Central Bank of Malta

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CONTENTS

ABBREVIATIONS

COICOP	Classification of Individual Consumption by Purpose
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ecu	european currency unit
EEA	European Economic Area
EMU	Economic and Monetary Union
ERM II	exchange rate mechanism II
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
ETC	Employment and Training Corporation
EU	European Union
FI	fungibility issue
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LFS	Labour Force Survey
MIGA	Multilateral Investment Guarantee Agency
MFI	Monetary Financial Institution
MFSA	Malta Financial Services Authority
MSE	Malta Stock Exchange
NACE Rev. 1	Statistical classification of economic activities in the European Community
NPISH	Non-Profit Institutions Serving Households
NSO	National Statistics Office
OECD	Organisation for Economic Co-Operation and Development
OMFI	Other Monetary Financial Institution
OPEC	Organisation of Petroleum Exporting Countries
RPI	Retail Prices Index
UNDP	United Nations Development Programme
WTO	World Trade Organisation

ECONOMIC SURVEY

1. FOREWORD

The Central Bank of Malta kept its central intervention rate at 4.25% throughout the third quarter of 2007. This followed two 25 basis-point rate hikes that took place earlier in the year, in May and January. At this level, official interest rates are currently deemed to provide adequate support to the exchange rate peg. Until the adoption of the euro on 1 January 2008, the Bank remains committed to maintaining domestic financial conditions consonant with the central parity rate within ERM II of MTL/EUR 0.4293, which is also the permanent conversion rate for the Maltese lira.

The May increase in the central intervention rate was duly transmitted to domestic short-term interest rates, leading to wider differentials in favour of the Maltese lira, as the ECB kept official rates in the euro area unchanged throughout the third quarter.

The underlying downward trend in the Bank's net foreign assets moderated during the third quarter. Seasonal tourism earnings and inflows relating to foreign direct investment contributed to this improvement, while net receipts in connection with the activities of companies engaged in international business operations provided an additional boost.

During the second quarter of 2007, the annual rate of growth of broad money (M3) accelerated further, to almost 9% in June, driven mainly by additional time deposits. The latter reflected the higher interest rate environment and the reduction of cash holdings by the public ahead of the euro changeover. As a result, currency in circulation fell further, dragging narrow money (M1) down by almost 3% on an annual basis. On the other hand, domestic credit gained further momentum, rising by almost 14% compared to a year earlier. Lending for housing finance accounted for a significant share of the annual rise, which was also underpinned by a rebound in net claims on government.

The economy continued to expand at a steady pace, with GDP rising by 3.7% in real terms in the second quarter of 2007. Growth was mainly driven by domestic demand, with strong private consumption, increased government consumption and a moderate rise in gross fixed capital formation. On the other hand, exports and imports both declined by a similar magnitude, giving rise to a positive, but smaller, contribution from net exports. Nominal GDP, in turn, rose by 6% as gross value added increased across all sectors apart from manufacturing, which reported a marginal decline.

The labour market also continued to recover, with employment growth accelerating to 2.5% annually between April and June 2007, according to the LFS. As a result, the unemployment rate dropped to 6.6%, 1.1 percentage points less than a year earlier. Whereas the private sector created additional, mainly full-time, jobs, public sector employment contracted.

Price developments were characterised by a fall in inflation to 1.1% by June. The unwinding of earlier increases in administered energy prices continued to pull inflation downwards while lower accommodation prices, which carry a large weight in the HICP, dampened inflationary pressures further.

During the second quarter of 2007, the deficit on the current account of the balance of payments narrowed further compared to the corresponding period of 2006. A smaller merchandise trade deficit more than compensated for some deterioration in the balances on services, income and current transfers. Meanwhile, net outflows on the capital and financial account were recorded. Against this backdrop, reserve assets declined.

The general government deficit and the deficit on the Consolidated Fund both widened during the first half of 2007 as expenditures grew faster than revenues. However, this widening is expected to be reversed in the second half of the year.

The generally positive economic outlook was also reflected in the Bank's new business survey, which focuses on the services and construction sectors. Firms surveyed reported a further increase in turnover during the third quarter of 2007. Firms expect turnover to rise again and said that they would add to their labour force in the last three months of the year. They also plan to increase their workforce and investment outlays going into 2008.

The satisfactory outlook which emerged from the financial stability analysis for 2006 was confirmed during the first half of 2007. This was reflected in the solid performance of the banks as well as improved resilience to risks in the non-financial sector. The main risks identified in the Bank's *Annual Report* for 2006 remain relevant, with interest rate risk, concentration risks emanating from exposure to property and ensuing risks in the construction sector increasing further. On the other hand, external economic conditions remain buoyant in spite of heightened uncertainties arising from the recent financial market turmoil. Thus, although still exposed to certain risks, the banks appear resilient to them in the short-term, with capital ratios remaining above the regulatory minimum. Domestic banks did not appear to be affected by events abroad and continued to be characterized by high levels of liquidity.

2. THE INTERNATIONAL ENVIRONMENT

The world economy

Global economic growth in the second quarter of 2007 was spurred by continued expansion in the emerging markets, where the growth rates of the Chinese and Indian economies reached 11.5% and 9.3%, respectively, on the back of strong export growth. In the more developed economies, an acceleration of the US growth rate to 1.9% contrasted with a deceleration in the euro area and Japan, to 2.5% and 2.3%, respectively, and an unchanged growth rate of 3.0% in the UK.

Inflationary pressures persisted in both the US and Europe, fuelled by high energy prices and strong domestic demand. Hence the ECB and the Bank of England tightened their policy stance during the quarter.

Economic and monetary developments in the major economies

The US economy expanded by 1.9% during the quarter, up from 1.5% in the preceding quarter (see Table 2.1). This acceleration reflected higher net exports and consumer expenditure, and occurred despite a slowdown in residential investment. Meanwhile, the inflation rate rose to 2.7% from 2.4% in the previous quarter, mostly as a result of higher prices for food and beverages (see Table 2.2). In the labour market, the unemployment rate was unchanged at 4.5%.

The Federal Reserve kept the federal funds rate target at 5.25% throughout the second quarter of the year and into the third (see Chart 2.1). While the downside risk to growth was somewhat higher, the Federal Reserve indicated that persistent inflation remained its primary concern.

The pace of economic activity in the euro area slowed down during the quarter, as annual GDP growth decelerated to 2.5% from 3.2% in the first quarter. This mainly reflected a significant fall in investment and, to a much lesser extent, in exports, though the later was offset by a small decline in imports. Despite the overall deceleration, the euro area's expansion rate remained faster than that of the US and Japan.

At 1.9%, annual inflation in the euro area was within the ECB's target of maintaining the inflation rate below, but close to, 2.0% over the medium term. Meanwhile labour market

Table 2.1
REAL GDP

% change compared with the same quarter a year earlier

	2006			2007		
	Q2	Q3	Q4	Q1	Q2	Q3[1]
United States	3.2	2.4	2.6	1.5	1.9	2.2
Euro area	2.9	2.8	3.3	3.1	2.5	2.7
United Kingdom	2.8	3.0	3.1	3.0	3.0	2.7
Japan	2.2	1.5	2.4	2.6	2.3	2.5

[1] Forecasts.

Sources: Bank of Japan; Bureau of Economic Analysis, US; Consensus Forecasts; Eurostat; National Statistics, UK.

Table 2.2
CONSUMER PRICES

Average change compared with the same quarter a year earlier (%)

	2006			2007		
	Q2	Q3	Q4	Q1	Q2	Q3[1]
United States	4.0	3.3	1.9	2.4	2.7	2.2
Euro area	2.5	2.1	1.8	1.8	1.9	1.8
United Kingdom	2.2	2.4	2.7	2.9	2.6	2.1
Japan	0.2	0.6	0.3	-0.1	-0.1	-0.2

[1] Forecasts.

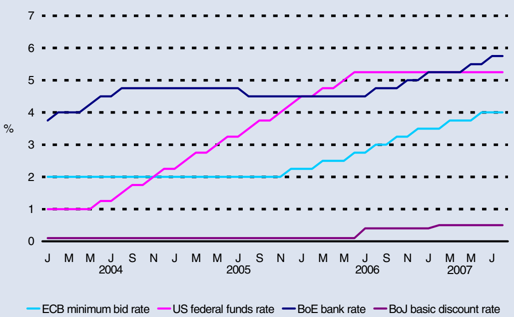
Sources: Consensus Forecasts; Eurostat; US Bureau of Labor Statistics; Bank of Japan.

conditions were buoyant, with the unemployment rate easing further to 6.9% from 7.2% in the first quarter.

Having left the minimum bid rate on its main refinancing operations unchanged in April and May, the ECB lifted this rate by 25 basis points to 4.0% in June. The Bank indicated that it would continue to monitor closely the risks to price stability. The bid rate was kept on hold in July and August.

In the second quarter of 2007, the British economy grew by 3.0% on a year earlier, maintaining the pace of growth seen in the preceding quarter. Investment in capital equipment remained strong, as did consumption expenditure, which was resilient even after the recent increases in interest rates. Over the same period, the average annual inflation rate remained rather high at 2.6%, but subsequently receded to 1.9% in July. At 5.3%, the unemployment rate was down by 0.2 percentage points from the March quarter and by 0.1 percentage points from a year earlier.

Chart 2.1
OFFICIAL INTEREST RATES
(end of month)



Sources: ECB; Federal Reserve; Bank of England; Bank of Japan.

The Bank of England continued to tighten its monetary policy stance, raising its official interest rate by 25 basis points to 5.5% in May. This decision reflected the Bank's judgement that an increase in rates was called for in order to meet the 2.0% inflation target. In July the official rate was lifted by a further 25 basis points as the medium-term balance of risks to the inflation rate remained on the upside.

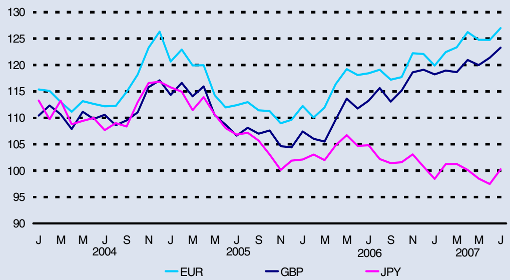
The 2.3% rate of growth in the Japanese economy in the June quarter represented a deceleration of 0.3 percentage points from the previous quarter, mostly reflecting weaker public-sector and residential investment. Over the three months to June, consumer prices fell by 0.1%. Conditions in the labour market improved, with the unemployment rate declining to 3.8%, from 4.0% in the first quarter.

During the second quarter and into the third, the Bank of Japan kept its benchmark short-term interest rate, the uncollateralized overnight call rate, unchanged at 0.5%.

Foreign exchange markets

The decline of the US dollar against the euro and the pound sterling extended into April as the positive outlook for the euro area and British economies contrasted with less favourable prospects for the US economy, especially as concerns regarding the housing sector and the high-risk end of the mortgage market became more pronounced (see Chart 2.2 and Table 2.3). In the course of May and early June, however, the dollar regained earlier losses as a result of rising US Treasury yields. But these gains were short-lived as the dollar weakened again in the rest of the quarter on expectations that US interest rates would not follow rising rates elsewhere. For the quarter as a whole, the dollar declined by 1.1% and 2.3%, respectively, against the euro and the pound sterling.

Chart 2.2
EXCHANGE RATE MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR*
(index of end-of-month rates, Jan. 2003=100)



*A higher index level represents a nominal appreciation of the currency against the US dollar.

Source: Reuters.

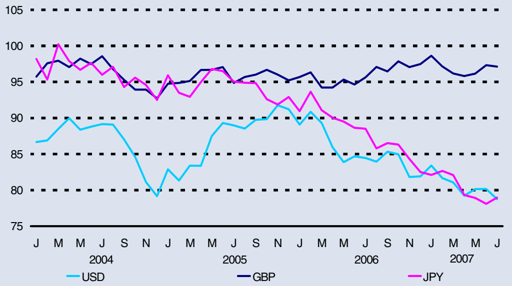
Movements in the yen/dollar and the yen/euro rates continued to be characterised by higher carry trade activity, as investors borrowed in the low-yielding yen to invest the funds in other higher-yielding currencies. As a result, the dollar

Table 2.3
EXCHANGE RATES OF SELECTED CURRENCIES AGAINST THE US DOLLAR - SECOND QUARTER 2007

	USD/EUR	USD/GBP	JPY/USD
Average for April	1.3511	1.9883	118.83
Average for May	1.3515	1.9837	120.76
Average for June	1.3412	1.9851	122.66
Average for the quarter	1.3479	1.9857	120.75
Closing rate on 30.03.07	1.3315	1.9567	118.24
Closing rate on 28.06.07	1.3466	2.0022	122.86
Lowest exchange rate vs the US dollar during the quarter	1.3287 (13 June)	1.9618 (09 Apr.)	124.02 (22 June)
Highest exchange rate vs the US dollar during the quarter	1.3662 (27 Apr.)	2.0063 (17 Apr.)	117.69 (02 Apr.)
% appreciation (+)/depreciation (-) of the currency vs the US dollar from closing rate on 30.03.07 to closing rate on 28.06.07	1.1	2.3	-3.9

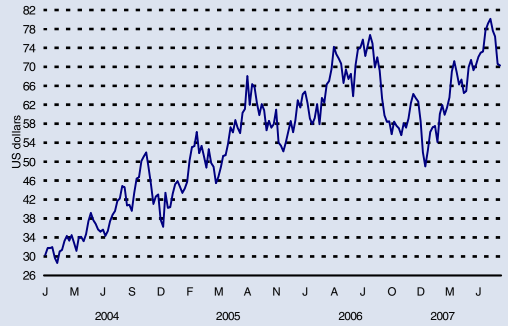
Source: Reuters.

Chart 2.3
EXCHANGE RATE MOVEMENTS OF SELECTED CURRENCIES AGAINST THE EURO*
(index of end-of-month rates, Jan. 2003=100)



*A higher index level represents a nominal appreciation of the currency against the euro.
Source: Reuters.

Chart 2.4
PRICE OF OIL ($/BARREL)
(Brent crude; end of week)



Source: Reuters.

and the euro ended the June quarter 3.9% and 5.1%, respectively, above the end-March level against the yen.

In contrast to its movement vis-à-vis the other major currencies, the euro generally weakened against the pound sterling during the second quarter (see Chart 2.3). The decline of 1.2% was spurred by expectations of further interest rate increases by the Bank of England.

In early July the dollar generally remained on its downward trend vis-à-vis the euro and the pound sterling, before staging a partial recovery during late July and August. Against the yen, the dollar declined slightly in July and depreciated further in August.

During the months of July and August, the euro was generally stable against the pound sterling but rose further against the yen before losing ground vis-à-vis the latter currency in August.

Commodity markets

Oil

The price of Brent crude oil rose over the second quarter, mainly as a result of rising demand and concerns about potential production disruptions. Preoccupation with the latter was fuelled by heightened concerns regarding refinery constraints in the US and the geopolitical environment, in particular the situation in Nigeria and the Middle East. At USD73.27 per barrel, the price of Brent crude at the end of June was 6.2% higher than at end-March (see Chart 2.4). Subsequently, oil prices reached an all-time peak of USD80.14 on 20 July, before easing moderately thereafter.

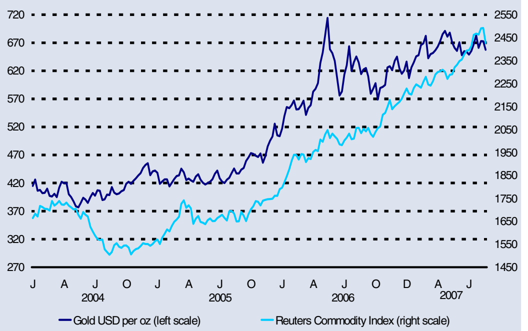
Gold

In April gold prices extended their earlier gains on the back of a weak US dollar and the renewed attractiveness of gold as a safe haven. Later in the month and in May, however, the price of bullion receded as the US dollar recovered some of its earlier losses and as sales of gold holdings by a number of central banks added further downward pressure on the price. Gold prices lost further ground in June, on expectations that higher interest rates around the world would raise the opportunity cost of holding gold. Over the quarter, the price of gold fell by 2.1%, ending at USD648.9 per ounce (see Chart 2.5). Going into the third quarter, the price of the metal recovered in the wake of a weakening dollar and rising oil prices. In addition, concern about the US subprime mortgage sector prompted additional investment in gold.

Other commodities

During the June quarter non-energy commodity prices, as measured by the Reuters Commodity Index, rose by 4.1%, propelled by higher prices of raw materials, in particular metals (see Chart 2.5).[1] The upward trend in food prices continued to be supported by increases in the price of cereals on account of rising demand from the biofuels industry and supply cuts resulting from drought conditions in various producer countries. Commodity prices advanced further during most of July, before receding in August.

Chart 2.5
COMMODITY PRICES
(end of week)



Source: Reuters.

1 The Reuters Commodity Index is a weighted index of the prices of seventeen commodities that include food, beverages, vegetable oils, agricultural raw materials and metals, but exclude oil and gold.

3. MONETARY AND FINANCIAL DEVELOPMENTS

The Central Bank of Malta tightened its monetary policy stance further during the second quarter of 2007, raising the central intervention rate by 25 basis points to 4.25% in May. As a result, money market rates also rose during the quarter. In the capital market, yields on both 5-year and 10-year government bonds increased considerably, while equity prices fell.

The pace of monetary growth quickened during the quarter as the net foreign assets of the banking system and domestic credit, particularly loans to the non-bank private sector, both increased. Monetary expansion was, however, restrained by movements in the other counterparts of M3.

The monetary base

The monetary base (M0) contracted for the second consecutive quarter, falling by Lm28.1 million, or 4.3%, during the second quarter of 2007. This reflected a drop in currency in issue, which was only marginally offset by a rise in bank deposits with the Central Bank of Malta (see Table 3.1).[1]

The decline in M0 stemmed mainly from an increase in government deposits with the Central Bank of Malta – partly related to proceeds from the issue of Malta Government stocks on the

Table 3.1
THE MONETARY BASE AND ITS SOURCES

Lm millions

	2007	2007	Change	
	Mar.	Jun.	Amount	%
Currency in issue	474.9	443.4	-31.6	-6.6
Bank deposits with the Central Bank of Malta[1]	186.0	189.5	3.4	1.9
MONETARY BASE (M0)	**661.0**	**632.9**	**-28.1**	**-4.3**
CENTRAL BANK OF MALTA ASSETS				
Foreign assets	927.8	894.5	-33.3	-3.6
Claims on central government	34.3	73.4	39.1	114.1
Fixed and other assets	16.1	16.0	-0.1	-0.7
less				
REMAINING LIABILITIES				
Government deposits	69.6	151.5	81.8	117.5
Other deposits	2.0	2.7	0.7	38.0
Foreign liabilities	33.3	35.5	2.2	6.7
Other liabilities	126.4	76.1	-50.3	-39.8
Shares and other equity	86.2	85.2	-0.9	-1.1

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

[1] M0 is a measure of the Central Bank of Malta's monetary liabilities and consists of currency in issue and bank deposits with the Bank, excluding term deposits.

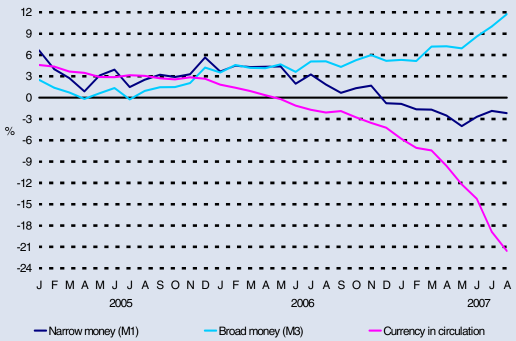
Table 3.2
MONETARY AGGREGATES
(% changes on the previous quarter)

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
NARROW MONEY (M1)	**1.2**	**-0.9**	**-0.1**	**-1.9**	**0.1**
Currency in circulation	0.2	-0.4	-2.1	-5.2	-7.2
Deposits withdrawable on demand	1.6	-1.1	0.7	-0.5	3.0
INTERMEDIATE MONEY (M2)	**1.3**	**1.5**	**2.1**	**2.1**	**2.6**
Narrow money (M1)	1.2	-0.9	-0.1	-1.9	0.1
Deposits redeemable at notice up to 3 months	-1.8	-2.3	1.6	-3.8	18.4
Deposits with agreed maturity up to 2 years	1.5	4.5	4.6	6.6	4.9
BROAD MONEY (M3)[1]	**1.3**	**1.5**	**2.1**	**2.1**	**2.6**

[1] Since the amount of marketable instruments issued by the MFI sector is negligible, at present M2 is equal to M3.

primary market – coupled with a drop in the Bank's foreign assets. At the same time, however, a fall in outstanding term deposits, reflected in a drop in 'other liabilities', and an increase in the Bank's holdings of government securities entailed an injection of liquidity into the banking system that restrained the decline in the monetary base.

Chart 3.1
MONETARY AGGREGATES
(% change on previous year)



Monetary aggregates

After having gained 2.1% in the preceding quarter, broad money (M3) expanded at a faster pace during the June quarter, rising by 2.6% (see Table 3.2). With the demand for monetary assets increasing in response to rising deposit rates, the annual rate of M3 growth extended its upward trend, reaching 8.6% in June (see Chart 3.1).

Narrow money (M1) grew marginally during the quarter, rising by 0.1%, as a sizeable increase in deposits withdrawable on demand was almost entirely offset by a drop in currency in circulation. The latter contracted for the fourth quarter in a row, falling by 7.2% from its end-March level and by 14.2% on a year earlier (see Chart 3.1). This reflected a further reduction of Maltese lira cash holdings in anticipation of the euro changeover in January 2008 and the increasing opportunity cost of holding cash in an environment of rising interest rates. In contrast, deposits withdrawable on demand grew by 3.0% during the quarter, mainly on account of an increase in Maltese lira balances belonging to households and non-bank

Chart 3.2
DEPOSIT AND LENDING RATES
(end of month)

financial intermediaries. Higher foreign currency deposits held by private non-financial companies also contributed. The annual growth rate of M1 declined further, falling to -2.7% in June from -1.7% in March (see Chart 3.1).

During the quarter reviewed, intermediate money (M2) expanded by 2.6%, as the increase in M1 was coupled with a significant rise in deposits with an agreed maturity of up to two years (see Table 3.2). The latter put on 4.9% on a quarterly basis, mainly fuelled by an increase in Maltese lira denominated deposits belonging to households, though higher private non-financial companies' foreign currency balances also contributed substantially. Growth in term deposits partly reflected increased demand for monetary assets in response to rising interest rates and, to a lesser degree, funds deposited under the Special Registration Scheme.[2] As a result, the annual rate of growth of deposits with an agreed maturity of up to two years accelerated to 22.2% in June from 18.3% three months earlier. At the same time, while deposits redeemable at up to three months' notice increased moderately in absolute terms, foreign currency denominated deposits in M2 rose by 10.0% during the quarter.

Banks reacted to the increase in official interest rates in May by adjusting their deposit and lending rates (see Chart 3.2). Nevertheless, while lending rates rose immediately, rates on deposits were adjusted only gradually, with higher rates being applied only to new deposits. As a result, the weighted average lending rate increased by 23 basis points during the second quarter, ending June at 6.34%. At the same time, the weighted average interest rate on Maltese lira deposits rose by 15 basis points to 2.77%. Whereas the average interest rate on demand deposits was broadly stable during the quarter, rising by a mere 3 basis points to 0.72%, the corresponding rates on time and savings deposits increased by 19 and 21 basis points respectively, ending June at 3.70% and 1.62%.

Going into the third quarter, M1 contracted at a slower pace, with its year-on-year growth rate picking up to -2.2% in August. At the same time, the annual growth rate of M3 accelerated further, reaching 11.7%. Additionally, while the weighted average lending rate remained stable at 6.32%, the weighted average Maltese lira deposit rate rose to 2.86%.

Counterparts of monetary expansion

Monetary expansion during the second quarter of 2007 reflected an increase in the net foreign assets of the banking system coupled with a rise in domestic credit, with the latter stemming entirely from lending to the non-bank private sector. A rise in the other counterparts of M3 had a dampening effect on monetary growth.

Domestic credit expanded by 1.6% during the quarter, driven entirely by an increase in claims on other residents, as net claims on central government were unchanged following two

[2] The Special Registration Scheme was launched on 23 April 2007. Its purpose was to provide individuals residing in Malta with a one-time opportunity to regularise their position in respect of their holdings of eligible assets in those cases where the associated income had not been declared for the purposes of the Income Tax Act.

Table 3.3
COUNTERPARTS OF MONETARY GROWTH
(% changes on the previous quarter)

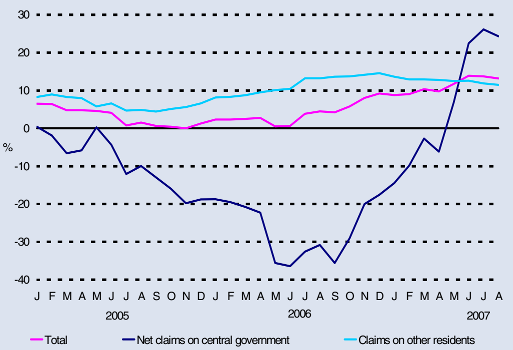
	2006			2007	
	Q2	Q3	Q4	Q1	Q2
BROAD MONEY (M3)	**1.3**	**1.5**	**2.1**	**2.1**	**2.6**
DOMESTIC CREDIT	**-1.5**	**1.4**	**5.4**	**4.8**	**1.6**
Net claims on central government	-20.6	-9.5	13.4	19.4	0.0
Claims on other residents	2.2	3.1	4.4	2.7	1.9
NET FOREIGN ASSETS	**12.6**	**4.1**	**-0.4**	**-0.7**	**3.4**
Central Bank of Malta	7.4	4.9	-3.2	-5.9	-4.0
Banks	17.7	3.4	2.1	3.9	9.1
less					
OTHER COUNTERPARTS OF M3[1]	**9.7**	**4.6**	**4.5**	**3.3**	**1.8**

[1] Other counterparts of M3 include the capital base of the MFI sector, deposits with terms to maturity exceeding two years, longer-term financial liabilities, provisions, interest accrued and unpaid and other liabilities, less fixed and other assets. They are equal to the difference between M3 and the sum of domestic credit and net foreign assets.

quarters of strong growth (see Table 3.3). The annual rate of credit growth, which stood at 10.4% in March, persisted on its upward trend, reaching 13.9% in June (see Chart 3.3).

Claims on other residents expanded at a slower pace, rising by 1.9% during the June quarter, a smaller increase than that registered in the previous quarter. Loans and advances, which account for almost all such claims, put on 2.0%, with demand for credit stemming entirely from the non-bank private sector (see Table 3.4). Loans to the latter grew by 2.4%, fuelled mainly by lending to households, most of which was intended for house purchases. As far as corporate lending is concerned, lending to the 'real estate, renting & business activities' sector, to non-bank financial institutions and to the construction industry expanded significantly, outweighing decreases in credit to the tourism industry and the transport, storage & communications sector. On a year-on-year basis, growth in claims on other residents slowed down during the quarter, decelerating to 12.6% at the end of June from 12.9% three months earlier.

Chart 3.3
DOMESTIC CREDIT
(% change on previous year)



After having risen considerably during the

Table 3.4

CLAIMS ON OTHER RESIDENTS[1]

Lm millions

	2007 Mar.	2007 Jun.	Change Amount	%
TOTAL CLAIMS	**2,582.1**	**2,631.6**	**49.5**	**1.9**
Claims on the non-bank private sector	2,427.9	2,488.1	60.2	2.5
of which loans and advances	2,378.1	2,435.9	57.8	2.4
Claims on the non-bank public sector	153.4	142.7	-10.7	-7.0
of which loans and advances	127.6	118.8	-8.8	-6.9
Claims on other general government[2]	0.8	0.8	0.0	2.6
of which loans and advances	0.8	0.8	0.0	2.6
TOTAL LOANS AND ADVANCES	**2,506.4**	**2,555.6**	**49.0**	**2.0**
Electricity, gas & water supply	79.5	75.7	-3.9	-4.9
Transport, storage & communication	155.1	146.6	-8.5	-5.5
Agriculture & fishing	8.6	8.5	-0.1	-1.2
Manufacturing	110.4	115.6	5.2	4.7
Construction	262.1	268.5	6.4	2.5
Hotels & restaurants	215.1	207.8	-7.3	-3.4
Wholesale & retail trade; repairs	316.4	316.4	0.0	0.0
Real estate, renting & business activities	276.8	287.0	10.2	3.7
Households	1,006.0	1,044.8	38.8	3.9
Other[3]	76.4	84.6	8.2	10.8

[1] Claims on other residents consist mainly of loans and advances and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies. Interbank claims are excluded.

[2] In Malta, this refers to the local councils.

[3] Includes mining & quarrying, public administration, education, health & social work, community recreation & personal activities, extra-territorial organisations & bodies and non-bank financial institutions.

preceding two quarters, net claims on central government remained broadly unchanged during the period under review. Nevertheless, the annual rate of growth picked up substantially, turning positive for the first time since 2005. This acceleration largely reflected a base effect, as such claims had fallen sharply during the second quarter of 2006 when the proceeds from the privatisation of a telecommunications company had boosted government deposits with the banking system.

With regard to the net foreign assets of the banking system, these expanded by 3.4% during the quarter, more than offsetting the previous quarter's drop (see Table 3.3). A significant decline in the net foreign assets of the Central Bank of Malta was outweighed by an increase in those of the rest of the banking system. Overall, however, their annual growth rate decelerated significantly, falling from 16.0% in March to 6.5% in June, as a sizeable share capital inflow into one bank which had taken place in April 2006, coupled

Chart 3.4
NET FOREIGN ASSETS
(% change on previous year)

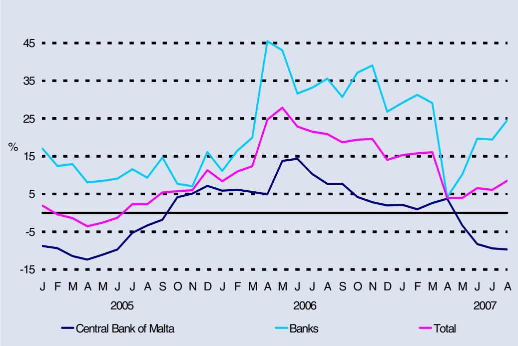
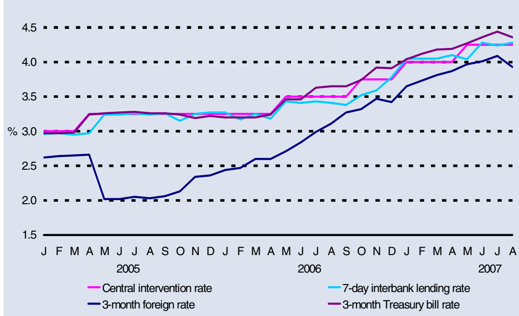


Chart 3.5
MONEY MARKET INTEREST RATES
(end of month)



Sources: Central Bank of Malta; Reuters.

with a significant privatisation-related foreign currency inflow in that year, no longer had an impact.

The net foreign assets of the Central Bank of Malta declined for the third quarter in a row, falling by 4.0% during the period under review, mainly as a result of sales of foreign exchange to banks. Furthermore, the annual rate of growth of the Bank's net foreign assets turned negative, as the effect of the above-mentioned inflow of privatisation proceeds was no longer felt (see Chart 3.4).

The net foreign assets of the rest of the banking system expanded by 9.1% on a quarterly basis, boosted primarily by significant growth in corporate foreign currency deposits, but also by purchases of foreign exchange from the Central Bank of Malta. Higher revaluation reserves and retained earnings, coupled with an inflow of equity capital in a foreign-owned bank, boosted net foreign assets further.

The other counterparts of M3 increased by 1.8% during the June quarter, fuelled by the increase in revaluation reserves and retained earnings mentioned above.

Going into the third quarter of 2007, domestic credit decelerated on a year-on-year basis, with its growth rate falling to 13.2% in August. At the same time, the annual growth rate of net foreign assets picked up, reaching 8.5%.

The money market

Excess liquidity in the banking system during the second quarter of 2007 contracted when compared to the previous three quarters. As a result, the volume of funds absorbed by the Bank through weekly auctions of 7-day term deposits during this period declined, with the average weekly amount falling to Lm88.7 million from Lm125.8 million in the first three months of 2007. Following the increase in the central intervention rate in May, the interest rate floor on these deposits was set at 4.20%.

Turnover in the interbank market increased considerably during the quarter, rising to Lm51.1 million, from Lm5.2 million in the previous quarter. Liquidity within the banking sector was asymmetrically distributed, with two banks accounting for all interbank borrowing. The maturity of interbank loans ranged from one to eighteen days, with loans up to one week being the most popular. The interest rate on 7-day loans increased by 23 basis points to 4.28% during the quarter (see Chart 3.5).[3,4]

The Treasury issued Lm147.2 million worth of bills in the primary market during the second quarter of the year, up from Lm111.4 million in the previous quarter. At the same time Lm122.7 million worth of bills matured, implying an increase in the level of outstanding Treasury bills to Lm196.2 million at end-June. Three-month bills accounted for almost half of the total issued, with the rest consisting mainly of one-month bills. Banks bought around two-thirds of the amount issued, while insurance companies took up most of the remainder. In line with the increase in the central intervention rate, the yield on the three-month bill rose by 18 basis points during the quarter, reaching 4.36% in June (see Chart 3.5).

In the secondary Treasury bill market, turnover more than halved, falling from Lm23.1 million in the first quarter to Lm11.2 million in the quarter under review. Transactions involving the Bank amounted to Lm7.2 million, with purchases totalling Lm6.5 million. In line with developments in the primary market, secondary market rates increased during the period, with the yield on the three-month bill rising to 4.36% in June from 4.18% three months earlier.

During the second quarter of 2007, the three-month premium on the Maltese lira over the euro narrowed by 2 basis points, reaching 35 basis points at end-June, as an increase in the three-month Treasury bill rate was marginally exceeded by a rise in the corresponding euro rate (see Chart 3.5).

During July and August Treasury bill yields fluctuated, with secondary market rates ending August at 4.36%. At the same time, the short-term interest rate premium on the Maltese lira widened to 43 basis points as the three-month euro area yield declined.

The capital market

Activity in the primary bond market during the second quarter of 2007 was driven by Government bond issues totalling Lm74.1 million over May and June. In May, the Government launched two fungible stock issues, with a term to maturity of seven years and five years, respectively, offering coupon rates of 5.1% and 5.7%. Three additional bond issues, maturing in 2020, 2015 and 2012, respectively, carrying coupon rates of 5.2%, 5.9% and 5.7% were launched in June. Slightly more than two-thirds of the total amount issued was purchased through auctions, 79% of which was taken up by banks and the rest mainly by insurance companies and collective investment schemes. The remaining third was purchased at fixed prices, mostly by households.

With regard to corporate securities, Gap Developments plc, a property development company, issued a total of Lm15 million worth of bonds, around one-third of which were denominated in euros. These carried a coupon rate of 7% and are redeemable between 2011 and 2013.

Turnover in the secondary market for government bonds during the June quarter trebled when compared to the previous quarter, reaching Lm66.1 million. The Central Bank of

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3 The foreign interest rate shown in Chart 3.5 is computed as a basket-weighted average of the relevant interest rates on the euro, the pound sterling and the US dollar until April 2005. The secondary market rate on three-month euro area government securities is shown thereafter.

4 Up to March 2007 secondary market yields are calculated on the basis of remaining days to maturity divided by 365 days, while from April 2007 yields are calculated on the basis of remaining days to maturity divided by 360 days.

Chart 3.6
GOVERNMENT BOND YIELDS
(end of month)

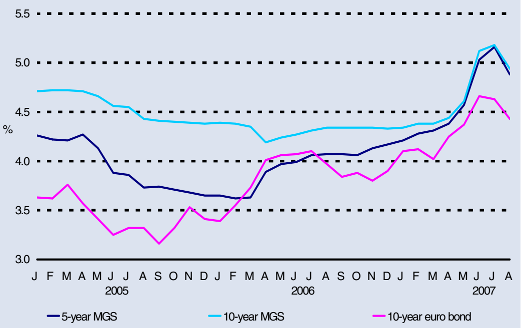
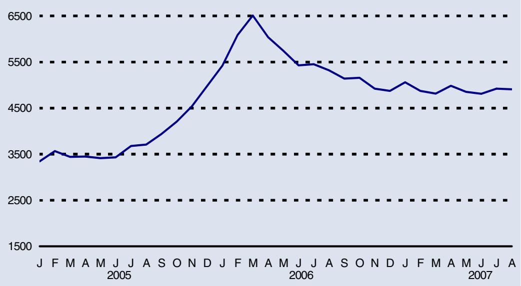


Chart 3.7
MALTA STOCK EXCHANGE SHARE INDEX
(end of month)



Source: MSE.

Malta, acting as market-maker, was a net buyer in the market and accounted for more than 90% of the value traded. Trading focused on short-term and medium-term bonds. The significant increase in turnover stemmed from a drop in the demand for fixed-interest securities in an environment of rising interest rates, both in the euro area and domestically, with investors probably switching to bank deposits and foreign assets instead. Indeed, yields on 5-year and 10-year government bonds both rose considerably, increasing by 72 and 74 basis points, respectively, and ending the quarter at 5.03% and 5.12% (see Chart 3.6).

Activity in the secondary market for corporate bonds also increased during the quarter, though to a much lesser extent. Turnover rose to Lm1.6 million, from Lm1.4 million in the March quarter, with trading being concentrated in five securities. On average, corporate bond yields increased over the quarter.

Trading in the equity market slowed down during the second quarter of 2007, dropping to Lm6.7 million from Lm7.5 million in the previous quarter. Shares in two major banks accounted for more than half the turnover. On balance, equity prices, which had been on a prolonged downward trend, stabilised, with the MSE share index declining by a marginal 0.1% (see Chart 3.7).

Yields on 5-year and 10-year government securities persisted on their upward trend in July but fell back in August, in line with developments in the euro area, reaching 4.88% and 4.94%, respectively. Going into the third quarter, the MSE share index recovered somewhat.

Box 1: CONVERSION OF DATA IN MALTESE LIRI INTO EURO

As from 1 January 2008, when the euro becomes Malta's legal tender currency, all official statistics relating to time periods after that date will be expressed in euro. For ease of comparison with 2008 and later data, earlier economic and financial data will also have to be expressed in euro.

The Maltese lira entered the European Exchange Rate Mechanism (ERM II) in May 2005. Since then the Lm/euro exchange rate has not deviated from its central parity rate of 0.4293, which was confirmed on 10 July 2007 as the conversion rate at which Malta will adopt the euro as its legal currency. As the Lm/euro rate had already been highly stable at that level in the year prior to May 2005, all statistical series for the period between January 2004 and December 2007 will be converted from Maltese lira into euro at the conversion rate of 0.4293.

As the likeliest use of statistics is to follow their development over time, for many purposes it is appropriate to convert data referring to the period before January 2004 into euro also at 0.4293. This is because multiplying them by a fixed amount in no way changes their characteristics (except the units in which they are expressed). An analysis of their development over time, including beyond January 2008, whether individually or with other domestic series, is not affected.

Where, however, data expressed in Maltese lira referring to the period prior to the adoption of the euro have to be used for cross-border comparisons, or in compiling international aggregates, conversion into euro will be based on market exchange rates at the time to which the data relate. This is the recommended way for linking amounts expressed in one currency to amounts expressed in another for comparison or aggregation over periods in which exchange rates have varied significantly. Consequently, exchange rates for the Maltese lira covering the period from January 1990 up to end-December 2007 will continue to be published. This will enable the conversion of past Maltese lira data to an international benchmark currency and thus facilitate cross-border comparisons of specific economic and financial data.

To summarise, all Maltese lira amounts will be converted into euro at the fixed rate of 0.4293 in official statistical publications. In addition, for the convenience of users who want to use statistics from January 1990 to December 2007 for cross-border comparison or aggregation, the NSO and the Central Bank of Malta will publish end-of-period and average monthly and annual Lm/euro market exchange rates from January 1999 (when the euro came into existence), and Lm/ECU rates as a proxy for Lm/euro rates for those periods when the euro was not yet in existence.

This note relates to economic and financial statistics published by the NSO and the Bank. It does not pre-judge the treatment of other data.

4. OUTPUT, EMPLOYMENT AND PRICES

Developments in the first half of this year continued to indicate a steady expansion in economic activity. In the second quarter GDP grew by over 3% compared with the same period of 2006. While the level of manufacturing activity was broadly stable, there was significant momentum in the services sector, particularly tourism. Growth was accompanied by a further deceleration in the rate of inflation and robustness in the labour market.

Gross domestic product

Real GDP rose by 3.7% in the second quarter, 0.2 percentage points more than in the previous quarter (see Chart 4.1). In contrast to the recent past, the main impetus to growth emanated from domestic demand, primarily private consumption, although there was also a positive, but smaller contribution from net exports (see Table 4.1).

Table 4.1
GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
	Annual percentage changes				
Household final consumption expenditure	-0.7	1.7	4.4	2.1	5.4
Government final consumption expenditure	-1.1	5.4	6.8	0.2	1.6
Gross fixed capital formation	-12.4	-0.8	0.5	-11.9	1.2
Domestic demand	**4.1**	**2.4**	**-4.1**	**-0.9**	**2.9**
Exports of goods & services	9.0	10.7	9.8	-1.2	-7.7
Imports of goods & services	9.4	10.3	1.2	-5.3	-7.6
GROSS DOMESTIC PRODUCT	**3.4**	**2.8**	**3.4**	**3.5**	**3.7**
GDP deflator	**2.2**	**2.5**	**3.2**	**2.6**	**2.2**
	Percentage point contributions to GDP growth				
Household final consumption expenditure	-0.5	1.2	3.1	1.4	3.5
Government final consumption expenditure	-0.2	1.0	1.3	0.0	0.3
Gross fixed capital formation	-2.7	-0.2	0.1	-2.9	0.2
Changes in inventories	7.9	0.4	-9.1	0.4	-0.8
Domestic demand	**4.5**	**2.4**	**-4.6**	**-1.1**	**3.1**
Exports of goods & services	8.7	10.1	9.2	-1.1	-7.8
Imports of goods & services	-9.8	-9.7	-1.3	5.6	8.4
Net exports	**-1.1**	**0.4**	**7.9**	**4.5**	**0.6**
GROSS DOMESTIC PRODUCT	**3.4**	**2.8**	**3.4**	**3.5**	**3.7**

Source: NSO.

Chart 4.1
REAL GDP GROWTH
(% change on a year earlier)

Source: NSO.

Among the components of GDP, private consumption rose by 5.4% during the second quarter and added 3.5 percentage points to GDP growth. Buoyant consumer demand reflected an improving labour market coupled with further growth in consumer credit despite rising borrowing costs. Furthermore, positive developments in consumer demand were also supported by consumer surveys indicating that sentiment recovered considerably during the June quarter. Government consumption also contributed positively to GDP growth, with an increase of 1.6% over the same period of 2006.

Having contracted in the first three months of the year, gross fixed capital formation posted year-on-year growth of 1.2% during the second quarter. Nominal data indicate that higher spending on investment in construction outweighed reduced outlays on machinery & transport equipment. Changes in inventories (comprising also the statistical discrepancy) dropped significantly during the quarter, contributing a negative 0.8 percentage points to growth.

For the second consecutive quarter, exports of goods and services declined year-on-year, falling by 7.7%. A largely unchanged level of nominal exports was mostly accounted for by a 7.4% rise in prices. However, with imports in real terms also contracting, net external trade added 0.6 percentage points to the overall growth rate (see Table 4.1).

The GDP deflator rose at a slower pace during the quarter, up by 2.2% year-on-year compared to 2.6% in the first quarter. Prices of consumer goods fell by 2.0%, whereas the deflator for investment declined marginally. At the same time the terms of trade continued to improve, with the growth rate in the export deflator sharply exceeding that in import prices.

Developments on the income side of GDP were broadly in line with those observed in recent quarters. In nominal terms, GDP was 6.0% higher on a year earlier, with gross value added contributing 5.7 percentage points to the rise. Of the two major components of value added, operating surplus went up by 12.8% and added 3.7 percentage points to nominal GDP growth, a somewhat higher contribution than a year earlier. Although the 4.1% rise in the other component, employment income, was faster than in any of the preceding four quarters, the second quarter's distribution of value added between employee compensation and profits confirms the recent tendency towards a rising share of the latter (see Chart 4.2).

Chart 4.2
GROSS VALUE ADDED, EMPLOYMENT INCOME & OPERATING SURPLUS
(% change on a year earlier)

Source: NSO.

As indicated in Table 4.2, the category comprising real estate, renting & business activities continued to grow strongly, adding 1.5 percentage points to nominal GDP growth. This mainly reflected the profit performance of the 'other business activities' category and, to a lesser extent, that of real estate. Similarly, the significant surge in gross value added in construction added 0.8 percentage points to nominal growth, a larger contribution than in recent quarters.

Rapid profit expansion boosted value added in the transport, storage & communication sector, while the increased contribution of public administration services in the first two quarters of 2007 reflected the higher compensation paid to civil service employees in terms of the six-year collective agreement. The category comprising other community, social & personal service activities added 0.6 percentage points to growth, reflecting to a large extent buoyant activity reported by on-line gaming companies.

Meanwhile, gross value added declined in manufacturing, with the contraction in the sector's profits reflecting the shrinkage in the clothing sub-sector and the slowdown in the

Table 4.2
SECTORAL CONTRIBUTION OF GROSS VALUE ADDED TO NOMINAL GDP GROWTH
Percentage points

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Agriculture, hunting & forestry	-0.2	0.0	-0.1	0.0	0.3
Fishing	0.0	0.0	0.4	0.0	0.0
Manufacturing	0.3	-0.4	0.3	1.0	-0.1
Electricity, gas & water supply	0.1	0.3	0.5	0.3	0.1
Construction	-0.1	0.2	0.2	0.3	0.8
Wholesale & retail trade	-0.3	-0.4	-0.5	0.0	0.3
Hotels & restaurants	0.0	-0.2	-0.3	0.1	0.2
Transport, storage & communication	0.0	0.1	0.3	0.3	0.6
Financial intermediation	0.0	1.2	-0.1	0.8	0.4
Real estate, renting & business activities	1.5	1.5	1.9	1.2	1.5
Public administration	-0.1	0.1	-0.1	0.4	0.5
Education	0.0	0.1	0.1	0.1	0.2
Health & social work	0.2	0.3	0.3	0.1	0.4
Other community, social & personal services	2.1	2.1	3.0	0.7	0.6
Gross value added	**3.5**	**4.8**	**5.9**	**5.3**	**5.7**
Net taxation on production and imports	**2.2**	**0.6**	**0.8**	**0.9**	**0.3**
Annual nominal GDP growth (%)	**5.7**	**5.4**	**6.7**	**6.2**	**6.0**
Annual nominal GNI growth (%)	**7.1**	**5.3**	**12.2**	**5.8**	**5.9**

Source: NSO.

electronics sub-sector. Nevertheless, employee compensation in the manufacturing sector increased substantially during the second quarter.

Gross national income

Gross national income (GNI), which tops up the GDP with net income from abroad, grew at a nominal rate of 5.9% in the second quarter, marginally below the GDP growth rate.

Manufacturing

On the basis of the NSO survey of manufacturing enterprises, sales by the manufacturing sector rose by Lm6.5 million, or 2.6%, during the second quarter when compared to the same quarter of 2006.[1]

Export sales went up by Lm6.7 million, or 3.3% above the level registered in the second quarter of the previous year. An increase of Lm3.4 million

Table 4.3
SELECTED MANUFACTURING INDICATORS
Year-on-year change

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Total sales (Lm millions)	**20.7**	**24.0**	**31.3**	**13.2**	**6.5**
Exports (Lm millions)	**21.0**	**24.4**	**31.6**	**11.8**	**6.7**
Radio, TV & communication equipment	18.4	31.0	32.5	-2.5	3.4
Pharmaceuticals	5.4	3.7	5.0	3.0	1.4
Electrical machinery & apparatus	-1.9	-4.5	-4.4	4.2	1.0
Food & beverages	3.0	-2.5	1.2	0.2	-0.8
Printing & publishing	0.0	3.7	-0.4	5.1	1.6
Clothing, textiles & leather	-3.9	-6.2	-6.0	-1.1	-1.3
Games & toys	-0.1	-1.9	1.4	2.3	1.4
Other	0.1	1.2	2.4	0.6	0.1
Local sales (Lm millions)	**-0.3**	**-0.4**	**-0.3**	**1.3**	**-0.2**
Electrical machinery & apparatus	0.3	0.3	0.0	-0.1	-0.2
Food & beverages	-0.8	-1.9	0.1	1.0	-0.4
Printing & publishing	-0.1	0.1	0.2	0.5	0.6
Furniture	0.3	-0.1	0.0	-0.5	-0.4
Other	0.0	1.2	-0.6	0.4	0.2
Investment (Lm millions)	**4.1**	**2.4**	**-1.6**	**5.1**	**-5.7**
Radio, TV & communication equipment	5.9	3.1	-4.3	-4.9	-7.1
Pharmaceuticals	0.1	0.7	0.4	1.2	-0.6
Beverages	0.2	0.0	0.5	3.8	0.7
Printing & publishing	-0.8	-0.7	0.7	6.3	0.1
Other	-1.3	-0.7	1.1	-1.3	1.2
Employment	**-1,092**	**-875**	**-637**	**-85**	**4**
Wages per employee (%)	**5.3**	**7.6**	**4.4**	**3.9**	**5.5**

Source: NSO.

[1] Following the cessation of operations by a firm in the tobacco sector and for the purpose of preserving respondents' privacy, the tobacco sub-sector is not included in current and past survey results.

in foreign sales by the radio, TV & communication equipment sub-sector reversed the downturn experienced in the previous quarter. Other significant export gains were recorded by firms in printing & publishing, pharmaceuticals and games & toys. At the same time, sales by locally-oriented manufacturing firms were marginally lower (see Table 4.3).

The NSO survey also indicated that the contractionary trend in employment observed in recent quarters was halted in the three months to June. Consequently, at the end of the second quarter the employment total was almost on a par with its year-ago level. There were job gains in the electrical machinery, pharmaceutical and radio, TV & communication equipment sub-sectors, but these were offset by continued employment attrition in the food & beverages, clothing and medical & precision equipment industries. Meanwhile, the annual gross wage bill of the sampled enterprises was up by Lm1.6 million, yielding an increase of 5.5% in wages per employee.

With regard to investment, the survey shows that this was down by Lm5.7 million compared with the second quarter of 2006. The fall mainly reflected reduced capital spending by the radio, TV and communication equipment sub-sector.

Tourism

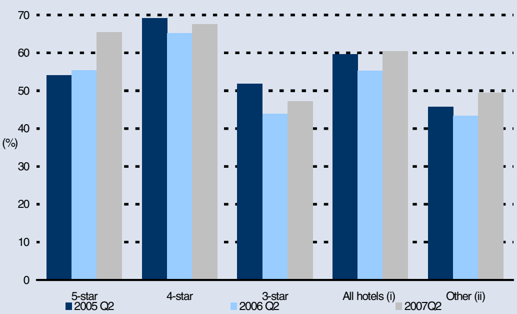
The recovery in the tourism sector continued into the second quarter, with a 6.0% rise in departures. A higher number of visitors from the UK, Scandinavia and the US was recorded and this compensated for the drop in the number from

Table 4.4
TOURISM ACTIVITY
Year-on-year change (%)

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
Departures	**-1.7**	**-6.7**	**-2.1**	**7.0**	**6.0**
UK	-5.8	-20.2	-6.4	1.7	7.7
Germany	-6.6	-15.7	-9.3	-1.5	-7.4
France	-8.7	-19.5	-6.6	-0.9	-18.7
Italy	41.9	21.3	38.4	33.4	-1.6
Others	-0.7	6.4	1.1	14.1	17.7
Expenditure	**1.5**	**0.2**	**-4.0**	**9.9**	**0.7**
Package	6.1	5.0	-5.4	-0.4	-16.7
Non-package: airfares	-7.8	-12.3	-1.1	26.5	32.8
Non-package: accommodation	-14.7	-11.2	-22.7	9.3	31.2
Other	2.0	-0.4	1.6	18.1	10.7
Nights stayed	**0.8**	**-2.6**	**-7.7**	**-3.5**	**-3.6**
Cruise passengers	**23.7**	**42.5**	**8.4**	**2.0**	**29.0**

Source: NSO.

Chart 4.3
OCCUPANCY RATES



(i) - Includes 2, 3, 4, 5-star hotels (ii) - Includes guesthouses, hostels and holiday complexes
Source: NSO.

other major source markets, including Germany, Italy and France (see Table 4.4).[2]

During the period under review, the total number of nights stayed by tourists declined by 3.6% when compared to the same period a year earlier. Consequently, the average stay per tourist fell by 0.8 days to 8.1 days. The growth in low-cost air transport has prompted more frequent travel but of a shorter duration. The decline in the average length of stay was recorded in all accommodation categories but especially in the private accommodation segment. Partly reflecting a reduced bed stock, occupancy rates rose by 5.1 percentage points to 58.3% during the second quarter of 2007. The highest rise, 19.2 percentage points, was recorded in the 2-star category, where the bed stock shrank by 11.7%. However, in the 5-star category, where the availability of beds increased by 5.0%, the occupancy rate rose by 10.1 percentage points to 65.4%. 'Other' accommodation establishments also registered positive results, with their occupancy rate going up by 6.2 percentage points to 49.5% (see Chart 4.3).

Surveys carried out by the hospitality industry similarly reported higher occupancy rates across all hotel segments, with the sharpest increase recorded by 5-star hotels.[3] At 75.5%, the overall hotel occupancy rate was 3.6 percentage points higher than in the second quarter of 2006. Average achieved room rates, which represent accommodation revenue per room net of VAT, increased across all hotel categories.

Cruise liner activity continued to expand during the second quarter, with arrivals rising at an annual rate of 29.0%. The strong performance of this industry, which contributes substantially to tourism earnings, provides further confirmation that Malta is establishing itself as a major port of call for Mediterranean cruise ships.

For the first half of the year tourist numbers were 6.4% higher than a year earlier, boosting overall expenditure by 3.7%. A decline in package expenditure was outweighed by higher non-package and other spending.

The recovery in the tourist industry continued in July, in terms of the primary indicators, including tourist numbers and expenditure.

Labour market[4]

Labour Force Survey

Labour market indicators based on LFS data continued to manifest a clear improvement during the second quarter of 2007, with both the labour force and employment growing strongly. Over the twelve months to June, the labour supply expanded by 1.3%, while the employed population grew at a faster rate of 2.5%. As a result, the unemployment rate fell to 6.6%, from 7.7% a year earlier (see Table 4.5).

Employment growth was mainly in the full-time

[2] As of January 2007, the NSO compiles tourism indicators that measure departures by air and sea. The latter category does not include cruise passengers.
[3] Malta Hotels and Restaurants Association *Survey,* September 2007. This survey covers only 3-, 4- and 5-star hotels.
[4] The cut-off date for data in this section is 9 October 2007.

Table 4.5
LABOUR MARKET INDICATORS BASED ON THE LFS

	2006			2007		*Year-on-year change (%)*
	Q2	Q3	Q4	Q1	Q2	Q2 2007
Labour supply	**164,553**	**164,821**	**163,752**	**164,905**	**166,653**	**1.3**
Unemployed	12,739	11,129	11,009	11,216	11,073	-13.1
Employed	151,814	153,692	152,743	153,689	155,580	2.5
By type of employment:						
Full-time	136,522	138,017	136,919	137,642	138,391	1.4
Full-time with reduced hours[1]	1,652	1,696	1,931	2,145	2,593	57.0
Part-time	13,640	13,979	13,893	13,902	14,596	7.0
By economic sector:						
Private	103,500	107,954	107,538	108,049	109,467	5.8
Public	48,314	45,738	45,205	45,640	46,113	-4.6
Activity rate (%)	**58.9**	**59.6**	**59.1**	**59.2**	**59.6**	
Male	79.2	79.2	79.5	79.8	78.8	
Female	38.4	39.7	38.4	38.4	40.3	
Employment rate (%)	**54.3**	**55.5**	**55.1**	**55.1**	**55.7**	
Male	74.0	74.3	74.5	74.5	74.3	
Female	34.5	36.5	35.4	35.5	36.8	
Unemployment rate (%)	**7.7**	**6.8**	**6.7**	**6.8**	**6.6**	
Male	6.5	6.1	6.2	6.6	5.6	
Female	10.3	8.1	7.8	7.3	8.7	
Average annual gross salary year-on-year change (%)	**2.6**	**3.9**	**3.5**	**2.4**	**2.1**	

[1]This estimate may under-represent the actual figure.
Source: NSO.

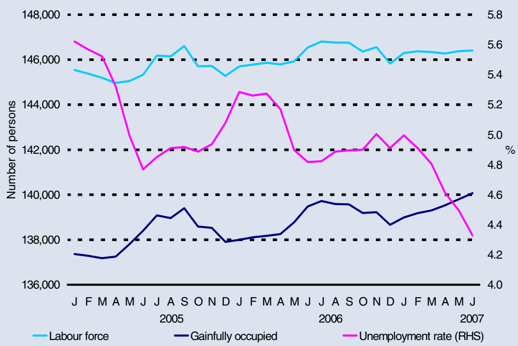
category, which increased by 1,869, or 1.4%, although part-time jobs also registered a rise. In terms of sectoral employment shares, the real estate, renting & business activities sector, the transport, storage & communication sector and the hotels & restaurants category were the largest sources of growth. The shift from the public to the private sector continued, with employment in the former contracting by 4.6% and that in the latter reporting a growth rate of 5.8%, in part reflecting the privatisation of a number of companies.

Both the activity and the employment rates were higher when compared to the previous quarter and to the June quarter of 2006. An increase in the activity rate for women, to 40.3%, was accompanied by a decline in the male ratio to 78.8%. With regard to wage developments, the average gross annual salary increased by 2.1% over the previous year, driven mainly by higher salaries in the wholesale & retail trade and financial intermediation.

Administrative records

Administrative records compiled by the ETC for June 2007 indicate that the full-time gainfully occupied population increased throughout the first six months of the year, ending the second quarter marginally above the year-ago level. The number of registered unemployed declined by

Chart 4.4
LABOUR MARKET TRENDS



Source: ETC.

Chart 4.5
REGISTERED UNEMPLOYED

Source: NSO.

just over 10%, while the unemployment rate dropped to a low of 4.3%, 0.5 percentage points below the rate recorded in June 2006. As a result of largely offsetting changes in the employed population and the number of unemployed, the labour supply was almost unchanged from a year earlier (see Chart 4.4 and Table 4.6). There was also an increase in part-time employment, which was up by 7.2% on a year earlier.

The data compiled by the ETC also show a shift towards private sector employment, which in turn was characterised by a further reallocation from direct production to market services.

Table 4.6
LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS

	2006			2007		*Year-on-year change* %
	June	Sep.	Dec.	Mar.	June	June 2007
Labour supply	**146,541**	**146,755**	**145,827**	**146,336**	**146,404**	**-0.1**
Gainfully occupied	139,480	139,571	138,666	139,303	140,067	0.4
Registered unemployed	7,061	7,184	7,161	7,033	6,337	-10.3
Unemployment rate (%)	**4.8**	**4.9**	**4.9**	**4.8**	**4.3**	
Private sector	**95,886**	**96,069**	**95,382**	**96,242**	**97,128**	**1.3**
Direct production	33,167	33,085	32,669	32,989	33,002	-0.5
Market services	62,719	62,984	62,713	63,253	64,126	2.2
Public sector	**43,070**	**42,974**	**42,827**	**42,614**	**42,489**	**-1.3**
Temporary employment	**524**	**528**	**457**	**447**	**450**	**-14.1**
Part-time jobs	**43,188**	**43,810**	**43,900**	**44,358**	**46,318**	**7.2**
Primary	24,220	24,499	24,355	24,704	26,168	8.0
Secondary [1]	18,968	19,311	19,545	19,654	20,150	6.2

[1] This category includes employees holding both a full-time job and a part-time job.

Source: NSO, from data provided by the ETC.

Table 4.7

INFLATION RATES OF COMMODITY SECTIONS IN THE RPI

	Year-on-year change (%)			*Average change (%)*	
	Apr.	May	June	2007 Q1	2007 Q2
Food	1.2	1.5	3.0	2.3	1.9
Beverages & tobacco	1.8	1.2	1.1	1.7	1.4
Clothing & footwear	-3.3	-4.4	-4.2	-2.8	-3.9
Housing	2.2	2.3	2.3	3.3	2.2
Water, electricity, gas & fuels	-12.0	-10.6	-10.6	-1.7	-11.1
Household equipment & house maintenance costs	0.7	0.4	0.2	0.8	0.4
Transport & communications	-1.6	-2.5	-2.1	-0.6	-2.1
Personal care & health	1.4	1.6	1.6	1.9	1.6
Recreation & culture	1.9	1.6	1.5	1.9	1.7
Other goods & services	0.1	-0.5	-0.4	1.1	-0.3
RPI	**-0.2**	**-0.4**	**0.0**	**0.9**	**-0.2**

Source: NSO; averages computed by the Bank.

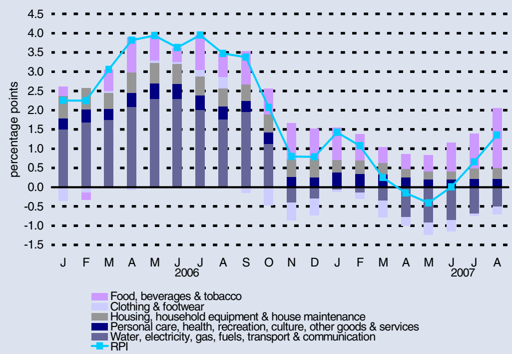
The downward trend in the number of unemployed persons was interrupted in July and August, mainly as a result of layoffs in the textile industry. Nevertheless, the August unemployment total was 8.1% down from its year-ago level to 6,590 (see Chart 4.5).

Consumer prices

Retail Price Index

RPI inflation extended its decline to reach a twelve-month moving average rate of 1.4% in June, a full percentage point below the level reported in March. Measured on a year-on-year basis, the inflation rate was negative throughout the second quarter, declining to an average of -0.2% from 0.9% in the first quarter (see Table 4.7).

Chart 4.6
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION

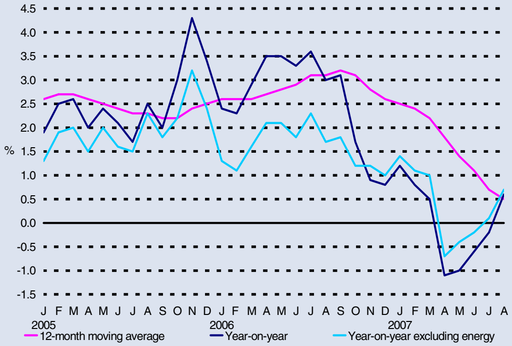


Source: NSO.

Each major component of the index registered either a lower growth rate or a larger decline than in the previous quarter. In particular, the two fuel-related categories – the water, electricity, gas & fuels sub-index and the transport & communication sub-index – reported annual declines of 11.1% and 2.1%, respectively. Together, these two sub-indices contributed -0.8 percentage points to the overall inflation rate (see Chart 4.6). Moreover, the downward path of clothing and footwear prices persisted for the third consecutive quarter, with the inflation rate in that sub-index dipping to an average of -3.9% in the June quarter.

Food prices increased at an average annual rate of 1.9% during the quarter, although the year-on-year inflation rate for this sub-index edged upwards over the course of the quarter, reaching 3.0% in

Chart 4.7
HICP INFLATION RATES



Source: Eurostat.

Chart 4.8
RESIDENTIAL PROPERTY PRICES
(% change on a year earlier)

June. The available evidence suggests that prices of vegetables, bread and cereals picked up towards the end of the quarter. In percentage point terms, the food category contributed 0.5 to the overall inflation rate during the quarter.

Among the RPI's sub-indices, the fastest average growth rate was reported in the housing category, although the average inflation of 2.2% in that sub-index was 1.1 percentage points lower than the previous quarter's.

The absence of significant inflationary pressures in the second quarter is supported by the continuing decline in the Central Bank of Malta's core inflation measure, which fell from 1.6% in March to 1.0% in June.

Nevertheless, data for July and August show a slight reversal of the downward trend in consumer prices as the annual inflation rate edged up to 1.4% in August, mainly reflecting higher food prices.

Harmonised Index of Consumer Prices

In parallel with the developments in the RPI, HICP inflation continued its deceleration to a twelve-month moving average rate of 1.1% in June, while the year-on-year change fell to -0.9% over the quarter (see Chart 4.7). Movements in the HICP's sub-indices generally reflected those of the RPI. However, restaurant & hotel prices, which constitute a major component of the HICP but do not have a significant weight in the RPI, fell on average at an annual rate of 3.1% during the quarter. A primary contributor to this decline was the 6.6% drop in hotel accommodation prices.

More recent data suggested the continuation of the low inflation environment, with the year-on-year rate edging up moderately to 0.6% in August.

Residential property prices

Advertised residential property prices were stable in the second quarter, as the annual growth rate of asked prices declined to 0.2% from 3.1% in the previous quarter (see Chart 4.8).

The second quarter's decline was mainly attributed to developments in the prices of finished flats and town houses, which account for over a half of sampled properties. In these two categories prices fell by 0.4% and 4.6% respectively, on an annual basis. Similarly, prices for finished maisonettes contracted for the third consecutive quarter, falling by 4.9%.

Price trends in other housing categories were mixed. Advertised prices for flats and maisonettes in shell form and for houses of character grew at a slower rate than in the first quarter. In contrast, prices for terraced houses accelerated by 8.3% while those of villas remained unchanged.

Recent data indicate that the slowdown in house prices continued during the September quarter.

Meanwhile, the NSO property price index reported a moderate pick-up in the first quarter, when it rose by 4.6% on a year earlier, somewhat faster than the Bank's estimate of a 3.1% increase.[5]

[5] The two indices differ in both method and coverage. In particular, the NSO's index relates to contract prices, whereas the Bank's relates to advertised selling prices. Moreover, the former excludes villas, which were too few to be included in the index.

Box 2: BUSINESS AND CONSUMER CONFIDENCE

Business perceptions survey

The Bank's survey of 160 firms, mainly providers of services, offered further evidence of an output increase between the June and September quarters.[1] Profits and employment were also reported to have risen. With regard to costs, half of the respondents indicated that these were unchanged while most of the remainder reported an increase. On balance there was a decline in output prices, although more than three-fourths of respondents reported no change.

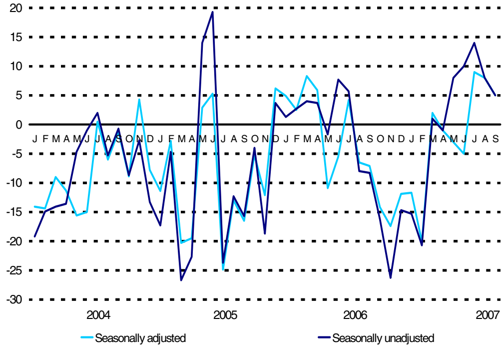
Looking ahead to the December quarter, respondents generally anticipated further growth in turnover. In addition, profits were expected to rise marginally despite further cost increases. On balance, firms planned to reduce selling prices, though most respondents were set to keep them unchanged. Moreover, surveyed firms indicated that they were considering additional employment during the quarter.

Over the following twelve months, half of the respondents projected an unchanged workforce, whereas a further 40% anticipated an increase. In addition a majority of respondents were planning to increase their capital expenditure.

Industrial confidence

According to a survey conducted by the European Commission, optimism improved in the manufacturing sector during the second quarter of 2007. The seasonally-unadjusted measure of industrial confidence climbed from 1 in March to 10 in June 2007 (see Chart 1). This reflected improved order books and, to a lesser extent, higher production levels. At the same time, stock levels were stable. The upturn reflected seasonal developments. In fact, as Chart 1 also shows, the seasonally-adjusted indicator of confidence turned negative during the second quarter, falling to -5 in June from 2 in March.

Chart 1
INDUSTRIAL CONFIDENCE INDICATOR



Source: European Commission.

In the intermediate goods sector sentiment turned positive, reflecting higher order books and improved production expectations for the following quarter.[2] Increased confidence was also reported by producers of consumer goods, reflecting bigger order books and reduced inventories of finished goods. However, production expectations slipped from the previous quarter although they remained positive. In the investment goods sector, sentiment remained stable as the deterioration in order books was compensated for by the drawdown in stocks and increased production expectations.

More recent data on industrial confidence indicate that the unadjusted index rose further in July but declined in the following two months, although sentiment remained in positive terrain.

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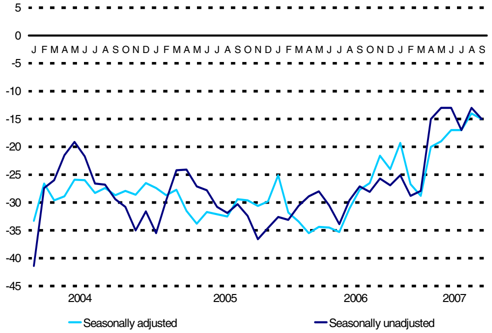
1 Fieldwork was carried out in August and September 2007.

2 The intermediate goods category includes the semiconductors industry.

Chart 2
CONSUMER CONFIDENCE INDICATOR



Source: European Commission.

The adjusted indicator bounced back into positive territory in July, but declined in August and September.

Consumer confidence

Consumer confidence improved over the second quarter of 2007, with the seasonally-unadjusted index of consumer confidence in Malta published by the European Commission going up by 15 points to -13 (see Chart 2). The seasonally-adjusted measure showed a more moderate pick-up, with the index rising 12 points over the quarter to -17 in June.

This surge in confidence reflected improved expectations with respect to the financial situation of consumers for the following twelve months coupled with an improved ability to save. Perceptions of the general economic situation and unemployment prospects were also more favourable.

Later data released by the European Commission for the third quarter indicated a decline in the unadjusted measure of consumer confidence to -15 in September, but also an improvement in the adjusted index.

5. THE BALANCE OF PAYMENTS AND THE MALTESE LIRA

During the second quarter of 2007, the deficit on the current account of the balance of payments continued to narrow on a year-on-year basis, as the merchandise trade gap contracted further. The balance on the capital and financial account turned negative, however, reflecting lower net direct investment inflows, which in the second quarter of 2006 had been boosted by privatisation proceeds and capital injections into banks.[1] The contraction in the combined balances on the current and the capital and financial accounts led to a Lm33.3 million decline in reserve assets.

A marked drop in the merchandise trade gap over the first half of the year led to an improvement in the current account deficit. In the same period, however, the capital and financial account recorded a negative balance. Consequently, reserve assets fell by Lm94.8 million over the first six months of the year.

The Maltese lira remained unchanged at the ERM II central parity rate of Lm0.4293 per euro throughout the second quarter, in line with the

Table 5.1
BALANCE OF PAYMENTS SUMMARY[1]

Lm millions

	Q2			
	2006		2007	
	credit	debit	credit	debit
Current account balance		**47.5**		**27.2**
Goods and services		38.3		15.5
Goods		121.9		87.8
Services	83.7		72.2	
Transport	11.1		13.1	
Travel	45.2		45.7	
Other services	27.4		13.5	
Income		13.5		15.4
Current transfers	4.2		3.7	
Capital and financial account balance[2]	**104.4**			**37.1**
Capital account balance	12.5		0.6	
Financial account balance	91.8			37.7
Direct investment	359.8		62.0	
Portfolio investment		706.3		183.0
Financial derivatives		95.3	10.8	
Other investment	533.6		72.4	
Movements in reserves[3]		**71.2**	**33.3**	
Net errors and omissions	**14.3**		**31.1**	

[1] Provisional.
[2] Excludes movements in official reserves.
[3] Excludes revaluation adjustments.
Source: NSO.

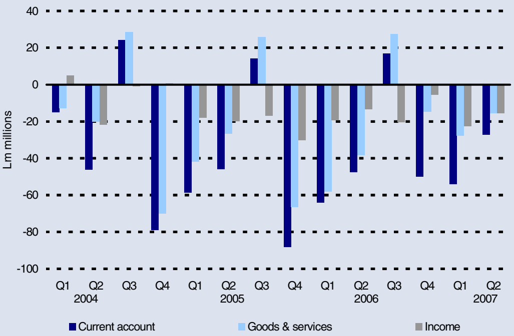
[1] The analysis of the capital and financial account in this Chapter excludes movements in reserve assets.

unilateral commitment by the Maltese authorities. On 10 July 2007, the European Council approved Malta's entry into the euro area and set the central parity rate as the permanent conversion rate for the Maltese lira into euro. Moving in tandem with the euro, the lira continued to gain ground against the US dollar and the Japanese yen, but weakened against sterling.

The current account

The trend improvement in the current account balance evident since mid-2006 continued into the second quarter of 2007. The deficit on the current account narrowed to Lm27.2 million from Lm47.5 million a year earlier (see Table 5.1). The improvement was driven entirely by the contraction in the merchandise trade gap. The remaining items of the current account deteriorated: there was a smaller surplus on services, a rise in net outflows on income and a marginal decline in the net inward transfers component (see Table 5.1 and Chart 5.1).

Chart 5.1
CURRENT ACCOUNT: BALANCES ON MAIN COMPONENTS



Source: NSO.

Merchandise trade

According to balance of payments data, the trade gap narrowed by Lm34.1 million, or 28.0%, on a year earlier during the second quarter, with imports declining significantly and exports edging up. Customs data showed similar trends, with the merchandise trade deficit falling by Lm30.9 million, or 21.1% (see Table 5.2).[2]

Table 5.2
MERCHANDISE TRADE
(based on Customs data)

Lm millions

	Q2		Change	
	2006	2007[1]	Amount	%
Imports	**385.6**	**354.9**	**-30.7**	**-8.0**
Industrial supplies	189.8	169.5	-20.3	-10.7
Capital goods & others	57.7	46.3	-11.5	-19.9
Consumer goods	96.8	95.0	-1.7	-1.8
Fuel and lubricants	41.3	44.0	2.7	6.5
Exports	**239.1**	**239.4**	**0.3**	**0.1**
Trade deficit	**146.4**	**115.5**	**-30.9**	**-21.1**

[1] Provisional
Source: NSO.

[2] In the compilation of the balance of payments, Customs statistics on merchandise trade are adjusted for coverage, valuation and timing. Customs data incorporate insurance and freight costs, which are reported in the services account in the balance of payments. As a result, the figures for imports and exports of goods shown in Table 5.1 do not tally with those of Table 5.2.

Imports were down markedly, falling by Lm30.7 million, or 8.0%, with all categories, except fuel, declining. A decrease in imports of industrial supplies accounted for around two-thirds of the overall drop. This partly reflected lower imports of fish for re-export, which were exceptionally high a year earlier, and a drop in purchases of machinery and transport equipment. Imports of capital goods contracted sharply, while those of consumer goods declined moderately.

Exports were, at Lm239.4 million, just 0.1% higher compared to the second quarter of 2006. Thus, whereas sales of chemicals, mainly pharmaceuticals, printed matter and mineral fuels rose, exports of electrical machinery and transport equipment declined. Meanwhile, higher exports of fuel, since the beginning of the year, reflected the capacity expansion of oil bunkering facilities in Malta.

In July, however, the merchandise trade gap widined by Lm7.2 million, or 14.6%, compared to the same month in 2006, as imports rose more than exports. Imports increased on account of higher purchases of fuel and capital goods, while increased sales of chemicals and of machinery & transport equipment boosted exports.

Services, income and transfers

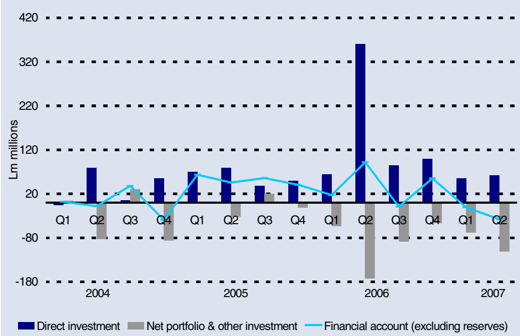
The positive balance on services fell by Lm11.4 million, or 13.7%, on a year-on-year basis during the second quarter of 2007.[3] Lower net inflows on the other services category, partly reflecting payments made by the corporate sector, offset a small rise in the positive balance on transport. With increased receipts from tourism being matched by higher spending by residents travelling abroad, the balance on the travel account was stable.

On the income account, net outflows were up by Lm2.0 million, or 14.7%, on a year earlier as higher profits by non-residents on their direct investment in Malta and interest paid on foreign borrowing outweighed increased portfolio earnings by residents. In the period reviewed, inflows from international transfers fell by Lm0.5 million, or 12.2%, over the comparable period in the previous year.

The capital and financial account

Net outflows on the capital and financial account increased substantially during the second quarter of 2007, with the balance shifting from a surplus of Lm104.4 million to a shortfall of Lm37.1 million (see Chart 5.2). The swing was mainly due to a base effect in the financial account, as direct investment inflows were exceptionally high in the second quarter of 2006, fuelled by privatisation proceeds and an increase in the equity capital of international banks. The latter, in turn, was channelled into foreign portfolio investments. As a result, during the period reviewed, net outflows on the combined portfolio and other investment account declined when compared to a year earlier. Moreover, financial derivatives, which are heavily

Chart 5.2
FINANCIAL ACCOUNT



Source:NSO

3 The NSO has revised the treatment of the proceeds from lotteries and gaming activities. Whereas the difference between amounts played or betted and the wins paid out was previously treated as a transfer, this is now being treated as a service.

influenced by the operations of international banks, generated higher net inflows. Meanwhile, on the capital account net inflows fell sharply, reflecting a shift in the nature of EU funding away from automatic budgetary compensation towards funding related to the implementation of projects.

Reflecting these developments in the current account and the capital and financial account, reserve assets fell by Lm33.3 million during the quarter as against an increase of Lm71.2 million a year earlier. Errors and omissions remained positive but increased from Lm14.3 million to Lm31.1 million.[4]

Year-to-date developments

During the first half of 2007, the current account deficit narrowed by Lm30.2 million, or just over a quarter, over the same period in the previous year, entirely driven by a marked improvement in the merchandise trade gap (see Table 5.3). As a proportion of GDP, the deficit contracted from

Table 5.3
BALANCE OF PAYMENTS SUMMARY[1]

Lm millions

	Q1-Q2			
	2006		2007	
	credit	debit	credit	debit
Current account balance		**111.4**		**81.2**
Goods and services		96.2		43.4
Goods		235.9		167.9
Services	139.7		124.4	
Transport	15.0		20.3	
Travel	60.1		61.9	
Other services	64.6		42.2	
Income		32.7		38.2
Current transfers	17.5		0.4	
Capital and financial account balance[2]	**132.7**			**46.1**
Capital account balance	23.5		2.2	
Financial account balance	109.1			48.3
Direct investment	424.0		117.5	
Portfolio investment		859.0		248.4
Financial derivatives		88.5	12.9	
Other investment	632.7		69.7	
Movements in reserves[3]		**15.3**	**94.8**	
Net errors and omissions		**5.9**	**32.5**	

[1] Provisional.
[2] Excludes movements in official reserves.
[3] Excludes revaluation adjustments.
Source: NSO.

[4] Negative errors and omissions imply an underestimation of the current account deficit and/or an overestimation of net inflows on the capital and financial account. Conversely, an overestimation of the current account deficit and/or an underestimation of net capital and financial account inflows results in positive errors and omissions.

Table 5.4
MERCHANDISE TRADE
(based on Customs data)

Lm millions

	Q1-Q2		Change	
	2006	2007[1]	Amount	%
Imports	**735.1**	**687.7**	**-47.4**	**-6.4**
Industrial supplies	344.9	328.8	-16.2	-4.7
Capital goods and others	137.8	100.9	-36.9	-26.8
Consumer goods	182.3	183.6	1.4	0.8
Fuel and lubricants	70.2	74.4	4.2	6.0
Exports	**449.8**	**469.0**	**19.2**	**4.3**
Trade deficit	**285.4**	**218.7**	**-66.6**	**-23.3**

[1] Provisional

Source: NSO.

10.8% to 7.4%. The surplus on current transfers declined, as did that on services, while net income outflows increased. Meanwhile, net outflows were recorded on the capital and financial account, in sharp contrast to the surplus registered in the comparable period a year earlier.

The visible trade deficit narrowed by Lm68.0 million, or 28.8%, during the first half of 2007, spurred by increased exports and a fall in imports. This closely mirrored Customs data for the same period, which showed the trade gap contracting by Lm66.6 million, or 23.3%, compared with the first six months of 2006 (see Table 5.4).

The latter showed imports dropping by Lm47.4 million, or 6.4%, mostly attributable to lower purchases of capital goods. These were exceptionally high during the same period of 2006, reflecting large investment-related imports of seacraft and machinery. Imports of industrial supplies also fell, mirroring developments in the second quarter. Conversely, fuel imports were up over the six-month period to June. Imports of consumer goods increased marginally.

Meanwhile, exports grew by Lm19.2 million, or 4.3%. Sales of printed matter and of chemicals, mostly pharmaceuticals, boosted export receipts. Moreover, exports of mineral fuels also posted gains in the first six months of 2007.

A decline in net inflows on ‘other services’, partly mirroring payments by the corporate sector, offset strong gains on transport and travel and brought about a drop of Lm15.2 million in the surplus on services. Net income outflows increased, as higher profits on non-resident direct investment wholly offset increased portfolio earnings by residents. Meanwhile, net tax refunds to international trading companies registered in Malta drove down the positive balance on the transfers component.

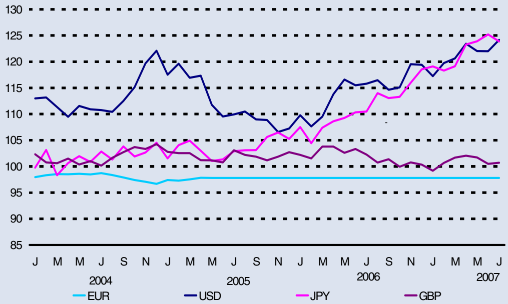
The balance on the capital and financial account shifted to a negative Lm46.1 million, from a surplus of Lm132.7 million in the comparable period of 2006. Net capital account inflows fell sharply as receipts of EU grants contracted, reflecting the project-related nature of financial assistance received from the EU under the 2007-2013 financial framework. On the financial account, net outflows were recorded as against net inflows a year earlier. The reversal reflected a fall in direct investment inflows, which were exceptionally strong a year earlier. On the other hand, net outflows on the combined portfolio and other investment account diminished, largely mirroring the operations of the international banking sector, while a swing in the derivatives balance generated additional inflows.

Against this backdrop, reserve assets declined by Lm94.8 million during the first six months of 2007, as against an increase of Lm15.3 million a year earlier. Errors and omissions turned positive and stood at Lm32.5 million.

The Maltese lira

During the second quarter of 2007, the Maltese lira remained unchanged at the central parity rate of MTL/EUR 0.4293 against the euro in ERM II (see Chart 5.4). Moving in line with the euro, the lira extended its upward trend against the US dollar and the Japanese yen, rising by 1.1% and 5.1%, respectively. However, after appreciating against

Chart 5.3
EXCHANGE RATE MOVEMENTS OF THE MALTESE LIRA AGAINST SELECTED CURRENCIES*
(index of end-of-month rates, January 2003 =100)



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

sterling in the previous quarter, the lira lost 1.2% against the UK currency between end-March and end-June (see Table 5.5). Thus, on the basis of quarterly average exchange rates, the lira was up by 7.3% on the year against the US dollar, while in terms of the Japanese yen it rose by 13.2%. Against the pound sterling, however, it fell by 1.3%.

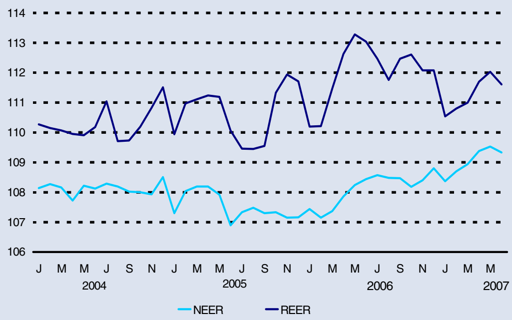
In July the lira continued to gain ground against

Table 5.5
MALTESE LIRA EXCHANGE RATES AGAINST SELECTED CURRENCIES

Period	EUR[1]	USD	GBP	JPY
Average for Q2 2007	0.4293	3.1400	1.5813	379.1
Average for Q2 2006	0.4293	2.9272	1.6027	334.9
% appreciation(+)/depreciation (-) of the MTL against the respective currency	0.0	7.3	-1.3	13.2
Closing rate on 28.06.2007	0.4293	3.1367	1.5666	385.4
Closing rate on 30.03.2007	0.4293	3.1014	1.5850	366.7
% appreciation(+)/depreciation (-) of the MTL against the respective currency	0.0	1.1	-1.2	5.1

[1] As from 1 April 2005, the Central Bank of Malta started to quote the Maltese lira against the euro exclusively in terms of units of Maltese lira per euro. The other currencies, i.e. the USD, the GBP and the JPY, are quoted per one Maltese lira.

Chart 5.4
REAL AND NOMINAL EFFECTIVE EXCHANGE RATE INDICES FOR THE MALTESE LIRA
(1995 = 100)



the US dollar, moving up by 1.8%. It also recovered against the pound, gaining 0.2%. Its upward trend against the yen, however, was interrupted, as the local unit declined by 1.1% in yen terms.

After having fallen in the last quarter of 2006, the nominal effective exchange rate (NEER) of the Maltese lira extended its general upward trend into the second quarter of 2007 (see Chart 5.4). Between March and June 2007, the NEER rose by 0.3%, reflecting its fixed link to the euro, which was appreciating strongly against the US dollar and the yen. The real effective exchange rate (REER) also rose during the same period. The lira's nominal appreciation was reinforced by unfavourable inflation differentials, that is, a slightly faster rise in consumer prices in Malta compared with its main trading partners and competitors. As a result, the REER increased by 0.5%.

6. GOVERNMENT FINANCE[1]

In the first half of 2007 the general government deficit expanded on a year-on-year basis as expenditure grew at a faster pace than revenue. Similarly, albeit to a lesser degree, the deficit on the Consolidated Fund also widened during this period as the absolute rise in expenditure outweighed the increase in revenue. This widening is expected to be reversed in the second half of the year, largely on the basis of an increase in revenue. General government debt increased during the first half of the year.

General government balance[2]

In the second quarter of 2007, the general government deficit continued to widen, expanding by Lm6.9 million over a year earlier as expenditure grew faster than revenue (see Table 6.1). This led to an increase in the deficit during the first half of the year of Lm15.5 million.

Table 6.1
GENERAL GOVERNMENT BALANCE

Lm millions

	2006	2007	2006	2007	Change	
	Q2	Q2	Q1-Q2	Q1-Q2	Amount	%
Revenue	**216.5**	**217.9**	**403.6**	**406.8**	**3.2**	**0.8**
Taxes on production and imports	80.4	81.9	154.8	159.8	5.0	3.2
Current taxes on income and wealth	60.4	71.7	98.8	114.0	15.2	15.4
Social contributions	40.1	43.4	75.8	80.8	5.0	6.6
Capital and current transfers	19.1	5.8	35.1	9.6	-25.5	-72.8
Other	16.5	15.2	39.1	42.6	3.5	9.0
Expenditure	**226.5**	**234.8**	**451.5**	**470.1**	**18.7**	**4.1**
Intermediate consumption	26.6	32.5	52.5	55.6	3.1	5.9
Compensation of employees	72.4	75.2	145.1	148.6	3.6	2.5
Subsidies	12.3	11.7	19.0	22.5	3.5	18.2
Interest	19.4	13.9	33.6	38.4	4.8	14.2
Social benefits	69.5	73.9	134.5	142.1	7.7	5.7
Gross fixed capital formation	13.8	25.7	38.8	45.8	7.0	18.1
Other	12.6	1.9	28.0	17.1	-10.9	-39.0
Primary balance	9.3	-3.0	-14.2	-24.9	-10.7	-
General government balance	**-10.0**	**-16.9**	**-47.9**	**-63.3**	**-15.5**	**-**

Source: NSO.

[1] The cut-off date for information contained in this Chapter is 22 October 2007.

[2] Captures central government, including extra-budgetary units, and local government. General government data are compiled on an accrual basis. In contrast, the Consolidated Fund captures most of the transactions of central government on a cash basis.

During the first half of 2007, general government revenue expanded by 0.8% on a year earlier. Revenue growth was mainly driven by tax receipts, particularly taxes on income and wealth, though yields from social contributions were also up significantly. However, capital and current transfers fell sharply on account of lower funding received from the EU. This reduction reflects a shift in the nature of EU funding away from automatic budgetary compensation in the years immediately following EU accession towards project-related funding within the financial framework for the period from 2007 to 2013.

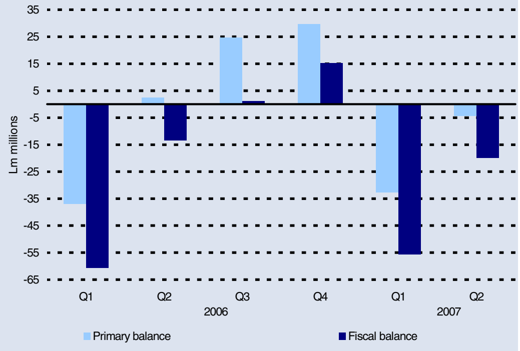
Expenditure was 4.1% higher than a year ago, mainly driven by recurrent spending. All major categories of expenditure increased, with outlays on social benefits and gross fixed capital formation accounting for a significant proportion of the rise. Interest payments and subsidies rose rapidly, with the former reflecting an increase in government debt. Compensation of employees grew at a moderate pace. In contrast, the sale of land, which is recorded as negative spending, dampened 'other' expenditure.

As a result of these developments, the primary deficit, which is obtained by deducting interest payments from expenditure, widened.

Consolidated Fund developments

During the second quarter of 2007 a deficit of Lm20.0 million was registered on the Consolidated Fund. Although this shortfall was smaller than that registered in the previous quarter, in line with the normal seasonal pattern, it was Lm6.6 million more than that recorded in the same period last year (see Chart 6.1). Thus, the deficit on the Consolidated Fund for the first half of 2007 expanded by Lm1.7 million on a year earlier to Lm75.7 million (see Table 6.2). With the absolute rise in expenditure, excluding interest payments, exceeding that in revenue, the primary deficit widened by Lm2.5 million. Going into the third quarter, the deficit remained above the previous year's level, expanding by Lm1.3 million during the first eight months of the year over a year earlier.

Chart 6.1
CONSOLIDATED FUND DEVELOPMENTS



Source: NSO.

Revenue

During the first six months of 2007, revenue was Lm8.8 million, or 2.4%, more than that registered in the same period of 2006 (see Table 6.2). This increase was due to higher tax proceeds, in particular from direct taxes, which offset a drop in non-tax revenue.

Direct tax receipts expanded by Lm19.2 million, or 13.8%, on a year earlier. Despite the adjustment to the tax bands, which effectively lowered personal income tax rates from January 2007, income tax receipts yielded 18.5% more and accounted for more than three-fourths of the increase in direct tax revenue. Social security contributions grew by 7.1%. In part, these increases reflected the sustained growth in nominal incomes during the period and buoyancy in the labour market. Higher yields from capital gains tax, reflecting the increased activity in the real estate sector, and from withholding taxes on bank deposits also boosted income tax revenues.

Indirect tax proceeds expanded by 4.9% over a

Table 6.2
GOVERNMENT BUDGETARY OPERATIONS

Lm millions

	2006 Q2	2007 Q2	2006 Q1-Q2	2007 Q1-Q2	Change Amount	Change %
Revenue	**201.6**	**201.3**	**365.9**	**374.7**	**8.8**	**2.4**
Direct tax	**88.5**	**99.3**	**139.4**	**158.6**	**19.2**	**13.8**
Income tax	55.9	63.7	81.4	96.5	15.1	18.5
Social security contributions[1]	32.6	35.6	57.9	62.0	4.1	7.1
Indirect tax	**82.8**	**85.4**	**161.1**	**169.0**	**7.9**	**4.9**
Value Added Tax	40.4	41.3	80.8	84.1	3.3	4.1
Customs and excise duties	17.9	18.1	32.9	35.1	2.2	6.7
Licences, taxes and fines	24.5	26.0	47.3	49.8	2.5	5.3
Non-tax revenue	**30.3**	**16.6**	**65.5**	**47.1**	**-18.4**	**-28.1**
Central Bank of Malta profits	0.0	0.0	10.0	10.9	0.9	9.0
Other revenue[2]	30.3	16.6	55.5	36.2	-19.3	-34.7
Expenditure	**215.0**	**221.3**	**440.0**	**450.4**	**10.4**	**2.4**
Recurrent expenditure[1]	**190.9**	**195.5**	**388.0**	**403.6**	**15.6**	**4.0**
Personal emoluments	46.8	48.6	94.2	95.8	1.6	1.7
Programmes and other operational expenditure[3]	108.3	115.6	219.6	233.8	14.2	6.5
Contributions to entities	20.0	15.7	34.9	35.6	0.7	1.9
Interest payments	15.8	15.6	39.3	38.4	-0.9	-2.2
Capital expenditure	**24.1**	**25.8**	**52.0**	**46.8**	**-5.2**	**-10.0**
Primary balance[4]	**2.4**	**-4.4**	**-34.7**	**-37.2**	**-2.5**	**-**
Consolidated Fund balance[5]	**-13.4**	**-20.0**	**-74.0**	**-75.7**	**-1.7**	**-**

[1] Government contributions to the social security account in terms of the Social Security Act 1987 are excluded from both revenue and expenditure.

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

[3] Includes programmes & initiatives and operational & maintenance expenditure.

[4] Revenue less expenditure excluding interest payments.

[5] Revenue less expenditure.

Source: NSO.

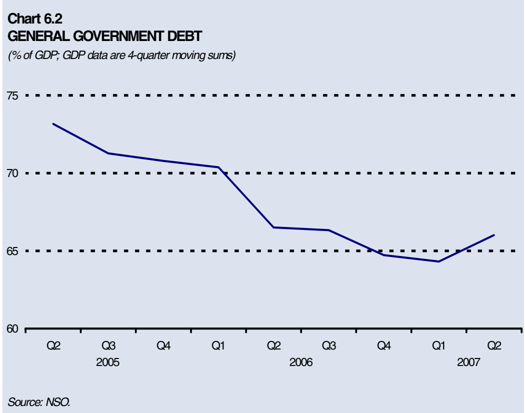
year earlier, which is somewhat faster than the rise in consumer spending, with growth being shared across the main components. An increase in excise duty rates on fuels in April 2006 boosted receipts from this source. Revenues from ‘licences, taxes & fines’ and from VAT were also higher, rising by 5.3% and 4.1%, respectively.

In contrast, non-tax revenue declined by 28.1% entirely on account of lower grants received from the EU. This reduction reflects the shift in the composition of EU grants towards project-related funding referred to already. In contrast, Central Bank of Malta profits transferred to Government increased by 9.0%.

Expenditure

During the first half of 2007, expenditure grew by Lm10.4 million, or 2.4%, compared to the same period of 2006. Recurrent expenditure growth picked up from the first six months of 2006, though this was partly counterbalanced by lower capital outlays. The former rose by 4.0%, with programmes and other operational expenditure accounting for more than four-fifths of the increase. In turn, this mainly reflected higher outlays on social security benefits – mostly on retirement pensions – and higher spending on medical supplies. Government measures to offset the impact of increased energy costs, as announced in the latest Budget, also contributed, adding Lm2.2 million.[3] Spending on personal emoluments and contributions to government entities remained contained. In contrast, interest payments declined marginally.

Capital spending contracted by 10.0% over the comparable period of 2006, partly reflecting lower outlays on the new state hospital, which neared completion.



General government debt[4]

The general government deficit registered during the first half of 2007 was financed entirely by

Table 6.3
GENERAL GOVERNMENT DEBT

Lm millions

	2006			2007	
	Q2	Q3	Q4	Q1	Q2
General government debt[1]	**1,392.1**	**1,407.9**	**1,396.3**	**1,407.0**	**1,465.5**
Securities	1,268.7	1,287.2	1,284.1	1,295.6	1,354.4
Short-term	121.3	153.6	160.5	171.7	196.2
Long-term	1,147.4	1,133.7	1,123.7	1,123.9	1,158.2
Loans	123.4	120.6	112.2	111.4	111.1
Short-term	7.2	8.0	10.1	10.7	10.7
Long-term	116.2	112.6	102.1	100.7	100.4

[1] Short-term debt includes all instruments with an initial term to maturity of one year or less. Long-term debt includes all debt with an initial term to maturity of over one year.
Source: NSO.

[3] In the 2007 Budget, the Government announced that families eligible for non-contributory benefits would be awarded vouchers redeemable on the payment of utility bills to counter the impact of higher water and electricity charges.
[4] Excludes general government debt held by extra-budgetary units, local government and the Sinking Fund.

additional borrowing. During this period general government debt increased by Lm69.2 million to Lm1,465.5 million (see Table 6.3). As a result, the debt-to-GDP ratio edged up to 66.0%, halting the downward trend evident since the beginning of 2005 (see Chart 6.2).[5]

The increase in debt reflected the issue of additional securities, which was evenly split between the short-term and long-term components. Loans outstanding decreased slightly, driven by repayments of long-term foreign borrowings. Consequently, at the end of June 2007 the share of short-term securities, which consist of Treasury bills, in the total outstanding debt stood at 13.4%, which was 1.9 percentage points more than in December 2006. On the other hand, long-term securities accounted for 79.0% of the debt, with their share falling from 80.5% six months earlier.

[5] The GDP figure used in calculating this ratio is a four-quarter sum up to the second quarter of 2007.

7. FINANCIAL STABILTY ANALYSIS

The satisfactory outlook which emerged from the financial stability analysis for 2006 was confirmed during the first half of 2007, sustained by a positive macroeconomic environment. This was reflected in the solid performance of the banks as well as improved resilience to risks in the non-financial sector. The main risks identified in the Bank's *Annual Report* for 2006 remain relevant, with interest rate risk, concentration risks emanating from exposure to property and ensuing risks in the construction sector increasing further. On the other hand, external economic conditions remain favourable in spite of heightened uncertainties arising from the recent financial turmoil caused by problems in the US sub-prime mortgage markets. Thus, although still exposed to certain risks, the banks appear resilient to them in the short-term, with capital ratios remaining above the regulatory minimum.

Regulatory and legislative developments

On an EU level, several stock-taking exercises on liquidity risk management, large exposures and own funds were embarked upon during the first six months of 2007. The effective implementation of the Markets in Financial Instruments Directive (MiFID) remained a priority agenda item for EU regulators. The transparency and regulation of hedge funds was debated in several international fora, with EU Member States generally favouring a principles-based approach as opposed to a rules-based one.

Domestically, the MFSA continued updating its regulations and the relevant legislation, transposing a number of EU Directives related to the financial sector into Maltese law.

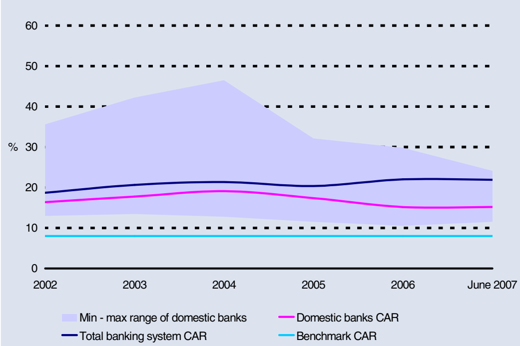
The financial sector

The banking sector[1]

During the first half of the year the Capital Adequacy Ratio (CAR) for the banking sector remained stable and above the regulatory minimum. The CAR of the banking sector as a whole, and that of domestic banks, remained broadly unchanged at 21.9% and 15.2%, respectively, as at June 2007 (see Chart 7.1). The rise in risk weighted assets consequent to credit growth was matched by an expansion in total own funds. These levels indicate that the major domestically-oriented banks are adequately protected against credit risk and have some capital buffer to cater for concentration and other market risks. At the same time, various stress tests undertaken to assess the resilience of banks to remote but plausible shocks suggest that only a sudden and sharp fall in property prices would reduce the current capital buffer significantly.[2]

Acceleration in credit growth in the first half of 2007 – particularly lending to non-residents – was the main driver behind the expansion in the balance sheet of the banking sector. Rising interest rates have somewhat altered the total

Chart 7.1
CAPITAL ADEQUACY RATIOS



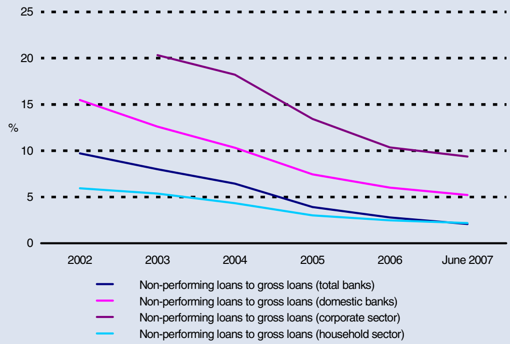
[1] Domestic banks are defined as those banks dealing predominantly with residents. The terms 'credit institutions' and 'banks' are used interchangeably.

[2] The stress test carried out quantifies the banks' resilience to a shock from a sudden 30% fall in property prices.

banking sector balance sheet structure, prompting a shift from fixed income securities to variable rate assets, with the loan portfolio accounting for a larger proportion of total assets (52.5%) at the expense of the securities portfolio. Total assets of the domestically oriented banks also increased, albeit less rapidly than those of the banking sector as a whole, while their balance sheet structure remained relatively stable during the period under review. Household credit demand and property-related loans remain the main drivers of this expansion, heightening further the exposure and concentration risk arising from the property market. At the same time, the growth rate of corporate loans decelerated considerably when compared to the same period a year earlier.

The results of the June 2007 Bank Lending Survey (BLS) carried out by the Central Bank of Malta suggest that banks responded to a changed risk perception of the corporate sector by tightening credit standards. At the same time, although credit standards in respect of mortgage loans have been kept relatively unchanged, banks anticipate tighter standards in the second half of 2007, possibly due to the current deceleration in property prices.[3]

Chart 7.2
NON-PERFORMING LOANS



Despite the increased risk emanating from a higher degree of concentration in relation to real estate related loans, overall credit quality continued to improve, supported by the benign economic scenario. The proportion of non-performing loans (NPLs) held by the domestic banks decreased by 0.8 percentage points to 5.2% of the total, while that reported by the banking sector as a whole went down to 2.1% by June 2007 (see Chart 7.2).

The profitability of the banking sector has

Table 7.1
FINANCIAL SOUNDNESS INDICATORS %

	2002	2003	2004	2005	2006	2007Q2
Regulatory capital to risk weighted assets (CAR)	18.7	20.7	21.3	20.4	22.0	21.9
Regulatory Tier 1 capital to risk-weighted assets (CCAR)	16.1	18.6	18.2	19.0	20.8	20.3
Non-performing loans net of provisions to capital	53.9	38.4	30.0	20.1	12.5	11.9
Non-performing loans to total gross loans	9.7	8.1	6.5	3.9	2.8	2.1
Return on assets (ROA)	0.8	0.9	1.3	1.2	1.2	1.2
Return on equity (ROE)	9.0	10.2	13.9	14.8	12.6	15.0
Interest margin to gross income	71.9	71.5	45.3	48.7	57.9	65.1
Noninterest expenses to gross income	70.5	58.5	47.2	41.4	42.7	38.9
Liquid assets to total assets	24.5	24.4	24.3	21.7	19.7	21.0
Liquid assets to short-term liabilities	54.7	55.8	53.4	58.3	58.1	64.4

Source: Central Bank of Malta.

[3] The BLS periodically gathers information from the major domestic banks in order to assess current developments and the outlook regarding loan demand and credit standards.

improved significantly this year, with the return on equity increasing, largely due to greater asset productivity and enhanced operating efficiency, particularly via cost containment measures. Income concentration increased slightly as banks relied more on interest income.

The liquidity position of the domestic banks remained healthy, although a number of banks registered some weakening in funding liquidity due to stronger growth in loans than deposits. While the banks remained resilient to market risks arising from interest rate and exchange rate movements, they are still exposed to other indirect risks arising from upward movements in interest rates. This is because higher interest rates negatively affect the debt repayment capacity of borrowers – mostly households – possibly leading to a deterioration in asset quality and hitting profitability.

The non-bank financial sector

As at June 2007 the non-bank financial sector accounted for 17% of total financial sector assets.

The investment funds sector accounted for 13% of the total assets of the financial system. Rising interest rates triggered a switch of funds to variable-rate assets, including bank deposits, and exerted downward pressures on domestic investment funds as indicated by a substantial decline in total shareholders' funds managed by the sector. On the other hand, non-domestic funds – particularly professional investor funds (PIFs) – continued to grow and accounted for Lm2.0 billion in total assets by June 2007. The recent international financial market turmoil has raised the overall risk outlook for the sector. Nonetheless, domestic investment funds were hardly affected by the turbulence abroad.

The insurance sector, which accounted for around 3% of the total assets of the financial system, registered favourable underwriting results during the period under review. However, a decline in investment returns dented profitability growth. The solvency position for both life and non-life insurance businesses, however, remained healthy.

Capital markets

Against a background of rising interest rates, the preference for variable-rate instruments gained momentum during the first half of 2007. Indeed, the turnover in the bond market increased as investors disposed of their holdings, mainly of Malta Government Stocks (MGS). On the other hand, equity turnover declined, with the MSE index trending downwards to 4,809 in June 2007, from 4,873 as at end-2006. The equity market continues to be dominated by the shares of the major banks, which accounted for most of the changes in equity prices.

As a consequence of rising interest rates abroad, yields on 10-year MGSs rose from 4.33% in December 2006 to 5.12% by mid-2007. This shift in yields had only a minor effect on bank profitability. On the other hand, domestic investment funds recorded some outflows, as mentioned earlier.

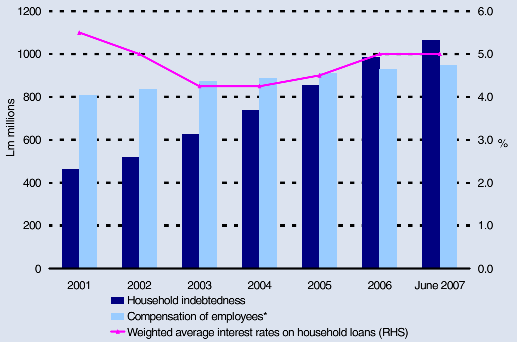
The non-financial sector

The household sector

Economic growth was accompanied by higher wages and a further accumulation of household wealth. Yet, rising interest rates and new borrowings continued to drive household indebtedness and debt-servicing costs upwards (see Chart 7.3). In the first half of 2007, the ratio of household debt to GDP rose by one percentage point to 56%, but this still lies below the EU average of 58%.[4]

[4] ECB Financial Stability Review, June 2007

Chart 7.3
HOUSEHOLD INDEBTEDNESS



*Source: NSO.

Despite rising interest rates, the proportion of household non-performing loans dropped marginally. Moreover, house purchase affordability improved as a result of the slowdown in residential property prices. A downturn in the global economy, however, would tend to affect household disposable income in Malta, with a consequential effect on debt repayment capacities.

The corporate sector

Based on a sample of non-financial companies, all of which are listed on the MSE, the overall financial health of the corporate sector weakened in 2006.[5] This was largely due to a deterioration in the performance of the tourism sector, particularly by one significant company. As a result, profitability declined while leverage increased. Nonetheless, the deterioration in these indicators was not large enough to translate into higher credit risk for banks, since corporate liquidity increased. As indicated by the declining trend in NPLs, the quality of corporate loans continued to improve, possibly underpinned by the benign economic conditions. Although risks emanating from the corporate sector seem to be well contained, higher interest rates, coupled with increased leverage, could pose a threat to the financial system.

Risk outlook

The financial condition of the banking sector remained robust up to June 2007, enabling banks to withstand most of the identified short-term risks. With the exception of a sudden and severe correction in the housing market – which would significantly erode the banks' capital buffer – stress test results suggest that the banking system would remain solvent even in the case of a severe economic downturn or credit quality deterioration. Against this background, the outlook for the Maltese financial sector in the short term remains satisfactory, with broadly balanced risks as the main characteristic.

5 The sample comprises 19 companies mainly operating in the wholesale & retail, transport & communication, construction, real estate, tourism and manufacturing sectors. These companies account for around 10% of total bank loans to the corporate sector.

THE REFORMED STABILITY AND GROWTH PACT: IMPLICATIONS FOR MALTA

Elaine Caruana[1]

1. Introduction

The Treaty Establishing the European Community lays down the key provisions governing Economic and Monetary Union (EMU). In particular, Article 104 obliges Member States to avoid excessive fiscal deficits, establishes criteria for evaluating budgetary discipline and sets out the procedures to be followed to address situations where an excessive deficit exists in a particular Member State, culminating in the imposition of sanctions. A protocol to the Treaty defines reference values for the general government deficit and debt, which are set at 3% and 60% of GDP, respectively.

The Stability and Growth Pact (SGP), which was formally adopted at the Amsterdam European Council, in June 1997, amplifies on the provisions of the Treaty to strengthen budgetary discipline in EMU.

Budgetary discipline, while desirable in its own right, acquires greater importance in a monetary union. One reason for this is that countries with large deficits, and consequently high levels of public debt, would typically resort more frequently to the currency area's capital market, thereby driving its interest rate upwards and consequently increasing the debt burden of the entire currency union. In the context of the euro area, this may lead to pressure on the European Central Bank (ECB) to relax its monetary policy stance, which would result in a higher rate of inflation.[2] In other words, fiscal indiscipline would undermine the ability of the ECB to deliver price stability, which is a key element in achieving strong, sustainable economic growth conducive to employment creation.

The SGP framework was effective in orienting the behaviour of most EU governments towards the objective of fiscal discipline during the run-up to EMU. However, in the last few years Member States have not been able to keep their fiscal situations in check. The European Commission and the Council recognised that the SGP as it stood was not attaining its objective and agreed to reform the Pact to restore the fiscal framework's credibility and to introduce more flexibility to the mechanism.

The aim of this article is to explain the main reforms to the SGP and to analyse the implications for Malta's fiscal position. Section 2 presents a brief description of the Pact, while section 3 comments about the effectiveness of the Pact so far, highlighting the main reasons behind the reforms. The SGP reform package is subsequently discussed in section 4, while section 5 gives a brief overview of fiscal developments in Malta. The possible impact of the new SGP fiscal rules on the Maltese fiscal position is discussed in section 6. Some conclusions are then presented in section 7.

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[1] Ms Caruana is an economist with the Central Bank of Malta. The views expressed in this paper are those of the author and do not necessarily reflect those of the Bank. The author would like to thank Mr John Caruana, Mr Malcolm Bray, Mr Alfred Demarco and Dr Bernard Gauci for their useful comments and suggestions. The cut-off date for information included in this article is 22 October 2007.

[2] For an analysis of the rationale for fiscal rules, see, for example, Annett, Decressin and Deppler (2005) and European Central Bank (2005).

2. The Stability and Growth Pact

The original SGP consisted of a Resolution of the European Council in which the commitments of the Member States, the European Commission and the European Council itself were specified, and two Council Regulations.

The Resolution of the Council incorporates the Member States' commitment to respect the medium-term budgetary objective (MTO), which implies a budgetary position close to balance or in surplus (CBS) set out in each Member State's stability or convergence programme.[3] This objective is meant to allow all Member States to adjust their fiscal position in accordance with normal cyclical fluctuations, while keeping the level of the deficit at or below the reference value of 3% of GDP. At the same time, the European Commission is committed to take the necessary action to facilitate the strict, timely and effective functioning of the SGP.

Additionally, the Resolution urges the Council to observe the deadlines for the application of the Excessive Deficit Procedure (EDP) and to recommend that Member States correct their excessive deficits as quickly as possible.[4] The Resolution invites the Council to impose sanctions in the case of a participating Member State if, in the ECOFIN Council's opinion, that Member State has failed to take effective action.[5]

With regard to the Council Regulations, the first, Regulation 1466/97, deals with the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. The other, Regulation 1467/97, focuses on the implementation of the EDP. These are discussed in greater detail below.

The preventive arm

Council Regulation 1466/97 constitutes "the preventive arm" of the Pact as it sets up a monitoring and early warning system to prevent general government deficits from becoming excessive.[6] The key element of the regulation is the setting of the MTO, which must be met under neutral economic conditions.

The MTO was originally defined as a budgetary position which is CBS and was interpreted, in practice, by the Commission as a cyclically-adjusted budget deficit of no more than 0.5% of GDP.[7] Member States with larger cyclical fluctuations or a greater budgetary sensitivity to the economic cycle required even better cyclically-adjusted fiscal balances (Langenus, 2005).

Apart from the setting of the MTO, the Regulation also establishes rules covering stability and convergence programmes as part of the multilateral surveillance by the Council. Stability programmes are submitted by those Member States that have already adopted the euro, while convergence programmes are

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3 European Council (1997), "Resolution of the European Council on the Stability and Growth Pact", Official Journal C 236, pp. 1-2.

4 The annex on the Excessive Deficit Procedure attached to the Maastricht Treaty requires the government deficit to GDP ratio to be not more than 3%, unless it has fallen substantially and continuously and comes close to the reference value, or when the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value. In addition, the government debt to GDP ratio should not exceed 60%, and if it does it should be diminishing sufficiently and approaching the reference value at a satisfactory pace.

5 Participating Member States are those countries which have adopted the single currency. The ECOFIN Council refers to the EU Council meeting in the composition of the ministers of economics and finance.

6 European Council Regulation No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Official Journal L 209, pp. 1–5.

7 The cyclically-adjusted budget balance attempts to remove the effects of the business cycle on government revenues and outlays.

submitted by the remaining Member States. This examination is carried out in an attempt to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and co-ordination of economic policies.

Consequently, each Member State is compelled to submit the required information to the Council and Commission on a yearly basis. Stability programmes contain:

- the MTO for the budgetary position of CBS, the adjustment path for the general government surplus/deficit towards this objective and the expected path of the general government debt ratio;
- the main assumptions about expected economic developments and important economic variables that are relevant to the realisation of the stability programme, such as government investment expenditure, real gross domestic product growth, employment and inflation;
- a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget; and
- an analysis of how changes in the main economic assumptions would affect the budgetary and debt position.

Based on the assessments by the Commission and the Economic and Financial Committee (EFC), the Council examines all the information received from each Member State to see whether the MTO in the stability programme provides for a safety margin to ensure the avoidance of an excessive deficit.[8] It also assesses whether the measures being taken are sufficient to achieve the targeted adjustment path towards the MTO. If the Council identifies a significant divergence between the budgetary position and the MTO, it then gives an early warning to the Member State in question.[9] The latter would then have to take the necessary adjustment measures.

Convergence programmes generally contain the same type of information as stability programmes. The difference stems from the fact that, together with the MTO for the budgetary position of CBS, non-participating Member States also have to submit their medium-term monetary policy objectives and the relationship between these objectives and price and exchange rate stability. The Council adopts the same procedure in the examination of the submitted data, focusing on whether the budgetary situation, economic assumptions and proposals are sufficient to achieve the targeted adjustment path towards the MTO and progress towards sustained real convergence ahead of the adoption of the euro.

The corrective arm

The dissuasive dimension of the Pact is laid down in Council Regulation 1467/97, which sets out the provisions to deter excessive general government deficits. As the "corrective arm" of the Pact, the Regulation establishes the procedures to be followed to ensure the prompt correction of an excessive deficit by a Member State if this occurs.[10] The original Regulation presented a rigorous timetable for the procedure, designed to strengthen the Maastricht Treaty's fiscal requirements and to provide incentives to ensure a sufficient safety margin from the 3%

[8] The Economic and Financial Committee is responsible for keeping under review the economic and financial situation of Member States. It reports its findings to the Council and the Commission regularly.

[9] An early warning is normally issued on the basis of an opinion drawn up by the European Commission, followed by a recommendation for a decision by the Council.

[10] European Council Regulation No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, Official Journal L 209, pp. 6–11.

government deficit-to-GDP reference value.

To begin with, the Regulation elaborates on the Treaty's definition of an excessive deficit. According to the Treaty an excess of the deficit over the 3% ratio can be accepted, *inter alia*, only if the excess is 'exceptional and temporary' and if it remains close to the reference value. The Regulation further specifies what is meant by 'exceptional and temporary'. In particular, an excess over the 3% reference value is considered exceptional and temporary either if it results from an unusual event outside the control of the Member State concerned and has a major impact on the financial position of general government, or if it results from a severe economic downturn. According to the original Regulation, the latter was defined as being equivalent to an annual fall in real GDP of at least 2%. Furthermore, in the absence of special circumstances, an excessive deficit must be corrected by no later than one year following its identification.

The Regulation sets out a precise timetable to be followed in applying the EDP. When a Member State is found to be in breach of the EDP criteria, the Commission has to issue a report to the EFC. In the report the Commission would state whether the deficit of the country in question exceeds government investment expenditure and would also comment on the medium-term economic and budgetary position of the Member State.[11] Based on these observations and other relevant information, the EFC would then formulate an opinion, which is subsequently passed on to the Commission. If the latter decides that an excessive deficit exists it forwards this opinion and a recommendation to the ECOFIN Council, which, acting by a qualified majority, would decide whether an excessive deficit did indeed exist. Concurrently, the Council would make recommendations to the Member State concerned to take corrective action with a view to bringing the excessive deficit situation to an end one year following its identification in the absence of special circumstances which may justify a delay. If, by the stated deadline, the Member State still fails to put into practice these recommendations, the Council may decide to give yet another warning by requiring the country to take the necessary action within a specified time limit, requesting, in addition, a number of reports documenting its adjustment efforts.

If the Member State still fails to implement measures aimed at improving its fiscal situation, the Council must, in principle, impose sanctions. Generally, a non-interest bearing deposit not exceeding 0.5% of GDP is required. Whenever the excessive deficit is a result of non-compliance with the government deficit criterion, the amount of the first deposit that must be made by the Member State concerned will comprise a fixed component equal to 0.2% of GDP and a variable component equal to one-tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3% of GDP. The Council may impose additional sanctions, such as the obligation to publish supplementary information before the Member State concerned issues securities and a restriction on access to loans from the European Investment Bank.

The Commission and the Council continue to monitor the Member State on a yearly basis to see whether effective action is being taken. If the situation shows no sign of improving, sanctions may be intensified and if, two years after the initial deposit had been placed, the excessive deficit has not been corrected, deposits made by the Member State may be converted into fines.

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[11] The provision that a country's deficit should not exceed government investment expenditure could be based on the so-called "golden rule" which states that, over the economic cycle, governments should borrow only to invest and not to fund current spending.

3. Experience with the 'old' SGP

The history of the implementation of the SGP since it came into force in 1999 is somewhat mixed. While significant budgetary progress was made by Member States during the 1990s, particularly during the second stage of EMU, the pace of fiscal consolidation subsequently decelerated and was even reversed in some countries.

In 1993 the average general government deficit level for the EU-15 stood at 5.6% of GDP, while the general government debt-to-GDP ratio amounted to 67%. In 1996 – one year before the membership assessment – most of the EU-15 still ran deficits clearly above the 3% level. However, in the following year (which was the basis year for deciding EMU membership) the average deficit-to-GDP ratio for these countries had dropped to 2.6%, while the debt-to-GDP ratio averaged 75%. The latter had, nonetheless, stopped rising, with a number of Member States that had recorded debt ratios in excess of the 60% threshold fulfilling the debt convergence criterion after providing evidence of a sustainable downward trend in their debt ratios (Fischer, 2004).

In 1999 and 2000, all euro area Member States managed to stay comfortably within the 3% deficit-to-GDP threshold. However, in the absence of further incentives to improve budgetary positions, fiscal consolidation lost momentum. Member States, especially the larger ones, failed to consolidate their public finances sufficiently to attain the position of CBS that constitutes the medium-term rule at the core of the SGP. Subsequently, as the prevailing above-potential economic growth rates started to decelerate, the Portuguese, German and French deficits breached the 3% limit, triggering the EDP (Begg and Shelkle, 2004).[12]

The first country to breach the 3% reference value was Portugal in 2001, followed by Germany and France in 2002. However, whereas Portugal managed to reduce its deficit to 2.9% of GDP during 2002 and 2003, Germany and France continued to exceed the limit. At its meeting in November 2003, however, the ECOFIN Council decided not to adopt formal recommendations and opted instead to instruct Germany and France to take action to reduce their deficits below 3% by 2005. The fact that the formal SGP procedure was not applied contributed to an erosion of the Pact's credibility.

Against this background, the Commission, in 2005, launched a major review of the SGP, focussing mainly on the increased economic heterogeneity in the enlarged EU as well as on the demographic changes that would characterise it in the years ahead (EC, 2005).

4. Improving the implementation of the SGP – the 2005 reform package

In line with the Commission Communication on "Strengthening economic governance and clarifying the implementation of the Stability and Growth Pact",[13] the 2005 ECOFIN Council report on improving the implementation of the SGP[14] underlined the need to implement reforms aimed at:

- enhancing the economic rationale of the budgetary rules to improve their credibility and ownership;
- improving "ownership" by national policy makers;
- using more effectively periods when economies are growing above trend for budgetary consolidation in order to avoid pro-cyclical policies.

[12] Potential output can be defined as the highest level of production that can persist for a substantial period without raising the rate of inflation in an economy.

[13] European Commission (2004).

[14] ECOFIN Council (2005).

- taking better account in Council recommendations of periods when economies are growing below trend;
- giving sufficient attention in the surveillance of budgetary positions to debt sustainability.

These reforms took effect when two new Regulations amending the SGP entered into force in June 2005.

Changes to the preventive arm

A new Regulation 1055/2005 was introduced to amend Regulation 1466/97 on the preventive arm of the Pact. The main feature of the amended regulation is that it recognises the differences among EU Member States and allows MTOs to take into account economic and budgetary diversity. Apart from providing a safety margin with respect to the 3% deficit limit, MTOs should also ensure rapid progress towards sustainability and allow room for budgetary manoeuvre, particularly through the consideration of public investment needs.

Consequently, MTOs now differ from one country to the other on the basis of the current general government debt ratio and potential growth. MTOs have to be defined in cyclically adjusted terms and net of one-off and temporary measures.[15] The amended Regulation specifies that for euro area and ERM II Member States, MTOs may range between -1% of GDP for low-debt/high potential growth countries and balance or surplus for high debt/low potential growth countries. As Table 1 shows, MTOs range from deficits of 1% of GDP, largely among the Baltic States and Central and Eastern European countries, to surpluses of up to 2.5% of GDP in the Nordic countries. MTOs are to be reviewed every four years and revised in the event of any developments in government debt, potential growth and fiscal sustainability.

In addition, the rule concerning the transition to MTOs has been amended. Member States which have not yet reached their MTO should attempt to achieve it over the cycle. Even though a greater effort is expected in good times, euro area and ERM II countries should pursue a minimum annual adjustment of 0.5% of GDP in cyclically-adjusted terms, net of one-off and temporary measures.[16] In the light of the amended Regulation, Member States are now expected to take a more symmetric approach to fiscal policy over the cycle, primarily by avoiding pro-cyclical behaviour. This should lead to the attainment of the MTO and eventually to a reduction in government debt at a satisfactory pace, thus contributing to the long-term sustainability of public finances.

The 2005 reform package also introduced changes to the existing early warning mechanism. The Commission is now able to issue policy advice directly to Member States to encourage them to stick to their adjustment path. Furthermore, it is expected to bring to the attention of the Council not only cases where there is an acute risk that the 3% limit will be breached by a Member State but also cases where Member States are deviating from the adjustment path of their MTOs even in good times.

A final amendment to the preventive arm of the Pact focuses on the treatment of structural reforms. Indeed, in an attempt to enhance the growth-oriented nature of the Pact, deviations from both the MTO and the adjustment path may be permitted if this is justified by the need to

[15] One-off and temporary measures are defined as measures which have a transitory budgetary effect that does not lead to a sustained change in the budgetary position over time.
[16] Good times are periods during which output exceeds its potential level, taking into account tax elasticities.

Table 1
COUNTRY-SPECIFIC MEDIUM-TERM OBJECTIVES

COUNTRY	MTO (% of GDP)
Austria	0.0
Belgium	0.5
Cyprus	-0.5
Czech Republic	Around 1.0
Germany	0.0
Denmark	Between 1.5 and 2.5
Estonia	0.0
Greece	0.0
Spain	0.0
Finland	Around 1.5
France	0.0
Hungary	Between -0.5 and -1.0
Ireland	Close to balance
Italy	0.0
Lithuania	-1.0 or below
Luxembourg	-0.8
Latvia	Around -1.0
Malta	0.0
The Netherlands	Between -0.5 and -1.0
Poland	-1.0
Portugal	At least -0.5
Sweden	2.0
Slovenia	-1.0
Slovakia	-0.9
United Kingdom	Fiscal objectives under the domestic rules

Source: European Commission.

implement certain structural reforms. Nevertheless, this is allowed only when major reforms have a direct long-term cost-saving effect and, therefore, a verifiable positive impact on the long-term sustainability of public finances (European Commission, 2004). An example of this is pension reforms that include the introduction of a mandatory fully-funded pillar. These would typically imply significant budgetary costs in the short run counterbalanced by the benefits of lower ageing-related implicit liabilities in the long run.

Changes to the corrective arm

The corrective arm of the Pact was also modified through Regulation 1055/2005, which amended Regulation 1467/97. Proponents of the reform argued that considering economic circumstances in the implementation of the EDP would strengthen the rationale of the SGP and enhance ownership of the framework by Member States (European Commission, 2005).

The guiding principle for the application of the procedure remains the prompt correction of excessive deficits. However, the condition of 'severe economic downturn' was made less demanding. In terms of the amended Regulation, the Commission and the Council may consider as exceptional an excessive deficit that results from a negative GDP growth rate or even from the accumulated loss of output during a protracted period of very low growth relative to potential growth. However, the excess over the reference value deriving from the downturn must still be temporary and close to the reference value.[17]

The amended Regulation expands upon the 'other relevant factors' to be taken into account when deciding on the existence of an excessive deficit and determining the deadline for its correction. Consequently, in preparing the report that triggers the EDP, the Commission shall consider the medium-term economic position, including such factors as potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster research and development (R&D) and innovation. Additionally, developments in the medium-term budgetary position, particularly fiscal consolidation efforts in good times, debt sustainability, public investment and the overall quality of public finances will also be considered. Due consideration may also be given to any other factors which, according to the Member State in question, are relevant in order to comprehensively assess the excess deficit over the reference value.

Moreover, deadlines for taking effective measures in response to recommendations made under the EDP are now more flexible and depend on prevailing economic circumstances. As a rule, the deadline for the correction of an excessive deficit remains the year after its identification. However, this deadline was viewed as being overly tight, disregarding Member States' structural characteristics and economic positions. Occasionally, it could have resulted in excessively pro-cyclical policies, such as pursuing a fiscal tightening during an economic downturn. It could also have spurred an undue reliance on one-off measures and creative accounting (EC Occasional Paper, 2005). Hence, in the event of unfavourable economic conditions, the deadline may be set in the second year following the deficit's identification. Additionally, to facilitate the effective adoption of more comprehensive consolidation packages, the allowed delay for taking effective action was extended from four to six months (European Commission, 2005).

In terms of the revised SGP, the Commission and the Council will give due consideration to the implementation of pension reforms in all assessments carried out within the EDP framework. Hence, in certain cases, and subject to overriding considerations, deficit figures will be corrected for the net costs of pension reforms. Nevertheless, Member States implementing such reforms will be allowed to deviate from the adjustment path to their MTO or from the MTO itself, provided the deviation remains temporary and that an appropriate safety margin with respect to the 3% of GDP reference value for the government deficit ratio is preserved.

Lastly, the reformed SGP puts more focus on fiscal sustainability and on ensuring that more effort is directed to lowering government debt below the 60% reference value at a satisfactory pace, while taking into account macroeconomic conditions. Consequently, the debt surveillance framework was amended to introduce the concept of "sufficiently diminishing and approaching the reference value at a satisfactory pace" for the debt ratio in qualitative terms, while considering macroeconomic conditions and debt dynamics, including the pursuit of appropriate levels of primary surpluses as well as other measures to reduce gross debt and debt management strategies.

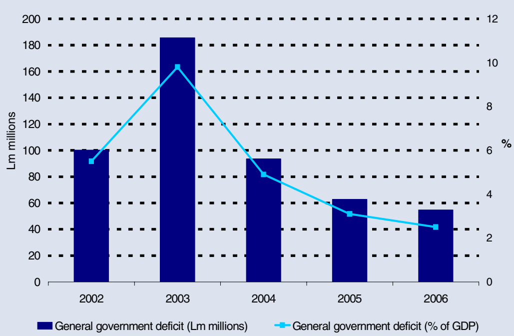
[17] The Commission forecasts would have to show the deficit dropping below 3% within the forecast period.

5. The fiscal position in Malta

As a member of the European Union and a full participant in EMU as from January 2008, Malta is obliged to satisfy the particular fiscal requirements stipulated by the SGP for euro area and ERM II Member States. In July 2004 Malta was deemed to be in an excessive deficit position. In line with the Council recommendations, Malta had to ensure that the excessive deficit was corrected by the end of 2006. It also had to ensure that its debt-to-GDP ratio was declining at a satisfactory pace towards the 60% of GDP reference value. Furthermore, it had to make progress in the design and implementation of pension and health care reforms. In 2006 Malta fulfilled the recommendations given by the Council, and in June 2007 the Council closed the EDP with regard to Malta.

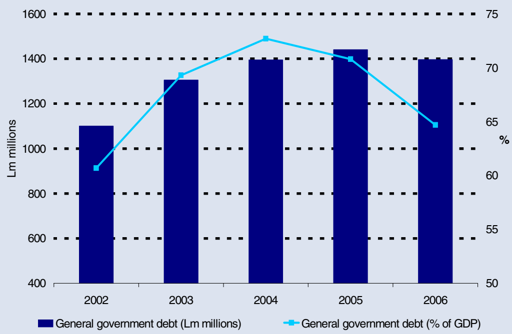
According to the autumn 2007 EDP notification, the general government deficit to GDP ratio fell to 2.5% in 2006, from 3.1% in the previous year (see Chart 1). Furthermore, it is expected to extend its downward trend in the three-year period to 2009. Official estimates also show that the general government debt to GDP ratio halted its upward trend, declining to 64.7% in 2006 from 70.8% the previous year (see Chart 2). The ratio is expected to fall below the 60% reference value by 2009.

Chart 1
GENERAL GOVERNMENT DEFICIT



Source: NSO.

Chart 2
GENERAL GOVERNMENT DEBT



Source: NSO.

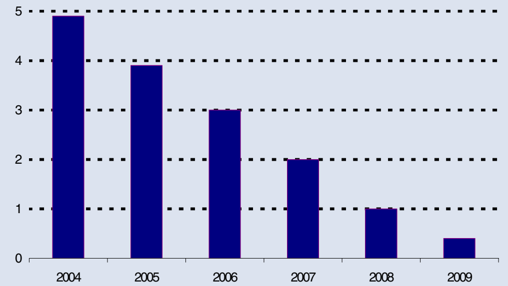
6. The implications of SGP reforms for Malta

The latest reforms to the SGP entail several important changes in the way the preventive and corrective arms of the Pact are implemented. As noted above, these broaden and modify the interpretation of the various concepts of the Pact, such as the setting of MTOs, the treatment of temporary measures, the impact of structural reforms including pension reforms and other factors which are deemed to be relevant when deciding on the existence of an excessive deficit. This section analyses how these new rules will affect Malta and its ability to meet the required fiscal targets.

According to the revised SGP, MTOs are now country-specific and consideration will be given to the country's debt ratio and potential growth rate. While Member States of the euro area or ERM II with low-debt and high growth potential are allowed to run cyclically-adjusted deficits up to -1% of GDP, high-debt/low potential growth countries must achieve budgetary positions that are in balance or surplus. If this target is not reached, countries should pursue an annual adjustment in cyclically-adjusted terms, net of one-offs and temporary measures, of 0.5% of GDP.

The Government has declared its intention to

Chart 3
CYCLICALLY-ADJUSTED BUDGET DEFICIT NET OF ONE-OFFS AND TEMPORARY MEASURES
(% of GDP)



Source: Ministry of Finance, Updated Convergence Programme 2006 - 2009.

achieve, in the medium term, a balanced budget in cyclically-adjusted terms net of one-off and temporary measures. As illustrated in Chart 3, this structural deficit has been declining steadily as a ratio of GDP. According to the Updated Convergence Programme 2006-2009, in 2004 it amounted to 4.9%, before dropping to 3.9% and 3.0% in 2005 and 2006, respectively. It is expected to drop further to 0.4% by 2009. While these projections indicate that the MTO will not be reached over the period covered by the Convergence Programme, Malta's path towards the achievement of a balanced budget in the medium term remains on track. In fact, the fiscal balance is expected to fulfil the 0.5% annual adjustment required of ERM II and euro area Member States over the period up to 2009.

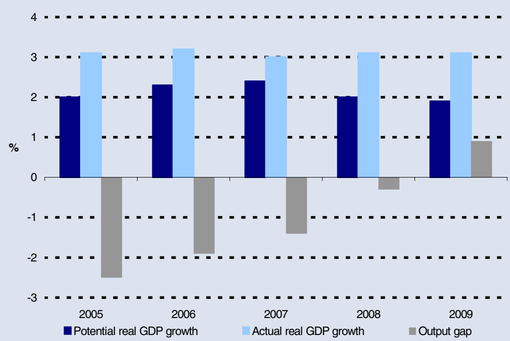
However, a major challenge posed by the reformed SGP relates to the treatment of temporary measures. In recent years, such measures have contributed significantly to the fiscal consolidation process. These have mainly included proceeds from the sale of land. Under the rules of the revised SGP such items are netted off from revenue when calculating the deficit to assess progress towards the MTO. Furthermore, on the expenditure side, to limit the possibility of a Member State declaring deficit-increasing measures as being temporary, the Commission is adhering to a very narrow definition of temporary measures.

The revised SGP is more flexible in assessing the economic situation in a Member State. Thus, a deficit will not be considered excessive if it is triggered by a 'severe economic downturn', defined as a phase of negative real GDP growth or a period of positive but very low growth compared with the trend. Although at the time of writing some technical details still had to be finalised, in this respect the new rules have made the SGP less stringent, provided the deficit ratio remains close to the 3% reference value and returns promptly below it as soon as the event driving the economic downturn is over.

The projections contained in the Updated Convergence Programme 2006 – 2009 reveal that Malta is still operating below its potential output level. Nonetheless, the negative output gap, which is the difference between the actual level of output and potential output expressed as a proportion of potential output, is expected to decline continuously up to 2008, before turning positive in 2009 (see Chart 4).

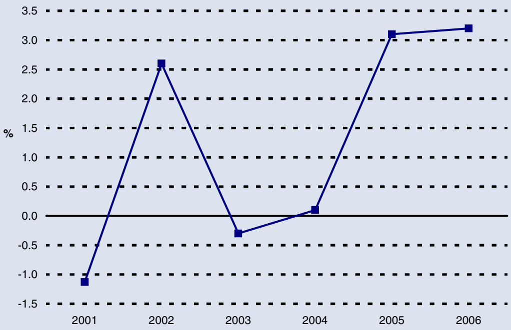
However, actual real GDP growth fluctuated substantially in the period from 2001 to 2006 (see Chart 5). This volatility reflects the openness of

Chart 4
POTENTIAL AND ACTUAL GROWTH



Source: Ministry of Finance, Updated Convergence Programme 2006 - 2009; NSO.

Chart 5
REAL GDP GROWTH



Source: NSO.

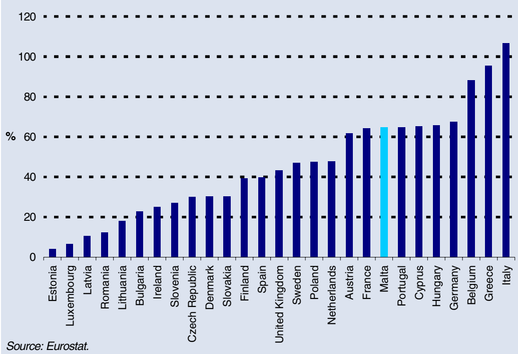
the Maltese economy and its vulnerability to external shocks, such as movements in international oil prices. Such shocks have a significant impact on domestic prices, output and export competitiveness. Under the amended SGP rules, and in particular given the revised definition of a 'severe economic downturn', a negative growth rate, such as that experienced by Malta in 2003, may justify deviations from the 3% reference value.

The reformed Pact also provides a clearer interpretation of the reference to 'other relevant factors'. Consequently, in deciding on the existence of an excessive deficit, special consideration will now be given to potential growth, debt sustainability, public investment to foster innovation and R&D as well as the implementation of policies in the context of the Lisbon Agenda.

Malta's income level, as measured by GDP per capita, was around 74% of the euro area average in 2006, implying that there is room for further convergence in real terms. For progress to be made, more resources need to be allocated to the improvement of both human and physical capital by means of higher spending on education, innovation, information technology (IT) and R&D. The European Union's goal with regard to R&D, as set in the Lisbon Agenda, is to achieve an R&D intensity of at least 3%.[18] With expenditure on R&D amounting to 0.6% of GDP in 2005, Malta's R&D intensity ratio is one of the lowest in the EU. This implies that expenditure on R&D needs to rise to spur economic convergence. Under the reformed SGP, investment in this area will be taken into account in all stages of the EDP, which may give the Government more leeway to carry out such expenditure without breaching the fiscal rules.

The amended Pact also stipulates that more consideration will be given to debt sustainability. It emphasises the need for Member States to reduce their government debt to GDP ratios to less than the 60% reference value. Furthermore, while ensuring that highly indebted countries reduce their debt ratio at a faster pace, particular attention will be paid to the prevailing macroeconomic conditions. With a ratio of government debt to GDP amounting to 70.8% in 2005 and 64.7% for 2006, Malta has a high debt level when compared to the other Member States (see Chart 6). However, the ratio is expected to decline further and the Commission has classified

Chart 6
GENERAL GOVERNMENT DEBT IN 2006
(% of GDP)



Source: Eurostat.

[18] R&D intensity is defined as expenditure on research and development expressed as a percentage of GDP.

Malta as being at medium risk in terms of fiscal sustainability.[19]

7. Conclusion

The SGP was enacted with the primary intent of underpinning the fiscal framework of the Maastricht Treaty to prevent the ECB's monetary policy stance from being weakened by excessively expansionary fiscal policies. However, this had the effect of imposing the same rules on all Member States alike, regardless of differing macroeconomic situations. Following the latest enlargement, the situation became more complex, as economic diversity within the European Union increased significantly and the enforcement of common fiscal rules was no longer deemed to be practical and effective.

The reformed SGP will have an impact on Malta's fiscal strategy. The new method of computing the MTO, measured in cyclically-adjusted terms and net of one-off and temporary measures, will necessitate a greater reliance on revenue-raising or expenditure-reducing measures and more limited recourse to temporary measures to achieve fiscal targets.

The amended SGP rules may also help to accelerate reforms to the Maltese pensions system. This is because the introduction of fully funded pensions would be factored in during the assessment of the budgetary position. Should such pension schemes be introduced in Malta, therefore, this provision would give some added budgetary leeway to the authorities.

In addition, under the new Pact, the below-potential output level recorded by the Maltese economy, coupled with the need to foster public investment in several key areas may be considered as sufficient justification for the fiscal imbalance in Malta to temporarily exceed the SGP reference values. Lastly, a more flexible approach may be adopted by the EU authorities in case of a negative shock to the economy.

In conclusion, the overall impact that these new fiscal rules will have on Malta depends to a large extent on the interpretation of the SGP. Under the new rules, there is greater latitude to cater for the particular economic circumstances of individual Member States. However, although the reforms to the SGP may have given greater flexibility in the conduct of fiscal policy, the discipline imposed by fiscal rules remains.

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NEWS NOTES

LOCAL NEWS

The 2007 IMF Article IV Consultation with Malta

On 7 September the IMF published its report for the 2007 Article IV Consultation with Malta which had taken place between 15 May and 30 May. The report reviews recent economic developments in Malta which it characterizes as an economic recovery that is gaining traction. The economy is expected to register a GDP growth rate of 3% for this year, a steady decline in inflation, a substantial narrowing of the fiscal deficit and a stable exchange rate within ERM II. The report notes that the outlook for the economy is overall positive as growth continues to be boosted by domestic demand. It also sees the possibility of stronger economic growth being generated by the new export-oriented services that are gaining momentum in Malta.

Detecting signs of a loss in export markets in recent years, the report stresses the need to restore competitiveness in order to enable the economy to avoid the dangers of weak growth in the monetary union and thus reap the benefits of economic integration. In this regard, the report recommends a determined implementation of further structural reforms, particularly in the public enterprise sector. On the fiscal side, the report emphasizes the need to achieve further consolidation through expenditure-based adjustment, particularly in view of rising expenditure pressures caused by ageing-related factors such as pension and health-care costs. The report also highlights the improvement in the financial sector's stability, but notes with concern the concentration risks as demonstrated by the increased exposure of the banks to the real estate market. The report recommends the introduction of incentives to the banks to bolster provisioning.

The next IMF Article IV Consultation is expected to take place late next year as Malta is expected to be placed on the standard 12-month cycle.

Adoption of the euro by Malta

The ECOFIN Council of Ministers at its meeting on 10 July accepted the recommendations of the EU Commission and the ECB to admit Malta, along with Cyprus, to membership of EMU. The Council also released Malta from the "excessive deficit procedure" since its fiscal deficit had fallen below 3% of GDP in 2006. Malta will thus adopt the euro on 1 January 2008. The Council, in agreement with the Commission, the ECB and the Maltese Authorities also set the permanent conversion rate of the Maltese lira at 0.4293 lira to the euro, which corresponds to the current central rate of the Maltese lira within the EU's ERM II exchange rate mechanism.

As a consequence of this decision the Governor of the Central Bank of Malta will from 1 January 2008 become a full member of the ECB's Governing Council and will thus participate in decisions on the ECB's monetary policy stance.

Launch of the euro communications campaign

On 30 September the Central Bank of Malta and the ECB officially launched their joint communications campaign for the euro changeover in Malta. To mark this event, Mr Michael C. Bonello, the Governor of the Central Bank of Malta, and Mr Jean-Claude Trichet, the President of the ECB unveiled euro banners on the façade of the Bank's main premises in Valletta. The President of the ECB presented the fourteenth "Euro Star" to the Central Bank of Malta, a memento that is offered to each new member of the Eurosystem.

Euro changeover preparations

The final master plan for Malta

On 11 July the National Euro Changeover Committee (NECC) published its *Final Master Plan for the Euro Changeover in Malta*. The Plan is a consolidation of the key milestones and procedures that have to be implemented in the remaining months ahead of the changeover on 1 January 2008.

Guidance notes for accountants

On 5 September the Malta Institute of Accountants, in conjunction with the NECC, issued *Guidance Notes Euro Changeover for Accountants* to assist its members. The purpose of these notes is to identify the main considerations that are relevant to accountants in planning and carrying out procedures relative to the euro changeover and to set out the pertinent best practice recommendations.

EU report on practical preparations for the adoption of the euro

On 16 July the European Commission adopted the fifth report on the practical preparations for the adoption of the euro. The report focuses on recent developments in Cyprus and Malta following the Council's decisions that the two countries fulfilled the necessary conditions to adopt the euro in January 2008. In a specific reference to Malta's Final Master Plan, the report remarks that this had further refined what was already a very detailed and comprehensive changeover plan. It also commented that Malta's communication activities on the euro were exceptionally comprehensive and of a very high quality.

Privatisation of Government entities

On 18 July the Government sold its 73.72% share in Tug Malta Ltd to Rimorchiatori Riuniti S.P.A. for the price of Lm10,600,000. The new owner will be using Malta's port facilities as a base for its operations in the Mediterranean region.

On 6 September the Government transferred 25% of its shares in Maltapost to Redbox Ltd, a subsidiary of Lombard Bank p.l.c. As a result, Lombard Bank now owns 60% of the shares in the company. The remaining 40% of the shares that are still held by the Government will be listed on the MSE.

Credit institution opens branch in Malta

On 28 September Credit Europe Bank N.V., a Dutch bank specialising in international trade finance and retail banking, opened a branch in Malta. Besides being involved locally in the marine finance sector, the bank is also active in commodity and project finance and interbank lending at the international level. It also intends to offer retail banking products to the general public in Malta as from 2 January 2008.

Malta's international credit ratings

All major credit rating agencies upgraded Malta's credit rating after the country was given the final approval to adopt the euro as its national currency.

Moody's credit rating

On 11 July Moody's ratings for Malta in respect of the long-term foreign and local currency government bond and long-term country ceilings for foreign currency bank deposits were upgraded from A3 to A2. The outlook on the ratings was changed to positive. The short-term country ceiling for foreign currency bank deposits was also upgraded from P-1 to P-2. Moody's views the eventual adoption of the euro by Malta as positive since it will all but eliminate the risk of a currency crisis and thereby isolate the economy from external shocks.

Standard & Poor's credit rating

On 11 July Standard & Poor's raised the rating for the transfer and convertibility assessment on Malta from AA to AAA. At the same time it affirmed its long-term and short-term sovereign credit ratings on Malta and said the outlook was stable. The agency said that the new ratings reflected the Government's achievement in reducing the general government deficit despite a period of economic stagnation earlier this decade. They also factor in the strong political institutions that underpin Malta's progressive macroeconomic policy.

Fitch Ratings' credit rating

On 12 July Fitch Ratings upgraded its Long Term Issuer Default Rating for Malta to A+ with a stable outlook and affirmed its Short Term Issuer Default at F1. The agency's Local Currency Long Term Issuer Default Rating for Malta was revised to A+ with a stable outlook. The country ceiling was upgraded to AAA.

Legislation related to banking and finance

Act XX - Various Financial Services Laws (Amendment) Act, 2007

This Act amended a number of laws, including the MFSA Act, the Financial Markets Act, the Investment Services Act, the Banking Act, the Insurance Business Act, and the Insurance Intermediaries Act. The Act also includes miscellaneous provisions covering the MSE.

Legal Notice 189 of 2007

This legal notice brought into force the Convention regarding the Double Taxation Relief (Taxes on Income) arrangements with the Kingdom of Morocco.

Legal Notice 206 of 2007

This legal notice extended the closing date of the Special Registration Scheme from 31 July 2007 to 31 August 2007 and appointed the Central Bank of Malta as one of the agents which could register eligible assets.

Legal Notice 212 of 2007

This legal notice amended the principal regulations of the Companies Act (The Prospectus) (Amendment) Regulations, 2007. It enabled the Registrar of Companies, in cases where Malta is the home Member State, to ensure compliance with the requirements of the regulation relating to advertising activity involving an offer of securities to the public.

Surrender of licence

On 31 July the MFSA announced that Global Fund SICAV p.l.c. had surrendered its collective investment scheme licence in relation to three of its sub-funds, namely the "Aberdeen (Malta) China Opportunities Fund", the "Melita International Bond Fund" and the "Aberdeen (Malta) Technology Fund", collectively referred to as "The Sub-Funds". The surrender of the licence was entirely voluntary and did not arise in response to any regulatory action taken by the MFSA.

Cancellation of licence

On 3 August the MFSA announced that on 22 June 2007 it had cancelled the investment services licence of Montaigne Investment (Malta) Limited with effect from 22 July 2007 on regulatory grounds.

INTERNATIONAL NEWS

ECOFIN Council

On 10 July, besides the positive decisions on Cyprus's and Malta's eligibility for euro area membership, the ECOFIN Council also reached a broad agreement on the candidacy of Dominique Strauss-Kahn for the post of managing director of the IMF following the announcement of the resignation of the current managing director, Rodrigo de Rato.

The Council also adopted a decision that the Czech Republic had failed to comply with its recommendation on measures needed to bring the Czech general government deficit below the EU's 3% of GDP maximum threshold. At the same time it decided that no further action was required with regard to Hungary, but confirmed the need to continue to monitor that country's excessive deficit situation more closely.

On 13 July the Council agreed on the EU draft budget for 2008 after a conciliation meeting with the European Parliament and the Commission. The Commission submitted its preliminary draft budget in spring 2007.

On 14-15 September European Union finance ministers and EU central bank governors gathered at an informal meeting in Porto. They discussed the quality of public finances, the economic and financial situation, the development within the EU Member States of national arrangements for financial stability, the improvement of cross-border post-trading arrangements in Europe and IMF governance issues.

STATISTICAL TABLES

THE MALTESE ISLANDS - KEY INFORMATION, SOCIAL AND ECONOMIC STATISTICS

(as at end-June 2007, unless otherwise indicated)

CAPITAL CITY	Valletta	
AREA	316 km^2	
CURRENCY UNIT	Maltese lira exchange rates [1]: MTL 1 = USD 3.1367	
	EUR 1 = MTL 0.4293	
CLIMATE	Average temperature (1990-2006): Dec. - Feb.	13.2^o C
	June - Aug.	26.1^o C
	Average annual rainfall (1990-2006)	470.4 mm
SELECTED GENERAL	GDP growth at constant 2000 prices [2]	3.7%
ECONOMIC STATISTICS	GDP per inhabitant at current market prices [2, 3]	EUR 3,300
	GDP per capita in PPS relative to the EU-27 average [2] (2006)	75.5%
	Ratio of gross general government debt to GDP [2] (2006)	64.7%
	Ratio of general government deficit to GDP [2] (2006)	2.5%
	RPI inflation rate	1.4%
	HICP inflation rate	1.1%
	Ratio of exports of goods and services to GDP [2]	82.2%
	Ratio of current account deficit to GDP [2]	4.8%
	Employment rate	55.7%
	Unemployment rate	6.6%
POPULATION	Total Maltese and foreigners (2006)	407,810
	Males	202,613
	Females	205,197
	Age composition in % of population (2006)	
	0 - 14	17%
	15 - 64	69%
	65 +	14%
	Average annual growth rate (1990-2006)	0.7%
	Density per km^2 (2006)	1,291
HEALTH	Life expectancy at birth (2006)	
	Males	76.8
	Females	81.2
	Crude birth rate, per 1,000 Maltese inhabitants (2006)	9.6
	Crude mortality rate, per 1,000 Maltese inhabitants (2006)	7.9
	Doctors (2006)	1,325
EDUCATION	Combined gross enrolment ratio (2004)	81%
	Number of educational institutions (2005/2006)	342
	Teachers per 1,000 students (2005/2006)	85
	Adult literacy rate: age 10+ (2005)	
	Males	91.7%
	Females	93.9%
LIVING STANDARDS	Human Development Index: rank out of 177 countries (2004)	32
	Mobile phone subscriptions per 100 population	86.6
	Private motor vehicle licences per 1,000 population	527
	Internet subscribers per 100 population	22.2

[1] End of period closing middle rates.

[2] Provisional.

[3] Based on Eurostat estimate of GDP at current market prices in euro per inhabitant.

Sources: Central Bank of Malta; Eurostat; Ministry of Finance; NSO; 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 June 2007:

Akbank T.A.S.
APS Bank Ltd
Bank of Valletta plc
BAWAG Malta Bank Ltd (from October 2003)
Credit Europe NV (from March 2007)
Commbank Europe Ltd (from September 2005)
Erste Bank (Malta) Ltd
FIMBank plc
Finansbank (Malta) Ltd (from July 2005)
Fortis Bank Malta Ltd
HSBC Bank Malta plc
Investkredit International Bank plc
Izola Bank Ltd
Lombard Bank Malta plc
Mediterranean Bank plc (from January 2006)
Raiffeisen Malta Bank plc
Sparkasse Bank Malta plc
Turkiye Garanti Bankasi A.S.
Volksbank Malta Ltd

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

liabilities

Lm millions

End of period	Currency issued	IMF-related liabilities	Deposits				Capital & reserves	External liabilities	Other liabilities
			Credit institutions	Central government	Other residents	Total			
2003	485.4	31.5	242.2	83.2	8.5	333.8	88.2	25.5	28.7
2004	506.4	30.6	166.3	115.7	11.1	293.1	86.0	-	20.0
2005									
Jan.	499.6	30.6	200.2	73.4	12.8	286.4	85.1	4.3	15.3
Feb.	502.0	30.6	175.8	91.8	10.7	278.3	83.8	4.3	11.3
Mar.	505.0	30.6	185.2	87.1	11.2	283.5	84.2	4.3	11.4
Apr.	507.1	30.6	140.3	88.9	11.4	240.5	86.1	2.2	9.6
May	510.6	31.1	186.0	73.0	9.0	268.0	86.9	-	14.8
June	517.0	31.1	147.0	81.5	11.0	239.5	87.8	-	14.1
July	517.8	31.1	165.2	87.1	7.8	260.1	86.8	-	12.3
Aug.	518.2	31.1	190.7	96.9	8.7	296.4	87.1	-	13.2
Sept.	518.3	31.1	210.9	95.0	8.2	314.1	86.0	-	14.5
Oct.	516.7	31.1	235.3	109.4	8.6	353.2	83.9	-	17.2
Nov.	516.3	31.1	223.3	111.9	9.9	345.2	83.3	2.3	17.2
Dec.	520.0	32.0	182.3	147.5	9.5	339.3	84.3	-	15.3
2006									
Jan.	512.3	32.0	243.2	77.2	8.8	329.2	83.1	2.2	11.7
Feb.	509.8	32.0	256.7	69.8	11.2	337.7	82.4	-	9.5
Mar.	510.9	32.0	230.0	70.9	8.6	309.6	80.2	4.5	6.8
Apr.	510.7	32.0	206.1	73.6	9.5	289.2	78.1	11.9	7.7
May	509.9	31.1	226.7	138.6	9.7	375.1	79.1	7.1	8.8
June	512.0	31.1	286.2	82.5	10.1	378.8	77.4	4.3	9.4
July	512.0	31.1	280.0	106.1	8.2	394.3	78.6	-	10.5
Aug.	509.6	31.1	305.9	91.1	10.8	407.9	79.2	-	13.8
Sept.	508.7	31.1	284.7	133.0	9.3	426.9	79.9	-	13.4
Oct.	505.5	31.1	326.4	95.8	8.7	430.8	78.9	-	16.3
Nov.	499.3	31.1	308.7	93.8	9.4	412.0	79.6	-	15.2
Dec.	504.0	30.3	283.7	106.6	17.6	407.8	77.7	-	16.7
2007									
Jan.	485.5	30.3	312.4	79.8	9.6	401.9	76.4	-	15.4
Feb.	477.6	30.3	323.6	69.8	8.7	402.1	78.2	-	10.0
Mar.	474.9	30.3	305.9	69.4	9.0	384.3	77.6	-	7.6
Apr.	466.2	30.3	253.8	123.1	12.4	389.3	76.6	-	8.7
May	452.6	29.7	291.7	127.0	11.8	430.5	75.2	-	10.6
June	443.4	29.7	260.5	151.4	10.7	422.6	73.6	-	12.3

[1] Figures are reported 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 1.1 STATEMENT OF ASSETS AND LIABILITIES - CENTRAL BANK OF MALTA[1]

assets

Lm millions

End of period	External assets				IMF currency subscription	Central government securities	Other assets	Total assets/ liabilities
	Gold	IMF- related assets[2]	Other[3]	Total				
2003	0.5	35.7	899.4	935.5	31.4	7.8	18.3	993.0
2004	0.5	35.1	824.9	860.6	30.5	21.3	23.7	936.1
2005								
Jan.	0.5	35.7	815.1	851.3	30.5	15.0	24.3	921.2
Feb.	0.5	35.5	813.9	850.0	30.5	5.7	24.1	910.3
Mar.	0.5	35.8	784.2	820.5	30.5	20.7	47.4	919.1
Apr.	0.5	35.9	768.2	804.6	30.5	8.4	32.5	876.0
May	0.5	36.8	771.4	808.7	31.0	17.9	53.7	911.4
June	0.6	37.1	773.2	810.8	31.0	16.5	31.2	889.5
July	0.5	36.8	805.8	843.2	31.0	7.7	26.2	908.1
Aug.	0.5	37.0	841.0	878.5	31.0	8.3	28.0	945.9
Sept.	0.6	37.2	859.4	897.3	31.0	8.1	27.5	963.9
Oct.	0.6	37.2	895.2	933.0	31.0	10.1	27.9	1,002.0
Nov.	0.6	37.6	890.0	928.3	31.0	9.1	26.9	995.3
Dec.	0.7	37.5	884.9	923.0	32.0	9.1	26.8	991.0
2006								
Jan.	1.1	37.1	859.9	898.1	32.0	13.0	27.4	970.5
Feb.	1.3	37.7	862.3	901.3	32.0	12.4	25.7	971.5
Mar.	1.3	37.2	825.7	864.3	32.0	20.2	27.4	944.0
Apr.	1.4	36.6	815.7	853.7	32.0	15.6	28.4	929.7
May	0.8	36.5	887.4	924.7	31.0	25.4	29.8	1,011.0
June	0.7	36.5	892.0	929.2	31.0	24.7	28.0	1,012.9
July	1.6	36.5	895.1	933.2	31.0	34.8	27.4	1,026.4
Aug.	1.6	36.7	916.1	954.3	31.0	28.9	27.3	1,041.6
Sept.	1.1	36.9	934.5	972.6	31.0	29.4	26.9	1,059.9
Oct.	1.1	36.9	936.9	974.9	31.0	29.1	27.5	1,062.6
Nov.	1.2	36.5	913.0	950.6	31.0	26.9	28.5	1,037.0
Dec.	1.2	36.4	911.6	949.2	30.3	30.3	26.8	1,036.5
2007								
Jan.	1.2	36.7	880.7	918.6	30.3	34.5	26.1	1,009.5
Feb.	1.2	36.6	868.0	905.8	30.3	35.1	27.0	998.1
Mar.	1.2	36.5	845.3	883.0	30.3	34.3	27.2	974.7
Apr.	1.2	36.0	841.9	879.1	30.3	35.3	26.5	971.1
May	1.2	36.4	855.4	893.0	29.7	49.7	26.2	998.5
June	1.1	37.1	813.6	851.8	29.7	73.4	26.6	981.6

[1] Figures are reported 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.

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

[3] Mainly includes cash and bank balances, placements with banks and securities.

TABLE 1.2 AGGREGATED STATEMENT OF ASSETS AND LIABILITIES - OTHER MONETARY FINANCIAL INSTITUTIONS

liabilities

Lm millions

End of period	Resident deposits[1]				External liabilities	Debt securities issued	Capital & reserves	Other liabilities[3]
	Withdrawable on demand[2]	Redeemable at notice	With agreed maturity	Total				
2003	1,048.3	28.8	1,599.7	2,676.7	3,826.3	46.6	782.4	352.8
2004	1,111.8	30.0	1,588.7	2,730.6	4,914.8	48.9	895.7	355.9
2005								
Jan.	1,134.4	30.6	1,590.8	2,755.8	4,926.0	48.9	882.2	345.0
Feb.	1,127.1	30.6	1,595.8	2,753.6	4,940.5	48.6	883.6	342.1
Mar.	1,128.1	30.1	1,597.5	2,755.7	5,063.7	49.7	874.6	362.6
Apr.	1,134.0	30.2	1,594.6	2,758.8	5,116.3	49.6	881.7	342.2
May	1,149.6	30.0	1,585.4	2,765.0	5,395.8	50.2	866.7	380.5
June	1,179.9	30.3	1,602.7	2,812.9	5,486.6	32.2	886.4	356.4
July	1,159.6	32.0	1,612.9	2,804.5	5,592.4	32.2	898.3	342.2
Aug.	1,172.5	30.3	1,625.4	2,828.2	5,944.7	32.1	893.9	348.7
Sept.	1,186.8	30.3	1,632.0	2,849.1	6,915.9	32.2	920.6	344.7
Oct.	1,180.2	30.2	1,629.5	2,839.8	6,967.3	32.2	929.6	362.8
Nov.	1,183.3	30.7	1,627.2	2,841.3	6,708.8	32.5	939.6	335.8
Dec.	1,202.1	31.5	1,646.2	2,879.8	7,426.0	32.4	1,012.9	323.5
2006								
Jan.	1,198.5	31.3	1,690.8	2,920.6	7,658.5	32.2	1,016.0	317.5
Feb.	1,204.7	31.7	1,711.1	2,947.5	7,990.1	32.4	1,030.1	314.1
Mar.	1,201.9	32.1	1,697.3	2,931.4	8,178.9	32.2	1,049.1	331.7
Apr.	1,208.4	32.1	1,688.8	2,929.2	8,306.4	31.7	1,264.3	276.6
May	1,227.9	34.0	1,690.1	2,952.0	8,145.6	31.4	1,218.6	289.5
June	1,223.3	31.0	1,732.3	2,986.6	8,710.7	31.6	1,196.3	287.3
July	1,219.4	31.1	1,744.9	2,995.4	8,338.6	31.5	1,239.2	278.5
Aug.	1,215.4	31.1	1,782.0	3,028.4	8,816.2	31.5	1,240.9	280.8
Sept.	1,208.9	30.3	1,790.3	3,029.5	8,660.9	31.6	1,250.6	287.3
Oct.	1,214.5	29.8	1,802.8	3,047.1	8,512.9	31.6	1,278.9	287.1
Nov.	1,230.2	30.4	1,816.7	3,077.3	8,507.9	31.2	1,283.2	304.8
Dec.	1,217.0	30.8	1,846.1	3,093.9	8,386.4	31.2	1,323.5	283.0
2007								
Jan.	1,211.9	30.3	1,874.3	3,116.5	8,989.5	54.9	1,315.0	289.8
Feb.	1,216.4	28.9	1,904.6	3,149.8	8,931.8	54.7	1,353.7	275.4
Mar.	1,208.7	29.6	1,951.9	3,190.3	9,353.5	54.4	1,366.8	276.0
Apr.	1,208.8	30.2	1,925.0	3,164.0	9,591.2	53.9	1,372.5	276.2
May	1,213.8	33.2	1,971.6	3,218.6	10,090.6	54.0	1,383.3	283.9
June	1,249.3	35.1	1,991.9	3,276.3	10,464.2	53.9	1,389.9	311.6

[1] Includes general government and private sector deposits but excludes deposits belonging to non-residents (which are classified as external liabilities).

[2] Demand deposits are netted of uncleared effects drawn on local banks (i.e. items in the process of collection).

[3] Includes interbank claims.

TABLE 1.2 AGGREGATED STATEMENT OF ASSETS AND LIABILITIES - OTHER MONETARY FINANCIAL INSTITUTIONS

assets

Lm millions

End of period	Balances held with Central Bank of Malta[1]	Loans	Securities other than shares	Shares & other equity	External assets	Other assets[2]	Total assets/ liabilities
2003	260.9	1,910.1	622.1	35.7	4,504.8	351.3	7,684.8
2004	192.6	2,032.7	657.3	33.5	5,670.2	359.6	8,945.8
2005							
Jan.	217.3	2,034.2	646.3	22.0	5,701.3	336.7	8,957.8
Feb.	195.7	2,052.5	677.9	22.0	5,685.7	334.5	8,968.4
Mar.	202.1	2,082.0	662.9	21.6	5,809.6	328.2	9,106.3
Apr.	164.3	2,072.4	682.8	21.6	5,889.7	317.8	9,148.5
May	209.3	2,074.8	654.2	21.4	6,158.3	340.2	9,458.2
June	169.2	2,088.4	666.5	21.4	6,286.4	342.5	9,574.5
July	187.7	2,051.0	655.5	21.5	6,415.2	338.6	9,669.6
Aug.	211.7	2,056.5	655.3	21.5	6,747.8	354.9	10,047.6
Sept.	232.3	2,099.3	621.8	25.0	7,748.9	335.3	11,062.5
Oct.	255.6	2,114.0	619.2	25.3	7,772.1	345.7	11,131.8
Nov.	247.4	2,126.7	602.6	26.5	7,513.4	341.2	10,858.0
Dec.	209.3	2,171.4	618.3	26.7	8,302.9	346.0	11,674.6
2006							
Jan.	264.8	2,198.1	592.1	26.7	8,519.9	343.3	11,944.9
Feb.	276.8	2,213.0	586.5	31.8	8,858.0	348.2	12,314.3
Mar.	252.5	2,258.5	570.4	31.7	9,073.4	336.7	12,523.3
Apr.	224.8	2,269.0	569.5	31.5	9,431.5	282.1	12,808.3
May	249.2	2,286.5	544.3	32.0	9,236.3	288.9	12,637.1
June	309.6	2,309.5	508.6	32.7	9,763.1	289.0	13,212.5
July	298.5	2,328.4	515.3	32.8	9,434.4	273.8	12,883.3
Aug.	325.8	2,335.8	506.9	33.8	9,904.4	291.0	13,397.7
Sept.	308.2	2,379.4	511.9	33.8	9,749.6	276.9	13,259.9
Oct.	348.5	2,399.5	493.5	34.8	9,616.2	265.0	13,157.6
Nov.	332.2	2,428.2	518.3	34.7	9,626.9	264.1	13,204.4
Dec.	303.5	2,485.1	519.8	35.7	9,498.2	275.6	13,117.9
2007							
Jan.	344.4	2,494.9	514.7	35.9	10,101.7	274.0	13,765.7
Feb.	347.6	2,506.7	529.0	36.4	10,070.8	275.0	13,765.5
Mar.	333.2	2,557.3	550.8	36.0	10,508.4	255.3	14,241.0
Apr.	279.8	2,562.6	555.0	36.5	10,763.0	260.9	14,457.8
May	316.3	2,575.7	537.1	37.5	11,292.4	271.3	15,030.3
June	278.8	2,604.4	556.7	37.4	11,723.7	295.0	15,495.9

[1] Includes holdings of cash.

[2] Includes interbank claims.

TABLE 1.3 MONETARY FINANCIAL INSTITUTIONS SURVEY[1]

Lm millions

End of period	Domestic credit			Net foreign assets					Broad money (M3)	Other counterparts to broad money (net)
	Net claims on central government[2]	Claims on other residents	Total	Central Bank of Malta		OMFIs		Total		
				Foreign assets	Foreign liabilities	Foreign assets	Foreign liabilities			
2003	568.4	1,899.0	2,467.4	978.6	58.8	4,504.8	3,826.3	1,598.3	2,849.2	1,216.5
2004	545.1	2,058.0	2,603.1	904.0	33.7	5,670.2	4,914.8	1,625.7	2,918.3	1,310.6
2005										
Jan.	565.1	2,052.2	2,617.4	895.6	39.3	5,701.3	4,926.0	1,631.6	2,936.6	1,312.4
Feb.	568.4	2,071.0	2,639.4	893.7	38.0	5,685.7	4,940.5	1,601.0	2,934.4	1,306.0
Mar.	565.6	2,102.8	2,668.4	864.6	38.4	5,809.6	5,063.7	1,572.1	2,925.3	1,315.2
Apr.	566.4	2,096.6	2,663.1	849.9	35.3	5,889.7	5,116.3	1,588.0	2,928.1	1,323.0
May	558.3	2,101.6	2,659.9	857.0	38.4	6,158.3	5,395.8	1,581.0	2,931.4	1,309.5
June	560.0	2,116.2	2,676.3	859.1	40.0	6,286.4	5,486.6	1,619.0	2,979.4	1,315.9
July	533.6	2,080.4	2,614.1	891.6	35.3	6,415.2	5,592.4	1,679.2	2,962.7	1,330.5
Aug.	519.4	2,087.5	2,606.9	928.4	35.5	6,747.8	5,944.7	1,696.0	2,988.6	1,314.3
Sept.	500.0	2,119.8	2,619.8	946.9	35.2	7,748.9	6,915.9	1,744.7	3,004.0	1,360.4
Oct.	487.0	2,136.2	2,623.2	981.6	37.1	7,772.1	6,967.3	1,749.3	2,997.7	1,374.7
Nov.	466.0	2,151.1	2,617.2	977.8	41.5	7,513.4	6,708.8	1,741.0	3,001.8	1,356.4
Dec.	442.7	2,194.0	2,636.7	970.3	37.7	8,302.9	7,426.0	1,809.5	3,041.6	1,404.6
2006										
Jan.	459.1	2,219.7	2,678.8	945.8	39.4	8,519.9	7,658.5	1,767.7	3,040.4	1,406.2
Feb.	457.4	2,243.2	2,700.6	946.7	38.9	8,858.0	7,990.1	1,775.7	3,068.9	1,407.4
Mar.	448.1	2,286.5	2,734.6	911.6	39.8	9,073.4	8,178.9	1,766.3	3,047.8	1,453.1
Apr.	440.1	2,296.5	2,736.7	901.8	47.2	9,431.5	8,306.4	1,979.7	3,049.8	1,666.6
May	359.6	2,314.1	2,673.7	973.1	41.9	9,236.3	8,145.6	2,021.8	3,068.8	1,626.7
June	355.9	2,337.1	2,693.0	976.1	39.9	9,763.1	8,710.7	1,988.7	3,087.5	1,594.3
July	359.6	2,355.5	2,715.1	979.6	35.2	9,434.4	8,338.6	2,040.1	3,113.2	1,642.1
Aug.	359.4	2,364.0	2,723.4	1,001.0	39.4	9,904.4	8,816.2	2,049.9	3,140.7	1,632.6
Sept.	322.0	2,408.5	2,730.4	1,018.4	36.5	9,749.6	8,660.9	2,070.5	3,133.9	1,667.0
Oct.	345.4	2,430.0	2,775.4	1,020.6	36.0	9,616.2	8,512.9	2,087.9	3,155.5	1,707.8
Nov.	372.8	2,455.0	2,827.9	999.0	36.4	9,626.9	8,507.9	2,081.6	3,181.6	1,727.8
Dec.	365.0	2,513.9	2,878.9	993.4	42.5	9,498.2	8,386.4	2,062.6	3,199.1	1,742.4
2007										
Jan.	392.6	2,522.2	2,914.9	962.0	36.3	10,101.7	8,989.5	2,038.0	3,201.8	1,751.1
Feb.	412.2	2,533.4	2,945.6	950.3	33.9	10,070.8	8,931.8	2,055.4	3,227.2	1,773.8
Mar.	435.9	2,582.1	3,018.0	927.8	33.3	10,508.4	9,353.5	2,049.4	3,267.0	1,800.4
Apr.	413.0	2,590.8	3,003.8	923.3	36.6	10,763.0	9,591.2	2,058.4	3,270.2	1,792.0
May	384.4	2,604.0	2,988.4	935.6	35.6	11,292.4	10,090.6	2,101.8	3,281.4	1,808.8
June	436.0	2,631.6	3,067.5	894.5	35.5	11,723.7	10,464.2	2,118.5	3,353.0	1,833.0

[1] Includes Central Bank of Malta and OMFIs. All interbank claims within the MFI sector are excluded.

[2] Central government deposits held with MFIs are netted from this figure.

TABLE 1.4 MONETARY BASE AND MONETARY AGGREGATES

Lm millions

End of period	Monetary base (M0)			Broad money (M3)								
				Intermediate money (M2)							Repurchase agreements/ Debt securities with agreed maturity up to 2 years	Total (M3)
				Narrow money (M1)				Deposits redeemable at notice up to 3 months	Deposits with agreed maturity up to 2 years	Total (M2)		
	Currency issued	OMFI balances with Central Bank of Malta	Total (M0)	Currency in circulation	Deposits withdrawable on demand		Total (M1)					
					Demand	Savings						
2003	485.4	137.9	623.3	460.4	273.7	756.9	1,490.9	28.8	1,329.5	2,849.2	-	2,849.2
2004	506.4	145.3	651.7	486.0	300.8	794.1	1,580.9	30.0	1,307.3	2,918.3	-	2,918.3
2005												
Jan.	499.6	170.3	670.0	483.0	312.3	802.9	1,598.1	30.6	1,307.9	2,936.6	-	2,936.6
Feb.	502.0	146.8	648.8	484.5	304.4	803.6	1,592.5	30.6	1,311.2	2,934.4	-	2,934.4
Mar.	505.0	175.2	680.3	484.6	302.5	798.6	1,585.7	30.1	1,309.5	2,925.3	-	2,925.3
Apr.	507.1	140.3	647.3	489.0	297.7	805.8	1,592.5	30.1	1,305.5	2,928.1	-	2,928.1
May	510.6	179.0	689.6	490.5	306.4	812.1	1,609.0	30.0	1,292.4	2,931.4	-	2,931.4
June	517.0	146.0	663.0	495.5	314.4	831.3	1,641.2	30.3	1,307.9	2,979.4	-	2,979.4
July	517.8	137.7	655.5	498.6	305.5	818.6	1,622.7	32.0	1,308.0	2,962.7	-	2,962.7
Aug.	518.2	146.4	664.6	497.8	317.1	819.8	1,634.7	30.3	1,323.6	2,988.6	-	2,988.6
Sept.	518.3	130.3	648.6	497.2	319.4	831.2	1,647.8	30.3	1,325.9	3,004.0	-	3,004.0
Oct.	516.7	149.5	666.3	496.9	314.8	830.1	1,641.9	30.2	1,325.6	2,997.7	-	2,997.7
Nov.	516.3	149.0	665.3	494.2	317.5	832.3	1,644.1	30.7	1,327.0	3,001.8	-	3,001.8
Dec.	520.0	135.5	655.6	498.9	312.1	859.0	1,670.1	31.4	1,340.1	3,041.6	-	3,041.6
2006												
Jan.	512.3	142.4	654.7	491.7	315.4	849.6	1,656.8	30.8	1,352.8	3,040.4	-	3,040.4
Feb.	509.8	135.7	645.5	491.2	320.9	852.0	1,664.1	31.1	1,373.7	3,068.9	-	3,068.9
Mar.	510.9	151.0	661.9	489.1	312.3	852.4	1,653.8	31.6	1,362.4	3,047.8	-	3,047.8
Apr.	510.7	136.8	647.5	490.6	320.2	850.5	1,661.4	31.6	1,356.8	3,049.8	-	3,049.8
May	509.9	148.6	658.5	489.5	332.7	857.5	1,679.7	34.0	1,355.0	3,068.8	-	3,068.8
June	512.0	139.2	651.2	489.9	330.2	853.1	1,673.1	31.0	1,383.3	3,087.5	-	3,087.5
July	512.0	141.0	653.0	490.0	326.4	859.1	1,675.6	31.1	1,406.5	3,113.2	-	3,113.2
Aug.	509.6	126.1	635.7	487.4	329.7	847.5	1,664.6	31.1	1,445.0	3,140.7	-	3,140.7
Sept.	508.7	133.1	641.8	487.8	311.9	859.0	1,658.7	30.3	1,444.9	3,133.9	-	3,133.9
Oct.	505.5	173.8	679.3	483.2	327.0	853.4	1,663.7	29.8	1,462.0	3,155.5	-	3,155.5
Nov.	499.3	177.0	676.3	476.6	345.1	849.9	1,671.6	30.4	1,479.7	3,181.6	-	3,181.6
Dec.	504.0	177.0	680.9	477.8	311.9	867.2	1,656.9	30.8	1,511.4	3,199.1	-	3,199.1
2007												
Jan.	485.5	184.9	670.4	463.2	317.6	861.3	1,642.2	30.3	1,529.3	3,201.8	-	3,201.8
Feb.	477.6	191.5	669.0	456.4	316.1	864.1	1,636.6	28.9	1,561.7	3,227.2	-	3,227.2
Mar.	474.9	186.0	661.0	452.8	313.9	859.4	1,626.0	29.6	1,611.4	3,267.0	-	3,267.0
Apr.	466.2	180.3	646.4	443.4	316.8	859.2	1,619.5	30.2	1,620.4	3,270.2	-	3,270.2
May	452.6	223.7	676.3	429.8	325.3	857.3	1,612.3	33.2	1,635.9	3,281.4	-	3,281.4
June	443.4	189.5	632.9	420.2	331.5	876.4	1,628.1	35.1	1,689.9	3,353.0	-	3,353.0

TABLE 1.5 CURRENCY IN CIRCULATION

Lm millions

End of period	Currency issued and outstanding			Less currency held by OMFIs	Currency in circulation
	Notes	Coins	Total		
2003	467.1	18.3	485.4	24.9	460.4
2004	487.2	19.2	506.4	20.4	486.0
2005					
Jan.	480.6	19.0	499.6	16.7	483.0
Feb.	483.1	18.9	502.0	17.5	484.5
Mar.	486.1	18.9	505.0	20.4	484.6
Apr.	488.0	19.0	507.1	18.1	489.0
May	491.4	19.2	510.6	20.1	490.5
June	497.5	19.5	517.0	21.6	495.5
July	498.0	19.8	517.8	19.2	498.6
Aug.	498.1	20.1	518.2	20.4	497.8
Sept.	498.3	20.0	518.3	21.1	497.2
Oct.	496.7	20.0	516.7	19.8	496.9
Nov.	496.3	20.1	516.3	22.1	494.2
Dec.	499.9	20.1	520.0	21.1	498.9
2006					
Jan.	492.4	19.9	512.3	20.6	491.7
Feb.	490.0	19.8	509.8	18.6	491.2
Mar.	491.0	19.8	510.9	21.8	489.1
Apr.	490.7	20.0	510.7	20.1	490.6
May	489.8	20.1	509.9	20.4	489.5
June	491.6	20.4	512.0	22.1	489.9
July	491.3	20.7	512.0	22.0	490.0
Aug.	488.7	20.9	509.6	22.2	487.4
Sept.	488.0	20.7	508.7	20.9	487.8
Oct.	484.7	20.8	505.5	22.3	483.2
Nov.	478.6	20.6	499.3	22.7	476.6
Dec.	483.1	20.9	504.0	26.2	477.8
2007					
Jan.	464.9	20.6	485.5	22.3	463.2
Feb.	457.1	20.5	477.6	21.1	456.4
Mar.	454.4	20.5	474.9	22.2	452.8
Apr.	445.6	20.6	466.2	22.7	443.4
May	432.0	20.6	452.6	22.8	429.8
June	422.7	20.7	443.4	23.2	420.2

TABLE 1.6 DENOMINATIONS OF MALTESE CURRENCY ISSUED AND OUTSTANDING

Lm millions

End of period	Total notes & coins[1]	Currency notes				
		Lm20	Lm10	Lm5	Lm2	Total
2003	485.4	109.7	319.4	30.8	7.2	467.1
2004	506.4	110.3	337.6	31.9	7.4	487.2
2005						
Jan.	499.6	109.7	333.1	30.5	7.3	480.6
Feb.	502.0	110.0	335.3	30.5	7.2	483.1
Mar.	505.0	110.1	337.3	31.4	7.3	486.1
Apr.	507.1	110.7	338.3	31.6	7.5	488.0
May	510.6	111.2	340.4	32.2	7.6	491.4
June	517.0	111.9	344.3	33.4	7.8	497.5
July	517.8	112.6	344.2	33.4	7.9	498.0
Aug.	518.2	112.5	344.3	33.4	7.9	498.1
Sept.	518.3	112.2	345.0	33.2	7.9	498.3
Oct.	516.7	111.6	344.7	32.6	7.8	496.7
Nov.	516.3	111.0	345.0	32.5	7.8	496.3
Dec.	520.0	110.5	348.6	33.0	7.8	499.9
2006						
Jan.	512.3	110.0	342.9	31.8	7.7	492.4
Feb.	509.8	109.4	341.3	31.6	7.7	490.0
Mar.	510.9	109.1	342.0	32.1	7.8	491.0
Apr.	510.7	109.0	341.1	32.6	8.0	490.7
May	509.9	108.6	340.3	32.9	8.1	489.8
June	512.0	108.4	341.3	33.8	8.1	491.6
July	512.0	108.2	340.6	34.3	8.3	491.3
Aug.	509.6	107.3	339.2	34.0	8.2	488.7
Sept.	508.7	107.0	338.7	34.1	8.2	488.0
Oct.	505.5	105.5	337.5	33.6	8.2	484.7
Nov.	499.3	104.1	333.7	32.8	8.0	478.6
Dec.	504.0	103.3	337.0	34.7	8.1	483.1
2007						
Jan.	485.5	100.6	323.9	32.4	7.9	464.9
Feb.	477.6	99.2	318.0	31.9	7.9	457.1
Mar.	474.9	97.8	315.8	32.6	8.1	454.4
Apr.	466.2	95.3	309.1	33.0	8.2	445.6
May	452.6	92.1	299.0	32.6	8.3	432.0
June	443.4	89.4	291.8	33.1	8.3	422.7

[1] The denominations of coins consist of Lm1, 50c (cents), 25c, 10c, 5c, 2c, 1c, 5m (mils), 3m and 2m.

TABLE 1.7 DEPOSITS HELD WITH OTHER MONETARY FINANCIAL INSTITUTIONS BY SECTOR[1]

Lm millions

End of Period	Resident deposits						Non-resident deposits	Total deposits
	Central government	Other general government	Financial intermediaries and financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total		
2003	19.2	6.9	51.3	419.0	2,180.3	2,676.7	850.9	3,527.7
2004	21.4	7.2	55.2	414.5	2,232.2	2,730.6	1,077.9	3,808.5
2005								
Jan.	25.0	6.4	57.8	431.6	2,235.0	2,755.8	1,013.7	3,769.5
Feb.	24.4	5.3	55.8	419.1	2,249.0	2,753.6	1,018.5	3,772.1
Mar.	30.8	4.5	55.5	428.5	2,236.4	2,755.7	1,150.9	3,906.6
Apr.	32.6	6.1	51.4	424.2	2,244.5	2,758.8	1,152.3	3,911.1
May	36.3	5.4	58.9	417.9	2,246.5	2,765.0	1,066.4	3,831.4
June	37.0	4.8	67.6	433.0	2,270.4	2,812.9	1,196.0	4,008.9
July	36.1	6.4	59.9	437.5	2,264.6	2,804.5	1,276.6	4,081.1
Aug.	38.4	5.7	54.5	456.6	2,273.0	2,828.2	1,275.4	4,103.6
Sept.	41.1	5.0	63.0	457.0	2,283.0	2,849.1	1,456.3	4,305.3
Oct.	38.1	6.9	61.7	455.5	2,277.7	2,839.8	1,518.8	4,358.6
Nov.	37.6	6.1	65.1	456.5	2,276.0	2,841.3	1,446.3	4,287.5
Dec.	42.9	7.8	79.7	447.7	2,301.6	2,879.8	1,938.6	4,818.4
2006								
Jan.	75.9	6.9	92.6	446.6	2,298.5	2,920.6	1,957.0	4,877.6
Feb.	75.2	5.8	99.5	460.0	2,306.9	2,947.5	1,792.4	4,739.9
Mar.	76.7	5.0	91.0	467.2	2,291.5	2,931.4	1,938.8	4,870.2
Apr.	77.3	6.4	90.7	463.2	2,291.7	2,929.2	2,007.9	4,937.2
May	77.6	5.6	91.3	477.9	2,299.6	2,952.0	1,782.6	4,734.5
June	100.9	4.7	93.9	471.4	2,315.7	2,986.6	1,603.5	4,590.1
July	91.7	6.3	97.3	466.0	2,334.2	2,995.4	1,605.8	4,601.3
Aug.	92.6	5.3	90.3	483.1	2,357.1	3,028.4	1,969.3	4,997.7
Sept.	92.8	4.7	72.7	487.2	2,372.1	3,029.5	2,049.0	5,078.4
Oct.	87.5	6.0	76.3	488.9	2,388.4	3,047.1	1,937.4	4,984.5
Nov.	88.1	5.2	84.5	501.3	2,398.2	3,077.3	1,879.5	4,956.8
Dec.	86.9	6.7	81.0	477.7	2,441.5	3,093.9	1,651.7	4,745.5
2007								
Jan.	86.9	5.9	84.5	498.1	2,441.0	3,116.5	1,762.5	4,879.0
Feb.	93.7	5.1	87.8	497.1	2,466.1	3,149.8	1,599.8	4,749.7
Mar.	92.4	5.8	98.8	491.9	2,501.4	3,190.3	1,742.2	4,932.5
Apr.	65.1	5.9	89.6	488.8	2,514.5	3,164.0	1,644.7	4,808.7
May	87.1	5.1	91.3	492.1	2,542.9	3,218.6	1,860.3	5,078.9
June	55.6	4.5	93.4	527.3	2,595.6	3,276.3	1,859.5	5,135.8

[1] For the purposes of this table, deposits include uncleared effects.

TABLE 1.8 DEPOSITS HELD WITH OTHER MONETARY FINANCIAL INSTITUTIONS BY CURRENCY[1]

Lm millions

End of period	Resident deposits					Non-resident deposits		Total deposits
	MTL	EUR	GBP	USD	Other	MTL	Other	
2003	2,319.8	103.9	130.2	98.0	25.4	48.0	809.7	3,535.0
2004	2,344.5	108.4	151.1	97.0	29.5	50.8	1,027.2	3,808.5
2005								
Jan.	2,354.4	113.4	154.3	100.0	34.3	50.3	963.4	3,770.1
Feb.	2,361.0	110.8	153.4	97.9	30.7	49.8	968.7	3,772.4
Mar.	2,353.2	113.7	155.6	101.7	31.4	50.7	1,100.2	3,906.6
Apr.	2,349.5	119.3	157.1	99.8	33.0	51.6	1,100.7	3,911.1
May	2,348.7	119.5	159.6	102.8	34.5	52.3	1,014.1	3,831.4
June	2,378.1	122.3	169.5	107.2	35.8	55.0	1,140.9	4,008.9
July	2,381.9	122.7	165.2	99.3	35.3	53.8	1,222.8	4,081.1
Aug.	2,398.1	122.4	169.6	102.3	35.8	53.7	1,224.3	4,106.2
Sept.	2,419.2	122.0	169.8	102.2	36.0	51.5	1,410.9	4,311.5
Oct.	2,407.1	118.2	171.1	111.2	32.3	52.1	1,472.8	4,364.7
Nov.	2,408.2	116.4	172.3	111.9	32.5	51.2	1,399.9	4,292.3
Dec.	2,439.8	122.0	181.6	102.3	34.0	51.3	1,892.0	4,823.1
2006								
Jan.	2,469.1	131.7	185.4	97.0	37.4	52.3	1,912.9	4,885.7
Feb.	2,481.0	144.3	186.3	97.7	38.4	52.0	1,748.6	4,748.1
Mar.	2,467.9	145.6	175.0	107.8	35.0	50.1	1,896.9	4,878.4
Apr.	2,459.8	155.8	181.1	96.4	36.1	51.7	1,964.3	4,945.2
May	2,462.5	166.7	190.3	95.8	36.8	51.4	1,739.4	4,742.7
June	2,506.7	159.7	188.5	95.6	36.0	51.6	1,560.1	4,598.3
July	2,515.8	159.5	182.1	102.3	35.7	52.0	1,562.0	4,609.4
Aug.	2,534.9	166.2	186.9	103.6	36.9	53.0	1,918.4	4,999.8
Sept.	2,525.1	159.6	190.0	119.0	35.8	52.3	1,998.9	5,080.6
Oct.	2,541.9	175.4	186.8	107.3	35.7	52.4	1,887.1	4,986.7
Nov.	2,558.8	184.1	188.9	109.3	36.5	52.3	1,829.1	4,959.0
Dec.	2,581.2	178.3	191.5	103.2	39.7	52.7	1,600.9	4,747.5
2007								
Jan.	2,589.4	184.9	192.5	109.0	40.7	53.1	1,711.4	4,881.0
Feb.	2,621.1	190.5	191.2	105.2	41.9	53.2	1,548.6	4,751.6
Mar.	2,660.7	192.2	163.7	133.7	39.9	53.4	1,690.7	4,934.4
Apr.	2,626.4	201.3	152.8	143.3	40.1	55.6	1,591.0	4,810.6
May	2,684.5	197.2	161.3	135.1	40.3	55.4	1,806.9	5,080.8
June	2,698.5	242.2	127.9	136.1	71.7	57.1	1,804.2	5,137.7

[1] Includes loans granted to the reporting MFIs.

TABLE 1.9 OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY SIZE CLASS[1]

Lm millions

End of period	Size classes				
	Up to Lm10,000	Over Lm10,000 to Lm100,000	Over Lm100,000 to Lm500,000	Over Lm500,000	Total
2003	306.8	666.8	376.3	1,046.4	2,396.4
2004	332.6	792.4	656.6	2,381.4	4,163.1
2005					
Jan.	332.6	798.9	663.0	2,386.9	4,181.4
Feb.	336.7	810.0	674.4	2,413.2	4,234.2
Mar.	330.6	824.9	700.4	2,417.1	4,273.1
Apr.	355.9	815.7	716.8	2,374.9	4,263.4
May	396.6	784.8	730.8	2,461.2	4,373.4
June	361.9	792.9	788.2	2,615.9	4,558.8
July	380.0	799.0	762.7	2,700.6	4,642.3
Aug.	391.5	804.0	767.1	2,754.3	4,716.8
Sept.	394.2	850.6	914.2	2,879.2	5,038.1
Oct.	357.7	920.7	921.3	2,866.1	5,065.8
Nov.	378.9	931.1	933.4	2,852.2	5,095.5
Dec.	348.5	933.0	964.9	2,961.6	5,208.1
2006					
Jan.	349.9	930.8	833.8	3,061.7	5,176.3
Feb.	373.1	1,045.5	986.4	3,109.4	5,514.4
Mar.	417.5	1,058.4	1,031.0	3,290.0	5,796.9
Apr.	415.1	1,042.9	1,029.3	3,354.9	5,842.1
May	401.8	1,098.1	1,046.1	3,310.6	5,856.5
June	404.2	1,113.9	1,065.8	3,432.9	6,016.8
July	385.1	958.8	952.0	3,805.3	6,101.3
Aug.	390.6	967.3	956.1	3,974.8	6,288.8
Sept.	359.0	1,005.2	977.0	3,992.3	6,333.6
Oct.	364.3	1,011.4	979.7	3,799.1	6,154.6
Nov.	394.7	1,024.8	1,002.3	3,832.2	6,253.9
Dec.	449.1	1,014.4	1,013.1	3,990.2	6,466.9
2007					
Jan.	465.0	1,088.9	1,012.6	4,000.2	6,566.8
Feb.	421.4	1,074.9	1,029.0	4,176.4	6,701.7
Mar.	551.1	1,006.0	801.3	4,856.3	7,214.7
Apr.	476.8	1,126.4	790.9	4,907.4	7,301.4
May	530.7	1,166.7	802.7	5,195.8	7,695.8
June	536.9	1,185.2	829.6	5,580.9	8,132.5

[1] For the purposes of this classification, these include loans extended to residents and non-residents in both domestic and foreign currencies.

TABLE 1.10 OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY ECONOMIC ACTIVITY [1]

Lm millions

End of period	Electricity, gas & water supply		Transport, storage & communication		Manufacturing	Construction	Hotels & restaurants	Wholesale & retail trade; repairs	Real estate, renting & business activities	Households & individuals [2]				Other [3]		Total lending to residents	
	Public sector	Private sector	Public sector	Private sector						Lending for house purchase	Consumer credit	Other lending	Total	Public sector	Private sector	Public sector[4]	Private sector
2003	82.9	1.0	60.1	75.4	184.8	201.1	206.9	288.2	118.5	442.2	36.1	131.6	610.0	12.6	145.2	225.1	1,761.6
2004	94.5	0.8	58.0	68.9	153.7	217.0	205.6	290.3	138.0	539.1	80.9	98.5	718.4	9.9	145.5	214.8	1,885.9
2005	58.1	3.0	55.5	67.8	131.5	215.6	203.8	296.7	190.7	653.1	91.3	92.1	836.6	30.6	153.0	172.2	2,070.6
2006																	
Jan.	72.2	2.1	56.2	69.1	131.0	219.0	200.8	292.8	201.0	660.3	91.6	91.6	843.5	30.6	149.6	186.9	2,080.9
Feb.	73.8	2.1	56.9	69.6	133.8	218.5	203.5	290.5	203.8	670.1	90.7	92.0	852.7	27.8	148.4	186.6	2,094.9
Mar.	73.9	2.2	58.0	71.5	112.3	229.9	208.7	300.6	211.3	680.0	92.4	87.0	859.5	51.2	146.9	188.7	2,137.2
Apr.	72.8	2.2	56.8	72.0	111.7	232.4	207.8	298.3	213.9	685.7	93.7	91.6	871.1	50.4	115.8	185.0	2,120.1
May	71.9	2.1	55.5	72.9	111.9	240.0	208.1	297.3	216.0	692.4	96.0	92.0	880.4	50.5	113.8	182.9	2,137.4
June	73.5	2.5	49.9	78.9	113.0	243.9	205.8	299.5	217.7	700.4	97.0	95.6	893.1	51.0	114.7	179.2	2,164.2
July	73.2	2.7	48.1	82.0	112.7	245.6	206.4	292.8	226.7	709.4	97.8	96.9	904.0	51.3	109.4	177.5	2,177.4
Aug.	73.0	3.3	45.6	85.0	112.6	245.7	203.2	288.6	229.5	718.3	99.2	97.9	915.4	51.6	108.8	175.1	2,187.3
Sept.	73.5	3.4	46.6	87.0	112.4	248.4	204.2	304.4	235.6	729.2	103.4	95.5	928.1	52.4	111.8	177.5	2,230.2
Oct.	75.4	3.6	45.1	88.4	114.1	237.4	206.8	301.9	250.6	738.9	103.9	99.1	941.9	51.9	102.4	177.8	2,241.8
Nov.	75.0	3.7	43.9	94.7	113.4	240.3	210.7	299.2	254.5	747.4	105.6	100.2	953.2	51.9	107.7	175.7	2,272.5
Dec.	77.2	3.9	45.2	101.1	114.5	251.7	211.6	306.9	263.1	759.8	107.5	99.0	966.4	52.6	110.8	180.9	2,324.2
2007																	
Jan.	72.3	3.9	48.6	100.3	112.3	253.1	212.9	305.9	264.9	768.9	107.8	100.8	977.6	52.8	115.1	180.0	2,339.7
Feb.	71.8	4.1	47.5	101.6	111.4	253.9	213.4	302.9	269.5	777.3	108.1	102.5	987.9	53.0	114.1	180.1	2,351.0
Mar.	75.2	4.3	51.2	103.9	112.5	262.2	215.1	316.4	279.6	789.4	109.3	105.0	1,003.6	49.1	108.6	181.5	2,400.3
Apr.	70.5	4.4	45.2	102.5	114.0	260.9	214.8	314.5	284.4	797.5	110.7	105.7	1,013.9	50.5	111.5	171.3	2,415.8
May	68.7	4.5	44.2	104.4	115.5	265.6	209.4	313.7	283.4	807.1	113.2	107.3	1,027.7	51.1	111.9	169.5	2,430.7
June	71.0	4.6	41.9	104.8	116.3	268.6	207.8	316.4	287.0	819.5	115.2	107.7	1,042.4	51.4	112.4	170.8	2,453.8

[1] Splits between public and private sector are only indicated where the public sector has a significant role in that economic activity.

[2] Excluding loans to unincorporated bodies such as partnerships, sole proprietors and non-profit institutions. Loans to such bodies are classified by their main activity.

[3] Includes loans to agriculture & fishing, mining & quarrying, public administration, education, health & social work, financial intermediation, community, recreational & personal service activities and to extra-territorial bodies & organisations.

[4] Total public sector loans shown in this column do not add up to the public sector borrowing by economic activity since loans to the public sector are only indicated where it is deemed that the sector has a significant role in that economic activity.

TABLE 1.11 - OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY SECTOR

Lm millions

End of Period	Lending to residents						Lending to non-residents	Total lending
	General government[1]	Insurance companies	Other financial intermediaries and financial auxiliaries	Non-financial companies	Households & non-profit institutions	Total		
2003	89.5	2.4	3.5	1,107.2	707.4	1,910.1	2,156.3	4,066.4
2004	55.6	3.1	3.5	1,153.5	817.1	2,032.7	2,490.4	4,523.1
2005								
Jan.	55.8	3.1	3.5	1,147.0	824.7	2,034.2	2,521.2	4,555.3
Feb.	54.1	3.1	5.5	1,158.7	831.0	2,052.5	2,510.9	4,563.4
Mar.	52.8	3.6	7.4	1,182.6	835.6	2,082.0	2,506.0	4,588.0
Apr.	50.7	3.3	4.5	1,167.6	846.2	2,072.4	2,610.2	4,682.5
May	50.9	3.1	8.0	1,156.2	856.6	2,074.8	2,778.3	4,853.1
June	51.6	3.2	3.7	1,162.4	867.6	2,088.4	2,840.5	4,928.9
July	51.0	3.2	3.3	1,117.0	876.5	2,051.0	2,977.7	5,028.7
Aug.	51.4	7.1	3.4	1,108.4	886.2	2,056.5	3,336.8	5,393.3
Sept.	53.3	7.3	4.6	1,139.7	894.5	2,099.3	3,956.3	6,055.5
Oct.	51.1	7.1	4.6	1,143.8	907.3	2,114.0	3,708.4	5,822.4
Nov.	51.0	7.0	4.4	1,147.5	916.8	2,126.7	3,347.5	5,474.2
Dec.	53.0	7.2	5.7	1,175.5	930.0	2,171.4	3,578.1	5,749.6
2006								
Jan.	52.9	7.1	5.6	1,194.8	937.8	2,198.1	3,578.9	5,777.0
Feb.	49.9	7.1	6.1	1,201.4	948.4	2,213.0	3,838.2	6,051.2
Mar.	50.7	7.1	3.0	1,234.3	963.4	2,258.5	4,049.5	6,308.0
Apr.	49.3	7.2	3.5	1,234.4	974.6	2,269.0	4,369.3	6,638.3
May	49.0	7.0	2.8	1,241.4	986.4	2,286.5	4,346.9	6,633.4
June	49.3	7.0	2.8	1,251.5	998.9	2,309.5	4,687.2	6,996.6
July	49.7	7.0	2.7	1,256.4	1,012.6	2,328.4	4,556.9	6,885.3
Aug.	50.0	6.9	2.6	1,251.3	1,025.1	2,335.8	4,786.3	7,122.1
Sept.	50.0	6.9	3.1	1,278.1	1,041.3	2,379.4	4,808.4	7,187.9
Oct.	49.4	6.9	6.0	1,278.8	1,058.5	2,399.5	4,699.9	7,099.4
Nov.	49.4	7.8	5.8	1,291.4	1,073.9	2,428.2	4,842.4	7,270.6
Dec.	50.8	8.6	6.4	1,327.7	1,091.7	2,485.1	4,700.8	7,186.0
2007								
Jan.	51.9	8.4	6.0	1,326.3	1,102.4	2,494.9	4,854.2	7,349.1
Feb.	53.5	8.4	6.0	1,326.2	1,112.5	2,506.7	4,960.4	7,467.1
Mar.	53.9	8.5	6.9	1,347.7	1,140.3	2,557.3	5,576.5	8,133.7
Apr.	51.2	9.9	10.2	1,341.8	1,149.7	2,562.6	5,715.6	8,278.2
May	51.7	10.5	9.7	1,340.9	1,162.8	2,575.7	6,223.4	8,799.1
June	52.1	10.3	14.6	1,346.8	1,180.7	2,604.4	6,699.6	9,303.9

[1] Including extra-budgetary units.

TABLE 1.12 - OTHER MONETARY FINANCIAL INSTITUTIONS LOANS BY CURRENCY AND ORIGINAL MATURITY

Lm millions

End of period	Lending to residents																Lending to non-residents	Total lending
	Non-financial companies						Households & non-profit institutions						Other sectors[1]			Total		
	MTL		EUR		Other		MTL		EUR		Other		MTL	EUR	Other			
	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year	Less than 1 year	Over 1 year						
2003	447.0	603.0	4.1	35.5	6.4	11.3	83.5	618.0	0.2	4.3	0.5	0.9	93.8	1.2	0.4	1,910.1	2,156.3	4,066.4
2004	412.6	663.9	11.1	39.7	9.2	16.9	91.6	717.6	0.3	4.6	1.7	1.2	60.5	1.4	0.3	2,032.7	2,490.4	4,523.1
2005	369.5	673.3	7.4	113.0	8.0	4.4	87.7	834.2	0.6	6.5	0.1	1.0	58.6	7.2	0.1	2,171.4	3,578.1	5,749.6
2006																		
Jan.	360.1	674.9	23.4	124.8	7.2	4.2	86.7	842.7	0.6	6.7	0.2	1.0	58.2	7.2	0.0	2,198.1	3,578.9	5,777.0
Feb.	358.0	678.7	25.3	127.0	8.3	4.1	92.6	847.4	0.6	6.7	0.0	1.0	56.0	7.2	0.0	2,213.0	3,838.2	6,051.2
Mar.	370.2	690.1	25.9	132.0	10.3	5.9	94.7	860.3	0.2	6.9	0.0	1.2	55.9	4.9	0.0	2,258.5	4,049.5	6,308.0
Apr.	369.4	684.4	27.5	136.4	10.9	5.7	97.5	867.7	1.0	7.3	0.0	1.1	55.1	4.9	0.0	2,269.0	4,369.3	6,638.3
May	366.5	676.3	28.6	153.3	11.5	5.3	98.1	878.4	1.1	7.7	0.1	0.9	53.9	4.8	0.0	2,286.5	4,346.9	6,633.4
June	373.3	681.0	29.2	153.6	9.4	5.0	98.0	890.4	1.0	8.6	0.1	0.9	54.2	4.8	0.0	2,309.5	4,687.2	6,996.6
July	366.9	687.9	29.1	158.4	9.1	5.0	99.2	902.6	0.8	8.8	0.0	1.1	54.6	4.8	0.0	2,328.4	4,556.9	6,885.3
Aug.	356.9	691.3	28.3	161.6	8.4	4.7	99.8	913.4	1.2	9.2	0.0	1.3	31.6	27.8	0.0	2,335.8	4,786.3	7,122.1
Sept.	369.9	702.6	26.9	162.6	11.1	5.0	84.1	944.9	0.3	10.5	0.1	1.4	32.0	28.1	0.1	2,379.4	4,808.4	7,187.9
Oct.	365.7	706.9	28.9	163.0	9.3	5.0	89.5	956.5	0.6	10.5	0.0	1.4	34.5	27.8	0.0	2,399.5	4,699.9	7,099.4
Nov.	365.1	713.9	27.3	170.7	9.5	4.9	90.7	968.5	0.7	12.6	0.0	1.3	35.2	27.8	0.0	2,428.2	4,842.4	7,270.6
Dec.	388.8	725.3	30.0	169.6	9.1	4.8	93.8	982.8	1.0	12.7	0.1	1.3	36.5	29.3	0.0	2,485.1	4,700.8	7,186.0
2007																		
Jan.	383.0	728.9	29.4	169.6	10.6	4.8	91.4	995.7	1.0	12.8	0.1	1.4	36.3	29.9	0.0	2,494.9	4,854.2	7,349.1
Feb.	376.1	736.8	29.1	169.4	10.0	4.8	90.5	1006.1	1.4	12.8	0.3	1.4	38.0	29.9	0.1	2,506.7	4,960.4	7,467.1
Mar.	378.3	752.5	29.5	171.4	11.1	4.9	99.5	1025.5	0.6	13.4	0.3	1.3	38.7	30.4	0.2	2,557.3	5,576.5	8,133.7
Apr.	368.0	745.9	31.7	180.9	10.4	4.9	100.1	1034.0	0.6	13.4	0.3	1.3	41.0	30.1	0.1	2,562.6	5,715.6	8,278.2
May	360.3	754.5	29.9	179.5	11.9	4.8	100.5	1048.3	0.7	11.8	0.2	1.3	39.5	32.4	0.1	2,575.7	6,223.4	8,799.1
June	364.4	753.6	31.0	177.4	15.5	4.8	100.8	1065.2	0.7	12.4	0.2	1.3	44.9	32.0	0.0	2,604.4	6,699.6	9,303.9

[1] Including general government and financial sector companies other than MFIs.

TABLE 1.13 - AGGREGATED STATEMENT OF ASSETS AND LIABILITIES INVESTMENT FUNDS[1]

liabilities

Lm millions

End of period	Loans	Shareholders' units/ funds	External liabilities[2]	Share capital	Reserves	Other liabilities[3]	Total liabilities
2003	0.3	348.6	2.7	12.3	1.3	0.7	366.1
2004	0.2	388.1	1.3	37.2	1.6	2.0	430.4
2005							
Mar.	4.1	406.4	1.2	43.2	1.7	4.3	461.0
June	0.3	431.1	1.5	46.9	1.9	2.7	484.3
Sept.	0.2	447.9	1.3	60.9	1.8	4.8	517.0
Dec.	0.1	476.3	1.3	81.5	2.0	3.2	564.4
2006							
Mar.	0.1	522.3	4.9	104.7	2.5	6.5	640.9
June	0.1	508.0	4.6	87.2	2.3	4.5	606.8
Sept.	0.1	496.9	4.5	84.4	2.3	3.2	591.3
Dec.	0.2	489.4	3.4	86.2	2.3	1.5	583.0
2007							
Mar.	0.2	470.0	3.2	84.4	1.8	3.0	562.7
June	7.2	407.0	3.2	80.6	2.2	2.4	502.6

TABLE 1.13 - AGGREGATED STATEMENT OF ASSETS AND LIABILITIES INVESTMENT FUNDS[1]

assets

Lm millions

End of period	Deposits	Holdings of securities other than shares		Holdings of shares and other equity		External assets[4]	Fixed and other assets[5]	Total assets
		Up to 1 year	Over 1 year	Collective investment scheme shares/units	Other shares and equity			
2003	7.5	23.3	180.1	1.5	49.0	94.8	9.8	366.1
2004	5.0	26.2	200.5	2.1	68.8	116.8	11.0	430.4
2005								
Mar.	2.8	17.1	225.7	2.5	74.5	125.6	12.8	461.0
June	9.0	9.7	240.3	2.6	73.2	136.1	13.4	484.3
Sept.	5.5	11.0	265.0	2.8	81.3	137.6	13.7	517.0
Dec.	22.4	14.8	267.9	3.4	99.8	142.1	14.1	564.4
2006								
Mar.	36.9	34.7	277.2	5.6	125.5	151.9	9.1	640.9
June	33.3	20.5	285.6	5.0	101.1	152.7	8.6	606.8
Sept.	11.7	21.3	298.2	4.6	93.9	154.3	7.3	591.3
Dec.	6.8	21.8	296.3	3.0	87.7	160.1	7.1	583.0
2007								
Mar.	8.9	5.4	295.9	3.0	86.4	157.2	5.9	562.7
June	5.2	3.1	244.9	2.7	85.6	147.7	13.3	502.6

[1] The investment funds sector comprises resident investment funds. Figures for professional investor funds are excluded. As from 2006, data for those investment funds with a net asset value of less than 2% of the total assets of the sector are estimated.

[2] Includes loans, creditors, accruals, shareholders' units/ funds and other liabilities to non-resident counterparties.

[3] Includes creditors, accruals and other liabilities.

[4] Includes deposits, securities other than shares, shares and other equity, debtors and other assets with non-resident counterparties.

[5] Includes debtors, currency (both Maltese lira and foreign), prepayments and other assets.

TABLE 1.14 MONETARY POLICY OPERATIONS OF THE CENTRAL BANK OF MALTA

Lm thousands

Period	Liquidity-injection				Liquidity-absorption			
	Reverse repos[1]			Marginal lending during the period[2]	Term deposits[3]			Overnight deposits[4]
	Amount injected	Amount matured	Amount outstanding		Amount absorbed	Amount matured	Amount outstanding	
2003	-	-	-	1,000	3,519,200	3,518,900	104,300	106,400
2004	-	-	-	5,804	2,696,870	2,780,170	21,000	86,850
2005								
Jan.	-	-	-	-	89,900	81,100	29,800	15,000
Feb.	-	-	-	-	89,200	90,000	29,000	3,700
Mar.	23,000	-	23,000	-	44,700	63,700	10,000	6,300
Apr.	9,000	23,000	9,000	-	40,900	50,900	-	58,600
May	34,300	16,300	27,000	-	23,700	16,700	7,000	-
June	6,000	27,000	6,000	-	41,200	47,200	1,000	23,300
July	7,300	13,300	-	-	38,700	12,200	27,500	25,900
Aug.	-	-	-	-	66,350	49,550	44,300	-
Sept.	-	-	-	-	215,000	178,800	80,500	50,550
Oct.	-	-	-	-	276,700	271,500	85,700	3,600
Nov.	-	-	-	2	339,400	350,800	74,300	30,100
Dec.	-	-	-	11	372,000	399,500	46,800	15,900
2006								
Jan.	-	-	-	228	367,900	314,000	100,700	1,100
Feb.	-	-	-	23	443,500	423,200	121,000	52,450
Mar.	-	-	-	160	473,700	515,700	79,000	12,800
Apr.	-	-	-	-	302,600	312,300	69,300	-
May	-	-	-	78	297,200	288,400	78,100	900
June	-	-	-	-	592,300	523,400	147,000	18,500
July	-	-	-	-	597,900	605,900	139,000	-
Aug.	-	-	-	26	638,700	597,900	179,800	6,300
Sept.	-	-	-	43	737,400	765,700	151,500	34,500
Oct.	-	-	-	-	576,100	575,100	152,500	3,500
Nov.	-	-	-	-	568,800	589,600	131,700	16,100
Dec.	-	-	-	3,000	621,900	646,900	106,700	8,800
2007								
Jan.	-	-	-	-	464,800	444,000	127,500	16,500
Feb.	-	-	-	-	540,000	535,400	132,100	9,200
Mar.	-	-	-	600	630,900	643,200	119,800	8,700
Apr.	-	-	-	-	370,900	417,200	73,500	-
May	-	-	-	-	324,800	330,300	68,000	10,400
June	-	-	-	-	457,400	454,400	71,000	82,060

[1] The Central Bank of Malta injects liquidity into the banking system through an auction of reverse repos in the event of a liquidity shortage. With effect from 15th September 2005, the maturity period of reverse repos is 7 days.

[2] The Central Bank of Malta provides a 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 from the banking system. Up to 14th September 2005 the maturity period of such deposits was 14 days. Thereafter the maturity period was reduced to 7 days.

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

TABLE 1.15 FINANCIAL MARKETS

	2003	2004	2005				2006				2007	
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar	June
INTEREST RATES (%)												
Central Bank of Malta												
Central intervention rate	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.50	3.50	3.75	4.00	4.25
Money market intervention rates:												
Term deposit rate	2.95	2.95	2.95	3.20	3.20	3.20	3.20	3.45	3.45	3.70	3.95	4.20
Reverse repo rate	3.05#	3.05#	3.00	3.27	3.30#	3.30#	3.30#	3.55#	3.55#	3.80#	4.05#	4.30#
Rate on standby (collateralised) loans	3.55	4.50	4.50	4.75	4.25	4.25	4.25	4.50	4.50	4.75	5.00	5.25
Rate on overnight deposits	0.30	1.50	1.50	1.75	2.25	2.25	2.25	2.50	2.50	2.75	3.00	3.25
Remuneration on required reserves	2.70	2.75	2.75	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.75	4.00
Interbank market offered rates												
Overnight	2.95	2.95	2.95	3.21	3.24	3.18	3.15	3.38	3.35	4.54	3.94	4.20
1 week	2.96	2.95	2.95	3.24	3.26	3.27*	3.25	3.41	3.38	3.78*	4.05*	4.28
1 month	2.98	2.98	2.98	3.25	3.26	3.29*	3.32*	3.59*	3.59*	3.86*	4.09*	4.33*
3 month	3.00*	2.80	3.01*	3.29*	3.30*	3.32*	3.34	3.69*	3.73*	3.99*	4.22*	4.44*
Other Monetary Financial Institutions												
Weighted average deposit rate	2.46	2.04	2.01	2.08	2.11	2.13	2.17	2.20	2.29	2.37	2.62	2.77
Current deposits	0.44	0.47	0.46	0.42	0.45	0.45	0.50	0.59	0.56	0.57	0.69	0.72
Savings deposits	1.01	0.95	0.95	1.17	1.17	1.17	1.17	1.17	1.18	1.17	1.41	1.62
Time deposits	3.45	2.87	2.84	2.90	2.94	2.97	3.00	3.03	3.14	3.27	3.51	3.70
Weighted average lending rate	5.29	5.33	5.39	5.59	5.55	5.48	5.47	5.71	5.71	5.90	6.11	6.34
Non-financial companies	5.77	5.80	5.82	6.01	6.03	5.95	5.93	6.13	6.16	6.31	6.55	6.79
Households and individuals	4.53	4.67	4.80	5.02	4.97	4.93	4.92	5.15	5.13	5.38	5.54	5.81
Consumer credit	5.53	6.21	6.51	6.72	6.69	6.70	6.71	6.94	6.91	7.42	7.13	7.82
House purchase	4.50	4.34	4.35	4.58	4.58	4.52	4.52	4.73	4.72	4.95	5.18	5.39
Other lending	5.29	5.17	6.08	6.44	6.04	6.09	6.14	6.40	6.32	6.46	6.66	6.83
Government securities												
Treasury bills (primary market)												
1 month	-	2.96	-	3.26	3.26	-	-	-	3.55	3.51	-	4.30
3 month	2.94	2.96	2.98	3.27	3.26	3.22	3.20	3.45	3.65	3.91	4.18	4.36
6 month	2.93	2.97	2.98	3.28	3.26	3.23	3.23	3.27	3.75	4.00	4.24	4.31
1 year	3.13	2.97	-	3.50	3.40	3.22	3.46	3.70	3.87	4.20	-	4.26
Treasury bills (secondary market)												
1 month	2.95	2.95	2.96	3.26	3.26	3.20	3.20	3.46	3.55	3.75	3.99	4.30
3 month	2.94	2.96	2.98	3.27	3.26	3.22	3.20	3.46	3.65	3.90	4.18	4.36
6 month	2.93	2.97	2.98	3.28	3.26	3.27	3.23	3.52	3.75	4.00	4.24	4.47
1 year	2.98	2.97	3.29	3.51	3.40	3.32	3.46	3.70	3.86	4.20	4.26	4.70
Long-term debt securities												
2 year	3.39	3.21	3.30	3.55	3.53	3.30	3.39	3.69	3.89	4.18	4.32	4.95
5 year	4.37	4.26	4.21	3.88	3.74	3.65	3.63	3.99	4.07	4.17	4.31	5.03
10 year	4.71	4.70	4.72	4.56	4.41	4.38	4.35	4.27	4.34	4.33	4.38	5.12
15 year	4.96	4.97	4.96	4.96	4.96	4.96	4.38	4.47	4.48	4.48	4.54	5.16
MSE SHARE INDEX	2,126	3,069	3,442	3,431	3,938	4,981	6,509	5,428	5,141	4,873	4,815	4,809

Note: # denotes the corridor linked to the central intervention rate.
* denotes Central Bank of Malta fixing rate average.
\- denotes that no transactions occurred during the reference period.

TABLE 2.1 GENERAL GOVERNMENT REVENUE AND EXPENDITURE [1]

Lm millions

Period	Revenue			Expenditure			Deficit (-) /surplus (+)	Primary deficit (-) /surplus (+) [2]
	Current	Capital	Total	Current	Capital	Total		
2003	704.4	10.1	714.5	749.9	150.2	900.1	-185.6	-121.4
2004	751.4	34.3	785.6	792.1	87.1	879.2	-93.5	-23.0
2005	780.2	74.5	854.7	818.2	99.2	917.5	-62.7	13.8
2006	825.2	71.2	896.4	850.2	101.0	951.1	-54.7	22.0
2006								
Mar.	172.4	14.7	187.1	197.3	27.7	224.9	-37.8	-23.6
June	199.0	17.5	216.5	210.7	15.8	226.5	-10.0	9.3
Sept.	205.2	16.2	221.4	211.8	21.4	233.2	-11.8	10.8
Dec.	248.6	22.8	271.4	230.4	36.1	266.5	4.9	25.4
2007								
Mar.	186.4	2.4	188.9	214.9	20.4	235.3	-46.5	-22.0
June	213.8	4.2	217.9	217.6	17.2	234.8	-16.9	-3.0

[1] Based on ESA95 methodology. Data are provisional.

[2] Deficit(-)/surplus(+) excluding interest paid.

Sources: Eurostat; NSO.

TABLE 2.2 GENERAL GOVERNMENT REVENUE BY MAIN COMPONENTS [1]

Lm millions

Period	Current revenue							Capital revenue			Total revenue	Memo: Fiscal burden [2]
	Direct taxes	Indirect taxes	Social security contributions	Sales	Property income	Other current revenue	Total	Capital taxes	Capital transfers	Total		
2003	223.1	243.0	150.1	35.2	47.5	5.5	704.4	2.7	7.5	10.1	714.5	618.9
2004	220.9	279.5	155.1	42.5	42.2	11.2	751.4	4.0	30.2	34.3	785.6	659.5
2005	232.7	299.3	171.5	41.0	29.8	5.9	780.2	7.5	67.0	74.5	854.7	711.0
2006	257.4	325.6	167.6	39.9	27.1	7.6	825.2	6.3	64.9	71.2	896.4	757.0
2006												
Mar.	38.4	74.3	35.7	9.8	12.9	1.3	172.4	1.4	13.3	14.7	187.1	149.8
June	60.4	80.4	40.1	9.4	7.1	1.6	199.0	1.7	15.8	17.5	216.5	182.6
Sept.	64.9	84.1	42.1	9.3	3.2	1.7	205.2	1.6	14.6	16.2	221.4	192.6
Dec.	93.7	86.8	49.7	11.5	4.0	2.9	248.6	1.7	21.2	22.8	271.4	231.9
2007												
Mar.	42.3	77.9	37.5	11.3	16.1	1.4	186.4	2.1	0.3	2.4	188.9	159.8
June	71.7	81.9	43.4	12.5	2.8	1.6	213.8	2.4	1.7	4.2	217.9	199.4

[1] Based on ESA95 methodology. Data are provisional.

[2] The fiscal burden comprises taxes and social security contributions.

Sources: Eurostat; NSO.

TABLE 2.3 GENERAL GOVERNMENT EXPENDITURE BY MAIN COMPONENTS[1]

Lm millions

Period	Current expenditure							Capital expenditure			Total expenditure
	Compensation of employees	Social benefits	Interest	Intermediate consumption	Subsidies	Other current expenditure	Total	Investment	Capital transfers	Total [2]	
2003	277.9	249.1	64.2	94.8	41.0	22.9	749.9	88.8	59.8	150.2	900.1
2004	282.7	257.2	70.5	107.2	36.9	37.6	792.1	75.9	14.9	87.1	879.2
2005	288.1	270.1	76.5	106.1	42.4	34.9	818.2	98.4	17.5	99.2	917.5
2006	290.7	285.9	76.7	122.3	40.6	33.9	850.2	93.7	15.2	101.0	951.1
2006											
Mar.	72.7	68.2	14.3	25.9	6.8	9.4	197.3	25.0	2.1	27.7	224.9
June	72.4	73.4	19.4	26.6	12.3	6.8	210.7	13.8	3.0	15.8	226.5
Sept.	72.7	69.2	22.6	29.4	7.5	10.3	211.8	19.6	2.6	21.4	233.2
Dec.	73.0	75.1	20.5	40.4	14.0	7.4	230.4	35.3	7.4	36.1	266.5
2007											
Mar.	73.5	73.3	24.5	23.1	10.8	9.8	214.9	20.1	2.4	20.4	235.3
June	75.2	77.5	13.9	32.5	11.7	6.9	217.6	25.7	2.9	17.2	234.8

[1] Based on ESA95 methodology. Data are provisional.

[2] Capital expenditure total includes acquisitions less disposals of non-financial non-produced assets.

Sources: Eurostat; NSO.

TABLE 2.4 GENERAL GOVERNMENT EXPENDITURE BY FUNCTION [1]

Lm millions

Period	General public services	Defence	Public order & safety	Economic affairs	Environment protection	Housing & community amenities	Health	Recreation, culture & religion	Education	Social protection	Total
2003	117.7	16.4	33.0	190.9	16.7	27.9	115.5	10.8	115.3	256.0	900.1
2004	149.9	19.2	32.2	133.5	18.4	21.4	118.9	11.9	110.8	265.3	881.4
2005	152.3	19.3	33.1	126.5	21.2	22.1	134.4	15.7	115.2	277.9	917.6

[1] Based on Classification of Functions of Government (COFOG). Data are provisional.

Sources: Eurostat; NSO.

TABLE 2.5 GENERAL GOVERNMENT DEFICIT-DEBT ADJUSTMENT [1]

Lm millions

Period	Change in debt	Deficit (-) / surplus (+)	Deficit-debt adjustment								
			Transactions in main financial assets				Valuation effects	Other changes in volume	Other [2]	Total
			Currency and deposits	Loans	Debt securities	Shares and other equity				
2003	201.9	-185.6	66.5	-22.8	0.0	0.7	-0.9	0.0	-27.2	16.4
2004	89.9	-93.5	-0.8	-1.2	0.0	-0.1	-4.5	-1.2	4.3	-3.6
2005	45.4	-62.7	31.3	0.1	0.0	-27.2	-13.1	0.0	-8.3	-17.3
2006	-44.1	-54.7	15.6	-1.2	0.0	-95.3	-0.4	0.0	-17.4	-98.8

[1] Based on ESA95 methodology. Data are provisional.

[2] Mainly comprising transactions in other assets and liabilities (trade credits and other receivables/payables).

Source: Eurostat.

TABLE 2.6 GENERAL GOVERNMENT DEBT AND GUARANTEED DEBT OUTSTANDING

Lm millions

Period	Debt securities			Loans			Total general government debt [1]	Government guaranteed debt [2]
	Short-term	Long-term	Total	Short-term	Long-term	Total		
2003	232.3	907.1	1,139.3	55.4	110.3	165.7	1,305.0	226.3
2004	245.4	1,011.4	1,256.7	36.3	102.0	138.2	1,394.9	261.6
2005	190.2	1,122.4	1,312.6	33.0	94.9	127.9	1,440.5	271.0
2006								
Mar.	179.0	1,147.4	1,326.3	10.7	115.6	126.3	1,452.7	269.8
June	121.3	1,147.4	1,268.7	7.2	116.2	123.4	1,392.1	239.6
Sept.	153.6	1,133.7	1,287.2	8.0	112.6	120.6	1,407.9	251.9
Dec.	160.5	1,123.7	1,284.1	10.1	102.1	112.2	1,396.3	249.3
2007								
Mar.	171.7	1,123.9	1,295.6	10.7	100.7	111.4	1,407.0	240.4
June	196.2	1,158.2	1,354.4	10.7	100.4	111.1	1,465.5	259.2

[1] In line with Maastricht criteria, which defines general government debt as total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government. Data are provisional.

[2] Represents outstanding balances on central government guaranteed debt.

Sources: Eurostat; NSO.

TABLE 2.7 TREASURY BILLS ISSUED AND OUTSTANDING[1]

Lm millions

End of period	Amount maturing during period	Amount issued in primary market and taken up by			Amount outstanding[3] and held by		
		OMFIs	Others[2]	Total	MFIs	Others[2]	Total
2003	712.6	607.7	124.4	732.1	198.3	34.0	232.3
2004	595.7	502.3	106.5	608.8	200.4	45.0	245.4
2005							
Jan.	40.0	14.8	14.1	29.0	184.0	50.3	234.3
Feb.	47.0	61.0	9.8	70.8	208.5	49.6	258.1
Mar.	36.5	8.2	9.6	17.7	202.7	36.6	239.3
Apr.	33.2	33.4	3.4	36.8	210.7	32.3	242.9
May	48.7	10.0	2.0	12.0	184.1	22.2	206.2
June	51.5	58.5	2.1	60.6	197.3	18.0	215.3
July	64.8	39.5	14.7	54.2	175.1	29.6	204.7
Aug.	32.0	17.8	3.6	21.4	167.6	26.5	194.1
Sep.	48.3	21.0	7.6	28.6	147.5	27.0	174.5
Oct.	49.3	38.8	16.2	55.0	147.8	32.4	180.1
Nov.	34.5	17.6	9.7	27.3	134.9	38.1	173.0
Dec.	31.4	36.1	12.5	48.6	150.9	39.3	190.2
2006							
Jan.	52.0	19.4	13.6	33.0	129.6	41.7	171.3
Feb.	35.3	19.0	24.7	43.7	122.4	57.2	179.6
Mar.	45.8	20.3	24.9	45.3	114.7	64.3	179.0
Apr.	27.6	15.0	15.5	30.5	111.9	69.9	181.8
May	35.4	6.5	14.1	20.6	101.7	65.3	167.0
June	61.7	7.0	9.0	16.0	64.5	56.9	121.3
July	30.5	30.1	13.5	43.6	80.9	53.5	134.4
Aug.	28.5	22.0	9.7	31.7	87.8	49.7	137.5
Sep.	18.2	19.1	15.2	34.3	94.3	59.3	153.6
Oct.	43.7	12.4	9.8	22.2	76.7	55.4	132.1
Nov.	29.6	47.0	13.9	60.9	105.3	58.2	163.4
Dec.	17.4	6.5	8.0	14.5	107.2	53.3	160.5
2007							
Jan.	16.8	3.0	1.4	4.4	106.2	41.9	148.1
Feb.	50.7	48.5	14.0	62.5	120.7	39.3	160.0
Mar.	32.7	38.0	6.4	44.4	141.9	29.8	171.7
Apr.	5.4	16.5	11.1	27.6	156.7	37.2	193.9
May	59.7	27.0	14.7	41.7	138.4	37.4	175.9
June	57.6	58.5	19.4	77.9	155.8	40.4	196.2

[1] Amounts are at nominal prices.

[2] Includes the Malta Government sinking fund.

[3] On 16 December 1996, the maximum amount of permissible outstanding bills was raised from Lm100 million to Lm200 million, and on 27 November 2002 this was raised further to Lm300 million.

Source: Central Bank of Malta; The Treasury.

TABLE 2.8 TREASURY BILLS ISSUED AND OUTSTANDING[1]
as at end-June 2007

Lm millions

Issue date	Maturity date	Primary market weighted average rate (%)	Secondary market offer rate (%)	Amount issued in the primary market taken up by		Amount outstanding and held by		Total amount issued / outstanding[3]
				OMFIs	Others[2]	MFIs	Others[2]	
06/10/2006	06/07/2007	3.82	4.15	9.0	0.8	9.8	0.0	9.8
15/06/2007	13/07/2007	4.29	4.20	10.0	13.4	10.0	13.4	23.4
20/04/2007	20/07/2007	4.19	4.25	10.5	8.3	10.4	8.4	18.8
28/06/2007	27/07/2007	4.30	4.30	8.0	0.0	8.0	0.0	8.0
10/11/2006	10/08/2007	4.07	4.31	10.0	0.0	10.0	0.0	10.0
16/02/2007	17/08/2007	4.19	4.32	4.0	0.3	4.0	0.3	4.3
25/05/2007	24/08/2007	4.23	4.32	15.0	1.6	15.5	1.1	16.6
01/06/2007	31/08/2007	4.27	4.33	18.0	2.0	18.0	2.0	20.0
08/06/2007	07/09/2007	4.33	4.34	9.0	1.3	9.0	1.3	10.3
15/06/2007	14/09/2007	4.36	4.35	5.5	1.2	5.5	1.2	6.7
22/09/2006	20/09/2007	3.87	4.35	12.0	4.7	13.5	3.2	16.7
30/03/2007	28/09/2007	4.24	4.36	7.0	0.5	7.0	0.5	7.5
05/04/2007	05/10/2007	4.29	4.37	3.0	0.7	3.3	0.4	3.7
09/02/2007	09/11/2007	4.23	4.41	10.5	0.8	10.5	0.8	11.3
18/05/2007	16/11/2007	4.31	4.42	3.0	0.9	3.0	0.9	3.9
09/03/2007	07/12/2007	4.26	4.44	6.0	2.6	6.1	2.5	8.6
15/12/2006	14/12/2007	4.20	4.45	1.0	0.2	1.0	0.2	1.2
13/04/2007	11/01/2008	4.32	4.49	3.0	2.1	3.2	1.9	5.1
22/06/2007	20/03/2008	4.57	4.57	8.0	1.6	8.0	1.6	9.6
11/05/2007	09/05/2008	4.26	4.63	0.0	0.8	0.0	0.8	0.8
Total				152.5	43.7	155.8	40.4	196.2

[1] Amounts are at nominal prices.

[2] Includes the Malta Government sinking fund.

[3] On 16 December 1996, the maximum amount of permissible outstanding bills was raised from Lm100 million to Lm200 million, and on 27 November 2002 this was raised further to Lm300 million.

Source: Central Bank of Malta; The Treasury.

TABLE 2.9 MALTA GOVERNMENT LONG-TERM DEBT SECURITIES OUTSTANDING[1]
as at end-June 2007

Lm millions

Coupon rate (%)	Year of maturity	Year of issue	Issue price (Lm)	ISMA Yield (%)	Interest dates	Held by		Amount
						MFIs	Others	
7.35	2007	1997	100	4.47	18/04 - 18/10	17.2	7.6	24.8
7.20	2008	1998	100	4.77	10/06 - 10/12	9.3	0.7	10.0
7.20	2008 (II)	1998	100	4.85	28/02 - 28/08	21.4	8.6	30.0
7.00	2009	1999	100	5.09	30/06 - 30/12	0.0	0.1	0.1
5.90	2009 (II)	1999	100	5.12	01/03 - 01/09	18.9	6.1	25.0
5.90	2009 (III)	2000/2005	100/107.8	5.01	30/03 - 30/09	59.7	4.6	64.3
5.90	2010	1999	100	5.14	19/05 - 19/11	13.7	1.3	15.0
5.75	2010 (II)	2000	100	5.15	10/06 - 10/12	16.6	1.9	18.5
7.00	2010 (III)[2]	2000	100	5.14	30/06 - 30/12	0.0	0.5	0.5
5.40	2010 (IV)	2003/2004	100/104.5	5.15	21/02 - 21/08	18.8	29.2	48.0
7.50	2011	1996	100	5.14	28/03 - 28/09	6.2	8.8	15.0
6.25	2011 (II)	2001	100	5.14	01/02 - 01/08	21.4	18.6	40.0
7.00	2011 (III)[2]	2002	100	5.15	30/06 - 30/12	0.0	0.1	0.1
7.80	2012	1997	100	5.15	24/05 - 24/11	14.5	20.0	34.5
7.00	2012 (II)[2]	2002	100	5.17	30/06 - 30/12	0.0	0.2	0.2
5.70	2012 (III)	2005	100/108/108.5/109.7	5.15	30/03 - 30/09	58.8	57.2	116.0
5.70	2012 (III) FI[3]	2007	102.75	5.15	30/03 - 30/09	20.0	6.5	26.5
5.70	2012 (III) FI[3]	2007	105.95	N/A[4]	18/06 - 22/06	4.5	5.5	10.0
7.80	2013	1997	100	5.18	18/04 - 18/10	15.5	18.7	34.3
6.35	2013 (II)	2001	100	5.18	19/05 - 19/11	1.5	24.5	26.0
7.00	2013 (III)	2003	100	5.19	30/06 - 30/12	0.0	0.1	0.1
6.60	2014	2000	100	5.19	30/03 - 30/09	0.8	9.7	10.5
6.45	2014 (II)	2001	100	5.20	24/05 - 24/11	7.9	22.1	30.0
5.10	2014 (III) FI[3]	2007	103.64	5.20	06/01 - 06/07	6.7	9.6	16.3
5.10	2014 (III) FI[3]	03/04/2006	100/103.25/105.5	5.20	06/01 - 06/07	14.0	52.3	66.3
7.00	2014 (IV)[2]	2004	100	5.20	30/06 - 30/12	0.0	1.7	1.7
6.10	2015	2000	100	5.21	10/06 - 10/12	9.5	20.5	30.0
5.90	2015 (II) FI[3]	2002/2003	100/102	5.22	09/04 - 09/10	0.7	39.5	40.2
5.90	2015 (II) FI[3]	2007	105	N/A[4]	09/04 - 09/10	8.0	1.8	9.8
7.00	2015 (III)	2005	100	5.22	30/06 - 30/12	0.0	0.3	0.3
7.00	2015	2005	100	5.22	03/05 - 03/11	0.0	0.3	0.3
6.65	2016	2001	100	5.22	28/03 - 28/09	2.8	27.2	30.0
4.80	2016 (II) FI[3]	03/04/2006	100/101/104	5.23	26/05 - 26/11	15.8	64.2	80.0
7.00	2016 (III)	2006	100	5.23	30/06 - 30/12	0.0	1.5	1.5
7.00	2017	2007	100	5.24	18/02 - 18/08	0.0	0.3	0.3
7.00	2017 (II)	2007	100	N/A[4]	30/06 - 30/12	0.0	4.4	4.4
7.80	2018	1998	100	5.28	15/01 - 15/07	19.3	50.7	70.0
6.60	2019	1999	100	5.26	01/03 - 01/09	11.9	32.1	44.0
5.20	2020	2007	100	N/A[4]	10/06 - 10/12	1.0	10.5	11.5
5.00	2021 FI/(I)FI[3]	2004/2005	100	5.28	08/02 - 08/08	8.3	101.7	110.0
5.10	2022	2004	100	5.29	16/02 - 16/08	0.9	29.6	30.5
5.50	2023	2003	100	5.29	06/01 - 06/07	0.2	33.7	33.8
Total						425.8	734.4	1,160.2

[1] Amounts are at nominal prices.

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

[3] Fungible issue. That is, the Accountant General reserves the right to issue, in future, additional amounts of the present

[4] ISMA yields are not available as securities were not listed on the MSE by the end of the reference period.

Source: Central Bank of Malta; MSE.

TABLE 2.10 MALTA GOVERNMENT LONG-TERM DEBT SECURITIES OUTSTANDING BY REMAINING TERM TO MATURITY[1]

Lm millions

Period	1 yr	2-5 yrs	6-10 yrs	11-15 yrs	16 yrs and over	Total
2003	44.6	209.4	310.5	270.7	77.8	913.0
2004	55.0	243.8	342.4	269.2	104.3	1,014.7
2005						
Mar.	99.4	281.4	350.5	199.0	124.3	1,054.7
June	75.9	281.4	385.5	199.0	149.3	1,091.2
Sept.	44.4	281.4	425.8	199.0	174.3	1,125.0
Dec.	44.4	281.4	426.2	199.0	174.3	1,125.3
2006						
Mar.	44.4	281.4	426.2	224.0	174.3	1,150.3
June	89.7	276.2	416.2	194.0	174.3	1,150.3
Sept.	55.3	291.2	420.4	305.5	64.3	1,136.6
Dec.	70.0	417.2	351.1	254.5	33.8	1,126.6
2007						
Mar.	70.0	266.5	501.8	224.3	64.3	1,126.9
June	34.8	291.0	510.0	224.3	100.1	1,160.2

[1] Calculations are based on the maximum redemption period of each stock. With respect to the quarterly statistics in this table, the remaining term to maturity classification is applicable as from the end of the reference quarter.

Sources: Central Bank of Malta; MSE.

TABLE 2.11 GENERAL GOVERNMENT EXTERNAL LOANS BY CURRENCY [1] AND REMAINING TERM TO MATURITY [2]

Lm millions

End of Period	EUR		USD		Other foreign currency		Total
	Short term	Long term	Short term	Long term	Short term	Long term	
2003	0.9	76.3	0.5	7.0	0.0	1.3	86.0
2004	0.5	72.4	0.0	5.3	0.0	0.9	79.1
2005	7.3	61.0	0.0	4.6	0.0	0.7	73.6
2006							
Mar.	7.3	60.0	0.0	4.4	0.0	0.7	72.3
June	7.3	59.3	0.0	3.8	0.0	0.6	71.1
Sept.	7.3	58.1	0.0	3.8	0.0	0.8	69.9
Dec.	0.0	57.7	0.4	2.4	0.0	0.5	61.1
2007 [3]							
Mar.	0.0	56.6	0.4	2.3	0.0	0.5	59.9
June	0.1	56.0	0.4	1.9	0.0	0.5	58.9

[1] Converted into Maltese liri using the closing Central Bank of Malta midpoint rate as at the end of the reference period.

[2] Including external loans of the extra budgetary units. Short term maturity refers to loans falling due within 1 year from the end of the reference quarter, whereas long term maturity refers to loans falling due after more than 1 year from the end of the reference quarter.

[3] Provisional.

TABLE 3.1 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES[1]

end of period closing middle rates

Period	EUR	USD	GBP	JPY	CHF	AUD	CAD
2003	0.4317	2.9197	1.6351	312.16	3.6104	3.8859	3.7692
2004	0.4343	3.1393	1.6252	321.71	3.5536	4.0301	3.7866
2005	0.4293	2.7570	1.6012	323.95	3.6230	3.7588	3.2072
2006	0.4293	3.0699	1.5639	364.89	3.7463	3.8869	3.5642
2007							
Jan. 5	0.4293	3.0296	1.5696	359.67	3.7491	3.8805	3.5646
12	0.4293	3.0064	1.5390	361.96	3.7550	3.8574	3.5225
19	0.4293	3.0161	1.5285	366.03	3.7708	3.8274	3.5375
26	0.4293	3.0096	1.5342	365.50	3.7707	3.8909	3.5536
Feb. 2	0.4293	3.0283	1.5416	367.35	3.7706	3.9174	3.5862
9	0.4293	3.0282	1.5549	367.96	3.7813	3.9011	3.5601
16	0.4293	3.0533	1.5670	364.19	3.7774	3.8878	3.5538
23	0.4293	3.0592	1.5593	370.87	3.7870	3.8727	3.5405
Mar. 2	0.4293	3.0694	1.5800	358.54	3.7448	3.9227	3.6044
9	0.4293	3.0514	1.5809	360.76	3.7669	3.9086	3.5834
16	0.4293	3.1051	1.5942	362.95	3.7441	3.8924	3.6440
23	0.4293	3.1010	1.5791	365.02	3.7690	3.8424	3.5876
30	0.4293	3.1014	1.5850	366.71	3.7865	3.8397	3.5802
Apr. 5	0.4293	3.1179	1.5841	370.41	3.7997	3.8113	3.5934
13	0.4293	3.1528	1.5874	373.69	3.8123	3.7891	3.5821
20	0.4293	3.1692	1.5823	376.37	3.8260	3.7934	3.5676
27	0.4293	3.1824	1.5901	379.02	3.8286	3.8282	3.5448
May 4	0.4293	3.1669	1.5901	380.07	3.8361	3.8595	3.5009
11	0.4293	3.1445	1.5875	376.38	3.8308	3.7824	3.5047
18	0.4293	3.1401	1.5932	379.76	3.8515	3.8208	3.4312
25	0.4293	3.1334	1.5792	381.05	3.8443	3.8183	3.9313
June 1	0.4293	3.1287	1.5808	381.77	3.8487	3.7675	3.3365
8	0.4293	3.1080	1.5809	378.37	3.8397	3.6870	3.3098
15	0.4293	3.1068	1.5750	383.59	3.8648	3.6999	3.2990
22	0.4293	3.1283	1.5673	387.99	3.8597	3.6880	3.3524
28	0.4293	3.1367	1.5666	385.38	3.8522	3.7065	3.3374

[1] All the above exchange rates denote units of foreign currency per one Maltese lira, with the exception of the rate against the euro, which denotes units of Maltese lira per one euro.

TABLE 3.2 MALTESE LIRA EXCHANGE RATES AGAINST MAJOR CURRENCIES

averages for the period [1]

Period	EUR	USD	GBP	JPY	CHF	AUD	CAD
2003	0.4261	2.6543	1.6237	307.39	3.5683	4.0806	3.7134
2004	0.4279	2.9061	1.5853	314.19	3.6085	3.9469	3.7801
2005	0.4299	2.8959	1.5910	318.35	3.6015	3.7978	3.5121
2006	0.4293	2.9259	1.5882	340.24	3.6642	3.8828	3.3182
2006							
Jan.	0.4293	2.8233	1.5983	325.81	3.6082	3.7644	3.2703
Feb.	0.4293	2.7825	1.5913	327.91	3.6302	3.7514	3.1988
Mar.	0.4293	2.7992	1.6047	328.18	3.6541	3.8470	3.2380
Apr.	0.4293	2.8576	1.6178	334.50	3.6687	3.8832	3.2739
May	0.4293	2.9753	1.5916	332.33	3.6253	3.8957	3.3029
June	0.4293	2.9488	1.5987	337.85	3.6330	3.9820	3.2821
July	0.4293	2.9561	1.6026	341.74	3.6538	3.9319	3.3340
Aug.	0.4293	2.9850	1.5774	345.80	3.6744	3.9108	3.3399
Sept.	0.4293	2.9677	1.5726	347.45	3.6891	3.9243	3.3100
Oct.	0.4293	2.9381	1.5674	348.68	3.7039	3.8997	3.3160
Nov.	0.4293	3.0001	1.5699	351.88	3.7089	3.8866	3.4082
Dec.	0.4293	3.0776	1.5665	360.73	3.7210	3.9163	3.5440
2007							
Jan.	0.4293	3.0247	1.5445	364.38	3.7633	3.8665	3.5578
Feb.	0.4293	3.0459	1.5556	367.10	3.7768	3.8928	3.5671
Mar.	0.4293	3.0825	1.5834	361.87	3.7576	3.8930	3.6021
Apr.	0.4293	3.1473	1.5829	373.99	3.8145	3.8074	3.5733
May	0.4293	3.1481	1.5870	380.17	3.8446	3.8158	3.4495
June	0.4293	3.1243	1.5739	383.21	3.8548	3.7114	3.3304

[1] Calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta middle rates. All the above exchange rates denote units of foreign currency per one Maltese lira, with the exception of the rate against the euro, which denotes units of Maltese lira per one euro.

TABLE 3.3 BALANCE OF PAYMENTS - CURRENT AND CAPITAL ACCOUNTS

(transactions)

Lm millions

Period	Current account									Capital account	
	Goods		Services		Income		Current transfers		Total		
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		Credit	Debit
2003	975.0	1,217.6	547.4	337.2	340.8	350.4	76.5	93.2	-58.6	7.1	0.5
2004[1]	937.5	1,240.6	587.7	359.3	336.2	353.3	76.2	100.4	-115.9	29.9	1.3
2005[1]	892.5	1,276.8	694.2	419.2	418.1	503.0	119.1	103.7	-178.7	71.2	4.4
2006[1]	1,002.3	1,410.7	887.8	562.9	629.2	688.0	179.8	182.1	-144.6	66.4	1.8
2005 [1]											
Mar.	200.1	282.2	132.0	91.9	91.0	109.1	25.1	23.9	-58.8	17.1	0.3
June	222.5	324.4	179.3	104.1	98.9	118.8	26.1	25.3	-45.8	14.4	0.2
Sept.	215.6	308.3	227.4	108.8	101.6	118.4	27.0	22.1	14.1	12.8	0.6
Dec.	254.4	361.9	155.4	114.5	126.6	156.7	40.9	32.5	-88.2	27.0	3.2
2006 [1]											
Mar.	222.7	336.6	173.1	117.1	138.9	158.1	43.7	30.4	-64.0	11.5	0.4
June	250.5	372.4	224.0	140.3	147.0	160.4	40.3	36.1	-47.5	12.9	0.4
Sept.	245.9	349.9	274.6	143.2	173.8	194.3	65.2	55.1	16.9	13.9	0.4
Dec.	283.2	351.7	216.1	162.3	169.5	175.1	30.6	60.5	-50.1	28.1	0.6
2007 [1]											
Mar.	239.0	319.1	181.2	129.0	168.0	190.7	24.2	27.5	-54.0	2.0	0.4
June	251.1	338.8	219.2	147.0	190.9	206.3	111.7	108.0	-27.2	0.8	0.3

[1] Provisional.

Source: NSO.

TABLE 3.4 BALANCE OF PAYMENTS - FINANCIAL ACCOUNT

(transactions)

Lm millions

Period	Financial account [1]										Errors & omissions
	Direct investment		Portfolio investment		Financial derivatives		Other investment		Official reserve assets	Total	
	Abroad	In Malta	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
2003	-207.2	365.1	-591.6	-7.2	-1.8	10.8	-23.0	550.8	-54.7	41.2	10.8
2004[2]	-2.6	136.4	-723.3	1.6	-249.0	242.9	-438.7	1,024.8	69.2	61.4	26.0
2005[2]	7.0	229.5	-929.9	12.4	-383.9	376.0	-970.9	1,865.3	-80.6	124.7	-12.8
2006[2]	-0.9	609.6	-846.4	-6.1	290.3	-382.9	-1,444.6	1,936.1	-35.7	119.5	-39.4
2005[2]											
Mar.	13.2	56.8	-61.8	6.3	-21.1	15.7	9.6	44.7	35.4	98.9	-56.9
June	13.0	65.6	11.5	-0.2	-23.1	21.4	-247.4	204.8	17.6	63.1	-31.5
Sept.	-19.4	57.5	-243.2	1.0	-72.5	70.1	-1,106.1	1,368.1	-97.3	-41.6	15.4
Dec.	0.2	49.6	-636.5	5.3	-267.2	268.7	373.0	247.6	-36.3	4.3	60.2
2006[2]											
Mar.	-0.6	64.8	-148.7	-4.0	-239.7	246.4	-517.5	616.5	55.8	73.1	-20.2
June	-0.6	360.4	-699.6	-6.8	272.4	-367.7	-795.5	1,329.1	-71.2	20.7	14.3
Sept.	1.4	83.5	141.3	5.8	56.0	-61.3	-182.3	-53.7	-39.2	-48.4	18.1
Dec.	-1.0	100.9	-139.5	-1.2	201.5	-200.3	50.7	44.1	18.9	74.1	-51.6
2007 [2]											
Mar.	2.8	52.7	-66.0	0.6	-92.8	94.8	-906.9	904.2	61.5	50.9	1.4
June	-3.1	65.1	-181.6	-1.4	137.7	-126.9	-1,175.3	1,247.7	33.3	-4.4	31.1

[1] A negative sign implies an increase in assets or a decrease in liabilities. A positive sign implies a decrease in assets or an increase in liabilities.

[2] Provisional.

Source: NSO.

TABLE 3.5 OFFICIAL RESERVE ASSETS

Lm millions

End of period	Monetary gold	Special drawing rights	Reserve position in the IMF	Foreign exchange: Currency and deposits	Foreign exchange: Securities other than shares	Foreign exchange: Other reserve assets [1]	Total
2003	0.6	15.2	20.5	681.6	225.1	1.6	944.6
2004	0.6	15.3	20.0	399.7	435.5	0.0	871.1
2005	0.8	16.7	21.0	290.6	609.8	0.8	939.7
2006							
Mar.	1.5	16.6	20.6	203.4	635.2	1.4	878.7
June	1.0	16.4	20.1	323.4	577.5	1.4	939.8
Sept.	1.3	16.8	20.2	376.6	570.9	-1.0	984.8
Dec.	1.3	16.8	19.8	355.3	569.2	-0.2	962.2
2007 [2]							
Mar.	1.2	16.9	19.6	298.5	561.9	2.0	900.1
June	1.2	17.7	19.4	292.9	533.0	-1.6	862.6

[1] Comprising gains or losses on financial derivatives (net).

[2] Provisional.

TABLE 3.6 INTERNATIONAL INVESTMENT POSITION (IIP)

end of period amounts

Lm millions

Period	Direct investment: Abroad	Direct investment: In Malta	Portfolio investment: Assets	Portfolio investment: Liabilities	Financial derivatives: Assets	Financial derivatives: Liabilities	Other investments: Assets	Other investments: Liabilities	Official reserve assets	IIP (net)
2003	316.3	1,123.7	2,404.3	141.3	1.8	10.8	2,491.4	4,116.8	944.6	765.7
2004 [1]	337.0	1,261.9	3,051.9	154.1	255.6	265.1	2,876.2	4,948.2	871.1	762.3
2005 [1]	329.0	1,421.3	4,299.9	181.9	653.1	650.2	4,053.4	7,144.7	939.7	877.0

[1] Provisional.

Source: NSO.

TABLE 3.7 GROSS EXTERNAL DEBT BY SECTOR, MATURITY AND INSTRUMENT [1]

Lm millions

End of period	General government			Monetary authority			Other sectors [2]			Direct investment vis-à-vis:			Total gross external debt	Memo item: OMFI [3]		
	Short term	Long term	Total (a)	Short term	Long term	Total (b)	Short term	Long term	Total (c)	Affiliated enterprises	Direct investors	Total (d)	(a+b+c+d)	Short term	Long term	Total
2003 [4]	4.3	87.3	91.6	25.7	0.0	25.7	92.2	217.3	309.6	5.2	113.2	118.4	545.3	2,341.6	1,473.8	3,815.4
2004 [4]	6.9	80.1	87.1	2.7	0.2	2.9	123.5	200.4	324.0	9.9	127.8	137.7	551.7	4,061.3	588.0	4,649.3
2005 [4]	3.0	74.6	77.6	7.3	0.2	7.5	212.2	252.7	464.9	32.1	188.7	220.8	770.8	5,812.0	963.2	6,775.2
2006 [4]																
Mar.	2.5	73.8	76.3	7.1	0.2	7.3	194.7	245.9	440.6	32.4	201.0	233.4	757.6	5,983.0	1,302.2	7,285.2
June	2.8	72.6	75.4	7.9	0.2	8.1	213.2	247.9	461.1	32.9	320.6	353.5	898.1	6,582.3	1,613.5	8,195.8
Sept.	3.3	71.4	74.8	3.2	0.2	3.4	193.4	265.6	459.0	33.9	345.5	379.4	916.6	6,214.2	1,994.9	8,209.0
Dec.	3.3	62.6	65.9	11.5	0.2	11.7	203.2	245.9	449.1	34.2	366.3	400.5	927.2	6,047.8	2,094.8	8,142.6
2007 [4]																
Mar.	2.0	61.5	63.5	5.9	0.2	6.1	212.6	248.4	461.0	32.0	372.4	404.4	935.0	7,036.1	1,983.8	9,019.9
June	1.4	60.4	61.9	3.8	0.2	4.0	216.4	246.6	463.0	32.6	372.6	405.1	934.0	8,174.4	2,089.5	10,264.0

[1] These data may not be fully reconcilable with the international investment position (IIP) statistics primarily due to conceptual differences.
[2] Comprising the non-monetary financial institutions, insurance companies and pension funds, non-financial corporations and the NPISH.
[3] The debt of the OMFI is fully backed by foreign assets.
[4] Provisional.

TABLE 3.8 MALTA'S FOREIGN TRADE

Lm millions

Period	Exports (f.o.b.)	Imports (c.i.f.)	Balance of trade
2003	928.3	1281.3	(353.0)
2004 [1]	906.7	1305.6	(398.9)
2005 [1]	840.6	1324.7	(484.1)
2006 [1]	957.1	1456.4	(499.3)
2006[1]			
Jan.	72.5	96.1	(23.6)
Feb.	61.5	123.7	(62.2)
Mar.	76.6	129.7	(53.1)
Apr.	76.0	120.4	(44.4)
May	83.8	131.6	(47.8)
June	79.3	133.7	(54.4)
July	73.8	122.6	(48.8)
Aug.	71.7	124.2	(52.5)
Sept.	84.2	111.5	(27.3)
Oct.	87.4	130.7	(43.3)
Nov.	106.4	124.2	(17.8)
Dec.	83.9	108.0	(24.1)
2007[1]			
Jan.	70.1	103.8	(33.7)
Feb.	68.8	105.4	(36.6)
Mar.	90.8	123.7	(33.0)
Apr.	72.3	112.0	(39.8)
May.	88.1	118.2	(30.1)
June	79.0	124.6	(45.6)

[1] Provisional.

Source: NSO.

TABLE 3.9 DIRECTION OF TRADE - EXPORTS[1]

Lm millions

Period	EU (of which):								All others (of which):			Total
	Euro area (of which):											
	France	Germany	Italy	Other Euro area	Total	UK	Other EU	Total	Asia	USA	Others	
2003	120.2	95.2	31.5	58.7	305.6	109.0	15.7	430.3	255.2	134.2	108.6	928.3
2004 [2]	140.6	98.0	27.9	37.2	303.7	103.9	29.1	436.7	233.7	141.8	94.5	906.7
2005 [2]	121.9	101.4	43.1	39.7	306.1	92.7	32.1	430.9	197.9	113.3	98.6	840.7
2006 [2]	142.4	121.3	40.4	53.6	357.6	91.1	35.6	484.3	269.1	118.3	85.3	957.1
2006 [2]												
Jan.	10.1	8.6	2.2	3.3	24.1	7.3	1.8	33.1	19.6	12.7	7.1	72.5
Feb.	10.2	8.7	2.4	3.4	24.7	7.6	2.2	34.5	15.6	8.8	2.6	61.5
Mar.	11.6	11.5	3.6	4.5	31.1	6.9	2.8	40.8	19.4	9.9	6.5	76.6
Apr.	12.0	9.4	2.8	4.9	29.1	7.3	2.8	39.2	16.9	10.2	9.7	76.0
May	12.5	10.7	3.7	6.1	33.0	9.6	3.3	45.9	19.7	10.0	8.2	83.8
June	12.1	8.7	3.0	7.3	31.1	9.0	3.7	43.8	19.6	8.5	7.4	79.3
July	11.6	9.9	3.0	5.3	29.8	8.3	3.2	41.3	19.3	7.7	5.5	73.8
Aug.	12.1	9.8	2.4	4.0	28.3	6.8	2.7	37.8	20.0	8.1	5.8	71.7
Sep.	12.8	12.4	3.2	3.7	32.1	7.2	3.7	43.0	23.4	10.4	7.4	84.2
Oct.	11.9	11.5	3.4	3.4	30.2	7.6	3.0	40.8	27.5	11.9	7.2	87.4
Nov.	14.1	11.6	2.8	4.4	32.9	8.6	3.3	44.8	42.3	10.4	8.9	106.4
Dec.	11.5	8.6	8.0	3.2	31.3	4.9	3.1	39.3	25.8	9.7	9.1	83.9
2007 [2]												
Jan.	9.5	11.1	2.9	3.3	26.8	8.4	2.5	37.7	17.2	8.5	6.6	70.0
Feb.	8.2	9.8	2.6	4.4	25.0	7.1	2.7	34.8	17.0	9.0	8.0	68.8
Mar.	11.0	13.8	3.7	6.1	34.6	9.8	3.5	47.9	23.9	9.7	9.3	90.8
Apr.	9.2	10.5	3.4	4.1	27.2	8.2	2.9	38.3	20.4	7.3	6.3	72.3
May.	10.6	11.2	3.6	5.1	30.5	8.8	4.2	43.5	25.7	9.6	9.3	88.1
June	9.9	8.9	3.4	4.2	26.4	7.2	2.3	35.9	25.3	9.1	8.7	79.0

[1] Including re-exports

[2] Provisional.

Source: NSO.

TABLE 3.10 DIRECTION OF TRADE - IMPORTS

Lm millions

Period	EU (of which):								All others (of which):			Total
	Euro area (of which):					UK	Other EU	Total	Asia	USA	Others	
	France	Germany	Italy	Other Euro area	Total							
2003	218.9	101.0	294.4	118.2	732.5	118.6	16.3	867.4	201.7	103.9	108.3	1,281.3
2004[1]	175.1	113.9	330.8	140.6	760.4	157.6	30.6	948.6	196.6	69.9	90.5	1,305.6
2005[1]	125.0	107.0	410.5	143.8	786.3	144.1	28.8	959.2	179.3	69.7	116.4	1,324.6
2006[1]	138.0	112.1	412.6	159.1	821.8	147.0	29.8	998.6	272.5	76.9	108.3	1,456.3
2006[1]												
Jan.	4.7	8.3	25.0	9.7	47.7	9.9	2.5	60.1	19.5	5.4	11.1	96.1
Feb.	11.7	11.7	35.7	12.4	71.4	9.6	2.9	83.9	14.0	13.2	12.6	123.7
Mar.	10.7	9.9	29.5	13.7	63.8	13.1	2.6	79.5	19.0	7.5	23.7	129.7
Apr.	12.2	8.2	41.6	14.9	76.9	11.6	2.1	90.6	19.4	5.9	4.5	120.4
May	13.0	11.1	37.5	18.5	80.1	12.2	2.4	94.7	22.5	7.3	7.1	131.6
June	11.7	8.2	47.8	15.7	83.4	10.2	3.2	96.8	20.8	6.3	9.8	133.7
July	13.4	9.5	37.0	14.1	74.0	14.8	2.2	91.0	21.6	4.9	5.1	122.6
Aug.	9.9	7.9	32.1	11.8	61.7	13.9	1.8	77.4	35.3	5.7	5.7	124.1
Sep.	12.6	8.7	31.2	11.1	63.6	11.2	2.3	77.1	24.3	5.3	4.8	111.5
Oct.	11.5	9.4	36.1	13.5	70.5	15.4	3.1	89.0	29.1	5.7	6.9	130.7
Nov.	14.2	10.3	27.3	12.4	64.2	15.6	2.3	82.1	27.9	6.7	7.5	124.2
Dec.	12.4	9.0	31.8	11.3	64.5	9.6	2.3	76.4	19.1	3.0	9.5	108.0
2007[1]												
Jan.	6.4	9.8	25.4	9.8	51.4	13.8	1.9	67.1	20.7	4.2	11.8	103.8
Feb.	10.0	8.0	29.1	11.8	58.9	13.4	3.6	75.9	18.3	4.8	6.4	105.4
Mar.	8.4	11.1	35.9	13.0	68.4	14.4	2.5	85.3	24.2	5.3	8.9	123.7
Apr.	12.3	9.4	28.8	12.9	63.4	11.3	4.4	79.1	23.8	4.0	5.1	112.0
May	12.0	10.0	29.7	12.6	64.3	19.8	3.2	87.3	21.1	3.3	6.5	118.2
June	14.2	7.3	33.7	11.9	67.1	18.3	2.3	87.7	17.7	12.2	7.0	124.6

[1] Provisional.

Source: NSO.

TABLE 4.1a GROSS DOMESTIC PRODUCT, GROSS NATIONAL INCOME AND EXPENDITURE COMPONENTS[1]

at current market prices

Lm millions

Period	Domestic demand					External balance			Gross Domestic Product	Gross National Income
	Private consumption[2]	General government consumption	Gross fixed capital formation	Changes in inventories[3]	Total	Exports of goods and services	Imports of goods and services	Net		
2003	1,218.1	387.2	369.8	-58.7	1,916.3	1,522.4	1,554.8	-32.4	1,883.9	1,874.3
2004	1,277.1	401.2	371.3	-56.7	1,992.9	1,525.2	1,599.8	-74.7	1,918.2	1,896.5
2005	1,340.0	408.9	395.7	-0.6	2,144.0	1,586.8	1,696.0	-109.2	2,034.8	1,942.0
2006	1,390.7	432.0	418.6	-0.4	2,240.9	1,890.1	1,973.6	-83.5	2,157.4	2,093.1
2006										
Mar.	317.4	103.7	116.2	10.1	547.5	395.8	453.7	-58.0	489.5	468.4
June	336.0	104.6	96.0	41.0	577.6	474.5	512.8	-38.3	539.4	523.7
Sept.	357.9	107.9	99.0	-23.4	541.4	520.5	493.2	27.3	568.7	548.2
Dec.	379.3	115.7	107.5	-28.2	574.4	499.3	513.9	-14.6	559.8	552.8
2007										
Mar.	326.5	106.1	102.8	12.2	547.7	420.1	448.0	-27.9	519.8	495.6
June	346.8	107.5	96.9	36.2	587.4	470.3	485.8	-15.6	571.8	554.6

[1] Provisional.

[2] Consumption by households and NPISH.

[3] Including acquisitions less disposals of valuables.

Source: NSO.

TABLE 4.1b GROSS DOMESTIC PRODUCT AND EXPENDITURE COMPONENTS[1]

at constant 2000 prices

Lm millions

Period	Domestic demand					External balance			Gross Domestic Product
	Private consumption[2]	General government consumption	Gross fixed capital formation	Changes in inventories[3]	Total	Exports of goods and services	Imports of goods and services	Net	
2003	1,158.1	340.4	341.8	-54.4	1,785.9	1,625.7	1,694.7	-69.0	1,716.9
2004	1,187.0	342.2	339.9	-51.4	1,817.7	1,658.3	1,757.9	-99.6	1,718.1
2005	1,214.5	343.1	356.5	-0.5	1,913.6	1,638.0	1,781.0	-143.1	1,770.6
2006	1,230.8	356.0	364.5	-0.4	1,950.8	1,801.6	1,926.0	-124.5	1,826.4
2006									
Mar.	283.7	85.7	101.6	9.4	480.4	388.6	446.1	-57.4	423.0
June	293.4	85.7	82.8	35.9	497.8	458.5	502.8	-44.4	453.4
Sept.	318.2	88.8	85.1	-20.4	471.7	479.3	477.6	1.7	473.4
Dec.	335.5	95.8	95.0	-25.3	501.0	475.2	499.5	-24.4	476.6
2007									
Mar.	289.6	85.9	89.5	10.9	475.9	384.1	422.4	-38.3	437.6
June	309.1	87.1	83.8	32.0	512.0	423.0	464.8	-41.8	470.2

[1] Provisional.

[2] Consumption by households and NPISH.

[3] Including acquisitions less disposals of valuables.

Source: NSO.

TABLE 4.2 TOURIST DEPARTURES BY NATIONALITY[1]

Thousands

Period	EU (of which): Euro area (of which): France	Germany	Italy	Other Euro area	Total	UK	Other EU	Total	All others (of which): Russia	USA	Others	Total	Total
2005	82.6	138.2	92.4	151.8	465.0	482.6	78.0	1,025.6	16.6	18.1	110.2	145.0	1,170.6
2006	73.4	125.9	112.5	151.0	462.9	431.3	79.3	973.5	21.8	17.0	111.9	150.8	1,124.3
2006													
Jan.	2.9	4.6	5.0	4.1	16.6	23.3	2.3	42.2	0.5	0.8	7.0	8.3	50.5
Feb.	2.5	6.8	3.3	3.9	16.5	23.8	1.1	41.5	0.4	0.7	4.7	5.8	47.3
Mar.	3.0	9.6	4.4	7.0	24.1	28.4	2.3	54.8	0.4	1.3	7.8	9.6	64.3
Apr.	8.5	12.9	12.1	13.4	46.8	36.3	5.0	88.1	0.7	1.4	7.6	9.7	97.8
May	10.7	10.2	6.5	17.4	44.8	38.6	7.3	90.7	1.3	1.6	9.1	12.0	102.7
June	7.6	14.0	8.2	14.5	44.3	43.7	8.2	96.1	2.0	1.9	9.0	12.9	109.0
July	9.4	10.2	14.5	19.5	53.7	41.5	13.1	108.3	5.1	2.6	15.8	23.5	131.8
Aug.	12.2	11.4	31.0	21.9	76.6	56.4	11.0	143.9	5.2	1.2	13.9	20.4	164.3
Sep.	5.3	14.4	10.9	19.4	50.0	45.1	10.8	105.8	2.7	1.6	11.8	16.1	122.0
Oct.	5.8	14.8	6.0	16.0	42.7	46.8	10.6	100.2	1.7	1.6	12.9	16.2	116.4
Nov.	3.8	10.8	5.6	8.4	28.5	27.6	5.6	61.7	1.4	1.5	6.9	9.8	71.5
Dec.	1.6	6.1	5.0	5.5	18.3	19.7	2.0	40.0	0.4	0.6	5.4	6.5	46.5
2007													
Jan.	2.0	4.5	6.8	4.1	17.4	23.1	3.6	44.1	1.0	0.7	6.0	7.6	51.7
Feb.	2.3	6.2	3.9	4.8	17.1	24.4	2.0	43.6	0.5	0.8	5.8	7.0	50.5
Mar.	4.0	10.1	6.3	8.9	29.3	29.3	3.4	62.1	0.5	1.2	7.5	9.2	71.3
Apr.	7.0	11.9	10.5	14.9	44.4	36.6	9.5	90.5	0.9	1.2	9.2	11.3	101.8
May	8.6	10.6	8.4	16.3	43.9	41.3	9.1	94.3	1.5	3.1	10.1	14.8	109.0
June	6.2	11.9	7.3	16.2	41.6	50.0	10.2	101.8	2.1	2.7	10.8	15.6	117.4

[1] Based on the NSO's inbound tourism survey. Data refer to tourist departures by air and sea. Annual figures are not available prior to 2005.

Source: NSO.

TABLE 4.3 LABOUR MARKET INDICATORS BASED ON ADMINISTRATIVE RECORDS

Thousands

Period [1]	Labour supply			Gainfully occupied			Unemployment					
	Males	Females	Total	Males	Females	Total	Males		Females		Total	
							Number	% [2]	Number	% [3]	Number	% [4]
2003	104.1	41.7	145.8	97.9	40.1	137.9	6.3	6.0	1.6	3.8	7.8	5.4
2004	103.8	42.0	145.9	97.2	40.4	137.6	6.6	6.4	1.7	3.9	8.3	5.7
2005	103.0	42.6	145.6	97.2	41.0	138.2	5.8	5.7	1.6	3.8	7.4	5.1
2006 [5]	102.7	43.6	146.2	97.0	41.9	138.9	5.6	5.5	1.7	3.9	7.3	5.0
2006 [5]												
Jan.	102.7	43.0	145.7	96.8	41.2	138.0	5.9	5.8	1.8	4.1	7.7	5.3
Feb.	102.7	43.1	145.8	96.8	41.3	138.1	5.9	5.7	1.8	4.2	7.7	5.3
Mar.	102.7	43.2	145.9	96.8	41.4	138.2	5.9	5.7	1.8	4.1	7.7	5.3
Apr.	102.7	43.1	145.8	96.9	41.4	138.3	5.8	5.7	1.7	4.0	7.5	5.2
May	102.7	43.2	145.9	97.1	41.6	138.8	5.6	5.4	1.6	3.7	7.1	4.9
June	103.0	43.5	146.5	97.5	42.0	139.5	5.5	5.4	1.5	3.6	7.1	4.8
July	102.9	43.9	146.8	97.5	42.2	139.7	5.4	5.3	1.7	3.8	7.1	4.8
Aug.	102.8	43.9	146.8	97.4	42.2	139.6	5.5	5.3	1.7	3.9	7.2	4.9
Sept.	102.8	43.9	146.8	97.3	42.2	139.6	5.5	5.3	1.7	3.9	7.2	4.9
Oct.	102.4	44.0	146.4	96.9	42.3	139.2	5.5	5.4	1.7	3.8	7.2	4.9
Nov.	102.4	44.1	146.6	96.8	42.4	139.2	5.6	5.5	1.7	3.9	7.3	5.0
Dec.	101.9	43.9	145.8	96.4	42.3	138.7	5.5	5.4	1.6	3.7	7.2	4.9
2007 [5]												
Jan.	102.2	44.1	146.3	96.6	42.4	139.0	5.6	5.5	1.7	3.8	7.3	5.0
Feb.	102.2	44.1	146.4	96.7	42.5	139.2	5.5	5.4	1.7	3.7	7.2	4.9
Mar.	102.1	44.2	146.3	96.7	42.6	139.3	5.4	5.3	1.6	3.6	7.0	4.8
Apr.	102.0	44.2	146.3	96.8	42.8	139.5	5.3	5.2	1.5	3.3	6.7	4.6
May	102.1	44.3	146.4	96.9	42.9	139.8	5.2	5.1	1.4	3.2	6.6	4.5
June	101.9	44.5	146.4	97.0	43.1	140.1	5.0	4.9	1.4	3.1	6.3	4.3

[1] Annual figures reflect the average for the year.
[2] As a percentage of male labour supply.
[3] As a percentage of female labour supply.
[4] As a percentage of total labour supply.
[5] Provisional.
Source: ETC.

TABLE 4.4 LABOUR MARKET INDICATORS BASED ON THE LABOUR FORCE SURVEY

Thousands

Period[1]	Labour supply			Gainfully occupied			Unemployment					
							Males		Females		Total	
	Males	Females	Total	Males	Females	Total	Number	%[2]	Number	%[3]	Number	%[4]
2003	110.1	49.9	159.9	102.3	45.5	147.8	7.8	7.1	4.3	8.7	12.1	7.6
2004	110.4	48.9	159.3	103.3	44.5	147.9	7.1	6.4	4.4	9.0	11.5	7.2
2005	110.5	51.4	161.9	103.4	46.9	150.3	7.1	6.5	4.5	8.8	11.6	7.2
2006	111.6	52.7	164.3	104.4	48.0	152.4	7.2	6.5	4.7	8.9	11.9	7.3
2006												
Mar.	113.7	50.5	164.2	105.6	45.7	151.4	8.1	7.1	4.8	9.5	12.9	7.9
June	111.2	53.3	164.6	103.9	47.9	151.8	7.3	6.5	5.5	10.3	12.7	7.7
Sept.	110.5	54.3	164.8	103.8	49.9	153.7	6.7	6.1	4.4	8.1	11.1	6.8
Dec.	111.1	52.7	163.8	104.1	48.6	152.7	6.9	6.2	4.1	7.8	11.0	6.7
2007												
Mar.	112.1	52.7	164.8	104.7	48.9	153.7	7.4	6.6	3.8	7.2	11.2	6.8
June	110.9	55.8	166.7	104.6	50.9	155.6	6.2	5.6	4.8	8.7	11.1	6.6

[1] Annual figures reflect the average for the year.

[2] As a percentage of male labour supply.

[3] As a percentage of female labour supply.

[4] As a percentage of total labour supply.

Source: NSO.

TABLE 4.5 PROPERTY PRICES INDEX BASED ON ADVERTISED PRICES

(base 2000 = 100)

Period	Total	Apartments	Maisonettes	Terraced houses	Others [1]
2003	129.3	128.2	128.0	130.5	122.8
2004	155.6	157.0	155.4	151.1	153.8
2005	170.9	173.7	176.7	188.9	160.3
2006	177.0	178.3	187.0	196.2	175.0
2005					
Mar.	167.9	176.5	171.8	192.5	145.3
June	169.0	163.5	176.3	182.8	170.0
Sept.	172.2	178.0	172.1	190.9	164.9
Dec.	174.6	176.6	186.6	189.3	160.9
2006					
Mar.	174.8	174.9	189.4	194.1	177.0
June	181.5	180.7	187.2	194.1	185.6
Sept.	175.4	179.3	186.3	194.1	168.8
Dec.	176.3	178.4	185.3	202.2	168.6
2007					
Mar.	180.2	185.2	183.5	203.2	164.5
June	181.9	182.6	182.3	204.2	186.8

[1] Consists of town houses, houses of character and villas.

Source: CBM estimates.

TABLE 4.6 DEVELOPMENT PERMITS FOR COMMERCIAL, SOCIAL AND OTHER PURPOSES[1]

Period	Commercial and social								Other permits[5]	Total permits
	Agriculture	Manufacturing[2]	Warehousing, retail & offices[3]	Hotels & tourism related	Restaurants & bars	Social[4]	Parking	Total		
2003	242	26	181	15	24	91	134	713	2,685	3,398
2004	261	31	192	8	25	49	105	671	2,583	3,254
2005	293	33	217	16	25	43	103	730	2,980	3,710
2006	267	38	169	9	26	30	84	623	3,129	3,752

[1] Changes to the data are mainly due to the Malta Environment & Planning Authority's policy of reassessing permit applications on a continuous basis. Excludes applications for dwellings and minor works on dwellings.

[2] Includes quarrying.

[3] Including the construction of offices, shops and retail outlets, warehouses, mixed offices and retail outlets, mixed residential premises, offices and retail outlets, mixed residential premises and retail outlets.

[4] Including the construction of premises related to the provision of community and health, recreational and educational services.

[5] Including the installation of satellite dishes and swimming pools, the display of advertisements, demolitions and alterations, change of use, minor new works and others.

Source: Malta Environment & Planning Authority.

TABLE 4.7 DEVELOPMENT PERMITS FOR DWELLINGS, BY TYPE[1]

Period	Number of permits[2]			Number of units[3]				
	New dwellings[4]	Minor works on dwellings	Total	Apartments	Maisonettes	Terraced houses	Others	Total
2003	1,321	517	1,838	4,548	1,085	414	81	6,128
2004	1,378	435	1,813	5,265	966	353	123	6,707
2005	1,852	570	2,422	7,539	1,058	363	121	9,081
2006	2,502	492	2,994	8,961	932	375	141	10,409

[1] Changes to the data are mainly due to the Malta Environment & Planning Authority's policy of reassessing permit applications on a continuous basis.

[2] Total for permits granted is irrespective of the number of units.

[3] Data comprise the actual number of units (e.g. a block of apartments may consist of several units).

[4] Including new dwellings by conversion.

Source: Malta Environment & Planning Authority.

TABLE 4.8 INFLATION RATES MEASURED BY THE RETAIL PRICE INDEX[1]

(base 1946 = 100)

Year	Index	Inflation rate (%)	Year	Index	Inflation rate (%)
			(continued)		
1946	100.00	-	1976	256.20	0.56
1947	104.90	4.90	1977	281.84	10.01
1948	113.90	8.58	1978	295.14	4.72
1949	109.70	-3.69	1979	316.21	7.14
1950	116.90	6.56	1980	366.06	15.76
1951	130.10	11.29	1981	408.16	11.50
1952	140.30	7.84	1982	431.83	5.80
1953	139.10	-0.86	1983	428.06	-0.87
1954	141.20	1.51	1984	426.18	-0.44
1955	138.80	-1.70	1985	425.17	-0.24
1956	142.00	2.31	1986	433.67	2.00
1957	145.70	2.61	1987	435.47	0.42
1958	148.30	1.78	1988	439.62	0.95
1959	151.10	1.89	1989	443.39	0.86
1960	158.80	5.10	1990	456.61	2.98
1961	164.84	3.80	1991	468.21	2.54
1962	165.16	0.19	1992	475.89	1.64
1963	168.18	1.83	1993	495.59	4.14
1964	172.00	2.27	1994	516.06	4.13
1965	174.70	1.57	1995	536.61	3.98
1966	175.65	0.54	1996	549.95	2.49
1967	176.76	0.63	1997[2]	567.95	3.27
1968	180.42	2.07	1998	580.61	2.23
1969	184.71	2.38	1999	593.00	2.13
1970	191.55	3.70	2000	607.07	2.37
1971	196.00	2.32	2001	624.85	2.93
1972	202.52	3.33	2002	638.54	2.19
1973	218.26	7.77	2003	646.84	1.30
1974	234.16	7.28	2004	664.88	2.79
1975	254.77	8.80	2005	684.88	3.01
			2006	703.88	2.77

[1] The Index of Inflation (1946 = 100) is compiled by the NSO 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 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 4.9 MAIN CATEGORIES OF RETAIL PRICE INDEX

(base December 2002 = 100)

Period	All Items Index	12-month moving average rates of change (%)[1]										
		All Items	Food	Beverages & tobacco	Clothing & footwear	Housing	Water, electricity, gas & fuels	H/hold equip. & house maint. costs	Transp. & Comm.	Personal care & health	Recreation & culture	Other goods & services
2003	100.7	1.3	2.3	2.7	-6.4	2.2	0.0	-1.0	2.6	3.3	0.4	4.2
2004	103.6	2.8	0.2	9.2	-2.5	3.8	1.3	2.2	4.0	5.1	1.2	8.0
2005	106.7	3.0	1.8	2.4	-0.5	5.0	23.0	2.1	3.8	3.6	1.1	3.0
2006	109.6	2.8	2.0	2.2	-1.8	4.8	26.0	1.5	3.3	2.9	-0.2	2.3
2006												
Jan.	107.1	3.0	1.8	2.3	-0.7	5.1	23.3	2.2	3.7	3.6	0.9	2.8
Feb.	107.7	2.9	1.6	2.3	-0.7	5.2	23.6	2.2	3.7	3.5	0.8	2.8
Mar.	109.1	2.9	1.7	2.4	-0.8	4.9	25.3	2.2	3.6	3.5	0.6	2.6
Apr.	110.3	3.0	1.8	2.4	-0.9	4.7	26.9	2.2	3.7	3.4	0.5	2.6
May	110.9	3.0	1.7	2.5	-0.8	4.6	28.2	2.2	3.9	3.4	0.4	2.6
June	110.5	3.1	1.5	2.6	-0.6	4.6	29.6	2.1	4.2	3.3	0.3	2.6
July	110.0	3.3	1.7	2.5	0.4	4.6	30.8	2.0	4.5	3.4	0.2	2.6
Aug.	109.5	3.4	1.7	2.5	0.8	4.6	31.9	1.9	4.6	3.3	0.1	2.5
Sept.	110.2	3.4	1.8	2.4	0.3	4.6	33.2	1.8	4.8	3.3	0.0	2.5
Oct.	110.6	3.3	1.7	2.4	-0.6	4.7	34.2	1.7	4.5	3.2	0.0	2.4
Nov.	109.9	3.0	1.8	2.3	-1.3	4.7	30.0	1.6	3.9	3.1	-0.1	2.4
Dec.	109.9	2.8	2.0	2.2	-1.8	4.8	26.0	1.5	3.3	2.9	-0.2	2.3
2007												
Jan.	108.6	2.7	2.2	2.2	-1.4	4.6	24.2	1.4	2.9	2.8	0.0	2.2
Feb.	108.9	2.6	2.5	2.2	-1.5	4.4	22.3	1.4	2.5	2.7	0.2	2.1
Mar.	109.4	2.4	2.5	2.2	-2.1	4.4	17.7	1.3	2.2	2.7	0.4	1.9
Apr.	110.2	2.0	2.3	2.1	-2.3	4.2	13.4	1.2	1.6	2.5	0.6	1.7
May	110.4	1.7	2.3	2.0	-2.7	4.0	9.6	1.0	0.9	2.4	0.7	1.4
June	110.5	1.4	2.5	1.8	-3.2	3.8	6.0	0.9	0.3	2.2	0.9	1.2

[1] 12-month moving average rates of change in the RPI sub-indices were compiled by the Central Bank of Malta.

Source: NSO.

TABLE 4.10 MAIN CATEGORIES OF HARMONISED INDEX OF CONSUMER PRICES

(base 2005=100)

Period	All Items Index	12-month moving average rates of change (%)											
		All Items	Food & non-alcoholic beverages	Alcoholic beverages & tobacco	Clothing & footwear	Housing, water, electricity, gas & other fuels	Furnishings, household equipment & routine maintenance of the house	Health	Transport	Communications	Recreation & culture	Education	Restaurants & hotels	Miscellaneous goods & services
2003	94.9	1.9	2.0	1.2	-6.8	1.9	-0.3	5.6	2.1	-0.2	1.3	3.2	7.4	2.3
2004	97.5	2.7	-0.3	13.0	-2.5	2.8	2.8	6.9	4.0	10.2	0.2	3.0	2.6	5.8
2005	100.0	2.5	1.8	1.8	-0.5	9.3	2.4	5.5	3.5	10.0	1.9	1.6	0.0	3.0
2006	102.6	2.6	2.2	0.6	-1.8	10.6	2.0	4.0	4.2	0.4	0.1	2.6	1.9	2.8
2006													.	
Jan.	98.3	2.6	1.9	1.7	-0.7	9.5	2.4	5.4	3.6	8.8	1.8	1.7	0.2	2.9
Feb.	98.9	2.6	1.6	1.6	-0.8	9.6	2.4	5.2	3.8	7.0	1.7	1.9	0.4	2.9
Mar.	100.0	2.6	1.7	1.5	-0.8	9.8	2.4	5.0	3.9	5.4	1.5	2.0	0.7	2.9
Apr.	104.2	2.7	1.9	1.4	-0.9	10.2	2.5	4.9	4.2	3.9	1.5	2.0	1.1	2.9
May	104.8	2.8	1.7	1.4	-0.8	10.5	2.5	4.7	4.6	2.4	1.5	2.1	1.5	3.0
June	104.6	2.9	1.5	1.3	-0.6	10.8	2.5	4.6	5.0	2.1	1.4	2.2	1.8	3.0
July	105.0	3.1	1.7	1.2	0.4	11.2	2.4	4.6	5.4	1.8	1.2	2.2	1.8	3.1
Aug.	104.7	3.1	1.9	1.1	0.8	11.5	2.3	4.6	5.7	1.5	0.9	2.3	1.6	3.1
Sept.	104.9	3.2	2.0	1.0	0.3	11.9	2.2	4.5	6.0	1.2	0.6	2.4	2.0	3.0
Oct.	104.3	3.1	1.8	0.9	-0.6	12.3	2.2	4.4	5.6	0.9	0.4	2.4	2.2	2.9
Nov.	100.7	2.8	2.0	0.7	-1.2	11.4	2.1	4.2	4.9	0.7	0.3	2.5	1.9	2.9
Dec.	100.6	2.6	2.2	0.6	-1.8	10.6	2.0	4.0	4.2	0.4	0.1	2.6	1.9	2.8
2007														
Jan.	99.5	2.5	2.3	0.6	-1.4	10.0	1.9	3.9	3.6	0.2	0.4	2.6	1.8	2.8
Feb.	99.7	2.4	2.7	0.6	-1.4	9.4	1.8	3.8	2.9	0.2	0.6	2.7	1.5	2.6
Mar.	100.5	2.2	2.6	0.6	-1.9	8.2	1.6	3.8	2.5	0.3	0.9	2.7	1.5	2.5
Apr.	103.0	1.8	2.4	0.6	-2.1	6.8	1.5	3.5	1.8	0.3	0.8	2.9	0.9	2.3
May	103.8	1.4	2.3	0.6	-2.6	5.6	1.3	3.4	0.9	0.3	0.8	3.0	0.4	2.0
June	104.0	1.1	2.4	0.5	-3.0	4.4	1.2	3.3	0.1	0.4	0.8	3.1	0.1	1.8

Source: NSO, Eurostat.

GENERAL NOTES

PART 1 MONETARY, BANKING, FINANCIAL MARKETS AND INVESTMENT FUNDS

Institutional balance sheets

The balance sheets published in Tables 1.1 and 1.2 are based on accounting principles. Consequently, the data in these tables might differ from those shown in other tables compiled according to statistical concepts and methodologies.

General monetary statistical standards

Since October 2003, the compilation of monetary statistics has been consistent with internationally agreed statistical concepts and methodologies as set out in the IMF's *Monetary and Financial Statistics Manual* (2000), ECB Regulation 2001/13 concerning the consolidated balance sheet of the monetary financial institutions (MFI) sector and the European System of Accounts (ESA 1995). Prior to October 2003, the compilation of monetary statistics was broadly in line with the IMF's *A Guide to Money and Banking Statistics in International Financial Statistics* of December 1984.

Determination of 'residence'

Monetary data are based on the classification of transactions by the residence of the transactor, who may either be a resident or a non-resident of Malta. A transactor is an 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'.

The term 'centre of economic interest' indicates that there exists some location within the economic territory on or from which a unit engages, and intends to continue to engage, in economic activities and transactions on a significant scale, either indefinitely or over a finite but long period of time (a year or more). Those companies solely undertaking international business activities, including shipping activities, which have a physical presence and undertake a significant degree of economic activity in Malta, are considered resident units.

Transactors not meeting the above-mentioned criteria, that is, units that have their 'centre of economic interest' in other countries, are considered to be non-residents. Hence, diplomatic bodies, embassies, consulates and other entities of a foreign government located in Malta are considered to be residents of the country they represent and not of Malta.

Sector classification of the Maltese economy

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

(a) Monetary financial institutions (MFIs)
(b) Other financial intermediaries and financial auxiliaries
(c) Insurance companies and pension funds
(d) General government
(e) Non-financial companies
(f) Households and non-profit institutions (NPISH)

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) **Monetary financial institutions** (MFIs) consist of:

i. The **central bank**, which is the national financial institution that exercises control over key aspects of the financial system and whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country.

ii. **Other monetary financial institutions** (OMFIs), which in Malta consist almost entirely of credit institutions. The business of OMFIs is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. Credit institutions licensed in Malta comprise banks licensed by the competent authority under the Banking Act (Cap. 371). In accordance with the Banking Co-ordination Directives of December 1977 and December 1989 (77/780/EEC and 89/646/EEC), a credit institution is "an undertaking whose business is to receive deposits or other repayable funds from the public - including the proceeds arising from the sales of bank bonds to the public - and to grant credit for its own account".

(b) **Other financial intermediaries and financial auxiliaries:**

Other financial intermediaries are non-monetary financial companies (excluding insurance companies and pension funds) principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than MFIs. The principal activities of these institutions may include one or more of the following: long-term financing, financial leasing, factoring, security and derivative dealing, receiving deposits and/or close substitutes for deposits from MFIs only, and managing investment trusts, unit trusts and other collective investment schemes.

Financial auxiliaries are companies that are principally engaged in auxiliary financial activities, that is, activities closely related to financial intermediation, but which are not financial intermediaries themselves. The following are examples of companies classified in this sector: insurance, loan and securities brokers, investment advisers, flotation companies that manage issues of securities, central supervisory authorities of financial intermediaries and financial markets when these are separate institutional units, managers of pension funds and mutual funds and companies providing stock exchange and insurance exchange services.

(c) **Insurance companies and pension funds:**

This sector comprises non-monetary financial companies principally engaged in financial intermediation as the consequence of the pooling of risks. Insurance companies consist of incorporated mutual and other entities whose principal function is to provide life, accident, health, fire or other forms of insurance to individual institutional units or groups of units.

Pension funds included in this sector are those that are constituted as separate from the units that created them. They are established for the purpose of providing retirement benefits for specific groups of employees. They have their own assets and liabilities, and they engage in financial transactions on their own account. These funds are organised and directed by individual private or government employers, or jointly by individual employers and their employees, and towards which the employees and/or employers make regular contributions.

(d) **General government:**

General government includes all institutional units principally engaged in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. This is sub-divided into:

i. **Central government,** which includes all administrative departments of the state and other central agencies whose competence extends over the whole economic territory. Central government thus includes departments, ministries, and offices of government located in the country together with embassies, consulates, military establishments and other institutions of government located outside the country. Also included in the central government sector are extra-budgetary units, also termed public non-market units. These comprise institutional units under public control that are principally engaged in the production of goods and services not usually sold on a market and/or that are involved in the redistribution of national income and wealth. These units/entities do not charge "economically significant" prices and/or did not cover at least 50% of their production costs in sales over the last years.

ii. **Other general government,** which in Malta comprises solely the local government sector. Local government includes administrative departments, councils or agencies whose competence covers only a restricted part of the economic territory of the country.

The **Public Sector** comprises the general government sector and public companies, the latter being those companies that are owned by government or are subject to government control.

(e) Non-financial companies:

This sector comprises companies not engaged in any form of financial intermediation but engaged principally in the production of market goods and non-financial services. Included in this sector are market-producing co-operatives, partnerships and sole proprietorships recognised as independent legal entities, which are subdivided into:

i. **Public non-financial companies,** i.e. companies that are subject to control by government units. Control over a company is defined as the ability to determine general corporate policy by choosing appropriate directors or by owning more than half of the voting shares or otherwise controlling more than half of the shareholders' voting power. In addition, the government may secure control over a company or corporation by a special decree or regulation that enables it to determine corporate policy or to appoint the directors. These state-owned non-financial companies are to be distinguished from the extra-budgetary units included in the general government sector, since they are considered to be producing goods and services to the market, and/or to be charging economically-significant prices, and/or more than 50% of their production costs are covered by their sales.

ii. **Private non-financial companies,** i.e. companies that are controlled by non-government units, whether resident or non-resident.

(f) **Households and non-profit institutions serving households (NPISH):**

This sector comprises individuals or groups of individuals that are consumers and producers of goods and non-financial services exclusively intended for their own final consumption. It includes non-profit institutions serving households principally engaged in the production of non-market goods and services intended for particular sections of households and market-producing co-operatives, partnerships and sole proprietorships that are not recognised as independent legal entities.

Classification of economic activities

The classification of economic activities follows the standards of Regulation (EEC) No 3037/90 entitled "Nomenclature générale des activités économiques dans les Communautés européennes" (General industrial classification of economic activities within the European Communities), known by the acronym NACE Rev.1.

Measures of money

The Bank compiles data on three main monetary aggregates: narrow money (M1), intermediate money (M2) and broad money (M3).

Narrow money (M1) includes the most liquid components of M3, namely currency in circulation, demand deposits and savings deposits withdrawable on demand. Excluded from demand deposits are uncleared effects drawn on OMFIs and cheques and other items in the process of collection, but non-government deposits with the Central Bank of Malta are included.

Intermediate money (M2) comprises M1, residents' savings deposits redeemable at notice and time deposits with an agreed maturity of up to and including two years.

Broad money (M3) comprises M2 and the OMFIs' repurchase agreements with the non-bank sector and OMFIs' debt securities issued with an agreed maturity of up to and including two years. It therefore includes the resident non-bank sector's holdings of bank notes and coins in circulation, resident non-bank and non-government deposits irrespective of denomination, the OMFIs' repurchase agreements with the non-bank sector and the banks' issues of debt securities, all with an agreed maturity of up to and including two years.

The Monetary Base

The monetary base (M0) is defined as currency in issue together with the OMFIs' deposits with the Central Bank of Malta. Currency in issue comprises both currency in circulation and holdings of national currency by the banks. OMFIs' deposits with the Central Bank of Malta exclude term deposits and other bank deposits that are restricted for a significant period of time.

Compilation and valuation principles

Monetary statistics are based on a consolidation of the monthly financial statements provided by the local OMFIs and the Central Bank of Malta. The OMFIs must submit data to the Central Bank not later than twelve calendar days following the end of the reporting month or quarter. Branches and subsidiaries of OMFIs operating in Malta but whose head offices/parent companies are located abroad are also obliged to submit similar data. The reporting institutions compile monthly financial information in line with international accounting norms as established by the International Accounting Standards Committee. In addition, in certain instances, the OMFIs are required to submit returns in accordance with specific statistical requirements as instructed by the Central Bank.

Monetary data show stock positions, which are outstanding balances as at the end of the reference period. Monetary aggregates are consolidated for the MFI sector, so that all identifiable interbank transactions are eliminated. Assets and liabilities are generally reported at market or fair value and on an accruals basis. Thus, the effects of transactions and other events are recognised when they occur rather than when cash is received or paid. Transactions are recorded at the time of change in ownership of a financial asset. Within this context, change in ownership is accomplished when all rights, obligations and risks are discharged by one party and assumed by another. Instruments are reported in accordance with their maturity at issue, that is, by original maturity. Original maturity refers to the fixed period of life of a financial instrument before which it cannot be redeemed.

All financial assets and liabilities are reported on a gross basis. Loans - which include overdrafts, bills discounted and any other facility whereby funds are lent - are reported at their book value and gross of all related provisions, both general and specific. Financial assets and liabilities that have demonstrable value - as well as non-financial assets - are considered as on balance sheet items. Other financial instruments which are conditional on the occurrence of uncertain future events, such as contingent instruments, are not given on balance sheet recognition. Only the gains and losses on the latter instruments are treated as on balance sheet items.

Release of monetary statistics

Monthly provisional consolidated monetary statistics are posted on the Central Bank of Malta's website generally by the end of the month following the reference month. Such monetary statistics are considered provisional since the Central Bank may need to revise the data referring to the periods prior to the current reference period arising from, for example, reclassifications or improved reporting procedures. Subsequently, such provisional monetary data, together with related analytical information, are released to the press through the Bank's monthly '*Statistical Release on Monetary Aggregates and their Counterparts*' and, in more detail, in the Central Bank of Malta's *Quarterly Review* and *Annual Report*. The statistics released in the *Quarterly Review* and *Annual Report* are generally considered to be final. Major revisions to the data are also highlighted by means of footnotes in these publications. When major revisions to the compilation methodology are carried out, the Bank releases advance notices in its official publications.

Financial market indicators

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 as a percentage per annum. The repurchase agreement/term deposit rates are the prevailing rates actually dealt in at the end of the month or the rates offered by the Central Bank of Malta. The interbank market offered rates shown are the prevailing rates of the last dealings between banks in the official interbank market during the last month of the period reported. When no deals are transacted, the Central Bank of Malta fixing rate average is used.

The weighted average deposit rates on current, savings and time deposits refer to the interest rates applicable on resident Maltese lira deposits only. These rates are calculated by multiplying each amount by the different rates on each type of deposit and dividing by the total amount of each type of deposit. The weighted average rate on time deposits is calculated on all time deposits. The weighted average lending rate is calculated by multiplying the amount of each loan extended to residents in local currency by the interest rate applied thereto and dividing by the total amount.

The primary market Treasury bill rates are the weighted averages of the rates attached to the bills that are taken up by bidders at the weekly auction. Treasury bills are classified by original maturity. A "-" sign implies that no transactions occurred during the reference period. Meanwhile, the secondary market yields represent the wholesale selling rates quoted by the Central Bank of Malta at the end of the reference period for amounts of Lm50,000 or over in each respective tenor. Interest rates on Malta Government long-term debt securities represent average International Securities Market Association (ISMA) redemption yields on applicable stocks with the periods specified referring to the remaining term to maturity. ISMA yields are quoted on the basis of an annual compounding period, irrespective of how many coupon periods per annum the stock has.

The Malta Stock Exchange (MSE) share index is calculated real-time during each trading day. It is based on the last closing trade prices of the shares of all eligible companies and weighted by their current market capitalisation. The index has a base of 1,000 initiating on 27 December 1995.

Investment funds

The investment funds sector consists of the collective investments schemes licensed by the MFSA that have a centre of economic interest in Malta, other than professional investor funds and money market funds. The balance sheet is aggregated and therefore includes, among the assets and liabilities, holdings by investment funds of shares/units issued by other investment funds.

PART 2 GOVERNMENT FINANCE

Tables in this section show the general government fiscal position compiled on the basis of ESA 95 methodology. The data are consolidated between the sectors of government. The sources for such data are the NSO and Eurostat. Government expenditure classified by function is based on the OECD's Classification of the Functions of Government (COFOG), which is a classification of the functions, or socio-economic objectives, that the general government sector aims to achieve through various outlays. The table showing the general government deficit-debt adjustment (DDA) shows how the general government deficit is financed and considers the relationship between the deficit and Maastricht debt. The DDA thus reconciles the deficit over a given period with the change in Maastricht debt between the beginning and the end of that period. It is mainly explained by government transactions in financial assets, such as through privatization receipts or the utilization of its deposit accounts, and by valuation effects on debt.

The general government debt is defined as the total gross debt at nominal value outstanding at the end of a period and consolidated between and within the various sections of the government. Also shown are data on debt guaranteed by the government, which mainly relate 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 of Malta on behalf of government - which loans already feature in the calculation of government external debt. They also include guarantees on loans granted by the extra-budgetary units but exclude guarantees granted to them by government as these already feature as general government debt.

The methodology underlying the compilation of data on the external loans of general government is generally consistent with the standards of the World Bank's Debtor Reporting System (DRS). Data refer to external loans with an original maturity of one year and over. Debt is recognised when disbursement of funds is effected. Data are converted to Maltese liri using end-of-period exchange rates.

PART 3 EXCHANGE RATES, EXTERNAL TRANSACTIONS AND POSITIONS

Exchange rates statistics show the end-of-period and average exchange rates of the Maltese lira against other currencies. The Maltese lira average exchange rates are calculated on the arithmetic mean of the daily opening and closing Central Bank of Malta middle rates.

The concepts and definitions used in the compilation of balance of payments and international investment position (IIP) statistics are generally in line with the IMF Balance of Payments Manual (BPM05). The conventions of the system are also in line with the IMF manual. Credit entries are recorded for e.g. exports, income receivable and financial items, reflecting reductions in the economy's foreign assets or increases in its foreign liabilities. Conversely, debit entries are recorded for e.g. imports, income payable and financial items, reflecting increases in assets or decreases in liabilities. The concepts of economic territory, residence, valuation and time of recording are broadly identical to those used in the compilation of monetary statistics. The IIP statistics are based on positions vis-à-vis non-residents of Malta and are, in most cases, valued at current market prices. The concepts used in the compilation of gross external debt generally complies with the IMF'S guidelines. Such data may not be fully reconcilable with the data shown in the IIP primarily due to conceptual differences. The external debt data of the OMFIs are being shown as a memorandum item as such debt is totally backed by foreign assets.

The official reserve assets concept is also in line with the IMF's Balance of Payments Manual (BPM05). Official reserve assets refer to the country's international reserves, which are those external assets that are readily available to, and controlled by, the monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.
The concepts used in the compilation of gross external debt complies with the IMF's "External debt statistics - guide for compilers and users". Such data may not be fully reconcilable with the data shown in the IIP primarily due to some conceptual differences. The external debt of the other monetary financial institutions is being separately shown as a memorandum item as such debt is totally backed by foreign assets of these institutions.

PART 4 REAL ECONOMY

National accounts and other general economic statistics are mostly produced by the NSO in accordance with ESA 95 standards except for the labour market indicators, which are based on the ETC's administrative records, and the RPI. Data on development permits are sourced from the Malta Environment and Planning Authority (MEPA).

Labour market statistics comprise those compiled on the basis of the NSO's Labour Force Survey (LFS) and the ETC's administrative records. The LFS is based on a random sample of private households using concepts and definitions outlined by Eurostat according to methodologies established by the International Labour Organisation (ILO). As from March 2004, data are based on a weekly survey carried out throughout the reference quarter, whereas from June 2005 data are weighted using a new procedure and are, thus, not strictly comparable with figures prior to this period. The labour market data based on the administrative records of the ETC represent a measure of the gainfully occupied population using information obtained from the engagement and termination forms filed with the ETC itself. ETC data on unemployment are based on the number of persons registering for work under Part 1 and Part 2 of the unemployment register.

The RPI covers all monetary consumption expenditure incurred by Maltese residents weighted according to the spending pattern derived from the Household Budgetary Survey 2000/1. On the other hand, the HICP covers all household final consumption expenditure irrespective of nationality or residence status. Consequently, the HICP uses weights that cover not only private and institutional household expenditure but also tourism expenditure in Malta. The differences in these weighting schemes account significantly for the monthly disparities in the RPI and the HICP.

The sources of data used in the compilation of the Central Bank's property prices index are the properties advertised for sale in all localities in Malta and Gozo in the property section of a local Sunday newspaper. Data for a particular quarter are derived from the newspapers published on the first Sunday of each month within the quarter. The property types include flats and maisonettes, both in shell and in finished form, together with terraced houses, townhouses, houses of character and villas. Indices for each property type are derived on the basis of median prices weighted by the number of observations in each property category. The overall index is a Fischer chained index, calculated as the square root of the product of the chained Laspeyres and the chained Paasche indices. Annual data are derived as an average of the quarterly indices. Prices of commercial properties are excluded from the index.