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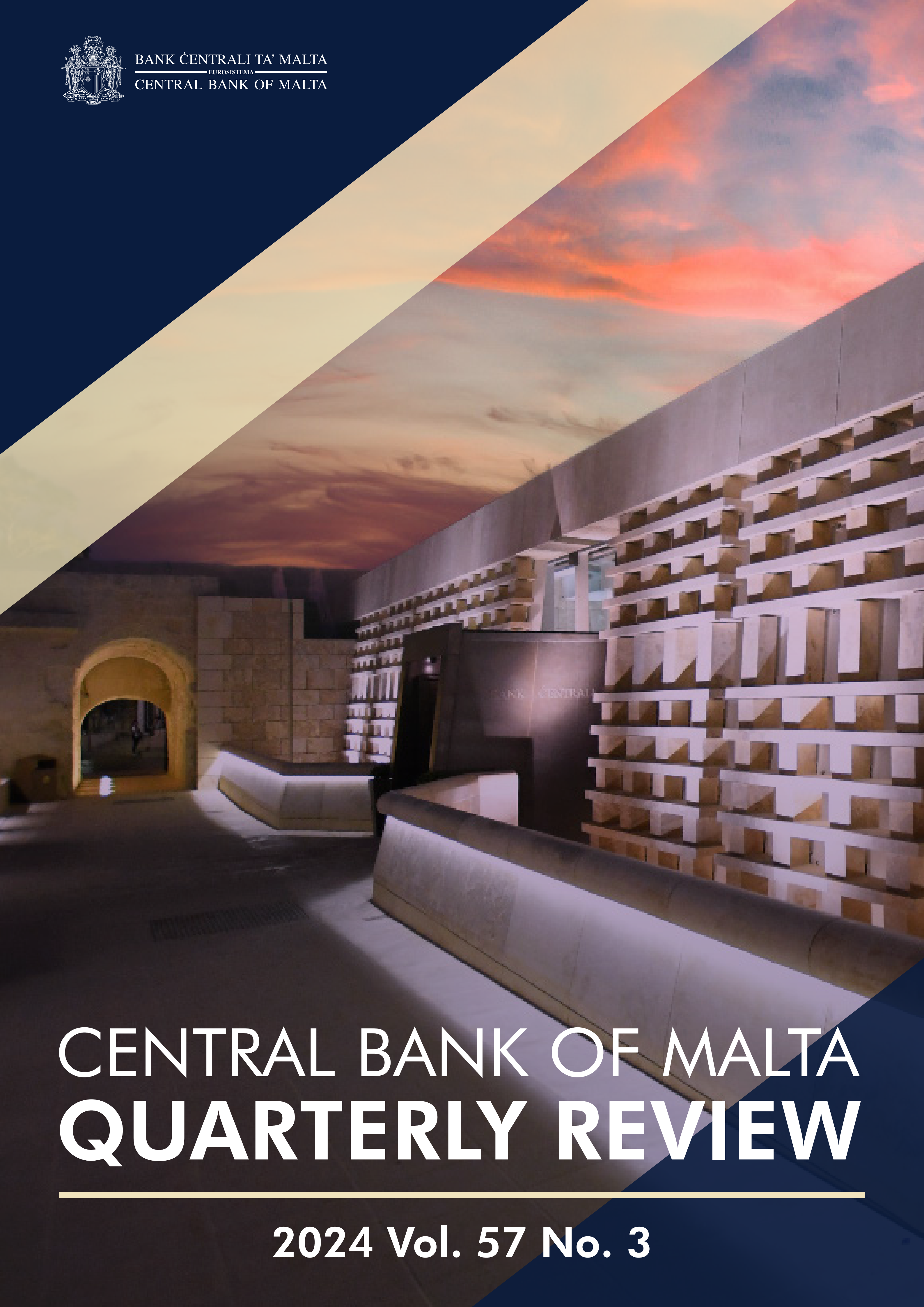

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ABBREVIATIONS

APP	asset purchase programme
AR	average revision
BCI	Business Conditions Index
BLS	Bank Lending Survey
CCI	construction cost index
COICOP	Classification of Individual Consumption by Purpose
COVID-19	coronavirus disease 2019
CGS	COVID-19 Guarantee Scheme
CPE	compensation per employee
CPI	Consumer Price Index
DWA	Distributional Wealth Accounts
EA	euro area
ECB	European Central Bank
EEI	Employment Expectations Indicator
EER	Effective Exchange Rate
ESI	Economic Sentiment Indicator
ETS	emissions trading system
EU	European Union
EUI	Economic Uncertainty Indicator
EURIBOR	Euro Interbank Offered Rate
€STR	euro short-term rate
FC	financial corporation
FCI	Financial Conditions Index
FOMC	Federal Open Market Committee
GDP	gross domestic product
GFCF	gross fixed capital formation
GHG	greenhouse gas
GVA	gross value added
HFCS	Household Finance and Consumption Survey
HICP	Harmonised Index of Consumer Prices
LFS	Labour Force Survey
LSGS	Liquidity Support Guarantee Scheme
LTRO	longer-term refinancing operation
MAR	mean absolute revision
MDB	Malta Development Bank
MFI	monetary financial institution
MGS	Malta Government Stocks
MIA	Malta International Airport
MP	maintenance period
MPC	Monetary Policy Committee
MRO	main refinancing operation
MSE	Malta Stock Exchange
MT	Malta
NADIE	net assets denominated in euro
NAIRU	non-accelerating inflation rate of unemployment
NEIG	non-energy industrial goods
NFA	net foreign assets
NFC	non-financial corporation
NPISH	non-profit institutions serving households
NSO	National Statistics Office
OPEC	Organisation of the Petroleum Exporting Countries

OPEC+	OPEC and non-OPEC members
PEPP	pandemic emergency purchase programme
PPI	Property Price Index
PSPP	Public Sector Purchase Programme
QSA	quarterly sector accounts
RRF	Recovery and Resilience Facility
RPI	Retail Price Index
RTGS	real-time gross settlement
SD	standard deviation
SLS	Subsidised Loans Scheme
SMP	Securities Markets Programme
TCN	third-country nationals
TLTRO	targeted longer-term refinancing operation
UCA	Urban Conservation Areas
ULC	unit labour cost
UK	United Kingdom
US	United States
VAT	value added tax

FOREWORD

During the first quarter of 2024, annual real gross domestic product (GDP) growth rose by 4.6 %, following a 4.4% increase in the previous quarter. Growth was largely driven by net exports, as the contribution of domestic demand, while still positive, was smaller. When adjusting for imports, exports remained the main driver of GDP growth.

Potential output growth is estimated to have stood at 5.9% in the first quarter of 2024, below that of 6.6% estimated in the fourth quarter of 2023. On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter was stronger than that in GDP, resulting in a smaller positive output gap. This implies a slight easing in the degree of over-utilisation of the economy's productive capacity.

Although the Bank's Business Conditions Index (BCI) edged down further in the first quarter, it remained slightly above its historical average. The index was affected by an above-average performance in several sub-components, particularly inbound tourism. The historically low unemployment rate also contributed to a positive BCI level. Meanwhile, both the weak growth in the issuance of development permits for residential buildings relative to past averages and a year-on-year decline in the Economic Sentiment Indicator (ESI) have put downward pressure on the BCI level, bringing it close to its long-term average.

Developments in the labour market remained positive. The unemployment rate remained close to its historical low and was well below that in the euro area. Meanwhile, the job vacancy rate and the labour market tightness indicator increased further and remained high in relation to recent outcomes.

Consumer price pressures eased further during the quarter under review. Annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP), stood at 2.7% in March, down from 3.7% in December. This reflected slower growth in the prices of services, food, and non-energy industrial goods (NEIG). Meanwhile, annual inflation based on the Retail Price Index (RPI), which only considers expenditure by Maltese residents, edged down to 1.9% in March, from 3.6% in December due to lower contributions from prices of food and transport and communications services.

Annual inflation, based on the industrial producer price index, eased to 0.3% in the first quarter, down from 1.4% in the previous quarter. Other indicators such as the domestic producer price index, and the goods imports deflator also suggest easing cost pressures. Meanwhile, the construction cost index (CCI) continued to decrease in annual terms, though at a slower rate than before. Malta's unit labour cost (ULC) index, measured on a four-quarter moving average basis, rose at an annual rate of 3.0%, following a rise of 2.6% in the preceding quarter, in line with a slight pick-up in compensation per employee (CPE), albeit from moderate levels.

In the first quarter of 2024, the current account deficit narrowed compared with a year earlier. This was due to higher net receipts from services, and to a lesser extent, a narrowing of the merchandise trade deficit. By contrast, higher net outflows on the primary and secondary income accounts increased. On a four-quarter moving sum basis, the current account balance registered a surplus equivalent to 1.3% of GDP in the first quarter of 2024.

When measured on a four-quarter moving sum basis, the general government deficit narrowed by one percentage point, from 4.9% in the fourth quarter of 2023 to 3.9% in the first quarter of 2024. Meanwhile, the general government debt-to-GDP ratio rose marginally compared with the ratio prevailing at the end of 2023.

Over the 12 months to March, Maltese residents' deposits with monetary financial institutions (MFIs) in Malta increased, reflecting mainly higher balances belonging to households and non-financial corporations (NFCs). The annual rate of change was similar to that recorded in December. On the other hand, credit to Maltese residents expanded at a faster pace, reflecting faster growth in credit to general government. According to the Bank's Financial Conditions Index (FCI), in the first quarter of 2024, financial conditions continued to loosen from a historical perspective, following a period of tight conditions throughout the previous two years. The recent improvement was driven by a bigger loosening effect from both domestic and foreign factors.

During the year to March, the weighted average interest rate offered to households and NFCs on their outstanding deposits stood above its year-ago level, increasing by 16 basis points, to reach 0.35%. The largest increase was recorded in rates on time deposits belonging to NFCs, although remuneration on time deposits belonging to households and savings deposits redeemable at notice up to three months also increased. Meanwhile, over the same period, the weighted average lending rate paid by households and NFCs to resident MFIs increased by 10 basis points, to 3.51%, driven by higher rates on NFC loans. As a result, the spread between the two rates narrowed slightly compared to March 2023.

Data on new business, which may be more indicative of the transmission of monetary policy impulses, show an increase in the weighted average deposit rate, and a decrease in the weighted average lending rate.

The primary market yield on Treasury bills declined between December and March. By contrast, secondary market yields on five-year and ten-year Malta Government Stocks (MGS) rose over this period, while domestic share prices declined.

The Governing Council kept its three key ECB interest rates unchanged during the first quarter of 2024. The Council stated that although most measures of underlying inflation had eased further, domestic price pressures remained high, in part owing to strong growth in wages. Financing conditions were restrictive, and the past interest rate increases continued to weigh on demand, which was helping to push down inflation.

Accordingly, while reiterating its commitment to return euro area inflation to 2% in a timely manner, the Council reaffirmed that it would continue to follow a data-dependent approach in determining the appropriate level and duration of monetary restrictiveness. The Council also confirmed that future interest rate decisions would be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

While the ECB kept its interest rates unchanged in April, in June the Governing Council lowered the three key policy rates by 25 basis points, since the inflation outlook had improved markedly, underlying inflation had eased, and monetary policy had kept financing conditions restricitve.

At the same time, domestic price pressures remained strong and in the Council's view, it was therefore appropriate to keep policy rates sufficiently restrictive for as long as necessary to achieve the inflation aim. The Council added that it would continue to be guided by the three elements of its policy reaction function, without pre-committing to any particular rate path. It also confirmed that it would reduce the Eurosystem's holdings of securities under the pandemic emergency purchase programme (PEPP) by €7.5 billion per month on average, over the second half of the year.

ECONOMIC SURVEY

1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

In the first quarter of 2024, real GDP expanded at a slower pace in the United States, whereas it rebounded in the United Kingdom and in the euro area. During the quarter under review, the unemployment rate remained unchanged at low levels in the United States and in the euro area but edged up in the United Kingdom.

Consumer price inflation rose marginally in the United States but continued to ease, albeit at a more subdued pace than before, in the other two major economies reviewed, mainly reflecting energy price dynamics. In the United States, inflation inched up to 3.5% in March, after having dropped to 3.4% in December. In contrast, in the United Kingdom, inflation fell to 3.2% in March from 4.0% in December and, in the euro area, inflation declined to 2.4% in March, from 2.9% three months earlier. The Federal Reserve, the Bank of England and the ECB kept their key interest rates unchanged during the quarter under review.

Brent oil prices rose in the review period, mainly reflecting concerns that geopolitical tensions could cause supply disruptions. By contrast, the price of European natural gas continued to decline in the context of high storage levels in the EU and lower demand amid a mild winter.

Key advanced economies

US economic growth slows down

In the United States, real GDP growth slowed down to a quarterly rate of 0.3% in the first quarter of 2024, compared to 0.8% in the preceding quarter (see Table 1.1). Higher personal consumption expenditure was the main contributor to growth, followed by fixed private investment, which reflected almost equal increases in the residential and non-residential components. Government consumption and investment contributed to a lesser degree. By contrast, net exports contributed negatively to economic growth, as an increase in imports markedly outweighed a rise in exports. Private inventories lost further momentum during the review period, resulting in a drag on real GDP growth.

Meanwhile, labour market conditions remained favourable. Non-farm payroll data show that employment grew by 0.5% on average during the quarter, compared to 0.4% in the previous quarter. These data suggest that the increase in employment was driven by private services. Within

Table 1.1
REAL GDP GROWTH IN SELECTED ADVANCED ECONOMIES
Quarter-on-quarter percentage changes; seasonally and working day adjusted

	2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
United States	-0.5	-0.1	0.7	0.6	0.6	0.5	1.2	0.8	0.3
Euro area	0.6	0.8	0.5	0.0	0.1	0.1	0.0	-0.1	0.3
United Kingdom	0.5	0.1	-0.1	0.1	0.2	0.0	-0.1	-0.3	0.7

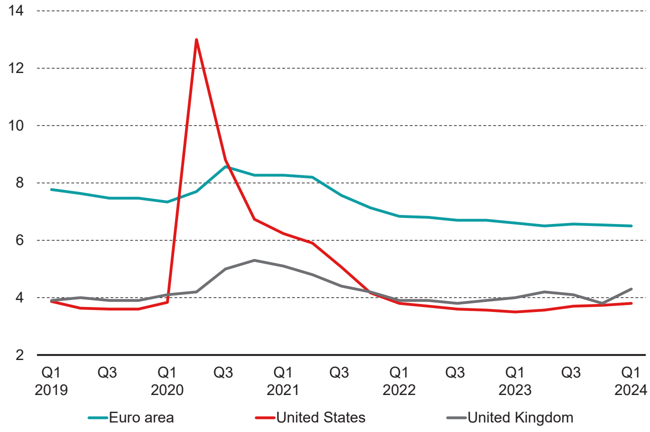
Sources: Bureau of Economic Analysis, US; Eurostat; Office for National Statistics, UK.

private services, employment growth was most pronounced in education and health, followed by professional and business services and the leisure and hospitality sectors. Government employment also increased significantly. The participation rate remained unchanged at 62.6% during the review period. On average, the unemployment rate stood at 3.8% in the first quarter, same as in the previous quarter (see Chart 1.1).

After falling in the fourth quarter of 2023, inflation rose slightly in the quarter under review, largely reflecting a rebound in energy prices. Thus, the annual inflation rate based on the consumer price index (CPI) stood at 3.5% in March, compared to 3.4% three months earlier (see Chart 1.2). Annual energy inflation rose to 2.1% in March as against -2.0% in December. Services inflation increased to 5.3% in March, whereas it had declined to 5.0% in December. By contrast, food inflation (including beverages) eased to 2.2% in March from 2.7% three months earlier. Inflation excluding food and energy eased to 3.8% in March, from 3.9% in December.

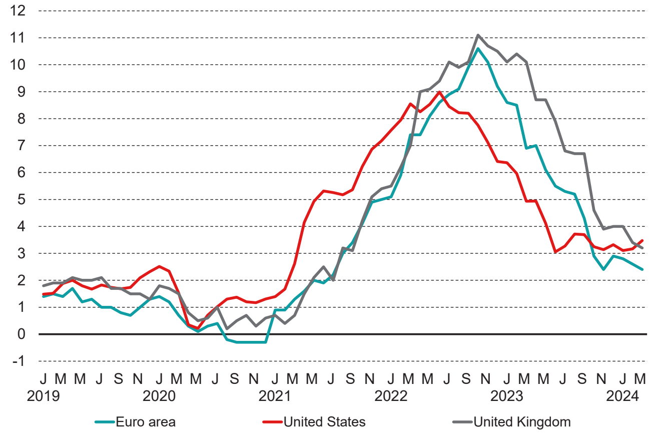
During the first quarter of 2024, the Federal Open Market Committee (FOMC) kept the target range for the federal funds rate unchanged at between 5.25% and 5.50% (see Chart 1.3). In January, the Committee dropped its reference to additional policy firming in favour of a more neutral stance, as the

Chart 1.1
UNEMPLOYMENT RATE
(percentage of the labour force; quarterly average; seasonally adjusted)



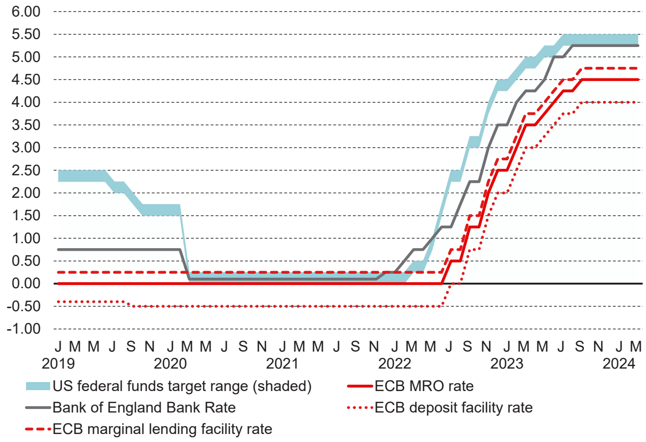
Sources: Bureau of Labor Statistics, US; Eurostat; Office for National Statistics, UK.

Chart 1.2
CONSUMER PRICE INFLATION
(annual percentage changes)



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

Chart 1.3
OFFICIAL INTEREST RATES
(percentages per annum; end of month)



Sources: ECB; Federal Reserve; Bank of England.

risks to achieving its goals were "moving into better balance". Nevertheless, the FOMC added that it needed to gain "greater confidence" that inflation was moving sustainably towards 2% before it would be appropriate to reduce the target range.[1]

UK economy expands

Real GDP in the United Kingdom grew at a quarterly rate of 0.7% in the quarter under review, after it had contracted by 0.3% in the previous quarter (see Table 1.1). Increases in consumption expenditure by households and non-profit institutions, together with higher business investment, outweighed a contraction in inventories. Meanwhile, a decrease in imports outweighed a drop in exports, so that net trade also contributed to the expansion in economic activity.

Labour market conditions worsened slightly. The employment rate eased marginally to 74.5%, on a quarterly-average basis, from 75.0% in the previous three months, while the unemployment rate averaged 4.3% during the review period, up from 3.8% in the previous quarter (see Chart 1.1).

Consumer price inflation in the United Kingdom continued to decline during the review period, although it did so at a slower pace than during the previous quarter. The annual inflation rate decreased to 3.2% in March, compared to 4.0% in December (see Chart 1.2), with inflation down across most major components. Energy prices continued to fall during the quarter, albeit at a more subdued pace than that recorded in the previous quarter. Thus, the annual rate of energy price inflation rose to -12.7% in March, compared to -17.3% three months before. All the other major components of inflation continued to ease, especially the prices of non-energy industrial products. Although food inflation and services inflation fell further, they remained high. The annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco fell to 4.2% in March, from 5.1% in December.

Although inflation continued to fall, key indicators of inflation persistence remained elevated. Against this background, during the quarter under review, the Bank of England's Monetary Policy Committee (MPC) kept the Bank Rate unchanged at 5.25% (see Chart 1.3). In January, the MPC removed its tightening bias, due to favourable developments on inflation. In March, the MPC reiterated that it remained prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably.[2]

The euro area

GDP in the euro area increases marginally

Economic activity in the euro area recovered modestly in the first three months of 2024. In real terms, GDP rose by 0.3% on a quarter-on-quarter basis, compared to a contraction of 0.1% in the fourth quarter of 2023 (see Table 1.2). Economic activity during the quarter under review took place in the context of an improvement in global trade and rising household spending, reflecting the gradual increase in consumer confidence as inflation declined and real incomes

[1] In May and June 2024, the FOMC kept the target range for the federal funds rate unchanged at 5.25% to 5.50%. In considering any adjustments to the target range for the federal funds rate, the FOMC reiterated that it would carefully assess incoming data, the evolving outlook and the balance of risks. In May, the Committee announced that, beginning in June, it would slow the pace of quantitative tightening by reducing the monthly redemption cap on Treasury securities from USD 60 billion to USD 25 billion. The Committee would maintain the monthly redemption cap on agency mortgage-backed securities at USD 35 billion and would reinvest any principal payments above this cap into Treasury securities. In June, the FOMC restated that it would continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.

[2] In May and June 2024, the MPC kept the Bank Rate unchanged at 5.25%. The Committee continued to judge that monetary policy was likely to need to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target would dissipate.

Table 1.2
CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA[1]
Percentage points; quarter-on-quarter percentage change

	2022				2023				2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	0.0	0.4	0.6	-0.4	0.0	0.1	0.2	0.1	0.1
Government consumption	0.1	0.0	0.0	0.1	0.0	0.1	0.2	0.1	0.0
GFCF	-0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.2	-0.3
Changes in inventories[2]	0.2	0.1	0.0	-0.3	-0.4	0.4	-0.4	-0.3	-0.3
Exports	0.6	1.1	0.7	0.0	-0.2	-0.5	-0.7	0.1	0.7
Imports	-0.1	-0.9	-1.1	0.5	0.6	0.1	0.8	-0.3	0.2
GDP	**0.6**	**0.8**	**0.5**	**0.0**	**0.1**	**0.1**	**0.0**	**-0.1**	**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

rose. Meanwhile, however, industry confidence remained broadly flat and low by historical standards and financial conditions remained tight.

In the first quarter of 2024, growth was driven by net exports, which contributed 0.9 percentage point as a strong rise in exports was coupled with a decline in imports. In contrast, domestic demand deducted 0.6 percentage point from GDP growth. This partly reflected a decline in gross fixed capital formation (GFCF), which was driven mainly by a contraction in business investment, excluding volatile Irish intellectual property products. It also reflected a drawdown in inventories. On the other hand, private consumption expenditure held steady and contributed 0.1 percentage point to GDP growth, while government consumption expenditure remained practically unchanged.

Labour market remains strong

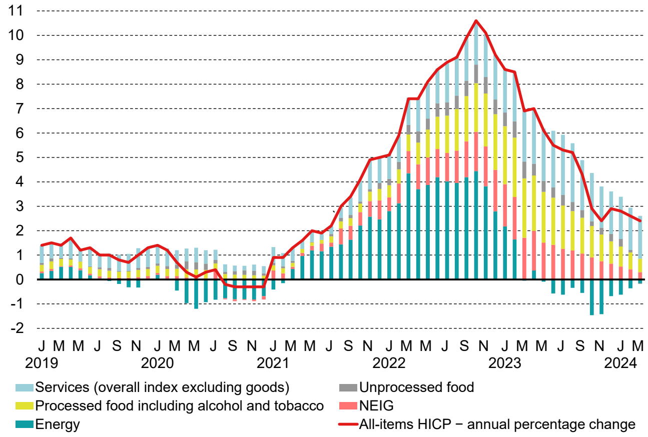
The labour market in the euro area remained robust during the first quarter. Indeed, employment continued to expand, growing at a quarterly rate of 0.3% during the review period, same as in the preceding quarter, and in line with GDP growth.[3] Meanwhile, unemployment remained close to historical lows, with the seasonally adjusted unemployment rate standing at 6.5% in March, the same as three months before, also averaging 6.5% in the quarter under review (see Chart 1.1).

Inflation eases further

Although inflationary pressures in the euro area remained elevated, they continued to abate in the first quarter. The annual rate of inflation based on the HICP stood at 2.4% in March, down from 2.9% three months before (see Chart 1.4). The decline in overall inflation reflected a drop in the prices of unprocessed food coupled with slower growth in the prices of processed food and non-energy industrial goods (NEIG). In contrast, services inflation remained persistent, while energy prices fell at a slower rate than in previous quarters. Indeed, the contribution of past energy price increases and other supply shocks to overall inflation continued to diminish, while high interest rates and tight financial conditions continued to weigh on aggregate demand. Although these factors helped to push down inflation, domestic price pressures remained strong, partly reflecting rising wages, which showed up especially in services.

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

Chart 1.4
CONTRIBUTIONS TO HICP INFLATION IN THE EURO AREA
(percentage points; annual percentage change)



Source: ECB.

Turning to the major HICP components, energy prices fell at an annual rate of 1.8% in March 2024, following a drop of 6.7% in December 2023. Meanwhile, unprocessed food prices fell at an annual rate of 0.5% in March, as against an increase of 6.8% in December. Processed food inflation eased to 3.5% over the review period, compared to 5.9% in December, partly reflecting lower food commodity prices. The annual rate of NEIG inflation slowed down to 1.1% in March, compared to 2.5% three months earlier. Meanwhile, the annual rate of change of services prices stood at 4.0% in March, the same as three months earlier.

Underlying inflationary pressures continued to moderate during the review period. Thus, the annual rate of HICP inflation excluding energy and food prices decelerated to 2.9% in March, compared to 3.4% in December.

Economic activity expected to continue growing at a gradual pace, inflation set to fall further

According to the Eurosystem staff macroeconomic projections, published in June 2024, real GDP growth in the euro area is estimated to increase to 0.9% in 2024. Real GDP is then expected to expand further by 1.4% and 1.6% in 2025 and 2026, respectively (see Table 1.3). In the near term, Eurosystem staff envisage a consumption-driven economic recovery, supported by increasing real disposable income, as well as improving terms of trade and confidence. Further out, economic recovery would also be supported by the gradual dissipation of the impact from the ECB's

Table 1.3
MACROECONOMIC PROJECTIONS FOR THE EURO AREA[1]
Annual percentage changes

	2023	2024	2025	2026
GDP	**0.6**	**0.9**	**1.4**	**1.6**
Private consumption	0.6	1.2	1.7	1.6
Government consumption	0.8	1.2	1.1	1.1
GFCF	1.3	0.1	1.5	2.0
Exports	-0.9	1.3	2.9	3.1
Imports	s	0.5	3.2	3.3
HICP	**5.4**	**2.5**	**2.2**	**1.9**
HICP excluding energy and food	4.9	2.8	2.2	2.0

Source: ECB.
[1] Eurosystem staff macroeconomic projections (June 2024).

monetary policy tightening and a likely easing of financial conditions. A robust labour market and stronger productivity are also expected to underpin economic growth.

Compared to the March 2024 projections, the latest projections are conditioned on higher commodity prices, a stronger effective exchange rate (EER) and slightly higher short-term interest rates. Real GDP growth is revised upwards by 0.3 percentage point for 2024, whereas it is revised downwards by 0.1 percentage point for 2025. Real GDP growth for 2026 is unrevised. The upward revision to the 2024 forecast mainly reflects the positive outcome for the first quarter, a boost from net trade, an increase in housing investment and improved incoming survey indicators. On the other hand, the downward revision for 2025 mainly reflects lower government consumption.

Turning to the outlook for prices, Eurosystem staff foresee HICP inflation to decline from 5.4% in 2023 to an average of 2.5% in 2024 and to ease further to 2.2% and 1.9% in 2025 and 2026, respectively. Over the next few quarters, HICP inflation is expected to remain practically unchanged, save for some volatility related to base effects in energy prices. HICP inflation is expected to fall slightly below the ECB's 2% target at the beginning of 2026. Energy inflation is projected to pick up in the second quarter of 2024. Between April 2024 and March 2025, upward base effects, alongside the unwinding of energy and inflation compensatory fiscal measures, will mostly account for most of the expected upward swing in energy inflation. Subsequently, energy inflation is expected to recede. Following its marked decline, food inflation is expected to fluctuate in the remainder of 2024, before it would recede further to an average of 2.2% in 2026.

HICP inflation excluding energy and food is expected to continue to moderate gradually from an average of 4.9% in 2023 to 2.8% in 2024 and further to 2.2% and 2.0% in 2025 and 2026, respectively. This measure of underlying inflation is expected to remain above the historical average over the projection horizon mainly on account of services inflation, which is expected to recede only slowly.

Compared to the March 2024 projections, HICP inflation is revised upwards by 0.2 percentage point for both 2024 and 2025, while the inflation projection for 2026 remains unchanged. The upward revisions for 2024 and 2025 reflect upward revisions in both HICP energy inflation and HICP inflation excluding energy and food, especially services-sector prices. These upward revisions outweighed downward revisions to HICP food inflation. Underlying inflation projections are revised upwards by 0.2 and 0.1 percentage point for 2024 and 2025, respectively. These revisions mainly reflect elevated services prices mainly due to upward pressures stemming from higher labour costs. The underlying inflation projection for 2026 is unrevised.

ECB keeps interest rates unchanged

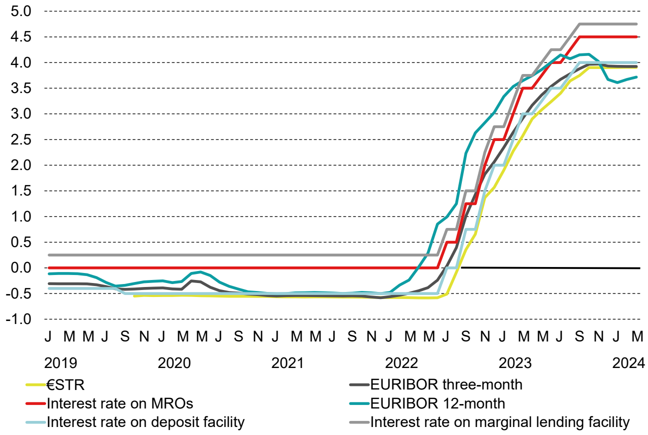
The Governing Council decided to keep the three key ECB interest rates unchanged during the quarter under review. Hence, the interest rates on the deposit facility, the main refinancing operations (MROs) and the marginal lending facility remained at 4.00%, 4.50% and 4.75%, respectively. The Council stated that although most measures of underlying inflation had eased further, domestic price pressures remained high, in part owing to strong growth in wages. Financing conditions were restrictive and the past interest rate increases continued to weigh on demand, which was helping to push down inflation.

The Council expressed its determination to ensure that inflation would return to its 2% medium-term target in a timely manner. It reiterated that interest rate decisions would be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. Accordingly, the Council reaffirmed that it would continue to follow a data-dependent approach in determining the appropriate level and duration of a restrictive monetary policy.[4]

Money market rates remain practically unchanged

Money market interest rates in the euro area remained practically unchanged, reflecting market expectations that the current interest rate tightening cycle had probably reached its peak. Hence, the euro short-term rate (€STR) averaged 3.91% in March, compared to 3.90% in December, remaining below the interest rate on the ECB's deposit facility (see Chart 1.5).[5] The three-month euro interbank offered rate (EURIBOR) averaged 3.92% in March, as against 3.93% three months earlier. The 12-month EURIBOR averaged 3.72% in March, compared to 3.67% in December.[6] The 12-month EURIBOR thus remained below the deposit facility rate, indicating market players' expectations of interest rate cuts.

Chart 1.5
KEY MONEY MARKET INTEREST RATES
(percentages per annum; market rates − monthly averages; ECB rates − end of month)



Source: ECB.

Euro area government bond yields rise

The euro area ten-year benchmark government bond yield rebounded during the first quarter, mainly because market participants revised their expectations about official interest rate cuts in the euro area. This yield averaged 2.95% in March, compared to 2.87% three months earlier.

Individual sovereign bond yields rose to varying degrees in most euro area countries. In Germany, ten-year sovereign bond yields increased by 25 basis points to 2.35%. Yields went up by 29 basis points, to 2.75%, in Ireland and by 17 and 16 basis points in France and Portugal to 2.82% and 3.02%, respectively. By contrast, the yield on Italy's ten-year government bond fell by 12 basis points to 3.70% as credit ratings remained firm and market sentiment improved. In the remaining euro area jurisdictions, yields tended to rise, with the increase ranging from 28 basis points

[4] On 11 April, the Governing Council decided to keep the three key policy interest rates unchanged. On 6 June, the Governing Council lowered the three key policy rates by 25bps since the inflation outlook had improved markedly, underlying inflation had eased and monetary policy had kept financing conditions restrictive. Accordingly, the interest rates on the deposit facility, the MROs and the marginal lending facility were decreased to 3.75%, 4.25% and 4.50%, respectively. In light of persisting domestic price pressures, the Governing Council reiterated that it would keep policy rates sufficiently restrictive for as long as necessary to ensure that inflation would return to its 2% medium-term target in a timely manner. The Governing Council restated that it would continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. It also confirmed that it would reduce the Eurosystem's holdings of securities under the PEPP by €7.5 billion per month on average over the second half of the year.

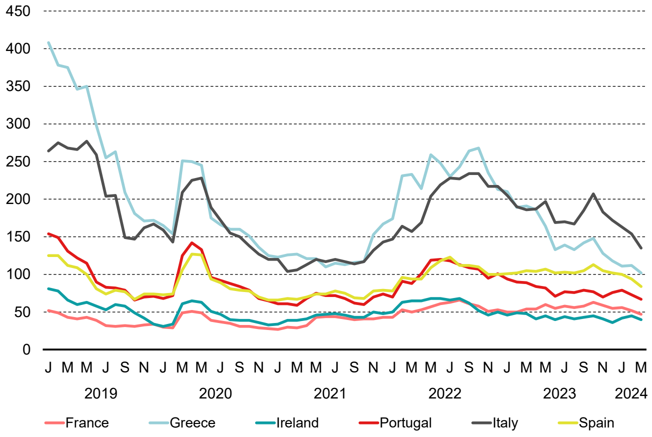
[5] The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. The €STR is published on each T2 business day based on transactions conducted and settled on the previous T2 business day.

[6] 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.

in Estonia to 7 basis points in Spain. On the other hand, yields in Latvia, Slovenia and Cyprus fell slightly.

Spreads between yields on the ten-year German bonds and those on the bonds issued by most of the other euro area jurisdictions narrowed. Spreads between German benchmark yields and those on Italian government bonds narrowed to a greater extent, falling by 37 basis points to 1.35% at the end of the quarter (see Chart 1.6).

Chart 1.6
SELECTED EURO AREA GOVERNMENT BOND YIELD SPREADS
(difference vis-à-vis German ten-year government bond yields in basis points)

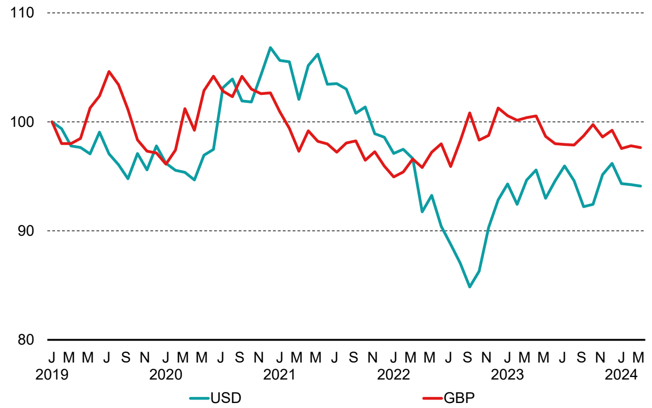


Source: ECB.

The euro falls versus the US dollar but appreciates slightly in effective terms

The euro depreciated by 2.2% against the US dollar, reversing part of the gains seen in the previous quarter (see Chart 1.7). Economic-growth differentials between the United States and the euro area as well as market perceptions that US official interest rates might not be cut as early as previously expected supported the dollar. The single currency depreciated by 1.6% versus the British pound mainly on account of interest-rate differentials between the United Kingdom and the euro area.

Chart 1.7
EXCHANGE RATE MOVEMENTS OF THE EURO AGAINST OTHER MAJOR CURRENCIES
(index of end-of-month rates; Jan. 2019=100; an increase in the index implies euro appreciation)



Source: ECB.

By contrast, the euro resumed its upward trend against the Japanese yen, as the latter was weakened by very low interest rates in Japan compared with other major jurisdictions. The euro also appreciated against several other currencies such as the Hungarian forint, the Czech koruna, the Swiss franc, the Korean won, the Australian dollar and the Swedish krona. Moreover, the single currency was up, albeit to a lower extent, versus the Chinese renminbi and the Canadian dollar. Overall, the nominal EER of the euro against the EER-18 group of countries gained 0.2% between the end of December 2023 and the end of March 2024.[7]

[7] The EER-18 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

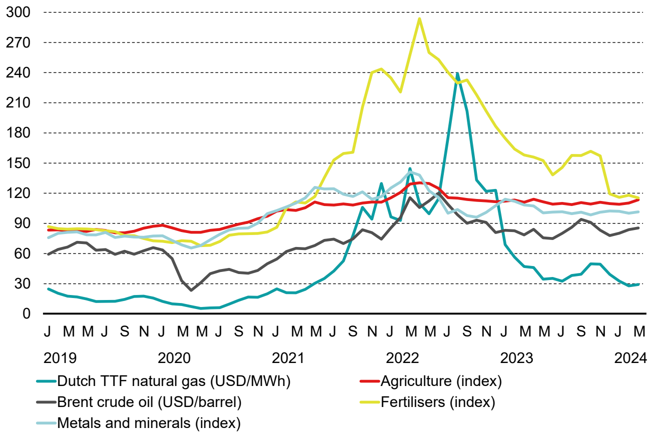
Commodities

Oil and other commodity prices rise but natural gas declines further during the quarter

Oil prices rebounded in the first quarter amid concerns that global geopolitical tensions would cause supply disruptions. The implementation of an oil production cut by OPEC+ probably exacerbated the upswing in oil prices. On the other hand, according to the International Energy Agency, global oil demand grew at a slower pace again during the review period. The price of Brent crude oil averaged USD 85.45 per barrel in March, 9.7% higher than the level prevailing three months earlier. By contrast, the price of European natural gas fell further in the quarter under review mainly on account of notably high storage levels in the EU and decreasing demand amid mild weather conditions in Europe. The average price of Dutch TTF natural gas stood at USD 29.2 per megawatt hour in March, or 25.7% lower than in December (see Chart 1.8).

World Bank data show that non-energy commodity prices rose by 1.9% during the quarter under review. Higher prices for agricultural products, driven mainly by cocoa and coffee, offset lower prices for fertilizers, as well as for metals and minerals. Meanwhile, prices of precious metals were up by 5.8%.

Chart 1.8
COMMODITY PRICES
(monthly averages)



Source: World Bank.

2. OUPUT AND EMPLOYMENT

Annual real GDP growth rose by 4.6% in the first quarter of 2024, following a 4.4% increase in the previous quarter. This was largely driven by net exports, as the contribution of domestic demand, while still positive, was smaller. When adjusting for imports, exports remained the main driver of GDP growth.

Sectoral data show that the expansion in output was primarily driven by the services sector, although gross value added (GVA) in manufacturing and construction also increased. Annual growth in the GDP deflator moderated but remained elevated from a historical perspective. This moderation stemmed from a sharp decrease in the contribution of unit profits.

During the first quarter of 2024, developments in the labour market remained positive. The unemployment rate remained close to its historical low and well below that in the euro area.

The labour market remained tight. The number of job vacancies increased by more than one fourth when compared to the first quarter of 2023. Meanwhile, the job vacancy rate and the labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate, increased further and remained high in relation to recent outcomes.

Potential output and Business Conditions Index

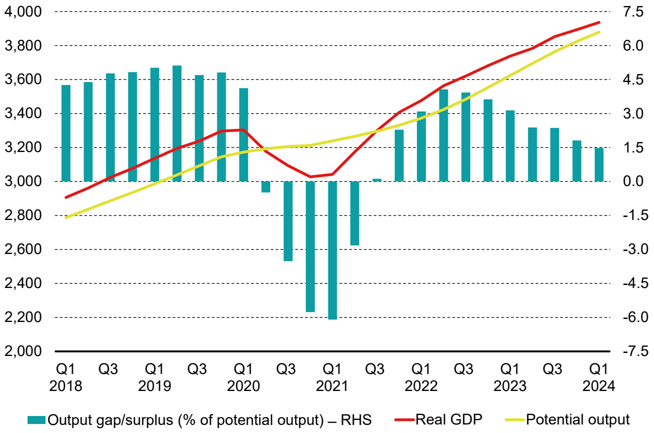
Potential output grows at a slower rate

The Bank estimates that potential output growth stood at 5.9% in the first quarter of 2024, below that of 6.6% estimated for the fourth quarter of 2023.

On a four-quarter moving average basis, the level increase in potential output relative to the previous quarter was stronger than that in GDP, resulting in a smaller positive output gap. The latter is estimated at 1.5%, down from 1.8% in the fourth quarter of 2023 (see Chart 2.1).

This implies a slight easing in the degree of over-utilisation of the economy's productive capacity.

Chart 2.1
CYCLICAL POSITION OF THE MALTESE ECONOMY
(four-quarter moving averages; EUR million; as percentage of potential GDP)



Sources: NSO; Central Bank of Malta estimates.

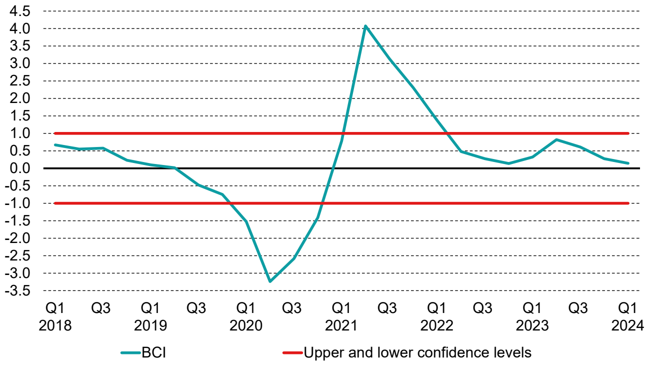
BCI suggests growth is reverting to historical average

The Bank's BCI continued to edge down in the first quarter of 2024 but remained slightly above its historical average (see Chart 2.2).[1]

[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 in the In-House Economic Indicators section on the website. 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.

During the quarter under review, the BCI was affected by an above-average performance in several sub-components, particularly inbound tourism. At the same time, the unemployment rate remained low from a historical perspective. Meanwhile, both the weak growth in the issuance of development permits for residential buildings relative to past averages and a year-on-year decline in the ESI have put downward pressure on the BCI level, bringing it close to its long-term average.

Chart 2.2
BCI
(standardised)



Source: Central Bank of Malta.
The red lines in the Chart represent the range enclosing one standard deviation on either side of the BCI's long-run value. Repeated readings below the lower band signal that economic activity is significantly below normal economic activity. Readings above the upper band indicate that activity is signficantly above normal levels.

GDP and industrial production

Real GDP growth largely driven by net exports

Real GDP rose by 4.6% on an annual basis, following a 4.4% increase in the previous quarter.[2] The small pick-up in growth occurred as the contribution from domestic demand turned positive. This outweighed a smaller positive contribution from net exports, although the latter remained the main driver of growth (see Table 2.1).

Domestic demand also supported the latest economic expansion, but its contribution was more limited compared to that of net exports. It rose by an annual 1.4% in the first quarter of 2024, following a contraction of 4.2% in the previous quarter. The recovery in domestic demand reflected a smaller negative contribution from GFCF, as import-intensive investment in the aviation sector corrected somewhat from previous extraordinary levels. On the other hand, the contribution of government consumption turned negative, while that of private consumption remained positive but moderated. Overall, domestic demand added 1.1 percentage points to GDP growth in the quarter under review.

Private consumption expenditure increased by an annual 3.7% in the first quarter of 2024, following a 7.9% increase in the previous quarter. Although its growth rate more than halved, private consumption remained the key driver of domestic demand, adding 1.6 percentage points to real GDP growth in the quarter under review.

Data on the Classification of Individual Consumption by Purpose (COICOP) show that the strongest increase in absolute terms was recorded in spending on 'miscellaneous goods and services', which includes expenditure on personal care, insurance and financial services among others. This was followed by higher spending on restaurants and hotels, transport and recreational services. On the other hand, spending on housing, water, electricity, gas, and other fuels decreased.

[2] The analysis of GDP in this chapter of the *Quarterly Review* is based on NSO *News Release* 099/2024, which was published on 29 May 2024.

Table 2.1
GDP[1]

	2023				2024
	Q1	Q2	Q3	Q4	Q1
	Annual percentage changes				
Private final consumption expenditure	8.3	7.1	7.9	7.9	3.7
Government final consumption expenditure	0.8	-1.2	3.7	6.5	-1.7
GFCF	-11.4	-16.8	-24.5	-29.7	-0.9
Domestic demand	**1.3**	**-1.4**	**-2.4**	**-4.2**	**1.4**
Exports of goods and services	9.5	11.7	6.6	7.1	3.6
Imports of goods and services	7.1	8.6	1.2	2.3	1.8
GDP	**6.4**	**5.0**	**7.2**	**4.4**	**4.6**
	Percentage point contributions				
Private final consumption expenditure	3.5	3.0	3.4	3.3	1.6
Government final consumption expenditure	0.2	-0.2	0.6	1.2	-0.3
GFCF	-2.6	-4.1	-6.0	-8.3	-0.2
Changes in inventories	0.1	0.1	-0.1	0.0	0.0
Domestic demand	**1.1**	**-1.2**	**-2.0**	**-3.7**	**1.1**
Exports of goods and services	16.3	19.1	11.1	11.7	6.1
Imports of goods and services	-11.0	-12.9	-1.8	-3.5	-2.6
Net exports	**5.3**	**6.2**	**9.3**	**8.1**	**3.5**
GDP	**6.4**	**5.0**	**7.2**	**4.4**	**4.6**

Sources: NSO; Central Bank of Malta calculations.

[1] Chain-linked volumes, reference year 2015.

Smaller declines were also reported for spending on food and non-alcoholic beverages, education, as well as furnishings, household equipment and routine household maintenance.

COICOP data measure domestic consumption and thus, include the expenditure of non-residents in Malta while excluding the expenditure of Maltese residents abroad. Certain COICOP categories of expenditure were affected by a strong increase in non-residents' expenditure in Malta, in part reflecting a higher number of tourist arrivals. Nonetheless, the remaining part of domestic consumption – the expenditure of Maltese residents in Malta – also rose when compared to the same period a year earlier. Meanwhile, the expenditure of Maltese residents abroad increased significantly on its year-ago level, partly reflecting an increase in trips over the same period.

Government consumption expenditure declined by 1.7% in annual terms, following an increase of 6.5% in the final quarter of 2023. This decline mostly reflects an increase in revenue from sales, which is netted out of consumption expenditure. Overall, government consumption shed 0.3 percentage point from annual GDP growth.

Real GFCF contracted by an annual 0.9% in the first quarter of the year, following a contraction of 29.7% in the previous quarter. When measured in absolute terms, the most significant decrease was recorded in expenditure on machinery and equipment. Investment in dwellings also declined.

On the other hand, investment in intellectual property and in non-residential buildings increased, while spending on cultivated biological resources remained broadly stable. GFCF shed 0.2 percentage point from real GDP growth.

The contribution of changes in inventories in the first quarter of 2024 was neutral.

Imports grew by 1.8%, while exports increased by 3.6% on a year earlier. As exports grew faster than imports, net exports increased, adding 3.5 percentage points to annual real GDP growth. The increase in net exports mainly reflected a higher surplus from trade in services.

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. Overall, import-adjusted contributions show that exports remained the main contributor to real GDP growth in the first quarter of 2024, with its contribution slightly more positive when compared with the contribution of net exports in the traditional approach.

The contribution of GFCF was slightly positive, unlike in the traditional approach where it was slightly negative. However, private final consumption expenditure recorded a smaller positive contribution than in the traditional approach. Moreover, the contribution of changes in inventories was slightly negative whereas it was broadly neutral when using the traditional approach. As a result, when adjusting for imports, domestic demand had a smaller positive contribution to growth compared with the traditional approach. Private consumption remains the main driver behind the growth in domestic demand when adjusting for imports.

Table 2.2
IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH[1]

	2023				2024
	Q1	Q2	Q3	Q4	Q1
	Percentage point contributions				
Private final consumption expenditure	2.0	1.5	2.4	1.9	1.1
Government final consumption expenditure	0.1	-0.2	0.6	1.0	-0.2
GFCF	-0.8	-1.5	-1.7	-2.7	0.1
Changes in inventories	0.0	0.0	-0.2	0.0	-0.1
Domestic demand	**1.2**	**-0.1**	**1.1**	**0.3**	**0.9**
Exports of goods and services	**5.2**	**5.1**	**6.2**	**4.1**	**3.7**
GDP	**6.4**	**5.0**	**7.2**	**4.4**	**4.6**

Source: Central Bank of Malta estimates.

[1] Chain-linked volumes, reference year 2015.

Services remain the main driver of economic growth

GDP data based on the output approach show that in the first quarter of 2024, real GVA rose by 3.3% in annual terms, following a 5.6% increase in the previous three-month period. It added 3.0 percentage points to GDP growth (see Table 2.3).[3]

Services remained the main driver behind the latest economic expansion, adding 2.8 percentage points to real GDP growth. This increase was broad based across a number of services sectors. The sector comprising professional, scientific, administrative and related activities, and the sector comprising wholesale and retail trade, repair of motor vehicles, transportation, accommodation and related activities, each contributed 0.6 percentage point to GDP growth. The sector comprising public administration and defence, education, health and related activities, and the financial and insurance sector each added 0.5 percentage point. The remaining services sectors together added another 0.6 percentage point to growth.

Both the manufacturing and construction sectors added 0.3 percentage point to growth.

Net taxes on products increased on a year earlier.

Table 2.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH
Percentage points

	2023				2024
	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	0.0	-0.1	-0.1	0.0	0.0
Mining and quarrying; utilities	0.5	0.8	0.1	0.7	-0.4
Manufacturing	0.6	0.4	0.0	0.1	0.3
Construction	-0.7	-0.4	-0.2	0.0	0.3
Services	6.3	5.4	4.8	4.3	2.8
of which:					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	1.5	1.9	-0.1	0.0	0.6
Information and communication	0.9	0.4	0.5	0.3	0.0
Financial and insurance activities	0.8	1.1	1.3	0.5	0.5
Real estate activities	0.2	0.1	0.2	0.3	0.4
Professional, scientific, administrative and related activities	1.4	1.7	1.4	2.1	0.6
Public administration and defence; education; health and related activities	0.7	-0.2	0.7	0.8	0.5
Arts, entertainment; household repair and related services	0.7	0.5	0.9	0.4	0.3
GVA	**6.6**	**6.2**	**4.6**	**5.1**	**3.0**
Taxes less subsidies on products	**-0.3**	**-1.2**	**2.6**	**-0.7**	**1.6**
Annual real GDP growth (%)	**6.4**	**5.0**	**7.2**	**4.4**	**4.6**

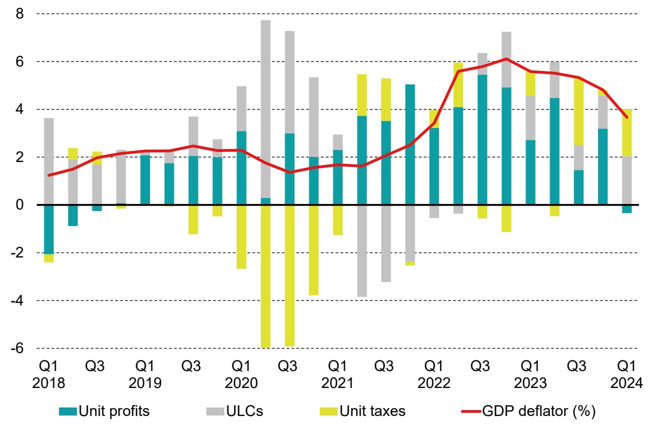
Source: NSO.

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

Nominal GDP growth remains strong

Nominal GDP rose by 8.4% in annual terms in the first quarter of 2024, after increasing by 9.4% in the previous quarter. All components from the income side – compensation of employees, operating surplus, and net taxes rose in annual terms but compensation of employee was the main contributor to nominal GDP growth. The slowdown in growth compared with the previous quarter was due to a smaller positive contribution from operating surplus.

Chart 2.3
CONTRIBUTIONS TO GDP DEFLATOR
(annual percentage change; percentage point contribution)



Source: NSO.

Chart 2.3 shows that annual growth in the GDP deflator moderated but remained elevated from a historical perspective. It stood at 3.7% in the first quarter of 2024, below the 4.8% recorded in the previous three-month period.

Compared with the fourth quarter of the year, ULCs and unit taxes exhibited a larger positive contribution. In contrast, the contribution of unit profits decreased sharply, turning marginally negative.

Industrial production contracts

Industrial production contracted at an annual rate of 4.1% in the first quarter of 2024, following a rise of 3.8% in the previous quarter.[4]

Production in the manufacturing sector contracted at a rate of 3.6%, after an increase of 4.9% in the fourth quarter of 2023. The quarrying sector posted another strong year-on-year increase, although the rate of growth halved compared to the previous quarter. Meanwhile, in the energy sector, production contracted at a slower pace when compared to the fourth quarter of 2023, but the rate of decline remained significant, at 12.5%.[5]

In the manufacturing sector, firms involved in the printing and reproduction of recorded media recorded the largest decrease. Output also contracted sharply among firms that produce 'other manufacturing' – which includes medical and dental instruments, as well as those that manufacture motor vehicles, trailers and semi-trailers, electrical equipment and wearing apparel. In all these sectors, production fell at double-digit rates. Smaller declines were recorded among firms that manufacture fabricated metal products, and certain non-metallic mineral products.

[4] 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.

[5] Industrial production in the energy sector excludes energy generated abroad and imported through the interconnector.

These declines outweighed higher production among firms involved in the manufacture of textiles, rubber and plastic products as well as furniture. Smaller increases were recorded among firms that manufacture basic pharmaceutical products, paper products, and food and beverages.

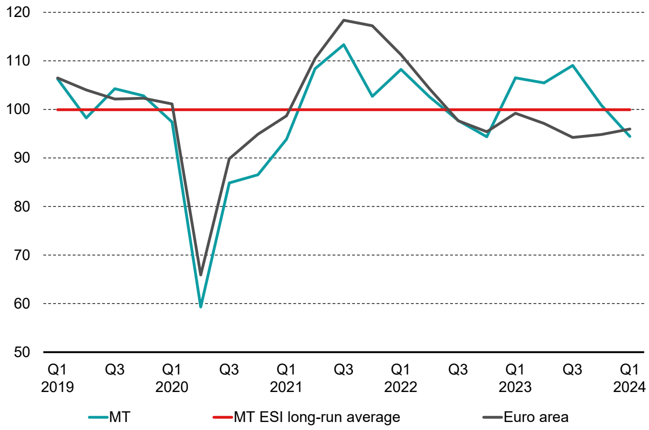
Business and consumer surveys

During the first quarter of 2024, the European Commission's ESI for Malta fell to 94.4, from 100.9 in the preceding quarter, thus standing below its long-term average of around 100.0. Moreover, the overall indicator stood below that in the euro area, which averaged 96.0 (see Chart 2.4).[6,7]

When compared with the fourth quarter of 2023, confidence deteriorated in industry and in the services sector, however it improved in the remaining sectors. The strongest decline was recorded in industry.

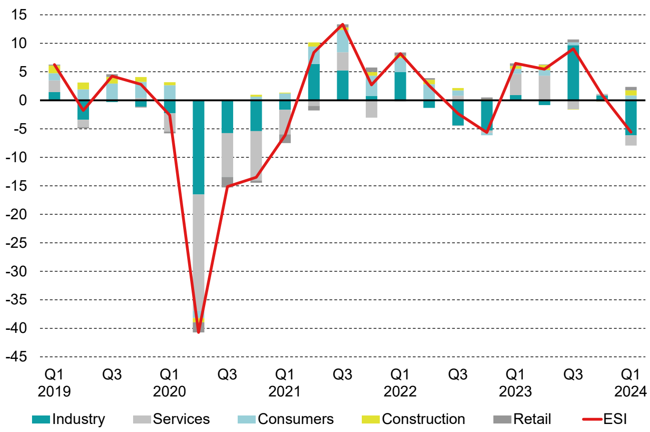
When accounting for the weights assigned to each sector, and the time variation of the confidence indicator for each sector, the decrease in the ESI relative to the fourth quarter of 2023 was driven by industry, and to a lesser extent services.[8] These sectors also explain why the overall ESI stood below the long-term average in the quarter under review (see Chart 2.5).

Chart 2.4
ESI
(seasonally adjusted; percentage points)



Source: European Commission.

Chart 2.5
ESI
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

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

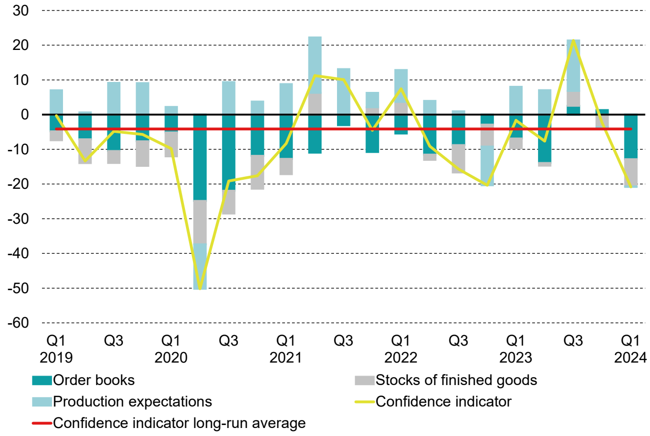
7 Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data for Malta became available in November 2002, while for services and construction data became available in May 2007 and May 2008, respectively. The long-term 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.

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

Industrial confidence falls below its long-term average[9]

The industrial confidence indicator decreased to -20.8, from an average of -2.4 in the previous three-month period, and thus fell below its long-term average of -4.1 (see Chart 2.6). This mostly reflected firms' assessment of their order book levels, which fell significantly into negative territory after being positive in the previous quarter. This was followed by an increase in the net share of firms reporting higher than normal stock levels.

Chart 2.6
INDUSTRIAL CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



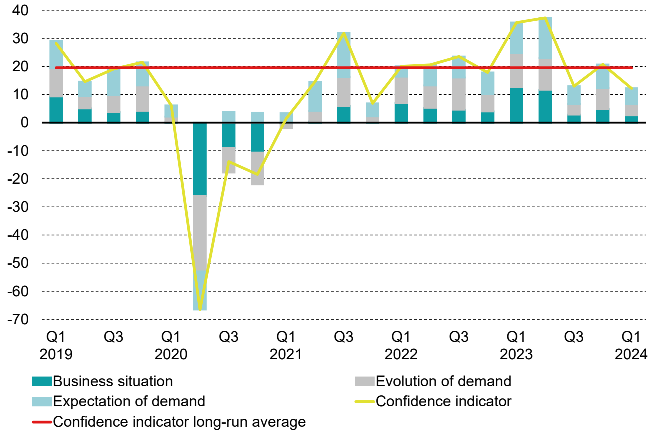
Source: European Commission.

Additional survey data reveal that a small majority of respondents expected selling prices to decrease.

Confidence in the services sector weakens[10]

The confidence indicator in the services sector decreased to 12.2, from 20.7 in the previous quarter. Sentiment in this sector thus fell below its long-term average of 19.5 (see Chart 2.7). All components of the indicator contributed to the latest decrease in sentiment, with the most significant decline visible in firms' assessment of demand in the last three months.

Chart 2.7
SERVICES CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

Supplementary survey data indicate that the net share of respondents with positive price expectations decreased further compared to the fourth quarter of 2023, standing at around 15%.

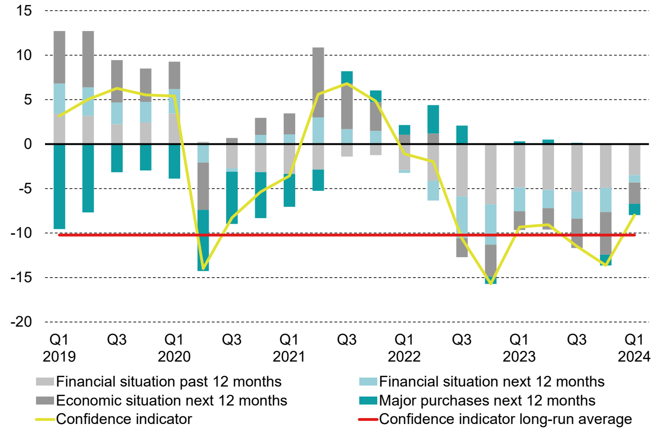
[9] The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

[10] The 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.

Consumer confidence rises above its long-term average, but remains negative[11]

The consumer confidence indicator averaged -8.0 during the first quarter of 2024, above the -13.6 recorded in the previous quarter and its long-run average of -10.2 (see Chart 2.8). The improvement in consumer sentiment largely reflected a less negative outlook of the general economic situation over the next 12 months. In addition, consumers also had a less negative perspective of their finances in recent months, and their outlook in the next 12 months. On the other hand, expectations of major purchases were somewhat more negative than in the last quarter.

Chart 2.8
CONSUMER CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



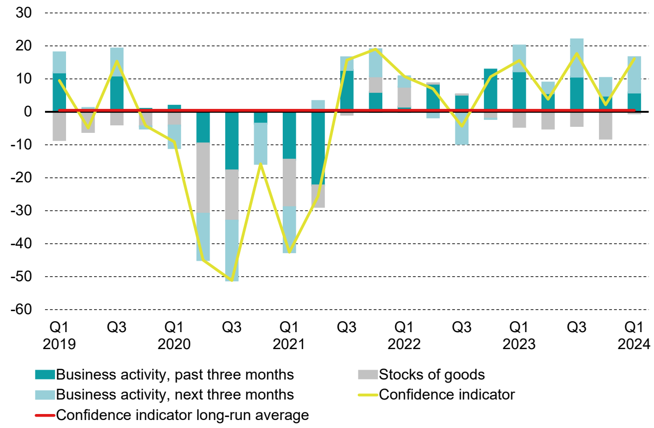
Source: European Commission.

Supplementary survey data show that a smaller share of respondents expects unemployment to increase in the next 12 months. At the same time, the share of respondents expecting prices to rise, decreased to around 20% from 35% in the previous quarter.

Sentiment among retailers increases further above its long-term average[12]

The indicator of sentiment in the retail sector stood at 16.1 in the first quarter of 2024, up from 2.1 in the previous quarter, and well above its long-term average of 0.5. All components of the indicator contributed to the latest increase in sentiment. In particular, the net share of participants reporting stocks of finished goods to be above normal level, decreased significantly compared with the previous quarter while near-term business expectations rose (see Chart 2.9).[13]

Chart 2.9
RETAIL CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

Supplementary survey data indicate that, in contrast to the previous quarter, short-term orders expectations increased significantly. Meanwhile, the

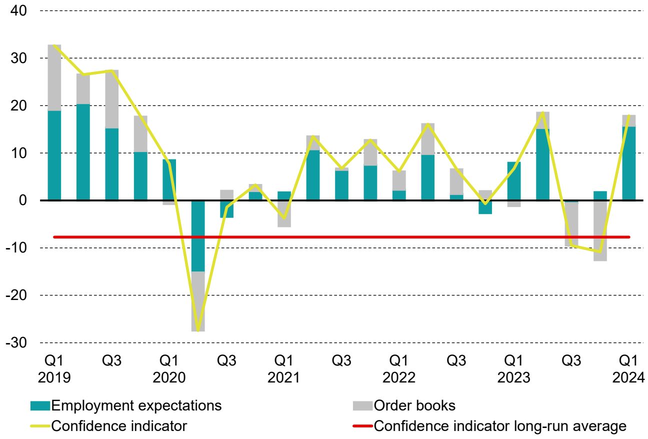
[11] The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation,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

[12] 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.

[13] Above-normal stock levels indicate lower turnover and affect the overall indicator in a negative way.

share of respondents anticipating prices to increase over the coming months, decreased slightly to stand at 18%.

Chart 2.10
CONSTRUCTION CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

Confidence in construction turns positive[14]

In the first quarter of 2024, the indicator measuring confidence in the construction sector stood above its long-term average of -7.7. It averaged 17.8, up from -10.8 in the previous three-month period (see Chart 2.10).

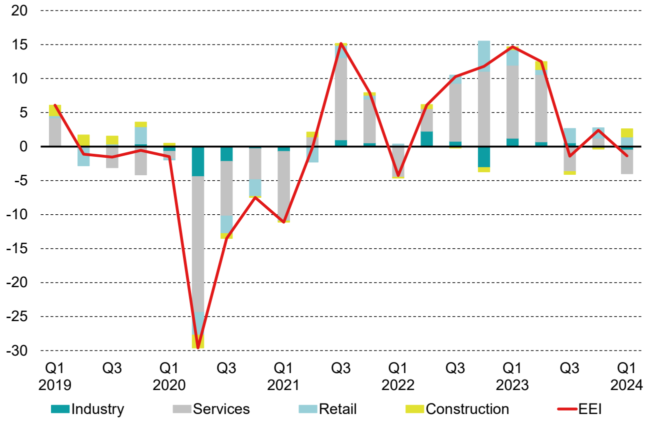
Both order books and employment expectations rose significantly compared with the previous quarter, with the former turning positive.

Meanwhile, the net share of respondents expecting price increases over the next three months increased significantly, to 43%.

Employment Expectations Indicator (EEI) decreases below its long-run average

The EEI – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged down in the first quarter of 2024. It averaged 99.2, compared with 102.4 in the preceding quarter, standing below its long-term average of around 100.0. The index also remained below the euro area average of 102.5.[15]

Chart 2.11
EEI
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

During the quarter under review, employment expectations were positive across all sectors. The most positive readings were recorded in the construction and retail sectors (see Chart 2.11).

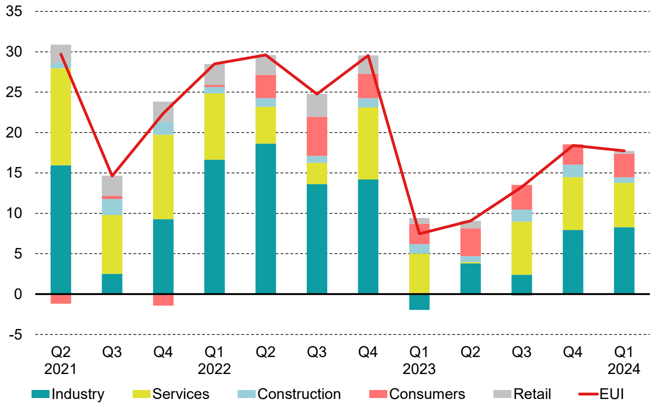
Demeaned data suggest that the decrease relative to the preceding quarter was in large part driven by developments in the

[14] 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.

[15] 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*.

services sector. The services sector and industry explain why the overall EEI stood below its long-term average.

Chart 2.12
EUI[(1)]
(not seasonally adjusted)



Sources: European Commission; Central Bank of Malta.
[(1)] Data for Malta is available from May 2021.

Economic Uncertainty Indicator (EUI) decreases

The European Commission's EUI is a composite indicator which measures how difficult it is for sectors to make predictions about their future financial or business situation. In Malta, this indicator decreased to 17.7 in the first quarter of the year, from 18.4 in the preceding quarter (see Chart 2.12). Nevertheless, the indicator remained below that in the euro area, which averaged 20.3.[16,17]

The strongest fall in the uncertainty indicator for Malta was recorded in the construction sector. Lower uncertainty was also recorded in the services sector, although the decrease was moderate. By contrast, uncertainty in the other sectors increased slightly when compared with the previous quarter.

When considering each sector's weight and past volatility, industry and services had the highest contributions to uncertainty during the quarter under review.

The labour market[18]

Labour force and activity rate increase at a faster pace

Labour Force Survey (LFS) data show that in the first quarter of 2024, the labour force grew by 12,428 persons, or 4.1% on an annual basis, faster than the 3.0% increase recorded in the previous quarter (see Table 2.5).[19]

The activity rate stood at 81.3% in the quarter under review, higher than the 79.7% registered a year earlier.[20] This was due to a 1.6 percentage-point increase in both the male and the female participation rate. The female participation reached 73.8%, while that of males stood at 87.5%. Both rates exceeded the corresponding rates for the euro area.

[16] 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.

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

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

[19] 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.

[20] 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

	2023 Q1	2024 Q1	Annual change %
Labour force	**303,444**	**315,872**	**4.1**
Employed	293,045	306,571	4.6
By type of employment:			
Full-time	259,092	271,309	4.7
Part-time	33,953	35,262	3.9
Unemployed	10,399	9,301	-10.6
Activity rate (%)	**79.7**	**81.3**	
Male	86.0	87.5	
Female	72.2	73.8	
Employment rate (%)	**76.9**	**78.8**	
Male	82.6	84.7	
Female	70.1	72.0	
Unemployment rate (%)	**3.4**	**3.0**	
Actual hours worked (per week)	**35.5**	**34.1**	

Source: NSO.

Employment increases at a faster pace

In the quarter under review, employment rose by 4.6% in annual terms, following a rise of 3.4% in the previous quarter. Most of the increase in absolute terms was driven by full-time employment, as the number of people in part-time jobs rose by less. The number of persons in full-time employment rose by 12,217 persons, or 4.7% on a year earlier. This increase was mainly coming from the sector comprising accommodation and food service activities, as well as the manufacturing, and construction sectors.

The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – rose by 1,309, or 3.9% in annual terms. This increase was mostly driven by the sectors comprising information and communication, education and human health, and social work activities.

The overall employment rate rose by 1.9 percentage points on the same period of 2023, to reach 78.8%.[21] The increase was broad-based across age brackets particularly among individuals aged 15 to 24 and 55 to 64. The male employment rate rose by 2.0 percentage points to 84.7%, and that of females rose by 1.9 percentage points to 72.0%.

During the quarter under review, average weekly hours worked derived from the LFS declined to 34.1, from 35.5 a year earlier (see Table 2.5).[22] This reflected a decrease in average hours worked by both full-time and part-time employees.

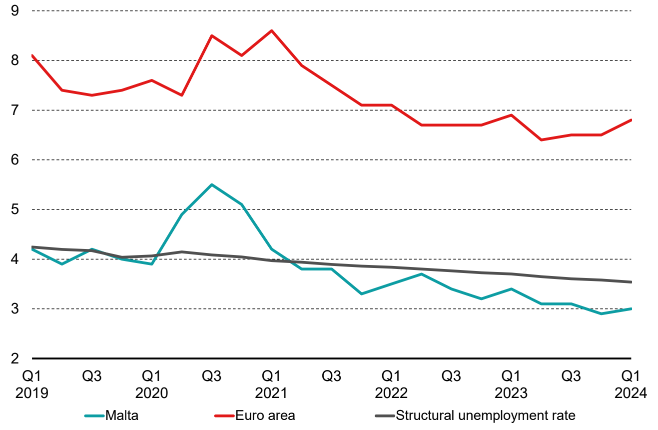
[21] The employment rate measures the number of persons aged between 15 and 64 employed on a full-time or part-time basis as a proportion of the working-age population.

[22] Actual hours refer to the number of hours actually spent at the place of work during the reference week for LFS. 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 conducted by persons who telework.

The unemployment rate remains low

The unemployment rate based on the LFS fell to 3.0%, from 3.4% a year earlier, and rose slightly from the historical low of 2.9% reported for the last quarter of 2023. This reflects continued strong demand for labour (see Table 2.5).[23] Labour market conditions remained more favourable than those in the euro area, where the unemployment rate on average stood at 6.8% (see Chart 2.13).

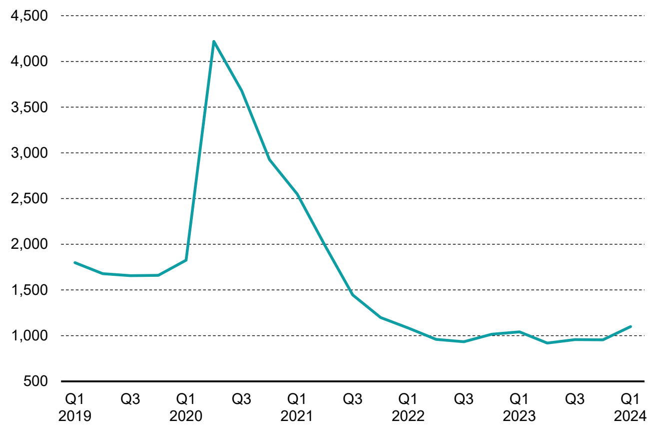
Chart 2.13
UNEMPLOYMENT RATE
(per cent)



Sources: Eurostat; NSO; Central Bank of Malta.

During the quarter under review, the unemployment rate also stood below the Bank's structural measure of 3.5%.[24] This indicates a degree of labour market tightness, which is also confirmed by the Bank's *Business Dialogue* publication and other indicators.

Chart 2.14
REGISTERED UNEMPLOYED
(number of persons)



Source: NSO.

Jobsplus data show that the number of persons on the unemployment register increased slightly, both on a quarterly basis and in annual terms. During the first quarter of 2024, the average number of persons on the unemployment register stood at 1,099, compared with 1,042 a year earlier and 955 in the fourth quarter of 2023 (see Chart 2.14).

The vacancy rate remained elevated

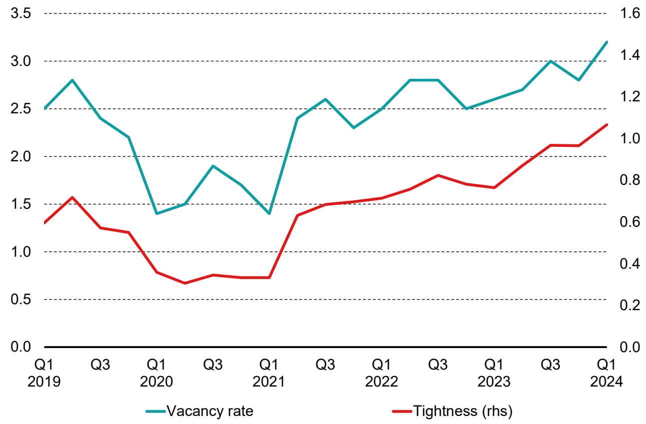
In absolute terms the number of vacancies increased from 6,795 in the first quarter of 2023 to 8,694 in the same quarter of 2024, that is, a 27.9% increase. Eurostat's job vacancy rate for industry, construction and services increased in both quarterly and year-on-year terms, reaching an all-time

[23] 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.

[24] 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 an unobserved components model (UCMPF). For further details, see Borg, I. (2023), "Box 1: Latest Estimates of the NAIRU" Outlook for the Maltese Economy 2023:1, pp.7-9 and Ellul, R. (2019), "Box 1: An Unobserved Components Model for potential output in Malta" *Quarterly Review* 2019:2, pp. 17-21.

high of 3.2% (see Chart 2.15).[25] The highest vacancy rates were recorded in the water supply; sewerage, waste management and remediation activities sector (6.8%), the information and communication sector (6.1%), and the public administration and defence sector (5.6%).

Chart 2.15
VACANCY RATE AND LABOUR MARKET TIGHTNESS INDICATOR
(per cent)

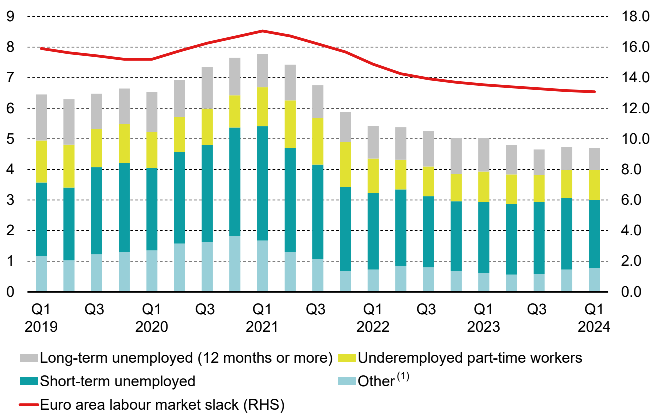


Sources: Eurostat; NSO; Central Bank of Malta.

The ratio of the job vacancy rate to the unemployment rate is an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness. During the quarter under review, this ratio stood at 1.1, higher than in the previous quarter, and also above the ratio of 0.8 recorded a year earlier. Market conditions thus remained very tight compared to recent outturns.

To measure better labour market slack (unemployed and underutilised labour), one can consider an extended labour force definition, which in addition to the unemployed, also includes persons available to take up work but not seeking it, persons seeking work but not immediately available, and underemployed part-time workers. By this measure, on a four-quarter moving average basis, labour market slack was equivalent to 4.7% of the extended labour force in the first quarter of the year (see Chart 2.16).[26] This rate appears to have stabilised in recent quarters, to a level which is well below its average of around 8.0% estimated since 2010. It is also significantly lower than the 13.1% recorded for the euro area.

Chart 2.16
LABOUR MARKET SLACK
(percentage of extended labour force; four-quarter moving average)



Sources: ECB-SDW; Eurostat; Central Bank of Malta's estimates.
(1) Persons seeking work, but not immediately available and Persons available to take up work but not seeking.

The gap between the broader measure of labour market slack and the unemployment rate declined considerably since the second quarter of 2021, indicating a reduction in the share of underutilised labour. However, this gap registered an uptick during the last two quarters.

25 The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant). Data for Malta are available since 2017.

26 For further details on the methodology underlying the measure of labour market slack, see Ellul, R. (2019). "Labour Market Slack," *Quarterly Review* 2019:1, pp. 37-41, Central Bank of Malta. Given that this methodology partly relies on internal estimation, the slack indicator reported in this *Review* may differ slightly from that published by Eurostat.

In the first quarter of 2024, just under two-thirds of the labour market slack stemmed from unemployment (primarily from short-term unemployment). Underemployed part-time workers, i.e., those working part-time but willing and able to work additional hours, contributed the most to labour underutilisation, and accounted for one fifth of labour market slack.

BOX 1: AN UPDATED ANALYSIS OF REVISIONS TO MALTESE NATIONAL ACCOUNTS DATA[1]

Data revisions are necessary for diverse reasons, such as to reflect newly available information or to implement methodological or regulatory changes. This notwithstanding, revisions implicitly create some uncertainty when interpreting economic data in real time. In turn, this uncertainty is likely to limit policymakers' ability to make accurate judgments of the true economic performance in real time, with potential consequences to the effectiveness of policymaking. Indeed, Gerberding et al. (2004) show that *ex-post* conclusions about the strategies adopted by monetary authorities can differ substantially, depending on whether they are based on real-time or revised data.[2]

In this light, significant research effort has gone into obtaining a better understanding of some of the main statistical properties of data revisions, such as their size, bias, and volatility.[3] Much of this research has been made possible by the increased availability of real-time macroeconomic datasets. Such datasets, which facilitate analysis of data revisions by bringing together historical data releases, or vintages, into a single database, are nowadays available for numerous countries, including the United States and the United Kingdom, among many others.

In the local context, the Central Bank of Malta compiled the first real-time macroeconomic database for Malta in 2018. This dataset comprises quarterly vintages of Maltese national accounts data releases and incorporates 14 different series, namely GDP and its main expenditure components, all measured both in *real* and *nominal* values. The first vintage available in this database is that published in 2002Q1, and the database includes all successive quarterly vintages to date. Each vintage dated at period contains data points up to period $t-1$, reflecting the typical one-quarter delay in the release of GDP data.[4,5]

In the first analysis of the Maltese national accounts data up to the 2018Q1 vintage, Grech (2018) found revisions to be quite sizeable, biased upwards, volatile, and rising over the publication horizon. In light of subsequent events which inevitably affected data collection and reporting, namely the COVID-19 pandemic and the benchmark revision published in the third quarter of 2020, this article sets out to update the analysis undertaken by Grech (2018) by considering all subsequent vintages published up to and including the 2024Q2 vintage, as recorded in the Bank's real-time database. In order to identify any recent changes in the size, bias, and volatility of data revisions, a full-sample analysis is

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1 Prepared by Demi Mock, an Economist within the Economic Projections and Conjunctural Analysis Office, and Nathaniel Debono, a Senior Research Economist within the Modelling Office. Helpful comments by Deputy Governor Alexander Demarco, Aaron G. Grech, Rita Schembri, Noel Rapa, Owen Grech and Ian Borg are gratefully acknowledged. The views expressed are those of the authors and do not necessarily reflect those of the Central Bank of Malta. Any errors are the authors' own.

2 Gerberding, C., Worms, A., and Seitz, F. (2004), "How the Bundesbank really conducted monetary policy: An analysis based on real-time data", *Technical report*, Discussion Paper Series 1.

3 See for example, Van Walbeek, C. (2006), "Official revisions to South African National Accounts data: Magnitudes and Implications", *South African Journal of Economics*, 74(4): 745-765.

4 A vintage represents a time series of the latest data available at a point in time and each vintage is dated according to its publication date. Given the typical one-quarter delay in the release of Maltese GDP data, the date of each vintage is therefore one quarter ahead of the final datapoint of the underlying time series. For instance, the data vintage published during the first quarter of 2018 is referred to as the "2018Q1 vintage" and comprises a time series up to and including 2017Q4 data.

5 For more detail about the Maltese real-time database, see Grech, O. (2018), "An Analysis of Revisions to Maltese GDP data", Central Bank of Malta *Research Bulletin*, 1(1): 27-34.

complemented by a separate analysis over the vintages dated 2018Q2 onwards only, thus all subsequent vintages not featured in the work of Grech (2018). Moreover, this article also assesses revisions to the expenditure components of GDP and their respective contribution to overall real GDP revisions, thereby shedding light on the sources behind the size, bias, and volatility of overall GDP data revisions.

Analysis of real GDP data revisions

We first consider the revisions made by the NSO to aggregate real GDP data. In particular, as in Grech (2018), we examine the magnitude, bias, and volatility of revisions to year-on-year real GDP growth rates. This in-depth examination of data revisions should be useful to data users insofar as it provides valuable insights into interpreting national accounts data over successive vintages.

The main results of the analysis of real GDP data revisions are documented in Table 1. We consider the revisions that take place within the first year from the initial release, and, for each set of revisions, we conduct the analysis on three separate collections of vintages. Specifically, for each of the first four revisions analysed in Table 1, the first row reflects the revisions analysis undertaken on all the vintages available in the Maltese real-time database to date (i.e. based on the 2002Q1-2024Q2 vintages). As such, these can be interpreted as an update to the analysis found in Grech (2018), which relied on the 2002Q1-2018Q1 vintages. For ease of reference, the latter set of results are re-produced in square brackets in the second row of each revision horizon

Table 1
REVISION ANALYSIS OF AGGREGATE REAL GDP ANNUAL GROWTH DATA

	Vintages covered	Mean Absolute Revision	Mean Revision	Proportion of Positive Revisions	Deviation of Revisions	Maximum Negative Revisions	Maximum Positive Revision	Sample Size
		Percentage points		*Per cent*	*Percentage points*			
1st vs 2nd release	*2002Q1-2024Q2*	0.60	0.31	65	0.79	-2.24	2.98	88
	2002Q1-2018Q1	[0.51]	[0.20]	[57]	[0.71]	[-2.24]	[2.00]	[63]
	2018Q2-2024Q2	(0.81)	(0.62)	(84)	(0.91)	(-1.66)	(2.98)	(25)
1st vs 3rd release	*2002Q1-2024Q2*	0.82	0.39	71	1.09	-3.38	4.34	86
	2002Q1-2018Q1	[0.73]	[0.21]	[64]	[0.98]	[-3.38]	[2.29]	[61]
	2018Q2-2024Q2	(1.03)	(0.85)	(88)	(1.20)	(-1.85)	(4.34)	(25)
1st vs 4th release	*2002Q1-2024Q2*	1.01	0.48	69	1.27	-3.69	4.31	84
	2002Q1-2018Q1	[0.87]	[0.23]	[61]	[1.14]	[-3.69]	[2.58]	[59]
	2018Q2-2024Q2	(1.33)	(1.08)	(88)	(1.36)	(-1.67)	(4.31)	(25)
1st vs 5th release	*2002Q1-2024Q2*	1.13	0.53	68	1.43	-4.38	6.08	82
	2002Q1-2018Q1	[0.94]	[0.18]	[58]	[1.24]	[-4.38]	[2.72]	[57]
	2018Q2-2024Q2	(1.56)	(1.35)	(92)	(1.50)	(-1.80)	(6.08)	(25)

Source: Authors' calculations based on CBM's real-time macroeconomic database.

Note: For each set of revisions, the first row (i.e. figures not enclosed in parentheses) covers analysis based on the 2002Q1-2024Q2 vintages. The second row (i.e. figures enclosed in square parentheses) covers analysis based on the 2002Q1-2018Q1 vintage, thereby being the same figures recorded in Grech (2018). The third row (i.e. figures enclosed in round brackets) covers analysis based on the 2018Q2-2024Q2 vintages. Each of the four sets of revisions considers each reference quarter only once. For example, in the first set comparing the 1st vs 2nd release, we consider the corresponding first revision effected in all vintages dated 2002Q1 until 2024Q2. In light of some missing data, this adds up to 88 observations upon which we analyse the first revisions to historical real GDP growth rates.

analysed. Finally, the figures enclosed in round brackets in Table 1 depict results for the revisions made solely from the 2018Q2 vintage onwards, thus focusing exclusively on the revisions made in recent years, in particular during and after the COVID-19 pandemic.

Starting first with the analysis covering all the vintages dated 2002Q1-2024Q2, we note substantial revisions to initial real GDP growth data, with the average first revision amounting to 0.60 percentage point in absolute terms. This evidence of substantial revisions is in line with the results described in Grech (2018), as is the observation that deviations from the initial annual growth estimate generally widen with the revision horizon. Indeed, the absolute revision in the growth rate between the first release and the fifth release, i.e. the value one year later, increases to an average of 1.13 percentage points. Looking at any underlying bias in the revisions, both the average revision (AR) and the proportion of positive revisions indicate that the revisions to initial growth rates are typically positive. In fact, on the basis of the data published in all the vintages since 2002Q1, the mean revision indicator reveals that the growth rate in the second release is, on average, 0.31 percentage point higher than that in the first release. This rises progressively to 0.53 percentage point when the initial release is compared to that published four quarters later (i.e. the fifth release). Further analysis shows that around two-thirds of the revisions analysed are typically in an upward direction. This reflects a continuation of the positive bias observed in the revisions up to early 2018. Regarding volatility, the results indicate that revisions to initial estimates of aggregate real GDP growth exhibit considerable volatility, as evident from both the relatively large standard deviations (SD) and wide ranges of revisions. For instance, the revisions between the first and second estimates range from -2.24 to +2.98 percentage points.

While these findings are qualitatively similar to the patterns observed by Grech (2018), the analysis based on data up to the 2018Q1 vintage yields consistently smaller summary statistics than those based on all vintages up to and including the 2024Q2 vintage. For instance, the mean absolute revisions (MAR) covering the 2002Q1-2024Q2 vintages are all larger than the corresponding figures recorded in Grech (2018). This implies that revisions have, on average, been more pronounced since the 2018Q2 vintage, relative to those made in earlier vintages.[6] Statistics of the AR, proportion of positive revisions, and SD also become more pronounced as the post-2018Q1 vintages are incorporated in the analysis. These patterns imply that Grech's (2018) conclusion of revisions which are "sizeable, biased upwards, volatile and increase with the horizon" is further reinforced with the inclusion of more recent vintages.

In Table 1, we also isolate data from the 2018Q2 vintage onwards to analyse patterns in the recent revisions made by the NSO. As implied by the trends documented previously, changes to initial releases have typically been more pronounced since the 2018Q2 vintage.[7] Starting with the size of revisions, analysis of real GDP data from the 2018Q2-2024Q2 vintages reveals that the absolute revision between initial estimates and those published one year later (i.e. 1st vs 5th release) averaged 1.56 percentage points, compared to the 0.94

6 Inevitably, this is partly due to the fact that the underlying annual growth rates over the 2018Q2-2024Q2 period were on average significantly larger (in both average and absolute terms) than over the 2002Q1-2018Q1 period. Higher growth rates are typically susceptible to more substantial revisions than lower growth rates.

7 This statement comes with the caveat that it is based on a much smaller sample (2018Q2-2024Q2 vintages) than that analysed by Grech (2018).

percentage point recorded over all vintages prior to 2018Q2. In terms of direction, the positive bias is notably more significant from the 2018Q2 vintage onwards, with generally more than 85% of revisions being in an upward direction, compared to the *circa* 60% observed in prior vintages. Moreover, the mean (positive) revisions observed from the 2018Q2 vintage onwards are also noticeably stronger. Revisions made over the 2018Q2-2024Q2 vintages have also been slightly more volatile, with their SD consistently exceeding that of the revisions made up to the 2018Q1 vintage. Moreover, the maximum positive revisions are all considerably larger than those documented in the study by Grech (2018).

Charts 1a to 1d show the time-variation of revisions by depicting the first four revisions to initial annual real GDP growth data by vintage. The shaded area represents the 2018Q2 vintage onwards, thereby capturing the revisions not featured in the analysis of Grech (2018). We also include statistics of the MAR, AR, and SD for revisions made up to the 2018Q1 vintage, as well as for those over the 2018Q2-2024Q2 vintages.

As discussed previously, the first revision to initial estimates is typically positive, with this pattern persisting even beyond the 2018Q1 vintage, as seen in Chart 1a. There are some

Chart 1a
FIRST REVISION TO INITIAL ESTIMATE BY VINTAGE
(percentage points)

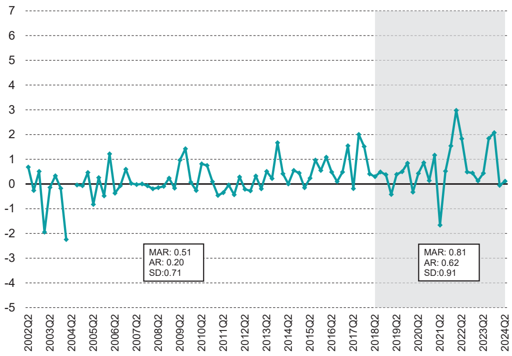


Chart 1b
SECOND REVISION TO INITIAL ESTIMATE BY VINTAGE
(percentage points)

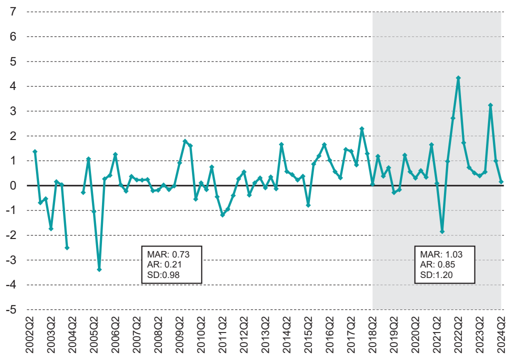


Chart 1c
THIRD REVISION TO INITIAL ESTIMATE BY VINTAGE
(percentage points)

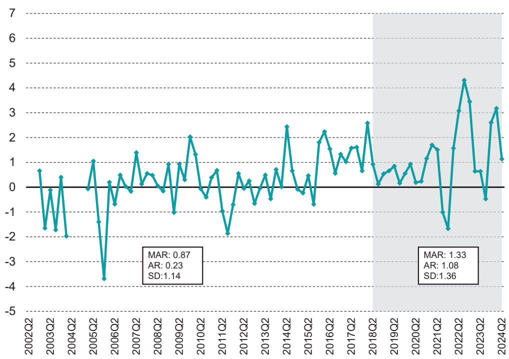
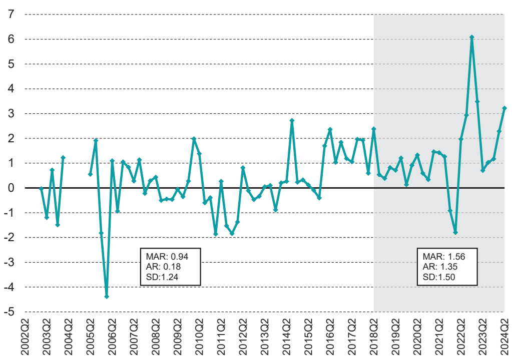


Chart 1d
FOURTH REVISION TO INITIAL ESTIMATE BY VINTAGE
(percentage points)



Source: Authors' calculations.
Note: For each revision i illustrated in Charts 1a to 1d, the vintage date corresponds to the vintage in which the i^{th} revision to the initial estimate takes place. For instance, the last datapoint corresponding to the 2024Q2 vintage in Chart 1b shows that by the second revision, the 2023Q3 real GDP growth rate was revised upwards by 0.15 percentage point when compared to the initial estimate published in the 2023Q4 vintage. Similarly, Chart 1d shows that by the fourth revision published in the 2022Q4 vintage, the real GDP growth rate for 2021Q3 was revised upwards by 6.08 percentage points from its initial estimate published in the 2021Q4 vintage. MAR refers to Mean Absolute Revision; AR refers to Average Revision; SD refers to Standard Deviation. For each revision horizon, the leftmost set of summary statistics showing the MAR, AR and SD are based on the revisions made over all vintages up to that dated 2018Q1. The rightmost set of statistics are based on the revisions made over the vintages dated 2018Q2-2024Q2. Breaks in respective plots represent missing national accounts data in the real-time database.

particularly sizeable and volatile revisions made in the vintages spanning 2021Q1-2022Q2, likely as a result of data collection and reporting issues during a time characterised by the COVID-19 pandemic. On the other hand, the pronounced revision in the 2023Q3 vintage is due to a pre-announced ad-hoc revision reflected in this vintage. Another sizeable revision is also observed in the following vintage dated 2023Q4, in which the initial real GDP growth rate for 2023Q2 was revised upwards by more than 2 percentage points. As shown in Charts 1b to 1d, sizeable and volatile revisions are also observed among the second, third, and fourth revisions made by the NSO to the initial release, with the post-2020 vintages again exhibiting the largest positive revisions made since 2002. For instance, the largest second revision made by the NSO since 2002 is recorded in the 2022Q2 vintage, when the 2021Q3 real GDP growth rate was revised upwards by 4.34 percentage points from the corresponding figure initially published in the 2021Q4 vintage. Concurrently, it is also noted that the vintages published from 2020 onwards also recorded some of the most pronounced negative revisions observed since 2002.

Analysis of real GDP components

In what follows, we extend the above analysis to the primary expenditure components of GDP, thus helping to shed further light on whether these patterns persist in the expenditure components. Results for each expenditure component of GDP are presented in Table 2.

Table 2

PANEL A – REVISION ANALYSIS OF GDP COMPONENTS ANNUAL GROWTH DATA: 1st vs 2nd RELEASE

	MAR	Mean Revision	Proportion of Positive Revisions	SD of Revisions	Maximum Negative Revisions	Maximum Positive Revision	Sample Size
	Percentage points		*Per cent*		*Percentage points*		
GDP	**0.60 (0.81)**	**0.31 (0.62)**	**65 (84)**	**0.79 (0.91)**	**-2.24 (-1.66)**	**2.98 (2.98)**	**88 (25)**
C	1.13 (0.94)	0.55 (0.55)	66 (64)	1.50 (1.21)	-5.76 (-1.01)	4.93 (4.93)	88 (25)
I	3.92 (3.35)	2.13 (1.89)	64 (64)	6.43 (7.09)	-10.07 (-4.91)	34.36 (34.36)	88 (25)
G	2.07 (2.90)	0.48 (0.96)	61 (68)	2.84 (3.42)	-7.66 (-7.66)	8.41 (6.95)	88 (25)
X	2.68 (2.27)	1.34 (1.88)	67 (72)	3.73 (2.96)	-7.40 (-2.29)	16.14 (10.34)	88 (25)
M	2.62 (2.32)	1.32 (2.11)	66 (76)	3.37 (2.74)	-8.03 (-1.34)	11.34 (9.40)	88 (25)

PANEL B – REVISION ANALYSIS OF GDP COMPONENTS ANNUAL GROWTH DATA: 1st vs 5th RELEASE

	MAR	Mean Revision	Proportion of Positive Revisions	SD of Revisions	Maximum Negative Revisions	Maximum Positive Revision	Sample Size
	Percentage points		*Per cent*		*Percentage points*		
GDP	**1.13 (1.56)**	**0.53 (1.35)**	**68 (92)**	**1.43 (1.50)**	**-4.38 (-1.80)**	**6.08 (6.08)**	**82 (25)**
C	1.74 (1.63)	0.59 (0.99)	70 (72)	2.21 (1.74)	-6.37 (-4.19)	7.87 (5.15)	82 (25)
I	8.32 (7.88)	3.11 (3.30)	63 (64)	12.99 (11.88)	-38.94 (-19.97)	48.20 (36.10)	82 (25)
G	2.63 (3.48)	0.70 (1.07)	60 (68)	3.29 (4.01)	-6.32 (-6.32)	8.28 (6.99)	82 (25)
X	4.19 (3.78)	2.66 (3.44)	74 (88)	4.49 (3.12)	-9.48 (-2.22)	15.10 (12.51)	82 (25)
M	4.00 (4.21)	2.58 (3.79)	78 (96)	4.39 (3.66)	-10.19 (-5.28)	13.76 (13.76)	82 (25)

Sources: Authors' calculations based on CBM's real-time macroeconomic database.
Note: The figures enclosed in parentheses are the calculations for 2018Q2-2024Q2 vintages whilst all other figures are based on the full sample of vintages dated 2002Q1-2024Q2. All GDP components presented in the table are considered in real terms.

For conciseness, the analysis is limited to two sets of revisions: Panel A shows the difference between the initially-released growth rate and that published one quarter later, while Panel B shows the difference between the initial release and the growth rate published a year later.[8] The analysis is primarily based on the full sample of data covered by the 2002Q1-2024Q2 vintages, although estimates based on the 2018Q2-2024Q2 vintages are provided in parentheses so as to facilitate the understanding of any recent changes in data revision patterns.

Notably, results presented in Table 2 show that the characteristics of real GDP data revisions outlined earlier extend also to the primary expenditure components of GDP. However, consistent with the observation made by Grech (2018), the respective components are typically subject to greater revisions and higher volatility than the aggregate real GDP data, both in the full sample and when considering only the vintages dated 2018Q2 and later. Starting with the first revisions to initial estimates, Panel A shows that the respective GDP components display diverse levels of revision. This notwithstanding, with the proportion of positive revisions typically exceeding 60% for all components, and with the ARs also exhibiting a positive sign, revisions to the GDP components are typically of an upward nature. GFCF (I) is generally the most revised and volatile component, as evidenced by the MAR and SD, respectively. On both counts, it is generally followed by exports (X), and imports (M). Having said that, pronounced revisions and heightened volatility in government consumption (G) data are noted from the 2018Q2 vintage onwards, where the absolute size of the first revision over this period averaged 2.90 percentage points. This is slightly below that observed in the GFCF component and higher than the first revisions to exports and imports – a pattern not generally observed in historical revisions. The first revisions to private consumption expenditure (C) are typically the least pronounced and least volatile of the components.

The above patterns, in terms of size, direction, and volatility, hold also when considering the revisions made within one year of first release (see Panel B). In the case of all components, these revisions are typically larger than those made within one quarter of the initial release, thereby suggesting that revisions increase with the horizon. In fact, results presented here show that GDP components are typically subject to some pronounced revisions, which are predominantly positive in nature. GFCF is again subject to the strongest first-year revisions in absolute terms, and these revisions exhibit the greatest volatility. Smaller and less volatile revisions are generally effected to exports, imports, and government consumption, with private consumption remaining the least revised component.

Looking at some of the recent trends observed since the publication of the 2018Q2 vintage, it is noted that, for both pairs of revisions analysed in Table 2, private consumption, GFCF, and exports have recently been revised by less than the historical average in absolute terms. On average, the first revision to imports has also been less pronounced than that observed historically, although the fourth revision to this component has been marginally stronger since the 2018Q2 vintage (panel B). At the same time, revisions to these GDP components

[8] Analysis of other revision horizons can be obtained from the authors upon request.

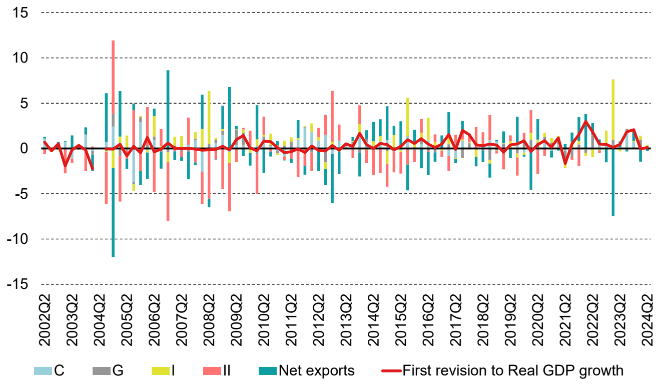
have typically also been less volatile.[9] On the other hand, revisions to government consumption data have been markedly stronger in recent years, with the average absolute size of the revisions since the 2018Q2 vintage being around 0.80 percentage point higher than the historical average observed over the whole sample, irrespective of whether one considers revisions made one quarter, or one year later. Revisions to this component have also become more volatile in recent years, as evidenced by the higher SD exhibited in recent revisions.

Contribution of real GDP components to the revision in aggregate real GDP

While revision analyses of the respective expenditure components of GDP help uncover patterns at a more disaggregated level, the extent to which such underlying revisions contribute to overall real GDP revisions depends heavily on the component's relative share in overall GDP. For instance, while Table 2 shows real government consumption to have been revised more heavily in recent years, the relatively small share of this component in Malta's GDP makes it unlikely that such revisions had any marked impact on output revisions. In contrast, real GDP growth is more likely to be affected by any revisions in exports and imports, which constitute a much larger share of economic activity.

To shed light on the drivers of real GDP revisions in Malta, Chart 2 dissects the first revision in real GDP annual growth by vintage into its underlying contributors.[10] As expected, revisions to exports and imports have been the most important drivers of the first revisions to real GDP growth, with the average contribution of net exports registered at 1.80 percentage points in absolute terms since 2002. Delving deeper into the sub-components of net exports, we note that, historically, revisions in exports have contributed positively to overall real GDP revisions, whereas revisions in imports have generally been a negative contributor. These patterns are illustrative of the fact that both of these components are predominantly revised upwards, as indicated in Table 2.[11] With few exceptions, the contribution of the other components is typically relatively less pronounced. For instance,

Chart 2
CONTRIBUTION TO FIRST REVISION IN REAL GDP GROWTH BY VINTAGE
(percentage points)



Source: Authors' calculations.
Note: Since chain-linked data for inventories (II) are not compiled by the NSO, the contribution of real inventory changes is derived as a residual since the 2014Q4 vintage. Breaks in plot represent missing national accounts data in the real-time database.

[9] The only exception relates to the first revision to GFCF, whose SD since the 2018Q2 vintage is slightly higher than that in the overall sample.

[10] The descriptive results discussed henceforth remain qualitatively similar when considering the fourth revision in real GDP annual growth.

[11] *Ceteris paribus*, an upward revision in exports generates an upward revision in GDP growth, whereas any positive revisions in imports imply a downward revision in real GDP, thereby constituting a negative contribution to revisions in aggregate output growth. The resulting contribution of net exports is derived as the difference between the two, and its direction depends on the stronger sub-component of the two.

even though it is subject to the most sizeable and volatile revisions, the contribution of GFCF is often smaller in comparison. One recent exception is its 6.6 percentage points contribution to the first revision of the real GDP growth rate for 2022Q3, which is mostly due to a strong 34.4 percentage points revision in the growth rate of investment during this quarter. Similarly, the more sizeable and volatile revisions to real government consumption in recent years have not driven any substantial revisions to real GDP. Being the least revised component, private consumption expenditure is also typically a minor driver of overall revisions, especially over recent years. Lastly, the relatively strong contribution of real inventory changes (II) in the early years of the sample period has declined substantially over the years, such that its contribution has been much smaller than that of net exports in recent vintages.[12]

Concluding remarks

In conclusion, this analysis of Maltese national accounts data revisions, encompassing the vintages issued from 2002Q1 until 2024Q2, confirms previously accepted conclusions emanating from the work of Grech (2018). Thus, revisions to Maltese real GDP data remain sizeable, volatile, are typically upward in nature, and increase with the horizon. The size and volatility of the revisions to the components of GDP are generally more pronounced than those of aggregate real GDP, with investment in particular being subject to the largest revisions and volatility.

While confirming previous findings, this analysis also presents some new insights about recent trends in the revision process. In particular, it shows that, on average, revisions to aggregate real GDP data have become more pronounced and volatile since the last analysis of Maltese data revisions carried out in 2018. More detailed analysis shows particularly sizeable and volatile revisions to the data covering periods affected by the COVID-19 pandemic, which inevitably created data collection and reporting issues. Among the components, this analysis interestingly documents generally more pronounced revisions to government consumption data in recent years. This diverges from patterns observed until 2018, up to which point such revisions tended to be relatively small. In contrast, the other expenditure components generally exhibit smaller and less volatile revisions than those observed historically. Moreover, this analysis also showed that revisions to overall real GDP growth are generally driven by revisions in exports and imports, with the contribution of the other components being relatively small in comparison.

While useful for users to gain a more updated understanding of the revisions to Maltese National Accounts data, one has to bear in mind that statistics for recent years are based on a relatively small sample of data, further impacted heavily by the statistical challenges posed by the COVID-19 pandemic.[13] The statistical and methodological challenges resulting from the COVID-19 pandemic are not limited solely to the Maltese context, and have

[12] This pattern is largely due to a reclassification of 'statistical discrepancies' arising as the difference between the 'output' and 'expenditure' approaches to measure GDP. Such discrepancies used to be included within the 'inventories' category but have been moved to 'net exports' in more recent years. For more information see NSO (2008), "Quarterly National Accounts Inventory" and NSO (2023), "Gross National Income Inventory Malta".

[13] For detail provided by the NSO about these issues, see the methodological notes in the News Release: NSO (2020), "Gross Domestic Product: Q2/2020".

been pronounced to the extent that they have also impacted real-time analyses.[14] Results for recent years should therefore be interpreted within a context characterised by numerous difficulties for reporting agencies, which include delays in data availability, lower response rates and possible quality issues. Nonetheless, it remains crucial for policymakers, stakeholders and researchers to acknowledge the likelihood of data revisions when assessing the data available in real time.

[14] See for example, Delle Monache, D., Emiliozzi, S., and Nobili, A. (2021), "Tracking Economic Growth during the Covid-19: A weekly indicator for Italy", *Banca d'Italia Note Covid-19*, January and Arias, J., Minchul, S. (2020), "Tracking U.S. Real GDP Growth During the Pandemic", *Federal Reserve Bank of Philadelphia*: 9-14.

3. PRICES, COSTS AND COMPETITIVENESS

Consumer price pressures eased further during the quarter under review. Annual inflation, as measured by the HICP, stood at 2.7% in March, down from 3.7% in December. This was driven by slower growth in the prices of services, food, and NEIG. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – fell to 1.9% in March, from 3.6% in December.

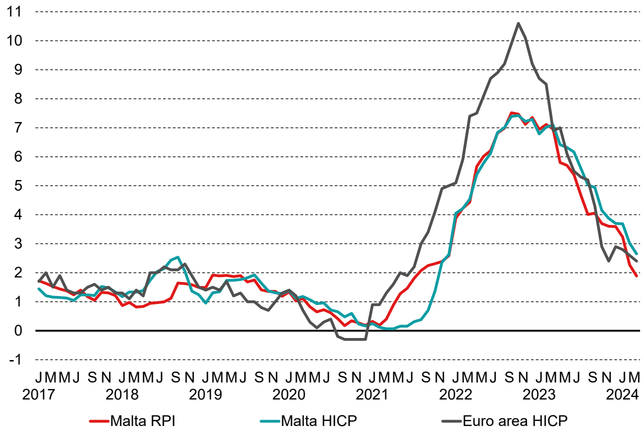
When measured over four quarters, ULCs increased at a faster pace in the first quarter of 2024, with its growth rate reaching 3.0%, from 2.6% in the previous quarter. Meanwhile, annual growth in other input cost indicators regularly monitored by the Bank generally continued to moderate.

Inflation

HICP inflation eases

Annual HICP inflation eased to 2.7% in March 2024, from 3.7% in December 2023 (see Table 3.1).[1] Chart 3.1 shows that overall HICP inflation in Malta exceeded that recorded in the euro area, which ended the quarter at 2.4%. Malta's higher inflation rate in March mainly reflects a higher contribution from food inflation (see Chart 3.2). Furthermore, energy inflation in Malta retained an unchanged contribution, while it was negative in the euro area.

Chart 3.1
INFLATION RATES IN MALTA AND IN THE EURO AREA
(annual percentage changes)



Sources: NSO; Eurostat.

On the other hand, the contribution of services to HICP inflation

Table 3.1
HICP INFLATION
Annual percentage change

	2023									2024		
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Unprocessed food	8.3	7.0	8.4	5.4	8.5	8.2	4.0	6.7	12.2	13.4	5.2	3.5
Processed food including alcohol and tobacco	10.6	10.4	10.9	9.9	9.7	9.0	8.2	7.3	7.1	7.4	6.1	5.4
Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEIG	5.4	5.1	4.0	3.8	3.4	3.6	2.6	2.2	2.2	1.6	1.7	1.2
Services (overall index excluding goods)	6.0	6.1	6.1	5.6	4.3	4.3	4.0	3.9	3.0	3.1	2.8	2.7
All Items HICP	6.4	6.3	6.2	5.6	5.0	4.9	4.2	3.9	3.7	3.7	3.0	2.7

Source: Eurostat.

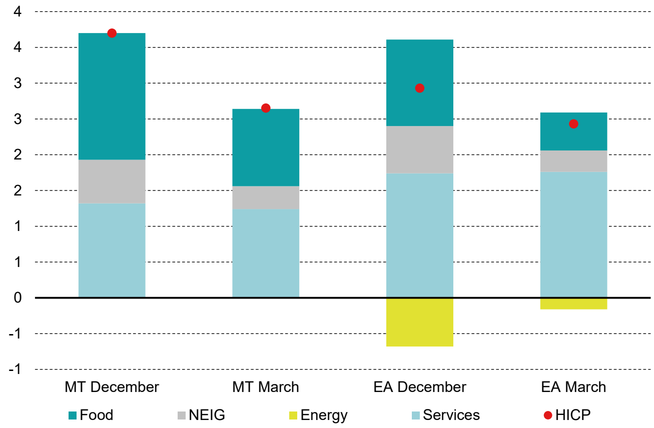
[1] The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2024, the weight allocated to services stood at 44.7%, while that of NEIG was 27.5%. Food accounted for 21.5% of the index, while the share allocated to energy stood at 6.2%. These were revised from 44.3% for services, 27.9% for NEIG, 21.4% for food and 6.5% for energy in 2023.

in March was lower in Malta than in the euro area, while the contribution of NEIG to HICP inflation was the same as that of the euro area. In fact, at 2.2%, the annual rate of change of HICP excluding energy, food and tobacco in Malta, stood below that of 2.9% in the euro area.

Chart 3.3 shows a distribution of price changes whereby subcomponents of the HICP are categorised into four classes of inflation rates: i) below or equal to 0%; ii) between 0% and 2%; iii) between 2% and 5%; and iv) over 5%.[2] This analysis indicates whether developments in inflation are broad-based across HICP items, or driven only by selected components of the consumption basket.

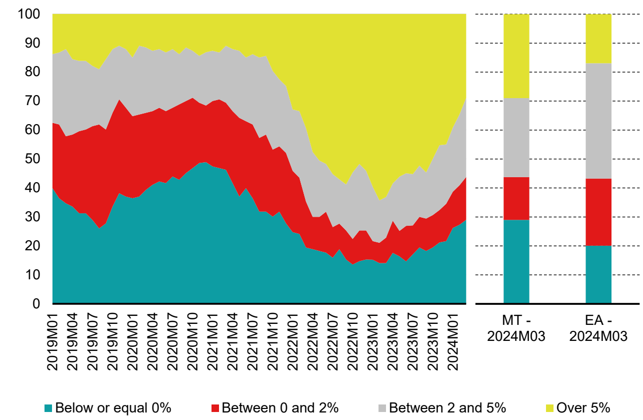
The share of subcomponents registering inflation rates of more than 5% declined considerably during the quarter under review as global supply conditions ameliorated and imported inflation continued to dissipate. Compared to three months earlier, this ratio dropped by 16.1 percentage points to reach 29.0%.

Chart 3.2
HICP AND MAIN CONTRIBUTIONS
(annual percentage changes; contributions)



Sources: Eurostat; SDW; Central Bank of Malta calculations.

Chart 3.3
PROPORTION OF HICP BASKET BY INFLATION PACE
(percentage point)



Source: Central Bank of Malta calculations.

The two intervals holding items with inflation rates of between 0% and 5% have increased since December. The bracket holding items with inflation between 0% and 2% increased by 1.9 percentage points, to stand at 14.8% in March. At the same time, the bracket holding items with inflation between 2% and 5% increased by 6.8 percentage points, to 27.3% over this period.

Meanwhile, the bracket holding items with negative inflation rates grew by 7.3 percentage points in Malta, standing at 29.0%. The increase in this bracket reflects the drop in prices recorded in a number of food products following the introduction of the Stabbilta' scheme in February 2024. This was accompanied by a year-on-year drop in prices of other items classified as NEIG, namely garments and footwear.

[2] The calculation of the shares in this chart do not take into account the weights of individual HICP sub-components. This analysis includes 170 sub-indices of the HICP for Malta and 289 sub-indices for the euro area. On average since 2001, 30.5% of items in Malta's basket fell in the 0% or negative inflation rates interval, while this figure stood at 17.4% for the euro area. Around 47% of the Maltese basket fell in the 0-2% and 2-5% intervals – in almost equal parts. These shares stand at 39.8% and 32.5%, respectively, in the euro area. While 22.4% of the Maltese basket fell in the over 5% interval, only 10.2% of the euro area basket falls in this interval.

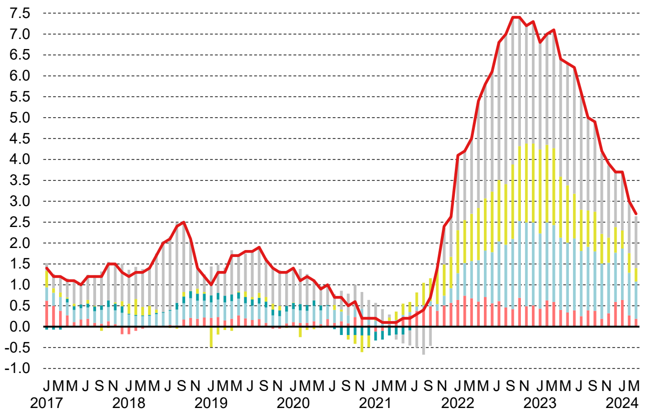
In the euro area, the share of items with price increases exceeding 5% also decreased during the first quarter of 2024.The share of items in this bracket in March remained significantly lower than that in Malta, with a difference of 12 percentage points. However, while items with price increases of between 2% and 5% accounted for almost 40% of the euro area basket in March, in Malta this share was significantly lower, as was the share of items with inflation rates of between 0% and 2%. On the other hand, Malta had a higher share of items with negative inflation rates.

Main components of inflation

The drop in Malta's HICP inflation relative to December was broad-based across all main components, apart from energy whose contribution remained unchanged (see Chart 3.4).

Food inflation decreased significantly in March, standing at 6.2%, down from 10.2% in December. At the same time, overall food inflation, which includes alcohol and tobacco, also decreased during the quarter under review, however it remained high by historical standards. It stood at 5.0% in March, down from 8.3% in December. Consequently, the overall contribution of food to HICP inflation decreased by 0.7 percentage point, standing at 1.1% in March. This was mainly driven by unprocessed food inflation, which fell to 3.5% from 12.2% in December. At the same time, processed food inflation (including alcohol and tobacco) has continued to ease, falling from 7.1% in December to 5.4% in March supported by lower imported prices and the introduction of Stabbiltà scheme.

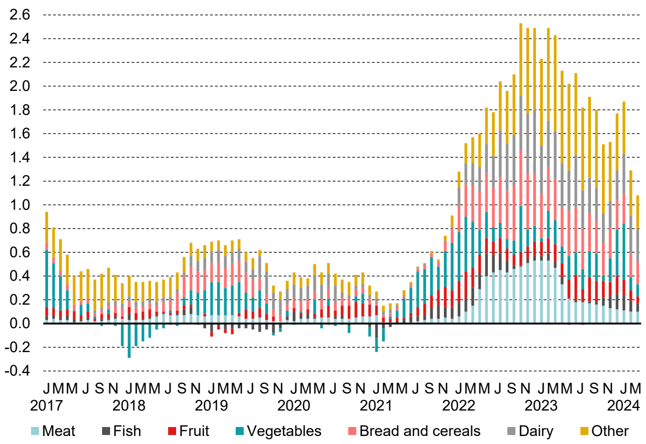
Chart 3.4
CONTRIBUTIONS TO YEAR-ON-YEAR HICP INFLATION
(percentage points; annual percentage change)



Source: SDW.

Vegetable prices were the main contributor to the moderation in food inflation since December. This was followed by 'other' food prices which includes non-alcoholic and alcoholic beverages. Bread and cereals, fruit, meat and fish products also contributed to the moderation in food inflation, albeit to a lesser extent (see Chart 3.5). On the other hand, the contribution from dairy increased marginally.

Chart 3.5
CONTRIBUTIONS FROM FOOD TO HICP INFLATION
(percentage points)



Source: SDW.

NEIG inflation declined from 2.2% in December to 1.2% in March. Looking at the sub-components, prices of durables contracted by 0.7% in annual terms, after increasing by 0.5% three months earlier. Meanwhile, prices of semi-durables rose at a much slower pace of 0.4%, from 1.8% in December, while prices of non-durables rose by an annual 4.1%, down from 4.7% in December, reflecting the easing of both import price inflation and domestic producer price pressures.

Services inflation decreased from 3.0% in December to 2.7% in March, contributing 1.2 percentage points to overall HICP inflation (see Chart 3.6). This mostly reflected a smaller contribution from the housing component, largely reflecting movements in the costs of maintenance and repair of dwellings. The contribution of the recreation and personal component also decreased slightly, reflecting a drop in the prices charged for packaged holidays, while the contribution of communications services turned marginally more negative.

On the other hand, the contribution from transport services has increased marginally on the back of higher prices for international flights as well as higher prices for passenger transport by bus.

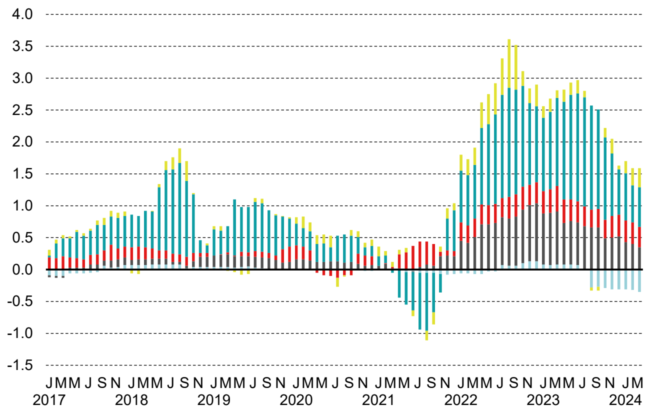
Despite moderating recently, recreation and personal services remained the main contributor to services inflation.

Energy inflation was unchanged at 0.0% in March, as electricity, gas, and transport fuel prices were kept unchanged from their level a year earlier, through government support measures shielding the economy from changes in international energy prices.

Core HICP inflation declines

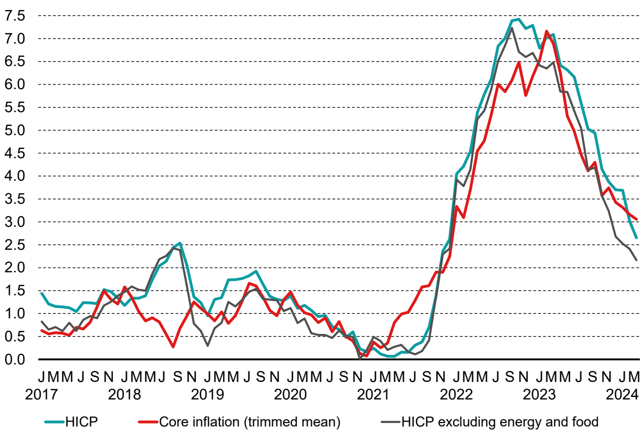
The Bank's measure of core inflation, which excludes the more volatile items in each month, fell to 3.1% in March 2024, from 3.4% three months earlier (see Chart 3.7).[3] An alternative measure of underlying inflationary pressures – HICP excluding energy and food – also eased in March, reaching 2.2% from 2.7% in December.

Chart 3.6
CONTRIBUTIONS FROM SERVICES TO HICP INFLATION
(percentage points)



Source: SDW.

Chart 3.7
HICP IN MALTA: OVERALL AND CORE MEASURE
(annual percentage change)



Sources: Eurostat; Central Bank of Malta estimates.

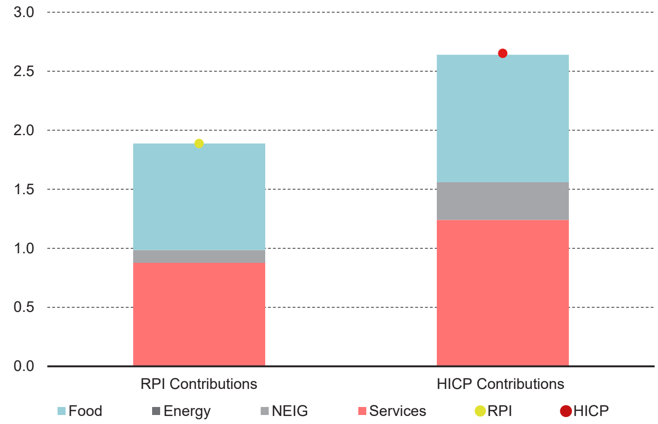
[3] The Bank uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile subcomponents of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation Measures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

RPI inflation edges down

Annual inflation based on the RPI index fell to 1.9% in March, from 3.6% in December, mainly due to lower contributions from prices of food and transport and communications services (see Table 3.2).[4] Prices of housing, clothing and footwear, and beverages and tobacco also contributed to reduce inflation, though to a lesser extent. Prices of personal care and health, and recreation and culture, had a marginal impact on the change in RPI during the quarter under review. At the same time, energy tariffs continued to have a neutral impact on overall RPI inflation in the period under review.

While the methodology underlying RPI and HICP is similar, they differ in that the RPI includes private households only, while HICP covers also institutional households and foreign visitors to Malta. Consequently, the difference between HICP and RPI inflation in part reflects the different structure of weights applied to the two indices. Furthermore, unlike the RPI weights, which were last updated in 2017, weights applied to the HICP index are updated annually. Chart 3.8 shows the contributions of the main sub-components to overall RPI and HICP inflation, respectively. While the contributions of HICP are official

Chart 3.8
RPI AND HICP MAIN CONTRIBUTIONS
(annual percentage changes; contributions)



Sources: Eurostat; NSO; Central Bank of Malta calculations.

Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION
Percentage points

	2023									2024		
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Food	2.2	2.2	2.2	1.9	2.0	1.9	1.5	1.6	1.9	1.9	1.2	1.1
Beverages and tobacco	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.1
Clothing and footwear	-0.1	-0.1	-0.1	-0.1	-0.1	0.1	-0.1	-0.1	-0.1	0.0	0.1	-0.1
Housing	0.8	0.8	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.2	0.2	0.2
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	0.5	0.5	0.4	0.4	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2
Transport and communications	0.6	0.6	0.4	0.0	-0.6	-0.5	0.0	-0.1	-0.3	-0.4	-0.5	-0.6
Personal care and health	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Recreation and culture	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Other goods and services	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
RPI (annual percentage change)	**5.8**	**5.7**	**5.4**	**4.7**	**4.0**	**4.1**	**3.7**	**3.6**	**3.6**	**3.2**	**2.3**	**1.9**

Source: NSO.

[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.

Eurostat figures, the RPI contributions are internal estimates based on an approximate mapping of individual RPI sub-items into corresponding HICP categories.[5,6] These estimates indicate that the largest difference between RPI and HICP in March stemmed from services inflation.

The housing market

Residential property price inflation unchanged from the previous quarter

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. The annual rate of change stood at 6.7% in the first quarter of 2024, unchanged from the previous quarter (see Chart 3.9).[7] This contrasts with developments in the euro area, where prices on average decreased at an annual rate of 0.4%.

Chart 3.9
MOVEMENTS IN RESIDENTIAL PROPERTY PRICES
(annual percentage changes)

Source: Eurostat.

Residential property prices in Malta continue to be supported by a number of Government schemes supporting demand for property, including the first-time and second-time buyers' schemes, the purchase of properties located in Urban Conservation Areas (UCA) and in Gozo, as well as refund schemes for restoration expenses. Moreover, a dynamic tourism sector, and significant migrant worker flows continue to support demand for accommodation and hence, property prices.

Misalignment indicator suggest prices are slightly below fundamentals

As part of its ongoing macroeconomic analysis, the Bank calculates a house price misalignment index to provide an indication of the evolution of house prices against fundamentals.[8,9] This indicator consists of five sub-indices that capture household, investor, and system-wide factors, with the weights being derived using principal component analysis.

According to this indicator, house prices, as measured by the NSO's PPI, were slightly below the level consistent with fundamentals in the first quarter of 2024. However, the degree of undervaluation

[5] The RPI grouping of sub-components is intended to be as close as possible to the HICP grouping. For example, restaurants services and take-aways were included within 'Services' sub-component rather than within the 'Food' sub-component.

[6] The contributions of RPI sub-components are made to sum to the overall inflation by allocating a residual chain-linking component to the aforementioned sub-components.

[7] '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.

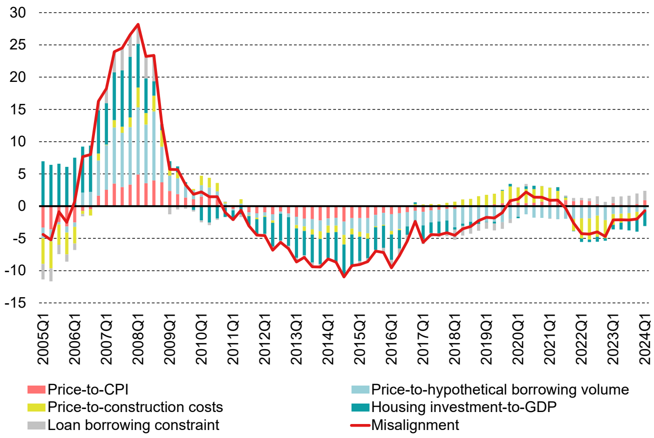
[8] See Micallef, B. (2018), "Constructing an index to examine house price misalignment with fundamentals in Malta", *International Journal of Housing Markets and Analysis*, 11(2), pp. 315-334.

[9] The actual numerical results presented in this section should not be overstated given the limitations in the construction of this indicator. For example, relevant variables such as foreign capital inflows are not included, and the unavailability of an official rental index precludes the use of the price-to-rent ratio in the indicator.

decreased compared with the last quarter of 2023 (see Chart 3.10).[10] The misalignment was driven mainly by the ratio of housing investment to GDP, and the price to hypothetical borrowing ratio. By contrast, the loan borrowing constraint and house price to CPI ratio contributed positively to the misalignment index.

The house prices to construction cost ratio, and the house prices to CPI were the main contributors behind the narrowing of the negative misalignment gap.

Chart 3.10
HOUSE PRICE MISALIGNMENT INDICATOR
(percentage points; based on transaction prices)



Source: Central Bank of Malta.

Number of final deeds declined in quarterly terms but increased in annual terms

NSO data on residential property transactions show that 3,161 final deeds of sale were registered in the quarter under review, a decline of 1.3% compared to the number of sales concluded in the previous quarter, but 1.9% higher than the same level registered in the same quarter a year earlier (see Table 3.3). Over 90% of transactions concluded in the first quarter of 2024 involved purchases by individuals.

In the first quarter of 2024, increases were recorded in all regions, apart from Gozo and Comino, and the Northern region, where the number of deeds decreased in annual terms. In value terms, there was a year-on-year increase of 3.2%.

At 3,500, the number of promise-of-sale agreements was 0.1% lower than the number registered in the previous quarter, and 12.2% higher than that in the same quarter of 2023. Year-on-year increases were recorded in all regions, with the most significant ones in the Southern Harbour and Northern regions.

Table 3.3
RESIDENTIAL PROPERTY TRANSACTIONS
Levels

	2022	2023				2024
	Q4	Q1	Q2	Q3	Q4	Q1
Residential transactions						
Promise of sale	3,353	3,119	3,494	3,078	3,502	3,500
Final deeds of sale	3,764	3,101	3,007	2,870	3,202	3,161

Source: NSO.

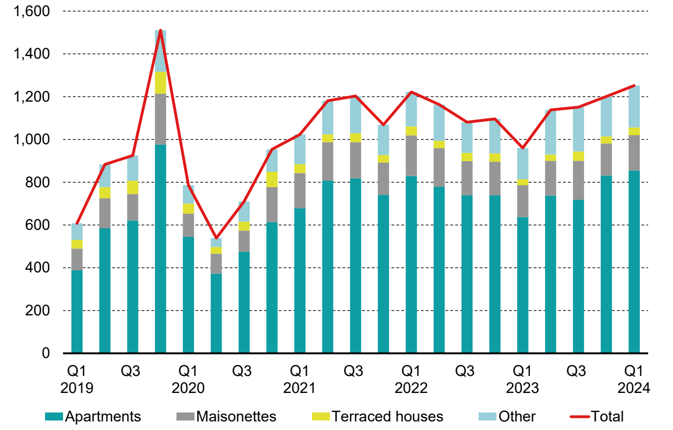
[10] A separate assessment based on advertised house prices can be found in Gatt, W., Micallef, B. and Rapa, N. (2018), "A macro-econometric model of the housing market in Malta", *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

Mortgage transactions increased[11]

In the first quarter of 2024, the number of new mortgage contracts stood at 1,252. When compared with the first quarter of 2023, they increased by around 30% (see Chart 3.11). Increases were observed for all main property categories. However, around three-fourths of the increase reflected a larger number of loans financing flats and penthouses.

The total number of mortgage contracts in the first quarter of 2024 stood above the recent peak of 1,511 transactions recorded in the last quarter of 2019 and significantly above the average of 827 transactions per quarter recorded between 2017 and 2019.

Chart 3.11
MORTGAGE CONTRACTS
(number of contracts)

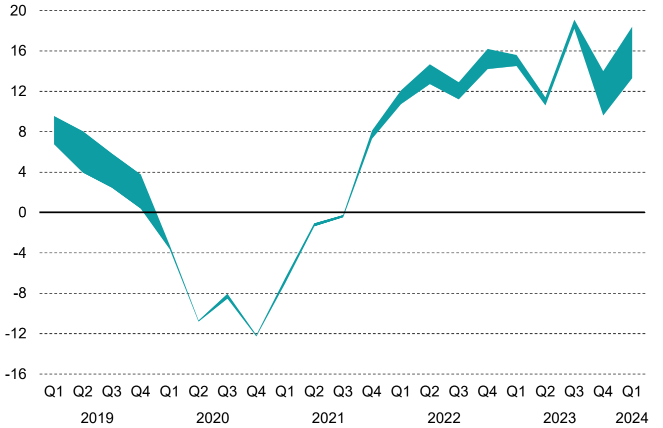


Source: Central Bank of Malta.

Advertised rent prices continue to increase at a significant rate

The annual rate of change of advertised rents collected by the Bank from internet sources edged up in the first quarter of 2024.[12] The range of estimates from various methods indicate that rents have increased at annual rates of between 13.3% and 18.4% in the quarter under review (see Chart 3.12). Compared with the previous quarter, the rate of increase included in the range of estimates has widened. and shifted up. In the quarter under review, the level of advertised rents stood around 30% above the average in recent years.[13]

Chart 3.12
ADVERTISED RENTAL PRICES
(annual percentage change)



Source: Central Bank of Malta.

These data exclude renewals and have tended to signal much stronger rent increases compared to the Housing Authority's

[11] The data used in the section are collected by the Central Bank of Malta from four commercial banks and relate only to properties which have been purchased with a mortgage. The dataset excludes properties that have either been transacted using other means of financing, as well as mortgages that have been refinanced. The property types included are flats, penthouses, maisonettes, terraced houses, town houses, houses of character, farmhouses, bungalows, and villas. Other property types included in the previous section such as airspace, boathouses, garages, and plots of land are excluded.

[12] The empirical analysis is based on hedonic regression models as described in Debono et al., (2020) and different indices are constructed using alternative methodologies, namely the time dummy method, the rolling time dummy method with a window length of two periods (Q=2) and the average characteristics method chained using the Laspeyres, Paasche and Fisher methods. The properties considered in this analysis include apartments, maisonettes, and penthouses.

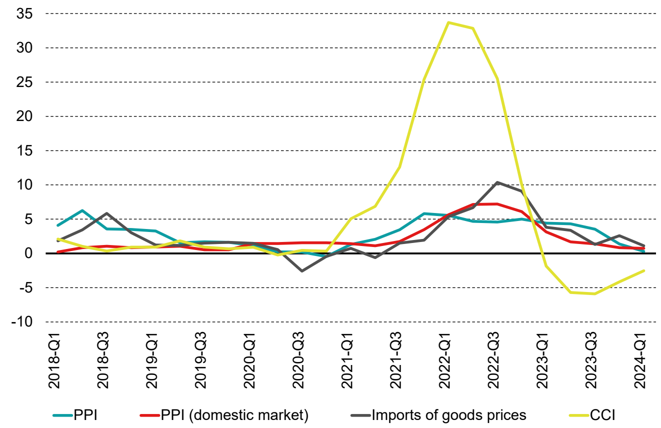
[13] This index is available from 2017Q4.

register as at the end of 2023. These differences partly reflect the fact that the register is based on actual transactions and includes both new leases and renewals, whereas the Bank's source of advertised data excludes renewals.

Cost indices

Producer costs grow at a much slower pace

Chart 3.13
COST INDICATORS
(annual percentage growth)



Sources: Central Bank of Malta estimates; Eurostat data; NSO data.

The industrial producer price index is a measure of the prices of goods sold by producers in the industrial sector. Annual inflation according to this index eased to 0.3% on average in the quarter under review, down from 1.4% in the previous quarter (see Chart 3.13).[14] This moderation was largely driven by developments in producer prices for consumer goods, which rose at a much slower annual rate of 0.9% in this quarter, from 5.6% in the previous quarter. Meanwhile, producer price inflation for capital goods remained marginally unchanged at 3.3%, as was energy producer price inflation. By contrast, the annual rate of change of producer prices of intermediate goods became less negative. This stood at -1.3% in the first quarter of 2024, compared to -2.1% previously.

Other indicators affecting the domestic market also show easing cost pressures. The domestic producer price index rose at a marginally slower annual rate of 0.7%, from 0.8% in the fourth quarter, mainly driven by prices of capital goods.[15] The imports of goods deflator also shows weaker growth of 1.1% during the quarter under review, from 2.6% in the fourth quarter of 2023.[16] The CCI for new residential buildings published by Eurostat decreased at a slower rate in the first quarter of 2024, falling by an annual 2.5% after it had declined by 4.2% in the previous quarter. Notwithstanding the recent decline, its level remains above that observed before 2020.

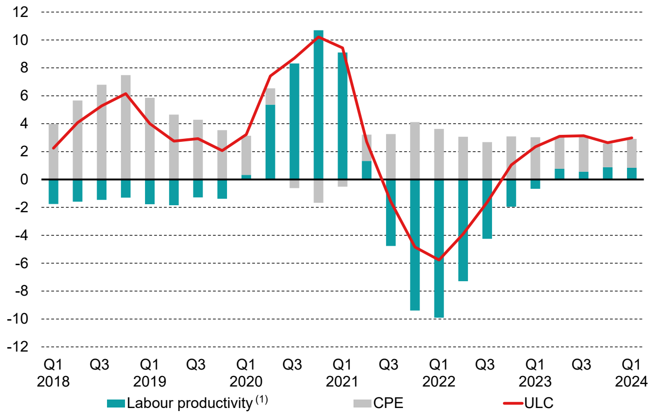
ULCs increase at a faster rate

Malta's ULC index – measured as the ratio of CPE to labour productivity – increased in annual terms, as well as in quarter-on-quarter terms in the first quarter of 2024.[17]

[14] 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. The index used here refers to the B-E36 aggregate of the EU's statistical classification of economic activities.
[15] The domestic producer price index refers to the producer prices relating to the domestic market only, whilst the producer price index relates to the total market, i.e., including both the domestic and non-domestic markets.
[16] This index is derived from national accounts data published by the NSO.
[17] Annual growth in ULC, CPE and labour productivity is measured on a four-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.

When measured on a four-quarter moving average basis in headcount terms, ULCs in Malta rose at an annual rate of 3.0%. This followed an increase of 2.6% in the previous quarter (see Chart 3.14). The pick-up in ULC growth reflects an acceleration in CPE. This rose by 2.1% in annual terms, from 1.7% in the fourth quarter. On the other hand, productivity per person declined at a marginally slower pace of 0.8%, from 0.9% in the previous quarter.

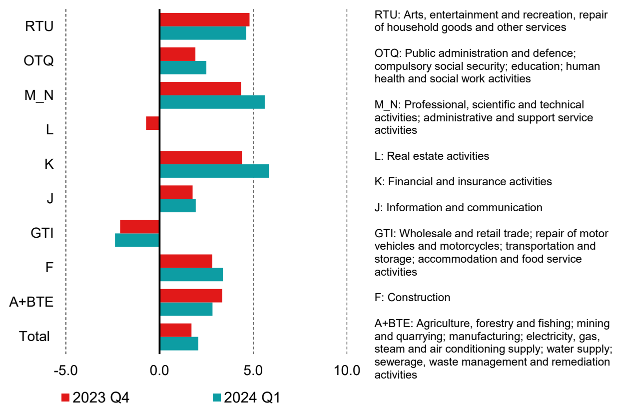
Chart 3.14
DECOMPOSITION OF ULC (PER PERSON) IN MALTA
(annual percentage change; four-quarter moving average)



Sources: NSO; Central Bank of Malta estimates.
(1) A rise (drop) in productivity contributes negatively (positively) to ULC growth.

When measured on a four-quarter moving average basis, growth in CPE was fastest in the financial and insurance activities sector, which had a year-on-year growth rate of 5.8% (see Chart 3.15). Wage growth was also significant in the professional, scientific, and technical activities sector, where compensation per person grew by 5.6%. Overall, compared with the previous quarter, CPE grew at a faster rate across most sectors, including the two aforementioned ones. Only two sectors displayed slower growth compared to the fourth quarter, these being the manufacturing sector and the arts, entertainment and recreation sector, which recorded increases of 2.5% and 4.6%, respectively. At the same time, average wages in the wholesale and retail trade sector declined at a faster pace than in the previous quarter, falling by 2.4% in annual terms.

Chart 3.15
CPE BY SECTOR
(annual percentage growth; four-quarter moving average)



Source: NSO.

BOX 2: A PROFILE OF TENANTS AND LANDLORDS, AND THEIR EXPERIENCES IN THE MALTESE RENTAL MARKET[1]

This box summarises the main results of a study of the demographic and socio-economic profiles of landlords and tenants in Malta, and their experiences in the rental market as well as their awareness of rent regulations, following the introduction of the Private Residential Leases Act in January 2020.[2] The study involved the collection of primary data from tenants and landlords using computer-assisted telephone interviews, with quantitative data being analysed with statistical methods. A total of 800 participants (400 tenants and 400 landlords) of various nationalities were interviewed during the second quarter of 2023.

A demographic profile of landlords in Malta

In examining the data on landlords in Malta, the headline indicator is that practically all landlords are Maltese (97%), with only 2% coming from other EU countries and 1% being third-country nationals (TCN). The average age of landlords in Malta was 53.7 years, exceeding the average age of the general population which stood at 41.7 years according to the 2021 Census for Malta (NSO, 2023).[3] Indeed, over half the landlords interviewed (55%) were aged 51 years or older. Reflecting this, while most landlords (60%) were active in the labour market, working either full-time or on a reduced hour/part-time basis, almost a third (30%) were retired. Around 70% of landlords had a low or medium level of education, which is very close to that of the general population, which stood at 72% in 2023 (Eurostat, 2024).[4]

The average number of rental properties owned by a landlord stood at 2.7 properties. Landlords who owned only one rental property amounted to 42% (see Table 1). One in five landlords (23%) had two properties while 13% had three properties rented out. A further

Table 1
PROPERTIES BY LANDLORD[(1)]

Number of properties	Share of landlords *(percentage)*
One	42.1
Two	22.5
Three	13.1
Four	6.2
More than four	13.1

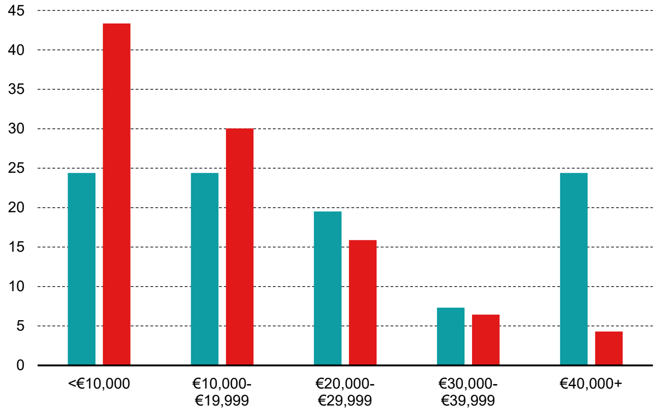
Source: Authors' calculations.
(1) Shares do not add up to 100% as a number of landlords did not disclose how many properties they held.

1 Prepared by Ms Tiziana M. Gauci, Principal Economist within the Economics Department at the Central Bank of Malta, Dr Marie Briguglio, a resident academic at the Department of Economics at the University of Malta, and Dr Brian Micallef, Executive Head of the Policy Unit at the Housing Authority. The views expressed are those of the authors and do not necessarily reflect the views of the Central Bank of Malta. Any remaining errors are the sole responsibility of the authors. Helpful comments by Mr Alexander Demarco, Dr Aaron G. Grech and Ms Rita Schembri are gratefully acknowledged.
2 Briguglio, M., Micallef, B. and Gauci, T. (2024), "Tenant and Landlord Experiences of the Maltese Residential Rental Market: Three Years after the Introduction of the Residential Leases Act", Housing Authority.
3 NSO (2023), *Census of Population and Housing 2021: Final Report: Population, migration and other social characteristics* (Volume 1). Valletta: National Statistics Office.
4 Eurostat (2024), *Population by educational attainment level, sex and age (%) – annual data* [Data Set]. This figure refers to tertiary educational attainment among the 18 to 74 years age group.

6% had four properties. The share of landlords with five or more properties stood at only 13%. Between them, this 13% of landlords managed 43% of all properties rented. As would be expected, older landlords managed a greater number of properties than the younger cohorts. In fact, landlords over 50 years of age managed almost 65% of rental properties indicating that they have a greater share of the rental market.

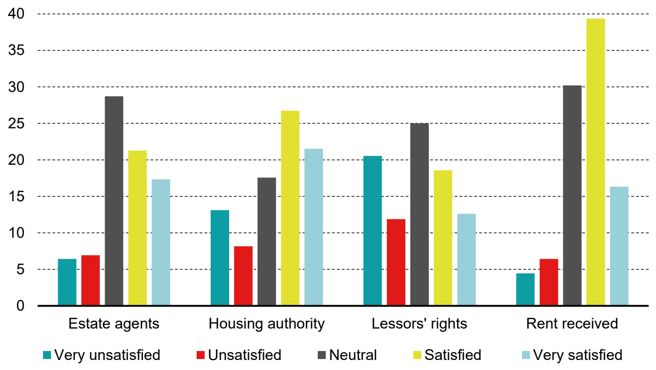
For four out of five landlords (80%), rental income was a secondary source of income. When asked about how much they earned in rental income only 68% of landlords provided an answer. Chart 1 shows the distribution of gross yearly rental income declared by these landlords, according to whether rent is the main or secondary source of income.[5] For the majority (73%) of those who declared that rental income was a secondary source of revenue, the figure of rental revenue did not exceed €20,000. For those landlords who declared rental income as their main source of income, this share stood at 49%. On the other hand, the share of landlords reporting a rental income of €40,000 or more stood at 24% for those who reported rental income as their main source of income as opposed to 4% for those where rental income was a secondary source of revenue. On average, gross rental income for landlords who declared rental income as their main source of income amounted to almost €30,000 in 2022. For those who declared that rental income was a secondary source of revenue, average yearly rental income stood around €15,000.

Chart 1
GROSS YEARLY RENTAL INCOMES BY SOURCE OF INCOME
(percentages)



Source: Authors' calculations.

Chart 2
LANDLORDS' SATISFACTION WITH AGENTS, AUTHORITIES, RIGHTS PROTECTION AND RENT[(1)]
(percentage)



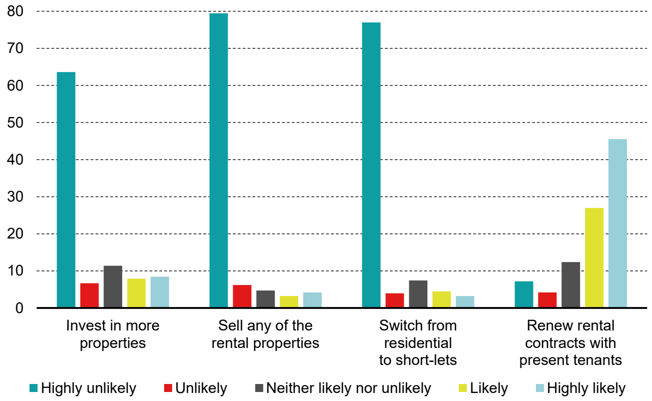
Source: Authors' calculations.
(1) Percentages do not add up to 100% as those who responded 'Don't know' are not included in the chart.

When asked about their satisfaction with the rent they received as compared to the quality of the property they let, the majority of landlords (56%) were happy with the rent received (see Chart 2). Around one in three were neither satisfied

[5] Figures are worked out as a share of the number of respondents who provided an answer. Given that the non-response rate to this question was high, responses should be treated with caution.

nor dissatisfied while 11% were dissatisfied. Chart 2 also displays landlords' satisfaction with the service offered by real estate agents, by the Housing Authority, as well as their satisfaction with the way their rights are protected in the rental sector. Overall, landlords were satisfied with the service received by agents as well as with the service of the Housing Authority. This is less so when it comes to the way their rights are protected in the rental market with around a third reporting that they were dissatisfied.

Chart 3
LANDLORDS' INTENTIONS FOR THE COMING YEAR(1)
(percentage)



Source: Authors' calculations.
(1) Percentages do not add up to 100% as those who responded 'Don't know' are not included in the chart.

When asked about their intentions for the coming year, most landlords did not plan to change their real estate portfolio in the next twelve months. Indeed, 70% replied that it is unlikely that they would invest in further property with the intention of renting it out (see Chart 3). Of the remaining 30%, around half (16%) said that it is likely that they would increase their portfolio size. The latter included both established landlords as well as those who had only one property rented out, in almost equal shares.

Furthermore, around 86% of respondents indicated that they were unlikely to sell their rental properties in the coming year. Most landlords (81%) stated they intended to keep their rental properties for long-term residential purposes, with only 8% stating they intended to switch property from residential to tourism rentals in the near future.

Most landlords (73%) were satisfied with their tenants and planned to renew the lease for another year.

When asked about their preferred tenant demographic (open-ended), responses were mixed. While some landlords expressed no preference, many landlords favoured couples and families without pets. On balance, landlords preferred to rent to foreigners (particularly Europeans), but some landlords explicitly mentioned a preference to rent to Maltese tenants.

A demographic profile of tenants in Malta

According to the survey results, only 10% of tenants are Maltese, with the shares of EU and TCN tenants standing at 17% and 74%, respectively.[6] In terms of gender composition,

[6] It bears mention that Maltese tenants on social housing arrangements and those holding pre-1995 leases do not form part of the residential rent registry. The registry could also be missing some (post-1995) leases involving EU/Maltese tenants. This illegal practice is less likely to occur among TCNs given work-permit requirements which oblige them to present a registered address.

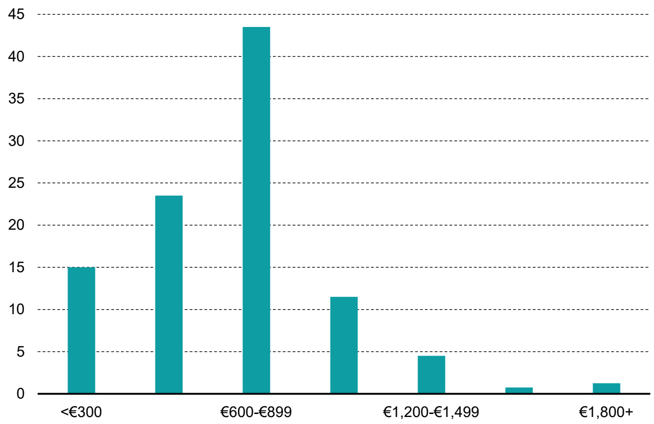
almost 64% of tenants identified as males, similar to landlords' profile. On the other hand, the average tenant was younger than the average population with an average age of 36.8 years. As expected, over 91% of tenants were active in the labour market, mainly working on a full-time basis. Only 3% of tenants were pensioners while another 2% were students. Almost half of tenants (46%) had a tertiary level of education, which is significantly higher than the share of landlords and of the general population. Among the latter, only 29% had a tertiary education in 2023 (Eurostat, 2024).[7]

In terms of districts, over 40% of tenants live in the Northern Harbour region. Between them, Sliema, St Julian's and Msida absorb around 20% of tenants. One in four tenants resided in the Northern region, with St Paul's Bay occupying the top position for the locality hosting the largest number of tenants. The latter is broadly consistent with the analysis of the spatial distribution of rental contracts across the Maltese Islands (Housing Authority, 2023).[8]

Three out of every four (74%) tenants had a rental contract of just one year, with most of the remaining tenants having a contract of two years or more. Around 17% of tenants surveyed said that they lived on their own with the remaining sharing the residence with other family members. Furthermore, four out of every ten (40%) of tenants shared their residence with others, besides their family. This was mainly true for foreigners, in particular TCNs. In case of the latter, almost half (49%) of TCNs co-shared their residence with other tenants who did not form part of their family.

Chart 4 shows the monthly rent paid by tenants. This does not necessarily indicate the total rent being charged for the residence given that this figure refers solely to the amount paid by the tenant answering the survey. The median rent being paid by tenants was €650 per month. Almost half of the tenants (44%) were paying between €600 and €899 in rent. Around 39% of the respondents were paying less than €600 per month while the remaining 18% were paying in excess of €900. Just over 15% of tenants received housing benefits from the government, including one in every three Maltese tenants sampled.

Chart 4
RENT PAID BY TENANTS
(percentage)



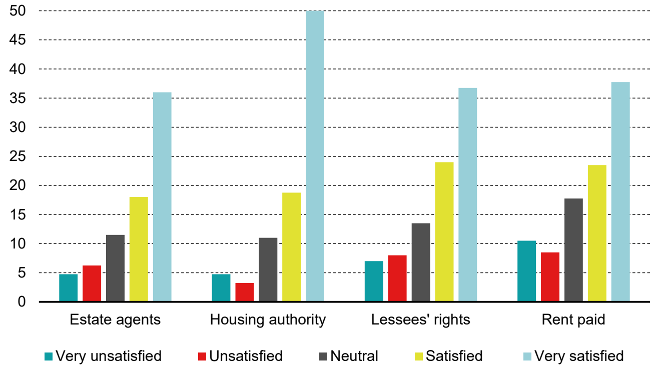
Source: Authors' calculations.

[7] Eurostat (2024), *Population by educational attainment level, sex and age (%) – annual data* [Data Set]. This figure refers to tertiary educational attainment amongst the 18 to 74 years age group. Looking at the educational attainment of the general population aged between 35 and 44 years, which is the age cohort that captures the average age of tenants, tertiary educational attainment stood at 34%.

[8] Housing Authority (2023), *Registered rental contracts in Malta: 2023H1 update*. Malta: Malta Housing Authority.

When asked about their satisfaction with the rent they paid as compared to the quality of the property they rented, the majority of tenants (61%) were happy with the rent paid (see Chart 5). Around 18% were neither satisfied nor dissatisfied, while 19% were dissatisfied. Tenants were also asked about their satisfaction with the service offered by real estate agents, by the Housing Authority and with the way their rights are protected in the rental sector. Most tenants (69%) were satisfied or very satisfied with the service received by the Housing Authority and by the way their rights are protected in the rental market (61%). Satisfaction with the service received by agents stood at 54%.

Chart 5
TENANTS' SATISFACTION WITH AGENTS, AUTHORITIES, RIGHTS PROTECTION AND RENT[(1)]
(percentage)

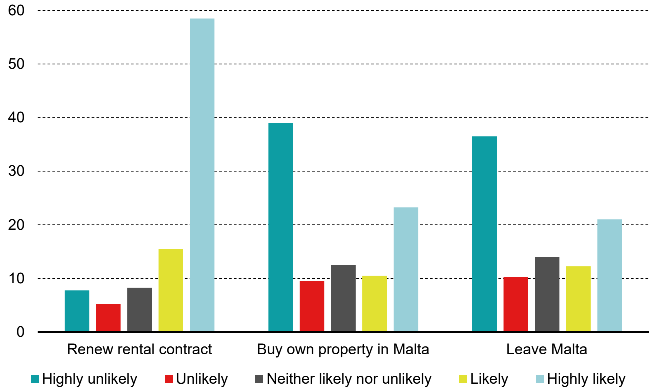


Source: Authors' calculations.
(1) Percentages do not add up to 100% as those who responded 'Don't know' are not included in the chart.

The survey also asked respondents whether they owned a residence besides renting. Two out of every three (67%) tenants stated that they did not own a residence. Only a small share of tenants (5%) replied that they own a residence in Malta yet almost 30% owned a residence overseas. Results show that one in every five (21%) EU tenants own a residence overseas, compared with one in every three (34%) TCNs.

Asked about their intentions going forward, three out of every four (74%) tenants expressed their wish to renew their contract with their present landlord (see Chart 6). When asked about the possibility of buying their own property in Malta, almost half (49%) of tenants stated that it was unlikely that they will purchase their own property in Malta. However, one in three (34%) stated that is likely or very likely that they will be purchasing their own property in Malta in the coming year. The majority of those with

Chart 6
TENANTS' INTENTIONS FOR THE COMING YEAR[(1)]
(percentage)



Source: Authors' calculations.
(1) Percentages do not add up to 100% as those who responded 'Don't know' are not included in the chart.

intentions to buy were TCNs with a medium or high level of education. When asked about their ability to afford to buy a residence in Malta, one in every three respondents (34%) said that it is likely that they would be able to carry out the transaction. On the other hand, 40% stated that they would not afford it.

Tenants were also asked about the likelihood of leaving Malta in the coming year. Almost half (47%) said it is unlikely that they would leave soon while one in three (33%) stated that it is likely or very likely that they will be moving on within a year. This is broadly in line with findings in other studies which found that the length of stay of foreign workers in Malta is short with around half of foreigners engaged in the Maltese labour market exiting within the first year or two years later than the year of engagement (Borg, 2019).[9]

Landlords and tenants – Rent regulation awareness

The questionnaire included a 12-question test to assess the knowledge of landlords and tenants in several aspects of rent regulations in Malta including knowledge about lease duration, lease termination, rent increments, utilities and fees as well as about the adjudication panel (see Table 2).

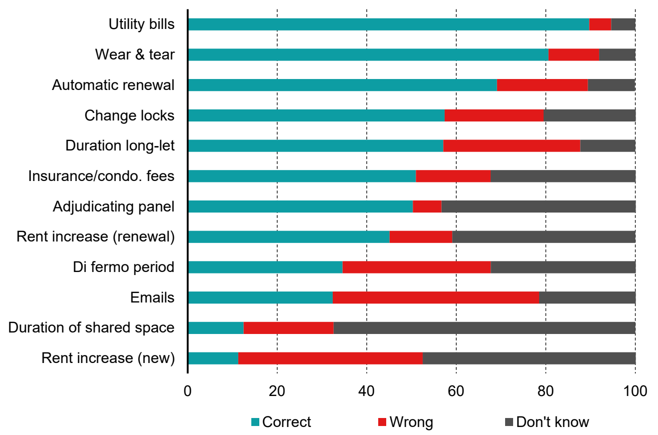
Table 2
RESIDENTIAL RENT LAWS KNOWLEDGE TEST

Questions		Correct answer
Duration	1. What is the shortest duration allowed for a long-let residential lease?	1 year
	2. In one-year lease, how long must the tenant stay as a minimum?	6 months
	3. When tenants rent a room in a shared space, how long must the contract be?	6 months
Termination	4. Do emails by the landlord/tenants count as notification to terminate the lease?	No
	5. If tenants get no notice from the landlord, is their lease renewed?	Yes
Rent	6. When renewing the same contract, what is the maximum % landlords can increase rent?	5%
	7. When signing a new contract with same tenants, what is the maximum % landlords can increase rent?	Any
Utilities, Fees, Damage	8. Are landlords obliged to show the water and electricity bill to tenants?	Yes
	9. May landlords ask for insurance and condominium fees in the contract?	Yes
	10. If something gets damaged by wear and tear must the landlord replace it?	Yes
Adjudication	11. Is there an adjudication panel for private residential leases?	Yes
	12. Can landlords change the lock if a tenant fails to pay or stays on?	No

[9] Borg, I. (2019), The length of stay of foreign workers in Malta. Central Bank of Malta *Policy Note* January 2019.

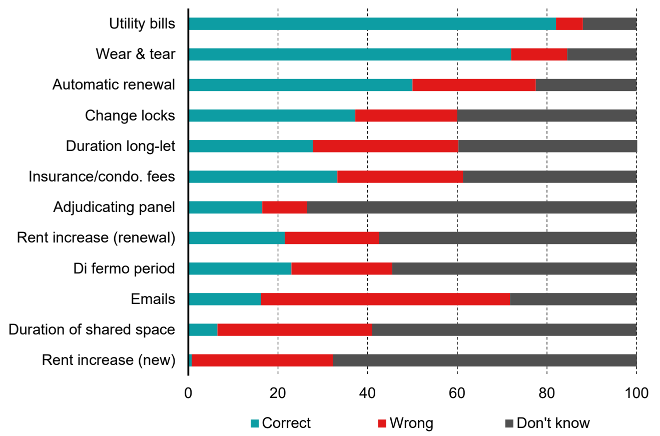
Charts 7 and 8 illustrate the share of correct and incorrect results from the 12 different questions, making a distinction between landlords and tenants. The questions with the most correct results were those concerning utility bills, wear and tear, and automatic renewals, while those with the least correct answers were the questions on the duration of shared spaces and the rent increases for new contracts.

Chart 7
LANDLORDS' KNOWLEDGE ABOUT RENT REGULATIONS
(percentage)



Source: Authors' calculations.

Chart 8
TENANTS' KNOWLEDGE ABOUT RENT REGULATIONS
(percentage)



Source: Authors' calculations.

In general, landlords obtained a higher share of correct questions in all 12 questions compared to tenants. The largest differences in correct answers between the two groups were on the awareness of the adjudicating panel (51% landlords vs. 17% tenants) and the minimum duration for a long-let contracts (57% landlords vs. 28% tenants).

The question with the highest share of incorrect answers was on the use of email as notification for the termination of the lease. This question was answered incorrectly by 56% of tenants and 46% of landlords. Finally, the questions with the highest share of 'don't know' replies for tenants were those concerning the existence of an adjudicating panel (74%) and the maximum increase permissible by landlords when signing a new contract with existing tenants (68%). For landlords, the question with the highest 'don't know' reply was that related to the duration of shared space leases (67%).

In general, landlords were more aware of rent regulations compared to tenants, but in both cases, knowledge was far from complete.[10] Taken as a whole group, on average, landlords

[10] Additional information on rent regulations and the procedure for registering residential leases with the Housing Authority.

passed the knowledge test with a rounded-up score of 6/12 while tenants failed the test with a score of 4/12.

Conclusion

In summary, tenants and landlords have a different demographic profile. Tenants are predominantly foreign, young, with relatively higher education. Nine out of ten tenants are active in the labour market. For tenants, the experience is characterised by sharing residence with others and a tendency to move around properties. A third of the respondents are prepared to leave the island shortly, while a third have intentions to settle in Malta and purchase their own property.

On the other hand, landlords are mainly Maltese. They are older than tenants and than the Maltese population on average, and a third of them are retired. Eight out of ten landlords own fewer than five properties, and four out of ten own only one. Indeed, rental income serves as a supplement to their main income for four out of five landlords.

Tenants are more satisfied than landlords with the services offered by the Housing Authority and estate agents. Similarly, tenants expressed more satisfaction than landlords with the way their rights are protected. Nonetheless, many landlords seem satisfied with their current status, and while most of them indicated no desire to invest further in the rental market, the majority expressed no desire to shift out of the market (both to sell their properties or to shift into short lets). Furthermore, most of them indicated a willingness to renew present contracts.

Awareness about the Private Residential Leases Act is mixed, but it is higher among landlords (particularly about the existence of the Adjudication Panel and minimum contract duration). In general, respondents were aware about the obligations surrounding utility bills, wear and tear, and lease renewal. On the other hand, there is considerable confusion about the legal duration of shared spaces contracts and the possibility to raise rents in a new contract with the same tenants. Respondents are also unaware of the need to use a registered letter for contract termination.

Finally, it is necessary to outline the shortcomings of the study. Utmost care was taken to obtain a random and representative sample. Nonetheless, several who were contacted refused to take part in the interview. The resultant sample could be skewed towards those who were able to speak in English or Maltese, and who had the time and the interest to participate. The sample likely also over-represents TCNs, given that work permit requirements oblige them to present a registered lease – a necessity which is not prevalent among EU or Maltese nationals. Furthermore, errors related to understanding, recall and honesty are likely to be present.

BOX 3: THE IMPACT OF MITIGATING CLIMATE CHANGE ON MALTESE FIRMS[1]

Climate change is one of the most pervasive global challenges with implications for central bank's core task of monetary policy. Extreme weather events have been increasing recently, and any delay in tackling climate issues, including global temperature increases, may trigger irreversible damage. Failing to act in a timely manner may also induce competitiveness losses and regulatory costs for firms. At the same time, global adaptation and mitigation efforts will require an unprecedented scaling up of investment.[2]

EU member states have bound themselves to reduce net greenhouse gas (GHG) missions by at least 55% by 2030, compared to 1990 levels. The EU also aims to achieve climate neutrality by 2050. To this end, the 'Fit for 55' package expands the emissions trading system (ETS), sets more ambitious emission reduction targets in sectors not covered by the ETS, and establishes new standards for international co-ordination in this area.[3]

This box assesses how Maltese firms plan to address the changes brought about by climate change, and the impact that mitigation policies may have on their operations from the lens of a survey with non-financial companies (NFCs) in Malta carried out by the Central Bank of Malta. The survey also collects information regarding firms' awareness of issues surrounding the impact of climate change, and the risks this poses for their activity.

The survey employed a quota sampling framework, targeting non-micro firms likely to engage in the most emission-intensive activities. The methodology classified sectors into high, mid, and low GHG emissions intensity by scaling each sector's GHG emissions by the sectors' own GVA. Only high and mid-GHG intensive emitting sectors were targeted, resulting in a population of 2,095 companies. Of these, 94 firms were selected such that the final target sample is broadly equally assigned to High and Mid-GHG intensive emitting sectors. The selection also closely mirrors each sector's classification of GHG emitting intensity. The list of firms was obtained from the NSO's Business Register.[4]

Climate change awareness

The transition towards a sustainable economy requires a clear regulatory framework, climate awareness, and investments. Awareness differs across regions and firm characteristics, with Maltese firms generally less aware of transition risks, and investing less in climate-related projects compared to EU averages.[5]

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1 Prepared by Mr Warren Deguara, Principal Economist within the Economic Projections and Conjunctural Analysis Office. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any remaining errors are the sole responsibility of the author.

2 According to European Commission estimates, an additional €620.0 billion per annum needs to be invested for the EU to meet the Green Deal objectives by 2023. For further details, see the April 2024 intermediate report by the EU Platform on Sustainable Finance.

3 For further details, see Fit for 55 initiative.

4 The NSO's Business Register contains reference data on all Malta registered entities and sole traders. The BR is used both by the NSO and the Central Bank of Malta (CBM).

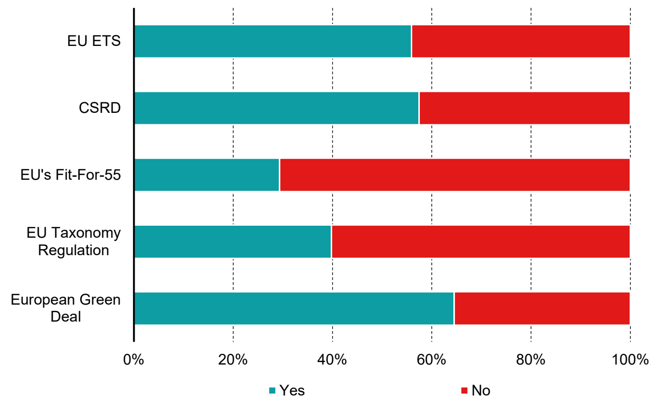
5 See European firms and climate change 2020/2021: Evidence from the EIB Investment Survey, European Investment Bank, 2021.

The Bank's survey also suggests that the level of environmental awareness and familiarity with specific EU initiatives among firms in Malta is low.

The survey specifically asked respondents to indicate their assessment of general environmental awareness in Malta. Around 47% of respondents view environmental awareness in Malta as low, with another 47% considering it medium. Only 6% view it as high.

The survey also reveals that there is significant variation in firms' awareness of EU initiatives such as the European Green Deal, Fit-for-55 package, and the EU Taxonomy Regulation. Most respondents were aware of the European Green Deal (65%), the Corporate Sustainability Reporting Directive (CSRD) (57%), and the EU ETS (56%) (see Chart 1). However, awareness of Fit-for-55 and the EU Taxonomy Regulation was notably low, with only 29% and 40%, respectively, indicating awareness about these initiatives. Firms in high-GHG intensive emitting sectors were more aware of the CSRD, the EU Taxonomy Regulation, and the European Green Deal than those in mid-GHG sectors, but both sector groups showed low awareness of Fit-for-55.

Chart 1
COMPANY AWARENESS OF EU INITIATIVES
(percentage of firms)



Sources: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors" and author's calculations.

Most firms (52%) were uncertain about the impact of climate-related EU initiatives on their business, while 27% anticipated positive effects (mainly from high-GHG sectors and manufacturing and services sectors). Conversely, 14% expected a negative impact, and 8% anticipated no impact. These findings mirror those found in a recent report by the European Investment Bank.[6]

Impact of climate change on businesses

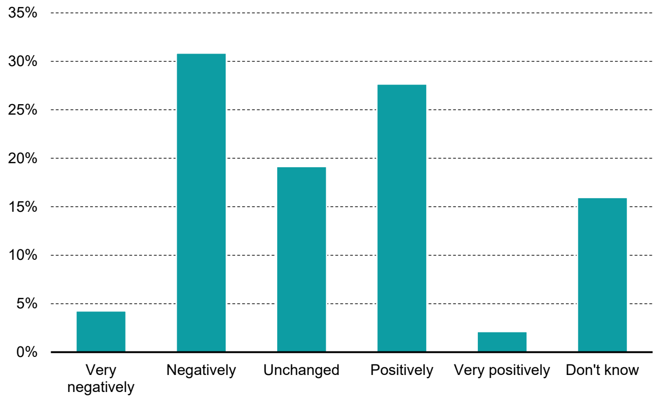
The survey examines how local firms in Malta expect climate change to impact their business, focusing on transition and physical risks. It sheds light on firms' perceptions of risks related to the transition to a low-carbon economy, physical risks associated with climate change, and how they expect to adapt their operations.

Transition risks arise from the process of moving to a low-carbon economy. About one-third of surveyed firms expect negative impacts from transitioning to a low-carbon economy,

[6] See What drives firms' investment in climate action? - Evidence from the 2022-2023 EIB Investment Survey, European Investment Bank, 2023.

with most of these firms operating in mid-GHG intensive emitting sectors (see Chart 2). A small percentage (4%) foresee a very negative impact, primarily within high-GHG intensive sectors such as wholesale and retail and services. Comparatively, around 28% expect a positive impact from the transition, particularly those in high-GHG intensive sectors, while 2% expect a very positive effect.

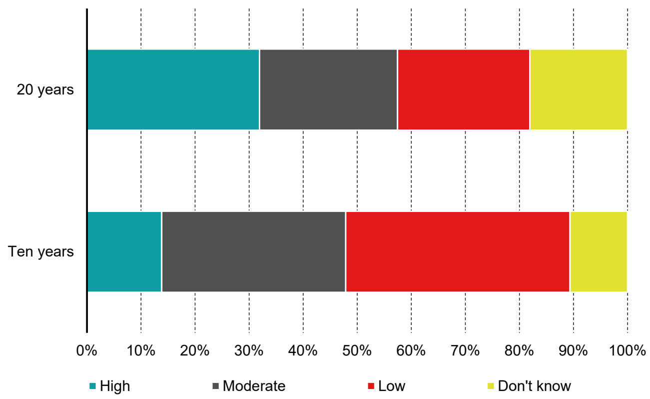
Chart 2
IMPACT OF THE TRANSITION TO A CARBON NEUTRAL ECONOMY
(percentage of firms)



Sources: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors" and author's calculations.

Physical risks relate to the direct impacts of climate change on infrastructure, production, and the population. A significant share of respondents (41%) anticipate only a low impact from physical risks over the next decade, while a third expect a moderate impact (see Chart 3). A smaller portion (14%) foresee a high impact from physical risks. When asked about the longer-term impact over 20 years, the share of firms expecting a high impact doubles, suggesting increased concern about climate change's effects over time.

Chart 3
PROBABILITY OF BEING IMPACTED BY PHYSICAL RISKS
(percentage of firms)



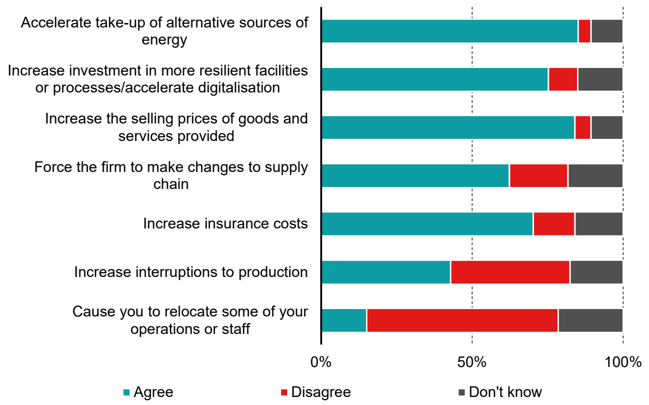
Sources: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors" and author's calculations.

Companies were asked more specifically on how climate change will impact their operations, as well as how they plan to adapt their business in view of the related transition and physical risks.

Overall, most firms expect climate change to significantly affect their business practices (see Chart 4). A significant majority (between 60% and 80%) expect to make changes to their supply chain, and incur higher insurance costs. They also plan to increase investment in more resilient facilities or processes and accelerate digitalisation. More than 80%

of respondents believe that climate change will accelerate the adoption of alternative energy sources, and to contribute to higher selling prices.

Chart 4
CLIMATE CHANGE AND/OR ADAPTATION TO IT WILL:
(percentage of firms)



Sources: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors" and author's calculations.

On the other hand, firms are divided on the impact of climate change on production disruptions. While 43% of firms anticipate potential production interruptions, around 40% do not, and a fifth are unsure. Moreover, 63% of firms do not expect to relocate operations or staff due to climate change. Only 15% of respondents, mainly operating in the trade and services sectors, entertain this idea.

The survey also asked firms to rank various challenges related to climate change adaptation from 0 to 5 (0 indicating no challenge and 5 indicating a significant challenge). Over half of firms (52%) ranked technological availability as a medium-significance challenge, while 8% see it as a significant challenge. Costs are seen as a significant or very significant challenge by 58% of firms. An overwhelming majority also noted that regulations and legislation are a challenge, with 28% classifying it as very significant, and another 31% as significant.

Competitiveness, the need for new skills, and the cultural and political environment were of lesser concern. Around 38% of those surveyed stated that retaining competitiveness was a significant or very significant challenge. Firms were somewhat divided on whether new skills are a significant challenge, with only 4% deeming it not a challenge, and 14% seeing it as very significant. Moreover, firms believe that the lack of incentives poses a challenge, with 22% viewing it as a very significant challenge, and 28% as significant. Lastly, 43% classified the cultural and political environment as a medium-significance challenge, while 50% see it as a significant or very significant challenge.

Impact of mitigating climate change on firms' production and market structure

Efforts to reduce GHG emissions could translate into new operating costs but could also create opportunities for growth and innovation. Therefore, the survey explored how mitigating climate change impacts firms' market structure, prices and costs, and investment.

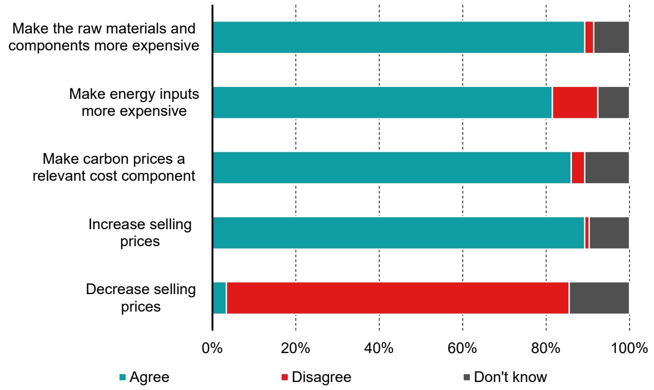
Firms hold mixed views on whether mitigating climate change will make production less labour-intensive. Most companies disagree with this notion. The majority of firms (60%)

expect market concentration to increase as not all companies can transition to zero emissions. This view is more prevalent in real estate and construction firms, manufacturing, and service sectors. At the same time, half of the firms believe that climate change mitigation will facilitate new entrants with knowledge of required technologies.

Firms had varied views on whether climate change mitigation will encourage a shift towards more local supply chains. High emissions sectors and manufacturing firms are more likely to anticipate a shift towards local suppliers than medium emission ones. Nonetheless, most firms (80%) expect that mitigating climate change will require renegotiation with suppliers or finding new ones to decarbonize inputs. A high share of companies (41%) expect that mitigating climate change will encourage a move to markets where transition costs are lower. Firms in mid-GHG intensive emitting sectors tend to agree more with this statement than those in high-GHG sectors.

About 90% of firms expect climate change mitigation to increase the cost of raw materials and components, and around 80% expect energy inputs and carbon prices to become more expensive, (see Chart 5). Consequently, the vast majority of firms expect climate change mitigation to force them to increase selling prices.

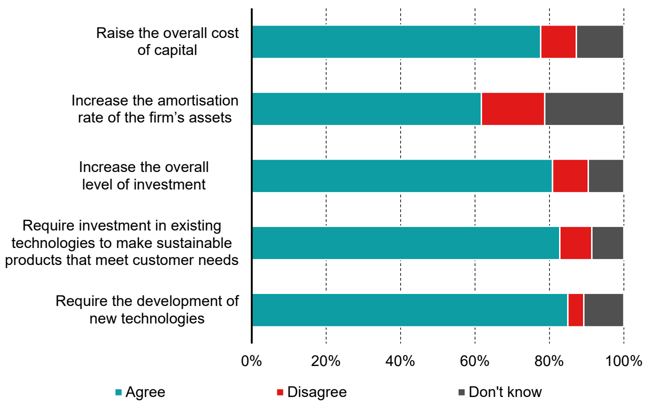
Chart 5
IMPACT ON PRICES AND COSTS – MITIGATING CLIMATE CHANGE WILL:
(percentage of firms)



Sources: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors" and author's calculations.

Mitigation efforts include those related to investments. Most firms (78%) believe mitigating climate change will raise the cost of capital (see Chart 6). This view was more prevalent among mid-GHG intensive emitting sectors. Nevertheless, a similar share of firms (81%) believe that mitigating climate change will increase overall investment levels

Chart 6
IMPACT ON INVESTMENT – MITIGATING CLIMATE CHANGE WILL:
(percentage of firms)



Sources: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors" and author's calculations.

and nearly all firms agree that it will require investment in more sustainable products and the development of new technologies. Firms recognize the risks of not investing in green initiatives and these include regulatory penalties and fines, higher energy costs, loss of market share, and negative impacts on profitability and competitiveness. Companies reported that clients are increasingly considering a firm's approach to sustainability when making business decisions, impacting a company's reputation and business opportunities. Moreover, a lack of green investments could result in challenges in obtaining loans or favourable terms from financial institutions. Around 62% of firms agree that climate change mitigation will increase amortization rates of assets, with agreement higher among real estate and construction firms.

Main conclusions from the survey

In conclusion, Maltese firms are navigating a complex landscape in their efforts to mitigate climate change. Limited awareness of EU climate-related initiatives restricts their engagement with necessary sustainability practices. Moreover, the prevailing perception among local firms seems to be that climate change will have more significant impact in the long-term rather than in the immediate future. This might lead to delayed mitigation actions. Nevertheless, firms acknowledge that the physical and transition risks from climate change will require added investment and will also affect operations, in particular the organisation of production, and market power.

Survey analysis comes with its limitation which in the case of this study mainly relate to the sampling method used. With quota sampling it is difficult to generalise the findings to the entire population, even though the characteristics of the sample were chosen to resemble those of the target population. Because of this methodology, the sample over-represents manufacturing firms and under-represents accommodation and food services firms. Another limitation relates to data quality due to the complexity and length of the survey. This might have impinged on the quality of some of the responses.

Preparing for the transition in a timely manner requires additional resources to increase awareness as well as the mobilisation of financial resources. The transition can be facilitated by making use of NextGenerationEU (NGEU) funds, notably the Recovery and Resilience Facility (RRF), out of which member states are committed to utilise €648 billion in grants and loans. Around 42% of the RRF envelope has been earmarked for climate-related expenditure, while an additional 26% is related to the digital transition. However, additional financial resources from official and private sources may be necessary once RRF funds are terminated at end-2026.

4. THE BALANCE OF PAYMENTS

During the first quarter of 2024, the current account deficit narrowed compared to the same quarter of the previous year. This was due to higher net receipts from services and, to a lesser extent, a narrowing of the merchandise trade deficit. By contrast, higher net outflows on the primary and secondary income accounts increased.

In the quarter under review, net inflows on the capital account decreased when compared to the corresponding quarter of 2023, while the balance on the financial account turned into net borrowing from net lending.

On a four-quarter moving sum basis, the current account balance registered a surplus equivalent to 1.3% of GDP in the first quarter of 2024. This compares with a current account surplus of 2.2% of GDP in the euro area.

The cyclically-adjusted current account balance is estimated to have recorded a surplus of 4.6% during the quarter under review.

As balance of payments data are undergoing substantial revisions, readers are advised to exercise caution in interpreting changes over time.

The first quarter of 2024 was another positive quarter for the tourism sector. The number of inbound tourists, nights stayed, and tourist expenditure in Malta all increased strongly when compared with a year earlier.

The current account

The current account deficit narrows

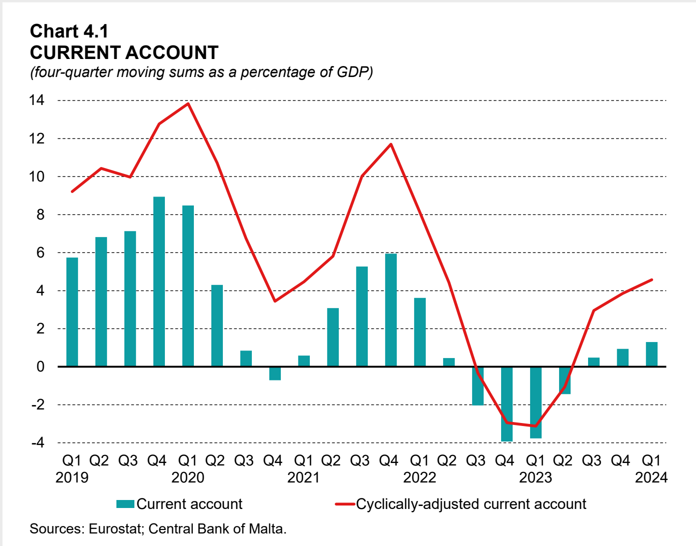
Between January and March 2024, the current account of the balance of payments recorded a deficit of €27.6 million, a €75.3 million improvement from the deficit recorded in the same quarter of 2023 (see Table 4.1). Most of the improvement reflected higher net receipts from services, although a narrowing in the goods deficit also contributed. These offset higher net outflows on the

Table 4.1
BALANCE OF PAYMENTS
EUR millions

	Four-quarter moving sums						
	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2023 Q1	2024 Q1
Current account	**-675.6**	**-265.4**	**91.1**	**182.0**	**257.3**	**-102.9**	**-27.6**
Goods	-3,186.9	-2,996.8	-2,581.7	-2,526.3	-2,492.8	-590.5	-557.0
Services	5,271.5	5,411.5	5,553.7	5,651.4	5,724.3	1,172.2	1,245.2
Primary income	-2,315.9	-2,394.7	-2,609.4	-2,636.4	-2,659.9	-597.4	-620.8
Secondary income	-444.3	-285.4	-271.5	-306.6	-314.3	-87.2	-94.9
Capital account	**359.2**	**348.1**	**368.6**	**296.5**	**229.2**	**144.8**	**77.5**
Financial account(1)	**567.6**	**551.9**	**-235.0**	**424.0**	**273.0**	**63.9**	**-87.0**
Errors and omissions	**884.0**	**469.2**	**-694.7**	**-54.6**	**-213.5**	**22.0**	**-136.9**

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

primary and secondary income accounts.

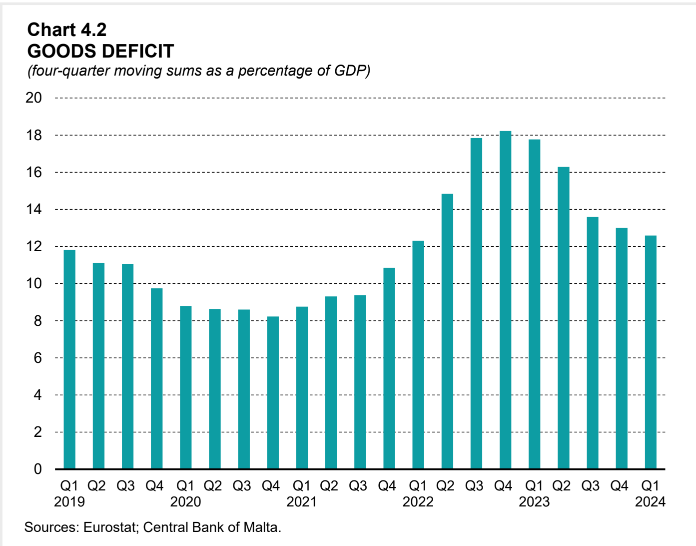


On a four-quarter moving sum basis, the current account turned to a surplus of €257.3 million, from a deficit of €675.6 million a year earlier. This shift reflected a lower merchandise trade deficit, a higher surplus on the services account, as well as smaller net outflows on the secondary income account. These offset higher net outflows on the primary income account. As a result, the current account balance-to-GDP ratio reached 1.3%, from -3.8% a year earlier (see Chart 4.1). Malta's cyclically-adjusted current account surplus is estimated to have stood at 4.6% of GDP in the first quarter of 2024, and thus more positive than the headline measure (see Chart 4.1).[1]

The merchandise trade deficit narrows

In the first quarter of 2024, the merchandise trade deficit stood at €557.0 million, down from €590.5 million in the corresponding period of 2023. This was driven by an increase in exports which offset an increase in imports. The latter mostly reflected a decrease in imports of machinery and fuel.

The visible trade gap also declined when measured on a four-quarter cumulative basis, reaching €2,492.8 million, from €3,186.9 million in the same period a year earlier. This reflected a €693.8 million decline in goods imports, mainly because of the abovementioned decrease in imports of machinery and transport equipment and fuel, and a marginal increase in exports of €0.3 million. As a result, the share of the goods deficit in GDP declined to 12.6% during the first quarter of 2024, from 17.8% a year earlier (see Chart 4.2).

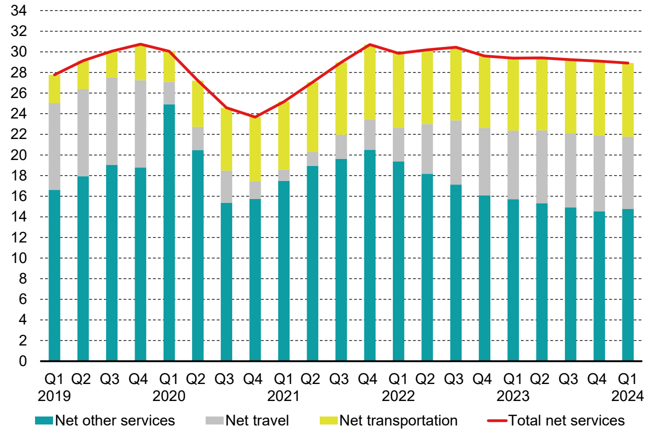


[1] For more information on Malta's cyclically-adjusted current account see Grech, A. G., & Rapa, N., "An evaluation of recent shifts in Malta's current account position", in Grech, A.G., & Zerafa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank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

The surplus on services widens

In the quarter under review, net receipts on the services account amounted to €1,245.2 million, €73.0 million more than in the corresponding period of 2023. Both services exports and imports increased on a year earlier. However, the increase in the former was stronger.

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



Sources: Eurostat; Central Bank of Malta.

Higher net receipts from financial services – part of 'other services' – were a key factor behind the increase in the overall surplus on the services account. However, net receipts related to transport services also contributed, albeit more moderately.

On a four-quarter cumulative basis, the overall surplus from services stood at €5,724.3 million, an increase of €452.9 million over the surplus recorded in the same period last year. The main contributors to this increase were the transport and travel components, although net receipts from 'other services' also rose. These were mainly supported by higher receipts from personal, cultural and recreational services. The share of net services receipts in GDP stood at 28.9%, from 29.4% registered during the same period last year (see Chart 4.3).

Net outflows on the primary income account increase[2]

Between January and March 2024, net outflows on the primary income account stood at €620.8 million, €23.4 million more than in the first quarter of 2023. This was mainly due to higher net payments related to "other investment", and reinvested earnings within the direct investment account, which offset higher net income receipts related to portfolio investment.

In the four-quarter period to March 2024, net outflows on the primary income account increased by €343.9 million, to stand at €2,659.9 million. Transactions relating to primary income continued to be strongly influenced by internationally-oriented firms, which transact predominantly with non-residents. During this period, net outflows on the primary income account amounted to 13.4% of GDP, up from net outflows of 12.9% a year earlier.

Outflows on the secondary income account increase year-on-year[3]

In the first quarter of the year, net outflows on the secondary income account increased by €7.7 million on a year earlier, to reach €94.9 million.

In the four quarters to March 2024, however, these outflows decreased. They stood at €314.3 million, equivalent to 1.6% of GDP, down from 2.5% of GDP a year earlier.

[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.

Tourism activity

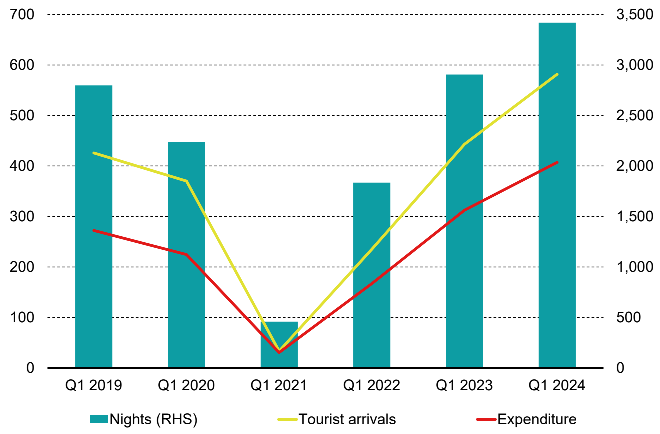
In the period under review, the number of inbound tourists amounted to 581,839, up from 443,062 a year earlier (see Chart 4.4). Visitors from the United Kingdom, Poland, and Italy accounted for almost half of the increase, although arrivals from Germany also increased significantly. In absolute terms, tourists visiting for holiday purposes accounted for nearly all of the annual rise in arrivals.

In the first three months of 2024, tourists spent 3.4 million guest nights in Malta, up from 2.9 million a year earlier. Stays in rented collective accommodation accounted for most of this increase. These were almost a fourth higher than a year earlier.

In the first quarter of 2024, the share of non-residents in collective accommodation establishments stood at 85.2%, up from 82.3% in the first quarter of 2023, and surpassed the share of 84.8% recorded in the first quarter of 2019 (see Chart 4.5).

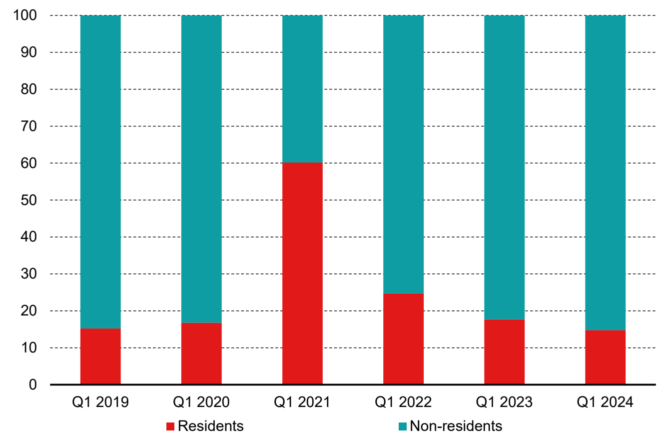
The total occupancy rate in collective accommodation establishments in the first quarter of 2024 rose to 49.1%, from 45.3% a year earlier (see Chart 4.6). All categories, except for the two-star category, reported increases in their occupancy rates. The five-star and three-star categories registered the largest increases – of 7.2 and 4.3 percentage points, respectively. Occupancy rates in collective accommodation stood

Chart 4.4
TOURISM INDICATORS
(tourist arrivals and nights stayed in thousands; expenditure in EUR millions)



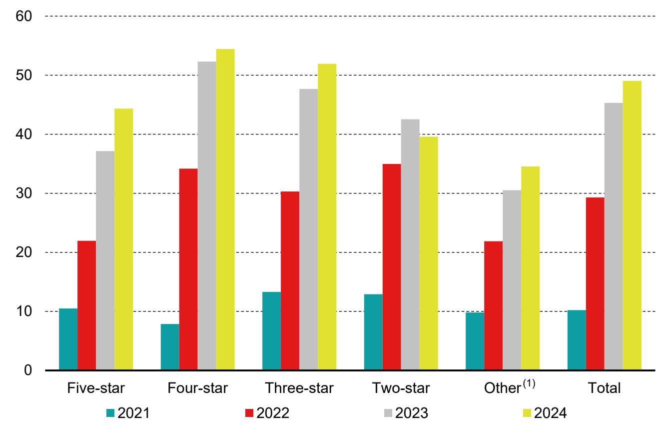
Source: NSO.

Chart 4.5
GUESTS IN COLLECTIVE ACCOMMODATION ESTABLISHMENTS
(per cent)



Source: NSO.

Chart 4.6
AVERAGE OCCUPANCY RATES IN THE FIRST QUARTER
(per cent)



Source: NSO.
(1) Includes guest houses, hostels and holiday complexes.

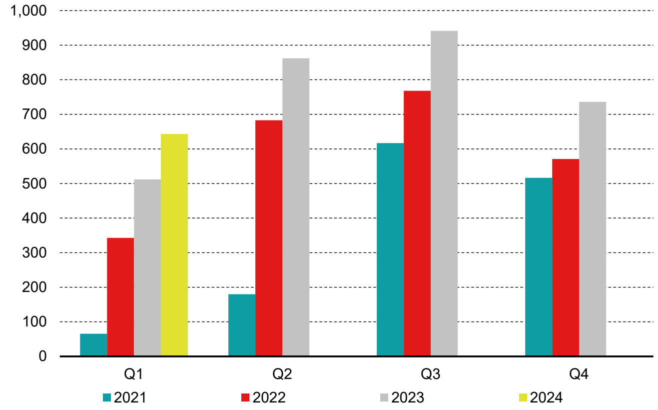
above those recorded in the first quarter of 2019 in all categories, except for the two-star and "other" accommodation.

Tourist expenditure in Malta totalled €407.2 million in the first quarter of 2024, up from €312.4 million a year earlier. All expenditure categories registered gains over this period.

Expenditure per capita decreased to €699.9, from €705.1 in the first quarter of 2023, reflecting a shorter length of stay, which stood at 5.9 nights from 6.6 nights a year earlier. However, expenditure per night rose by 10.7% to €119.1.

According to Malta International Airport (MIA) data, in the first quarter of 2024, average seat capacity stood at 643,408 seats per month, up from 511,915 a year earlier (see Chart 4.7).

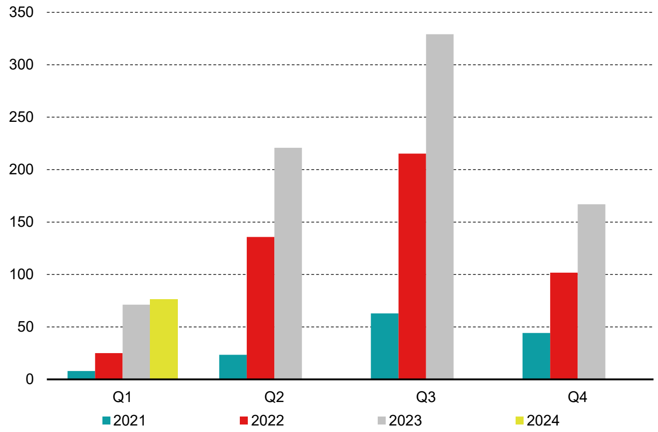
Chart 4.7
AVERAGE MONTHLY SEAT CAPACITY[1]
(thousands)



Source: MIA.
[1] Data include schedule and charter seats.

A total of 19 cruise liners visited Malta in the first quarter of 2024, two less than a year earlier. Despite the decline, foreign passengers reached 76,539 persons, up from 71,274 visitors in the first quarter of 2023 (see Chart 4.8).

Chart 4.8
CRUISE LINER PASSENGERS
(thousands)



Source: NSO.

Visitors from Italy comprised more than a quarter of total cruise passengers, followed by visitors from Spain, France, the United Kingdom and the United States.

The capital account

Net inflows on the capital account stood at €77.5 million in the first quarter of 2024, broadly halving compared to a year earlier (see Table 4.1). When measured on a four-quarter cumulative basis, capital inflows decreased to €229.2 million, from €359.2 million during the 12 months to March 2023. Their share in GDP decreased to 1.2% from 2.0% in the first quarter of 2023.

5. GOVERNMENT FINANCE

In the first quarter of 2024, the general government deficit narrowed substantially when compared to that recorded in the corresponding period of 2023. When measured on a four-quarter moving sum basis, the general government deficit ratio dropped by one percentage point, to reach 3.9% from 4.9% in December 2023. Similarly, the cyclically-adjusted deficit narrowed.

The general government debt-to-GDP ratio rose marginally compared with its rate at the end of 2023. Meanwhile, the net financial worth as a share of GDP improved, though it remained negative.

Quarterly developments

General government deficit narrows substantially in the first quarter

In level terms, the general government registered a deficit of €59.2 million in the first quarter of 2024, a drop of €187.7 million when compared to the deficit registered in the corresponding period of 2023. This was mainly due to a strong increase in government revenue, which offset a rise in government expenditure. The primary balance registered a surplus of €4.0 million in the quarter under review, compared with a deficit of €202.1 million a year earlier.

Tax inflows support revenue growth

In the first quarter of 2024, general government revenue increased by €278.4 million, or 19.7%, when compared with the same quarter of 2023 (see Table 5.1). This was mainly driven by higher

Table 5.1
REVENUE, EXPENDITURE AND DEBT
EUR millions

	2023				2024	Change 2024Q1-2023Q1	
	Q1	Q2	Q3	Q4	Q1	Amount	%
Revenue	**1,410.0**	**1,724.1**	**1,639.3**	**1,711.3**	**1,688.5**	**278.4**	**19.7**
Taxes on production and imports	449.3	462.1	524.4	504.3	520.6	71.3	15.9
Current taxes on income and wealth	496.9	749.7	599.0	585.0	648.5	151.6	30.5
Social contributions	242.6	264.9	263.5	296.7	272.6	30.0	12.4
Capital and current transfers receivable	61.9	52.4	73.1	112.0	48.4	-13.4	-21.7
Other(1)	159.4	195.2	179.3	213.2	198.3	39.0	24.5
Expenditure	**1,657.0**	**1,747.0**	**1,722.2**	**2,309.0**	**1,747.7**	**90.7**	**5.5**
Compensation of employees	480.0	479.8	492.2	496.0	511.0	30.9	6.4
Intermediate consumption	327.9	385.4	338.1	464.3	340.2	12.3	3.7
Social benefits	442.1	399.5	365.1	379.4	495.0	52.9	12.0
Subsidies	138.6	178.9	150.9	276.9	101.3	-37.3	-26.9
Interest	44.9	52.9	51.5	64.6	63.2	18.4	40.9
Other current transfers payable	78.6	49.2	117.9	153.2	77.2	-1.3	-1.7
GFCF	106.4	156.6	149.7	258.9	114.4	8.1	7.6
Capital transfers payable	35.1	38.9	50.6	204.7	41.8	6.7	19.2
Other(2)	3.5	5.8	6.3	10.9	3.5	0.0	
Primary balance	**-202.1**	**30.1**	**-31.3**	**-533.1**	**4.0**	**206.1**	
General government balance	**-247.0**	**-22.9**	**-82.8**	**-597.7**	**-59.2**	**187.7**	
General government debt	**9,250.0**	**9,160.3**	**9,408.7**	**9,767.8**	**9,976.2**		

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.

tax revenue, particularly inflows from current taxes on income and wealth, which increased by €151.6 million. This is due to higher income tax inflows from both households and firms. Moreover, receipts from taxes on production and imports rose by €71.3 million, mainly reflecting higher inflows from VAT. Inflows from social contributions rose by €30.0 million, reflecting favourable labour market conditions. Overall, non-tax revenue also increased when compared to a year earlier. Higher income from sales, which are part of the 'other' component of government revenue, offset a decline in revenue from current and capital transfers.

Expenditure growth underpinned by current spending

Total government expenditure increased by €90.7 million, or 5.5%, when compared with the first quarter of 2023. This increase mostly reflects higher current expenditure, mainly a significant rise in social benefits and compensation of employees. Outlays on the former increased by €52.9 million, largely on the back of higher spending on retirement pensions and children's allowances. Spending on compensation of employees increased by €30.9 million, mainly due to higher outlays in the public administration, health and education sectors. Interest payments increased by €18.4 million in line with higher debt levels and the financing cost of debt., Spending on intermediate consumption rose by €12.3 million, stemming from higher outlays in the residential care, public administration, and education sectors.

Meanwhile, outlays on subsidies declined by €37.3 million, reflecting lower spending on support measures to mitigate energy price pressures. Outlays on current transfers payable declined by €1.3 million.

Capital spending also increased during the period under review. Government investment increased by €8.1 million, stemming from a rise in domestically-financed infrastructural projects on roads. Furthermore, capital transfers increased by €6.7 million.

Debt increases

In March 2024, the stock of general government debt amounted to €9,976.2 million, €208.4 million higher than the level registered at end-December 2023. This reflects an increase in long-term debt securities outstanding (composed of MGS), which offset a decline in short-term debt securities outstanding (composed of Treasury bills). The former rose by €346.5 million, with their share in total debt increasing by 1.8 percentage points to 81.8%. Holdings of short-term debt securities declined by €118.7 million, with their share in total debt decreasing by 1.3 percentage points to 4.4%.

The value of loans outstanding increased by €2.4 million, due to an increase in long-term loans. The share of loans outstanding in total debt stood at 9.5%, down from 9.6% in December.

Headline and cyclically-adjusted developments

Headline deficit ratio declines while debt ratio increases slightly

When measured on a four-quarter moving sum basis, the general government deficit-to-GDP ratio narrowed by 1.0 percentage point, from 4.9% in the fourth quarter of 2023 to 3.9% in the quarter under review (see Chart 5.1). This was mostly driven by a 0.8 percentage point rise in the revenue-to-GDP ratio, which reached 34.2%, due to a rise in the share of current revenue in GDP. This was amplified by a 0.3 percentage point fall in the current expenditure-to-GDP ratio, which lowered the overall expenditure ratio to 38.0%.

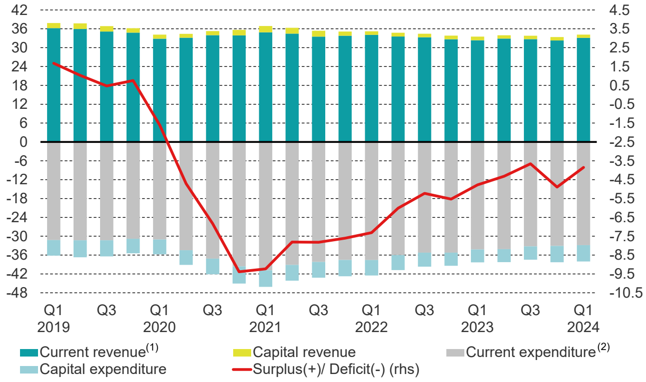
Between December 2023 and March 2024, the debt-to-GDP ratio increased by 0.1 percentage point, from 50.3% to 50.4%. Apart from the financing of the deficit, the increase in debt reflects transactions in net trade receivables and other financial assets. However, the impact of these transactions on the debt ratio was marginal (see Chart 5.2).

Net financial worth improves

The market value of financial assets held by the general government declined to €5,474.3 million by March 2024, €12.8 million less than the level as at end-December 2023. This was due to a decline in the value of currency and deposits, following a drawdown of deposits held with the Central Bank of Malta, and a decline in the value of other accounts receivables. Together, these outweighed a rise in the value of shares and other equity, which partly reflects the acquisition of equity by Government into KM Malta Airlines.[1] Consequently, the share of financial assets in GDP dropped to 27.6% from 28.3% in the previous quarter (see Chart 5.3).

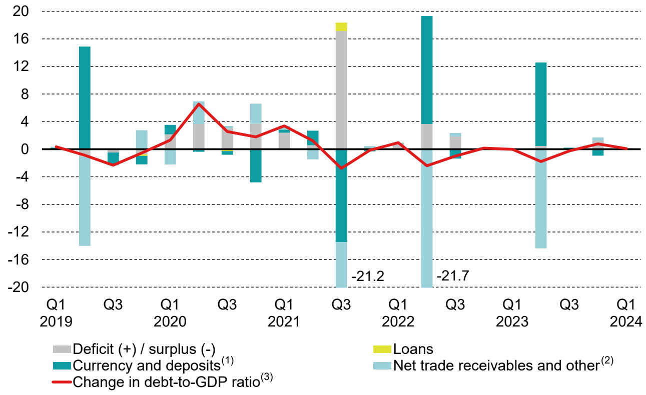
The market value of financial liabilities declined by €35.6 million, to stand at €12,059.1 million. This is mainly due to a decline in the value of other accounts payable. The decline was partly muted by an increase in the value of debt securities. Consequently, the share of financial liabilities in GDP fell by 1.4 percentage points, to stand at 60.9%.

Chart 5.1
GENERAL GOVERNMENT REVENUE AND EXPENDITURE
(four-quarter moving sums; % of GDP)



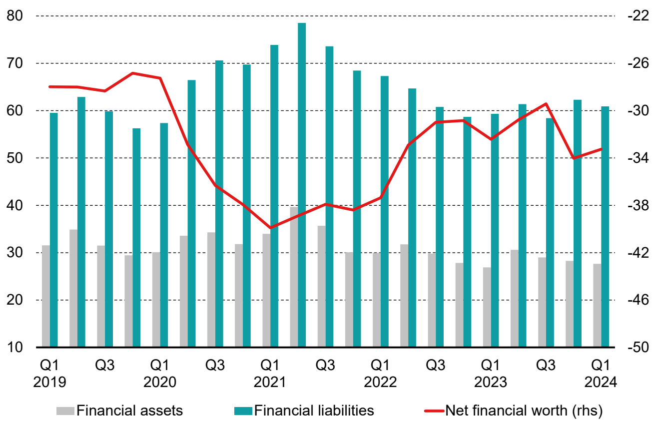
Sources: NSO; Central Bank of Malta.
(1) The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.
(2) The term 'current expenditure' mainly represents spending on wages, social benefits and operational and maintenance expenses. 'Capital expenditure' mainly represents spending on investment and capital transfers.

Chart 5.2
CONTRIBUTION TO CHANGE IN DEBT
(percentage point change from previous quarter)



Source: Central Bank of Malta.
(1) Composed mainly of transactions in deposits held with the Central Bank of Malta.
(2) Also includes transactions related to shares and other equity and adjustments for valuation and volume effects.
(3) GDP data are four-quarter moving sums.

Chart 5.3
GENERAL GOVERNMENT NET FINANCIAL WORTH
(% of GDP) (1)



Sources: EUROSTAT; NSO.
(1) GDP data are four-quarter moving sums.

[1] In the 2024 Budget Speech, the Minister of Finance announced that Government will invest €215 million in capitalisation of the airline.

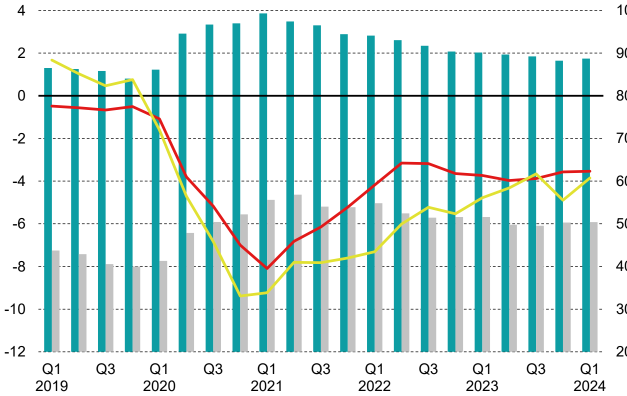
The resulting net financial worth of general government stood at -€6,584.8 million, an improvement of €22.9 million compared to the previous quarter. The net financial worth of general government as a share of GDP improved by 0.8 percentage point, standing at -33.3% by end-March.

The euro area average net financial value as a share in GDP improved by 0.4 percentage point compared to December, to -57.3.% of GDP. Thus, the net worth position of the Maltese general government remained more favourable than the euro area average.

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

During the quarter under review, the euro area general government deficit stood at 3.5% of GDP on a four-quarter moving sum basis, down from a deficit of 3.6% of GDP registered at end-December (see Chart 5.4). Over the same period, the euro area debt ratio rose to 88.7% of GDP from 88.2% in the previous quarter.

Chart 5.4
GENERAL GOVERNMENT BALANCE AND DEBT
(four-quarter moving sums; % of GDP)



Sources: NSO; EUROSTAT.

The Maltese government deficit ratio improved at a faster rate than the euro area average but remained above it. At the same time, Malta's debt-to-GDP ratio remained well below the euro area average.

Cyclically-adjusted deficit narrows[2]

On a four-quarter moving sum basis, the cyclically-adjusted deficit narrowed by 1.2 percentage points compared to December, to stand at 4.5% of GDP in the quarter under review (see Chart 5.5). This is broadly in line with the 1.0 percentage point narrowing in the headline deficit ratio over the same period.

Chart 5.5
GENERAL GOVERNMENT BALANCE
(four-quarter moving sums; % of GDP)

Sources: NSO; Central Bank of Malta estimates.

When compared with December, the share of cyclically-adjusted revenue in GDP increased by 0.7 percentage point (see Table 5.2). This was

[2] 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.

Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS
Percentage points of GDP

	2023				2024
	Q1	Q2	Q3	Q4	Q1
Revenue	**-0.4**	**0.3**	**-0.1**	**-0.4**	**0.7**
Current taxes on income and wealth	-0.2	0.6	-0.2	-0.4	0.6
Taxes on production and imports	0.0	-0.2	-0.1	0.0	0.2
Social contributions	-0.1	0.0	-0.1	0.0	0.0
Other(1)	-0.1	-0.1	0.2	-0.1	0.0
Expenditure	**-1.3**	**-0.4**	**-0.8**	**0.6**	**-0.4**
Compensation of employees	-0.2	-0.3	-0.1	-0.1	-0.1
Intermediate consumption	-0.2	0.0	0.0	0.1	-0.1
Social benefits	-0.2	0.0	-0.1	-0.3	0.1
Interest payments	0.0	0.0	0.0	0.1	0.1
GFCF	-0.1	0.0	0.0	0.1	0.0
Other(2)	-0.7	-0.1	-0.6	0.7	-0.3
Primary balance	**0.9**	**0.8**	**0.7**	**-1.0**	**1.2**
General government balance	**0.9**	**0.7**	**0.7**	**-1.0**	**1.2**

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.

due to an increase in the share of current taxes on income and wealth, and to a lesser extent, a rise in the share of taxes on production and imports. The share of other forms of revenue remained stable over the quarter.

Meanwhile, the share of cyclically-adjusted expenditure fell by 0.4 percentage point. This was mainly due to the decrease in the ratio of ‘other’ expenditure, which in turn is driven by the aforementioned decrease in subsidies. Furthermore, the share of compensation of employees and intermediate consumption both declined by 0.1 percentage point. These offset an increase in the ratios of social benefits and interest payments, which both increased by 0.1 percentage point.

6. MONETARY AND FINANCIAL DEVELOPMENTS

According to the Bank's FCI, in the first quarter of 2024, financing conditions remained loose from a historical perspective.

In March, Maltese residents' deposits with MFIs in Malta, increased from their year-ago level, reflecting higher balances belonging to both households and NFCs.[1] *The annual rate of change was similar to December's. Credit to Maltese residents expanded at a faster pace, as credit to general government returned to a growth path. Credit to other residents remained strong but lost some momentum.*

The weighted average interest rate on outstanding deposits stood above its year-ago level, while the rate on loans increased compared to a year earlier, although at a more contained pace. Thus, the spread between the two rates narrowed.

In March, the primary market yield on Treasury bills declined from that prevailing three months earlier. By contrast, secondary market yields on five and ten-year MGS rose. As the increase in the domestic ten-year yield was more pronounced than that in the corresponding euro area benchmark, the spread between the two widened. Domestic share prices fell between December and March but were higher compared with a year earlier.

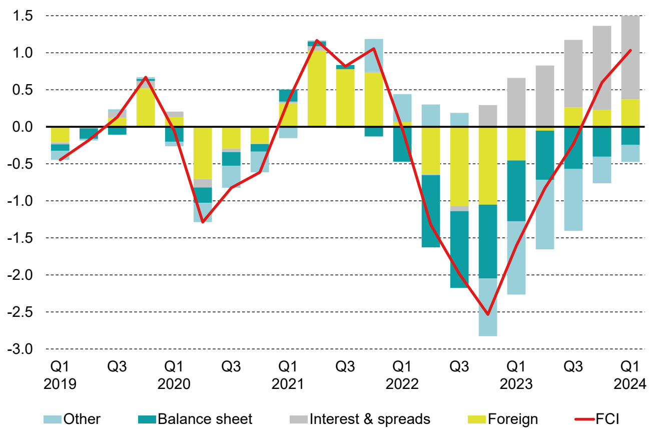
Monetary and financial conditions

Financial conditions continue to loosen[2]

According to the Bank's FCI, in the first quarter of 2024, financial conditions remained loose from a historical perspective, and became more accommodative compared to the previous quarter (see Chart 6.1). The recent loosening in financial conditions was driven mainly by domestic factors, though foreign factors also contributed.

The loosening effect in domestic factors mainly reflected improvements in the 'balance sheet' and 'other' components. The 'balance sheet' component was affected by smaller negative contributions from real deposits and real credit. Meanwhile, the 'other' component was affected by smaller negative contributions from domestic equity prices and issues of NFC securities. The loosening effect in the latter component reflected a sharp decline in uncertainty during the first quarter of 2024.

Chart 6.1
CONTRIBUTIONS TO THE FCI
(contributions to the index)



Source: Central Bank of Malta estimates.

[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.

The loosening effect of the 'interest and spreads' component remained unchanged from the previous quarter. During this quarter, a larger positive contribution from interest rates on deposits and a more negative spread between the lending rate and the policy rate were counterbalanced by a lower contribution from the sovereign spread.

Financial conditions were also loose compared to the first quarter of 2023. This reflects developments in both domestic and foreign factors, with domestic issues contributing the most.

The loosening effect in the domestic factors were notably due to an increase in issues of NFC securities (part of the 'other' component), and a shift to a negative spread between the MFI lending rate and the policy rate (part of the 'interest and spread' component).

The loosening effect in foreign factors reflect lower uncertainty and a smaller negative contribution from equity prices.

Maltese residents' deposits continue to increase

Total deposits held by Maltese residents with MFIs in Malta increased by 1.7% in the year to March, maintaining the same rate of growth observed in December (see Table 6.1). The increase reflects higher balances belonging to both households and NFCs, which offset lower balances

Table 6.1
DEPOSITS OF MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2024	2023				2024
	Mar.	Mar.	June	Sep.	Dec.	Mar.
Overnight deposits	**20,140**	**3.2**	**1.1**	**-3.6**	**-0.2**	**-0.7**
of which						
Households	14,308	7.8	5.0	0.0	1.8	1.2
NFCs	3,322	-3.0	-5.2	-6.2	-5.2	-1.7
Deposits redeemable at notice of up to three months	**86**	**-21.0**	**-10.5**	**9.4**	**-26.0**	**-23.5**
of which						
Households	0	-1.4	-0.2	-5.5	-98.6	-99.0
NFCs	67	-35.9	-12.0	28.9	30.4	43.2
Deposits with an agreed maturity of up to two years	**2,545**	**-11.4**	**0.3**	**12.1**	**25.7**	**28.9**
of which						
Households	1,984	-15.4	3.9	22.9	34.0	36.9
NFCs	293	19.0	10.6	-12.3	23.1	39.3
Deposits outside M3[(1)]	**994**	**-12.4**	**-9.2**	**-2.8**	**0.8**	**0.8**
of which						
Households	884	-7.3	-5.4	-3.1	-4.5	-5.5
NFCs	35	-34.9	-20.3	-6.4	-2.8	3.8
Total residents deposits[(2)]	**23,765**	**0.9**	**0.5**	**-2.2**	**1.7**	**1.7**
of which						
Households	17,177	4.3	4.2	1.8	3.8	3.7
NFCs	3,717	-3.1	-4.6	-6.2	-3.4	1.3

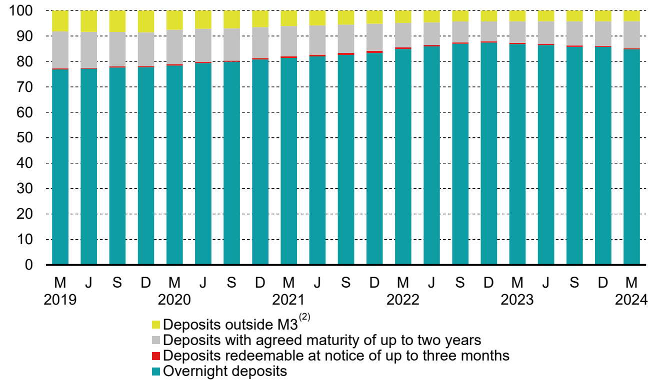
Source: Central Bank of Malta.

[(1)] Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

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

belonging to insurance companies and other financial intermediaries.

Chart 6.2
DISTRIBUTION OF TOTAL RESIDENT DEPOSITS(1)
(percentage points)



Source: Central Bank of Malta.
(1) Deposits exclude those belonging to central government.
(2) Deposits outside M3 include deposits redeemable at notice of more than three months and deposits with an agreed maturity of over two years.

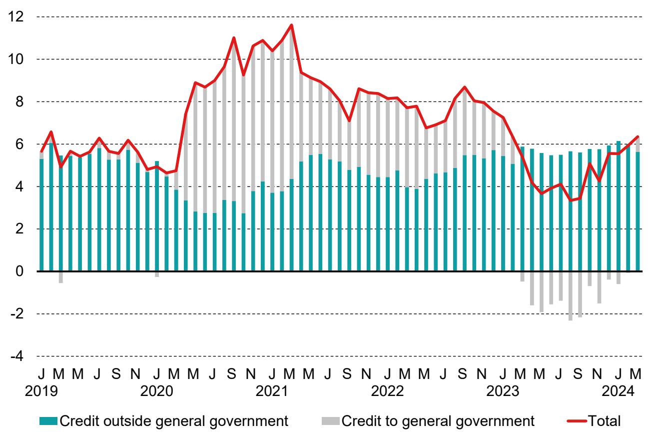
During the 12 months to March, overnight deposits, which are the most liquid component, fell by 0.7%, following a 0.2% year-on-year decline recorded three months earlier. This latest contraction reflected a decline in the balances held by financial intermediaries and NFCs, which offset increases in deposits belonging to households. The share of overnight deposits in total deposits decreased to 84.7% in March, from 85.8% three months earlier (see Chart 6.2).

Deposits with an agreed maturity of up to two years – the second largest component – registered robust growth of 28.9% in the year to March, compared with 25.7% in December. As a result, their share in overall deposits reached a two-year high of 10.7%. This outcome possibly reflects the more attractive terms on fixed deposit accounts being offered by certain credit institutions in response to the recent monetary policy tightening. The latest increase was driven by higher balances belonging to NFCs, with strong increases also recorded in balances to households.

Deposits with an agreed maturity of up to three months declined by 23.5% year-on-year, following a decrease of 26.0% in the year to December. Despite this decline, their share of total deposits remained unchanged at 0.4% since December.

Meanwhile, deposits classified outside M3 – which are mainly composed of deposits with an agreed maturity of over two years – maintained the same 0.8% annual growth rate recorded in December. Their share in overall resident deposits remained unchanged from December, standing at 4.2%.

Chart 6.3
CONTRIBUTIONS TO GROWTH IN CREDIT TO MALTESE RESIDENTS
(percentage points; annual percentage change)



Source: Central Bank of Malta.

Credit to residents grows at a faster pace

Credit to Maltese residents increased by 6.4% in the year to March, exceeding the 5.6% recorded in December. Credit to general government increased after declines in previous periods, while growth in credit outside general government slowed down (see Table 6.2 and Chart 6.3).

Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
	2023	2023				2024
	Dec.	Mar.	June	Sep.	Dec	Mar.
Credit to general government	**4,844**	**-1.7**	**-5.8**	**-8.1**	**-1.5**	**2.8**
Credit to residents outside general government	**14,838**	**8.1**	**7.5**	**7.7**	**8.0**	**7.6**
Securities and equity	307	-2.2	-2.6	-3.3	-4.6	-4.3
Loans	14,532	8.4	7.7	7.9	8.4	7.8
of which:						
Loans to households	8,557	9.4	7.9	7.3	8.2	9.0
Mortgages	7,906	9.4	7.9	7.2	7.8	8.7
Consumer credit and other lending	652	9.4	7.2	8.5	13.3	12.4
Loans to NFCs[1]	4,935	8.6	8.1	9.1	8.8	5.4
Total credit to residents	**19,682**	**5.4**	**3.9**	**3.4**	**5.6**	**6.4**

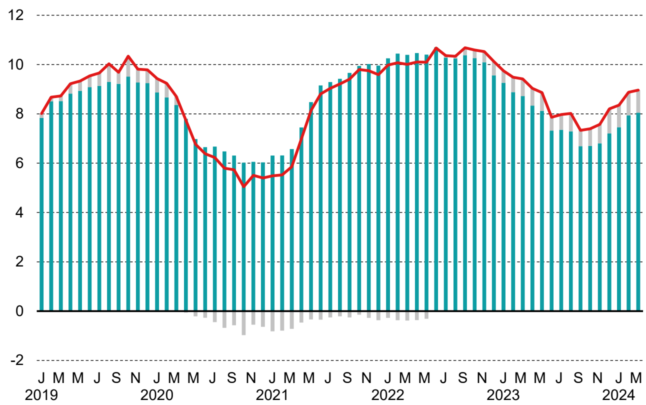
Source: Central Bank of Malta.
[1] NFCs include sole proprietors and non-profit institutions serving households (NPISH).

Credit to general government grew by 2.8% in the year to March, following a contraction of 1.5% over the year to December. The latest increase was driven by an increase in MFI holdings of Government stocks, which grew by 11.5% over the 12 months to March. By contrast, MFI holdings of Treasury bills declined in the year to March.

The annual growth of credit to residents outside general government remained strong when compared with the euro area, but moderated to 7.6%, from 8.0% three months prior, reflecting slower growth in loans to NFCs. Meanwhile, MFI holdings of securities issued by the private sector decreased at a slower rate of 4.3%, following a decline of 4.6% in December.

Growth in loans to households increased to 9.0% in the year to March, following an increase of 8.2% in the year to December. Mortgage lending increased at a faster annual rate of 8.7% in March, from 7.8% in December. Consumer credit also increased at a faster pace. By contrast, other lending contracted at a steeper pace.

Chart 6.4
CONTRIBUTIONS TO GROWTH IN LOANS TO HOUSEHOLDS
(percentage points; annual percentage change)

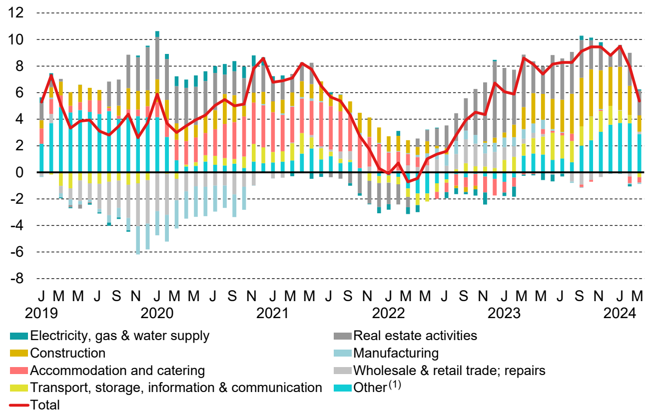


Source: Central Bank of Malta.

Meanwhile, loans to NFCs rose at an annual rate of 5.4%, lower than the 8.8% increase recorded three months earlier (see Chart 6.4). The lower growth rate reflected weaker growth in loans to both private and public NFCs.

Sectoral data shows that the lower growth in loans to NFCs in the year to March, compared to December was largely driven by a strong decrease in outstanding loans to the sector comprising transport, storage, information and communication activities. Loans to the accommodation and food services, as well as the manufacturing sector also decreased at a faster pace compared to December. Meanwhile, loans to the construction sector and the professional, scientific and technical activities sector (which is classified under the 'other' component in Chart 6.5) rose at a slower pace.

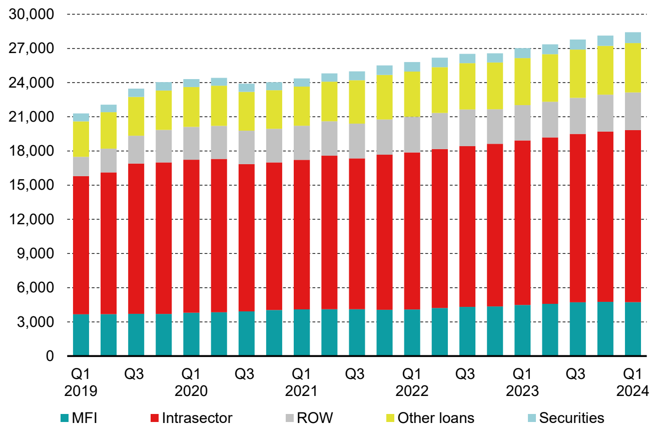
Chart 6.5
LOANS TO NFCs BY SECTOR
(percentage points; annual percentage change)



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

On the other hand, banks experienced a pick-up in growth of loans to the real estate sector and trade and repair sector. Lending to the energy sector also gained momentum.

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



Source: Financial Accounts.

Financial accounts data show that the share of bank lending in total NFC debt declined compared to December, but remained in line with the share recorded a year earlier (see Chart 6.6). As at March 2024, the share of bank loans in total NFC debt declined to 16.6%, from 16.9% in the fourth quarter of 2023.

The share of intra-sectoral lending in total NFC debt stood at 53.1%, unchanged from December. This was 0.3 percentage point lower than the share registered a year earlier. Nonetheless, this component continued to account for most of NFC's external financing.

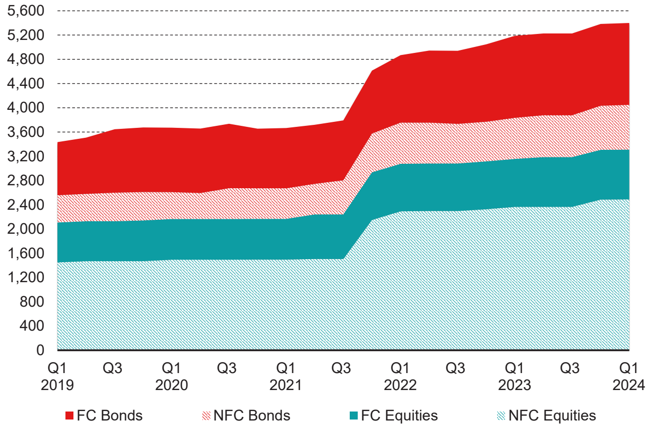
At 11.6%, the share of loans from non-residents was broadly in line with that recorded three months earlier, as well as a year before. Meanwhile, the share of 'other loans' remained unchanged for the third consecutive quarter, standing at 15.2% in March. It stood slightly below the 15.3% recorded in the first quarter of 2023. This component largely reflects loans from financial institutions other than MFIs and households.

The share of securities increased to 3.4%, up from 3.2% recorded a year earlier.

Stock of securities of NFCs and financial corporations (FCs) listed on Malta Stock Exchange (MSE) increases

By March 2024, around €2,088.4 million in outstanding corporate debt securities were listed on the MSE, 2.8% higher than the amount listed a year earlier (see Chart 6.7).[3] 64.6% of this amount was issued by financial entities other than credit institutions, whilst the rest by NFCs.

Chart 6.7
OUTSTANDING SECURITIES OF NFCs AND FCs LISTED ON MSE
(EUR millions outstanding as at end-period)



Sources: MSE; Central Bank of Malta estimates.

Meanwhile, the outstanding amount of equity listed on the MSE increased by 4.9% in annual terms, to reach €3,310.6 million. Around three-fourths of this volume was issued by NFCs, with FCs playing a secondary role. The increase over the year to March, was mostly driven by NFCs that operate within the real estate and communications sectors. The total amount of outstanding listed equity as at March 2024 exceeded that of bonds by 58.5%.[4]

Spread between deposit and lending rate narrows

Interest rates on resident's deposits with MFI increased in March compared to their year-ago level, as the average deposit rate to households and NFCs on outstanding balances increased by 16 basis points, reaching 0.35% (see Table 6.3). This was largely driven by higher rates on time deposits belonging to NFCs although remuneration on time deposits belonging to households and their savings deposits redeemable at notice up to three months also increased.

At the same time, the weighted average lending rate paid by households and NFCs on outstanding loans increased by 10 basis points, reaching 3.51%. This increase was driven by higher rates paid by NFCs, which further diverted from the rates paid by households, reflecting the differences in credit risk. Rates charged to households declined by 3 basis points, at 2.82%. Mortgage rates edged up 3 basis points to 2.57%, while rates on consumer credit and other lending decreased by 50 basis points to 4.14%.

The spread between the weighted average lending rate and the deposit rate for the first quarter closed at 316 basis points. This was below the previous quarter's spread, as well as the spread prevailing a year earlier.

During the year to March, the deposit rates offered on new balances held by households and NFCs in Malta both increased. On the other hand, lending rates to these sectors declined. By

[3] 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. MSE data on corporates presenated in Chart 6.7 are based on the official MSE list and thus exclude securities listed through Prospects. Chart 6.7 includes data on NFCs and FCs other than MFIs.

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

Table 6.3
INTEREST RATES ON DEPOSITS AND LOANS
Percentages per annum to residents of Malta; weighted average rates as at end of period

	2021	2022	2023		2023		2024
	Mar.	Mar.	Mar.	June	Sep.	Dec.	Mar.
Total deposits(1)	**0.20**	**0.16**	**0.19**	**0.24**	**0.27**	**0.31**	**0.35**
of which							
Overnight deposits							
Households	0.02	0.02	0.03	0.04	0.05	0.04	0.05
NFCs	0.01	0.03	0.07	0.07	0.07	0.10	0.10
Savings deposits redeemable at notice							
Households	0.45	0.38	0.16	0.15	0.15	0.31	0.31
NFCs	0.14	0.08	0.06	0.72	0.45	0.47	0.74
Time deposits (less than two years)							
Households	0.57	0.53	0.95	1.32	1.58	1.79	2.05
NFCs	0.62	0.44	0.95	1.15	1.58	1.85	2.28
Time deposits (more than two years)							
Households	1.80	1.78	1.73	1.76	1.77	1.79	1.81
NFCs	1.41	1.11	1.49	1.26	1.38	3.06	2.00
Total loans(1)	**3.32**	**3.19**	**3.41**	**3.59**	**3.61**	**3.58**	**3.51**
of which							
Households and NPISH	3.15	2.97	2.85	2.90	2.87	2.85	2.82
NFCs	3.60	3.59	4.46	4.87	4.98	4.95	4.83
Spread(2)	**3.12**	**3.03**	**3.22**	**3.35**	**3.34**	**3.28**	**3.16**
ECB MROs rate	0.00	0.00	3.50	4.00	4.50	4.50	4.50

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.

March, the weighted average deposit rate for households and NFCs reached 2.88%, while the lending rate to these two sectors was 3.42%.

When compared to the fourth quarter of 2023, interest rates on outstanding deposits with MFI increased for both households and NFCs. These rose by 5 and 7 basis points, respectively, to 0.37% and 0.27%. Most of these increases were driven by the remuneration on time deposits. Over this period, rates on outstanding loans to NFCs decreased by 12 basis points to 4.83%, while those on loans to households decreased by 3 basis points, to 2.82%.

In March, the weighted average deposit rate offered on new balances held by households and NFCs in Malta increased by 47 basis points, compared to December. Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs increased by 33 basis points.

Liquidity support measures

By the end of March 2024, 524 facilities were approved and still outstanding under the Malta Development Bank's (MDB) COVID-19 Guarantee Scheme (CGS). These covered total sanctioned lending of €380.3 million, down from €410.2 million, covered by 542 facilities in December.[5]

[5] The MDB CGS provided guarantees to commercial banks with the aim of enhancing access to new working capital loans for businesses. The scheme received applications until 30 June 2022.

By end-March, the outstanding value of disbursed loans stood at €195.9 million, down from €228.8 million at end-December 2023. Almost all these loans will mature within the next four years.

The sector comprising wholesale and retail activities had the largest number of outstanding facilities benefitting from the scheme, followed by the sector comprising accommodation and food service activities. The latter sector also had the highest value of sanctioned loans in value terms.

In 2022, the MDB launched additional support measures in response to the war in Ukraine and high inflation. These schemes were closed for new borrowers in December 2023. Three facilities had been approved under the Subsidised Loans Scheme (SLS), for a total value of €14.2 million.[6] The outstanding level of disbursements in terms of this scheme as at March 2024 stood at €0.7 million. These facilities are expected to be fully repaid by the second quarter of 2024. Moreover, a total of €24.5 million was approved and disbursed under the Liquidity Support Guarantee Scheme (LSGS).[7]

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

According to the April BLS, in the first quarter of 2024, all participating banks reported unchanged credit standards and terms and conditions for lending to NFCs and households in Malta. Banks also expected them to remain unchanged in the second quarter of 2024.

As regards the demand for credit by NFCs, the majority of respondent banks claimed that it had remained unchanged during the quarter under review. Moreover, most surveyed banks did not anticipate changes in demand in the second quarter of 2024.

Demand for loans for house purchases, consumer credit, and other lending was assessed to have remained unchanged by all surveyed banks. For the second quarter of 2024, all banks were expecting stable demand for these types of credit.

The April BLS also posed ad hoc questions on changes in banks' access to wholesale and retail funding, and in their risk transfer capacity as a result of the prevailing situation in financial markets. No impacts were reported as regards access to interbank unsecured money markets, debt securities, securitisation, and the ability to transfer risks off balance sheet in the preceding three months. However, some isolated tightening effect was reported in terms of access to retail deposit funding. This assessment was also reflected in expectations for the coming quarter.

Respondent banks were also asked whether the ECB's monetary asset portfolio led to a change in their assets, or affected their cost of funds and balance sheet constraints. All surveyed banks reported no changes and this scenario was expected to prevail also in the six months ahead. With regards to the effects on profitability, the latest results indicate some isolated positive effects on net interest income. Moreover, all surveyed banks reported no changes in their capital position and expected no changes in the coming six months.

6 The SLS provided temporary urgent liquidity support, backed by government guarantees, to importers and wholesalers of grains and animal feed, thereby ensuring the security of supply of such products.

7 This LSGS consisted of two measures: LSGS-A provides bank financing support to all undertakings affected by the extraordinary circumstances caused by the war in Ukraine, while LSGS-B was specific to fuel and oil importers. A total portfolio of €100 million and €50 million in working capital loans were available under LSGS-A and LSGS-B, respectively. Government guarantees cover 90% of each working capital loan under LSGS-A and 80% under LSGS-B.

Participating banks reported no changes in credit standards and terms and conditions, as a result of the ECB's monetary policy portfolio. Banks also assessed that there was no impact on their lending volumes. Moreoever, for the following six months, banks expected no impact.

Respondent banks were asked to gauge the impact of the Eurosystems's third series of TLTROs. All respondents reported no impact on their bank's financial situation, lending policy and lending volumes. This also applies for the six months ahead.

Finally, participating banks were asked whether the ECB key interest rates decisions (both those already taken and those expected) led to a change in their interest and non-interest income. In this regard, while non-interest income was assessed to have been unaffected, mixed responses were collected for interest income. This assessment was expected to prevail also in the six months ahead.

The money market

During the first quarter of 2024, the Government issued €310.7 million in Treasury bills (before redemptions), €258.8 million less than the amount issued in the fourth quarter of 2023.

In the domestic primary market, the yield on three-month Treasury bills fell to 2.92% by the end of March, from 3.58% at end-2023.

The capital market

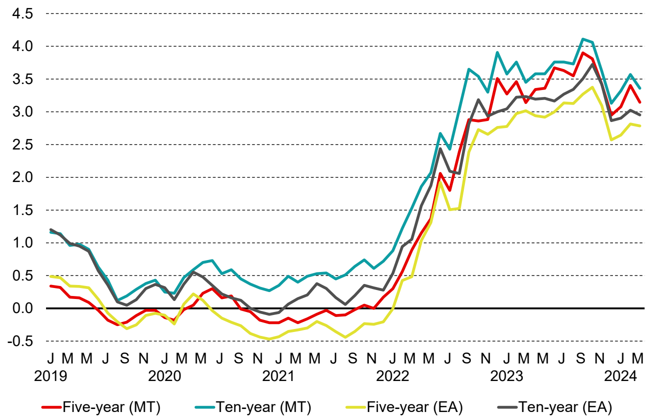
During the first quarter of 2024, the Government issued two new MGS with a total value of €399.1 million. Three private sector institutions launched new bond issues on the MSE. Camilleri Finance plc and Phoenicia Finance Company plc issued unsecured bonds worth €15.0 million and €50.0 million, respectively. Meanwhile, Agora Estates plc issued €12.0 million in secured bonds.

By the end of March, 19 firms had bonds that were listed on the MSE through Prospects, two less compared with end-December 2023.[8] There was also one company which had shares issued through Prospects.

In the secondary market, turnover in government bonds declined to €27.7 million, from €47.4 million in the fourth quarter of 2023. Meanwhile, turnover in corporate bonds increased to €24.5 million, from €21.7 million, previously.

The yield on five-year Government bonds rose to 3.15% at the end of March, from 2.95% three months earlier (see Chart 6.8). The yield on ten-year bonds also increased, reaching 3.36% from 3.13% in December. Meanwhile,

Chart 6.8
GOVERNMENT BOND YIELDS
(percentages per annum; end of month)



Sources: Central Bank of Malta; ECB.

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

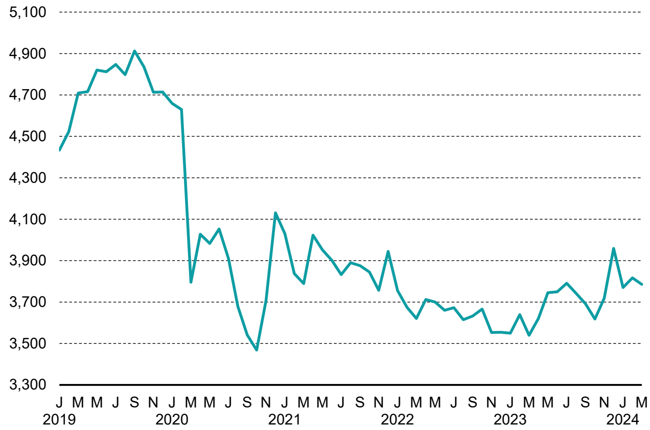
the euro area benchmark yield on five-year bonds rose to 2.79% from 2.57%, and that on ten-year bonds increased to 2.95% from 2.87%. As the rise in the domestic ten-year yield was more pronounced than that in the euro area benchmark, the spread between the two widened to 41 basis points from 26 basis points in December.

MSE Share Index declines during the quarter

After rising in the preceding quarter, share prices in Malta fell during the first quarter of 2024. The MSE Equity Price Index ended the quarter 4.4% below its level at end-December but was 6.9% higher than the reading a year earlier (see Chart 6.9). The MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, was 3.5% lower than its level at end-December.

Equity turnover fell to €15.8 million during the first quarter of 2024, from €25.0 million in the previous quarter.

Chart 6.9
MSE EQUITY PRICE INDEX
(end of month)



Source: MSE.

BOX 4: LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS FROM MAINTENANCE PERIOD 1 TO MAINTENANCE PERIOD 8 OF 2023[1,2]

Introduction

This box describes the liquidity conditions in the Maltese banking system, and the monetary policy operations conducted by the Central Bank of Malta (the Bank), as part of the Eurosystem's single monetary policy framework during the eight maintenance periods (MPs), starting from 8 February 2023 and ending on 30 January 2024.

Until the end of February 2023, the Eurosystem continued to reinvest, in full, the principal payments from maturing securities purchased under the asset purchase programme (APP). Thereafter, the APP portfolio declined at a measured and predictable pace, as the Eurosystem did not reinvest all the principal payments from maturing securities. The decline amounted to €15 billion per month on average until the end of June 2023, with reinvestments under the APP discontinued as of July 2023. The Bank only participated in the Public Sector Purchase Programme (PSPP) component of the APP.

During the MPs under consideration, the Eurosystem continued with the reinvestment phase of the PEPP that was introduced on 18 March 2020, in response to the COVID-19 pandemic.[3] The PEPP comprises the same purchasing components of the APP, though with greater flexibility across asset classes and jurisdictions. Similar to the APP, the Bank only purchases public sector debt securities under the PEPP.

In line with the Governing Council's strong commitment to its price stability mandate, the ECB's key interest rates were raised six times during the review period, to ensure that inflation returns to its 2% target over the medium term. Higher interest rates, over time, reduce inflation by dampening demand, and act as guard against the risk of a persistent upward shift in inflation expectations. The total increase in policy rates amounted to 200 basis points during the period. The first increase of 50 basis points was effective as from 8 February 2023, followed by another 50 basis points increase as from 22 March. This was followed by four consecutive rate hikes of 25 basis points each effective as from 10 May, 21 June, 2 August, and 20 September, respectively of the same year. Accordingly at the end of the review period, the rates on the overnight deposit facility, the MROs, and the marginal lending facility stood at 4,00%, 4.50% and 4.75%, respectively (see Chart 1).

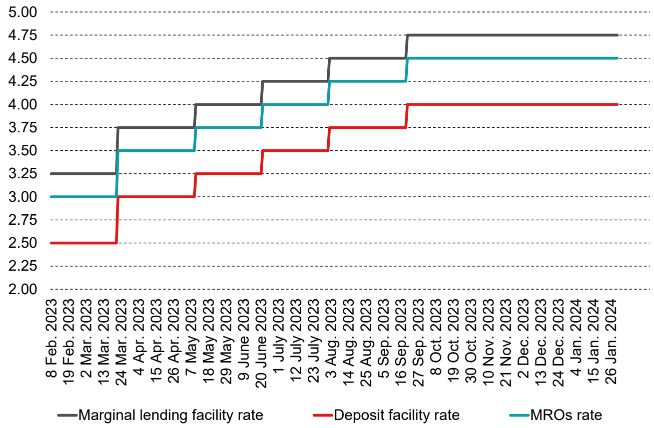
[1] Prepared by Ritlen Abela, Officer II, Monetary Operations and Government Securities Office and reviewed by Josette Grech, Head, Monetary Operations and Government Securities Department and André Psaila, Chief Officer, Financial Markets Division. The views expressed in the Box are the author's own and do not necessarily reflect the views of the Bank.

[2] MP2023 01 (from 8 February to 21 March); MP2023 02 (from 22 March to 9 May); MP2023 03 (from 10 May to 20 June); MP2023 04 (from 21 June to 1 August); MP2023 05 (from 2 August to 19 September); MP2023 06 (from 20 September to 31 October); MP2023 07 (from 1 November to 19 December); MP2023 08 (from 20 December to 30 January 2024).

[3] On 14 December 2023 the Governing Council decided that for the first half of 2024, the Eurosystem will reinvest, in full, the principal payments from maturing securities purchased under PEPP. Over the second half of the year, it expects to reduce the PEPP portfolio by €7.5 billion per month on average and discontinuing reinvestment completely by the end of the year.

Furthermore, in July 2023, the Governing Council decided to set the remuneration of minimum reserves at 0% effective as of the beginning of the reserve MP starting on 20 September 2023.

Chart 1
KEY INTEREST RATE DEVELOPMENTS
(per cent)



Source: ECB.

Excess liquidity

Throughout the eight MPs under review, the Maltese banking system remained characterised by high levels of excess liquidity. Excess liquidity is defined as the amount of deposits placed by credit institutions at the overnight deposit facility of the Bank, net of the recourse to the marginal lending facility, together with the current account holdings, in excess of the minimum reserve requirements (excess reserves).

At the beginning of the first MP, excess liquidity stood at €5,701.4 million, consisting of €545.2 million in excess reserves and €5,156.2 million in overnight deposits. The daily average excess liquidity was €5,631.0 million, reaching a peak of €6,452.2 million on 26 May 2023. Furthermore, the change in the minimum reserve remuneration did not have any effect on the composition of excess liquidity.

During the period under review, daily average excess reserves stood at €80.3 million, with minimal fluctuations through the period, apart from a shift from excess reserves to the overnight deposit facility in March 2023. This shift occurred after the Eurosystem's new real-time gross settlement (RTGS) system and central liquidity management tool went live on 20 March 2023. This system enables participants to steer, manage and monitor liquidity in central bank money across all TARGET services.

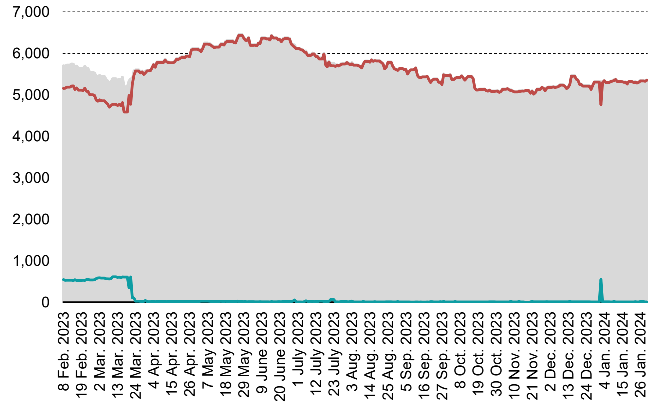
Developments in excess liquidity also reflect the use of standing facilities. Standing facilities are monetary policy instruments that facilitate the provision and absorption of overnight liquidity. The Eurosystem provides two types of standing facilities: the marginal lending facility and the overnight deposit facility. The marginal lending facility allows counterparties to borrow to meet short-term liquidity needs. On the other hand, the deposit facility allows counterparties to deposit funds overnight with the Eurosystem.

During the reporting period, there was no utilisation of the marginal lending facility by local credit institutions. Additionally, along the eight MPs reviewed, the daily average overnight deposits amounted to €5,550.7 million, reaching a peak of €6,434.8 million also on 26 May 2023. By the end of March, two additional banks started utilising the overnight deposit facility, shifting funds from excess reserves to overnight deposits following the go-live of the

RTGS system and central liquidity management tool as explained above (see Chart 2).

By the end of MP8, excess liquidity in Malta was equivalent to around 27% of GDP. This compares with 24% in the euro area. When expressed as a share of GDP, Malta's excess liquidity was the seventh highest in the euro area.

Chart 2
EXCESS LIQUIDITY BETWEEN MP1 AND MP8 2023
(EUR millions)



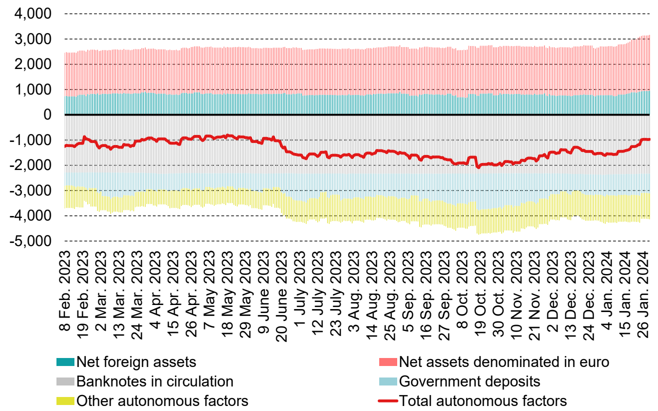
Source: Central Bank of Malta.

Autonomous liquidity factors

Autonomous liquidity factors are items in the central bank balance sheet that are neither monetary policy operations nor current account holdings of credit institutions. As the transactions driving autonomous factors involve central bank money, they have a liquidity-providing or liquidity-absorbing effect.[4,5] Essentially, increases in central bank assets entail the provision of liquidity, while increases in central bank liabilities involve the absorption of liquidity, and vice-versa.

Autonomous factors were net liquidity absorbing and stood at an average of €1,391.4 million over the eight MPs under review.[6] Combined autonomous factors were relatively stable throughout the period, with the lowest point amounting to €2,096.6 million reached on 18 October 2023. This was driven by an increase in government deposits resulting from the issuance of MGS in October (see Chart 3).

Chart 3
AUTONOMOUS FACTORS EVOLUTION BETWEEN MP1 AND MP8 2023(1)
(EUR millions)



Source: Central Bank of Malta.
(1) Liquidity providing factors are shown in positive figures whilst liquidity absorbing factors are shown in negative figures.

On average, when compared to the previous year, autonomous factors increased, hence

4 Liquidity-providing factors include net foreign assets and net assets denominated in euro.
5 Liquidity-absorbing factors consist of government deposits, banknotes in circulation and other autonomous factors.
6 Given that total autonomous factors were net liquidity-absorbing, in the Chart these are depicted with a negative sign.

becoming less liquidity absorbing. The drivers behind the year-on-year increase in autonomous factors were an increase in the liquidity providing components, net assets denominated in euro (NADIE) and net foreign assets (NFA). NADIE and NFA increased due to higher bond purchases in both euro and foreign currency portfolios, respectively. In fact, NADIE increased from an average of €1,608.1 million in 2022 to €1,852.0 million in 2023, and NFA increased from an average of €613.6 million in 2022 to €811.2 million in 2023. This increase was then partially offset by an increase in the liquidity absorbing components, banknotes in circulation (which also includes the excess over the allocation based on the capital key), and government deposits, mainly due to a higher net issuance of securities when compared to the previous year.

Monetary policy instruments

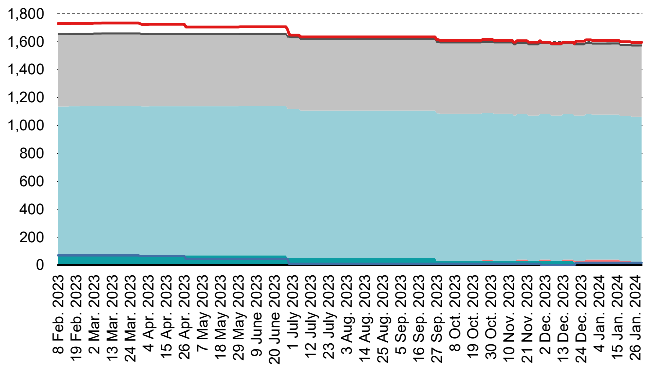
Open market operations

The Eurosystem uses open market operations to provide liquidity in euro to monetary policy eligible counterparties.

At the beginning of the period, outstanding open market operations stood at €140.0 million, divided equally between the third series of the targeted longer-term refinancing operations (TLTRO-IIIs), and three-month longer-term refinancing operations (LTROs). During the review period, there were €50.0 million in maturing TLTRO-IIIs and no early repayments from these operations. Additionally, participation by Maltese counterparties in both the MROs and the three-month LTROs was limited.

Overall, during the reviewed period, the volume of liquidity injected into the domestic banking system through open market operations decreased by €98.0 million (see Chart 4). Therefore, at the end of MP8, the outstanding open market operations stood at €42.0 million, with €20.0 million in TLTRO-IIIs, €17.0 million in three-month LTROs and €5.0 million in MROs.

Chart 4
EVOLUTION OF MONETARY POLICY OPERATIONS
(EUR millions)



Source: Central Bank of Malta.

Asset purchases

The Bank also influenced liquidity conditions through its participation in the APPs during the eight MPs reviewed. As of 30 January 2024, the outstanding assets under the Monetary Policy Outright

Purchase programmes amounted to €1,553.3 million, while the average for the whole period stood at € 1,576.7 million.

The Bank's holdings of debt instruments under the Securities Markets Programme (SMP) stood at an average of €9.8 million.[7] PSPP holdings under the APP stood at an average of €1,068.5 million in MP1. These holdings grew slightly till the end of June 2023, which marks the end of the reinvestments phase, and declined thereafter due to maturities occurring during the interim, standing at an average value of €1,039.0 million in MP8.

PEPP holdings decreased from an average of €514.2 million in MP1, to €504.9 million in MP8. This decrease reflects the quarterly portfolio revaluation along with net maturities of securities during the period under review.

Overall, the Bank's holdings of securities in terms of the Eurosystem's PSPP and PEPP decreased by €37.0 million since the start of MP1, implying a net absorption of liquidity during the period reviewed.

[7] The SMP was announced by the Governing Council of the ECB on 10 May 2010, with the intention of ensuring depth and liquidity in malfunctioning segments of the debt securities markets and to restore an appropriate functioning of the monetary policy transmission mechanism. The SMP was terminated as from 6 September 2012 with the purchased securities held to maturity.

WEALTH DISTRIBUTION AMONG MALTESE HOUSEHOLDS – EVIDENCE FROM NEW DISTRIBUTIONAL WEALTH ACCOUNTS[1]

Warren Deguara and Janica Borg

Introduction

Recent severe economic shocks have heightened interest in more timely, coherent, and consistent income and wealth distribution information for the household sector. Central banks, in particular, require insights into wealth distribution effects to also assess how monetary policy impacts different household groups. Changes in interest rates, for instance, may affect savers and borrowers, or renters and homeowners differently, necessitating an understanding of these dynamics for effective policy implementation. The income and wealth distribution of households also have implications for financial stability and fiscal policy and are an important input in economic research and analyses. Various studies have indicated that inequality can hinder economic growth, exacerbate recessions, and reduce the effectiveness of fiscal and monetary policies.[2]

Despite progress in developing internationally comparable datasets and information on wealth distribution, there has been a scarcity of consistent and higher-frequency data for detailed analysis across household types. Macroeconomic data, particularly quarterly sector accounts (QSA) statistics, provide a comprehensive view of the aggregate household sector's balance sheet at frequent intervals, but typically are available at national level and hence lack distributional details.[3] Conversely, household surveys and other microdata sources offer detailed household-level information on assets, liabilities, income, and consumption, but suffer from infrequent updates and potential inconsistencies over time and across countries.

The G20 Data Gaps Initiative recommends the production and dissemination of distributional information on income, consumption, savings, and wealth for the household sector. On 8 January 2024, the ECB launched new experimental statistics on Distributional Wealth Accounts (DWA), which link household-level information from the Household Finance Consumption Survey (HFCS) with macroeconomic information in the QSA, facilitating the compilation of household assets and liabilities distribution as a further breakdown of QSA aggregates.[4] These data support the 2021 ECB monetary policy strategy, which aims to systematically assess the two-way interaction between income and wealth distributions and monetary policy.[5]

Input data and methodological overview of the DWA

In the euro area, QSA include data on financial and non-financial assets and liabilities owned by the main institutional sectors, including the household sector. The time series is available at quarterly frequency, with a lag of three to four months, with most of the data sourced from financial institutions, Government finance statistics, and external statistics. However, these statistics do not provide information on the distribution of assets and liabilities across households. Conversely, the

[1] Prepared by Warren Deguara and Janica Borg. Mr Deguara is a Principal Economist within the Economic Analysis Department and Ms Borg is a Senior Expert within the Statistics Department of the Central Bank of Malta. The views expressed are those of the authors and do not necessarily reflect the views of the Central Bank of Malta. Any errors are the authors' own.

[2] See for example: OECD (2015), Dabla-Norris, et al. (2015), Pereira da Silva, et al. (2022).

[3] See Financial Accounts – Central Bank of Malta (centralbankmalta.org).

[4] See: European Central Bank (2024).

[5] BE, CY, EE, ES, FI, GR, IE, LT, LU, LV, MT, PT, SI, SK and HU are currently compiled centrally by the ECB while National Central Banks from other countries (AT, DE, FR, IT, NL) compile the data themselves, using the same concept.

HFCS offers insights into the distribution of wealth among households in all euro area countries. However, such data are collected less frequently than sector accounts, as the HFCS is conducted approximately every three years, and the results are published with a lag of around 18 months. Moreover, values of assets and liabilities collected through the HFCS reflect the assessment of the participating households or, for selected instruments, their expectation of the sale value if they were to dispose of an asset. Four waves of the HFCS have been released, referring approximately to the years 2010, 2014, 2017, and 2021. Information on assets and liabilities is moreover reported for a particular point in time during a reference year. Preparations for the fifth wave of the HFCS are underway.[6]

DWA attempt to link these two different datasets and to provide an assessment of the distribution of household wealth consistent with aggregates compiled in the QSA. DWA data are available from 2009 for most euro area countries, and are updated at quarterly intervals, with a maximum lag of five months from the end of the reference quarter.

The linking process starts by developing a wealth concept that maps the instruments surveyed in the HFCS with their corresponding national QSA aggregates. However, only a selected set of instruments are included, which covers the most significant items on a household's balance sheet. Some items such as cash holdings, trade receivables, and pension entitlements are excluded, as these cannot be clearly identified in the HFCS microdata. Moreover, the selection takes into account data quality and users' needs. Table 1 lists the financial assets, non-financial assets, and liabilities of households included in DWA. The difference between total assets and liabilities equals households' net wealth.

The baseline process involves estimations and adjustments to align the two sources. First, households' assets and liabilities are categorized according to national accounts concepts. Then, data are adjusted to reflect differences in the population covered by HFCS and sector accounts, mainly

Table 1
HOUSEHOLD NET WEALTH COMPOSITION USED IN DWA

Assets	Liabilities
Deposits	Mortgages
Debt securities	Other debt
Life insurance	
Listed shares	
Investment fund shares	
Financial business wealth	
Non-financial business wealth	
Housing wealth	
	Net wealth

Source: ECB.
Note: Definitions of each of these variables can be found in 'Experimental Distributional Wealth Accounts (DWA) for the household sector − Methodological note', European Central Bank (2024).

6 The production of both QSA and the Maltese HFCS is jointly managed by the Central Bank of Malta and the NSO. Meanwhile, the Central Bank of Malta is responsible for compiling quarterly financial accounts, while the NSO handles the compilation of non-financial accounts. Additionally, the NSO manages the primary microdata collected as part of the HFCS, with the conceptual development overseen by the ESCB's Household Finance and Consumption Network, in which the Central Bank of Malta is involved.

to correct under-sampling of wealthy households in survey data. Data for periods between HFCS rounds are interpolated, whereas data for the periods after the latest available HFCS wave are extrapolated using the distribution of each individual instrument in that wave.[7]

The baseline process is also tailored to account for country specificities. For example, in the case of Malta, the target value for housing wealth is taken from HFCS rather than the QSA as is done in other instruments, as the HFCS value for this component is considered more accurate. Additionally, based on information from other comparable countries, the value of housing wealth in Malta is assumed by the ECB after consulting the Central Bank of Malta, to be composed of 30% dwellings and 70% land. This assumption, in turn, impacts the estimation of land not underlying dwellings, which is part of non-financial business wealth.

The Maltese DWA dataset includes quarterly data from 2010 Q4 onwards on the stock of assets and liabilities of resident households, split by deciles of household net wealth, employment, and home-ownership status. DWA also includes derived statistics and indicators, mainly the Gini coefficient for net wealth, data on median and mean net wealth levels, and the share of total wealth held by different sections of the population. These experimental data are published quarterly with a lag of no later than five months after the end of the quarter; the latest DWA available by the cut-off date for this article is as of December 2023.

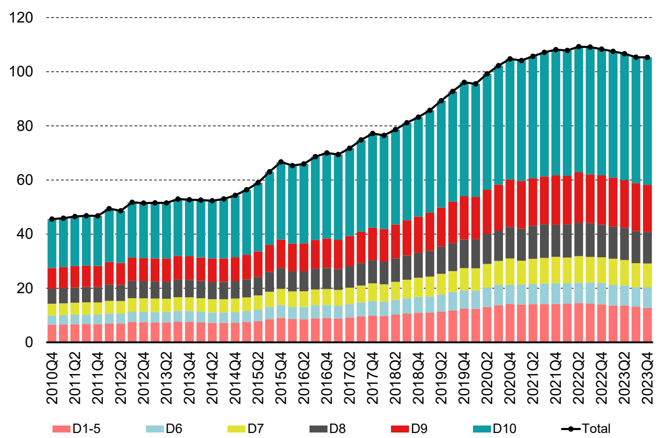
The next section provides an overview of the evolution of household net wealth in Malta from the fourth quarter of 2010 to the corresponding quarter of 2023. Additionally, it discusses developments in wealth inequality, as indicated by the Gini coefficient, since the start of the series.

Wealth and inequality in Malta

Total net wealth held by Maltese households more than doubled since 2010 (increasing by €59.8 billion), to stand at €105.3 billion in the fourth quarter of 2023 (see Chart 1). The growth in net wealth over this period was driven by the appreciation of housing wealth and the accumulation of financial assets.

Previous studies examined the distribution of wealth among households at specific points in time, as defined by the HFCS reference years.[8] The DWA now offers more detailed, high-frequency data on the quarterly distribution of assets and liabilities, aligned with national account statistics. With this richer, more granular data, this article explores the evolution of wealth, its varying composition among households, and the level of wealth inequality in Malta from 2010 to 2023.

Chart 1
NET WEALTH
(EUR billions)



Source: Authors' calculations based on DWA data.

[7] DWA data will inevitably be revised given the regular updates of QSA aggregates and the release of new HFCS survey data as these updates will cause changes in national accounts totals and the interpolation/extrapolation process.

[8] See Antonaroli, et al. (2023), Attard & Georgakopoulos (2019), Gaskin, et al. (2017) and Caruana & Pace (2013).

The development of Maltese household wealth

As at the last quarter of 2023, the wealthiest 10% (D10) of Maltese households held €47.1 billion, or 44.8% of total household net wealth in the country. This is almost four times the amount held by households in the bottom half of the net wealth distribution (D1-D5) altogether (€12.6 billion). The eighth and ninth deciles jointly held just above 25% of total wealth. Moreover, net wealth of households in the top decile grew by 160.7% since the beginning of the series, while that of the bottom half of the distribution grew by 94.1% since the fourth quarter of 2010. The richest 10% alone, in fact, account for half of the level increase in net wealth since 2010. This was followed by the ninth decile, which broadly accounted for a further tenth of the aggregate increase in household wealth, while the eighth decile and those in the bottom half of the distribution jointly accounted for a further eighth.

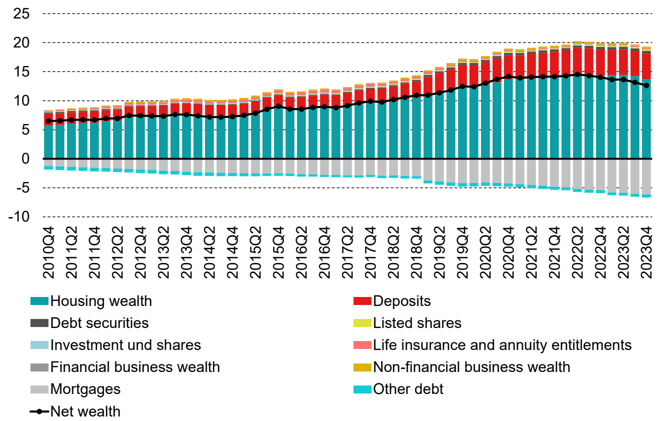
As a result, the share of net wealth held by households in the bottom half of the wealth distribution dropped from 14.3% to 12.0% between 2010 and 2023. The other deciles also experienced declining shares, although their relative losses were smaller than those of the bottom half. Conversely, the share of net wealth held by the top decile grew by five percentage points, from 39.7% to 44.8% over the same period.

The composition of wealth across Maltese households

DWA data for the fourth quarter of 2023 reveal significant variation in the composition of Maltese households' wealth. Housing wealth remains the main asset category held across all deciles of the net wealth distribution (see Charts 2, 3, and 4), with this component's share in total assets, however, varying among different groups: 71.2% for households in the bottom half, 69.8% for households in deciles six to nine, and 50.4% for households in decile ten.

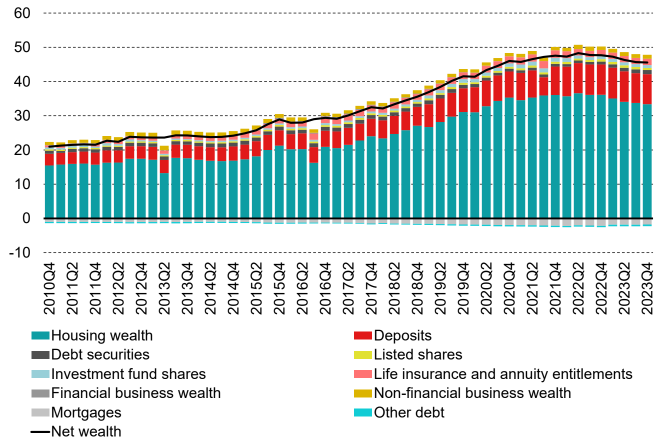
The assets of the wealthiest decile are more diversified compared to other groups, with business wealth (both financial and non-financial, including ownership stakes in unlisted companies) constituting a substantial portion of their portfolio at 24.0% in the final quarter of 2023, down from 25.1% in the corresponding quarter of 2010.[9] Moreover, this asset is

Chart 2
COMPOSITION OF NET WEALTH – BOTTOM 50%
(EUR billions)



Source: Authors' calculations based on DWA data.

Chart 3
COMPOSITION OF NET WEALTH – NEXT 40% (D6-D9)
(EUR billions)

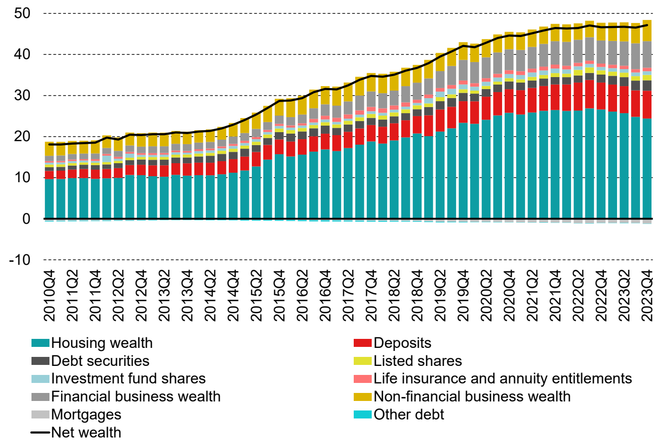


Source: Authors' calculations based on DWA data.

[9] Overall, as at December 2023 shares in listed companies amounts to 1.8% of total assets. This reflects that in Malta the majority of companies are unlisted.

heavily concentrated at the top of the net wealth distribution, as the richest 10% of Maltese households possess 89.1% (equivalent to €11.6 billion) of all business wealth in Malta. Conversely, business wealth has accounted for only a negligible share of the wealth composition for the deciles one to nine over the past decade. Meanwhile, deposits represent the second-largest asset type for deciles one to nine but represent a lower share of total assets held by the tenth decile. For example, deposits account for just over a fifth of the assets of households in the bottom half of the wealth distribution, compared to around 14% of total assets of the top decile.

Chart 4
COMPOSITION OF NET WEALTH – TOP 10%
(EUR billions)



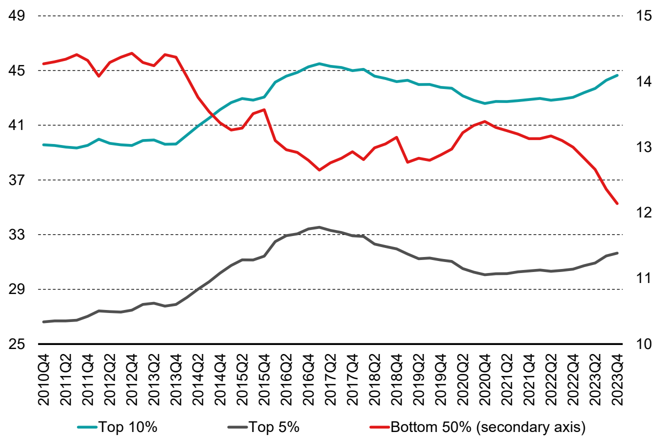
Source: Authors' calculation based on DWA data.

The overall amount of debt (including mortgages and other personal credit) of households in the bottom half of the net wealth distribution is estimated at €6.7 billion as at the fourth quarter of 2023, accounting for 65.6% of total household debt in Malta up from 47.5% of total debt held in 2010, reflecting by and large an increase in mortgage debt. Debt for the top decile and for deciles six to nine remained relatively stable over the past decade standing at €1.3 billion and €2.3 billion as at the fourth quarter of 2023. The share of total household debt held by deciles six to nine fell from 35.4% in the fourth quarter of 2010 to 22.2% in the corresponding quarter of 2023. Similarly, the share held by decile ten fell from 17.1% to 12.2% over the same period.

Net wealth inequality in Malta

Variations in the distribution of wealth instruments among households, along with their quarterly fluctuations, have influenced the developments of overall net wealth inequality in Malta. The share of net wealth held by households in the bottom 50% of the distribution declined over the past decade from 14.3% in the fourth quarter of 2010 to 12.0% in the final quarter of 2023. Whereas that of households in the top 10% of the distribution increased from 39.7% to 44.8%, throughout the same period (see Chart 5). At the same time, households in the top 5% of the net wealth distributions also exhibited an

Chart 5
SHARE OF WEALTH
(percentage)

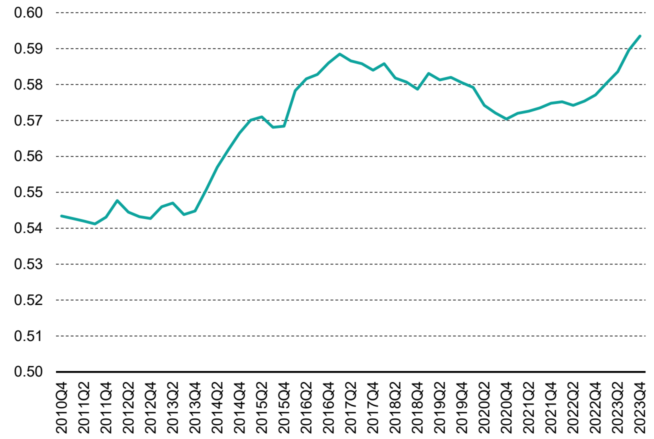


Source: Authors' calculations based on DWA data.

increase in the share of wealth held. This grew from 26.6% in the fourth quarter of 2010 to 31.7% in the corresponding quarter of 2023 (see Chart 5). This implies a divergence in wealth held by the top and the bottom ends of the wealth distribution in Malta hinting at increased wealth inequality.

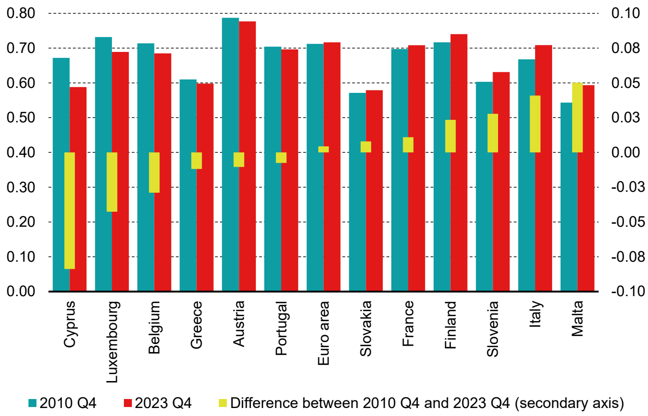
Since 2010, the Maltese wealth Gini coefficient of net wealth increased from 0.54 to 0.59, confirming a slight increase in inequality but is still well below the euro area average of 0.72 (see Chart 6).[10] Despite this increase, Malta is the third least unequal European economy in the panel of countries part of the DWA. The Gini index remained stable – or only marginally changed – for most other countries in the DWA panel (see Chart 7). In the fourth quarter of 2023, this stood highest in Austria at 0.78, and lowest in Slovakia at 0.58.

Chart 6
WEALTH GINI COEFFICIENT FOR MALTA



Source: Authors' calculations based on DWA data.

Chart 7
WEALTH GINI COEFFICIENT BY COUNTRY



Source: Authors' calculations based on DWA data.
Note: No data available for Estonia, Germany, Spain, Lithuania, Hungary, Netherlands, Ireland and Latvia for 2010 Q4.

Conclusion

This article has explored the dynamics of wealth distribution among Maltese households using new data from the DWA. The findings reveal significant growth in total net wealth in Malta over the past decade, but also highlights increasing wealth inequality. The wealthiest 10% of households have seen a substantial increase in their share of total wealth, while the bottom half of households have experienced a relative decline, even though in absolute terms their net wealth nearly doubled.

Housing remains the most critical asset for Maltese households, though its distribution is uneven. Debt levels, particularly among the lower half of the wealth distribution, have also risen significantly.

Overall, despite its experimental nature and scope for refinements, the DWA data is a valuable tool for assessing developments in wealth and inequality in Malta. The increase in the Gini coefficient indicates a rise in wealth inequality, although Malta remains one of the least unequal economies in the euro area. These insights are crucial for policymakers and researchers, as they could

[10] The Gini coefficient is a commonly used measure of distance from a measure of perfect equality. It ranges from 0 (wealth is equally spread across the population) to 1 (all wealth is held by one individual).

highlight the need for targeted measures to address wealth disparities and ensure more equitable economic growth.

The comprehensive view provided by the DWA, integrating both macroeconomic and microeconomic data, marks a significant advancement in the analysis of wealth distribution. It offers a robust foundation for future research and policy development aimed at fostering financial stability and reducing inequality in Malta. Nevertheless, the assessment presented here should be considered as provisional. In particular, data for the period since the last HFCS wave stands to be revised significantly with future HFCS rounds.

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