BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE
1/2018

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ECONOMIC UPDATE 1/2018

Summary[1]

In December, the Bank's Business Conditions Index (BCI) was unchanged from its level a month earlier, with activity significantly above normal. Economic sentiment rose during the month to the highest level ever recorded since the survey started to be conducted for Malta. The increase in sentiment reflected improved confidence in services and construction, and among consumers, which offset weaker confidence within the industry and retail sectors. In November, retail sales and tourism activity grew at a faster pace in annual terms. Industrial production also expanded, though moderately. 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 at the lowest level on record. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) stabilised at 1.5% in November. Maltese residents' deposits rose by 12.4% when compared with a year earlier, while credit to residents increased by 2.5%. As regards fiscal developments, the cash-based Consolidated Fund registered a surplus in the first eleven months of 2017.

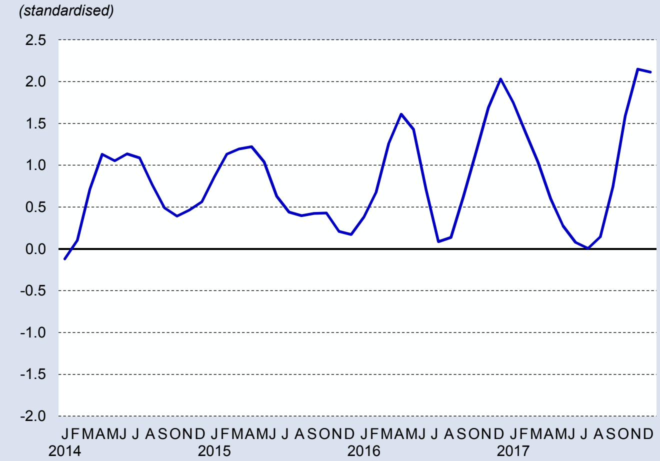
Central Bank's Business Conditions Index (BCI)

In December, the Central Bank's BCI was unchanged over the previous month (see Chart 1). It ended the year at 2.1, unchanged from its revised value a month earlier and slightly above its value in the same month of 2016. The BCI, which showed significantly above normal conditions, was affected by continued strength in economic sentiment and seat capacity.

Business and consumer confidence indicators

In December 2017, the Economic Sentiment Indicator (ESI) rose to 128, from 123 in the preceding month, and thus stood above its long-term average of 101 (see Table 1).[2,3] Moreover this was the highest level ever recorded since the survey started to be conducted for Malta. Higher sentiment was registered within the services

Chart 1
BUSINESS CONDITIONS INDEX
(standardised)



Source: Central Bank of Malta.

1 The cut-off date for information in this note is 12 January 2018.

2 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%.

3 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	2017											
				Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Economic Sentiment Indicator	**111**	**109**	**117**	**111**	**115**	**114**	**115**	**113**	**115**	**113**	**119**	**118**	**119**	**123**	**128**
Services confidence indicator	**26**	**26**	**31**	**24**	**33**	**25**	**34**	**25**	**21**	**30**	**34**	**35**	**34**	**31**	**45**
Business situation development over the past 3 months	25	22	27	28	22	25	30	23	14	25	31	29	28	26	43
Evolution of the demand over the past 3 months	28	29	33	28	40	32	40	30	29	31	33	32	29	30	46
Expectation of the demand over the next 3 months	25	27	32	16	37	20	32	22	21	33	38	43	44	37	45
Construction confidence indicator	**11**	**-8**	**13**	**-8**	**-13**	**9**	**6**	**13**	**15**	**10**	**17**	**24**	**26**	**21**	**33**
Evolution of your current overall order books	1	-22	2	-24	-34	-1	0	2	6	-9	2	15	20	15	28
Employment expectations over the next 3 months	22	6	24	8	10	18	12	24	25	29	32	33	33	27	39
Consumer confidence indicator	**0**	**2**	**8**	**0**	**4**	**3**	**3**	**3**	**9**	**3**	**12**	**8**	**11**	**17**	**23**
Financial situation over the next 12 months	4	5	9	3	7	3	4	5	12	7	11	10	11	12	18
General economic situation over the next 12 months	11	13	19	13	15	17	15	12	25	19	21	21	21	26	28
Unemployment expectations over the next 12 months	-10	-13	-18	-12	-17	-12	-17	-13	-17	-14	-19	-16	-20	-27	-32
Savings over next 12 months	-25	-24	-14	-28	-23	-19	-24	-18	-17	-26	-5	-13	-7	0	11
Retail trade confidence indicator	**16**	**7**	**9**	**1**	**16**	**8**	**-2**	**-2**	**-5**	**0**	**17**	**8**	**16**	**27**	**19**
Business activity, past 3 months	33	17	15	-3	17	18	-8	16	-19	5	27	23	35	43	22
Stocks of finished goods	9	9	5	12	-1	12	9	2	5	6	3	7	5	-2	7
Business activity, next 3 months	25	14	16	17	29	17	11	-20	10	1	26	9	19	36	41
Industrial confidence indicator	**0**	**0**	**8**	**7**	**7**	**9**	**5**	**8**	**12**	**2**	**6**	**7**	**6**	**14**	**13**
Assessment of order-book levels	-23	-18	-5	-9	-7	-5	-9	-3	13	-8	-14	-6	-11	-1	-6
Assessment of stocks of finished products	-1	2	-2	4	-1	1	1	1	6	-9	-7	-6	-2	-4	-9
Production expectations for the months ahead	24	19	27	33	26	32	26	27	28	6	25	19	26	40	36

Source: European Commission.

and construction sectors as well as among consumers. On the other hand, business confidence eased in industry and in the retail sector.

Confidence in the services sector increased strongly, with the indicator reaching 45 in December from 31 in the preceding month, rising further above its long-term average.[4] The recent increase in sentiment was driven by all subcomponents, with firms' assessment of both the business situation and the demand over the preceding three months being strong drivers. Additional survey data indicate that employment expectations for the three months ahead were more optimistic than in November. In contrast, a smaller share of respondents expected prices to rise in the three months ahead, compared with the preceding month.

Similarly, confidence in the construction sector increased in December, rising to 33 from 21 in November.[5] This is well above its long-term average of -19. The recent rise in sentiment reflects a more upbeat assessment of order books and stronger employment expectations. Other survey data indicate that in comparison with November, a larger share of respondents reported an increase in building activity over the preceding three months and expected price increases.

Consumer confidence also rose, reaching 23 in December, from 17 a month earlier, thus rising further above the long-term average of -18.[6] All sub-components contributed to this increase in sentiment, with consumers' savings and financial situation expectations for the 12 months ahead being the main drivers.[7] Additional information however, show that, a larger share of respondents expected to make fewer major purchases in the following 12 months.

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[4] 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.

[5] 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.

[6] 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.

[7] A fall in unemployment expectations has a positive effect on the overall indicator.

In contrast to the afore-mentioned sectors, sentiment in the retail sector eased to 19 in December from 27 in November.[8] Despite this decline, sentiment in this sector remained well above its long-term average of 2. The recent deterioration in sentiment was driven by firms' assessment of business activity over the preceding three months and their assessment of stock levels.[9] On the other hand, a larger share of 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 employment to rise, while on balance firms expected prices to fall in the three months ahead.

Although the industrial confidence indicator also declined slightly in December, at 13 it was still well above the indicator's long-term average of -4.[10] December's fall in sentiment was driven by firms' assessment of order books and their production expectations. At the same time, a larger share of firms registered below normal stocks of finished goods.[11] Supplementary survey data suggest that, on balance, a smaller share of respondents expected their employment to increase in the subsequent months. Furthermore, a larger share of firms expected to lower 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 0.5% in November, following a fall of 1.2% in October (see Table 2).[12] In November, production increased among firms that produce pharmaceutical products and beverages, as well as within the printing sector. Higher production was also recorded in the "other manufacturing" sub-sector, which includes firms that produce medical and dental instruments, toys and related products. Output also rose within the energy

Table 2
ACTIVITY INDICATORS
Annual percentage changes

	2015	2016	2017							
			Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.
Industrial production	**6.1**	**-3.4**	**4.1**	**5.7**	**2.4**	**0.0**	**7.5**	**6.5**	**-1.2**	**0.5**
Retail trade	**7.1**	**2.1**	**6.9**	**5.2**	**3.9**	**2.9**	**7.0**	**10.0**	**6.7**	**7.0**
Number of tourist arrivals	**5.5**	**10.2**	**21.0**	**13.0**	**17.2**	**11.4**	**12.4**	**14.0**	**11.6**	**15.8**
Number of nights stayed	**4.7**	**5.7**	**15.0**	**11.9**	**9.6**	**8.9**	**8.5**	**13.1**	**6.2**	**7.1**
Private accommodation	14.9	13.5	21.4	31.2	12.5	12.5	17.8	23.8	11.3	-2.0
Collective accommodation	-0.7	1.0	11.4	1.5	7.7	5.9	-0.6	4.7	3.0	12.3
Tourist expenditure	**7.2**	**4.3**	**24.9**	**9.5**	**14.3**	**11.4**	**10.4**	**16.7**	**10.2**	**18.3**
Package expenditure	4.8	-6.5	11.8	-6.4	3.4	-5.6	-5.8	10.4	15.0	23.9
Non-package expenditure	13.1	11.3	42.2	25.5	18.8	22.5	18.3	21.2	0.4	10.9
Other	5.2	8.2	21.7	9.9	19.1	15.4	15.7	17.8	14.8	20.5

Sources: National Statistics Office; Eurostat.

[8] 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.
[9] A rise in the share of respondents registering above normal stocks of finished goods has a negative effect on the overall industrial confidence indicator.
[10] 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.
[11] Below normal stocks of finished goods have a positive effect on the overall indicator. Thus, a rise in the share of firms registering below normal stocks of finished goods has a positive effect on the overall industrial confidence indicator.
[12] 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.

sector and among manufacturers of rubber and plastics. Developments in these sectors offset production among manufacturers of computer, electronic and optical products as well as within the food production sector.

In November, growth in retail trade, which is a short-term indicator of final domestic demand, accelerated. Calendar day-adjusted data show that the volume of retail trade increased at an annual rate of 7.0%, following a 6.7% rise in October.

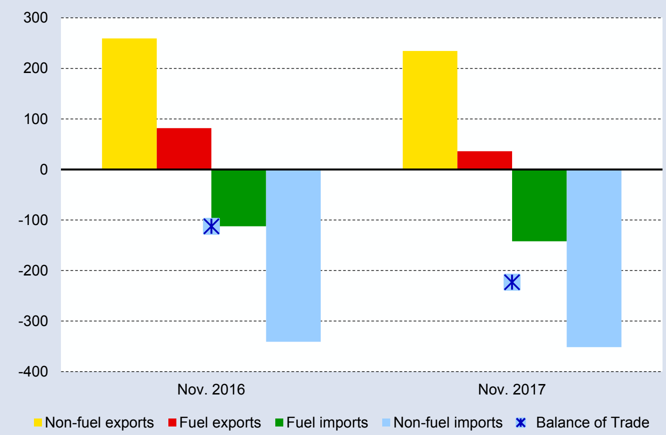
Meanwhile, the number of inbound tourists grew by 15.8% on a year earlier, following an 11.6% increase in October. Nights spent in Malta by tourists increased by 7.1%, with the increase emanating solely from collective accommodation, as nights spent in private accommodation declined on a year earlier. Tourist spending in Malta rose by 18.3% in annual terms. This reflected higher spending on all components of tourism spending.

In the third quarter of 2017, there were 99 cruise liner calls, 7 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 €223.0 million in November, a widening of €110.5 million on the same month of 2016 (see Chart 2). This arose as exports contracted whilst imports increased. The former dropped by €70.3 million, whereas imports rose by €40.2 million. These movements in imports and exports were mainly driven by trade in fuels. Excluding fuels, the merchandise trade deficit would have widened on November 2016, by €35.2 million, partly reflecting a rise in aircraft registration in Malta.

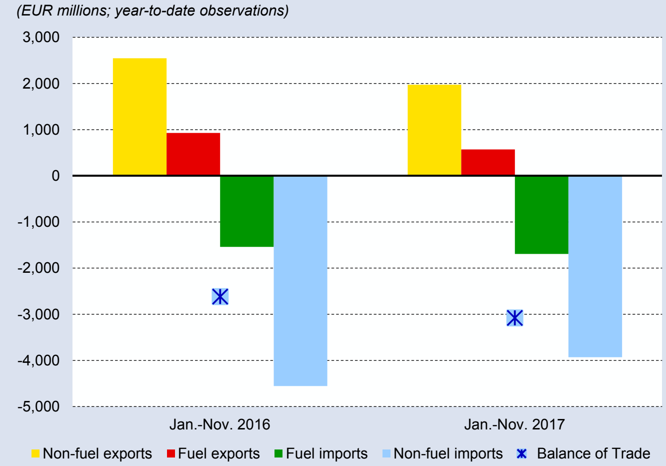
During the first eleven months of 2017 exports declined at a faster pace than imports. As a result, the visible trade gap widened by €460.0 million when compared with the same period of 2016, standing at €3,078.1 million (see Chart 3).

Chart 2
EXPORTS AND IMPORTS OF GOODS
(EUR millions; monthly observations)



Source: National Statistics Office.

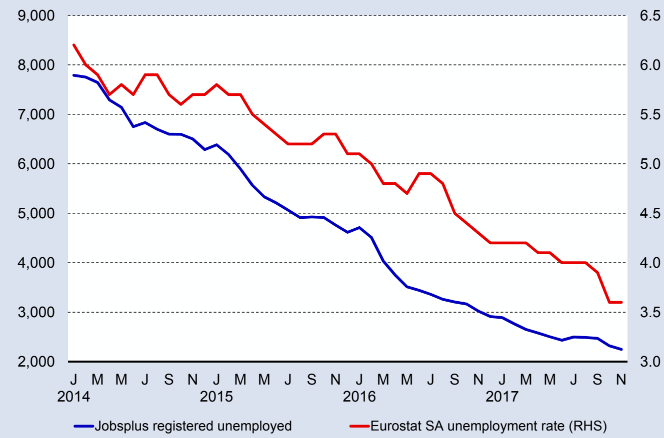
Chart 3
EXPORTS AND IMPORTS OF GOODS
(EUR millions; year-to-date observations)



Source: National Statistics Office.

Labour market

Chart 4
UNEMPLOYMENT
(persons; percentage of labour force)



Sources: National Statistics Office; Eurostat.

Jobsplus data show that in November, the number of persons on the unemployment register fell further on the same month a year earlier. The registered unemployed decreased to 2,246, from 3,021 a year earlier, and from 2,319 in October (see Chart 4).

Meanwhile, Eurostat's estimate of the seasonally-adjusted unemployment rate was unchanged from October at 3.6%. This compares favourably with 4.3% in the corresponding month of 2016, and is the lowest rate ever recorded for Malta.

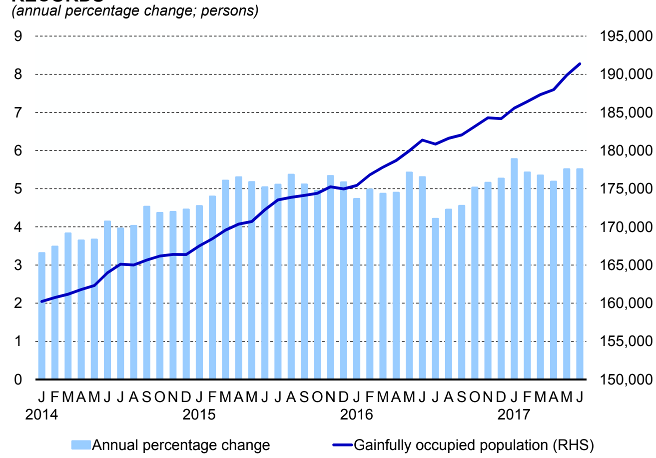
BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in June 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.5% on a year earlier, reaching 191,378 (see Chart 5). The rate of growth was unchanged from the preceding month and up from 5.3% a year earlier.

As in recent months, growth in employment 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 8,634, 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 8,350, or 8.1% in annual terms. This increase was distributed among all major sectors within this category.

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 June	2017 June	Annual change: Number of persons	Annual change: %
Labour supply	**184,818**	**193,810**	**8,992**	**4.9**
Gainfully occupied[1]	181,377	191,378	10,001	5.5
Registered unemployed	3,441	2,432	-1,009	-29.3
Unemployment rate (%)	**1.9**	**1.3**		
Private sector	**137,023**	**145,657**	**8,634**	**6.3**
Direct production[2]	**33,310**	**33,594**	**284**	**0.9**
Of which:				
Manufacturing	20,844	20,736	-108	-0.5
Construction	9,828	10,215	387	3.9
Market services	**103,713**	**112,063**	**8,350**	**8.1**
Wholesale and retail trade	25,525	25,886	361	1.4
Transportation and storage	7,989	8,290	301	3.8
Accommodation and food service activities	11,567	12,398	831	7.2
Information and communication	6,181	6,849	668	10.8
Financial and insurance activities	8,176	8,802	626	7.7
Real estate, professional and administrative activities[3]	24,594	27,614	3,020	12.3
Arts, entertainment and recreation	6,326	7,564	1,238	19.6
Education	5,099	5,294	195	3.8
Other	8,256	9,366	1,110	13.4
Public sector	**44,354**	**45,721**	**1,367**	**3.1**

[1] This category measures full-time employment.
[2] This includes employment in agriculture, fishing, mining and quarrying, manufacturing, electricity, gas and water supply, and construction.
[3] This includes employment in real estate activities, professional, scientific and technical activities, and administrative and support service activities.
Source: National Statistics Office.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 3,020 in the year to June 2017, and accounted for 36% 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 1,238.

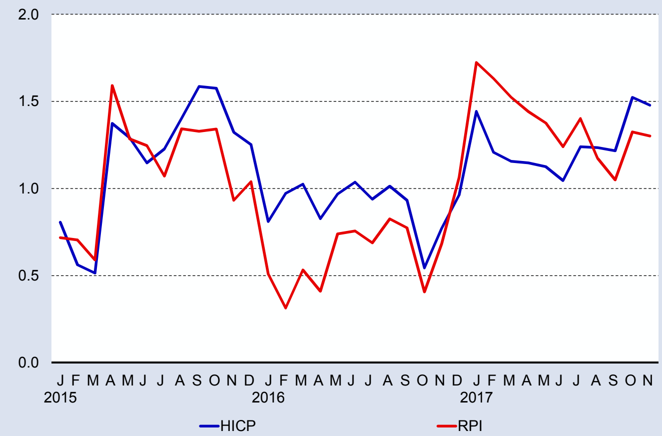
Meanwhile, employment in direct production within the private sector grew by 284, or 0.9%, on a year earlier. Growth was recorded across most sectors, with the largest increase registered in the construction sector. Employment also rose in the energy, agriculture and water supply sectors. On the other hand, employment declined within the manufacturing and in the mining and quarrying sectors.

Public sector jobs rose by 1,367, or 3.1%, 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 human heath activities and construction. Nevertheless, the share of public sector employment declined further, from 24.5% to 23.9%.

Prices, costs and competitiveness

Consumer price pressures remained moderate in November, with the annual rate of HICP inflation standing unchanged at 1.5% when compared with the previous month (see Chart 6).

Chart 6
HICP AND RPI INFLATION RATES IN MALTA
(annual percentage changes)



Source: National Statistics Office.

Food inflation eased on account of developments in the prices of vegetables, as well as those of beverages and tobacco. These movements were counterbalanced by slightly higher price pressures in the services and non-energy industrial goods components, owing to developments in the prices of clothing and of recreational services. Meanwhile, energy inflation was unchanged when compared with October.

In line with the HICP, inflation based on the Retail Price Index (RPI) was unchanged during November, at 1.3%.[13]

Cost inflation, as measured by the Industrial Producer Price Index (PPI), remained robust during November, standing at 4.1%.[14] The pick-up in annual PPI continued to reflect developments in the intermediate goods component, which includes computer, electronic and optical products. This was partly offset by a slight drop in the contribution from consumer goods. Meanwhile, contributions from the other components of the index remained relatively unchanged from October.

With regard to international price competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) accelerated during the final two months of 2017, reaching an annual growth of 4.0% in December.[15] In real terms, growth in the HCI accelerated to 6.0% in annual terms. These figures suggest a continued deterioration of Malta's international competitiveness, with unfavourable movements in the euro exchange rate compounded by developments in relative price pressures.

[13] 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.
[14] The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.
[15] 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

During November 2017, the Consolidated Fund balance registered a surplus of €80.3 million, an increase of €35.7 million when compared with the surplus registered in the corresponding period of 2016 (see Table 4). This was due to an increase in revenue, which offset higher primary expenditure. As a result, the primary surplus widened by €32.5 million, to €95.8 million.

In the month under review, total revenue rose by €44.9 million, or 12.5%, mainly on the back of higher receipts from income taxes. Non-tax revenue grew by €3.5 million, as higher revenue from the Individual Investor Programme offset a decrease in grants. Meanwhile, indirect tax revenue declined by €15.4 million, due to lower inflows from VAT and the timing of payments of gaming taxes.

Total government expenditure increased by €9.2 million, or 2.9% when compared with a year earlier, largely on account of higher recurrent expenditure. The increase in the latter was mainly due to higher personal emoluments, which offset lower spending on operations and maintenance as well as interest payments. At the same time, capital expenditure rose by €3.5 million.

Table 4
CONSOLIDATED FUND BALANCE
EUR millions

	2016 Jan.-Nov.	2017 Jan.-Nov.	2016 Nov.	2017 Nov.	Change Amount	Change %
Revenue	**3,072.6**	**3,474.7**	**358.6**	**403.5**	**44.9**	**12.5**
Direct tax	**1,550.0**	**1,746.4**	**120.5**	**177.4**	**56.9**	**47.2**
Income tax	1,076.2	1,226.1	75.6	125.0	49.4	65.3
Social security contributions(1)	473.8	520.3	44.9	52.4	7.5	16.7
Indirect tax	**1,206.4**	**1,339.2**	**197.9**	**182.4**	**-15.4**	**-7.8**
Value Added Tax	669.2	760.6	145.6	136.4	-9.2	-6.3
Customs and excise duties	249.5	279.1	24.9	24.7	-0.2	-0.7
Licences, taxes and fines	287.7	299.4	27.4	21.3	-6.1	-22.2
Non-tax(2)	**316.3**	**389.1**	**40.3**	**43.8**	**3.5**	**8.7**
Expenditure	**3,132.8**	**3,390.1**	**314.0**	**323.2**	**9.2**	**2.9**
Recurrent	**2,873.7**	**3,120.9**	**285.2**	**291.0**	**5.8**	**2.0**
Personal emoluments	656.5	695.7	58.5	67.2	8.7	14.9
Operational and maintenance	155.5	161.9	9.5	7.4	-2.1	-21.7
Programmes and initiatives(1)	1,528.6	1,714.0	154.1	156.5	2.4	1.6
Contributions to entities	327.3	352.0	44.5	44.4	-0.1	-0.2
Interest payments	205.7	197.1	18.7	15.5	-3.2	-17.2
Capital	**259.2**	**269.2**	**28.7**	**32.2**	**3.5**	**12.0**
Primary balance(3)	**145.5**	**281.8**	**63.4**	**95.8**	**32.5**	**-**
Consolidated Fund balance	**-60.2**	**84.6**	**44.6**	**80.3**	**35.7**	**-**

(1) Government contributions to the social security account in terms of the Social Security Act 1987 are netted out from both revenue and expenditure.

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

(3) Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

In November, the stock of central government debt, excluding debt issued by extra-budgetary units and debt held by sinking funds, declined by €207.0 million when compared with a month earlier to reach €5,398.9 million (see Chart 7). This was due to the redemption of Malta Government Stocks in this period, which offset higher issues of Treasury Bills.

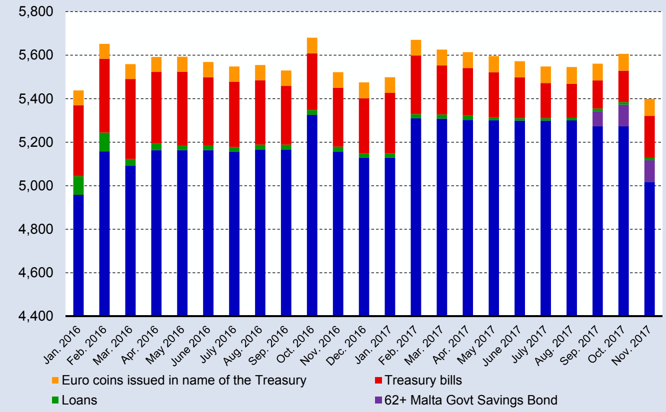
Deposits, credit and financial markets

The amount of residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) continued to grow in November, with the annual rate of growth standing at 12.4% (see Chart 8). Though slower than the rate of 15.7% registered in October, growth remains strong from a historical perspective. This indicates an abundance of liquidity and a continued preference for holding liquid assets in an environment of low interest rates.

Overnight deposits grew by an annual 16.3%, thereby remaining the main driver of growth in total deposits. Meanwhile, time deposits with agreed maturities of up to two years grew marginally, following a period of decline.

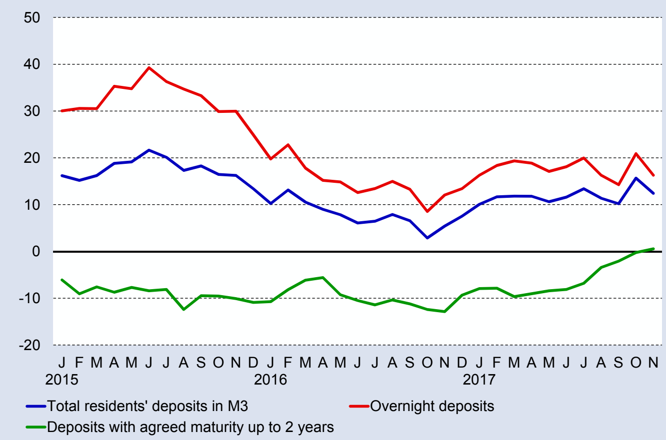
On the asset side of banks' balance sheets, annual growth in credit to Maltese residents stood at 1.7% in November, down from 2.7% a month earlier (see Chart 9). The annual rate

Chart 7
GOVERNMENT DEBT[1]
(EUR millions)



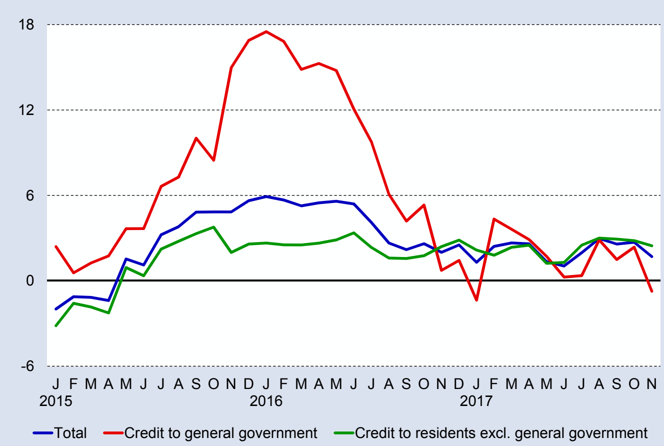
[1] Excluding debt issued by extra-budgetary units and local councils and debt held by sinking funds.
Source: National Statistics Office.

Chart 8
SELECTED DEPOSITS OF MALTESE RESIDENTS
(annual percentage changes)



Source: Central Bank of Malta.

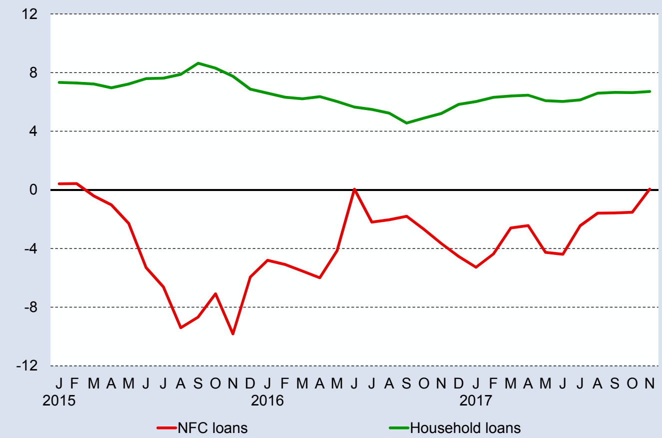
Chart 9
CREDIT TO RESIDENTS OF MALTA
(annual percentage changes)



Source: Central Bank of Malta.

of change of credit to general government turned negative, at -0.7%, reflecting developments in banks' holdings of Malta Government Stocks. Meanwhile, credit to other residents grew at a slower annual rate of 2.5% in November.

Chart 10
LOANS BY SECTOR
(annual percentage changes)

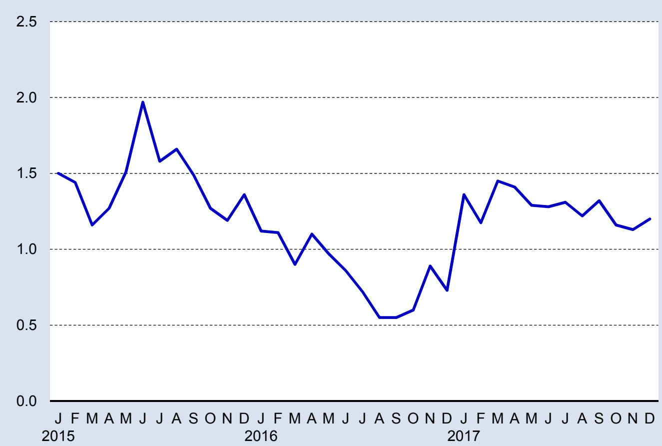


Source: Central Bank of Malta.

In particular, loans to residents outside general government rose by an annual rate of 3.1%, supported by growth in lending to households (see Chart 10). This component grew by 6.7% in November, with continued growth in mortgage loans offsetting declines in consumer credit and other loans. Loans to NFCs, the other major component of loans to residents other than general government, were unchanged when compared with a year earlier. 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 November, the composite interest rate paid by MFIs on residents' euro-denominated deposits fell marginally to 0.38%. This is 12 basis points lower than the rate registered in the same period last year. The comparable rate charged on outstanding loans also dropped marginally, to 3.61%, and stood 6 basis points lower than in November 2016. The spread between the composite loan and deposit rates applied to residents thus widened to 323 basis points, from 318 basis points a year earlier.

Chart 11
TEN-YEAR MALTA GOVERNMENT BOND YIELD
(ISMA yield; percentages per annum; end of month)



Source: Central Bank of Malta.

In the capital market, the secondary yield on ten-year Maltese government bonds ended 2017 at 1.2%, up from 1.1% at end-November (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index rose by 2.7% in December. Likewise, the MSE Total Return Index, which accounts for changes in both equity prices and dividends, rose by 2.7%.

Annex 1

MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2015	2016	2017	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2016 Dec.	2017 Jan.	2017 Feb.	2017 Mar.	2017 Apr.	2017 May	2017 June	2017 July	2017 Aug.	2017 Sep.	2017 Oct.	2017 Nov.	2017 Dec.
Prices and costs																					
HICP inflation	1.2	0.9	-	0.8	1.3	1.1	1.2	-	1.0	1.4	1.2	1.2	1.1	1.1	1.0	1.2	1.2	1.2	1.5	1.5	-
RPI inflation	1.1	0.6	-	0.7	1.6	1.4	1.2	-	1.1	1.7	1.6	1.5	1.4	1.4	1.2	1.4	1.2	1.0	1.3	1.3	-
Industrial producer price inflation	-2.2	-0.6	-	-1.0	-1.2	0.0	3.6	-	-1.9	-1.7	-1.0	-0.9	-1.8	0.5	1.2	3.3	3.6	3.7	3.8	4.1	-
HCI (nominal)	-5.2	2.3	1.7	1.7	-0.1	0.7	2.9	3.4	1.0	0.4	-0.8	0.2	-0.4	0.8	1.6	2.5	3.2	2.9	2.8	3.2	4.0
HCI (real)	-9.2	3.2	1.8	1.9	-1.2	-0.1	3.9	4.8	0.7	-0.3	-2.6	-0.7	-2.1	0.1	1.6	3.5	4.3	3.8	3.9	4.5	6.0
Unit labour costs, whole economy(1)	0.2	0.9	-	0.9	0.8	0.3	-0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee(1)	3.3	2.7	-	2.7	1.8	1.9	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person)(1)	3.1	1.7	-	1.7	1.0	1.5	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.8	5.6	-	5.5	5.0	5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity								-													
Nominal GDP	9.7	7.1	-	7.2	8.4	10.0	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.2	5.5	-	5.7	6.5	7.9	7.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	5.8	3.1	-	2.9	4.5	4.7	3.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	3.7	-2.5	-	-11.4	-4.4	-6.9	15.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	49.5	-0.9	-	1.7	4.0	-27.0	-2.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.1	4.5	-	9.6	0.9	4.7	-1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.4	1.6	-	4.8	-0.6	-6.9	-4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																					-
LFS unemployment rate (% of labour force)	5.4	4.7	-	4.2	4.2	4.1	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	2.3	3.1	-	3.2	2.7	2.5	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.1	4.9	-	5.2	5.5	5.4	-	-	5.3	5.8	5.4	5.3	5.2	5.5	5.5	-	-	-	-	-	-
Balance of payments																					
Current account (as a % of GDP)(2)	4.6	6.6	-	6.6	7.5	11.2	11.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																					
Maltese residents' deposits and loans																					
Overnight deposits	24.9	13.4	-	13.4	19.3	18.1	14.2	-	13.4	16.3	18.4	19.3	18.9	17.1	18.1	20.0	16.3	14.2	20.9	16.3	-
Deposits with agreed maturity up to 2 years	-10.9	-9.3	-	-9.3	-9.7	-8.1	-2.1	-	-9.3	-7.9	-7.9	-9.7	-9.0	-8.4	-8.1	-6.8	-3.4	-2.1	-0.2	0.5	-
Total residents' deposits in M3	13.4	7.5	-	7.5	11.8	11.6	10.2	-	7.5	10.1	11.7	11.8	11.8	10.6	11.6	13.4	11.4	10.2	15.7	12.4	-
Credit to general government	16.9	1.4	-	1.4	3.6	0.3	1.5	-	1.4	-1.4	4.3	3.6	2.9	1.7	0.3	0.4	2.9	1.5	2.4	-0.7	-
Credit to residents (excl. general government)	2.6	2.9	-	2.9	2.4	1.3	2.9	-	2.9	2.2	1.8	2.4	2.5	1.2	1.3	2.5	3.0	2.9	2.8	2.5	-
Total credit	5.6	2.5	-	2.5	2.7	1.0	2.6	-	2.5	1.3	2.4	2.7	2.6	1.3	1.0	2.0	3.0	2.6	2.7	1.7	-
10-year interest rate (%)(3)	1.4	0.7	1.2	0.7	1.5	1.3	1.3	1.2	0.7	1.4	1.2	1.5	1.4	1.3	1.3	1.3	1.2	1.3	1.2	1.1	1.2
Stock prices: Malta Stock Exchange Index(4)	33.0	4.5	-2.6	3.7	1.9	-0.4	1.1	-3.9	3.6	1.8	0.4	-0.4	-0.9	-0.8	1.3	0.3	-1.5	1.1	-0.9	-5.6	2.7
General government finances (% of GDP)																					
Surplus (+) / deficit (-)(2)	-1.1	1.1	-	1.1	2.3	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt(5)	60.3	57.7	-	57.7	58.2	56.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(1) Four-quarter moving averages.

(2) Four-quarter moving sums.

(3) 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.

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

(5) GDP data are four-quarter moving sums.

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