

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
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RECENT PERFORMANCE OF GOODS EXPORTS

BOX 1: RECENT PERFORMANCE OF GOODS EXPORTS¹

According to the 2023Q4 national accounts vintage used in this projections exercise, growth in real exports remained very strong despite the weakness in international demand. Indeed, exports rose by 8.7%, after growing by 8.6% in 2022.² However, this growth masks contrasting developments in goods and services exports with the latter significantly outperforming the former.

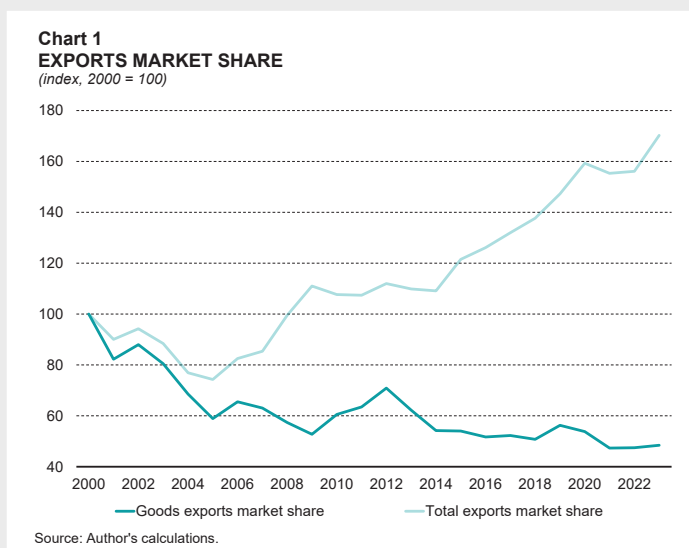
This box focuses on the performance of goods exports in terms of the evolution of market share as well as in terms of price competitiveness. It also delves into the recent drivers of growth in goods exports using an adjusted measure of nominal customs data (which excludes certain trade chapters).³ The projections for real exports of goods and the outlook for the market share and price competitiveness are outlined in the last section.

Export competitiveness indicators

Export competitiveness is evaluated in terms of the market share, computed as the ratio of real goods exports (national accounts concept) to global demand, and the Harmonised Competitiveness Indicator (HCI) for Malta as a measure of price competitiveness.

The market share of Maltese goods exports in real terms declined until 2009 (see Chart 1). It then improved slightly up to 2012, as growth in real goods exports outpaced foreign demand. However, it deteriorated again thereafter.

Despite the loss in market share for goods, overall export market share has been trending upwards since 2005. This implies that since joining the EU in 2004, exports generally outpaced foreign demand, partly due to better access to European and international markets, and the emergence of new sectors. The rise in overall market share is largely due to the strong growth in exports of services, which mirrored the rapid expansion of industries, such as gaming and financial and other professional services. The fall in the market share during the pandemic years was due to a slowdown



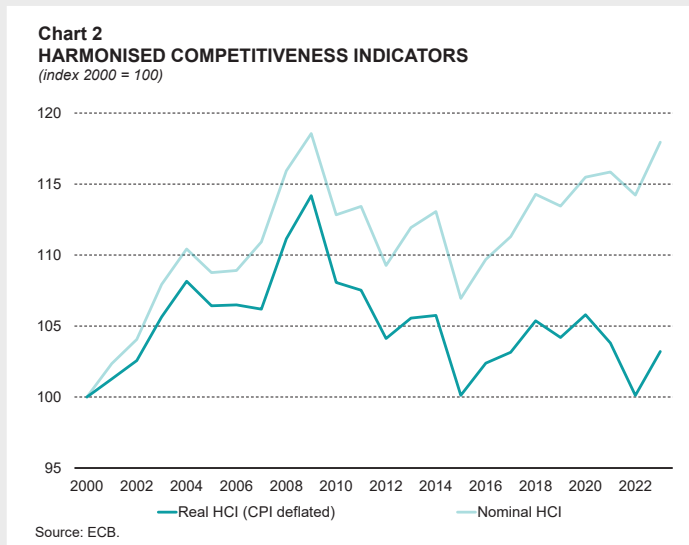
¹ Prepared by Lynn Cumbo, Economist within the Economic Projections and Conjunctural Analysis Office.

² According to the 2024Q1 national accounts vintage, real export growth in 2022 and 2023 stood at 8.8% and 8.7%, respectively.

³ The following trade chapters are excluded, which follows the same definition applied in NSO *News Releases*: mineral fuels, oils and products (Chapter 27), aircrafts and spacecrafts and parts thereof (Chapter 88) and ships, boats and floating structures (Chapter 89).

in goods exports and a sharper decline in tourism. However, market shares recovered in 2023, due to the exceptional improvement in the performance of services exports, as the market share of goods exports remained subdued.

The HCI is an indicator of price competitiveness which depicts an improvement (deterioration) when it decreases (increases).⁴ In Chart 2,



both the nominal and real HCI measures demonstrate worsening price competitiveness of Maltese exports up to 2009. Thereafter, the two indices have diverged from each other, such that by 2023, the real HCI was only marginally above its 2000 level while the nominal HCI stood firmly above its starting level. This indicates that while exchange rate developments contributed to some loss in competitiveness, this was mostly offset by an improvement in relative prices. This gap was particularly pronounced during the last three years, which may partly reflect the Maltese government's policy of maintaining stable energy prices during the latest energy shock, which helped contain production costs relative to Malta's main trading partners. Additionally, the generally small size of Maltese exporting firms may have limited their ability to fully pass on cost increases to their foreign customers. The deflated HCI measure increased in 2023, implying some loss in price competitiveness of exports, but it remains below the levels seen prior to the pandemic.

Recent developments in goods exports⁵

The analysis in this section draws on nominal customs data, which provides the most detailed data on goods exports. Moreover, we focus our analysis primarily on a measure that excludes certain volatile components that may have very little bearing on underlying economic conditions, thereby obtaining a measure of exports that is closer to that in the national accounts. Nevertheless, this measure may still differ slightly from that in national accounts due to differences in methodology and cut-off dates.

Chart 3 shows the contributions of different categories of goods to growth in goods exports, using the Standard International Trade Classification. Growth in goods exports in 2018 and 2019 was relatively strong, and was primarily driven by exports of manufactured goods, as well as chemical products. Goods exports declined during the pandemic in 2020, due to a sharp contraction in foreign demand in view of international trade disruptions. The decline

⁴ The HCI acts as measure of the effective exchange rate for countries operating within the euro area. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners.

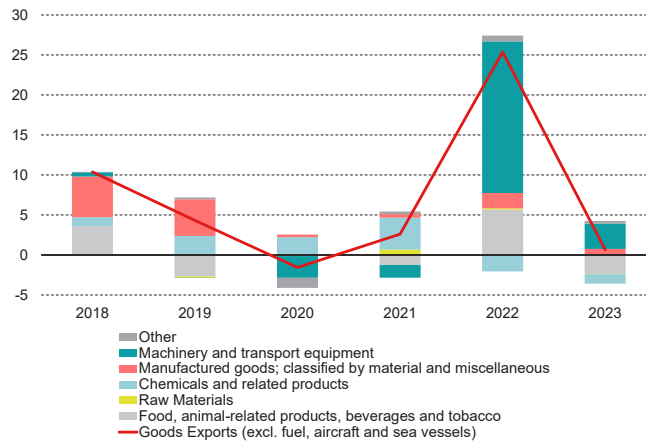
⁵ This section draws on the March 2024 customs data vintage.

was mainly driven by a drop in exports of machinery and transport equipment. Meanwhile, exports of chemical and related products rose markedly during the pandemic years in 2020 and 2021, mainly due to strong demand for pharmaceutical products, which includes Personal Protective Equipment (PPE).

Goods exports grew very strongly in 2022, which partly mirrored the pandemic-related recovery in international demand but was also driven by certain specific developments. Indeed, the largest contributors to growth were the machinery and transport equipment sector, as well as the food and beverage category, which together contributed to almost 97% of the total 25.4% growth. Meanwhile, the weak growth of just 0.7% in 2023 reflected a sharp slowdown in the same categories of goods.

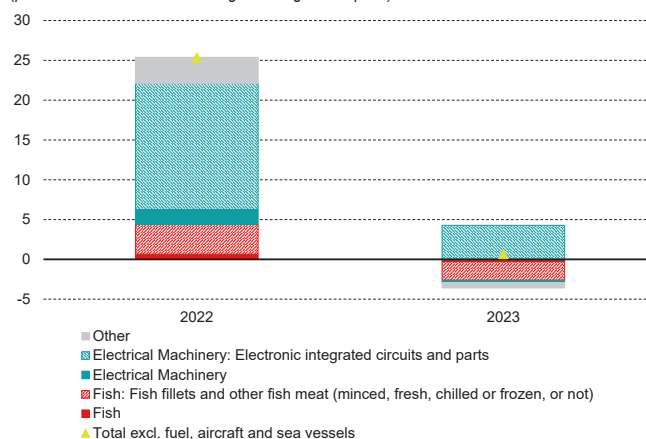
Detailed data in Chart 4 show that the strong growth in 2022 was primarily driven by a sharp increase in electrical machinery, classified within the broad category of machinery and transport equipment. In turn, the largest contribution within this category arose from an exceptional increase in exports of electronic integrated circuits and parts. The strong growth in this subcategory is likely related to stronger demand after a semiconductor shortage during the pandemic. As demand rose in the pandemic years, businesses stockpiled components in 2022 so as to prevent backlogs on their orders.⁶

Chart 3
GOODS EXPORTS FROM CUSTOMS
(per cent contribution to nominal growth in goods exports)



Source: Eurostat.

Chart 4
DRIVERS OF GOODS EXPORT GROWTH IN 2022 AND 2023
(per cent contribution to nominal growth in goods exports)



Source: Eurostat.

⁶ See [Chip shortage: how the semiconductor industry is dealing with this worldwide problem | World Economic Forum \(weforum.org\)](https://www.weforum.org) and [Chip industry slowdown will last longer than expected, manufacturers warn \(ft.com\)](https://www.ft.com).

Given that the semiconductor industry in Malta is relatively large, this sharp rise in international demand for microchips brought about a strong increase in exports within this subcategory. Following this exceptional increase, growth decelerated sharply in 2023, as global microchip inventories had reached sufficient levels, but remained positive. Indeed, its contribution stood at 4.3 percentage points in 2023.

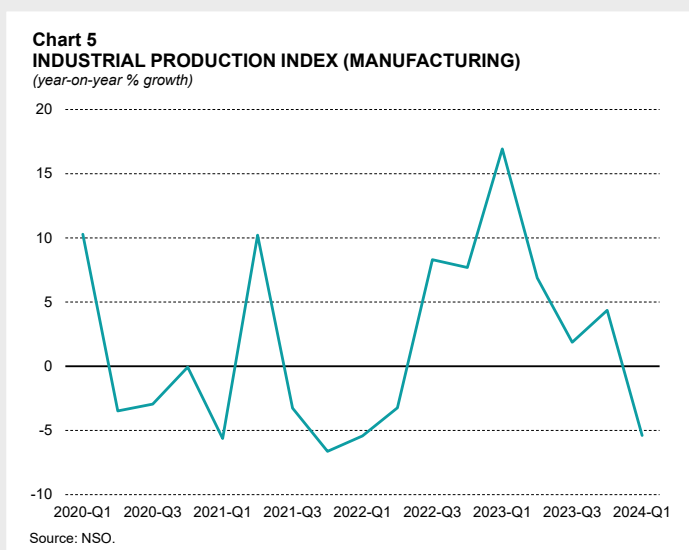
Moreover, fish exports rose by 60.0% in 2022, contributing 4.4 percentage points to total growth in goods exports. The strong increase in 2022 was driven by a sharp rise in exports of fillets of fish and other fish due to high demand for Maltese bluefin tuna in Asian markets.⁷ Growth in exports of this subcategory turned negative in 2023, with this component lowering goods exports by 2.3 percentage points.

Smaller positive contributions to export growth in 2022 were also made by machinery and mechanical appliances, and other preparations of food and beverages (part of the “other” component in Chart 4). In 2023, some goods other than electrical machinery, such as printed material and rubber, also provided positive contributions but to a lesser extent. However, these were outweighed by larger negative contributions, mainly from exports of organic chemicals and toys (also part of the “other” component in Chart 4). As a result, the total contribution from other goods continued to lower growth by 0.7% percentage point in 2023.

Outlook for goods exports

Incoming data on industrial production in the manufacturing sector show that goods exports are likely to remain weak this year. Indeed, Chart 5 shows a year-on-year drop in industrial production of the manufacturing sector in the first quarter of this year. Since a significant part of the goods produced by the manufacturing sector in Malta is exported, the index can be utilised as an indicator of short-term developments in exports of goods.

Thus, growth in real exports of goods is expected to remain relatively subdued in the short term. We expect the weakness in goods exports to subside gradually this year, due to the positive developments in foreign demand. Moreover, we expect some loss in price competitiveness in 2024, following the significant improvements in recent years. Hence, growth in real goods exports is expected to decelerate from 1.7% in 2023 to 1.1% in 2024. Merchandise exports



⁷ See [40% increase in fish exports, but 'fresh challenges ahead'](https://www.buset.com.mt) (buset.com.mt).

are projected to pick up and grow by 2.5% and 2.6% in the following two years, as foreign demand increases further while the price competitiveness indicator broadly levels off.

The deterioration in price competitiveness reflects muted developments in competitors' prices, as energy prices for Malta's competitors are envisaged to decline following the sharp increases seen in the past years. Conversely, energy prices in Malta are expected to remain stable at the current levels. Despite such expected loss, over the next three years, price competitiveness is still expected to remain above the levels observed in 2022, as energy prices in Malta are expected to remain below those in competitor countries (see Chart 6).

These projections also imply a further loss in the market share of goods exports, extending the trend observed over the past years, and reverses some of the improvement observed in 2022 and 2023, which partly reflected transient factors (see Chart 7).

