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EUROSISTEMA
CENTRAL BANK OF MALTA

Economic Update 4/2018

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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

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ECONOMIC UPDATE 4/2018

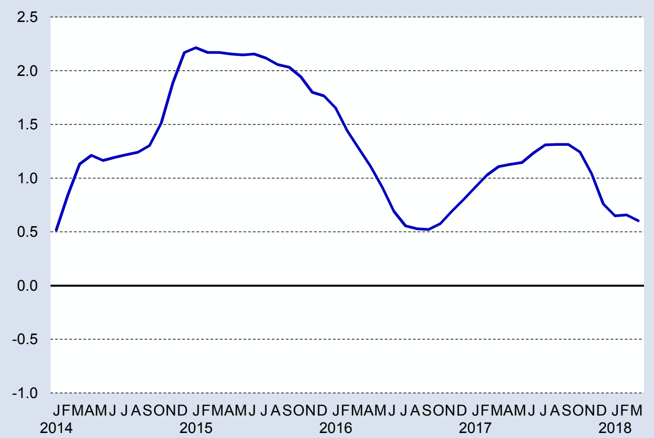
Summary[1]

In March, the Bank's Business Conditions Index (BCI) was slightly lower than a month earlier, while continuing to suggest above-average conditions. Economic sentiment fell, reflecting weaker sentiment across all sectors, with the exception of services. In February, retail sales and tourism activity grew at a strong pace in annual terms, while industrial production contracted further. Labour market conditions remained favourable, with the number of registered unemployed declining on an annual basis and Eurostat's measure of the unemployment rate falling to a historically new low. The annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) rose slightly to 1.3% in February. Meanwhile, the annual rate of change of Maltese residents' deposits decelerated to 5.9%, while that of credit to residents eased to 0.9%. As regards fiscal developments, the cash-based Consolidated Fund showed a smaller surplus compared with February 2017.

Central Bank's Business Conditions Index (BCI)[2]

In March, the Central Bank's BCI eased slightly over the previous month (see Chart 1). The index stood at 0.6, slightly lower than a revised value of 0.7 in February and below its value a year earlier. The BCI continued to show above-average conditions, and was affected by continued strength in tourist arrivals and lower unemployment.

Chart 1
BUSINESS CONDITIONS INDEX
(standardised)



Source: Central Bank of Malta.

Business and consumer confidence indicators

In March 2018, the Economic Sentiment Indicator (ESI) edged down to 119, from 121 in the preceding month, thus remaining above its long-term average of 100 (see Table 1).[3,4] Lower sentiment was registered within all sectors except for the services sector.

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1 The cut-off date for information in this note is 11 April 2018.

2 The methodology underlying the BCI has been updated for the sake of clarity. For further details on the changes carried out in the index, see Ellul, R. (2018), "Updates to the BCI," Central Bank of Malta.

3 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%.

4 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

	2016	2017	2018		
			Jan.	Feb.	Mar.
Economic Sentiment Indicator	**108**	**114**	**123**	**121**	**119**
Retail trade confidence indicator	**7**	**9**	**16**	**23**	**6**
Business activity, past 3 months	17	15	38	26	3
Stocks of finished goods	9	5	22	3	3
Business activity, next 3 months	14	16	32	47	17
Construction confidence indicator	**-8**	**13**	**27**	**29**	**26**
Evolution of your current overall order books	-22	2	21	29	26
Employment expectations over the next 3 months	6	24	34	29	27
Industrial confidence indicator	**0**	**8**	**16**	**14**	**11**
Assessment of order-book levels	-18	-5	-2	6	-2
Assessment of stocks of finished products	2	-2	1	-1	5
Production expectations for the months ahead	19	27	51	35	40
Consumer confidence indicator	**2**	**8**	**25**	**27**	**26**
Financial situation over the next 12 months	5	9	18	23	20
General economic situation over the next 12 months	13	19	32	33	34
Unemployment expectations over the next 12 months	-13	-18	-30	-29	-32
Savings over next 12 months	-24	-14	17	25	17
Services confidence indicator	**26**	**31**	**38**	**30**	**33**
Business situation development over the past 3 months	22	27	32	27	34
Evolution of the demand over the past 3 months	29	33	36	38	38
Expectation of the demand over the next 3 months	27	32	46	25	26

Source: European Commission.

Confidence in the retail sector fell significantly in the third month of the year, reaching 6, from 23 in February.[5] Despite this significant decline, sentiment remained above its long-term average of 2. The recent fall in sentiment was driven by retail firms' assessment of past and expected business activity, both of which fell significantly. Compared with the preceding month, stock levels were unchanged. Additional survey data for this sector indicate that the share of firms expecting employment to rise fell significantly when compared with February, while firms expected prices to fall in the three months ahead.

In March, confidence in the construction sector fell to 26 from 29 in February, but remained well above its long-term average of -18.[6] This was mainly driven by firms' lower assessment of order books. Other survey data indicate that in comparison with February, a larger share of respondents reported an increase in building activity over the preceding three months, while on balance a smaller share expected prices to increase.

Similarly, the industrial confidence indicator declined to 11 in March from 14 in the preceding month, and stood above its long-term average of -3.[7] The fall in sentiment in March was

[5] 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.
[6] 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.
[7] 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.

driven by both firms' assessment of order books and of stock levels.[8] On the other hand more firms expected production to rise in the following months. Supplementary survey data show that, on balance, a larger share of respondents expected their employment to increase in subsequent months. On balance, fewer respondents expected selling prices to rise in the three months ahead.

Consumer confidence also declined, although only marginally. Indeed, confidence fell to 26 in March, from 27 a month earlier, well above the long-term average of -18.[9] The decline in sentiment was driven by lower expectations for savings and the financial situation in the 12 months ahead. In contrast, more respondents anticipated unemployment to decline.[10] Also, more firms predicted an improvement in the general economic situation. Additional information shows that a larger share of respondents expected to make fewer major purchases in the following 12 months. At the same time, fewer consumers awaited higher inflation in the 12 months ahead.

In contrast to the afore-mentioned sectors, confidence in the services sector rose to 33, from 30 in the preceding month, and remained above its long-term average.[11] Higher sentiment was driven by both firms' assessment of the business situation over the preceding three months and demand expectations for the three months ahead. Meanwhile, respondents' assessment of the evolution of demand over the preceding three months was broadly unchanged. Additional survey data indicate that employment expectations were less optimistic than in February. Also, on balance, respondents anticipated prices to decline 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, declined at an annual rate of 7.5% in February, following a fall of 1.3% in January (see Table 2).[12] In February, growth was mostly driven by increased production within the pharmaceutical sub-sector, as well as among firms involved in the repair and installation of machinery and equipment. Output also rose within the energy sector. On the other hand, output fell significantly among manufacturers of computer, electronic and optical products, as well as among firms producing food and beverages. Smaller declines were also recorded among manufacturers of rubber and plastics as well as in the printing and paper sub-sector.

During February, 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 11.7%, following a 7.0% rise in January.

[8] Above normal stocks of finished goods have a negative effect on the overall indicator.

[9] 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.

[10] A fall in unemployment expectations has a positive effect on the overall indicator. Thus, more respondents expecting unemployment to fall has a positive effect on the overall indicator.

[11] 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.

[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.

Table 2
ACTIVITY INDICATORS
Annual percentage changes

	2016	2017	2017 Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	2018 Jan.	Feb.
Industrial production	**-4.3**	**4.1**	**3.0**	**5.0**	**2.7**	**0.4**	**6.2**	**9.5**	**0.2**	**2.5**	**0.6**	**-1.3**	**-7.5**
Retail trade	**2.4**	**3.8**	**7.0**	**6.1**	**4.7**	**2.4**	**2.7**	**8.5**	**4.4**	**0.3**	**8.6**	**7.0**	**11.7**
Number of tourist arrivals	**10.2**	**15.7**	**21.0**	**13.0**	**17.2**	**11.4**	**12.4**	**14.0**	**11.6**	**15.8**	**15.0**	**19.9**	**17.8**
Number of nights stayed	**5.7**	**10.3**	**15.0**	**11.9**	**9.6**	**8.9**	**8.5**	**13.1**	**6.2**	**7.1**	**17.3**	**15.1**	**11.2**
Private accommodation	13.5	16.7	21.4	31.2	12.5	12.5	17.8	23.8	11.3	-2.0	13.8	10.5	19.1
Collective accommodation	1.0	6.0	11.4	1.5	7.7	5.9	-0.6	4.7	3.0	12.3	20.0	18.5	7.4
Tourist expenditure	**4.3**	**13.9**	**24.9**	**9.5**	**14.3**	**11.4**	**10.4**	**16.7**	**10.2**	**18.3**	**24.3**	**16.1**	**4.7**
Package expenditure	-6.5	3.2	11.8	-6.4	3.4	-5.6	-5.8	10.4	15.0	23.9	21.0	30.9	15.4
Non-package expenditure	11.3	19.8	42.2	25.5	18.8	22.5	18.3	21.2	0.4	10.9	23.8	32.4	8.5
Other	8.2	17.3	21.7	9.9	19.1	15.4	15.7	17.8	14.8	20.5	26.4	-2.7	-5.0

Sources: National Statistics Office; Eurostat.

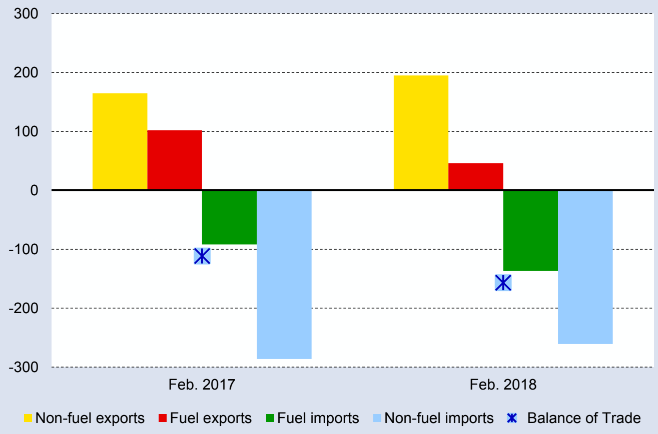
Meanwhile, the number of inbound tourists grew by 17.8% on a year earlier, after rising by 19.9% in January. Nights stayed grew by 11.2%, as both nights spent in private and collective accommodation increased on a year earlier. Tourist spending in Malta rose at a slower pace of 4.7% in annual terms when compared with a month earlier. Spending on both package and non-package holidays increased while the 'other' expenditure category registered a decline.

In the fourth quarter of 2017, the total occupancy rate in collective accommodation establishments rose to 58.2% from 56.8% in the fourth quarter of 2016. Higher occupancy rates were recorded in the two-star, three-star and the "other establishments" categories. On the contrary, occupancy rates in five-star hotels, and to a much lesser extent, in 4-star establishments declined on the same quarter a year earlier.

In the final quarter of 2017, there were 94 cruise liner calls, 9 more than a year earlier. Foreign passengers increased to 185,479, from 175,819 in the same period of 2016.

Preliminary Customs data show that the merchandise trade deficit stood at €156.9 million in February, a widening of €45.4 million on the second month of 2017 (see Chart 2). This occurred as imports rose and exports contracted on their year ago levels. The former expanded by €19.7 million, whereas exports dropped by €25.7 million. The rise in imports was mainly driven by a higher fuel import bill, and, to a lesser extent, higher imports of semi-manufactured goods. At the same time, the dip in exports was predominantly on account of a decline in fuel re-exports. Excluding trade in fuels, the merchandise trade

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

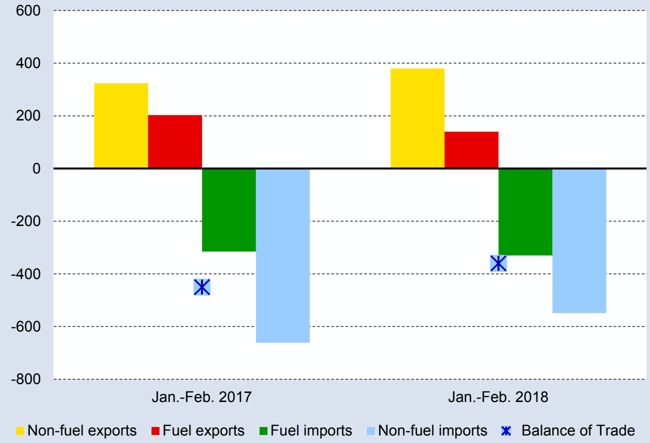


Source: National Statistics Office.

deficit narrowed to €65.8 million, an improvement of €55.7 million on February 2017.

During the first two months of 2018 imports declined at a faster pace than exports. As a result, the visible trade gap declined by €90.1 million when compared with the same period of 2017, standing at €360.3 million (see Chart 3).

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



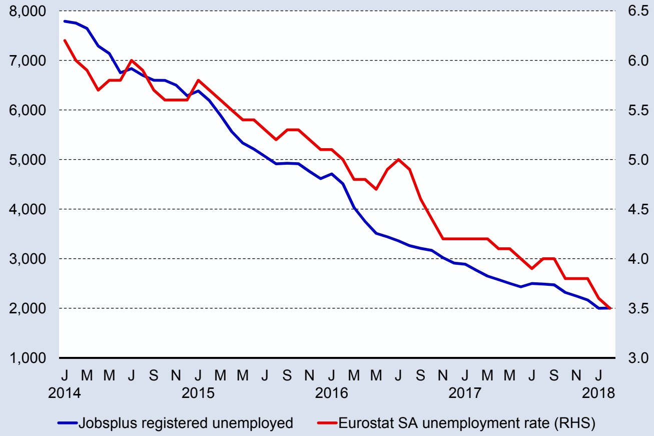
Source: National Statistics Office.

Labour market

Jobsplus data show that in February the number of persons on the unemployment register fell on the same month a year earlier. These decreased to 2,005, from 2,766 a year earlier, but were marginally up from January 2018 (see Chart 4).

Eurostat's estimate of the seasonally-adjusted unemployment rate also declined, falling marginally to 3.5%, from 3.6% in the preceding month. This compares favourably with 4.2% in the corresponding month of 2017, and is the lowest rate ever recorded for Malta.

Chart 4
UNEMPLOYMENT
(persons; percentage of labour force)



Sources: National Statistics Office; Eurostat.

BOX 1: GAINFULLY OCCUPIED POPULATION

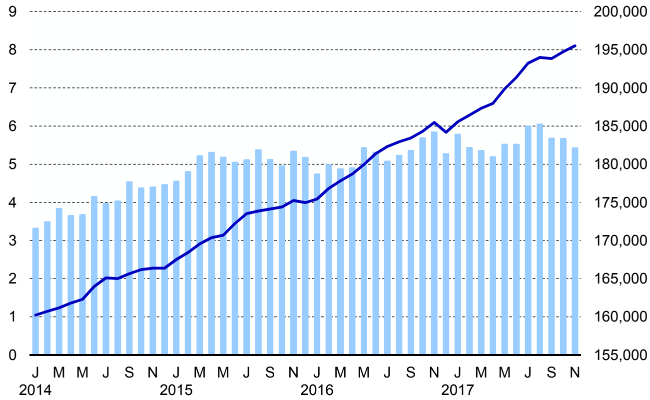
Jobsplus records show that in November 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.4% on a year earlier, reaching 195,524 (see Chart 5). The rate of growth fell marginally from the preceding two months, as well as from the 5.8% recorded a year earlier.

In line with developments in recent months, growth in employment continued to be mainly driven by the private sector, although public sector employment also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 9,053, or 6.5%, on the same month of 2016. Employment growth in this sector continued to be driven by market services, with the number of full-time job holders increasing by 8,341, or 7.8% 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 3,596 in the year to November 2017, and accounted for 43% of the overall rise in private market services employment. The number

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 Nov.	2017 Nov.	Annual change Number of persons	Annual change %
Labour supply	**188,497**	**197,770**	**9,273**	**4.9**
Gainfully occupied[1]	185,476	195,524	10,048	5.4
Registered unemployed	3,021	2,246	-775	-25.7
Unemployment rate (%)	**1.6**	**1.1**		
Private sector	**140,249**	**149,302**	**9,053**	**6.5**
Direct production[2]	**33,433**	**34,145**	**712**	**2.1**
Manufacturing	20,738	21,132	394	1.9
Construction	9,984	10,327	343	3.4
Market services	**106,816**	**115,157**	**8,341**	**7.8**
Wholesale and retail trade	25,831	26,217	386	1.5
Transportation and storage	8,141	8,496	355	4.4
Accommodation and food service activities	11,683	12,481	798	6.8
Information and communication	6,466	6,711	245	3.8
Financial and insurance activities	8,375	8,979	604	7.2
Real estate, professional and administrative activities[3]	25,456	29,052	3,596	14.1
Arts, entertainment and recreation	7,037	8,116	1,079	15.3
Education	5,145	5,424	279	5.4
Other	8,682	9,681	999	11.5
Public sector	**45,227**	**46,222**	**995**	**2.2**

[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.

of persons employed in the arts, entertainment and recreation sector also increased significantly in annual terms, going up by 1,079 persons. Employment also increased within the private health care sector.

Meanwhile, employment in direct production within the private sector grew by 712, or 2.1%, on a year earlier. Growth was recorded within the manufacturing and construction sectors.

Public sector jobs rose by 995, or 2.2%, 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 health and construction. Nevertheless, the share of public sector employment declined to 23.6% in November 2017 from 24.4% a year earlier.

Prices, costs and competitiveness

Consumer price pressures remained moderate in February, with annual HICP inflation accelerating slightly to 1.3%, from 1.2% a month earlier (see Chart 6).

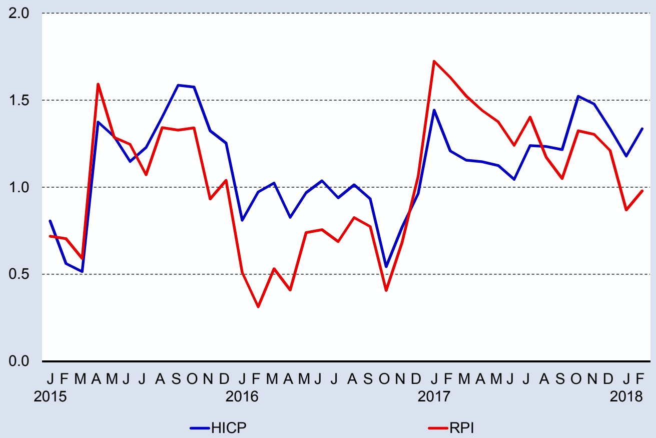
This pick-up in inflation was driven by the non-energy industrial goods component, as prices for clothing contracted at a slower annual pace and inflation in furniture and furnishings remained strong. These developments offset a deceleration in services inflation, mainly stemming from recreational services. Nonetheless, the services component was the largest contributor of overall HICP inflation during February.

Food inflation remained weak, dragged down by a continued, albeit slower, annual contraction in vegetable prices. At the same time, energy inflation was unchanged when compared with the previous month.

With regard to inflation as measured by the Retail Price Index (RPI), price pressures picked-up marginally to 1.0% in February, compared with 0.9% a month earlier (see Chart 6).[13] As with HICP inflation, these developments were mainly driven by a slower annual contraction in the clothing and footwear component.

Cost inflation, as measured by the Industrial Producer Price Index (PPI), remained robust in February, registering an annual

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



Source: National Statistics Office.

[13] The RPI differs from the HICP in that RPI weights are based on expenditure by Maltese households, while HICP weights reflect expenditure patterns in Malta, including tourists.

growth rate of 3.3%.[14] This is slightly higher than the 3.1% recorded in January, and reflects faster annual growth in intermediate goods prices. This component, which includes items such as computers and electronics, hence remained the largest contributor of PPI inflation. In contrast, inflation in consumer and capital goods was negative, while energy inflation remained unchanged.

With regard to international price competitiveness, Malta's harmonised competitiveness indicator (HCI) accelerated during February. The nominal HCI rose by 5.9% on an annual basis, while growth in the real HCI, which also takes into account relative price pressures, accelerated to 9.0%.[15] These figures as well as those recorded in recent months suggest a deterioration in Malta's international competitiveness, with unfavourable movements in the euro exchange rate compounded by developments in relative prices with international trading partners. Preliminary data show that in March annual growth in the HCIs continued at the same rates recorded a month earlier.

Public finance

During February 2018, the Consolidated Fund balance recorded a surplus of €31.8 million, €14.7 million lower than that registered in February 2017 (see Table 4). This occurred as the

Table 4
CONSOLIDATED FUND BALANCE
EUR millions

	2017 Jan.-Feb.	2018 Jan.-Feb.	2017 Feb.	2018 Feb.	Change Amount	Change %
Revenue	**598.6**	**625.5**	**337.5**	**349.3**	**11.8**	**3.5**
Direct tax	**241.9**	**273.4**	**117.8**	**125.8**	**7.9**	**6.7**
Income tax	150.3	174.6	70.4	78.2	7.8	11.1
Social security contributions(1)	91.6	98.8	47.5	47.6	0.1	0.3
Indirect tax	**257.4**	**285.5**	**167.3**	**190.1**	**22.8**	**13.6**
Value Added Tax	144.4	178.1	111.0	141.1	30.1	27.1
Customs and excise duties	50.2	49.5	22.4	23.2	0.9	3.8
Licences, taxes and fines	62.8	57.9	34.0	25.8	-8.2	-24.0
Non-tax(2)	**99.4**	**66.5**	**52.3**	**33.4**	**-18.9**	**-36.2**
Expenditure	**568.0**	**606.8**	**291.0**	**317.4**	**26.5**	**9.1**
Recurrent	**535.2**	**580.9**	**268.2**	**300.9**	**32.8**	**12.2**
Personal emoluments	117.5	131.0	59.1	64.8	5.7	9.7
Operational and maintenance	33.6	33.1	14.2	15.8	1.5	10.8
Programmes and initiatives(1)	283.3	312.3	137.7	166.0	28.2	20.5
Contributions to entities	63.9	68.2	37.9	36.4	-1.4	-3.8
Interest payments	36.8	36.3	19.3	18.0	-1.3	-6.7
Capital	**32.8**	**25.8**	**22.8**	**16.5**	**-6.3**	**-27.6**
Primary balance(3)	**67.4**	**55.0**	**65.8**	**49.8**	**-15.9**	**-**
Consolidated Fund balance	**30.6**	**18.7**	**46.5**	**31.8**	**-14.7**	**-**

(1) Government contributions to the social security account in terms of the Social Security Act 1987 are excluded 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.

[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.

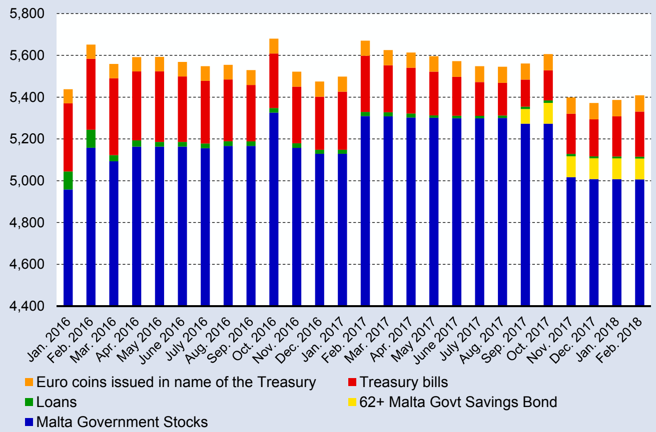
rise in expenditure was more pronounced than the increase in revenue. In turn, the primary balance registered a surplus of €49.8 million, a decline of €15.9 million over that registered a year earlier.

Total government revenue rose by €11.8 million or 3.5%, when compared with the corresponding period of 2017. This mainly reflected an increase in indirect taxes, as a result of higher inflows from VAT. Meanwhile, direct tax revenue grew at a comparatively modest pace, due to higher inflows from income taxes. On the other hand, non-tax income declined by €18.9 million largely as a result of a decline in grants received from the EU.

Government expenditure increased by €26.5 million, or 9.1% when compared with February 2017. This was chiefly driven by higher spending on programmes and initiatives mainly due to the timing of payments to church schools. In contrast, capital expenditure was €6.3 million lower than that recorded a year earlier.

In February, the total stock of central government debt increased by €22.7 million when compared with January 2018, to reach €5,409.0 million (see Chart 7). The rise in government debt was mainly attributed to higher Treasury bills outstanding.

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: NSO.

BOX 2: CONSOLIDATED FUND BALANCE – JANUARY TO DECEMBER 2017

In December 2017, the Consolidated Fund recorded a surplus of €98.0 million, €29.0 million higher than that recorded in the same period a year earlier. Overall, the Consolidated Fund surplus in 2017 reached €182.7 million, a significant improvement over the €8.9 million surplus registered in 2016 (see Table 5). This occurred as the rise in government expenditure was largely offset by higher government revenue. As a result, the primary surplus improved substantially as it registered as surplus of €397.7 million, €165.4 million higher than that recorded in 2016.

When compared with 2016 Government revenue increased by €463.7 million or 13.1%, mainly due to higher tax revenue. The largest contributors towards this rise were direct taxes as they increased by €219.4 million, principally due to higher income tax receipts. Indirect taxes also increased significantly, led by higher VAT receipts. Meanwhile, non-tax

Table 5
CONSOLIDATED FUND BALANCE
EUR millions

	2016 Jan.-Dec.	2017 Jan.-Dec.	Change Amount	%
Revenue	**3,540.4**	**4,004.1**	**463.7**	**13.1**
Direct tax	**1,866.1**	**2,085.5**	**219.4**	**11.8**
Income tax	1,328.3	1,497.5	169.2	12.7
Social security contributions(1)	537.8	588.0	50.2	9.3
Indirect tax	**1,313.3**	**1,456.7**	**143.4**	**10.9**
Value Added Tax	724.8	821.2	96.4	13.3
Customs and excise duties	277.5	303.1	25.6	9.2
Licences, taxes and fines	311.0	332.5	21.5	6.9
Non-tax(2)	**361.0**	**461.9**	**100.9**	**28.0**
Expenditure	**3,531.5**	**3,821.4**	**289.9**	**8.2**
Recurrent	**3,221.2**	**3,471.2**	**250.0**	**7.8**
Personal emoluments	782.1	828.0	45.9	5.9
Operational and maintenance	176.0	189.0	13.0	7.4
Programmes and initiatives(1)	1,684.4	1,860.1	175.7	10.4
Contributions to entities	355.3	379.1	23.8	6.7
Interest payments	223.5	215.1	-8.4	-3.8
Capital	**310.3**	**350.2**	**39.9**	**12.9**
Primary balance(3)	**232.3**	**397.7**	**165.4**	**-**
Consolidated Fund balance	**8.9**	**182.7**	**173.8**	**-**

(1) Government contributions to the social security account in terms of the Social Security Act 1987 are excluded 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.

revenue also increased substantially, reflecting higher revenue generated from the Individual Investor Programme (IIP) as well as an increase in EU grants received.

In 2017, government expenditure increased by €289.9 million or 8.2%. This was driven by higher recurrent expenditure, mainly due to an increase in programmes and initiatives in the form of social benefits, transfers to the EU budget and outlays on health. Capital expenditure was also on the rise as it increased by €39.9 million.

Deposits, credit and financial markets

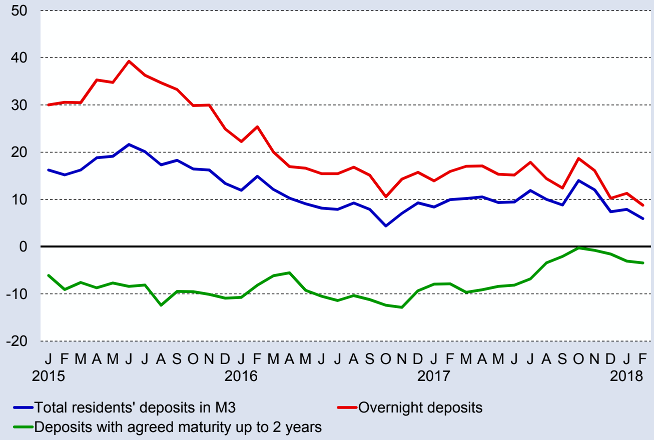
Annual growth in residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) decelerated to 5.9% in February 2018, from 7.9% a month earlier (see Chart 8). This marked the third consecutive month in which growth in M3 deposits has held below the average observed since 2014, suggesting a normalisation from the historically strong growth rates observed in recent years.

Overnight deposits remained the main driver behind growth in residents' M3 deposits, though growth in this category slowed to 8.8% in February, from 11.3% a month earlier. Nonetheless, the pace of expansion remains strong, suggesting a continued preference for holding liquid assets in an environment of low interest rates and robust economic activity. On the other hand, longer-term time deposits continued to contract.

On the assets side of banks' balance sheets, annual growth in credit to Maltese residents stood at 0.9% in February, down from 1.7% a month earlier (see Chart 9). Credit to general government contracted at a faster rate of 6.0%, reflecting lower bank holdings of Malta Government Stocks when compared with a year earlier. In contrast, credit to other residents remained robust, with annual growth accelerating to 3.3% from 2.8% a month earlier. This mainly reflected a faster expansion in loans, the largest component of credit to other residents.

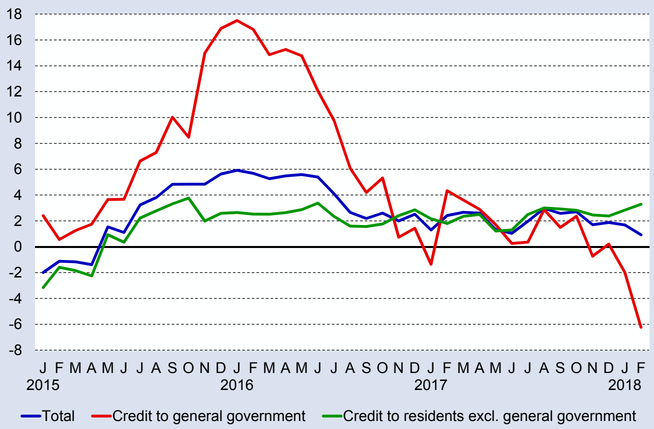
Growth in loans to other residents accelerated to 3.6% in February, supported by continued strong growth in lending to households and a weaker contraction in loans to NFCs (see Chart 10). Household loans grew at an annual rate of 6.5%, as continued strong growth in mortgage loans offset declines in consumer credit and other loans. At the same time, loans to NFCs contracted further, by 0.9%. This suggests a continued shift in banks' loan portfolios towards households and away from NFCs. In part, the decline in credit to NFCs also highlights firms' use of alternative funding sources, as well as a structural shift towards more labour-intensive industries.

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



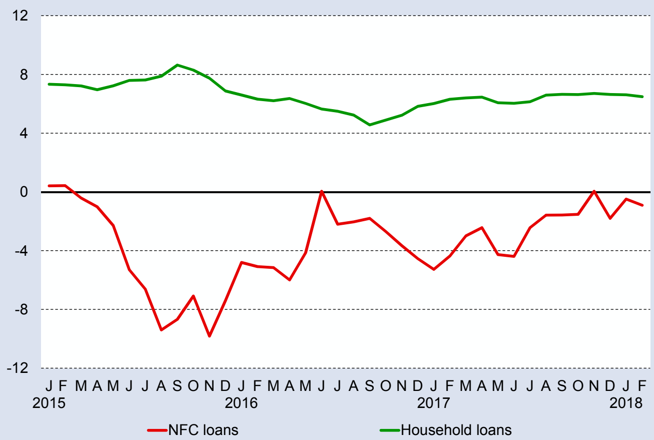
Source: Central Bank of Malta.

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



Source: Central Bank of Malta.

Chart 10
LOANS BY SECTOR
(annual percentage changes)

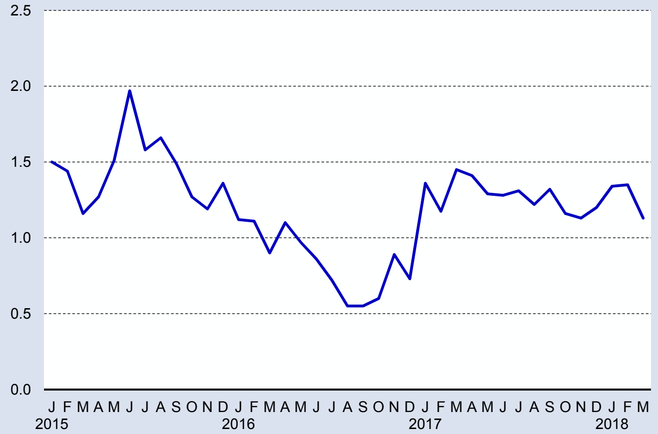


Source: Central Bank of Malta.

In February, the composite interest rate paid by MFIs on residents' euro-denominated deposits stood unchanged at 0.37% when compared with a month earlier. This is 9 basis points lower than the rate registered in the same period a year ago. The comparable rate charged on outstanding loans fell slightly by 1 basis point when compared with the previous month, to 3.63%. This was 4 basis points lower than in February 2017. The spread between the composite loan and deposit rates applied to residents widened to 325 basis points, from 319 basis points a year earlier.

In the capital market, the secondary yield on ten-year Maltese government bonds dropped to 1.1% in March, from 1.4% a month earlier (see Chart 11). At the same time, the Malta Stock Exchange (MSE) Equity Price Index dropped by 0.5%, while the MSE Total Return Index, which accounts for changes in both equity prices and dividends, gained 0.2%.

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



Source: Central Bank of Malta.

MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2016	2017	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2017 Feb.	2017 Mar.	2017 Apr.	2017 May	2017 June	2017 July	2017 Aug.	2017 Sep.	2017 Oct.	2017 Nov.	2017 Dec.	2018 Jan.	2018 Feb.	2018 Mar.
Prices and costs																					
HICP inflation	0.9	1.3	1.3	1.1	1.2	1.4	-	1.2	1.2	1.1	1.1	1.0	1.2	1.2	1.2	1.5	1.5	1.3	1.2	1.3	-
RPI inflation	0.6	1.4	1.6	1.4	1.2	1.3	-	1.6	1.5	1.4	1.4	1.2	1.4	1.2	1.0	1.3	1.3	1.2	0.9	1.0	-
Industrial producer price inflation	-0.3	1.6	-0.5	0.4	3.0	3.3	-	-0.3	-0.2	-0.9	1.0	1.2	2.9	3.1	3.1	3.2	3.4	3.3	3.1	3.3	-
HCI (nominal)	2.3	1.7	-0.1	0.7	2.9	3.4	5.2	-0.8	0.2	-0.4	0.8	1.6	2.5	3.2	2.9	2.8	3.2	4.0	4.1	5.9	5.8
HCI (real)	3.2	1.9	-1.2	-0.1	3.9	4.8	7.9	-2.6	-0.7	-2.0	0.1	1.7	3.5	4.3	3.9	4.0	4.5	5.8	5.9	9.0	8.7
Unit labour costs, whole economy(1)	1.5	0.0	1.1	0.5	-0.4	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee(1)	3.0	1.1	1.9	1.9	1.4	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person)(1)	1.4	1.2	0.7	1.4	1.8	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.4	4.9	4.9	5.7	4.8	4.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Economic activity																					-
Nominal GDP	7.1	9.0	8.7	10.0	10.4	7.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.5	6.6	6.8	7.6	7.6	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	3.0	4.2	6.0	5.6	4.1	1.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	-2.7	-0.3	-4.4	-6.8	16.1	-3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	1.6	-7.4	7.7	-27.3	-6.6	-0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.5	1.6	-1.2	4.2	-0.6	4.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	1.5	-3.0	-3.4	-5.9	-2.8	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour market developments																		-	-	-	-
LFS unemployment rate (% of labour force)	4.7	4.0	4.2	4.1	4.0	3.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	3.2	3.4	2.7	2.5	3.1	5.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.2	-	5.5	5.4	5.9	-	-	5.4	5.3	5.2	5.5	5.5	6.0	6.0	5.7	5.7	5.4	-	-	-	-
Balance of payments																					
Current account (as a % of GDP)(2)	7.0	12.6	7.8	11.0	11.5	12.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit and financial indicators																					
Maltese residents' deposits and loans																					
Overnight deposits	15.7	10.2	17.0	15.2	12.4	10.2	-	15.9	17.0	17.1	15.3	15.2	17.9	14.4	12.4	18.6	16.1	10.2	11.3	8.8	-
Deposits with agreed maturity up to 2 years	-9.3	-1.6	-9.7	-8.1	-2.1	-1.6	-	-7.9	-9.7	-9.1	-8.4	-8.1	-6.8	-3.4	-2.1	-0.3	-0.8	-1.6	-3.1	-3.4	-
Total residents' deposits in M3	9.3	7.4	10.2	9.5	8.8	7.4	-	9.9	10.2	10.5	9.3	9.5	11.9	10.0	8.8	14.0	12.0	7.4	7.9	5.9	-
Credit to general government	1.4	0.2	3.6	0.3	1.5	0.2	-	4.3	3.6	2.9	1.7	0.3	0.4	2.9	1.5	2.4	-0.7	0.2	-2.0	-6.2	-
Credit to residents (excl. general government)	2.9	2.4	2.4	1.3	2.9	2.4	-	1.8	2.4	2.5	1.2	1.3	2.5	3.0	2.9	2.8	2.5	2.4	2.8	3.3	-
Total credit	2.5	1.9	2.7	1.0	2.6	1.9	-	2.4	2.7	2.6	1.3	1.0	2.0	3.0	2.6	2.7	1.7	1.9	1.7	0.9	-
10-year interest rate (%)(3)	0.7	1.2	1.5	1.3	1.3	1.2	1.1	1.2	1.5	1.4	1.3	1.3	1.3	1.2	1.3	1.2	1.1	1.2	1.3	1.4	1.1
Stock prices: Malta Stock Exchange Index(4)	4.5	-3.3	1.9	-0.4	1.1	-3.9	-0.8	0.4	-0.4	-0.9	-0.8	1.3	0.3	-1.5	1.1	-0.9	-5.6	2.7	-0.7	0.4	-0.5
General government finances (% of GDP)																					
Surplus (+) / deficit (-)(2)	1.1	-	2.2	2.1	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt(5)	56.2	-	56.6	55.0	53.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(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.