Central Bank of Malta

Quarterly Review

2004:3

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ABBREVIATIONS

ECB	European Central Bank
EBRD	European Bank for Reconstruction and Development
ESCB	European System of Central Banks
EMU	Economic Monetary Union
ETC	Employment and Training Corporation
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFSA	Malta Financial Services Authority
MSE	Malta Stock Exchange
NSO	National Statistics Office
OECD	Organisation for Economic Co-Operation and Development
OPEC	Organisation of Petroleum Exporting Countries
WTO	World Trade Organisation

ECONOMIC SURVEY

1. FOREWORD

During the second and third quarters of 2004 the Central Bank of Malta left the central intervention rate unchanged at 3%. The Bank's policy stance reflected its assessment of economic and financial developments in Malta and abroad and was consonant with its monetary policy strategy, which is based on pegging the Maltese lira to a currency basket.

The Bank's net foreign assets declined during the second quarter and at the beginning of the third, partly because of the increased cost of oil imports. However, they recovered strongly in August and into September, in line with the usual seasonal pattern. Inflation rose during the second quarter and into the third, although the Bank's measure of core inflation remained broadly stable. The information available to the Monetary Policy Advisory Council until its meeting in September showed that the performance of the domestic economy was mixed. GDP growth picked up during the first quarter, but the momentum was not sustained, with the manufacturing and tourism industries weakening in the June quarter. Domestic demand also appeared to be generally subdued. In these circumstances, the Bank left its monetary policy stance unchanged.

With the Bank keeping the central intervention rate constant, domestic money market interest rates remained stable throughout the five months to August. However, as money market rates abroad rose during the period, the premium on Maltese lira short-term rates declined from around 60 basis points in the first quarter to around 40 basis points during the second quarter and into the third. Domestic Government bond yields declined slightly during the second quarter, but rose marginally going into the third quarter.

Broad money, M3, continued to expand during the June quarter, putting on 1.2%. Monetary expansion was driven by a combination of increased domestic credit, largely to the personal sector, and growth in the net foreign assets of the banking system. Portfolio shifts into Government bonds dampened monetary growth during the quarter.

Official GDP data for the first half of 2004 showed that the pick-up in economic activity recorded during the first quarter was partly reversed during the second. Overall, during the first six months of the year, real GDP expanded by 0.3%, driven by higher investment spending and exports, which outweighed lower consumption expenditure by Government and the private sector alike. Nominal GDP expanded by 1.7%, despite a drop in compensation of employees, as gross operating surplus and mixed income increased, as did taxes on production and imports. In sectoral terms, financial intermediaries and the real estate, renting & business activities sector contributed most to the increase in gross value added, which, however, declined in a number of other sectors, including manufacturing, tourism and electricity, gas & water supply.

Meanwhile, responses to the Bank's latest Business Perceptions Survey show that the recovery in business confidence during the second quarter was not sustained.[1] Although nearly half the respondents indicated neutral expectations on the general performance of the Maltese economy over the coming months, among the rest a greater proportion expected the economy to worsen rather than improve. This swing was spread across both exporters and

[1] The Survey was carried out between July and August 2004.

domestically-oriented firms. Turning to firms' views about their own performance, the Survey results suggest that export performance improved during the second quarter, but results for domestically-oriented sectors varied. As regards their outlook for the third quarter, exporters generally expected turnover and employment to increase, but profits were likely to remain under pressure. On the domestic front, firms were confident of a partial recovery, with financial firms being the more upbeat.

The available information on the labour market compiled by the ETC points to a mild pick-up in activity between March and May 2004, as the gainfully-occupied population expanded while the number of unemployed fell. As a result, the unemployment rate dropped from 5.8% in March to 5.6% in May. Information on the number of unemployed suggests that labour market activity continued to rise, with the number of registered unemployed dropping in August, to a level below that recorded in August 2003.

Inflation rose during the second quarter, with the twelve-month moving average rate, based on the Retail Prices Index, accelerating from 1.8% in March to 2% in June and rising further to 2.4% in August. The increase in inflation during the second quarter was driven by transport and communication costs, which mainly reflected increased fuel prices and telephone tariffs, as well as by higher prices of clothing and footwear. These factors outweighed a drop in food prices.

The deficit on the current account of the balance of payments narrowed to Lm6.2 million during the second quarter of 2004, as a result of a combination of a smaller merchandise trade gap, a wider surplus on the income account and a slightly larger surplus on services. After excluding movements in the official reserves, net outflows of Lm9.6 million were recorded on the capital and financial account, as against inflows in the same quarter of 2003.

As for fiscal developments, the deficit on the Consolidated Fund contracted during the second quarter of 2004 compared with the corresponding period of the previous year. Revenue increased while expenditure fell slightly. As a result, over the six months to June, the Consolidated Fund deficit narrowed by Lm16.2 million, to Lm97.4 million. However, the pace of fiscal consolidation subsequently slowed, although the deficit during the first eight months of the year remained below that registered between January and August 2003.

The Bank has revised its forecasts for GDP growth and other important macroeconomic indicators for 2004, which were published in its *Annual Report* for 2003, to take into account new information on domestic and international economic activity. This year, the forecasts have also been reviewed to take into account the first publication of quarterly national accounts data based on the ESA 95 framework.

Compared with its previous projections, the Bank's forecast for economic growth in 2004 is being revised upwards slightly to a range between 1.2% and 1.8%. Thus, the Bank expects growth to accelerate moderately, albeit at a rate that remains below potential. Real GDP growth is expected to be driven by higher exports and a rise in investment. In contrast, real private consumption expenditure is expected to drop, following weaker-than-expected data on employment, while the forecast for Government consumption expenditure has also been revised downwards. Fiscal tightening, together with the decline in private consumption, should limit import growth, but the external deficit is still expected to rise on account of the sharp increase in oil prices. Meanwhile, the Bank's inflation projection has been revised downwards to 2.9%, as the increase in the standard VAT rate at the beginning of the year is likely to have a smaller impact on prices than had previously been anticipated.

2. THE INTERNATIONAL ENVIRONMENT

The world economy

Despite the downside risks associated with higher oil prices, the global economic recovery is still expected to remain solid throughout 2004. In its September *World Economic Outlook*, the IMF projected the fastest global growth rate since 1973. While the US and Japanese growth rates were lower in the second quarter than in the first, the UK and the euro area both registered faster growth. Despite an ongoing recovery, the euro area's performance remained relatively weak compared to that of other major economies. Yet sentiment in the euro area for 2005 is quite optimistic. However, higher oil prices are putting upward pressure on the inflation outlook in most countries.

Economic and monetary developments in the major economies

The US economy grew at a slower pace in the second quarter of the year, expanding by 4.8% as against the 5% growth registered in the March quarter. The deceleration reflected lower consumer and government spending, which were only partly offset by faster growth in residential fixed investment. The unemployment rate dropped to 5.6% in June from 5.7% in March, then declined to 5.5% in July and 5.4% in August. However, job growth remained sluggish. On the inflation front, higher food and petrol prices pushed US inflation up to 2.9% during the quarter, from 1.8% in the first three months of the year (see Table 2.2). Inflation continued to increase in July, when it rose to 3%, before easing to 2.7% in August.

The Federal Reserve left its federal funds rate target unchanged in May, but then raised it by 25 basis points to 1.25% in June. The widely

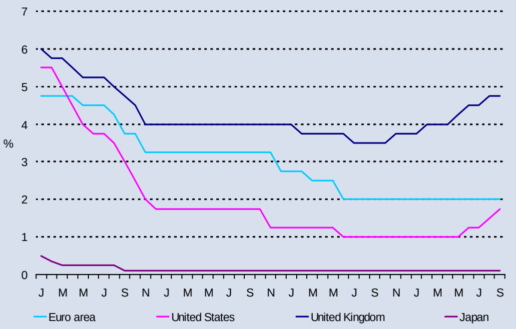
Table 2.1
REAL GDP
% change compared with the same period a year earlier

	2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3[1]
United States	1.9	2.3	3.5	4.4	5.0	4.8	3.7
Euro area	0.7	0.1	0.3	0.7	1.3	2.0	2.0
EU - 25	1.0	0.6	0.7	1.1	1.7	2.3	n/a
United Kingdom	1.8	2.1	2.2	2.9	3.4	3.6	3.3
Japan	2.7	2.1	1.9	3.1	5.9	4.2	4.6

[1] Forecasts.

Sources: Bureau of Economic Analysis, US; Consensus Forecasts; Economic and Social Research Institute, Japan; Eurostat; National Statistics, UK.

Chart 2.1
OFFICIAL INTEREST RATES
(end of period)



expected hike was the first in four years. In August, despite the soft patch experienced by the US economy, partly as a result of higher oil prices, the Fed raised its target for the federal funds rate by another 25 basis points, in a bid to head off inflation. The Fed raised the target rate by another quarter point in September, citing better labour market conditions and output growth.

Economic recovery in the euro area continued into the second quarter of the year, with GDP growth accelerating to 2% from the previous quarter's 1.3%. Despite the acceleration, however, the euro area's expansion still lagged behind that of the US and Japan (see Table 2.1). As in the March quarter, euro area economic growth was mainly fuelled by greater exports, although domestic demand was also moderately higher. Yet unemployment rose to 9% in June from 8.9% in March as the recovery failed to create additional employment. The unemployment rate remained stable at 9% in July. Meanwhile, euro area inflation rose by 0.6 percentage points to 2.3% over the quarter, as oil prices surged, before stabilising at this level through July and August. According to the ECB, however, inflation prospects for the euro area remained in line with price stability over the medium term even though inflation was above its 2% ceiling.

The euro area economy is expected to continue its recovery. In fact, ECB projections for 2004 have been revised slightly upwards, as economic growth outside the area is expected to support exports. Consumption is expected to recover further while investment is likely to benefit from a more favourable global environment.

With the economic recovery of the euro area gathering strength, the ECB kept the minimum bid

Table 2.2
CONSUMER PRICE INDEX
% change compared with the same period a year earlier

	2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3[1]
United States	2.9	2.1	2.2	1.9	1.8	2.9	2.9
Euro area	2.3	2.0	2.0	2.1	1.7	2.3	2.3
United Kingdom	1.5	1.3	1.4	1.3	1.3	1.4	1.5
Japan	-0.2	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1

[1] Forecasts.

Source: Consensus Forecasts.

rate on its main refinancing operations unchanged at 2% over both the second and the third quarters of the year.

The Japanese economy also continued its recovery during the second quarter, albeit at a slower pace than in the first. Japan's GDP grew by 4.2% during the June quarter, driven by higher consumption and net exports. However, slower growth in China and the US in the coming months could hurt Japanese exports. Furthermore, although unemployment dropped to 4.6% in June from 4.7% in March, it rose sharply to 4.9% in July.

Japan has yet to halt five years of deflation, and prices continued to fall into the second quarter of the year. The Bank of Japan therefore pledged that it would continue to maintain an accommodative monetary policy stance until the core nation-wide CPI began to rise steadily. As a result, it maintained an unchanged monetary policy stance during the both the second and the third quarters of the year.

The British economy continued to grow at a strong pace during the June quarter, with growth accelerating to 3.6% from 3.4% in the March quarter. Domestic demand continued to expand, fuelled by higher private investment and government expenditure, which recorded the highest growth rate since 1975. Moreover, the decline in exports recorded in the first three months of the year was followed by strong growth in the second quarter. Nevertheless, UK unemployment remained unchanged in the second quarter of the year at 4.8%. Consumer price inflation edged up, to 1.4%, from 1.3% in the first quarter. As oil prices continued to rise, inflationary pressures were expected to gather pace, with inflation nearing the official 2% target rate.

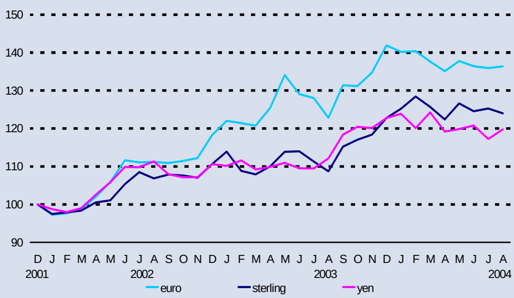
In these circumstances, the Bank of England continued to tighten monetary policy, raising its repo rate by 25 basis points in May and again in June as consumption and investment grew strongly while the housing market remained buoyant. In August the Bank of England raised the repo rate by a further 25 basis points, but it left it unchanged at 4.75% in September on signs that the housing market was beginning to cool off.

Foreign exchange markets

Over the second quarter of the year, the US dollar appreciated by 0.9% against the euro and the pound sterling and by 2.8% against the Japanese yen (see Table 2.3). During the third quarter the dollar appreciated marginally against sterling while it continued to strengthen against the yen. On the other hand, the dollar lost ground against the euro.

In April, the euro weakened against the US dollar as encouraging data about the US economy, in particular with regard to labour market conditions, consumer confidence and retail sales, provided support for the American currency. Throughout May and early June however, the euro fluctuated against the dollar amid mixed signs on US economic activity. Thus, the euro weakened temporarily in the second week of May as a result of better-than-expected data on US labour market conditions, before strengthening on news of a

Chart 2.2
EXCHANGE RATE MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR*
(index of end-of-month rates, end-2001=100)



*A higher index reflects a nominal appreciation of the currency against the US dollar.
Source: Reuters.

Table 2.3
EXCHANGE RATES OF SELECTED CURRENCIES AGAINST THE US DOLLAR - SECOND QUARTER 2004

	US$/euro	US$/stg	yen/US$
Average for April	1.1991	1.8051	107.55
Average for May	1.2010	1.7870	112.04
Average for June	1.2130	1.8282	109.45
Average for the quarter	1.2044	1.8068	109.68
Opening rate on 30.06.04	1.2082	1.8055	108.65
Opening rate on 30.03.04	1.2192	1.8219	105.66
Lowest exchange rate during the quarter[1]	1.1797 (26 Apr.)	1.7603 (14 May)	104.16 (01 Apr.)
Highest exchange rate during the quarter[1]	1.2349 (02 Apr.)	1.8536 (02 Apr.)	114.57 (14 May)
% appreciation (+)/depreciation (-) of the currency vs the US dollar from opening rate on 30.03.04 to opening rate on 30.06.04	-0.9	-0.9	-2.8

[1] The high/low exchange rates are daily opening rates of the relevant currencies.

Source: Reuters.

wider US current account deficit. Then, towards the end of the quarter, scattered signs of more buoyant economic activity in the euro area, coupled with news of lower GDP growth in the US, caused the euro to appreciate once more against the dollar.

Following a sharp appreciation in March, the yen lost ground against the US dollar until the first half of May despite the consolidation of the Japanese economic recovery, with the Bank of Japan refraining from intervening in its support. From mid-May until the end of the second quarter, however, the yen appreciated against the dollar, boosted by a string of favourable data on Japanese household spending and industrial production.

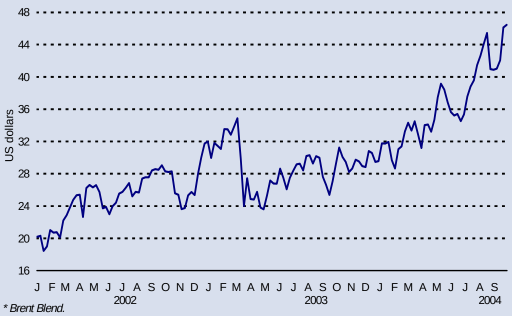
In mid-May, the pound sterling fell against the US dollar on news of a decline in UK manufacturing output. Subsequently, however, the pound rebounded against the dollar on news that UK mortgage lending had risen at a rapid pace, giving rise to expectations of higher interest rates. The pound then stabilised through most of June only to drop towards the end of the month as the UK housing market started to cool down following interest rate hikes by the Bank of England.

Commodities

The price of oil rose by 4.9% over the June quarter, with the price of Brent Blend reaching a peak of $39.40 per barrel in early June.[1] Higher prices were linked to stronger demand, particularly

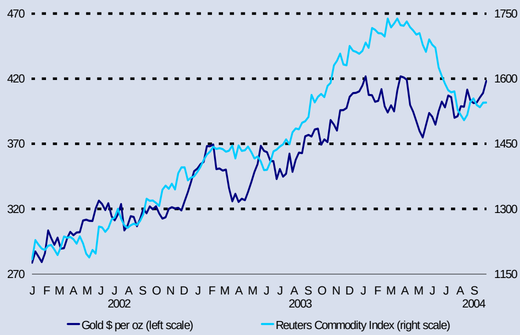
[1] Brent blend is a North Sea crude oil that serves as a benchmark grade and that is widely traded on the New York Mercantile Exchange.

Chart 2.3
OIL ($/BARREL)*
(end of week)



* Brent Blend.
Source: Reuters.

Chart 2.4
COMMODITY PRICES
(end of week)



Source: Reuters.

from the US and China, coupled with limited spare capacity and heightened concern over the continued violence in the Middle East. Oil prices continued to rise until mid-May, after which they declined until the end of the second quarter amid signs of increasing supplies and rising inventories. However, oil prices picked up strongly again in July. In fact, by mid-August the oil price had soared to $45.61 per barrel, with higher forward prices suggesting that higher prices would persist for some time. In fact, while the price of oil subsequently eased slightly, it soared again in September, reaching a record high of $47.30 per barrel at the end of the month.

The upward trend in non-oil commodity prices registered in the previous months eased in the second quarter amid uncertainty over future demand for raw materials. Thus, the Reuters Commodity Index dropped by 7.9% in US dollar terms during the quarter, and it continued on its downward path even through the third quarter.

The price of gold declined by 7.6% over the second quarter of the year, ending June at $394 per ounce. After having hit a 15-year high at $426 per ounce at the end of March, gold slid to $375 per ounce in mid-May on account of a rising dollar and mounting confidence that the US economic recovery would last, tarnishing the attractiveness of gold as a safe haven. However, a weaker dollar after mid-May launched the price of gold on an upward trend which persisted through the end of the quarter and into the third quarter.

3. MONETARY AND FINANCIAL DEVELOPMENTS

The Central Bank of Malta continued to hold the central intervention rate steady at 3% throughout the second quarter and up to end-August. Short-term interest rates remained largely unchanged, while yields on longer-term bonds moved generally lower. In the equity market, the MSE share index registered its first quarterly drop in almost two years, although this was followed by a strong recovery in July and August, which lifted the index above its end-March level.

Broad money expanded further over the June quarter, although growth was dampened by portfolio shifts into Government bonds, reflecting substantial issues on the primary market. As in recent quarters, monetary growth was fuelled by a preference for liquid assets included in the narrow aggregate M1, reflecting the low level of interest rates and thus the opportunity cost of holding these instruments. Domestic credit expanded modestly during the second quarter, driven by a strong demand for house loans that offset subdued demand for bank lending from other sectors. The net foreign assets of the banking system also increased. Broad money continued to grow in July, but contracted in August as investors shifted from bank deposits into newly issued Government bonds.

The monetary base

In the second quarter the monetary base (M0) expanded by Lm12.9 million, or 2%, as a notable increase in currency in issue more than offset a small drop in bank deposits with the Central Bank

Table 3.1
THE MONETARY BASE AND ITS SOURCES

Lm millions

	2004	2004	Change	
	March	June	Amount	%
Currency in issue	486.0	502.3	16.3	3.4
Bank deposits with the Central Bank of Malta[1]	147.7	144.3	-3.4	-2.3
MONETARY BASE	**633.7**	**646.6**	**12.9**	**2.0**
CENTRAL BANK OF MALTA ASSETS				
Foreign assets	974.2	943.2	-31.0	-3.2
Claims on central Government	8.3	6.5	-1.8	-21.7
Fixed and other assets	11.1	11.2	0.1	0.9
less				
REMAINING LIABILITIES				
Government deposits	70.6	84.5	13.9	19.7
Other deposits	1.8	2.8	1.0	55.6
Foreign liabilities	41.1	36.3	-4.8	-11.7
Other liabilities	144.5	92.0	-52.5	-36.3
Shares and other equity	101.9	98.6	-3.3	-3.2

[1]Excluding term deposits, which are shown with "other liabilities".

of Malta (see Table 3.1).[1] The annual growth rate of M0 eased slightly from 6.9% in March to 6.4% in June, but recovered in the following two months, ending August at 11.7%.

An increase in Government deposits and a decline in the Bank's foreign assets, the latter mainly attributable to oil payments on behalf of customers, together exerted a contractionary effect on M0. This was, however, more than offset by a reduction in the Bank's other liabilities, as it absorbed less liquidity from the banking system through term deposits.

Monetary aggregates

Monetary growth decelerated in the second quarter, with broad money (M3) expanding by Lm34.5 million, or 1.2%, after having gained 2% in the first quarter (see Table 3.2). Portfolio shifts into new issues of Government bonds exerted a dampening effect on monetary expansion. On the other hand, the prevailing low level of interest rates sustained demand for liquid monetary assets. The downward trend in the annual growth rate of M3, which began towards the end of 2002, continued to moderate during the quarter under review, with the annual growth rate falling slightly to 3.4% in June from 4.2% in March (see Chart 3.1). It recovered going into the third quarter, reaching 4% in August.

Narrow money (M1) continued to increase rapidly during the quarter reviewed, reflecting the reduced opportunity cost of holding short-term liquid assets in the current low interest rate environment. M1 increased by Lm35.7 million, or 2.3%, mainly as a result of further growth in deposits withdrawable on demand, despite a reduction in these deposits in May, when the Government issued bonds on the primary market. A seasonal increase in currency in circulation also contributed (see Table 3.2). This notwithstanding, the annual rate of growth of M1

Table 3.2
MONETARY AGGREGATES
(Changes on the previous quarter)

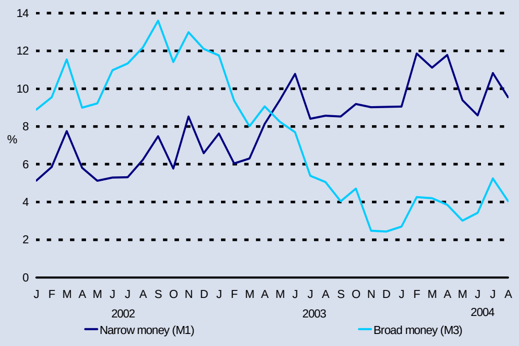
Lm millions

	2003						2004			
	Q2		Q3		Q4		Q1		Q2	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
NARROW MONEY (M1)	**65.2**	**4.7**	**17.1**	**1.2**	**19.8**	**1.3**	**52.4**	**3.5**	**35.7**	**2.3**
Currency in circulation	11.3	2.6	4.1	0.9	4.0	0.9	7.1	1.5	14.1	3.0
Deposits withdrawable on demand	53.9	5.7	13.0	1.3	15.8	1.6	45.3	4.4	21.6	2.0
INTERMEDIATE MONEY (M2)	**54.2**	**1.9**	**13.6**	**0.5**	**-6.2**	**-0.2**	**55.5**	**2.0**	**34.5**	**1.2**
Narrow money (M1)	65.2	4.7	17.1	1.2	19.8	1.3	52.4	3.5	35.7	2.3
Deposits redeemable at notice up to 3 months	0.9	3.1	0.3	1.0	-1.0	-3.4	0.9	3.1	-0.3	-0.9
Deposits with agreed maturity up to 2 years	-11.9	-0.9	-3.8	-0.3	-25.0	-1.9	2.3	0.2	-0.9	-0.1
BROAD MONEY (M3)[1]	**54.2**	**1.9**	**13.6**	**0.5**	**-6.2**	**-0.2**	**55.5**	**2.0**	**34.5**	**1.2**

[1] Since the amount of marketable instruments issued by the MFI sector is negligible, at present M2 is equal to M3.

[1] Bank deposits exclude term deposits that the banks place with the Central Bank of Malta.

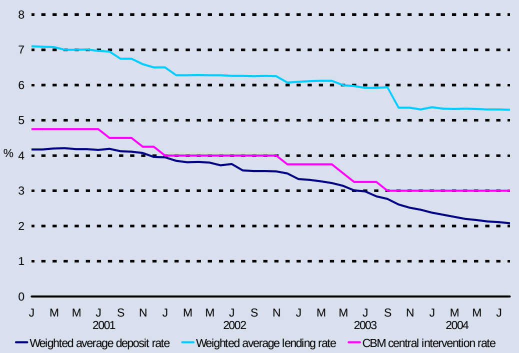
Chart 3.1
MONETARY AGGREGATES
(% change on previous year)



fell from 11.1% in March to 9% in June, before picking up to 9.6% in August.

Intermediate money (M2), which consists of M1 plus short-term deposits other than those withdrawable on demand, increased by Lm34.5 million, or 1.2%, in the June quarter. There were no significant changes in the components of M2 apart from the rise in M1 mentioned earlier, with deposits redeemable at notice of up to 3 months and deposits with an agreed maturity of up to two years both remaining largely unchanged. The annual growth rate of the latter fell sharply, from a peak of above 20% towards the end of 2002 to a trough of -4.4% in April 2004, but has since partly recovered, standing at -1.8% in August.

Chart 3.2
RETAIL DEPOSIT AND LENDING RATES
(end of month)



The weighted average interest rate on Maltese lira deposits extended its downward trend (see Chart 3.2), falling from 2.26% in March to 2.08% by the end of August. While interest rates on demand and savings deposits remained broadly unchanged during this period, the average rate on time deposits continued to decline, which may explain the ongoing preference for the more liquid monetary assets included in M1.

Counterparts of monetary expansion

Domestic credit expanded by Lm24.8 million, or 0.9%, during the second quarter, driven by further growth in claims on other residents (see Table 3.3). The increase in these claims, in turn, was partly due to a rise in loans to the private sector, but also reflected a reclassification in the loan portfolio of a major bank. However, since the latter led to a simultaneous drop in net claims on central Government, it had a neutral impact on domestic credit overall. The annual rate of credit growth eased slightly from 11.6% in March to 10.7% in June, but recovered in the following two months, ending August at 12.9% (see Chart 3.3).

Net claims on central Government contracted by Lm20 million, or 3.3%, during the quarter, mainly as a result of the reclassification mentioned earlier, although a modest increase in Government deposits with the Central Bank of Malta also

Chart 3.3
DOMESTIC CREDIT
(% change on previous year)

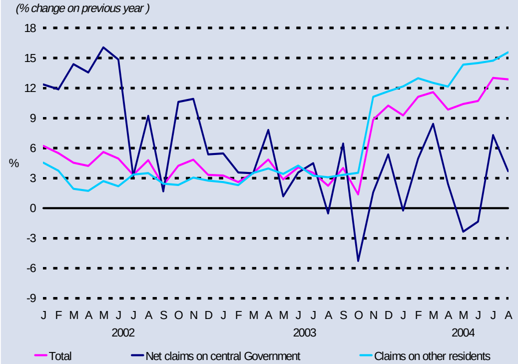


Table 3.3
COUNTERPARTS OF MONETARY GROWTH
(Changes on the previous quarter)

Lm millions

	2003						2004			
	Q2		Q3		Q4		Q1		Q2	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BROAD MONEY (M3)	**54.2**	**1.9**	**13.6**	**0.5**	**-6.2**	**-0.2**	**55.5**	**2.0**	**34.5**	**1.2**
DOMESTIC CREDIT	**41.7**	**1.7**	**-7.9**	**-0.3**	**172.5**	**7.0**	**76.6**	**2.9**	**24.8**	**0.9**
Net claims on central Government	34.9	6.3	-31.6	-5.3	6.7	1.2	37.0	6.5	-20.0	-3.3
Claims on other residents	6.8	0.4	23.6	1.3	165.8	8.7	39.7	1.9	44.8	2.1
NET FOREIGN ASSETS	**24.1**	**1.8**	**52.7**	**4.0**	**30.8**	**2.2**	**-2.4**	**-0.2**	**47.0**	**3.3**
Central Bank of Malta	43.1	4.9	13.5	1.5	-23.3	-2.5	13.2	1.4	-26.2	-2.8
Banks	-19.1	-4.5	39.3	9.7	54.2	12.2	-15.7	-3.2	73.2	15.2
less										
OTHER COUNTERPARTS OF M3[1]	**11.5**	**1.2**	**31.2**	**3.2**	**209.6**	**20.8**	**18.7**	**1.5**	**37.2**	**3.0**

[1] Other counterparts of M3 include the capital base of the MFI sector, longer-term financial liabilities, provisions, interest accrued and unpaid and other liabilities, less fixed and other assets. They are equal to the difference between M3 and the sum of domestic credit and net foreign assets.

contributed. These two factors offset higher holdings of Government securities by the banks. The annual growth rate of net claims on central Government remained volatile, falling to -1.3% in June from 8.4% in March, before rebounding to 3.7% in August.

Claims on other residents, which account for almost four-fifths of domestic credit, expanded by Lm44.8 million, or 2.1%, during the June quarter. Consequently, their annual growth rate rose from 12.5% in March to 14.5% in June, and again to 15.6% in August. Claims on public non-financial companies increased by Lm26.4 million, mainly as a result of the loan reclassification exercise referred to earlier, which boosted loans and advances to the electricity, gas and water supply sector (see Table 3.4). Claims on the private sector added Lm18.4 million, driven by further lending to households and individuals, most of which was intended for house purchases. Meanwhile, loans to private non-financial companies contracted. This occurred despite a decrease in the real cost of borrowing resulting from a rise in inflation combined with a slight decline in the weighted average nominal lending rate (see Chart 3.2).[2]

The net foreign assets of the banking system expanded by Lm47 million, or 3.3%, during the June quarter, after having contracted slightly in the previous quarter (see Table 3.3). While the net foreign assets of the Central Bank of Malta fell, those of the rest of the banking system increased significantly, mainly because of an injection of equity capital into the sector. The annual growth rate of the net foreign assets of the banking system thus rose from 8% in March to 9.6% in June, but fell back to 6.5% in August. Over recent

[2] Inflation is measured as the annual change in the 12-month moving average Harmonized Index of Consumer Prices (HICP).

Table 3.4

CLAIMS ON OTHER RESIDENTS[1]

Lm millions

	2004 March	2004 June	Change Amount	%
Claims on the private sector	1961.0	1979.4	18.4	0.9
Claims on public non-financial companies	158.3	184.7	26.4	16.7
Claims on other general government[2]	0.7	0.7	0	0
TOTAL	**2120.0**	**2164.8**	**44.8**	**2.1**
of which:				
LOANS AND ADVANCES				
Electricity, gas & water supply	56.6	86.1	29.5	52.0
Transport, storage & communication	139.3	132.4	-6.9	-5.0
Agriculture	7.4	7.6	0.2	2.7
Fishing	1.9	1.7	-0.2	-10.8
Manufacturing	129.2	126.8	-2.4	-1.9
Construction	200.7	202.4	1.7	0.8
Hotels & restaurants	209.5	204.6	-4.9	-2.3
Wholesale & retail trade; repairs	293.3	288.8	-4.5	-1.5
Real estate, renting & business activities	120.6	119.6	-1.0	-0.8
Households & individuals	642.4	670.5	28.1	4.4
Other[3]	63.2	64.1	0.9	1.4
TOTAL LOANS AND ADVANCES	**1864.1**	**1904.5**	**40.4**	**2.2**

[1] Claims on other residents consist mainly of loans and advances (including bills discounted) and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies. Interbank claims are excluded.

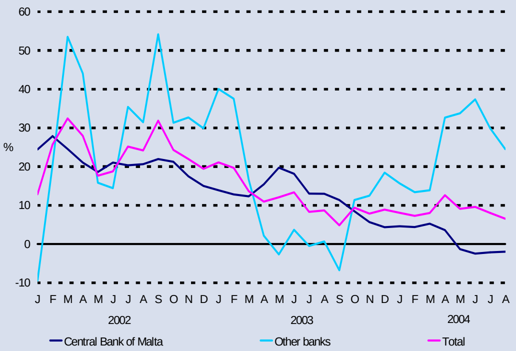
[2] In Malta, this refers to the local councils.

[3] Includes mining and quarrying, public administration, education, health and social work, community recreation and personal activities, extra-territorial organisations and bodies and non-bank financial institutions.

months, the annual growth rate has stabilized at a level close to its long-term average, after having fallen steadily since the latter part of 2002 (see Chart 3.4).

The net foreign assets of the Central Bank of Malta shed Lm26.2 million during the quarter under review, resulting in a further decline in their annual growth rate. The contraction in the Bank's net foreign assets was mainly due to payments for oil purchases on behalf of customers, but also to a fall in reserve deposits denominated in foreign currency held with it. The net foreign assets of the rest of the banking system climbed by Lm73.2 million. More than half of this increase reflected the equity capital flows mentioned earlier, which boosted the net foreign assets of the domestic banks. Those of the international banks contracted slightly. The annual growth rate of the net holdings of the rest of the banking system

Chart 3.4
NET FOREIGN ASSETS
(% change on previous year)



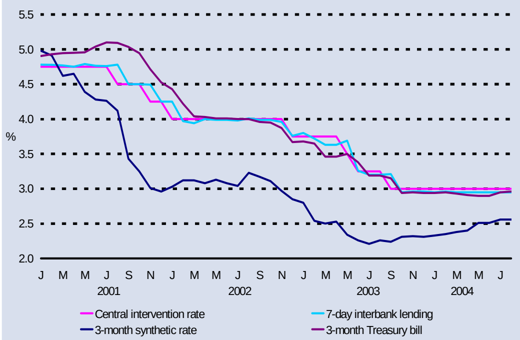
jumped from 13.9% in March to 37.4% in June before falling back in the following two months.

The other counterparts of M3 rose by Lm37.2 million, or 3%, during the second quarter, following the increase in bank capital referred to above (see Table 3.3). This exerted a dampening effect on monetary growth.

The money market

The Bank maintained the central intervention rate constant at 3% throughout the second quarter and until the end of August. Domestic money market interest rates remained stable, at a level that has been broadly unchanged since the latest cut in official rates in September 2003 (see Chart 3.5).

Chart 3.5
MONEY MARKET INTEREST RATES
(end of month)



During the second quarter the Bank continued to absorb liquidity, albeit to a lesser extent than before, from the rest of the banking system through weekly auctions of 14-day term deposits. The average amount of term deposits held with the Bank fell to Lm106.7 million, from Lm140.7 million in the previous three months. Banks continued to earn interest at the current floor of 2.95% on these deposits. In view of the banks' liquidity, no reverse repos were used.

Turnover in the interbank market soared to Lm122.2 million, up from Lm28.6 million in the first quarter, although trading continued to be dominated by a few participants. Around two-thirds of interbank loans had a term to maturity of one week, while the rest had a term of up to 15 days. In spite of the surge in volume the average maturity of interbank loans was therefore shorter than that seen in recent quarters, when deals of up to one month were struck. The interest rate on one-week loans remained unchanged at 2.95% through August.

The Treasury continued to resort to the money market for part of its financing requirements during the June quarter, issuing Lm169.8 million worth of Treasury bills, slightly more than maturing bills of Lm163 million. While the three-month bill remained the most popular, accounting for just over half of total issues, the Treasury made increased use of bills with maturities of up to a year. Banks were the main participants in the primary market for Treasury bills, buying over four-fifths of the bills issued. The yield on the three-month bill remained stable during the June quarter, before rising slightly in the following two months, to 2.96% at end-August.

Turnover in the secondary market for Treasury bills climbed from Lm21.7 million in the first quarter to Lm31.6 million in the second quarter. Activity mainly involved the commercial banks, which traded between themselves and with other financial institutions. On the other hand, trading involving the Central Bank of Malta declined to a minimal level. Interest rates on bills traded in the secondary market were largely stable across the entire maturity spectrum, in line with primary market rates.

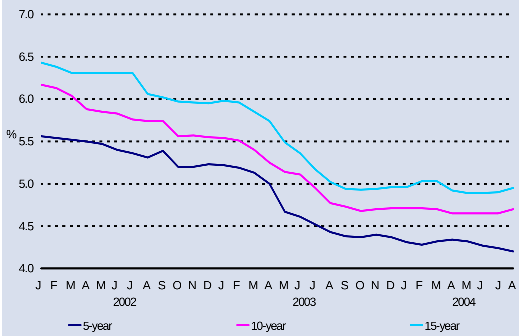
The synthetic three-month yield, a weighted average of money market yields on the currencies making up the Maltese lira basket, edged up from 2.38% in March to 2.51% in June, extending the gradual upward trend observed since mid-2003 (see Chart 3.5). Since the yield on domestic three-month Treasury bills remained virtually unchanged during the quarter, the differential between the two yields narrowed by a further 16 basis points, to 39 basis points at the end of June. The differential remained stable up to the end of August.

The capital market

Issuance activity in the primary bond market picked up during the second quarter, following a quiet first quarter. In May there were two Government bond issues: Lm25 million worth of debt maturing in 2016 carrying a coupon rate of 4.8%, and Lm40 million 5% MGS maturing in 2021. The non-bank sector, particularly households, subscribed to around 70% of the bonds. The new issues partly refinanced maturing stocks, as Lm18.7 million matured in April, and a further Lm25.8 million matured in July. There were no corporate bond issues in the capital market during the five-month period up to August, but the Government issued an additional Lm50 million worth of stocks in that month.

In the secondary market for Government bonds, turnover fell from Lm14.8 million in the March quarter to Lm9.7 million in the quarter under review, with the Bank accounting for just Lm0.4 million of the total value. Investors showed a preference for the longer end of the market, with trading concentrated in a handful of stocks, including those that were issued in May. Bond

Chart 3.6
GOVERNMENT BOND YIELDS
(end of month)



yields declined slightly during the quarter, with the benchmark 10-year Government bond yield easing by 5 basis points to 4.65% (see Chart 3.6). Yields on 10-year and 15-year bonds increased slightly going into the third quarter, while the 5-year bond yield continued to move lower.

Activity in the secondary market for corporate bonds picked up slightly, with the value of transactions rising to Lm2.4 million, from Lm2 million in the first quarter. However, this remained slightly less than the average quarterly turnover in the past two years. As in the previous quarter, trading was rather evenly spread among the listed securities. Corporate bond yields between the end of March and the end of August were generally stable.

Chart 3.7
MALTA STOCK EXCHANGE SHARE INDEX
(end of month)

Source: MSE.

Trading activity in the equity market fell by half to Lm5.2 million during the second quarter, with the shares of the three major companies listed on the Exchange accounting for a large part of total turnover. Prices of almost all shares dropped, leading to a fall in the MSE share index of 8.7% to 2524.3 by end-June (see Chart 3.7). In the following two months share prices recovered strongly, driven by gains in the largest three equities, with the MSE share index gaining 13.4% to stand at 2,862.

4. OUTPUT, PRICES AND EMPLOYMENT

The economy's performance during the first half of 2004 provided a mixed picture, as second quarter results failed to sustain the first quarter's improvement. Nevertheless, over the six months to June, higher investment and lower net imports outweighed a reduction in private and public consumption to produce a real GDP growth rate of 0.3%.

In the manufacturing sector, the pick-up observed in the first quarter was followed by a slowdown during the second quarter, with a significant number of firms reporting reduced sales, investment and employment. At the same time, tourist expenditure dropped despite an increase in the number of tourists, reflecting a shorter average length of stay. A contraction was also reported in the number of cruise passenger arrivals.

Inflation rose during the second quarter, with the twelve-month moving average rate reaching 2% in June, largely because of increases in the prices of transport & communications and clothing & footwear. In August, the rate rose further to 2.4%.

However, positive developments emerged in the labour market. The unemployment rate dropped to 5.6% in May 2004 from its 6.1% peak in February. More recent figures show that the shrinkage in employment has been moderating, while in August the number of registered unemployed declined, year-on-year, for the first time since May 2003. However, responses to the Bank's latest Business Perceptions Survey (BPS) were pessimistic, with expectations of continuing weakness in the labour market.

The BPS also showed that the balance of respondents expecting an improvement as against those expecting a deterioration in the economy's performance turned negative during the second quarter, although the largest group continued to lie in the no-change category.

Gross Domestic Product

The launch of ESA 95-based quarterly GDP data revealed that, in inflation-corrected terms, the economy grew by 0.3% in the first half of 2004 (see Table 4.1).[1] An important contribution came

Table 4.1
GROWTH OF REAL GDP AND ITS EXPENDITURE COMPONENTS

	January - June 2004 Annual growth %
Private consumption	-1.0
Government consumption	-6.2
Gross fixed capital formation	14.1
Exports	8.6
Imports	0.3
Net imports	-65.3
Real GDP	**0.3**

Source: NSO.

[1] Quarterly data are available in the new ESA 95-compatible format for 2003:1 through 2004:2.

Table 4.2
YEAR-ON-YEAR CHANGE IN GDP DEFLATORS

	January - June 2004
	Annual growth %
Private consumption	3.2
Government consumption	5.5
Gross fixed capital formation	0.8
Inventory changes	1.3
Exports	-7.2
Imports	-6.3
Net exports	-3.6
GDP	**1.5**

Source: NSO.

from a reduction in net imports of goods and services. In real terms exports grew by 8.6%, while imports rose by a much slower 0.3%. Gross fixed capital formation also rose sharply in real terms. Other statistical sources report increased investment in manufacturing, along with reduced capital spending by Government.

The other components of domestic demand declined considerably. Private consumption fell by 1%, reflecting an equivalent drop in nominal employee compensation, as reported below. Similarly, ongoing fiscal restraint was reflected in the 6.2% decline in inflation-adjusted public consumption.

The measurement of real GDP in the first six months of the year incorporated significant price developments (see Table 4.2). Products consumed by households fell in price by 3.2%, while the 5.5% correction for price increases in Government consumption spending reflected the one-off compensation to public sector employees for the higher VAT rate introduced in January. Prices of capital goods rose by a modest 0.8%. Meanwhile, the terms of trade worsened as

Table 4.3
NOMINAL GDP GROWTH
Income approach

	January - June 2004	
	Annual growth %	Annual change Lm millions
Compensation of employees	-1.0	-4.5
Gross operating surplus and mixed income	0.7	2.5
Taxes on production and imports, less subsidies	18.6	17.6
GDP	**1.7**	**15.6**

Source: NSO.

export prices fell by a larger proportion than import prices.

Nominal GDP by income categories

In nominal terms, income side GDP rose by 1.7% at market prices during the first half of 2004 (see Table 4.3). A significant part of this increase was attributable to the higher rate of VAT.[2] Compensation of employees fell by 1%, reflecting the decline in employment. The drop was mainly concentrated in the manufacturing sector, although other community, social and personal activities reported a decline too. By contrast, increases in compensation were recorded in transport, storage & communication and in financial intermediation, despite cuts in employment experienced even in these sectors.

Gross operating surplus and mixed income expanded by 0.7% during the first six months of the year.[3] The operating surplus of financial intermediaries and firms in real estate, renting and business activities rose sharply, but this was

Table 4.4
GROSS VALUE ADDED

	January - June 2004 Annual growth %
Agriculture, hunting & forestry	4.4
Fishing	4.6
Mining & quarrying	-0.3
Manufacturing	-1.8
Electricity, gas & water supply	-11.7
Construction	1.8
Wholesale & retail trade; repair of motor vehicles, motorcycles & personal household goods	2.7
Hotels & restaurants	-3.5
Transport, storage & communication	-1.2
Financial intermediation	21.6
Real estate, renting & business activities	5.6
Public administration & defence; compulsory social security	-1.0
Education	0.9
Health & social work	1.2
Other community, social & personal service activities	3.0
FISIM[1]	17.8
Gross value added	**0.9**

[1]FISIM is the financial intermediation service implicitly measured. It is a notional sector in the national accounts that purchases the imputed output of the financial intermediaries but has no output of its own. The FISIM includes the difference between the interests and dividends paid in order to raise funds and the property income derived from the use of such funds.

Source: NSO.

[2] The standard VAT rate was raised from 15% to 18% on 1 January 2004.

[3] Mixed income consists of the remuneration for the work carried out by the owner of an unincorporated enterprise (or by members of his family), which cannot be distinguished from the entrepreneurial profit of the owner.

partly offset by a significant decline in the surplus of the transport, storage & communication sector.

Value added by industry

Gross value added rose by 0.9% in nominal terms in the first half of the year, driven mainly by the financial intermediation and the real estate, renting & business activities sectors, although the distributive trades, repairs to motor vehicles and household goods and personal services also contributed (see Table 4.4).[4] Sectors with reduced added value included manufacturing, electricity, gas & water supply, hotels & restaurants and public administration & defence. The June quarter saw a deterioration in the manufacturing sector and in tourism-related industries, as well as in the electricity, gas & water supply sector, where value added was negatively affected by higher oil prices.

Retail prices

The upward trend in headline inflation observed since the fourth quarter of 2003 continued into the second quarter of 2004. The twelve-month moving average rate of change of the Retail Prices Index (RPI) inflation, which is the official measure of the inflation rate, rose from 1.8% in March to 2% in June, edging up further to 2.4% in August (see Chart 4.1).

Chart 4.1
RETAIL PRICE INFLATION

Source: NSO.

Similarly, the year-on-year change in the RPI, a timelier indicator of price trends, rose from 2.3% in March to 2.7% in June, rising further to 2.8% in August.

The second quarter increase in year-on-year inflation was mainly attributable to an acceleration in the transport & communications sub-index and an upturn in clothing & footwear prices. Together, these developments more than offset the effects of a decline in the food sub-index and a slower rate of increase in the housing and personal care & health sub-indices (see Table 4.5).

Other notable changes were registered in the beverages & tobacco, the recreation & culture and the other goods & services sub-indices. On account of their relatively low weight, however, these had little effect on the overall index.

The acceleration in the transport & communications sub-index mainly reflected higher fuel prices and costlier telephone services, although higher prices of motor cars and air transport services also contributed. In fact, the year-on-year change in the price of diesel climbed to 16.5% in June, from 13.3% in March, while the year-on-year change in the prices of both unleaded petrol and lead replacement petrol rose to 1.7% and 1.6%, respectively, from the -0.3% recorded three months earlier. Meanwhile, the higher prices of telephone services resulted from a tariff re-balancing exercise.

The year-on-year change in the clothing & footwear sub-index swung from –4.8% in March to 0.3% in June, as a result of more expensive outerwear and footwear.

On the other hand, food prices fell during the quarter, so that the year-on-year change in the food sub-index declined to a negative 0.7% in June, from 1.0% in March. The fall was partly due

[4] Gross value added differs from the GDP by the amount of taxes on products less subsidies on products.

Table 4.5
INFLATION RATES OF COMMODITY SECTIONS IN THE RPI
Year-on-year % changes

	June 2003	March 2004	June 2004
Food	1.4	1.0	-0.7
Beverages & tobacco	5.8	10.3	9.4
Clothing & footwear	-7.0	-4.8	0.3
Housing	6.0	4.2	1.8
Water, electricity, gas & fuels	0.2	0.4	0.4
Household equipment & house maintenance cost	-1.2	1.4	1.4
Transport & communications	-0.2	1.5	4.2
Personal care & health	4.4	6.8	4.2
Recreation & culture	-0.7	0.2	1.4
Other goods & services	2.3	9.2	10.5
All items	**0.8**	**2.3**	**2.7**

Source: NSO.

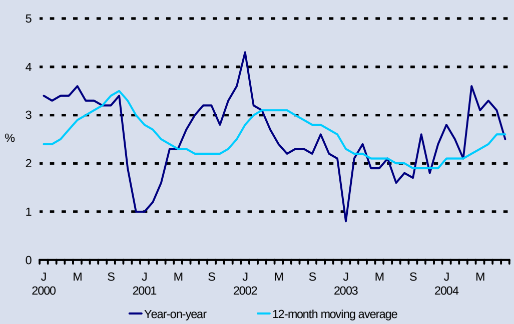
to cheaper fresh fruit & vegetables and cheaper fresh fish, as a result of higher yields/catches. The volume of domestic agricultural produce traded through the wholesale markets during the June quarter was up by 3.4% from last year's level, while fish landings were up by 11.7%. Cheaper imported food following the removal of levies on EU accession also contributed to the decline in food prices during the quarter.

Despite the upward trend in headline inflation, the Central Bank of Malta's measure of core inflation, based on persistence in retail price inflation, fell in the second quarter. This was mainly a result of slower increases in the housing and personal care & health sub-indices.

As measured by the year-on-year change in the harmonised index of consumer prices (HICP), inflation rose from 2.1% in March to 3.2% in June (see Chart 4.2). On a twelve-month moving average basis, inflation rose from 2.1% in March to 2.4% in June. Data for July and August indicate a sharp drop to 2.5% in the year-on-year HICP inflation rate, but the twelve-month moving average rate touched 2.6% in August.

The main factor behind the rise in year-on-year HICP inflation during the second quarter was a sharp acceleration in the rate of change of the restaurants & hotels sub-index, (see Table 4.6), although a sharp acceleration in the communications and clothing & footwear sub-indices also contributed. By contrast, HICP prices of food & non-alcoholic beverages declined during the quarter, mirroring

Chart 4.2
HARMONISED INDEX OF CONSUMER PRICE INFLATION



Source: NSO.

Table 4.6
INFLATION RATES OF COMMODITY SECTIONS IN THE HICP
Year-on-year % changes

	June 2003	March 2004	June 2004
Food & non-alcoholic beverages	1.4	0.5	-1.3
Alcoholic beverages & tobacco	0.5	14.0	13.9
Clothing & footwear	-6.4	-4.9	0.3
Housing, water, electricity, gas & other fuels	4.2	3.1	0.9
Furniture, household equipment & routine maintenance	0.4	2.3	2.3
Health	7.3	9.9	4.8
Transport	2.5	2.6	3.2
Communications	0.3	-0.1	17.3
Recreation & culture	1.9	-1.1	0.1
Education	1.1	4.2	3.6
Restaurants & hotels	8.1	2.0	5.9
Miscellaneous goods & services	1.1	6.3	6.7
All items	**2.2**	**2.1**	**3.2**

Source: NSO.

developments in the corresponding sub-indices of the RPI. At the same time, the rate of change of prices of health and of housing, water, electricity, gas & other fuels decelerated sharply.

The labour market[5]

Labour market data compiled by the ETC indicate a mild pick-up in labour market activity between March and May 2004.[6] During this period, the gainfully-occupied population expanded by 662, while the labour supply increased by 346. As a result, the number of unemployed fell by 316 and the unemployment rate dropped to 5.6%, half a percentage point below its February peak (see Chart 4.3).

While the increase in the gainfully-occupied population between March and May was spread across all the major sectors of the economy, it was mainly concentrated in private market services, particularly in the community & business sub-sector, hotels & catering establishments and the wholesale & retail trades (see Table 4.7). Increased public sector employment was entirely

Chart 4.3
LABOUR MARKET TRENDS

Source: NSO.

[5] The cut-off date for this section was 5 October 2004.
[6] Statistics for June 2004 were not available at the time of writing.

Table 4.7
LABOUR MARKET DEVELOPMENTS
Number of persons

	May 2004	Change from March	Annual change
Labour supply	**145,112**	**346**	**-157**
Unemployed	**8,104**	**-316**	**783**
Unemployment rate (%)	**5.6**	**-0.2**	**0.6**
Gainfully occupied	**137,008**	**662**	**-940**
of which:			
Private direct production	**36,601**	**62**	**-954**
including:			
Agriculture & fisheries	2,285	-2	10
Quarrying, construction & oil drilling	7,049	-10	210
Manufacturing	27,267	74	-1,174
Private market services	**52,688**	**454**	**449**
including:			
Wholesale & retail	16,263	100	407
Insurance & real estate	1,269	-3	51
Transport, storage & communciations	5,958	41	-114
Hotels & catering establishments	8,992	143	-204
Community & business	13,005	156	605
Others	7,201	17	-296
Public sector	**46,779**	**175**	**-350**
including:			
Government departments	30,141	-31	-39
Armed Forces, R.S.C. & Airport Co.	1,643	-15	-26
Government-controlled companies	6,461	22	-746
Independent statutory bodies	8,543	199	461
Temporarily employed	**940**	**-29**	**-85**
Memorandum item:			
Self-employed	15,806	37	227

Source: NSO.

in independent statutory bodies and government-controlled companies, as employment in government departments and the Armed Forces fell. Higher private direct production employment was in turn entirely concentrated in manufacturing, a sub-sector that has been characterised by redundancies for the past six consecutive quarters.

Twelve months ending May 2004

Compared to a year earlier, May's labour supply was down by 157 while the gainfully-occupied were 940 fewer. As a result, unemployment was up by 783 and the jobless rate added 0.6 percentage points. The contraction in the gainfully-occupied population was due mainly to job losses in private direct production and, to a lesser extent, in the public sector. Redundancies from manufacturing numbered 1,174 during the twelve months to May. By contrast, employment in private market services rose, reflecting job creation in the community & business sub-sector and in the distributive trades. The number of self-employed persons also increased during the period.

Meanwhile, the drop of 746 in employment in government-controlled companies and the increase of 461 within the independent statutory bodies were partly the result of the restructuring of the Malta Drydocks and the Marsa shipbuilding yard. With the dissolution of the two enterprises, 450 workers took early retirement, while 1,700 were transferred to the newly set-up Malta Shipyard Ltd. The remaining 450 were either absorbed in the new Industrial Projects and Services Ltd or posted to the civil service and public-private partnerships.

Unemployment in August 2004

More recent data show that the year-on-year decline in employment has been moderating and the year-on-year increase in the number of those registering for work has grown progressively smaller, turning negative in August. The number registering in August stood at 7,953, down by 99 from the year-ago level. The drop in year-on-year unemployment was due to fewer persons on Part One of the unemployment register and mainly involved the under-45 age group and those registering for under 20 weeks. By contrast, there was a significant increase in registrants aged over 45.

Manufacturing[7]

Activity in the manufacturing sector slowed during the second quarter of 2004. Total sales dropped by an estimated Lm8.7 million from the corresponding quarter in 2003, following increases in each of the previous seven quarters. The downward trend in employment in manufacturing observed since the first quarter of 2002 persisted into the second quarter of 2004, while investment in the sector declined after the increases reported in the previous two quarters (see Table 4.8).

The decline in second quarter turnover in manufacturing from the year-ago level was mainly due to reduced sales of clothing and leather items, which were down by Lm3.7 million.[8] Other sub-sectors reporting lower sales included furniture, electrical machinery, food & beverages, and radio, TV & telecoms.

Compared with the second quarter of last year, there were 989 fewer manufacturing jobs, mostly due to redundancies in the clothing & leather sub-sector. Reductions were also reported by firms in the radio, TV & telecoms and in the chemicals sub-sectors. On the other hand, producers of medical and precision equipment continued to add to their workforce. Due to the overall contraction in employment in manufacturing, the sector's gross wage bill contracted by Lm0.9 million over the year. Meanwhile, the 1.8% annual rise in wages per employee was considerably slower than the rate of increase registered in previous quarters.

Following a rise over the previous six months, expenditure by manufacturing firms on capital

7 During the first quarter of 2004, the NSO carried out a re-classification exercise as certain enterprises changed their activity to wholesaling. Therefore not all sub-sectors are strictly comparable over time.

8 The division of sales into their export and domestic components was not available for the second quarter of 2004.

Table 4.8
MANUFACTURING PERFORMANCE: SELECTED INDICATORS[1]

	2003			2004	
	Q2	Q3	Q4	Q1	Q2
Change in total sales (Lm millions)	**9.9**	**9.1**	**9.0**	**7.9**	**-8.7**
of which:					
Clothing & leather	-1.6	-7.3	-1.9	-3.4	-3.7
Electrical machinery	0	-1.1	-0.4	1.8	-2.0
Fabricated metal products[2]	0.2	-1.0	-0.2	-1.5	-0.6
Food & beverages	3.5	0.9	0.1	0.9	-1.0
Furniture	-1.5	-3.2	1.2	0	-2.2
Medical & precision equipment	1.4	0.6	1.5	2.6	1.7
Printing & publishing	0.1	3.2	0.4	0.3	0.5
Radio, TV, telecoms, etc.	2.8	17.0	4.2	2.1	-0.8
Textiles	1.2	-2.0	-1.8	3.2	2.0
Other	3.8	2.0	5.9	1.8	-2.6
Change in net investment (Lm millions)	**1.4**	**-0.3**	**3.5**	**7.5**	**-1.3**
of which:					
Chemicals	0.1	-0.7	1.2	3.9	0.7
Food & beverages	1.7	0.7	2.0	-0.8	-0.4
Plastic & rubber	0	0.2	0	0.2	-1.1
Printing & publishing	0.1	-1.0	0.2	3.9	-1.6
Radio, TV, telecoms, etc.	0.7	0.2	0.8	1.7	-0.8
Other	-1.2	0.3	-0.7	-1.4	1.9
Change in employment	**-986**	**-1,320**	**-1,360**	**-1,577**	**-989**
Change in wage bill (Lm millions)	**1.5**	**0.4**	**-0.1**	**-1.0**	**-0.9**
Change in wages per employee (%)	**10.0**	**7.7**	**6.5**	**4.6**	**1.8**

[1] Figures in this Table represent the change from the same period of the previous year.

[2] The basic metals sub-sector is included with this sub-sector following the reclassification exercise by the NSO.

Source: NSO.

equipment declined during the quarter under review. New investment was down by Lm1.3 million from the year-ago level. Most of the decline was attributable to lower investment by producers of printing and publishing goods. However, firms in the plastic & rubber goods sub-sector as well firms in the radio, TV & telecoms and food & beverages sub-sectors also reported significantly lower levels of investment. By contrast, the chemicals sub-sector and the textiles, furniture and medical & precision equipment sub-sectors (included in the 'other' category in Table 4.8) invested significantly during the three-month period.

Table 4.9
TOURISM ACTIVITY

	2004			
	Q2	Annual growth %	January - June	Annual growth %
Total departures	**306,661**	**2.2**	**471,407**	**0.3**
of which:				
UK	122,800	-1.2	199,383	-1.9
Germany	34,010	-7.9	55,355	-6.7
France	30,196	9.5	38,915	6.6
Italy	19,216	3.8	33,692	10.6
Others	100,439	8.4	144,062	2.4
Expenditure in Lm millions	110.5	-3.2	166.6	-5.5
of which:				
Package	55.9	-1.1	81.7	-4.7
Non-package: airfares	10.7	-10.6	18.0	-6.9
Non-package: accommodation	6.3	-27.4	10.8	-17.5
Other	37.6	1.8	56.1	-3.6

Source: NSO.

Tourism[9]

The departures surveys conducted by the NSO indicate that the number of visitors leaving Malta by air during the June quarter of 2004 was up by 2.2% compared with the same quarter last year, although the number of business travellers grew at a much faster pace of 6.8%. However, the average length of stay declined and tourist expenditure dropped by 6% compared with a year ago. Cruise passenger activity also contracted sharply.

The number of visitors from the UK, Malta's largest source market, declined for the third consecutive quarter. However, the 1.2% drop was moderate compared with those registered in previous quarters. The number of visitors from Germany, Malta's second largest market, was down by 7.9%, and another substantial drop was registered in the number of visitors from Austria (included within the 'other' category in Table 4.9). By contrast, tourists from France, the third largest source market, rose by 9.5%, while Italian tourists also increased, although at a significantly slower pace than in the first quarter. Other noteworthy gains were recorded in the Swedish, Belgian and Norwegian markets, all captured under the 'other' category in Table 4.9.

Accommodation data from the departures surveys show that the average length of stay across all forms of accommodation dropped by 0.4 nights to 9.1 nights during the quarter under review. The largest decline, of 0.7 nights, was reported by five-star hotels. By contrast, the average length of stay in apart-hotels increased by 3 nights.

[9] The analysis is based on the NSO's monthly survey of tourist departures, described in Box 3.

Despite the increased numbers, tourist expenditure during the June quarter, at Lm110.5 million, was down by 3.2% from the previous year's level.[10] Expenditure by non-package tourists on airfares and accommodation accounted for most of the decrease. Expenditure on package holidays was also lower, but much less sharply than spending by non-package tourists. In contrast, all other expenditure rose by 1.8%.

During the quarter under review, cruise passenger arrivals dropped by 36.7% on a year-to-year basis to 74,200. Drops in arrivals from Spain and UK (down by 23,856 and 17,332, respectively) accounted for most of the decrease, although German cruise passengers were also significantly fewer. By contrast, cruise passenger arrivals from France and the US rose substantially.

During the first six months of the year, the number of tourists went up only marginally when compared to the same period of 2003. The 0.3% increase was mainly attributable to larger numbers of visitors from Sweden and Italy, although a rise in tourists from Belgium and France also contributed. In contrast, tourists from Germany and the UK dropped significantly, as did the number of visitors from Libya. Tourists from the Netherlands and Austria were also fewer. Tourists' average length of stay during the first half of 2004, at 9.5 nights, was down by 0.3 nights from the 2003 level. A drop of Lm9.7 million, or 5.5%, was also recorded in tourist expenditure. For the first six months of the year, cruise passenger arrivals were down by 38.1% from a year ago, largely on account of a decline in arrivals from Spain and the UK.

Table 4.10
HOTEL OCCUPANCY AND AVERAGE ACHIEVED ROOM RATE

	2004 Q2	2003 Q2	Annual growth
Hotel Occupancy	%		percentage points
5-star	69	74	-5.0
4-star	72	70	2.0
3-star	71	63	8.0
Average [1]	71	70	1.0
Average Achieved Room Rate	Lm		%
5-star	40.3	36.1	11.4
4-star	14.5	15.3	-5.5
3-star	9.5	10.3	-8.4
Average [2]	17.1	17.4	-1.8

[1] Represents the weighted average of all categories of hotels based on the number of participating rooms in each category.

[2] CBM estimates, weighted by number of nights stayed.

Source: MHRA Hotel Survey (September 2004).

[10] Expenditure by tourists contains elements, such as airfares, that are not necessarily earned by Maltese residents. Therefore, these data differ from travel earnings as reported in the balance of payments.

The quarterly survey carried out by the Malta Hotels and Restaurants Association (MHRA) indicates that hotel occupancy increased by one percentage point to 71% during the June quarter (see Table 4.10). But average achieved room rates for all hotel categories dropped by 1.8%.[11] Three and four-star hotels raised their occupancy rates by 8 and 2 percentage points, respectively, to 71% and 72%, but achieved room rates were down by 8.4% and 5.5%, respectively. Conversely, while occupancy at five-star hotels fell by 5 percentage points to 69%, the achieved room rates in these hotels rose by 11%.

Provisional data for August show that the number of tourists departing by air was up by 3.3% compared with the same month last year. The same percentage increase was recorded in tourist expenditure, largely on account of higher spending in the package and other categories. However, incoming cruise passengers were sharply lower, taking the year-on-year reduction for the first eight months to 33.6%, largely because of reduced traffic from Spain and the UK.

[11] The average achieved room rate represents accommodation revenue, net of VAT, divided by the number of room nights sold.

Box 1: REVISED OUTLOOK FOR 2004

In its *Annual Report* for 2003, the Central Bank of Malta published forecasts for GDP growth and the other main macroeconomic indicators for 2004. The Bank's forecasts are periodically reviewed to take account of new information on domestic and international economic activity. In addition, this year the Bank's forecasts were reviewed to account for the new compilation methodology following the implementation of the ESA 95 framework by the NSO.[1] Thus, the Bank's revised projections for 2004 are not strictly comparable to those presented in the *Annual Report*.

As Table 1 shows, the Bank's forecast for economic growth in 2004 is being revised slightly upwards from the original forecast, mainly on account of an anticipated increase in external demand leading to an improvement in Malta's trade performance. This notwithstanding, growth

Table 1
GDP FORECASTS FOR 2004
% changes

	2003 Actual [1]	2004 Forecast	2004 Revised Forecast [1]
GDP growth at constant market prices	0.2	1.1 - 1.7	1.2 - 1.8
Growth in GDP components at constant market prices			
Private consumption expenditure (incl. NPISH)	1.5	0.2 - 0.8	(1.2) - (0.6)
Government consumption expenditure	2.2	0.1 - 0.7	(4.7) - (4.1)
Gross fixed capital formation	19.0	6.0 - 6.6	7.3 - 7.9
Exports of goods and services	(2.0)	1.3 - 1.9	1.7 - 2.3
Imports of goods and services	7.0	2.2 - 2.8	0.0 - 0.5
Inventory changes and net acquisition of valuables (% of GDP)	2.0	(4.0)	1.5 - 1.9
Unemployment rate LFS (%)	7.4	…	7.7 - 8.0
Inflation rate RPI (%)	1.3	3.3 - 3.7	2.8 - 3.0
Fiscal borrowing requirement (% of GDP)	9.5	5.2 - 5.6	5.3 - 5.5
External goods and services deficit (% of GDP)	5.2	6.6 - 7.2	5.8 - 6.2

[1] Based on ESA 95 methodology.
Note: Figures in brackets indicate negative values.
Sources: Central Bank of Malta estimates; NSO.

[1] ESA 95-compliant real GDP data were published for the first time in August 2004. See NSO News Release No. 153/2004.

is still expected to remain below potential. At the same time, the Bank's inflation forecast has been revised downwards to 2.9%, as the pass-through of the rise in the VAT rate at the beginning of the year has been significantly weaker than previously anticipated.

Real GDP is thus projected to grow by 1.2 – 1.8% in 2004, driven by higher exports and a rise in investment. Stronger demand in Malta's main trading partners is expected to boost exports, especially by the electronics sub-sector, whereas additional public expenditure on capital projects is expected to push up gross fixed capital formation, although a pick-up in private investment, particularly in manufacturing, is also expected.

By contrast, real private consumption expenditure is expected to decline by between 0.6 and 1.2%. This varies from the projection presented in the Bank's *Annual Report*, with the difference mainly stemming from a downward revision in estimated household disposable income following weaker-than-expected employment data. The forecast increase in inflation over 2003 is also expected to dampen real consumer expenditure. Unemployment is projected to peak at 7.7 – 8%, reflecting the weakness in domestic demand as well as continued restructuring. Thus, the household savings ratio is projected to decline. In this regard, the ESA 95 methodology puts household saving in 2004 at around 9% of disposable income, which is a substantially higher savings rate than that obtained using the previous method of computing GDP.

The forecast for Government consumption expenditure has also been revised in the light of recent official information on the first half of the year. The decline of 4.1 – 4.7% partly reflects a fall in public sector employment and tighter control on Government intermediate consumption of goods and services. Thus, on the Bank's estimation, the fiscal deficit is now projected to amount to 5.3 – 5.5% of GDP.

In the external sector, fiscal tightening, together with the decline in private consumption, is likely to dampen the increase in imports to between 0 and 0.5%, which, as can be seen from the Table, is lower than anticipated in the original forecast. Nevertheless, despite the slow growth in imports and the improved export performance in real terms, the external trade balance is expected to deteriorate compared with 2003 due to unfavourable developments in Malta's terms of trade, mainly on account of the steep rise in oil prices. Consequently, the external deficit is now estimated to rise to 5.8 – 6.2% of GDP in 2004. Meanwhile, changes in inventories, which include net acquisitions of valuables, are estimated at 1.5 – 1.9% of GDP.

Box 2: BUSINESS PERCEPTIONS SURVEY - THIRD QUARTER 2004

Introduction

For the third consecutive quarter, nearly half the respondents to the Bank's latest business perceptions survey, carried out in July-August 2004, indicated neutral expectations regarding the economic situation in the next six months. But a greater proportion expected a deterioration rather than an improvement. Conflicting signals, on the other hand, included a favourable evaluation of the attractiveness of undertaking further investment and optimistic turnover forecasts. The survey responses also suggest that weakness in the labour market may persist.

Reviewing the second quarter out-turn, the survey reveals disparate performances between the domestically-oriented and the export-oriented sectors of the economy. Export activity appears to have picked up somewhat during the quarter, but domestically-oriented firms continued to lag behind.

Business sentiment – third quarter 2004

For the third consecutive survey, over 40% of respondents were of the opinion that no major turnaround in general economic activity was likely over the next six months. As for the rest, pessimistic responses outweighed positive ones, and hence the spike in optimism recorded in the previous survey was not sustained (see Chart 1). The swing in sentiment was spread across both export- and domestically-oriented firms. The manufacturing sector, in particular, was generally pessimistic, with its largest sub-sector, machinery and equipment, shifting from moderate optimism to a negative outlook. A similar pattern emerged in the clothing & footwear sub-sector, while in the case of food & beverages the degree of pessimism was even more pronounced than in the previous survey**.** At the same time, responses from the travel and services sector clustered around a no-change scenario, in contrast with the positive outlook expressed in the previous survey.

Activity Levels – second quarter 2004

Turning to firms' evaluation of their own performance, the survey results suggest that in the June quarter export performance was better than in the previous quarters (see Chart 2). In the domestically-oriented manufacturing sub-sectors, however, activity remained subdued.

Chart 1
EXPECTATIONS ABOUT THE ECONOMIC SITUATION OVER THE NEXT 6 MONTHS

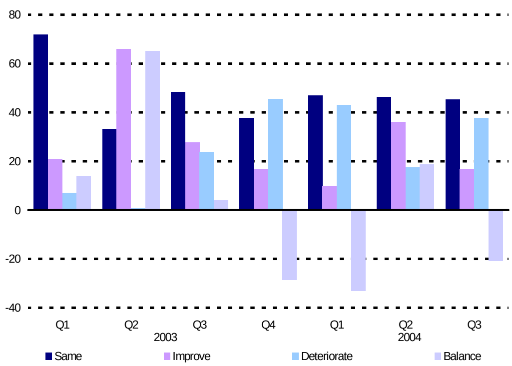
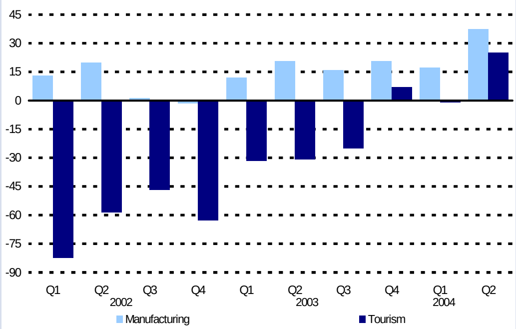
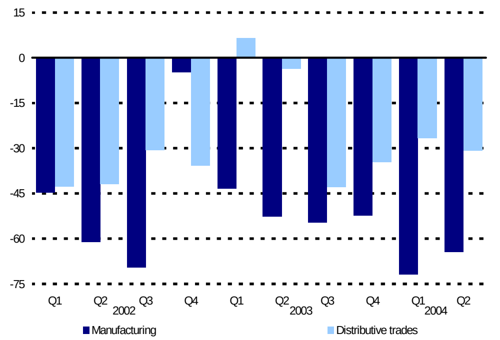


Chart 2
ACTIVITY IN THE EXPORT SECTOR



Figures indicate "above normal" responses net of "below normal" responses.
Results are weighted by export sales.

Chart 3a
ACTIVITY IN THE DOMESTIC SECTOR

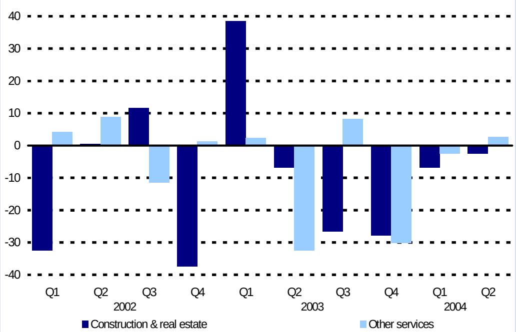


Figures indicate "above normal" responses net of "below normal" responses.
Results are weighted by local sales.

Export-oriented sectors

All exporting sub-sectors of manufacturing industry reported higher second quarter turnover than in the previous three months, with firms in the machinery & equipment sub-sector reporting the fastest growth. Nevertheless, profitability in these sectors was below that recorded in the first quarter as selling prices remained broadly stable while the wage bill of participating firms rose. This latter development reflected both higher employment levels and higher wages. As regards the tourism sector, operators reported positive results and above-normal occupancy rates. But in their case, higher selling prices combined with a larger turnover to improve profitability. This also helped to raise employment and wages within the sector.

Chart 3b
ACTIVITY IN THE DOMESTIC SECTOR



Figures represent "above normal" responses net of "below normal" responses.
Results are weighted by local sales.

Domestically-oriented sectors

Performance in the domestically-oriented sectors varied, although overall a small decline in profitability was reported. Higher selling prices boosted turnover but labour costs also edged up, reflecting both rising employment and higher wages.

Divergent trends were, however, evident between sectors. The food & beverages sector faced an unfavourable economic environment, with lower sales and subdued profitability, which also resulted in some job losses. Nevertheless, the overall balance for domestically oriented manufacturing industry turned marginally less negative due to some pick-up in the paper & printing sector. In contrast, the situation in the distributive trades worsened somewhat, with no operator reporting above normal activity (see Chart 3b). The construction & real estate sector reported a marginal improvement, as the extent of below-normal construction activity was mitigated and this more than compensated for a moderation in real estate activity. Meanwhile, the financial sector continued to expand, generally reporting positive indicators.

Outlook – third quarter 2004

In the export sector, projections for the third quarter broadly follow the second quarter pattern, with a higher turnover and rising employment being anticipated. However, profitability is expected to remain under pressure on account of rising labour costs and the inability of exporting firms to pass on such costs through higher prices. Both manufacturing and tourism firms shared broadly similar perspectives.

On the domestic front, firms were confident of a partial recovery, with financial firms being the more upbeat. Higher sales are projected, with a positive impact on profitability, wages and employment. These firms are not envisaging major price changes, at least in the short term.

Manufacturing firms producing for export generally considered the time suitable for embarking on new business projects, with the clothing & footwear sub-sector being the only exception. By contrast, firms in the tourism sector preferred to wait for improved market conditions. On the domestic front, firms in the distributive trades were cautious, with evenly split opinions. However, this caution was more than offset by the willingness to invest expressed by financial firms and those in the food & beverages sub-sector of manufacturing and in construction.

Firms were quite conservative in their assessment of labour market prospects, with opinions clustered around a no-change to a worsening scenario as regards unemployment. With respect to inflation, respondents expressed similar upside risks, although even in this case opinions were nearly evenly split between a no-change and a possible acceleration scenario.

Methodological Notes

1. The results presented in this Box are derived from a survey carried out between July and August 2004 among 142 companies. This periodic exercise has been conducted since 1995. As much as possible, the sample is kept unchanged between quarters.

2. The surveyed firms employed 17,221 workers (around a quarter of all private sector workers) and had an aggregate annual turnover of Lm539.6 million (around 30% of Malta's GDP), of which just over half was exported.

3. The sample was composed of 54 manufacturing firms, 15 tourism-related enterprises, 33 operators in the distributive trades, 14 construction and real estate concerns, and 26 services companies. Thus, the survey has a more comprehensive coverage of the manufacturing sector relative to other areas of the economy.

4. Replies are weighted according to three different factors - the respondents' relative share of employment, local sales and export sales.

5. To ensure that the overall results do not simply reflect the replies of the largest business concerns, the weight given to any particular firm in terms of turnover is capped at Lm20 million.

6. The survey is somewhat biased towards medium-sized and large firms, with approximately half of all respondents employing more than 50 workers. Thus it may not be indicative of trends affecting smaller firms.

7. Participants are asked about their perceptions of the prospects for the Maltese economy over the next six months and the current state of their activity levels/ order books. They are also asked to indicate the approximate percentage change in employment, profitability, sales, imports, finished stocks, average cost of labour, and selling prices registered during the previous quarter, and to make forecasts for the current one.

8. Every six months, firms are asked about their short-term expectations for inflation and unemployment, and whether they consider the current period to be appropriate to initiate new developments. They are also asked to identify their present level of capacity utilisation/occupancy and whether they intend to invest during the following twelve months. In addition, participants indicate the two most important factors limiting investment and to what extent they think a change in the cost of finance would affect them.

Box 3: CHANGES IN THE COMPILATION OF TOURISM STATISTICS

Contributing around 25% of the Gross National Product and employing almost a third of the gainfully-occupied population, tourism is one of the mainstays of the Maltese economy.[1] Timely and reliable tourism statistics are thus essential to monitor the current performance and future prospects of this high value-added sector for the country.

The NSO has adopted a new methodology to compile tourism data in line with the EU Council Directive 95/57/EC, which sets up an information system of harmonised tourism statistics. As from April 2004, the NSO's Inbound Tourism Survey replaced the previous data collection system, which was based on a head-count of arriving tourists. Monthly and annual data derived from the Survey will henceforth be shown in the Statistical Tables of the Central Bank of Malta's *Quarterly Review*.

The NSO previously collected tourist arrivals statistics on the basis of disembarkation cards, which all non-Maltese nationals were required to fill in upon arrival in Malta. The information collected mainly covered the age, sex, nationality, type of accommodation and length of stay of tourists. Following Malta's accession to the EU, nationals of EU Member States, which include Malta's main tourist markets, were no longer required to fill in disembarkation cards. Consequently, this source of statistics was replaced by the new information system. The last tourist arrival statistics based on the old system were published for March 2004.

The NSO introduced the Inbound Tourism Survey, also known as Tourstat, in 2001, with the aim of providing an alternative method of measuring tourist flows to Malta. Apart from meeting EU requirements, the Survey also satisfies World Tourism Organisation and United Nations guidelines on the compilation of tourism statistics.

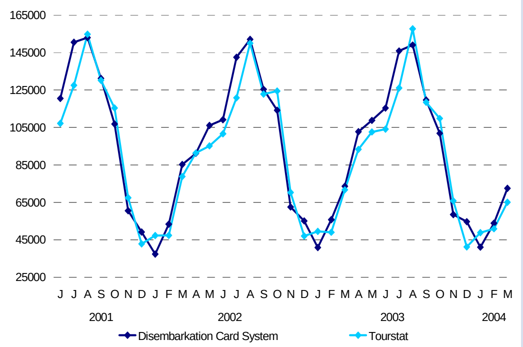
Tourstat is an ongoing survey of departures, carried out on a daily basis. A sample of passengers is systematically chosen, for example, every twentieth passenger. All departing passengers passing through passport control are eligible for the survey. A random sample of around 4,000 passengers is selected monthly to ensure that results fall within a reasonable margin of error. To guarantee better response rates, face-to-face interviews supplement questionnaires that are available in various languages.

Data collected through this survey include the nationality, country of residence, final destination, purpose, frequency of visits, number of nights stayed, locality in Malta stayed at longest, organisation of trip, type of accommodation and transport, expenditure (package/non-package/other), and age and sex of non-residents. The results of the Survey are published on a monthly basis, with a time series that commenced in June 2001. The Survey was later also launched at the seaport.

In order to compare and fine-tune the estimates derived from the Inbound Tourism Survey, the disembarkation card system was retained until March 2004. Chart 1 illustrates tourist arrivals by air compiled from disembarkation cards and tourist departures by air derived from Tourstat. In June 2001, for instance, an estimated 107,161

[1] Estimates are based on a study carried out by the Malta Tourism Authority entitled *The Economic Impact of Tourism in Malta* (2000).

Chart 1
TOURIST MOVEMENTS BY AIR



tourists departed from Malta by air, compared to the 120,475 tourist arrivals recorded through the disembarkation card system, representing a discrepancy of 13,314. By March 2004, when the card system was last used, the gap amounted to 7,432. Although the figures obtained from both systems generally follow the same trend, data discrepancies were continuously recorded. On average, the number of arrivals captured through the disembarkation card system exceeded that recorded via Tourstat, with a mean difference of around 3%.

These divergences are thought to arise from two main factors. First, while the card system was a head-count of tourists arriving in Malta, the Survey provides estimates based on a sample of departures. Second, given that the month of departure of some tourists may differ from the month of arrival, further monthly divergences occur. Because the monthly sample sizes are smaller than the annual sample, the margin of error of any survey on a monthly basis is higher than that for the annual total departures.

The introduction of the Inbound Tourism Survey allows the NSO to continue collecting data on tourists from the EU following the abolition of border controls. It has also resulted in the publication of a wider range of data, including information on spending, permitting a better analysis of this vital sector.

5. THE BALANCE OF PAYMENTS AND THE MALTESE LIRA

A narrower merchandise trade gap, combined with increased surpluses on the income and services accounts, produced a smaller deficit in the current account in the second quarter of 2004, compared to the same quarter of 2003. Excluding movements in international reserves, net inflows in the capital and financial account turned into net outflows during the quarter, while official reserves declined.

During the second quarter, the Maltese lira remained stable against the euro while gaining ground against the Japanese yen and the pound sterling. On the other hand, it depreciated marginally against the US dollar. In the third quarter of the year, the Maltese lira rose against the dollar while it appreciated further against both the yen and the pound.

The current account

Compared with the corresponding three months of 2003, the current account deficit fell by Lm18.4

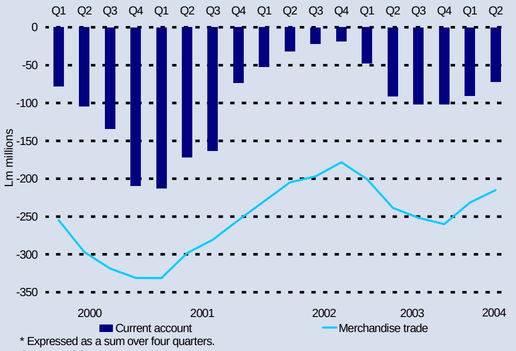
Table 5.1
EXTERNAL BALANCES (APRIL - JUNE)[1]

Lm millions

	Q2			
	2003		2004	
	Credit	Debit	Credit	Debit
Current account balance		**24.6**		**6.2**
Goods and services	362.4	388.0	356.8	365.5
Goods balance		75.6		59.4
Goods	236.7	312.3	231.1	290.5
Services balance	50.1		50.7	
Services	125.8	75.7	125.7	75.0
Transport	32.9	36.3	36.0	37.0
Travel	69.5	17.8	66.1	16.8
Other services	23.4	21.6	23.6	21.2
Income (net)	0.6		10.9	
Current transfers (net)	0.3			8.4
Capital and financial account balance[2]	**37.2**			**9.6**
Capital account balance	1.0		6.5	
Financial account balance	36.2			16.1
Direct investment	0.7		21.9	
Portfolio investment		131.0	43.9	
Financial derivatives	0			4.9
Other investment	166.5			77.0
Movements in reserves[3]		**43.4**	**27.1**	
Net errors and omissions	**30.7**			**11.3**

[1] Provisional.
[2] Excludes movements in official reserves.
[3] Excludes revaluation adjustments.
Source: NSO.

Chart 5.1
CURRENT ACCOUNT BALANCE*



* Expressed as a sum over four quarters.
Source: NSO.

million to Lm6.2 million. From a longer perspective, the current account deficit, measured as a moving sum of four quarters, declined for the second successive quarter as the merchandise trade gap continued to narrow while the surplus on services widened (see Chart 5.1).[1]

Goods

The goods balance narrowed in the second quarter by Lm16.2 million to Lm59.4 million. Imports fell by Lm21.8 million, outweighing a Lm5.5 million decline in exports. The drop in exports was due mostly to reduced sales of beverages and tobacco and of products in the miscellaneous manufactured category.

Services, income and transfers

Despite a reduced positive balance on the travel account, the surplus on services widened marginally to Lm50.7 million. Travel receipts, which had grown in 2003 and through the first quarter of 2004, contracted over the second quarter. On the other hand, transport receipts were higher.

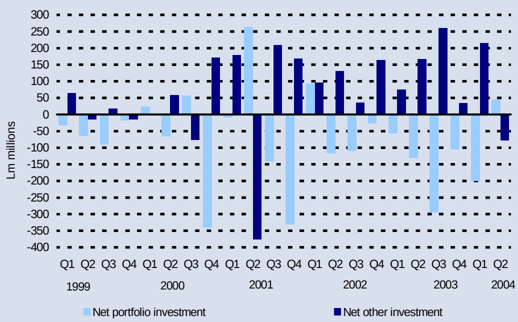
The surplus in the income account also increased in the second quarter, from Lm0.6 million to Lm10.9 million because of losses registered by foreign-owned firms operating in Malta.[2] In fact, second quarter profits of Lm24.9 million in 2003 turned into a loss of Lm1 million in 2004. This outweighed lower net interest receipts by the banking sector from its foreign investments.

The capital and financial account

The capital and financial account, excluding movements in reserves, recorded net outflows of Lm9.6 million in the second quarter of 2004 as opposed to net inflows of Lm37.2 million in the same quarter of 2003. This account is generally characterised by large, usually offsetting, movements in the portfolio and other investment accounts that reflect the activities of resident banks that operate principally in international markets (see Chart 5.2).

The shift in the capital and financial account balance during the quarter reviewed was due to the other investment component, which swung from a net inflow of Lm166.5 million in the second

Chart 5.2
PORTFOLIO AND OTHER INVESTMENT FLOWS



A positive (negative) number indicates a net inflow (outflow)

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1 First quarter BOP figures were revised, contributing to the drop in the cumulative current account deficit.

2 The income account records the profit earned by a resident firm that is a subsidiary of a foreign firm as an outflow. If these profits are ploughed back into the subsidiary, they appear as an inflow in the capital and financial account. On the other hand, when the foreign-owned subsidiary makes a loss, it shows up as an inflow in the income account.

quarter of 2003 to a net outflow of Lm77 million. This is explained by higher loans issued by resident banks to foreign parties. On the other hand, the portfolio investment account, which had recorded net outflows over the previous two years, swung into surplus in the second quarter of 2004.[3] In previous years, net portfolio outflows were due essentially to increased fixed-income asset holdings by Maltese residents. However, in the second quarter of 2004, the accumulation of such assets slowed considerably. In addition, the acquisition by foreign investors of shares in a resident bank contributed to a substantial inflow.

Meanwhile, direct investment inflows increased to Lm21.9 million from Lm0.7 million. Greater borrowing by subsidiaries from their parent companies abroad marked the second quarter of

Table 5.2

EXTERNAL BALANCES (JANUARY - JUNE)[1]

Lm millions

	Q1-Q2			
	2003		2004	
	Credit	Debit	Credit	Debit
Current account balance		**67.4**		**37.6**
Goods and services	674.1	750.5	679.6	705.2
Goods balance		137.7		92.9
Goods	461.3	599.0	467.5	560.4
Services balance	61.2		67.4	
Services	212.8	151.5	212.0	144.7
Transport	54.1	71.4	55.1	66.9
Travel	113.5	35.0	112.4	34.7
Other services	45.1	45.1	44.5	43.1
Income (net)	15.1		3.9	
Current transfers (net)		6.0		16.0
Capital and financial account balance[2]	**59.5**		**22.4**	
Capital account balance	1.3		6.7	
Financial account balance	58.2		15.8	
Direct investment	4.0		32.0	
Portfolio investment		186.6		154.7
Financial derivatives	0		0.8	
Other investment	240.9		137.7	
Movements in reserves[3]		**45.2**	**29.4**	
Net errors and omissions	**53.1**			**14.2**

[1] Provisional.
[2] Excludes movements in official reserves.
[3] Excludes revaluation adjustments.
Source: NSO.

[3] Beginning in 2004, a new category, 'financial derivatives' is being shown as a separate category of the financial account. Flows related to financial derivatives were formerly included with portfolio investment. During the quarter reviewed these flows were relatively small.

2004, in contrast with the net repayment of such credits in the same quarter of 2003.

As a result of these developments, the official reserves dropped for the third consecutive quarter. While the Lm27.1 million decline was the largest quarterly drop since 2000, more recent data show that reserve assets subsequently increased over the summer months.

Year-to-date developments

During the six months to June, the deficit on the current account narrowed by Lm29.8 million to Lm37.6 million. This was primarily due to developments in the merchandise trade gap. Having widened in 2003, the gap narrowed to Lm92.9 million in the first half of 2004 from Lm137.7 million, as a Lm38.6 million drop in imports was coupled with a Lm6.2 million increase in exports (see Table 5.2).

Although machinery and transport equipment exports grew at a slower pace than in the second half of 2003, this category was still the primary source of export growth. At the same time exports of chemical goods retained their upward momentum.

Another contributor to the reduced current account deficit was the surplus on services, which widened by Lm6.2 million to Lm67.4 million as a result of reduced payments for transport and for miscellaneous business services. Conversely, also within the services account, the surplus on travel dropped, although only marginally, to Lm77.8 million, as a result of a 1% fall in travel receipts.

On the other hand, lower interest receipts and increased interest payments led to a smaller surplus on income while the deficit in current transfers widened.

Net inflows on the capital and financial account, excluding movements in official reserves, fell by more than a half in the first half of 2004 to Lm22.4 million from Lm59.5 million in the previous comparable period. This was partly due to a drop in net inflows from other investment as resident banks increased their lending to non-residents. At the same time, net portfolio outflows dropped from Lm186.6 million to Lm154.7 million. Conversely, net direct investment inflows continued to increase, from Lm4 million to Lm32 million, mainly because retained earnings rose by Lm33 million.

The Maltese lira

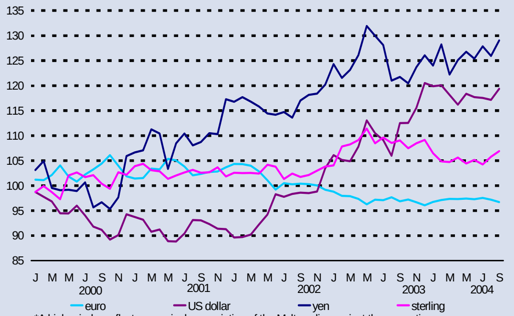
Between March and June 2004, the Maltese lira remained generally stable against the euro, as the limited movement of the European unit in

Table 5.3

MALTESE LIRA EXCHANGE RATES AGAINST SELECTED CURRENCIES

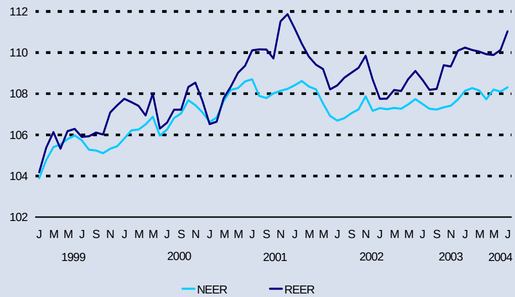
Period	euro/Lm	US$/Lm	stg/Lm	yen/Lm
Average for Q2 2004	2.3506	2.8318	1.5674	310.5
Average for Q2 2003	2.3395	2.6588	1.6417	315.1
% change	0.5	6.5	-4.5	-1.5
Closing rate on 30.06.2004	2.3457	2.8517	1.5747	310.5
Closing rate on 30.03.2004	2.3471	2.8628	1.5685	302.7
% change	-0.1	-0.4	0.4	2.6

Chart 5.3
EXCHANGE RATE MOVEMENTS OF THE MALTESE LIRA AGAINST SELECTED CURRENCIES*
(index of end-of-month rates, end-1999 = 100)



*A higher index reflects a nominal appreciation of the Maltese lira against the respective currency.

Chart 5.4
REAL AND NOMINAL EFFECTIVE EXCHANGE RATE INDICES FOR THE MALTESE LIRA
(1995 = 100)



international markets was further reinforced by the large weight of the euro in the currency basket (see Table 5.3). Meanwhile, the Maltese lira declined against the US dollar, halting the trend appreciation that had commenced in 2002. On the other hand, the lira rose moderately, by 0.4% against the pound and by 2.6% against the Japanese yen.

The average value of the lira in terms of US dollars during the second quarter was higher than in the corresponding quarter of the previous year, though the increase was less than in previous quarters. On the same basis, the lira remained broadly stable against the euro, while it weakened sharply against sterling, and to a lesser extent against the yen.

The nominal effective exchange rate of the Maltese lira (NEER) ended June at 0.1% below its end-March rate. This marginal drop reflected the depreciation of the Maltese lira against the dollar. At the same time, the real effective exchange rate (REER) increased by 0.1% as the depreciation of the Maltese lira was outweighed by a wider inflation differential: second quarter inflation in Malta exceeded that in competing countries and in trading partners.[4] In July, the NEER index edged up by 0.2% while the REER rose by a further 0.8%.

[4] The index covers twenty-five countries and uses double weights, allowing for the importance of competitor countries in foreign markets. Consumer price indices are used as a measure of prices.

6. GOVERNMENT FINANCE

In the second quarter of 2004, the deficit on the Consolidated Fund was lower than in the same period last year (see Chart 6.1). Increased revenue, coupled with a small fall in expenditure, gave rise to the reduction in the deficit. Similarly, during the first half of the year the deficit on the Consolidated Fund narrowed by Lm16.2 million, to Lm97.4 million. This reflected revenue growth, partly due to one-off factors, and stable public expenditure. The primary balance, which excludes interest payments from expenditure, improved, also indicating a less expansionary fiscal stance in 2004.

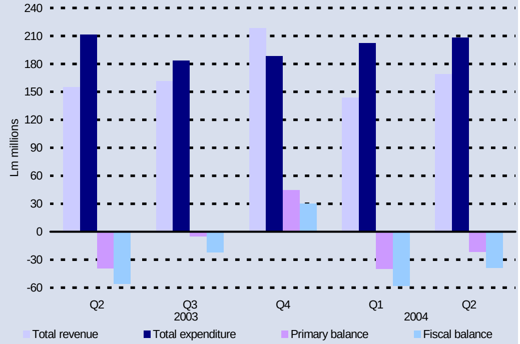
However, the pace of fiscal consolidation subsequently slowed as expenditure picked up. Data for the first eight months place the Consolidated Fund deficit at Lm112.8 million, or Lm13.4 million less than that recorded during the same period of 2003.

Revenue

During the first six months of 2004, revenue was Lm16.7 million, or 5.6%, more than that raised during the same period of 2003 with the bulk, amounting to Lm14.4 million, collected from indirect taxes (see Table 6.1). Malta's accession to the EU on 1 May 2004 led to noticeable shifts in revenue patterns, with a drop in import and excise duties, a temporary fall in VAT due to a new regime for VAT collection and increased inflows of grants.

Temporary measures accounted for around half the increase in indirect tax revenue. In particular, the Government received a Lm5 million licence payment in relation to the privatisation of national lottery operations and an additional Lm2.9 million in VAT collected from a temporary scheme to register yachts. Higher duty on documents on transfers of immovable property and the

Chart 6.1
GOVERNMENT FISCAL PERFORMANCE



Source: The Treasury.

increased standard VAT rate also contributed to the overall rise in indirect tax revenue. The revenue impact of the higher VAT rate was, however, contained since after EU accession this tax is no longer being collected on importation, but at the later retail stage. Meanwhile, the removal of duties on EU products led to a lower intake from customs and excise duties.

Direct taxes increased by just Lm3.4 million, or 2.6%. Revenue from income tax rose, on account of a higher intake from taxes on capital gains. However, the subdued performance in the labour market lowered social security contributions. Revenue from non-tax sources remained practically stable as lower profits transferred from the Central Bank of Malta were almost entirely matched by grants received from the EU.

Expenditure

Expenditure during the first half of the year was virtually unchanged, compared with the same period of 2003, as a drop in capital expenditure compensated for higher recurrent spending.

Recurrent expenditure increased by Lm11 million, or 3.1%. The programmes and initiatives category, which mainly consists of pensions and other welfare benefits, accounted for almost the entire rise in recurrent spending. In particular, payments

Table 6.1
GOVERNMENT BUDGETARY OPERATIONS

Lm millions

	2003 Q2	2004 Q2	2003 Q1-Q2	2004 Q1-Q2	Change Amount	Change %
Revenue	**155.1**	**168.9**	**296.1**	**312.8**	**16.7**	**5.6**
Direct tax	**81.8**	**85.0**	**128.9**	**132.2**	**3.4**	**2.6**
Income tax	49.9	53.0	72.3	77.5	5.2	7.2
Social security contributions[1]	31.9	31.9	56.6	54.8	-1.8	-3.2
Indirect tax	**63.6**	**62.7**	**123.4**	**137.8**	**14.4**	**11.6**
Value Added Tax	28.3	30.0	55.9	63.6	7.7	13.8
Customs and excise duties	15.1	11.8	28.8	26.4	-2.4	-8.3
Licences, taxes and fines	20.1	20.8	38.7	47.8	9.0	23.3
Non-tax revenue	**9.7**	**21.2**	**43.9**	**42.8**	**-1.0**	**-2.4**
Central Bank of Malta profits	0.0	3.2	24.8	18.2	-6.6	-26.4
Other revenues[2]	9.7	17.9	19.1	24.6	5.5	28.9
Expenditure	**211.2**	**208.1**	**409.8**	**410.3**	**0.5**	**0.1**
Recurrent expenditure[1]	**184.7**	**182.6**	**350.8**	**361.8**	**11.0**	**3.1**
Personal emoluments	49.8	45.6	98.5	93.0	-5.5	-5.6
Operational and maintenance	12.5	12.8	28.4	28.5	0.1	0.2
Programmes and initiatives	84.6	84.9	153.8	164.4	10.6	6.9
Contributions to entities	21.3	21.8	38.1	40.0	1.8	4.8
Interest payments	16.4	17.3	31.7	35.6	3.9	12.2
Other expenditures	0.1	0.2	0.3	0.3	0.1	29.3
Capital expenditure	**26.5**	**25.4**	**59.0**	**48.5**	**-10.5**	**-17.8**
Primary balance[3]	**-39.6**	**-21.9**	**-82.0**	**-61.9**	**20.1**	**24.5**
Consolidated Fund balance[4]	**-56.1**	**-39.2**	**-113.7**	**-97.4**	**16.2**	**14.3**

[1] Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.
[2] Includes grants but excludes revenue from sale of assets and sinking funds of converted loans.
[3] Revenue less expenditure excluding interest payments.
[4] Revenue less expenditure.
Source: The Treasury.

to compensate households for the increased standard VAT rate, Malta's contribution to EU own resources and additional social security benefits, amounted to Lm6.6 million, Lm3.1 million and Lm2.4 million, respectively. Meanwhile, contributions to entities rose by Lm1.8 million, reflecting transfers to the Drainage Directorate, which previously formed

Table 6.2

CENTRAL GOVERNMENT DEBT[1]

Lm millions

	2003			2004	
	Q2	Q3	Q4	Q1	Q2
Balance on the Consolidated Fund	**-56.1**	**-22.1**	**30.4**	**-58.2**	**-39.2**
Changes in					
Gross central Government debt	**53.3**	**21.9**	**50.6**	**19.9**	**53.5**
Malta Government stocks	0	43.1	30.0	0	48.0
Treasury bills	23.3	-21.1	-18.7	20.7	6.8
Local loans	0	0	41.8	0	0
Foreign loans	30.0	-0.1	-2.4	-0.8	-1.3

[1] Excluding extra-budgetary units.

Sources: Central Bank of Malta; The Treasury.

part of the Government's departmental structure. Higher transfers to Industrial Projects and Services Ltd, which was set up last year to absorb surplus labour after the restructuring of the shipyards, and the Malta College of Arts, Science and Technology were offset by lower outlays to Malta Shipyards Limited. Interest payments also increased, rising by almost Lm4 million, as the outstanding stock of debt expanded.

In contrast, personal emoluments were Lm5.5 million less than in the first six months of 2003. Around half the drop was attributable to the reclassification mentioned above. Moreover, a shift in the timing of Government wage and salary payments lowered expenditure on personal emoluments during the first half of the year. These factors offset the upward pressure on personal emoluments arising from annual increments and increases awarded in terms of the civil service collective agreement.

Capital expenditure, which had expanded sharply during the first half of 2003, declined by Lm10.5 million, reflecting lower subsidies to the shipyards and reduced outlays on the new Government hospital and on roads.

Government debt and financing operations

During the second quarter of 2004, the Government financed its operations by issuing both long-term and short-term debt. The Government issued stocks amounting to Lm48 million (see Table 6.2). An additional Lm6.8 million were raised through the issue of Treasury bills. On the other hand, foreign loans declined by Lm1.3 million as a result of repayments. Overall, the outstanding level of gross central Government debt thus rose by Lm53.5 million to Lm1,333 million at end-June.[1] Following the issue of additional stocks, the level of gross central Government debt increased to Lm1,351.1 million by the end of August.

Domestic long-term debt securities account for most of the Government debt outstanding,

[1] These data exclude debt contracted by extra-budgetary units that form part of central Government, and by local Government. Local Government borrowing from banks amounted to Lm0.7 million in June 2004.

indicating that the Government's exposure to movements in interest rates and exchange rates is contained. At the end of June, Malta Government stocks outstanding amounted to Lm960.9 million, or 72.1% of the total outstanding. Treasury bills outstanding amounted to Lm259.8 million, while foreign loans and domestic loans totalled Lm70.5 million and Lm41.8 million, respectively.

7. FINANCIAL STABILITY ANALYSIS

The banking system[1]

Financial and macroeconomic risks to financial stability decreased somewhat during the first six months of 2004. Although the demand for credit by the corporate sector remained subdued, credit risk eased. On the other hand, households continued to borrow from the banks, thus remaining the main driving force behind credit growth over the period.

Despite the fact that official interest rates were left unchanged throughout the period, the banking system reported downward pressure on its net interest income, leading the banks to diversify their sources of income to non-interest income-generating activities.

At the same time, credit institutions continued to take measures to improve the quality of their assets. This focus resulted in a decline in the level of non-performing loans[2], with loan-loss provisions being adjusted accordingly. Secured lending remained predominant, and the concentration of real estate in the collateral portfolio remained relatively high. The banking system's capital base continued to strengthen, enabling the banks to better withstand unexpected shocks. Liquidity in the system remained high, boosted by a further rise in deposit liabilities.

The gradually improving economic environment should continue to lessen overall financial stability risks. It is expected that during 2004 the banking system will continue to perform satisfactorily, particularly with respect to overall net income and asset quality. This is already evident in the six-monthly figures published by domestic banks listed on the Malta Stock Exchange (MSE).

Structural developments

As Malta joined the EU in May 2004, further EU laws and regulations were introduced at the domestic level. Some of these have implications for financial stability. Thus, the Financial Conglomerates Directive, which was to come into force in all EU Member States by August 2004, is expected to enhance the soundness and effective supervision of financial conglomerates across borders.[3] This will contribute positively to overall financial stability and will further secure the protection of depositors, insurance policy holders and investors. Within the EU, the adoption of Basel II, which will be introduced under the Capital Adequacy Directive (CAD) III, is also expected to contribute to financial stability due to the significant changes to regulatory regimes that it will bring about.[4]

At the domestic level, the regulation on European Single Passport Rights came into force on 1 May 2004.[5] These regulations give credit institutions in any EU Member State the right to open branches or provide services in other member countries. At the same time, the regulation gives the right to financial institutions established elsewhere in the European Union to operate in

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1 In this chapter, reference is made to the *banking system*, which includes all banks authorised under the Banking Act, and the *domestic banks* which, although included in the banking system, are referred to separately on account of their greater significance for domestic financial stability.

2 Non-performing loans (NPLs) are loans and advances on which repayment is overdue by 90 days and facilities considered as doubtful.

3 European Union Directive 2002/87/CE.

4 Basel II is a major revision of the international standard on bank capital adequacy that was introduced in 1988. It aligns the capital measurement framework with sound contemporary practices in banking and promotes improvements in risk management, thus enhancing financial stability.

5 Legal Notice 88 of 2004.

Malta. Indeed, a number of institutions from other EU Member States have notified the MFSA of their intention to start offering financial services in Malta. This should result in enhanced competition in the sector. The regulation, and the prospective EU Directive on the Single European Company, is relevant from a financial stability point of view, since, as a result of the home/host country supervisory framework, they have implications for cross-border co-operation in crisis management situations. To this effect, the regulations on the reorganisation and winding-up of credit institutions specified in Directive 2001/24/EC of the European Parliament and of the Council were also brought into force in Malta in May 2004.[6]

Furthermore, in June 2004 the Central Bank of Malta and the MFSA, together with the other nine new EU Member States, signed two Memoranda of Understanding (MoUs), one on co-operation in crisis management and the other on co-operation and the exchange of information in the operations of payment systems within the ESCB.

Liquidity

Adequate liquidity is essential for the soundness of the financial system and the smooth running of the payment system. The domestic banking system is characterised by excess liquidity, which is the difference between structural liquidity and reserve deposits.

The liquidity position of the banking system, as indicated by the liquid asset ratio, comfortably exceeds the minimum level established by the regulatory authority.[7] As Chart 7.1 shows, the liquid asset ratio for the banking system as a whole at the end of June stood at 53%, 1.5 percentage points lower than at the end of December 2003. Over the same period, the liquid asset ratio of the domestic banks increased by nearly one percentage point to 47.1%.

The proportion of liquid assets to total assets for both the banking system as a whole and for the domestic banks rose marginally during the first six months of 2004, ending June at 24.2% and 21.1%, respectively (see Chart 7.1).

Chart 7.1
LIQUDITY RATIOS

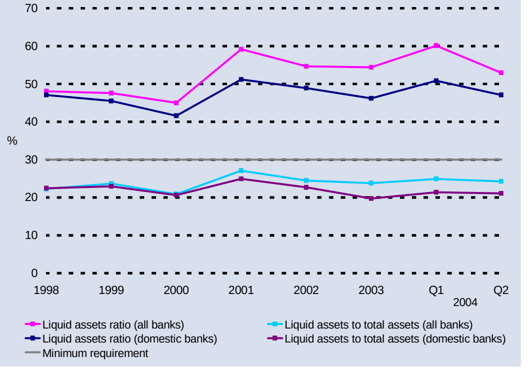
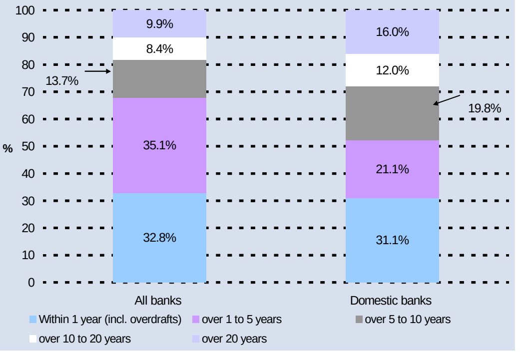


Chart 7.2a
MATURITY STRUCTURE OF LOANS
June 2004



6 Legal Notice 228 of 2004.
7 The minimum liquid asset ratio is set at 30% and is defined in terms of Banking Directive BD/05 as the proportion of eligible liquid assets to eligible short-term liabilities. This does not apply to foreign branches operating from Malta.

Chart 7.2b
MATURITY STRUCTURE OF DEPOSITS
June 2004

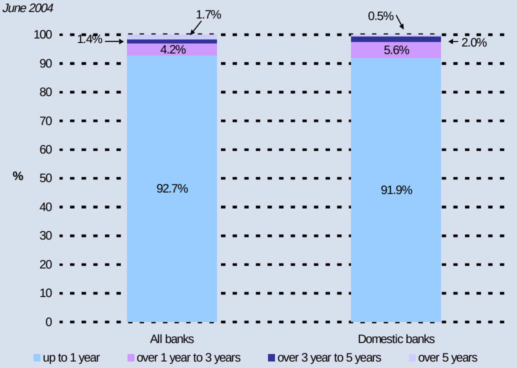
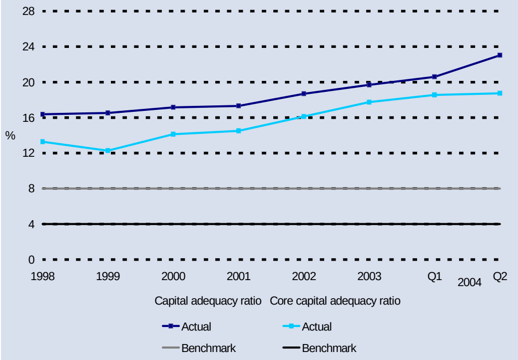


Chart 7.3a
CAPITAL ADEQUACY POSITION (ALL BANKS)



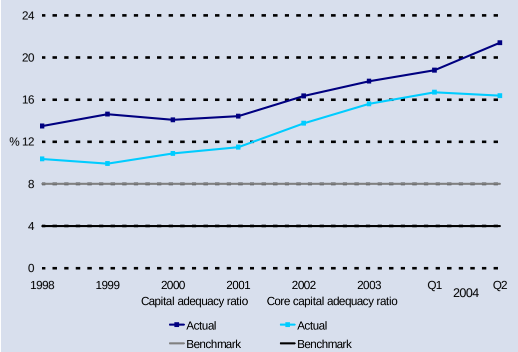
The maturity profile of loans and deposits is another useful gauge of the liquidity risk borne by credit institutions. As observed in past years, the largest proportion of loans, equivalent to nearly 33% of the total, have a term to maturity of less than one year. But the same applies to over 90% of deposits held by credit institutions.[8] This maturity mismatch may indicate a degree of liquidity risk, despite the strong liquidity position described above. However, it should be noted that most bank deposits are personal deposits, and these tend to be small and less volatile than corporate and interbank deposits.

Capital adequacy

For a number of years the banking system has been characterised by a strong capital base, as indicated by its high capital adequacy ratio (CAR). This ratio stood at 23% in June 2004 as against the regulatory requirement of 8% (see Chart 7.3a). Over the first six months of 2004, the CAR increased significantly, reflecting a drop in risk-weighted assets coupled with a rise in the banks' own funds. This strong capital base is further reinforced by the fact that it is composed mainly of original own funds.[9] Indeed, the banks' core capital adequacy ratio (CCAR), at 18.8%, exceeds significantly the minimum benchmark of 4% set by the competent authority.[10] The same applies to the domestic banks, which at the end of June 2004 had a CAR of 21.4% and a CCAR of 16.4% (see Chart 7.3b).

The increase in total own funds during the first six months of 2004 was largely due to the issue of perpetual cumulative preference shares by one of

Chart 7.3b
CAPITAL ADEQUACY POSITION (DOMESTIC BANKS)



8 With the introduction of the new prudential returns, the classification of the various maturity buckets of deposits has been revised. Moreover, as from December 2003, inter-branch deposits have been included with other deposits in the calculations of the maturity structure of credit institutions' deposit liabilities.

9 Original own funds consist mainly of equity capital and reserves.

10 The core capital adequacy ratio is calculated by dividing original own funds by risk-weighted assets.

Table 7.1
CAPITAL ADEQUACY POSITION (June 2004)

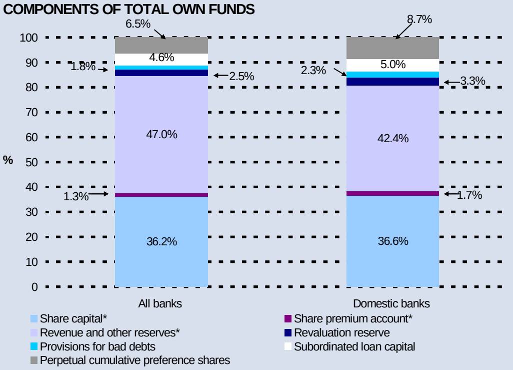
Lm millions

	Original own funds	Total own funds	Risk-weighted assets	CCAR	CAR
All banks	565	694	3012	18.7%	23.0%
Domestic banks	398	520	2431	16.4%	21.4%

the domestic banks. As Chart 7.4 shows, these preference shares accounted for 6.5% of total own funds for the banking system as a whole and 8.7% of the domestic banks' own funds. The structure of the own funds of the domestic banks is comparable to that of the banking system as a whole, with share capital and revenue and other reserves being in both cases the largest components of the total.

The strengthening of the banking system's capital base, coupled with a decrease in risk-weighted assets, resulted in an improvement in the stress-adjusted CAR.[11] Stress-test analysis indicates that, even in the case of large defaults, the capital adequacy ratio of credit institutions would still remain above the required minimum level.

Chart 7.4
COMPONENTS OF TOTAL OWN FUNDS



* Net of deductions

Balance sheet growth

Balance sheet structure

Despite the slight pick-up in the domestic economy observed in the first half of 2004, the aggregate balance sheet of the banking system grew at a slower pace than in the previous six months. By June 2004, the banking system's aggregate balance sheet expanded by 6%, which was less than half the growth rate reported during the full financial year of 2003.

The banks' loan portfolio (including interbank lending), which at 49.5% accounted for the largest component of the banks' total assets in June 2004, stood 3.2 percentage points higher than the proportion reported at the end of 2003. This increase was largely attributable to interbank lending, arising mainly from a single large transaction between a bank subsidiary in Malta and its parent bank overseas.

Net of interbank lending, the banking sector's loan portfolio as a proportion of total assets decreased marginally, by 0.2 percentage points, during the first half of 2004, despite an increase in absolute terms. The same trend was observed in the balance sheet composition of the domestic banks (see Chart 7.5).

The proportion of the fixed income securities portfolio increased marginally, both for the

[11] The domestic banks' capital base is stress-tested periodically, taking into account losses that could result from increases in non-performing loans, interest rates and other market risks.

Chart 7.5
ASSET PORTFOLIO COMPOSITION

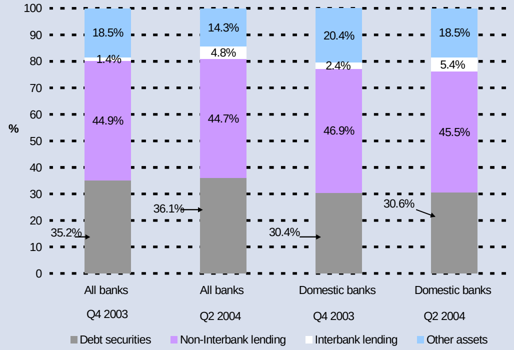
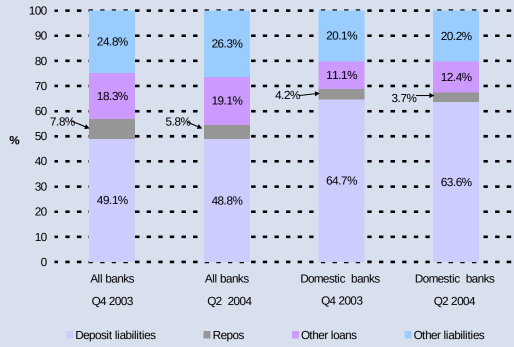


Chart 7.6
LIABILITIES PORTFOLIO COMPOSITION
(June 2004)



banking system as a whole and for the domestic banks. At end-June 2004, fixed-income securities accounted for 36.1% of total bank assets and 30.6% of the assets of the domestic banks, up from 35.2% and 30.4%, respectively, in December 2003.

On the liabilities side, deposits accounted for 48.8% of total bank liabilities, down from 49.1%[12] in December 2003, despite the increase in deposits in absolute terms. This increase amounted to Lm222 million for the banking system as a whole, of which around Lm70 million was due to interbank transactions. The domestic banks generally have a greater proportion of deposits, which were equivalent to 63.6% of their total liabilities as at end-June 2004 and 64.7% as at end-December 2003. During the first six months of 2004, the domestic banks reported an increase of around Lm100 million in deposits. Deposits with a term-to-maturity of less than one year accounted for 92% of the total, while 38% were denominated in foreign currency.

The other items making up the liabilities side of the banks' balance sheet remained relatively stable, both for the banking system as a whole and for the domestic banks, with the exception of sale/repurchase agreements (repos), which decreased by a larger proportion for the total banking system than for the domestic banks. As Chart 7.6 shows, at end-June 2004 repos accounted for 5.8% of the liabilities of the banking system as a whole, but for only 3.7% of the liabilities of the domestic banks.

Sectoral loan concentration[13]

During the first six months of 2004, the loan portfolio of the entire banking system grew by 10.4%, while that of the domestic banks grew by 8.1%. An increase in lending to resident households and to non-resident banks was the main driving force behind the expansion in both cases. However, in recent years banks have increasingly diversified their balance sheet structure by shifting assets from their loan portfolio to fixed income securities, partly to mitigate interest rate risks.

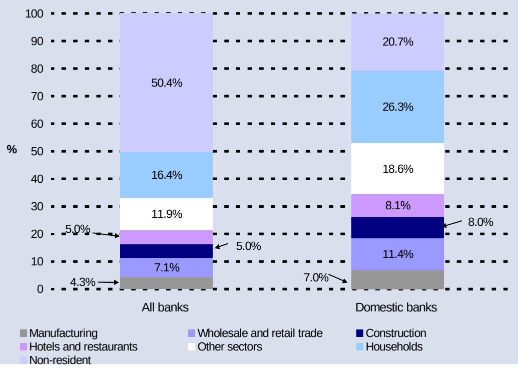
The increase in lending to households continued to accentuate the high concentration of the banks' loan portfolio in this sector. As Chart 7.7 shows, at end-June 2004 lending to households accounted for 16.4% of lending by the banking system as a whole. For the domestic banks the

[12] The proportion is significantly lower than that reported in the December 2003 *Quarterly Review* because of a reclassification in inter-branch deposit liabilities.
[13] A more detailed analysis of the sectoral concentration of loans can be found in Chapter 3 of this *Review*.

concentration was even higher, with lending to households accounting for 26.3% of the total. Subdued demand for credit by the corporate sector, as well as Basel II-induced restructuring, were factors that contributed to this development. Another was the perception that house prices would continue to rise, complemented by low interest rates. Thus, as at end-June 2004, bank lending for the purchase of land and dwellings accounted for 45.4% of resident household borrowing. Another 28.1% was for extensions to houses and/or for the completion of own dwellings. As a result, nearly three-fourths of lending to households was related to property and real estate purchases.

Experience shows that the household sector has a low default risk when compared to other economic sectors. However, the domestic banking system is highly exposed to the real estate market, particularly as most collateral held by the banks, even in the case of lending for other purposes, consists of immovable property. Furthermore, although the household sector *per se* may be regarded as carrying a low-default risk, it is dependent on developments in the economy generally. A persistent rise in unemployment and a decline in household disposable income could impact on the ability of households' to repay debts. Credit risk might also be accentuated by possible increases in interest rates, as most loans carry variable rates. Such increases could also have a negative impact on debt repayment capabilities.

Chart 7.7
SECTORAL LOAN CONCENTRATION



Lending to non-residents accounts for slightly more than half of the banking system's loan portfolio. Around 48% of such lending is interbank lending, while the remainder consists of loans to the corporate sector.

Unlike the demand for credit by the household sector, credit demand by the corporate sector contracted by around 1.2%, both for the banking system as a whole and for the domestic banks during the first six months of 2004. As Chart 7.7 shows, the wholesale and retail trades, the construction industry and the hotels and restaurants sector accounted for the largest exposures after the household and non-resident sectors.

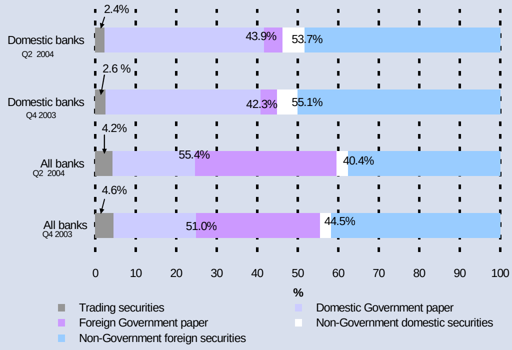
The Bank Lending Survey conducted by the Central Bank of Malta indicates that the banks expect the demand for loans by the corporate sector, especially by small and medium-sized enterprises, to decrease in the second half of 2004, but the demand for loans by households, particularly for house purchases, is expected to remain strong.[14]

Securities portfolio

Over the six months to June 2004, the proportion of total securities (trading and investment) to total assets, both for the banking system as a whole and for the domestic banks, increased by less

[14] The Bank Lending Survey is a periodic assessment of the opinion of a sample of banks regarding factors affecting the supply and demand for credit as well as credit standards being applied to corporates and households. It includes an analysis of both current developments and expectations.

Chart 7.8
DEBT SECURITIES PORTFOLIO
(June 2004)



than one percentage point, to 36.1% and 30.6%, respectively. While the banking system in total reported a strong increase in holdings of foreign government securities, reflecting mainly the activities of the international banks, the domestic banks reported a similar increase in their holdings of Maltese government paper.

Most non-government securities held by the banking system are foreign securities. A decrease in holdings of non-government securities pushed down the ratio of such securities to total securities held by the banks from 44.5% in December 2003 to 40.4% in June 2004. The drop was entirely due to the disposal of foreign securities by the international banks. In fact, the domestic banks reported an increase in holdings of private securities, both foreign and domestic.

The banks' holdings of trading investments increased marginally over the period reviewed. At the end of June, the trading portfolio accounted for 4.2% of securities held by the banking system as a whole and for 2.4% of those held by the domestic banks (see Chart 7.8).

Government paper is generally considered a low-risk asset that reduces the overall credit risk within the banks' portfolio. In a falling interest rate scenario, banks generally tend to secure their interest income by increasing their fixed income portfolio, particularly through purchases of government paper.

Foreign non-government securities purchased by banks are normally rated by credit rating agencies, while domestic corporate securities are unrated. Within the context of Basel II, rated securities generally carry a lower risk weight, and therefore holdings of such securities should result in a lower capital requirement. Furthermore, foreign non-government securities tend to be issued in larger amounts and in well developed markets. These factors make such securities highly liquid and therefore attractive investment instruments for the banks.

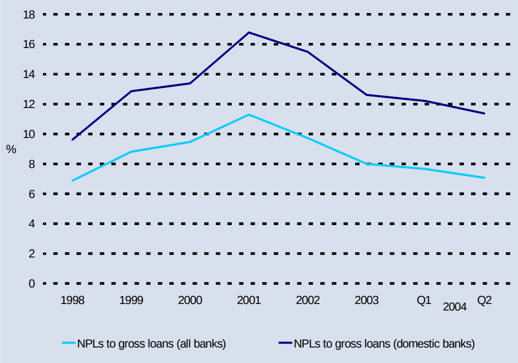
Asset quality stabilisation

During the first six months of 2004, the level of non-performing loans continued on the downward trend seen since 2001. As at June 2004, the ratio of non-performing loans to gross loans for the banking system as a whole stood at 7.1%, while that for the domestic banks stood at 11.4%, as against 12.6% in December 2003.[15] A strengthening of credit risk assessment capabilities, complemented by better debt management and improved internal controls were the main factors behind this development, which has improved the credit risk outlook. The gradual improvement in economic conditions and a larger lending portfolio were other important factors.

The drop in non-performing loans during the first six months of 2004 also pushed down the proportion of non-performing loans to total own funds, which fell from 38.1% at end-December 2003 to 34.2% by end-June 2004. In the case of the domestic banks, the ratio is significantly higher, at 45.6%. Nevertheless it was still sharply down from the 52.3% level prevailing in December

[15] The ratio of non-performing loans to total loans of the banking system (excluding the international branches) stood at 9.8% as at June 2004.

Chart 7.9
NON-PERFORMING LOANS TO GROSS LOANS



2003. The strengthening of the banks' capital base also contributed to the lowering of the ratio.

The decline in non-performing loans was accompanied by cuts in specific provisions, which dropped by 11% during the first six months of 2004, both for the banking system as a whole and for the domestic banks. On the other hand, general provisions remained practically unchanged. The overall drop in provisioning levels pushed down the coverage ratio for the entire banking system and the domestic banks to 22% and 21.8%, respectively, as at end-June 2004, from 23.4% and 23.3% at end-December 2003.[16]

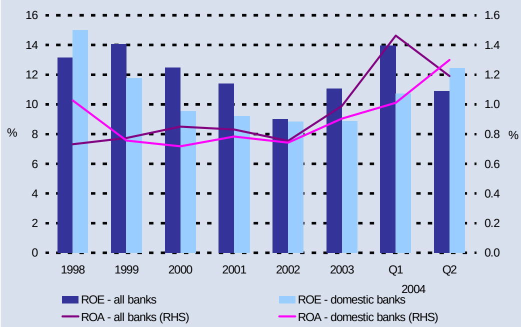
Although the decline in non-performing loans has reduced overall credit risk, credit institutions remain vulnerable to such risk due to the still relatively high level of such loans. However, as mentioned above, the banks' capital base is strong, and various stress-test analyses on their resilience to credit risk default indicate that, on average, the banks' capital would still remain above the minimum requirement in the case of plausible shocks.

Rising profitability

The profitability of the banking system rose sharply during the first half of 2004. On an annualised basis the profits before tax of the banking system as a whole were up by 38% over the previous financial year, while those of the domestic banks were up by as much as 60%.[17]

The return on assets (ROA) ratio as at end June 2004 stood at 1.2% for the banking system as a whole and at 1.3% for the domestic banks. At these levels, the ratio was up by 0.2 and 0.4 percentage points respectively, compared with the end-December 2003 levels (see Chart 7.10). In both cases, the higher ROA ratio was due to a larger increase in profits than in total assets. On the other hand, as the Chart shows, the return on equity (ROE) ratio decreased for the total banking system but increased for the domestic banks. As at end-June 2004, the ROE ratio stood at 10.9% for the banking system as a whole and at 12.5% for the domestic banks. The capital of the domestic banks increased by a larger proportion than that of the total banking system, and the increase in their profitability out-paced the rise in their own funds, pushing up their ROE significantly.

Chart 7.10
RETURN ON EQUITY (ROE) AND ASSETS (ROA)



* Caution is warranted when interpreting the profitability figures for the first six months of 2004 since these figures have been annualised to make them comparable with those of previous years.

[16] The coverage ratio does not take into account collateral held on non-performing loans. Should the value of the collateral on such loans be taken into account, the ratios would read 84% and 85% for the banking system and the domestic banks, respectively.

[17] Caution is warranted when interpreting the profitability figures for the first six months of 2004, since these have been annualised to make them comparable with those of previous years.

The increase in the banks' profitability was largely due to non-interest income, which rose by 75% (on an annualised basis) over the previous financial year. Further analysis shows that this was mainly attributable to the activities of one particular bank, which reported a strong increase in foreign-exchange trading profits. If this gain were excluded, the banks' annualised non-interest income during the six months to June 2004 would still be higher than that recorded in 2003. At the same time, non-interest expense was only slightly lower than in 2003.

On the other hand, net interest income for the banking system as a whole decreased during the first six months of 2004, reflecting a 5% drop in interest income coupled with a 7% rise in interest expense. The latter reflected, to a large extent, interest paid by one international bank on deposits belonging to its foreign parent bank. If this last transaction were to be excluded, the annualised interest expense for the banking system as a whole would have been lower than that recorded in 2003.

The domestic banks reported a 1% increase in net interest income as a result of a 95 basis point widening in the interest rate margin. These banks reported a 9% drop in interest income and an 18% decrease in interest expense during the first half of 2004. Changes in interest rate margins normally reflect the efficiency of bank intermediation as well as the degree of competition. They may also reflect expectations regarding inflation, as banks seek to keep the value of their capital intact.

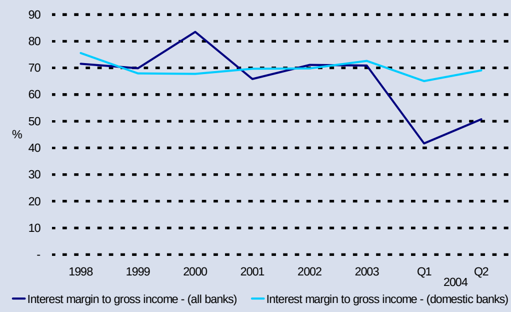
As with the banking system generally, the non-interest income of the domestic banks was up by around 20% on an annualised basis, while their non-interest expense remained relatively stable.

The improvement in profitability was also due to a write-back of loan loss provisions by a number of banks. These write-backs were due to improving asset quality, with a number of loans to the corporate sector no longer being considered non-performing. Contrary to this general trend, however, some other banks reported an increase in provisions due to identified problems within their loan portfolio.

As Chart 7.11 shows, the net-interest income to gross income ratio for the entire banking system fell from just under 71% in December 2003 to nearly 51% in June 2004[18]. The domestic banks also saw a drop in this ratio, albeit a smaller one than the banking system generally. In June 2004, the ratio for the domestic banks stood at around 69%, down from 72.6% at end-December 2003.

Income growth, which is a structural source of profitability, contributed more to the increase in the banks' profitability than the write-back of provisions. Non-interest expenses have now stabilised and further cost cutbacks may henceforth be more difficult to achieve, but cost containment should continue to underpin overall efficiency.

Chart 7.11
NET INTEREST INCOME TO GROSS INCOME



* Caution is warranted when interpreting the profitability figures for the first six months of 2004 since these figures have been annualised to make them comparable with those of previous years.

[18] Gross income is defined as net interest income plus non-interest income.

The non-bank financial sector

Malta Stock Exchange

Credit institutions are the most important financial intermediaries in Malta, but the Malta Stock Exchange (MSE) is playing an increasingly active role in facilitating the channelling of funds from the public to listed companies and the Government. Following the granting of the status of a Recognised Investment Exchange (under the new Financial Markets Act) to the MSE in October 2002[19], the Exchange has restructured its role as an investment exchange, with the role of listing authority being transferred to the MFSA. The MSE is currently in the process of implementing a delivery versus payments (DVP) system within its structure, whilst also revising its by-laws governing the central securities depository (CSD). These efforts are expected to come to fruition in the near future, and should enhance financial stability through the lessening of risks in the transfer of securities from one party to another.

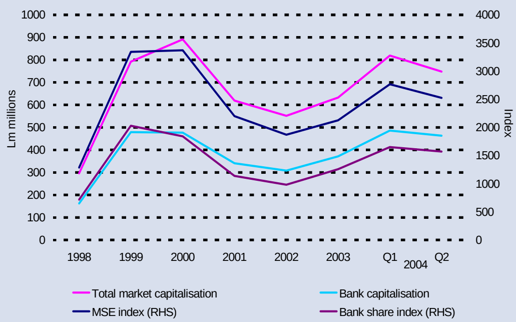
Yields on government debt continued to act as the benchmark for prospective issuers of corporate bonds, with the spread between yields on government securities and those on corporate bonds being taken as an indication of the creditworthiness of the issuer. This is particularly so for the domestic bond market, since corporate bonds and their issuers (with the exception of the two listed banks) are not rated by any rating agency.

Government securities account for around 56% of the instruments listed on the MSE, while corporate bonds, including the bonds issued by the two major domestic banks, account for about 14%. The rest consist of stocks and shares. Government securities are normally viewed as a close alternative to bank deposits, due to their low risk perception and ease of liquidation.

In the domestic equity market, the bulk of the shares listed are concentrated in financial institutions. The banks account for around two-thirds of total equity capitalisation. The other two major sectors of equity concentration relate to the telecom and the tourism sectors. Such a high concentration makes the equity market vulnerable to sharp fluctuations, since a weak performance by one particular sector may influence market sentiment and adversely affect the overall MSE index.

Although over the years trading on the MSE has increased, it is still low by international standards. This is reflected in the turnover ratio, which is less than 1%.[20] Government securities have a lower turnover ratio than corporate bonds, as investors are likely to hold such securities to maturity due to their being perceived as relatively risk free. The low turnover ratio also reflects the low liquidity level of the capital market, with investors being rather reluctant to sell their investments. Low liquidity can result in losses if holdings have to be disposed off in large amounts. This applies particularly to the financial sector, which has a

Chart 7.12
MALTA STOCK EXCHANGE INDEX AND MARKET CAPITALISATION



Sources: Central Bank of Malta; MSE.

[19] The Financial Markets Act replaced the Malta Stock Exchange Act 1990, and provides for the establishment of more than one stock exchange, referred to as Recognized Investment Exchanges.

[20] The turnover ratio is defined as the volume of securities traded as a percentage of the total outstanding.

large proportion of its asset portfolio invested in domestic government bonds.

The insurance sector

The insurance market in Malta consists of nine insurance companies, two of which are life insurers. Although the total assets of the sector reached Lm346.8 million at the end of June, up by Lm52.2 million, or 18%, since the end of 2003, its penetration is still relatively low, with total premiums accounting for around 2.5% of GDP. The growth in the insurance sector during the first six months of 2004 partly reflected the fact that, as from April 2004, two companies that previously operated as agencies were authorised to start operating as local principals. As part of the revision and updating of the insurance sector solvency regime in the EU, a comprehensive approach is being undertaken to harmonise the establishment of technical provisions and a more risk-based approach to the calculation of capital. This is similar to the Basel II approach for the calculation of capital requirements for banks, but adapted to the insurance sector. The domestic insurance sector should benefit from such an approach, which would in turn contribute further to financial stability.

The asset value of the insurance sector is equivalent to around 4.2% of the asset value of the banking system, indicating that the sector does not pose significant risks to financial stability.

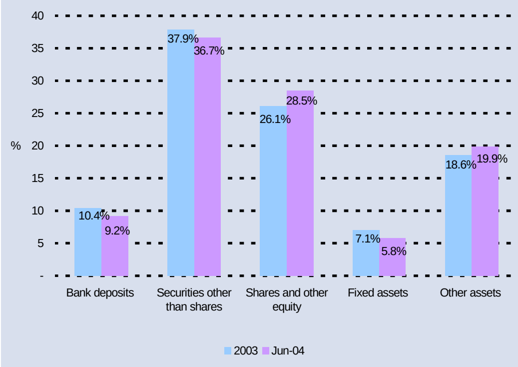
The involvement of banks in the insurance sector is related directly to bancassurance activities. The insurance sector, however, has other implications for the banking system, mainly arising from the direct use of insurance policies as collateral by banks, or because other collateral, such as real estate, is usually insured.

The securities portfolio of the insurance sector has increased by nearly Lm15.5 million since the end of 2003, reaching Lm127.1 million. In June 2004, it was the largest asset component of the sector's balance sheet, accounting for 37% of the total. The increase in the securities portfolio was mainly the result of the acquisition of foreign securities, although purchases of securities issued by domestic private non-financial companies also contributed. As with the banking system, a large part of the securities portfolio of the insurance sector is invested in domestic Government securities, its holdings of which increased by nearly Lm6 million during the six months under review. Over Lm4 million of the increase was invested in short-term government paper.

A further 29% of the sector's assets are invested in shares and other equity, mainly through units in collective investment schemes. Over the six months to June 2004, these holdings increased by Lm22 million, mainly reflecting the acquisition of shares issued by non-resident associate companies and by resident non-associate companies.

Funds deposited by the insurance companies with the domestic banks increased slightly by Lm0.5 million since the end of 2003, increasing to Lm28.7 million by the end of June. These deposits account for 8.2% of their total assets but represent only 0.3% of the liabilities of the banking system.

Chart 7.13
ASSETS PORTFOLIO COMPOSITION - INSURANCE COMPANIES



On the liabilities side, the insurance companies' technical reserves are equivalent to 74% of their total liabilities. These consist of premium reserves calculated in accordance with actuarial principles and other technical provisions. They reflect the insurers' liabilities to their subscribers. The greater part of these reserves relate to resident households, largely arising from premiums paid on life insurance policies.

Collective Investment Schemes

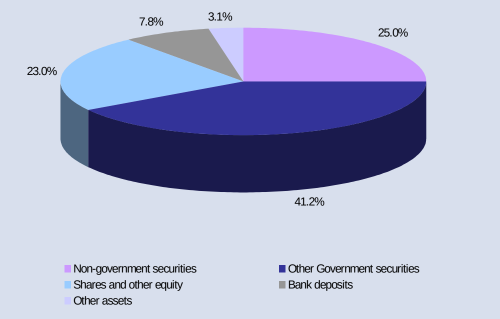
There are fifteen open-ended investment funds (also referred to as Collective Investment Schemes or SICAVs) operating in Malta. Their total assets as at end-June 2004 stood at Lm413 million, equivalent to 5.1% of the balance sheet value of the banking system.

As with the insurance sector, the securities portfolio of the collective investment schemes accounts for the greater part of their assets, representing 66% of the total asset value. Within the funds' portfolio, government bonds again dominate and are equivalent to 41% of total assets. In the six months to June 2004 their securities portfolio increased by over Lm10 million, reflecting increased holdings of Treasury bills and foreign private securities.

Shares and equity held by the investment funds rose by Lm14.4 million over the six months surveyed, and accounted for 23% of the total assets held by the funds at the end of June. The increase mainly reflected purchase of shares and equities issued by the financial sector, particularly banks.

The exposure of investment funds to the banking sector is rather limited. On the assets side, deposits with domestic banks at the end of June accounted for only 5% of the funds' total assets, while on the liabilities side, the amounts borrowed from banks were negligible compared to the funds' total balance sheet value.

Chart 7.14
ASSET PORTFOLIO COMPOSITION - SICAVS
(June 2004)



Risk outlook

The pick-up in economic activity appears to have contributed to an improvement in the asset quality of the banks' loan portfolio. This notwithstanding, the financial system continues to face a number of risks. Thus, while credit risk on household borrowing is low, that on corporate sector borrowing remains rather high, partly because of the slow recovery in certain sectors of the economy, some of which are undergoing a restructuring process. Furthermore, the banking sector carries a significant exposure to the real estate sector, both in terms of lending and in terms of collateral. On the positive side, the liquidity, profitability and capital base of the banking system are sound, having improved further over the period surveyed. This is borne out by the various stress-test analyses undertaken, which showed decreasing overall risks.

In 2003 the main risk factors were attributed to the weaknesses of the economy, which were expected to give rise to financial pressures on both the corporate and the personal sectors. When combined with the impact of the restructuring of industry, the slow economic growth conditions could have affected the asset quality of the banking sector.[21] This risk seems to have abated somewhat, partly as a result of the incipient signs of economic recovery. On the other hand, the overall risk outlook could be heightened by an upward move in interest rates, which could directly impact on the banks' profitability through valuation losses on fixed income portfolios. In addition, an increased debt-servicing burden on the household and corporate sectors consequent to a rise in interest rates could reverse the improving trend in asset quality, resulting in higher non-performing loans and loan-loss provisions.

[21] See Central Bank of Malta, *Quarterly Review December 2003*, chapter 7.

THE CENTRAL BANK OF MALTA AND FINANCIAL STABILITY*

Michael C. Bonello
Governor of the Central Bank of Malta

The title chosen for this conference is as significant as it is brief. The two words 'Onshore Europe' neatly capture Malta's current reality, that of a financial centre with solid credentials which affords its players both the guarantees and the opportunities to be offered by the Single European Market for Financial Services.

As we commemorate Malta's first ten years as an international financial centre, it is appropriate to record that if we are able to look back with satisfaction at past achievements, it is only because our legislators had the political vision to adopt a consensual approach to the task at hand in 1994. This involved a radical overhaul of existing laws and the drafting of new ones to lay the foundations of a modern financial centre governed by the highest standards and yet flexible enough to allow new opportunities for growth and development to be seized to the country's economic advantage. I would, therefore, like to pay tribute to all those who saw the project through to a successful conclusion.

An analysis of Malta's track record leads to another important conclusion, which is that having in place an appropriate legislative and institutional framework is a necessary, but not a sufficient condition for success. Recent experience around the world suggests that the potential of a financial centre cannot be maximized unless it possesses another essential attribute. That other ingredient is stability and it is this aspect that I propose to explore today.

Ensuring financial stability is a statutory responsibility of the Central Bank of Malta. The Bank is thus obliged to participate actively in the maintenance of a stable and efficient financial system and to contribute towards its development. This applies not only to the payment and settlement system, of which the Bank is the regulator, but to the entire financial system. The Bank has an on-going role to play in assessing the robustness of the system. It must draw attention to any problems and ensure that these do not in any way impede the functioning of the financial markets as efficient providers of capital for companies and households. The Bank's approach is therefore to consider the general risks to the system rather than the situation of individual credit and financial institutions. The latter is the task of the Malta Financial Services Authority (MFSA), which has successfully assumed, over the last ten years, full responsibility for the supervision of institutions providing financial services.

Why central banks promote financial stability

There are several reasons why the maintenance of a healthy financial sector is an essential function of central banks, and this irrespective of their involvement or otherwise in regulation and supervision. First, by virtue of their role as providers of liquidity to the banking system and their involvement in payment systems, central banks have a vested interest in the quality of their counterparties. Any developments that could affect the financial health of their counterparties

* This address was delivered at the conference Onshore Europe organised by the Malta Financial Services Authority on 13 September 2004.

are of direct interest to a central bank, not least because the inability of the former to honour their commitments would have negative financial implications for the central bank. Furthermore, instability in the financial system could hinder central banks from successfully pursuing their other objectives, particularly the achievement of price stability through monetary policy measures.

Indeed, monetary policy can only be implemented effectively if the financial system is stable, for only then can financial intermediaries respond to changes in interest rates and in liquidity conditions engineered by the central bank, and thus transmit these impulses on to non-financial intermediaries. At the same time, by pursuing price stability central banks contribute directly to financial stability, since a stable price environment reduces volatility in financial variables and ensures the smooth functioning of markets.

From a central bank perspective, it is also evident that a healthy financial system contributes to stability in the exchange rate particularly where, in countries like Malta, a fixed exchange regime coexists with the absence of capital controls. Thus, in a situation where there are concerns about the robustness of the financial infrastructure, the regulatory framework or the integrity of financial intermediaries, the external account may be undermined through sizeable outflows of capital. In other words, what starts off as a crisis in an individual institution could easily develop into a balance of payments and currency crisis, which may, in turn, trigger off secondary effects throughout the rest of the financial sector, disrupting other sectors of the economy in the process and thus resulting in a full-blown financial crisis.

In the case of the Central Bank of Malta, these considerations assume even greater importance given the Maltese economy's small size, openness and lack of natural resources, which make it highly dependent on foreign markets. The small size of the domestic market, moreover, also has implications for savings and investment. Thus a limited pool of savings is in turn reflected in a low volume of internally-generated resources for investment purposes, making the country highly dependent on external financing. This dependence is evidenced by the private savings ratio, which is not only low by international standards, at around 22% of GDP, but has also been falling in recent years as public sector imbalances have widened to unsustainable proportions.

The Central Bank of Malta's approach to financial stability

Against this economic background, therefore, price and exchange rate stability assume particular importance and the need for a stable financial environment becomes all the more crucial. The maintenance of financial stability was accordingly recognized in the legislation setting up the Central Bank of Malta in 1968, but it was only pursuant to the 2002 amendments to this legislation that the Bank's responsibility was made more explicit.[1] These amendments also recognized the Bank's role in preserving a sound and efficient payment system.

The Bank's efforts to strengthen its capacity in the area of financial stability commenced before its responsibility for banking regulation and supervision was transferred to the MFSA in January 2002. In fact in 2000, a Financial Stability Office was set up to identify and analyse potential systemic threats not only in banks, but also in other parts of the financial system, such as the

[1] The 1967 Act referred to the Bank's role in "promoting a sound financial structure and to foster an orderly capital market in Malta". Article 4 (2) of the revised Act specifically states that it shall be one of the objectives of the Bank to "ensure the stability of the financial system".

insurance and investment sectors, the securities markets and also selected large corporations in the non-financial sector.

The Office has since developed a set of financial soundness indicators and a model which detects and assesses the impact of different types of risks. It has also introduced shock scenario techniques to stress-test the resilience of the banking system. This year the Bank has also started to conduct a bi-annual financial stability review whereby developments abroad as well as in the domestic macroeconomic, regulatory and operational environment are assessed in one analytical framework designed to detect potential weaknesses and to devise appropriate remedial measures.

These activities are supplemented by the work of the Bank's Payment Systems Office, which is responsible for the maintenance and oversight of the payment system. This is an important function because modern electronic payment systems have the potential to serve as channels of contagion by transmitting the payment difficulties of one, or a few, large financial intermediaries to others in the system.

In 2002, a Retail Gross Settlement System based on the Bank for International Settlements' ten core principles[2] was introduced in Malta, through which inter-bank domestic payment orders are now transmitted, cleared and settled with greater efficiency than previously. The Bank has also issued a number of directives which seek to provide participating banks with an adequate degree of protection against legal and systemic risks associated with participation in such systems. Other directives seek to ensure that the rights of banks' clients to adequate information concerning retail payments are upheld by the intermediaries rendering payment services. In this way, credibility in the integrity of the infrastructure used for the settlement of payments is preserved at both wholesale and retail level.

The Bank's role in financial stability has more recently been enhanced by membership of the European System of Central Banks (ESCB) from May 2004. It has started to participate in the ESCB committee dealing with financial stability, the Banking Supervision Committee, and at the EU level the Bank also participates in the Economic and Finance Committee and in its Financial Stability Table.

The importance of two-way cooperation with the MFSA

The initiatives I have described have strengthened the Bank's ability to monitor and analyse developments in the financial system in a wider context. It is nevertheless becoming increasingly clear that to carry out this role effectively, the Bank's efforts in this area need to be supported by the activities of the overall supervisor in the financial field, that is the MFSA.

It is, therefore, reassuring to note that good co-operation already exists between the Bank and the Authority. More specifically, the Authority's focus on the health of individual service providers complements the Bank's macroprudential analysis of the financial system as a whole and its oversight of the payment and settlement systems.

In undertaking their respective tasks, both these institutions have access to information that may not be readily available to the other. Thus, for example, through its involvement with payment systems and the daily monitoring of the banks' foreign exchange exposures, the Central Bank of Malta has daily information on the amount of liquidity and the extent of foreign exchange risk

[2] The core principles recommended by the Committee on Payment and Securities Settlement Systems of the Bank for International Settlements (BIS).

prevalent in the inter-bank market. Similar information, however, only becomes available to the Authority with a delay, through the monthly statistical reports submitted by the individual financial intermediaries. Furthermore, the Bank's macro perspective assessment of financial developments may identify general risks to the system that may not be apparent when the prudential supervision of individual financial institutions is undertaken. This may occur, for example, if the risk profiles of the institutions in question show a high degree of similarity, making the system especially vulnerable to a particular type of shock. Supervision at the micro level, therefore, has to be complemented with a macro analysis of the interlinkages between different segments of the domestic financial sector and its links with the payment system, the rest of the economy and its counterparts abroad.

On the other hand, it is also true that the Bank's macroprudential analysis may not provide precise information on individual institutions, particularly those that may be on the brink of insolvency. Here, the Authority, through regular inspections of individual service providers will have a more in-depth knowledge of the health of single intermediaries and market segments, including those which play a peripheral role in the monetary policy transmission process and with which the Bank's relationship is, at least on a one-to-one basis, rather distant. In this sense, the Authority also contributes to the soundness of the Bank's counterparties. It is also the Authority which ensures that only sound institutions are licensed to enter the Maltese market. Furthermore, confidential supervisory information available to the Authority could be useful to the Bank as an input into its overall analysis of the financial system, enabling it to respond to liquidity and related constraints that could set off negative ripple effects.

The potential for synergies between the two institutions prompted them to sign two Memoranda of Understanding in 2002 to provide for enhanced co-operation, including through the establishment of a Standing Committee.

This cooperation framework has contributed to the general soundness and stability of the financial system. The profitability of our banks, for example, has remained stable with an average return on assets after tax of 0.8% in 2003, the same level as that recorded by European banks. Furthermore, bank liquidity and capitalization levels have both remained strong. Liquid asset holdings as a percentage of short-term liabilities were close to 53% at the end of 2003, compared to a minimum threshold of 30%. Meanwhile, the banks' aggregate capital adequacy ratio, defined as the ratio of own funds to risk-weighted assets, currently stands at 23%, compared to a minimum of 8%. In the insurance sector and collective investment schemes steady growth continues to be registered.

This positive performance notwithstanding, there remains scope for further improvement in the framework through which the Bank and the Authority seek to safeguard the health of the domestic financial system. It is becoming increasingly evident, for example, that a proper analysis of the system's robustness requires detailed statistics about entities for which data are currently either not available or are fragmented. This is particularly the case of the non-bank financial sector, and also of the corporate and household sectors, although in this latter area some progress is being made through the joint efforts of the Bank, the Authority and the National Statistics Office (NSO).

Another aspect warranting particular attention is that of financial crisis management. While the current institutional and regulatory framework has been successful in keeping at bay any major systemic disturbance, further progress is required, for example by defining the specific roles and responsibilities of the Bank, the Authority and the Government. In this respect, the Joint Contingency Plan for systemically important banks drawn-up by the Bank and the Authority already takes into account the involvement of the Ministry of Finance with respect to the possible use of public funds and the Bank's lender of last resort function. This framework is currently in the process of being refined further.

The need for improved cross-border cooperation

On the other hand, it is a matter of some concern that whereas modalities for crisis management have been, or are in the process of being formalised effectively in most jurisdictions, including Malta, the way forward for the resolution of crises of a cross-border nature, and requiring the prompt intervention of central banks and supervisors that operate in different time zones and with different day-to-day practices, is not yet clearly defined.

Some progress in this respect has been made at the EU level through the formalisation of the Memoranda of Understanding of the ESCB on high-level principles of co-operation in crisis management situations and between payment systems overseers and banking supervisors. However, these agreements, to which the Central Bank of Malta and the MFSA are also a party, do not go far enough. The implications of systemic crises whose resolution would, for example, require some form of fiscal input and possibly also the contribution of other entities spanning different jurisdictions are not yet articulated. This issue will hopefully be addressed during the forthcoming review of the EU Banking Codified Directive of March 2000.

As the two key institutions with financial stability responsibilities, the Bank and the Authority have a direct interest in the future evolution of international co-operative arrangements. Such arrangements, moreover, will also impact on the way in which the two institutions seek to co-operate with each other and with similar authorities based abroad. In particular, the activities and institutions which the Bank and the Authority will be expected to monitor will become more complex as the number of financial intermediaries with a presence both in Malta and in other countries, either directly through the establishment of branches or subsidiaries, or indirectly through the provision of cross-border services via the internet or otherwise, continues to grow in the light of the incorporation of EU passporting rights in Maltese legislation. The coming into effect of Basle II and, at the EU level, CAD III will be significant factors in this regard. At the same time, the tendency of companies to seek multiple listings in different securities markets means that interest rates and stock market valuations in one country will increasingly mirror those in other countries, even though the underlying economic fundamentals of that country might warrant some divergence in such variables.

Indeed, as has been the experience of other countries, the trend towards consolidation and merger activity in the various segments of the market, from banking and the selling of insurance and investment funds to the provision of payment services and trading facilities, will lead to a situation where the institutions to be supervised will vastly exceed the financial resources and technical expertise available to supervisors and central banks. This will be further accentuated by the current trends whereby financial intermediaries outsource activities both on a domestic and cross-border level, while the introduction of the European Union Directive on the European Single Company Statute, the so called *Societas Europea*, will present new regulatory and financial stability challenges on a regional level.

The implications of international developments for Malta

These observations are particularly relevant for Malta. First, whereas the size and complexity of financial intermediaries, and that of corporate entities to which they are exposed, has grown disproportionately relative to the resources available to regulators and liquidity providers across the globe, this divergence is magnified further in a small jurisdiction such as ours.

Second, because the characteristics of the Maltese economy make it vulnerable to developments abroad, the financial sector is especially exposed to changes in the perceptions of foreign investors about the sustainability of prevailing economic policies and the capacity of the financial sector to absorb external shocks.

Given the ease with which funds can now move in and out of the country, moreover, and the scope for disparity between the size of the economy and that of foreign institutional investors, the need to maintain confidence in the domestic financial sector assumes particular importance. This risk is further accentuated by the fact that while most sectors of the economy operate in a competitive environment, in many sectors business remains concentrated among a small set of market players. The financial sector is no exception in this regard.

Furthermore, while the structure of the domestic financial sector has evolved considerably over time, its level of development still falls short of that of the more advanced EU Member States. Thus, for example, although in the past few years the number of players in the non-bank sector has increased in terms of both number and variety, financial intermediation in Malta remains largely bank-based. Within the domestic banking sector, moreover, two banks together account for around 90% of total loans and deposits. A similar picture emerges in the capital market where the degree of capitalisation, the number of market participants and the volume of turnover are still relatively low. In 2003, for example, the ratio of stock market capitalisation to GDP stood at 37%. While this was higher than in most of the other new Member States, it was only around half of the euro area average. Annual turnover was even lower, hovering around 4% of GDP and 12% of stock market capitalization.

Where, as in Malta, the performance of the financial sector hinges crucially on the fate of a small number of players and where the lack of depth and liquidity in capital markets often causes the market value of a particular debt instrument to deviate from underlying fundamentals, the risk of contagion within the system, as well as from other systems, is accentuated.[3]

This latter aspect might become less relevant as financial services providers in Malta and in the EU respond to the introduction of the Financial Services Action Plan and the eventual establishment of a single market in financial services. On the positive side, such initiatives provide better income-earning and liquidity management opportunities, improve the efficiency with which the sector operates and enhance its capacity to weather sector-specific shocks.

On the other hand, the advent of liberalisation and heightened levels of competition could well spur service providers domiciled in Malta to take on new risks and venture into non-traditional lines of business. Furthermore, as a result of passporting rights, competition is likely to become more acute. The ensuing interdependence between different sectors and countries could well expose the domestic system to new vulnerabilities, including possible contagion from systemic shocks.

[3] ECB. *Financial Sectors in EU Accession Countries* (2002).

This will be especially the case upon Malta's entry in the euro area as such a move would provide further momentum to the pace of financial market integration. Moreover, the eventual linkage of the domestic payment system with TARGET will also facilitate the transmission of certain risks, not least those of an operational nature.

Conclusion

There are clearly several good reasons why sound regulatory and oversight practices remain vital for the stability of our financial system and why, therefore, the Central Bank of Malta and the MFSA must work more effectively together. It is also evident, however, that on their own these two institutions cannot provide full protection against systemic disturbances, and that the modalities for co-operation which are in place locally need to be strengthened further and extended to other bodies with comparable responsibilities at the international, and particularly at the EU level.

NEWS NOTES

LOCAL NEWS

The Council of the European Union's assessment of Malta's Convergence Programme

The EU Council issued an Opinion and Decision on Malta's Convergence Programme on 5 July. It observed that the macro-economic scenario underlying the Programme appeared to reflect plausible growth assumptions. However the Council noted that this scenario is subject to a certain degree of uncertainty given a possible over-estimation of the nominal ESA 95 GDP and the exposure to external shocks of the Maltese economy. In concluding its Opinion, the Council decided that on the basis of Recommendations from the European Commission, an excessive fiscal deficit existed in Malta (under Article 104(6) of the Treaty). It therefore made Recommendations (under Article 104(7)) to Malta with a view to bringing this situation to an end.

Issue of Malta Government Securities

On 31 July the Government of Malta issued the following securities, announced through LN 373, 374 and 375:

- Lm20 million worth of 5.1% MGS 2022 (First Issue), issued at par for amounts not exceeding Lm50,000 and by auction for bids exceeding this amount.
- Lm 17 million worth of 5.1% MGS 2014 (Third Issue) (Fungibility Issue), issued by auction for bids exceeding Lm250,000 at not less than Lm103.25 per Lm100 nominal.
- Lm 13 million worth of 5.4% MGS 2010 (Fourth Issue)(Fungibility Issue), issued by auction for bids exceeding Lm250,000 at not less than Lm104.5 per Lm100 nominal.

Bank holidays

On 10 September the Minister of Finance declared the following days bank holidays through LN 406:

- 26 March 2005
- 26 December 2005
- 2 January 2006

Legal Notices on banking and financial issues

- Financial Markets Act (Cap 345), Recognition of Approved Listing Particulars Regulations 2004, issued on 20 July through LN 364. These regulations implement the relevant provisions of Directive 2001/34/EC of the European Parliament and of the Council of 28 May 2001, on the admission of securities to the official stock exchange listing and on information to be published on those securities;
- Various Laws (Amendment) Act 2003 (Act No. IX of 2003), External Transactions Act (Cap. 233), Restrictions (Revocation) Regulations, 2004, issued on 10 August though LN 382. This removes, with some exceptions, all restrictions or obligations as specified in the Commencement Notice to the Various Laws (Amendment) Act 2003, published through LN 427 of 2003;
- Set-Off and Netting on Insolvency Act (Cap 459) Financial Collateral Arrangements (Amendments) Regulations, issued on 24 August through LN 388.

Amendments to Banking and Financial Institutions' Directives

On 1 September the Malta Financial Services Authority (MFSA), as the Competent Authority in terms of Article 4(2) of the Banking Act 1994 and Article 13(2) of the Financial Institutions Act 1994, amended the following Directives:

Banking Directive BD/01

(a) New Articles 6A - 6C: to bring the Directive in line with equivalent provisions included under EU Directive 2000/12/EC;

(b) Article 24D: amended to give discretion to the Authority as to the extent of active participation through shareholding and/or management input by a credit institution of repute;

(c) Articles 32A and 33C: to upgrade the Directive to reflect Single Passport Requirements as in LN 88 of 2004;

(d) Form 3, Question 5: requiring institutions to submit photocopies of ID card or passport (in the case of non-residents) of directors, controllers or managers submitting the questionnaire.

Banking Directive BD/02

Appendix 1 on Zone A countries was eliminated.

Banking Directive BD/04

Appendix 1, Article 1.1.0 (d): amended to bring the definition of Zone A countries included in the Directive in line with equivalent definitions included under EU Directive 2000/12/EC.

Banking Directive BD/05

(a) Footnote inserted in Annexes 1 and 4: on definition of Zone A countries;

(b) Annex 6 on Zone A Countries was eliminated.

Banking Directive BD/07

New Article 7A: requiring credit institutions to submit their auditors' management letters and replies thereto, six months after year-end. Licensed credit institutions are advised that this Article will become applicable as from 1 January 2005, for financial year 2004.

Banking Directive BD/09

Annex 1 Group 1 Countries List: amended to bring the list in line with the Communication of the EU Commission to the Member States, pursuant to Article 93(1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export credit insurance reference 2001/C 217/02 of 2 August 2001.

Banking Directive BD/10

Article 6: amended following the removal of the reference to the Banking Act 1970.

Financial Institutions Directive FID/01

Form 3 Question 5: requiring institutions to submit photocopies of ID card or passport (in the case of non-residents) of directors or controllers submitting the questionnaire.

Double taxation agreements with Kuwait, Lithuania and Iceland

A double taxation agreement between the Government of Malta and the Government of Lithuania, signed on 17 May 2001, entered into force with effect from 2 February 2004. This was announced in the Government Gazette on 18 June through LN 337 of 2004.

A double taxation agreement between the Government of Malta and the Government of Kuwait, signed on 24 July 2002, entered into force with effect from 19 March 2004. This was announced in the Government Gazette on 2 July through LN 349 of 2004.

On 23 September the Government of Malta and the Government of Iceland signed an agreement for the avoidance of double taxation.

INTERNATIONAL NEWS

ECOFIN meetings

The ECOFIN Council met three times during the third quarter. On 5 July the Council adopted Opinions on the first Convergence Programmes to be presented by the ten new Member States, and adopted Decisions on an excessive deficit procedure for six of them – the Czech Republic, Cyprus, Hungary, Malta, Poland and Slovakia – as well as for Greece. It also adopted Recommendations for bringing the deficit below the 3% of GDP reference value in these countries.

On 16 July the Council reached an agreement on the draft general budget for 2005 at the first reading after a conciliation meeting with the European Parliament and the Commission.

At the informal ECOFIN Council meeting held on 10-11 September in the Netherlands, the EU's finance ministers discussed ways of reforming the Stability and Growth Pact. Other items discussed included the reduction of administrative burdens and proposals to coordinate tax policy throughout the 25 Member States. Mr Jean-Claude Juncker, Prime Minister and Minister of Finance of Luxembourg, was elected chairman of the Euro Group for the next two years.[1]

G10 central bank governors endorse "Basel II" on the capital adequacy framework of financial institutions

On 26 June the G10 central bank governors endorsed the publication of the revised framework for bank capital adequacy known as "Basel II". Work on the revision was conducted by the Basel Committee on Banking Supervision, and takes a more comprehensive approach to risk management and banking supervision.

The European Commission on the Stability and Growth Pact

In a Communication adopted on 3 September, the European Commission proposed that the Stability and Growth Pact would benefit from an increased focus on the sustainability of public finances and increased recognition of the economic situation in an enlarged EU of 25. In particular, it advocated that budgetary surveillance should ensure the achievement of surpluses in good time to prepare for ageing populations, to deal with economic slowdowns and to ensure an adequate policy mix over the cycle.

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[1] The Euro Group consists of the finance ministers of the twelve EU countries that have adopted the euro.

STATISTICAL TABLES

THE MALTESE ISLANDS - KEY INFORMATION, SOCIAL AND ECONOMIC STATISTICS

(as at end-June 2004, unless otherwise indicated)

CAPITAL CITY	Valletta	
AREA	316 km^2	
CURRENCY UNIT	Maltese lira exchange rates: Lm1 = US\$2.8517 Lm1 = euro 2.3457	
CLIMATE	Average temperature (1990-2003): Dec. - Feb.	13.2^o C
	June - Aug.	26.2^o C
	Average annual rainfall (1990-2003)	613.9mm
SELECTED GENERAL ECONOMIC STATISTICS	GDP growth at constant 2000 prices[1] (2003/2002)	0.2%
	GDP per inhabitant at current market prices[1,2] (2003)	US\$12,332
	GDP per capita in PPS relative to the EU-25 average[1] (2003)	74.6%
	Ratio of gross general government debt to GDP[1,3] (2003)	71.1%
	Ratio of general government deficit to GDP[1,3] (2003)	9.7%
	Retail Price Index - inflation rate[4]	2.0%
	Harmonised Index of Consumer Prices - inflation rate[4]	2.4%
	Ratio of exports of goods and services to GDP[1] (2003)	77.0%
	Ratio of current account deficit to GDP[1] (2003)	5.5%
	Employment rate[5]	53.4%
	Unemployment rate[5]	7.3%
POPULATION	Total Maltese and foreigners (Dec. 2003)	399,867
	Males	198,099
	Females	201,768
	Age composition in % of population (Dec. 2003)	
	0 - 14	18%
	15 - 64	69%
	65 +	13%
	Average annual growth rate (1990-2003)	0.79%
	Density per km^2 (Dec. 2003)	1,265
HEALTH	Life expectancy at birth - Males (Dec. 2003)	76.4
	- Females (Dec. 2003)	80.4
	Crude birth rate, per 1,000 Maltese inhabitants (Dec. 2003)	10.1
	Crude mortality rate, per 1,000 Maltese inhabitants (Dec. 2003)	7.9
	Doctors (Dec. 2003)	1,137
EDUCATION	Combined gross enrolment ratio % (2001/2002)	77
	Number of schools (2001/2002)	303
	Teachers per 1,000 students (Dec. 2003)	86
	Adult literacy rate: % age 10+ (Dec. 2003)	92.8
LIVING STANDARDS	Human Development Index: rank out of 177 countries (2002)	31
	Mobile phone subscriptions per 100 population	74
	Private motor vehicle licences per 1000 population	509
	Internet subscribers per 100 population	20

[1] Provisional. Data in accordance with ESA95.

[2] Based on Eurostat's estimate of GDP at current market prices in euro per inhabitant.

[3] Source: Excessive Deficit Procedure Notification.

[4] The inflation rate is derived as a twelve month-moving average.

[5] Source: Labour Force Survey, NSO. As from Quarter 1:2004, compiled using an evenly-spread survey throughout the 13 weeks of the quarter.

Sources: Central Bank of Malta; Eurostat; Ministry of Finance; NSO; UNDP.

The monetary and financial statistics shown in the 'Statistical Tables' annex are compiled from information submitted to the Central Bank of Malta by the following credit institutions, as at June 2004:

Deposit Money Banks
APS Bank Ltd.
Bank of Valletta plc
HSBC Bank Malta plc
Lombard Bank (Malta) plc
HSBC Home Loans (Malta) Ltd. (from January 2001)
Volksbank Malta Ltd. (from November 2002)
BAWAG Malta Bank Ltd. (from October 2003)
First International Merchant Bank plc (from October 2003)

International Banking Institutions
Akbank TAS
Disbank Malta Ltd.
Erste Bank (Malta) Ltd.
Investkredit International Bank Ltd.
Izola Bank Ltd.
Raiffeisen Malta Bank plc
Sparkasse Bank Malta plc
Turkiye Garanti Bankasi AS

TABLE 1.1 STATEMENT OF ASSETS AND LIABILITIES
CENTRAL BANK OF MALTA[1]

Liabilities

Lm thousands

End of period	Currency notes & coins issued	IMF-related liabilities	Deposits				Capital & reserves	Foreign liabilities[3]	Other liabilities[4]
			Banks[2,4]	Government	Other	Total			
1998	390,911	19,014	115,195	48,188	13,367	176,751	93,050	-	35,265
1999	418,485	34,980	124,786	96,188	12,424	233,398	89,050	-	42,631
2000	423,188	35,246	141,270	56,161	10,393	207,825	89,050	3,655	32,164
2001	441,829	35,103	146,789	69,080	7,644	223,513	95,069	-	31,827
2002	461,247	33,495	255,558	42,961	7,595	306,114	95,341	6,987	32,758
2003									
Jan.	450,395	33,495	282,620	49,124	7,508	339,252	100,211	2,291	19,140
Feb.	452,689	33,495	268,964	65,531	7,463	341,958	95,243	2,910	26,247
Mar.	456,791	33,495	250,596	74,451	7,196	332,243	95,789	5,838	13,317
Apr.	465,032	33,495	260,883	59,482	15,549	335,914	95,671	1,955	14,664
May	465,814	32,740	297,630	61,162	7,226	366,018	95,470	2,680	17,242
June	471,111	32,740	282,003	65,191	8,870	356,064	96,058	4,774	17,708
July	471,576	32,740	261,529	84,406	8,361	354,296	96,091	2,499	19,393
Aug.	472,417	32,740	289,896	67,959	7,731	365,586	96,192	5,386	20,595
Sept.	475,795	32,740	289,866	67,763	8,276	365,905	90,689	7,624	22,249

End of period	Currency issued	IMF-related liabilities	Deposits				Capital & reserves	External liabilities	Other liabilities
			Credit institutions	Central Government	Other residents	Total			
Oct.	475,818	32,740	301,884	65,194	8,489	375,567	90,682	2,395	23,030
Nov.	474,370	32,740	261,164	94,206	10,633	366,003	90,653	4,819	24,338
Dec.	485,373	31,456	242,162	83,198	8,456	333,815	88,225	25,497	28,651
2004									
Jan.	477,011	31,456	292,241	70,700	7,245	370,186	87,943	14,013	16,868
Feb.	480,596	31,456	290,852	74,211	7,379	372,442	89,304	13,661	16,930
Mar.	486,005	31,456	282,376	70,448	7,666	360,490	89,658	7,800	12,712
Apr.	491,230	31,456	274,074	72,064	7,380	353,518	87,098	6,285	13,080
May	493,617	31,871	230,188	106,799	10,679	347,665	85,728	2,290	10,930
June	502,342	31,871	228,512	84,338	11,643	324,494	85,004	1	12,428

[1] Figures are reported according to the prevailing accounting policies as explained each year in the 'Notes to the Accounts' in the *Annual Report* of the Central Bank of Malta.

[2] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (from January 1995).

[3] Data prior to 2001 were included with "Other Liabilities".

[4] From December 2001, term deposits by banks previously classified as "Other Liabilities" are classified as "Bank Deposits".

TABLE 1.1 STATEMENT OF ASSETS AND LIABILITIES CENTRAL BANK OF MALTA[1]

Assets

Lm thousands

End of period	External reserves				IMF currency subscription	Malta Government securities & advances	Fixed & other assets	Total assets/ Total liabilities
	Gold	IMF-related assets[2]	Convertible currencies[3]	Total				
1998	688	40,429	598,855	639,972	19,086	24,322	50,696	714,991
1999	737	35,517	704,065	740,320	34,955	6,153	37,115	818,544
2000	452	36,940	606,752	644,144	35,222	9,178	98,930	787,474
2001	629	37,863	721,936	760,428	35,078	5,773	26,062	827,340
2002	473	37,512	842,862	880,847	33,470	4,289	17,335	935,942
2003								
Jan.	510	36,978	854,421	891,909	33,470	2,119	17,285	944,784
Feb.	759	37,335	862,145	900,239	33,470	2,633	16,200	952,543
Mar.	723	37,316	845,994	884,034	33,470	2,639	17,330	937,473
Apr.	461	36,800	853,834	891,095	33,470	4,288	17,878	946,731
May	474	36,035	891,189	927,699	32,715	2,268	17,283	979,964
June	458	36,453	889,371	926,283	32,715	2,421	17,036	978,454
July	480	36,682	882,228	919,389	32,715	8,464	16,026	976,595
Aug.	515	37,470	903,181	941,166	32,715	2,941	16,092	992,914
Sept.	503	36,620	906,154	943,277	32,715	3,153	15,856	995,001

End of period	External Assets				IMF currency subscription	Central Government securities	Other assets	Total assets/ Total liabilities
	Gold	IMF- related assets[3]	Other	Total				
Oct.	504	36,673	910,671	947,847	32,715	3,744	15,925	1,000,231
Nov.	507	36,319	895,535	932,361	32,715	11,819	16,028	992,922
Dec.	497	35,686	899,365	935,547	31,431	7,772	18,266	993,016
2004								
Jan.	492	35,745	908,614	944,851	31,431	5,908	15,286	997,476
Feb.	481	35,765	913,786	950,032	31,431	7,618	15,308	1,004,389
Mar.	523	36,228	896,106	932,858	31,431	8,329	15,504	988,122
Apr.	492	36,265	890,780	927,536	31,431	6,628	17,071	982,667
May	491	36,110	879,582	916,183	31,846	6,312	17,761	972,101
June	491	36,259	864,180	900,931	31,846	6,482	16,880	956,139

[1] Figures are reported according to the prevailing accounting policies as explained each year in the 'Notes to the Accounts' in the *Annual Report* of the Central Bank of Malta.

[2] Includes IMF Reserve Position and holdings of SDRs.

[3] Valued according to the prevailing accounting policies as explained each year in the 'Notes to the Accounts' in the *Annual Report* of the Central Bank of Malta.

TABLE 1.2 STATEMENT OF ASSETS AND LIABILITIES DEPOSIT MONEY BANKS

Liabilities

Lm thousands

End of period	Deposits[1]				Foreign liabilities[2]	Capital & reserves	Other liabilities
	Demand	Savings	Time	Total			
1998	145,973	581,875	1,102,040	1,829,888	305,527	115,258	395,919
1999	188,460	632,675	1,217,858	2,038,993	356,384	126,829	469,904
2000	192,206	623,727	1,296,731	2,112,664	404,679	158,523	566,664
2001	212,877	667,301	1,432,338	2,312,516	600,963	190,915	566,193
2002	245,190	714,116	1,648,268	2,607,574	1,038,562	272,793	414,820
2003							
Jan.	251,185	724,204	1,657,386	2,632,775	1,049,620	297,128	380,431
Feb.	251,491	714,989	1,648,298	2,614,778	1,034,531	297,128	375,880
Mar.	249,459	731,118	1,628,213	2,608,790	1,029,180	297,127	390,435
Apr.	254,647	735,794	1,642,450	2,632,891	1,032,584	297,163	386,260
May	263,970	748,382	1,635,936	2,648,288	1,021,480	297,127	381,808
June	278,620	755,702	1,623,632	2,657,954	1,043,193	297,127	401,387
July	281,553	742,923	1,619,020	2,643,496	1,046,568	297,127	406,127
Aug.	280,262	755,188	1,628,766	2,664,216	1,063,210	297,127	411,457
Sept.	283,638	765,827	1,620,026	2,669,491	1,022,531	302,118	411,314

End of period	Resident deposits[1]				External liabilities	Debt securities issued	Capital & reserves	Other liabilities
	Withdrawable on demand	Redeemable at notice	With agreed maturity	Total				
Oct.	1,040,829	29,344	1,622,654	2,692,827	1,056,493	31,834	414,591	354,223
Nov.	1,046,820	28,235	1,599,771	2,674,826	1,059,350	31,690	596,394	371,642
Dec.	1,047,817	28,782	1,599,172	2,675,772	1,077,630	46,638	599,982	350,120
2004								
Jan.	1,060,800	29,375	1,596,415	2,686,590	1,095,935	46,598	600,927	353,314
Feb.	1,089,949	29,356	1,591,050	2,710,355	1,189,417	46,564	603,897	339,199
Mar.	1,094,169	29,668	1,592,750	2,716,588	1,207,806	49,817	601,519	340,872
Apr.	1,120,871	31,997	1,585,467	2,738,334	1,184,591	50,097	649,104	344,013
May	1,101,281	29,380	1,590,064	2,720,725	1,206,292	49,889	652,127	346,613
June	1,116,388	29,414	1,595,115	2,740,917	1,208,629	49,915	655,746	330,304

[1] Includes Malta Government and private sector deposits but excludes deposits belonging to non-residents (these are classified as foreign liabilities). Demand deposits are netted of uncleared effects drawn on local banks (i.e. items in the process of collection).

[2] From September 1992, the bulk of foreign liabilities belonging to a Deposit Money Bank was transferred to its offshore bank subsidiary.

TABLE 1.2 STATEMENT OF ASSETS AND LIABILITIES DEPOSIT MONEY BANKS

Assets

Lm thousands

End of period	Cash & deposits with Central Bank of Malta	Foreign assets	Local lending & Bills discounted	Local investments	Fixed & other assets	Total assets/ total liabilities
1998	140,172	575,077	1,324,629	477,853	128,861	2,646,592
1999	169,909	615,109	1,464,365	574,198	168,529	2,992,110
2000	152,739	729,614	1,608,023	601,427	150,727	3,242,530
2001	180,312	791,844	1,866,440	663,006	168,985	3,670,587
2002	294,778	1,299,603	1,899,173	667,087	173,107	4,333,748
2003						
Jan.	304,093	1,307,320	1,890,261	700,389	157,890	4,359,953
Feb.	284,217	1,294,386	1,876,815	706,001	160,897	4,322,316
Mar.	272,104	1,283,624	1,919,127	720,555	130,121	4,325,531
Apr.	282,147	1,266,474	1,925,836	736,349	138,092	4,348,898
May	308,692	1,238,948	1,922,318	732,738	146,008	4,348,703
June	301,037	1,273,046	1,919,728	754,824	151,027	4,399,661
July	277,958	1,302,899	1,912,632	744,518	155,312	4,393,318
Aug.	312,372	1,329,512	1,903,063	721,744	169,318	4,436,009
Sept.	314,116	1,283,146	1,938,457	728,874	140,862	4,405,455

End of period	Balances held with Central Bank of Malta[1]	Loans	Securities other than shares	Shares & other equity	External assets	Other assets	Total Assets/ total liabilities
Oct.	322,345	1,878,804	651,510	35,403	1,352,794	309,114	4,549,969
Nov.	279,929	1,890,275	659,820	214,854	1,357,872	331,149	4,733,900
Dec.	260,873	1,909,894	622,093	216,477	1,405,740	335,064	4,750,141
2004							
Jan.	312,047	1,902,808	607,539	215,368	1,406,513	339,089	4,783,362
Feb.	307,741	1,905,858	628,275	214,980	1,495,175	337,404	4,889,433
Mar.	298,278	1,947,956	649,840	211,193	1,500,755	308,579	4,916,602
Apr.	295,735	1,939,989	657,379	209,856	1,542,336	320,845	4,966,140
May	249,406	1,955,450	680,574	210,607	1,550,744	328,834	4,975,616
June	247,127	1,964,152	675,661	210,762	1,576,363	311,448	4,985,513

[1] Includes holdings of cash.

TABLE 1.3 STATEMENT OF ASSETS AND LIABILITIES

INTERNATIONAL BANKING INSTITUTIONS

Liabilities

Lm thousands

End of period	Resident deposits				Foreign liabilities	Capital & reserves	Other liabilities	Total liabilities
	Demand	Savings	Time	Total				
1998	2,866	7,712	11,292	21,870	1,690,832	161,866	17,382	1,891,950
1999	4,027	10,203	7,093	21,323	2,453,948	188,740	39,045	2,703,056
2000	4,715	12,403	15,230	32,348	2,820,520	194,213	59,066	3,106,146
2001	5,426	11,259	16,153	32,838	2,348,815	256,729	17	2,638,400
2002	28	5,227	1,125	6,380	2,297,394	157,981	14,774	2,476,529
2003								
Jan.	294	5,571	1,336	7,201	2,161,655	162,453	10,417	2,341,726
Feb.	316	5,302	768	6,386	2,233,730	169,440	11,592	2,421,148
Mar.	312	3,848	789	4,949	2,250,377	169,477	14,479	2,439,283
Apr.	498	4,323	784	5,605	2,273,457	169,688	16,769	2,465,519
May	344	2,618	947	3,909	2,243,020	170,129	21,350	2,438,409
June	969	2,262	1,057	4,288	2,303,399	169,717	20,932	2,498,336
July	596	2,457	1,064	4,117	2,513,736	169,733	20,914	2,708,500
Aug.	680	3,544	454	4,678	2,872,514	169,782	25,978	3,072,951
Sept.	2,916	915	836	4,667	2,789,117	170,848	28,181	2,992,813

End of period	Resident deposits				External liabilities	Capital & reserves	Other liabilities	Total liabilities
	Withdrawable on demand	Redeemable at notice	With agreed maturity	Total				
Oct.	903	-	240	1,143	2,653,619	180,378	2,706	2,837,847
Nov.	1,049	-	242	1,290	2,561,798	185,528	3,213	2,751,830
Dec.	464	-	491	955	2,748,650	182,443	2,526	2,934,574
2004								
Jan.	366	-	258	624	2,811,509	185,362	2,847	3,000,343
Feb.	415	-	281	696	2,778,925	190,700	3,300	2,973,622
Mar.	255	-	285	539	2,893,122	201,506	3,477	3,098,645
Apr.	669	-	288	957	2,995,185	192,016	3,180	3,191,337
May	135	-	287	422	3,018,477	192,800	3,420	3,215,119
June	201	-	286	487	2,984,665	199,220	3,586	3,187,957

TABLE 1.3 STATEMENT OF ASSETS AND LIABILITIES INTERNATIONAL BANKING INSTITUTIONS

Assets

Lm thousands

End of period	Cash & deposits with Central Bank of Malta	Foreign assets	Local lending & bills discounted	Local investments	Fixed & other assets	Total assets
1998	1,236	1,652,699	996	231,290	5,729	1,891,950
1999	1,892	2,417,710	6,135	260,458	16,860	2,703,056
2000	2,078	2,819,021	6,128	267,663	11,256	3,106,146
2001	1,355	2,481,053	5,855	137,161	12,976	2,638,400
2002	1,141	2,456,089	6,426	8,860	4,013	2,476,529
2003						
Jan.	1,179	2,321,045	6,200	8,712	4,590	2,341,726
Feb.	1,223	2,400,272	5,753	8,767	5,133	2,421,148
Mar.	1,270	2,418,695	6,386	8,815	4,117	2,439,283
Apr.	1,214	2,444,223	7,759	8,635	3,687	2,465,519
May	1,212	2,417,272	7,940	8,405	3,580	2,438,409
June	1,156	2,477,243	7,385	8,556	3,996	2,498,336
July	1,222	2,687,743	7,020	8,571	3,943	2,708,500
Aug.	1,354	3,052,321	6,688	8,589	3,999	3,072,951
Sept.	1,382	2,971,456	6,685	8,580	4,710	2,992,813

End of period	Balances held with Central Bank of Malta[1]	External assets	Loans	Securities other than shares	Shares and other equity	Other assets	Total assets
Oct.	-	2,820,718	128	-	623	16,377	2,837,845
Nov.	-	2,734,717	126	-	662	16,324	2,751,830
Dec.	-	2,917,645	121	-	613	16,194	2,934,573
2004							
Jan.	-	2,983,356	120	-	629	16,238	3,000,342
Feb.	-	2,956,685	120	-	633	16,183	2,973,622
Mar.	-	3,081,612	122	-	633	16,278	3,098,644
Apr.	-	3,174,201	126	-	629	16,381	3,191,338
May	-	3,198,105	126	-	624	16,264	3,215,118
June	-	3,171,551	123	-	620	15,662	3,187,957

[1] Includes holdings of cash.

TABLE 1.4a BANKING SURVEY[1]

Lm thousands

End of period	Domestic credit			Net foreign assets			Narrow money[4] (M1)	Quasi-money[5]	Other items (net)	Total assets/ liabilities
	Net claims on Government[2]	Claims on private & parastatal sectors[3]	Total	Central Bank of Malta	All banking institutions	Total				
1998	355,996	1,459,815	1,815,811	639,991	238,447	878,438	523,628	1,698,959	471,662	2,694,249
1999	358,094	1,632,866	1,990,960	740,339	228,835	969,174	581,148	1,860,653	518,334	2,960,134
2000	411,810	1,772,432	2,184,242	644,163	330,271	974,434	594,660	1,944,221	619,795	3,158,676
2001	475,109	1,853,194	2,328,303	760,428	323,119	1,083,546	635,487	2,117,464	658,898	3,411,850
2002	497,959	1,908,189	2,406,148	873,860	419,737	1,293,596	680,121	2,357,951	661,672	3,699,744
2003										
Jan.	522,170	1,896,269	2,418,439	889,618	417,091	1,306,709	677,963	2,375,357	671,828	3,725,148
Feb.	513,157	1,884,676	2,397,833	897,328	426,398	1,323,726	680,993	2,357,297	683,269	3,721,559
Mar.	519,247	1,927,805	2,447,052	878,196	422,762	1,300,958	685,794	2,353,109	709,107	3,748,009
Apr.	547,764	1,934,365	2,482,128	889,141	404,656	1,293,796	705,490	2,369,144	701,291	3,775,925
May	540,748	1,929,776	2,470,523	925,019	391,719	1,316,738	710,003	2,371,979	705,280	3,787,261
June	554,868	1,934,429	2,489,297	921,508	403,697	1,325,205	729,233	2,368,868	716,401	3,814,502
July	527,842	1,931,288	2,459,131	916,890	430,338	1,347,228	731,401	2,350,408	724,550	3,806,359
Aug.	518,377	1,920,329	2,438,706	935,781	446,110	1,381,890	730,944	2,373,156	716,496	3,820,596
Sept.	523,298	1,962,161	2,485,460	935,653	442,953	1,378,606	738,817	2,374,408	750,841	3,864,066

TABLE 1.4b MONETARY FINANCIAL INSTITUTIONS (MFIs) SURVEY[1]

Lm thousands

End of period	Domestic credit			Net foreign assets			Broad money (M3)	Other counterparts to broad money (net)	Total assets/ liabilities
	Net claims on central Government[2]	Claims on other residents	Total	Central Bank of Malta	Other Monetary Financial Institutions	Total			
Oct.	566,629	1,916,163	2,482,792	953,334	463,400	1,416,734	2,862,027	1,037,499	3,899,526
Nov.	595,957	2,064,159	2,660,116	935,785	471,441	1,407,226	2,847,973	1,219,370	4,067,342
Dec.	568,436	2,080,309	2,648,744	919,841	497,106	1,416,946	2,849,244	1,216,449	4,065,691
2004									
Jan.	562,778	2,075,065	2,637,844	938,451	482,425	1,420,876	2,865,097	1,193,624	4,058,720
Feb.	579,392	2,080,089	2,659,480	944,205	483,518	1,427,723	2,894,167	1,193,037	4,087,203
Mar.	605,394	2,119,969	2,725,363	933,078	481,439	1,414,517	2,904,751	1,235,130	4,139,880
Apr.	601,279	2,119,975	2,721,254	929,852	536,761	1,466,613	2,933,596	1,254,270	4,187,867
May	565,803	2,156,714	2,722,517	920,605	524,081	1,444,685	2,914,066	1,253,136	4,167,202
June	585,382	2,164,778	2,750,161	906,856	554,620	1,461,477	2,939,288	1,272,347	4,211,637

[1] Includes Central Bank of Malta, Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (from January 1995). All interbank transactions are excluded.

[2] Central Government deposits held with MFIs are netted from this figure.

[3] These claims include domestic loans and overdrafts to private and parastatal bodies, investments in local non-Government securities, inland bills of exchange and promissory notes.

[4] Excludes Malta Government deposits, balances belonging to non-residents as well as uncleared effects drawn on Deposit Money Banks.

[5] Government deposits and balances belonging to non-residents.

TABLE 1.5 MONETARY BASE AND MONETARY AGGREGATES

Lm thousands

End of period	Monetary base (M0)			Broad money (M3)						
				Narrow money(M1)			Quasi-money			Total
	Currency issued	Bank deposits with Central Bank of Malta	Total	Currency in circulation	Demand deposits	Total	Savings deposits	Time deposits	Total	
1998	390,911	115,195	506,107	369,493	154,135	523,628	585,131	1,113,828	1,698,959	2,222,587
1999	418,485	124,786	543,271	384,593	196,555	581,148	637,402	1,223,251	1,860,653	2,441,800
2000	423,188	141,270	564,459	396,303	198,357	594,660	629,389	1,314,832	1,944,221	2,538,881
2001	441,829	125,789	567,618	418,887	216,600	635,487	671,449	1,446,015	2,117,464	2,752,951
2002	461,247	151,558	612,805	436,831	243,290	680,121	712,788	1,645,163	2,357,951	3,038,072
2003										
Jan.	450,395	113,620	564,015	431,459	246,504	677,963	721,974	1,653,383	2,375,357	3,053,320
Feb.	452,689	138,964	591,653	433,321	247,672	680,993	713,379	1,643,918	2,357,297	3,038,290
Mar.	456,791	136,096	592,887	441,041	244,753	685,794	729,258	1,623,851	2,353,109	3,038,903
Apr.	465,032	131,883	596,916	446,294	259,196	705,490	733,117	1,636,027	2,369,144	3,074,634
May	465,814	144,630	610,444	448,999	261,004	710,003	743,195	1,628,784	2,371,979	3,081,982
June	471,111	136,503	607,614	452,335	276,898	729,233	751,905	1,616,963	2,368,868	3,098,101
July	471,576	139,529	611,105	452,458	278,943	731,401	737,987	1,612,421	2,350,408	3,081,809
Aug.	472,417	112,896	585,313	454,221	276,722	730,944	751,513	1,621,643	2,373,156	3,104,100
Sept.	475,795	131,166	606,961	456,444	282,373	738,817	759,693	1,614,715	2,374,408	3,113,225

End of period	Monetary base (M0)			Broad money (M3)								
				Intermediate money (M2)							Repurchase agreements /Debt securities with agreed maturity up to 2 years	Total (M3)
				Narrow money (M1)				Deposits redeemable at notice up to 3 months	Deposits with agreed maturity up to 2 years	Total (M2)		
	Currency issued	MFI balances with Central Bank	Total (M0)	Currency in circulation	Deposits withdrawable on demand		Total (M1)					
					Demand	Savings						
Oct.	475,818	137,887	613,706	456,084	289,164	733,905	1,479,153	29,340	1,353,508	2,862,002	25	2,862,027
Nov.	474,370	150,668	625,038	456,987	293,018	736,803	1,486,808	28,181	1,332,958	2,847,947	26	2,847,973
Dec.	485,373	137,885	623,258	460,424	273,666	756,858	1,490,948	28,778	1,329,492	2,849,218	26	2,849,244
2004												
Jan.	477,011	143,258	620,269	461,806	266,693	769,945	1,498,444	29,371	1,337,256	2,865,072	25	2,865,097
Feb.	480,596	151,271	631,867	464,226	275,150	791,753	1,531,128	29,352	1,333,687	2,894,167	-	2,894,167
Mar.	486,005	147,696	633,702	467,489	289,094	786,758	1,543,341	29,664	1,331,746	2,904,751	-	2,904,751
Apr.	491,230	134,088	625,318	472,514	305,138	801,086	1,578,738	31,992	1,322,867	2,933,596	-	2,933,596
May	493,617	152,351	645,968	476,693	300,935	782,932	1,560,560	29,375	1,324,132	2,914,066	-	2,914,066
June	502,342	144,286	646,628	481,560	306,566	790,863	1,578,989	29,409	1,330,890	2,939,288	-	2,939,288

TABLE 1.6 MONETARY POLICY OPERATIONS OF THE CENTRAL BANK OF MALTA

Lm thousands

Period	Liquidity-injection				Liquidity-absorption			
	Reverse repos[1]			Marginal lending facility during the period[2]	Term deposits[3]			Overnight deposit facility[4]
	Amount injected	Amount matured	Amount outstanding		Amount absorbed	Amount matured	Amount outstanding	
1998	241,300	237,300	4,000	-	173,000	173,000	-	-
1999	81,800	85,800	-	-	437,900	425,900	12,000	104,500
2000	244,900[5]	180,200	64,700	500	271,600	283,600	-	97,662
2001	859,000	918,700	5,000	8,550	77,200	56,200	21,000	120,200
2002	-	5,000	-	-	2,399,400	2,316,400	104,000	175,665
2003	-	-	-	1,000	3,519,200	3,518,920	1,677,500	106,400
2003								
Jan.	-	-	-	-	321,600	256,600	169,000	11,300
Feb.	-	-	-	-	242,500	281,500	130,000	7,000
Mar.	-	-	-	-	243,800	259,300	114,500	3,000
Apr.	-	-	-	-	253,300	238,800	129,000	7,400
May	-	-	-	-	332,500	308,500	153,000	25,300
June	-	-	-	-	297,800	305,300	145,500	10,200
July	-	-	-	-	242,200	265,700	122,000	29,100
Aug.	-	-	-	1,000	339,000	284,000	177,000	1,500
Sept.	-	-	-	-	333,900	352,220	158,700	1,000
Oct.	-	-	-	-	362,500	357,200	164,000	6,100
Nov.	-	-	-	-	268,400	321,900	110,500	4,500
Dec.	-	-	-	-	281,700	287,900	104,300	-
2004								
Jan.	-	-	-	2,300	296,000	251,300	149,000	-
Feb.	-	-	-	-	285,600	295,000	139,600	5,350
Mar.	-	-	-	100	292,500	297,400	134,700	-
Apr.	-	-	-	-	287,300	282,000	140,000	5,900
May	-	-	-	-	206,600	268,800	77,800	11,300
June	-	-	-	-	171,100	164,700	84,200	15,600

[1]The Central Bank of Malta injects liquidity into the banking sector through an auction of reverse repos in the event of a liquidity shortage. The maturity period of reverse repos is 14 days.

[2]The Central Bank of Malta provides the marginal lending facility to credit institutions in order to satisfy their liquidity needs arising from normal banking business.

[3]The Central Bank of Malta accepts placements of term deposits by credit institutions, through auctions, in order to absorb excess liquidity in the banking sector. The maturity period of these term deposits is 14 days. Up to February 1997 excess liquidity in the banking system was absorbed using repos.

[4]The Central Bank of Malta provides the overnight deposit facility to credit institutions to absorb temporary liquidity excesses that could not be taken up by the market.

[5]Includes Lm28 million bilateral repos.

TABLE 1.7a DEPOSITS WITH ALL BANKING INSTITUTIONS[1]

analysis by ownership and type

Lm thousands

End of period	Resident deposits by owner				Resident deposits by type		Total resident deposits	Non-resident deposits	Total deposits
	Personal[2]	Corporate/ business	Government	Public sector[3]	Maltese lira deposits	Foreign currency deposits[4]			
1998	1,615,056	206,658	11,839	32,788	1,674,107	192,234	1,866,341	1,076,060	2,942,401
1999	1,704,669	324,081	14,868	33,284	1,870,317	206,585	2,076,902	1,148,486	3,225,388
2000	1,786,776	322,578	13,443	40,557	1,938,548	224,808	2,163,356	1,118,099	3,281,454
2001	1,955,817	351,655	12,521	31,759	2,065,730	286,021	2,351,751	946,220	3,297,971
2002	2,121,567	426,933	14,189	58,112	2,279,244	341,557	2,620,801	908,426	3,529,227
2003									
Jan.	2,120,956	455,044	19,168	56,896	2,307,613	344,451	2,652,064	862,586	3,514,650
Feb.	2,109,743	451,060	17,590	53,672	2,294,497	337,568	2,632,065	860,486	3,492,551
Mar.	2,114,017	446,341	17,008	50,520	2,281,775	346,111	2,627,886	838,378	3,466,264
Apr.	2,131,526	450,777	19,724	46,803	2,309,409	339,421	2,648,830	877,061	3,525,891
May	2,139,655	450,920	20,603	52,908	2,321,773	342,313	2,664,086	832,339	3,496,425
June	2,136,304	460,819	19,441	55,588	2,340,337	331,815	2,672,152	816,393	3,488,545
July	2,116,196	456,710	20,707	63,213	2,321,043	335,783	2,656,826	815,921	3,472,747
Aug.	2,129,058	451,262	20,694	78,513	2,327,898	351,629	2,679,527	842,895	3,522,422
Sept.	2,144,306	438,268	19,740	81,311	2,334,424	349,201	2,683,625	905,119	3,588,744

TABLE 1.7b DEPOSITS HELD WITH OTHER MONETARY FINANCIAL INSTITUTIONS

analysis by ownership

Lm thousands

End of Period	Resident deposits by owner						Resident deposits	Non-resident deposits	Total deposits
	Central Government	Other sectors							
		Other general government	Financial intermediaries and financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total			
Oct.	19,942	6,484	44,901	446,355	2,176,288	2,674,028	2,693,971	893,003	3,586,974
Nov.	19,728	5,766	52,077	425,142	2,173,403	2,656,388	2,676,116	861,834	3,537,950
Dec.	19,216	6,852	51,299	419,019	2,180,340	2,657,511	2,676,727	850,927	3,527,654
2004									
Jan.	20,115	6,623	53,119	415,606	2,191,751	2,667,099	2,687,215	964,582	3,651,796
Feb.	20,034	5,951	62,967	419,984	2,202,116	2,691,018	2,711,051	1,018,570	3,729,621
Mar.	19,829	7,740	51,740	427,765	2,210,052	2,697,298	2,717,127	1,024,388	3,741,515
Apr.	21,148	6,175	55,969	434,283	2,221,717	2,718,144	2,739,291	1,043,975	3,783,266
May	23,130	5,328	57,776	428,514	2,206,398	2,698,017	2,721,148	1,029,411	3,750,558
June	22,096	4,564	58,965	437,579	2,218,200	2,719,308	2,741,404	936,286	3,677,690

[1] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1998). For the purposes of this Table, deposits include uncleared effects.

[2] Includes bearer deposits.

[3] Public sector companies are entities that are subject to control by Government, control being defined as the ability to determine general corporate policy.

[4] Includes external Maltese lira deposits.

TABLE 1.8 DEPOSIT LIABILITIES OF THE OTHER MONETARY FINANCIAL INSTITUTIONS[1]

analysis by currency

Lm thousands

End of period	Resident deposits					Non-resident deposits		Total deposits
	Maltese lira	euro	sterling	US dollar	Other	Maltese lira	Other	
2002	2,293,881	77,068	115,339	111,574	22,939	35,579	872,847	3,529,227
2003								
Jan.	2,322,673	79,410	121,466	109,991	18,524	36,182	826,404	3,514,650
Feb.	2,309,612	78,730	118,707	106,892	18,124	36,856	823,630	3,492,551
Mar.	2,296,684	79,749	123,098	111,742	16,613	46,957	791,421	3,466,264
Apr.	2,324,302	96,210	116,828	96,251	15,239	44,758	832,303	3,525,891
May	2,339,021	96,019	120,441	93,238	15,366	44,488	787,851	3,496,425
June	2,357,660	90,946	115,508	88,915	19,123	52,948	763,445	3,488,545
July	2,338,447	98,371	114,938	85,632	19,437	52,085	763,836	3,472,747
Aug.	2,345,289	102,146	118,127	91,103	22,862	51,380	791,515	3,522,422
Sept.	2,351,781	99,823	118,216	90,836	22,708	51,650	853,469	3,588,744
Oct.	2,345,891	115,277	127,052	84,819	22,221	49,362	896,237	3,640,860
Nov.	2,336,049	107,952	127,904	82,355	22,783	47,907	866,588	3,591,539
Dec.	2,319,822	103,928	130,196	98,049	25,352	47,978	809,676	3,535,001
2004								
Jan.	2,328,490	103,466	129,467	99,393	27,849	47,662	921,353	3,657,680
Feb.	2,345,358	97,888	137,062	104,184	28,012	47,683	975,293	3,735,480
Mar.	2,351,784	96,968	137,613	103,986	27,707	50,269	974,119	3,742,446
Apr.	2,364,993	102,721	136,037	109,986	27,114	50,440	993,535	3,784,826
May	2,343,312	102,392	141,405	108,529	26,036	50,390	979,021	3,751,085
June	2,358,372	104,971	144,237	106,241	27,583	50,900	885,386	3,677,690

[1] As from October 2003 includes also loans granted to the reporting banks.

TABLE 1.9 CURRENCY IN CIRCULATION

Lm thousands

End of period	Currency issued and outstanding			Less currency held by banking system[2]	Currency in circulation
	Notes[1]	Coins	Total		
1998	375,209	15,702	390,911	21,418	369,493
1999	401,999	16,486	418,485	33,893	384,593
2000	405,713	17,476	423,188	26,885	396,303
2001	423,835	17,994	441,829	22,942	418,887
2002	443,905	17,343	461,247	24,416	436,831
2003					
Jan.	433,272	17,123	450,395	18,936	431,459
Feb.	435,652	17,037	452,689	19,369	433,321
Mar.	439,707	17,084	456,791	15,749	441,041
Apr.	447,809	17,223	465,032	18,738	446,294
May	448,445	17,369	465,814	16,815	448,999
June	453,582	17,529	471,111	18,776	452,335
July	453,611	17,964	471,576	19,118	452,458
Aug.	454,236	18,181	472,417	18,196	454,221
Sept.	457,673	18,122	475,795	19,350	456,444
Oct.	457,701	18,117	475,818	19,734	456,084
Nov.	456,331	18,039	474,370	17,383	456,987
Dec.	467,098	18,275	485,373	24,949	460,424
2004					
Jan.	458,965	18,046	477,011	15,205	461,806
Feb.	462,682	17,914	480,596	16,371	464,226
Mar.	468,052	17,954	486,005	18,516	467,489
Apr.	473,087	18,143	491,230	18,716	472,514
May	475,363	18,254	493,617	16,925	476,693
June	483,772	18,571	502,342	20,782	481,560

[1] From December 1998, the Notes figure in the Central Bank of Malta balance sheet, which is also shown in this Table, includes demonetised notes. As a result it differs from the Notes figure in Table 1.10.

[2] For the purposes of this classification, the banking system includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (from January 1995).

TABLE 1.10 DENOMINATIONS OF MALTESE CURRENCY ISSUED AND OUTSTANDING

Lm thousands

End of period	Total notes & coins[1]	Currency notes					
		Lm20	Lm10	Lm5	Lm2	Lm1	Total
1998	390,911	109,720	234,117	24,174	5,793	-	373,804
1999	418,485	108,626	259,366	27,738	6,270	-	402,000
2000	423,188	107,902	264,170	27,168	6,473	-	405,713
2001	441,829	108,832	280,699	27,647	6,656	-	423,834
2002	461,247	109,560	298,664	28,784	6,897	-	443,905
2003							
Jan.	450,395	108,876	291,267	26,391	6,739	-	433,273
Feb.	452,689	108,761	293,500	26,595	6,797	-	435,653
Mar.	456,791	109,065	296,674	27,116	6,851	-	439,706
Apr.	465,032	109,948	302,588	28,287	6,986	-	447,809
May	465,814	110,115	302,817	28,473	7,040	-	448,445
June	471,111	110,570	306,974	28,899	7,139	-	453,582
July	471,576	110,120	306,761	29,489	7,241	-	453,611
Aug.	472,417	109,884	307,666	29,481	7,205	-	454,236
Sept.	475,795	109,754	310,593	30,071	7,255	-	457,673
Oct.	475,818	109,526	311,236	29,733	7,206	-	457,701
Nov.	474,370	109,309	310,891	29,055	7,076	-	456,331
Dec.	485,373	109,703	319,411	30,818	7,165	-	467,097
2004							
Jan.	477,011	109,411	313,683	28,854	7,016	-	458,965
Feb.	480,596	109,974	316,423	29,279	7,006	-	462,682
Mar.	486,005	110,176	320,918	29,847	7,111	-	468,052
Apr.	491,230	110,777	324,839	30,253	7,218	-	473,087
May	493,617	111,172	326,069	30,823	7,300	-	475,364
June	502,342	112,254	332,185	31,848	7,485	-	483,772

[1] The denominations of coins consist of Lm1, 50c (cents), 25c, 10c, 5c, 2c, 1c, 5m (mils), 3m and 2m.

TABLE 1.11 DEPOSIT MONEY BANK LIQUIDITY[1]

Lm thousands

Period	Liquid assets			Net short-term liabilities[3]	Ratios (%)	
	Actual	Required	Excess		Liquidity	Advances to deposits[2]
1998	596,848	381,630	215,218	1,272,101	46.9	72.4
1999	694,529	459,454	235,075	1,531,512	45.3	71.8
2000	680,572	491,273	189,299	1,637,576	41.6	76.1
2001	899,098	524,456	374,642	1,748,188	51.4	80.7
2002	983,291	588,529	394,762	1,961,762	50.1	72.8
2003						
Jan.	1,024,617	586,688	437,929	1,955,628	52.4	71.8
Feb.	1,039,716	570,377	469,340	1,901,255	54.7	71.8
Mar.	1,066,884	569,323	497,561	1,897,743	56.2	73.6
Apr.	1,093,560	571,750	521,810	1,905,832	57.4	73.1
May	1,063,269	584,021	479,248	1,946,737	54.6	72.6
June	1,096,464	585,938	510,527	1,953,125	56.1	72.2
July	1,073,066	578,819	494,247	1,929,398	55.6	72.4
Aug.	1,127,699	597,035	530,664	1,990,118	56.7	71.4
Sept.	1,057,229	589,718	467,511	1,965,726	53.8	72.6
Oct.	1,082,194	598,670	483,524	1,995,568	54.2	72.3
Nov.	1,021,931	615,716	406,215	2,052,386	49.8	73.0
Dec.	984,411	609,245	375,166	2,030,816	48.5	73.6
2004						
Jan.	1,039,118	615,294	423,824	2,050,979	50.7	72.8
Feb.	1,149,454	612,935	536,519	2,043,116	56.3	72.3
Mar.	1,050,575	638,508	412,067	2,128,359	49.4	73.5
Apr.	1,055,676	655,572	400,104	2,185,239	48.3	72.7
May	1,027,172	667,041	360,131	2,223,471	46.2	73.8
June	1,049,939	669,409	380,530	2,231,363	47.1	73.3

[1] Up to September 1990, Deposit Money Banks were required to hold an amount equivalent to 25% of their total deposit liabilities in the form of specified liquid assets. In October 1990, the required minimum total liquidity ratio was reduced to 20%. Consequently, the required minimum local liquidity ratio was reduced from 12.5% to 8% of local deposit liabilities. From 15 November 1994, Banking Directive No. 5 established a minimum of 30% liquid asset ratio, net of deductions.

[2] Includes inland and foreign bills of exchange and promissory notes. Local uncleared effects are deducted from deposits.

[3] These consist of all short-term liabilities to banks and customers net of loans received under repurchase agreements against liquid assets, deposits pledged as security and 50% of items in course of collection.

TABLE 1.12 DEPOSIT MONEY BANK LIQUID ASSETS

Lm thousands

Period	Cash & deposits with Central Bank of Malta[1]	Treasury bills	Interbank deposits	Marketable debt securities[2]	Total liquid assets
1998	31,064	33,110	47,280	485,394	596,848
1999	50,995	75,929	67,768	499,837	694,529
2000	33,512	116,818	68,865	461,377	680,572
2001	59,754	135,845	115,894	587,605	899,098
2002	120,981	156,950	135,072	570,288	983,291
2003					
Jan.	153,795	183,519	132,431	554,872	1,024,617
Feb.	106,557	202,352	177,932	552,875	1,039,716
Mar.	112,774	218,173	175,576	560,361	1,066,884
Apr.	134,493	233,548	170,919	554,600	1,093,560
May	150,676	224,942	134,562	553,089	1,063,269
June	163,023	238,860	147,647	546,934	1,096,464
July	134,067	233,858	150,657	554,484	1,073,066
Aug.	190,650	212,998	173,203	550,848	1,127,699
Sept.	174,016	217,201	128,608	537,404	1,057,229
Oct.	189,383	217,045	122,692	542,320	1,071,440
Nov.	126,748	221,450	98,778	574,955	1,021,931
Dec.	129,234	183,902	101,688	569,587	984,411
2004					
Jan.	174,472	169,978	137,682	556,986	1,039,118
Feb.	167,646	186,681	240,744	554,383	1,149,454
Mar.	157,458	207,875	128,455	556,787	1,050,575
Apr.	154,327	219,720	145,405	536,224	1,055,676
May	97,936	224,641	142,509	562,086	1,027,172
June	106,098	221,610	167,860	554,371	1,049,939

[1] Excludes balances held as reserve deposits.

[2] Includes securities issued or guaranteed by governments, supranational institutions or other institutions, discounted on the basis of credit risk and remaining term to maturity.

TABLE 1.13 DEPOSIT MONEY BANK LOANS AND ADVANCES CLASSIFIED BY SIZE AND INTEREST RATES[1]

Lm thousands

End of period		Size of loans and advances[2]				
		Up to 10,000	Over 10,000 to 100,000	Over 100,000 to 500,000	Over 500,000	Total
1998	Amount	111,377	325,711	282,194	578,241	1,297,519
	Interest Rate	8.01	8.37	8.51	7.38	7.93
1999	Amount	138,814	373,630	334,746	586,516	1,433,707
	Interest Rate	7.33	7.62	7.66	6.55	7.16
2000	Amount	177,667	426,915	335,629	642,687	1,582,898
	Interest Rate	7.38	7.31	7.29	6.46	6.97
2001	Amount	222,816	497,299	351,893	788,641	1,860,625
	Interest Rate	6.70	6.87	7.22	5.50	6.33
2002	Amount	231,568	554,682	358,287	1,001,883	2,146,420
	Interest Rate	6.21	6.02	6.68	5.04	5.69
2003						
Mar.	Amount	232,765	579,593	354,363	993,850	2,160,571
	Interest Rate	6.17	5.97	6.72	4.53	5.45
June	Amount	235,457	588,418	358,575	980,178	2,162,628
	Interest Rate	5.59	5.25	6.11	3.98	4.85
Sept.	Amount	235,904	606,023	357,995	990,225	2,190,147
	Interest Rate	5.43	4.91	6.15	3.98	4.75
Dec.	Amount	235,881	681,728	369,377	1,060,825	2,347,810
	Interest Rate	-	-	-	-	-
2004						
Jan.	Amount	242,356	683,921	361,299	1,049,745	2,337,321
	Interest Rate	-	-	-	-	-
Feb.	Amount	243,623	689,943	363,204	1,029,507	2,326,276
	Interest Rate	-	-	-	-	-
Mar.	Amount	248,528	726,729	390,829	1,102,719	2,468,805
	Interest Rate	-	-	-	-	-
Apr.	Amount	262,665	750,154	400,273	1,092,721	2,505,813
	Interest Rate	-	-	-	-	-
May	Amount	262,461	756,533	402,047	1,093,484	2,514,525
	Interest Rate	-	-	-	-	-
June	Amount	241,743	705,317	374,617	1,221,559	2,543,237
	Interest Rate	-	-	-	-	-

[1] For the purposes of this classification, these include loans and advances extended to residents and non-residents in domestic and foreign currencies. Interest rates are weighted averages of each size group.

[2] Figures quoted in the heading are actual figures, while those in the rest of the Table are in Lm thousands as indicated.

TABLE 1.14 DEPOSIT MONEY BANK LOANS AND ADVANCES OUTSTANDING BY MAIN SECTOR[1]

Lm thousands

End of Period	Energy & water	Transport, storage & communication	All banking institutions[2]	Agriculture & fisheries	Manufacturing & shiprepair/ shipbuilding	Building & construction	Hotel, restaurant & tourist trades	Wholesale & retail trades
1998	106,900	76,025	58,077	10,627	195,971	82,028	170,185	243,464
1999	108,906	75,977	43,186	10,305	196,285	96,482	204,228	267,183
2000	101,083	98,396	53,591	19,004	210,971	98,362	235,703	285,419
2001	95,225	107,097	101,419	10,374	202,597	85,169	245,567	295,397
2002	93,590	132,831	84,376	10,321	190,941	91,168	254,872	294,935
2003								
Jan.	90,782	126,746	82,918	9,700	188,361	95,344	251,531	289,993
Feb.	92,064	125,109	80,923	9,526	186,417	94,627	245,148	285,913
Mar.	93,883	126,628	80,868	9,733	190,217	96,670	249,631	297,448
Apr.	93,133	127,805	83,564	9,387	188,565	97,503	250,463	296,660
May	88,110	127,732	83,664	9,268	186,040	100,269	247,837	296,975
June	87,524	126,943	81,153	9,747	185,961	100,006	243,706	296,276
July	87,230	122,334	79,105	9,367	177,443	94,842	232,150	288,460
Aug.	85,220	118,983	77,806	9,347	179,917	95,670	232,532	281,970
Sept.	86,197	122,122	74,923	9,588	185,132	99,068	235,555	289,316

End of period	Electricity, gas & water supply	Transport, storage & communication	Financial intermediation	Agriculture & fishing	Manufacturing	Construction	Hotels & restaurants[3]	Wholesale & retail trade; repairs
Oct.	85,857	138,148	83,681	9,490	181,670	169,719	212,883	292,491
Nov.	86,660	136,199	79,238	9,464	182,747	171,839	209,285	290,814
Dec.	83,891	135,506	74,873	9,237	184,823	201,132	206,872	288,171
2004								
Jan.	80,976	140,987	77,924	9,190	178,308	197,512	205,727	281,635
Feb.	79,769	140,647	73,201	9,279	179,335	193,346	204,739	281,182
Mar.	78,217	139,378	71,518	9,318	181,459	200,700	209,504	293,256
Apr.	78,372	136,338	70,037	9,394	180,116	198,014	207,194	291,978
May	85,869	135,904	68,835	9,275	178,368	200,980	206,525	288,889
June	86,142	132,425	68,682	9,300	177,088	202,392	204,555	288,781

[1] Includes bills discounted as from October 2003.

[2] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (from January 1995).

[3] Excluding related construction activities.

TABLE 1.14 DEPOSIT MONEY BANK LOANS AND ADVANCES OUTSTANDING BY MAIN SECTOR[1] *(continued)*

Lm thousands

End of period	Personal				Other services[3]	All other	Total local lending	Foreign lending	Total
	House purchases[2]	Consumer durable goods	Other	Total					
1998	91,733	44,627	26,324	162,684	60,829	125,524	1,292,314	5,205	1,297,519
1999	121,019	49,883	39,371	210,273	79,946	133,518	1,426,289	7,418	1,433,707
2000	137,293	52,959	53,582	243,833	65,828	161,752	1,573,942	8,956	1,582,898
2001	306,722	48,704	87,016	442,442	75,556	179,338	1,840,181	20,444	1,860,625
2002	367,124	43,302	97,897	508,323	81,977	137,594	1,880,928	265,492	2,146,420
2003									
Jan.	372,665	39,445	94,847	506,957	86,875	143,614	1,872,821	267,796	2,140,617
Feb.	367,054	41,645	99,196	507,895	89,965	142,391	1,859,978	258,905	2,118,883
Mar.	372,824	42,007	101,891	516,722	92,440	148,175	1,902,415	258,156	2,160,571
Apr.	377,770	40,830	104,848	523,448	89,875	149,244	1,909,647	255,718	2,165,365
May	382,000	40,344	105,753	528,097	85,339	153,209	1,906,540	257,233	2,163,773
June	382,540	41,406	109,744	533,690	86,658	152,513	1,904,177	258,451	2,162,628
July	410,993	40,392	96,820	548,205	102,918	155,247	1,897,301	258,747	2,156,048
Aug.	413,110	40,906	98,713	552,729	99,574	154,510	1,888,258	261,472	2,149,730
Sept.	424,054	40,395	107,889	572,338	92,505	156,820	1,923,564	266,583	2,190,147

End of period	Real estate, renting & business activities	Households & individuals				Other (residual)[3]	Total lending to residents	Lending to non-residents	Total
		Lending for house purchase	Consumer credit	Other lending	Total				
Oct.	125,872	427,632	35,059	128,965	591,744	58,233	1,949,788	291,669	2,241,457
Nov.	124,141	437,214	35,316	129,885	602,505	62,995	1,955,887	288,420	2,244,307
Dec.	118,472	442,245	36,142	131,530	609,917	60,788	1,973,681	374,130	2,347,811
2004									
Jan.	117,389	448,937	35,811	131,522	616,270	59,463	1,965,382	371,927	2,337,309
Feb.	118,687	454,386	35,463	134,809	624,657	61,664	1,966,507	359,769	2,326,276
Mar.	121,620	466,190	35,473	138,769	640,431	61,610	2,007,011	461,775	2,468,786
Apr.	121,657	467,771	35,540	141,467	644,778	61,430	1,999,307	506,508	2,505,815
May	121,601	486,499	51,881	117,719	656,099	60,891	2,013,236	501,265	2,514,501
June	120,503	497,039	66,660	104,641	668,339	60,238	2,018,445	524,792	2,543,237

[1] Includes bills discounted as from October 2003.

[2] Includes also lending for the construction, modernisation or extension of dwellings.

[3] Includes mining and quarrying, public administration, education, health and social work, community recreational and personal activities, extra-territorial organisations and bodies.

TABLE 1.15a LOANS AND ADVANCES OUTSTANDING TO THE PRIVATE AND PUBLIC SECTORS BY CATEGORY[1]

Lm thousands

End of period	Energy & water		Transport, storage & communication		Agriculture & fisheries		Manufacturing	
	Private sector	Public sector	Private sector	Public sector	Private sector	Public sector	Private sector	Public sector
1998	1,080	105,820	31,877	52,368	10,949	154	132,176	24,158
1999	910	107,996	33,107	47,279	10,765	-	134,461	22,999
2000	492	100,591	46,358	52,038	19,026	-	154,127	11,204
2001	931	94,294	48,637	58,460	10,357	17	136,204	23,421
2002	679	92,911	46,121	86,710	10,298	23	124,959	22,485
2003								
Mar.	1,000	92,883	46,791	79,837	9,726	7	127,729	18,766
June	325	87,199	47,983	78,960	9,737	10	123,398	16,374
Sept.	383	85,814	43,863	78,259	9,586	2	122,191	19,550

End of period	Shipbuilding & shiprepair	Building & construction		Hotel, restaurant & tourist trades		Wholesale & retail trades	
	Private /public sector	Private sector	Public sector	Private sector	Public sector	Private sector	Public sector
1998	47,781	79,743	2,800	188,312	2,068	245,854	6
1999	46,909	94,189	2,666	218,053	2,830	269,119	9
2000	46,897	95,986	2,550	234,173	4,253	285,627	5
2001	43,221	85,169	-	241,877	3,690	295,002	395
2002	44,462	91,161	7	249,129	5,743	294,697	238
2003							
Mar.	44,679	96,670	-	246,340	3,291	297,243	205
June	47,258	100,006	-	240,349	3,357	296,002	274
Sept.	44,383	97,468	1,600	232,089	3,466	289,304	12

End of period	Personal	Other services		All other		Total local lending		
		Private sector	Public sector	Private sector	Public sector	Private sector	Public sector	Total
1998	266,170	54,748	7,822	124,735	3,735	1,139,090	243,266	1,382,356
1999	313,625	72,137	9,313	136,060	2,225	1,285,929	238,800	1,524,729
2000	367,921	60,861	5,051	163,447	2,705	1,431,641	221,671	1,653,312
2001	442,442	65,936	9,620	174,853	5,778	1,503,702	236,602	1,740,304
2002	508,323	72,382	9,595	133,771	5,666	1,533,481	265,879	1,799,347
2003								
Mar.	516,722	84,877	7,563	143,728	6,237	1,572,950	251,344	1,824,294
June	533,690	75,609	11,049	148,946	6,227	1,579,639	247,114	1,826,753
Sept.	572,338	81,363	11,142	156,686	2,171	1,604,550	247,120	1,851,670

[1] Loans and advances extended by Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (from January 1995). Public sector companies comprise entities that are subject to control by Government, control being defined as the ability to determine general corporate policy.

TABLE 1.15b DEPOSIT MONEY BANK LOANS AND ADVANCES TO RESIDENTS

analysis by sector and category

Lm thousands

End of period	Electricity, gas & water supply		Transport, storage & communication			Agriculture & fishing		Financial intermediation		
	General government & public non-financial companies	Other	General government	Public non-financial companies	Other	General government	Other	General government	Public non-financial companies	Other
2003	82,882	1,009	82	59,989	75,435	60	9,177	401	907	73,656
2004										
Jan.	79,956	1,020	82	62,107	78,799	68	9,122	401	935	76,588
Feb.	78,776	993	82	61,455	79,110	17	9,262	390	900	71,912
Mar,	77,284	932	82	62,299	76,997	8	9,310	384	918	70,216
Apr.	77,446	926	82	59,308	76,948	8	9,385	378	8	69,651
May	85,135	733	82	60,886	74,936	16	9,259	378	8	68,450
June	85,493	649	0	58,365	74,059	25	9,276	366	9	68,307

End of period	Manufacturing		Construction		Hotels & restaurants			Wholesale and retail trade; repairs		
	General government & public non-financial companies	Other	Public non-financial companies	Other	General government	Public non-financial companies	Other	General government	Public non-financial companies	Other
2003	61,434	123,388	3,900	197,232	-	2,893	203,979	4	161	288,006
2004										
Jan.	60,662	117,646	1,400	196,112	-	2,862	202,865	4	-	281,631
Feb.	58,318	121,018	1,400	191,945	-	2,933	201,806	2	-	281,181
Mar,	60,642	120,816	3,933	196,767	-	2,711	206,792	-	-	293,256
Apr.	59,654	120,461	3,900	194,114	-	2,695	204,499	-	62	291,916
May	59,613	118,754	4,150	196,830	-	2,723	203,803	-	62	288,828
June	58,903	118,185	4,150	198,242	-	2,608	201,947	-	-	288,781

End of period	Households & individuals	Real estate, renting & business activities		Other			Total lending to residents of Malta		
		General government / Public non-financial companies	Other	General government	Public non-financial companies	Other	General government	Public non-financial companies	Other
2003	609,917	1,138	117,334	10,800	478	49,510	89,483	135,646	1,748,552
2004									
Jan.	616,270	1,038	116,351	9,033	2,372	48,058	86,746	134,174	1,744,462
Feb.	624,657	1,041	117,647	11,399	1,476	48,789	86,366	131,822	1,748,319
Mar,	640,431	1,051	120,569	11,373	167	50,070	86,747	134,106	1,786,157
Apr.	644,778	951	120,706	11,292	186	49,953	85,728	130,242	1,783,336
May	656,099	950	120,651	10,929	216	49,747	63,020	162,127	1,788,089
June	668,339	950	119,550	10,824	141	49,274	62,492	159,345	1,796,608

TABLE 1.16 NET FOREIGN ASSETS OF THE BANKING SYSTEM[1]

Lm thousands

End of period	Central Bank of Malta[2]							Total (A+B)
	Foreign Assets				Foreign liabilities	Net (A)	Government & parastatal companies[5] (B)	
	Gold[3]	Convertible currencies	IMF-related assets[4]	Total foreign assets				
1998	688	598,874	40,429	639,991	-	639,991	-	639,991
1999	737	704,084	35,517	740,339	-	740,339	-	740,339
2000	452	606,771	36,940	644,163	3,655	640,508	-	640,508
2001	629	721,936	37,863	760,428	-	760,428	-	760,428
2002	473	842,862	37,512	880,847	6,987	873,860	-	873,860
2003								
Jan.	510	854,421	36,978	891,909	2,291	889,618	-	889,618
Feb.	759	862,145	37,335	900,239	2,910	897,328	-	897,328
Mar.	723	845,994	37,316	884,034	5,838	878,196	-	878,196
Apr.	461	853,834	36,800	891,095	1,955	889,141	-	889,141
May	474	891,189	36,035	927,699	2,680	925,019	-	925,019
June	458	889,371	36,453	926,283	4,774	921,508	-	921,508
July	480	882,228	36,682	919,389	2,499	916,890	-	916,890
Aug.	515	903,181	37,470	941,166	5,386	935,781	-	935,781
Sept.	503	906,154	36,620	943,277	7,624	935,653	-	935,653

End of period	Central Bank of Malta[2]					
	Foreign Assets				Foreign Liabilities	Net Foreign Assets (A)
	Gold	IMF-related assets	Other	Total		
Oct.	633	69,388	920,606	990,627	37,293	953,334
Nov.	636	69,034	905,340	975,010	39,226	935,785
Dec.	624	67,117	910,851	978,592	58,751	919,841
2004						
Jan.	619	67,177	918,004	985,800	47,348	938,451
Feb.	606	67,196	923,240	991,042	46,837	944,205
Mar.	657	67,660	905,841	974,158	41,080	933,078
Apr.	602	67,696	901,241	969,539	39,687	929,852
May	674	67,956	891,114	959,744	39,139	920,605
June	656	68,106	874,440	943,202	36,345	906,856

[1] On accrual basis.

[2] Up to 1998 this comprised the position of the monetary authorities, including the Central Bank of Malta and small amounts of Treasury balances. From 1998 it comprised only the foreign assets of the Central Bank of Malta.

[3] Includes small amounts of other precious metals.

[4] Includes IMF reserve position and holdings of SDRs.

[5] Comprises customers' foreign currency deposits and sinking funds held with the Central Bank of Malta, and other official funds held with the Treasury.

TABLE 1.16 NET FOREIGN ASSETS OF THE BANKING SYSTEM[1]

(continued)

Lm thousands

End of period	Deposit money banks[2]			Total (A+B)	International banking institutions[2]			Grand total (A+B+C)
	Assets	Liabilities	Net (B)		Assets	Liabilities	Net (C)	
1998	607,354	518,557	88,797	728,788	1,627,452	1,477,802	149,650	878,438
1999	661,557	605,673	55,884	796,223	2,377,807	2,204,857	172,951	969,174
2000	816,746	690,013	126,733	770,896	2,738,724	2,535,186	203,538	974,434
2001	828,701	722,868	105,833	866,261	2,444,196	2,226,910	217,286	1,083,546
2002	1,299,603	1,038,562	261,041	1,134,901	2,456,089	2,297,394	158,695	1,293,596
2003								
Jan.	1,307,320	1,049,620	257,701	1,147,319	2,321,045	2,161,655	159,390	1,306,709
Feb.	1,294,386	1,034,531	259,856	1,157,184	2,400,272	2,233,730	166,542	1,323,726
Mar.	1,283,624	1,029,180	254,445	1,132,640	2,418,695	2,250,377	168,317	1,300,958
Apr.	1,266,474	1,032,584	233,890	1,123,030	2,444,223	2,273,457	170,766	1,293,796
May	1,238,948	1,021,480	217,468	1,142,486	2,417,272	2,243,020	174,251	1,316,738
June	1,273,046	1,043,193	229,853	1,151,361	2,477,243	2,303,399	173,844	1,325,205
July	1,302,899	1,046,568	256,331	1,173,221	2,687,743	2,513,736	174,007	1,347,228
Aug.	1,329,512	1,063,210	266,302	1,202,083	3,052,321	2,872,514	179,807	1,381,890
Sept.	1,283,146	1,022,531	260,614	1,196,267	2,971,456	2,789,117	182,339	1,378,606
Oct.	1,352,794	1,056,493	296,301	1,249,635	2,820,718	2,653,619	167,099	1,416,734
Nov.	1,357,872	1,059,350	298,522	1,234,307	2,734,717	2,561,798	172,919	1,407,226
Dec.	1,405,740	1,077,630	328,110	1,247,951	2,917,645	2,748,650	168,995	1,416,946
2004								
Jan.	1,406,513	1,095,935	310,578	1,249,029	2,983,356	2,811,509	171,847	1,420,876
Feb.	1,495,175	1,189,417	305,758	1,249,963	2,956,685	2,778,925	177,760	1,427,723
Mar.	1,500,755	1,207,806	292,949	1,226,027	3,081,612	2,893,122	188,490	1,414,517
Apr.	1,542,336	1,184,591	357,745	1,287,597	3,174,201	2,995,185	179,016	1,466,613
May	1,550,744	1,206,292	344,453	1,265,057	3,198,105	3,018,477	179,628	1,444,685
June	1,576,363	1,208,629	367,733	1,274,590	3,171,551	2,984,665	186,887	1,461,477

[1] From 1995, data are on accrual basis.

[2] For the purposes of this Table only, the amounts of HSBC Overseas Bank (Malta) Ltd. (up to November 2002) and Bank of Valletta International Ltd. (up to August 2001), i.e. the offshore subsidiaries of HSBC Bank Malta plc and Bank of Valletta plc, respectively, are classified with the Deposit Money Banks and not with the International Banking Institutions, as shown in other Tables. Includes data belonging to the Other Banking Institutions sector up to December 2000.

TABLE 1.17 FINANCIAL MARKET RATES

	1998	1999	2000	2001	2002	2003				2004	
						Mar.	June	Sept.	Dec.	Mar.	June
INTEREST RATES											
Central Bank of Malta											
Central intervention rate	5.45	4.75	4.75	4.25	3.75	3.75	3.25	3.00	3.00	3.00	3.00
Money market interventions											
Term deposit rate	5.43	4.70	4.72	4.22	3.70	3.70	3.20	2.95	2.95	2.95	2.95
Reverse repo rate	5.50	4.80	4.80	4.29	3.80#	3.80#	3.30#	3.05#	3.05#	3.05#	3.05#
Standby (collateralised) loan facility	6.00	5.30	5.30	4.80	4.30	4.30	3.80	3.55	3.55	4.50	4.50
Overnight deposit facility	-	1.80	1.80	1.30	0.80	0.80	0.30	0.30	0.30	1.50	1.50
Reserve requirements remuneration	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.75	2.75
Interbank market offered rates											
Overnight	5.50	4.75	4.75	3.65	3.73*	3.69	3.23*	3.20	2.95	2.95	2.90
1 week	5.56	4.74	4.78	4.25	3.76*	3.63*	3.26*	3.21	2.96	2.95*	2.95
1 month	5.70	4.75	4.90	4.58*	3.80*	3.73*	3.27*	3.00*	2.98*	2.82	2.96*
3 month	5.95	5.27	4.92*	4.82*	3.90*	3.76*	3.34*	3.03*	3.00*	3.00*	2.98*
Deposit Money Banks											
Weighted average deposit rate	4.42	4.32	4.17	3.96	3.49	3.27	3.01	2.77	2.46	2.26	2.13
Current	1.49	1.11	1.32	1.48	1.12	0.93	0.75	0.71	0.44	0.45	0.43
Savings	3.04	2.81	2.52	2.22	1.80	1.64	1.43	1.23	1.01	0.99	1.00
Time	5.35	5.43	5.25	4.98	4.39	4.23	4.06	3.77	3.45	3.17	3.00
Weighted average lending rate	8.08	7.28	7.23	6.50	6.07	6.12	5.97	5.94	5.31	5.32	5.31
Government securities											
Treasury bills											
1 month	5.43	-	4.85	4.80	-	-	-	-	-	-	-
3 month	5.49	4.95	4.90	4.53	3.67	3.46	3.38	3.15	2.94	2.93	2.90
6 month	5.48	4.96	4.94	5.04	3.80	3.57	3.35	3.11	2.93	2.92	2.91
1 year	5.50	5.12	-	-	-	-	3.52	3.13	-	2.92	2.95
Government stocks											
2 year	-	-	-	-	-	3.91	3.55	3.64	3.39	3.12	3.21
5 year	5.80	5.46	5.33	5.40	5.15	5.13	4.61	4.38	4.37	4.32	4.27
10 year	6.00	5.55	5.99	6.15	5.43	5.40	5.11	4.73	4.71	4.70	4.65
15 year	6.47	6.03	6.39	6.44	5.86	5.85	5.36	4.94	4.96	5.03	4.89
MALTA STOCK EXCHANGE SHARE INDEX	1211	3278	3376	2200	1871	1885	1920	2071	2126	2765	2524

Note: # denotes the corridor linked to the central intervention rate.
* denotes Central Bank of Malta fixing rate average.
"-" sign implies that no transactions occurred during the preceding quarter.

TABLE 2.1 CENTRAL GOVERNMENT REVENUE AND EXPENDITURE [1]

Lm thousands

Period	Revenue			Expenditure			Deficit(-)/ Surplus(+)	Financing			Residual
	Ordinary[2,3]	Foreign Grants	Total	Recurrent[2,4]	Capital[5]	Total		Local [7]	Foreign [8]	Total	
1990	325,917	7,677	333,594	269,720	108,276	377,995	-44,401	37,266	11,054	48,319	3,917
1991	349,649	16,374	366,023	297,826	115,493	413,319	-47,294	35,217	6,467	41,684	-5,611
1992	341,413	16,392	357,805	325,998	58,017	384,017	-26,213	34,819	-1,603	33,216	7,005
1993	387,531	8,429	395,960	364,793	59,673	424,466	-28,506	27,772	747	28,519	13
1994	403,410	12,852	416,262	405,127	62,340	467,467	-51,205	38,911	8,514	47,425	-3,780
1995	468,248	4,517	472,765	446,628	70,344	516,972	-44,207	44,624	-2,733	41,891	-2,316
1996	447,467	20,804	468,271	498,020	73,527	571,547	-103,276	66,525	-469	66,056	-37,220
1997 [6]	504,297	9,811	514,108	528,903	103,392	632,295	-118,187	162,347	-1,047	161,300	43,113
1998	503,683	10,043	513,726	556,930	96,846	653,776	-140,050	137,856	-4,690	133,166	-6,884
1999	552,651	9,683	562,334	570,133	106,129	676,262	-113,928	148,969	-4,152	144,817	30,889
2000	608,104	9,549	617,653	604,277	98,552	702,829	-85,176	15,623	-4,373	11,250	-73,926
2001	667,228	1,392	668,620	673,286	80,627	753,913	-85,293	113,695	2,360	116,055	30,762
2002	717,084	2,720	719,804	709,806	97,671	807,476	-87,672	33,683	5,625	39,308	-48,364
2003	736,704	2,517	739,221	740,697	103,969	844,666	-105,445	95,699	25,828	121,527	16,082
2003											
Jan.	44,263	282	44,545	59,018	12,282	71,300	-26,755	-	-	-	-26,755
Feb.	55,284	5	55,289	59,745	9,625	69,370	-14,080	24,126	-	24,126	10,046
Mar.	49,216	102	49,318	55,535	10,561	66,096	-16,778	-	-	-	-16,778
Apr.	61,911	60	61,972	74,059	9,791	83,851	-21,879	-	-460	-460	-22,339
May	51,849	931	52,780	66,107	11,749	77,856	-25,076	-	32,205	32,205	7,128
June	54,909	143	55,052	59,181	4,989	64,169	-9,117	334	-2,558	-2,223	-11,340
July	57,735	100	57,836	59,064	12,821	71,885	-14,049	44,424	-	44,424	30,375
Aug.	64,378	416	64,794	56,208	7,045	63,253	1,541	-	-	-	1,541
Sept.	54,921	76	54,997	59,303	5,316	64,619	-9,621	-	-	-	-9,621
Oct.	64,321	14	64,335	62,339	6,146	68,484	-4,149	-	-	-	-4,149
Nov.	59,838	-	59,838	54,246	7,278	61,524	-1,687	26,913	-	26,913	25,226
Dec.	118,079	387	118,466	75,893	6,366	82,259	36,207	-99	-3,359	-3,458	32,749
2004											
Jan.	48,208	319	48,527	59,025	9,398	68,413	-19,887	-	-	-	-19,887
Feb.	52,363	-	52,363	56,494	7,137	63,631	-11,268	-	-	-	-11,268
Mar.	50,326	-	50,326	70,908	6,508	77,416	-27,090	-	-	-	-27,090
Apr.	76,979	6	76,985	71,046	7,531	78,577	-1,592	-	-	-	-1,592
May	53,924	3,383	57,307	71,931	11,290	83,221	-25,914	49,215	-	49,215	23,301
June	47,245	3,097	50,342	55,408	6,627	62,035	-11,692	-2,740	-3,600	-6,340	-18,032

[1] Comprise government budgetary operations through the Consolidated fund. Excluding operations of the Extra Budgetary Units.

[2] Includes the Government's contributions to the National Insurance Fund (both its contributions as employer, and its contribution in terms of the Social Security Act, 1987).

[3] Excludes foreign loans, revenues from sale of MGS, receipts from sale of shares and from the sinking fund of converted loans.

[4] Excludes loan capital repayments and contributions to sinking funds.

[5] From 1992, excludes capital expenditure incurred by the public authorities/ corporations.

[6] A loan to the Malta Drydocks Corporation amounting to Lm24.6 million is included under capital expenditure.

[7] Includes revenues from sale of MGS, receipts from sale of shares and from the sinking funds of converted loans less local contributions to sinking funds.

[8] Includes loans less contributions to the sinking fund and repayment of a foreign loan.

Source: Financial Report, Comparative Return of Revenue and Expenditure, The Treasury.

TABLE 2.2 CENTRAL GOVERNMENT REVENUE BY MAJOR SOURCES[1]

Lm thousands

Period	Tax revenue						Non-tax revenue[5]	Ordinary revenue[6]	Foreign grants	Total revenue
	Income tax	National insurance contributions[2]	VAT & CET[3]	Licences, taxes & fines[4]	Customs & excise	Total				
1990	57,291	71,234	-	23,993	67,279	219,798	106,119	325,917	7,677	333,594
1991	61,637	72,041	-	27,017	75,951	236,647	113,002	349,649	16,374	366,023
1992	71,353	80,469	-	29,448	82,310	263,580	77,833	341,413	16,392	357,805
1993	85,113	97,004	-	30,447	83,541	296,105	91,426	387,531	8,429	395,960
1994	87,852	101,663	-	46,127	72,059	307,701	95,709	403,410	12,852	416,262
1995	99,758	115,480	78,108	54,556	32,595	380,497	87,751	468,248	4,517	472,765
1996	93,309	126,170	78,633	51,621	31,981	381,714	65,753	447,467	20,804	468,271
1997	110,539	142,184	84,607	54,280	43,197	434,807	69,490	504,297	9,811	514,108
1998	110,561	135,656	72,628	60,678	52,698	432,221	71,462	503,683	10,043	513,726
1999	128,354	144,274	85,023	67,960	55,426	481,037	71,614	552,651	9,683	562,334
2000	149,511	162,017	104,065	70,449	55,141	541,182	66,921	608,103	9,549	617,652
2001	166,302	179,064	114,669	72,814	60,886	593,735	73,493	667,228	1,392	668,620
2002	190,175	181,142	117,505	86,047	59,811	634,679	82,404	717,084	2,720	719,804
2003	205,218	188,427	123,910	89,160	61,576	668,291	68,413	736,704	2,517	739,221
2003										
Jan.	5,015	7,714	9,856	5,553	4,229	32,366	11,897	44,263	282	44,545
Feb.	10,277	12,510	8,372	8,091	4,668	43,919	11,366	55,284	5	55,289
Mar.	7,065	12,633	9,333	4,975	4,748	38,754	10,463	49,216	102	49,318
Apr.	21,029	15,508	10,654	6,886	4,816	58,893	3,018	61,911	60	61,972
May	11,954	15,360	9,522	7,318	4,997	49,151	2,698	51,849	931	52,780
June	16,944	15,686	8,159	5,926	5,297	52,012	2,897	54,909	143	55,052
July	12,069	15,173	12,051	8,577	5,257	53,128	4,607	57,735	100	57,836
Aug.	24,387	16,055	9,421	7,306	5,395	62,563	1,815	64,378	416	64,794
Sept.	16,261	15,329	8,695	6,993	5,535	52,811	2,110	54,921	76	54,997
Oct.	16,503	15,768	13,246	9,482	5,808	60,806	3,515	64,321	14	64,335
Nov.	17,141	14,266	11,180	7,768	5,411	55,766	4,072	59,838	-	59,838
Dec.	46,574	32,426	13,420	10,286	5,416	108,121	9,958	118,079	387	118,466
2004										
Jan.	7,184	6,505	10,319	7,575	4,754	36,337	11,871	48,208	319	48,527
Feb.	9,404	11,284	11,867	11,775	4,746	49,077	3,286	52,363	-	52,363
Mar.	7,843	12,244	11,421	7,604	5,041	44,153	6,173	50,326	-	50,326
Apr.	24,685	17,873	15,791	7,079	4,126	69,553	7,426	76,979	6	76,985
May	12,671	16,417	8,324	6,583	4,539	48,534	5,390	53,924	3,383	57,307
June	15,678	13,476	5,885	7,174	3,155	45,368	1,877	47,245	3,097	50,342

[1] Excluding Extra Budgetary Units.

[2] Includes the Government's contribution to the National Insurance Fund (both its contribution as employer, and its contribution in terms of the Social Security Act, 1987).

[3] Value Added Tax, Customs & Excise Tax.

[4] Includes revenues from death and donation duties up to December 1994.

[5] Includes mainly Central Bank of Malta profits.

[6] From 1992, excludes the contribution by the public corporations/ authorities towards their own capital programme.

Source: Financial Report, Comparative Return of Revenue and Expenditure, The Treasury.

TABLE 2.3 CENTRAL GOVERNMENT CAPITAL EXPENDITURE BY TYPE OF INVESTMENT[1,2]

Lm thousands

Period	Productive	Infrastructure	Social	Total
1990	49,509	44,121	14,646	108,276
1991	54,976	41,756	18,761	115,493
1992	32,310	9,032	16,675	58,017
1993	34,069	14,734	10,870	59,673
1994	36,323	13,993	12,024	62,340
1995	43,901	14,541	11,904	70,344
1996	36,818	19,282	17,418	73,527
1997[3]	50,256	32,344	20,792	103,392
1998	45,401	30,130	21,316	96,846
1999	52,480	27,515	26,137	106,129
2000	35,806	33,800	28,946	98,552
2001	26,400	26,872	27,355	80,627
2002	31,526	27,391	38,753	97,671
2003	28,372	34,095	41,501	103,969
2003				
Jan.	1,703	2,774	7,805	12,282
Feb.	2,899	3,426	3,300	9,625
Mar.	3,810	2,543	4,208	10,561
Apr.	2,167	1,989	5,635	9,791
May	3,018	3,801	4,931	11,749
June	2,174	2,375	440	4,989
July	4,778	3,034	5,009	12,821
Aug.	1,913	1,486	3,646	7,045
Sept.	976	2,185	2,155	5,316
Oct.	1,029	3,708	1,409	6,146
Nov.	2,918	3,090	1,270	7,278
Dec.	987	3,685	1,695	6,366
2004				
Jan.	1,762	1,045	6,581	9,389
Feb.	2,917	889	3,331	7,137
Mar.	1,775	1,874	2,858	6,508
Apr.	635	2,727	4,168	7,531
May	3,237	5,229	2,824	11,290
June	838	2,602	3,187	6,627

[1] Excluding Extra Budgetary Units.

[2] As from 1992, excludes capital expenditure incurred by public corporations/authorities.

[3] Includes a loan to Malta Drydocks amounting to Lm24.6 million.

Source: Financial Report, Comparative Return of Revenue and Expenditure, The Treasury.

TABLE 3.1a GROSS CENTRAL GOVERNMENT[1] DEBT AND GOVERNMENT GUARANTEED DEBT OUTSTANDING

Lm thousands

End of period	Domestic securities [1]			Loans[3]	Total government debt	Government guaranteed debt[4]
	Treasury bills	Malta Government stocks[2]	Total			
1995	71,406	285,952	357,358	53,433	410,791	414,488
1996	108,935	356,119	465,054	51,789	516,843	489,663
1997	89,980	523,369	613,349	50,449	663,798	490,973
1998	83,713	633,369	717,082	46,513	763,595	463,867
1999	83,320	712,184	795,504	44,349	839,853	456,494
2000	172,987	712,729	885,716	39,250	924,966	445,227
2001	159,459	812,854	972,313	40,378	1,012,691	395,333
2002	218,831	813,030	1,031,861	45,100	1,076,961	356,155
2003	232,286	913,029	1,145,315	114,462	1,259,777	273,312
2003						
Mar.	248,740	839,963	1,088,703	45,103	1,133,806	344,159
June	272,060	839,963	1,112,023	75,101	1,187,124	325,480
Sept.	251,007	883,029	1,134,036	75,051	1,209,087	324,085
Dec.	232,286	913,029	1,145,315	114,462	1,259,777	273,312
2004						
Mar.	253,000	913,029	1,166,029	113,650	1,279,679	265,722
June	259,834	961,048	1,220,882	112,308	1,333,190	301,514

[1] Extra Budgetary Units are not included. Not consolidated with the Malta Government Sinking Fund.

[2] Including local development registered stocks.

[3] Includes local and foreign loans.

[4] Represents outstanding balances on Government guaranteed debt. Excludes guarantees on the MIGA and IBRD positions. Also excludes Government guarantees on foreign loans taken by the Central Bank of Malta on behalf of the Malta Government since they already feature in the calculation of Government foreign debt. Excludes state guarantees on ex-Malta Drydocks and ex-Malta shipbuilding loans but includes guarantees on loans to Extra Bugetary Units.

Sources: Malta Stock Exchange; Ministry of Finance; The Treasury.

TABLE 3.1b GROSS GENERAL GOVERNMENT DEBT OUTSTANDING[1]

Lm thousands

End of period	General government						
	Central Government					Local councils	**Total general government debt**[1]
	Treasury bills[2]	Malta Government stocks[2]	Loans[3]	Extra bugetary units[4]	**Central Government debt**		
1997	54,767	523,369	50,501	34,564	663,202	146	663,348
1998	55,534	633,319	46,512	39,978	775,343	102	775,445
1999	79,082	704,937	44,186	56,747	884,952	346	885,298
2000	140,464	696,325	40,189	73,097	950,075	324	950,399
2001	156,029	805,915	40,494	70,069	1,072,506	419	1,072,925
2002[5]	189,930	805,573	45,154	59,339	1,099,996	545	1,100,541
2003[6]	227,858	906,831	114,527	49,778	1,298,994	696	1,299,690

[1] In line with the Maastricht Convergence criteria, which defines general government debt as total gross debt at nominal value outstanding at the end of the year and consolidated between and within sectors of general government.

[2] Consolidated with the Malta Government Sinking Fund and other sectors within the general government sector.

[3] Includes local and foreign loans.

[4] Extra Budgetary Units are publicly owned entities whose revenues, over a period of time cover less than half their production costs.

[5] Half finalized.

[6] Estimate.

Sources: Excessive Deficit Procedure Notifications, Eurostat.

TABLE 3.2 TREASURY BILLS ISSUED AND OUTSTANDING[1]

Lm thousands

End of period	Amount maturing during period	Amount issued and taken up by			Amount outstanding[4] and held by		
		Banking system[2]	Non-bank public[3]	Total	Banking system[2]	Non-bank public[3]	Total
1990	50,000	59,960	40	60,000	29,987	13	30,000
1991	105,000	104,516	484	105,000	29,845	155	30,000
1992	120,000	117,415	2,585	120,000	27,949	2,051	30,000
1993	120,000	115,624	4,376	120,000	29,386	614	30,000
1994	120,000	117,845	2,155	120,000	29,387	613	30,000
1995	133,156	164,449	10,113	174,562	56,222	15,184	71,406
1996	296,171	164,584	169,116	333,700	84,429	24,506	108,935
1997	351,191	83,790	248,446	332,236	52,217	37,763	89,980
1998	255,783	44,300	205,216	249,516	52,432	31,281	83,713
1999	364,314	202,100	161,821	363,921	77,832	5,488	83,320
2000	341,869	276,611	154,925	431,536	123,599	49,388	172,987
2001	470,335	317,377	160,304	477,681	137,423	22,036	159,459
2002	644,964	554,354	165,914	720,268	159,689	59,142	218,831
2003	712,638	607,680	124,413	732,093	198,271	34,015	232,286
2003							
Jan.	82,000	84,723	12,277	97,000	184,390	49,441	233,831
Feb.	43,240	32,736	12,004	44,740	203,743	31,588	235,331
Mar.	69,591	72,579	10,421	83,000	219,859	28,881	248,740
Apr.	82,000	89,635	7,365	97,000	236,886	26,854	263,740
May	73,740	59,987	16,073	76,060	226,041	34,019	260,060
June	71,000	73,213	9,787	83,000	240,022	32,038	272,060
July	52,000	39,095	2,937	42,032	241,040	21,052	262,092
Aug.	76,060	41,280	15,695	56,975	214,733	28,274	243,007
Sept.	61,000	44,964	24,036	69,000	219,180	31,827	251,007
Oct.	34,007	31,994	5,006	37,000	218,979	35,021	254,000
Nov.	21,000	21,276	910	22,186	227,287	27,899	255,186
Dec.	47,000	16,198	7,902	24,100	198,271	34,015	232,286
2004							
Jan.	51,000	23,354	9,646	33,000	171,226	43,060	214,286
Feb.	38,186	50,293	2,707	53,000	188,691	40,409	229,100
Mar.	36,100	52,044	7,956	60,000	211,258	41,742	253,000
Apr.	70,000	68,823	17,177	86,000	221,686	47,314	269,000
May.	33,000	28,755	1,079	29,834	226,220	39,614	265,834
June	60,000	51,762	2,238	54,000	223,591	36,243	259,834

[1] Amounts are at nominal prices.

[2] Includes Central Bank of Malta, Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995).

[3] Includes the Malta Government Sinking Fund.

[4] On 10 January 1995, the House of Representatives approved a motion empowering the Government to increase the issue of permissable outstanding Treasury bills from Lm30 million to Lm100 million. On 16 December 1996, the maximum amount of permissable outstanding bills was raised from Lm100 million to Lm200 million and, subsequently, to Lm300 million on 27 November 2002.

Source: Central Bank of Malta.

TABLE 3.3 MALTA GOVERNMENT STOCKS

(Outstanding as at end-June 2004)[1]

Lm thousands

Stock	Year of maturity	Year of issue	Issue price Lm	Interest dates	Held by: Banking system	Held by: Others [2]	Amount
6.80 % MGS	2004 (II)	1998	100	15 Jan. - 15 July	22,796	3,056	25,852
7.25 % MGS	2005	1997	100	24 May - 24 Nov.	18,258	5,242	23,500
5.60 % MGS	2005 (II)	1999	100	1 Feb. - 1 Aug.	28,999	2,501	31,500
7.00 % MGS	2006 [3]	1994	100	19 May - 19 Nov.	1,631	8,369	10,000
7.00 % MGS	2006 (IV)	1996	100	30 June - 30 Dec.	-	167	167
7.25 % MGS	2006 (II)	1995	100	1 Feb. - 01 Aug.	6,258	12,992	19,250
7.25 % MGS	2006 (III) [4]	1996	100	20 Jan. - 20 July	7,355	7,645	15,000
7.35 % MGS	2007	1997	100	18 Apr. - 18 Oct.	16,489	8,261	24,750
5.90 % MGS	2007 (II)	1999	100	23 Apr. - 23 Oct.	8,998	1,002	10,000
5.60 % MGS	2007 (III)	2000	100	10 June - 10 Dec.	22,636	12,614	35,250
7.20 % MGS	2008	1998	100	10 June - 10 Dec.	8,813	1,187	10,000
7.20 % MGS	2008 (II)	1998	100	28 Feb. - 28 Aug.	20,371	9,629	30,000
7.00 % MGS	2009 [3]	1999	100	30 June - 30 Dec.	-	65	65
5.90 % MGS	2009 (II)	1999	100	1 Mar. - 1 Sept.	14,131	10,869	25,000
5.90 % MGS	2009 (III)	2000	100	30 Mar. - 30 Sept.	40,669	4,631	45,300
5.90 % MGS	2010	1999	100	19 May - 19 Nov.	13,657	1,343	15,000
5.75 % MGS	2010 (II)	2000	100	10 June - 10 Dec.	16,541	1,959	18,500
7.00 % MGS	2010 (III) [3]	2000	100	30 June - 30 Dec.	-	545	545
5.40 % MGS	2010 (IV)	2003	100	21 Feb. - 21 Aug.	3,161	31,839	35,000
7.50 % MGS	2011	1996	100	28 Mar. - 28 Sept.	7,435	7,565	15,000
6.25 % MGS	2011 (II)	2001	100	1 Aug. - 1 Feb.	18,335	21,665	40,000
7.00 % MGS	2011 (III)	2002	100	30 June - 30 Dec.	-	125	125
7.80 % MGS	2012	1997	100	24 May - 24 Nov.	14,377	20,123	34,500
7.00 % MGS	2012 (II)	2002	100	10 June - 30 Dec.	-	176	176
5.70 % MGS	2012 (III)	2002	100	30 Mar. - 30 Sept.	1,892	19,108	21,000
7.80 % MGS	2013	1997	100	18 Apr. - 18 Oct.	11,917	22,333	34,250
6.35 % MGS	2013 (II)	2002	100	19 May. - 19 Nov.	394	25,606	26,000
7.00 % MGS	2013 (III)	2003	100	30 June - 30 Dec.	-	67	67
6.60 % MGS	2014	2000	100	30 Mar. - 30 Sept.	874	9,626	10,500
5.10 % MGS	2014	2003	100	6 Jan. - 6 July	113	29,887	30,000
6.45 % MGS	2014 (II)	2001	100	24 May - 24 Nov.	7,749	22,251	30,000
7.00 % MGS	2014 (IV)	2004	100	30 June - 30 Dec	-	1,719	1,719
6.10 % MGS	2015	2000	100	10 June - 10 Dec.	9,869	20,131	30,000
5.90 % MGS	2015 (II) FI	2002/2003	100/102	9 Apr. - 9 Oct.	678	39,522	40,200
6.65 % MGS	2016	2001	100	28 Mar. - 28 Sept.	3,050	26,950	30,000
4.80 % MGS	2016 (II)	2003	100	26 May - 26 Nov.	2,543	27,457	30,000
4.80 % MGS	2016 (II)FI	2004	101	26 May - 26 Nov.	12,532	12,468	25,000
7.80 % MGS	2018	1998	100	15 Jan. - 15 July	17,713	52,287	70,000
6.60 % MGS	2019	1999	100	1 Mar. - 1 Sept.	12,080	31,920	44,000
5.00 % MGS	2021	2004	100	8 Feb. - 8 Aug.	6,604	33,396	40,000
5.50 % MGS	2023	2003	100	6 Jan. - 6 July	229	33,605	33,834
Total					379,147	581,902	961,050

[1] Amounts are at nominal prices.

[2] Include non-resident banks.

[3] Coupons are reviewable every 2 years and will be set one percentage point less than the normal maximum lending rate allowed at law subject to a minimum of 7%. Redemption proceeds are payable at Lm110 per Lm100 nominal.

[4] Interest is payable on 20 January and 20 July except for the last coupon payment which is payable on the redemption date.

Source: MSE.

TABLE 3.4 MALTA GOVERNMENT STOCKS BY REMAINING TERM TO MATURITY[1]

Lm thousands

Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16 yrs and over	Total
1990	3,500	93,285	10,000	-	-	106,785
1991	5,500	106,285	25,400	-	-	137,185
1992	1,000	125,285	41,400	-	-	167,685
1993	49,885	84,367	90,300	-	-	224,552
1994	37,900	95,352	110,000	10,000	-	253,252
1995	7,000	158,651	120,300	-	-	285,951
1996	15,800	213,302	112,017	15,000	-	356,119
1997	48,452	279,800	111,367	83,750	-	523,369
1998	46,750	255,650	177,219	83,750	70,000	633,369
1999	79,000	221,202	199,232	98,750	114,000	712,184
2000	53,800	214,902	205,777	124,250	114,000	712,729
2001	66,450	192,869	244,285	195,250	114,000	812,854
2002	48,900	213,969	255,211	180,950	114,000	813,030
2003	44,552	209,417	310,528	270,700	77,833	913,030
2004						
Mar.	99,552	224,782	310,663	244,200	33,833	913,030
June.	80,852	224,782	312,382	269,200	73,834	961,050

[1] Calculations are based on the maximum redemption period of the Malta Government stock. With respect to the quarterly statistics in this Table, the remaining term to maturity classification is applicable as from the current end-year.

TABLE 3.5 GOVERNMENT EXTERNAL LOANS BY TYPE OF CREDITOR

Lm thousands

End of period	Official bilateral entities[1]	Official multilateral organisations[2]	Private commercial banks[3]	Total
1990	30,446	7,029	-	37,475
1991	31,806	12,901	-	44,707
1992	32,727	15,671	-	48,398
1993	34,383	16,097	-	50,480
1994	37,496	18,768	-	56,264
1995	30,268	15,150	8,015	53,433
1996	32,371	13,850	5,568	51,789
1997	30,200	15,666	4,583	50,449
1998	27,115	15,252	4,146	46,513
1999	28,101	12,344	3,904	44,349
2000	22,964	13,655	2,631	39,250
2001	20,037	18,915	1,426	40,378
2002	16,504	28,130	465	45,099
2003	13,595	59,021	-	72,616
2004[4]				
Mar.	13,447	58,357	-	71,804
June	12,550	57,912	-	70,462

[1] Bilateral loans are loans from governments and their agencies (including central banks), and loans from autonomous bodies.

[2] Multilateral organisations include the World Bank, regional development banks, and other multilateral and inter-governmental agencies.

[3] Commercial bank loans from private banks or financial institutions.

[4] Provisional.

Note: Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of the reference period.

Sources: Central Bank of Malta (from end-1999); Financial Report, The Treasury.

TABLE 3.6 GOVERNMENT EXTERNAL LOANS BY CURRENCY

Lm thousands

End of period	FFr	stg	DM	yen	euro	US$	Lit	Others	Total
1990	252	3,777	4,811	-	7,024	4,953	7,731	8,947	37,495
1991	200	3,686	4,515	-	12,901	4,431	9,833	9,140	44,706
1992	170	1,250	4,816	-	15,671	4,774	12,033	9,683	48,397
1993	109	1,283	4,373	-	16,097	4,355	15,596	8,667	50,480
1994	58	235	4,181	-	16,267	3,546	22,694	9,281	56,262
1995	34	-	3,930	7,574	9,041	2,896	22,309	7,649	53,433
1996	16	-	3,339	5,568	11,408	2,444	22,479	6,535	51,789
1997	-	-	2,801	4,583	10,500	7,268	22,001	3,296	50,449
1998	-	-	2,524	4,146	10,267	6,474	20,922	2,179	46,513
1999	-	-	2,036	3,904	9,549	6,945	19,835	2,080	44,349
2000	-	-	1,664	2,631	8,477	6,660	18,350	1,468	39,250
2001	-	-	1,310	1,426	14,184	14,181	8,530	747	40,378
2002	-	-	-	465	39,734	4,764	-	136	45,099
2003	-	289	-	917	63,789	7,485	-	136	72,616
2004[1]									
Mar.	-	301	-	945	62,877	7,547	-	134	71,804
June	-	246	-	780	62,106	7,199	-	131	70,462

[1] Provisional.

Note: Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of reference period.

Sources: Central Bank of Malta (as from end-1999); Financial Report, The Treasury.

TABLE 3.7 GOVERNMENT EXTERNAL LOANS BY REMAINING TERM TO MATURITY[1]

Lm thousands

End of period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16-20 yrs	Over 20 yrs	Total
1990	105	7,154	6,732	12,096	7,731	3,676	37,495
1991	34	11,877	4,960	14,229	9,833	3,774	44,707
1992	276	12,575	8,673	10,045	12,033	4,795	48,398
1993	-	15,200	5,766	9,232	15,596	4,687	50,480
1994	8,319	3,579	16,591	12,180	12,268	3,327	56,264
1995	206	2,142	23,486	11,662	12,529	3,408	53,433
1996	467	831	21,024	12,087	14,129	3,252	51,789
1997	452	3,114	16,255	23,167	4,398	3,062	50,449
1998	-	6,402	21,426	14,440	2,801	1,443	46,513
1999	-	6,013	20,944	13,353	2,693	1,346	44,349
2000	-	10,561	12,654	13,456	1,293	1,286	39,250
2001	586	13,356	11,759	12,249	1,207	1,221	40,378
2002	514	13,172	6,851	22,160	1,194	1,208	45,099
2003	464	11,257	6,582	53,111	-	1,202	72,616
2004 [2]							
Mar.	2,034	14,045	9,504	45,055	133	1,033	71,804
June	1,579	13,661	9,040	45,018	131	1,033	70,462

[1] With respect to the quarterly statistics in this Table, the remaining term to maturity classification is applicable as from the current end-year.

[2] Provisional.

Note: Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of the reference period.

Sources: Central Bank of Malta (as from end-1999); Financial Report, The Treasury.

TABLE 4.1 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES[1]

end of period rates

End of period		stg	DM	US$	euro[2]	Lit	FFr	NLG	Bfr	yen	Sfr
1990		1.7335	5.0006	3.3249	2.4349	3769.61	17.007	5.636	103.271	451.19	4.261
1991		1.7457	4.9610	3.2724	2.4448	3759.17	16.952	5.590	102.181	408.46	4.437
1992		1.7652	4.3188	2.6725	2.2136	3940.60	14.731	4.851	88.663	332.99	3.907
1993		1.7106	4.3911	2.5309	2.2678	4326.57	14.917	4.912	91.327	283.32	3.748
1994		1.7381	4.2086	2.7166	2.2083	4410.43	14.511	4.714	86.484	270.86	3.562
1995		1.8315	4.0648	2.8377	2.1586	4496.45	13.898	4.552	83.513	292.69	3.266
1996		1.6377	4.3146	2.7807	2.2173	4244.37	14.542	4.843	88.873	323.12	3.747
1997		1.5411	4.5682	2.5497	2.3101	4485.89	15.284	5.146	94.213	331.79	3.712
1998		1.5935	4.4287	2.6496	2.2640	4382.63	14.870	4.990	91.360	300.71	3.645
1999		1.4983	4.7163	2.4230	2.4114	4669.13	15.818	5.314	97.276	247.64	3.870
2000		1.5305	4.8033	2.2843	2.4559	4755.26	16.110	5.412	99.070	262.25	3.738
2001		1.5258	4.8874	2.2121	2.4989	4838.52	16.392	5.507	100.805	290.44	3.696
2002		1.5553	-	2.5074	2.3910	-	-	-	-	297.66	3.475
2003		1.6351	-	2.9197	2.3163	-	-	-	-	312.16	3.610
2004											
Jan	2	1.6351	-	2.9197	2.3163	-	-	-	-	312.16	3.610
	9	1.6145	-	2.9719	2.3195	-	-	-	-	316.96	3.638
	16	1.6016	-	2.9030	2.3303	-	-	-	-	307.79	3.656
	23	1.6004	-	2.9514	2.3266	-	-	-	-	312.82	3.645
	30	1.5950		2.9049	2.3327	-	-	-	-	307.07	3.650
Feb.	6	1.5956	-	2.9486	2.3287	-	-	-	-	312.34	3.651
	13	1.5808	-	2.9974	2.3303	-	-	-	-	315.82	3.676
	20	1.5733	-	2.9567	2.3368	-	-	-	-	318.97	3.686
	27	1.5705	-	2.9096	2.3420	-	-	-	-	317.54	3.699
Mar.	5	1.5721	-	2.8959	2.3426	-	-	-	-	321.57	3.695
	12	1.5921	-	2.8601	2.3379	-	-	-	-	318.40	3.663
	19	1.5753	-	2.8724	2.3435	-	-	-	-	307.52	3.659
	26	1.5723	-	2.8602	2.3458	-	-	-	-	302.10	3.647
Apr.	2	1.5645	-	2.8910	2.3461	-	-	-	-	300.94	3.668
	9	1.5535	-	2.8437	2.3551	-	-	-	-	301.44	3.653
	16	1.5718	-	2.8094	2.3508	-	-	-	-	304.87	3.653
	23	1.5742	-	2.7848	2.3523	-	-	-	-	303.92	3.666
	30	1.5821	-	2.8147	2.3462	-	-	-	-	309.79	3.641
May	7	1.5722	-	2.8132	2.3503	-	-	-	-	312.81	3.641
	14	1.5844	-	2.7813	2.3485	-	-	-	-	318.24	3.615
	21	1.5778	-	2.8297	2.3465	-	-	-	-	316.76	3.604
	28	1.5661	-	2.8789	2.3466	-	-	-	-	318.18	3.593
June	4	1.5605	-	2.8679	2.3499	-	-	-	-	319.26	3.589
	11	1.5533	-	2.8305	2.3565	-	-	-	-	311.45	3.563
	18	1.5493	-	2.8477	2.3565	-	-	-	-	310.33	3.556
	25	1.5675	-	2.8543	2.3483	-	-	-	-	307.03	3.565

[1] Closing Central Bank of Malta midpoint rates. The Maltese lira exchange rate is determined on the basis of a basket of currencies which currently includes the euro, the US dollar and the pound sterling.

[2] The euro replaced the ECU as from 1 January 1999.

TABLE 4.2 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES[1]

averages for the period

Period	stg	DM	US$	euro[2]	Lit	FFr	NLG	Bfr	yen	Sfr
1990	1.7701	5.0852	3.1527	2.4733	3769.83	17.135	5.730	105.132	453.01	4.368
1991	1.7526	5.1258	3.1002	2.4979	3831.59	17.429	5.777	105.531	416.50	4.429
1992	1.7853	4.9033	3.1459	2.4287	3860.86	16.621	5.521	100.964	398.43	4.414
1993	1.7435	4.3273	2.6171	2.2347	4109.74	14.819	4.861	90.425	291.39	3.869
1994	1.7295	4.2916	2.6486	2.2296	4265.86	14.676	4.813	88.427	270.60	3.617
1995	1.7961	4.0601	2.8355	2.1669	4616.27	14.138	4.548	83.530	266.46	3.350
1996	1.7780	4.1731	2.7745	2.1852	4279.88	14.188	4.676	85.881	301.75	3.428
1997	1.5825	4.4900	2.5921	2.2921	4410.82	15.113	5.053	92.645	313.53	3.758
1998	1.5547	4.5282	2.5758	2.2957	4469.45	15.180	5.104	93.404	336.67	3.730
1999	1.5468	4.5895	2.5032	2.3470	4544.39	15.395	5.172	94.677	284.84	3.756
2000	1.5080	4.8388	2.2855	2.4741	4790.43	16.229	5.452	99.803	246.27	3.853
2001	1.5430	4.8533	2.2226	2.4815	4804.77	16.277	5.468	100.102	269.97	3.749
2002	1.5378	-	2.3100	2.4468	-	-	-	-	288.87	3.590
2003	1.6237	-	2.6543	2.3470	-	-	-	-	307.39	3.568
2003										
Jan.	1.5667	-	2.5330	2.3831	-	-	-	-	300.80	3.485
Feb.	1.5881	-	2.5548	2.3717	-	-	-	-	304.89	3.480
Mar.	1.6121	-	2.5554	2.3620	-	-	-	-	302.91	3.469
Apr.	1.6247	-	2.5580	2.3568	-	-	-	-	306.75	3.527
May	1.6603	-	2.6956	2.3285	-	-	-	-	316.15	3.528
June	1.6400	-	2.7228	2.3331	-	-	-	-	322.26	3.593
July	1.6387	-	2.6613	2.3400	-	-	-	-	315.87	3.621
Aug.	1.6392	-	2.6124	2.3451	-	-	-	-	310.37	3.612
Sept.	1.6341	-	2.6344	2.3446	-	-	-	-	302.66	3.629
Oct.	1.6298	-	2.7328	2.3358	-	-	-	-	299.35	3.617
Nov.	1.6203	-	2.7373	2.3390	-	-	-	-	298.95	3.647
Dec.	1.6306	-	2.8539	2.3239	-	-	-	-	307.65	3.613
2004										
Jan.	1.6084	-	2.9341	2.3250	-	-	-	-	312.06	3.642
Feb.	1.5800	-	2.9518	2.3346	-	-	-	-	314.60	3.673
Mar.	1.5723	-	2.8775	2.3443	-	-	-	-	313.54	3.676
Apr.	1.5641	-	2.8210	2.3529	-	-	-	-	303.43	3.658
May	1.5772	-	2.8207	2.3476	-	-	-	-	315.88	3.616
June	1.5608	-	2.8537	2.3512	-	-	-	-	312.22	3.570

[1] Calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta midpoint rates.

[2] The euro replaced the ECU as from 1 January 1999.

TABLE 4.3 MALTA'S FOREIGN TRADE

Lm thousands

Period	Exports (f.o.b.)			Imports (c.i.f.)	Balance of trade
	Domestic	Re-exports	Total		
1990	328,736	29,153	357,889	620,510	-262,621
1991	371,993	33,461	405,454	684,000	-278,546
1992	451,526	39,376	490,902	747,770	-256,868
1993	476,747	41,579	518,326	830,920	-312,594
1994	547,209	45,213	592,422	918,766	-326,344
1995	629,720	45,220	674,940	1,037,657	-362,717
1996	569,901	54,250	624,151	1,007,796	-383,645
1997	563,950	64,980	628,930	984,231	-355,300
1998	664,816	47,169	711,985	1,034,921	-322,936
1999	712,436	78,700	791,136	1,136,233	-345,097
2000	977,535	94,909	1,072,444	1,492,377	-419,933
2001	790,038	90,646	880,684	1,226,421	-345,737
2002[1]	794,300	166,840	961,140	1,227,534	-266,394
2003[1]	816,389	112,102	928,491	1,279,832	-351,341
2002[1]					
Jan.	52,836	11,303	64,139	88,496	-24,357
Feb.	67,212	9,112	76,324	86,902	-10,578
Mar.	67,973	8,565	76,538	100,770	-24,232
Apr.	59,141	50,650	109,791	107,591	2,200
May	65,948	10,585	76,533	108,698	-32,165
June	65,591	8,871	74,462	106,001	-31,539
July	70,408	11,155	81,563	117,848	-36,285
Aug.	64,691	13,103	77,794	94,088	-16,294
Sept.	66,929	8,425	75,354	95,913	-20,559
Oct.	67,109	14,457	81,566	114,184	-32,618
Nov.	63,429	10,837	74,266	110,810	-36,544
Dec.	83,034	9,776	92,810	96,233	-3,423
2003[1]					
Jan.	61,218	11,490	72,708	93,989	-21,281
Feb.	58,938	9,792	68,730	103,820	-35,090
Mar.	72,677	6,901	79,578	107,714	-28,136
Apr.	65,698	11,615	77,313	116,978	-39,665
May	63,641	11,502	75,143	107,847	-32,704
June	69,870	11,212	81,082	108,472	-27,390
July	69,110	9,253	78,363	117,050	-38,687
Aug.	64,494	6,275	70,769	95,207	-24,438
Sept.	74,406	6,516	80,922	107,262	-26,340
Oct.	67,787	9,294	77,081	112,342	-35,261
Nov.	71,086	8,068	79,154	101,905	-22,751
Dec.	77,464	10,184	87,648	107,246	-19,598
2004[1]					
Jan.	64,343	6,430	70,773	91,452	-20,679
Feb.	66,338	9,492	75,830	94,566	-18,736
Mar.	76,207	11,945	88,152	124,684	-36,532
Apr.	63,037	10,900	73,937	105,169	-31,232

[1] Provisional.

Source: NSO.

TABLE 4.4 DIRECTION OF TRADE - TOTAL EXPORTS

Lm thousands

Period	United Kingdom	Italy	Germany	France	Other EU	Libya	United States	Others	Total
1990	31,778	123,792	73,359	25,259	18,717	18,324	13,682	52,979	357,889
1991	29,699	156,341	72,138	36,739	20,092	22,343	17,026	51,076	405,454
1992	32,132	200,151	69,845	44,564	23,014	20,682	28,430	72,084	490,902
1993	41,826	167,140	81,008	53,947	27,835	25,136	38,897	82,537	518,326
1994	43,533	221,396	83,412	57,824	27,986	20,895	44,941	92,436	592,422
1995	50,654	205,015	101,243	82,417	42,762	15,221	62,918	114,716	674,940
1996	51,991	77,849	90,249	93,402	41,618	15,907	84,350	168,785	624,151
1997	51,219	35,726	82,171	121,705	54,486	25,122	91,201	167,283	628,930
1998	54,626	34,388	89,726	147,450	49,502	19,382	129,208	187,703	711,985
1999	73,202	38,858	99,390	120,388	50,344	20,194	168,621	220,144	791,136
2000	78,038	36,092	102,898	85,873	54,808	15,585	293,413	405,737	1,072,444
2001	76,310	30,304	115,132	82,197	59,865	21,835	174,370	320,670	880,684
2002[1]	112,307	32,676	93,505	120,028	63,871	32,223	159,393	347,137	961,140
2003[1]	109,020	31,494	95,235	120,195	55,250	22,115	134,202	360,980	928,491
2002[1]									
Jan.	7,543	2,561	5,748	9,323	4,145	1,434	8,826	24,559	64,139
Feb.	9,763	4,308	9,762	9,830	5,769	2,742	10,111	24,039	76,324
Mar.	7,405	2,307	7,672	10,605	5,240	1,478	12,073	29,758	76,538
Apr.	8,042	2,669	7,557	7,682	5,294	4,603	50,593	23,351	109,791
May	8,839	3,145	6,810	9,899	5,531	2,983	11,100	28,226	76,533
June	8,030	2,260	6,367	11,421	4,360	2,793	10,177	29,054	74,462
July	12,043	3,039	10,303	8,627	6,988	4,559	8,027	27,977	81,563
Aug.	11,045	2,496	7,778	8,876	5,554	1,961	8,152	31,932	77,794
Sept.	9,406	2,315	8,254	11,328	5,189	3,021	9,266	26,575	75,354
Oct.	9,916	1,954	7,803	11,387	4,824	2,830	11,036	31,816	81,566
Nov.	9,488	2,814	8,134	9,533	5,436	1,983	9,703	27,175	74,266
Dec.	10,787	2,808	7,317	11,517	5,541	1,836	10,329	42,675	92,810
2003[1]									
Jan.	9,522	2,748	7,384	10,561	4,581	1,855	8,717	27,340	72,708
Feb.	8,657	2,875	8,147	8,630	5,020	1,591	8,068	25,742	68,730
Mar.	10,119	2,937	8,738	11,764	5,016	1,373	9,610	30,022	79,579
Apr.	8,570	2,594	7,048	10,359	5,758	3,935	10,595	28,454	77,313
May	8,336	2,704	9,013	9,078	5,853	2,082	9,223	28,854	75,143
June	8,835	4,420	8,202	10,254	5,546	1,294	9,801	32,729	81,081
July	8,874	2,249	8,296	9,047	5,608	1,439	10,574	32,276	78,363
Aug.	6,996	1,774	5,911	8,604	3,081	1,895	12,307	30,201	70,769
Sept.	10,838	2,243	8,115	11,060	3,525	1,180	13,219	30,741	80,921
Oct.	8,814	2,396	7,211	11,513	3,801	2,283	13,357	27,706	77,081
Nov.	10,305	2,111	8,170	9,770	3,422	1,470	13,767	30,139	79,154
Dec.	9,154	2,443	9,000	9,555	4,039	1,718	14,964	36,776	87,649
2004[1]									
Jan.	9,226	2,532	7,321	9,552	3,951	1,694	12,907	23,590	70,773
Feb.	9,218	1,828	7,901	11,004	4,272	1,955	12,485	27,167	75,830
Mar.	8,511	3,009	8,795	13,235	3,735	3,013	11,961	35,893	88,152
Apr.	8,258	2,633	9,740	11,044	4,017	1,803	10,809	25,634	73,937

[1] Provisional.

Source: NSO.

TABLE 4.5 DIRECTION OF TRADE - IMPORTS

Lm thousands

Period	United Kingdom	Italy	Netherlands	France	Germany	Other EU	United States	Others	Total
1990	92,222	202,374	17,238	44,924	72,796	37,851	20,778	132,327	620,510
1991	100,648	248,463	20,153	31,658	75,155	38,730	27,737	141,456	684,000
1992	96,218	282,198	24,122	47,146	80,318	43,329	23,648	150,791	747,770
1993	111,392	225,929	21,927	69,763	118,712	46,929	72,449	163,819	830,920
1994	140,714	243,155	21,663	77,226	161,547	51,091	46,770	176,600	918,766
1995	161,570	284,777	23,817	86,623	126,235	76,374	62,350	215,911	1,037,657
1996	144,072	196,735	26,944	159,824	94,840	68,680	69,610	247,091	1,007,796
1997	145,152	199,137	25,712	163,026	98,276	71,505	77,968	203,455	984,231
1998	128,216	199,383	25,486	184,340	108,291	71,360	91,920	225,925	1,034,921
1999	123,736	189,873	25,697	217,021	113,569	73,175	95,964	297,199	1,136,233
2000	119,673	249,744	29,661	281,877	122,113	91,778	158,474	439,057	1,492,377
2001	123,100	244,409	28,401	184,030	107,409	92,707	141,822	304,544	1,226,422
2002[1]	127,736	271,794	28,563	205,137	98,474	93,034	115,258	287,538	1,227,534
2003[1]	118,638	294,408	29,696	218,912	100,988	104,719	102,364	310,106	1,279,831
2002[1]									
Jan.	9,112	16,411	2,123	15,270	7,106	6,920	9,905	21,649	88,496
Feb.	8,819	16,856	2,254	14,397	7,683	6,622	9,071	21,200	86,902
Mar.	10,589	20,641	2,366	18,310	8,330	7,805	11,481	21,248	100,770
Apr.	11,753	22,914	2,226	18,769	8,928	7,779	10,211	25,011	107,591
May	13,523	24,858	2,184	18,823	8,574	7,594	9,837	23,305	108,698
June	9,949	24,424	2,557	18,625	8,800	8,383	7,362	25,901	106,001
July	11,921	29,743	3,093	19,351	9,011	9,663	9,648	25,418	117,848
Aug.	9,170	18,873	1,894	16,727	7,425	6,528	8,266	25,205	94,088
Sept.	9,011	22,993	2,133	15,059	8,447	7,007	8,914	22,349	95,913
Oct.	12,744	26,964	2,655	16,000	8,746	8,925	11,052	27,098	114,184
Nov.	12,115	23,228	2,580	17,219	8,036	8,015	11,174	28,443	110,810
Dec.	9,030	23,889	2,498	16,587	7,388	7,793	8,337	20,711	96,233
2003[1]									
Jan.	9,119	20,842	2,244	17,705	5,339	6,427	10,603	21,710	93,989
Feb.	8,751	23,937	2,533	17,432	8,848	8,906	8,498	24,915	103,820
Mar.	9,944	25,557	2,531	17,691	11,043	7,929	7,215	25,804	107,714
Apr.	9,346	27,288	2,414	19,564	10,166	9,439	10,087	28,674	116,978
May	10,574	24,643	2,134	18,241	8,238	9,064	9,306	25,647	107,847
June	10,259	24,799	2,208	15,788	8,440	10,642	10,234	26,101	108,471
July	10,373	31,082	3,012	19,470	8,882	8,714	8,412	27,105	117,050
Aug.	10,011	17,715	2,720	16,373	6,870	7,971	6,397	27,150	95,207
Sept.	11,324	22,222	2,441	17,314	7,861	8,245	8,826	29,029	107,262
Oct.	10,700	25,609	2,978	19,763	9,077	9,119	7,587	27,509	112,342
Nov.	8,970	27,222	2,338	18,149	8,625	9,163	5,496	21,942	101,905
Dec.	9,267	23,492	2,143	21,422	7,599	9,100	9,703	24,520	107,246
2004 [1]									
Jan.	8,763	16,178	2,182	16,417	6,333	7,000	6,624	27,955	91,452
Feb.	11,158	20,748	1,990	14,544	9,239	10,091	6,550	20,246	94,566
Mar.	16,040	33,449	7,402	17,961	9,086	8,930	7,421	24,395	124,684
Apr.	13,649	20,522	2,370	15,578	8,440	9,670	7,500	27,440	105,169

[1] Provisional.

Source: NSO.

TABLE 4.6 DOMESTIC EXPORTS BY COMMODITY SECTIONS

Lm thousands

Period	Food & live animals	Beverages & tobacco	Crude materials inedible except fuels	Mineral fuels etc.	Animal/ vegetable fats & oils	Chemicals	Semi-manu-factured goods	Machinery & transport equipment	Manufactured articles	Miscel-laneous	Total
1990	4,743	2,285	1,979	112	1	3,879	29,762	174,036	111,729	208	328,736
1991	5,561	2,559	1,201	29	-	6,245	28,986	216,011	110,629	772	371,993
1992	7,884	1,779	1,241	31	-	8,645	31,540	274,651	124,596	1,159	451,526
1993	9,588	1,551	1,940	-	-	10,121	33,082	280,385	139,794	285	476,746
1994	10,981	1,265	1,333	35	-	10,305	34,714	356,582	131,910	83	547,209
1995	8,379	1,868	1,616	3	-	11,275	37,524	425,897	142,620	541	629,720
1996	10,734	2,866	1,477	54	1	14,330	42,109	354,578	143,376	377	569,901
1997	13,657	2,136	2,325	26	-	14,697	42,658	342,551	145,694	188	563,950
1998	13,481	2,138	1,523	9	2	13,242	48,237	444,893	140,740	550	664,816
1999	15,487	2,076	1,446	-	-	14,218	50,062	475,472	152,619	1,055	712,436
2000	17,116	3,538	2,198	-	-	13,027	53,913	736,076	151,263	404	977,535
2001	20,809	5,197	2,013	19	-	16,003	50,701	537,944	156,945	407	790,038
2002[1]	36,371	4,088	2,191	133	52	13,519	47,865	519,452	170,214	393	794,300
2003[1]	33,140	1,959	2,457	218	4	14,846	44,733	549,219	169,664	133	816,389
2002[1]											
Jan.	896	138	123	6	-	888	3,796	35,685	11,303	-	52,836
Feb.	1,096	164	339	16	27	1,075	5,228	43,725	15,417	124	67,212
Mar.	1,185	90	131	33	23	1,102	4,042	49,014	12,351	2	67,973
Apr.	1,619	618	259	12	-	1,225	3,926	37,499	13,901	62	59,141
May	1,909	671	64	-	-	1,508	3,554	45,811	12,417	14	65,948
June	833	1,326	168	12	-	807	3,436	46,371	12,637	-	65,591
July	2,821	244	220	35	-	1,459	4,284	41,213	20,079	55	70,408
Aug.	3,261	249	220	16	-	1,348	4,166	39,531	15,882	18	64,691
Sept.	2,373	244	140	-	2	1,358	3,404	44,323	15,045	40	66,929
Oct.	1,664	69	136	3	-	693	4,318	45,625	14,522	78	67,109
Nov.	1,258	187	266	-	-	940	4,403	43,049	13,326	-	63,429
Dec.	17,456	88	125	-	-	1,116	3,308	47,606	13,334	-	83,034
2003[1]											
Jan.	1,224	140	248	7	-	729	3,771	41,678	13,411	-	61,218
Feb.	878	128	113	14	-	672	3,231	40,324	13,579	-	58,938
Mar.	1,204	70	326	19	2	811	4,239	48,830	17,079	96	72,677
Apr.	1,376	121	182	9	-	574	3,656	46,091	13,688	-	65,698
May	2,616	17	189	33	-	804	4,942	42,043	12,996	-	63,641
June	2,400	147	180	20	-	1,363	3,850	47,161	14,748	-	69,870
July	3,114	190	144	27	-	1,519	3,792	43,683	16,640	-	69,110
Aug.	2,481	463	217	19	-	1,134	2,017	47,366	10,787	10	64,494
Sept.	2,526	156	156	15	2	2,256	3,477	49,818	15,971	27	74,406
Oct.	2,100	270	224	8	-	520	3,591	48,802	12,272	-	67,787
Nov.	1,908	111	226	29	-	2,488	4,312	48,683	13,329	-	71,086
Dec.	11,313	146	252	18	-	1,976	3,855	44,740	15,164	-	77,464
2004[1]											
Jan.	1,131	672	355	5	-	1,739	3,634	42,044	14,720	43	64,343
Feb.	946	99	126	-	-	3,589	3,216	45,267	13,028	65	66,338
Mar.	2,598	134	273	3	-	1,841	4,852	51,427	15,044	34	76,207
Apr.	1,695	95	111	-	-	2,288	3,073	42,986	12,790	-	63,037

[1]Provisional.

Source: NSO.

TABLE 4.7 IMPORTS BY COMMODITY SECTIONS

Lm thousands

Period	Food & live animals	Beverages & tobacco	Crude materials inedible except fuels	Mineral fuels etc.	Animal/ vegetable fats & oils	Chemicals	Semi-manu-factured goods	Machinery & transport equipment	Manu-factured articles	Miscel-laneous	Total
1990	53,916	7,378	12,517	31,775	1,815	42,700	120,135	284,110	54,455	11,707	620,510
1991	61,587	8,105	12,622	34,637	1,999	46,720	124,487	321,740	61,572	10,531	684,000
1992	66,414	7,691	13,692	35,054	2,125	50,691	126,723	361,673	74,568	9,139	747,770
1993	70,509	8,773	13,934	38,972	2,298	56,392	130,377	416,097	86,818	6,750	830,920
1994	64,696	14,526	16,526	40,765	2,479	63,575	131,231	482,024	93,266	9,678	918,766
1995	87,514	14,090	14,901	40,897	2,820	70,804	143,680	533,304	120,907	8,740	1,037,657
1996	91,768	13,590	12,842	53,763	2,867	74,282	141,770	486,082	119,614	11,218	1,007,796
1997	97,815	16,640	13,197	51,820	2,537	78,930	140,829	459,604	113,202	9,657	984,231
1998	96,699	15,541	14,478	39,281	2,789	80,132	143,251	520,242	113,370	9,139	1,034,921
1999	99,416	18,002	13,187	58,725	2,345	82,431	140,688	594,148	118,875	8,417	1,136,233
2000	103,644	18,785	13,597	106,476	2,239	92,470	144,994	852,574	146,821	10,774	1,492,377
2001	108,773	21,936	14,101	101,992	1,931	89,218	147,722	608,194	121,512	11,040	1,226,421
2002[1]	115,208	22,784	12,906	102,929	2,347	96,730	150,822	591,354	122,022	10,454	1,227,534
2003[1]	116,764	24,788	12,101	102,070	2,548	103,155	145,434	619,221	142,993	10,756	1,279,831
2002[1]											
Jan.	8,889	1,053	962	9,628	371	7,034	11,670	41,214	6,835	840	88,496
Feb.	7,902	1,743	1,013	7,812	184	7,011	11,231	41,403	7,871	733	86,902
Mar.	8,844	2,435	1,007	7,267	117	8,234	12,328	49,586	10,288	664	100,770
Apr.	8,594	1,911	1,095	7,221	254	8,627	13,756	52,690	12,265	1,178	107,591
May	9,454	2,110	1,094	5,450	99	8,164	15,397	53,669	12,187	1,075	108,698
June	10,191	2,210	977	9,694	188	7,490	14,221	51,401	9,014	615	106,001
July	13,903	2,827	1,066	9,689	199	9,984	14,746	54,354	10,090	991	117,848
Aug.	7,954	2,135	918	8,872	149	7,784	9,536	47,828	8,077	835	94,088
Sept.	9,058	1,483	1,308	8,296	152	7,240	10,606	45,207	11,584	978	95,913
Oct.	10,716	1,763	1,266	7,953	281	9,496	14,117	53,626	13,722	1,245	114,184
Nov.	11,425	1,668	1,175	13,901	185	7,742	12,848	50,566	10,510	789	110,810
Dec.	8,278	1,446	1,025	7,146	168	7,924	10,366	49,810	9,559	511	96,233
2003[1]											
Jan.	8,006	1,854	728	8,803	197	7,477	10,732	47,404	7,849	939	93,989
Feb.	9,063	2,312	1,162	9,923	262	7,729	12,319	48,734	10,755	1,561	103,820
Mar.	8,534	1,678	1,139	8,237	172	7,664	12,261	55,743	11,333	953	107,714
Apr.	11,273	1,912	1,122	7,602	241	8,923	13,330	58,773	13,033	769	116,978
May	8,957	2,313	1,164	8,277	173	8,562	12,600	49,711	15,248	842	107,847
June	7,936	1,820	1,075	7,527	140	8,426	12,969	55,406	12,561	612	108,471
July	9,613	3,360	926	13,723	237	10,842	13,720	52,275	11,662	692	117,050
Aug.	10,677	1,926	835	10,038	181	7,953	10,038	43,385	9,169	1,004	95,207
Sept.	11,673	2,019	827	7,758	339	8,987	11,468	51,296	12,006	888	107,262
Oct.	10,683	1,759	997	7,415	246	9,532	12,860	52,603	15,495	752	112,342
Nov.	10,028	1,837	943	7,008	186	8,578	12,264	47,770	12,429	862	101,905
Dec.	10,321	1,998	1,183	5,759	174	8,482	10,873	56,121	11,453	882	107,246
2004[1]											
Jan.	7,825	1,435	768	14,245	187	7,806	9,120	41,750	7,714	600	91,452
Feb.	6,831	1,023	1,154	8,814	127	8,965	10,137	44,989	11,347	1,178	94,566
Mar.	8,518	1,519	1,007	6,997	196	10,050	12,492	70,304	12,465	1,135	124,684
Apr.	8,944	1,136	656	7,953	351	10,295	12,454	51,656	10,768	958	105,169

[1] Provisional.

Source: NSO.

TABLE 5.1 a GROSS NATIONAL INCOME AND EXPENDITURE COMPONENTS IN LINE WITH ESA 1995[1]

at current market prices

Lm thousands

Period	Domestic Demand					External Balance			Gross Domestic Product	Gross National Income
	Private Consumption[2]	General government consumption	Gross fixed capital formation	Changes in inventories[3]	Total	Exports of goods and services	Imports of goods and services	Net balance		
2000	1,065,231	323,112	377,515	85,940	1,851,798	1,572,823	1,740,099	-167,276	1,684,522	1,631,428
2001	1,091,001	354,021	356,777	17,307	1,819,106	1,399,132	1,487,633	-88,501	1,730,605	1,741,712
2002	1,098,510	372,936	332,408	-31,539	1,772,315	1,468,570	1,473,608	-5,038	1,767,277	1,769,831
2003	1,125,853	388,001	392,769	35,706	1,942,329	1,420,643	1,517,374	-96,731	1,845,598	1,861,016
2003										
Mar.	262,897	102,071	95,266	15,169	475,403	311,642	362,580	-50,938	424,465	438,934
June	278,900	99,937	104,929	8,901	492,667	362,445	387,956	-25,511	467,156	467,747
2004										
Mar.	266,842	99,319	116,646	-22,352	460,455	322,844	339,665	-16,821	443,634	436,650
June	286,914	100,708	113,715	-29,070	472,267	356,774	365,496	-8,722	463,545	474,444

[1] Provisional

[2] Including Non-Profit Institutions serving households.

[3] Including acquisitions less disposals of valuables.

Source: NSO News Release No 184/2004.

TABLE 5.1b GROSS DOMESTIC PRODUCT AND EXPENDITURE COMPONENTS IN LINE WITH ESA 1995[1]

at constant 2000 prices

Lm thousands

Period	Domestic Demand					External Balance			Gross Domestic Product
	Private Consumption[2]	General Government Consumption	Gross fixed capital formation	Changes in invetories[3]	Total	Exports of goods and services	Imports of goods and services	Net balance	
2000	1,065,231	323,112	377,514	85,941	1,851,798	1,572,823	1,740,099	-167,276	1,684,522
2001	1,058,134	323,100	343,865	17,096	1,742,195	1,495,438	1,589,351	-93,913	1,648,282
2002	1,053,754	336,006	303,646	-29,941	1,663,465	1,566,642	1,552,147	14,495	1,677,960
2003	1,069,276	343,424	361,468	32,804	1,806,972	1,534,835	1,660,692	-125,857	1,681,115
2003									
Mar.	250,023	90,344	87,696	13,856	441,919	336,692	396,826	-60,134	381,785
June	264,865	88,455	96,391	8,237	457,948	391,578	424,599	-33,021	424,927
2004									
Mar.	250,914	83,300	106,366	-20,248	420,332	374,848	404,604	-29,756	390,576
June	259,038	84,465	103,730	-26,334	420,899	416,370	418,908	-2,538	418,361

[1] Provisional.

[2] Including Non-Profit Institutions serving households.

[3] Including acquisitions less dsiposals of valuables.

Source: NSO News Release No 184/2004.

TABLE 5.1c GROSS NATIONAL PRODUCT[1]

by category of expenditure at current market prices

Lm thousands

Period	Consumers' expenditure[2]	Government consumption expenditure[3]	Gross fixed capital formation[4]	Inventory changes[5]	Exports of goods & services	Total final expenditure	*Less* imports of goods & services	**Gross Domestic Product**	Net investment income from abroad[6]	**Gross National Product**
1995	700,425	235,205	365,175	1,183	1,074,708	2,376,696	1,231,172	1,145,524	11,952	1,157,476
1996	764,901	259,790	345,265	-1,424	1,045,593	2,414,125	1,212,839	1,201,286	3,185	1,204,471
1997	803,493	264,053	326,443	3,009	1,095,775	2,492,773	1,204,554	1,288,219	4,096	1,292,315
1998	846,002	269,039	333,561	-10,657	1,194,676	2,632,621	1,270,297	1,362,324	-27,377	1,334,947
1999	915,014	272,587	339,975	9,383	1,321,307	2,858,266	1,402,167	1,456,099	12,437	1,468,536
2000	994,273	289,430	409,475	33,400	1,604,256	3,330,834	1,772,601	1,558,233	-54,255	1,503,978
2001[7]	1,041,866	326,641	379,506	-39,289	1,428,122	3,136,846	1,506,473	1,630,373	11,742	1,642,115
2002[7]	1,079,361	339,927	350,648	-74,996	1,497,659	3,192,600	1,506,973	1,685,627	2,558	1,688,185
2003[7]	1,092,792	366,861	419,242	-69,910	1,446,747	3,255,732	1,543,567	1,712,165	29,423	1,726,052
2002[7]										
Mar.	250,755	85,835	90,176	-11,082	322,708	738,392	342,637	395,755	5,676	401,431
June	272,253	87,859	65,548	-5,973	397,001	816,688	396,128	420,560	15,698	436,258
Sept.	288,723	83,011	95,547	-46,325	396,122	817,078	378,369	438,709	9,195	447,904
Dec.	267,630	83,222	99,377	-11,616	381,828	820,441	389,839	430,602	-28,011	402,591
2003[7]										
Mar.	254,921	97,613	99,706	-5,243	317,734	764,731	370,673	394,058	14,268	408,326
June	274,024	92,603	114,732	-25,369	369,169	825,159	395,697	429,462	70	429,532
Sept.	288,704	82,422	97,676	-19,261	391,840	841,381	391,490	449,891	15,085	464,976
Dec.	275,143	94,223	107,128	-20,037	368,004	824,461	385,707	438,754	-15,536	423,218

[1] In line with national definition. This Table is to be discontinued from the next publication.

[2] Expenditure on consumption of goods and services by persons and non-profit making bodies.

[3] Excludes transfer payments (social security benefits, subsidies and grants) and capital expenditure.

[4] Expenditure on fixed capital assets by the Government as well as the private and parastatal sectors.

[5] Increase in the quantity of stocks and work in progress held by the Government and trading enterprises. This is obtained as a residual and therefore contains the error term.

[6] Income from foreign investments held by private individuals and corporations, the Government and the banking sector, less interest payments by local banks to non-resident deposit holders, dividends payable to non-resident shareholders, as well as undistributed profits of non-resident owned companies.

[7] Provisional.

Source: NSO.

TABLE 5.2a TOURIST DEPARTURES BY NATIONALITY[1]

Period	United Kingdom	Italy	France	Germany	Scandinavian Countries [2]	United States	All Others	Total
2001	465,635	78,515	78,739	165,812	45,339	12,671	298,455	1,145,166
2002	466,251	69,806	79,758	147,712	36,002	11,382	285,918	1,096,829
2003[3]	471,899	78,361	77,027	124,769	41,361	13,895	281,775	1,089,087
2003[3]								
Jan.	23,375	5,021	2,027	4,264	1,098	1,100	12,593	49,478
Feb.	25,041	2,605	2,745	5,677	1,119	503	11,330	49,020
Mar.	30,467	4,330	4,158	12,474	2,356	1,223	16,670	71,678
Apr.	39,129	5,871	8,043	14,488	3,038	834	21,884	93,287
May.	40,103	5,683	11,908	11,000	5,468	1,467	26,951	102,580
June	45,031	6,958	7,621	11,436	3,769	1,245	28,034	104,094
July	50,549	11,949	8,991	8,858	6,324	1,716	37,656	126,043
Aug.	60,730	18,896	12,435	15,808	3,846	1,068	44,887	157,670
Sep.	55,717	6,480	7,168	11,821	4,803	1,528	30,955	118,472
Oct.	50,487	4,616	7,592	14,288	4,370	1,338	27,114	109,805
Nov.	32,063	3,091	2,945	9,351	3,277	1,215	13,839	65,781
Dec.	19,207	2,861	1,394	5,304	1,893	658	9,862	41,179
2004[3]								
Jan.	20,183	6,880	1,613	5,966	1,346	885	11,947	48,820
Feb.	25,030	3,284	3,852	5,219	1,900	726	10,889	50,900
Mar.	31,369	4,312	3,253	10,159	2,584	971	12,371	65,019
Apr.	36,985	7,370	8,589	11,181	4,265	1,578	20,907	90,875
May	38,795	5,574	10,792	10,695	7,217	2,018	28,181	103,272
June	47,020	6,272	10,815	12,134	5,546	879	29,848	112,514

[1] Based on the NSO's inbound tourism survey.

[2] Comprising Denmark, Norway and Sweden.

[3] Provisional.

Source: NSO.

TABLE 5.2b TOURIST ARRIVALS BY NATIONALITY[1]

Period	United Kingdom	Italy	North Africa[2]	Germany	Scandinavian countries[3]	United States	All others	Total
1995	461,159	97,384	43,534	187,761	38,531	10,945	276,657	1,115,971
1996	398,899	89,439	56,958	184,110	40,420	11,969	271,993	1,053,788
1997	436,899	90,190	45,702	193,020	39,248	14,924	291,178	1,111,161
1998	448,763	90,558	44,508	203,199	39,997	17,641	337,574	1,182,240
1999	422,368	92,726	52,537	212,430	50,607	18,558	365,004	1,214,230
2000	428,780	92,522	52,275	204,749	52,075	19,269	366,043	1,215,713
2001	451,530	93,564	39,167	160,262	52,334	19,986	363,302	1,180,145
2002	444,335	100,875	31,676	142,106	43,257	20,080	351,485	1,133,814
2003	459,565	94,175	-	125,811	47,702	20,657	378,691	1,126,601
2003								
Jan.	20,602	2,439	-	3,821	1,816	1,266	10,908	40,852
Feb.	26,679	3,431	-	6,815	1,972	1,231	15,611	55,739
Mar.	28,141	4,871	-	14,540	2,573	1,668	21,789	73,582
Apr.	37,870	6,755	-	14,810	4,402	1,685	37,219	102,741
May	40,584	6,992	-	12,425	4,256	2,289	42,202	108,748
June	45,727	9,512	-	9,961	5,615	2,606	41,946	115,367
July	58,470	13,809	-	11,119	6,784	2,108	53,559	145,849
Aug.	55,854	23,521	-	12,760	3,963	1,616	51,322	149,036
Sept.	53,443	7,639	-	11,546	5,443	1,867	39,757	119,695
Oct.	42,444	4,827	-	15,477	6,021	1,683	31,407	101,859
Nov.	27,552	3,611	-	7,449	3,242	1,560	15,039	58,453
Dec.	22,199	6,768	-	5,088	1,615	1,078	17,932	54,680
2004[4]								
Jan.	17,622	4,102	-	3,670	2,168	1,312	12,201	41,075
Feb.	24,115	3,877	-	6,780	1,969	1,141	15,982	53,864
Mar.	30,194	5,709	-	11,375	3,309	2,026	19,838	72,451

[1] The collection of this data was discontinued by the NSO as from March 2004. This Table is to be discontinued from the next publication.

[2] From January 2003 these statistics are included in the "All Others" category.

[3] Scandinavian countries include Denmark, Norway, Sweden and Finland.

[4] Provisional

Source: NSO.

TABLE 5.3 LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS

End of period	Labour supply			Gainfully occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Amount	% [1]	Amount	% [2]	Amount	% [3]
1995	102,158	35,612	137,770	97,241	34,709	131,950	4,917	4.8	903	2.5	5,820	4.2
1996	103,323	36,944	140,267	97,493	35,702	133,195	5,830	5.6	1,242	3.4	7,072	5.0
1997	103,540	37,294	140,834	97,065	36,076	133,141	6,475	6.3	1,218	3.3	7,693	5.5
1998	103,235	37,951	141,186	96,460	36,816	133,276	6,775	6.6	1,135	3.0	7,910	5.6
1999	103,568	39,040	142,608	96,478	37,824	134,302	7,090	6.8	1,216	3.1	8,306	5.8
2000	103,831	40,185	144,016	97,689	39,139	136,828	6,142	5.9	1,046	2.6	7,188	5.0
2001	104,094	40,791	144,885	97,933	39,519	137,452	6,161	5.9	1,272	3.1	7,433	5.1
2002	103,668	41,169	144,837	97,494	39,827	137,321	6,174	6.0	1,342	3.3	7,516	5.2
2003	102,851	41,558	144,409	96,245	39,989	136,234	6,606	6.4	1,569	3.8	8,175	5.7
2003												
Jan.	104,245	41,409	145,654	97,853	39,922	137,775	6,392	6.1	1,487	3.6	7,879	5.4
Feb.	104,169	41,496	145,665	97,932	40,026	137,958	6,237	6.0	1,470	3.5	7,707	5.3
Mar.	104,081	41,419	145,500	97,930	40,006	137,936	6,151	5.9	1,413	3.4	7,564	5.2
Apr.	104,080	41,463	145,543	98,020	40,043	138,063	6,060	5.8	1,420	3.4	7,480	5.1
May	103,758	41,511	145,269	97,848	40,100	137,948	5,910	5.7	1,411	3.4	7,321	5.0
June	103,372	41,624	144,996	97,492	40,266	137,758	5,880	5.7	1,358	3.3	7,238	5.0
July	103,865	42,264	146,129	97,690	40,525	138,215	6,175	5.9	1,739	4.1	7,914	5.4
Aug.	103,587	42,102	145,689	97,336	40,301	137,637	6,251	6.0	1,801	4.3	8,052	5.5
Sept.	103,233	41,689	144,922	96,968	40,012	136,980	6,265	6.1	1,677	4.0	7,942	5.5
Oct.	103,373	41,893	145,266	96,850	40,167	137,017	6,523	6.3	1,726	4.1	8,249	5.7
Nov.	102,965	41,825	144,790	96,421	40,092	136,513	6,544	6.4	1,733	4.1	8,277	5.7
Dec.	102,851	41,558	144,409	96,245	39,989	136,234	6,606	6.4	1,569	3.8	8,175	5.7
2004												
Jan.	103,246	41,607	144,853	96,304	39,755	136,059	6,942	6.7	1,852	4.5	8,794	6.1
Feb.	103,315	41,716	145,031	96,344	39,857	136,201	6,971	6.7	1,859	4.5	8,830	6.1
Mar.	103,143	41,623	144,766	96,465	39,881	136,346	6,678	6.5	1,742	4.2	8,420	5.8
Apr.	103,266	41,723	144,989	96,591	40,059	136,650	6,675	6.5	1,664	4.0	8,339	5.8
May	103,298	41,814	145,112	96,756	40,252	137,008	6,542	6.3	1,562	3.7	8,104	5.6

[1] As a percentage of male labour supply.

[2] As a percentage of female labour supply.

[3] As a percentage of total labour supply.

Sources: ETC; NSO.

TABLE 5.4 LABOUR MARKET INDICATORS BASED ON THE LABOUR FORCE SURVEY[1]

End of period	Labour supply			Gainfully occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Amount	%[2]	Amount	%[3]	Amount	%[4]
2000	109,059	46,295	155,354	101,431	43,772	145,203	7,628	7.0	2,523	5.4	10,151	6.5
2001	110,233	45,518	155,751	103,607	41,980	145,587	6,626	6.0	3,538	7.8	10,164	6.5
2002	108,835	50,443	159,278	102,120	46,283	148,403	6,715	6.2	4,160	8.2	10,875	6.8
2003	109,661	49,977	159,638	101,159	45,883	147,042	8,502	7.8	4,094	8.2	12,596	7.9
2002												
Mar.	108,363	47,505	155,868	99,948	43,937	143,885	8,415	7.8	3,568	7.5	11,983	7.7
June	109,727	50,355	160,082	102,855	46,178	149,033	6,872	6.3	4,177	8.3	11,049	6.9
Sept.	110,379	48,743	159,122	103,512	45,450	148,962	6,867	6.2	3,293	6.8	10,160	6.4
Dec.	108,835	50,443	159,278	102,120	46,283	148,403	6,715	6.2	4,160	8.2	10,875	6.8
2003												
Mar.	109,800	49,584	159,384	102,613	46,185	148,798	7,187	6.5	3,399	6.9	10,586	6.6
June	110,729	50,134	160,863	103,638	45,180	148,818	7,091	6.4	4,954	9.9	12,045	7.5
Sept.	110,038	49,730	159,768	101,706	44,896	146,602	8,332	7.6	4,834	9.7	13,166	8.2
Dec.	109,661	49,977	159,638	101,159	45,883	147,042	8,502	7.8	4,094	8.2	12,596	7.9
2004												
Mar.	111,734	48,449	160,183	104,061	44,594	148,655	7,673	6.9	3,855	8.0	11,528	7.2
June	110,596	46,977	157,573	102,943	43,101	146,044	7,653	6.9	3,876	8.3	11,529	7.3

[1] The Labour Force Survey is carried out on a quarterly basis using a random sample of private households. As from Quarter 1:2004, this figure was compiled on an evenly spread survey throughout the 13 weeks of the quarter and not on one specific reference week representing the whole quarter.

[2] As a percentage of male labour supply.

[3] As a percentage of female labour supply.

[4] As a percentage of total labour supply.

Source: NSO.

TABLE 5.5 NUMBER OF APPROVED COMMERCIAL PROPERTY APPLICATIONS, BY PURPOSE[1]

Period	Agriculture	Manufacturing	Warehousing/retail/ offices[2]	Hotel/ tourism	Recreational/ social[3]	Parking	Minor new works/ change of use	Other	Total
1993	168	64	400	26	70	176	666	1,350	2,920
1994	245	71	775	45	363	287	1,404	264	3,454
1995	293	69	924	27	434	188	1,731	411	4,077
1996	234	37	827	21	352	154	1,632	611	3,868
1997	248	49	545	28	362	169	1,594	949	3,944
1998	273	97	564	47	770	193	1,729	971	4,644
1999	231	112	858	29	378	205	1,600	740	4,153
2000	270	104	790	36	588	236	1,486	1,010	4,520
2001	312	58	1,019	24	485	214	1,095	1,491	4,698
2002[4]	283	58	378	13	168	154	1,141	1,760	3,955

[1] This Table replaces the previous Table 5.4, which showed building applications approved by purpose and floor space area, as data on the latter are no longer available.

[2] Including applications for advertisements and for mixed residential and retail purposes.

[3] Including applications for restaurants and café bars.

[4] Provisional.

Source: Malta Environment & Planning Authority.

TABLE 5.6 DWELLING UNITS GRANTED DEVELOPMENT PERMISSION, BY TYPE[1]

Period	Apartments	Maisonettes	Terraced Houses	Other	Total
1993	1,192	651	1,016	114	2,973
1994	1,095	476	488	44	2,103
1995	1,910	1,064	1,094	161	4,229
1996	1,601	1,183	495	72	3,351
1997	1,656	1,060	570	125	3,411
1998	1,742	790	339	133	3,004
1999	1,452	473	271	77	2,273
2000	1,473	583	246	67	2,369
2001[2]	2,657	774	203	546	4,180
2002[2]	3,420	910	135	1,016	5,481

[1] Changes to the data are mainly due to the policy adopted by the Malta Environment & Planning Authority to reassess permit applications on a continuous basis.

[2] Provisional.

Source: Malta Environment & Planning Authority.

TABLE 5.7 INFLATION RATES[1]

(Base 1946 = 100)

Year	Index	Inflation rate (%)	Year	Index	Inflation rate (%)
			(continued)		
1946	100.00	-	1975	254.77	8.80
1947	104.90	4.90	1976	256.20	0.56
1948	113.90	8.58	1977	281.84	10.01
1949	109.70	-3.69	1978	295.14	4.72
1950	116.90	6.56	1979	316.21	7.14
1951	130.10	11.29	1980	366.06	15.76
1952	140.30	7.84	1981	408.16	11.50
1953	139.10	-0.86	1982	431.83	5.80
1954	141.20	1.51	1983	428.06	-0.87
1955	138.80	-1.70	1984	426.18	-0.44
1956	142.00	2.31	1985	425.17	-0.24
1957	145.70	2.61	1986	433.67	2.00
1958	148.30	1.78	1987	435.47	0.42
1959	151.10	1.89	1988	439.62	0.95
1960	158.80	5.10	1989	443.39	0.86
1961	164.84	3.80	1990	456.61	2.98
1962	165.16	0.19	1991	468.21	2.54
1963	168.18	1.83	1992	475.89	1.64
1964	172.00	2.27	1993	495.59	4.14
1965	174.70	1.57	1994	516.06	4.13
1966	175.65	0.54	1995	536.61	3.98
1967	176.76	0.63	1996	549.95	2.49
1968	180.42	2.07	1997[2]	567.95	3.27
1969	184.71	2.38	1998	580.61	2.23
1970	191.55	3.70	1999	593.00	2.13
1971	196.00	2.32	2000	607.07	2.37
1972	202.52	3.33	2001	624.85	2.93
1973	218.26	7.77	2002	638.54	2.19
1974	234.16	7.28	2003	646.84	1.30

[1] The Index of Inflation (Base 1946=100) is compiled by the NSO on the basis of the Retail Price Index in terms of Article 13 of the Housing (Decontrol) Ordinance, Cap. 158.

[2] Following the revision of the utility rates in November 1998, the index and the rate of inflation for the year 1997 were revised to 567.08 and 3.11% respectively. Consequently, the rate of inflation for 1998 would stand at 2.39%.

TABLE 5.8 RETAIL PRICE INDEX

(Base December 2002 = 100)

Period	All items
1995	83.58
1996	85.66
1997	88.33
1998	90.43
1999	92.36
2000	94.55
2001	97.32
2002	99.45
2003	100.75
2003	
Jan.	99.12
Feb.	99.60
Mar.	100.36
Apr.	100.40
May	100.73
June	100.88
July	100.54
Aug.	100.47
Sept.	100.82
Oct.	101.91
Nov.	101.75
Dec.	102.38
2004	
Jan.	102.20
Feb.	102.23
Mar.	102.66
Apr.	103.32
May	103.13
June	103.62

Note: The New Retail Price Index is based on the Household Budgetary Survey carried out by the NSO during 2000 and 2001. Annual figures prior to 2003 were rebased using the linking coefficient of 1.1914 specified in the NSO News Release No. 58/2003.

Sources: Central Bank of Malta; NSO.

TABLE 5.9 MAIN CATEGORIES OF HARMONISED INDEX OF CONSUMER PRICES (HICP)

(12-month moving average rates - Base 1996=100)[1]

Period	00		01	02	03	04	05	06	07	08	09	10	11	12
	Index	12-month moving average												
1998	107.8	3.7	2.2	10.1	1.4	0.6	0.5	4.4	4.1	0.2	2.1	5.0	6.8	4.8
1999	110.2	2.3	-0.1	10.0	-0.7	1.4	2.9	3.4	3.2	0.0	0.5	4.1	3.2	2.1
2000	113.6	3.0	1.0	8.3	0.3	0.9	-1.2	4.2	3.3	2.8	0.2	4.2	7.6	1.4
2001	116.4	2.5	4.0	4.5	-1.3	2.2	0.3	3.5	0.1	1.3	3.3	6.7	4.0	2.0
2002	119.5	2.6	2.1	7.6	-0.7	2.3	0.5	2.4	0.6	0.6	2.2	10.1	4.5	3.0
2003	121.8	1.9	2.0	1.2	-6.8	2.0	-0.3	5.6	2.1	-0.2	1.3	3.2	7.4	2.3
2003														
Jan.	117.6	2.3	1.5	6.9	-2.0	2.1	0.4	2.4	0.7	0.7	2.2	9.8	4.3	3.0
Feb.	118.1	2.2	1.4	6.3	-3.1	1.9	0.2	2.3	0.8	0.8	2.2	9.5	4.6	2.9
Mar.	119.0	2.2	1.4	5.6	-3.7	1.7	0.1	2.3	0.9	0.9	2.1	9.2	4.8	2.8
Apr.	122.2	2.1	1.3	5.0	-4.1	1.6	0.0	2.1	1.2	1.0	2.2	8.3	5.2	2.6
May	123.0	2.1	1.2	4.4	-4.5	1.5	-0.2	2.5	1.4	1.0	2.2	7.4	5.7	2.5
June	123.2	2.1	1.1	3.8	-4.9	1.6	-0.2	2.9	1.7	1.0	2.2	6.6	6.1	2.4
Jul.	123.9	2.0	1.0	3.2	-5.6	1.8	-0.2	3.3	1.7	1.0	2.2	5.8	6.5	2.3
Aug.	124.1	2.0	1.0	2.7	-6.9	2.0	-0.1	3.8	1.8	0.8	2.2	5.0	7.1	2.3
Sept.	123.8	2.0	1.2	2.1	-7.9	2.0	-0.2	4.2	2.0	0.6	2.2	4.2	7.5	2.2
Oct.	124.5	2.0	1.4	1.5	-7.9	2.0	-0.2	4.6	1.9	0.3	2.1	3.7	7.9	2.2
Nov.	120.4	1.9	1.6	0.9	-7.4	1.9	-0.3	5.1	2.0	0.0	1.7	3.5	7.7	2.2
Dec.	121.6	1.9	2.0	1.2	-6.8	2.0	-0.3	5.6	2.1	-0.2	1.3	3.2	7.4	2.3
2004														
Jan.	120.9	2.1	2.4	2.3	-6.0	2.2	-0.1	5.8	2.2	-0.5	1.1	3.0	7.2	2.6
Feb.	121.0	2.1	2.2	3.4	-5.3	2.4	0.1	6.6	2.3	-0.6	0.9	2.8	6.7	2.9
Mar.	121.5	2.1	1.9	4.6	-5.3	2.7	0.3	7.2	2.3	-0.7	0.7	2.6	6.3	3.3
Apr.	126.6	2.3	1.8	5.7	-5.2	2.9	0.7	8.0	2.4	-0.7	0.4	3.0	6.2	3.8
May	126.8	2.4	1.5	6.8	-4.6	3.1	1.0	7.8	2.4	-0.6	0.2	3.2	6.0	4.3
June	127.2	2.4	1.3	8.0	-4.0	2.8	1.2	7.5	2.4	0.8	0.1	3.4	5.8	4.8

[1] Provisional Data

COICOP/HICP Code

00. HICP (all-items)
01. Food & non-alcoholic beverages
02. Alcoholic beverages & tobacco
03. Clothing & footwear
04. Housing, water, electricity, gas & other fuels
05. Furnishings, household equipment & routine maintenance of the house
06. Health
07. Transports
08. Communications
09. Recreation & culture
10. Education
11. Restaurants & hotels
12. Miscellaneous goods & services

Source: Eurostat.

GENERAL NOTES

INSTITUTIONAL BALANCE SHEETS

The balance sheets published in Tables 1.1, 1.2 and 1.3 are based on accounting principles. Consequently, data in these Tables might differ from data shown in other Tables compiled using statistical concepts and methodology.

MONEY AND BANKING STATISTICS

Since October 2003, the compilation of monetary statistics has been consistent with internationally agreed statistical concepts and methodology as published in the IMF's *Monetary and Financial Statistics Manual* (2000), ECB Regulation 2001/13 concerning the consolidated balance sheet of the Monetary Financial Institutions (MFI) sector and the European System of Accounts (ESA 1995).

Measures of money

The Bank compiles data on three main monetary aggregates - narrow money (M1), intermediate money (M2) and broad money (M3).

Narrow money (M1) includes the most liquid components of M3, namely currency in circulation, demand deposits and savings deposits withdrawable on demand. Demand deposits exclude uncleared effects drawn on deposit money banks and cheques and other items in the process of collection, but include non-government deposits with the Central Bank of Malta.

Intermediate money (M2) comprises M1, residents' savings deposits redeemable at notice and time deposits with an agreed maturity of up to and including two years.

Broad money (M3) comprises M2 and the banks' repurchase agreements with the non-bank sector and banks' debt securities issues with an agreed maturity of up to and including two years. It therefore includes the resident non-bank sector's holdings of bank notes and coins in circulation, the resident non-bank and non-government deposits irrespective of denomination, the banks' repurchase agreements with the non-bank sector and the banks' issues of debt securities, all with an agreed maturity of up to and including two years.

The Monetary Base (M0) is defined as currency issued and the credit institutions' deposits with the Central Bank of Malta. Currency issued comprises currency in circulation and holdings of national currency by the banks in their tills. Credit institutions' deposits with the Central Bank of Malta exclude term deposits.

Compilation and valuation principles

Monetary statistics are based on a consolidation (or aggregation where indicated) of the monthly financial statements provided by the local credit institutions and the Central Bank of Malta. The credit institutions must submit data to the Bank no later than twelve calendar days following the end of the reporting month or quarter. Branches and subsidiaries of credit institutions operating in Malta but headquartered abroad are also obliged to submit similar financial information. The reporting institutions compile monthly financial information in line with international accounting norms as issued by the International Accounting Standards Committee. In certain instances, credit institutions are required to submit the returns in accordance with specific statistical requirements of the Bank.

Monetary data show the stock positions, which are outstanding balances on a particular date (end-month, end-quarter or end-year). Monetary aggregates are consolidated for the MFI sector, thus all identifiable interbank transactions are eliminated. Assets and liabilities are generally reported at market or fair value and on accrual basis. Thus the effects of transactions and other events are recognised when they occur rather than when cash is received or paid. Transactions are recorded at the time of change in ownership of a financial asset. Within this context, change in ownership is accomplished when all rights, obligations and risks are discharged by one party and assumed by the other. Instruments are reported in accordance with their maturity at issue, that is, by original maturity. Original maturity refers to the fixed period of life of a financial instrument before which it cannot be redeemed.

All financial assets and liabilities are reported on a gross basis. Loans - which include overdrafts, bills discounted and any other facility whereby funds are lent - are reported at their book value and gross of all related provisions, both general and specific. Financial assets and liabilities that have demonstrable value - as well as non-financial assets - are considered as on-balance sheet items. Other financial instruments which are conditional on the occurrence of uncertain future events, such as contingent instruments, are not given on-balance sheet recognition. Only the gains and losses on the latter instruments are treated as on-balance sheet.

Transactions in foreign currency are recorded in the reporting currency using the exchange rate at the date of the transaction. At the balance sheet date, assets and liabilities denominated in foreign currencies are converted into Maltese liri at the exchange rate in effect at the end of the reporting period.

Release of monetary statistics

Monthly consolidated monetary statistics are posted on the Central Bank of Malta website by the end of the month following the reference month. Subsequently, detailed monetary data together with related analytical information are released in the press through the Bank's monthly 'Statistical release on monetary aggregates and their counterparts' and in the Central Bank of Malta's *Quarterly Review* and *Annual Report*.

Determination of 'residence'

Monetary data are based on the classification of transactions by the residence of the transactors. The transactors may either be residents or non-residents of Malta, a transactor being an economic entity that is capable in its own right of owning assets, incurring liabilities and engaging in economic activities with other entities. The internationally agreed residence criterion for the purposes of statistical compilation is based on the transactor's 'centre of economic interest'.

The term 'centre of economic interest' indicates that there exists some location within the economic territory on or from which a unit engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time (a year or more). Those companies solely undertaking international business activities, including shipping activities, which have a physical presence and undertake a significant degree of economic activity in Malta, are considered as resident units.

Transactors not meeting the above-mentioned criteria are considered to be non-resident units, that is, units that have their 'centre of economic interest' in other countries. Diplomatic bodies, embassies, consulates and other entities of a foreign government located in Malta are, however, considered as residents of the country they are representing and not of Malta.

Sector classification of the Maltese economy

The main sectors of the Maltese economy, for statistical reporting purposes, are currently subdivided by their primary activity into:

(a) Monetary financial institutions (MFIs);
(b) Other financial institutions (including insurance companies);
(c) General government;
(d) Non-financial companies;
(e) Households and non-profit institutions.

In addition to the above, there are those transactors that are considered to be non-residents (also referred to as the 'external sector' or the 'rest of the world').

(a) **Monetary financial institutions** (MFIs) consist of:

i. The **central bank**, which is the national financial institution that exercises control over key aspects of the financial system and whose principal function it is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country.

ii. The **credit institutions**, whose business it is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. Credit institutions licensed in Malta comprise banks licensed by the competent authority under the Banking Act (Cap. 371). In accordance with the Banking Co-ordination Directives of December 1977 and December 1989 (77/780/EEC and 89/646/EEC), a credit institution is "an undertaking whose business is to receive deposits or other repayable funds from the public - including the proceeds arising from the sales of bank bonds to the public - and to grant credit for its own account".

This sector is also subdivided into deposit money banks (DMBs) and international banking institutions (IBIs), the latter as from January 1995. DMBs are credit institutions that accept deposits and grant loans to both residents and non-residents. IBIs are credit institutions that accept deposits and grant loans predominantly to non-residents. Other banking institutions (OBIs), comprising mainly long-term lending institutions, were included with the banking sector category up to December 2000.

(b) **Other financial institutions** consist of:

i. **Other financial intermediaries and financial auxiliaries, except insurance companies and pension funds** - this subsector consists of non-monetary financial companies (excluding insurance companies and pension funds) principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than MFIs. Financial auxiliaries consist of companies which are principally engaged in auxiliary financial activities, that is, activities closely related to financial intermediation, but which are not financial intermediators themselves.

ii. **Insurance companies and pension funds**, which comprise non-monetary financial companies principally engaged in financial intermediation as the consequence of the pooling of risks. Insurance companies consist of incorporated mutual and other entities whose principal function is to provide life, accident, health, fire or other forms of insurance to individual institutional units or group of units. Pension funds included in this sector are those that are constituted as separate from the units that created them. They are established for the purposes of providing retirement benefits for specific groups of employees.

(c) **General government**:

General government includes all institutional units principally engaged in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. For statistical reporting purposes, the sector general government in Malta comprises the central government sector and the other general government sector, the latter comprising solely the local government sector.

i. **Central government** includes all administrative departments of the state and other central agencies whose competence extends over the whole economic territory. It thus includes departments, ministries, and offices of government located in the country and embassies, consulates, military establishments and other institutions of government located outside the country. Also included in this sector are the public non-market units. These comprise those institutional units under public control that are principally engaged in the production of goods and services not usually sold on a market and/or involved in the redistribution of national income and wealth. These units/entities do not charge “economically significant” prices and/or did not cover at least 50% of their production costs in sales over the last years.

ii. **Other general government** in Malta comprises solely the local government sector. Local government includes administrative departments, councils or agencies whose competence covers only a restricted part of the economic territory of a country.

(d) **Non-financial companies:**

This sector comprises companies not engaged in any form of financial intermediation but engaged principally in the production of market goods and non-financial services. Included in this sector are market-producing co-operatives, partnerships and sole proprietorships recognised as independent legal entities. This sector includes public non-financial companies, that is, companies that are subject to control by government units, and private non-financial companies, that is, companies controlled by non-government resident or non-resident units.

(e) **Households and non-profit institutions:**

This sector comprises individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively intended for their own final consumption. Included in this sector are non-profit institutions principally engaged in the production of non-market goods and services intended for particular sections of households.

Financial market indicators

The statutory interest rates used by the Central Bank of Malta and other indicative bench-mark money market rates are given as end-of-period rates as a percentage per annum. The repurchase agreement/term deposit rates are the prevailing rates actually dealt in at the end of the month or the rates offered by the Central Bank of Malta. The interbank market offered rates shown are the prevailing rates in dealings between banks in the official interbank market.

The weighted average deposit rates on current, savings and time deposits pertain to the deposit money banks' interest rates applicable on resident Maltese lira deposits. The weighted average rate on time deposits is calculated on time deposits with a one year maturity. These rates are calculated by multiplying each amount by the different rates in each type of deposit and dividing by the total amount of each type of deposit. The weighted average lending rate is calculated by multiplying the amount of each loan extended to residents in local currency by the interest rate applied thereto, and dividing by the total amount.

The interest rates applicable on Government Treasury bills, which are obtained from the official rates quoted by the Treasury, are primary market weighted average yields. These are weighted averages of the rates attached to the bills that are taken up by the bidders at the weekly auction. Treasury bills are classified by original maturity. A "-" sign implies that no transactions occured during the last quarter. Interest rates on Malta Government stocks represent weighted average gross redemption yields on applicable stocks with periods specified referring to remaining term to maturity.

The MSE share index measures movements in the price of all ordinary shares listed in the official list of the MSE. It is a market capitalisation index which weights the price and number of shares of each listed firm. The index has a base of 1,000 initiating on 27 December 1995.

International reserves

The international reserves concept is in line with the IMF's *Balance of Payments Manual* (BPM5). It is based on a balance sheet framework and calculated on a gross basis. The types of external reserves covered in this measure comprise convertible currencies, IMF-related assets and holdings of gold. Convertible currencies comprise cash and bank balances denominated in foreign currency, placements with non-resident banks, the portfolio of non-resident investment securities and other foreign currency assets. IMF-related assets comprise holdings of special drawing rights allocated to Malta or acquired in accordance with IMF requirements and the reserve tranche position with the IMF.

PUBLIC DEBT STATISTICS

Gross government debt comprises the total amount of government debt outstanding denominated in domestic and in foreign currency. The source for data on Treasury bills and government external debt is the Central Bank of Malta, while the source for Malta Government stocks is the MSE. Also shown are data on debt guaranteed by government, which mainly relates to the non-financial public sector companies. Government guaranteed debt excludes guarantees on the MIGA and IBRD positions and government guarantees on foreign loans taken by the Central Bank of Malta on behalf of government - these loans already feature in the calculation of government external debt.

STATISTICS ON EXTERNAL TRANSACTIONS

Tables 4.1 and 4.2 show the end-of-period and average exchange rates of the Maltese lira against other main currencies, respectively. These Maltese lira exchange rates are calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta midpoint rates. The Bank also releases further related information on its website.

GOVERNMENT FINANCE AND REAL ECONOMY INDICATORS

Public finance, trade, national accounts and other general economic statistics are obtained from the NSO and the Ministry of Finance and Economic Affairs. Further details may be obtained from the website of the NSO. Statistics on building and construction are obtained from the Malta Environment and Planning Authority.