

## Chapter 3

Developments during 2021

Inflation developments

**Exports and imports of goods and services in Malta**

Financial Statements

# Exports and imports of goods and services in Malta



## 3.1 Introduction

**Exports of goods and services** consist of transactions in goods and services (sales, barter, and gifts) from residents to non-residents. On the contrary, **imports of goods and services** consist of transactions in goods and services from non-residents to residents. Exports and imports of goods occur when economic ownership of goods changes between residents and non-residents, irrespective of the corresponding physical movement of such goods across frontiers.<sup>16</sup>

This Chapter presents a review and analysis of statistical data on Malta's exports and imports of goods and services over the period 2000 to 2020 (when available), obtained from different sources. The next two sections shall analyse the profile of exports and imports, their relation to GDP, and the difference in composition between goods and services, sourced from National Accounts data. The subsequent two sections shall review the composition of exports and imports of goods based on international trade data (by Broad Economic Category and by Standard International Trade Classification). Balance of payments data is then examined in the final two sections, whereby one of these sections provides a detailed analysis of the development in the exports and imports of services. The concluding section then provides a summary of the main points highlighted in the chapter and includes some final remarks.

## 3.2 Exports and imports and their relation to GDP

Being a **small and open economy**, Malta is highly dependent on international trade.<sup>17</sup> Indeed, in real terms, exports of goods and services accounted for 145.8% of GDP in 2020, making it an export-oriented economy.<sup>18</sup> Malta is an economy that imports a significant part of its inputs for consumption, investment, and exports of goods. Indeed, imports of goods and services were equivalent to 139.4% of GDP in 2020.

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<sup>16</sup> These definitions were sourced from the European System of National and Regional Accounts (ESA) 2010 Manual, paragraphs 3.159 – 3.162.

<sup>17</sup> It is typical that smaller countries having a high degree of openness have higher export-to-GDP ratios and imports-to-GDP ratios. For example, within the euro area, Luxembourg has the highest ratio, followed by Malta and Ireland. These are the only countries that have exports-to-GDP and imports-to-GDP ratios exceeding 100%. On the contrary, some of the larger countries have the lowest ratios in relation to their national output amongst all the euro area countries.

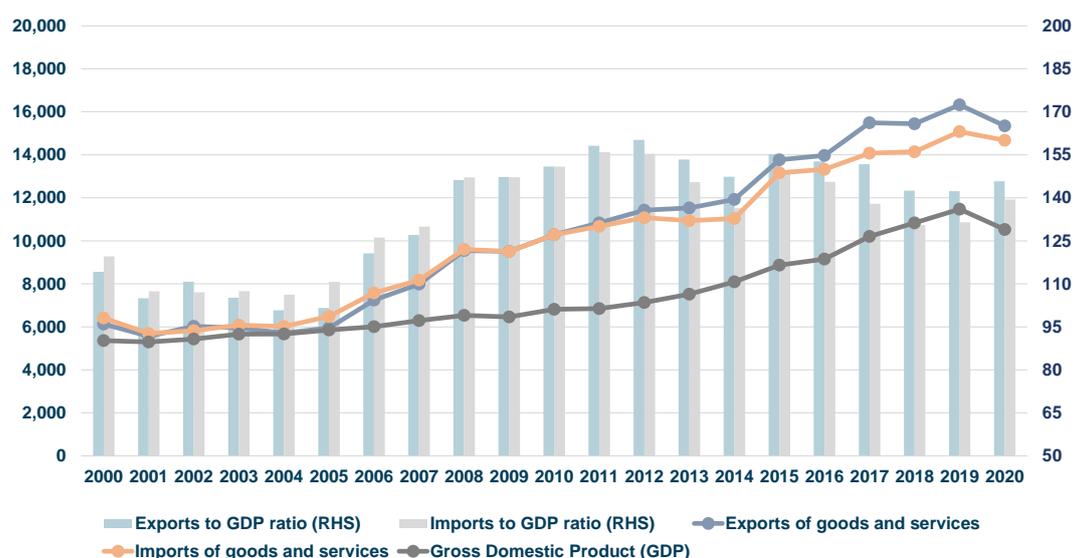
<sup>18</sup> The figures and data included in this section of the Report, are in real terms and based on chain-linked volumes (reference year 2010). The figures are sourced from Eurostat, based on NSO News Release [NR217/2021](#).

During the period between 2001 and 2005, both the imports and exports ratio-to-GDP hovered close to 100.0% (see Chart 3.1). This was followed by a period where the pace of growth of both variables was faster than that in GDP, with both variables reaching a peak of more than 155.0% of GDP between 2011 and 2012. The acceleration in real GDP over the period 2013 – 2020 was faster than that in exports and imports. As a result, the ratio-to-GDP of both variables has marginally declined, though it remained elevated.

Both variables have exhibited relatively similar upward trajectories over time. Between the period 2000 and 2020, the value of both exports and imports, in real terms, has more than doubled. In 2020, the absolute level of real exports of goods and services was 2.5 times that in 2000, whilst real imports reached a level close to 2.3 times the level in 2000. Though having similar trajectories, the gap between the two variables has widened since 2012 compared to previous years, with exports continuously exceeding imports. This was primarily driven by a surplus in the export of services. In 2020, both exports and imports were affected negatively by the COVID-19 pandemic.

In nominal terms, both variables have increased by more than threefold over the past two decades, with exports of goods and services recording a level of €18.7 billion in 2020, whilst imports reached €17.1 billion during the same year.

**Chart 3.1: Real exports and imports (EUR million) and their ratio to real GDP (%)<sup>19</sup>**



Source: Eurostat

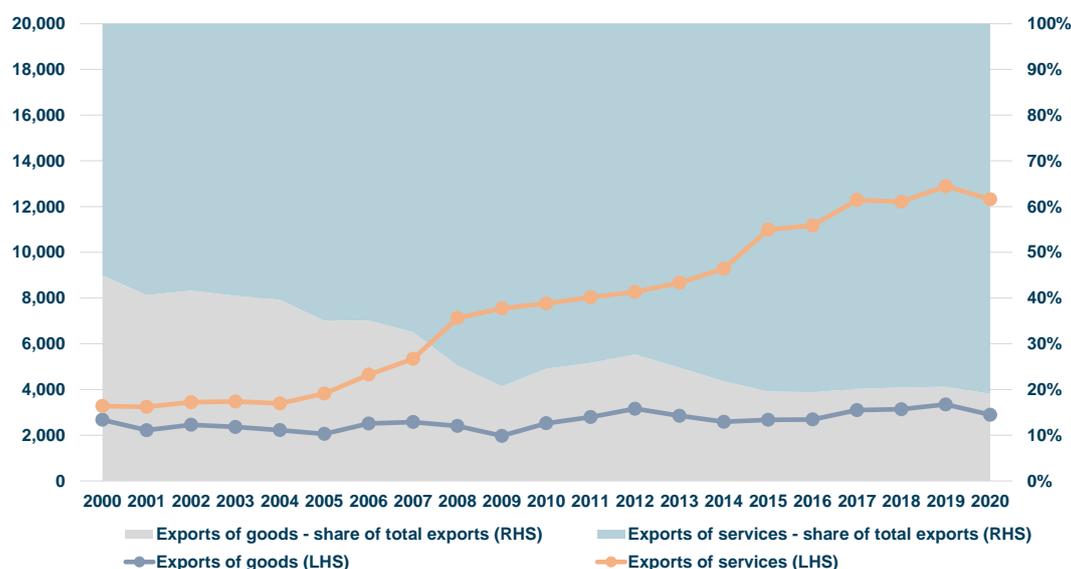
<sup>19</sup> Using chain-linked volumes reference year 2010.

### 3.3 Differentiating between goods and services

Exports and imports are categorised between trade in goods and trade in services. Malta's growth in both exports and imports has been highly **service-oriented** over the past years (see Chart 3.2 and Chart 3.3).<sup>20</sup>

In real terms, the share of exports of goods to total exports has declined markedly over the period 2000 – 2020. Indeed, the share of goods exported declined from around 45.0% in 2000 to 19.0% in 2020.<sup>21</sup> On the contrary, the share of services exports has increased from 55.0% in 2000 to 81.0% in 2020, an increase of 26.0 percentage points. The substantial decline in the share of exports of goods is not attributed to absolute level declines in goods exports but to increases in total exports, which more than outpaced the subdued growth in goods exports. Indeed, the absolute level of services exports has nearly quadrupled over the period under review.

**Chart 3.2: Real exports of goods and services (LHS-EUR millions, RHS-percent)<sup>22</sup>**



Source: Eurostat

<sup>20</sup> This section presents data extracted from the country's National Accounts (ESA 2010).

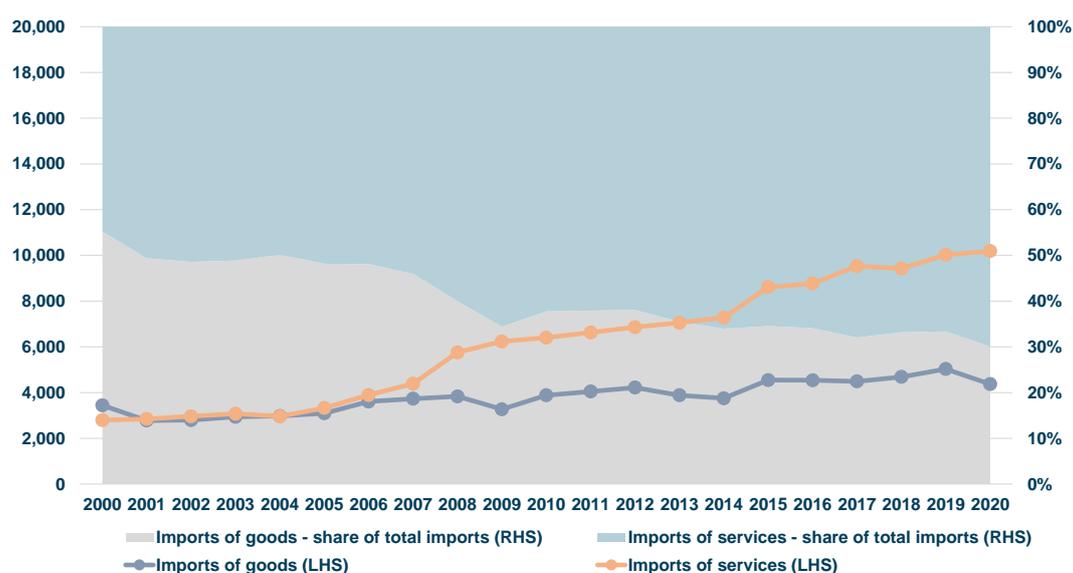
<sup>21</sup> The figures and data included in this section of the Report, are in real terms and based on chain-linked volumes (reference year 2010). The figures are sourced from Eurostat, based on NSO News Release [NR217/2021](#).

<sup>22</sup> Using chain-linked volumes reference year 2010.

In the case of imports, most growth was also due to the higher growth in imports of services. However, the share of imports of goods to total imports stood at around 30.0% in 2020, and thus did not fall as much as in the case of exports of goods. Indeed, over the period under review, exports of services increased to a higher level relative to the imports of services, whilst on the contrary, imports of goods increased by more than exports of goods.

Though the exports and imports of goods is essential to the Maltese economy, the provision of services has become increasingly important over the years, as the economy became more service-oriented. The share of services exported from total exports has risen to around 80.0%, whilst the share of imported services to total imports has increased to around 70.0%.

**Chart 3.3: Real imports of goods and services (LHS-EUR millions, RHS-percent)<sup>23</sup>**



Source: Eurostat

### 3.4 Trade of goods by Broad Economic Category

This section presents statistics on Malta’s exports and imports of basic classes of goods by BEC (Broad Economic Categories) product group, which disaggregates the

<sup>23</sup> Using chain-linked volumes reference year 2010.

exports and imports of goods into intermediate, capital, and consumption goods.<sup>24,25</sup> This data is measured in trade value denominated in current prices. This is the statistical value, therefore the amount that would be invoiced in the event of sale or purchase at the national border of the reporting country.<sup>26</sup> Differences exist between exports of goods as measured in trade data (data described in this section) and that used in National Accounts.<sup>27</sup> These differences reflect in some variances in the reported statistics.<sup>28</sup>

Exports of intermediate goods have predominantly been the highest category of exports for Malta since the year 2000 (see Chart 3.4).<sup>29</sup> Out of the three broad categories, the exportation of intermediate goods was also the most volatile. Exports of intermediate goods peaked in 2012, rebounding from the slowdown experienced due to the international financial crisis of 2008 and 2009. After 2012, exports of consumption goods (the second most exported group of goods) increased the most, with its share of total goods rising over time from an average of 20.0% between 2000 and 2012 to an average of 33.0% between 2013 and 2020. Based on the BEC method, the share of capital goods out of total exports remained broadly stable over the years at an average of 7.0%, whilst ‘motor spirit and passenger cars’ accounted for a very small amount compared to the other categories.

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<sup>24</sup> The BEC is managed by the United Nations. It permits the conversion of international trade data based on the SITC (Standard International Trade Classification) into end-use categories. The BEC categories are aggregated to approximate the three basic classes of goods (capital, intermediate and consumption goods).

<sup>25</sup> The data within this section was sourced from the following Eurostat table: [Member States EU27 \(from 2020\) trade by BEC product group since 1999](#).

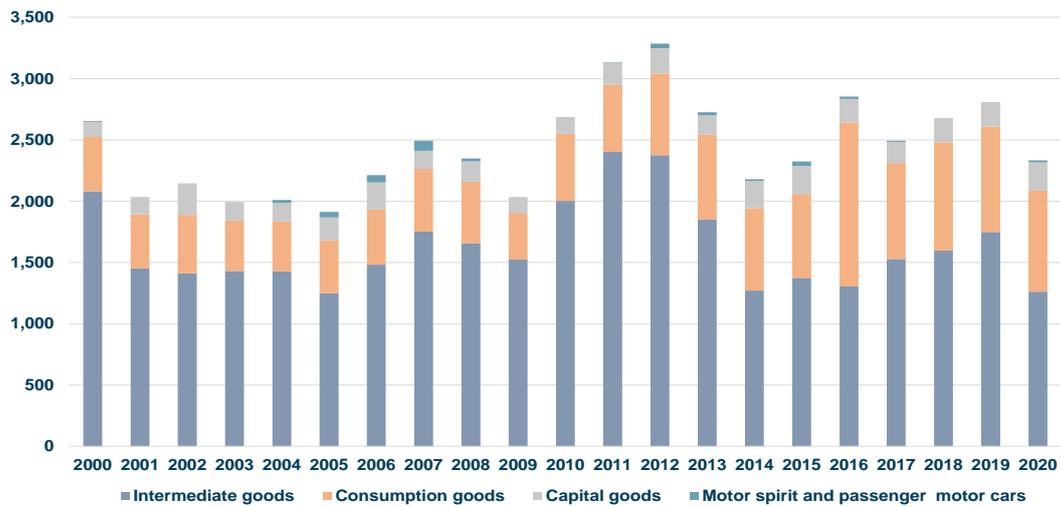
<sup>26</sup> It is said to be a FOB (Free On Board) valuation for exports and a CIF (Cost Insurance Freight) valuation for imports.

<sup>27</sup> Adjustments aim to convert trade in goods statistics to the basis required for National Accounts. The adjustments address differences in coverage, the treatment of particular operations, the valuation of transactions (conversion of import value from CIF to FOB) and the time of recording of the transactions. In addition, some Member States make adjustments to deal with the incomplete coverage of their trade statistics.

<sup>28</sup> In most years, the pattern and direction of growth across both statistics are still similar.

<sup>29</sup> Intermediate goods are goods used as input in the production of other goods or a finished product.

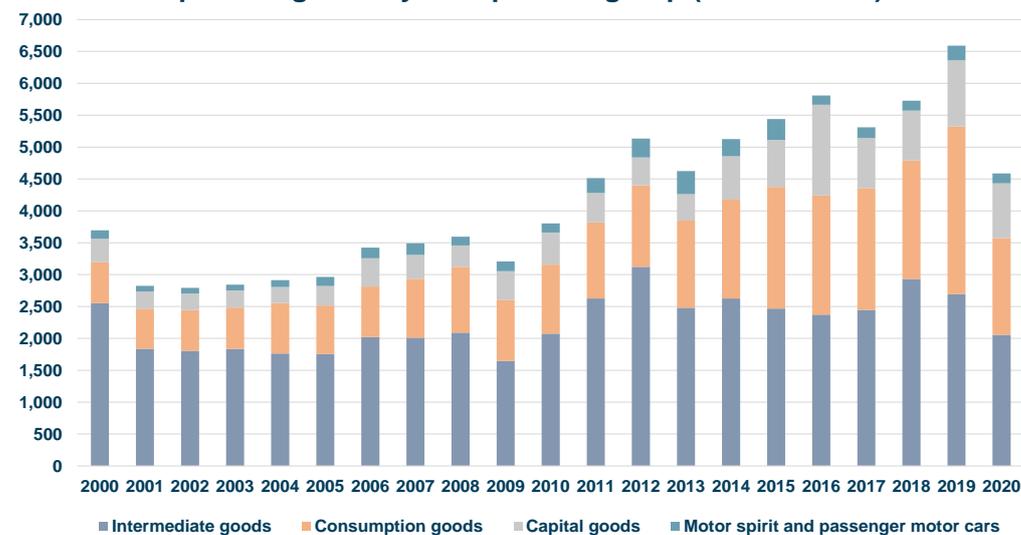
**Chart 3.4: Exports of goods by BEC product group (EUR millions)**



Source: Eurostat

Similar to exports, imports of intermediate goods have also been the highest category of imported goods for Malta over the period under review (see Chart 3.5). However, in recent years the importation of goods classified as consumption goods has seen a substantial rise in level terms, partly due to the rapid increase in the population of the Maltese islands. The import of capital goods also increased in level terms over the past ten years due to the high investment levels experienced over the same period. Indeed, the share of intermediate goods has fallen over the past two decades, while the shares of imports of consumption goods and capital goods have increased. In 2020, the decline in imports was mostly underpinned by a significant decline in consumption goods, and to a lesser extent, a decline in the imports of intermediate goods.

**Chart 3.5: Imports of goods by BEC product group (EUR millions)**



Source: Eurostat

### 3.5 Trade of goods by SITC product group

The Standard International Trade Classification (SITC) is a product classification used for external trade statistics, allowing for international comparisons of commodities and manufactured goods. Exports by the SITC method is measured in trade value and corresponds to the total value by the BEC method. The main categories are food, drinks and tobacco; raw materials; mineral fuels, lubricants and related materials; chemicals and related products; machinery and transport equipment; other manufactured goods; and other commodities.

For the period under consideration, the exportation of 'machinery and transport equipment' has been the highest amongst the rest of the SITC product groups (see [Chart 3.6](#)).<sup>30,31</sup> However, its share of total goods exported has declined over the years, whilst other categories have increased in importance. 'Other manufactured goods' represented the second-highest category exported over most of the years under analysis. The latter's export value hovered between €400.0 million and €600.0 million for most years, though this range has been exceeded in 2019 and 2020. Two export categories observed to have increased constantly over the past two decades are 'chemicals and related products' and 'food, drinks and tobacco'. Indeed, these have expanded by a yearly average of around 13.2% and 8.2% over the period 2002-2020, respectively.<sup>32</sup> The trajectory of the exportation of 'mineral fuels, lubricants and related materials' has been the most volatile, reaching a peak in 2011 and 2012 before declining to lower levels in the subsequent years. In 2020, the exportation of this category was very limited. The remaining two categories, 'raw materials and other commodities', accounted for a relatively low share of goods exports compared to the rest of the categories, averaging €12.2 million and €21.9 million per year over the period 2002-2020, respectively.

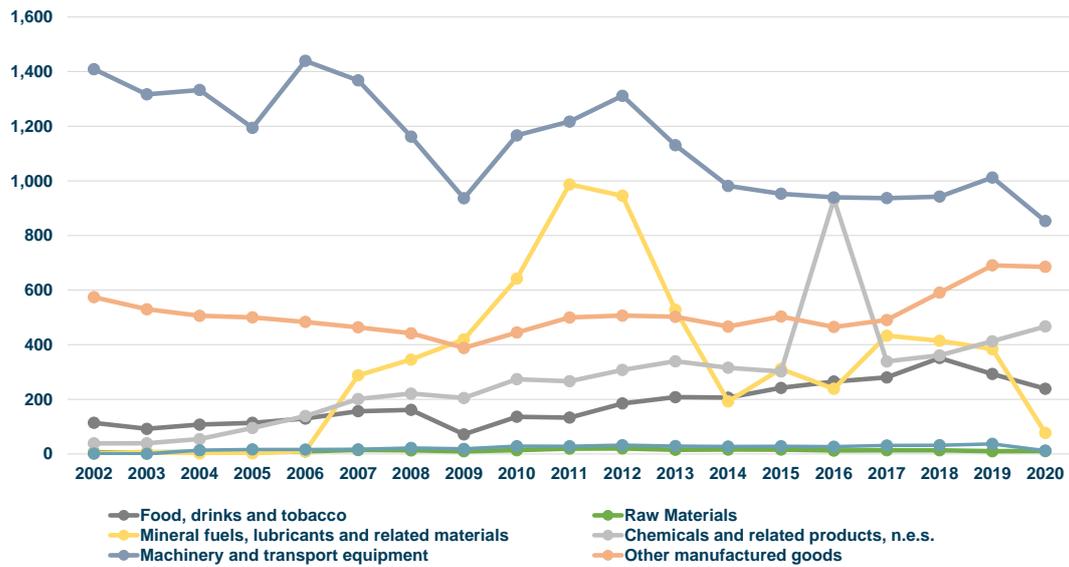
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<sup>30</sup> Data from this section was sourced from the following Eurostat table: [International trade of EU, the euro area and the Member States by SITC product group](#).

<sup>31</sup> Data by SITC product group available online on the Eurostat database was not available for the entire 2000 – 2020 period.

<sup>32</sup> The calculated average growth of 'chemicals and related products' does not include the year 2016 which was a one-off outlier.

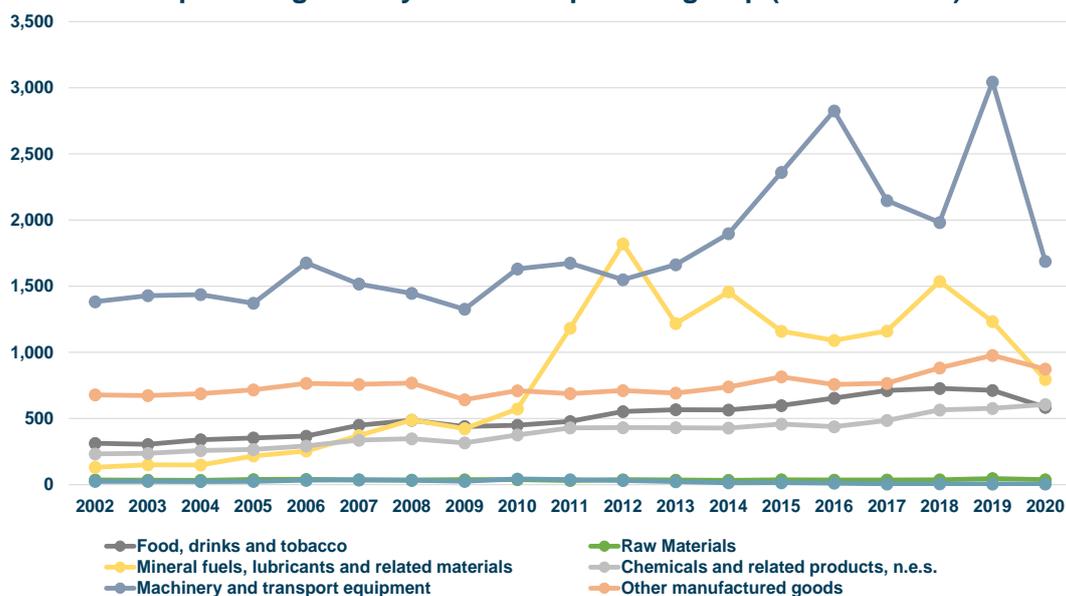
**Chart 3.6: Exports of goods by main SITC product group (EUR millions)**



Source: Eurostat

The bulk of total imports comprises of ‘machinery and transport equipment’ and ‘other manufactured goods’ (see Chart 3.7). The largest component, that is, ‘Import of machinery and transport equipment’, hovered around the €1.5 billion mark from 2002 till 2012, reaching a minimum of nearly €1.4 billion in 2009 and a maximum of more than €3.0 billion in 2019. On the other hand, ‘other manufactured goods’ hovered around €700.0 million of imports between 2002 and 2017, increasing to nearly €1.0 billion over 2018 and 2019 before slightly declining in 2020. Similar to exports, the ‘mineral fuels, lubricants and related materials’ component was also the most volatile amongst the categories, though to a lesser extent than in the case of exports. The importation of ‘foods, drinks and tobacco’ grew constantly, reaching around double the amount in recent years than imported in 2002. This is in line with the constant increase in the population of the Maltese islands. ‘Chemicals and related products’ was the only SITC import category that did not decline in 2020, reaching a level which is 2.6 times its level in 2002. Over the period under review, this component increased by an annual average of 5.7%. The importation of ‘raw materials’ remained rather stable, ranging between €30.0 million and slightly more than €40.0 million per year. On the other hand, the importation of ‘other commodities’ has declined over the most recent years, from around €30.0 million yearly between 2002 and 2012 to around €5.0 million between 2017 and 2020.

**Chart 3.7: Imports of goods by main SITC product group (EUR millions)**



Source: Eurostat

### 3.6 Balance of Payments - goods and services balance

The Balance of Payments systematically summarises all economic transactions between residents and non-residents of Malta during a given period. A record of the value of exports and imports of both goods and services is kept in the current account within the Balance of Payments.

The external balance of trade in the Balance of Payments has been in **surplus** over the period 2011 – 2020 (see Chart 3.8).<sup>33,34,35</sup> This contributes positively to the current account within the Balance of Payments. The **goods balance** was always negative over this ten-year period, as debit flows (imports) always exceeded credit flows (exports). The contrary applies to the **services balance**, as this was constantly in surplus. Since 2011, the surplus in services continuously expanded, as services' exports accelerated faster than the imports of services. On the other hand, the balance

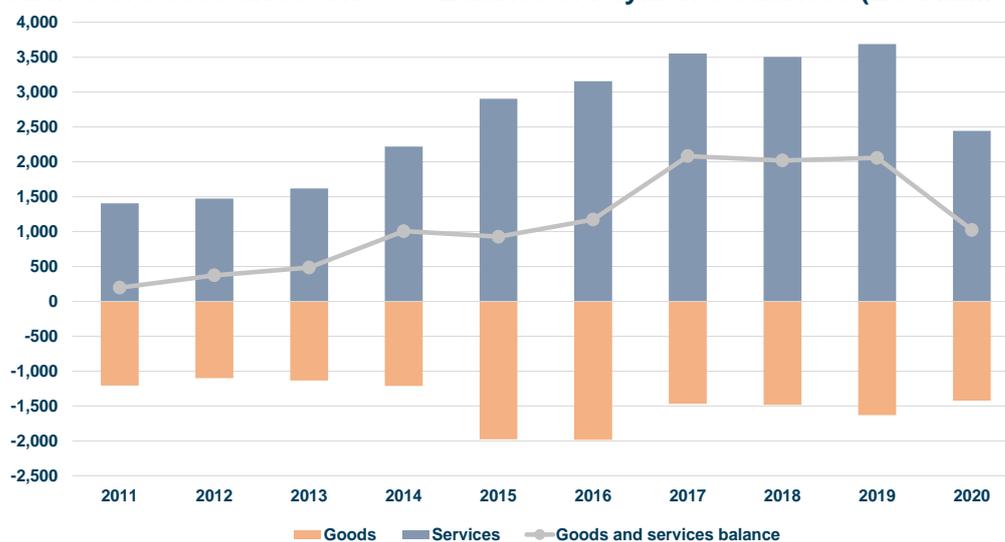
<sup>33</sup> Balances in this section refer to exports minus imports.

<sup>34</sup> Balance of Payments data based on BPM6 was not available for the entirety of the period 2000 till 2020. The decision was to start the analysis from 2011, given this followed a period of international uncertainty due to the financial crisis, and in order to keep the analysis over a ten-year period.

<sup>35</sup> Data in this section is sourced from the following Eurostat table: [Balance of payments by country - annual data \(BPM6\)](#). The data extracted uses information in line with NSO News Release [NR227/2021](#).

in goods was rather stable between 2011 and 2014, but this changed in 2015 and 2016, as imports outpaced exports at an accelerated rate, mainly because of a significant increase in local investment. The balance then got less negative over the remaining years.

**Chart 3.8: Goods and services – Balance of Payments balances (EUR millions)**



Source: Eurostat

In 2020, the balance of goods and services remained in surplus, though declining by around half the proportion of 2019. This was primarily due to the services balance, which suffered the more significant hit. In particular, tourism and transport services were heavily impacted because of the COVID-19 pandemic. On the other hand, the impact was larger in the importation of goods than their export, which offset some of the larger deterioration in the Balance of Payments from the services side.

In 2020, 56.5% of exports of goods and services were towards countries forming part of the EU, whilst 43.5% were towards extra-EU countries.<sup>36,37</sup> The decline in services exported during 2020, compared to 2019, was largely a result of a decline in exports towards extra-EU countries. With respect to imports of goods and services, the direction of trade, in 2020, was almost split evenly between EU countries and extra-EU countries. Overall, 55.6% of the decline in imports of goods in 2020 when compared to 2019 resulted from fewer imports from EU countries, while the rest of the decline in imports of goods was from extra-EU countries.

<sup>36</sup> Extra-EU refers to those countries outside of the EU.

<sup>37</sup> Most goods exported were towards extra-EU countries (62.6%). However, this was more than compensated by services exported (much larger in level terms) to EU countries (60.5%).

### 3.7 Exports and imports of services

The contribution to growth in both exports and imports from services is higher than that from goods. Balance of Payments data provides a detailed breakdown of the types of services that are exported and imported.<sup>38</sup> The main categories that contribute to most of the trade in services in Malta are explained in detail in [Box 3.1](#).

Financial services have been consistently one of the largest components making up total exports in Malta (see [Chart 3.9](#)).<sup>39</sup> Their export has though remained relatively stable between 2011 and 2020. On the other hand, ‘personal, cultural and recreational services’, which includes exports relating to the gaming industry, was the export category that grew and contributed the most towards export growth over the past decade. Indeed, its share in total services of exports in 2019 stood at 30.6%, the highest amongst all categories. This sector’s resilience was maintained during the pandemic (in 2020), as exports from this category still continued to increase. The ‘other business services’ category also occupies a large part of total services exports. The latter’s share amounted to around 22.0% of total services exports between 2018 and 2020, thus reaching a similar share to that of financial services exports.

‘Travel and transport’ occupy the next largest shares in total exports. Excluding 2020, where travel and transport were limited because of the COVID-19 pandemic, these two categories have together maintained a ratio of around 18.0% over the most recent five years. ‘Charges for the use of intellectual property’ have contributed to about 4.0% of total exports during the last five years under review, whilst the other remaining categories included in the Balance of Payments are rather small and only have a combined contribution of less than 3.0% to services exports.

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<sup>38</sup> Further to the categories listed in this section, there are other categories of services which in the case of Malta are negligible.

<sup>39</sup> Data in this section is sourced from the following Eurostat table: [Balance of payments by country - annual data \(BPM6\)](#). The data extracted uses information in line with NSO News Release [NR227/2021](#).

### Box 3.1: Sub-categories of Balance of Payments main services categories<sup>40</sup>

Some of the service categories in the Balance of Payments are further sub-categorised. This box provides some explanations on some of the main categories relevant for Malta when it comes to exports and imports of services.

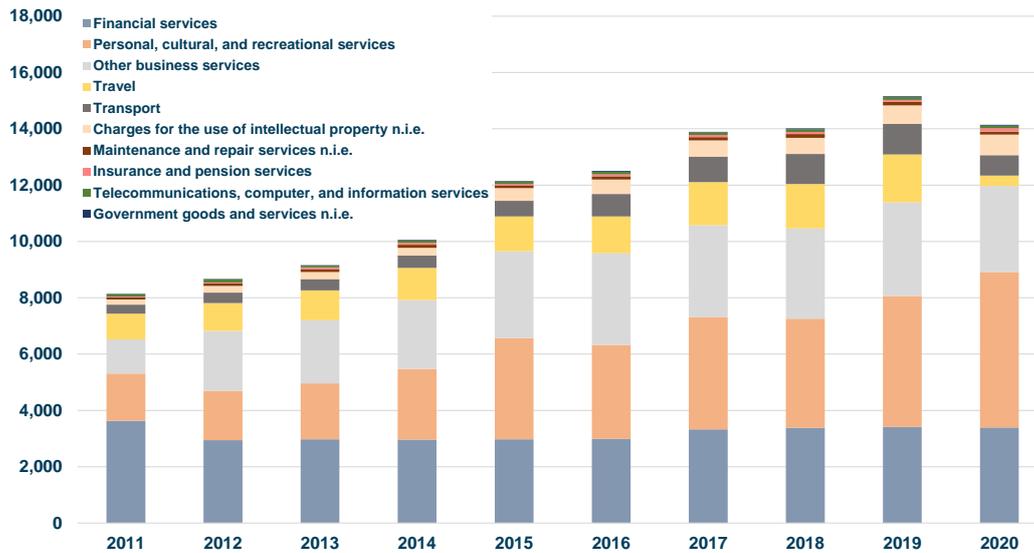
Financial services	Financial services cover financial intermediary and auxiliary services, except insurance and pension fund services, financial advisory services, asset management, etc... These include explicitly charged and other financial services and financial intermediation services indirectly measured.
Personal, cultural and recreational services	This category consists of (a) audiovisual and related services and (b) other personal, cultural, and recreational services. The latter include health services, education services, and services associated with museums and other cultural, sporting, gambling, and recreational activities, except those included in travel.
Other business services	This includes research and development services, professional and management consulting services, and technical, trade-related and other business services.
Travel	Travel credits cover goods and services for own use or to give away acquired from an economy by non-residents during visits to that economy. Travel debits cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies.
Transport	Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. Also included are postal and courier services. Transport can be classified according to mode of transport, namely sea, air and other; and according to what is carried, that is passenger or freight.
Charges for the use of intellectual property n.i.e	Charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises). These rights can arise from research and development, as well as from marketing; and charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes, such as copyrights for books or manuscripts and related rights such as for live performances and television.

Source: Eurostat and IMF

<sup>40</sup> The Balance of Payments and International Investment Position Manual (Sixth Edition) is available on:

<https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>.

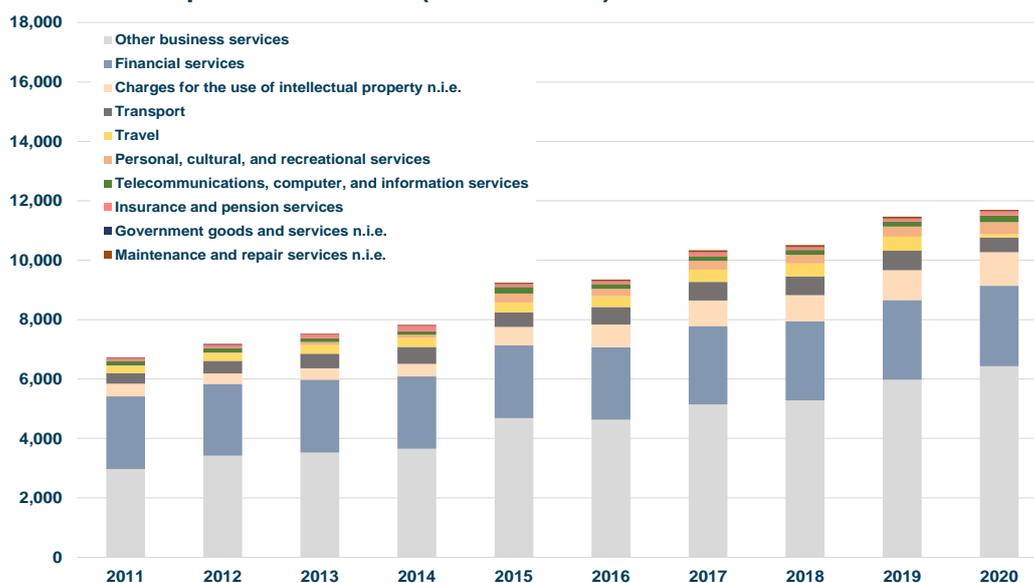
**Chart 3.9: Exports of services (EUR millions)**



Source: Eurostat

Turning on to imports of services, the larger part of such imports is derived from the ‘other business services’ category (see Chart 3.10). Its share of total imports of services increased over the years, from around 44.0% in 2011 to more than 50.0% in 2018, 2019, and 2020, reaching 55.0% in the latter year. Its level has more than doubled over the period 2011 – 2020. Their importance has increased with the rise in services exports relating to the gaming industry as these are dependent on imports relating to business services.

**Chart 3.10: Imports of services (EUR millions)**



Source: Eurostat

Another import category that is essential for the Maltese economy is financial services. In level terms, this category of imports has seen an increase of 10.9% between 2011 and 2020 and has accounted for slightly less than one-fourth of the share in total imports of services in 2019 and 2020. The rest of the categories made up around 22.0% of the share in total imports of services. The largest category amongst these is 'charges for the use of intellectual property', which made up slightly less than 10.0% of the total services imported in 2020. Debit entries associated with travel and transport have increased over the years, but these were negatively affected in 2020 due to the pandemic. The rest of the categories make up a small percentage of the total imports of services (3.0%), with imports of telecommunication services contributing to the larger part of this amount.

### **3.8 Conclusion**

This Chapter explored the salient patterns in exports and imports of goods and services recorded in Malta over the past two decades. Being a small and open economy, Malta's economic development highly depends on international trade, making the external balance of goods and services a critical component to monitor as part of the MFAC's assessment of the official government forecasts. The patterns described in this Chapter provide useful benchmarks for evaluating the profile of exports and imports of goods and services over the years.

The emergence of various export-oriented services sectors, including financial services, online gaming, and other business services have significantly elevated the importance of services' exports over the past decade. Significant improvements in tourism and investments in this sector have also boosted the rise in exports experienced over the past years. Although the gap between the exports of services and goods has widened, the latter remains a substantial contributor to the development of the country's economy. Given the geographical realities of the Maltese islands, imports have always been central to the country's economy. The importation of goods has risen over the years because of an increasing population, developments in other sectors (imports as an input for the production of other goods), and an increase in investment activity, which tends to be highly import-intensive in Malta. However, over the past decade, the role of imports of services has become increasingly important, supplying various export-oriented sectors. For instance, services exports such as

those related to the gaming industry are dependent on imports relating to business services.

Due to its size and openness and the importance of the tourism industry, Malta's exports and economic outlook are, to a certain degree, conditional on the economic developments of its trading partners. This makes the country more prone to shocks, as evidenced by the COVID-19 pandemic. Indeed, in 2020, Malta's exports were relatively amongst the worst hit in the euro area, primarily driven by a decline in the demand for key export-service sectors. Moreover, during the pandemic, disruptions caused by strict border controls and temporary shutdowns had led to companies facing supply-chain problems. As Malta started its path to recovery, the non-repetition of such controls should pave the way for better export prospects. On the opposite, high freight and transportation costs could lead to supply shortages for certain imported products.