



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## ECONOMIC UPDATE 11/2017

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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 10 November 2017. Figures in tables may not add up due to rounding.*

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## ECONOMIC UPDATE 11/2017

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

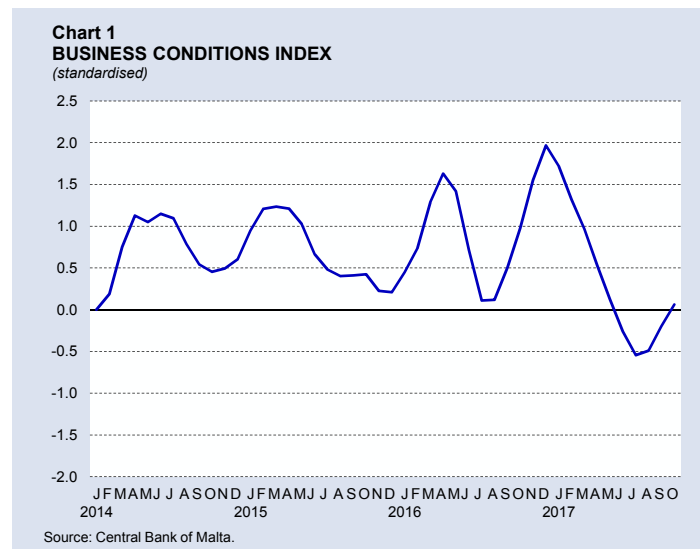
The Bank's Business Conditions Index (BCI) signalled a slight improvement in activity levels during October. Economic sentiment rose marginally during the month, as improved confidence in the retail and construction sectors, and among consumers was offset by weaker confidence in services and industry sectors. In September, both retail sales and tourism activity accelerated in annual terms. Industrial production also rose on a year earlier. Labour market conditions remained favourable, with the number of registered unemployed declining on an annual basis and Eurostat's measure of the unemployment rate remaining low from a historical perspective. Price pressures remained moderate, with the annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) unchanged at 1.2% in September. Maltese residents' deposits rose by 10.1% when compared with a year earlier, while growth in credit to residents stood at 2.6%. As regards fiscal developments, the cash-based Consolidated Fund showed a surplus in the first nine months of 2017.

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

The Central Bank's BCI showed an improvement over the previous month (see Chart 1). In October, the index progressed to 0.1 from a revised value of -0.2 a month earlier. The BCI was affected by continued strength in seat capacity.

### Business and consumer confidence indicators

In October 2017, the Economic Sentiment Indicator (ESI) rose marginally to 119, from 118 in the preceding month (see Table 1), and stood above its long-term average of 101.<sup>2,3</sup> Higher sentiment was registered within the retail sector, among consumers and within the construction sector. In contrast, confidence declined within the services sector and industry, although only marginally.



<sup>1</sup> The cut-off date for information in this note is 10 November 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       | Aug.       | Sep.       | Oct.       |
| <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>119</b> | <b>118</b> | <b>119</b> |
| <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>   | <b>17</b>  | <b>8</b>   | <b>16</b>  |
| Business activity, past 3 months                      | 33         | 17         | -3         | 17         | 18         | -8         | 16         | -19        | 5          | 27         | 23         | 35         |
| Stocks of finished goods                              | 9          | 9          | 12         | -1         | 12         | 9          | 2          | 5          | 6          | 3          | 7          | 5          |
| Business activity, next 3 months                      | 25         | 14         | 17         | 29         | 17         | 11         | -20        | 10         | 1          | 26         | 9          | 19         |
| <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>   | <b>12</b>  | <b>8</b>   | <b>11</b>  |
| Financial situation over the next 12 months           | 4          | 5          | 3          | 7          | 3          | 4          | 5          | 12         | 7          | 11         | 10         | 11         |
| General economic situation over the next 12 months    | 11         | 13         | 13         | 15         | 17         | 15         | 12         | 25         | 19         | 21         | 21         | 21         |
| Unemployment expectations over the next 12 months     | -10        | -13        | -12        | -17        | -12        | -17        | -13        | -17        | -14        | -19        | -16        | -20        |
| Savings over next 12 months                           | -25        | -24        | -28        | -23        | -19        | -24        | -18        | -17        | -26        | -5         | -13        | -7         |
| <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>  | <b>17</b>  | <b>24</b>  | <b>26</b>  |
| Evolution of your current overall order books         | 1          | -22        | -24        | -34        | -1         | 0          | 2          | 6          | -9         | 2          | 15         | 20         |
| Employment expectations over the next 3 months        | 22         | 6          | 8          | 10         | 18         | 12         | 24         | 25         | 29         | 32         | 33         | 33         |
| <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>  | <b>34</b>  | <b>35</b>  | <b>34</b>  |
| Business situation development over the past 3 months | 25         | 22         | 28         | 22         | 25         | 30         | 23         | 14         | 25         | 31         | 29         | 28         |
| Evolution of the demand over the past 3 months        | 28         | 29         | 28         | 40         | 32         | 40         | 30         | 29         | 31         | 33         | 32         | 29         |
| Expectation of the demand over the next 3 months      | 25         | 27         | 16         | 37         | 20         | 32         | 22         | 21         | 33         | 38         | 43         | 44         |
| <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>   | <b>6</b>   | <b>7</b>   | <b>6</b>   |
| Assessment of order-book levels                       | -23        | -18        | -9         | -7         | -5         | -9         | -3         | 13         | -8         | -14        | -6         | -11        |
| Assessment of stocks of finished products             | -1         | 2          | 4          | -1         | 1          | 1          | 1          | 6          | -9         | -7         | -6         | -2         |
| Production expectations for the months ahead          | 24         | 19         | 33         | 26         | 32         | 26         | 27         | 28         | 6          | 25         | 19         | 26         |

Source: European Commission.

Sentiment in the retail sector doubled, rising to 16 in October.<sup>4</sup> It thus remained well above its long-term average of 1. This improved sentiment was driven by all subcomponents, with the most significant increase stemming from the share of firms registering improved business activity over the preceding three months.<sup>5</sup> Additional survey data for this sector indicate that a marginally smaller share of firms expected prices and employment to rise over the three months ahead.

Consumer confidence rose to 11 in October, as against the long-term average of -19.<sup>6</sup> Almost all sub-components contributed to this increase in sentiment, with consumers' savings and unemployment expectations for the 12 months ahead being the main drivers.<sup>7</sup> There was also a marginal improvement in expectations about the financial situation over the next 12 months. Meanwhile, consumers' expectations of the general economic situation were broadly unchanged. Additional survey information indicates that in October, a smaller share of consumers expected inflation to increase in the following months.

Confidence in the construction sector also improved in October, increasing to 26 from 24 in September, thus remaining above its long-term average of -20.<sup>8</sup> The rise in sentiment reflects an

<sup>4</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>5</sup> A smaller share of respondents registering above normal stocks of finished goods has 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 fall in unemployment expectations has a positive effect on the overall indicator.

<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.

improvement in the respondents' assessment of their order books, as employment expectations remained broadly unchanged. Other survey data indicate that in comparison with September, a broadly unchanged share of respondents saw an increase in building activity over the preceding three months. Furthermore, a larger share of firms expected a rise in their selling prices in the three months ahead.

In contrast, confidence in the services sector declined marginally, with the indicator edging down to 34 in October from 35 in the preceding month, although it still remained above its long-term average.<sup>9</sup> The recent decline in sentiment was driven by both firms' assessment of their business situation and the evolution of demand over the preceding three months. Conversely, demand expectations for the three months ahead improved. Additional survey data indicate that firms' assessments of recent employment developments were broadly unchanged, while employment expectations for the three months ahead were more optimistic. Furthermore, the same share of respondents expected prices to rise in the three months ahead, compared with the preceding month.

The industrial confidence indicator also edged down marginally to 6 in October, from 7 in the preceding month, and stood above the indicator's long-term average of -4.<sup>10</sup> This fall in sentiment was largely driven by firms' assessment of order books. At the same time, a smaller share of firms registered below normal stocks of finished goods.<sup>11</sup> In contrast, the share of respondents expecting production to increase in the following months increased in October. Supplementary survey data suggest that, on balance, a smaller share of respondents expected an increase in their employment levels in the subsequent months. Furthermore, firms expected to decrease their selling prices 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, rose at an annual rate of 4.0% in September, following an increase of 5.6% in August (see Table 2).<sup>12</sup> In September, production rose among firms producing food and beverages, rubber and plastics as well as within the energy sector. Higher production was also recorded in the "other manufacturing" sub-sector, which includes medical and dental instruments, toys and related products. Output also rose among those producing pharmaceutical products. These increases offset declines in the sector producing computer, electronic and optical products as well as in the printing sector.

In September, the annual rate of change of retail trade, which is a short-term indicator of final domestic demand, rose further. Calendar day-adjusted data show that the volume of retail trade increased by 9.8%, following a 6.9% rise in August.

<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 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>11</sup> Below normal stocks of finished goods have a positive effect on the overall indicator. Thus, a decline in the share of firms registering below normal stocks of finished goods has a negative effect on the overall industrial confidence indicator.

<sup>12</sup> The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data however, are used for the components.

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

*Annual percentage changes*

|                                   | 2015       | 2016        | 2017        |             |             |             |             |             |             |
|-----------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                   |            |             | Mar.        | Apr.        | May         | June        | July        | Aug.        | Sep.        |
| <b>Industrial production</b>      | <b>6.1</b> | <b>-3.4</b> | <b>4.4</b>  | <b>4.5</b>  | <b>5.7</b>  | <b>2.6</b>  | <b>-0.7</b> | <b>5.6</b>  | <b>4.0</b>  |
| <b>Retail trade</b>               | <b>7.0</b> | <b>2.2</b>  | <b>3.7</b>  | <b>6.0</b>  | <b>4.4</b>  | <b>3.4</b>  | <b>3.0</b>  | <b>6.9</b>  | <b>9.8</b>  |
| <b>Number of tourist arrivals</b> | <b>5.5</b> | <b>10.2</b> | <b>22.0</b> | <b>21.0</b> | <b>13.0</b> | <b>17.2</b> | <b>11.4</b> | <b>12.4</b> | <b>14.0</b> |
| <b>Number of nights stayed</b>    | <b>4.7</b> | <b>5.7</b>  | <b>6.8</b>  | <b>15.0</b> | <b>11.9</b> | <b>9.6</b>  | <b>8.9</b>  | <b>8.5</b>  | <b>13.1</b> |
| Private accommodation             | 14.9       | 13.5        | 9.2         | 21.4        | 31.2        | 12.5        | 12.5        | 17.8        | 23.8        |
| Collective accommodation          | -0.7       | 1.0         | 5.8         | 11.4        | 1.5         | 7.7         | 5.9         | -0.6        | 4.7         |
| <b>Tourist expenditure</b>        | <b>7.2</b> | <b>4.3</b>  | <b>11.8</b> | <b>24.9</b> | <b>9.5</b>  | <b>14.3</b> | <b>11.4</b> | <b>10.4</b> | <b>16.7</b> |
| Package expenditure               | 4.8        | -6.5        | -4.1        | 11.8        | -6.4        | 3.4         | -5.6        | -5.8        | 10.4        |
| Non-package expenditure           | 13.1       | 11.3        | 26.0        | 42.2        | 25.5        | 18.8        | 22.5        | 18.3        | 21.2        |
| Other                             | 5.2        | 8.2         | 16.2        | 21.7        | 9.9         | 19.1        | 15.4        | 15.7        | 17.8        |

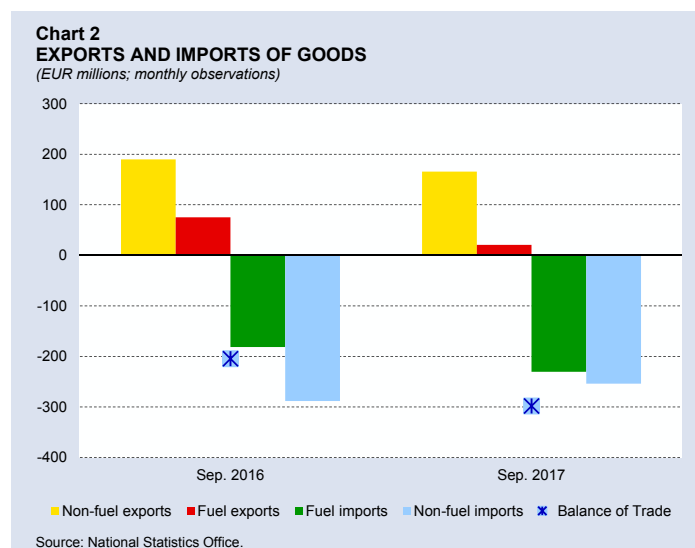
Sources: National Statistics Office; Eurostat.

Meanwhile, the number of inbound tourists grew by 14.0% on a year earlier, while nights increased by 13.1%. This reflected increases in the number of nights spent in private accommodation, and to a lesser extent, also in nights spent in collective accommodation. Tourist spending also rose at a brisk pace, adding 16.7% in annual terms. Higher spending was recorded across all expenditure components.

In August, the overall occupancy rate in collective accommodation establishments stood at 84.9%, 1.1 percentage points higher than that registered in the same month of 2016. Higher occupancy rates were recorded in the three-star and two-star hotel categories.<sup>13</sup>

In the third quarter of 2017, there were 99 cruise liner calls, seven less than a year earlier. Nonetheless, foreign passengers increased to 206,541, from 202,234 in the same period of 2016.

Preliminary Customs data show that the merchandise trade deficit stood at €298.1 million in September, a widening of €93.5 million on the same month of 2016 (see Chart 2). This arose as exports contracted whilst imports expanded. The former dropped by €78.7 million, whereas imports rose by €14.8 million. These movements in imports and exports were mainly driven by trade in fuels.



<sup>13</sup> The "other" establishments category comprises guesthouses, hostels and tourist villages.

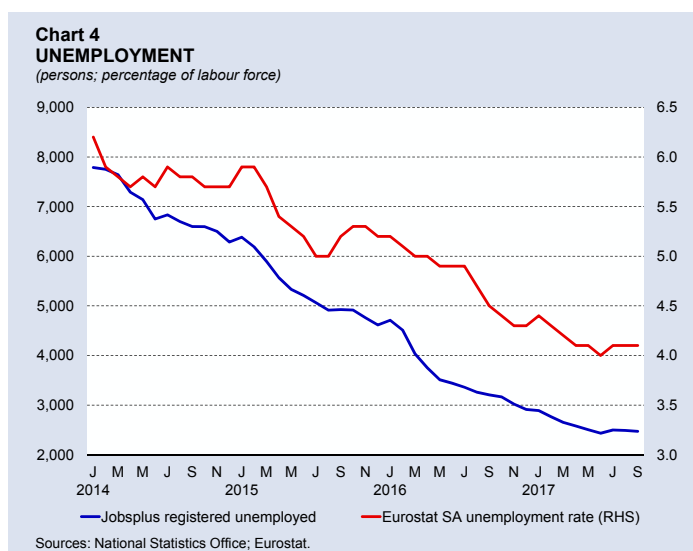
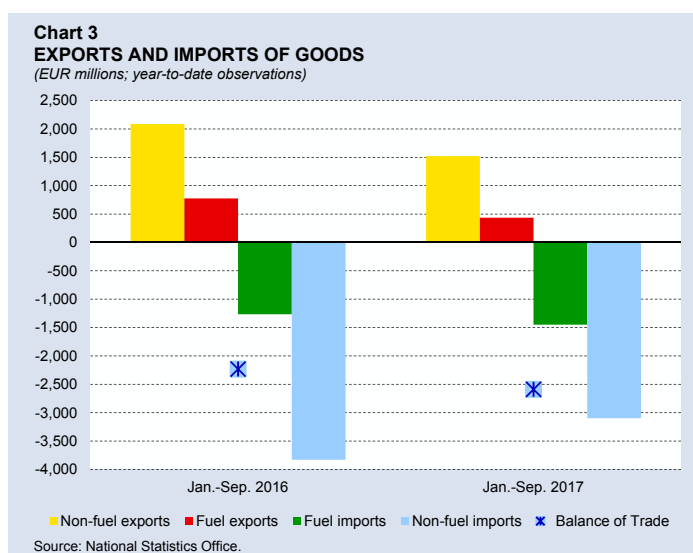
Excluding fuels, the merchandise trade deficit would have narrowed by €10.1 million on September of 2016.

During the first nine months of 2017 exports declined at a faster pace than imports. As a result, the visible trade gap widened by €356.3 million when compared with the same period of 2016, standing at €2,588.5 million (see Chart 3).

### Labour market

Jobsplus data show that in September, the number of persons on the unemployment register fell on the same month a year earlier. The registered unemployed decreased to 2,472, from 3,207 a year earlier. They also fell marginally from 2,489 in August (see Chart 4).

Meanwhile, Eurostat's estimate of the seasonally-adjusted unemployment rate remains at historical lows, standing at 4.1% in September.



### BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in April 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.2% on a year earlier, reaching 187,977 (see Chart 5). This followed a 5.3% increase in March.

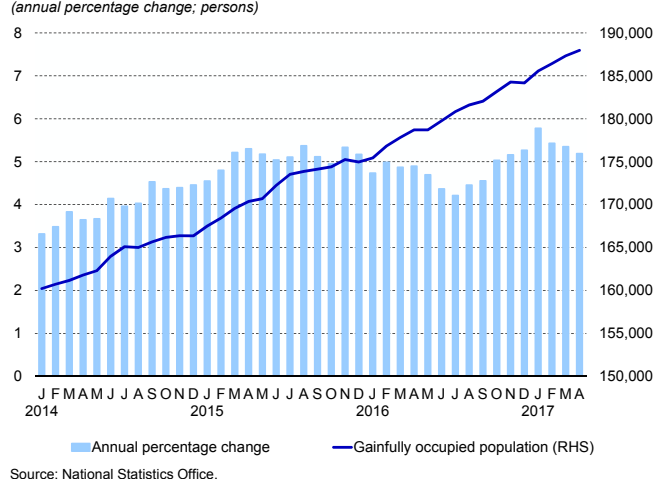
Growth in employment in April mirrored developments observed in recent months, as it continued to be mainly driven by the private sector, although public sector employment growth also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 8,430, or 6.3%, 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 7,973, or 7.9% 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 2,622

**Chart 5**  
**GAINFULLY OCCUPIED POPULATION BASED ON JOBSPLUS RECORDS**  
(annual percentage change, persons)



Source: National Statistics Office.

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

Persons; annual percentage changes

|  | 2016           | 2017           | Annual change     |            |
|--|----------------|----------------|-------------------|------------|
|  | April          | April          | Number of persons | %          |
| <b>Labour supply</b>   | <b>182,457</b> | <b>190,554</b> | <b>8,097</b>      | <b>4.4</b> |
| Gainfully occupied <sup>(1)</sup>                                      | 178,706        | 187,977        | 9,271             | 5.2        |
| Registered unemployed  | 3,751          | 2,577          | -1,174            | -31.3      |
| <b>Unemployment rate (%)</b>   | <b>2.1</b>     | <b>1.4</b>     |                   |            |
| <b>Private sector</b>  | <b>134,325</b> | <b>142,755</b> | <b>8,430</b>      | <b>6.3</b> |
| <b>Direct production<sup>(2)</sup></b>                                 | <b>33,041</b>  | <b>33,498</b>  | <b>457</b>        | <b>1.4</b> |
| Of which:  |                |                |                   |            |
| Manufacturing  | 20,680         | 20,723         | 43                | 0.2        |
| Construction   | 9,705          | 10,114         | 409               | 4.2        |
| <b>Market services</b>   | <b>101,284</b> | <b>109,257</b> | <b>7,973</b>      | <b>7.9</b> |
| Wholesale and retail trade   | 25,347         | 25,902         | 555               | 2.2        |
| Transportation and storage   | 7,858          | 8,189          | 331               | 4.2        |
| Accommodation and food service activities                              | 11,205         | 11,959         | 754               | 6.7        |
| Information and communication  | 6,031          | 6,643          | 612               | 10.1       |
| Financial and insurance activities                                     | 8,056          | 8,518          | 462               | 5.7        |
| Real estate, professional and administrative activities <sup>(3)</sup> | 23,776         | 26,398         | 2,622             | 11.0       |
| Arts, entertainment and recreation                                     | 5,984          | 7,371          | 1,387             | 23.2       |
| Education  | 5,020          | 5,183          | 163               | 3.2        |
| Other  | 8,007          | 9,094          | 1,087             | 13.6       |
| <b>Public sector</b>   | <b>44,381</b>  | <b>45,222</b>  | <b>841</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 year to April 2017, and accounted for a 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 1,387.

Meanwhile, employment in direct production within the private sector grew by 457, or 1.4%, on a year earlier. Growth was recorded across most sectors, with the largest increase registered in the construction sector. Employment also rose within the manufacturing sector, particularly in the “other manufacturing” sub-sector, which includes firms producing medical and dental instruments as well as toys and related products. Employment also rose 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 841, or 1.9%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education. These offset falls in other sectors, such as transportation and storage, and construction.

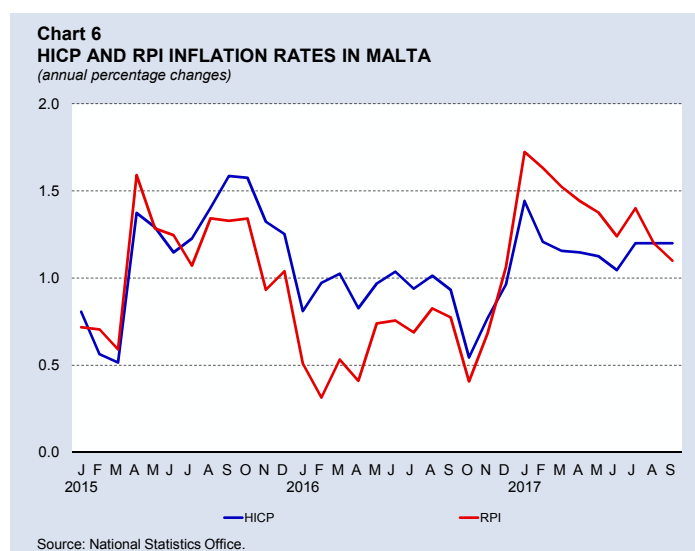
## Prices, costs and competitiveness

Price pressures remained moderate in September, with the annual rate of HICP inflation unchanged at 1.2% (see Chart 6).

Among the main subcomponents, services inflation picked up once more during the month under review. This reflected higher inflation within the communication services component, such as wireless telephone services, and in air transport services. On the other hand, inflation within non-energy industrial goods turned negative, mainly stemming from a faster decline in clothing prices. Meanwhile, inflation in the other main subcomponents of the HICP index, namely food and energy, remained broadly unchanged when compared with August.

Inflation based on the Retail Price Index (RPI) also remained moderated. It dropped to 1.1% in September, from 1.2% in August.<sup>14</sup> This deceleration was driven by developments in the prices of clothing and footwear.

Annual inflation based on the Industrial Producer Price Index (PPI) edged up to 3.7% in



<sup>14</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.

September, from 3.6% in August.<sup>15</sup> The recent pick-up reflected faster growth in the prices for intermediate goods, which include computer, electronic and optical products. Contributions from the other components of the index remained relatively unchanged.

With regard to international price competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) continued to rise, with annual growth of 2.9% in September.<sup>16</sup> In real terms, the HCI was up by 3.9% on the same month a year earlier. These figures suggest a deterioration of Malta's international competitiveness, on account of unfavourable movements in both exchange rates and relative prices.

## Public finance

During September 2017, the Consolidated Fund balance registered a surplus of €25.3 million, an increase of €9.8 million when compared to the corresponding month of 2016 (see Table 4). This

|  | 2016           | 2017           | 2016         | 2017         | Change      |             |
|--|----------------|----------------|--------------|--------------|-------------|-------------|
|  | Jan.-Sep.      | Jan. Sep.      | Sep.         | Sep.         | Amount      | %           |
| <b>Revenue</b>                               | <b>2,454.0</b> | <b>2,785.7</b> | <b>278.3</b> | <b>359.8</b> | <b>81.6</b> | <b>29.3</b> |
| <b>Direct tax</b>                            | <b>1,291.1</b> | <b>1,407.8</b> | <b>174.7</b> | <b>201.7</b> | <b>27.0</b> | <b>15.4</b> |
| Income tax                                   | 902.8          | 986.2          | 131.7        | 153.0        | 21.3        | 16.2        |
| Social security contributions <sup>(1)</sup> | 388.3          | 421.6          | 43.1         | 48.7         | 5.7         | 13.2        |
| <b>Indirect tax</b>                          | <b>929.0</b>   | <b>1,051.2</b> | <b>73.3</b>  | <b>115.6</b> | <b>42.2</b> | <b>57.6</b> |
| Value Added Tax                              | 498.9          | 577.5          | 24.3         | 59.7         | 35.4        | 145.3       |
| Customs and excise duties                    | 199.5          | 226.8          | 28.9         | 30.8         | 1.9         | 6.5         |
| Licences, taxes and fines                    | 230.6          | 247.0          | 20.1         | 25.1         | 5.0         | 24.9        |
| <b>Non-tax<sup>(2)</sup></b>                 | <b>233.8</b>   | <b>326.7</b>   | <b>30.2</b>  | <b>42.6</b>  | <b>12.4</b> | <b>41.1</b> |
| <b>Expenditure</b>                           | <b>2,517.6</b> | <b>2,729.3</b> | <b>262.8</b> | <b>334.5</b> | <b>71.8</b> | <b>27.3</b> |
| <b>Recurrent</b>                             | <b>2,311.9</b> | <b>2,519.3</b> | <b>245.3</b> | <b>311.2</b> | <b>65.9</b> | <b>26.9</b> |
| Personal emoluments                          | 539.9          | 570.3          | 63.8         | 68.6         | 4.8         | 7.5         |
| Operational and maintenance                  | 124.7          | 137.2          | 10.7         | 26.6         | 15.9        | 149.1       |
| Programmes and initiatives <sup>(1)</sup>    | 1,216.0        | 1,371.5        | 128.8        | 161.5        | 32.7        | 25.4        |
| Contributions to entities                    | 261.1          | 277.4          | 21.7         | 36.0         | 14.3        | 66.1        |
| Interest payments                            | 170.2          | 163.0          | 20.4         | 18.5         | -1.9        | -9.1        |
| <b>Capital</b>                               | <b>205.7</b>   | <b>210.0</b>   | <b>17.4</b>  | <b>23.3</b>  | <b>5.8</b>  | <b>33.5</b> |
| <b>Primary balance<sup>(3)</sup></b>         | <b>106.5</b>   | <b>219.4</b>   | <b>35.9</b>  | <b>43.8</b>  | <b>8.0</b>  | <b>-</b>    |
| <b>Consolidated Fund balance</b>             | <b>-63.6</b>   | <b>56.4</b>    | <b>15.5</b>  | <b>25.3</b>  | <b>9.8</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>15</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.

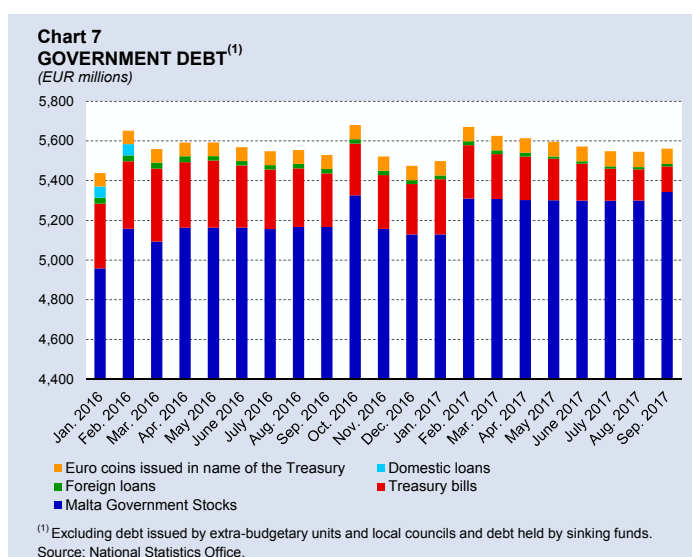
<sup>16</sup> The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international price competitiveness.

occurred as the rise in government revenue was more pronounced than the increase in expenditure. As a result, the primary balance registered a surplus of €43.8 million, an improvement of €8.0 million when compared with the surplus registered a year earlier.

Revenue grew by €81.6 million when compared with the same month of last year, equivalent to a rise of 29.3%. Indirect taxes experienced the largest increase, driven by higher value added tax receipts. Direct taxes also rose, buoyed by a €21.3 million increase in income tax. Moreover, non-tax revenue also grew, reflecting higher revenue generated from reimbursements and EU grants.

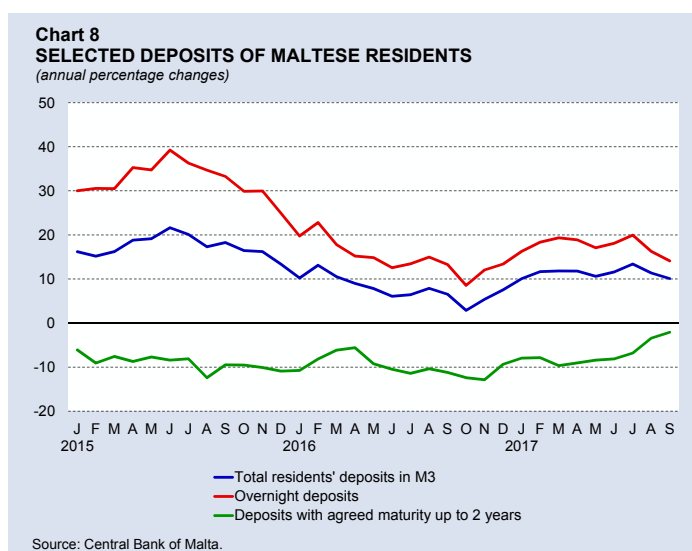
Meanwhile, government expenditure rose by €71.8 million, or 27.3% in the period under review. This was mainly due to increases across most categories of recurrent expenditure, although the rise in programmes and initiatives was the most pronounced, accounting for nearly half the increase. This was partly due to higher spending on health and transfers to the Contingency Reserve. Capital expenditure also contributed to the rise in expenditure. On the other hand, interest payments declined by €1.9 million.

In September, the total stock of central government debt increased by €15.5 million when compared with a month earlier to reach € 5,560.9 million (see Chart 7). This was on the back of issues of Malta Government stock, namely the introduction of the 62+ Government Saving Bond, which offset a reduction in Treasury bills outstanding.



## Deposits, credit and financial markets

The amount of residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) maintained its upward momentum during September, with the annual rate of growth standing at 10.1% (see Chart 8). Although lower than the 11.4% observed in August, growth remains relatively strong



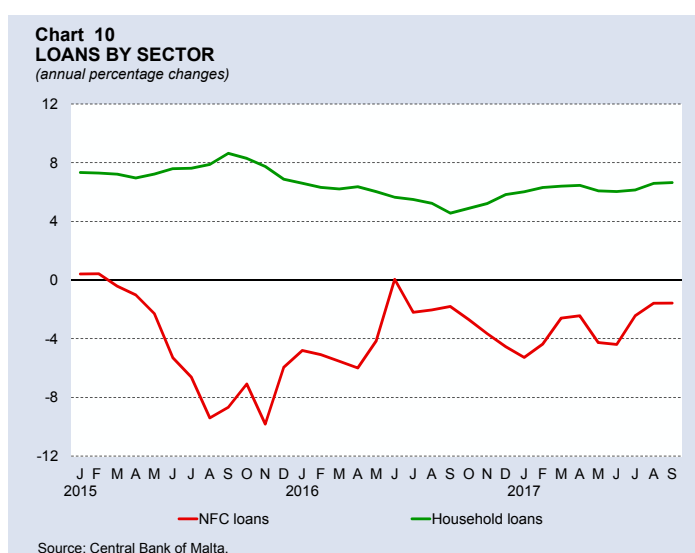
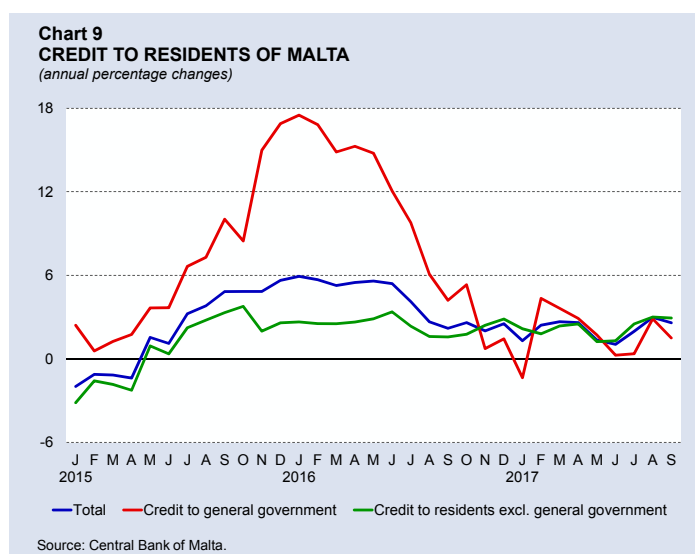
from a historical perspective. This indicates an abundance of liquidity in the context of robust economic growth as well as a continued preference for holding liquid assets in an environment of low interest rates.

Overnight deposits grew by an annual 14.1%, following a 16.3% increase in August. As a result, this component remained the main driver behind growth in total deposits. In contrast, time deposits with agreed maturities of up to two years continued to contract.

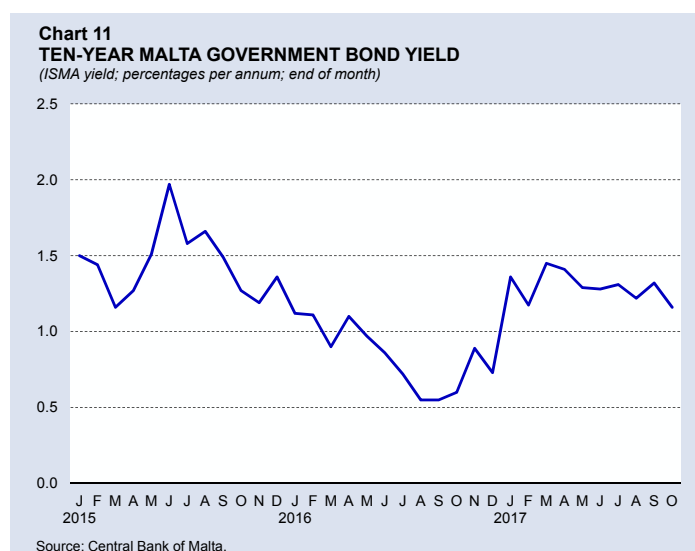
On the asset side of banks' balance sheets, annual growth in credit to Maltese residents stood at 2.6% in September, following a 3.0% increase a month earlier (see Chart 9). This deceleration was driven by credit to general government, in particular by banks' holdings of government debt. On the other hand, growth in credit to residents outside the general government sector was largely unchanged when compared to August.

Indeed, loans to residents outside general government rose by an annual rate of 3.5%, supported by growth in lending to households (see Chart 10). Growth in this component remained at 6.6% in September, with continued growth in mortgage loans offsetting declines in consumer credit and other loans. Loans to non-financial corporations (NFC), the other major component of loans to residents, continued to contract at a pace of -1.6%. These developments illustrate a continued shift in banks' loan portfolios towards households and away from NFCs. Declining credit to NFCs in part also highlights firms' use of alternative funding sources, and a structural shift towards more labour-intensive industries.

In September, bank deposit rates edged down marginally when compared with August, with the composite interest rate paid by MFIs on residents' euro-denominated deposits standing at 0.40%. This is 12 basis points lower than the rate registered in the same period last year.



Meanwhile, the comparable rate charged on outstanding loans rose by 1 basis point to 3.63%, though this is still 6 basis points lower than in September 2016. As a result, the spread between the composite deposit and loan rates applied to residents stood at 322 basis points, up from 316 basis points a year earlier. This continues to suggest a larger pass-through from the European Central Bank's accommodative policy to deposit rates than to loan rates.



In the capital market, the secondary yield on ten-year Maltese government bonds ended October at 1.16%, down from 1.32% at end-September (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index shed 0.9%. The MSE Total Return Index, which accounts for changes in both equity prices and dividends, also fell by 0.9%.

## Annex 1

| MACROECONOMIC INDICATORS FOR MALTA                               |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
|--|-------|------|-------|-------|-------|------|-------|------|-------|-------|-------|-------|------|------|------|------|------|------|------|------|------|------|------|
| <i>(annual percentage changes; non-seasonally adjusted data)</i> |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
|  | 2015  | 2016 | 2016  | 2016  | 2016  | 2017 | 2017  | 2017 | 2016  | 2016  | 2016  | 2016  | 2016 | 2016 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 |      |
|  |       |      | Q2    | Q3    | Q4    | Q1   | Q2    | Q3   | Aug.  | Sep.  | Oct.  | Nov.  | Dec. | Jan. | Feb. | Mar. | Apr. | May  | June | July | Aug. | Sep. | Oct. |
| <b>Prices and costs</b>  |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| HICP inflation   | 1.2   | 0.9  | 0.9   | 1.0   | 0.8   | 1.3  | 1.1   | 1.2  | 1.0   | 0.9   | 0.5   | 0.8   | 1.0  | 1.4  | 1.2  | 1.2  | 1.1  | 1.1  | 1.0  | 1.2  | 1.2  | 1.2  | -    |
| RPI inflation  | 1.1   | 0.6  | 0.6   | 0.8   | 0.7   | 1.6  | 1.4   | 1.2  | 0.8   | 0.8   | 0.4   | 0.7   | 1.1  | 1.7  | 1.6  | 1.5  | 1.4  | 1.4  | 1.2  | 1.4  | 1.2  | 1.1  | -    |
| Industrial producer price inflation                              | -2.2  | -0.6 | -1.5  | 0.1   | 0.0   | -1.0 | -1.2  | 0.0  | 0.2   | 0.0   | -0.1  | -1.0  | -1.9 | -1.7 | -1.0 | -0.9 | -1.8 | 0.5  | 1.2  | 3.3  | 3.6  | 3.7  | -    |
| HCI (nominal)  | -5.2  | 2.3  | 3.5   | 1.8   | 1.7   | -0.1 | 0.7   | 2.9  | 1.7   | 0.8   | 1.3   | 2.9   | 1.0  | 0.4  | -0.8 | 0.2  | -0.4 | 0.8  | 1.6  | 2.5  | 3.2  | 2.9  | -    |
| HCI (real)   | -9.2  | 3.2  | 5.6   | 2.5   | 1.9   | -1.2 | -0.1  | 3.9  | 2.4   | 0.6   | 1.0   | 4.1   | 0.7  | -0.3 | -2.6 | -0.7 | -2.1 | 0.1  | 1.6  | 3.5  | 4.3  | 3.9  | -    |
| Unit labour costs, whole economy <sup>(1)</sup>                  | 0.2   | 0.9  | 0.5   | 1.2   | 0.9   | 0.8  | 0.2   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Compensation per employee <sup>(1)</sup>                         | 3.2   | 2.7  | 3.1   | 3.5   | 2.7   | 1.7  | 1.4   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Labour productivity (per person) <sup>(1)</sup>                  | 3.0   | 1.8  | 2.7   | 2.2   | 1.8   | 0.9  | 1.1   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Property Price Index (NSO)                                       | 5.8   | 5.6  | 7.0   | 4.7   | 5.5   | 5.0  | 5.5   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Economic activity</b>   |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| Nominal GDP  | 9.7   | 7.2  | 6.4   | 6.2   | 7.5   | 8.0  | 8.5   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Real GDP   | 7.1   | 5.5  | 4.9   | 4.6   | 5.9   | 6.2  | 6.4   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Real private consumption   | 5.9   | 3.0  | 3.3   | -0.2  | 2.3   | 3.7  | 5.0   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Real government consumption                                      | 3.7   | -1.8 | 3.4   | -4.8  | -11.2 | -3.7 | -9.9  | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Real gross fixed capital formation                               | 48.4  | -0.4 | 0.7   | -17.5 | 2.1   | 3.8  | -27.4 | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Real exports of goods and services                               | 4.2   | 3.5  | -0.5  | 2.0   | 8.1   | 0.2  | 5.0   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Real imports of goods and services                               | 7.6   | 0.8  | -0.5  | -5.8  | 3.3   | -1.6 | -6.5  | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Labour market developments</b>                                |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| LFS unemployment rate (% of labour force)                        | 5.4   | 4.7  | 4.8   | 4.8   | 4.2   | 4.2  | 4.1   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| LFS employment   | 2.3   | 3.0  | 4.1   | 2.3   | 3.2   | 2.7  | 2.5   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Jobsplus gainfully occupied                                      | 5.1   | 4.8  | 4.7   | 4.4   | 5.2   | 5.5  | -     | -    | 4.5   | 4.6   | 5.0   | 5.2   | 5.3  | 5.8  | 5.4  | 5.3  | 5.2  | -    | -    | -    | -    | -    | -    |
| <b>Balance of payments</b>                                       |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| Current account (as a % of GDP) <sup>(2)</sup>                   | 4.6   | 6.6  | 3.2   | 5.8   | 6.6   | 7.2  | 10.9  | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| <b>Credit and financial indicators</b>                           |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| Maltese residents' deposits and loans                            |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| Overnight deposits   | 24.9  | 13.4 | 12.6  | 13.3  | 13.4  | 19.3 | 18.1  | 14.1 | 15.0  | 13.3  | 8.5   | 12.1  | 13.4 | 16.3 | 18.4 | 19.3 | 18.9 | 17.1 | 18.1 | 20.0 | 16.3 | 14.1 | -    |
| Deposits with agreed maturity up to 2 years                      | -10.9 | -9.3 | -10.5 | -11.2 | -9.3  | -9.7 | -8.1  | -2.1 | -10.4 | -11.2 | -12.4 | -12.9 | -9.3 | -7.9 | -7.9 | -9.7 | -9.0 | -8.4 | -8.1 | -6.8 | -3.4 | -2.1 | -    |
| Total residents' deposits in M3                                  | 13.4  | 7.5  | 6.1   | 6.5   | 7.5   | 11.8 | 11.6  | 10.1 | 7.9   | 6.5   | 2.9   | 5.4   | 7.5  | 10.1 | 11.7 | 11.8 | 11.8 | 10.6 | 11.6 | 13.4 | 11.4 | 10.1 | -    |
| Credit to general government                                     | 16.9  | 1.4  | 12.1  | 4.2   | 1.4   | 3.6  | 0.3   | 1.5  | 6.1   | 4.2   | 5.3   | 0.7   | 1.4  | -1.4 | 4.3  | 3.6  | 2.9  | 1.7  | 0.3  | 0.4  | 2.9  | 1.5  | -    |
| Credit to residents (excl. general government)                   | 2.6   | 2.9  | 3.4   | 1.6   | 2.9   | 2.4  | 1.3   | 2.9  | 1.6   | 1.6   | 1.8   | 2.4   | 2.9  | 2.2  | 1.8  | 2.4  | 2.5  | 1.2  | 1.3  | 2.5  | 3.0  | 2.9  | -    |
| Total credit   | 5.6   | 2.5  | 5.4   | 2.2   | 2.5   | 2.7  | 1.0   | 2.6  | 2.7   | 2.2   | 2.6   | 2.0   | 2.5  | 1.3  | 2.4  | 2.7  | 2.6  | 1.3  | 1.0  | 2.0  | 3.0  | 2.6  | -    |
| 10-year interest rate (%) <sup>(3)</sup>                         | 1.4   | 0.7  | 0.9   | 0.6   | 0.7   | 1.5  | 1.3   | 1.3  | 0.6   | 0.6   | 0.6   | 0.9   | 0.7  | 1.4  | 1.2  | 1.5  | 1.4  | 1.3  | 1.3  | 1.3  | 1.2  | 1.3  | 1.2  |
| Stock prices: Malta Stock Exchange Index <sup>(4)</sup>          | 33.0  | 4.5  | 0.0   | -2.1  | 3.7   | 1.9  | -0.4  | -0.1 | -0.7  | 0.6   | 1.7   | -1.6  | 3.6  | 1.8  | 0.4  | -0.4 | -0.9 | -0.8 | 1.3  | 0.3  | -1.5 | 1.1  | -0.9 |
| <b>General government finances (% of GDP)</b>                    |       |      |       |       |       |      |       |      |       |       |       |       |      |      |      |      |      |      |      |      |      |      |      |
| Surplus (+) / deficit (-) <sup>(2)</sup>                         | -1.1  | 1.1  | 0.5   | 0.9   | 1.1   | 2.3  | 2.0   | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Gross debt <sup>(5)</sup>  | 60.3  | 57.6 | 60.6  | 59.3  | 57.6  | 58.1 | 56.8  | -    | -     | -     | -     | -     | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |

<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.