



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## **ECONOMIC UPDATE**

### **9/2018**

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## ECONOMIC UPDATE 9/2018

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

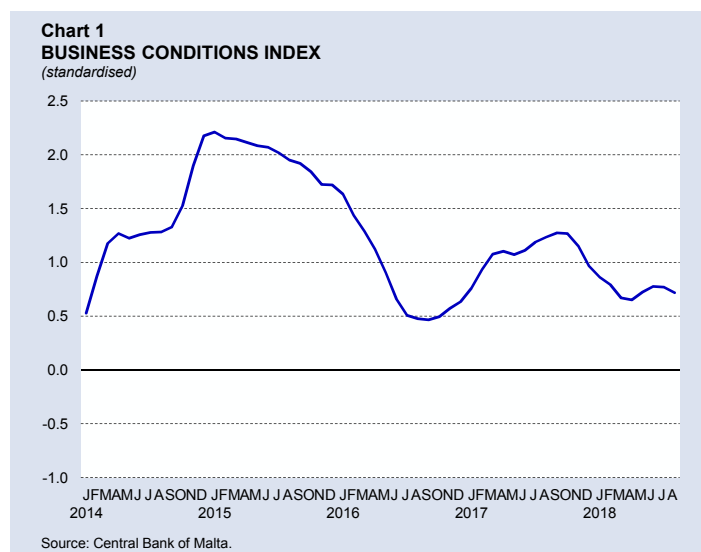
In August the Bank's Business Conditions' Index (BCI) fell slightly over the previous month and continued to indicate above-average conditions. Higher sentiment registered in the services sector was offset by lower confidence in the construction, industry and retail sectors. Economic sentiment amongst consumers remained broadly stable at a high level. In July, tourism activity rose on a year earlier, while industrial production and retail trade contracted in annual terms. Conditions in the labour market remained favourable, with the number of registered unemployed declining on an annual basis, and Eurostat's measure of the unemployment rate remaining at a low level. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) rose slightly to 2.1% in July. The annual rate of change of Maltese residents' deposits eased further to 3.5%. Similarly, the annual growth in credit to residents decelerated to 2.5%. As regards fiscal developments, in July 2018, the cash-based Consolidated Fund registered a surplus compared with a deficit recorded a year earlier.

### Central Bank's Business Conditions Index (BCI)<sup>2</sup>

In August, the Central Bank's BCI fell slightly over the previous month (see Chart 1). The index stood at 0.7, down from its revised value of 0.8 in July. The BCI thus continued to indicate above-average conditions. It was affected by improvements in tourist arrivals, the labour market, and consumer confidence, amongst other factors.

### Business and consumer confidence indicators

In August 2018, the Economic Sentiment Indicator (ESI) was broadly unchanged at 121 compared with a month earlier, when it had edged up from 118 in June. It thus remained above its long-term average of 101 (see Table 1).<sup>3,4</sup> Higher



<sup>1</sup> The cut-off date for information in this note is 14 September 2018.

<sup>2</sup> 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.

<sup>3</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>4</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*

	2016	2017	2018							
			Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
<b>Economic Sentiment Indicator</b>	<b>108</b>	<b>114</b>	<b>123</b>	<b>121</b>	<b>119</b>	<b>111</b>	<b>119</b>	<b>118</b>	<b>121</b>	<b>121</b>
<b>Services confidence indicator</b>	<b>26</b>	<b>31</b>	<b>38</b>	<b>30</b>	<b>33</b>	<b>29</b>	<b>40</b>	<b>30</b>	<b>32</b>	<b>36</b>
Business situation development over the past 3 months	22	27	32	27	34	25	31	26	25	28
Evolution of the demand over the past 3 months	29	33	36	38	38	34	41	30	32	40
Expectation of the demand over the next 3 months	27	32	46	25	26	29	49	35	38	40
<b>Construction confidence indicator</b>	<b>-8</b>	<b>13</b>	<b>27</b>	<b>29</b>	<b>26</b>	<b>25</b>	<b>38</b>	<b>25</b>	<b>29</b>	<b>22</b>
Evolution of your current overall order books	-22	2	21	29	26	16	33	18	23	20
Employment expectations over the next 3 months	6	24	34	29	27	34	43	32	35	23
<b>Industrial confidence indicator</b>	<b>0</b>	<b>8</b>	<b>16</b>	<b>14</b>	<b>11</b>	<b>-4</b>	<b>5</b>	<b>11</b>	<b>15</b>	<b>13</b>
Assessment of order-book levels	-18	-5	-2	6	-2	1	-2	19	-1	3
Assessment of stocks of finished products	2	-2	1	-1	5	13	3	7	-3	5
Production expectations for the months ahead	19	27	51	35	40	-1	20	20	44	40
<b>Retail trade confidence indicator</b>	<b>7</b>	<b>9</b>	<b>16</b>	<b>23</b>	<b>6</b>	<b>1</b>	<b>10</b>	<b>0</b>	<b>12</b>	<b>11</b>
Business activity, past 3 months	17	15	38	26	3	8	13	8	15	16
Stocks of finished goods	9	5	22	3	3	7	12	4	6	7
Business activity, next 3 months	14	16	32	47	17	3	28	-4	28	24
<b>Consumer confidence indicator</b>	<b>2</b>	<b>8</b>	<b>25</b>	<b>27</b>	<b>26</b>	<b>23</b>	<b>22</b>	<b>23</b>	<b>23</b>	<b>23</b>
Financial situation over the next 12 months	5	9	18	23	20	17	14	17	19	16
General economic situation over the next 12 months	13	19	32	33	34	28	27	26	28	27
Unemployment expectations over the next 12 months	-13	-18	-30	-29	-32	-31	-33	-30	-28	-29
Savings over next 12 months	-24	-14	17	25	17	15	14	20	18	19

Source: European Commission.

sentiment registered in the services sector was offset by lower confidence in the construction, industry and retail sectors. Confidence amongst consumers however, remained largely stable at a high level.

The only increase in sentiment was recorded in the services sector, where confidence rose from 32 in July to 36 in August, and stood above its long-term average of 23.<sup>5</sup> Higher sentiment reflected positive developments in all subcomponents, with firms' assessment of past demand being the main driver. In contrast, supplementary survey data indicate that in August, employment expectations were less optimistic than in the preceding month. Also, participating firms anticipated a rise in prices for the second consecutive month.

In contrast, sentiment declined sharply in the construction sector with confidence falling to 22 in August, from 29 in the preceding month. Despite this decline sentiment stood well above its long-term average of -16.<sup>6</sup> Both sub-components contributed to the deterioration in sentiment, though largely supported by significantly less optimistic employment expectations. In comparison with a month earlier, additional survey data indicate that, fewer respondents reported an increase in building activity over the preceding three months. Also, more firms anticipated a rise in prices in the months ahead.

<sup>5</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>6</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.

Industrial confidence also declined, falling to 13, from 15 in the preceding month, but still stood above its long-term average of -3.<sup>7</sup> In August, lower sentiment was driven by firms' assessment of stock levels and their production expectations. Supplementary survey data show that a smaller share of respondents expected an increase in employment in subsequent months. Going forward, on balance, firms anticipated a decline in selling prices in the three months ahead.

Similarly, sentiment in the retail sector fell slightly, following some acceleration a month earlier. Confidence edged down to 11 from 12 in July, but continued to stand above its long-term average of 2.<sup>8</sup> The recent fall in sentiment was driven by retail firms' assessment of expected business activity, as well as a higher net share of firms reporting above normal stock levels.<sup>9</sup> Additional survey data indicate that on balance, more firms predicted a rise in employment and prices.

Consumer confidence was unchanged at 23 for the third consecutive time in August, and continued to stand well above its long-term average of -17.<sup>10</sup> On balance, fewer households anticipated improved financial and general economic situation in the following months. However, this was offset by a rise in consumers' expectations of their savings over the following twelve months. Also, more respondents foresaw a fall in unemployment.<sup>11</sup> Additional survey data indicate that a larger share of respondents expected to make fewer major purchases in the following 12 months, while more consumers anticipated higher inflation going forward.

## Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, decreased at an annual rate of 6.0% in July, following an increase of 2.4% in the preceding month (see Table 2).<sup>12</sup> The decline in July was largely driven by lower production among manufacturers of pharmaceuticals and beverages. Output also fell among firms involved in the repair and installation of machinery, food products, as well as in the production of rubber and plastic. Smaller declines were also recorded in other sub-sectors, in particular within the energy sector, among producers of computer, electronics and optical products and in the "other manufacturing" sub-sector, which includes medical and dental instruments, toys and related products. These declines more than offset strong increases in production among firms involved in the printing and reproduction of recorded media.

In July, growth in retail trade, which is a short-term indicator of final domestic demand, fell for the fourth consecutive month. Calendar day-adjusted data show that the volume of retail trade fell at an annual rate of 2.6%, following a fall of 1.7% in June.

<sup>7</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>8</sup> The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

<sup>9</sup> Above normal stocks of finished goods have a negative effect on the overall indicator. Thus a rise in the balance of firms reporting above normal stock levels has a negative effect on the overall indicator.

<sup>10</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>11</sup> A fall in unemployment expectations has a positive effect on the overall indicator. Thus, fewer respondents expecting unemployment to fall has a negative effect on the overall 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.

<b>Table 2</b>		<b>ACTIVITY INDICATORS</b>																
<i>Annual percentage changes</i>																		
		2016 2017		2017												2018		
		Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	
<b>Industrial production</b>	<b>-4.3</b>	<b>4.1</b>	3.1	5.0	0.0	0.7	6.3	8.9	2.2	3.5	0.0	1.0	-5.4	-2.9	-3.7	-2.6	2.4	-6.0
<b>Retail trade</b>	<b>2.9</b>	<b>5.2</b>	8.4	8.1	6.6	4.2	4.2	10.1	5.8	2.3	8.9	6.0	3.4	2.0	-3.3	-0.3	-1.7	-2.6
<b>Number of tourist arrivals</b>	<b>10.2</b>	<b>15.7</b>	21.0	13.0	17.2	11.4	12.4	14.0	11.6	15.8	15.0	19.9	17.8	18.6	17.0	19.3	13.8	15.2
<b>Number of nights stayed</b>	<b>5.7</b>	<b>10.3</b>	15.0	11.9	9.6	8.9	8.5	13.1	6.2	7.1	17.3	15.1	11.2	26.9	16.9	20.2	15.5	12.9
Private accommodation <sup>(1)</sup>	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	56.1	26.7	21.9	28.1	18.4
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	14.6	11.0	19.0	6.9	8.0
<b>Tourist expenditure</b>	<b>4.3</b>	<b>13.9</b>	24.9	9.5	14.3	11.4	10.4	16.7	10.2	18.3	24.3	16.1	4.7	20.2	3.9	16.6	9.7	9.5
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	27.2	15.1	29.7	10.2	41.6
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	19.8	3.4	10.6	16.7	5.1
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	15.0	-3.6	12.6	3.6	-6.8

<sup>(1)</sup> Private accommodation includes stays in both rented and non-rented accommodation.

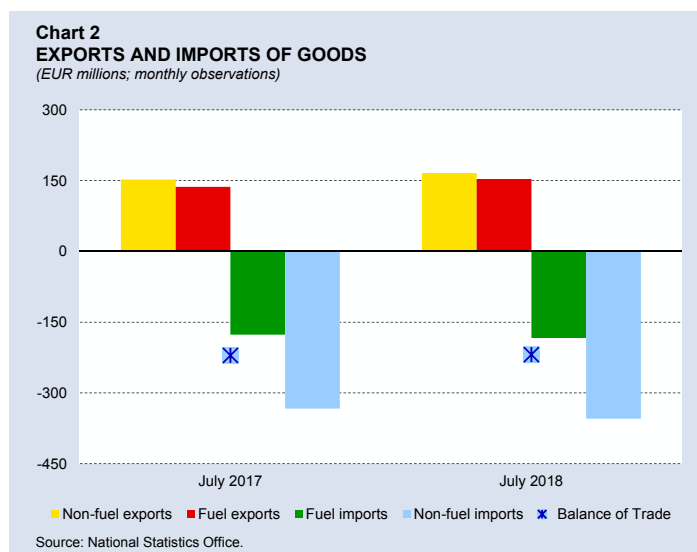
Sources: National Statistics Office; Eurostat.

Meanwhile, the number of inbound tourists rose by 15.2% in annual terms, following a rise of 13.8% in June. Nights stayed increased by 12.9%, as both nights spent in private and collective accommodation rose on a year earlier, though growth was much more pronounced in the former. Tourist spending in Malta rose by 9.5%, after increasing by 9.7% in June. Spending on both package and non-package holidays rose, while the 'other' expenditure category registered a decline.

During the second quarter of 2018, the total occupancy rate in collective accommodation establishments rose to 74.9% from 70.4% a year earlier. Higher occupancy rates were recorded across all types of accommodation.

In the June quarter, there were 103 cruise liner calls, 12 less than a year earlier. Foreign passengers fell slightly to 180,849, from 181,050 in the same period of 2017.

Customs data show that the merchandise trade deficit stood at €218.8 million in July 2018, down from €220.6 million in the same month a year ago (see Chart 2). This marginal improvement was driven by a rise in exports, which outweighed a smaller increase in imports. The former increased by €30.4 million on a year earlier, outpacing a rise of €28.6 million in imports. The increase in exports was largely on account of higher fuel re-exports and to a lesser extent machinery and mechanical



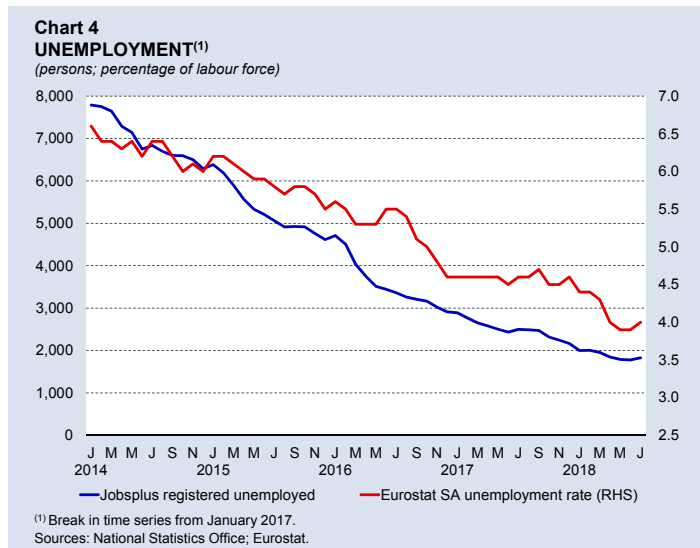
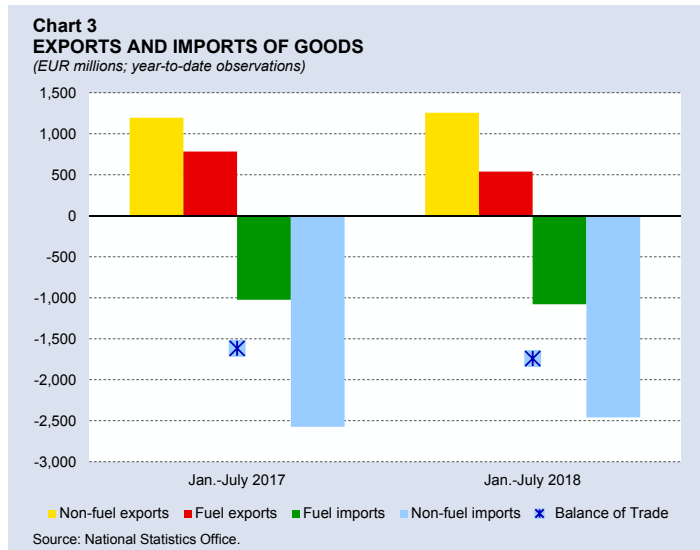
appliances. The surge in imports was predominantly driven by higher registration of ships and aircraft.

On the contrary, the visible trade gap widened during the first seven months of 2018. When compared with the same period of 2017, the merchandise trade deficit increased by €123.7 million, and stood at €1739.8 million (see Chart 3).

### Labour market

Jobsplus data show that in July the number of persons on the unemployment register dropped to 1,828, from 2,499 a year earlier, although it increased slightly from 1,778 in June 2018 (see Chart 4).

Eurostat's estimate of the seasonally-adjusted unemployment rate also declined, falling to 4.0%, from 4.6% in the corresponding month of 2017.



### BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in April 2018 the gainfully occupied population, defined to include all persons in full-time employment, rose by 6.5% on a year earlier, reaching 201,786 (see Chart 5). The rate of growth in April 2018 was higher than the rate of 6.2% registered in the preceding month, and that of 6.0% a year earlier.

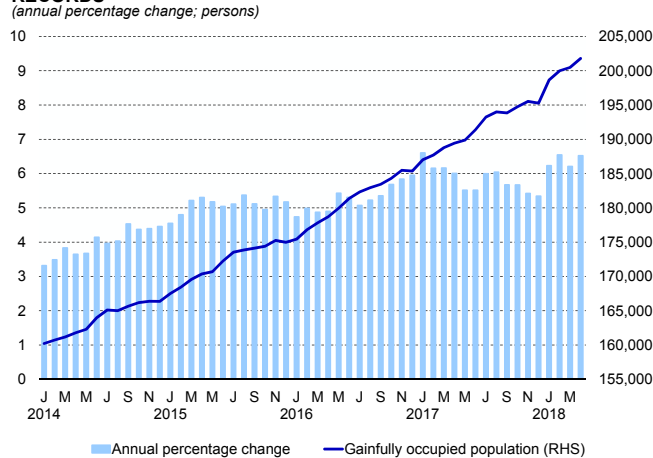
In line with developments in recent months, growth in employment continued to be mainly driven by the private sector, although public sector employment also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 10,883, or 7.6%, on the same month in 2017. Employment growth in this sector continued to be driven by market

services, with the number of full-time job holders increasing by 9,490, or 8.6% in annual terms. This rise 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 4,040 in the year to April 2018,

**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

	2017 April	2018 April	Annual change	
			Number of persons	%
<b>Labour supply</b>	<b>192,011</b>	<b>203,633</b>	<b>11,622</b>	<b>6.1</b>
Gainfully occupied <sup>(1)</sup>	189,434	201,786	12,352	6.5
Registered unemployed	2,577	1,847	-730	-28.3
<b>Unemployment rate (%)</b>	<b>1.3</b>	<b>0.9</b>		
<b>Private sector</b>	<b>144,019</b>	<b>154,902</b>	<b>10,883</b>	<b>7.6</b>
<b>Direct production<sup>(2)</sup></b>	<b>33,791</b>	<b>35,184</b>	<b>1,393</b>	<b>4.1</b>
Of which:				
Manufacturing	20,804	21,567	763	3.7
Construction	10,300	10,842	542	5.3
<b>Market services</b>	<b>110,228</b>	<b>119,718</b>	<b>9,490</b>	<b>8.6</b>
Wholesale and retail trade	26,033	26,410	377	1.4
Transportation and storage	8,243	8,662	419	5.1
Accommodation and food service activities	12,109	13,172	1,063	8.8
Information and communication	6,682	6,842	160	2.4
Financial and insurance activities	8,735	9,437	702	8.0
Real estate, professional and administrative activities <sup>(3)</sup>	26,597	30,637	4,040	15.2
Arts, entertainment and recreation	7,485	8,686	1,201	16.0
Education	5,195	5,496	301	5.8
Other	9,149	10,376	1,227	13.4
<b>Public sector</b>	<b>45,415</b>	<b>46,884</b>	<b>1,469</b>	<b>3.2</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.



and accounted for 42.6% of the overall rise in private market services employment. The number of persons employed in the arts, entertainment and recreation sector also grew significantly in annual terms, going up by 1,201 persons. Employment also increased significantly within the accommodation and food service activities sector, as well as within the private health care sector.

Meanwhile, employment in direct production within the private sector grew by 1,393, or 4.1%, on a year earlier. Growth was recorded within both the manufacturing and construction sectors.

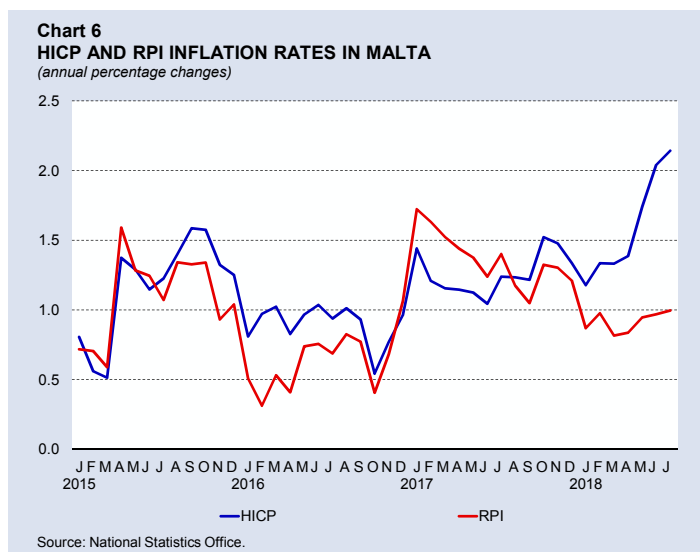
Public sector jobs rose by 1,469, or 3.2%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education. These offset falls in other sectors, such as real estate, and professional and administrative activities. Nevertheless, the share of public sector employment in the total gainfully occupied population declined to 23.2% in April 2018 from 24.0% a year earlier.

## Prices, costs and competitiveness

Annual inflation as measured by the Harmonised Index of Consumer Prices (HICP) rose slightly in July, reaching 2.1% from 2.0% a month earlier (see Chart 6). HICP inflation has picked up strongly since April, mainly on account of developments in recreational services. In part, this reflects a statistical impact from a large increase in the weight of accommodation services in the HICP basket for 2018. Excluding recreational services, HICP inflation data continued to signal contained price pressures during July.

Compared with the main HICP subcomponents, services inflation remained the main driver of growth in the HICP index, largely due to the afore-mentioned developments in accommodation services. Food inflation also accelerated slightly, owing to a further annual increase in the prices for bread and cereal, as well as a recovery from low levels in vegetable price inflation. Energy inflation remained low and unchanged during July.

In contrast, inflation in non-energy industrial goods eased further. This continues to reflect a broad-based weakness within this subcomponent, in part attributable to external downward pressures on prices of imported goods.



Meanwhile, inflation as measured by the Retail Price Index (RPI) stood unchanged at 1.0% in July (see Chart 6). With the exception of food, the contribution from all subcomponents in the RPI basket remained low or negative in July. The recent contrasting developments in the overall HICP and RPI inflation rates mainly reflect the exclusion of accommodation services from the RPI basket, suggesting that price pressures for Maltese households in general remain contained.<sup>13</sup>

Producer cost inflation, as measured by the Industrial Producer Price Index (PPI), remained robust in July, though annual growth eased to 3.9% from 6.4% in June.<sup>14</sup> This deceleration reflects developments within the intermediate goods subcomponent, which nonetheless remains the main driver of growth in the index. This subcomponent carries the largest weight in the overall PPI index and comprises a wide range of items, including computers and electronics. Meanwhile, contributions from the remaining subcomponents of the overall PPI index, namely consumer goods, capital goods, and energy, remained zero or negative.

Malta's harmonised competitiveness indicators (HCI) continued to point towards further deterioration in international competitiveness during July. Annual growth in the nominal HCI, based on trade-weighted exchange rates, stood at 3.0%, while the real HCI, which also takes into account relative price pressures, grew by 3.9%.<sup>15</sup> This suggests that movements in the euro exchange rate and developments in relative prices vis-à-vis international trading partners over the past year have negatively impacted Malta's competitiveness. Nonetheless, the extent of this deterioration was more moderate when compared with previous months.

## Public finance

During July 2018, the Consolidated Fund balance recorded a surplus of €24.7 million, an improvement of €37.7 million when compared with the deficit registered in July 2017 (see Table 4). This occurred as the increase in revenue was more pronounced than the increase in expenditure. In turn, the primary balance registered a surplus of €44.5 million, a rise of €38.6 million over that registered a year earlier.

Total government revenue rose by €44.9 million or 14.2%, when compared with the corresponding period of 2017. This was driven by higher inflows from direct taxes, mainly due to a €37.6 million rise in income tax. Meanwhile, non-tax revenue also increased, partly due to a rise in inflows from EU funds.

Government expenditure increased by €7.2 million, or 2.2% when compared with July 2017. This was due to higher capital spending, which offset a lower recurrent expenditure. The drop in recurrent expenditure is largely due to lower spending on programmes and initiatives, mainly attributable to timing issues with regards to payments to Church Schools and widows pensions. On the other hand, interest payments fell by a modest €1.0 million.

<sup>13</sup> The RPI differs from the HICP in that HICP weights are based on total expenditure in Malta including that by tourists. In contrast, RPI weights only take into account expenditure by Maltese households, thereby excluding tourism-related expenditure such as accommodation services.

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

<sup>15</sup> The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international price competitiveness.

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

EUR millions

	2017		2018		Change	
	Jan.-July	Jan.-July	July	July	Amount	%
<b>Revenue</b>	<b>2,028.1</b>	<b>2,128.0</b>	<b>314.9</b>	<b>359.8</b>	<b>44.9</b>	<b>14.2</b>
<b>Direct tax</b>	<b>989.1</b>	<b>1,112.9</b>	<b>188.7</b>	<b>225.1</b>	<b>36.4</b>	<b>19.3</b>
Income tax	673.7	769.7	137.8	175.4	37.6	27.3
Social security contributions <sup>(1)</sup>	315.4	343.2	50.9	49.7	-1.2	-2.4
<b>Indirect tax</b>	<b>770.0</b>	<b>829.9</b>	<b>103.4</b>	<b>105.9</b>	<b>2.5</b>	<b>2.4</b>
Value Added Tax	398.9	433.6	36.4	42.4	6.0	16.5
Customs and excise duties	169.4	176.4	30.1	30.2	0.1	0.3
Licences, taxes and fines	201.7	219.8	36.9	33.4	-3.6	-9.7
<b>Non-tax<sup>(2)</sup></b>	<b>269.0</b>	<b>185.2</b>	<b>22.8</b>	<b>28.8</b>	<b>5.9</b>	<b>26.0</b>
<b>Expenditure</b>	<b>2,133.1</b>	<b>2,245.2</b>	<b>327.9</b>	<b>335.1</b>	<b>7.2</b>	<b>2.2</b>
<b>Recurrent</b>	<b>1,968.6</b>	<b>2,058.1</b>	<b>303.5</b>	<b>290.7</b>	<b>-12.8</b>	<b>-4.2</b>
Personal emoluments	438.1	472.0	61.1	65.0	3.9	6.3
Operational and maintenance	101.2	108.4	12.7	16.9	4.2	33.3
Programmes and initiatives <sup>(1)</sup>	1,094.3	1,116.1	178.2	149.9	-28.3	-15.9
Contributions to entities	210.0	240.7	32.6	39.0	6.4	19.6
Interest payments	125.0	120.8	18.8	19.8	1.0	5.2
<b>Capital</b>	<b>164.4</b>	<b>187.1</b>	<b>24.4</b>	<b>44.4</b>	<b>20.0</b>	<b>82.1</b>
<b>Primary balance<sup>(3)</sup></b>	<b>20.1</b>	<b>3.6</b>	<b>5.9</b>	<b>44.5</b>	<b>38.6</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-105.0</b>	<b>-117.2</b>	<b>-12.9</b>	<b>24.7</b>	<b>37.7</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.

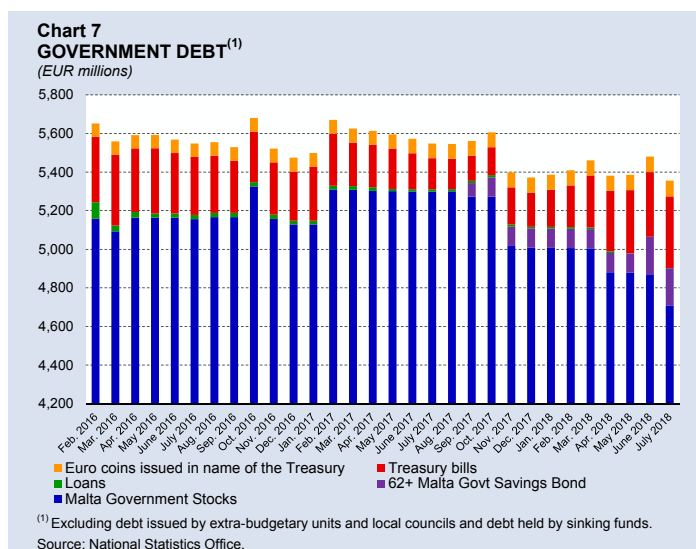
Source: National Statistics Office.

Meanwhile, capital expenditure was €20.0 million higher than that recorded a year earlier.

In July 2018, the total stock of government debt amounted to € 5,355.5 million, a decrease of €124.8 million when compared with a month earlier (see Chart 7). This was mainly due to lower holdings of Malta Government Stocks.

## Deposits, credit and financial markets

Annual growth in residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) continued to ease in July, reaching 3.5% from 4.5% a month earlier (see Chart 8). Recent developments point

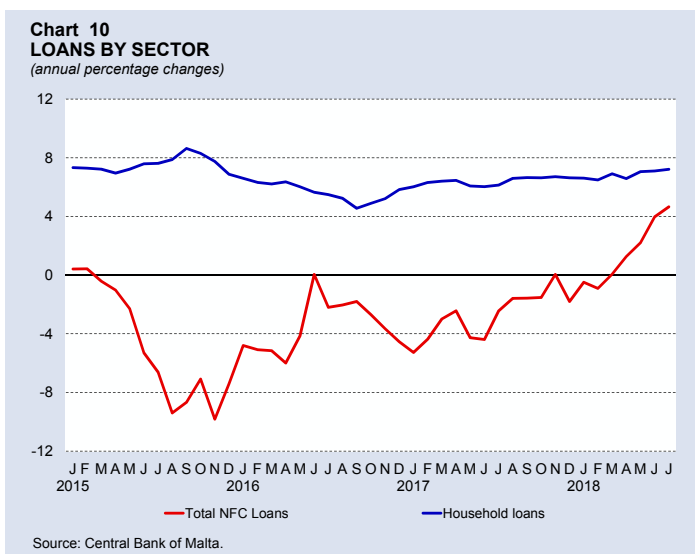
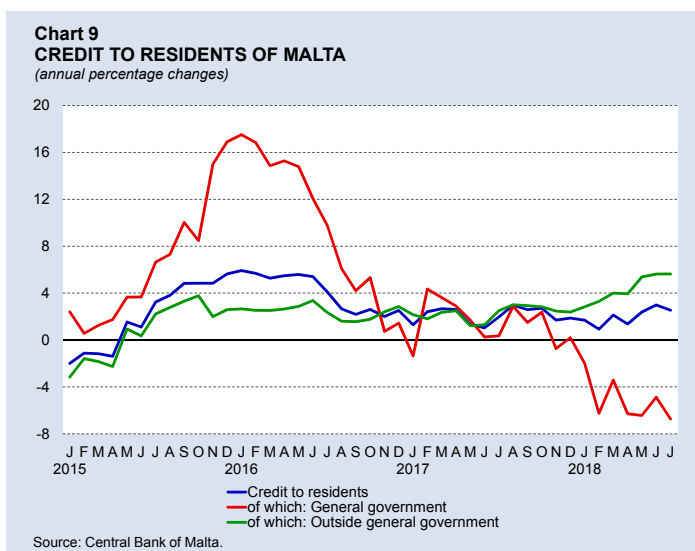
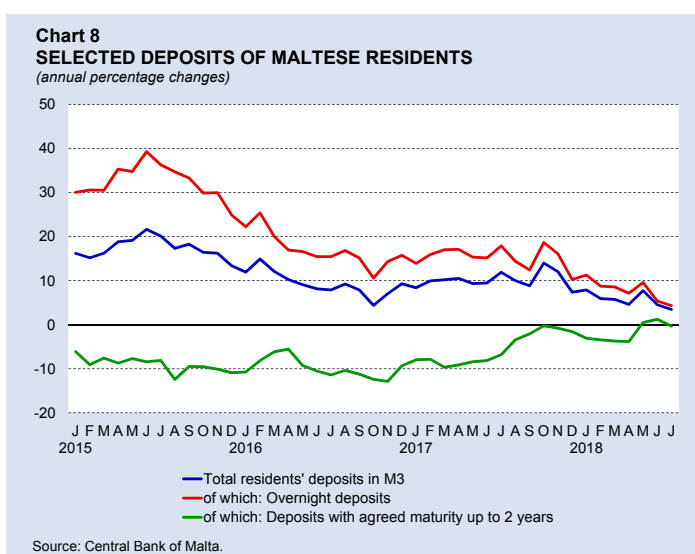


towards a moderation of growth in M3 deposits, following the historically strong rates observed between 2014 and 2017.

Overnight deposits were the main driver behind the deceleration in M3 deposits, though annual growth eased to 4.3% in July. Nonetheless, overnight deposits remained the main component of M3 deposits. At the same time, growth in longer-term time deposits with a maturity of up to two years contracted by 0.2%. Despite the deceleration in overnight deposits, these developments continue to point towards a high level of liquidity, amid robust economic growth and low interest rates.

On the assets side of banks' balance sheets, annual growth in credit to Maltese residents eased to 2.5% in July (see Chart 9), reflecting a faster contraction in credit to general government. At the same time, growth in credit to residents outside general government remained robust at 5.6%, driven primarily by loans.

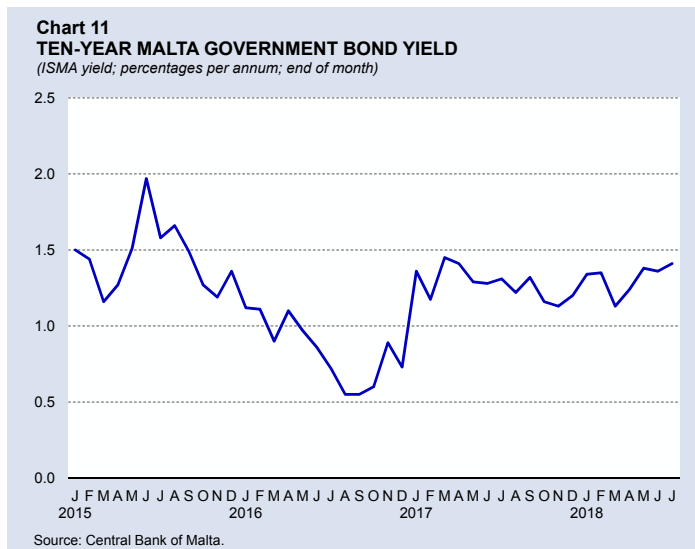
Growth in loans to residents outside the general government sector was supported by loans to both households and NFCs (see Chart 10). Loans to households were up by 7.2% in the year to July, owing mainly to continued strong growth in mortgage loans. This component of loans has registered uninterrupted robust growth for a number of years. Meanwhile, growth in loans to NFCs picked up further to 4.7% in July, driven



mainly by lending to the real estate and construction sectors. Bank lending to NFCs has recovered in recent months, following a prolonged period of contraction between 2015 and 2017.

The composite interest rate paid by MFIs on residents' euro-denominated deposits rose by 2 basis points in July when compared with a month earlier, to 0.38%. On the other hand, the composite rate charged on outstanding loans fell by 2 basis points to 3.59%, thereby leading to a 4 basis point drop in the spread between the two rates to 321 basis points. Compared with their respective levels a year earlier, the deposit rate stood 4 basis points lower, while the loan rate fell by 7 basis points.

In the capital market, the secondary yield on ten-year Maltese government bonds rose to 1.5% in August, marking a gradual increase from the trough of 1.1% registered in March (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index fell further during August, going down by 1.1% when compared with July. The MSE Total Return Index, which accounts for changes in both equity prices and dividends, dropped by 0.7%.



# Annex 1

## MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

	2016	2017	2017	2017	2017	2018	2018	2017	2017	2017	2017	2017	2018	2018	2018	2018	2018	2018	2018	2018
			Q2	Q3	Q4	Q1	Q2	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
<b>Prices and costs</b>																				
HICP inflation	0.9	1.3	1.1	1.2	1.4	1.3	1.7	1.2	1.2	1.5	1.5	1.3	1.2	1.3	1.3	1.4	1.7	2.0	2.1	2.4
RPI inflation	0.6	1.4	1.4	1.2	1.3	0.9	0.9	1.2	1.0	1.3	1.3	1.2	0.9	1.0	0.8	0.8	0.9	1.0	1.0	-
Industrial producer price inflation	-0.3	1.6	0.4	3.0	3.3	4.3	6.4	3.1	3.1	3.2	3.4	3.4	3.1	3.3	6.4	6.7	6.0	6.4	3.9	-
HCI (nominal)	2.3	1.7	0.7	2.9	3.4	5.2	4.1	3.2	2.9	2.8	3.2	4.0	4.1	5.9	5.8	5.8	3.5	3.1	3.0	-
HCI (real)	3.1	1.8	-0.1	3.9	4.8	7.9	6.1	4.3	3.8	4.0	4.5	5.8	5.8	9.0	8.8	9.2	5.0	4.1	3.9	-
Unit labour costs, whole economy <sup>(1)</sup>	1.8	0.2	0.9	0.1	0.2	1.3	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(1)</sup>	2.9	1.7	1.8	1.3	1.7	2.3	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(1)</sup>	1.0	1.5	0.8	1.2	1.5	1.1	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (Eurostat)	5.5	5.3	5.8	5.3	4.9	5.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																				
Nominal GDP	6.9	9.4	9.7	10.6	8.5	7.1	8.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	5.2	6.7	6.9	7.3	5.5	4.9	5.9	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	2.6	3.7	4.1	3.4	2.7	4.8	7.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	-2.8	2.8	-5.4	19.0	1.9	2.5	11.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	1.7	-7.3	-28.5	-5.9	0.9	-15.2	12.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	4.2	3.8	6.5	3.4	4.9	1.6	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	0.7	-1.9	-6.3	-0.6	3.6	-0.9	4.6	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																				
LFS unemployment rate (% of labour force) <sup>(2)</sup>	4.7	4.6	4.6	4.6	4.4	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment <sup>(3)</sup>	-	-	-	-	-	5.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.3	5.8	5.7	5.9	5.5	6.3	-	6.0	5.7	5.7	5.4	5.3	6.2	6.5	6.2	6.5	-	-	-	-
<b>Balance of payments</b>																				
Current account (as a % of GDP) <sup>(4)</sup>	7.0	13.6	11.7	12.9	13.6	14.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																				
Maltese residents' deposits and loans																				
Overnight deposits	15.7	10.2	15.2	12.4	10.2	8.6	5.4	14.4	12.4	18.6	16.1	10.2	11.3	8.8	8.6	7.1	9.6	5.4	4.3	-
Deposits with agreed maturity up to 2 years	-9.3	-1.6	-8.1	-2.1	-1.6	-3.7	1.2	-3.4	-2.1	-0.3	-0.8	-1.6	-3.1	-3.4	-3.7	-3.8	0.5	1.2	-0.3	-
Total residents' deposits in M3	9.3	7.4	9.5	8.8	7.4	5.8	4.5	10.0	8.8	14.0	12.0	7.4	7.9	5.9	5.8	4.6	7.7	4.5	3.5	-
Credit to general government	1.4	0.2	0.3	1.5	0.2	-3.4	-4.9	2.9	1.5	2.4	-0.7	0.2	-2.0	-6.2	-3.4	-6.3	-6.4	-4.9	-6.7	-
Credit to residents (excl. general government)	2.9	2.4	1.3	2.9	2.4	4.0	5.6	3.0	2.9	2.8	2.5	2.4	2.8	3.3	4.0	3.9	5.4	5.6	5.6	-
Total credit	2.5	1.9	1.0	2.6	1.9	2.1	3.0	3.0	2.6	2.7	1.7	1.9	1.7	0.9	2.1	1.4	2.4	3.0	2.5	-
10-year interest rate (%) <sup>(5)</sup>	0.7	1.2	1.3	1.3	1.2	1.1	1.4	1.2	1.3	1.2	1.1	1.2	1.3	1.4	1.1	1.2	1.4	1.4	1.4	1.5
Stock prices: Malta Stock Exchange Index <sup>(6)</sup>	4.5	-3.3	-0.4	1.1	-3.9	-0.8	-2.5	-1.5	1.1	-0.9	-5.6	2.7	-0.7	0.4	-0.5	-4.3	0.5	1.3	-0.8	-1.1
<b>General government finances (% of GDP)</b>																				
Surplus (+) / deficit (-) <sup>(4)</sup>	1.0	3.9	2.1	3.3	3.9	3.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(7)</sup>	56.3	50.7	55.0	53.4	50.7	50.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

<sup>(2)</sup> The LFS unemployment rate for 2017 and the first quarter of 2018 is updated with the latest demographic revisions published by the NSO on 12th February 2018.

<sup>(3)</sup> LFS employment figures have been updated on the basis of the latest demographic revisions from the first quarter of 2017. Accordingly, annual growth rates consistent with these revisions are shown from Q1 2018.

<sup>(4)</sup> Four-quarter moving sums.

<sup>(5)</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>(6)</sup> Period-on-period percentage changes, based on end-of-month data.

<sup>(7)</sup> GDP data are four-quarter moving sums.

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