



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

ECONOMIC UPDATE 10/2017

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ECONOMIC UPDATE 10/2017

Summary¹

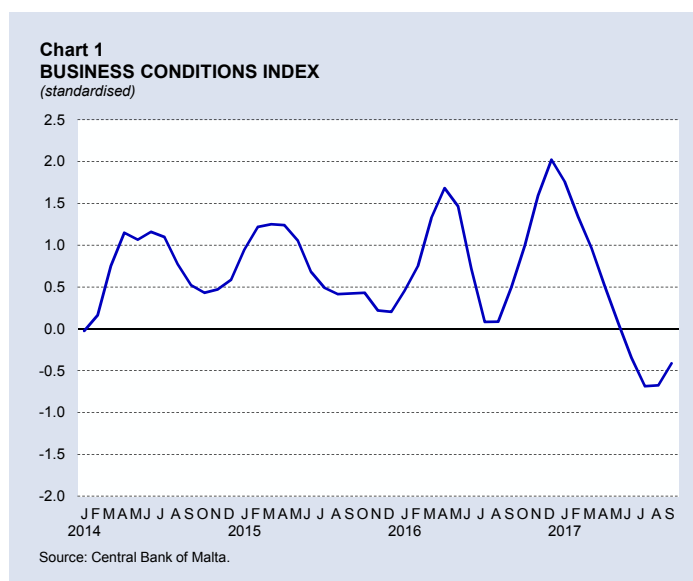
The Bank's Business Conditions Index (BCI) signalled a slight improvement in activity levels in September over the previous month. Economic sentiment fell marginally during the month, as improved confidence in construction, services and industry was offset by declining confidence in the retail sector and among consumers. In August, retail sales accelerated in annual terms, while tourism activity rose further. Industrial production also rose in annual terms. Labour market conditions remained favourable, with the number of registered unemployed declining on an annual basis and Eurostat's measure of the unemployment rate remaining low from a historical perspective. Price pressures remained moderate, with the annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) unchanged at 1.2% in August and September. Maltese residents' deposits rose by 11.4% when compared with a year earlier, while growth in credit to residents accelerated to 3.0%. As regards fiscal developments, the cash-based Consolidated Fund showed a surplus in the first eight months of 2017.

Central Bank's Business Conditions Index (BCI)

The Central Bank's BCI shows a slight improvement over the previous month (see Chart 1). In September, the index progressed to -0.4 from a revised value of -0.7 a month earlier. The BCI was affected by continued strength in seat capacity and industrial production.

Business and consumer confidence indicators

In September 2017, the Economic Sentiment Indicator (ESI) fell marginally to 118, from 119 in the preceding month (see Table 1), and stood above its long-term average of 101.^{2,3} Lower sentiment was registered within the retail sector and among consumers. In contrast,



¹ The cut-off date for information in this note is 11 October 2017.

² The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers). Weights are assigned as follows: industry 40%, services 30%, consumers 20%, construction 5% and retail trade 5%.

³ Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. However, the long-term average of the ESI is computed from November 2002.

Table 1
BUSINESS AND CONSUMER SURVEYS

Balances; percentage points; seasonally adjusted

| | 2015 2016 | | 2017 | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | | | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. |
| Economic Sentiment Indicator | 111 | 109 | 111 | 115 | 114 | 115 | 113 | 115 | 113 | 119 | 118 |
| Retail trade confidence indicator | 16 | 7 | 1 | 16 | 8 | -2 | -2 | -5 | 0 | 17 | 8 |
| Business activity, past 3 months | 33 | 17 | -3 | 17 | 18 | -8 | 16 | -19 | 5 | 27 | 23 |
| Stocks of finished goods | 9 | 9 | 12 | -1 | 12 | 9 | 2 | 5 | 6 | 3 | 7 |
| Business activity, next 3 months | 25 | 14 | 17 | 29 | 17 | 11 | -20 | 10 | 1 | 26 | 9 |
| Consumer confidence indicator | 0 | 2 | 0 | 4 | 3 | 3 | 3 | 9 | 3 | 12 | 8 |
| Financial situation over the next 12 months | 4 | 5 | 3 | 7 | 3 | 4 | 5 | 12 | 7 | 11 | 10 |
| General economic situation over the next 12 months | 11 | 13 | 13 | 15 | 17 | 15 | 12 | 25 | 19 | 21 | 21 |
| Unemployment expectations over the next 12 months | -10 | -13 | -12 | -17 | -12 | -17 | -13 | -17 | -14 | -19 | -16 |
| Savings over next 12 months | -25 | -24 | -28 | -23 | -19 | -24 | -18 | -17 | -26 | -5 | -13 |
| Construction confidence indicator | 11 | -8 | -8 | -13 | 9 | 6 | 13 | 15 | 10 | 17 | 24 |
| Evolution of your current overall order books | 1 | -22 | -24 | -34 | -1 | 0 | 2 | 6 | -9 | 2 | 15 |
| Employment expectations over the next 3 months | 22 | 6 | 8 | 10 | 18 | 12 | 24 | 25 | 29 | 32 | 33 |
| Services confidence indicator | 26 | 26 | 24 | 33 | 25 | 34 | 25 | 21 | 30 | 34 | 35 |
| Business situation development over the past 3 months | 25 | 22 | 28 | 22 | 25 | 30 | 23 | 14 | 25 | 31 | 29 |
| Evolution of the demand over the past 3 months | 28 | 29 | 28 | 40 | 32 | 40 | 30 | 29 | 31 | 33 | 32 |
| Expectation of the demand over the next 3 months | 25 | 27 | 16 | 37 | 20 | 32 | 22 | 21 | 33 | 38 | 43 |
| Industrial confidence indicator | 0 | 0 | 7 | 7 | 9 | 5 | 8 | 12 | 2 | 6 | 7 |
| Assessment of order-book levels | -23 | -18 | -9 | -7 | -5 | -9 | -3 | 13 | -8 | -14 | -6 |
| Assessment of stocks of finished products | -1 | 2 | 4 | -1 | 1 | 1 | 1 | 6 | -9 | -7 | -6 |
| Production expectations for the months ahead | 24 | 19 | 33 | 26 | 32 | 26 | 27 | 28 | 6 | 25 | 19 |

Source: European Commission.

confidence increased within the construction, and to a lesser extent, within the services and industrial sectors.

Sentiment in the retail sector more than halved, falling to 8 in September, from 17 in August.⁴ Despite this substantial decline in sentiment, this indicator remained above its long-term average of 1. This deterioration was driven by all subcomponents, with the most significant decline stemming from the share of firms expecting business activity to improve over the following three months.⁵ Additional survey data for this sector indicate that a smaller share of firms expected prices to rise over the three months ahead.

Consumer confidence fell to 8 in September, from 12 in August, but still stood well above the long-term average of -19.⁶ Almost all sub-components contributed to this decline in sentiment, with consumers' savings expectations for the 12 months ahead being the main driver. While, consumers' expectations of the general economic situation were unchanged between August and September, a smaller share of respondents expected unemployment to decline further.⁷ Additional survey information indicates that in September, a larger share of consumers expected inflation to increase in the following months, when compared with the preceding month.

⁴ The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

⁵ A larger share of respondents registering above normal stocks of finished goods has a negative effect on the overall industrial confidence indicator.

⁶ The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

⁷ A rise in unemployment expectations has a negative effect on the overall indicator.

On the other hand, confidence in the construction sector improved in September, increasing to 24 from 17 in August, thus remaining above its long-term average of -20.⁸ The rise in sentiment reflects a significant improvement in respondents' assessment of their overall order books, as employment expectations rose marginally. Other survey data indicate that, in comparison with August, a larger share of respondents saw an increase in building activity over the preceding three months. Furthermore, a larger share of firms expected a rise in their selling prices in the three months ahead.

Confidence in the services sector rose further, with the indicator reaching 35 in September, from 34 in the preceding month. It thus remained above its long-term average.^{9,10} The recent increase in sentiment was solely driven by firms' demand expectations for the three months ahead. In contrast, both firms' assessment of their business situation and the evolution of demand over the preceding three months declined between August and September. While additional survey data indicate that firms' assessments of recent employment developments were more optimistic, employment expectations for the three months ahead were less positive. Furthermore, a larger share of respondents expected prices to rise in the three months ahead.

The industrial confidence indicator rose marginally to 7 in September, from 6 in the preceding month, and stood above the indicator's long-term average of -4.¹¹ This rise in sentiment was entirely driven by firms' assessment of order books. In contrast, the share of respondents expecting production to increase in the following months declined in September. Also, a smaller share of firms registered below normal stocks of finished goods.¹² Supplementary survey data suggest that, on balance, a larger share of respondents expected an increase in their employment levels in the subsequent months. Furthermore, firms expected to increase their selling prices in the three months ahead, for the first time since July 2016.

Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, rose by 5.5% in August following a 0.7% contraction in July (see Table 2).¹³ In August, production rose among firms producing food and rubber and plastic products. Higher production was also recorded in the "other manufacturing" sub-sector, which includes firms producing medical and dental instruments, toys and related products. Output also rose in the energy sector. These increases offset declines in the pharmaceutical and printing sectors as well as in the sector producing computer, electronic and optical products.

In August, the annual rate of change of retail trade, which is a short-term indicator of final domestic demand, accelerated from the previous month. Calendar day-adjusted data show that the volume of retail trade increased by 6.9% following a 2.1% rise in July.

⁸ The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

⁹ The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

¹⁰ The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

¹¹ The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

¹² Below normal stocks of finished goods have a positive effect on the overall indicator. Thus, a decline in the share of firms registering below normal stocks of finished goods has a negative effect on the overall industrial confidence indicator.

¹³ The annual growth rates of the overall industrial production index are based on working-day adjusted data. Unadjusted data however, is used for the components.

Table 2
ACTIVITY INDICATORS

Annual percentage changes

| | 2015 | 2016 | 2017 | | | | | |
|-----------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | Mar. | Apr. | May | June | July | Aug. |
| Industrial production | 6.1 | -3.3 | 4.5 | 4.7 | 5.7 | 2.5 | -0.7 | 5.5 |
| Retail trade | 7.0 | 2.2 | 3.3 | 6.1 | 4.3 | 2.9 | 2.1 | 6.9 |
| Number of tourist arrivals | 5.5 | 10.2 | 22.0 | 21.0 | 13.0 | 17.2 | 11.4 | 12.4 |
| Number of nights stayed | 4.7 | 5.7 | 6.8 | 15.0 | 11.9 | 9.6 | 8.9 | 8.5 |
| Private accommodation | 14.9 | 13.5 | 9.2 | 21.4 | 31.2 | 12.5 | 12.5 | 17.8 |
| Collective accommodation | -0.7 | 1.0 | 5.8 | 11.4 | 1.5 | 7.7 | 5.9 | -0.6 |
| Tourist expenditure | 7.2 | 4.3 | 11.8 | 24.9 | 9.5 | 14.3 | 11.4 | 10.4 |
| Package expenditure | 4.8 | -6.5 | -4.1 | 11.8 | -6.4 | 3.4 | -5.6 | -5.8 |
| Non-package expenditure | 13.1 | 11.3 | 26.0 | 42.2 | 25.5 | 18.8 | 22.5 | 18.3 |
| Other | 5.2 | 8.2 | 16.2 | 21.7 | 9.9 | 19.1 | 15.4 | 15.7 |

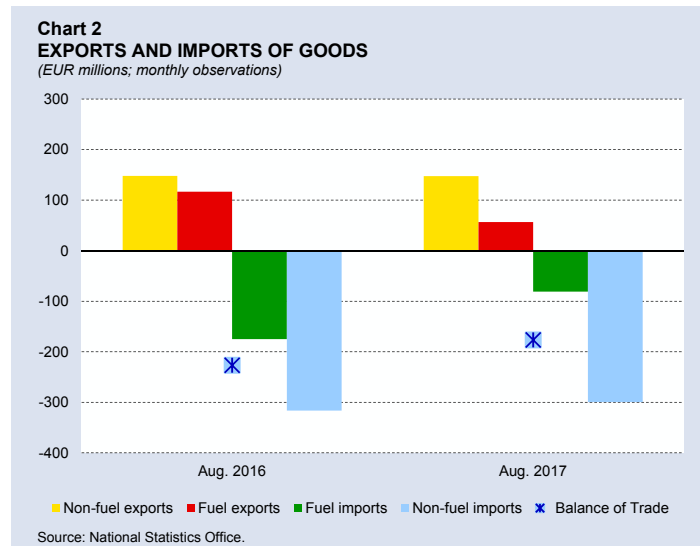
Sources: National Statistics Office; Eurostat.

Meanwhile, the number of inbound tourists grew by 12.4% on a year earlier, while nights stayed were up by 8.5%. This reflected increases in the number of nights spent in private accommodation, as nights spent in collective accommodation fell marginally. Tourist spending rose by 10.4% in annual terms. Higher spending was recorded across all expenditure components, with the exception of package holidays.

In July, the overall occupancy rate in collective accommodation establishments stood at 85.4%, 4.0 percentage points higher than that registered in the same month of 2016. Higher occupancy rates were recorded in all categories except for five-star hotels and the “other establishments” category.¹⁴

In the second quarter of 2017, there were 115 cruise liner calls, seven more than a year earlier. Nonetheless, foreign passengers decreased to 181,050, from 197,842 in the same period of 2016.

Preliminary Customs data show that the merchandise trade deficit stood at €176.7 million in August, a narrowing of €50.1 million on the same month of 2016. This arose as imports contracted at a faster pace than exports. The former dropped by €110.9 million, whilst exports declined by €60.7 million (see Chart 2). Lower imports and exports were almost entirely driven by a decline in trade



¹⁴ The “other” establishments category comprises guesthouses, hostels and tourist villages.

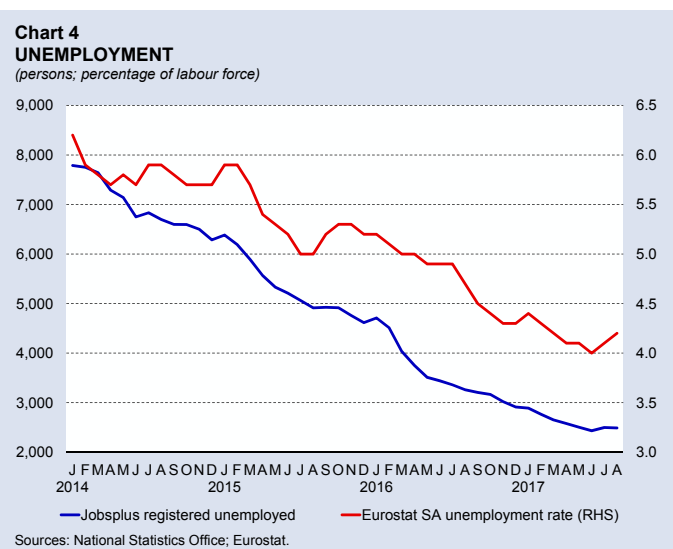
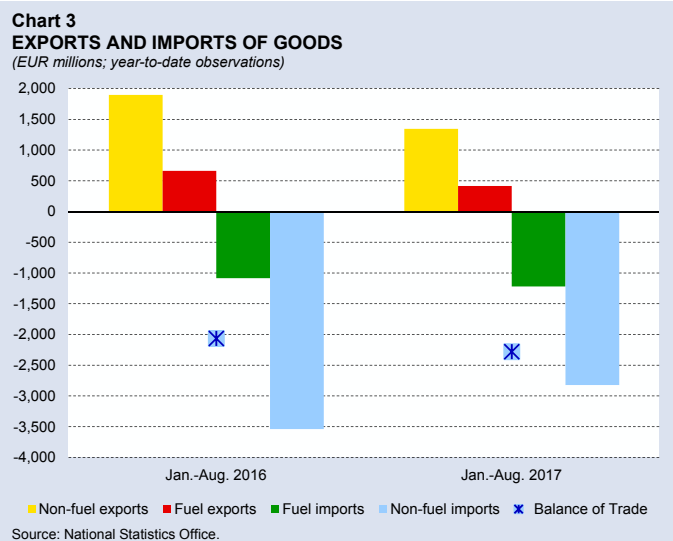
in fuels. Nonetheless, when excluding fuels the merchandise trade deficit would have still narrowed.

During the first eight months of 2017 exports declined at a faster pace than imports. As a result, the visible trade gap widened by €215.7 million when compared with the same period of 2016, standing at €2,281.0 million (see Chart 3).

Labour market

Jobsplus data show that in August, the number of persons on the unemployment register fell on the same month a year earlier. The registered unemployed decreased to 2,489, from 3,261 in August 2016. It also fell marginally from 2,499 in July 2017 (see Chart 4).

Meanwhile, Eurostat's estimate of the seasonally adjusted unemployment rate remains at a historical low, although it rose slightly to 4.2% in August, from 4.1% in the preceding month.



BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in March 2017 the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.3% on a year earlier, reaching 187,334 (see Chart 5). This followed a 5.4% increase in February.

Growth in employment in March mirrored developments observed in recent months, as it continued to be mainly driven by the private sector, although public sector employment growth also rose on an annual basis (see Table 3).

The number of full-timers in the private sector went up by 8,576, or 6.4%, on the same month of 2016. Employment growth in this sector continued to be driven by market services, where

the number of full-time job holders increased by 8,119, or 8.1% in annual terms. This increase was distributed among all major sectors within this category.

The sector incorporating real estate, professional and administrative activities registered the largest absolute increase. Employed persons in this sector went up by 2,624

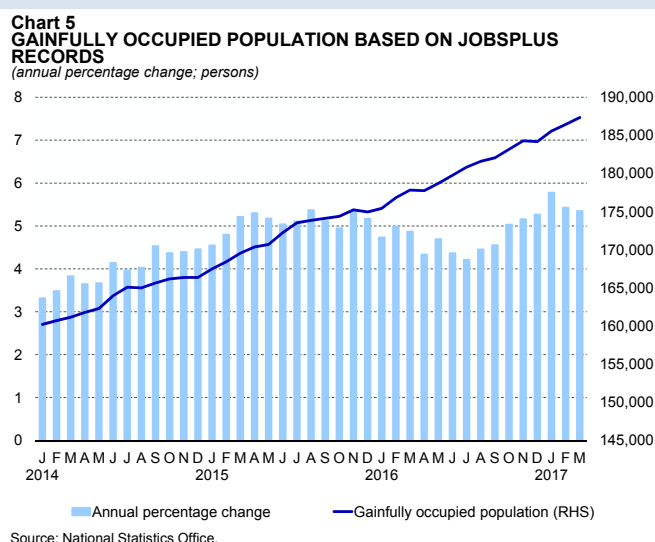


Table 3
LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS

Persons; annual percentage changes

| | 2016 | 2017 | Annual change | |
|--|----------------|----------------|-------------------|------------|
| | March | March | Number of persons | % |
| Labour supply | 181,855 | 189,983 | 8,128 | 4.5 |
| Gainfully occupied ⁽¹⁾ | 177,822 | 187,334 | 9,512 | 5.3 |
| Registered unemployed | 4,033 | 2,649 | -1,384 | -34.3 |
| Unemployment rate (%) | 2.2 | 1.4 | | |
| Private sector | 133,471 | 142,047 | 8,576 | 6.4 |
| Direct production⁽²⁾ | 32,994 | 33,451 | 457 | 1.4 |
| Of which: | | | | |
| Manufacturing | 20,640 | 20,727 | 87 | 0.4 |
| Construction | 9,705 | 10,026 | 321 | 3.3 |
| Market services | 100,477 | 108,596 | 8,119 | 8.1 |
| Wholesale and retail trade | 25,293 | 25,875 | 582 | 2.3 |
| Transportation and storage | 7,785 | 8,158 | 373 | 4.8 |
| Accommodation and food service activities | 11,020 | 11,793 | 773 | 7.0 |
| Information and communication | 6,001 | 6,560 | 559 | 9.3 |
| Financial and insurance activities | 8,034 | 8,482 | 448 | 5.6 |
| Real estate, professional and administrative activities ⁽³⁾ | 23,578 | 26,202 | 2,624 | 11.1 |
| Arts, entertainment and recreation | 5,858 | 7,349 | 1,491 | 25.5 |
| Education | 5,007 | 5,172 | 165 | 3.3 |
| Other | 7,901 | 9,005 | 1,104 | 14.0 |
| Public sector | 44,351 | 45,287 | 936 | 2.1 |

⁽¹⁾ This category measures full-time employment.

⁽²⁾ This includes employment in agriculture, fishing, mining and quarrying, manufacturing, electricity, gas and water supply, and construction.

⁽³⁾ This includes employment in real estate activities, professional, scientific and technical activities, and administrative and support service activities.

Source: National Statistics Office.

in the year to March 2017, and accounted for almost a third of the overall rise in private market services employment. The number of persons employed in the arts, entertainment and recreation sector also increased significantly in annual terms, going up by 1,491.

Meanwhile, employment in direct production within the private sector grew by 457, or 1.4%, on a year earlier. Growth was recorded across most sectors, with the largest increase registered in the construction sector, where the increase was led by firms involved in the construction of buildings. Employment also rose significantly within the manufacturing sector, with the largest increase registered in the “other manufacturing” sub-sector, which includes medical and dental instruments as well as toys and related products. Employment also rose among firms involved in the production of rubber and plastics. On the other hand, employment fell marginally in the mining and quarrying sector as well as within the water supply sector.

Public sector jobs rose by 936, or 2.1%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education. These offset falls in other sectors, such as the transportation and storage, and construction sectors.

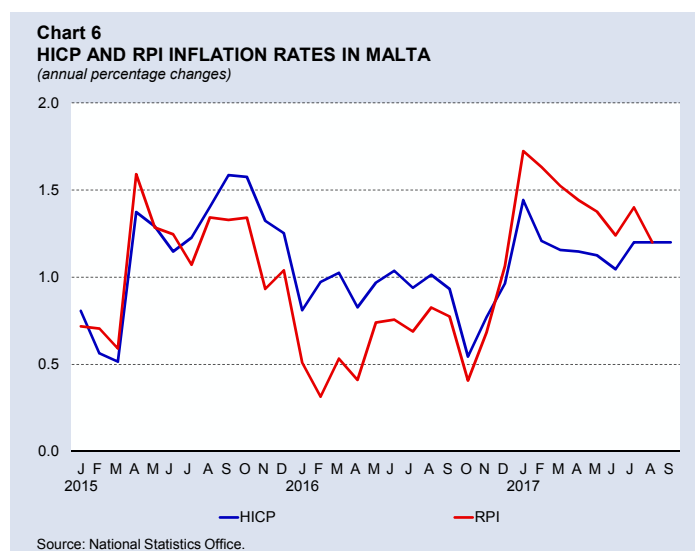
Prices, costs and competitiveness

Price pressures remained moderate in August, with the annual rate of HICP inflation unchanged at 1.2% (see Chart 6).

Among the main subcomponents, food inflation eased due to developments in unprocessed food items such as fruit and vegetables. Furthermore, inflation on non-energy industrial goods was also weaker, reflecting slower annual growth in the prices of furnishings and household equipment. In contrast, services inflation picked up, owing to a higher contribution from the food services component. Meanwhile, energy inflation also accelerated, on account of an increase in the price of gas.

HICP inflation remained unchanged at 1.2% in September.

Inflation based on the Retail Price Index (RPI) dropped to 1.2% in August, from 1.4% in July.¹⁵ This was driven by developments in the food and in the household equipment and maintenance sub-indices.



¹⁵ The RPI differs from the HICP in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta.

Annual inflation based on the Industrial Producer Price Index (PPI) accelerated to 3.7% in August, from 3.4% in July.¹⁶ PPI inflation has risen in recent months, breaking the previous trend of weak growth or falling prices. In particular, the recent pick-up reflected faster growth in prices for intermediate goods, which include computer, electronic and optical products. On the other hand, the contribution from consumer goods to the overall index dropped slightly in August, while contributions from capital goods and energy, remained small and unchanged.

With regard to international price competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) continued to rise, with annual growth of 2.9% in September.¹⁷ In real terms, the HCI was up by 3.9% on the same month a year earlier. These figures suggest a deterioration in Malta's international competitiveness when compared with a year earlier, on account of unfavourable movements in both exchange rates and relative prices.

Public finance

During August 2017, the Consolidated Fund balance registered a surplus of €136.1 million, an improvement of €74.2 million when compared with the corresponding month of 2016 (see Table 4). This development was due to a significant decline in government expenditure, as government

| | 2016 | 2017 | 2016 | 2017 | Change | |
|--|----------------|----------------|--------------|--------------|--------------|--------------|
| | Jan.-Aug. | Jan.-Aug. | Aug. | Aug. | Amount | % |
| Revenue | 2,175.7 | 2,425.9 | 395.1 | 397.8 | 2.7 | 0.7 |
| Direct tax | 1,116.3 | 1,206.1 | 189.4 | 217.1 | 27.7 | 14.6 |
| Income tax | 771.2 | 833.3 | 139.6 | 159.6 | 20.0 | 14.3 |
| Social security contributions ⁽¹⁾ | 345.2 | 372.9 | 49.8 | 57.5 | 7.7 | 15.4 |
| Indirect tax | 855.7 | 935.7 | 186.1 | 165.6 | -20.5 | -11.0 |
| Value Added Tax | 474.6 | 517.8 | 135.5 | 118.8 | -16.7 | -12.3 |
| Customs and excise duties | 170.6 | 196.0 | 24.6 | 26.6 | 2.0 | 7.9 |
| Licences, taxes and fines | 210.5 | 222.0 | 26.0 | 20.2 | -5.8 | -22.1 |
| Non-tax⁽²⁾ | 203.7 | 284.1 | 19.6 | 15.1 | -4.5 | -22.8 |
| Expenditure | 2,254.8 | 2,394.8 | 333.2 | 261.7 | -71.4 | -21.4 |
| Recurrent | 2,066.5 | 2,208.1 | 294.7 | 239.5 | -55.2 | -18.7 |
| Personal emoluments | 476.1 | 501.7 | 59.9 | 63.6 | 3.7 | 6.2 |
| Operational and maintenance | 114.0 | 110.6 | 9.8 | 9.4 | -0.5 | -4.6 |
| Programmes and initiatives ⁽¹⁾ | 1,087.2 | 1,210.0 | 162.1 | 115.7 | -46.4 | -28.6 |
| Contributions to entities | 239.4 | 241.4 | 41.8 | 31.4 | -10.3 | -24.7 |
| Interest payments | 149.8 | 144.4 | 21.1 | 19.4 | -1.7 | -8.2 |
| Capital | 188.3 | 186.7 | 38.5 | 22.2 | -16.2 | -42.2 |
| Primary balance⁽³⁾ | 70.6 | 175.5 | 83.0 | 155.5 | 72.4 | - |
| Consolidated Fund balance | -79.1 | 31.1 | 61.9 | 136.1 | 74.2 | - |

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

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

⁽³⁾ Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

¹⁶ The Industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage.

¹⁷ The nominal HCI tracks movements in the country's exchange rate against the currencies of its main trading partners, weighted according to the direction of trade in manufactured goods. The real HCI incorporates both exchange rate changes and the relative inflation of a country vis-à-vis its main trading partners. A higher (or lower) score in the HCI indicates a deterioration (or improvement) in a country's international price competitiveness.

revenue remained largely unchanged. In turn, this resulted in a primary balance surplus of €155.5 million, an increase of €72.4 million over the surplus registered a year earlier.

Revenue grew by €2.7 million when compared with the same month last year, equivalent to 0.7%. This was driven by higher direct taxes, chiefly income taxes. However, the upsurge in direct taxes was largely offset by declines in other tax items, in particular value added taxes and non-tax revenue.

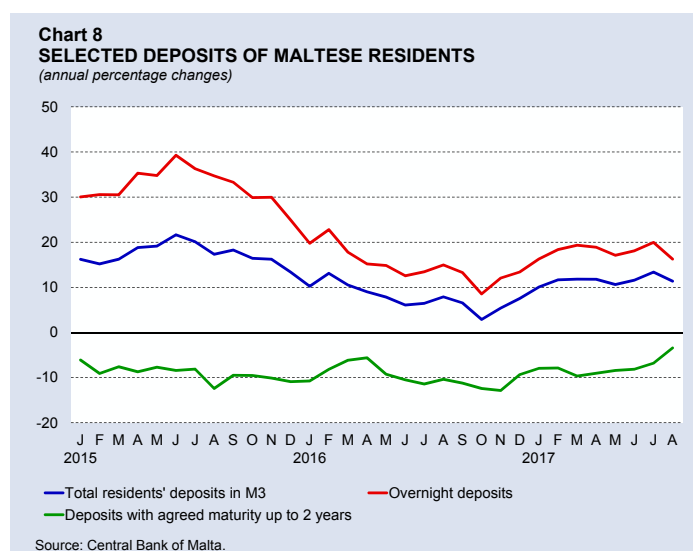
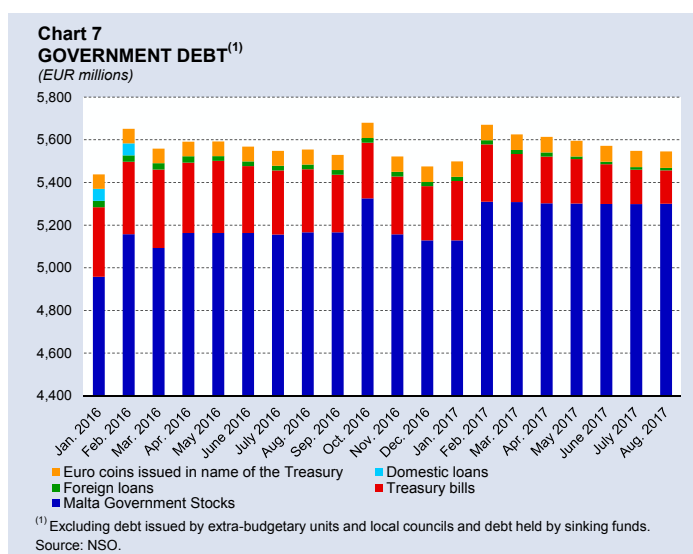
Meanwhile, government expenditure declined by €71.4 million, or 21.4% in the period under review. This decrease mainly emanated from lower spending on programmes and initiatives and capital expenditure. The former declined due to the timing of pensions as well as lower spending on social assistance. Lower contributions to government entities and interest payments also led to the decline in expenditure.

In August, the total stock of central government debt declined by €2.6 million when compared with a month earlier to reach € 5,545.5 million (see Chart 7). This decrease stemmed from lower Treasury Bills outstanding.

Deposits, credit and financial markets

The amount of residents' deposits held with monetary and financial institutions (MFI) forming part of broad money (M3) maintained its upward momentum during August, with the annual rate of growth standing at 11.4% (see Chart 8). Although lower than the 13.4% figure observed in July, growth remains relatively strong from a historical perspective. This indicates an abundance of liquidity in the context of robust economic growth as well as a continued preference for holding liquid assets in an environment of low interest rates.

Overnight deposits grew by an annual 16.3%, following a 20.0%



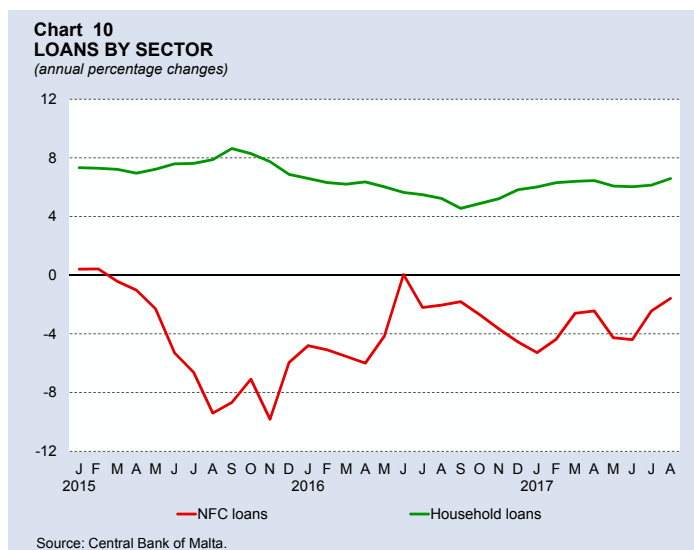
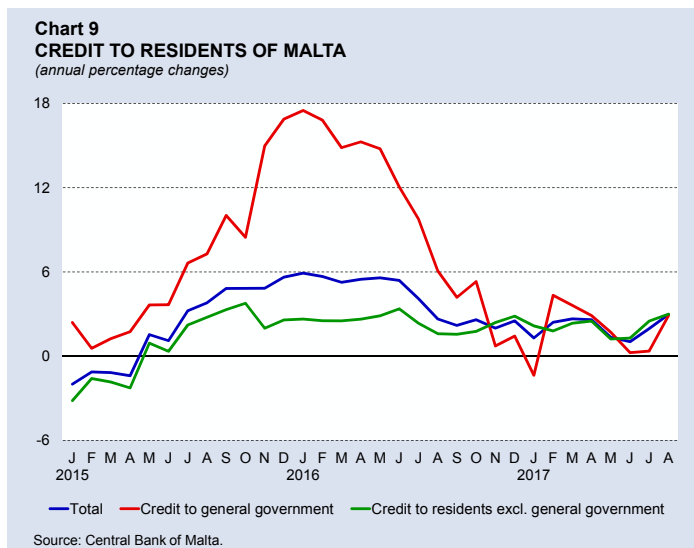
increase in July. They remained the main driver behind growth in total deposits. In contrast, time deposits with a maturity of up to two years continued to contract, albeit at a slower pace.

On the asset side of banks' balance sheets, annual growth in credit to Maltese residents accelerated to 3.0% in August, from 2.0% a month earlier (see Chart 9). Credit to both general government and other residents grew at a faster pace. While growth in credit to general government was impacted by the timing of government debt issues and redemptions, growth in credit to residents was largely driven by loans.

Indeed, loans to residents outside general government rose by an annual rate of 3.6%, supported by growth in lending to households (see Chart 10). Growth in this component edged up to 6.6% in August, with continued increases in mortgage loans offsetting declines in consumer credit and other loans. Loans to non-financial corporations (NFC), the other major component of

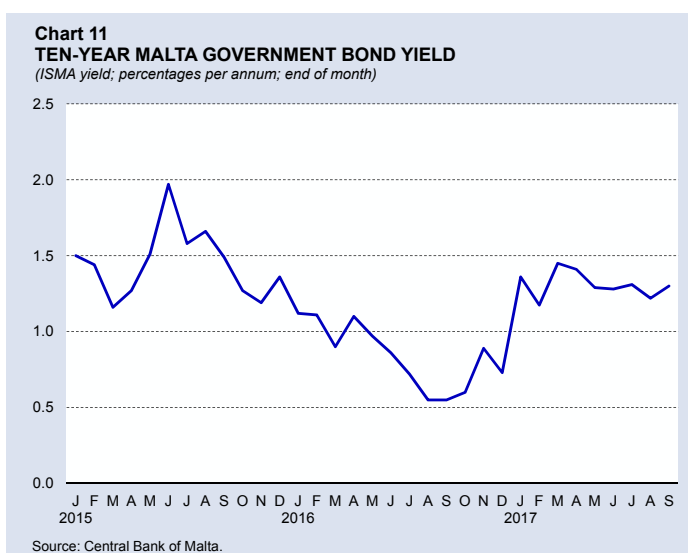
loans to residents, continued to contract, albeit at a slower pace of -1.6%. These developments illustrate a continued shift in banks' loan portfolios towards households and away from NFCs. Declining credit to NFCs highlights the firms' use of alternative funding sources, and a structural shift towards more labour-intensive industries.

Bank deposit rates remained unchanged when compared with July, with the composite interest rate paid by MFIs on residents' euro-denominated deposits standing at 0.41%. This is 13 basis points lower than the rate registered in the same period last year. Meanwhile, the comparable rate charged on outstanding loans dropped by 5 basis points to 3.61%, 8 basis points lower than in August 2016. As a result, the spread between the composite deposit and loan rates applied to residents stood at 321 basis points, up from 315 basis points a year earlier. This continues to suggest



a larger pass-through from the European Central Bank's accommodative policy towards deposit rates rather than to loan rates.

In the capital market, the secondary yield on ten-year Maltese government bonds ended September at 1.30%, up from 1.22% at end-August (see Chart 11). At the same time, the Malta Stock Exchange (MSE) Equity Price Index gained 1.1%, while the MSE Total Return Index, which accounts for changes in both equity prices and dividends, rose by 1.0%.



Annex 1

| MACROECONOMIC INDICATORS FOR MALTA | | | | | | | | | | | | | | | | | | | | | | |
|--|-------|------|-------|-------|-------|------|-------|------|-------|-------|-------|-------|------|------|------|------|------|------|------|------|------|------|
| <i>(annual percentage changes; non-seasonally adjusted data)</i> | | | | | | | | | | | | | | | | | | | | | | |
| | 2015 | 2016 | 2016 | 2016 | 2016 | 2017 | 2017 | 2017 | 2016 | 2016 | 2016 | 2016 | 2016 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 | 2017 |
| | | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. |
| Prices and costs | | | | | | | | | | | | | | | | | | | | | | |
| HICP inflation | 1.2 | 0.9 | 0.9 | 1.0 | 0.8 | 1.3 | 1.1 | 1.2 | 1.0 | 0.9 | 0.5 | 0.8 | 1.0 | 1.4 | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 | 1.2 | 1.2 | 1.2 |
| RPI inflation | 1.1 | 0.6 | 0.6 | 0.8 | 0.7 | 1.6 | 1.4 | - | 0.8 | 0.8 | 0.4 | 0.7 | 1.1 | 1.7 | 1.6 | 1.5 | 1.4 | 1.4 | 1.2 | 1.4 | 1.2 | - |
| Industrial producer price inflation | -2.2 | -0.6 | 0.1 | 0.0 | -1.0 | -1.2 | 0.0 | - | 0.2 | 0.0 | -0.1 | -1.0 | -1.9 | -1.7 | -1.0 | -0.9 | -1.8 | 0.6 | 1.2 | 3.4 | 3.7 | - |
| HCI (nominal) | -5.2 | 2.3 | 3.5 | 1.8 | 1.7 | -0.1 | 0.7 | 2.9 | 1.7 | 0.8 | 1.3 | 2.9 | 1.0 | 0.4 | -0.8 | 0.2 | -0.4 | 0.8 | 1.6 | 2.5 | 3.2 | 2.9 |
| HCI (real) | -9.2 | 3.2 | 5.6 | 2.5 | 1.9 | -1.2 | -0.1 | 3.9 | 2.4 | 0.6 | 1.0 | 4.1 | 0.7 | -0.3 | -2.6 | -0.7 | -2.1 | 0.1 | 1.6 | 3.5 | 4.3 | 3.9 |
| Unit labour costs, whole economy ⁽¹⁾ | 0.2 | 0.9 | 0.5 | 1.2 | 0.9 | 0.8 | 0.2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Compensation per employee ⁽¹⁾ | 3.2 | 2.7 | 3.1 | 3.5 | 2.7 | 1.7 | 1.4 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Labour productivity (per person) ⁽¹⁾ | 3.0 | 1.8 | 2.7 | 2.2 | 1.8 | 0.9 | 1.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Property Price Index (NSO) | 5.8 | 5.6 | 7.0 | 4.7 | 5.5 | 5.0 | 5.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Economic activity | | | | | | | | | | | | | | | | | | | | | | |
| Nominal GDP | 9.7 | 7.2 | 6.4 | 6.2 | 7.5 | 8.0 | 8.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real GDP | 7.1 | 5.5 | 4.9 | 4.6 | 5.9 | 6.2 | 6.4 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real private consumption | 5.9 | 3.0 | 3.3 | -0.2 | 2.3 | 3.7 | 5.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real government consumption | 3.7 | -1.8 | 3.4 | -4.8 | -11.2 | -3.7 | -9.9 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real gross fixed capital formation | 48.4 | -0.4 | 0.7 | -17.5 | 2.1 | 3.8 | -27.4 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real exports of goods and services | 4.2 | 3.5 | -0.5 | 2.0 | 8.1 | 0.2 | 5.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Real imports of goods and services | 7.6 | 0.8 | -0.5 | -5.8 | 3.3 | -1.6 | -6.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Labour market developments | | | | | | | | | | | | | | | | | | | | | | |
| LFS unemployment rate (% of labour force) | 5.4 | 4.7 | 4.8 | 4.8 | 4.2 | 4.2 | 4.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| LFS employment | 2.3 | 3.0 | 4.1 | 2.3 | 3.2 | 2.7 | 2.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Jobsplus gainfully occupied | 5.1 | 4.7 | 4.5 | 4.4 | 5.2 | 5.5 | - | - | 4.5 | 4.6 | 5.0 | 5.2 | 5.3 | 5.8 | 5.4 | 5.3 | - | - | - | - | - | - |
| Balance of payments | | | | | | | | | | | | | | | | | | | | | | |
| Current account (as a % of GDP) ⁽²⁾ | 4.6 | 6.6 | 3.2 | 5.8 | 6.6 | 7.2 | 10.9 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Credit and financial indicators | | | | | | | | | | | | | | | | | | | | | | |
| Maltese residents' deposits and loans | | | | | | | | | | | | | | | | | | | | | | |
| Overnight deposits | 24.9 | 13.4 | 12.6 | 13.3 | 13.4 | 19.3 | 18.1 | - | 15.0 | 13.3 | 8.5 | 12.1 | 13.4 | 16.3 | 18.4 | 19.3 | 18.9 | 17.1 | 18.1 | 20.0 | 16.3 | - |
| Deposits with agreed maturity up to 2 years | -10.9 | -9.3 | -10.5 | -11.2 | -9.3 | -9.7 | -8.1 | - | -10.4 | -11.2 | -12.4 | -12.9 | -9.3 | -7.9 | -7.9 | -9.7 | -9.0 | -8.4 | -8.1 | -6.8 | -3.4 | - |
| Total residents' deposits in M3 | 13.4 | 7.5 | 6.1 | 6.5 | 7.5 | 11.8 | 11.6 | - | 7.9 | 6.5 | 2.9 | 5.4 | 7.5 | 10.1 | 11.7 | 11.8 | 11.8 | 10.6 | 11.6 | 13.4 | 11.4 | - |
| Credit to general government | 16.9 | 1.4 | 12.1 | 4.2 | 1.4 | 3.6 | 0.3 | - | 6.1 | 4.2 | 5.3 | 0.7 | 1.4 | -1.4 | 4.3 | 3.6 | 2.9 | 1.7 | 0.3 | 0.4 | 2.9 | - |
| Credit to residents (excl. general government) | 2.6 | 2.9 | 3.4 | 1.6 | 2.9 | 2.4 | 1.3 | - | 1.6 | 1.6 | 1.8 | 2.4 | 2.9 | 2.2 | 1.8 | 2.4 | 2.5 | 1.2 | 1.3 | 2.5 | 3.0 | - |
| Total credit | 5.6 | 2.5 | 5.4 | 2.2 | 2.5 | 2.7 | 1.0 | - | 2.7 | 2.2 | 2.6 | 2.0 | 2.5 | 1.3 | 2.4 | 2.7 | 2.6 | 1.3 | 1.0 | 2.0 | 3.0 | - |
| 10-year interest rate (%) ⁽³⁾ | 1.4 | 0.7 | 0.9 | 0.6 | 0.7 | 1.5 | 1.3 | 1.3 | 0.6 | 0.6 | 0.6 | 0.9 | 0.7 | 1.4 | 1.2 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.2 | 1.3 |
| Stock prices: Malta Stock Exchange Index ⁽⁴⁾ | 33.0 | 4.5 | 0.0 | -2.1 | 3.7 | 1.9 | -0.4 | -0.1 | -0.7 | 0.6 | 1.7 | -1.6 | 3.6 | 1.8 | 0.4 | -0.4 | -0.9 | -0.8 | 1.3 | 0.3 | -1.5 | 1.1 |
| General government finances (% of GDP) | | | | | | | | | | | | | | | | | | | | | | |
| Surplus (+) / deficit (-) ⁽²⁾ | -1.3 | 1.0 | 0.4 | 0.8 | 1.0 | 2.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Gross debt ⁽⁵⁾ | 60.6 | 58.0 | 60.9 | 59.6 | 58.0 | 58.4 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

⁽¹⁾ Four-quarter moving averages.

⁽²⁾ Four-quarter moving sums.

⁽³⁾ End of period. In January and February 2017, in the absence of bonds qualifying within the recommended residual maturity, the benchmark yield was calculated as an average of bonds close to the agreed maturity range.

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

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

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