



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## ECONOMIC UPDATE 10/2016

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**Address**

Pjazza Kastilja  
Valletta VLT 1060  
Malta

**Telephone**

(+356) 2550 0000

**Fax**

(+356) 2550 2500

**Website**

<https://www.centralbankmalta.org>

**E-mail**

[info@centralbankmalta.org](mailto:info@centralbankmalta.org)

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*The cut-off date for information in this publication is 4 November 2016. Figures in tables may not add up due to rounding.*

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## ECONOMIC UPDATE 10/2016

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

Overall economic sentiment was unchanged in October, as an improvement in the services sector and among consumers offset weaker sentiment in other sectors. Hard data show that, in September, industrial production went up marginally, activity in the tourism sector rose and retail sales increased. The labour market continued to perform solidly, with the annual growth rate of the gainfully occupied population rising to 4.3% in April. Registered unemployment fell further in September. Price pressures remained moderate. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) and the Retail Price Index (RPI) stood at 0.9% and 0.8%, respectively, in September. Meanwhile, industrial producer prices were unchanged on an annual basis. Maltese residents' deposits expanded at a slower rate in September, while the annual rate of growth of credit to residents eased to 2.2%. As regards fiscal developments, the deficit on the cash-based Consolidated Fund narrowed in the first nine months of the year, due to an increase in tax revenue and a small decline in expenditure.

### Business and consumer confidence indicators

During October, the Economic Sentiment Indicator (ESI) stood at 114, unchanged from the preceding month (see Table 1) and above its long-term average of 101.<sup>2,3</sup> Compared to September, increased confidence within the services sector as well as among consumers was offset by lower confidence in industry, retail trade and construction.

In October, the confidence indicator for firms operating in the services sector increased by 3 points to 26.<sup>4</sup> This compares favourably with a long-term average of 21. This increase in confidence was driven by an improvement in firms' assessment of their business situation over the preceding three months as well as more favourable demand expectations for the three months ahead. Firms' assessment of demand in recent months remained unchanged. Additional survey data indicate that, overall, firms' assessment of employment over the preceding three months as well as their employment expectations deteriorated. Meanwhile, a larger net share of respondents expected to charge higher prices in the following three months.

Consumer confidence edged up to 4 in October, from 3 in September, thus remaining well above its long-term average of -21.<sup>5</sup> This rise in sentiment reflected marginal increases in all subcomponents. Additional survey information indicates that in October consumers' inflation expectations fell compared to the preceding month. Also, respondents expressed the intention to make fewer major purchases over the subsequent 12 months.

<sup>1</sup> The cut-off date for information in this note is 4 November 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 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>5</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.

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

*Balances; percentage points; seasonally adjusted*

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

Source: European Commission.

The industrial confidence indicator fell from 10 in September to 6 in October, remaining well above its long-term average of -5.<sup>6</sup> The fall in sentiment was driven by a sharp drop in production expectations for the three months ahead and managers' more pessimistic assessment of current order-book levels. On the other hand, firms reported normal stocks of finished goods in October, after reporting above normal stocks in September.<sup>7</sup> Supplementary survey data suggest that, on balance, in October a smaller share of respondents expected to increase their employment in the subsequent months. At the same time, a marginally smaller share of respondents expected to reduce their selling prices.

Sentiment in the retail sector also deteriorated, with the index falling to 5 in October, from 10 in the preceding month.<sup>8</sup> This compares with a long-term average of 1. The fall in sentiment in October was driven by a less favourable assessment of business activity. In contrast, a higher share of respondents reported lower stocks of finished goods. Additional survey data for this sector indicate that, compared to September, a smaller share of respondents expected their labour complement and prices to rise in the subsequent three months. Also, on balance firms expected their orders to rise in the next three months.

<sup>6</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>7</sup> A fall in the stock of finished goods has a positive effect on the overall industrial confidence indicator.

<sup>8</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.

After standing at zero during the preceding two months, sentiment in the construction sector turned negative, reaching -8 in October.<sup>9</sup> However, sentiment remained well above its long-term average of -23. October's fall was driven solely by lower employment expectations. On the other hand, firms' assessment of order book levels was less negative. Other survey data for the month indicate that, compared to September, a smaller share of respondents reported an increase in building activity over the preceding three months. Selling price expectations were also less positive.

## Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, went up by 0.4% in year-on-year terms in September 2016. This followed a 3.7% drop in August (see Table 2).<sup>10</sup> On a three-month moving average basis, industrial production fell at annual rate of 2.7% in September. On this basis, output fell substantially among manufacturers of pharmaceuticals, food products, clothing and wearing apparel. Output also fell among firms manufacturing computer, electronic and optical products, and beverages, as well as within the energy sector. These declines offset increased production of rubber and plastics, as well as increased output among firms involved in the printing and reproduction of recorded media.

The index of deflated turnover for retail trade, which is a short-term indicator for final domestic demand, increased for the second consecutive month in September. Seasonally and calendar adjusted data show that the volume of retail trade increased by 2.0% on an annual basis, after a rise of 1.9% in the previous month, as the rate of decline in sales of food products eased.

During September tourist arrivals grew by 7.5% over the same month of 2015 (see Table 2). This was mainly driven by growth in leisure tourism, although a notable increase in the 'other'

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

*Annual percentage changes*

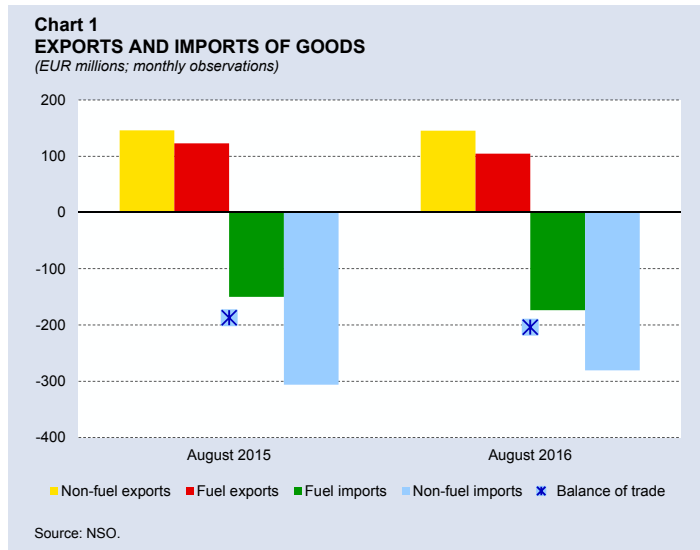
|                                   | 2014        | 2015       | 2016        |             |             |             |             |             |             |             |            |
|-----------------------------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
|                                   |             |            | Jan.        | Feb.        | Mar.        | Apr.        | May         | June        | July        | Aug.        | Sept.      |
| <b>Industrial production</b>      | <b>-5.4</b> | <b>6.1</b> | <b>-7.8</b> | <b>-2.2</b> | <b>-3.8</b> | <b>-2.3</b> | <b>-3.7</b> | <b>-6.3</b> | <b>-4.9</b> | <b>-3.7</b> | <b>0.4</b> |
| <b>Retail trade</b>               | <b>0.5</b>  | <b>6.5</b> | <b>5.3</b>  | <b>7.1</b>  | <b>1.7</b>  | <b>1.1</b>  | <b>1.4</b>  | <b>1.5</b>  | <b>-1.1</b> | <b>1.9</b>  | <b>2.0</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>7.5</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>  | <b>1.6</b> |
| Private accommodation             | 9.2         | 14.9       | 14.2        | 15.8        | 18.8        | 23.8        | 20.8        | 26.2        | 13.3        | 7.9         | 6.2        |
| Collective accommodation          | 2.8         | -0.7       | 6.0         | 8.2         | 8.9         | -0.1        | 0.3         | -0.4        | -3.5        | -5.4        | -1.7       |
| <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> | <b>1.3</b> |
| Package expenditure               | 6.2         | 4.8        | -7.0        | 0.1         | 4.9         | -7.4        | -6.5        | -9.9        | -1.9        | -13.2       | -6.0       |
| Non-package expenditure           | 7.2         | 13.1       | 10.9        | 19.6        | 16.8        | 9.2         | 15.0        | 17.7        | 5.7         | 4.0         | 8.6        |
| Other                             | 5.3         | 5.2        | 15.5        | 10.6        | 12.8        | 8.4         | 8.7         | 6.6         | 8.3         | 2.9         | 1.5        |

Sources: NSO; Eurostat.

<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.

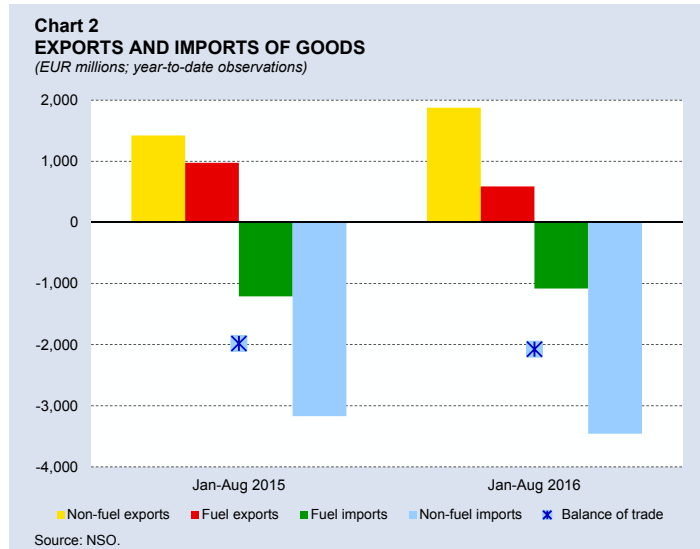
<sup>10</sup> Based on the industrial production index adjusted for working days.

category also contributed.<sup>11</sup> Following a small drop in August, tourist expenditure rose by 1.3% in annual terms, largely due to higher spending on accommodation and transport fares. On the other hand, spending on package holidays decreased for the sixth month in a row. At the same time, nights stayed increased by an annual rate of 1.6%, as an increase in nights spent in private accommodation offset a fall in the number of nights stayed in collective accommodation establishments, such as hotels.



The overall occupancy rate in collective accommodation establishments stood at 84.0% in August, 2.9 percentage points lower than in the same month of 2015. Declines were recorded across all categories, except five-star hotels.

Preliminary Customs data for August show that the trade deficit widened by €16.8 million when compared with the same month of 2015, to €203.8 million (see Chart 1). This occurred as exports declined faster than imports. The contraction in exports was largely driven by fuels. Meanwhile, on the imports side, a sharp decline in registration of ships and a drop in vehicle imports were almost counterbalanced by a rise in fuel imports.



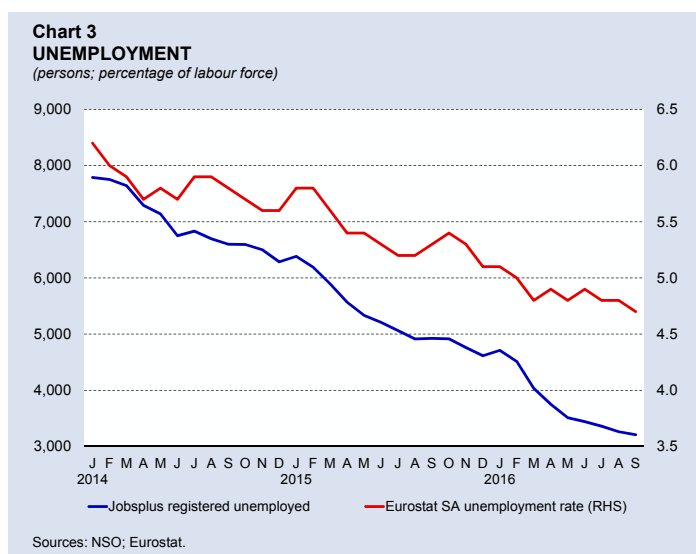
During the first eight months of 2016 imports rose more than exports. Consequently, the visible trade gap widened by €93.8 million when compared to the same period of 2015, to €2,074.6 million (see Chart 2). This widening in the trade gap was primarily driven by developments in two commodity groups, namely fuels and machinery and transport equipment.

<sup>11</sup> Tourists for educational, religious or health purposes are grouped under the 'other' category.

## Labour market

The labour market remained buoyant in September, with Jobsplus data showing a further fall in the number of registered unemployed. Indeed, the number of people on the unemployment register fell to 3,207, from 4,924 in the corresponding month of 2015 and from 3,261 in August (see Chart 3).

Meanwhile, Eurostat's estimate of the seasonally-adjusted unemployment rate fell to 4.7% in September, from 4.8% in the preceding month and from 5.3% a year earlier.

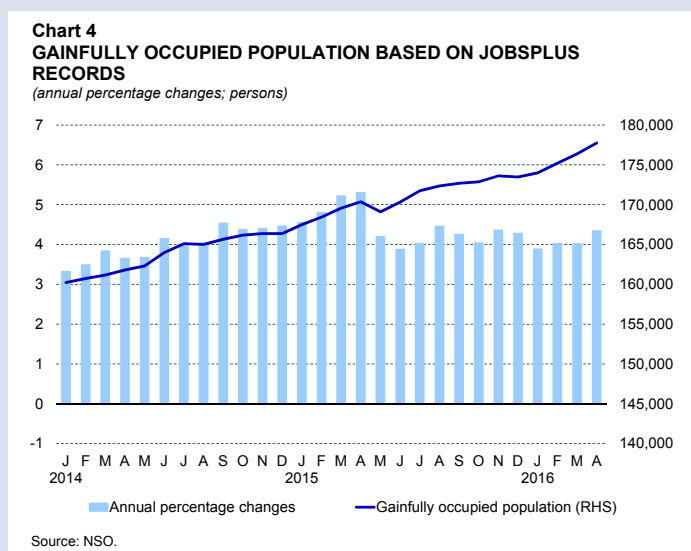


## BOX 1: JOBSPLUS GAINFULLY OCCUPIED POPULATION

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



**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</b> <sup>(2)</sup>                                | <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.

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

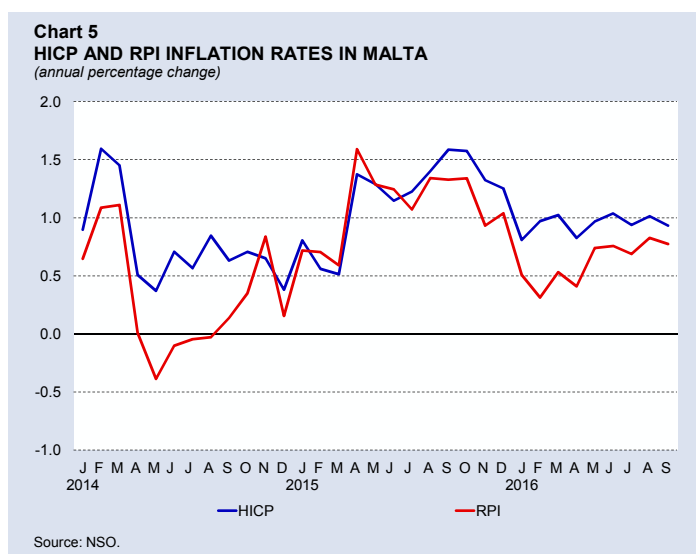


## Prices, costs and competitiveness

The annual rate of HICP inflation edged down to 0.9% in September, from 1.0% in August (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 sub-components, the annual rate of change of prices for services decelerated by 0.1 point to 0.9%. Food prices also grew at slower annual pace, registering 2.4% inflation in September as against 2.5% a month earlier. Both unprocessed and processed food contributed to this deceleration.

On the other hand, the annual rate of change of prices of non-energy industrial goods rose by 0.1 points, to 0.9%. Energy inflation was unchanged at -3.9%, with the decline reflecting past cuts in gas and fuel prices.



Inflation as measured by the RPI was unchanged at 0.8% in September.<sup>12</sup>

The Industrial Producer Price Index (PPI), which is a measure of cost pressures, was unchanged on annual basis during September, after having risen marginally in August.<sup>13</sup> During September, positive contributions to producer price inflation from intermediate and capital goods were offset by strong annual declines in consumer goods prices, particularly those of durable goods. Energy inflation was unchanged on a year earlier at zero. Producer price inflation has remained weak throughout 2016, so far averaging -0.5%.

With regard to competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) rose by 0.1% in September on a month earlier, the second consecutive increase.<sup>14</sup> The real HCI, which takes into account inflation differentials between Malta and its international trading partners, also increased, gaining 0.2% during the month. This suggests that exchange rate movements and changes in relative prices led to a slight deterioration in Malta's international competitiveness during the month. When compared to September 2015, the nominal and real HCI grew by 0.6% and 0.5%, respectively.

<sup>12</sup> The RPI differs from the HICP in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta.

<sup>13</sup> The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at production stage.

<sup>14</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.

## Public finance

The Consolidated Fund balance registered a surplus of €15.5 million during September 2016, an improvement over the €20.6 million deficit recorded a year earlier (see Table 4).<sup>15</sup> This was due to an improvement in the primary balance – which excludes interest payments from total expenditure – which showed a surplus of €35.9 million, compared with a zero balance in the corresponding month of 2015.

Revenue increased by €8.0 million, or 3.0%, in the period under review.<sup>16</sup> This was driven by increases in direct taxes, as income tax yielded €24.8 million more. Non-tax income went up by €7.6 million, driven mainly by higher dividends on investments and revenue from the Individual Investor Programme. On the other hand, indirect tax revenue declined by €23.4 million, driven mainly by lower VAT receipts.

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

EUR millions

|  | 2015           |                | 2016         |              | Change       |              |
|--|----------------|----------------|--------------|--------------|--------------|--------------|
|  | Jan.-Sep.      | Jan.-Sep.      | Sep.         | Sep.         | Amount       | %            |
| <b>Revenue</b>                               | <b>2,359.7</b> | <b>2,454.0</b> | <b>270.2</b> | <b>278.3</b> | <b>8.0</b>   | <b>3.0</b>   |
| <b>Direct tax</b>                            | <b>1,155.4</b> | <b>1,291.1</b> | <b>151.0</b> | <b>174.7</b> | <b>23.8</b>  | <b>15.7</b>  |
| Income tax                                   | 800.9          | 902.8          | 106.9        | 131.7        | 24.8         | 23.2         |
| Social security contributions <sup>(1)</sup> | 354.5          | 388.3          | 44.1         | 43.1         | -1.0         | -2.2         |
| <b>Indirect tax</b>                          | <b>877.8</b>   | <b>929.0</b>   | <b>96.7</b>  | <b>73.3</b>  | <b>-23.4</b> | <b>-24.2</b> |
| Value Added Tax                              | 485.9          | 498.9          | 45.3         | 24.3         | -21.0        | -46.3        |
| Customs and excise duties                    | 186.1          | 199.5          | 25.9         | 28.9         | 3.0          | 11.7         |
| Licences, taxes and fines                    | 205.8          | 230.6          | 25.5         | 20.1         | -5.4         | -21.3        |
| <b>Non-tax<sup>(2)</sup></b>                 | <b>326.5</b>   | <b>233.8</b>   | <b>22.6</b>  | <b>30.2</b>  | <b>7.6</b>   | <b>33.7</b>  |
| <b>Expenditure</b>                           | <b>2,521.3</b> | <b>2,517.6</b> | <b>290.9</b> | <b>262.8</b> | <b>-28.1</b> | <b>-9.7</b>  |
| <b>Recurrent</b>                             | <b>2,218.0</b> | <b>2,311.9</b> | <b>259.0</b> | <b>245.3</b> | <b>-13.6</b> | <b>-5.3</b>  |
| Personal emoluments                          | 514.3          | 539.9          | 64.1         | 63.8         | -0.3         | -0.5         |
| Operational and maintenance                  | 111.5          | 124.7          | 9.4          | 10.7         | 1.3          | 14.1         |
| Programmes and initiatives <sup>(1)</sup>    | 1,204.8        | 1,216.0        | 148.5        | 128.8        | -19.7        | -13.3        |
| Contributions to entities                    | 214.2          | 261.1          | 16.3         | 21.7         | 5.3          | 32.6         |
| Interest payments                            | 173.3          | 170.2          | 20.6         | 20.4         | -0.2         | -1.2         |
| <b>Capital</b>                               | <b>303.3</b>   | <b>205.7</b>   | <b>31.9</b>  | <b>17.4</b>  | <b>-14.5</b> | <b>-45.3</b> |
| <b>Primary balance<sup>(3)</sup></b>         | <b>11.7</b>    | <b>106.5</b>   | <b>0.0</b>   | <b>35.9</b>  | <b>35.9</b>  | <b>-</b>     |
| <b>Consolidated Fund balance</b>             | <b>-161.6</b>  | <b>-63.6</b>   | <b>-20.6</b> | <b>15.5</b>  | <b>36.1</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.

<sup>15</sup> The Consolidated Fund covers most of the transactions of central government, excluding extra-budgetary units and local councils, on a cash basis.

<sup>16</sup> Government contributions to the social security account in terms of the Social Security Act 1967 are excluded from both revenue and expenditure.

Expenditure fell by €28.1 million, or 9.7%, when compared to a year earlier. This was due to lower recurrent expenditure, which was mainly driven by a €19.7 million fall in programmes and initiatives. This fall, in turn, was partly influenced by the one-time child supplement paid in the previous year. Capital expenditure was €14.5 million lower than in September 2015.

During the first nine months of 2016, the Consolidated Fund deficit narrowed to €63.6 million, from €161.6 million in the same period last year, on account of higher tax revenue and a small decline in expenditure. The primary surplus rose from €11.7 million to €106.5 million. Revenue increased by 4.0%, as decreases in non-tax revenue were offset by tax inflows. Expenditure fell marginally, as lower capital expenditure was mostly offset by higher recurrent expenditure, mainly in the form of contributions to government entities and personal emoluments.

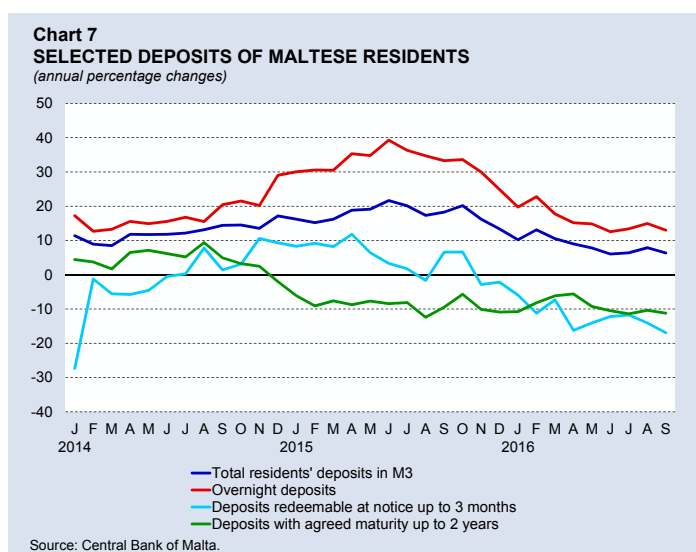
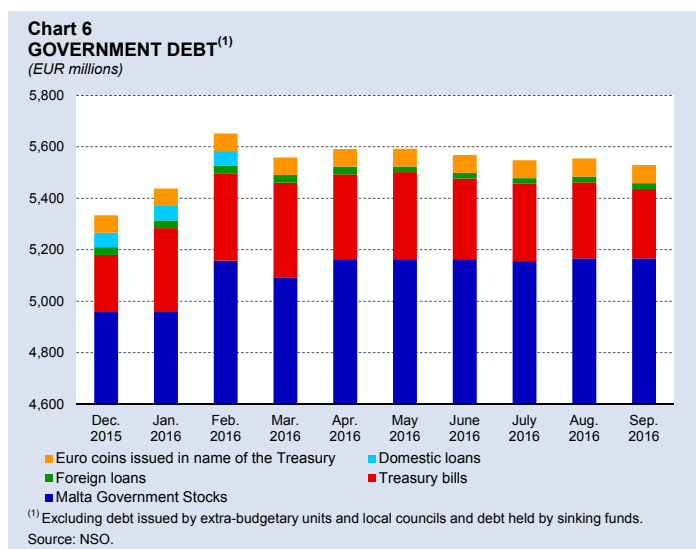
During September, the stock of central government debt decreased by €25.4 million, to €5,529.2 million (see Chart 6). This was mainly due to a fall in the net position of Treasury bills outstanding.

## Deposits, credit and financial markets

Growth in residents' deposits forming part of broad money (M3) slowed in September, with the annual rate easing to 6.4% from 7.9% in August (see Chart 7).

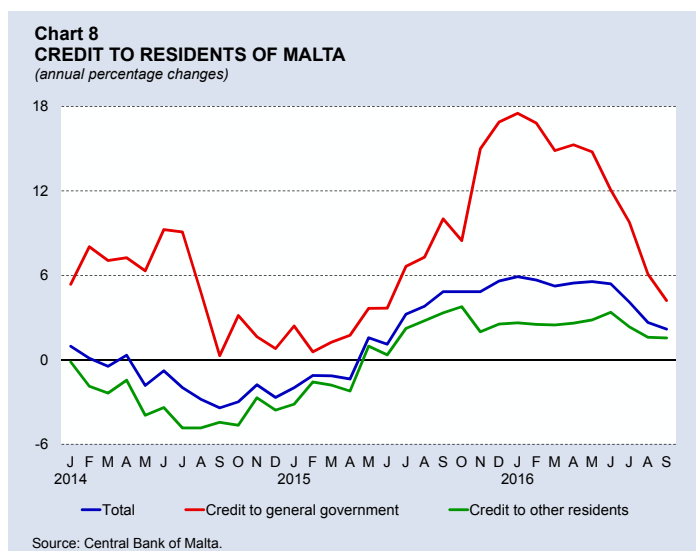
The deceleration in M3 deposits mainly reflected slower growth in overnight deposits. These increased by 13.0% on a year earlier, down from 15.0% in August. This notwithstanding, overnight deposits remained the main driver behind deposit growth, illustrating a continued preference for holding liquid 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.



These deposits contracted by 11.2% on a year earlier, following a decline of 10.4% 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 2.2% in September, from 2.7% in August (see Chart 8).

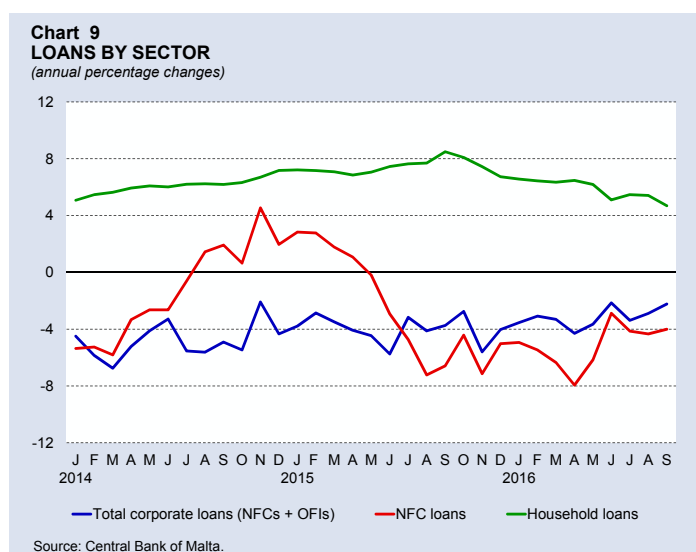


The annual rate of growth of credit to general government slowed further, standing at 4.2% in September from 6.1% in August. Nevertheless, lending to general government still contributed strongly to the overall increase in credit to Maltese residents.

Credit to all other residents – which comprise non-financial corporations (NFCs), households and non-bank financial institutions (OFIs) – grew by 1.5% year-on-year in September. This was marginally down from 1.6% in August. Year-on-year growth in September was mainly driven by increases in loans, which grew at an annual rate of 1.2%, unchanged from the previous month.

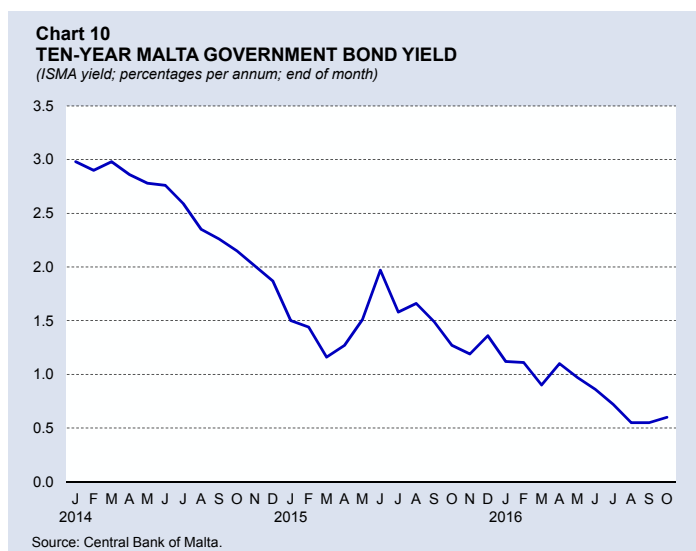
Loans to OFIs and households continued to expand. In particular, total loans to households grew by 4.7% in annual terms, following a 5.4% increase in August. Growth in loans for house purchases remained strong, albeit slowing, with an annual growth rate of 6.3% in September following 7.1% growth in August. However, consumer credit and other lending to households continued to contract. Loans to NFCs contracted further, going down by 4.0% in annual terms in September, following a 4.3% drop a month earlier (see Chart 9). The annual decline reflected developments relating to loans to both private and public NFCs.

Bank deposit rates declined slightly in September. The composite interest rate paid by monetary financial institutions (MFIs) on all euro-denominated deposits belonging to resident households and NFCs dropped to 0.52%, from 0.54% in August. As a result, the composite deposit rate was 24 basis points below its level one year earlier.



The comparable rate charged on outstanding loans remained stable in September, at 3.69%. This implies a 17 basis point drop since September 2015.

In the secondary capital market, the yield on ten-year Maltese government bonds stood at 0.60% at the end of October, up slightly from 0.55% at the end of the previous month (see Chart 10). Meanwhile, the Malta Stock Exchange (MSE) index rose, ending the month 1.7% higher than its end-September level.



## Annex 1

| MACROECONOMIC INDICATORS FOR MALTA                               |      |       |       |       |      |       |      |       |       |       |      |      |      |      |       |       |       |       |      |
|--|------|-------|-------|-------|------|-------|------|-------|-------|-------|------|------|------|------|-------|-------|-------|-------|------|
| <i>(annual percentage changes; non-seasonally adjusted data)</i> |      |       |       |       |      |       |      |       |       |       |      |      |      |      |       |       |       |       |      |
|  | 2014 | 2015  | 2015  | 2015  | 2015 | 2015  | 2016 | 2016  | 2016  | 2016  | 2016 | 2016 | 2016 | 2016 | 2016  | 2016  | 2016  | 2016  | 2016 |
|  |      |       | Q1    | Q2    | Q3   | Q4    | Q1   | Q2    | Q3    | Jan.  | Feb. | Mar. | Apr. | May  | June  | July  | Aug.  | Sep.  | Oct. |
| <b>Prices and costs</b>  |      |       |       |       |      |       |      |       |       |       |      |      |      |      |       |       |       |       |      |
| HICP inflation   | 0.8  | 1.2   | 0.6   | 1.3   | 1.4  | 1.4   | 0.9  | 0.9   | 1.0   | 0.8   | 1.0  | 1.0  | 0.8  | 1.0  | 1.0   | 0.9   | 1.0   | 0.9   | -    |
| RPI inflation  | 0.3  | 1.1   | 0.7   | 1.4   | 1.2  | 1.1   | 0.5  | 0.6   | 0.8   | 0.5   | 0.3  | 0.5  | 0.4  | 0.7  | 0.8   | 0.7   | 0.8   | 0.8   | -    |
| Industrial producer price inflation                              | -0.6 | -2.2  | -1.3  | -2.2  | -2.2 | -2.9  | -1.5 | 0.1   | 0.0   | -2.1  | -0.9 | -1.6 | 1.3  | -0.3 | -0.8  | -0.3  | 0.2   | 0.0   | -    |
| HCI (nominal)  | 0.7  | -5.5  | -6.7  | -7.3  | -4.4 | -3.3  | 1.7  | 3.1   | 1.5   | 0.1   | 1.9  | 3.1  | 4.2  | 3.0  | 2.1   | 2.6   | 1.4   | 0.6   | -    |
| HCI (real)   | -0.1 | -9.8  | -12.4 | -12.9 | -7.7 | -5.9  | 2.4  | 5.2   | 2.3   | -0.6  | 2.8  | 5.2  | 7.1  | 5.2  | 3.4   | 4.2   | 1.8   | 0.5   | -    |
| 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  | 4.0   | 2.7   | 3.6   | 6.7  | 3.1   | 3.8  | 5.1   | -     | -     | -    | -    | -    | -    | -     | -     | -     | -     | -    |
| 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  | 13.0  | 19.7  | 22.8 | 17.8 | 15.2 | 14.8 | 12.6  | 13.4  | 15.0  | 13.0  | -    |
| Deposits with agreed maturity up to 2 years                      | -2.0 | -10.9 | -7.6  | -8.4  | -9.5 | -10.9 | -6.1 | -10.5 | -11.2 | -10.7 | -8.2 | -6.1 | -5.6 | -9.3 | -10.5 | -11.4 | -10.4 | -11.2 | -    |
| Total residents' deposits in M3                                  | 17.2 | 13.4  | 16.2  | 21.6  | 18.3 | 13.4  | 10.5 | 6.1   | 6.4   | 10.2  | 13.1 | 10.5 | 9.0  | 7.8  | 6.1   | 6.4   | 7.9   | 6.4   | -    |
| Credit to general government                                     | 0.8  | 16.9  | 1.2   | 3.7   | 10.0 | 16.9  | 14.9 | 12.1  | 4.2   | 17.5  | 16.8 | 14.9 | 15.3 | 14.8 | 12.1  | 9.8   | 6.1   | 4.2   | -    |
| Credit to other residents  | -3.6 | 2.5   | -1.8  | 0.4   | 3.3  | 2.5   | 2.5  | 3.4   | 1.5   | 2.6   | 2.5  | 2.5  | 2.6  | 2.8  | 3.4   | 2.3   | 1.6   | 1.5   | -    |
| Total credit   | -2.7 | 5.6   | -1.1  | 1.1   | 4.8  | 5.6   | 5.2  | 5.4   | 2.2   | 5.9   | 5.7  | 5.2  | 5.5  | 5.6  | 5.4   | 4.1   | 2.7   | 2.2   | -    |
| 10-year interest rate (% <sup>(3)</sup> )                        | 1.9  | 1.4   | 1.2   | 2.0   | 1.5  | 1.4   | 0.9  | 0.9   | 0.6   | 1.1   | 1.1  | 0.9  | 1.1  | 1.0  | 0.9   | 0.7   | 0.6   | 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   | -2.1  | 0.9   | 1.8  | 0.2  | -0.4 | -1.7 | 2.0   | -2.0  | -0.7  | 0.6   | 1.7  |
| <b>General government finances (% of GDP)</b>                    |      |       |       |       |      |       |      |       |       |       |      |      |      |      |       |       |       |       |      |
| Surplus (+) / deficit (-) <sup>(2)</sup>                         | -2.1 | -1.4  | -2.3  | -1.9  | -1.7 | -1.4  | -0.2 | 0.3   | -     | -     | -    | -    | -    | -    | -     | -     | -     | -     | -    |
| Gross debt <sup>(5)</sup>  | 67.0 | 64.0  | 68.5  | 67.3  | 66.1 | 64.0  | 65.4 | 64.8  | -     | -     | -    | -    | -    | -    | -     | -     | -     | -     | -    |

<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.