



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## ECONOMIC UPDATE 8/2017

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## ECONOMIC UPDATE 8/2017

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

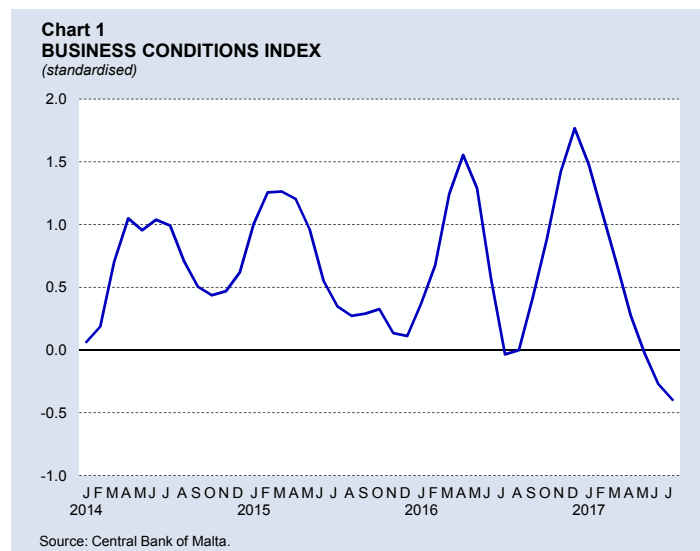
The Bank's Business Conditions Index (BCI) signalled below average activity levels in July. Economic sentiment fell slightly during the month, as weaker sentiment among consumers, in industry and in construction offset improved confidence in the services and retail sectors. In June, retail sales grew moderately in annual terms, while industrial production decreased slightly. In contrast, tourism activity continued to grow at a fast pace. Labour market conditions remained favourable, as employment grew and the number of registered unemployed continued to decline. Price pressures remained moderate, with the annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) falling to 1.0% in June. Maltese residents' deposits rose by 11.6% when compared with a year earlier, while growth in credit to residents eased marginally to 1.0%. As regards fiscal developments, the deficit on the cash-based Consolidated Fund narrowed in the first six months of 2017.

### Central Bank's Business Conditions Index (BCI)

The Central Bank's BCI shows below average levels of economic activity, with a decrease over the previous month (see Chart 1). In July, the index fell to -0.4, from a revised value of -0.3 a month earlier. It also stood lower on an annual basis. The BCI was affected by renewed weakness in industrial production, which offset continued strength in construction, services and consumer confidence.

### Business and consumer confidence indicators

In July 2017, the Economic Sentiment Indicator (ESI) stood at 113, marginally lower than 115 in the preceding month (see Table 1), but still above its long-term average of 101.<sup>2,3</sup> Lower sentiment was registered within industry,



<sup>1</sup> The cut-off date for information in this note is 9 August 2017.

<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. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from November 2002.

**Table 1**  
**BUSINESS AND CONSUMER SURVEYS**

*Balances; percentage points; seasonally adjusted*

	2015	2016	2017						
			Jan.	Feb.	Mar.	Apr.	May	June	July
<b>Economic Sentiment Indicator</b>	<b>111</b>	<b>109</b>	<b>111</b>	<b>115</b>	<b>114</b>	<b>115</b>	<b>113</b>	<b>115</b>	<b>113</b>
<b>Industrial confidence indicator</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>5</b>	<b>8</b>	<b>12</b>	<b>2</b>
Assessment of order-book levels	-23	-18	-9	-7	-5	-9	-3	13	-8
Assessment of stocks of finished products	-1	2	4	-1	1	1	1	6	-9
Production expectations for the months ahead	24	19	33	26	32	26	27	28	6
<b>Consumer confidence indicator</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>	<b>3</b>
Financial situation over the next 12 months	4	5	3	7	3	4	5	12	7
General economic situation over the next 12 months	11	13	13	15	17	15	12	25	19
Unemployment expectations over the next 12 months	-10	-13	-12	-17	-12	-17	-13	-17	-14
Savings over next 12 months	-25	-24	-28	-23	-19	-24	-18	-17	-26
<b>Construction confidence indicator</b>	<b>11</b>	<b>-8</b>	<b>-8</b>	<b>-13</b>	<b>9</b>	<b>6</b>	<b>13</b>	<b>15</b>	<b>10</b>
Evolution of your current overall order books	1	-22	-24	-34	-1	0	2	6	-9
Employment expectations over the next 3 months	22	6	8	10	18	12	24	25	29
<b>Services confidence indicator</b>	<b>26</b>	<b>26</b>	<b>24</b>	<b>33</b>	<b>25</b>	<b>34</b>	<b>25</b>	<b>21</b>	<b>30</b>
Business situation development over the past 3 months	25	22	28	22	25	30	23	14	25
Evolution of the demand over the past 3 months	28	29	28	40	32	40	30	29	31
Expectation of the demand over the next 3 months	25	27	16	37	20	32	22	21	33
<b>Retail trade confidence indicator</b>	<b>16</b>	<b>7</b>	<b>1</b>	<b>16</b>	<b>8</b>	<b>-2</b>	<b>-2</b>	<b>-5</b>	<b>0</b>
Business activity, past 3 months	33	17	-3	17	18	-8	16	-19	5
Stocks of finished goods	9	9	12	-1	12	9	2	5	6
Business activity, next 3 months	25	14	17	29	17	11	-20	10	1

Source: European Commission.

among consumers as well as in the construction sector. On the other hand, confidence rose within the services and retail sectors.

The industrial confidence indicator fell to 2 in July from 12 in June.<sup>4</sup> In spite of this decline, the latest reading still stands above the indicator's long-term average of -4. Lower production expectations and order book levels were the contributors behind the fall in sentiment. In contrast, stocks of finished goods had a positive effect on sentiment, as respondents assessed stocks to be below normal compared with June.<sup>5</sup> Supplementary survey data suggest that, on balance, a smaller share of respondents expected an increase in their employment levels in the subsequent months. At the same time, fewer respondents expected to lower their selling prices in the three months ahead.

Consumer confidence fell back to 3 in July, from 9 in the preceding month, but stood well above the long-term average of -19.<sup>6</sup> All sub-components have contributed to the recent fall in sentiment, with a decline in savings expectations for the 12 months ahead being the main driver.<sup>7</sup> Additional survey information indicates that in July, consumers' inflation expectations rose when compared with the preceding month. At the same time, a smaller share of respondents expected to make fewer major purchases over the subsequent 12 months.

<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> Below normal stocks of finished goods have a positive effect on the overall industrial confidence indicator.

<sup>6</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.

<sup>7</sup> A rise in unemployment expectations has a negative effect on the overall indicator.

Similarly, confidence in the construction sector worsened in July, falling to 10, from 15 in June, though still remaining above its long-term average of -21.<sup>8</sup> The decline in sentiment was entirely driven by a fall in respondents' assessment of their overall order books which turned negative for the first time in four months. In contrast, more firms expected to increase their labour component in the months ahead. Other survey data for the month indicate that, compared with June, a larger share of respondents saw an increase in building activity over the preceding three months. Furthermore, the share of firms expecting their selling prices to rise in the three months ahead was broadly unchanged.

In contrast, the confidence indicator of the services sector rose above its long-term average, reaching 30 in July, from 21 in the preceding month.<sup>9</sup> The recent increase in sentiment was driven by all sub-components, with firms' expectations of demand for the three months ahead being the main driver. Additional survey data indicate that firms' assessment of recent employment developments was more optimistic, while the share of firms expecting employment to rise in the three months ahead was unchanged from June. Also, whereas in June firms expected selling prices to fall, in July they expected prices to rise in the three months ahead.

After registering negative sentiment for three consecutive months, sentiment in the retail sector rose to 0, a touch below its long-term average of 1.<sup>10</sup> This was entirely driven by significant improvements in respondents' assessment of past business activity. On the other hand, a larger share of respondents assessed their stock level to be above normal. Also, fewer firms expected business activity to improve in the following three months. Additional survey data for this sector indicate that, a larger share of firms expected both employment and prices to rise in the subsequent three months. On the contrary, firms expected order books to fall in the three months ahead.

## Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, went down by an annual 0.7% in June. This followed a 2.9% year-on-year increase in May (see Table 2).<sup>11</sup> In June, output increased among producers of rubber and plastic products as well as among firms that produce computer, electronic and optical products. Production also rose among firms involved in the printing and reproduction of recorded media as well as within the energy sector. These increases were offset by lower production in the food, pharmaceutical and beverages sectors. Output also fell in the other manufacturing sub-sector, which includes medical and dental instruments, as well as toys and related products.

The annual rate of change of retail trade, which is a short-term indicator of final domestic demand, slowed down during June. Calendar day-adjusted data show that the volume of retail trade increased by 1.2%, following a 1.8% increase in April.

<sup>8</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>9</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>10</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 stock levels.

<sup>11</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data while unadjusted data is used for the components.

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

*Annual percentage changes*

	2015	2016	2017					
			Jan.	Feb.	Mar.	Apr.	May	June
<b>Industrial production</b>	<b>6.1</b>	<b>-3.2</b>	<b>7.2</b>	<b>6.3</b>	<b>2.9</b>	<b>3.2</b>	<b>2.9</b>	<b>-0.7</b>
<b>Retail trade</b>	<b>7.0</b>	<b>2.0</b>	<b>3.1</b>	<b>-3.7</b>	<b>3.2</b>	<b>3.5</b>	<b>1.8</b>	<b>1.2</b>
<b>Number of tourist arrivals</b>	<b>5.5</b>	<b>10.2</b>	<b>22.7</b>	<b>28.3</b>	<b>22.0</b>	<b>21.0</b>	<b>13.0</b>	<b>17.2</b>
<b>Number of nights stayed</b>	<b>4.7</b>	<b>5.7</b>	<b>12.3</b>	<b>15.7</b>	<b>6.8</b>	<b>15.0</b>	<b>11.9</b>	<b>9.6</b>
Private accommodation	14.9	13.5	26.9	24.8	9.2	21.4	31.2	12.5
Collective accommodation	-0.7	1.0	3.5	11.8	5.8	11.4	1.5	7.7
<b>Tourist expenditure</b>	<b>7.2</b>	<b>4.3</b>	<b>8.6</b>	<b>20.8</b>	<b>11.8</b>	<b>24.9</b>	<b>9.5</b>	<b>14.3</b>
Package expenditure	4.8	-6.5	-12.8	3.1	-4.1	11.8	-6.4	3.4
Non-package expenditure	13.1	11.3	14.8	29.5	26.0	42.2	25.5	18.8
Other	5.2	8.2	18.0	28.0	16.2	21.7	9.9	19.1

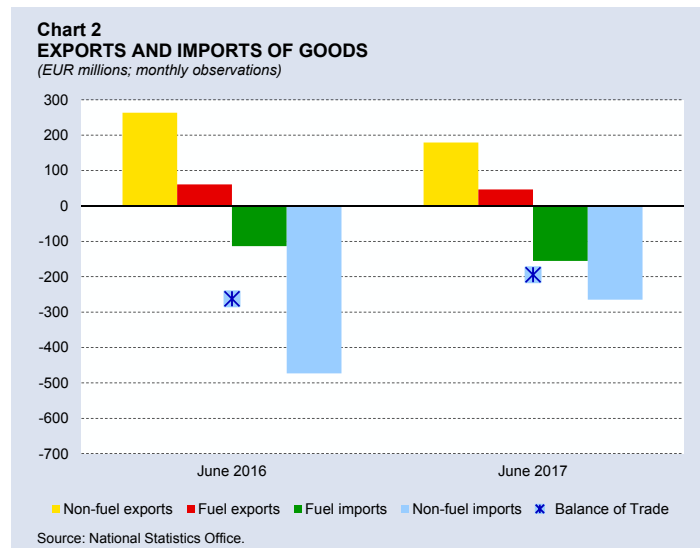
Sources: National Statistics Office; Eurostat.

In June, the number of inbound tourists grew by 17.2% on a year earlier. Meanwhile, nights stayed were up by 9.6%, reflecting increases in the number of nights spent in both private and collective accommodation. Tourist spending rose by 14.3% in annual terms, as all expenditure components reported gains.

In May, the overall occupancy rate in collective accommodation establishments stood at 67.9%, 0.4 percentage points lower than that registered in the same month of 2016. Lower occupancy rates were recorded in the five-star, four-star and the “other establishments” categories.<sup>12</sup>

In the second quarter of 2017, there were 115 cruise liner calls, seven more than a year earlier. Foreign passengers decreased to 181,050, from 197,842 in the same period of 2016.

Preliminary Customs data show that the merchandise trade deficit stood at €194.5 million in June, a narrowing of €67.8 million on the same month of 2016. This arose as imports contracted at a faster pace than exports. The former dropped by €166.1 million, whilst exports declined by €98.3 million (see Chart 2). The latter reflected a decrease in exports of pharmaceuticals and fuel re-exports.



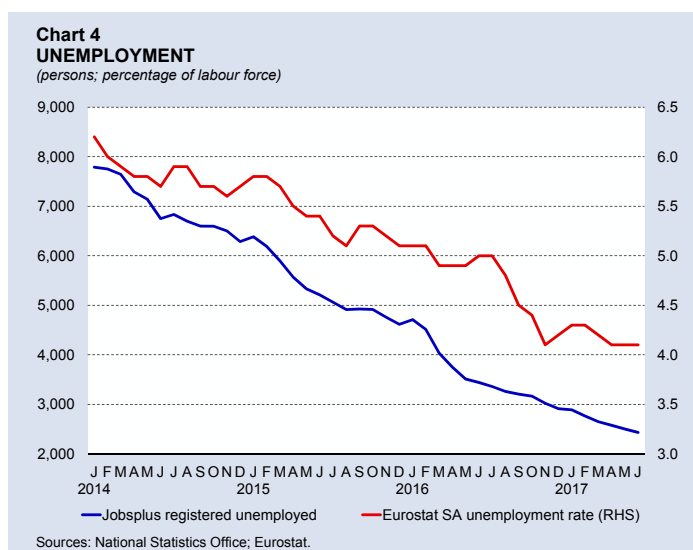
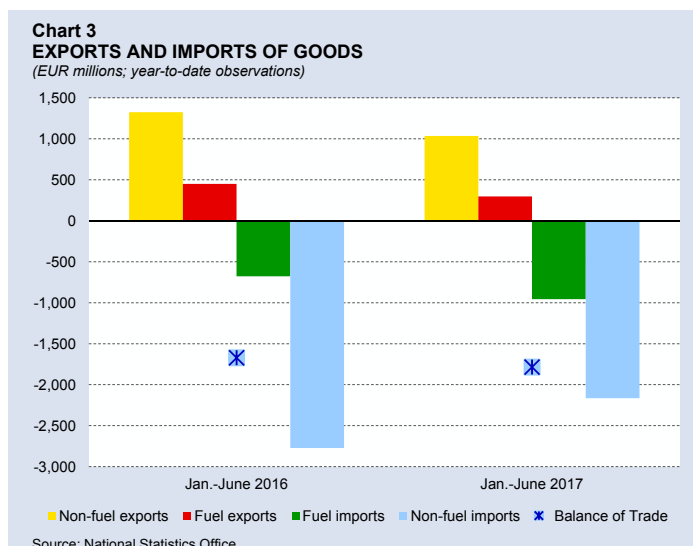
<sup>12</sup> The “other” establishments category comprises guesthouses, hostels and tourist villages.

During the first half of 2017 exports declined at a faster pace than imports. As a result, the visible trade gap widened by €114.1 million when compared with the same months of 2016, standing at €1,784.8 million (see Chart 3). This gap was to a large extent driven by fuels and transactions involving aircraft and ships.

### Labour market

Jobsplus data show a further fall in the number of persons on the unemployment register in June. The registered unemployed decreased to 2,432, from 3,441 in the corresponding month of 2016 and from 2,502 in May (see Chart 4).

Meanwhile, Eurostat's estimate of the seasonally adjusted unemployment rate stood at 4.1% in June, unchanged from the preceding two months. The unemployment rate thus remained at a historical low.



### BOX 1: GAINFULLY OCCUPIED POPULATION

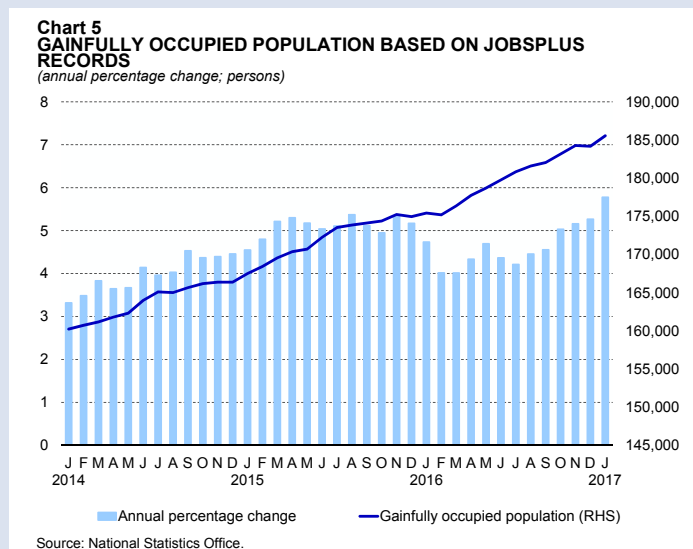
Jobsplus records show that in January 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.8% on a year earlier, reaching 185,563 (see Chart 5). This followed a 5.3% increase in December 2016.

Growth in employment in January mirrored developments observed in recent months, as it continued to be mainly driven by the private sector, while the public sector registered a small annual increase (see Table 3).

The number of full-timers in the private sector went up by 9,275, or 7.1%, on the same month of 2016. Employment growth in this sector continued to be driven by market services,

where the number of full-time job holders increased by 8,722, or 8.9% in annual terms. This increase was distributed among all major sectors within this category.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,118 in the year to January 2017, and accounted for 36% of the overall rise in private market services employment. The number of persons employed



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

Persons; annual percentage changes

	2016 January	2017 January	Annual change	
			Number of persons	%
<b>Labour supply</b>	<b>180,140</b>	<b>188,452</b>	<b>8,312</b>	<b>4.6</b>
Gainfully occupied <sup>(1)</sup>	175,430	185,563	10,133	5.8
Registered unemployed	4,710	2,889	-1,821	-38.7
<b>Unemployment rate (%)</b>	<b>2.6</b>	<b>1.5</b>		
<b>Private sector</b>	<b>131,095</b>	<b>140,370</b>	<b>9,275</b>	<b>7.1</b>
<b>Direct production</b> <sup>(2)</sup>	<b>32,759</b>	<b>33,312</b>	<b>553</b>	<b>1.7</b>
<b>Market services</b>	<b>98,336</b>	<b>107,058</b>	<b>8,722</b>	<b>8.9</b>
Wholesale and retail trade	25,069	25,769	700	2.8
Transportation and storage	7,706	8,105	399	5.2
Accommodation and food service activities	10,819	11,640	821	7.6
Information and communication	5,872	6,407	535	9.1
Financial and insurance activities	7,978	8,427	449	5.6
Real estate, professional and administrative activities <sup>(3)</sup>	22,533	25,651	3,118	13.8
Arts, entertainment and recreation	5,593	7,112	1,519	27.2
Education	4,999	5,135	136	2.7
Other	7,767	8,812	1,045	13.5
<b>Public sector</b>	<b>44,335</b>	<b>45,193</b>	<b>858</b>	<b>1.9</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: National Statistics Office.



in the arts, entertainment and recreation sector also increased significantly in annual terms, going up by 1,519.

Meanwhile, employment in direct production within the private sector grew by 553, or 1.7%, on a year earlier. Growth was recorded across most sectors, with the largest increases registered in the construction and manufacturing sectors. In the construction sector, the increase was led by firms involved in the construction of buildings. Employment also rose significantly within the other manufacturing sub-sector, which includes medical and dental instruments as well as toys and related products. Increases were also registered among firms involved in the production of rubber and plastics. On the other hand, employment fell marginally in the mining and quarrying sector as well as within the water supply sector.

Public sector jobs rose by 858, or 1.9%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education, with employment increasing by 994 and 352 jobs respectively. These offset falls in other sectors, such as the transportation and storage, and construction sectors.

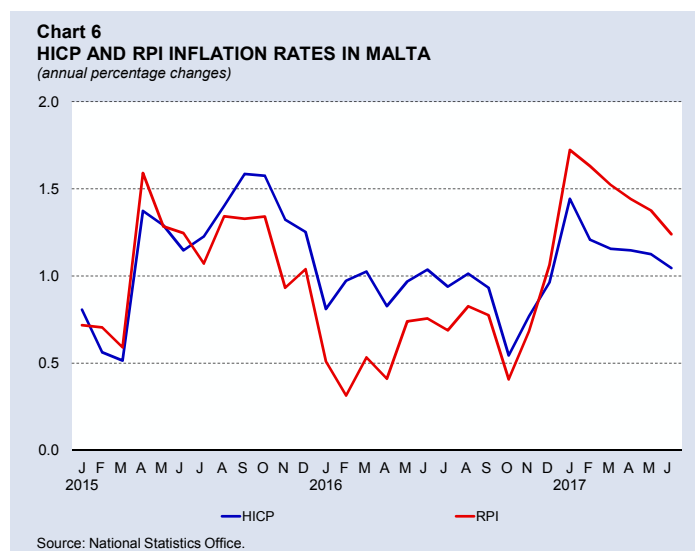
## Prices, costs and competitiveness

Price pressures remained moderate during June, with the annual rate of HICP inflation easing slightly to 1.0%, from 1.1% in May (see Chart 6).

This dip in inflation reflected lower contributions from the services and non-energy industrial goods components. In particular, prices for package holidays and clothing fell at a faster pace. These movements offset an upward contribution from the food component, on account of a recovery in vegetable prices. The contribution from energy inflation remained small and unchanged from a month earlier.

Similarly, inflation based on the Retail Price Index (RPI) eased to 1.2% in June, from 1.4% in May. As with HICP inflation, this was in part driven by reduced price pressures in the clothing and footwear component.<sup>13</sup>

Annual inflation based on the Industrial Producer Price Index (PPI) accelerated to 1.3% in June, after having turned



<sup>13</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.

positive at 0.6% in May.<sup>14</sup> This increase reflected faster growth in the prices of intermediate goods. Moreover, the change in producer prices of durable consumer goods, which was previously negative, went to zero. Annual contributions from the other components of the index, namely energy, non-durable consumer goods, and capital goods, were relatively unchanged when compared with May.

With regard to international price competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) was 1.4% higher in June when compared with a year earlier.<sup>15</sup> In real terms, the HCI was also up by 1.4% on the same month of 2016, suggesting a deterioration in Malta's international competitiveness compared with a year earlier, entirely on account of exchange rate movements.

## Public finance

During June 2017, the Consolidated Fund balance registered a deficit of €89.4 million, an increase of €50.1 million when compared with the deficit registered in the same month of 2016 (see Table 4).

	2016		2017		Change	
	Jan.-June	Jan.-June	June	June	Amount	%
<b>Revenue</b>	<b>1,550.4</b>	<b>1,713.2</b>	<b>234.0</b>	<b>237.4</b>	<b>3.3</b>	<b>1.4</b>
<b>Direct tax</b>	<b>776.8</b>	<b>800.4</b>	<b>154.6</b>	<b>129.0</b>	<b>-25.6</b>	<b>-16.6</b>
Income tax	522.8	535.9	114.8	94.2	-20.6	-18.0
Social security contributions <sup>(1)</sup>	254.0	264.5	39.7	34.7	-5.0	-12.5
<b>Indirect tax</b>	<b>605.7</b>	<b>666.6</b>	<b>64.0</b>	<b>85.5</b>	<b>21.4</b>	<b>33.5</b>
Value Added Tax	319.5	362.6	20.2	39.2	18.9	93.5
Customs and excise duties	129.9	139.3	22.6	24.4	1.8	8.1
Licences, taxes and fines	156.2	164.8	21.2	21.9	0.7	3.2
<b>Non-tax<sup>(2)</sup></b>	<b>167.9</b>	<b>246.2</b>	<b>15.4</b>	<b>22.9</b>	<b>7.5</b>	<b>48.6</b>
<b>Expenditure</b>	<b>1,661.1</b>	<b>1,805.2</b>	<b>273.3</b>	<b>326.8</b>	<b>53.5</b>	<b>19.6</b>
<b>Recurrent</b>	<b>1,534.8</b>	<b>1,665.1</b>	<b>256.6</b>	<b>314.1</b>	<b>57.5</b>	<b>22.4</b>
Personal emoluments	359.5	376.9	65.1	68.4	3.3	5.0
Operational and maintenance	90.4	88.5	11.9	10.8	-1.1	-9.2
Programmes and initiatives <sup>(1)</sup>	806.4	916.1	142.7	196.2	53.5	37.5
Contributions to entities	166.7	177.4	20.4	22.2	1.8	8.8
Interest payments	111.8	106.2	16.6	16.6	0.0	0.1
<b>Capital</b>	<b>126.3</b>	<b>140.1</b>	<b>16.7</b>	<b>12.7</b>	<b>-4.0</b>	<b>-24.0</b>
<b>Primary balance<sup>(3)</sup></b>	<b>1.2</b>	<b>14.2</b>	<b>-22.7</b>	<b>-72.8</b>	<b>-50.1</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-110.6</b>	<b>-92.0</b>	<b>-39.3</b>	<b>-89.4</b>	<b>-50.1</b>	<b>-</b>

<sup>(1)</sup> Government contributions to the social security account in terms of the Social Security Act 1987 are netted out 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: National Statistics Office.

<sup>14</sup> The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

<sup>15</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.

This development was due to government expenditure outpacing revenue. As a result the primary balance registered a deficit of €72.8 million, following a shortfall of €22.7 million in the corresponding month last year.

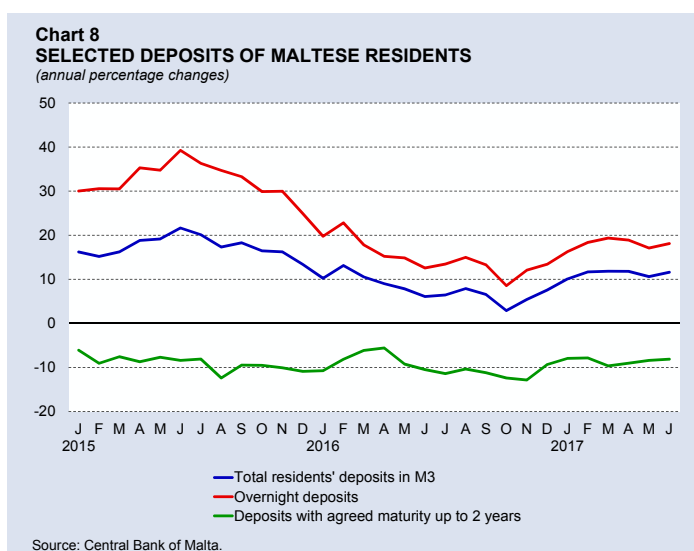
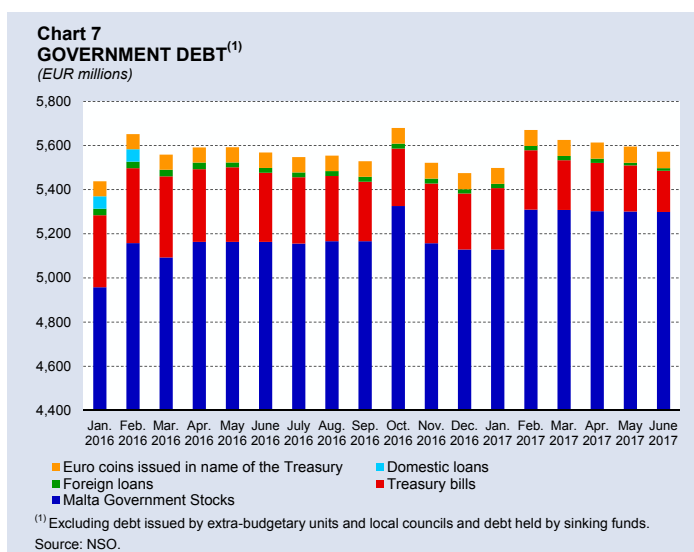
Revenue grew by €3.3 million when compared with a year earlier, equivalent to a 1.4% increase. This was driven by higher inflows from indirect taxes, chiefly from VAT, which rose by €18.9 million. Non-tax revenue also increased, driven by fees from the Individual Investor Programme, dividend income and other miscellaneous receipts. These developments were largely offset by a fall in direct revenue, as revenue generated from income tax declined by €20.6 million, while income from social contributions also fell.

Meanwhile, government expenditure rose by €53.5 million, or 19.6% when compared with June 2016. This increase was driven by higher spending on programmes and initiatives, mainly due to the timing of retirement pension outlays. Higher personal emoluments and contributions to government entities also contributed to the increase in expenditure. On the other hand, capital expenditure declined by €4.0 million, offsetting some of the rise in recurrent expenditure.

In June, the total stock of government debt amounted to €5,572.0 million, €23.6 million lower when compared with a month earlier (see Chart 7). This was mainly due to a decrease in the amount of Treasury Bills outstanding.

### Deposits, credit and financial markets

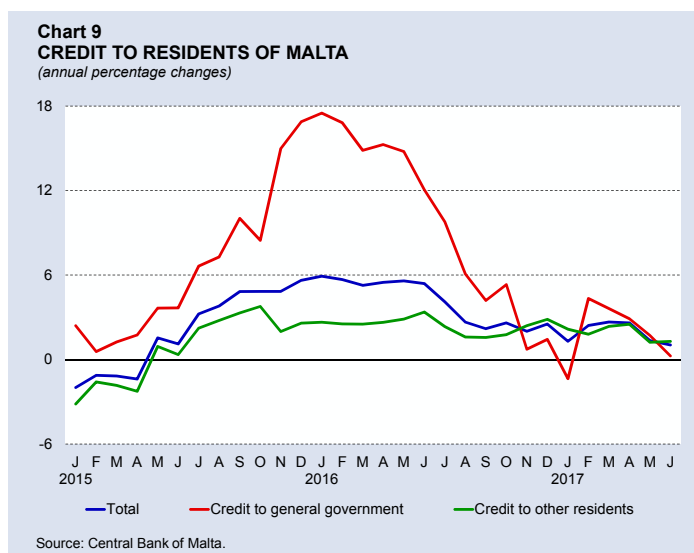
The annual rate of growth of residents' deposits forming part of broad money (M3) picked up to 11.6% in June, from 10.6% in May. This rate of growth is relatively strong from a historical perspective. It is being driven by robust demand for overnight deposits (see Chart 8).



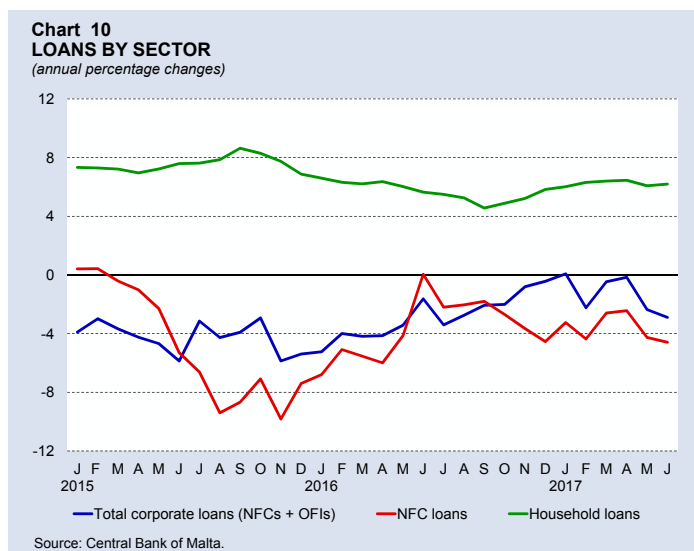
Indeed, overnight deposits were the main driver behind the acceleration in total deposits during June, as they grew by an annual 18.1% when compared with 17.1% in May. At the same time, deposits with maturity of up to two years, which are the main component of time deposits, dropped at a slower annual rate of 8.1%, following an 8.4% decrease in May. Overall, these developments illustrate a continued preference for holding liquid assets in an environment of low interest rates.

On the asset side of banks' balance sheets, annual growth in credit to Maltese residents eased to 1.0% in June, from 1.3% in May (see Chart 9), reflecting a deceleration in credit to general government. On the other hand, growth in credit to other residents edged up marginally to 1.3%.

Growth in credit to other residents – which consists of credit to non-financial corporations (NFCs), households and non-bank financial institutions (OFIs) – was supported by growth in loans – the main component. Loans rose by an annual 1.7% in June, driven mainly by growth in loans to households, which increased by 6.2% (see Chart 10). Loans for house purchase remained the main driver of household loans, with consumer credit and other lending in decline. At the same time, loans to NFCs continued to contract in the month under review, going down by 4.6% on an annual basis.

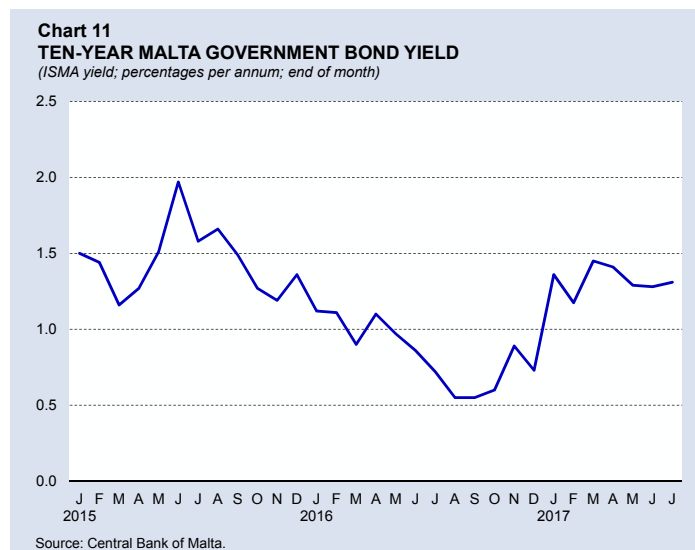


Bank deposit rates dropped marginally in June, with the composite interest rate paid by monetary financial institutions (MFIs) on residents' euro-denominated deposits standing at 0.42%. This is 16 basis points lower than the rate registered in the same period last year. On the other hand, the comparable rate charged on outstanding loans remained unchanged at 3.66%, although this was still 10 basis points lower than in June 2016. As a result, the spread between the composite deposit and loan rates applied



to residents, stood at 324 basis points, up from 317 basis points a year earlier.

In the secondary capital market, the yield on ten-year Maltese government bonds ended July at 1.31%, up from 1.28% at end-June (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index gained 0.3% during the same period. The MSE Total Return Index, which accounts for changes in both equity prices and dividends, gained 0.2%.



## Annex 1

MACROECONOMIC INDICATORS FOR MALTA																						
<i>(annual percentage changes; non-seasonally adjusted data)</i>																						
	2015	2016	2016	2016	2016	2017	2017	2016	2016	2016	2016	2016	2016	2016	2017	2017	2017	2017	2017	2017	2017	
			Q1	Q2	Q3	Q4	Q1	Q2	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
<b>Prices and costs</b>																						
HICP inflation	1.2	0.9	0.9	0.9	1.0	0.8	1.3	1.1	1.0	0.9	1.0	0.9	0.5	0.8	1.0	1.4	1.2	1.2	1.1	1.1	1.0	-
RPI inflation	1.1	0.6	0.5	0.6	0.8	0.7	1.6	1.4	0.8	0.7	0.8	0.8	0.4	0.7	1.1	1.7	1.6	1.5	1.4	1.4	1.2	-
Industrial producer price inflation	-2.2	-0.6	-1.5	0.1	0.0	-1.0	-1.2	0.0	-0.8	-0.2	0.2	0.0	-0.1	-1.0	-1.8	-1.7	-1.0	-0.9	-1.8	0.6	1.3	-
HCI (nominal)	-5.5	1.9	1.7	3.1	1.5	1.5	-0.1	0.4	2.1	2.6	1.4	0.6	1.0	2.5	1.0	0.5	-0.7	0.1	-0.6	0.5	1.4	-
HCI (real)	-9.8	2.9	2.5	5.3	2.3	1.8	-0.9	-0.4	3.5	4.3	2.1	0.5	0.7	3.8	0.9	0.2	-2.3	-0.7	-2.3	-0.2	1.4	-
Unit labour costs, whole economy <sup>(1)</sup>	0.0	1.2	0.2	0.7	1.5	1.2	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	3.2	2.8	3.6	3.2	3.6	2.8	1.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	3.2	1.4	3.4	2.5	2.0	1.4	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.8	5.4	5.2	7.2	4.7	5.4	4.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																						
Nominal GDP	9.8	6.7	8.6	6.1	5.9	6.5	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.3	5.0	6.3	4.5	4.4	4.9	4.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	5.8	2.5	6.7	3.0	-1.1	1.8	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	3.8	-2.9	5.2	2.6	-5.7	-12.7	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	49.2	-0.6	19.8	0.6	-17.9	1.9	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	3.9	3.5	4.3	-0.7	2.3	8.1	-1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.8	0.9	7.5	-0.8	-5.9	3.5	-2.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																						
LFS unemployment rate (% of labour force)	5.4	4.7	4.9	4.9	4.8	4.2	4.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	2.3	2.9	2.6	3.5	2.3	3.2	2.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.1	4.6	4.3	4.5	4.4	5.2	-	-	4.4	4.2	4.5	4.6	5.0	5.2	5.3	5.8	-	-	-	-	-	-
<b>Balance of payments</b>																						
Current account (as a % of GDP) <sup>(2)</sup>	5.2	7.0	4.1	3.5	6.2	7.0	6.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																						
Maltese residents' deposits and loans																						
Overnight deposits	24.9	13.4	17.8	12.6	13.3	13.4	19.3	18.1	12.6	13.4	15.0	13.3	8.5	12.1	13.4	16.3	18.4	19.3	18.9	17.1	18.1	-
Deposits with agreed maturity up to 2 years	-10.9	-9.3	-6.2	-10.5	-11.2	-9.3	-9.7	-8.1	-10.5	-11.4	-10.4	-11.2	-12.4	-12.9	-9.3	-7.9	-7.9	-9.7	-9.0	-8.4	-8.1	-
Total residents' deposits in M3	13.4	7.5	10.5	6.1	6.5	7.5	11.8	11.6	6.1	6.4	7.9	6.5	2.9	5.4	7.5	10.1	11.7	11.8	11.8	10.6	11.6	-
Credit to general government	16.9	1.4	14.9	12.1	4.2	1.4	3.6	0.3	12.1	9.8	6.1	4.2	5.3	0.7	1.4	-1.4	4.3	3.6	2.9	1.7	0.3	-
Credit to other residents	2.6	2.9	2.5	3.4	1.6	2.9	2.4	1.3	3.4	2.3	1.6	1.6	1.8	2.4	2.9	2.2	1.8	2.4	2.5	1.2	1.3	-
Total credit	5.6	2.5	5.3	5.4	2.2	2.5	2.7	1.0	5.4	4.1	2.7	2.2	2.6	2.0	2.5	1.3	2.4	2.7	2.6	1.3	1.0	-
10-year interest rate (%) <sup>(3)</sup>	1.4	0.7	0.9	0.9	0.6	0.7	1.5	1.3	0.9	0.7	0.6	0.6	0.6	0.9	0.7	1.4	1.2	1.5	1.4	1.3	1.3	1.3
Stock prices: Malta Stock Exchange Index <sup>(4)</sup>	33.0	4.5	3.0	0.0	-2.1	3.7	1.9	-0.4	2.0	-2.0	-0.7	0.6	1.7	-1.6	3.6	1.8	0.4	-0.4	-0.9	-0.8	1.3	0.3
<b>General government finances (% of GDP)</b>																						
Surplus (+) / deficit (-) <sup>(2)</sup>	-1.3	1.0	-0.3	0.4	0.8	1.0	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(5)</sup>	60.6	58.3	61.8	61.0	59.8	58.3	59.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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

<sup>(3)</sup> End of period. In January and February 2017, in the absence of bonds qualifying within the recommended residual maturity, the benchmark yield was calculated as an average of bonds close to the agreed maturity range.

<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.