Central Bank of Malta

Quarterly Review

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For figures published in the Statistical Tables, the cut-off date is December 16, 2002.

Figures in Tables may not add up due to rounding.

ECONOMIC SURVEY

1. FOREWORD

The Central Bank left the central intervention rate and the discount rate unchanged at 4% during the third quarter of 2002 and in the first two months of the following quarter. In December, however, the Bank lowered both the central intervention rate and the discount rate by 25 basis points to 3.75%. This decision was taken by the Governor following a meeting of the Monetary Policy Advisory Council, in line with the provisions of the amended Central Bank of Malta Act, which entered into force on October 1, 2002. The Bank's decisions were based on its analysis of economic and financial developments in Malta and abroad and were consonant with its monetary policy strategy, which is based on pegging the Maltese lira to a basket of major currencies.

Throughout the third quarter of 2002, considerable uncertainty as to the timing and extent of the recovery in global economic conditions prompted major central banks to leave official interest rates unchanged. During the December quarter, however, increasing concern about the weakness of economic growth prompted both the Federal Reserve and the European Central Bank to reduce official interest rates. As money market rates in Malta during the quarter eased in line with rates abroad, the premium on Maltese lira short-term interest rates remained relatively stable throughout the second half of the year. Despite this stability in the interest rate differential, the Central Bank's net foreign assets expanded continuously throughout the September quarter and into the final quarter of the year – a development that supported the Bank's decision to reduce interest rates in December.

Economic growth continued to pick up during the third quarter of 2002, with real GDP rising by 4.1% on a year-on-year basis, compared with 2.7% in the previous quarter. Growth was mainly driven by exports, as foreign sales of manufactures rose, outweighing a further contraction in tourism earnings. At the same time, however, domestic demand moderated, as investment fell and private and public consumption expenditure grew at a slower pace.

Replies to the Bank's latest business perceptions survey, which was carried out between October and November 2002, confirmed the pick-up in activity during the September quarter, with respondents registering increases in domestic and export sales. In particular, respondents from export-oriented manufacturing firms, as well as those operating in distribution, finance and 'other services', reported a higher turnover. In contrast, domestically-oriented manufacturing firms and operators in the tourism industry recorded a drop in sales. Overall, however, business sentiment remained slightly positive. But surveyed firms expected a slowdown in export activity and suggested that domestic demand would remain stable in the near term.

Despite the pick-up in economic activity levels, the labour market remained subdued. The seasonal increase in the labour supply was not matched by job creation in the private sector and the gainfully occupied population declined. Consequently, the registered unemployment rate rose to 5.2% in September from 4.9% in June.

At the same time, the downward trend in inflation persisted into the third quarter before stabilising in October. The twelve-month moving average rate of inflation dropped from 3.5% in June to 2.9% in September, while the year-on-year measure, which is a more timely indicator of price pressures, dropped to 1.3% in September, though it picked up in October.

Fiscal policy remained expansionary during the September quarter, but the deficit narrowed compared with the first two quarters of the year. Revenue expanded at a faster pace, boosted by one-off receipts, while expenditure growth slowed down. According to the revised estimates for 2002 published in November, the Government is projecting a deficit of Lm78.5 million for the year, implying a fiscal surplus in the final quarter. Despite the projected consolidation in the fiscal position during 2003, the underlying fiscal stance is expected to remain expansionary.

In line with the normal seasonal pattern, the balance on the current account of the balance of payments shifted into surplus during the September quarter following three consecutive quarterly deficits. When compared with the corresponding quarter of 2001, the surplus widened during the quarter reviewed as relatively rapid export growth led to the narrowing of the merchandise trade gap and net investment income inflows increased. These factors were partly offset by lower net receipts from transport and travel that reduced the surplus on trade in services. With the capital and financial account (excluding movements in the official reserves) continuing to record net inflows, the balance of payments ended the quarter in overall surplus. This was reflected in an increase in the official reserves.

An impressive rise in the net foreign assets of the banking system fuelled monetary expansion during the third quarter, with broad money increasing substantially. Underlying credit growth, especially to the private sector, remained weak, however. These trends in broad money and its counterparts extended into the fourth quarter. Given that excess liquidity in the banking system persisted, the Central Bank continued to absorb funds through term deposit auctions to counter downward pressure on interest rates in the financial markets.

A qualitative assessment of the likely developments in the coming year indicates that growth is unlikely to accelerate substantially, as international economic conditions remain uncertain, while weak labour market activity is expected to moderate domestic demand. Inflation is expected to remain stable.

2. THE INTERNATIONAL ENVIRONMENT

The World Economy

During the third quarter of 2002 the global economic recovery remained fragile. In the United States, a further drop in equity prices and a series of mixed economic data confirmed that an early recovery was unlikely. Meanwhile, in the euro area economic activity was still anaemic, while the Japanese economy only showed signs of a marginal improvement. As a result the International Monetary Fund lowered its growth forecasts for most major economies, both for 2002 and for 2003.

Economic and Monetary Developments in the Major Economies

The United States economy expanded at an annual rate of 4% during the September quarter, reflecting an upturn in consumption and government spending and a build-up in inventories. Spending on equipment and software was also up, by 6.6% from the second quarter, while exports increased by 3.3%. Although the GDP data showed a significant improvement from the 1.3% growth rate registered in the June quarter, corporate profits were lower than expected, while the unemployment rate remained practically unchanged at 5.7%. Furthermore, the weak job market and worries about a possible war with Iraq depressed consumer confidence and raised the likelihood of slower growth in the fourth quarter.

Table 2.1
INTERNATIONAL ECONOMIC INDICATORS

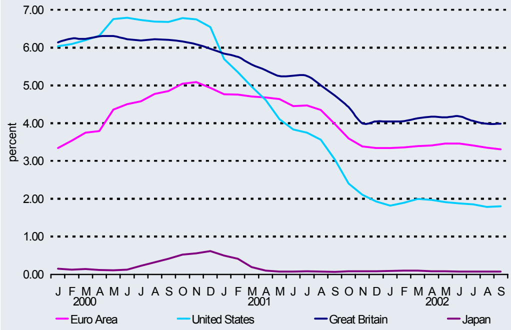
	Real GDP % change			Inflation (Consumer prices) % change			Current account balance % of GDP		
	2001	2002 [1]	2003 [1]	2001	2002 [1]	2003 [1]	2001	2002 [1]	2003 [1]
United States	0.3	2.2	2.6	2.8	1.5	2.3	-3.9	-4.6	-4.7
European Union	1.6	1.1	2.3	2.6	2.1	1.8	-	0.6	0.5
Euro area	1.5	0.9	2.3	2.6	2.1	1.6	0.4	1.1	1.0
United Kingdom	1.9	1.7	2.4	2.1 [3]	1.9 [3]	2.1 [3]	-2.1	-2.1	-2.3
Japan	-0.3	-0.5	1.1	-0.7	-1.0	-0.6	2.1	3.0	2.9
Advanced countries	0.8	1.7	2.5	2.2	1.4	1.7	-0.8	-0.8	-0.9
Developing countries	3.9	4.2	5.2	5.7	5.6	6.0	1.2	0.7	0.6
Countries in transition [2]	5.0	3.9	4.5	15.9	11.3	8.8	-	-	-

[1] Forecasts.
[2] Includes countries of Central and Eastern Europe and the former USSR.
[3] Retail price index excluding mortgage interest.

Sources: *World Economic Outlook*, Washington: International Monetary Fund, September 2002.
The International Economics Analyst, London, Goldman Sachs, July/August 2002

Since the Federal Reserve considered that the prevailing accommodative stance of monetary policy along with strong productivity growth provided sufficient support to economic activity, it kept its official interest rates unchanged at 1.75% during the September quarter, while US money market interest rates stood above the Fed's benchmark rate throughout the quarter. In November, however, as new economic data tended to confirm that uncertainty was hindering growth, the Fed lowered its target for the federal funds rate by 50 basis points to 1.25%.

Chart 2.1
SHORT-TERM INTEREST RATES
(monthly averages)



Source: London interbank offered rates (LIBOR)

In the Euro area, economic output rose at an annual rate of 0.8% during the quarter, supported by an increase in consumer demand and a slight recovery in business investment. The German economy grew at an annual rate of 0.3%, compared with an increase of 0.2% in the June quarter, buoyed by stronger private consumption and an increase in exports. In France growth slipped to 0.2%, from 0.4% during the June quarter, while in Italy growth edged up to 0.5% from 0.2%. Concurrently, consumer price inflation in the area accelerated slightly, reaching 2.1% in September, which was above the European Central Bank's (ECB's) 2% target. Regardless of the improved third quarter growth performance, however, the European Commission expected the euro area economy to expand at a slower pace in the fourth quarter.

Taking into account the relative economic uncertainty together with the risk to price stability over the medium term, the ECB kept its refinancing rate unchanged at 3.25% during the quarter. Furthermore, the ECB resisted political pressure to ease monetary policy during October and November. At the same time, euro area money market rates remained above the ECB's benchmark rate.

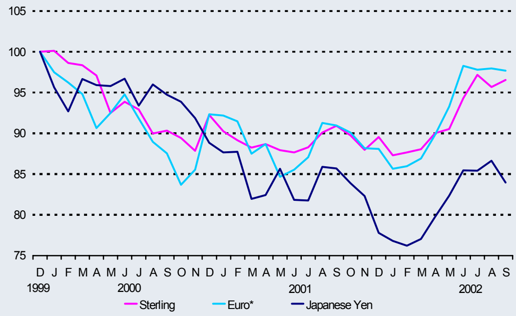
The United Kingdom economy grew at an annual rate of 1.8% during the September quarter, compared to 1.2% in the second quarter, led by buoyant consumer demand and public expenditure. Production in the manufacturing sector increased significantly, following six successive quarters of decline, while output in the services sector grew by 0.9% over the quarter. At the same time, however, investment declined by over 12% year-on-year. Overall, the British Government was expecting the economy to expand at an annual rate of 1.6% during 2002.

The Bank of England kept its repo rate unchanged at 4.0% between July and November, as the core inflation rate remained below the Government's 2.5% inflation target. Meanwhile, UK money market rates remained slightly above the Banks' repo rate in July. In August and September, however, UK short-term rates fell below the Bank of England's benchmark rate.

In the meantime, the economic situation in Japan improved significantly, with the economy growing at an annual rate of 3.0% during the September quarter. Growth was led by private consumption expenditure, which grew by 0.8% over the quarter in spite of near record-high unemployment for Japan. Private investment fell by 0.9%, however, and after having raised industrial production earlier in the year Japanese exports also fell, hit by the slowing world economy. Against this background of lower exports and the global downturn, the Japanese economy is expected to grow at a slower pace in the months ahead.

Since the Japanese economy had almost stabilised, the Bank of Japan left its monetary policy unchanged during the September quarter. However, the Japanese central bank reiterated that it would be prepared to provide more liquidity to the banking system if the need arose. In fact the Bank of Japan effectively eased monetary policy further in October, when it increased its purchases of long-term government bonds and provided further liquidity to the banking system. Meanwhile, as can be seen from Chart 2.1, Japanese money market rates remained stable, at just above the zero level, throughout the quarter.

Chart 2.2
EXCHANGE RATE MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR
(index of end-of-month rates, end-1999=100)



Source: Central Bank of Malta

Foreign Exchange Markets

During the September quarter, the US dollar continued to ease against the other major currencies. This was mainly due to a growing perception among investors that a United States led recovery would be much slower than anticipated.

In July and early August the US dollar continued to weaken against both the euro and sterling, undermined by a slide in consumer confidence and an unexpectedly large drop in manufacturing activity. Subsequently, the dollar came under

Table 2.2
AVERAGE EXCHANGE RATES OF THE EURO, STERLING AND THE YEN AGAINST THE US DOLLAR DURING SEPTEMBER QUARTER 2002

	US$ per Euro	US$ per Stg	Yen per US$
Average for July	0.9934	1.5559	118.03
Average for August	0.9784	1.5386	119.03
Average for September	0.9807	1.5554	120.70
Average for the quarter	0.9842	1.5500	119.26
Closing rate on 30.09.02	0.9823	1.5635	121.61
Closing rate on 28.06.02	0.9885	1.5272	119.47
Lowest exchange rate during the quarter[1]	0.9656 (Sept. 17)	1.5185 (Aug. 23)	115.87 (July 19)
Highest exchange rate during the quarter[1]	1.0180 (July 19)	1.5843 (July 19)	123.64 (Sept. 24)
Percentage appreciation (+)/depreciation (-) of the currency vs the dollar from closing rate on 28.06.02 to closing rate on 30.09.02	-0.6	2.4	-1.8

[1] The low/high exchange rates are daily opening or closing rates of the relevant currencies.

Souce: Central Bank of Malta

further pressure, falling below parity with the euro, reflecting a deterioration of investor sentiment towards US assets and worries about a widening in the US current account deficit. Meanwhile, following the decision by the Japanese authorities to drop their campaign to halt the yen's rise, the Japanese currency also strengthened against the dollar.

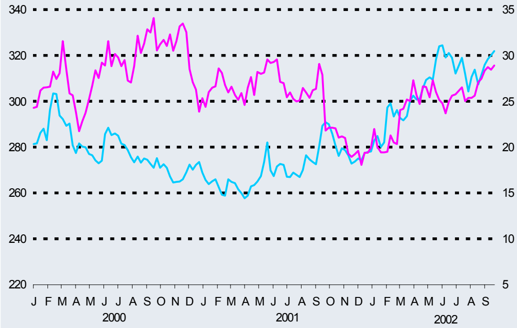
In the second half of August, following a rebound in US equities, the dollar staged a modest recovery across the board. During September, however, the dollar lost further ground against the euro and sterling, as economic data gave contrasting signals over the health of the US economy and concerns over a possible conflict with Iraq increased. But the dollar continued to appreciate against the yen, as the Japanese authorities announced radical measures to combat deflation and help their ailing banking sector.

During October and November, the dollar came under further pressure against the euro and sterling, as new data failed to show any signs of the much-awaited economic recovery in the United States.

Key Commodities

Throughout the third quarter of 2002 economic and political tensions continued to generate interest in gold as an investment. Concurrently, an increase in industrial demand pushed overall demand for the metal up further. As a result, the gold price rose to $325.90 per ounce in September, before ending the quarter at $323.50 per ounce, up by 14.5% from the previous year's third quarter level.

Chart 2.3
COMMODITY PRICES



Source: *The Economist, The Financial Times*

Meanwhile, after the moderate increase recorded in the June quarter, the price of oil rose substantially, supported by higher US gasoline demand, the possibility of war in Iraq, and an ongoing situation of unease in Venezuela. The upward trend in oil prices peaked in September, as Chart 2.3 shows, buoyed by weather-related factors in the US. Consequently, the oil price stood at $28.15 per barrel at the end of the quarter, up by 10% from its end-June level.

Box 1 : DEVELOPMENTS IN INTERNATIONAL ECONOMIC CO-OPERATION

IMF and World Bank Meetings

On September 28, Finance Ministers and Central Bank Governors met in Washington D.C. for the sixth meeting of the International Monetary and Financial Committee (IMFC) of the IMF and the sixty-sixth meeting of the Development Committee of the World Bank and the Fund.

The **International Monetary and Financial Committee (IMFC)** noted that the global economic recovery was proceeding, although at a slower pace than expected. According to the Members, growth was expected to strengthen in the near term, supported by a strong policy response across the international community. However, there remained downside risks and uncertainties. The Committee stressed the fact that IMF members should continue to adapt policies as necessary in order to foster broad and sustained growth, to strengthen policy and regulatory frameworks, and to support durable poverty reduction.

The Committee also supported the Fund's continuing role in helping poor countries address the challenge of meeting the Millennium Development Goals by supporting economic reforms aimed at accelerating growth and reducing poverty. It welcomed the increased momentum in countries' efforts to develop and implement their Poverty and Reduction Strategy Papers (PRSPs) approach, and the Fund and donors' efforts to align their support more closely with PRSPs. Furthermore, the Committee welcomed the progress made on the Heavily Indebted Poor Countries (HIPC) initiative. The Committee reaffirmed the commitment to implement the initiative and finance it fully to help countries overcome the burden of unsustainable debt.

Finally, Members welcomed the actions taken by many countries to combat money laundering and the financing of terrorism, and noted the good start on the first report of the Independent Evaluation Office on 'Prolonged Use of Fund Resources' to the Executive Board.

The **Development Committee** welcomed the progress achieved in the Monterrey Consensus, which has been laying out a new partnership between developed and developing countries to achieve improvements in sustainable growth and poverty reduction. The Committee then committed itself to implement the agreed strategies and partnerships and to use its future meetings to review progress through clear and measurable indicators. Members stressed the fact that the global community must now convert the ideas and the shared approaches agreed in Doha, Monterrey and Johannesburg into concrete action and to measure the ongoing progress. The Committee reaffirmed the crucial importance of trade as a source of growth and poverty reduction, and recognised that it was essential for developed countries to do more to open their markets and eliminate trade-distorting subsidies for products that represent major potential exports for developing countries. During the meeting, Members reviewed further experience with the Fund's Poverty Reduction Strategy Papers (PRSPs) approach, which confirmed the broad findings of the joint Bank/Fund review earlier in the year. The Committee was also encouraged by the increased momentum in countries' efforts to develop and implement their PRSPs. Accordingly, they called on the Fund and Bank together with all donors to align their support with country PRSPs. Members emphasised that all the institutions should work together to strengthen their analysis of the sources of growth, help countries improve their public expenditure, facilitate private sector development and intensify efforts to help countries undertake poverty and social impact analyses on a more systematic basis.

Finally Members also recognised the need for intensified efforts to harmonise the operational policies and procedures of bilateral and multilateral agencies at the institutional and country levels so as to enhance aid effectiveness and efficiency and promote greater ownership by developing countries. In this regard, Members committed themselves to further action in streamlining such policies, procedures and requirements over the period leading to the high-level forum to be held in Rome in February 2003 and beyond.

Council of EU Economics and Finance Ministers

On November 5, 2002, the Economic and Finance Ministers of the EU and the candidate countries, along with representatives of the Commission and the ECB, met for their fourth economic policy dialogue meeting. The Ministers discussed the enlargement process and welcomed the historic decisions on enlargement taken by the European Council. They also welcomed the prospect of concluding negotiations for enlargement at the European Council in December. Regarding the pre-accession economic programmes (PEPs), the Members concluded that the 2002 programmes described a credible medium-term macroeconomic and fiscal framework conducive to strong and sustainable economic growth. However, the gap in terms of average GDP per capita between most accession countries and the current Member States remained significant.

The Ministers also noted that in some of the candidate countries the authorities had made considerable progress in consolidating public finances and planned prudent fiscal policies for the medium term. Nevertheless, in several countries the current level of fiscal deficits was still very high, which underlined the need for fiscal consolidation and sustainability of the fiscal stance over the medium term. With regards to exchange rate stability, the Members concluded that in the pre-accession phase, exchange-rate strategies must remain consistent with other macroeconomic policies and convergence. As regards structural and institutional reforms, the Finance Ministers stressed that progress had been uneven and was lagging notably in a number of priority areas.

The Ministers of the EU Member States along with the candidate countries also concluded that the second PEPs in general demonstrated further progress in capacity building towards participation in the EU's multilateral surveillance and economic policy co-ordination. At the same time they stressed that efforts to create a more favourable environment for investment and entrepreneurship and to simplify and improve the regulatory environment should be vigorously pursued, while given the accession countries' high openness, import dependence and export sensitivity to EU and international growth continued vigilance against potential external risks was paramount. The Ministers also stressed the fact that sound and credible fiscal policy was crucial not only for coping with difficult economic policy choices but also for enhancing confidence in the stability of the macroeconomic policy framework. Finally, the Ministers of the candidate countries agreed to put forward in the 2003 updates of their PEPs adjustment paths based on realistic assumptions regarding the economic outlook and detailed underlying reform measures. Ministers will meet again in the second half of 2003 to continue their dialogue.

3. OUTPUT, PRICES AND EMPLOYMENT

Economic growth continued to pick up during the third quarter of 2002, with real GDP rising by 4.1% on a year-on-year basis from 2.7% in the previous quarter. The recovery was largely underpinned by exports of manufactures, particularly of electronic components, which rose sharply after having dropped throughout the previous five quarters. At the same time, the decline in tourist arrivals moderated further, though gross earnings from tourism continued to contract.

On the other hand, domestic demand levels eased. In fact, private and public consumption, after having generated most of the expansion in real GDP during the first two quarters of 2002, grew at a slower pace during the September quarter.

On account of these developments, labour market activity remained subdued. The seasonal increase in the labour supply, driven by the entry of school leavers into the labour market, was not absorbed by job creation, as the private sector continued to trim its demand for labour. As a result, the registered unemployment rate rose to 5.2%, from 4.9% in June.

Slack labour market conditions, in turn, probably dampened inflationary pressures, though the relatively low inflation rates prevailing in Malta's main trading partners also contributed to the drop in the twelve-month moving average inflation rate, which from 3.5% in June fell to 2.9% in September.

Gross Domestic Product

GDP data for the third quarter of 2002 indicate that the recovery of the Maltese economy continued to gather pace. Real GDP, in fact, grew by 4.1%,

Table 3.1
SOURCES OF GDP GROWTH BY INDUSTRY[1]

%

	2001		2002		
	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3
GDP at factor cost	**3.2**	**0.9**	**1.3**	**1.5**	**5.0**
of which:					
Agriculture and fisheries	0.2	0.3	0.1	0.0	0.0
Construction and quarrying	0.4	0.3	0.4	0.5	0.3
Manufacturing	-3.0	-5.7	-2.1	-0.3	2.4
Transport and communication	0.1	0.9	-0.6	-1.0	0.4
Wholesale and retail	0.7	0.2	0.1	0.8	0.4
Insurance, banking and real estate	2.0	1.1	1.2	0.6	-0.8
Government enterprises	0.7	0.5	0.4	0.4	0.9
Public administration	2.1	2.1	0.6	0.7	0.5
Property income	-0.5	0.8	0.7	-0.6	0.2
Private services	0.5	0.5	0.4	0.3	0.7
GDP at current market prices	**4.4**	**4.0**	**2.1**	**3.2**	**5.0**

[1] The figures in the Table show the change in each component of GDP at factor cost as a percentage of the previous year's GDP at factor cost. This shows the contribution of each sector of activity to the overall rate of growth in GDP at factor cost.

Source: National Statistics Office, Central Bank of Malta estimates.

up from 2.7% in the June quarter[1]. Economic growth was mainly driven by the manufacturing sector, particularly electronics, where export turnover started to recover after having dropped for five consecutive quarters. On the other hand, gross fixed capital formation was down from the previous year's level, while private and public consumption grew at a slower pace than in the first two quarters of the year.

As can be seen from Table 3.1, income-side GDP, i.e. the sum of profits and employment income, grew by 5% during the September quarter, the fastest growth rate registered since the second quarter of 2001. Nearly half of the increase in total value-added was attributable to manufacturing industry, where profits rebounded from the double-digit percentage drop recorded last year. Though overall employment in the sector remained stable during the quarter[2], employment income also grew, as redundancies in traditionally low-paying sub-sectors, such as textiles and clothing, were offset by increased employment in the higher paying electronics sub-sector.

The transport and communication sector also contributed significantly to the acceleration in the growth of GDP at factor cost during the quarter

Table 3.2
GDP GROWTH BY CATEGORY OF EXPENDITURE

%

	2001		2002		
	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3
Percentage changes at constant market prices					
Private consumption expenditure	6.0	1.5	5.1	2.4	1.6
Government consumption expenditure	8.1	1.7	7.5	7.6	0.6
Gross fixed capital formation	-13.6	-11.9	-13.9	3.3	-4.3
Exports of goods and services	-9.2	-12.7	-6.1	-4.6	4.9
Imports of goods and services	-14.2	-16.0	-12.8	2.9	3.3
Growth in real GDP	**-0.5**	**-2.2**	**0.7**	**2.7**	**4.1**
of which: [1]					
Private consumption expenditure	3.8	0.9	3.0	1.6	1.1
Government consumption expenditure	1.3	0.3	1.4	1.4	0.1
Gross fixed capital formation	-3.5	-3.1	-3.5	0.8	-1.0
Inventory changes	-7.1	-5.5	-7.4	5.8	2.3
Exports of goods and services	-9.0	-11.6	-5.4	-4.2	4.3
Imports of goods and services [2]	14.0	16.7	12.6	-2.7	-2.8

[1] These figures show the change in each component of real GDP as a percentage of the previous year's real GDP (expenditure-side).This shows the contribution of each expenditure component to the overall rate of growth of real GDP. The figures for 2001 have been revised; those for 2002 are provisional.

[2] Note that any growth in imports of goods and services reduces GDP, and vice versa.

Source: National Statistics Office, Central Bank of Malta estimates.

[1] Throughout this section growth rates are calculated by comparing the level of a given quarter with that registered in the corresponding period of the previous year. This is done to account for seasonal fluctuations.

[2] According to the National Statistics Office's survey of manufacturing firms.

under review. Profits in the sea transport sub-sector, in fact, rose sharply, buoyed by the recovery in import and export activity. Income-side GDP growth was also boosted by a steady increase in the revenue of Government enterprises, mainly resulting from the alignment of domestic fuel prices to international ones. At the same time, factor incomes in the private services sector grew at a faster pace, as the drop in tourism activity moderated further while property income increased during the quarter. On the other hand, the contribution of construction and quarrying and of the wholesale and retail trades declined, as profits increased at a slower rate. In contrast, a drop in profits led to a decline in factor incomes in the banking, insurance and real estate sector, which had risen steadily since the first quarter of 2001.

A breakdown of economic growth by expenditure components, shown in Table 3.2, indicates that exports of goods and services generated most of the increase in real GDP during the September quarter. As shall be described in more detail in a later section of this Chapter, this turnaround was primarily attributable to the electronics sub-sector, though exports by the rest of manufacturing industry also increased. These developments more than offset the continued decline in exports of services, primarily tourism.

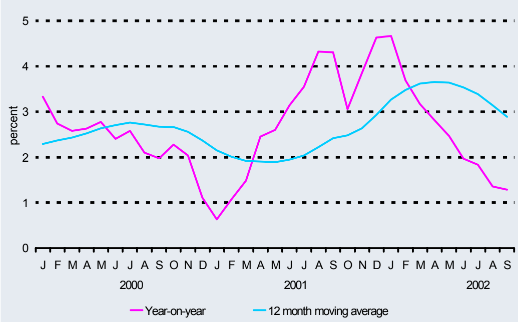
Imports of goods and services, on the other hand, expanded at a slower pace than exports. In part, this reflected a decline, in real terms, in imports of capital goods, on account of lower investment in machinery. It also appears that firms continued to produce part of their output by running down inventories rather than increasing their imports of industrial supplies commensurately. This behaviour, which would be in line with the general pattern observed during the past year-and-a-half, could have been a response to a negative trend in the terms of trade whereby import prices have risen while export prices have either remained stable or fallen. However, since the drop in inventories was smaller than that registered during the third quarter of 2001, inventory changes, on an annual basis, contributed significantly to GDP growth during the quarter reviewed.

Slower growth in private consumption also contributed to the relatively restrained expansion in imports. Private expenditure on goods and services, in fact, rose by 1.6% during the third quarter, compared with increases of 5.1% and 2.4% in the previous two quarters. This deceleration was not surprising, as real disposable income increased by just 1.2% during the first nine months of the year. Since expenditure is reported to have expanded by 2.9% during the same period, the household saving ratio dropped to a historical low of 1.8%. The slowdown in private consumption during the third quarter may also have been related to the sharp deceleration in Government recurrent expenditure. As can be seen from Table 3.2, the latter grew by just 0.6% in real terms during the September quarter, after having risen by around 7.5% during each of the previous two quarters.

Retail Prices

The downward trend in headline inflation observed in the second quarter persisted into the third quarter. In fact, the twelve-month moving average rate of inflation dropped to a ten-month low of 2.9% in September, from 3.5% in June.

Chart 3.1
RETAIL PRICE INFLATION



Source: National Statistics Office

Furthermore, as can be seen from Chart 3.1, this downward trend was also evident in the year-on-year change in the Retail Price Index (RPI), a more timely measure of price movements than the headline rate. As Table 3.3 indicates, the year-on-year inflation rate fell by 0.7 percentage points during the quarter, to stand at 1.3%, which is the lowest rate recorded since February 2001.

The latest drop in year-on-year inflation reflected the fact that between June and September the RPI rose by just 1%, whereas in the same period a year ago it had risen by 1.7%. The smaller rise in the RPI was once again primarily driven by food prices, which nevertheless increased by just 2.7% during the quarter under review, in contrast with 6.5% in the September quarter last year. Food prices fell by 1.8% during the year to September, whereas they had risen by as much as 9.3% during the twelve months to December 2001. This sharp reversal of food price trends underpins the large reduction in the overall year-on-year inflation rate witnessed during 2002.

During the September quarter, year-on-year inflation rates also dropped in the beverages and tobacco; personal care and health; fuel, light and power; and housing sub-indices, which together make up over 20% of the RPI basket.

On the other hand, price pressures mounted in four other sub-indices of the RPI during the quarter. The most significant increase was in transport and communications prices, which rose by 2.2% as the price of fuel and average airfares increased. The year-on-year inflation rate of the clothing and footwear sub-index also moved up during the quarter, although prices actually fell from their June reading. This is because the drop, which is seasonal, was significantly smaller than that recorded during the same quarter of 2001.

The Labour Market

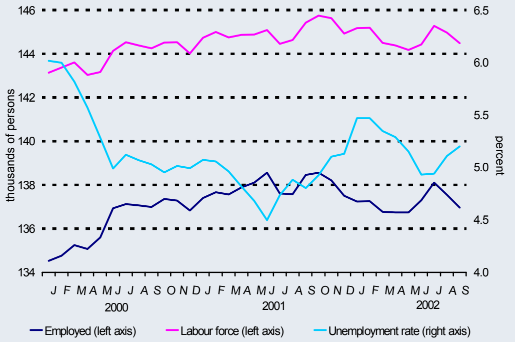
According to data compiled by the Employment and Training Corporation (ETC), the registered unemployment rate rose to 5.2% in September 2002, from 4.9% in June. This development, which is illustrated in Chart 3.2, was generated by two factors, namely a drop in the gainfully occupied

Table 3.3
INFLATION RATES OF COMMODITY SECTIONS IN THE RPI
Year-on-year (percentage changes)

	Sept. 2001	June 2002	Sept. 2002
Food	9.5	1.8	-1.8
Beverages and tobacco	5.4	8.9	6.4
Clothing and footwear	0.7	-3.0	0.2
Housing	3.8	3.3	3.0
Fuel, light and power	-0.5	5.2	5.1
Durable household goods	0.2	-0.4	-0.2
Transport and communications	1.3	0.3	2.5
Personal health and care	3.0	3.2	2.8
Education, entertainment and recreation	3.6	3.5	3.5
Other goods and services	0.8	1.8	2.1
All items	**4.3**	**2.0**	**1.3**

Source: National Statistics Office

Chart 3.2
LABOUR MARKET TRENDS



Source: National Statistics Office

population together with the seasonal increase in the labour supply as school leavers entered the labour market.

Whereas in previous years the private sector took up a significant number of school leavers, in the current year only the public sector was a net employer during the September quarter. Public sector employment, in fact, rose by 224 during the three months under review, as Government departments, especially the department of education and that of health, took on new recruits.

On the other hand, the number of full-time employees in the private sector contracted by 546 during the third quarter of 2002. The decline was mainly felt in direct production, especially manufacturing, which shed 311 full-timers, mostly in the textiles, leather and clothing and footwear sub-sectors. In contrast, however, employment in the electronics sub-sector, which had fallen significantly in the previous quarters, started to recover, with the number of full-time employees in the sector up by 83 over the quarter. Employment in construction also decreased, on a quarter-on-quarter basis, after having been buoyant for most of the previous twelve months. At the same time, private services firms continued to reduce their labour complement, mainly because hotels and catering establishments trimmed their full-time work forces further in order to cut costs.

As can be seen from Table 3.4, the gainfully occupied population was down by 1,484, or 1.1%, on an annual basis at the end of September 2002. A substantial proportion of this contraction, or over 40%, reflected the successful implementation of early retirement schemes in the publicly-owned shipbuilding and ship-repair yards. Employment in the rest of the public sector also fell marginally[3], while the private sector's full-time workforce contracted by over 500, mainly reflecting lower demand for labour in manufacturing, hotels and catering establishments, and the banking, insurance and real estate sub-sectors. On the other hand the number of the gainfully occupied in construction, the wholesale and retail sector, and community and business services rose.

The number of persons on the unemployment register rose by 536 on an annual basis in the third quarter, implying that most of those who lost their full-time jobs did not register as unemployed. This contributed to a drop of nearly 1,000 in the labour supply.

Whereas the decline in the labour supply during the first half of 2002 can be traced to the early retirement schemes in the shipbuilding and ship-repair sectors, the more recent contraction is harder to account for. A possible explanation is that firms are increasingly taking on part-time employees. In fact, the latest Labour Force Survey (LFS) carried out by the National Statistics Office (NSO), the June survey, indicates that whereas full-time employment contracted, the number of people in part-time employment rose sharply and the labour supply, consequently, remained stable. Since ETC data exclude part-time employment

[3] The drop of 476 persons employed with Government departments partly reflected the transfer of employees to Government-controlled companies. This masked the effect of the early retirement schemes in the shipyards on employment in such companies.

Table 3.4
LABOUR MARKET DEVELOPMENTS
Number of persons

	Sept. 2002	Quarterly change	Annual change
Labour supply	**144,484**	**57**	**-948**
Unemployed	**7,520**	**399**	**536**
Unemployment rate (%)	**5.2**	**0.3**	**0.4**
Gainfully occupied	**136,964**	**-342**	**-1,484**
of which:			
Private direct production	**37,896**	**-407**	**-19**
including:			
Agriculture & fisheries	2,210	18	-8
Quarrying, construction & oil drilling	6,692	-114	135
Manufacturing	28,994	-311	-146
Private market services	**50,372**	**-139**	**-517**
including:			
Wholesale & retail	15,460	-24	112
Insurance & real estate	1,281	-19	-9
Transport, storage & communciations	6,143	35	-84
Hotels & catering establishments	9,102	-86	-428
Community & business	11,313	28	185
Others	7,073	-73	-293
Public sector	**47,651**	**224**	**-990**
including:			
Government departments	30,349	156	-476
Armed Forces, R.S.C. & Airport Co.	1,607	-5	-5
Government-controlled companies	7,840	-59	-134
Independent statutory bodies	7,855	132	-375
Temporarily employed	**1,045**	**-20**	**42**

Source: National Statistics Office

from the labour supply, however, confirmation of this hypothesis must await the release of a more up-to-date LFS.

The results of the June 2002 LFS show that unemployment rose slightly compared with the same quarter last year. This, despite an acceleration in part-time employment that boosted the activity rate, which had fallen during the three previous quarters, to 59.1%[4]. As regards wage developments, the LFS shows a 9% increase in the average annual salary. This result must, however, be interpreted with caution as it might simply reflect changes in the composition of the sample. The fact that job losses were mainly concentrated in traditionally low-wage sectors,

[4] The activity rate is defined as the proportion of the working age population that participates in the labour market.

such as textiles, would have boosted the average wage, as the proportion of higher-paid workers in the sample would have risen.

Manufacturing

As can be seen from Table 3.5, the recovery in manufacturing activity became more pronounced during the third quarter of 2002. Overall sales, in fact, increased by 8.8% compared with the corresponding quarter last year, after having contracted continuously during the previous five quarters. However, net investment in manufacturing declined further, while the number of gainfully occupied in the sector remained well below the year-ago level.

The recovery in manufacturing turnover was mainly underpinned by an improvement in the performance of the electronics sub-sector in foreign markets. In fact, export sales of electronic components, which account for nearly half of overall manufacturing turnover, increased by Lm7.8 million, or 8%. In contrast, during the previous five quarters, exports of electronics had declined by Lm253.7 million in aggregate, with the bulk of the drop occuring during the second half of 2001. At the same time, exports by the rest of manufacturing also showed signs of recovery. In particular, exports of clothing, furniture, electrical machinery, medical and precision equipment, and plastic and rubber products increased, after having declined during the previous quarter, while

Table 3.5
MANUFACTURING PERFORMANCE - SELECTED INDICATORS[1]

Lm millions

	2001		2002		
	Qtr. 3	Qtr. 4	Qtr.1	Qtr.2	Qtr.3
Change in exports	**-71.6**	**-89.0**	**-33.5**	**-15.0**	**19.0**
of which:					
Radio, T.V., telecom, etc.	-74.5	-89.8	-36.3	-4.9	7.8
Electrical machinery	1.3	2.6	-0.9	-3.5	0.7
Printing and publishing	-0.6	0.3	1.4	2.4	2.2
Other	2.2	-2.1	2.3	-9.0	8.3
Change in local sales	**5.1**	**6.9**	**2.6**	**4.8**	**1.5**
of which:					
Tobacco	0.5	0.7	-0.4	0.0	-0.6
Clothes	0.7	0.7	0.3	1.0	-0.3
Food and beverages	2.6	3.6	0.9	1.4	0.8
Other	1.3	2.0	1.9	2.4	1.5
Change in net investment	**-12.1**	**-8.7**	**-3.4**	**1.4**	**-1.9**
of which:					
Food and beverages	0.7	-0.1	-0.3	-0.8	-0.5
Printing and publishing	-0.4	0.1	0.1	1.5	1.2
Furniture	-1.2	0.2	1.1	0.3	0.5
Other	-11.2	-8.8	-4.3	0.4	-3.0

[1] Figures in this table represent the change over the same quarter of the previous year.
Source: National Statistics Office

exports by the printing and publishing sub-sector continued to increase.

Meanwhile, domestic sales by manufacturing firms increased by Lm1.5 million, or 2.4%, reflecting higher sales of electronic equipment, food and beverages and printed materials. By contrast, the local turnover of the tobacco, clothing, textiles and footwear, chemicals and non-metallic minerals sub-sectors was down from the levels recorded during the third quarter last year. Despite a sharp reduction in import levies, the upward trend in the sales of the local furniture industry continued during the third quarter of 2002, with turnover up by Lm0.4 million, or 8%, over the corresponding period of 2001. The decision by some firms to branch out into the importation and distribution of manufactures could have influenced the reported increase in the local sales of certain sub-sectors of manufacturing, however.

Employment in manufacturing remained stable during the September quarter, after having declined throughout the previous four quarters[5]. As a result, the number of the gainfully occupied in manufacturing industry was down by 890, or 4%, from last year's level. Firms in the textiles, clothing and footwear sub-sector accounted for close to two-thirds of this decline. The rest of the contraction was spread across most of the other manufacturing sub-sectors. The drop in overall employment, however, did not have much of an impact on the manufacturing sector's wage bill, which increased by 3.6% on an annual basis.

Lower capital outlays in the electronics sub-sector accounted for the decline in net investment

Table 3.6

TOURIST ARRIVALS BY NATIONALITY

	July- Sept. 2002			Jan.- Sept. 2002		
	Arrivals	Annual Growth (%)	Share (%)	Arrivals	Annual Growth (%)	Share (%)
UK	160,312	0.4	38.6	344,940	-4.2	38.4
Germany	40,343	-20.8	9.7	106,277	-18.2	11.8
France	29,869	1.8	7.2	68,575	-3.4	7.6
Italy	45,081	-4.1	10.8	81,089	0.5	9.0
Netherlands	18,511	-9.3	4.4	37,832	-9.5	4.2
Scandinavia[1]	15,308	-7.7	3.7	35,067	-16.7	3.9
Austria	5,991	-12.9	1.4	19,512	-16.8	2.2
Belgium	11,715	12.8	2.8	20,933	5.8	2.3
Switzerland	6,137	-24.6	1.5	14,791	-22.7	1.7
Libya	8,378	-17.2	2.0	19,396	-21.6	2.2
Others	73,853	-1.9	17.8	149,270	-1.2	16.6
Total	**415,498**	**-4.4**	**100.0**	**897,682**	**-6.8**	**100.0**

[1] Scandinavian countries include Denmark, Finland, Norway and Sweden.

Source: National Statistics Office, Economic Survey.

[5] These employment data contrast with those commented upon in the section on the labour market, as they also include part-timers and out workers and are derived from a sample survey carried out by the NSO. By contrast the ETC data are a headcount of the full-timers employed in the sector.

registered during the period reviewed. The only sub-sectors that invested significantly were printing and publishing and chemicals.

Tourism

Although tourism activity contracted during the third quarter of 2002, the decline in arrivals was markedly less pronounced than that registered in previous quarters. Thus, the number of tourists who visited Malta during the quarter was 4.4% lower than in the same period last year, whereas in the preceding six months tourist arrivals had declined by 8.8%. At the same time, cruise passenger arrivals rose even more sharply than in the previous two quarters, contributing to a 39.2% increase over the first nine months of 2002.

As can be seen from Table 3.6, a decline in the number of visitors from Germany accounted for the bulk of the overall drop in arrivals during the third quarter. Significant drops were also registered in arrivals from Switzerland, Scandinavia, Italy and the Netherlands. On the other hand, arrivals from the UK increased for the first time since the third quarter of 2001, while the number of visitors from Belgium and France also rose.

Accommodation data for the quarter show an increase in occupancy rates in the three- and four-star hotel category. This increase may have come at the expense of the lower accommodation categories, where occupancy levels declined. Five-star hotels, on the other hand, maintained practically the same occupancy rates as in the third quarter of 2001.

These trends may explain, in part, why gross earnings from tourism continued to decline despite the deceleration in the drop in arrivals. During the third quarter, gross earnings from tourism contracted by 9%, only slightly less than the 10.8% drop registered in the previous two quarters. This implies that, on average, the amount spent by tourists continued to fall, reflecting either a drop in their spending propensity or a reduction in the rates charged by local hotel and catering establishments.

Short-term Outlook

During the current year, GDP growth is not expected to accelerate substantially, as foreign economic conditions remain uncertain while domestic demand should moderate on account of weak labour market activity.

Export activity should continue to recover gradually, though foreign demand is not expected to accelerate notably as prospects for a rapid recovery in Malta's main trading partners remain clouded. Hence, the recovery in manufacturing is expected to continue, and the decline in tourism activity to moderate further in the coming months.

Growth in private consumption probably cannot continue to outstrip that of disposable income much longer, as the household saving rate has now fallen to an exceptionally low level. At the same time, gross fixed capital formation is not projected to accelerate significantly, as many firms are still operating below normal capacity - as the results of the latest Business Perceptions Survey, presented elsewhere in this *Review*, show. Conversely, the underlying fiscal stance remains fairly expansionary. Government capital expenditure is expected to expand further, while lower effective income tax rates will have a positive impact on disposable incomes. Recurrent expenditure, however, should either remain stable or decline slightly in real terms.

Inflationary pressures moderated substantially during 2002, and these trends are expected to continue in the coming months, with headline inflation projected to have declined to 2.5% by year-end. Moreover, given that Government did not introduce any significant indirect tax measures in the Budget for 2003, and that domestic demand is not expected to pick up significantly, inflation should also remain stable.

Labour market conditions should also remain stable during the coming months. In the absence of a sustained recovery in foreign demand, the demand for labour by operators in the manufacturing and tourism sectors will remain subdued. On the other hand, the restructuring process should gather further momentum, partly on account of the last phase of the removal of levies on imports. Trade unions are also adopting a prudent stance in wage negotiations, as is evident from the latest civil service collective agreement. Taken together these developments should result in less upward pressure on labour costs.

Box 2 : BUSINESS PERCEPTIONS SURVEY[1]

Introduction

The results of the latest Business Perceptions Survey indicate that, although most participants are still operating significantly below capacity[2], there are clear signs of a pick up in economic activity during the September quarter. Respondents, in fact, indicated a higher-than-expected increase in both exports and local sales. However, more than half the Survey participants anticipated that the local economic situation would remain broadly unchanged in the short term. The Survey results also suggest that some segments of manufacturing are facing difficulties that are leading to significant job losses.

Business Sentiment

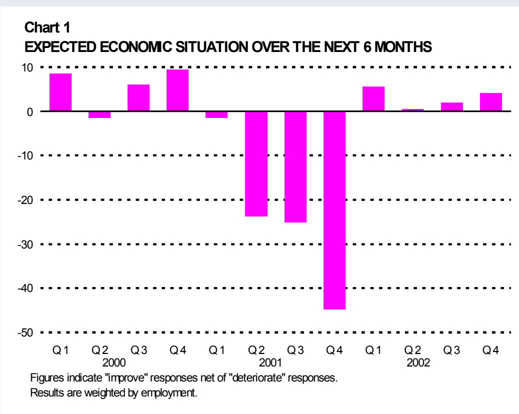
As can be seen from Chart 1, overall business sentiment remained slightly positive. The number of respondents expecting economic conditions to remain unchanged fell significantly during the fourth quarter, from around three-quarters of (employment-weighted) replies in the previous Survey to just over one-half. The counterpart to this decline was a nearly equal rise in participant firms projecting either an improvement or a deterioration in the economic situation. On the one hand, optimism increased amongst operators selling mostly to the domestic market, and also in certain segments of export-oriented manufacturing, such as electronics. On the other, sentiment worsened within the tourism industry and a number of manufacturing sub-sectors, mainly clothing and footwear and chemicals.

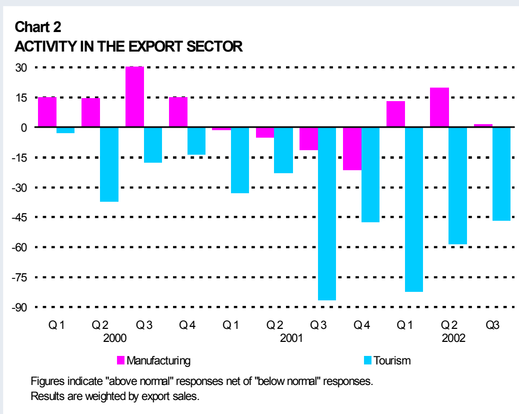
Activity Levels – Third Quarter 2002

Export-oriented sectors

The latest Survey results indicate that capacity utilisation in the export-oriented manufacturing sector decreased somewhat during the third quarter. Nevertheless, the number of establishments reporting above-normal order books continued to surpass that of those operating below their capacity. Meanwhile, the decline in the proportion of operators in the tourist industry registering below-normal activity persisted, as can be seen from Chart 2.

The foreign sales of manufacturing firms participating in the Survey increased further during the third quarter. In particular, producers of food and beverages, paper and printed





[1] The Survey was undertaken between October and November 2002. It covers a sample of 140 firms, employing 17,235 workers, with an aggregate annual turnover of Lm515.1 million, of which slightly more than half was exported.

[2] In this Survey, capacity utilisation is gauged on the basis of respondents' replies as to whether order books or activity levels are above or below normal.

materials and chemicals registered a larger-than-expected expansion in export sales. Conversely, the downturn in the clothing and footwear sub-sector continued, while the turnover of electronics manufacturers grew at a slower rate than that projected by respondents in the previous survey. The latter contributed towards the deterioration in overall profitability recorded during the third quarter. The latter development also reflected higher outlays on wages, as reported in the Survey, driven by a rise in the labour complement together with increased remuneration levels, and reduced margins, as firms had to maintain their selling prices stable.

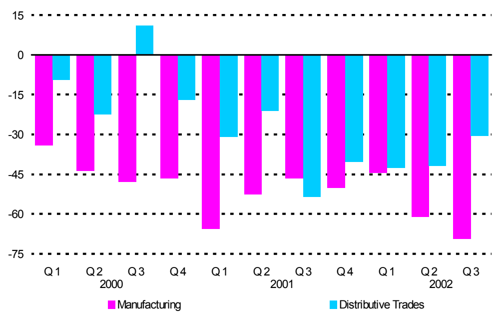
As regards tourism, respondents indicated that sales declined again during the third quarter, though at a more moderate pace than in the previous quarter. This contrasted with the expectations that had been expressed in the preceding survey, when respondents had indicated that their turnover would remain stable over the following three months. The drop in sales occurred in spite of the fact that operators cut their prices more than had been originally planned. As a result, profitability continued to drop, and the demand for labour remained restrained.

Domestically-oriented sectors

The performance of domestically-oriented firms improved further during the quarter under review. Sales increased slightly for the second consecutive quarter, mainly in distributive trades and in financial and industrial services. However, higher turnover did not result in a commensurate increase in profitability, as the wage bill rose on account of a higher demand for labour, together with an increase in average salaries. Firms also reported a decline in their selling prices during the three months to September 2002, which further dented margins. On their part, domestically-oriented manufacturing firms reported weaker turnover, which led to further downward pressures on profitability. These developments occurred because, as had been envisaged in the previous survey, the performance of the food and beverages sector deteriorated. These results appear to be in line with the official data on manufacturing activity that were analysed in the preceding Chapter of this *Review*.

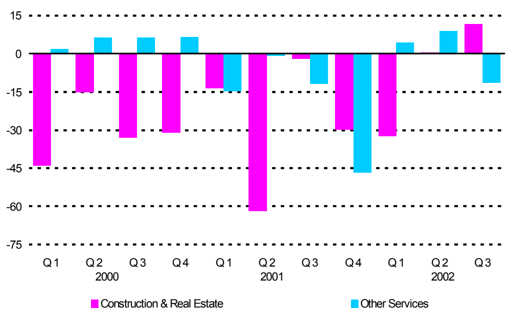
As can be seen from Charts 3a and 3b, activity levels in domestically-oriented sub-sectors generally remained below normal during the third quarter. Construction and real estate was the only sub-sector where a majority of respondents reported an above-normal level of activity. Despite the increase in sales, respondents from the wholesale and retail and services sub-sectors said that orders had decreased over the previous three months. Meanwhile, the bulk of manufacturing firms that depend primarily on the local market continued to operate below capacity.

Chart 3a
ACTIVITY IN THE DOMESTIC SECTOR



Figures indicate "above normal" responses net of "below normal" responses.
Results are weighted by local sales.

Chart 3b
ACTIVITY IN THE DOMESTIC SECTOR



Figures represent "above normal" responses net of "below normal" responses.
Results are weighted by local sales.

Short-term Outlook

Expectations for the fourth quarter point towards a further deceleration in export activity. Manufacturing firms are projecting a 1.2% increase in their foreign turnover, down from the 2.5% rise recorded during the third quarter. This deceleration, however, reflects the more conservative expectations of exporters in the food and beverages and paper and printing sub-sectors, partly because the latter had registered a very sharp rise in sales in recent surveys. Respondents from the rest of manufacturing, on the other hand, indicated that their order books should continue to improve gradually. Conversely, respondents from the tourism industry expect their sales to drop by nearly 3% during the last quarter of 2002,in contrast with the 1% contraction registered during the three months to September. As a result, employment in the export-oriented sectors is projected to decline slightly, while profitability should continue to grow marginally, though at a smaller rate than in the third quarter.

Survey responses suggest that domestic demand pressures should remain generally stable during the fourth quarter. While locally-oriented manufacturing establishments expect a smaller drop in turnover, respondents from the construction and services sub-sectors are foreseeing a deceleration in the rate of growth of their sales. At the same time, firms in the wholesale and retail trades stated that their sales should decline. Profitability is also set to remain under pressure, even though an attempt will be made by survey participants to reduce employment levels and reverse the downward trend in selling prices.

Conclusion

The results of the latest Business Perceptions Survey show that many sectors of the Maltese economy seem to have recovered from the sharp drop in activity that had been registered during the second half of 2001. In particular, manufacturing exports stopped contracting, with a slight pick up being noted across the whole sector, with the exception of clothing and footwear establishments, in the third quarter. This turnaround probably reflects the slight recovery in economic growth seen in trading partner countries, which is also likely to have contributed towards a gradual moderation in the decline in tourist activity. Domestically-oriented firms have also reported a marginal upturn in activity. As seen in the previous Chapter of this *Review*, private consumption has continued to grow, despite a slowdown in disposable income growth and restrained labour market conditions.

Nevertheless, the expectations expressed in the latest Survey confirm that prospects for the near future remain as yet unclear. The global economy is, in fact, not anticipated to grow much faster in the coming months. This uncertainty about foreign demand, together with the excess capacity prevalent in many export-oriented firms, will probably lead most firms to restrain their demand for labour in the short term, a development that would entail negative spill-over effects on domestic demand. At the same time, the prospects for a significant recovery in tourist activity, which would have substantial multiplier effects on the local economy, remain clouded. Thus, the overall state of business sentiment gauged from the latest Survey seems to indicate that if the recovery in the Maltese economy is to be consolidated, economic conditions overseas must improve considerably.

4. THE BALANCE OF PAYMENTS AND THE MALTESE LIRA

The surplus on the current account of the balance of payments increased during the September quarter compared with the corresponding quarter of 2001 as the merchandise trade gap narrowed and investment income rose. Net inflows on the capital and financial account, excluding movements in official reserves, persisted for the fifth consecutive quarter. Therefore, the overall balance registered a surplus, with the official reserves rising by Lm67.1 million as a result.

Table 4.1
EXTERNAL BALANCES[1]

Lm millions

	July-Sept.			
	2001		2002	
	Credit	Debit	Credit	Debit
Current account balance	**12.6**		**29.5**	
Goods and services	365.6	354.7	384.8	366.5
Goods balance		61.0		48.4
Goods	203.9	264.9	237.9	286.3
Services balance	71.9		66.8	
Services	161.6	89.8	147.0	80.2
Transport	49.8	38.8	44.0	39.1
Travel	88.7	24.3	79.8	19.0
Other services	23.1	26.7	23.2	22.1
Income (net)	1.1		14.5	
Compensation of employees	0.8	0.7	0.9	0.9
Investment income	70.5	69.5	110.8	96.3
Current transfers (net)	0.6			3.3
Capital and financial account balance [2]	**41.6**		**7.9**	
Capital account balance		0.1		0.2
Financial account balance	41.7		8.1	
Direct investment		18.3	49.3	
Abroad		1.2		0.9
In Malta		17.2	50.2	
Portfolio investment		143.6		105.3
Assets		146.0		111.9
Liabilities	2.4		6.6	
Other investment	203.6		64.1	
Assets	317.0			118.4
Liabilities		113.4	182.5	
Overall balance	**54.2**		**37.4**	
Movements in reserves [3]		**44.8**		**67.1**
Net errors and omissions		**9.4**	**29.7**	

[1] Provisional.

[2] Excluding movements in official reserves.

[3] Excludes revaluation adjustments.

Source: National Statistics Office

Meanwhile, the Maltese lira strengthened against the euro, the US dollar and the yen, but lost ground against the pound sterling. This resulted in a rise in the NEER index for the lira. The REER index also rose, as Malta's average inflation rate continued to exceed that of its trading partners.

The Current Account

As can be seen from Table 4.1, the current account registered a surplus of Lm29.5 million during the September quarter, in line with the usual seasonal pattern but larger than the surplus of Lm12.6 million recorded in the same quarter of 2001. This improvement primarily reflected higher net receipts on investment income as well as a narrower merchandise trade gap.

Merchandise trade

Compared to the September quarter last year, the merchandise trade gap narrowed by Lm12.6 million to Lm48.4 million as exports and imports rose by Lm34 million and Lm21.4 million, respectively.

As can be seen from Table 4.2, a breakdown of the merchandise trade account compiled from Customs data shows that domestic exports went up by Lm22.7 million, driven almost equally by increased exports of machinery and transport equipment as well as of miscellaneous manufactured articles[1]. At the same time, machinery and transport equipment accounted for more than half of the Lm10 million increase in re-exports. Re-exports of minerals, fuels and lubricants rose further, albeit at a much slower pace than that experienced during the first half of the year. The narrowing of the visible trade gap was dampened by additional imports worth Lm22.2 million. Industrial supplies, principally semi-finished goods, accounted for almost the entire amount, although consumer goods and capital goods also contributed.

Table 4.2
MERCHANDISE TRADE
(based on Customs data)

Lm millions

	July-Sept.		Change
	2001 [1]	2002 [1]	
Imports	**281.0**	**303.2**	**22.2**
Consumer goods	69.4	72.5	3.1
Industrial supplies	135.9	155.2	19.3
Capital goods and others	47.8	48.7	0.9
Fuel and lubricants	27.9	26.8	-1.1
Exports	**201.9**	**234.6**	**32.7**
Domestic	177.4	200.1	22.7
Re-exports	24.5	34.5	10.0
Trade balance	**-79.1**	**-68.6**	**10.5**

[1] Provisional

Source: National Statistics Office

[1] The figures for imports and exports shown in Table 4.2 do not tally with those shown in Table 4.1 as a result of statistical adjustments to cater for differences in coverage, classification, timing and valuation.

Services and investment income

The surplus on the services account narrowed by Lm5.1 million compared to the same quarter in 2001 to Lm66.8 million. This was principally attributable to lower net receipts on transport of Lm6.1 million as a result of increased freight payments for imports as well as lower net receipts on other transport. In addition, developments in the tourist industry discussed in the previous Chapter contributed to a reduction in net receipts on travel of Lm3.6 million, with receipts and payments contracting by Lm8.9 million and Lm5.3 million, respectively. Meanwhile, lower payments made for miscellaneous business, professional and technical services explain the surplus on the other services account.

Investment income contributed significantly to the widening of the current account surplus during the quarter reviewed. As can be seen from Table 4.1, net income receipts increased by Lm13.4 million, as a result of movements in investment income. These reflected additional net interest receipts, which stemmed from international banking activity.

Finally, the balance on the current transfers account shifted from a small surplus to a deficit of Lm3.3 million as a result of higher tax refunds to non-residents.

The Capital and Financial Account

After excluding movements in the official reserves, net inflows on the capital and financial account amounted to Lm7.9 million during the September quarter. Although this was the fifth consecutive quarterly net inflow, it was well below the Lm41.6 million surplus recorded in the comparable quarter of 2001. Large cross-border flows by the monetary sector affected both portfolio investment and other investment. In addition, foreign direct investment inflows also contributed substantially to the overall net inflow.

The decline in net inflows on the capital and financial account compared with those recorded during the corresponding quarter of 2001 stemmed from the ‘other investment’ component. This includes movements in currency and deposits, loans and trade credit. As can be seen in Table 4.1, whereas net inflows of Lm203.6 million had been recorded on this account in the corresponding quarter a year ago, they reached just Lm64.1 million during the quarter reviewed. During the September quarter last year a reduction of residents’ foreign assets in this category considerably outweighed a drop in their foreign liabilities, giving rise to large net inflows on this account. During the quarter reviewed, however, an increase in foreign liabilities exceeded that in the corresponding foreign asset holdings, resulting in smaller net inflows.

In contrast, net outflows on the portfolio investment account dropped from Lm143.6 million during the third quarter of 2001 to Lm105.3 million during the quarter reviewed as residents’ holdings of foreign debt securities increased at a slower pace. In addition, the direct investment account registered net inflows of Lm49.3 million compared with net outflows of Lm18.3 million in the corresponding period of 2001. This swing was partly driven by the sale of equity in Malta International Airport to non-resident investors as well as by payments from foreign parent companies to their local subsidiaries in settlement of trade credit.

As a result of these developments, the balance of payments (excluding movements in official reserves) ended the quarter with an overall surplus of Lm37.4 million. The surplus was reflected in an increase in the official reserves of Lm67.1 million, with net errors and omissions of Lm29.7 million accounting for the difference.

Year-to-Date Developments

During the nine months to September, the current account deficit narrowed by Lm3.9 million to Lm18.8 million compared with the corresponding

Table 4.3

EXTERNAL BALANCES [1]

Lm millions

	Jan. - Sept.			
	2001		2002	
	Credit	Debit	Credit	Debit
Current account balance		**22.7**		**18.8**
Goods and services	1,064.9	1,104.0	1,035.8	1,086.1
Goods balance		188.2		165.2
Goods	678.4	866.6	680.3	845.4
Services Balance	149.2		114.9	
Services	386.5	237.4	355.6	240.6
Transport	113.5	104.7	104.4	109.7
Travel	205.5	59.2	184.0	49.5
Other services	67.5	73.5	67.1	81.4
Income (net)	14.0		34.4	
Compensation of employees	1.9	2.1	2.5	2.2
Investment income	290.2	276.1	286.2	252.1
Current transfers (net)	2.4			3.0
Capital and financial account balance [2]	**44.6**		**52.1**	
Capital account balance		0.4	1.4	
Financial account balance	45.0		50.8	
Direct investment		73.0		84.7
Abroad		1.1		2.7
In Malta		71.9		82.0
Portfolio investment	123.9			152.4
Assets	117.6			161.4
Liabilities	6.3		9.0	
Other investment		5.9	287.9	
Assets	1,156.8			5.8
Liabilities		1,162.7	293.6	
Overall Balance	**21.9**		**33.3**	
Movement in reserves [3]		**47.3**		**82.5**
Net errors and omissions	**25.4**		**49.2**	

[1] Provisional.

[2] Excluding movements in official reserves.

[3] Excludes revaluation adjustments.

Source: National Statistics Office

period of 2001. A contraction in the merchandise trade gap and higher net investment income receipts outweighed a lower surplus on services and outflows on current transfers.

As can be seen from Table 4.3, the merchandise trade gap shrank by Lm23 million on account of lower imports and a slight increase in exports. As Table 4.4 shows, domestic exports fell by Lm25.2 million, with machinery and transport equipment accounting for most of the decline. However, this was outweighed by a surge in re-exports of Lm28.9 million, which pushed total exports up by Lm3.7 million. During this period, the increase in re-exports of durable consumer goods exceeded the rise in imports of these items. Similarly, as regards capital goods, re-exports increased significantly although imports declined marginally. This suggests that domestic consumer and investment demand was subdued during the period.

Higher net receipts on investment income, which more than doubled to Lm34.4 million as payments in connection with interest and dividends by international banks decreased, also contributed towards a narrowing of the current account deficit.

On the other hand, the surplus on the services account fell by Lm34.3 million as net receipts on travel fell and the surplus on the transportation account swung into deficit. Lower receipts on the transportation account reflected a drop in income from passenger carriage. Moreover, during the same period of 2001, an aircraft leasing agreement had boosted receipts.

Meanwhile, after excluding movements in the official reserves, net inflows on the capital and financial account rose to Lm52.1 million from Lm44.6 million in the corresponding period of 2001. The increase in inflows was attributable to the "other investment" account, which recorded a net inflow of Lm287.9 million, as opposed to a small net outflow in the corresponding period last year. These inflows were partially offset by net outflows on the portfolio investment account as residents built up their holdings of foreign debt securities. At the same time, net outflows on the direct investment account increased to Lm84.7

Table 4.4
MERCHANDISE TRADE
(based on Customs data)

Lm millions

	Jan. - Sept. 2001	Jan. - Sept. 2002	Change
Imports	**918.8**	**901.8**	**-17.0**
Consumer goods	203.3	216.5	13.2
Industrial supplies	484.5	461.4	-23.1
Capital goods and others	152.3	150.1	-2.2
Fuel and lubricants	78.7	73.8	-4.9
Exports	**668.3**	**672.0**	**3.7**
Domestic	603.1	577.9	-25.2
Re-exports	65.2	94.1	28.9
Trade balance	**-250.5**	**-229.8**	**20.7**

Source: National Statistics Office

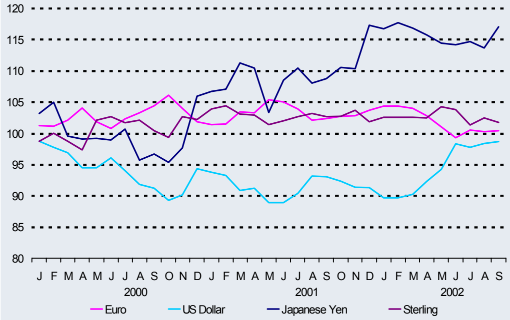
million as inflows of equity capital and reinvested earnings declined, outweighing a reduction in other liabilities to direct investors.

The overall positive balance on the external account at the end of the nine months to September stood at Lm33.3 million, with the official reserves ending the period higher by Lm82.5 million. Net errors and omissions amounted to Lm49.2 million.

The Maltese Lira

Reflecting the developments in international foreign exchange markets discussed in an earlier Chapter of this *Review*, the Maltese lira strengthened against the euro, the US dollar and the Japanese yen, while it weakened against the pound sterling during the quarter reviewed. Indeed, as can be seen in Table 4.5, the Maltese lira appreciated by 1.2% against the euro and by 0.3% vis-à-vis the US dollar between the end of June and end-September. In contrast with the previous two quarters, the Maltese lira also gained 2.5% against the yen. At the same time, the strengthening of sterling against the euro caused the Maltese lira to depreciate by 2% against the pound. The revision to the composition of the Maltese lira currency basket in late August 2002, which entailed an increase in the weight of the euro to 70%, resulted in narrower fluctuations of the Maltese lira exchange rate against the euro towards the end of the quarter.

Chart 4.1
EXCHANGE RATE MOVEMENTS OF THE MALTESE LIRA AGAINST SELECTED CURRENCIES
(index of end-of-month rates, end-1999 = 100)



When compared to the levels recorded during the third quarter of 2001, as can be seen in Chart 4.1, the Maltese lira strengthened considerably against the dollar and the yen, while depreciating

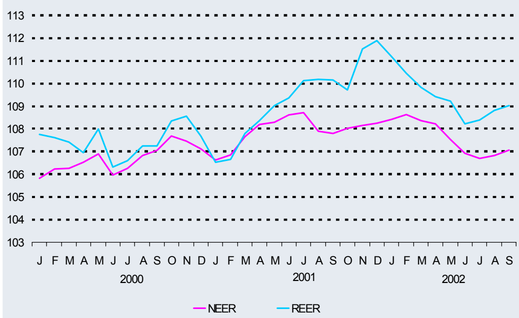
Table 4.5
EXCHANGE RATES OF THE MALTESE LIRA AGAINST MAJOR CURRENCIES

Period	Euro	US$	Stg	Yen
Average for Qtr. 3 2002	2.4134	2.3747	1.5326	283.2
Average for Qtr. 3 2001	2.4876	2.2150	1.5403	269.3
% change	-3.0	7.2	-0.5	5.1
Closing rate on 30.09.2002	2.4207	2.3893	1.5240	289.8
Closing rate on 28.06.2002	2.3924	2.3818	1.5545	282.7
% change	1.2	0.3	-2.0	2.5
High for Qtr. 3	2.4278	2.4285	1.5527	293.0
	(Aug. 06)	(July 19)	(July 1)	(Sept. 23)
% change from average	0.6	2.3	1.3	3.4
Low for Qtr. 3	2.3856	2.3391	1.5132	277.6
	(July 19)	(Sept. 17)	(July 31)	(July 15)
% change from average	-1.2	-1.5	-1.3	-2.0

moderately against the euro and sterling, principally because the euro appreciated on international markets. On average, between the September quarter this year and the corresponding period of 2001, the Maltese lira gained 7.2% and 5.1% against the US dollar and the yen, respectively. At the same time, the Maltese lira lost 3% of its value against the euro and remained largely unchanged against the pound sterling.

Chart 4.2 depicts developments in the Nominal Effective Exchange Rate (NEER)[2] and the Real Effective Exchange Rate (REER)[3] indices for the lira, which are indicators of the country's external competitiveness. In contrast with the trend observed during the first half of 2002, both the NEER and the REER were up by 0.13% and 0.75%, respectively. The rise in the NEER reflected the appreciation of the Maltese lira against the euro, US dollar and the yen. Moreover, the added hike in the REER indicates that the difference between inflation in Malta and in its trading partners widened.

Chart 4.2
REAL AND NOMINAL EFFECTIVE EXCHANGE RATE INDICES FOR THE MALTESE LIRA
(1995 = 100)



[2] The NEER index is based on a trade-weighted average of changes in the exchange rate of the lira against the currencies of Malta's major competitor countries, including its trading partners. A fall in the index represents a depreciation of the lira's average exchange rate, and vice-versa.

[3] The REER index is derived by adjusting the NEER index for relative movements in consumer prices. A fall in the index implies a gain in Malta's external competitiveness and vice-versa.

5. GOVERNMENT FINANCE

Although fiscal policy remained expansionary in the September quarter, the deficit was smaller than those recorded in the previous two quarters and in the corresponding quarter of 2001, as Chart 5.1 shows. This development was largely shaped by one-off receipts arising from the conversion of the title of land held by Malta International Airport (MIA), which boosted Government revenue by Lm21 million through special dividends, capital gains taxes and duty on documents. The concurrent sale of 40% of the Government's shareholding in MIA financed the fiscal shortfall and contributed to a drop in Gross Government Debt outstanding.

During the first nine months of the year, the increase in expenditure surpassed that in revenue in absolute terms. Consequently, the fiscal deficit widened by Lm4.6 million to Lm85.6 million. Revenue expanded at a faster pace, however, increasing by 9% over the corresponding period of 2001, as Table 5.1 shows, compared with a 3.7% rise recorded during the first half of the year. In contrast, expenditure growth slowed down, rising by 8.5% over the first three quarters of 2001 compared with 10.3% over the first two quarters alone.

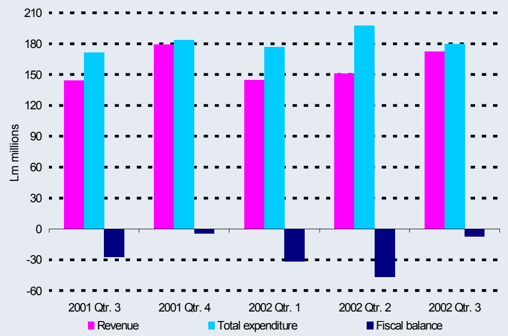
Meanwhile, according to the revised estimates published in November 2002, the Government is projecting a deficit of Lm78.5 million for the whole year, implying a Lm7.1 million surplus for the final quarter.

Revenue

During the nine months to September, Government revenue rose by Lm38.8 million, as shown in Table 5.1. Receipts from direct taxation were up by Lm13 million, almost entirely on account of a sharp increase in income tax revenue, which rose by Lm12 million. The capital gains tax paid by MIA on the above-mentioned transaction contributed nearly half of the rise in income tax, as may be inferred from Chart 5.2. Social security contributions rose by just Lm0.8 million, though income from this source increased in the September quarter. Sluggish growth in these contributions partly reflects the drop in the number of gainfully occupied since the beginning of the year.

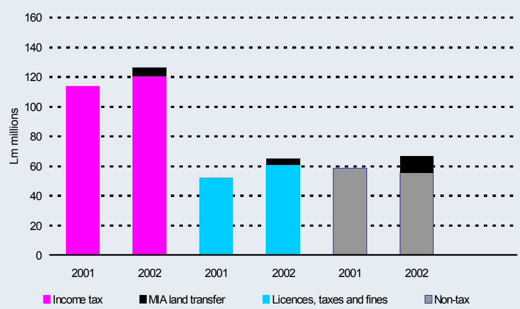
During the first three quarters of the year, the yield from indirect taxation soared by Lm17.7 million, or 10.1%, to Lm192.1 million. More than two-thirds of this amount came from receipts from licences, taxes and fines, which went up by Lm12.6 million, reflecting duty on documents paid by MIA and the reclassification of the Public Lotto

Chart 5.1
GOVERNMENT FISCAL PERFORMANCE



Source: The Treasury, Central Bank of Malta

Chart 5.2
EFFECTS OF MIA LAND TRANSFER AGREEMENT ON GOVERNMENT REVENUE - JANUARY-SEPTEMBER



Source: The Treasury

Table 5.1
GOVERNMENT BUDGETARY OPERATIONS

Lm millions

	2001 Qtr. 3	2002 Qtr. 3	2001 Qtr. 1- Qtr. 3	2002 Qtr. 1- Qtr. 3	Change 2001-2002 Qtr. 1- Qtr. 3 Amount	%
REVENUE	**144.2**	**172.5**	**429.6**	**468.4**	**38.8**	**9.0**
Direct tax	**74.5**	**85.6**	**196.7**	**209.7**	**13.0**	**6.6**
Income tax	45.3	54.9	113.5	125.5	12.0	10.6
Social security contributions [1]	29.3	30.6	83.3	84.1	0.8	1.0
Indirect tax	**61.0**	**68.3**	**174.4**	**192.1**	**17.7**	**10.1**
Value Added Tax	27.5	26.8	83.3	83.2	-0.1	-0.1
Customs and excise duties	13.7	16.6	38.9	44.1	5.2	13.4
Licences, taxes and fines	19.7	24.8	52.1	64.7	12.6	24.2
Non-tax revenue	**8.7**	**18.6**	**58.5**	**66.7**	**8.2**	**14.0**
Central Bank profits	0.0	0.0	25.9	25.7	-0.2	-0.8
Other [2]	8.7	18.6	32.6	41.0	8.4	25.8
RECURRENT EXPENDITURE [1]	**148.6**	**157.3**	**441.4**	**483.1**	**41.7**	**9.4**
Personal emoluments	48.7	49.2	145.5	147.2	1.7	1.2
Operational and maintenance	10.8	9.9	32.4	36.0	3.6	11.1
Programmes and initiatives	63.5	67.1	192.1	203.1	11.0	5.7
Contributions to entities	9.7	14.6	25.9	47.2	21.3	82.2
Interest payments	15.9	16.3	45.1	49.2	4.1	9.1
Other	0.2	0.1	0.4	0.4	0.0	0.0
CURRENT BALANCE [3]	**-4.4**	**15.1**	**-11.8**	**-14.7**	**-2.9**	**24.6**
CAPITAL EXPENDITURE	**22.7**	**22.4**	**69.2**	**71.0**	**1.8**	**2.6**
TOTAL EXPENDITURE	**171.3**	**179.6**	**510.6**	**554.0**	**43.4**	**8.5**
FISCAL BALANCE [4]	**-27.1**	**-7.1**	**-81.0**	**-85.6**	**-4.6**	**5.7**

[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 revenue from sale of assets and sinking funds of converted loans.

[3] Revenue less recurrent expenditure.

[4] Revenue less total expenditure.

Source: *The Treasury*

Department's profits that had been previously treated as non-tax income. Customs and excise duties were up by Lm5.2 million, mainly on account of the higher duties paid on tobacco and petroleum products. In contrast, revenue from VAT dipped by Lm0.1 million, despite the reported increase in private consumer spending during the period, which may reflect lower tourist expenditure in Malta. In spite of the reclassification mentioned earlier, revenue from non-tax sources grew by Lm8.2 million, on account of the special dividends distributed by MIA and the fees levied on the registration of previously undeclared financial assets held abroad.

Expenditure

On the other hand, total expenditure expanded by Lm43.4 million, or 8.5%. Almost the entire increase resulted from additional recurrent outlays of Lm41.7 million, though spending patterns partly mirrored the reclassification to the recurrent category of subsidies to a number of public entities. In fact, if the effects of this adjustment in accounting policy were removed, recurrent expenditure and capital expenditure would have risen by Lm31.3 million and Lm12.1 million, respectively. Moreover, nearly a fifth of the reported increase in recurrent outlays reflected the incorporation of spending that had been accounted for through the Treasury Clearance Fund (TCF) and had not been included with expenditure in past years. This implies that most of the underlying rise in recurrent expenditure went on welfare benefits and interest payments.

The Government's wage bill edged upwards by Lm1.7 million, or 1.2%, dampened by a drop in the number of Government employees. Meanwhile, operational and maintenance expenditure, driven by higher spending on pharmaceutical supplies, increased by Lm3.6 million. Expenditure on programmes and initiatives also rose sharply, up by Lm11 million, as social security payments continued to rise and the costs associated with the National Programme for the Adoption of the *Acquis* increased.

Meanwhile, contributions to Government entities surged by Lm21.3 million, though Lm10.4 million of this increase merely reflected the reclassification of industry-related subsidies that had been treated as part of the Government's capital programme until December 2001. The incorporation of Malta Drydocks' subsidies and Freeport debt servicing costs, previously accounted for through the TCF, further inflated this expenditure item by Lm7.9 million. Last year's steep increase in Malta Government stocks outstanding continued to impinge on the cost of interest payments, which grew by Lm4.1 million.

In spite of the reclassification of subsidies to recurrent spending, reported capital expenditure still grew by Lm1.8 million as underlying spending increased. In fact, the voluntary resignation of some 700 shipyard workers resulted in an added expense of Lm6 million, while funds channelled to the construction of the new hospital and roads also rose significantly.

Government Debt and Financing Operations

The major financing operation during the third quarter of 2002 involved the sale of 40% of the Government's shareholding in MIA to the Malta Mediterranean Link Consortium[1]. The proceeds from this equity sale, of Lm19 million, financed the deficit recorded during the quarter, let the Treasury reduce its short-term borrowing and contributed to an increase in Government deposits. However, the bulk of the increase in deposits, which amounted to Lm45 million, reflected a temporary inflow of funds arising from two Malta Government stock issues, with a combined value of Lm36.3 million, that financed the redemption of maturing stock in the first week of October.

As shown in Table 5.2, Gross Government Debt at end-September stood at Lm1,042.6 million, down by Lm7 million when compared to June[2], with the composition of the debt changing slightly. In

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1 This consortium is made up of VIE (Malta) Ltd, SNC - Lavalin (Malta) Ltd and Airport Investments Ltd.

2 Although proceeds from the new stock issues were received in the final week of September, the new stocks were officially listed on the Malta Stock Exchange on October 8, 2002. Thus, the above-mentioned increase in Government deposits during the September quarter was not matched by an increase in MGS outstanding at end-September, but by a corresponding Government liability with respect to the new bond applicants.

fact, the share of Malta Government stocks in the total rose to 78%, whereas the shares of Treasury bills and foreign loans fell to 18.5% and 3.5%, respectively.

Table 5.2
GOVERNMENT DEBT AND FINANCING OPERATIONS

Lm millions

	2001		2002		
	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3
FISCAL BALANCE	**-27.1**	**-4.3**	**-31.9**	**-46.6**	**-7.1**
Financed by [1] *:*					
Increase in MGS outstanding	21.6	21.2	0.0	0.0	0.1
Increase in foreign loans	-0.9	4.2	-0.5	-2.0	-0.7
Proceeds from sale of assets	0.0	0.0	0.0	0.0	19.0
Contributions to sinking funds	0.0	-5.5	0.0	-5.6	0.0
Sinking funds of converted loans	0.0	22.0	0.0	0.0	0.0
Increase in Treasury bills outstanding	8.2	-15.8	33.6	5.8	-6.5
Decrease in Government deposits	-12.0	-4.6	4.1	31.6	-45.0
Net cash movement and other funds [2]	10.2	-17.2	-5.3	16.8	40.2
GROSS GOVERNMENT DEBT	**1,003.2**	**1,012.8**	**1,045.8**	**1,049.6**	**1,042.6**
Malta Government stocks	791.7	812.9	812.9	812.9	813.0
Treasury bills	175.3	159.5	193.1	198.9	192.4
Foreign loans	36.2	40.4	39.9	37.9	37.2

[1] Negative figures indicate an application of funds, meaning that the Government would also have to finance these transactions in addition to the deficit during the quarter.

[2] This figure represents the difference between the fiscal balance and the sources of financing utilised during the quarter. A positive figure indicates a shortfall in financing, while a negative figure indicates overfinancing during the quarter.

Source: The Treasury and Central Bank of Malta estimates

6. MONETARY AND FINANCIAL DEVELOPMENTS

During the September quarter of 2002 the Central Bank left official interest rates unchanged at 4%, at which level they have been since January, when rates were last cut. The excess liquidity seen in previous quarters persisted, however, forcing the Bank to continue to absorb funds through auctions of term deposits, with more frequent use of these instruments being made than in the previous quarter. Yields on Government securities traded in the money and capital markets eased slightly, reflecting the liquidity in the financial system, but equity prices continued to decline.

Broad money increased substantially during the quarter, driven by an equally impressive rise in the net foreign assets of the banking system, including the Central Bank's reserves. Underlying credit growth, especially to the private sector, remained weak, however.

The Monetary Base

The monetary base, M0, which consists of currency in issue and banks' deposits with the Central Bank (except term deposits) declined by Lm23.8 million, or 4.1%, during the quarter. The fall in M0 reflected a contraction in banks' deposits with the Central Bank, largely due to a temporary rise in items in suspense that was connected with two Government bond issues in September. This fall outweighed the seasonal increase in currency in issue, causing the annual growth rate of M0 to swing from 3.8% in June to -2% in September.

As Table 6.1 shows, the main counterpart to the contraction in banks' deposits with the Central Bank was an expansion in Government deposits, which were pushed sharply higher by the proceeds from the September bond issues and from the partial privatisation of a parastatal entity in July. The rest of the contraction in M0 is mainly accounted for by a rise in the Central Bank's other liabilities, as term deposits with the

Table 6.1
THE MONETARY BASE AND ITS SOURCES

Lm millions

	June 2002	Sept. 2002	Change
Currency in issue	449.9	456.4	6.6
Banks' deposits with the Central Bank[1]	130.6	100.2	-30.4
MONETARY BASE	**580.5**	**556.7**	**-23.8**
CENTRAL BANK ASSETS			
Foreign assets	780.7	841.9	61.2
Claims on Government	5.0	2.3	-2.6
Fixed and other assets	50.3	51.8	1.5
Less:			
REMAINING LIABILITIES			
Government deposits	33.5	77.3	43.8
Other deposits	3.7	7.1	3.4
Foreign liabilities	0.0	1.3	1.3
Other liabilities	122.7	154.0	31.4
Capital and reserves	95.6	99.6	4.0

[1]Excluding term deposits, which are shown with "other liabilities".

Bank also rose sharply over the quarter. These developments countered a Lm61.2 million increase in the foreign assets of the Bank, which would otherwise have boosted the monetary base.

Monetary Aggregates

Broad money, M3, put on Lm106.7 million, or 3.7%, during the September quarter, surpassing the Lm3 billion mark. All categories of deposits, as well as currency in issue, increased robustly over the period, as Table 6.2 shows. Both personal and corporate deposits, as well as those belonging to public sector enterprises, rose from the previous quarter's level, although the strongest growth was once again in personal deposits. Meanwhile, foreign currency deposits reversed the previous quarter's dip, with foreign currency time deposits, in particular, advancing strongly during the quarter. As a result, the annual growth rate of M3 accelerated to 12.2%, as can be seen from Chart 6.1.

Narrow money, M1, reached Lm679 million by the end of September, following a quarterly increase of Lm24.5 million, or 3.7%. This was the largest rise in two years, taking the annual growth rate up to 6.1% in September from 4.5% three months earlier, as Chart 6.1 illustrates. Currency in circulation added Lm7.3 million, or 1.7%, while demand deposits, boosted by corporate sector deposits, rose by Lm17.3 million, or 7.7%, after declining slightly in the previous quarter. Demand deposits expanded steadily throughout the quarter, despite a bond issue in July, which coincided with a modest contraction in personal current account balances in that month[1].

Quasi-money grew by almost twice as much as in the previous quarter, putting on Lm82.2 million, or

Table 6.2
MONETARY AGGREGATES
(Changes on the previous quarter)

Lm millions

	2001				2002					
	Qtr. 3		Qtr. 4		Qtr. 1		Qtr. 2		Qtr. 3	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. NARROW MONEY	**14.1**	**2.2**	**-5.1**	**-0.8**	**7.9**	**1.3**	**11.5**	**1.8**	**24.5**	**3.7**
Currency in circulation	2.2	0.5	5.3	1.3	0.2	0.0	11.6	2.8	7.3	1.7
Demand deposits	11.9	5.5	-10.4	-4.6	7.7	3.6	-0.2	-0.1	17.3	7.7
2. QUASI-MONEY	**21.0**	**1.0**	**70.5**	**3.4**	**90.3**	**4.3**	**45.5**	**2.1**	**82.2**	**3.6**
Savings deposits	0.6	0.1	27.7	4.3	16.3	2.4	-5.6	-0.8	18.7	2.7
of which FCDs[1]	2.3	1.6	10.9	7.6	6.3	4.1	-6.1	-3.8	1.8	1.1
Time deposits	20.4	1.5	42.8	3.1	74.0	5.1	51.1	3.4	63.5	4.0
of which FCDs[1]	8.8	8.5	5.9	5.2	21.9	18.6	-2.9	-2.0	35.1	25.6
3. BROAD MONEY	**35.1**	**1.3**	**65.4**	**2.4**	**98.2**	**3.6**	**56.9**	**2.0**	**106.7**	**3.7**

[1] i.e. Foreign currency deposits, including external Maltese lira deposits.

[1] Information on the breakdown of deposits by type of owner and maturity relates to deposits with deposit money banks only.

Chart 6.1
MONETARY AGGREGATES
(percentage change on previous year)

3.6%, to reach Lm2,335 million. Both savings and time deposits contributed, with more than half the increase in the latter being denominated in foreign currency, as Table 6.2 shows. The strong increments in quasi-money seen over the past year, which pushed its annual growth rate up to 14.1% in September, reflected a growing preference for bank deposits as deteriorating conditions in markets both in Malta and abroad made alternative financial assets unattractive.

After declining in the previous quarter, savings deposits added Lm18.7 million, or 2.7%, in the three months to September, as deposits belonging to the corporate sector reversed the previous quarter's contraction. In fact, corporate savings deposits rose by Lm14.6 million, accounting for almost the entire increase. In contrast, personal savings deposits expanded only marginally, possibly on account of the July bond issue.

Time deposits increased by Lm63.5 million, or 4%, during the quarter, maintaining the generally strong growth trend in such deposits seen over the past year. Households accounted for most of the gain, as personal time deposits rose by Lm46.5 million. Households tended to prefer time deposits maturing within one year, especially those with a term of less than three months, as the latter increased by an unusually large amount during the quarter. Meanwhile, time deposit holdings of the corporate sector and public sector enterprises increased by broadly similar amounts.

Thus, time deposits reached Lm1,635 million, at which level they represented over half of broad money, after having steadily increased their share in the total over the years.

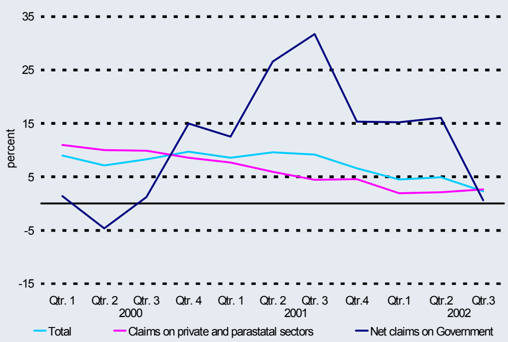
Counterparts to Monetary Expansion

Despite a seasonal rise in net claims on the private and parastatal sectors, domestic credit declined by Lm6.1 million, or 0.3%, during the September quarter, as net claims on Government decreased substantially. This can clearly be seen from Table 6.3. Consequently, the annual rate of credit growth, which is illustrated in Chart 6.2, fell to 2.3%.

Net claims on Government decreased by Lm51.3 million, or 9.6%, as the proceeds from the sale of shares and Government bonds referred to earlier helped boost Government deposits with the Central Bank. Furthermore, Government debt held by the banking system contracted. As a result, the annual rate of growth of net claims on Government fell from 16.1% in June to below 1% in September, as Chart 6.2 shows.

Following the previous quarter's dip, claims on the private and parastatal sectors bounced back

Chart 6.2
DOMESTIC CREDIT
(percentage change on previous year)



during the quarter under review, expanding by Lm45.2 million, or 2.4%, to Lm1,899 million. Most of the rise, however, came in September, when some banks charged six months' interest to borrowers' loan accounts. This more than offset the contractionary effects of loan write-offs effected in the same month. However, underlying credit growth remained weak, as can be gauged from the declining trend in the annual growth rate of claims on the private and parastatal sectors illustrated in Chart 6.2. This recovered somewhat to 2.7% in September - although, as the Chart clearly shows, this was only marginally above the two-year lows recorded in the previous two quarters.

Loans and advances, which, as Table 6.4 shows, gained Lm42 million, or 2.4%, accounted for most of the rise in claims on the private and parastatal sectors. Credit to the transport, storage and communication sector registered the largest increase, as one firm in the public sector borrowed heavily in July, though other public sector enterprises also took out bank loans during the quarter. In fact, public sector borrowers accounted for almost all the lending growth

Table 6.3

COUNTERPARTS TO MONETARY GROWTH

(Changes on the previous quarter)

Lm millions

	2001				2002					
	Qtr. 3		Qtr. 4		Qtr. 1		Qtr. 2		Qtr. 3	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BROAD MONEY	**35.1**	**1.3**	**65.4**	**2.4**	**98.2**	**3.6**	**56.9**	**2.0**	**106.7**	**3.7**
1. DOMESTIC CREDIT	**53.8**	**2.4**	**-3.8**	**-0.2**	**35.4**	**1.5**	**27.3**	**1.2**	**-6.1**	**-0.3**
a) Net claims on Govt.	20.1	4.3	-7.8	-1.6	26.4	5.6	35.6	7.1	-51.3	-9.6
Gross claims on Govt.	32.1	6.1	-3.2	-0.6	22.3	4.0	4.0	0.7	-6.3	-1.1
Central Bank	-25.7	-68.6	-6.0	-51.0	-1.2	-21.1	0.4	9.7	-2.6	-53.0
Banks	57.8	11.8	2.8	0.5	23.5	4.3	3.5	0.6	-3.7	-0.6
Less:										
Government deposits[1]	12.0	18.5	4.6	6.0	-4.1	-5.0	-31.6	-40.8	45	98.2
Central Bank	9.9	19.2	7.2	11.7	-2.4	-3.5	-33.2	-49.7	43.8	131
Banks	2.1	15.8	-2.6	-17.2	-1.7	-13.7	1.5	14.0	1.2	9.9
b) Claims on private and parastatal sectors	33.7	1.9	4.0	0.2	9.0	0.5	-8.3	-0.4	45.2	2.4
2. NET FOREIGN ASSETS	**11.8**	**1.2**	**86.5**	**8.7**	**62.2**	**5.7**	**24.3**	**2.1**	**145.6**	**12.4**
Central Bank	43.9	6.8	71.6	10.4	22.6	3.0	-2.3	-0.3	59.9	7.7
Banks	-32.0	-9.4	15.0	4.9	39.6	12.2	26.6	7.3	85.7	22.0
Less:										
3. OTHER ITEMS (NET)	**30.5**	**5.0**	**17.3**	**2.7**	**-0.7**	**-0.1**	**-5.3**	**-0.8**	**32.8**	**5.0**

[1] Includes Sinking Fund and other Treasury Clearance Fund investments which are generally not readily available for liquidity purposes.

Table 6.4
CREDIT TO SELECTED CATEGORIES OF BORROWER[1]

Lm millions

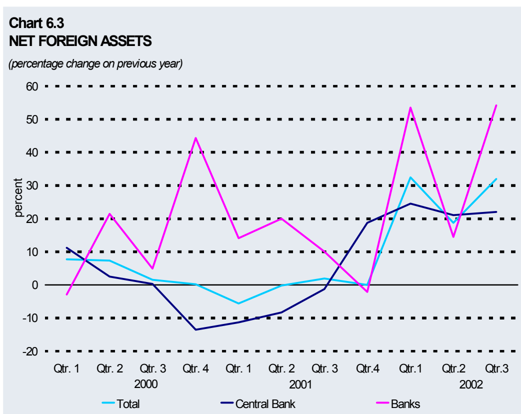
	2002 Qtr. 2 Amount	2002 Qtr. 3 Amount	Change	%
Energy and water	89.6	92.0	2.4	2.7
Transport, storage and communication	106.1	133.4	27.3	25.7
Agriculture and fisheries	10.5	10.4	-0.1	-0.8
Manufacturing	204.2	197.9	-6.3	-3.1
Building and construction	88.6	93.8	5.2	5.9
Tourism	246.7	245.1	-1.6	-0.7
Wholesale and retail	303.1	299.9	-3.2	-1.1
Personal	486.7	506.4	19.7	4.0
Other services	74.9	83.5	8.7	11.6
All other	157.3	147.7	-9.7	-6.1
TOTAL	**1,767.7**	**1,810.0**	**42.3**	**2.4**

[1] Including bills discounted. Comprises credit to private and public sector borrowers.

during the quarter. In contrast, credit to the private sector was only marginally up from the previous quarter's level, despite interest charges and a surge in personal borrowing intended mostly to finance house purchases. A corporate bond issue in July probably reduced the demand for bank loans, but it is possible that stricter lending policies and loan write-offs, rather than weak demand, constrained growth in private sector credit.

The net foreign assets of the banking system reached Lm1,316 million by the end of September, following a record quarterly expansion of Lm145.6 million, or 12.4%. The strong growth in the banking system's net foreign assets pushed their annual growth rate up to 32%, from 18.8% in the previous quarter, as Chart 6.3 shows. The net foreign assets of both the Central Bank and the rest of the banking system advanced strongly over the quarter, although the latter accounted for the larger part of the overall increase.

After a slight contraction in the June quarter, the Central Bank's net foreign assets recovered during the quarter under review, adding Lm59.9 million, or 7.7%, as Table 6.3 shows. Most of the increase occurred in July, when the Bank received foreign exchange in connection with the privatisation process mentioned earlier, but the rise also reflected net purchases of foreign exchange from the rest of the banking system, as



well as receipts from swap and forward agreements entered into earlier in the year. The annual growth rate of the Bank's net foreign assets, illustrated in Chart 6.3, added one percentage point over the quarter to end September at 22%.

Meanwhile, the net foreign assets of the rest of the banking system (including the international banks) put on Lm85.7 million, or 22%, causing their annual growth rate to shoot up to 54.2%, from 14.4% in the previous quarter. As Chart 6.3 shows, however, such fluctuations are not uncommon.

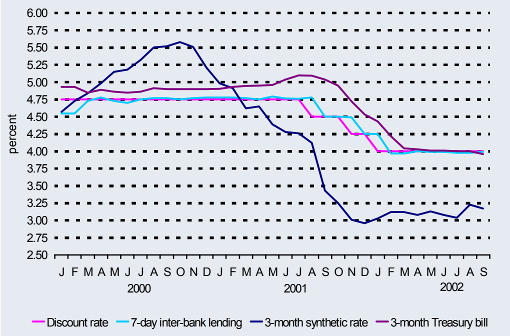
The deposit money banks' net foreign assets increased by a record Lm80.6 million during the quarter, despite the sale of foreign exchange to the Central Bank referred to earlier. These assets were probably influenced positively by an increase in foreign currency deposits. However, increased activity in the derivatives market may have led to wide fluctuations in holdings of foreign assets, as swap transactions are reversed on maturity, for instance. The international banking institutions' net foreign assets, on the other hand, advanced by only Lm5.1 million.

Other items (net)[2] added Lm32.8 million, or 5%, during the September quarter. The increase reflected a rise in the other liabilities of the deposit money banks, as well as a fall in their other assets, as interest accrued was added to outstanding loans. Meanwhile, higher profits boosted the other liabilities of the international banks.

The Money Market

The Central Bank continued to absorb liquidity from the rest of the banking system through weekly auctions of 14-day term deposits

Chart 6.4
MONEY MARKET INTEREST RATES
(end of month)



throughout the September quarter. This helped keep short-term interest rates in line with the monetary policy stance, which was unchanged from the previous quarter. The Bank absorbed Lm536.3 million, compared with Lm504.8 million in the previous quarter, with the interest rate paid on these deposits remaining unchanged at 3.95%, which is the floor of the interest rate band within which the Bank conducts its weekly auctions. Once again, the Bank did not inject any funds through reverse repos during the quarter.

Given the persistent high level of liquidity in the banking system, activity in the interbank market was somewhat subdued. Turnover, at Lm26 million, was notably less than in the June quarter, when interbank lending of Lm41.7 million was recorded, partly because no transactions took place in August. All interbank loans were struck with terms to maturity of two weeks or less, with the interest rate on one-week loans ending September at 3.99%, unchanged from the June level.

The Treasury continued to resort to the money market for short-term funds, issuing Lm165.9 million worth of bills, down from Lm169.8 million in the June quarter. Bills were issued with terms to

[2] Other items (net) consist of the non-monetary liabilities of the banking system, such as debt securities issued and accrued interest payable, together with capital and reserves, less the banking system's other assets, including fixed assets and accrued interest receivable.

maturity ranging between one and six months, with three-month bills accounting for over four-fifths of the total issued. Banks dominated the bidding, taking up over 80% of the total offered, reflecting the abundant liquidity in the banking system. The interest rate was determined by auction for most of these issues, with the yield on three-month bills, illustrated in Chart 6.4, ending the quarter at 3.96%, slightly down from the 4.01% level at which it had ended the previous quarter.

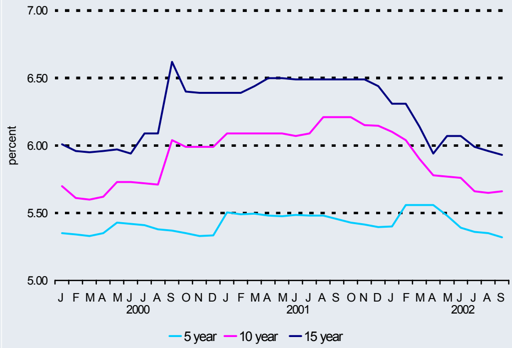
Turnover in the secondary Treasury bill market amounted to Lm15.5 million, sharply down from the previous quarter's level, when an exceptional volume of Lm82.6 million was recorded. The Central Bank, in its role as market maker, bought Lm2.2 million worth of bills and sold Lm0.2 million. Trading not involving the Central Bank, at Lm13.1 million, was about a third of that recorded in the previous three months, as banks had ample liquidity and were reluctant to sell bills. Secondary market yields declined slightly over the quarter, in line with primary market rates.

Chart 6.4 also shows a synthetic three-month yield, which is a weighted average of money market yields on the three currencies that make up the Maltese lira basket. As the Chart shows, the synthetic rate ended the quarter at 3.17%, up marginally from its end-June level. As the Chart also shows, the gap between the domestic three-month Treasury bill yield and the synthetic yield narrowed during the quarter.

The Capital Market

The Government adhered to its indicative calendar for securities issues, with two bond issues, worth a combined Lm36.25 million, and intended to roll over maturing debt, being effected in September. One issue, for Lm15.25 million worth of 5.6% Malta Government Stocks 2007, was taken up entirely by banks, with the average yield of 4.91% determined by auction. The Government raised a further Lm21 million through

Chart 6.5
GOVERNMENT BOND YIELDS
(end of month)



the issue of stocks maturing in 2012 and carrying a coupon rate of 5.7%. Households took up a large part of these bonds at par, while most of the rest was allotted to financial companies by auction, pushing down the yield to 5.36%

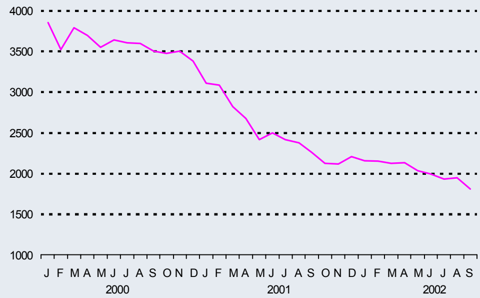
In contrast with the previous quarter, when three private companies issued bonds, only one firm resorted to the capital market for finance during the quarter under review. In July, Tumas Investments p.l.c. sold Lm7 million worth of bonds, redeemable in the period 2010-2012 and offering a coupon rate of 6.7%. The issue was heavily oversubscribed.

Following two quarters of relatively moderate turnover, activity in the secondary market for Government bonds surged to Lm23 million in the September quarter, with almost no deals involving the Central Bank. Trading accelerated as the quarter progressed, although most of the volume was concentrated in a few securities. Government stock yields, shown in Chart 6.5, fell marginally, as buoyant demand drove prices higher.

Despite the listing of new bonds, turnover in the secondary corporate bond market, including preference shares, dropped by over Lm1.5 million to Lm2.3 million. This might reflect a reluctance to sell such assets, as investors tended to hold onto fixed income securities. Trading was mixed, as some bond prices gained while others fell, but there were no major movements in yields.

In the equity market volume declined substantially, to Lm2.3 million, although the previous quarter's turnover was influenced by exceptional factors. Share prices dipped in July, but a tentative recovery in August was short-lived and equities resumed their decline during September. At the end of September, the Malta Stock Exchange Share Index, illustrated in Chart 6.6, stood at 1809.3, down by 9.1% from the end-June level.

Chart 6.6
MALTA STOCK EXCHANGE SHARE INDEX
(end of month)



Source: Malta Stock Exchange

7. THE BANKING SYSTEM

The aggregate balance sheet of the deposit money banks grew strongly in the September quarter of 2002. The expansion reflected accelerating deposit growth and greater participation by banks in international financial markets to raise funds. Domestic lending opportunities remained sparse and, consequently, the banks continued to build up their term deposits with the Central Bank as well as their foreign investment portfolios. Although the banks remained comfortably above the minimum requirement, their aggregate liquidity ratio declined on account of a steep rise in their short-term liabilities. The sector's capital base remained strong.

The deposit money banks' profit before tax rose during the September quarter compared to the previous quarter. One institution's decision to write off loans did not affect overall bank profitability in the third quarter, as these had already been provided for. Higher non-interest income and a reduction in provisions during the quarter reviewed more than offset a drop in net interest income and increased operating expenses. Meanwhile, the interest rate spread widened and, since past changes in official rates have not yet entirely fed through to the average rate on deposits, it is expected to continue to increase in the short term.

Deposit Money Banks' Balance Sheet

As may be inferred from Table 7.1, the sector's aggregate balance sheet rose by Lm169.6 million, or 4.5%, in the third quarter. The increase followed relatively modest growth during the first two quarters of the year and was practically equal to the robust expansion reported in the September quarter of 2001, when an international bank had been absorbed by its parent bank. A bank's decision to write off some of its loans had virtually no impact on the value of the aggregate balance sheet, as these had already been extensively covered by provisions.

Table 7.1
DEPOSIT MONEY BANKS' BALANCE SHEET

Lm millions

	2001		2002		
	Sept.	Dec.	Mar.	June	Sept.
ASSETS					
Cash and deposits with CBM	159.8	180.3	208.8	219.1	247.6
Foreign assets	776.6	791.6	779.9	800.5	930.0
Loans and advances	1,855.9	1,866.4	1,875.5	1,858.6	1,897.9
Local investments	664.9	663.0	687.4	690.2	689.5
Fixed and other assets	158.4	168.9	151.6	180.8	153.8
LIABILITIES					
Deposits	2,249.1	2,312.5	2,407.0	2,450.7	2,546.8
Time	1,392.1	1,432.3	1,507.3	1,555.0	1,617.8
Savings	639.5	667.3	679.3	673.4	690.7
Demand	217.6	212.9	220.4	222.3	238.3
Foreign liabilities	584.1	599.6	551.2	551.8	600.6
Other domestic liabilities	613.2	566.8	547.8	549.7	571.9
Capital and reserves	169.2	191.2	197.2	197.0	199.5
AGGREGATE BALANCE SHEET	**3,615.6**	**3,670.2**	**3,703.2**	**3,749.2**	**3,918.8**

Liabilities

Total deposits grew by Lm96.1 million, or 3.9%, when compared to the end-June level and financed some three-fifths of the balance sheet expansion. As may be inferred from Chart 7.1, the rate of growth of deposits picked up noticeably when compared to the preceding quarter. Time deposits increased by Lm62.8 million, or 4%, with virtually the entire amount in the form of term deposits with a maturity of less than one year. The build-up of short-term deposits could have reflected expectations of new investment opportunities coming onto the market in the near future and savers' reluctance to bind themselves to longer-term deposits given the low-interest-rate environment. In spite of a private bond issue in July absorbing some Lm7 million, current and savings deposits increased by Lm16 million and Lm17.3 million, respectively.

The banks also procured additional funds through the sale of foreign securities under repurchase agreements, such that total foreign liabilities rose by Lm48.8 million. At the same time, despite a sharp drop in specific provisions that mirrored the above-mentioned loan write-off and dividend payments, other domestic liabilities grew by Lm22.2 million, partly as a result of an increase in international banks' deposits and current profits. The deposit money banks' capital and reserves edged upwards by Lm2.5 million, as a particular institution increased its paid-up share capital.

Assets

During the September quarter, bank credit[1] increased by Lm39 million, or 2.1%, in spite of the loan write-off. However, credit management remained centred on efforts to improve the overall quality of the banks' loan books through more rigorous lending assessment policies. In fact, most of the increase reflected the seasonal debiting of interest charges to loan accounts as well as exceptional borrowing by a public sector company. Meanwhile, the value of the banks' local investments remained practically unchanged, as they reduced their holdings of Malta Government stocks but acquired additional Treasury bills and corporate securities. In particular, the scope for an increase in the banks' portfolio of domestic securities during the third quarter was curtailed by the limited amount of new Government securities issued on the primary market.

Given limited opportunities for domestic lending and investment, the banks employed most of their additional funds in financial markets abroad, as

Chart 7.1
DEPOSIT MONEY BANKS' LIABILITIES

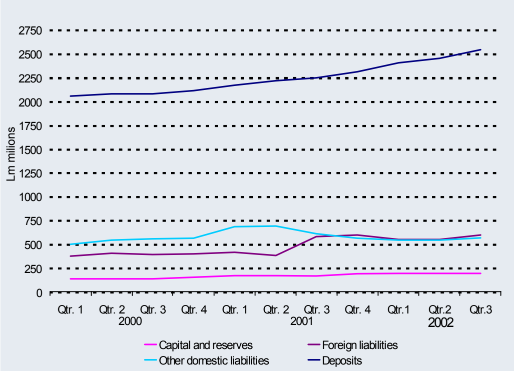
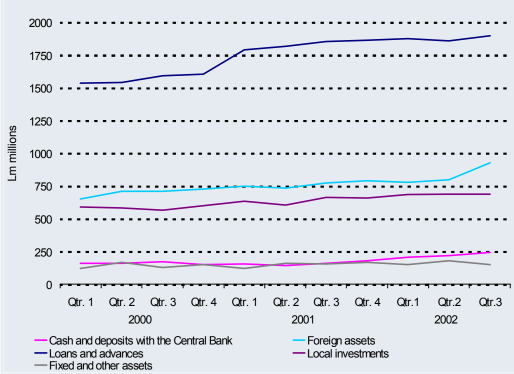


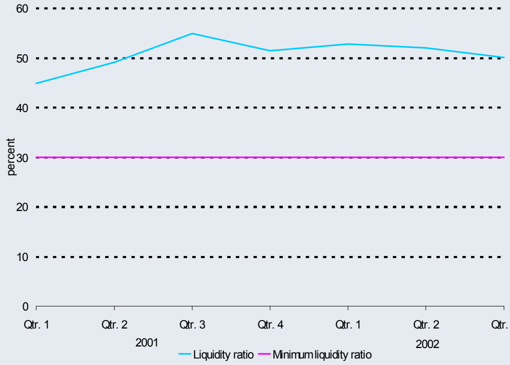
Chart 7.2
DEPOSIT MONEY BANKS' ASSETS



[1] The amount of loans and advances in this section refers to bank credit gross of loan loss provisions and interest in suspense.

evidenced by Chart 7.2. Thus, their stock of foreign assets soared by Lm129.5 million, or 15.2%, as a result of the acquisition of additional foreign non-Government securities. This was the largest quarterly percentage increase in the banks' foreign holdings since 1992. Meanwhile, the banks continued adding to their term deposits with the Central Bank, such that their total reserve assets surged upwards by Lm28.5 million. Fixed and other assets fell by Lm27 million, as interest due on loans and advances was transferred to customers' accounts.

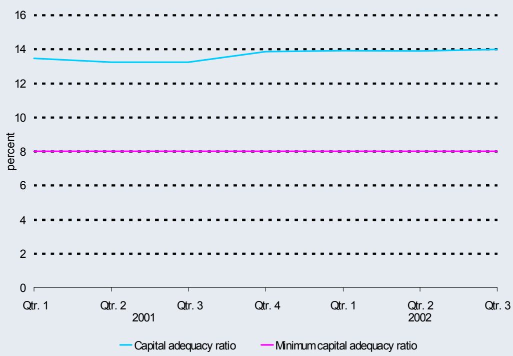
Chart 7.4
BANKS' LIQUIDITY RATIO



Capital adequacy and liquidity

During the quarter under review, the deposit money banks' capital base remained strong. The aggregate capital adequacy ratio, which is a measure of the banks' own funds relative to their risk-weighted assets, edged upwards by 8 basis points to 14%, as may be seen from Chart 7.3. Own funds were up by Lm9.3 million, or 3.9%, on account of higher retained earnings and an increase in the ordinary share capital of a bank. However, this was largely offset by a rise in the banks' risk-weighted assets, which grew by Lm55.9 million, or 3%. The increase in risk-weighted assets was equivalent to around a third of the overall asset expansion, indicating that the banks favoured asset categories such as deposits with the Central Bank that are assigned a low risk weighting.

Chart 7.3
BANKS' CAPITAL ADEQUACY RATIO



In contrast, the banks' liquidity position, as measured by the ratio of liquid assets to net short-term liabilities, deteriorated when compared to the end-June position. In fact, the liquidity ratio fell by 1.9 percentage points, to 50.1%, though it remained far above the mandatory minimum of 30%, as Chart 7.4 shows. Total liquid assets, sustained by higher deposits with the Central Bank, were up by Lm11.9 million, or 1.3%. On the other hand, net short-term liabilities grew at a faster pace, rising by Lm91.9 million, or 5.2%, mainly reflecting the rise in current and savings balances and time deposits with a remaining maturity period of three months or less.

Deposit Money Banks' Performance

Profitability

The deposit money banks made a profit before tax of Lm9.3 million during the September quarter, up by Lm2.2 million when compared to the preceding quarter, as shown in Table 7.2. Consequently, the sector's pre-tax profit for the nine months to September, at Lm23 million, was virtually equal to that reported for the same period last year.

Gross interest income edged upwards by Lm0.4 million when compared to the June quarter, as higher revenue from foreign securities was offset

Table 7.2
DEPOSIT MONEY BANKS' INCOME AND EXPENDITURE STATEMENT

Lm millions

	2001	2002	
	Qtr. 3	Qtr. 2	Qtr. 3
Interest income	50.0	47.4	47.8
Interest expenses	33.2	28.6	33.8
Net interest income	**16.8**	**18.8**	**14.0**
Fees and commissions	2.6	3.4	4.2
Foreign exchange gains	3.3	3.6	3.9
Other non-interest income	6.9	0.5	0.4
Total non-interest income	**12.8**	**7.5**	**8.5**
GROSS INCOME	**29.6**	**26.3**	**22.5**
Wages	8.8	9.0	8.8
Rent and similar expenses	2.8	3.5	2.9
Other	4.7	3.0	14.5
Operating expenses	**16.2**	**15.5**	**26.2**
Provisions	**0.8**	**3.7**	**-13.1**
PROFITS BEFORE TAX	**12.6**	**7.1**	**9.3**

by lower income on loans and advances. In fact, interest receivable on loans and advances decreased as interest in suspense on non-performing credit facilities was deducted from the total. This had no impact on banks' pre-tax profits, however, as it was matched by a drop in provisions. On the other hand, in spite of a drop in the weighted average interest rate on Maltese lira deposits, interest payable rose by Lm5.2 million, on account of the expansion in the banks' deposit base. Thus, net interest income fell by Lm4.8 million to Lm14 million.

Meanwhile, non-interest income totalled Lm8.5 million and accounted for 37.8% of gross income. Intakes from fees and commissions, boosted by fees on investment banking services and commissions from the sale of bonds, were up Lm0.8 million. The seasonal increase in tourist flows partly contributed to a Lm0.3 million rise in gains on foreign exchange dealings.

The banks' wage bill dipped by Lm0.2 million, while outlays related to their fixed assets fell by Lm0.6 million, mainly due to lower depreciation charges. In contrast, one institution's decision to write off loans drove up other operating expenses, which soared by Lm11.5 million. However, the loan write-off did not impinge on the profitability of the banking sector in the third quarter, as adequate provisions had already been made. Total provisions fell by Lm13.1 million, as specific provisions on the loans written off and interest in suspense decreased.

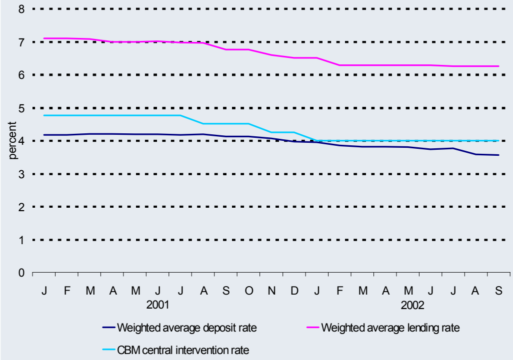
Retail lending and deposit rates

During the September quarter, the Central Bank kept official interest rates unchanged. In turn, the weighted average rate on loans to residents remained stable, dipping by just 3 basis points to 6.25% in September. On the other hand, the weighted average rate on Maltese lira deposits fell by 16 basis points, as time deposits matured and were replaced by new deposits on which a lower interest rate was applied.

Consequently, the interest rate spread widened by 13 basis points to 2.69%.

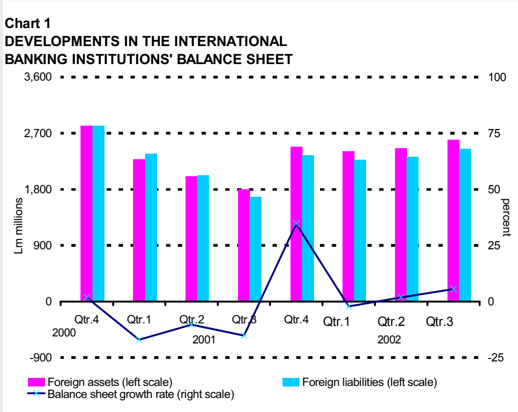
Furthermore, Chart 7.5 suggests that the weighted rate on deposits has not yet entirely adjusted to past changes in official rates. Between July 2001 and September 2002, the Central Bank lowered the central intervention rate by 75 basis points. During this period, the weighted average lending rate almost fully absorbed the drop in official rates and fell by 72 basis points. In contrast, the weighted average rate on deposits decreased by just 60 basis points.

Chart 7.5
RETAIL DEPOSIT AND LENDING RATES



Box 3: INTERNATIONAL BANKING INSTITUTIONS[1]

During the September quarter, the international banking sector's aggregate balance sheet expanded to its highest level since December 2000, as Chart 1 shows, driven by the remarkable growth of four institutions. At the same time, the international banks' pre-tax profits went up when compared to the preceding quarter, as strong gains on trading investments were reported.



International Banking Institutions' Balance Sheet

The international banks' aggregate balance sheet grew by Lm147.3 million, or 5.6%, to Lm2,778.4 million. In line with the conditions regulating these banks' operations in Malta, the expansion was largely financed from foreign sources, namely an increase in non-resident deposits and in balances due to other banks

Table 1
INTERNATIONAL BANKING INSTITUTIONS' BALANCE SHEET

Lm millions

	2001		2002		
	Sept	Dec.	Mar.	June	Sept.
ASSETS					
Cash and money at call	1.5	1.4	1.4	1.3	1.5
Foreign assets	**1,797.8**	**2,484.1**	**2,412.5**	**2,459.6**	**2,595.8**
Foreign securities	656.7	1,006.6	859.1	966.9	1,031.3
Loans and advances to non-residents	850.6	1,195.8	1,084.1	1,177.2	1,320.4
Other foreign assets	290.5	281.7	469.3	315.4	244.1
Loans to residents	7.0	5.9	6.5	6.0	5.9
Local investments	141.6	137.1	154.7	156.7	168.3
Other assets	13.3	13.0	8.7	7.5	6.9
LIABILITIES					
Foreign liabilities	**1,682.2**	**2,347.6**	**2,278.6**	**2,319.0**	**2,450.1**
Balances due to other banks abroad	621.1	858.0	553.4	560.5	617.6
Non-resident deposits	596.6	692.2	794.3	828.5	886.2
Other foreign liabilities	464.5	797.4	930.9	930.0	946.3
Resident deposits	32.7	32.8	35.2	41.5	43.2
Other domestic liabilities	1.4	4.5	34.7	30.3	45.3
Capital and reserves	245.1	256.5	235.3	240.2	239.7
AGGREGATE BALANCE SHEET	**1,961.3**	**2,641.5**	**2,583.8**	**2,631.1**	**2,778.4**

[1] The international banking sector consists of locally-based banks that carry out business almost exclusively with non-residents and in currencies other than the Maltese lira.

overseas. The additional funds were used to augment the international banks' stock of foreign securities and increase credit to non-residents.

Assets and liabilities

The banks' foreign liabilities increased by Lm131.1 million to Lm2,450.1 million, as Table 1 shows. Total balances due to banks abroad surged ahead by Lm57.1 million, or 10.2%, while non-resident deposits expanded by Lm57.7 million, following a sharp increase in corporate time deposits. Despite outflows from inter-branch deposits, other foreign liabilities rose by Lm16.3 million, as the banks sold foreign securities under repurchase agreements to raise funds.

Deposits by residents edged upwards by Lm1.7 million, with most of the increase reflecting higher savings deposits with one bank. Other domestic liabilities rose by 50.5%, after gains on foreign trading investments led to a sharp increase in profits, whereas the international banks' capital base remained virtually unchanged.

On the other hand, foreign assets rose by Lm136.2 million, or 5.5%, to Lm2,595.8 million. The banks' portfolio of foreign securities expanded by Lm64.4 million, as they increased their holdings of foreign Treasury bills and non-Government securities. Meanwhile, loans and advances to non-residents, largely denominated in US dollars, surged upwards by Lm143.2 million. However, some two-fifths of the increase reflected a change in the composition of foreign assets held by a bank, which granted credit to non-residents by utilising funds that were previously held with its head office abroad. In turn, this contributed to a Lm71.3 million drop in the sector's other foreign assets.

The sector's domestic investments increased by Lm11.6 million, reflecting a rise in balances due from local deposit money banks, whereas their other assets, dampened by lower credit acceptances, dipped by Lm0.6 million. The international banks' reserve assets and the value of loans extended to Maltese residents, including discounted bills, remained practically unchanged when compared to the end-June level.

Table 2

INTERNATIONAL BANKING INSTITUTIONS' INCOME AND EXPENDITURE STATEMENT[1]

Lm millions

	2001	2002	
	Qtr. 3	Qtr. 2	Qtr. 3
Interest income	38.8	54.3	55.4
Interest expenses	26.7	46.2	45.8
Net interest income	12.2	8.1	9.6
Non-interest income	3.7	3.6	15.7
Non-interest expense	8.7	7.0	6.9
Provisions	0.5	0.8	0.7
PROFIT BEFORE TAX	**6.6**	**3.9**	**17.7**

[1] Excludes banks registered under Malta Financial Services Authority Act (Cap 330)

Profitability[2]

The international banks made pre-tax profits of Lm17.7 million during the September quarter, up by Lm13.8 million over the June 2002 quarter, as Table 2 shows. Thus, their cumulative profits for the nine months to September rose to Lm32.3 million in 2002 from Lm12.6 million in the same period of the preceding year.

Increases in advances to non-residents and in holdings of foreign securities boosted gross interest income, which rose by Lm1.1 million over the June quarter, while interest payments fell slightly to Lm45.8 million. Consequently, the international banks' net interest income rose by Lm1.5 million to Lm9.6 million.

At the same time, the banks' non-interest income was up by Lm12.1 million, to Lm15.7 million. In particular, the sector reported strong gains on trading investments, in sharp contrast to the previous quarter's losses, though these were partly offset by a drop in fees from foreign exchange dealings. Non-interest expenses and provision charges remained practically unchanged from the second quarter.

[2] The following profitability analysis does not cover the performance of the three international banks that are licensed in terms of the Malta Financial Services Authority Act (Cap 330).

THE BUDGET ESTIMATES FOR 2003: AN OVERVIEW OF THE GOVERNMENT'S BUDGETARY OPERATIONS

Fiscal consolidation is set to remain a primary objective of budgetary operations in the coming years, as Government's medium-term projections show, though greater emphasis is to be placed on expenditure rationalisation. The financial estimates for 2003 nevertheless suggest that, in spite of expectations of a smaller deficit, the overall fiscal stance will be more expansionary as the preceding year's one-off intakes from domestic sources will be partly replaced by a rise in foreign financial assistance. Indeed, the measures announced in the Budget Speech include a lower income tax bill for taxpayers - which, coupled with higher wages for civil servants, should increase personal disposable income and boost private consumption expenditure.

Projected Fiscal Performance in 2003

In 2003 the fiscal shortfall is projected to fall to Lm74.8 million, or 4.1% of GDP, as efforts to restrain expenditure should more than compensate for a simultaneous slowdown in revenue growth. Notwithstanding the smaller projected deficit, however, the fiscal stance in 2003 should be more expansionary than in the preceding year, as receipts that had been derived from domestic sources in 2002 will be replaced by foreign grants. The deficit will be partly financed through privatisation proceeds.

Principal measures for 2003

The Budget measures include:

- a widening of income tax bands
- an increase in excise duties on various tobacco products
- VAT to be charged on electricity and gas cylinders (though the additional cost is to be fully absorbed by Enemalta)
- a cost-of-living allowance of Lm1.75 per week to be paid to employees and a cost-of-living adjustment of Lm1.27 per week, estimated on the basis of a specially constructed price index, to be paid to pensioners
- a collective agreement for public sector employees
- various social initiatives
- the extension of measures aimed at facilitating the operations of small enterprises
- the continuation of the levy-reduction programme
- a further liberalisation of capital flows

Projected revenues, recurrent and capital expenditures in 2003

As Table 1 shows, Government revenue is expected to grow by Lm22.2 million, or 3.3%, in 2003 as the non-recurrence of one-off receipts recorded in 2002 will be compensated for by grants. On the other hand, total expenditure is projected to rise by Lm18.5 million, or 2.4%, with higher outlays on programmes and initiatives accounting for nearly three-quarters of the increase.

Income tax receipts are expected to edge up by Lm4.8 million, as the additional income generated through nominal economic growth should more than compensate for the loss in revenue as a result of the widening of the income tax bands. Revenue from social security contributions should rise by Lm8 million, boosted by an anticipated improvement in employment levels. Similarly, the yield from VAT is forecast to increase by Lm8 million, with additional revenue from the new VAT charge on electricity services and gas supplies estimated at about Lm1 million. At the same time, the higher excise duties on tobacco

Table 1
FISCAL PERFORMANCE IN 2003

Lm millions

	Revised Estimates for 2002	Estimates for 2003	Estimated Changes from 2002
REVENUE	**682.0**	**704.2**	**22.2**
Direct tax	**318.7**	**331.5**	**12.8**
Income tax	194.0	198.8	4.8
Social security contributions[1]	124.7	132.7	8.0
Indirect tax	278.2	**288.8**	**10.6**
Consumption tax	123.0	131.0	8.0
Customs and excise duties	**61.6**	66.5	4.9
Licences, taxes and fines	93.6	91.3	-2.3
Non-tax revenue	**85.1**	**83.9**	**-1.2**
Central Bank profits	25.7	20.0	-5.7
Other[2]	59.4	63.9	4.5
RECURRENT EXPENDITURE[1]	**656.9**	**670.8**	**13.9**
Personal emoluments	197.1	197.8	0.7
Operational and maintenance	46.5	44.2	-2.3
Programmes and initiatives	278.9	292.2	13.3
Contributions to entities	69.9	76.2	6.3
Interest payments	63.7	59.8	-3.9
Other	0.8	0.6	-0.2
CAPITAL EXPENDITURE	**103.6**	**108.2**	**4.6**
TOTAL EXPENDITURE	**760.5**	**779.0**	**18.5**
CURRENT BALANCE	**25.1**	**33.4**	**8.3**
FISCAL BALANCE	**-78.5**	**-74.8**	**3.7**

[1] Excludes Government contributions to the social security account.

[2] Excludes proceeds from sale of public assets.

Source: Diskors tal-Budget 2003
Financial Estimates 2003

products should contribute to a Lm4.9 million rise in the yield from customs and excise duties. In contrast, revenue from licences, taxes and fines is expected to drop by Lm 2.3 million, in part on account of the removal of the remaining levies on imported manufactured goods.

Meanwhile, revenue from non-tax sources is expected to drop by Lm1.2 million as the previous year's dividend payments by MIA and the fees received through the foreign investment registration scheme will not be repeated. Moreover, the Central Bank's profits are expected to drop by some Lm5.7 million, reflecting the decline in interest rates overseas and a steep rise in interest payments on term deposits placed with the Bank by the commercial banks. On the other hand, following the signing of a new financial protocol with Italy and an anticipated increase in EU pre-accession funds, the Government should net an additional Lm18.4 million in grants, while other miscellaneous receipts are expected to rise by Lm4 million.

Recurrent outlays are forecast to rise by Lm13.9 million, or 2.1%, accounting for about three-quarters of the overall increase in expenditure. *Ceteris paribus*, the new collective agreement for public sector employees would boost the Government's wage bill by some Lm2 million: but a drop in the number of Government employees should ensure that expenditure on personal emoluments remains practically unchanged at the previous year's level. Operational and maintenance expenditure should fall by Lm2.3 million, whereas outlays on programmes and initiatives, while remaining the primary source of expenditure growth, are expected to expand at a slower pace than in 2002. In fact, expenditure on the latter is projected to increase by Lm13.3 million, or 4.8%, mainly on account of additional social security benefits, public-private partnership initiatives and the agriculture support scheme.

An increase in funds for Mount Carmel Hospital should push the level of contributions to Government entities up by Lm6.3 million. On the other hand, interest payments, dampened by the replacement of maturing debt securities with lower interest-rate stock, should fall by Lm3.9 million. At the same time, capital expenditure is forecast to rise by Lm4.6 million, primarily on account of a further increase in the amount allocated to the road-upgrading programme.

Economic Effects of the Budgetary Measures

The Budget for 2003 includes a number of demand-stimulating measures that should help step up the pace of economic recovery. However, the expansionary impact of these measures will be constrained by their relatively small size and the fact that any increase in consumers' expenditure will to a large extent leak out of the economy through higher imports. Moreover, long-term economic growth remains critically dependent on the pursuance of supply-side reforms. In particular, the continuation of the privatisation and capital account liberalisation programmes, as well as the extension of measures aimed at assisting small and medium-sized enterprises, will be crucial to the growth of the economy's productive capacity through a more efficient use of scarce resources. The effects of the announced measures on aggregate demand and the Retail Price Index are examined below.

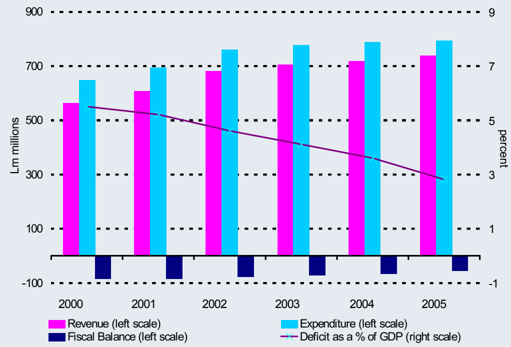
Aggregate demand

The Government's decision to widen income tax bands and the wage rise awarded to civil service employees should boost disposable income and sustain consumer expenditure. The wider income tax bands should lead to savings for taxpayers of around Lm8 million, whereas the wage increase awarded under the terms of the 2002-2004 collective agreement, excluding the cost-of-living component (of which more below), should raise personal income by some Lm2 million.

Given the low short-run income elasticity of consumption and the sharp drop in the households' savings ratio over the last three years, the effect of these measures on consumer expenditure should be mitigated by higher savings. Moreover, the final impact of these measures on GDP growth will be further curtailed by the fact that some 60% of private consumption expenditure goes on imported goods and services. Indeed, simulation tests carried out by the Central Bank suggest that the income tax reform and the new civil service collective agreement should boost real private consumption expenditure by no more than 0.4 percentage points. Most of this should filter through to higher imports, such that the deviation of real GDP growth from the baseline scenario would be of just 0.2 percentage points, with the current account balance, expressed as a percentage of GDP, similarly deteriorating by 0.2 percentage points.

The incorporation of the cost-of-living allowance in the wage rise awarded to Government employees is an important aspect of the new collective agreement, as the long-established practice of automatically linking wage increases to price changes without regard to productivity increases or the prevailing economic circumstances was detrimental to the country's international competitiveness.

Chart 1
MEDIUM-TERM FISCAL PROJECTIONS



Source: Budget Speech 2003, Central Bank estimates

Prices

The increase in excise duty on tobacco products will put upward pressure on the Retail Price Index (RPI). In fact, estimates based on the prevailing weights of such products in the RPI basket, which reflect household spending patterns in 1994, indicate that the RPI should rise by 0.2 percent as a result.

However, the dismantling of the remaining levies on imports of manufactured goods in January 2003, and the reduction of those on a number of agro-food products in the course of the year, should more than make up for any ensuing inflationary pressures. In particular, the removal of levies should make imported goods cheaper and, through increased competition, reduce the prices of domestically produced substitute goods.

Medium-Term Projections

The Budget for 2003 includes an update of the financial projections for 2004 and forecasts for 2005. During these two years the Government plans to bring the deficit down progressively to Lm68.7 million and Lm56.6 million, respectively. Assuming nominal GDP growth of 5.5% per annum, the deficit expressed as a percentage of GDP should fall to 3.6% in 2004 and 2.8% in 2005, as Chart 1 shows.

Government revenue should increase moderately through 2004 and 2005, with growth forecast to average 2.3% per annum over the period[1]. On the other hand, total expenditure, fuelled by higher outlays on welfare, personal emoluments and interest payments, is projected to rise by an annual average of less than 1%. Meanwhile, gross Government debt is expected to reach Lm1.2 billion, equivalent to 60.5% of GDP, by the end of 2005.

General Government Budgetary Operations

The Budget for 2003 also includes estimates of the General Government deficit as defined in the European System of Accounts 1995 (ESA 95). The latter is effectively a consolidation of the Central Government fiscal position, as recorded in the Consolidated Fund, with the budgetary operations of public entities that are non-market producers - i.e. those that depend on the Central Government for the greater part of their revenues. These entities include local councils and a large number of regulatory and administrative bodies. EU fiscal benchmarks, such as the Maastricht fiscal criteria for joining EMU, refer to the General Government position, as this is considered to be a more accurate and comprehensive measure of

[1] Government revenue forecasts for 2004 and 2005 do not include European Union post-accession funding.

Government's influence on the economy.

The General Government deficit for 2002, so defined, is estimated at Lm89 million, equivalent to 5.2% of GDP, down by Lm24.4 million when compared with the preceding year. It is expected to fall to Lm80.7 million, or 4.5% of GDP, in 2003 and should drop further, to 3.4% of GDP in 2005.

Conclusion

The consolidation of Government's financial position remains a key aspect of the current strategy to maintain macroeconomic stability and sustain economic prosperity. Indeed, the structured restoration of fiscal balance should ease upward pressures on domestic interest rates, free resources to the private sector and help improve the country's balance of payments position. This, in turn, should reinforce the pegged exchange rate regime through which the Central Bank pursues price stability. Efforts to improve the state of public finances through a deceleration of expenditure growth should also limit the distortionary impact of additional taxation, leading to a more efficient allocation of resources and contributing to the country's long-term economic development.

THE AMENDMENTS TO THE CENTRAL BANK OF MALTA ACT

1. Introduction

On September 10, 2002 the House of Representatives approved amendments to the Central Bank of Malta Act (Cap. 204). These amendments came into force on October 1, 2002 and were aimed at:

- defining more clearly the Bank's principal objectives, in particular the establishment of price stability as the Bank's primary objective;
- strengthening the Bank's independence and thus enabling it to formulate and implement monetary policy without outside interference;
- providing the Bank with the necessary operational flexibility to carry out its tasks and responsibilities in a more liberalised and deregulated financial environment.

This article discusses the salient features of the amendments, focusing in particular on the underlying economic rationale. Among the important aspects treated are the principal objectives of the Bank; the independence of the Bank; the Bank's responsibilities in the area of systemic stability; measures to give the Bank more access to information and data and enhance its operational flexibility; measures that make the Bank more accountable and transparent. And finally, aspects relating to financial liberalisation and currency issue.

2. The Principal Objectives of the Bank

As noted above a key innovation is the explicit reference to price stability as the primary objective of the Bank (Article 4). This is because experience has shown a central bank can play a key role in controlling inflation. On the other hand, it is also recognised that the maintenance of price stability is not an end in itself but rather a means of achieving orderly and balanced development in the economy.

The Act clearly distinguishes between the primary objective of price stability and the other objectives of the Bank, which are also identified. However, in pursuing these other objectives the Bank has to ensure that its ability to achieve price stability is not jeopardised. The secondary objectives include three important functions namely, ensuring overall stability in the financial system; promoting a sound and efficient payment system; and compiling and publishing statistics (financial and economic). The other objectives listed in the amended Act were already included in the previous version of the legislation.[1]

These secondary objectives directly or indirectly contribute to the Bank's primary role of achieving price stability. Thus in ensuring the stability of the financial system the Bank contributes to the achievement of monetary stability, which is an important condition for the achievement of price stability. Financial stability is a prerequisite of monetary stability. In fact, although regulatory and supervisory responsibilities have been transferred from the Central Bank to the Malta Financial Services Authority (MFSA), the Bank still retains overall responsibility for the stability of the financial system and is still able to act as lender of last resort to support individual credit

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[1] Article 4(2) in fact notes that:
"...to the extent that this does not interfere with its primary objective, it shall also be the objective of the Bank
(a) to influence the volume and conditions of supply of credit;
(b) to manage and maintain external reserves, so as to safeguard the international value of the currency;
(c) to ensure the stability of the financial system;
(d) to promote and participate in the establishment of a sound and efficient payment system;
(e) to issue legal tender currency notes and coins;
(f) to advise the Government generally on financial and economic matters;
(g) to compile and publish statistics as may be necessary to carry out its tasks under the provisions of this Act and of any other law;
(h) to perform such other functions as may be assigned to it by law."

institutions which may be facing a financial crisis.

In a similar fashion, the effectiveness of monetary policy as a means of achieving price stability is largely dependent on the smooth functioning of the payment system, since it is through financial institutions which are linked to an electronic payment system that monetary policy measures can best be transmitted to the economy. The Bank is consequently also responsible for promoting and participating in Malta's payment system. This is discussed in more detail below.

The availability of economic and financial statistics and other relevant information is a necessary prerequisite for the formulation and implementation of monetary policy. Under the amended Act, the Bank is accordingly endowed with wider powers to compile and publish statistical information.

In summary, therefore, Article 4 emphasises that whereas the Bank is expected to carry out a number of functions related to its areas of competence, it must focus first and foremost on the achievement of price stability. In other words, its primary task will be to foster a low-inflation climate in order to achieve orderly and balanced economic development. By prioritising the objectives of the Bank, the amended Act effectively highlights the importance of price stability as a factor contributing to sustainable growth in the economy and the role of the Bank in working towards this goal.

3. The Bank's Independence Strengthened

The need for an independent central bank follows from the fact that the economic policy priorities of governments may be in conflict with the achievement of low inflation. This may arise because governments may seek to achieve low rates of unemployment in ways that may jeopardise the attainment of price stability. Governments may thus pursue pro-inflationary policies in an attempt to stimulate output and employment. In this context, therefore, a monetary framework in which the central bank is subject to political control, whether formally or not, may be inconsistent with the achievement of price stability as the main objective of a central bank. Very often, therefore, in order to reassure economic agents that price stability is indeed the main goal of monetary policy, the Bank has to be protected from external pressures that may force it to pursue economic policy goals which may be inconsistent with the achievement of price stability.

There is thus a strong case for entrusting monetary policy to an institution that is not only committed to a low-inflation policy, but that also has its independence enshrined in a statute. Thus although the Central Bank has been formulating and implementing monetary policy independently of the Government for a number of years, the amendments to the Act have introduced additional measures to safeguard the Bank's independence at various levels. In particular, the powers of the Minister of Finance to direct the Bank on a number of issues have been curtailed. These safeguards are discussed in more detail below.

i. Prohibition of external interference

A new set of provisions that prohibit the Bank from seeking or taking instructions from the Government and other bodies has been introduced. These provisions do not only apply to the Board of Directors, but also to the members of the Monetary Policy Advisory Council, which advises the Governor on monetary policy issues.

ii. Specific rules on the appointment and dismissal of directors

With regard to the appointment of members of the Board, the amended Act emphasises that the Governor, Deputy Governor and the non-executive directors have to be persons of recognised standing and professional experience in economic, financial or banking affairs. Strict conditions are also established regarding positions held by members of the Board outside the Bank in order to ensure that these do not bring them into conflict with their responsibilities as Board members.

Furthermore, appointments to the Board are for a minimum period of five years. This contributes to continuity and consistency in the overall policy and general administration of the Bank, since extended periods of appointment effectively ensure that Board members are not automatically removed from their posts following a brief period of appointment. The Act therefore also excludes the possibility of dismissal for reasons that may be related to differences over the appropriate stance of monetary policy that may arise from time to time between the Government and the Central Bank. The amended Act specifically states that directors may only be dismissed if they are incapable of fulfilling their duties or if they are found guilty of serious misconduct.

iii. Financial independence

Another important dimension of the Bank's autonomy is its financial independence. Not only is the Bank expected to have adequate financial resources, but it is also expected to be immune from any outside interference in the way that it manages these resources. Thus the amendments remove any powers of the Minister of Finance to direct the Bank on the use of its financial resources. For example, the right of the Minister to determine the purposes for which the Bank's reserve funds may be used and to approve allocations to these funds is removed so that it is now the Bank's Board that determines allocations to its general and special reserve funds. As far as the Special Reserve Fund is concerned, the Act specifically states that this may be used for the allocation of profits and losses arising from an official adjustment to the Maltese lira exchange rate.

Under Article 27 of the amended Act the Bank is prohibited from granting access to credit to the Government and Government-controlled bodies, in the form of loans and overdrafts. However, where the supply of liquidity by the Central Bank to the banking system is concerned, Government-controlled credit institutions will continue to be treated in the same way as other credit institutions. The prohibition on lending to the public sector complements a previous amendment to the Act which provided for the termination of temporary advances to the Government under a facility known as "Ways and Means". It also contributes to a healthier financial environment by ensuring that the public sector bids for resources in the financial market to fund its borrowing requirement.

Within the context of the Bank's relationship with the public sector it is relevant to mention that the Bank will still be permitted to assist the Government in public debt management.

iv. Full autonomy in monetary policy decision-making process

While all the amendments referred to above strengthen the Bank's independence, the most important amendment in this regard relates to a new section (Part IIA) on the monetary policy decision-making process. The amended Act provides for a *Monetary Policy Advisory Council,* which is composed of the Governor and Deputy Governor and the other three non-executive directors of the Bank, as well as three other members who are appointed by the Governor from amongst suitably qualified persons. This is the first time that the structure, functions and proceedings of this body within the Bank are being regulated by law. The Act states that the sole responsibility for monetary policy decisions and the exercise of any power relating to monetary policy rests with the Governor, and, in his absence, the Deputy Governor. The role of the other members is to advise the Governor on matters related to monetary policy after the Council has analysed and deliberated the relevant economic and financial information. The transfer of all monetary policy responsibilities to the Governor facilitates the accountability aspect of the Bank, in the sense that the Governor is recognised as the head of the institution and is also answerable to Parliament. All monetary policy decisions have to be published as soon as practicable after each Council meeting.

4. Access to Information and Data

It is on the basis of reliable statistics and related information that the Bank is able to take the appropriate monetary policy decisions. Such information is also necessary to enable the Bank to carry out other important tasks, such as monitoring and overseeing the financial system and the payment system. In recognition of this increased need for information a new section (Part IIIA) has been inserted in the revised Act defining the powers and duties of the Bank with respect to the collection, verification and publication of information.

This includes a broader and more precise definition of a "reporting agent" from whom information may be obtained. Thus the Bank has been granted the right to verify the accuracy and quality of any statistical information submitted to it by reporting agents, and it may also carry out compulsory collection directly from them. Consequently the Bank has been empowered to issue directives establishing the parameters within which the verification and collection of information by the Bank would take place. These directives may include the definition of statistical information requirements and the procedures and standards that would govern the reporting of statistics. The amended Act emphasises that any information collected by the Bank is subject to professional secrecy.

In order to enforce the effectiveness of these provisions, the Act empowers the Bank to impose administrative penalties on reporting agents who infringe the Act's provisions without recourse to a court hearing. Such penalties are in addition to any cost that the reporting agent might be required to pay for the verification and collection of information. Sanctions may also be imposed where the information required for the performance of the Bank's functions under the Act is not made available or is inaccurate or untimely.

To strengthen further the Bank's access to relevant information, the Bank will also be able to access information from the Competent Authority responsible for the supervision of financial services in Malta, the Malta Financial Services Authority. In terms of Article 38A, under the section (Part VI) dealing with the Bank's relationship with this Authority, any information in the possession of the MFSA that is relevant to the Bank's mandate may be passed on to the Bank.

5. Operational Flexibility

Monetary policy and external reserves management operations necessitate a high degree of flexibility in terms of the financial instruments that the Bank may employ to effect the related transactions. In order to satisfy this need for operational flexibility, Article 15 (dealing with the Bank's principal business and powers) and Article 16 (dealing with prohibited activities) have been substantially amended. As a result, the Bank is assigned more discretion in deciding on the type of financial transactions it may enter into and the choice of assets it may hold on its balance sheet. The Bank may also extend loans and advances to credit and financial institutions against security considered to be adequate by the Bank's Board.

More flexibility is introduced where reserve requirements are concerned. Thus the Bank may vary the conditions that relate to reserve requirements through the issue of a directive. A directive in this regard (Directive No 1 - Minimum Reserve Requirements) was issued as soon as the amended Act came into effect. The directive, which applies to credit (and electronic money) institutions, states that these are subject to the same reserve requirement ratio. Reserve requirements, which are an instrument of monetary policy, oblige these institutions to maintain "frozen deposits" at the Central Bank. The balance that has to be placed on deposit with the Bank is calculated monthly on the basis of the amount of deposit liabilities that each institution holds in its books. By varying the amounts that these institutions are obliged to maintain in these reserve accounts, through adjustments in the ratio, the Bank is able to influence liquidity levels in the banking system. The revised Act also sets out the procedures to be followed by the Bank to enable it obtain, directly from the credit institutions, the necessary information for the computation of reserve requirement balances.

6. Role in Ensuring Systemic Stability

While the Bank is no longer responsible for banking supervision it has to ensure stability in the financial system and to promote and participate in the establishment of a sound and efficient payment system. A smooth-functioning payment system is in fact a vital component of a stable financial system. Such a system acts as an effective channel for the clearing and settlement of payments as funds flow across the financial system.

Under the amended Act the Bank's role in the payment system is considerably strengthened through an amplification of Article 36 which previously dealt solely with clearing house arrangements. The amended article lays down the basic provisions that would allow for the development of a robust payment systems framework in Malta. Thus the establishment and operation of payment systems in Malta now requires the authorisation of the Bank. To provide further protection against systemic risk, the principle of finality is adopted. Thus a payment is considered final and irrevocable even in the event of a participant's bankruptcy. Furthermore, the Bank is obliged to offer clearing facilities to all participants in the various payment systems. This contributes to the elimination of credit exposure with regard to funds that a participant receives through the system.

The Bank is also responsible for overseeing and regulating payment systems that have been established and approved by the Bank itself and are operating locally. The Bank's regulatory powers in this regard are communicated to the participants through the issue of directives. In fact after the amended Act came into force the Bank issued three such directives. These are Directive No 2 (Payment and Securities Settlement Systems), Directive No 3 (Cross-Border Credit Transfers) and Directive No 4 (Electronic Payment Services). The Bank has the right to impose administrative penalties in the case of infringements of these directives.

Directive No 2 aims at minimising the disruption to a system caused by insolvency proceedings against a participant in that system. This directive applies to the operation of, and participation in, domestic payment and securities settlement systems as well as any form of cash or security transactions, whether domestic or cross-border, that may be involved. Thus any transfer order and netting entered into by a participant in a system shall be legally enforceable and binding on third parties.

Directive No 3 has been issued to regulate cross-border credit transfer services with the aim of promoting the efficiency of cross-border payments. This directive lays down the minimum requirements needed to ensure an adequate level of customer information both before and after the execution of a transfer. This directive took effect on January 1, 2003.

Directive No 4 seeks to ensure a high level of consumer protection in the field of electronic payment instruments and to promote customer confidence in and retailer acceptance of these instruments. This directive will become effective on January 1, 2004, thus giving participants enough time to adopt adequate measures to ensure compliance.

7. Accountability and Transparency

The strengthening of the Bank's independence in the amended Act has been balanced to some extent by the introduction of provisions in the law which increase transparency and accountability. A step in the direction of increased transparency, as mentioned above, is the obligation of the Bank to publish a statement soon after a meeting of the Monetary Policy Advisory Council explaining any decision taken by the Governor.

In terms of accountability, the Governor of the Bank may be requested by the House of Representatives to appear before a Committee of the House, set up for that purpose, to report on the conduct of monetary policy. The Governor may be requested to do so on two occasions during a year. This obligation to appear before Parliament is in addition to the Governor's duty, already in effect under separate legislation, to appear before the Public Accounts Committee (PAC) of the House of Representatives, to discuss the Bank's annual financial report and its policies and activities.

Furthermore, while a copy of the Bank's annual accounts will continue to be presented to Parliament soon after the first quarter of the following year, these accounts will henceforth also include a statement of the Bank's investments.

8. Financial Liberalisation

The amendments to the Act were also aimed at enhancing the financial liberalisation process, which has been underway during the past decade, by strengthening the price mechanism in the financial market. Thus Article 38 removes all restrictions on interest rates payable or charged by credit and financial institutions in respect of transactions with their customers. This will complement the approach adopted by the Bank in the money market where it has been seeking to influence interest rates through open market operations, rather than through direct regulation. Consequently, when the amended Act came into effect in October 2002, the Bank withdrew a notice it had issued in March 1999 relating to the determination of interest rates.

In the same context the amended Act also repealed what was previously Article 38B. This gave the Bank the power to determine the amount of assets held by credit and financial institutions outside Malta. This amendment thus contributes to the capital liberalisation process by allowing credit and financial institutions more flexibility in the way they allocate their investment assets. As a result, another Central Bank notice, which regulated the amount and composition of assets held by credit institutions outside Malta, was withdrawn. However, the foreign asset holdings of credit institutions will continue to be subject to the prudential limits set by the Competent Authority (the MFSA) under a specific banking directive.

9. Currency Issues

While no material changes have been made to the law where this relates to the external value of the currency, the section (Art. 40) which refers to this subject has been simplified, with all references to international obligations being removed. The competence of the Minister of Finance and the Central Bank in determining the external value of the Maltese lira is clearly highlighted however.

The Act introduces further safeguard measures concerning the issue of currency notes and coins. In view of the proliferation of new methods by which bank notes and coins can be counterfeited, the Act now recognises as criminal offences instances of counterfeiting involving the use of electronic storage devices and electronic images. A new article has also been introduced to cater for the calling in of counterfeit notes, whereas a new obligation has been introduced requiring credit and financial institutions to present to the Bank any counterfeit notes and coins they come across.

10. Conclusion

The Central Bank's legislation has been updated and modernised in line with current international best practice. These amendments are a continuation of the far-reaching changes that were introduced in 1994 when the role of the Bank in monetary policy was considerably strengthened. The latest amendments not only establish price stability as the primary objective of the Central Bank's monetary policy, but also provide the Bank with the necessary operational flexibility and access to information and statistical data to enable it to pursue this goal effectively. At the same time, while the overall independence of the Bank has been strengthened through the introduction of safeguards against external interference in its business and operations, the legislation introduces a number of measures to make the Bank more accountable and transparent.

These amendments have also redefined the role of the Central Bank in the economy, emphasising in particular its responsibility for monetary policy and the promotion of an efficient payment system.

In line with developments in central banking worldwide, the Bank now has an important contribution to make in creating and maintaining a low inflation environment and in promoting a sound and robust financial system.

REGIONAL ECONOMIC INTEGRATION: THE OPTIONS FOR MALTA

Mr Michael C Bonello
*Governor of the Central Bank of Malta**

In previous years I used this occasion to focus on issues related to the country's perennial challenge, which is to converge to the economic standards of its more developed trading partners. Among the appropriate responses to this challenge I emphasised the importance of price and financial stability, fiscal restraint, market-based reforms and a viable exchange rate strategy. These are indeed necessary elements of a strong macroeconomic policy framework conducive to export-led growth. The issue I shall address today is the need to complement these policies with a more secure access to international markets. The reason is simple. Without such access, a small open economy like ours cannot hope to achieve sustained, quality growth in today's globalized world.

A structured, regional approach to building competitiveness

In a world economy driven by cross-border flows of foreign direct investment (FDI) seeking the most profitable locations, the challenge of sustaining economic growth must be faced head-on by endeavouring to maintain cost competitiveness and gaining access to larger markets. Studies have shown that countries which are more open to trade tend to achieve higher growth rates compared to less open economies at comparable stages of development.[1] Of course, openness also brings with it greater exposure to external shocks, particularly for small economies that cannot aspire to any degree of self-sufficiency.

Experience, however, suggests that such exposure does not necessarily translate into vulnerability for small economies if they are closely integrated with larger ones. For example, the greater resilience of countries in Central and Eastern Europe over that of a number of other transition economies has been attributed to the relatively stronger trade links which the former have with rich, neighbouring countries[2]. In addition, the latest IMF *World Economic Outlook* shows that over the past twenty five years less integrated economies exhibited a higher degree of susceptibility to financial crises than economies with strong trade linkages, and that financially integrated economies in turn experienced a lower degree of output volatility than those with closed financial markets[3]. This suggests that trade and financial integration with major trading partners remains a preferred option.

This conclusion is borne out by the experiences of small states such as Luxembourg and Singapore. The fundamental characteristics of these countries resemble Malta's in that they too are small open economies which lack natural resources. Both, however, have achieved far higher levels of prosperity[4]. Luxembourg, for

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1 Excluding OECD member states and a number of countries that are well known for their pro-trade orientation, Dollar and Kray (2001) find that developing countries who had the largest trade-to-GDP ratios also experienced the highest per capita growth rates since the 1960s. They note, for example, that these countries - which they term the "post-1980 globalizers" - have seen their average annual growth rates jump from 2.9% in the 1970s and 3.5% in the 1980s to 5.0% in the 1990s. By contrast, the non-globalizers have seen their growth rates fall from 3.3% in the 1970s to 1.4% during the 1990s. E. Dollar & A. Kray, *Trade, Growth and Poverty,* Working Paper No. 2615, Washington: World Bank, Policy Research Department, 2001.

2 "The Challenge to Small, Landlocked Transition Economies - Trends and Policies in the World Economy", in *World Economic and Social Survey,* New York: United Nations, Department of Economic and Social Affairs, 2001.

3 "Consequences of Trade and Financial Integration for Macroeconomic Volatility", in *World Economic Outlook*, Washington: IMF, September 2002.

4 While Malta ranks 50th in terms of income per capita, these countries are among the 20 richest economies in the world. *World Development Indicators*, Washington: World Bank, 2002.

example, with a population only slightly larger than that of Malta has a per capita income three times higher. This success is attributed to Luxembourg's ability to reap economies of scale by integrating with larger, prosperous territories in a way that has permitted high-value, export-oriented firms to flourish alongside domestically-oriented ones. In addition, by pooling resources with those available in neighbouring countries, Luxembourg has managed to address resource limitations and other problems that it could not deal with in an effective way on its own. Similarly, Singapore has developed into a regional hub by supplying manufacturers and service providers in booming Southeast Asian economies. And not only does it participate in the Association of South East Asian Nations, but it also has a far-reaching trade agreement with New Zealand, which is expected to develop into a closer economic partnership that will in time also include Hong Kong and Japan[5].

These countries are not unique in this regard. Recognising that success in world markets requires a critical mass in order to foster competition and competitiveness and to acquire a measure of bargaining power, countries the world over are turning to regional arrangements as a stepping stone to gaining a foothold in the global economy[6]. They know that belonging to a regional grouping also makes it easier to attract FDI and to absorb the necessary technology and management expertise that can be applied elsewhere in the economy. Such arrangements also provide members with a firsthand experience of the negotiation process. The World Trade Organisation (WTO) estimates that 243 regional trade agreements are in force today[7], covering at least 129 countries[8]. Regional groupings moreover are not only increasing in number, but they are also becoming deeper in scope, encompassing areas of policy other than trade and investment[9].

This brings me to the first point I wish to make today. The experience of other countries shows that the capacity necessary to deal with the competitive forces of globalisation can be optimally built in stages through participation in regional arrangements. The implication is that in order to reap the full benefits of the policy reforms currently under way, Malta does not only need to integrate further internationally, but has to do so through a structured approach that seeks to exploit potential synergies with other economies. The question then arises, "What kind of regional arrangement and with whom?".

Malta's potential partners for regional integration

Traditionally, partners to regional integration arrangements exhibit strong trade ties based on complementarity in terms of resource endowments and geographical proximity, as well as a common historical and cultural background. These criteria limit the scope for integration between Malta and a number of outlying European countries such as the transition economies of Eastern Europe and the European Free Trade Association (EFTA) countries. In fact, Malta's commercial links with these countries are weak, with only a few economic sectors that could be of potential

[5] Singapore has recently also initialled a bilateral agreement with Japan.

[6] Indeed, these are the precise reasons put forward by the Minister of Industry and Trade of the Republic of Tanzania during the 47th session of UNCTAD's Trade and Development Board where he noted that:
"*We do not believe that we can enter into the international arena under today's rules if we do not go through these steps at regional level*".

[7] Of these arrangements only 141 have been notified to the WTO. *"Regional Trade Integration Under Transformation"*, Geneva: WTO Secretariat, 2002. (Preliminary draft prepared for the Seminar on Regionalism and the WTO on 26 April 2002.)

[8] These include members of AFTA, the Andean Community, CARICOM, COMESA, ECOWAS, the EU, MERCOSUR, NAFTA, SADC, CACM, LAIA, ECO, GCC and the Bangkok Agreement. This does not include countries which have separate FTAs/Association Agreements with another country or regional grouping.

[9] The ANDEAN Pact, for example, also deals with biodiversity, electronic commerce and the protection of indigenous knowledge.

interest to both parties. In 2001 Malta's exports to EFTA countries represented less than 0.5% of its exports to the European Union (EU). It follows that the EU and the countries of North Africa, many of which are participating in the Euro-Mediterranean Partnership known as the Barcelona process, are more likely to be potentially viable regional partners for Malta.

As far as the latter countries are concerned, there is no doubt that they have made considerable progress in recent years. Most of them, however, require more time to be able to take full advantage of their potential. A strategy based solely on closer ties with these countries, therefore, would tend to condition Malta's development to proceed at a slower pace than its own potential would justify. Furthermore, although efforts are being made to create a Euro-Mediterranean free trade area (FTA) by 2010, this date appears rather optimistic. This was confirmed by the Spanish Presidency last March, which noted that a critical mass of implemented FTAs between the partners themselves has yet to be reached[10]. Finally, it is also to be noted that an essential aspect of an eventual Euro-Mediterranean FTA is expected to be an obligation to achieve equivalence in standards.

At this stage, therefore, a growth strategy that relies on closer links with these countries appears neither plausible nor likely to provide adequate opportunities in terms of market access. The only viable alternative thus seems to be to forge stronger ties with the EU, with whom Malta is already closely integrated through trade and investment. The EU accounts for more than half of Malta's trade in goods and for around 80% of incoming tourists[11]. The EU is equally important as a source of FDI, accounting for some 43% of the total in 2000[12]. This suggests that strengthening the existing relationship with the EU is more likely to produce early results than attempting to develop ties with other regions starting from a very small base.

Malta's relationship with the EU - alternative scenarios

Malta could, for example, retain, or attempt to upgrade, the existing Association Agreement. As it stands, this agreement is very narrow in scope, focusing on industrial goods to the exclusion of most agricultural products. In addition, it is severely limited by a set of rules of origin whereby local exports only benefit from preferential access to the EU market if the percentage of the value of the product that originates in Malta exceeds a minimum threshold. If this agreement is to be upgraded, however, Malta would have to make commitments over and above those it has today. Indeed, many of the countries with whom the EU has a comparable agreement have managed to obtain a better deal than Malta not only because they are much larger in terms of market size, but also because they have entered into additional commitments. European Economic Area (EEA) countries, for example, do indeed participate in EU programmes, but they have also offered substantial rebates on loan-related interest payments and committed nearly ECU 500 million in direct grants for projects in specific EU regions. In other words, EEA countries have contributed to the EU's financial resources, and specifically to the EU's regional policy, without being members of the EU. In addition, it is well known that membership of the EEA implies taking on a large part of the EU *acquis*, whether past, present or future, without having any say in the decision-making process.

Nor is the obligation to come into line with the

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[10] In addition, a recent study by the WTO shows that this is one of the regions with the lowest concentration of regional trade arrangements, a situation which is not expected to change much in the medium-term. See footnote 7 for source.
[11] National Statistics Office, News Release 103/2002.
[12] National Statistics Office, unpublished estimates.

acquis unique to the EEA. As is the case with Switzerland, which is an EFTA but not an EEA country, the EU's trading partners are increasingly being required to approximate their national laws with those of the EU as a precondition for access to its market[13].

The second conclusion to emerge from this analysis, therefore, is that if Malta seeks to negotiate a more advantageous form of association agreement, our exporters will only be able to secure improved access to the EU and its partners if the Maltese Government makes commitments in areas other than those covered by the present agreement, including a commitment to achieve legal equivalence with the EU *acquis*.

Pressures to liberalise, the costs of restructuring and the obligation of legal equivalence will arise irrespective of EU membership

It could be argued that as a non-member the pace with which this legal equivalence would have to be achieved would be slower than that implied by the current enlargement calendar. In practice, however, the difference in timing is subtle. It must not be forgotten that nine other countries are also about to join, which means that they will shortly have complete access not only to an enlarged EU market, but also to the reciprocal trade agreements which the EU has with third countries. If local businesses are not to lose out to competition from this new source, therefore, the administrative burdens and financial outlays associated with the achievement of legal equivalence and the adoption of EU technical standards will have to be borne within the same time frame available to the other candidate countries, irrespective of whether Malta joins the EU or not.

Yet even if such compliance is achieved on schedule, under any arrangement other than membership Malta would only be able to tap the markets covered by EU reciprocal agreements by negotiating individual bilateral agreements with most of the countries in question. Given Malta's limited negotiating capacity, combined with the slow pace with which the conclusion of such agreements tends to proceed and also the high degree of protection in many developing countries, this seems to be an unrealistic objective.

This at a time when Malta has already started to graduate from the General System of Preferences (GSP) through which some developed countries grant non-reciprocal preferential trade access to less developing countries. For example, Malta graduated from the GSP scheme of the USA at the end of last year. In addition, pressures are mounting on developed countries in the WTO to extend any preferential treatment accorded to a subset of WTO members to all other members, such that any preferential treatment given to Malta by any country over and above that accorded to other WTO members will be lost in any case.

In a non-membership scenario, moreover, the EU-Malta income gap would tend to widen because the other new members will continue with reforms that are conducive to attracting FDI. Indeed a recent study shows that the EU decision to open negotiations with the first wave of accession countries had by itself reinforced FDI flows into these countries. This has implications for the catching-up process, because countries that absorb the highest amounts of FDI normally continue to attract the bulk of new investment in later years[14]. So that if the scale of FDI flows into Malta fails to keep up with that going to the other candidate countries, Malta could easily fall behind

[13] During the Euro-Mediterranean Ministerial Conference on Trade held in March 2002, participating Ministers noted that the dismantling of tariffs will not be enough:
"Businesses have to benefit from an economic environment where trade is facilitated by an adaptation and a harmonisation of regulatory provisions concerning the free movement of goods, standards, right of establishment, property rights."

[14] This follows from the fact that transnational corporations often react to the prospect of a larger market arising from regional arrangements by establishing integrated production and distribution networks within the region in question.

these countries in terms of GDP growth and living standards. This at a time when the countries of Central and Eastern Europe (CEECs) already absorb around 33% of all FDI flows from the EU to emerging markets, and when this region is increasingly becoming the dominant sphere of EU investors[15]. It is, therefore, of paramount importance that the pace of reform be accelerated, irrespectively of whether Malta joins the EU or not[16].

Against this background, it appears that securing access to the EU market will become increasingly difficult as a non-member. Membership, on the other hand, promises immediate benefits for local exporters, because any product made in Malta would not only have complete access to the EU, but would also benefit from any preferential treatment which the EU receives under the various reciprocal trade agreements it has with third countries, without the need for Malta to negotiate separate agreements and without being subject to country-of-origin limitations. The extent of this benefit could be substantial because the EU does not merely have reciprocal trade agreements with Northern and Eastern European countries and with its Southern Mediterranean partners, but has also finalised, or is close to finalising, similar agreements with more distant countries and regional blocs, including Mexico, South Africa, Chile, Mercosur[17] and the Gulf Co-operation Council[18]. For many local firms EU membership would also translate into an opportunity to outsource inputs more cheaply, and for consumers a wider choice and cheaper products.

EU membership would also pose some challenges. For example, because membership implies more than a free trade agreement, Malta would have to apply the EU's common external tariff (CET) to imports from third countries. Upon closer examination, however, it seems that this is unlikely to be a major problem. For a start, Malta's customs duties on non-EU imports are already roughly in line with the CET, so that not much change would be necessary. Furthermore, the CET is foregone in the case of all those non-EU countries which benefit from preferential access of the EU market, especially in the case of raw materials. This means that imports can be purchased from alternative sources, possibly from the enlarged EU market, or from non-EU countries which enjoy access to the EU market. Finally, the CET is also suspended when the imported raw material is re-exported outside the EU as a finished product[19]. So while the costs of production for some sectors of the economy may increase, and this in turn could have implications for inflation, at least in the short-run, this impact is likely to be minimal in practice.

As a member Malta would also assume the EU's commitments under the non-reciprocal agreements with developing countries. Whereas this could have negative implications for specific sectors, for the economy as a whole these effects are unlikely to be significant or enduring. This is because the proportion of imports from these countries in Malta's import bill is marginal. Second, the Cotonou Agreement, which is the EU's most relevant agreement in this regard, will

[15] *European Union Foreign Direct Investment Yearbook*, Luxembourg: Eurostat, 2000. Moreover, according to UNCTAD's latest *World Investment Report*, Poland, the Czech Republic, the Russian Federation, Hungary and Slovakia absorbed around seventy-five per cent of world FDI flows to Eastern Europe in 2001.

[16] Staying out of the EU is also likely to have negative implications for Malta's credit rating. In a recent report, for example, FITCH credit rating agency notes that:
"*staying out would damage Malta's creditworthiness unless a new government were clearly determined to retain and develop the parts of the EU Acquis that are starting to enhance the efficiency and competitiveness of the Maltese economy*."

[17] Argentina, Brazil, Paraguay and Uruguay.

[18] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

[19] It could also be argued that the additional tax revenue from the application of the CET to imports from non-EU countries would make up at least partly for any losses arising from the removal of duties on intra-EU trade and trade with EU partners covered by reciprocal agreements.

expire in 2008, by which time it is expected to be superseded by Economic Partnership Agreements based on reciprocity[20]. If anything, therefore, the EU network of reciprocal trade agreements will increase. Within a few years importers and consumers should thus have more and not less access to duty-free imports, and any short-run increases in inflation should be more than neutralised. Third, the opportunity cost of staying out of the EU will increase for export-oriented firms[21]. And finally, since the African, Caribbean and Pacific (ACP) countries that are parties to the Cotonou Agreement are an important source of raw materials for the EU itself, the duty-free access of their raw materials should actually benefit Malta which imports all its raw material needs.

In the process local firms would, of course, also become subject to competition from countries covered by reciprocal trade agreements with the EU, and inefficient and high-cost producers in Malta could well be driven out of the market. To a great extent, however, this adjustment is already taking place, not least because the removal of import levies is well under way. Thus, while there could be some increased costs, the effects on unemployment should be limited. In any case, both the Government and the EU have mechanisms designed to assist uncompetitive firms. It could also be argued that some job losses are inevitable if we really want to give consumers a better deal while promoting the competitiveness of domestic firms.

A short-term increase in unemployment, moreover, could well be reversed. This is not an unrealistic expectation. Investors from non-EU countries will find that they would be in a better position to tap the enlarged EU market by consolidating their activities in the new members than by accessing these markets separately. The opportunities which enlargement would provide for investors should not be underestimated given that Europe is the region having the greatest concentration of regional trade agreements with third countries, and that it is also the region with the highest proportion of imports that is outsourced from partners covered by such agreements. The resultant increase in employment opportunities should compensate for any jobs lost through restructuring.

The prospect of access to a large market will not, of course, alone guarantee larger inflows of FDI. Investment decisions are not based solely on considerations of market size. Unfortunately, Malta is at a disadvantage in terms of other relevant criteria such as resource endowments and transport costs. Such deficiencies, therefore, have to be made up for through other factors, including a sound macroeconomic framework, political stability, high productivity levels, a transparent and simplified regulatory framework, and an assurance that business and productive activities are conducted in line with internationally accepted standards. This would, of course, hold true whether Malta joins the EU or not.

Costs of participation in international fora obviated by EU membership

While EU membership also entails the administrative burdens associated with participation in EU institutions, it should at the same time help to strengthen Malta's presence in international fora. As Malta does not have the capacity to be present in every forum, it would be in a stronger position as a member of a large block. One could, of course, argue that this would also be achieved in other scenarios. Experience suggests otherwise however. For example,

[20] The Cotonou Agreement additionally foresees that the number of developing countries that will continue to receive non-reciprocal access to EU markets under other agreements of this type is expected to decline, although there could remain a certain degree of asymmetry in timing to take into account the specific needs of developing countries.

[21] It is also relevant to mention that although Malta does not benefit directly from the pre-accession funds which are available to the other accession countries of Eastern Europe, Maltese companies may already bid for contracts awarded to projects financed under one of the funds in question. (Instrument for Structural Policy for Pre-accession) The benefit would probably be lost under a looser form of agreement with the EU.

despite the efforts made to create a coalition of small states in the decision-making bodies of organisations such as the World Trade Organisation, the International Monetary Fund and the World Bank, and despite the fact that the specific problems of small states are universally recognised, these efforts have proved largely futile. The situation is not expected to change in the near future in view of the differences among small states themselves[22]. As an EU member, moreover, since Malta's representation in EU decision-making bodies would be more than proportionate to its population, its voice would stand a better chance of being heard, not least because most of the other acceding countries are also small and could be potential allies on issues of common concern.

Indeed, as Malta's recent experience with the OECD and developments relating to the proposed EU savings tax directive have shown, Malta is likely to obtain a better deal as an EU member. Four years ago the OECD was planning to take action against non-co-operative countries on its list of "harmful tax havens". Malta was not on the list because the Maltese Government undertook to eliminate any offending practices and to exchange information with foreign tax authorities once a level playing field was achieved. But the relevant aspect of this episode is that small jurisdictions are being compelled to revisit their strategies and diversify their economies in a manner which does not harm the interests of stronger, high-tax economies, and that standards and codes of good practice will increasingly serve as another dimension of competition.

In these circumstances it cannot but be perceived as an advantage by prospective members that the EU not only has the capacity to resist threats to the competitiveness of its members, but also has enough bargaining power to persuade its competitors to reach a compromise acceptable to its members.

The EU, for example, is putting pressure on Switzerland and the United States to adopt equivalent measures to those contained in the proposed EU directive on savings taxation. It has gone as far as to suggest that it could impose sanctions and even hold up negotiations in other areas if Switzerland remains opposed to a deal on the exchange of information on the savings of EU citizens with Swiss banks. This stance is quite credible given that Austria, Belgium and Luxembourg have a vested interest in this matter and have declared that they will only support the new package if Switzerland, the United States and other third countries[23] agree to apply equivalent measures. As a matter of fact, since this package is a tax-related measure it can only be adopted on the basis of unanimity, which means that it cannot be approved without the support of countries such as Luxembourg.

From the perspective of the current debate in Malta, the ongoing negotiations between the EU Commission and Switzerland do more than raise questions about the durability of bank secrecy regimes. More relevantly they cast doubt on the assumption that third countries are able to protect their immunity from EU decisions simply by virtue of their status as non-members. The savings tax example also shows that even a small country like Luxembourg can, through its membership in the EU, succeed in getting a larger country to give up some of the competitive edge it enjoys in a particular sector.

It is to be expected that similar manoeuvres will become more frequent in an enlarged EU. Having a voice in setting the rules would then assume

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[22] Guinea-Bissau, for example, has a GNP per capita of only $160, whereas countries such as Brunei, Cyprus, Malta and Qatar have a GNP per capita of more than $9,000.

[23] These include Andorra, Liechtenstein, Monaco and San Marino. The US is trying to resist the move. In July 2002 the Treasury Department in fact withdrew a draft law which would have made it compulsory for American financial bodies to provide extensive information on savings income invested in the United States by non-residents and replaced it with a less onerous law that limits the extent of information and the number of countries to which it would apply.

paramount importance, especially since the other new members, who are Malta's competitors in several areas, would themselves be seeking to advance their own interests. This, in turn, also casts doubt on whether Malta would be able to obtain transitional arrangements and derogations comparable to those it has obtained thus far if it had to negotiate with the EU when Bulgaria, Romania and Turkey have become members.

This leads to my third conclusion. If, irrespective of whether and when Malta joins the EU, local producers and service providers will continue to be influenced by decisions taken by the EU, and given that the other channels through which Malta could possibly gain a better representation in international fora are not well-developed, Malta would probably be in a stronger bargaining position as an EU member.

The macroeconomic discipline aspect of EU membership

As in any other club, EU membership and access to the privileges associated with it entail an obligation to contribute to the common budget. Now, the debate on whether to join the EU has so far focused almost exclusively on whether Malta would be a net contributor or recipient of EU funding[24]. A decision having such momentous implications cannot, however, be based only on issues relating to post-accession funding, which is a time-bound mechanism designed to help lagging EU regions catch up with the more affluent ones. For apart from broader geopolitical and social considerations, EU membership represents a concrete, long-term response to the challenge of developing a modern economy with the capacity to generate wealth in a sustainable manner. In the case of Ireland, Portugal, Spain and Greece, the EU has indeed proved to be a most effective mechanism for this purpose.

This is so because the EU is unique among other regional arrangements in that it goes beyond market liberalisation and the harmonisation of standards, and encompasses more fundamental aspects of integration. For this audience of bankers and financiers, it would be appropriate to illustrate this point by reference to the institutional framework governing macroeconomic policy in the euro area.

Although new members cannot join the euro area immediately upon accession, they are expected to participate in Economic and Monetary Union (EMU) eventually and, therefore, to show a commitment to a stable macroeconomic framework even before accession. Whatever the outcome of the current debate about the Stability and Growth Pact, fiscal discipline will continue to be an important policy ingredient of such a framework as it is a necessary condition for the success of any monetary union. In addition, the obligation to fulfil the Maastricht criteria provides members of the euro area with the impetus to safeguard the sustainability of their economies, not least because deficiencies in the real sector of the economy would ultimately weaken the ability of a Member State to fulfil the Maastricht criteria on an ongoing basis.

The euro adds an important dimension to these disciplines. First, through its effects on price transparency it will increasingly compel dominant players in the market place to reconsider their behaviour. This also applies to the financial sector, because a growing number of savers and borrowers will be offered a larger selection of euro-denominated financial instruments that will in time be tradable without limitation across the EU. This will have the added advantage of causing interest rates to converge to low levels.

In addition, although the EU has not yet reached

[24] On the same reasoning Malta should withdraw from international financial institutions such as the World Bank and the European Bank for Reconstruction and Development since it is no longer entitled to financing from these institutions. This, however, has not occurred because it is recognised that membership in these institutions yields more than monetary benefits.

all the objectives of the 1999 Financial Services Action Plan, there is evidence that they will be met on schedule, not least because the euro will provide the market with the necessary impetus to identify the remaining obstacles to the completion of the single market. A clear example of this is provided by the regulation on cross-border payments in euro which seeks to eliminate unjustifiable differences between charges on cross-border transfers and those on transfers within Member States. Another consists of the initiatives underway to extend the single passport beyond the banking sector to investment services, insurance intermediaries and securities markets. This will have at least two implications.

First, a financial product licensed in one Member State would automatically be recognised in all others without the need for the service provider to go through licensing and listing procedures afresh. For financial service providers this is an opportunity to bypass the regulatory and other barriers that would otherwise render them uncompetitive. For the individual Member State, this is an opportunity to attract financial service providers from third countries who want to take advantage of the opportunity to establish themselves and market their products anywhere in the EU. Second, the single passport will also reduce the cost of doing business. It is in fact estimated that the Action Plan would reduce the cost of capital for 18 million businesses in the EU and drive down the cost of financial services for consumers.

Conclusion

Against this background it is not surprising that studies on the effects of enlargement show that growth rates would be higher under EU membership than under any other scenario. A European Commission study shows, for example, that during the first five years following accession, growth rates in the acceding countries would be between 1.7% and 3.2% above those that would be achieved if these countries were to proceed with current reforms without joining the EU[25]. A comparable finding also emerges for Malta: the annual growth rate would be between 1.7% and 1.9% higher in the short-run than it would be under the non-membership scenario. The difference would be even larger in subsequent years – Malta's growth rates could then be between 4.4% and 6.1% higher under EU membership[26].

Such findings and related considerations have led governments, political parties, trade unions and academics from twelve European countries, large and small, islands and continental ones, to conclude that membership of the EU is on balance the best available response to the challenges posed by globalization. Those who perceive EU membership as a unique opportunity are equally aware that catching up with some of the most economically and socially advanced countries on earth is a major task for countries whose average income is still only some 40 per cent of the EU average. This challenge can only be overcome if the candidate countries seriously question the

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[25] *"The Economic Impact of Enlargement",* Enlargement Papers No 4. Brussels: "European Commission, Directorate General for Economic and Financial Affairs, June 2001. http://europa.eu.int/economy_finance. The report notes that between 2005 and 2009 the average growth rate in 8 of the accession countries (the first wave of exceeding countries excluding Malta and Cyprus) will be 2.9%, 4.6% and 6.1%, respectively under the baseline scenario, a central scenario and an optimistic scenario. In a similar vein, a recent report by the National Bank of Hungary concludes that the adoption of the euro could boost economic growth in Hungary by between 0.6 to 0.9 percentage points annually for 20 years. Most of the growth will come from increased international trade. See A. Csajbok and A. Csermely, *"Adopting the Euro in Hungary: expected costs, benefits and timing"*, Occasional Paper 24, Hungary: National Bank of Hungary, 2002.

[26] L. Briguglio and G. Cordina, "The economic effects associated with Malta's membership in the EU", in *The Future of the European Union: Unity in Diversity*, ed., P. G. Xuereb, University of Malta, European Documentation and Research Centre, Malta: PEG Ltd, 2002.

way they have organized and managed their economies in the past, and resolve to raise their performance. The magnitude of the task is not to be underestimated because the necessary changes are pervasive - affecting both institutions and mindsets, policies and work practices - and they also entail costs, financial and otherwise.

There is clearly, however, also a widespread conviction in the other candidate countries that this would be change with a purpose. Apart from the highly desirable prospect of convergence with EU income levels and living standards, a process itself facilitated by EU financial and technical assistance, the pay-off would include anchoring the future prospects of each new member country to those of an economic superpower, unfettered access to a large and rich market with a single currency, the adoption across the board of international best practices and standards and, not least, a place at the table where decisions are taken which would affect these countries even as non-members.

The dynamics of regional economic integration are such that the choices available to our policymakers will be inevitably conditioned in future by the policies of an enlarged and stronger EU. It should, therefore, be clear that if it is to prosper, Malta will have to seek an accommodation with the EU. The prevailing view among countries on the periphery of the existing EU-15 is that the prospective long-term benefits of membership outweigh the costs. That is why they are anxious to become members. Until such time as an equally well-documented argument is made which seriously questions this view, the case for membership remains a compelling one.

NEWS NOTES

Central Bank Lowers Official Interest Rates

On December 20, 2002, the Central Bank cut the central intervention rate and the discount rate by 25 basis points to 3.75%.

The decision was taken by the Governor, Mr Michael C Bonello, in terms of the Central Bank of Malta Act, at the end of the Monetary Policy Advisory Council meeting held that morning. The Governor considered that in the prevailing circumstances a 25 basis-point reduction in official interest rates was compatible with the maintenance of the exchange rate peg. In fact, the continued absence of downward pressures on the peg was reflected in a further increase in the Central Bank's external reserves.

Since the Council meeting of November 28, moreover, domestic money market interest rates had followed foreign short-term interest rates on a downward path. As official interest rates abroad had also been lowered during the same period, the latest reduction brought official interest rates in Malta more in line with those of the basket currencies. The persistence of high levels of liquidity in domestic financial markets also supported the decision to lower rates.

The Council's analysis of the latest information showed that, on the domestic economic front, little had changed since the previous meeting. Although output had recovered during 2002, prospects for the Maltese economy going into 2003 would be influenced by the more pronounced downside risks to global economic growth. Despite the expansionary stance of fiscal policy, therefore, domestic economic developments were unlikely to generate sustained pressures in the near term on inflation or the balance of payments and, hence, on the external reserves and the exchange rate.

Conversion of Banking Licence

On October 31 the Malta Financial Services Authority (MFSA), as the Competent Authority in terms of the Banking Act 1994, approved the conversion of the offshore banking licence held by Volksbank Malta Ltd into a licence to operate as a credit institution. This change in Volksbank's licence, which came into effect on November 1, 2002 means that the bank is now licensed to conduct business with persons who are residents of Malta as well as with non-residents.

Surrender of Banking Licence

On November 30 Tekstil Bankasi A.S. voluntarily surrendered its licence, issued in terms of the Banking Act 1994, to undertake the business of banking from Malta.

Private Bond Issues

On July 15 Tumas Investments p.l.c. offered for sale to the public Lm4 million worth of bonds, with a coupon of 6.7%, maturing in 2010-2012 and having a nominal value of Lm100. As the bonds, which were issued at par, were oversubscribed, the company exercised its over-allotment option and increased the issue to Lm7 million.

On October 28 CareMalta Group, through its subsidiary CareMalta Finance p.l.c., offered for sale to the public Lm3.8 million worth of bonds with a coupon of 6.5% maturing in 2008-2011. The proceeds from the bond issue are to be used to fund expansion by increasing the number of beds in existing and future homes operated by CareMalta, an elderly care organisation.

On December 9 Big Bon Group, through its subsidiary Big Bon Finance p.l.c., offered for sale to the public Lm2.5 million worth of bonds with a coupon of 7% maturing in 2010-2012. The proceeds from the bond issue are to be used to refinance the acquisition and completion costs of the Alhambra Complex. As the bonds were oversubscribed, the company exercised its over-allotment option and increased the issue to Lm3 million.

Sale of Shares in Malta International Airport p.l.c.

On July 27 Malta Mediterranean Link, a consortium made up of VIE (Malta) Ltd, SNC-Lavalin (Malta) Ltd and Airport Investments Ltd, signed an agreement to purchase 27,060,000 Ordinary B shares, or a 40 per cent stake, in Malta International Airport p.l.c. The agreement involved the payment of Lm19 million to the Government for the purchase of the equity and a further Lm21 million payment in the form of dividends and taxes on the signing of the deed of purchase.

On November 14 the Government offered for sale to the public 13,530,000 Ordinary A shares, with a nominal value of Lm0.20 each, at an offer price of Lm0.73 per share, in Malta International Airport. At the same time, an application was made for admission of the Ordinary A shares to the Malta Stock Exchange Official List. Following this offering, the Government of Malta's holding in the company was reduced to 40 per cent of the issued share capital.

HSBC Bank Malta's Subsidiaries Merge with Parent Bank

On November 19 HSBC Bank Malta p.l.c. announced that it had absorbed its subsidiaries, HSBC Overseas Bank (Malta) Ltd and HSBC Investment Holdings (Malta) Ltd, with effect from November 2, 2002. These companies thus ceased to exist as separate entities.

Malta's Sovereign Credit Rating Reaffirmed

On November 28 Moody's Investors Service reaffirmed Malta's A3/Prime-2 foreign currency and local currency credit ratings. Moody's retained a negative outlook on Malta's A3 ratings, however. The agency said that Malta's status as a front runner to join the European Union in the next enlargement was "an important rating support, although domestic political opposition casts doubt on the inevitability of accession". It also said that constraints on the rating included a lack of economic diversification, the large public sector debt and the sizeable structural deficits in the public finances and external accounts.

Budget 2003

On November 25 the Minister of Finance presented the Budget Estimates for the year 2003 to Parliament. The Budget included a number of policy measures, among which:

- **Cost of living increase**: A weekly increase in wages of Lm1.75 to compensate for the rise in the cost of living during the year to September 2002.
- **Cost of living index for pensioners**: A cost of living index for pensioners was introduced. On the basis of this index, a weekly increase of Lm1.27 was awarded to compensate for the rise in pensioners' cost of living during the year to September 2002.
- **Direct taxation**: Income tax bands opened up from three to five, resulting in reduced income tax claims on both single taxpayers and married couples. Farmers are to benefit from an improved tax system.
- **Indirect taxation**: Excise duties on cigarettes were increased. Electricity consumption and cylinder gas to be subject to value added tax (VAT) at 5% and 15% respectively, though Enemalta Corporation would absorb the cost. Stamp duty on immovable property to be used as the purchaser's sole ordinary residence reduced from 5% to 3% while stamp duty on immovable property transferred between members of the same family would be calculated on the cost of the property. Reduced taxation on racing cars and vintage cars, and vehicles that only run on electrically driven systems and battery operated mopeds

are to be exempt from registration tax.

- **Liberalisation of exchange controls**: Exchange controls were further liberalised. Forthcoming measures would be introduced in three phases: January 2003, June 2003 and on EU accession. The measures adopted as from January 1, 2003 include:

- Full liberalisation of purchase of foreign currency for travel purposes.
- Full liberalisation of imports/exports of cash being legal tender in Malta.
- Full liberalisation of purchase of foreign currency for export by residents travelling to make payments for merchandise imports.
- Increase in the amount of foreign currency that can be exported as cash gifts or for family subsistence purposes from Lm10,000 to Lm20,000.
- Increase in the amount of annual exemption relative to the surrender of foreign currency to authorised dealers from Lm15,000 to Lm20,000.
- The allowance for foreign portfolio investment by residents was raised from Lm50,000 per annum to Lm100,000.
- Bodies corporate and local retail outlets receiving foreign currency in cash from business activities may retain up to Lm20,000 for use in such activities.
- Bodies corporate acting as commission agents for foreign companies may receive foreign currency payments from local customers as long as they remit them within one month of receipt.
- Local credit institutions may grant credit facilities in Maltese lira for a period of six months to non-residents carrying on business in Malta.
- Residents may give credit to non-residents for a minimum period of six months.
- Residents may borrow in foreign currency for a minimum period of six months.
- Investment funds for residents denominated in Maltese lira may invest up to 15 per cent of their shareholders' funds in foreign assets.
- Companies offering financial services to local clients may maintain clients' accounts with foreign banks overseas.
- Enforcement of reporting obligation for travellers carrying cash exceeding Lm5,000.

- **Replacement of the Exchange Control Act**: The Exchange Control Act is to be replaced by the Exchange Transactions Act, which would provide the infrastructure for the total liberalisation of capital controls and contain measures to deal with balance of payments crises.

Limit on Treasury Bill Issue Raised

On November 27 the House of Representatives approved a Resolution raising the ceiling on the amount of the Treasury bill issue from Lm200 million to Lm300 million.

IMF/World Bank Mission on FSAP visits Malta

Between October 15-25, an IMF/World Bank Mission visited Malta to carry out an assessment of the financial sector under a joint IMF/World Bank Financial Sector Assessment Programme (FSAP). The objective of the Programme is to assist the Authorities in Malta in identifying potential vulnerabilities in Malta's financial system that could have macroeconomic consequences and measures to reduce such risks. The mission also tried to identify appropriate areas for further development of the financial sector.

The mission held a number of meetings with the Authorities and financial institutions and operators. A preliminary report was submitted to the Authorities in December. A follow-up mission is scheduled to visit Malta at the end of January 2003, during which the draft report is expected to be discussed and finalised.

FINANCIAL POLICY CALENDAR

This calendar lists policy measures in the monetary, fiscal and exchange rate fields.

1999

January 4 : ***Currency Portions of Maltese Lira Basket Announced***

The Monetary Authorities announce the currency portions that are to make up the Maltese lira basket based on the weights that were allocated to the euro, the pound sterling and the US dollar as announced on December 28, 1998. The weights and portions of the three currencies are established as follows:

	Weight	Portion
Euro	56.8%	1.2793
Pound Sterling	21.6%	0.3462
US Dollar	21.6%	0.5777

January 21: ***Central Bank Lowers Intervention Rate***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's central intervention rate by ten basis points to 5.35%.

March 29: ***Central Bank Lowers Intervention Rate Again***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's central intervention rate by a further forty basis points to 4.95%.

In announcing the reductions in its intervention rate, the Bank says that its Monetary Policy Council had noted that the difference between official interest rates in Malta and those abroad had widened, as interest rates overseas had fallen. The Council had also noted that domestic demand remained subdued, inflation had declined, and pressures on the external reserves had eased. Nevertheless, the Bank says, the Council was still concerned about the level of the Government's borrowing requirement and emphasised the need for continued fiscal discipline. The Central Bank also says that it will continue to pursue a monetary policy based on maintaining a fixed exchange rate for the Maltese lira and that it stood ready to adjust official interest rates as necessary.

March 29 : ***Interest Rate Ceiling on Foreign Currency Lending Lifted***

The Central Bank of Malta amends Central Bank of Malta Notice Number 1 on interest rates. By means of this amendment, all restrictions on interest rates on loans and advances denominated in foreign currency by credit and financial institutions are lifted.

May 6 : ***Central Bank Lowers Discount Rate***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's discount rate by 25 basis points from 5.5% to 5.25%. The Bank's central intervention rate is left unchanged at 4.95%. In announcing the reduction in the discount rate, the Bank notes that official interest rates overseas, particularly in Malta's trading partner countries, had continued to fall, that domestic economic activity remained generally subdued, inflation had continued to fall, and the external reserves had remained stable. Nevertheless, the Bank also says that the Council remained concerned about the level of the Government's borrowing requirement, that it would continue to pursue a monetary policy based on maintaining a fixed exchange rate for the Maltese lira, and that it stood ready to adjust official interest rates as necessary.

May 7 : *Parliament Authorizes Government to Borrow Lm100 Million*

Parliament enacts Local Loan Act, 1999 which authorises the Government to raise, by way of loans from local sources, a sum not exceeding Lm100 million to meet both the deficit incurred in the Consolidated Fund in 1998 and the deficit which is expected to be incurred during 1999.

May 7 : *Obligation to Create Sinking Funds in Connection with Local Borrowing Abolished*

Parliament amends Local Loan (Registred Stock and Securities) Ordinance, 1957 through Act IV of 1999. This removes the obligation on Government to create sinking funds in connection with new local borrowing. The obligation to create sinking funds in connection with overseas borrowing is, however, retained.

May 29 : *Minister of Finance amends Malta Stock Exchange Regulations*

The Minister of Finance, through Legal Notice 91, amends Article 3 of the Statute of the Malta Stock Exchange. This amendment makes it possible for a stockbroker nominated by the Central Bank of Malta to execute transactions on behalf of the Government in quoted securities of companies or other entities owned wholly, or in part, by the Government, subject to certain conditions specified in the Malta Stock Exchange Act, 1990 itself.

June 24 : *Central Bank Lowers Discount Rate Again*

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's discount rate by 30 basis points from 5.25% to 4.95%. This is the second time that the Central Bank lowers its discount rate this year. The adjustment sets the discount rate equal to the Bank's central intervention rate. The Central Bank also announces that, in future, any change in its intervention rate would automatically be matched by a similar change in the discount rate.

August 2 : *Central Bank Lowers Minimum Deposit Rate on Savings Accounts*

The Central Bank of Malta, in terms of Section 38 of the Central Bank of Malta Act, 1967, lowers the minimum rate of interest that credit institutions may pay on deposits denominated in Maltese lira, other than current accounts, from 3 % per annum to 2.5 % per annum.

September 7 : *Penalties for Offences Against Banking Act, 1994 Regulations Published*

The Minister of Finance, through Legal Notice 155 of 1999, publishes the Penalties for Offences Regulations 1999. These regulations specify the penalties, including fines and imprisonment terms, to be imposed on persons found guilty of having contravened specific provisions of the Banking Act, 1994. They also empower the Competent Authority to impose administrative penalties on persons who fail to comply with other provisions of the Banking Act, 1994. Such persons may appeal to the Tribunal for Financial Services against any decision imposing upon them an administrative penalty.

September 23 : ***Central Bank Lowers Intervention Rate and Discount Rate***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's central intervention rate and its discount rate by 20 basis points from 4.95% to 4.75%. All the other official interest rates quoted by the Central Bank go down by 20 basis points. In announcing the reduction in rates the Bank comments on the weakness of domestic demand, the decline in inflation and the absence of pressure on the external reserves. The Bank also notes some improvement in Government finances but registers its continuing concern about the level of the Government's borrowing requirement.

November 1 : ***Central Bank Removes Limits on Bank Deposit/Foreign Currency Interest Rates***

The Central Bank of Malta abolishes the minimum rate of interest that banks were obliged to pay on savings deposits, previously established in terms of section 38 of the Central Bank of Malta Act, 1967. As a result, credit institutions are allowed freely to determine the rate of interest payable on deposits made with them, not only in Maltese liri but in any currency. The Bank also removes the remaining limit on interest rates that banks are permitted to charge on loans in foreign currency.

October 19 : ***General Financial Regulations Amended***

The Minister of Finance, through Legal Notice 173 amends regulation 59 of the General Financial Regulations 1966. Through this amendment, which comes into effect immediately, the validity period of all cheques drawn by the Government is extended from two months to six in line with normal banking practice.

November 15 : ***Malta Ratifies European Convention on Money Laundering***

Malta ratifies the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. The convention was signed on November 5, 1998 and is to enter into force on March 1, 2000.

November 9 : ***Malta Stock Exchange Introduces Alternative Companies List***

The Malta Stock Exchange announces the introduction of the Alternative Companies Listing. The rules applicable to the new listing are designed to give companies which do not have all the necessary qualifications to seek a listing on the current market, including non-Maltese companies, access to equity or loan capital, regardless of their size or past performance.

November 22 : ***Measures Introduced in the Budget for the Year 2000***

The Minister of Finance, in presenting the Budget Estimates for the year 2000 to Parliament, announces a number of policy measures. These include:

1) **Wages:** A weekly increase of Lm1 to compensate for the rise in the cost of living during the year to September 1999. An additional one-off increase of Lm10 per person to be given in January to compensate for the removal of the subsidy on local bread.

2) **Social Security Contributions:** As from January 1, 2000, employees' social security contributions are to go up from 9% to 10% of their basic pay, while the different income bands previously used to calculate the contribution rate of the self-employed are to be abolished. The rate of contribution on all income earned by the self-employed is to be 15%.

3) **Direct Taxation:** Income tax bands are to be revised, while guidelines are to be issued by the Commissioner of Inland on the taxation of fringe benefits. A tax compliance unit is to be set up within the Department of Inland Revenue.

4) **Indirect Taxation:** Excise duty on cigarettes goes up, while locally processed alcoholic beverages are no longer to be exempt from the payment of such duties. At the same time, the duty on transfers of immovable property is to be reduced, while the duties payable on the allocation of shares and on medical insurance cover are to be abolished altogether.

5) **Value Added Tax:** Value Added Tax, at the rate of 15%, is introduced on petrol and diesel with immediate effect, and on telephony with effect from January 1. Telephone consumer tariffs, however, are set to rise by five per cent.

6) **Exchange Control:** A number of measures are to be introduced to further liberalise exchange control and speed up the relative bureaucratic and administrative procedures. Current restrictions on the amount that companies registered or domiciled in Malta are allowed to invest in businesses abroad are to be abolished, while the overseas investment allowances for individuals and non-financial companies is to be raised from Lm8,000 to Lm15,000. Export-oriented companies in the services sector will be allowed to leave their receipts in foreign currency accounts for up to six months, while retailers will be allowed to maintain foreign currency and time deposit accounts up to a limit of Lm2,500. Insurance companies will be allowed to invest funds abroad freely, subject to control by the Malta Financial Services Centre.

December 31: ***Ways and Means Facility Abolished***

The Minister of Finance, through Legal Notice 224 of 1999, establishes January 1, 2000 as the date on which the provisions of Section 15 of the Central Bank of Malta (Amendment) Act, 1994 are to come into force. This effectively brings to an end the Government's borrowing facility with the Central Bank of Malta, known as the Ways and Means Facility.

December 31 : ***Delegation of Exchange Control Authority to Malta Financial Services Centre***

The Minister of Finance, through Legal Notice 225 of 1999, appoints the Malta Financial Services Centre (MFSC) as an authorised dealer for the purposes of Sections 17, 18 and 32 of the Exchange Control Act, 1972 with effect from January 1, 2000. Through this legal notice, the responsibility for approving and vetting applications for the registration of companies with non-resident participation is transferred from the Central Bank of Malta to the Malta Financial Services Centre under delegated authority.

2000

March 10 : ***Malta Stock Exchange Bye-Laws Amended***

The Council of the Malta Stock Exchange amends its bye-laws with regard to dealings made by directors and employees in possession of price sensitive information in the listed securities of their companies. The changes are made within the context of the review, undertaken by the Malta Stock Exchange, of market practices and compliance with internationally accepted regulatory standards.

March 29 : ***Italian Financial Aid to Malta***

Italy and Malta sign an agreement providing for the granting of over Lm5 million in Italian financial aid to Malta. This is to be made available under the Fourth Italo-Maltese Protocol on Financial, Economic and Technical Assistance, which covers the years 1996 - 2000.

April 12 : ***Central Bank Abolishes Last Remaining Control on Interest Rates***

The Central Bank of Malta amends Notice No 1 on Interest Rates to remove the provision relating to the maximum rate of interest that banks could charge on loans and advances for the purchase of one residential unit for the occupier's own use. With this amendment, the last remaining control on interest rates is abolished, so that rates will now be determined solely by market conditions.

April 28 : ***Bearer Accounts Phased Out***

Following instructions by the Central Bank of Malta to the local banks, the Malta Commercial Banks' Association announces that all bearer accounts are to be closed by June 30. This measure brings local banking practices in line with international practices and is intended to combat money laundering.

June 15 : ***Malta Withdraws from Offshore Group of Banking Supervisors***

Malta announces its withdrawal from the Offshore Group of Banking Supervisors (OGBS). Membership of the OGBS was deemed to be no longer appropriate for Malta in view of the decision, taken in 1996, to register no new offshore activities on the island and to phase out the existing ones.

July 14 : ***Malta Stock Exchange Regulations Amended***

The Minister of Finance, through Legal Notice No 124, amends the first schedule of the Malta Stock Exchange Regulations, 2000 allowing a "person" rather than an "individual" to obtain a stockbroking licence. The Legal Notice also replaces the existing Stock Exchange Committee with a College of Stockbroking Firms.

August 25 : ***Prevention of Money Laundering Regulations Amended***

The Minister of Finance, through Legal Notice 156, issues the Prevention of Money Laundering (Amendment) Regulations, 2000. These regulations amend the Prevention of Money Laundering Regulations, 1994. Amongst other things, the amended regulations introduce the concept of "reputable jurisdiction". This allows for the recognition of other jurisdictions which adhere to international standards in combating money laundering.

November 21: ***Measures Introduced in the Budget for 2001***

The Minister of Finance, in presenting the Budget Estimates for the year 2001 to Parliament, announces a number of policy measures. These include:

1) **Cost of Living Increase:** A weekly increase in wages of Lm1.50 to compensate for the rise in the cost of living during the year to September 2000.

2) **Direct Taxation:** The Income Tax Act, 1948 is to be enforced with regard to certain fringe benefits attached to employment. The benefits to be taxed are listed in a separate document presented with the Budget.

3) **Indirect Taxation:** Value Added Tax on health and education are reclassified as exempt without credit while profits made by travel agents on tickets for travel abroad are to become taxable at the full rate. Catering establishments in factories, schools and industrial zones are to start charging Value Added Tax. Excise duty on cigarettes is increased while the duty on alcoholic beverages is henceforth to be calculated on the basis of the alcohol content of the beverage concerned. Levies on a number of imported industrial products are to be scaled down further, while income from collective investment schemes is to be subject to tax.

4) **Liberalisation of Exchange Controls:** Exchange controls are further liberalised and the relative administrative procedures are to be speeded up. The measures include:

· An increase in the allowance for travel purposes from Lm5,000 to Lm10,000 per trip.

· An increase in the limit for cash gifts from Lm5,000 to Lm10,000 per year.

· An increase in the amount of foreign currency which can be exported to effect merchandise payments overseas.

· An increase in the limits on imports and exports of local currency from Lm25 to Lm1,000.

· The amount that residents are permitted to invest in real estate overseas is raised from Lm50,000 per year to Lm150,000.

· The allowance for foreign portfolio investment by residents is raised from Lm15,000 per year to Lm30,000.

· Fund investment schemes (SICAVs) which collect funds in Maltese liri from residents are permitted to invest in foreign assets up to a maximum of five per cent of the funds invested in a scheme.

· The amount of foreign currency which a resident may retain in the form of cash or in a foreign currency (demand) account with local credit institutions is raised to Lm10,000 from Lm2,500.

· The period during which export-oriented local companies are permitted to maintain export proceeds with local banks in foreign currency is extended to one year while other bodies corporate and local retail outlets are henceforth permitted to maintain demand, savings and time deposits in foreign currency accounts provided such deposits originate from business activities and the balance does not exceed Lm10,000.

- Lending and borrowing activities are liberalised completely, subject to the condition that such lending or borrowing is for maturity periods of over one year.
- The granting of guarantees by residents and vice versa is liberalised completely.
- All restrictions with regard to the amount of assets that emigrants may transfer abroad are removed.
- All restrictions on payments by residents in respect of endowments to *bona fide* foreign institutions, dowry payments and payments in connection with the settlement of debts by immigrants in their previous country of residence are removed.

The Minister also announces that, as from January 1, 2002, the prices of oil products in Malta are to be linked to price movements in international markets.

December 5: ***Malta Stock Exchange Council Reviews Notice***

The Council of the Malta Stock Exchange revises Council Notice No 1, which deals with fees and other charges. One major change involves the brokerage fees/commissions charged by stockbrokers. These will no longer be fixed by the Exchange but will become subject to negotiation between investors and stockbrokers. The revised notice becomes effective as from January 1, 2001.

2001

January 10: ***Malta Appointed to OECD Task Force on Harmful Tax Practices***

Malta, through its Minister of Finance, is appointed a member of a task force set up by the Organisation for Economic Co-operation and Development (OECD) to curb harmful tax practices in certain offshore financial centres. The task force, made up of 13 countries, was set up during an OECD meeting held in Barbados. Malta will also be representing Commonwealth countries on this task force.

February 14: ***Malta Stock Exchange Introduces a Trade-Weighted Average Moving Price (TWAMP)***

The Malta Stock Exchange announces that, as from the trading session of February 19, it would commence the phasing in of a trade-weighted average moving price (TWAMP) based on the aggregate volume/value of the five trading sessions in which each security was last traded. As a result, the TWAMP would be based on at least five transactions. The Exchange's trade ranges, share index and market capitalisation statistics would also be established in relation to the TWAMP.

July 5: ***Malta Stock Exchange Issues Draft Corporate Governance Code***

The Malta Stock Exchange publishes a draft code of principles for good corporate governance which, it is recommended, should be observed on a voluntary basis by both listed and public companies. The code and recommendations were drafted by a working group set up by the Malta Stock Exchange towards the end of last year.

August 31: ***Central Bank Lowers Official Interest Rates***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's central intervention rate and the discount rate by 25 basis points to 4.5%. All other official interest rates quoted by the Central Bank are similarly lowered by 25 basis points.

September 27: ***Central Bank Lowers Reserve Requirement Ratio***

The Monetary Policy Council of the Central Bank of Malta lowers the reserve requirement ratio imposed on banks by one percentage point to 4% of their deposit liabilities. The measure, which increases the banks' liquidity and thus enables them to extend more credit, is to take effect from October 15.

October 31: ***Malta Stock Exchange Issues Corporate Governance Code***

The Malta Stock Exchange publishes new bye-laws which include the code of principles of good corporate governance which the Exchange had issued on July 5 in draft form. Companies listed on the official list of the Exchange, as well as those on the alternative companies list, are encouraged to adopt the code. Listed companies are henceforth required to include a "Statement of Compliance" in their annual reports explaining to what extent they are complying with these principles and the measures they have taken to ensure compliance. Auditors are also required to report on these statements.

November 21: ***Measures Introduced in the Budget for 2002***

The Minister of Finance, in presenting the Budget Estimates for the year 2002 to Parliament, announces a number of policy measures. These include:

- **Cost of Living Increase**: A weekly increase of Lm1.50 in wages and salaries as from January 1, 2002 to compensate for the rise in the cost of living during the year to September 2001.

- **Direct Taxation**: A revision of the tax bands for married couples who file a joint declaration of their income, resulting in savings of up to Lm145 per annum in income tax. The fringe benefit value of commercial vans and vehicles used by salesmen are no longer to be subject to tax.

- **Indirect Taxation**: Excise duties on cigarettes increased. Levies on a number of imported industrial products to be scaled down further.

- **Linkage of the Price of Oil to Price Movements in International Markets**: As announced in last year's budget, the prices of oil products are to be linked to prices on international markets. Reflecting current prices, the price of leaded petrol and diesel is raised with immediate effect, while that of unleaded petrol and kerosene is lowered. As from April, these prices are to be reviewed every three months to reflect average prices on international markets in the previous three months.

- **Support Scheme for the Agriculture Sector:** A support scheme for the agricultural sector is to be introduced as levies on agricultural imports are lifted.

- **Social Security System Reform**: Social security contributions are to be applied only to healthcare and pensions. Contributions earmarked for healthcare are to be used exclusively to finance the cost of healthcare and care of the elderly, while those earmarked for pensions are to be used to finance contributory pensions and related benefits only. All other benefits are to be provided for directly from the Consolidated Fund.

- **Liberalisation of Exchange Controls**: Exchange controls are further liberalised and the relative procedures are to be speeded up. The measures include:

- An increase in the allowance for travel purposes from Lm10,000 per person per trip to Lm15,000.

- An increase in the amount of foreign currency that can be exported by residents travelling overseas to effect payment for merchandise.

- Quantitative restrictions on the amount that residents are permitted to invest in real estate overseas abolished.

- The allowance for foreign portfolio investment by residents raised from Lm30,000 per year to Lm50,000.

- Fund investment schemes (SICAVs) which collect funds in Maltese liri from residents are to be permitted to invest up to 10 per cent of such funds in foreign assets.

- The amount of foreign currency which a resident may retain in the form of cash or in a demand deposit account denominated in foreign currency with local credit institutions is raised from Lm10,000 to Lm15,000.

- The amount of foreign currency that may be placed with local credit institutions by corporate entities and retailers is raised from Lm10,000 to Lm15,000.

- Locally registered fund management companies are to be permitted to seek a listing for their collective investment schemes on recognised international capital markets.

- Locally registered financial and non-financial companies are to be permitted to seek a listing for their bonds and related securities on recognised international money/capital markets as long as the securities have a maturity period of at least one year.

- The granting of guarantees by residents in favour of non-residents is completely liberalised.

- All restrictions on the physical transfer overseas of certificates and other instruments denoting title to shares or securities are removed.

- **Foreign Investment Registration Scheme**: Maltese residents having undeclared investments abroad as at September 1, 2001 are to be given the opportunity to regularise their position until December 31, 2002. Holders of such investments who register them within this period are required to pay a one-time registration fee calculated as a percentage of the current market value of the registered investment.

November 26 : ***Central Bank Lowers Official Interest Rates***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's central intervention rate and the discount rate by 25 basis points to 4.25%. All other official interest rates quoted by the Central Bank are similarly reduced by 25 basis points.

December 14: ***European Investment Bank – Malta Sign Framework Agreement***

The European Investment Bank (EIB) and Malta sign a framework agreement in view of Malta's prospective membership of the EU. The agreement, which is similar to bilateral agreements between sovereign states, is intended to broaden the scope of loans into social areas such as education and health. It is also aimed at increasing co-operation between Malta and the EIB with a view to promoting investment in Malta.

December 27: ***Prevention of Money Laundering Act, 1994 Amended***

Parliament enacts the Prevention of Money Laundering (Amendment) Act 2001. The Act provides for the setting up of a Financial Intelligence Analysis Unit to receive and analyse reports of transactions suspected to involve money laundering.

December 27: ***Appointment of Competent Authority***

The Minister of Finance, through Legal Notices Nos 324 and 325, appoints the Malta Financial Service Centre (MFSC) as the Competent Authority for the purposes of the Financial Institutions Act, 1994 and the Banking Act, 1994, with effect from January 1, 2002.

2002

January 31 ***: Central Bank Lowers Official Interest Rates***

The Monetary Policy Council of the Central Bank of Malta lowers the Bank's central intervention rate and the discount rate by 25 basis points to 4.00%. All other official interest rates quoted by the Central Bank are similarly reduced by 25 basis points.

March 1 ***: Establishment of Financial Intelligence Analysis Unit***

As a follow-up to the amendments to the Prevention of Money Laundering Act, 1994 enacted in December 2001, a Financial Intelligence Analysis Unit is established. The Unit is to assist the Government in furthering its commitment to enhance Malta's reputation as a financial services centre by fighting criminal abuse of Malta's financial services.

August 23: ***Currency Weights of Maltese Lira Basket Updated***

The Monetary Authorities decide to revise the weights of the component currencies of the Maltese lira basket so that these should reflect current trends and likely future developments in Malta's external trade more closely. The revision leads to a larger weight being allocated to the euro and a smaller weight to the US dollar and sterling.

As a result of the review, the new weights are as follows:

Euro – 70%
Pound Sterling – 20%
US Dollar – 10%

The new fixed currency portions that serve as the basis for deriving the daily exchange rate of the Maltese lira are as follows:

Euro – 1.6937
Pound Sterling – 0.3084
US Dollar – 0.2341

September 10: ***Parliament Approves Amendments to Central Bank of Malta Act***

Parliament approves Act XVII of 2002, which provides for the regulation of certain funds and amends various financial laws and laws regulating financial institutions. Part IV of the Act provides for amendments to the Central Bank of Malta Act. The amended Act makes price stability the primary objective of the Central Bank and establishes at law the Bank's independence, giving it greater operational flexibility. At the same time, in view of the Bank's total autonomy in the formulation and implementation of monetary policy, the amended Act makes the Bank more publicly accountable. It also brings into force the complete liberalisation of interest rates and clearly defines the Bank's monetary policy function through the introduction of procedures for decision-making. It also confers on the Central Bank certain powers that were previously vested in the Minister of Finance, such as those relating to borrowing, lending and investment transactions.

The part of the Act relating to the Central Bank of Malta had to come into force on October 1, 2002 following the issue of Legal Notice 277 on September 24, 2002.

September 18: ***Official Fixing of Interbank Rates Launched***

The Central Bank of Malta launches the official fixing of interbank rates for the Maltese Lira. These rates - referred to as MIBOR (Malta Interbank Offered Rate) and MIBID (Malta Interbank Bid Rate) - provide an interest rate benchmark for both liquidity offered and bid for by credit institutions in the Maltese lira money market on an unsecured basis. They also provide reference for the pricing of money market and foreign exchange products. The interbank fixing is to be conducted in the overnight, one week, one month, two month, three month, six month, nine month and twelve month tenors. MIBOR and MIBID are to be fixed by the Central Bank every Wednesday and on the day following a change in the Central Bank's Central Intervention Rate and computed by the Bank on the basis of a simple average of all the interest rates communicated to it during the fixing session.

November 25: ***Measures Introduced in the Budget for 2003***

The Minister of Finance, in presenting the Budget Estimates for the year 2003 to Parliament, announces a number of policy measures. These include:

- **Cost of living increase:** A weekly increase in wages of Lm1.75 to compensate for the rise in the cost of living during the year to September 2002.
- **Cost of living index for pensioners:** A cost of living index for pensioners is introduced. On the basis of this index, a weekly increase of Lm1.27 is awarded to compensate for the rise in pensioners' cost of living during the year to September 2002.
- **Direct taxation:** Income tax bands are opened up from three to five, resulting in reduced income tax for both single taxpayers and married couples. Farmers are to benefit from an improved tax system.
- **Indirect taxation:** Excise duties on cigarettes to be increased. Electricity consumption and cylinder gas are to be subject to value added tax (VAT) at 5% and 15% respectively, though Enemalta Corporation is to absorb the cost. Stamp duty on immovable property intended to be used as the purchaser's sole ordinary residence is to be reduced from 5% to 3% while stamp duty on immovable property transferred between members of the same family is to be calculated on the basis of the cost of the property. Taxation on racing cars and vintage cars is reduced, and vehicles that run solely on electrically driven systems and battery operated mopeds are to be exempt from registration tax.
- **Liberalisation of exchange controls:** Exchange controls are to be further liberalised. Forthcoming measures are to be introduced in three phases: the first with effect from January 2003, the second from June 2003 and the third on EU accession. The measures to be adopted as from January 1, 2003 include:

- Full liberalisation of purchase of foreign currency for travel purposes.
- Full liberalisation of imports/exports of cash being legal tender in Malta.
- Full liberalisation of purchase of foreign currency for export by residents travelling to make payments for merchandise imports.
- Increase in the amount of foreign currency that can be exported as cash gifts or for family subsistence purposes from Lm10,000 to Lm20,000.
- Increase in the amount of the annual exemption relative to the surrender of foreign currency to authorised dealers from Lm15,000 to Lm20,000.
- The allowance for foreign portfolio investment by residents is raised from Lm50,000 per annum to Lm100,000.
- Bodies corporate and local retail outlets receiving foreign currency in cash from business activities may retain up to Lm20,000 for use in such activities.
- Bodies corporate acting as commission agents for foreign companies may receive foreign currency payments from local customers as long as they remit them within one month of receipt.
- Local credit institutions allowed to grant credit facilities in Maltese lira for a period of six months to non-residents carrying on business in Malta.
- Residents allowed to give credit to non-residents for a minimum period of six months.
- Residents allowed to borrow in foreign currency for a minimum period of six months.
- Investment funds for residents denominated in Maltese lira allowed to invest up to 15 per cent of their shareholders' funds in foreign assets.
- Companies offering financial services to local clients allowed to maintain clients' accounts with foreign banks overseas.
- Reporting obligation for travellers carrying cash exceeding Lm5,000 to be enforced.

· **Replacement of the Exchange Control Act:** The Exchange Control Act is to be replaced by an Exchange Transactions Act. This would provide the infrastructure for the total liberalisation of capital controls and for measures to deal with balance of payments crises.

November 27: ***Limit on Treasury Bill Issue Raised***

The House of Representatives approves a Resolution raising the ceiling on the amount of the Treasury bill issue from Lm200 million to Lm300 million.

December 20: ***Central Bank Lowers Official Interest Rates***

The Central Bank of Malta cuts the central intervention rate and the discount rate by 25 basis points to 3.75%. The decision is taken by the Governor, Mr Michael C Bonello, in terms of the Central Bank of Malta Act, at the end of the Monetary Policy Advisory Council meeting held that morning.

STATISTICAL TABLES

THE MALTESE ISLANDS - KEY INFORMATION, SOCIAL AND ECONOMIC STATISTICS

(as at end-Sept. 2002, unless otherwise indicated)

CAPITAL CITY	Valletta	
AREA	316 km^2	
CURRENCY UNIT	Lira - Exchange rates: Lm1 = US$2.380	
	Lm1 = Euro2.423	
CLIMATE	Average temperature (1991-2001): December - February	13.3^o C
	June - August	25.8^o C
	Average annual rainfall (1990 - 2001)	602.4mm
SELECTED GENERAL ECONOMIC STATISTICS	GDP growth at current market prices (Dec. 2001)	4.7%
	GDP per capita at current market prices (Dec. 2001)	US$9,191
	GDP per head in PPS relative to the EU-15 average (2000)*	56%
	Ratio of gross government debt to GDP (Dec. 2001)	62.1%
	Ratio of government deficit to GDP (Dec. 2001)	5.1%
	Retail price inflation	2.89%
	Ratio of exports of goods and services to GDP (Dec. 2001)	85.8%
	Ratio of current account deficit to GDP (Dec. 2001)	4.7%
	Employment Rate (June 2002)[1]	55.0%
	Unemployment rate (June 2002)[1]	6.9%
POPULATION	Total Maltese and Foreigners (Dec. 2001)	394,641
	Males	195,363
	Females	199,278
	Age composition in percent of population (Dec. 2001)	
	0 - 19	27%
	20 - 59	56%
	60 +	17%
	Average annual growth rate (1990 - 2001)	0.8%
	Density per km^2	1,249
HEALTH	Life expectancy at birth - Males (Dec. 2001)	76.1
	- Females (Dec. 2001)	80.9
	Crude birth rate, per 1000 inhabitants (Dec. 2001)	10.05
	Crude mortality rate, per 1000 inhabitants (Dec. 2001)	7.65
	Doctors per 1000 inhabitants (Dec. 2001)	3.1
EDUCATION	Combined gross enrolment ratio % (1999)	80%
	Number of schools (1999/2000)	331
	Teachers per 1000 students (2000)	93
	Adult literacy rate : % age 15 and above (2000)	92%
LIVING STANDARDS	Human Development Index : Rank out of 162 countries (2000)	30
	Mobile phone subscriptions, per 1000 inhabitants (Mar. 2002)	640
	Private motor vehicle licences per 1000 inhabitants	491
	Internet subscribers per 1000 inhabitants (Mar. 2002)	146

* Provisional

[1] Labour Force Survey, National Statistics Office.

Source: Central Bank of Malta; National Statistics Office; Ministry of Finance; Eurostat; UNDP.

List of banking institutions submitting financial information to the Central Bank of Malta for statistical reporting purposes, as at September 2002:

Deposit Money Banks
APS Bank Ltd.
Bank of Valletta plc
HSBC Bank Malta plc
Lombard Bank (Malta) plc
HSBC Home Loans (Malta) Bank Ltd.

International Banking Institutions
Akbank TAS
Disbank Malta Ltd.
Erste Bank (Malta) Ltd.
First International Merchant Bank plc
HSBC Overseas Bank (Malta) Ltd.
Investkredit International Bank Malta Ltd.
Izola Bank Ltd.
Raiffeisen Malta Bank plc
Sparkasse Bank Malta plc
Tekstil Bankasi AS
Turkiye Garanti Bankasi AS
Volksbank Malta Ltd.

TABLE 1.1 STATEMENT OF ASSETS AND LIABILITIES
CENTRAL BANK OF MALTA[1]
Liabilities

Lm thousands

End of Period	Currency Notes and Coin Issued	IMF-Related Liabilities	Deposits				Capital and Reserves	Foreign Liabilities [3]	Other Liabilities [2]
			Banks[2]	Government	Other	Total			
1990	339,519	12,103	45,762	9,631	21,833	77,226	4,500	-	131,825
1991	354,513	11,789	52,867	148	29,737	82,752	4,500	-	105,822
1992	350,611	22,987	78,498	5,664	29,727	113,889	4,500	-	145,648
1993	364,013	24,620	67,173	2,437	37,349	106,959	4,500	-	163,740
1994	379,082	24,213	73,025	1,725	52,384	233,734	41,000	-	178,292
1995	367,444	22,553	80,026	20,194	21,502	121,722	41,000	-	187,134
1996	380,246	20,159	71,627	22,785	10,516	105,328	41,000	-	177,233
1997	384,655	20,079	100,511	24,503	10,941	135,955	41,000	-	135,780
1998	390,911	19,014	115,195	48,188	13,367	176,751	93,050	-	35,265
1999	418,485	19,014	124,786	96,188	12,424	233,398	89,050	-	58,597
2000	423,188	18,574	141,270	56,161	10,393	207,825	89,050	-	45,182
2001									
Jan.	412,749	18,574	151,954	34,603	9,556	196,113	89,050	2,548	47,585
Feb.	413,863	18,574	154,375	62,982	9,617	226,974	89,050	4,274	29,743
Mar.	415,262	18,574	142,870	69,976	8,657	221,503	89,050	3,041	32,593
Apr.	421,757	18,574	150,629	51,821	9,651	212,101	89,050	2,803	29,204
May	426,201	18,574	157,537	53,558	11,009	222,103	89,050	1,486	32,187
June	429,727	18,574	129,375	51,908	10,145	191,429	89,050	2,863	34,295
July	434,373	18,574	147,841	50,620	10,537	208,998	89,050	1,100	36,185
Aug.	432,878	18,574	131,452	60,453	10,389	202,294	89,050	1,932	38,496
Sept.	429,428	18,574	138,417	61,852	13,726	213,995	89,050	3,698	43,864
Oct.	435,076	18,574	112,067	67,091	10,561	189,718	89,050	2,106	60,694
Nov.	430,082	18,574	107,284	93,988	10,164	211,436	89,050	1,030	64,788
Dec.	441,829	18,281	146,789	69,080	7,644	223,513	95,069	-	48,649
2002									
Jan.	433,286	18,281	184,034	63,202	7,147	254,383	95,069	974	40,839
Feb.	433,412	18,281	196,509	71,124	6,700	274,333	95,069	3,510	32,747
Mar.	436,995	18,281	191,255	66,683	7,131	265,069	92,150	3,427	28,674
Apr.	441,559	18,281	195,707	40,231	7,779	243,716	92,078	-	29,983
May	444,631	18,230	211,105	32,114	7,732	250,951	91,997	-	31,294
June	449,887	18,230	199,102	33,523	3,748	236,374	95,554	-	35,958
July	455,342	18,230	181,684	70,739	7,527	259,949	95,595	1,905	35,252
Aug.	453,209	18,230	235,854	34,913	7,797	278,564	95,558	-	35,244
Sept.	456,448	18,230	197,634	77,314	7,104	282,053	99,614	1,255	38,413

[1] Reclassification of data from December 1998 reflects changes in the presentation of the Central Bank of Malta's financial statements.

[2] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995). As from December 2001 term deposits by banks which were previously classified as "Other Liabilities" are classified as "Banks' Deposits".

[3] Data prior to 2001 were included with "Other Liabilities".

TABLE 1.1 STATEMENT OF ASSETS AND LIABILITIES CENTRAL BANK OF MALTA[1]

Assets

Lm thousands

End of Period	External Reserves				IMF Currency Subscription	Malta Government Securities and Advances	Fixed and Other Assets	Total Assets/ Total Liabilities
	Gold [2]	IMF-Related Assets[3]	Convertible Currencies[4]	Total				
1990	12,979	33,618	380,527	427,124	10,913	22,209	104,927	565,173
1991	6,436	37,176	366,822	410,434	10,637	58,171	80,134	559,376
1992	9,101	30,061	435,856	475,018	21,720	62,305	88,687	647,730
1993	10,215	32,827	490,358	533,400	22,917	18,077	89,438	663,832
1994	7,314	32,829	577,501	617,644	22,635	39,221	176,821	856,321
1995	3,596	34,007	471,090	508,693	21,106	67,728	142,326	739,853
1996	3,646	36,408	468,523	508,577	19,070	74,284	122,035	723,966
1997	1,311	38,912	501,379	541,602	18,988	59,163	97,716	717,469
1998	688	40,429	598,855	639,972	19,086	24,322	31,609	714,991
1999	737	35,517	704,065	740,320	34,955	6,153	37,115	818,544
2000	452	36,940	606,752	644,144	35,222	9,178	98,930	787,474
2001								
Jan.	406	36,978	593,415	630,799	35,222	14,909	85,689	766,618
Feb.	525	37,352	588,841	626,717	35,222	16,154	104,385	782,478
Mar.	524	37,445	593,656	631,625	35,222	17,603	95,573	780,023
Apr.	435	37,426	602,438	640,300	35,222	9,830	88,137	773,488
May	533	38,340	614,350	653,223	35,372	41,062	59,945	789,601
June	489	38,100	609,264	647,853	35,372	37,512	45,200	765,937
July	531	37,808	637,088	675,427	35,372	30,507	46,974	788,279
Aug.	534	37,837	649,545	687,916	35,372	19,239	40,696	783,223
Sept.	566	37,812	654,187	692,564	35,372	11,789	58,883	798,608
Oct.	527	37,822	682,931	721,281	35,372	8,024	30,542	795,218
Nov.	462	38,167	710,357	748,986	35,372	6,407	24,196	814,960
Dec.	629	37,863	721,936	760,428	35,078	5,773	26,062	827,340
2002								
Jan.	697	38,105	743,818	782,621	35,078	5,021	20,112	842,831
Feb.	596	38,218	760,396	799,211	35,078	4,715	18,347	857,351
Mar.	601	38,191	747,664	786,456	35,078	4,554	18,507	844,596
Apr.	602	37,968	732,960	771,531	35,078	2,783	16,225	825,618
May	626	37,959	734,424	773,008	35,026	14,609	14,460	837,104
June	543	37,499	742,642	780,684	35,026	4,996	15,297	836,003
July	459	37,518	775,267	813,244	35,026	3,657	14,346	866,273
Aug.	469	37,636	789,541	827,645	35,026	2,901	15,233	880,806
Sept.	481	37,451	803,928	841,860	35,026	2,349	16,777	896,013

[1] Reclassification of data from December 1998 reflects changes in Central Bank of Malta accounting policy.

[2] Includes small amounts of other precious metals.

[3] Includes IMF Reserve Position and holdings of SDRs.

[4] Valued according to the prevailing accounting policies as explained each year in the Notes to the Accounts in the Central Bank of Malta *Annual Report*.

TABLE 1.2 STATEMENT OF ASSETS AND LIABILITIES DEPOSIT MONEY BANKS [1]

Liabilities

Lm thousands

End of period	Deposits [2]				Foreign Liabilities [3]	Capital and Reserves	Other Liabilities [3]
	Demand	Savings	Time	Total			
1990	50,056	252,039	392,290	694,385	66,112	28,112	58,391
1991	53,274	308,715	415,959	777,948	92,111	34,047	59,575
1992	57,858	365,000	463,673	886,531	62,030	37,209	157,098
1993	59,612	415,807	527,211	1,002,630	105,025	39,085	190,979
1994	72,368	462,793	644,546	1,179,707	95,275	79,290	222,080
1995	79,225	510,538	740,615	1,330,378	193,422	86,768	270,170
1996	87,248	538,177	871,318	1,496,743	229,597	96,090	319,900
1997	110,486	574,352	987,497	1,672,335	226,806	112,694	339,765
1998	145,973	581,875	1,102,040	1,829,888	305,527	115,258	395,919
1999	188,460	632,675	1,217,858	2,038,993	356,384	126,829	469,904
2000	192,206	623,727	1,296,731	2,112,664	404,679	158,523	566,664
2001							
Jan.	205,665	624,893	1,321,837	2,152,395	407,805	177,039	672,988
Feb.	211,192	629,250	1,340,870	2,181,312	404,322	176,714	702,120
Mar.	212,583	619,316	1,343,006	2,174,905	417,137	176,714	690,255
Apr.	209,623	634,366	1,382,622	2,226,611	402,928	176,714	702,344
May	216,251	630,063	1,394,006	2,240,321	386,026	177,039	701,452
June	209,436	639,026	1,368,606	2,217,068	382,569	177,040	691,167
July	228,197	636,095	1,379,746	2,244,038	382,559	177,040	698,996
Aug.	214,351	650,004	1,389,291	2,253,646	394,763	177,040	747,367
Sept.	217,559	639,505	1,392,068	2,249,132	584,091	169,186	613,161
Oct.	226,097	654,631	1,407,035	2,287,763	551,510	191,044	564,518
Nov.	212,023	646,610	1,439,132	2,297,765	598,444	191,045	537,228
Dec.	212,877	667,301	1,432,338	2,312,516	600,963	190,915	566,193
2002							
Jan.	207,599	672,267	1,456,245	2,336,111	609,256	197,029	557,983
Feb.	214,182	676,139	1,481,930	2,372,251	600,704	197,029	547,507
Mar.	220,395	679,315	1,507,325	2,407,035	551,166	197,029	547,919
Apr.	211,961	684,522	1,515,711	2,412,194	530,824	197,029	550,409
May	216,325	675,164	1,539,494	2,430,983	547,120	197,029	568,066
June	222,337	673,393	1,554,980	2,450,710	551,777	197,029	549,678
July	227,318	679,608	1,574,179	2,481,105	576,353	197,029	570,560
Aug.	229,186	685,225	1,597,585	2,511,996	573,381	199,529	572,574
Sept.	238,287	690,707	1,617,784	2,546,778	600,639	199,529	571,874

[1] Includes HSBC Home Loans (Malta) Bank Ltd as from January 2001.

[2] Includes Malta Government and private sector deposits but excludes deposits belonging to non-residents (these are classified as foreign liabilities). Demand deposits are netted of uncleared effects drawn on local banks (i.e. items in the process of collection).

[3] As from September 1992, the bulk of foreign liabilities belonging to a Deposit Money Bank was transferred to its offshore bank subsidiary.

TABLE 1.2 STATEMENT OF ASSETS AND LIABILITIES DEPOSIT MONEY BANKS [1]

Assets

Lm thousands

End of Period	Cash and Deposits with Central Bank [2]	Foreign Assets	Local Lending and Bills Discounted	Local Investments	Fixed and Other Assets [2]	Total Assets/ Total Liabilities
1990	58,349	197,787	458,246	100,284	32,334	847,000
1991	62,790	246,499	480,495	147,050	26,847	963,681
1992	93,816	330,111	539,405	147,048	32,488	1,142,868
1993	83,250	378,598	627,635	212,779	35,457	1,337,719
1994	194,501	417,411	707,355	210,540	46,545	1,576,352
1995	100,638	557,355	938,406	234,379	49,960	1,880,738
1996	96,777	588,571	1,079,552	263,194	114,236	2,142,330
1997	125,183	534,756	1,205,349	365,333	120,979	2,351,600
1998	140,172	575,077	1,324,629	477,853	128,861	2,646,592
1999	169,909	615,109	1,464,365	574,198	168,529	2,992,110
2000	152,739	729,614	1,608,023	601,427	150,727	3,242,530
2001						
Jan.	167,665	741,428	1,733,354	602,689	165,091	3,410,227
Feb.	176,144	751,847	1,739,911	634,330	162,236	3,464,468
Mar.	157,672	749,183	1,793,027	634,613	124,516	3,459,011
Apr.	171,652	765,611	1,823,589	614,562	133,183	3,508,597
May	177,617	758,695	1,815,942	599,360	153,223	3,504,837
June	145,437	737,380	1,815,792	607,585	161,650	3,467,844
July	162,532	719,853	1,811,155	641,159	167,934	3,502,633
Aug.	157,031	779,222	1,806,213	648,651	181,699	3,572,817
Sept.	159,761	776,593	1,855,912	664,875	158,429	3,615,570
Oct.	146,852	745,955	1,857,538	695,562	148,928	3,594,835
Nov.	134,445	772,817	1,852,984	709,168	155,067	3,624,482
Dec.	180,312	791,844	1,866,440	663,006	168,985	3,670,587
2002						
Jan.	204,082	775,106	1,857,995	678,136	185,060	3,700,379
Feb.	216,099	783,042	1,851,058	686,937	180,355	3,717,491
Mar.	208,762	779,869	1,875,527	687,352	151,638	3,703,149
Apr.	210,393	787,860	1,867,400	670,868	153,935	3,690,456
May	229,492	804,092	1,869,243	680,513	159,857	3,743,197
June	219,129	800,505	1,858,564	690,186	180,811	3,749,194
July	203,203	859,109	1,874,360	694,623	193,753	3,825,047
Aug.	255,687	868,205	1,865,321	676,918	191,349	3,857,480
Sept.	247,575	930,015	1,897,856	689,543	153,832	3,918,820

[1] Includes HSBC Home Loans (Malta) Bank Ltd as from January 2001.

[2] As from December 2001 term deposits by banks which were previously classified as "Fixed and other Assets" are classified as " Cash and Deposits with Central Bank."

TABLE 1.3 STATEMENT OF ASSETS AND LIABILITIES OTHER BANKING INSTITUTIONS [1]

Liabilities

Lm thousands

End of Period	Deposits[2]			Foreign Liabilities	Credits from Deposit Money Banks[3]	Capital and Reserves	Other Items (Net)[3]
	Savings	Time	Total				
1990	3,658	5,442	9,100	81,587	86,998	13,814	9,210
1991	-	-	-	83,435	62,167	17,252	73,468
1992	-	-	-	177,208	88,928	18,457	75,128
1993	-	-	-	198,215	106,321	19,840	72,762
1994	-	-	-	134,841	121,845	20,751	65,956
1995	-	-	-	-	72,429	15,184	63,585
1996	-	-	-	-	75,616	16,205	64,121
1997	-	-	-	-	67,904	21,414	63,322
1998	-	-	-	-	74,600	22,846	68,329
1999	-	-	-	198	60,392	20,568	72,540
2000							
Jan.	-	-	-	198	60,211	25,120	68,307
Feb.	-	-	-	198	60,380	25,120	68,591
Mar.	-	-	-	198	62,523	25,120	70,454
Apr.	-	-	-	198	61,414	25,120	68,304
May	-	-	-	198	62,052	25,120	68,471
June	-	-	-	198	65,216	25,120	68,700
July	-	-	-	198	65,121	25,120	68,452
Aug.	-	-	-	198	65,577	25,120	69,584
Sept.	-	-	-	198	67,581	25,120	72,052
Oct.	-	-	-	-	48,779	18,918	71,997
Nov.	-	-	-	-	50,214	18,918	71,552
Dec.	-	-	-	-	52,431	20,212	69,218

[1] This Table was discontinued as from January 2001.

[2] Excludes deposits belonging to non-residents. The latter are classified as foreign liabilities. As from January 1991, deposits belonging to residents have been classified under "Other Items (Net)".

[3] In April 1991, a local financial institution issued Lm60 million worth of bonds, with the proceeds being utilised to repay credits which it had previously received from Deposit Money Banks. These securities have been classified under "Other Items (Net)".

TABLE 1.3 STATEMENT OF ASSETS AND LIABILITIES OTHER BANKING INSTITUTIONS [1]

Assets

Lm thousands

End of Period	Cash and Deposits with Central Bank	Foreign Assets	Claims on				Total Assets/ Total Liabilities
			Government	Deposit Money Banks[2]	Private and Parastatal Sectors	Total	
1990	642	89,771	5,055	702	104,539	110,296	200,709
1991	7	98,099	-	6	138,210	138,216	236,322
1992	7	116,452	-	79,259	164,003	243,262	359,097
1993	7	118,603	-	96,772	181,756	278,528	397,138
1994	1	5,072	-	134,834	203,486	338,320	343,393
1995	140	3,876	142	-	147,040	147,182	151,198
1996	65	3,297	142	3,009	149,429	152,580	155,942
1997	94	7,047	842	2,487	142,170	145,499	152,640
1998	321	7,030	5,794	2,317	150,313	158,424	165,775
1999	368	6,545	4,555	3,013	139,217	146,785	153,698
2000							
Jan.	349	6,432	4,555	3,025	139,475	147,055	153,836
Feb.	307	6,449	4,555	3,029	139,949	147,533	154,289
Mar.	317	6,324	4,555	3,102	143,997	151,654	158,295
Apr.	325	6,307	1,863	2,952	143,589	148,404	155,036
May	323	6,475	1,871	2,958	144,214	149,043	155,841
June	326	6,561	1,871	3,074	147,402	152,347	159,234
July	332	6,534	1,879	3,054	147,092	152,025	158,891
Aug.	292	6,507	2,086	3,137	148,457	153,680	160,479
Sept.	303	6,608	2,091	3,159	152,790	158,040	164,951
Oct.	314	6,459	2,471	2,958	127,492	132,921	139,694
Nov.	302	6,692	2,480	3,044	128,166	133,690	140,684
Dec.	312	6,835	2,287	3,010	129,417	134,714	141,861

[1] This Table was discontinued as from January 2001.

[2] From September 1992 up to December 1994, includes deposits of offshore subsidiaries of the Deposit Money Banks held with their parent institutions.

TABLE 1.4 STATEMENT OF ASSETS AND LIABILITIES INTERNATIONAL BANKING INSTITUTIONS

Liabilities

Lm thousands

End of Period	Resident Deposits				Foreign Liabilities	Capital and Reserves	Other Liabilities	Total Liabilities
	Demand	Savings	Time	Total				
1995	1,607	3,513	4,614	9,734	366,823	26,659	4,530	407,746
1996	1,301	4,209	7,246	12,756	616,842	33,056	5,725	668,379
1997	2,068	5,757	7,080	14,905	950,186	63,912	12,881	1,041,884
1998	2,866	7,712	11,292	21,870	1,690,832	161,866	17,382	1,891,950
1999	4,027	10,203	7,093	21,323	2,460,629	188,740	40,418	2,711,110
2000	4,715	12,403	15,230	32,348	2,820,520	194,213	59,066	3,106,146
2001								
Jan.	4,178	12,848	15,678	32,704	2,118,901	227,026	23,149	2,401,781
Feb.	4,182	11,221	16,176	31,579	2,149,272	227,421	-53,189	2,355,084
Mar.	4,527	11,289	17,126	32,942	2,376,838	199,065	-32,104	2,576,742
Apr.	5,468	13,231	15,380	34,079	2,080,792	244,929	-64,355	2,295,445
May	4,900	12,454	15,784	33,138	2,154,427	243,043	8,398	2,439,006
June	5,484	11,714	16,206	33,405	2,021,493	250,363	6,696	2,311,957
July	5,169	11,144	16,096	32,409	1,865,588	251,354	9,484	2,158,835
Aug.	5,372	10,717	17,245	33,335	1,805,889	253,410	15,758	2,108,391
Sept.	5,466	11,135	16,057	32,658	1,682,173	245,114	1,351	1,961,296
Oct.	5,026	10,954	16,367	32,347	1,821,977	245,156	5,209	2,104,688
Nov.	5,486	10,339	16,036	31,861	1,834,314	250,200	19,366	2,135,740
Dec.	5,426	11,259	16,153	32,838	2,348,815	256,729	17	2,638,400
2002								
Jan.	4,703	12,238	15,830	32,771	2,150,743	234,712	31,270	2,449,496
Feb.	5,926	14,143	15,257	35,326	2,097,070	232,695	28,620	2,393,710
Mar.	6,190	13,888	15,097	35,175	2,278,575	235,307	34,728	2,583,785
Apr.	6,209	11,856	17,472	35,537	2,279,988	236,434	37,719	2,589,678
May	6,778	12,720	16,699	36,197	2,345,702	238,268	39,907	2,660,075
June	7,653	15,085	18,784	41,521	2,319,044	240,205	30,329	2,631,100
July	4,481	17,811	18,839	41,131	2,374,221	239,003	44,778	2,699,133
Aug.	7,424	17,111	19,949	44,484	2,468,160	239,039	46,064	2,797,747
Sept.	6,432	17,195	19,603	43,230	2,450,095	239,707	45,337	2,778,369

TABLE 1.4 STATEMENT OF ASSETS AND LIABILITIES INTERNATIONAL BANKING INSTITUTIONS

Assets

Lm thousands

End of Period	Cash and Deposits with Central Bank	Foreign Assets	Local Lending and Bills Discounted	Local Investments	Fixed and Other Assets	Total Assets
1995	712	241,121	157	161,931	3,825	407,746
1996	937	462,902	37	200,098	4,405	668,379
1997	867	817,949	598	217,221	5,249	1,041,884
1998	1,236	1,652,699	996	231,290	5,729	1,891,950
1999	1,892	2,434,594	6,135	260,458	8,030	2,711,110
2000	2,078	2,819,021	6,128	267,663	11,256	3,106,146
2001						
Jan.	2,169	2,114,115	5,776	268,522	11,198	2,401,781
Feb.	1,887	2,059,090	6,819	276,347	10,940	2,355,084
Mar.	2,380	2,281,085	7,703	273,712	11,862	2,576,742
Apr.	2,194	1,993,143	8,231	279,991	11,886	2,295,445
May	2,302	2,129,162	7,983	286,874	12,685	2,439,006
June	2,103	2,006,877	7,261	278,348	17,368	2,311,957
July	2,360	1,847,609	6,655	284,848	17,362	2,158,835
Aug.	6,224	1,758,520	6,334	325,536	11,776	2,108,391
Sept.	1,469	1,797,836	7,002	141,641	13,348	1,961,296
Oct.	5,433	1,944,342	5,980	138,531	10,402	2,104,688
Nov.	1,463	1,975,832	6,122	138,420	13,904	2,135,740
Dec.	1,355	2,481,053	5,855	137,161	12,976	2,638,400
2002						
Jan.	1,467	2,282,661	6,967	146,809	11,592	2,449,496
Feb.	1,381	2,224,745	5,688	153,026	8,871	2,393,710
Mar.	1,354	2,412,549	6,523	154,654	8,705	2,583,785
Apr.	1,329	2,419,124	6,869	153,576	8,781	2,589,678
May	1,386	2,491,250	6,802	153,083	7,553	2,660,075
June	1,273	2,459,638	5,997	156,737	7,455	2,631,100
July	1,401	2,523,905	6,074	160,893	6,860	2,699,133
Aug.	1,284	2,616,453	5,861	167,203	6,945	2,797,747
Sept.	1,512	2,595,768	5,905	168,251	6,933	2,778,369

TABLE 1.5 BANKING SURVEY[1]

Lm thousands

End of Period	Domestic Credit			Net Foreign Assets			Narrow Money [4] (M1)	Quasi-Money [5]	Other Items (Net)	Total Assets/ Liabilities
	Net Claims on Government [2]	Claims on Private & Parastatal Sectors [3]	Total	Central Bank of Malta	All Banking Institutions	Total				
1990	91,177	486,841	578,018	444,763	139,860	584,623	384,438	657,223	120,980	1,162,641
1991	119,535	576,846	696,381	426,885	169,052	595,937	406,689	726,245	145,634	1,292,318
1992	121,591	638,078	759,669	492,230	198,759	690,989	408,551	830,231	206,345	1,450,658
1993	137,329	720,680	858,009	549,495	187,664	737,159	425,063	941,658	219,292	1,595,168
1994	150,632	816,586	967,218	690,434	187,106	877,540	463,547	1,106,721	208,331	1,844,758
1995	179,896	1,044,865	1,224,761	580,700	242,107	822,807	436,760	1,254,635	356,173	2,047,568
1996	239,084	1,190,485	1,429,569	554,119	208,331	762,450	454,089	1,414,215	323,715	2,192,019
1997	321,469	1,323,259	1,644,728	561,668	182,760	744,428	479,899	1,567,091	342,166	2,389,156
1998	355,996	1,459,815	1,815,811	639,991	238,447	878,438	523,628	1,698,959	471,662	2,694,249
1999	358,094	1,632,866	1,990,960	740,339	228,835	969,174	581,148	1,860,653	518,334	2,960,134
2000	411,810	1,772,432	2,184,242	640,508	330,271	970,779	594,660	1,944,221	616,140	3,155,021
2001										
Jan.	439,406	1,765,522	2,204,928	628,251	328,837	957,088	606,511	1,964,824	590,680	3,162,015
Feb.	441,098	1,774,453	2,215,551	622,443	257,343	879,786	607,904	1,988,101	499,332	3,095,337
Mar.	435,325	1,826,170	2,261,496	628,584	236,293	864,877	611,018	1,980,762	534,593	3,126,373
Apr.	442,556	1,828,686	2,271,242	637,496	275,034	912,531	616,331	2,035,578	531,864	3,183,773
May	456,814	1,816,842	2,273,656	651,737	347,405	999,142	627,624	2,042,228	602,945	3,272,798
June	462,820	1,815,505	2,278,325	644,990	340,195	985,186	626,485	2,025,935	611,090	3,263,510
July	489,148	1,809,221	2,298,369	674,327	319,316	993,643	646,991	2,032,707	612,315	3,292,013
Aug.	476,029	1,799,599	2,275,627	685,984	337,091	1,023,075	631,146	2,056,323	611,234	3,298,703
Sept.	482,907	1,849,181	2,332,088	688,866	308,165	997,031	640,547	2,046,957	641,616	3,329,120
Oct.	504,802	1,849,192	2,353,994	719,175	316,810	1,035,985	647,212	2,077,673	665,094	3,389,979
Nov.	493,221	1,842,644	2,335,866	747,956	315,891	1,063,847	630,284	2,101,328	668,100	3,399,712
Dec.	475,109	1,853,194	2,328,303	760,428	323,119	1,083,546	635,487	2,117,464	658,898	3,411,850
2002										
Jan.	495,229	1,846,718	2,341,947	781,647	297,768	1,079,415	623,393	2,146,918	651,050	3,421,362
Feb.	495,352	1,841,413	2,336,764	795,701	310,013	1,105,714	631,833	2,177,936	632,709	3,442,479
Mar.	501,527	1,862,148	2,363,674	783,029	362,677	1,145,706	643,432	2,207,746	658,202	3,509,380
Apr.	507,518	1,859,405	2,366,922	771,531	396,172	1,167,703	641,205	2,219,955	673,466	3,534,625
May	536,446	1,864,488	2,400,934	773,008	402,520	1,175,529	647,223	2,234,657	694,583	3,576,463
June	537,159	1,853,849	2,391,007	780,684	389,321	1,170,006	654,888	2,253,210	652,916	3,561,013
July	502,239	1,872,217	2,374,456	811,339	432,439	1,243,778	665,438	2,280,521	672,275	3,618,234
Aug.	519,192	1,865,274	2,384,467	827,645	443,118	1,270,763	670,279	2,310,093	674,858	3,655,230
Sept.	485,833	1,899,411	2,385,244	840,606	475,049	1,315,655	679,886	2,335,418	685,595	3,700,899

[1] Includes Central Bank of Malta, Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995). All interbank transactions are excluded. From 1995, data are on an accrual basis.

[2] Consists of Malta Government securities held by banks and bank advances to Government netted of Government deposits.

[3] These claims include domestic loans and overdrafts to private and parastatal bodies, investments in local non-Government securities, inland bills of exchange and promissory notes.

[4] Excludes Malta Government deposits, balances belonging to non-residents as well as uncleared effects drawn on Deposit Money Banks.

[5] Excludes Malta Government deposits and balances belonging to non-residents.

TABLE 1.6 MONETARY BASE AND MONETARY AGGREGATES

Lm thousands

End of Period	Monetary Base (M0)[1]			Broad Money (M3)[3]						
				Narrow Money(M1)			Quasi-Money			
	Currency Issued[2]	Banks' Deposits with the Central Bank	Total	Currency in Circulation	Demand Deposits[4]	Total	Savings Deposits	Time Deposits	Total	Total
1990	339,519	45,762	385,281	330,305	54,133	384,438	260,691	396,532	657,223	1,041,661
1991	354,513	52,867	407,380	344,342	62,347	406,689	310,302	415,943	726,245	1,132,934
1992	350,611	78,498	429,109	337,635	70,916	408,551	367,108	463,123	830,231	1,238,782
1993	364,013	67,173	431,186	353,258	71,805	425,063	415,292	526,366	941,658	1,366,721
1994	379,082	73,025	452,107	365,910	97,637	463,547	462,441	644,280	1,106,721	1,570,268
1995	367,444	80,026	447,470	351,779	84,981	436,760	510,842	743,793	1,254,635	1,691,395
1996	380,246	71,627	451,873	362,068	92,021	454,089	537,269	876,946	1,414,215	1,868,304
1997	384,655	100,511	485,166	363,765	116,134	479,899	574,125	992,966	1,567,091	2,046,990
1998	390,911	115,195	506,107	369,493	154,135	523,628	585,131	1,113,828	1,698,959	2,222,587
1999	418,485	124,786	543,271	384,593	196,555	581,148	637,402	1,223,251	1,860,653	2,441,800
2000	423,188	141,270	564,459	396,303	198,357	594,660	629,389	1,314,832	1,944,221	2,538,881
2001										
Jan.	412,749	151,954	564,702	396,210	210,301	606,511	630,511	1,334,313	1,964,824	2,571,335
Feb.	413,863	154,375	568,239	393,154	214,750	607,904	634,277	1,353,824	1,988,101	2,596,005
Mar.	415,262	142,870	558,132	395,574	215,444	611,018	623,862	1,356,900	1,980,762	2,591,780
Apr.	421,757	150,629	572,385	402,297	214,034	616,331	640,897	1,394,681	2,035,578	2,651,909
May	426,201	157,537	583,738	405,512	222,112	627,624	635,547	1,406,681	2,042,228	2,669,853
June	429,727	129,375	559,102	411,395	215,090	626,485	643,177	1,382,758	2,025,935	2,652,420
July	434,373	147,841	582,214	413,360	233,631	646,991	639,827	1,392,880	2,032,707	2,679,698
Aug.	432,878	131,452	564,329	411,542	219,604	631,146	654,199	1,402,124	2,056,323	2,687,469
Sept.	429,428	138,417	567,844	413,554	226,993	640,547	643,754	1,403,203	2,046,957	2,687,503
Oct.	435,076	112,067	547,143	415,199	232,014	647,212	657,169	1,420,504	2,077,673	2,724,886
Nov.	430,082	107,284	537,366	412,110	218,174	630,284	649,660	1,451,668	2,101,328	2,731,612
Dec.	441,829	125,789	567,618	418,887	216,600	635,487	671,449	1,446,015	2,117,464	2,752,951
2002										
Jan.	433,286	130,034	563,320	413,797	209,596	623,393	677,542	1,469,376	2,146,918	2,770,311
Feb.	433,412	127,009	560,421	414,699	217,133	631,833	683,418	1,494,518	2,177,936	2,809,769
Mar.	436,995	98,755	535,750	419,090	224,343	643,432	687,713	1,520,033	2,207,746	2,851,178
Apr.	441,559	88,207	529,766	425,139	216,065	641,205	689,406	1,530,549	2,219,955	2,861,159
May	444,631	118,605	563,236	426,219	221,004	647,223	681,099	1,553,558	2,234,657	2,881,880
June	449,887	130,602	580,489	430,740	224,148	654,888	682,086	1,571,124	2,253,210	2,908,097
July	455,342	119,184	574,526	436,081	229,357	665,438	690,231	1,590,290	2,280,521	2,945,959
Aug.	453,209	133,854	587,063	435,774	234,505	670,279	695,268	1,614,825	2,310,093	2,980,372
Sept.	456,448	100,234	556,683	437,997	241,889	679,886	700,761	1,634,657	2,335,418	3,015,304

[1] Monetary Base (M0) comprises currency issued and the banks' deposits with the Central Bank of Malta (excluding term deposits).

[2] Currency issued comprises currency in circulation and holdings of national currency by the banks in their tills.

[3] All categories of deposits included in the Broad Money (M3) figure as shown in this Table are netted of Malta Government deposits and balances belonging to non-residents.

[4] Cheques and other items in the process of collection are deducted from demand deposits. Deposits of private and parastatal entities held with the Central Bank of Malta are included.

TABLE 1.7 MONETARY POLICY OPERATIONS OF THE CENTRAL BANK OF MALTA

Lm thousands

Period	Liquidity-injection				Liquidity-absorption			
	Reverse Repos[1]			Marginal Lending Facility[2]	Term Deposits[3]			Overnight Deposit Facility[4]
	Amount Injected	Amount Matured	Amount Outstanding		Amount Absorbed	Amount Matured	Amount Outstanding	
1995	88,865	86,865	2,000	-	116,397	222,997	-	-
1996	1,275	3,275	-	-	248,800	227,900	20,900	-
1997	54,200	54,200	-	-	349,000	369,900	-	-
1998	241,300	237,300	4,000	-	173,000	173,000	-	-
1999	81,800	85,800	-	-	437,900	425,900	12,000	104,500
2000	244,900 [5]	180,200	64,700	500	271,600	283,600	-	97,662
2001	859,000	918,700	5,000	8,550	77,200	56,200	21,000	120,200
2001								
Jan.	93,600	105,300	53,000	-	4,200	4,200	-	13,000
Feb.	103,900	83,000	73,900	-	-	-	-	16,100
Mar.	151,500	162,900	62,500	5,750	-	-	-	1,300
Apr.	111,800	108,700	65,600	500	-	-	-	-
May	67,000	96,600	36,000	-	-	-	-	7,800
June	62,600	76,600	22,000	-	-	-	-	23,800
July	39,500	36,000	25,500	-	500	500	-	8,000
Aug.	72,000	76,000	21,500	2,300	-	-	-	3,800
Sept.	68,700	51,200	39,000	-	-	-	-	700
Oct.	40,000	68,000	11,000	-	15,000	-	15,000	1,400
Nov.	24,600	31,600	4,000	-	18,500	16,000	17,500	7,800
Dec.	23,800	22,800	5,000	-	39,000	35,500	21,000	36,500
2002								
Jan.	-	5,000	-	-	105,300	72,300	54,000	5,700
Feb.	-	-	-	-	128,500	113,000	69,500	42,500
Mar.	-	-	-	-	222,000	199,000	92,500	14,800
Apr.	-	-	-	-	179,800	164,800	107,500	400
May	-	-	-	-	169,000	184,000	92,500	17,800
June	-	-	-	-	156,000	180,000	68,500	15,300
July	-	-	-	-	146,500	152,500	62,500	2,000
Aug.	-	-	-	-	194,500	155,000	102,000	20,200
Sept.	-	-	-	-	195,300	199,900	97,400	12,200

[1]The Central Bank injects liquidity into the banking sector through an auction of reverse repos in the event of a liquidity shortage. The maturity period of reverse repos is 14 days.

[2]The Central Bank provides the marginal lending facility to credit institutions in order to satisfy their liquidity needs arising from normal banking business.

[3]The Central Bank accepts placements of term deposits by credit institutions, through auctions, in order to absorb excess liquidity in the banking sector. The maturity period of these term deposits is 14 days. Up to February 1997 excess liquidity in the banking system was absorbed using repos.

[4]The Central Bank provides the overnight deposit facility to credit institutions to absorb temporary liquidity excesses that could not be taken up by the market.

[5]Includes Lm28 million bilateral repos.

TABLE 1.8 DEPOSITS WITH ALL BANKING INSTITUTIONS[1]

Analysis by Ownership and Type

Lm thousands

End of Period	Resident Deposits by Owner				Resident Deposits by Type		Total Resident Deposits	Non-Resident Deposits	Total Deposits
	Personal[2]	Corporate/ Business	Government	Public Sector[3]	Maltese Lira Deposits	Foreign Currency Deposits[4]			
1990	609,524	81,398	2,158	14,847	642,867	65,060	707,927	60,241	768,163
1991	681,830	84,192	1,815	14,722	702,698	79,861	782,559	78,584	861,143
1992	766,751	107,243	2,029	15,519	793,705	97,837	891,542	118,074	1,009,616
1993	877,873	109,876	2,704	20,254	904,531	106,176	1,010,707	139,558	1,150,265
1994	1,029,646	136,222	2,211	23,963	1,069,068	122,974	1,192,042	170,199	1,362,241
1995	1,170,640	151,510	6,744	24,214	1,196,977	156,131	1,353,108	236,180	1,589,288
1996	1,322,162	160,545	8,952	26,691	1,345,124	173,226	1,518,350	363,449	1,881,799
1997	1,466,011	190,603	10,000	30,148	1,513,978	182,784	1,696,762	578,884	2,275,646
1998	1,615,056	206,658	11,839	32,788	1,674,107	192,234	1,866,341	1,076,060	2,942,401
1999	1,704,669	324,081	14,868	33,284	1,870,317	206,585	2,076,902	1,148,486	3,225,388
2000	1,786,776	322,578	13,443	40,557	1,938,548	224,808	2,163,356	1,118,099	3,281,454
2001									
Jan.	1,799,723	335,256	13,085	51,100	1,972,683	226,481	2,199,164	1,113,275	3,312,439
Feb.	1,815,129	340,860	13,203	51,242	1,991,280	229,153	2,220,433	1,061,458	3,281,892
Mar.	1,819,987	340,129	13,859	47,762	1,982,213	239,522	2,221,735	840,501	3,062,236
Apr.	1,834,216	372,532	14,263	53,608	2,013,417	261,202	2,274,619	806,022	3,080,641
May	1,840,710	359,214	13,551	69,144	2,016,908	265,712	2,282,620	814,543	3,097,163
June	1,856,663	334,341	13,059	64,451	2,004,576	263,940	2,268,516	824,462	3,092,978
July	1,862,559	346,872	14,162	62,711	2,026,348	259,959	2,286,307	828,700	3,115,007
Aug.	1,872,982	342,209	14,998	67,980	2,015,181	282,992	2,298,173	820,812	3,118,985
Sept.	1,903,474	328,965	15,125	50,102	2,024,933	272,733	2,297,666	867,076	3,164,742
Oct	1,927,122	335,148	14,541	51,218	2,054,391	273,641	2,328,032	864,094	3,192,126
Nov.	1,933,419	354,218	13,822	41,360	2,061,326	281,494	2,342,820	872,462	3,215,282
Dec.	1,955,817	351,655	12,521	31,759	2,065,730	286,021	2,351,751	946,220	3,297,971
2002									
Jan.	1,972,992	360,149	13,061	32,019	2,086,279	291,941	2,378,220	958,350	3,336,570
Feb.	1,990,957	380,304	12,761	32,624	2,118,760	297,886	2,416,646	973,442	3,390,088
Mar.	2,016,442	399,950	10,811	30,172	2,139,107	318,270	2,457,377	1,045,915	3,503,292
Apr.	2,031,223	381,613	13,087	31,184	2,146,790	310,317	2,457,107	1,067,802	3,524,909
May	2,042,051	393,722	12,876	30,785	2,173,246	306,188	2,479,434	1,124,115	3,603,549
June	2,061,453	400,501	12,324	31,445	2,194,978	310,744	2,505,722	1,096,816	3,602,538
July	2,070,868	412,767	13,583	33,447	2,214,034	316,630	2,530,664	1,080,195	3,610,858
Aug.	2,091,972	425,903	13,390	38,501	2,246,770	322,996	2,569,766	1,095,208	3,664,974
Sept.	2,108,534	437,257	13,546	44,626	2,261,408	342,556	2,603,964	1,150,338	3,754,302

[1] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995). For the purposes of this Table, deposits include uncleared effects.

[2] Includes bearer deposits.

[3] Public sector companies are entities that are subject to control by Government, control being defined as the ability to determine general corporate policy.

[4] Includes External Maltese Lira deposits.

TABLE 1.9 CURRENCY IN CIRCULATION

Lm thousands

End of Period	Currency Issued and Outstanding			Less Currency held by Banking System[2]	Currency in Circulation
	Notes[1]	Coins	Total		
1990	330,715	8,804	339,519	9,214	330,305
1991	344,933	9,580	354,513	10,171	344,342
1992	340,144	10,467	350,611	12,976	337,635
1993	352,590	11,423	364,013	10,755	353,258
1994	366,630	12,452	379,082	13,171	365,910
1995	354,109	13,335	367,444	15,665	351,779
1996	366,297	13,949	380,246	18,178	362,068
1997	369,830	14,825	384,655	20,890	363,765
1998	375,209	15,702	390,911	21,418	369,493
1999	401,999	16,486	418,485	33,893	384,593
2000	405,713	17,476	423,188	26,885	396,303
2001					
Jan.	395,514	17,235	412,749	16,539	396,210
Feb.	396,788	17,076	413,863	20,709	393,154
Mar.	398,183	17,079	415,262	19,688	395,574
Apr.	404,502	17,254	421,757	19,460	402,297
May	408,935	17,266	426,201	20,689	405,512
June	412,284	17,442	429,727	18,331	411,395
July	416,685	17,688	434,373	21,013	413,360
Aug.	415,014	17,864	432,878	21,336	411,542
Sept.	411,542	17,886	429,428	15,874	413,554
Oct.	417,163	17,913	435,076	19,877	415,199
Nov.	412,309	17,773	430,082	17,972	412,110
Dec.	423,835	17,994	441,829	22,942	418,887
2002					
Jan.	415,470	17,816	433,286	19,489	413,797
Feb.	415,524	17,888	433,412	18,712	414,699
Mar.	419,238	17,757	436,995	17,906	419,090
Apr.	423,736	17,823	441,559	16,420	425,139
May	426,695	17,936	444,631	18,412	426,219
June	431,859	18,028	449,887	19,147	430,740
July	436,944	18,398	455,342	19,261	436,081
Aug.	434,661	18,549	453,209	17,435	435,774
Sept.	437,832	18,616	456,448	18,451	437,997

[1] As from December 1998, the Notes figure in the Central Bank of Malta balance sheet, which is also shown in this Table includes demonetised notes. As a result it differs from the Notes figure in Table 1.10.

[2] For the purpose of this classification, the banking system includes the Deposit Money Banks, Other Banking Institutions (up to December 2000) and the International Banking Institutions (as from January 1995).

TABLE 1.10 DENOMINATIONS OF MALTESE CURRENCY ISSUED AND OUTSTANDING

Lm thousands

End of Period	Total Notes & Coins[1]	Currency Notes					
		Lm20	Lm10	Lm5	Lm2	Lm1	Total
1990	339,519	143,772	154,214	27,325	4,681	723	330,715
1991	354,513	147,013	165,736	26,666	4,833	685	344,933
1992	350,611	112,591	195,027	26,772	5,092	662	340,144
1993	364,013	118,509	202,241	26,036	5,170	634	352,590
1994	379,082	122,770	211,079	26,965	5,816	-	366,630
1995	367,444	121,395	201,474	25,510	5,730	-	354,109
1996	380,246	123,243	210,985	26,211	5,859	-	366,298
1997	384,655	118,144	219,736	25,853	6,099	-	369,832
1998	390,911	109,720	234,117	24,174	5,793	-	373,804
1999	418,485	108,626	259,366	27,738	6,270	-	402,000
2000	423,188	107,902	264,170	27,168	6,473	-	405,713
2001							
Jan.	412,749	107,317	256,896	24,959	6,342	-	395,514
Feb.	413,863	107,375	257,886	25,110	6,417	-	396,788
Mar.	415,262	107,553	258,584	25,533	6,513	-	398,183
Apr.	421,757	108,073	263,559	26,233	6,637	-	404,502
May	426,201	108,607	266,892	26,707	6,729	-	408,935
June	429,727	108,864	269,583	27,038	6,799	-	412,284
July	434,373	109,198	273,008	27,573	6,907	-	416,686
Aug.	432,878	108,898	271,722	27,488	6,906	-	415,014
Sept.	429,428	108,627	269,109	26,979	6,828	-	411,543
Oct.	435,076	108,798	274,517	27,071	6,777	-	417,163
Nov.	430,082	108,282	271,504	25,967	6,556	-	412,309
Dec.	441,829	108,832	280,699	27,647	6,656	-	423,834
2002							
Jan.	433,286	108,222	275,029	25,740	6,480	-	415,471
Feb.	433,412	107,981	275,327	25,752	6,464	-	415,524
Mar.	436,995	108,529	277,618	26,473	6,619	-	419,239
Apr.	441,559	109,463	280,777	26,826	6,671	-	423,737
May	444,631	110,608	282,231	27,044	6,812	-	426,695
June	449,887	110,753	286,321	27,932	6,853	-	431,859
July	455,342	111,246	289,939	28,734	7,025	-	436,944
Aug.	453,209	110,882	288,732	28,008	7,039	-	434,661
Sept.	456,448	110,773	291,621	28,424	7,014	-	437,832

[1] The denominations of coins consist of Lml, 50c (cents), 25c, 10c, 5c, 2c, 1c, 5m (mils), 3m and 2m.

TABLE 1.11 DEPOSIT MONEY BANK LIQUIDITY[1]

Lm thousands

End of Period	Liquid Assets						Ratios (%)		
	Actual		Required		Excess		Liquidity		Advances to Deposits[2]
	Total	Local	Total	Local	Total	Local	Total	Local	
1990	274,941	107,264	150,767	55,554	124,174	51,710	36.5	15.5	66.6
1991	287,661	132,913	171,073	62,197	116,588	70,716	33.6	17.1	62.8
1992	367,586	148,126	199,401	76,726	168,185	71,400	36.9	15.4	60.8
1993	364,351	183,054	240,800	88,897	123,551	94,157	30.3	16.5	62.6
1994	503,859	259,348	279,955	105,060	223,904	154,288	36.0	19.7	60.0

Period	Liquid Assets			Net Short-term Liabilities[3]	Ratios (%)	
	Actual	Required	Excess		Liquidity	Advances to Deposits[2]
1995	396,803	307,172	89,631	1,023,907	38.8	70.3
1996	498,944	346,358	152,586	1,154,527	43.2	72.0
1997	526,117	362,841	163,276	1,209,469	43.5	71.0
1998	596,848	381,630	215,218	1,272,101	46.9	72.4
1999	694,529	459,454	235,075	1,531,512	45.3	71.8
2000	680,572	491,273	189,299	1,637,576	41.6	76.1
2001						
Jan.	666,449	482,163	184,286	1,607,211	41.5	80.5
Feb.	665,232	478,375	186,857	1,594,584	41.7	79.8
Mar.	680,293	455,222	225,071	1,517,408	44.8	82.4
Apr.	734,736	468,383	266,353	1,561,277	47.1	81.9
May	784,669	472,516	312,153	1,575,054	49.8	81.1
June	786,257	480,868	305,389	1,602,892	49.1	81.9
July	820,433	490,664	329,769	1,635,547	50.2	80.7
Aug.	813,630	506,823	306,807	1,689,409	48.2	80.1
Sept.	930,243	508,223	422,021	1,694,075	54.9	82.5
Oct.	885,887	518,814	367,073	1,729,380	51.2	81.2
Nov.	894,471	524,381	370,090	1,747,938	51.2	80.6
Dec.	899,098	524,456	374,642	1,748,188	51.4	80.7
2002						
Jan.	901,722	531,712	370,010	1,772,373	50.9	79.5
Feb.	918,821	517,718	401,103	1,725,727	53.2	78.0
Mar.	927,296	528,333	398,963	1,761,109	52.7	77.9
Apr.	921,314	519,963	401,351	1,733,210	53.2	77.4
May	930,250	527,042	403,208	1,756,808	53.0	76.9
June	925,305	533,951	391,354	1,779,837	52.0	75.8
July	924,845	540,240	384,605	1,800,799	51.4	75.5
Aug.	912,654	551,614	361,040	1,838,714	49.6	74.3
Sept.	937,243	561,530	375,713	1,871,766	50.1	74.5

[1] Up to September 1990, Deposit Money Banks were required to hold an amount equivalent to 25% of their total deposit liabilities in the form of specified liquid assets. In October 1990, the required minimum total liquidity ratio was reduced to 20%. Consequently, the required minimum local liquidity ratio was reduced from 12.5% to 8% of local deposit liabilities. As from 15 November 1994, Banking Directive No. 5 established a minimum of 30% liquid asset ratio, net of deductions. Includes HSBC Home Loans (Malta) Bank Ltd as from January 2001.

[2] Includes also inland and foreign bills of exchange and promissory notes. Local uncleared effects are deducted from deposits.

[3] These consist of all short-term liabilities to banks and customers net of loans received under repurchase agreements against liquid assets, deposits pledged as security and 50% of items in course of collection.

TABLE 1.12 DEPOSIT MONEY BANK LIQUID ASSETS [1]

Lm thousands

End of Period	Cash and Deposits [2]		Other Specified Assets Maturing within 5 Years[3]		Total	
	Local	Foreign	Local	Foreign	Local	Foreign
1990	23,083	151,992	84,181	15,685	107,264	167,677
1991	24,153	122,743	108,760	32,005	132,913	154,748
1992	43,019	155,983	105,107	63,477	148,126	219,460
1993	26,353	71,611	156,701	109,686	183,054	181,297
1994	131,837	97,075	127,511	147,436	259,348	244,511

Period	Cash and Deposits with CBM[4]	Treasury Bills	Interbank Deposits	Marketable Debt Securities[5]	Total Liquid Assets
1995	21,565	30,142	61,887	283,209	396,803
1996	20,264	67,173	70,741	340,766	498,944
1997	26,359	26,791	55,462	417,505	526,117
1998	31,064	33,110	47,280	485,394	596,848
1999	50,995	75,929	67,768	499,837	694,529
2000	33,512	116,818	68,865	461,377	680,572
2001					
Jan.	45,789	81,676	56,772	482,212	666,449
Feb.	39,116	75,471	50,241	500,404	665,232
Mar.	30,541	83,762	72,165	493,825	680,293
Apr.	44,708	115,943	115,741	458,344	734,736
May	55,103	92,214	120,707	516,645	784,669
June	28,517	95,548	113,517	548,675	786,257
July	32,113	124,357	113,524	550,439	820,433
Aug.	32,962	129,387	90,447	560,834	813,630
Sept.	26,675	144,350	182,254	576,964	930,243
Oct.	42,716	170,653	70,875	601,643	885,887
Nov.	36,129	178,923	70,935	608,484	894,471
Dec.	59,754	135,845	115,894	587,605	899,098
2002					
Jan.	87,954	146,026	93,367	574,375	901,722
Feb.	98,555	158,674	102,891	558,701	918,821
Mar.	95,008	154,141	100,071	578,076	927,296
Apr.	102,057	151,428	108,269	559,560	921,314
May	118,898	151,395	91,780	568,177	930,250
June	95,934	165,667	99,732	563,972	925,305
July	93,230	174,952	93,026	563,637	924,845
Aug.	98,914	157,303	96,609	559,828	912,654
Sept.	94,113	170,272	120,130	552,728	937,243

[1] Includes HSBC Home Loans (Malta) as from January 2001.

[2] Includes cash in hand, working balances with Central Bank of Malta, money at call, net balances, savings and time deposits with other banks and other foreign investments.

[3] Includes Treasury bills and other Government securities maturing within five years, and eligible bills of exchange and promissory notes, netted of refinancing by the Central Bank of Malta.

[4] Excludes balances held as reserve deposits.

[5] Includes securities issued or guaranteed by governments, supranational institutions or other institutions, discounted on the basis of credit risk and remaining term to maturity.

TABLE 1.13 DEPOSIT MONEY BANK LOANS AND ADVANCES OUTSTANDING BY MAIN SECTOR [1]

Lm thousands

End of Period	Public Utilities	All Banking Institutions [2]	Agriculture & Fisheries	Manufacturing, Shiprepair/ Shipbuilding	Building & Construction	Hotel, Restaurant & Tourist Trades	Wholesale & Retail Trades
1990	33,726	84,481	4,484	112,838	22,341	34,841	76,991
1991	42,597	59,455	5,872	115,657	24,802	28,557	84,520
1992	29,388	84,178	5,097	125,512	27,682	28,524	95,364

End of Period	Energy & Water	Transport, Storage & Communication	All Banking Institutions [2]	Agriculture & Fisheries	Manufacturing, Shiprepair/ Shipbuilding	Building & Construction	Hotel, Restaurant & Tourist Trades	Wholesale & Retail Trades
1993	30,367	22,872	108,896	5,571	149,018	28,071	30,288	113,810
1994	32,599	24,584	118,957	7,052	161,352	43,327	38,072	137,453
1995	80,818	54,998	65,563	8,560	188,815	65,489	79,242	181,810
1996	86,861	63,644	55,393	11,472	204,026	73,590	110,271	208,301
1997	98,105	69,171	45,735	10,755	205,140	71,593	154,104	224,161
1998	106,900	76,025	58,077	10,627	195,971	82,028	170,185	243,464
1999	108,906	75,977	43,186	10,305	196,285	96,482	204,228	267,183
2000	101,083	98,396	53,591	19,004	210,971	98,362	235,703	285,419
2001								
Jan.	98,504	102,751	54,508	11,175	203,726	97,450	239,472	276,329
Feb.	96,948	115,408	55,872	11,191	201,365	98,499	239,961	278,111
Mar.	100,530	118,290	57,905	10,874	203,538	94,538	243,393	295,681
Apr.	103,494	118,725	89,220	11,116	205,815	94,965	242,297	292,366
May	97,290	118,774	93,910	10,359	203,076	88,808	239,062	296,435
June	92,710	116,955	95,179	10,546	201,723	87,824	239,451	295,911
July	89,032	115,343	96,650	10,563	201,496	84,921	239,066	295,232
Aug.	88,460	112,326	99,467	11,224	203,855	86,864	234,516	292,473
Sept.	88,592	107,127	101,027	11,781	205,689	90,685	236,658	302,352
Oct.	87,851	102,056	101,750	11,672	207,217	89,522	240,455	301,084
Nov.	87,678	107,019	101,449	10,194	203,641	85,781	238,693	297,402
Dec.	95,225	107,097	101,419	10,374	202,597	85,169	245,567	295,397
2002								
Jan.	91,870	109,772	100,356	10,206	201,793	85,928	246,248	294,250
Feb.	91,398	106,819	98,192	10,202	204,989	86,287	247,579	291,394
Mar.	91,078	109,065	103,230	10,483	207,058	89,586	248,797	309,334
Apr.	89,602	104,352	98,121	10,496	208,068	87,892	247,445	309,324
May	89,045	102,590	95,670	10,399	207,105	91,296	247,925	308,628
June	89,596	105,708	93,320	10,505	202,658	88,585	246,472	299,262
July	89,796	128,781	90,358	10,554	201,904	91,412	247,156	295,737
Aug.	89,683	126,157	88,918	10,433	200,444	90,823	239,634	290,335
Sept.	91,982	132,950	90,236	10,419	196,374	93,784	244,898	296,294

[1] Includes HSBC Home Loans (Malta)Bank Ltd as from January 2001.

[2] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995).

TABLE 1.13 DEPOSIT MONEY BANK LOANS AND ADVANCES OUTSTANDING BY MAIN SECTOR[1] *(Continued)*

Lm thousands

End of Period	Personal				All Other	Total Local Lending	Foreign Lending	Total
	House Purchases	Consumer Durable Goods	Other	Total				
1990	13,448	1,827	14,470	29,745	53,836	453,283	2,547	455,830
1991	12,626	2,296	28,086	43,008	67,727	472,195	8,116	480,311
1992	15,374	3,577	34,917	53,868	79,704	529,317	9,850	539,167

End of Period	Personal				Other[3] Services	All Other	Total Local Lending	Foreign Lending	Total
	House Purchases	Consumer Durable Goods[2]	Other	Total					
1993	16,055	3,539	38,791	58,385	16,612	62,787	626,677	5,925	632,602
1994	35,531	8,977	19,547	64,055	22,331	56,093	705,874	6,344	712,218
1995	46,424	22,882	21,951	91,256	36,670	82,438	935,659	13,546	949,205
1996	60,553	32,934	29,163	122,650	46,113	95,315	1,077,636	13,970	1,091,606
1997	78,443	35,966	25,988	140,397	54,456	113,555	1,187,172	14,340	1,201,512
1998	91,733	44,627	26,324	162,684	60,829	125,524	1,292,314	5,205	1,297,519
1999	121,019	49,883	39,371	210,273	79,946	133,518	1,426,289	7,418	1,433,707
2000	133,312	51,423	52,028	243,833	65,828	161,752	1,573,942	8,956	1,582,898
2001									
Jan.	263,042	51,159	65,703	384,626	74,670	156,779	1,699,990	11,273	1,711,263
Feb.	261,723	52,918	61,243	382,590	72,874	155,014	1,707,833	10,727	1,718,560
Mar.	272,563	52,981	64,056	397,730	87,587	150,937	1,761,003	10,666	1,771,669
Apr.	274,074	52,832	65,040	398,722	84,029	151,652	1,792,401	11,883	1,804,284
May	277,255	52,241	67,858	404,084	76,609	157,207	1,785,615	8,728	1,794,343
June	281,761	51,256	70,253	410,101	73,183	162,606	1,786,189	11,894	1,798,083
July	285,560	50,718	71,103	413,801	76,020	159,814	1,781,938	12,232	1,794,170
Aug.	287,997	50,230	70,960	415,430	69,088	164,117	1,777,819	12,451	1,790,270
Sept.	295,721	49,842	81,582	427,145	72,700	184,124	1,827,880	8,026	1,835,906
Oct.	299,619	49,926	86,248	435,793	72,351	180,040	1,829,791	14,985	1,867,390
Nov.	302,801	49,487	84,112	436,399	78,615	179,135	1,826,006	17,389	1,843,395
Dec.	306,722	48,704	87,016	442,442	75,556	179,338	1,840,181	20,444	1,860,625
2002									
Jan.	309,170	47,685	87,161	444,016	70,151	177,807	1,832,397	20,031	1,852,428
Feb.	312,385	46,956	85,997	445,338	66,413	177,544	1,826,155	21,038	1,847,193
Mar.	320,532	46,464	88,677	455,673	71,267	155,733	1,851,304	22,476	1,873,780
Apr.	323,785	46,341	87,979	458,105	75,190	154,913	1,843,508	23,296	1,866,804
May	328,423	46,091	89,332	463,846	74,737	154,758	1,845,999	24,799	1,870,798
June	333,271	46,148	90,017	469,436	74,622	155,876	1,836,040	17,403	1,853,443
July	337,479	45,998	90,982	474,459	78,616	143,526	1,852,299	16,424	1,868,723
Aug.	343,263	44,964	90,260	478,487	82,729	146,634	1,844,277	15,884	1,860,161
Sept.	351,507	43,795	95,206	490,508	83,340	146,275	1,877,060	21,470	1,898,530

[1] Includes HSBC Home Loans (Malta) Bank Ltd as from January 2001.

[2] Includes also lending for the construction, modernisation or extension of dwellings.

[3] Includes professional, repair and maintenance services.

TABLE 1.14 OTHER BANKING INSTITUTION LOANS AND ADVANCES OUTSTANDING BY MAIN SECTOR [1]

Lm thousands

End of Period	Public Utilities	All Banking Institutions	Agriculture & Fisheries	Manufacturing, Shiprepair/ Shipbuilding	Building & Construction	Hotel, Restaurant & Tourist Trades	Wholesale & Retail Trades
1990	-	-	471	14,102	-	14,797	1,595
1991	6,533	-	202	17,949	776	21,897	3,023
1992	13,539	-	182	20,418	1,428	27,114	3,520

End of Period	Energy & Water	Transport, Storage & Communication	All Banking Institutions	Agriculture & Fisheries	Manufacturing, Shiprepair/ Shipbuilding	Building & Construction	Hotel, Restaurant & Tourist Trades	Wholesale & Retail Trades
1993	-	23,534	-	302	23,590	-	33,816	5,723
1994	6,599	29,739	-	436	21,171	-	38,364	7,754
1995	-	17,213	-	379	9,629	539	25,040	2,622
1996	-	16,698	-	360	8,759	687	24,102	2,718
1997	-	9,496	-	463	8,088	612	20,385	2,526
1998	-	8,220	-	476	8,144	515	20,195	2,396
1999	-	4,409	2,074	460	8,084	373	16,655	1,945
2000								
Jan.	-	4,409	2,046	437	8,130	356	16,552	1,906
Feb.	-	4,381	2,043	433	8,120	355	16,535	1,933
Mar.	-	3,922	2,030	445	8,368	395	16,364	2,004
Apr.	-	3,922	1,992	383	7,765	394	15,879	1,993
May	-	3,922	2,035	379	7,992	392	15,788	1,958
June	-	5,203	2,051	379	7,991	373	15,726	1,926
July	-	3,891	2,025	379	7,600	372	15,522	1,882
Aug.	-	3,861	2,009	375	7,660	297	15,388	1,829
Sept.	-	3,962	1,992	385	7,458	262	15,209	1,871
Oct.	-	-	1,949	22	1,098	175	3,064	220
Nov.	-	-	1,982	23	1,094	175	3,020	226
Dec.	-	-	2,034	22	1,257	174	2,723	213

[1] This Table was discontinued as from January 2001.

TABLE 1.14 OTHER BANKING INSTITUTION LOANS AND ADVANCES OUTSTANDING BY MAIN SECTOR[1] *(Continued)*

Lm thousands

End of Period	Personal				All Other	Total Local Lending	Foreign Lending	Grand Total
	House Purchases [2]	Consumer Durable Goods	Other	Total				
1990	63,880	22	133	64,035	7,978	102,978	70,152	173,130
1991	71,801	16	139	71,956	15,026	137,362	81,114	218,476
1992	78,913	11	168	79,092	17,542	162,835	87,187	250,022

End of Period	Personal				Other Services [3]	All Other	Total Local Lending	Foreign Lending[4]	Grand Total
	House Purchases [2]	Consumer Durable Goods	Other	Total					
1993	82,830	16	120	82,966	2,712	7,063	179,706	79,287	258,993
1994	84,500	16	68	84,584	4,822	7,957	201,426	5,040	206,466
1995	86,135	38	72	86,245	1,841	3,272	146,937	86,619	233,556
1996	90,613	62	142	90,817	1,924	2,810	148,912	245,450	394,362
1997	95,247	52	130	95,429	1,987	3,103	142,089	447,503	589,592
1998	103,321	77	88	103,486	1,741	2,946	148,119	606,667	754,786
1999	103,070	92	190	103,352	1,504	4,767	143,623	815,458	959,081
2000									
Jan.	103,514	96	273	103,882	1,467	5,700	144,885	812,518	957,403
Feb.	104,021	91	415	104,527	1,369	6,190	145,886	812,948	958,834
Mar.	117,464	74	2,486	108,877	1,382	5,538	149,325	780,357	929,682
Apr.	120,650	62	3,376	109,841	1,352	5,617	149,138	800,690	949,828
May	109,547	88	1,074	110,709	1,283	5,506	149,964	807,963	957,927
June	111,388	84	1,386	112,858	1,262	4,856	152,625	728,149	880,774
July	112,442	80	1,683	114,204	1,242	4,898	152,015	893,479	1,045,494
Aug.	113,845	75	2,039	115,959	1,212	5,298	153,888	901,224	1,055,112
Sept.	117,464	74	2,486	120,024	1,219	5,515	157,897	883,621	1,041,518
Oct.	118,853	68	2,884	121,805	85	5,883	134,301	893,902	1,028,203
Nov.	119,376	66	3,103	122,545	84	4,742	133,891	930,404	1,064,294
Dec.	120,650	62	3,376	124,088	84	4,400	134,995	950,923	1,085,919

[1] This Table was discontinued as from January 2001.

[2] Includes also lending for the construction, modernisation or extention of dwellings.

[3] Includes professional, repair and maintenance services.

[4] As from January 1995, includes lending by International Banking Institutions.

TABLE 1.15 LOANS AND ADVANCES OUTSTANDING TO THE PRIVATE AND PUBLIC SECTORS BY CATEGORY[1]

Lm thousands

End of Period	Energy and Water		Transport, Storage and Communication		Agriculture and Fisheries		Manufacturing	
	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector
1996	808	86,053	15,512	64,830	11,615	217	131,073	17,599
1997	928	97,177	17,045	61,622	11,030	188	131,061	21,707
1998	1,080	105,820	31,877	52,368	10,949	154	132,176	24,158
1999	910	107,996	33,107	47,279	10,765	-	134,583	22,999
2000	492	100,591	46,358	52,038	19,026	-	154,127	11,204
2001								
Mar.	506	100,024	60,143	58,147	10,874	-	141,825	16,216
June	509	92,201	60,894	56,061	10,546	-	134,976	22,215
Sept.	703	87,889	50,535	56,592	11,781	-	135,840	24,322
Dec.	931	94,294	48,637	58,460	10,357	17	136,204	23,421
2002								
Mar.	944	90,134	43,646	65,419	10,459	24	137,214	25,095
June	765	88,831	46,788	58,920	10,496	9	139,198	19,425
Sept.	792	91,190	44,291	88,657	10,397	21	129,804	21,914

End of Period	Shipbuilding and Shiprepair	Building and Construction		Hotel, Restaurant and Tourist Trades		Wholesale and Retail Trades	
	Private /Public Sector	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector
1996	64,113	71,200	3,077	131,948	2,425	210,967	52
1997	60,460	69,231	2,974	171,964	2,525	226,681	6
1998	47,781	79,743	2,800	188,312	2,068	245,854	6
1999	46,787	94,189	2,666	218,053	2,830	269,119	9
2000	46,897	95,986	2,550	234,173	4,253	285,627	5
2001							
Mar.	46,578	91,952	2,586	239,095	4,298	295,681	-
June	45,633	85,824	2,000	235,285	4,166	295,911	-
Sept.	46,587	90,685	-	232,862	3,796	301,718	634
Dec.	43,221	85,169	-	241,877	3,690	295,002	395
2002							
Mar.	45,815	89,581	5	245,204	3,593	309,165	169
June	45,040	88,575	10	242,891	3,581	299,005	257
Sept.	45,640	93,768	9	241,103	3,739	295,880	339

End of Period	Personal	Other Services		All Other		Total Local Lending		
		Private Sector	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector	Total
1996	213,467	37,851	10,186	93,483	4,642	921,650	249,505	1,171,155
1997	235,826	47,722	8,721	111,191	5,467	1,026,212	257,314	1,283,526
1998	266,170	54,748	7,822	124,735	3,735	1,139,090	243,266	1,382,356
1999	313,625	72,137	9,313	136,060	2,225	1,285,929	238,723	1,524,652
2000	367,921	60,861	5,051	163,447	2,705	1,431,641	221,671	1,653,312
2001								
Mar.	397,730	82,336	5,251	152,591	2,809	1,475,319	233,323	1,708,642
June	410,101	65,788	7,395	163,616	3,058	1,465,624	230,555	1,696,179
Sept.	427,145	65,111	7,589	179,011	6,485	1,497,898	231,387	1,729,285
Dec.	442,442	65,936	9,620	174,853	5,778	1,503,702	236,602	1,740,304
2002								
Mar.	455,673	62,215	9,052	151,237	6,459	1,507,649	243,454	1,751,103
June	469,436	66,198	8,424	150,957	6,319	1,516,760	228,365	1,745,125
Sept.	490,452	75,401	7,876	136,473	11,104	1,520,767	268,083	1,788,850

[1] Loans and advances extended by Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995). Public sector companies comprise entities that are subject to control by Government, control being defined as the ability to determine general corporate policy.

TABLE 1.16 DEPOSIT MONEY BANK LOANS AND ADVANCES CLASSIFIED BY SIZE AND INTEREST RATES[1]

Lm thousands

End of Period		Size of Loans and Advances [2]				
		Up to 10,000	Over 10,000 to 100,000	Over 100,000 to 500,000	Over 500,000	Total
1991	Amount	50,248	107,285	90,773	232,005	480,311
	Interest Rate	7.25	7.66	7.46	6.66	7.09
1992	Amount	56,552	125,587	99,836	257,192	539,167
	Interest Rate	7.24	7.71	7.55	6.62	7.11
1993	Amount	62,835	134,049	117,056	318,662	632,602
	Interest Rate	7.49	7.92	7.79	6.53	7.15
1994	Amount	75,537	156,107	133,338	347,239	712,218
	Interest Rate	7.60	7.99	7.90	6.61	7.26
1995	Amount	97,779	213,428	210,382	427,616	949,205
	Interest Rate	7.89	8.06	7.96	6.89	7.49
1996	Amount	109,048	249,555	237,482	493,517	1,091,606
	Interest Rate	8.03	8.35	8.34	7.13	7.76
1997	Amount	102,780	279,156	249,940	555,127	1,201,512
	Interest Rate	7.95	8.40	8.47	7.32	7.87
1998	Amount	111,377	325,711	282,194	578,241	1,297,519
	Interest Rate	8.01	8.37	8.51	7.38	7.93
1999	Amount	158,395	414,316	324,357	664,467	1,433,707
	Interest Rate	7.43	7.58	7.61	6.44	7.09
2000	Amount	177,667	426,915	335,629	642,687	1,582,898
	Interest Rate	7.38	7.31	7.29	6.46	6.97
2001						
Mar.	Amount	260,229	492,134	342,367	676,939	1,771,669
	Interest Rate	7.28	7.54	7.72	6.56	7.16
June	Amount	219,371	471,836	348,323	758,553	1,798,083
	Interest Rate	7.14	7.38	7.64	6.06	6.84
Sept.	Amount	222,928	487,794	351,257	773,956	1,835,906
	Interest Rate	6.93	7.16	7.49	5.81	6.62
Dec.	Amount	222,816	497,299	351,893	788,641	1,860,625
	Interest Rate	6.70	6.87	7.22	5.50	6.33
2002	Interest Rate					
Mar.	Amount	224,502	511,821	355,625	781,832	1,873,780
	Interest Rate	6.47	6.44	7.01	5.24	6.05
June	Amount	226,539	523,769	353,688	749,447	1,853,443
	Interest Rate	6.47	6.37	6.97	5.24	6.04
Sept.	Amount	228,414	535,827	356,907	777,382	1,898,207
	Interest Rate	6.43	6.32	6.98	5.23	6.01

[1] For the purpose of this classification, these include loans and advances extended to residents and non-residents in domestic and foreign currencies. Interest rates are weighted averages of each size group. Includes HSBC Home Loans (Malta) Bank Ltd as from January 2001.

[2] Figures quoted in heading are actual figures, while those in the rest of the Table are in Lm thousands as indicated.

TABLE 1.17 OTHER BANKING INSTITUTION LOANS AND ADVANCES CLASSIFIED BY SIZE AND INTEREST RATES[1]

Lm thousands

End of Period		Size of Loans and Advances [2]				
		Up to 10,000	Over 10,000 to 100,000	Over 100,000 to 500,000	Over 500,000	Total
1991	Amount	61,280	21,205	25,115	110,876	218,476
	Interest Rate	6.94	7.50	7.80	8.33	7.80
1992	Amount	67,581	25,883	25,648	130,910	250,022
	Interest Rate	6.96	7.57	7.68	7.53	7.39
1993	Amount	71,826	26,920	27,975	132,272	258,993
	Interest Rate	7.01	7.79	7.32	6.06	6.64
1994	Amount	72,419	26,430	23,598	84,019	206,466
	Interest Rate	7.01	7.83	7.99	7.27	7.33
1995	Amount	71,733	23,374	11,961	40,410	147,478
	Interest Rate	7.02	7.77	8.01	7.01	7.22
1996	Amount	72,239	27,013	11,213	38,914	149,379
	Interest Rate	7.01	7.83	8.14	7.01	7.24
1997	Amount	72,449	30,590	10,607	28,214	141,860
	Interest Rate	7.02	7.79	8.10	7.09	7.28
1998	Amount	73,437	37,087	11,131	25,775	147,430
	Interest Rate	7.03	7.72	8.10	7.15	7.31
1999	Amount	68,447	56,062	8,418	18,349	137,738
	Interest Rate	6.40	6.65	7.61	6.58	6.58
2000						
Mar.	Amount	68,399	45,874	8,578	19,639	142,491
	Interest Rate	6.40	6.80	7.58	6.53	6.62
June	Amount	68,215	49,517	8,402	19,759	145,893
	Interest Rate	6.41	6.73	7.51	6.51	6.59
Sept.	Amount	68,447	56,062	8,418	18,349	151,302
	Interest Rate	6.40	6.65	7.61	6.58	6.58
Dec.	Amount	68,040	57,032	1,660	2,607	129,366
	Interest Rate	6.40	6.52	8.37	7.33	6.50

[1] This Table was discontinued as from January 2001. For the purpose of this classification, these include loans and advances extended to residents and non-residents in domestic and foreign currencies. Interest rates are weighted averages of each size group.

[2] Figures quoted in headings are actual figures, while those in the rest of the Table are in Lm thousands as indicated.

TABLE 1.18 FINANCIAL MARKET RATES

	1995	1996	1997	1998	1999	2000	2001				2002		
							Mar.	June	Sept.	Dec.	Mar.	June	Sept.
INTEREST RATES [1]													
Central Bank													
Discount Rate	5.50	5.50	5.50	5.50	4.75	4.75	4.75	4.75	4.50	4.25	4.00	4.00	4.00
Central Intervention Rate [2]	-	-	-	5.45	4.75	4.75	4.75	4.75	4.50	4.25	4.00	4.00	4.00
Money Market Interventions													
Term Deposit Rate [3]	4.94	5.01	5.22	5.43	4.70	4.72	4.73	4.73	4.74	4.22	3.95	3.95	3.95
Reverse Repo Rate [3]	5.50	5.40	5.50	5.50	4.80	4.80	4.80	4.80	4.55	4.29	4.05#	4.05#	4.05#
Standby (Collateralised) Loan Facility [4]	6.00	6.00	6.00	6.00	5.30	5.30	5.30	5.30	5.05	4.80	4.55	4.55	4.55
Overnight Deposit Facility [5]	2.50	-	-	-	1.80	1.80	1.80	1.80	1.55	1.30	1.05	1.05	1.05
Reserve Requirements Remuneration	2.50	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70
Interbank Market Offered Rates [6]													
Overnight	-	-	4.95	5.50	4.75	4.75	4.44	4.75	4.50	3.65	3.50	3.92*	3.97
1 week	-	-	5.26	5.56	4.74	4.78	4.77	4.76	4.50	4.25	3.97	3.99	3.99
1 month	-	-	5.38	5.70	4.75	4.90	4.87*	4.87*	4.73*	4.58*	4.15*	4.13*	4.16*
3 month	-	-	5.51	5.95	5.27	4.92*	4.93*	4.93*	4.93*	4.82*	4.35*	4.33*	4.25*
Deposit Money Banks [7]													
Weighted Average Deposit Rate	4.00	4.24	4.39	4.42	4.32	4.17	4.20	4.18	4.12	3.96	3.81	3.72	3.56
Current	0.16	0.42	1.37	1.49	1.11	1.32	1.33	1.11	0.90	1.48	1.05	1.10	1.27
Savings	3.00	3.01	3.02	3.04	2.81	2.52	2.58	2.59	2.47	2.22	1.98	1.97	2.00
Time	5.01	5.29	5.35	5.35	5.43	5.25	5.25	5.26	5.25	4.98	5.00	4.78	4.47
Weighted Average Lending Rate	7.49	7.93	8.04	8.08	7.28	7.23	7.08	7.01	6.75	6.50	6.28	6.28	6.25
Government Securities													
Treasury Bills [8]													
1 month	-	5.00	5.19	5.43	5.05	4.85	4.86	4.86	4.85	4.80	4.10	4.10	4.00
3 month	4.94	5.01	5.25	5.49	4.95	4.90	4.95	5.04	5.04	4.53	4.04	4.01	3.96
6 month	5.16	5.30	5.30	5.50	4.97	4.94	5.02	5.08	5.09	5.04	4.75	4.14	4.10
1 year	5.34	5.40	5.40	5.50	5.12	5.03	5.06	5.08	5.08	5.08	4.40	4.40	4.40
Government Stocks [9]													
1 year	5.00	-	-	-	-	4.99	5.06	5.01	5.04	4.47	4.15	4.40	4.10
5 year	6.60	6.65	6.82	5.80	5.46	5.33	5.50	5.49	5.46	5.40	5.56	5.39	5.32
10 year	7.08	7.23	7.26	6.00	5.55	5.99	6.09	6.07	6.21	6.15	5.90	5.76	5.66
15 year		7.49	7.62	6.47	6.03	6.39	6.44	6.49	6.49	6.44	6.14	6.07	5.93
20 year	-	-	-	6.86	6.14	6.60	6.60	6.60	6.60	6.55	6.40	-	-
MALTA STOCK EXCHANGE SHARE INDEX	1000	1004	1050	1211	3278	3376	2818	2500	2257	2200	2118	1992	1809

[1] End of period rates in percentage per annum.

[2] Instituted on 30 April 1998 with a maximum injection ceiling and an absorption floor of +5 and -5 basis points respectively. As from June 1999, any change in the central intervention rate is automatically matched by a similar change in the discount rate.

[3] From July 1999 the tenor of instruments auctioned by the Bank was increased from 7 days to 14 days. Until April 2002, the Central Bank of Malta injected rate was referred to as repo rate. As from May 2002, it is referred to as reverse repo rate.These rates are based on the actual rates dealt in as at the end of the month. When no auctions of reverse repos or term deposits are held, rates indicated by the # sign reflect the corridor (plus or minus 5 basis points) linked to the Central Intervention Rate.

[4] Offered in terms of Section 15(i)k of the Central Bank of Malta Act, 1967.

[5] As from 15 July 1996, the Central Bank of Malta ceased paying interest on overnight call account balances. An overnight deposit facility was reintroduced on 9 September 1999.

[6] In the absence of dealing in the interbank market, rates indicated by an asterisk (*) represent the average of fixing rates compiled by the Central Bank of Malta.These are the rates at which credit institutions are prepared to deal in the local interbank market.

[7] Rates on resident Maltese lira deposits and loans extended to residents in local currency. The weighted average rate on time deposits is calculated on time deposits with a one year maturity.

[8] Treasury bill primary market weighted average yields. Treasury bills are classified by original maturity.

[9] Gross redemption yields on indicative stocks. Periods specified refer to remaining term to maturity.

TABLE 1.19 NET FOREIGN ASSETS OF THE BANKING SYSTEM [1]

Lm thousands

End of Period	Central Bank of Malta [2]						Government & Parastatal Companies[5] (B)	Total (A+B)
	Foreign Assets				Foreign Liabilities	Net (A)		
	Gold [3]	Convertible Currencies	IMF-Related Assets [4]	Total Foreign Assets				
1990	12,979	380,527	33,618	427,124	-	427,124	17,639	444,763
1991	6,437	366,822	37,175	410,434	-	410,434	16,451	426,885
1992	9,101	435,857	30,061	475,019	-	475,019	17,211	492,230
1993	10,216	490,358	32,827	533,401	-	533,401	16,094	549,495
1994	7,314	577,501	32,829	617,644	-	617,644	72,790	690,434
1995	3,596	471,090	34,007	508,693	-	508,693	72,007	580,700
1996	3,646	468,523	36,408	508,577	-	508,577	45,542	554,119
1997	1,311	501,379	38,912	541,602	-	541,602	20,066	561,668
1998	688	598,874	40,429	639,991	-	639,991	-	639,991
1999	737	704,084	35,517	740,339	-	740,339	-	740,339
2000	452	606,771	36,940	644,163	3,655	640,508	-	640,508
2001								
Jan.	406	593,415	36,978	630,799	2,548	628,251	-	628,251
Feb.	525	588,841	37,352	626,717	4,274	622,443	-	622,443
Mar.	524	593,656	37,445	631,625	3,041	628,584	-	628,584
Apr.	435	602,438	37,426	640,300	2,803	637,496	-	637,496
May	533	614,350	38,340	653,223	1,486	651,737	-	651,737
June	489	609,264	38,100	647,853	2,863	644,990	-	644,990
July	531	637,088	37,808	675,427	1,100	674,327	-	674,327
Aug.	534	649,545	37,837	687,916	1,932	685,984	-	685,984
Sept.	566	654,187	37,812	692,564	3,698	688,866	-	688,866
Oct.	527	682,931	37,822	721,281	2,106	719,175	-	719,175
Nov.	462	710,357	38,167	748,986	1,030	747,956	-	747,956
Dec.	629	721,936	37,863	760,428	-	760,428	-	760,428
2002								
Jan.	697	743,818	38,105	782,621	974	781,647	-	781,647
Feb.	596	760,396	38,218	799,211	3,510	795,701	-	795,701
Mar.	601	747,664	38,191	786,456	3,427	783,029	-	783,029
Apr.	602	732,960	37,968	771,531	-	771,531	-	771,531
May	626	734,424	37,959	773,008	-	773,008	-	773,008
June	543	742,642	37,499	780,684	-	780,684	-	780,684
July	459	775,267	37,518	813,244	1,905	811,339	-	811,339
Aug.	469	789,541	37,636	827,645	-	827,645	-	827,645
Sept.	481	803,928	37,451	841,860	1,255	840,606	-	840,606

[1] On accrual basis.

[2] Up to 1998, comprised the position of the Monetary Authorities, the latter including the Central Bank and small amounts of Treasury balances while as from 1998 comprising only the foreign assets of the Central Bank.

[3] Includes small amounts of other precious metals.

[4] Include IMF reserve position and holdings of SDRs.

[5] Comprising customers' foreign currency deposits and sinking funds which are held with the Central Bank of Malta, and other official funds are held with the Treasury.

TABLE 1.19 NET FOREIGN ASSETS OF THE BANKING SYSTEM [1]
(Continued)

Lm thousands

End of Period	Deposit Money Banks [2]			Total (A+B+C)	International Banking Institutions [2]			Grand Total (A+B+C+D)
	Assets	Liabilities	Net (C)		Assets	Liabilities	Net (D)	
1990	287,558	147,699	139,859	584,622	-	-	-	584,622
1991	344,598	175,546	169,052	595,937	-	-	-	595,937
1992	435,226	236,467	198,759	690,989	-	-	-	690,989
1993	487,521	299,857	187,664	737,159	-	-	-	737,159
1994	415,887	228,781	187,106	877,540	-	-	-	877,540
1995	566,204	341,373	224,831	805,531	236,148	218,872	17,276	822,807
1996	596,128	410,163	185,965	740,084	458,642	436,276	22,366	762,450
1997	544,672	413,917	130,755	692,423	815,080	763,075	52,005	744,428
1998	607,354	518,557	88,797	728,788	1,627,452	1,477,802	149,650	878,438
1999	661,557	605,673	55,884	796,223	2,377,807	2,204,857	172,951	969,174
2000	816,746	690,013	126,733	767,241	2,738,724	2,535,186	203,538	970,779
2001								
Jan.	820,334	692,050	128,284	756,535	2,035,209	1,834,656	200,553	957,088
Feb.	830,697	695,791	134,906	757,349	1,980,240	1,857,803	122,437	879,786
Mar.	838,703	716,688	122,015	750,599	2,191,565	2,077,287	114,278	864,877
Apr.	855,136	707,105	148,031	785,527	1,903,618	1,776,615	127,003	912,531
May	852,812	700,611	152,202	803,938	2,035,045	1,839,842	195,203	999,142
June	833,667	693,126	140,541	785,531	1,910,590	1,710,936	199,654	985,186
July	810,241	692,997	117,244	791,571	1,757,221	1,555,150	202,072	993,643
Aug.	823,922	700,494	123,428	809,413	1,713,820	1,500,158	213,663	1,023,075
Sept.	816,784	715,148	101,636	790,502	1,757,645	1,551,116	206,529	997,031
Oct.	784,898	677,554	107,344	826,519	1,905,399	1,695,933	209,466	1,035,985
Nov.	811,613	723,783	87,830	835,786	1,937,036	1,708,975	228,061	1,063,847
Dec.	828,701	722,868	105,833	866,261	2,444,196	2,226,910	217,286	1,083,546
2002								
Jan.	811,690	740,934	70,756	852,403	2,246,077	2,019,065	227,012	1,079,415
Feb.	815,240	732,960	82,280	877,981	2,192,547	1,964,814	227,733	1,105,714
Mar.	810,887	682,554	128,333	911,362	2,381,531	2,147,187	234,344	1,145,706
Apr.	818,601	659,929	158,672	930,203	2,388,383	2,150,883	237,500	1,167,703
May	834,071	674,967	159,104	932,112	2,461,271	2,217,855	243,416	1,175,529
June	828,067	675,274	152,793	933,477	2,432,076	2,195,547	236,529	1,170,006
July	883,849	700,416	183,433	994,772	2,499,165	2,250,158	249,007	1,243,778
Aug.	888,006	697,475	190,532	1,018,177	2,596,652	2,344,066	252,586	1,270,763
Sept.	948,197	724,853	223,344	1,063,950	2,577,586	2,325,881	251,705	1,315,655

[1] As from 1995, data are on accrual basis.

[2] For the purposes of this Table only, the amounts of HSBC Overseas Bank (Malta) Ltd. and Bank of Valletta International Ltd. (up to August 2001), i.e. the offshore subsidiaries of HSBC Bank Malta plc and Bank of Valletta plc respectively, are being classified with the Deposit Money Banks and not with the International Banking Institutions, as shown in other tables. Includes data belonging to the Other Banking Institutions' sector up to December 2000.

TABLE 2.1 GOVERNMENT REVENUE AND EXPENDITURE

Lm thousands

Period	Revenue			Expenditure			Deficit (-) or Surplus	Borrowing			Residual
	Ordinary[1]	Grants	Total	Ordinary[1,2]	Capital[3]	Total		Local Loans[5]	Foreign Loans	Total	
1990	329,890	7,678	337,567	273,415	108,276	381,690	-44,123	34,200	13,841	48,041	3,918
1991	355,932	16,374	372,306	301,909	115,493	417,403	-45,097	30,375	9,110	39,485	-5,612
1992	341,766	16,392	358,158	330,014	58,017	388,032	-29,874	36,000	878	36,878	7,004
1993	388,179	8,428	396,607	368,624	59,673	428,297	-31,690	28,800	2,902	31,702	12
1994	416,068	12,853	428,921	410,365	62,340	472,705	-43,784	28,700	11,305	40,005	-3,779
1995	482,834	4,517	487,351	452,478	70,344	522,823	-35,472	32,500	655	33,155	-2,317
1996	447,470	20,805	468,275	505,195	73,527	578,722	-110,447	70,178	3,044	73,222	-37,225
1997[4]	504,415	9,809	514,224	538,276	103,392	641,668	-127,444	167,463	3,095	170,558	43,114
1998	539,070	10,043	549,113	569,150	96,846	665,997	-116,884	110,000	-	110,000	-6,884
1999	628,168	9,684	637,852	584,834	106,129	690,965	-53,113	84,000	-	84,000	30,887
2000	632,754	9,549	642,303	617,677	98,552	716,232	-73,929	-	-	-	-73,929
2001	667,228	1,392	668,620	686,031	80,627	766,658	-98,038	121,977	6,823	128,800	30,762
2001											
Jan.	40,114	-	40,114	56,414	7,010	63,423	-23,309	-	-	-	-23,309
Feb.	60,572	28	60,600	45,948	4,175	50,123	10,477	-	-	-	10,477
Mar.	44,769	-	44,769	53,047	10,475	63,522	-18,753	30,000	-	30,000	11,247
Apr.	63,608	16	63,624	59,471	9,788	69,259	-5,635	-	-	-	-5,635
May	49,160	4	49,164	55,172	11,402	66,574	-17,410	-	-	-	-17,410
June	49,855	31	49,886	52,128	3,668	55,796	-5,910	27,488	-	27,488	21,578
July	51,745	354	52,099	59,443	6,775	66,218	-14,119	21,571	-	21,571	7,452
Aug.	56,395	9	56,404	50,205	8,947	59,152	-2,748	-	-	-	-2,748
Sept.	50,217	14	50,231	53,496	6,979	60,475	-10,244	-	-	-	-10,244
Oct.	59,251	374	59,625	56,890	4,943	61,833	-2,208	-	-	-	-2,208
Nov.	54,685	103	54,788	61,294	12,585	73,879	-19,091	20,941	6,823	27,764	8,673
Dec.	86,857	459	87,316	82,523	-6,120	76,404	10,912	21,977	-	21,977	32,889
2002											
Jan.	49,311	25	49,336	56,539	3,136	59,675	-10,339	-	-	-	-10,339
Feb.	52,107	5	52,112	52,300	8,087	60,387	-8,275	-	-	-	-8,275
Mar.	51,031	213	51,244	53,388	11,121	64,509	-13,265	-	-	-	-13,265
Apr.	62,072	510	62,582	72,863	11,135	83,998	-21,416	-	-	-	-21,416
May	54,711	159	54,870	63,085	10,477	73,563	-18,693	-	-	-	-18,693
June	48,324	166	48,490	55,956	4,656	60,612	-12,122	-	-	-	-12,122
July	74,872	56	74,928	59,288	10,082	69,369	5,559	19,048	-	19,048	24,607
Aug.	54,751	25	54,776	54,607	6,419	61,026	-6,250	-	-	-	-6,250
Sept.	57,203	13	57,216	58,273	5,850	64,122	-6,906	-	-	-	-6,906

[1] Includes the Government's contribution to the National Insurance Fund (both its contribution as employer, and its contribution in terms of the Social Security Act, 1987). As from 1992, Ordinary Revenue excludes the contribution by the public authorities/corporations to their own capital programme; includes privatisation receipts and sinking funds of converted loans up to 2000.

[2] Includes total public debt servicing.

[3] As from 1992, excludes capital expenditure incurred by the public authorities/corporations.

[4] A loan to the Malta Drydocks Corporation amounting to Lm24.6 million is included under capital expenditure.

[5] As from 2001 includes privatisation receipts and sinking funds of converted loans.

Source: Financial Report, Comparative Return of Revenue and Expenditure, The Treasury.

TABLE 2.2 GOVERNMENT REVENUE BY MAJOR SOURCES

Lm thousands

Period	Tax Revenue						Non-Tax Revenue[3]	Ordinary Revenue[4]	Foreign Grants	Total Revenue
	Income Tax	National Insurance Contributions [1]	VAT & CET	Licences, Taxes & Fines[2]	Customs & Excise	Total				
1990	57,291	71,234	-	23,993	67,279	219,798	110,092	329,890	7,678	337,567
1991	61,637	72,041	-	27,017	75,951	236,647	119,285	355,932	16,374	372,306
1992	71,353	80,469	-	29,448	82,310	263,580	78,186	341,766	16,392	358,158
1993	85,113	97,004	-	30,447	83,541	296,105	92,074	388,179	8,428	396,607
1994	87,852	101,663	-	46,127	72,059	307,701	108,367	416,068	12,853	428,921
1995	99,758	115,480	78,108	54,556	32,595	380,497	102,337	482,834	4,517	487,351
1996	93,309	126,170	78,633	51,621	31,981	381,714	65,756	447,470	20,805	468,275
1997	110,539	142,184	84,607	54,280	43,197	434,807	69,608	504,415	9,809	514,224
1998	110,561	135,656	72,628	60,678	52,698	432,221	106,849	539,070	10,043	549,113
1999	128,354	144,274	85,023	67,960	55,426	481,037	147,131	628,168	9,684	637,852
2000	149,511	162,017	104,065	70,449	55,141	541,182	91,572	632,754	9,549	642,303
2001	166,302	179,064	114,669	72,814	60,886	593,735	73,493	667,228	1,392	668,620
2001										
Jan.	9,263	8,423	9,676	4,433	5,169	36,964	3,150	40,114	-	40,114
Feb.	7,083	12,057	9,651	4,163	3,247	36,201	24,371	60,572	28	60,600
Mar.	8,486	12,547	9,273	7,547	3,926	41,779	2,990	44,769	-	44,769
Apr.	19,984	15,645	9,018	5,415	4,614	54,676	8,932	63,608	16	63,624
May	10,753	15,966	9,384	5,762	3,958	45,823	3,337	49,160	4	49,164
June	12,650	12,117	8,759	5,075	4,314	42,915	6,940	49,855	31	49,886
July	13,083	13,583	9,450	8,149	4,113	48,378	3,367	51,745	354	52,099
Aug.	17,442	15,930	9,536	6,368	4,793	54,069	2,326	56,395	9	56,404
Sept.	14,703	14,285	8,569	5,213	4,803	47,573	2,644	50,217	14	50,231
Oct.	15,674	13,879	11,719	7,268	7,500	56,040	3,211	59,251	374	59,625
Nov.	10,628	14,761	11,042	6,951	7,797	51,179	3,506	54,685	103	54,788
Dec.	26,553	29,871	8,592	6,470	6,652	78,138	8,719	86,857	459	87,316
2002										
Jan.	8,630	7,943	9,661	6,259	4,593	37,086	12,225	49,311	25	49,336
Feb.	8,025	11,242	8,726	7,622	3,810	39,425	12,682	52,107	5	52,112
Mar.	9,869	12,071	9,297	5,283	4,810	41,330	9,701	51,031	213	51,244
Apr.	18,050	15,952	9,982	7,592	4,700	56,276	5,796	62,072	510	62,582
May	12,368	15,966	11,013	7,158	5,231	51,736	2,975	54,711	159	54,870
June	13,621	13,041	7,759	5,952	4,331	44,704	3,620	48,324	166	48,490
July	18,244	14,186	10,961	11,053	5,586	60,030	14,842	74,872	56	74,928
Aug.	18,001	15,719	7,997	6,727	4,700	53,144	1,607	54,751	25	54,776
Sept.	18,733	15,155	7,825	7,075	6,374	55,162	2,041	57,203	13	57,216

[1] Includes the Government's contribution to the National Insurance Fund (both its contribution as employer, and its contribution in terms of the Social Security Act, 1987).

[2] Includes revenues from death and donation duties up to December 1994.

[3] Includes mainly Central Bank of Malta profits, privatisation receipts (up to 2000), sinking funds of converted loans (up to 2000) and other miscellaneous receipts.

[4] As from 1992, excludes the contribution by the public corporations/authorities towards their own capital programme.

Source: Financial Report, Comparative Return of Revenue and Expenditure, The Treasury.

TABLE 2.3 GOVERNMENT CAPITAL EXPENDITURE BY TYPE OF INVESTMENT[1]

Lm thousands

Period	Productive	Infrastructure	Social	Total
1990	49,509	44,121	14,646	108,276
1991	54,976	41,756	18,761	115,493
1992	32,310	9,032	16,675	58,017
1993	34,069	14,734	10,870	59,673
1994	36,323	13,993	12,024	62,340
1995	43,901	14,541	11,904	70,344
1996	36,818	19,282	17,418	73,527
1997[2]	50,256	32,344	20,792	103,392
1998	45,401	30,130	21,316	96,846
1999	52,480	27,515	26,137	106,129
2000	35,806	33,800	28,946	98,552
2001	26,400	26,872	27,355	80,627
2001				
Jan.	3,946	818	2,246	7,010
Feb.	2,303	1,528	344	4,175
Mar.	3,984	2,521	3,970	10,475
Apr.	3,383	3,078	3,327	9,788
May	2,998	6,637	1,767	11,402
June	2,856	2,597	-1,785	3,668
July	4,571	1,630	573	6,775
Aug.	2,198	1,600	5,149	8,947
Sept.	1,905	3,065	2,010	6,979
Oct.	1,729	1,851	1,362	4,943
Nov.	5,843	2,626	4,116	12,585
Dec.	-9,316	-1,079	4,276	-6,120
2002				
Jan.	1,740	1,128	268	3,136
Feb.	3,515	2,056	2,516	8,087
Mar.	4,192	3,162	3,767	11,121
Apr.	3,236	3,317	4,582	11,135
May	4,382	2,110	3,985	10,477
June	959	2,019	1,679	4,656
July	4,886	4,168	1,028	10,082
Aug.	1,673	1,712	3,033	6,419
Sept.	1,863	2,029	1,958	5,850

[1] As from 1992, excludes capital expenditure incurred by public corporations/authorities.

[2] Including a loan to Malta Drydocks amounting to Lm24.6 million.

Source: Financial Report, Comparative Return of Revenue and Expenditure, The Treasury.

TABLE 3.1 GROSS GOVERNMENT DEBT AND GOVERNMENT GUARANTEED DEBT OUTSTANDING

Lm thousands

End of Period	Domestic Debt			Foreign Loans	Total Government Debt	Government Guaranteed Debt [2]
	Treasury Bills	Malta Government Stocks [1]	Total			
1995	71,406	285,951	357,357	53,433	410,790	414,488
1996	108,935	356,119	465,054	51,789	516,843	489,663
1997	89,980	523,369	613,349	50,449	663,798	490,973
1998	83,713	633,369	717,082	46,513	763,595	491,768
1999	83,320	712,184	795,504	44,405	839,909	483,112
2000						
Mar.	114,263	712,184	826,447	44,006	870,453	490,091
June	125,540	712,729	838,269	42,514	880,783	481,197
Sept.	144,976	712,729	857,705	42,533	900,238	479,921
Dec.	172,987	712,729	885,716	39,250	924,966	469,678
2001						
Mar.	177,836	742,729	920,565	38,868	959,433	471,592
June	167,054	770,029	937,083	37,080	974,163	434,717
Sept.	175,295	791,654	966,949	36,226	1,003,175	421,433
Dec.	159,459	812,854	972,313	40,378	1,012,691	416,822
2002						
Mar.	193,078	812,854	1,005,932	39,908	1,045,839	414,773
June	198,871	812,854	1,011,725	37,923	1,049,648	396,932
Sept.	192,409	813,030	1,005,439	37,227	1,042,666	383,322

[1] Including Local Development Registered Stocks.

[2] Represents outstanding balances on Government guaranteed debt. Excludes guarantees on the MIGA and IBRD positions. Excludes also Government guarantees on foreign loans taken by the Central Bank of Malta on behalf of Malta Government since they already feature in the calculation of Government foreign debt.

Source: Malta Stock Exchange; The Treasury; Ministry of Finance.

TABLE 3.2 TREASURY BILLS ISSUED AND OUTSTANDING[1]

Lm thousands

End of Period	Amount Maturing During Period	Amount Issued and Taken up by			Amount Outstanding[4] and held by		
		Banking System[2]	Non-Bank Public [3]	Total	Banking System[2]	Non-Bank Public [3]	Total
1990	50,000	59,960	40	60,000	29,987	13	30,000
1991	105,000	104,516	484	105,000	29,845	155	30,000
1992	120,000	117,415	2,585	120,000	27,949	2,051	30,000
1993	120,000	115,624	4,376	120,000	29,386	614	30,000
1994	120,000	117,845	2,155	120,000	29,387	613	30,000
1995	133,156	164,449	10,113	174,562	56,222	15,184	71,406
1996	296,171	164,584	169,116	333,700	84,429	24,506	108,935
1997	351,191	83,790	248,446	332,236	52,217	37,763	89,980
1998	255,783	44,300	205,216	249,516	52,432	31,281	83,713
1999	364,314	202,100	161,821	363,921	77,832	5,488	83,320
2000	341,869	276,611	154,925	431,536	123,599	49,388	172,987
2001	48,400	317,377	7,608	324,985	137,423	22,036	159,459
2001							
Jan.	39,096	28,601	12,513	41,114	125,245	49,759	175,004
Feb.	16,770	18,500	2,580	21,080	144,047	35,267	179,314
Mar.	44,277	17,000	25,799	42,799	137,821	40,015	177,836
Apr.	49,469	14,000	16,378	30,378	119,826	38,919	158,745
May	31,811	9,000	18,589	27,589	127,242	27,281	154,523
June	46,822	26,150	33,203	59,353	126,667	40,387	167,054
July	22,825	35,669	8,837	44,506	147,420	41,315	188,735
Aug.	35,085	21,500	4,179	25,679	141,811	37,518	179,329
Sept.	48,386	27,115	17,110	44,225	146,998	28,297	175,295
Oct.	45,608	55,012	10,185	65,197	172,184	22,700	194,884
Nov.	41,786	35,610	3,323	38,933	180,222	11,809	192,031
Dec.	48,400	29,220	7,608	36,828	137,423	22,036	159,459
2002							
Jan.	58,954	58,606	6,394	65,000	141,095	24,410	165,505
Feb.	18,517	43,385	7,118	50,503	159,200	28,291	187,491
Mar.	57,681	46,354	16,914	63,268	156,224	36,854	193,078
Apr.	56,307	39,936	21,064	61,000	152,447	45,324	197,771
May	64,503	45,009	20,594	65,603	164,344	34,527	198,871
June	43,245	31,164	12,081	43,245	169,017	29,854	198,871
July	60,000	55,230	4,770	60,000	176,984	21,887	198,871
Aug.	77,603	52,936	6,713	59,649	158,500	22,417	180,917
Sept.	34,768	37,555	8,705	46,260	171,434	20,975	192,409

[1] Amounts are at nominal prices.

[2] Includes Central Bank of Malta, Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (as from January 1995).

[3] Including the Malta Government Sinking Fund.

[4] On December 1, 1987, the House of Representatives raised the maximum amount of permissible outstanding bills from Lm2.5 million to Lm30 million. On January 10, 1995, the House of Representatives approved a motion empowering the Government to increase the issue of Treasury Bills from Lm30 million to Lm100 million. On December 16, 1996, the maximum amount of outstanding bills was raised from Lm100 million to Lm200 million.

TABLE 3.3 MALTA GOVERNMENT STOCKS
(Outstanding as at end-September 2002)

Lm thousands

Stock	Year of Maturity	Year of Issue	Issue Price Lm	Interest Dates	Held By		Amount
					Banking System	Non-Bank Public	
6.90 % MGS	2002 (III)	1995	100	30 Mar. - 30 Sept.	8,077	4,423	12,500
6.90 % MGS	2002 (IV)	1997	100	30 Mar. - 30 Sept.	19,057	4,694	23,750
7.00 % MGS	2003	1993	100	18 Feb. - 18 Aug.	20,929	7,138	28,067
7.00 % MGS	2003 (II)	1993	100	03 July - 3 Jan.	7,962	12,871	20,833
6.70 % MGS	2004	1994	100	23 Apr. - 23 Oct.	9,753	8,947	18,700
6.80 % MGS	2004 (II)	1998	100	15 Jan. - 15 July	22,654	3,195	25,852
7.25 % MGS	2005	1997	100	10 June - 10 Dec.	18,148	5,352	23,500
5.60 % MGS	2005 (II)	1999	100	1 Feb. - 1 Aug.	24,828	6,672	31,500
7.00 % MGS	2006	1994	100	19 May - 19 Nov.	1,445	8,556	10,000
7.00 % MGS	2006 (IV)	1996	100	20 Jan. - 20 July	-	167	167
7.25 % MGS	2006 (II)	1995	100	28 Apr. - 01 Aug.	6,095	13,155	19,250
7.25 % MGS	2006 (III)	1996	100	20 Jan. - 20 July	7,278	7,722	15,000
7.35 % MGS	2007	1997	100	18 Apr. - 18 Oct.	16,469	8,281	24,750
5.90 % MGS	2007 (II)	1999	100	23 Apr. - 23 Oct.	8,991	1,009	10,000
5.60 % MGS	2007 (III)	2000	100	10 June - 10 Dec.	7,205	12,795	20,000
7.20 % MGS	2008	1998	100	28 Feb. - 15 July	8,809	1,191	10,000
7.20 % MGS	2008 (II)	1998	100	30 Mar. - 30 Sept.	20,323	9,677	30,000
7.00 % MGS	2009	1999	100	1 Mar. - 1 Sept.	-	65	65
5.90 % MGS	2009 (II)	1999	100	1 Mar. - 1 Sept.	14,160	10,840	25,000
5.90 % MGS	2009 (III)	2000	100	30 Mar. - 30 Sept.	40,787	4,513	45,300
5.90 % MGS	2010	1999	100	19 May - 19 Nov.	13,635	1,365	15,000
5.75 % MGS	2010 (II)	2000	100	10 June - 10 Dec.	16,539	1,961	18,500
7.00 % MGS	2010 (III)	2000	100	30 June - 30 Dec.	-	545	545
7.50 % MGS	2011	1996	100	28 Mar. - 28 Sept.	7,409	7,591	15,000
6.25 % MGS	2011 (II)	2001	100	1 Aug. - 1 Feb.	18,281	21,719	40,000
7.00 % MGS	2011 (III)	2002	100	30 June - 30 Dec	-	125	125
7.80 % MGS	2012	1997	100	24 May - 24 Nov.	13,797	20,703	34,500
7.00 % MGS	2012 (II)	2002	100	10 June - 30 Dec.	-	176	176
7.80 % MGS	2013	1997	100	18 Apr. - 18 Oct.	11,621	22,629	34,250
6.35 % MGS	2013 (II)	2002	100	18 Apr. - 18 Oct.	117	25,883	26,000
6.60 % MGS	2014	2000	100	30 Mar. - 30 Sept.	805	9,695	10,500
6.45 % MGS	2014 (II)	2001	100	24 May - 24 Nov.	7,579	22,421	30,000
6.10 % MGS	2015	2000	100	10 June - 10 Dec.	9,309	20,691	30,000
5.90 % MGS	2015 (II)	2002	100	28 Mar. - 28 Sept.	27	20,173	20,200
6.65 % MGS	2016	2001	100	28 Mar. - 28 Sept.	2,733	27,267	30,000
7.80 % MGS	2018	1998	100	15 Jan. - 15 July	21,470	48,530	70,000
6.60 % MGS	2019	1999	100	1 Mar. - 1 Sept.	11,834	32,166	44,000
Total					398,126	414,904	813,030

[1] Interest is payable on 20 January and 20 July except for the last coupon payment which is payable on the redemption date.

[2] Coupons are reviewable every 2 years and will be set one percentage point less than the normal maximum lending rate allowed at law subject to a minimum of 7 %. Redemption proceeds are payable at Lm110 per Lm100 nominal.

Source: Malta Stock Exchange.

TABLE 3.4 MALTA GOVERNMENT STOCKS BY REMAINING TERM TO MATURITY [1]

Lm thousands

End of Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	Over 16 yrs	Total
1990	3,500	93,285	10,000	-	-	106,785
1991	5,500	106,285	25,400	-	-	137,185
1992	1,000	125,285	41,400	-	-	167,685
1993	49,885	84,367	90,300	-	-	224,552
1994	37,900	95,352	110,000	10,000	-	253,252
1995	7,000	158,651	120,300	-	-	285,951
1996	15,800	213,302	112,017	15,000	-	356,119
1997	48,452	279,800	111,367	83,750	-	523,369
1998	46,750	255,650	177,219	83,750	70,000	633,369
1999	79,000	221,202	199,232	98,750	114,000	712,184
2000	53,800	214,902	205,777	124,250	114,000	712,729
2001	66,450	192,869	244,285	195,250	114,000	812,854
2002						
Mar.	115,350	188,719	234,035	160,750	114,000	812,854
June	85,150	198,719	234,035	180,950	114,000	812,854
Sept.	85,150	198,719	234,211	180,950	114,000	813,030

[1] Calculations are based on the MGS's maximum redemption period. With respect to the quarterly statistics in this table, the remaining term to maturity classification is applicable as from the current end-year.

TABLE 3.5 GOVERNMENT EXTERNAL LOANS BY TYPE OF CREDITOR

Lm thousands

End of Period	Official Bilateral Entities[1]	Official Multilateral Organisations[2]	Private Commercial Banks[3]	Total
1990	30,446	7,029	-	37,475
1991	31,806	12,901	-	44,707
1992	32,727	15,671	-	48,398
1993	34,383	16,097	-	50,480
1994	37,496	18,768	-	56,264
1995	30,268	15,150	8,015	53,433
1996	32,371	13,850	5,568	51,789
1997	30,200	15,666	4,583	50,449
1998	27,115	15,252	4,146	46,513
1999	28,101	12,344	3,904	44,349
2000	22,964	13,655	2,631	39,250
2001	20,037	18,915	1,426	40,378
2002 [4]				
Mar.	19,569	18,912	1,427	39,908
June	18,251	18,697	975	37,923
Sept.	17,758	18,516	954	37,228

[1] Bilateral loans are loans from governments and their agencies (including central banks), and loans from autonomous bodies.

[2] Multilateral organisations include the World Bank, regional development banks, and other multilateral and inter-governmental agencies.

[3] Commercial bank loans from private banks or financial institutions.

[4] Provisional.

Source: Financial Report, The Treasury; Central Bank of Malta (as from end-1999).

TABLE 3.6 GOVERNMENT EXTERNAL LOANS BY CURRENCY

Lm thousands

End of Period	FFr	Stg	DM	Yen	Euro	US$	Lit	Others	Total
1990	252	3,777	4,811	-	7,024	4,953	7,731	8,947	37,495
1991	200	3,686	4,515	-	12,901	4,431	9,833	9,140	44,706
1992	170	1,250	4,816	-	15,671	4,774	12,033	9,683	48,397
1993	109	1,283	4,373	-	16,097	4,355	15,596	8,667	50,480
1994	58	235	4,181	-	16,267	3,546	22,694	9,281	56,262
1995	34	-	3,930	7,574	9,041	2,896	22,309	7,649	53,433
1996	16	-	3,339	5,568	11,408	2,444	22,479	6,535	51,789
1997	-	-	2,801	4,583	10,500	7,268	22,001	3,296	50,449
1998	-	-	2,524	4,146	10,267	6,474	20,922	2,179	46,513
1999	-	-	2,036	3,904	9,549	6,945	19,835	2,080	44,349
2000	-	-	1,664	2,631	8,477	6,660	18,350	1,468	39,250
2001	-	-	1,310	1,426	14,184	14,181	8,530	747	40,378
2002 [1]									
Mar.	-	-	-	1,427	23,892	14,218	-	371	39,908
June	-	-	-	975	30,937	5,661	-	350	37,923
Sept.	-	-	-	955	143	5,639	-	30,491	37,228

[1] Provisional.

Source: Financial Report, The Treasury; Central Bank of Malta (as from end-1999).

TABLE 3.7 GOVERNMENT EXTERNAL LOANS BY REMAINING TERM TO MATURITY [1]

Lm thousands

End of Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16-20 yrs	Over 20 yrs	Total
1990	105	7,154	6,732	12,096	7,731	3,676	37,495
1991	34	11,877	4,960	14,229	9,833	3,774	44,707
1992	276	12,575	8,673	10,045	12,033	4,795	48,398
1993	-	15,200	5,766	9,232	15,596	4,687	50,480
1994	8,319	3,579	16,591	12,180	12,268	3,327	56,264
1995	206	2,142	23,486	11,662	12,529	3,408	53,433
1996	467	831	21,024	12,087	14,129	3,252	51,789
1997	452	3,114	16,255	23,167	4,398	3,062	50,449
1998	-	6,402	21,426	14,440	2,801	1,443	46,513
1999	-	6,013	20,944	13,353	2,693	1,346	44,349
2000	-	10,561	12,654	13,456	1,293	1,286	39,250
2001	586	13,356	11,759	12,249	1,207	1,221	40,378
2002 [2]							
Mar.	1,752	14,735	17,292	3,727	1,204	1,198	39,908
June	1,250	14,363	16,250	3,597	1,223	1,240	37,923
Sept.	1,032	14,248	15,969	3,568	1,211	1,200	37,228

[1] With respect to the quarterly statistics in this table, the remaining term to maturity classification is applicable as from the current end-year.

[2] Provisional.

Source: Financial Report, The Treasury; Central Bank of Malta (as from end-1999).

TABLE 4.1 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES[1]

End of Period Rates

End of Period	Stg	DM	US$	Euro[2]	Lit	FFr	NLG	Bfr	Yen	Sfr
1990	1.7335	5.0006	3.3249	2.4349	3769.61	17.007	5.636	103.271	451.19	4.261
1991	1.7457	4.9610	3.2724	2.4448	3759.17	16.952	5.590	102.181	408.46	4.437
1992	1.7652	4.3188	2.6725	2.2136	3940.60	14.731	4.851	88.663	332.99	3.907
1993	1.7106	4.3911	2.5309	2.2678	4326.57	14.917	4.912	91.327	283.32	3.748
1994	1.7381	4.2086	2.7166	2.2083	4410.43	14.511	4.714	86.484	270.86	3.562
1995	1.8315	4.0648	2.8377	2.1586	4496.45	13.898	4.552	83.513	292.69	3.266
1996	1.6377	4.3146	2.7807	2.2173	4244.37	14.542	4.843	88.873	323.12	3.747
1997	1.5411	4.5682	2.5497	2.3101	4485.89	15.284	5.146	94.213	331.79	3.712
1998	1.5935	4.4287	2.6496	2.2640	4382.63	14.870	4.990	91.360	300.71	3.645
1999	1.4983	4.7163	2.4230	2.4114	4669.13	15.818	5.314	97.276	247.64	3.870
2000	1.5305	4.8033	2.2843	2.4559	4755.26	16.110	5.412	99.070	262.25	3.738
2001	1.5258	4.8874	2.2121	2.4989	4838.52	16.392	5.507	100.805	290.44	3.969
2002										
Apr. 5	1.5327	-	2.1972	2.5025	-	-	-	-	290.34	3.669
12	1.5312	-	2.2008	2.5015	-	-	-	-	290.57	3.669
19	1.5319	-	2.2156	2.4924	-	-	-	-	288.86	3.658
26	1.5337	-	2.2288	2.4837	-	-	-	-	285.94	3.640
May 3	1.5320	-	2.2483	2.4741	-	-	-	-	286.10	3.601
10	1.5394	-	2.2495	2.4683	-	-	-	-	287.80	3.590
17	1.5470	-	2.2559	2.4596	-	-	-	-	284.72	3.582
24	1.5533	-	2.2554	2.4556	-	-	-	-	282.10	3.578
31	1.5607	-	2.2825	2.4364	-	-	-	-	283.35	3.569
June 6	1.5670	-	2.2844	2.4313	-	-	-	-	285.23	3.586
14	1.5582	-	2.3021	2.4281	-	-	-	-	285.94	3.581
21	1.5566	-	2.3292	2.4157	-	-	-	-	284.39	3.551
28	1.5545	-	2.3818	2.3924	-	-	-	-	282.73	3.522
July 5	1.5473	-	2.3490	2.4123	-	-	-	-	281.90	3.535
12	1.5355	-	2.3795	2.4058	-	-	-	-	277.97	3.532
19	1.5344	-	2.4230	2.3870	-	-	-	-	280.32	3.493
26	1.5205	-	2.3971	2.4078	-	-	-	-	283.40	3.489
Aug. 2	1.5202	-	2.3871	2.4126	-	-	-	-	283.82	3.498
9	1.5368	-	2.3502	2.4187	-	-	-	-	282.80	3.533
16	1.5415	-	2.3645	2.4088	-	-	-	-	277.77	3.529
23	1.5430	-	2.3444	2.4186	-	-	-	-	281.29	3.559
30	1.5340	-	2.3824	2.4172	-	-	-	-	281.27	3.550
Sept. 6	1.5289	-	2.3968	2.4175	-	-	-	-	283.85	3.529
13	1.5234	-	2.3799	2.4224	-	-	-	-	286.23	3.555
20	1.5303	-	2.3726	2.4203	-	-	-	-	292.34	3.545
27	1.5237	-	2.3696	2.4237	-	-	-	-	291.00	3.555

[1] Closing Central Bank of Malta midpoint rate. The Maltese lira's exchange rate is determined on the basis of a basket of currencies which currently includes the euro, the US dollar and the pound sterling.

[2] The euro replaced the ECU as from January 1, 1999.

TABLE 4.2 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES[1]

Averages for the Period

Period	Stg	DM	US$	Euro[2]	Lit	FFr	NLG	Bfr	Yen	Sfr
1990	1.7701	5.0852	3.1527	2.4733	3769.83	17.135	5.730	105.132	453.01	4.368
1991	1.7526	5.1258	3.1002	2.4979	3831.59	17.429	5.777	105.531	416.50	4.429
1992	1.7853	4.9033	3.1459	2.4287	3860.86	16.621	5.521	100.964	398.43	4.414
1993	1.7435	4.3273	2.6171	2.2347	4109.74	14.819	4.861	90.425	291.39	3.869
1994	1.7295	4.2916	2.6486	2.2296	4265.86	14.676	4.813	88.427	270.60	3.617
1995	1.7961	4.0601	2.8355	2.1669	4616.27	14.138	4.548	83.530	266.46	3.350
1996	1.7780	4.1731	2.7745	2.1852	4279.88	14.188	4.676	85.881	301.75	3.428
1997	1.5825	4.4900	2.5921	2.2921	4410.82	15.113	5.053	92.645	313.53	3.758
1998	1.5547	4.5282	2.5758	2.2957	4469.45	15.180	5.104	93.404	336.67	3.730
1999	1.5468	4.5895	2.5032	2.3470	4544.39	15.395	5.172	94.677	284.84	3.756
2000	1.5080	4.8388	2.2855	2.4741	4790.43	16.229	5.452	99.803	246.27	3.853
2001	1.5430	4.8533	2.2226	2.4815	4804.77	16.277	5.468	100.102	269.97	3.749
2001										
Jan.	1.5494	4.7729	2.2897	2.4403	4725.15	16.008	5.378	98.443	267.58	3.732
Feb.	1.5547	4.7961	2.2602	2.4522	4748.13	16.085	5.404	98.922	262.59	3.766
Mar.	1.5510	4.8190	2.2435	2.4639	4770.82	16.162	5.430	99.394	271.99	3.784
Apr.	1.5446	4.8563	2.2166	2.4830	4807.76	16.287	5.472	100.164	274.45	3.769
May	1.5355	4.8990	2.1904	2.5048	4849.97	16.430	5.520	101.043	266.69	3.841
June	1.5373	4.9372	2.1557	2.5244	4887.86	16.559	5.563	101.833	263.57	3.844
July	1.5332	4.9283	2.1680	2.5198	4879.02	16.529	5.553	101.649	270.06	3.814
Aug.	1.5500	4.8372	2.2276	2.4732	4788.80	16.223	5.450	99.769	270.54	3.746
Sept.	1.5376	4.8306	2.2493	2.4699	4782.31	16.201	5.443	99.634	267.39	3.690
Oct.	1.5432	4.8337	2.2400	2.4714	4785.35	16.211	5.446	99.697	271.63	3.657
Nov.	1.5391	4.8692	2.2119	2.4896	4820.54	16.331	5.486	100.430	270.66	3.650
Dec.	1.5406	4.8602	2.2181	2.4850	4811.57	16.300	5.476	100.243	282.50	3.666
2002										
Jan.	1.5381	-	2.2034	2.4953	-	-	-	-	292.17	3.679
Feb.	1.5345	-	2.1832	2.5096	-	-	-	-	291.63	3.708
Mar.	1.5403	-	2.1908	2.5009	-	-	-	-	287.00	3.672
Apr.	1.5324	-	2.2098	2.4955	-	-	-	-	289.11	3.659
May	1.5455	-	2.2560	2.4607	-	-	-	-	285.16	3.585
June	1.5594	-	2.3140	2.4216	-	-	-	-	285.43	3.564
July	1.5345	-	2.3869	2.4035	-	-	-	-	281.63	3.515
Aug.	1.5364	-	2.3622	2.4154	-	-	-	-	281.23	3.535
Sept.	1.5270	-	2.3751	2.4214	-	-	-	-	286.71	3.548

[1] Calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta midpoint rates.

[2] The euro replaced the ECU as from January 1, 1999.

TABLE 4.3 MALTA'S FOREIGN TRADE

Lm thousands

Period	Exports (f.o.b.)			Imports (c.i.f.)	Balance of Trade
	Domestic	Re-Exports	Total		
1990	328,736	29,153	357,889	620,510	-262,621
1991	371,993	33,461	405,454	684,000	-278,546
1992	451,526	39,377	490,903	747,770	-256,867
1993	476,747	41,579	518,326	830,920	-312,594
1994	547,209	45,213	592,422	918,766	-326,344
1995	629,720	45,220	674,940	1,037,657	-362,717
1996	569,900	54,250	624,150	1,007,800	-383,650
1997	563,950	64,980	628,930	984,230	-355,300
1998	664,816	47,169	711,985	1,034,920	-322,935
1999	712,436	78,700	791,136	1,136,233	-345,097
2000	977,535	94,910	1,072,445	1,492,376	-419,931
2001[1]	790,038	90,646	880,684	1,226,422	-345,738
2001 [1]					
Jan.	74,272	6,131	80,403	109,984	-29,581
Feb.	68,179	5,603	73,782	97,880	-24,098
Mar.	81,367	6,195	87,562	120,438	-32,876
Apr.	62,803	6,743	69,546	98,656	-29,110
May	68,190	6,687	74,877	107,041	-32,164
June	70,687	9,511	80,198	103,835	-23,637
July	57,470	9,491	66,961	106,380	-39,419
Aug.	56,228	8,171	64,399	90,901	-26,502
Sept.	63,751	6,812	70,563	83,993	-13,430
Oct.	58,272	9,063	67,335	108,355	-41,020
Nov.	69,749	10,827	80,576	106,197	-25,621
Dec.	59,070	5,412	64,482	92,762	-28,280
2002 [1]					
Jan.	52,822	11,349	64,171	88,459	-24,288
Feb.	67,083	9,348	76,431	86,915	-10,484
Mar.	67,890	8,656	76,546	100,781	-24,235
Apr.	58,878	9,676	68,554	107,752	-39,198
May	65,774	10,970	76,744	108,782	-32,038
June	65,550	9,218	74,768	105,900	-31,132
July	69,657	11,917	81,574	114,286	-32,712
Aug.	63,900	13,910	77,810	94,111	-16,300
Sept.	65,499	10,342	75,841	96,039	-20,200

[1] Provisional.

Source: National Statistics Office.

TABLE 4.4 DIRECTION OF TRADE - TOTAL EXPORTS

Lm thousands

Period	United Kingdom	Italy	Germany	France	Other EU	Libya	United States	Others	Total
1990	31,778	123,792	73,359	25,259	18,717	18,324	13,682	52,979	357,890
1991	29,699	156,341	72,138	36,739	20,092	22,343	17,026	51,076	405,454
1992	32,132	200,151	69,845	44,564	23,014	20,682	28,430	72,084	490,902
1993	41,826	167,140	81,008	53,947	27,835	25,136	38,897	82,537	518,326
1994	43,533	221,396	83,412	57,824	27,986	20,895	44,941	92,436	592,423
1995	50,654	205,015	101,243	82,417	42,762	15,221	62,918	114,716	674,940
1996	51,991	77,849	90,249	93,402	41,618	15,907	84,350	168,785	624,151
1997	51,219	35,726	82,171	121,705	54,486	25,122	91,201	167,283	628,930
1998	54,626	34,388	89,726	147,450	49,502	19,382	129,208	187,703	711,985
1999	73,202	38,858	99,390	120,388	50,344	20,194	168,621	220,144	791,136
2000	78,038	36,092	102,898	85,873	54,808	15,585	293,413	405,737	1,072,444
2001[1]	76,310	30,304	115,132	82,197	59,865	21,835	174,370	320,670	880,684
2001 [1]									
Jan.	4,772	2,231	8,648	7,573	4,511	414	21,734	30,520	80,403
Feb.	5,755	2,721	9,456	7,217	5,828	1,506	12,631	28,668	73,782
Mar.	7,758	2,443	9,744	9,328	5,737	1,418	19,250	31,884	87,562
Apr.	6,917	2,779	10,601	6,725	5,403	2,669	12,850	21,602	69,546
May	5,665	2,829	10,074	9,437	5,923	1,899	15,320	23,731	74,877
June	5,811	3,109	9,639	8,787	5,287	1,979	18,463	27,123	80,198
July	5,224	1,909	12,871	6,708	4,480	1,480	11,635	22,654	66,961
Aug.	6,004	1,732	8,700	4,588	4,595	2,639	10,893	25,248	64,399
Sept.	5,798	2,227	7,890	8,250	3,396	824	15,257	26,920	70,562
Oct.	7,256	2,372	9,574	5,066	4,919	2,174	10,065	25,908	67,334
Nov.	8,426	3,110	10,895	4,680	5,315	3,360	11,875	32,915	80,576
Dec.	6,924	2,842	7,040	3,838	4,471	1,473	14,397	23,497	64,482
2002 [1]									
Jan.	7,595	2,556	5,748	4,523	4,058	1,395	8,906	29,390	64,171
Feb.	9,863	4,314	9,753	5,492	5,738	2,743	10,122	28,406	76,431
Mar.	7,372	2,315	7,648	5,632	5,240	1,453	12,073	34,813	76,546
Apr.	8,017	2,682	7,557	4,582	5,309	4,604	9,163	26,640	68,554
May	8,861	3,151	6,810	5,853	5,651	2,981	11,141	32,296	76,744
June	8,172	2,261	6,376	9,576	4,287	2,928	10,176	30,993	74,768
July	12,077	3,125	10,303	8,630	6,978	4,470	8,027	27,964	81,574
Aug.	11,060	2,496	7,778	8,876	5,431	1,959	8,152	32,058	77,810
Sept.	9,147	2,314	8,275	11,328	5,194	3,013	9,266	27,304	75,841

[1] Provisional.

Source: National Statistics Office.

TABLE 4.5 DIRECTION OF TRADE - IMPORTS

Lm thousands

Period	United Kingdom	Italy	Netherlands	France	Germany	Other EU	United States	Others	Total
1990	92,222	202,374	17,238	44,924	72,796	37,851	20,778	132,327	620,510
1991	100,648	248,463	20,153	31,658	75,155	38,730	27,737	141,456	684,000
1992	96,218	282,198	24,122	47,146	80,318	43,329	23,648	150,791	747,770
1993	111,392	225,929	21,927	69,763	118,712	46,929	72,449	163,819	830,920
1994	140,714	243,155	21,663	77,226	161,547	51,091	46,770	176,600	918,766
1995	161,570	284,777	23,817	86,623	126,235	76,374	62,350	215,911	1,037,657
1996	144,072	196,735	26,944	159,824	94,840	68,680	69,610	247,091	1,007,796
1997	145,152	199,137	25,712	163,026	98,276	71,505	77,968	203,455	984,231
1998	128,216	199,383	25,486	184,340	108,291	71,360	91,920	225,925	1,034,921
1999	123,736	189,873	25,697	217,021	113,569	73,175	95,964	297,199	1,136,233
2000	119,673	249,744	29,661	281,877	122,113	91,778	158,474	439,057	1,492,377
2001 [1]	123,100	244,409	28,401	184,030	107,409	92,707	141,822	304,544	1,226,422
2001 [1]									
Jan.	9,111	19,820	2,509	23,637	8,596	6,841	12,274	27,196	109,984
Feb.	8,760	20,996	2,484	15,255	9,168	7,154	9,261	24,802	97,880
Mar.	11,189	22,727	2,034	16,494	9,932	8,993	13,428	35,641	120,438
Apr.	9,774	20,204	2,209	14,053	8,623	6,873	10,865	26,055	98,656
May	11,071	22,615	2,472	12,928	9,749	8,485	13,307	26,414	107,041
June	9,690	21,705	2,024	13,863	9,280	7,830	12,282	27,161	103,835
July	10,950	20,968	2,417	14,933	10,003	9,742	12,229	25,138	106,380
Aug.	9,340	15,856	2,735	11,994	7,207	8,203	9,489	26,077	90,901
Sept.	9,520	17,320	2,105	15,337	7,280	6,608	8,605	17,218	83,993
Oct.	13,078	22,820	2,793	13,338	11,035	8,364	13,691	23,236	108,355
Nov.	11,488	21,690	2,603	16,768	9,097	6,707	12,731	25,113	106,197
Dec.	9,129	17,688	2,016	15,430	7,439	6,907	13,660	20,493	92,762
2002 [1]									
Jan.	9,103	16,400	2,126	15,270	7,091	6,922	9,949	21,598	88,459
Feb.	8,831	16,858	2,260	14,356	7,669	7,047	9,094	20,799	86,914
Mar.	10,609	20,654	2,366	18,309	8,267	7,811	11,497	21,268	100,781
Apr.	11,906	22,878	2,231	18,770	8,911	8,097	10,220	24,739	107,752
May	13,511	24,869	2,187	18,826	8,857	7,419	9,830	23,283	108,782
June	9,944	24,947	2,555	18,298	9,146	7,674	7,364	25,972	105,900
July	11,921	27,369	3,093	19,351	9,011	8,475	9,648	25,418	114,286
Aug.	9,183	18,883	1,894	16,713	7,408	6,527	8,265	25,238	94,111
Sept.	9,022	23,001	2,135	15,072	8,471	6,972	8,916	22,450	96,039

[1] Provisional.
Source: National Statistics Office.

TABLE 4.6 DOMESTIC EXPORTS BY COMMODITY SECTIONS

Lm thousands

Period	Food and Live Animals	Beverages and Tobacco	Crude Materials Inedible except Fuels	Mineral Fuels etc.	Animal/ Vegetable Fats and Oils	Chemicals	Semi-Manufac-tured Goods	Machinery and Transport Equipment	Manufac-tured Articles	Miscel-laneous	Total
1990	4,743	2,285	1,979	112	1	3,879	29,762	174,036	111,729	208	328,736
1991	5,561	2,559	1,201	29	-	6,245	28,986	216,011	110,629	772	371,993
1992	7,884	1,779	1,241	31	-	8,645	31,540	274,651	124,596	1,159	451,526
1993	9,588	1,551	1,940	-	-	10,121	33,082	280,385	139,794	285	476,746
1994	10,981	1,265	1,333	35	-	10,305	34,714	356,582	131,910	83	547,209
1995	8,379	1,868	1,616	3	-	11,275	37,524	425,897	142,620	541	629,720
1996	10,734	2,866	1,477	54	1	14,330	42,109	354,578	143,376	377	569,901
1997	13,657	2,136	2,325	26	-	14,697	42,658	342,551	145,694	188	563,950
1998	13,481	2,138	1,523	9	2	13,242	48,237	444,893	140,740	550	664,816
1999	15,487	2,076	1,446	-	-	14,218	50,062	475,472	152,619	1,055	712,436
2000	17,116	3,538	2,198	-	-	13,027	53,913	736,076	151,263	404	977,535
2001[1]	20,809	5,197	2,013	19	-	16,003	50,701	537,944	156,945	407	790,038
2001 [1]											
Jan.	1,758	291	111	-	-	1,668	4,066	55,162	11,199	18	74,272
Feb.	691	348	263	-	-	1,261	3,729	48,600	13,228	60	68,179
Mar.	604	505	136	-	-	1,443	4,946	60,244	13,423	67	81,367
Apr.	1,175	602	174	-	-	1,150	4,866	40,841	13,983	12	62,803
May	1,404	420	102	19	-	1,244	4,251	47,700	12,984	66	68,190
June	1,679	883	216	-	-	1,192	4,571	48,547	13,566	33	70,687
July	2,509	587	82	-	-	1,273	4,424	34,015	14,496	83	57,470
Aug.	3,287	468	237	-	-	1,621	3,459	35,460	11,685	10	56,228
Sept.	1,998	540	86	-	-	1,427	3,225	44,643	11,787	44	63,751
Oct.	1,191	326	227	-	-	1,191	4,958	36,521	13,842	14	58,272
Nov.	2,703	185	175	-	-	1,391	4,437	46,598	14,261	-	69,749
Dec.	1,810	42	204	-	-	1,142	3,769	39,613	12,491	-	59,070
2002 [1]											
Jan.	909	138	74	-	-	910	3,806	35,673	11,263	48	52,822
Feb.	1,088	164	260	-	27	1,084	5,222	43,721	15,420	97	67,083
Mar.	1,132	90	119	-	23	1,102	4,085	48,997	12,341	-	67,890
Apr.	1,807	578	259	-	-	1,224	4,499	37,401	13,050	61	58,878
May	1,913	671	64	-	-	1,401	3,563	45,932	12,227	2	65,774
June	852	1,325	97	-	-	806	3,800	46,428	12,243	-	65,550
July	2,857	236	208	-	-	1,433	5,516	40,967	18,440	-	69,657
Aug.	3,263	239	217	-	-	1,348	4,151	39,195	15,484	2	63,900
Sept.	2,382	284	141	-	2	1,318	3,877	43,310	14,161	26	65,499

[1] Provisional.

Source: National Statistics Office.

TABLE 4.7 IMPORTS BY COMMODITY SECTIONS

Lm thousands

Period	Food and Live Animals	Beverages and Tobacco	Crude Materials Inedible except Fuels	Mineral Fuels etc.	Animal/ Vegetable Fats and Oils	Chemicals	Semi-Manufac-tured Goods	Machinery and Transport Equipment	Manufac-tured Articles	Miscel-laneous	Total
1990	53,916	7,378	12,517	31,775	1,815	42,700	120,135	284,110	54,455	11,707	620,509
1991	61,587	8,105	12,622	34,637	1,999	46,720	124,487	321,740	61,572	10,531	684,000
1992	66,414	7,691	13,692	35,054	2,125	50,691	126,723	361,673	74,568	9,139	747,770
1993	70,509	8,773	13,934	38,972	2,298	56,392	130,377	416,097	86,818	6,750	830,920
1994	64,696	14,526	16,526	40,765	2,479	63,575	131,231	482,024	93,266	9,678	918,766
1995	87,514	14,090	14,901	40,897	2,820	70,804	143,680	533,304	120,907	8,740	1,037,657
1996	91,768	13,590	12,842	53,763	2,867	74,282	141,770	486,082	119,614	11,218	1,007,796
1997	97,815	16,640	13,197	51,820	2,537	78,930	140,829	459,604	113,202	9,657	984,231
1998	96,699	15,541	14,478	39,281	2,789	80,132	143,251	520,242	113,370	9,139	1,034,921
1999	99,416	18,002	13,187	58,725	2,345	82,431	140,688	594,148	118,875	8,417	1,136,233
2000	103,644	18,785	13,597	106,476	2,239	92,470	144,994	852,574	146,821	10,774	1,492,377
2001[1]	108,773	21,936	14,101	101,992	1,931	89,218	147,722	608,194	121,512	11,040	1,226,421
2001 [1]											
Jan.	6,473	957	916	8,751	161	8,995	11,864	61,441	9,487	938	109,984
Feb.	6,924	1,731	1,382	8,941	153	6,692	11,584	50,659	8,926	886	97,880
Mar.	9,184	2,211	1,077	11,825	171	7,897	13,560	61,960	11,547	1,006	120,438
Apr.	7,886	1,613	1,327	5,334	195	6,990	12,153	50,851	11,583	726	98,656
May	10,018	2,482	1,328	6,095	105	7,365	14,526	52,441	11,559	1,123	107,041
June	8,207	2,768	1,137	9,967	100	6,444	13,284	51,444	9,390	1,094	103,835
July	9,912	1,759	1,157	7,678	301	8,266	13,513	52,123	10,697	974	106,380
Aug.	9,548	1,878	1,166	13,628	185	7,299	9,706	38,511	8,247	732	90,901
Sept.	10,172	1,086	949	6,834	126	6,446	10,345	37,765	9,363	906	83,992
Oct.	11,548	1,977	1,337	4,063	158	8,755	13,958	52,661	12,825	1,073	108,355
Nov.	10,176	2,195	1,055	9,888	140	7,343	12,748	51,420	10,403	829	106,197
Dec.	8,725	1,279	1,270	8,988	136	6,726	10,481	46,918	7,485	753	92,762
2002 [1]											
Jan.	8,885	1,053	965	9,628	371	7,035	11,666	41,201	6,994	660	88,459
Feb.	7,902	1,745	1,019	7,814	184	7,011	11,234	41,408	7,870	729	86,915
Mar.	8,844	2,435	1,007	7,267	117	8,234	12,330	49,587	10,346	615	100,781
Apr.	8,594	1,911	1,255	7,221	240	8,615	13,700	53,913	11,128	1,176	107,752
May	9,544	2,110	1,094	5,450	99	8,164	15,399	53,691	12,190	1,041	108,782
June	8,356	2,214	1,096	9,692	173	7,446	14,271	53,914	8,135	602	105,900
July	10,341	2,827	1,185	9,688	197	9,908	14,831	55,699	8,616	994	114,286
Aug.	7,954	2,135	918	8,872	149	7,784	9,536	47,828	8,100	835	94,111
Sept.	9,094	1,483	1,400	8,295	237	7,102	10,668	46,653	10,132	974	96,039

[1] Provisional

Source: National Statistics Office.

TABLE 5.1 GROSS NATIONAL PRODUCT

By Category of Expenditure at Current Market Prices

Lm thousands

Period	Consumers' Expenditure [1]	Government Consumption Expenditure [2]	Gross Fixed Capital Formation [3]	Inventory Changes [4]	Exports of Goods & Services	Total Final Expenditure	*Less* Imports of Goods & Services	**Gross Domestic Product**	Net Investment Income from Abroad [5]	**Gross National Product**
1990	460,845	129,153	232,611	12,668	626,415	1,461,692	726,947	734,745	55,017	789,762
1991	494,504	147,055	239,114	15,556	701,865	1,598,094	791,249	806,875	49,663	856,538
1992	531,350	164,335	240,874	145	804,056	1,740,760	866,010	874,750	41,695	916,445
1993	561,498	188,862	276,804	3,708	896,325	1,927,197	987,163	940,034	35,481	975,515
1994	608,288	209,519	305,388	9,957	994,410	2,127,562	1,099,028	1,028,534	19,331	1,047,865
1995	700,425	235,205	365,175	1,183	1,074,708	2,376,696	1,231,172	1,145,524	11,952	1,157,476
1996	764,901	259,790	345,265	-1,424	1,045,593	2,414,125	1,212,839	1,201,286	3,185	1,204,471
1997	803,493	264,053	326,443	3,009	1,095,775	2,492,773	1,204,554	1,288,219	4,096	1,292,315
1998	846,002	269,039	333,561	-10,657	1,194,676	2,632,621	1,270,297	1,362,324	-27,377	1,334,947
1999	915,014	272,587	339,975	9,383	1,321,307	2,858,266	1,402,167	1,456,099	12,437	1,468,536
2000 [6]	998,743	291,085	409,273	27,253	1,604,256	3,330,610	1,772,602	1,558,008	-54,255	1,503,753
2001 [6]	1,045,838	328,140	377,677	-46,783	1,427,824	3,132,696	1,500,817	1,631,879	-2,224	1,629,655
2001 [6]										
Mar.	234,459	78,727	95,833	23,632	343,723	776,374	387,611	388,763	11,013	399,776
June	262,694	80,790	94,206	-29,231	370,856	779,315	374,535	404,780	2,190	406,970
Sept.	278,995	81,390	91,683	-44,762	372,797	780,103	361,051	419,052	950	420,002
Dec.	269,690	87,233	95,955	3,578	340,448	796,904	377,620	419,284	-16,377	402,907
2002 [6]										
Mar.	254,421	85,904	88,466	-5,243	316,838	740,386	343,329	397,057	4,867	401,924
June	274,931	87,883	105,462	-5,865	349,077	811,488	393,648	417,840	14,367	432,207
Sept.	289,085	83,032	95,380	-36,372	391,025	822,150	382,060	440,090	14,515	454,605

[1] Expenditure on consumption of goods and services by persons and non-profit making bodies.

[2] Excludes transfer payments (social security benefits, subsidies and grants) and capital expenditure.

[3] Expenditure on fixed capital assets by the Government as well as the private and parastatal sectors.

[4] Increase in the quantity of stocks and work in progress held by the Government and trading enterprises. This is obtained as a residual and therefore contains the error term.

[5] Income from foreign investments held by private individuals and corporations, the Government and the banking sector, less interest payments by local banks to non-resident deposit holders, dividends payable to non-resident shareholders, as well as undistributed profits of non-resident owned companies.

[6] Provisional.

Source: National Statistics Office.

TABLE 5.2 TOURIST ARRIVALS BY NATIONALITY

Period	United Kingdom	Italy	North Africa[1]	Germany	Scandinavian Countries[2]	United States	All Others	Total
1990	450,002	64,039	38,881	130,203	29,444	9,934	149,273	871,776
1991	458,523	64,008	50,094	136,452	17,891	8,809	159,259	895,036
1992	525,629	76,045	43,882	153,531	21,851	9,302	172,142	1,002,382
1993	520,778	85,671	53,465	176,077	21,276	10,314	195,632	1,063,213
1994	530,385	98,746	45,337	200,281	29,920	11,973	259,581	1,176,223
1995	461,159	97,384	43,534	187,761	32,979	10,945	282,209	1,115,971
1996	398,899	89,439	56,958	184,110	33,338	11,969	279,075	1,053,788
1997	436,899	90,190	45,702	193,020	33,576	14,924	296,850	1,111,161
1998	448,763	90,558	44,508	203,199	35,414	17,641	342,157	1,182,240
1999	422,368	92,726	52,537	212,430	46,365	18,558	369,246	1,214,230
2000	428,780	92,522	52,275	204,749	46,273	19,268	371,846	1,215,713
2001	451,530	93,564	39,167	160,262	46,395	19,986	369,241	1,180,145
2001								
Jan.	18,983	2,838	3,046	6,635	1,313	1,142	10,096	44,053
Feb.	22,328	2,845	2,371	10,823	1,942	1,270	14,313	55,892
Mar.	33,631	5,044	3,126	14,474	3,690	1,755	23,388	85,108
Apr.	34,451	8,820	2,876	17,982	5,288	2,225	36,157	107,799
May	47,562	5,198	3,007	15,438	4,770	2,576	37,096	115,647
June	43,419	8,950	3,166	13,689	5,873	2,606	42,772	120,475
July	53,234	14,424	4,316	17,598	6,695	2,111	52,132	150,510
Aug.	55,356	24,771	5,489	14,147	3,787	1,665	47,729	152,944
Sept.	51,047	7,800	3,845	19,206	4,821	1,326	43,171	131,216
Oct.	43,218	4,219	3,074	17,321	5,073	1,280	32,670	106,855
Nov.	28,405	3,647	2,206	7,809	1,968	1,145	15,318	60,498
Dec.	19,896	5,008	2,645	5,140	1,175	885	14,399	49,148
2002								
Jan.	16,029	3,134	2,512	3,412	1,296	1,146	9,796	37,325
Feb.	21,854	3,494	2,214	8,051	1,785	1,527	14,414	53,339
Mar.	32,478	6,152	2,416	15,388	3,063	1,774	23,927	85,198
Apr.	33,435	6,611	2,023	12,845	3,493	1,574	31,160	91,141
May	38,813	6,576	2,166	13,964	3,400	2,193	38,948	106,060
June	42,019	10,041	2,544	12,273	4,955	2,024	35,265	109,121
July	52,656	15,300	3,522	13,096	6,064	1,883	49,966	142,487
Aug.	55,470	26,895	4,363	12,083	3,417	1,813	48,041	152,082

[1] North African countries include Algeria, Egypt, Libya, Morocco and Tunisia.

[2] Scandinavian countries include Denmark, Norway and Sweden.

Source: National Statistics Office.

TABLE 5.3 LABOUR MARKET

End of Period	Labour Supply			Gainfully Occupied			Unemployment[1]					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Amount	Percent[2]	Amount	Percent[3]	Amount	Percent
1990	96,306	31,153	127,459	91,692	30,331	122,023	4,614	4.8	822	2.6	5,436	4.3
1991	97,241	32,210	129,451	92,922	31,257	124,179	4,319	4.4	953	3.0	5,272	4.1
1992	98,921	33,024	131,945	94,084	31,898	125,982	4,837	4.9	1,126	3.4	5,963	4.5
1993	99,239	33,174	132,413	93,333	32,130	125,463	5,906	6.0	1,044	3.1	6,950	5.2
1994	100,092	34,020	134,112	94,587	33,081	127,668	5,505	5.5	939	2.8	6,444	4.8
1995	102,158	35,612	137,770	97,241	34,709	131,950	4,917	4.8	903	2.5	5,820	4.2
1996	103,323	36,944	140,267	97,493	35,702	133,195	5,830	5.6	1,242	3.4	7,072	5.0
1997	103,540	37,294	140,834	97,065	36,076	133,141	6,475	6.3	1,218	3.3	7,693	5.5
1998	103,235	37,951	141,186	96,460	36,816	133,276	6,775	6.6	1,135	3.0	7,910	5.6
1999	103,568	39,040	142,608	96,478	37,824	134,302	7,090	6.8	1,216	3.1	8,306	5.8
2000	103,831	40,185	144,016	97,689	39,139	136,828	6,142	5.9	1,046	2.6	7,188	5.0
2001	103,967	40,962	144,929	97,806	39,690	137,496	6,161	5.9	1,272	3.1	7,433	5.1
2001												
Jan.	104,397	40,344	144,741	98,139	39,262	137,401	6,258	6.0	1,082	2.7	7,340	5.1
Feb.	104,598	40,401	144,999	98,344	39,323	137,667	6,254	6.0	1,078	2.7	7,332	5.1
Mar.	104,373	40,376	144,749	98,234	39,333	137,567	6,139	5.9	1,043	2.6	7,182	5.0
Apr.	104,363	40,503	144,866	98,411	39,474	137,885	5,952	5.7	1,029	2.5	6,981	4.8
May	104,363	40,520	144,883	98,525	39,577	138,102	5,838	5.6	943	2.3	6,781	4.7
June	104,354	40,727	145,081	98,756	39,796	138,552	5,598	5.4	931	2.3	6,529	4.5
July	104,759	41,357	146,116	99,162	40,113	139,275	5,597	5.3	1,244	3.0	6,841	4.7
Aug.	103,365	41,266	144,631	97,632	39,943	137,575	5,733	5.5	1,323	3.2	7,056	4.9
Sept.	104,209	41,223	145,432	98,439	40,009	138,448	5,770	5.5	1,214	2.9	6,984	4.8
Oct.	104,457	41,291	145,748	98,496	40,069	138,565	5,961	5.7	1,222	3.0	7,183	4.9
Nov.	104,415	41,217	145,632	98,289	39,915	138,204	6,126	5.9	1,302	3.2	7,428	5.1
Dec.	103,967	40,962	144,929	97,806	39,690	137,496	6,161	5.9	1,272	3.1	7,433	5.1
2002												
Jan.	104,237	40,942	145,179	97,706	39,533	137,239	6,531	6.3	1,409	3.4	7,940	5.5
Feb.	104,265	40,921	145,186	97,707	39,538	137,245	6,558	6.3	1,383	3.4	7,941	5.5
Mar.	103,723	40,777	144,500	97,343	39,432	136,775	6,380	6.2	1,345	3.3	7,725	5.3
Apr.	103,621	40,757	144,378	97,262	39,479	136,741	6,359	6.1	1,278	3.1	7,637	5.3
May	103,370	40,796	144,166	97,166	39,577	136,743	6,204	6.0	1,219	3.0	7,423	5.1
June	103,476	40,951	144,427	97,546	39,760	137,306	5,930	5.7	1,191	2.9	7,121	4.9
July	103,826	41,506	145,332	98,115	40,040	138,155	5,711	5.5	1,466	3.5	7,177	4.9
Aug.	103,520	41,443	144,963	97,630	39,921	137,551	5,890	5.7	1,522	3.7	7,412	5.1
Sept.	103,272	41,212	144,484	97,198	39,766	136,964	6,074	5.9	1,446	3.5	7,520	5.2

[1] Figures of unemployment exclude recruitment in the Emergency Labour Corps (set up in May 1972), the Pioneer Corps (set up in June 1973) and DIM (set up in February 1975).

[2] As a percentage of male labour supply.

[3] As a percentage of female labour supply.

Source: Employment and Training Corporation.

TABLE 5.4 NUMBER OF APPROVED COMMERCIAL PROPERTY APPLICATIONS, BY PURPOSE [1]

Period	Agriculture	Manufacturing	Warehousing/Retail/ Offices [2]	Hotel/ Tourism	Recreational/ Social [3]	Parking	Minor new works/ change of use	Other	Total
1993	168	64	400	26	70	176	666	1,350	2,920
1994	245	71	775	45	363	287	1,404	264	3,454
1995	293	69	924	27	434	188	1,731	411	4,077
1996	234	37	827	21	352	154	1,632	611	3,868
1997	248	49	545	28	362	169	1,594	949	3,944
1998	273	97	564	47	770	193	1,729	971	4,644
1999	231	112	858	29	378	205	1,600	740	4,153
2000	270	104	790	36	588	236	1,486	1,010	4,520
2001	312	58	1,019	24	485	214	1,095	1,491	4,698

[1] This Table replaces the previous Table 5.4, which showed building applications approved by purpose and floor space area, as data on the latter are no longer available.

[2] Including applications for advertisements and for the mixed residential and retail purposes.

[3] Including applications for restaurants and café bars.

Source: Malta Environment & Planning Authority.

TABLE 5.5 DWELLING UNITS GRANTED DEVELOPMENT PERMISSION, BY TYPE

Period	Apartments	Maisonettes	Terraced Houses	Other	Total
1993	1,192	651	1,016	114	2,973
1994	1,095	476	488	44	2,103
1995	1,910	1,064	1,094	161	4,229
1996	1,601	1,183	495	72	3,351
1997	1,656	1,060	570	125	3,411
1998	1,742	790	339	133	3,004
1999	1,452	473	271	77	2,273
2000	1,473	583	246	67	2,369

Note: Changes to the data are mainly due to the policy adopted by the Malta Environment & Planning Authority to reassess permit applications on a continuous basis.

Source: Malta Environment & Planning Authority.

TABLE 5.6 INFLATION RATES[1]

(Base 1946 = 100)

Year	Index	Inflation Rate (%)
1946	100.00	-
1947	104.90	4.90
1948	113.90	8.58
1949	109.70	-3.69
1950	116.90	6.56
1951	130.10	11.29
1952	140.30	7.84
1953	139.10	-0.86
1954	141.20	1.51
1955	138.80	-1.70
1956	142.00	2.31
1957	145.70	2.61
1958	148.30	1.78
1959	151.10	1.89
1960	158.80	5.10
1961	164.84	3.80
1962	165.16	0.19
1963	168.18	1.83
1964	172.00	2.27
1965	174.70	1.57
1966	175.65	0.54
1967	176.76	0.63
1968	180.42	2.07
1969	184.71	2.38
1970	191.55	3.70
1971	196.00	2.32
1972	202.52	3.33
1973	218.26	7.77

Year	Index	Inflation Rate (%)
(Continued)		
1974	234.16	7.28
1975	254.77	8.80
1976	256.20	0.56
1977	281.84	10.01
1978	295.14	4.72
1979	316.21	7.14
1980	366.06	15.76
1981	408.16	11.50
1982	431.83	5.80
1983	428.06	-0.87
1984	426.18	-0.44
1985	425.17	-0.24
1986	433.67	2.00
1987	435.47	0.42
1988	439.62	0.95
1989	443.39	0.86
1990	456.61	2.98
1991	468.21	2.54
1992	475.89	1.64
1993	495.59	4.14
1994	516.06	4.13
1995	536.61	3.98
1996	549.95	2.49
1997[2]	567.95	3.27
1998	580.61	2.23
1999	593.00	2.13
2000	607.07	2.37
2001	624.85	2.93

[1] The Index of Inflation (Base 1946=100) is compiled by the National Statistics Office on the basis of the Retail Price Index in terms of Section 10C of the Housing (Decontrol) (Amendment) Act 1979.

[2] Following the revision of the utility rates in November 1998, the index and the rate of inflation for the year 1997 were revised to 567.08 and 3.11% respectively. Consequently, the rate of inflation for 1998 would stand at 2.39%.

TABLE 5.7 RETAIL PRICE INDEX[1]

(Base 1995 = 100)

Period	All Items
1990	84.73
1991	86.88
1992	88.30
1993	91.96
1994	95.76
1995	99.57
1996	102.05
1997	105.23
1998	107.74
1999	110.04
2000	112.65
2001	115.95
2001	
Jan.	112.95
Feb.	113.26
Mar.	113.94
Apr.	114.52
May	115.62
June	115.75
July	116.31
Aug.	117.30
Sept.	117.66
Oct.	116.82
Nov.	118.48
Dec.	118.76
2002	
Jan.	118.23
Feb.	117.44
Mar.	117.55
Apr.	117.75
May	118.47
June	118.03
July	118.44
Aug.	118.90
Sept.	119.18

[1] The New Retail Price Index, which has an "All Items" reading only, is based on the Household Budgetary Survey carried out in 1994-95. As it has a different weighting structure, reflecting the changed expenditure patterns that emerged from the survey, it is not continuous with the old (1991=100) index.

Source: National Statistics Office.

GENERAL METHODOLOGICAL NOTES

General Standards

The methodology underlying the compilation of monetary and banking statistics is generally consistent with internationally agreed statistical concepts, definitions, and classifications as published in the International Monetary Fund's (IMF) *"Monetary and Financial Statistics Manual 2000"*.

Release of Monetary and Banking Statistics

Monthly monetary and banking statistics are posted on the Central Bank's website by the end of the month following the reference month. Subsequently, detailed monetary data, together with related analytical information, are released in the press through the *Statistical Release on Monetary Aggregates and their Counterparts* and in the Central Bank's *Quarterly Review* and *Annual Report*.

Determination of 'Residence'

Monetary data are based on the classification of transactions by the residence of the transactors. The transactors in the institutional sectors may either be **residents** or **non-residents** of Malta, a transactor being that economic entity that is capable in its own right of owning assets, incurring liabilities and engaging in economic activities with other entities. The internationally agreed ***residence*** criterion for the purposes of statistical compilation is based on the transactor's 'centre of economic interest'. Thus, a transactor is considered to be a resident of Malta when it is engaged in a significant amount of production of goods and/or services in Malta or when it owns or rents land or buildings located in the country. The enterprise must maintain at least one production establishment over a period of at least one year (in economic activities and transactions on a significant scale). The economic territory includes free enterprise zones and bonded warehouses or factories operated by offshore enterprises under customs control. Transactors not meeting the above-mentioned criteria are considered to be ***non-resident*** units, ie. units that have their 'centre of economic interest' in other countries. Most offshore companies which are registered in Malta are treated as non-resident units since they do not have a centre of economic interest in Malta. Furthermore, diplomatic bodies, embassies, consulates and other entities of a foreign government located in Malta are considered as residents of the country they are representing and not of Malta.

Sector Classification of the Maltese Economy

The sectors of the Maltese economy, for statistical reporting purposes, are currently broken down by their primary activity into:

(a) Banking Institutions
(b) General/Central Government
(c) Private Corporate/Business (non-bank) enterprises
(d) Public Corporations and Authorities
(e) Personal (or Households)

In addition to the above, there are those transactors that are considered to be non-residents (also referred to as the 'external sector' or the 'rest of the world').

(a) As from January 2001, the **Banking Institutions** are divided into three subsectors :

(i) Central Bank of Malta
(ii) Deposit Money Banks (DMB)
(iii) International Banking Institutions (IBI)

The **Central Bank of Malta** is a distinct corporate body having specialised functions. It is assigned the responsibilities normally assigned to the monetary authority of a country, which include the issuing of notes and coin, holding the external reserves of the country, ensuring monetary stability, and the safeguarding of a sound financial system. **Deposit Money Banks (DMB)** are those banking institutions that offer deposits payable on demand, transferable by cheque, or otherwise usable for making payments to non-bank enterprises and households. **International Banking Institutions (IBI)** are those banks that offer international banking facilities mainly to non-residents and accept deposits primarily from non-residents. Since international banking institutions are permitted to offer demand deposits to their customers, their assets and liabilities are consolidated with those of the deposit money banks in order to derive the statistical data for the *Banking Survey* (shown in the *Quarterly Review's* Statistical Tables annex). The consolidated data of the IBI sector do not distinguish between those institutions that are registered under the Banking Act 1994 and those that are registered under the Malta Financial Services Centre Act, 1988.

(b) The principal function of **General/Central Government** is to carry out public policy through the production of non-market services, primarily for collective consumption, and the transfer of income, financed mainly by taxes on units in other sectors of the economy. For statistical reporting purposes only one level of government exists in Malta, namely the central government, which implies that all central government operations also constitute the operations of general government. Thus, central government currently includes the local councils and the public non-profit institutions (such as government appointed commissions, boards, agencies, foundations etc). Public corporations and authorities, often referred to as non-financial public institutions (NFPIs), are not included in this sector (see section d).

(c) The **Private Corporate/Business Sector** comprises resident non-bank corporations under private ownership or control which are principally engaged in the production of market goods and non-bank services. These entities are collectively owned by shareholders that have the authority to appoint directors responsible for general management and may be a source of profit or other financial gain to their owners.

(d) **Public Corporations and Authorities** include non-bank corporations/authorities (also referred to as the parastatal sector or the non-financial public institutions) that are subject to control by government. 'Control' is defined as the ability to determine general corporate policy. Such public corporations and authorities are normally involved in the production of industrial and commercial goods or the provision of services for individual or collective consumption on a large scale.

(e) **The Personal Sector (or Household Sector)** include both resident individuals and unincorporated enterprises. A household may be defined as a group of persons who share accommodation, pool their income and wealth and who consume certain types of goods and services collectively. The latter are those involved in small-scale production that provides employment and income for individuals or their families.

Measures of Money

The Central Bank of Malta compiles data on three main monetary aggregates, namely **Narrow Money (M1)**, **Quasi-Money** and **Broad Money (M3)**. Narrow Money (M1) includes the most liquid components of Broad Money namely currency in circulation and demand deposits. Quasi-money comprises the residents' savings and time deposits. Broad money comprises the resident non-bank sector's holdings of bank notes and coin in circulation, and the resident non-bank deposits irrespective of denomination and maturity. Thus, Broad Money (M3) is broken down as follows:

Notes and Coin in circulation outside the banking system
Deposits (non-bank), including:
- Demand (current)
- Savings
- Time (fixed) deposits

The **Monetary Base (M0)** is defined as currency in issue and banks' deposits with the Central Bank, excluding term deposits.

Compilation Process

Monetary and banking statistics are based on a consolidation of the monthly financial statements provided by the three subsectors of the local banking system. Figures for the Central Bank of Malta are obtained from the Bank's monthly balance sheet. The banking institutions have to submit data to the Central Bank of Malta no later than fifteen days following the end of the reporting month or quarter. Branches, agencies and offices of banking institutions operating in Malta and which are not incorporated in Malta are also obliged to submit financial information in the requested schedules. The institutions compile monthly financial information in line with the international accounting norms as issued from time to time by the International Accounting Standards Committee. The monthly financial data of the international banking institutions regulated by the Malta Financial Services Centre Act, 1988 are submitted directly to the Central Bank by the Malta Financial Services Centre.

Basis of Calculation

Generally, monetary data show stock positions, i.e. outstanding balances on a particular date (end-month, end-quarter or end-year). Monetary data aggregates are consolidated, thus all identifiable interbank transactions are eliminated. Assets and liabilities which are denominated in foreign currencies are converted into Maltese Liri (Lm) at the middle exchange rate in effect at the end of the reporting period.

Valuation

Assets and liabilities are reported at book value. Thus, investments such as securities and deposits are shown netted of any premium and accretion of discount. Loans and advances include overdrafts but exclude bills discounted, and are reported before adjustments for specific and general provisions for bad and doubtful debts. Interest in suspense is included in the reported loans and advances. Monetary figures are shown on accrual basis.

Official External Reserves

The *external reserves* concept is in line with the International Monetary Fund's *Balance of Payments Manual (Fifth Edition):* It is based on a balance sheet framework and calculated on a gross basis. The types of external reserves covered in this measure comprise convertible currencies, IMF-related assets and holdings of gold. Convertible currencies comprise cash and bank balances denominated in foreign currency, placements with non-resident banks, the portfolio of non-resident investment securities and other foreign currency assets. IMF-related assets comprise holdings of Special Drawing Rights allocated to Malta or acquired in accordance with IMF requirements and the Reserve Tranche Position with the IMF.

Financial Market Rates

The statutory interest rates used by the Central Bank of Malta and other indicative benchmark money market rates are given as end-of-period rates in percentages per annum. The repurchase agreement/term deposit rates represent the prevailing rates as at the end of the month quoted from the last repurchase agreements session and the rates offered by the Central Bank. The interbank market offered rates are the prevailing rates in dealings between the banks in the official interbank market.

The weighted average deposits on current, savings and time deposits pertain to the Deposit Money Banks' interest rates on resident Maltese lira deposits. These are calculated by multiplying each amount by the different rates in each type of deposit and dividing by the total amount of each type of deposit. The weighted average lending rate is calculated by multiplying the amount of each loan or advance extended to residents in local currency by the interest rate applied thereto, and dividing by the total amount.

The interest rates applicable on government Treasury bills are obtained from the official rates quoted by the Treasury. These are weighted averages of the rates attached to the bills that are taken up by the bidders at the weekly auction. Interest rates on Malta Government Stocks represent weighted average gross redemption yields on applicable stocks with periods specified referring to remaining term to maturity. The Malta Stock Exchange Share Index measures movements in the price of all ordinary shares listed in the Official List of the Malta Stock Exchange. It is a market capitalisation index which weights the price and the number of shares of each listed firm. The index has a base of 1000 initiating on December 27, 1995.

Sources of other economic data:

Government Finance

The Treasury

Public Debt

Gross Government debt comprises the total amount of government debt outstanding denominated in domestic and in foreign currency. The source for data on Treasury bills and government external debt is the Central Bank of Malta, while the source for Malta Government Stocks is the Malta Stock Exchange. Also shown are data on debt guaranteed by government, which mainly relates to the non-financial public sector companies. Government guaranteed debt excludes guarantees on the MIGA and IBRD positions and government guarantees on foreign loans taken by the Central Bank on behalf of government: These loans already feature in the calculation of government external debt.

External Transactions

Exchange Rates – Central Bank of Malta
Foreign Trade – National Statistics Office

Real Economy

Gross Domestic Product – National Statistics Office
Tourist Arrivals – National Statistics Office
Labour Market – Employment and Training Corporation
Building and Construction – Planning Authority
Inflation – National Statistics Office