



BANK ĊENTRALI TA' MALTA  
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## **ECONOMIC UPDATE**

### **9/2016**

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## ECONOMIC UPDATE 9/2016

### Summary<sup>1</sup>

*Overall economic sentiment improved in September, driven by a more favourable assessment by all sectors except construction. Hard data show that industrial production fell again in annual terms in July. In contrast, activity in the tourism sector expanded in both July and August. Retail sales increased in August, following a drop in July. The labour market continued to perform solidly, with the annual growth rate of the gainfully occupied population at 4.3% in April. Meanwhile, unemployment fell further. Price pressures remained moderate. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) and the Retail Price Index (RPI) both edged up in August, to 1.0% and 0.8%, respectively, while industrial producer prices increased marginally. Maltese residents' deposits continued to expand rapidly in August, while the annual rate of growth of credit to residents eased. As regards fiscal developments, the deficit on the cash-based Consolidated Fund narrowed in the first eight months of the year, due to an increase in tax revenue.*

### Business and consumer confidence indicators

During September, the Economic Sentiment Indicator (ESI) increased to 114, from 111 in the preceding two months (see Table 1), remaining above its long-term average of 100.<sup>2,3</sup> Compared to August, confidence increased among all sectors except construction, where sentiment remained unchanged.

The industrial confidence indicator went up from 2 in August to 10 in September, thereby moving further above its long-term average of -5.<sup>4</sup> The rise in sentiment was driven by increased production expectations for the three months ahead and managers' less pessimistic assessment of current order-book levels. On the other hand, firms reported increased stocks of finished goods in September.<sup>5</sup> Supplementary survey data suggest that, on balance, in September a smaller share of respondents expected to increase their labour complement in the subsequent months, compared with August. At the same time, a larger share of respondents expected to decrease their selling prices.

Sentiment in the retail sector also improved, with the index reaching 10 in September, from 7 in the preceding month.<sup>6</sup> Confidence within the retail sector thus remained above its long-term average of 1. The rise in sentiment in September was driven by more favourable business activity

<sup>1</sup> The cut-off date for information in this note is 3 October 2016.

<sup>2</sup> The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

<sup>3</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. Since the retail confidence indicator began to be published as from May 2011, its long-term average is calculated since then. The long-term average of the ESI is computed from November 2002.

<sup>4</sup> The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

<sup>5</sup> A rise in the stock of finished goods has a negative effect on the overall industrial confidence indicator.

<sup>6</sup> The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and on stocks.

**Table 1**  
**BUSINESS AND CONSUMER SURVEY**

*Balances; percentage points; seasonally adjusted*

	2014 2015		2016								
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
<b>Economic Sentiment Indicator</b>	<b>108</b>	<b>112</b>	<b>108</b>	<b>108</b>	<b>106</b>	<b>109</b>	<b>106</b>	<b>110</b>	<b>111</b>	<b>111</b>	<b>114</b>
<b>Industrial confidence indicator</b>	<b>-1</b>	<b>0</b>	<b>-5</b>	<b>-8</b>	<b>-9</b>	<b>-4</b>	<b>-10</b>	<b>-5</b>	<b>0</b>	<b>2</b>	<b>10</b>
Assessment of order-book levels	-31	-23	-25	-27	-23	-24	-25	-34	-26	-15	-2
Assessment of stocks of finished products	-3	-1	-2	-2	5	2	6	1	0	2	6
Production expectations for the months ahead	25	24	10	3	2	14	0	21	25	23	39
<b>Retail trade confidence indicator</b>	<b>-5</b>	<b>16</b>	<b>9</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>4</b>	<b>11</b>	<b>-1</b>	<b>7</b>	<b>10</b>
Business activity, past 3 months	-12	33	30	36	47	35	8	4	6	10	17
Stocks of finished goods	14	9	7	7	19	13	0	8	15	3	9
Business activity, next 3 months	10	25	3	23	16	27	3	37	8	13	23
<b>Consumer confidence indicator</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>3</b>
Financial situation over next 12 months	7	4	5	5	4	5	7	3	4	7	3
General economic situation over next 12 months	11	11	13	12	8	7	13	14	12	14	14
Unemployment expectations over next 12 months	-2	-10	-9	-11	-13	-10	-13	-15	-15	-12	-16
Savings over next 12 months	-25	-25	-28	-28	-26	-26	-15	-24	-21	-27	-23
<b>Services confidence indicator</b>	<b>25</b>	<b>26</b>	<b>24</b>	<b>24</b>	<b>27</b>	<b>29</b>	<b>22</b>	<b>28</b>	<b>28</b>	<b>22</b>	<b>23</b>
Business situation development over the past 3 months	22	25	23	21	28	20	21	20	26	18	16
Evolution of the demand over the past 3 months	26	28	21	19	29	38	24	32	31	23	34
Expectation of the demand over the next 3 months	25	25	29	32	23	28	22	33	26	25	19
<b>Construction confidence indicator</b>	<b>-21</b>	<b>11</b>	<b>-15</b>	<b>-7</b>	<b>-22</b>	<b>-13</b>	<b>-16</b>	<b>-8</b>	<b>-12</b>	<b>0</b>	<b>0</b>
Evolution of your current overall order books	-40	1	-28	-13	-39	-22	-26	-27	-28	-11	-29
Employment expectations over the next 3 months	-3	22	-1	-1	-4	-4	-6	12	3	10	30

Source: European Commission.

expectations as well as an improved assessment of business activity during the preceding months. In contrast, a higher share of respondents reported higher stocks of finished goods. Additional survey data for this sector indicate that, compared to August, a greater share of respondents expected their labour complement and prices to rise in the subsequent three months. On the other hand, on balance firms expected their orders to fall in the next three months.

Consumer confidence increased to 3 in September, from 1 in August.<sup>7</sup> This compares favourably with a long-term average of -21. This rise in sentiment was driven by increased savings expectations. Moreover, a higher share of respondents expected unemployment to decline. On the other hand, on balance, consumers' expectations related to their financial situation worsened compared with August, while their assessment of the general economic situation in coming months remained unchanged. Additional survey information indicates that in September, consumers' inflation expectations fell compared to the preceding month. On the other hand, a larger share of respondents expressed the intention to make less major purchases over the subsequent 12 months.

<sup>7</sup> The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

The confidence indicator for firms in the services sector edged up by 1 point in September, to 23.<sup>8</sup> This compares with a long-term average of 21. This increase in confidence was solely driven by firms' assessment of demand over the preceding three months. On the other hand, demand expectations for the following three months were less positive than in August. Similarly, on balance a smaller share of respondents reported an improved assessment of the past business situation. Additional survey data indicate that, overall, in September firms' assessment of employment over the preceding three months remained unchanged from August. However, expectations regarding employment growth in the following three months were more favourable. Meanwhile, a larger net share of respondents expected to charge higher prices in the following months.

Following a sequence of negative readings, sentiment in the construction sector rose to zero in August and remained at that level in September.<sup>9</sup> Sentiment thus remained well above its long-term average of -24. Although employment expectations increased in September, this was matched by a more negative assessment of order book levels, leading to unchanged confidence between August and September. Other survey data for the month indicate that, compared to August, a greater share of respondents reported an increase in building activity over the preceding three months, while anticipating higher selling prices during the subsequent three months.

## Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, fell by 3.5% in year-on-year terms in July 2016. This followed a 6.1% drop in June (see Table 2).<sup>10</sup> On a three-month moving average basis, industrial production fell at annual rate of 4.5% in July. On this basis, output fell substantially among manufacturers of computer, electronic and optical products. Output also fell, though to a lesser degree, among firms that produce food, clothing and wearing apparel. A small decline was also recorded

**Table 2**  
**ACTIVITY INDICATORS**

*Annual percentage changes*

	2014 2015		2016							
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
<b>Industrial production</b>	<b>-5.4</b>	<b>6.1</b>	<b>-7.8</b>	<b>-2.2</b>	<b>-3.9</b>	<b>-2.1</b>	<b>-3.7</b>	<b>-6.1</b>	<b>-3.5</b>	<b>-</b>
<b>Retail trade</b>	<b>0.5</b>	<b>6.3</b>	<b>5.0</b>	<b>6.5</b>	<b>1.1</b>	<b>1.3</b>	<b>0.5</b>	<b>0.8</b>	<b>-1.7</b>	<b>0.5</b>
<b>Number of tourist arrivals</b>	<b>6.8</b>	<b>5.5</b>	<b>14.2</b>	<b>9.2</b>	<b>14.2</b>	<b>8.4</b>	<b>9.8</b>	<b>7.2</b>	<b>9.1</b>	<b>2.8</b>
<b>Number of nights stayed</b>	<b>4.9</b>	<b>4.7</b>	<b>9.0</b>	<b>10.4</b>	<b>11.6</b>	<b>7.4</b>	<b>6.6</b>	<b>8.6</b>	<b>3.5</b>	<b>0.7</b>
Private accommodation	9.2	14.9	14.2	15.8	18.8	23.8	20.8	26.2	13.3	7.9
Collective accommodation	2.8	-0.7	6.0	8.2	8.9	-0.1	0.3	-0.4	-3.5	-5.4
<b>Tourist expenditure</b>	<b>6.1</b>	<b>7.2</b>	<b>7.0</b>	<b>9.6</b>	<b>10.9</b>	<b>3.3</b>	<b>5.0</b>	<b>4.0</b>	<b>4.3</b>	<b>-1.9</b>
Package expenditure	6.2	4.8	-7.0	0.1	4.9	-7.4	-6.5	-9.9	-1.9	-13.2
Non-package expenditure	7.2	13.1	10.9	19.6	16.8	9.2	15.0	17.7	5.7	4.0
Other	5.3	5.2	15.5	10.6	12.8	8.4	8.7	6.6	8.3	2.9

Sources: NSO; Eurostat.

<sup>8</sup> The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

<sup>9</sup> The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

<sup>10</sup> Based on the industrial production index adjusted for working days.

among firms involved in the printing and reproduction of recorded media. These declines offset increased production of beverages, rubber and plastics, as well as increased output in the energy sector.

The index of deflated turnover for retail trade, which is a short-term indicator for final domestic demand, declined on an annual basis in July. This was the first contraction since August 2014. The seasonally and calendar adjusted index fell by 1.7%, on a year earlier, following a rise of 0.8% in June. This development was driven by a faster rate of decline in sales of items other than automotive fuel. Retail trade turnover picked up again in August, however, when it rose by 0.5% on a year earlier.

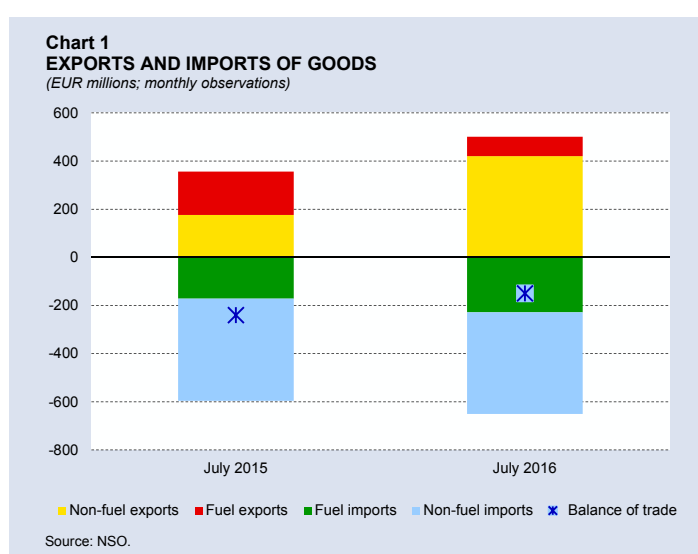
Growth in tourism activity remained strong during July as tourist arrivals grew by 9.1% when compared with the same month in 2015 (see Table 2). This was entirely driven by an increase in leisure tourism. Tourist expenditure expanded by 4.3%, mainly driven by expenditure on accommodation and by the “other” component of tourist expenditure. In contrast, spending on package holidays fell when compared to a year earlier. Nights stayed grew by 3.5% as increases in private accommodation offset a fall in nights stayed in collective accommodation establishments, such as hotels and guest houses.

Occupancy rates also indicate that tourists are spending fewer nights in collective accommodation. In July the total average occupancy rate in such establishments stood at 81.6%, 1.9 percentage points lower than in the comparable month of 2015. The largest declines in occupancy rates were registered in the three and two-star categories.

Year-on-year growth in tourist arrivals slowed down to 2.8% in August, with the increase driven by leisure as well as business and professional tourism. Nights stayed went up at an annual rate of 0.7%, entirely on account of a rise in private accommodation, whereas tourist expenditure contracted at an annual rate of 1.9%, as spending on package holidays continued to fall.

Preliminary Customs data for July show that the trade deficit narrowed by €90.5 million when compared with the same month of 2015, to stand at €149.4 million (see Chart 1). Exports rose more rapidly than imports. Export growth was largely driven by higher sales of pharmaceutical products, which offset a decline in fuel re-exports. Meanwhile, a rise in imports of capital goods and fuels was partly counter-balanced by a sharp decline in imports of industrial supplies and consumer goods.

On the contrary, data for the first seven months of 2016 show that

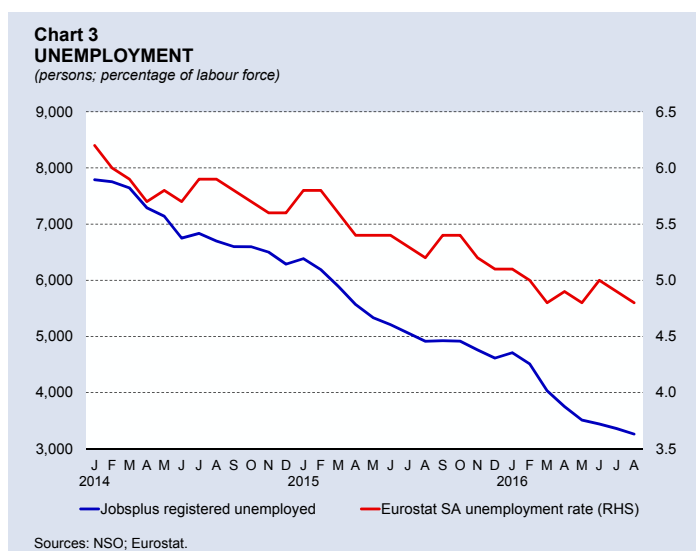
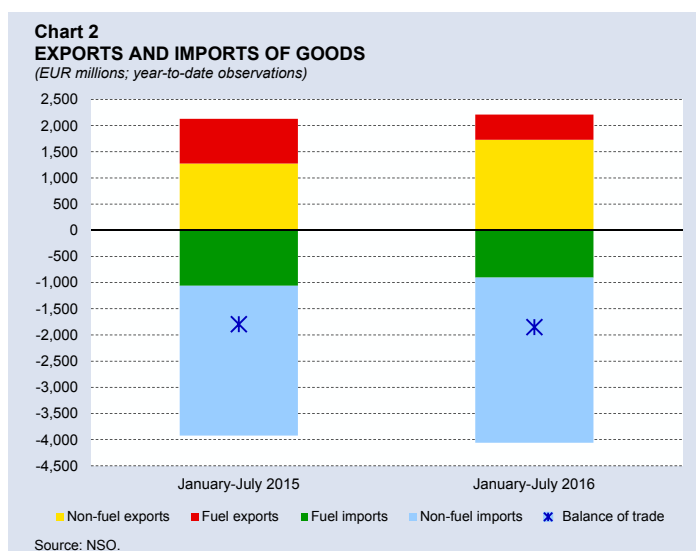


the visible trade gap widened by €55.2 million to €1,848.5 million on the comparable period of 2015, as imports rose more than exports (see Chart 2). The widening in the trade gap over this period was primarily driven by developments in two commodity groups, namely fuels and machinery and transport equipment.

## Labour market

The labour market remained buoyant in August, with Jobsplus data showing a further fall in the number of registered unemployed. Indeed, the number of people on the unemployment register fell to 3,261, from 4,914 in the corresponding month of 2015 and from 3,360 in July (see Chart 3).

Meanwhile, Eurostat's estimate of the seasonally-adjusted unemployment rate fell to 4.8% in August, from 5.2% a year earlier and was also marginally down from 4.9% registered in the preceding month.



## BOX 1: JOBSPLUS GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in April the gainfully occupied population, defined to include all persons in full-time employment, rose by 4.3% on a year earlier, reaching 177,751 (see Chart 4). This followed 4.0% growth in March.

Growth in employment in April was mainly driven by the private sector, with the public sector registering only a marginal annual increase (see Table 3).

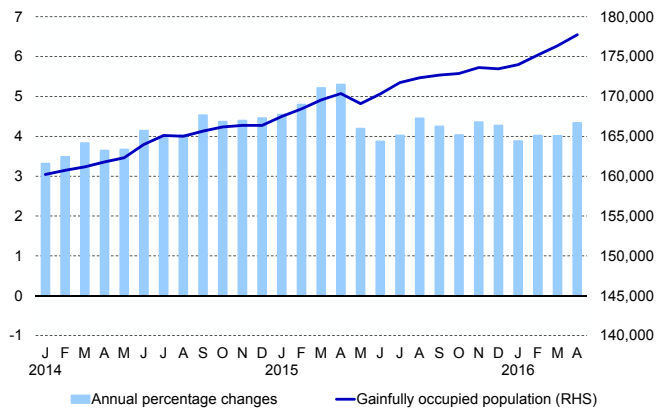
In April, the number of full-timers within the private sector went up by 7,075, or 5.6%, on the same month of the previous year. Employment growth in the private sector continued to be driven by market services, where the number of full-time job holders increased by

6,890, or 7.4%. New jobs were distributed among all major sectors within this category.

As in preceding months, the sector incorporating real estate, professional and administrative activities saw the largest absolute increase within the services industry. Employment in this sector went up by 2,543 in the year to April 2016, and accounted for over

**Chart 4**  
**GAINFULLY OCCUPIED POPULATION BASED ON JOBSPLUS RECORDS**

(annual percentage changes; persons)



Source: NSO.

**Table 3**  
**LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS**

Persons; annual percentage changes

	2015	2016	Annual change	
	April	April	Number of persons	%
<b>Labour supply</b>	<b>175,935</b>	<b>181,502</b>	<b>5,567</b>	<b>3.2</b>
Gainfully occupied <sup>(1)</sup>	170,367	177,751	7,384	4.3
Registered unemployed	5,568	3,751	-1,817	-32.6
<b>Unemployment rate (%)</b>	<b>3.2</b>	<b>2.1</b>		
<b>Private sector</b>	<b>126,295</b>	<b>133,370</b>	<b>7,075</b>	<b>5.6</b>
<b>Direct production<sup>(2)</sup></b>	<b>33,325</b>	<b>33,510</b>	<b>185</b>	<b>0.6</b>
<b>Market services</b>	<b>92,970</b>	<b>99,860</b>	<b>6,890</b>	<b>7.4</b>
Wholesale and retail trade	24,128	24,585	457	1.9
Transportation and storage	7,485	7,845	360	4.8
Accommodation and food service activities	10,699	11,302	603	5.6
Information and communication	5,836	6,146	310	5.3
Financial and insurance activities	7,578	8,036	458	6.0
Real estate, professional and administrative activities <sup>(3)</sup>	20,013	22,556	2,543	12.7
Arts, entertainment and recreation	4,992	6,410	1,418	28.4
Education	4,774	4,985	211	4.4
Other	7,465	7,995	530	7.1
<b>Public sector</b>	<b>44,072</b>	<b>44,381</b>	<b>309</b>	<b>0.7</b>

<sup>(1)</sup> This category measures full-time employment.

<sup>(2)</sup> This includes employment in agriculture, fishing, mining and quarrying, manufacturing, electricity, gas and water supply, and construction.

<sup>(3)</sup> This includes employment in real estate activities, professional, scientific and technical activities, and administrative and support service activities.

Source: NSO.



one-third of the overall rise in private market services employment. The number of persons employed in the arts, entertainment and recreation sector also increased significantly in annual terms, going up by 1,418.

Meanwhile, employment in direct production within the private sector grew by 185, or 0.6%, on a year earlier. This rise was driven by all sectors, with construction being the main driver.

Public sector jobs rose by 309, or 0.7% on a year earlier, driven by increased employment in health, public administration and defence. Higher employment was also recorded in the education sector. These increases offset lower employment in other areas.

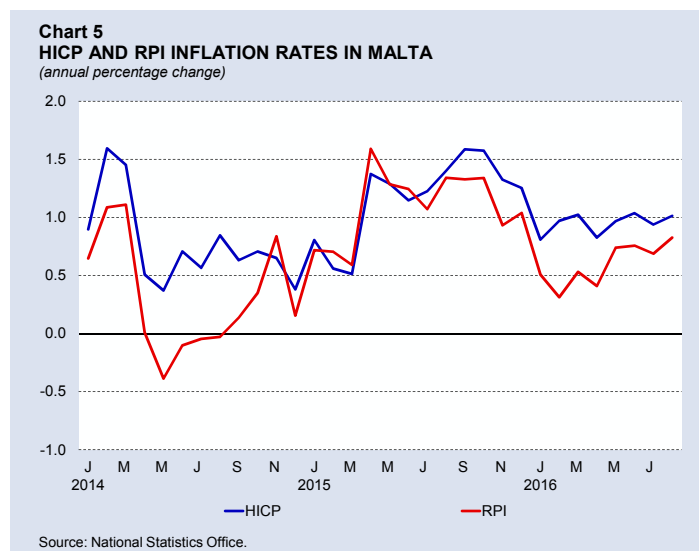
## Prices, costs and competitiveness

The annual rate of HICP inflation rose marginally to 1.0% in August, from 0.9% in July (see Chart 5). Inflation has fluctuated in a narrow range between 0.8% and 1.0% since the beginning of the year.

With regard to the main subcomponents, prices for unprocessed food accelerated during August, with their annual growth going to 4.1% from 2.9% in July. Services inflation also went up marginally to 1.0%, while energy prices contracted at a slower annual pace of -3.9%. These developments were partly offset by slightly slower annual rates of change of prices of non-energy industrial goods and processed food, which eased to 0.8% and 2.2%, respectively.

Inflation as measured by the Retail Price Index (RPI) also edged up, going to 0.8% in August, from 0.7% in the previous month. This reflected a faster increase in food prices.<sup>11</sup>

Cost pressures picked up slightly in August, with the annual rate of change of the Industrial Producer Price Index (PPI) at 0.2%.<sup>12</sup> This followed three negative readings. An uptick in intermediate goods price inflation, which had recently been acting as a drag on the overall PPI, was the main driver behind the recent increase.



<sup>11</sup> The RPI index differs from the HICP index in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta.

<sup>12</sup> The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at production stage.

With regard to competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) rose by 0.3% in August from a month earlier, following two months of decline.<sup>13</sup> The real HCI, which also takes into account inflation differentials between Malta and its international trading partners, also increased, gaining 0.5% during the month. The nominal and real HCI stood, respectively, 1.4% and 1.8% above their level in August 2015. Both measures thus indicate a loss in Malta's international price competitiveness.

## Public finance

In August the Consolidated Fund registered a surplus of €61.9 million, an improvement of €28.1 million on a year earlier (see Table 4).<sup>14,15</sup> This was due to an amelioration in the primary balance – which excludes interest payments from total expenditure – which gained €27.7 million on the corresponding month of 2015.

**Table 4**  
**CONSOLIDATED FUND BALANCE**

EUR millions

	2015		2016		Change	
	Jan.-Aug.	Jan.-Aug.	Aug.	Aug.	Amount	%
<b>Revenue</b>	<b>2,089.5</b>	<b>2,175.7</b>	<b>330.4</b>	<b>395.1</b>	<b>64.6</b>	<b>19.6</b>
<b>Direct tax</b>	<b>1,004.4</b>	<b>1,116.3</b>	<b>170.3</b>	<b>189.4</b>	<b>19.1</b>	<b>11.2</b>
Income tax	694.0	771.2	129.4	139.6	10.2	7.9
Social security contributions <sup>(1)</sup>	310.4	345.2	40.9	49.8	8.9	21.8
<b>Indirect tax</b>	<b>781.1</b>	<b>855.7</b>	<b>153.7</b>	<b>186.1</b>	<b>32.5</b>	<b>21.1</b>
Value Added Tax	440.6	474.6	112.9	135.5	22.6	20.0
Customs and excise duties	160.2	170.6	23.2	24.6	1.4	6.1
Licences, taxes and fines	180.3	210.5	17.6	26.0	8.4	48.0
<b>Non-tax<sup>(2)</sup></b>	<b>304.0</b>	<b>203.7</b>	<b>6.5</b>	<b>19.6</b>	<b>13.1</b>	<b>200.5</b>
<b>Expenditure</b>	<b>2,230.5</b>	<b>2,254.8</b>	<b>296.6</b>	<b>333.2</b>	<b>36.6</b>	<b>12.3</b>
<b>Recurrent</b>	<b>1,959.1</b>	<b>2,066.5</b>	<b>265.6</b>	<b>294.7</b>	<b>29.1</b>	<b>10.9</b>
Personal emoluments	450.2	476.1	53.6	59.9	6.3	11.8
Operational and maintenance	102.1	114.0	12.0	9.8	-2.2	-18.5
Programmes and initiatives <sup>(1)</sup>	1,056.2	1,087.2	146.8	162.1	15.3	10.4
Contributions to entities	197.8	239.4	31.7	41.8	10.1	31.7
Interest payments	152.7	149.8	21.5	21.1	-0.3	-1.6
<b>Capital</b>	<b>271.4</b>	<b>188.3</b>	<b>31.0</b>	<b>38.5</b>	<b>7.5</b>	<b>24.2</b>
<b>Primary balance<sup>(3)</sup></b>	<b>11.7</b>	<b>70.6</b>	<b>55.3</b>	<b>83.0</b>	<b>27.7</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-141.0</b>	<b>-79.1</b>	<b>33.8</b>	<b>61.9</b>	<b>28.1</b>	<b>-</b>

<sup>(1)</sup> Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.

<sup>(2)</sup> Includes grants but excludes proceeds from sale of assets, sinking funds of converted loans and borrowings.

<sup>(3)</sup> Revenue less expenditure excluding interest payments.

Source: NSO.

<sup>13</sup> The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international price competitiveness.

<sup>14</sup> The Consolidated Fund covers most of the transactions of central government, excluding extra-budgetary units and local councils, on a cash basis.

<sup>15</sup> Government contributions to the social security account in terms of the Social Security Act 1967 are excluded from both revenue and expenditure.

Revenue increased by 19.6%, or €64.6 million, in August 2016. This was driven mostly by higher tax revenue. Receipts from income tax and social contributions increased by €10.2 million and €8.9 million, respectively, while indirect taxes yielded €32.5 million more. Non-tax income was up by €13.1 million, driven by inflows from the Individual Investor Programme.

Meanwhile, expenditure grew by 12.3%, or €36.6 million. This mainly reflected higher recurrent outlays, which rose by €29.1 million. Capital expenditure increased by €7.5 million in the month under review, the first year-on-year rise observed in 2016.

During the first eight months of the year, the Consolidated Fund deficit amounted to €79.1 million, narrowing considerably over the same period of 2015 on account of higher tax revenue. The primary surplus rose to €70.6 million from €11.7 million a year earlier. Revenue increased by 4.1%, as higher tax receipts offset a decrease in non-tax inflows, namely grants. Meanwhile, expenditure grew by 1.1%, as recurrent expenditure growth was partly offset by lower capital spending.

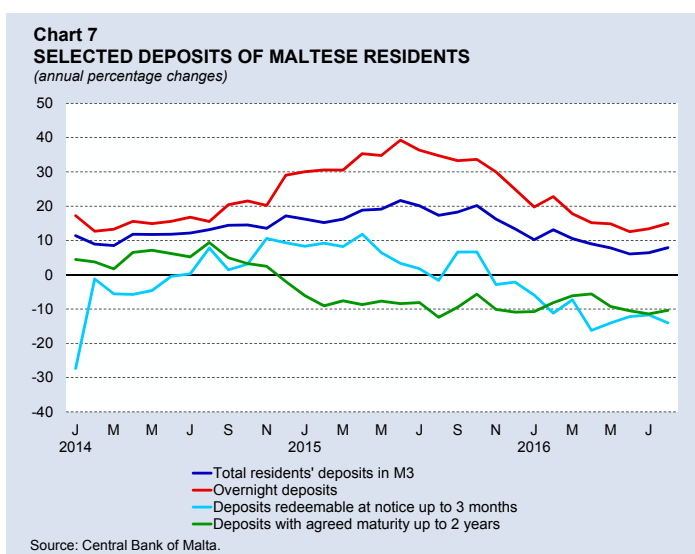
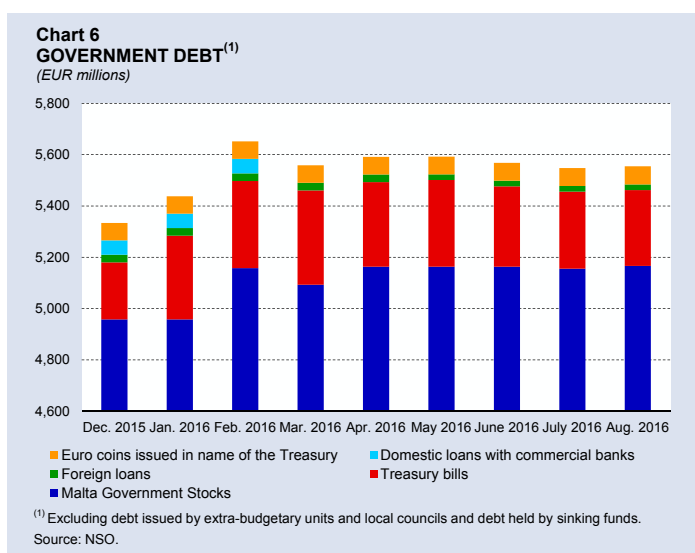
During August, the stock of central government debt increased by €6.6 million, to €5,554.6 million (see Chart 6).

### Deposits, credit and financial markets

Growth in residents' deposits forming part of broad money (M3) picked up slightly in August, with the annual rate of change rising to 7.9% from 6.4% in July (see Chart 7).

This acceleration in M3 deposits mainly reflected faster growth in overnight deposits. These increased by 15.0% on a year earlier, following a 13.4% increase in July. The strong growth in overnight deposits illustrates a continued preference for holding liquid assets in an environment of low interest rates.

In line with this notion, deposits with an agreed maturity of up to two years continued to contract, albeit at a slower pace. These deposits contracted by 10.4% on a year earlier, following a



decline of 11.4% during the previous month. Deposits redeemable at notice up to 3 months, the smallest component of M3 deposits, also fell further in annual terms.

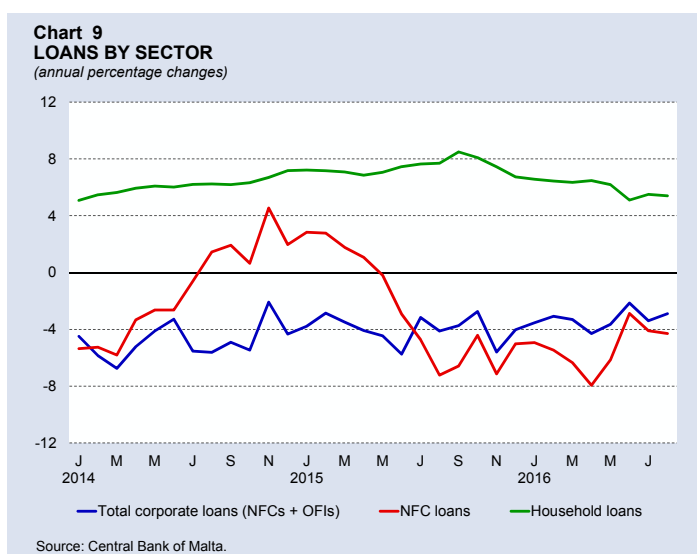
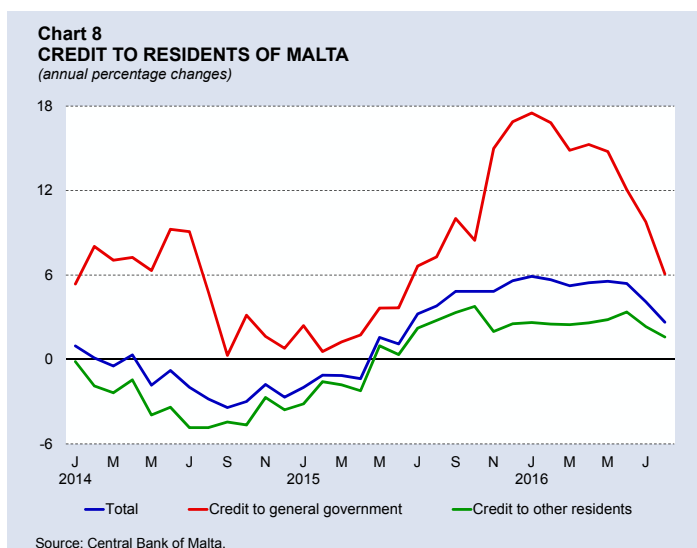
On the asset side of banks' balance sheets, annual growth in credit to Maltese residents eased to 2.7% in August, from 4.1% in July (see Chart 8).

The annual rate of growth of credit to general government slowed down significantly, reaching 6.1% in August from 9.8% in July. Nevertheless, lending to general government still contributed strongly to the overall increase in credit to Maltese residents.

Credit to all other residents – which comprise non-financial corporations (NFCs), households and non-bank financial institutions (OFIs) – grew by 1.6% year-on-year in August, down from 2.3% in July. Year-on-year growth in August was mainly driven by increases in loans and, to a lesser extent, by greater bank holdings of equities. Loans, the bigger component, grew at an annual rate of 1.2%, following a 1.0% rise during the previous month.

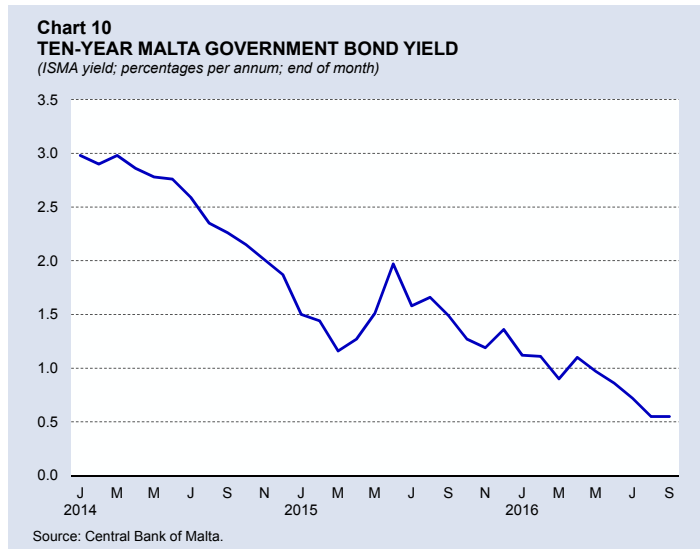
Loans to OFIs and households continued to expand, as in recent months. In particular, total loans to households grew by 5.4% in annual terms, following a 5.5% increase in July. Growth in loans for house purchases remained broadly stable, with an annual growth rate of 7.1% in August following 7.2% growth in July. However, consumer credit and other lending to households continued to contract. NFC loans contracted at an annual rate of 4.3% in August, following a 4.1% drop a month earlier (see Chart 9). This faster decline was mainly driven by developments relating to loans to private NFCs.

Bank deposit rates declined further in July. The composite interest rate paid by monetary financial institutions (MFIs) on all euro-denominated deposits belonging to resident households and NFCs dropped marginally to 0.57%, from 0.58% in June. As a result, the composite deposit rate was 26 basis points below its level one year earlier.



The comparable rate charged on outstanding loans declined by 4 basis points in July, to 3.72%. This implies a 16 basis point drop since July 2015.

In the secondary capital market, the yield on ten-year Maltese government bonds stood at 0.55% at the end of September, unchanged from the end of the previous month (see Chart 10). Meanwhile, the Malta Stock Exchange index rose slightly, ending the month 0.6% higher than its end-August level.



## Annex 1

MACROECONOMIC INDICATORS FOR MALTA																	
<i>(annual percentage changes; non-seasonally adjusted data)</i>																	
	2014	2015	2015	2015	2015	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016	2016
			Q1	Q2	Q3	Q4	Q1	Q2	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.
<b>Prices and costs</b>																	
HICP inflation	0.8	1.2	0.6	1.3	1.4	1.4	0.9	0.9	0.8	1.0	1.0	0.8	1.0	1.0	0.9	1.0	-
RPI inflation	0.3	1.1	0.7	1.4	1.2	1.1	0.5	0.6	0.5	0.3	0.5	0.4	0.7	0.8	0.7	0.8	-
Industrial producer price inflation	-0.6	-2.2	-1.3	-2.2	-2.2	-2.9	-1.6	0.3	-2.1	-0.9	-1.6	1.3	-0.3	-0.8	-0.3	0.2	-
HCI (nominal)	0.7	-5.5	-6.7	-7.3	-4.4	-3.3	1.7	3.1	0.1	1.9	3.1	4.2	3.0	2.1	2.6	1.4	-
HCI (real)	-0.1	-9.8	-12.4	-12.9	-7.7	-5.9	2.4	5.2	-0.6	2.8	5.2	7.1	5.2	3.4	4.2	1.8	-
Unit labour costs, whole economy <sup>(1)</sup>	2.7	0.1	2.4	1.3	0.3	0.1	0.4	1.1	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	1.1	2.7	1.5	2.1	2.4	2.7	3.4	3.3	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	-1.6	2.7	-1.0	0.6	2.1	2.7	3.0	2.2	-	-	-	-	-	-	-	-	-
Property Price Index	2.6	3.5	2.7	1.9	6.7	2.7	2.6	-	-	-	-	-	-	-	-	-	-
Advertised property prices	7.0	6.3	5.3	4.8	5.0	10.0	9.9	8.7	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																	
Nominal GDP	5.5	8.6	7.8	8.6	8.7	9.1	7.5	4.7	-	-	-	-	-	-	-	-	-
Real GDP	3.5	6.2	6.1	6.3	6.0	6.3	5.3	3.0	-	-	-	-	-	-	-	-	-
Real private consumption	2.3	5.5	4.1	3.5	7.3	7.1	5.8	2.0	-	-	-	-	-	-	-	-	-
Real government consumption	7.0	4.6	2.9	4.8	-1.1	11.2	6.3	3.2	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	8.7	43.1	4.9	72.5	80.4	24.6	19.2	-2.1	-	-	-	-	-	-	-	-	-
Real exports of goods and services	-0.2	2.1	-0.9	2.9	3.1	3.0	0.8	0.2	-	-	-	-	-	-	-	-	-
Real imports of goods and services	-0.4	5.6	-1.7	9.0	11.3	3.9	3.6	0.0	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																	
LFS unemployment rate (% of labour force)	5.8	5.4	5.7	5.4	5.2	5.2	4.9	4.9	-	-	-	-	-	-	-	-	-
LFS employment	3.3	2.3	1.7	1.8	2.8	3.0	2.6	3.5	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	4.0	4.4	4.9	4.5	4.2	4.2	4.0	-	3.9	4.0	4.0	4.3	-	-	-	-	-
<b>Balance of payments</b>																	
Current account (as a % of GDP) <sup>(2)</sup>	7.0	3.0	8.1	5.9	2.6	3.0	1.9	1.7	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																	
Maltese residents' deposits and loans																	
Overnight deposits	29.0	24.9	30.5	39.3	33.3	24.9	17.8	12.6	19.7	22.8	17.8	15.2	14.8	12.6	13.4	15.0	-
Deposits with agreed maturity up to 2 years	-2.0	-10.9	-7.6	-8.4	-9.5	-10.9	-6.1	-10.5	-10.7	-8.2	-6.1	-5.6	-9.3	-10.5	-11.4	-10.4	-
Total residents' deposits in M3	17.2	13.4	16.2	21.6	18.3	13.4	10.5	6.1	10.2	13.1	10.5	9.0	7.8	6.1	6.4	7.9	-
Credit to general government	0.8	16.9	1.2	3.7	10.0	16.9	14.9	12.1	17.5	16.8	14.9	15.3	14.8	12.1	9.8	6.1	-
Credit to other residents	-3.6	2.5	-1.8	0.4	3.3	2.5	2.5	3.4	2.6	2.5	2.5	2.6	2.8	3.4	2.3	1.6	-
Total credit	-2.7	5.6	-1.1	1.1	4.8	5.6	5.2	5.4	5.9	5.7	5.2	5.5	5.6	5.4	4.1	2.7	-
10-year interest rate (%) <sup>(3)</sup>	1.9	1.4	1.2	2.0	1.5	1.4	0.9	0.9	1.1	1.1	0.9	1.1	1.0	0.9	0.7	0.6	0.6
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	-9.6	33.0	13.4	8.3	5.9	2.2	3.0	0.0	0.9	1.8	0.2	-0.4	-1.7	2.0	-2.0	-0.7	0.6
<b>General government finances (% of GDP)</b>																	
Surplus (+) / deficit (-) <sup>(2)</sup>	-2.0	-1.5	-2.4	-2.0	-1.7	-1.5	-0.1	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	67.0	64.0	68.5	67.3	66.1	64.0	65.4	-	-	-	-	-	-	-	-	-	-

<sup>(1)</sup> Four-quarter moving averages.

<sup>(2)</sup> Four-quarter moving sums.

<sup>(3)</sup> End of period.

<sup>(4)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(5)</sup> GDP data are four-quarter moving sums.

Sources: Central Bank of Malta; European Commission; Malta Stock Exchange; National Statistics Office.