



BANK ĊENTRALI TA' MALTA  
EUROSISTEMA  
CENTRAL BANK OF MALTA

## **ECONOMIC UPDATE**

### **6/2017**

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## ECONOMIC UPDATE 6/2017

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

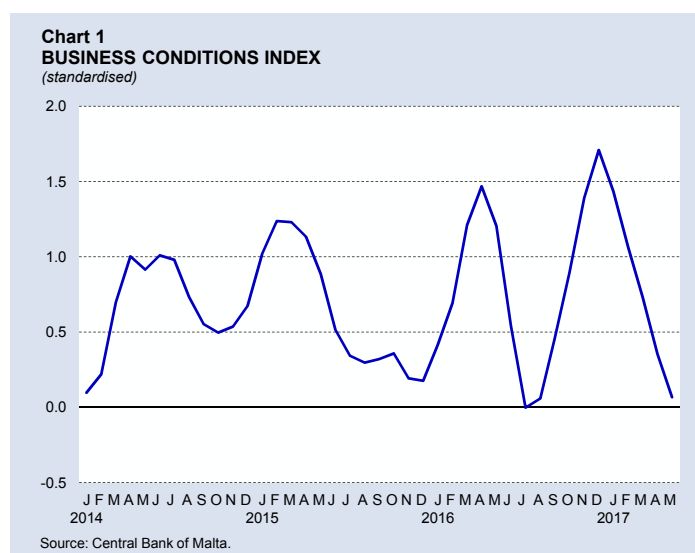
The Bank's Business Conditions Index (BCI) signalled average activity levels in May, slowing down further over the previous month. Economic sentiment fell marginally during the month, due to weaker sentiment in services. In April, the annual rate of change of retail sales rose, while industrial production and tourism activity expanded further. Labour market conditions remained favourable, as employment grew and the number of registered unemployed continued to decline. Price pressures remained moderate, with the annual rate of inflation based on the Harmonised Index of Consumer Prices (HICP) at 1.1% in April. Maltese residents' deposits rose by 11.8% when compared with the same month of 2016, while credit to residents increased by 2.6%. As regards fiscal developments, the cash-based Consolidated Fund balance showed a surplus in the first four months of 2017.

### Central Bank's Business Conditions Index (BCI)

The Central Bank's BCI shows average levels of economic activity, with a slowdown over the previous month (see Chart 1). In May, the index eased to 0.1 from a revised value of 0.4 a month earlier, and stood lower on an annual basis. The BCI was affected by a slowdown in an indicator linked with the services industry, as well as lower economic sentiment.

### Business and consumer confidence indicators

In May 2017, the Economic Sentiment Indicator (ESI) stood at 113, down from 115 in the preceding month (see Table 1), remaining above its long-term average of 100.<sup>2,3</sup> Lower sentiment was registered among firms operating in the services sector, while confidence improved in construction



<sup>1</sup> The cut-off date for information in this note is 13 June 2017.

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

<sup>3</sup> Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. Since the retail confidence indicator began to be published as from May 2011, its long-term average is calculated since then. 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
<b>Economic Sentiment Indicator</b>	<b>111</b>	<b>109</b>	<b>111</b>	<b>115</b>	<b>114</b>	<b>115</b>	<b>113</b>
<b>Services confidence indicator</b>	<b>26</b>	<b>26</b>	<b>24</b>	<b>33</b>	<b>25</b>	<b>34</b>	<b>25</b>
Business situation development over the past 3 months	25	22	28	22	25	30	23
Evolution of the demand over the past 3 months	28	29	28	40	32	40	30
Expectation of the demand over the next 3 months	25	27	16	37	20	32	22
<b>Construction confidence indicator</b>	<b>11</b>	<b>-8</b>	<b>-8</b>	<b>-13</b>	<b>9</b>	<b>6</b>	<b>13</b>
Evolution of your current overall order books	1	-22	-24	-34	-1	0	2
Employment expectations over the next 3 months	22	6	8	10	18	12	24
<b>Industrial confidence indicator</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>5</b>	<b>8</b>
Assessment of order-book levels	-23	-18	-9	-7	-5	-9	-3
Assessment of stocks of finished products	-1	2	4	-1	1	1	1
Production expectations for the months ahead	24	19	33	26	32	26	27
<b>Consumer confidence indicator</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>
Financial situation over next 12 months	4	5	3	7	3	4	5
General economic situation over next 12 months	11	13	13	15	17	15	12
Unemployment expectations over next 12 months	-10	-13	-12	-17	-12	-17	-13
Savings over next 12 months	-25	-24	-28	-23	-19	-24	-18
<b>Retail trade confidence indicator</b>	<b>16</b>	<b>7</b>	<b>1</b>	<b>16</b>	<b>8</b>	<b>-2</b>	<b>-2</b>
Business activity, past 3 months	33	17	-3	17	18	-8	16
Stocks of finished goods	9	9	12	-1	12	9	2
Business activity, next 3 months	25	14	17	29	17	11	-20

Source: European Commission.

and industry. Confidence among consumers and retailers remained unchanged from the preceding month.

In May, the confidence indicator in the services sector fell to 25, from 34 in the preceding month.<sup>4</sup> Despite this fall, sentiment remained above the long-term average of 21. The recent decline in sentiment was driven by all sub-components. Additional survey data indicate that, overall, both firms' employment and price expectations for the three months ahead were less optimistic compared with April. Similarly, respondents' assessment of past labour developments deteriorated when compared with April, though to a lesser extent.

In contrast, confidence in the construction sector increased to 13, from 6 a month earlier, thus rising further above its long-term average of -22.<sup>5</sup> This increase in confidence mainly reflected higher employment expectations for the three months ahead. Other survey data for the month indicate that, compared with April, broadly the same share of respondents reported an increase in building activity over the preceding three months. However, a marginally smaller share of firms expected their selling prices over the following three months to rise.

<sup>4</sup> The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

<sup>5</sup> The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

The industrial confidence indicator also improved, rising from 5 in April to 8 in May. Therefore, it remained well above its long-term average of -4.<sup>6</sup> Improved order books and stronger production expectations were the contributors behind the improvement in sentiment, while stocks of finished goods were unchanged and slightly above normal. Supplementary survey data suggest that, on balance, a smaller share of respondents expected to increase their employment in the subsequent months. At the same time, more respondents expect to lower their selling prices in the following three months.

Consumer confidence was unchanged from the previous two months, at 3.<sup>7</sup> Consumer confidence thus still remained well above its long-term average of -20. A weaker assessment of the general economic situation and unemployment expectations were counterbalanced by consumers' improved saving expectations and assessment of their financial situation.<sup>8</sup> Additional survey information indicates that in May consumers' inflation expectations weakened marginally compared with the preceding month. At the same time, a smaller share of respondents expected to make less major purchases over the subsequent 12 months.

Similarly, sentiment in the retail sector was unchanged at -2, after turning negative in the preceding month.<sup>9</sup> Thus, it remains below its long-term average of 1. While respondents' expectations for business activity deteriorated, their assessment of past business activity improved. At the same time, a smaller share of respondents assessed their stock level to be above normal.<sup>10</sup> Additional survey data for this sector indicate that, respondents expected both their orders and labour complement to fall in the subsequent three months. On balance, however, firms expected prices to rise in the following three months.

## Activity

The index of industrial production, which is a measure of economic activity in the quarrying, manufacturing and energy sectors, went up by an annual 3.6% in April 2017. This followed a 0.8% year-on-year increase in March (see Table 2).<sup>11</sup> In April, output increased substantially among manufacturers of computer, electronic and optical products. Production also increased within the energy sector, among firms producing rubber and plastics, beverages as well as among those involved in the printing and reproduction of recorded media. These increases offset lower production among manufacturers of pharmaceuticals and in the food production sector.

The annual rate of change of retail trade, which is a short-term indicator of final domestic demand, edged up in April. Calendar day-adjusted data show that the volume of retail trade increased by 4.2% on a year earlier, following a 3.5% increase in March.

<sup>6</sup> The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

<sup>7</sup> The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

<sup>8</sup> A decline in unemployment expectations has a positive effect on the overall indicator.

<sup>9</sup> The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

<sup>10</sup> Above normal stocks of finished goods have a negative effect on the overall industrial confidence indicator.

<sup>11</sup> The annual growth rates of the industrial production index are based on working-day adjusted data.

**Table 2**  
**ACTIVITY INDICATORS**

Annual percentage changes

	2015		2016										2017			
	2015	2016	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	
<b>Industrial production</b>	<b>6.1</b>	<b>-3.2</b>	<b>-2.1</b>	<b>-3.4</b>	<b>-6.2</b>	<b>-5.0</b>	<b>-2.2</b>	<b>-1.4</b>	<b>-6.2</b>	<b>-0.4</b>	<b>2.9</b>	<b>6.1</b>	<b>4.9</b>	<b>0.8</b>	<b>3.6</b>	
<b>Retail trade</b>	<b>7.1</b>	<b>2.1</b>	<b>-1.0</b>	<b>-0.6</b>	<b>0.6</b>	<b>-2.2</b>	<b>4.4</b>	<b>2.2</b>	<b>0.6</b>	<b>4.3</b>	<b>-1.0</b>	<b>2.6</b>	<b>-1.8</b>	<b>3.5</b>	<b>4.2</b>	
<b>Number of tourist arrivals</b>	<b>5.5</b>	<b>10.2</b>	<b>8.4</b>	<b>9.8</b>	<b>7.2</b>	<b>9.1</b>	<b>2.8</b>	<b>7.5</b>	<b>9.4</b>	<b>24.2</b>	<b>30.9</b>	<b>22.7</b>	<b>28.3</b>	<b>22.0</b>	<b>21.0</b>	
<b>Number of nights stayed</b>	<b>4.7</b>	<b>5.7</b>	<b>7.4</b>	<b>6.6</b>	<b>8.6</b>	<b>3.5</b>	<b>0.7</b>	<b>1.6</b>	<b>3.9</b>	<b>14.2</b>	<b>10.3</b>	<b>12.3</b>	<b>15.7</b>	<b>6.8</b>	<b>15.0</b>	
Private accommodation	14.9	13.5	23.8	20.8	26.2	13.3	7.9	6.2	6.1	25.8	9.8	26.9	24.8	9.2	21.4	
Collective accommodation	-0.7	1.0	-0.1	0.3	-0.4	-3.5	-5.4	-1.7	2.6	8.5	10.8	3.5	11.8	5.8	11.4	
<b>Tourist expenditure</b>	<b>7.2</b>	<b>4.3</b>	<b>3.3</b>	<b>5.0</b>	<b>4.0</b>	<b>4.3</b>	<b>-1.9</b>	<b>1.3</b>	<b>4.1</b>	<b>12.9</b>	<b>16.0</b>	<b>8.6</b>	<b>20.8</b>	<b>11.8</b>	<b>24.9</b>	
Package expenditure	4.8	-6.5	-7.4	-6.5	-9.9	-1.9	-13.2	-6.0	-9.6	-3.1	3.1	-12.8	3.1	-4.1	11.8	
Non-package expenditure	13.1	11.3	9.2	15.0	17.7	5.7	4.0	8.6	13.7	21.8	18.1	14.8	29.5	26.0	42.2	
Other	5.2	8.2	8.4	8.7	6.6	8.3	2.9	1.5	9.6	18.7	22.9	18.0	28.0	16.2	21.7	

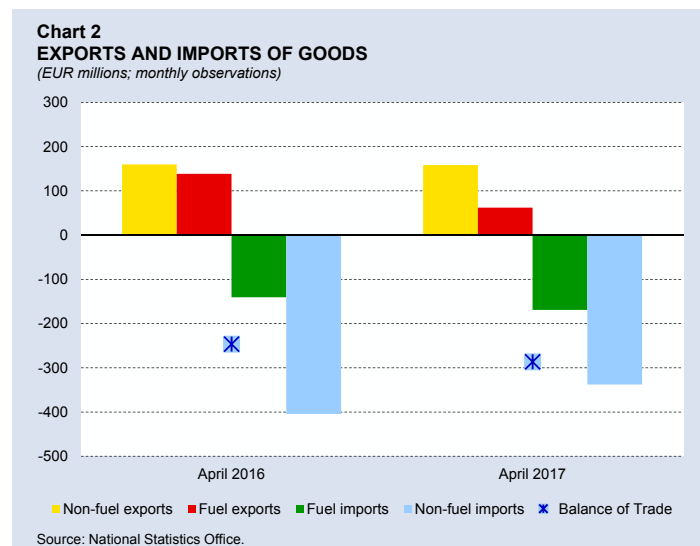
Sources: National Statistics Office; Eurostat.

In April, the number of inbound tourists rose by 21.0% on a year earlier. Nights stayed grew by 15.0% year-on-year, reflecting increases in nights spent in private accommodation and also in collective accommodation. At the same time, tourist expenditure increased by 24.9% in annual terms. Higher spending was recorded across all expenditure components.

In March, the overall occupancy rate in collective accommodation establishments stood at 55.5%, 0.5 percentage point lower than in the same month of 2016. This was a result of lower occupancy rates registered in the “other” establishments category and, to a lesser extent, in 5 star and 4 star hotels.<sup>12</sup>

In the first quarter of 2017, there were 34 cruise liner calls, 17 more compared with a year earlier. Foreign passengers increased to 85,133, from 39,303 in the same period of 2016.

Preliminary Customs data show that the merchandise trade deficit amounted to €286.5 million in April, a widening of €40.0 million on the same month of 2016. This arose as exports fell faster than imports. The former decreased by €78.1 million, while imports contracted by €38.0 million (see Chart 2). The decline in exports was almost entirely attributed to a drop in fuel re-exports. The contraction in imports was mainly due to a decline in imports of aircraft, which were exceptionally large in April 2016. This fall was partly dampened by a rise in the fuel-import bill.



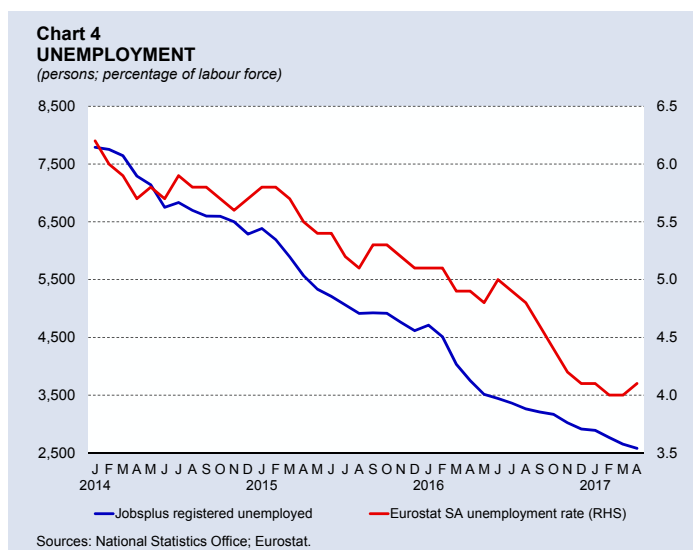
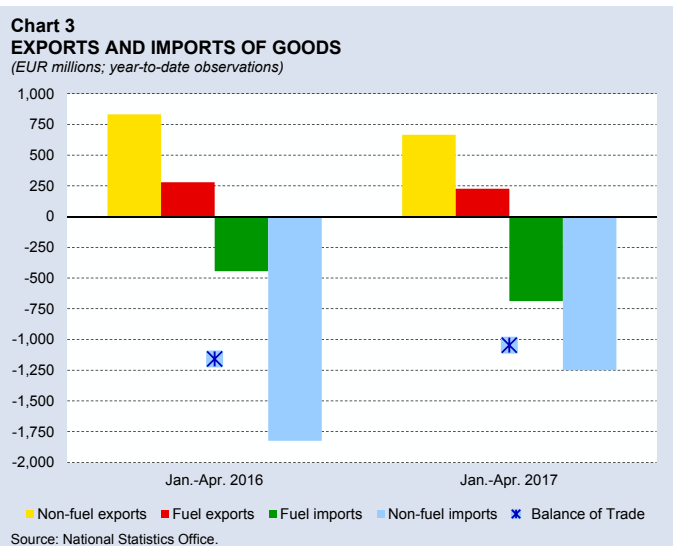
<sup>12</sup> The “other” establishments category comprises guesthouses, hostels and tourist villages.

During the first four months of 2017 imports declined at a faster pace than exports. As a result, the visible trade gap narrowed by €111.8 million when compared with the same months of 2016, and stood at €1,046.6 million (see Chart 3). This gap was to a large extent driven by two commodity groups, namely fuels, and transactions involving aircraft.

### Labour market

Jobsplus data show a further fall in the number of people on the unemployment register in April. The registered unemployed fell to 2,577, from 3,751 in the corresponding month of 2016 and from 2,649 in March (see Chart 4).

Meanwhile, Eurostat's estimate of the seasonally-adjusted unemployment rate stood at 4.1% in April, marginally up from 4.0% in the preceding two months. The unemployment rate remained low from a historical perspective and below the 4.9% recorded a year earlier.



### BOX 1: GAINFULLY OCCUPIED POPULATION

Jobsplus records show that in December the gainfully occupied population, defined to include all persons in full-time employment, rose by 5.3% on a year earlier, reaching 184,180 (see Chart 5). This followed 5.2% growth in November.

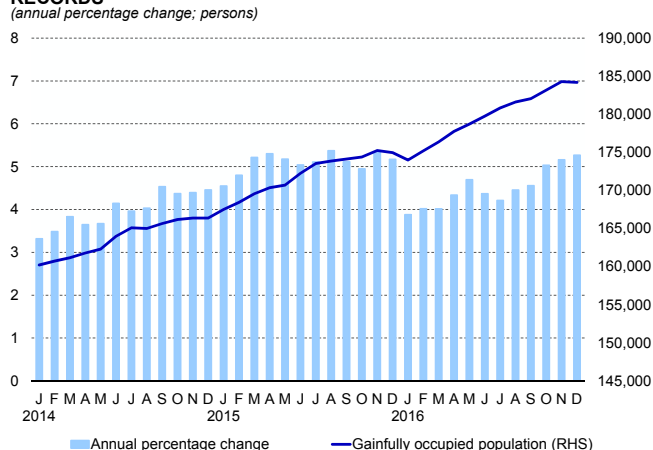
Growth in employment in December mirrored developments observed in recent months, as it continued to be mainly driven by the private sector, while the public sector registered a marginal annual increase (see Table 3).

The number of full-timers in the private sector went up by 8,506, or 6.5%, on the same month of the previous year. Employment growth in this sector continued to be driven by

market services, where the number of full-time job holders increased by 8,177, or 8.4% 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 2,944

**Chart 5**  
**GAINFULLY OCCUPIED POPULATION BASED ON JOBSPLUS RECORDS**  
(annual percentage change; persons)



Source: National Statistics Office.

**Table 3**

**LABOUR MARKET INDICATORS BASED ON JOBSPLUS RECORDS**

Persons; annual percentage changes

	2015	2016	Annual change	
	December	December	Number of persons	%
<b>Labour supply</b>	<b>179,582</b>	<b>187,092</b>	<b>7,510</b>	<b>4.2</b>
Gainfully occupied <sup>(1)</sup>	174,967	184,180	9,213	5.3
Registered unemployed	4,615	2,912	-1,703	-36.9
<b>Unemployment rate (%)</b>	<b>2.6</b>	<b>1.6</b>		
<b>Private sector</b>	<b>130,513</b>	<b>139,019</b>	<b>8,506</b>	<b>6.5</b>
<b>Direct production<sup>(2)</sup></b>	<b>32,715</b>	<b>33,044</b>	<b>329</b>	<b>1.0</b>
<b>Market services</b>	<b>97,798</b>	<b>105,975</b>	<b>8,177</b>	<b>8.4</b>
Wholesale and retail trade	25,133	25,611	478	1.9
Transportation and storage	7,691	8,038	347	4.5
Accommodation and food service activities	10,788	11,595	807	7.5
Information and communication	5,846	6,367	521	8.9
Financial and insurance activities	7,907	8,337	430	5.4
Real estate, professional and administrative activities <sup>(3)</sup>	22,390	25,334	2,944	13.1
Arts, entertainment and recreation	5,396	6,929	1,533	28.4
Education	4,968	5,120	152	3.1
Other	7,679	8,644	965	12.6
<b>Public sector</b>	<b>44,454</b>	<b>45,161</b>	<b>707</b>	<b>1.6</b>

<sup>(1)</sup> This category measures full-time employment.

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

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

Source: National Statistics Office.



in the year to December 2016, and accounted for 36 percent 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 1,533.

Meanwhile, employment in direct production within the private sector grew by 329, or 1.0%, on a year earlier. Increases were recorded across most sectors, with employment falling marginally in the mining and quarrying sector as well as within the water supply sector.

Public sector jobs rose by 707, or 1.6%, on a year earlier, mainly driven by increased employment in public administration and defence as well as in education, with employment increasing by 1,032 and 328 jobs respectively. These were partly offset by a fall in employment among other sectors, including the health sector, the transportation and storage sector, as well as in the agriculture, forestry and fishing sector.

## Prices, costs and competitiveness

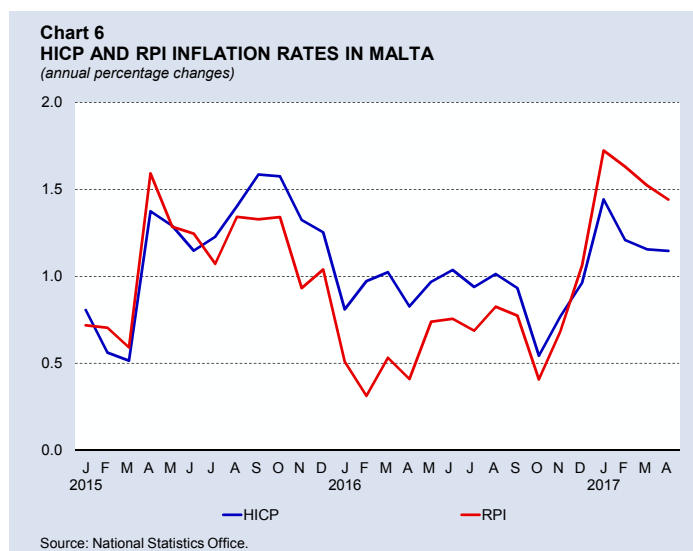
Price pressures remained moderate during April, with the annual rate of HICP inflation easing slightly to 1.1%, from 1.2% in March (see Chart 6).

The easing in overall HICP inflation during April reflected developments in the food and non-energy industrial goods (NEIG) components. Food inflation decelerated on the back of developments in seasonal items such as vegetables, where a retreat of price pressures was registered following strong growth at the start of the year. At the same time, NEIG inflation continued to moderate, largely on account on weaker increases in prices of durable goods, particularly motor vehicles.

These developments were partly offset by energy inflation, which turned positive for the first time since 2013; this was due to fuel prices standing higher in April when compared with the corresponding period last year. Services inflation, the other main component of the HICP index, was unchanged during April.

Meanwhile, inflation based on the Retail Price Index (RPI) moderated to 1.4% in April from 1.5% in March. As with HICP inflation, the easing of RPI inflation was driven by weaker price increases in food prices.<sup>13</sup>

The Industrial Producer Price Index (PPI) continued to signal weak cost pressures, with annual PPI inflation down from -0.9% in March to -1.8% in April.<sup>14</sup> This extended a pattern of weak or negative inflation



<sup>13</sup> 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.

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

rates observed in recent years. The faster rate of decline in industrial producer prices in April reflected developments in prices for intermediate goods, such as electronics. This was partly offset by a higher contribution for non-durables in the consumer goods category. Annual contributions from the other components of the index, namely energy and capital goods, were relatively unchanged when compared with March.

With regard to international price competitiveness, Malta's nominal harmonised competitiveness indicator (HCI) dropped by 0.6% in April when compared with a year earlier.<sup>15</sup> Meanwhile, the real HCI dropped by 2.0% on an annual basis, as the improvement in Malta's international competitiveness due to exchange rate movements was accentuated by favourable movements in relative prices.

## Public finance

During April 2017, the Consolidated Fund balance registered a surplus of €34.1 million, €11.8 million lower than the surplus registered in April 2016 (see Table 4). This development was due

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

EUR millions

	2016		2017		Change	
	Jan.-Apr.	Jan.-Apr.	Apr.	Apr.	Amount	%
<b>Revenue</b>	<b>1,000.3</b>	<b>1,153.2</b>	<b>277.4</b>	<b>326.0</b>	<b>48.6</b>	<b>17.5</b>
<b>Direct tax</b>	<b>506.8</b>	<b>539.0</b>	<b>163.8</b>	<b>188.7</b>	<b>24.9</b>	<b>15.2</b>
Income tax	333.5	355.4	137.6	140.0	2.4	1.7
Social security contributions <sup>(1)</sup>	173.4	183.6	26.1	48.7	22.5	86.2
<b>Indirect tax</b>	<b>384.2</b>	<b>422.9</b>	<b>76.1</b>	<b>66.9</b>	<b>-9.1</b>	<b>-12.0</b>
Value Added Tax	192.2	212.6	25.2	24.4	-0.8	-3.3
Customs and excise duties	84.8	94.0	21.5	21.1	-0.5	-2.1
Licences, taxes and fines	107.2	116.2	29.4	21.5	-7.9	-26.8
<b>Non-tax<sup>(2)</sup></b>	<b>109.3</b>	<b>191.3</b>	<b>37.6</b>	<b>70.4</b>	<b>32.8</b>	<b>87.3</b>
<b>Expenditure</b>	<b>1,077.8</b>	<b>1,132.0</b>	<b>231.6</b>	<b>292.0</b>	<b>60.4</b>	<b>26.1</b>
<b>Recurrent</b>	<b>1,010.5</b>	<b>1,054.4</b>	<b>216.4</b>	<b>258.2</b>	<b>41.8</b>	<b>19.3</b>
Personal emoluments	237.2	244.2	60.1	60.6	0.6	0.9
Operational and maintenance	64.3	60.1	15.3	14.9	-0.4	-2.3
Programmes and initiatives <sup>(1)</sup>	528.0	556.3	108.3	134.4	26.2	24.2
Contributions to entities	104.0	119.8	13.9	29.5	15.6	112.6
Interest payments	77.0	74.1	18.9	18.8	-0.2	-1.0
<b>Capital</b>	<b>67.3</b>	<b>77.6</b>	<b>15.2</b>	<b>33.8</b>	<b>18.6</b>	<b>121.8</b>
<b>Primary balance<sup>(3)</sup></b>	<b>-0.5</b>	<b>95.3</b>	<b>64.8</b>	<b>52.8</b>	<b>-12.0</b>	<b>-</b>
<b>Consolidated Fund balance</b>	<b>-77.5</b>	<b>21.2</b>	<b>45.8</b>	<b>34.1</b>	<b>-11.8</b>	<b>-</b>

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

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

<sup>(3)</sup> Revenue less expenditure excluding interest payments.

Source: National Statistics Office.

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

to a rise in government expenditure outweighing the increase in government revenue. In turn this resulted in a narrowing of the primary balance, from €64.8 million in April 2016, to €52.8 million this year.

Revenue grew by €48.6 million when compared with a year earlier, equivalent to 17.5%. This was mainly due to higher inflows from social security contributions and non-tax revenues. The latter were boosted by higher inflows from the Individual Investor Scheme (IIP) as well as EU grants.

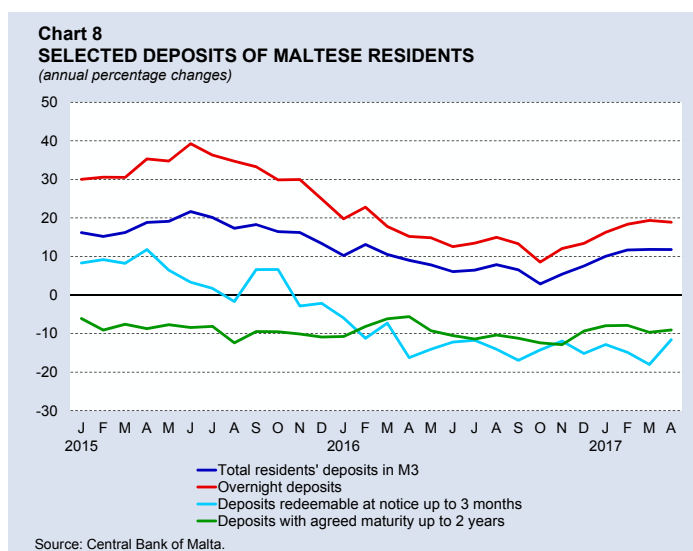
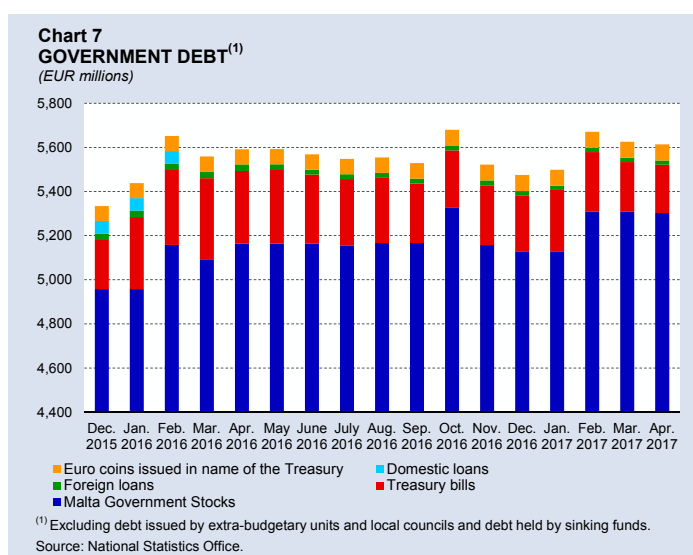
Meanwhile, government expenditure rose by €60.4 million, or 26.1%. This was driven by higher spending on programmes and initiatives, including outlays on health and the EU presidency. Capital expenditure as well as contributions to government entities also contributed to the increase in expenditure.

In April, the total stock of government debt amounted to €5,613.6 million, €11.8 million lower when compared with a month earlier (see Chart 7), due to a decrease in the amount of Treasury Bills.

### Deposits, credit and financial markets

The annual rate of growth of residents' deposits forming part of broad money (M3) remained unchanged at 11.8% in April (see Chart 8).

The expansion in M3 deposits continued to be supported by growth in overnight deposits, which grew by 18.9% in April, from 19.3% in March. On the other hand, both deposits with maturity of up to two years and deposits redeemable at a notice of up to three months declined in April. The former, which are the main component of time deposits, dropped at an annual rate of 9.0%. Overall, these developments



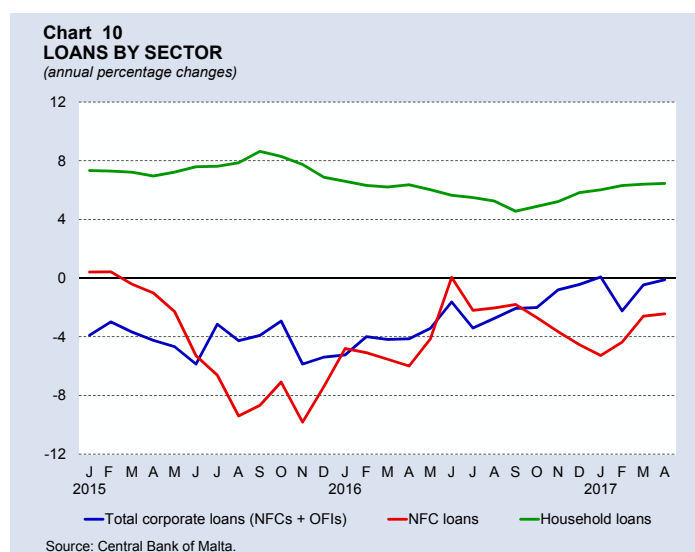
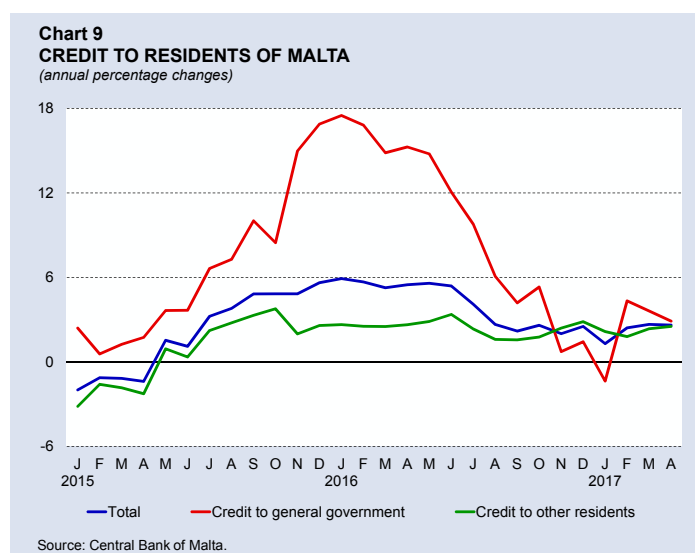
illustrate a continued preference for holding liquid assets in an environment of low interest rates.

On the asset side of banks' balance sheets, annual growth in credit to Maltese residents eased marginally to 2.6% in April (see Chart 9). This reflected slower growth in credit to general government.

Growth in credit to other residents – which consists of credit to non-financial corporations (NFC), households and non-bank financial institutions (OFI) – continued to be supported by loans, which grew at an accelerated pace of 3.2% in April. As in recent months, loan growth was mainly supported by strong growth of 6.5% in loans to households (see Chart 10). This in turn was driven by loans for house purchase, with consumer credit and other lending continuing to contract.

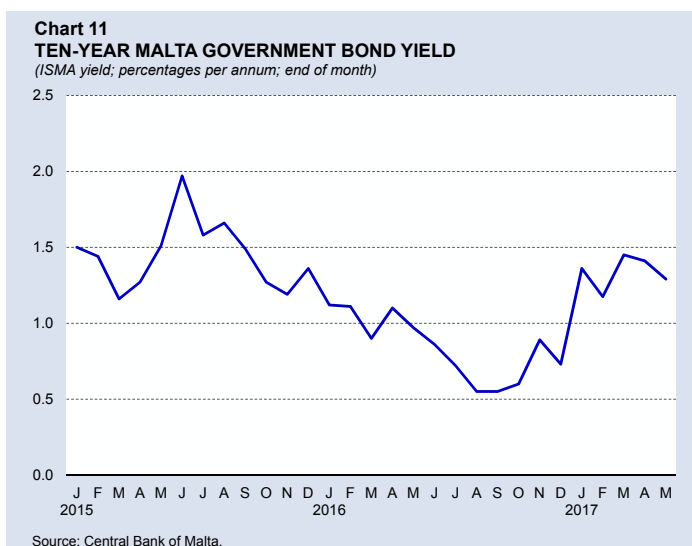
On the other hand, loans to NFCs remained in decline, with annual growth improving only marginally to -2.4% during April, from -2.6% in March. Contractions were registered in bank loans to both public sector and private sector NFCs, in particular NFCs operating within the construction, the accommodation and food services, and the transportation and storage sectors.

Bank deposit rates dropped slightly in April, with the composite interest rate paid by monetary financial institutions (MFI) on residents' euro-denominated going to 0.43% in April, from 0.45% in March. This signifies a drop of 19 basis points when compared with a year earlier. On the other hand, the comparable rate charged on outstanding loans remained unchanged at 3.64%, implying a 12 basis point drop since April 2016. As a result, the spread between the



composite deposit and loan rates applied to residents stood at 321 basis points in April, up from 314 basis points a year earlier.

In the secondary capital market, the yield on ten-year Maltese government bonds ended May at 1.29%, down from 1.41% at the end of the previous month (see Chart 11). Meanwhile, the Malta Stock Exchange (MSE) Index lost 0.8% between April and May.



## Annex 1

MACROECONOMIC INDICATORS FOR MALTA																				
<i>(annual percentage changes; non-seasonally adjusted data)</i>																				
	2015	2016	2016	2016	2016	2016	2017	2016	2016	2016	2016	2016	2016	2016	2016	2017	2017	2017	2017	2017
			Q1	Q2	Q3	Q4	Q1	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
<b>Prices and costs</b>																				
HICP inflation <sup>(1)</sup>	1.2	0.9	0.9	0.9	1.0	0.8	1.3	1.0	1.0	0.9	1.0	0.9	0.5	0.8	1.0	1.4	1.2	1.2	1.1	-
RPI inflation	1.1	0.6	0.5	0.6	0.8	0.7	1.6	0.7	0.8	0.7	0.8	0.8	0.4	0.7	1.1	1.7	1.6	1.5	1.4	-
Industrial producer price inflation	-2.2	-0.6	-1.5	0.1	0.0	-1.0	-1.2	-0.2	-0.8	-0.2	0.2	0.0	-0.2	-1.1	-1.9	-1.7	-1.1	-0.9	-1.8	-
HCI (nominal)	-5.5	1.9	1.7	3.1	1.5	1.5	-0.1	3.0	2.1	2.6	1.4	0.6	1.0	2.5	1.0	0.5	-0.7	0.1	-0.6	-
HCI (real)	-9.8	2.9	2.5	5.2	2.3	1.8	-1.1	5.2	3.4	4.3	2.1	0.5	0.7	3.8	0.9	0.2	-2.5	-0.9	-2.0	-
Unit labour costs, whole economy <sup>(2)</sup>	0.0	1.2	0.2	0.7	1.5	1.2	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation per employee <sup>(2)</sup>	3.2	2.8	3.6	3.2	3.6	2.8	1.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Labour productivity (per person) <sup>(2)</sup>	3.2	1.4	3.4	2.5	2.0	1.4	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Price Index (NSO)	5.8	5.4	5.2	7.2	4.7	5.4	4.8	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Economic activity</b>																				
Nominal GDP	9.8	6.7	8.6	6.1	5.9	6.5	6.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP	7.3	5.0	6.3	4.5	4.4	4.9	4.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Real private consumption	5.8	2.5	6.7	3.0	-1.1	1.8	2.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Real government consumption	3.8	-2.9	5.2	2.6	-5.7	-12.7	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Real gross fixed capital formation	49.2	-0.6	19.8	0.6	-17.9	1.9	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Real exports of goods and services	3.9	3.5	4.3	-0.7	2.3	8.1	-1.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Real imports of goods and services	7.8	0.9	7.5	-0.8	-5.9	3.5	-2.2	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Labour market developments</b>																				
LFS unemployment rate (% of labour force)	5.4	4.7	4.9	4.9	4.8	4.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LFS employment	2.3	2.9	2.6	3.5	2.3	3.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jobsplus gainfully occupied	5.1	4.5	4.0	4.5	4.4	5.2	-	4.7	4.4	4.2	4.5	4.6	5.0	5.2	5.3	-	-	-	-	-
<b>Balance of payments</b>																				
Current account (as a % of GDP) <sup>(3)</sup>	5.3	7.9	4.1	3.7	6.6	7.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Credit and financial indicators</b>																				
Maltese residents' deposits and loans																				
Overnight deposits	24.9	13.4	17.8	12.6	13.3	13.4	19.3	14.8	12.6	13.4	15.0	13.3	8.5	12.1	13.4	16.3	18.4	19.3	18.9	-
Deposits with agreed maturity up to 2 years	-10.9	-9.3	-6.2	-10.5	-11.2	-9.3	-9.7	-9.3	-10.5	-11.4	-10.4	-11.2	-12.4	-12.9	-9.3	-7.9	-7.9	-9.7	-9.0	-
Total residents' deposits in M3	13.4	7.5	10.5	6.1	6.5	7.5	11.8	7.8	6.1	6.4	7.9	6.5	2.9	5.4	7.5	10.1	11.7	11.8	11.8	-
Credit to general government	16.9	1.4	14.9	12.1	4.2	1.4	3.6	14.8	12.1	9.8	6.1	4.2	5.3	0.7	1.4	-1.4	4.3	3.6	2.9	-
Credit to other residents	2.6	2.9	2.5	3.4	1.6	2.9	2.4	2.9	3.4	2.3	1.6	1.6	1.8	2.4	2.9	2.2	1.8	2.4	2.5	-
Total credit	5.6	2.5	5.3	5.4	2.2	2.5	2.7	5.6	5.4	4.1	2.7	2.2	2.6	2.0	2.5	1.3	2.4	2.7	2.6	-
10-year interest rate (%) <sup>(4)</sup>	1.4	0.7	0.9	0.9	0.6	0.7	1.5	1.0	0.9	0.7	0.6	0.6	0.6	0.9	0.7	1.4	1.2	1.5	1.4	1.3
Stock prices: Malta Stock Exchange Index <sup>(5)</sup>	33.0	4.5	3.0	0.0	-2.1	3.7	1.9	-1.7	2.0	-2.0	-0.7	0.6	1.7	-1.6	3.6	1.8	0.4	-0.4	-0.9	-0.8
<b>General government finances (% of GDP)</b>																				
Surplus (+) / deficit (-) <sup>(3)</sup>	-1.3	1.0	-0.3	0.4	0.8	1.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross debt <sup>(6)</sup>	60.6	58.3	61.8	61.0	59.8	58.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-

<sup>(1)</sup> The reading for May 2017 is based on the flash estimate.

<sup>(2)</sup> Four-quarter moving averages.

<sup>(3)</sup> Four-quarter moving sums.

<sup>(4)</sup> End of period. In January and February 2017, in the absence of bonds qualifying within the recommended residual maturity, the benchmark yield was calculated as an average of bonds close to the agreed maturity range.

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

<sup>(6)</sup> GDP data are four-quarter moving sums.

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