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EUROSISTEMA
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ECONOMIC UPDATE

10/2018

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ECONOMIC UPDATE 10/2018

Summary¹

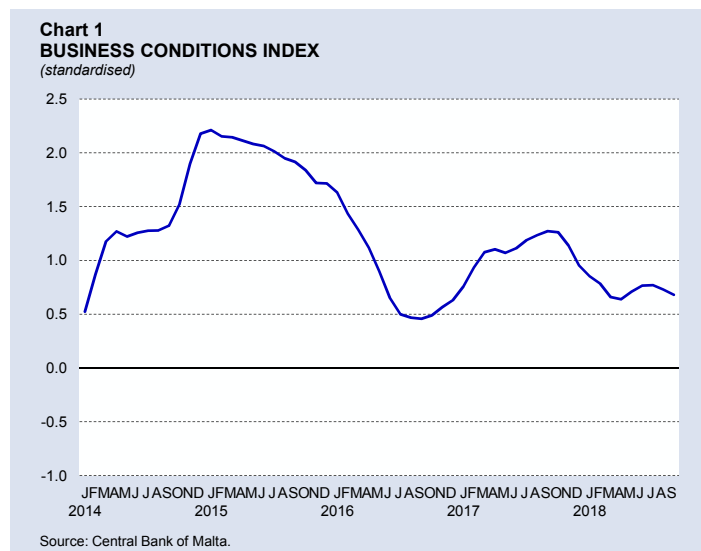
In September, the Bank's Business Conditions' Index (BCI) remained unchanged over the previous month and continued to indicate above-average conditions. Economic sentiment fell marginally as lower confidence in the construction and industrial sectors offset higher sentiment in the services and retail sectors, and to a smaller extent, amongst consumers. In August, tourism activity rose at a more modest pace compared with July. Meanwhile, retail trade contracted in annual terms, while industrial production increased on the same month a year ago. Conditions in the labour market remained favourable, with the number of registered unemployed declining further. The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) rose to 2.4% in August. The annual rate of change of Maltese residents' deposits stood unchanged at 3.5%, while annual growth in credit to residents rose marginally to 2.6%. As regards fiscal developments, in August 2018, the cash-based Consolidated Fund surplus narrowed compared with a year earlier.

Central Bank's Business Conditions Index (BCI)²

In September, the Central Bank's BCI remained unchanged over the previous month (see Chart 1). The index stood at 0.7, the same as its revised value for August. 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 September, the Economic Sentiment Indicator (ESI) edged down to 120 from 121 in the preceding month. Nonetheless, it still remained above its long-term average of 101 (see Table 1).^{3,4} Lower sentiment registered in the construction and industrial sectors offset higher sentiment in the services and retail sectors, and to a smaller extent amongst consumers.



¹ The cut-off date for information in this note is 15 October 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. | Apr. | May | June | July | Aug. | Sep. |
| Economic Sentiment Indicator | 108 | 114 | 123 | 121 | 119 | 111 | 119 | 118 | 121 | 121 | 120 |
| Construction confidence indicator | -8 | 13 | 27 | 29 | 26 | 25 | 38 | 25 | 29 | 22 | 12 |
| Evolution of your current overall order books | -22 | 2 | 21 | 29 | 26 | 16 | 33 | 18 | 23 | 20 | 7 |
| Employment expectations over the next 3 months | 6 | 24 | 34 | 29 | 27 | 34 | 43 | 32 | 35 | 23 | 17 |
| Industrial confidence indicator | 0 | 8 | 16 | 14 | 11 | -4 | 5 | 11 | 15 | 13 | 5 |
| Assessment of order-book levels | -18 | -5 | -2 | 6 | -2 | 1 | -2 | 19 | -1 | 3 | -9 |
| Assessment of stocks of finished products | 2 | -2 | 1 | -1 | 5 | 13 | 3 | 7 | -3 | 5 | 4 |
| Production expectations for the months ahead | 19 | 27 | 51 | 35 | 40 | -1 | 20 | 20 | 44 | 40 | 28 |
| Services confidence indicator | 26 | 31 | 38 | 30 | 33 | 29 | 40 | 30 | 32 | 36 | 42 |
| Business situation development over the past 3 months | 22 | 27 | 32 | 27 | 34 | 25 | 31 | 26 | 25 | 28 | 40 |
| Evolution of the demand over the past 3 months | 29 | 33 | 36 | 38 | 38 | 34 | 41 | 30 | 32 | 40 | 36 |
| Expectation of the demand over the next 3 months | 27 | 32 | 46 | 25 | 26 | 29 | 49 | 35 | 38 | 40 | 51 |
| Retail trade confidence indicator | 7 | 9 | 16 | 23 | 6 | 1 | 10 | 0 | 12 | 11 | 17 |
| Business activity, past 3 months | 17 | 15 | 38 | 26 | 3 | 8 | 13 | 8 | 15 | 16 | 28 |
| Stocks of finished goods | 9 | 5 | 22 | 3 | 3 | 7 | 12 | 4 | 6 | 7 | 6 |
| Business activity, next 3 months | 14 | 16 | 32 | 47 | 17 | 3 | 28 | -4 | 28 | 24 | 30 |
| Consumer confidence indicator | 2 | 8 | 25 | 27 | 26 | 23 | 22 | 23 | 23 | 23 | 24 |
| Financial situation over the next 12 months | 5 | 9 | 18 | 23 | 20 | 17 | 14 | 17 | 19 | 16 | 15 |
| General economic situation over the next 12 months | 13 | 19 | 32 | 33 | 34 | 28 | 27 | 26 | 28 | 27 | 30 |
| Unemployment expectations over the next 12 months | -13 | -18 | -30 | -29 | -32 | -31 | -33 | -30 | -28 | -29 | -32 |
| Savings over next 12 months | -24 | -14 | 17 | 25 | 17 | 15 | 14 | 20 | 18 | 19 | 18 |

Source: European Commission.

In the construction sector, sentiment declined sharply for the second consecutive month, as confidence fell to 12 in September, from 22 in the preceding month, mainly on account of less optimistic assessment of order books.⁵ Despite this decline, sentiment remained well above its long-term average of -16. 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, fewer firms anticipated a rise in prices in the months ahead.

Industrial confidence also declined, falling to 5 from 13 in the preceding month, though it still stood above its long-term average of -3.⁶ In September, lower sentiment was mainly driven by firms' production expectations and their assessment of order books. A larger share of respondents expected employment to increase in subsequent months. Going forward, on balance, firms anticipated a decline in selling prices in the three months ahead.

In contrast, sentiment in the services sector rose strongly to 42, from 36 in August, and stood above its long-term average of 23.⁷ Higher sentiment reflected positive developments in firms' assessment of their business situation and their demand expectations. In contrast, fewer firms recorded improved past demand. Supplementary survey data indicate that in September, employment expectations were slightly more optimistic than in the preceding month. On the other hand, fewer participating firms foresaw a rise in prices.

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 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.

⁷ 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.

Similarly, sentiment in the retail sector increased, following a slight deceleration a month earlier.⁸ Confidence rose to 17 from 11 in August, and continued to stand above its long-term average of 3. The recent rise in sentiment was driven by all subcomponents.⁹ Additional survey data indicate that on balance, more firms predicted higher prices, while fewer firms expected an increase in their employment.

Consumer confidence edged up to 24 in September after remaining unchanged at 23 for three consecutive months, well above its long-term average of -16.¹⁰ On balance, more respondents foresaw a fall in unemployment, while more households anticipated an improved general economic situation in the following months.¹¹ This was partly offset by a marginal fall in the number of consumers expecting an increase in their savings and an improvement in their financial situation over the following twelve months. A smaller share of respondents expected to make fewer major purchases in the twelve months ahead, while consumers anticipated higher prices going forward.

Activity

Growth in the index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, rebounded to 1.5% in August, following a contraction of 6.1% in the preceding month (see Table 2).¹² This increase was largely driven by higher production among firms involved in the printing and reproduction of recorded media and in the production of computer, electronics and optical products. Firms involved in the production of rubber and plastic, food products and beverages also reported higher production. Growth in these sub-sectors more than offset declines among producers of pharmaceutical products and the “other manufacturing”

Table 2
ACTIVITY INDICATORS

Annual percentage changes

| | 2016 | | 2017 | | | | | | | | | 2018 | | | | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
| | 2016 | 2017 | May | June | July | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | |
| Industrial production | -4.2 | 4.1 | 5.0 | 0.0 | 0.7 | 6.3 | 8.9 | 2.2 | 3.5 | 0.0 | 0.7 | -5.4 | -2.9 | -3.7 | -2.6 | 2.3 | -6.1 | 1.5 | |
| Retail trade | 2.9 | 5.2 | 8.1 | 6.6 | 4.2 | 4.2 | 10.1 | 5.8 | 2.3 | 8.9 | 5.8 | 3.2 | 2.0 | -2.4 | 0.0 | -1.7 | -3.7 | -2.1 | |
| Number of tourist arrivals | 10.2 | 15.7 | 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 | 10.2 | |
| Number of nights stayed | 5.7 | 10.3 | 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 | 5.7 | |
| Private accommodation ⁽¹⁾ | 13.5 | 16.7 | 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 | 5.1 | |
| Collective accommodation | 1.0 | 6.0 | 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 | 6.3 | |
| Tourist expenditure | 4.3 | 13.9 | 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 | 7.2 | |
| Package expenditure | -6.5 | 3.2 | -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 | 25.4 | |
| Non-package expenditure | 11.3 | 19.8 | 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 | 10.9 | |
| Other | 8.2 | 17.3 | 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 | -6.5 | |

⁽¹⁾ Private accommodation includes stays in both rented and non-rented accommodation.

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 Above normal stocks of finished goods have a negative effect on the overall indicator. Thus, a fall in the balance of firms reporting above normal stock levels has a positive effect on the overall indicator.

¹⁰ 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.

¹¹ A fall in unemployment expectations has a positive effect on the overall indicator. Thus, an increase in the share of respondents expecting unemployment to fall has a positive effect on the overall 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.

sub-sector, which includes medical and dental instruments, toys and related products. Smaller declines were also recorded in the energy sector.

In August, retail trade, which is a short-term indicator of final domestic demand, fell further. Calendar day-adjusted data show that the volume of retail trade fell at an annual rate of 2.1%, following a decline of 3.7% in July.

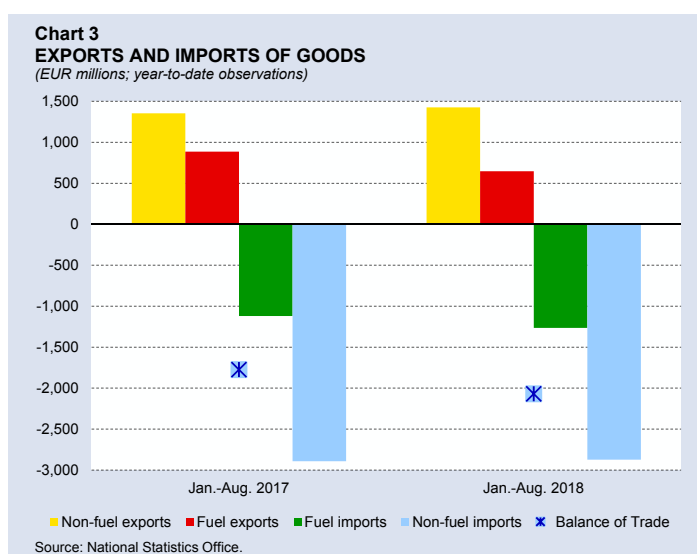
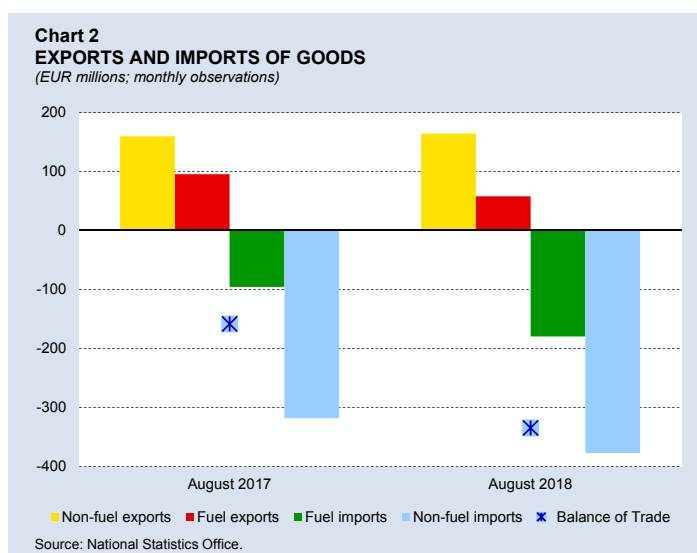
Meanwhile, the number of inbound tourists rose by a more modest 10.2% in annual terms, following a rise of 15.2% in July. Similarly, nights stayed increased at a slower rate of 5.7%. Both nights spent in private and collective accommodation rose on a year earlier. Tourist spending in Malta rose by 7.2%, after increasing by 9.5% in July. Spending on both package and non-package holidays rose, while the 'other' expenditure category continued to fall.

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 €334.8 million in August 2018, compared with a deficit of €158.5 million in the same month a year ago (see Chart 2). This was driven by a rise in imports and a contraction in exports. The latter decreased by €32.9 million on a year earlier, whilst imports increased by €143.3 million. The decrease in exports was largely on account of mineral fuels, oils and products and to a lesser extent electrical machinery. The surge in imports was predominantly driven by an increase in mineral fuels, oils and products, and higher registration of ships and aircraft.

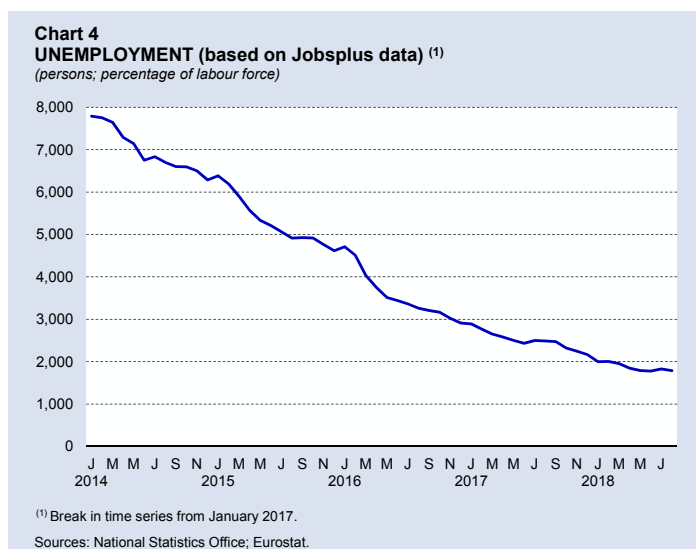
The visible trade gap also widened when measured over



the first eight months of 2018. When compared with the same period of 2017, the merchandise trade deficit increased by €294.1 million, and stood at €2,069.5 million (see Chart 3).

Labour market

Jobsplus data show that in August the number of persons on the unemployment register dropped to 1,787, from 2,489 a year earlier, and from 1,828 in July (see Chart 4).



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 6.2% registered in the preceding month, and the 6.0% observed 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

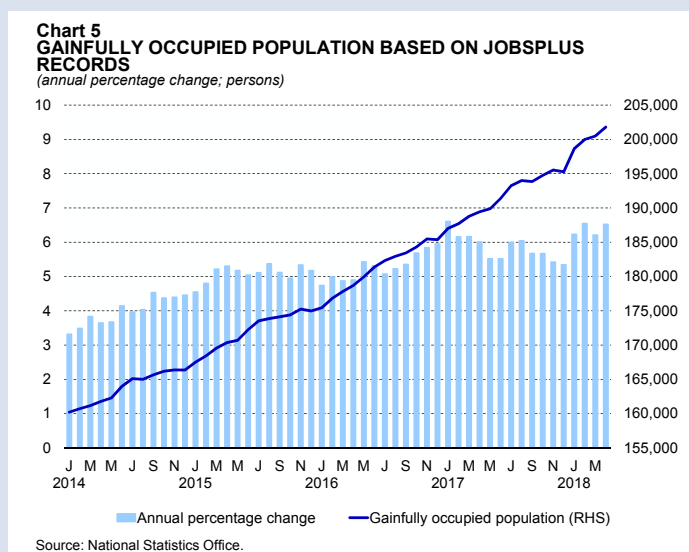


Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

| | 2017 April | 2018 April | Annual change | |
|------------------------------------------------------------------------|----------------|----------------|----------------------|------------|
| | | | Number of persons | % |
| Labour supply | 192,011 | 203,633 | 11,622 | 6.1 |
| Gainfully occupied ⁽¹⁾ | 189,434 | 201,786 | 12,352 | 6.5 |
| Registered unemployed | 2,577 | 1,847 | -730 | -28.3 |
| Unemployment rate (%) | 1.3 | 0.9 | | |
| Private sector | 144,019 | 154,902 | 10,883 | 7.6 |
| Direct production ⁽²⁾ | 33,791 | 35,184 | 1,393 | 4.1 |
| Of which: | | | | |
| Manufacturing | 20,804 | 21,567 | 763 | 3.7 |
| Construction | 10,300 | 10,842 | 542 | 5.3 |
| Market services | 110,228 | 119,718 | 9,490 | 8.6 |
| 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 ⁽³⁾ | 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 |
| Public sector | 45,415 | 46,884 | 1,469 | 3.2 |

⁽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.

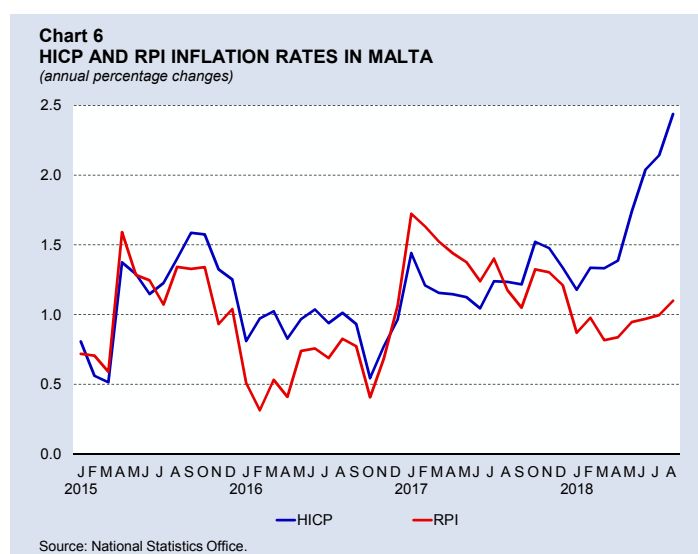
year to April 2018, and accounted for 42.6% of the overall rise in private market services employment. The number of persons employed in the arts, entertainment and recreation sector also grew significantly in annual terms, going up by 1,201 persons. Employment also increased significantly within the 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) accelerated further in August; reaching 2.4% from 2.1% 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.



Services inflation remained the main driver of HICP inflation, largely due to the afore-mentioned developments in accommodation services. Food inflation also accelerated slightly, owing to faster growth in the prices for bread and cereals. Energy inflation picked up in August, reflecting an announced increase in the price of gas.

In contrast, prices for non-energy industrial goods contracted on an annual basis. This reflects a broad-based weakness within this subcomponent, with subdued price growth observed in items ranging from clothing articles to communications equipment. In part, these developments can be attributed to downward pressures on prices of imported goods, such as exchange rate movements and subdued inflation in Malta's trading partners.

Meanwhile, inflation as measured by the Retail Price Index (RPI) picked up marginally in August, reaching 1.1% from 1.0% in July (see Chart 6). This mainly reflected a higher contribution from the food and the transport and communication components. In contrast, contributions from the remaining subcomponents of the index remained weak.

The large differential observed between the overall HICP and RPI inflation rates mainly reflects the exclusion of tourist expenditure, such as accommodation services, from the RPI basket.¹³ Overall, the information available suggests that price pressures for Maltese households in general remain contained, as also reflected in the RPI.

Producer cost inflation, as measured by the Industrial Producer Price Index (PPI), remained robust in August, though annual growth eased to 3.5% from 3.9% in July.¹⁴ This deceleration reflects developments within the intermediate goods subcomponent, which nonetheless remained the

¹³ 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.

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.

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, amounted to zero.

Malta's harmonised competitiveness indicators (HCI) continued to signal further deterioration in international competitiveness. Annual growth in the nominal HCI, based on trade-weighted exchange rates, stood at 2.4% in August, while the real HCI, which also takes into account relative price pressures, grew by 3.3%.¹⁵ 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

In August, the Consolidated Fund recorded a surplus of €114.1 million, a reduction of €22.0 million when compared with the surplus registered in August 2017 (see Table 4). This occurred as

Table 4
CONSOLIDATED FUND BALANCE

EUR millions

| | 2017 | | 2018 | | Change | |
|----------------------------------------------|----------------|----------------|--------------|--------------|--------------|--------------|
| | Jan.-Aug. | Jan.-Aug. | Aug. | Aug. | Amount | % |
| Revenue | 2,425.9 | 2,591.0 | 397.8 | 463.0 | 65.2 | 16.4 |
| Direct tax | 1,206.1 | 1,347.0 | 217.1 | 234.1 | 17.0 | 7.8 |
| Income tax | 833.3 | 920.9 | 159.6 | 151.2 | -8.4 | -5.3 |
| Social security contributions ⁽¹⁾ | 372.9 | 426.1 | 57.5 | 82.9 | 25.4 | 44.2 |
| Indirect tax | 935.7 | 1,016.8 | 165.6 | 186.9 | 21.3 | 12.8 |
| Value Added Tax | 517.8 | 557.7 | 118.8 | 124.1 | 5.3 | 4.5 |
| Customs and excise duties | 196.0 | 204.7 | 26.6 | 28.3 | 1.7 | 6.5 |
| Licences, taxes and fines | 222.0 | 254.3 | 20.2 | 34.5 | 14.3 | 70.5 |
| Non-tax⁽²⁾ | 284.1 | 227.3 | 15.1 | 42.1 | 26.9 | 178.3 |
| Expenditure | 2,394.8 | 2,594.1 | 261.7 | 349.0 | 87.2 | 33.3 |
| Recurrent | 2,208.1 | 2,381.3 | 239.5 | 323.3 | 83.8 | 35.0 |
| Personal emoluments | 501.7 | 541.2 | 63.6 | 69.2 | 5.5 | 8.7 |
| Operational and maintenance | 110.6 | 120.7 | 9.4 | 12.3 | 3.0 | 31.7 |
| Programmes and initiatives ⁽¹⁾ | 1,210.0 | 1,308.6 | 115.7 | 192.5 | 76.8 | 66.4 |
| Contributions to entities | 241.4 | 271.7 | 31.4 | 31.0 | -0.5 | -1.5 |
| Interest payments | 144.4 | 139.1 | 19.4 | 18.3 | -1.1 | -5.4 |
| Capital | 186.7 | 212.8 | 22.2 | 25.7 | 3.5 | 15.7 |
| Primary balance⁽³⁾ | 175.5 | 136.0 | 155.5 | 132.4 | -23.1 | - |
| Consolidated Fund balance | 31.1 | -3.1 | 136.1 | 114.1 | -22.0 | - |

⁽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.

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.

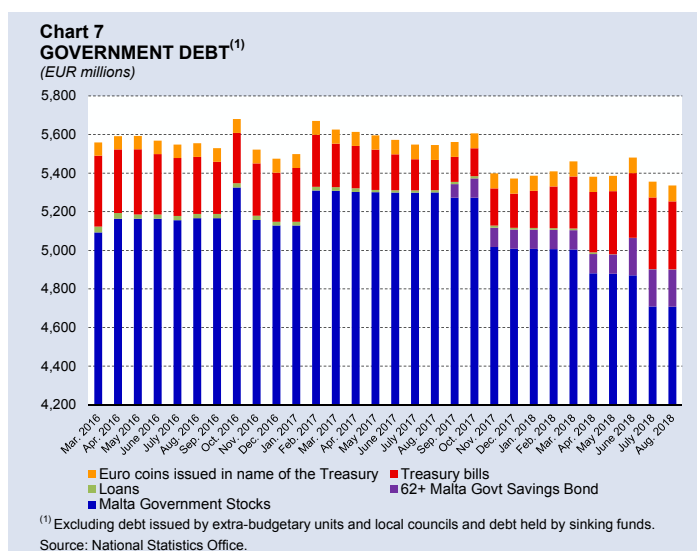
an increase in expenditure exceeded that in revenue. In turn, the primary balance registered a surplus of €132.4 million, a decline of €23.1 million over that registered a year earlier.

Total government revenue rose by €65.2 million or 16.4%, when compared with the corresponding period of 2017, largely reflecting developments in tax revenue. The increase in tax revenue mainly reflected a €25.4 million rise in social security contributions and higher inflows from licences, taxes and fines, the latter partly reflecting higher duties on transfer of immovable property. Meanwhile, non-tax revenue also increased significantly chiefly due to the timings of grants received.

Government expenditure increased by €87.2 million, or 33.3% when compared with August 2017. This can be mostly attributed to a rise in recurrent expenditure, largely due to higher spending on programmes and initiatives, which partly reflected the impact of a tax refund to persons in employment as announced in the 2018 Budget. Outlays in this category also increased due to timing issues with regards to payments to Church Schools and pensions.

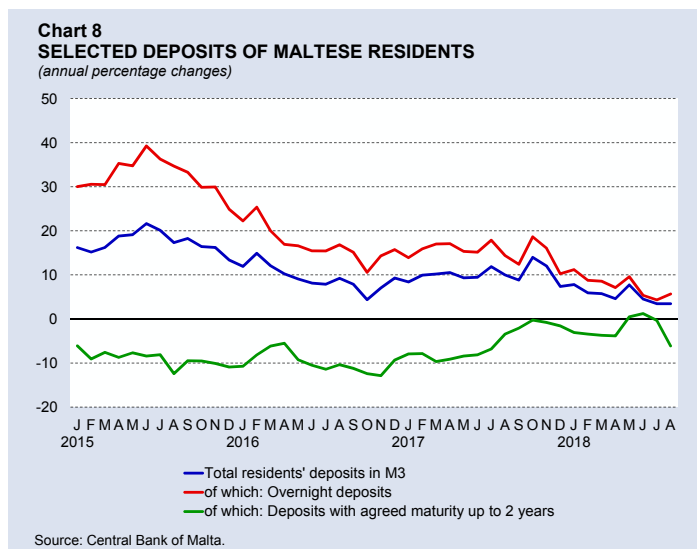
Meanwhile, capital expenditure increased by €3.5 million when compared with a year earlier.

In August 2018, the total stock of government debt amounted to € 5,336.2 million, a decrease of €19.3 million when compared with a month earlier (see Chart 7). This decline was mainly due to a lower amount of Treasury Bills outstanding.

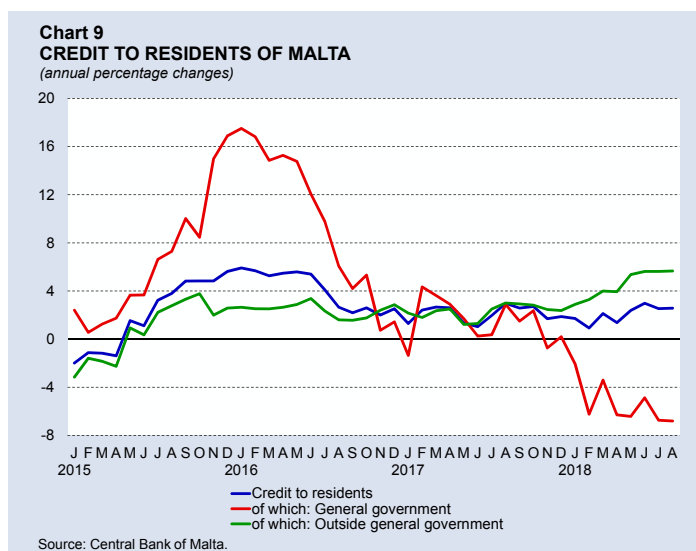


Deposits, credit and financial markets

Annual growth in residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) remained unchanged at 3.5% in August when compared with a month earlier (see Chart 8). These developments continue to indicate a moderation in the rate of growth of M3 deposits, following the historically strong rates observed in previous years.



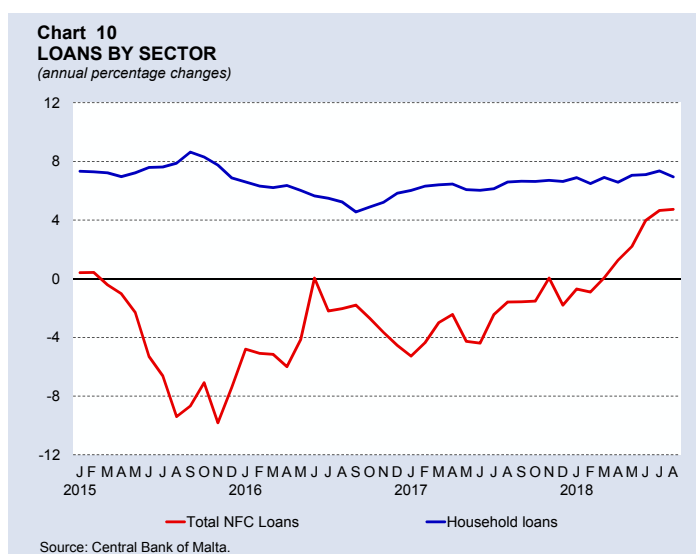
Overnight deposits remained the main driver of growth in M3 deposits, with annual growth in this component standing at 5.7% in August. Overnight deposits currently comprise over 80% of total M3 deposits. On the other hand, longer-term time deposits with a maturity of up to two years contracted at a faster pace in August, and fell by -6.1%. This continued shift in demand away from time deposits and toward overnight deposits continues to point to 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 stood at 2.6% in August, marginally higher than the rate of 2.5% registered in July (see Chart 9). Although credit to general government continued to contract, this was offset by slightly faster growth in credit to residents outside general government. These rose by 5.7% year-on-year in August.

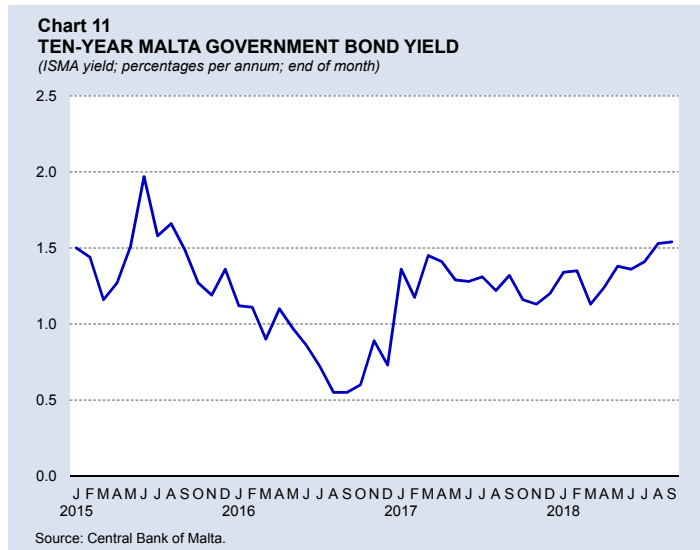
Credit to Maltese residents outside general government was once more supported by growth in loans, which comprise around 95% of the overall figure. Growth in loans to households remained robust in the year to August, registering 6.9% on the back of continued strong growth in mortgages (see Chart 10). At the same time, loans to NFCs grew by 4.7%, mainly due to 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 fell by 1 basis point to 0.37% in August when compared with a month earlier. On the other hand, the composite rate charged on outstanding loans rose by 1 basis point to 3.60%, thereby leading to a 2 basis point increase in the spread between the two rates to 323 basis points. Compared with their respective levels a year earlier, the deposit rate and the loan rate were 3 basis



points and 1 basis point lower, respectively.

In the capital market, the secondary yield on ten-year Maltese government bonds remained unchanged at 1.5% in September (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Equity Price Index rose during September, going up by 2.4% when compared with July. The MSE Total Return Index, which accounts for changes in equity prices and dividends, rose by 2.5%.



MACROECONOMIC INDICATORS FOR MALTA

(annual percentage changes; non-seasonally adjusted data)

| | 2016 | 2017 | 2017 | 2017 | 2018 | 2018 | 2018 | 2017 | 2017 | 2017 | 2017 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 |
|---------------------------------------------------------|------|------|------|------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | | | Q3 | Q4 | Q1 | Q2 | Q3 | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. |
| Prices and costs | | | | | | | | | | | | | | | | | | | | |
| HICP inflation | 0.9 | 1.3 | 1.2 | 1.4 | 1.3 | 1.7 | - | 1.2 | 1.5 | 1.5 | 1.3 | 1.2 | 1.3 | 1.3 | 1.4 | 1.7 | 2.0 | 2.1 | 2.4 | 2.5 |
| RPI inflation | 0.6 | 1.4 | 1.2 | 1.3 | 0.9 | 0.9 | - | 1.0 | 1.3 | 1.3 | 1.2 | 0.9 | 1.0 | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 | 1.6 |
| Industrial producer price inflation | -0.3 | 1.6 | 3.1 | 3.4 | 4.4 | 6.5 | - | 3.2 | 3.3 | 3.5 | 3.4 | 3.2 | 3.4 | 6.5 | 6.8 | 6.1 | 6.5 | 3.9 | 3.5 | - |
| HCI (nominal) | 2.3 | 1.7 | 2.9 | 3.4 | 5.2 | 4.1 | - | 2.9 | 2.8 | 3.2 | 4.0 | 4.1 | 5.9 | 5.8 | 5.8 | 3.5 | 3.1 | 3.0 | 2.4 | - |
| HCI (real) | 3.1 | 1.8 | 3.9 | 4.8 | 7.9 | 6.1 | - | 3.9 | 4.1 | 4.5 | 5.8 | 5.9 | 9.0 | 8.8 | 9.2 | 5.1 | 4.2 | 4.1 | 3.3 | - |
| Unit labour costs, whole economy ⁽¹⁾ | 1.8 | 0.2 | 0.1 | 0.2 | 1.3 | 1.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Compensation per employee ⁽¹⁾ | 2.9 | 1.7 | 1.3 | 1.7 | 2.3 | 2.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Labour productivity (per person) ⁽¹⁾ | 1.0 | 1.5 | 1.2 | 1.5 | 1.1 | 0.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Property Price Index (Eurostat) | 5.5 | 5.3 | 5.1 | 4.9 | 5.6 | 5.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Economic activity | | | | | | | | | | | | | | | | | | | | |
| Nominal GDP | 6.9 | 9.4 | 10.6 | 8.5 | 7.1 | 8.6 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real GDP | 5.2 | 6.7 | 7.3 | 5.5 | 4.9 | 5.9 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real private consumption | 2.6 | 3.7 | 3.4 | 2.7 | 4.8 | 7.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real government consumption | -2.8 | 2.8 | 19.0 | 1.9 | 2.5 | 11.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real gross fixed capital formation | 1.7 | -7.3 | -5.9 | 0.9 | -15.2 | 12.2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real exports of goods and services | 4.2 | 3.8 | 3.4 | 4.9 | 1.6 | 0.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real imports of goods and services | 0.7 | -1.9 | -0.6 | 3.6 | -0.9 | 4.6 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Labour market developments | | | | | | | | | | | | | | | | | | | | |
| LFS unemployment rate (% of labour force) | 4.7 | 4.0 | 4.0 | 4.0 | 3.9 | 3.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| LFS employment | 4.9 | 5.9 | 5.8 | 7.5 | 6.6 | 6.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Jobsplus gainfully occupied | 5.3 | 5.8 | 5.9 | 5.5 | 6.3 | - | - | 5.7 | 5.7 | 5.4 | 5.3 | 6.2 | 6.5 | 6.2 | 6.5 | - | - | - | - | - |
| Balance of payments | | | | | | | | | | | | | | | | | | | | |
| Current account (as a % of GDP) ⁽²⁾ | 7.0 | 13.6 | 12.9 | 13.6 | 14.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Credit and financial indicators | | | | | | | | | | | | | | | | | | | | |
| Maltese residents' deposits and loans | | | | | | | | | | | | | | | | | | | | |
| Overnight deposits | 15.7 | 10.2 | 12.4 | 10.2 | 8.6 | 5.4 | - | 12.4 | 18.6 | 16.1 | 10.2 | 11.2 | 8.8 | 8.6 | 7.1 | 9.6 | 5.4 | 4.3 | 5.7 | - |
| Deposits with agreed maturity up to 2 years | -9.3 | -1.6 | -2.1 | -1.6 | -3.7 | 1.2 | - | -2.1 | -0.3 | -0.8 | -1.6 | -3.1 | -3.4 | -3.7 | -3.8 | 0.5 | 1.2 | -0.3 | -6.1 | - |
| Total residents' deposits in M3 | 9.3 | 7.4 | 8.8 | 7.4 | 5.8 | 4.5 | - | 8.8 | 14.0 | 12.0 | 7.4 | 7.8 | 5.9 | 5.8 | 4.6 | 7.7 | 4.5 | 3.5 | 3.5 | - |
| Credit to general government | 1.4 | 0.2 | 1.5 | 0.2 | -3.4 | -4.9 | - | 1.5 | 2.4 | -0.7 | 0.2 | -2.1 | -6.2 | -3.4 | -6.3 | -6.4 | -4.9 | -6.7 | -6.8 | - |
| Credit to residents (excl. general government) | 2.9 | 2.4 | 2.9 | 2.4 | 4.0 | 5.6 | - | 2.9 | 2.8 | 2.5 | 2.4 | 2.9 | 3.3 | 4.0 | 3.9 | 5.4 | 5.6 | 5.6 | 5.7 | - |
| Total credit | 2.5 | 1.9 | 2.6 | 1.9 | 2.1 | 3.0 | - | 2.6 | 2.7 | 1.7 | 1.9 | 1.7 | 0.9 | 2.1 | 1.4 | 2.4 | 3.0 | 2.5 | 2.6 | - |
| 10-year interest rate (%) ⁽³⁾ | 0.7 | 1.2 | 1.3 | 1.2 | 1.1 | 1.4 | 1.5 | 1.3 | 1.2 | 1.1 | 1.2 | 1.3 | 1.4 | 1.1 | 1.2 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 |
| Stock prices: Malta Stock Exchange Index ⁽⁴⁾ | 4.5 | -3.3 | 1.1 | -3.9 | -0.8 | -2.5 | 0.5 | 1.1 | -0.9 | -5.6 | 2.7 | -0.7 | 0.4 | -0.5 | -4.3 | 0.5 | 1.3 | -0.8 | -1.1 | 2.4 |
| General government finances (% of GDP) | | | | | | | | | | | | | | | | | | | | |
| Surplus (+) / deficit (-) ⁽²⁾ | 1.0 | 3.9 | 3.3 | 3.9 | 3.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Gross debt ⁽⁵⁾ | 56.3 | 50.7 | 53.4 | 50.7 | 50.2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

⁽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.