# 13. MALTA

*Malta's economy should see a robust recovery in 2021 and 2022, provided that the tourism sector opens up safely. The recovery is expected to be driven by a rebound in tourism-related services exports, household consumption and investment. Given the supportive fiscal policy stance, the general government deficit is set to widen further in 2021 before improving in 2022 on the back of an accelerating recovery and a winding-down of fiscal support measures.*

## The pandemic has taken its toll on tourism-reliant sectors and household consumption

The COVID-19 pandemic has decimated tourism proceeds and made a deep dent in consumption. Malta's GDP fell significantly in 2020 with services exports and household consumption contracting sharply under the pressure of the pandemic and related safety measures. On the contrary, financial services and gaming sector exports continued to perform robustly. Although the pandemic has clearly depressed economic activity in Malta, the government's sizeable stimulus package has managed to partially offset some of the impact. Wage supplement schemes and other business support measures appear to have cushioned the drop in consumption.

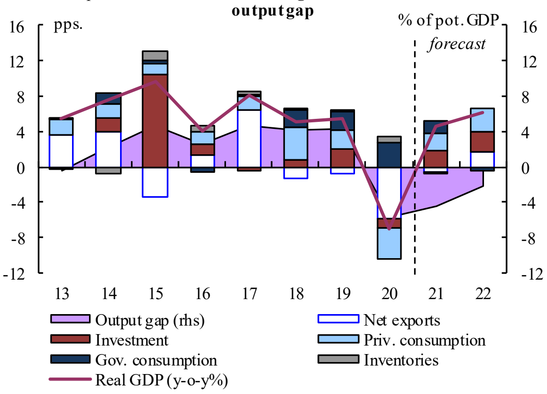
## The economy should see a robust recovery once tourism bounces back

Consumption and investment are expected to pick up as the recovery takes hold, helped by high levels of accumulated savings. The faster-than-expected rollout of vaccinations in Malta, the high rate of vaccination in the UK, and a gradual easing of restrictions in the EU, should put the tourism sector back on the path to recovery in the second half of 2021 and re-invigorate domestic demand. In 2021, real GDP growth is expected to reach 4.6%, mainly driven by domestic consumption and net exports, as inbound tourism and global trade recover. Robust government expenditure is likely to continue supporting the economy, including via public investment. With both exports and imports recovering, the current account deficit is still expected to widen this year before starting to decrease in 2022.

## A limited impact on the labour market

Supported strongly by policy measures, headcount employment actually increased in 2020 especially in the public sector, professional services, and construction, while there was only a limited increase in Malta's unemployment rate, to 4.3% from 3.6% in 2019. As employment is expected to continue growing at a slow pace, the decrease in unemployment is expected to be gradual.

*Graph II.13.1:* **Malta - Real GDP growth and contributions, output gap**




## Inflation is expected to pick up

HICP inflation averaged 0.8% in 2020, contained mainly by lower energy and services inflation against a backdrop of contracting demand. In 2021, inflation is expected to rise to 1.2% as domestic demand and tourism services recover. In line with a stronger economic recovery in 2022, inflation is set to increase further to 1.5%.

## Temporary deterioration of the fiscal position set to improve gradually

The government deficit increased to over 10% of GDP in 2020. The major increase in expenditure related to pandemic-mitigating measures was the main reason behind the deteriorating fiscal balance. These measures included a wage support scheme, a voucher scheme to support the hospitality and retail sectors, utility and rent subsidies for businesses, and healthcare-related outlays, which overall amounted to somewhat less than 6½% of GDP in 2020. On the revenue side, the steep fall in household and tourist consumption led to a drop in indirect tax revenue. Corporate tax revenues plunged, reflecting the worsened profitability of companies. Sustained by government measures and the relatively good performance of the labour market, revenue from social contributions actually increased.

In 2021, the government deficit is projected to increase further to 11.8% of GDP reflecting ongoing supportive fiscal policy. Growing private consumption and a gradual revival of tourism are expected to support the government's intake from indirect taxes. Revenue from income taxes is projected to grow in line with modest wage growth and the stabilised operating environment for businesses. Proceeds from the investor citizenship scheme are expected to stabilise at last year's level. The measures to sustain the recovery including the extended wage supplement scheme, a new round of the voucher scheme, and newly introduced measures to restore the tourism sector, are expected to continue in 2021. As the economy accelerates and economic support measures wear off, the deficit is forecast to decline in 2022 to around 5½% of GDP. In the absence of sufficiently detailed information about the national RRP at the time of the cut-off date, this forecast assumes a simplified and linear integration of RRF-financed expenditure, as explained in Box I.2.3 in Chapter I.2.7.

The government debt-to-GDP ratio surged to 54.3% in 2020 following the deterioration of the fiscal position. Reflecting ongoing high primary deficits, the debt ratio is set to increase further and reach 65½% in 2022.

*Table II.13.1:*
**Main features of country forecast - MALTA**

| | 2019 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **bn EUR Curr. prices** | **% GDP** | **01-16** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| GDP | 13.6 | 100.0 | 3.5 | 8.1 | 5.2 | 5.5 | **-7.0** | **4.6** | **6.1** |
| Private Consumption | 6.2 | 45.7 | 2.1 | 3.4 | 8.4 | 4.5 | **-7.6** | **4.4** | **5.8** |
| Public Consumption | 2.3 | 17.3 | 2.0 | 1.6 | 12.1 | 13.8 | **16.1** | **6.2** | **-2.2** |
| Gross fixed capital formation | 2.9 | 21.6 | 5.1 | -1.6 | 3.3 | 9.5 | **-4.5** | **8.5** | **10.1** |
| of which: equipment | 0.8 | 5.7 | 7.3 | -34.0 | -8.0 | 2.7 | **-25.0** | **:** | **:** |
| Exports (goods and services) | 19.5 | 143.1 | 5.3 | 8.4 | -0.4 | 6.4 | **-7.8** | **5.2** | **5.7** |
| Imports (goods and services) | 17.4 | 128.3 | 4.7 | 4.5 | 0.4 | 7.9 | **-4.1** | **6.0** | **4.8** |
| GNI (GDP deflator) | 12.5 | 91.8 | 3.0 | 6.3 | 7.6 | 7.4 | **-8.6** | **5.1** | **6.9** |
| Contribution to GDP growth: Domestic demand | | | 2.7 | 1.5 | 6.4 | 6.3 | **-1.7** | **5.2** | **4.4** |
| Inventories | | | -0.2 | 0.2 | 0.0 | 0.0 | **0.6** | **0.0** | **0.0** |
| Net exports | | | 0.9 | 6.4 | -1.2 | -0.8 | **-5.9** | **-0.6** | **1.7** |
| Employment | | | 2.1 | 8.1 | 6.0 | 6.6 | **2.6** | **1.1** | **1.9** |
| Unemployment rate (a) | | | 6.4 | 4.0 | 3.7 | 3.6 | **4.3** | **4.3** | **3.8** |
| Compensation of employees / head | | | 3.7 | 0.6 | 3.6 | 2.5 | **0.1** | **2.5** | **3.0** |
| Unit labour costs whole economy | | | 2.4 | 0.5 | 4.4 | 3.5 | **10.4** | **-1.0** | **-1.1** |
| Real unit labour cost | | | -0.1 | -1.7 | 2.1 | 1.1 | **8.9** | **-2.5** | **-3.0** |
| Saving rate of households (b) | | | : | : | : | : | **:** | **:** | **:** |
| GDP deflator | | | 2.5 | 2.2 | 2.3 | 2.3 | **1.4** | **1.6** | **2.0** |
| Harmonised index of consumer prices | | | 2.1 | 1.3 | 1.7 | 1.5 | **0.8** | **1.2** | **1.5** |
| Terms of trade goods | | | -0.3 | 2.4 | 3.2 | 0.2 | **0.3** | **0.5** | **0.2** |
| Trade balance (goods) (c) | | | -17.3 | -12.8 | -12.1 | -11.8 | **-11.2** | **-11.6** | **-11.4** |
| Current-account balance (c) | | | -2.2 | 11.1 | 11.1 | 5.3 | **-1.3** | **-1.9** | **0.1** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -0.9 | 11.7 | 12.0 | 6.1 | **-0.7** | **-0.9** | **1.1** |
| General government balance (c) | | | -3.2 | 3.2 | 1.9 | 0.4 | **-10.1** | **-11.8** | **-5.5** |
| Cyclically-adjusted budget balance (d) | | | -3.3 | 1.0 | -0.1 | -1.7 | **-7.4** | **-9.7** | **-4.5** |
| Structural budget balance (d) | | | -2.1 | 1.2 | -0.1 | -1.7 | **-7.5** | **-9.7** | **-4.5** |
| General government gross debt (c) | | | 64.4 | 48.5 | 44.8 | 42.0 | **54.3** | **64.7** | **65.5** |

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.