MT 2021	58.0	74.0	59.0	31.0	26.0

Source: EIBIS 2021.

Base: All firms excluding don't know/refused responses.

Question 1: What has been the impact so far of the COVID-19 pandemic on your company's sales or turnover compared to the beginning of 2020?

Question 2: Since the start of the pandemic, have you received any financial support in response to COVID-19? This can include finance from a bank or other finance provider, or government-backed finance.

Question 3: Has your company taken any of the following actions as a result of the COVID-19 pandemic?

¹ Prepared by Annamaria Tueske, Wouter van der Wielen and Debora Revoltella from the European Investment Bank (EIB).

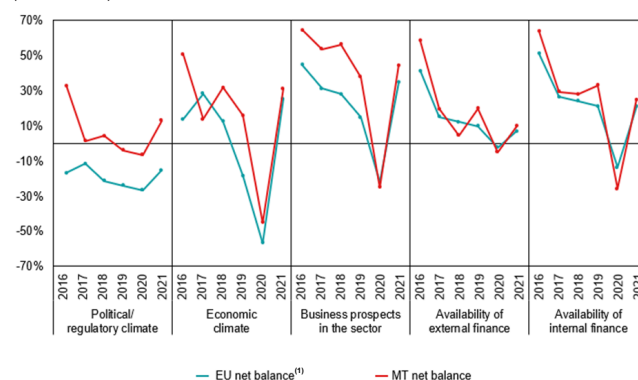
² EIB (2021). EIB Group survey on investment and investment finance 2021. Country overview: Malta, European Investment Bank, Luxembourg, [EIB Investment Survey 2021 – Malta Overview](#).

EU share of 16% (see Table 1). In addition, 6% have raised new equity from the current owners, and 3% have raised new equity from new sources, both in line with the EU average.

Policy support even prevented part of the shock on firms' investment to materialise. In EIBIS 2020, 47% of Maltese firms were expecting to reduce investment in 2020. One year later, only 16% of firms reported that they actually reduced investment. For 2021, the share of firms expecting to decrease investment slightly exceeded that of firms expecting to increase investment, with a small negative net balance of 1.5%, which makes Maltese firms slightly more negative than the rest of EU firms.

Chart 1 shows the evolution over time of firms' short-term outlook. It is reminded that this is recorded for 2021, thus being post-pandemic, but before the war shock materialised. In line with EU firms, firms in Malta expected improvements in terms of the economic climate, the business prospects, and the availability of external and internal finance. Moreover, more firms in Malta expected the political and regulatory climate to improve rather than deteriorate in 2021, while the net balance of EU firms remained negative in this respect.

Chart 1
SHORT-TERM FIRM OUTLOOK
(share of firms)

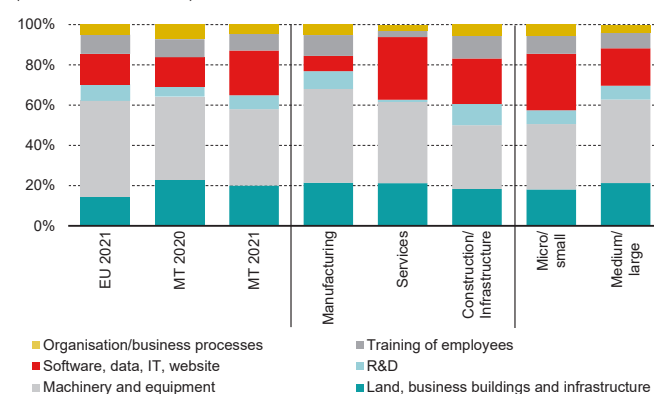


Source: EIBIS 2021.
Base: All firms.
⁽¹⁾ Net balance is the share of firms seeing improvement minus the share of firms seeing a deterioration.
Question: Do you think each of the following will improve, stay the same or get worse over the next 12 months?

Areas for investment

Chart 2 presents the breakdown of firms' investment by area of activity. Maltese firms have a relatively high share of investment in intangibles. Investment for software development stands out, accounting for 22% of total investment, versus 15% in the European Union. Smaller firms and firms in the services sector were particularly more likely than other firms to invest in the area of software,

Chart 2
INVESTMENT AREAS
(share of firms' investment)



Source: EIBIS 2021.
Base: All firms that have invested in the last financial year (excl. don't know or refused responses).
Question: In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

data, IT and website activities. On the other hand, construction/infrastructure and manufacturing firms were more likely to invest in training (11% and 10%, respectively) than firms in the services sector (3%).

The pandemic as a driver for change

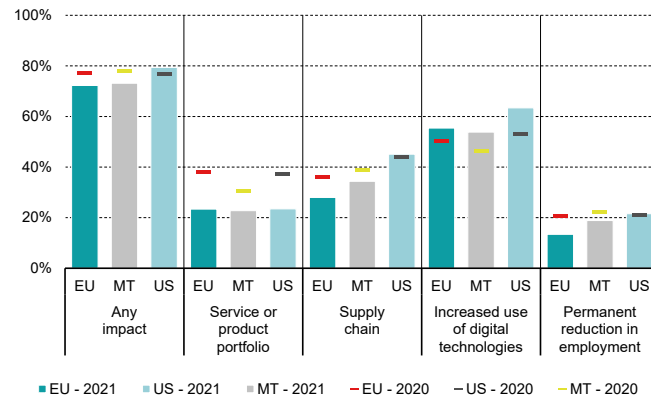
Firms perceived the COVID-19 pandemic as a structural shift for the economy, requiring structural transformation. According to EIBIS 2021, the majority of Maltese firms (73%) considered COVID-19 to have a long-term impact on at least one of the four aspects they were asked about (see Chart 3). Some 54% of Maltese firms expected the pandemic to require, in the long term, more digitalisation. Around a third of firms (34%) expected an impact on firms' supply chains and 23% of firms foresaw an impact on their service or product portfolio.

With those long-term expectations, firms indeed reacted swiftly. 64% of firms in Malta have taken actions to react to the pandemic (see Chart 4), above the EU average (57%). Digitalisation stood out with over half of firms (55%) reporting that they have taken action or invested to become more digital. Around a third (32%) of firms have developed new products, services or processes followed by 17% of firms that shortened their supply chain.

Barriers to investment

Uncertainty about the future is the most frequently cited long-term barrier to investment in Malta, followed by the availability of skilled staff (82%), with both shares in line with

Chart 3
COVID-19 LONG-TERM IMPACT
(share of firms)

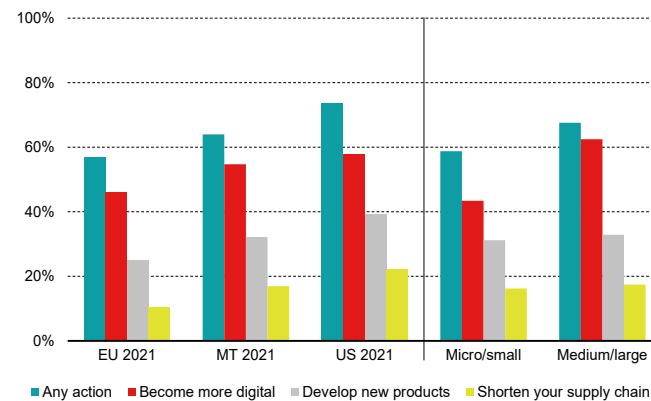


Source: EIBIS 2021.

Base: All firms.

Question: Do you expect the COVID-19 outbreak to have a long-term impact on any of the following?

Chart 4
SHORT-TERM ACTIONS AS A RESULT OF COVID-19
(share of firms)



Source: EIBIS 2021.

Base: All firms that have invested in the last financial year (excluding don't know/refused responses).

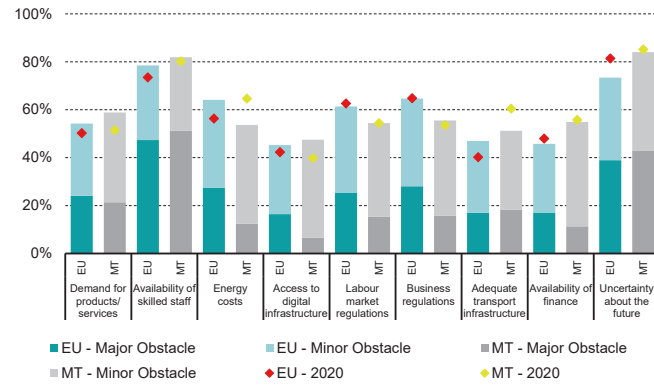
Question: As a response to the COVID-19 pandemic, have you taken any actions or made investments to ...?

those reported in EIBIS 2020 (84%, see Chart 5). In contrast to their EU counterparts, firms in Malta are more likely to cite uncertainty about the future (73% EU versus 84% in Malta) and availability of finance (46% EU versus 55%) and less likely to name energy costs (64% EU versus 54%) as a barrier to investment.

Access to finance conditions remained tighter in Malta, compared to the EU average, with 9% of firms being credit constrained (see Chart 6), which is higher than the EU average of 5% and slightly higher than the share reported in EIBIS 2020 (6%). Construction/infrastructure firms are more likely to be finance constrained (13%) than firms in other sectors.

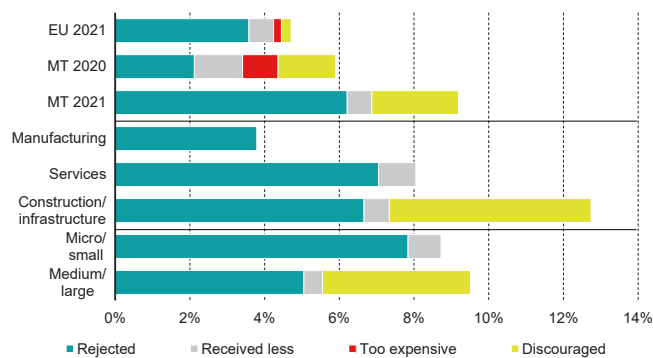
When looking at satisfaction with the finance received, firms that used external finance are on balance satisfied (see Chart 7). The highest dissatisfaction is with collateral requirements (16%), the length of time over which the financing needs to be repaid (10%), the cost of finance (7%), and the amount of financing (3%).

Chart 5
LONG-TERM BARRIERS TO INVESTMENT
(share of firms)



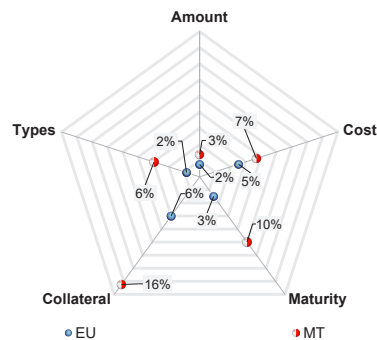
Source: EIBIS 2021.
Base: All firms (data not shown for those that said not an obstacle at all/don't know/refused).
Question: Thinking about your investment activities in Malta, to what extent is each of the following an obstacle? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Chart 6
SHARE OF FINANCE-CONSTRAINED FIRMS
(share of firms)



Source: EIBIS 2021.
Base: All firms excluding don't know/refused responses.
Finance-constrained firms include those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those that did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged).

Chart 7
DISSATISFACTION WITH EXTERNAL FINANCE RECEIVED
(share of firms)



Source: EIBIS 2021.
Base: All firms that used external finance in the last financial year (excluding don't know/refused responses).
Question: How satisfied or dissatisfied are you with?

The digital and green transition and managerial transformation

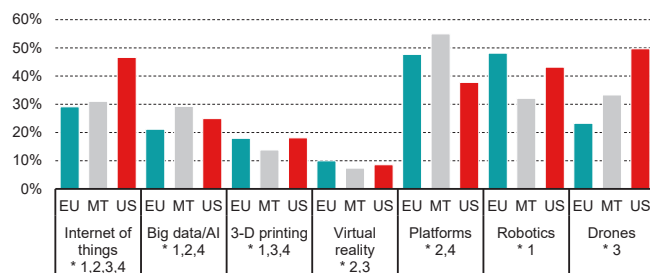
When asked about digitalisation, Maltese firms were more likely to have implemented multiple advanced digital technologies compared to their EU counterparts (44% versus 23%). Two thirds (66%) of firms in Malta have implemented at least one of the advanced digital technologies they were asked about, which is in line with the EU average (61%). The most commonly implemented technologies in Malta were digital platforms (55%), followed by drones (33%), robotics (32%) and the internet of things (31%). The implementation share for Big data/AI was higher than the EU average (see Chart 8).

Maltese firms are less likely than the average EU firm to have already experienced the effects of climate change. 44% of firms in Malta stated they are exposed to physical climate risk (i.e. state that climate change and the related changes in weather patterns are currently impacting their business).

This compares to 58% in the EU overall. However, Maltese firms are starting to internalise the risks associated with the transition to net zero. Overall, almost 60% of firms see an effect of the climate transition on their business. The share of firms that see the transition to stricter climate standards and regulations as an opportunity rather than as a risk over the next five years is higher (32% and 26%, respectively).

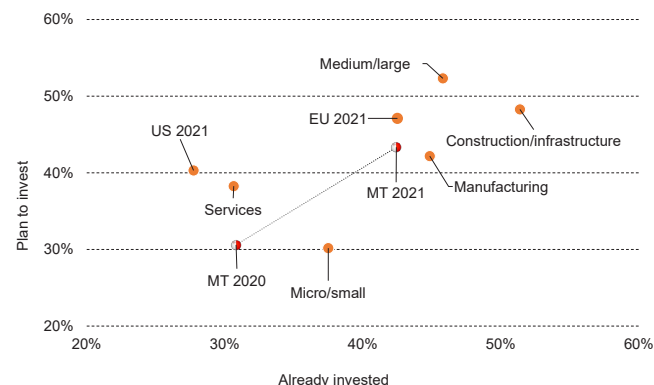
As Chart 9 shows, 42% of firms in Malta have already invested to deal with climate change, and 43% have plans to do so in the next three years, an increase since EIBIS 2020 (both 31%), but in line with the EU averages (43% and 47% respectively). Larger firms are more likely to plan to invest than smaller firms (52% versus 30%).

Chart 8
ADVANCED DIGITAL TECHNOLOGIES
(share of firms)



Source: EIBIS 2021.
 * Not every digital technology was asked of each sector.
 Base: All firms excluding don't know/refused responses.
 Reported share combine the technology implemented 'in parts of business' and 'entire business organised around it'.
 Question: Can you tell me for each of the following digital technologies if you have heard about them, not heard about them, implemented them in parts of your business, whether your entire business is organised around them?
 * Sector: 1 = Asked of Manufacturing firms, 2 = Asked of Construction/Infrastructure firms, 3 = Asked of Services firms, 4 = Asked of Infrastructure firms.

Chart 9
INVESTMENT PLANS TO TACKLE CLIMATE CHANGE IMPACT
(share of firms)



Source: EIBIS 2021.
 Base: All firms excluding don't know/refused responses.
 Question: Now thinking about investments to tackle the impacts of weather events and to deal with the process of reduction in carbon emissions, which of the following applies?

Around 29% of firms invested in energy efficiency in 2020 (see Chart 10), a lower share than in EIBIS 2020 (42%) and the EU average (37%). There is a significant gap between the proportion of larger and smaller firms engaging in energy efficiency improving investment (40% compared to 13%), as well as in the average share of energy efficiency measures of total investment (14% versus 4% for smaller firms).

Firms in Malta outperformed the EU average on striving for gender balance (80% versus 60%, see Chart 11) and using a strategic monitoring system in 2020 (67% versus 55%). Seven in ten (69%) firms linked individual performance to pay, while half of the firms in Malta (53%) set and monitored internal targets on carbon emissions and energy consumption.

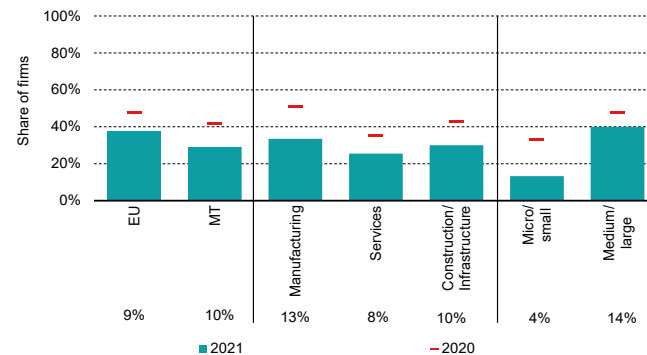
Larger firms were more likely than smaller firms to use strategic monitoring systems (77% versus 54%) as well as to set and monitor internal targets of carbon emissions and energy consumption (62% versus 39%).

Conclusion

In 2021, firms in Malta were expecting a fast recovery from the pandemic, and had an improving outlook, and a relative good position in terms of digitalisation, gender balance, and firm management.

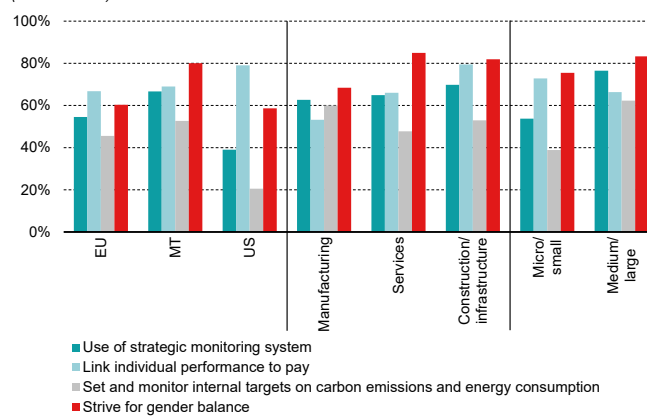
The war in Ukraine adds an additional shock, with important spillovers at the global and local level. Malta is likely to be particularly affected, due to the negative terms of trade shock and energy dependency. On the fiscal front, additional support for rising energy and other commodity prices will partly offset the withdrawal of COVID-related support. The challenge ahead is to keep the economy transforming, dealing with the green and digital transition, while withstanding the new shock.

Chart 10
SHARE OF FIRMS INVESTING IN ENERGY EFFICIENCY IMPROVEMENT AND SHARE OF TOTAL



Source: EIBIS 2021.
Base: All firms (for share of firms investing).
Base: All firms that have invested in the last financial year (excluding don't know/refused responses) (average share of investment).
Question: What proportion of the total investment in the last financial year was primarily for measures to improve energy efficiency in your organisation?

Chart 11
FIRM MANAGEMENT, CLIMATE TARGETS AND GENDER BALANCE (share of firms)



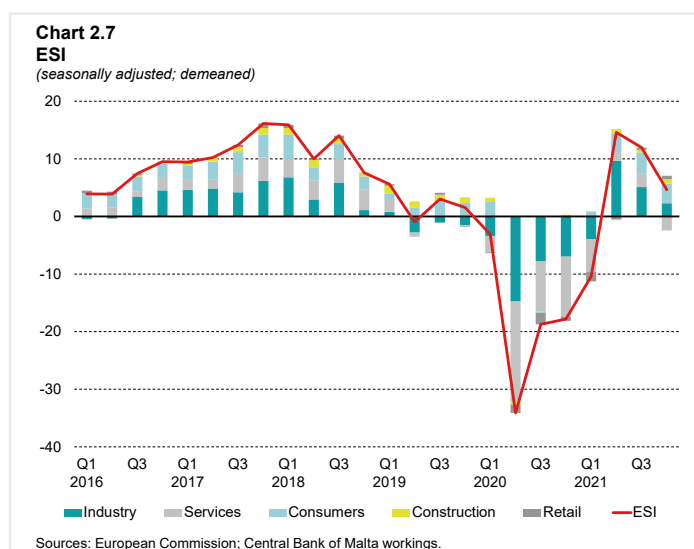
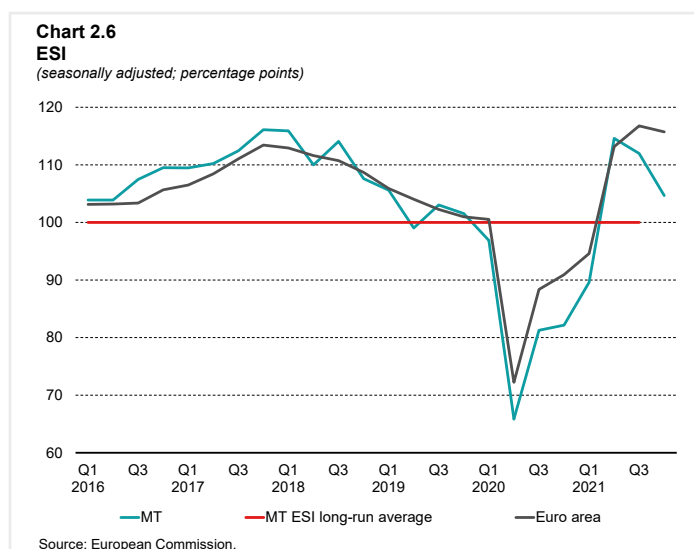
Source: EIBIS 2021.
Base: All firms excluding don't know/refused responses.
Question: In 2020, did your company...?

Business and consumer surveys

During the fourth quarter of 2021, the European Commission's Economic Sentiment Indicator (ESI) for Malta edged down from the level recorded in the third quarter. In the fourth quarter of 2021, it stood at 104.7, down from 112.0 in the preceding quarter. Notwithstanding this decrease, the overall indicator remained above its long-term average of around 100.0 and also exceeded the level recorded just before the pandemic (see Chart 2.6). This may reflect the slightly lower level of COVID-19 restrictions compared to 2020 as well as a further increase in vaccination rates achieved in the second half of 2021.^{8,9} However, the overall ESI indicator stood below that in the euro area which averaged 115.7.

Confidence fell in the services sector and, to a lesser extent, in industry and among consumers. By contrast, confidence improved in the construction sector and among retailers. Sentiment was positive across all sectors except in industry.

When accounting for the variation in the weights assigned to each sector in the overall index, the fall in the ESI relative to the third quarter of the year was largely driven by the services sector and industry.^{10,11} The confidence indicators for industry and consumers largely explain why the overall ESI stood above the long-term average in the quarter under review (see Chart 2.7).



⁸ The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

⁹ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data for Malta became available in November 2002, while for services and construction 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. The long-term average of the ESI is computed from November 2002.

¹⁰ Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

¹¹ In January 2021, data were revised for previous periods following the annual updating of country weights and the inclusion of 2020 in the standardisation sample.

Confidence in the services sector weakens sharply¹²

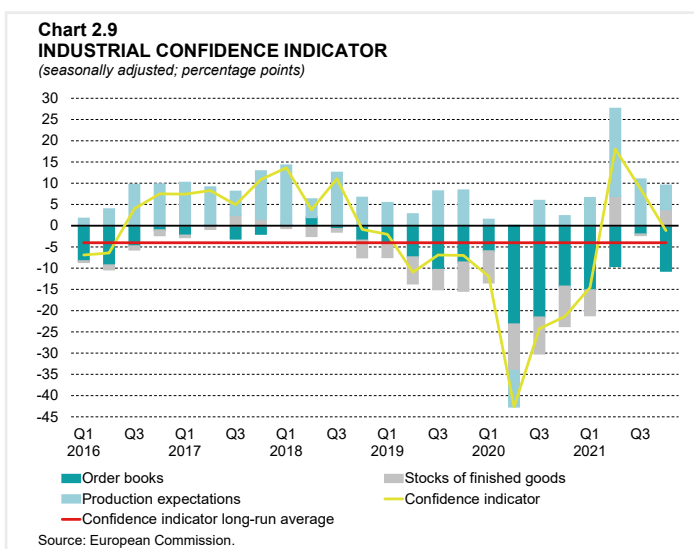
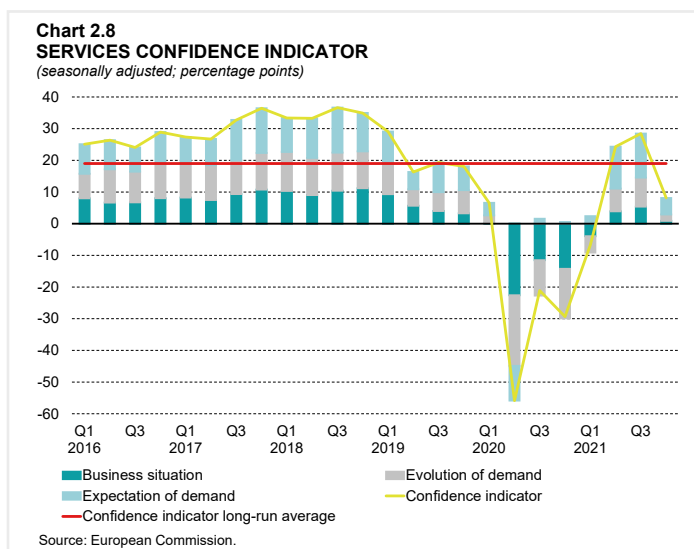
The confidence indicator in the services sector stood at 8.1 in the last quarter of 2021, down from 28.4 in the previous quarter and its long-term average of 19.0. The recent decline in sentiment was driven by developments across all components of the indicator (see Chart 2.8). However, it mostly reflected a weaker assessment of demand in the previous three-month period as well as weaker demand expectations for the coming months. Respondents' assessment of the business situation over the past three months also deteriorated.

Supplementary survey data indicate that respondents' price expectations edged up further in the fourth quarter of 2021.

Industrial confidence turns slightly negative¹³

The indicator that measures confidence in industry declined during the fourth quarter of the year. It decreased to -1.1 from 8.6 in the previous 3-month period but remained above its long-term average of -4.0 (see Chart 2.9). A significantly larger share of respondents deemed order-book levels to be below normal compared to the third quarter. At the same time, production expectations declined but remained positive. On the other hand, while firms reported stocks of finished goods to be above normal in the preceding quarter, in the fourth quarter they assessed stock to be below normal.¹⁴

Additional survey data reveal that the share of firms foreseeing an increase in selling prices in the months more than doubled when compared with the third quarter.



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 in the subsequent three months.

¹³ 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.

¹⁴ Above-normal stock levels indicate lower turnover and affect the overall indicator in a negative way. Such levels are thus represented by negative bars in Chart 2.9.

Consumers less upbeat compared to third quarter¹⁵

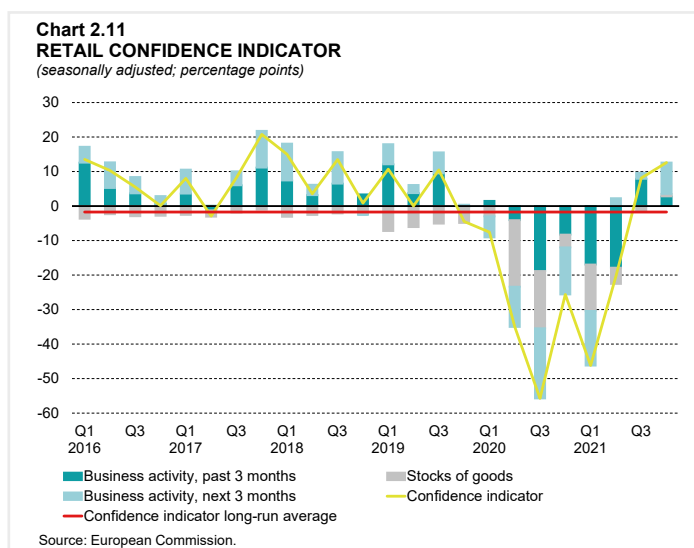
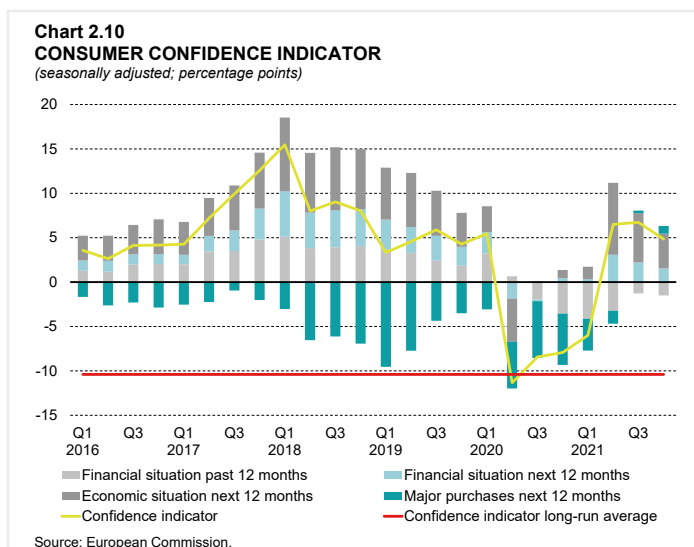
The consumer confidence indicator averaged 4.8 during the last quarter of 2021, down from 6.7 in the previous quarter but well above its long-run average of -10.4 (see Chart 2.10).

The latest decline in consumer confidence reflected declines in most components of the index, in particular expectations about the general economic situation over the next 12 months. However, expectations of major purchases over the next 12 months improved.

Supplementary survey data show a decrease in the share of consumers expecting unemployment to decline over the next 12 months. Meanwhile, price expectations increased sharply, reaching the highest level since early 2013.

Confidence in the retail sector improves¹⁶

The indicator representing sentiment in the retail sector stood at 12.6, up from 8.1 recorded in the previous quarter, thus standing well above its long-term average of -1.7. This improvement was largely driven by firms' expectations of business activity over the next three months which increased by over a fifth. At the same time, and in contrast with the previous quarter, participants reported stocks of finished goods to be below normal levels. These developments offset a deterioration in retailers' assessment of business activity over the past three months (see Chart 2.11).



¹⁵ 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.

¹⁶ 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.

Supplementary survey data indicate that, on balance, orders expectations turned positive compared to the third quarter of the year. Meanwhile, the share of retailers anticipating a rise in prices in the coming months reached a record high.

Confidence in construction increases¹⁷

In the fourth quarter of 2021, the indicator measuring confidence in the construction sector rose to 14.5 from 4.5 in the previous 3-month period. Following this increase, sentiment remained well above its long-term average of -10.1 (see Chart 2.12).

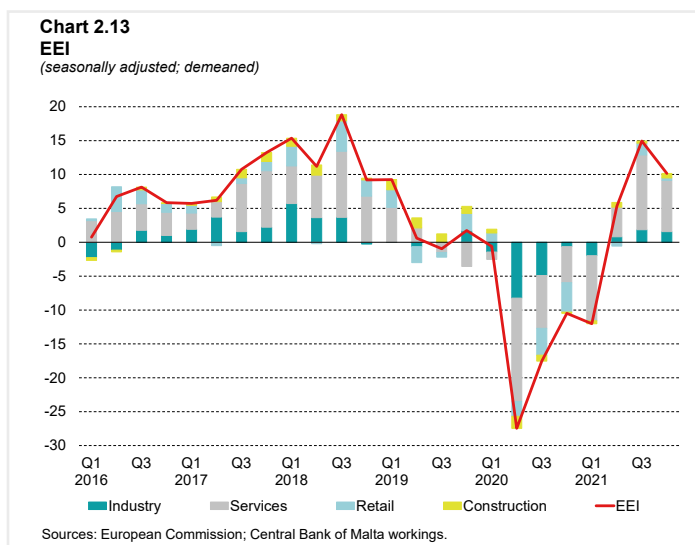
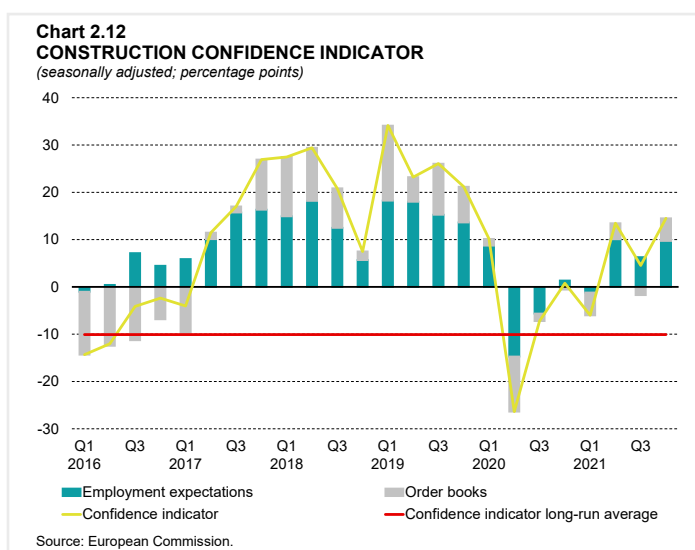
By contrast to the third quarter, respondents assessed order books to be above normal levels. At the same time, employment expectations stood more positive in the last quarter of 2021.

Supplementary survey data indicate that when compared to the third quarter, a higher share of respondents anticipated selling prices to increase in the next three months.

Employment Expectations Indicator (EEI) decreases

The EEI – which is a composite indicator of employment expectations in industry, services, retail trade and construction – decreased in the fourth quarter of the year. It stood at 109.4 compared with 114.1 in the preceding quarter, but remained above its long-term average of around 100.0.¹⁸ Following this decline, the index fell below the euro area average of 114.1.

During the quarter under review, employment expectations were, on average, positive and stood above their long-term average across all sectors. When accounting for the variation in the weights assigned to each sector in the overall index, the decrease relative to the third quarter of



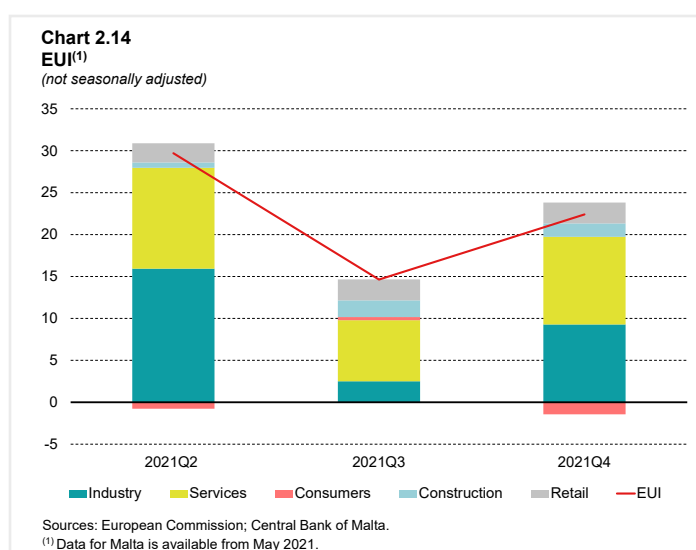
¹⁷ The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and to employment expectations over the subsequent three months.

¹⁸ 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*.

2021 largely reflected developments in the services sector and among retailers (see Chart 2.13). Weaker employment expectations in industry also contributed to the fall in the EEI although by a smaller magnitude. By contrast, the contribution of the construction sector increased compared to the preceding 3-month period.

Economic Uncertainty Indicator (EUI) increases

The European Commission's EUI is a composite indicator of how difficult it is for sectors to make predictions about their future financial or business situation. In Malta, this indicator reached 22.4 in the fourth quarter of 2021, up from 14.6 in the previous quarter (see Chart 2.14). Following the latest increase, the indicator rose above that in the euro area where the index averaged 16.5.^{19,20}



The recent rise in uncertainty in Malta was largely driven by developments in industry and, to a more limited extent, in the services sector. By contrast uncertainty edged down in the construction sector and, to a smaller degree, among retailers. In contrast to the third quarter, consumers reported they were able to predict their financial situation with relative ease.

The labour market²¹

Labour force increases further in annual and quarterly terms

Labour Force Survey (LFS) data show that in the fourth quarter of 2021, the labour force grew by 3.6% over the same quarter of 2020, faster than the 2.1% registered in the previous quarter (see Table 2.5).²² Following this rise, the labour force stood 4.2% higher than its level in the last quarter of 2019.

The activity rate stood at 79.1% in the quarter under review, higher than the 77.2% registered a year earlier, and above the pre-pandemic rate of 76.7%.²³ This rise was mostly driven by an increase in the female participation rate, which rose by 3.8 percentage points to 70.9%. The female activity rate exceeded the euro area average of 69.7%. On the other hand, the male activity rate rose by 0.2 percentage point to 86.3% and thus remained higher than the euro area average of 79.0%.

¹⁹ 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.

²⁰ Data on consumer uncertainty became available in October 2020, while data for industry, services, retail and construction became available in May 2021.

²¹ This section draws mainly on labour market statistics from two sources: the LFS, which is a household survey conducted by the NSO on the basis of definitions set by the International Labour Organization (ILO) and Eurostat; and administrative records compiled by Jobsplus according to definitions established by domestic legislation on employment and social security benefits.

²² The LFS defines the labour force as all persons aged 15 and over who are active in the labour market. This includes those in employment, whether full-time or part-time, and the unemployed, defined as those persons without work but who were actively seeking a job during the previous four weeks and available for work within two weeks of the reference period.

²³ The activity rate measures the number of persons in the labour force aged between 15 and 64 as a proportion of the working age population, which is defined as all those aged 15 to 64 years.

Table 2.5
LABOUR MARKET INDICATORS BASED ON THE LFS

Persons; annual percentage changes

	2020 Q4	2021 Q4	Annual change %
Labour force	273,074	283,037	3.6
Employed	261,021	274,110	5.0
<i>By type of employment:</i>			
Full-time	230,123	243,016	5.6
Part-time	30,898	31,094	0.6
Unemployed	12,053	8,927	-25.9
Activity rate (%)	77.2	79.1	
Male	86.1	86.3	
Female	67.1	70.9	
Employment rate (%)	73.8	76.7	
Male	82.4	83.4	
Female	64.0	69.1	
Unemployment rate (%)	4.4	3.2	
Actual hours worked (per week)	34.6	33.6	

Source: NSO.

On a quarter-on-quarter basis, the number of active persons (the labour force) increased by 4,153 after rising by 2,655 in the third quarter. In particular, the number of employed people rose by 5,123 on a quarterly basis, which follows an increase of 2,434 during the previous quarter.

On the other hand, after rising by 221 persons in the third quarter, the number of unemployed declined by 970 people during the quarter under review.

Meanwhile, the number of inactive persons fell by 2,453 compared to the fourth quarter, after declining by 1,593 persons in the previous quarter.

Employment grows at a faster pace in annual terms

In the last quarter of 2021, employment rose by 5.0% in annual terms, following a rise of 3.6% in the previous quarter.

The latest increase in employment primarily reflects a steep rise in full-time employment, but also a small increase in part time jobs. The former rose by 12,893, or 5.6% in annual terms (see Table 2.5). After falling for six consecutive months, the number of part-time employees – which also includes those employed full-time on reduced hours – increased by 196 persons, or 0.6% on a year earlier. Eurostat data show that this increase was largely driven by the accommodation and food services sector which offset declines in a number of sectors, including education, administrative and support service activities and public administration. Developments in the accommodation and food services sector may reflect the partial recovery in tourism activity from the disruption caused by the pandemic.

The overall employment rate rose by 2.9 percentage points on the same period of 2020, to 76.7%.²⁴ This reflected a rise in both the male and female employment rates. The male employment rate rose by 1.1 percentage point to 83.4%, with the increase affecting all age brackets except the 55-64 years cohort. The female employment rate rose by 5.1 percentage points to 69.1%, driven by strong increases in the 25-54 and 55-64 age brackets.

²⁴ The employment rate measures the number of persons aged between 15 and 64 employed on a full-time or part-time basis as a proportion of the working-age population.

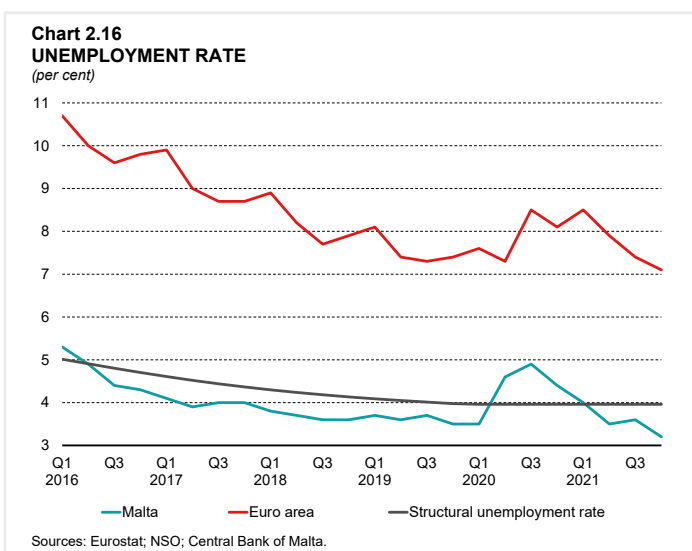
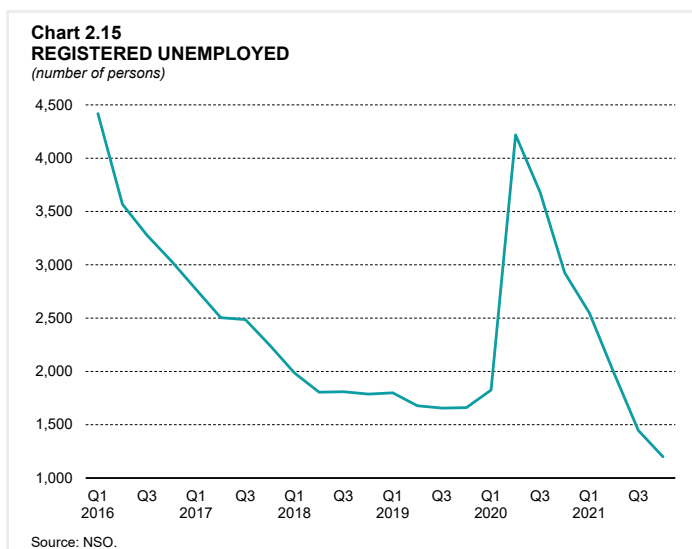
By contrast to employment, average weekly hours worked fell to 33.6 from 34.6 a year earlier (see Table 2.5).²⁵ Overall, average hours worked remain below the level recorded in the corresponding period of 2019.

The unemployment rate falls

During the quarter under review, the unemployment rate based on the LFS stood at 3.2%, down from 3.6% in the previous quarter. It also stood well below the 4.4% recorded a year earlier (see Table 2.5).²⁶ The historically low jobless rate in Malta reflects the recovery in demand in the context of a tight labour market, although Government COVID-19 support also contributed. Labour market conditions also remain more favourable by euro area standards. Malta's unemployment rate is well below the average rate for the euro area which stood at 7.1% in the fourth quarter of 2021 (see Chart 2.15).

The unemployment rate also stood below the Bank's structural measure of 3.9% during the quarter under review.²⁷ This indicates a high degree of labour market tightness.

Jobsplus data show that the number of persons on the unemployment register continued to decline on a quarterly basis. It also fell in annual terms. During the fourth quarter of 2021, the average number of persons on the unemployment register stood at 1,199 – less than half that registered a year earlier (see Chart 2.16).



²⁵ Actual hours refer to the number of hours actually spent at the place of work during the reference week for the main job. However, owing to increased flexibility at workplaces coupled with technology, the place of work may also include one's home. In this regard, actual hours worked also include the hours of work carried out by persons who telework.

²⁶ According to the LFS, the unemployed comprise persons aged between 15 and 74 years who are without work, available for work and who have actively sought work during the four weeks preceding the Survey. In contrast, the number of unemployed on the basis of the Jobsplus definition includes only those persons registering for work under Part 1 and Part 2 of the unemployment register.

²⁷ The structural unemployment rate in this chapter refers to the non-accelerating inflation rate of unemployment (NAIRU), that is, the unemployment rate that is consistent with stable inflation. This measure of the unemployment rate is based on a multivariate filter as described in Micallef, B., (2014). "A Multivariate filter to estimate potential output and NAIRU for the Maltese economy", Central Bank of Malta [Working Paper](#) 05/2014.

BOX 2: THE CHARACTERISTICS ASSOCIATED WITH THE SHORT AND LONG-TERM UNEMPLOYED IN THE MALTESE LABOUR MARKET^{1,2}

In recent years, Malta has experienced record low unemployment. While this was partly driven by robust economic growth, it also reflects the response of the labour market to enhanced labour market activation policies.

Organisation for Economic Co-operation and Development (OECD) (2013) defines activation strategies as those aiming to:

*“bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work”.*³

This box looks at the evolution of labour market policy (LMP) in Malta and how this contributed to the reduction in the number of unemployed. Then, utilising data from the LFS, context is given to the unemployed population in Malta as the short-term and long-term are grouped according to several characteristics. Finally, the box concludes by reflecting upon the Maltese labour market’s strengths and weaknesses and possible ways to address these going forward.

The evolution of LMP in Malta

To assess LMP during the past 12 years, this box utilises data on labour market interventions, which cover a range of government expenditure measures intended to correct disequilibria in the labour market.⁴ This type of expenditure targets specific groups such as the unemployed, those employed but at risk of job loss and assistance to people currently inactive.

LMP interventions are classified into three main types: 1) the category LMP services includes expenditure on job guidance and information, intended to facilitate job search; 2) LMP measures include policies intended to improve employability and other policies to “activate” the unemployed with the aim of finding regular employment; 3) the category LMP supports consists mainly of unemployment benefits.

Over the last 15 years, spending on LMPs as a percentage of GDP has risen from around 5% in 2006 to 14% in 2016, mostly following the introduction of several new policies in 2014 and thereafter. Since 2016, spending on LMP as a percentage of GDP has declined gradually and stood at around 8% of GDP in 2019. The composition of LMP also changed over time.

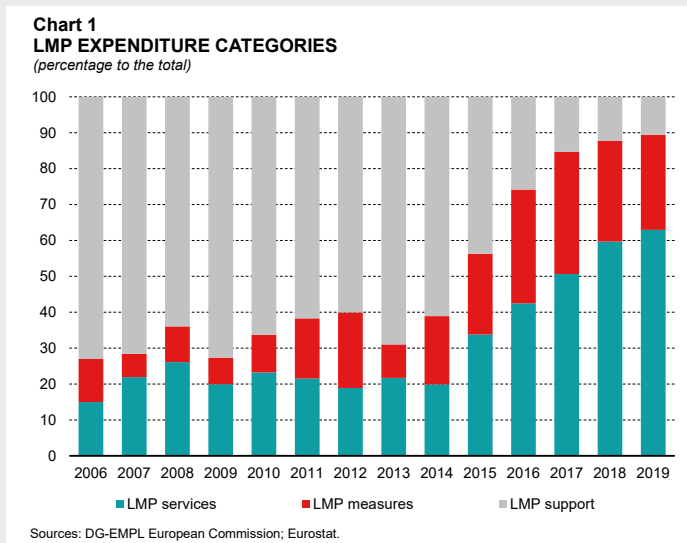
¹ Written by Ian Borg, Manager and Rafael Fearné, economist within the Economic Analysis Department.

² This box summarises the conclusions of “The characteristics associated with the short and long-term unemployed in the Maltese labour market”, Central Bank of Malta, [Policy Note](#) (2021).

³ See OECD (2013), [OECD Employment Outlook 2013](#), OECD Publishing, Paris.

⁴ The source of data on labour market policies is the European Commission – Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL). [https://webgate.ec.europa.eu/empl/redisstat/databrowser/view/LMP_PARTME\\$MT/default/table](https://webgate.ec.europa.eu/empl/redisstat/databrowser/view/LMP_PARTME$MT/default/table)

Chart 1 illustrates the shift in LMP in Malta by documenting the developments in the type of expenditure during the period 2006-2019. Expenditure on LMP support used to account for around 70% of total labour market expenditure until 2014. In 2015, this share declined sharply to around 43% and continued to decrease to just over 10% by 2019.



The decline in the share of this category coincides

with a period of robust economic growth and consequently, a drop in unemployment levels but also a change in policy focus. Indeed, expenditure on LMP services and LMP measures rose considerably as policy shifted towards “activation” policies that enabled job rich economic growth.

In the last decade, activation policies in Malta have involved a combination of different training and upskilling programmes along with initiatives to encourage those in unemployment and inactivity to enter the labour market. In the Budget 2014 moreover, the government announced several initiatives under the title of ‘Making Work Pay’ which spearheaded the change in spending on LMP. The goal of these policies was to address the poverty trap by making the prospect of being in employment more attractive than being dependent on social benefits. These policies led to a substantial increase in the expenditure on employment incentives and labour market services while at the same time, expenditure on support declined.

The shift in LMP appears to have had wide-ranging impacts on the labour market, in terms of raising participation rates and skills, the lowering of youth unemployment and the duration of unemployment. With regards to the latter, there has been much effort in re-integrating the long-term unemployed into the labour market. This includes policies such as the tapering of benefits scheme and the Work Programme Initiative. Indeed, while the overall unemployment rate declined between 2006 and 2019, the decline was more pronounced in the long-term unemployment rate than the short-term unemployment rate.

The characteristics of the short-term and long-term unemployed

To assess the characteristics associated with the duration of the unemployed in Malta, this analysis utilises anonymised micro-level information obtained from the LFS covering the period between 2010 and 2019. Unemployed persons in the LFS are categorised into three

broad groups: i) less than 6 months; ii) 6 months to a year; iii) over a year. The first two groups are classified as short-term unemployed while those who have been in unemployment for more than a year are classified as long-term unemployed.

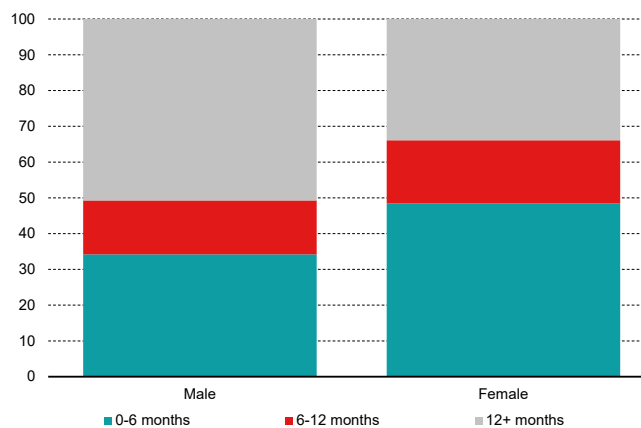
Chart 2 decomposes the unemployed population by gender. During the period 2010-2019, males tended to remain unemployed for longer periods of time than female workers.⁵ Indeed, the proportion of females unemployed for less than 6 months is around 13 percentage points higher than that of males.

Marital status also seems to matter for the duration of unemployment. Chart 3 shows that during the period under consideration, individuals whose marital status was classified as single tended to spend less time looking for a job than those who were listed as married or widowed/divorced. On the other hand, differences between the last two categories are rather small.

Chart 4 shows that individuals with no children tend to have higher durations of unemployment than those who do. In part, this might reflect the greater incentive for individuals with children to accept work given their relatively higher responsibilities. However, it might also reflect the institutions and incentives available in a country in particular those related to childcare.

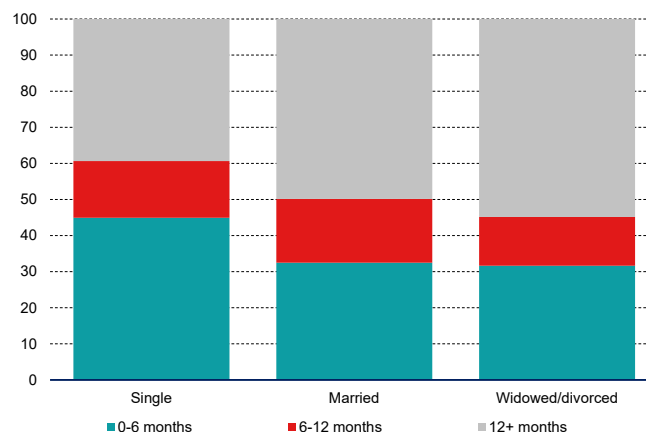
With regards to age, older cohorts tend to have higher job search duration than the younger cohorts (see Chart 5). Indeed, the percentage of persons with an unemployment duration of

Chart 2
DURATION OF UNEMPLOYMENT BY SEX
(percentage to total)



Sources: NSO; own calculations.

Chart 3
DURATION OF UNEMPLOYMENT BY MARITAL STATUS
(percentage to total)



Sources: NSO; own calculations.

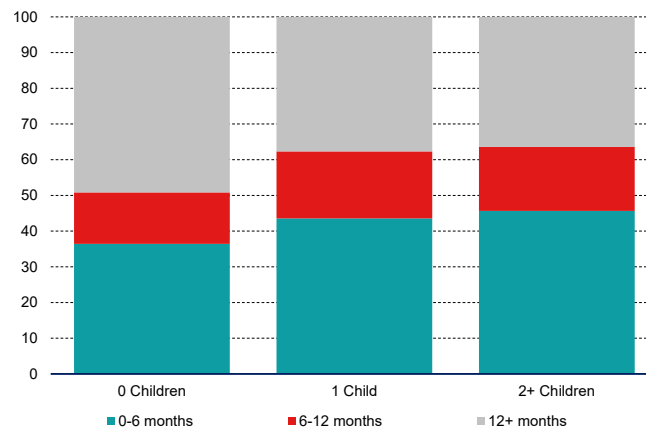
⁵ Eligibility criteria for unemployment benefits require the person to be the head of household. Also, a couple must not exceed €23,300. Since males are traditionally heads of households this could have some bearing on the results.

between 0 to 6 months within the 15-24 age cohort is around 22 percentage points higher than that, for example, in the 25-34 age cohort. Meanwhile, the share of individuals classified as long-term unemployed increases with age.

As regards the impact of the level of education on job search, the results are mixed. Those who have only a primary level of education tend to have longer unemployment spells than those with higher educational attainment (see Chart 6). On the other hand, those who have vocational training as well as post-secondary education have longer unemployment duration than those with only a post-secondary education. In addition, individuals who have obtained post-graduate training, such as a Masters degree or PhD have longer durations of unemployment when compared with those with a first degree.

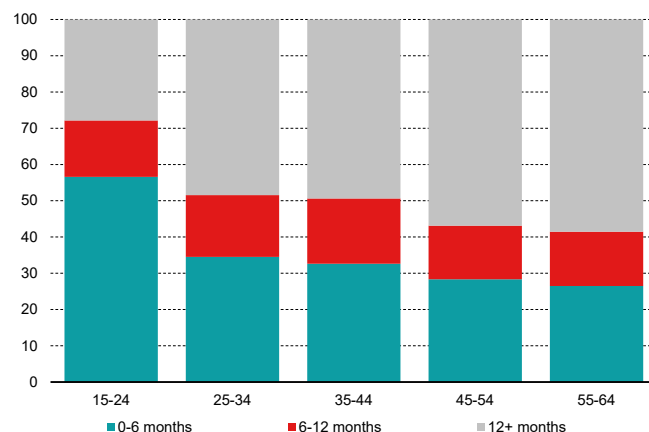
Finally, the LFS sheds some light on whether the duration of unemployment depends on the receipt of benefits. According to the ILO definition of unemployment, a person is classified as being unemployed when that person

Chart 4
DURATION OF UNEMPLOYMENT BY NUMBER OF CHILDREN
(percentage to total)



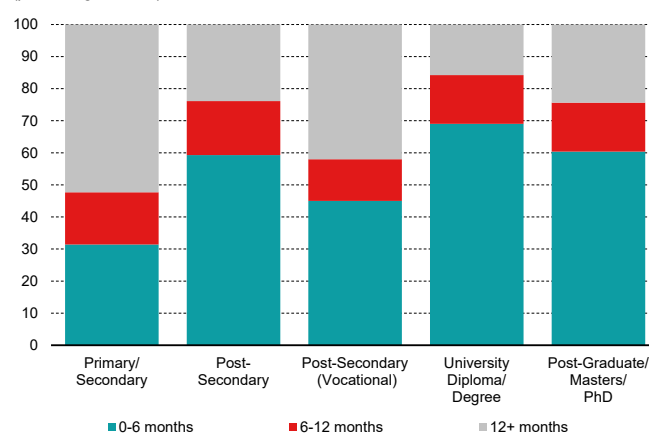
Sources: NSO; own calculations.

Chart 5
DURATION OF UNEMPLOYMENT BY AGE
(percentage to total)



Sources: NSO; own calculations.

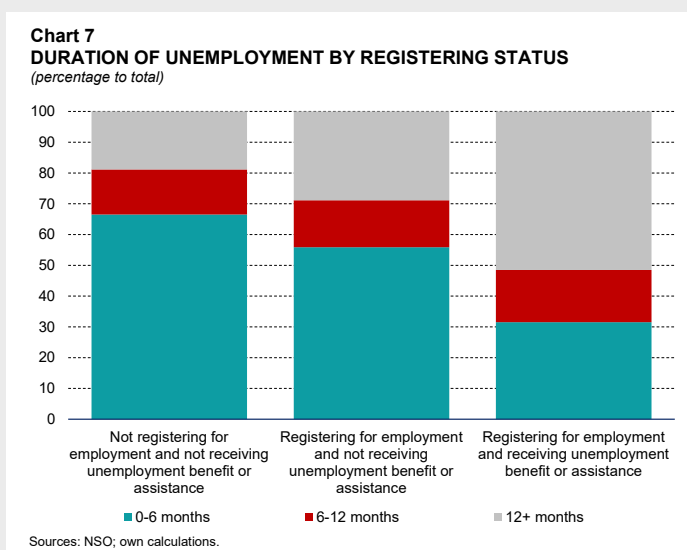
Chart 6
DURATION OF UNEMPLOYMENT BY EDUCATION LEVEL
(percentage to total)



Sources: NSO; own calculations.

is out of work, is available to work, and is actively looking for a job. In addition, the LFS prompts on whether an unemployed individual is registering for work with JobsPlus (as the Gov agency responsible for employment in Malta), and whether that person is in receipt of unemployment-related benefits.

This is particularly important to understand within the context of the assessment regarding the effectiveness of active labour market policies, as the latter's main aim is to enhance work incentives especially for persons receiving benefits. The findings from this analysis are consistent with the literature. The proportion of short-term unemployed workers is much higher for the group not registering for work or receiving benefits, with 68.3% of persons in this group having been unemployed for less than a year (see Chart 7). Meanwhile, 44.6% of those who were registering for work but who did not receive unemployment benefits are short-term unemployed and are just 33.6% of those who register and receive benefits classified in the same category. Hence, individuals who register for employment and receive unemployment benefits or other social assistance have a higher probability to remain longer in unemployment.



The future of LMP in Malta

The long-term unemployment rate, which is typically less dependent on cyclical factors than the short-term unemployment rate, has declined more strongly than the latter over the period 2014 to 2019, driven by the increased focus on labour market activation policies. To determine the strengths and weaknesses of Malta's labour market and its performance in comparison to its peers, one can refer to the European Skills Index.⁶

Chart 8, based on the European Skills Index 2020, indicates that in 2018, Malta performed very well in both pillar groups of skills matching (i.e. skills utilisation and skills mismatch) and ranked second out of 31 countries. Likewise, Malta had a score of 75 in labour market participation and a score of 81 in transition to work pillar groups which combined, make up skills activation. However, Malta lags in both pillars of skills development obtaining a score of 37 in the basic education pillar group and 36 in the training and other education

⁶ The European Skills Index is a composite indicator of skills developed by the European Centre for Development of Vocational Training (CEDEFOP). It measures a country's "distance to ideal" performance, which is the highest achieved performance by any country in the last seven years. It is composed of 15 individual indicators, aggregated into three pillars, namely: skills development, activation, and matching. The scores are averaged to form a final index ranging from 0 to 100. A score of 0 corresponds to the lowest performance, while a score of 100 corresponds to the best performance. See <https://www.cedefop.europa.eu/en/publications-and-resources/data-visualisations/european-skills-index> for further details.

pillar group, suggesting room for improvement in this area.

While LMP is limited in its ability to address challenges in basic education, it is well placed in creating incentives to improve on training and other education. Indeed, programmes such as the ICT4all, the Community Work Scheme, the Youth Guarantee Scheme, the Training Pays Scheme, and the Work Programme

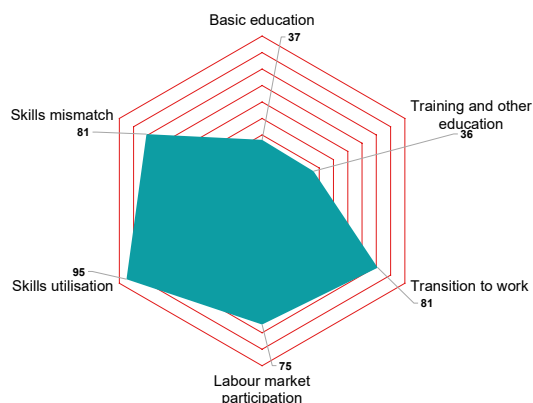
Initiative have been specifically targeted to improve skills and employability. However, problems related to skills gaps remain, as indicated by low scores in the skills development indicator.

In establishing policies, their correct design is paramount to their success. Firstly, it is important that all training undertaken is recognised and appropriately credited. This is in line with the European Commission's 2020 Skills Agenda which aims at a standard European approach to micro-credentials. Having tangible qualifications and credentials leads to improved job finding. Secondly, appropriate targeting is necessary to ensure positive employment effects.

Moreover, training schemes designed to upskill and improve the employability of the unemployed are often associated with what is known as the lock-in effect.⁷ This is the increased period of unemployment during the time the unemployed person is undertaking the training exacerbated by the fact that during this time individuals drastically reduce their job searching efforts. Such lock-in effects, especially during periods of strong growth, could discourage prospective participants from taking part in such schemes as they would be better off investing their time in job search. It is thus vital to combine training with other forms of LMP to limit the downsides related to such lock-in effects. For example, Switzerland made use of so-called "practice firms" to combine temporary employment with additional training programs, as well as dedicating time for actual job search (60/20/20 split of time). This allows unemployed workers to improve their skills with a reduced lock-in effect.⁸

Prior to the COVID-19 pandemic, the Maltese labour market achieved practically full employment and economic growth was facilitated by the importation of foreign labour given

Chart 8
MALTA'S PERFORMANCE IN THE EUROPEAN SKILLS INDEX
(percentage)



Source: CEDEFOP.

⁷ See Duell, N., P. Tergeist, U. Bazant and S. Cimper (2010), "Activation Policies in Switzerland", OECD Social Employment and Migration Working Papers, www.oecd.org/els/workingpapers, and Forslund, A., Fredriksson, P. & Vikström, J. 2011, "What active labor market policy works in a recession?", *Nordic economic policy review*, no. 1, pp. 171-201.

⁸ See Duell, N., P. Tergeist, U. Bazant and S. Cimper (2010), "Activation Policies in Switzerland", OECD Social Employment and Migration Working Papers, www.oecd.org/els/workingpapers

the demographic characteristics of the Maltese population. However, the fast pace of economic growth that Malta enjoyed over the past years can only be sustained by a shift in emphasis towards productivity, especially through the upskilling of the labour force. Upskilling and re-skilling will become an even more fundamental priority to recover from the deep economic shock arising from the pandemic especially as certain sectors are likely to be required to invest to adapt to new technologies and survive the digital transition process. Hence, there is now an opportunity and a strong need to upskill the labour force with a particular focus on transferable skills, i.e. skills that could be used in a variety of roles, thus making jobseekers more attractive to prospective employers.

BOX 3: MALTA'S GOVERNANCE FRAMEWORK: INSIGHTS FROM INTERNATIONAL GOVERNANCE INDICATORS¹

Introduction

In recent years, Malta's governance framework has been the subject of much debate among both local and foreign stakeholders. This despite the difficulties encountered in properly measuring governance standards not least because quantitative data that could possibly shed light on governance quality is often absent. As a result, assessments are generally based on qualitative data gathered either through surveys or expert judgements.

These assessments are often brought together in indices such as those constructed by the World Bank as part of its Worldwide Governance Indicators (WGI) project. In turn, such indices often inspire evaluations of the quality of governance in a country. Since such indices do not usually comprise an exhaustive list of data sources and elements of governance, their construction may be complemented by other assessments made by credit rating agencies such as Moody's, which passes its judgement on the credit quality effect of sovereigns' environmental, social and governance (ESG) standards.

In the European Union, the European Commission regularly monitors governance standards in the respective countries and makes country-specific recommendations accordingly, with such recommendations often complementing others made by other institutions such as the Council of Europe. Credit rating agencies also use measures of governance when assigning credit ratings to sovereign debt. This further generates a need for policy makers to formulate policies that strengthen the country's governance framework, while at the same time optimising economic performance and growth opportunities.

This analysis uses the WGI and the ESG scores published by Moody's to shed light on Malta's governance framework.²

The Worldwide Governance Indicators

The WGI project assesses governance quality in a country based on six elements of governance, namely (1) voice and accountability; (2) political stability and absence of violence/terrorism; (3) government effectiveness; (4) regulatory quality; (5) rule of law; (6) control of corruption.

A country's performance in each indicator is assessed from data gathered by numerous sources comprising public sector organisations, non-governmental organisations (NGOs), commercial business information providers and surveys of households and firms. These predominantly capture the opinions of households, firms, analysts at multilateral organisations and other respondents with knowledge and experience of the country to be rated. Consequently, the

¹ Prepared by Nathaniel Debono, a Research Economist in the Modelling Office within the Economics and Research Division of the Central Bank of Malta. Helpful comments and suggestions by Governor Edward Scicluna, Deputy Governor Alexander Demarco, Aaron G. Grech and Brian Micallef are gratefully acknowledged. The views expressed in this paper are those of the author and do not necessarily reflect those of the Central Bank of Malta. Any errors are the author's own.

² Further details about the methodology and indicators are available in Debono, N. (2021), [Malta's governance framework: Insights from international governance indicators](#), Central Bank of Malta, *Policy Note*, August 2021.

scores of each indicator and, by extension, assessments of a country's governance framework are largely reliant on respondents' subjective assessments and perceptions.

Under the methodology applied in the WGI project, each country's performance in the respective governance indicators is ranked on a standard normal distribution, with a mean of zero, standard deviation of one and ranging between -2.50 (poor governance level) and +2.50 (best possible governance level). Based on these estimates, countries are further classified on a percentile rank.

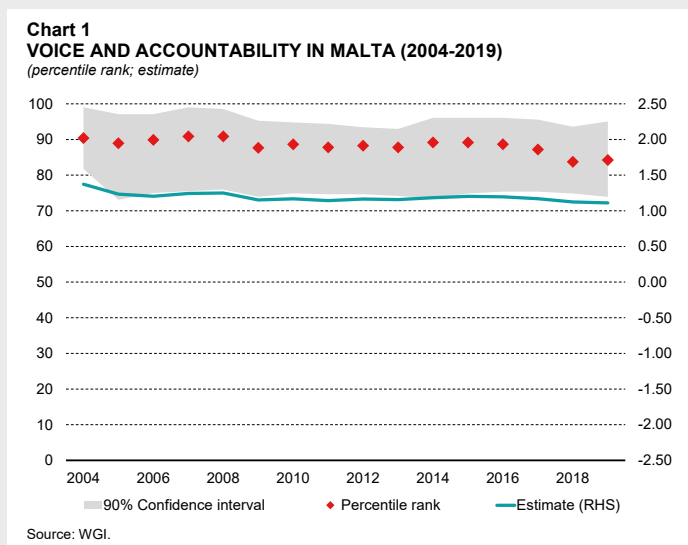
The highest levels of governance recorded in this set of indicators are generally observed in well-developed countries such as New Zealand, Singapore, Finland, Norway, and Sweden. On the other hand, less developed countries are judged to have among the poorest governance frameworks in the world, especially war-torn countries.

While the WGI provide useful information about a country's governance standards, sole reliance on aggregate scores as indicators of governance quality has some limitations. Apart from the fact that scores are largely based on subjective assessments by different sources, key information about the background to these scores and the underlying sources is often lacking. Moreover, some data sources do not provide any public justification for certain changes in scores between years. In addition, changes in a country's governance scores provided by a particular source may not necessarily reflect true changes in the country's governance quality but may be due to other methodological changes, such as changes to the criteria on which countries are assessed. In other instances, aggregate ratings may change because certain data sources are dropped as new ones are introduced or because of changes in the weighting procedure.

Voice and accountability

As defined by the World Bank, this indicator captures perceptions of the extent to which a country's citizens are able to participate in selecting their government as well as freedom of expression, freedom of association and a free media.

Chart 1 shows that in recent years, Malta has consistently ranked above the 80th percentile (before confidence intervals are considered) for its voice and accountability. Malta's score in this indicator is derived from information provided by six sources. Assessment of voice and accountability in Malta is currently based on a wide variety of factors including

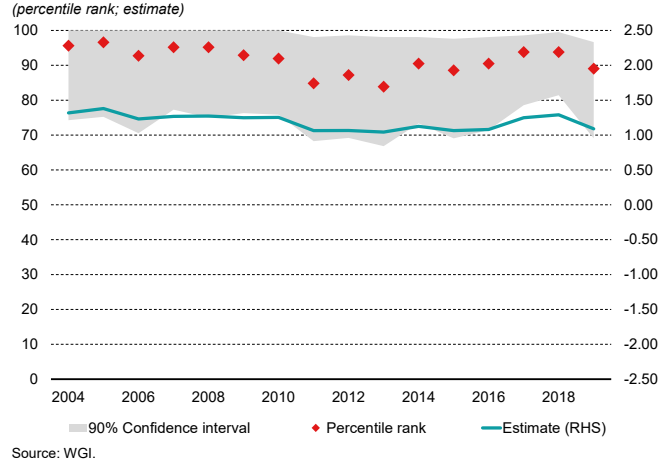


(but not limited to) the extent of political rights, civil liberties, the threat of military involvement in politics, press freedom and surveys about citizens' confidence in the honesty of elections.

Political stability and absence of violence/terrorism

This indicator captures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.

Chart 2
POLITICAL STABILITY AND ABSENCE OF VIOLENCE/TERRORISM IN MALTA (2004-2019)
(percentile rank; estimate)



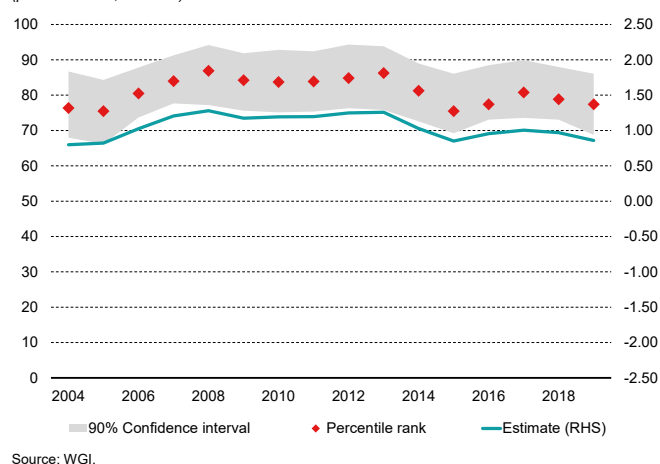
In terms of its political stability and absence of violence/terrorism in the country, Malta is among the best-performing countries in the world, ranking in around the 90th percentile on a consistent basis since at least 2004 (see Chart 2). This reflects the consistently high ratings awarded by the sources that provide the information used to shape assessments of political stability and absence of violence/terrorism in the country. Among others, the factors used to determine the extent of political stability and absence of violence/terrorism in Malta include the risks of protests or riots, terrorism and wars, prevalence of crime, risks of armed conflict, violent demonstrations and internal and external conflicts.

Government effectiveness

A country's government effectiveness is determined by the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies.

In recent years up to 2019, perceptions of Malta's government effectiveness took a negative turn (see Chart 3). The country's score for this indicator is largely influenced by

Chart 3
GOVERNMENT EFFECTIVENESS IN MALTA (2004-2019)
(percentile rank; estimate)



assessments made by commercial business information providers, namely the Economist Intelligence Unit, IHS Markit World Economic Service, and Political Risk Services. Such assessments are largely based on views of institutional effectiveness and bureaucratic quality, while since 2014, the IHS Markit World Economic Service started considering the adequacy of a country's infrastructure, the risk that the State fails in its responsibilities and the risk of policy instability. Although scores reflecting Malta's performance in each separate measure are not publicly available, the organisation's perceptions of Malta's government effectiveness took a negative turn when the change in assessment criteria came into effect in 2014.

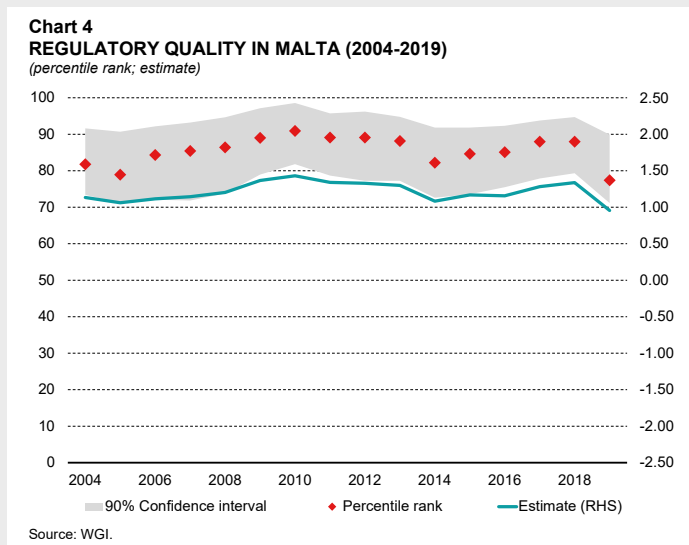
On the other hand, surveys carried out among Maltese households and firms show a more positive outlook. Although road infrastructure in Malta is still deemed to be quite poor, firms surveyed in the World Economic Forum Global Competitiveness Survey have relatively positive views of the country's air transport and seaport efficiency. In fact, Malta ranked 22nd and 27th among 141 countries in these two measures, respectively, in 2019. Moreover, surveys performed by Gallup to capture local households' views of the quality of Malta's education system, roads and highways, and the public transportation system also show increasingly positive perceptions among Maltese households.

Regulatory quality

This indicator captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Malta's regulatory quality has been deemed to be relatively strong in recent years, but the country's score in this indicator dropped sharply in 2019 (see Chart 4). This drop can be traced to poorer assessments of Malta's investment profile made by staff at the Political Risk Services Group. A country's investment profile is shaped by an assessment of three factors that may impact investment in a country, namely the risks of contract viability or expropriation, profits repatriation and payment delays. No explanation of the decline in Malta's score in 2019 is made available as the group's assessments of Malta's performance in each criterion are only available commercially.

With few exceptions of sources carrying minimal weighting, assessments of Malta's regulatory quality made by the other five sources have consistently been relatively positive in recent years. Among others, the assessed factors include

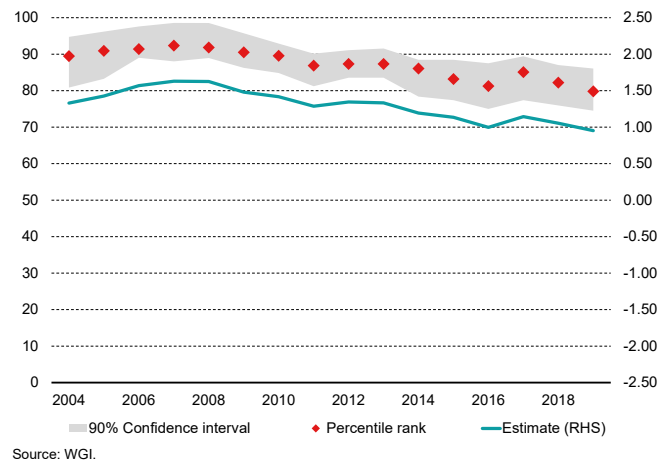


the presence of any unfair competitive practices, the efficiency of tax collection systems, quality of business legislation and burden of government regulation.

Rule of law

Assessments of rule of law are based on perceptions of the extent to which agents have confidence in and abide by the rules of society and in particular, the quality of contract enforcement, property rights, the police, and the courts as well as the likelihood of crime and violence.

Chart 5
RULE OF LAW IN MALTA (2004-2019)
(percentile rank; estimate)



As evidenced in Chart 5, perceptions of Malta’s rule of law have worsened up to 2019. The strength of Malta’s rule of law is based on numerous factors, ranging from public confidence in the police force and the judicial system, to assessments of risks of expropriation, the fairness, speediness and independence of the judicial process, the extent to which property rights are protected and the extent to which crime is a problem for government and businesses. The WGI also consult the ‘Trafficking in Persons Report’ issued by the US State Department, considering sex trafficking and labour trafficking. In this report, Malta is perceived as a country which, while “not fully meet(ing) the minimum standards for the elimination of trafficking fully, it is making significant efforts to do so”.³

Overall, perceptions of commercial business information providers have almost consistently worsened during the past few years up to 2019. On the other hand, a Gallup survey among households shows different trends. The questions considered relate to households’ confidence in the country’s police force and the judicial system and their sense of security in the country, captured through a question asking whether the respondent had ever been assaulted or mugged or whether they had ever fallen victims of stolen money property. Although disaggregated scores are only made commercially available, the citizens’ overall views of these factors seem to have improved considerably over time.

Control of corruption

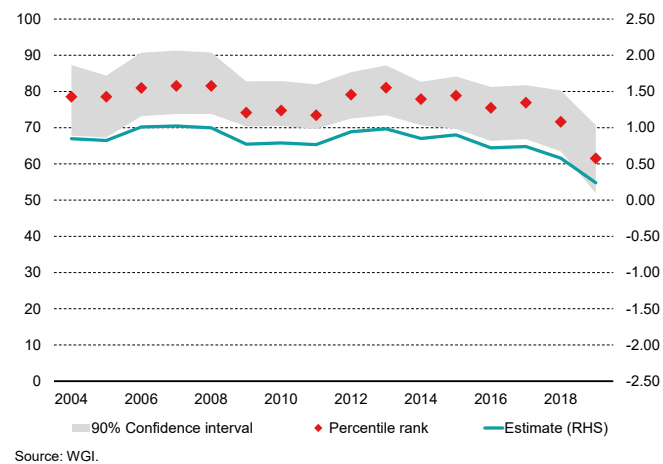
Control of corruption in a country is determined by perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

³ U.S. Department of State, ‘2019 Trafficking in Persons Report: Malta’.

Judging by the information available in the WGI, the control of corruption in Malta appears to be the weakest element of the country's governance framework (see Chart 6). Moreover, scores have followed a downward trend up to 2019, reflecting increasingly negative perceptions of Malta's control of corruption. Corruption, as measured by the six data sources providing information about the situation in Malta

includes both financial corruption such as bribery or undocumented extra payments, and corruption in the form of excessive patronage, nepotism, favour-for-favours and close ties between politics and business.

Chart 6
CONTROL OF CORRUPTION IN MALTA (2004-2019)
(percentile rank, estimate)



Moody's environmental, social and governance standards

The credit rating agency Moody's issues another set of scores, reflecting its assessments of sovereigns' ESG standards and how these affect a country's credit quality. Moody's consults country information from public sources and provides its expert judgement to assess the extent to which countries are exposed to ESG risks.

A sovereign's environmental risk is based on assessments of a country's physical climate, water management, waste and pollution, carbon transition and natural capital. Assessments of social risks are based on consideration of risks associated with demographics, labour and income inequalities, access to quality education, housing, health and safety concerns and access to basic services. Moody's assessment of a sovereign's governance risk is based on four aspects, namely institutional structure, policy credibility and effectiveness, transparency and disclosure, and budget management. Based on these respective assessments, countries are awarded an overall credit impact score (CIS), reflecting the impact of ESG factors on credit quality.

Overall, Malta's ESG risks are deemed to have a 'moderately negative' impact on Malta's credit quality. The country's CIS score is largely driven by assessments of 'moderately negative' exposure to environmental and social risks. On the other hand, Malta is considered to be a country that actually benefits from having a strong governance framework. However, the overall impact of ESG factors on credit quality for Malta seems to be mostly affected by the 'moderately negative' exposure to environmental and social risks.

Exposure to environmental risks

Moody's assessment of a 'moderately negative' exposure to environmental risks are largely driven by the agency's assessment that Malta suffers 'moderately negative' risks associated with its physical climate and water management. On the other hand, the country's susceptibility to risks associated with carbon transition, depletion of natural capital, and waste and pollution is deemed to be 'neutral-to-low'.

Exposure to social risks

Malta is judged to have 'highly negative' risks associated with its demographics, possibly due to the country's ageing population, persistence of gender inequalities and rapid immigration, all of which are viewed by Moody's as potential leads to social risks. Furthermore, Malta is considered to be suffering 'moderately negative' risks associated with labour and income inequalities, whereas risks related to education, housing, health and safety, and access to basic services in Malta are assessed to be 'neutral-to-low'. Overall, Malta's exposure to social risks is assessed to be 'moderately negative'.

Exposure to governance risks

Overall, Malta is judged to have very strong governance standards. The country's overall score is largely due to 'positive' perceptions of Malta's budget management, transparency and disclosure, and policy credibility and effectiveness. The quality of the country's institutions are deemed to pose a 'neutral-to-low' risk but they seem to have had no impact on the overall perceptions of the extent of governance risks facing Malta.

Conclusion

Despite the emphasis being placed on governance in recent years, difficulties persist in uniformly defining and measuring countries' governance standards. This study attempted to shed some light on the Maltese governance framework using two sources of data: the WGI and the ESG standards issued by the credit rating agency Moody's.

Among the WGI, 'political stability and absence of violence/terrorism' and 'voice and accountability' appear to be Malta's best elements of governance. Perceptions of 'government effectiveness', 'regulatory quality', 'rule of law', and 'control of corruption' in Malta have become less favourable in recent years up to 2019, with the latter standing out as the weakest element in the country's governance framework. Delving into the data sources behind Malta's score in the respective indicators, it appears that for the most part, the decline in many indicators results from changes in assessments made by a small number of commercial and non-governmental organisations whereas surveys among local households do not tend to show similar trends. As also pointed out by the producers of these indicators, this highlights the need to supplement these indices with other country-specific information in the designation of policies aimed at improving governance standards.

One such other source of information is provided by Moody's who assess Malta's ESG risks to have an overall 'moderately negative' impact on the country's credit quality. This overall score is largely driven by the agency's assessment of a 'moderately negative' exposure to environmental and social risks. Although Malta's quality of institutions is judged

to pose a 'neutral-to-low' risk for the country, Malta is considered to benefit from having a strong governance framework, predominantly thanks to its budget management, transparency and disclosure, and policy credibility and effectiveness.

The lack of quantitative data means that the quality of governance as assessed by these sources is often based on qualitative data gathered either through surveys or expert assessments. This makes the determination of the quality of governance in a country largely dependent on subjective assessments, which may not always be accurate. While this represents a potential caveat, these sources of information are particularly useful in light of the increasing pressure on countries to have robust standards of governance.

3. PRICES, COSTS AND COMPETITIVENESS

Annual inflation as measured by the HICP stood at 2.6% in December, above that of 0.7% recorded in September. All components except energy prices registered faster growth, although services inflation was the main driver behind the increase in inflation between September and December.

Annual inflation based on the RPI – which only takes into account expenditure by Maltese residents – rose from 2.2% in September to 2.6% in December. Producer price inflation also increased sharply, reaching 7.4% in December from 5.5% three months earlier. Meanwhile, Malta's ULC index, measured on a 4-quarter moving average basis, declined by 2.1% in the fourth quarter as productivity rebounded more strongly than compensation. However, the index stood above its pre-pandemic level. Malta's HCIs point to an improvement in international competitiveness between September and December 2021.

Inflation

HICP inflation increases

Annual HICP inflation increased to 2.6% in December from 0.7% in September (see Table 3.1).¹ Notwithstanding this increase, HICP inflation in Malta was below that recorded in the euro area where inflation ended the year at 5.0% (see Chart 3.1). This divergence stems from energy prices which were unchanged in Malta but rose by an annual 25.9% in the euro area (see Chart 3.2). In addition, other transitory factors such as the reversal of the German VAT rate cut in January

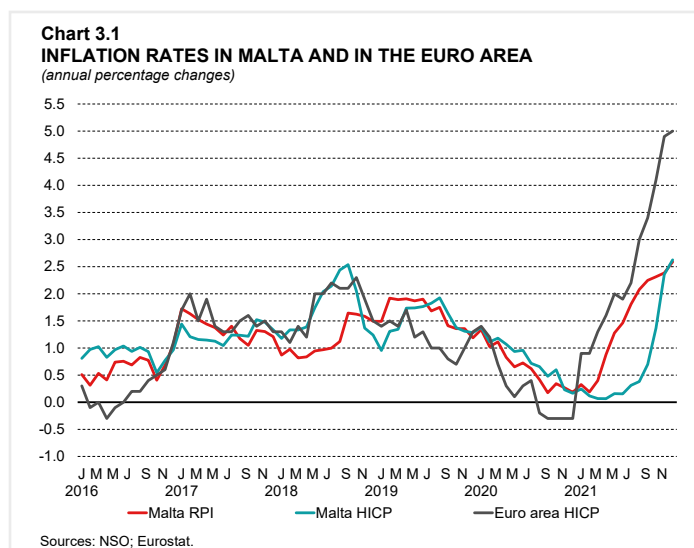


Table 3.1

HICP INFLATION

Annual percentage change

	2021											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Unprocessed food	-2.5	-2.0	1.1	2.5	4.1	6.2	8.8	9.4	10.6	7.5	9.7	11.3
Processed food including alcohol and tobacco	1.0	0.7	0.6	0.3	0.6	0.5	0.6	0.6	0.7	1.0	1.3	2.0
Energy	-3.5	-3.5	-3.5	-3.2	-3.2	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
NEIG	0.4	0.3	0.4	0.8	1.0	0.9	1.4	2.2	2.2	3.1	2.7	2.6
Services (overall index excluding goods)	0.7	0.6	0.3	0.4	0.5	0.5	0.3	0.1	0.3	0.9	2.1	2.3
All Items HICP	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.7	1.4	2.4	2.6

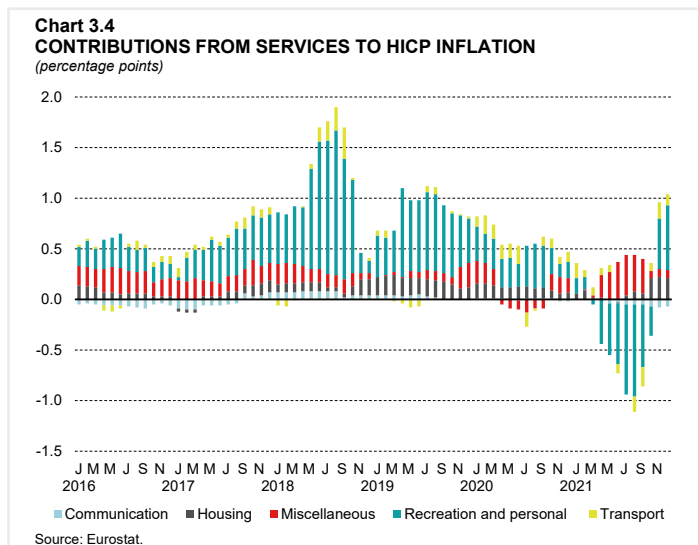
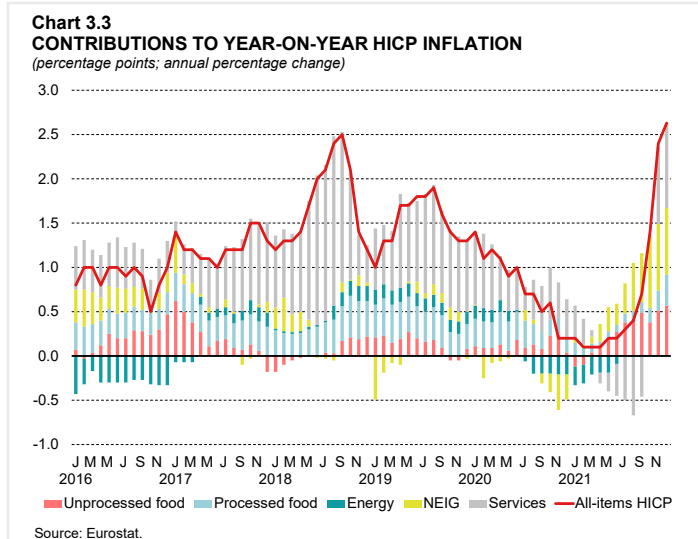
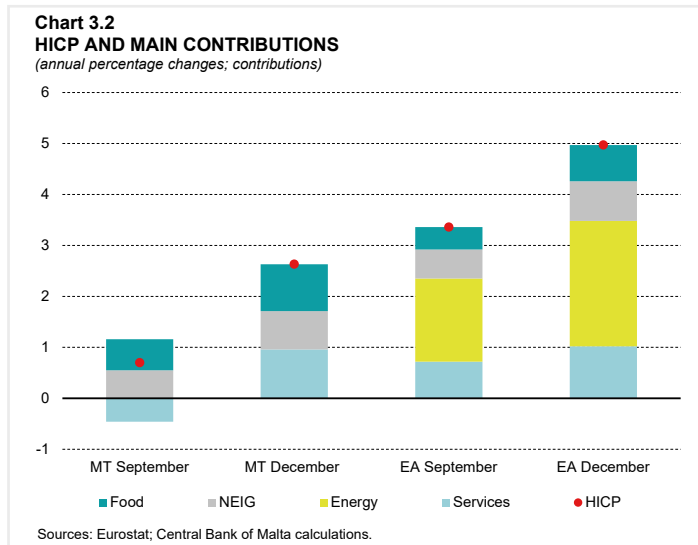
Source: Eurostat.

¹ The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2021, the weight allocated to services stand at 42.6%, while that of NEIG is 28.6%. Food accounts for 22.1% of the index, while the share allocated to energy stands at 6.7%. These were revised from 47.2% for services, 27.1% for NEIG, 19.7% for food, and 6.0% for energy in 2020.

2021 also contributed to the wedge between euro area and domestic inflation. The change in HICP weights in response to the pandemic's impact on households' consumption basket that took place in 2021 had a small negative impact of 0.1 percentage point on overall HICP inflation in Malta in December. Furthermore, this impact was similar to that estimated for the euro area. The revision in HICP weights in response to pandemic-related changes in consumption patterns thus was immaterial for the divergence between Malta's HICP inflation rate and that in the euro area in December.²

The rise in HICP inflation relative to September reflected faster growth in all components except energy prices, which remained unchanged in annual terms (see Chart 3.3). Furthermore, around three-fourths of the rise in inflation between September and December was driven by services inflation.

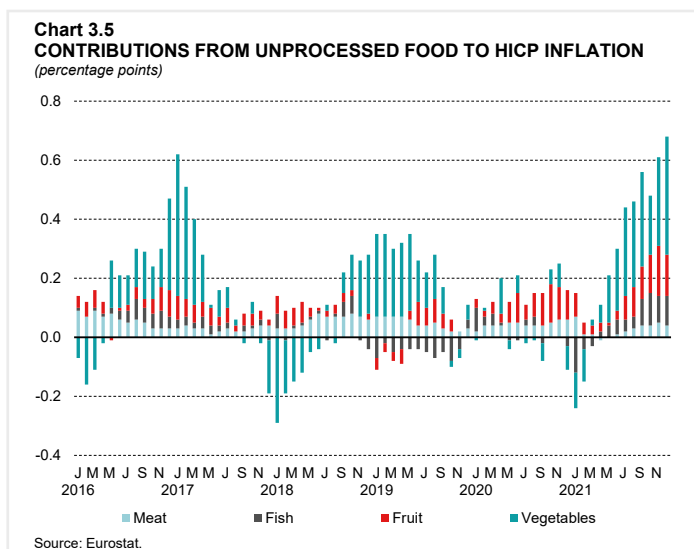
The latter increased from 0.3% in September to 2.3% in December (see Chart 3.4). This increase mainly reflected developments in the prices of restaurant services, which are included in recreation and personal care. This component had a strong positive contribution to inflation in December after exerting a negative contribution in September. The prices of transport and housing services also rose at a faster pace.



² An assessment of the effect of the changes in HICP weights on euro area inflation is available in the ECB *Economic Bulletin*, [Issue 1/2022](#).

By contrast the prices of miscellaneous services rose at a slower pace compared with September while those of communication services fell at a slightly faster rate.

Food inflation increased during the quarter under review. Unprocessed food inflation rose to 11.3% from 10.6% in September, driven by stronger increases in prices of vegetables and fruit (see Chart 3.5). Processed food inflation also increased, reaching 2.0% from 0.7% previously. As a result, the overall contribution of food to HICP inflation stood at 0.9 percentage point in December, up from 0.6 percentage point in September.



NEIG inflation increased to 2.6% in December from 2.2% in September. This pick-up may reflect some pass-through to consumer prices from the recent rise in input costs in the context of pandemic-related disruptions to global value chains.

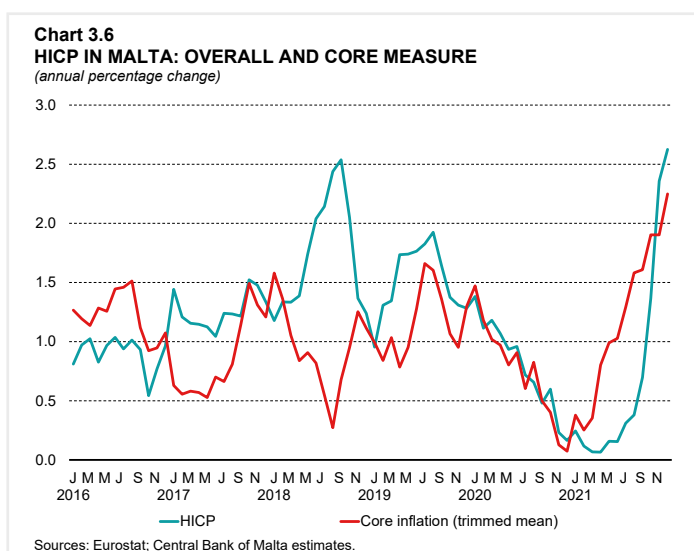
Energy inflation was unchanged at 0.0% in December, as electricity, gas and transport fuel prices were kept unchanged.

Core HICP inflation increases further

Core inflation rose to 2.2% in December from 1.6% three months earlier (see Chart 3.6).³ Hence, it was slightly lower than overall HICP inflation. The divergence between the two measures of inflation largely reflects the exclusion of volatile items from the core measure.

RPI inflation increases

Annual inflation based on the RPI index – which is based on a different basket of goods and services from the HICP index as well as a different frequency of weight updates – edged up to



³ The Bank uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile subcomponents of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation Measures for Malta", *Quarterly Review* 2014(3), pp. 39-45, Central Bank of Malta.

Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION

Percentage points

	2021											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Food	0.1	0.0	0.1	0.1	0.5	0.5	0.6	0.7	0.8	0.7	1.0	1.1
Beverages and tobacco	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Clothing and footwear	0.1	0.0	0.1	0.2	0.2	0.1	0.0	0.2	0.2	0.3	0.1	0.0
Housing	0.1	0.1	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Water, electricity, gas and fuels	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Household equipment and house maintenance costs	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2
Transport and communications	-0.3	-0.3	-0.2	-0.2	-0.3	-0.1	0.1	0.2	0.2	0.2	0.2	0.3
Personal care and health	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Recreation and culture	0.0	0.1	0.1	0.4	0.4	0.4	0.5	0.5	0.5	0.3	0.3	0.3
Other goods and services	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
RPI (annual percentage change)	0.3	0.2	0.4	0.9	1.3	1.5	1.8	2.1	2.2	2.3	2.4	2.5

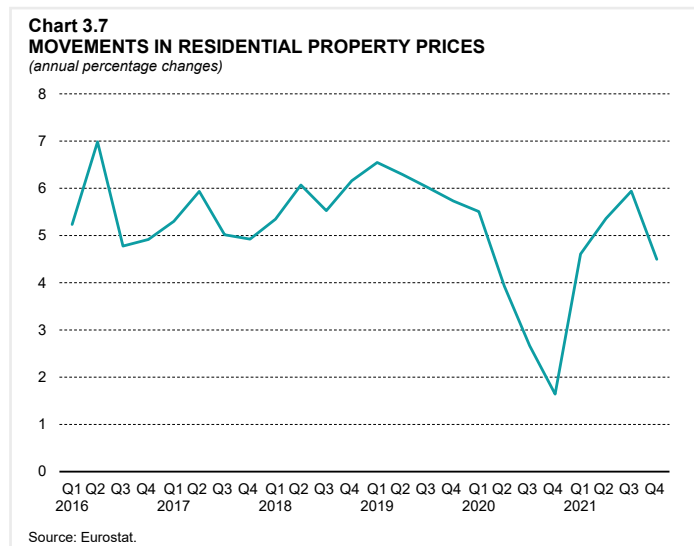
Source: NSO.

2.6% in December from 2.2% in September (see Table 3.2).⁴ The increase in RPI inflation was primarily driven by a higher contribution from food prices – which was also the main driver of inflation in December. The contribution of prices for beverages and tobacco, housing, transport and communications services as well as that of ‘other goods and services’ also increased. On the other hand, the contribution of recreation and culture services as well as clothing and footwear decreased while energy tariffs continued to have a neutral impact on overall RPI inflation in the period under review.

Residential property prices

Residential property prices grow at a slower pace

The NSO’s Property Price Index (PPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – continued to increase in annual terms. However, the annual rate of change slowed down to 4.5% in the last quarter of 2021 from 5.9% in the preceding quarter (see Chart 3.7).⁵ Moreover, house price inflation in Malta remained significantly below that in the euro area where prices increased at an annual rate of 9.4%.



⁴ The RPI index differs from the HICP index in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta, such as accommodation services. See Darmanin, J. (2018), “Household Expenditure in Malta and the RPI Inflation Basket”, *Quarterly Review* 2018(3), pp. 33-40, Central Bank of Malta. Due to the strong impact of the pandemic on tourist expenditure, the two measures are expected to diverge significantly as weights in the HICP have changed significantly while those of the RPI have not been adjusted.

⁵ ‘Apartments’ are defined as dwellings with self-contained rooms or a suite of rooms that have a separate entrance accessible from a common passageway, landing or stairway. ‘Maisonettes’ have a separate entrance that is accessible from the street and are either at ground-floor level with overlying habitation, or at first-floor level with underlying habitation. ‘Terraced houses’ are dwellings with at least two floors, own access at street level and airspace, and with no underlying structures that are not part of the house itself. They are attached to other structures on both sides.

Notwithstanding the slower growth recorded in the fourth quarter of 2021, the annual average house price inflation remains close to that recorded in the last four years before the pandemic. At the same time, residential property prices seem to have returned to a dynamic path following the slowdown in growth during the initial stages of the pandemic.

Residential property prices are being supported by numerous factors including the low-interest rate environment and a number of Government schemes, which include the temporary measures launched following the pandemic. Such schemes reflect, for example, lower property tax rate and stamp duty to eligible transfers of immovable property. In particular, in 2020, the property tax and stamp duty on the first €400,000 of the value of the transfer were reduced to 5.0% and 1.5% respectively.⁶ Moreover, Budget 2021 and Budget 2022 extended or introduced more incentives supporting the property market that were in place before the pandemic.⁷

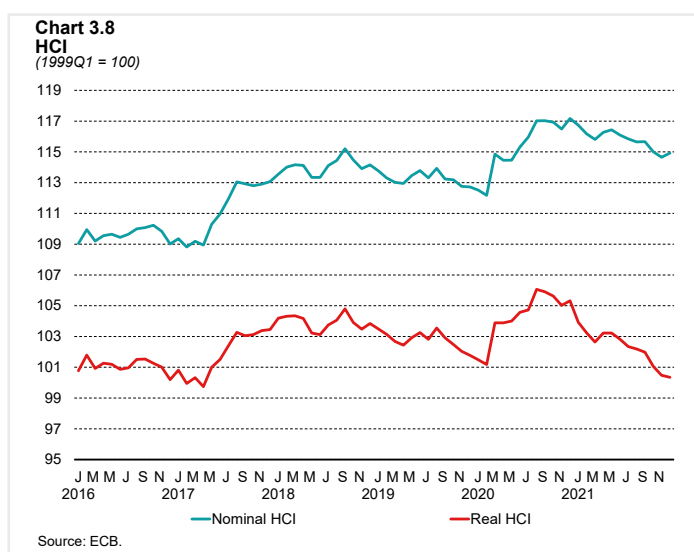
Costs and competitiveness

Producer price inflation increases further

Annual inflation based on the industrial producer price index, which is a measure of the change in the prices of goods sold by producers in the industrial sector, rose from 5.5% in September to 7.4% in December.⁸ This has reflected the developments in the prices of all components except for energy and durable consumer goods as inflation in these components remained zero. Prices of intermediate goods recorded the strongest increase, rising by 11.6% in annual terms and contributing 4.0 percentage points to overall producer price inflation in December. The strong increase in producer prices during December might reflect the lagged impact of recent increases in cost pressures due to ongoing global supply bottlenecks.

HICs point to a further improvement in competitiveness

Annual growth in Malta's nominal HCI turned negative in July and remained in negative territory thereafter.⁹ In December, the nominal HCI declined by an annual rate of 1.9%, reflecting the euro's depreciation against currencies of trading partners (see Chart 3.8). At the same



⁶ These reductions in taxes on property transfers and stamp duty were introduced in terms of Legal Notices 240 and 241 of 2020. This measure was extended by Legal Notice 427 of 2020. Legal Notice 130 of 2021 and Legal Notice 324 of 2021. Legal Notice 241 was followed by Legal Notices 459 of 2020, 129 of 2021 and 325 of 2021.

⁷ These include the first-time and second-time buyers' schemes, the purchase of vacant property located in Urban Conservation Areas (UCA), purchases of property in Gozo as well as the refund schemes for restoration expenses. Furthermore, the threshold for the duty exemption for first time buyers was increased from €175,000 to €200,000, while that applicable on immovable property donated by parents to their descendants was increased from €200,000 to €250,000. Additional tax exemptions on property within UCA, and properties that are vacant or built in a traditional style were announced in the Budget for 2022.

⁸ 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.

⁹ HICs act as an EER 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. 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.

time, the real HCI fell by 4.7%, suggesting that the gain in international competitiveness arising from a weaker euro was amplified by favourable developments in relative prices vis-à-vis trading partners.

When compared with September, both the nominal and real HCI declined, suggesting that price competitiveness also improved on a quarter-on-quarter basis.

ULCs decline but remain above pre-pandemic levels

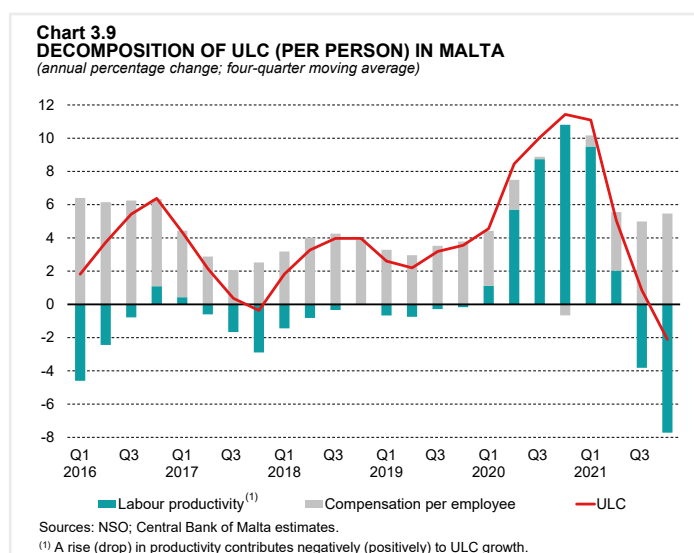
Malta's ULC index – measured as the ratio of compensation per employee to labour productivity – declined during the fourth quarter of 2021 when compared with the previous quarter.¹⁰ When measured on a 4-quarter moving average basis in headcount terms, ULCs in Malta fell at an annual rate of 2.1%. This followed a 0.9% increase in the previous quarter (see Chart 3.9).

The recent fall in ULCs occurred as productivity rebounded more strongly than compensation per employee. Compensation per employee rose by 5.5% in the year to December following a 5.0% increase in the year to September.

Labour productivity based on 4-quarter moving averages increased by an annual 7.7% following a 3.8% increase in the third quarter of 2021. This improvement in labour productivity reflects the stronger increase in economic activity compared to that in employment. This is due to the resilience of employment displayed last year, which reflected an element of labour hoarding following an extended period of labour shortages as well as government support measures intended at limiting job losses. In particular, the Wage Supplement Scheme meant that employment levels remained elevated ever since the pandemic hit.

It is notable that although annual growth in ULCs per person was negative in the last quarter of 2021, when measured on a 4-quarter moving average basis they remained above pre-pandemic levels.

National accounts data show that, when measured on a four-quarter moving average basis, total hours worked were broadly unchanged in annual terms in the last quarter of 2021.¹¹ As the wage bill increased strongly, compensation per hour increased by 7.4% in the last quarter of the year following a 7.0% increase in the previous quarter.

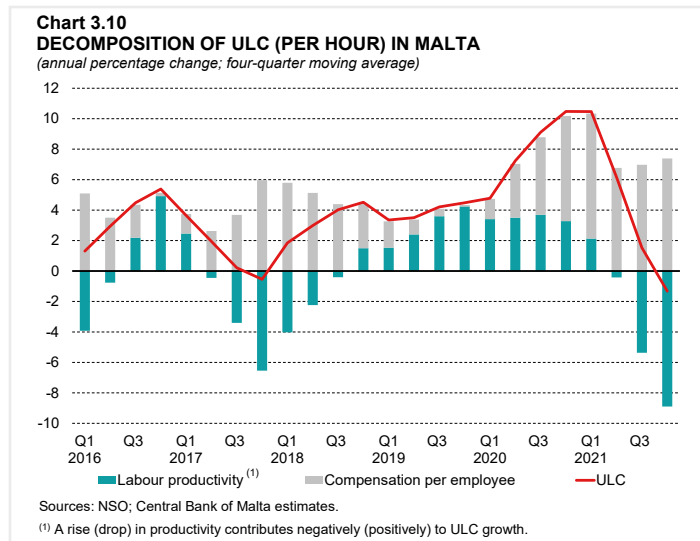


¹⁰ Annual growth in ULC, compensation per employee and labour productivity is measured on a 4-quarter moving average basis. A degree of caution is required in the interpretation of ULC in view of contemporaneous structural shifts in the composition and factor-intensity of production, notably the shift to labour-intensive services. See Micallef, B. (2015), "Unit labour costs, wages and productivity in Malta: a sectoral and cross-country analysis", *Policy Note* August 2015, Central Bank of Malta, and Rapa, N. (2016), "Measuring international competitiveness", *Quarterly Review* 2016(1), pp. 53-63, Central Bank of Malta.

¹¹ Hours worked refer to employee hours.

Meanwhile, productivity per hour increased by 8.9% after rising by 5.4% in the third quarter. Following this marked improvement in productivity per hour, ULCs per hour decreased by 1.3% in the last quarter of 2021 following a 1.5% increase in the previous quarter (see Chart 3.10).

Although productivity per hour stood above its 2019 level, the increase in the hourly wage rate was more significant. As a result, similar to ULCs in head-count terms, ULCs per hour stood above their pre-pandemic level.



4. THE BALANCE OF PAYMENTS

During the fourth quarter of 2021, the current account turned to a deficit from a surplus a year earlier. This shift was mostly due to a significant increase in the merchandise trade deficit. An increase in net outflows on the primary income account also contributed but to a much lesser extent. By contrast net services receipts increased and net outflows on the secondary income account decreased.

In the quarter under review, net inflows on the capital account increased negligibly when compared to the corresponding quarter of last year while net borrowing on the financial account increased considerably over the fourth quarter of 2020.

When measured as a 4-quarter moving sum, the current account balance registered a deficit equivalent to 5.9% of GDP. This contrasts with a current account surplus of 2.4% of GDP in the euro area.¹

The cyclically-adjusted current account balance is estimated to have recorded a deficit of 4.4% during the fourth quarter of 2021.

The current account

The current account shifts to a deficit

Between October and December 2021 the current account of the balance of payment registered a deficit of €224.9 million compared to a surplus of €45.1 million in the same quarter of 2020 (see Table 4.1). This shift to a deficit was driven by a significant increase in the merchandise trade deficit. Higher net outflows on the primary income account also contributed albeit to a much lesser extent. These offset an increase in net services receipts and lower net outflows on the secondary income account.

When measured over the year to December, the balance on the current account showed a deficit of €854.4 million, more than double the deficit of €373.7 million recorded a year earlier.

	4-quarter moving sums					2020 Q4	2021 Q4
	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4		
Current account	-373.7	-426.4	-471.7	-584.4	-854.4	45.1	-224.9
Goods	-1,334.1	-1,369.5	-1,650.0	-1,937.8	-2,422.2	-154.2	-638.6
Services	2,374.0	2,282.5	2,483.8	2,673.4	2,889.3	549.2	765.1
Primary income	-1,227.6	-1,166.2	-1,141.8	-1,166.1	-1,178.2	-306.8	-319.0
Secondary income	-186.0	-173.2	-163.7	-153.9	-143.3	-43.1	-32.4
Capital account	81.7	65.4	57.9	89.5	90.1	3.3	3.9
Financial account⁽¹⁾	-309.6	-51.5	338.2	325.8	-139.2	-113.4	-578.4
Errors and omissions	-17.5	309.5	752.0	820.7	625.1	-161.8	-357.4

Source: NSO.
(¹) Net lending (+) / net borrowing (-).

¹ Balance of payments data for 2020 and 2021 should be interpreted in the context of the unprecedented developments related to COVID-19.

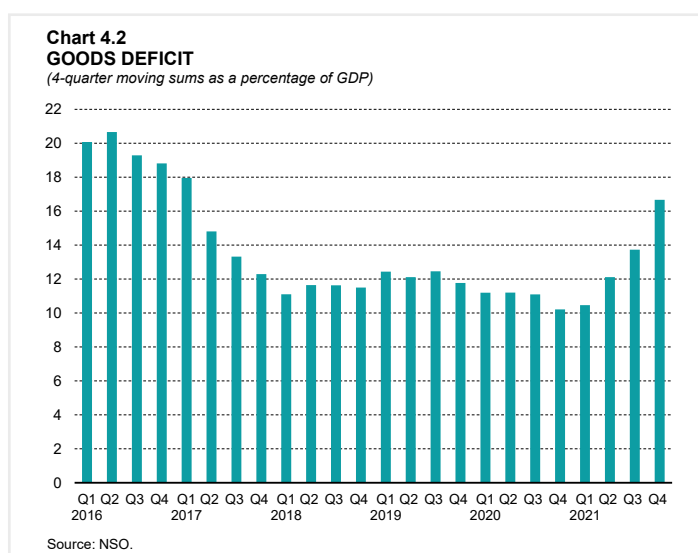
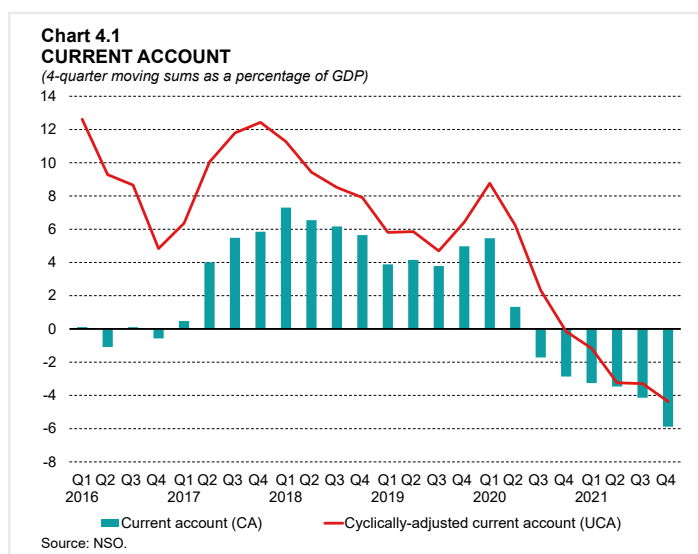
This significant increase was completely spurred by a much wider merchandise trade deficit, which offset an increase in net receipts from trade in services and lower net outflows on the primary and secondary income accounts. As a result, the current account-to-GDP ratio stood at -5.9%, from -2.9% a year earlier (see Chart 4.1).

Malta's cyclically-adjusted current account balance is estimated to have stood at -4.4% of GDP in the year to December 2021. The cyclically-adjusted measure recorded a deficit for the fifth consecutive period, thus exhibiting similar developments to the unadjusted measure. However, it stood above the headline measure as Malta's economic cycle was slightly stronger than that estimated for its trading partners (see Chart 4.1).² Nevertheless, given the volatility in trade related to COVID-19, cyclically-adjusted estimates are likely to be affected by several one-off factors that are difficult to quantify and interpret. For example, the output gap measure for the whole economy that is used to derive the cyclically-adjusted balance may not fully reflect the degree of underutilisation in sectors hit hardest by the pandemic and related social distancing measures.

The merchandise trade deficit widens significantly

In the fourth quarter of 2021, the merchandise trade deficit stood at €638.6 million, more than four times that recorded in the corresponding period of 2020. This was largely driven by a significant increase in imports, although a drop in exports also contributed. The strong increase in goods imports partly reflects extraordinary investment in the aviation sector.

When measured on a 4-quarter cumulative basis, the visible trade gap almost doubled when compared with a year earlier,

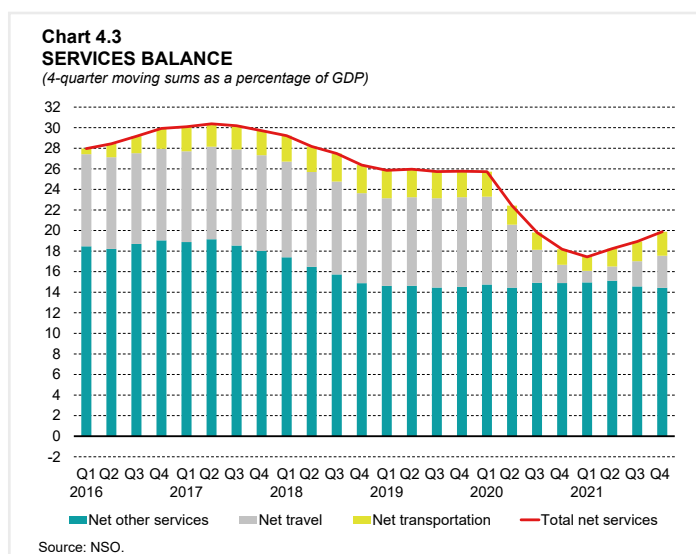


² For more information on Malta's cyclically-adjusted current account see Grech, A. G., & Rapa, N., "An evaluation of recent shifts in Malta's current account position", in Grech, A.G., & Zerfa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

reaching €2,422.2 million. This was almost entirely due to a €1,051.1 million rise in goods imports although a €37.0 million drop in exports also contributed. As a result, the share of the goods deficit in GDP rose to 16.7% in the year to December 2021, from 10.2% a year earlier (see Chart 4.2).

The surplus on services widens

In the quarter under review, net receipts on the services account amounted to €765.1 million, €215.9 million more than in the corresponding period of 2020. Both services receipts and payments increased on a year earlier but the rise in the former was almost double that in the latter.



The main contributor to the increase in the surplus from services during the quarter under review was the travel component, where tourism exports outweighed a rise in expenditure by Maltese residents on travel abroad. This led net travel receipts to increase by €109.3 million. Additionally, net receipts on the transport account rose by €65.9 million when compared to the corresponding quarter of last year.

Net receipts on 'other services' increased by €40.7 million, mostly due to higher net receipts related to personal, cultural and recreational services – which also include betting activities. Furthermore, net payments related to telecommunications, computer and information services declined.

On a 4-quarter cumulative basis, the overall surplus from services stood at €2,889.3 million, a €515.2 million increase over the surplus recorded in the corresponding period of 2020. The share of net services receipts in GDP rose to 19.9% in the year to December 2021, from 18.2% in the corresponding period of 2020 (see Chart 4.3).

Net outflows on the primary income account increase³

Between October and December 2021, net outflows on the primary income account stood at €319.0 million, €12.1 million more than in the fourth quarter of 2020. This was mainly due to higher cross-border flows of taxes on products net of subsidies classified as 'other primary income'. Higher net payments in compensation of employees and investment income also contributed, but to a lesser extent.

By contrast, during the four quarters to December, net outflows on the primary income account decreased by €49.4 million over the same period a year earlier to €1,178.2 million. This was due to lower net outflows on investment income as higher net outflows on direct investment as well

³ The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

as slightly lower net inflows on portfolio investment were outweighed by higher net inflows from ‘other investment’ income.

Flows relating to primary income continued to be strongly influenced by internationally-oriented firms which transact predominantly with non-residents.

Outflows on the secondary income account decrease⁴

In the fourth quarter of the year, net outflows on the secondary income account decreased by €10.7 million on a year earlier to stand at €32.4 million.

Net outflows on this account also decreased when measured on a 4-quarter moving sum basis. These stood at €143.3 million – €42.7 million less than the amount recorded a year earlier.

Tourism activity

Activity in the tourism sector

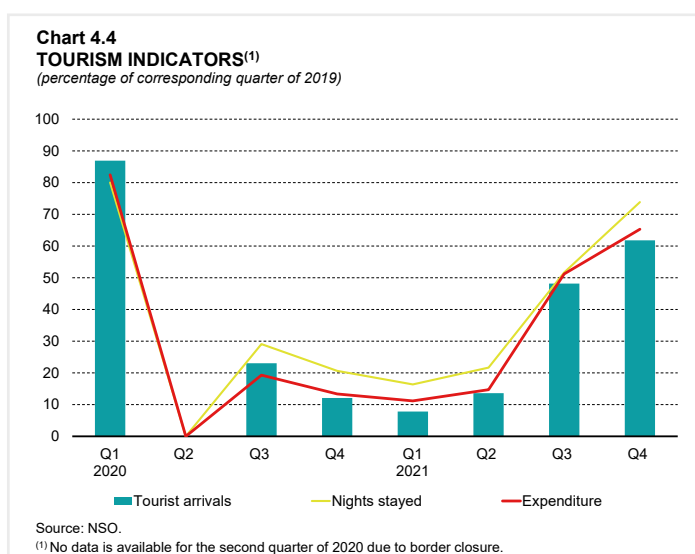
In the fourth quarter of 2021, the number of inbound tourists, nights stayed and tourist expenditure in Malta rose markedly when compared with the corresponding period of 2020. This happened despite the travel restrictions that were still in place during the last quarter of 2021 and the emergence of a new highly contagious COVID-19 variant. Nonetheless, activity indicators for the sector remained below 2019 levels.

In the quarter under review, the number of inbound tourists increased to 381,902 from 74,790 a year earlier (see Chart 4.4). In absolute terms, tourists visiting Malta for leisure purposes accounted for the majority of the year-on-year rise in arrivals even though those visiting for business and other motives also increased. The number of inbound tourists was however still less than two thirds of the level recorded in 2019.

Meanwhile, the total number of guest nights that tourists spent in Malta during the fourth quarter of 2021 amounted to around 3.0 million, up from 0.8 million a year earlier. Rented accommodation, in particular collective accommodation, accounted for most of this increase.

The share of non-residents in collective accommodation establishments in the fourth quarter of 2021 continued to increase. It stood at 81.1%, up from 52.7% in the fourth quarter of 2020, though below the 87.6% ratio recorded in the final quarter of 2019 (see Chart 4.5).

The total occupancy rate in collective accommodation establishments in the fourth quarter



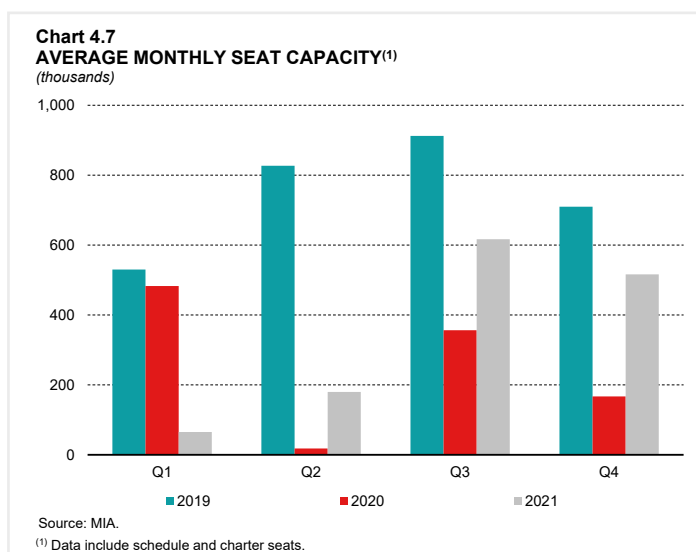
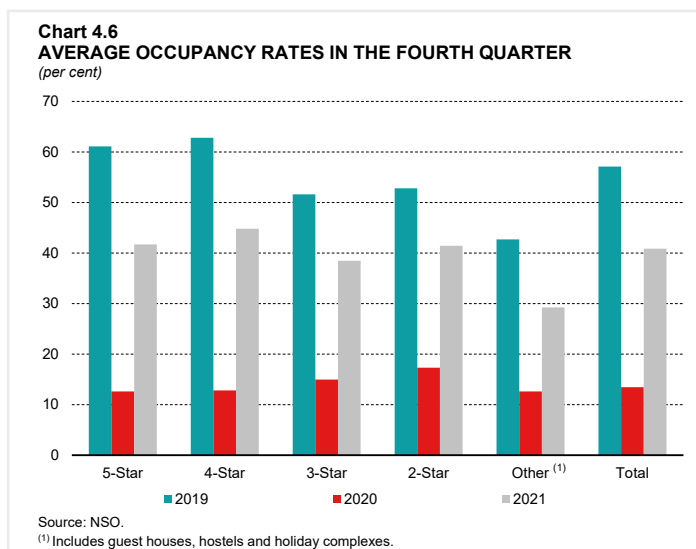
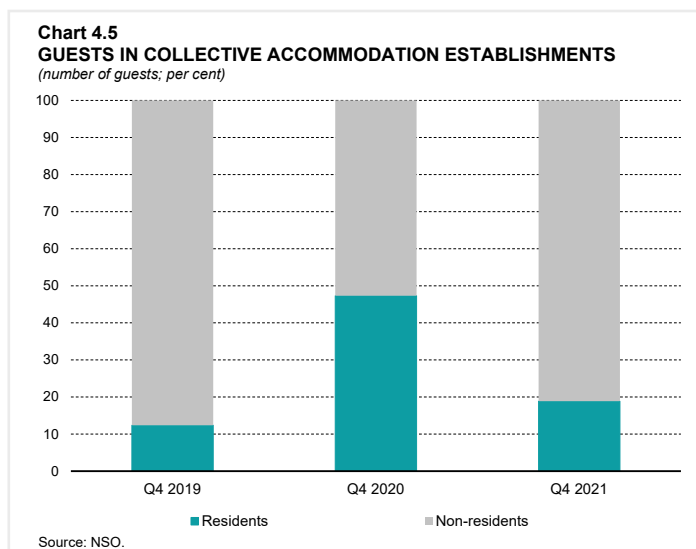
⁴ The secondary income account shows current transfers between residents and non-residents.

of 2021 rose to 40.9% from just 13.5% a year earlier. However, it remained below that recorded in the last quarter of 2019 when it had reached 57.1% (see Chart 4.6). All categories reported increases in their occupancy rates with the 4-star category registering the largest increase – of 32.0 percentage points. This was followed by a rise of 29.1 percentage points in the 5-star category. Meanwhile, the smallest increase – of 16.6 percentage points – was registered in the ‘other’ collective accommodation category.

Tourist expenditure in Malta reached €304.0 million in the fourth quarter of 2021, nearly five times the level recorded a year earlier though it remained below the level registered in the corresponding period of 2019. When compared to 2020, all expenditure categories registered gains, with the ‘other’ and non-package expenditure categories reporting the largest increases in absolute terms.

Expenditure per capita decreased to €796.0 from €832.6 in the fourth quarter of 2020, as the average length of stay fell to 7.9 nights from 11.3 nights a year earlier. Both expenditure per capita and nights per capita exceeded those recorded in the last quarter of 2019.

According to Malta International Airport (MIA) data, in the fourth quarter of 2021 average seat capacity more than tripled over the same quarter of 2020,



reaching an average of 516,240 seats per month (see Chart 4.7). This was just around 70.0% of its level in the fourth quarter of 2019.

The capital account

Net inflows on the capital account stood at €3.9 million in the fourth quarter of 2021, marginally up from €3.3 million in the corresponding period of 2020 (see Table 4.1). Capital inflows also increased when measured on a 4-quarter moving sum basis, standing at €90.1 million compared to €81.7 million in 2020.

5. GOVERNMENT FINANCE

In the final quarter of 2021, the general government deficit widened when compared to that recorded in the corresponding period of 2020. The stock of government debt also increased over this period. Overall, the general government deficit in 2021 reached 8.0% of GDP, below the 9.5% recorded in 2020. Nonetheless, the general government debt-to-GDP ratio rose to 57.0% from 53.4% at end-2020. The net financial worth as a share of GDP slightly deteriorated in the quarter under review as the share of financial assets held by the government declined at a faster pace than the share of financial liabilities in GDP. Meanwhile, the cyclically-adjusted deficit stood at 7.6% of GDP on a 4-quarter moving sum basis, up from 7.1% in the previous period.

Quarterly developments

General government deficit increases

The general government registered a deficit of €274.9 million in the fourth quarter of 2021, a deterioration of €20.5 million when compared with the corresponding quarter of 2020 (see Table 5.1). This was due to an increase in expenditure which outweighed an increase in revenue. As a result, the primary deficit widened to €231.8 million in the quarter under review, from €210.8 million a year earlier.

Table 5.1
REVENUE, EXPENDITURE AND DEBT

EUR millions

	2020		2021			Change 2021Q4-2020Q4	
	Q4	Q1	Q2	Q3	Q4	Amount	%
Revenue	1,419.6	1,148.7	1,387.4	1,342.6	1,574.5	154.9	10.9
Taxes on production and imports	391.1	343.7	396.2	423.6	412.2	21.1	5.4
Current taxes on income and wealth	474.7	387.3	578.2	477.2	587.0	112.4	23.7
Social contributions	218.9	204.2	211.5	210.8	288.3	69.4	31.7
Capital and current transfers receivable	179.4	94.4	44.9	71.6	92.4	-87.1	-48.5
Other ⁽¹⁾	155.5	119.1	156.6	159.3	194.5	39.1	25.1
Expenditure	1,674.1	1,514.4	1,607.7	1,643.4	1,849.4	175.3	10.5
Compensation of employees	396.0	441.1	444.0	435.6	448.9	52.9	13.4
Intermediate consumption	379.5	302.5	287.2	339.2	430.5	51.0	13.5
Social benefits	335.8	342.8	386.1	320.8	339.8	4.0	1.2
Subsidies	185.0	150.2	167.6	187.7	180.2	-4.8	-2.6
Interest	43.7	40.9	43.5	39.9	43.2	-0.5	-1.1
Other current transfers payable	81.6	85.8	100.3	159.7	112.5	30.9	37.8
GFCF	180.7	119.9	153.9	122.4	211.2	30.6	16.9
Capital transfers payable	62.7	24.3	23.7	29.2	84.7	21.9	35.0
Other ⁽²⁾	9.2	7.1	1.4	8.8	-1.5	-10.7	
Primary balance	-210.8	-324.8	-176.8	-260.9	-231.8	-21.0	
General government balance	-254.5	-365.7	-220.3	-300.7	-274.9	-20.5	
General government debt	6,978.5	7,497.2	8,026.9	7,990.3	8,284.4		

Source: NSO.

⁽¹⁾ "Other" revenue includes market output as well as income derived from property and investments.

⁽²⁾ "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

Higher direct tax receipts underpin revenue growth

In the period under review, general government revenue increased by €154.9 million, or 10.9% when compared with the same quarter of 2020. Growth was mainly driven by an increase in tax revenue, which in the fourth quarter of 2020 had been adversely affected by the contraction in economic activity caused by the COVID-19 pandemic. In particular, inflows from current taxes on income and wealth and from social contributions jointly increased at double-digit rates in year-on-year terms. The rise in the former reflects higher income tax receipts from firms, whereas the increase in social contributions reflects a recovery in the labour market. Moreover, inflows from taxes on production and imports rose by €21.1 million, mainly on the back of higher VAT receipts.

Non-tax revenue declined in the quarter under review due to lower capital and current transfers receivable. These declined by €87.1 million due to lower grants from the European Union. This offset an increase of €39.1 million in 'other' revenue, reflecting higher income from sales.

Current expenditure underpins expenditure growth

Total government expenditure increased by €175.3 million or 10.5% when compared with the final quarter of 2020. This increase primarily reflects higher current expenditure, which in turn was mostly driven by higher outlays on compensation of employees and intermediate consumption. The latter increased by €51.0 million, largely on the back of higher outlays on health and in public administration. Meanwhile, compensation of employees rose by €52.9 million as a result of higher outlays in wages in the education, public administration and health sector. Outlays on current transfers rose by €30.9 million, reflecting higher transfers to the EU budget. Spending on social benefits increased by €4.0 million, partly on account of higher outlays on retirement pensions. Meanwhile, outlays on subsidies declined by €4.8 million, mainly due to a drop in pandemic-related assistance schemes.

Outlays on government investment and capital transfers increased by €30.6 million and €21.9 million respectively, mostly due to higher expenditure on locally-financed projects.

Debt increases

In December 2021, the stock of general government debt amounted to €8,284.4 million, €294.1 million higher than the level registered at end-September 2021. The increase in debt mainly reflects the issue of long-term debt securities which more than offset a fall in short-term securities (composed of Treasury bills). The former rose by €303.9 million, with their share in total debt increasing by 1.0 percentage point to 75.6%. Meanwhile, the stock of short-term securities declined by €113.6 million, with their share in total debt declining by 1.7 percentage points to 7.0%.

Loans outstanding increased by €4.3 million, almost entirely due to an increase in long-term financing. Their share in total debt stood at 10.5%, significantly higher compared with pre-pandemic times when they stood at 7.4%. This was due to the take up of loans from the European Union's Support to mitigate Unemployment Risks in an Emergency (SURE) instrument.

Headline and cyclically-adjusted developments

Headline balance ratio improves, while the debt ratio increases

When measured on a 4-quarter moving sum basis, the general government deficit narrowed slightly, from 8.1% in the third quarter of 2021 to 8.0% in the quarter under review (see Chart 5.1).

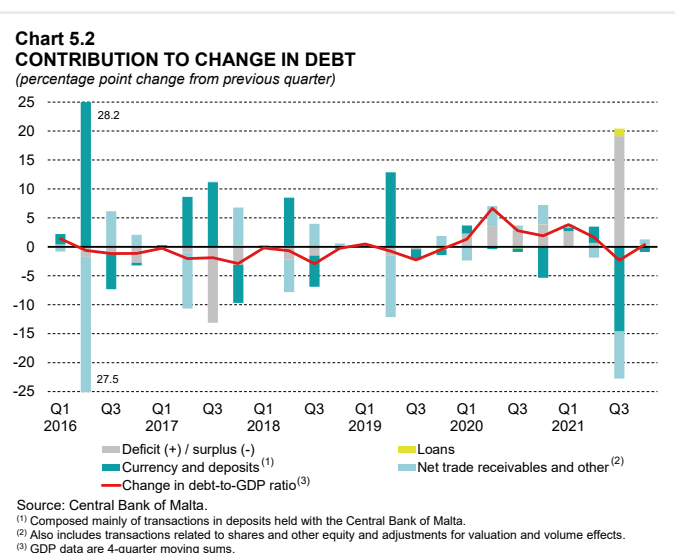
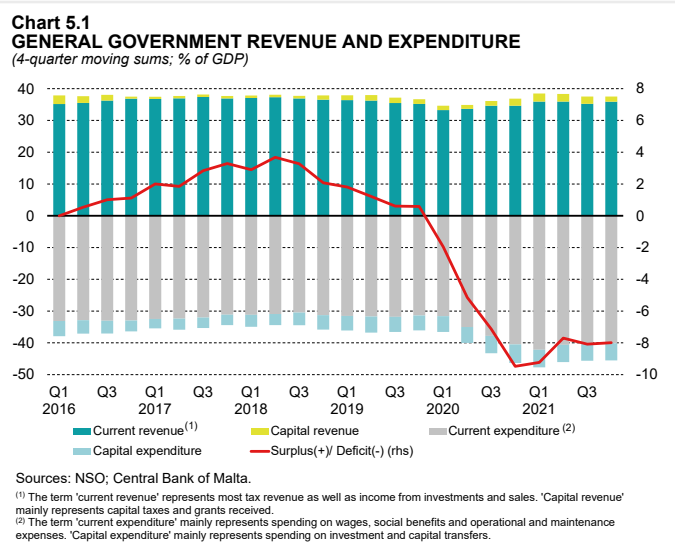
The improvement in public finances was mainly driven by a small fall in the expenditure-to-GDP ratio, from 45.6% to 45.5%. This in turn was caused by a fall in the share of current expenditure in GDP which offset an increase in the capital expenditure ratio. Meanwhile, in the quarter under review, developments in revenue items had a neutral effect on this ratio. While the share of current revenue in GDP increased by 0.7 percentage point compared to the previous quarter, the share of capital revenue declined by a similar amount.

Between September 2021 and December 2021, the debt-to-GDP ratio rose by 0.4 percentage point from 56.6% to 57.0%. The rise in the general government debt was slightly higher than the fiscal deficit recorded in this period, mainly due to a positive-debt-adjustment stemming from higher net trade receivables (see Chart 5.2).

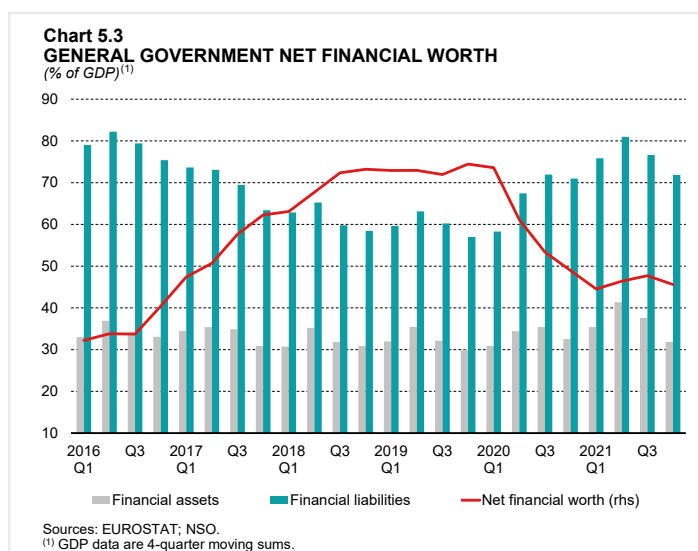
Compared with end-2020, the general government deficit-to-GDP ratio declined by 1.5 percentage points. However, the general government debt-to-GDP ratio rose by 3.6 percentage points.

Net financial worth slightly deteriorates

The market value of financial assets held by general government declined to €4,628.3 million by December 2021, €677.4 million less than the level as at end September 2021. This was mainly due to a decline in government balances held in bank deposits, which in turn reflected drawdowns as well as the timing of tax refunds issued to firms. As a result, the share of financial assets in GDP declined by 5.7 percentage points to 31.8% (see Chart 5.3). The stock of financial liabilities declined at a significantly slower pace relative to financial assets. The former decreased by €376.1 million, to stand at €10,439.9 million. This was due to a drop in 'other accounts payable', as the abovementioned tax refunds and other accrued expenses were settled. As a result, the share of financial liabilities in GDP fell by 4.8 percentage points to reach 71.8%.

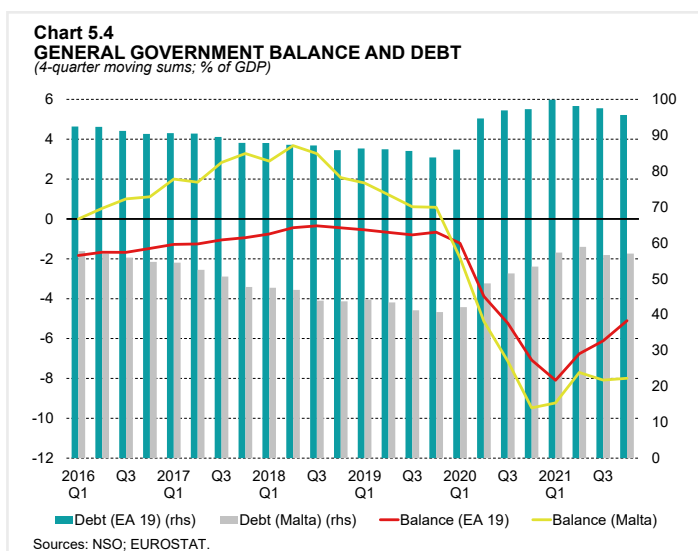


The resulting net financial worth of general government as a share of GDP stood at -40.0%, which is slightly less favourable than the -39.0% registered in the previous quarter. Notwithstanding recent developments, the net financial worth of the Maltese general government continued to compare favourably with the euro average of -70.6%. Compared with end 2020, the net financial worth of the Maltese general government deteriorated by 1.5 points, whereas that of the euro area improved by 4.7 percentage points.



Debt ratio continues to compare favourably with the euro area's despite a higher deficit

During the quarter under review, the euro area general government deficit stood at 5.1% of GDP on a 4-quarter moving sum basis, down from 6.1% of GDP at end-September and 7.1% at end-2020 (see Chart 5.4). The euro area debt ratio declined to 95.6% of GDP from 97.5% of GDP in the previous quarter and from 97.3% at end-2020.



Overall, in 2021, the Maltese deficit-to-GDP ratio narrowed at a slower rate compared with the euro area average. Meanwhile, while the debt-to-GDP ratio increased in Malta, this declined in the euro area on average. However, despite having a higher deficit ratio, the Maltese government debt-to-GDP ratio remains well below the corresponding ratio for the euro area.

Cyclically-adjusted deficit declines marginally¹

On a 4-quarter moving sum basis, the cyclically-adjusted deficit stood at 7.6% of GDP in the quarter under review, 0.5 percentage point higher than the deficit posted three months earlier

¹ The cyclically-adjusted balance is corrected for the impact of the economic cycle on government tax revenue and unemployment assistance. This methodology is in line with the approach used by the European Commission but is based on own estimates for fiscal items' elasticities and the output gap. For an overview of the method used by the Commission, see Mourre, G., Astarita C., and Princen S. (2014): "Adjusting the budget balance for the business cycle: the EU methodology," European Economy – Economic Papers 536, (DG ECFIN), European Commission.

(see Chart 5.5). This stands in contrast with developments in the headline deficit ratio, which declined slightly over the same period. The widening of the cyclically-adjusted deficit ratio reflects the estimated decrease in economic slack.

Overall, cyclically-adjusted revenue retained its share in GDP in the quarter under review (see Table 5.2). The share of cyclically-adjusted tax items edged up slightly compared to September, as an increase in the share of direct taxes offset

a decline in the share of indirect tax revenue. However, this was offset by a fall in the share of non-tax revenue in GDP, owing to a decline in capital transfers.

The share of cyclically-adjusted expenditure in GDP rose by 0.5 percentage point, mainly due to a higher share of current spending. This reflects an increase in the share of compensation of employees and intermediate consumption. The share of capital expenditure also edged up slightly, mainly driven by higher government investment.

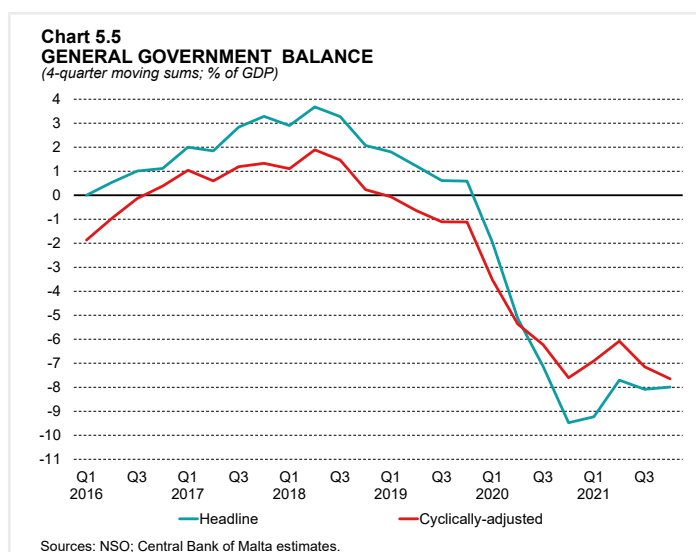


Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS

Percentage points of GDP

	2020		2021		
	Q4	Q1	Q2	Q3	Q4
Revenue	0.7	1.7	0.3	-0.6	0.0
Current taxes on income and wealth	0.4	1.0	0.0	-0.8	0.2
Taxes on production and imports	0.0	0.1	0.2	0.1	-0.2
Social contributions	0.1	0.4	-0.2	-0.2	0.3
Other ⁽¹⁾	0.2	0.3	0.3	0.3	-0.3
Expenditure	2.1	1.0	-0.5	0.5	0.5
Compensation of employees	0.1	0.3	0.2	0.0	0.2
Intermediate consumption	0.6	0.8	-0.4	0.1	0.2
Social benefits	0.0	0.0	-0.1	0.0	-0.1
Interest payments	0.0	0.0	0.0	0.0	0.0
GFCF	0.0	-0.2	0.0	-0.1	0.1
Other ⁽²⁾	1.4	0.1	-0.2	0.4	0.1
Primary balance	-1.4	0.7	0.8	-1.1	-0.5
General government balance	-1.4	0.7	0.8	-1.1	-0.5

Sources: NSO; Central Bank of Malta estimates.

⁽¹⁾ Includes market output, income derived from property and investments and current and capital transfers received.

⁽²⁾ Mainly includes subsidies, current and capital transfers.

BOX 4: THE FISCAL RESPONSE TO THE COVID-19 PANDEMIC¹

This analysis outlines the measures applied by the Maltese Government in response to the COVID-19 pandemic and assesses the impact of the pandemic on Malta's public finances.

Fiscal policy before the pandemic

In the years prior to the pandemic, public finances improved significantly. Between 2012 and 2019, the headline balance-to-GDP ratio swung from a deficit to a surplus while

the debt-to-GDP ratio declined by 25.9 percentage points to stand at its lowest since 1996. This was partly achieved on the back of strong economic growth, which boosted tax receipts. This period was also characterized by an element of expenditure restraint, as increases in the largest government expenditure items – compensation of employees and social benefits – were outpaced by growth in nominal GDP. Growth was supported by fiscal policy, which was expansionary in five out of the last eight years prior to the pandemic (see Chart 1).

In most years, the fiscal stance adopted by the Maltese government was quite significant as it amounted to at least one percentage point of GDP.² When accounting for the Bank's estimate of the output gap, fiscal policy was countercyclical in 2012, 2013, 2016 and 2017 as the fiscal stance acted counter to the output gap. By contrast, in 2014, 2015, 2018 and 2019 fiscal policy was pro-cyclical as the Government adopted an expansionary fiscal stance in these periods, even if economic activity was not subdued.

Fiscal policy after the pandemic

COVID-19 had a significant impact on public finances. The general government balance deteriorated from a surplus of 0.6% of GDP in 2019 to a deficit of 9.5% of GDP in 2020 and a deficit of 8.0% of GDP in 2021. Meanwhile, the debt-to-GDP ratio rose from 40.7% in 2019 to 53.4% in 2020 and 57.0% in 2021. This deterioration is due to a loss in tax revenue resulting

Chart 1
FISCAL POLICY IN PRE-PANDEMIC TIMES



Sources: Authors' calculations.

Note: Markers in the bottom-left and top-right quadrants represent a countercyclical fiscal policy.

¹ Prepared by Juergen Attard and John Farrugia, senior economist and manager, respectively, in the Economic Analysis Department at the Central Bank of Malta. The views expressed are the authors' own and do not necessarily represent the views of the Central Bank of Malta.

² In this box, the fiscal stance represents the year-on-year change in the structural primary balance, i.e. the primary balance adjusted for the impact of the economic cycle and temporary government measures. The latter are defined as fiscal measures whose impact does not last for more than two years.

from lower economic activity and higher spending due to the introduction of pandemic-related support measures. These issues are discussed in detail below.

COVID-related support measures affecting the balance³

Government introduced several support measures to cushion the negative economic shock caused by the containment measures. These can be classified into four categories, depending on their stated function (see Table 1). This classification is in line with the definitions used by the Maltese Government in its Stability Programme and Draft Budget Plan. The first category consists of economic support measures, which aid households and firms

Table 1
COVID-19 FISCAL MEASURES AFFECTING THE BUDGET BALANCE

% of GDP ⁽¹⁾				
Classification	Measures impacting budget balance	ESA Classification	Budgetary Impact	
			2020	2021
Economic Support Measures	Wage supplement scheme, support to workers in quarantine, distribution of vouchers to households, reduction of stamp duty on property purchases and schemes to facilitate investment in teleworking systems.	Subsidies, indirect taxes	3.6	3.1
Social Measures	Additional social benefits to help working parents, the unemployed, persons with disabilities and persons classified as 'vulnerable' by the Superintendent of Public Health, extension of the In-work Benefit and a top-up of rent subsidies for low-income households.	Social Benefits other than in kind	0.1	0.0
Liquidity Support Measures	Interest rate subsidy on CGS loans, subsidised commercial electricity bills for firms and a scheme to support business undertakings to provide training and development of their workforce.	Subsidies	0.0	0.2
Health-related Measures	Cost associated with containment and treatment of the virus, testing, purchase of additional equipment, cleaning, cargo transportation, purchase and distribution of vaccines, other repatriation costs and the safe re-opening of schools.	Intermediate consumption, Social benefits in kind, Compensation of employees	1.2	0.9
Total Impact			5.0	4.2

Source: Authors' calculations.

⁽¹⁾ Calculations based on NSO *News Release* 037/2022 (published on 1 March 2022).

Note: Figures may not add up due to rounding.

³ The tax deferral scheme and the CGS are not covered in this assessment as these measures do not affect the budget balance. The former does not have an impact on the budget balance as the general government accounts are adjusted for accruals and hence consider deferred taxes as part of tax revenue earned in 2020 and 2021. Meanwhile, government guarantees do not affect the general government deficit unless they are called.

to minimise the impact of COVID-19 on industries and employment. The second category refers to social measures which are intended to provide additional assistance to vulnerable households. A third category of measures includes liquidity support to firms to bolster their working capital. The final set of measures reflects health-related expenditure.

Overall, measures amounted around 5.0% of GDP in 2020 and 4.2% of GDP in 2021. In both years, more than 70% of these measures were in the form of economic support measures, particularly through the wage supplement scheme. In fact, outlays on the latter amounted to around 3.0% of GDP in 2020 and to 2.3% of GDP in 2021. The scheme cost less in 2021 as for most of the year, support was determined by the declared loss in turnover compared with pre-pandemic times. By contrast, in 2020, the level of support was the same for each firm within the same industry. Other significant economic support measures include the vouchers issued to households and the temporary reduction in stamp duty on property purchases.

Health-related spending represents the second largest form of COVID-related spending, amounting to around 1.2% of GDP in 2020 and 0.9% of GDP in 2021. Outlays were higher in 2020, when large orders for testing and protective equipment were made. At the time, Government also incurred significant costs related to repatriation of travellers and the safe reopening of schools once containment measures were eased later on.

Increased spending on social measures amounted to around 0.1% of GDP in total, with most of these outlays incurred in 2020. This spending was largely attributed to the introduction of benefits to parents who stopped working while their children were taught from home. Meanwhile, overall spending on liquidity measures amounted to around 0.2% of GDP, with most spending taking place in 2021. This mainly reflects refunds to commercial rents and electricity bills and subsidised interest on CGS loans.

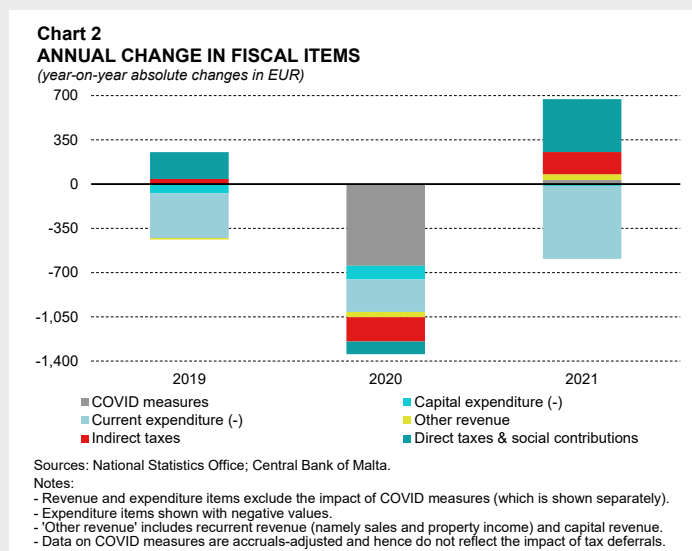
According to the European System of Accounts (ESA) methodology, the fiscal measures introduced are mainly classified as subsidies, social benefits and intermediate consumption. The largest category of expenditure is subsidies and mainly reflects the wage supplement scheme and the introduction of household vouchers. The second largest expenditure component is intermediate consumption, which includes most health-related spending. Spending on social benefits reflects outlays on social measures and some health-related expenditure classified as social benefits in kind. On the revenue side, the main measures are classified as indirect taxes and largely reflect the reduction in stamp duty on property purchases.

In 2020, the introduction of the abovementioned measures led to a €646.5 million deterioration in the public finances (see Chart 2). COVID-related measures continued to exert a deficit-increasing impact in 2021, albeit by slightly less than the previous year.

The impact of COVID-19 on tax revenue

Measures that restricted mobility led to a significant decline in economic activity that was especially pronounced in contact-intensive services industries such as tourism and retail. The

contraction in economic activity resulted in lower inflows from indirect taxes, namely VAT, and taxes on corporations. When excluding the impact of COVID-19 measures, tax revenue in 2020 declined by €292.5 million (2.2% of GDP) compared with 2019 (see Chart 2). In 2021, this decline was completely reversed as a recovery in economic activity brought about a significant increase in direct taxes. Indirect taxes also increased, but remained below their pre-pandemic level, reflecting the partial recovery of tourist activity.



Other issues affecting public finances

During 2020 and 2021, government expenditure not related to COVID measures also exerted a deficit-increasing impact. This is mainly due to higher current expenditure, and partly reflects spending on budget measures such as an increase in retirement pensions, the extension of school transport to households and additional outlays on cancer treatment. Outlays in health treatment excluding COVID also increased. The increase in costs in 2021 also reflects one-off payments to the EU budget and backdated payments following the signing of collective agreements.

Capital spending also increased between 2020 and 2021, driven by outlays on domestically-financed infrastructural projects.

Overall impact on deficit and debt ratios

Chart 3 shows that changes in the fiscal balance in 2020 and 2021 were mostly driven by the implementation of support measures and cyclical developments. In 2020, extraordinary measures introduced during the pandemic account for around half of the deterioration in the deficit ratio. Another 40% of the change in the ratio was attributable to loss of revenue, through the cyclical impact, arising from the effects of COVID on economic activity.

In 2021, the decline in COVID-related measures as a share in GDP contributes around 40% of the narrowing of the deficit ratio. The cyclical component improved in 2021, owing to the partial closure of the negative output gap. Overall, however, it remained negative.

In the years prior to the pandemic, a declining share of interest payments in GDP contributed towards an improvement in the public finances. This trend was interrupted in 2020 as interest payments had a neutral impact. In 2021, interest payments exerted a small deficit decreasing impact.

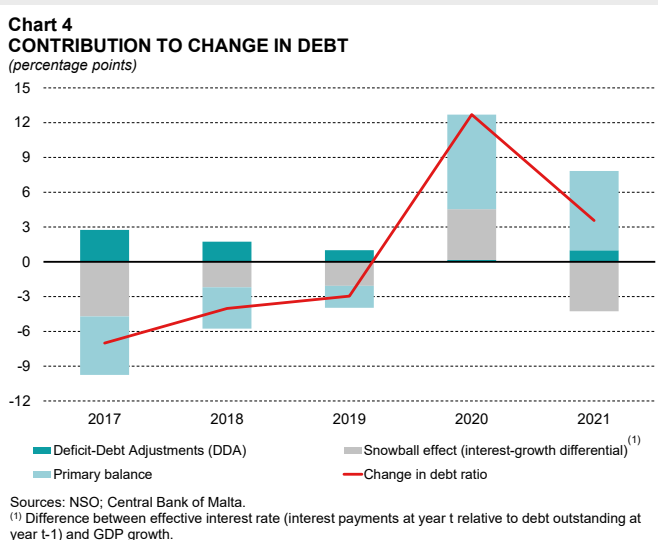
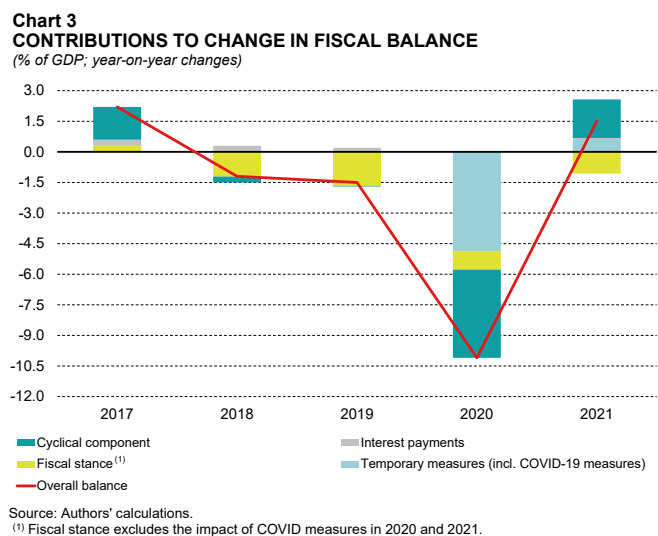
The underlying fiscal stance remained expansionary in 2020 and 2021, equivalent to around 1.0% of GDP in each year. This reflects the abovementioned increases in current and capital outlays. Fiscal policy thus remained countercyclical even after excluding COVID-related measures.

In level terms, the stock of general government debt rose from €5,720.2 million in 2019 to €8,284.4 million by end-2021. Its ratio in GDP rose by 16.3

percentage points over this period (see Chart 4). This mainly reflects additional borrowing to finance the shortfall in public finances. Debt-increasing deficit-debt adjustments also contributed slightly to the increase in the ratio. Although the interest-growth differential contributed to an increase in the debt ratio in 2020, this was reversed in 2021 once economic activity recovered.

Comparison with COVID-19 support measures in the euro area

The size and composition of pandemic-related fiscal support measures was heterogeneous across euro area countries. In general, however, most countries introduced COVID-related measures in the form of subsidies to business in designated industries, job retention schemes, welfare payments to individuals and tax relief measures. Other measures include

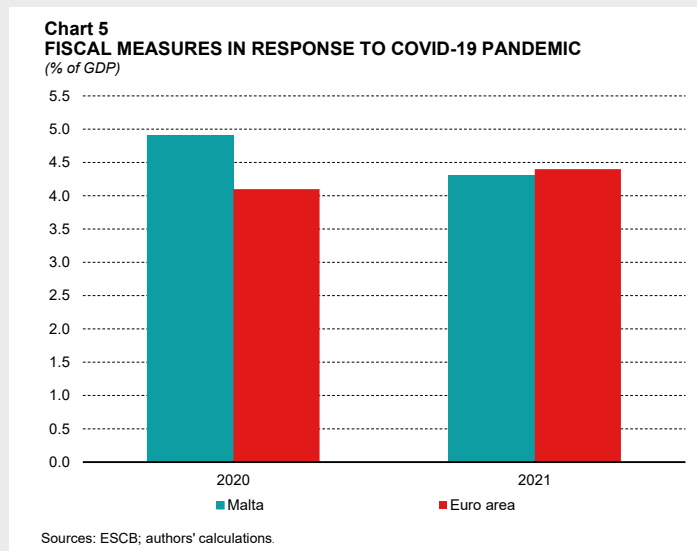


emergency spending to increase the capacity of health systems, the purchase of protective equipment and setting up testing and tracing systems.⁴

Available estimates from the European System of Central Banks (ESCB) put the direct budgetary impact of COVID-19 measures in 2020 and 2021 at around 4.1% and 4.4% of GDP, respectively. Chart 5 compares own

estimates for budgetary impact of COVID measures in Malta, with ESCB estimates for the euro area. Overall, the fiscal response to the pandemic in Malta was higher than the EA average. This is partly due to more generous assistance schemes. For instance, the level of assistance given out in Germany’s “Kurzarbeit” short-term employment scheme was based on the reduction on employees’ working hours. In contrast, the Wage Supplement Scheme in Malta gave out a flat benefit to applicants.

In the euro area, revenue-reducing measures (excluding tax deferrals) had a comparatively broader scope and included measures such as cuts in the standard VAT rate. In contrast, the Maltese Government sought to boost domestic consumption by expenditure-based measures, notably the voucher scheme.



⁴ Several euro area countries also offered liquidity assistance to firms in the form of tax deferrals and state guaranteed schemes.

6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the fourth quarter of 2021, financing conditions eased when compared to the previous quarters and were also loose from a longer-term perspective.

In December, Maltese residents' deposits with MFIs in Malta expanded at a faster rate when compared to September.¹ The shift to overnight deposits persisted in an environment of low interest rates and a continued preference for liquidity. Growth in credit to Maltese residents decelerated, reflecting slower increases in both credit to general government and credit to other residents. The latter, in turn, reflected weaker growth in loans to NFCs. By contrast, loans to households rose at a faster pace, driven by mortgages. Interest rates on loans and deposits fell further when compared with a year earlier, and the spread between the two rates declined. Nevertheless, it remained at elevated levels.

In December, the primary market yield on Treasury bills fell marginally from that prevailing at the end of September. Secondary market yields on 5 and 10-year MGS increased. As the domestic 10-year yield and the euro area benchmark yield increased by the same extent, the spread between them remained unchanged. Domestic share prices rose between September and December but ended this month lower compared with a year earlier.

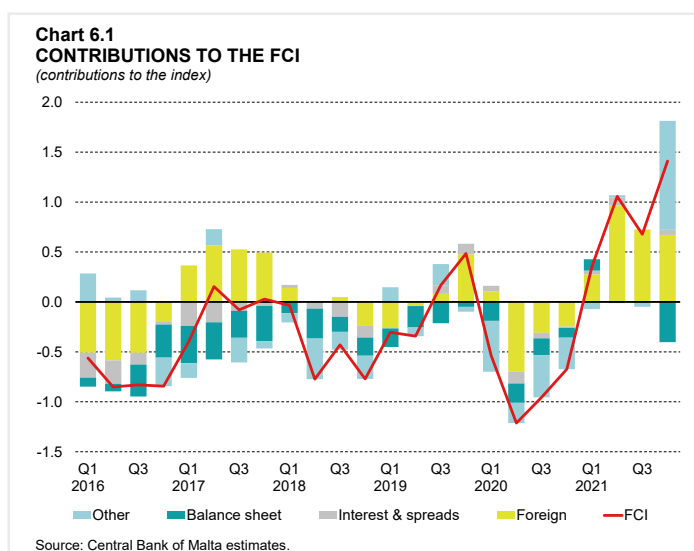
The number and value of loan facilities covered by loan moratoria issued in terms of CBM Directive No. 18 or earlier continued to decrease from already low levels, signalling a recovery in income flows and the expiration of the moratoria period. Meanwhile, firms' recourse to guarantees in terms of the MDB CGS fell slightly, with sanctioned amounts for capital and loan repayment purposes granted to businesses under this scheme reaching €505.9 million at the end of December, or 65.0% of the scheme's target size.

Monetary and financial conditions

Financial conditions improve considerably²

According to the Bank's FCI, in the fourth quarter of 2021 financial conditions were favourable from a historical perspective and loosened compared to the previous quarter (see Chart 6.1).

The recent improvement in financial conditions reflected developments in domestic influences. By contrast, the contribution of foreign factors edged down slightly but remained positive, indicating a



¹ Monetary data analysed in this chapter are compiled on the basis of the statistical standards found in the Statistics section of the Bank's website.

² This index is composed of various financial indicators, which are available at a high frequency. This section is based on quarterly averages for each indicator.

diminishing loosening effect. The latter reflected a decrease in euro area stock prices which offset lower uncertainty.

The increase in the contribution of domestic influences mostly reflected developments in the 'other' component, which was affected by an increase in securities issued by NFCs that offset a decline in equity prices. The 'interest rate' component also contributed slightly towards looser financial conditions, reflecting some compression in Malta's sovereign spread relative to German yields, and lower lending rates. Meanwhile, the 'balance sheet' component had a tightening effect on the FCI, following a broadly neutral contribution in the third quarter, mainly driven by weaker dynamics in real credit.

Financial conditions also improved sharply when compared to the fourth quarter of 2020. This was driven in almost equal measure by domestic and foreign influences. The loosening in domestic conditions largely reflects the abovementioned developments in the 'other' components in the final quarter of 2021, although interest conditions were also slightly more favourable than they were a year earlier. The improvement in foreign influences over the year arose as euro area equity prices increased while uncertainty decreased.

The 'interest rates' component also contributed slightly towards looser financing conditions. On the other hand, balance sheet items had a stronger tightening effect relative to the fourth quarter of 2020, largely reflecting softer growth in real credit.

Maltese residents' deposits continue to expand at a strong pace

Total deposits held by Maltese residents with MFIs in Malta expanded at a faster pace relative to the third quarter of 2021. The annual rate of change stood at 8.8% in December, above the 8.3% recorded in September (see Table 6.1).

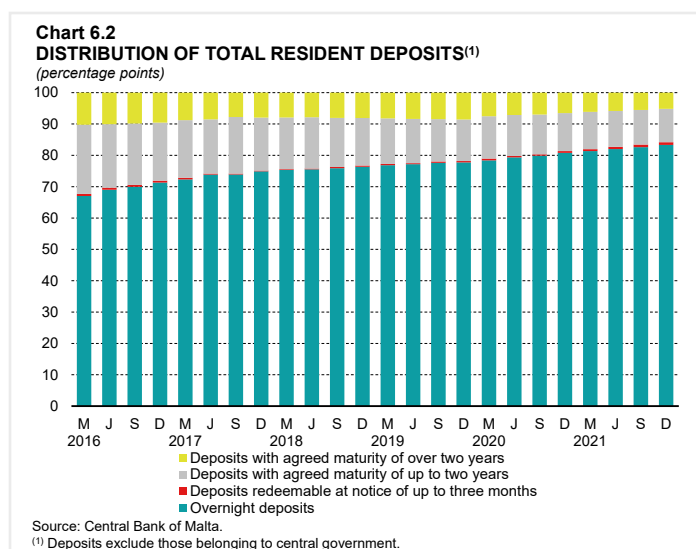
	EUR millions 2021 Dec.	Annual percentage changes				
		2020 Dec.	Mar.	2021 June Sep. Dec.		
Overnight deposits	18,900	9.8	9.4	8.6	12.0	12.2
<i>of which</i>						
Households	12,476	14.4	14.1	13.2	14.3	12.8
NFCs	4,363	16.8	17.8	12.3	11.7	11.2
Deposits redeemable at notice of up to three months	190	40.1	12.1	70.6	104.5	59.9
<i>of which</i>						
Households	39	4.7	9.4	8.0	15.2	14.7
NFCs	116	150.1	-3.6	89.4	200.0	67.3
Deposits with an agreed maturity of up to two years	2,420	-3.3	-7.2	-8.2	-5.9	-4.3
<i>of which</i>						
Households	1,870	-2.3	-4.7	-4.9	-4.2	-6.2
NFCs	197	-10.9	-14.1	-33.9	-20.2	-12.8
Deposits with agreed maturity above 2 years⁽¹⁾	1,169	-19.6	-14.3	-13.9	-14.2	-13.9
<i>of which</i>						
Households	1,041	-15.6	-11.5	-13.0	-13.2	-12.7
NFCs	53	-35.9	-34.2	29.6	39.6	-1.1
Total residents deposits⁽²⁾	22,680	5.7	5.4	5.1	8.3	8.8

Source: Central Bank of Malta.

⁽¹⁾ Deposits with agreed maturity above 2 years are classified outside M3.

⁽²⁾ Total residents deposits exclude deposits belonging to Central Government.

During the quarter under review, deposit growth remained driven by overnight deposits, the most liquid component. Annual growth in this category of deposits reached 12.2% in December, from 12.0% three months earlier. Growth in this component was mainly driven by an increase in households' balances. The share of overnight deposits in total deposits edged up marginally to 83.3% from 82.6% three months earlier, thereby extending the established upward pattern observed in recent years (see Chart 6.2).



Deposits with an agreed maturity of up to three months rose, albeit at a slower pace compared to September. Furthermore, in absolute terms, the increase in this component was much smaller than that in overnight deposits. Thus, the former's share at 0.8% in total deposits was unchanged from September's.

Deposits with an agreed maturity of up to two years contracted by 4.3% in December, following a decline of 5.9% in the year to September. Meanwhile, deposits with an agreed maturity of over two years fell by 13.9%, after contracting by 14.2% three months earlier. As a result, the share of these two categories of deposits edged down slightly compared to September, closing the fourth quarter at 10.7% and 5.2% respectively.

Credit to residents increases at a slower pace

Credit to Maltese residents expanded by 2.3% in the year to December, below the 7.1% registered in September, mainly reflecting slower growth in credit to residents outside general government. Growth in credit to general government also moderated, albeit less significantly (see Table 6.2).

The annual rate of change of credit to residents outside general government stood at 0.9%, below the 6.4% recorded three months earlier (see Chart 6.3). This reflects slower growth in

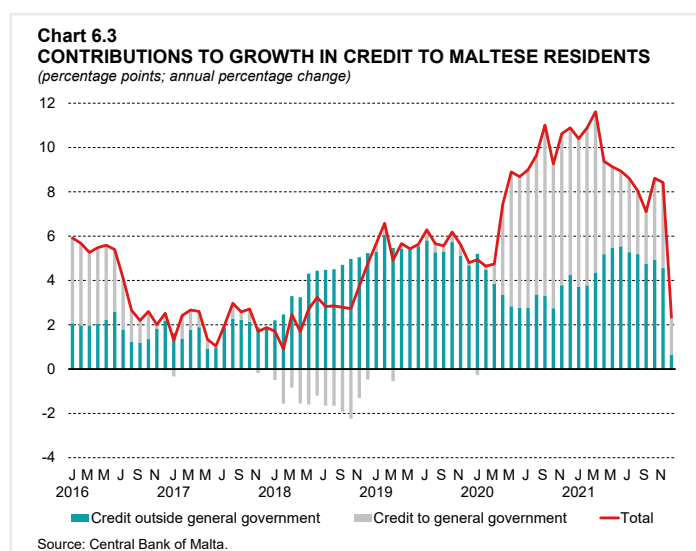


Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

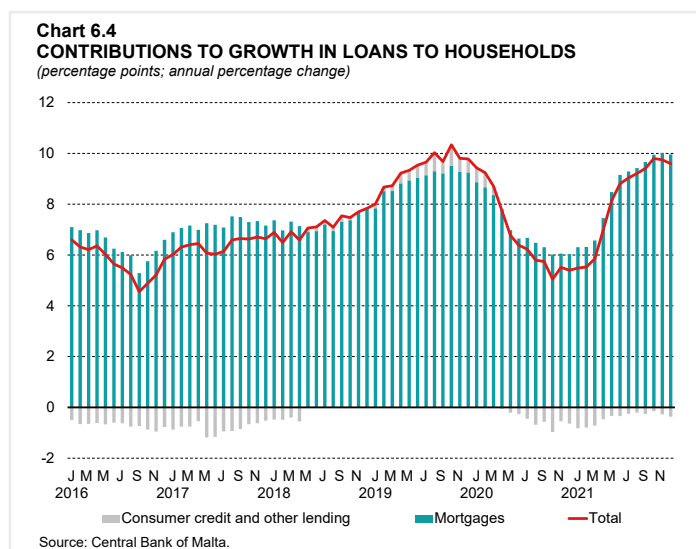
	EUR millions	Annual percentage changes				
		2020	2021			
	Dec.	Dec.	Mar.	June	Sep.	Dec.
Credit to general government	4,132	32.3	33.9	13.5	9.3	6.8
Credit to residents outside general government	11,996	5.3	5.5	7.4	6.4	0.9
Securities and Equity	307	-25.9	-16.4	-6.2	-2.1	-0.6
Loans	11,688	6.5	6.3	7.8	6.6	0.9
<i>of which:</i>						
Loans to Households	7,011	5.4	5.9	8.8	9.4	9.6
Mortgages	6,471	6.7	7.3	10.1	10.6	10.9
Consumer Credit and Other Lending	540	-6.4	-7.4	-3.7	-2.8	-4.2
Loans to NFCs ⁽¹⁾	4,288	8.6	7.1	6.5	4.2	0.1
Total credit to residents	16,128	10.9	11.6	8.9	7.1	2.3

Source: Central Bank of Malta.

⁽¹⁾ NFCs include sole proprietors and non-profit institutions serving households (NPISH).

loans to NFCs, which offset a smaller contraction in MFI holdings of securities issued by other sectors.

By contrast, loans to households increased at a faster pace of 9.6% on an annual basis, following an 9.4% increase in September. This reflected faster growth in mortgage lending, which increased by 10.9% in December, up from 10.6% three months earlier. By contrast, consumer credit and other lending contracted at a faster rate of 4.2% over the same period, following a decrease of 2.8% in the year to September (see Chart 6.4).



Meanwhile, annual growth in loans to NFCs stood at just 0.1% in December, following a 4.2% increase in the year to September. This marginal increase in lending to firms over the year to December reflects an increase in lending to private sector NFCs, which was almost fully offset by a decline in loans.

Credit to general government rose by 6.8% in the year to December, following an increase of 9.3% three months earlier. The deceleration in this credit component mainly reflects a decline in MFI holdings of Treasury bills which partly offset the increase in their holdings of government stocks.

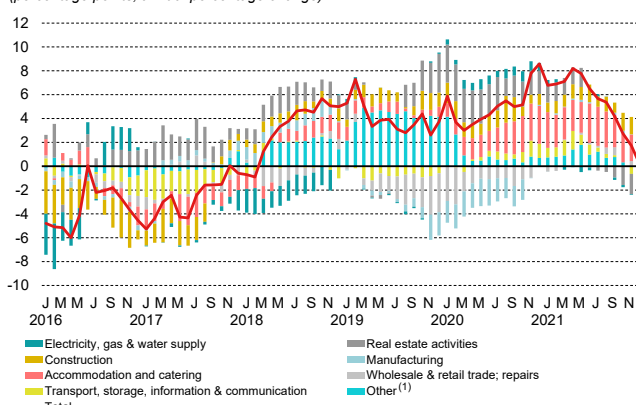
Sectoral data shown that weaker dynamics in loans were recorded across all NFC sectors barring construction, where lending rose at a faster pace compared to September (see Chart 6.5).

Financial accounts data show that the share of bank lending in total NFC debt was comparable to September's but below the share recorded a year earlier (see Chart 6.6). NFCs had been consistently reducing their reliance on bank loans in recent years in favour of alternative sources, mainly intra-sectoral lending and loans from the rest of the world, with the share of bank loans in total NFC debt reaching a low of 15.9% at the end of 2019.³ However, this pattern was reversed in 2020, likely as a result of firms' recourse to loan moratoria and guaranteed loans during the pandemic. In fact, by the end of 2020, the share of bank loans in total NFC debt had reached 17.7%. This share declined to 17.3% by the end of 2021, as loan moratoria expired.

During the fourth quarter of 2021, the share of intra-sectoral lending in total NFC debt stood at 51.1%, down from 51.9% in September and 52.5% at end-2020. Meanwhile, the share of loans from non-residents reached 13.3% from 13.0% in September and 12.3% a year earlier. This marks the highest share in NFC debt since 2018.

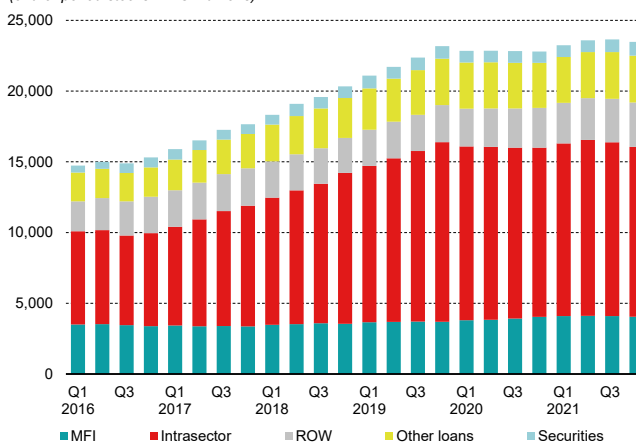
MSE data show that by December 2021, around €1,669.4 million in corporate debt was listed on the Exchange, 13.0% above the outstanding stock recorded 12 months earlier (see Chart 6.7).⁴

Chart 6.5
LOANS TO NFCs BY SECTOR
(percentage points; annual percentage change)



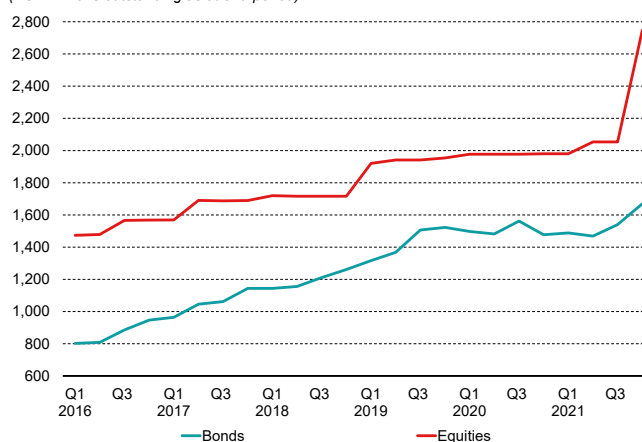
Source: Central Bank of Malta.
(¹) Mainly includes entertainment, health, education, professional services, communication, and administration.

Chart 6.6
NFC DEBT BY SOURCE
(end-of-period stocks in EUR billions)



Source: Financial Accounts.

Chart 6.7
SECURITIES ISSUED ON MSE BY NFCs
(EUR millions outstanding as at end-period)



Sources: MSE; Central Bank of Malta estimates.

³ See Darmanin, J. (2017), "The financing of companies in Malta", *Policy Note*, July 2017, Central Bank of Malta.

⁴ MSE data may differ from financial accounts data due to differences in valuation methodology and coverage. In particular, financial accounts data are at market value and include both listed and privately-placed securities.

At the same time, the outstanding amount of equity listed on the MSE increased by 38.7% in annual terms, to €2,746.9 million. The real estate sector accounted for the largest equity issues in the quarter under review. The amount of listed equity outstanding at the end of 2021 exceeded that of bonds by over 60%.⁵

Spread between deposit and lending rate declines

In December, the weighted average deposit rate offered to households and NFCs in Malta was down by 4 basis points on a year earlier, standing at 0.16% (see Table 6.3).⁶ This was largely driven by a further decrease in rates on time deposits held by NFCs, although rates on households' time deposits also declined.

Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs fell by 13 basis points to 3.23%. This decrease was due to lower rates paid by households. By contrast, the weighted average lending rate paid by NFCs edged up marginally and thus remained above that charged to households, reflecting different assessments of credit risk in these two institutional sectors.

The spread between the weighted average lending rate and the deposit rate closed the quarter under review at 306 basis points, below the 315 basis points recorded 12 months earlier.

Table 6.3

INTEREST RATES ON DEPOSITS AND LOANS

Percentages per annum to residents of Malta; weighted average rates as at end of period

	2018	2019	2020	2021			
	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec.
Total deposits⁽¹⁾	0.33	0.30	0.21	0.20	0.18	0.18	0.16
<i>of which</i>							
Overnight deposits							
Households	0.05	0.05	0.02	0.02	0.02	0.02	0.02
NFCs	0.02	0.03	0.01	0.01	0.01	0.02	0.01
Time deposits (less than 2 years)							
Households	0.75	0.71	0.57	0.57	0.54	0.53	0.51
NFCs	0.76	0.72	0.58	0.62	0.53	0.48	0.49
Time deposits (more than 2 years)							
Households	2.13	1.97	1.87	1.80	1.79	1.77	1.78
NFCs	1.88	1.53	1.39	1.41	1.15	1.05	1.12
Total loans⁽¹⁾	3.55	3.46	3.36	3.32	3.30	3.25	3.23
<i>of which</i>							
Households and NPISH	3.38	3.29	3.21	3.15	3.12	3.05	3.01
NFCs	3.83	3.76	3.61	3.60	3.62	3.60	3.63
Spread⁽²⁾	3.22	3.16	3.15	3.12	3.12	3.07	3.06
ECB MROs rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Central Bank of Malta.

⁽¹⁾ Annualised agreed rates on outstanding euro-denominated amounts belonging to households (incl. NPISH) and NFCs.

⁽²⁾ Difference between composite lending rate and composite deposit rate.

Liquidity support measures related to COVID-19

⁵ Apart from the official MSE platform, small and medium-sized enterprises can also obtain finance through the specifically-g geared platform – Prospects.

⁶ Basis points are rounded to the nearest whole number and hence may not exactly match the figures given in Table 6.3.

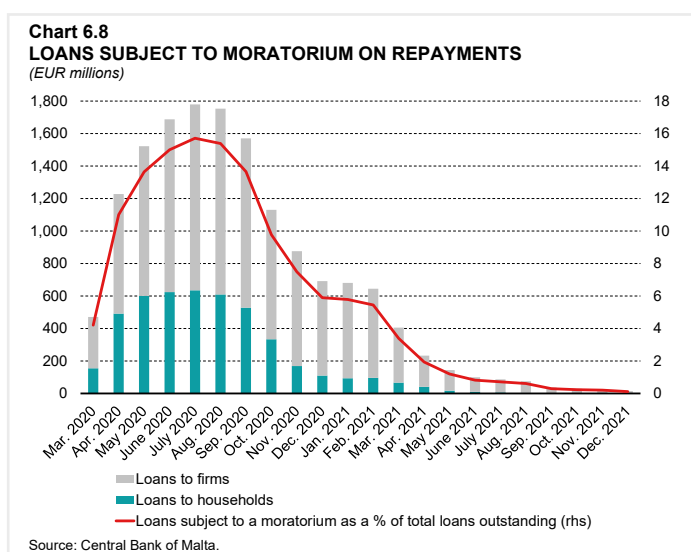
In response to the COVID-19 pandemic and subsequent containment measures, in 2020 the Bank issued Directive No. 18 to regulate the moratorium on credit facilities in exceptional circumstances. The Directive regulates the temporary suspension of debt repayments on credit facilities advanced by credit institutions to borrowers prior to 14 April 2020.⁷ A number of businesses and households that were faced with liquidity challenges applied with MFIs in Malta for a moratorium on loan repayments.⁸ The value of loans benefiting from such moratoria peaked in July 2020 and has since declined progressively (see Chart 6.8).⁹

By December 2021, loans subject to a moratorium reached very low levels, as the moratoria period gradually expired for many borrowers and economic activity continued to normalise in most sectors. As at end-December, there were only seven loans subject to a moratorium on loan repayments with a value of €14.1 million. This is equivalent to 0.1% of total loans outstanding to Maltese residents. This signifies a further reduction since September 2021. Then, there were 56 loans benefitting from these moratoria, or 0.3% of total outstanding loans at the time.

By the end of December 2021 there were no outstanding loans subject to a moratorium held by Maltese households. This compares with €1.2 million as at end-September.

Thus, all loans subject to a moratorium that were still outstanding by the end of the year were classified as belonging to NFCs. The sector comprising professional, scientific and technical activities was the main holder of such loans, in both value and volume terms. This was followed by the accommodation and food services sectors.

To further alleviate liquidity shortfalls as a result of the pandemic, the Government launched the MDB's CGS. This scheme provides guarantees to commercial banks with the aim of enhancing access to new working capital loans for businesses. The scheme was eventually extended to cover the refinancing of loans. It



⁷ This Directive was issued in consultation with the Malta Financial Services Authority and the Malta Bankers' Association and entered into force on 13 April 2020. A number of banks had already started to provide moratorium facilities voluntarily in March 2020. In view of the protracted impact of the COVID-19 pandemic, on 14 January 2021, the Minister for Health, in consultation with the Ministry for Finance, issued [Legal Notice \(LN\) 15 of 2021 on 'Moratorium on Credit Facilities in Exceptional Circumstances'](#), which relates to the reactivation of moratoria in Malta. This reactivation allowed borrowers to submit their applications for new moratoria or to extend their existing moratoria subject to a number of conditions, before 31 March 2021.

⁸ Data on moratoria include arrangements approved both pre and post the Legal Notice 142 of 2020 on the Moratorium on Credit Facilities Regulations in Exceptional Circumstances (see <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=30087&l=1>) and Directive No. 18. Data on moratoria refer to loans that were issued before the onset of the pandemic and which became subject to a moratorium as a result of COVID-19 before Directive No. 18 of 2020, or in terms of the same Directive.

⁹ As at January 2022, there were no loans subject to a moratorium.

enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.¹⁰

By end-2021, 654 facilities were approved and still outstanding under the CGS covering total sanctioned lending of €505.9 million, down from €508.8 million in September (see Table 6.4).^{11,12} As the scheme provides guarantees on loans for working capital and loan repayment purposes, the amount actually disbursed may fall short of that sanctioned. In fact, €453.0 million were disbursed by the end of December 2021. Hence, by then, 65.0% of the scheme's target size was sanctioned, while 58.2% was disbursed.

In terms of the number of facilities, the sector comprising wholesale and retail activities had the largest outstanding number of facilities benefitting from the scheme. By end-December 2021, 174 facilities were approved and still outstanding with a sanctioned value of €100.8 million. This was followed by accommodation and food services activities, with 156 facilities and a sanctioned amount of €121.7 million. The manufacturing sector also had a significant number of facilities approved, followed by the sectors comprising of transport, storage and ICT, the professional, scientific and technical activities as well as the administrative and support service activities sector. The real estate sector had the least number of facilities approved under the scheme. The 'other' sector which includes loans to education, health, financial and insurance activities as well as arts, entertainment and recreation among others, had 88 approved facilities with a sanctioned amount of €116.0 million.

Table 6.4
MDB CGS – AS AT DECEMBER 2021

Number of facilities approved and still outstanding; EUR millions

	As at September 2021		As at December 2021	
	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾	Total number of facilities ⁽¹⁾	Sanctioned amount ⁽²⁾
Manufacturing	57	26.1	56	24.6
Construction	38	49.9	37	48.4
Wholesale and retail trade; repair of motor vehicles and motor cycles	173	99.6	174	100.8
Transportation and storage and information and communication	40	50.2	42	51.5
Accommodation and food service activities	157	123.1	156	121.7
Professional, scientific and technical activities	40	22.2	41	21.6
Administrative and support service activities	41	14.2	40	14.0
Real estate activities	19	7.4	20	7.3
Other ⁽³⁾	87	116.1	88	116.0
Total	652	508.8	654	505.9

Source: MDB.

⁽¹⁾ The number of facilities taken by various sectors.

⁽²⁾ The total number of loans sanctioned under the scheme as at end month, in EUR millions.

⁽³⁾ Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation, other services activities and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

¹⁰ The MDB CGS was approved by the European Commission on 2 April 2020. For further details see [here](#).

¹¹ A drop in the number and value of sanctioned facilities may reflect the repayment in full of the facility by the customer, or a reduction in the facility's value and other adjustments.

¹² As at end-February 2022, 648 facilities were approved and still outstanding under the CGS, covering total sanctioned lending of €497.8 million.

Bank Lending Survey (BLS) indicates unchanged credit standards, terms and conditions

According to the BLS which was conducted in January 2022, respondent banks reported unchanged credit standards, terms and conditions for NFCs in Malta during the fourth quarter of 2021. All participating banks also expected credit standards on such loans to remain unchanged in the first quarter of 2022. As regards the demand for credit by NFCs, most of the surveyed banks assessed demand to have decreased somewhat. Looking forward, half of the respondent banks expect demand to remain unchanged while expectations of other banks were mixed.

Credit standards and terms and conditions on loans for house purchases were assessed to have remained unchanged by the majority of surveyed banks in the last quarter of 2021. Most banks also expected them to remain unchanged in the first quarter of 2022. Most of the participating banks reported no change in demand for house loans in the fourth quarter of 2021 and also expected demand to remain stable in the following quarter.

The majority of surveyed banks also reported unchanged credit standards for consumer credit and other lending for the fourth quarter and all banks reported no changes in terms and conditions for this type of credit. No changes in credit standards were expected during the first quarter of 2022. Demand was also expected to remain unchanged in the first quarter of 2022.

The January BLS posed ad hoc questions on changes in banks' access to wholesale and retail funding and on their risk transfer capability as a result of the prevailing situation in financial markets. In this regard, the majority of banks reported unchanged market access to retail funding and risk transfer capabilities, with the situation expected to remain stable in the first quarter of 2022.

In the fourth quarter, respondent banks were also asked to gauge the impact of new regulatory or supervisory requirements relating to capital, liquidity or provisioning on their assets, capital and funding conditions as well as on their lending policies. The majority of banks did not report any changes in their assets, and all the participating banks said that there were also no changes to their risk-weighted assets in the preceding twelve months. Half of the reporting banks however, reported an increase in their capital position and expect additional increases in the following year.

No impact from new regulatory or supervisory requirements were reported or expected, on credit standards and margins.

Participating banks claimed that their non-performing loan (NPL) ratio had not affected their lending policies in the preceding six-month period, with the majority of banks also expecting no effects in the six months ahead.

Respondent banks were also asked to state how their credit standards, terms and conditions on new loans, and demand for loans have changed across the main sectors of economic activity – namely manufacturing, construction, services, wholesale and retail trade, and real estate. All banks reported no change in credit standards in the past six months and were foreseeing no changes in the next six months for all the five sectors. As regards terms and conditions, all banks experienced no changes in the past six months, while the majority also expect no changes in the six months ahead.

With regards to demand for loans, half of the surveyed banks experienced no changes over the past six months and foresaw no changes in the upcoming 6-month period. The other half said that

demand decreased in some sectors – notably manufacturing, real estate and construction – and were also expecting some further decline in the months ahead.

Finally, banks were also asked to report on changes in credit standards, and terms and conditions on loans benefitting from COVID-19 related government guarantees and on loans without these guarantees. With regards to credit standards, all participating banks reported no changes. The majority also said that terms and conditions for government-guaranteed as well as non-government guaranteed loans were unchanged compared with the preceding six months.

Half of the banks surveyed reported lower demand for loans backed by government guarantees in the previous six months, another bank said that demand increased while the remaining bank reported no change in demand. No changes were reported in demand for loans without government-related guarantees.

The money market

During the fourth quarter, the Government issued €384.9 million in Treasury bills, €156.1 million less than the amount issued in the third quarter of 2021. In line with past issues, these were mostly taken up by MFIs.

In the domestic primary market, the yield on 3-month Treasury bills fell marginally to -0.41% at the end of December from -0.40% at end-September.

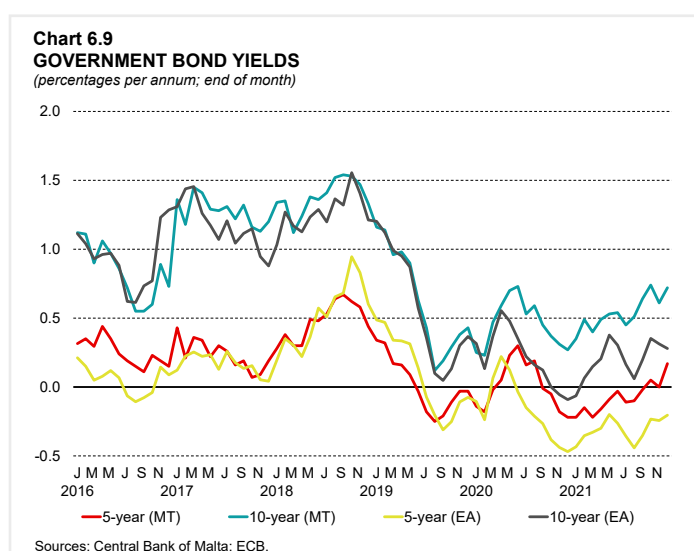
The capital market

During the fourth quarter of 2021, the Government issued three new MGS with a total value of €275.0 million. Four institutions launched new bond issues on the Malta Stock Exchange (MSE). International Hotel Investments plc issued €80.0 million in unsecured bonds, while Mizzi Organisation Finance plc and Central Business Centres plc issued issued €45.0 million and €21.0 million respectively. Dino Fino Finance plc issued €7.8 million in secured bonds.

By the end of December, 22 firms had bonds that were listed on the MSE through Prospects, one more compared with end-September.¹³

In the secondary market, turnover in government bonds increased to €23.2 million from €21.4 million in the third quarter of 2021, while on the other hand, turnover in corporate bonds fell to €18.7 million from €24.4 million previously.

The yield on 5-year bonds rose to 0.17% at the end of December, from -0.02% three months earlier (see Chart 6.9). The yield on 10-year bonds also



¹³ Prospects is a multi-lateral trading facility operated by the MSE with the aim of facilitating access to capital markets for SMEs.

increased, reaching 0.72% from 0.64% in September. Meanwhile, the euro area benchmark yield on 5-year bonds rose to -0.20% from -0.35%, while the benchmark yield on 10-year bonds increased to 0.28% from 0.20%. As the euro area benchmark yield and the domestic 10-year yield increased by the same extent, the spread between them remained unchanged.

MSE Share Index rises

During the fourth quarter of 2021, share prices in Malta rose. The MSE Equity Price Index closed the year 1.8% above its level at end-September but 4.5% below its end-2020 reading (see Chart 6.10). The MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, increased by 2.1% between end-September and end-December.

Equity turnover decreased to €5.6 million during the fourth quarter of 2021, from €7.7 million in the third.

