Central Bank of Malta

Quarterly Review

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Figures in Tables may not add up due to rounding.

ECONOMIC SURVEY

1. FOREWORD

In the third quarter of 2003 the Central Bank of Malta eased its monetary policy stance further, cutting the central intervention rate by twenty-five basis points to 3% in September. The Bank then left the central intervention rate unchanged throughout the fourth quarter. These decisions reflected the Bank's 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.

The easing of the monetary policy stance in September reflected the continued expansion of the Bank's external reserves during the third quarter, persistent high liquidity in domestic financial markets and further falls in inflation. Weak demand and rising unemployment, as well as lower growth forecasts for the euro area, suggested that economic activity was set to continue expanding at below its potential rate. Inflationary pressures were not expected to emerge in the near term.

The Bank's external reserves increased in October, but declined in November and into December reflecting sluggish external demand and weakening performance in Malta's export-oriented sectors, particularly in tourism. Domestic conditions continued to be characterised by subdued growth, low inflation and rising unemployment. Given these conditions, the Bank left its monetary policy stance unchanged.

According to data released by the National Statistics Office in November, the economy picked up during the third quarter of the year, with real Gross Domestic Product (GDP) rising by 1.9% over the corresponding quarter of 2002. Domestic demand remained weak, however, with private and Government consumption expenditure falling in real terms, although investment spending increased further. The external deficit on goods and services widened, as exports dropped and imports rose. Movements in the inventory changes component, which also includes a statistical discrepancy, boosted GDP growth significantly.

The Bank's latest business perceptions survey shows that the downturn in business sentiment persisted, with most respondents expecting the performance of the Maltese economy to worsen rather than improve over the coming months.[1] In line with the drops in private consumption and exports evident in the data on GDP, many firms reported lower activity levels, also reflected in their order books, during the third quarter. Although firms generally did not expect faster growth in turnover in the short-term, profits could continue to improve as a result of lower payroll costs.

Data compiled by the Employment and Training Corporation (ETC) showed that labour market activity contracted during the third quarter. The unemployment rate rose to 5.5% in September from 5% in June as the gainfully occupied population declined and the number of people registering for work increased. Unemployment rose again in October.

The downward trend in inflation in evidence since the second half of 2002 continued during the third quarter of 2003. The twelve-month moving average rate of inflation fell further to 1.1% in September from 1.3% three months earlier,

[1] The survey was carried out between October and November 2003.

whereas the year-on-year inflation rate fluctuated around zero, ending the quarter at 0.5%. Inflation picked up in October, with the year-on-year rate rising to 1.4%.

The fiscal stance was less expansionary during the third quarter, as a considerable drop in expenditure lowered the deficit to less than half the level recorded during the previous quarter. The revised estimates presented in the Budget for 2004 point to a deficit of 6.3% of GDP in 2003. In this Budget, the Government announced an increase in the standard value added tax (VAT) rate as part of a package of measures aimed at lowering the deficit to GDP ratio to 5.4% in 2004. Fiscal consolidation is likely to restrain domestic demand, which would support the Bank's monetary policy strategy by dampening import growth and easing pressure on the external reserves.

In line with the usual seasonal pattern, the current account of the balance of payments recorded a surplus during the third quarter of 2003, albeit a narrower one than that registered during the same period of the previous year. The merchandise trade gap continued to widen, while the surplus on services decreased. Net outflows in the capital and financial account, excluding movements in the external reserves, increased slightly compared to the corresponding quarter last year. The trade gap expanded in October.

Broad money expanded at a slower pace during the quarter reviewed, with the annual growth rate dropping further to 3.3% in September. Monetary growth during the quarter was driven by rapid expansion in the net foreign assets of the banking system, partly reflecting seasonal developments in the balance of payments. A drop in domestic credit, which reflected a reduction in net claims on Government and subdued underlying growth in claims on the private and parastatal sectors, held back monetary expansion. Broad money rose further in October, as domestic credit recovered and the net foreign assets of the banking system increased slightly.

A qualitative assessment of developments in the Maltese economy in the near term indicates that, although the international outlook has brightened, real GDP growth is likely to remain below potential. Domestic demand is expected to remain weak as fiscal tightening takes hold, with real disposable income not expanding significantly. The tax measures announced in the latest Budget will push up inflation, but underlying price pressures are expected to remain contained.

2. THE INTERNATIONAL ENVIRONMENT

The world economy

The prospects for the global economy look brighter after the latest indicators of economic activity continued to be positive. During the third quarter, economic growth in the United States accelerated in response to easier fiscal and monetary policies while higher exports stimulated an incipient recovery in the euro area. The Japanese economy also continued to grow. According to the EU Commission's *Autumn 2003 Economic Forecast* released in October, world GDP growth is expected to accelerate to 3.3% in 2003 and stabilise at 4.1% in the following two years. Accommodative macroeconomic policies and low nominal interest rates are expected to continue to drive growth. According to the Commission other important factors underpinning growth were the return of confidence brought about by the strengthening in asset markets and the end of the Iraq war.

Economic and monetary developments in the major economies

Real GDP in the United States expanded by an annual rate of 3.5% in the third quarter, as Table 2.1 shows, up from 2.5% in the previous quarter. This acceleration resulted from an annualised 8.2% real GDP growth rate on a quarter to quarter basis compared with an increase of 3.3% in the second quarter. Personal consumption expenditure, which expanded by 3.5% compared with the same quarter a year earlier, was the main driving force behind GDP growth. Consumption was fuelled by a jump in real disposable income, which was driven by tax cuts and rebates. However, the impact of tax cuts is expected to fade in the fourth quarter.

The other important contributor to the acceleration in GDP during the third quarter was investment, with business investment in equipment and software stepping up and residential investment increasing at a rate of 12%. Government spending increased modestly. An upturn in exports and a deceleration in imports,

Table 2.1
REAL GDP[1]

	2002				2003			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4[2]
United States	1.4	2.2	3.3	2.9	2.0	2.5	3.5	4.1
European Union	0.4	1.0	1.2	1.3	0.9	0.5	0.6	0.9
Euro area	0.3	0.8	1.0	1.1	0.7	0.1	0.3	0.7
United Kingdom	1.1	1.6	1.9	2.0	1.8	2.0	2.0	2.1
Japan	-3.1	-0.3	1.5	2.5	2.9	3.0	2.3	2.2

[1] Percentage change compared with the same period a year earlier.

[2] Estimates.

Sources: Consensus Forecasts, London: Consensus Economics Inc, December 2003; Eurostat.

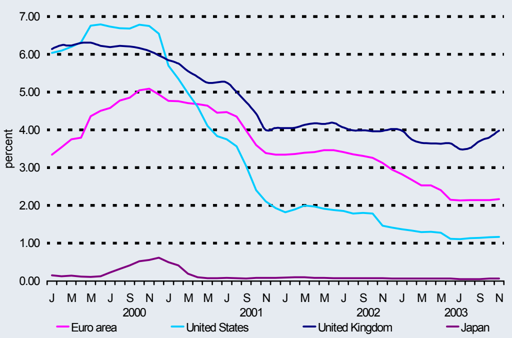
which contributed to an improvement in the trade balance, also boosted GDP growth. Unemployment fell from 6.4% in June to 6.1% in September and continued to drop into the fourth quarter, standing at 5.9% in November.

Consumer price inflation in the third quarter remained stable at 2.2%, as Table 2.2 shows. In November, however, inflation fell to 1.8% with core consumer prices, which exclude prices of energy and food, falling for the first time since 1982.

Throughout the third quarter the Federal Reserve maintained an unchanged monetary policy stance, leaving its target for the federal funds rate at 1%. The Fed argued that strong productivity growth, coupled with an accommodative monetary policy stance, was providing important ongoing support to US economic activity, while there were risks that inflation could fall too low. Consequently, money market rates remained relatively stable, as Chart 2.1 shows.

During the third quarter, the euro area economy expanded by 0.3% when compared to the same quarter of 2002. This represents a small pick-up after growth of 0.1% in the second quarter. Growth was driven by private and Government consumption and an improvement in net trade. Investment fell, however. When compared with the second quarter, exports picked up, private consumption remained stable and investment fell. The recovery in the third quarter reflected developments in the two biggest economies of the euro area: the German economy, which grew by 0.2%, and the French economy, which achieved 0.4% growth compared with the previous quarter. The euro area unemployment rate remained relatively high at 8.8% in the third quarter, unchanged from the previous quarter.

Chart 2.1
SHORT-TERM INTEREST RATES
(monthly averages)



Source: London interbank offered rates (LIBOR)

Consumer price inflation remained stable at 2% on average in the third quarter. However, in October inflation fell, partly due to a decline in energy prices. With inflation stable and amid growing signs of an economic recovery, the European Central Bank decided to keep its main refinancing operations rate unchanged at 2% during the three months to September.

In the United Kingdom real GDP continued to expand at a steady pace in the third quarter, increasing by 2% over the corresponding period of 2002. Compared with the previous quarter, the British economy expanded by 0.7% mainly due to private consumption and, to a lesser extent, to Government spending. However, investment fell as spending on plant and machinery declined, while net trade also dampened growth, as exports decreased and imports rose. The unemployment rate remained unchanged, ending September at 5%.

The RPI inflation rate in the UK was down marginally from 2.9% in June to 2.8% in September. The underlying inflation rate (RPIX) continued to fall into the fourth quarter mainly due to slower growth in home ownership costs and cheaper foreign holidays.

On July 10, the Bank of England lowered its repo rate by 25 basis points to 3.5%, citing weak domestic and global demand and a benign outlook for inflation. The Bank reversed its policy stance in November, raising the repo rate to 3.75%.

Table 2.2
INFLATION[1]

	2002				2003			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4[2]
United States	1.2	1.3	1.6	2.2	2.9	2.2	2.2	2.2
Euro area	2.6	2.1	2.1	2.3	2.3	2.0	2.0	2.1
United Kingdom	2.4	1.9	2.0	2.6	2.9	2.9	2.8	2.6
Japan	-1.4	-0.9	-0.8	-0.5	-0.2	-0.3	-0.2	-0.1

[1] Percentage change in consumer prices compared with the same period a year earlier.

[2] Estimates.

Sources: Consensus Forecasts, London: Consensus Economics Inc., December 2003

According to the Bank, this rise in official interest rates was required to counter upward price pressures and keep prospective inflation in line with the target of 2.5%.

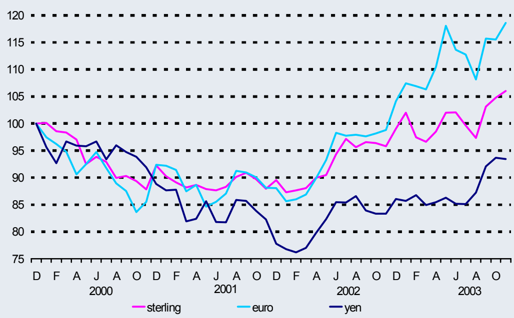
Japan's economy expanded at an annual rate of 2.3% in the July-September period, the seventh successive quarter of growth. Gross fixed capital formation accounted for more than half of the increase in GDP, while exports picked up in response to strong Asian demand and the exceptional US expansion. Private consumption and Government consumption remained flat. Despite this strong growth trend, deflation in Japan persisted. The domestic corporate goods price index (CGPI), which tracks trends in wholesale prices, was down 0.2% in the third quarter from –0.3% in the second quarter. The Bank of Japan left monetary policy unchanged and affirmed its commitment to a two-year-old policy of zero interest rates to spur growth.

Foreign exchange markets

The US dollar's appreciation and its subsequent sharp depreciation against the euro and the pound sterling was the most notable feature of the foreign exchange markets during the third quarter, as Chart 2.2 shows. The quarter was also characterised by a general strengthening of the yen. During the quarter, the dollar depreciated by 7.5% against the yen, 1.8% against the euro and 1.1% against sterling, as Table 2.3 shows.

Towards the end of the second quarter and into July and August the dollar appreciated against the euro, partly reversing the depreciation it had experienced earlier in the year. The strengthening of the US currency was supported by positive indications on business and consumer confidence and by the Fed's decision in late June

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

Table 2.3
EXCHANGE RATES AGAINST THE US DOLLAR DURING THE SEPTEMBER QUARTER 2003

	US$/euro	US$/stg	yen/US$
Average for July	1.1376	1.6251	118.67
Average for August	1.1149	1.5944	118.79
Average for September	1.1235	1.6115	115.01
Average for the quarter	1.1253	1.6103	117.49
Opening rate on 30.09.03	1.1636	1.6703	110.87
Opening rate on 30.06.03	1.1431	1.6528	119.86
Lowest exchange rate during the quarter[1]	1.0804 (Sept. 03)	1.5664 (Sept. 03)	110.87 (Sept. 30)
Highest exchange rate during the quarter[1]	1.1636 (Sept. 30)	1.6703 (Sept. 30)	120.47 (Aug. 29)
Percentage appreciation (+)/depreciation (-) of the currency vs the dollar from opening rate on 30.06.03 to opening rate on 30.09.03	1.8	1.1	7.5

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

Source: Central Bank of Malta.

to reduce interest rates, which boosted expectations about US economic activity. September, however, was characterised by a stronger euro, which appreciated significantly against the dollar and, to a lesser extent, against the yen. This was brought about by labour market data releases in the United States that clouded the outlook for the American economic recovery and market expectations about foreign exchange policy in Japan.

Both the US dollar and the euro gained ground against the pound sterling at the beginning of the third quarter, mainly due to the decision of the Bank of England to lower its repo rate in July. In the latter part of the quarter, the US dollar weakened against the pound sterling on market expectations of a significant recovery in the UK economy. Meanwhile, the euro traded in a fairly narrow range against the pound sterling, resulting in a marginal strengthening of the European unit over the quarter.

The yen was fairly stable in July, fluctuating within narrow margins against the US dollar. However, it strengthened in August against both the US dollar and the euro, driven by a rosier outlook for the Japanese economy, before weakening against the euro going into September. Towards the end of the quarter, the yen picked up strongly against all major currencies.

In the beginning of the fourth quarter, movements in the foreign exchange markets were relatively subdued, although the underlying weakness of the US dollar persisted. This was attributable to uncertainties related to the sizeable current account and budget deficits in the United States.

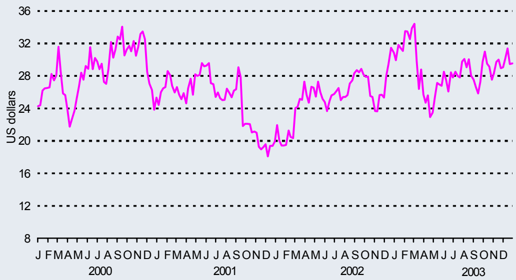
The US dollar continued to weaken in November against all major currencies.

Oil

Over the third quarter, the price of Brent Blend, a benchmark oil price, fell by 1.3% to $28.08 per barrel. Although it fluctuated during July and August, on average the price rose mainly as a result of supply shortages, shrinking US inventories and high demand in Europe. During the first half of September, the situation was reversed due to weak regional demand and cheap competing crudes. By the end of September prices rose again, driven by strong Asia-Pacific demand and OPEC's decision to implement a production cut at its end of September meeting.

At the beginning of October oil prices soared above $31 a barrel for the first time since the Iraq war. Prices fell by mid-October before rising again in early November. As a result, by the end of November the Brent price had risen by 1.7% from its end-September value to $28.55.

Chart 2.3
OIL ($/BARREL)*
(end of week)



* Brent Blend
Sources: Financial Times, Reuters; The Economist.

Box 1: DEVELOPMENTS IN INTERNATIONAL ECONOMIC CO-OPERATION

Meetings of the Council of the European Union

During the meeting of the European Union's Council of Ministers of Economic and Financial Affairs (ECOFIN) held on July 15, the European Union and Malta agreed to eliminate technical barriers to trade in industrial products and to extend certain benefits of the internal market to Malta.

On November 4 the Council endorsed the Economic Policy Committee (EPC) report on the impact of ageing populations on public finances, and invited the EPC to produce a study on economic incentives affecting retirement. The report shows that ageing populations will have significant budgetary effects in the coming decades. For example, age-related public spending could increase by between three and seven percentage points of GDP by 2050, with the effects taking hold from 2010. The report highlights the need to meet the economic and budgetary consequences of ageing populations through faster debt reduction, measures to raise employment rates and reform of pensions and health care systems.

The economic and finance ministers of the EU and of the acceding and candidate countries held their fifth economic policy dialogue. For the ten acceding countries, the ministers noted that although GDP growth in 2002 was generally faster than in the EU, continued, sustainable and rapid growth will remain necessary for the acceding countries to catch up with EU income levels. To achieve this, sound and credible public finances were encouraged. The ministers also welcomed the progress that most acceding countries continued to make in lowering inflation, while they noted that in some of them current account deficits and unemployment rates were relatively high.

During its meeting of November 25, the ECOFIN Council decided to suspend the Stability and Growth Pact's sanctioning mechanism recommended by the European Commission against Germany and France for breaching EU budget rules. The finance ministers of the member countries, with the exception of Austria, the Netherlands, Finland and Spain, supported a motion that would not demand further structural deficit cuts in 2004 beyond the ones already included in the two countries' budget proposals. Instead, Germany was asked to reduce its structural deficit by 0.6% and France by 0.8%. France and Germany promised to bring their general government deficits below 3% of GDP in 2005, but the German pledge was conditional on growth next year reaching the level of 1.6% forecast by the Commission. At the same time, ECOFIN reaffirmed its commitment to the EU's Stability and Growth Pact and said it wanted to strengthen budget discipline over the economic cycle.

WTO ministerial conference

The World Trade Organisation (WTO) held a ministerial conference in Cancún, Mexico between September 10 and 14. The official ministerial statement noted that although progress had been made, more work needed to be done in some key areas to fulfil the commitments the ministers made in Doha in 2001.

Beyond the official pronouncements, the failure of the Cancún summit was very clear. The ministerial conference ended without any agreement largely because of differences between rich countries and the G22 - a newly formed bloc of developing nations headed by Brazil, China and India - on agricultural subsidies and on foreign investment, competition policy, transparency in government purchases and trade facilitation. In the case of farming, rich countries were accused of urging poor countries to open their markets when they were unwilling to open their own. The disagreement was severe in the case of rules relating to foreign investment. Although the negotiations have not been officially abandoned, it is doubtful whether a deal can be completed by 2005.

IMF and World Bank meetings

The 2003 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund were held in Dubai, United Arab Emirates, on September 18-24. The meetings discussed specific issues relating to economic development in the Middle East, the reconstruction of Iraq, aid to Palestine and the IMF loan to Argentina, as well as broader themes such as the world economy, meeting poverty goals and limiting the impact of the deprecation of the dollar. At the conclusion of the meeting, World Bank President James Wolfensohn and IMF Managing Director Horst Köhler stressed that the developing and the developed countries should be more evenly represented in the two institutions.

The International Monetary and Financial Committee (IMFC) met on September 21. The Committee advised the advanced economies that monetary policy should continue to support demand in the context of low inflation while automatic fiscal stabilisers should be allowed to operate within credible medium-term frameworks to deliver fiscal consolidation. The Committee urged Europe to push on with structural reforms so as to address the fiscal pressures of population ageing. According to the Committee, fiscal policy in the United States will need to focus on strengthening sustainability over the medium term, while Japan must strengthen the banking and corporate sectors and end deflation. The importance of strengthening IMF surveillance and promoting international financial stability was also stressed. In this respect, the Committee highlighted a number of key issues including: progress on structural reform, reducing balance sheet vulnerabilities, improving debt sustainability and encouraging policy measures to reduce global imbalances.

The Development Committee reaffirmed its commitment to achieve the Millennium Development Goals (MDGs) that were set out in the UN Millennium Declaration. In particular, it reinforced the commitment to the global effort necessary to reduce poverty. The Committee agreed that there was an urgent need for co-operation between developing and developed countries and the international institutions if the MDGs were to be met. Developing countries were encouraged to sustain their efforts to strengthen policies and governance to ensure that domestic resources and aid inflows could be used effectively in spurring growth and reducing poverty. On the other hand, developed countries were encouraged to move vigorously in supporting these efforts with more and better aid, debt relief and improved market access. The Committee regretted the temporary setback to multilateral trade negotiations at the WTO's Cancún conference and argued that a successful conclusion to the trade talks is vital to growth, poverty reduction and progress in attaining the MDGs.

3. OUTPUT, PRICES AND EMPLOYMENT

The Maltese economy expanded at a faster pace during the third quarter of 2003, but the recovery does not appear to be broadly based. GDP rose by 2.1% in nominal terms and by 1.9% in real terms over the same period in 2002. Higher profits in the manufacturing and the banking, insurance and real estate sectors contributed to an acceleration in nominal growth. In real terms, private and Government consumption contracted slightly during the quarter, while gross fixed capital formation, especially in machinery, continued to increase. Net exports of goods and services fell due to a worsening tourism performance, a drop in re-exports and an increase in imports. In contrast, movements in inventories, which partly reflect a statistical error, pushed up real GDP growth.

The pick-up in GDP growth registered during the third quarter was not strong enough to reverse the negative developments in the labour market. The number of registered unemployed increased further and by the end of the quarter the unemployment rate had risen to 5.5%, from 5.2% in September 2002. Inflation extended its downward trend, with the year-on-year rate dropping to 0.5% in September, though it picked up in the following month.

Gross Domestic Product

Provisional data compiled by the National Statistics Office (NSO) indicate that the Maltese economy grew by 1.9% in real terms on an annual

Table 3.1
SOURCES OF GDP GROWTH BY INDUSTRY[1]

%

	2002		2003		
	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3
GDP at factor cost	**2.5**	**3.2**	**-0.3**	**2.2**	**2.5**
of which:					
Agriculture and fisheries	0.0	1.1	0.3	0.4	0.2
Construction and quarrying	0.3	0.4	0.0	-0.1	0.0
Manufacturing	2.2	1.8	-0.2	-0.3	1.4
Transport and communication	0.6	-0.1	-1.3	0.1	-0.9
Wholesale and retail	0.3	0.0	0.7	0.2	0.1
Insurance, banking and real estate	-1.5	-1.1	0.1	0.4	2.4
Government enterprises	-0.2	0.8	-0.1	0.2	-0.5
Public administration	0.4	0.3	1.0	0.8	0.4
Property income	-0.2	-0.6	-1.6	-0.4	-1.1
Private services	0.7	0.7	0.8	1.0	0.6
GDP at current market prices	**3.5**	**1.8**	**-0.8**	**1.7**	**2.1**

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

Source: National Statistics Office.

basis during the third quarter of 2003, up from 0.7% in the previous quarter. Domestic demand decelerated during the quarter as consumption expenditure declined. Net exports of goods and services fell, as exports contracted while imports grew. These developments were, however, more than offset by a smaller fall in the value of inventory and the residual error.[1]

As can be seen in Table 3.1, during the third quarter GDP at factor cost, the sum of profits and employment income earned across the entire economy, grew at a slightly faster pace when compared with the previous quarter.[2] The year-on-year growth in employment income decelerated sharply, as Chart 3.1 shows, to just 0.9% in the quarter reviewed, primarily reflecting a decline in employment in manufacturing. In contrast, profits recovered significantly, rising for the first time during the year as earnings in manufacturing and in insurance, banking and real estate rebounded. However, in the case of manufacturing, the turnaround in profits was concentrated in the electronics sub-sector, as other enterprises, especially domestically-oriented firms, reported a significant decline in earnings during the quarter.

Chart 3.1
FACTOR INCOME DEVELOPMENTS
(% change over same quarter of previous year)

Source: National Statistics Office

The spike in the profits of the banking system, on the other hand, seems to have been mainly driven by a contraction in interest payable (which in turn contributed towards the fall in property income), an increase in fees and commissions and a decline in non-interest expenditure. The contribution to GDP growth of virtually all the other economic sectors declined when compared with the previous quarter, with particularly significant drops recorded by transport and communications and Government enterprises.

The sharp deceleration in employment income growth registered during the third quarter may have been one of the factors that caused private consumption to contract by 0.5% in real terms, after having slowed down significantly during the previous quarter. As a result, the local sales by manufacturing industry declined, while expenditure on services, especially transport and communications, was reported down on last year's level. The decline in private consumption also had a negative effect on the profits of the wholesale and retail sector, which fell slightly during the quarter. Imports of consumer goods continued to rise, possibly indicating a shift in consumer preferences towards foreign goods. As can be seen in Table 3.2, the negative trend observed in private consumption expenditure mirrors the deceleration seen in Government consumption over recent quarters. The latter dropped by 0.3%, after having grown at annual rates of 16.3% and 7.3% in the first and second quarters, respectively. During the third quarter, Government departments were reported to have reduced their outlays by more than 10% in real terms, offsetting an increase in expenditure related to the setting up of new Government entities. Fiscal tightening appears to have dampened private consumption during the last two quarters. Despite this deceleration, however, private

1 This expenditure-side component can be interpreted as a balancing item between the income-side and expenditure-side computations of GDP.
2 GDP at factor cost is also known as income-side GDP.

consumption expenditure still grew faster than disposable income during the first three quarters of 2003, to the extent that the household saving ratio fell to 1.8% from 2.3% in the corresponding period a year earlier.

Increased outlays on machinery contributed to higher gross fixed capital formation, which was also boosted by the continued expansion in construction activity, driven by public projects such as the new hospital. In contrast, the external deficit on goods and services widened further during the quarter under review, reducing real GDP growth by 4.4 percentage points. Re-exports of goods and tourism activity both declined while imports rose.

As Table 3.2 also shows, movements in inventory changes had a significant positive impact on GDP growth, pushing it up by nearly six percentage points. Thus, the negative contribution to growth of this component during the previous four quarters was partially reversed.

Retail prices

During the quarter under review, the Retail Prices Index (RPI) dropped by 0.1% compared with the 0.2% increase registered in the corresponding period of 2002. As a result, the downward trend in the twelve-month moving average rate of inflation observed since May 2002 continued during the quarter and into October, as Chart 3.2 shows. This measure of inflation fell slightly to

Table 3.2
GDP GROWTH BY CATEGORY OF EXPENDITURE

%

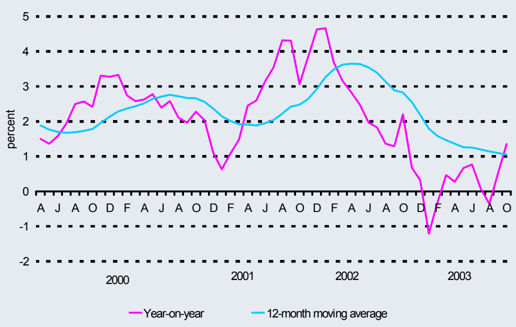
	2002		2003		
	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3
Percentage changes at constant market prices					
Private consumption expenditure	2.9	-1.3	3.4	0.5	-0.5
Government consumption expenditure	0.5	-4.9	16.3	7.3	-0.3
Gross fixed capital formation	-3.3	-3.1	10.0	68.0	3.7
Exports of goods and services	4.6	9.9	-1.7	-1.4	-1.6
Imports of goods and services	1.8	0.3	7.1	2.6	3.5
Growth in real GDP[1]	**2.6**	**0.7**	**-1.9**	**0.7**	**1.9**
of which:					
Private consumption expenditure	1.9	-0.9	2.2	0.3	-0.3
Government consumption expenditure	0.1	-0.9	3.3	1.4	0.0
Gross fixed capital formation	-0.7	-0.7	2.2	10.3	0.8
Inventory changes	-1.3	-4.6	-2.1	-7.5	5.9
Exports of goods and services	4.1	8.0	-1.4	-1.3	-1.4
Imports of goods and services [2]	-1.6	-0.3	-6.1	-2.4	-3.0

[1] These figures show the change in each component of real GDP as a percentage of the corresponding quarter's real GDP (expenditure-side) in the previous year.This shows the contribution of each expenditure component to the overall rate of growth of real GDP.

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

Source: National Statistics Office.

Chart 3.2
RETAIL PRICE INFLATION



Source: National Statistics Office

persistent changes, declined marginally during the quarter.

1.1% in September, from 1.3% in June, underpinned by low year-on-year inflation rates.

The year-on-year measure of inflation, which is a more timely indicator of price movements, fluctuated in a narrow range and ended the quarter at 0.5%, or 0.3 percentage points below the June level, as Table 3.3 shows. Meanwhile, the Bank's measure of underlying inflation, which focuses on those RPI sub-indices that tend to show persistent changes, declined marginally during the quarter.

The drop in the year-on-year inflation rate between June and September was mainly attributable to the housing sub-index, which fell by 2% during the September quarter because of drops in the cost of house maintenance works. The year-on-year percentage change of the food sub-index, which has a 24% share in the RPI basket, fell to 0.6% in September, from 1.4% in June. This was mainly due to lower prices of fresh fruit and vegetables as an increase in the volume of fruit and vegetables passing through the organised markets led to a 9.1% decline in their wholesale value. Inflationary pressures were also dampened by drops in the prices of clothing and footwear, which at the end of September 2003 were 8.2% lower than the previous year's level.

Conversely, inflation in the other goods and services sub-index accelerated sharply during the third quarter of 2003 reflecting higher prices of jewellery and insurance services as well as of

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

	Sept. 2002	June 2003	Sept. 2003
Food	-1.8	1.4	0.6
Beverages and tobacco	6.4	5.8	5.9
Clothing and footwear	0.2	-7.0	-8.2
Housing	3.0	6.0	2.6
Water, electricity, gas and fuels	5.1	0.2	0.1
Household equipment and house maintenance	-0.2	-1.2	-0.9
Transport and communication	2.5	-0.2	0.1
Personal care and health	2.8	4.4	4.1
Recreation and culture	3.5	-0.7	-1.3
Other goods and services	2.1	2.3	5.7
All items	**1.3**	**0.8**	**0.5**

Source: National Statistics Office

non-durable household goods. Consequently, at the end of September prices in this sub-index were 5.7% higher than a year earlier.

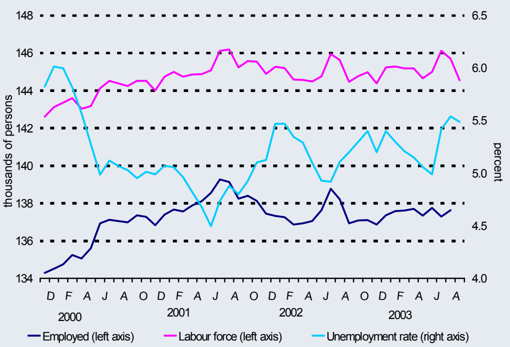
In October, the most recent month for which data are available, year-on-year inflation rose to 1.4% which, although higher than that recorded in recent months, is significantly below the 2.2% recorded in October 2002. However, following the recent announcements in the November Budget regarding a rise in the standard VAT rate to 18% from the beginning of 2004 and an increase in the prices of cigarettes, the downward trend in inflation is expected to be reversed in the coming months.

The labour market

According to data compiled by the Employment and Training Corporation (ETC), the unemployment rate edged up to 5.5% in September from 5% in June. As Chart 3.3 shows, during this period the number of full-time jobs fell by 1,156 while the number of people registering for work increased by 704.

As Table 3.4 shows, the decline in the gainfully occupied population was spread across all sectors of the Maltese economy but was mainly due to job losses in private direct production, especially in firms producing textiles, clothing and footwear.

Chart 3.3
LABOUR MARKET TRENDS



Source: National Statistics Office

Employment in private market services, which had been on an upward trend since October 2002, declined sharply in August and September largely reflecting job losses in recreation services. However, job losses in tourism related industries, namely in the transport and communication industries and in hotels and catering establishments, also contributed. There was also a further decrease in employment in Government departments.

Table 3.4 also shows that on a year-on-year basis the unemployment rate rose by 0.3 percentage points, reflecting an increase in the number of registered unemployed and a drop in the number of gainfully occupied. Employment in private direct production contracted by 1,126 from the previous year's level and explains most of the reduction in the occupied population. Public sector employment also declined considerably during this period. By contrast, the complement in private market services was up by 1,511, mainly due to job creation in the community and business sub-sector and, to a lesser extent, in the wholesale and retail trades. As a result, the number of persons on the unemployment register at the end of September stood at 7,942. This was up by 422 from the year-ago level, as the Table shows.

More recent data on unemployment show that the number of people registering for work at the end of October 2003 stood at 8,249, up by 307 from the level recorded in September and by 558 from the October 2002 reading. Unless growth in the labour supply during October exceeds that registered during the same period last year, the unemployment rate in October will rise above the end-September level. The increase in the number of unemployed was concentrated among low-skilled workers, people aged 20 and over and those who had been registering for a short time only. The number of long-term unemployed fell further.

Table 3.4
LABOUR MARKET DEVELOPMENTS
Number of persons

	Sept. 2003	Change over June	Annual change
Labour supply	**144,544**	**-452**	**84**
Unemployed	**7,942**	**704**	**422**
Unemployment rate (%)	**5.5**	**0.5**	**0.3**
Gainfully occupied	**136,602**	**-1,156**	**-338**
of which:			
Private direct production	**36,723**	**-774**	**-1,126**
including:			
Agriculture and fisheries	2,286	16	86
Quarrying, construction and oil drilling	6,732	-44	-51
Manufacturing	27,705	-746	-1,161
Private market services	**51,905**	**-174**	**1,511**
including:			
Wholesale and retail	15,861	36	432
Insurance and real estate	1,286	3	10
Transport, storage and communications	6,007	-61	-117
Hotels and catering establishments	9,180	-46	97
Community and business	12,473	131	1,075
Others	7,098	-237	14
Public sector	**46,992**	**-171**	**-660**
including:			
Government departments	30,069	-114	-280
Armed Forces, RSC and Airport Co.	1,653	-10	46
Government-controlled companies	7,199	-45	-642
Independent statutory bodies	8,071	-2	216
Temporarily employed	**982**	**-37**	**-63**
Memorandum item:			
Self-employed	15,589	53	267

Source: National Statistics Office

Manufacturing

According to the NSO's latest survey of manufacturing firms, activity in manufacturing continued to expand during the third quarter, with turnover rising by 2.4% over the corresponding quarter of 2002 to Lm263.4 million. The rate of growth of turnover was slower than that recorded in the previous quarter and in the same period in

Table 3.5
MANUFACTURING PERFORMANCE - SELECTED INDICATORS[1]

Lm millions

	July - Sept.		Jan. - Sept.	
	2002	2003	2002	2003
Change in exports	**23.1**	**7.1**	**-24.1**	**25.6**
of which:				
Radio, TV, telecom, etc.	8.0	16.2	-33.2	22.5
Electrical machinery	0.7	-1.3	-3.7	-1.9
Printing and publishing	2.2	3.0	6.0	5.1
Clothing	3.3	-6.4	2.7	-6.6
Other	9.0	-4.5	4.1	6.5
Change in local sales	**1.6**	**-1.0**	**10.1**	**-1.9**
of which:				
Tobacco	-0.6	0.1	-1.1	0.2
Clothes	-0.4	0.4	0.6	-0.7
Food and beverages	-0.5	2.0	1.5	4.0
Other	3.1	-3.5	9.1	-5.4
Change in net investment	**0.9**	**-1.5**	**3.2**	**0.2**
of which:				
Food and beverages	-0.3	0.6	-1.4	3.1
Printing and publishing	1.2	-1.1	2.7	-0.9
Furniture	0.5	0.9	1.8	1.2
Other	-0.4	-1.9	0.1	-3.2

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

2002. Although employment in manufacturing continued to fall, the wage bill for the quarter was marginally higher than the year-ago level, while capital expenditure dropped. For the first nine months of the year, turnover rose by 3.2% while investment remained relatively stable when compared to the same period in 2002.

The slowdown in manufacturing turnover reflected less rapid growth in exports, which increased by Lm7.1 million, or 3.6%, over the same period in 2002. As can be seen from Table 3.5, this expansion was fully generated by the electronics sub-sector. Global demand in the sector picked up after it had dropped sharply in 2001 and had remained flat in the following year. Other notable gains were recorded by firms in the printing and publishing business as well as by firms producing other transport equipment. By contrast, foreign sales of clothing and leather goods continued to decline rapidly. Lower exports were also registered by manufacturers of furniture, plastic and rubber products as well as by firms in the food and beverages sub-sector.

Domestic sales, on the other hand, fell further, dropping by 1.6% compared with the corresponding period in the previous year. However, the rate of decline was lower than that recorded in the June quarter. Although local sales

Table 3.6
TOURIST ARRIVALS BY NATIONALITY

	July - Sept. 2003			Jan. - Sept. 2003		
	Arrivals	Annual Growth (%)	Share (%)	Arrivals	Annual Growth (%)	Share (%)
UK	167,767	5.6	40.5	367,370	7.0	40.3
Germany	35,425	-22.9	8.5	97,797	-12.6	10.7
France	27,502	-3.5	6.6	65,423	-2.6	7.2
Italy	44,969	-9.7	10.9	78,969	-8.0	8.7
Netherlands	14,922	-10.9	3.6	33,580	-6.9	3.7
Scandinavia[1]	16,190	13.6	3.9	36,824	8.3	4.0
Austria	7,074	10.2	1.7	24,294	21.8	2.7
Belgium	10,138	-7.9	2.5	20,359	0.6	2.2
Switzerland	7,169	12.2	1.7	17,482	16.2	1.9
Libya	7,438	-0.2	1.8	16,226	-12.2	1.8
Others	75,986	2.0	18.3	153,285	2.2	16.8
Total	**414,580**	**-1.3**	**100.0**	**911,609**	**1.1**	**100.0**

[1] Denmark, Finland, Norway and Sweden.

Source: National Statistics Office.

by firms in the food and beverages sub-sector continued to rise, this increase was not enough to outweigh the drop in domestic sales by furniture manufacturers and textile firms.

Despite the increase in activity, employment in manufacturing continued to decline. Firms in the labour-intensive clothing and leather sub-sectors were mainly responsible for the shedding of workers as they face increasing competition in export markets from low labour cost countries. Significant lay-offs were also registered in the plastic and rubber products category, where the workforce shrank by 10.9%. Yet the quarterly wage bill rose marginally to Lm30.4 million while for the first nine months of the year, gross wages and salaries were 5% higher than in the same period in 2002. This suggests that manufacturing activity is shifting from low-wage sectors, such as clothing, towards higher value-added sectors including electronics, printing and publishing, and medical and precision equipment. It also suggests that there are shortages of skilled labour.

Investment in machinery and equipment was lower than the year-ago level, mainly on account of lower net investment reported by firms in the chemicals sub-sector as well as in the printing and publishing business. Furniture manufacturers, on the other hand, stepped up their investment as they are continuing with their restructuring programmes following the complete lifting of levies in October last year, while a foreign-owned maker of toys and games finalised a major modernisation project. Producers of food and beverages reported an increase in net investment, albeit at a lower rate than that recorded in the previous quarter. For the January-September period, capital expenditure remained stable when compared to the same period last year.

Tourism

The recovery in tourism activity observed during the first half of the year stalled in the third quarter, as arrivals declined by 1.3% compared with the corresponding quarter of 2002.[3] Despite this contraction, gross receipts from tourism rose by 2.3% to Lm81.7 million. During the nine months to September 2003 tourist arrivals increased marginally while earnings rose by 5.4% on a year-on-year basis. Longer lengths of stay, as well as higher demand in the conference and incentive business, appeared to be the main factors behind the significant growth in earnings.[4]

The UK tourist market continued to perform strongly, suggesting that ongoing promotion efforts are bearing results. As can be seen in Table 3.6, the Scandinavian, Swiss and Austrian markets also registered high rates of growth. In contrast, inbound tourism from Malta's other core market, Germany, continued to decline, shedding 22.9% over the corresponding quarter last year. The shifts in dates of school trips traditionally organised in September, coupled with lower seat capacity following the reduction of direct flights to Malta may have contributed to the sharp reduction in the number of German visitors. Arrivals from France and Italy, the next largest source markets, fell by 3.5% and 9.7%, respectively.

Cruise liner activity remained buoyant during the quarter, with passenger arrivals increasing by 12.7% on an annual basis. The bulk of this increase was generated from the British market although the number of Spanish and German cruise passengers also increased significantly. Between January and September, incoming passengers were 10.8% higher than in the same period in 2002.

The December survey carried out by the Malta Hotels and Restaurants Association (MHRA) indicates that hotel occupancy rates contracted across all categories, with the sharpest drop registered in 5-star hotels.[5] However, it should be noted that during this year the supply of rooms in this category increased substantially following the opening of a new hotel and the upgrading of an existing hotel to 5-star status. The number of room nights sold by 5-star hotels was indeed higher than that recorded in the same period last year. Despite the lower occupancy rate, the decline in the average achieved room rates of 5-star hotels was lower than that recorded for the 4-star and 3-star categories.[6]

The latest data show that the downward trend in arrivals observed in the third quarter persisted into October, with the number of tourists visiting Malta declining by 10.8% to 101,859. On the other hand, cruise passenger arrivals for October grew by 21.3% over the corresponding period in the previous year.

Short-term outlook

Although prospects for a moderate acceleration in external demand have brightened, real GDP growth in Malta is expected to remain below potential during the coming quarters in the absence of a pick-up in domestic demand. The drop in demand for labour in direct production and the public sector is expected to continue and is unlikely to be compensated by employment growth in services. Consequently, real disposable

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3 The NSO is also publishing a survey based on departures. This commentary is, however, based on data for tourist arrivals.
4 Malta Tourism Authority, *The Conference and Incentive Travel Market in Malta* (Malta, 2003). This report estimates that a business tourist spends three times as much as an average tourist.
5 Defined as the number of room nights sold as a proportion of the number of room nights available.
6 Calculated as the revenue net of VAT divided by the number of room nights sold.

income is not expected to expand significantly in the near future, as firms seeking to maintain competitiveness hold down wages, while low interest rates dampen the return on investments, which is the other main source of household income. As the household saving ratio has dropped to a very low level, slower growth in real disposable income should result in a deceleration in private consumption. An anticipated recovery in consumption during the last quarter of 2003 ahead of the VAT increase that was to come into force as from the start of 2004 is expected to be reversed as fiscal tightening takes effect. Worsening business sentiment could bring about a curtailment of private investment plans, though public investment spending – partly financed from abroad – is projected to rise.

Although the indirect tax measures announced in the latest Budget will lead to a rise in inflation, underlying price pressures are not expected to emerge, as imported inflation should remain relatively stable while local unit labour costs are not projected to accelerate. Unemployment is also likely to continue on the upward trend observed during recent months.

Box 2: BUSINESS PERCEPTIONS SURVEY

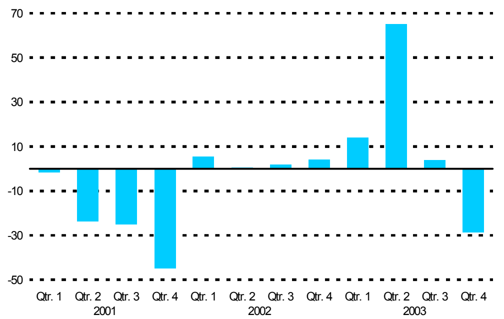
Introduction

The Central Bank of Malta's latest business perceptions survey, carried out before the Budget for 2004, indicates that the downturn in sentiment observed since the second quarter persisted. For the first time since the last quarter of 2001, the majority of respondents expected the Maltese economy to worsen rather than improve over the coming months. Many participating firms, especially those in construction, manufacturing and the distributive trades, reported that their activity levels or order books deteriorated during the third quarter. In terms of their businesses' short-term outlook, while most respondents did not anticipate faster growth in turnover during the fourth quarter, they expected profits to recover as the drop in selling prices was expected to moderate and lower demand for labour was expected to reduce payroll costs.

Business sentiment – fourth quarter 2003

As can be seen in Chart 1, business sentiment deteriorated further during the last quarter of 2003. The proportion of firms expecting the economic situation to deteriorate over the coming six months nearly doubled from the level registered in the previous survey, reaching 45.5% of the sample. Sentiment worsened considerably amongst most of the sampled manufacturing firms, the only exceptions being operators in the chemicals and the printing and publishing sub-sectors, who remained optimistic. Pessimism, which up to this quarter had been concentrated in manufacturing establishments producing food and beverages and machinery and equipment, also spread to distributive trades, industrial services, tourism and construction. At the same time, optimism amongst real estate and professional services firms declined significantly compared with the previous survey.

Chart 1
EXPECTATIONS ABOUT THE ECONOMIC SITUATION OVER THE NEXT 6 MONTHS



Figures indicate "improve" responses net of "deteriorate" responses.
Results are weighted by employment.

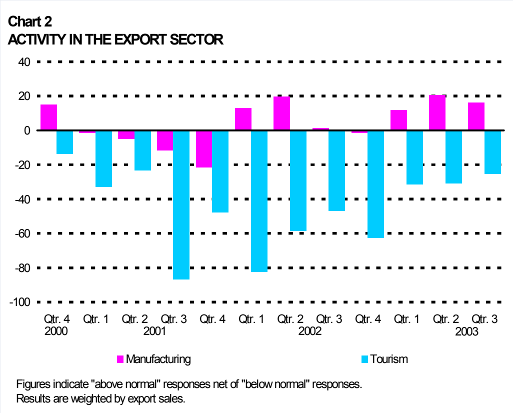
Activity levels – third quarter 2003

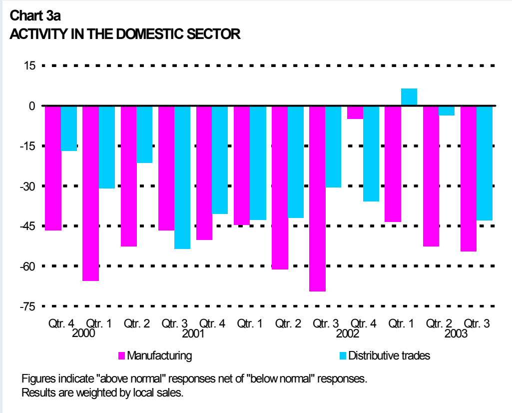
The deterioration in business sentiment may in part be linked to the slowdown in activity levels or order books reported for the third quarter. On the export side, although the majority of firms remained operating above their normal level, the positive balance was smaller than that registered in the previous survey. Reported activity levels also dropped amongst locally-oriented establishments, with more than a quarter of respondents saying that their activity or order books were below normal. However, this decline was less pronounced than that registered in the second quarter.

Export-oriented sectors

As can be seen in Chart 2, the latest survey gave mixed results on the performance of the export-oriented sectors. The number of manufacturing firms reporting above normal order books dropped slightly, while tourism activity improved marginally compared with the previous quarter, although it remained significantly below normal.

Export-oriented manufacturers reported that turnover growth halved to just 0.8% in the third





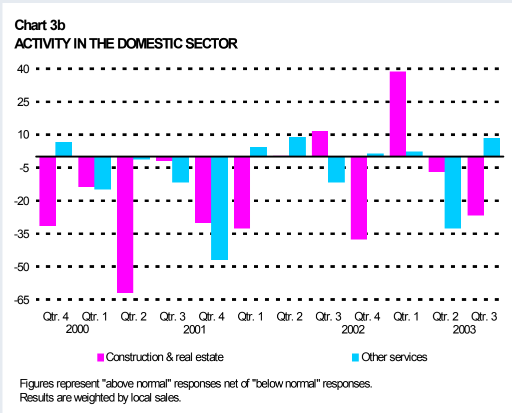
quarter. This deceleration was mainly felt by the food and beverages and machinery and equipment sub-sectors, while clothing and footwear firms continued to report a drop in sales. On the other hand, the export performance of printing and publishing and chemicals manufacturers improved significantly. In reaction to the slowdown in turnover, the majority of establishments shed workers while average wage costs were maintained virtually unchanged. Nevertheless, profits were still reported to have contracted by 1.8%, as selling prices declined across the board.

On their part, respondents from the tourism industry indicated that profits increased slightly during the third quarter. This improvement in profitability occurred in spite of a small contraction in turnover and a higher wage bill, the latter being the combined result of additional employment and a rise in average salaries. These developments were more than offset by an increase in selling prices.

Locally-oriented sectors

Replies to the latest survey suggest that domestic demand was weak during the third quarter. Only real estate and finance and insurance firms reported an acceleration in sales, the former reflecting heightened activity in the property market. Operators in the other locally-oriented sectors indicated that activity declined during the third quarter, as can be seen in Charts 3a and 3b.

Manufacturing establishments catering for the domestic market continued to shed labour, while per capita wage costs diminished slightly. As a result, profits improved despite the fact that selling prices declined again during the third quarter. On the other hand, profitability fell in construction and distributive trades, as operators' payroll costs rose during the quarter, on account of an intake of workers combined with a rise in average wages. Selling prices were also reported to have declined in these sectors by nearly 1%.



The rise in turnover registered by the real estate and other services sectors contributed significantly towards the growth in their earnings. Respondents said that they were able to increase their selling prices by more than their average wage costs, boosting operating margins. Buoyant market conditions led these firms to employ more workers.

Outlook - fourth quarter 2003

The majority of firms are not anticipating their activity to accelerate significantly in the fourth quarter, in line with their sentiments concerning overall economic performance. Participating tourism-related firms expect sales to drop by over 3%, while respondents from the construction industry expect virtually unchanged turnover. On the other hand, distributive trade operators and finance and insurance firms predict a slight pick-up in sales compared with the third quarter, while real estate activity is predicted to expand further during the last quarter of 2003. As regards manufacturers, some exporting sub-sectors, such as clothing and footwear, are forecasting an increase in sales. Yet the major exporters, such as machinery and equipment, and the bulk of locally-oriented establishments expect their turnover to grow at a similar rate as in the third quarter.

Profits are projected to improve nearly in all sectors, particularly in export-oriented manufacturing and industrial services, mainly because selling prices should recover while the wage bill is expected to decline as reduced demand for labour should compensate for a slight acceleration in wage inflation. On the other hand, respondents from tourism and locally-oriented manufacturing are forecasting a deterioration in profitability. With regard to tourism, the expected decline appears to be the result of a projected drop in turnover. The reduction in profits forecast by locally-oriented manufacturers is concentrated in the food and beverages sub-sector where selling prices are expected to drop - probably in reaction to the removal of levies on imported food in 2004.

To summarise, replies to the latest business perceptions survey imply that employment should continue to decline during the last quarter of 2003, especially in manufacturing and tourism. Overall, turnover is expected to rise at a similar pace as in the third quarter, even though selling prices are set to drop by a lesser margin. These developments, though in part dampened by an expected marginal acceleration in wage inflation, should result in an improvement in profitability in most sectors.

Methodological notes

1. The results presented in this Box are derived from a survey that was carried out between October and November 2003 among 141 companies. This periodic exercise began in 1995. As much as possible, the sample is kept unchanged between quarters.
2. The surveyed firms employed 17,193 workers (nearly a quarter of all private sector workers), and had an aggregate annual turnover of Lm516.7 million, of which more than half was exported.
3. The sample was composed of 52 manufacturing firms, 18 tourism-related enterprises, 29 operators in the distributive trades, 14 construction and real estate concerns, and 28 services companies. Thus, the survey has a more comprehensive coverage of the manufacturing industry relative to other areas of the economy.
4. Replies are weighted according to three different factors, namely the respondents' relative share of employment, local sales and export sales, respectively.
5. For the overall results to not simply reflect the replies of the largest business concerns, the

weight given to any particular firm in terms of turnover is capped at Lm20 million.

6. The survey is somewhat biased towards medium-sized and large firms, with 50% of all respondents employing more than 50 workers. Thus it may not be indicative of trends affecting small firms.

7. Participants are asked about their perceptions of the prospects for the Maltese economy during the next six months and the current state of their activity/order books. They are also asked to indicate the approximate percentage change in employment, profitability, sales, imports, finished stocks, average cost of labour, and selling prices registered during the previous quarter, and to make forecasts for the current one.

8. Every six months, firms are asked about their short-term expectations for inflation and unemployment, and whether they consider the current period to be appropriate to initiate new developments. They are also asked to identify their present level of capacity utilisation/occupancy and whether they intend to invest during the following twelve months. In addition, participants indicate the two most important factors limiting investment and to what extent they think a change in the cost of finance would affect them.

4. THE BALANCE OF PAYMENTS AND THE MALTESE LIRA

In line with seasonal patterns, the current account of the balance of payments recorded a surplus in the third quarter of the year, albeit a narrower one than that recorded in the corresponding period of the previous year. This was mainly due to a wider deficit on merchandise trade coupled with a lower surplus on services. Net outflows on the capital and financial account, excluding movements in official reserves, increased marginally. Meanwhile, the official reserves continued to expand, although at a much slower pace than in the same quarter of 2002.

The Maltese lira remained broadly stable against the euro but fluctuated against the US dollar and the pound sterling and weakened considerably against the yen.

The current account

As can be seen in Table 4.1, the surplus on the current account narrowed by Lm5.4 million to Lm13.3 million in the third quarter. This deterioration reflected a widening of the negative

Table 4.1

EXTERNAL BALANCES[1]

Lm millions

	July-Sept.			
	2002		2003	
	Credit	Debit	Credit	Debit
Current account balance	**18.7**		**13.3**	
Goods and services	383.5	369.2	383.2	386.5
Goods balance		53.2		66.8
Goods	236.4	289.6	235.1	301.9
Services balance	67.5		63.5	
Services	147.1	79.6	148.1	84.6
Transport	44.1	38.5	41.0	36.6
Travel	79.8	19.0	81.7	22.6
Other services	23.2	22.1	25.4	25.4
Income (net)	7.7		19.5	
Current transfers (net)		3.3		3.0
Capital and financial account balance[2]		**21.0**		**23.2**
Capital account balance		0.2	0.8	
Financial account balance		20.8		24.0
Direct investment	49.2		7.4	
Portfolio investment		104.3		289.7
Other investment	34.3		258.3	
Movements in reserves[3]		**65.9**		**17.2**
Net errors and omissions	**68.2**		**27.1**	

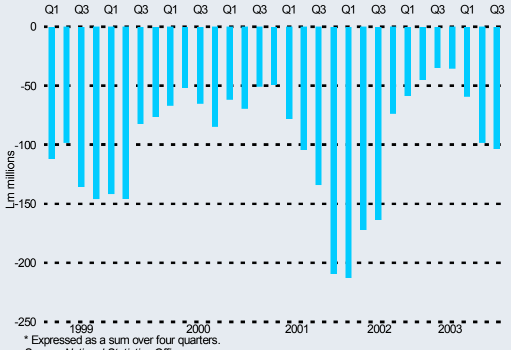
[1] Provisional.

[2] Excluding movements in official reserves.

[3] Excludes revaluation adjustments.

Source: National Statistics Office.

Chart 4.1
CURRENT ACCOUNT BALANCE*



* Expressed as a sum over four quarters.
Source: National Statistics Office

merchandise trade balance and a lower surplus on services, which were only partly outweighed by increased net receipts on income. The current account deficit for the twelve-month period to end-September widened slightly, as Chart 4.1 shows.

Merchandise trade[1]

According to Customs data, the shortfall on merchandise trade widened by Lm17.9 million to Lm91.1 million in the third quarter, as can be seen in Table 4.2.

Imports increased for the sixth consecutive quarter, rising by Lm13.6 million and accounting for approximately three-fourths of the widening in the merchandise trade gap. Over half of this rise was due to higher imports of industrial supplies, particularly semi-finished goods. Imports of consumer goods rose by 6.3%, compared with the same quarter of 2002, while imports of fuels and

Table 4.2
MERCHANDISE TRADE
(based on Customs data)

Lm millions

	July-Sept.		Change	
	2002[1]	2003[1]	Amount	%
Imports	**307.9**	**321.5**	**13.6**	**4.4**
Consumer goods	71.9	76.4	4.5	6.3
Industrial supplies	159.2	167.1	7.9	5.0
Capital goods and others	50.0	46.5	-3.5	-7.0
Fuel and lubricants	26.8	31.5	4.7	17.5
Exports	**234.7**	**230.4**	**-4.3**	**-1.8**
Domestic	202.0	206.4	4.4	2.2
Re-exports	32.7	24.0	-8.7	-26.6
Trade balance	**-73.2**	**-91.1**	**-17.9**	**24.5**

[1] Provisional

Source: National Statistics Office.

[1] Customs data are recorded on a cost, insurance and freight basis. These data are then adjusted in the compilation of balance of payments statistics to cater for differences in coverage, valuation and timing. In addition, insurance and freight are allocated to the services account. As a result, the figures for imports and exports shown in Table 4.1 do not tally with those shown in Table 4.2.

lubricants increased by 17.5%, which mainly reflected the high demand for electricity during the summer months. To some extent, the recent appreciation of the Maltese lira against the US dollar contained the import bill on fuels and lubricants. Conversely, after having expanded in the previous three quarters, imports of capital goods dropped by 7%, or Lm3.5 million.

Exports continued to drop, contracting by Lm4.3 million, driven by a further fall in re-exports, particularly of machinery and transport equipment. On the other hand, domestic exports continued to edge upwards, increasing by 2.2%. This was almost entirely due to higher exports of machinery and transport equipment, which accounted for most of domestic exports during the quarter. Exports of other manufactured goods dropped significantly.

The trade gap expanded further in October, as exports continued to fall, largely as a result of lower re-exports, outweighing a drop in import payments. The decline in re-exports is expected to have persisted till the end of 2003, as they were exceptionally high during the second half of 2002.

Services, income and transfers

The surplus on services narrowed in the third quarter of 2003 by Lm4 million to Lm63.5 million. This was partly due to a contraction in net travel receipts as travel payments increased by Lm3.6 million, exceeding a small rise in travel earnings, which continued to expand despite a drop in tourist arrivals. Nevertheless, travel earnings grew at a slower pace than in previous quarters. The surplus on transport declined as receipts from passenger carriage dropped, whereas freight payments continued to increase as imports rose.

By contrast, the surplus on income widened by Lm11.8 million to Lm19.5 million as dividend payments made in the previous year by a leading manufacturing firm were not repeated during the period reviewed. The drop in dividend payments was partly outweighed by lower net interest receipts originating from international banking activity as well as higher retained earnings by foreign-owned companies, which are recorded as current account outflows. When profits are reinvested into the resident company by the foreign parent company, they are recorded as an inflow under the direct investment component of the capital and financial account.

The capital and financial account

Net inflows on the capital and financial account, excluding movements in official reserves, which had persisted for the previous three quarters, were reversed to some extent during the quarter under review, partly mirroring the surplus on the current account. Compared with the corresponding quarter of 2002, net outflows increased by Lm2.2 million to Lm23.2 million. The banking sector, which raised funds from non-resident sources and invested them abroad, accounted for the bulk of these capital and financial flows.

Net portfolio outflows, which increased by Lm185.4 million compared to the corresponding quarter of 2002, had a major impact on the capital and financial account. Residents increased their holdings of foreign debt securities, particularly of bonds and notes, which rose for the sixth consecutive quarter.

By contrast, the other investment component continued to register significant net inflows, which went up by Lm224 million to Lm258.3 million. These inflows were driven by increased short-term foreign liabilities incurred by resident banks and by growth in currency and deposit liabilities.

On a net basis, direct investment inflows fell by Lm41.8 million to Lm7.4 million. This was due to developments in the third quarter of 2002, when non-resident companies made higher payments to their subsidiaries in Malta to settle trade credit. Flows related to trade credit between foreign firms and their resident subsidiaries have been volatile in recent quarters. Whereas the sale of shares in Malta International Airport (MIA) had boosted foreign direct investment in Malta during the third quarter of 2002, during the period reviewed such inflows were sustained by the sale of shares in a telecommunications firm to foreign investors.

Net errors and omissions, amounting to Lm27.1 million, persisted on the credit side of the balance of payments. At the same time, the official reserves continued to expand, although at a slower pace than that recorded in the previous quarter and in the same quarter of 2002.

Year-to-date developments

During the nine months to September, the current account swung from an exceptional surplus of Lm10.6 million in 2002 to a deficit of Lm57.5 million in the following year. This shift was mainly due to a wider deficit on the merchandise trade account, which increased by Lm72.1 million to Lm204.1 million, offsetting larger surpluses on services and on income.

Table 4.3
EXTERNAL BALANCES[1]

Lm millions

	Jan.-Sept.			
	2002		2003	
	Credit	Debit	Credit	Debit
Current account balance	**10.6**			**57.5**
Goods and services	1,076.1	1,090.4	1,055.9	1,134.2
Goods balance		132.0		204.1
Goods	719.8	851.8	696.6	900.8
Services balance	117.6		125.8	
Services	356.3	238.6	359.3	233.5
Transport	105.1	107.8	94.7	108.1
Travel	184.0	49.5	194.0	55.0
Other services	67.2	81.3	70.6	70.4
Income (net)	27.9		34.8	
Current transfers (net)		3.0		14.0
Capital and financial account balance[2]	**47.2**		**21.8**	
Capital account balance	1.2		2.0	
Financial account balance	46.0		19.8	
Direct investment		84.6	11.6	
Portfolio investment		145.5		487.0
Other investment	276.1		495.2	
Movements in reserves[3]		**80.9**		**62.4**
Net errors and omissions	**23.2**		**98.1**	

[1] Provisional.
[2] Excluding movements in official reserves.
[3] Excludes revaluation adjustments.
Source: National Statistics Office.

Table 4.4
MERCHANDISE TRADE
(based on Customs data)

Lm millions

	Jan.-Sept.		Change	
	2002[1]	2003[1]	Amount	%
Imports	**906.3**	**960.3**	**54.0**	**6.0**
Consumer goods	213.6	225.3	11.7	5.5
Industrial supplies	469.2	495.1	25.9	5.5
Capital goods and others	149.7	158.2	8.5	5.7
Fuel and lubricants	73.8	81.7	7.9	10.7
Exports	**712.2**	**685.1**	**-27.1**	**-3.8**
Domestic	580.5	598.7	18.2	3.1
Re-exports	131.7	86.4	-45.3	-34.4
Trade balance	**-194.1**	**-275.2**	**-81.1**	**41.8**

[1] Provisional

Source: National Statistics Office.

As can be seen in Table 4.4, which is based on Customs data, all categories of imports increased, pushing up the import bill by 6%.

At the same time, exports dropped by 3.8% as re-exports fell significantly, reflecting the fact that such exports had been boosted by the sale of aircraft during 2002. On the other hand, domestic exports edged upwards by 3.1%, driven by higher foreign sales of machinery and transport equipment. Other major categories of exports declined, partly reflecting the continued weakness of demand in Malta's main export markets, particularly those of the European Union.

The surplus on services widened by Lm8.2 million to Lm125.8 million. This reflected lower payments for business, professional and technical services, which wiped out a deficit of Lm14.1 million on 'other services'. Net travel receipts increased by 3.4%, with travel receipts and payments increasing by Lm10 million and Lm5.5 million, respectively. These developments more than offset an increased deficit on transport that partly reflected higher payments for freight. The surplus on the income account widened, as undistributed profits accruing to non-residents dropped from the corresponding period of 2002. However, net receipts from interest income fell.

Net inflows on the capital and financial account, excluding movements in official reserves, more than halved to Lm21.8 million. Net portfolio outflows accelerated strongly over the nine months, largely because resident banks continued to build up their holdings of foreign debt securities. These outflows were somewhat offset by higher net inflows on the other investment component as banks' short-term liabilities to non-residents increased.

Table 4.5

MALTESE LIRA EXCHANGE RATES AGAINST SELECTED CURRENCIES

Period	euro/Lm	US$/Lm	stg/Lm	yen/Lm
Average for Qtr. 3 2003	2.3433	2.6361	1.6373	309.6
Average for Qtr. 3 2002	2.4134	2.3747	1.5326	283.2
% change	-2.9	11.0	6.8	9.3
Closing rate on 30.09.2003	2.3351	2.7259	1.6334	301.4
Closing rate on 30.06.2003	2.3434	2.6771	1.6247	321.8
% change	-0.4	1.8	0.5	-6.3

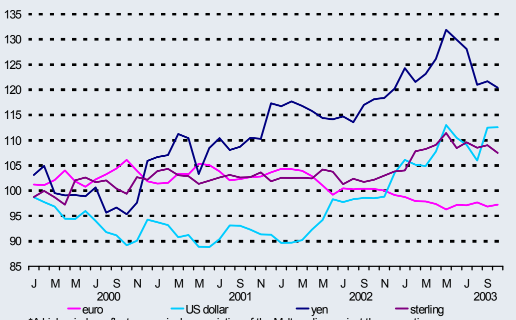
In contrast with the previous period, direct investment flows were positive, as the negative balance of Lm84.6 million recorded during the first nine months of 2002 turned into a surplus of Lm11.6 million. This mainly reflected developments in 2002 when foreign-owned firms operating in Malta had repaid loans issued to them by their parents.

The Maltese lira

Reflecting movements in the international foreign exchange markets described earlier in this *Review*, the Maltese lira remained broadly stable against the euro during the third quarter, as can be seen in Chart 4.2. It fluctuated against the US dollar and the pound sterling and weakened against the Japanese yen.

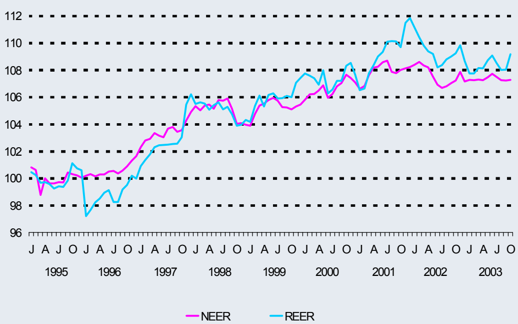
Due to the dominant share of the euro in the Maltese lira exchange rate basket, movements in the euro/Lm exchange rate were limited. The lira continued to depreciate gradually against the single European currency, dropping by a mere 0.4% when compared to its end-June exchange rate. On the other hand, as can be seen in Table 4.5, the lira strengthened by 1.8% and 0.5% against the US dollar and sterling, respectively. The depreciation of the lira against the yen,

Chart 4.2
EXCHANGE RATE MOVEMENTS OF THE MALTESE LIRA AGAINST SELECTED CURRENCIES*
(index of end-of-month rates, end-1999 = 100)



*A higher index reflects a nominal appreciation of the Maltese lira against the respective currency.

Chart 4.3
REAL AND NOMINAL EFFECTIVE EXCHANGE RATE INDICES FOR THE MALTESE LIRA
(1995 = 100)



which began in the previous quarter, continued with the lira weakening by 6.3% during the quarter under review.

Over the year to September, movements in the lira were influenced by the trend appreciation of the euro in international foreign exchange markets. Thus, the Maltese lira depreciated against the euro, shedding 2.9% over the year. In contrast, it appreciated by 6.8% and 11% against the pound sterling and the US dollar, respectively. In terms of the yen, the lira also firmed, rising by 9.3% when compared to the corresponding quarter of 2002.

Chart 4.3 shows developments in the nominal effective exchange rate (NEER) and the real effective exchange rate (REER)[2] for the Maltese lira. The REER index dropped by 1% during the third quarter but, as can be seen from the Chart, picked up again in October as consumer prices in Malta rose at a faster pace than in competitor countries.

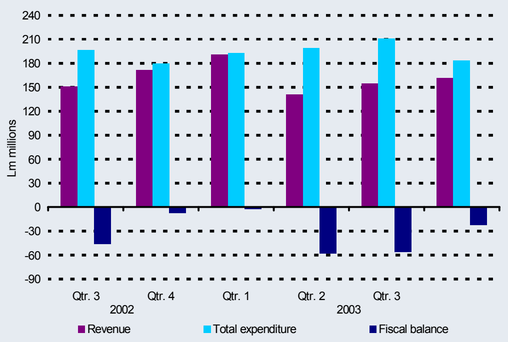
2 The index covers twenty-five countries and uses double weights, allowing for the importance of competitor countries in foreign markets. Consumer price indices are used as a measure of prices.

5. GOVERNMENT FINANCE

The fiscal deficit for the first nine months of 2003 amounted to Lm135.8 million, up by Lm50.1 million compared to the same period a year earlier. This widening resulted from a 7.1% increase in expenditure accompanied by a 2.2% decline in revenue. Higher outlays on programmes and initiatives as well as on the new Government hospital were the prime factors on the expenditure side, whereas the decline in revenue was attributed to one-off factors that had boosted receipts during 2002.

Although the fiscal stance remained expansionary, the deficit in the quarter under review amounted to less than half the level recorded in each of the previous two quarters, as Chart 5.1 shows. Revenue in the third quarter rose slightly, boosted by more buoyant economic activity. On the other hand, expenditure declined considerably due to lower outlays on programmes and initiatives as well as on operations and maintenance. As a result, the fiscal deficit contracted by Lm33.9 million compared to the previous quarter.

Chart 5.1
GOVERNMENT FISCAL PERFORMANCE



Sources: Central Bank of Malta; The Treasury.

Revenue

As shown in Table 5.1, revenue during the first nine months of 2003 was down by Lm10.5 million, or 2.2%, when compared to the same period last year. This was due to a drop in non-tax revenue which more than offset increased inflows from direct and indirect taxation. The rise in direct tax receipts was fuelled by an increase in social security contributions amounting to Lm3.2 million that was driven mainly by higher employment income. On the other hand, the Lm0.5 million decline in income tax revenue reflected the fact that such receipts were boosted by tax on capital gains related to the privatisation of Malta International Airport (MIA) during the same period of 2002 and the widening of the income tax bands in 2003.

Indirect taxation proceeds for the first three quarters of the year increased by a marginal Lm0.5 million. VAT receipts were up by 3.5% on account of higher private consumption expenditure, while income from customs and excise rose by 1.8% due to higher duties on tobacco products. However, these increases in revenue were offset almost entirely by the decline in receipts from licenses, taxes and fines. These fell by 4.8% reflecting exceptional receipts from duty on documents generated by the privatisation of MIA in 2002 and the removal of levies on imports in 2003.

At the same time, a 20.5% decline in non-tax revenue was largely due to two factors. First, a sharp drop in receipts from dividends on investment amounting to Lm10.6 million, attributable mainly to the one-off proceeds from the land-revaluation gains by MIA registered in 2002. Second, a substantial fall of Lm6.4 million in fees of office, due to the non-recurrence of receipts collected under the Investment Registration Scheme.

Table 5.1
GOVERNMENT BUDGETARY OPERATIONS

Lm millions

	2002 Qtr. 3	2003 Qtr. 3	2002 Qtr. 1- Qtr. 3	2003 Qtr. 1- Qtr. 3	Change 2002-2003 Qtr. 1- Qtr. 3 Amount	%
REVENUE	**172.5**	**161.8**	**468.4**	**457.9**	**-10.5**	**-2.2**
Direct tax	**85.6**	**83.4**	**209.7**	**212.3**	**2.6**	**1.2**
Income tax	55.0	52.7	125.5	125.0	-0.5	-0.4
Social security contributions[1]	30.6	30.7	84.1	87.3	3.2	3.8
Indirect tax	**68.3**	**69.2**	**192.1**	**192.6**	**0.5**	**0.3**
Value Added Tax	26.8	30.2	83.2	86.1	2.9	3.5
Customs and excise duties	16.7	16.2	44.1	44.9	0.8	1.8
Licences, taxes and fines	24.9	22.9	64.7	61.6	-3.1	-4.8
Non-tax revenue	**18.6**	**9.1**	**66.7**	**53.0**	**-13.7**	**-20.5**
Central Bank profits	0.0	0.0	25.7	24.8	-0.9	-3.5
Other[2]	18.6	9.1	41.0	28.2	-12.8	-31.2
RECURRENT EXPENDITURE [1]	**157.7**	**158.7**	**483.1**	**509.5**	**26.4**	**5.5**
Personal emoluments	49.2	48.1	147.1	146.6	-0.5	-0.4
Operational and maintenance	9.9	7.7	36.0	36.2	0.2	0.6
Programmes and initiatives	67.2	67.1	203.1	220.9	17.8	8.8
Contributions to entities	14.6	18.5	47.2	56.6	9.4	19.9
Interest payments	16.8	17.1	49.2	48.8	-0.4	-0.8
Other	0.1	0.1	0.4	0.4	0.0	0.0
CURRENT BALANCE[3]	**14.8**	**3.1**	**-14.7**	**-51.6**	**-36.9**	**251.0**
CAPITAL EXPENDITURE	**22.4**	**25.2**	**71.0**	**84.2**	**13.2**	**18.6**
TOTAL EXPENDITURE	**180.1**	**183.9**	**554.1**	**593.7**	**39.6**	**7.1**
FISCAL BALANCE [4]	**-7.6**	**-22.1**	**-85.7**	**-135.8**	**-50.1**	**58.5**

[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.

Expenditure

Total expenditure for the first nine months of 2003 was up by 7.1% compared to the same period last year, with recurrent expenditure accounting for two-thirds of this rise. Growth in recurrent outlays was mainly generated by spending on programmes and initiatives, which increased by Lm17.8 million from year-ago levels. The latter reflected higher spending on social security benefits of around Lm8.5 million as well as an increase of Lm3.3 million in aid to farmers under the agricultural support scheme. Outlays on a new public-private landscaping project accounted for an additional Lm2.9 million, while the administrative costs of holding the EU referendum and the general elections amounted to Lm1.5 million.

At the same time, the Government wage bill declined by Lm0.5 million in spite of the wage increases awarded under the 2002-2004 civil service collective agreement. This was partly due to a drop in the number of Government employees, who were largely absorbed by new public sector entities such as Heritage Malta, the Malta Council for Culture and the Arts and Mount Carmel Hospital. The creation of these entities pushed up contributions to entities, which rose by 19.9%. This rise also reflected an additional Lm3.7 million passed on to the Malta Drydocks and the Malta Environment and Planning Authority. Operational and maintenance outlays together with interest payments remained practically unchanged compared with the corresponding period of 2002.

Capital expenditure, which accounted for around one-third of the change in total outlays, rose by Lm13.2 million despite the fact that in 2002 it had been augmented by one-off expenditure on early retirement schemes for shipyard workers. Capital spending was mainly fuelled by work on the Government hospital, though a general increase in outlays on construction projects, education and agriculture also contributed.

Government debt and financing operations

During the third quarter, the Government issued Lm43 million worth of bonds, as shown in Table 5.2. Apart from financing the deficit during the quarter, the proceeds from this issue enabled the Treasury to reduce its short-term borrowing by

Table 5.2
GOVERNMENT DEBT AND FINANCING OPERATIONS

Lm millions

	2002		2003		
	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3
FISCAL BALANCE	**-7.6**	**-2.1**	**-57.6**	**-56.1**	**-22.1**
Financed by: [1]					
Increase in MGS outstanding	0.1	0.0	27.0	0.0	43.0
Increase in foreign loans	-0.7	7.9	0.0	30.0	0.0
Proceeds from sale of assets	19.0	8.3	0.0	0.0	0.0
Contributions to sinking funds	0.0	-5.3	0.0	-5.7	0.0
Sinking funds of converted loans	0.0	13.2	0.0	0.7	1.4
Increase in Treasury bills outstanding	-6.5	26.4	29.9	23.4	-21.1
Decrease in Government deposits	-45.0	33.7	-34.3	6.8	-2.9
Net cash movement and other funds [2]	40.7	-82.1	35.0	0.9	1.7
GROSS GOVERNMENT DEBT	**1,042.6**	**1,076.9**	**1,133.8**	**1,187.1**	**1,209.0**
Malta Government stocks	813.0	813.0	840.0	840.0	883.0
Treasury bills	192.4	218.8	248.7	272.1	251.0
Foreign loans	37.2	45.1	45.1	75.1	75.1

[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.

Sources: Central Bank of Malta; Malta Stock Exchange; Ministry of Finance and Economic Affairs.

Lm21.1 million and contributed to a small increase in Government deposits with the banking system.

Gross Government debt at the end of the third quarter stood at Lm1,209 million, up by Lm21.9 million from the end of June. The share of Malta Government stocks in the total rose to 73% while the share of Treasury bills amounted to 20.8% at the end of September. The share of foreign borrowing declined slightly to 6.2% from 6.3% at the end of June.

Box 3: THE BUDGET ESTIMATES FOR 2004 - AN OVERVIEW

In 2003 a sharp slowdown in revenue growth led to the interruption of the fiscal consolidation process as the deficit widened compared with the previous year. A tighter fiscal stance is expected in 2004, when Government receipts should be boosted by new tax measures. Medium-term

Table 1
FISCAL PERFORMANCE IN 2004 - CONSOLIDATED FUND

	Revised Estimates for 2003	Estimates for 2004	Change 2004-2003	
	Lm million	Lm million	Lm million	%
REVENUE	**674.3**	**778.2**	**103.8**	**15.4**
Direct tax	**326.6**	**343.6**	**17.0**	**5.2**
Income tax	203.4	213.8	10.4	5.1
Social security contributions[1]	123.2	129.8	6.6	5.3
Indirect tax	**274.9**	**318.1**	**43.2**	**15.7**
Value Added Tax	125.0	140.5	15.5	12.4
Customs and excise duties	63.3	69.2	5.9	9.3
Licences, taxes and fines	86.5	108.4	21.9	25.3
Non-tax revenue	**72.9**	**116.5**	**43.6**	**59.8**
Central Bank of Malta profits	24.8	17.0	-7.8	-31.5
Other [2]	48.1	99.5	51.4	+
RECURRENT EXPENDITURE [1]	**675.6**	**746.3**	**70.7**	**10.5**
Personal emoluments	196.6	199.6	3.0	1.5
Operational and maintenance	45.2	46.4	1.2	2.5
Programmes and initiatives	297.6	348.3	50.6	17.0
Contributions to entities	72.5	79.4	7.0	9.6
Interest payments	63.2	71.9	8.8	13.9
Other	0.6	0.7	0.1	16.6
CAPITAL EXPENDITURE	**106.3**	**126.7**	**20.4**	**19.2**
TOTAL EXPENDITURE	**781.9**	**873.0**	**91.0**	**11.6**
CURRENT BALANCE	**-1.3**	**31.9**	**33.2**	+
FISCAL BALANCE	**-107.6**	**-94.8**	**12.8**	**-11.9**
Fiscal balance as % of GDP	**-6.3**	**-5.4**	**0.9**	**14.3**

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

[2] Excludes proceeds from sale of public assets.

Note: A '+' sign indicates a percentage change that exceeds +/- 100.

Sources: Budget Speech 2004; Financial Estimates 2004.

projections also envisage a reduction of the shortfall in the Consolidated Fund to 2.8% of GDP by 2006, which should be mainly driven by greater emphasis on expenditure control.[1]

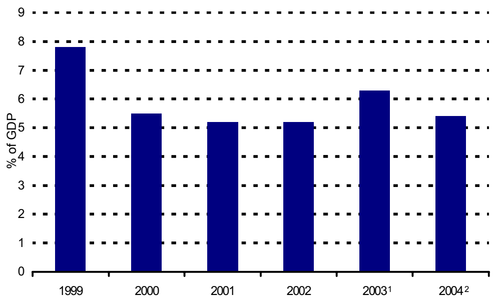
Fiscal performance in 2003

As Table 1 shows, the deficit on the Consolidated Fund for 2003 is expected to amount to Lm107.6 million, or 6.3% of GDP, up by Lm19.9 million from the previous year and Lm32.8 million more than originally projected. According to the revised estimates, Government revenue should rise by just 2.3%, mainly because revenue in 2002 had included substantial one-off receipts and grants from Italy under the Fifth Financial Protocol were not forthcoming. On the other hand, expenditure is expected to increase by 4.7%, almost twice the rate of revenue growth, with higher recurrent expenditure accounting for three-fourths of the total rise.

Projected fiscal performance in 2004

In 2004 the deficit is projected to fall by Lm12.8 million, to Lm94.8 million. Expressed as a percentage of GDP, the deficit should drop by 0.9 percentage points to 5.4%, slightly more than its level in 2002, as Chart 1 shows. New tax measures and an improvement in macroeconomic conditions should both contribute to fiscal consolidation. Revenue is expected to expand by 15.4%, although this also reflects the receipt of grants from Italy and the EU that will finance various expenditure initiatives. Revenue growth excluding additional grants is expected to reach 8.3%. On the other hand, spending is forecast to rise by 11.6%, but the projected increase in expenditure excluding that financed by foreign aid is 5.5%. The latter represents a moderate acceleration from that anticipated for 2003.

Chart 1
CONSOLIDATED FUND DEFICIT



[1] Revised estimate.
[2] Estimate.
Sources: Budget Speech 2004; Financial Estimates 2001-2004.

Principal measures for 2004

The Budget measures include:

- an increase in the standard VAT rate from 15% to 18%;
- a one-off compensation for the increase in VAT of Lm0.75 per week to persons in employment and pensioners;
- a cost-of-living allowance of Lm0.75 per week to employees and Lm0.50 per week to pensioners;
- reform of taxation on property sales;
- higher excise duties on cigarettes;
- removal of levies on imported food products;
- increased means testing on the provision of free medicines;
- charges for medical treatment where patients are covered by private insurance;
- the creation of sub-accounts within the Consolidated Fund.

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[1] The ratios cited in this overview are based on GDP compiled using the System of National Accounts 1953 methodology (with some elements of SNA68). EU fiscal benchmarks refer to GDP compiled using the ESA95 methodology. Provisional estimates of Malta's GDP using ESA95 methodology suggest that this is about 7% higher than that estimated using the older methodology. This increase in GDP lowers the deficit to GDP ratio by about 0.3 percentage points and the debt to GDP ratio by some 4.5 percentage points.

Projected revenues, recurrent and capital expenditures in 2004

Tax receipts are expected to rise by Lm60.2 million, as Table 1 shows, with the new tax measures alone, net of VAT compensatory payments, boosting revenue by Lm36 million in 2004.

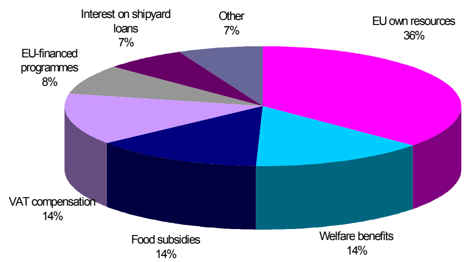
More than 70% of the increase in tax revenue is expected to originate from indirect taxes, particularly from licences, taxes and fines. These should rise by about one-fourth from the preceding year, partly reflecting the issue of an operating licence to a betting company and higher duty on documents relating to property transfers. The three percentage point increase in the VAT rate will boost receipts by Lm21 million, although a change in the point of collection of VAT from Customs to the retail stage will temporarily lower the intake by Lm15 million. This, coupled with higher private consumption expenditure and, to a lesser extent, the widening of the tax base in May 2004, should lead to a 12.4% rise in the yield from VAT. Receipts from customs and excise duties are also expected to grow by Lm5.9 million, driven by higher duties on tobacco products.

Revenues from income tax and social security contributions, boosted by stronger economic growth, are both anticipated to increase by slightly more than 5%.

In spite of an anticipated drop in Central Bank profits, income from non-tax sources is expected to account for a significant part of the rise in revenue. Non-tax revenue is forecast to rise by three-fifths of its level in the previous year as a result of funds from the EU and Italy.

Total expenditure is expected to increase by Lm91 million. Recurrent outlays are forecast to rise by Lm70.7 million, or 10.5%. Programmes and initiatives should account for over 70% of the increase. As Chart 2 shows, more than a third of the projected increase represents Malta's payment to the EU's own resources. Welfare benefits, subsidies to food producers and the compensation for the VAT rise should each account for 14% of the rise in spending within this category.

Chart 2
DISTRIBUTION OF THE INCREASE IN OUTLAYS ON PROGRAMMES AND INITIATIVES IN 2004



Source: Financial Estimates 2004.

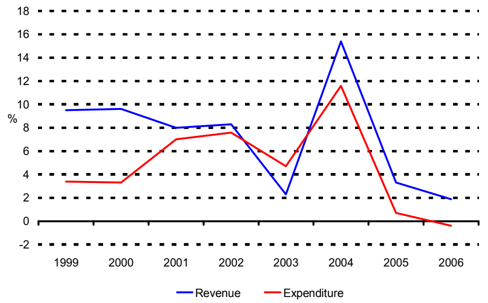
Contributions to entities are also projected to rise, although this partly mirrors the transfer of functions from the Drainage Department to the Water Services Corporation. In turn, this administrative change should contain the Government's wage bill as well as its operational and maintenance expenditure, which are anticipated to grow by just 1.5% and 2.5%, respectively. Meanwhile, the increase in Government debt during 2003 is expected to lead to higher interest payments in 2004.

Capital expenditure is expected to continue to grow strongly, rising by Lm20.4 million. Higher spending on the hospital should account for almost three-fourths of the increase, though outlays on road construction are also expected to rise considerably.

Medium-term projections

The Budget for 2004 also includes fiscal projections for 2005 and 2006. The Government

Chart 3
PERCENTAGE CHANGE IN REVENUE AND EXPENDITURE[1]



[1] Based on revised estimates for 2003 and forecasts for 2004, 2005 and 2006.
Sources: Budget Speech 2004; Financial Estimates 2001-2004.

targets a reduction of the deficit on the Consolidated Fund to 4% of GDP in 2005 and 2.8% of GDP in 2006. These projections envisage tighter control on public spending and moderate increases in revenue, as may be inferred from Chart 3.

General government balance

This analysis has focused on the Consolidated Fund, which captures most of the transactions of the central Government. However, in measuring the fiscal position, EU regulations refer to the wider concept of general Government. According to EU definitions, central Government consists of all administrative departments of the State, as well as all other agencies that are non-profit institutions and are mainly financed by the State. In the local context, general Government consists of central Government and local Government.

On the basis of this definition of Government, the ratio of the fiscal deficit to GDP reached 6.4% in 2003 and is projected to fall to 5.7% in 2004. Estimates based on the medium-term Consolidated Fund forecasts indicate that the general Government deficit should further decline to 3.1% of GDP by 2006. At the same time, the public debt, defined in terms of general Government, should peak at 70.6% of GDP in 2004, before falling back to about 68.4% in 2006.

Economic effects of the budgetary measures

The new tax measures are expected to have a negative impact on disposable income in 2004, though this will be partly cushioned by the one-off compensation payment. In turn, the drop in disposable income should dampen consumption expenditure. Simulation tests indicate that the increases in the standard VAT rate and the excise duty on cigarettes, net of the compensatory allowance, will curtail consumption expenditure growth by 0.8 percentage points in 2004, resulting in lower real GDP growth and lower imports. The latter is expected to improve the current account of the balance of payments by about 0.4 percentage points of GDP.

The higher VAT rate and, to a lesser extent, the increase in excise duty on cigarettes are expected to raise the Retail Price Index by 2.2 percentage points in 2004, although this will be partly offset by the removal of the remaining levies on food products.

Conclusion

Fiscal tightening may dampen economic activity in the short run, but the long-term benefits of sound public finances are considerable. Consolidation should favour a low interest-rate environment and free up resources for the private sector. These factors should help create a more favourable climate for investment and job creation. Initiatives aimed at stabilising expenditure reduce the need for higher taxation and are therefore more conducive to economic growth. Such initiatives should also help to address the problem of expenditure pressures generated by population ageing.

6. MONETARY AND FINANCIAL DEVELOPMENTS

The Central Bank of Malta continued to ease its monetary policy stance during the third quarter, lowering the central intervention rate by 25 basis points to 3% in September. Money market interest rates fell in July in response to the previous cut in official rates at the end of June. They remained broadly unchanged in August and September but resumed their downward trend in October. In the capital market, Government bond yields weakened further, while the recovery in equities gathered pace.

After a notable gain in the June quarter, broad money increased at a slower pace during the quarter reviewed. While a considerable expansion in the net foreign assets of the banking system during the quarter boosted monetary growth, a contraction in domestic credit exerted a dampening effect. Portfolio shifts from bank deposits into Government and corporate bonds contributed significantly to the moderation in monetary growth. Broad money continued to expand in October, driven by a recovery in domestic credit and a small increase in the net foreign assets of the banking system.

The monetary base

The monetary base, M0, which consists of currency in issue and bank deposits with the Bank (excluding term deposits), contracted by Lm0.7 million, or 0.1%, during the third quarter. The fall in M0 originated from a drop in bank deposits with the Bank, which have fluctuated considerably in recent quarters. On the other hand, currency in issue, which represents over three-quarters of the monetary base, has been growing more steadily. The annual growth rate of M0 climbed to 9% in September, from 4.7% in

Table 6.1
THE MONETARY BASE AND ITS SOURCES

Lm millions

	June 2003	Sept. 2003	Change
Currency in issue	471.1	475.8	4.7
Bank deposits with the Central Bank of Malta[1]	136.5	131.2	-5.3
MONETARY BASE	**607.6**	**607.0**	**-0.7**
CENTRAL BANK OF MALTA ASSETS			
Foreign assets	926.3	943.3	17.0
Claims on Government	2.4	3.2	0.7
Fixed and other assets	49.8	48.6	-1.2
Less:			
REMAINING LIABILITIES			
Government deposits	65.2	67.8	2.6
Other deposits	8.9	8.3	-0.6
Foreign liabilities	4.8	7.6	2.8
Other liabilities	195.9	213.7	17.7
Capital and reserves	96.1	90.7	-5.4

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

June, as the monetary base had declined more steeply during the third quarter of 2002.

Table 6.1 displays the counterparts to the monetary base, with an increase in the Bank's assets contributing to growth in M0, and a rise in its other liabilities having the opposite effect. As the Table indicates, while growth in the Bank's foreign assets exerted an expansionary effect on the monetary base, this was countered by a rise in the Bank's other liabilities, which originated mostly from an increase in outstanding term deposits with the Bank. The monetary base rose slightly in October due to further growth in the Bank's foreign assets combined with a decrease in its foreign liabilities.

Monetary aggregates

Monetary growth decelerated during the third quarter, with broad money, M3, expanding by Lm15.1 million, or 0.5%, after having risen more strongly in the previous quarter, as Table 6.2 shows. The annual growth rate of M3 which, as Chart 6.1 indicates, tends to be influenced mainly by developments in quasi-money, extended its downward trend and fell to 3.3% by the end of September. The trend slowdown in monetary growth has been accompanied by rather weak economic activity, as well as subdued inflation. In addition, falling deposit rates have made bank deposits less attractive than alternative assets and may have induced portfolio reallocations away from deposits.

Narrow money, M1, which accounts for almost one-fourth of broad money, increased by Lm9.6 million, or 1.3%, as both currency in circulation and demand deposits continued to rise. The annual growth rate of M1, having risen steadily since mid-2002, eased to 8.7%, mainly reflecting slower growth in demand deposits. These deposits had expanded strongly during recent quarters, partly as a result of declining nominal

Table 6.2
MONETARY AGGREGATES
(Changes on the previous quarter)

Lm millions

	2002				2003					
	Qtr. 3		Qtr. 4		Qtr. 1		Qtr. 2		Qtr. 3	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. NARROW MONEY	**25.0**	**3.8**	**0.2**	**0.0**	**5.7**	**0.8**	**43.4**	**6.3**	**9.6**	**1.3**
Currency in circulation	7.3	1.7	-1.2	-0.3	4.2	1.0	11.3	2.6	4.1	0.9
Demand deposits	17.7	7.9	1.4	0.6	1.5	0.6	32.1	13.1	5.5	2.0
2. QUASI-MONEY	**82.2**	**3.6**	**22.5**	**1.0**	**-4.8**	**-0.2**	**15.8**	**0.7**	**5.5**	**0.2**
Savings deposits	18.7	2.7	12.0	1.7	16.5	2.3	22.6	3.1	7.8	1.0
of which FCDs[1]	1.8	1.1	5.0	3.2	9.3	5.8	-11.1	-6.6	6.7	4.3
Time deposits	63.5	4.0	10.5	0.6	-21.3	-1.3	-6.9	-0.4	-2.2	-0.1
of which FCDs[1]	35.1	25.6	-10.2	-5.9	-6.2	-3.8	-5.8	-3.7	13.2	8.8
3. BROAD MONEY	**107.2**	**3.7**	**22.8**	**0.8**	**0.8**	**0.0**	**59.2**	**1.9**	**15.1**	**0.5**

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

Chart 6.1
MONETARY AGGREGATES
(percentage change on previous year)

interest rates, which reduced the opportunity cost of holding them. However, their annual growth rate dipped to 16.7% in September from 23.5% three months earlier.

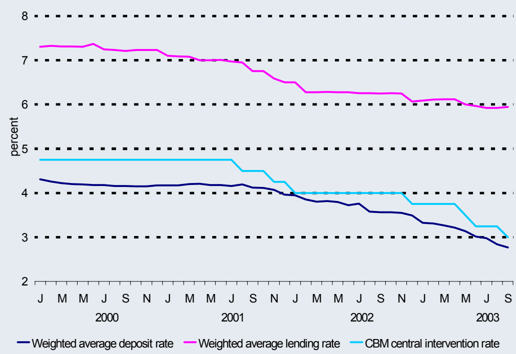
Quasi-money expanded by Lm5.5 million, or 0.2%, during the quarter under review, which, as Table 6.2 indicates, is about a third as much as in the previous quarter. Quasi-money fell substantially in July, as investors subscribed to new issues of corporate and Government bonds, but recovered strongly in August driven by a significant rise in foreign currency deposits, which was possibly related to the normal seasonal increase in tourism activity. Growth in quasi-money has slowed down considerably with the annual rate falling to 1.7% in September, after having peaked at over 14% a year earlier. This partly reflects a gradual slowdown in foreign capital inflows after rapid expansion in 2002, as suggested by a concurrent decline in the annual growth rate of the net foreign assets of the banking system, depicted in Chart 6.4.

The slowdown in quasi-money over the past few quarters largely reflects developments in time deposits. The latter contracted by Lm2.2 million during the quarter under review, while their annual growth rate fell to –1.2%, from 2.9% three months earlier, extending the downward trend that began towards the end of last year. The drop in time deposits was brought about by a substantial contraction in corporate balances.[1] This offset a surge in public sector holdings, most of which reflected proceeds from the liquidation of investments by a public corporation. Personal balances, on the other hand, remained virtually unchanged.

Savings deposits increased by Lm7.8 million, on account of further growth in personal balances. As Table 6.2 reveals, savings deposits have expanded rather strongly in recent quarters, as part of a continued build up of short-term liquid assets by households. Their annual growth rate, however, which had risen to 10.2% in June, eased to 8.4% during the quarter under review, following a shift from savings deposits into bonds during July.

The weighted average interest rate on Maltese lira deposits, illustrated in Chart 6.2, fell by 24 basis points to 2.77% in the three months to September, as banks adjusted their deposit rates in response to cuts in official rates. The average interest rate on current account balances, which was already

Chart 6.2
RETAIL DEPOSIT AND LENDING RATES



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

very low by historical standards, remained stable during this period ending the quarter at 0.72%. The average rate on savings deposits declined by 20 basis points to 1.23%, while that on time deposits shed 26 basis points to 3.8%.

Counterparts to monetary expansion

Following three quarters of growth, domestic credit contracted by Lm3.8 million, or 0.2%, during the quarter under review, on account of a notable drop in net claims on Government. However, the annual rate of credit growth edged higher since domestic credit had decreased by a larger amount in the same quarter of the previous year, as Table 6.3 reveals. Thus, in the twelve months to September domestic credit expanded by 4.2%, compared with 4.1% in the year to June.

Net claims on Government fell by Lm31.6 million, or 5.7%, during the third quarter, mainly as a result of a drop in bank holdings of Government securities, in particular Treasury bills. On the other hand, Government deposits with the

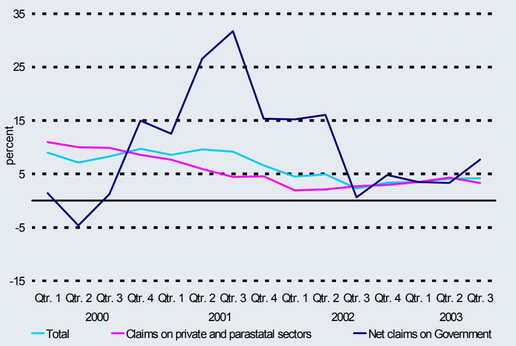
Table 6.3
COUNTERPARTS TO MONETARY GROWTH
(Changes on the previous quarter)

Lm millions

	2002				2003					
	Qtr. 3		Qtr. 4		Qtr. 1		Qtr. 2		Qtr. 3	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BROAD MONEY	**107.2**	**3.7**	**22.8**	**0.8**	**0.8**	**0.0**	**59.2**	**1.9**	**15.1**	**0.5**
1. DOMESTIC CREDIT	**-5.8**	**-0.2**	**20.9**	**0.9**	**40.9**	**1.7**	**42.2**	**1.7**	**-3.8**	**-0.2**
a) Net claims on Govt.	-51.3	-9.6	12.1	2.5	21.3	4.3	35.6	6.9	-31.6	-5.7
Gross claims on Govt.	-6.3	-1.1	-21.6	-3.7	55.6	10.0	28.8	4.7	-28.7	-4.5
Central Bank of Malta	-2.6	-53.0	1.9	82.6	-1.7	-38.5	-0.2	-8.3	0.7	30.3
Banks	-3.7	-0.6	-23.5	-4.1	57.2	10.4	29.0	4.8	-29.4	-4.6
Less:										
Government deposits[1]	45.0	98.2	-33.7	-37.1	34.3	60.0	-6.8	-7.5	2.9	3.4
Central Bank of Malta	43.8	130.6	-34.4	-44.4	31.5	73.3	-9.3	-12.4	2.6	3.9
Banks	1.2	9.9	0.6	4.7	2.8	19.9	2.4	14.3	0.3	1.5
b) Claims on private and parastatal sectors	45.6	2.5	8.8	0.5	19.6	1.0	6.6	0.3	27.7	1.4
2. NET FOREIGN ASSETS	**145.6**	**12.4**	**-22.1**	**-1.7**	**7.4**	**0.6**	**24.2**	**1.9**	**53.4**	**4.0**
Central Bank of Malta	59.9	7.7	33.3	4.0	4.3	0.5	43.3	4.9	14.1	1.5
Banks	85.7	22.0	-55.3	-11.6	3.0	0.7	-19.1	-4.5	39.3	9.7
Less:										
3. OTHER ITEMS (NET)	**32.7**	**5.0**	**-23.9**	**-3.5**	**47.4**	**7.2**	**7.3**	**1.0**	**34.4**	**4.8**

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

Chart 6.3
DOMESTIC CREDIT
(percentage change on previous year)



banking system remained broadly unchanged as an increase in July, related to the new Government bond issues, was run down in the following two months. The annual growth rate of net claims on Government, illustrated in Chart 6.3, rose to 7.7% in September, from 3.3% in June. This reflected an exceptional drop in these claims during the third quarter of 2002, which was mainly attributable to a sharp increase in Government deposits as a result of the partial privatisation of Malta International Airport (MIA).

In contrast, claims on the private and parastatal sectors increased by Lm27.7 million, or 1.4%, driven by the normal debiting of six months' accrued interest to borrowers' loan accounts in September. Underlying growth in these claims remained weak, as seen in a drop in their annual growth rate, which fell to 3.3% in September, after having risen slowly since the second quarter of 2002. Although nominal bank lending rates have fallen in recent quarters, as Chart 6.2 indicates, real lending rates have been rising as a result of falling inflation. As this implies an increase in firms' borrowing costs in real terms, it could have had a negative impact on credit demand. Meanwhile, it appears that banks continue to adopt a cautious approach to lending. Subdued economic activity may also have impinged on credit growth.

Loans and advances to the private and parastatal sectors increased by Lm24.3 million, or 1.3%, during the quarter under review, accounting for

Table 6.4
CREDIT TO SELECTED CATEGORIES OF BORROWER[1]

Lm millions

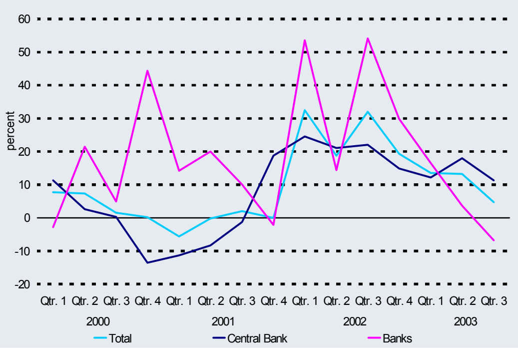
	2003 June	2003 Sept.	Change Amount	Change %
Energy and water	87.5	86.2	-1.3	-1.5
Transport, storage and communication	127.2	122.3	-4.9	-3.8
Agriculture and fisheries	9.7	9.6	-0.2	-1.6
Manufacturing	187.4	186.5	-0.9	-0.5
Building and construction	100.0	99.1	-0.9	-0.9
Tourism	243.9	235.7	-8.2	-3.3
Wholesale and retail	299.5	292.8	-6.7	-2.2
Personal	545.0	582.7	37.7	6.9
Other services	86.8	92.6	5.9	6.7
All other	155.2	159.0	3.7	2.4
TOTAL	**1,842.3**	**1,866.6**	**24.3**	**1.3**

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

most of the increase in the aggregate claims on the private and parastatal sectors. In spite of the interest charges referred to earlier, lending to most categories of borrower contracted, as can be seen in Table 6.4. However, as the Table also indicates, borrowing by the personal sector remained strong, reflecting buoyant demand for loans to finance housing. As a result, the annual growth rate of loans to households rose to just over 15% in September from around 12% in June. Some banks reclassified their loan portfolio, which explains the drop in credit to the tourism industry and part of the contraction in lending to the wholesale and retail trade. These reclassifications also bolstered credit to manufacturing which, however, still fell slightly.

The net foreign assets of the banking system expanded by Lm53.4 million, or 4%, during the third quarter, following weaker growth during the previous three quarters, as Table 6.3 indicates. A strong recovery in the net foreign assets belonging to the rest of the banking system, which had contracted in the second quarter, contributed significantly to the increase, while the Bank's holdings rose further. These developments were partly seasonal, with the third quarter usually being associated with an increase

Chart 6.4
NET FOREIGN ASSETS
(percentage change on previous year)



in tourism activity when compared to the rest of the year. In addition, the net foreign assets of the banking system were also boosted by the sale of an equity investment by a public corporation to a non-resident firm.

While on a quarter-on-quarter basis the net foreign assets of the banking system have picked up since the beginning of the year, their annual growth rate has continued to decline, as can be seen in Chart 6.4. During the past year, growth in the net foreign assets of the banking system has been restrained by a deterioration in the current account of the balance of payments and by a decline in net capital inflows. Nevertheless, the sharp drop in their annual growth rate during the quarter under review, to 4.8% from 13.3% in June, was mainly due to a base effect that reflected an exceptional rise in these assets during the third quarter of 2002.

The net foreign assets of the Bank increased by Lm14.1 million, or 1.5%, during the third quarter, reflecting net purchases of foreign exchange from the rest of the banking system. However, their annual growth rate dropped after having temporarily risen in the previous quarter, as seen in Chart 6.4. The net foreign assets of the rest of the banking system gained Lm39.3 million, or 9.7%, despite the sales of foreign currency to the Bank. However, their annual rate of growth turned negative reflecting a contraction in these assets in recent quarters, as Table 6.3 indicates. A notable rise in the deposit money banks' holdings accounted for most of the increase registered during the quarter under review, although the international banks' net foreign assets also advanced.

Other items (net) put on Lm 34.4 million, or 4.8%, exerting a dampening effect on monetary growth.[2] A large part of the rise reflected the addition of

[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.

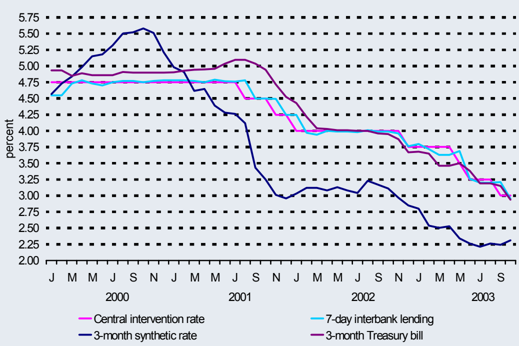
interest accrued to outstanding loans, which reduced the deposit money banks' other assets. The rest originated from an increase in the other liabilities of both the deposit money banks and the international banking institutions.

The money market

The Bank eased its monetary policy stance further during the third quarter, reducing the central intervention rate by 25 basis points to 3% at the end of September. Yields on domestic money market instruments fell in July, in reaction to the previous cut in official rates at the end of June, but remained quite stable for the rest of the quarter. However, they subsequently resumed their downward trend in October following the September easing, as Chart 6.5 shows.

During the quarter under review, the Bank continued to hold weekly auctions of 14-day term deposits to absorb excess liquidity from the rest of the banking system. An aggregate of Lm915.1 million were absorbed in this way, up from Lm883.6 million in the previous quarter. The interest rate paid on these deposits remained at 3.2% until the September cut in the central intervention rate, after which it fell to 2.95%. Once again, the Bank

Chart 6.5
MONEY MARKET INTEREST RATES
(end of month)



did not inject any funds through reverse repos during the quarter.

Turnover in the interbank market increased to Lm18.8 million, from Lm15.7 million in the previous quarter, as the slowdown in deposit growth referred to earlier resulted in some banks making increased use of the interbank market for short-term funds. However, turnover remained rather subdued in comparison with recent years, reflecting the relatively modest market funding needs of banks. All interbank loans had terms to maturity of two weeks or less, with the interest rate on one-week loans, the most common, dropping to 2.95% at the end of October, from 3.26% four months earlier.

The Treasury made less extensive use of the money market to finance its borrowing requirements during the quarter, issuing Lm168 million worth of bills, down from Lm256.1 million in the previous quarter. The three-month bill accounted for half of the total securities issued, with the rest having longer terms to maturity, of between six months and one year. Banks purchased roughly three-fourths of these issues, while other investors took up the remainder. Primary market yields extended their downward path in tandem with official rates, with the yield on the three-month bill, depicted in Chart 6.5, falling to 2.94% by the end of October.

Turnover in the secondary market for Treasury bills increased to Lm32 million in the third quarter, from Lm23.5 million in the previous quarter. The pick-up in activity reflected increased participation by the Bank which, in fulfilling its role as market maker, accounted for over a third of total volume. The rest of the transactions involved purchases by banks from other financial institutions. As in the primary market, secondary market yields across the entire maturity spectrum extended their declines.

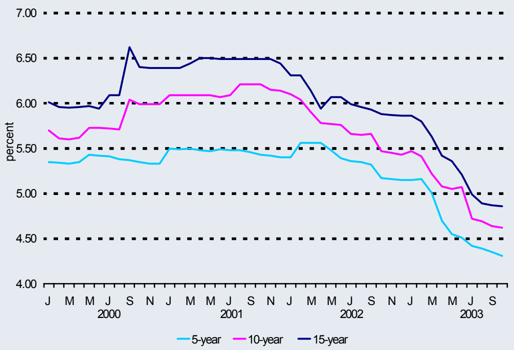
The synthetic three-month yield, which is a weighted average of money market yields on the three currencies that make up the Maltese lira basket, increased by 5 basis points, to 2.31%, in the four months to October. As Chart 6.5 indicates, the downward trend that started towards the end of 2000 appears to have been halted. With the yield on domestic three-month Treasury bills continuing to fall, the differential between the two yields narrowed significantly, to 63 basis points at the end of October from 1.12% in June.

The capital market

Issuance activity in the primary bond market picked up in the third quarter, following a lull during the previous quarter. In July, Mariner Finance plc issued 13 million euros worth of bonds, while Government sold Lm63.8 million in stocks and redeemed Lm20.8 million worth.[3] There were no further bond issues during the rest of the quarter, although activity picked up later in the year.

Towards the end of October, two firms from the private sector raised a total of Lm9.7 million in the corporate bond market. Both issues were heavily oversubscribed. Over the past year and a half, falling interest rates, coupled with generally robust demand for fixed income securities, have allowed firms easier access to the market for corporate debt, resulting in a surge in bond issues. In addition, some firms might also have turned to the bond market for financing in response to tighter bank lending policies. In November, the Government issued Lm30 million worth of Malta Government stock, maturing in 2016 and carrying a coupon rate of 4.8%.

Chart 6.6
GOVERNMENT BOND YIELDS
(end of month)



Turnover in the secondary market for Government bonds climbed to Lm15.2 million during the third quarter, from Lm8.6 million in the previous quarter, with the Bank's participation once again being minimal. Trading was largely concentrated in a handful of stocks, with investors showing a preference for the longer end of the market. In particular, the Government stocks issued in July accounted for over half of the total activity during the quarter. As Chart 6.6 illustrates, bond yields fell rather sharply in July, following the cut in the central intervention rate at the end of June, and then continued to move gradually lower. The benchmark rate for the 10-year bond, for instance, lost 45 basis points in the four months to October. In contrast, 10-year yields in the main markets abroad gained ground, leading to a reduction in the premium on Maltese lira instruments.

Trading in the secondary market for corporate bonds fell to Lm2.3 million in the quarter under review, from Lm2.6 million in the previous quarter. Turnover was spread rather evenly across a broad range of securities, including the newly issued Mariner Finance plc bonds following their admission to the Malta Stock Exchange. In line with developments in the

[3] See *Quarterly Review* (Sept. 2003) for further details.

market for Government bonds, corporate bond yields generally moved lower.

Activity in the equity market gathered pace during the third quarter, with the value of shares traded on the Exchange rising to Lm3.8 million, from Lm3 million in the previous quarter. Most of the volume involved those equities with a larger market capitalisation. As in equity markets abroad, domestic share prices continued to move higher, with the Malta Stock Exchange Share Index, illustrated in Chart 6.7, rising by 12.4% to 2,157.6 in the four months to October.

Chart 6.7
MALTA STOCK EXCHANGE SHARE INDEX
(end of month)

Source: Malta Stock Exchange

7. FINANCIAL STABILITY

Introduction

In 2003 credit institutions in Malta continued to operate in an environment characterised by weak economic conditions.[1] Nevertheless, while the reduction in official interest rates did not appear to have stimulated additional borrowing by the non-financial sector, the institutions still managed to register a relatively high level of net interest income over the financial year.

A persistence of slow economic growth could, however, result in financial pressure on the corporate and personal sectors which, together with the impact of the industry restructuring process, could ultimately affect the asset quality of the banking sector. Consequently this has the potential to reduce the overall income and profitability of the banking system but should not have any strong negative repercussions on its robustness. The implementation of cost cutting measures, business reorientation and risk management techniques, particularly the steps being taken to strengthen loan portfolios, should, however, mitigate any such effect and contribute to the long term stability of the banks.

Against this background, the credit institutions continued to raise their loan provisions in compliance with Banking Directive BD/09 which is aimed at strengthening the overall asset quality of these institutions. The Directive requires full provisioning of the uncollateralized portion of all loans that are classified as non-performing.[2] Credit institutions are further refining their credit assessment methodologies to improve the quality of new lending. This, to a certain extent, has resulted in a more cautious approach to credit extension.

The liquidity level of the banking system continued to increase in line with the rise in deposits as investors placed funds in bank accounts due to a lack of alternative investment opportunities as a result of underperforming equity markets and low interest rates in the capital markets. However, the higher level of liquidity also reflected capital inflows, partly in response to the re-introduction, for a two-and-a-half-month period, of the Investment Registration Scheme.[3]

Structural developments in the banking sector

The Maltese banking system is composed of two types of credit institutions, those that transact with both residents and non-residents (henceforth referred to as domestic banks) and those which transact solely with non-residents (henceforth referred to as international banks).[4] The latter group clearly has a limited impact on the domestic financial system. The domestic banks, on the other hand, have a greater impact not only on the domestic financial system, mainly through the payments system, but also on the Maltese economy. This group of banks accounts for 62% of the total assets of the Maltese banking

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1 The terms 'credit institutions' and 'banks' are used interchangeably in this section.

2 Non-performing loans (NPLs) gross of provisions and interest in suspense, are loans and advances on which repayment is overdue by 90 days and facilities considered as doubtful.

3 The Investment Registration Scheme was extended from 1 September to 15 November 2003. It was set up to provide residents of Malta who held undeclared foreign eligible assets with the opportunity to regularise their position under both the Income Tax and the Exchange Control Acts.

4 The distinction between these two types of banks is an administrative rather than a legal one as all credit institutions are subject to the same onshore regulatory regime and are supervised by the same regulator. Some banks choose not to operate on the domestic market due to the small size of the market.

system.[5] In the first three quarters of 2003 the banking system's total assets grew by 8.9%, a lower growth rate than that registered in the same period of the previous year.

This analysis reviews the banking sector as a whole, and the domestic banks in particular, to assess the stability of the sector and identify weaknesses that may spill over onto the financial system and hence onto the domestic economy.

The year 2003 was marked by developments in the Maltese banking sector, particularly as regards the regulatory environment, competition and integration with foreign markets. In January 2003 the Deposit Guarantee Scheme Regulations, which offer depositors financial compensation in the event of a bank failure and the loss of their deposits, came into force.[6] Some institutions further developed their delivery channels, particularly through the provision of internet banking facilities and the re-engineering of processes to support customer services. Credit institutions also engaged in consolidation processes by closing down underutilised branches and centralising back-office functions. Some domestic banks expanded their business operations by acquiring international subsidiaries and increasing their collaboration with foreign entities, as well as by opening offices abroad to gain exposure to new markets.

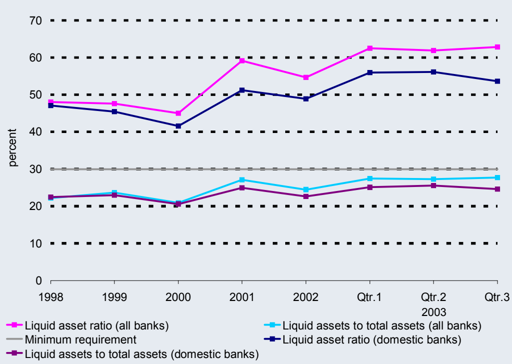
Looking ahead, the enactment of the Special Funds (Regulation) Act 2002, which establishes the statutory basis for retirement schemes and retirement funds, will probably lead to the development of pension schemes run by the banks. The entry into force of the External Transactions Act in January 2004, which replaced the Exchange Control Act, is likely to lead to increased cross-border transactions as it will provide for the free movement of capital after May 1, 2004.

Liquidity remains high

As Chart 7.1 shows, the liquid asset ratio for the banking system remained comfortably above the minimum level[7] for credit institutions established by the regulatory authority.[8] It is relevant to mention that a high level of liquidity contributes to the soundness of the banking system and the smooth running of the payments system.

The liquidity ratio, which in September 2003 stood at 62.8%, was relatively stable during the first three quarters of 2003. For the domestic banks it

Chart 7.1
LIQUIDITY RATIOS



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5 The Maltese banking system consists of sixteen credit institutions, including two branches and eight subsidiaries of foreign banks. Eight credit institutions operate in both the domestic and the international markets. The licence of one of the international banks was changed from the offshore to the onshore regime at the end of September 2003. The data for this institution are not included in the analysis.

6 These regulations were revised in November 2003.

7 The minimum liquid assets ratio is set at 30% and defined in terms of Banking Directive BD/05 as the proportion of eligible liquid assets to eligible short-term liabilities. This does not apply to foreign branches operating from Malta.

8 The Malta Financial Services Authority (MFSA) is the single regulatory authority for financial services in Malta, having taken over the regulatory and supervisory functions from the Central Bank of Malta and the Malta Stock Exchange in 2002 and 2003, respectively.

was also significantly higher than the minimum requirement. At the end of September it stood at 53.6%, which is 2.5 percentage points lower than in the previous quarter, as the banks' holdings of eligible liquid assets decreased. Chart 7.1 also shows that short-term assets accounted for around one-fourth of total assets for both the banking system as a whole and for the domestic banks.

Comparing the maturity structure of loan portfolios with that of deposits is another way of assessing the credit institutions' liquidity. Chart 7.2a shows that for the banking system as a whole, 32.6% of loans have a remaining maturity of less than one year whereas 37.1% have a maturity of between one to five years. Long term loans with a maturity of more than twenty years account for just 8.7% of the banks' total loan portfolio.

Liquidity levels on the liabilities side of the banks' balance sheets show that over 58% of total deposits have a remaining maturity of less than one year. This implies an overall mismatch between short term assets and liabilities. However, it is relevant to note that a large proportion of short term liabilities consist of

Chart 7.2a
MATURITY STRUCTURE OF LOANS
(September 2003)

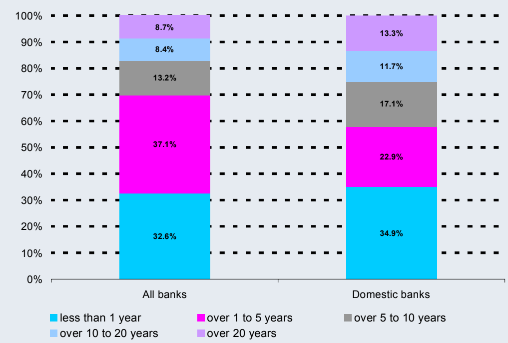
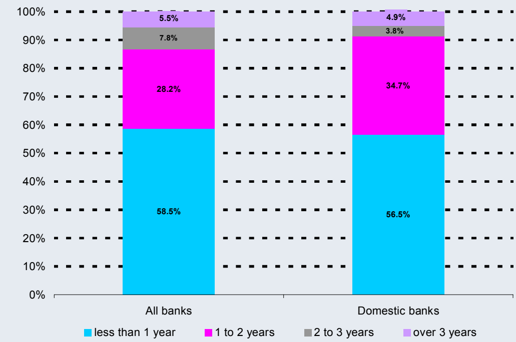


Chart 7.2b
MATURITY STRUCTURE OF DEPOSITS
(September 2003)



personal deposits, which tend to be less volatile than either corporate or interbank deposits.

The maturity structure of loans and deposits of the domestic banks is quite similar to that of the total banking system, with the largest share of deposits (56.5%) and around one-third of total loans due to mature within one year.

Consequently, since the liquid assets ratio of the banking system is double the minimum requirement and a third of the banks' assets consist of marketable securities, it therefore appears that the banking system is in a strong position to accommodate any unexpected demands on its cash balances.

Stable capital adequacy

Besides maintaining a sufficient level of liquidity, the Maltese banking system has held a constant healthy and stable capital adequacy position. The capital adequacy ratio, which compares the banks' own funds to their risk weighted assets, has increased steadily since 1999, reaching 19.9% in September 2003. Throughout this period the ratio exceeded the minimum requirement of 8% set by the regulatory authority.[9] The rise in the capital

[9] The 8% regulatory minimum is the international capital adequacy benchmark established by the Basle Committee for Banking Supervision. The capital adequacy regime is currently being revised by the Basle Committee to take into account more fully the risks within the banking sector and the appropriate risk mitigation. The regulatory authorities are following developments since local requirements will likewise be adjusted.

adequacy ratio was mainly the result of increases in the banks' own funds, which grew faster than their risk weighted assets.

As Chart 7.3b shows, the capital adequacy ratio for the domestic banks had risen to 17.6% by the third quarter. In 2002, the latest year for which comparable data are available, this ratio was also above the average of the major EU banks. In view of the narrowness of the economic base in which the banks in Malta operate, high capital adequacy ratios are essential to mitigate risks related to this factor.

At the end of September 2003, the core capital adequacy ratio (CCAR), which is the ratio of the banks' original own funds to risk weighted assets, stood at 17.3% and 14.9% for the total banking system and the domestic banks, respectively.[10] The CCAR of the credit institutions is high compared to the international benchmark of 4%. A high CCAR is indicative of the capital strength of the banking system since the major part of total own funds consists of original own funds, which are considered to be the most permanent and robust type of capital.

Chart 7.3a
CAPITAL ADEQUACY POSITION (ALL BANKS)

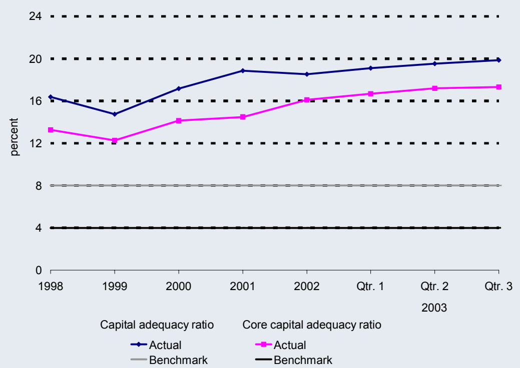
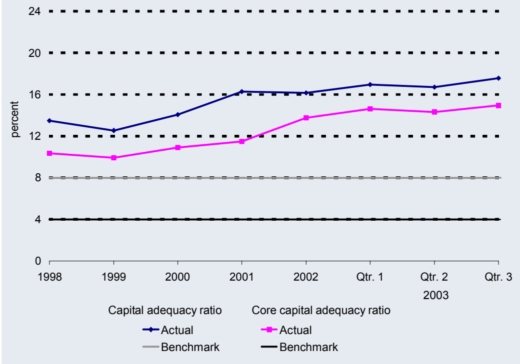


Chart 7.3b
CAPITAL ADEQUACY POSITION (DOMESTIC BANKS)



Rising profitability[11]

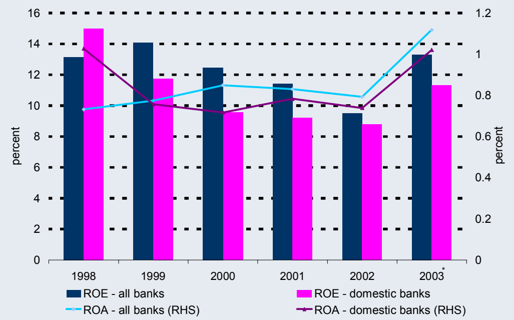
Despite the prevailing economic uncertainties of recent years, the profitability of the banking system in Malta has increased steadily since 1998.

In spite of a low interest rate scenario, credit institutions improved their net interest income stream through a strategic shift towards fixed income securities. The decline in interest rates also prompted banks to divert part of their operations to non-interest earning transactions and to reduce some of the cross-subsidisation of services. Although non-interest expenditure had increased steadily in absolute terms since 1999, it fell relative to gross income as a result of various cost-cutting measures adopted by a number of banks.

The return on assets (ROA) and return on equity (ROE) ratios are two of the main measures of bank profitability. Despite an increase in profits, the ROA ratio of the banking system remained relatively stable at around 0.8% between 1998 and 2002, as Chart 7.4 shows. Based on September 2003 data, the annualised ROA ratio for that year is estimated to have risen to 1.1%, mainly due to

[10] Original own funds are mainly composed of equity and reserves.
[11] Caution is warranted when interpreting the profitability figures for 2003 since these figures have been annualised to be comparable to previous years.

Chart 7.4
RETURN ON EQUITY (ROE) AND ASSETS (ROA)



* Caution is warranted when interpreting the profitability figures for 2003 since these figures have been annualised to be comparable to previous years.

an increase in profits. Over the past five years, the ROA ratio of the domestic banks was broadly equivalent to that of the total banking system. The annualised ROA ratio for 2003 for this group of banks is estimated at 1%.

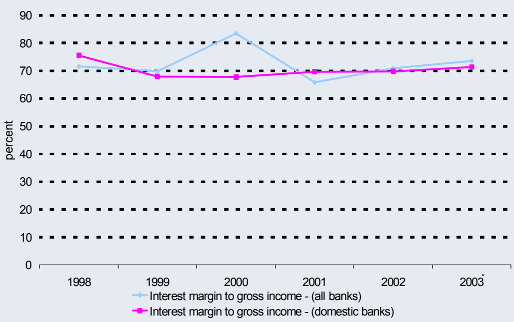
On the other hand, since 1999 the ROE ratio of the domestic banks was consistently below that of the total banking system. In September 2003 the annualised ROE ratio for the banking system as a whole stood at 13.3%, whereas that for the domestic banks stood at 11.3%.

Net interest income increased steadily since 1998, mainly because interest expenditure fell faster than interest income.[12] The net interest income to gross income ratio for the banking system fluctuated during this period, between a high of 83.5% and a low of 65.9%, largely due to variations in non-interest income reported by international banks.[13] In September 2003, the net interest income to gross income ratio stood at 73.5%. The ratio for the domestic banks was more stable rising to an annualised ratio of 71.4%.

The banks' non-interest income has varied considerably since 1998, mainly due to fluctuations in profits from foreign exchange and investment securities trading. On the other hand, fees and commissions receivable have increased steadily over the years.

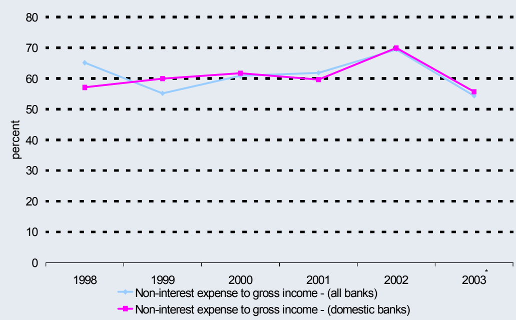
Non-interest expense increased by 83% between 1998 and 2002. The ratio of non-interest expense to gross income increased steadily since 1999, peaking in 2002 at 69.4% as a result of a larger increase in non-interest expense than in gross income. In September 2003, the ratio of non-interest expense to gross income for the total banking system dropped to 54.2%, the lowest level since 1998. The ratio for the domestic banks broadly followed this trend, peaking at 69.9% in 2002 before falling to a low of 56.8% in September 2003.

Chart 7.5
NET INTEREST INCOME TO GROSS INCOME



* Caution is warranted when interpreting the profitability figures for 2003 since these figures have been annualised to be comparable to previous years.

Chart 7.6
NON-INTEREST EXPENSE TO GROSS INCOME



* Caution is warranted when interpreting the profitability figures for 2003 since these figures have been annualised to be comparable to previous years.

[12] Net interest income is defined as interest income less interest expense.
[13] Gross income is defined as net interest income plus non-interest income.

Decelerating balance sheet growth

The sluggish pace of foreign and domestic economic growth caused a slower expansion in the balance sheet of the banking system during 2003. By the third quarter of the year, the value of the Maltese banking system's assets had increased by 8.9%, which is less than half the growth rate of 18.9% registered in 2002.

The loans portfolio (including interbank lending), which at 48% of total assets accounted for the largest share of the total banks' balance sheet in September 2003, was 3.7 percentage points lower than the share at the end of 2002. The drop was caused by a shift towards fixed income securities. The share of trading and investment securities in the banks' total assets increased from 30.8% in 2002 to 35.4% by September 2003. The loan portfolio of the domestic banks then accounted for 50.9% of their balance sheet value.

Diversification in the banks' loan portfolio mitigates the risks involved in lending. Chart 7.8 shows that the largest sectoral exposure of the banking system as a whole is in lending to non-residents, which accounts for 42.7% of total lending.[14] However, this ratio is highly biased by the international banks, which transact solely with non-residents.

In the case of domestic banks, personal lending is the largest sectoral exposure, accounting for 26.1% of their loans portfolio, as Chart 7.8 shows. For the banking system as a whole, the personal sector is the second largest sectoral exposure, accounting for 17.2% of total lending. The decreasing demand for credit by the corporate sector and stricter credit assessment induced banks to target the personal sector. This focus on the personal sector was reinforced by rising property prices driving up the demand for mortgage borrowing, which accounts for over 70% of total personal lending. The extensive use and high accessibility of credit cards have further stimulated personal borrowing. The banks' high exposure to the personal sector is mitigated by the low level of default when compared to other economic sectors. However, a slower-than-expected economic recovery and corporate restructuring could raise unemployment in the medium term, possibly reducing the ability of the personal sector to repay its debt.

Chart 7.7
ASSET PORTFOLIO COMPOSITION
(September 2003)

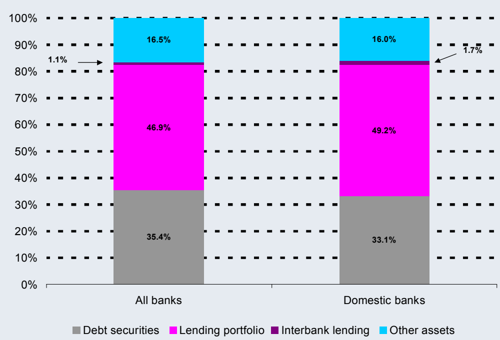
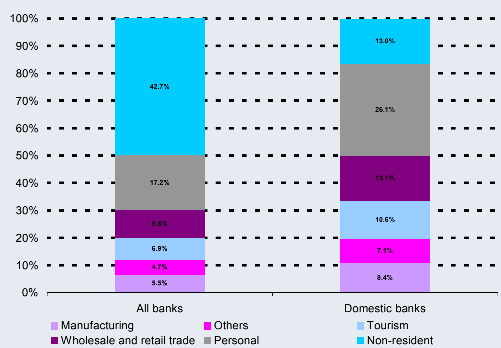
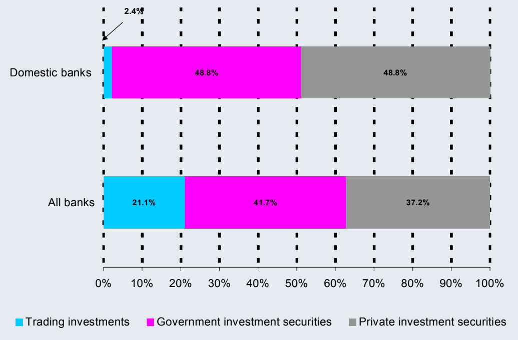


Chart 7.8
SECTORAL LOAN CONCENTRATION
(September 2003)



[14] Under current reporting requirements, lending to non-residents is not categorised by economic sectors.

Chart 7.9
DEBT SECURITIES PORTFOLIO
(September 2003)



The wholesale and retail sector is the next largest exposure after the personal sector for the banking system as a whole, as well as for the domestic banks. As at September 2003, lending to the wholesale and retail trades accounted for 8.6% of total lending by the banking system as a whole and 13.1% of lending by the domestic banks. Lending to the manufacturing sector constitutes another important sectoral exposure for the banking system, accounting for 5.5% of total bank loans, with lending to this sector accounting for 8.4% of lending by the domestic banks. The tourist sector also accounts for a large share in total lending. As at September 2003, lending to this sector accounted for 6.9% and 10.6% of the lending portfolio of the total banking system and the domestic banks, respectively.

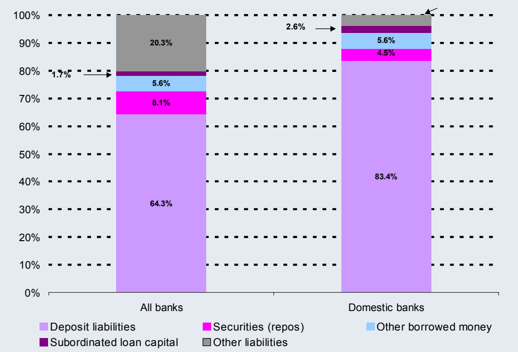
The decrease in the proportion of bank loans to the manufacturing sector, the distributive trades and the tourist industry was influenced by the increasing importance of alternative sources of finance, such as the issuance of corporate bonds.[15] To a limited extent, however, debt securities issued by domestic firms and held by the banking sector compensated for the lower lending exposure, accounting for 0.8% of total debt securities held by the banking system.

As at September 2003, debt securities accounted for 35.4% of the banking system's assets and 33.1% of the domestic banks' assets. Foreign securities, which are generally more liquid and suffer from lower price volatility, accounted for 52.5% of the banks' securities portfolio.

Government securities accounted for 41.7% of the debt securities held by the banking system as a whole and nearly half of the domestic banks' securities portfolio, as Chart 7.9 shows. Malta Government stocks accounted for 44.2% of the domestic banks' securities portfolio. This high proportion of holdings of government debt securities indicates the banks' preference for assets offering low default risk and fixed income to counterbalance some of the risks inherent in their loan portfolio.

Private investment securities, which mainly consist of foreign bonds, accounted for 37.2% of total debt securities held by the banking sector. With respect to domestic banks, private investment securities accounted for 48.8% of their

Chart 7.10
LIABILITIES PORTFOLIO COMPOSITION
(September 2003)



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15 A more detailed analysis of sectoral concentration of loans can be found in the previous chapter of this *Review*.

total debt portfolio in September 2003, with foreign bonds making up almost all this share.

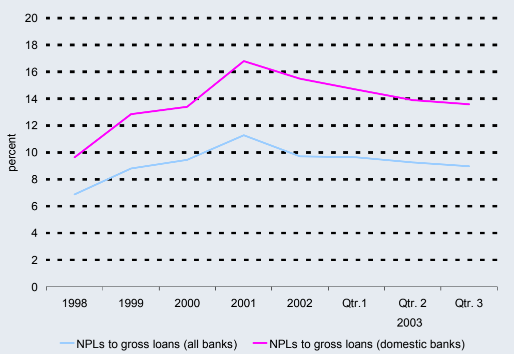
In September 2003, deposit liabilities accounted for 64.3% of the banks' total balance sheet value, whereas the remaining liabilities consisted of issued debt securities, subordinated loan capital and other borrowed money. The structure of the liabilities' side of the domestic banks' balance sheet was somewhat different from that of the banking system as a whole. Domestic banks rely more heavily on deposits, which in September 2003 accounted for 83.4% of their total liabilities, as Chart 7.10 shows.

Asset quality stabilisation

The quality of the banks' loan portfolio improved since 2001, when the ratio of non-performing loans to the total stood at 11.3%. Since then the ratio has dropped steadily, falling to 9% by September 2003. The drop was due to a decrease in the level of non-performing loans coupled with an increase in gross loans.

The ratio of non-performing loans to gross loans of the domestic banks exceeded that of the banking system as a whole. In 2001, this ratio stood at 16.8% but by September 2003 it had dropped by 3.2 percentage points to 13.6%. Measures taken by the banks, such as the

Chart 7.11
NON-PERFORMING LOANS TO GROSS LOANS



strengthening of their credit assessment methodologies, stricter recovery procedures and more effective credit management and control, together with the stricter provisioning requirements introduced through Banking Directive BD/09, contributed to an improvement in the quality of the loan portfolio despite the uncertainty prevailing in both the international and the domestic economic environment.

Tougher international competition and more risk-based assessment of lending propositions have led many companies to restructure their balance sheet. On the basis of an analysis of a sample of corporate financial accounts and national accounts data, it appears that firms have reduced their leverage ratios. Although overall corporate profitability seems to have decreased, the leverage reduction should strengthen the corporate sector's capital base and enable companies to better withstand the pressures emanating from an increasingly competitive environment. This should also reduce default risks. However, although the level of corporate sector indebtedness seems to be levelling off, a further slowdown in economic growth could continue to exert further pressure on the corporate sector.

The coverage ratio, that is, the ratio of total provisions to non-performing loans, fluctuated within narrow bands over the past years, from a high of 22.2% in 1998 to a low of 18.1% in June 2003. By the third quarter of 2003, the coverage ratio increased to 21% as provisions increased and non-performing loans decreased. The coverage ratio for the domestic banks was in line with that of the total banking system. In September 2003, the coverage ratio of this group of banks stood at 20.8%.

Non-bank financial sector

Apart from banks, financial intermediation in Malta is carried out by collective investment schemes and the insurance sector. The money and capital markets are also an integral part of the Maltese financial system. The Malta Stock Exchange (MSE) complements the financial system through the provision of a trading platform for bonds and equities. Each of these is important for the stability of the financial system as a whole.

Collective investment schemes (SICAVs), which provide an alternative investment outlet to the public, held assets equivalent to approximately 8% of the domestic banks' total assets in September 2003. The banking sector has direct links with these schemes, with the two major banks in Malta owning fund-management subsidiaries. In this context, potential risks to the banking sector arise from reputational effects and any substantial underperformance by SICAVs, which may also affect the financial wealth of households and cause debt-servicing problems for the personal sector.

The insurance sector, with total assets equivalent to around 6% of those of the domestic banking sector, has also gained importance in recent years. During 2002 and in the first three quarters of 2003, the sector's balance sheet expanded by around 17% and 27%, respectively. Part of the insurance sector is linked to the domestic banks, which have entered bancassurance through fully owned subsidiaries and associated companies. Banks distribute life insurance products only, mainly as collateral for borrowing purposes or for house coverage. Currently, banks report minimal direct lending to the insurance sector. The main risk arising from the relationship between banking and insurance is therefore reputational, whereas in the case of a major catastrophe the risk for the banks would arise if insurance firms were unable to meet policy-holders' claims.

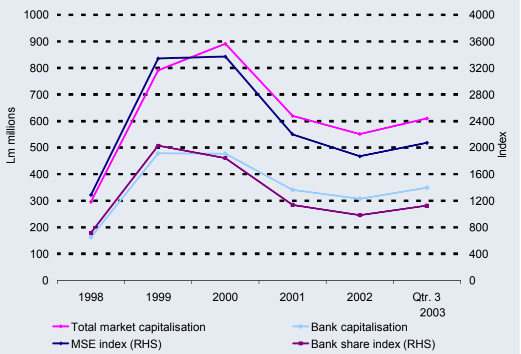
Turning to the financial markets, the capital market developed significantly between 1999 and 2002, with a growing number of firms resorting to issues of debt and equity to raise funds. During the same period, total equity issues amounted to Lm173.1 million. The introduction of the Alternative Companies Listing in 1999 also helped smaller firms to raise capital from the market rather than seek funding from the banking system. More recently, however, the weaknesses prevailing in both the international and the domestic stock markets discouraged new equity issues. Between 2001 and 2003, the level of initial public offerings amounted to just Lm59.6 million.

On the other hand, the corporate bond market has persistently attracted considerable investor interest, with total bond issues amounting to Lm84 million between 2001 and September 2003. As referred to earlier, large corporate entities are increasingly resorting to the debt market as an alternative to bank finance.

Government bonds are considered to be the least risky and most liquid debt securities. In September 2003, Malta Government stocks accounted for 43% of the securities traded on the MSE, whereas corporate bonds and equities accounted for 32% and 25% of the value of total traded securities, respectively.

Between 1999 and 2000, equity prices rose strongly, with the MSE index reaching a record high of 4,013.4 in January 2000. The index eventually dropped to 1,747.5 at end-October 2002 before recovering somewhat. In September 2003

Chart 7.12
MALTA STOCK EXCHANGE INDEX AND MARKET CAPITALISATION



the index stood at 2,071.2. The sub-index for the banking sector followed the same pattern, reaching 2,030.2 by the end of 1999 and dropping for most of 2002, before picking up to 1,125.5 in September 2003.

In the first nine months of 2003, the total equity market and bank equity capitalisation increased simultaneously by more than 10%, as equity prices rose. In September 2003, total equity capitalisation reached Lm609.8 million, whereas bank equity capitalisation reached Lm348.8 million, or 57.2%, of the total.

Risk outlook

The main risk for the banking sector currently stems from customer default. In spite of an improved leverage position, the corporate sector is still recording low profitability. Restructuring continues, while the outlook for economic growth remains uncertain. A prolonged economic slowdown could negatively affect the banks through higher defaults and increased provisioning requirements.

Another risk for the banking sector, particularly the domestic banks, is a fall in property prices. The high concentration of collateral in the form of property could consequently result in difficulties with loan recovery. However, the loss-given-default would still remain limited if the value of collateral against which the loan is granted substantially exceeds the value of the loan, which is often the case.[16]

Despite the unfavourable economic climate of recent years, the profitability of the credit institutions has continued to improve steadily, their capital adequacy position has remained robust and the sector is substantially liquid. This generally positive performance, which is reflected in the rising trend in the share price of the banks listed on the Malta Stock Exchange, has mainly been brought about through changes in balance sheet structures, adequate management of the interest rate margin and containment of non-interest expenditure.

Collective investment schemes and the insurance sector, which are an integral part of the financial system, have grown significantly over the past couple of years. Despite the close links between these two sectors and the domestic banks, the risk that they could adversely affect the banking sector is limited.

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[16] Loss-given-default is defined as the loss incurred by a bank as a result of the default by its customers or counterparties taking eligible collateral into account.

FACING THE CHALLENGE OF TODAY'S ECONOMIC REALITIES*

Michael C. Bonello
Governor of the Central Bank of Malta

This being my first public statement since my reappointment, I should like to express my appreciation to the Government for the trust that has been placed in me. I am conscious of the magnitude of the task that lies ahead, but I am also comforted by the thought that I shall continue to be supported by a team of competent and dedicated professionals. I am, therefore, able to look forward with confidence to leading an independent Central Bank of Malta into membership of the European System of Central Banks next May, and to cooperating closely with the Government in creating a policy environment which would allow us to guide the Maltese lira smoothly into the euro area. I stress this point because it is only when the economy becomes anchored in the relative safety of the common currency area that the benefits of participation in the European single market can be enjoyed to the full. Early adoption of the euro is, therefore, in the national interest and must become our common objective.

Pursuing that goal successfully, however, will require a courageous effort to overcome the obstacles that stand in our way. This much was clear from the beginning. You might recall that in setting out the economic case for membership of the European Union (EU) on this occasion last year, I emphasized that the candidate countries needed to seriously question the way they had managed their economies in the past and to resolve to improve their performance. I warned against underestimating the entity of the task because the necessary changes were pervasive, affecting both institutions and mindsets, policies and work practices, and they also entailed costs.

It was this same realization of the difficult challenge implied by EU membership that lay behind the call I made, the day after the referendum result was confirmed at the April general elections, for an early mobilization of all the nation's resources. It is, therefore, somewhat disappointing that there persists today an insufficient awareness of the profound economic implications of that decision and of the need for all to work hard to secure the benefits of membership. This is all the more surprising given the threat posed by the continuing weakness in our major export markets.

Challenges facing the Maltese economy

It is against this background that I propose to focus attention on four major challenges which must be tackled with urgency if the economy is to return to a higher path of sustainable growth and development. These are the correction of macroeconomic imbalances, which I have often characterized as the need to live within our means; the need to respond to, and exploit the competitive forces unleashed by globalization; and the deleterious economic effects of population ageing and of environmental degradation.

These challenges are by no means unique to Malta. Economies all over the world at different stages of development are similarly affected. They can, and must, therefore, be transformed into opportunities, because economies which are more successful than others in overcoming them will enjoy a significant competitive advantage. In Malta's case the task is particularly difficult

* Address delivered at the Annual Dinner of the Malta Institute of Financial Services on November 14, 2003.

because all of these issues need to be tackled at the same time. Indeed, undue postponement of the necessary reforms could have serious consequences.

The correction of macroeconomic imbalances

The Maltese economy has been devoting far too many of its relatively scarce resources to consumption. Household and government consumption have increased steadily over the past decade from 80% to 85% of GDP. The household savings rate has meanwhile declined from almost 16% to around 1.5% of disposable income during the same period.

These trends are a source of concern. First, because a reduced savings pool will compromise future economic growth by curtailing investment. Indeed, the share of resources devoted to productive investment has shrunk from almost 30% a decade ago to just over 20% today. Second, because excessive consumption threatens the sustainability of the economy given the high import content of domestic expenditures. The balance between exports and imports of goods and services has been consistently negative over the past decade, averaging 8% of GDP.

While in the past these deficits have been made good through inflows of capital from abroad, there is no guarantee that external imbalances on this scale can persist without posing a serious threat to the country's external reserves and, ultimately, to the Maltese lira. And may I at this point remind you that the low and predictable inflation we have experienced in recent years is largely attributable to the pegged exchange rate regime. This has also significantly reduced pricing risks for exporters and investors. It should, therefore, be clear that undue and sustained pressure on the reserves would evoke a monetary policy response which would have pervasive repercussions.

There is no doubt that a primary factor behind these macroeconomic imbalances is the state of public finances. Malta's fiscal performance over the past decade has not been rigorously consistent with its intended objectives. Fiscal consolidation efforts based mainly on increasing taxation brought the deficit down from around 11% of GDP in 1998 to around 6% of GDP in the past three years. It is, however, clear that further attempts at consolidation, particularly in a weak growth environment, will have to focus on expenditure cutting.

The Irish experience during the 1980s is most telling. The first half of the decade was characterised by increasing taxation, which often had to be followed by higher expenditure to satisfy economic, political and social demands. During this period the deficit to GDP ratio only shed two percentage points to 12%. In contrast, the second half of the 1980s featured an emphasis on reducing expenditure. In the process the deficit was slashed to 2% of GDP. A perceptible dividend of this policy was an acceleration in the growth rate to an annual average of 8.6% in the 1990s.

At this stage, therefore, there can be no doubt about the urgent need to reduce the fiscal deficit primarily through better expenditure management. Broad policy statements of intent will no longer do. The budgetary allocation process must be radically changed so as to ensure that expenditure is minimised and delivers value for money.

Perhaps the greatest obstacle to the effective implementation of such an approach is the negative short-term economic impact which expenditure cuts are likely to entail. It is thus crucial that the private sector be in a position to take up the slack as the State reduces its role in the economy. And for this to happen, there have to be the best possible conditions for the attraction of local and foreign investment.

There are indications, however, that our performance is not satisfactory in this regard. In a speech I delivered last year, I had shown how Malta's competitiveness lags behind that of EU member States, mainly because of restrictive practices and other labour market inflexibilities; the maintenance of monopolistic situations in economically strategic areas such as transportation and inland freight; and insufficiencies in our educational system and innovation efforts. These conclusions have been supported by a number of studies since then and remain valid today.

Problematic as it is, however, the budget deficit is by no means the only determinant of macroeconomic imbalances. Certain systems and practices which create demand without generating output have equally harmful consequences. A typical example is the welfare system. It has become so entrenched that its benefits are mistakenly considered to be immutable rights; but, as the rapidly growing welfare gap shows, it is a system which carries the seeds of its own destruction. For while the welfare state was born from the noble premise that care for the weak and the needy is the responsibility of society as a whole, in Malta the terms "weak" and "need" are defined very liberally. In so doing, we overlook the fact that generous welfare depends on two details of demography and politics: that there are enough people of working age to fund the claims of those defined as being weak and in need; and that working people are indeed willing to pay the necessary taxes. If these conditions are not met, there can be no other solution but to scale down the welfare system according to the funds available.

Globalisation and increased competition

Such considerations lead us to another major challenge, that of globalisation and increased competition. Malta is particularly susceptible because it has a very open economy. Developments in the international market place are indeed likely to become even more relevant because the process of globalisation continues unabated. Facilitated by the progressive dismantling of trade barriers, this process has been characterised by a rapid growth in factor mobility and cross-border investment, and has given rise to harsh competition based on innovation, dynamism, improved quality and low cost. It has also become easier for new entrants to gain access to global markets, including the countries of Central and Eastern Europe, many of which are now our competitors.

Globalisation has, therefore, brought more uncertainty because there will be winners and losers. Although the process probably involves more than simply a zero-sum game, it is nevertheless true that countries which adapt to the new competitive conditions more rapidly will grow at the expense of those which are slower to react. This is a crucial consideration for Malta, which is a very small player in the global market place, and therefore a price taker, but which depends heavily on exports to maintain the living standards of its people.

While there are many enterprises in Malta which are rising effectively to this challenge, the cost pressures associated with the macroeconomic imbalances and the inefficient practices described earlier are proving to be too much of a burden for some others. As a result, they are finding our country no longer profitable to operate in, especially when compared to locations in Eastern Europe, North Africa and Asia. For them, as the recent painful examples of plant closures have shown, Malta fails to offer the right combination of productivity, skills, innovative ability and cost to justify their investment.

There are other early warning signals. The economy's 0.2% average real growth rate over the past two years is the lowest of all the acceding countries. It is also low compared to that of the existing EU Member States. The experience of those two years may well have been exceptional, but it nevertheless serves to remind us that the economy needs to grow consistently much faster if Malta is to catch up with average EU per capita income levels within a reasonable period of time.

I strongly believe that the factors making for high costs and weak growth rates should be addressed as a priority. As I have observed on other occasions, strategies to improve competitiveness in a globalising world can be devised. Other countries have shown the way. What is needed is the political will and the effective collaboration of all the parties concerned.

Population ageing

Perhaps there exists no clearer example to illustrate the kind of challenge the country faces than the issue of population ageing. The impact of a rapidly ageing population in the context of a generous welfare system is inevitably a dramatic rise in spending on pensions and health care. Expenditure on welfare, including on health, is already absorbing close to one-fifth of the economy's annual income, or about Lm300 million, and almost two-fifths of government revenue. Retirement pensions alone account for more than one-fourth of this, and are the cost item which is likely to register the strongest growth in the years ahead. Over the next twenty-five years it is expected that the number of workers supporting one pensioner will drop from the present 4 to just over 2, partly reflecting the fact that the proportion of pensionable age persons in the population will rise from 16.7% today to over 28%.

An ageing society will also further aggravate existing national saving and investment trends. The impact on private consumption and savings patterns is a result of the 'life cycle hypothesis', which holds that a rise in the proportion of the elderly in the population tends to be accompanied by a decline in national savings.

Indeed, the effect of population ageing on public finances is nothing but a reflection of a wider economic problem involving a reduced productive capacity. Reforms to pre-empt this impact must, therefore, be implemented without delay. Here again, Malta need not re-invent the wheel. The World Bank model involving funded pension schemes is being applied successfully in many countries. Equally interesting is the Open Method of Co-ordination of Pension Reform operated by the European Commission with the aim of promoting sustainability of pension systems across the EU without imposing uniformity. This method places a strong emphasis on social acceptability coupled with supply-side reforms designed to ensure that the pension system is sustainable.

A society like ours that is devoting more resources to welfare payments than it can afford, is saving and investing too little and is spending more than it is earning – while financing these excesses with borrowed money – stands in blatant contradiction with its professed commitment to social justice, because it is bequeathing to its children an inheritance of debt in selfish rejection of the principle of inter-generational equity. This prospect is clearly unacceptable. It is time for all to recognise this and to shoulder what has become a moral responsibility.

Environmental degradation

It is in a similar spirit that I approach another important challenge, namely that of environmental degradation. There is no question that a significant part of Malta's economic achievements in recent years have been attained at the cost of the environment. It is doubtful whether this constitutes real progress, as it is eroding the welfare of current and future generations and depleting the productive potential of an economy that is highly dependent on quality tourism.

From a more practical economic viewpoint, environmental sustainability, involving the conservation of existing amenities and resources for an indefinite time period, will entail significant resource outlays. This is in addition to the resources necessary to finance the investment needed to face the competitive pressures of globalisation and to meet the costs of population ageing. This requires us to produce more, and more intelligently, and to devote a larger share of the nation's resources to fund the investments which are vital for its continued economic development.

Policy dimensions

I have often stressed that the solution to such problems lies in the implementation of a coherent reform strategy that enjoys as wide a measure of support as possible. Today I would like to dwell on two considerations arising directly out of EU membership, which should in themselves help to promote progress in this direction. These are Malta's expected contribution to the realisation of the Lisbon Agenda and its participation in the Economic and Monetary Union (EMU).

Malta and the Lisbon Agenda

The central objective of the Lisbon Agenda is to address supply-side impediments to growth. The Agenda states:

"The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion."

As from May 2004, Malta will automatically be part of a process which presents opportunities for improving supply capabilities through focused policies and for which specific funding is available. It, however, also involves a greater degree of competition, and thus constitutes a driving force for countries to move ahead rapidly with the required structural reforms.

The Lisbon Agenda establishes numerous competitiveness indicators, as well as a set of targets to be achieved by 2010. I do not intend to dwell on these here. The Federation of Industry recently held a national seminar on this very issue and I am sure that these indicators and targets will continue to attract the necessary attention, not least within the Malta Council for Economic and Social Development (MCESD).

Allow me, however, to make a few observations about how Malta is performing in this regard. I shall do so by comparison with the international best practice benchmarks upon which most of the Lisbon Agenda criteria were built. So how does Malta fare, especially when compared to the peer group of the new EU Member States?

Based on data relating mainly to 2002, Malta's GDP grew by 1.5% compared to 2.5% in the other new Member States. And this is not simply because less advanced economies than Malta's need to grow faster in order to catch up. Indeed, the two acceding countries which are richer than Malta, namely Cyprus and Slovenia, grew by 2.0% and 2.9%, respectively.

Turning now to possible reasons for Malta's slower growth rate, a first observation is that our unit labour costs are relatively high. On average, other new Member States have labour productivity and price levels which hover around 50% of the current EU average. In Malta labour productivity is relatively higher, at 70% of the EU average, but the price level is higher still. This suggests that Malta needs to increase its productivity to match its price level.

A second measure relates to public finances. On average, the other new Member States have fiscal positions ranging from close to balance to deficits of around 7% of GDP. Malta's deficit is close to the latter figure and thus acts as a drag on the productive use of resources, and hence also on economic growth.

Other new Member States on average spend 0.8% of their GDP on innovation, research and development. This compares with almost 2% for the present EU members and with a target of 3% to be achieved by 2010. The comparable figure for Malta is not yet known, but preliminary indications suggest that the research and development expenditure undertaken here is even lower than the average for the other new members. And Malta is only now preparing to adopt a specific innovation policy as part of its programme of economic reform.

Business investment in the other new Member States amounts to almost 20% of GDP. The comparable figure for Malta is not available, but it is known that the combined public and private investment to GDP ratio in 2002 was 21%. This suggests that the ratio of business investment to GDP in Malta is significantly lower than that in other countries.

On the other hand, Malta compares relatively well in terms of its educational expenditure which, at almost 5% of GDP, is equivalent to that in other new members and indeed in the EU member countries. Malta also compares favourably on social cohesion, with income dispersions being comparable to those in other acceding countries and with the long-term unemployment rate being significantly lower.

In summary, it appears that Malta has costs which do not reflect productivity levels and a highly expansionary fiscal stance. There is also a need for more spending on innovation activities and business investment. For while our economic system is successful in delivering social cohesion and stability, these factors cannot alone sustain the economy's growth rate at sufficiently high levels. This suggests a need to question existing priorities and to re-direct policies to activities which can support higher income levels in future.

Malta and EMU

Malta's participation in EMU will eventually lead to the adoption of the euro, a step which holds out the prospect of significant benefits. Perhaps the foremost of these is that Malta would share in the strength and credibility of a single, Europe-wide monetary policy. This would not only mean reduced exchange rate risks and less uncertainty for economic agents in Malta and for their foreign business partners, but also the elimination of the risk premium on the Maltese lira. The reduction in interest rates consequent upon the introduction of the euro would be of direct benefit in terms of price competitiveness, as would also be the reduction in currency conversion costs and the increased price transparency.

On the other hand, if a country is to benefit fully from adopting the single currency, then its economic structures must be compatible with those of the countries that are already using that currency. It is for this reason that the EU Treaty sets a series of eligibility tests, known as the Maastricht criteria. These include convergence of inflation and interest rates, sustainable fiscal positions and exchange rate stability.

The exchange rate criterion requires participation in ERM II for a minimum period of two years prior to the adoption of the euro. This is an arrangement whereby the European Central Bank (ECB) and participating national central banks would not allow any currency to fluctuate beyond a given margin from its central euro rate. This margin at present can be as wide as 15%, but significantly narrower margins are being contemplated, with an often-cited reference value of 2.25%. Thus, participation in ERM II does not necessarily imply increased currency volatility.

Indeed the rationale of this mechanism is to test the stability of a currency. As you know, the Maltese lira is pegged to a weighted average of three currencies, whose individual exchange rates against the lira can vary. In this regard, it is noteworthy that the fluctuations in the Maltese lira/euro rate over the past few years on average have not exceeded 3.5%.

As for the inflation and interest rate criteria, Malta is well within the reference values. The fiscal deficit, on the other hand, represents a significant hurdle as it is currently about double the 3% of GDP limit. Related to the deficit is the size of the public debt, which exceeds the 60% threshold.

The main determining factor in the timing of the adoption of the euro, therefore, is the speed with which fiscal consolidation can be achieved, bearing in mind that the euro area will not technically be in a position to accept newcomers before 2007.

If the Government embarks on the relatively fast track of fiscal consolidation implied by Malta's Pre-Accession Economic Programme, we would need to enter ERM II in 2005. Should this track be chosen, however, it would be vital that the planned pace of consolidation be maintained. In this way the benefits of an early adoption of the euro would be reaped, and the lira's stay in ERM II would be smooth, with no noticeable shocks in the transition from the current basket system to the single currency.

If, on the other hand, there are slippages in the rate of fiscal consolidation, the stay in ERM II would have to be prolonged and the adoption of the euro postponed. This would attract negative attention from the international financial markets, resulting in a reduced credibility of our economic policy and in pressures on the exchange rate and the interest rate. The country would then probably also face difficulties in meeting the other Maastricht convergence criteria, further complicating the task of economic management.

If the risk of this happening is considered unacceptably large, a slower pace of fiscal consolidation, entailing a smaller risk of slippage, could be chosen. The late adoption of the euro would, however, imply that the enjoyment of the relative benefits would be postponed, and that the country could lose competitiveness if other new Member States successfully adopt the euro at an earlier date.

In summary, the best case scenario is the one where a relatively fast pace of fiscal consolidation is both planned and achieved. The worst case scenario is the one where fiscal policy fails to deliver on a planned fast process of consolidation. The scenario featuring a slower pace of consolidation can be described as intermediate in terms of its degree of preference. However, this could turn into a worst case scenario if fiscal policy fails to deliver even on a planned slower consolidation process.

It is for these reasons that medium-term fiscal planning should be adopted, detailing concrete objectives and measures to be implemented over a number of years. It is equally important that such a programme enjoy the support of the social partners. The consensus-building approach being followed in the MCESD is a welcome, positive development in this regard, one that could facilitate an early adoption of the euro.

Conclusion

Throughout a long and, at times, turbulent history, our people have faced repeated threats to their livelihood, but our forefathers always rose to the challenge. In a commendable demonstration of courage, solidarity and vision they were able to put aside narrow political and sectoral interests and unite in the pursuit of the common good. Indeed, if we are here today, in control of our destiny as a free and independent people, it is because they found the inner strength to put the country first. In recognition, we justly recall their achievements with pride.

The challenge we face today is no less serious than any the country has had to deal with in the past. If this generation of policy makers and policy shapers wishes to earn a similarly favourable judgement of history, they must have the courage of their convictions and lead from the front. It must be understood that we are all in the same boat. Tackling our common problems means that we must fight together against inertia and embrace change in the pursuit of progress. For this alone is the key to job creation and higher living standards.

In this context I would like to conclude by making my own the message which the recently retired President of the ECB, Wim Duisenberg, gave to ECOFIN Ministers at a farewell dinner they organised for him last month in Venice. Speaking of the reform objectives contained in the Lisbon strategy, he said:

"There has been some progress. I do not need to tell you that there is still a lot to be done. You have said so yourselves many times. These good words must be transformed into actions, and soon, because time is running out. It is no good having the right diagnosis if you don't apply the medicine and cure the disease."

NEWS NOTES

Re-appointment of the Governor and Deputy Governor

On October 31 the President of Malta re-appointed Mr Michael C. Bonello as Governor of the Central Bank of Malta for a period of five years with effect from October 1, 2003. On December 16 the President of Malta re-appointed Mr David Pullicino as Deputy Governor of the Bank, for a period of five years with effect from September 1, 2003.

Central Bank of Malta bye-laws amended

On October 23 the Board of the Central Bank of Malta approved amendments to the Central Bank of Malta Bye-Laws. The amendments are mainly consequential to the 2002 amendments to the Central Bank of Malta Act.

External Transactions Act

On December 26 Legal Notices 427, 428 of 2003 announced the coming into force of the External Transactions Act and the appointment of the Central Bank of Malta as agent for the purposes of all provisions of the Act, with effect from January 1, 2004. Legal Notice 427 also listed the restrictions which were to remain in force after January 1, 2004.

Investment Registration Scheme

The Investment Registration Scheme was extended from September 1 to November 15, 2003. This Scheme was originally launched from December 2001 to December 2002, to provide residents of Malta holding foreign assets without the necessary exchange control permits and/or without declaring the relevant income under the Income Tax Act, with the opportunity to regularise their position.

Issue of Government stock

On November 19 the Government issued Lm30 million worth of 4.8% MGS 2016 (Second) Issue. The stock was issued at par for amounts not exceeding Lm50,000 and by auction for bids exceeding this amount. The issue was oversubscribed.

Budget 2004

On November 25 the Minister of Finance and Economic Affairs presented to Parliament the Budget estimates for 2004. The new policy measures included:

- **A cost of living increase** - a weekly wage increase of Lm0.75 to compensate for the cost of living rise during the year to September 2003 was introduced.
- **Indirect taxation** -

  1. the standard rate of VAT was increased from 15% to 18%. The reduced rates of 5% and of 0% for exempt with credit supplies remained unaltered;

  2. the excise duties on cigarettes were raised;

  3. amendments related to tax on capital gains and duty due on the transfer of property between companies were introduced. The exemption from tax on capital gains on immovable property acquired *causa mortis* was repealed.
- **Welfare** - a means test is to be imposed on the provision of free medicines. Hospital treatment will be billed for those who are privately insured.

- **Environmental measures** - a system of eco-contributions is to be introduced to reduce or neutralise pollution, and to encourage re-usable containers.

- **Liberalisation of exchange controls** - the measures adopted from January 1, 2004 included:

  1. the raising of the limit for payments in connection with cash gifts or remittances for family living expenses from Lm20,000 per adult per year to Lm30,000;

  2. the removal of the limit on the annual allowance pertaining to foreign portfolio investments by adults on condition that the funds invested are not be placed in portfolio assets with a maturity of less than six months;

  3. the raising of the limit on the amount of foreign currency that an adult person may hold in the form of notes and coins from the equivalent of Lm20,000 to Lm50,000. Adult persons may hold foreign currency current accounts with local credit institutions as long as the funds deposited are already denominated in foreign currency and the maximum aggregate balance in such accounts does not exceed the equivalent of Lm50,000. Balances in such accounts may only be used to effect payments in foreign currency in connection with transactions in the current account of the balance of payments;

  4. an exemption from surrendering foreign currency to an institution licensed to carry on the business of foreign exchange is given to bodies corporate/local retail outlets involved in export activities, or that receive foreign currency in the course of their business activities. However, such foreign currency may be deposited in foreign currency accounts with local credit institutions. These accounts may only be debited with overseas payments related to the business costs of the body corporate/retail outlet.

Malta - Italy: Fifth Financial Protocol

On December 2 the Italian House of Parliament approved the Fifth Financial Protocol between Italy and Malta. Under the terms of the Protocol, the Italian Government is to provide 75 million euros in financial assistance to the Maltese Government for the period 2003-2005. The proceeds are to be utilised for projects including improvement in the road network, sewage treatment facilities, maritime surveillance and health.

Settlement of Investment Disputes

On November 3 Malta deposited its instrument of ratification of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States, which is kept in the archives of the International Bank for Reconstruction and Development (IBRD). The Convention provides a framework for resolving disputes arising between Contracting states and foreign investors, by means of conciliation and arbitration, through the International Centre for Settlement of Investment Disputes established for this purpose. It entered into force for Malta on December 3, 2003.

Bank holiday

On October 31 the Minister of Finance and Economic Affairs declared April 10, 2004 to be a Bank holiday. This was announced through Legal Notice 333, published in the Government Gazette.

Central Bank of Malta issues a commemorative coin

On November 24 the Central Bank of Malta issued as legal tender a silver Lm5 coin in Proof version. It has a finesse of 0.925, a diameter of 38.61mm, and weighs 28.28g. The coin commemorates Sir Adriano Dingli, former Chief Justice of Malta, and is the third in a series of coins depicting distinguished Maltese personalities.

Malta's sovereign ratings reaffirmed

On November 4 the international credit rating agency Fitch revised the outlook on the long-term foreign currency ratings of Malta and six of the other EU accession countries from stable to positive.

Moody's maintains Bank of Valletta's A3 rating

On December 20 Moody's credit rating agency maintained their ratings for Bank of Valletta plc following a comprehensive annual review carried out earlier in the year. The ratings are: Bank Deposits – Long Term/Short Term: A3/P-2; Bank Financial Strength: D+.

Moody's upgrades HSBC Bank Malta rating

On December 30 Moody's credit rating agency upgraded to positive from stable the outlook for the D+ financial strength rating (FSR) for HSBC Bank Malta plc. According to Moody's, this rating action recognises the bank's improving financial performance and its strong domestic franchise as part of the HSBC Group.

Rights share issue by FIMBank plc

On November 2 the Board of Directors of FIMBank plc approved a rights issue increasing the Bank's issued share capital by US$15 million. The bank announced the issue of 20 million shares of a nominal value of US$0.50 each at a price of US$0.75 per share. Shareholders qualifying for the rights were also given the option to transfer their rights in part or in whole in favour of a third party.

Private bond issue – Gasan Group

On October 30 Gasan Group, through its subsidiary Gasan Finance plc, offered for sale to the public Lm3.5 million worth of bonds with a coupon of 6.4% maturing in 2008-2011. The bonds, issued at par, were oversubscribed and the company exercised its over-allotment option and increased the issue to Lm5 million.

Private bond issue – Dolmen Properties

On November 6 Dolmen Properties plc offered for sale to the public Lm3 million worth of bonds with a coupon of 6% maturing in 2010-2013. The bonds, issued at par, were oversubscribed and the company exercised its over-allotment option and increased the issue to Lm4.7 million.

Bank of Valletta representative office in Cairo

On October 1 the Bank of Valletta officially inaugurated a new representative office in Cairo, Egypt. This is the third BOV representative office in the southern Mediterranean region.

FINANCIAL POLICY CALENDAR

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

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 2: ***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.

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.

- **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 External 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 in terms of the amended Central Bank of Malta Act, at the end of the Monetary Policy Advisory Council meeting held that morning.

2003

January 3: ***Appointment of Competent Authority***

The Minister of Finance, through Legal Notices Nos. 1 and 2, appoints the Malta Financial Services Authority as the Listing and Competent Authority for the purposes of the Financial Markets Act.

January 3: ***Minister of Finance Issues Investor Compensation and Deposit Guarantee Schemes Regulations***

The Minister of Finance, through Legal Notices Nos. 6 and 7 of 2003, makes regulations to further strengthen consumer protection in the field of financial services. The Investor Compensation Scheme Regulations provide protection in cases related to licensed investment services providers that go out of business and cannot return money invested by them on behalf of their clients. On the other hand, the Deposit Guarantee Scheme Regulations establish a framework whereby depositors may be entitled to compensation in the event of a bank failure. Legal Notices Nos. 5 and 8 of 2003, also dated 3 January 2003, bring these regulations into force.

February 28: ***Minister of Finance Issues Central Bank of Malta (Penalties for Offences and Infringements) Regulations***

The Minister of Finance, through Legal Notice No. 75, issues the Central Bank of Malta (Penalties for Offences and Infringements) Regulations, 2003. Through these regulations, penalties may be imposed upon reporting agents, payment system participants and credit or financial institutions, and upon any body corporate that contravenes or fails to comply with specific duties laid down in the Central Bank of Malta Act.

March 5: ***Parliament Enacts Set-off and Netting on Insolvency Act, 2003***

Parliament enacts Act IV of 2003, which provides for the enforceability of set-off and netting on bankruptcy and insolvency and amends various other commercial and financial laws.

May 27: ***Central Bank Lowers Central Intervention Rate***

The Central Bank of Malta lowers the central intervention rate by 25 basis points to 3.50%.

June 24: ***Central Bank Lowers Central Intervention Rate***

The Central Bank of Malta lowers the central intervention rate by 25 basis points to 3.25%.

August 12: ***Minister of Finance and Economic Affairs issues Prevention of Money Laundering Regulations 2003***

On August 12 the Minister of Finance and Economic Affairs issues the Prevention of Money Laundering Regulations 2003 through Legal Notice 199 of 2003. The regulations repeal the 1994 Regulations and extend their application to, amongst others, auditors, accountants, tax advisors, notaries and other independent legal professionals.

September 2: ***Exchange Control Act Replaced***

On September 2 Parliament enacts Act IX of 2003. Part VII replaces the Exchange Control Act with the External Transactions Act. This Act establishes a framework for the liberalisation of external transactions while retaining safeguards to introduce measures and controls in the event of a balance of payments crisis or instability in the financial system. The new law also provides for the implementation of controls in co-operation with other countries following the imposition of sanctions by international organisations, as well as the collection of information on external transactions.

September 26: ***Central Bank Lowers Central Intervention Rate***

The Central Bank lowers the central intervention rate by 25 basis points to 3%.

October 23: ***Central Bank of Malta Bye-Laws amended***

The Board of the Central Bank of Malta approves amendments to the Central Bank of Malta Bye-Laws. The amendments are mainly consequential to the 2002 amendments to the Central Bank of Malta Act.

November 25: ***Budget 2004***

The Minister of Finance and Economic Affairs presents to Parliament the Budget estimates for 2004. The new policy measures include:

- **A cost of living increase** - a weekly wage increase of Lm0.75 to compensate for the cost of living rise during the year to September 2003 is introduced.

- **Indirect taxation** -

  1. the standard rate of VAT was increased from 15% to 18%. The reduced rates of 5% and 0% for exempt with credit supplies remain unaltered.
  2. the excise duties on cigarettes are raised;

3. Amendments related to tax on capital gains and duty due on the transfer of property between companies are introduced. The exemption from tax on capital gains on immovable property acquired *causa mortis* is repealed.

- **Welfare -** a means test is to be applied to the provision of free medicines. Hospital treatment will be billed for those who are privately insured.

- **Environmental measures -** a system of eco-contributions is to be introduced to reduce or neutralise pollution, and to encourage re-using containers.

- **Liberalisation of exchange controls** - The measures to be adopted as from January 1, 2004 include:

1. the raising of the limit for payments in connection with cash gifts or remittances for family living expenses from Lm20,000 per adult per year to Lm30,000;
2. the removal of the limit on the annual allowance pertaining to foreign portfolio investments by adults on condition that the funds invested are not placed in portfolio assets with a maturity of less than six months;
3. the raising of the limit on the amount of foreign currency that an adult person may hold in the form of notes and coins from the equivalent of Lm20,000 to Lm50,000. Adult persons may hold foreign currency current accounts with local credit institutions as long as the funds deposited are already denominated in foreign currency and the maximum aggregate balance in such accounts does not exceed the equivalent of Lm50,000. Balances in such accounts may only be used to effect payments in foreign currency in connection with transactions in the current account of the balance of payments;
4. an exemption from surrendering foreign currency to an institution licensed to carry on the business of foreign exchange is given to bodies corporate/local retail outlets involved in export activities, or that receive foreign currency in the course of their business activities. However, such foreign currency may be deposited in foreign currency accounts with local credit institutions. These accounts may only be debited with overseas payments related to the business costs of the body corporate/retail outlet.

December 2: ***Malta - Italy: Fifth Financial Protocol***

The Italian House of Parliament approves the Fifth Financial Protocol between Italy and Malta. Under the terms of the Protocol, the Italian Government is to provide 75 million euros in financial assistance to the Maltese Government for the period 2003-2005. The proceeds are to be utilised for projects including improvement in the road network, sewage treatment facilities, maritime surveillance and health.

December 26: ***External Transactions Act***

Legal notices 427, 428 of 2003 announce the coming into force of the External Transactions Act Cap. 233, and the appointment of the Central Bank of Malta as agent for the purposes of all the provisions of the Act, with effect from January 1, 2004. Legal Notice 427 also lists the restrictions to remain in force after January 1, 2004.

STATISTICAL TABLES

THE MALTESE ISLANDS - KEY INFORMATION, SOCIAL AND ECONOMIC STATISTICS

(as at end-September 2003, unless otherwise indicated)

CAPITAL CITY	Valletta	
AREA	316 km^2	
CURRENCY UNIT	Maltese lira exchange rates: Lm1 = US$2.7259	
	Lm1 = euro 2.3351	
CLIMATE	Average temperature (1990-2002): Dec. - Feb.	13.2^{o} C
	June - Aug.	25.8^{o} C
	Average annual rainfall (1990-2002)	591.3mm
SELECTED GENERAL ECONOMIC STATISTICS	GDP growth at current market prices (Dec. 2002)	2.8%
	GDP per capita at current market prices (Dec. 2002)	US$9,771
	GDP per head in PPS relative to the EU-15 average (2002)[1]	69%
	Ratio of gross government debt to GDP (2003)[2]	68.9%
	Ratio of government deficit to GDP (2003)[2]	6.4%
	Retail price inflation	1.1%
	Ratio of exports of goods and services to GDP (Dec. 2002)	86%
	Ratio of current account deficit to GDP (Dec. 2002)	2.1%
	Employment rate (June 2003)[3]	54.6%
	Unemployment rate (June 2003)[3]	7.5%
POPULATION	Total Maltese and foreigners	398,985
	Males	197,734
	Females	201,251
	Age composition in % of population (Dec. 2002)	
	0 - 19	26%
	20 - 59	57%
	60 +	17%
	Average annual growth rate (1990-2002)	0.8%
	Density per km	1,263
HEALTH	Life expectancy at birth - Males (Dec. 2002)	75.8
	- Females (Dec. 2002)	80.5
	Crude birth rate, per 1,000 Maltese inhabitants	7.2
	Crude mortality rate, per 1,000 Maltese inhabitants	6.3
	Doctors per 1,000 inhabitants (Dec. 2002)	3
EDUCATION	Combined gross enrolment ratio % (2000/2001)	76%
	Number of schools (2002)	303
	Teachers per 1,000 students (2002)	86
	Adult literacy rate: % age 15 and above (2001)	92%
LIVING STANDARDS	Human Development Index : rank out of 175 countries (2002)	30
	Mobile phone subscriptions	280,847
	Private motor vehicle licences	200,157
	Internet subscribers	72,962

[1] Provisional.

[2] Estimated data in Budget Speech 2004.

[3] Labour Force Survey, National Statistics Office.

Sources: Central Bank of Malta; Eurostat; Ministry of Finance and Economic Affairs; National Statistics Office; UNDP.

The monetary and financial statistics shown in the 'Statistical Tables' annex are compiled from information submitted to the Central Bank of Malta by the following credit institutions, as at September 2003:

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

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

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

Liabilities

Lm thousands

End of Period	Currency Notes & Coins Issued	IMF-Related Liabilities	Deposits				Capital & 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	-	48,837
2001	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
Oct.	456,569	18,230	279,632	23,816	8,970	312,418	99,618	3,422	40,358
Nov.	451,950	18,230	289,979	23,767	8,139	321,884	99,596	5,081	41,965
Dec.	461,247	16,676	255,558	42,961	7,595	306,114	95,341	6,987	49,577
2003									
Jan.	450,395	16,676	282,620	49,124	7,508	339,252	100,211	2,291	35,960
Feb.	452,689	16,676	268,964	65,531	7,463	341,958	95,243	2,910	43,066
Mar.	456,791	16,676	250,596	74,451	7,196	332,243	95,789	5,838	30,137
Apr.	465,032	16,676	260,883	59,482	15,549	335,914	95,671	1,955	31,483
May	465,814	15,922	297,630	61,162	7,226	366,018	95,470	2,680	34,060
June	471,111	15,922	282,003	65,191	8,870	356,064	96,058	4,774	34,526
July	471,576	15,922	261,529	84,406	8,361	354,296	96,091	2,499	36,211
Aug.	472,417	15,922	289,896	67,959	7,731	365,586	96,192	5,386	37,413
Sept.	475,795	15,922	289,866	67,763	8,276	365,905	90,689	7,624	39,067

[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 (from January 1995). From December 2001, term deposits by banks previously classified as "Other Liabilities" are classified as "Bank 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 & Advances	Fixed & 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	74,875	554,117
1992	9,101	30,061	435,856	475,018	21,720	62,305	78,592	637,635
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	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
Oct.	472	37,418	837,792	875,682	35,024	2,305	17,603	930,614
Nov.	473	37,355	845,812	883,639	35,024	2,209	17,834	938,706
Dec.	473	37,512	842,862	880,847	33,470	4,289	17,335	935,942
2003								
Jan.	510	36,978	854,421	891,909	33,470	2,119	17,285	944,784
Feb.	759	37,335	862,145	900,239	33,470	2,633	16,200	952,543
Mar.	723	37,316	845,994	884,034	33,470	2,639	17,330	937,473
Apr.	461	36,800	853,834	891,095	33,470	4,288	17,878	946,731
May	474	36,035	891,189	927,699	32,715	2,268	17,283	979,964
June	458	36,453	889,371	926,283	32,715	2,421	17,036	978,454
July	480	36,682	882,228	919,389	32,715	8,464	16,026	976,595
Aug.	515	37,470	903,181	941,166	32,715	2,941	16,092	992,914
Sept.	503	36,620	906,154	943,277	32,715	3,153	15,856	995,001

[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 *Annual Report* of the Central Bank of Malta.

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

Liabilities

Lm thousands

End of period	Deposits[2]				Foreign Liabilities[3]	Capital & 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	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
Oct.	242,311	685,468	1,606,764	2,534,543	638,009	203,197	581,963
Nov.	239,901	715,177	1,647,946	2,603,024	860,273	272,593	415,397
Dec.	245,190	714,116	1,648,268	2,607,574	1,038,562	272,793	414,820
2003							
Jan.	251,185	724,204	1,657,386	2,632,775	1,049,620	297,128	380,431
Feb.	251,491	714,989	1,648,298	2,614,778	1,034,531	297,128	375,880
Mar.	249,459	731,118	1,628,213	2,608,790	1,029,180	297,127	390,435
Apr.	254,647	735,794	1,642,450	2,632,891	1,032,584	297,163	386,260
May	263,970	748,382	1,635,936	2,648,288	1,021,480	297,127	381,808
June	278,620	755,702	1,623,632	2,657,954	1,043,193	297,127	401,387
July	281,553	742,923	1,619,020	2,643,496	1,046,568	297,127	406,127
Aug.	280,262	755,188	1,628,766	2,664,216	1,063,210	297,127	411,457
Sept.	283,638	765,827	1,620,026	2,669,491	1,022,531	302,118	411,314

[1] Includes HSBC Home Loans (Malta) Ltd from January 2001 and Volksbank Malta Ltd from November 2002.

[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] 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 & Deposits with Central Bank of Malta[2]	Foreign Assets	Local Lending & 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	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
Oct.	272,582	923,432	1,891,594	706,917	163,188	3,957,712
Nov.	300,919	1,114,732	1,898,787	692,563	144,287	4,151,287
Dec.	294,778	1,299,603	1,899,173	667,087	173,107	4,333,748
2003						
Jan.	304,093	1,307,320	1,890,261	700,389	157,890	4,359,953
Feb.	284,217	1,294,386	1,876,815	706,001	160,897	4,322,316
Mar.	272,104	1,283,624	1,919,127	720,555	130,121	4,325,531
Apr.	282,147	1,266,474	1,925,836	736,349	138,092	4,348,898
May	308,692	1,238,948	1,922,318	732,738	146,008	4,348,703
June	301,037	1,273,046	1,919,728	754,824	151,027	4,399,661
July	277,958	1,302,899	1,912,632	744,518	155,312	4,393,318
Aug.	312,372	1,329,512	1,903,063	721,744	169,318	4,436,009
Sept.	314,116	1,283,146	1,938,457	728,874	140,862	4,405,455

[1] Includes HSBC Home Loans (Malta) Ltd from January 2001 and Volksbank Malta Ltd from November 2002.

[2] 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 of Malta."

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 & 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 from January 2001.

[2] Excludes deposits belonging to non-residents, which are classified as foreign liabilities. Since 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 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 & Deposits with Central Bank of Malta	Foreign Assets	Claims on				Total Assets/ Total Liabilities
			Government	Deposit Money Banks[2]	Private & 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 from January 2001.

[2] From September 1992 up to December 1994, includes deposits of offshore subsidiaries of 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 & 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	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	28,621	2,393,711
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	44,777	2,699,132
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
Oct.	3,715	18,834	19,857	42,406	2,672,032	239,794	47,384	3,001,615
Nov.	124	5,097	850	6,071	2,503,992	157,713	20,913	2,688,689
Dec.	28	5,227	1,125	6,380	2,297,394	157,981	14,774	2,476,529
2003								
Jan.	294	5,571	1,336	7,201	2,161,655	162,453	10,417	2,341,726
Feb.	316	5,302	768	6,386	2,233,730	169,440	11,592	2,421,148
Mar.	312	3,848	789	4,949	2,250,377	169,477	14,479	2,439,283
Apr.	498	4,323	784	5,605	2,273,457	169,688	16,769	2,465,519
May	344	2,618	947	3,909	2,243,020	170,129	21,350	2,438,409
June	969	2,262	1,057	4,288	2,303,399	169,717	20,932	2,498,336
July	596	2,457	1,064	4,117	2,513,736	169,733	20,914	2,708,500
Aug.	680	3,544	454	4,678	2,872,514	169,782	25,978	3,072,951
Sept.	2,916	915	836	4,667	2,789,117	170,848	28,181	2,992,813

TABLE 1.4 STATEMENT OF ASSETS AND LIABILITIES INTERNATIONAL BANKING INSTITUTIONS

Assets

Lm thousands

End of Period	Cash & Deposits with Central Bank of Malta	Foreign Assets	Local Lending & Bills Discounted	Local Investments	Fixed & 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	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	8,872	2,393,711
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	6,859	2,699,132
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
Oct.	1,507	2,802,706	5,424	187,108	4,870	3,001,615
Nov.	1,254	2,668,624	5,828	9,158	3,825	2,688,689
Dec.	1,141	2,456,089	6,426	8,860	4,013	2,476,529
2003						
Jan.	1,179	2,321,045	6,200	8,712	4,590	2,341,726
Feb.	1,223	2,400,272	5,753	8,767	5,133	2,421,148
Mar.	1,270	2,418,695	6,386	8,815	4,117	2,439,283
Apr.	1,214	2,444,223	7,759	8,635	3,687	2,465,519
May	1,212	2,417,272	7,940	8,405	3,580	2,438,409
June	1,156	2,477,243	7,385	8,556	3,996	2,498,336
July	1,222	2,687,743	7,020	8,571	3,943	2,708,500
Aug.	1,354	3,052,321	6,688	8,589	3,999	3,072,951
Sept.	1,382	2,971,456	6,685	8,580	4,710	2,992,813

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	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
Oct.	555,819	1,897,597	2,453,416	872,260	416,097	1,288,358	682,638	2,321,409	737,727	3,741,774
Nov.	543,943	1,904,805	2,448,748	878,558	419,091	1,297,649	675,290	2,361,216	709,891	3,746,397
Dec.	497,959	1,908,189	2,406,148	873,860	419,737	1,293,596	680,121	2,357,951	661,672	3,699,744
2003										
Jan.	522,170	1,896,269	2,418,439	889,618	417,091	1,306,709	677,963	2,375,357	671,828	3,725,148
Feb.	513,157	1,884,676	2,397,833	897,328	426,398	1,323,726	680,993	2,357,297	683,269	3,721,559
Mar.	519,247	1,927,805	2,447,052	878,196	422,762	1,300,958	685,794	2,353,109	709,107	3,748,009
Apr.	547,764	1,934,365	2,482,128	889,141	404,656	1,293,796	705,490	2,369,144	701,291	3,775,925
May	540,748	1,929,776	2,470,523	925,019	391,719	1,316,738	710,003	2,371,979	705,280	3,787,261
June	554,868	1,934,429	2,489,297	921,508	403,697	1,325,205	729,233	2,368,868	716,401	3,814,502
July	527,842	1,931,288	2,459,131	916,890	430,338	1,347,228	731,401	2,350,408	724,550	3,806,359
Aug.	518,377	1,920,329	2,438,706	935,781	446,110	1,381,890	730,944	2,373,156	716,496	3,820,596
Sept.	523,298	1,962,161	2,485,460	935,653	442,953	1,378,606	738,817	2,374,408	750,841	3,864,066

[1] Includes Central Bank of Malta, Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (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			Total
	Currency Issued[2]	Bank Deposits with Central Bank of Malta	Total	Currency in Circulation	Demand Deposits[4]	Total	Savings Deposits	Time Deposits	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	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
Oct.	456,569	127,632	584,201	437,968	244,670	682,638	697,044	1,624,365	2,321,409	3,004,047
Nov.	451,950	120,479	572,429	436,616	238,674	675,290	714,153	1,647,063	2,361,216	3,036,506
Dec.	461,247	151,558	612,805	436,831	243,290	680,121	712,788	1,645,163	2,357,951	3,038,072
2003										
Jan.	450,395	113,620	564,015	431,459	246,504	677,963	721,974	1,653,383	2,375,357	3,053,320
Feb.	452,689	138,964	591,653	433,321	247,672	680,993	713,379	1,643,918	2,357,297	3,038,290
Mar.	456,791	136,096	592,887	441,041	244,753	685,794	729,258	1,623,851	2,353,109	3,038,903
Apr.	465,032	131,883	596,916	446,294	259,196	705,490	733,117	1,636,027	2,369,144	3,074,634
May	465,814	144,630	610,444	448,999	261,004	710,003	743,195	1,628,784	2,371,979	3,081,982
June	471,111	136,503	607,614	452,335	276,898	729,233	751,905	1,616,963	2,368,868	3,098,101
July	471,576	139,529	611,105	452,458	278,943	731,401	737,987	1,612,421	2,350,408	3,081,809
Aug.	472,417	112,896	585,313	454,221	276,722	730,944	751,513	1,621,643	2,373,156	3,104,100
Sept.	475,795	131,166	606,961	456,444	282,373	738,817	759,693	1,614,715	2,374,408	3,113,225

[1] Monetary Base (M0) comprises currency issued and bank 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
2002	-	5,000	-	-	2,399,400	2,316,400	104,000	175,665
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
Oct.	-	-	-	-	261,800	207,200	152,000	13,500
Nov.	-	-	-	-	357,400	339,900	169,500	22,500
Dec.	-	-	-	-	283.300	348.800	104.000	8.765
2003								
Jan.	-	-	-	-	321,600	256,600	169,000	11,300
Feb.	-	-	-	-	242,500	281,500	130,000	7,000
Mar.	-	-	-	-	243,800	259,300	114,500	3,000
Apr.	-	-	-	-	253,300	238,800	129,000	7,400
May	-	-	-	-	332,500	308,500	153,000	25,300
June	-	-	-	-	297,800	305,300	145,500	10,200
July	-	-	-	-	-	-	-	29,100
Aug.	-	-	-	1,000	-	-	-	1,500
Sept.	-	-	-	-	-	-	-	1,000

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

[3]The Central Bank of Malta 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 of Malta 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	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
Oct.	2,110,034	405,568	13,586	57,639	2,261,060	325,767	2,586,827	1,103,409	3,690,236
Nov.	2,138,538	413,380	11,101	58,784	2,287,363	334,440	2,621,803	1,011,512	3,633,315
Dec.	2,121,567	426,933	14,189	58,112	2,279,244	341,557	2,620,801	908,426	3,529,227
2003									
Jan.	2,120,956	455,044	19,168	56,896	2,307,613	344,451	2,652,064	862,586	3,514,650
Feb.	2,109,743	451,060	17,590	53,672	2,294,497	337,568	2,632,065	860,486	3,492,551
Mar.	2,114,017	446,341	17,008	50,520	2,281,775	346,111	2,627,886	838,378	3,466,264
Apr.	2,131,526	450,777	19,724	46,803	2,309,409	339,421	2,648,830	877,061	3,525,891
May	2,139,655	450,920	20,603	52,908	2,321,773	342,313	2,664,086	832,339	3,496,425
June	2,136,304	460,819	19,441	55,588	2,340,337	331,815	2,672,152	816,393	3,488,545
July	2,116,196	456,710	20,707	63,213	2,321,043	335,783	2,656,826	815,921	3,472,747
Aug.	2,129,058	451,262	20,694	78,513	2,327,898	351,629	2,679,527	842,895	3,522,422
Sept.	2,144,306	438,268	19,740	81,311	2,334,424	349,201	2,683,625	905,119	3,588,744

[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	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
Oct.	438,034	18,535	456,569	18,601	437,968
Nov.	433,495	18,456	451,950	15,334	436,616
Dec.	443,905	17,343	461,247	24,416	436,831
2003					
Jan.	433,272	17,123	450,395	18,936	431,459
Feb.	435,652	17,037	452,689	19,369	433,321
Mar.	439,707	17,084	456,791	15,749	441,041
Apr.	447,809	17,223	465,032	18,738	446,294
May	448,445	17,369	465,814	16,815	448,999
June	453,582	17,529	471,111	18,776	452,335
July	453,611	17,964	471,576	19,118	452,458
Aug.	454,236	18,181	472,417	18,196	454,221
Sept.	457,673	18,122	475,795	19,350	456,444

[1] 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 Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (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	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
Oct.	456,569	110,426	292,652	28,020	6,936	-	438,034
Nov.	451,950	109,824	290,109	26,739	6,823	-	433,495
Dec.	461,247	109,560	298,664	28,784	6,897	-	443,905
2003							
Jan.	450,395	108,876	291,267	26,391	6,739	-	433,273
Feb.	452,689	108,761	293,500	26,595	6,797	-	435,653
Mar.	456,791	109,065	296,674	27,116	6,851	-	439,706
Apr.	465,032	109,948	302,588	28,287	6,986	-	447,809
May	465,814	110,115	302,817	28,473	7,040	-	448,445
June	471,111	110,570	306,974	28,899	7,139	-	453,582
July	471,576	110,120	306,761	29,489	7,241	-	453,611
Aug.	472,417	109,884	307,666	29,481	7,205	-	454,236
Sept.	475,795	109,754	310,593	30,071	7,255	-	457,673

[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	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
Oct.	952,389	578,340	374,049	1,927,799	49.4	74.6
Nov.	999,137	579,447	419,690	1,931,490	51.7	72.9
Dec.	983,291	588,529	394,762	1,961,762	50.1	72.8
2003						
Jan.	1,024,617	586,688	437,929	1,955,628	52.4	71.8
Feb.	1,039,716	570,377	469,340	1,901,255	54.7	71.8
Mar.	1,066,884	569,323	497,561	1,897,743	56.2	73.6
Apr.	1,093,560	571,750	521,810	1,905,832	57.4	73.1
May	1,063,269	584,021	479,248	1,946,737	54.6	72.6
June	1,096,464	585,938	510,527	1,953,125	56.1	72.2
July	1,073,066	578,819	494,247	1,929,398	55.6	72.4
Aug.	1,127,699	597,035	530,664	1,990,118	56.7	71.4
Sept.	1,057,229	589,718	467,511	1,965,726	53.8	72.6

[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. From 15 November 1994, Banking Directive No. 5 established a minimum of 30% liquid asset ratio, net of deductions. Includes HSBC Home Loans (Malta) Ltd from January 2001 and Volksbank Malta Ltd from November 2002.

[2] Includes 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 & Deposits with Central Bank of Malta[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	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
Oct.	88,399	186,430	116,453	561,107	952,389
Nov.	152,702	171,859	111,893	562,683	999,137
Dec.	120,981	156,950	135,072	570,288	983,291
2003					
Jan.	153,795	183,519	132,431	554,872	1,024,617
Feb.	106,557	202,352	177,932	552,875	1,039,716
Mar.	112,774	218,173	175,576	560,361	1,066,884
Apr.	134,493	233,548	170,919	554,600	1,093,560
May	150,676	224,942	134,562	553,089	1,063,269
June	163,023	238,860	147,647	546,934	1,096,464
July	134,067	233,858	150,657	554,484	1,073,066
Aug.	190,650	212,998	173,203	550,848	1,127,699
Sept.	174,016	217,201	128,608	537,404	1,057,229

[1] Includes HSBC Home Loans (Malta) as from January 2001 and Volksbank Malta Ltd as from November 2002.

[2] Includes cash in hand, working balances with the 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	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
Oct.	91,735	132,821	86,113	10,361	188,070	94,092	251,024	295,880
Nov.	94,991	130,419	86,463	10,153	189,172	92,781	252,449	293,196
Dec.	93,590	132,831	84,376	10,321	190,941	91,168	254,872	294,935
2003								
Jan.	90,782	126,746	82,918	9,700	188,361	95,344	251,531	289,993
Feb.	92,064	125,109	80,923	9,526	186,417	94,627	245,148	285,913
Mar.	93,883	126,628	80,868	9,733	190,217	96,670	249,631	297,448
Apr.	93,133	127,805	83,564	9,387	188,565	97,503	250,463	296,660
May	88,110	127,732	83,664	9,268	186,040	100,269	247,837	296,975
June	87,524	126,943	81,153	9,747	185,961	100,006	243,706	296,276
July	87,230	122,334	79,105	9,367	177,443	94,842	232,150	288,460
Aug.	85,220	118,983	77,806	9,347	179,917	95,670	232,532	281,970
Sept.	86,197	122,122	74,923	9,588	185,132	99,068	235,555	289,316

[1] Includes HSBC Home Loans (Malta) Ltd from January 2001 and Volksbank Malta Ltd from November 2002.

[2] Includes Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (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 Services[3]	All Other	Total Local Lending	Foreign Lending	Total
	House Purchases[2]	Consumer Durable Goods	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	137,293	52,959	53,582	243,833	65,828	161,752	1,573,942	8,956	1,582,898
2001	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
Oct.	357,056	44,330	97,595	498,981	80,753	141,982	1,871,812	21,207	1,893,019
Nov.	361,777	43,659	100,610	506,046	79,524	144,392	1,879,586	101,433	1,981,019
Dec.	367,124	43,302	97,897	508,323	81,977	137,594	1,880,928	265,492	2,146,420
2003									
Jan.	372,665	39,445	94,847	506,957	86,875	143,614	1,872,821	267,796	2,140,617
Feb.	382,540	41,406	121,031	507,895	89,965	142,391	1,859,978	258,905	2,118,883
Mar.	372,824	42,007	101,891	516,722	92,440	148,175	1,902,415	258,156	2,160,571
Apr.	377,770	40,830	104,848	523,448	89,875	149,244	1,909,647	255,718	2,165,365
May	382,000	40,344	105,753	528,097	85,339	153,209	1,906,540	257,233	2,163,773
June	382,540	41,406	109,744	533,690	86,658	152,513	1,904,177	258,451	2,162,628
July	-	40,392	96,820	548,205	102,918	155,247	1,897,301	258,747	2,156,048
Aug.	-	40,893	98,673	552,729	99,574	154,510	1,888,258	261,472	2,149,730
Sept.	-	40,395	107,889	572,338	92,505	156,820	1,923,564	266,583	2,190,147

[1] Includes HSBC Home Loans (Malta) Ltd from January 2001 and Volksbank Malta Ltd from November 2002.
[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 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.	108,269	94	514	108,877	1,382	5,538	149,325	780,357	929,682
Apr.	108,934	91	816	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 from January 2001.

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

[3] Includes professional, repair and maintenance services.

[4] 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 & Water		Transport, Storage & Communication		Agriculture & 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	-	134,461	22,999
2000	492	100,591	46,358	52,038	19,026	-	154,127	11,204
2001	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	44,293	88,657	10,398	21	129,807	21,914
Dec.	679	92,911	46,121	86,710	10,298	23	124,959	22,485
2003								
Mar.	1,000	92,883	46,791	79,837	9,726	7	127,729	18,766
June	325	87,199	47,983	78,960	9,737	10	123,398	16,374
Sept.	383	85,814	43,863	78,259	9,586	2	122,191	19,550

End of Period	Shipbuilding & Shiprepair	Building & Construction		Hotel, Restaurant & Tourist Trades		Wholesale & 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	46,909	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	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	93,775	9	241,159	3,739	295,955	339
Dec.	44,462	91,161	7	249,129	5,743	294,697	238
2003							
Mar.	44,679	96,670	-	246,340	3,291	297,243	205
June	47,258	100,006	-	240,349	3,357	296,002	274
Sept.	44,383	97,468	1,600	232,089	3,466	289,304	12

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	238,800	1,524,729
2000	367,921	60,861	5,051	163,447	2,705	1,431,641	221,671	1,653,312
2001	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.	490,508	75,463	7,877	136,533	11,104	1,521,089	268,084	1,789,173
Dec.	508,323	72,382	9,595	133,771	5,666	1,533,481	265,879	1,799,347
2003								
Mar.	516,722	84,877	7,563	143,728	6,237	1,572,950	251,344	1,824,294
June	533,690	75,609	11,049	148,946	6,227	1,579,639	247,114	1,826,753
Sept.	572,338	81,363	11,142	156,686	2,171	1,604,550	247,120	1,851,670

[1] Loans and advances extended by Deposit Money Banks, Other Banking Institutions (up to December 2000) and International Banking Institutions (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	138,814	373,630	334,746	586,516	1,433,707
	Interest Rate	7.33	7.62	7.66	6.55	7.16
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	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						
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	1,898,530
	Interest Rate	6.43	6.32	6.98	5.23	6.01
Dec.	Amount	231,568	554,682	358,287	1,001,883	2,146,420
	Interest Rate	6.21	6.02	6.68	5.04	5.69
2003						
Mar.	Amount	232,765	579,593	354,363	993,850	2,160,571
	Interest Rate	6.17	5.97	6.72	4.53	5.45
June	Amount	235,457	588,418	358,575	980,178	2,162,628
	Interest Rate	5.59	5.25	6.11	3.98	4.85
Sept.	Amount	235,904	606,023	357,995	990,225	2,190,147
	Interest Rate	5.43	4.91	6.15	3.98	4.75

[1] For the purposes 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) Ltd from January 2001 and Volksbank Malta Ltd from November 2002.

[2] Figures quoted in the 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	67,983	41,112	8,824	19,818	137,738
	Interest Rate	6.40	6.86	7.59	6.51	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 from January 2001. For the purposes 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				2003		
								Mar.	June	Sept.	Dec.	Mar.	June	Sept.
INTEREST RATES[1]														
Central Bank of Malta														
Discount Rate	5.50	5.50	5.50	5.50	4.75	4.75	4.25	4.00	4.00	4.00	3.75	3.75	3.25	3.00
Central Intervention Rate[2]	-	-	-	5.45	4.75	4.75	4.25	4.00	4.00	4.00	3.75	3.75	3.25	3.00
Money Market Interventions														
Term Deposit Rate[3]	4.94	5.01	5.22	5.43	4.70	4.72	4.22	3.95	3.95	3.95	3.70	3.70	3.20	2.95
Reverse Repo Rate[3]	5.50	5.40	5.50	5.50	4.80	4.80	4.29	4.05#	4.05#	4.05#	3.80#	3.80#	3.30#	3.05#
Standby (Collateralised) Loan Facility[4]	6.00	6.00	6.00	6.00	5.30	5.30	4.80	4.55	4.55	4.55	4.30	4.30	3.80	3.55
Overnight Deposit Facility[5]	2.50	-	-	-	1.80	1.80	1.30	1.05	1.05	1.05	0.80	0.80	0.30	0.30
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	2.70
Interbank Market Offered Rates[6]														
Overnight	-	-	4.95	5.50	4.75	4.75	3.65	3.50	3.92*	3.97	3.73*	3.69	3.23*	3.20
1 week	-	-	5.26	5.56	4.74	4.78	4.25	3.97	3.99	3.99	3.76*	3.63*	3.26*	3.21
1 month	-	-	5.38	5.70	4.75	4.90	4.58*	4.15*	4.13*	4.16*	3.80*	3.73*	3.27*	3.00*
3 month	-	-	5.51	5.95	5.27	4.92*	4.82*	4.35*	4.33*	4.25*	3.90*	3.76*	3.34*	3.03*
Deposit Money Banks[7]														
Weighted Average Deposit Rate	4.00	4.24	4.39	4.42	4.32	4.17	3.96	3.81	3.72	3.56	3.49	3.27	3.01	2.77
Current	0.16	0.42	1.37	1.49	1.11	1.32	1.48	1.05	1.10	1.27	1.12	0.93	0.75	0.71
Savings	3.00	3.01	3.02	3.04	2.81	2.52	2.22	1.98	1.97	2.00	1.80	1.64	1.43	1.23
Time	5.01	5.29	5.35	5.35	5.43	5.25	4.98	5.00	4.78	4.47	4.39	4.23	4.06	3.77
Weighted Average Lending Rate	7.49	7.93	8.04	8.08	7.28	7.23	6.50	6.28	6.28	6.25	6.07	6.12	5.97	5.94
Government Securities														
Treasury Bills[8]														
1 month	-	5.00	5.19	5.43	5.05	4.85	4.80	4.10	4.10	4.00	4.00	4.00	4.00	4.00
3 month	4.94	5.01	5.25	5.49	4.95	4.90	4.53	4.04	4.01	3.96	3.67	3.46	3.38	3.15
6 month	5.16	5.30	5.30	5.50	4.97	4.94	5.04	4.75	4.14	4.10	3.80	3.57	3.35	3.11
1 year	5.34	5.40	5.40	5.50	5.12	5.03	5.08	4.40	4.40	4.40	4.40	4.40	3.52	3.13
Government Stocks[9]														
2 year	5.00	-	-	-	-	4.99	4.47	4.15	4.40	4.10	3.74	3.91	3.55	3.64
5 year	6.60	6.65	6.82	5.80	5.46	5.33	5.40	5.56	5.39	5.32	5.15	5.13	4.61	4.38
10 year	7.08	7.23	7.26	6.00	5.55	5.99	6.15	5.90	5.76	5.66	5.43	5.40	5.11	4.73
15 year		7.49	7.62	6.47	6.03	6.39	6.44	6.14	6.07	5.93	5.86	5.85	5.36	4.94
MALTA STOCK EXCHANGE SHARE INDEX	1000	1004	1050	1211	3278	3376	2200	2118	1992	1809	1871	1885	1920	2071

[1] End of period rates in percentages 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 at the end of the month. When no auctions of reverse repos or term deposits are held, rates indicated by # reflect the corridor (plus or minus 5 basis points) linked to the central intervention rate.

[4] Offered in terms of Article 15(1)(e) of the Central Bank of Malta Act, Cap. 204.

[5] 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	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	0	771,531	-	771,531
May	626	734,424	37,959	773,008	0	773,008	-	773,008
June	543	742,642	37,499	780,684	0	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	0	827,645	-	827,645
Sept.	481	803,928	37,451	841,860	1,255	840,606	-	840,606
Oct.	472	837,792	37,418	875,682	3,422	872,260	-	872,260
Nov.	473	845,812	37,355	883,639	5,081	878,558	-	878,558
Dec.	473	842,862	37,512	880,847	6,987	873,860	-	873,860
2003								
Jan.	510	854,421	36,978	891,909	2,291	889,618	-	889,618
Feb.	759	862,145	37,335	900,239	2,910	897,328	-	897,328
Mar.	723	845,994	37,316	884,034	5,838	878,196	-	878,196
Apr.	461	853,834	36,800	891,095	1,955	889,141	-	889,141
May	474	891,189	36,035	927,699	2,680	925,019	-	925,019
June	458	889,371	36,453	926,283	4,774	921,508	-	921,508
July	480	882,228	36,682	919,389	2,499	916,890	-	916,890
Aug.	515	903,181	37,470	941,166	5,386	935,781	-	935,781
Sept.	503	906,154	36,620	943,277	7,624	935,653	-	935,653

[1] On accrual basis.

[2] Up to 1998 this comprised the position of the monetary authorities, including the Central Bank of Malta and small amounts of Treasury balances. From 1998 it comprised only the foreign assets of the Central Bank of Malta.

[3] Includes small amounts of other precious metals.

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

[5] Comprises customers' foreign currency deposits and sinking funds held with the Central Bank of Malta, and other official funds 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	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
Oct.	927,749	767,967	159,782	1,032,042	2,798,389	2,542,074	256,315	1,288,358
Nov.	1,114,732	860,273	254,459	1,133,017	2,668,624	2,503,992	164,632	1,297,649
Dec.	1,299,603	1,038,562	261,041	1,134,901	2,456,089	2,297,394	158,695	1,293,596
2003								
Jan.	1,307,320	1,049,620	257,701	1,147,319	2,321,045	2,161,655	159,390	1,306,709
Feb.	1,294,386	1,034,531	259,856	1,157,184	2,400,272	2,233,730	166,542	1,323,726
Mar.	1,283,624	1,029,180	254,445	1,132,640	2,418,695	2,250,377	168,317	1,300,958
Apr.	-	-	233,890	1,123,030	-	-	170,766	1,293,796
May	-	-	217,468	1,142,486	-	-	174,251	1,316,738
June	-	-	229,853	1,151,361	-	-	173,844	1,325,205
July	-	-	256,331	1,173,221	-	-	174,007	1,347,228
Aug.	-	-	266,302	1,202,083	-	-	179,807	1,381,890
Sept.	-	-	260,614	1,196,267	-	-	182,339	1,378,606

[1] From 1995, data are on accrual basis.

[2] For the purposes of this Table only, the amounts of HSBC Overseas Bank (Malta) Ltd. (up to November 2002) 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
2002	717,084	2,720	719,804	721,652	97,671	819,324	-99,520	40,591	10,563	51,155	-48,365
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
Oct.	57,224	9	57,233	58,455	5,525	63,980	-6,747	-	-	-	-6,747
Nov.	50,280	49	50,329	62,637	5,442	68,079	-17,750	11,077	-	11,077	-6,673
Dec.	105,198	1,490	106,688	74,261	15,742	90,003	16,685	10,466	10,563	21,030	37,715
2003											
Jan.	44,263	282	44,545	59,018	12,282	71,300	-26,755	-	-	-	-26,755
Feb.	55,284	5	55,289	59,745	9,625	69,370	-14,080	24,126	-	24,126	10,046
Mar.	49,216	102	49,318	55,535	10,561	66,096	-16,778	-	-	-	-16,778
Apr.	61,911	60	61,972	74,519	9,791	84,311	-22,339	-	-	-	-22,339
May	51,849	931	52,780	66,098	11,749	77,847	-25,068	-	32,196	32,196	7,128
June	54,909	143	55,052	64,924	4,989	69,912	-14,860	3,520	-	3,520	-11,340
July	57,735	100	57,836	59,064	12,821	71,885	-14,049	44,424	-	44,424	30,375
Aug.	64,378	416	64,794	56,208	7,045	63,253	1,541	-	-	-	1,541
Sept.	54,921	76	54,997	59,303	5,316	64,619	-9,621	-	-	-	-9,621

[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] 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] 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[4]	Ordinary Revenue[5]	Foreign Grants	Total Revenue
	Income Tax	National Insurance Contributions[1]	VAT & CET[2]	Licences, Taxes & Fines[3]	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
2002	190,175	181,142	117,505	86,047	59,811	634,679	82,404	717,084	2,720	719,804
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
Oct.	16,080	14,148	13,665	6,602	4,408	54,903	2,321	57,224	9	57,233
Nov.	8,618	15,809	10,249	7,354	4,991	47,021	3,259	50,280	49	50,329
Dec.	39,936	29,910	10,370	7,370	6,277	93,862	11,335	105,198	1,490	106,688
2003										
Jan.	5,015	7,714	9,856	5,553	4,229	32,366	11,897	44,263	282	44,545
Feb.	10,277	12,510	8,372	8,091	4,668	43,919	11,366	55,284	5	55,289
Mar.	7,065	12,633	9,333	4,975	4,748	38,754	10,463	49,216	102	49,318
Apr.	21,029	15,508	10,654	6,886	4,816	58,893	3,018	61,911	60	61,972
May	11,954	15,360	9,522	7,318	4,997	49,151	2,698	51,849	931	52,780
June	16,944	15,686	8,159	5,926	5,297	52,012	2,897	54,909	143	55,052
July	12,069	15,173	12,051	8,577	5,257	53,128	4,607	57,735	100	57,836
Aug.	24,387	16,055	9,421	7,306	5,395	62,563	1,815	64,378	416	64,794
Sept.	16,261	15,329	8,695	6,993	5,535	52,811	2,110	54,921	76	54,997

[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] Value Added Tax, Customs & Excise Tax.

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

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

[5] 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
2002	31,526	27,391	38,753	97,671
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
Oct.	1,130	1,790	2,605	5,525
Nov.	2,189	1,965	1,288	5,442
Dec.	1,761	1,937	12,044	15,742
2003				
Jan.	1,703	2,774	7,805	12,282
Feb.	2,899	3,426	3,300	9,625
Mar.	3,810	2,543	4,208	10,561
Apr.	2,167	1,989	5,635	9,791
May	3,018	3,801	4,931	11,749
June	2,174	2,375	440	4,989
July	4,778	3,034	5,009	12,821
Aug.	1,913	1,486	3,646	7,045
Sept.	976	2,185	2,155	5,316

[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	491,769
1999	83,320	712,184	795,504	44,349	839,909	483,111
2000	172,987	712,729	885,716	39,250	924,966	469,678
2001	159,459	812,854	972,313	40,378	1,012,691	416,822
2002	218,831	813,030	1,031,861	45,100	1,076,961	374,008
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
Dec.	218,831	813,030	1,031,861	45,100	1,076,961	374,008
2003						
Mar.	248,740	839,963	1,088,703	45,103	1,133,806	360,444
June	272,060	839,963	1,112,023	75,101	1,187,124	341,765
Sept.	251,007	882,963	1,133,970	75,051	1,209,020	340,370

[1] Including local development registered stocks.

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

Sources: Malta Stock Exchange; Ministry of Finance and Economic Affairs; The Treasury.

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	470,335	317,377	160,304	477,681	137,423	22,036	159,459
2002	644,964	554,354	165,914	720,268	159,689	59,142	218,831
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
Oct.	59,000	45,305	7,695	53,000	163,315	23,094	186,409
Nov.	59,649	61,163	11,077	72,240	172,440	26,560	199,000
Dec.	54,737	37,711	42,789	80,500	159,689	59,142	218,831
2003							
Jan.	82,000	84,723	12,277	97,000	184,390	49,441	233,831
Feb.	43,240	32,736	12,004	44,740	203,743	31,588	235,331
Mar.	69,591	72,579	10,421	83,000	219,859	28,881	248,740
Apr.	82,000	89,635	7,365	97,000	236,886	26,854	263,740
May	73,740	59,987	16,073	76,060	226,041	34,019	260,060
June	71,000	73,213	9,787	83,000	240,022	32,038	272,060
July	52,000	39,095	2,937	42,032	241,040	21,052	262,092
Aug.	76,060	41,280	15,695	56,975	214,733	28,274	243,007
Sept.	61,000	44,964	24,036	69,000	219,180	31,827	251,007

[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] Includes the Malta Government Sinking Fund.

[4] On January 10, 1995, the House of Representatives approved a motion empowering the Government to increase the issue of permissable outstanding Treasury Bills from Lm30 million to Lm100 million. On December 16, 1996, the maximum amount of permissable outstanding bills was raised from Lm100 million to Lm200 million and, subsequently, to Lm300 million on November 27, 2002.

TABLE 3.3 MALTA GOVERNMENT STOCKS
(Outstanding as at end-November 2003)[1]

Lm thousands

Stock	Year of Maturity	Year of Issue	Issue Price Lm	Interest Dates	Held By: Banking System	Held By: Others [2]	Amount
6.70 % MGS	2004	1994	100	23 Apr. - 23 Oct.	10,460	8,240	18,700
6.80 % MGS	2004 (II)	1998	100	15 Jan. - 15 July	22,759	3,093	25,852
7.25 % MGS	2005	1997	100	10 June - 10 Dec.	18,253	5,247	23,500
5.60 % MGS	2005 (II)	1999	100	1 Feb. - 1 Aug.	28,979	2,521	31,500
7.00 % MGS	2006 [3]	1994	100	19 May - 19 Nov.	1,670	8,330	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.	6,305	12,945	19,250
7.25 % MGS	2006 (III) [4]	1996	100	20 Jan. - 20 July	7,337	7,663	15,000
7.35 % MGS	2007	1997	100	18 Apr. - 18 Oct.	16,586	8,165	24,750
5.90 % MGS	2007 (II)	1999	100	23 Apr. - 23 Oct.	9,006	994	10,000
5.60 % MGS	2007 (III)	2000	100	10 June - 10 Dec.	22,663	12,587	35,250
7.20 % MGS	2008	1998	100	28 Feb. - 15 July	9,316	684	10,000
7.20 % MGS	2008 (II)	1998	100	30 Mar. - 30 Sept.	21,556	8,444	30,000
7.00 % MGS	2009 [3]	1999	100	1 Mar. - 1 Sept.	-	65	65
5.90 % MGS	2009 (II)	1999	100	1 Mar. - 1 Sept.	19,468	5,532	25,000
5.90 % MGS	2009 (III)	2000	100	30 Mar. - 30 Sept.	43,478	1,822	45,300
5.90 % MGS	2010	1999	100	19 May - 19 Nov.	13,785	1,215	15,000
5.75 % MGS	2010 (II)	2000	100	10 June - 10 Dec.	16,716	1,784	18,500
7.00 % MGS	2010 (III) [3]	2000	100	30 June - 30 Dec.	-	545	545
5.40 % MGS	2010 (IV)	2003	100	21 Feb. - 21 Aug.	10,027	24,973	35,000
7.50 % MGS	2011	1996	100	28 Mar. - 28 Sept.	8,031	6,969	15,000
6.25 % MGS	2011 (II)	2001	100	1 Aug. - 1 Feb.	20,591	19,409	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.	16,841	17,659	34,500
7.00 % MGS	2012 (II)	2002	100	10 June - 30 Dec.	-	176	176
5.70 % MGS	2012 (III)	2002	100	30 Mar. - 30 Sept.	3,377	17,623	21,000
7.80 % MGS	2013	1997	100	18 Apr. - 18 Oct.	17,024	17,226	34,250
6.35 % MGS	2013 (II)	2002	100	18 Apr. - 18 Oct.	948	25,052	26,000
7.00 % MGS	2013 (III)	2003	100	30 June - 30 Dec.	-	67	67
6.60 % MGS	2014	2000	100	30 Mar. - 30 Sept.	3,050	7,450	10,500
5.10 % MGS	2014	2003	100	6 Jan. - 6 July	5,993	24,007	30,000
6.45 % MGS	2014 (II)	2001	100	24 May - 24 Nov.	7,837	22,164	30,000
6.10 % MGS	2015	2000	100	10 June - 10 Dec.	16,077	13,923	30,000
5.90 % MGS	2015 (II) FI	2002/2003	100/102	9 Apr. - 9 Oct.	9,642	30,558	40,200
6.65 % MGS	2016	2001	100	28 Mar. - 28 Sept.	3,179	26,821	30,000
7.80 % MGS	2018	1998	100	15 Jan. - 15 July	30,768	39,232	70,000
6.60 % MGS	2019	1999	100	1 Mar. - 1 Sept.	15,214	28,787	44,000
5.50 % MGS	2023	2003	100	6 Jan. - 6 July	2,427	31,406	33,833
Total					439,361	443,669	883,030

[1] Latest available data.

[2] Include non-resident banks.

[3] 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.

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

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

Lm thousands

Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16 years and over	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	48,900	213,969	255,211	180,950	114,000	813,030
2003						
Mar.	65,385	209,417	310,461	210,700	44,000	839,963
June	65,385	209,417	310,461	210,700	44,000	839,963
Sept.	44,552	209,417	310,528	240,700	77,833	883,030

[1] Calculations are based on the maximum redemption period of the Malta Government stock. 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	16,504	28,130	465	45,099
2003[4]				
Mar.	16,357	28,293	453	45,103
June	15,102	59,999	-	75,101
Sept.	14,868	60,182	-	75,050

[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.

Note: Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of the reference period.

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

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				465	39,734	4,764		136	45,099
2003 [1]									
Mar.	-	390	-	1,666	32,276	10,630	-	141	45,103
June	-	341	-	1,021	63,929	9,665	-	145	75,101
Sept.	-	339	-	1,090	64,080	9,401	-	140	75,050

[1] Provisional.

Note: Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of reference period.

Sources: 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	514	13,172	6,851	22,160	1,194	1,208	45,099
2003 [2]							
Mar.	1,568	12,855	8,270	21,203	-	1,207	45,103
June	1,036	12,270	7,501	53,076	-	1,218	75,101
Sept.	1,017	12,300	7,349	53,187	-	1,197	75,050

[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.

Note: Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of the reference period.

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

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		1.5553	-	2.5074	2.3910	-	-	-	-	297.66	3.475
2003											
Apr.	4	1.6182	-	2.5329	2.3622	-	-	-	-	303.92	3.514
	11	1.6146	-	2.5325	2.3637	-	-	-	-	305.22	3.537
	17	1.6275	-	2.5610	2.3553	-	-	-	-	308.43	3.549
	25	1.6257	-	2.5817	2.3536	-	-	-	-	312.45	3.537
May	2	1.6370	-	2.6268	2.3443	-	-	-	-	312.21	3.541
	9	1.6658	-	2.6748	2.3286	-	-	-	-	313.87	3.514
	16	1.6490	-	2.6834	2.3338	-	-	-	-	311.63	3.516
	23	1.6699	-	2.7341	2.3211	-	-	-	-	319.63	3.530
	30	1.6691	-	2.7391	2.3209	-	-	-	-	326.69	3.549
June	6	1.6473	-	2.7266	2.3300	-	-	-	-	323.90	3.600
	13	1.6447	-	2.7403	2.3295	-	-	-	-	322.73	3.605
	20	1.6301	-	2.7194	2.3370	-	-	-	-	321.61	3.606
	27	1.6212	-	2.6792	2.3446	-	-	-	-	321.09	3.624
July	4	1.6125	-	2.6900	2.3468	-	-	-	-	317.74	3.638
	11	1.6229	-	2.6504	2.3470	-	-	-	-	312.15	3.638
	18	1.6480	-	2.6226	2.3406	-	-	-	-	312.65	3.598
	25	1.6578	-	2.6825	2.3307	-	-	-	-	318.35	3.607
Aug	1	1.6349	-	2.6199	2.3458	-	-	-	-	315.63	3.596
	8	1.6445	-	2.6526	2.3387	-	-	-	-	315.56	3.597
	14	1.6422	-	2.6397	2.3409	-	-	-	-	315.63	3.623
	22	1.6291	-	2.5682	2.3539	-	-	-	-	302.72	3.632
	29	1.6257	-	2.5676	2.3552	-	-	-	-	299.64	3.619
Sept.	5	1.6257	-	2.5731	2.3546	-	-	-	-	300.58	3.625
	12	1.6441	-	2.6334	2.3409	-	-	-	-	308.25	3.645
	19	1.6292	-	2.6526	2.3444	-	-	-	-	304.19	3.653
	26	1.6195	-	2.6894	2.3441	-	-	-	-	301.22	3.621

[1] Closing Central Bank of Malta midpoint rate. The Maltese lira 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
2002	1.5378	-	2.3100	2.4468	-	-	-	-	288.88	3.590
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
Oct.	1.5256	-	2.3763	2.4219	-	-	-	-	294.36	3.548
Nov.	1.5362	-	2.4146	2.4117	-	-	-	-	293.45	3.539
Dec.	1.5437	-	2.4479	2.4039	-	-	-	-	298.66	3.528
2003										
Jan.	1.5667	-	2.5330	2.3831	-	-	-	-	300.80	3.485
Feb.	1.5881	-	2.5548	2.3717	-	-	-	-	304.89	3.480
Mar.	1.6121	-	2.5554	2.3620	-	-	-	-	302.91	3.469
Apr.	1.6247	-	2.5580	2.3568	-	-	-	-	306.75	3.527
May	1.6603	-	2.6956	2.3285	-	-	-	-	316.15	3.528
June	1.6400	-	2.7228	2.3331	-	-	-	-	322.26	3.593
July	1.6387	-	2.6613	2.3400	-	-	-	-	315.87	3.621
Aug.	1.6392	-	2.6124	2.3451	-	-	-	-	310.37	3.612
Sept.	1.6341	-	2.6344	2.3446	-	-	-	-	302.66	3.629

[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	39,376	490,902	747,770	-256,868
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	569,901	54,250	624,151	1,007,796	-383,645
1997	563,950	64,980	628,930	984,231	-355,300
1998	664,816	47,169	711,985	1,034,921	-322,936
1999	712,436	78,700	791,136	1,136,233	-345,097
2000	977,535	94,909	1,072,444	1,492,377	-419,933
2001	790,038	90,646	880,684	1,226,421	-345,737
2002[1]	794,300	166,840	961,140	1,227,534	-266,394
2002[1]					
Jan.	52,836	11,303	64,139	88,496	-24,357
Feb.	67,212	9,112	76,324	86,902	-10,578
Mar.	67,973	8,565	76,538	100,770	-24,232
Apr.	59,141	50,650	109,791	107,591	2,200
May	65,948	10,585	76,533	108,698	-32,165
June	65,591	8,871	74,462	106,001	-31,539
July	70,408	11,155	81,563	117,848	-36,285
Aug.	64,691	13,103	77,794	94,088	-16,294
Sept.	66,929	8,425	75,354	95,913	-20,559
Oct.	67,109	14,457	81,566	114,184	-32,618
Nov.	63,429	10,837	74,266	110,810	-36,544
Dec.	83,034	9,776	92,810	96,233	-3,423
2003[1]					
Jan.	61,218	11,490	72,708	93,989	-21,281
Feb.	58,938	9,792	68,730	103,820	-35,090
Mar.	72,677	6,901	79,578	107,714	-28,136
Apr.	65,698	11,615	77,313	116,958	-39,645
May	63,641	11,502	75,143	107,847	-32,705
June	69,870	11,212	81,082	108,471	-27,389
July	69,110	9,253	78,363	117,050	-38,687
Aug.	63,711	7,232	70,943	95,214	-24,270
Sept.	73,545	7,477	81,022	109,270	-28,248

[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	357,889
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	592,422
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	76,310	30,304	115,132	82,197	59,865	21,835	174,370	320,670	880,684
2002[1]	112,307	32,676	93,505	120,028	63,871	32,223	159,393	347,137	961,140
2002[1]									
Jan.	7,543	2,561	5,748	9,323	4,145	1,434	8,826	24,559	64,139
Feb.	9,763	4,308	9,762	9,830	5,769	2,742	10,111	24,039	76,324
Mar.	7,405	2,307	7,672	10,605	5,240	1,478	12,073	29,758	76,538
Apr.	8,042	2,669	7,557	7,682	5,294	4,603	50,593	23,351	109,791
May	8,839	3,145	6,810	9,899	5,531	2,983	11,100	28,226	76,533
June	8,030	2,260	6,367	11,421	4,360	2,793	10,177	29,054	74,462
July	12,043	3,039	10,303	8,627	6,988	4,559	8,027	27,977	81,563
Aug.	11,045	2,496	7,778	8,876	5,554	1,961	8,152	31,932	77,794
Sept.	9,406	2,315	8,254	11,328	5,189	3,021	9,266	26,575	75,354
Oct.	9,916	1,954	7,803	11,387	4,824	2,830	11,036	31,816	81,566
Nov.	9,488	2,814	8,134	9,533	5,436	1,983	9,703	27,175	74,266
Dec.	10,787	2,808	7,317	11,517	5,541	1,836	10,329	42,675	92,810
2003[1]									
Jan.	9,522	2,748	7,384	10,561	4,581	1,855	8,716	27,341	72,708
Feb.	8,657	2,875	8,147	8,630	5,020	1,591	8,068	25,742	68,730
Mar.	10,119	2,937	8,738	11,764	5,016	1,373	9,610	30,021	79,578
Apr.	8,570	2,594	7,048	10,359	5,758	3,935	10,595	28,454	77,313
May	8,336	2,704	9,013	9,078	5,853	2,082	9,222	28,855	75,143
June	8,835	4,420	8,202	10,254	5,546	1,294	9,801	32,730	81,082
July	8,874	2,249	8,296	9,047	5,608	1,440	10,574	32,275	78,363
Aug.	7,000	1,750	5,916	8,604	3,072	1,895	12,307	30,399	70,943
Sept.	10,837	2,259	8,265	11,060	3,498	1,156	13,219	30,728	81,022

[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	123,100	244,409	28,401	184,030	107,409	92,707	141,822	304,544	1,226,422
2002[1]	127,736	271,794	28,563	205,137	98,474	93,034	115,258	287,538	1,227,534
2002[1]									
Jan.	9,112	16,411	2,123	15,270	7,106	6,920	9,905	21,649	88,496
Feb.	8,819	16,856	2,254	14,397	7,683	6,622	9,071	21,200	86,902
Mar.	10,589	20,641	2,366	18,310	8,330	7,805	11,481	21,248	100,770
Apr.	11,753	22,914	2,226	18,769	8,928	7,779	10,211	25,011	107,591
May	13,523	24,858	2,184	18,823	8,574	7,594	9,837	23,305	108,698
June	9,949	24,424	2,557	18,625	8,800	8,383	7,362	25,901	106,001
July	11,921	29,743	3,093	19,351	9,011	9,663	9,648	25,418	117,848
Aug.	9,170	18,873	1,894	16,727	7,425	6,528	8,266	25,205	94,088
Sept.	9,011	22,993	2,133	15,059	8,447	7,007	8,914	22,349	95,913
Oct.	12,744	26,964	2,655	16,000	8,746	8,925	11,052	27,098	114,184
Nov.	12,115	23,228	2,580	17,219	8,036	8,015	11,174	28,443	110,810
Dec.	9,030	23,889	2,498	16,587	7,388	7,793	8,337	20,711	96,233
2003[1]									
Jan.	9,119	20,842	2,244	17,705	5,339	6,427	10,603	21,710	93,989
Feb.	8,751	23,937	2,533	17,432	8,848	8,906	8,498	24,915	103,820
Mar.	9,944	25,557	2,531	17,691	11,043	7,929	7,215	25,804	107,714
Apr.	9,346	27,288	2,414	19,564	10,166	9,439	10,087	28,654	116,958
May	10,574	24,643	2,134	18,241	8,238	9,063	9,306	25,648	107,847
June	10,259	24,799	2,208	15,788	8,440	10,642	10,234	26,101	108,471
July	10,373	31,082	3,012	19,470	8,882	8,714	8,412	27,105	117,050
Aug.	10,017	17,715	2,720	16,373	6,870	7,961	6,397	27,161	95,214
Sept.	12,954	22,237	2,442	17,314	7,810	8,247	8,941	29,325	109,270

[1] Provisional.

Source: National Statistics Office.

TABLE 4.6 DOMESTIC EXPORTS BY COMMODITY SECTIONS

Lm thousands

Period	Food & Live Animals	Beverages & Tobacco	Crude Materials Inedible except Fuels	Mineral Fuels etc.	Animal/ Vegetable Fats & Oils	Chemicals	Semi-Manu-factured Goods	Machinery & Transport Equipment	Manufactured 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	20,809	5,197	2,013	19	-	16,003	50,701	537,944	156,945	407	790,038
2002[1]	36,371	4,088	2,191	133	52	13,519	47,865	519,452	170,214	393	794,300
2002[1]											
Jan.	896	138	123	6	-	888	3,796	35,685	11,303	-	52,836
Feb.	1,096	164	339	16	27	1,075	5,228	43,725	15,417	124	67,212
Mar.	1,185	90	131	33	23	1,102	4,042	49,014	12,351	2	67,973
Apr.	1,619	618	259	12	-	1,225	3,926	37,499	13,901	62	59,141
May	1,909	671	64	-	-	1,508	3,554	45,811	12,417	14	65,948
June	833	1,326	168	12	-	807	3,436	46,371	12,637	-	65,591
July	2,821	244	220	35	-	1,459	4,284	41,213	20,079	55	70,408
Aug.	3,261	249	220	16	-	1,348	4,166	39,531	15,882	18	64,691
Sept.	2,373	244	140	-	2	1,358	3,404	44,323	15,045	40	66,929
Oct.	1,664	69	136	3	-	693	4,318	45,625	14,522	78	67,109
Nov.	1,258	187	266	-	-	940	4,403	43,049	13,326	-	63,429
Dec.	17,456	88	125	-	-	1,116	3,308	47,606	13,334	-	83,034
2003[1]											
Jan.	1,224	140	248	7	-	729	3,771	41,678	13,411	-	61,218
Feb.	878	128	113	14	-	672	3,231	40,324	13,579	-	58,938
Mar.	1,204	70	326	19	2	811	4,239	48,830	17,079	96	72,677
Apr.	1,376	121	182	9	-	574	3,656	46,091	13,688	-	65,698
May	2,616	17	189	33	-	804	4,942	42,043	12,996	-	63,641
June	2,400	147	180	20	-	1,363	3,850	47,161	14,748	-	69,870
July	3,114	190	144	27	-	1,519	3,792	43,683	16,640	-	69,110
Aug.	2,452	427	216	-	-	1,134	2,010	46,950	10,521	-	63,711
Sept.	2,526	146	150	-	2	2,227	3,413	49,768	15,311	1	73,545

[1] Provisional.

Source: National Statistics Office.

TABLE 4.7 IMPORTS BY COMMODITY SECTIONS

Lm thousands

Period	Food & Live Animals	Beverages & Tobacco	Crude Materials Inedible except Fuels	Mineral Fuels etc.	Animal/ Vegetable Fats & Oils	Chemicals	Semi-Manu-factured Goods	Machinery & Transport Equipment	Manu-factured 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	620,510
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	108,773	21,936	14,101	101,992	1,931	89,218	147,722	608,194	121,512	11,040	1,226,421
2002[1]	115,208	22,784	12,906	102,929	2,347	96,730	150,822	591,354	122,022	10,454	1,227,534
2002[1]											
Jan.	8,889	1,053	962	9,628	371	7,034	11,670	41,214	6,835	840	88,496
Feb.	7,902	1,743	1,013	7,812	184	7,011	11,231	41,403	7,871	733	86,902
Mar.	8,844	2,435	1,007	7,267	117	8,234	12,328	49,586	10,288	664	100,770
Apr.	8,594	1,911	1,095	7,221	254	8,627	13,756	52,690	12,265	1,178	107,591
May	9,454	2,110	1,094	5,450	99	8,164	15,397	53,669	12,187	1,075	108,698
June	10,191	2,210	977	9,694	188	7,490	14,221	51,401	9,014	615	106,001
July	13,903	2,827	1,066	9,689	199	9,984	14,746	54,354	10,090	991	117,848
Aug.	7,954	2,135	918	8,872	149	7,784	9,536	47,828	8,077	835	94,088
Sept.	9,058	1,483	1,308	8,296	152	7,240	10,606	45,207	11,584	978	95,913
Oct.	10,716	1,763	1,266	7,953	281	9,496	14,117	53,626	13,722	1,245	114,184
Nov.	11,425	1,668	1,175	13,901	185	7,742	12,848	50,566	10,510	789	110,810
Dec.	8,278	1,446	1,025	7,146	168	7,924	10,366	49,810	9,559	511	96,233
2003[1]											
Jan.	8,006	1,854	728	8,803	197	7,477	10,732	47,404	7,849	939	93,989
Feb.	9,063	2,312	1,162	9,923	262	7,729	12,319	48,734	10,755	1,561	103,820
Mar.	8,534	1,678	1,139	8,237	172	7,664	12,261	55,743	11,333	953	107,714
Apr.	11,273	1,912	1,122	7,602	241	8,923	13,330	58,753	13,033	769	116,958
May	8,957	2,313	1,164	8,277	173	8,562	12,600	49,711	15,248	842	107,847
June	7,936	1,820	1,075	7,527	140	8,426	12,969	55,406	12,561	612	108,471
July	9,613	3,360	926	13,723	237	10,842	13,720	52,275	11,662	692	117,050
Aug.	10,677	1,926	842	10,038	181	7,953	10,038	43,385	9,169	1,004	95,214
Sept.	11,673	2,019	828	7,758	339	8,987	11,473	51,296	14,010	887	109,270

[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**
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	996,736	291,178	409,999	33,185	1,604,256	3,335,354	1,772,601	1,562,753	-54,255	1,508,498
2001[6]	1,044,664	328,531	379,690	-40,119	1,428,122	3,140,888	1,506,526	1,634,363	11,742	1,646,104
2002[6]	1,081,840	340,898	350,695	-67,952	1,472,928	3,178,409	1,497,965	1,680,444	6,434	1,686,878
2001[6]										
Mar.	234,103	78,719	95,935	23,171	344,561	776,489	388,431	388,058	11,767	399,825
June	263,369	80,915	94,392	-28,414	370,219	780,481	376,451	404,030	5,352	409,382
Sept.	277,424	81,521	92,421	-40,631	373,516	784,251	362,657	421,594	-931	420,663
Dec.	269,768	87,376	96,942	5,755	339,826	799,667	378,987	420,680	-4,446	416,234
2002[6]										
Mar.	251,573	85,835	90,176	-5,650	317,487	739,421	343,109	396,312	5,265	401,577
June	273,077	87,859	65,548	-2,281	390,096	814,299	394,737	419,562	14,560	434,122
Sept.	288,397	83,011	95,359	-47,076	391,300	810,991	374,511	436,480	15,017	451,497
Dec.	268,793	84,193	99,612	-12,945	374,045	813,698	385,608	428,090	-28,408	399,682
2003[6]										
Mar.	258,230	100,612	99,707	-13,835	317,202	761,916	368,724	393,192	14,312	407,504
June	276,445	95,825	115,382	-34,663	368,504	821,493	394,847	426,646	-7,064	419,582
Sept.	290,574	84,406	99,234	-21,209	385,350	838,355	392,690	445,665	16,468	462,133

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[1]	Total
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
2002	444,335	100,875	31,676	142,106	38,951	20,080	355,791	1,133,814
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
Sept.	50,736	7,584	3,077	20,784	3,754	1,593	37,792	125,320
Oct.	48,050	5,978	2,422	18,487	4,223	2,180	32,826	114,166
Nov.	29,489	3,973	1,705	6,974	2,134	1,292	16,929	62,496
Dec.	23,306	5,137	2,712	4,749	1,367	1,081	16,727	55,079
2003								
Jan.	20,602	2,439	-	3,821	1,567	1,266	11,157	40,852
Feb.	26,679	3,431	-	6,815	1,797	1,231	15,786	55,739
Mar.	28,141	4,871	-	14,540	2,262	1,668	22,100	73,582
Apr.	37,870	6,755	-	14,810	3,674	1,685	37,947	102,741
May	40,584	6,992	-	12,425	3,853	2,289	42,605	108,748
June	45,727	9,512	-	9,961	4,912	2,606	42,649	115,367
July	58,470	13,809	-	11,119	6,045	2,108	54,298	145,849
Aug.	55,854	23,521	-	12,760	3,842	1,616	51,443	149,036
Sept.	53,443	7,639	-	11,546	4,943	1,867	40,257	119,695

[1] The collection of this data was discontinued. From January 2003 these statistics are included in the "All Others" category.

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

Source: National Statistics Office.

TABLE 5.3 LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS

End of Period	Labour Supply			Gainfully Occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Amount	Percent[1]	Amount	Percent[2]	Amount	Percent
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	104,094	40,791	144,885	97,933	39,519	137,452	6,161	5.9	1,272	3.1	7,433	5.1
2002												
Jan.	104,449	40,818	145,267	97,918	39,409	137,327	6,531	6.3	1,409	3.5	7,940	5.5
Feb.	104,398	40,799	145,197	97,840	39,416	137,256	6,558	6.3	1,383	3.4	7,941	5.5
Mar.	103,877	40,710	144,587	97,497	39,365	136,862	6,380	6.1	1,345	3.3	7,725	5.3
Apr.	103,844	40,728	144,572	97,485	39,450	136,935	6,359	6.1	1,278	3.1	7,637	5.3
May	103,702	40,788	144,490	97,498	39,569	137,067	6,204	6.0	1,219	3.0	7,423	5.1
June	103,802	40,955	144,757	97,872	39,764	137,636	5,930	5.7	1,191	2.9	7,121	4.9
July	104,312	41,640	145,952	98,601	40,174	138,775	5,711	5.5	1,466	3.5	7,177	4.9
Aug.	103,633	41,447	145,080	97,743	39,925	137,668	5,890	5.7	1,522	3.7	7,412	5.1
Sept.	103,274	41,186	144,460	97,200	39,740	136,940	6,074	5.9	1,446	3.5	7,520	5.2
Oct.	103,568	41,218	144,786	97,336	39,759	137,095	6,232	6.0	1,459	3.5	7,691	5.3
Nov.	103,709	41,269	144,978	97,334	39,778	137,112	6,375	6.2	1,491	3.6	7,866	5.4
Dec.	103,338	41,041	144,379	97,164	39,699	136,863	6,174	6.0	1,342	3.3	7,516	5.2
2003												
Jan.	103,943	41,298	145,241	97,551	39,811	137,362	6,392	6.2	1,487	3.6	7,879	5.4
Feb.	103,870	41,423	145,293	97,633	39,953	137,586	6,237	6.0	1,470	3.6	7,707	5.3
Mar.	103,791	41,392	145,183	97,640	39,979	137,619	6,151	5.9	1,413	3.4	7,564	5.2
Apr.	103,772	41,409	145,181	97,712	39,989	137,701	6,060	5.8	1,420	3.4	7,480	5.2
May	103,289	41,368	144,657	97,379	39,957	137,336	5,910	5.7	1,411	3.4	7,321	5.1
June	103,372	41,624	144,996	97,492	40,266	137,758	5,880	5.7	1,358	3.3	7,238	5.0
July	103,865	42,264	146,129	97,690	40,525	138,215	6,175	5.9	1,739	4.1	7,914	5.4

[1] As a percentage of male labour supply.

[2] As a percentage of female labour supply.

Sources: Employment & Training Corporation; National Statistics Office.

TABLE 5.4 LABOUR MARKET INDICATORS BASED ON THE LABOUR FORCE SURVEY [1]

	Labour Supply			Gainfully Occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Amount	Percent[2]	Amount	Percent[3]	Amount	Percent
2000	109,059	46,295	155,354	101,431	43,772	145,203	7,628	7.0	2,523	5.4	10,151	6.5
2001	110,233	45,518	155,751	103,607	41,980	145,587	6,626	6.0	3,538	7.8	10,164	6.5
2002												
Mar.	108,363	47,505	155,868	99,948	43,937	143,885	8,415	7.8	3,568	7.5	11,983	7.7
June	109,727	50,355	160,082	102,855	46,178	149,033	6,872	6.3	4,177	8.3	11,049	6.9
Sept.	110,379	48,743	159,122	103,512	45,450	148,962	6,867	6.2	3,293	6.8	10,160	6.4
Dec.	108,835	50,443	159,278	102,120	46,283	148,403	6,715	6.2	4,160	8.2	10,875	6.8
2003												
Mar.[4]	109,800	49,584	159,384	102,613	46,185	148,798	7,187	6.5	3,399	6.9	10,586	6.6
June	110,729	50,134	160,863	103,638	45,180	148,818	7,091	6.4	4,954	9.9	12,045	7.5

[1] The Labour Force Survey is carried out on a quarterly basis using a random sample of private households.

[2] As a percentage of male labour supply.

[3] As a percentage of female labour supply.

[4] Provisional.

Source: National Statistics Office.

TABLE 5.5 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
2002 [4]	283	58	378	13	168	154	1,141	1,760	3,955

[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 mixed residential and retail purposes.

[3] Including applications for restaurants and café bars.

[4] Provisional.

Source: Malta Environment & Planning Authority.

TABLE 5.6 DWELLING UNITS GRANTED DEVELOPMENT PERMISSION, BY TYPE[1]

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
2001 [2]	2,657	774	203	546	4,180
2002 [2]	3,420	910	135	1,016	5,481

[1] 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.

[2] Provisional.

Source: Malta Environment & Planning Authority.

TABLE 5.7 INFLATION RATES[1]

(Base 1946 = 100)

Year	Index	Inflation Rate (%)	Year	Index	Inflation Rate (%)
1946	100.00	-	*(continued)*		
1947	104.90	4.90	1975	254.77	8.80
1948	113.90	8.58	1976	256.20	0.56
1949	109.70	-3.69	1977	281.84	10.01
1950	116.90	6.56	1978	295.14	4.72
1951	130.10	11.29	1979	316.21	7.14
1952	140.30	7.84	1980	366.06	15.76
1953	139.10	-0.86	1981	408.16	11.50
1954	141.20	1.51	1982	431.83	5.80
1955	138.80	-1.70	1983	428.06	-0.87
1956	142.00	2.31	1984	426.18	-0.44
1957	145.70	2.61	1985	425.17	-0.24
1958	148.30	1.78	1986	433.67	2.00
1959	151.10	1.89	1987	435.47	0.42
1960	158.80	5.10	1988	439.62	0.95
1961	164.84	3.80	1989	443.39	0.86
1962	165.16	0.19	1990	456.61	2.98
1963	168.18	1.83	1991	468.21	2.54
1964	172.00	2.27	1992	475.89	1.64
1965	174.70	1.57	1993	495.59	4.14
1966	175.65	0.54	1994	516.06	4.13
1967	176.76	0.63	1995	536.61	3.98
1968	180.42	2.07	1996	549.95	2.49
1969	184.71	2.38	1997[2]	567.95	3.27
1970	191.55	3.70	1998	580.61	2.23
1971	196.00	2.32	1999	593.00	2.13
1972	202.52	3.33	2000	607.07	2.37
1973	218.26	7.77	2001	624.85	2.93
1974	234.16	7.28	2002	638.54	2.19

[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 Article 13 of the Housing (Decontrol) Ordinance, Cap. 158.

[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 5.8 RETAIL PRICE INDEX

(Base December 2002 = 100)

Period	All Items
1995	83.58
1996	85.66
1997	88.33
1998	90.43
1999	92.36
2000	94.55
2001	97.32
2002	99.45
2002	
Jan.	99.24
Feb.	98.57
Mar.	98.67
Apr.	98.83
May	99.44
June	99.07
July	99.41
Aug.	99.80
Sept.	100.03
Oct.	100.22
Nov.	100.13
Dec.	100.00
2003	
Jan.	99.12
Feb.	99.60
Mar.	100.36
Apr.	100.40
May	100.73
June	100.88
July	100.54
Aug.	100.47
Sept.	100.82

Note: The New Retail Price Index is based on the Household Budgetary Survey carried out by the National Statistics Office (NSO) during 2000 and 2001. Annual figures prior to 2003 were rebased using the linking coefficient of 1.1914 specified in the NSO News Release No. 58/2003.

Sources: Central Bank of Malta; 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