MALTIN
B'SAĦĦITNA 'L QUDDIEM

Economic Survey 2020

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The following symbols have been used throughout this document:

. . . to indicate that data are not available;

0 to indicate that the figure is zero;

- to indicate that data are not applicable or cannot be determined;

— to indicate that the figure is negligible;

National Accounts estimates and other statistics which appear in this Economic Survey are provisional and subject to revision. Figures may not add up due to rounding.
This document is based on statistical information available up to 30th September 2020.

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Glossary: Country Codes

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Section	**Description**
A	Agriculture, forestry and fishing
B	Mining and quarrying
C	Manufacturing
D	Electricity, gas, steam and air conditioning supply
E	Water supply, sewerage, waste management and remediation activities
F	Construction
G	Wholesale and retail trade; repair of motor vehicles and motorcycles
I	Accomodation and food service activities
H	Transportation and storage
J	Information and communication
K	Financial and insurance activities
L	Real estate activities
M	Professional, scientific and technical activities
N	Administrative and support service activities
O	Public Administration and defence; compulsory social security
P	Education
Q	Human health and social work activities
R	Arts, entertainment and recreation
S	Other service activities
T	Activities of households as employers; undifferentiated goods-and services-producing activities of households for own use
U	Activities of extraterritorial organisations and bodies

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Executive Summary

In recent years, Malta experienced robust economic growth and low unemployment driven by buoyant domestic demand and structural rebalancing towards high value activities. Throughout the first half of 2020, the pandemic and the containment measures adopted to restrict its spread disrupted the pace of economic activity. This caused a contraction in economic activity of 6.1 per cent in nominal terms and 7.7 per cent in real terms. The negative economic performance was mostly the result of a negative contribution from the domestic side of the economy, primarily attributable to decreases in private consumption expenditure and in gross fixed capital formation.

During the first half of 2020, total Gross Value Added (GVA) in nominal terms declined by 5.2 per cent when compared to the same period in 2019. The decline in GVA was predominantly in the services sector and was driven primarily by the Wholesale and Retail Trade, Accommodation and Food services sector.

In the first half of 2020, compensation of employees reached €3 billion. Increases in compensation for employees from the prior year were recorded almost in all sectors, except for modest declines of 2.2 per cent and 0.1 per cent recorded in the Wholesale and Retail Trade sector and the Manufacturing sector, respectively.

Inflationary developments as measured by the Harmonised Index of Consumer Prices (HICP) shows that in August 2020, the 12-month moving average stood at 1.1 per cent while the annual rate reached 0.7 per cent. Food and non-alcoholic beverages and Restaurants and hotels sub-indices recorded the highest contributions at 0.38 percentage points and 0.31 percentage points, respectively.

In 2019, the population in Malta totalled 514,564, an increase of 4.3 per cent when compared to 2018. This increase reflected improvements in life expectancy and also increases in inward migration. Net migration increased significantly when compared to the previous year with third country nationals accounting for the largest share of net-migrants at 12,355 followed by other European Union (EU) nationals at 7,489.

Despite being directly hit by the containment measures adopted in the wake of the Covid-19 pandemic, the performance of the Maltese Labour market remained steady. The measures introduced by the Government in response to the pandemic together with the resilience of the labour market ensured that high levels of employment were retained with the employment rate standing at 73.0 per cent in the second quarter of 2020, 0.2 percentage points higher than that recorded in the corresponding quarter of 2019. Furthermore, Malta's unemployment rate in July 2020 stood at 4.3 per cent, well below the EU average of 7.2 per cent. Overall, activity rates for people aged 15-64 stood at 76.4 per cent in the second quarter of 2020, an increase of 0.9 percentage points compared to the same quarter of 2019.

The at-risk-of-poverty and social exclusion rate for Malta stood at 20.1 per cent in 2019, which was 2.9 percentage points lower when compared to 2015. Malta's at-risk of-poverty and social exclusion rate was 2.6 percentage points lower than the rate recorded at EU level. Furthermore, in relative terms, income inequality was less pronounced since the Gini-coefficient stood at 28.0 per cent, 0.7 percentage points lower when compared to 2018.

The evolution of the trade balance over the years is marked by large imports and relatively smaller exports owing to Malta being an open economy. In 2019, the trade gap widened when compared to previous years mostly owing to strong increases in imports relative to exports. Comparing the first half of 2020 with the corresponding period in 2019, the trade gap has narrowed substantially due to a drop in imports related to machinery and transport equipment. Over the same period, exports have also dropped, but to a lesser extent than the drop in imports.

In recent years, the current account within the balance of payments has been consistently in a surplus position, thanks to strong net exports pertaining to travel, financial services, and the personal cultural and recreational categories. This persistent trend continued in 2019, where the current account balance stood at 4.8 per cent of Gross Domestic Product (GDP).

However, due to the onset of the Covid-19 pandemic, the current account balance shifted to a deficit of 4.9 per cent in the first half of 2020. By comparison, this same figure was around 2.8

per cent of GDP in surplus in the first half of 2019. Most of this decline was due to decreases in the travel category, which incorporates elements of the tourism sector. The primary income account remained in a net payments balance of 8.3 per cent of GDP in 2019. This balance is primarily driven by net payments related to direct investments which are partly offset by net receivables from portfolio and other investments. The net international investment position has also remained relatively stable reaching 54.6 per cent of GDP as at end of 2019. This net asset position is mainly due to large asset holdings in terms of portfolio investments which is partially offset by large liability holdings of direct investments.

The contribution of the Maltese monetary financial institutions' (MFIs) towards the stock of the Euro Area (EA) Broad Money (M3) increased by 6.9 per cent in the period between January and July 2020. This increase was primarily led by a rise in overnight deposits. Similarly, the contribution of deposits with an agreed maturity of up to two years was slightly positive, while the contribution towards M3 of deposits redeemable at notice up to three months was negligible. The positive contribution from the credit counterpart was the main contributor towards M3 growth. The contribution of net claims of non-residents towards M3 was also positive, albeit, to a lesser degree. During the review period depositors were more inclined to hold highly short-term liquid deposits.

Between December 2019 and July 2020, the credit counterpart of broad money increased by 6.3 per cent, reaching €20,092.7 million. This was primarily driven by an increase in credit to Maltese residents which reached €15,466.0 million in July 2020, thus representing an increase of 8.8 per cent when compared to December 2019. This development more than outweighed a decline in credit to other EA residents during the same review period.

In 2019, Government recorded a surplus of 0.5 per cent of GDP, while the debt ratio maintained its declining trend, reaching 42.6 per cent of GDP. During the first eight months of 2020, recurrent revenue decreased by 20.9 per cent, mainly due to lower tax revenues, reflecting the main measures Government implemented to mitigate business liquidity pressures on cash flow arising from the Covid-19 pandemic, while also encouraging the retention of employees. Total government expenditure increased by 16.3 per cent over the same period mainly as a result of a €298.4 million increase in recurrent expenditure. This increase mainly reflected higher outlays towards social security benefits, which included outlays directed towards Covid-19 related benefits. Capital expenditure increased by €211.6 million during the first eight months of 2020, reaching €524.6 million, which was mainly financed from local funds.

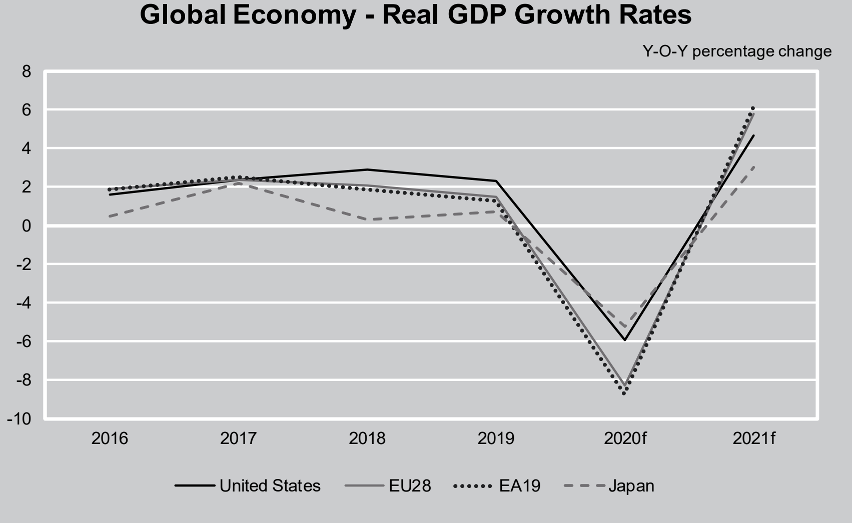
1. Macroeconomic Developments

1. Macroeconomic Developments

1.1 International Context

The Covid-19 pandemic struck at a time when the global economy started to exhibit signs of weakening and was particularly vulnerable to shocks from already emerging geopolitical tensions and trade disputes. The pandemic, and a series of containment measures adopted to restrict its spread, have impacted people's lives and the functioning of economies. On the supply side, production chains were disrupted, workers were forced into quarantine, lockdowns were imposed in most nations, and industrial output declined. On the demand side, domestic consumption decreased, and global trade in goods has contracted sharply as a result of lower foreign incomes and supply side bottlenecks. Trade in services has equally been affected and is likely to take longer to recover, especially in the tourism-related sectors. Investment has also been affected. In response to these disruptions, commodity prices including oil and copper fell and stresses emerged in the debt markets as a flight to quality occurred.

Chart 1.1



Source: Eurostat, World Economic Outlook (WEO)

In June, the International Monetary Fund (IMF) updated its World Economic Outlook (WEO) which was initially published in April. Global growth is projected to decline by 4.9 per cent in 2020, 1.9 percentage points below the April 2020 WEO forecast, as the pandemic is projected to take a greater toll on the global economy than initially expected.

The Euro Area (EA) is expected to contract by 8.8 per cent in 2020, before recovering at an annual growth rate of 6.0 per cent next year. This suggests that pre-Covid levels will not be reached by 2021. Underlying this prediction are several critical assumptions, including that containment measures in the European Union (EU) will gradually be lifted and that a second wave of infections will not trigger new generalised restrictions.

Risks surrounding projections are at present tilted towards the downside. The resurgence of a second wave of the virus would lead to a further bout of supply disruptions which can have behavioural implications on demand. Going forward, unemployment hysteresis and the likelihood of increased corporate insolvency rates could lead to a slower than anticipated recovery. The absence of a deal between the EU and the United Kingdom (UK) and the intensifying of trade disputes with the United States (US) further add to the risk. Moreover, countries are re-evaluating their global supply chains as they became cognizant of their inability to immediately supply critical resources to their citizens when required. In this regard, a rethinking of the cost optimization model may enact upward price pressures in the medium-term.

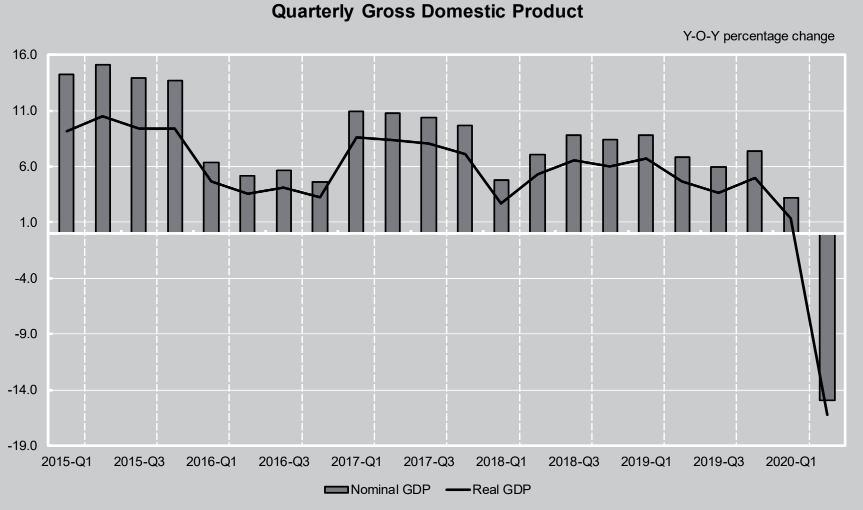
In the US, aggressive monetary and fiscal policies are reflected in better-than-expected economic data, suggesting that a tentative consumer-led recovery seems to be emerging. However, rising infection rates and political uncertainty following protests and a closely contested presidential election could hinder consumer and business confidence. The newly adopted average-inflation targeting stance by the Federal Reserve (FED) indicates a departure from the traditional 2.0 per cent inflation target. This favours a commitment to ensure employment recovers, which in turn, has resulted in further downward pressures on the dollar. However, in view of the international reserve currency status that the US Dollar enjoys, global trade and capital movements can quickly result in a reversal of this trend and amplify underlying stresses in the foreign debt market, particularly in emerging economies. This would aggravate the outlook in emerging markets, which are already less equipped than their developed counterparts to tackle a health crisis. The economies of Japan and China are experiencing a better than anticipated recovery while the prospects in the UK have slightly deteriorated as rising infections and uncertainty over Brexit seem to be hampering the recovery.

1.2 Gross Domestic Product: Expenditure Approach

In recent years, Malta has been experiencing robust economic growth driven by buoyant domestic demand and structural rebalancing toward high value activities. Throughout the first half of 2020, the pandemic and the containment measures imposed to contain the spread of the virus caused a contraction in economic activity of 6.1 per cent in nominal terms and 7.7 per cent in real terms.

The negative economic performance recorded in the first half of 2020 was mostly the result of a negative contribution from the

Chart 1.2



Source: National Statistics Office

Main Macroeconomic Indicators

Table 1.1

	2017	2018	2019	Jan-June 2019	Jan-June 2020
GDP growth at current market prices (%)	10.4	7.3	7.2	7.8	-6.1
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1]	8.0	5.2	4.9	5.6	-7.7
Expenditure Components of GDP at Current Market Prices by period (%)					
Private final consumption expenditure[2]	4.5	9.4	7.3	8.2	-9.4
General Government final consumption expenditure	3.7	14.6	14.1	17.9	14.2
: net of Individual Investor Programme (IIP) proceeds	-1.0	21.1	18.2	25.9	16.0
Gross fixed capital formation	0.1	4.0	10.0	17.7	-11.4
Exports of goods and services	10.2	1.6	8.0	7.0	-4.0
: net of Individual Investor Programme (IIP) proceeds	9.9	2.0	8.3	7.7	-4.0
Imports of goods and services	5.8	1.9	9.5	10.0	-2.5
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure[2]	3.4	8.5	5.2	6.4	-11.1
General Government final consumption expenditure	1.7	12.0	11.5	15.7	12.4
Gross fixed capital formation	-0.7	3.1	8.8	16.4	-12.9
Exports of goods and services	8.1	-0.5	6.1	5.3	-5.2
Imports of goods and services	4.4	0.4	7.9	8.5	-3.7
Inflation rate (%)	1.3	1.7	1.5	1.7	1.3
Employment growth (National Accounts Definition) (%)	5.0	6.5	6.5	6.3	5.9
Unemployment rate (Harmonised definition, Eurostat) (%)	3.9	3.6	3.4	3.4	4.0
Compensation per employee (% change)	0.1	3.7	2.8	1.8	0.8
Labour productivity (% change)	-0.1	-0.8	-0.8	-0.4	-12.3
Nominal Unit Labour Cost (% change)	0.2	4.5	3.7	2.2	15.0
Real Unit Labour Costs (% change)	-2.8	2.6	1.8	-0.2	13.6

(1) Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

(2) Includes NPISH final consumption expenditure.

domestic side of the economy, primarly attributable to drops in private consumption expenditure and gross fixed capital formation. Private consumption expenditure, which includes household final consumption expenditure and consumption expenditure of non-profit institutions serving households (NPISH) registered a decline of 11.1 per cent reflecting the effects of lockdown measures with extensive business closures and consumers encouraged to remain indoors, along with a possible decline in the resident population as a result of repatriation of foreigners living in Malta. Throughout the first half of 2020, Gross Fixed Capital Formation (GFCF) contracted by 12.9 per cent as a result of heightened uncertainty surrounding the economic outlook and hence future earnings prospects. Meanwhile, Inventories increased by 2.3 per cent.

Public consumption expenditure exhibited a growth rate of 12.4 per cent in the first half of 2020. This increase mainly reflected additional healthcare spending as a result of the outbreak of the pandemic.

From an external standpoint, in the first half of 2020, Malta recorded a negative contribution from net exports of goods and services. In the first six months of 2020, imports declined by 3.7 per cent, which were outweighed by the drop in exports of 5.2 per cent. Further details on exports and imports of goods and services are provided in Chapter 3 of the Economic Survey.

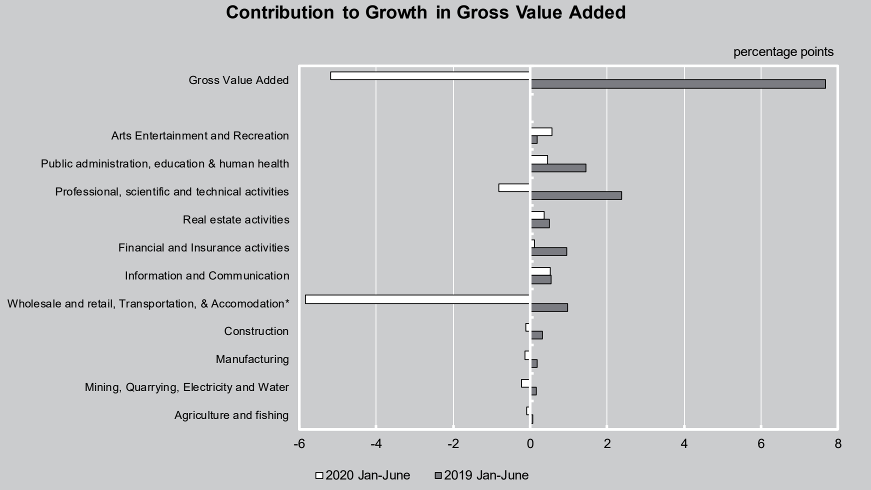
Table 1.1 provides more detailed data on the growth of different components of Gross Domestic Product (GDP). Data presented in this Chapter are based on National Accounts data, compiled in accordance with the European System of Accounts (ESA2010) methodology. This accounting framework enables comparability with EU Member States as well as a systematic and detailed description of the economy and its core components.

1.3 Maltese Economy – Sectoral analysis (Gross Value Added)

During the first half of 2020, total Gross Value Added (GVA) in nominal terms experienced a decline of 5.2 per cent over the same period in 2019, reaching a total of €5.4 billion. (Chart 1.3). The decline in GVA was predominantly felt in the services sector, which contributed a 4.7 percentage points drop, followed by negative contributions of 0.4 and 0.1 percentage points in the secondary and primary sectors, respectively.

The Wholesale and Retail Trade, Transport, Accommodation and Food services sector experienced the largest decline of 29.8 per cent, whilst other significant declines were recorded in the Mining, Quarrying, Electricity and Water sector (-12.5 per cent), the Agriculture and Fishing sector (-11.0 per cent) and the Professional, Scientific and Technical Activities sector (-4.6 per cent). However, some sectors did manage to record positive growth rates, including the Information and Communications sector (7.5 per cent), the Arts, Entertainment and Recreation sector (6.6 per cent), the Real Estate sector (5.7 per cent), as well as the Public Administration sector (2.6 per cent). The highest

Chart 1.3



** Includes food and services activities*

Source: National Statistics Office

contribution to GVA was recorded in the Arts, Entertainment and Recreation sector (0.6 percentage points).

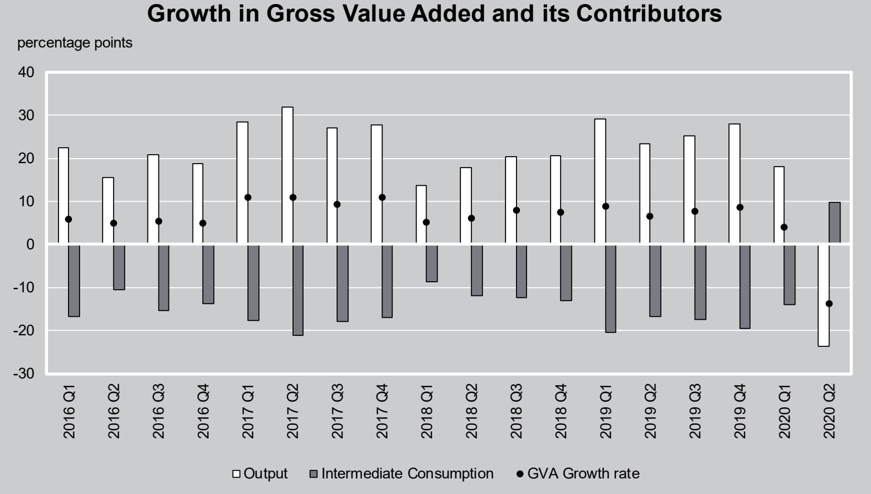
1.3.1 Contributors to GVA

On the output side, GVA is defined as the value of all newly created goods and services (i.e. output) less the value of inputs and raw materials consumed in their production (i.e. intermediate consumption). Chart 1.4 shows the year-on-year growth in GVA and the evolution of the main contribution of output and intermediate consumption to this growth over time. Up to the end of 2019, it is evident that GVA growth was primarily driven by output growth. In the second quarter of 2020, output contributed to a substantial decline in GVA by 23.6 percentage points. The fall in intermediate consumption mitigated some of this and contributed positively to GVA growth by 9.8 percentage points.

1.3.2 Manufacturing Performance

The differences in the performance of the main sub-sectors within the manufacturing industry during the first six months of

Chart 1.4

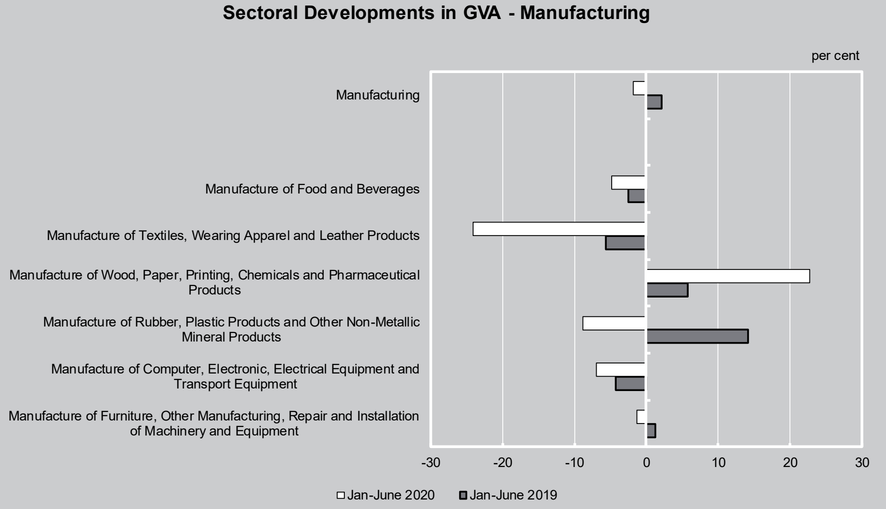


Source: National Statistics Office

2020 are reviewed and compared to those of the previous year. Moreover, Chart 1.5 provides an assessment of the change in GVA of the different sub-sectors within the manufacturing industry.

The Manufacturing sector experienced a 1.8 per cent decline during the first six months of 2020, when compared to the same period in 2019. The main sectors which contributed to the negative growth rate include the Manufacture of Textiles, Wearing Apparel and Leather Products, which recorded a decline of 24.1 per cent, while the Manufacture of Rubber, Plastic Products and Other Non-Metallic Mineral Products recorded a downturn of 8.7 per cent. Other significant declines were recorded in the Computer, Electronic, Electrical Equipment and Transport Equipment sub-sector (-7.0 per cent), the Manufacture of Food and Beverages sub-sector (-4.8 per cent), and to a lesser extent in the Manufacture of Furniture, Other Manufacturing, Repair and Installation of Machinery and Equipment sub-sector (-1.3 per cent). However, the production of Wood, Paper, Printing and Pharmaceuticals increased on the back of a positive performance in the pharmaceutical sector.

Chart 1.5



Source: National Statistics Office

1.3.3 Financial Services

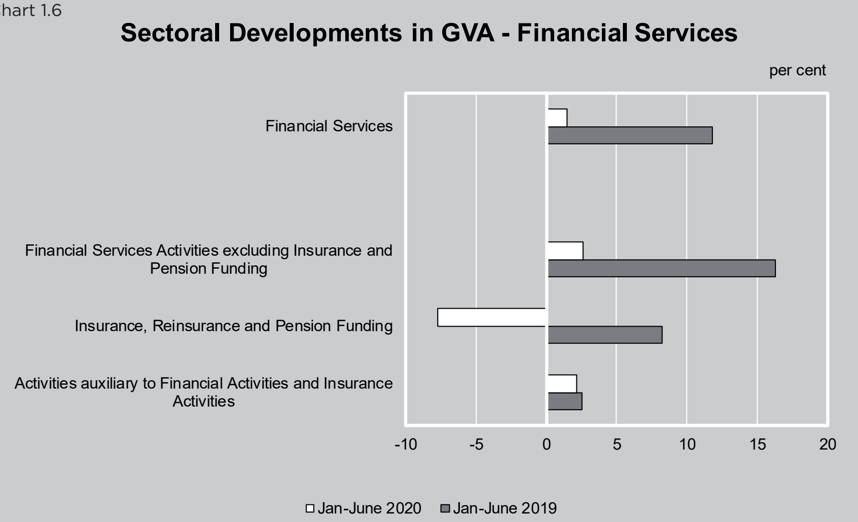
The Financial services sector accounts for approximately 7.1 per cent of Malta's GDP, and employs around 5.2 per cent of the workforce[1]. The GVA of the financial sector increased by an average of 7.7 per cent per annum since 2010. Over the past 10 years, financial service activities, excluding insurance and pension funding was the main driver of growth in the industry, followed by Insurance, reinsurance and pension funding, which witnessed a significant surge in growth following Brexit. Even in 2020, when economic activity was negatively impacted by the pandemic, the Financial services sector managed to record a growth of 1.5 per cent.

Over the past decade, Malta has successfully attracted key international players in financial services, supported by continuous improvement in the ease of doing business, a strong regulatory environment, unhindered access to the EU market, a stable currency, a long tradition of business support services especially auditing and legal services, enhanced tax competitiveness and the availability of a skilled and English-speaking workforce. Malta is currently home to twenty-six banks, including three branches of foreign banks and foreignowned credit institutions, eight domestically relevant insurance companies, of which three are life and five are non-life insurance companies, and sixty-seven domestically relevant sub-funds.

The industry continues to rapidly develop, recognising the importance of innovations like Financial Technology (FinTech), Blockchain and cryptocurrencies. Indeed, the Government of Malta has committed itself to be at the forefront of regulating the entire FinTech space.

Whilst financial service activities have traditionally dominated the growth of the sector, in recent years, auxiliary services and pension and insurance activities appear to be outpacing the dominant activities in terms of growth, particularly following Brexit. This is an important development as these sub-sectors present a greater multiplier effect on the Maltese economy, in terms of GVA, income and employment. Indeed, at an aggregate level, the total multipliers obtained for the financial services sector are relatively lower in comparison to other dominant sectors in the economy. This is largely attributed to the high import content within the sector, which is affected by the activities of Special Purpose Entities (SPEs).[2]

Chart 1.6



Source: National Statistics Office

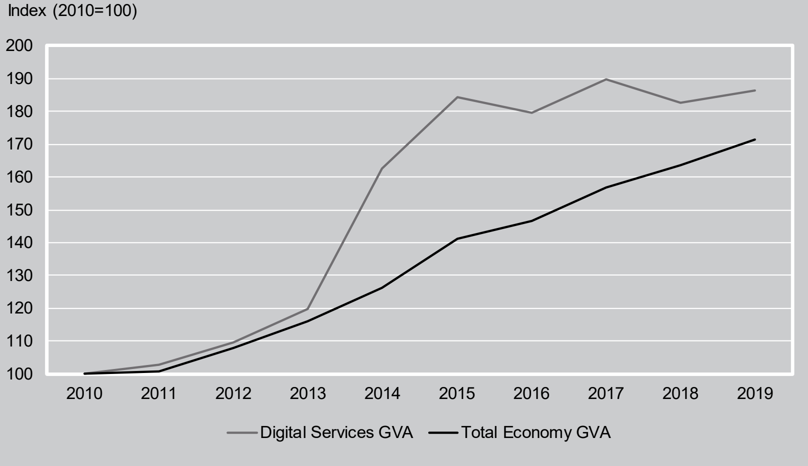
1.3.4 The Digital Economy

The development of a resolute digital services sector[3] has been central to Malta's recent economic performance, competitiveness and jobs strategy. During the past decade, the industry experienced remarkable growth, contributing an average of 1.3 percentage points to GVA, while employing almost 25.0 per cent of the gainfully occupied workforce. This growth is particularly attributable to a steady increase in Gambling and Betting activities, which has close interlinkages with the Information and Communication sector.

Although the sector contributes substantially to the Maltese economy, there remains scope to increase the indirect contribution of the sector by strengthening its links with other areas of the economy. Indeed, the backward linkages in the Information and Communications Sector and the Arts Entertainment and Recreation sector with the rest of the economy remain limited compared to other sectors, particularly in the latter[4]. This suggests that most inputs are not procured from domestic sources and are often imported. Forward linkages are rather strong in Information and Communications suggesting that it provides a substantial input in the production of other sectors of the economy.

Chart 1.7

Sectoral Developments in GVA - Digital Services

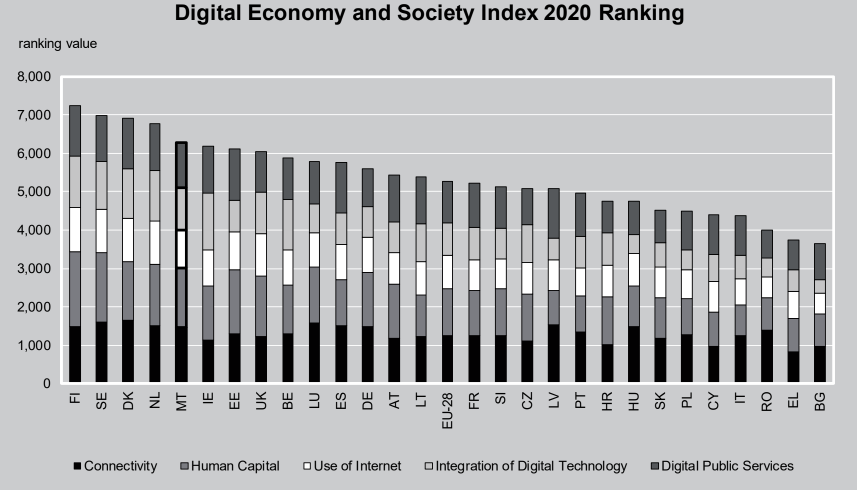


Source: National Statistics Office

Chart 1.7 analyses the performance of the main sub-sectors within the digital services industry during the first six months of 2020 and compares the developments recorded during the same period a year earlier. GVA growth in digital services stood at 11.6 per cent in the first half of 2020, an 8.1 percentage point improvement on the growth rate registered a year earlier. The Covid-19 pandemic further demonstrated the importance of the digital economy, and how digital skills can be used to both sustain and propel economic activity. Gambling and Betting Activities was the main driver of this growth, followed by Software Development.

The Digital Economy and Society Index (DESI) monitors the digital performance and competitiveness of EU countries on an annual basis. The index is made up of five dimensions; Connectivity, Human Capital, Use of Internet, Integration of Digital Technology, and Digital Public Services. Malta ranked 5th out of all EU Member States in 2019, performing well above EU average in all five dimensions. Malta performs relatively well in human capital with a high share of ICT specialists and graduates, business digitisation, improvements in broadband connection, and the use of big data.

Chart 1.8



Source: Digital Economy and Society Index 2020 Report

Box 1.1

Tourism

Tourism is an important industry for the Maltese economy. Tourist satellite accounts indicate that this industry contributes directly 5.7 per cent to the Maltese economy (NSO, 2010 Tourism Satellite Accounts, 2017). However, as evidenced in the Covid-19 crisis, it has substantial interlinkages with the rest of the economy. The Accommodation and Food services sectors, which are a major component of the tourist industry rank first in backward linkages indicating that the industry is the major user of domestically produced goods and services (For more details refer to Central Bank publication https://www.centralbankmalta.org/file.aspx?f=51530). Forward linkages are however more limited, compared to other sectors of the economy (Ibid, 2017) suggesting that supply disruptions will have limited constraints on other sectors. The limited forward linkages minimize the potential multiplier effect of tourism.

In the first quarter of 2020, inbound tourists amounted to 370,216, constituting a 13.1 per cent decline over the same period in 2019. Throughout January and February, inbound tourists increased by 16.7 per cent, maintaining the strong growth trend exhibited in the shoulder months throughout previous years. However, in mid-March, travel restrictions were imposed to contain the spread of Covid-19, causing significant disruption to the tourism industry. By the end of July, total inbound tourists reached 418,959, which is 72.3 per cent lower than the corresponding amount in 2019.

The large-scale cancellations of bookings, the closure of airports and the collapse of new reservations strained the financial positions of airline operators. The damage was also reflected in other sectors such as Wholesale and Retail Trade and Accommodation and Food service activities, in which the

Box 1.1 cont.

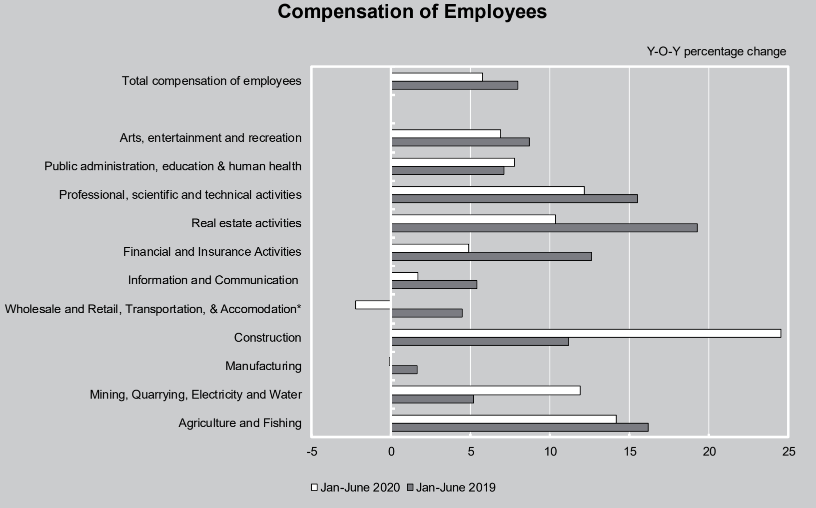
interlinkages with the Tourism sector are prevalent. Although the airport reopened in July, inbound tourist activity remained suppressed due to an unprecedented resurgence in the number of cases towards the end of that month, which led to a fresh set of travel restrictions to be imposed by some main tourism markets.

1.4 Gross Domestic Product: Income Approach

In the first half of 2020, compensation of employees reached €3 billion. Increases in compensation for employees from the prior year were recorded among the majority of NACEs, except for modest declines of 2.2 per cent and 0.1 per cent recorded in the Wholesale and Retail trade sector and the Manufacturing sector, respectively. The contained impact of the Covid-19 shock on compensation of employees is reflective of the effectiveness of Government measures to prevent a drastic loss of jobs and incomes, including the wage supplement. Notable increases in compensation for employees were recorded in the Construction sector (24.5 per cent), the Agriculture and Fishing sector (14.1 per cent), the Professional, Scientific and Technical Activities sector (12.1 per cent) and the Real Estate sector (10.4 per cent).

The factor distribution of income gains throughout the first half of 2020 were somewhat less balanced when compared to the same period last year. Essentially, the decline in GDP was entirely absorbed by corporate profits, as gross operating surplus and mixed income witnessed a decline of 9.5 per cent compared to the first half of 2019, while compensation of employees increased by 5.8 per cent. Throughout the first half of 2020, subsidies on production and imports increased by €165.9 million or 161.1 per cent while taxes on production and imports declined by €117.1 million or 14.8 per cent. Developments in the factor distribution

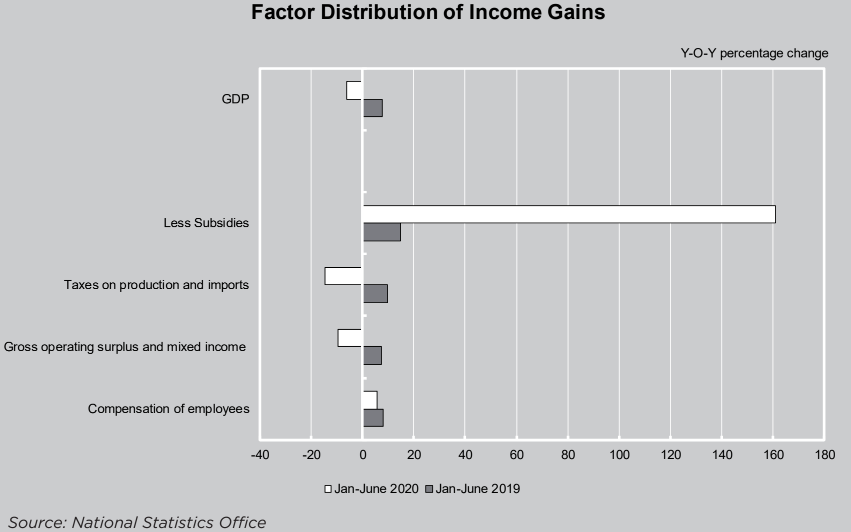
Chart 1.9



** Includes food and services activities*

Source: National Statistics Office

Chart 1.10



Source: National Statistics Office

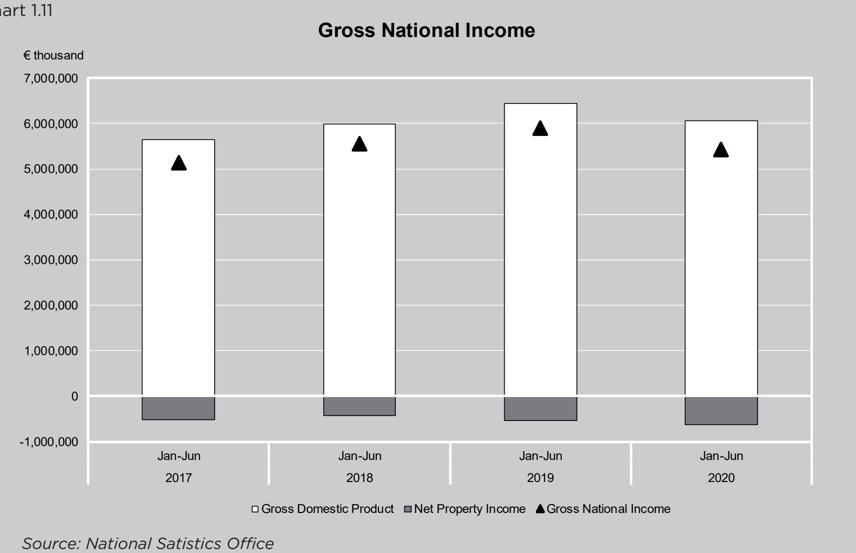
of income throughout the first six months of both 2019 and 2020 are shown in Chart 1.10.

1.4.1 Gross National Income

Gross National Income (GNI) is calculated by adjusting GDP at market prices for net compensation received from or paid to the rest of the world, subsidies less taxes from/to the rest of the EU and net income property from the rest of the world. GNI represents the total primary income receivable by resident institutional units, irrespective of where that income was generated. In the last 5 years, GNI was smaller than GDP as the return to foreigners on their domestic investment exceeded the returns generated abroad by domestic nationals.

Net property income paid abroad in the first half of 2020 amounted to €630.7 million, a 16.3 per cent increase from the amount registered in the same period in 2019. Net compensation of employees from the rest of the world was increasing rapidly up to the second quarter of 2019, while employment of foreign workers to mitigate the shortage of labour in Malta was on the rise. However, from the second quarter of 2019, a downward trend in net payments emerged. This was further exacerbated by the pandemic possibly as a result of repatriations.

Chart 1.11



Source: National Satistics Office

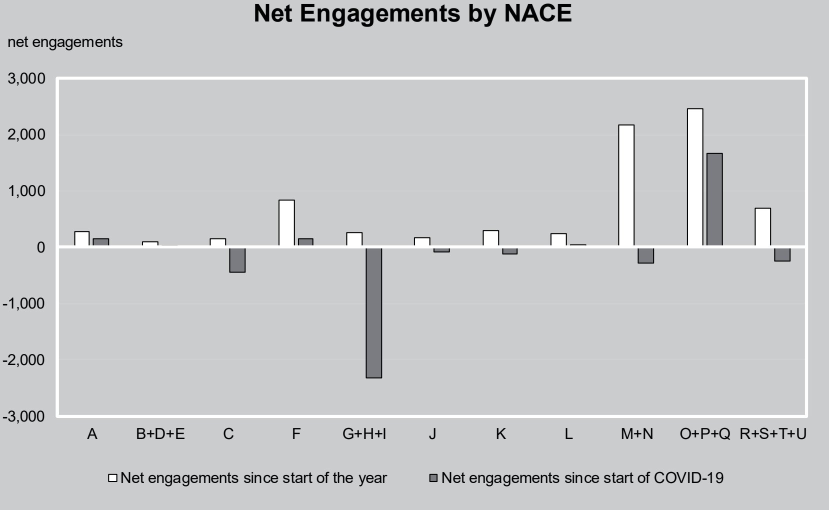
Box 1.2

Tracking Economic Developments

The dynamic nature of the Covid-19 pandemic and the response of global Governments shed light on the importance of tracking real time data to monitor the behavioural response of economic agents. In this regard, economists within the Ministry for Finance and Financial Services routinely monitor several high frequency indicators, including weekly employment engagements and terminations, weather-adjusted electricity demand, Google mobility trends and sectoral sentiment indicators.

Net Engagements
Chart 1 compares net engagements by NACE from the start of the year up to the last week of August to net engagements since the start of Covid-19 in the first week of March up to the last week of August. Overall, net engagements since the start of the year are positive in all NACE categories. However, when assessing developments since March, negative net engagements

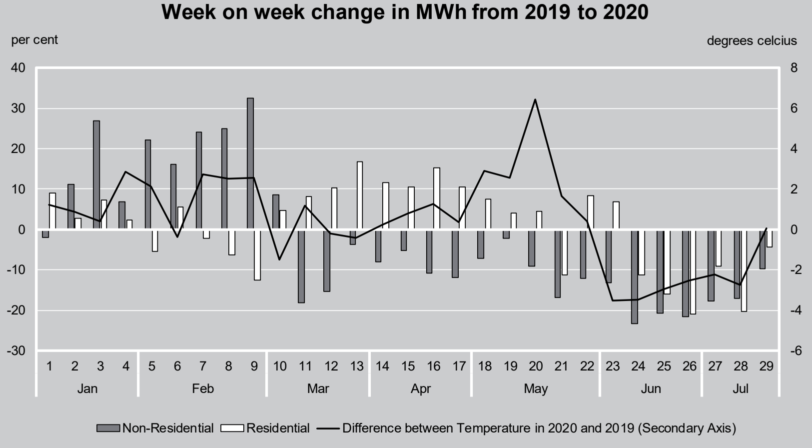
Chart 1



Source: Jobsplus

Box 1.2 cont.

Chart 2



Source: Enemalta, Malta International Airport

emerge, particularly in the Wholesale and Retail trade sector (G+H+I), the Manufacturing sector (C) and to a lesser extent, in the Professional, Scientific and Technical Activities sector and the Arts, Entertainment and Recreation sector which illustrates the impact of the pandemic on sectoral employment.

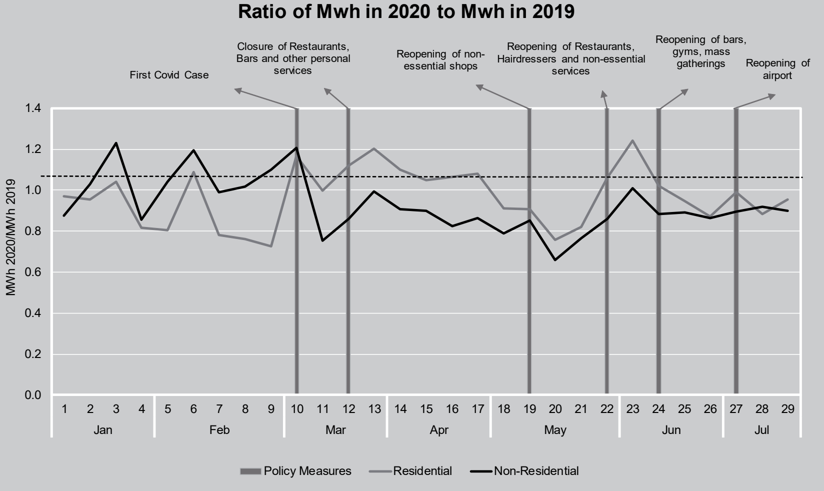
Electricity Demand

In May (weeks 19-22), the temperature was hotter than average, residential electricity usage was modestly higher than the same weeks in 2019, and usage among non-residents was significantly lower, although this is a direct effect of the partial-lockdown conditions imposed at the time. In June and July (weeks 23-29), electricity usage was lower in both residential and non-residential localities, but partially explaining this lower usage is a cooler summer compared to 2019.

Chart 3 illustrates the ratio of energy demand in 2020 relative to 2019. Indeed, up to the end of July, after controlling for weather effects, the week on week rate of change in energy demand

Box 1.2 cont.

Chart 3



Source: Enemalta, Malta International Airport

from 2019 to 2020 indicates that non-residential demand was around 10.0 per cent lower than 2019 while residential demand was around 4.0 per cent lower. Among the main drivers behind this lower energy demand are a reduction in tourists, the repatriation of previously residing migrants and possible more cautious energy usage by households and industry.

Google Mobility

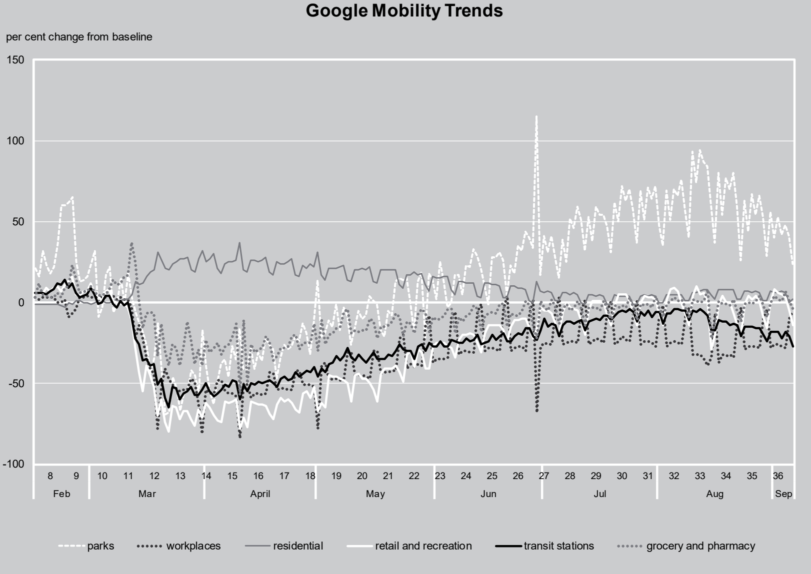
Google mobility reports show how visits and duration of stay at different locations change compared to a baseline, which is the median value, for the corresponding day of the week, during the 5-week period January 3 to February 6, 2020. Parks include mobility trends for places like local parks, national parks, public beaches, marinas, dog parks, plazas, and public gardens. Transit stations comprise mobility trends for public transport hubs. Retail and recreation include mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters. Residential and

Box 1.2 cont.

workplaces comprise mobility trends for places of residence and places of work, respectively.

Chart 4 shows the strong drop in mobility around locations of a non-essential nature such as retail and recreation and parks. A combination of lower tourists and domestic behavioural changes such as a shift to working from home caused a notable decline in public transport usage. As the reopening of the economy was gradually phased in, an improvement in mobility was observed. As at the end of August, retail and recreation was approximately close to the baseline, but this level is much lower than the usual volume recorded in the summer months. Also reflective of the reduced mobility in retail and recreational places are the repetitive and symmetric downward spikes in the data series. These downward spikes correspond to Saturdays and Sundays, implying that weekend volume in retail and

Chart 4



Source: Google Mobility Report

Box 1.2 cont.

recreation locations was substantially lower than the baseline trend and also previous summer months. Once again, this observation is a direct result of lower tourists and potential aversion of public places by domestic residents. A further round of mobility changes was observed as inbound tourism restrictions were re-imposed, mass events were cancelled, and non-food servicing bars and clubs were shut down. As a direct effect, public transport usage declined and the gradual recovery in retail and recreation stagnated, while movement in parks also receded from its mid-August peak.

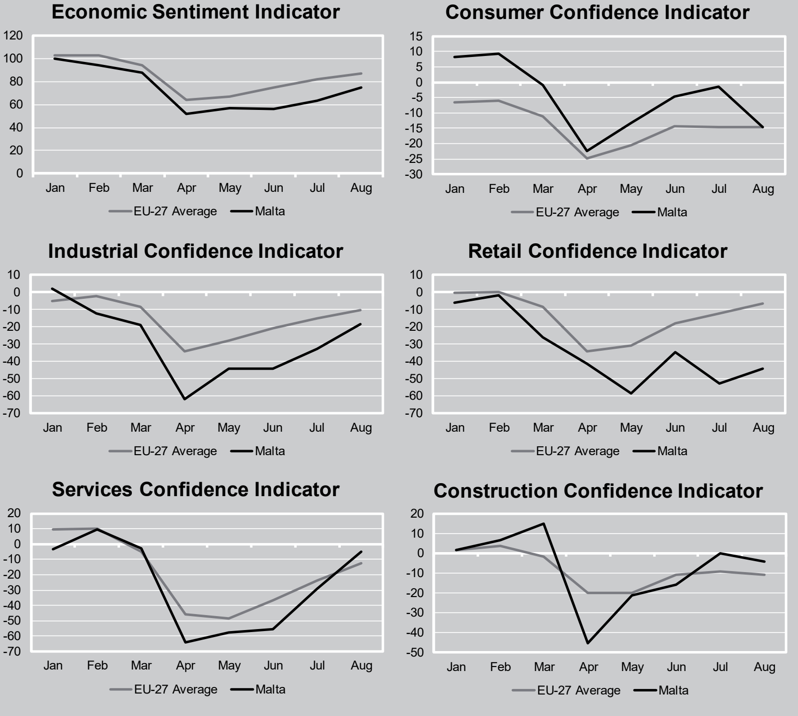
Economic Sentiment

Sentiment indicators are based on monthly surveys distributed to representatives of the Industry (Manufacturing), Services, Financial, Retail Trade and Construction sectors, as well as to consumers. These surveys provide essential information for economic surveillance, short-term forecasting and monitoring the business cycle. Sentiment indicators are highly correlated with sectoral performance and given their forward-looking nature, have proved to be useful in gauging sectoral prospects.

On average, the overall economic sentiment is modestly lower in Malta than the EU average. This result is because Malta is a small open economy which has economic sectors such as tourism which are more directly exposed to the disruptions caused by the virus. Nevertheless, industrial confidence and service confidence both seem to be on a positive trajectory as the Maltese economy rebounds from the lows experienced in the second quarter of 2020.

Box 1.2 cont.

Chart 5



Source: Eurostat

Box 1.3

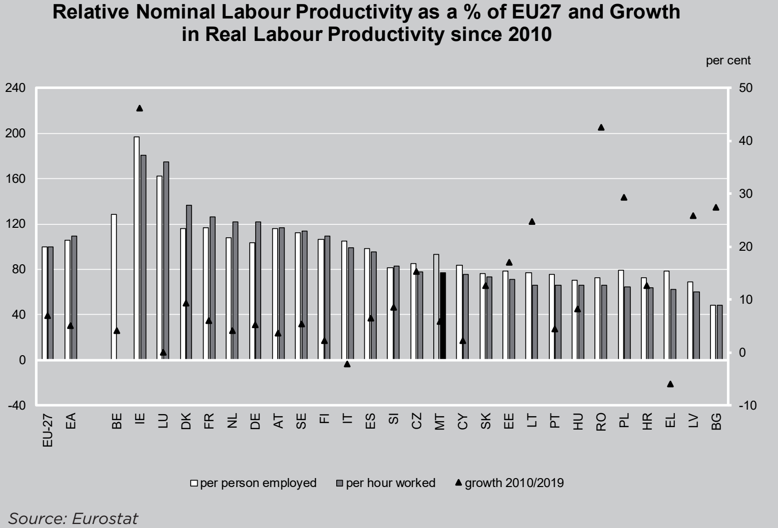
Labour Productivity and Competitiveness

This section appraises Malta's price competitiveness based on unit labour costs and labour productivity as an important determinant of per capita income levels in Malta.

GDP per person employed provides an indication on the productivity of an economy. In 2019, Malta's nominal labour productivity, measured per person employed, remained close to the EU average at 93.6 per cent. When measured using hours worked, Malta's labour productivity amounted to 77.1 per cent of EU average. Between 2010 and 2019, real labour productivity per person employed increased by 5.9 per cent, a remarkable level of growth when considering the high level of convergence already achieved.

Since 2010, Malta's nominal unit labour costs rose higher than EU and Euro Area averages, reaching an average annual growth

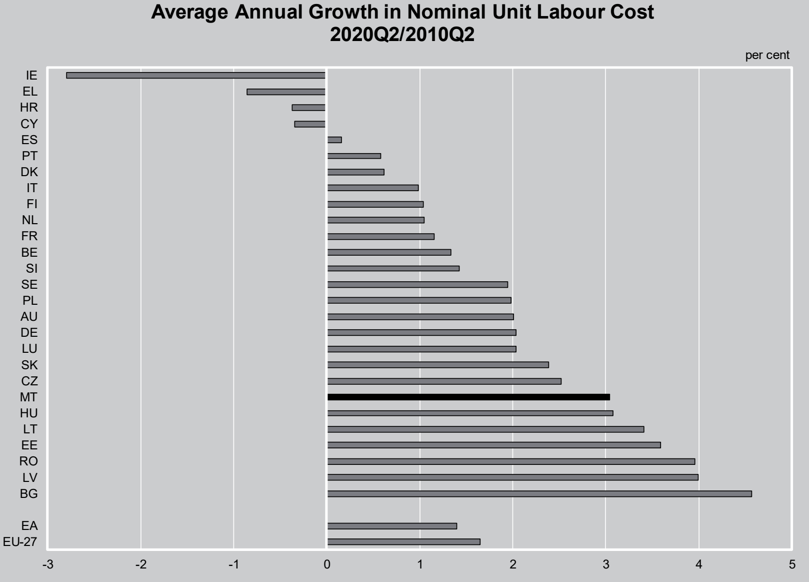
Chart 1



Source: Eurostat

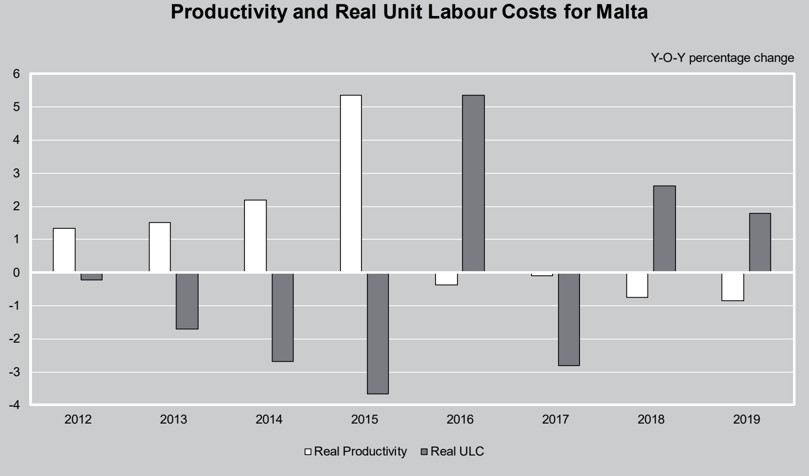
Box 1.3 cont.

Chart 2



Source: Eurostat

Chart 3



Source: Eurostat

Box 1.3 cont.

rate of 2.2 per cent by 2019. In real terms, unit labour costs have been modestly decelerating since 2016, as modest increases in real compensation per employee are being supported by receding productivity due to employment growth outpacing real GDP growth.

1.5 Inflation

1.5.1 International Comparison

In August 2020, Malta's 12-month moving average rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) stood at 1.1 per cent, from 1.6 per cent in September 2019. The annual inflation rate in August 2020 was 0.7 per cent.

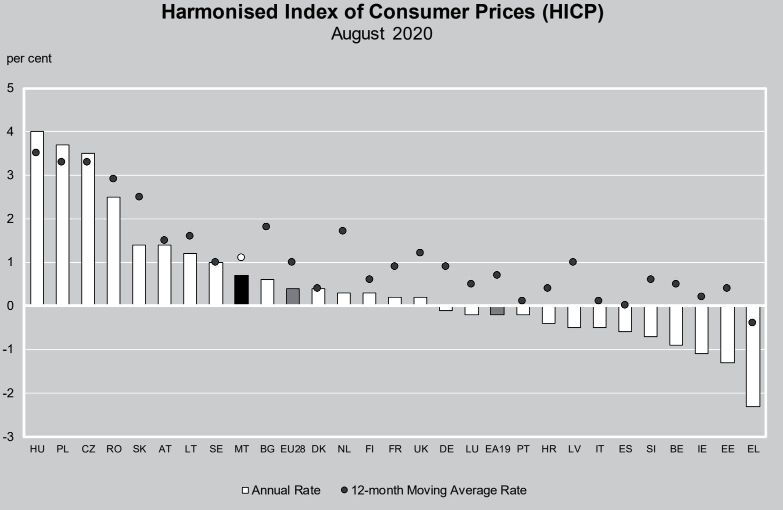
During the period between September 2019 and August 2020, the main contributors to the annual rate of inflation were the Food and Non-alcoholic Beverages Index and the Restaurants and Hotels Index with an average contribution of 0.38 percentage points and 0.31 percentage points respectively (Chart 1.13). The contributions of the other indices during the same period averaged to 0.45 percentage points.

1.5.2 Retail Price Index

The official rate used to compute the Cost of Living Adjustment (COLA) is the 12-month moving average rate of inflation as measured by the Retail Price Index (RPI). It is to be noted, that the weight composition of the HICP and the RPI is different.

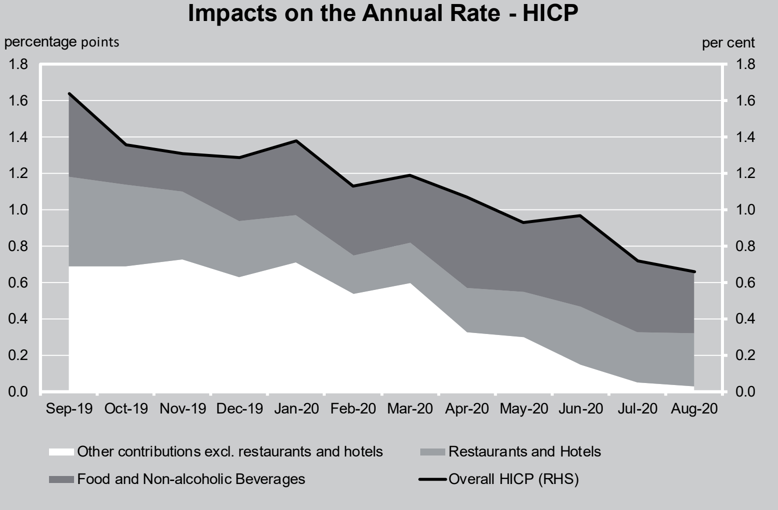
During the twelve months till August 2020, the 12-month moving average rate of inflation as measured by the RPI showed a sustained gradual decline where it reached the rate of 1.0 per cent from 1.7 per cent recorded in September 2019 (Chart 1.14).

Chart 1.12



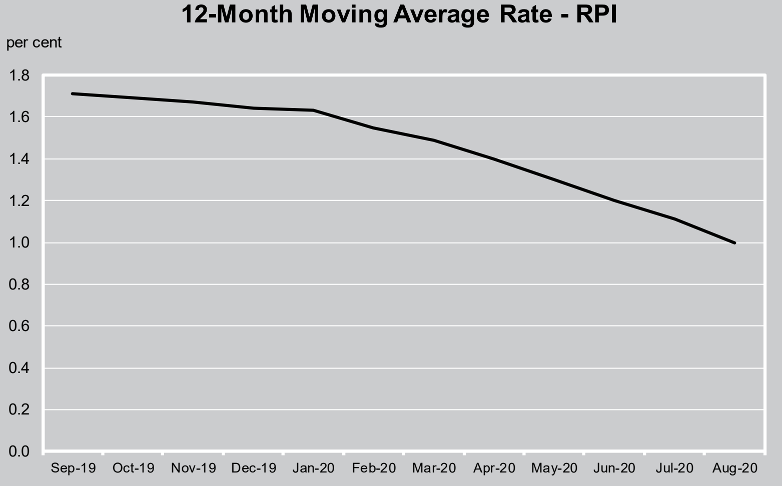
Source: Eurostat

Chart 1.13



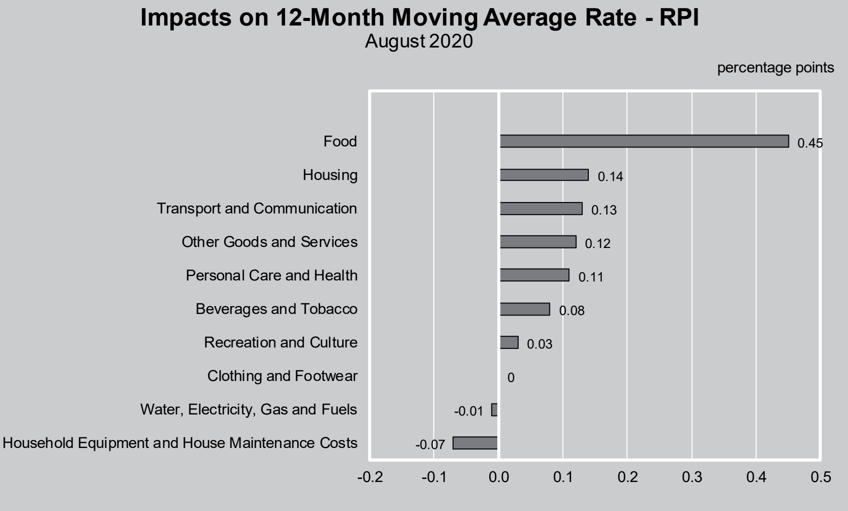
Source: National Statistics Office

Chart 1.14



Source: National Statistics Office

Chart 1.15



Source: National Statistics Office

In August 2020, the Food sub-index recorded the highest contribution to the 12-month moving average rate of inflation, reading at 0.45 percentage points. This was mainly driven by developments in the prices of milk products, served meals and fruit. The second highest contribution was recorded in the Housing sub-index at 0.14 percentage points, emanating from price developments in rent and various construction works.

The sub-indices that showed a negative contribution in August were Household Equipment and House Maintenance Costs and Water, Electricity, Gas and Fuels, reflecting a decrease in gas and furniture prices.

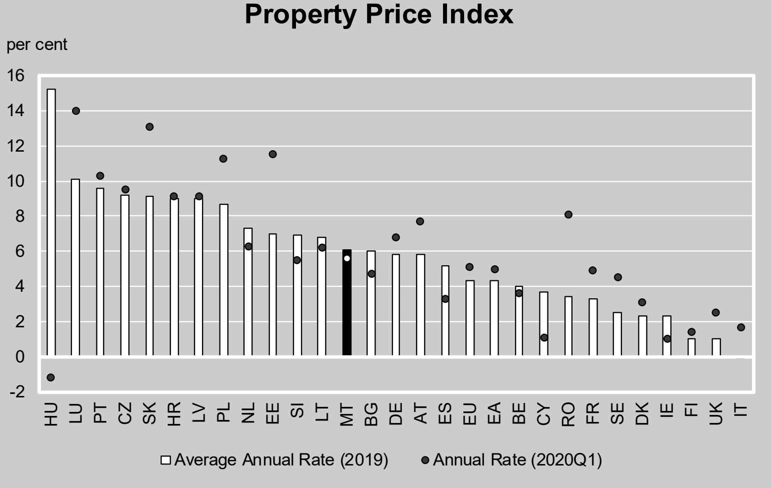
Box 1.4

Residential Property Prices

According to the Property Price Index (PPI) compiled by the National Statistics Office and based on administrative records[1], Malta's property prices increased by 6.1 per cent on average in 2019. During the year, Hungary recorded the highest rate at 15.2 per cent whereas the lowest rate was Italy's, which was in negative territory (-0.1 per cent).

During the first quarter of 2020, the PPI for Malta increased by 5.6 per cent when compared to the same quarter of last year.

Chart 1



Source: Eurostat

Footnote:

[1] Commissioner for Revenue (CfR).

Footnotes:

[1] National Accounts definition.

[2] For more details refer to MFSA publication https://www.mfsa.mt/wp-content/uploads/2019/01/2017_October_288.pdf

[3] The digital services sector constitutes the following: Telecommunications, Computer Programming, Consultancy and Related Activities, Information Service Activities and Gambling and Betting Activities.

[4] For more details refer to Central Bank publication https://www.centralbankmalta.org/file.aspx?f=51530

2. Labour Market and Social Developments

2. Labour Market and Social Developments

2.1 Introduction

Despite being directly hit by the confinement measures taken in the wake of the Covid-19 pandemic, the performance of the Maltese labour market remained robust, with the unemployment rate remaining one of the lowest in the European Union (EU).

During this time, the Government launched several measures and financial aid packages including the wage supplement and the quarantine leave supplement in a bid to safeguard employment. These measures, alongside the resilience of the Maltese labour market ensured that high levels of employment were safeguarded. Furthermore, voluntary repatriations of foreign workers also contributed to mitigate the magnitude of job losses. In the meantime, the at-risk-of-poverty or social exclusion rate together with the measures of income inequality remained below the EU average.

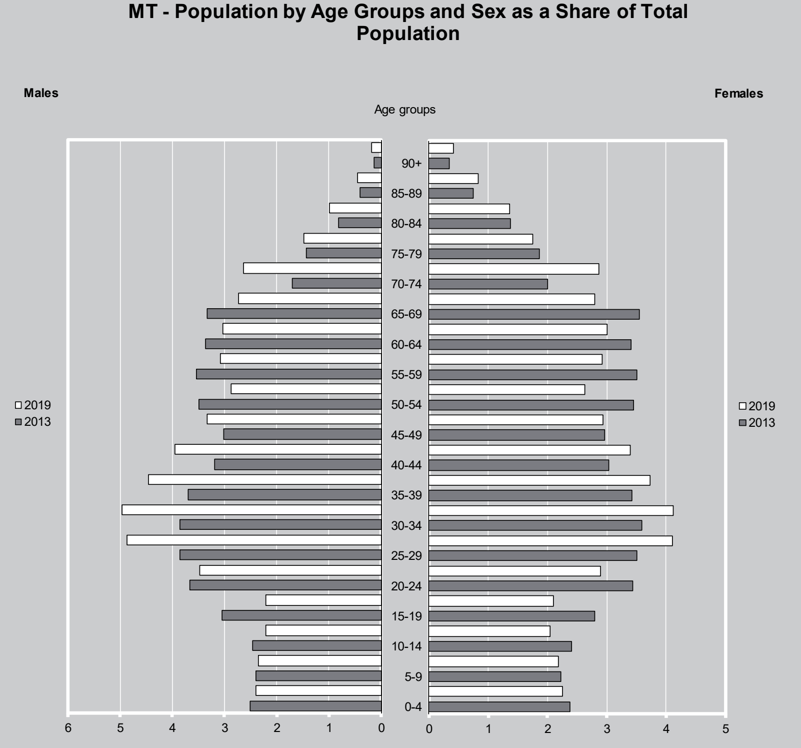
2.2 Labour Supply

2.2.1 Dependency Ratio

In 2019, Malta continued to register improvements in life expectancy and also increases in inward migration. As a result, the population in Malta grew by 4.3 per cent when compared to 2018, totalling 514,564 in 2019, while the share of working age population improved marginally up to 68.1 per cent, and the share of people aged 65+ out of the total population stood at 18.5 per cent.

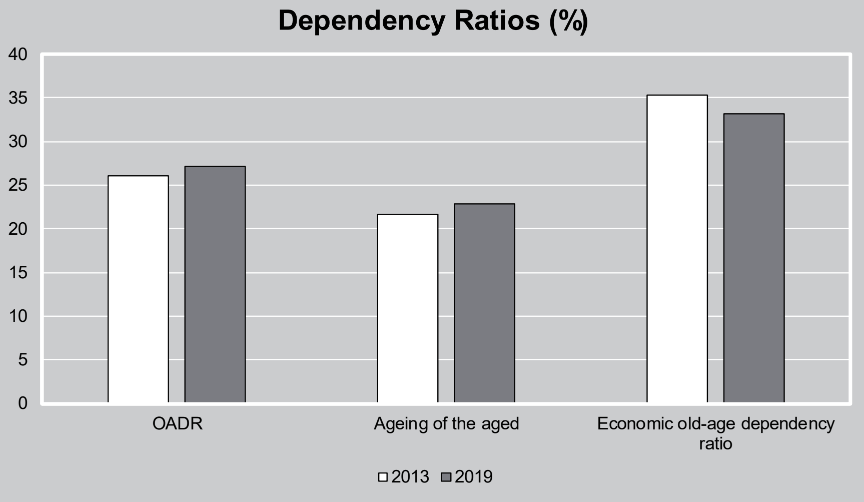
The study of changes in the dependency ratios illustrates the dynamics of the ageing process, by relating the number of individuals that are likely to be 'dependent' – youths and the elderly – on the support of others for their daily living, to the number of individuals who can provide such support. Key indicators of age dependency are the old-age-dependency ratio (OADR – showing persons aged 65 years or above in relation to the number of individuals aged 15-64 years), the ageing of

Chart 2.1



Source: National Statistics Office

Chart 2.2



Source: National Statistics Office

the aged ratio (80+ age bracket as a percentage of the 65+ age bracket) and the economic old-age dependency ratio (inactive population aged 65+ as a percentage of the employed population 15-64).

Whilst both the ageing of the aged and the OADR are above the 2013 ratios, the OADR has marginally decreased, when compared to the 2018 ratio. The economic old-age dependency ratio has continued to decline in 2019. Improved employment rates, particularly for women and younger workers, as well as the positive net migration of people of working age are all contributing to ease pressure stemming from rising old-age dependency.

2.2.2 Regional overview

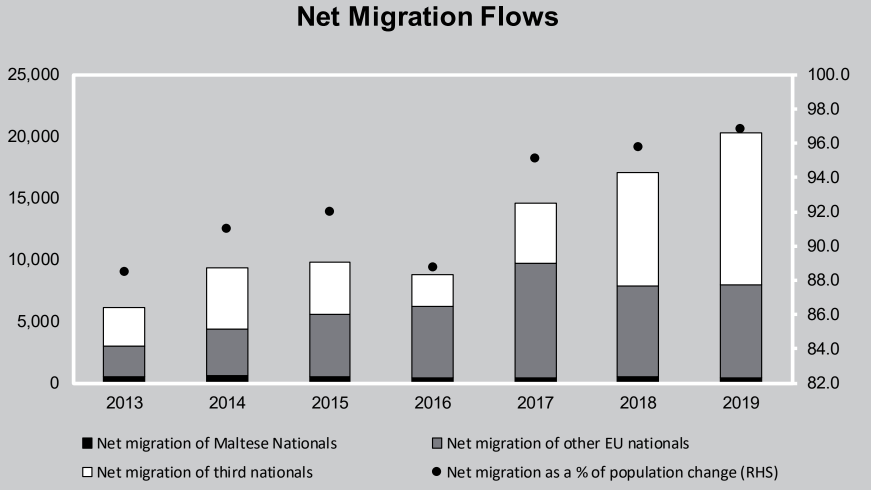
The population in Gozo increased by a further 3.1 per cent in 2019, the highest rate recorded since 2012. The share of Gozo's population in relation to the total population registered another decrease of 0.1 percentage points over the previous year, standing at 6.7 per cent in 2019. The share of the population in Gozo aged 65+ stood at 21.7 per cent, 3.5 percentage points higher than the share recorded in Malta. A similar trend is also reflected in the old-age dependency ratio of Gozo, which is 6.5 percentage points higher than that of Malta, standing at 33.2 per cent in 2019.

2.2.3 Net Migration

Net migration (immigration less emigration) increased by 19.0 per cent reaching a total of 20,343 persons by the end of 2019. The majority of the net-migration, around 61 per cent, was registered by third-country nationals (12,355), followed by other EU nationals (7,489 – around 37 per cent).

The onset of the pandemic is expected to have an effect on the net migration position for 2020. In fact, by end of May 2020, Malta had received a total of 10,278 requests for repatriation to other countries, although this figure might include people visiting Malta on a short-term basis.

Chart 2.3



Source: National Statistics Office

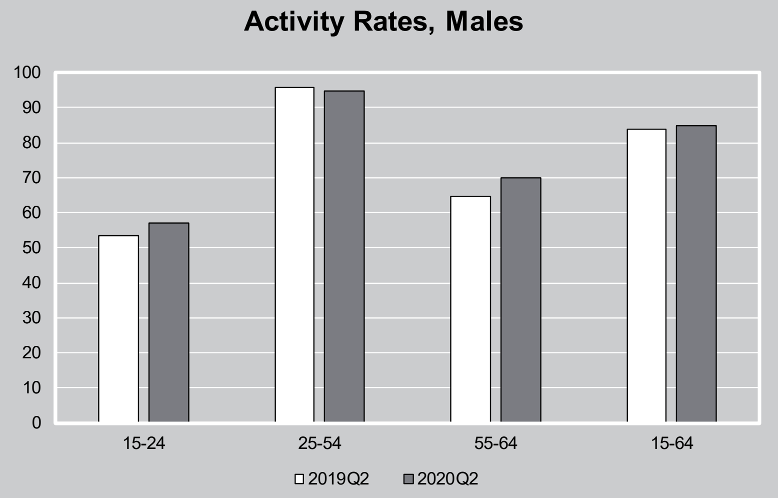
2.2.4 Labour Supply

The Labour Force Survey (LFS) data, for the second quarter of 2020, shows that the activity rates for persons aged 15-64 stood at 76.4 per cent, an increase of 0.9 percentage points when compared to the same three months of 2019. For females, activity rates increased by 0.5 percentage points whereas for males the increase registered was of 1.2 percentage points. Activity rates for older persons aged between 55-64 increased by 5.2 percentage points for males and 3.9 percentage points for females over the corresponding quarter of 2019 (Chart 2.4 and Chart 2.5).

2.3 Labour Market Outcomes

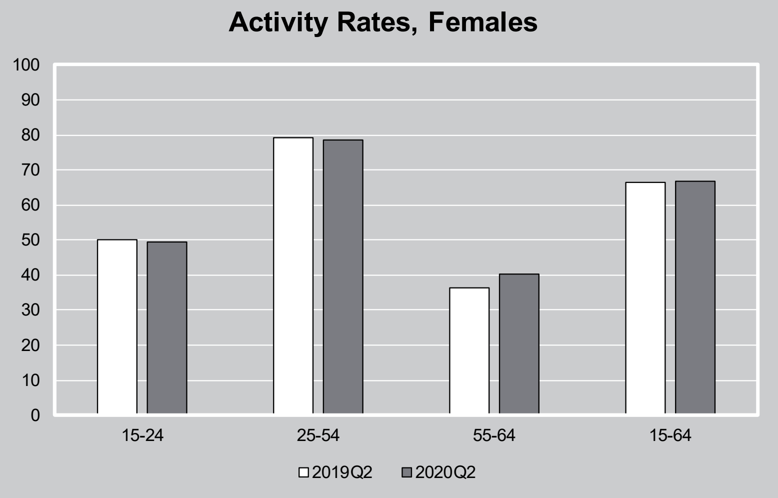
In the second quarter of 2020, despite the pandemic, the number of employed persons increased by around 7,017 individuals over the same period in 2019, reaching a total of 259,253 persons in employment. Overall, employment rates for people aged 15-64 stood at 73.0 per cent, 0.2 percentage points higher than the 72.8 per cent recorded in the corresponding quarter of 2019. The highest employment rates were recorded for people aged 25-54 whereby out of every 100 individuals, 84 were in work.

Chart 2.4



Source: National Statistics Office

Chart 2.5



Source: National Statistics Office

Employment rates for persons in the 15-24 and 55-64 age groups improved for both males and females, with employment rates for the latter age group increasing by 3.3 and 1.9 percentage points for males and females respectively. Such an increase signifies the efforts made by the Government over the recent years to further engage older workers in the labour market. A decrease of 1.1 percentage points in the employment rate is however observed for both males and females falling in the 25-54 age group.

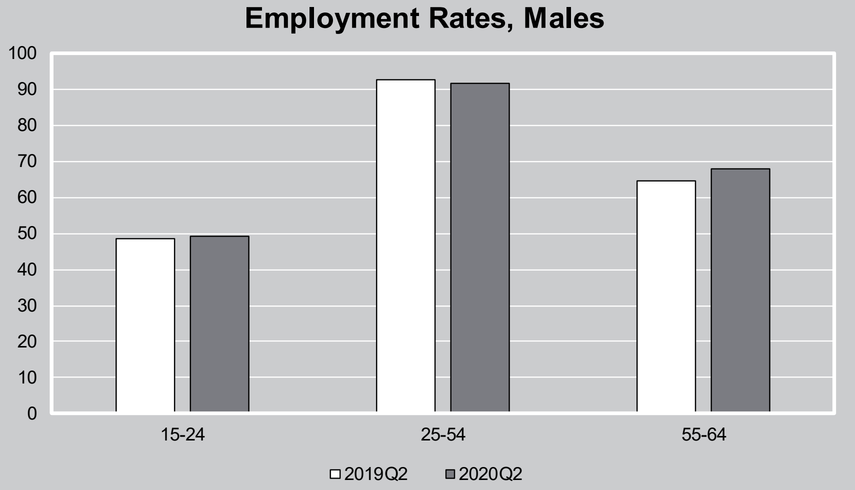
The closing down of the airport, education institutions and other non-essential retail, service and catering industries together with other restrictive measures resulted in a decline in the employment rate in the second quarter of this year when compared to the preceding quarter of the same year, as illustrated in Chart 2.8. Nevertheless, at 73.0 per cent, the employment rate was higher than that recorded in the second quarter of 2019.

In response, the Government announced further measures to encourage the retention of employees such as the extension of the Covid-19 Wage Supplement, introduced in March 2020, which provided employees with a basic wage to the employers to support the wages of their employees. It is estimated that at the end of July, 69,538 full-time and 10,038 part-time/casual employees had benefited from this measure.

Administrative records from Jobsplus confirm that the sectors contributing mostly to full-time employment growth between January 2019 and January 2020 included the Administrative and Support Service activities (1.6 percentage points), Construction (1.2 percentage points), Accommodation and Food Service activities (0.8 percentage points) and Professional, Scientific and Technical activities (0.8 percentage points). Market services contributed 6.1 percentage points to the growth whilst direct production contributed 1.7 percentage points.

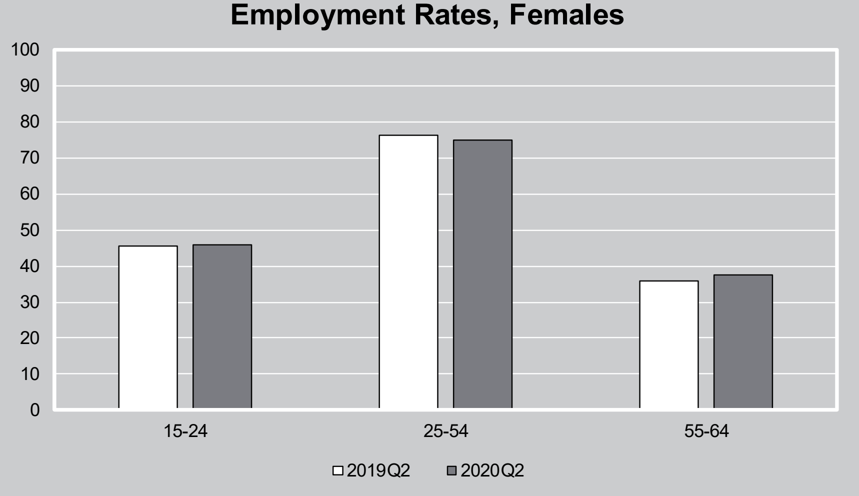
As of January 2020, foreign employees accounted for nearly 28 per cent of full-time employees in Malta. The Administrative and Support Services sector employed nearly 15 per cent of all foreign workers, followed by the Accommodation and Food Services sector with employment shares of 12.7 per cent. Europeans are mostly employed in the Arts, Entertainment and Recreation sector while third country nationals (TCN) tend to be employed in the Administrative and Support Services sectors.

Chart 2.6



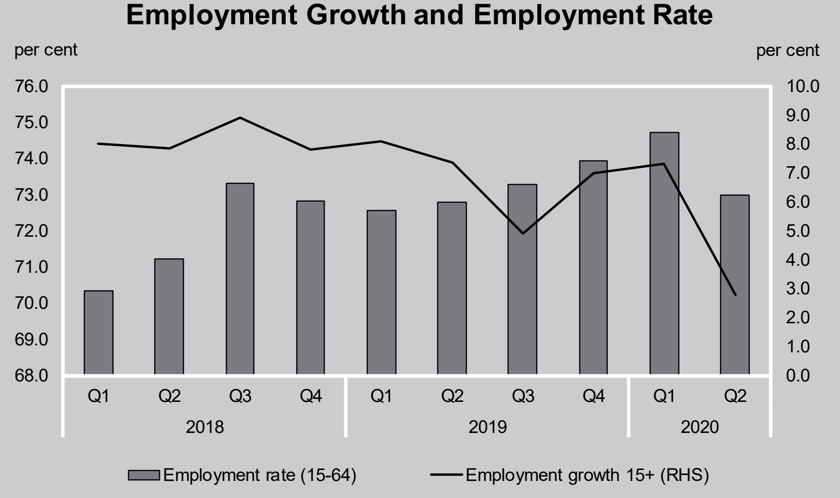
Source: National Statistics Office

Chart 2.7



Source: National Statistics Office

Chart 2.8



Source: National Statistics Office

Notwithstanding the challenges brought about by the pandemic, Malta managed to maintain an unemployment rate which is one of the lowest among its European peers. Despite the pandemic curtailing the downward trend in unemployment rates observed in recent years, by July 2020, Malta's unemployment rate stood at 4.3 per cent, well below the EU average of 7.2 per cent.

2.4 Sectoral Wages – Collective Agreements

The analysis presented in this section illustrates the changes and development in the average basic weekly wage rates based on collective agreements deposited with the Department of Industrial and Employment Relations (DIER). The period under review covers the period from August 2019 to August 2020. The analysis focuses on basic wage rates and does not take into account any additions to the basic wage rate such as overtime, allowances, bonuses and other financial benefits. Thus, it is pertinent to note that the indicators illustrated in the Tables below represent the weekly basic wage rates associated with full-time employment. The Covid-19 pandemic led some businesses to opt for deductions in working time while others resorted to deductions in allowances and bonuses. However, none of these

Contribution to Growth in Private Sector Employment*

Table 2.1 percentage points

		Dec 2018/ Dec 2017	Dec 2019/ Dec 2018	Jan 2020/ Jan 2019
	Direct Production	**1.0**	**1.7**	**1.7**
F	Construction	0.7	1.3	1.2
C	Manufacturing	0.2	0.2	0.3
A	Agriculture, forestry and fishing	0.1	0.1	0.1
E	Water supply; sewerage, waste management and remediation activities	0.0	0.1	0.1
B	Mining and quarrying	0.0	0.0	0.0
D	Electricity, gas, steam and air conditioning supply	0.0	0.0	0.0
	Market Services	**7.9**	**5.8**	**6.1**
N	Administrative and support service activities	1.0	1.5	1.6
I	Accommodation and food service activities	1.0	0.8	0.8
M	Professional, scientific and technical activities	1.6	0.7	0.8
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	0.7	0.4	0.6
R	Arts, entertainment and recreation	0.7	0.6	0.5
Q	Human health and social work activities	1.0	0.4	0.4
H	Transportation and storage	0.6	0.4	0.4
S	Other service activities	0.2	0.3	0.3
P	Education	0.2	0.2	0.2
J	Information and Communication	0.3	0.2	0.2
K	Financial and insurance activities	0.6	0.3	0.1
L	Real estate activities	0.1	0.1	0.1
T	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	-0.0	0.0	0.0
U	Activities of extraterritorial organisations and bodies	0.0	0.0	-0.0

* including temporary

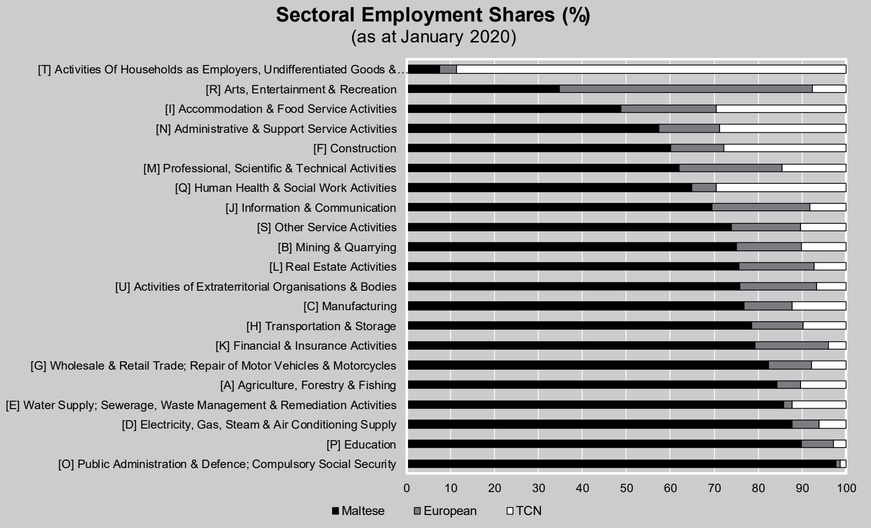
Source: Jobsplus

changes affect the basic wage rate, and are thereby not captured in the Tables in this section.

Table 2.2 shows the average basic weekly wage rate as at August 2019. The overall weighted average wage of all sectors stood at €366.80, whereas the weighted average basic wage for those employed in direct production and services stood at €323.32 and €376.93, respectively. This implies a sectoral gap of €53.61.

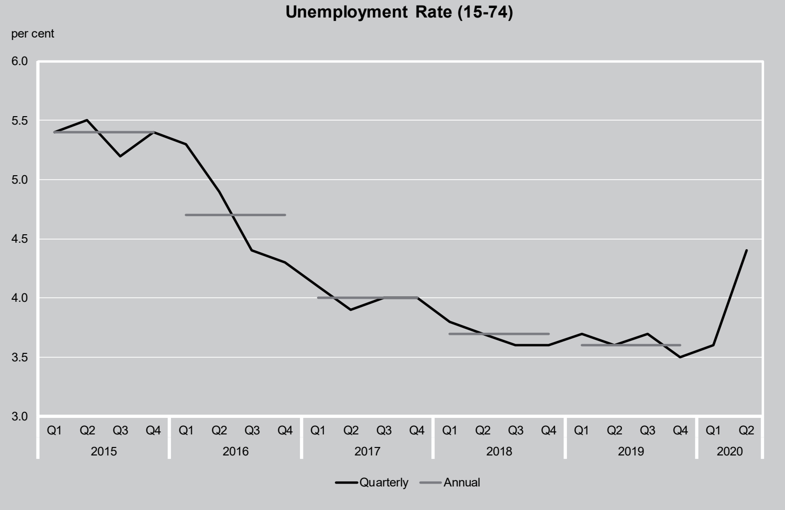
Based on the sample of collective agreements, as at August 2020, the weighted average weekly wage across all sectors stood at €376.22 (Table 2.3). The highest average weekly wage

Chart 2.9



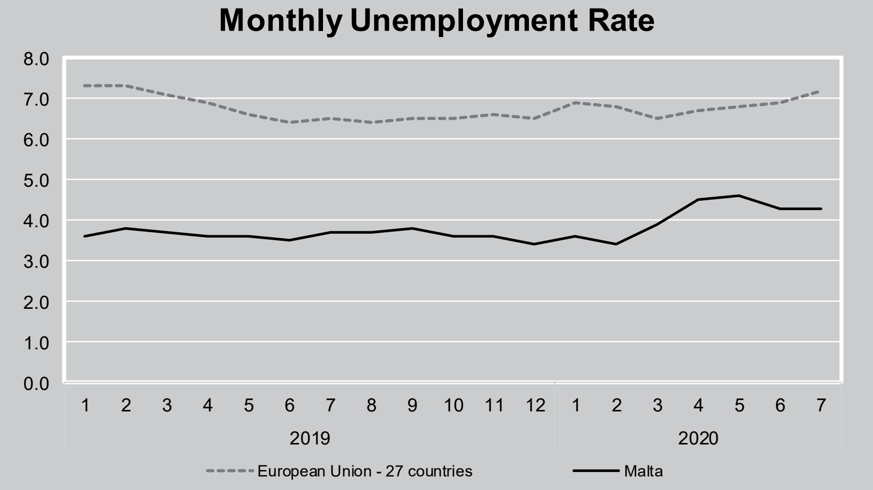
Source: Jobsplus

Chart 2.10



Source: National Statistics Office

Chart 2.11



Source: Eurostat

for this period was recorded in the Financial and Insurance sector (€616.98) followed by the Education sector (€453.11); while the lowest weighted average weekly wage was recorded in the Accommodation and Food Service activities sector (€278.26). The lowest reported average basic wage was recorded at Level 1 under Other Services Sector (€215.06), which is €35.73 or 19.9 per cent over the national minimum wage for 2020. Moreover, the highest average basic wage was recorded in the Financial and Insurance sector under Level 3 at €782.75.

Table 2.4 shows the percentage changes in average weekly wages between August 2019 and August 2020, while Chart 2.12 illustrates the contributions to these sectoral growth rates. The weighted average increase for all firms stood at 2.57 per cent, from which the majority of growth emanated from Level 2 wages. On average, the basic wage in direct production increased by €7.44 (2.30 per cent), mainly driven by the wages in Level 2 (1.21 percentage points). The average basic wage in the services sector increased by €9.89 (2.62 per cent), primarily underpinned by Level 2 and Level 3 wages, with a contribution of 1.14 percentage points and 1.12 percentage points, respectively.

Average Weekly Wages
August 2019

Table 2.2 €

		Level 1	Level 2	Level 3	Weighted Average
B	Mining support services activities	313.38	358.48	398.71	361.51
C	Manufacturing	277.53	332.54	400.41	342.50
E	Water supply; sewerage, waste management and remediation activities	251.99	336.12	508.79	339.54
F	Construction	247.91	287.02	335.99	284.91
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	228.76	289.89	388.51	309.27
H	Transportation and storage	287.03	338.47	529.04	378.93
I	Accommodation and food service activities	240.36	267.92	305.90	274.05
J	Information and communication	236.19	303.86	405.46	379.05
K	Financial and insurance activities	309.96	461.82	764.22	602.10
L	Real estate activities	230.82	323.14	503.15	418.58
N	Administrative and support service activities	232.92	290.78	471.89	310.94
O	Public administration and defence; compulsory social security	224.75	322.76	484.89	414.31
P	Education	250.65	346.26	496.46	440.61
QB	Residential care and social work activities	248.78	308.01	449.28	335.53
R	Arts, entertainment and recreation	274.23	344.76	461.35	395.32
S	Other service activities	209.62	301.61	456.08	345.85
All sectors		244.79	321.52	466.69	366.80
Direct production		261.17	320.07	385.35	323.32
Services		238.62	321.92	477.85	376.93

Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

Average Weekly Wages
August 2020

Table 2.3 €

		Level 1	Level 2	Level 3	Weighted Average
B	Mining support services activities	321.87	366.97	407.20	370.00
C	Manufacturing	284.38	341.26	409.31	350.99
E	Water supply; sewerage, waste management and remediation activities	258.30	344.61	520.75	347.93
F	Construction	253.31	292.52	341.01	290.27
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	233.79	295.66	397.28	315.81
H	Transportation and storage	299.67	348.23	550.79	392.15
I	Accommodation and food service activities	244.74	272.11	310.02	278.26
J	Information and communication	239.68	311.42	413.06	386.52
K	Financial and insurance activities	318.33	473.52	782.75	616.98
L	Real estate activities	235.30	332.16	517.15	429.99
N	Administrative and support service activities	238.43	300.56	485.12	319.96
O	Public administration and defence; compulsory social security	229.36	332.08	498.73	426.03
P	Education	256.30	356.43	510.51	453.11
QB	Residential care and social work activities	254.48	317.31	462.08	345.34
R	Arts, entertainment and recreation	285.51	355.21	474.81	407.16
S	Other service activities	215.06	308.21	466.83	353.79
All sectors		250.66	329.85	478.75	376.22
Direct production		267.26	327.87	393.21	330.76
Services		244.40	330.41	490.50	386.82

Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

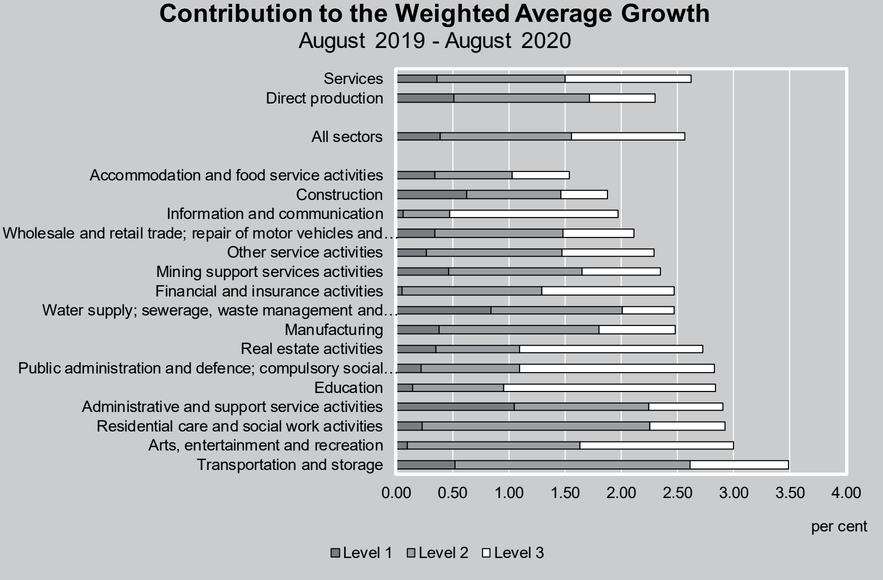
Percentage Change in Average Weekly Wages
August 2019 - August 2020

Table 2.4 %

		Level 1	Level 2	Level 3	Weighted Average
B	Mining support services activities	2.71	2.37	2.13	2.35
C	Manufacturing	2.47	2.62	2.22	2.48
E	Water supply; sewerage, waste management and remediation activities	2.51	2.52	2.35	2.47
F	Construction	2.18	1.92	1.49	1.88
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	2.20	1.99	2.26	2.12
H	Transportation and storage	4.40	2.89	4.11	3.49
I	Accommodation and food service activities	1.82	1.56	1.35	1.54
J	Information and communication	1.48	2.49	1.87	1.97
K	Financial and insurance activities	2.70	2.53	2.43	2.47
L	Real estate activities	1.94	2.79	2.78	2.73
N	Administrative and support service activities	2.36	3.36	2.80	2.90
O	Public administration and defence; compulsory social security	2.05	2.89	2.86	2.83
P	Education	2.26	2.94	2.83	2.84
QB	Residential care and social work activities	2.29	3.02	2.85	2.92
R	Arts, entertainment and recreation	4.11	3.03	2.92	2.99
S	Other service activities	2.60	2.19	2.36	2.30
All sectors		2.40	2.59	2.59	2.57
Direct production		2.34	2.44	2.04	2.30
Services		2.43	2.64	2.65	2.62

Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

Chart 2.12



Source: Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

The sector which registered the highest percentage increase, was the Transportation and Storage sector at 3.49 per cent in which most of the workers are classified under Level 2. Specifically, this sector registered the highest percentage increase in Level 1 and Level 3 wages by 4.40 per cent and 4.11 per cent, respectively. The highest increase in Level 2 wages (of 3.36 per cent) was registered for the Administrative and Support Service activities.

Box 2.1

Collective Agreements Methodology

The sample used in this exercise consists of 144 firms employing 67,295 full-time employees; with 40 firms engaged in direct production and employing 9,715 individuals and the remaining 104 firms operating in the services sector with 57,580 employees. The total coverage ratio is around 38 per cent of total employment. The weekly wages are divided into three distinguished levels in accordance with the International Standard Classification of Occupation (ISCO-08) ten-skill level groups excluding military occupation. ISCO is a system of classification and aggregation of occupational information under the International Labour Office (ILO). Level 1 includes ISCO major group 9, which reflects elementary occupations. Level 2 includes ISCO major groups 4 to 8 referring to clerk, service and sales workers, skilled agricultural and fishery workers, craft and related trades workers, and plant and machine operators and assemblers. Lastly, Level 3 includes ISCO major groups 1 to 3 covering managers, senior official and legislators, professionals, technicians and associate professionals. Employment data disaggregated by ISCO level is provided by Jobsplus.

In this analysis, definite contracts of employment are not considered and any employment benefits over and above the basic wage such as production bonuses, overtime payments, social security and allowances and other non-wage incomes,

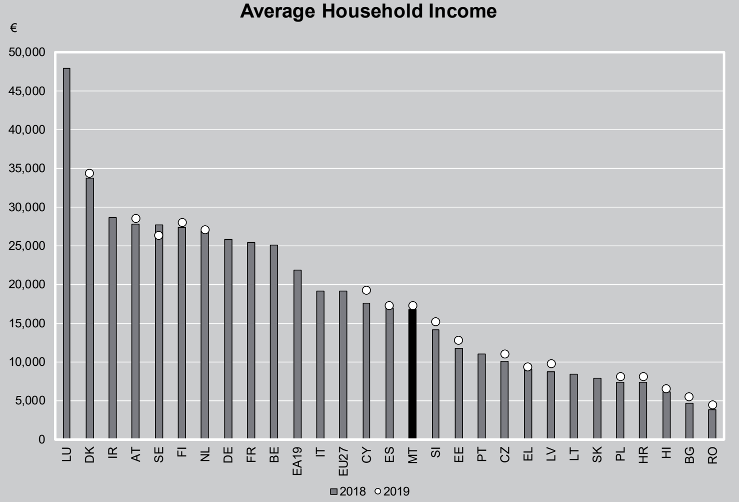
Box 2.1 cont.

are excluded. This source of non-wage income can be quite significant for some sectors of employment, such that the employees' actual average weekly remuneration may be significantly higher than the average weekly basic wages reported in this study.

The results presented - comparing the figures for 2020 with those of 2019 - are directly comparable since the analysis is based on the same employment weighting structure and sample of firms. Hence, the difference represents the actual change in wages over the year. However, the wage estimates are not directly comparable to those published in previous Economic Surveys. Comparability is hampered by the methodology and sampling procedure adopted, mainly the inclusion of additional firms and exclusion of others. Thus, the individual firms weighting in each category would change reflecting the changes in employment levels. The average basic wages rate may also change due to the reclassification of grades of a new collective agreement.

The methodology used in this study classifies the collective agreements based on the entity's NACE code. This classification provides a structure for statistical data according to economic activity. Then the average wage under the three levels for each individual collective agreement is estimated and where the collective agreement is exclusive of Cost of Living Adjustment (COLA), the figures are adjusted accordingly. As announced in the 2020 Budget, the COLA for 2020 amounted to €3.49.

Chart 2.13



Source: Eurostat (Data for 2019 is unavailable for a number of Member States)

2.5 Social Conditions

The following section provides an analysis of household income and disposable income for Malta compared to the EU, as well as the changes in poverty and social exclusion over the years.

2.5.1 Average Household Income

During the year 2019, the Maltese average household income continued to follow the same positive upward trend experienced during the last decade, converging steadily towards the EU27 average as shown in Chart 2.13. Malta's average household income as a proportion of the Euro Area (EA) average has increased by 15.6 percentage points since 2009; from 61.1 per cent in 2009 to 76.7 per cent in 2018. A similar convergence is also present when comparing to the EU average.

2.5.2 Income Distribution

While household incomes in Malta are lower than the EU average, income distribution seems to be more equal as shown through the income quintile share ratio (S80/S20) and the Gini-

Income Distribution

Table 2.5

	EU27	Malta	
	2018	2018	2019
S80/S20 ratio	5.1	4.3	4.2
Less than 65 years	5.3	4.4	4.3
65 years or over	4.1	3.1	3.1
Gini-coefficient	30.4	28.7	28.0

Source: Eurostat

coefficient indicators. The S80/S20 ratio has been rather stable in the past years, indicating that income of the wealthiest 20 per cent of the population is on average 4.2 times higher than the income of the bottom quintile. The gap decreases to 3.1 times for persons aged 65 and over.

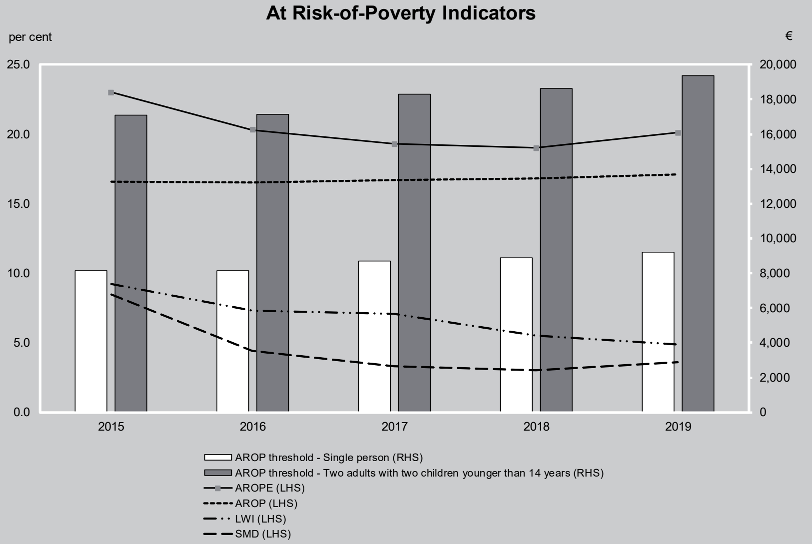
The Gini-coefficient, after social transfers, has slightly declined in the past two years, from a ratio of 28.7 in 2018 to 28.0 in 2019. As shown in Table 2.5, at EU level, both the S80/S20 ratio and the Gini-coefficient are higher, indicating that in relative terms, income inequality in Malta is less pronounced. The gap between the values of EU27 and Malta, have also slightly increased during 2018, suggesting a further relative improvement for Malta.

2.5.3 Poverty and Social Exclusion

The principal headline indicator on poverty and social exclusion with respect to the Europe 2020 targets, is the people at-risk-of-poverty-or-social-exclusion (AROPE) rate. The indicator for Malta stood at 20.1 per cent in 2019, which is 2.9 percentage points lower when compared to 2015, as illustrated in Chart 2.14. According to the latest data available, in 2018 Malta's AROPE was 2.6 percentage points lower than the rate recorded at EU level.

The at-risk-of-poverty (AROP) rate before social transfers for Malta stood at 36.8 per cent in 2019. In the EU, the rate was 43.7 per cent in 2018, which is 6.7 percentage points higher when

Chart 2.14



Source: Eurostat

compared to Malta's corresponding rate for the same year. After the inclusion of social transfers, the AROP rate for Malta, which is one of the components of the AROPE rate, dropped by 19.7 percentage points to 17.1 per cent in 2019. A similar trend was also noted at the EU level, with a drop of 26.9 percentage points in 2018.

Malta's AROP rate after social transfers has been, on average, following an upward trend in past few years, increasing from 16.6 per cent in 2015 to 17.1 per cent in 2019. Nevertheless, it should be noted that the AROP thresholds, also known as the poverty line, for both single person households and households comprising two adults with two children younger than 14 years increased by over 13 per cent over the past five years, reflecting the increase in the median equivalised income[1]. This may exacerbate the AROP rate as the increase in the poverty line alone captures more households below the threshold.

Chart 2.14 also illustrates the pattern of the two other components of the AROPE rate, including; severe material deprivation (SMD) and low work intensity (LWI). In 2019, SMD rate among persons living in households was equal to 3.6 per cent, 4.9 percentage points less than the rate in 2015. This decline is mainly driven by the improvement in the households' ability to face unexpected financial expenses. Furthermore, the share of persons residing in a household with LWI declined from 9.2 per cent in 2015 to 4.9 per cent in 2019.

2.6 Climate Change

2.6.1 Introduction

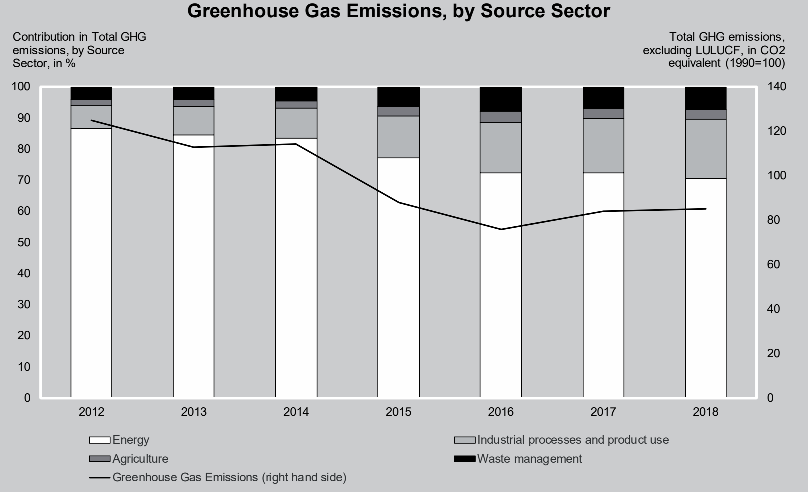
From a sustainable development perspective, increased cognisance of environmental matters and their relationship to the economy is required in transition towards an economy that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Climate change is one such element that has been garnering more attention, especially with the coming into force of the Paris Agreement in 2016 and the European Commission's action plan towards a climate-neutral EU, the European Green Deal. This sub-section will review indicators that track aspects of climate change in Malta.

2.6.2 Greenhouse Gas Emissions

Between the 1990 and 2012 period, there was an overall increase of 24.8 per cent in Malta's greenhouse gas (GhG) emissions, excluding Land-use, Land-use Change and Forestry (LULUCF), in CO_2 equivalent. The LULUCF category refers to estimates of carbon dioxide emissions and removals by particular vegetation types and is estimated to have contributed to the removal of 0.1 per cent of emissions in 2018. Following the Maltese Government's energy reform earlier this decade, a reversal of this trend has been observed since GhG emissions as at 2018 are now 31.2 per cent lower than their 2012 levels. It is estimated that LULUCF has contributed to the removal of 0.2 per cent of emissions in 2018.

Up to 2018, emissions from the energy sector (which includes transport) accounted for more than 70 per cent of total national GhG emissions, which share surpassed 90 per cent until 2004. As depicted in Chart 2.15, in 2018, the energy sector contributed to 70.4 per cent of total national GhG emissions, as a result of

Chart 2.15



Source: Eurostat

the reduction in emissions from electricity generation which were being noted in tandem to Government's investments in this sector. Emissions from the Industrial Processes and Product Use (IPPU) sector are largely driven by increases in estimated emissions of hydrofluorocarbons (HFCs). HFCs are by far the most important class of fluorinated gases reported by Malta, in terms of overall emissions. On the other hand, waste management produces mainly methane emissions, contributing to about 80 per cent of all methane emissions generated in Malta. The rest of the methane emissions are mainly derived from the agriculture sector.

Between 1990 and 2012, emissions per capita, which are mostly a reflection of the primary energy consumption per capita and the energy mix of the country, increased by 6.4 per cent to 8.3 tonnes per capita, while in the EU 27, per capita emissions decreased by 20.5 per cent to 9.3 tonnes per capita. In line with the trends for total GhG emissions, a reversal in this trend has been observed and in Malta, the emissions per capita in 2018 stood at 5.5 tonnes per capita, compared to 8.7 tonnes per capita emissions in the EU 27.

Over the recent years, Malta has been registering a downward trend in its emissions as a ratio of Gross Value Added (GVA), which ratio reflects the emissions' intensity of a country in terms of its energy efficiency, its overall economic structure and the carbon content of the energy consumed in the country. In 2018 Malta's emissions intensity ratio was down by 3.1 per cent to 20.9 million tonnes emissions (in CO_2 equivalent) per billion Euro in constant prices. This declining trend reflects the shift from energy-intensive industry activities to activities with a relatively lower energy demand resulting in economic development becoming increasingly emissions' efficient.

2.6.2.1 Energy Consumption

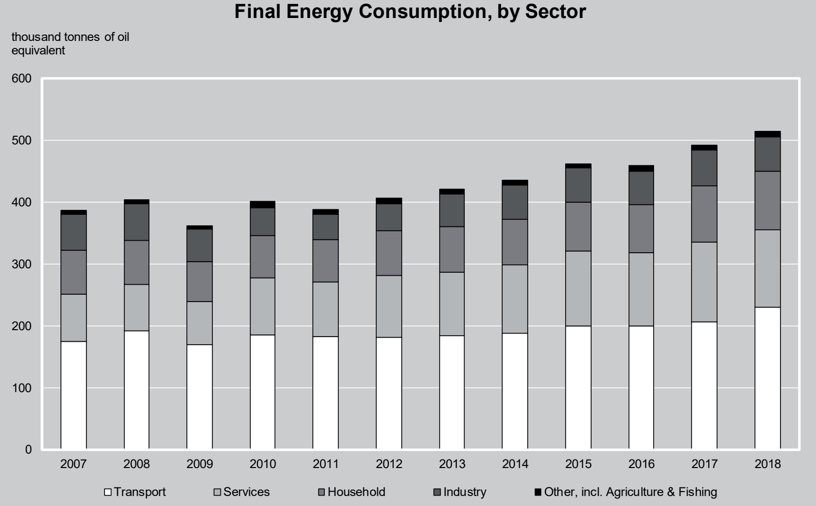
The GhG intensity of energy consumption[2] expresses how many tonnes CO_2 equivalents of energy-related GHGs are being emitted per unit of energy that is being consumed. In 2018, Malta had the lowest GhG intensity of energy consumption across the EU 27 after registering a decrease of 29.1 per cent over a 5-year period (2014-2018).

In 2018, the largest increases in final energy consumption was driven by the transport sector, which sector increased its consumption by 11.5 per cent to 231 thousand tonnes of oil equivalent. Households increased their consumption by 19.6 thousand tonnes of oil equivalent to 93.5 thousand tonnes.

A further analysis of the final energy consumption at a sectoral level between the 2014-2018 period indicates that the transport sector, at an average of 43.4 per cent, is the largest end-user of total energy consumed. Final energy consumption is the energy which reaches the final consumer's door and excludes that which is used by the energy sector itself. In 2018, as depicted in Chart 2.16, 5.5 per cent of the final energy consumption by the transport sector was in favour of domestic navigation, including Gozo ferry services. In the period under analysis, the services sector made up about 25.4 per cent of the total final energy consumption. Over the 5-year horizon, households consumed 17.8 per cent, while industry only consumed 11.8 per cent of the final energy consumption.

Underpinning transport activity, the stock of licensed motor vehicles increased by 3.2 per cent to 397,508 in 2019, mainly by

Chart 2.16



Source: Eurostat

an increase in passenger cars powered by internal combustion engines. In 2019, the share of second-hand imported and licensed vehicles increased marginally by 0.3 percentage points from a share of 55.7 per cent in 2018. As at the end of 2019, there were 4,493 licensed plug-in hybrid, hybrid and electric motor vehicles, up from 2,367 in 2018.

Footnotes:

[1] AROP threshold is defined as 60 per cent of median national equivalised income.

[2] The GhG intensity of energy consumption is calculated as the ratio between energy related GHG emissions and gross inland consumption of energy, which is the total energy demand of a country, including consumption by the energy sector itself.

3. International Trade and the Balance of Payments

3. International Trade and the Balance of Payments

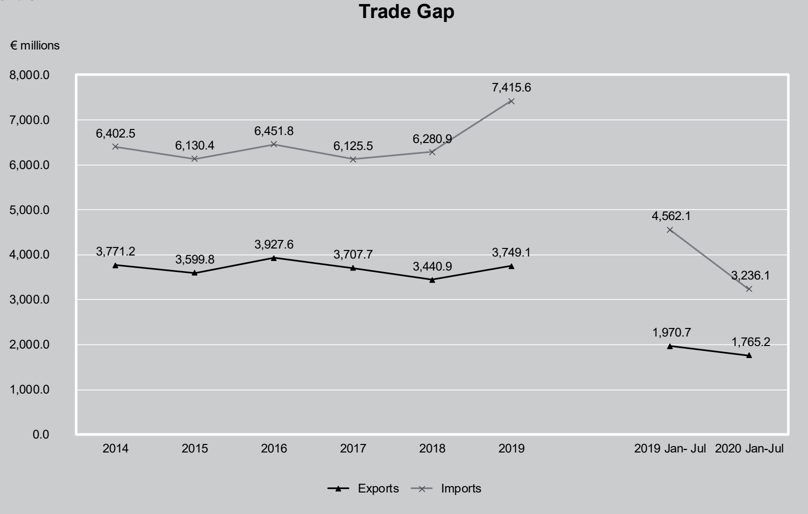
3.1 International Trade

The international trade statistics capture the movement of goods between Malta and the rest of the world. Malta is a small open economy with a heavy reliance on imported goods, that makes trade flows an essential factor for the domestic economy. In 2019, the total value of imported goods totalled €7,415.6 million while exported goods amounted to €3,749.1 million. During 2019, imports increased by 18.1 per cent while exports expanded by 9.0 per cent compared to 2018. This resulted in a widening of the visible trade deficit by 29.1 per cent amounting to €3,666.5 million (Chart 3.1). During the period January to July 2020, Malta's total imports and exports decreased by €1,326.0 million and €205.6 million respectively. This resulted in the trade gap to decrease to €1,470.9 million. These declines in both exports and imports were mainly the result of the Covid-19 pandemic.

3.1.1 Imports

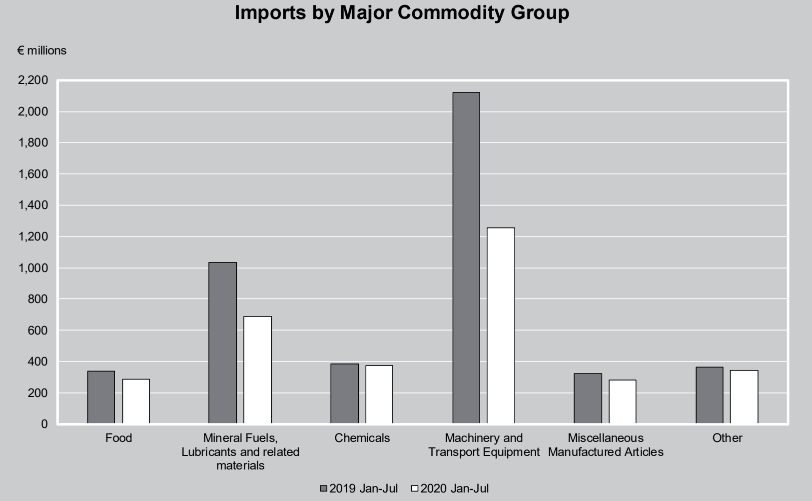
During the period January to July 2020, imports of goods decreased by 29.1 per cent to reach a value of €3,236.1 million when compared

Chart 3.1



Source: National Statistics Office

Chart 3.2



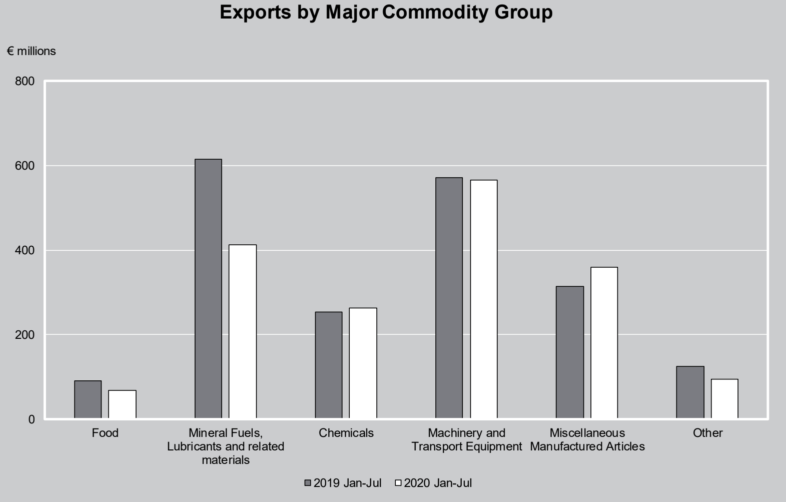
Source: National Statistics Office

to the same period of the previous year. Consumer goods, as at the end of July 2020, amounted to €810.1 million, accounting for 25.0 per cent of total imports. Imports of consumer goods registered a decline of 9.1 per cent including a decrease of €51.1 million in food and beverages imports, a decrease of €40.5 million in imports of durable consumer goods and a slight increase of €8.8 million in the imports of other consumer goods. The importation of machinery and transport equipment declined by 40.8 per cent. Imports of mineral fuels, lubricants and related materials decreased by 33.2 per cent while chemicals also decreased by 2.6 per cent as seen in Chart 3.2. Imports from the European Union (EU) reached €1,632.8 million, or 50.5 per cent of total imports by July 2020. There was a decrease of €283.6 million in imports from Euro Area (EA) countries when compared to the January to July period of 2019.

3.1.2 Exports

Between January and July 2020, Malta's total exports declined by 10.4 per cent when compared to the same period for 2019, reaching a value of €1,765.2 million. The decline reflected a 33.0 per cent decrease in the exportation of mineral fuels, lubricants and related materials while the exports of machinery and transport equipment decreased by €4.6 million or 0.8 per cent as outlined in Chart 3.3. This is mostly explained by the decrease in exportation in ships, boats and floating structures. During this 7-month period, there was an increase

Chart 3.3



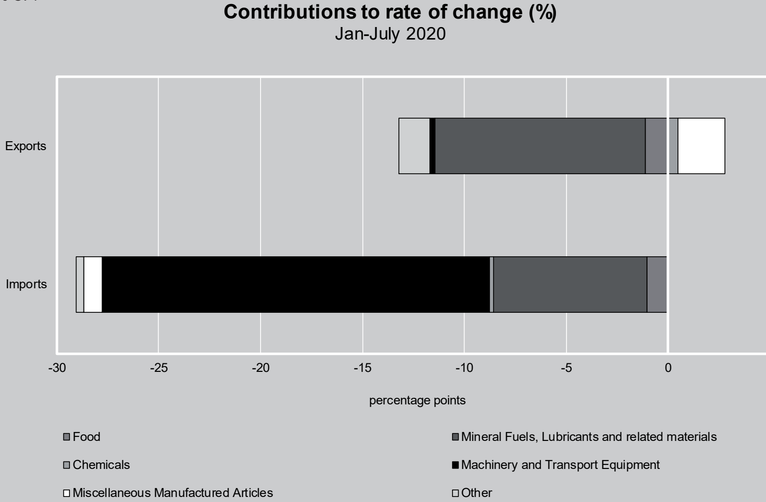
Source: National Statistics Office

of 3.8 per cent in the exportation of chemicals when compared to the same period of 2019. This was primarily attributed to the increase in the exportation of pharmaceutical products. Exports related to miscellaneous manufactured articles registered an increase of €45.5 million (or 14.5 per cent) reflecting higher exports of printed material, textiles, and clothing which more than offset lower exports of footwear and rubber articles. During this period, exports were mainly directed towards Europe, which accounted for 43.6 per cent of total exports. The bulk of these exports were directed to Germany (€285.7 million). Italy, on the other hand, registered the greatest decrease in terms of exports from Malta (€104.6 million).

3.1.3 Trade Balance

Historically, Malta has recorded a trade deficit, averaging at 24.0 per cent of Gross Domestic Product (GDP) at current market prices over the past five years. In July 2020, Malta's trade gap, which shows the difference between exports and imports of goods, decreased by €1,120.5 million, resulting in a negative trade balance of €1,470.9 million (Chart 3.1). This was made up of a decrease of 10.4 percentage points in exports and 29.1 percentage points in imports (Chart 3.4). The improvement in the trade balance was attributable mainly to the drop in imports of machinery and transport equipment which contributed to 77.0 per cent of the improvement in the trade deficit. Mineral fuels

Chart 3.4



Source: National Statistics Office

contributed by a further 12.4 per cent to the narrowing of the trade balance.

Malta has been registering a trade deficit with most countries within the EU, particularly with Italy, the Netherlands and Spain. Throughout the period January to July 2020, the trade deficit with Spain continued to increase and eventually reached €90.3 million, whilst the trade deficit with Italy and the Netherlands decreased to €452.8 million and €60.4 million, from a deficit of €520.2 million and €79.7 million respectively.

3.2 Balance of Payments

The balance of payments (BOP) is an accounting system that keeps the tracking of a country's inward and outward flows. The BOP includes both the imports and exports related to goods and services, but also takes into account various classes of financial flows, including incomes on investments abroad and payments on foreign borrowings and transfers. To this end, the BOP is divided into three main sections:

1. Current Account: Records transactions related to goods and services between Malta and the rest of the world, it also includes flows related to income and other transfers.
2. Capital Account: Records the transfer of any tangible assets (such as machinery) between Malta and the rest of the world.

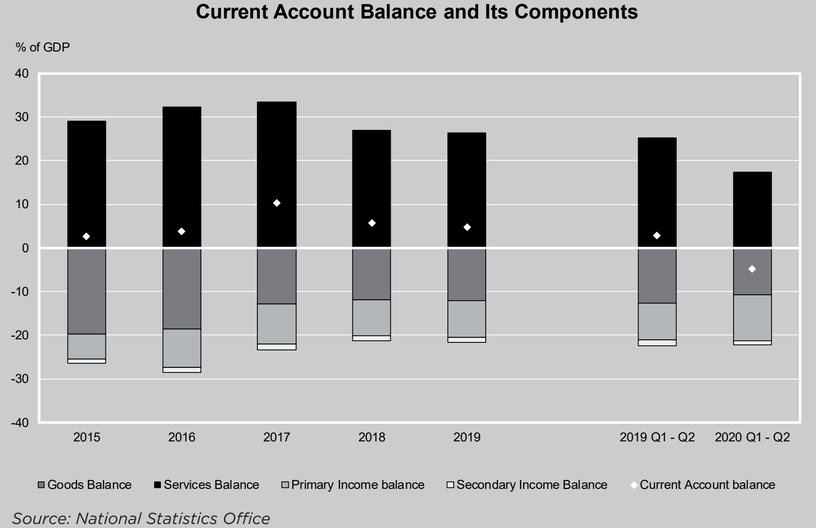
3. Financial Account: Recording increases or decreases in asset and liability positions of foreign direct investment (FDI), Portfolio Investment, Other investment and Financial derivatives.

The BOP and the Net International Investment Position are typically prepared in accordance with the International Monetary Fund (IMF) Balance of Payments Manual of 2006 (BPM6) to maintain record keeping consistency across countries.

3.2.1 Current Account

The current account for Malta has been in a strong net export position over the past few years. This was mostly owing to strong net export positions in the services sector. The current account surplus stood at 4.8 per cent of GDP in 2019 which is a sizable amount when considering Malta's dependency on the importation of goods. The persisting trend increase in the current account surplus noted in recent years was cut short in the first half of 2020, when the Covid-19 crisis hit global value chains heavily and disrupted international trade. In fact, when comparing the first half of 2019 to the corresponding period in 2020, the surplus in the current account of 2.8 per cent of GDP dropped to a deficit of 4.9 per cent of GDP. Chart 3.5 shows the main trends underlying the current account decomposed into the various elements in the current account for Malta.

Chart 3.5



Source: National Statistics Office

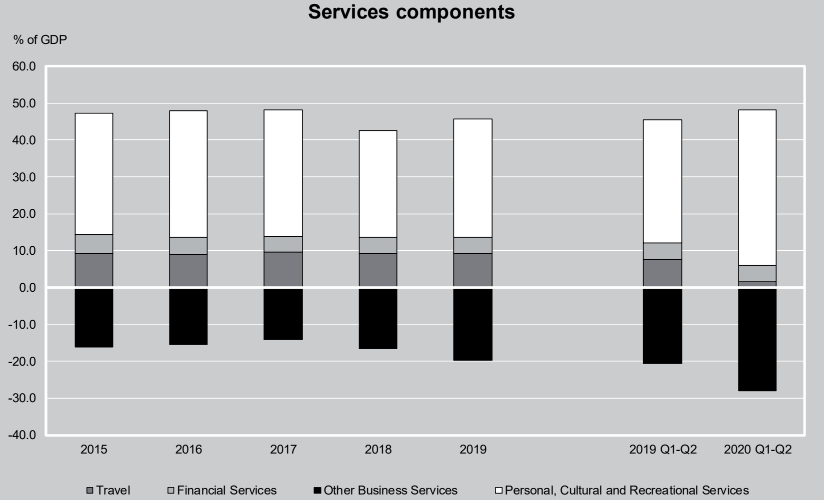
The chart shows that the main driver of Malta's historically strong current account surplus pertains to a large services net export balance. In the first half of 2020, however, the net export balance of services was not large enough to outweigh the net import balance of goods and the net payments figure of the primary income account.

3.2.1.1 Goods and Services

The goods and services account within the current account shows the value of goods and services being exported from Malta and imported from the rest of the world. The goods balance has historically been in a net import balance (albeit a decreasing one), reflecting the nature of the Maltese economy being dependent on the importation of physical goods. The services balance on the other hand, has historically been in a strong net export position. This is mostly owing to the personal, cultural and recreational services commodities, the travel category (which includes tourism), and the financial services category. The other business services category, which includes professional and legal services, partially offsets some of the net export figure of the services balance due to a reasonably large net import figure. Chart 3.6 gives a summary of these sectors and their evolution over time.

During the first half of 2020, most of the services categories registered a drop in their net export balances when compared to the first half of 2019. Most notably, this observation can be applied to the travel component whose net export position dropped from 7.5 per cent of

Chart 3.6



Source: National Statistics Office

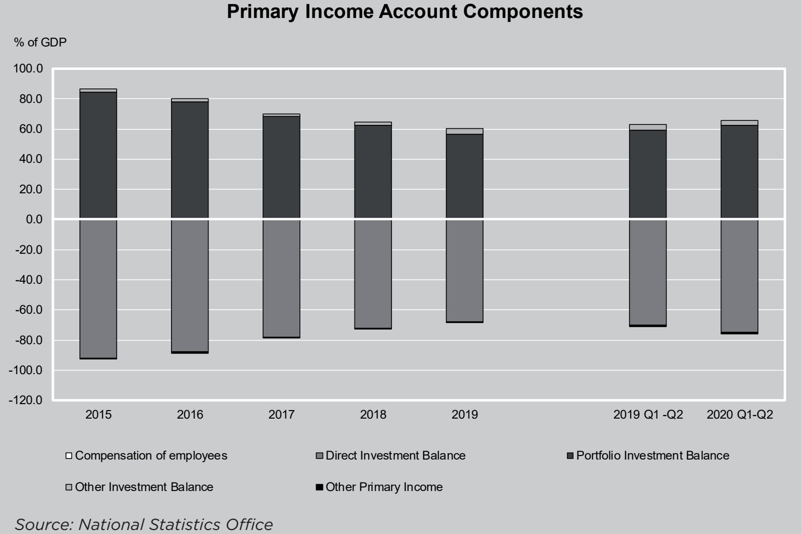
GDP to 1.6 per cent of GDP, mainly as a result of the travel restrictions that were imposed due to the Covid-19 pandemic over this period. In the meantime, the personal, cultural and recreational services category registered quite a substantial increase in the first half of 2020, owing to the higher net export figures for the gaming industry.

3.2.1.2 Primary Income Account

The primary income account within the current account captures flows of income derived from either compensation of employees or investment income. In the case of Malta, investment income captures most of the flows between Malta and the rest of the world. In terms of compensation of employees, Malta has been registering a slightly increasing net payments trend over the past few years. This means that wages being paid to foreigners residing in Malta outweigh the wages being paid to Maltese residing abroad. Chart 3.7 shows the development of different components within the primary income account.

The compensation of employees component is just a small share of this account. It is however interesting to note that net payments abroad almost halved from 0.4 per cent of GDP to 0.2 per cent of GDP, reflecting the repatriation of several foreign nationals during the lockdown period. The most notable elements of the income account pertain to income from direct and portfolio investments. In terms of direct investment, Malta has repeatedly registered substantial net

Chart 3.7



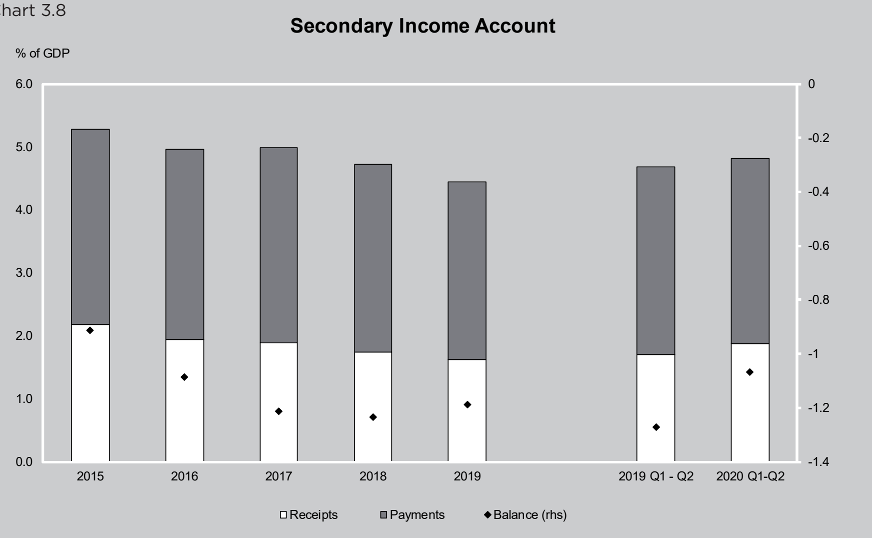
Source: National Statistics Office

payment figure, reaching 67.6 per cent of GDP in 2019. Comparing the first half of 2019 with the corresponding period in 2020, the net payment figure rose by around 0.7 per cent. This net payment position within the primary income account was partially offset by substantial net receivable balances in the portfolio investment balances registered over previous years. In 2019, portfolio investment balance was 56.8 per cent of GDP. As for the comparison over the first half of 2020 to the corresponding period in 2019, the net receivables balance decreased by 1.2 per cent.

3.2.1.3 Secondary Income Account

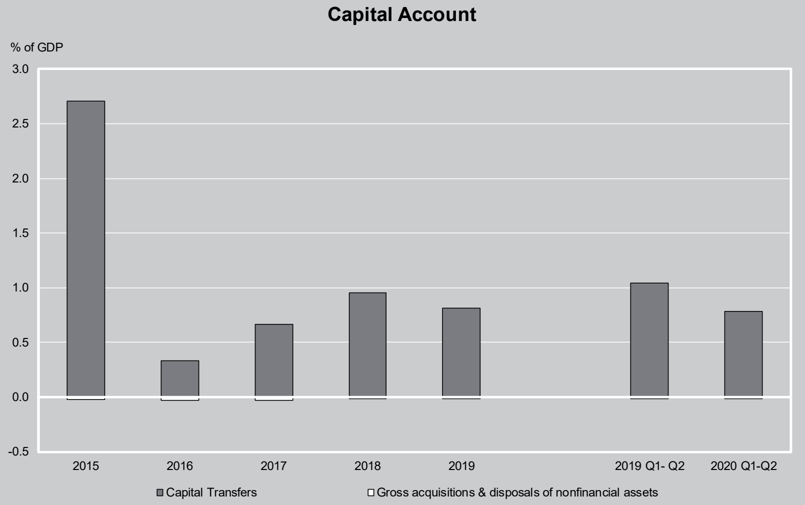
The secondary income account shows the transfers being made between Malta and the rest of the world. Typically, it accounts for any transfers with respect to either pensions, any taxes on income and wealth, or any other benefits by the Government. It also accounts for other private transfers, including personal transfers. Chart 3.8 illustrates developments pertaining to this account. The secondary income account contributes for just a small yet economically important part of the current account and has been registering increasing net payment figures over the past few years. However, over the January to June period of this year, net payments have decreased by around 21.3 per cent.

Chart 3.8



Source: National Statistics Office

Chart 3.9



Source: National Statistics Office

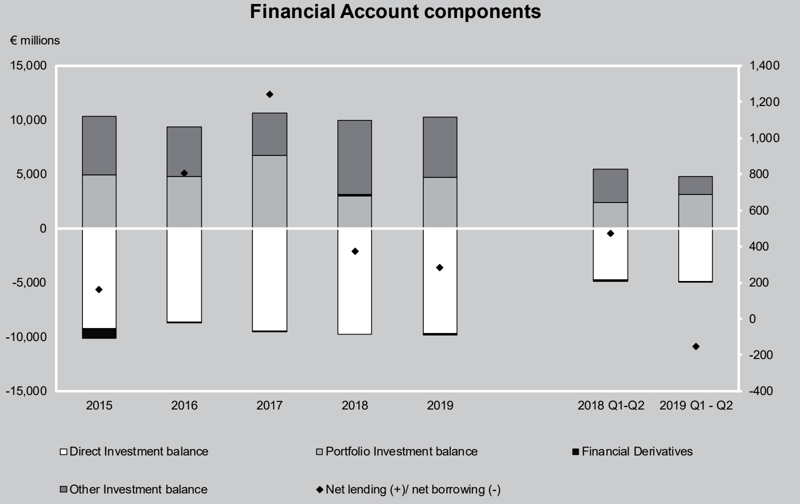
3.2.2 Capital Account

The capital account records the values of physical assets being transferred into and out of Malta. Some of the transfers include the acquisitions or disposals of non-produced non-financial assets while capital transfers include government transfers to and from the EU. Chart 3.9 shows the overall balance of the capital account. A net export balance has been historically the case for Malta's capital account with physical capital transfers outside of Malta outweighing the ones directed to Malta. In 2015, the large net capital transfers coincided with the gradual increase in absorption of EU funds from the previous EU budget for 2008/2013. Furthermore, importation of physical capital in Malta has been negligible over the past years, whilst exports have declined by around 9.0 per cent between 2018 and 2019.

3.2.3 Financial Account

The financial account records the flow of various financial assets and liabilities and includes various types of investments as presented in the primary income account. Chart 3.10 shows the developments of these investments showing either a net lending position (positive figure) or else a net borrowing position (negative figure) for each of these types of assets. Direct investment has been in a consistent net borrowing position over the past few years which reflects consistent decreases in the acquisition of assets and increases in the incurrence of

Chart 3.10



Source: National Statistics Office

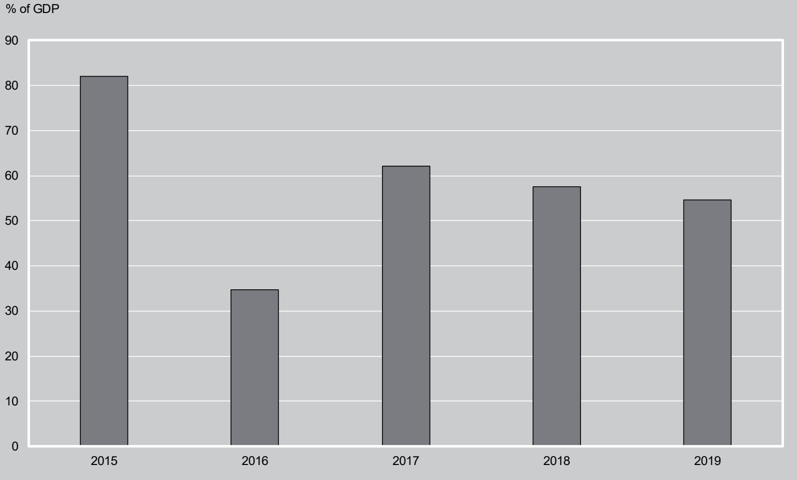
liabilities. In terms of portfolio investments, net acquisitions of financial assets have been fluctuating over recent years, with 2018 registering a total of €3,209.1 million while in 2019 this same figure increased to €5,076.9 million. Portfolio investment liabilities have been negligible by comparison, but have also been on a rising trend, going from €53.0 million in 2016 to €354.6 million in 2019. Financial derivates represent only a small fraction of the financial account, reaching a net borrowing position of €208.1 million in 2019. Both acquisition of financial assets and the incurrence of liabilities in this type of investment has been fluctuating consistently over the past years. The other investment balance has also fluctuated consistently and reached a net lending position of €5,557.2 million in 2019. Malta has been consistently acquiring financial assets of this type over the past few years which has contributed to the overall strong net lending position. Furthermore, there have also been decreases in incurrences of liabilities over the past two years which have further boosted the overall net lending position.

3.3 International Investment Position

While the BOP records all the financial flows to and from Malta, the Net International Investment Position (NIIP) maintains records of the asset and liability positions existing in Malta. In a sense, the BOP records the changes registered in the NIIP before any valuation changes. The NIIP for Malta is represented in Chart 3.11. The NIIP has remained quite

Chart 3.11

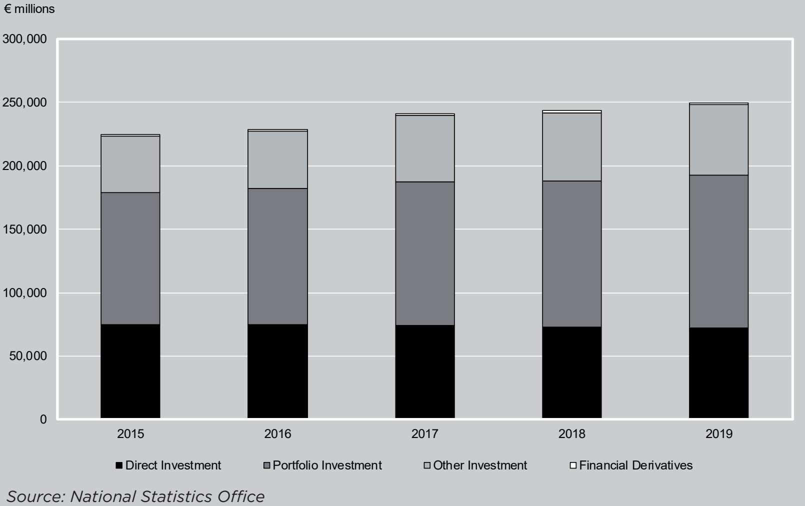
Net International Investment Position



Source: National Statistics Office

Chart 3.12

Assets



Source: National Statistics Office

stable between 2017 and 2019 at an average of 58.1 per cent of GDP. The net figure, however, contrasts with the sizable asset and liability positions and movements thereof.

3.3.1 Assets

Chart 3.12 shows the composition of various asset types within the NIIP as at the end of each year. It shows that the larger part of assets in Malta are held in the form of portfolio investments, though the trend is a declining one. This is also true for the other types of investments. For instance, direct investment assets have declined consistently over the past few years. Other investment assets have followed the same trend.

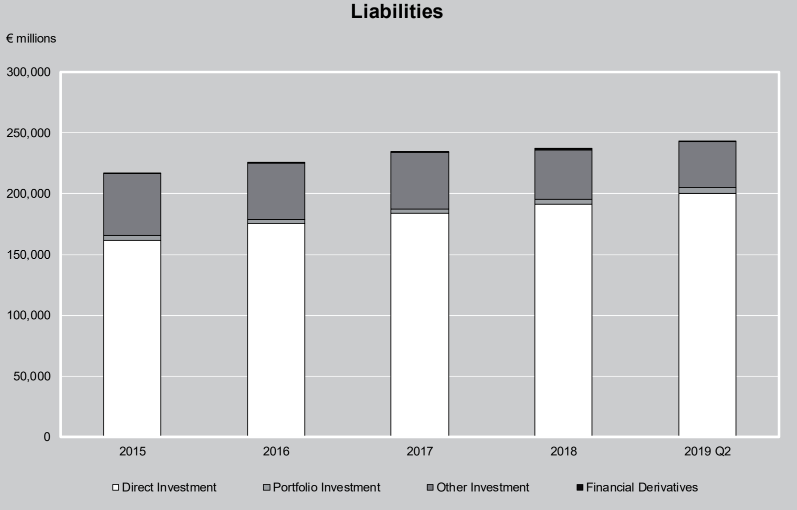
3.3.2 Liabilities

From the liabilities side, Chart 3.13 shows that most liabilities in Malta are held in direct investments. The other notable part of liabilities is in the form of other investments which is also on the decline.

3.4 Savings and Investment

During the period 2015 to 2019, Malta continued to register a current account surplus, suggesting that domestic savings were successively financing domestic investment over the same period, with the surplus

Chart 3.13



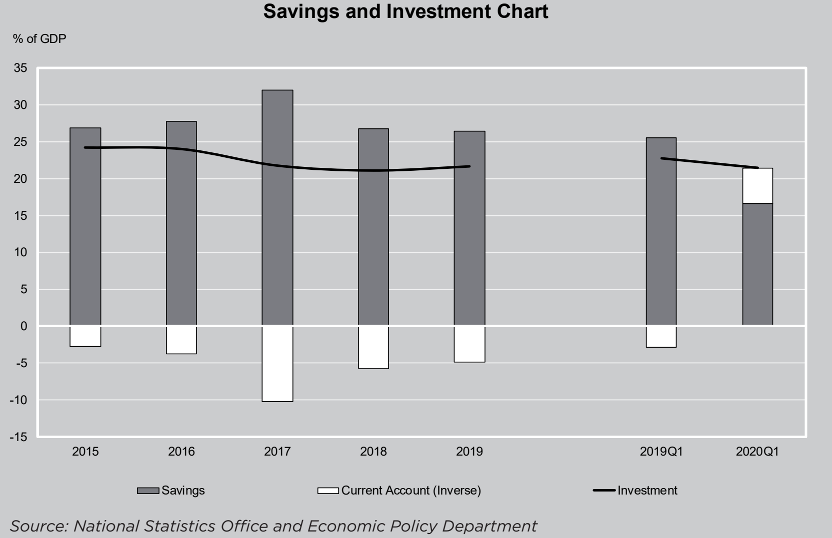
Source: National Statistics Office

savings providing a source of accumulation of net foreign assets. This suggests that Malta has a strong economy which is indicated as a net lending position.

As shown in Chart 3.14, in the first half of 2020, Malta registered a current account deficit for the first time since 2012. This implies that domestic savings in this period were not enough to finance domestic investment, increasing external borrowing and debt. A significant drop in domestic savings occurred as a result of the global pandemic, which drop exceeded the decline in both private and public investment over the first half of 2020 when compared to 2019. Private investment declined by 10.9 per cent whilst public investment declined by 14.7 per cent. As a result, the current account deteriorated and turned into a deficit.

Due to strict lockdown measures, companies in certain sectors were closed; forcing them to draw from past savings to sustain the losses which were being experienced. These losses were substantially mitigated by higher Government spending, as the Government announced substantial fiscal policy measures targeted towards keeping people employed and subsidizing Small and Medium-Sized Enterprises (SMEs). As a result, the savings-investment gap appears to have been primarily driven by the public sector which acted as a cushion to the rising private sector gap which would have resulted otherwise.

Chart 3.14



Source: National Statistics Office and Economic Policy Department

3.5 Exchange Rate Developments

The exchange rate is an important economic indicator with movements in this indicator impacting directly prices and effective returns on capital with economywide implications on trade flows and capital movements. As a result, developments in the exchange rate have a bearing on the real, as well as the financial sector of the economy.

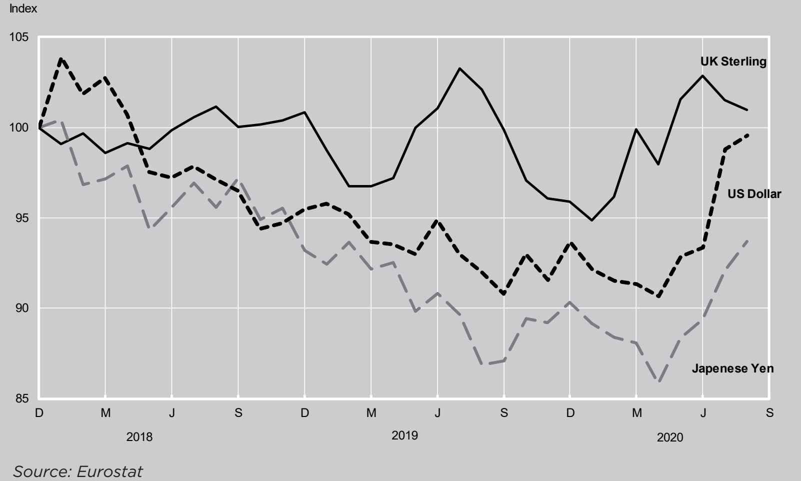
3.5.1 Euro exchange rate movements

Chart 3.15 shows developments in three major currencies, namely the US Dollar, UK Sterling and the Japanese Yen against the Euro. The Euro appreciated against the US Dollar by 3.9 per cent from the end of 2017 to January 2018. However, throughout 2018 and 2019, the Euro lost value against the US Dollar by 9.8 per cent, trading lower on news about international trade tensions and perceived political risks.

Given the shocks related to the Covid-19 pandemic, throughout the first quarter of 2020, the Euro to US Dollar exchange rate initially took a downward path, reaching a 4-year low value of $1.07 by the end of the March 2020. From a longer-term perspective, during this period, the Dollar was still trading at around 12.3 per cent below its 10-year average level of $1.22. In the subsequent months, the Euro appreciated relative to the US Dollar by 11.2 per cent and was trading at $1.19 by August 2020. Weakness in the Dollar has been tied to market

Chart 3.15

Euro Exchange Rate Movements
(Index of End of Month Rates, End 2017=100)



Source: Eurostat

expectations for further easing of the United States (US) monetary policy, lack of agreements among US lawmakers on further fiscal stimulus, the evolution of the pandemic in the US and falling US bond yields. Meanwhile, robust recovery prospects in the EA, the agreement reached on the EU Budget and the Recovery and Resilience Facility, as well as a flight to safety from emerging market currencies had a positive impact on the value of the Euro.

The value of the Euro against the UK Sterling was relatively stable for the first half of 2018, hovering around £0.88 and appreciated to another stable rate of £0.89 for the second half of 2018. From the end of 2018 till February 2019, a slight depreciation of the Euro took place where the Euro-Sterling exchange rate settled at £0.86. This trend continued to take place in the following two months. A strengthening of the Euro relative to the Pound, was observed in subsequent months, where such exchange rate reached £0.92 by July 2019. This appreciation was temporary, as a sharp decline was subsequently recorded from August till the end of 2019, where the Euro-Sterling exchange rate reached a low point of around £0.85 and representing a 2.9 per cent reduction in its value since the start of the year. It then followed a gradual appreciation resulting from the Brexit negotiations in January 2020. Further declines were registered in subsequent months, when global markets faced an unprecedented shock caused by the Covid-19 pandemic. In the worst recorded days, the Euro-Sterling exchange rate fell to a multi-year low level of £0.83. By the end of August 2020, it appreciated again, and traded at £0.90, which from a longer-term perspective is 7.1 per cent above its 10-year average level of £0.84.

By the end of 2017, the value of the Euro against the Japanese Yen was trading at a high rate of JPY 135.01. However, by September 2019, the Yen depreciated by 12.9 per cent against the Euro to JPY 117.59, due to high levels of inflation in Japan. Appreciation of the Yen was consistent till December 2019, reaching a value of JPY 121.94. From the beginning of 2020, the Yen started losing value vis-à-vis the Euro again and suffered a sharp drop of 6.3 per cent by May 2020. In fact, in May 2020, the Yen reached a 4-year low rate of JPY 114.65 due to the Covid-19 pandemic and the fears emerging about the possible recession in the Japanese economy, together with a sharp improvement in global investment and a technical breakdown in the market. During this period, the value of the Euro against the Japanese Yen was trading at around 7.0 per cent below its 10-year average level of JPY 123.24. Since May 2020, the Japanese Yen appreciated by 10.3 per cent, reaching a value of JPY 126.47 by the end of August 2020.

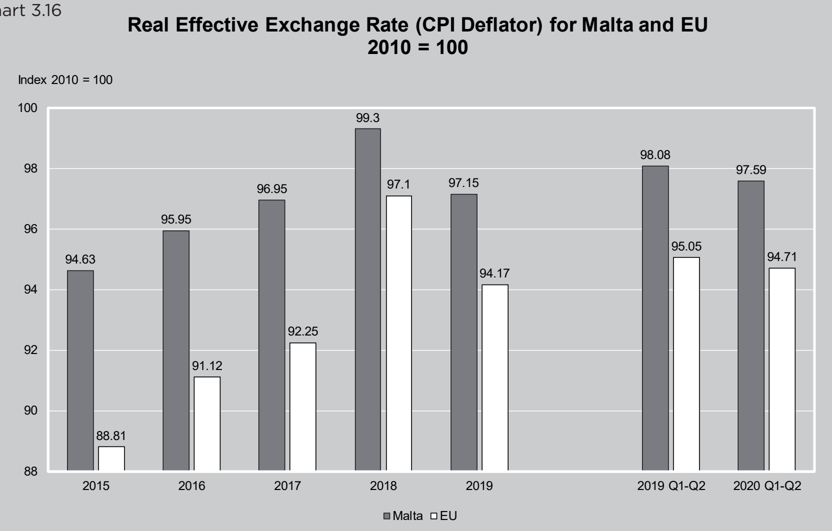
3.5.2 Real Effective Exchange Rate

The real effective exchange rate (REER) is a weighted average exchange rate between a country and the rest of the world, adjusted for relative prices. Chart 3.16 shows the developments in the REER for Malta with respect to 42 trading partners using the Consumer Price Index as deflator, together with that of the EU 27. The REER for Malta has consistently appreciated from 2015 to 2018 but declined in 2019, which means that in 2019 Malta had successfully regained some of its competitiveness losses over the previous 4-year period. It is also important to note that the decrease in Malta's REER is highly influenced by the Euro-Sterling exchange rate, as the United Kingdom (UK) is considered a relatively important trade partner for Malta. In fact, the decrease in Malta's REER in 2019 corresponds to an increase in the Euro-Sterling exchange rate over the same period. When comparing the first half of 2020 with the corresponding period in 2019, the REER for Malta decreased slightly from an indexed value of 98.08 to 97.59 signifying minor competitiveness gains over this same period. The Covid-19 pandemic did not seem to significantly affect REER calculations as these values are quite stable.

3.5.3 Export Market Shares

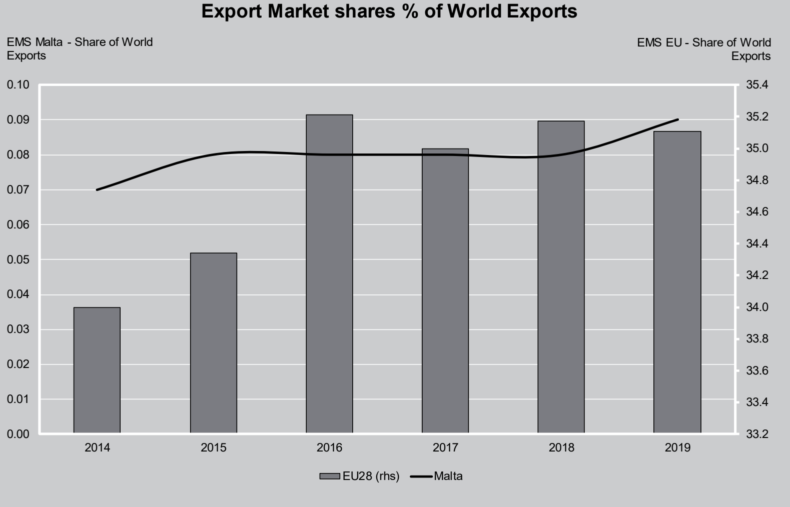
Given the limitation that the REER poses when it comes to calculating trade weights based solely on trade in goods, export market shares may be indicative of Malta's overall performance by also capturing the services trade sector. This is especially relevant for Malta, as the services industry is critical to Malta's economic growth. Export market shares also evolve as a result of non-cost competitiveness elements which may be very important to explain trade developments, but which are not captured by the REER indicator. Chart 3.17 shows the evolution of export market shares for Malta and for the EU 28. The export market share for Malta has increased from 0.07 per cent in 2014 to 0.09 per cent in 2019. The EU 28 export market shares have increased as well from 2014 but took a slight dip in 2019. The increase in Malta's export market share in 2019 is notable and indicative of an improvement in Malta's external competitiveness. This coincided with the depreciation of the REER suggesting that cost elements may have been a source of competitiveness gains.

Chart 3.16



Source: Eurostat

Chart 3.17



Source: Eurostat

4. Monetary Developments

4. Monetary Developments

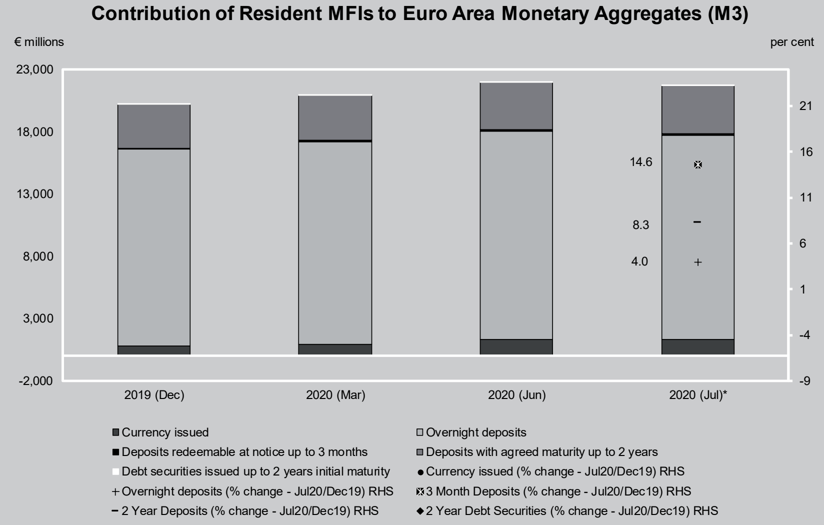
The contribution towards the stock of the Euro Area (EA) Broad Money (M3) of Maltese monetary financial institutions (MFIs) increased for the period of January to July 2020. This development was mainly the result of increases in overnight deposits. Correspondingly, during the same period, the contribution towards M3 of deposits with an agreed maturity of up to two years was slightly positive, while the contribution of deposits redeemable at notice up to three months was quite negligible. The positive contribution from the credit counterpart was the main driver towards M3 growth. The contribution from net claims of non-residents of the EA was also positive, albeit, to a lesser extent. Moreover, despite its increase, the negative contribution towards M3 of the other counterparts component was minimal, given its small share. Considering the prolonged and persistent low-interest-rate environment, depositors' inclination towards holding highly short-term liquid deposits continued to be observed during the period under review.

4.1 Contribution of Resident MFIs to Euro Area Monetary Aggregates[1]

The contribution of Maltese resident MFIs to total monetary aggregates (M3)[2] of the EA increased from €20,290.7 million recorded in December 2019 to €21,688.1 million registered in July 2020, confirming an increase of 6.9 per cent over the period. This was mainly the result of increases in overnight deposits[3], that outweighed the slight positive contributions from deposits redeemable at notice up to three months and deposits with an agreed maturity up to two years. Debt securities issued up to two years initial maturity declined sharply by 65.2 per cent when compared with December 2019, but due to their share, their contribution towards M3 was negligible. The main developments in these monetary indicators are illustrated in Chart 4.1. These figures reflect the continuous inclination towards maintaining highly short-term liquid money balances in the form of cash.

In the first seven months of 2020, narrow money (M1) reached €17,714.3 million, thus rising by 6.8 per cent, relative to the €16,579.6 million observed in December 2019. This growth

Chart 4.1



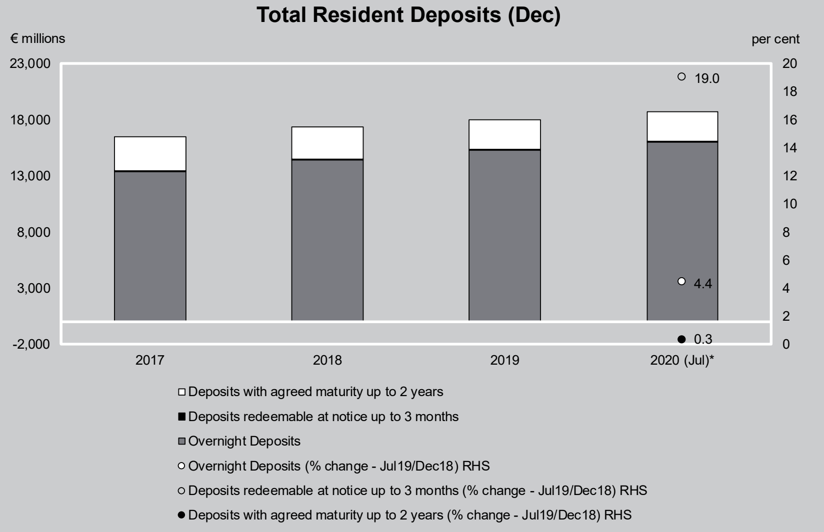
** provisional*

Source: Central Bank of Malta

was driven by a 4.0 per cent increase in overnight deposits reaching €16,402.2 million, in July 2020. The increase of Maltese residents' deposits was the main contributor to developments in total overnight deposits as such deposits outweighed a negligible decline in deposits from other EA residents. Moreover, a significant increase of 61.7 per cent was registered in the currency issued[4], as it reached €1,312.1 million in the first seven months of 2020.

In July 2020, deposits redeemable at notice up to three months amounted to €104.5 million, reflecting an increase of 14.6 per cent when compared to December 2019. During this period, three-month deposits from Maltese residents increased by 19.0 per cent, while those from other EA residents decreased by 45.5 per cent, albeit both of their contributions towards M2 were negligible in view of their small share. Furthermore, deposits with an agreed maturity of up to two years increased by 8.3 per cent, reaching €3,844.3 million during the same reviewed period.

Chart 4.2



** provisional*

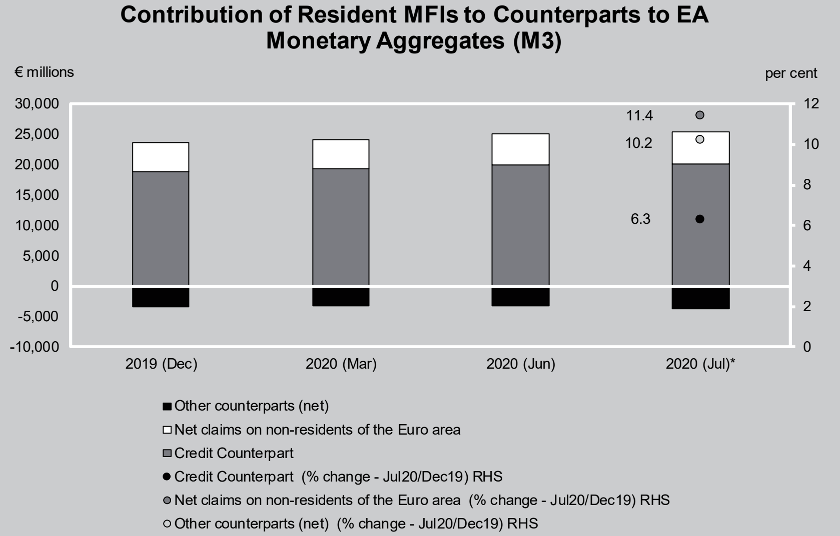
Source: Central Bank of Malta

As shown in Chart 4.2, between January-July 2020, total resident deposits increased by 3.8 per cent, reaching €18,699.5 million, compared to €18,008.9 million registered in December 2019. The positive contribution stemming from overnight deposits[5], which increased by 4.4 per cent during the same period, was the main driver of such development. Moreover, there has been an increase of 19.0 per cent in deposits redeemable at notice up to three months coupled with a marginal increase of 0.3 per cent, in two-year maturity deposits. However, both contributions were negligible due to their smaller share when compared to overnight deposits.

4.2 Contribution of Resident MFIs to Counterparts to Euro Area Monetary Aggregates

The developments in the contribution of resident MFIs to counterparts to EA monetary aggregates since the end of 2019 are portrayed in Chart 4.3. Between January-July 2020, such

Chart 4.3



** provisional*

Source: Central Bank of Malta

Maltese MFIs' contribution to the EA broad money stock (M3)[6] increased by 6.9 per cent, reaching a total of €21,688.1 million. This development was mainly attributable to a positive impact from the credit counterpart[7] which outweighed a lower positive contribution from the net claims on non-residents of the EA and a lower negative contributory effect from the other counterparts[8] component.

Between December 2019 and July 2020, the credit counterpart of broad money increased from €18,894.8 million to €20,092.7 million, an increase of 6.3 per cent. This was primarily driven by an 8.8 per cent increase in credit to Maltese residents, while credit to other EA residents declined by 1.1 per cent, reaching €4,646.7 million in July 2020. Developments in lending to Maltese residents, which stood at €15,446.0 million in July 2020, resulted from a significant 34.1 per cent increase in credit to general Government, complemented by a 2.2 per cent increase in credit to the private sector.

Growth dynamics in M3 are also affected by fluctuations in the foreign capital from outside the EA. When compared to December 2019, the external counterpart of M3, represented by net claims, increased by 11.4 per cent, reaching €5,310.0 million in July 2020. This increase reflects a noticeable growth in resident credit institutions' liabilities to other EA banks concerning their claims on them. At the same time, the other counterparts component, which reflects interbank transactions across the EA and contributes negatively to M3, increased by 10.2 per cent, thus reaching €3,714.6 million in July 2020 when compared to €3,372.2 million registered in December 2019. Nevertheless, given its small share, its negative contribution was not detrimental towards developments in M3.

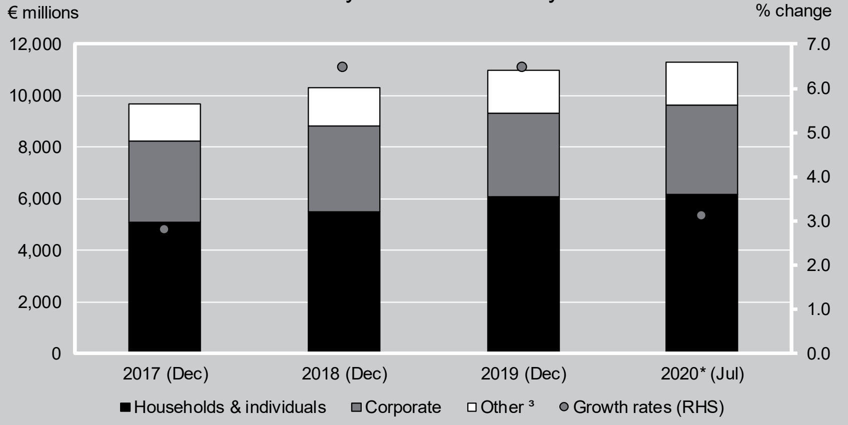
4.3 Sectoral Credit Developments

The sectoral credit developments of Maltese residents, with the exclusion of Government, are displayed in Chart 4.4. As a whole, the provision of loans to the private sector (which includes 'households and individuals', 'corporate' and 'other' categories) grew by 3.1 per cent between December 2019 and July 2020. This growth was confirmed by a 2.1 per cent rise in the credit offered to 'households and individuals' as well as by a 17.5 per cent increase in the loans granted to the 'hotels and restaurants' industry during the period December 2019 to July 2020. A growth of 5.5 per cent was registered in the credit to the 'corporate' category (including 'hotels and restaurants') during the period under review, as opposed to the 0.7 per cent decrease registered in the same period of the previous year. The loans received by the 'other' category increased by 2.1 per cent during the period under review.

The 'corporate' category is divided into seven main economic sectors and the loans granted to them over the recent years are outlined in Chart 4.5. As at July 2020, the 'real estate, renting and business activities' sector made up the largest corporate credit share (28.1 per cent). When comparing the loans granted to the 'corporate' category as a whole in July 2020 to those granted in December 2019, a general expansion in credit was observed. The main driver behind this overall increase was the 'hotels and restaurants' category which received 17.5 per cent more loans than in December 2019. It was followed by 'transport, storage

Chart 4.4

Credit to Other Residents(1)
Loans by Economic Activity(2)

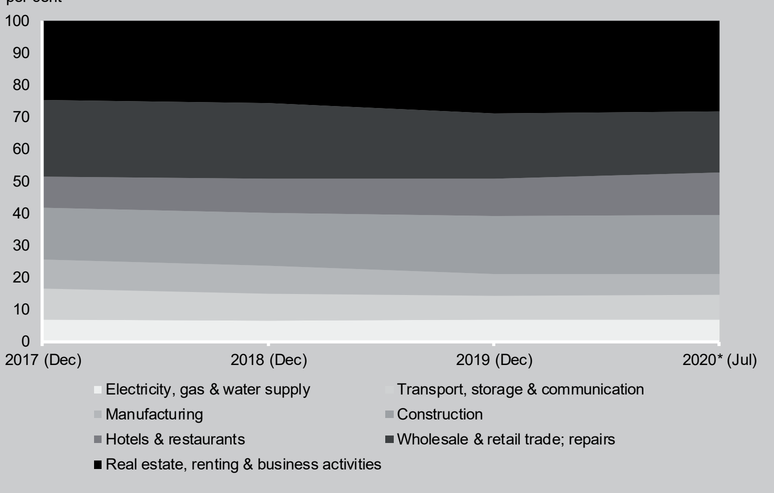


** provisional*
[1] Credit to other residents consists mainly of loans and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies, and financial derivatives. Interbank claims are excluded. Data only include credit to residents of Malta.
[2] Data presented is compiled in accordance with NACE Rev2.
[3] Includes agriculture, mining & quarrying, public administration, education, health & social work, community recreation & personal activities, extra-territorial organisations & bodies and non-bank financial institutions.

Source: Central Bank of Malta

Chart 4.5

Corporate Credit Shares



** provisional*

Source: Central Bank of Malta

and communication' which received 10.0 per cent more loans, 'construction' which received 7.2 per cent more, and 'electricity, gas and water supply' which received 6.2 per cent more. Smaller but still positive contributions came from 'real estate, renting and business activities' at 2.6 per cent, 'manufacturing' at 1.6 per cent and 'wholesale and retail trade; repairs' at 0.3 per cent. Contrary to the same period of the previous year, there were no declines in the credit offered to any corporate sector that offset the aforementioned increases.

4.4 The Money Market

Since Q1 2020, the Covid-19 pandemic has led to both social and economic disruptions at an unprecedented level worldwide. The health crisis swiftly turned into one of the largest and sharpest economic contractions in recent history, believed to exceed even the 2008 global financial crisis. As contagion spread across continents, financial markets and corporates were adversely affected in view of high volatility, liquidity shortages and funding constraints. Financial Authorities and policymakers responded with unparalleled action to dampen both the near and longer-term damaging impacts on economic activity, aimed towards a quick recovery. The central objective was to ensure that the financial system could withstand the shock and that banks could continue to play their role in providing credit and financial services to the real economy. Compounding the situation remains the persistence of the low-for-long interest rate environment. In line with their mandate, the European Central Bank (ECB) worked towards providing adequate liquidity support to banks, to maintain effective monetary policy transmission and upholding the functioning of financial markets, while monitoring how the situation develops on a regular basis.

In January 2020, the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00 per cent, 0.25 per cent and -0.50 per cent respectively. These key ECB rates have remained unchanged and are expected to remain at their present or lower levels until it is visible that the inflation outlook robustly converges sufficiently close to, but below, 2 per cent within its projection horizon. During the same month, the ECB continued to make net purchases under its asset purchase programme (APP) at a monthly pace of €20 billion. Moreover, the Governing Council continued reinvesting the principal payments from maturing securities purchased under the APP for an extended period to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The ECB intends to keep such stance for as long as necessary. The review of the ECB's monetary policy strategy was also launched.

In March 2020, additional longer-term refinancing operations (LTROs) were conducted, to provide immediate liquidity support to the EA financial system, to act as an effective backstop in case of need. In addition, a temporary envelope of additional net assets purchases of €120 billion were added until the end of the year to the existing APP, to ensure a strong contribution from the private sector purchase programmes. Such stance was kept until September 2020. In the same month, as a response to Covid-19, the ECB announced a €750 billion Pandemic Emergency Purchase Programme (PEPP) comprised of private and public sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the EA posed by the outbreak.

At the end of April 2020, a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) were launched, consisting of seven additional refinancing operations. These commenced in May 2020 and will be maturing in a staggered sequence between July and September 2021 in line with the duration of the collateral easing measures. In addition, the interest rate on all targeted longer-term refinancing operations (TLTRO III) was reduced by 25 basis points to -0.5 per cent. Three months after its announcement, the ECB decided that the envelope for the pandemic emergency purchase programme (PEPP) will be increased by €600 billion to a total of €1,350 billion. Moreover, the horizon for net purchases under the PEPP was extended to at least the end of June 2021, while the maturing principal payments from securities purchases under the PEPP will be reinvested until at least the end of 2022.

Interest rates charged between banks on short-term loans - Interbank Rates - give a general indication of the risk appetite in financial markets. When risk aversion increases, financial institutions would be less willing to exchange credit amongst themselves in the interbank market. While remaining in negative territory, interbank rates experienced noticeable volatility during the first seven months of 2020, except for the overnight rate which remained stable, registering at -0.46 per cent as at end of July 2020. On the other hand, three-month rates stood at -0.36 per cent in July 2019 and continued to decline till March 2020. In the following month, these increased to -0.25 per cent and subsequently went down again to -0.44 per cent at the end of July 2020. Similarly, longer-term rates underwent some fluctuations during the past year. In fact, one-year rates stood at -0.28 per cent in July 2019 and declined to -0.36 per cent in the following month. Subsequently, they increased to -0.08 per cent in May, and underwent a further decline, thereafter, standing at -0.28 per cent in July 2020.

The interest rates of EA interbank money markets have a bearing on Maltese Treasury Bills, as they provide a different portfolio investment opportunity to local investors. Treasury Bills issued on the primary market by the Maltese Government between January and August this year amounted to €1,380 million, an increase of €674.1 million compared to the level of Treasury Bills issued for the same period in 2019. Yields in the primary and secondary markets for Malta Treasury Bills experienced fluctuations during 2019. Such developments were also evident during the first seven months of 2020. In July 2020, the yield on three-month bills in the primary market declined to a negative rate of 0.46 per cent, when compared to a negative rate of 0.36 per cent in the same month a year earlier. During the same period, the yield on one-year bills in the primary market stood at -0.39 per cent, reflecting a decline when compared to the rate of -0.33 per cent registered in July 2019. In the secondary market, three-month bills stood at -0.20 per cent and one-year bills stood at -0.14 per cent in July 2020, both registering increases when compared to their respective rates of -0.35 per cent and -0.28 per cent in July 2019.

No trades were executed in Treasury Bills for the period January-August 2020 and the comparable period of 2019.

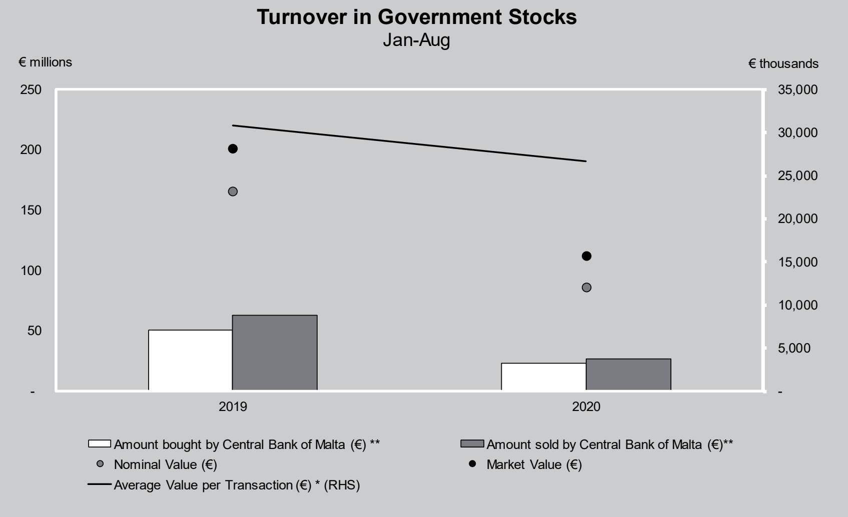
4.5 The Capital Market

During the first eight months of 2020, €950 million worth of stocks were issued by the Maltese Government on the primary market, with redeemed stocks amounting to €520.2 million.

New issuances of corporate bonds decreased from €238 million as at August 2019 to €100 million as at August 2020. On the other hand, the amount of corporate bonds redemptions registered at €114.3 million, reflecting an increase of €24.3 million for the period ending August 2020 when compared to the same period of the previous year. No deductions were recorded for January to August 2020; this was also the case in the same period of 2019. Furthermore, rollovers amounted to a total of €13.7 million for the first eight months of 2020, which dropped from €20.1 million recorded in the first eight months of 2019. In addition, buy-backs increased from €1.6 million as at August 2019 to €1.8 million as at August of 2020.

Chart 4.6 reflects the secondary market trading activities related to Government stocks. During January to August 2020, trading

Chart 4.6



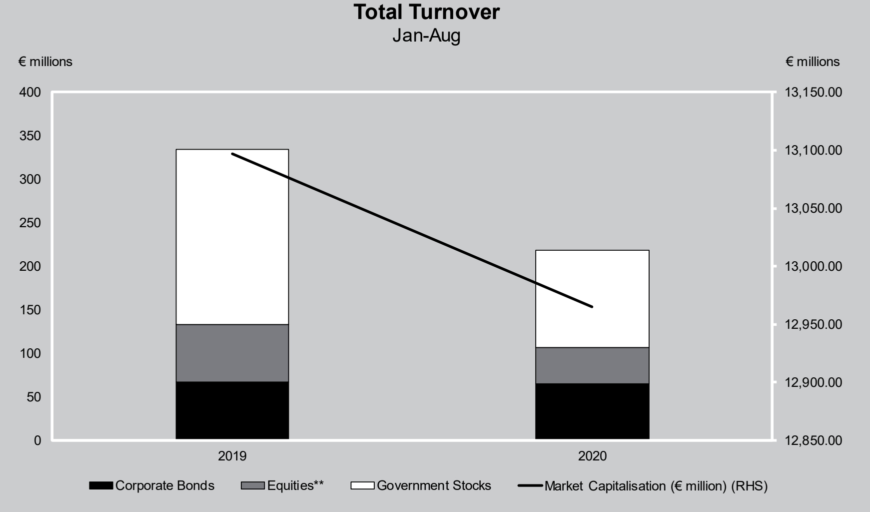
** Based on Nominal Values*
*** Based on Market Values*

Source: Central Bank of Malta

activity declined when compared to the same period in 2019. In fact, during January to August 2020, there was a decrease in turnover levels of 44.4 per cent, reaching €111.8 million. The number of deals also decreased to 3,212 from January to August 2020 in comparison to 5,374 for the same period of the previous year, reflecting a decrease of 40.2 per cent. Trading was mainly focused in two issues during the first eight months of 2020, namely: 2.1 per cent MGS 2039 (I) and 3 per cent MGS 2040 (I), which registered 447 and 366 deals respectively. The Central Bank of Malta (CBM) transacted a total value of €50.5 million in the local Government bond market during the first eight months of 2020.

Chart 4.7 depicts secondary market indicators relative to the capital market. During the period January to August 2020, there was a decrease in the aggregate turnover for equities, the latter reaching €42 million when compared to a level of €66.5 million registered in the same period of 2019. During January to August 2020, Malta International Airport plc and Bank of Valletta plc share issues registered the largest level of trading activity standing at 1,483 and 1,072 deals, respectively.

Chart 4.7



*** Including the alternative companies listings*

Source: Malta Stock Exchange

By the end of August 2020, the Malta Stock Exchange Share Index declined to 7,550.0 in comparison to 9,769.8 registered in the same period of 2019, showcasing a decrease of 22.7 per cent. Furthermore, market capitalisation in the equity market decreased from €4,807.4 million in August 2019 to €3,711.0 million in August 2020.

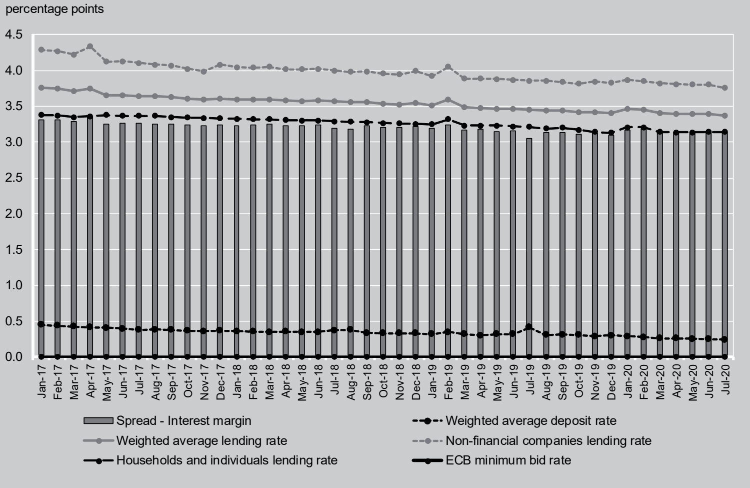
As at the end of August 2020, total market capitalisation decreased to €12,965 million from €13,097.2 million, representing a decline of €132.1 million when compared to the same period a year earlier. This decrease was underpinned mainly by reductions in the market capitalisation for equities, whilst corporate bonds, MGS and Treasury Bills market capitalisation all increased.

4.6 Deposit and Lending Rates

The weighted average deposit and lending rates, their relative spread, and the ECB minimum bid rate are displayed in Chart 4.8. During the first seven months of 2020, the weighted average deposit rate hovered around the 0.26 per cent mark. This rate was lower than that observed during the same period a year earlier which rate averaged around 0.33 per cent. Furthermore,

Chart 4.8

Local Interest Rates and Margins



Source: Central Bank of Malta

the weighted average lending rate was registered at 3.46 per cent in the beginning of 2020 subsequently declining to 3.38 per cent in July. A weighted average lending rate of around 3.50 per cent was observed during the first half of 2019. This rate was lower than the mean rate of 3.41 per cent registered throughout the same period. The interest margin (i.e. the spread between the weighted average deposit and lending rates) decreased slightly from 3.17 per cent in January 2020 to 3.13 per cent in July 2020, albeit still higher than the 3.05 per cent interest margin recorded in July 2019. Both the 'households and individuals' lending rate and 'non-financial companies' lending rate followed a downward path throughout the initial seven months of the year. Respectively, these rates were 0.07 percentage point changes and 0.10 percentage point changes lower in July 2020 when compared to the same month in 2019. The ECB minimum bid rate retained its 0.00 per cent value during the period under review.

Footnotes:

[1] Figures show the contribution of Maltese monetary financial institutions (MFIs) to the EA totals and include deposit liabilities to both residents of Malta and other EA residents.

[2] M3-M2 comprises repurchase agreements and debt securities up to 2 years' maturity issued by MFIs in Malta less holdings by MFIs in Malta of such securities issued by MFIs anywhere in the EA. Figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the EA and holdings by non-residents of the EA.

[3] Deposits with MFIs exclude interbank deposits and deposits held by central Government.

[4] Comprises the Central Bank of Malta's share of Euro banknotes issued by the Eurosystem, plus coins issued by the Bank on behalf of the Treasury, less holdings of issued Euro banknotes and coins held by the MFI sector.

[5] Overnight deposits are deposits withdrawable on demand and exclude interbank deposits and deposits held by central Government.

[6] This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the EA aggregate.

[7] Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

[8] Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

5. Public Finances

5. Public Finances

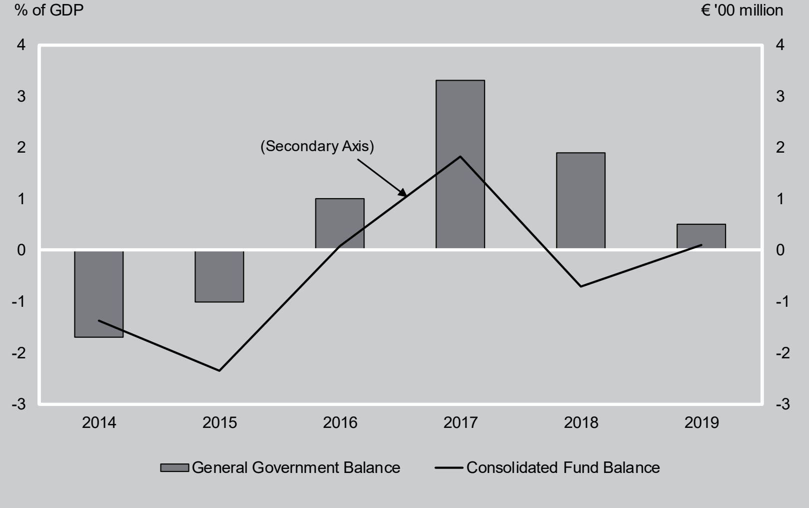
The general Government recorded a surplus of €67.1 million or 0.5 per cent of Gross Domestic Product (GDP) in 2019. In order to achieve compliance with the provisions of the European System of Accounts (ESA 2010), adjustments are carried out to the Consolidated Fund data to include Extra Budgetary Units' (EBUs) and local Government accounts, and actual spending and revenue flows on an accrual basis. On a cash basis, in 2019, the central Government's Consolidated Fund registered a surplus of €9.4 million.

Chart 5.1 provides an analysis of developments within the Consolidated Fund balance and the general Government balance over recent years. The debt ratio maintained its declining trend, reaching 42.6 per cent of GDP in 2019.

In view of the Covid-19 pandemic, the budgetary situation in the first eight months of the year was characterised by a significant decline in tax revenue which resulted in a deficit in the consolidated fund balance and in ESA terms during the first two quarters of 2020.

Chart 5.1

Developments in Public Finances



5.1 Consolidated Fund Developments

The analysis in this section is based on Government finance data as classified in the statement of the Consolidated Fund, where such data is defined on a cash basis rather than on an accruals system. The data should be interpreted with caution since developments in the Government's net financial position may not fully reflect actual spending and revenue flows on an accrual basis.

At the outset, it is pertinent to highlight that developments in public finances during the eight months to August 2020 were characterised by the consequences of the Covid-19 pandemic on the Maltese economy with a number of sectors being more negatively impacted than others. It is noteworthy that because of the solid financial position, the Maltese Government was able to announce a series of financial packages to address the

Government Revenue and Expenditure
(January-August)

Table 5.1 — € million

	2017	2018	2019	2020
Recurrent Revenue	**2,583.8**	**2,744.1**	**3,190.2**	**2,524.8**
Tax Revenue	2,299.7	2,516.9	2,846.3	2,216.6
Direct Tax Revenue	1,364.0	1,500.1	1,713.9	1,405.8
Indirect Tax Revenue	935.7	1,016.8	1,132.3	810.8
Non-Tax Revenue	284.1	227.3	343.9	308.3
Total Expenditure	**2,552.7**	**2,747.2**	**3,106.3**	**3,611.1**
Recurrent Expenditure	2,221.6	2,395.3	2,666.8	2,965.1
Interest on Public Debt	144.4	139.1	126.5	121.3
Capital Expenditure	186.7	212.8	313.0	524.6
Balance of recurrent revenue and total expenditure	31.1	-3.1	83.9	-1,086.2
Financed by:				
Receipts from sale of shares	0.9	0.9	0.9	0.9
Sinking Funds of Converted Loans	0.0	0.0	0.0	0.0
Sinking Fund Contribution and Direct Loan Repayments	-90.2	-309.1	-198.7	-287.6
Equity Acquisition	-2.1	-63.0	-10.3	-27.0
Repayment of Loan made by Government	0.0	0.0	0.0	0.2
Public Sector Borrowing Requirement	-60.3	-374.3	-124.2	-1,399.8
Local Loans	257.8	93.5	279.7	1,044.8

Source: National Statistics Office

health emergency needs of the country, ease liquidity pressures on businesses, safeguard jobs and household incomes. Acting pro-actively, the Government also launched a comprehensive recovery plan in the gradual reopening of the economy from its partial lockdown.

During the first eight months of 2020, recurrent revenues declined by €665.3 million, while total expenditure increased by €504.8 million. Consequently, the Government's Consolidated Fund balance deteriorated by €1,170.1 million to a deficit of €1,086.2 million. The public sector borrowing requirement increased from €124.2 million to €1,399.8 million reflecting developments in the sinking fund contribution and direct loan repayments and to a lesser extent, equity acquisition. Table 5.1 presents developments in Government revenue and expenditure on a cash basis for the first eight months of the period 2017-2020.

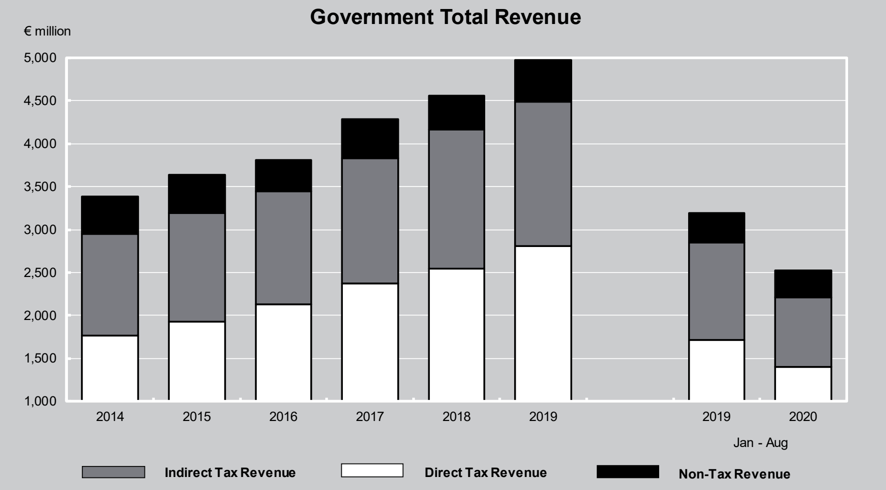
5.1.1 Recurrent Revenue

Up to August 2020, the data for recurrent revenues fell by 20.9 per cent reflecting lower tax revenues. Developments in the components of Government revenue for the first eight months between 2017 and 2020 are presented in Appendix Table 5.1. Furthermore, Chart 5.2 illustrates recent trends in the components of Government revenue.

The share of Government revenue from taxes reached 87.8 per cent of total recurrent revenues during the first eight months of 2020. Tax revenue decreased by 22.1 per cent, reaching €2,216.6 million as direct tax revenues fell by €308.1 million, indirect taxes declined by €321.6 million and non-tax revenues declined by €35.6 million.

The proceeds from income tax decreased by 22.0 per cent while social security contributions declined by 11.3 per cent. These declines include the effect of measures Government implemented to mitigate business liquidity pressures on cash flow arising from the Covid-19 pandemic, while also encouraging the retention of employees. To this end, Government provided fiscal assistance to businesses by implementing a tax deferral scheme for provisional tax, employee taxes, maternity fund payments and social security contributions, social security contributions for self-employed persons and Value Added Tax

Chart 5.2



(VAT) which fell due in March up to and including June 2020. National insurance, income tax and maternity contributions have started to be paid from 1 July 2020. Other taxes due by companies have been deferred to the end of August 2020. Companies may pay the deferred tax by May 2021, with no interest charged. Additionally, further recovery measures were announced, relating to property and construction, in particular a reduction in stamp duty on property purchases (from 5 per cent to 1.5 per cent on contracts signed between 9 June 2020 and 31 March 2021), lower tax (reduced from 8 per cent to 5 per cent) for those selling property under development or those contracts made after 1 June 2020 up to 31 March 2021, and an updated 1st time buyers scheme. In view of the above, less revenue was collected during the eight months to August 2020 from all components of income tax, but particularly from provisional tax. Whilst the initial impact on public finances is expected to be substantial, the success of these measures is expected to prevent permanent losses of fiscal resources over the medium-term by supporting solvent enterprises and preserving jobs and thus support public finance sustainability.

During the period under review, revenue from indirect taxes decreased by 28.4 per cent, reflecting lower revenue registered in all the three components making up indirect tax revenue. Revenue from VAT declined by €177.3 million confirming decreases in VAT collected from businesses and customs which reflected the subdued economic activity recorded during the first eight months of this year. Revenues derived from customs and excise duties and licences, taxes and fines decreased by €84.5 million and €59.8 million, respectively. The drop in revenue from customs and excise duties was largely the result of lower import duties received, lower proceeds from excise on petroleum and a decline in excise due from the sales of machine-made cigarettes. Furthermore, lower receipts from licences, taxes and fines mainly reflect a decline in proceeds from duty on documents, the motor vehicle registration tax, the annual circulation licence fee and gaming taxes.

Non-tax revenue mainly comprises grants, fees of office, the transfer of profits generated by the Central Bank of Malta (CBM) and reimbursements. During the eight months to August 2020, non-tax revenue decreased by €35.6 million mainly reflecting an €84.6 million drop in revenue from European Union (EU) grants and to a lesser extent a decline in revenue of €7.7 million in both reimbursements and rents. On the other hand, fees of office and miscellaneous receipts increased by €30.6 million and €29.9 million respectively, while dividends on investments increased by €4.0 million.

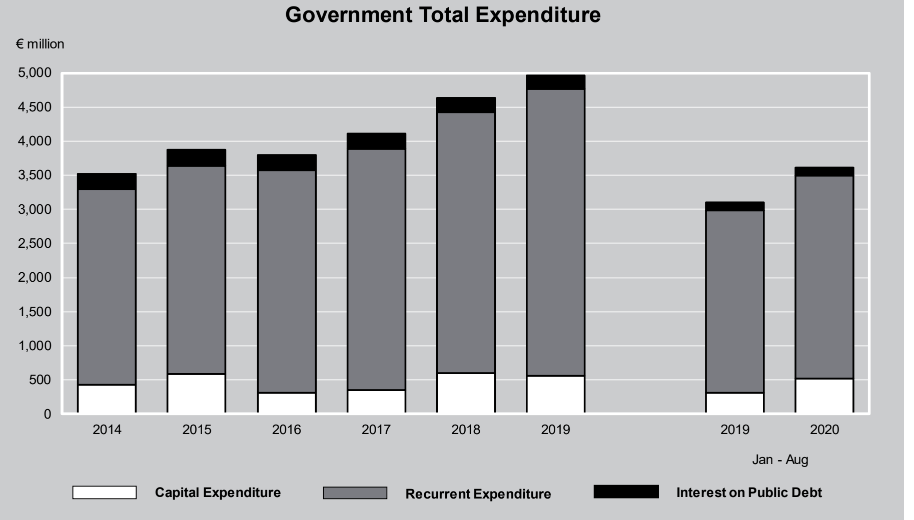
5.1.2 Expenditure

Underpinned by various support measures in response to the Covid-19 pandemic, total Government expenditure increased by 16.3 per cent during the eight months to August 2020, as recurrent expenditure increased by €298.4 million and capital expenditure increased by €211.6 million. Interest on public debt declined by €5.2 million. Chart 5.3 presents the recent trend in the Government expenditure disaggregated by components.

Recurrent Expenditure

Recurrent expenditure registered an increase of €298.4 million over the review period. The recurrent expenditure component is made up of four categories, namely, Personal Emoluments, Operational and Maintenance Expenditure, Programmes and

Chart 5.3



Initiatives and Contributions to Government Entities. While there was additional spending for all categories, expenditure in the Programmes and Initiatives category, which at 59.4 per cent makes up the major component of recurrent expenditure, registered the largest increase, to reach €1,760.3 million.

The Programmes and Initiatives component refers to expenditure that includes social transfer payments as well as subsidies, payments and grants for the provision of services to citizens and to charitable and private institutions. It also includes contributions to the EU budget. During the first eight months of this year, expenditure on Programmes and Initiatives increased by €135.3 million, mainly reflecting higher outlays on social security benefits, which included outlays directed towards Covid-19 related benefits. Higher outlays included additional spending on medicines and surgical materials, the economic regeneration voucher scheme, the public service obligation for public transport, housing programmes, compensation payments by Government and measures addressing waiting lists for medical services. The rise in expenditure was partially offset by declines registered under social security state contribution (also reported as revenue) and EU own resources.

Contributions towards Government Entities include the funding of Government entities, Parastatals, Corporations and Authorities. Outlays in this expenditure category amounted to €422.2 million for the period January to August 2020, recording a €102.4 million increase over the level recorded during the same period last year.

Personal Emoluments include all salaries and wages paid to elected officials and civil servants, as well as any bonuses and supplements paid to employees in excess of standard remunerations including any allowances and overtime payments. During the period January to August 2020, this category of expenditure increased by €19.3 million and stood at €604.5 million, mainly underpinned by higher outlays directed towards the health, education and home affairs and national security sectors.

Operational and Maintenance expenditure, which includes payments for utilities, contractual services, materials and supplies, transport and rent, increased by €41.4 million to €178.1 million during the first eight months of 2020.

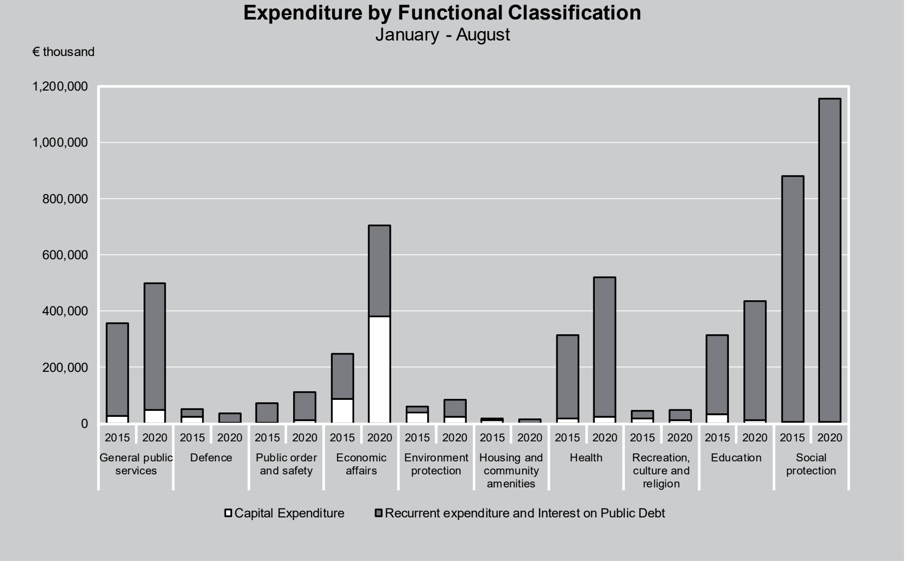
Developments in Government's recurrent expenditure on a cost centre basis for the January to August 2020 period are presented in Appendix Table 5.2. The nomenclature of Ministries and the cost centres referred in this Chapter reflect the allocation of portfolios and assignment of responsibility for Government Departments and Government Entities. Thus, a direct comparison with data of past years is not always possible.

Social Security Benefits comprised 24.3 per cent of Government recurrent expenditure which makes it the major component of Government's total recurrent expenditure. Contributory benefits make up 83.1 per cent of social security benefits that include retirement pensions, while the remaining 16.9 per cent consist of non-contributory benefits, mainly social assistance, old age pensions and children's allowance. Total contributory benefits increased by €49.0 million, largely reflecting higher outlays on retirement pensions. Meanwhile, non-contributory benefits increased marginally to €121.4 million.

The Government introduced a series of policy initiatives to cushion the economic impact of the pandemic, including a number of measures introduced for individuals who were made redundant or who were unable to work. The parental benefit targeted working parents in the private sector, who could not go to work or carry out their functions through teleworking arrangements and were required to stay at home to take care of their school-aged children. The additional unemployment benefit scheme catered for employees who lost their jobs due to Covid-19. Moreover, the medical benefit scheme and the disability benefit scheme were granted to working disabled and vulnerable people who could not carry out their work functions due to being ordered to stay home for medical reasons.

Analysis of Recurrent Expenditure by Functional Classification
The structure of recurrent expenditure can be classified by the main socio-economic functions of Government (according to the Classification of the Functions of Government – COFOG). The different economic functions are the general public service; defence, public order and safety; economic affairs; environment protection; housing and community amenities; health; recreation; culture and religion; education and social protection. Developments in the main components of Government expenditure for the main COFOG categories are presented in Chart 5.4 and Appendix Table 5.3.

Chart 5.4



Over the medium-term, social protection remains the economic function attracting the highest nominal expenditure, though it should be emphasised that the share of recurrent expenditure (including interest on public debt) paid out on social protection declined by 4.5 percentage points to 37.2 per cent during the eight months to August 2020, when compared to the same period in 2015. A drop of 1.3 percentage points was recorded in expenditure on general public services (including interest on public debt). Meanwhile, the share of recurrent expenditure on economic affairs increased by 2.8 percentage points, while recurrent expenditure on health and environment protection rose by 1.9 percentage points and 1.0 percentage point, respectively. Housing and community amenities accounted for 0.5 per cent of recurrent expenditure when compared to 0.2 per cent recorded in 2015.

Recurrent expenditure (including interest on public debt) increased by €293.2 million when comparing the first eight months of 2020 with the same period in 2019, reflecting higher outlays directed towards most expenditure categories. The most significant expenditure increases were directed towards health (+€82.8 million), economic affairs (+€71.3 million), education (+€70.5 million) and social protection (+€47.5 million).

Capital Expenditure

During the eight months to August 2020, capital expenditure increased by €211.6 million, making up 14.5 per cent of total Government expenditure. According to the most recent available data by economic function, during the January to August 2020 period, nearly 73 per cent of capital outlays were directed to the economic affairs category, followed by around 10 per cent of capital outlays directed towards the general public services category. Meanwhile, the remaining categories, in aggregate accounted for around 18 per cent of total capital expenditure.

During the period under review, higher capital outlays were mainly recorded by the economic affairs (+€210.4 million) and health (+€18.6 million) sectors. These developments mainly reflect additional spending towards investment incentives (€213.0 million), which amounted to €237.1 million, including €229.0 million spent in relation to the Covid-19 Business Assistance. These include the Wage Supplement measure, which is providing funds to businesses and self-employed affected by the Covid-19 pandemic to support enterprises in retaining their employees, as well as a utility bill refund scheme and rent refund scheme for businesses affected by the pandemic. Through these measures, beneficiaries of the wage supplement scheme are given additional support in the first months after resuming operations. In addition, in order to stimulate domestic expenditure, the Government has granted a €100 voucher to residents aged 16 and over to be spent locally at hotels, licensed accommodations, restaurants, bars or diving schools and at retail outlets that were required to close during the pandemic. Meanwhile, lower capital expenditure was recorded in respect of environment protection (-€14.3 million) and public order and safety (-€12.7 million).

Total capital expenditure during the January to August 2020 period totalled €524.6 million and was mainly financed from local funds. Developments in total capital expenditure are underpinned by trends in the nationally funded capital programme (excluding investment and equity acquisitions), which increased by €222.7 million, to €429.5 million during the period under review. As already outlined, these developments mainly reflect additional spending towards investment incentives in relation to the Covid-19 Business Assistance. Meanwhile, foreign funding declined by €12.4 million, to €68.0 million, while the Malta local co-financing, ineligible costs, funding gap and sponsorship component increased by €1.6 million to €27.2 million.

5.2 Main Budgetary Developments

The Quarterly Accounts of General Government published by the National Statistics Office (NSO) depict the Government's fiscal position using the updated European System of Accounts (ESA) 2010 methodology. Within this system, adjustments are carried out to the cash balances of the Consolidated Fund transactions to include all government accounts, exclude all financial transactions, and include accrual adjustments. Moreover, data pertaining to EBUs and local councils are also included. It is therefore pertinent to note that the data presented below is not comparable to that classified in the statement of the Consolidated Fund as provided in other sections of this Chapter. Nevertheless, conformity to the use of ESA 2010 methodology in line with the procedure defined in Article 104 of the Maastricht Treaty, allows for the international comparability of data for reporting purposes.

5.2.1 Fiscal Developments in 2019

In 2019, the general Government surplus stood at 0.5 per cent of GDP as the general Government expenditure was contained at a lower level than the general Government revenue.

In 2019, the general Government revenue-to-GDP ratio declined by 0.8 percentage points to 37.7 per cent of GDP, when compared to 2018. Revenue from taxes on production and imports registered a decline of 0.5 percentage points of GDP, mainly due to subdued growth in VAT revenue and lower proceeds from taxes on financial and capital transactions. These developments were partly driven by the loss in retained revenue during the transitory period of the regulation on VAT on electronic services, as well as the extension of ongoing measures targeting stamp duty. Meanwhile, the ratio to GDP of current taxes on income and wealth increased by 0.4 percentage points, mainly underpinned by strong labour market conditions and the robust state of the Maltese economy. Conversely, the ratios of property income and social contributions declined marginally in 2019 by 0.3 percentage points of GDP in aggregate. The lower ratio to GDP of property income is related to lower profits from the CBM and lower distributed dividends from public listed companies.

In 2019, the ratio of general Government expenditure to GDP increased by 0.7 percentage points to 37.2 per cent when compared to 2018. This primarily reflected higher Government consumption, in particular higher expenditure on intermediate consumption. Intermediate consumption increased by 0.7 percentage points to 7.2 per cent of GDP in 2019 mainly on account of higher expenditure by Extra Budgetary Units (EBUs) and by central Government for residential homes in the social sector, medicines and surgical materials as well as landscaping in urban areas, which is of a one-off nature. Reviews of Government spending are contributing to the achievement of improved efficiency in public spending, reduction of waste and value for money. As a result of these efforts, as well as the expenditurereducing effect of measures legislated in previous Budgets, in particular the tapering of social benefits and the gradual extension of the retirement age by virtue of the 2006 pension reform initiatives, the ratio of social payments declined by a further 0.2 percentage points to 9.2 per cent of GDP. Indeed, the lower ratio for social payments resulted in spite of a number of 2019 Budget measures addressing the adequacy of pensions, including disability pensions, and other vulnerable groups. As a result of the Treasury's debt management strategy as well as the low interest rate environment, expenditure on interest payments declined in both absolute and relative terms in 2019. Expenditure on subsidies and on compensation of employees as a share of GDP remained unchanged in 2019.

Meanwhile, the increase in the expenditure to GDP ratio also resulted from higher capital expenditure, in particular as gross capital formation increased by 0.7 percentage points of GDP. Higher capital expenditure was directed to roads, the environment, health and education and included higher infrastructure expenditure financed from both the EU and local funds.

5.2.2 Budgetary Developments during the first half of 2020

The analysis in this section is based on general Government data in ESA 2010. It is worth noting that due to seasonal factors, a larger proportion of revenue and to a lesser extent expenditure materialises in the last quarter of the year. As a result, the in-year budgetary performance is not symmetrical between the first half and the second half of the year. Seasonal patterns may also vary from one quarter to the next due to the timing of payments and receipts. Therefore, in-year budgetary data as a measure of budgetary performance should be read with caution. Such caution is even more warranted during the current year in view of the ongoing extraordinary circumstances and the resulting impact on Government revenue and expenditure, including the fiscal impact of measures intended to mitigate the negative economic consequences brought about by the

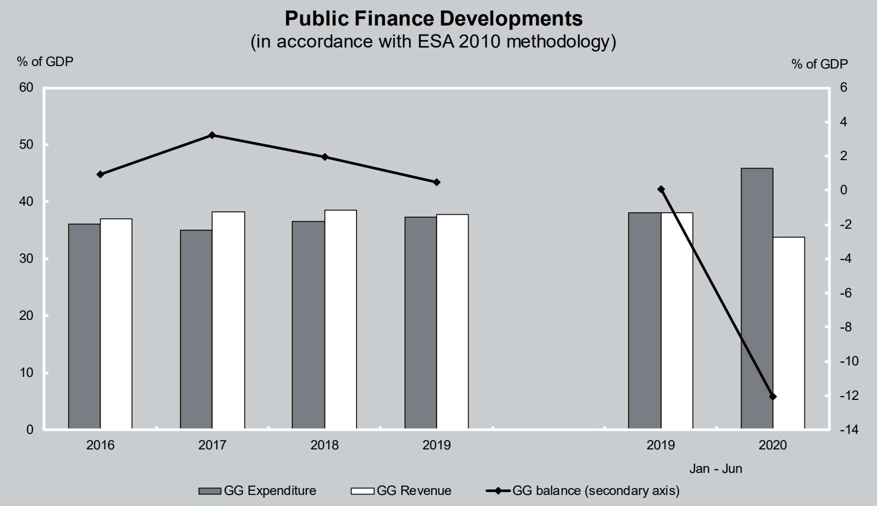
Covid-19 pandemic. The fiscal impact of such measures is not evenly spread during the year. As a result, this evaluation should be considered with more caution than the comparable analyses in previous Economic Surveys.

Chart 5.5 presents public finance developments in accordance with ESA2010 methodology over recent years.

The general Government balance is estimated to have recorded a deficit of €728.8 million during the first half of 2020.

During January to June 2020, general Government revenue is estimated to have declined by €412.9 million over the comparable period in 2019, to €2,044.2 million. Lower proceeds are estimated from all components of revenue, other than property income, mainly in reflection of the adverse effects that the outbreak of the pandemic exerted on the broad economy in general. The largest decreases in revenue were indeed recorded for Current taxes on income and wealth (-€213.1 million), followed by Taxes on production and imports (-€119.2 million) and Capital transfers receivable (-€51.2 million).

Chart 5.5

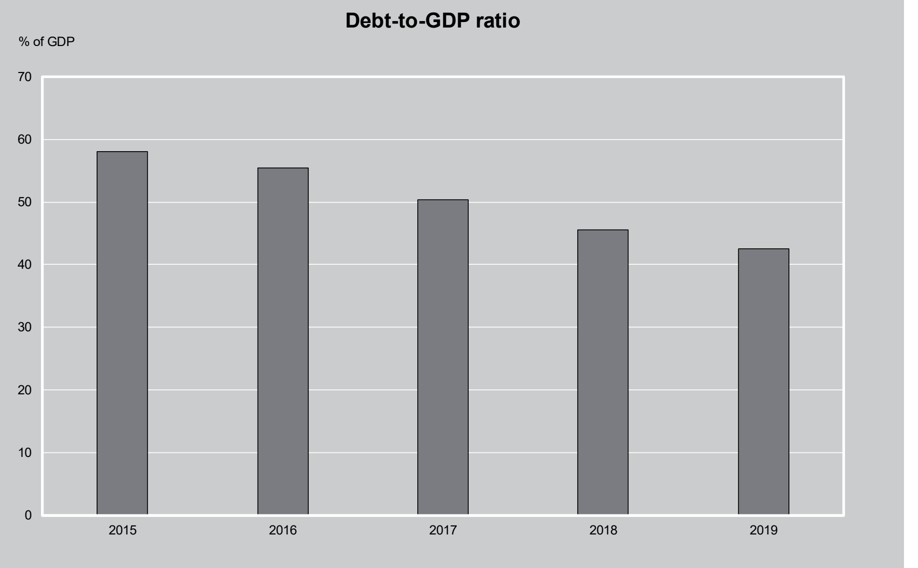


During the first half of 2020, expenditure has increased by €319.1 million to €2,773.0 million. Increases in expenditure were in particular recorded towards Subsidies (€163.1 million), mostly in relation to the Covid-19 wage supplement, Social benefits (€81.2 million), Intermediate consumption (€79.8 million), and Compensation of employees (€33.1 million). In contrast, when compared to the corresponding period in 2019, Capital transfers and Gross capital formation both registered a decrease of €20.3 million and €45.3 million, respectively.

5.3 General Government Debt Developments

General Government debt declined below the 60 per cent Treaty requirements in 2015 and maintained a sustained downward trajectory, declining to 42.6 per cent of GDP in 2019 at a level of €5,707.2 million. The decline of 2.9 percentage points of GDP over 2018 is mainly attributable to the strong and sustained rate of economic growth as well as the healthy state of public finances.

Chart 5.6



At the end of June 2020, the general Government debt stood at €6,646.0 million, showing an increase of €792.8 million over the corresponding quarter in 2019. Currency and deposits stood at €377.9 million, an increase of €0.7 million over June 2019. This includes the Euro coins issued in the name of the Treasury, considered a liability of central Government, and the 62+ Malta Government Savings Bond. Long-term debt securities increased by €304.2 million, whereas short-term debt securities increased by €464.7 million. Additionally, long-term loans registered an increase of €20.2 million, while short-term loans increased by €3.1 million.

Government Revenue

(January-August)

Appendix Table 5.1 € thousand

	2017	2018	2019	2020
Tax Revenue	**2,299,698**	**2,516,865**	**2,846,290**	**2,216,568**
Direct Tax Revenue	1,364,038	1,500,113	1,713,948	1,405,799
Income Tax	833,252	920,880	1,071,225	835,912
Social Security	530,786	579,232	642,723	569,887
Indirect Tax Revenue	935,660	1,016,753	1,132,341	810,769
Customs and Excise Duties	195,957	204,695	214,007	129,547
Licences, Taxes and Fines	221,952	254,329	262,101	202,300
Value Added Tax	517,751	557,729	656,233	478,922
Non-Tax Revenue	**284,091**	**227,259**	**343,895**	**308,279**
Fees of Office	66,566	52,607	53,629	84,227
Reimbursements	22,993	27,904	28,275	20,550
Rents	22,088	22,048	27,792	20,119
Dividends on Investments	19,125	23,333	11,385	15,410
Repayment of Government Loans and interest	34	32	71	8
Miscellaneous Receipts	22,839	22,254	34,056	63,927
Public Corporations	0	0	0	0
Central Bank of Malta	36,000	28,000	20,000	20,000
Grants	94,447	51,082	168,687	84,039
Recurrent Revenue	**2,583,789**	**2,744,125**	**3,190,185**	**2,524,847**
Extraordinary Receipts	889	91,889	889	889
Loans	257,770	93,527	279,713	1,044,791
Repayment of Loans made by Government	0	0	0	171
Total Revenue	**2,842,448**	**2,929,540**	**3,470,786**	**3,570,697**

Source: The Treasury, Ministry for Finance and Financial Services

Government Recurrent Expenditure

(January-August)

Appendix Table 5.2 € thousand

	2017	2018	2019	2020
Office of the President	3,412	3,554	3,060	2,299
House of Representatives	2,855	3,798	7,250	7,388
Office of the Ombudsman	900	800	700	1,340
National Audit Office	2,363	2,565	2,610	2,700
Commissioner for Standards in Public Life	0	0	350	640
Office of the Prime Minister	21,560	22,244	35,786	49,185
Information	616	681	705	705
Government Printing Press	864	877	989	995
Electoral Office	6,636	1,528	6,759	1,552
Public Service Commission	371	399	434	450
Ministry for Health	348,713	367,995	409,361	493,032
Ministry for the Economy, Investment and Small Businesses	12,438	13,266	12,558	53,715
Commerce	981	898	871	917
Ministry for Education and Employment	168,687	187,462	187,717	243,774
Education	146,070	160,318	183,146	202,495
Ministry for Energy and Water Management	0	55,981	64,684	70,697
Ministry for Finance	87,372	84,633	135,726	102,612
Economic Policy	865	1,084	1,036	1,009
Treasury	5,355	16,913	17,191	21,596
Commissioner for Revenue	0	0	12,201	11,670
Customs	6,322	6,982	7,791	7,343
Contracts	920	1,001	1,056	1,063
Ministry for Tourism	42,776	57,567	79,325	87,260
Ministry for Home Affairs and National Security	8,919	9,360	16,055	31,153
Armed Forces of Malta	29,514	30,146	31,611	32,680
Police	36,749	39,747	47,938	49,285
Probation and Parole	677	718	777	796
Civil Protection	3,356	3,571	4,331	5,590
Ministry for Justice, Culture and Local Government	26,180	45,669	48,941	64,098
Local Government	29,918	30,974	33,543	35,135

Government Recurrent Expenditure

(January-August)

Appendix Table 5.2 continued — € thousand

	2017	2018	2019	2020
Ministry for the Environment, Sustainable Development and Climate Change	40,356	51,406	53,634	60,629
Ambjent Malta	0	0	16,276	11,552
Ministry for Foreign Affairs and Trade Promotion	16,438	17,615	18,475	53,185
Ministry for Transport, Infrastructure and Capital Projects	59,952	60,309	63,719	73,523
Ministry for Gozo	19,616	22,765	25,748	27,653
Ministry for the Family, Children's Rights and Social Solidarity	51,249	56,834	61,636	80,075
Social Policy	163,030	183,169	204,407	176,279
Social Security Benefits	625,949	647,696	669,049	719,706
Pensions	69,917	80,151	67,920	68,709
Elderly and Community Care	67,266	78,635	94,393	97,627
Ministry for European Affairs and Equality	34,650	12,037	12,567	11,959
Industrial and Employment Relations	986	836	984	1,058
[Correctional Services]	7,312	8,511	9,933	0
[Judicial]	9,347	11,586	13,519	0
[Inland Revenue]	5,352	5,831	0	0
[V.A.T.]	4,853	6,419	0	0
[Social Welfare Standards]	691	804	0	0
[Energy and Projects]	31,006	0	0	0
[Ministry for Competitiveness and Digital, Maritime and Service Economy]	9,715	0	0	0
[Ministry for Social Dialogue, Consumer Affairs and Civil Liberties]	8,497	0	0	0
Recurrent Expenditure	**2,221,572**	**2,395,336**	**2,666,762**	**2,965,129**

Note: [ ] denotes change in name of cost centres

Source: The Treasury, Ministry for Finance and Financial Services

Appendix Table 5.3

Government Expenditure by COFOG category

(January-August)

€ thousand

COFOG	Personal Emoluments			Operational and Maintenance Expenses			Programmes and Initiatives			Contributions to Government Entities		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
General public services	60,367	65,468	65,285	22,352	32,352	66,185	136,273	189,193	159,388	13,645	27,207	36,216
Defence	26,821	27,111	28,162	3,145	4,134	4,230	347	582	480	150	121	218
Public order and safety	61,400	70,921	58,942	7,576	11,599	6,187	3,834	4,804	4,221	5,779	6,506	30,641
Economic affairs	41,851	40,320	41,696	6,338	7,921	16,918	99,221	100,537	144,683	79,898	104,801	121,551
Environment protection	0	3,152	3,487	243	187	81	19,391	39,985	38,028	18,615	18,453	19,146
Housing and community amenities	962	876	1,060	218	402	311	4,757	4,705	8,158	5,629	2,977	5,066
Health	164,730	181,087	195,768	39,023	39,555	42,086	130,925	153,964	205,040	35,299	37,525	52,037
Recreation, culture and religion	4,515	4,653	4,360	924	1,284	2,849	7,302	7,703	8,179	21,623	21,365	21,146
Education	146,304	155,442	168,287	17,049	10,482	11,025	98,407	119,800	148,717	65,890	67,862	96,101
Social protection	34,256	36,194	37,451	23,809	28,801	28,238	961,268	1,003,708	1,043,407	25,201	33,024	40,100
Total	**541,206**	**585,225**	**604,498**	**120,676**	**136,717**	**178,110**	**1,461,724**	**1,624,981**	**1,760,300**	**271,730**	**319,840**	**422,222**

COFOG	Interest Expenditure			Capital Expenditure			Total expenditure		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
General public services	139,124	126,487	121,329	31,310	46,297	49,748	**403,071**	**487,004**	**498,151**
Defence	0	0	0	756	2,988	2,564	**31,219**	**34,936**	**35,653**
Public order and safety	0	0	0	10,806	23,561	10,835	**89,394**	**117,390**	**110,826**
Economic affairs	0	0	0	121,486	170,493	380,856	**348,794**	**424,073**	**705,703**
Environment protection	0	0	0	9,779	38,861	24,585	**48,028**	**100,638**	**85,326**
Housing and community amenities	0	0	0	440	124	25	**12,007**	**9,084**	**14,619**
Health	0	0	0	11,876	5,931	24,535	**381,853**	**418,061**	**519,466**
Recreation, culture and religion	0	0	0	10,690	9,171	12,917	**45,054**	**44,176**	**49,451**
Education	0	0	0	13,126	13,171	12,024	**340,775**	**366,756**	**436,155**
Social protection	0	0	0	2,516	2,408	6,516	**1,047,049**	**1,104,135**	**1,155,712**
Total	**139,124**	**126,487**	**121,329**	**212,784**	**313,003**	**524,604**	**2,747,244**	**3,106,253**	**3,611,062**

Statistical Annex

Table I

Population

	2012	2013	2014	2015	2016	2017	2018	2019
Total Population (000's)	**422,509**	**429,424**	**439,691**	**450,415**	**460,297**	**475,701**	**493,559**	**514,564**
Males (000's)	210,383	214,533	220,488	226,396	231,663	240,599	251,836	265,762
Females (000's)	212,126	214,891	219,203	224,019	228,634	235,102	241,723	248,802
% Increase per annum	1.2%	1.6%	2.4%	2.4%	2.2%	3.3%	3.8%	4.3%
Natural Increase per annum	712	796	921	883	1,134	748	756	662
Crude Birth Rate (per 1,000 population)	9.8	9.5	9.6	9.7	9.8	9.2	9.2	8.6
Crude Mortality Rate (per 1,000 population)	8.1	7.6	7.5	7.7	7.3	7.6	7.6	7.3
Crude Marriage Rate (per 1,000 population)	6.7	6.1	6.6	6.7	6.7	6.3	5.8	5.3
Infant Mortality Rate (per 1,000 births)	5.3	6.7	5.0	5.8	7.4	6.7	5.6	6.7
Life Expectancy (at birth)	80.9	81.9	82.1	82.0	82.6	82.4	82.5	83.0
Males	78.6	79.6	79.9	79.8	80.6	80.2	80.4	81.2
Females	83.1	84.0	84.3	84.1	84.4	84.6	84.6	84.6
Life Expectancy (at age 65)	19.4	20.1	20.3	20.3	21.0	20.7	20.8	21.1
Males	17.6	18.4	18.7	18.8	19.7	19.0	19.2	19.4
Females	21.0	21.5	21.7	21.6	22.1	22.2	22.3	22.5

[1] The numerator corresponds to marriages registered in Malta and occurring in the reference year. Therefore, marriages that may have occurred abroad and were subsequently registered in Malta are included, as are marriages between non-residents that occurred in Malta. Excluded are marriages between residents who marry abroad but who do not register their union with the Malta Public Registry.

Source: National Statistics Office

Social Indicators

Table II

	2012	2013	2014	2015	2016	2017	2018	2019
GDP at current market prices per capita (€)	17,532	18,646	20,123	22,447	23,127	24,841	25,742	26,529
Quality of Life								
Motor Vehicle Licences per 1,000 population	744	752	762	770	780	782	781	773
Internet Subscriptions per 1,000 population	135,758	143,010	151,557	230,226	171,263	181,318	191,833	202,513
Mobile Phone Subscriptions per 1,000 population	532,228	556,652	546,229	557,583	585,470	604,759	615,843	634,386
Fixed Telephone Lines per 1,000 population	229,740	231,331	230,361	163,205	234,368	240,280	255,437	256,838
Education*								
Number of teachers (000)	8.0	7.8	8.0	8.2	8.7	8.8	9.1	9.3
Number of pupils/students (000)	78.6	78.5	78.5	79.6	80.4	80.3	82.3	83.3
of which:								
University students (All Courses)	10,533	10,873	10,957	11,115	11,062	11,092	11,014	11,024
Electricity								
Total Generated (000 MWh)	2268.6	2216.1	2170.2	2257.2	2247.5	2376.8	2394.8	2514.7
Number of Consumers (000)	272.2	277.6	283.9	289.5	295.0	301.0	307.6	317.3
Domestic Consumption (million kwh)	616.0	608.8	604.3	644.1	641.8	774.3	805.3	881.9
Water								
Total annual production (million m	30.8	30.5	30.4	31.2	32.0	33.1	33.5	34.7
Average daily consumption (000 m	72.3	72.7	73.4	75.9	77.2	79.9	81.3	84.3
Social Security								
Total Payments (€ million)	1,190.3	1,264.0	1,352.9	1,411.6	1,502.4	1,607.0	1,687.4	1,813.8
Total Contributions (€ million)	609.7	*645.3*	*699.2*	*739.6*	804.4	875.1	967.8	1,046.1
Welfare Gap (€ million)	580.6	618.7	653.7	672.0	698.0	731.9	719.5	767.6

[1] Amount of motor vehicles irrespective of whether they are commercial or not

[2] Refer to Financial Year

[3] Electricity generation from power plants and the interconnector

* Data refers to teachers, academic staff and students in formal education

Sources: National Statistics Office; Malta Communications Authority (for internet and telephony statistics).

Factor Incomes in Gross National Income

Table III — € million

	2012	2013	2014	2015	2016	2017	2018	2019	2014 Jan-Jun	2015 Jan-Jun	2016 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun	2019 Jan-Jun	2020 Jan-Jun
Compensation of employees	3,246.0	3,455.8	3,716.7	4,096.6	4,519.2	4,890.7	5,353.6	5,803.4	1,830.2	2,017.5	2,229.8	2,402.0	2,642.1	2,853.2	3,017.5
Gross operating surplus and mixed income	3,252.9	3,582.2	4,034.1	4,830.6	4,871.6	5,469.2	5,746.1	6,163.7	1,926.4	2,310.2	2,330.0	2,653.7	2,705.5	2,904.4	2,627.9
Taxes on production and imports	957.4	1,001.1	1,121.6	1,204.0	1,284.5	1,423.8	1,593.8	1,638.8	505.2	550.3	595.1	657.8	724.1	793.8	676.7
Subsidies	91.8	94.7	121.3	134.6	137.0	146.0	202.6	215.8	62.3	62.3	64.1	69.1	89.7	103.0	268.9
Gross Domestic Product at market prices	**7,364.5**	**7,944.3**	**8,751.1**	**9,996.7**	**10,538.4**	**11,637.7**	**12,491.0**	**13,390.0**	**4,199.5**	**4,815.7**	**5,090.7**	**5,644.3**	**5,982.1**	**6,448.4**	**6,053.2**
Net Income from Abroad	-347.1	-394.2	-455.5	-552.5	-1,031.2	-1,191.7	-939.7	-1,015.7	-232.4	-270.0	-495.5	-561.6	-391.6	-482.4	-546.2
Gross National Income at market prices	**7,017.4**	**7,550.1**	**8,295.6**	**9,444.2**	**9,507.1**	**10,446.0**	**11,551.3**	**12,374.3**	**3,967.1**	**4,545.7**	**4,595.2**	**5,082.7**	**5,590.4**	**5,966.1**	**5,507.0**
Sectoral Percentage Contribution to Gross Value Added (at basic prices)															
Agriculture, hunting and forestry [1]	1.2	1.2	1.1	1.0	0.9	0.8	0.8	0.8	1.1	1.0	0.9	0.8	0.7	0.8	0.7
Industry [2]	17.0	16.5	14.7	13.8	26.8	13.6	14.2	14.0	15.4	14.4	27.3	13.7	14.2	13.8	14.1
Services Activities	81.8	82.3	84.1	85.1	72.3	85.6	85.0	85.2	83.6	84.6	71.7	85.5	85.0	85.4	85.2

[1] Includes fishing and operation of fish hatcheries and fish farms

[2] Includes energy and construction

Source: National Statistics Office

Table IV

Gross National Income and Expenditure

€ million

	2012	2013	2014	2015	2016	2017	2018	2019	2016 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun	2019 Jan-Jun	2020 Jan-Jun
GNI at current market prices	7,017.4	7,550.1	8,295.6	9,444.2	9,507.1	10,446.0	11,551.3	12,374.3	4,595.2	5,082.7	5,590.4	5,966.1	5,507.0
% annual increase of GNI	11.0%	7.6%	9.9%	13.8%	0.7%	9.9%	10.6%	7.1%	4.8%	10.6%	10.0%	6.7%	-7.7%
GDP at current market prices	7,364.5	7,944.3	8,751.1	9,996.7	10,538.4	11,637.7	12,491.0	13,390.0	5,090.7	5,644.3	5,982.1	6,448.4	6,053.2
% annual increase of GDP	11.6%	7.9%	10.2%	14.2%	5.4%	10.4%	7.3%	7.2%	7.7%	10.9%	6.0%	7.8%	-6.1%
GDP at constant prices	8,033.9	8,473.6	9,120.4	9,996.7	10,385.7	11,218.1	11,799.1	12,379.6	5,036.2	5,462.7	5,682.1	6,001.5	5,540.2
Total Final Consumption Expenditure													
current market prices	5,838.6	6,054.3	6,331.6	6,607.2	6,776.0	7,065.0	7,822.6	8,532.8	3,362.7	3,471.8	3,740.4	4,141.1	4,019.9
constant prices	6,081.2	6,222.2	6,452.9	6,607.2	6,696.4	6,896.2	7,543.1	8,057.5	3,331.3	3,399.3	3,619.2	3,937.1	3,754.7
Ratio (%) of consumption to GDP at m.p.	79.3%	76.2%	72.4%	66.1%	64.3%	60.7%	62.6%	63.7%	66.1%	61.5%	62.5%	64.2%	66.4%
General Government Final Consumption Expenditure													
current market prices	1,460.6	1,490.5	1,620.0	1,708.2	1,695.8	1,758.7	2,015.9	2,299.7	901.6	880.0	966.2	1,139.6	1,301.7
constant prices	1,558.0	1,560.0	1,666.0	1,708.2	1,666.3	1,693.9	1,897.3	2,114.6	890.0	851.7	908.1	1,050.4	1,180.8
Ratio (%) of Government consumption to GDP at m.p.	19.8%	18.8%	18.5%	17.1%	16.1%	15.1%	16.1%	17.2%	17.7%	15.6%	16.2%	17.7%	21.5%
Private Final Consumption Expenditure													
current market prices	4,378.0	4,563.8	4,711.6	4,899.0	5,080.2	5,306.3	5,806.8	6,233.1	2,461.1	2,591.8	2,774.2	3,001.5	2,718.1
constant prices	4,523.1	4,661.1	4,786.9	4,899.0	5,030.1	5,202.5	5,645.2	5,645.2	2,441.3	2,547.5	2,710.8	2,884.3	2,565.2
Ratio (%) of private consumption to GDP at m.p.	59.4%	57.4%	53.8%	49.0%	48.2%	45.6%	46.5%	46.6%	48.3%	45.9%	46.4%	46.5%	44.9%
Gross Fixed Capital Formation													
current market prices	1,296.6	1,312.7	1,457.9	2,419.2	2,529.0	2,531.6	2,633.9	2,898.4	1,297.3	1,216.9	1,245.6	1,466.5	1,298.8
constant prices	1,368.8	1,367.3	1,490.5	2,419.2	2,512.2	2,494.5	2,571.2	2,798.2	1,289.1	1,201.8	1,218.8	1,418.1	1,235.5
Ratio (%) fixed investment to GDP at m.p.	17.6%	16.5%	16.7%	24.2%	24.0%	21.8%	21.1%	21.6%	25.5%	21.6%	20.8%	22.7%	21.5%

(1) Including NPISH final consumption expenditure

Source: National Statistics Office

Labour

Table V

	2015	2016	2017	2018	2019	2018 January	2019 January	2020 January
Labour Supply	**177,399**	**184,758**	**195,710**	**208,381**	**220,555**	**201,501**	**216,943**	**231,016**
Gainfully Occupied	**172,104**	**181,192**	**193,210**	**206,534**	**218,855**	**199,501**	**215,147**	**229,325**
Males	108,962	113,550	119,827	126,909	133,916	122,991	131,346	139,791
Females	63,142	67,642	73,383	79,625	84,939	76,510	83,801	89,534
Private Direct Production	**32,579**	**33,201**	**34,106**	**35,584**	**37,527**	**34,714**	**36,363**	**39,273**
of which:								
Construction	9,426	9,819	10,380	11,091	12,736	10,614	11,823	13,902
Manufacturing	20,556	20,716	21,026	21,702	21,831	21,358	21,663	22,220
Others	2,597	2,666	2,700	2,791	2,960	2,742	2,877	3,151
Private Market Services	**95,286**	**103,344**	**113,160**	**123,682**	**133,122**	**118,070**	**130,539**	**140,667**
of which:								
Wholesale and Retail (including Repair of Motor Vehicles, Motorcyles and Personal and Household Goods)	24,621	25,478	26,177	26,750	27,466	26,352	27,540	28,506
Accomodation and Food Services	10,760	11,404	12,438	13,676	14,839	12,834	14,363	15,780
Financial and Insurance Activities	7,787	8,194	8,938	9,878	10,443	9,364	10,285	10,527
Others	52,118	58,268	65,607	73,378	80,374	69,520	78,351	85,854
Public Sector	**44,239**	**44,647**	**45,944**	**47,268**	**48,206**	**46,717**	**48,245**	**49,385**
of which:								
Government Departments	33,029	33,099	33,575	34,069	34,423	33,882	34,237	34,479
Independent Statutory Bodies	9,346	9,717	10,524	11,156	11,512	10,927	11,828	12,507
Companies with Public Sector majority s/hldg	1,864	1,831	1,845	2,043	2,271	1,908	2,180	2,399
of which Temporary Employment	**429**	**417**	**417**	**417**	**417**	**417**	**417**	**417**
Registered Unemployed*	**5,295**	**3,566**	**2,500**	**1,847**	**1,700**	**2,000**	**1,796**	**1,691**
Males	3,978	2,621	1,774	1,297	1,187	1,436	1,274	1,181
Females	1,317	945	726	550	513	564	522	510
Self Employed	19,522	20,263	21,261	22,663	24,169	21,758	23,816	25,272

Note: Employment data is subject to revision

* Includes both Parts I and II of the registered unemployed

Data for 2015 - 2019 shows annual averages while data for 2018, 2019, 2020 shows data as at end January

Source: JobsPlus

Tourism

Table VI

	2012	2013	2014	2015	2016	2017	2018	2019	2018 Jan-Jul	2019 Jan-Jul	2020[5] Jan-Jul
Inbound Tourists (000's)	1,443.4	1,582.2	1,689.8	1,783.4	1,965.9	2,273.8	2,598.7	2,753.2	1,451.5	1,512.4	419.0
of which from:											
United Kingdom	441.3	454.7	487.7	526.0	560.0	560.9	640.6	649.6	356.9	354.3	92.3
Italy	202.2	233.8	262.6	282.8	315.2	363.7	390.6	393.0	218.7	216.3	56.5
Germany	137.5	147.1	143.1	141.9	156.8	193.0	227.0	211.5	130.1	117.6	33.3
Libya	17.2	34.6	30.8	6.7	3.4	2.8	3.4	2.8[u]	2.3[u]	1.8[u]	:
Scandinavian Countries*	97.4	105.1	108.6	117.4	124.0	135.3	128.3	124.4	74.6	68.7	14.8
Other	547.9	606.9	657.0	708.7	806.6	1,018.1	1,208.9	1,371.9	668.9	753.8	221.6
Cruise Passengers (000's)	555.7	424.6	465.4	591.7	615.2	658.2	623.4	754.0	310.9	419.6	40.2[2]
Expenditure from Inbound Tourism (€ million)	1,326.5	1,440.4	1,528.6	1,639.1	1,709.0	1,946.9	2,101.8	2,220.6	1,120.8	1,168.5	258.4
Total Sector Employment in Hotels and Restaurants	10,022	10,093	10,426	10,800	11,404	12,438	13,676	14839	12,834[3]	14,363[3]	15,780[3]
% of Gainfully Occupied	6.6	6.4	6.3	6.3	6.3	6.4	6.6	6.8	6.4	6.7	6.9
Outbound Tourists (000's)	331.1	363.5	390.7	427.6	496.8	572.5	667.0	706.8	283.9	305.0	115.6
Days Stayed / Nights Spent (000's)	11,859.5	12,890.3	13,522.1	14,151.6	14,961.4	16,509.1	18,569.7	19,338.9	10,059.6	10,281.7	2,835.4
% of which spent in :											
5 star	13.6	12.6	11.6	10.2	9.8	9.4	8.3	7.7	8.8	8.1	7.0
4 star	31.8	31.3	31.5	30.3	29.7	28.4	26.4	25.6	28.0	26.6	25.5
3 star	13.2	14.4	17.4	16.6	14.4	13.9	13.3	12.2	14.0	12.6	12.2
2 star	0.9	0.7	1.3	1.4	1.4	1.4	1.3	1.4	1.3	1.5	1.1
1 star	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unclassified	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Guest Houses	0.9	1.0	1.0	1.0	1.1	1.1	1.5	2.1	1.6	1.9	2.5
Flats/Private Residences	32.1	33.1	34.4	37.8	40.6	43.0	45.7	47.9	42.9	46.1	48.8
Tourist Village/Aparthotels/Hostels/Holiday Complex/Camp Sites/Bed & Breakfast	7.6	6.9	2.7	2.6	2.9	2.8	3.4	3.0	3.5	3.2	2.8

[u] Under represented - between 20 and 49 sample observations.

: Unreliable - less than 20 sample observations.

* Denmark, Finland, Norway and Sweden

[1] Excluding embarkations and Maltese cruise passengers.

[2] Due to the Covid situation, for the current year 2020 last cruise liner call was 10th March 2020. No cruise liners berthed in Malta between March and July 2020.

[3] Data refers to January.

[4] Data for January-June.

[5] In view of the Covid-19 situation, the Tourstat survey was suspended on 12 March 2020. Statistical methods were applied to cover the period from 13 March to 20 March 2020, when scheduled passenger flights were still in operation. Tourstat remained suspended until 30 June 2020. Malta International Airport reopened on 1 July 2020 and commercial flights to and from Malta resumed from that date. Tourstat survey was resumed on 1 July 2020.

Source: National Statistics Office, JobsPlus

Foreign Trade

Table VII — € million

	2012	2013	2014	2015	2016	2017	2018	2019	2018 Jan-Jul	2019 Jan-Jul	2020 Jan-Jul
Imports and Exports											
Imports (c.i.f.)	6,189.6	5,638.8	6,402.5	6,130.4	6,452.4	6,126.2	6,280.9	7,415.6	3,725.8	4,562.1	3,236.1
Consumer goods*	1,722.6	1,586.1	1,756.8	1,644.7	1,639.9	1,793.3	1,957.3	2,010.3	1,114.9	1,143.5	981.5
Industrial supplies*	3,656.5	3,185.1	3,335.0	2,742.9	2,530.4	2,652.5	2,922.0	3,030.8	1,654.9	1,724.0	1,298.3
Capital goods and others*	810.5	867.6	1,310.8	1,742.8	2,282.2	1,680.4	1,401.5	2,374.4	956.0	1,694.6	956.3
Total Exports (f.o.b.)	4,432.9	3,924.5	3,769.7	3,601.8	3,927.9	3,708.0	3,440.9	3,749.1	2,001.6	1,970.7	1,765.2
of which manufactures	4,328.9	3,809.0	3,658.8	3,468.8	3,755.5	3,521.3	3,179.1	3,551.2	1,890.2	1,910.9	1,721.9
Trade Gap	-1,756.7	-1,714.3	-2,632.8	-2,528.6	-2,524.5	-2,418.3	-2,840.0	-3,666.5	-1,724.2	-2,591.4	-1,470.9
as % of GDP at											
current market prices	-23.9%	-21.6%	-30.1%	-25.3%	-24.0%	-20.8%	-22.7%	-27.4%	-	-	-
Selected Groupings											
EU											
Imports	3,716.7	2,975.0	2,839.9	3,241.2	2,860.8	2,899.3	3,621.8	3,555.8	2,135.6	1,941.2	1,632.8
Exports	1,174.2	1,146.1	1,023.0	984.0	1,124.3	1,348.7	1,438.5	1,568.7	845.0	964.8	714.6
United Kingdom											
Imports	373.1	310.0	391.1	419.3	349.4	405.7	512.8	1,363.2	317.9	1,169.5	217.0
Exports	124.6	107.8	116.8	140.2	107.0	78.5	61.8	56.2	35.9	34.8	21.3
Italy											
Imports	1,989.3	1,411.1	1,180.5	1,302.2	1,238.1	1,235.1	1,438.1	1,250.7	189.4	706.2	534.1
Exports	174.2	154.1	163.6	142.3	214.3	401.9	331.9	286.9	190.3	185.9	81.3
Germany											
Imports	320.1	321.4	324.7	380.0	375.1	423.7	449.2	508.4	265.3	309.9	205.1
Exports	358.5	348.6	314.4	345.9	399.4	402.8	426.0	495.3	263.9	278.6	285.7
France											
Imports	369.1	285.6	224.9	234.2	251.6	230.4	297.6	461.0	189.4	283.1	196.1
Exports	296.9	253.0	204.1	242.4	238.8	238.0	271.3	269.9	164.9	179.2	119.3
America											
Imports	278.6	387.9	986.3	814.0	1,714.8	977.4	505.4	526.2	340.9	273.4	391.9
Exports	254.9	224.6	231.0	222.0	802.5	196.0	231.0	219.6	135.1	140.3	98.7
Africa											
Imports	197.1	254.7	236.0	162.9	263.7	284.7	260.0	165.2	126.4	85.5	159.6
Exports	773.9	617.0	969.7	931.2	562.9	592.6	468.3	436.6	321.3	181.8	243.2
Asia											
Imports	769.5	827.6	732.9	782.0	786.7	947.7	943.8	1,016.5	551.5	570.0	598.0
Exports	1,019.5	1,059.6	766.6	715.7	671.4	640.7	701.6	765.5	343.9	309.0	347.8

* Treated differently from other parts in the Survey

Notes:
(1): EU excludes the UK. Total EU (pre-2020) = EU + UK
(2): America includes: North and Central America, South America and Caribbean and Bahamas Islands.

Source: National Statistics Office

Balance of Payments

Table VIII — € millions

	2013	2014	2015	2016	2017	2018	2019	2018 Jan-Jun	2019 Jan-Jun	2020 Jan-Jun
Goods Balance	-1,134.3	-1,212.3	-1,977.0	-1,966.7	-1,493.7	-1,482.9	-1,620.3	-685.1	-819.0	-654.3
Imports (f.o.b.)	3,979.2	3,736.8	4,667.7	4,550.1	4,504.4	4,686.7	5,035.9	2,215.8	2,420.1	1,976.6
Exports (f.o.b.)	2,845.0	2,524.5	2,690.7	2,583.4	3,010.8	3,203.9	3,415.6	1,530.7	1,601.2	1,322.4
Services-Net	1,618.5	2,226.5	2,911.0	3,395.6	3,897.4	3,369.7	3,537.3	1,552.9	1,623.4	1,054.7
Transport-net	-87.1	-133.2	56.3	235.3	293.2	435.2	411.5	196.6	195.7	86.0
Travel-net	768.4	845.8	914.0	937.8	1,114.1	1,133.3	1,224.3	453.4	483.7	95.5
Other Services-net	937.1	1,514.0	1,940.7	2,222.5	2,490.0	1,801.2	1,901.6	903.0	944.0	873.3
Primary Income- Net	-427.9	-475.6	-573.0	-920.1	-1,075.2	-1,023.1	-1,113.0	-431.6	-542.3	-630.7
Compensation of Employees-net	-19.1	-34.5	-19.4	-19.2	-44.5	-46.1	-50.5	-23.9	-26.2	-14.6
Investment Income-net	-408.8	-441.1	-553.6	-900.9	-1,030.8	-976.9	-1,062.5	-407.7	-516.1	-616.1
Secondary Income-Net	147.3	205.4	-91.2	-114.5	-141.0	-154.3	-158.9	-76.4	-82.0	-64.5
General Government-net	N/A	N/A	6.1	4.3	-0.2	-1.0	-3.8	-0.5	-2.6	-3.8
Private-net	N/A	N/A	-97.4	-118.8	-140.8	-153.3	-155.2	-75.9	-79.5	-60.8
Current A/C-Net	203.7	744.1	269.8	394.3	1,187.5	709.4	645.2	359.8	180.1	-294.8
Goods Balance	-14.3%	-13.9%	-19.8%	-18.7%	-12.8%	-11.9%	-12.1%	-11.5%	-12.7%	-10.8%
Invisible Balance as % of GDP at m.p.	20.4%	25.4%	29.1%	32.2%	33.5%	27.0%	26.4%	26.0%	25.2%	17.4%
Primary Income a/c Balance as % of GDP at m.p.	-5.4%	-5.4%	-5.7%	-8.7%	-9.2%	-8.2%	-8.3%	-7.2%	-8.4%	-10.4%
Secondary Income a/c Balance as % of GDP at m.p.	1.9%	2.3%	-0.9%	-1.1%	-1.2%	-1.2%	-1.2%	-1.3%	-1.3%	-1.1%
Current a/c Balance as % of GDP at m.p.	2.6%	8.5%	2.7%	3.7%	10.2%	5.7%	4.8%	6.0%	2.8%	-4.9%
Capital A/C-Net	133.2	142.8	268.7	32.2	74.0	117.4	106.8	11.8	66.6	46.7
Financial A/C-Net[(2)]	-24.6	443.9	164.2	805.6	1,242.4	374.9	284.5	400.2	474.0	-152.9
Direct Investment-net	-7,036.9	-6,785.0	-9,222.4	-8,621.8	-9,438.0	-9,720.6	-9,654.4	-4,857.7	-4,763.7	-4,851.5
Portfolio Investment-net	9,141.4	13,206.0	4,899.9	4,757.2	6,721.9	2,960.0	4,722.3	1,251.6	2,402.0	3,159.9
Financial Derivatives-net	-104.4	-573.2	-897.4	-6.4	-106.8	180.4	-208.1	127.7	-123.3	-64.5
Other Investment-net	-1,985.9	-5,416.0	5,457.6	4,588.3	3,919.0	6,787.2	5,557.2	3,750.9	3,066.1	1,627.5
Reserve Assets	-38.8	12.0	-73.5	88.3	146.4	168.0	-132.5	127.7	-107.1	-24.3

[(1)] For Balance of Payments purposes, both imports and exports are taken at f.o.b., thus the trade balance is different from that shown under Table VII.

[(2)] The Financial Account-Net in this Table includes Reserve Assets but does not include Errors and Omissions.

[(3)] As from 1st January 2008, following Malta's entry into the Euro Area (EA), a reclassification of the external reserves of the country has been carried out. Indeed, this meant that, as from this date, all cross-border claims that Malta has within the EA, as well as all claims that the country has in euro-denomination, are no longer considered as being part of Malta's reserve assets. In addition, as happened in other EA Member States, Malta has transferred a fraction of its external reserves to the European Central Bank (ECB) in exchange for a claim on the ECB; which, being an intra-Eurosystem asset, is also not considered as being part of the country's external reserves. As a result of this, the portfolio investment account, the financial derivatives account and the other investment account recorded significant changes in their net balances.

Note: The balance of payments is compiled in accordance with the sixth edition of the International Monetary Fund's Balance of Payments Manual (BPM6). The split of secondary income-net is not yet available for the 2012-2014 period.

Source: National Statistics Office

Government Revenue and Expenditure

Table IX

€ million

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2017 Jan-Aug	2018 Jan-Aug	2019 Jan-Aug	2020 Jan-Aug
Government Recurrent Revenue	2,643.8	2,715.7	2,992.1	3,387.2	3,634.8	3,807.0	4,291.2	4,559.8	4,972.9	2,583.8	2,744.1	3,190.2	2,524.8
Increase/(Decrease) % per annum	4.7	2.7	10.2	13.2	7.3	4.7	12.7	6.3	9.1	11.2	6.2	16.3	-20.9
of which:													
Tax Revenue	2,323.4	2,393.0	2,602.5	2,953.7	3,195.6	3,446.0	3,829.3	4,167.8	4,485.8	2,299.7	2,516.9	2,846.3	2,216.6
Direct Tax Revenue	1,361.7	1,475.6	1,612.9	1,767.3	1,924.2	2,132.7	2,372.5	2,541.0	2,811.9	1,364.0	1,500.1	1,713.9	1,405.8
Indirect Tax Revenue	961.7	917.3	989.6	1,186.4	1,271.4	1,313.3	1,456.7	1,626.8	1,673.9	935.7	1,016.8	1,132.3	810.8
Non-Tax Revenue	320.5	322.8	389.6	433.5	439.2	361.0	461.9	392.0	487.0	284.1	227.3	343.9	308.3
Total Government Expenditure	2,862.4	3,078.0	3,255.3	3,523.5	3,870.6	3,798.1	4,108.5	4,630.0	4,963.5	2,552.7	2,747.2	3,106.3	3,611.1
Increase/(Decrease) % per annum	2.1	7.5	5.8	8.2	9.9	-1.9	8.2	12.7	7.2	6.3	7.6	13.1	16.3
of which:													
Recurrent Expenditure	2,361.3	2,488.4	2,632.6	2,857.0	3,056.8	3,264.3	3,543.3	3,821.4	4,216.2	2,221.6	2,395.3	2,666.8	2,965.1
Capital Expenditure	288.7	363.8	394.7	435.3	581.5	310.3	350.2	605.0	555.0	186.7	212.8	313.0	121.3
% of Total Government Expenditure	10.1	11.8	12.1	12.4	15.0	8.2	8.5	13.1	11.2	7.3	7.7	10.1	3.4
Interest on Public Debt	212.5	225.8	227.9	231.1	232.3	223.5	215.1	203.6	192.3	144.4	139.1	126.5	121.3
Balance of recurrent revenue and total expenditure	-218.6	-362.3	-263.2	-136.3	-235.8	8.9	182.7	-70.2	9.4	31.1	-3.1	83.9	-1,086.2
Financed by:													
Extraordinary Receipts	9.6	28.4	28.4	0.0	0.8	1.1	0.9	1.0	1.0	0.9	0.9	0.9	0.9
Receipts from sale of shares	0.0	0.0	0.0	0.0	0.8	1.1	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Sinking Funds of Converted Loans	9.6	28.4	28.4	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Sinking Fund Contribution & Direct Loan Repayment	-141.9	-361.3	-380.8	-427.2	-384.1	-545.1	-427.9	-444.0	-489.7	-90.2	-218.1	-197.3	-287.6
Equity Acquisition	-6.0	-33.4	-26.5	-13.8	-41.1	-13.0	-71.4	-63.5	-18.8	-2.1	-63.0	-10.3	-27.0
Loan Facility Agreement with the Hellenic Republic	-30.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan Facility Agreement with Air Malta plc	-52.0	-52.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of Loans made by Government	0.0	52.0	0.0	0.0	40.4	12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Public Sector Borrowing Requirement	-439.8	-728.6	-642.1	-577.3	-619.8	-535.9	-315.7	-576.7	-498.2	-60.3	-283.3	-122.8	-1,399.8
Loans	567.8	645.7	627.1	648.8	473.2	597.9	357.4	243.5	449.7	257.8	93.5	279.7	1,044.8

Source: National Statistics Office

Contribution of Resident MFIs to Euro Area Monetary Aggregates and Counterparts

Table X — € million

	2012	2013	2014	2015	2016	2017	2018	2019	2020* Jan-Jul
Broad Money (M3)	11,340.8	12,588.1	14,341.8	16,229.4	17,809.2	19,426.1	20,265.9	20,290.7	21,688.1
Intermediate Money (M2)	11,149.4	12,422.6	14,220.4	16,104.3	17,713.5	18,643.3	19,625.0	20,218.9	21,663.1
% Increase/ (Decrease)		11.4	14.5	13.2	10.0	5.2	5.3	3.0	7.1
of which:									
Narrow Money (M1)	6,632.0	7,476.9	9,472.7	12,148.2	13,551.2	14,904.4	15,895.0	16,579.6	17,714.3
Currency issued	726.5	778.7	839.4	893.1	939.5	968.7	1,028.7	811.6	1,312.1
% Increase/ (Decrease)		7.2	7.8	6.4	5.2	3.1	6.2	-21.1	61.7
Overnight deposits	5,905.5	6,698.3	8,633.3	11,255.1	12,611.8	13,935.7	14,866.3	15,768.0	16,402.2
Deposits redeemable at notice up to 3 months	153.2	113.8	124.4	123.0	105.0	46.8	77.6	91.2	104.5
Deposits with agreed maturity up to 2 years	4,364.1	4,831.9	4,623.3	3,833.1	4,057.3	3,692.0	3,652.4	3,548.0	3,844.3
Credit Counterpart	16,504.3	15,348.6	15,736.1	16,407.6	17,012.7	17,407.5	18,291.2	18,894.8	20,092.7
of which:									
Credit to residents of Malta	11,892.2	12,059.4	11,718.4	12,393.6	12,706.1	12,943.9	13,531.3	14,197.2	15,446.0
Credit to other Euro Area residents	4,612.0	3,289.1	4,017.7	4,014.0	4,306.6	4,463.6	4,759.9	4,697.6	4,646.7
Net claims on non-residents of the Euro Area	10,092.6	9,614.7	11,880.8	11,034.4	9,421.8	6,718.4	5,455.2	4,768.1	5,310.0
Other counterparts (net)	15,256.1	12,375.2	13,275.1	11,212.7	8,625.3	4,699.9	3,480.6	3,372.2	3,714.6

* Provisional

(1) Figures show the contribution of Maltese Monetary Financial Institutions (MFIs) to the Euro Area (EA) aggregates.

(2) M3 comprises M2, repurchase agreements and debt securities with agreed maturity of up to 2 years. This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the EA aggregate. As from December 2008, figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the EA and holdings by non-residents of the EA.

(3) Comprises the Central Bank of Malta's share of Euro banknotes issued by the Eurosystem, plus coins issued by the Bank on behalf of the Treasury, less holdings of issued Euro banknotes and coins held by the MFI sector.

(4) Deposits with MFIs exclude interbank deposits and deposits held by Central Government.

(5) Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

(6) Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

Source: Central Bank of Malta

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