Malta li rridu għal uliedna.

ECONOMIC SURVEY 2021

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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 29th September 2021.

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Glossary: Country Codes

(AT)	Austria	(IT)	Italy
(BE)	Belgium	(LV)	Latvia
(BG)	Bulgaria	(LT)	Lithuania
(HR)	Croatia	(LU)	Luxembourg
(CY)	Cyprus	(MT)	Malta
(CZ)	Czech Republic	(NL)	Netherlands
(DK)	Denmark	(NO)	Norway
(EE)	Estonia	(PL)	Poland
(FI)	Finland	(PT)	Portugal
(FR)	France	(RO)	Romania
(DE)	Germany	(SI)	Slovenia
(EL)	Greece	(SK)	Slovakia
(HU)	Hungary	(ES)	Spain
(IS)	Iceland	(SE)	Sweden
(IE)	Ireland	(UK)	United Kingdom

NACE Rev. 2	
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

After a severe contraction in 2020 due to the onset of the COVID-19 pandemic, the Maltese economy is expected to partially recover by the end of 2021. In fact, throughout the first half of 2021, economic activity grew by 6.9 per cent in nominal terms and by 5.6 per cent in real terms. The economic recovery recorded in the first half of 2021 was mostly driven by contributions from the domestic side of the economy, attributable to both private and public consumption expenditure and gross fixed capital formation (GFCF). From an external standpoint, in the first half of 2021, Malta recorded a neutral contribution from net exports of goods and services.

During the first half of 2021, Gross Value Added (GVA) in nominal terms registered a growth rate of 6.3 per cent over the same period in 2020. This growth in GVA was predominantly driven by the recovery in the Services sector, which contributed 5.5 percentage points to GVA growth, and to a lesser extent by the Industrial sector, which in turn contributed 0.8 percentage points. The sectors that contributed the most to GVA growth were the Public Administration, Education and Human Health sector, and the Arts, Entertainment and Recreation sector.

In the first half of 2021, compensation of employees totalled €3.2 billion. Growth in compensation of employees was broad-based. The contained impact of the COVID-19 shock on compensation of employees is reflective of the effectiveness of the Government measures introduced, including the wage supplement scheme. Gross operating surplus reached €3.2 billion, increasing by 7.4 per cent since the first half of the prior year.

After decelerating to 0.43 per cent till April 2021, the 12-month moving average rate of inflation as measured by the Retail Price Index (RPI) had turned to a positive trend, reaching 0.78 per cent in August 2021. In August 2021, the Food sub-index recorded the highest contribution to the 12-month moving average rate of inflation at 0.31 percentage points, followed by the Personal care and Health sub-index at 0.20 percentage points.

Malta's population increased to 516,100 in 2020, an increase of 0.3 per cent, when compared to the previous year. Net migration in 2020 has decreased by 94.1 per cent when compared to the previous year but was still positive in terms of net inflows. During 2020, most of the net migration was brought about by other European Union (EU) nationals (1,237), followed by Maltese nationals (336). On the other hand, negative net migration was registered for third country nationals, implying that there were more emigrations than immigrations.

Despite the challenges of the COVID-19 pandemic, the Maltese labour market continued to be robust, registering a notable improvement in the second quarter of 2021, when compared to the same period in 2020. Indeed, the employment rate in the second quarter of 2021 was 74.4 per cent, as opposed to 73.0 per cent in the second quarter of 2020, equivalent to an increase of 8,317 employed persons during this period. Overall, activity rates for people aged 15-64 increased by 1.8 percentage points in the second quarter of 2021, when compared to the same period in 2020.

The at-risk-of-poverty and social exclusion rate (AROPE) for Malta stood at 19.9 per cent in 2020, which was 0.9 percentage points lower when compared to 2019 and 0.3 percentage points lower than the rate recorded for 2016. Malta's AROPE was 0.3 percentage points lower than the average rate recorded at EU level. Furthermore, in relative terms, income inequality seems to be less pronounced in Malta when compared to the EU, as both the S80/S20 ratio and Gini-coefficient are higher at EU level.

External trade for Malta is essential in maintaining and improving economic activity, especially considering Malta's dependency on the importation and exportation of goods and services. This is reflected in a substantial increase in both imports and exports of goods in 2019 and the increase in the trade gap over the same period. As expected, 2020 was always going to be an exceptional year, with imports declining considerably from €7,438.0 million to €5,394.4 million when compared to 2019, while the trade gap declined as well given that exports remained relatively stable. When comparing the period January to July of 2020 with that of 2021, exports and imports remained somewhat stable with imports increasing slightly whilst exports decreasing marginally.

As for the balance of payments, Malta has enjoyed a current account surplus during the past few years, that is until 2020, which was adversely impacted by the COVID-19 pandemic and its effects on the tourism sector. The reversal from a current account surplus to a deficit in 2020 reflected the drop in the services net export balance and the increase in net payments in the primary income account. For the period January to June 2020, the goods net import balance increased, owing to increases in imports coupled with decreases in exports. This partly contributed towards a larger current account deficit which amounted to €425.5 million over the January to June period of 2021.

In the first half of 2021, Malta recorded a net lending financial flows of €286.0 million. This was primarily the result of decreases in the net borrowing figure of direct investments recorded in the first half of 2021 when compared to the same period in 2020. Portfolio investments also recorded a stronger net lending figure in the first half of 2021 compared to the corresponding period in 2020.

The Net International Investment Position in 2020 recorded an increase over 2019, reaching 60.3 per cent of Gross Domestic Product (GDP) when compared to 53.2 per cent of GDP in 2019. Asset positions pertaining to Portfolio investments and other investments increased considerably, while sizable decreases in liabilities of other investments were recorded. These developments partly contributed towards the increasing overall Net International Investment Position figure.

In terms of exchange rates, the Euro-Dollar exchange rate strengthened during the first three quarters of 2021, trading at an average value of $1.20. The real effective exchange rate for Malta increased slightly in the first half of 2021 compared to the same period of the previous year, though when compared to the rest of the EU, the increase was not that prominent. Relatively speaking therefore, the EU lost some competitiveness in terms of its exchange rates. In terms of export market shares, Malta's performance remained stable.

From a financial perspective, the Maltese monetary financial institutions' (MFIs) contribution towards the stock of Euro Area (EA) Broad Money (M3) increased by 8.4 per cent in the period between January and July 2021. This development was primarily led by an increase in overnight deposits. In addition, during the same period, the contribution of deposits with an agreed maturity of up to two years to M3 was negligible, while the contribution of deposits redeemable at notice up to three months was positive. Moreover, there has been an increase in net claims on non-residents of the EA contribution, while the other counterparts' component contributed negatively, albeit, to a lesser extent. The credit counterpart offset these developments as it registered the largest positive contribution towards Broad Money. Furthermore, in view of the persistent and prolonged low interest rate environment, depositors continued to be more inclined to hold highly short-term liquid deposits.

In the first seven months of 2021, the credit counterpart of Broad Money reached €21,009.3 million, reflecting an increase of 4.6 per cent when compared to December 2020. This was driven by increased credit to Maltese residents, while credit to EA residents declined marginally over the same period. In fact, in July 2021, credit to other EA residents reached €4,219.2 million, a decrease of 2.3 per cent when compared to December 2020.

In 2020, general Government recorded a deficit of 9.7 per cent of GDP, while the debt ratio increased by 12.7 percentage points, reaching 53.4 per cent of GDP. On a cash basis, in 2020, the central Government's Consolidated Fund registered a deficit of €1,467.9 million. During the first half of 2021, the increase in the general Government revenue ratio to GDP more than outweighed the increase in the general Government expenditure to GDP ratio, such that the general Government balance improved from a deficit of 11.7 per cent of GDP in the first half of 2020 to a deficit of 9.3 per cent during the corresponding period in 2021. Meanwhile, by the end of August 2021, the Government's Consolidated Fund reported a deficit of €753.2 million, compared to a deficit of €1,086.2 million during the same period in 2020. During the first eight months of 2021, recurrent revenue increased by 27.6 per cent, mainly underpinned by higher tax revenues. Meanwhile, total Government expenditure increased by 10.1 per cent over the same period. Changes in expenditure and revenue largely reflect developments related to the COVID-19 pandemic.

1. Macroeconomic Developments

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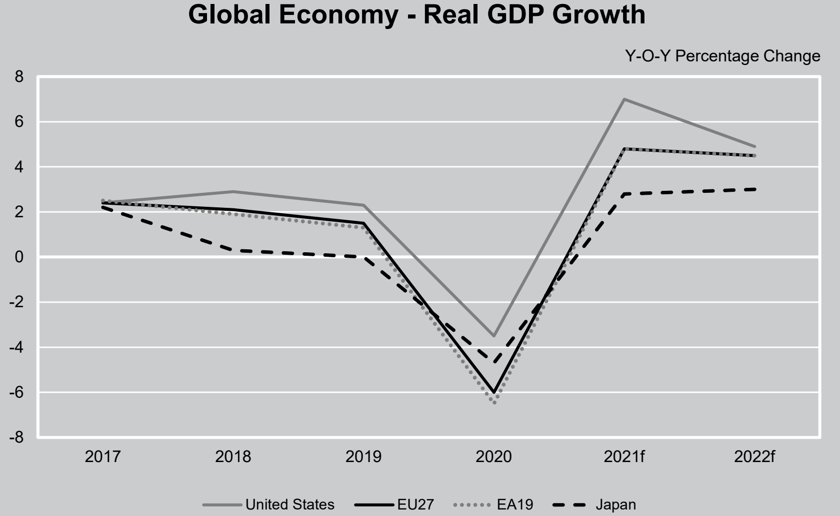
1.1 International Context

Following the worldwide recession of 2020 due to the COVID-19 pandemic, global economies are gradually recovering as a result of the significant progress in the vaccination programme, and the slow alleviation of containment measures that were put in place to protect the public. In its summer forecast, the European Commission (EC) revised its growth expectations upwards, where overall Gross Domestic Product (GDP) is forecasted to grow by 4.8 per cent in 2021 and 4.5 per cent in 2022 in both the European Union (EU) and the Euro Area (EA) with output returning to pre-pandemic levels by December 2021. This complements the global forecast published in the June 2021 World Economic Outlook (WEO), whereby the International Monetary Fund (IMF) estimates that the global economy will grow by 6.0 per cent in 2021 and 4.9 per cent in 2022.

Economic activity continues to normalise at an uneven pace across different regions. After a subdued performance in the first quarter of 2021, global economic activity gained traction in April. International Purchasing Managers Index (PMI) figures throughout the first quarter

Chart 1.1



Source: Eurostat, World Economic Outlook (WEO) of 2021 suggested optimistic developments in advanced economies, especially in services. Developing economies showed a less evident improvement but performance was nonetheless positive.

Global trade in goods has already reached pre-pandemic levels, and the increased optimism among consumers should continue to drive household consumption in the second half of 2021 and also the beginning of 2022. This surge in demand has caused higher than normal levels of shipping costs across the world, as well as slower delivery times hampering global supply chains. The EC predicts that the pace of growth is expected to slow over the forecast period as consumer demand shifts away from tradeable goods to less trade-intensive domestic services. While shipping costs are expected to remain high in the short-term, prices are expected to slow down as demand eases. The world is also experiencing other price pressures which, for the most part, reflect unusual pandemic-related developments and transitory supply-demand mismatches. A sudden increase in demand has created a shortage of materials.

This imbalance between supply and demand has driven the higher levels of commodity prices. Oil prices have risen above pre-pandemic levels, while base metal and food prices have reached multi-year highs. However, the EC expects these costs increases to be of a temporary nature. Risks surrounding global projections are balanced. Downside risks include a slower than expected vaccine rollout in developing countries, as well as possible mutations of the virus creating new variants. Higher than anticipated inflation rates could also lead to a tightening on financial conditions coming from advanced economies following a reassessment of monetary policy. Another hit to emerging markets and developing economies resulting from worsening pandemic dynamics and tighter external financial conditions would severely set back their recovery and drag global growth below this outlook's baseline. On the other hand, encouraging vaccination progress, the further easing of travel restrictions and the potential for pent-up demand to translate into actual economic activity are prevalent upside risks.

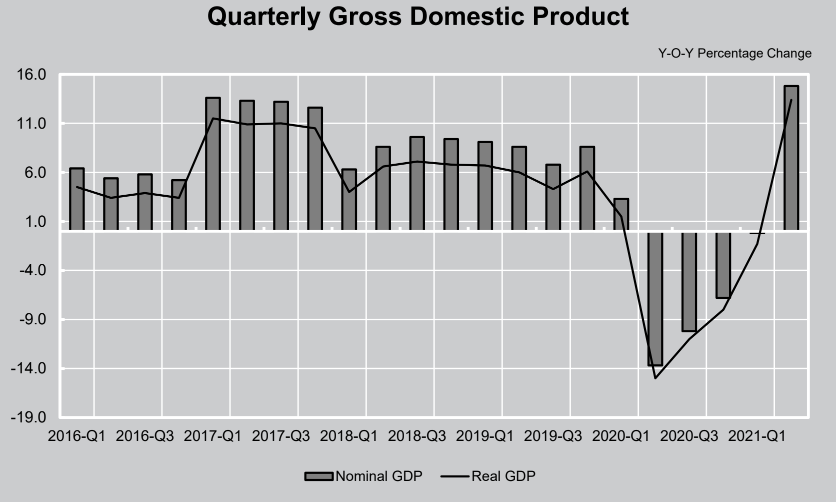
The United States' (US) fiscal and monetary policies have been highly accommodative. This is expected to elevate the number of infrastructure projects undertaken by the Government. This fiscal boost together with the continued progress of vaccine inoculation means that the growth prospects for the US are encouraging. However, the emerging inflationary pressures are straining consumers' incomes and can indeed prevent this growth from being sustained. Growth prospects may be further curtailed if the Federal Reserve tapers its asset purchase program towards the end of 2021. Japan has recently faced another surge in COVID-19 cases following the Tokyo Olympics, resulting in an increase in containment measures which act as a headwind on growth. China's outlook is still positive, but growth prospects have been revised slightly downwards as the Government has heavily targeted big business operations in the private sector while scaling back on public investment and overall fiscal support. Besides, the People's Bank of China attempted to tighten liquidity conditions early this year, only to reverse policy following emerging problems in China's highly leveraged real estate sector. Other emerging economies have been experiencing a slower recovery due to less efficient vaccine rollouts and less fiscal capacity to revive economic growth.

1.2 Gross Domestic Product: Expenditure Approach

After a severe contraction in 2020, the Maltese economy is poised to stage a partial recovery in 2021. In fact, throughout the first half of 2021, economic activity grew by 6.9 per cent in nominal terms and by 5.6 per cent in real terms.

The economic recovery recorded in the first half of 2021 was mostly driven by contributions from the domestic side of the economy, attributable to private and public consumption expenditure, and Gross

Chart 1.2



Source: National Statistics Office

Main Macroeconomic Indicators

Table 1.1

	2018	2019	2020	Jan-June 2020	Jan-June 2021
GDP growth at current market prices (%)	8.5	8.2	-7.1	-5.5	6.9
GDP growth at Chain Linked Volumes by period (Reference year 2010) (%)[1]	6.1	5.7	-8.3	-7.0	5.6
Expenditure Components of GDP at Current Market Prices by period (%)					
Private final consumption expenditure[2]	9.7	6.6	-8.9	-9.1	4.4
General Government final consumption expenditure	15.3	16.9	17.2	13.5	10.7
: net of Individual Investor Programme (IIP) proceeds	*22.0*	*21.3*	*20.5*	*15.1*	*12.4*
Gross fixed capital formation	5.7	9.3	-5.7	-3.0	7.8
Exports of goods and services	2.1	7.8	-5.9	-2.5	5.0
: net of Individual Investor Programme (IIP) proceeds	*2.5*	*8.1*	*-5.7*	*-2.4*	*5.2*
Imports of goods and services	1.9	8.4	-2.4	0.3	5.0
Expenditure Components of GDP at Chain Linked Volumes by period (Reference year 2010) (%)					
Private final consumption expenditure[2]	8.8	4.6	-10.0	-10.7	3.9
General Government final consumption expenditure	12.4	14.2	15.1	11.0	9.1
Gross fixed capital formation	4.7	8.2	-6.5	-3.9	7.1
Exports of goods and services	-0.1	5.8	-6.3	-3.4	3.0
Imports of goods and services	0.4	6.8	-2.7	-0.6	3.3
Inflation rate (%)	1.7	1.5	0.8	1.3	0.3
Employment growth (%)	6.0	5.7	2.7	4.8	0.1
Unemployment rate (Harmonised definition, Eurostat) (%)	3.7	3.6	4.3	3.6	3.8
Compensation per employee (% change)	3.6	3.6	-0.3	-0.8	5.6
Labour productivity (% change)	0.1	0.0	-10.7	-11.2	5.6
Nominal Unit Labour Cost (% change)	3.5	3.6	11.7	11.9	-0.1
Real Unit Labour Costs (% change)	1.8	2.1	10.9	10.7	-0.2

[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.

Fixed Capital Formation (GFCF). Private consumption expenditure, which includes household final consumption expenditure and consumption expenditure of non-profit institutions serving households (NPISH) recorded a growth rate of 3.9 per cent, as the labour market, and hence disposable income remained resilient in spite of the pandemic. GFCF increased by 7.1 per cent as uncertainty surrounding the economic outlook declined and epidemiological developments improved. Public consumption expenditure exhibited a growth rate of 9.1 per cent in the first half of 2021, as healthcare costs and economic support expenditure remained high.

From an external standpoint, in the first half of 2021, Malta recorded a neutral contribution from net exports of goods and services. In the first six months of 2021, reflecting the strong influence of domestic demand, imports grew by 3.3 per cent which outweighed the increase in exports of 3.0 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 GDP.

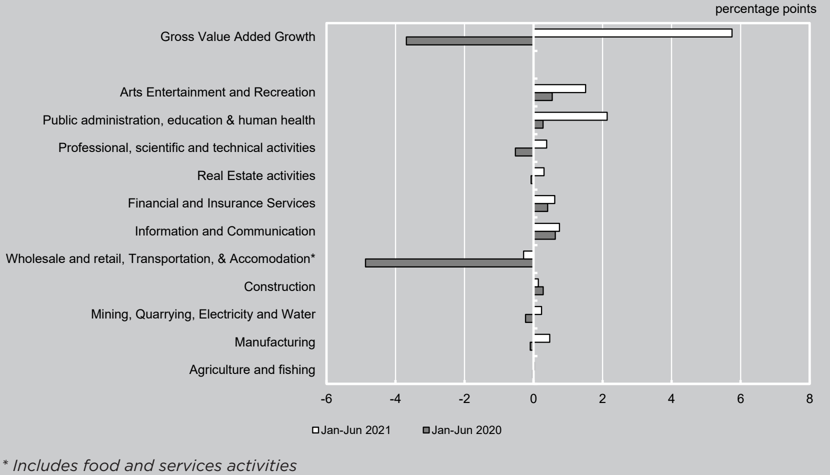
1.3 Maltese Economy – Sectoral analysis (Gross Value Added)

During the first half of 2021, Gross Value Added (GVA) in nominal terms registered a growth rate of 6.3 per cent over the same period in 2020, reaching a total of €6.2 billion. This growth in GVA was predominantly driven by the recovery in the Services sector, which contributed 5.5 percentage points to GVA growth, and to a lesser extent by the Industrial sector, which contributed 0.8 percentage points.

The only sector that contracted during the first half of 2021 was the Wholesale and Retail, Transportation and Accommodation sector, declining by 2.0 per cent. This was attributable to a severe decline

Chart 1.3

Contribution to Growth in Gross Value Added



** Includes food and services activities*

Source: National Statistics Office

in the first quarter of 2021 as temporary restrictions were imposed to contain the spread of the virus. A substantial recovery ensued in the second quarter of 2021, increasing by 25.2 per cent, as the alleviation of temporary restrictions pent up domestic demand which was further supported by the Government vouchers scheme. The Arts, Entertainment and Recreation sector recorded the most growth in GVA, increasing by 16.4 per cent, followed by Mining, Quarrying, Electricity and Water (15.6 per cent), Public Administration (11.7 per cent), Information and Communications (7.7 per cent), Manufacturing (6.4 per cent) and Financial and Insurance Activities (6.2 per cent).

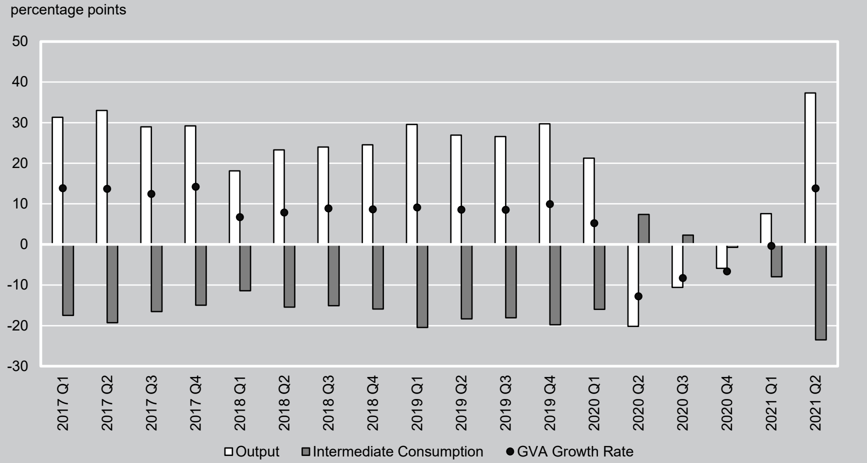
The sectors that contributed the most to GVA growth were the Public Administration, Education and Human Health sector, and the Arts, Entertainment and Recreation sector, at 2.1 and 1.5 percentage points respectively, while the Wholesale and Retail, Transportation and Accommodation sector produced a drag of 0.3 percentage points on growth.

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

Chart 1.4

Growth in GVA and its Contributors



Source: National Statistics Office

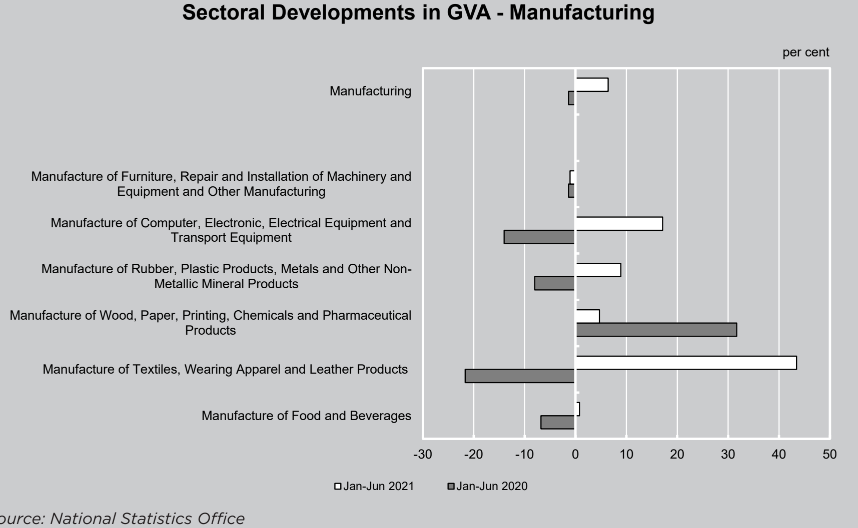
the main contributions of output and intermediate consumption to this growth over time. Up to the end of 2019, GVA growth was primarily driven by output growth. From the second quarter of 2020 to the end of the same year, output contributed to a substantial decline in GVA, while the fall in intermediate consumption mitigated some of this and contributed positively to GVA growth. During the first quarter of 2021, there was a resumption of the pre-pandemic trend as output recovered, albeit it was partially offset by the rise in intermediate consumption. This trend continued into the second quarter of 2021, where positive GVA growth was driven by a contribution of 37.3 percentage points in output, which was partly offset by the increase in intermediate consumption, which negatively contributed 23.5 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 2021 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 proved to be robust when compared to other sectors in the economy. In the first half of 2021, the Manufacturing sector had fully recovered increasing by 6.4 per cent. The main sub-sector

Chart 1.5



Source: National Statistics Office

which recorded the largest increase in GVA included the Manufacture of Textiles, Wearing Apparel and Leather Products, which recorded a growth of 43.5 per cent. Other sub-sectors that recorded increases were the Manufacture of Computer, Electronic, Electrical Equipment and Transport Equipment (17.1 per cent), Manufacture of Rubber, Plastic Products, Metals and Other Non-Metallic Mineral Products (8.9 per cent), Manufacture of Wood, Paper, Printing, Chemicals and Pharmaceutical Products (6.4 per cent) sectors, and to a lesser extent the Manufacture of Food and Beverages sector (0.8 per cent), which however remained well-below pre-pandemic levels. On the other hand, the Manufacture of Furniture, Repair and Installation of Machinery and Equipment and Other Manufacturing sector recorded a decline in GVA during the first half of the year, decreasing by 1.1 per cent.

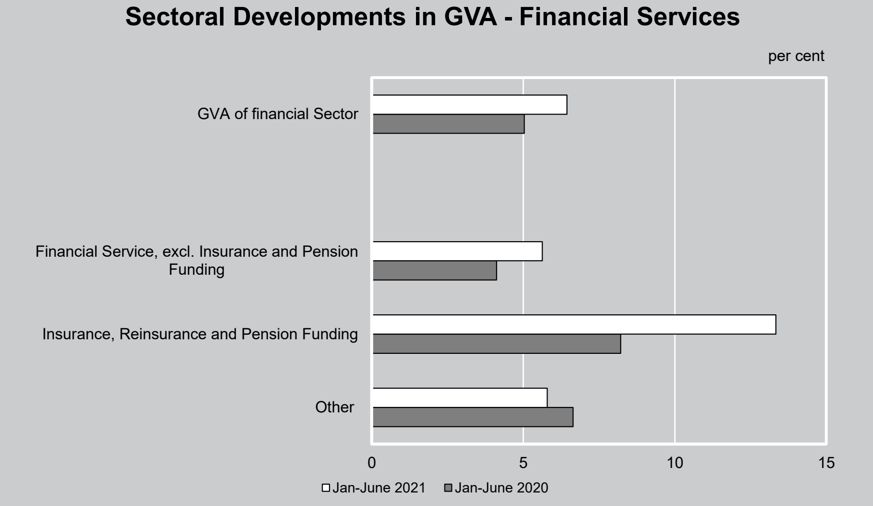
1.3.3 Financial Services

During the past ten years, the Financial Services sector accounted for approximately 8.4 per cent of Malta's GVA, and employed around 5.3 per cent of the workforce. The GVA of the Financial sector increased by an average of 8.8 per cent for each year since 2010. Over the past 10 years, Financial Services 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 7.6 per cent.

While Financial Services 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 exert a greater multiplier effect on the Maltese economy, in terms of gross value added, income and employment. Indeed, at an aggregate level, the total multipliers obtained for the Financial Services sector are relatively lower in comparison with 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 SPEs.[1]

Over the past decade, Malta has successfully attracted key international players in Financial Services, supported by the 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 skilled and English-speaking workforce. Malta is currently home to twenty-six

Chart 1.6



Source: National Statistics Office

banks, including three branches of foreign banks and foreign-owned 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.

1.3.4 The Digital Economy

The development of a resolute Digital Services sector[2] has been central to Malta's recent economic performance, competitiveness, and employment. During the past decade, the industry experienced remarkable growth, contributing an average of 1.5 percentage points to GVA growth, while employing almost 9.5 per cent of the workforce. This growth was particularly attributable to continued increases in Gambling and Betting, which in turn has close interlinkages with the Information and Communications sector.

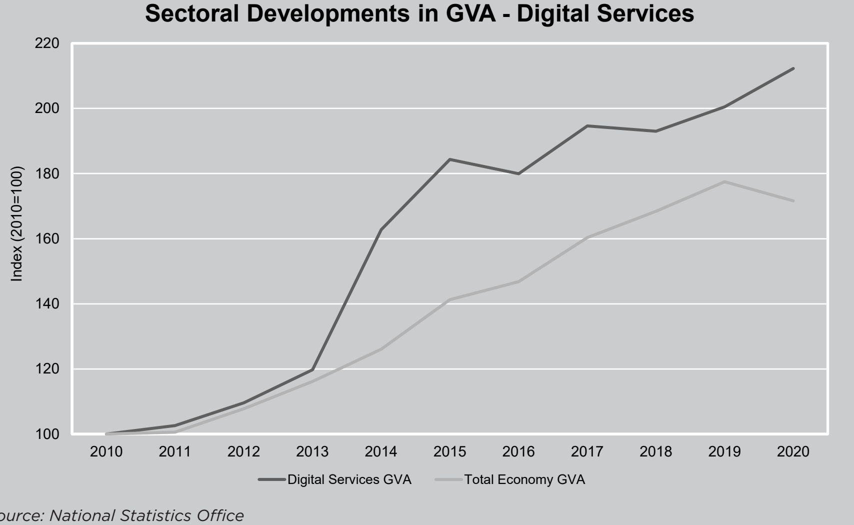
Although the sector contributes substantially to the Maltese economy, there remains scope to increase the indirect contribution of the sector by strengthening its links with other areas of the economy. Indeed, the backward linkages in the Information and Communications sector and the Arts, Entertainment and Recreation sector with the rest of the economy remain limited compared to other sectors, particularly in the latter[3]. 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 analyses the performance of the Digital Services industry during the past ten years and compares it to the performance of the total economy.

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 2020, performing well above the 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.

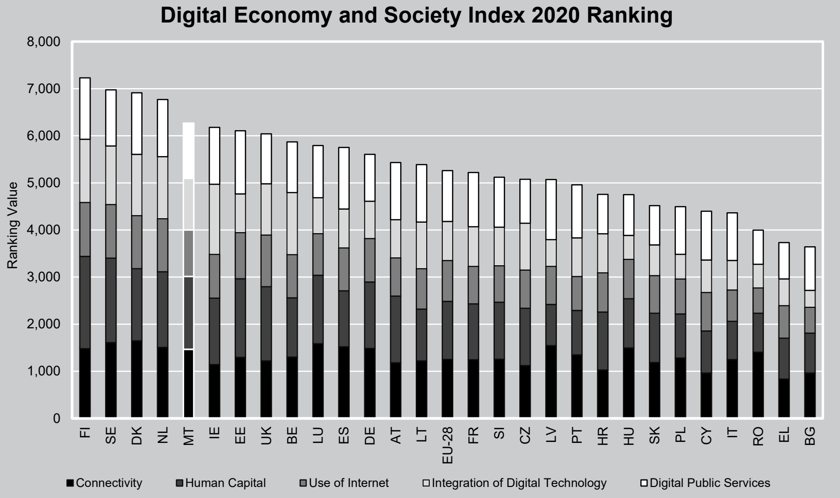
In the 2021 Digital Quality of Life Survey[4] among 110 countries covering 90 per cent of the global population, Malta ranks highly in broadband speed (rank 22nd), network readiness (ranked 24th) and AI readiness (ranked 30th). However, challenges remain to improve mobile internet stability (ranked 100th), mobile speed growth (ranked 88th) and broadband internet stability (ranked 76th). While the electronic

Chart 1.7



Source: National Statistics Office

Chart 1.8



Source: Digital Economy and Society Index Report

infrastructure is fairly good (ranked 30th), internet affordability continues to be a challenge (ranked 47th).

Box 1.1

Tourism Developments

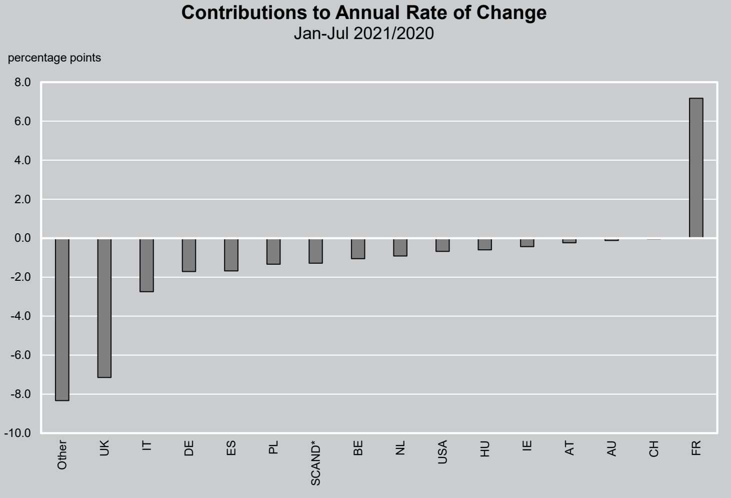
For the period January to July 2021, incoming tourists to the Maltese Islands amounted to 247,155, a 39.5 per cent decrease relative to the previous year. The first two months of 2020 were characterised by significant growth in the number of tourists continuing the previously observed growing trend prior to the COVID-19 pandemic. Due to the containment measures put in place by the Government during 2020 and 2021, the number of incoming tourists significantly declined. Although inbound tourists are still substantially lower than pre-pandemic levels, Malta's high vaccination rate has rendered the country a relatively safe location to visit. In fact, the latest July 2021 figures show that inbound tourists have reached 43 per cent of 2019 levels, rebounding from a slow first half of 2021 at 10.0 per cent of 2019 levels.

Throughout January to July 2021, the share of tourists visiting Malta for a holiday declined by 40.9 per cent, while those visiting for business purposes further declined by 33.2 per cent from the prior year. Contrastingly, inbound tourists visiting Malta for 'other' reasons, including educational purposes, increased by 24.2 per cent. Tourists coming from the European Union (EU) approximated 81.8 per cent of total inbound tourists with non-EU travellers dropping by 69.4 per cent compared to 2020 figures.

In terms of age composition, 43.4 per cent of total tourists visiting between January and July 2021 were aged between 25 and 44 years while only 0.5 per cent where aged 65 or older. This is consistent with a reluctance to travel among older generations due to their increased vulnerability to the COVID-19 virus.

(Box 1.1 cont.)

Chart 1



**Scandinavia includes Denmark, Finland, Norway and Sweden*

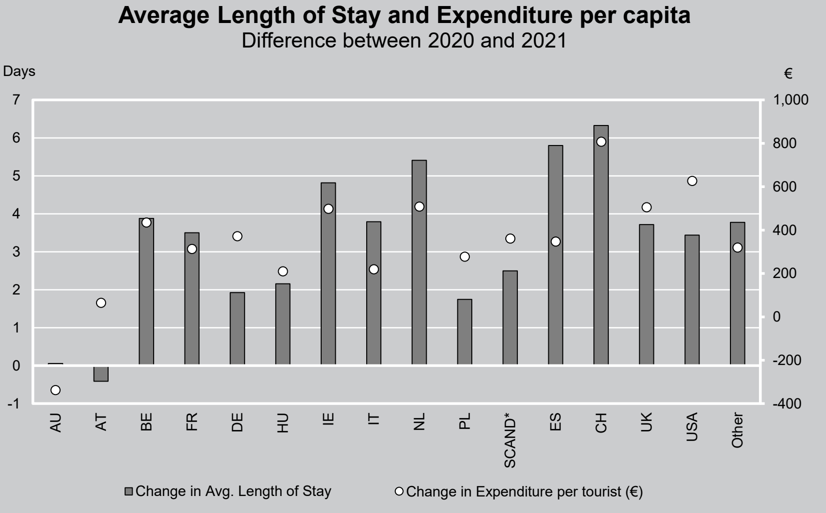
Source: Eurostat

Tourists originating from France were the only subset to observe an increase (+7.2 percentage points) in 2021 over the previous year. The most notable contraction of growth in inbound tourists was noted in ‘Other’ markets which include tourists originating from Russia and Japan amongst others (-8.3 percentage points).

The average length of stay of tourists in the first seven months of 2021 stood at 10.3 days, comparatively higher to that observed in previous years which averaged at around 6.8 days. This increase in average length of stay may be partially due to travel regulations imposed upon tourists, requiring them to extend their stay in order to comply with COVID-19 testing procedures and quarantine obligations in the host country. Each tourist spent an average of €945.9 during their stay in Malta, an increase of €329.2 on 2020.

(Box 1.1 cont.)

Chart 2



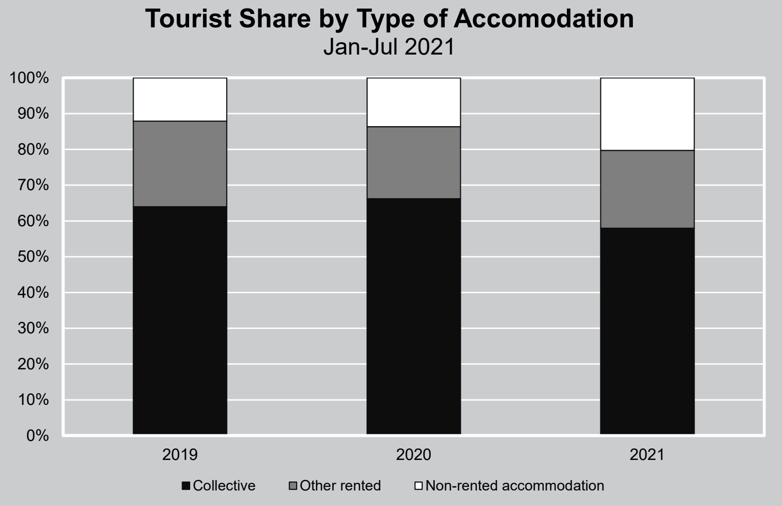
**Scandinavia includes Denmark, Finland, Norway and Sweden*

Source: Eurostat

Continuing the trend observed in previous years, package travel seems to be the less popular option for travellers. Due to the cancellation of flights and temporary closure of hotels as a result of the pandemic, travel agencies offering package travel and the resulting take-up of such decreased by 60.1 per cent relative to the first seven months of 2020. Non-package travel also decreased by 29.1 per cent. A decrease in the number of tourists residing in all accommodation types was expected and recorded, while those staying in collective accommodation continued to show a downward trajectory, standing at 58.0 per cent in 2021.

(Box 1.1 cont.)

Chart 3



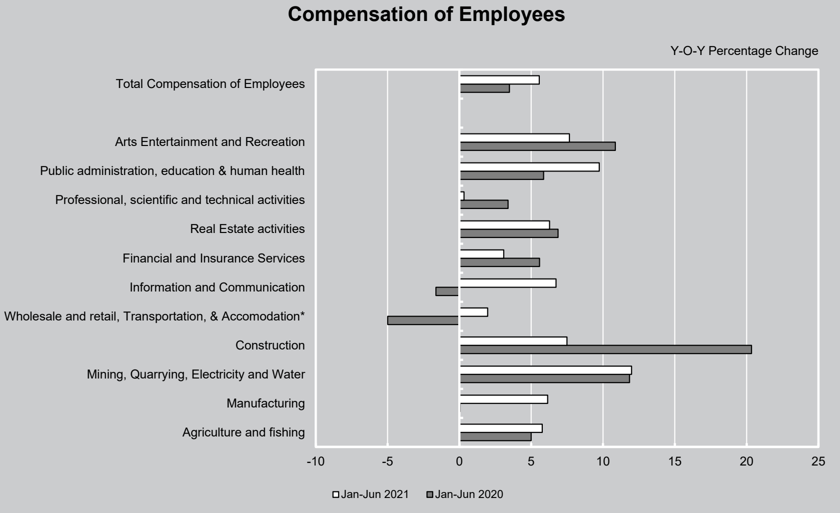
Source: Eurostat

1.4 Gross Domestic Product: Income Approach

In the first half of 2021, compensation of employees amounted to €3.2 billion. The contained impact of the COVID-19 shock on compensation of employees reflected the Government measures including the Wage Supplement Scheme. Notable increases in compensation for employees were recorded in the Mining, Quarrying, Electricity and Water sector, which surged by 12.0 per cent, followed by the Public Administration, Education and Human Health (9.7 per cent), Arts Entertainment and Recreation (7.7 per cent), and Construction (7.5 per cent) sectors. More modest increases in compensation of employees were recorded for the Professional, Scientific and Technical Activities sector (0.3 per cent) and the Wholesale and Retail, Transportation and Accommodation sector (2.0 per cent).

The factor distribution of income gains throughout the first half of 2021 was more balanced when compared to the previous year. Corporate profits, which absorbed most of the decline in GDP in 2020, recovered by 7.4 per cent, while the compensation of employees increased by

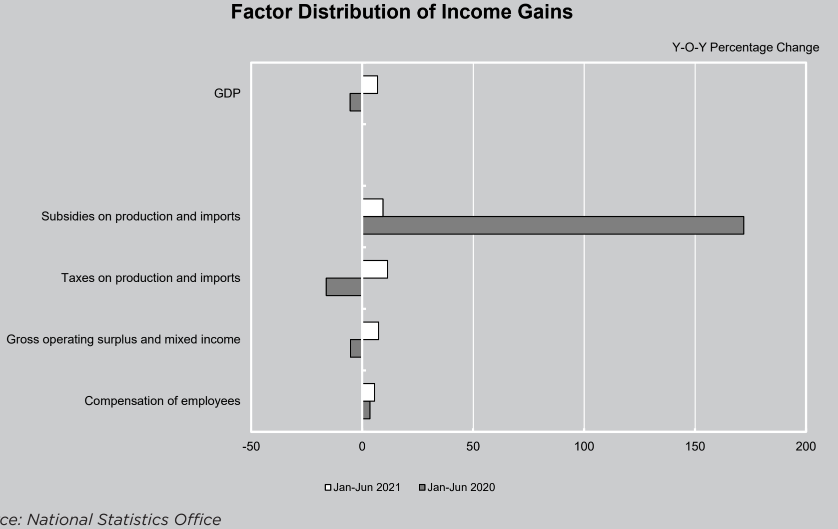
Chart 1.9



** Includes food and services activities*

Source: National Statistics Office

Chart 1.10



Source: National Statistics Office

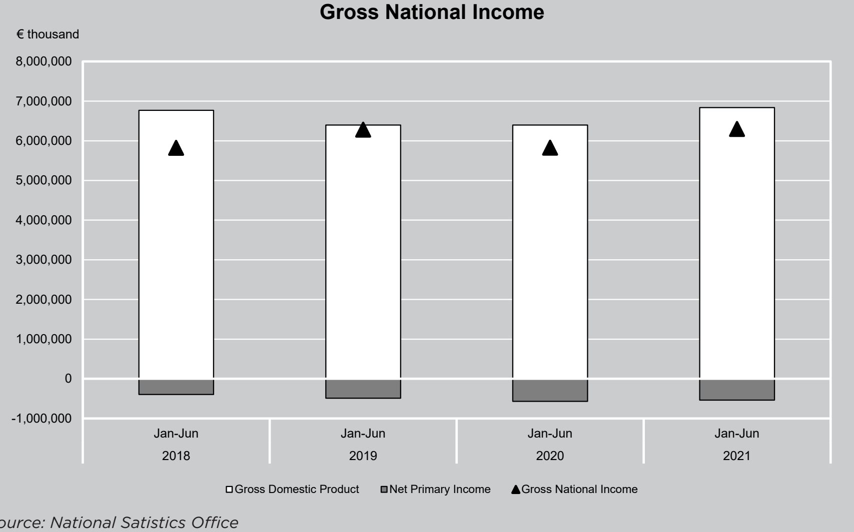
5.6 per cent. Throughout the first half of 2021, subsidies on production and imports increased by €26.2 million or 9.3 per cent, while taxes on production and imports increased by €76.1 million or 11.5 per cent but remained below pre-pandemic levels. Developments in the factor distribution of income throughout the first six months of both 2020 and 2021 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 of employees received from or paid to the rest of the world, subsidies less taxes from/to the rest of the world, and net property income from the rest of the world. GNI represents the total primary income receivable by resident institutional units, irrespective of where that income was generated. Over the past four years, GNI has been consistently lower than GDP. This is mostly attributable to net property income payments, as the return to foreigners on domestic investment exceeded the returns generated abroad by domestic nationals.

Net property income paid abroad over the first half of 2021 amounted to €511.0 million, which was 7.0 per cent lower than the amount registered in the first half of 2020. Net compensation of employees paid to the rest of the world has been on an upward trend over the past years, reflecting an increase in the demand for foreign workers.

Chart 1.11



Source: National Satistics Office

Box 1.2

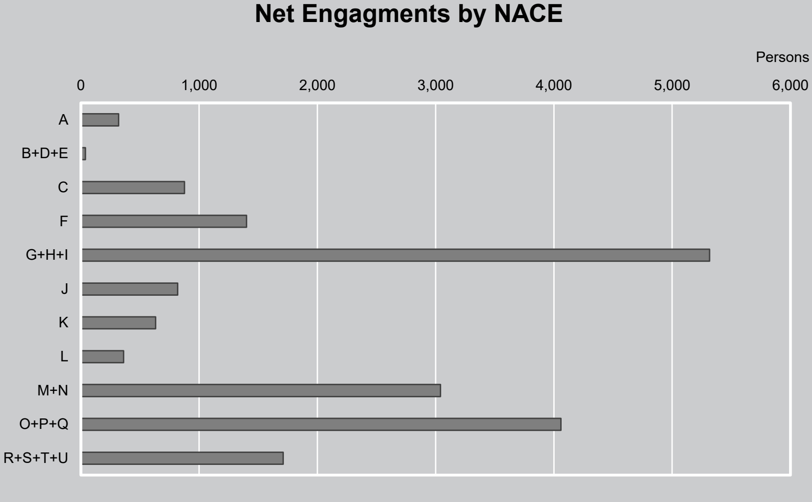
Tracking Economic Developments

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 Employment routinely monitor several high frequency indicators, including weekly employment engagements and terminations, Google mobility trends and sectoral sentiment indicators.

Net Engagements
Chart 1 shows the net engagements by NACE from the start of the year up to the last week of August. Overall, net engagements since the start of the year were positive in all NACE categories.

Google Mobility
Google mobility reports show how visits and duration of stay

Chart 1



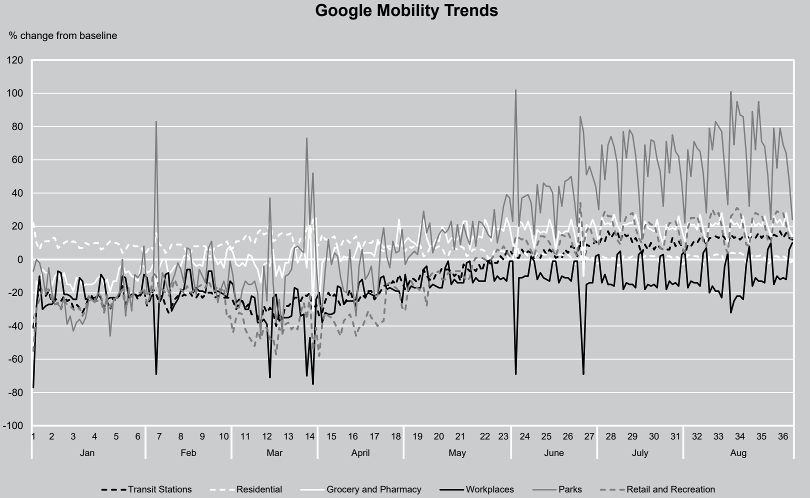
Source: Jobsplus

(Box 1.2 cont.)

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 –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 centres, theme parks, museums, libraries, and movie theaters. Residential and workplaces comprise mobility trends for places of residence and places of work, respectively.

Chart 2 shows that as the easing of COVID-19 restrictions was underway, an improvement in mobility was observed. There was a strong increase in mobility around locations of a non-essential nature such as retail and recreation, and parks. A combination of higher tourists and domestic behavioural changes such as a resumption of work from the office caused a notable increase

Chart 2



Source: Google Mobility Report

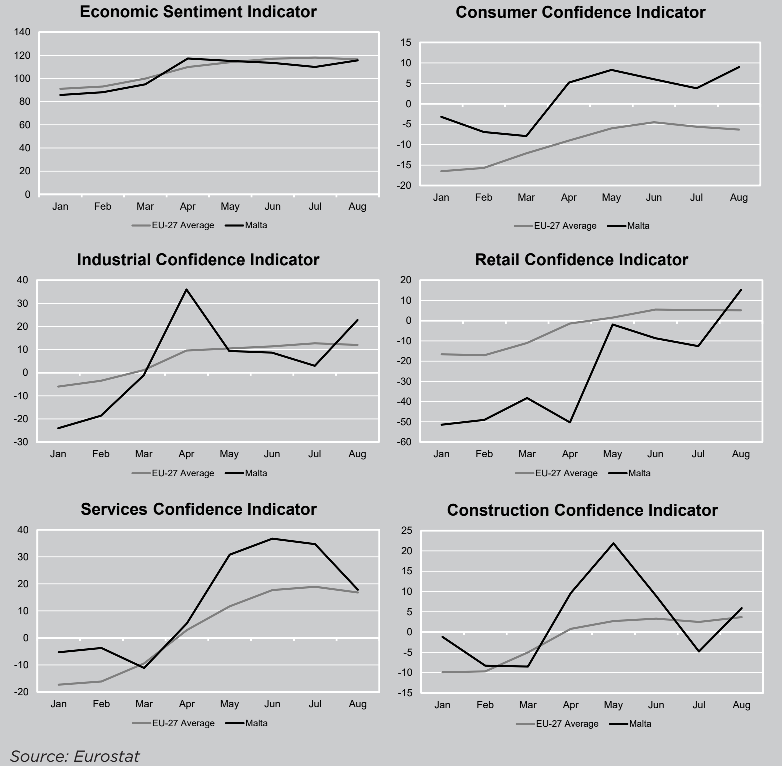
(*Box 1.2 cont.)*

in public transport usage. As at the end of August, retail and recreation is higher than the baseline, but this level is still lower than the usual volume recorded in the summer months reflecting the lower number of tourists visiting Malta in 2021 when compared to pre-COVID-19 levels.

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

Chart 3



Source: Eurostat

(Box 1.2 cont.)

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 higher in Malta than the European Union (EU) average. This result is because Malta had relatively low COVID-19 cases and a high vaccination rate when compared to other EU countries. Nevertheless, all sentiment indicators seem to be on a positive trajectory as the Maltese economy rebounds from the lows experienced in the beginning of 2021.

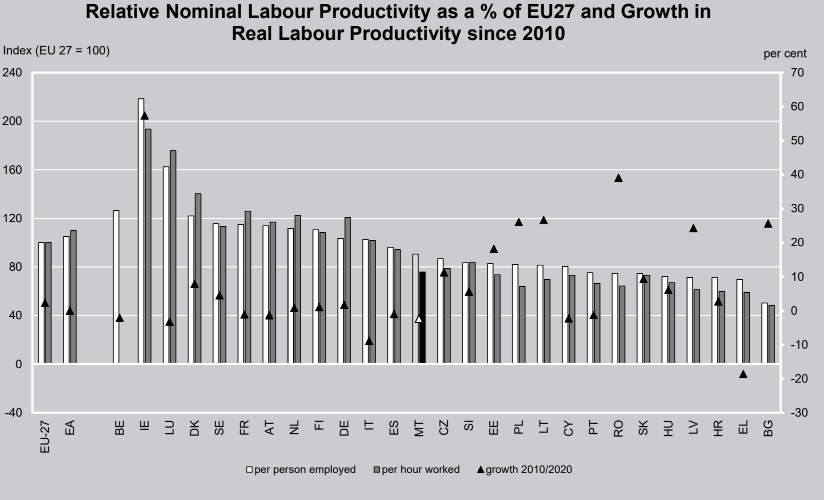
Box 1.3

Labour Productivity and Competitiveness

This section will seek to analyse Malta's price competitiveness based on labour productivity and unit labour costs which are both considered to be dominant determinants of competitiveness and hence per capita income levels in the Maltese islands.

GDP per person employed is often used to estimate labour productivity within a specific economy. Malta's nominal labour productivity in terms of persons employed stood at 90.6 per cent of the EU average in 2020. In terms of hours worked, Malta's productivity stands at 75.8 per cent of the EU average (see Chart 1). Between 2010 and 2020, real labour productivity declined by 2.4 per cent which has been heavily influenced by the COVID-19 pandemic. Particularly, real labour productivity increased between 2010 and 2019 by 9.3 per cent and then saw

Chart 1



Source: Eurostat

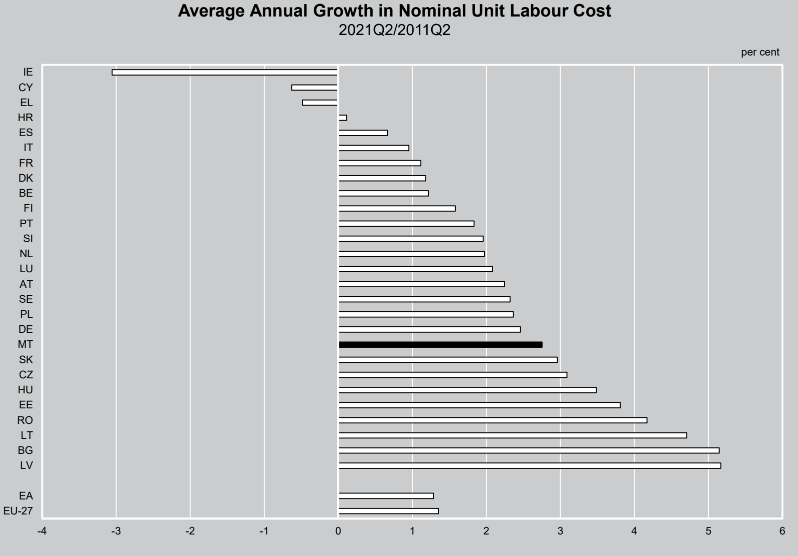
(Box 1.3 cont.)

a decline of 10.7 per cent between 2019 and 2020, the greatest decrease in the past decade.

Unit labour costs in Malta grew by an average of 3.2 per cent between 2011 and 2020, which exceeded both EU and Euro Area averages which grew by 1.4 and 1.3 per cent, respectively (see Chart 2).

Real labour productivity has witnessed modest growth since 2012, with the exception of 2016 when the rate of employment growth surpassed the growth rate in real GDP. Unsurprisingly, due to the temporary restrictions on certain economic activities and industries brought about by the COVID-19 pandemic, real labour productivity decreased dramatically in 2020. Since the declines in compensation per employee were less severe, real unit labour costs surged by 11.7 per cent. (see Chart 3).

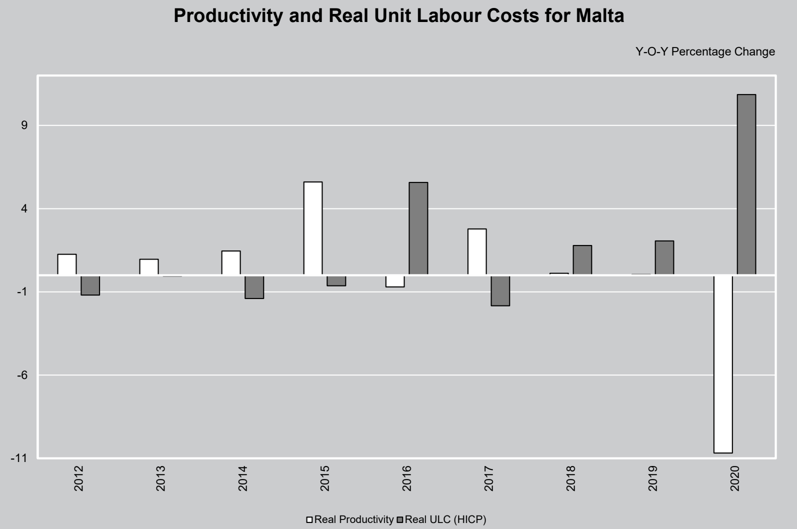
Chart 2



Source: Eurostat

(Box 1.3 cont.)

Chart 3



Source: Eurostat

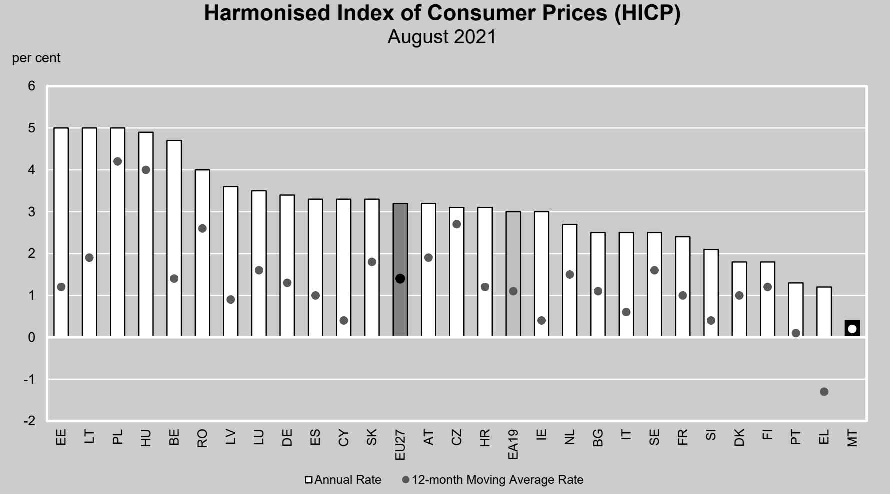
1.5 Inflation

1.5.1 International Comparison

In August 2021, Malta's 12-month moving average rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) stood at 0.2 per cent, whereas the annual rate recorded was 0.4 per cent. The reason behind this low rate is that the HICP weights are annually revised based on the Classification of Individual Consumption by Purpose (COICOP). The pandemic resulted in the consumption allocation between components to differ from normal, with certain activities like Restaurants and Hotels, Transport, Recreation and Culture and Education becoming underweighted, while other components like Housing, Water, Electricity, Gas and Other Fuels increasing their weight.

During the period September 2020 and August 2021, the main contributors to the annual rate of inflation included the Food and Non-alcoholic Beverages Index and the Education Index with an average

Chart 1.12



Source: Eurostat

contribution of 0.26 percentage points and 0.16 percentage points respectively. The contributions of the other indices during the same period averaged at -0.17 percentage points. This involved negative contributions as observed in the Accommodation Services sub-index.

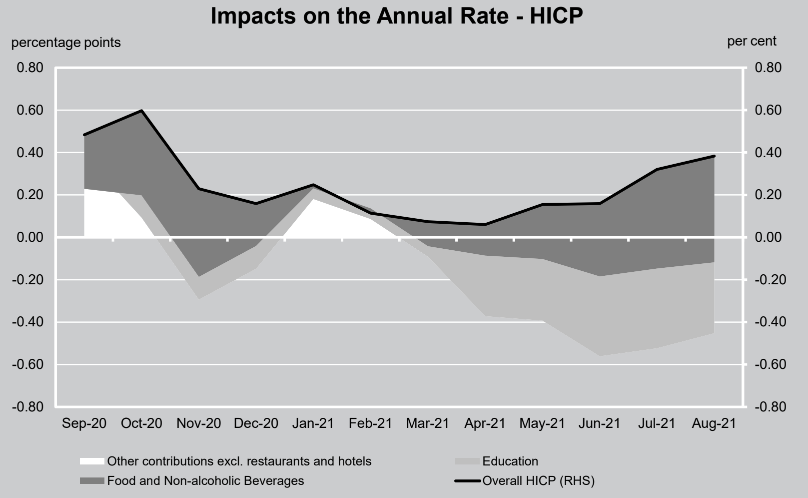
1.5.2 Retail Price Index

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 compositions of the HICP and the RPI are different.

After decelerating to 0.43 per cent till April, the 12-month moving average rate of inflation as measured by the RPI turned positive, reaching the rate of 0.78 per cent in August 2021 (Chart 1.14).

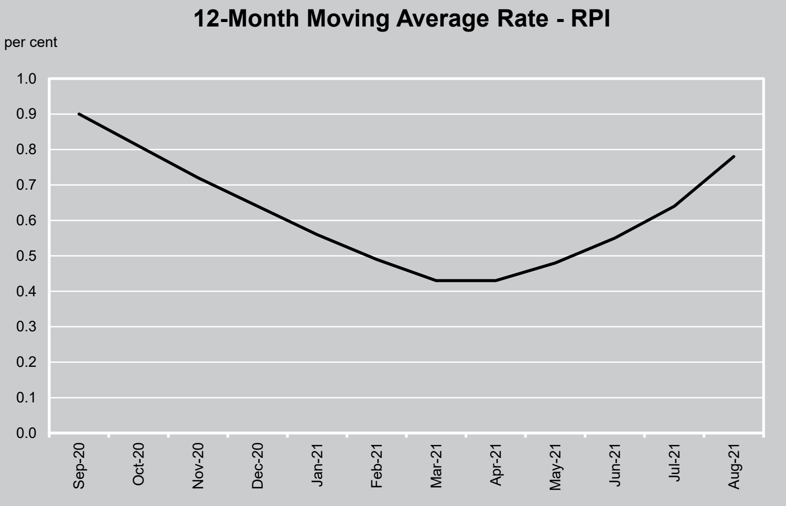
In August 2021, the Food sub-index recorded the highest contribution to the 12-month moving average rate of inflation at 0.31 percentage points. This was mainly driven by developments in the prices of meat, fruit, vegetables and baked cakes. The second highest contribution was recorded in Personal Care and Health sub-index at 0.20 percentage points, emanating from Hairdressing and Personal Grooming Services. The highest negative contribution in August was observed in the

Chart 1.13



Source: National Statistics Office

Chart 1.14



Source: National Statistics Office

Transport and Communications sub-index, partly reflecting decreases in fuel prices announced in 2020 to support the economic recovery from the pandemic.

Box 1.4

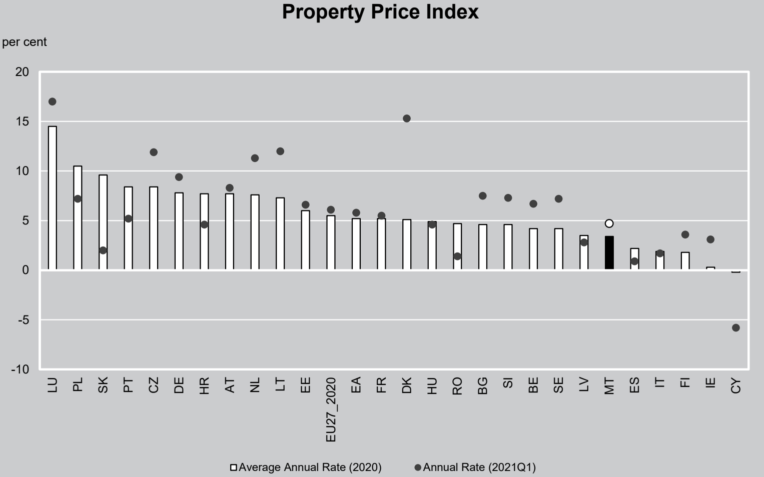
Residential Property Prices

According to the Property Price Index (PPI) compiled by the National Statistics Office (NSO) and based on administrative records from the Commissioner for Revenue, in 2020, Malta's property prices increased by an average of 3.4 per cent when compared to the previous year. This is below the EU27 average which stood at an average change rate of 5.5 per cent.

During the last year, Luxembourg recorded the highest growth rate, at 14.5 per cent whilst the lowest rate of change was equal to an average of -0.2 per cent, recorded in Cyprus.

During the first quarter of 2021, the PPI for Malta increased by 4.7 per cent when compared to the same quarter of last year.

Chart 1



Source: Eurostat

Footnotes:

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

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

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

[4] https://surfshark.com/dql2021

2. Labour Market and Social Developments

2. Labour Market and Social Developments

2.1 Introduction

The global COVID-19 pandemic brought with it unprecedented challenges for the Maltese labour market. However, employment remained robust following an upward trend since the second quarter of 2020 whilst the unemployment rate continues to be one of the lowest rates in the European Union (EU). By June 2021, the unemployment rate returned to pre-pandemic levels as a result of a series of Government policy initiatives that encouraged the retention of employees. In the meantime, the at-risk-of-poverty or social exclusion rate has continued to fall while income inequality remains below the EU average.

2.2 Labour Supply

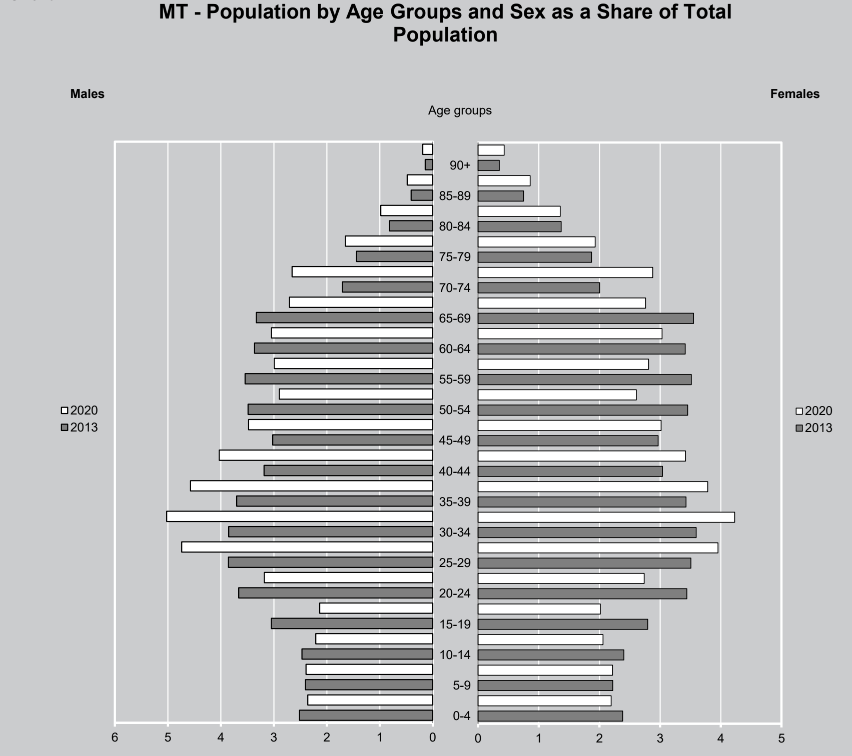
2.2.1 Dependency Ratio

Despite a drop in net migration, Malta's population grew by 0.3 per cent by the end of 2020 totalling 516,100. The share of people aged 65+ increased significantly in recent years also in light of improvements in life expectancy. In fact, in 2020, persons aged 65 and over stood at 18.9 per cent of the total population, which was 1.2 percentage points higher than that of 2013. Nonetheless, in the last year there was a decrease in the life expectancy at birth by 3 months. The share of the working age population, that is persons aged between 15 and 64 years, represented 67.7 per cent of the total population, a drop of 0.2 percentage points when compared to 2013, reflecting Malta's demographic transition (Chart 2.1).

The developments in the dependency ratios explain the dynamics of the ageing process, by linking the number of youth and the elderly that are likely to be 'dependent' 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 - which shows persons aged 65+ in relation to the number of individuals aged between 15-64 years), the ageing of 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 to 64).

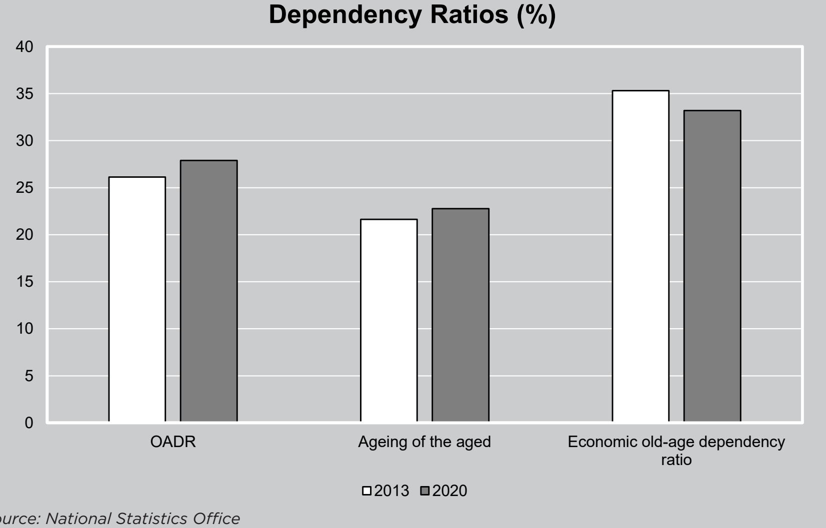
As can be seen in Chart 2.2, both the OADR and the ageing of the aged ratio have continued to increase when compared to the same ratios in 2013. On the other hand, the economic old age dependency

Chart 2.1



Source: National Statistics Office

Chart 2.2



Source: National Statistics Office

ratio registered a decline when compared to 2013. This shows that the higher employment rates, particularly for women and the elderly, are easing the pressure stemming from rising old-age dependency.

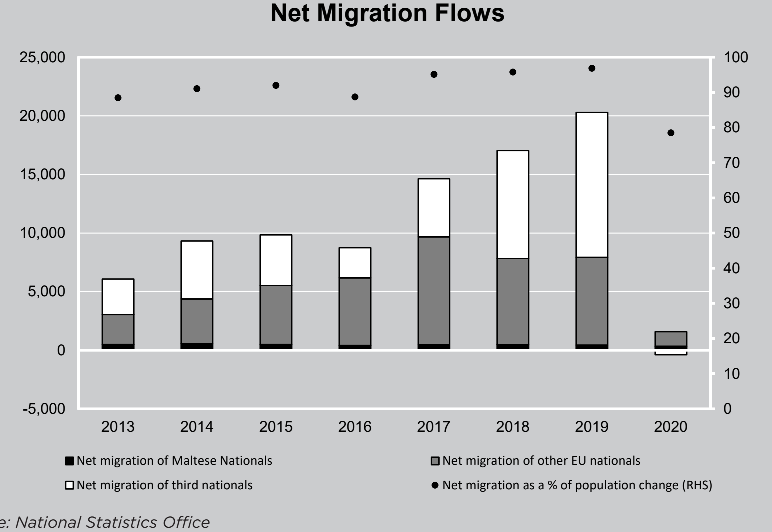
2.2.2 Regional overview

The share of Gozo's population in relation to the total population stood at 6.7 per cent in 2020. When lookin exclusively at Gozo's population, there was a registered growth rate of 0.4 per cent on the previous year. The share of the population in Gozo aged 65+ stood at 22.2 per cent, 3.3 percentage points higher than the share recorded in Malta. A similar trend was also reflected in the old-age dependency ratio of Gozo which registered an increase over the previous year, standing at 34.3 per cent in 2020, that was 6.4 percentage points higher than the rate in Malta.

2.2.3 Net Migration

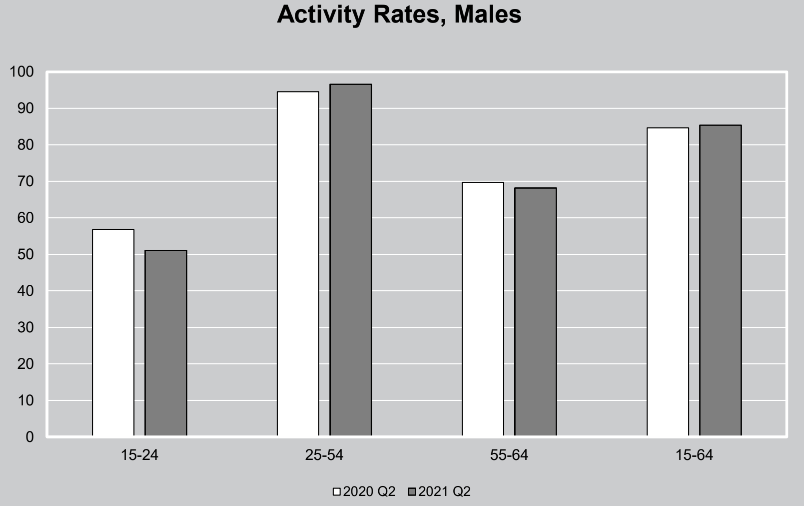
Positive net-migration of working-age can ease the natural demographic pressures experienced during the recent years. However, the COVID-19 pandemic has led net-migration, which is immigration less emigration, to decrease by 94.1 per cent in 2020 when compared to the previous year, reaching a total of 1,206 persons by the end of 2020 (Chart 2.3). The majority of this net-migration was accounted for by other EU nationals (1,237), followed by Maltese nationals (336). Net-migration

Chart 2.3



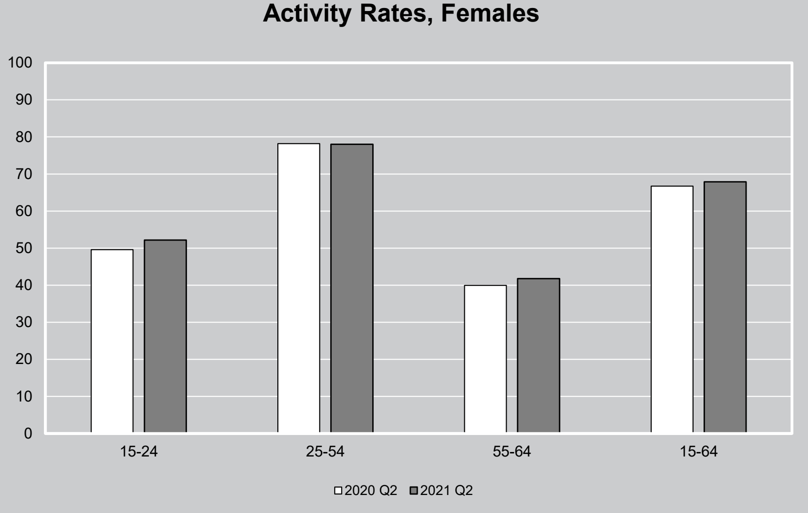
Source: National Statistics Office

Chart 2.4



Source: National Statistics Office

Chart 2.5



Source: National Statistics Office

of third country nationals was negative, which confirms the COVID-19 pandemic effects that led to a lower rate of immigration with respect to emigration.

2.2.4 Labour Supply

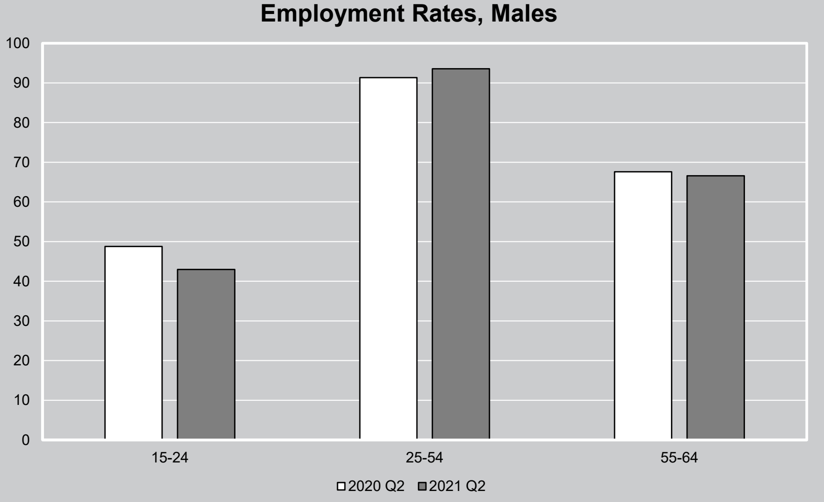
According to the Labour Force Survey (LFS) data, in the second quarter of 2021, the overall activity rate for the 15-64 years age bracket in Malta increased by almost 1.0 percentage point when compared to the corresponding quarter of 2020, standing at 77.2 per cent. A closer look at the developments in the activity rates shows that for the same period, the total activity rate for males increased by 0.7 percentage points over the previous year, whereas the activity rates for females increased by 1.2 percentage points. Activity rates for older persons aged between 55-64 in the second quarter of 2021 decreased by 1.5 percentage points for males but increased by 1.8 percentage points for females relative to the corresponding period of 2020 (Chart 2.4 and Chart 2.5). The activity rates for persons aged 15-24 experienced a decline of 1.8 percentage points, mainly as a result of a decrease of 5.6 percentage points in activity rate for males in the same age bracket.

2.3 Labour Market Outcomes

Albeit the COVID-19 pandemic and restrictions imposed by the Government to combat the spreading of the virus, during the second quarter of 2021, the number of employed persons increased by 8,317 individuals over the same period in 2020, reaching a total of 266,553 persons in employment, as illustrated in Chart 2.8. At 74.4 per cent, the employment rate was still higher than that recorded in the second quarter of 2020. This could be attributed to the implementation of Government measures to encourage the retention of employees such as the extension of the COVID-19 Wage Supplement, introduced in March 2020, which provided employers with a basic wage to support the wages of their employees.

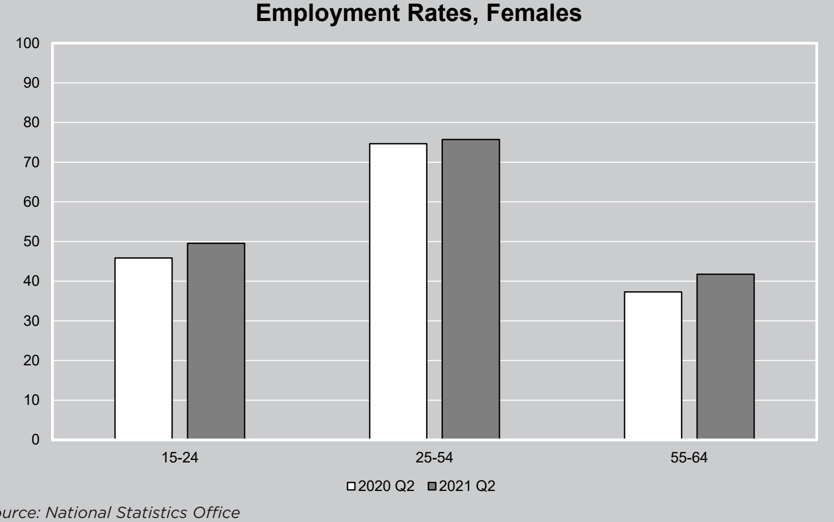
During the second quarter of 2021, the number of employed persons aged between 15 and 64 increased by 1.8 percentage points relative to the same period in the previous year, standing at 74.4 per cent. This remains higher than the average employment rate recorded across the EU. The highest employment rates were recorded for people aged 25-54 whereby out of every 100 individuals, around 85 individuals were in employment, an improvement of 1.7 percentage points when compared to the previous year. On the other hand, the employment rate for persons in the age group of 15-24 deteriorated. Although the employment rate for males in this age group declined by 5.8 percentage points, the employment rate for females in the age group

Chart 2.6



Source: National Statistics Office

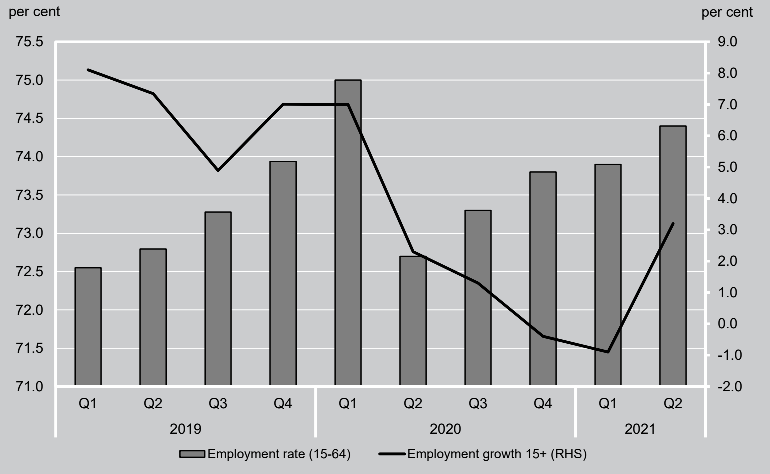
Chart 2.7



Source: National Statistics Office

Chart 2.8

Employment Growth and Employment Rate



Source: National Statistics Office

15-24 continued to improve, increasing by 3.7 percentage points from 2020. Similarly, a decrease of 1.0 percentage point in the employment rate was observed for males in the 55-64 age group while that of females improved by 4.5 percentage points, reaching 41.8 per cent. Such a result reflects the efforts made by the Government over the recent years to further engage women in the labour market.

As indicated in Table 2.1, full-time employment in the private sector declined by 0.4 percentage points in February 2021, coming from an increase of 0.2 percentage points in direct production and a decline of 0.6 percentage points in market services, when compared to the same month of the previous year. While the Manufacturing sector experienced a decline of 0.2 percentage points, employment in the Construction sector increased by 0.3 percentage points. The market services contributed to a decline of 0.6 percentage points in February 2021 largely due to the decrease in growth in the Accommodation and Food Service Activities sector (-1.0 percentage point).

As of January 2021, foreign employees accounted for 26.9 per cent of full-time employees in Malta, decreasing slightly from the previous year. The Administrative and Support Services sector employed nearly 14.0 per cent of all foreign workers, followed by the Accommodation and Food Services sector with employment shares of 12.1 per cent and the Construction sector standing at just over 10.0 per cent of employment shares.

Contribution to Growth in Private Sector Employment*

Table 2.1 percentage points

		Dec 2019/ Dec 2018	Dec 2020/ Dec 2019	Feb 2021/ Feb 2020
	Direct Production	**1.7**	**0.4**	**0.2**
F	Construction	1.3	0.5	0.3
E	Water supply; sewerage, waste management and remediation activities	0.1	0.1	0.0
D	Electricity, gas, steam and air conditioning supply	0.0	0.0	0.0
B	Mining and quarrying	0.1	0.0	-0.0
A	Agriculture, forestry and fishing	0.0	-0.0	-0.0
C	Manufacturing	0.3	-0.2	-0.2
	Market Services	**6.5**	**0.5**	**-0.6**
Q	Human health and social work activities	0.4	0.4	0.4
R	Arts, entertainment and recreation	0.5	-0.1	0.3
K	Financial and insurance activities	0.5	0.4	0.1
P	Education	0.2	0.0	0.1
J	Information and Communication	0.7	0.2	0.0
S	Other service activities	0.3	0.1	0.0
L	Real estate activities	0.1	0.0	0.0
U	Activities of extraterritorial organisations and bodies	0.3	0.1	0.0
T	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	0.0	0.0	0.0
O	Public administration and defence; compulsory social security	0.0	0.0	0.0
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	0.0	0.0	0.0
M	Professional, scientific and technical activities	0.6	0.1	-0.1
H	Transportation and storage	0.5	-0.1	-0.2
N	Administrative and support service activities	1.5	0.1	-0.3
I	Accommodation and food service activities	0.8	-0.7	-1.0

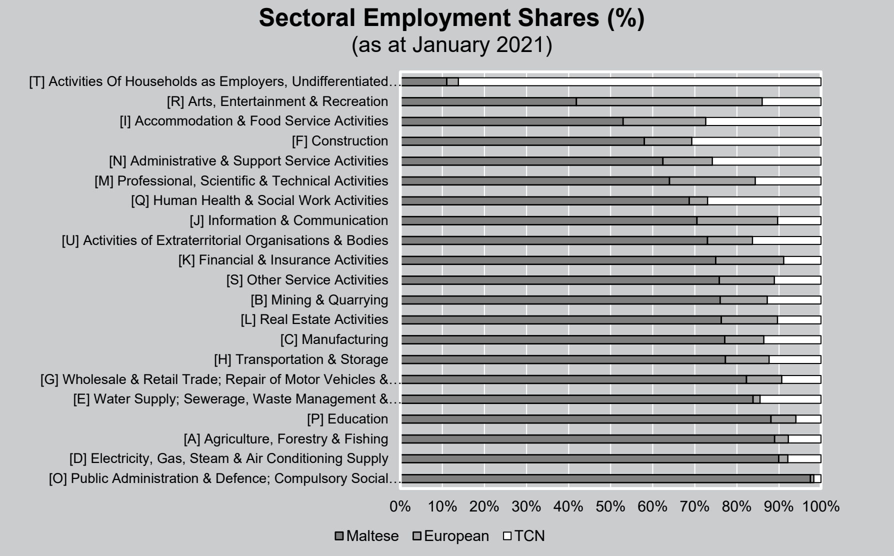
* including temporary

Source: Jobsplus

As indicated in Chart 2.9, while Maltese citizens are mostly employed in the Public Administration and Defence, Compulsory Social Security sector, the Arts, Entertainment and Recreation sector employs the highest number of European citizens whereas the Activities Of Households as Employers, Undifferentiated Goods and Services sector employs the highest share of third country nationals (TCNs).

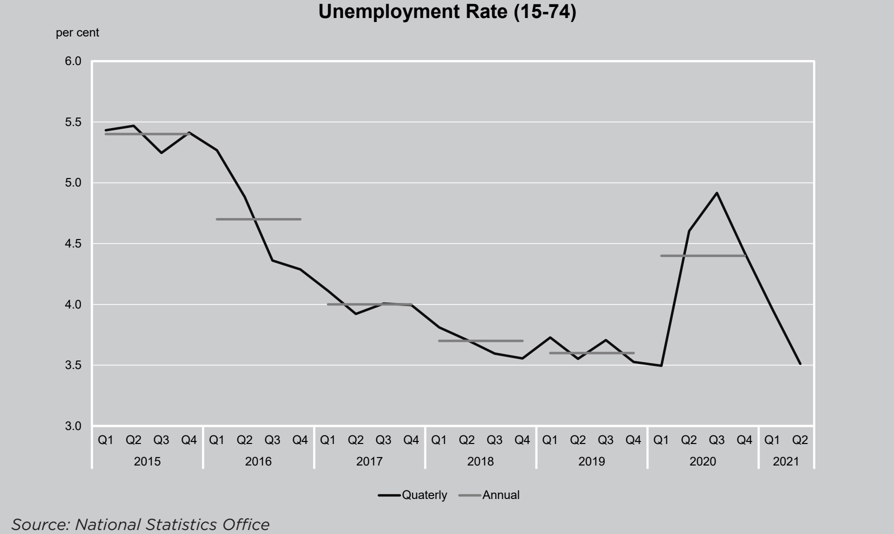
While managing to deal with the challenges of COVID-19, Malta has also managed to maintain an unemployment rate which is one of the lowest among its European peers. Despite the pandemic slowing down the downward trend in unemployment rates observed in recent years, by July 2021, Malta's unemployment rate returned back to pre-pandemic rates, standing at 3.4 per cent, which is well below the EU average of 7.2 per cent.

Chart 2.9



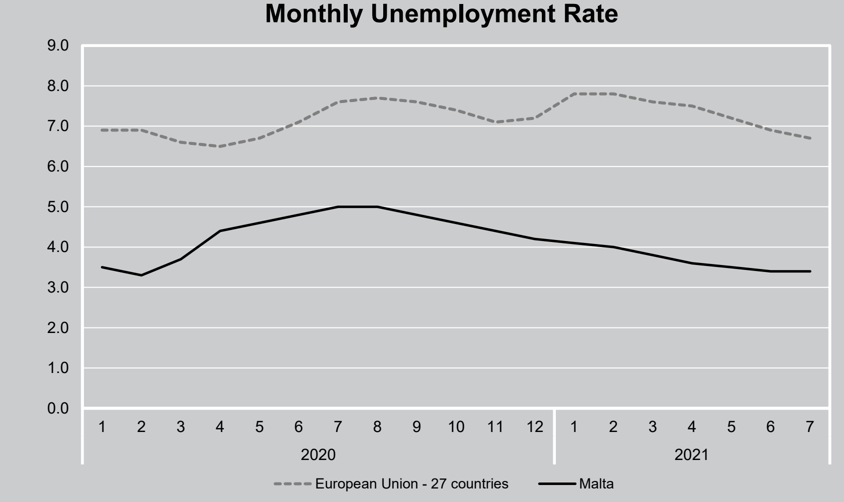
Source: Jobsplus

Chart 2.10



Source: National Statistics Office

Chart 2.11



Source: Eurostat

2.4 Negotiated Wages

This section illustrates the development in the average weekly wage rates based on collective agreements deposited with the Department of Industrial and Employment Relations (DIER), covering the period between August 2020 and August 2021. The analysis focuses on basic wage rates and does not take into consideration any additions to the basic wage rate such as overtime, allowances, bonuses and other benefits. Thus, it is pertinent to note that the wages illustrated in the tables below signify the weekly basic wage rates associated with full-time employment. The COVID-19 pandemic has led some businesses to opt for deductions in working time or deductions in allowances and bonuses. However, none of these changes affect the basic wage rate, and are thereby not captured in the following analysis. Box 2.1 gives a more detailed explanation of the methodology and assumptions adopted for this analysis.

Based on our sample of collective agreements, the overall weighted average basic weekly wage rate across all sectors as at August 2020 stood at €374.24 (Table 2.2), while that as at August 2021 stood at €382.84 (Table 2.3). When distinguishing between the basic wage of individuals employed in direct production and services, the weighted average basic wage as at August 2021 stood at €335.73 and €393.57, respectively. This implies a sectoral gap of €57.84.

Average Weekly Wages
August 2020

Table 2.2 €

		level 1	level 2	level 3	weighted average
B	Mining support services activities	321.87	366.97	407.20	369.99
C	Manufacturing	281.50	342.30	412.47	352.22
E	Water supply; sewerage, waste management and remediation activities	258.05	344.33	521.27	347.10
F	Construction	252.81	291.74	339.41	288.19
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	233.05	291.14	391.76	312.07
H	Transportation and storage	297.73	346.70	547.30	392.04
I	Accommodation and food service activities	244.72	272.18	309.64	277.99
J	Information and communication	237.73	309.35	413.69	386.74
K	Financial and insurance activities	317.10	471.24	783.64	618.73
L	Real estate activities	235.30	332.16	517.15	422.74
N	Administrative and support service activities	221.08	276.79	487.53	301.99
O	Public administration and defence; compulsory social security	229.93	332.98	498.79	426.20
P	Education	255.63	355.41	512.55	453.84
QB	Residential care and social work activities	255.37	319.65	460.68	355.38
R	Arts, entertainment and recreation	290.34	355.32	475.59	408.55
S	Other service activities	293.41	338.40	466.83	380.95
All sectors		245.78	326.79	480.22	374.24
Direct production		265.06	327.38	395.21	329.72
Services		238.53	326.63	491.48	384.39

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

Average Weekly Wages
August 2021

Table 2.3 €

		level 1	level 2	level 3	weighted average
B	Mining support services activities	328.62	373.72	413.95	376.74
C	Manufacturing	287.52	349.06	419.07	358.82
E	Water supply; sewerage, waste management and remediation activities	264.40	352.87	533.41	355.55
F	Construction	257.47	296.56	343.64	292.84
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	236.46	295.95	398.70	317.29
H	Transportation and storage	303.58	352.50	565.00	400.95
I	Accommodation and food service activities	248.10	275.56	313.10	281.40
J	Information and communication	239.48	316.81	421.08	394.00
K	Financial and insurance activities	323.98	482.24	801.61	633.00
L	Real estate activities	239.78	341.19	531.16	433.94
N	Administrative and support service activities	225.34	285.59	498.87	309.69
O	Public administration and defence; compulsory social security	234.64	342.61	513.01	438.25
P	Education	261.78	365.96	526.93	466.68
QB	Residential care and social work activities	261.20	328.96	473.44	365.42
R	Arts, entertainment and recreation	302.43	365.83	489.07	420.48
S	Other service activities	299.13	345.82	477.56	389.41
All sectors		250.42	334.25	491.71	382.84
Direct production		270.41	333.64	401.33	335.73
Services		242.90	334.42	503.68	393.57

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

The highest average weekly wage for 2021 was registered in the Financial and Insurance sector (€633.00) followed by the Education sector (€466.68); whereas the lowest weighted average weekly wage was registered in the Accommodation and Food Service activities sector (€281.40). The lowest reported average basic wage was registered at Level 1 under the Administrative and Support Service Activities sector (€225.34), which is €44.26 or 24.4 per cent over the national minimum wage for 2021. Moreover, the highest average basic wage was registered in the Financial and Insurance sector under Level 3 at €801.61.

Table 2.4 illustrates the percentage changes in average weekly wages between August 2020 and August 2021, while Chart 2.12 shows the contributions to the sectoral growth rates. The weighted average increase for all sectors stood at 2.3 per cent, from which the majority of growth emanated from Level 2 wages. On average, the basic wage in direct production increased by €6.01 (1.8 per cent), whereas the average basic wage in the services sector increased by €9.19 (2.4 per cent).

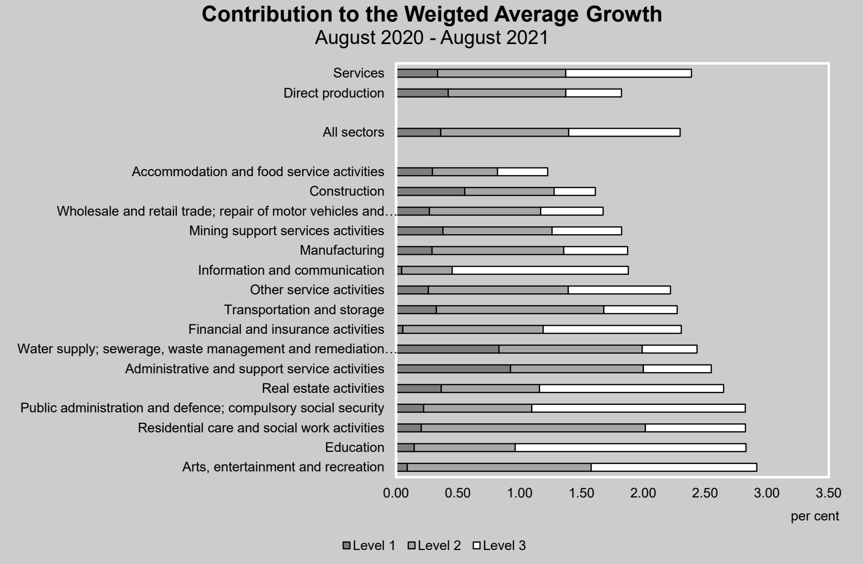
Percentage Change in Average Weekly Wages
August 2020- August 2021

Table 2.4 %

		Level 1	Level 2	Level 3	Weighted Average
B	Mining support services activities	2.10	1.84	1.66	1.82
C	Manufacturing	2.14	1.97	1.60	1.87
E	Water supply; sewerage, waste management and remediation activities	2.46	2.48	2.33	2.44
F	Construction	1.84	1.65	1.25	1.61
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	1.46	1.65	1.77	1.67
H	Transportation and storage	1.96	1.67	3.23	2.27
I	Accommodation and food service activities	1.38	1.24	1.12	1.23
J	Information and communication	0.74	2.41	1.79	1.88
K	Financial and insurance activities	2.17	2.33	2.29	2.31
L	Real estate activities	1.90	2.72	2.71	2.65
N	Administrative and support service activities	1.93	3.18	2.33	2.55
O	Public administration and defence; compulsory social security	2.05	2.89	2.85	2.83
P	Education	2.41	2.97	2.81	2.83
QB	Residential care and social work activities	2.28	2.91	2.77	2.83
R	Arts, entertainment and recreation	4.16	2.96	2.83	2.92
S	Other service activities	1.95	2.19	2.30	2.22
All sectors		1.89	2.28	2.39	2.30
Direct production		2.02	1.91	1.55	1.82
Services		1.84	2.39	2.48	2.39

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 Arts, Entertainment and Recreation sector at 2.9 per cent in which most of the workers are classified under Level 2. Specifically, this sector recorded the highest percentage increase in Level 1 by 4.2 per cent. The highest increase in Level 2 (of 3.2 per cent) and Level 3 (of 3.2 per cent) was registered in the Administrative and Support Service Sector and Transportation and Storage Sector, respectively.

Box 2.1

Collective Agreements Methodology

The sample under review includes 153 firms employing 67,869 full-time employees; with 42 firms engaged in direct production and employing 9,804 individuals, while the remaining 111 firms operate in the services sector with 58,065 employees. The total coverage ratio is around 37.0 per cent of total employment. The weekly wages are divided into three distinguished levels as per International Standard Classification of Occupation (ISCO-08) and 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 was 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, 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 2021 with those of 2020 are directly comparable since the analysis is based on the same employment weighting structure and sample of firms.

(Box 2.1 cont.)

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 basis wages rate may also change due to the reclassification of grades of a new collective agreement.

The methodology compiles collective agreement 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 calculated and where the collective agreement is exclusive of Cost of Living Adjustment (COLA), the figures are increased accordingly. As announced in the 2021 Budget, the COLA for 2021 amounted to €1.75.

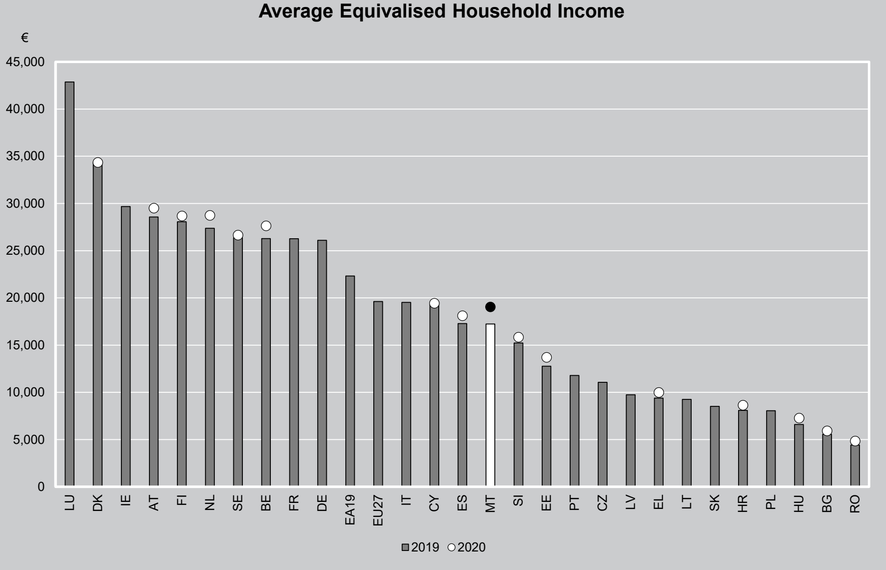
2.5 Social Conditions

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

2.5.1 Average Household Income

During 2020, the Maltese average equivalized household income stood at €19,048, which has continued to follow the same positive upward trend experienced during the past few years, 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 17.0 percentage points since 2010; from 60.3 per cent in 2010 to 77.2 per cent in 2019. A similar pattern is also present when compared to the EU average.

Chart 2.13



Source: Eurostat (Data for 2020 is unavailable for a number of Member States)

Income Distribution

Table 2.5

	EU27	Malta	
	2019	2019	2020
S80/S20 ratio	5.0	4.2	4.7
Less than 65 years	5.2	4.3	4.8
65 years or over	4.2	3.1	3.5
Gini-coefficient	30.2	28.0	29.9

Source: Eurostat

2.5.2 Income Distribution

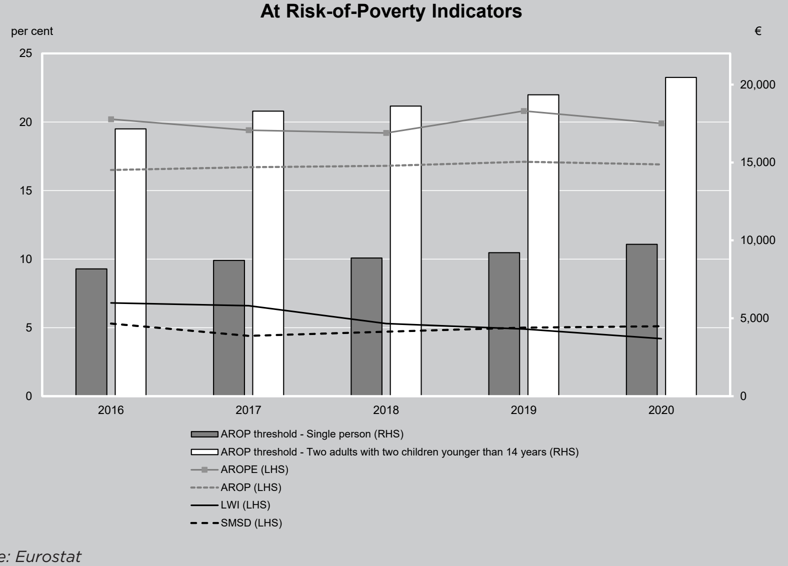
Even though the average household income in Malta is lower than the EU average, the income distribution seems to be fairer when compared to the EU, as shown through the income quintile share ratio and the Gini-coefficient indicators. The income quintile share ratio (S80/S20) has slightly increased in the past year, from a rate of 4.2 in 2019 to 4.7 in 2020. This indicates, that for 2020, the income of the wealthiest 20 per cent of the population is on average 4.7 times higher than the income of the bottom quintile. The gap decreases to 3.5 times for persons aged 65 and over.

The Gini-coefficient after social transfers, also increased in the past year, from a ratio of 28.0 in 2019 to 29.9 in 2020. As shown in Table 2.5, both the S80/S20 ratio and the Gini-coefficient are higher at EU level, indicating that income inequality is less pronounced in Malta.

2.5.3 Poverty and Social Exclusion

The main indicator to monitor the EU 2030 target on poverty and social exclusion, is the at-risk-of-poverty-or-social-exclusion (AROPE[1]) rate, which captures the share of the total population which is at risk of poverty or social exclusion. The AROPE is also the headline indicator to monitor the EU 2020 poverty target. As illustrated in Chart 2.14,

Chart 2.14



Source: Eurostat

the indicator for Malta stood at 19.9 per cent in 2020, which is 0.9 percentage points lower when compared to 2019 and 0.3 percentage points lower than the rate recorded for 2016. According to the latest data available, in 2019, Malta's AROPE was 0.3 percentage points lower than the rate recorded at EU level.

The at-risk-of-poverty (AROP) rate before social transfers for Malta stood at 35.1 per cent in 2020. In the EU, the rate was 43.0 per cent in 2019, which was 6.2 percentage points higher when 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 18.2 percentage points to a rate of 16.9 per cent in 2020. A similar though weightier drop was also noted at the EU level, with a drop of 26.5 percentage points in 2019.

The AROP after the inclusion of social transfer for Malta has been, on average, fluctuating over the same rate in past few years, increasing from 16.5 per cent in 2016 to 17.1 per cent in 2019 and decreasing to 16.9 per cent in 2020. Nevertheless, it should be noted that the AROP thresholds, also known as the poverty line, for both single person households and households comprising of two adults with two children younger than 14 years, increased by 19.3 per cent over the five-year period under review, reflecting the increase in the average equivalised income[2]. This may exacerbate the AROP rate as the increase in the poverty line alone captures more household below the threshold.

Chart 2.14 also illustrates the pattern of the two other components of the AROPE rate, including severe material and social deprivation (SMSD) and low work intensity (LWI). In 2020, SMSD rate among persons living in households was equal to 5.1 per cent, 0.2 percentage points lower than the rate recorded in 2016. Additionally, when compared to the EU average based on 2019 data, the rate for Malta is 1.6 percentage points lower. With regards to the share of person residing in a household with LWI, this declined from 6.8 per cent in 2016 to 4.2 per cent in 2020. Compared to data as at 2019, the share of person residing in a household with LWI is 3.2 percentage points lower than the rate recorded at EU level.

2.6 Climate Change

2.6.1 Introduction

Especially with the coming into force of the Paris Agreement in 2016 and the European Green Deal, climate change is an aspect of the environment that has been getting more attention, not only among the public but also as a policy priority in both the EU and the national policy agenda.

Under the 2020 package, the EU and its Member States, collectively, were committed to a 20 per cent reduction in greenhouse gas emissions from 1990 levels by 2020. The EU Emissions Trading System (ETS) was the key tool for cutting greenhouse gas emissions from large-scale facilities in the power and industry sectors, as well as the aviation sector. In addition, through the Effort Sharing Decision (ESD), EU countries have taken on a binding annual target until 2020 for cutting emissions stemming from those sectors of the economy that fall outside the scope of the EU ETS, namely emissions from non-ETS industry, housing, agriculture, waste and transport (excluding aviation). Malta has been committed to limit its emissions under the ESD to a 5.0 per cent increase when compared to 2005 levels by 2020. However, Malta was exceeding its annual emission allocation, and thereby resorted to purchasing allowances from another EU country.

In line with the 2030 Climate and Energy Framework, all EU Member States are collectively targeting a cut of at least 40.0 per cent in greenhouse gas emissions with respect to the level registered in 1990. To ensure that all sectors contribute to the achievement of this target, the 40.0 per cent greenhouse gas (GHG) target is implemented by the EU Emissions Trading System, the Effort Sharing Regulation (ESR) (with Member States' emissions reduction targets), and the Land use, land use change and forestry (LULUCF) Regulation. Under the current legislation, as revised by the EU climate law, the EU collective target has been revised to a reduction in the net emissions of 55.0 per cent[3]. For those sectors of the economy that fall outside the scope of the EU Emissions Trading System (EU ETS), Malta has binding annual greenhouse gas emission targets for 2021-2030, expressed as percentage change from 2005 levels up to a 19.0 per cent reduction by 2030. The sectors falling under the ESR include transport, buildings, agriculture, non-ETS industry and waste.

2.6.2 Greenhouse Gas Emissions

This section focuses on emissions of GHG classified by technical processes as recorded in GHG emission inventories submitted to the United Nations Framework Convention on Climate Change (UNFCCC). This GHG emission inventory forms the official data for international climate policy. Data for GHG emissions used in this section include emissions from international aviation and exclude emissions or removals from LULUCF[4].

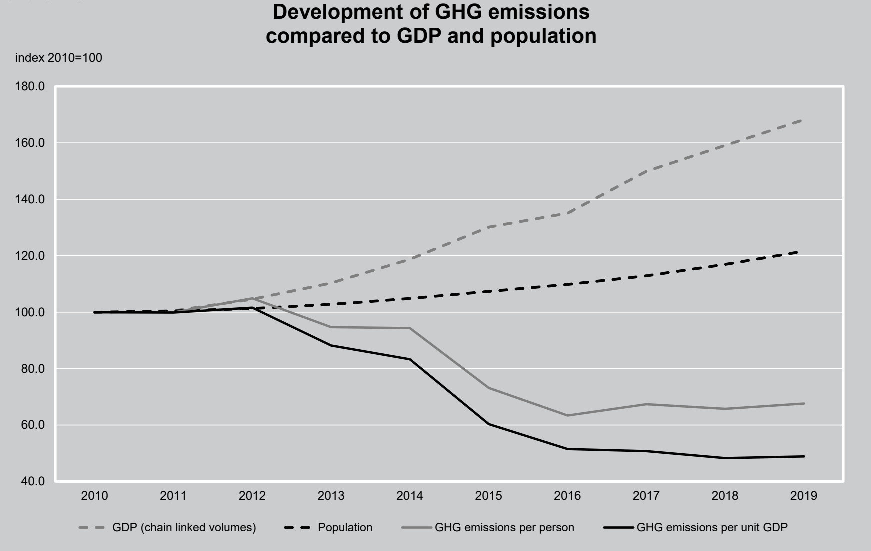
Estimates of all GHG emissions, are produced from a number of sources which are delineated in sectors primarily according to the technological source of emissions, based on a methodology devised by the Intergovernmental Panel on Climate Change (IPCC). The five main emission source sectors include: energy (which also includes transport), industrial processes and product use, agriculture, land use, land use change and forestry and waste management.

In 2019, GHG emissions in Malta were down by 17.8 per cent compared with 2010 levels, representing an absolute reduction of 581 thousand tonnes of CO_2-equivalents. The years 2015 and 2016 saw a sharp drop in emissions as a result of Government's energy reform.

The following analysis of the driving forces behind emissions aims to explain the development in GHG emissions by comparing them with Eurostat statistics offering information on the underlying factors, such as economic activity and human population. The analysis is for a ten-year period up to 2019, the latter being the latest year for which GHG emissions are made available.

Chart 2.15 shows a clear upward trend for Gross Domestic Product (GDP), this being the most general indicator for economic activity, coupled with an upward trend for population. Malta's average total population has been steadily increasing for the last seven years. This means that GHG emissions per capita for Malta are declining more than the total GHG emissions, but with a comparable pattern albeit for the

Chart 2.15



Source: Eurostat

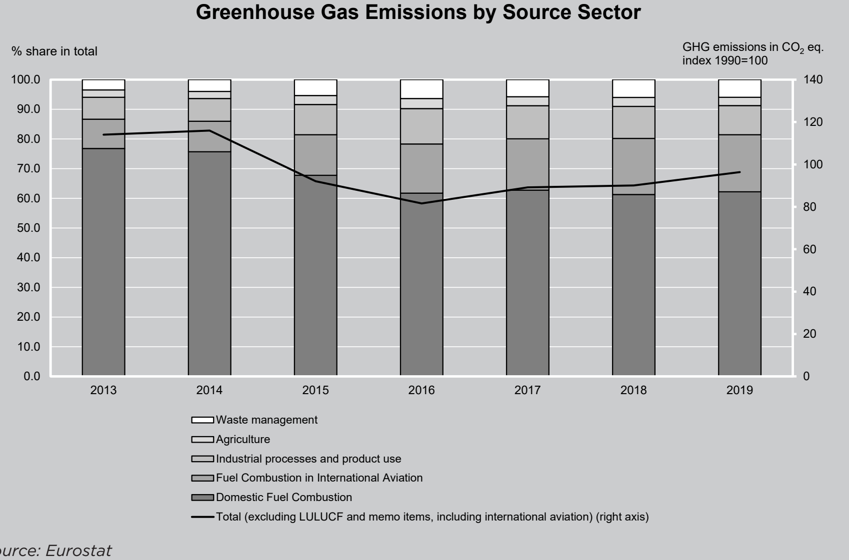
period in which Government invested heavily in the energy sector, as referred to earlier.

While up to 2019, GDP in Malta had been strongly increasing, the overall decreasing trend in GHG emissions suggests a clear divergence, or decoupling, between economic activity and GHG emissions, resulting in a strong downward trend in the GHG emission intensity of economic activity, measured as GHG emissions per unit of GDP. These estimates indicate that while GHG emissions per person decreased by 30.4 per cent over the period between 2009-2019, population increased by 22.2 per cent and GDP measured in volume terms increased by 77.6 per cent over this same period. This implies less GHG emission intense human activity as even with continuous economic growth and increasing population, GHG emissions are being reduced.

To better understand the driving forces behind the reduction in GHG emissions, the next part of the analysis will look in more detail at the source sectors of these GHG emissions for the 6 years over the 2013 and 2019 period, based on the definitions of the IPCC.

Chart 2.16 indicates that in 2019, more than 80 per cent of the GHG emissions are due to fuel combustion. This includes domestic fuel combustion (62.2 per cent) to generate electricity and heat, produce goods, construct buildings and infrastructure, and to move freight

Chart 2.16



Source: Eurostat

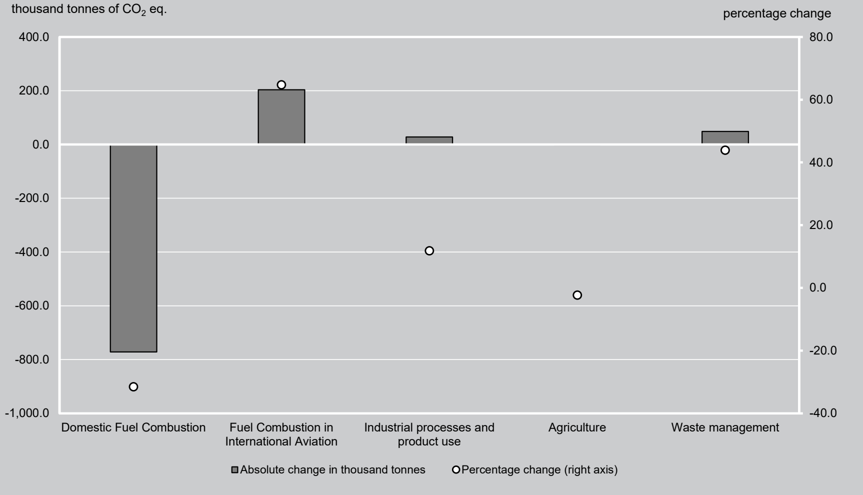
and persons. International aviation contributes to the remaining 19.3 per cent of the total GHG emissions. From a sectoral point of view, the combustion of fuel in transport and energy sectors are the largest contributors to GHG emissions from this source.

The remaining share of total GHG emissions, just under one-fifth, is due to other activities that do not involve fuel combustion. It includes industrial processes and product uses (IPPU) (9.8 per cent), waste management (5.9 per cent) and agricultural activities (2.8 per cent). Emissions from IPPU 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 80.0 per cent of all methane emissions generated in Malta. The rest of the methane emissions are mainly derived from the agriculture sector.

Overall, GHG emissions over the 6-year comparison period have been declining, mainly driven by the largest decrease in emissions from domestic fuel combustion, in both absolute and relative terms. This decline was mainly driven by Government's investments in the energy sector, albeit partially offset from rising emissions from fuel combustion in the domestic transport sector. Chart 2.17 shows that GHG emissions in relative terms have also been declining, albeit one exception; GHG

Chart 2.17

Changes in GHG emissions, by IPCC source sector, from 2013 to 2019



Source: Eurostat

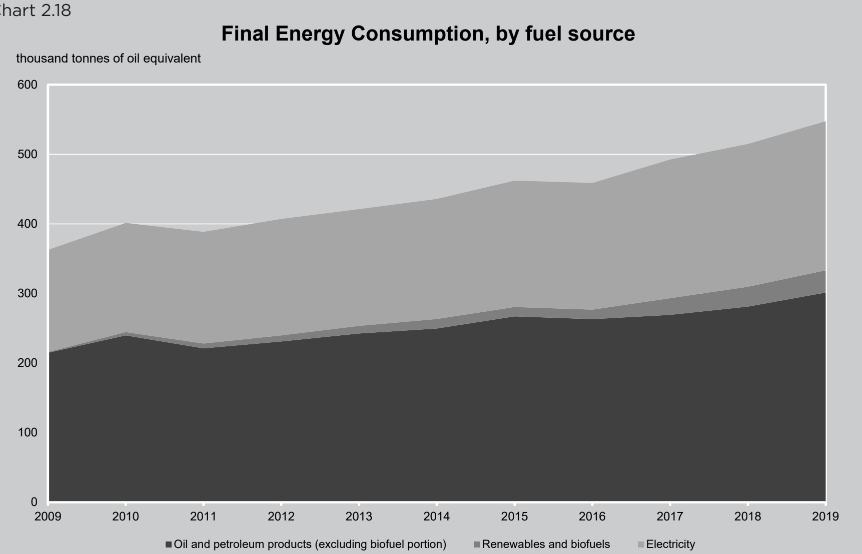
emissions from fuel combustion in international aviation which have increased by 64.7 per cent, equivalent to 204 thousand tonnes in absolute terms, when compared with 2013.

In 2019, Malta had the lowest GHG intensity of total energy consumption across the EU-27 after registering a decrease of 19.3 per cent over a 5-year period (2015-2019). The GHG intensity of energy consumption[5] expresses how many tonnes CO^2 equivalent of energy related GHG emissions are being emitted per unit of energy that is being consumed.

2.6.3 Final Energy Consumption

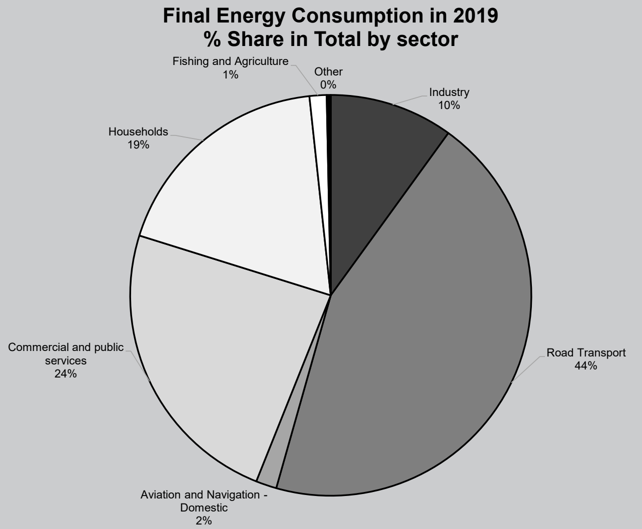
The final energy consumption of Malta, which is the energy which reaches the final consumer's door and excludes that which is used by the energy sector itself, amounted to 547.5 thousand tonnes of oil equivalent (toe) in 2019, 6.4 per cent more than that for the previous year. As depicted in Chart 2.18, oil and petroleum products accounted for the biggest share (55.0 per cent) in the structure of final energy consumption in 2019, followed by electricity (39.2 per cent), and renewables (5.8 per cent). As Government has over the year issued numerous schemes encouraging investment in renewables, namely in PVs, the share of renewable energy sources in final energy consumption increased by 3.2 percentage points in 2019 from 2.6 per cent in 2013. While the share of electricity in the total remained quite stable over

Chart 2.18



Source: Eurostat

Chart 2.19



Source: Eurostat

the 2013 and 2019 period, the share of oil and petroleum products dropped by 2.5 percentage points.

Chart 2.19 shows that a closer analysis of the final end use of energy in Malta in 2019 reveals three dominant categories: the road transport (44.4 per cent), the commercial and public services (23.8 per cent) and households (18.5 per cent). In 2019, the road transport sector is not only the largest end-user of final energy consumption but has also contributed to the largest increase in final energy consumption, which sector increased its consumption by 11.6 per cent to 243 thousand tonnes. Households registered an increase of 8.5 per cent in their final end use of energy.

Footnotes:

[1] The AROPE indicator for the EU 2030 target is made up of three components: at-risk-of-poverty (AROP) rate, severe material and social deprivation (SMSD) and low work intensity (LWI). The definition of this indictor is slightly different than the indicator used for the EU 2020 strategy. The SMSD indicator replaced the severe material deprivation (SMD) indicator whereby it now captures the proportion of the population experiencing an enforced lack of at least 7 out of 13 material and social deprivation items. The other difference relates to the extension of the age bracket of the LWI indicator from 0 to 59 years to 0 to 64 years. Further detail: Glossary:At risk of poverty or social exclusion (AROPE) - Statistics Explained (europa.eu).

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

[3] The revisions and initiatives linked to the European Green Deal climate actions and in particular the climate target plan of a 55 per cent net reduction target are presented under the Fit-for-55 package. These three pieces of climate legislation, among others will be updated with a view to implement increased ambition as set out by the European Green Deal.

[4] Estimated emissions from international aviation are officially reported as a memo item in the GHG inventories.

[5] 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

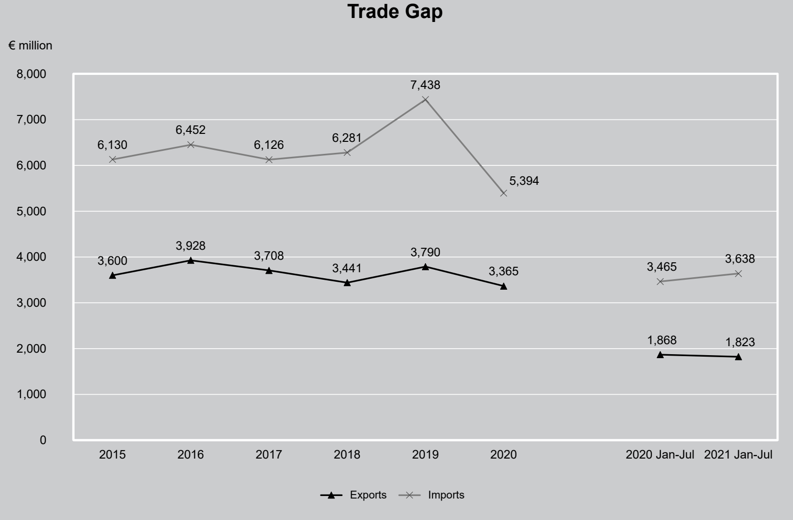
3. International Trade and the Balance of Payments

3.1 International Trade

International trade statistics are utilised to capture the movement of trade between Malta and the rest of the world. The nature of Malta's economy means that Malta is heavily reliant on imported goods. In 2020, total imports and exports for the year accounted to €5,394.4 million and €3,365 million respectively, representing overall 27.5 and 11.2 per cent decreases relative to the 2019 figures (see Chart 3.1). In 2019, Malta experienced major increases in imports, including machinery and transport equipment which subsequently fell in 2020. In 2020, Malta registered an overall contraction of the trade deficit by 44.4 per cent amounting to €2,029.4 million.

From January to July 2021, exports declined further by €45.7 million while imports for the same period increased by €172.8 million when compared to the same period in 2020. As a result, the trade gap increased by €218.5 million. It is pertinent to note that the effect of the pandemic on trade in 2020 was predominantly evident from the second quarter of the year such that the drop observed in the first half of this year reflects the continued effect of the pandemic.

Chart 3.1



Source: National Statistics Office

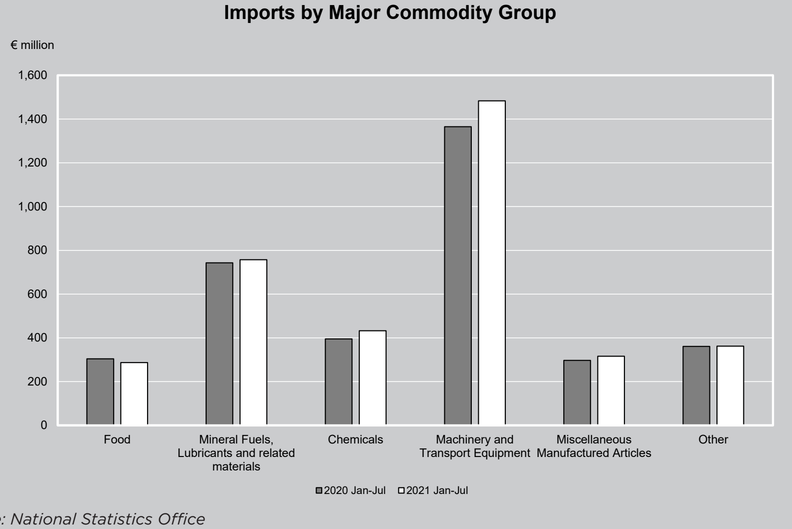
The trade deficit, exluding specific chapters[1] contracted by 13.7 per cent, reaching a value of €669.0 million.

3.1.1 Imports

Imported goods for the period January to July 2021 increased by 5.0 per cent to the amount of €3,638.3 million when compared to the same period in 2020. Food and beverage imports decreased by €7.3 million while durable goods imports increased by €4.2 million. Other types of imports showed a slight decline of €4.6 million. As observed in Chart 3.2, the importation of machinery and transport equipment made up a considerable share of total imports in 2021 (40.8 per cent). Most notably, the importation of ships, boats and floating structures rose by 42.8 per cent, contributing to the increase in machinery and transport equipment. This increase is due to the importation of ferry boats as well as an increase in yacht registrations. The importation of chemicals, miscellaneous manufactured articles and mineral fuels, lubricants and related materials also experienced an increase of 9.5, 6.4 and 1.9 per cent respectively. Although import levels remain considerably less than pre-pandemic levels, it should be noted that these are marginally higher than observed in 2020, with the exception of food importation which is still on the decline.

Imports from the European Union (EU) reached €2,002.4 million by July 2021, which is equivalent to 55.0 per cent of total imports for that

Chart 3.2



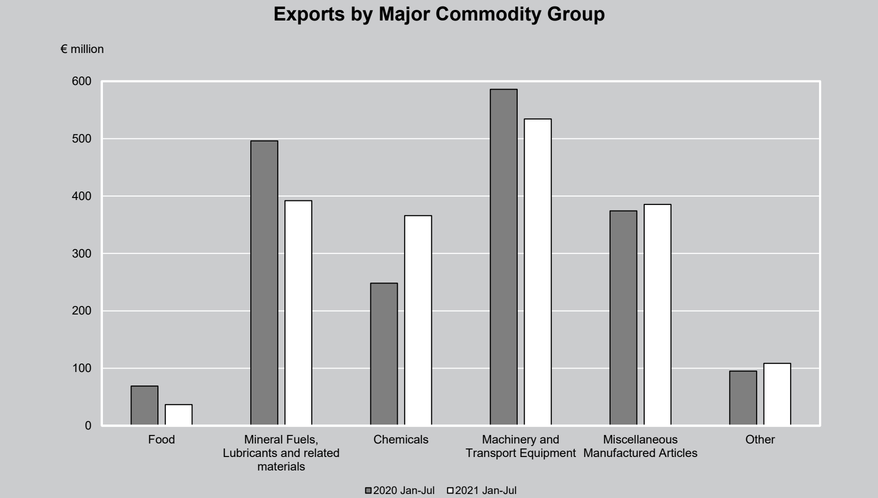
Source: National Statistics Office

period. Imports from the Euro Area specifically increased by €154.4 million (9.0 per cent) relative to the same period of January to July in 2020. Italian imports dominated over other Euro Area imports with a value of €658.3 million while maintaining overall stability with the previous year. Imports from Ireland experienced a significant increase of €125.4 million possibly as some trade was diverted there from the UK following Brexit, while imports from Germany exhibited a decline of €27.2 million (13.0 per cent) when compared to 2020 figures.

3.1.2 Exports

Standing at €1,822.6 million as at July 2021, exports declined by 2.4 per cent when compared to the same period in 2020. The exportation of chemicals showed the greatest increase of 47.4 per cent as the exportation of medicines and fuel additives also established significant increases when compared to previous years. Food exports, namely tuna exports, declined by 46.8 per cent relative to 2020 figures. Furthermore, the exportation of mineral fuels, lubricants, and related materials as well as that relating to machinery and transport equipment decreased by €104.2 million (21.0 per cent) and €51.6 million (8.8 per cent) respectively (see Chart 3.3). It is worth noting how exports relating to Aircraft/Spacecraft and Parts Thereof, decreased by 51.5 per cent.

Chart 3.3



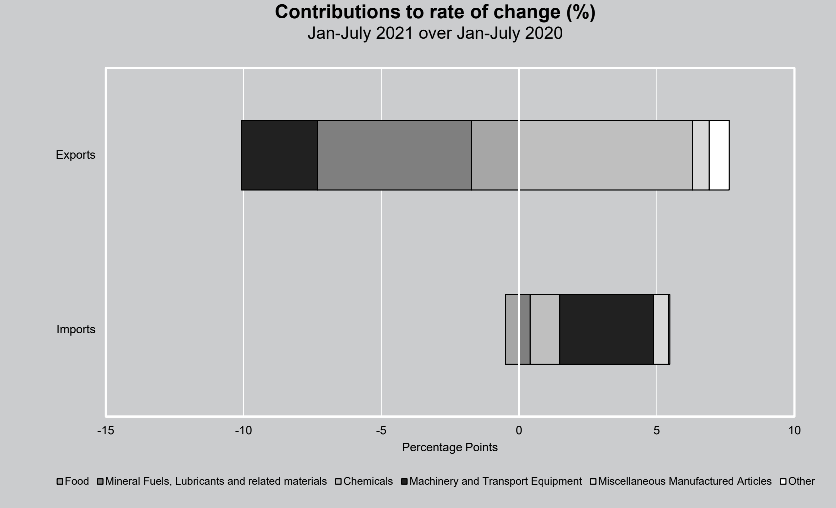
Source: National Statistics Office

Exports from the EU amounted to 43.9 per cent of total exports, reaching €800.7 million as at July 2021. Euro Area exports decreased by a marginal 1.7 per cent, equivalent to €10.8 million relative to the same period in 2020. Most exports made their way to Germany (€219.2 million) although the same country also experienced the greatest decline in exports relative to 2020 figures (23.6 per cent). Contrastingly, Italy observed the greatest increase in exports with a €41.9 million (49.1 per cent) increase.

3.1.3 Trade Balance

Malta has maintained a historical trade deficit averaging 23.6 per cent of Gross Domestic Product (GDP) at current market prices over the past six years. As of July 2021, the trade gap for Malta further increased by €218.5 million (13.7 per cent) relative to July 2020. More specifically, the increase in the trade gap reflected a 5.0 per cent increase in total imports and a 2.4 per cent decrease in exports (see Chart 3.4). The expansion of the trade deficit can be mainly attributed to the combined increase in imports and decrease in exports of machinery and transport equipment, which together contribute to 77.5 per cent of the enlargement of the trade gap. Additionally, mineral fuels, lubricants and related materials contributed to the expansion of the trade balance by a further 54.1 per cent.

Chart 3.4



Source: National Statistics Office and own calculations

Consistent with previous years, Malta registered most of its trade deficit with EU countries (66.2 per cent), most notably with Italy, Ireland and Spain. From January to July 2021, Italy observed an improvement in the balance of trade by €42.5 million when compared to the same period in 2020. Furthermore, Malta's trade deficit with Ireland increased by an additional €118.0 million to €161.5 million. The Trade deficit with Spain also increased by €57.6 million.

3.2 Balance of Payments

The balance of payments (BOP) is an accounting system that summarises transactions between residents and non-residents of a country during a specific period. The BOP comprises three main accounts:

1. The Current Account: records international trade in goods and services, income payments and receipts between residents and non-residents, and current transfers between residents and non-residents.
2. The Capital Account: records transfers of tangible assets (e.g., machinery) between Malta and the rest of the world, and the acquisition and disposal of non-produced non-financial asset (e.g., contracts and leases).
3. The Financial Account: records flows relating to financial assets and liabilities.

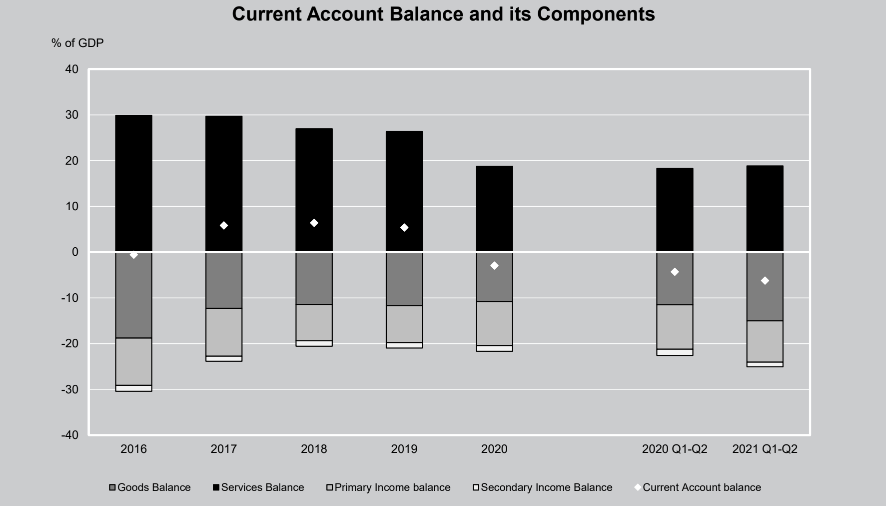
The BOP and the Net International Investment Position (described in Section 3.3) are prepared in accordance with the International Monetary Fund (IMF) Balance of Payments Manual of 2006 (BPM6).

3.2.1 Current Account

Chart 3.5 shows the main trends underlying the components of the Maltese current account. Except for the year 2016, Malta continued to show a current account surplus until 2019. This was primarily attributable to a strong net export position in services, highlighting Malta's growing competitiveness in services on the international market.

The restrictions related to the containment of the COVID-19 virus adversely impacted global value chains, international trade, and tourism activity. As a result, in 2020 and in the first half of 2021, Malta ran a current account deficit, as the net export balance of services substantially declined to the extent that it could not offset the net import balance of goods and the net payments balance of the primary income account. In the second half of 2021, the deficit on the current account as a percentage of GDP increased by 1.9 percentage points

Chart 3.5



Source: National Statistics Office

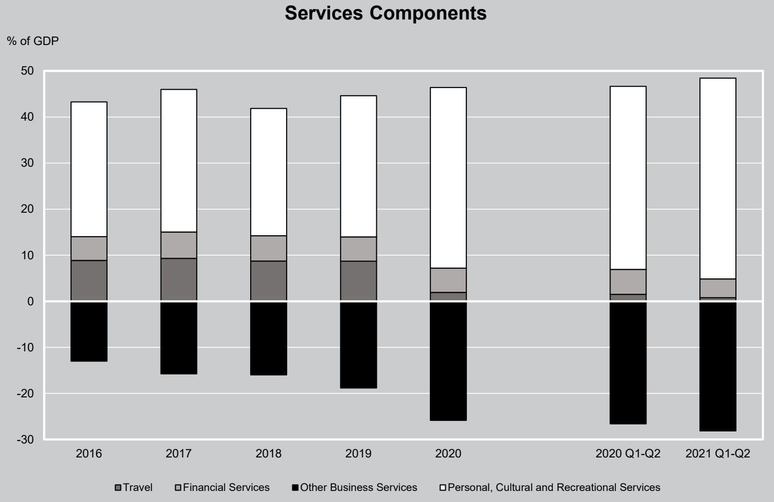
over the corresponding period of 2020, amounting to 6.2 per cent. This suggests that the economic consequences of the COVID-19 pandemic on trade are still noticeably present.

3.2.1.1 Goods and Services

The goods and services account within the current account shows the balance between the values of exports and imports of goods and services. As shown in Chart 3.5, the goods balance has been in a net import balance position over time; this is as expected due to Malta's dependency on imports. In contrast, the services sector has continued to record a strong net export position over time, owing to an increasingly service-oriented economy, largely supported by personal, cultural, and recreational services, financial services, and travel services (i.e., tourism). On the other hand, other business services, which include imports and exports of professional and legal services, have consistently recorded a large net import figure, reflecting an upward trend in imports and lower exports. Chart 3.6 illustrates the evolution of the services components over time.

During the first half of 2021, the services balance as a percentage of GDP recorded a 0.6 percentage points increase over the corresponding period of last year. This largely reflected a 3.8 percentage point increase in net exports of personal, cultural, and recreational services, owing to a substantial increase in exports. This increase was partially offset

Chart 3.6



Source: National Statistics Office

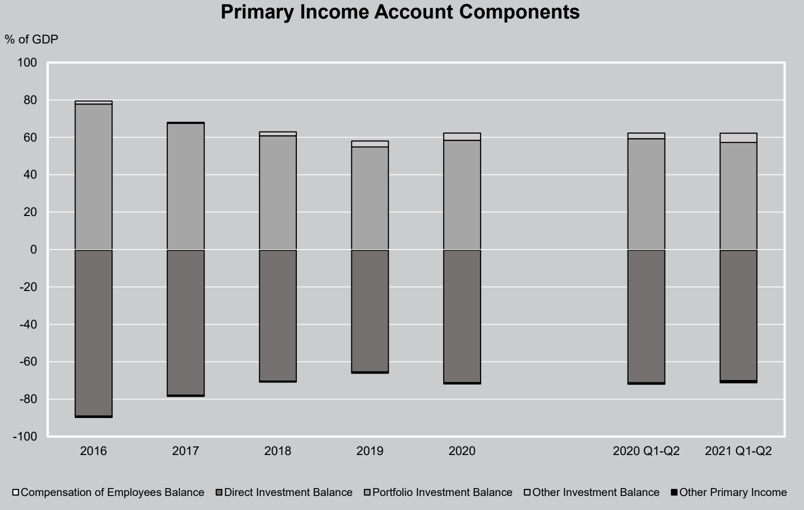
by an increase in the net import figure of other business services, reflecting a 4.6 per cent increase in imports and a 4.3 per cent decline in exports over the first half of 2020. In contrast, travel restrictions further contracted the surplus on travel services, whose net export position dropped from 1.5 per cent of GDP in the first half of 2020 to 0.8 per cent of GDP in the first half of 2021. Recent tourism numbers, however, would suggest that a stronger recovery was underway in the summer months of 2021. Lastly, financial services also recorded a narrowing of their surplus position.

3.2.1.2 Primary Income Account

The primary income account within the current account records income flows between residents and non-residents emanating from compensation of employees, investment income, and other primary income (rent, taxes on production and imports, and subsidies). The largest component of Malta's primary income account is investment income. This has consistently been in a net payments position over time, largely driven by substantial inward foreign direct investment (FDI) which generates profits accrued to foreigners and hence recorded as an outflow in the income account. Chart 3.7 shows the recent developments within the primary income account.

When comparing the first half of 2021 with the first half of 2020, the primary income balance as a per cent of GDP recorded a 0.7 percentage

Chart 3.7



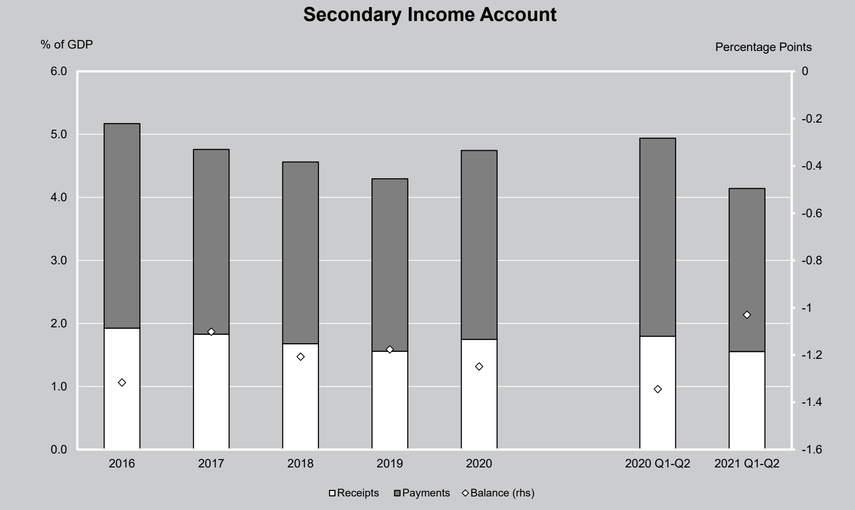
Source: National Statistics Office

points decrease in its net payments position. This mostly reflected a 1.2 percentage points decline in direct investment net payments, which was largely the result of an increase in receivables. While other investment income as a per cent of GDP recorded a 1.9 percentage point increase in net receivables, this was offset by a 2.0 percentage points decline as a percentage of GDP in portfolio investment net receivables. Over the same period, compensation of employees and other primary income – the smallest components of Malta's primary income account – recorded an increase in their net payment balances.

3.2.1.3 Secondary Income Account

The secondary income account records non-productive transfers between residents and non-residents, including personal transfers, taxes on income and wealth, and social benefits and contributions. Chart 3.8 illustrates the recent developments pertaining to this account. In the case of Malta, the secondary income account represents the smallest account within the current account. Over the past years, the secondary income account has registered a net payments figure, as payments abroad outweighed inward receipts. Over the January to June period of this year, net payments decreased by 0.3 percentage points over the first half of 2020.

Chart 3.8



Source: National Statistics Office

3.2.2 Capital Account

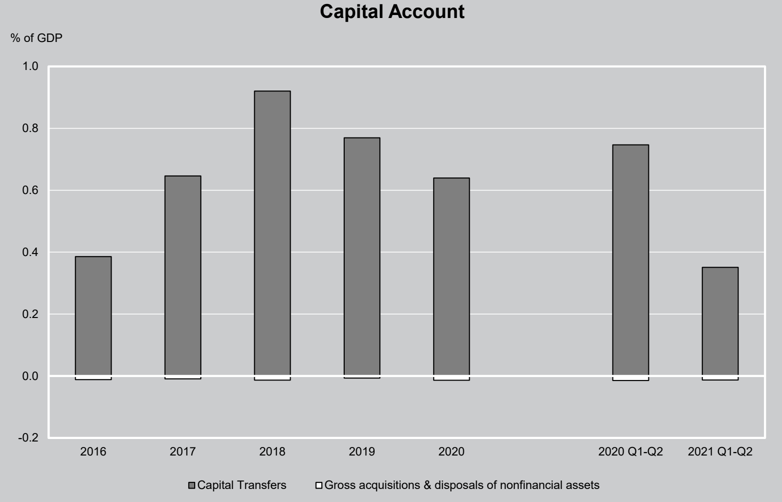
The capital account records capital transfers (debt forgiveness and assumption, extraordinary claims associated with non-life insurance, and investment grants) between Malta and the rest of the world, and acquisitions and disposals of non-produced, non-financial assets between residents and non-residents (contracts, leases, licenses, marketing assets and natural resources). Chart 3.9 shows that Malta's capital account has been in a net export position over time, with outward capital transfers outweighing inward transfers.

3.2.3 Financial Account

The financial account records the inflows and outflows of financial assets and liabilities, including the investment categories within the primary income account (which includes direct investment, portfolio investment, and other investment and financial derivatives).

Up until 2019, the financial account consistently registered a net lending position, owing to net lending positions in portfolio investment and other investment. However, in 2020, as the current account turned into deficit territory, the financial account recorded a reversal from a net outflow position of €44.3 million in 2019 to a net inflow position of €313.4 million in 2020, largely reflecting a substantial decline in the other investment net balance. Liabilities (including errors and

Chart 3.9



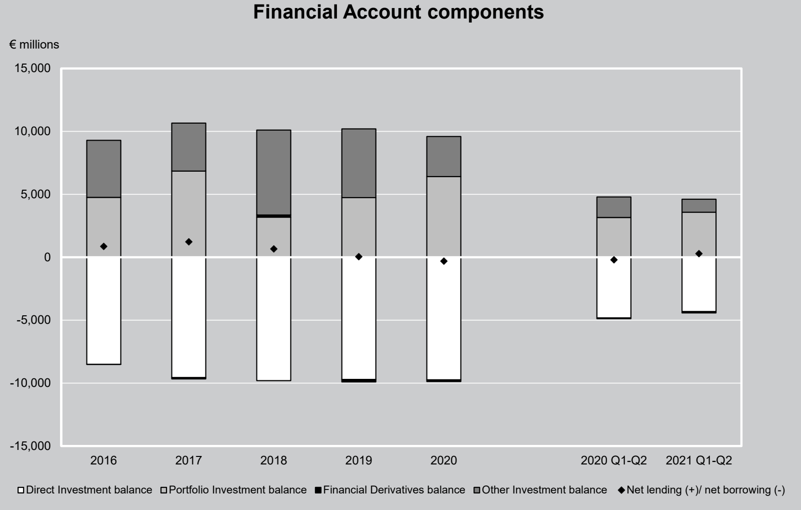
Source: National Statistics Office

omissions) increased by €3.6 billion, financing the increase in assets of €3.4 billion and the current account deficit of €0.3 billion.

Direct investment, which is the largest component within the financial account, has recorded year-on-year increases in net borrowing over the past few years, reflecting the increased reliance of the Maltese economy on inward FDI. On the other hand, the portfolio investment balance has recorded yearly increases in net lending over the recent years. While net acquisitions of portfolio investment assets have been increasing, portfolio investment liabilities have been too small - albeit, increasing - to materially impact the portfolio investment balance. Financial derivatives represent only a small fraction of the financial account. Both net acquisition of financial derivatives assets and net incurrence of financial derivatives liabilities have been fluctuating over the past years, reflecting the volatile nature of these types of financial instruments. The other investment balance includes currencies and deposits, loans, trade credits and other accounts receivable/ payable which are not classified under the other categories. The other investment balance has consistently recorded year-on-year increases in net lending over the past few years, reflecting increases in assets and decreases in liabilities.

When comparing the first half of 2021 to the first half of 2020, the financial account shifted from a net borrowing position of €211.0 million

Chart 3.10



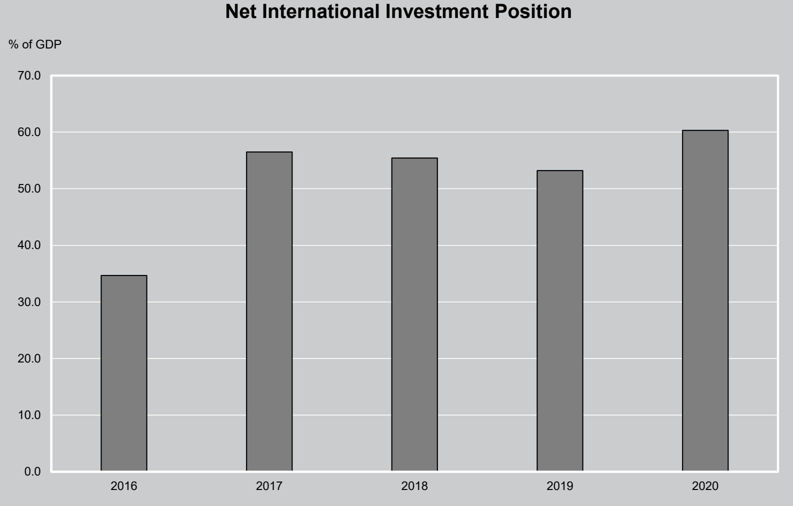
Source: National Statistics Office

to a net lending position of €286.0 million. In the first half of 2021, an increase of €1.0 billion in other investment liabilities was registered, reversing the trend decreases in other investment liabilities observed in the last few years. The increase was mainly in the form of loans and trade credits. Direct investment liabilities also increased by €1.9 billion. In total, inclusive of errors and omissions, liabilities in the first half of 2021 increased by €4.0 billion. These financed the current account deficit of €0.4 billion and the increase in assets of €3.5 billion. The acquisition of assets was mainly composed of equity funds (+€3.5 billion) under Portfolio Investments and an increase in currency and deposits (+€1.1 billion), loans (+€0.4 billion) and trade credits (+€0.3 billion). On the other hand, Direct Investment Assets declined by €2.4 billion, primarily reflecting a drop in debt holdings.

3.3 International Investment Position

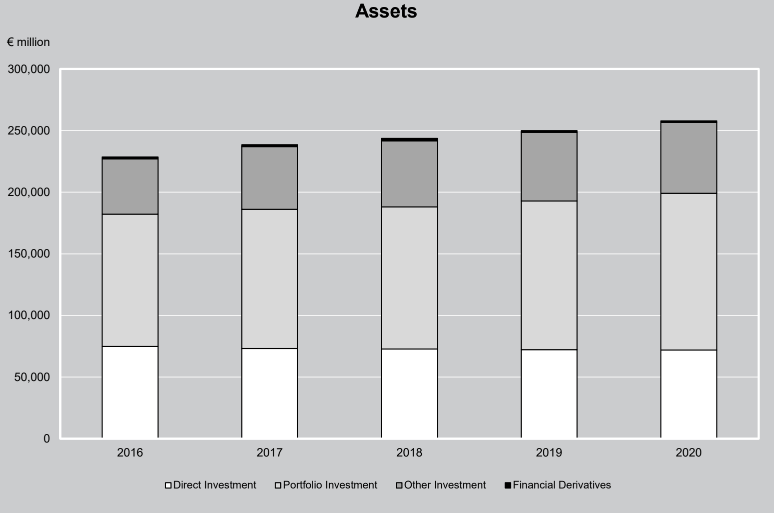
The Net International Investment Position (NIIP) shows the stock of financial assets and liabilities at a point in time. The NIIP has the same structure as the financial account, including the same functional categories and the same instruments. Chart 3.11 depicts the developments of Malta's NIIP at the end of each year, which has consistently registered a net lending position over time. The NIIP was quite stable between 2017 and 2019, averaging at 55.0 per cent of

Chart 3.11



Source: National Statistics Office

Chart 3.12



Source: National Statistics Office

GDP. In 2020, the NIIP recorded a considerable increase, reaching 60.3 per cent of GDP, reflecting an increase in assets that outweighed the increase in liabilities. This contrasts with the flows recorded in the balance of payments where liabilities increased in excess of assets, suggesting that revaluation effects are behind this improvement in the NIIP.

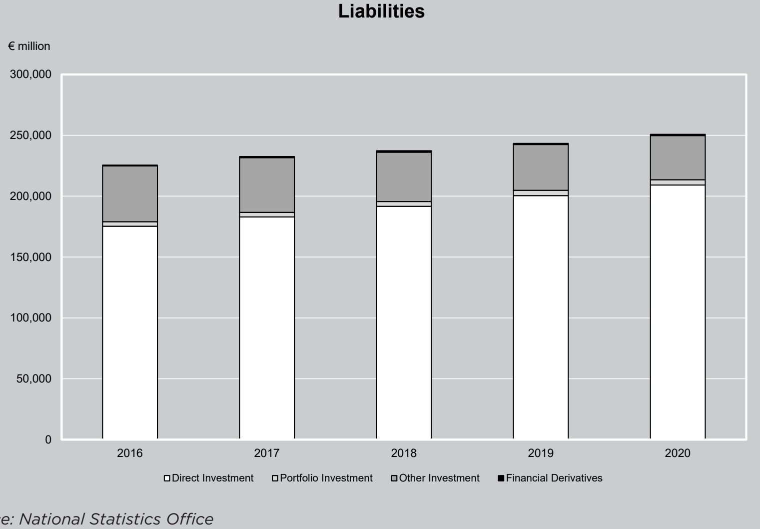
3.3.1 Assets

Chart 3.12 shows the evolution of assets within the NIIP as at year end. The chart shows that portfolio investment is the largest asset component. While portfolio investment assets and other investment assets have been exhibiting an upward trend, direct investment assets – the second largest asset component - has been declining over time. Financial derivatives assets only represent a small portion of the NIIP; these have been fluctuating over time.

3.3.2 Liabilities

Chart 3.13 shows the composition of liabilities within the NIIP. A considerable and increasing part of foreign liabilities are in the form of direct investment. This is followed by other investments, which have been declining over time.

Chart 3.13



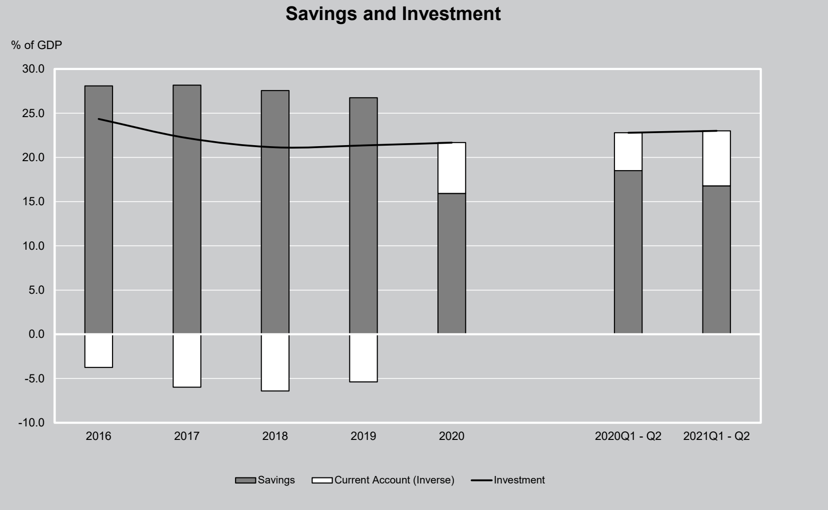
Source: National Statistics Office

3.4 Savings and Investment

During the period starting from 2016 up to 2019, Malta registered a current account surplus, indicating that Maltese domestic savings were more than sufficient to finance domestic investment. The resultant net lending position suggests strong external economic performance for Malta, in which the surplus savings is a source of accumulation of net foreign assets.

The COVID-19 pandemic has disrupted Malta's external economic environment, with the current account surplus turning into a deficit as seen in Chart 3.14. This means that domestic savings were not enough to finance domestic investment, increasing external borrowing and debt. The surplus turned into a deficit due to a significant drop in domestic savings because of the global pandemic. Companies registered losses due to the COVID-19 restrictions to contain the pandemic, forcing them to draw from past savings to sustain their investments. These losses were partly mitigated by higher Government spending through fiscal policy measures. When comparing the first half of 2020 with that of 2021, Malta registered an increase in the current account deficit, with public investment remaining unchanged and a slight rise in private investment of about 0.2 percentage points. A decrease in domestic savings was also recorded at 1.7 percentage points.

Chart 3.14



Source: National Statistics Office and Economic Policy Department

3.5 Exchange Rate Developments

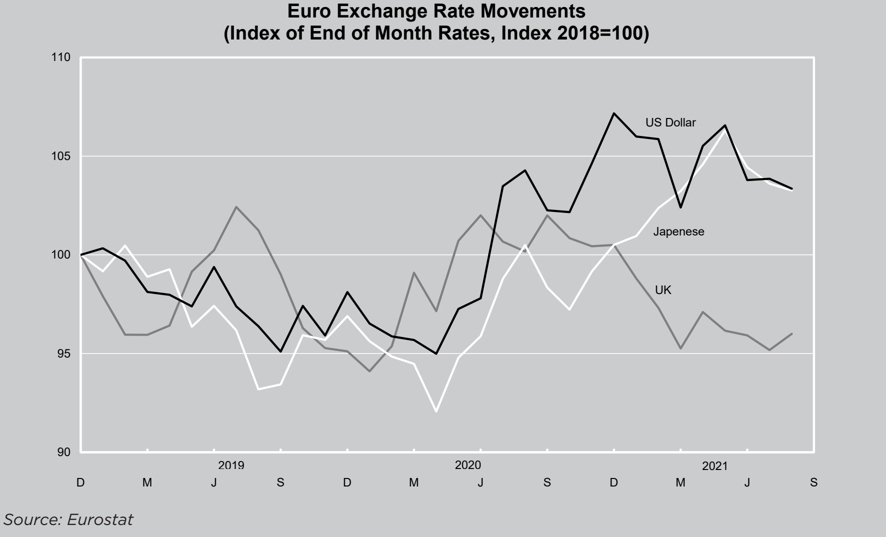
An economy's exchange rate influences price competitiveness, effective returns on capital, and international trade flows. Analysis of movements in exchange rates are crucial in understanding how the world economy works, especially due to their influence on real economic activity.

3.5.1 Euro exchange rate movements

Chart 3.15 shows recent developments in three major currencies, namely, the US Dollar, UK Sterling, and the Japanese Yen against the Euro. From December 2019 till the end of April 2020, the Euro temporarily lost value against the US Dollar by 5.3 per cent, reaching a low value of $1.07. Throughout the rest of the year, a sharp appreciation of 12.8 per cent in the Euro to US Dollar followed, ending the year 2020 at a value of $1.23.

In January 2021, the Euro was trading slightly below the 10-year average of $1.22. By the end of March 2021, the Euro further declined by 3.3 per cent, reaching a value of $1.17. Weakness in the formerly robust Euro is tied to Europe's struggles with the pandemic weighing in on economic growth expectations. This is particularly due to struggles with rolling out the COVID-19 vaccines, the rise in infections, and the new and extended business restrictions in several countries. This drop was temporary, as a sharp increase of 4.1 per cent was immediately

Chart 3.15



Source: Eurostat

recorded in the subsequent two months, reaching January’s trading value. However, during the second half of 2021, the Euro-US Dollar exchange rate fell once again to $1.18 and remained stable at this rate, until the end of the third quarter of 2021.

During the first half of 2019, the Euro strengthened against the UK Sterling, but depreciated for the second half of the year. At the beginning of 2020, the Euro traded at a low rate of £0.84. For the first half of 2020, the Euro weakened and in the worst recorded days the Euro-Sterling exchange rate fell to a multi-year low level of £0.83 due to shocks caused by the COVID-19 pandemic. From June to August 2020, the Euro slightly declined in value by 1.8 per cent and experienced a sharp increase in the consecutive month, trading at £0.91. However, this temporary increase was followed by a slight drop in October, reaching a stable rate of £0.89 till the end of 2020. In the first quarter of 2021, the Euro experienced weakness as the exchange rate fell by 5.2 per cent, reaching a value of £0.85. However, in April 2021, the Euro surged by 1.9 per cent reaching a value of £0.89 despite the slight depreciation in subsequent months, at the back of receiding political risks and economic optimism backed by positive growth forecasts and the easing of the global lockdown, the exchange rate remained stable till the end of August, hovering around £0.86.

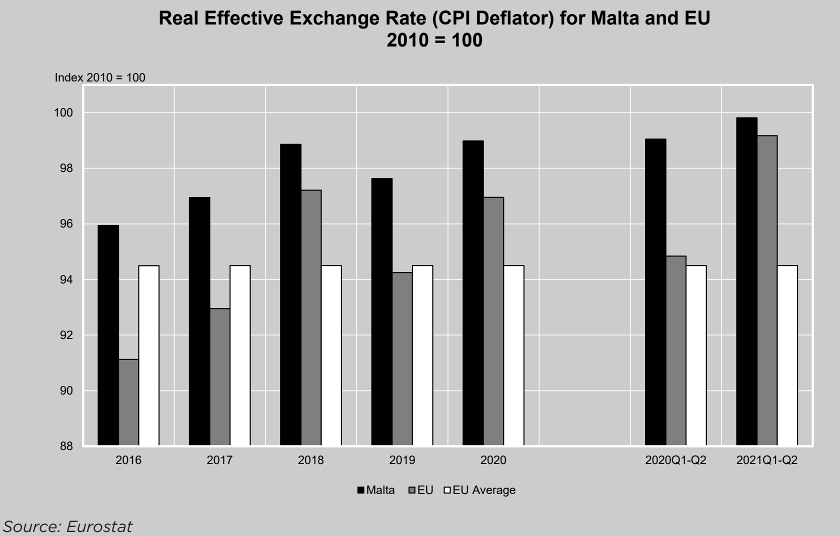
The value of the Euro against the Japanese Yen was relatively stable from the end of 2018 throughout the first quarter of 2019, depreciating during the subsequent four months, and gaining back its position by the end of 2019. From the end of 2019, including the first quarter of 2020, the Euro grew weaker against the Yen, reaching a low value of JPY 115.87. This significant fall in the value of the Euro was caused by a magnitude of uncertainties surrounding the COVID-19 pandemic as investors gravitated towards the Japanese Yen due to the reliable nature of the currency. Throughout the rest of 2020, the Euro experienced a long-term growth rate of 9.2 per cent and by August 2020, the Euro strengthened against the Japanese Yen due to a fall in the Japanese stock market reflecting the resignation of the Japanese Prime Minister. Doubts were raised as to whether the Yen will continue to weaken and whether the loose monetary policy will continue to be pursued.

Appreciation of the Euro was consistent throughout 2021, trading at an average of JPY 130.37. During May 2021, the Euro recorded a three-year high value of JPY 133.79, well above the ten-year average of JPY 123.75. A slight decrease in value was subsequently recorded from May 2021 till the end of August 2021, reaching a trading value of JPY 129.95 due to concerns regarding a rise in infections over this same period.

3.5.2 Real Effective Exchange Rate

The Real Effective Exchange Rate (REER) is a summary measure of the changes in the exchange rates of a country vis-à-vis its trading partners, considering variations in relative prices. Chart 3.16 depicts changes in the REER for Malta with respect to 42 trading partners using the Consumer Price Index (CPI) as a deflator, together with the REER of the EU27. Overall, the figures for Malta seem quite stable, inferring that the COVID-19 pandemic did not significantly impact external competitivity in terms of exchange rates. From 2016 till 2018, the REER for Malta has steadily appreciated, declined in 2019 and appreciated once again in 2020, reaching an indexed value of 98.99, suggesting some slight competitiveness losses over the period. This increase is correspondent to a decrease in the highly influential Euro-Sterling exchange rate over the same period. When comparing the first quarter of 2021 with the corresponding period of 2020, the REER slightly increased from an indexed value of 99.05 to 99.81. From 2016 onwards, Malta's REER was above that of the EU. This was particularly true in 2016 and 2017 until the EU REER caught up with Malta's REER. Over the last two years, Malta's external competitiveness seemed to maintain its stability, at least over the first half of 2021 when compared to the same period in 2020. This contrasted the EU's CPI based REER which experienced a sudden spike of around 4.3 basis points, signalling some competitiveness losses in the process.

Chart 3.16

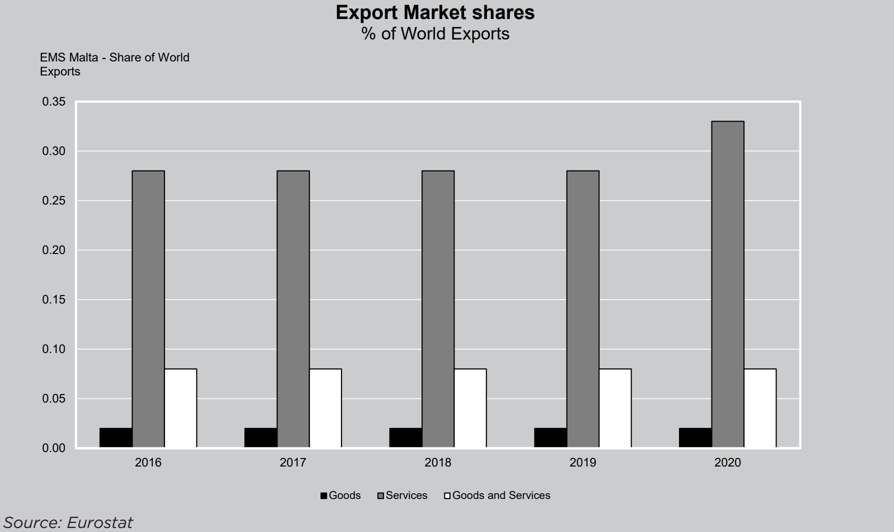


Source: Eurostat

3.5.3 Export Market Shares

The export market share indicator provides insights on the total exports of a country compared to the total exports of a region; in this case compared to the rest of the world. This indicator provides a measure of the degree of importance of a country within the total exports of the world. This indicator provides additional information on Malta's overall performance, given that the REER does not capture the prominent services trade sector. Trade developments can also occur as a result of non-cost competitive elements which are not captured by effective exchange rates. Chart 3.17 shows the evolution of the export market share of Malta, for goods and services. As can be seen from the graph, the export market share for goods has been at a stable rate of 0.02 per cent for the entire period. The export market share of services increased from 2015 to 2016 by 1.0 percentage point and remained at a stable rate of 0.28 per cent thereafter. Between 2019 and 2020, the export market share increased from 0.28 to 0.33 per cent, indicating improvements in Malta's external competitiveness. Overall, however, export market shares for goods and services remained stable at 0.08 per cent during the last six years.

Chart 3.17



Source: Eurostat

Footnote:

[1] Data excluding chapters 27 (Mineral Fuels, Oils and Lubricants), 88 (Aircraft/ Spacecrafts and Parts thereof) and 89 (Ships, Boats and Floating Structures).

4. Monetary Developments

4. Monetary Developments

The Maltese Monetary Financial Institutions' (MFIs) contribution towards the stock of Euro Area Broad Money (M3) increased during the period January to July 2021. This development was mainly driven by increases in overnight deposits. The negative contribution towards M3 of deposits with an agreed maturity of up to two years was negligible, while the contribution of deposits redeemable at notice up to three months was positive. The credit counterpart was the main driver of M3 growth. An increase in net claims on non-residents of the Euro Area had a negligible contribution, while the decline in the other counterparts' component contributed positively. In view of the persistent and prolonged low interest rate environment, depositors continued to be more inclined to hold highly liquid short-term deposits.

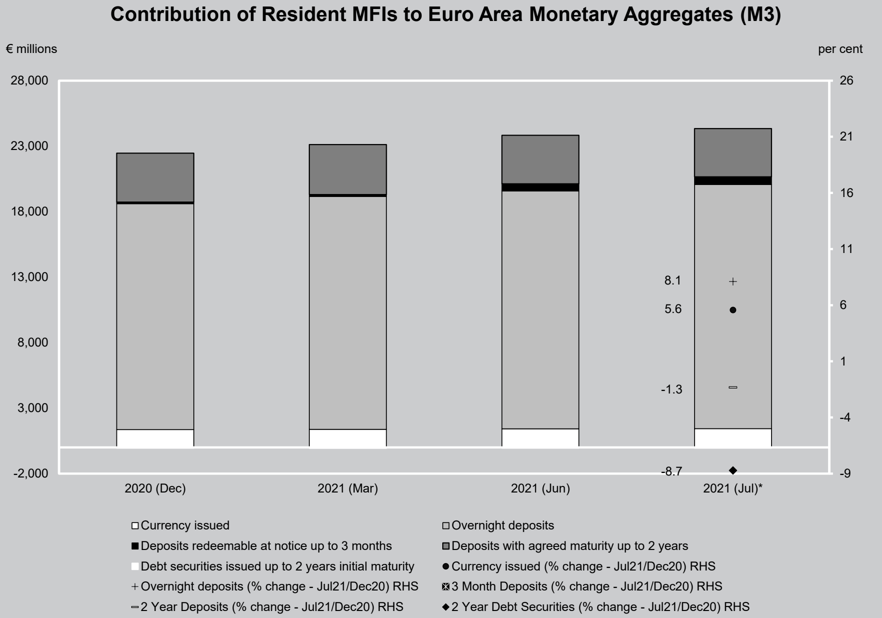
4.1 Contribution of Resident MFIs to Euro Area Monetary Aggregates[1]

During the first seven months of 2021, the contribution of Maltese resident MFIs to total monetary aggregates (M3)[2] of the Euro Area increased by 8.4 per cent, reaching €24,284.8 million compared to €22,411.3 million registered in December 2020. Such growth resulted mainly from increases in both overnight deposits[3] and deposits redeemable at notice up to three months, which outweighed a decrease in deposits with an agreed maturity date of up to two years. At the same time, a decline of 8.7 per cent was recorded in debt securities issued up to two years initial maturity. Chart 4.1 illustrates the main developments for these monetary indicators. The figures reflect the continued inclination towards maintaining highly short-term liquid money balances in the form of cash.

Between January and July 2021, narrow money (M1) reached €20,074.6 million, reflecting an increase of 7.9 per cent when compared to its level of €18,601.6 million registered in December 2020. Driving this development was an 8.1 per cent increase in overnight deposits, which reached a level of €18,643.1 million, in July 2021. Maltese residents' deposits were the main contributors to the growth in total overnight deposits, while an increase in deposits from other Euro Area residents was also registered. Furthermore, currency issued[4] increased by 5.6 per cent, reaching €1,431.5 million, during the same review period. Currency issued contribution to M1 was negligible, due to its share.

During the review period, deposits redeemable at notice up to three months increased significantly by 373.9 per cent, when compared to

Chart 4.1



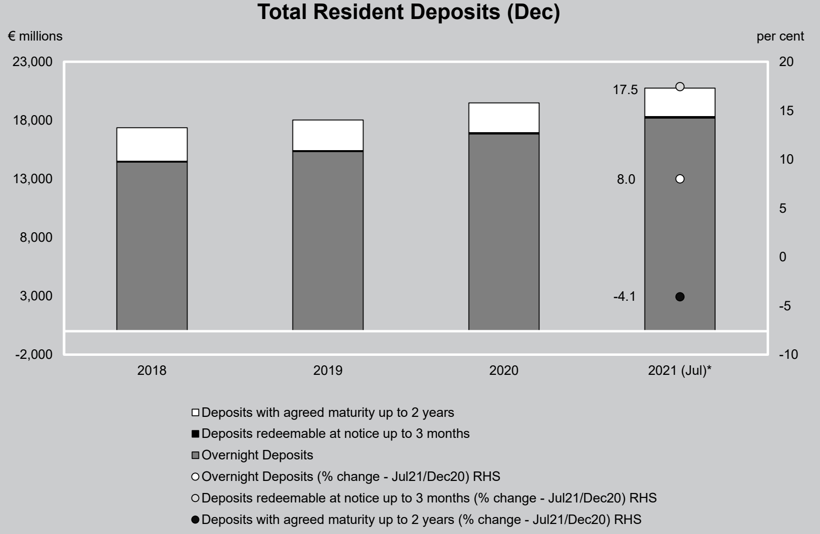
** provisional*

Source: Central Bank of Malta

their level of €121.6 million in December 2020, as €576.1 million were recorded in July 2021. Such developments were mainly driven by a significant growth in three-month deposits from other Euro Area residents, compared to three-month deposits from Maltese residents which increased by 17.5 per cent. During the period under review, the significant increase in the statistics on deposits redeemable at notice up to three months is attributed to funds placed by non-resident financial institutions with a credit institution which transacts predominantly with non-residents. This further explains the positive contribution towards M2 of deposits from other Euro Area residents, vis-à-vis the negligible contribution of the Maltese residents' short-term deposits. On the other hand, deposits with an agreed maturity of up to two years decreased by 1.3 per cent, as €3,692.2 million were recorded in July 2021.

During the period January to July 2021, total resident deposits increased by 6.5 per cent, when compared to December 2020, reaching €20,752.7 million. This was mainly driven by the positive contribution stemming from overnight deposits[5] which increased by 8.0 per cent, albeit during the same period, deposits redeemable at notice up to three months

Chart 4.2



** provisional*

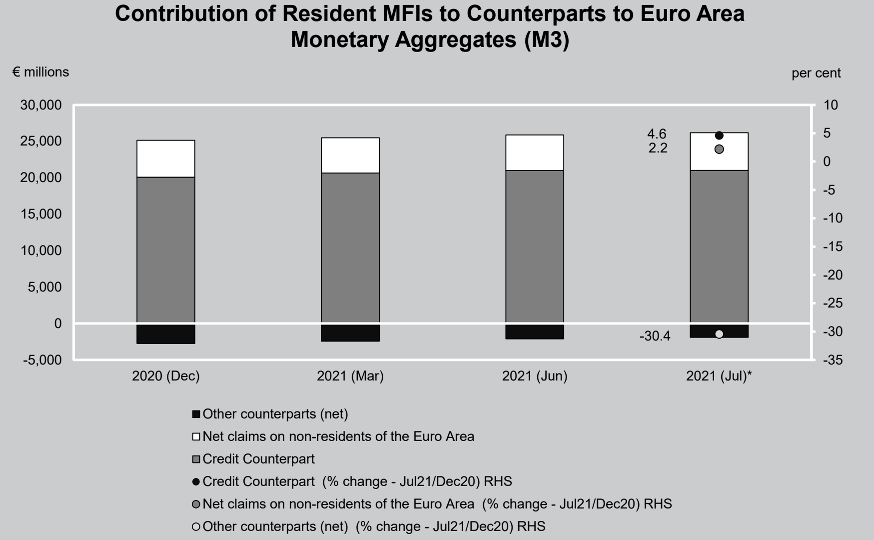
Source: Central Bank of Malta

also increased by 17.5 per cent. On the other hand, a decline of 4.1 per cent in the two-year maturity deposits was recorded. Notwithstanding, the developments in the latter two components were almost negligible due to their smaller share compared to overnight deposits.

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

Chart 4.3 portrays the developments in the contribution of resident MFIs to counterparts to Euro Area monetary aggregates since the end of 2020. During the review period, broad money stock (M3)[6] increased by 8.4 per cent, from €22,411.3 million in December 2020 to €24,284.8 million in July 2021. These increases were mainly attributable to the positive impact from the credit counterpart[7], which outweighed a lower positive contribution from net claims on non-residents of the Euro Area, as well as a lower negative contributory effect from the other counterparts[8] component.

Chart 4.3



** provisional*

Source: Central Bank of Malta

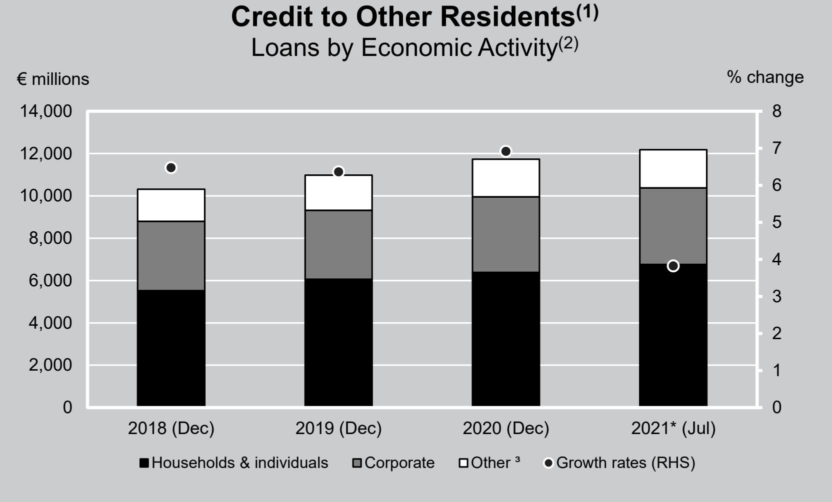
In the first seven months of 2021, the credit counterpart reached €21,009.3 million, reflecting an increase of 4.6 per cent when compared to December 2020. This was driven by increased credit to Maltese residents, whereas credit to other Euro Area residents declined slightly over the same period. In fact, in July 2021, credit to other Euro Area residents reached €4,219.2 million, a decrease of 2.3 per cent when compared to December 2020. Credit to the general Government, which increased by 2.4 per cent, in Euro Area credit developments, was offset by a decrease of 5.7 per cent in credit to the private sector. On the other hand, lending to Maltese residents increased by a total of 6.5 per cent, reaching €16,790.0 million in July 2021. This was led primarily by a 14.8 per cent increase in credit to the general Government, complemented by a 3.8 per cent increase in credit to the private sector.

Growth dynamics in M3 are also affected by foreign capital from outside the Euro Area. The external counterpart of M3 represented by net claims increased by 2.2 per cent during the first seven months of 2021, when compared to December 2020, reaching €5,179.7 million. The increase in net claims on non-residents of the Euro Area was accompanied by a 30.4 per cent decrease in the other counterparts net negative balance, reaching €1,904.1 million in July 2021. The changes in net claims reflects growth dynamics in local credit institutions' liabilities to other Euro Area banks concerning their claims on them, while the other counterparts component mainly reflects interbank transactions across the Euro Area and contributes negatively to M3.

4.3 Sectoral Credit Developments

Chart 4.4 portrays the sectoral credit developments of the residents of Malta, excluding the general Government. Between December 2020 and July 2021, total loans to the private sector expanded by 3.8 per cent. The data for the private sector is a combination of the Households and Individuals, Corporate and Other categories. The growth rate reflected increases of 5.8 per cent in the credit to Households and Individuals, while the Corporate category registered a 1.3 per cent expansion in credit during the review period. The three sub-sectors under the Corporate category which experienced the main increases in credit were the Hotels and Restaurants, Construction, and Real Estate, Renting and Business Activities. These more than offset declines in the

Chart 4.4



** 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.

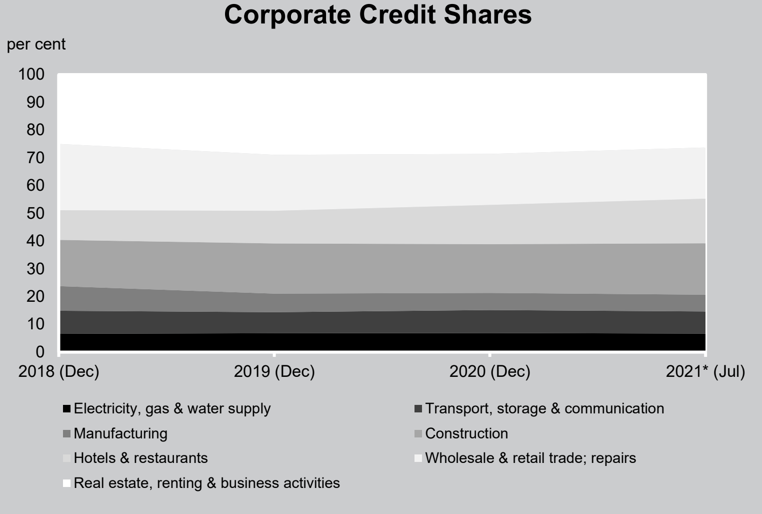
Source: Central Bank of Malta

remaining sub-sectors. Credit to the Other category also rose by 1.7 per cent in the period under review.

Chart 4.5 describes the Corporate category and the way that credit was distributed among the seven sub-categories for the period December 2018 to July 2021. As of July 2021, 26.3 per cent of the loans provided to the Corporate category went towards the Real Estate, Renting and Business Activities industry, making it the industry with the largest credit share. The Construction and Wholesale and Retail Trade; Repairs industries followed with an 18.5 per cent and 18.4 per cent credit share respectively.

Three out of seven sectors experienced an expansion – namely Hotels and Restaurants which received 15.1 per cent more loans in July 2021, Construction which received 6.8 per cent more, and Wholesale and Retail Trade; Repairs which received 1.4 per cent more. The remaining four sectors experienced a contraction in credit. The main decline of 6.7 per cent was observed in the Real Estate, Renting and Business Activities sector. In July 2021, the Transport, Storage and Communications sector received 2.7 per cent less loans when compared to December 2020. Smaller reductions in loans were experienced in Electricity, Gas and Water Supply; and Manufacturing which declined by 1.6 and 0.8 per cent respectively during the period under review.

Chart 4.5



** provisional*

Source: Central Bank of Malta

4.4 Money Market

Since February 2020, the COVID-19 pandemic has been a major disruptive experience in both the social and economic lives of nations. Targeted lockdowns and social distancing measures together with economic adaptation were instrumental in helping the Euro Area economies in dealing with the pandemic. Many European countries faced a third wave of infections in the first months of 2021 which in turn delayed economic recovery. According to the May 2021 Financial Stability Review of the European Central Bank (ECB), economic activity recovery, fuelled by the progress in vaccinations and gradual easing of containment measures is expected in the course of 2021. The ECB plays an important role in sustaining consistent economic and financial stability throughout the Euro Area. A central part of the policy response efforts being undertaken by the national Governments, aims at ensuring that the financial system withstands the shocks stemming from the pandemic. This also aims at continuing to provide the credit and financial services that will help households and businesses with the ultimate aim of supporting a sustainable economic recovery. The ECB continued its mandate in providing adequate liquidity to banks and maintaining the functioning of financial markets.

In its Monetary Policy Decisions of January 2021, the ECB announced 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 for another year at 0.00 per cent, 0.25 per cent and -0.50 per cent respectively. This decision continued to be reconfirmed in subsequent ECB decisions in the period under review. In line with ECB monetary policy strategy and symmetric 2.0 per cent inflation target, the key ECB interest rates are expected to remain at their present or lower levels. The ECB has also concluded that realised progress in underlying inflation should be sufficiently advanced to be consistent with inflation stabilising at 2.0 per cent over the medium-term. Moreover, the ECB Monetary Policy Decisions of January 2021 indicated that net purchases under the Asset Purchase Programme (APP) will proceed at the monthly pace of €20 billion. The monthly net asset purchases under the APP are expected to run for as long as is deemed necessary to reinforce the accommodative impact of its policy rates. These net asset purchases are expected to end shortly before the subsequent incrementation of key ECB interest rates.

Moreover, the Governing Council's Monetary Policy Decisions of January 2021 confirmed that the ECB intends to continue the purchases under the Pandemic Emergency Purchase Programme (PEPP) with a total envelope of €1,850 billion. Net asset purchases under the PEPP should be conducted until at least the end of March 2022, and until the

COVID-19 crisis lasts. Purchases under this programme are primarily geared towards the preservation of favourable financing conditions over the pandemic period. At the same time, if favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope of the PEPP, the use, in full, of such envelope would not be necessary. Furthermore, fine-tuning of the envelope could be required to maintain favourable financing conditions. The joint assessment of financing conditions and the inflation outlook performed at the monetary policy meeting of June 2021, confirmed the expectations of continued purchases under the PEPP over the current quarter and which will be conducted at a higher pace when compared to the first months of the year. The ECB will continue to purchase flexibly in the context of market conditions, with a view to prevent the tightening of financing conditions and to reach expected levels of inflation. In January 2021, as well as in ensuing Monetary Policy Decisions, the ECB confirmed that the principal payments from maturing securities purchased under the PEPP will continue to be reinvested until at least the end of 2023. Indeed, any future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

The rates of interest charged on short-term loans between banks, known as interbank rates, are generally indicative of the risk appetite in financial markets. As the level of risk aversion rises, financial institutions would be less inclined to exchange credit amongst themselves in the interbank market. The overnight rate was stable at -0.48 per cent throughout the first seven months of 2021, representing a decline of 0.02 percentage points when compared to July 2020. Data for the first seven months of 2021 indicates that short-term rates were relatively stable averaging -0.56 per cent. Three-month and one-year rates were also stable during the period under review despite edging up marginally towards the end of July. Indeed, three-month and one-year rates stood at -0.54 and -0.49 respectively in July 2021 when compared to their respective rates of -0.55 and -0.50 in January 2021. Despite the stability observed in the first seven months of 2021, interbank rates generally declined throughout 2020. An overall comparison of the rates at end July 2021 with the same period a year earlier shows that one-month, three-month, and one-year rates were 0.05, 0.10, and 0.21 percentage points lower respectively.

The interest rates of Euro Area interbank money markets have a bearing on Maltese Treasury Bills (T-Bills) since they represent an alternative portfolio investment opportunity for local investors. During the first eight months of 2021, the Maltese Government issued €1,349.3 million worth of T-Bills on the primary market. This level was €30.8 million less than the level of T-Bills that were issued during the same period in

2020. Yields in the primary market for three-month Malta T-Bills stood at -0.41 per cent in July 2021, representing a 0.5 percentage points increase compared to a rate of -0.46 per cent registered in the same month of 2020. Conversely, as of July 2021, the yield on one-year bills declined by a further 0.3 percentage points when compared to the same month a year earlier, reaching -0.42 per cent. Developments in the secondary market during the first seven months of 2021 were characterised by further declines in the T-Bills rates as the three-month and one-year rates reached -0.56 and -0.52 per cent respectively as of July 2021. In comparison, the secondary market yields for three-month and one-year T-Bills were 0.36 and 0.38 percentage points lower when compared to yields registered in July 2020.

For the period January to August 2021, trades in T-Bills amounted to €24.3 million, in contrast to the same period in 2020 with no trades executed in T-Bills.

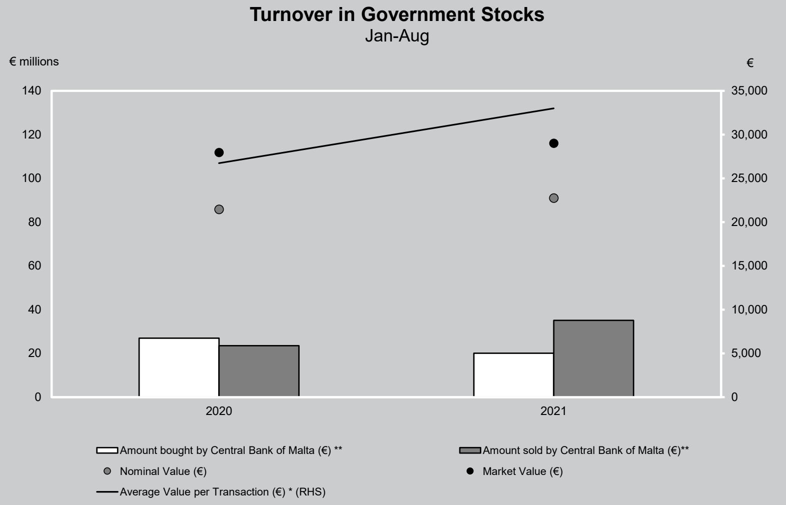
4.5 The Capital Market

Throughout the period January to August 2021, €962.1 million worth of stocks were issued by the Maltese Government on the primary market, with redeemed stocks amounting to €462.2 million.

Newly issued corporate bonds amounted to €88.4 million as at August 2021, thus representing a decline from the €100.0 million issued in the first eight months of 2020. Over the same comparative period, the amount of corporate bonds redemptions also decreased by €92.9 million whilst amounting to €21.4 million for the period ending August 2021. Similarly to the first eight months of 2020, no deductions were recorded for the period January to August 2021. Moreover, rollovers amounted to a total of €489,600 from January to August of 2021, showcasing a drop from €13.7 million recorded in the same period of 2020. In addition, buy-backs increased from €1.7 million as at August 2020 to €2.7 million as at August 2021.

Chart 4.6 portrays the secondary market trading activities related to Government stocks. In the first eight months of 2021, there was an increase of 3.5 per cent in trading activity when compared to the same period in 2020, as turnover levels reached €115.7 million. The number of deals decreased by 14.5 per cent from 3,212 between January and August 2020 to 2,746 for the same period of 2021. Trading was mainly centred around two issues during the first eight months of 2021 namely: 3 per cent MGS 2040 (I) and 2.1 per cent MGS 2039 (I) which registered 306 and 283 deals respectively. The Central Bank of Malta

Chart 4.6



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

Source: Central Bank of Malta

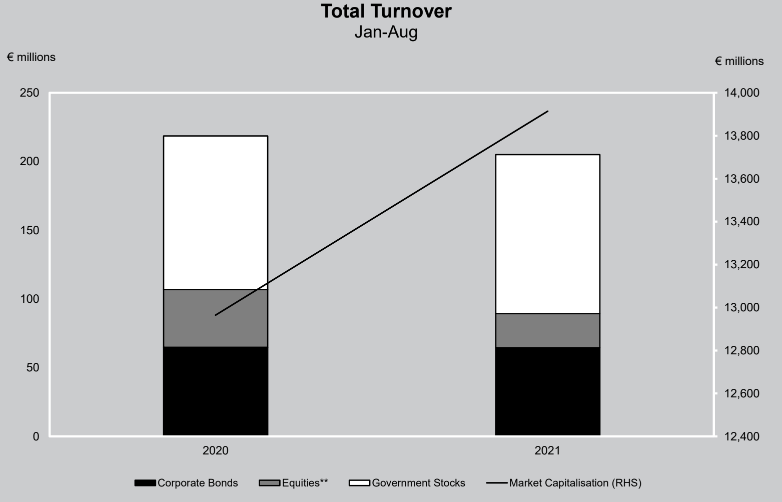
(CBM) transacted a total value of €55.1 million in the local Government bond market during January to August 2021.

Chart 4.7 shows secondary market indicators relative to the capital market. During the first eight months of 2021, aggregate turnover for equities decreased by 40.9 per cent, reaching €24.8 million in comparison to €42.0 million registered in the same period of 2020. During January to August 2021, Bank of Valletta plc (BOV) and Malta International Airport plc (MIA) share issues registered the largest level of trading activity standing at 653 and 538 deals, respectively.

Secondary market activity during the first eight months of 2021 is inclusive of the Institutional Financial Securities Market (IFSM) which is a secondary market specifically designed for the institutional investors. Aggregate turnover for IFSM amounted to €1.4 million as at August 2021. However, a comparison to the same period of the previous year is not feasible because although the IFSM was launched in 2018, the first trade was recorded in 2021.

As at the end of August 2021, the Share Index of the Malta Stock Exchange increased to 8,062.1 in comparison to 7,550.0 registered

Chart 4.7



*** Including the alternative companies listings*

Source: Malta Stock Exchange

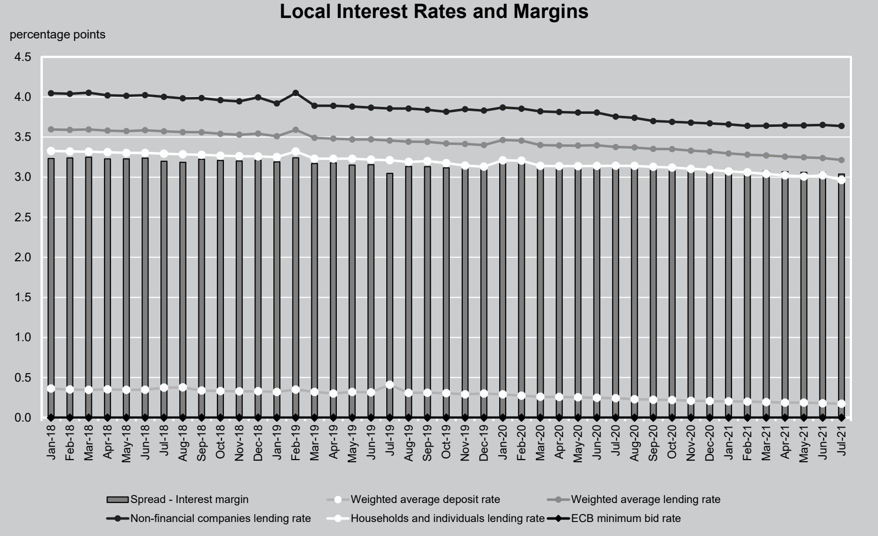
in the same period of 2020, reflecting an increase of 6.8 per cent. In addition, market capitalisation in the equity market increased from €3,711.0 million in August 2020 to €3,970.4 million in August 2021.

Total market capitalisation increased from €12,965.0 million to €13,914.6 million when comparing the first eight months of 2020 and 2021, thus representing an increase of €949.5 million. This increase was mainly driven by increases in the market capitalisation for equities, corporate bonds and Malta Government Stocks, whereas a reduction in Treasury Bills was observed.

4.6 Deposit and Lending Rates

Chart 4.8 explores the weighted average deposit and lending rates together with their relative spread, lending rates for non-financial companies and for households and individuals, as well as the ECB minimum bid rate throughout the period January 2018 to July 2021. The weighted average deposit rate averaged 0.19 per cent during the first seven months of 2021 when compared to an average rate of 0.26 per cent during the same period one year prior. The weighted average lending rate stood at 3.30 per cent at the beginning of 2021 declining to 3.21 per cent in July 2021. These rates were lower than the respective

Chart 4.8



Source: Central Bank of Malta

3.46 per cent and 3.38 per cent recorded in the same period a year earlier. The interest margin between the weighted average lending and deposit rates contracted by 0.05 percentage points between January 2021 (3.09 per cent) and July 2021 (3.04 per cent). A very similar contraction in the interest margin of 0.04 percentage points was recorded between January and July 2020. Both the non-financial companies lending rate and the households and individuals lending rate decreased between January and July 2021. Indeed, while the latter decreased by 0.11 percentage points, the non-financial companies lending rate declined only marginally by 0.02 percentage points. As per last year, the ECB minimum bid rate remained 0.00 per cent during 2021's initial seven months.

Footnotes:

[1] Figures show the contribution of Maltese Monetary Financial Institutions (MFIs) to the Euro Area totals, and include deposit liabilities to both residents of Malta and other Euro Area 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 Euro Area. Figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the Euro Area and holdings by non-residents of the Euro Area.

[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 Euro Area 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

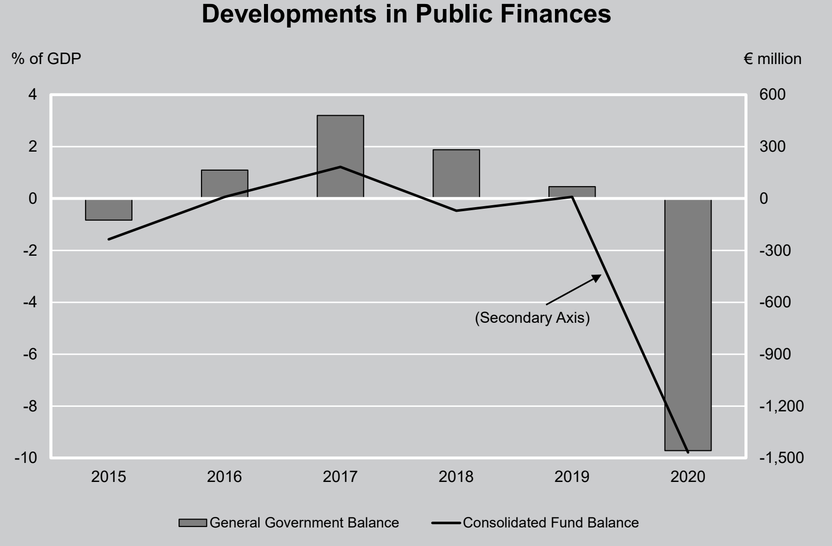
5. Public Finances

The economy was hit hard by the consequences of COVID-19 during 2020, which in turn needed the Government's intervention to help mitigate the effects of the pandemic on various economic sectors. On a cash basis, in 2020, the central Government's Consolidated Fund registered a deficit of €1,467.9 million. In order to achieve compliance with the provisions of the European System of Accounts (ESA 2010), adjustments were 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. The general Government recorded a deficit of €1,267.9 million or 9.7 per cent of Gross Domestic Product (GDP) in 2020.

The debt ratio registered a 12.7 percentage points increase when compared to the level recorded in 2019 and reached 53.4 per cent of GDP in 2020. Chart 5.1 provides an analysis of developments within the Consolidated Fund balance and the general Government balance over recent years.

During the first half of 2021, the increase in the general Government revenue ratio to GDP more than outweighed the increase in the general Government expenditure-to-GDP ratio, such that the general Government balance improved from a deficit of 11.7 per cent of GDP in the first half of 2020 to 9.3 per cent during the corresponding

Chart 5.1



period in 2021. Similar positive developments were registered in the balance of the Consolidated Fund, which improved from a deficit of €1,086.2 million during January-August 2020 to €753.2 million during the corresponding period in 2021.

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.

Caution needs to be exercised when comparing data pertinent to public finances during the eight months to August 2021, with data for the eight months to August of the previous year. Apart from the improvement in the Maltese economy from the second quarter of 2021 onwards,

Government Revenue and Expenditure
(January-August)

Table 5.1 € million

	2018	2019	2020	2021
Recurrent Revenue	**2,744.1**	**3,190.2**	**2,524.8**	**3,221.5**
Tax Revenue	2,516.9	2,846.3	2,216.6	2,948.6
Direct Tax Revenue	1,500.1	1,713.9	1,405.8	1,871.8
Indirect Tax Revenue	1,016.8	1,132.3	810.8	1,076.7
Non-Tax Revenue	227.3	343.9	308.3	273.0
Total Expenditure	**2,747.2**	**3,106.3**	**3,611.1**	**3,974.7**
Recurrent Expenditure	2,395.3	2,666.8	2,965.1	3,474.3
Interest on Public Debt	139.1	126.5	121.3	123.1
Capital Expenditure	212.8	313.0	524.6	377.3
Balance of recurrent revenue and total expenditure	-3.1	83.9	-1,086.2	-753.2
Financed by:				
Receipts from sale of shares	0.9	0.9	0.9	0.9
Sinking Funds of Converted Loans	-	-	-	-
Sinking Fund Contribution and Direct Loan Repayments	-218.1	-197.3	-287.6	-462.5
Equity Acquisition	-63.0	-10.3	-27.0	-4.5
Repayment of Loan made by Government	-	-	0.2	-
Public Sector Borrowing Requirement	-283.3	-122.7	-1,399.8	-1,219.3
Local Loans	93.5	279.7	1,044.8	1,265.3

Source: National Stastics Office

which is starting to be reflected in public finance developments, a reclassification was carried out to the COVID-19 Business Assistance Programme, which featured under Capital Expenditure between March and December 2020 but is now classified under Recurrent Expenditure.

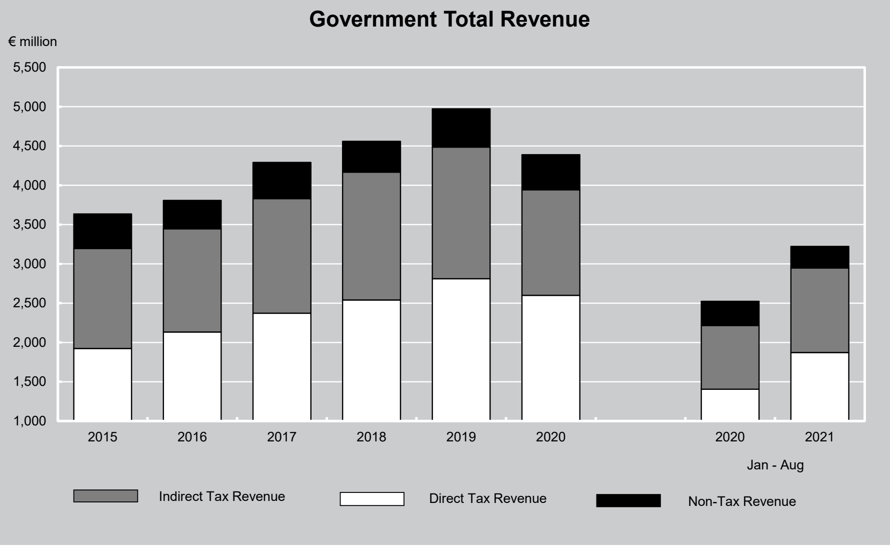
During the first eight months of 2021, recurrent revenues increased by €696.7 million, while total expenditure increased by €363.7 million. Consequently, the Government's Consolidated Fund balance improved by €333.0 million to a deficit of €753.2 million. The public sector borrowing requirement decreased from €1,399.8 million to €1,219.3 million reflecting developments in the sinking fund contribution and direct loan repayments and to a lesser extent, equity acquisition.

5.1.1 Recurrent Revenue

During the first eight months to August 2021, recurrent revenues increased by 27.6 per cent reflecting higher tax revenues. Developments in the components of the Government revenue for the first eight months between 2018 and 2021 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 91.5 per cent of total recurrent revenue during the first eight months of 2021. Tax revenue increased by 33.0 per cent, reaching €2,948.6 million as direct

Chart 5.2



tax revenues increased by €466.0 million, indirect taxes increased by €266.0 million, and non-tax revenues declined by €35.3 million.

The proceeds from income tax increased by 39.7 per cent while social security contributions increased by 23.6 per cent. Proceeds from personal income tax revenue and social security contributions were relatively shielded by the contained impact of the pandemic on the labour market, reflecting the effectiveness of the wage supplement scheme in helping businesses retain their workers. Keeping people in work through such schemes was effective in providing income support and limiting job losses, while avoiding costly search and matching processes as the recovery progresses.

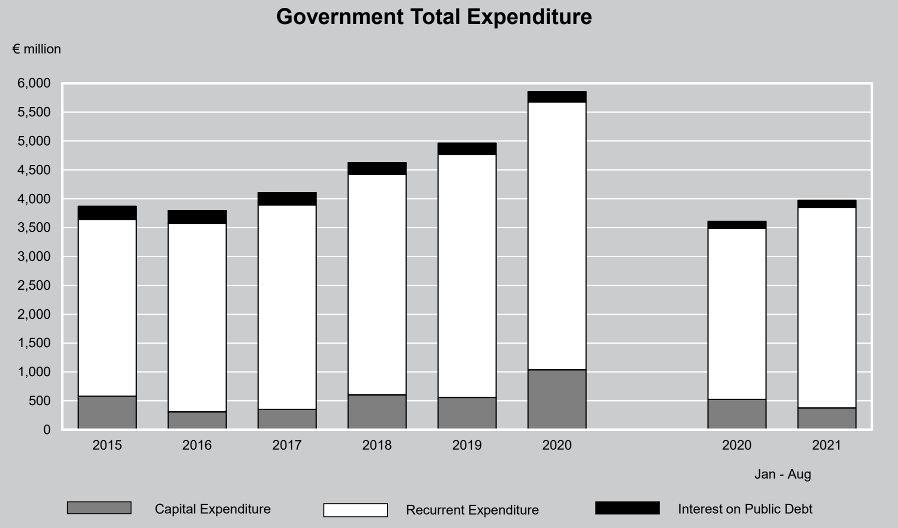
During the period under review, revenue from indirect taxes increased by 32.8 per cent, reflecting higher revenue registered in all the three components making up indirect tax revenue. Revenue from Value Added Tax (VAT) increased by €186.1 million, reflecting the gradual economic turnaround, particularly in household consumption. Revenues derived from Customs and Excise Duties and Licences, Taxes and Fines increased by €58.5 million and €21.4 million, respectively. Nearly all components of customs and excise duties registered an increase during the eight months to August 2021. Apart from higher recorded import duties, higher proceeds from excise on petroleum, and a rise in excise due from the sales of machine-made cigarettes and spirits, were also recorded. Furthermore, higher proceeds from excise duties on cement, mobile telephony services and tobacco were also registered. Higher receipts from Licences, Taxes and Fines mainly reflected a rise in proceeds from duty on documents, gaming taxes and the annual circulation licence fee, which outweighed the decline that was mainly reported from proceeds derived from the motor vehicle registration tax.

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 2021, non-tax revenue decreased by €35.3 million mainly reflecting a €17.6 million decline in revenue from fees of office and a decline of €18.7 million in revenue from miscellaneous receipts. On the other hand, grants and dividends on investments increased by €3.9 million and €0.2 million respectively.

5.1.2 Expenditure

Developments in the total Government expenditure during the period under review largely reflected developments related to the COVID-19 pandemic. Total Government expenditure increased by 10.1 per cent during the eight months to August 2021, as recurrent expenditure

Chart 5.3



increased by €509.2 million and interest on public debt rose by €1.8 million. Meanwhile, capital expenditure decreased by €147.3 million. When comparing recurrent and capital expenditure incurred during the period under review with that recorded a year earlier, it is pertinent to highlight that these changes are influenced by a reclassification of the COVID-19 Business Assistance Programme which featured under capital expenditure between March and December 2020 but was thereafter classified under recurrent expenditure in 2021. In this respect, if for the period under review, the reclassification of the COVID-19 Business Assistance Programme from capital expenditure to recurrent expenditure is netted out, recurrent expenditure would have increased by €280.2 million, while capital expenditure would have increased by €81.7 million. Chart 5.3 presents the recent trend in the Government expenditure disaggregated by components.

Recurrent Expenditure

Recurrent expenditure registered an increase of €509.2 million over the review period. The recurrent expenditure component is made up of four categories including Personal emoluments, Operational and maintenance expenditure, Programmes and initiatives, and Contributions to Government entities. The Programmes and initiatives category comprises the major component of recurrent expenditure, making up 63.1 per cent of total recurrent expenditure. This component of expenditure also registered the largest increase during the eight months to August 2021 reaching €2,193.5 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 European Union (EU) budget. During the first eight months of this year, expenditure on Programmes and initiatives increased by €433.2 million[1], mainly reflecting higher outlays related to the Pandemic assistance scheme, which includes the COVID-19 Business Assistance Programme. Furthermore, higher outlays were recorded under the Hospital concession agreements, EU own resources, social security benefits, church schools, the St. Vincent de Paul Residence service contract, and measures addressing waiting lists for medical services. Higher outlays were also related to the Economic regeneration voucher scheme, the extension of the school transport network, residential care in private homes, the Childcare-for-all scheme, and students' maintenance grants.

Contributions towards Government entities include the funding of Government entities, Parastatals, Corporations and Authorities. Outlays in this expenditure category amounted to €436.6 million for the period January to August 2021, recording a €14.4 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 bonuses and supplements paid to employees in excess of standard remunerations including any allowances and overtime payments. During the period January to August 2021, this category of expenditure increased by €68.8 million and stood at €673.3 million, mainly underpinned by higher outlays directed towards the health, education and home affairs, national security and law enforcement sectors.

In the meantime, Operational and maintenance expenditure, which includes payments for utilities, contractual services, materials and supplies, transport, and rent, decreased by €7.1 million to €171.0 million during the first eight months of 2021.

Developments in the Government's recurrent expenditure on a cost centre basis for the January to August 2021 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.

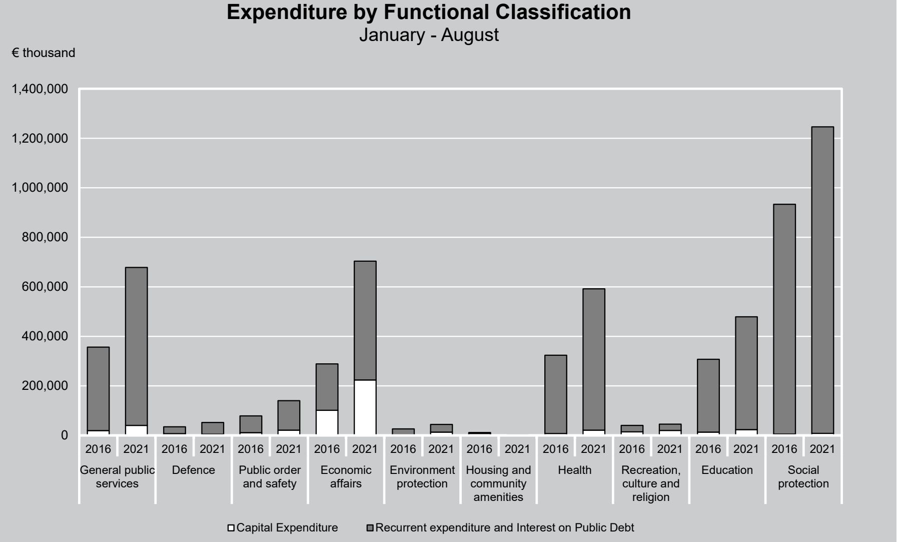
Social security benefits comprised 21.3 per cent of the Government recurrent expenditure which makes it the major component of the Government's total recurrent expenditure. Contributory benefits make up 83.5 per cent of social security benefits that includes retirement pensions, while the remaining 16.5 per cent consist of non-contributory benefits, mainly social assistance, children's allowance and old age pensions. Total contributory benefits increased by €159.5 million, largely reflecting higher outlays on retirement pensions. Meanwhile, non-contributory benefits increased by €23.9 million to €122.1 million.

Since the onset of the pandemic, the policy initiatives that the Government introduced were focused on safeguarding the livelihoods of citizens and sectoral sustainability by sustaining the labour market and the unemployed as well as the solvency of viable firms across the economic sectors. While the economic recovery gains ground during 2021, the Government is gradually tapering off support measures while targeting assistance towards sectors which remain viable but vulnerable over the short-term.

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 over recent years its share in recurrent expenditure (including interest on public debt) has been on a declining trend. Social protection (including interest on public debt) declined by 7.7 percentage points to 34.2 per cent during the eight months to August 2021, when compared to the same period in 2016. A drop of 0.6 percentage points and 0.5 percentage points was recorded in the share of expenditure on education (including interest on public debt) and recreation, culture and religion (including interest on public debt), respectively. Meanwhile, the share of recurrent expenditure on economic affairs increased by 4.8 percentage points, while recurrent expenditure on general public services and health rose by 2.5 percentage points and 1.6 percentage points, respectively. Public order and safety and defence accounted for 3.3 per cent and 1.3 per cent of recurrent expenditure respectively, when compared to 3.1 per cent and 1.2 per cent recorded in 2016, respectively.

Recurrent expenditure (including interest on public debt) increased by €511.0 million when comparing the first eight months of 2021 with the same period in 2020, reflecting higher outlays directed towards most expenditure categories. The most significant expenditure increases were directed towards general public services (€189.7 million), economic affairs (€154.6 million), social protection (€80.2 million), and health (€76.2 million).

Capital Expenditure

During the eight months to August 2021, capital expenditure decreased by €147.3 million and comprised 9.5 per cent of total Government expenditure.[2] According to the most recent available data by economic function, during the January to August 2021 period, nearly 60.0 per cent of capital outlays were directed to the economic affairs category, followed by around 11.0 per cent of capital outlays directed towards the general public services category. Meanwhile, the remaining categories, in aggregate accounted for around 30.0 per cent of total capital expenditure.

During the period under review, higher capital outlays were mainly recorded by the education (€11.6 million), and public order and safety (€10.4 million) sectors. Meanwhile, lower capital expenditure was recorded in respect of economic affairs (€156.8 million) and environment protection (€11.0 million).

Total capital expenditure during the January to August 2021 period, totalled €377.3 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 declined by €126.8 million, to €302.7 million during the period under review. Meanwhile, foreign funding declined by €11.6 million, to €56.5 million, while the Malta local co-financing, ineligible costs, funding gap, and sponsorship component declined by €3.0 million to €24.3 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 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 2020

In 2020, the general Government deficit stood at 9.7 per cent of GDP, when compared to a surplus of 0.5 per cent of GDP recorded for 2019. This development largely reflected the effects of the COVID-19 pandemic on the economy and the subsequent Government measures that were implemented to mitigate the associated economic, social and health risks.

During 2020, the general Government revenue-to-GDP ratio declined by 0.2 percentage points to 36.2 per cent of GDP when compared to 2019. The adverse effects of the pandemic outbreak on the broad economy in general and on some sectors in particular, such as the tourism-related industries and the wholesale and retail trade sectors, negatively impacted tax revenues. In this respect, proceeds from taxes on production and imports as a share of GDP declined by 0.8 percentage points. Meanwhile, the Government support measures, particularly those aimed at sustaining employment, mitigated the severity of the pandemic on the labour market and sustained revenue from current taxes on income and wealth, which declined by 0.1 percentage points in 2020 to 12.9 per cent of GDP, primarily due to lower tax revenue from corporate income and profits. On the other hand, revenue from social contributions increased by 0.7 percentage points of GDP, reflecting the buoyancy of the labour market. It is worth noting that as per Eurostat's note on statistical implications of some policy measures in the context of the COVID-19 pandemic, the impact of tax deferrals is fully imputed with no fiscal impact on revenue in ESA terms, on the assumption that all deferred taxes shall be collected by the stipulated timeframes. The remaining non-tax revenue components and capital receipts remained relatively unchanged at around 6.0 per cent of GDP in aggregate.

In 2020, the ratio of general Government expenditure-to-GDP increased by 10.0 percentage points to 45.9 per cent when compared to 2019. The increase in the expenditure-to-GDP ratio mainly resulted from the fiscal impact of COVID-19 related measures, and to a lesser extent from measures legislated prior to the onset of COVID-19 by means of the 2020 Budget. The general Government expenditure-to-GDP ratio increased for all expenditure components, with the most significant increases being registered for subsidies and intermediate consumption. Indeed, the ratio of subsidies-to-GDP increased by 3.6 percentage points to 5.0 per cent of GDP, largely due to additional spending in relation to the COVID-19 Business Assistance Programme, which includes the wage supplement scheme, as well as the Economic Regeneration Voucher Scheme. Furthermore, the ratio of intermediate consumption-to-GDP increased by 2.1 percentage points to 9.0 per cent of GDP in 2020, as further healthcare funding was necessary to address hospital capacity, medical equipment and protective gear, repatriation flights to bring home Maltese nationals and residents, and to carry cargo and urgent medical supplies for hospitals, following the ban on travel.

Meanwhile, the increase in the expenditure-to-GDP ratio also resulted from higher social payments, which increased by 1.5 percentage points of GDP, while compensation of employees, in particular those related to the health and education sectors, increased by 1.4 percentage points to 12.1 per cent of GDP.

5.2.2 Budgetary Developments during the first half of 2021

The analysis in this section is based on the 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 extraordinary measures the Government undertook to address the challenges brought about by the COVID-19 pandemic and the resulting impact on Government revenue and expenditure. The fiscal impact of such measures is not necessarily evenly spread during the year and thus influences the seasonality of the fiscal performance. As a result, this evaluation should be considered with more caution than the comparable analyses in previous Economic Surveys.

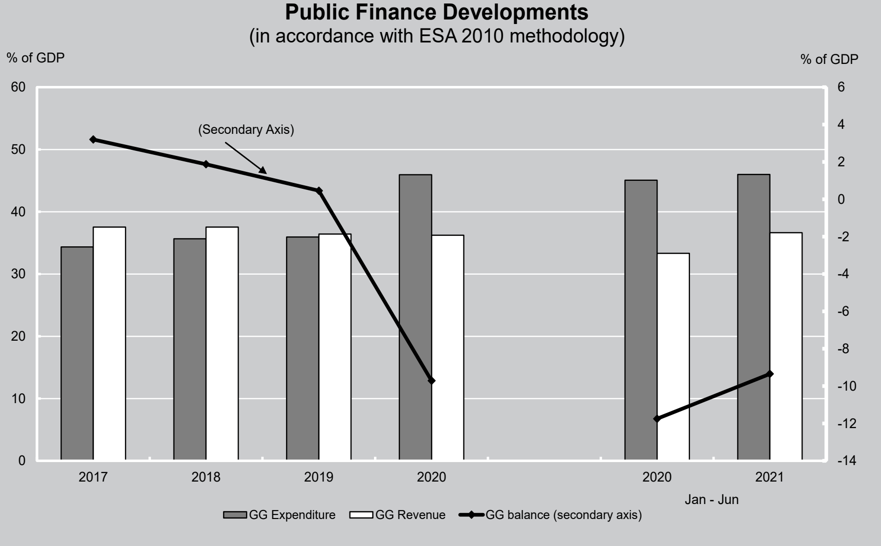
Chart 5.5 presents public finance developments in accordance with ESA 2010 methodology over recent years.

The general Government balance is estimated to have recorded a deficit of €638.9 million during the first half of 2021.

During January to June 2021, the general Government revenue is estimated to have increased by €374.5 million over the comparable period in 2020, to €2,505.1 million. Higher proceeds are estimated from most components of revenue. These positive developments reflect the success of the Government measures that were taken in a targeted and timely manner to assist the sectors as necessary in view of the challenges brought about by the pandemic. The largest increases in revenue were recorded for Current taxes on income and wealth (€229.4 million), followed by Taxes on production and imports (€73.6 million) and Market Output (€40.5 million).

During the first half of 2020, expenditure increased by €261.9 million to €3,144.0 million. Increases in expenditure were in particular recorded

Chart 5.5



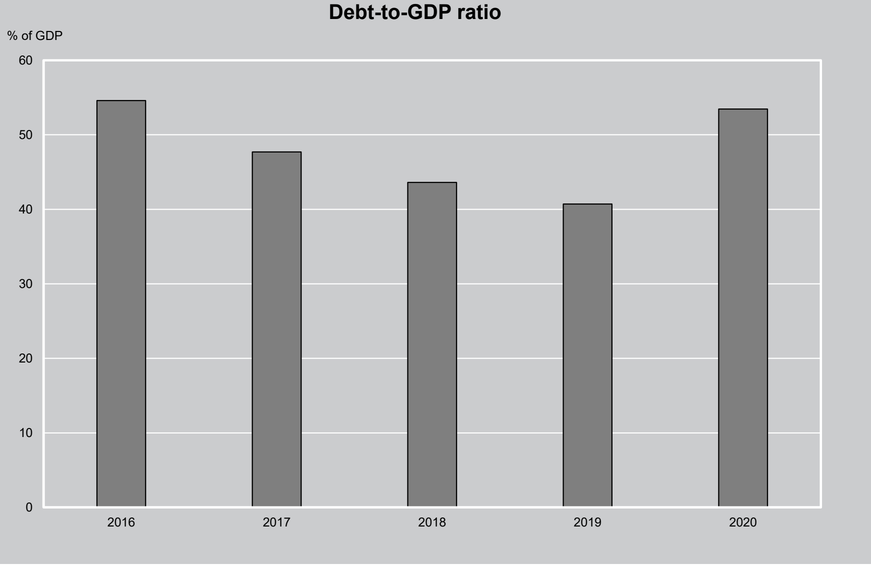
towards Compensation of employees (€98.4 million), Intermediate Consumption (€84.0 million), Social benefits (€26.2 million), Subsidies (€24.8 million) mostly in relation to the COVID-19 wage supplement scheme, and Current transfers (€19.0 million).

5.3 General Government Debt Developments

The ratio of general Government debt-to-GDP has increased to 53.4 per cent in 2020, up from 40.7 per cent in 2019. The 2020 debt ratio was still below the 60.0 per cent requirement under the Maastricht debt criterion. At level terms, the general Government debt reached €6,977.5 million in 2020. The substantial increase of 12.7 percentage points of GDP over 2019 was mainly the result of various measures taken by the Government to mitigate risks associated with the COVID-19 pandemic as documented earlier in this chapter.

At the end of June 2021, the general Government debt stood at €7,989.8 million, showing an increase of €1,332.1 million over the corresponding quarter in 2020. Currency and deposits stood at €468.7 million, an increase of €90.8 million over June 2020. 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 loans increased by €386.7 million while short-term loans increased by €3.2 million.

Chart 5.6



Footnotes:

[1] Recurrent expenditure on Programmes and Initiatives would have increased by €204.2 million, if the reclassification of the COVID-19 Business Assistance Programme is taken into consideration.

[2] When taking the reclassification of the COVID-19 Business Assistance Programme into consideration, capital expenditure in the first eight months to August 2021 would have increased by €81.7 million.

Government Revenue

(January-August)

Appendix Table 5.1 € thousand

	2018	2019	2020	2021
Tax Revenue	**2,516,865**	**2,846,290**	**2,216,568**	**2,948,558**
Direct Tax Revenue	1,500,113	1,713,948	1,405,799	1,871,808
Income Tax	920,880	1,071,225	835,912	1,167,353
Social Security	579,232	642,723	569,887	704,455
Indirect Tax Revenue	1,016,753	1,132,341	810,769	1,076,750
Customs and Excise Duties	204,695	214,007	129,547	188,093
Licences, Taxes and Fines	254,329	262,101	202,300	223,664
Value Added Tax	557,729	656,233	478,922	664,992
Non-Tax Revenue	**227,259**	**343,895**	**308,279**	**272,956**
Fees of Office	52,607	53,629	84,227	66,659
Reimbursements	27,904	28,275	20,550	19,531
Rents	22,048	27,792	20,119	17,929
Dividends on Investments	23,333	11,385	15,410	15,639
Repayment of Government Loans	32	71	8	1
and interest	-	-	-	-
Miscellaneous Receipts	22,254	34,056	63,927	45,221
Public Corporations	-	-	-	-
Central Bank of Malta	28,000	20,000	20,000	20,000
Grants	51,082	168,687	84,039	87,976
Recurrent Revenue	**2,744,125**	**3,190,185**	**2,524,847**	**3,221,515**
Extraordinary Receipts	91,889	889	889	889
Loans	93,527	279,713	1,044,791	1,265,255
Repayment of Loans made by Government	-	-	171	-
Total Revenue	**2,929,540**	**3,470,786**	**3,570,697**	**4,487,658**

Source: The Treasury, Ministry for Finance and Employment

Government Recurrent Expenditure

(January-August)

Appendix Table 5.2 € thousand

	2018	2019	2020	2021
Office of the President	3,554	3,060	2,299	2,408
House of Representatives	3,798	7,250	7,388	7,535
Office of the Ombudsman	800	700	1,340	952
National Audit Office	2,565	2,610	2,700	2,850
Commissioner for Standards in Public Life	-	350	640	239
Office of the Prime Minister	22,244	35,786	49,185	32,877
Information	681	705	705	703
Government Printing Press	877	989	995	1,064
Electoral Office	1,528	6,759	1,552	1,681
Public Service Commission	399	434	450	387
Industrial and Employment Relations	836	984	1,058	1,200
Ministry for Health	367,995	409,361	493,032	570,602
Ministry for Foreign and European Affairs	17,615	18,475	53,185	22,063
Ministry for the Senior Citizens and Active Ageing	-	-	-	115,385
Ministry for Research, Innovation and the Co-ordination of post Covid-19 Strategy	-	-	-	5,852
Ministry for the National Heritage, the Arts and Local Government	-	-	-	32,139
Local Government	30,974	33,543	35,135	36,406
Ministry for Transport, Infrastructure and Capital Projects	60,309	63,719	73,523	61,514
Ministry for Social Justice and Solidarity, the Family and Children's Rights	56,834	61,636	80,075	50,571
Social Policy	183,169	204,407	176,279	217,945
Social Security Benefits	647,696	669,049	719,706	738,778
Pensions	80,151	67,920	68,709	70,024
Ministry for Justice, Equality and Governance	45,669	48,941	64,098	28,523
Ministry for Agriculture, Fisheries and Animal Rights	-	-	-	22,339
Ministry for Social Accommodation	-	-	-	19,170
Ministry for Education	187,462	187,717	243,774	228,234
Education	160,318	183,146	202,495	222,167
Ministry for the Economy and Industry	13,266	12,558	53,715	92,582
Commerce	898	871	917	1,003
Ministry for Inclusion and Social Wellbeing	-	-	-	29,032
Ministry for the Environment, Climate Change and Planning	51,406	53,634	60,629	37,516
Ambjent Malta	-	16,276	11,552	8,995
Ministry for Gozo	22,765	25,748	27,653	31,524
Ministry for Home Affairs, National Security and Law Enforcemnet	9,360	16,055	31,153	50,949
Armed Forces of Malta	30,146	31,611	32,680	46,913
Police	39,747	47,938	49,285	50,957
Probation and Parole	718	777	796	856
Civil Protection	3,571	4,331	5,590	7,137
Ministry for Tourism and Consumer Protection	57,567	79,325	87,260	86,711
Ministry for Energy, Enterprise and Sustainable Development	55,981	64,684	70,697	320,295
Ministry for Finance and Employment	84,633	135,726	102,612	184,476
Economic Policy	1,084	1,036	1,009	928
Treasury	16,913	17,191	21,596	7,600
Commissioner for Revenue	-	12,201	11,670	14,466
Customs	6,982	7,791	7,343	7,675
Contracts	1,001	1,056	1,063	1,108
[Ministry for European Affairs and Equality]	12,037	12,567	11,959	-
[Correctional Services]	8,511	9,933	-	-
[Elderly and Community Care]	78,635	94,393	97,627	-
[Judicial]	11,586	13,519	-	-
[Inland Revenue]	5,831	-	-	-
[V.A.T.]	6,419	-	-	-
[Social Welfare Standards]	804	-	-	-
Recurrent Expenditure	**2,395,336**	**2,666,762**	**2,965,129**	**3,474,332**

Note: [ ] denotes change in name of cost centres

Source: The Treasury, Ministry for Finance and Employment

Government Expenditure by COFOG category

(January-August)

Appendix Table 5.3 — € thousand

COFOG	Personal Emoluments			Operational and Maintenance Expenses			Programmes and Initiatives			Contributions to Government Entities		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
General public services	65,468	65,285	63,540	32,352	66,185	30,683	189,193	159,388	351,667	27,207	36,216	69,053
Defence	27,111	28,162	41,392	4,134	4,230	5,159	582	480	604	121	218	0
Public order and safety	70,921	58,942	59,946	11,599	6,187	7,472	4,804	4,221	9,998	6,506	30,641	41,684
Economic affairs	40,320	41,696	57,875	7,921	16,918	35,002	100,537	144,683	266,718	104,801	121,551	119,836
Environment protection	3,152	3,487	3,181	187	81	1,512	39,985	38,028	25,679	18,453	19,146	260
Housing and community amenities	876	1,060	403	402	311	118	4,705	8,158	0	2,977	5,066	709
Health	181,087	195,768	223,111	39,555	42,086	53,142	153,964	205,040	243,690	37,525	52,037	51,157
Recreation, culture and religion	4,653	4,360	1,752	1,284	2,849	871	7,703	8,179	9,191	21,365	21,146	14,126
Education	155,442	168,287	180,766	10,482	11,025	13,374	119,800	148,717	162,235	67,862	96,101	99,024
Social protection	36,194	37,451	41,320	28,801	28,238	23,646	1,003,708	1,043,407	1,123,677	33,024	40,100	40,759
Total	**585,225**	**604,498**	**673,286**	**136,717**	**178,110**	**170,979**	**1,624,981**	**1,760,300**	**2,193,459**	**319,840**	**422,222**	**436,608**

	Interest Expenditure			Capital Expenditure			Total expenditure		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
General public services	126,487	121,329	123,115	46,297	49,748	40,138	**487,004**	**498,151**	**678,195**
Defence	0	0	0	2,988	2,564	5,053	**34,936**	**35,653**	**52,209**
Public order and safety	0	0	0	23,561	10,835	21,271	**117,390**	**110,826**	**140,372**
Economic affairs	0	0	0	170,493	380,856	224,007	**424,073**	**705,703**	**703,438**
Environment protection	0	0	0	38,861	24,585	13,542	**100,638**	**85,326**	**44,174**
Housing and community amenities	0	0	0	124	25	593	**9,084**	**14,619**	**1,822**
Health	0	0	0	5,931	24,535	20,959	**418,061**	**519,466**	**592,059**
Recreation, culture and religion	0	0	0	9,171	12,917	19,794	**44,176**	**49,451**	**45,734**
Education	0	0	0	13,171	12,024	23,614	**366,756**	**436,155**	**479,013**
Social protection	0	0	0	2,408	6,516	8,299	**1,104,135**	**1,155,712**	**1,237,701**
Total	**126,487**	**121,329**	**123,115**	**313,003**	**524,604**	**377,270**	**3,106,253**	**3,611,062**	**3,974,716**

Statistical Annex

Population

Table I

	2013	2014	2015	2016	2017	2018	2019	2020
Total Population (000's)	**429,424**	**439,691**	**450,415**	**460,297**	**475,701**	**493,559**	**514,564**	**516,100**
Males (000's)	214,533	220,488	226,396	231,663	240,599	251,836	265,762	266,939
Females (000's)	214,891	219,203	224,019	228,634	235,102	241,723	248,802	249,161
% Increase per annum	1.6%	2.4%	2.4%	2.2%	3.3%	3.8%	4.3%	0.3%
Natural Increase per annum	796	921	883	1,134	748	756	662	330
Crude Birth Rate (per 1,000 population)	9.5	9.6	9.7	9.8	9.2	9.2	8.6	8.6
Crude Mortality Rate (per 1,000 population)	7.6	7.5	7.7	7.3	7.6	7.6	7.3	7.9
Crude Marriage Rate (per 1,000 population)[1]	6.1	6.6	6.7	6.7	6.3	5.8	5.3	2.2
Infant Mortality Rate (per 1,000 births)	6.7	5.0	5.8	7.4	6.7	5.6	6.7	3.9
Life Expectancy (at birth)	81.9	82.1	82.0	82.6	82.4	82.5	83.0	82.3
Males	79.6	79.9	79.8	80.6	80.2	80.4	81.2	80.3
Females	84.0	84.3	84.1	84.4	84.6	84.6	84.6	84.5
Life Expectancy (at age 65)	20.1	20.3	20.3	21.0	20.7	20.8	21.1	20.5
Males	18.4	18.7	18.8	19.7	19.0	19.2	19.4	18.9
Females	21.5	21.7	21.6	22.1	22.2	22.3	22.5	22.0

[1] The numerator corresponds to marriages registered in Malta and occurring in the reference year. This includes marriages occuring abroad and marriages occuring in Malta amongst non-residents.

Source: National Statistics Office

Social Indicators

Table II

	2013	2014	2015	2016	2017	2018	2019	2020
GDP at current market prices per capita (€)	18,703	20,202	22,447	23,189	25,527	26,749	27,832	25,306
Quality of Life								
Motor Vehicle Licences per 1,000 population[1]	752	762	770	780	782	781	773	780
Internet Subscriptions per 1,000 population*	143.0	151.6	163.2	171.3	181.3	191.8	202.5	213.4
Mobile Phone Subscriptions per 1,000 population*	556.7	546.2	557.6	585.5	604.8	615.8	634.4	633.1
Fixed Telephone Lines per 1,000 population*	231.3	230.4	230.2	234.4	240.3	255.4	256.8	259.5
Education[4]								
Number of teachers (000)	7.8	8.0	8.2	8.7	8.8	9.1	9.3	9.7
Number of pupils/students (000)	78.5	78.5	79.6	80.4	80.3	82.3	83.3	85.0
of which:								
University of Malta students (All Courses) (000)	10.9	11.0	11.1	11.1	11.1	11.0	11.0	10.7
Electricity[2]								
Total Generated (000 MWh)[3]	2,216.1	2,170.2	2,257.2	2,247.5	2,376.8	2,394.8	2,514.7	2,320.1
Number of Consumers (000)	277.6	283.9	289.5	295.0	301.0	307.6	317.2	325.5
Domestic Consumption (million kwh)	608.8	604.3	644.1	641.8	774.3	805.3	882.8	891.9
Water								
Total annual production (million m^3)	30.5	30.4	31.2	32.0	33.1	33.5	34.7	34.6
Average daily consumption (000 m^3)	72.7	73.4	75.9	77.1	79.9	81.3	84.3	85.4
Social Security	1,264.0	1,352.9	1,411.6	1,502.4	1,607.0	1,687.4	1,813.8	2,028.2
Total Payments (€ million)	645.3	699.2	739.6	804.4	875.1	967.8	1,046.1	1,064.1
Total Contributions (€ million)	618.7	653.7	672.0	698.0	731.9	719.5	767.6	964.1
Welfare Gap (€ million)								

[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.

[4] Education figures for personnel include only teaching and academic staff teaching in formal education setup i.e. teaching courses with a minimum duration of one semester of full-time study (or the equivalent in part-time) and that are delivered in Malta. Thus, academic staff teaching short courses (duration of less than the equivalence of one full-time semester), preparatory programmes and courses not delivered in Malta are excluded. Education figures for students include only students enrolled in formal education setup.

Source: National Statistics Office

(*) Source: Malta Communications Authority

Factor Incomes in Gross National Income

Table III

€ million

	2013	2014	2015	2016	2017	2018	2019	2020	2015 Jan-Jun	2016 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun	2019 Jan-Jun	2020 Jan-Jun	2021 Jan-Jun
Compensation of employees	3,455.4	3,717.8	4,096.6	4,520.0	4,994.2	5,460.8	5,963.6	6,089.5	2,017.5	2,228.4	2,451.8	2,693.6	2,930.6	3,032.8	3,201.5
Gross operating surplus and mixed income	3,607.2	4,067.2	4,830.6	4,899.0	5,687.4	6,127.6	6,661.4	6,217.8	2,310.2	2,340.4	2,745.7	2,890.7	3,146.5	2,978.4	3,200.3
Taxes on production and imports	1,001.1	1,121.6	1,204.0	1,284.5	1,423.8	1,593.8	1,638.5	1,419.8	550.3	595.1	657.8	724.1	793.8	664.6	740.7
Subsidies	94.7	121.3	134.6	137.0	146.0	202.6	215.8	672.2	62.3	64.1	69.1	89.7	103.0	280.0	306.2
Gross Domestic Product at market prices	**7,968.9**	**8,785.4**	**9,996.7**	**10,566.5**	**11,959.4**	**12,979.6**	**14,047.6**	**13,054.9**	**4,815.7**	**5,099.7**	**5,786.0**	**6,218.7**	**6,767.9**	**6,395.8**	**6,836.3**
Net Income from Abroad	-394.2	-455.5	-552.5	-1,032.0	-1,193.6	-946.4	-1,036.1	-1,161.8	-270.0	-495.9	-561.9	-394.3	-487.7	-567.7	-539.3
Gross National Income at market prices	**7,574.7**	**8,329.9**	**9,444.2**	**9,534.6**	**10,765.8**	**12,033.2**	**13,011.5**	**11,893.1**	**4,545.7**	**4,603.8**	**5,224.1**	**5,824.4**	**6,280.3**	**5,828.1**	**6,297.0**
Sectoral Percentage Contribution to Gross Value Added (at basic prices)															
Agriculture, hunting and forestry (1)	1.2	1.1	1.0	0.9	0.8	0.8	0.5	0.5	1.0	0.9	0.8	0.8	0.6	0.6	0.5
Industry (2)	16.5	14.7	13.8	26.8	13.6	14.2	14.0	14.7	14.4	27.3	13.7	14.2	13.8	14.4	14.4
Services Activities	82.3	84.1	85.1	72.3	85.6	85.0	85.5	84.8	84.6	71.7	85.5	85.0	85.6	85.1	85.1

(1) Includes fishing and operation of fish hatcheries and fish farms.

(2) Includes energy and construction.

Source: National Statistics Office

Gross National Income and Expenditure

Table IV — € million

	2014	2015	2016	2017	2018	2019	2020	2018 Jan-Jun	2019 Jan-Jun	2020 Jan-Jun	2021 Jan-Jun
GNI at current market prices	8,296.5	9,444.2	9,534.6	10,765.8	12,033.2	13,011.5	11,893.1	5,824.4	6,280.3	5,828.1	6,297.0
% annual change of GNI	9.9%	13.8%	1.0%	12.9%	11.8%	8.1%	-8.6%	11.5%	7.8%	-7.2%	8.0%
GDP at current market prices	8,751.1	9,996.7	10,566.5	11,959.4	12,979.6	14,047.6	13,054.9	6,218.7	6,767.9	6,395.8	6,836.3
% annual change of GDP	10.2%	14.2%	5.7%	13.2%	8.5%	8.2%	-7.1%	7.5%	8.8%	-5.5%	6.9%
GDP at constant prices	9,120.4	9,996.7	10,376.2	11,513.0	12,220.3	12,921.2	11,849.8	5,889.9	6,262.6	5,823.6	6,149.7
Total Final Consumption Expenditure											
current market prices	6,331.6	6,607.2	6,767.8	7,148.4	7,937.9	8,665.3	8,504.6	3,779.8	4,184.9	4,065.2	4,326.1
constant prices	6,452.9	6,607.2	6,679.8	6,969.1	7,643.8	8,173.9	7,894.8	3,653.1	2,913.5	2,602.7	2,703.5
Ratio (%) of consumption to GDP at m.p.	72.4%	66.1%	64.0%	59.8%	61.2%	61.7%	65.1%	60.8%	61.8%	63.6%	63.3%
General Government Final Consumption Expenditure											
current market prices	1,620.0	1,708.2	1,668.8	1,736.4	2,001.8	2,339.8	2,741.6	963.8	1,158.3	1,314.2	1,454.7
constant prices	1,666.0	1,708.2	1,632.6	1,663.4	1,868.9	2,133.8	2,456.6	899.2	1,057.7	1,174.1	1,281.0
Ratio (%) of Government consumption to GDP at m.p.	18.5%	17.1%	15.8%	14.5%	15.4%	16.7%	21.0%	15.5%	17.1%	20.5%	21.3%
Private Final Consumption Expenditure[(1)]											
current market prices	4,711.6	4,899.0	5,099.0	5,412.0	5,936.1	6,325.5	5,763.0	2,816.0	3,026.6	2,751.0	2,871.4
constant prices	4,786.9	4,899.0	5,047.2	5,305.7	5,774.9	6,040.1	5,438.2	2,753.9	2,913.5	2,602.7	2,703.5
Ratio (%) of private consumption to GDP at m.p.	53.8%	49.0%	48.3%	45.3%	45.7%	45.0%	44.1%	45.3%	44.7%	43.0%	42.0%
Gross Fixed Capital Formation											
current market prices	1,457.9	2,419.2	2,565.8	2,598.0	2,744.9	3,000.8	2,829.4	1,296.4	1,501.9	1,457.5	1,571.8
constant prices	1,490.5	2,419.2	2,549.1	2,560.1	2,681.3	2,899.9	2,710.5	1,269.2	1,453.6	1,397.3	1,497.0
Ratio (%) fixed investment to GDP at m.p.	16.7%	24.2%	24.3%	21.7%	21.1%	21.4%	21.7%	20.8%	22.2%	22.8%	23.0%

(1) Including NPISH final consumption expenditure.

Source: National Statistics Office

Labour

Table V

	2016	2017	2018	2019	2020	2019 March	2020 March	2021 March
Labour Supply	**187,275**	**198,287**	**211,327**	**225,036**	**235,588**	**220,508**	**235,328**	**237,671**
Gainfully Occupied	**183,709**	**195,787**	**209,496**	**223,336**	**232,428**	**218,736**	**233,203**	**235,284**
Males	115,109	121,358	128,670	136,373	141,666	133,517	142,265	143,087
Females	68,600	74,429	80,826	86,963	90,762	85,219	90,938	92,197
Private Direct Production	**33,384**	**34,211**	**35,795**	**37,936**	**39,775**	**37,037**	**39,857**	**40,567**
of which:								
Construction	10,007	10,509	11,295	12,942	14,468	12,246	14,349	15,130
Manufacturing	20,734	21,030	21,747	22,120	22,237	21,977	22,471	22,328
Others	2,643	2,672	2,753	2,874	3,070	2,814	3,037	3,109
Private Market Services	**105,600**	**115,481**	**126,377**	**136,691**	**142,803**	**133,353**	**143,888**	**143,909**
of which:								
Wholesale and Retail (including Repair of Motor Vehicles, Motorcyles and Personal and Household Goods)	25,938	26,628	27,321	28,282	28,827	27,997	28,955	28,803
Accomodation and Food Services	11,619	12,678	14,033	15,258	15,481	14,788	16,168	14,489
Financial and Insurance Activities	8,376	9,043	9,724	10,371	11,330	10,105	11,409	11,535
Others	59,667	67,132	75,299	82,780	87,165	80,463	87,356	89,082
Public Sector	**44,725**	**46,095**	**47,324**	**48,709**	**49,850**	**48,346**	**49,458**	**50,808**
of which:								
Government Departments	33,130	33,638	34,096	34,422	34,658	34,241	34,480	35,070
Independent Statutory Bodies	9,778	10,592	11,174	12,017	12,799	11,928	12,575	13,398
Companies with Public Sector majority s/hldg	1,817	1,865	2,054	2,270	2,393	2,177	2,403	2,340
Registered Unemployed*	**3,566**	**2,500**	**1,831**	**1,700**	**3,160**	**1,772**	**2,125**	**2,387**
Males	2,621	1,774	1,289	1,187	1,990	1,245	1,423	1,573
Females	945	726	542	513	1,170	527	702	814
Self Employed	21,333	22,366	23,912	25,481	26,823	25,027	26,566	27,650

Note: Employment data is subject to revision.

* Includes both Parts I and II of the registered unemployed.

Data for 2016 - 2020 shows annual averages while data for 2019, 2020 and 2021 shows figures as at end March.

Source: JobsPlus

Tourism

Table VI

	2013	2014	2015	2016	2017	2018	2019	2020[4]	2019 Jan-Jul	2020[4] Jan-Jul	2021 Jan-Jul
Inbound Tourists (000's)	1,582.2	1,689.8	1,783.4	1,965.9	2,273.8	2,598.7	2,753.2	658.6	1,512.4	419.0	261.0
of which from:											
United Kingdom	454.7	487.7	526.0	560.0	560.9	640.6	649.6	135.9	354.3	92.3	25.9
Italy	233.8	262.6	282.8	315.2	363.7	390.6	393.0	94.0	216.3	56.5	48.1
Germany	147.1	143.1	141.9	156.8	193.0	227.0	211.5	72.5	117.6	33.3	28.0
Libya	34.6	30.8	6.7	3.4	2.8	3.4	2.8[u]	:	1.8[u]	:	:
Scandinavian Countries*	105.1	108.6	117.4	124.0	135.3	128.3	124.4	18.3	68.7	14.8	9.7
Other	606.9	657.0	708.7	806.6	1,018.1	1,208.9	1,371.9	337.4	753.8	221.6	149.2
Cruise Passengers (000's)[1]	424.6	465.4	591.7	615.2	658.2	623.4	754.0	59.0	339.0[3]	40.2[2][3]	31.4[3]
Expenditure from Inbound Tourism (€ million)	1,440.4	1,528.6	1,639.1	1,709.0	1,946.9	2,101.8	2,220.6	455.1	1,168.5	258.4	246.9
Total Sector Employment in Hotels and Restaurants[5]	10,048	10,343	10,800	11,619	12,678	14,033	15,258	15,481	14,788[5]	16,168[5]	14,489[5]
% of Gainfully Occupied	6.3	6.2	6.2	6.3	6.5	6.7	6.8	6.7	6.8	6.9	6.2
Outbound Tourists (000's)	363.5	390.7	427.6	496.8	572.5	667.0	706.8	196.5	305.0[3]	115.6[3]	57.7[3]
Days Stayed / Nights Spent (000's)	12,890.3	13,522.1	14,151.6	14,961.4	16,509.1	18,569.7	19,338.9	5,227.2	10,281.7	2,835.4	2,675.8
% of which spent in :											
5 star	12.6	11.6	10.2	9.8	9.4	8.3	7.7	6.3	8.1	7.0	6.8
4 star	31.3	31.5	30.3	29.7	28.4	26.4	25.6	22.0	26.6	25.5	16.5
3 star	14.4	17.4	16.6	14.4	13.9	13.3	12.2	11.0	12.6	12.2	11.5
2 star	0.7	1.3	1.4	1.4	1.4	1.3	1.4	1.0	1.5	1.1	0.5
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	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Guest Houses	1.0	1.0	1.0	1.1	1.1	1.5	2.1	2.3	1.9	2.5	2.1
Flats/Private Residences	33.1	34.4	37.8	40.6	43.0	45.7	47.9	54.8	46.1	48.8	60.0
Tourist Village/Aparthotels/Hostels/Holiday Complex/Camp Sites/Bed & Breakfast	6.9	2.7	2.6	2.9	2.8	3.4	3.0	2.6	3.2	2.8	2.6

[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 for January-June.

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

[5] Data refers to Full time only, last three data points refer to end of March levels.

Source: National Statistics Office, JobsPlus

Foreign Trade

Table VII											€ million
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2019 Jan-Jul**	**2020 Jan-Jul**	**2021 Jan-Jul**
Imports and Exports											
Imports (c.i.f.)	5,638.8	6,402.6	6,132.9	6,456.0	6,131.1	6,287.7	7,438.0	5,394.4	4,559.7	3,465.5	3,638.3
Consumer goods*	1,586.1	1,756.8	1,644.7	1,640.0	1,794.4	1,956.8	1,553.5	1,451.5	1,145.0	843.5	835.7
Industrial supplies*	3,185.1	3,335.1	2,745.3	2,533.8	2,656.3	2,927.9	1,661.0	1,385.4	1,714.1	822.7	891.7
Capital goods and others*	867.6	1,310.8	1,742.8	2,282.2	1,680.4	1,403.0	2,381.4	1,334.9	1,700.5	1,061.4	1,154.4
Fuels and Lubricants	2,179.7	2,560.7	1,681.3	1,593.0	1,771.7	1,934.5	1,842.1	1,222.5	1,013.0	737.9	756.5
Total Exports (f.o.b.)	3,924.5	3,769.7	3,601.8	3,927.9	3,708.0	3,440.9	3,789.5	3,365.0	1,965.7	1,868.3	1,822.6
of which manufactures	3,809.0	3,658.8	3,468.8	3,755.5	3,521.3	3,179.1	3,591.6	3,164.0	1,905.9	1,825.2	1,804.8
Trade Gap	-1,714.4	-2,632.9	-2,531.1	-2,528.1	-2,423.2	-2,846.8	-3,648.5	-2,029.4	-2,594.0	-1,597.2	-1,815.7
as % of GDP at current market prices****	21.6%	30.1%	25.3%	23.9%	20.3%	21.9%	26.0%	15.5%	32.2%	20.2%	19.2%
Selected Groupings											
EU											
Imports	2,975.1	2,840.0	3,243.7	2,864.3	2,903.2	3,628.3	3,561.3	2,901.6	1,939.2	1,819.0	2,002.4
Exports	1,146.1	1,023.0	984.0	1,124.3	1,348.7	1,438.5	1,560.2	1,244.0	960.1	733.3	800.7
United Kingdom**											
Imports	310.0	391.1	419.3	349.4	405.8	512.9	1,363.0	426.2	1,169.1	245.4	212.7
Exports	107.8	116.8	140.2	107.0	78.5	61.8	56.2	46.0	34.8	21.4	52.2
Italy											
Imports	1,411.2	1,180.6	1,302.2	1,238.7	1,235.7	1,441.3	1,258.7	1,051.5	711.1	659.2	658.3
Exports	154.1	163.6	142.3	214.3	401.9	331.9	287.5	173.2	186.3	85.3	127.1
Germany											
Imports	321.4	324.7	380.0	375.1	423.7	450.2	507.8	337.1	309.2	209.6	182.3
Exports	348.6	314.4	345.9	399.4	402.8	426.0	495.2	426.7	278.6	286.8	219.2
France											
Imports	285.6	224.9	236.7	254.5	233.7	301.6	464.5	334.9	282.9	200.0	254.6
Exports	253.0	204.1	242.4	238.8	238.0	271.3	269.0	239.5	178.3	136.5	124.4
America***											
Imports	370.0	961.9	789.4	1,668.8	939.1	450.3	501.4	479.8	259.3	378.9	408.2
Exports	213.8	216.2	192.3	789.5	187.5	180.8	192.4	147.4	121.8	93.2	110.6
Africa											
Imports	254.7	236.0	162.9	263.7	284.7	260.0	165.2	239.0	85.5	160.0	65.0
Exports	617.0	969.7	931.2	562.9	592.6	468.3	436.3	421.5	181.4	275.5	203.3
Asia											
Imports	827.6	732.9	782.0	786.7	947.7	943.8	1,034.7	974.6	570.0	612.8	620.4
Exports	1,059.6	766.6	715.7	671.4	640.7	701.6	765.5	791.6	309.0	358.4	296.5

* Treated differently from other parts in the Survey.

** As from January 2021 the UK does not form part of the EU.

*** Includes only North and Central America.

**** For the period January till June.

Source: National Statistics Office

Balance of Payments

Table VIII € millions

	2014	2015	2016	2017	2018	2019	2020	2019 Jan-Jun	2020 Jan-Jun	2021 Jan-Jun
Goods Balance(1)	-1,212.3	-1,977.0	-1,983.2	-1,469.1	-1,482.9	-1,645.8	-1,411.9	-832.4	-735.6	-1,026.6
Imports (f.o.b.)	3,736.8	4,667.7	4,598.5	4,526.0	4,686.7	5,095.6	4,357.1	2,433.6	2,108.1	2,389.1
Exports (f.o.b.)	2,524.5	2,690.7	2,615.3	3,056.9	3,203.9	3,449.8	2,945.1	1,601.2	1,372.5	1,362.5
Services-Net	2,226.5	2,911.0	3,155.0	3,551.7	3,502.8	3,700.7	2,445.8	1,703.6	1,169.5	1,288.7
Transport-net	-133.2	56.3	209.5	284.9	435.2	428.4	236.0	202.8	118.1	153.4
Travel-net	845.8	914.0	937.8	1,114.1	1,133.3	1,224.3	252.7	483.7	95.5	52.7
Other Services-net	1,514.0	1,940.7	2,007.7	2,152.6	1,934.4	2,048.0	1,957.1	1,017.1	955.9	1,082.5
Primary Income- Net	-475.6	-573.0	-1,092.5	-1,251.4	-1,031.4	-1,133.0	-1,253.4	-547.6	-622.2	-617.1
Compensation of Employees-net	-34.5	-19.4	-37.7	-45.4	-46.1	-51.2	-40.9	-26.2	-19.7	-28.6
Investment Income-net	-370.0	-505.7	-978.0	-1,130.9	-911.2	-982.2	-1,122.2	-460.8	-550.6	-510.2
Other Primary Income-net	-71.1	-48.0	-76.8	-75.2	-74.1	-99.6	-90.4	-60.6	-51.8	-78.3
Secondary Income-Net	205.4	-91.2	-139.1	-131.7	-156.6	-165.3	-163.0	-85.4	-86.0	-70.4
General Government-net	818.8	6.1	3.1	6.6	-3.2	-5.6	-3.9	-4.4	-2.9	-0.1
Private-net	-613.4	-97.4	-142.2	-138.3	-153.5	-159.7	-159.1	-81.1	-83.1	-70.3
Current A/C-Net	744.1	269.8	-59.8	699.4	831.9	756.6	-382.6	238.1	-274.2	-425.5
Goods Balance(1) as % of GDP at m.p.	-13.9%	-19.8%	-18.8%	-12.3%	-11.4%	-11.7%	-10.8%	-12.3%	-11.5%	-15.0%
Invisible Balance as % of GDP at m.p.	25.4%	29.1%	29.9%	29.7%	27.0%	26.3%	18.7%	25.2%	18.3%	18.9%
Primary Income a/c Balance as % of GDP at m.p.	-5.4%	-5.7%	-10.3%	-10.5%	-7.9%	-8.1%	-9.6%	-8.1%	-9.7%	-9.0%
Secondary Income a/c Balance as % of GDP at m.p.	2.3%	-0.9%	-1.3%	-1.1%	-1.2%	-1.2%	-1.2%	-1.3%	-1.3%	-1.0%
Current a/c Balance as % of GDP at m.p.	8.5%	2.7%	-0.6%	5.8%	6.4%	5.4%	-2.9%	3.5%	-4.3%	-6.2%
Capital A/C-Net	142.8	268.7	37.5	76.1	117.7	107.2	81.7	66.6	46.8	23.1
Financial A/C-Net(2)	443.9	164.2	862.1	1,220.8	659.9	44.3	-313.4	289.0	-211.0	286.0
Direct Investment-net	-6,785.0	-9,222.4	-8,511.7	-9,566.1	-9,808.1	-9,707.0	-9,743.1	-4,787.5	-4,826.2	-4,321.7
Portfolio Investment-net(3)	13,206.0	4,899.9	4,757.5	6,839.7	3,175.5	4,732.4	6,409.2	2,407.0	3,156.6	3,575.5
Financial Derivatives-net(3)	-573.2	-897.4	-6.4	-106.8	180.4	-208.1	-131.3	-123.3	-64.5	-100.6
Other Investment-net(3)	-5,416.0	5,457.6	4,534.4	3,817.8	6,748.9	5,464.5	3,185.2	3,010.9	1,634.4	1,031.0
Reserve Assets(3)	12.0	-73.5	88.3	236.2	363.2	-237.5	-33.5	-218.1	-111.3	101.8

(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).

Source: National Statistics Office

Government Revenue and Expenditure

Table IX

€ million

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2018 Jan-Aug	2019 Jan-Aug	2020 Jan-Aug	2021 Jan-Aug
Government Recurrent Revenue	2,715.7	2,992.1	3,387.2	3,634.8	3,807.0	4,291.2	4,559.8	4,972.9	4,389.3	2,744.1	3,190.2	2,524.8	3,221.5
Increase/(Decrease) % per annum	2.7	10.2	13.2	7.3	4.7	12.7	6.3	9.1	-11.7	6.2	16.3	-20.9	27.6
of which:													
Tax Revenue	2,393.0	2,602.5	2,953.7	3,195.6	3,446.0	3,829.3	4,167.8	4,485.8	3,942.5	2,516.9	2,846.3	2,216.6	2,948.6
Direct Tax Revenue	1,475.6	1,612.9	1,767.3	1,924.2	2,132.7	2,372.5	2,541.0	2,811.9	2,600.1	1,500.1	1,713.9	1,405.8	1,871.8
Indirect Tax Revenue	917.3	989.6	1,186.4	1,271.4	1,313.3	1,456.7	1,626.8	1,673.9	1,342.4	1,016.8	1,132.3	810.8	1,076.8
Non-Tax Revenue	322.8	389.6	433.5	439.2	361.0	461.9	392.0	487.0	446.8	227.3	343.9	308.3	273.0
Total Government Expenditure	3,078.0	3,255.3	3,523.5	3,870.6	3,798.1	4,108.5	4,630.0	4,963.5	5,857.2	2,747.2	3,106.3	3,611.1	3,974.7
Increase/(Decrease) % per annum	7.5	5.8	8.2	9.9	-1.9	8.2	12.7	7.2	18.0	7.6	13.1	16.3	10.1
of which:													
Recurrent Expenditure	2,488.4	2,632.6	2,857.0	3,056.8	3,264.3	3,543.3	3,821.4	4,216.2	4,638.9	2,395.3	2,666.8	2,965.1	3,474.3
Capital Expenditure	363.8	394.7	435.3	581.5	310.3	350.2	605.0	555.0	1,037.1	212.8	313.0	524.6	377.3
% of Total Government Expenditure	11.8	12.1	12.4	15.0	8.2	8.5	13.1	11.2	17.7	7.7	10.1	14.5	9.5
Interest on Public Debt	225.8	227.9	231.1	232.3	223.5	215.1	203.6	192.3	181.2	139.1	126.5	121.3	123.1
Balance of recurrent revenue and total expenditure	-362.3	-263.2	-136.3	-235.8	8.9	182.7	-70.2	9.4	-1,467.9	-3.1	83.9	-1,086.2	-753.2
Financed by:													
Extraordinary Receipts	28.4	28.4	0.0	0.8	1.1	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Receipts from sale of shares	0.0	0.0	0.0	0.8	1.1	0.9	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Sinking Funds of Converted Loans	28.4	28.4	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Sinking Fund Contribution & Direct Loan Repayment	-361.3	-380.8	-427.2	-384.1	-545.1	-427.9	-444.0	-489.7	-485.8	-218.1	-197.3	-287.6	-462.5
Equity Acquisition	-33.4	-26.5	-13.8	-41.1	-13.0	-71.4	-63.5	-18.8	-37.0	-63.0	-10.3	-27.0	-4.5
Loan Facility Agreement with the Hellenic Republic	0.0	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	0.0	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	52.0	0.0	0.0	40.4	12.2	0.0	0.0	0.0	0.9	0.0	0.0	0.2	0.0
Public Sector Borrowing Requirement	-728.6	-642.1	-577.3	-619.8	-535.9	-315.7	-576.7	-498.2	-1,988.8	-283.3	-122.8	-1,399.8	-1,219.3
Loans	645.7	627.1	648.8	473.2	597.9	357.4	243.5	449.7	1,549.8	93.5	279.7	1,044.8	1,265.3

Source: National Statistics Office

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

Table X

€ million

	2013	2014	2015	2016	2017	2018	2019	2020	2021* Jan-Jul
Broad Money (M3)[2]	12,588.1	14,607.8	16,229.4	17,809.2	19,426.1	19,671.1	20,661.0	22,411.3	24,284.8
Intermediate Money (M2)	12,422.6	14,486.4	16,104.3	17,713.5	18,643.3	19,610.6	20,606.6	22,464.7	24,342.8
% Increase/ (Decrease)		16.6	11.2	10.0	5.2	5.2	5.1	9.0	18.1
of which:									
Narrow Money (M1)	7,476.9	9,696.4	12,148.2	13,551.2	14,904.4	15,881.4	16,983.6	18,601.6	20,074.6
Currency issued[3]	778.7	839.4	893.1	939.5	968.7	1,028.7	1,190.8	1,356.0	1,431.5
% Increase/ (Decrease)		7.8	6.4	5.2	3.1	6.2	15.8		20.2
Overnight deposits[4]	6,698.3	8,857.0	11,255.1	12,611.8	13,935.7	14,852.7	15,792.8	17,245.6	18,643.1
Deposits redeemable at notice up to 3 months[4]	113.8	124.4	123.0	105.0	46.8	77.6	91.2	121.6	576.1
Deposits with agreed maturity up to 2 years[4]	4,831.9	4,665.6	3,833.1	4,057.3	3,692.0	3,651.6	3,531.9	3,741.5	3,692.2
Credit Counterpart[5]	15,348.6	15,768.4	16,407.6	17,012.7	17,407.5	18,318.7	18,890.5	20,079.1	21,009.3
of which:									
Credit to residents of Malta	12,059.4	11,736.8	12,393.6	12,706.1	12,943.9	13,560.6	14,216.5	15,759.6	16,790.0
Credit to other Euro area residents	3,289.1	4,031.6	4,014.0	4,306.6	4,463.6	4,754.6	4,674.0	4,319.5	4,219.2
Net claims on non-residents of the Euro Area	9,614.7	11,732.4	11,034.4	9,421.8	6,718.4	5,440.8	4,737.9	5,068.1	5,179.7
Other counterparts (net)[6]	12,375.2	12,892.9	11,212.7	8,625.3	4,699.9	4,115.7	2,991.8	2,735.9	1,904.1

* Provisional

[1] Figures show the contribution of Maltese monetary financial institutions (MFIs) to the Euro Area 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 Euro Area 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 Euro Area and holdings by non-residents of the Euro Area.

[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.

[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