

4. THE BALANCE OF PAYMENTS

During the fourth quarter of 2022, the current account balance turned into a deficit from a surplus a year earlier. This was mostly due to a widening of the merchandise trade deficit, in part reflecting significant capital expenditure in the aviation sector, and higher net outflows on the primary income account. These offset higher net receipts from services and lower net outflows on the secondary income account.

In the quarter under review, net inflows on the capital account increased when compared to the corresponding quarter of 2021, while on the financial account, net borrowing was recorded as opposed to net lending previously.

The current account balance registered a deficit equivalent to -5.8% of GDP for the year 2022. This compares with a current account deficit of -0.7% of GDP in the euro area.

The cyclically-adjusted current account balance is estimated to have recorded a deficit of -7.6% during the fourth quarter of 2022.

During the fourth quarter of 2022, the tourism sector continued to report gains, with the number of inbound tourists, nights stayed and tourist expenditure in Malta all increasing when compared with a year earlier. Activity levels were still below 2019 levels, however, by November, the level of expenditure exceeded its pre-pandemic level.

The current account

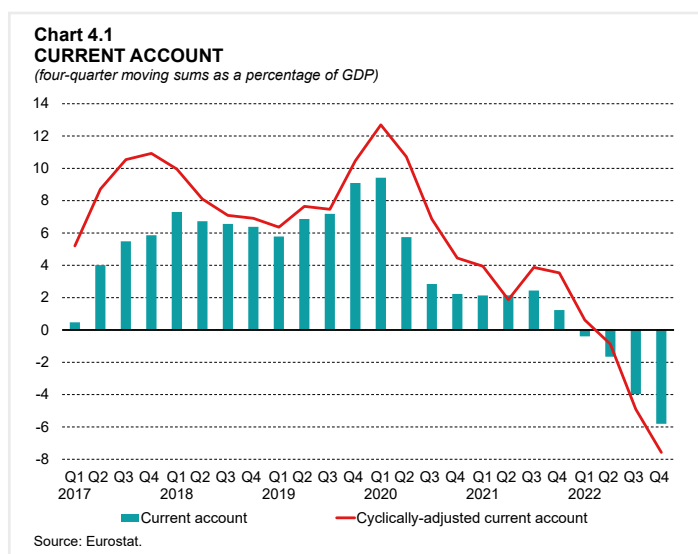
The current account balance turns into a deficit

Between October and December 2022, the current account of the balance of payments registered a deficit of €232.5 million, which contrasts with a surplus of €93.7 million in the same quarter of 2021 (see Table 4.1). This was driven by an increase in the merchandise trade deficit and higher net outflows on the primary income account, which offset higher net receipts from services and lower net outflows on the secondary income account.

	Four-quarter moving sums					2021 Q4	2022 Q4
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4		
Current account	184.5	-61.3	-264.5	-653.4	-979.6	93.7	-232.5
Goods	-1,924.8	-2,182.2	-2,510.7	-3,137.7	-3,443.6	-455.9	-761.8
Services	4,106.5	4,229.1	4,580.6	4,822.7	4,889.8	1,068.2	1,135.3
Primary income	-1,725.2	-1,847.0	-1,885.9	-1,940.2	-2,031.6	-465.3	-556.7
Secondary income	-272.0	-261.2	-448.5	-398.3	-394.2	-53.3	-49.3
Capital account	151.7	178.7	203.0	176.8	187.5	64.9	75.6
Financial account⁽¹⁾	636.5	-484.0	-262.9	-1,061.0	-1,939.0	216.4	-661.5
Errors and omissions	300.4	-601.3	-201.4	-584.4	-1,146.8	57.8	-504.6

Sources: Eurostat; Central Bank of Malta.
(¹) Net lending (+) / net borrowing (-).

In 2022, the current account deficit amounted to €979.6 million, as opposed to a surplus of €184.5 million a year earlier. The change in the current account balance into a deficit was spurred by a significant widening in the merchandise trade deficit and, to a lesser extent, higher net outflows on the primary and secondary income accounts. Together, these offset an increase in net receipts from trade in services. As a result, the current account-to-GDP ratio fell to -5.8% from 1.2% a year earlier (see Chart 4.1).

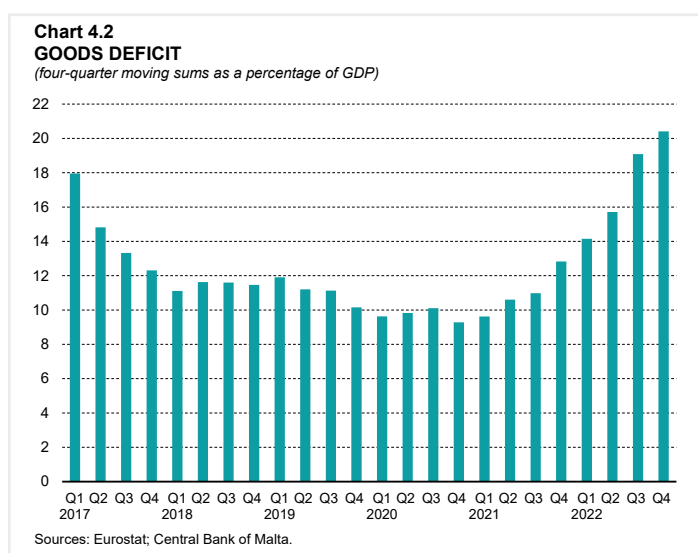


Malta's cyclically-adjusted current account balance is estimated to have stood at -7.6% of GDP in 2022. The cyclically-adjusted measure broadly exhibits similar developments to the unadjusted measure (see Chart 4.1). However, in the quarter under review, it stood below the headline measure reflecting differences between Malta's economic cycle and that of its trading partners.¹

The merchandise trade deficit widens

In the fourth quarter of 2022, the merchandise trade deficit stood at €761.8 million, up from €455.9 million in the corresponding period of 2021. This was driven by an increase in imports, which in absolute terms was more than three times the increase in exports. Imports of fuel, and extraordinary capital investment in the aviation sector were the main drivers behind the increase in imports.

The visible trade gap increased significantly when measured on a four-quarter cumulative basis, reaching €3,443.6 million, from €1,924.8 million in 2021. This reflected a €2,112.0 million rise in goods imports which outweighed a €593.2 million increase in exports. As a result, the share of the goods deficit in GDP rose to 20.4% in 2022, from 12.8% a year earlier (see Chart 4.2).



¹ 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., & Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

The surplus on services widens

In the quarter under review, net receipts on the services account amounted to €1,135.3 million, €67.2 million more than in the corresponding period of 2021. Both services exports and imports increased on a year earlier, though the increase in the former was stronger.

The main contributor to the increase in the surplus from services in the fourth quarter of the year was the travel component as tourism exports out-

paced expenditure by Maltese residents on travel abroad. This led net travel receipts to increase by €85.3 million. Conversely, net receipts on the transport account fell by €46.4 million when compared with the corresponding quarter of last year.

Net receipts on 'other services' increased by €28.2 million, as higher net receipts from personal, cultural, and recreational services, which includes gaming and betting activities, outweighed higher net payments related to 'other business services', particularly professional and management consulting services, and technical and trade-related services.

On a four-quarter cumulative basis, the overall surplus from services stood at €4,889.8 million, an increase of €783.4 million over the surplus recorded in 2021. The main contributor to this increase in surplus was again the travel component. The share of net services receipts in GDP rose to 29.0%, from 27.4% over the same period last year (see Chart 4.3).

Net outflows on the primary income account increase²

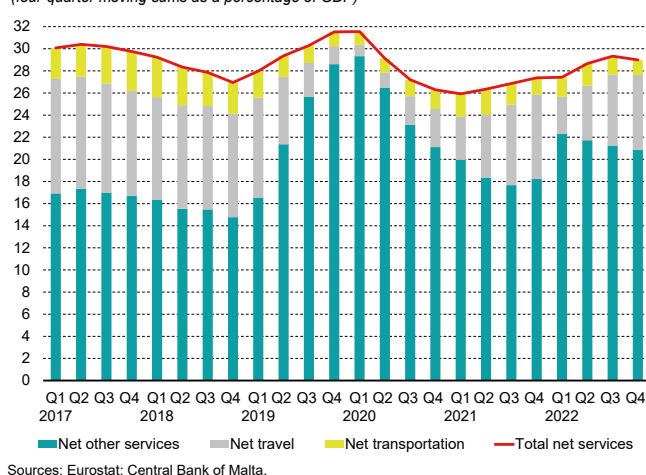
Between October and December 2022, net outflows on the primary income account stood at €556.7 million, €91.4 million more than in the fourth quarter of 2021. This was largely due to lower net interest receipts from 'other investment', which offset a decrease in net income payments related to direct investment and higher net income on portfolio investment.

When measured over the year to December 2022, net outflows on the primary income account declined by €306.4 million, to stand at €2,031.6 million. Flows relating to primary income continued to be strongly influenced by internationally-oriented firms, which transact predominantly with non-residents. Over the year to December 2022, these net outflows amounted to 12.0% of GDP.

Outflows on the secondary income account decline marginally³

In the fourth quarter of the year, net outflows on the secondary income account declined by around €4 million on a year earlier, to stand at €49.3 million.

Chart 4.3
SERVICES BALANCE
(four-quarter moving sums as a percentage of GDP)



² The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

³ The secondary income account shows current transfers between residents and non-residents.

Conversely, net outflows on this account increased substantially when measured on a four-quarter moving sum basis. These stood at €394.2 million, equivalent to 2.3% of GDP and €122.2 million more than the amount recorded in 2021.

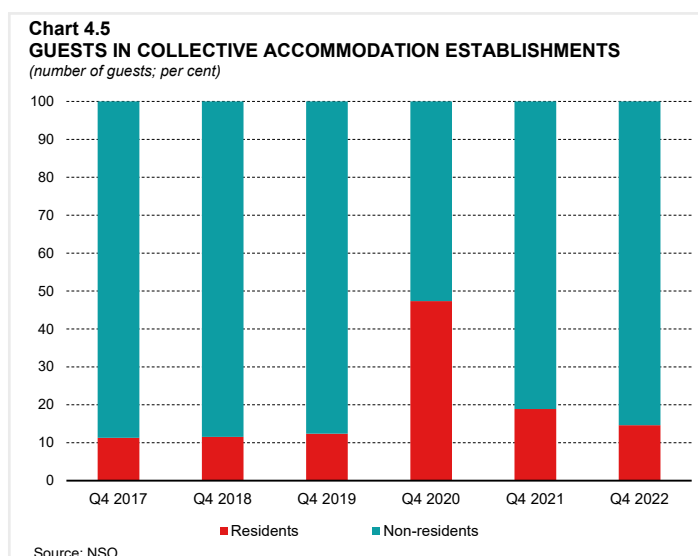
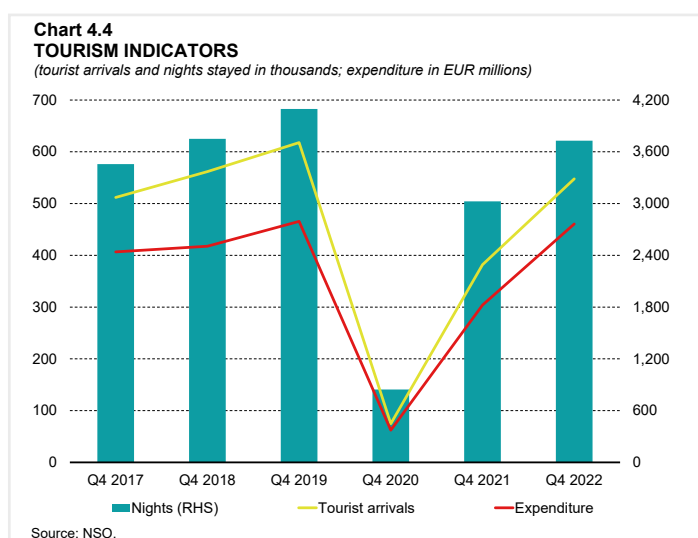
Tourism activity

In the quarter under review, the number of inbound tourists totalled 547,754, up from 381,902 a year earlier (see Chart 4.4). In absolute terms, tourists visiting for holiday purposes accounted for most of the annual increase in arrivals, even though those visiting for business and other reasons also increased. The number of inbound tourists was, however, still 11.3% less than the level recorded in the fourth quarter of 2019.

The share of non-residents in collective accommodation establishments in the fourth quarter of 2022 continued to increase. It stood at 85.4%, up from 81.1% in the fourth quarter of 2021, though still below the share of 87.6% recorded in the final quarter of 2019 (see Chart 4.5).

The total occupancy rate in collective accommodation establishments in the fourth quarter of 2022 rose to 49.8%, from 40.9% a year earlier (see Chart 4.6). However, it remained below that recorded in the last quarter of 2019, when it stood at 57.1%. All categories reported increases in their occupancy rates over 2021, with the three-star and four-star categories registering the largest increases – of around 11.0 percentage points. The occupancy rate in the five-star category rose by 7.0 percentage points. Meanwhile, the smallest increase – of 3.9 percentage points – was registered in the ‘other’ collective accommodation category. Occupancy rates remained below those prevailing before the pandemic across all category levels, with the most significant gap recorded among five-star hotels.

Tourist expenditure in Malta totalled €460.7 million in the fourth quarter of 2022, up from €304.0 million a year earlier. For the quarter as a whole, total

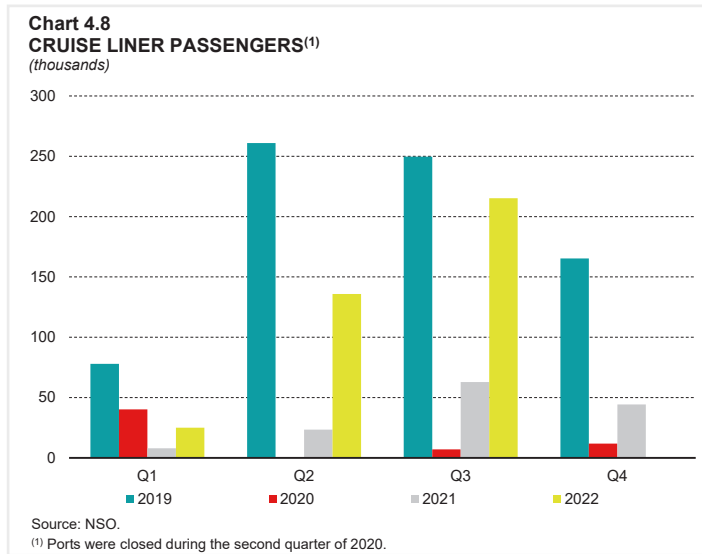
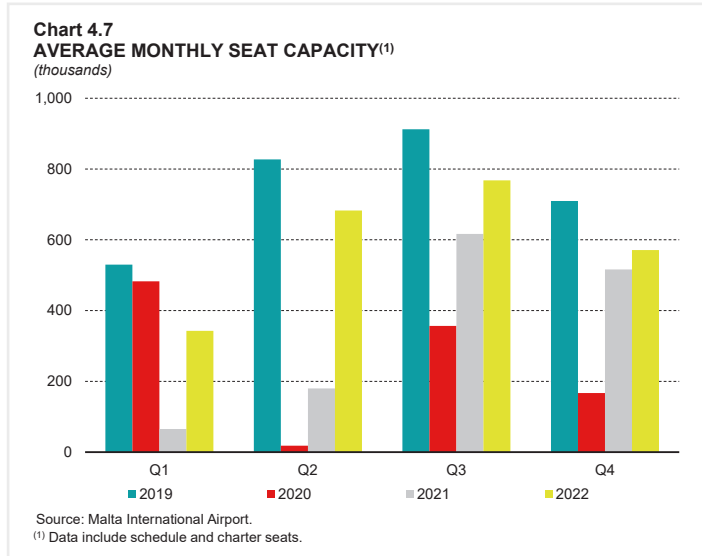
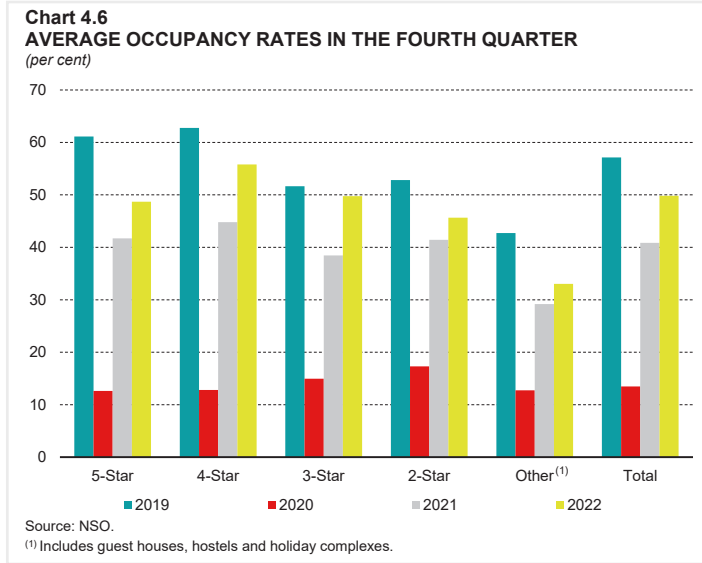


spending was just 1.1% below the level registered in the corresponding period of 2019. When compared to 2021, all expenditure categories registered gains, with the non-package, and 'other' expenditure categories reporting the largest increases in absolute terms. The gap in relation to 2019 narrowed over the quarter such that expenditure exceeded pre-pandemic levels in November.

Since tourism expenditure increased at a faster pace compared with arrivals, expenditure per capita increased to €841.0, from €796.0 in the last quarter of 2021. The average length of stay stood at 6.8 nights, from 7.9 a year earlier. Expenditure per capita exceeded that recorded in the fourth quarter of 2019, as did the average length of stay.

According to Malta International Airport data, in the fourth quarter of 2022, average seat capacity was 10.6% above the level recorded a year earlier, reaching an average of 570,904 seats per month (see Chart 4.7). Nevertheless, seat capacity remained around a fifth below that in the fourth quarter of 2019.

A total of 61 cruise liners visited Malta in the third quarter of 2022, up from 34 one year earlier. Foreign passengers reached 101,797 persons, more than double the number that visited in the final quarter of 2021, but still almost 40% below the number recorded in the corresponding



quarter of 2019 (see Chart 4.8). Italian visitors comprised the largest share of total cruise passengers during the quarter under review, followed by visitors from Germany, the United Kingdom and the United States.

The capital account

Net inflows on the capital account stood at €75.6 million in the fourth quarter of 2022, increasing from €64.9 million a year earlier (see Table 4.1). Capital inflows also increased when measured on a four-quarter cumulative basis, standing at €187.5 million in 2022, compared to €151.7 million in 2021.