



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

QUARTERLY REVIEW

2021

Vol. 54 No. 1

© Central Bank of Malta, 2021

Address

Pjazza Kastilja
Valletta VLT 1060
Malta

Telephone

(+356) 2550 0000

Fax

(+356) 2550 2500

Website

www.centralbankmalta.org

E-mail

info@centralbankmalta.org

All rights reserved. Reproduction is permitted provided that the source is acknowledged.

The cut-off date for statistical information published in the Economic Survey of this Review is 15 January 2021. However, for monetary and government statistics the cut-off date is extended to 29 January 2021. Figures in tables may not add up due to rounding.

ISSN 1811-1254 (online)

CONTENTS

FOREWORD	5
ECONOMIC SURVEY	8
1. The External Environment and the Euro Area	8
Key advanced economies	
The euro area	
Commodities	
2. Output and Employment	18
Potential output and BCI	
GDP and industrial production	
Business and consumer surveys	
The labour market	
Box 1: An analysis of Malta's potential to telework	
Article: The 2020 national accounts benchmark revision	
3. Prices, Costs and Competitiveness	47
Inflation	
Residential property prices	
Box 2: Long-term housing rentals in Malta	
Costs and competitiveness	
4. The Balance of Payments	58
The current account	
Tourism activity	
The capital account	
5. Government Finance	63
Quarterly developments	
Headline and cyclically-adjusted developments	
6. Monetary and Financial Developments	68
Monetary and financial conditions	
Liquidity support measures related to COVID-19	
The money market	
The capital market	

ABBREVIATIONS

APP	asset purchase programme
BCI	Business Conditions Index
BLS	Bank Lending Survey
COVID-19	coronavirus disease 2019
CCFF	Corporate Financing Facility
CGS	COVID-19 Guarantee Scheme
CPI	consumer price index
EC	European Commission
ECB	European Central Bank
EEI	Employment Expectations Indicator
EER	effective exchange rate
EONIA	Euro OverNight Index Average
ESA	European System of Accounts
ESI	economic sentiment indicator
EU	European Union
EURIBOR	Euro Interbank Offered Rate
€STR	euro short-term rate
FCI	Financial Conditions Index
FIMA	Foreign and International Monetary Authorities
FISIM	financial intermediation services indirectly measured
FOMC	Federal Open Market Committee
GDP	gross domestic product
GFCF	gross fixed capital formation
GNI	gross national income
GVA	gross value added
HBS	Household Budgetary Survey
HCI	harmonised competitiveness indicator
HFCE	Household Final Consumption Expenditure
HICP	Harmonised Index of Consumer Prices
ISCO	International Standard Classification of Occupations
LFS	Labour Force Survey
MDB	Malta Development Bank
MFI	monetary financial institution
MGS	Malta Government Stocks
MIA	Malta International Airport
MRO	main refinancing operation
MSE	Malta Stock Exchange
NACE	statistical classification of economic activities in the European Community
NAIRU	non-accelerating inflation rate of unemployment
NEIG	non-energy industrial goods
NFC	non-financial corporation
NPISH	non-profit institutions serving households
NPL	non-performing loans
NSO	National Statistics Office
OPEC	Organization of the Petroleum Exporting Countries
PELTROs	pandemic emergency longer-term refinancing operations
PEPP	Pandemic Emergency Purchase Programme
PPI	Property Price Index
R&D	research and development
RPI	Retail Price Index
STS	short-term statistics
SUIOT	supply, use and input-output tables
TLTRO	targeted long-term refinancing operation
ULC	unit labour cost
UK	United Kingdom
US	United States
VAT	value added tax

FOREWORD

During the third quarter of 2020 economic activity recovered somewhat as gross domestic product (GDP) expanded in quarter-on-quarter terms. In particular, seasonally-adjusted data show that GDP rose by 7.4%, after contracting during the first two quarters of the year. This profile reflects a rebound in private consumption which was up by over a fifth over its second quarter trough.

Although economic activity levels improved in quarter-on-quarter terms, they remained well below pre-pandemic levels. Real GDP, in fact, fell significantly – by 9.9% in annual terms – though this was a more muted decline than the double-digit drop registered in the second quarter. The economic contraction was largely underpinned by a sharp fall in net exports, as the deterioration in domestic demand was smaller.

Potential output growth is estimated to have moderated further during the third quarter of 2020, standing at 1.9% from 2.7% in the previous quarter, marking the lowest growth in potential output since 2003. When measured as a four-quarter moving average, the output gap was estimated at -7.2% in the third quarter of 2020, below the -4.2% estimated in the previous quarter, reflecting the Bank's assessment that the containment measures relating to the COVID-19 pandemic so far had a stronger impact on the demand-side of the economy. By contrast, the supply side of the economy has proved resilient, particularly in terms of the potential labour input.

The Bank's Business Conditions Index (BCI) improved slightly during the third quarter, but remained firmly below its long-term average. The index continued to signal that economic conditions, while better than in the second quarter, remained worse than those during the 2008/9 recession. The BCI remained adversely affected, particularly by strong annual declines in tourist arrivals and economic sentiment.

During the third quarter of the year, the labour market continued to be negatively affected by the pandemic. The Labour Force Survey (LFS) showed that, on an annual basis, both the labour force and employment rose at a slower rate than in the second quarter, while the unemployment rate increased when compared to the previous quarter and its year-ago level. Nevertheless, the impact of COVID-19 on unemployment was mitigated by government measures aimed at protecting employment as well as firms' reliance on shorter working-time arrangements. At 4.6%, the unemployment rate in Malta remained below that in the euro area, but was above the Bank's structural measure.

Inflation eased during the quarter. Annual inflation as measured by the Harmonised Index of Consumer Prices (HICP) decelerated to 0.5% in September from 1.0% in June, driven by slower growth in food prices and falling prices for energy and non-energy industrial goods (NEIG). Inflation based on the Retail Price Index (RPI), which only takes into account purchases made by Maltese households, eased to 0.2% in September, from 0.7% three months earlier. Meanwhile, producer output prices fell in annual terms.

Malta's unit labour cost (ULC) index accelerated during the third quarter, driven by a faster decline in labour productivity, which offset a small decrease in compensation per employee. Meanwhile, Malta's harmonised competitiveness indicators (HCIs) pointed to a deterioration in international competitiveness, reflecting unfavourable developments in trade-weighted exchange rates.

In the third quarter of 2020, the balance on the current account shifted into deficit, from a surplus in the third quarter of 2019. This was mainly on account of a sharp decline in net services receipts, although an increase in net income outflows also contributed. By contrast, the deficit on merchandise trade narrowed. When measured as a four-quarter moving sum, the current account registered a deficit for the first time in almost four years and stood at 2.2% of GDP. Meanwhile, the cyclically-adjusted current account balance was estimated to have recorded a small surplus of 0.4% during the third quarter of 2020, indicating that the deficit in the current account is driven mostly by cyclical factors.

Public finances were also negatively impacted by the COVID-19 pandemic, with the general government balance deteriorating significantly. When measured on a four-quarter moving sum basis, the general government balance registered a deficit of 8.0% of GDP in the third quarter of 2020, against a deficit of 5.1% of GDP in the previous quarter. Meanwhile, the general government debt-to-GDP ratio rose to 53.7%, from 51.0% at end-June.

During the quarter under review, Maltese residents' deposits with monetary financial institutions (MFIs) in Malta continued to expand, albeit at a more moderate pace. The shift to overnight deposits persisted in an environment of low interest rates and continued preference for liquidity. Credit to Maltese residents expanded at a faster pace, partly reflecting stronger growth in credit to general government. Credit to residents outside general government also grew at a faster rate compared to June, driven by lending to the financial sector. By contrast, the annual rate of change of loans to households and – to a lesser extent – non-financial corporations (NFCs) was below that recorded three months earlier. According to the Bank's Financial Conditions Index (FCI), financing conditions were tight from a historical perspective, but slightly more favourable than in the second quarter.

In September, the weighted average interest rate on deposits held by Maltese residents with domestic banks was 8 basis points lower compared with a year earlier. The weighted average lending rate paid to resident MFIs by households and NFCs fell by 9 basis points over this period. Thus, the spread between the two narrowed marginally.

Meanwhile, the primary market yield on Treasury bills rose from that prevailing at the end of June. By contrast, secondary market yields on Malta Government Stocks (MGS) declined. Domestic share prices fell and ended the September quarter at a lower level compared with end-June, mostly reflecting a decline in share prices of tourism-related firms and the banking sector.

In response to the COVID-19 pandemic and subsequent containment measures, the Central Bank of Malta issued Directive No. 18 to regulate the temporary suspension of debt repayments on credit facilities advanced by credit institutions to borrowers prior to 14 April 2020. As at the end of September 2020, 7,620 loans were subject to a moratorium on loan repayments, amounting to around €1.6 billion. The outstanding amount of loans that were subject to a moratorium on repayments fell when compared to June when there were 9,221 loans benefitting from these moratoria, amounting to €1.7 billion of loans.

Furthermore, in order to alleviate liquidity shortfalls as a result of the pandemic, in April 2020, the Government launched the Malta Development Bank (MDB) COVID-19 Guarantee Scheme (CGS) which provides guarantees to commercial banks with the aim of enhancing access to new

working capital for businesses. By end-September 2020, 453 facilities were approved under this scheme, covering total sanctioned lending of €343.7 million.

Central banks around the world also continued to provide extensive liquidity support to facilitate the smooth functioning of financial markets and the flow of credit to the economy.

The Governing Council of the European Central Bank (ECB) reinforced its accommodative monetary policy stance. The interest rates on the main refinancing operations, on the marginal lending facility and on the deposit facility were kept unchanged at 0.00%, 0.25%, and -0.50% respectively. Furthermore, the Governing Council reiterated that it expected the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. It also reiterated its intention to reinvest in full the principal payments from maturing securities under the Asset Purchase Programme (APP) for an extended period of time past the date when it starts raising the key ECB interest rates and in any case for as long as necessary, to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council once again stated that it will continue its purchases under the Pandemic Emergency Purchase Programme (PEPP), and that it will also continue to provide ample liquidity through its refinancing operations. In the fourth quarter, the Governing Council recalibrated several of its monetary policy instruments. Most notably, it decided to increase the envelope of the PEPP by €500 billion to a total of €1,850 billion. It also decided to recalibrate the parameters of the targeted long-term refinancing operations (TLTRO III), to carry out three additional operations in 2021 and to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021.

ECONOMIC SURVEY

1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

In the third quarter of 2020, real GDP rebounded in the United States, the United Kingdom and the euro area as containment measures introduced in response to COVID-19 were eased. Meanwhile, the three-month average unemployment rate declined from a record high in the United States, but rose in the United Kingdom and in the euro area.

Annual consumer price inflation in the United States rose from 0.6% in June to 1.4% in September. On the other hand, inflation eased marginally in the United Kingdom falling to 0.5% in September from 0.6% in June. Inflation turned negative in the euro area, falling to -0.3% from 0.3% in June. During the third quarter, the Federal Reserve, the Bank of England and the ECB, all kept their key interest rates unchanged. All three central banks continued to provide extensive liquidity support packages to support the smooth functioning of financial markets and the flow of credit to the economy.

Brent crude oil prices increased as the lifting of containment measures attenuated expectations about excess supply in the oil market. In September though, oil prices fell somewhat as the number of new COVID-19 cases started to rise once more and various countries reinstated containment measures, raising concerns about the recovery in global oil demand. The price of Brent crude oil ended the quarter 5.5% lower than the level prevailing at end-June and approximately a third below its level a year earlier. Meanwhile, non-energy commodity prices rose.

Key advanced economies

US economy shows signs of recovery

After falling at a quarterly rate of 9.0% in the second quarter of 2020, GDP in the United States increased by 7.5% in the third quarter (see Table 1.1). The rebound in activity reflected continued efforts to re-open businesses and resume activities that were postponed or restricted due to COVID-19. Gross private domestic investment and personal consumption expenditure partly recovered from the sharp contraction recorded in the previous quarter. In contrast, government expenditure posted the first decrease in almost two years, while the trade deficit widened in volume terms, as higher imports offset the rise in exports.

In the labour market, the labour force recovered from the previous quarter's decline, but remained below pre-COVID levels, in line with developments in the participation rate. This increased to 61.5%

Table 1.1
REAL GDP GROWTH IN SELECTED ADVANCED ECONOMIES

Quarter-on-quarter percentage changes; seasonally and working day adjusted

	2018		2019				2020		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
United States	0.5	0.3	0.7	0.4	0.6	0.6	-1.3	-9.0	7.5
Euro area	0.1	0.5	0.5	0.2	0.2	0.1	-3.7	-11.7	12.5
United Kingdom	0.6	0.2	0.6	0.1	0.5	0.0	-3.0	-18.8	16.0

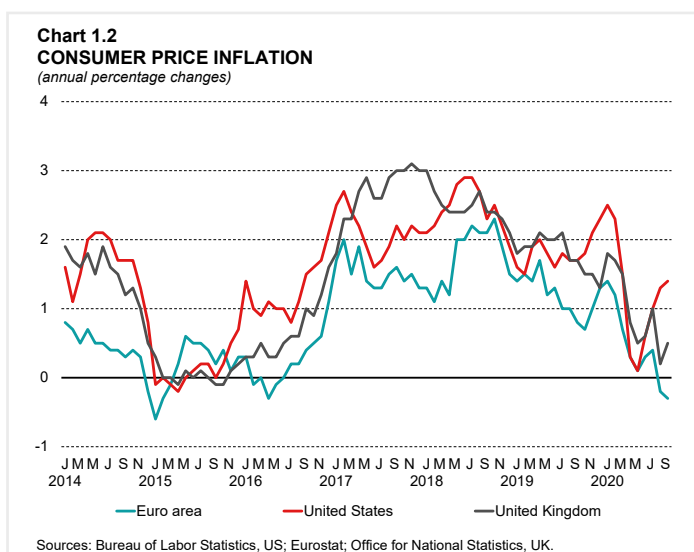
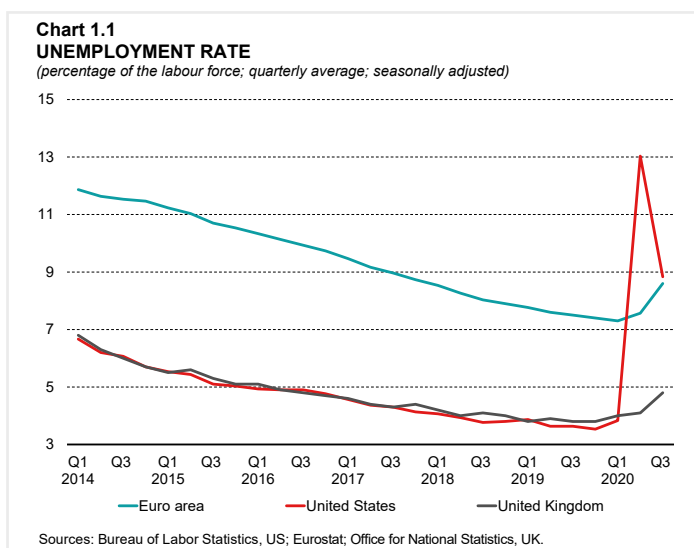
Sources: Bureau of Economic Analysis, US; Eurostat; Office for National Statistics, UK.

in the third quarter of 2020, from 60.8% in the preceding quarter but was lower than the 63.2% registered in the first quarter of the year. Employment also showed signs of recovery during the quarter, while remaining below pre-crisis levels. As a result, in year-on-year terms, the employment growth was less negative compared to the second quarter. The number of job holders fell by 7.4% in annual terms, after having fallen by 12.3% in the second quarter. Non-farm payroll data suggest that employment fell at a slower pace in the majority of the main economic sectors, including the leisure and hospitality sector and the retail sector. The average unemployment rate eased as the quarter progressed, falling to 8.8% from 13.0% in the previous quarter yet remained well above rates of around 4.0% recorded in recent years (see Chart 1.1).

The annual rate of change of the US consumer price index (CPI) rose to 1.4% in September, from 0.6% in June (see Chart 1.2). This mainly reflected developments in energy inflation which stood at -7.7% in September, from -12.6% in June. Meanwhile, prices of commodities other than food and energy increased after falling in June. Service price inflation was unchanged, while food inflation edged down. Reflecting developments in services prices and commodities other than food and energy, inflation excluding food and energy increased to 1.7% in September from 1.2% in June.

During the third quarter of 2020, the Federal Open Market Committee (FOMC) reiterated its commitment to use its full range of tools to support the US economy, in line with its goals of maximum employment and price stability. The target range for the federal funds rate was kept unchanged in a range between 0.00% and 0.25% (see Chart 1.3). The Committee said that this target range will remain appropriate until labour market conditions have reached levels consistent with its assessments of maximum employment and inflation has risen to 2.0% and is on track to moderately exceed 2.0% for some time.

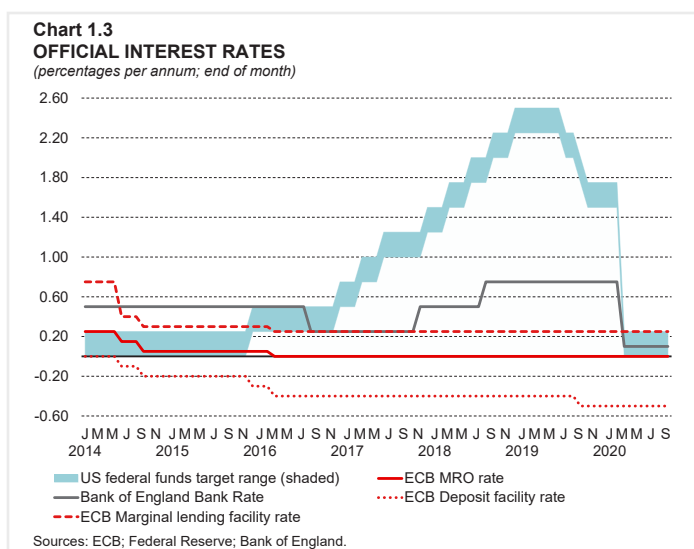
In order to sustain smooth market functioning and help foster accommodative financial conditions and the flow of credit to households and



businesses, the FOMC said that it would increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace.

In the quarter under review, the Main Street Lending Program was modified again in order to provide greater access to credit for non-profit organisations, such as educational institutions, hospitals and social service organisations. The Federal Reserve also extended several lending facilities that were due to expire in September through to December 2020.

The three-month extension would facilitate planning by potential facility participants and provide certainty that the facilities would continue to be available to help the economy recover from the COVID-19 pandemic. The temporary US dollar liquidity swap lines and the temporary repurchase agreement facility for foreign and international monetary authorities (FIMA repo facility) were extended through end-March 2021. The extension of swap lines aims at sustaining improvements in global US dollar funding markets while the FIMA repo facility supports the smooth functioning of the US Treasury market by providing an alternative temporary source of US dollars other than sales of securities in the open market.¹



UK economy rebounds from an unprecedented decline

In the third quarter of 2020, activity began to recover from the unprecedented contraction recorded in the previous quarter. GDP growth in the United Kingdom increased by 16.0%, after previously falling by 18.8% (see Table 1.1). Private consumption, government consumption and gross fixed capital formation rebounded on a quarter-on-quarter basis, in line with the easing of public health restrictions. However, they remained below their pre-pandemic level. After falling sharply in the second quarter, gross trade flows also improved somewhat in the third quarter as global demand increased and there were less disruptions to supply chains. However, in volume terms, net trade still had a dampening effect on GDP growth as exports decreased, while imports increased.

Despite the rise in economic activity, employment fell at a stronger annual pace, declining at an annual rate of 0.8%, from -0.4% in the second quarter. Meanwhile, the unemployment rate averaged 4.8%, up from 4.1% in the previous quarter (see Chart 1.1).

Consumer price inflation in the United Kingdom edged down marginally from 0.6% in June to 0.5% in September (see Chart 1.2). Prices for food and services grew at a slower pace, while

¹ In the fourth quarter of 2020, the FOMC committed to maintain an accommodative stance of monetary policy until labour market conditions have reached levels consistent with maximum employment, inflation has risen moderately above 2.0% for some time and longer-term inflation expectations remain well anchored at 2.0%. The Committee also said that the Federal Reserve would continue to increase its holdings of Treasury securities by at least USD 80 billion per month and of agency mortgage-backed securities by at least USD 40 billion per month until further progress has been made toward its goals. It also adjusted the terms of the Main Street Lending Program to better target support to smaller businesses facing continued revenue shortfalls due to the pandemic. Meanwhile, the Federal Reserve extended four lending facilities that were due to expire in or around December 2020 to March 2021. The temporary US dollar liquidity swap lines and the FIMA repo facility were extended to end-September 2021.

prices of non-energy industrial goods rose at a marginally faster pace. Meanwhile, energy prices declined at a slower rate. The annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco declined marginally from 1.4% in June to 1.3% in September.

In the third quarter of 2020, the Bank of England's Monetary Policy Committee kept the Bank Rate unchanged at 0.1% (see Chart 1.3). The Committee also said that it will continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at GBP 745 billion. The Committee reiterated that it would continue to monitor the situation closely and stands ready to adjust monetary policy accordingly to meet its remit. It does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2.0% inflation target sustainably.²

As previously announced, the Bank of England and HM Treasury confirmed that the Corporate Financing Facility (CCFF) will close for new purchases of commercial paper with effect from 23 March 2021.³

The euro area

GDP contraction in the euro area comes to a halt

The contraction experienced in the euro area economy during the first half of 2020 came to a halt in the third quarter. Real GDP grew by 12.5% on a quarter-on-quarter basis, following a contraction of 11.7% in the previous quarter (see Table 1.2). Nevertheless, real GDP remained well below pre-pandemic levels.

Table 1.2

CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA⁽¹⁾

Percentage points; annual percentage change

	2018		2019				2020		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private consumption	0.0	0.2	0.3	0.1	0.2	0.0	-2.4	-6.6	7.3
Government consumption	0.0	0.1	0.1	0.1	0.1	0.1	-0.1	-0.5	1.1
GFCF	0.1	1.0	-0.5	1.4	-1.2	1.3	-1.3	-3.6	2.8
Changes in inventories ⁽²⁾	0.3	-0.1	-0.4	0.0	-0.2	-0.3	0.6	-0.2	-1.2
Exports	0.1	0.5	0.5	0.0	0.3	0.0	-1.8	-9.2	7.6
Imports	-0.4	-1.2	0.4	-1.5	1.0	-1.0	1.3	8.3	-5.2
GDP	0.1	0.5	0.5	0.2	0.2	0.1	-3.7	-11.7	12.5

Source: Eurostat.

⁽¹⁾ Data are seasonally and working day adjusted. Figures may not add up due to rounding.

⁽²⁾ Including acquisitions less disposals of valuables.

² During the fourth quarter of 2020, the Bank of England kept the Bank Rate unchanged at 0.1%. The Committee decided to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 20 billion. It also agreed to continue with the programme of GBP 100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and increase the target stock of purchased UK government bonds by an additional GBP 150 billion, financed by the issuance of central bank reserves, to take the total stock of government bond purchases to GBP 875 billion, and so the total target stock of asset purchases at GBP 895 billion. The Committee said that it did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2.0% inflation target sustainably. In December, the Committee announced a six-month extension of the Term Funding Scheme with additional incentives for SMEs (TFSME).

³ The CCFF was announced in March 2020 and was expected to last 12 months. It was introduced to help eligible businesses bridge COVID-19-related temporary disruption to their cash flows. The facility closed to new applications from counterparties and issuers looking to become eligible at the end of 2020.

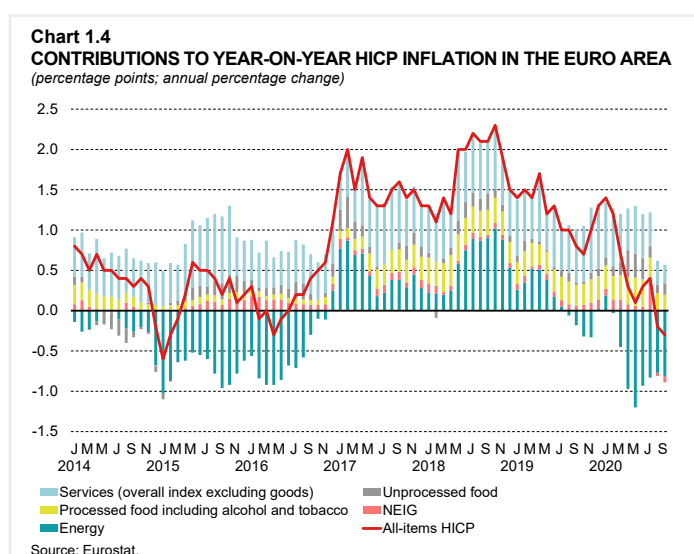
This expansion was mostly driven by domestic demand, which contributed 10.1 percentage points to GDP growth. As containment measures to curb the spread of COVID-19 were relaxed across the euro area during the summer, private consumption surged and contributed 7.3 percentage points to GDP growth. This was followed by gross fixed capital formation, which pushed GDP growth up by a further 2.8 percentage points. At the same time, government consumption contributed a more moderate 1.1 percentage points to GDP growth. On the other hand, changes in inventories dragged GDP growth down by 1.2 percentage points. Meanwhile, net exports raised GDP growth by 2.4 percentage points, as exports rebounded and rose at a faster pace than imports.

Euro area inflation turns negative

During the quarter under review, inflation in the euro area dropped below zero for the first time in more than four years. The annual rate of inflation in the euro area, based on the HICP, dropped to -0.3% in September from 0.3% three months earlier (see Chart 1.4). This decline largely stemmed from unprocessed food prices, which grew by 3.1%, a much slower pace than the 6.0% registered in the previous quarter, as the spike in prices observed at the onset of the pandemic eased. Meanwhile, prices of processed food and services also rose at a slower pace than in the previous quarter. At the same time, non-energy industrial goods inflation turned negative. In contrast, energy prices fell at a slower pace than in the previous quarter. Overall, weak demand – notably in tourism and travel-related sectors, as well as a temporary reduction in VAT in Germany – dampened price pressures. As a result, the annual rate of HICP inflation excluding energy and food edged down to 0.2% in September – a new historical low – from 0.8% in June.

Labour market conditions remain fragile

As a result of the COVID-19 pandemic, the seasonally-adjusted unemployment rate edged up by 0.6 percentage point between June and September to 8.5% (see Chart 1.1). The three-month average rate rose by a substantial 1.0 percentage point to 8.6% over the same period. The unemployment rate peaked in July at 8.7%, this being the highest rate in almost three years and considerably higher than the low of 7.2% reached in April 2020, just three months earlier. Meanwhile, although employment rose compared with the second quarter of 2020, the annual growth rate stood at -2.1%. This is less than the -3.0% registered in the preceding quarter.⁴ The fragility in the labour market stemmed from the COVID-19 pandemic and its negative impact on economic activity. However, this was to some extent mitigated by policy measures aimed at preventing redundancies and supporting jobs.



⁴ Employment data refer to the national accounts, total employment domestic concept. Data are seasonally and calendar adjusted.

Eurosystem staff projections indicate a gradual recovery⁵

According to the Eurosystem staff macroeconomic projections published in December 2020, real GDP growth in the euro area is expected to fall significantly to -7.3% in 2020 but to pick up to 3.9% in 2021, 4.2% in 2022, and 2.1% in 2023 (see Table 1.3). The contraction in 2020 is projected to be mainly driven by domestic demand, though net exports are also expected to exert a negative contribution.

Following a contraction in the first two quarters of 2020, euro area real GDP rebounded in the third quarter, as discussed above. The rebound was stronger than expected in the previous projections. However, the subsequent intensification of containment measures in response to a strong resurgence of COVID-19 is expected to result in another contraction in real GDP in the fourth quarter of 2020. Furthermore, the stringency of containment measures in that quarter will, on average, be maintained in the first quarter of 2021. However, the development of vaccines has instilled greater confidence in the expectation of a gradual resolution of the health crisis during 2021 and in early 2022. This, together with monetary and fiscal policies support measures as well as the ongoing recovery in foreign demand, should enable activity to rebound again during 2021, with real GDP expected to return to its pre-crisis level by mid-2022.

Compared with the September 2020 projections, euro area GDP growth was revised upwards by 0.7 percentage point in 2020, downwards by 1.1 percentage points in 2021, and upwards by 1.0 percentage point in 2022. The upward revision in real GDP growth in 2020 mainly reflects a much better than expected outcome in the third quarter, which outweighs the downward revision to the fourth quarter due to the resurgence of the pandemic. The downward revision in 2021 stems from a change in the technical assumption regarding the trade relationship between the United Kingdom and the European Union (where a no-deal Brexit was being assumed) and a lower statistical carry-over effect. These factors are expected to more than compensate for a stronger rebound stemming from the relaxation of containment measures and from the additional fiscal stimulus measures. Finally, the upward revision of 2022 reflects a higher carry-over effect and some positive impact of lower long-term interest rates and lower oil prices.

Turning to prices, the December 2020 projections envisage annual HICP inflation to ease significantly to 0.2% in 2020 and then to rise to 1.0% in 2021, 1.1% in 2022 and 1.4% in 2023. The increase in the inflation rate in 2021 mainly reflects base effects in HICP energy inflation related to

Table 1.3
MACROECONOMIC PROJECTIONS FOR THE EURO AREA⁽¹⁾

Annual percentage changes

	2020	2021	2022	2023
GDP	-7.3	3.9	4.2	2.1
Private consumption	-8.3	4.3	5.7	1.8
Government consumption	1.5	2.5	0.6	1.1
GFCF	-10.1	5.0	6.5	3.7
Exports	-11.0	6.5	4.9	3.5
Imports	-10.7	6.3	6.1	3.8
HICP	0.2	1.0	1.1	1.4

Source: ECB.

⁽¹⁾ Eurosystem staff macroeconomic projections (December 2020).

⁵ The cut-off date for oil prices and other technical assumptions was 18 November 2020 and the projections were finalised on 25 November 2020.

the sharp fall in oil prices at the onset of the pandemic as well as the reversal of the VAT rate cut in Germany. Subsequently, inflation is expected to increase gradually, mainly reflecting a slight rise in the contribution of HICP inflation excluding energy and food. The latter is set to ease to 0.7% in 2020 before picking up gradually to 1.2% in 2023. Compared with the September 2020 projections, HICP inflation has been revised slightly downward for 2020 and 2022, due to weaker than expected outcomes for HICP inflation excluding energy and food and a downward reassessment of inflationary pressures due to slack in both the goods and labour markets.

Given the large uncertainty surrounding these projections, ECB staff prepared two alternative scenarios to the baseline scenario. The mild scenario assumes that, despite the recent upturn in infections, the virus is contained successfully and a medical solution is implemented relatively quickly. Furthermore, scarring effects on the economy are expected to be limited. In contrast, the severe scenario envisages a strong resurgence of the pandemic, a return to strong containment measures, and strong and permanent losses in potential output. Under the mild scenario, real GDP declines by 7.2% in 2020, followed by a strong rebound of 6.0% in 2021 and growth of 4.3% in 2022 and 2.1% in 2023. Inflation in this scenario would reach 1.5% by 2023 while the unemployment rate would stand at 6.9%, compared to 7.5% in the baseline. By contrast, under the severe scenario real GDP falls by 7.6% in 2020, only to recover slowly by 0.4% in 2021, 3.0% in 2022 and 2.9% in 2023. This severe scenario envisages an inflation rate of just 0.8% in 2023 and an unemployment rate of 9.4% in that year.

ECB reinforces its accommodative monetary policy stance

The ECB's Governing Council reinforced its accommodative monetary policy stance during the third quarter of 2020.

The interest rates on the main refinancing operations, on the marginal lending facility and on the deposit facility were held unchanged at 0.00%, 0.25%, and -0.50% respectively during the period under review (see Chart 1.3). Furthermore, the Governing Council reiterated that it expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. It also reiterated its intention to reinvest in full the principal payments from maturing securities under the APP for an extended period of time past the date when it starts raising the key ECB interest rates and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

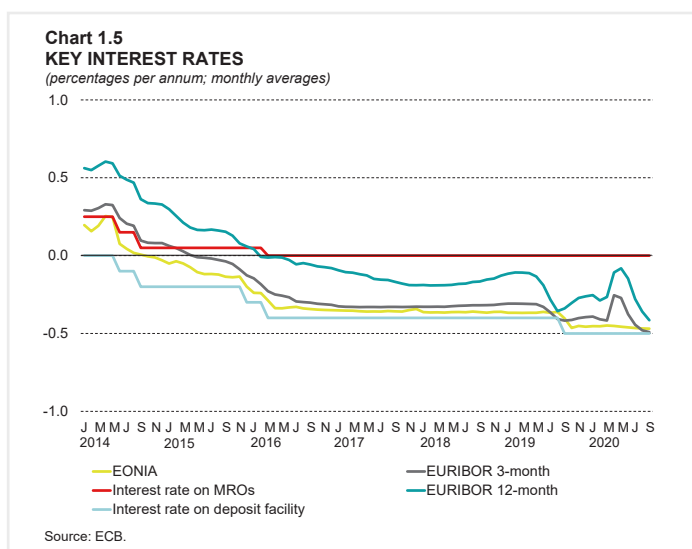
The Governing Council once again stated that it will continue its purchases under the PEPP with a total envelope of €1,350 billion, that net purchases under the APP will continue at a monthly pace of €20 billion together with the purchases under the additional €120 billion temporary envelope until the end of the year, and that it will also continue to provide ample liquidity through its refinancing operations.⁶

Money market rates decline

Money market interest rates in the euro area decreased during the third quarter of 2020, reflecting ample excess liquidity. The EONIA overnight rate was broadly stable during the quarter under

⁶ In view of the economic fallout from the resurgence of the pandemic, during its 10 December 20 meeting, the Governing Council recalibrated several of its monetary policy instruments. Most notably, it decided to increase the envelope of the PEPP by €500 billion to a total of €1,850 billion, to recalibrate the parameters of the TLTRO III, to carry out three additional operations in 2021 and to offer four additional PELTROs in 2021.

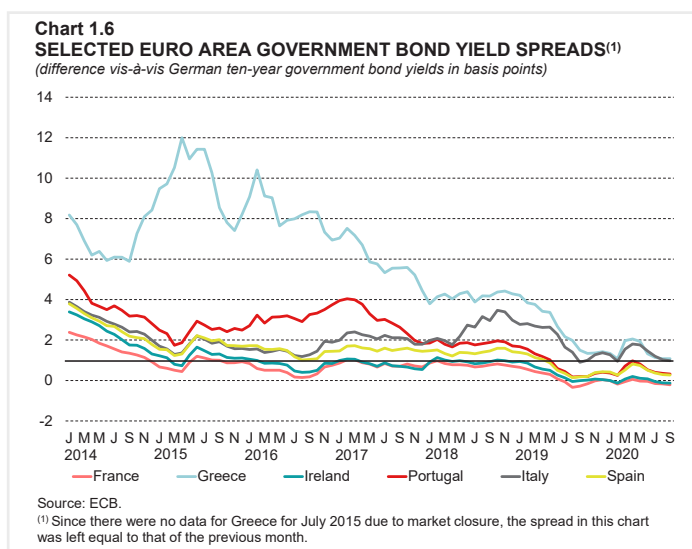
review, remaining slightly above the interest rate on the ECB's deposit facility. It decreased marginally to an average of -0.47% in September from -0.46% three months earlier (see Chart 1.5).⁷ Meanwhile, the three-month EURIBOR fell below its pre-pandemic level as excess liquidity rose, declining to an average of -0.49% in September from its June level of -0.38%. Similarly, the 12-month EURIBOR rate dropped to -0.41% from -0.15% over the same period.⁸



Euro area bond yields fall

The 10-year benchmark government bond yields in the euro area declined during the third quarter of 2020. For instance, Slovenian and Italian bond yields dropped considerably by 50 basis points and 48 basis points to -0.08% and 0.98%, respectively. Among the larger member states, Spanish bond yields also fell significantly by 24 basis points to 0.27%, while French bond yields declined by 17 basis points to -0.21%. A smaller decline was registered in German bond yields, which fell by 9 basis points to -0.52%.

As a result of these developments, spreads over 10-year German bond yields narrowed during the quarter under review (see Chart 1.6). This narrowing took place amid expectations of further monetary and fiscal support, including the Next Generation EU programme. The reintroduction of lockdown measures across Europe due to the resurgence of COVID-19 only had a limited impact on sovereign bond markets with spreads standing close to their pre-pandemic levels in all euro area countries. Declines in spreads



⁷ The EONIA (Euro Over Night Index Average) is a measure of the effective interest rate prevailing in the euro overnight market. Until 30 September 2019, it was measured as the weighted average of the interest rates on unsecured interbank overnight lending transactions, in euro, as reported by a panel of contributing banks. As of 2 October 2019, and until its discontinuation on 3 January 2022, the EONIA will be calculated as €STR plus a fixed spread of 8.5 basis points. The euro short-term rate (€STR) is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. It was first published by the ECB on 2 October 2019. See [here](#) for more information.

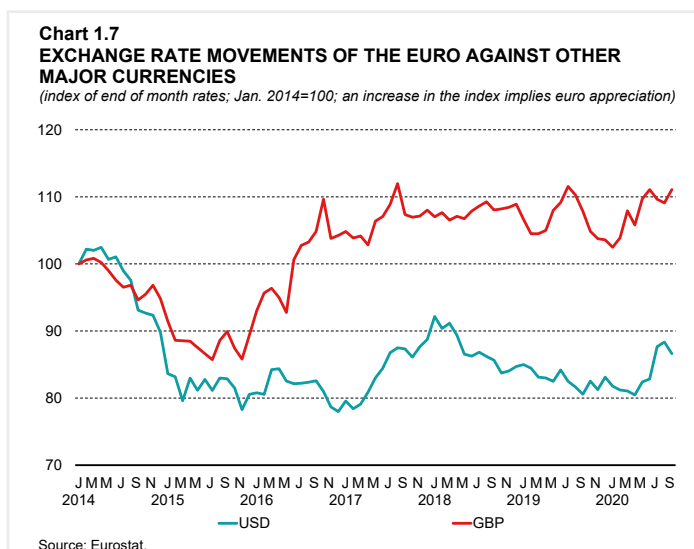
⁸ The euro interbank offered rate (EURIBOR) is an interest rate benchmark indicating the average rate at which principal European banks lend unsecured funds on the interbank market in euro for a given period.

were most pronounced in countries which had been most severely affected by the pandemic during the second quarter of 2020 and which had recorded larger increases in spreads.

The euro exchange rate appreciates in effective terms

During the third quarter of 2020, the nominal effective exchange rate of the euro against the EER-19 group of countries strengthened by 1.8%.⁹ The appreciation of the euro was very broad based across the currencies of almost all major trading partners of the euro area.

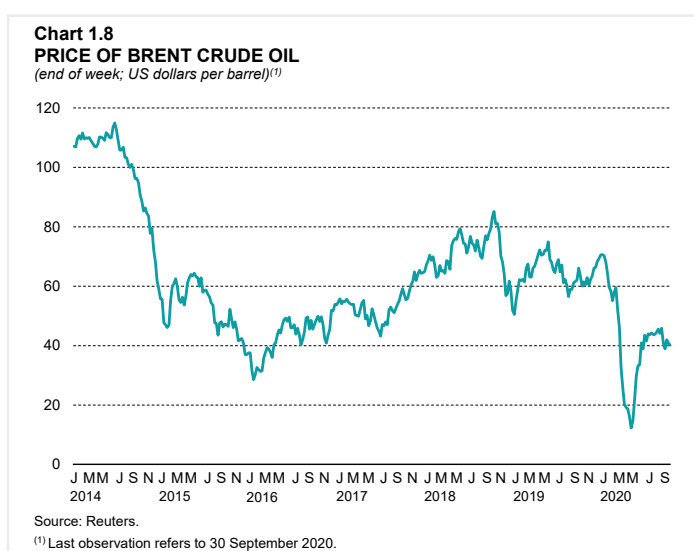
The euro appreciated strongly by 4.6% against the US dollar, reflecting a broader weakening of the US dollar amid improving risk sentiment in the context of the ongoing global recovery (see Chart 1.7). This was followed by an appreciation of 2.6% against the Japanese yen. The euro remained largely unchanged against the British pound during the review period. The euro also strengthened against the Hong Kong dollar, the Hungarian forint, the Singapore dollar, the Canadian dollar and the Korean won.



Commodities

Oil prices end the quarter at a lower level

As many countries continued to ease lockdown measures and demand began to show signs of recovery, concerns about excess supply of oil diminished. The price of Brent crude oil increased to around USD 45 per barrel by the third week of July and hovered around that level up till the beginning of September (see Chart 1.8). Thereafter, oil prices fell somewhat as new COVID-19 cases globally began to increase again, raising concerns about the economic recovery and global oil demand



⁹ The EER-19 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

outlook. Concerns about demand outlook offset the upward pressure on prices brought about by improved compliance with OPEC+ supply targets.

By the end of September, the price of Brent crude oil stood at USD 40.2 per barrel, 5.5% lower than the price prevailing at the end of June. The price of Brent crude oil remains 35.1% below its level a year earlier.

World Bank data show that non-energy commodity prices increased during the third quarter of 2020. Between June and September, they rose by 9.6%.

2. OUTPUT AND EMPLOYMENT

Following the easing of COVID-19 related containment measures during the third quarter, economic activity levels improved when compared with those in the previous quarter. However, some containment measures remained in place, restricting activity in a number of sectors. As a result, real GDP fell by 9.9% in annual terms in the third quarter of 2020, which is a more muted decline than that experienced in the second quarter – when GDP had contracted by 16.1%. The economic contraction was largely underpinned by a sharp fall in net exports, as the deterioration in domestic demand was of a smaller magnitude. Nominal data on gross value added (GVA) show that the contraction was primarily driven by the services sector, especially the sector comprising wholesale and retail trade, transportation, and accommodation. This reflects the fact that tourism-related activities remained relatively depressed, though faring better than the second quarter, due to ongoing social distancing measures, elevated uncertainty, as well as the re-introduction of COVID-19 containment measures in August. Professional, technical and scientific activities as well as the construction sector also contracted on a year earlier, but to a much lesser extent.

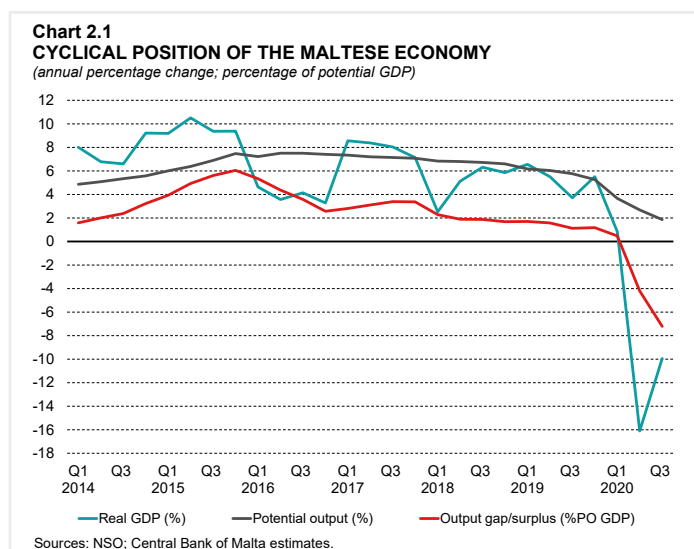
The BCI improved slightly, standing at -3.8 in the third quarter of 2020, from an updated -4.0 in the previous quarter. However, it still signals low economic activity levels.

During the third quarter of 2020, the labour market continued to be negatively affected by the pandemic. The LFS shows that, on an annual basis, both the labour force and employment rose at a slower rate than in the second quarter, while the unemployment rate increased when compared to the previous quarter and its year-ago level. Nevertheless, the impact of COVID-19 containment measures on unemployment was mitigated by government measures aimed at protecting employment, such as the Wage Supplement Scheme, as well as firms' reliance on shorter working-time arrangements. Indeed, the unemployment rate remained well below that in the euro area. However, it remained above the Bank's structural measure.

Potential output and BCI

Output gap turns negative^{1,2}

Potential output growth moderated further during the third quarter of 2020, standing at 1.9% from 2.7% in the previous quarter (see Chart 2.1). This is



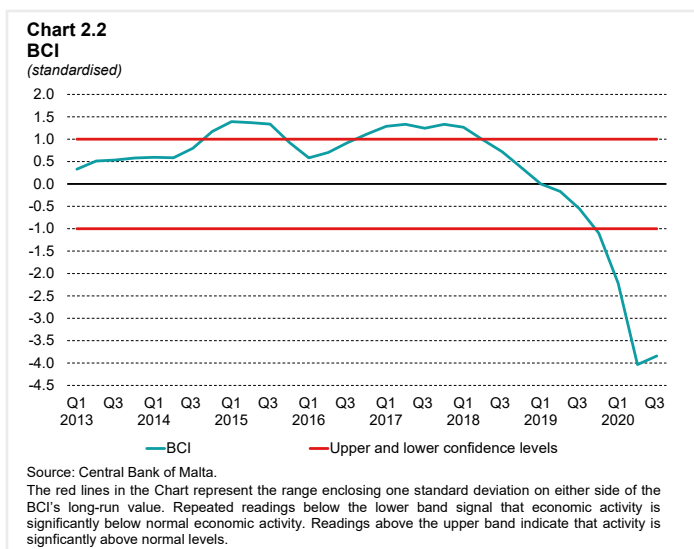
¹ Potential output measures the medium-to-long-term level of real output which is sustainable in an economy. The estimates presented here are derived using a production function approach. For further details on the methodology adopted see Micallef, B., and Ellul, R. (2017), "Medium-term Estimates of Potential Output Growth in Malta", in Grech, A. G., and Zerafa, S. (Eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta.

² Real GDP and potential output are reported as annual growth rates in the respective quarter. The output gap/surplus is expressed as a percentage of potential output on the basis of four-quarter moving averages.

the lowest growth in potential output since 2003. At the same time, GDP growth contracted by 9.9%, following a decline of 16.1% in the second quarter.

When measured as a four-quarter moving average, the output gap is estimated at -7.2% in the third quarter of 2020, below the -4.2% estimated in the previous quarter. This is also the lowest output gap on record. The large degree of underutilisation of the economy’s productive capacity mainly reflects our assessment

that the containment measures relating to the COVID-19 pandemic so far had a stronger impact on the demand-side than the supply-side of the economy.



BCI improves marginally, but remains low³

The Central Bank’s BCI improved marginally during the third quarter of 2020 (see Chart 2.2). The index rose to -3.8, which is slightly better than the value of -4.0 for the previous quarter. It, however, remains firmly below its long-term average and the lower confidence interval, which is only breached in episodes of very low or negative growth. It continues to signal that economic conditions – while better than the second quarter – remain worse than those during the 2008/9 recession. In particular, the BCI continues to be adversely affected by strong annual declines in tourist arrivals and in economic sentiment.⁴

GDP and industrial production

Real GDP contracts at a slower pace

Real GDP fell by 9.9% in the third quarter of the year, following a contraction of 16.1% in the preceding quarter.⁵ The fall in GDP was largely underpinned by a sharp contraction in net exports. The contribution of domestic demand was also negative but to a smaller extent.

The slight contraction in domestic demand was mainly driven by a fall in private consumption. Gross fixed capital formation (GFCF) also declined, though by a smaller magnitude. By contrast, government consumption rose when compared with the second quarter of 2020, while the contribution of changes in inventories more than halved, but remained positive. Reflecting these developments, domestic demand shed 0.8 percentage point of GDP growth, following a negative contribution of 7.0 percentage points in the previous quarter (see Table 2.1).

³ The BCI is a synthetic indicator, which includes information from a number of economic variables such as the term-structure of interest rates, industrial production, an indicator for the services sector, economic sentiment, tax revenues and private sector credit. By construction it has an average value of zero over the estimation period since 2000. A full time series can be found [here](#). For further details on the methodology underlying the BCI, see Ellul, R., (2016), “A real-time measure of business conditions in Malta,” Working Paper 05/2016.

⁴ Additional information on the interpretation of the BCI is available in the January 2020 edition of the Bank’s [Economic Update](#).

⁵ The analysis of GDP in this chapter of the *Quarterly Review* is based on data published in NSO *News Release* 194/2020 and released on 27 November 2020.

Table 2.1
GDP⁽¹⁾

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
	<i>Annual percentage changes</i>				
Private final consumption expenditure	3.6	3.8	-2.6	-21.6	-7.0
Government final consumption expenditure	10.6	9.2	4.4	15.5	17.6
GFCF	1.7	2.6	-9.9	-8.6	-5.7
Domestic demand	4.5	4.6	-3.2	-8.4	-0.9
Exports of goods and services	8.6	5.4	3.2	-10.3	-12.4
Imports of goods and services	9.9	4.8	0.7	-4.4	-6.9
GDP	3.7	5.5	0.8	-16.1	-9.9
	<i>Percentage point contributions</i>				
Private final consumption expenditure	1.7	1.8	-1.3	-9.6	-3.3
Government final consumption expenditure	1.6	1.6	0.8	2.7	2.8
GFCF	0.3	0.6	-2.6	-1.8	-1.0
Changes in inventories	0.1	0.0	0.0	1.7	0.8
Domestic demand	3.7	4.0	-3.0	-7.0	-0.8
Exports of goods and services	12.0	7.7	4.7	-14.7	-17.9
Imports of goods and services	-11.9	-6.2	-0.9	5.6	8.8
Net exports	0.0	1.5	3.8	-9.1	-9.2
GDP	3.7	5.5	0.8	-16.1	-9.9
Sources: NSO; Central Bank of Malta calculations.					
⁽¹⁾ Chain-linked volumes, reference year 2010.					

In the quarter under review, exports fell by 12.4%, reflecting lower foreign demand for goods and services. Meanwhile, imports decreased by 6.9% on a year earlier, mirroring the drop in demand. As exports fell more strongly than imports, net exports declined, shedding 9.2 percentage points from real GDP growth. The drop in the trade surplus (in volume terms) was driven by a narrower surplus on services, as the goods balance registered a lower deficit compared to the second quarter of 2020.

Private consumption expenditure contracted by 7.0% in the third quarter of the year, following a sharp decline of 21.6% in the previous quarter – shedding 3.3 percentage points from real GDP growth. The annual decline in private consumption is hence much more muted than that in the previous quarter, reflecting the partial lifting of containment measures and re-opening of retail outlets.

Real data show that the fall in private consumption was broad-based across almost all expenditure categories, with the exception of housing, water, electricity, gas and other fuels, and – to a smaller extent – miscellaneous goods and services, and education. The strongest decline in absolute terms was recorded in spending on restaurants and accommodation services. This was followed by spending on recreation and culture as well as transport. In the national accounts, however, private consumption data by category includes the expenditure of non-residents in Malta. Given that tourist arrivals were very low compared to last year's levels, certain categories of expenditure were severely affected by the decrease in non-residents' expenditure in Malta. Moreover, the expenditure of Maltese residents abroad also declined sharply, thus adversely affecting aggregate private consumption.

Government consumption expenditure rose by 17.6% in annual terms, mainly due to higher outlays on intermediate consumption related to health and public administration. In part, this reflects higher expenditure related to COVID-19 health and support measures. Outlays on compensation of employees also increased, albeit to a lower extent. Meanwhile, revenue from sales declined. Overall, government consumption added 2.8 percentage points to annual GDP growth.

Following a contraction of 8.6% in the previous quarter, real GFCF contracted by 5.7% in the third quarter of the year, lowering GDP growth by 1.0 percentage point. The fall in GFCF was primarily driven by lower investment in residential dwellings as well as investment in metal products and machinery. By contrast, investment in intellectual property and other non-residential buildings, as well as transport equipment, increased on a year earlier.

Meanwhile, changes in inventories added 0.8 percentage point to GDP growth in the third quarter of 2020.

The contributions shown in Table 2.1 are consistent with the approach normally followed in official databases and economic publications. However, this approach does not account for the fact that the import content varies across the different expenditure components. Consequently, they fail to represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 2.2 presents import-adjusted contributions, which address this limitation by apportioning imports to the respective demand components. In line with the sharp fall in imports in the third quarter of 2020, the majority of import-adjusted contributions are larger than those based on the traditional approach, as reported in Table 2.1. This is particularly the case for exports, private consumption and, to a lesser extent, investment.

Similar to the analysis that emerges from Table 2.1, the main drivers behind the contraction of real GDP in the third quarter of 2020 were exports and private final consumption. However, import-adjusted exports contributed almost half as much as in the traditional approach to the decline in real GDP. The disparity in private consumption is far less, with the import-adjusted figures shedding 0.7 percentage point less than the traditional approach. GFCF also contributed negatively to economic activity, and the import-adjusted contributions were marginally lower than those presented in Table 2.1. On the other hand, government consumption was the largest contributor to growth, followed by changes in inventories.

Table 2.2
IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH⁽¹⁾

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
	<i>Percentage point contributions</i>				
Private final consumption expenditure	0.6	1.1	-0.7	-6.7	-2.6
Government final consumption expenditure	1.2	1.4	0.7	2.0	2.2
Gross fixed capital formation	-0.1	0.3	-1.1	-1.5	-0.8
Changes in inventories	0.1	0.0	0.1	1.0	0.5
Domestic demand	1.8	2.8	-1.0	-5.2	-0.8
Exports of goods and services	1.9	2.7	1.8	-10.9	-9.2
GDP	3.7	5.5	0.8	-16.1	-9.9

Source: Central Bank of Malta estimates.

⁽¹⁾ Chain-linked volumes, reference year 2010.

It should be noted, however, that import-adjusted contributions should be interpreted with caution in episodes of high volatility, such as those prevailing since the onset of the pandemic, as import intensities can change significantly.

Nominal GDP growth declines

Nominal GDP contracted by 8.8% in annual terms in the third quarter of 2020, following a sharp deterioration of 14.8% in the previous quarter (see Table 2.3). The fall in nominal GDP largely reflected that in GVA. The latter fell at an annual rate of 7.0%, after contracting by 13.7% in the preceding quarter. In the quarter under review, GVA shed 6.2 percentage points from nominal GDP growth.⁶

Services were the main driver behind the fall in activity, shedding 6.3 percentage points from nominal GDP growth. The largest decline stemmed from the sector comprising wholesale and retail trade, transportation, and accommodation. This reflects the fact that tourism-related activities remained relatively depressed, though better than the second quarter, due to ongoing social distancing measures and elevated uncertainty. Additionally, a number of COVID-19 containment measures were re-introduced in August, including the temporary closure of nightclubs, limited gatherings and mandatory mask-wearing in closed public places, amid a resurgence of COVID-19 cases. At the same time, the sector comprising professional and scientific activities shed a further 1.8 percentage points. By contrast, information and communication, financial

Table 2.3
CONTRIBUTION OF SECTORAL GVA TO NOMINAL GDP

Percentage points

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	0.0	0.0	0.0	-0.2	-0.1
Mining and quarrying; utilities	0.1	0.1	0.0	-0.3	0.1
Manufacturing	0.4	1.0	0.6	-0.8	0.1
Construction	0.6	0.7	0.4	-0.2	0.0
Services	5.7	6.3	2.8	-10.8	-6.3
<i>of which:</i>					
Wholesale and retail trade; repair of motor vehicles; Transportation; accommodation and related activities	1.5	1.5	-0.5	-9.6	-7.1
Information and communication	0.3	0.6	0.6	0.4	0.6
Financial and insurance activities	0.5	0.0	0.3	0.1	0.3
Real estate activities	0.5	0.6	0.5	0.1	0.1
Professional, scientific, Administrative and related activities	1.6	1.8	0.1	-1.3	-1.8
Public administration and defence; Education; health and related activities	1.1	1.5	0.6	-0.3	0.8
Arts, entertainment; household repair and related services	0.1	0.4	1.3	-0.2	0.8
GVA	6.8	8.1	3.8	-12.2	-6.2
Taxes less subsidies on products	-0.7	-0.2	-1.4	-2.6	-2.6
Annual nominal GDP growth (%)	6.1	8.0	2.5	-14.8	-8.8

Source: NSO.

⁶ The difference between nominal GDP and GVA is made up of taxes on products, net of subsidies. In the second quarter of 2020, taxes on products net of subsidies decreased in annual terms.

and insurance activities, real estate activities, as well as public administration, and the arts and entertainment sectors collectively added 2.5 percentage points to nominal growth.

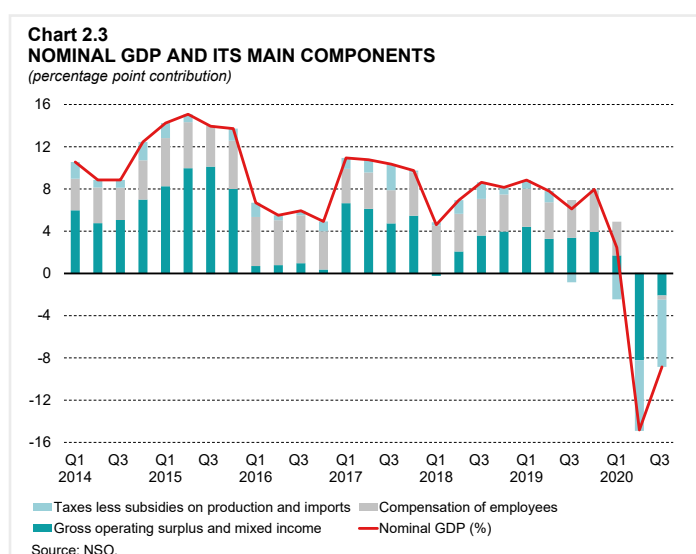
Meanwhile, the contribution from quarrying and utilities, and that from the manufacturing sector turned marginally positive, each adding 0.1 percentage point to nominal GDP growth. The contribution from the construction sector was broadly neutral.

GDP data from the income approach show that despite continued gains in employment in annual terms, household income fell marginally in the third quarter of 2020, which reflects the statistical impact of the wage supplement scheme on wages. Employees under this scheme receive a salary that is generally lower than the salary they would have received under normal conditions. Hence, compensation of employees declined across most sectors. It fell at an annual rate of 1.0% compared with an increase of 0.2% in the previous quarter, shedding 0.4 percentage point to nominal growth.

In addition, profitability declined, albeit at a slower pace when compared with the preceding quarter. Indeed, gross operating surplus contracted by 4.3% in annual terms, following a sharp decline of 17.6% in the previous quarter, and shed 2.1 percentage points of nominal GDP growth (see Chart 2.3). At the same time, net taxes on production and imports contracted further on a year earlier, reflecting lower taxation revenue due to the drop in economic activity, as well as a sharp rise in subsidies partly related to the COVID-19 government support measures.

When compared with the same quarter a year earlier, the decline in gross operating surplus was entirely driven by developments in administrative and support service activities. By contrast, an overall increase in gross operating surplus was registered across the remaining sectors, primarily in real estate activities, the sector comprising professional, scientific and technical activities, as well as wholesale and retail trade, and the information and communication sector.

During the third quarter of 2020, compensation of employees declined across most sectors in annual terms, with the largest absolute decline registered in the sector incorporating wholesale and retail trade. This was followed by the sector comprising professional and scientific activities, manufacturing, as well as financial and insurance activities. By contrast, compensation of employees rose in the sector comprising public administration and defence, compulsory social security, education, human health and social work activities. This was



followed by construction and, to a more limited extent, agriculture and fisheries, and real estate activities.

The contraction in industrial production moderates

During the third quarter of 2020, industrial production posted the second consecutive decline. Production fell by 2.0% on an annual basis, following a 7.0% decrease in the second quarter (see Table 2.4).⁷

The slower rate of decline reflected developments in the manufacturing and energy sectors. On the other hand, production in mining and quarrying fell at a stronger pace in the quarter under review.

In the manufacturing sector, production fell at an annual rate of 2.8%, after it decreased by 8.0% in the second quarter. Several subsectors in the manufacturing sector continued to register negative growth in the September quarter. The largest contraction was registered among firms that repair and install machinery and equipment. Production also decreased significantly among firms producing beverages, 'other manufacturing' goods – which include medical and dental instruments, toys and related products – as well as those producing rubber and plastic products. A smaller decline was recorded among firms producing computer, electronic and optical products.

By contrast, firms that specialise in pharmaceutical products recorded the strongest increase, followed by those involved in printing and reproduction of recorded media and food production. Firms within the motor vehicles, trailers and semi-trailers sector also reported a very strong increase in production, although the weight of this sector in the overall index is small.

Table 2.4
INDUSTRIAL PRODUCTION⁽¹⁾
Percentages; annual percentage changes

	Shares	2019		2020		
		Q3	Q4	Q1	Q2	Q3
Industrial production	100.0	3.7	2.3	10.4	-7.0	-2.0
Manufacturing	87.1	6.9	3.0	7.0	-8.0	-2.8
<i>of which:</i>						
Food products	15.4	-6.5	-7.3	-9.5	0.9	9.2
"Other" manufacturing	10.3	26.8	9.8	18.7	-26.0	-13.9
Repair and installation of machinery and equipment	7.9	16.6	2.6	4.8	-20.0	-25.9
Basic pharmaceutical products and pharmaceutical preparations	7.3	46.3	5.8	3.5	29.6	25.8
Printing and reproduction of recorded media	7.3	17.9	26.1	36.4	52.5	10.8
Beverages	5.6	2.6	4.6	22.0	-40.3	-17.1
Rubber and plastic products	5.4	-4.3	3.6	0.5	-10.2	-12.9
Computer, electronic and optical products	5.0	-10.5	-9.9	2.0	-4.0	-1.8
Energy	12.5	-3.5	-2.1	21.3	-0.5	-0.2
Mining and quarrying	0.5	6.1	-0.9	20.6	-20.1	-27.7

Sources: NSO; Eurostat.

⁽¹⁾ The annual growth rates of the industrial production index are averages for the quarter based on working-day adjusted data. The annual growth rates of the components are based on unadjusted data.

⁷ Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added, and is expressed in nominal terms. Industrial production is a measure of the volume of output and takes no account of input costs. The sectoral coverage between the two measures also differs, since industrial production data also include the output of the energy and quarrying sectors.

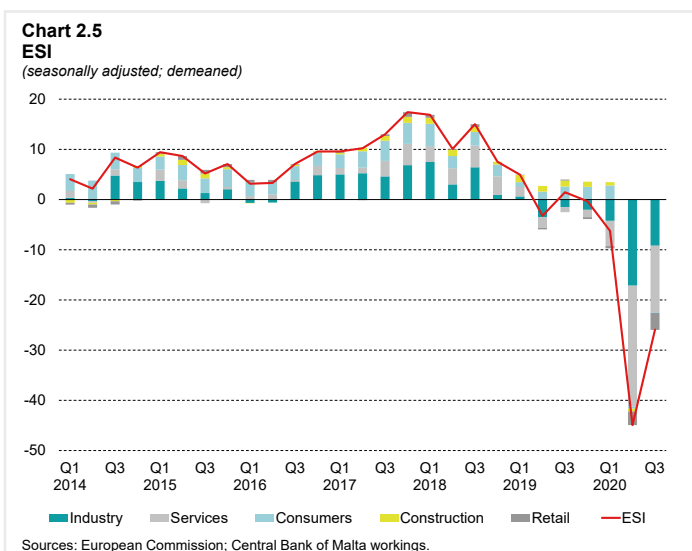
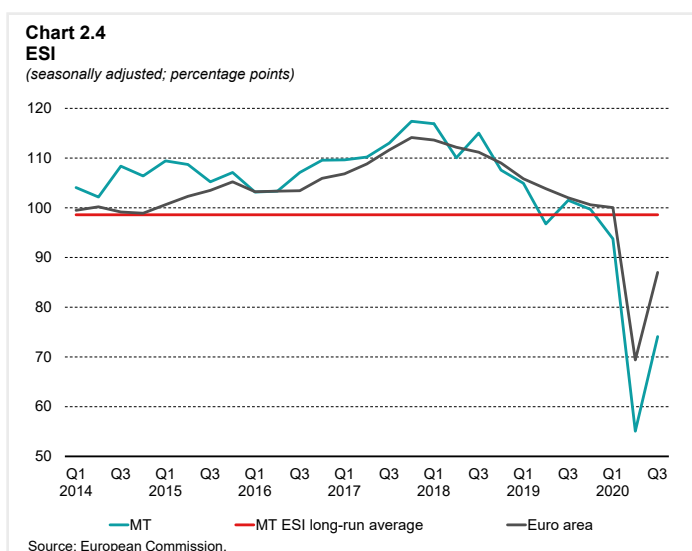
Business and consumer surveys

During the third quarter of 2020, the European Commission's Economic Sentiment Indicator (ESI) rose to 74.1, from 55.1 in the preceding quarter. Notwithstanding this increase, the overall indicator remained significantly below its long-term average of around 100.0, as COVID-19 weighed heavily on consumer and business confidence throughout the quarter (see Chart 2.4).^{8,9} The overall ESI indicator also stood below that in the euro area, which averaged 86.9.

Confidence improved across all sectors, except among retailers. The strongest increase was recorded in the services sector. However, sentiment also improved significantly in the construction sector and in industry. Sentiment among consumers rose to a lesser extent, while remaining relatively close to its long-term average. By contrast, sentiment among retailers reached a new low. When accounting for the variation in the weights assigned to each sector in the overall index, the increase in the ESI relative to the second quarter of 2020 was driven almost entirely by the services sector and industry.¹⁰ Furthermore, the evolution of sentiment in these sectors largely explains why the overall ESI has fallen below its long-term average in recent quarters (see Chart 2.5).

Confidence in the services sector rises sharply¹¹

Confidence in the services sector rose significantly in the third



⁸ The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

⁹ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data for Malta became available in November 2002, while for services and construction data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from November 2002.

¹⁰ Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

¹¹ The services confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

quarter of 2020. It stood at -21.1, up from -55.9 in the preceding quarter, but remained well below its long-term average of 19.4. The recent rise in sentiment was spread across all sub-components of the indicator (see Chart 2.6).

Supplementary survey data indicate that respondents' employment and price expectations were less negative compared to the second quarter.

Confidence in construction improves significantly¹²

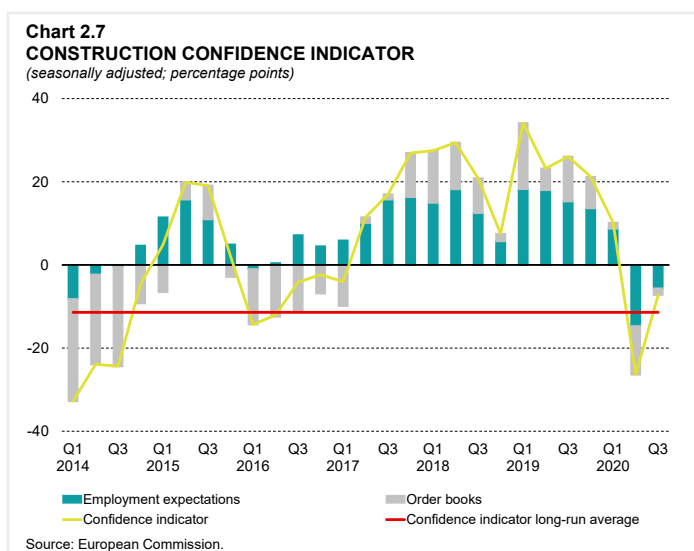
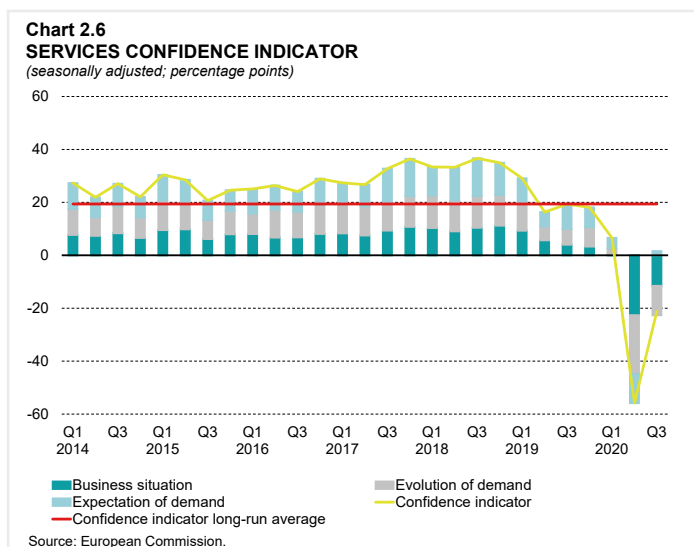
In the third quarter of 2020, confidence in the construction sector reached -7.2, well above the -26.4 recorded in the previous three-month period. Consequently, sentiment rose above its long-term average of -11.4 (see Chart 2.7).

Higher sentiment was driven in almost equal measure by a reduction in the share of respondents assessing order books to be below normal and the share of those with negative employment expectations.

Supplementary survey data indicate that labour shortages remained a key factor limiting production, along with increasing financial constraints. At the same time, a smaller share of respondents anticipated a fall in selling prices in the next three months.

Industrial confidence rises but remains relatively low from a historical perspective¹³

Confidence in the industrial sector edged up to -24.3, from -42.6 in the previous three-month period. Notwithstanding this increase, sentiment remained well below its long-term average of -4.4 (see Chart 2.8). The recent rise in sentiment was almost entirely driven by production expectations, which turned positive. At the same time, the number of firms reporting above normal stocks of



¹² The construction confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

¹³ The industrial confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

finished goods and falling orders edged down.¹⁴

Additional survey data reveal a decline in the share of firms foreseeing that selling prices would fall in the months ahead.

Consumer confidence returns above its long-term average¹⁵

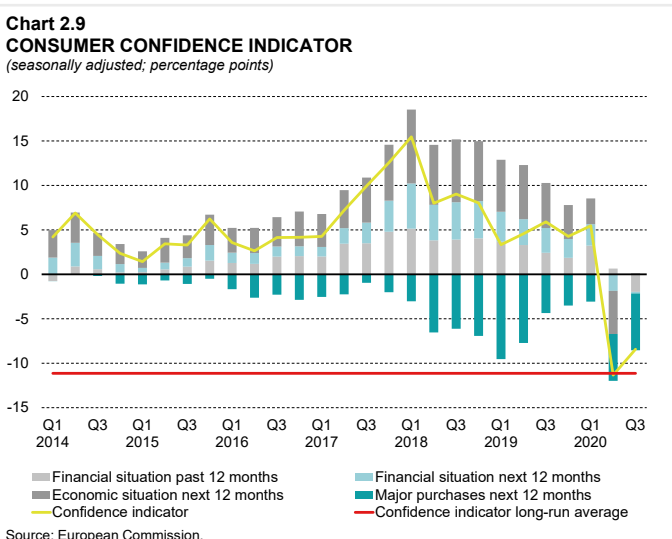
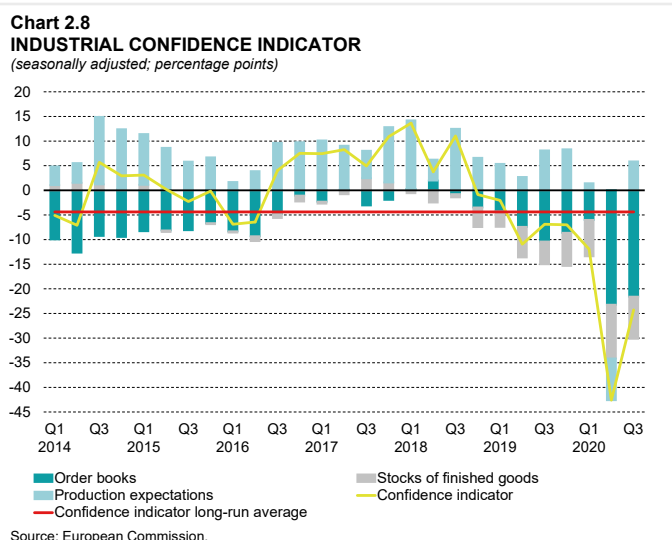
Consumer confidence averaged -8.4, up from -11.3 in the previous quarter. Following this increase, sentiment stood marginally above its long-run average of -11.1 (see Chart 2.9).

Consumers' outlook of the general economic situation in the 12 months ahead was the main driver behind the latest increase in consumer confidence. Expectations of the financial situation also improved compared with the second quarter of 2020. In contrast, consumers' assessment of the financial situation over the last 12 months turned negative, while expectations of major purchases over the next 12 months were more negative than before.

Supplementary survey data suggest that, on balance, a smaller share of respondents expected unemployment to rise in the months ahead. Price expectations turned negative in the quarter under review.

Confidence in the retail sector declines further¹⁶

Sentiment in the retail sector fell to -55.7, from -35.0 in the second quarter of the year and diverged further from its long-term average of -0.7 (see Chart 2.10).



¹⁴ Above-normal stock levels indicate lower turnover and affect the overall indicator in a negative way. Such levels are thus represented by negative bars in Chart 2.7.

¹⁵ The consumer confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the [January 2019 release](#) of the European Commission.

¹⁶ The retail confidence indicator is the arithmetic average of the seasonally-adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

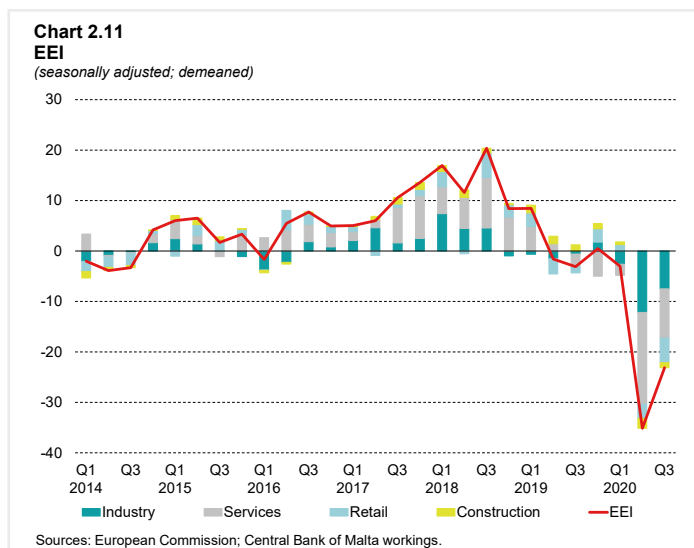
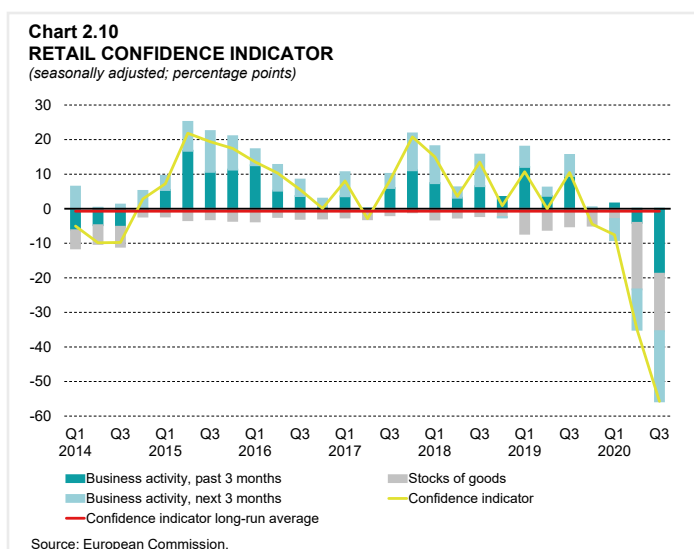
Weaker sentiment was largely driven by retailers' assessment of business activity over the past three months and their expectations about business activity in the three months ahead.¹⁷ These developments offset a small decline in the share of respondents that considered their stock levels to be above normal, partly reflecting the re-opening of several retail outlets in the second quarter.

Supplementary survey data indicate that, on balance, orders expectations were considerably more negative in the quarter under review and fewer retailers anticipated a rise in prices in the coming months.

Employment Expectations Indicator (EEI) decreases

The EEI – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged up in the third quarter of 2020.¹⁸ It averaged 77.5, compared with 66.3 in the preceding quarter and remained well below its long-term average of around 100.0.

During the quarter under review, employment expectations were negative across all sectors, with the most negative readings recorded among retailers and in industry and, to a lesser extent, in the construction and services sectors. However, when accounting for the variation in the weights assigned to each sector in the overall index, it appears that the increase in expectations relative to the second quarter of 2020 was largely driven by developments in the services sector and, to a lesser degree, by developments in industry (see Chart 2.11). Employment expectations in the construction sector



¹⁷ A fall in the balance of above-normal stock levels affects the overall indicator in a positive way.

¹⁸ The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four balance series expressed in standardised form. Further information on the compilation of the EEI is available in European Commission (2020). *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

also contributed to the increase in the EEI, but in a more limited way. In contrast, employment expectations turned more negative in the retail sector.

The labour market¹⁹

Labour force growth slows down

LFS data show that in the quarter under review, the labour force grew by 2.3% over the same quarter of 2019 (see Table 2.5).²⁰ This is the second consecutive quarterly deceleration this year, following an annual growth of 3.7% in the June quarter.

The activity rate stood at 77.3% in the quarter under review, up from 76.1% a year earlier.²¹ The increase in the overall participation rate reflects increased activity among females, as their activity rate rose by 3.7 percentage points to 68.8% and exceeded the euro area average of 68.3% for the second consecutive quarter. On the other hand, the participation rate for males declined by 1.3 percentage points to 84.7%, but still remained well above the euro area average of 78.5%.

Given that the pandemic and the associated containment measures commenced in mid-March, annual changes could mask the impact of COVID-19 on the labour market. Indeed, on a quarter-on-quarter basis, after declining by over 4,600 persons in the second quarter of 2020, the labour force rose slightly in the quarter under review, increasing by 766 persons. In part, this

Table 2.5
LABOUR MARKET INDICATORS BASED ON THE LFS

Persons; annual percentage changes

	2019 Q3	2020 Q3	Annual change %
Labour force	266,131	272,320	2.3
Employed	256,297	259,731	1.3
<i>By type of employment:</i>			
Full-time	222,731	229,690	3.1
Part-time	33,566	30,041	-10.5
Unemployed	9,834	12,589	28.0
Activity rate (%)	76.1	77.3	
Male	86.0	84.7	
Female	65.1	68.8	
Employment rate (%)	73.3	73.6	
Male	83.1	80.8	
Female	62.3	65.5	
Unemployment rate (%)	3.7	4.6	
Actual hours worked (per week)	35.6	34.0	

Source: NSO.

¹⁹ This section draws mainly on labour market statistics from two sources: the LFS which is a household survey conducted by the NSO on the basis of definitions set by the International Labour Organization (ILO) and Eurostat, and administrative records compiled by Jobsplus according to definitions established by domestic legislation on employment and social security benefits.

²⁰ The LFS defines the labour force as all persons aged 15 and over who are active in the labour market. This includes those in employment, whether full-time or part-time, and the unemployed, defined as those persons without work but who are actively seeking a job and are available for work.

²¹ The activity rate measures the number of persons in the labour force aged between 15 and 64, as a proportion of the working age population, which is defined as all those aged 15 to 64 years.

reflects a decline in inactivity, following an increase in the previous quarter. Indeed, the number of inactive persons decreased by around 2,200 persons compared to the second quarter. The decline in inactivity may have been facilitated by the relaxation of containment measures that started in the previous quarter, which allowed redundant and previously inactive people to actively search for a job and move into employment or unemployment. However, the increase in the labour force was lower than the decline in inactivity, which could be explained by outward immigration flows. Indeed, the working age population declined by 0.3% during the quarter under review.

Employment growth moderates

In the third quarter of 2020, employment rose by 1.3% in annual terms, following an increase of 2.8% in the previous quarter. Meanwhile, the number of unemployed persons was up by more than 2,700 persons compared to the same period a year earlier.

In absolute terms, job creation continued to be driven by full-time jobs, which rose by 6,959 or 3.1% in annual terms (see Table 2.5). On the other hand, the number of part-time employees – which also includes those employed full-time on reduced hours – declined by 3,525 persons, or 10.5% on a year earlier.

The overall employment rate rose by 0.3 percentage point on the same period of 2019, to 73.6%.²² This reflected a rise in the female employment rate, which rose by 3.2 percentage point to 65.5%, driven by an increase across all age brackets except for the 15-24 bracket. On the other hand, the employment rate of males decreased by 2.3 percentage points to 80.8%, reflecting a decline in the 15-24 and 22-54 age brackets.

On a quarterly basis, the number of employed in the September quarter rose by slightly more than 200 persons, thereby reversing only a small part of the decrease recorded in the previous quarter. Meanwhile, the number of unemployed persons rose by 558.

Although job losses persisted in the third quarter, the increase in the number of unemployed persons was a fourth of that recorded in the second. Part of the response to the economic shock is also visible in actual weekly hours worked.²³ In fact, these fell to 34.0 from 35.6 in the same period of the previous year (see Table 2.5). Nevertheless, actual hours in the September quarter stood higher than those registered in the previous quarter, at 31.6.

The unemployment rate rose

During the September quarter, the unemployment rate based on the LFS stood at 4.6%, slightly higher than the 4.4% registered in the June quarter. This rate was also higher than the 3.7% recorded a year earlier (see Table 2.5).²⁴

Although it increased, the jobless rate in Malta remained relatively muted given the extent of the decline in economic activity – reflecting the highly supportive government measures.

²² The employment rate measures the number of persons aged between 15 and 64 employed on a full-time or part-time basis as a proportion of the working-age population.

²³ Actual hours refer to the number of hours actually spent at the place of work during the reference week for the main job. However, owing to increased flexibility at work places coupled with technology, the place of work may also include one's home. In this regard, actual hours worked also includes the hours of work carried out by persons who telework.

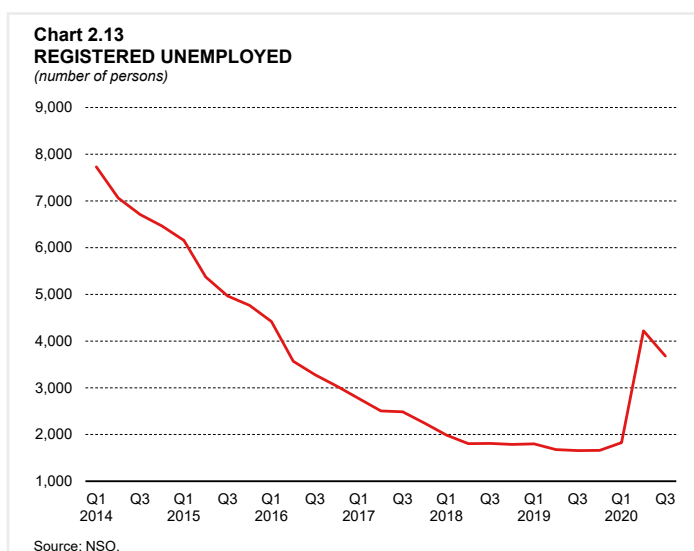
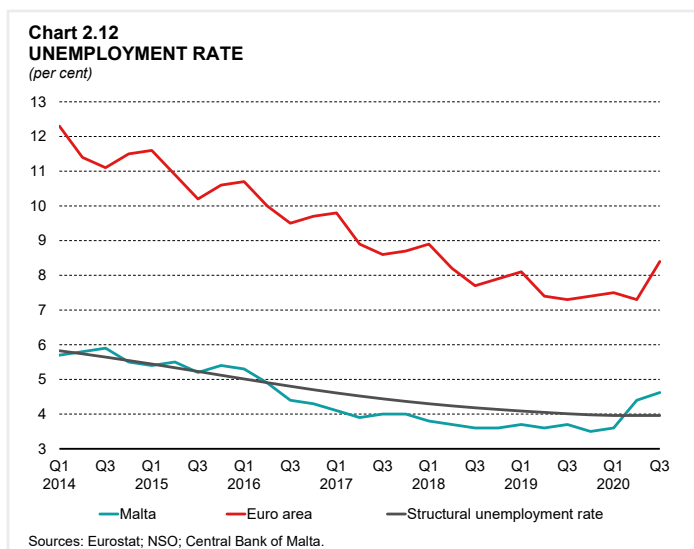
²⁴ According to the LFS, the unemployed comprise persons aged between 15 and 74 years who are without work, available for work and who have actively sought work during the four weeks preceding the Survey. In contrast, the number of unemployed on the basis of the Jobsplus definition includes only those persons registering for work under Part 1 and Part 2 of the unemployment register.

The Bank's feedback from firms indicates that the Wage Supplement Scheme limited the extent of redundancies. In addition, labour market conditions remain more favourable by euro area standards. In fact, Malta's unemployment rate is well below the average rate for the euro area, which stood at 8.4% (see Chart 2.12).

The unemployment rate stood above the Bank's structural measure of 4.0%.²⁵ Estimates of structural measures are, however, highly uncertain in this environment and should thus be treated with caution.

Jobsplus data show a significant increase in the number of registered unemployed persons in the September quarter compared with the year before. The average number of unemployed persons in this quarter stood at 3,679 – 2,024 persons more than a year earlier (see Chart 2.13). Nevertheless, this increase was lower than that registered in the June quarter, where the number of persons

on the unemployment register rose by 2,542 to 4,219. In fact, on a monthly basis, the number of registered unemployed has been falling since June. This stands in contrast to LFS data, whereby the number of unemployed rose between the June and September quarter. This discrepancy is due to the fact that LFS data also include unemployed persons actively looking for a job who are not registering with Jobsplus.



²⁵ The structural unemployment rate in this chapter refers to the non-accelerating inflation rate of unemployment (NAIRU), that is, the unemployment rate that is consistent with stable inflation. This measure of the unemployment rate is based on a multivariate filter as described in Micallef, B., (2014). "A Multivariate filter to estimate potential output and NAIRU for the Maltese economy", Working Paper 05/2014.

BOX 1: AN ANALYSIS OF MALTA'S POTENTIAL TO TELEWORK¹

Introduction

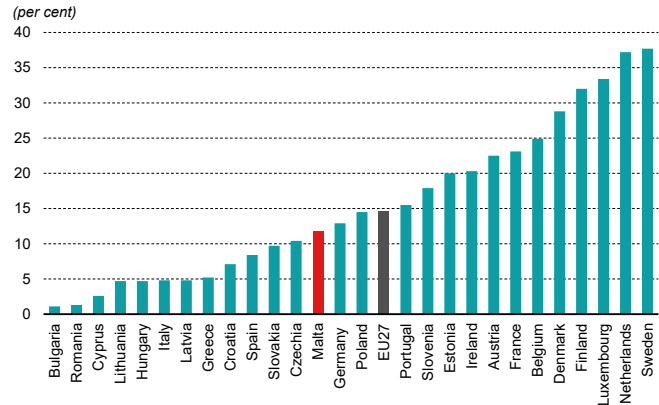
The COVID-19 pandemic has brought about significant changes to individual lifestyles. The measures put in place have also impacted work patterns, with many governments advocating the use of teleworking facilities whenever possible. This was also the case in Malta, where early in the outbreak of the COVID-19 pandemic, Malta Enterprise issued a scheme designed to assist employers to invest in technology to facilitate teleworking among their employees.²

In light of the circumstances brought about by the COVID-19 pandemic, this box builds on recent literature and estimates the share of jobs that could be performed from home in Malta through an analysis by economic activity. Different scenarios are constructed to reflect the difficulties in accurately ascertaining the degree of teleworking potential in normal and extraordinary times. For instance, certain jobs that could be considered as non-teleworkable in normal times – such as education activities – had to be performed from home during the outbreak of the COVID-19 pandemic. In normal times, teleworking in education activities can arguably be considered as less effective and productive than teaching in person. Following an estimation of the current share of teleworkable jobs in Malta, this study also explores how Malta's utilisation of its teleworking potential has developed in recent years and how it now compares with that in the European Union.

Prevalence of teleworking in Malta and the European Union

Before the pandemic, the prevalence of teleworking in Malta was lower than the EU average and stood at 11.7% in 2019 (see Chart 1).³ This should not mask the fact that this figure represents a substantial improvement over the corresponding position at the start of the decade when only 3.6% of all employed individuals did some work from home. This increase in the use of teleworking has coincided with the rise in employment among females, who often require flexible working arrangements in

Chart 1
SHARE OF PERSONS IN EMPLOYMENT (aged 15+) DOING SOME WORK AT HOME IN 2019
(per cent)



Source: Eurostat.
Note: Individuals doing "some" work from home comprises individuals who work from home "usually" and "sometimes".

¹ Prepared by Nathaniel Debono, a Research Economist in the Research Department at the Bank. Helpful comments by Prof. Edward Scicluna, Dr Mario Vella, Mr Alexander Demarco, Dr Aaron G. Grech and Dr Brian Micallef are gratefully acknowledged. The views expressed in this article are those of the author and do not necessarily reflect those of the Central Bank of Malta. Any errors are the author's own.

² Malta Enterprise (2020), "Business Development and Continuity Scheme: Call for the Facilitation of Teleworking Activities".

³ Eurostat. (2020), "Employed persons working from home as a percentage of the total employment, by sex, age and professional status (%)".

order to strike a balance between work and family commitments. Nonetheless, the prevalence of teleworking in Malta remains relatively low by European standards. While this may be influenced by cultural factors, a country's teleworking potential is also largely dependent on its industry composition.⁴ In terms of employment, wholesale and retail trade, and manufacturing are the two largest sectors in Malta, employing a quarter of all those in employment. A further one-tenth work in human health and social work activities while construction, and accommodation and food service activities employ 7% and 8%, respectively. These industries often necessitate physical presence at the place of work and are thus not usually compatible with teleworking.

Notwithstanding this, the number of employees working from home increased substantially during the COVID-19 outbreak in Malta. Official statistics show that a third (33%) of all employed persons did some work from home in March and April 2020.⁵ While this represents a 21 percentage points increase relative to the situation in 2019, it also points towards substantial under-utilisation of the country's potential to work from home prior to the COVID-19 outbreak. Increased take-up of teleworking during the pandemic has also been observed in the European Union, where in July, 48% of employees reported that they had worked from home at least some of the time during the pandemic.⁶

Academic interest in the potential for teleworking

The rise in the application of teleworking during the COVID-19 pandemic has inspired numerous studies to estimate the potential to work from home in various countries. Dingel and Neiman (2020) estimate the work-from-home capacity in the United States using two Occupation Information Network surveys and an alternative manual classification.⁷ It emerges from their work that 37% of the jobs in the United States can be performed from home, with jobs in finance and insurance, management of companies and enterprises and professional, scientific and technical services among the most likely to be performed from home.

Alipour et al. (2020) primarily use survey data from the 2018 wave of the BIBB/BAuA Employment Survey to calculate Germany's capacity to work from home by sector. The share of teleworkable jobs by industry is also calculated using the 2-digit NACE classification. While jobs in the financial services industry turn out to have the largest capacity to telework, activities such as publishing activities, telecommunications, programming and broadcasting activities, and real estate activities are also found to have large capacities to work from home in Germany, with at least 70% of jobs in these sectors found to be teleworkable.

Gottlieb et al. (2020) use occupational data at ISCO level to explore differences in the capacity to work from home in urban areas by country income levels, finding that the share

⁴ Alipour, J., Falck, O., & Schüller, S. (2020), "Germany's capacities to work from home", *Discussion Paper*, IZA Institute of Labour Economics.

⁵ National Statistics Office (2020), "The Effect of COVID-19 on the Labour Market: A comparison between March and April 2020".

⁶ Eurofound (2020), "Living, working and COVID-19", COVID-19 series, Publications Office of the European Union, Luxembourg.

⁷ Dingel, J. I., & Neiman, B. (2020), "How many jobs can be done at home?", *Journal of Public Economics* Vol. 189.

of jobs that can be performed from home varies between 22% in poor countries and 37% in rich countries.⁸

In their analysis of the impact of the COVID-19 confinement measures on the EU labour markets, Fana et al. (2020) classify economic sectors into one of the following five categories: fully active; teleworkable; partly active; mostly non-essential; and closed.⁹ On the basis of these classifications, they then estimate the share of workers in each EU country that would likely be affected by COVID-19 mitigation measures.

Method

Similar to the approach taken by Fana et al. (2020), the share of jobs which could be performed from home in Malta is estimated through an analysis by economic activity. Employment data at the NACE 2-digit level was gathered from the LFS. This is the highest level of disaggregation at which data is publicly available, yielding 99 different economic sectors. Next, a distinction is made between sectors that could realistically have their operations conducted remotely and others that cannot. In determining which sectors are compatible with teleworking, the studies by Fana et al. (2020) and Alipour et al. (2020) are considered, supplemented by expert judgement where necessary to reflect domestic industry-specific considerations.

At a minimum, all the sectors deemed teleworkable in the work of Fana et al. (2020) are considered as such in this analysis, although it is qualified that some are less likely to be performed from home in normal circumstances. For instance, while education activities had to be conducted remotely during the COVID-19 pandemic, it is to be expected that in normal circumstances such activities require face-to-face interaction. Furthermore, given that the main purpose of this work is to estimate Malta's potential to telework, other sectors not classified as teleworkable by Fana et al. (2020) but which in normal circumstances could also realistically be performed from home are also considered to be teleworkable. The determination of these additional activities is guided by the work of Alipour et al. (2020) who estimate the work-from-home capacity of each economic sector in Germany. In the absence of more detailed information about Malta, it is assumed that the sectors that are estimated to have more than 70% capacity to work from home in Germany are teleworkable in Malta. One exception relates to the treatment of gambling and betting activities, which Fana et al. (2020) classify as "forcefully closed" within the COVID-19 context and Alipour et al. (2020) estimate to have a 48% work-from-home capacity in Germany. In light of the relatively large presence of gaming companies in Malta and their compatibility with teleworking, this economic activity is also considered teleworkable.

As has already been qualified, some economic activities are more compatible with teleworking than others. As a result, Malta's potential to telework is calculated under three scenarios. Each scenario differs in the assessment of which industries could have their operations shifted away from the place of work and a share of teleworkable jobs is calculated under

⁸ Gottlieb, C., Grobovsek, J., & Poschke, M. (2020). "Working from Home across Countries", Cahiers de recherche 07-2020, Centre interuniversitaire de recherche en économie quantitative, CIREQ.

⁹ Fana, M., Tolan, S., Torrejón, S., Urzi Brancati, C. & Fernández-Macías, E. (2020), "The COVID confinement measures and EU labour markets", EUR 30190 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-79-18812-4. DOI: [10.2760/079230](https://doi.org/10.2760/079230), JRC120578.

each scenario.¹⁰ An important caveat is that, since disaggregation is only available at the 2-digit level, this study assumes that all jobs classified under each of the sectors deemed teleworkable can be performed remotely. Hence, the share of teleworkable jobs estimated under each scenario is likely an upper bound of the true figure.

Results: analysis by economic activity

Table 1 presents the three scenarios explored in this analysis. Scenario 1 includes only those jobs which require minimal, if any, interaction with others and are therefore deemed relatively easy to perform via teleworking. These mainly include jobs in information and

Table 1
SELECTION OF JOBS DEEMED TELEWORKABLE IN MALTA

	Scenario 1	Scenario 2	Scenario 3	Fana et al. (2020)
Sector				
<u>Highly likely to be able to telework</u>				
Computer programming, consultancy and related activities	✓	✓	✓	✓
Information service activities	✓	✓	✓	✓
Financial service activities, except insurance and pension funding	✓	✓	✓	✓
Insurance, reinsurance and pension funding, except compulsory social security	✓	✓	✓	✓
Activities auxiliary to financial services and insurance activities	✓	✓	✓	✓
Legal and accounting activities	✓	✓	✓	✓
Activities of head offices; management consultancy activities	✓	✓	✓	✓
Architectural and engineering activities; technical testing and analysis	✓	✓	✓	✓
Advertising and market research	✓	✓	✓	✓
Other professional, scientific and technical activities	✓	✓	✓	✓
Gambling and Betting activities	✓	✓	✓	
<u>Possible to perform by telework</u>				
Publishing activities		✓	✓	
Real estate activities		✓	✓	
Security and investigation activities		✓	✓	✓
Office administrative, office support and other business support		✓	✓	
Public Administration; ¹ Compulsory Social Security		✓	✓	✓
Activities of membership organisations		✓	✓	✓
<u>Less likely but may be possible to telework under special circumstances</u>				
Scientific research and development			✓	✓
Motion picture, video and television programme production, sound recording and music publishing activities			✓	
Programming and broadcasting activities			✓	
Telecommunications			✓	
Education			✓	✓
Number of employees (aged 15+) working in these sectors in 2019	39,400	59,400	86,200	73,100
Total number of individuals (aged 15+) in employment in 2019	254,700	254,700	254,700	254,700
Share of individuals in employment (aged 15+) working in teleworkable jobs in 2019	15.5%	23.3%	33.8%	28.7%

Sources: Author's calculations based on Eurostat data.

⁽¹⁾ An estimate of individuals working in *Public Administration* is obtained by excluding police officers and individuals working in armed forces occupations from the total number working in *Public Administration and Defence*. As key elements in the country's defence system, these occupations are highly unlikely to be possible to perform by telework. Data about the number of police officers is only available up to 2018 and it was assumed that this number remained unchanged in 2019.

Fana et al. (2020) do not distinguish between *Public Administration* and *Defence* activities and consequently consider both activities to be teleworkable.

¹⁰ The classification of each economic activity under the respective scenario is the author's judgement, shaped by a subjective assessment of the ease with which jobs performed in each economic activity (NACE Rev. 2) could be teleworkable.

communication, financial and insurance activities, professional, scientific and technical activities and online gaming and betting activities.

Scenario 2 incorporates those activities that although deemed less practical to be conducted via telework, may still be possible to perform away from the workplace. Activities classified under this scenario include public administration and some of the sectors that Alipour et al. (2020) find to have more than 70% capacity to work from home, such as publishing activities (including software publishing), real estate activities, and office administrative and support service activities. Finally, scenario 3 considers other jobs that are deemed less likely to be performed from home in normal circumstances, either because they require a significant element of human interaction or due to the use of machinery which may be required. However, as shown by the extraordinary times brought about by COVID-19, they may be teleworkable under abnormal circumstances. Notable examples of activities classified as teleworkable under this scenario include telecommunications (including wireless telecommunications) and education. The 15 activities classified as teleworkable within the context of COVID-19 by Fana et al. (2020) and the resulting share of Maltese teleworkable jobs obtained from following their approach are provided for comparison purposes.

Under scenario 1, 15.5% of jobs in Malta are found to be teleworkable. When a number of other activities that could potentially also be performed from home are included in scenario 2, slightly more than 23% of all jobs in Malta turn out to be potentially teleworkable. The 33.8% figure estimated in scenario 3 is largely contingent on the treatment of those working in education. If education were to be deemed a non-teleworkable activity, Malta's teleworking potential drops down to 24.8%. The upper-bound 33.8% figure estimated under scenario 3 is broadly in line with the share of workers who were working from home during the early weeks of the COVID-19 pandemic in Malta. The estimated teleworking potential under scenario 3 and the actual prevalence of teleworking observed in Malta during March and April 2020 both exceed the 28.7% estimate derived from following the approach of Fana et al. (2020). This reflects the omission, from the approach taken by Fana et al. (2020), of certain activities that continued to be performed remotely in Malta, such as online gaming and betting activities, and office administrative, office support and other business support activities.

Teleworking potential: Malta and the European Union

Chart 2 presents Malta's potential use of teleworking as calculated under the three scenarios outlined in Table 1 and the country's actual prevalence of teleworking. The corresponding figures for the EU average, computed using the same sectoral classification adopted in this study, are also provided to facilitate comparison.

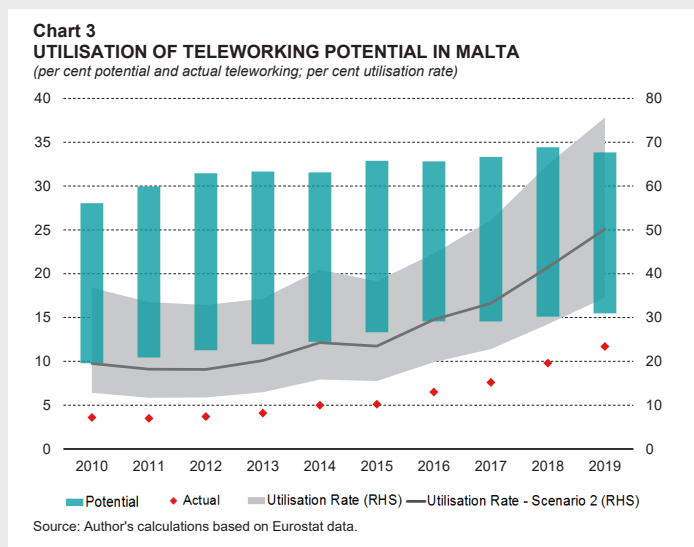
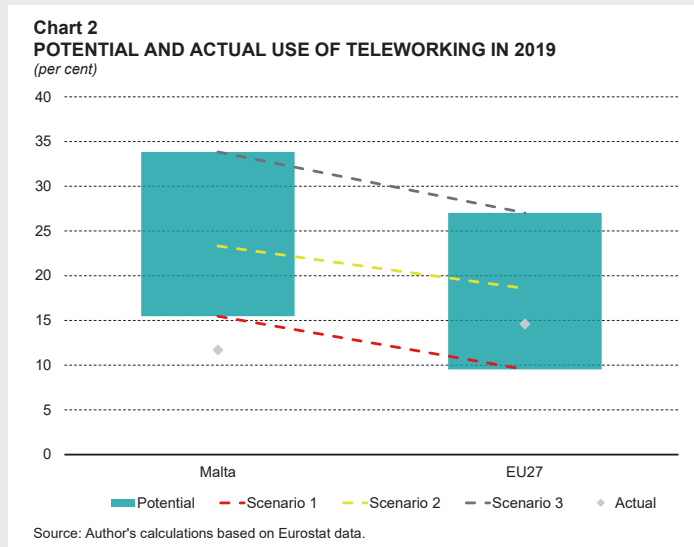
Malta's work-from-home potential is higher than in the European Union under all three scenarios. This is largely driven by the larger share of employees working in online gaming and betting activities, and financial services activities in Malta. For instance, while 3.7% of those employed in Malta worked in the former sector in 2019, only 0.2% had such jobs in the European Union. In the financial services sector, the share of employees working in these

activities in Malta (3.1%) is almost double that observed in the European Union (1.6%). Although to a lesser extent, the share of workers employed in legal and accounting activities and education in Malta also exceeds that observed in the European Union.

Despite Malta's higher potential for teleworking, the country's actual share of employed persons working from home in 2019 was still 2.9 percentage points below the average in the European Union. This implies that Malta's utilisation of its teleworking potential is below that of the majority of the other EU countries. From this analysis, it is estimated that Malta's utilisation rate in 2019, calculated as the actual share of people teleworking to the potential calculated in each scenario, stood at 75.6% under scenario 1, 50.2% under scenario 2 and 34.6% under scenario 3.

Malta's utilisation of teleworking in recent years

Chart 3 shows the development of Malta's teleworking potential (estimated under scenarios 1-3) and how much of it has actually been utilised in the past decade. Malta's teleworking potential has increased in recent years, largely driven by substantial growth in employment in sectors such as online gaming and betting activities, professional, scientific and technical activities and information and communication, among others. Actual use of teleworking facilities has also increased substantially, from 3.6% at the start of the decade to 11.7% in 2019. This increased prevalence of teleworking has been reflected in considerable improvements in the utilisation of



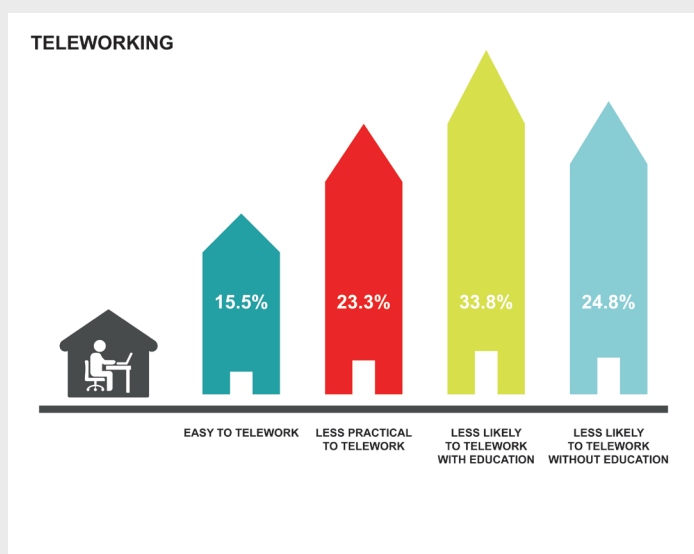
the country's teleworking potential, observed particularly in the second half of the decade under all three scenarios.

Conclusion and avenues for further research

The ability to work from home has provided shelter from both health risks and the economic shock brought about by the pandemic. Based on an analysis of economic activities, it is estimated that the share of jobs that could be performed by telework in Malta during extraordinary times could exceed one-third. This figure is largely dependent on the assessment of which industries could realistically have their operations performed remotely but is broadly in line with findings of other similar studies carried out abroad and official statistics of teleworking prevalence in Malta during the early months of the COVID-19 outbreak. In normal times, this study suggests that around 15%-25% could be performed from home. The substantial increase in the prevalence of teleworking, which has accompanied the COVID-19 pandemic, implies that utilisation of the country's teleworking potential was rather low before the outbreak, an observation that is confirmed by this analysis. Further analysis shows that although Malta's utilisation remains low compared to the European Union, the past decade has been characterised by considerable improvements in the utilisation of the country's teleworking potential. Closing the gap between the actual and teleworking potential will require a shift in cultural and organisational practices, including higher levels of work autonomy, investment in information and technological infrastructure, and training opportunities to raise firms' and workers' affinity with digital infrastructure.

Constrained by data limitations, the analysis undertaken in this study was limited to economic activities, assuming that all jobs within activities deemed teleworkable could be performed from home. Further research could make use of additional data that may become available about the occupations and economic activities that shifted to teleworking during the COVID-19 pandemic. In this light, information about the beneficiaries of the teleworking scheme issued by Malta Enterprise would be useful to shed some more light in this regard.

While the scope of this study was to estimate Malta's potential to telework, further research is needed to assess the economic impacts of teleworking. Among others, teleworking may affect labour productivity, its effectiveness and employees' well-being. In this respect, it is also relevant to supplement



information about the number of teleworking employees with information about the number of teleworking hours.

Teleworking may also give rise to some economic opportunities and threats. Among others, firms may set up in Malta without the need of a physical presence of employees, and hence positive spill-overs on domestic consumption could be lost. On the other hand, teleworking could make it easier for individuals living in Malta to provide services worldwide without relocating to other countries. In turn, the reduced need to be physically present in the country of employment may also give rise to issues surrounding taxation, such as the determination of the country where it should be charged. The effects of teleworking are also likely to extend beyond the workplace. For instance, while higher prevalence of teleworking may lead to higher electricity consumption, it can also have positive environmental effects, including a reduction in traffic congestion and air pollution, which in turn could help to address the country's climate and energy targets.

THE 2020 NATIONAL ACCOUNTS BENCHMARK REVISION¹

Vanessa Dimech and Owen Grech

Introduction

Most macroeconomic data are revised to update initial estimates and provide a more accurate reading of economic developments. There are two types of revisions: routine revisions and major revisions. Routine revisions occur regularly, in many cases with each new data vintage that is published, and generally involve updating earlier estimates with more accurate data, even if such data are available with a longer lag. Major revisions can be further subdivided into major ad hoc revisions and major regular revisions, with the latter also referred to as benchmark revisions.

Major ad hoc revisions take place when the need arises, generally resulting from methodological changes, such as the introduction of a new European System of Accounts (ESA) and changes in classifications, or special events such as an enlargement of the European Union. Major regular revisions, on the other hand, occur recurrently, generally every five to ten years, to incorporate changes in data sources or estimation techniques.²

In August 2020, the National Statistics Office (NSO) carried out a benchmark revision in national accounts data. To provide consistent data, the entire time series was updated. Therefore, revisions to nominal data were extended back to 1995, while real data were revised to the year 2000.³ Prior to this, the last benchmark revision was held in October 2014 and was integrated with a major ad hoc revision following the introduction of ESA 2010.⁴

The 2020 benchmark revision brought about several enhancements, which continued to improve the accuracy and richness of national accounts data, and harmonised further the data with that of other countries, thus allowing for better international data comparability. This article provides an overview of the salient enhancements incorporated in the benchmark revision and the impact these had on the main aggregates of the national accounts.⁵

Integrating Household Budgetary Survey (HBS) results

The benchmark revision incorporated the results of the 2015 HBS.⁶ This had two direct effects. First, the HBS is the main source used for the compilation of certain NACE categories under the production approach. In particular, the HBS results were integrated in cultural education (NACE P85.52), medical and dental practice activities (NACE Q86.2), other human health activities

¹ Prepared by Vanessa Dimech and Owen Grech. Ms. Dimech is the Head of the National Accounts Unit within the NSO. Mr. Grech is the Director of the Economic Statistics Directorate within the NSO and a Visiting Lecturer at the University of Malta's Faculty of Economics, Management and Accountancy. The authors would like to thank Mr. Etienne Caruana, Prof. Albert Leone Ganado, Dr. Aaron G. Grech and Mr. Godwin Mifsud for valuable discussions, comments and suggestions. The views expressed are those of the authors and do not necessarily reflect the views of the NSO or the Bank. Any errors are the authors' own.

² For a study on revisions to GDP data in Malta, see Grech, O. (2018), "An Analysis of Revisions to Maltese GDP Data", *Research Bulletin 2018*, Central Bank of Malta.

³ The benchmark revision was published alongside the GDP for 2020Q2. Therefore, the data can be found in NSO's *News Release 142/2020*, "Gross Domestic Product: Q2/2020".

⁴ For further detail, see NSO (2014), *A New Framework for National Accounts*.

⁵ This article summarises an earlier paper. Additional detail can be found in NSO (2020), *Benchmark Revision 2020*.

⁶ See NSO (2018), *Household Budgetary Survey Malta 2015*.

(NACE Q86.90), fitness facilities (NACE R93.13), hairdressing and other beauty treatment (NACE S96.02), as well as physical well-being activities (NACE S96.04). The impact on these categories is provided in Table 1.

Second, the HBS is also the primary source used for the compilation of Household Final Consumption Expenditure (HFCE) under the expenditure approach. Table 2 shows the revisions to the main HFCE divisions brought about by the integration of the HBS results.

In both cases, since the previous HBS was carried out in 2008, the results of the 2015 HBS were extrapolated backwards to 2009 to derive a consistent time series. However, in some cases, the time series had to be revised from 1995 or 2000 onwards to ensure consistency. Moreover, the 2015 HBS results were used as a new benchmark to extrapolate data from 2016 onwards.

Table 1
REVISIONS IN GROSS VALUE ADDED IN NACE CATEGORIES RESULTING FROM THE INTEGRATION OF THE HBS⁽¹⁾

EUR millions

	1995	2000	2005	2010	2015	2016	2017	2018	2019
Cultural education	-0.1	-0.2	-0.3	-0.3	5.0	1.4	1.6	2.1	2.3
Medical and dental practice activities	0.0	0.0	0.0	4.1	12.1	16.4	18.1	14.4	14.6
Other human health activities	0.0	0.0	0.0	0.3	-7.0	-8.5	-8.9	-10.6	-11.8
Fitness facilities	0.0	0.0	0.0	0.1	0.4	0.5	0.7	0.6	0.7
Hairdressing and other beauty treatment; physical well-being activities	3.4	4.5	0.6	1.8	1.3	1.0	1.0	1.3	1.7
Total	3.3	4.3	0.3	5.9	11.8	10.8	12.5	7.7	7.5

Source: NSO.

⁽¹⁾ Totals might not add up due to rounding.

Table 2
REVISIONS IN HOUSEHOLD FINAL CONSUMPTION EXPENDITURE RESULTING FROM THE INTEGRATION OF THE HBS⁽¹⁾

EUR millions

COICOP Code		1995	2000	2005	2010	2015	2016	2017	2018	2019
1	Food and non-alcoholic beverages	1.4	1.6	44.7	101.3	148.7	122.5	119.4	135.9	130.3
2	Alcoholic beverages, tobacco and narcotics	0.0	0.0	0.1	-1.4	0.8	-1.0	-2.8	0.5	0.7
3	Clothing and footwear	0.0	0.0	0.0	38.3	72.6	70.1	88.5	87.4	118.3
4	Housing, water, electricity, gas and other fuels	24.2	13.9	3.2	75.7	100.7	132.4	177.3	148.6	133.4
5	Furnishings, household equipment and routine household maintenance	-0.3	-0.4	0.4	-1.0	-101.5	-113.5	-121.6	-135.9	-137.5
6	Health	0.3	0.5	-11.2	-7.9	27.0	29.9	38.7	48.5	49.1
7	Transport	28.5	35.4	31.6	57.6	6.9	27.7	34.9	49.5	66.2
8	Communication	-17.6	-40.7	-15.0	-18.1	-26.1	-16.8	-17.7	-15.1	-13.7
9	Recreation and culture	12.9	22.2	-19.9	-38.5	-43.9	-48.4	-35.3	-24.7	-17.7
10	Education	5.1	10.1	14.6	21.2	33.2	48.0	50.7	54.2	59.0
11	Restaurants and hotels	0.6	3.8	34.3	42.9	84.0	99.6	79.7	57.1	96.3
12	Miscellaneous goods and services	-8.8	-13.0	-6.9	-99.2	-70.1	-97.4	-141.0	-67.4	37.8
	Total	46.4	33.3	75.9	170.9	232.4	252.9	270.7	338.5	522.1

Source: NSO.

⁽¹⁾ Totals might not add up due to rounding.

Addressing reservations and action points

The benchmark revision also incorporated work on three reservations which resulted from the ESA 1995 verification cycle and which were addressed after the 2014 benchmark revision.^{7, 8, 9}

It also tackled several action points which were identified during the first ESA 2010 verification cycle.¹⁰ These are:

- Action point A2 – Compile data for financial leasing (NACE K64.91).
- Action point A5 – Compile data for activities of households as employers of domestic personnel (NACE T97).
- Action point A6 – Separately identify costs of ownership transfers on non-produced assets as GFCF. This includes real estate agent fees, stamp duty and notary fees on transfer of land (AN.211), and notary and legal fees on transfer of contracts, leases and licences (AN.22), as well as on purchases less sales of goodwill and marketing assets (AN.23).
- Action point A11 – Compile data on withdrawals of income from quasi-corporations (D.422), that is, housing services provided by owner-occupied holiday homes abroad.
- Action point A13 – Measure changes in inventories (P.52) net of holding gains and losses, that is, taking into account possible increases or decreases in their value due to changes in prices.
- Action point A21 – Include the expenditure on research and development (R&D) by scientific research and development (NACE M72) in the calculation of R&D once supply and use tables are finalised.
- Action point B1 – Record decommissioning costs in the year they are incurred as GFCF, with consumption of fixed capital recorded for the same amount. As a result, the decommissioning costs of the Marsa power station were included in the figures for 2015.
- Action point B2 – Address the high share of GVA in agriculture produced within the general government sector. This was due to the misclassification of certain cost centres under crop and animal production, hunting and related service activities (NACE A1) and fishing and aquaculture (NACE A3) instead of under public administration and defence; compulsory social security (NACE O84).
- Action point B3 – Include acquisitions or disposals of non-monetary gold, platinum, silver, etc. in acquisitions less disposals of valuables (P.53).

Following the integration of these action points, in comparison with the previous vintage, GNI decreased by 0.4 per cent, on average, between 2010 and 2018.¹¹ The individual impact of these action points on GNI is presented in Table 3. Action points A5 and A13 had the largest effect on GNI, with the remaining action points having no significant impact.

⁷ A verification cycle is a process whereby the European Commission statistical agency Eurostat verifies the procedures and basic statistics used by Member States in the calculation of Gross National Income (GNI) which, in turn, is used to calculate part of the European Union's 'own resources' used to finance its expenditure. Verification cycles last around five years and are linked to the introduction of a new ESA.

⁸ The Commission places a reservation when it believes that improvements should be made to the methodology underlying a particular aspect of a Member State's GNI data.

⁹ The reservations relate to methodological enhancements in the estimation of Financial Intermediation Services Indirectly Measured (FISIM), integrating Short-Term Statistics (STS) in the compilation of restaurants and mobile food service activities and beverage serving activities, and measuring changes in inventories net of holding gains and losses. These are discussed further on since the first two were encompassed within broader methodological changes, while the latter was also an action point.

¹⁰ Periodically, GNI information visits are carried out in Member States, during which the Commission and representatives from other Member States collect additional information to determine whether there are any weaknesses in the GNI inventory, which documents the sources and methods used to calculate GNI and its components. Following such a visit, a report is drawn up with action points for the Member State to introduce methodological improvements or to clarify or supplement the information provided in the GNI inventory.

¹¹ Note that although, for brevity, data for the most recent years are shown, in many cases, ensuring consistent data involved revising the entire time series.

Table 3
IMPACT OF ACTION POINTS ON GNI

Per cent of GNI

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Action point A2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Action point A5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Action point A6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Action point A11	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Action point A13	0.5	-0.8	-0.3	0.0	-0.5	-0.1	-0.5	-0.1	-0.3
Action point A21	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Action point B1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Action point B2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Action point B3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.3	-1.0	-0.5	-0.2	-0.7	-0.2	-0.6	-0.2	-0.4

Source: NSO.

Other methodological changes

Other methodological changes, largely related to methodological refinements and the integration of new data sources, were also carried out. The most notable are the revisions to:

- Financial and insurance activities (NACE K), as a result of methodological improvements in the calculation of FISIM, activities of holding companies (NACE K64.2), trusts, funds and similar financial entities (NACE K64.3) and reinsurance (NACE K65.2), as well as the incorporation of administrative data.¹²
- Real estate activities (NACE L), in particular actual residential rents, imputed residential rents and non-residential rents. The revision to actual residential rents reflects the integration of the latest HBS results, which were augmented to reflect updated population figures, as well as the inclusion of commissions paid to real estate agents in intermediate consumption.¹³ Imputed rents and non-residential rents were revised due to several methodological enhancements.
- Fishing and aquaculture (NACE A3), reflecting the redistribution of quarterly output, such that it is recorded as being produced continuously over the entire period of production, rather than when fish is exported or sold, as well as the integration of the results of the annual census on open-sea fishing, conducted by the Department of Fisheries and Aquaculture, for the years 2008 onwards.
- Other accommodation (NACE I55.9), where output is now derived directly from a tourist expenditure survey in the case of non-residents, and from the National Tourism Survey in the case of residents.
- Electricity, gas, steam and air conditioning supply (NACE D35), following the inclusion, for the first time, of renewable energy generated by households, based on administrative data for the years 2010 onwards, which is supplemented by data from the SBS survey.
- Restaurants and mobile food service activities (NACE I56.1) and beverage serving activities (NACE I56.3), since the latest HBS results on the output consumed by residents are now extrapolated from 2016 onwards using STS.
- Education (NACE P85), creative, arts and entertainment activities (NACE R90) and sports activities and amusement and recreation activities (NACE R93), as a result of the integration of administrative data.

¹² FISIM is an indirect measure of the value of services provided by financial intermediaries, such as banks, for which no explicit charge is levied. These services are instead paid for through the margin between interest rates offered to savers and interest rates charged to borrowers.

¹³ The updated population figures are published in NSO's *News Release* 022/2018, "Population Statistics (Revisions): 2012-2016".

Together, these methodological changes resulted in an increase in GDP by an average of 3.0 per cent between 2010 and 2018, when compared with the previous vintage.¹⁴ The main contributors were the revisions to financial and insurance activities, and real estate activities.

Addressing derogations

A number of derogations were also addressed in the benchmark revision. First, data on hours worked at a sectoral level for the 1995 to 1999 period were compiled. Since the usual source of data on hours worked – the LFS – only extends back to 2000, the data had to be populated through back-casting.

Second, the cross-classification of fixed assets by industry and by asset (stocks) was published for the first time. This dataset includes the gross and net capital stock of fixed assets (AN.11) at current and previous year's replacement costs by industry, with disaggregated data for 21 industries. The asset breakdown includes dwellings (AN.111), other buildings and structures (AN.112), machinery and equipment, and weapons systems (AN.113 + AN.114), cultivated biological resources (AN.115) and intellectual property products (AN.117). In addition, balance sheet data on non-financial assets (AN) were enhanced. Similarly, this dataset includes the net capital stock of non-financial assets at current prices by institutional sector. Previously, only data on dwellings were compiled. The dataset now includes all the other fixed assets. The perpetual inventory method was applied to derive asset stocks and consumption of fixed capital.¹⁵

Third, the Supply, Use and Input-Output Tables (SUIOT) for 2013, 2014 and 2015 were published. The supply table describes how goods and services are brought into the economy, either through domestic production or imports, while the use table explains how those same products are used in the economy across the main types of use, namely intermediate consumption, final consumption (by households, non-profit institutions serving households and general government), gross capital formation and exports. Symmetric Input-Output Tables (SIOT) are derived from the Supply and Use Tables (SUT) and show the relationships between inputs and outputs that are required to produce a given amount of goods and services. The industry-by-industry SIOT describes the interdependencies between industries, that is, the input of various industries that contribute towards the output of a particular industry, while the product-by-product SIOT – which was published for the first time – explains the product technology required to produce a given product, that is, the input of different products needed to produce a particular product.^{16,17}

Fourth, GDP data in real terms from the production approach were also published for the first time. This allows real economic developments to be interpreted at a sectoral level and serves as a useful cross-check on real data emerging from the expenditure approach. The chain-linking technique used to compile GDP in volume terms remains unchanged, namely the annual overlap method. This technique has the major advantage of maintaining consistency between quarterly and annual estimates, with the sum of the quarterly values within a year equal to the annual value.¹⁸ Eurostat's recommendations on price and volume measures were followed as

¹⁴ Again, although data for the most recent years are presented, in many cases, the entire time series was revised to ensure consistent data.

¹⁵ The perpetual inventory method is an approach that is commonly used to calculate the stock of fixed assets, where the stock in a given period is equal to the stock in the previous period plus investment, less depreciation.

¹⁶ Further detail on the SUIOT for 2015, including data, can be found in NSO's *News Release* 005/2021, "Supply, Use and Input Output Tables: 2015".

¹⁷ See United Nations (2018), *Handbook on Supply and Use Tables and Input-Output Tables with Extensions and Applications, Studies in Methods*, Series F No. 74, for additional detail.

¹⁸ For further detail on chain-linking and the annual overlap method within a national accounts context, see Eurostat (2013), *Handbook on Quarterly National Accounts*.

closely as possible and proxies were developed when data were unavailable.¹⁹ Since real GDP is now compiled from both the expenditure side and the production side, a balancing process is in place to ensure consistency between the two methods. This process takes into account the respective strengths and weakness of the two approaches.

Routine revisions

Routine revisions were also included, with the most important being the incorporation of the 2016 Structural Business Statistics (SBS) survey results and updated estimates for gambling and betting activities (NACE R92). These updates had an impact on the years 2016 onwards, since the new data were extrapolated to produce refined estimates for the entire time series. The net effect of these revisions on GDP is shown in Table 4.

SBS are collected through an annual survey which covers a range of variables, including turnover, costs and employment. Therefore, within the national accounts context, it is used to update the quarterly estimates of certain NACE categories.²⁰ The largest upward revisions were carried out in administrative and support service activities (NACE N), professional, scientific and technical activities (NACE M) and information and communication (NACE J), while wholesale and retail trade, repair of motor vehicles and motorcycles (NACE G) and transporting and storage (NACE H) witnessed downward revisions.

In the case of gambling and betting activities, estimates for 2016 were replaced with actual data, while, for subsequent years, the methodology used for producing estimates was improved.

Impact on headline GDP figures

As a result of the enhancements discussed, the level of nominal GDP increased, on average, by 1.3 per cent between 1995 and 2019, when compared to the previous vintage. Revisions in nominal GDP ranged from 0.1 per cent in 2002 to 3.8 per cent in 2013. Table 4 compares nominal GDP reported under the benchmark vintage to that published in the previous vintage, and decomposes the revisions into benchmark revisions and routine revisions.

With regard to growth rates, GDP growth in nominal terms was revised by 0.0 percentage points (that is, upward revisions broadly offset downward revisions), on average, between 1995 and 2019 (see Chart 1). Revisions to GDP growth in real terms also averaged 0.0 percentage points between

Table 4
DECOMPOSITION OF REVISIONS⁽¹⁾

EUR millions

	1995	2000	2005	2010	2015	2016	2017	2018	2019
Nominal GDP as per 2020Q2 vintage	3,040.7	4,136.9	5,149.3	6,599.5	9,656.6	10,369.7	11,321.7	12,402.8	13,277.3
Benchmark revisions	18.9	16.5	9.9	216.3	340.1	327.2	385.1	421.3	487.8
Routine revisions	0.0	0.0	0.0	0.0	0.0	-158.5	-69.2	-333.2	-375.0
Nominal GDP as per 2020Q3 (benchmark) vintage	3,059.7	4,153.3	5,159.3	6,815.8	9,996.7	10,538.4	11,637.7	12,491.0	13,390.0
Net revision	18.9	16.5	9.9	216.3	340.1	168.6	315.9	88.1	112.8
Net revision as a per cent of GDP	0.6	0.4	0.2	3.3	3.5	1.6	2.8	0.7	0.8

Source: NSO.

⁽¹⁾ Totals might not add up due to rounding.

¹⁹ More detail can be found in Eurostat (2016), *Handbook on Prices and Volume Measures in National Accounts*.

²⁰ SBS cover NACE Sections B to N, except K, and NACE Division S95.

2000 and 2019 (see Chart 2). The new path of GDP confirms the business cycle reported in the previous vintage.

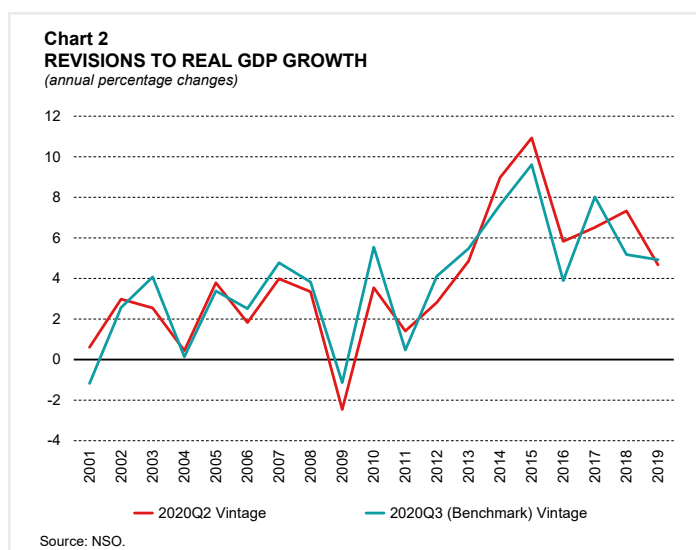
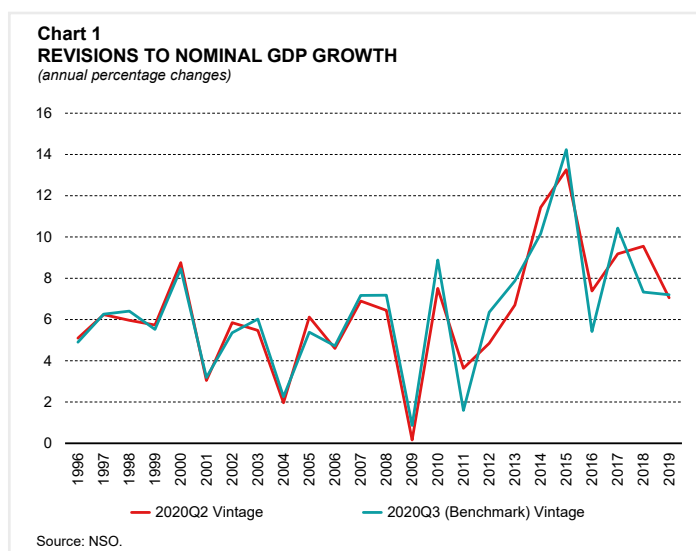
Conclusion

The 2020 national accounts benchmark revision led to a number of enhancements, the most notable of which are: the publication, for the first time, of GDP data in real terms from the production approach; the publication of SUIOT for 2013, 2014 and 2015; the implementation of recommendations emerging from the ESA 1995 and ESA 2010 verification cycles; the incorporation of new data sources, including the latest HBS; and the adoption of refined estimation methods. Routine revisions were also carried out, most importantly, the integration of the 2016 SBS survey results and updated estimates for gambling and betting activities.

As a result of these improvements, the level of nominal GDP increased by 1.3 per cent, on average, over the entire time series. Average GDP growth, on the other hand, remained largely unchanged, in both nominal and real terms. The new GDP series follows a very similar path to that reported previously.

The benchmark revision improved the accuracy of national accounts data and served to harmonise the data further at an international level. Moreover, the revision contributed significantly towards enhancing the richness of the data, which will allow for deeper analysis and open avenues for further research. For instance, real GDP data can now be studied, not only from the expenditure side, but also at a sectoral level, while new multipliers based on the updated SUIOT can be estimated.

Going forward, the NSO will continue refining its current national accounts estimates, especially those for recent years, and expand the national accounts statistics that are compiled. This will ensure that the data continue to be an accurate measure of economic developments and a key contributor in the economic decision-making process, within the policy-making arena, the business community and beyond.



3. PRICES, COSTS AND COMPETITIVENESS

Annual inflation as measured by the HICP decelerated to 0.5% in September, from 1.0% in June, driven by slower growth in food prices as well as falling prices for energy and NEIG.

Annual inflation based on the RPI – which only takes into account expenditure by Maltese residents – stood at 0.2%. At the same time, producer output prices decreased in annual terms. Meanwhile, growth in Malta's ULC index accelerated to 10.2% in the third quarter. Malta's HCIs point to a deterioration in international competitiveness during the period under review.

Inflation

HICP inflation decelerates

Annual HICP inflation edged down to 0.5% in September, from 1.0% in June (see Table 3.1).¹ While overall price pressures remained contained, HICP inflation was higher than that recorded in the euro area (see Chart 3.1).

The fall in HICP inflation relative to June partly reflected a contraction in energy prices. At the same time, NEIG inflation turned negative while food inflation moderated. By contrast, services inflation picked

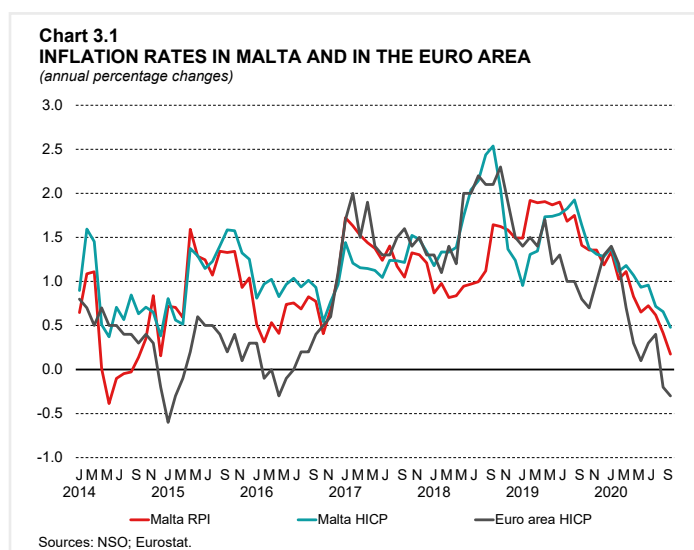


Table 3.1
HICP INFLATION

Annual percentage change

	2020								
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
Unprocessed food	2.4	2.0	2.0	3.2	1.3	4.6	2.1	3.2	1.9
Processed food including alcohol and tobacco	2.0	1.9	1.8	2.5	2.2	2.2	2.1	1.6	1.3
Energy	2.4	2.4	2.4	2.1	2.1	0.4	-1.2	-3.5	-3.5
NEIG	0.0	-0.9	-0.3	-0.2	-0.1	0.0	0.5	0.2	-0.4
Services (overall index excluding goods)	1.7	1.8	1.6	1.0	0.9	0.8	0.4	0.8	1.0
All Items HICP	1.4	1.1	1.2	1.1	0.9	1.0	0.7	0.7	0.5

Source: Eurostat.

¹ The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2020, the weight allocated to services stood at 47.2%, while that of NEIG was 27.1%. Food accounted for 19.7% of the index, while the share allocated to energy stood at 6.0%.

up and remained one of the main drivers behind overall inflation along with food inflation (see Chart 3.2). Services inflation rose mainly due to a stronger positive contribution from recreation and personal services (see Chart 3.3).

Energy inflation stood at -3.5% at the end of the third quarter, down from the rate of 0.4% recorded three months earlier. Negative inflation in this component was primarily driven by the cut in prices of fuel for transport in June, which began to be felt fully as from July.

Meanwhile, NEIG inflation decreased to -0.4% in September, from 0.0% at the end of the previous quarter. As a result, the contribution of this subcomponent to overall HICP turned negative from a neutral contribution three months earlier. Inflation in this subcomponent has been weak for a prolonged period, mainly as a result of downward international price pressures on traded manufactured goods in a weak international environment.

Food inflation fell but remained relatively robust. Processed food inflation fell to 1.3% in September from 2.2% in June, while unprocessed food inflation fell significantly to 1.9%, from 4.6% over the same period. As a result, the overall contribution of food to HICP inflation stood at 0.3 percentage point in September, down from 0.5 percentage point in June.

Core HICP inflation broadly halves

Core inflation, which excludes the more volatile components of the HICP index, moderated to 0.5% in September, from 0.9% at the end of the second quarter

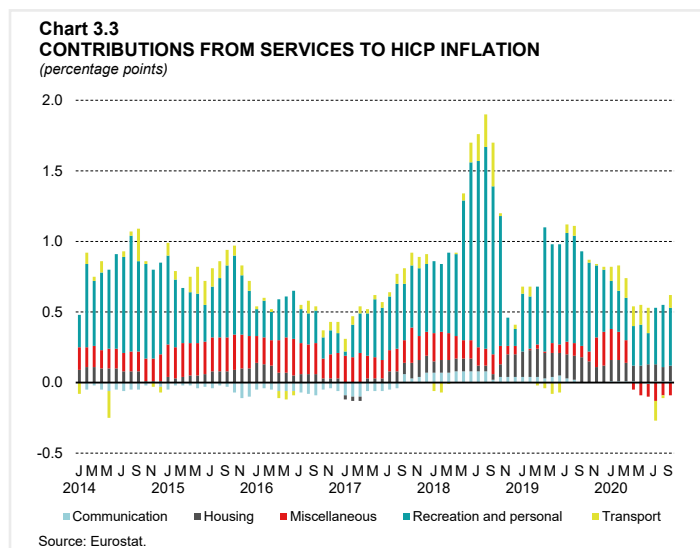
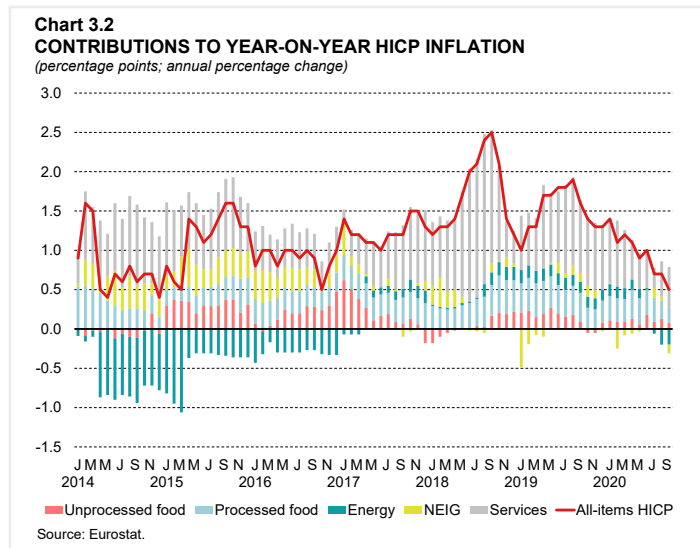


Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION

Percentage points

	2020								
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
Food	0.5	0.5	0.5	0.6	0.4	0.6	0.4	0.3	0.2
Beverages and tobacco	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Clothing and footwear	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.2	0.2	0.1
Housing	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2
Water, electricity, gas and fuels	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Household equipment and house maintenance costs	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Transport and communications	0.2	0.2	0.2	0.2	0.2	0.0	-0.2	-0.4	-0.3
Personal care and health	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2
Recreation and culture	0.2	0.1	0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3
Other goods and services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
RPI (annual percentage change)	1.3	1.0	1.1	0.8	0.6	0.7	0.7	0.5	0.2

Source: NSO.

(see Chart 3.4).² It was thus equal to overall HICP inflation. This suggests that the effect of volatile subcomponents on overall inflation was minimal in September.

RPI inflation eases

Annual inflation based on the RPI index, which is based on a different basket of goods and services from the HICP index, fell to 0.2% in September, from 0.7% three months earlier (see Table 3.2).³ This measure of inflation also suggests that overall price pressures remained

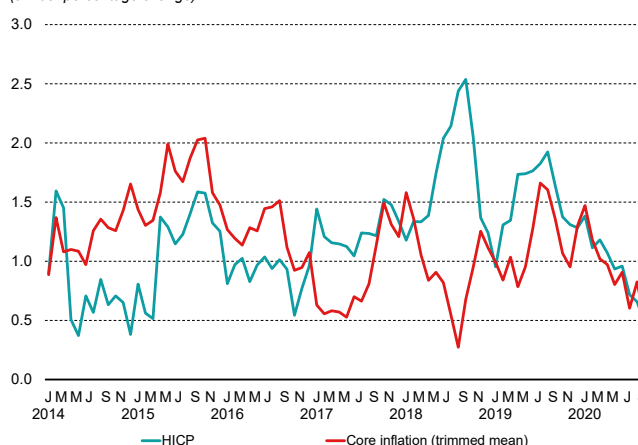
contained at the end of the third quarter, with the recent deceleration largely driven by a negative contribution from the transport and communications subcomponent as well as a fall in the contribution of food inflation.

Residential property prices

Residential property prices grow at a significantly slower pace

The NSO's Property Price Index (PPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – increased at a significantly slower rate during the

Chart 3.4
HICP IN MALTA: OVERALL AND CORE MEASURE
(annual percentage change)



Sources: Eurostat; Central Bank of Malta estimates.

² The Central Bank of Malta uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile subcomponents of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation Measures for Malta", *Quarterly Review 2014(3)*, pp. 39-45, Central Bank of Malta.

³ The RPI index differs from the HICP index in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta, such as accommodation services. See Darmanin, J. (2018), "Household Expenditure in Malta and the RPI Inflation Basket", *Quarterly Review 2018(3)*, pp. 33-40, Central Bank of Malta.

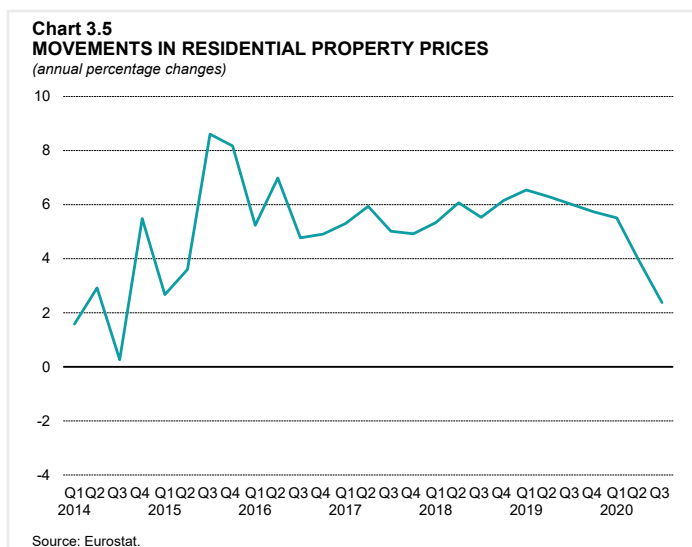
third quarter of 2020 (see Chart 3.5).⁴ The annual rate of change slowed to 2.4% from 3.9% in the second quarter of 2020. During the quarter under review, house price inflation in Malta stood notably below that in the euro area, where prices increased at an annual rate of 4.9%.

Growth in residential property prices may reflect the low interest rate environment, as well as support to first-time and second-time buyers through various government schemes.

For example, in June 2020, the

Government lowered the property tax rate and stamp duty on eligible transfers of immovable property arising from 9 June 2020 until 1 April 2021. In particular, the property tax and stamp duty on the first €400,000 of the value of the transfer were reduced to 5.0% and 1.5%, respectively. Also, Budget 2021 extended or introduced more favourable terms on a number of existing schemes supporting the property market.⁵

Nonetheless, growth is less dynamic than before the pandemic, reflecting less favourable developments in households' income and lower demand for private rental accommodation in view of the uncertain outlook for the tourism industry.



⁴ 'Apartments' are defined as dwellings with self-contained rooms or a suite of rooms that have a separate entrance accessible from a common passage way, landing or stairway. 'Maisonettes' have a separate entrance that is accessible from the street and are either at ground-floor level with overlying habitation, or at first-floor level with underlying habitation. 'Terraced houses' are dwellings with at least two floors, own access at street level and airspace, and with no underlying structures that are not part of the house itself. They are attached to other structures on both sides.

⁵ These include the first-time and second-time buyers' schemes, the purchase of vacant property located in Urban Conservation Areas (UCA), purchases of property in Gozo and the reduction in taxes on property transfers and stamp duty introduced in terms of Legal Notices 240 and 241 of 2020. Furthermore, the threshold for the duty exemption on immovable property donated by parents to their descendants was increased from €200,000 to €250,000.

BOX 2: LONG-TERM HOUSING RENTALS IN MALTA¹

Over the past years, the Maltese home-ownership and rental markets were very dynamic, with factors such as population growth, new market trends in tourism and a turnaround in the construction sector affecting both supply and demand of housing. The Central Bank of Malta closely observes rental prices advertised in Malta.² This Box looks at some of the findings in Ellul (2020) which assesses the long-term housing rental market, in particular through the channel of online advertised listings with leading real estate agents.

No single study can claim to assess comprehensively the various trends at play in the housing rental market. Ellul (2020) focuses on a selected database of uniquely identifiable online adverts and property listings. This is the first attempt to approach fundamental questions on the rental market in Malta using a validated database. A significant amount of effort and care was placed in compiling and ensuring the validity of the original data, which being in the realm of big data does not necessarily comply with the strict requirements of economic analysis. In particular, rigorous checks were implemented to filter out duplicate observations, and thus allow for an accurate discussion on the distribution of long-term rental properties in Malta during the reference period studied, as well as the pricing of property characteristics over time. A further benefit from focusing on what were termed ‘viable’ advertised listings is the ability to look at the monthly trends in advertised rents, which in turn allow useful comparisons with what stakeholders observe in these markets.

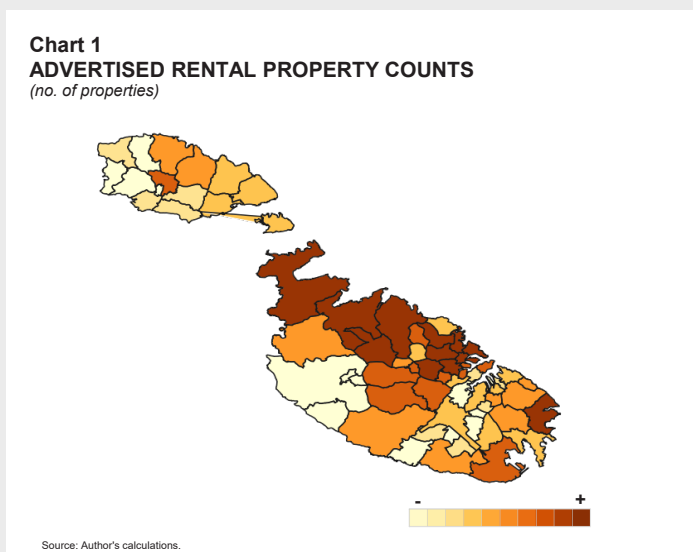
Viable listings were defined as those adverts for rental properties which were observed for the first time in the month when the data were being collected, or whenever a previously-observed listing experienced a price change. Between January and December 2019, around 16,500 viable observations of rental units were identified. Such observations – while accounting for only a small proportion of the database – provide a better representation of current rental market conditions at the time of collection, unlike, for example, adverts of properties which may have been unavailable but have remained online for subsequent periods without being updated.

Firstly, looking closely at property types, most of advertised properties in the dataset were apartments (66.1% of the total), followed by penthouses (11.8%) and maisonettes (10.8%). There were also listings advertised as individual rooms (2.1%). The rest of the listings (9.1%) included houses, townhouses, villas, farmhouses, bungalows and palazzos. In terms of individual property characteristics, of the approximate 16,500 viable properties in the dataset, 47.2% had three or more bedrooms, 38.6% had two bedrooms and 14.3% were listings with one bedroom. Thus, many advertised units on the rental market

¹ Prepared by Reuben Ellul. The author is a Principal Economist within the Economic Analysis Department at the Central Bank of Malta. The author would like to thank Mr. A. Demarco, Dr. A. G. Grech, and Dr. B. Micallef for their comments and suggestions to earlier drafts of this analysis. The views expressed are those of the author and do not necessarily reflect those of the Bank. Any errors are the author's own.

² For a deeper analysis on this topic, see Ellul, R., (2020), “[Long-term housing rentals in Malta: A look at advertised listings](#),” *Policy Note* September 2020, Central Bank of Malta. In this project, advertised rental data from leading property agents in Malta were collected using public online sources and big data methods. The final dataset comprises hundreds of thousands of observations, which are then whittled down using data quality controls. The exercise is carried out on a monthly basis, and serves to supplement and support two parallel projects on the property market carried out by the Bank's Economics Division. These big data methods allow the use of several modelling techniques which were previously not possible due to data limitations.

were for larger properties. This may indicate the rental of units originally oriented towards the Maltese population, or otherwise idle units for foreign workers. Finally, although the properties appear to be spread around Malta, they were highly concentrated in areas such as Sliema, St Julian's, Msida and Gżira, with outlying denser rental clusters in St Paul's Bay and Marsascala (see Chart 1).



Hedonic equations for rental prices with characteristics were also estimated.³ Assuming that a one-bedroom, one-bathroom apartment in Sliema represents the base category, an increase of one bed in the advertised listing to a two-bedroom unit leads to an increase of 25.7% in the asking price. Apartments with three or more bedrooms result in an increase of 47.8% over the base category. Likewise, an extra bathroom in a unit over the base category leads to an increase in the asking price of 16.3%, while units with three or more bathrooms command an extra 53.1% over the base category.

Turning to property types, penthouses were advertised with a premium of 20.7% over an apartment with one bedroom and one bathroom in Sliema, while maisonettes do not appear to have a statistically significant difference in advertised prices over such an apartment.⁴ Listings for single rooms, which may indicate a shared-living space, returned asking rents which were around 47.6% lower than a one-bedroom, one-bathroom apartment. This may reflect the fact that rooms for rent may have a smaller living space than studio flats, while also entailing the sharing of all other facilities with other individuals living in the rental unit. Other property types, which include houses, townhouses, villas etc., command a substantial premium of 47.0% over the base category. These latter property types tend to command an even higher premium once one considers that most of these larger properties tend to have more than the 'one bedroom, one bathroom' configuration of the benchmark category.

Estimates for price differences that are driven by location were also calculated for 66 localities and areas (see Table 1). All localities were advertised at a discount in asking rental prices

³ In order to avoid the problem of equation misspecification bias, this study focuses on relative differences between categories, rather than on the estimated price levels of particular characteristics.

⁴ This finding may reflect the comparatively low number of maisonettes for rent with respect to apartments, in particular resulting from maisonettes being placed on the market as part of a larger block of apartments. This may reflect the lower quality of maisonettes placed on the rental market with respect to the more typical maisonettes for domestic residential purposes built in previous decades.

Table 1
RELATIVE VALUE WITH RESPECT TO SLIEMA

Locality	Relative value (%)	Locality	Relative value (%)
Sliema	100.0	Fgura	53.2
Mdina	-	Gudja	52.8
Valletta	91.2	Tarxien	52.6
Ta' Xbiex	91.2	Marsaxlokk	52.6
St Julian's	90.3	Mġarr	52.3
Swieqi	80.9	Paola	52.2
Birgu	75.1	Żebbuġ	52.1
Gżira	75.1	Santa Lucija	50.9
Pembroke	74.3	Żurrieq	50.8
Floriana	69.9	Mqabba	50.5
San Ġwann	66.8	Dingli	49.5
Msida	66.4	Safi	49.2
Naxxar	66.2	Xgħajra	48.9
Għargħur	65.7	Marsa	48.7
Pietà	65.1	Qrendi	48.6
Iklin	64.8	Kirkop	48.3
Lija	64.4	Sigġiewi	47.9
Attard	62.8	Rabat (Gozo)	47.2
Kalkara	62.0	Żabbar	46.3
Bormla	61.1	Mtarfa	46.1
Balzan	60.1	San Lawrenz (Gozo)	41.2
Mellieħa	59.5	Għarb (Gozo)	39.1
Isla	59.2	Żebbuġ (Gozo)	37.4
Santa Venera	57.7	Qala (Gozo)	37.3
Mosta	57.0	Sannat (Gozo)	36.7
St Paul's Bay	56.6	Munxar (Gozo)	36.1
Birkirkara	56.3	Għasri (Gozo)	35.4
Qormi	55.8	Għajnsielem (Gozo)	35.4
Għaxaq	55.0	Xagħra (Gozo)	35.2
Ħamrun	54.8	Kerċem (Gozo)	35.0
Birżebbuġa	54.7	Fontana (Gozo)	34.0
Luqa	54.0	Nadur (Gozo)	33.3
Marsascalea	53.7	Xewkija (Gozo)	30.5
Żejtun	53.2		

Source: Author's calculations.

with respect to Sliema.⁵ A limited number of localities have lower discounts, probably due to their relative proximity or perceived similarity to Sliema, although the opportunity costs of placing a unit on long-term rent in a highly touristic area may also play a role. In terms of

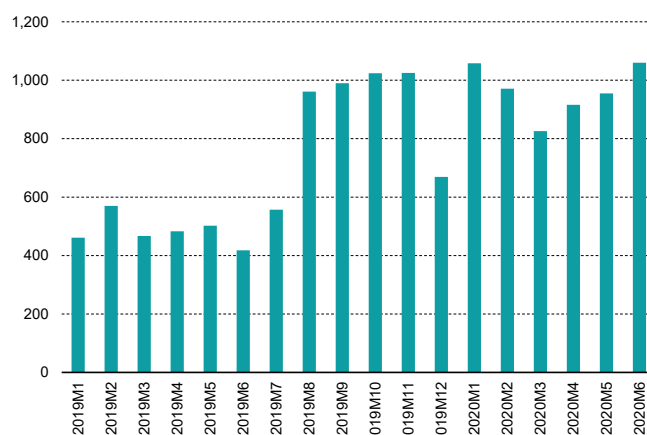
⁵ The exception would be Mdina, where no statistically significant difference was found. This finding, which may be due to low sampling, is explained in more detail in the main Policy Note. This may also reflect the low supply of properties in Mdina, and the relative exclusivity of the locality.

negative premiums, or rental discount in prices with respect to Sliema, the cheapest rental properties – controlling for hedonic characteristics – were found in Gozo, with a one bed-roomed apartment on average being advertised at a monthly asking price of 64.3% less than a comparable unit in Sliema, while localities such as St Julian’s and Ta’ Xbiex return discounts of around 9.7% and 8.8%, respectively.

Finally, this approach is also able to provide useful evidence to assess market trends.⁶ This is especially useful when looking at shocks to the rental and property markets during the early months of the COVID-19 pandemic. The data indicate that the number of newly observed adverts were already increasing in the latter half of 2019, remaining at elevated levels until June 2020 (see Chart 2). This may indicate an increase of housing supply directed towards the rental market towards late 2019, and – more recently – an increase in vacant properties following the COVID-19 pandemic.

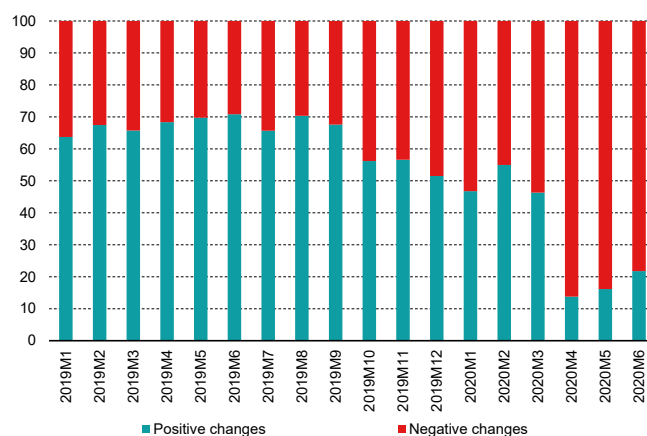
The direction of price changes in advertised listings monitored in the dataset act as a clear and simple indicator of trends in the rental market. This is based only on those advertised listings which registered a change in their rent from that observed in the previous listing and does not look at the total number of listings found online. A narrow majority of 50.4% of advertised price changes were positive (see Chart 3). From October 2019

Chart 2
NEWLY OBSERVED LISTINGS
(no. of viable newly observed properties)



Source: Author's calculations.

Chart 3
SHARE OF POSITIVE AND NEGATIVE PRICE CHANGES IN RENTS
(percentage)



Source: Author's calculations.

⁶ Data quality restrictions may alter the signals derived from adverts as those properties which experience unchanged prices and are still available on the market, are automatically excluded. Such an exclusion would, in theory, affect the calculation of price indices, as the possibility of zero inflation is ignored. However, the benefits from ensuring strict data quality controls, in a period where prices were reported to be increasing strongly, were seen to outweigh this possible effect. To avoid possible biases, studies which do compute rental price indices from online sources should ensure – as far as the data allow – that the data obtained from such sources reflect current market conditions.

onward, positive price changes start to taper off, with negative price changes – that is, discounts over previously advertised prices – beginning to feature in higher proportions. This suggests that by late 2019, the rental market may already have been experiencing changing conditions, with more landlords willing to accept relatively lower rents – as evidenced by the more balanced distribution between positive and negative price changes in observed listings in the second half of 2019.

The proportion of properties registering discounts in their advertised rents, as a share of the listings with price changes, rose dramatically between March and April 2020, increasing from 53.7% to 86.2%, respectively. This suggests that landlords have been more willing to accept lower rents during the period of uncertainty marked by the COVID-19 pandemic, a finding which confirms similar results found in a study on the effects of COVID-19 on the rental market undertaken by the Maltese Housing Authority.⁷

⁷ Galdes, R. (2020-05-21), "[Trust and collaboration in rental market](#)," Times of Malta.

Costs and competitiveness

Producer price inflation remains negative

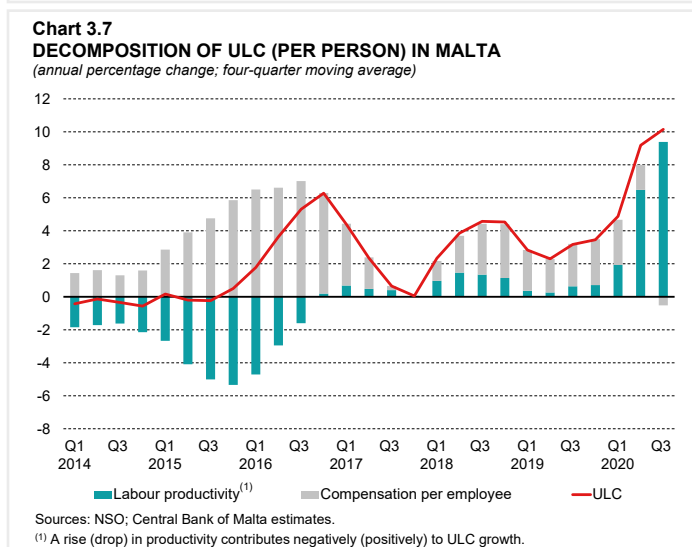
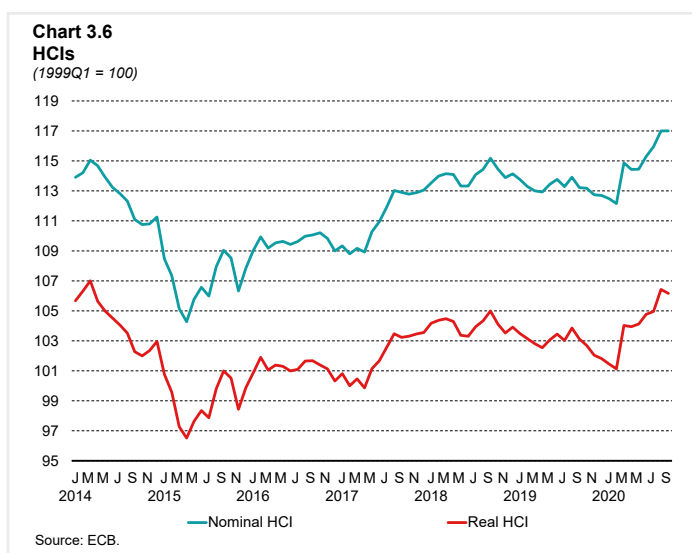
The industrial producer price index, which measures domestic factory output prices, posted another decrease.⁶ Annual producer price inflation registered -1.0% in September, down from -0.3% three months earlier. This reflected a further contraction in intermediate goods prices, along with lower contributions from consumer and capital goods, while energy inflation remained zero.

HCI's point to deterioration in competitiveness

Annual growth in Malta's HCIs remained positive in September, which suggests a further deterioration in Malta's international competitiveness.⁷ In September, the nominal HCI grew by an annual rate of 3.3%, reflecting unfavourable developments in trade-weighted exchange rates (see Chart 3.6). At the same time, the real HCI rose by 2.9% in September, suggesting that the impact of unfavourable exchange rate movements was partly offset by favourable developments in relative prices.

ULC accelerates

Malta's ULC index, measured as the ratio of compensation per employee to labour productivity, accelerated during the third quarter of 2020.⁸ When measured on a four-quarter moving average basis in headcount terms, ULC in Malta grew at an annual rate of 10.2%, following a 9.2% increase in the previous quarter (see Chart 3.7).



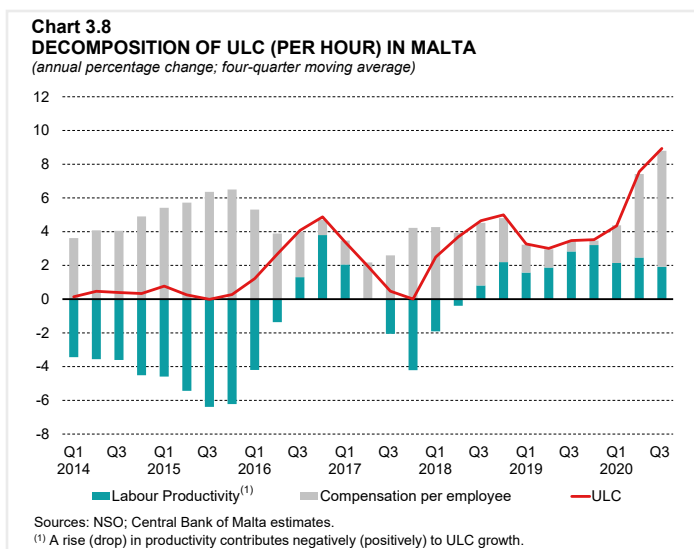
⁶ The industrial producer price index measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

⁷ HCIs act as an effective exchange rate measure for countries operating within the euro area monetary union. The nominal HCI tracks movements in the euro exchange rate against the currencies of Malta's main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI also takes into account the relative inflation rate of Malta vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in Malta's international price competitiveness.

⁸ Annual growth in ULC, compensation per employee and labour productivity is measured on a four-quarter moving average basis. A degree of caution is required in the interpretation of ULC in view of contemporaneous structural shifts in the composition and factor-intensity of production, notably the shift to labour-intensive services. See Micallef, B. (2015), "Unit labour costs, wages and productivity in Malta: a sectoral and cross-country analysis", Policy Note August 2015, Central Bank of Malta, available [here](#), and Rapa, N. (2016), "Measuring international competitiveness", *Quarterly Review 2016(1)*, 53-63, Central Bank of Malta.

The pick-up in ULC growth was driven by a faster decline in labour productivity, which offset a small decrease in compensation per employee.

Labour productivity fell by an annual 9.4% in the third quarter, following a 6.5% decrease in the previous quarter. The decline in productivity reflects the marked slowdown in economic growth, although employment growth remained positive on an annual basis. The resilience of employment reflects an element of labour hoarding following an extended period of labour shortages as well as government support measures intended at limiting job losses. In particular, the wage supplement scheme meant that employment levels remained elevated, notwithstanding the sharp contraction in economic activity caused by the pandemic. Meanwhile, annual growth in compensation per employee turned negative, as it fell to -0.5% from 1.5% in the previous quarter.



While the scheme was successful at preserving employment, hours worked still contracted by an annual rate of -8.6%, compared to a decrease of 9.9% in the previous quarter. Productivity per hour fell by 1.9%, below the fall of 2.5% in the second quarter, and short of the decrease in productivity per person. While firms responded to negative economic shock by reducing hours worked, they were unable to cut salaries by a similar margin and as a result, compensation per hour rose by 6.9% in the third quarter of 2020, up from a 5.0% increase in the previous quarter. This meant that similar to ULC per employee, ULC per hour also picked up, growing by 8.9% in the third quarter, following a 7.6% increase in the second (see Chart 3.8).

4. THE BALANCE OF PAYMENTS

During the third quarter of 2020, the current account showed a deficit when compared to a surplus in the third quarter of 2019. This shift to a deficit was mainly on account of a sharp decline in net services receipts, although an increase in net income outflows also contributed. By contrast, the deficit on merchandise trade narrowed. In the third quarter, net inflows on the capital account increased when compared to the corresponding quarter of last year, as did net lending on the financial account.

When measured as a four-quarter moving sum, the current account balance registered a deficit for the first time in almost four years. The current account deficit stood at 2.2% of GDP. This contrasts with a current account surplus of 2.0% of GDP in the euro area.¹

Meanwhile, the cyclically-adjusted current account balance is estimated to have recorded a small surplus of 0.4% during the third quarter of 2020. This indicates that the deficit in the current account is driven by cyclical factors.

The current account

The current account registers a deficit

Between July and September 2020, the current account registered a deficit of €107.0 million, when compared to a surplus of €282.5 million in the same quarter of 2019 (see Table 4.1). The shift to a deficit was mostly driven by a significant fall in net services receipts. In addition, higher net outflows on the primary income account and a marginal increase in net outflows on the secondary income account also contributed, although to a much lesser extent. These movements were partly offset by a smaller merchandise trade deficit.

Reflecting developments in the first three quarters of this year, the balance on the current account – when measured as a four-quarter moving sum – recorded a deficit of €276.6 million, as opposed to a surplus of €476.2 million a year earlier. This shift was largely spurred by lower net receipts from trade in services, mostly reflecting the sharp decline in net travel receipts following the global spread of COVID-19 and, to a lesser extent, higher net outflows on the primary income.

Table 4.1
BALANCE OF PAYMENTS

EUR millions

	Four-quarter moving sums					2019 Q3	2020 Q3
	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3		
Current account	476.2	618.7	690.1	112.9	-276.6	282.5	-107.0
Goods	-1,703.8	-1,636.3	-1,578.8	-1,503.4	-1,353.4	-530.3	-380.4
Services	3,463.4	3,528.9	3,565.8	2,970.7	2,463.7	1,114.7	607.7
Primary income	-1,120.4	-1,113.2	-1,136.7	-1,201.9	-1,234.0	-263.5	-295.6
Secondary income	-163.1	-160.7	-160.1	-152.6	-152.9	-38.4	-38.7
Capital account	177.6	106.6	98.4	86.9	91.1	27.4	31.5
Financial account⁽¹⁾	360.3	290.5	412.4	-270.6	-228.4	37.6	79.8
Errors and omissions	-293.5	-434.8	-376.1	-470.4	-42.9	-272.3	155.3

Source: NSO.

⁽¹⁾ Net lending (+) / net borrowing (-).

¹ Balance of payments data for 2020 should be interpreted in the context of the unprecedented developments related to COVID-19.

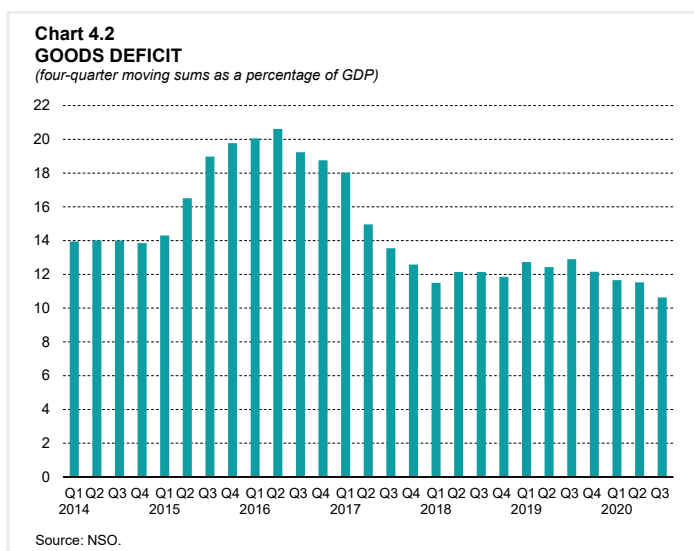
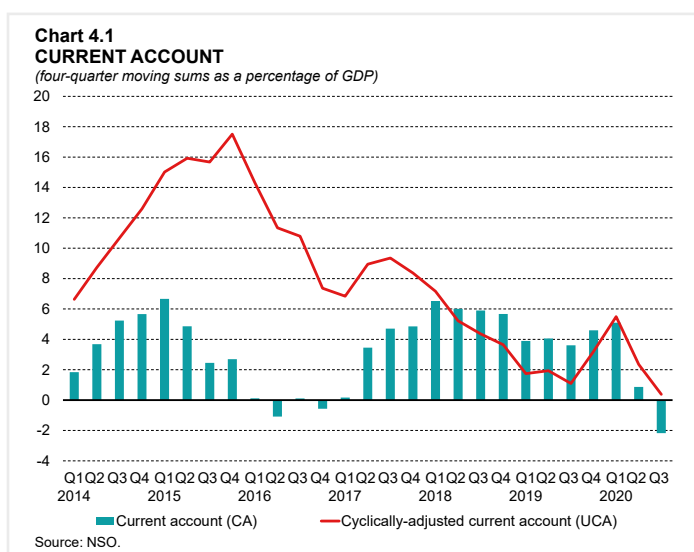
By contrast, a smaller merchandise trade deficit and lower net outflows on the secondary income were recorded. The current account-to-GDP ratio edged down to -2.2%, from 3.6% a year earlier (see Chart 4.1).

Malta's cyclically-adjusted current account balance is estimated to have stood at 0.4% of GDP in the third quarter of 2020, down by 0.7 percentage point on a year earlier.² Notwithstanding this decline, the cyclically-adjusted measure remained in surplus, exceeding the headline measure (see Chart 4.1). This partly reflects an estimated weaker economic cycle in Malta's trading partners relative to the domestic output gap, which is negatively impacting the cyclical component of Malta's current account balance. Given the high uncertainty and volatility in trade related to COVID-19, cyclically-adjusted estimates are likely to be affected by several one-off factors that are difficult to quantify and interpret.

The merchandise trade deficit narrows

In the third quarter of 2020, the merchandise trade deficit stood at €380.4 million, €150.0 million less than in the corresponding period of 2019. This was driven by a contraction in imports which outweighed a decrease in exports.

Partly reflecting developments in the second and third quarters of 2020, the visible trade gap narrowed to €1,353.4 million when measured on a four-quarter cumulative basis, €350.4 million less than the deficit recorded a year earlier. This stemmed from a €691.3 million fall in merchandise imports, which offset a €340.9 million drop in exports. As a result, the share of the goods deficit in GDP fell to 10.6%, from 12.9% in the year to September 2019 (see Chart 4.2).



² For more information on Malta's cyclically-adjusted current account see Grech, A. G., & Rapa, N., "An evaluation of recent shifts in Malta's current account position", in Grech, A.G., & Zerfa, S. (eds.), *Challenges and Opportunities of Sustainable Economic Growth: the Case of Malta*, Central Bank of Malta, 2017.

The surplus on services narrows considerably

In the quarter under review, net receipts generated by the services industry amounted to €607.7 million, €507.1 million less than in the corresponding period of 2019. Both services receipts and payments decreased on a year earlier, but the fall in the former was approximately five times larger.

The drop in the surplus was mainly driven by a sharp decline in net travel receipts. These declined by €410.3 million to stand at €107.8 million.

Both receipts and payments within the travel account dropped sharply, but the decrease in the former was much more significant. This reflects continued disruptions to both inbound and outbound travel, as some travel restrictions, as well as fear of travel remained elevated during the third quarter of the year. Similarly, and also partly reflecting ongoing travel disruptions, net receipts on the transport account fell to €21.1 million, from €118.4 million last year. Both receipts and payments fell considerably but the fall in the former was more than double that in the latter.

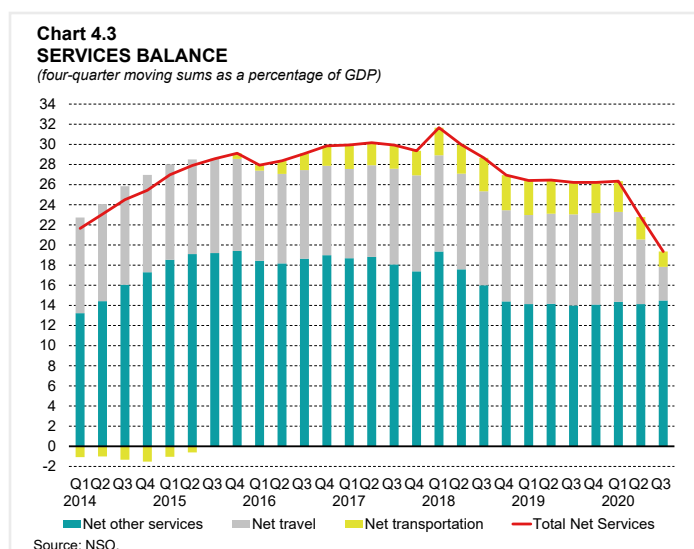
By contrast, the surplus on ‘other services’ rose marginally, as higher net payments related to ‘other business services’ – in particular professional and management consulting services – were offset by a rise in net receipts related to personal, cultural and recreational services, which include remote gaming.

On a four-quarter cumulative basis, the overall surplus from services stood at €2,463.7 million, a decrease of €999.8 million when compared with the corresponding period of 2019. The main contributor to this decline was the significant drop in net travel receipts. As a result, the share of net services receipts in GDP dropped to 19.4% over the 12 months to September 2020, from 26.2% a year earlier (see Chart 4.3).

Primary income account records higher net outflows³

Between July and September 2020, net outflows on the primary income account stood at €295.6 million, €32.1 million higher than in the third quarter of 2019.

During the four quarters to September, net outflows on this account reached €1,234.0 million, €113.6 million more than in the same period a year earlier. Higher net outflows were driven by the investment income component, particularly lower interest receipts on portfolio investment and higher net outflows related to reinvested earnings from direct investment. Flows relating to primary income continued to be strongly influenced by internationally-oriented firms which transact predominantly with non-residents.



³ The primary income account shows income flows related mainly to cross-border investment and compensation of employees.

Outflows on the secondary income account increase marginally⁴

In the third quarter of the year, net outflows on the secondary income account increased by €0.3 million on a year earlier, to €38.7 million.

Over the four quarters to September 2020, net outflows on this account stood at €152.9 million – €10.2 million less than the amount recorded a year earlier.

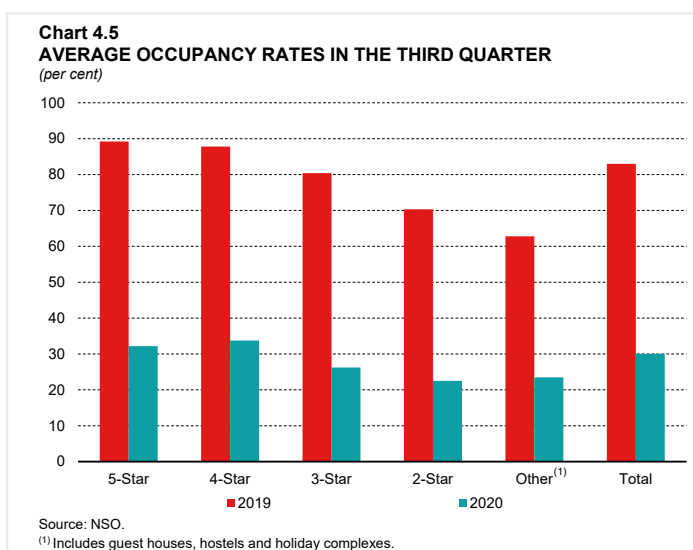
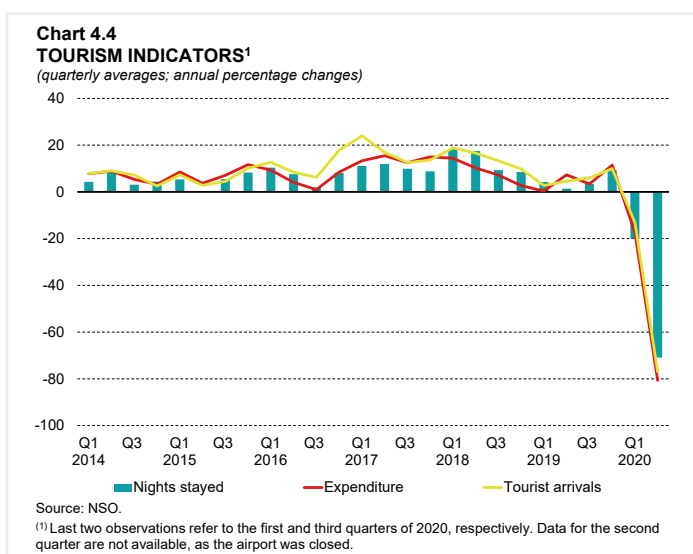
Tourism activity

Activity in the tourism sector

In the third quarter of 2020, the tourism sector experienced substantial declines as restrictions were imposed on tourists from selected countries amid a resurgence of COVID-19 infections locally and abroad. Tourism arrivals, nights stayed and expenditure fell significantly on the same quarter a year ago. The number of inbound tourists amounted to 213,560, representing a 77.0% drop on a year earlier (see Chart 4.4). Tourists visiting Malta for leisure purposes accounted for the bulk of the decline in tourist arrivals, in absolute terms. Nevertheless, the number of visitors with business motives also decreased, as did those travelling for other reasons.

Meanwhile, the number of nights that tourists spent in Malta during the third quarter of 2020 fell to 2.1 million, a 70.9% decline over a year earlier. This development was driven primarily by a decrease in rented accommodation, although nights spent in non-rented accommodation also contracted.

The total occupancy rate in collective accommodation establishments in the third quarter of 2020 edged down to 30.0% from 83.0% in the third quarter of 2019 (see Chart 4.5). The 5-star category reported the largest decline of 57.0 percentage points, followed by a drop of 54.2 and 54.0 percentage points



⁴ The secondary income account shows current transfers between residents and non-residents.

in the 3-star and 4-star category, respectively. The “other” collective accommodation category, which comprises guesthouses, hostels and tourist villages, registered the lowest decline over the corresponding period in the previous year.

During the third quarter, tourist expenditure in Malta declined by 80.7%, to €168.2 million. Package expenditure declined by 87.4%. Similarly, expenditure on non-package holidays and other expenditure decreased by 83.6% and 75.2%, respectively.

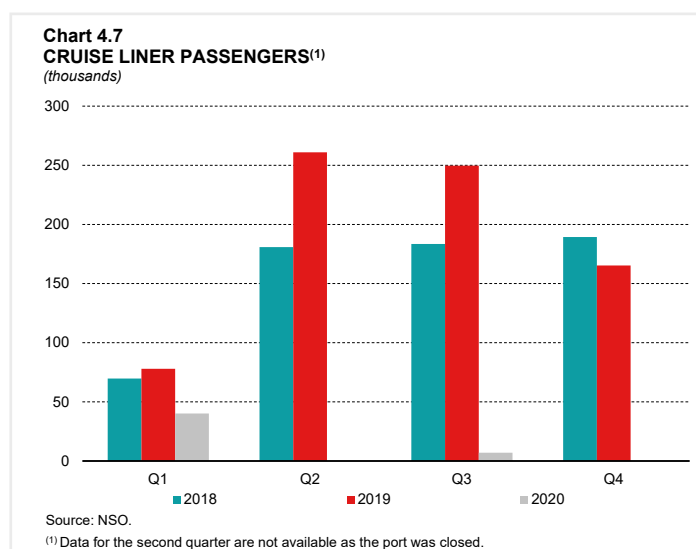
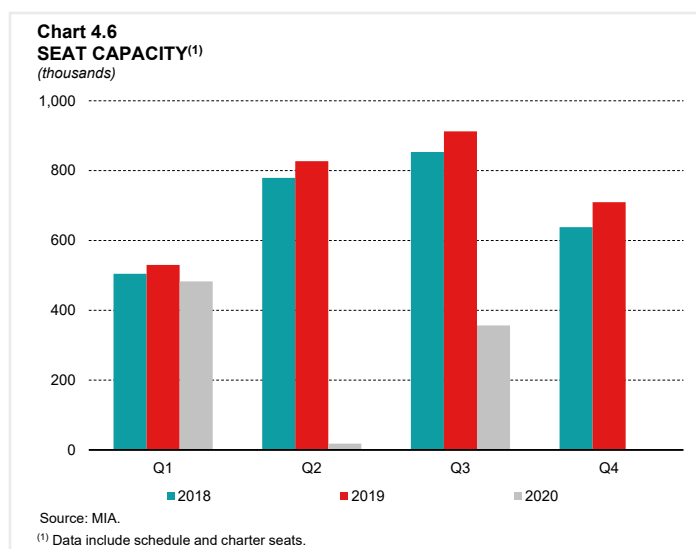
Expenditure per capita decreased to €787.8 from €939.8 recorded a year earlier, as tourist expenditure fell faster than tourist arrivals. Meanwhile, the average length of stay increased to 10.0 nights, as a number of tourists were forced to remain in the country for a longer period than expected as a result of travel restrictions.

According to Malta International Airport (MIA) data, in the third quarter of 2020, average seat capacity decreased by 60.9% compared with a year earlier (see Chart 4.6).

Meanwhile, a total of seven cruise liners visited Malta, 115 fewer than the previous year. Foreign passengers were down to 7,018, from the 249,735 recorded over the same period of 2019 (see Chart 4.7). This reflected primarily a decrease in the number of visitors coming from Germany, the United States, Spain and Italy.

The capital account

Net inflows on the capital account stood at €31.5 million in the third quarter of 2020, up from €27.4 million in the corresponding period of 2019 (see Table 4.1). When measured on a four-quarter moving sum basis, capital inflows almost halved on a year earlier, standing at €91.1 million.



5. GOVERNMENT FINANCE

COVID-19 continued to have a negative impact on general government finances during the third quarter of 2020, with the general government balance deteriorating significantly when compared with the corresponding period a year earlier. When measured on a four-quarter moving sum basis, the general government balance registered a deficit of 8.0% of GDP. Meanwhile, the general government debt-to-GDP ratio increased to 53.7%, from 51.0% at end-June. While the stock of financial assets held by Government decreased marginally, the stock of financial liabilities increased, partly reflecting the issue of new MGS. Consequently, the net financial worth as a share of GDP worsened.

Quarterly developments

General government balance swings into deficit

In level terms, the general government registered a deficit of €316.3 million in the third quarter of 2020, a deterioration of €354.1 million when compared to the surplus registered in the corresponding quarter of 2019. This was largely due to a significant increase in expenditure, coupled with a decline in revenue. As a result, the primary balance shifted from a surplus of €83.5 million in the third quarter of 2019 to a deficit of €275.7 million a year later.

Tax receipts decline

In the third quarter of 2020, general government revenue decreased by €92.5 million or 7.7% when compared with the same quarter of 2019 (see Table 5.1). This was largely on the back of lower tax receipts, which were negatively affected by the slowdown in economic activity. Taxes on production and imports recorded the largest drop of €86.7 million, mainly on the back of lower inflows from VAT receipts, duty on documents and energy taxes. Revenue from current taxes on income and wealth declined by €6.3 million, mainly reflecting lower tax receipts from companies. Moreover, other revenue fell by €12.1 million as inflows from the Individual Investor Programme (IIP) declined.

By contrast, capital and current transfers receivable increased by €7.5 million, mostly due to higher grants from the European Union. Furthermore, social contributions increased by €5.1 million when compared to the corresponding quarter in 2019.

Current expenditure underpins expenditure growth

Total government expenditure surged by €261.6 million or 22.3% when compared with the third quarter of 2019. This rise was mostly underpinned by higher recurrent expenditure, largely due to an increase in subsidies, intermediate consumption, compensation of employees and social benefits. Subsidies grew by €137.5 million on the back of continued support measures related to the COVID-19 pandemic, notably the Wage Supplement Scheme. Intermediate consumption increased by €68.8 million mainly due to higher outlays related to health care, and operational and maintenance expenses. Compensation of employees rose by €22.9 million, largely due to higher outlays in public administration, health and residential care sectors. Spending on social benefits increased by €14.8 million, mainly due to higher outlays on retirement pensions. On the other hand, other current transfers payable declined by €15.4 million, partly reflecting a decline in transfers to the European Union. Interest payments decreased by €5.0 million.

Table 5.1
REVENUE, EXPENDITURE AND DEBT

EUR millions

	2019		2020			Change 2020Q3-2019Q3	
	Q3	Q4	Q1	Q2	Q3	Amount	%
Revenue	1,209.3	1,388.3	971.9	1,110.9	1,116.8	-92.5	-7.7
Taxes on production and imports	415.3	415.0	334.4	301.3	328.6	-86.7	-20.9
Current taxes on income and wealth	413.3	501.4	313.3	441.1	407.0	-6.3	-1.5
Social contributions	191.2	223.4	175.6	188.2	196.3	5.1	2.7
Capital and current transfers receivable	41.5	85.1	45.0	40.2	49.0	7.5	18.1
Other ⁽¹⁾	148.0	163.5	103.7	140.2	136.0	-12.1	-8.2
Expenditure	1,171.5	1,362.2	1,282.8	1,522.9	1,433.1	261.6	22.3
Compensation of employees	370.5	376.0	377.5	379.3	393.4	22.9	6.2
Intermediate consumption	222.4	298.9	192.1	330.7	291.2	68.8	30.9
Social benefits	294.3	323.0	322.5	379.4	309.1	14.8	5.0
Subsidies	47.3	54.5	79.9	165.2	184.8	137.5	290.6
Interest	45.7	45.2	41.5	44.9	40.7	-5.0	-11.0
Other current transfers payable	76.7	57.6	89.8	84.5	61.3	-15.4	-20.1
GFCF	92.4	176.6	129.5	124.9	115.8	23.4	25.3
Capital transfers payable	20.2	23.3	48.5	12.5	25.6	5.4	26.9
Other ⁽²⁾	2.1	7.1	1.4	1.6	11.3	9.2	
Primary balance	83.5	71.3	-269.3	-367.2	-275.7	-359.2	
General government balance	37.8	26.1	-310.8	-412.1	-316.3	-354.1	
General government debt	5,645.9	5,707.2	5,938.7	6,646.5	6,838.8		

Source: NSO.

⁽¹⁾ "Other" revenue includes market output as well as income derived from property and investments.

⁽²⁾ "Other" expenditure principally reflects changes in the value of inventories and in the net acquisition of valuables and other assets.

Capital expenditure also contributed to the increase in total expenditure, albeit to a lower extent. This is mainly due to a rise in government investment, partly reflecting higher outlays on locally-financed projects.

Debt increases

In September, the stock of general government debt amounted to €6,838.8 million, €192.3 million more than the level registered at the end of June. The increase in debt mainly reflects the issue of new long-term debt securities to fund the shortfall in public finances caused by the pandemic. In fact, the stock of long-term securities outstanding (composed of MGS) increased by €204.7 million. Consequently, their share in total debt rose by 0.7 percentage point to 76.7%. At the same time, the stock of short-term securities (composed of Treasury bills) decreased by €97.5 million, with their share in total debt declining by 1.8 percentage points to 10.2%.

The value of currency and deposits outstanding increased by €94.5 million. Hence, their share in total debt increased by 1.2 percentage points to 6.9%.

Meanwhile, loans outstanding declined by €9.3 million. Consequently, their share in total debt fell by 0.3 percentage point to 6.1%.

Headline and cyclically-adjusted developments

Headline balance ratio deteriorates, while the debt ratio increases

Largely as a result of the pandemic – when measured on a four-quarter moving sum basis – the general government deficit widened significantly, rising from 5.1% of GDP in the second quarter of 2020 to 8.0% in the quarter under review (see Chart 5.1).

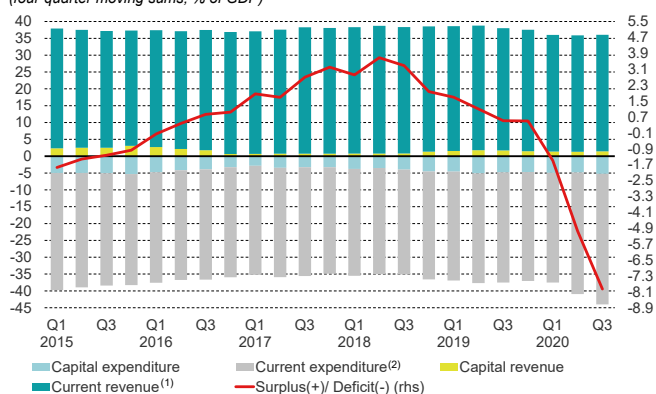
The deterioration in public finances was mainly driven by a rise in the expenditure-to-GDP ratio, which rose to 44.0% from 40.9% at end-June. This was due to a 2.7 percentage points increase in the share of current expenditure in GDP, mainly due to higher expenditure related to the COVID-19 pandemic. Meanwhile, the government revenue-to-GDP ratio increased marginally to 36.0%, from 35.9% in the second quarter of 2020, on the back of a 0.2 percentage point increase in the share of capital revenue in GDP.

Between June and September, the debt-to-GDP ratio increased by 2.8 percentage points to 53.7%. The rise in general government debt was lower than the fiscal deficit recorded in this period, due to a negative deficit/debt adjustment partly stemming from drawdowns of deposits and lower net trade receivables (see Chart 5.2).

Net financial worth deteriorates

The market value of financial assets fell to €4,472.6 million by September 2020, €118.0 million less than the level as at end June. This was primarily due to a drop in the value of shares and other equity – although deposits and loans also decreased. As nominal GDP also fell significantly, the share of financial assets in GDP only decreased by a marginal 0.1 percentage point to 35.1% (see Chart 5.3). By contrast, the stock of financial liabilities increased by €303.2 million, to stand at €9,418.5 million. This reflects a rise in the value of debt securities, including the 62+ Government Savings Bonds (which are classified as deposits), and other accounts payable. As a result, the share of financial

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

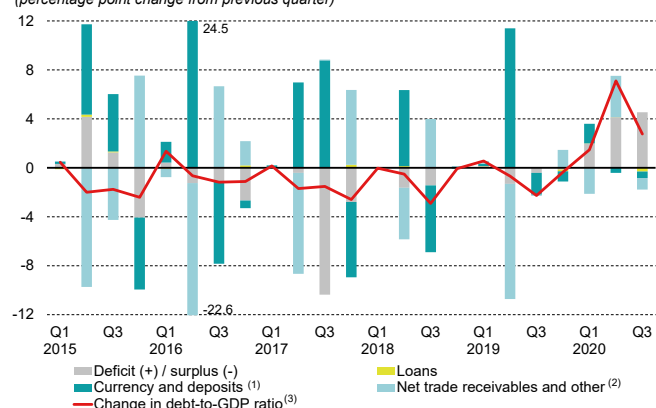


Sources: NSO; Central Bank of Malta.

⁽¹⁾ The term 'current revenue' represents most tax revenue as well as income from investments and sales. 'Capital revenue' mainly represents capital taxes and grants received.

⁽²⁾ The term 'current expenditure' mainly represents spending on wages, social benefits and operational and maintenance expenses. 'Capital expenditure' mainly represents spending on investment and capital transfers.

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



Source: Central Bank of Malta.

⁽¹⁾ Composed mainly of transactions in deposits held with the Central Bank of Malta.

⁽²⁾ Also includes transactions related to shares and other equity and adjustments for valuation and volume effects.

⁽³⁾ GDP data are four-quarter moving sums.

liabilities in GDP rose by 4.1 percentage points to reach 74.0%.

The resulting net financial worth of general government as a share of GDP stood at -38.9%, which is less favourable than the -34.7% registered in the previous quarter. Notwithstanding recent developments, the net financial worth of the Maltese general government continued to compare favourably with the euro average. The latter stood at 72.8% as a share of GDP, down from -70.0% at end-June.

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

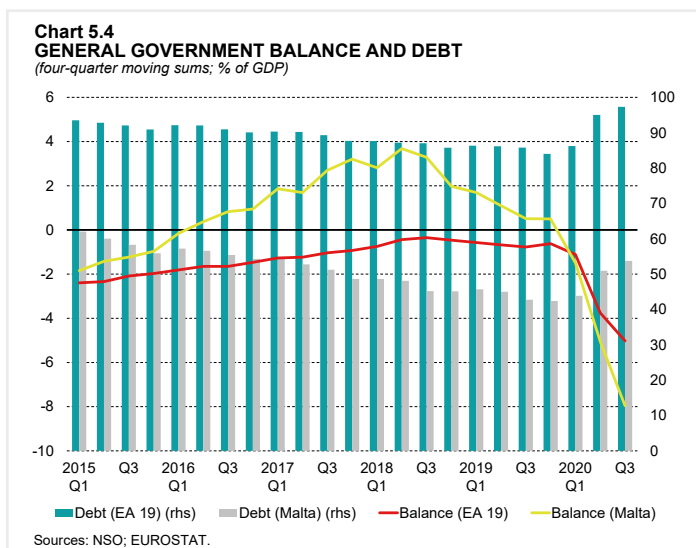
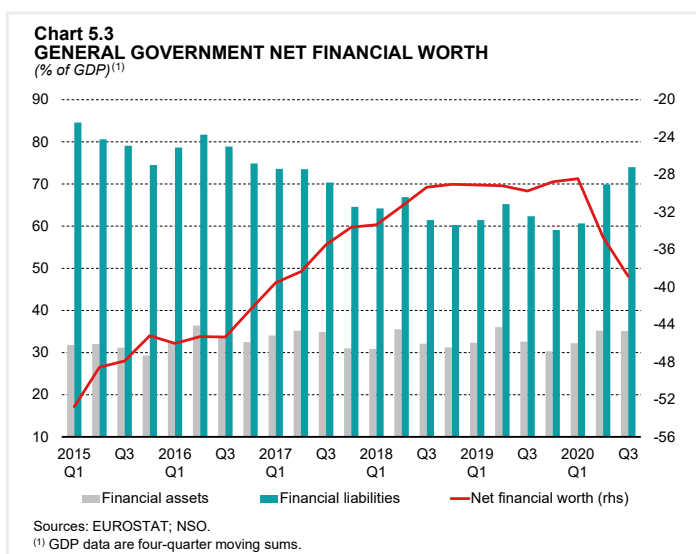
During the quarter under review, the euro area general government deficit stood at 5.0% of GDP on a four-quarter moving sum basis, following a deficit of 3.8% of GDP at end-June (see Chart 5.4). Over the same period, the euro area debt ratio rose to 97.3% of GDP from 95.0%. In this period, the increase in Malta's deficit and

debt ratios was more pronounced than that in the euro area and the level of the deficit remained well above that in the euro area. Nonetheless, the Maltese government debt-to-GDP ratio remains well below the corresponding ratio for the euro area, indicating that Malta still retains considerable fiscal space for manoeuvre.

Cyclically-adjusted deficit widens¹

The COVID-19 pandemic has disrupted economic activity worldwide and contributed to a significant deterioration in government finances. At this juncture, there exists considerable uncertainty about estimates of the economic cycle and the degree to which government revenue reacts to changes in economic activity. Consequently, the following estimates need to be interpreted with caution.

On a four-quarter moving sum basis, the cyclically-adjusted deficit ended the quarter under review at 5.6% of GDP (see Chart 5.5), an increase of 1.8 percentage points when compared



¹ The cyclically-adjusted balance is corrected for the impact of the economic cycle on government tax revenue and unemployment assistance. This methodology is in line with the approach used by the European Commission but is based on own estimates for fiscal items' elasticities and the output gap. For an overview of the method used by the Commission, see Mourre, G., Astarita C., and Princen S. (2014): "Adjusting the budget balance for the business cycle: the EU methodology," European Economy – Economic Papers 536, (DG ECFIN), European Commission.

with the deficit posted three months earlier.

Overall, the share of cyclically-adjusted revenue in GDP remained broadly unchanged in the quarter under review (see Table 5.2). Revenue from direct taxes and social contributions remained relatively resilient in the context of subdued economic activity. This partly reflects the fact that COVID-related wage supplements are still subject to income tax and social contributions. At the same time, in line with the accruals

principle, tax revenue statistics are inclusive of COVID-related taxes deferred in this period. On the other hand, revenue from indirect taxes declined significantly, driven by the drop in tourist spending and decreases in fuel prices and stamp duties.

The share of cyclically-adjusted expenditure rose significantly by 1.7 percentage points, mainly due to a higher share of 'other' expenditure. The latter is driven by increased subsidies, reflecting ongoing COVID-related support to businesses, mostly through the wage supplement. The pandemic also contributed to an increase in intermediate consumption, on the back of higher health treatment costs. The share of gross fixed capital formation also increased in this period.

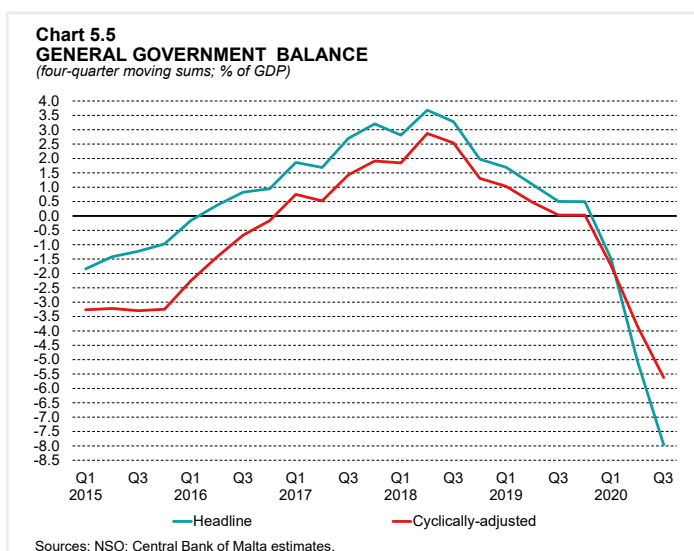


Table 5.2
QUARTER-ON-QUARTER CHANGES IN CYCLICALLY-ADJUSTED FISCAL COMPONENTS

Percentage points of GDP

	2019		2020		
	Q3	Q4	Q1	Q2	Q3
Revenue	-0.8	-0.4	-1.6	-0.7	-0.1
Current taxes on income and wealth	-0.4	0.2	-0.7	0.7	0.6
Taxes on production and imports	-0.4	-0.2	-0.4	-0.4	-0.4
Social contributions	0.1	-0.1	-0.2	-0.1	0.1
Other ⁽¹⁾	-0.1	-0.4	-0.4	-0.8	-0.4
Expenditure	-0.4	-0.4	0.1	1.4	1.7
Compensation of employees	0.0	0.0	-0.1	0.0	0.1
Intermediate consumption	0.1	0.1	-0.2	0.6	0.5
Social benefits	-0.1	-0.1	0.0	0.3	0.0
Interest payments	0.0	0.0	0.0	0.0	0.0
GFCF	-0.2	0.0	0.1	-0.2	0.2
Other ⁽²⁾	-0.1	-0.5	0.4	0.8	1.0
Primary balance	-0.5	0.0	-1.8	-2.1	-1.8
General government balance	-0.4	0.0	-1.8	-2.1	-1.8

Sources: NSO; Central Bank of Malta estimates.

⁽¹⁾ Includes market output, income derived from property and investments and current and capital transfers received.

⁽²⁾ Mainly includes subsidies, current and capital transfers.

6. MONETARY AND FINANCIAL DEVELOPMENTS

The Bank's FCI suggests that in the third quarter of 2020, financing conditions were tight from a historical perspective, but marginally more favourable than those recorded in the second quarter.

In September, the annual rate of change of Maltese residents' deposits with MFIs in Malta moderated when compared to June.¹ The shift to overnight deposits persisted in an environment of low interest rates and a continued preference for liquidity. Credit to Maltese residents expanded at a faster pace, partly reflecting stronger growth in credit to general government. Credit to residents outside general government also grew at a faster rate compared to June, as a larger contraction in security holdings offset faster growth in loans to the private sector. The latter was driven by an increase in loans to the financial sector, as loans to households – and, to a lesser extent, loans to NFCs – rose at a slower pace. Interest rates on loans and deposits fell further when compared with a year earlier, though the spread between the two rates remained broadly unchanged at elevated levels.

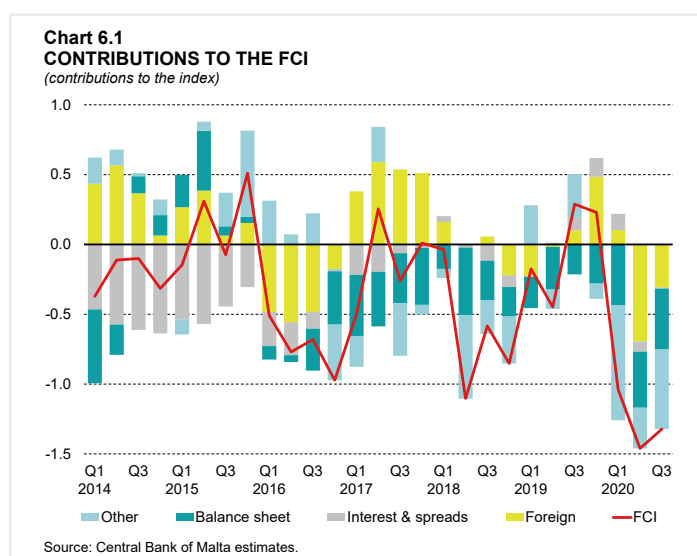
In September, the primary market yield on Treasury bills fell from that prevailing at the end of June. Secondary market yields on 5-year and 10-year MGS declined, as did those in the euro area, though the fall in the latter was smaller. Domestic share prices fell, ending the quarter at a lower level compared with end-June.

The number and value of loan facilities covered by loan moratoria fell between June and September suggesting that some businesses and households have recommenced regular loan repayments. Meanwhile, firms' recourse to guarantees in terms of the MDB CGS increased, with sanctioned amounts under this scheme reaching €343.7 million at the end of September.

Monetary and financial conditions

According to the Bank's FCI, in the third quarter of 2020, financial conditions were tight from a historical perspective, but slightly more favourable than in the second quarter (see Chart 6.1). The recent improvement in financial conditions was driven by positive developments in foreign influences, reflecting lower levels of uncertainty and an increase in euro area stock prices.

Meanwhile, domestic influences deteriorated, mainly reflecting developments in the 'other' component, as a result of lower equity prices and a decrease in securities issued by NFCs. The



¹ Monetary data analysed in this chapter are compiled on the basis of the statistical standards found in the Statistics section of the Central Bank of Malta website.

balance sheet component also continued to have a tightening effect on the FCI, which was similar in magnitude to that estimated for the second quarter, as an improvement in the return on equity was offset by less favourable dynamics in credit. By contrast, the tightening effect of interest rates and spreads faded away.

However, when compared with the third quarter of 2019, financial conditions deteriorated sharply. This was mostly driven by domestic influences, particularly a decline in the 'other' component as a result of lower net issues of NFC securities and in equity prices. A decrease in core banks' return-on-equity and lower credit (part of the balance sheet component) also contributed to the year-on-year deterioration in financial conditions. Foreign influences also contributed to the tightening of financial conditions compared with a year earlier, though by a smaller magnitude than domestic ones. This tightening was driven by higher uncertainty levels and a decline in euro area equity prices.

Maltese residents' deposits continue to expand, albeit at a slower pace

Total deposits held by Maltese residents with MFIs in Malta continued to expand during the third quarter of 2020, albeit at a more moderate pace. The annual rate of change stood at 4.1% in September, below the 6.2% recorded in June (see Table 6.1). Growth in deposits remained robust among both households and NFCs, despite the contraction in economic activity.

During the quarter under review, deposit growth remained driven by overnight deposits, the most liquid component. Annual growth in this category of deposits, though, moderated to 7.2% in September, from 9.2% three months earlier. Nonetheless, the share of this category in total deposits increased to 79.9% from 77.6% a year earlier, thereby extending the established upward

Table 6.1
DEPOSITS OF MALTESE RESIDENTS

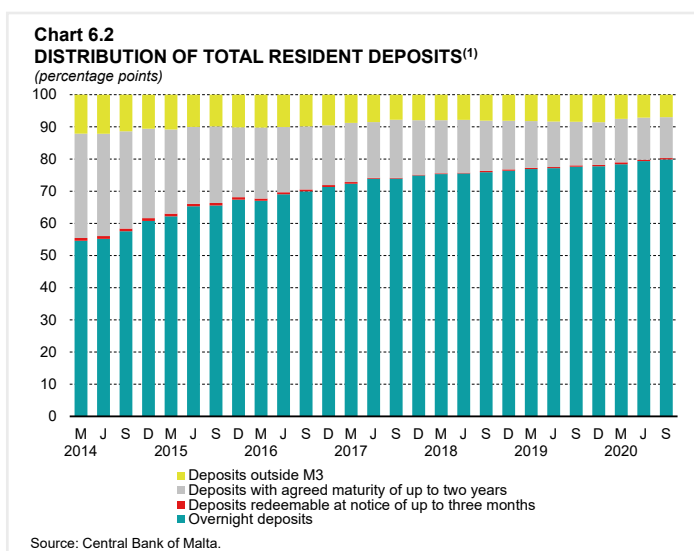
	EUR millions	Annual percentage changes					
		2020 Sep.	2019			2020	
			Sep.	Dec.	Mar.	June	Sep.
Overnight deposits	16,306	8.5	6.1	7.9	9.2	7.2	
<i>of which</i>							
Households	10,640	10.2	10.9	14.4	15.9	14.8	
NFCs	3,713	-2.0	0.2	0.4	13.1	11.3	
Deposits redeemable at notice of up to three months	87	19.7	14.7	59.2	33.1	1.9	
<i>of which</i>							
Households	34	-5.7	-6.6	-6.9	3.1	2.4	
NFCs	35	27.7	40.5	270.8	213.3	79.5	
Deposits with an agreed maturity of up to two years	2,595	-8.3	-8.7	-1.6	-1.5	-2.2	
<i>of which</i>							
Households	2,012	-7.5	-7.9	-4.7	-3.1	-3.3	
NFCs	253	0.9	-1.1	11.7	2.2	-11.2	
Deposits with an agreed maturity above two years	1,424	10.9	10.3	-3.0	-9.5	-13.8	
<i>of which</i>							
Households	1,246	4.9	5.3	-4.2	-6.9	-10.7	
NFCs	45	9.0	21.7	33.9	-33.8	-34.3	
Total residents' deposits⁽¹⁾	20,412	6.1	4.3	5.8	6.2	4.1	

Source: Central Bank of Malta.

⁽¹⁾ Total residents' deposits exclude deposits belonging to central government.

pattern observed in recent years, as time deposits declined (see Chart 6.2).

In particular, deposits with an agreed maturity of over two years contracted by 13.8% in the year to September, following a decline of 9.5% three months earlier. At the same time, deposits with an agreed maturity of up to two years fell by 2.2% over the same period, after contracting by 1.5% in June. As a result, the share of deposits with an agreed maturity of over two years decreased to 7.0%, from 8.4% a year earlier, while that of deposits with an agreed maturity of up to two years edged down to 12.7%, from 13.5% over the same period. The share of deposits redeemable at notice of up to three months remained unchanged at 0.4%.



decreased to 7.0%, from 8.4% a year earlier, while that of deposits with an agreed maturity of up to two years edged down to 12.7%, from 13.5% over the same period. The share of deposits redeemable at notice of up to three months remained unchanged at 0.4%.

Credit to residents grows at a faster pace

Credit to Maltese residents expanded by 11.1% in the year to September, above the 8.8% increase recorded in June (see Table 6.2). The acceleration was partly driven by credit to general government, which rose by an annual rate of 37.5% in September following an increase of 27.5% in June (see Chart 6.3). This reflects the issue of large amounts of Treasury bills to fund the shortfall in public finances caused by the pandemic.

In addition, credit to residents outside general government rose by 4.3% in year-on-year terms, following an increase of 3.6% three months earlier. This reflects faster growth in loans to the private sector which offset a larger contraction in security holdings.

Table 6.2
MFI CREDIT TO MALTESE RESIDENTS

	EUR millions	Annual percentage changes				
		2019		2020		
	2020 Sep.	Sep.	Dec.	Mar.	June	Sep.
Credit to general government	3,985	1.3	0.6	4.1	27.5	37.5
Credit to residents outside general government	11,686	6.8	6.0	5.0	3.6	4.3
Securities and Equity	340	6.7	-5.7	-12.5	-23.2	-27.7
Loans	11,347	6.8	6.6	5.7	4.8	5.7
<i>of which:</i>						
Loans to Households	6,276	9.7	9.8	8.7	6.4	5.7
Mortgages	5,708	10.3	10.3	9.3	7.3	7.0
Consumer Credit and Other Lending	568	4.4	5.1	3.4	-1.6	-5.7
Loans to NFCs ⁽¹⁾	4,171	4.2	3.1	3.0	4.3	4.2
Total credit to residents	15,671	5.6	4.9	4.8	8.8	11.1

Source: Central Bank of Malta.

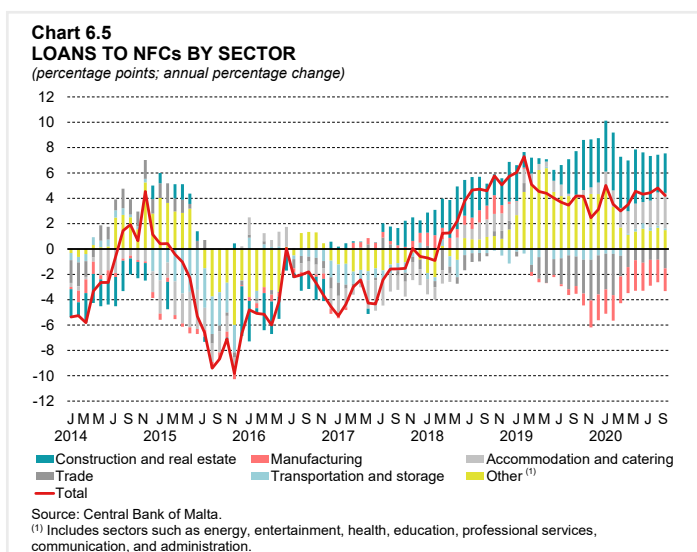
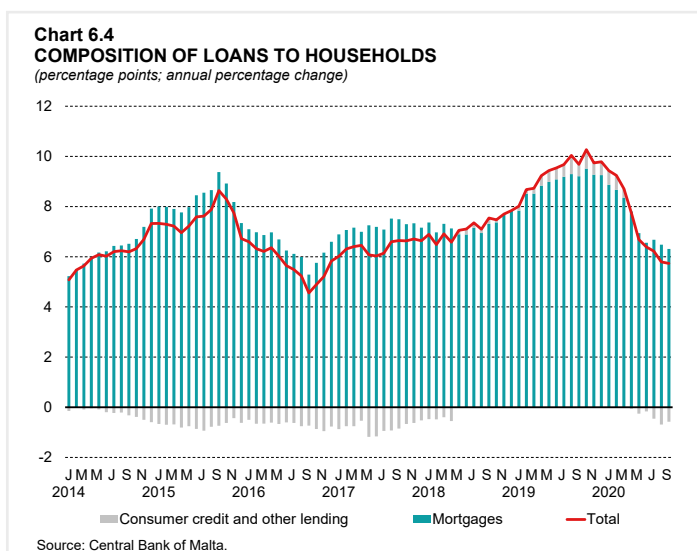
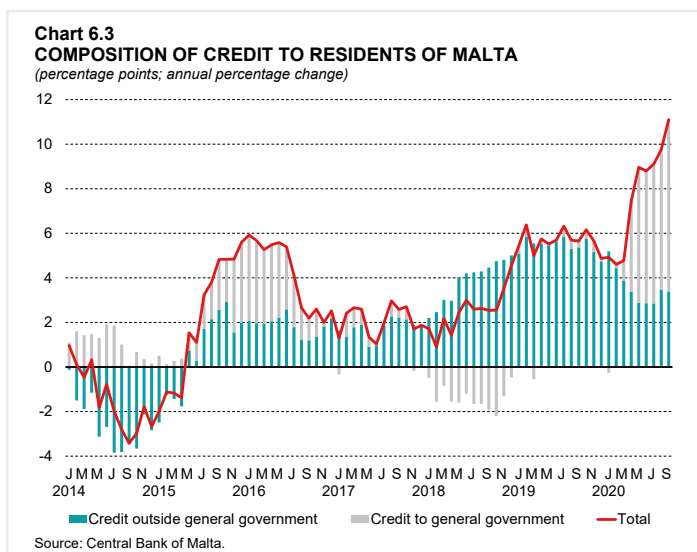
⁽¹⁾ NFCs include sole proprietors and non-profit institutions serving households (NPISH).

Data by sector show that stronger growth in loans was largely driven by loans to the financial sector. Conversely, growth in loans to households decelerated, while the annual rate of loans to NFCs was broadly unchanged.

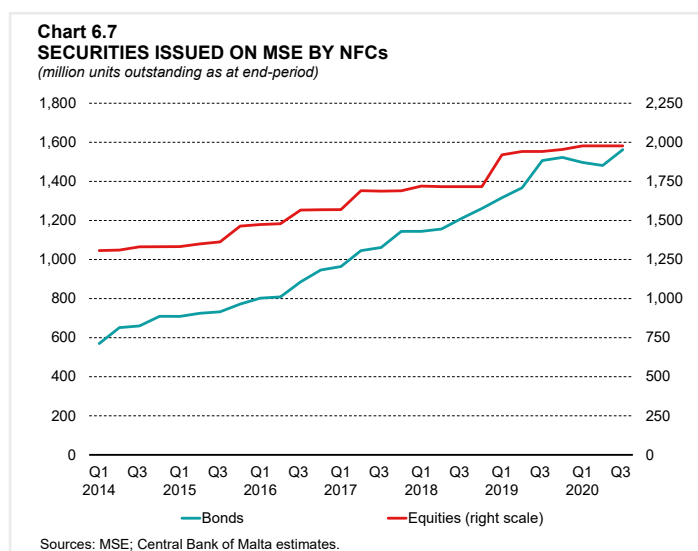
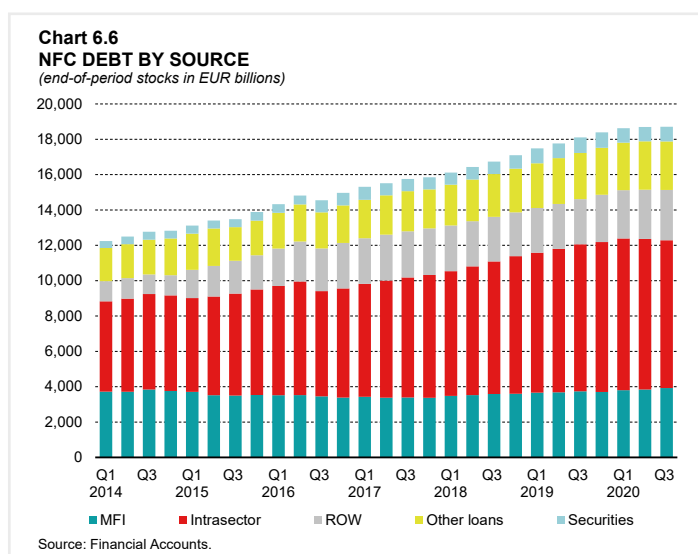
Loans to households grew by 5.7% on an annual basis, following a 6.4% increase in June. Mortgage lending increased at a slower rate of 7.0%, from 7.3% three months earlier, while consumer credit and other lending contracted by 5.7% over the same period, following a decrease of 1.6% in the year-end to June (see Chart 6.4).

Annual growth in loans to NFCs stood at 4.2% in September, marginally below the 4.3% recorded in June. A sectoral breakdown shows that credit to the sector comprising real estate and construction activities, the transportation and storage sector, and the sector comprising professional, scientific and technical activities sector slowed down markedly. In addition, loans to the wholesale and retail trade sector contracted more strongly. These developments offset a faster increase in loans to the sector comprising accommodation and food service activities, and a smaller contraction in the manufacturing sector (see Chart 6.5).

Financial accounts data show that the share of bank lending in total NFC debt edged up marginally on a year earlier



(see Chart 6.6). NFCs had been consistently reducing their reliance on bank loans in recent years in favour of alternative sources, mainly loans from the rest of the world and, to a lesser extent, intra-sectoral lending, with the share of bank loans in total NFC debt reaching a low of 20.1% at the end of 2019. However, this pattern began to reverse recently, with this share edging up progressively in the course of 2020. It reached 21.0% in September, slightly above the 20.7% recorded a year earlier.² On the one hand, the marginal increase in the share of bank lending in total NFC debt and the fact that the level of loans to NFCs continued to increase in absolute terms, show that the liquidity support measures introduced since the outbreak of the pandemic helped preserve the flow of credit to the corporate sector at a time when alternative sources of financing may have become less attractive to firms. Furthermore, the pandemic has likely negatively affected corporate profitability and firms' cash flow. This may have contributed to the observed fall in the share of intra-sectoral lending in total NFC debt, which edged down to 44.7% from 45.9% in the third quarter of 2019. Meanwhile, the share of loans from non-residents reached 15.2% from 14.1% a year earlier.



MSE data show that as at September 2020, €1.6 billion in corporate debt was listed on the Exchange, 3.7% higher than the outstanding stock 12 months earlier, and around 2.6% above the previous peak recorded at the end of 2019 (see Chart 6.7).^{3,4} The amount of equity listed on the MSE increased by 1.8% over this period.

² See Darmanin, J. (2017), "The financing of companies in Malta", *Policy Note* July 2017, Central Bank of Malta.

³ Additionally, a number of companies obtained capital from the MSE platform, Prospects, which is mainly geared towards small and medium-sized enterprises (SME).

⁴ MSE data may differ from financial accounts data due to differences in valuation methodology and coverage. In particular, financial accounts data are at market value and include both listed and privately-placed securities.

Table 6.3
INTEREST RATES ON DEPOSITS AND LOANS

Percentages per annum to residents of Malta; weighted average rates as at end of period

	2017	2018	2019	2019	2020		
	Sep.	Sep.	Sep.	Dec.	Mar.	June	Sep.
Total deposits⁽¹⁾	0.40	0.35	0.31	0.30	0.27	0.25	0.23
<i>of which</i>							
Overnight deposits							
Households	0.06	0.06	0.05	0.05	0.03	0.03	0.02
NFCs	0.03	0.04	0.03	0.03	0.02	0.02	0.02
Time deposits (less than 2 years)							
Households	0.78	0.77	0.75	0.71	0.71	0.67	0.59
NFCs	0.57	0.74	0.73	0.72	0.70	0.73	0.68
Time deposits (more than 2 years)							
Households	2.48	2.20	1.98	1.97	1.95	1.92	1.89
NFCs	1.99	2.12	1.53	1.53	1.37	1.47	1.59
Total loans⁽¹⁾	3.63	3.58	3.48	3.46	3.44	3.43	3.39
<i>of which</i>							
Households and NPISH	3.50	3.41	3.32	3.29	3.26	3.26	3.25
NFCs	3.83	3.85	3.74	3.76	3.75	3.73	3.62
Spread⁽²⁾	3.22	3.23	3.17	3.16	3.17	3.18	3.16
ECB MROs rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Central Bank of Malta.

⁽¹⁾ Annualised agreed rates on outstanding euro-denominated amounts belonging to households (incl. NPISH) and NFCs.

⁽²⁾ Difference between composite lending rate and composite deposit rate.

Interest rate spread between deposit and lending rate remained broadly unchanged

In September, the weighted average deposit rate offered to households and NFCs in Malta was down by 8 basis points on a year earlier, standing at 0.23% (see Table 6.3).⁵ This was mainly driven by a further decrease in rates on longer term deposits.

Meanwhile, the weighted average lending rate paid by households and NFCs to resident MFIs fell by 9 basis points, to 3.39%. This decrease was due to lower rates paid by both households and NFCs, although the weighted average lending rate paid by NFCs remained above that charged to households, reflecting different assessments of credit risk in these two institutional sectors.

The spread between the weighted average lending rate and the deposit rate closed the quarter under review at 316 basis points, marginally below the 317 basis points recorded 12 months earlier.

Liquidity support measures related to COVID-19

In response to the COVID-19 pandemic and subsequent containment measures, the Central Bank of Malta issued [Directive No. 18](#) to regulate the temporary suspension of debt repayments on credit facilities advanced by credit institutions to borrowers prior to 14 April 2020.⁶ A number of

⁵ Basis points are rounded to the nearest whole number and hence may not exactly match the figures given in Table 6.3.

⁶ This Directive was issued in consultation with the Malta Financial Services Authority and the Malta Bankers' Association and entered into force on 13 April 2020. A number of banks had already started to provide moratorium facilities voluntarily in March 2020. In view of the protracted impact of the COVID-19 pandemic, on 14 January 2021, the Minister for Health, in consultation with the Ministry for Finance issued Legal Notice (LN) 15 of 2021 on 'Moratorium on Credit Facilities in Exceptional Circumstances', which relates to the reactivation of moratoria in Malta. This reactivation allows borrowers to submit their applications for new moratoria or to extend their existing moratoria subject to a number of conditions, before 31 March 2021.

businesses and households that were faced with liquidity challenges applied with MFIs in Malta for a moratorium on loan repayments (see Table 6.4).^{7,8}

As at end September, there were 7,620 loans subject to a moratorium on loan repayments. These amounted to around €1.6 billion, or 13.6% of total loans outstanding to Maltese residents. The number of loans that were subject to a moratorium on repayments fell when compared to June when there were 9,221 loans benefitting from these moratoria, amounting to €1.7 billion, or 15.0% of total outstanding loans. This suggests that some businesses and households have recommenced regular loan repayments, signalling a recovery in income flows.

The largest number of loans covered by moratoria was held by households, with the sector accounting for 76.6% of the total volume of loans subject to a moratorium as at end September. Maltese households held €529.8 million of such loans, equivalent to 33.8% of all loans subject to a moratorium and to 8.5% of outstanding household loans.

Meanwhile, the real estate sector held €301.4 million in loans subject to a moratorium, or 18.1% of such loans – equivalent to slightly less than a third of this sector's outstanding loans. This was followed by the accommodation and food services activities, which held €233.1 million in loans subject to a moratorium. The latter was the sector most affected by the containment measures introduced in response to COVID-19. The share of loans held by this sector that were subject to

Table 6.4
LOANS SUBJECT TO MORATORIUM

Number of loans; EUR millions; percentage

	As at June 2020			As at September 2020		
	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾	Volume of loans ⁽¹⁾	Outstanding amounts ⁽²⁾	Share in sector's outstanding loans ⁽³⁾
Households	7,133	620.8	10.1	5,835	529.8	8.5
Manufacturing	151	45.8	21.2	118	42.1	19.2
Construction	132	44.2	7.2	81	36.4	5.7
Wholesale and retail trade; repair of motor vehicles and motor cycles	587	77.5	11.6	369	104.9	16.4
Transportation and storage and information and communication	113	71.9	27.1	86	51.6	19.1
Accommodation and food service activities	306	221.0	50.3	340	233.1	49.5
Real estate activities	364	305.7	31.8	358	301.4	30.4
Other ⁽⁴⁾	435	298.3	15.4	434	267.2	13.4
Total	9,221	1,685	15.0	7,620	1,566.4	13.6

Source: Central Bank of Malta.

⁽¹⁾ The number of loans subject to moratorium.

⁽²⁾ Outstanding amounts of loans subject to moratorium as at end of month, in EUR millions.

⁽³⁾ The percentage of loans subject to moratorium in total outstanding loans held by the sector as at end of month.

⁽⁴⁾ Includes loans to agriculture and fishing, mining and quarrying, public administration, education, health and social work, financial and insurance activities (including interbank loans), professional, scientific and technical activities, administrative and support service activities, arts, entertainment and recreation, other services activities and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

⁷ Data on moratoria include both pre and post the Legal Notice 142 of 2020 on the Moratorium on Credit Facilities Regulations in Exceptional Circumstances (see <http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lp&itemid=30087&l=1>) and Central Bank of Malta Directive No. 18. As from this edition of the *Quarterly Review*, data on moratoria refer to loans that were issued before the onset of the pandemic and which became subject to a moratorium as a result of COVID-19 before CBM Directive No. 18 of 2020, or in terms of the same Directive.

⁸ As at end November, there were 3,085 loans subject to a moratorium on repayments, amounting to €924.4 million, or 7.9% of total outstanding loans to Maltese residents.

a moratorium edged down to slightly below 50.0% of the sector's outstanding loans as at end September, compared with three months earlier.

Moreover, as at end September, the wholesale and retail trade sector held €104.9 million in loans subject to a moratorium, making up 4.6% of such loans subject to a moratorium, or 16.4% of loans held by the sector, a higher share from 11.6% as at end June.

In order to further alleviate liquidity shortfalls as a result of the pandemic, the Government launched the MDB's CGS. This scheme provides guarantees to commercial banks with the aim of enhancing access to new working capital loans for businesses. It enables credit institutions to leverage government guarantees up to a total portfolio volume of €777.8 million.⁹

By end September, 453 facilities were approved under the CGS, covering total sanctioned lending of €343.7 million (see Table 6.5). As the scheme provides loans for working capital, the amounts actually disbursed may fall short of those sanctioned. In fact, €165.6 million were disbursed by the end of the quarter, around half of the sanctioned amount, though more than double the amount that was disbursed by end June.

In terms of the number of facilities, the sector comprising wholesale and retail activities applied for the largest number of facilities. By end September, 129 facilities were approved for this sector with a total value of sanctioned loans at €81.9 million.¹⁰ This was followed by accommodation and food services activities, with 106 facilities and a sanctioned amount of €69.8 million. The

Table 6.5
MDB CGD – AS AT SEPTEMBER 2020

Number of facilities; EUR millions

	As at June 2020		As at September 2020	
	Total number of facilities ⁽¹⁾	Sanctioned Amount ⁽²⁾	Total number of facilities ⁽¹⁾	Sanctioned Amount ⁽²⁾
Manufacturing	22	11.1	39	18.1
Construction	7	20.0	21	33.2
Wholesale and retail trade; repair of motor vehicles and motor cycles	73	36.5	129	81.9
Transportation and storage and information and communication	18	25.7	32	49.4
Accommodation and food service activities	61	40.4	106	69.8
Professional, scientific and technical activities	18	2.8	29	12.8
Administrative and support service activities	19	5.1	31	11.6
Real estate activities	9	1.3	12	3.6
Other ⁽³⁾	28	18.1	54	63.5
Total	255	161.1	453	343.7

Source: MDB.

⁽¹⁾ The number of facilities taken by various sectors.

⁽²⁾ The total number of loans sanctioned under the scheme as at end month, in EUR millions.

⁽³⁾ Includes loans to education, health and social work, financial and insurance activities, arts, entertainment and recreation, other services activities and extra-territorial bodies & organisations, and the electricity, gas & water supply sector.

⁹ The MDB CGS was approved by the European Commission on 2 April 2020. See <https://mdb.org.mt/en/Schemes-and-Projects/Pages/MDB-Working-Capital-Guarantee-Scheme.aspx> for further details.

¹⁰ As at end November, 516 facilities were approved under the CGS, covering total sanctioned lending of €388.5 million.

manufacturing sector, the sector comprising professional, scientific and technical activities, the administrative and support services sector, as well as the sector covering transport, storage and ICT, also had a significant number of facilities approved. The number of approved facilities in construction and real estate were the lowest, although the former increased significantly since June.

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

In the BLS conducted in October 2020, respondent banks reported unchanged credit standards, and terms and conditions on loans to NFCs in Malta during the third quarter of 2020. Most participating banks also reported that credit standards on these loans were expected to remain unchanged in the fourth quarter of 2020. As regards the demand for credit by NFCs, most banks generally considered demand to have remained stable, with only one bank reporting increased demand. Looking forward, half of the participating banks expected demand to increase somewhat, another expected a decline while the other bank foresaw no change.

As regards credit for house purchases, credit standards, and terms and conditions for the third quarter, these were assessed to have remained unchanged for all participating banks. While the majority of banks expected no changes in credit standards, one bank expected these to tighten somewhat in the fourth quarter. Half of the participating banks reported a rise in the demand for house loans in the third quarter, while the other two banks reported that demand had not changed. Looking at expectations for the fourth quarter, the majority of banks expected demand to remain unchanged, with only one bank foreseeing an increase in demand.

The majority of surveyed banks also reported unchanged credit standards, and terms and conditions for consumer credit and other lending for the second half of the year. One bank, however, reported some easing in credit standards in the third quarter. Half of the participating banks claimed a stable demand for consumer credit and other lending, while the remaining half felt that demand had increased. Looking forward into the fourth quarter, three banks anticipated no change in demand, while the remaining bank expected demand to increase somewhat.

In response to a series of ad hoc questions on banks' access to wholesale and retail funding and on their risk transfer capability as a result of the prevailing situation in financial markets, the majority of banks generally reported unchanged market access to retail funding. One bank, however, reported some improvement in its access to short-term retail deposits in the third quarter of the year, which was expected to persist in the following quarter.

Half of the participating banks claimed that access to the interbank unsecured money market tightened somewhat during the third quarter of 2020. Looking forward, one of these banks expected a further tightening in the last quarter of the year, while another anticipated that access was going to remain unchanged. Moreover, banks reported that access to debt securities was either not relevant for their business or that there was no change in access conditions. The ability to transfer credit risk off balance sheet was assessed not to be of any relevance by most banks surveyed.

Banks were also asked to assess the impact of the ECB's APP on their financial situation, assets and lending behaviour. The majority of surveyed banks said that the APP had no impact on their assets in the preceding six months and that no changes were expected in the six months ahead. However, one bank reported some decline in its holdings of euro area sovereign bonds.

This same bank also reported some positive impact on its liquidity position despite a deterioration in its overall market financing conditions. Half of the respondent banks also reported a negative impact on net interest income, with one bank noting some increase in capital gains. None of the participating banks reported that the APP affected their credit standards, lending volumes, and terms and conditions and no changes were expected in the six months ahead.

With regard to the impact of the ECB's negative deposit facility rate, the majority of banks reported a fall in their overall profitability as a result of lower net interest income, which was expected to persist in the fourth quarter. All banks apart from one reported no changes in their lending and deposit rates, loan margins, non-interest rate charges, and lending and deposits volumes. In general, the majority of banks expected no changes in the six months ahead.

Respondent banks were also asked about the impact of the ECB's two-tier system for remunerating excess liquidity holdings on their financial situation, lending and deposit rates. Half of the banks reported an improvement in their overall profitability on account of higher net interest income. This amelioration was expected to persist in the six months ahead. The majority of participating banks reported no impact on their interest rates on loans and deposits and all banks foresaw no impact in the next six months. One bank, however, reported slightly lower interest rates on deposits held by enterprises and households in the third quarter.

Finally, respondent banks were asked to gauge the impact of the Eurosystems's third TLTRO III. All participating banks stated that they did not participate in the TLTRO III that took place in September 2020. Half of the respondent banks did not plan to participate in future TLTRO III operations while the other half were undecided. One of these banks replied that participation over the next six months could be used for granting loans to the non-financial private sector and for purchasing domestic sovereign bonds and other financial assets. This bank also said that the TLTRO III operations will likely have some positive impact on its overall liquidity position, its market financing conditions and its overall profitability, but no impact was expected in terms of lending volumes and rates. The remaining banks did not report any such effects from TLTRO III operations and none were expected over the next six months.

The money market

Domestic money market interest rates rise

During the third quarter of 2020, the ECB maintained the interest rate on the MROs and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50%, respectively. In the euro area money markets, the 3-month EURIBOR fell to -0.49% at the end of September from -0.38% at end-June. Meanwhile, secondary market yields on 3-month German government securities, which act as a benchmark for euro area yields, fell to -0.63%, from -0.58% (see Chart 6.8).

In the domestic primary market, the yield on 3-month Treasury bills fell to -0.48% from -0.44% at the end of June. The three-month yield in the secondary market fell from -0.05% to -0.32%.

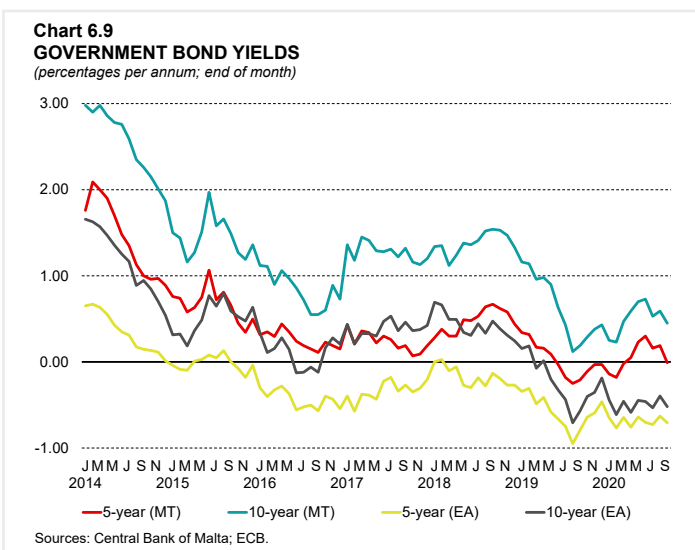
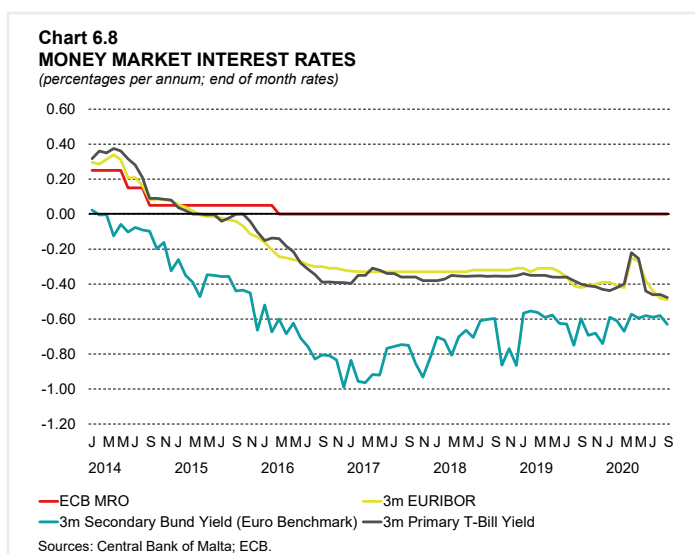
As the yield on the euro area benchmark fell less sharply, the spread between the yield on domestic 3-month Treasury bills and the former narrowed. It stood at 31 basis points at the end of September, down from 53 basis points at the end of June.

During the third quarter of 2020, the Government issued €398.0 million in Treasury bills, nearly half the amount of €762.0 million issued between April and June.

The capital market

During the third quarter of 2020, the Government issued six new MGS with a total value of €450.0 million. In addition, three institutions announced new bond issues: Shoreline Mall plc issued €40.0 million secured bonds, Mediterranean Investments Holdings plc issued €20.0 million unsecured bonds and Cablenet Communication Systems plc issued €40.0 million unsecured bonds.

By the end of September, 22 firms had bonds that were listed on the MSE through Prospects, an unchanged number from that at the end of June. In the secondary market, turnover in government bonds rose to €43.1 million, compared with €30.3 million in the second quarter of 2020, while turnover in corporate bonds fell to €15.4 million, from €23.1 million previously.



Secondary market yields on Maltese government bonds fell (see Chart 6.9). The yield on 5-year bonds fell to -0.01% at the end of September from 0.30% at end-June, while that on 10-year bonds declined to 0.45% from 0.73%. Meanwhile, the euro area yield on 5-year bonds was marginally down by 1 basis point to -0.71%, while the yield on 10-year bonds fell by 6 basis points to -0.52%. As the domestic 10-year yield fell faster than the euro area benchmark yield, the spread against the latter narrowed to 97 basis points, from 119 basis points in the preceding quarter.

MSE Share Index ends September at lower levels

Share prices in Malta, as measured by the MSE Equity Price Index fell during the third quarter of 2020, largely driven by a decline in share prices of tourism-related firms and the banking

sector. The index stood 12.6% below its level at end-June and was down by 27.9% against the level prevailing a year earlier (see Chart 6.10). Similarly, the MSE Equity Total Return Index, which accounts for changes in equity prices and dividends, fell by 13.1% between June and September.

Equity turnover nearly halved, falling to €6.7 million during the third quarter of 2020 from €12.6 million in the second quarter.

