

Economic Survey

January - September 2005

Economic Policy Division
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The following symbols have been used throughout this document:

- ... to indicate that data are not available;
- 0 to indicate that the figure is zero;
- to indicate that data are not applicable or cannot be determined;
- to indicate that the figure is negligible;

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1. State of the Economy

1. State of the Economy

Data for the first nine months of 2005 provide indications that the Maltese economy has started to register a gradual but consistent turnaround from the challenging environment it was operating in during the past few years. The noticeable expansion in the GDP, improvements in the labour market performance and further progress along Government's ambitious fiscal consolidation plans are noteworthy. On the other hand, one notes that a host of external and domestic challenges needs to be addressed if such a recovery is to be sustained in the future. In particular, on the international front, the economic situation in Malta's main trading partners is still relatively weak, whilst the risk of further exogenous shocks stemming from rising energy prices is still considerable. In addition, the international environment is becoming increasingly competitive due to stronger market positions by emerging low-cost countries. On the domestic side, the fiscal consolidation process is expected to exert further drag over the short run expansionary prospects of the domestic economy. Furthermore, a number of economic sectors continue to face competitiveness challenges.

At 1.7 per cent, real growth in Gross Domestic Product (GDP) shows an improvement over the negative or positive, but marginal, rates registered in recent years. Nevertheless, this growth rate remains relatively low when compared to historical growth rates. During the January-September 2005 period, economic growth was mainly underpinned by a significant increase in gross fixed capital formation, which reflected Government's capital programme. A marginal increase was also recorded in private final consumption expenditure. Domestic demand thus increased in real terms, as these advances offset the decline registered in Government's final consumption expenditure. On the other hand, the contribution of the external sector to GDP growth was negative as the drop in exports of goods and services in real terms was significantly higher than the decline registered in imports of goods and services. In this context, it is pertinent to note that the performance of a major company in the semi-conductor sector influenced significantly the external sector of the economy.

Labour market data also indicates some positive results. In particular, the rise in unemployment registered in recent years appears to have been halted, with the unemployment rate falling to 4.5 per cent from 5.1 per cent a year earlier. Furthermore, employment has increased, by a significant degree as regards part-time employment, and more modestly, as regards the full-time gainfully occupied population. Within the context of a challenging economic environment, this performance shows a certain degree of resilience of the domestic labour market. Furthermore, the significant increase in part-time employment, continuing

the trend registered in recent years, indicates a shift towards part-time work as the primary occupation, reflecting changing work patterns and increased labour market flexibility.

Despite the relatively subdued domestic demand conditions, the inflation rate remained relatively high during 2005 and reached 2.76 per cent in September 2005, from 2.57 per cent a year earlier. Both domestic factors, as well as international factors, namely higher international oil prices, underpinned the rise in the inflation rate registered during the period under review. Meanwhile, a review of collective agreements currently in force shows that average weekly wages increased by 3.5 per cent between September 2004 and September 2005.

During the first nine months of 2005, exports by the manufacturing industry declined by 10.6 per cent. However, this was attributed to the performance of the semi-conductor sector. Indeed, various sectors have managed to register positive results, despite the weak demand in Malta's main trading partners. On the other hand, local sales by the manufacturing industry declined marginally, being mainly affected by the removal of levies on agro-industrial products last year. In this context, it is noteworthy that an increase in local sales by the furniture sub-sector was registered during the period under review, thus partly reversing the declining trend of the previous years.

In the tourism industry, the increase in tourist departures registered in the first three quarters of 2003 was sustained during the Survey period. Nevertheless, at 1.2 per cent, the increase remains modest and the domestic tourism industry continues to face challenges from international competition. Gross earnings from tourism improved, while the number of nights spent declined. Employment in hotels and restaurants stood at 8,360, representing 6.1 per cent of the gainfully occupied population. Meanwhile, cruise passengers' arrivals increased, thus recouping part of the decline registered in 2004.

During the period under review, the current account deficit widened by Lm45.4 million. This was mainly the result of developments in the goods account. In particular, in the merchandise account, the drop in exports of semi-conductors outweighed the decline in the import bill, which in turn was influenced by the significant increase in international oil prices. On the other hand, improvements were registered in the services balance and in current transfers, whilst the negative balance in the income account registered a marginal increase.

The Survey period was characterized by a continuation of budgetary consolidation, in line with Government's medium-term fiscal policy framework. The structural deficit declined by Lm24.5 million to Lm85.4 million. This reflected an expansion in recurrent revenue which exceeded by a significant margin the rise in total expenditure.

Whilst the data for the January-September 2005 period highlights certain positive developments in the Maltese economy, further efforts need to be undertaken by various sectors in order to sustain these improvements in the future. In particular, the increasingly competitive and changing international environment call for a strengthening of competitiveness and increased flexibility in the domestic economy. Furthermore, the attainment of Government's fiscal targets is necessary to ensure a stable macroeconomic framework.

Local Scene

Economic Growth

During the first nine months of 2005, real GDP advanced by 1.7 per cent. In nominal terms, GDP advanced by 3.7 per cent to reach Lm1,417.1 million. Within the domestic demand component of GDP, private final consumption expenditure advanced marginally in real terms by 0.2 per cent. In nominal terms, this component of expenditure advanced by 2.4 per cent to reach Lm872.4 million. An increase of 4.1 per cent was registered in household disposable income, and given that consumption expenditure increased at a lower rate compared to the increase in household disposable income, the savings ratio improved to 5.8 per cent.

Government consumption expenditure declined by 1.7 per cent in nominal terms during the first nine months of 2005. In real terms, a decrease of 3.8 per cent was recorded. A significant increase of 7.0 per cent in nominal terms was recorded in the gross fixed capital formation component of GDP, primarily driven by Government's capital programme. In real terms, gross fixed capital formation advanced by 5.1 per cent to Lm268.6 million.

Exports of goods and services declined by 6.8 per cent in real terms, whilst imports of goods and services declined by 2.9 per cent. In nominal terms, exports of goods and services declined by 5.7 per cent and stood at Lm988.8 million, whilst imports of goods and services fell by 0.9 per cent to Lm1,095.9 million.

The external sector of the economy was significantly affected by developments in a major company in the semi-conductor sector.

Sectoral Contribution to Gross Value Added

During the first nine months of 2005, Gross Value Added (GVA) at basic prices rose by 2.0 per cent in nominal terms and stood at Lm1,208.4 million. Sectoral increases were registered in financial intermediation, real estate, renting and business activities, transport, storage and communications, wholesale and retail trade, construction and other community, social and personal services activities. The growth registered in these sectors as well as minor increases in other sectors offset the declines registered in electricity, gas and water and manufacturing sectors of the economy.

Gross National Income (GNI) advanced by Lm50.4 million during the first nine months of 2005, to reach Lm1,391.7 million. The increase was primarily underpinned by an increase in GDP at current market prices. Compensation of employees increased by Lm15.8 million, or 2.4 per cent when compared to the level of Lm645.7 million recorded for the January-September 2004 period. Average weekly compensation per employee in nominal terms stood at Lm124.84, registering an increase of 1.4 per cent over the same comparable period of last year. Real average weekly compensation per employee for the Survey period declined by 1.3 per cent. At Lm556.1 million, gross operating surplus and mixed income registered an increase of 2.9 per cent. Taxes on products and imports increased by Lm22.2 million to reach Lm226.0 million, whilst subsidies only registered a marginal increase.

Labour Market

In spite of the challenging economic environment, the performance of the labour market during the twelve months to September 2005 indicates a certain degree of resilience of the domestic economy. During the Survey period, the full-time gainfully occupied population rose by 213 to 137,813. The number of persons registering as unemployed under Part I of the Register declined by 874 to 6,508 at the end of the period under review. Since the decline in persons registering as unemployed exceeded the rise in the full-time gainfully occupied population, the labour supply declined by 717 reaching 145,023 at the end of September 2005. In the meantime, the number of persons with a part-time job as their main occupation stood at 23,138 representing an increase of 2,190 or 10.5 per cent over September 2004. In recent years, increasing importance is being attached

to part-time work as the main occupation, reflecting changing work patterns as well as the relative degree of flexibility in the labour market.

During recent years, developments in the gainfully occupied population were marked by increased reliance on the private sector, especially private market services as the source of job creation in Malta. Employment in the private sector, inclusive of temporary employment, increased by 1,515 to 92,514 at the end of September 2005. This expansion reflected an increase in private market services that exceeded the drop recorded in private direct production. On the other hand, employment in the public sector, inclusive of temporary employment stood at 45,299, representing a decline of 1,302 employees over September 2004. Consequently the share of private sector employment in the gainfully occupied population increased by 1.0 percentage point to 67.1 per cent, while the share of total public sector employment declined to 32.9 per cent.

Productive Activities

Turnover in the manufacturing industry registered a decline of 8.6 per cent when compared to the previous Survey period. This was underpinned by a 10.6 per cent decline in exports, reflecting the performance of a major company in the radio, TV and other communication equipment sector. It is pertinent to note that despite the sluggish international economic environment, exports in other sectors in the industry, such as the food and beverages (which traditionally was domestic oriented), textiles and textile products, chemicals and chemical products and electrical machinery and apparatus sectors registered improvements. Local sales registered a marginal decline and stood at Lm161.0 million, mainly due to increased competition from imports in the food and beverages sector. On the other hand, improvements were recorded in the other non-metallic mineral products, fabricated metal products, the furniture and other manufacturing products, publishing and printing and machinery and equipment sectors. Investment declined by 19.1 per cent in the period under review, whilst employment income remained practically unchanged at Lm89.8 million.

In per capita terms, average weekly sales declined by 7.4 per cent and stood at Lm914.85 whilst average weekly exports per capita fell by 9.4 per cent, to Lm704.76. On the other hand, per capita weekly compensation levels rose marginally to reach Lm117.24.

Although accounting for a small proportion of GDP, the agriculture and fisheries sector still maintains its importance in the local economy and various financial assistance and incentive schemes are designated to assist this sector. During

the first nine months of 2005, the amount of livestock slaughtered was less than that recorded in the same period in 2004. While the amount of fruit and vegetables sold was less than that sold in the previous Survey period, the wholesale value of fruit and vegetables increased minimally by 1.5 per cent. During the period under review, both total fish landings and the wholesale value of fish landings registered substantial increases. Exports of fish increased considerably following a substantial increase in the exports of tuna. However the value of these exports declined by 6.2 per cent compared to the previous Survey period.

Although faced by increasing competition from low cost shipyards in the Black Sea, Croatia and Turkey, the first six months of this year were positive for Malta Shipyards Limited, and although the summer period has seen a drop in activity, significant activity at the yard is expected in the coming months. In line with Government's objective of transforming the industry from a net beneficiary of state aid into a commercially viable enterprise by 2008, Malta Shipyards Limited is seeking to diversify into new markets so as to attract more ship repair business and enhance its commercial prospects.

Services Activities

Service activities are an important pillar of the Maltese economy, being reflected in the contribution to output growth, employment and foreign exchange earnings. The decline in tourism departures recorded during the first three quarters of 2002 was partly reversed during the nine months ending September 2003 and further gains were recorded in the corresponding 2004 and 2005 periods. Tourist departures during the period under review increased by 1.2 per cent over the same period of 2004. Nevertheless, these growth rates remain modest and the domestic tourism industry continues to face challenges from international competition. Gross earnings from tourism increased by 1.3 per cent to Lm204.7 million during the first nine months of 2005. Per capita earnings remained stable at a level of Lm219.8. Earnings per night spent increased marginally to Lm22.9 for the period under review from Lm22.3 for the corresponding period in 2004. Employment in hotels and restaurants as at September 2005 stood at 8,360 persons, representing 6.1 per cent of the gainfully occupied population. Cruise liner passengers recorded an increase of 10.7 per cent during the Survey period, thus recouping part of the decline registered in the previous year.

During the Survey period, the Malta Financial Services Authority continued to act as the supervisor and regulator of the financial services sector in Malta. Malta Enterprise, as Government's main agency responsible for attracting foreign direct investment and supporting enterprises in Malta, has provided financial

assistance and advisory services to both foreign and local companies based in Malta or considering establishing operations in Malta.

Prices and Incomes

Percentage changes in the 12-month moving average for the Retail Price Index (RPI) show that the inflation rate in Malta in September 2005 stood at 2.76 per cent. The inflation rate remained relatively high during 2005, with the lowest level of 2.63 per cent being recorded in October 2004 while the highest level was recorded in June 2005 with a reading of 2.94 per cent. During the observed period, the inflation rate was attributable to higher average prices in all the commodity groups composing the RPI, with the exception of the clothing and footwear category. In particular, the inflation rate was affected by the rise in average prices of transport, housing, water and electricity.

An analysis of average wage levels in 2005, compiled from the collective agreements of 209 companies employing a total workforce of 30,506 persons, shows that the average weekly wage rate increased by 3.5 per cent or Lm3.37. The analysis also shows that the highest wage rise in percentage terms was recorded in the Banking and Other Financial Institutions which registered an increase of 9.7 per cent. Wages increases in other sectors were relatively lower, ranging from 1.6 per cent to 4.4 per cent. The largest share of employees (53.3 per cent) for all firms earned on average a weekly wage rate of over Lm94.00.

Foreign Trade and Payments

An increase of Lm45.4 million in the current account deficit was underpinned by international trade developments, particularly the significant increase in international oil prices, falling semi-conductor prices on the international market, and their effect on an international firm in the semi-conductors industry which represents a major share of Malta's exports. In addition, economic activity in Malta's main trading partners remained below potential, further contributing to a lower demand for Maltese exports. Indeed, exports to Malta's major trading partners registered a decline. In this scenario, an increase in exports of chemicals and semi-manufactures must be commended.

The decline of Lm86.1 million in export activity registered during the Survey period was not followed by a corresponding decline in imports. Indeed, imports of industrial supplies recorded a relatively modest decline of Lm12.4 million during the Survey period. This indicates that manufacturing production continued despite lower demand for Maltese exports. In addition, excluding the one-off

importation of yachts recorded last year, imports of capital goods remained stable at 2004 levels, reaching Lm160.0 million in the first nine months of 2005.

The increase in imports of consumer goods recorded in 2004 continued during the Survey period. This partly reflects higher imports of food and beverages following the removal of levies upon to EU accession. An increase in imports of durable consumer goods was also registered.

The marginal increase in the fuel import bill at a time when international oil prices have increased substantially is related to the termination of bunkering services by a major operator in 2004. If account is taken of this development, the oil import bill would increase significantly in line with international developments in this market.

The increase in the deficit in the merchandise account was partly offset by higher net receipts from services. This was due to lower net payments on transport services and higher net receipts on other services such as communications and business services. Meanwhile, tourism earnings were marginally higher than the receipts recorded in the January-September period of 2004.

Higher receipts, primarily in the form of interest income were offset by higher payments resulting from the improved profitability of foreign-owned companies during the Survey period. As a result, the balance on the income account remained stable. On the other hand, net outflows by way of current transfers increased, partly reflecting Malta's contribution to the EU.

Financial Developments

Developments in Government's fiscal position in the first nine months of 2005 reflect ongoing efforts to consolidate public finances. In fact, the structural deficit declined from Lm109.9 million in the first nine months of 2004 to Lm85.4 million during the Survey period. This reduction in the fiscal imbalance was attributable to an expansion in recurrent revenue which more than offset an increase in total expenditure. Government recurrent revenue increased by Lm68.7 million to Lm606.9 million during the first nine months of 2005, driven by both higher tax and non-tax revenue.

Total Government expenditure (excluding contribution to the Sinking Fund in respect of local and foreign loans and direct repayment of loans) increased by

Lm44.3 million to Lm692.3 million. This expansion was attributable to higher recurrent expenditure and capital expenditure as well as higher interest on public debt. Recurrent expenditure, which constitutes around 79 per cent of total expenditure, increased from Lm518.1 million to Lm543.5 million. Meanwhile, capital expenditure increased from Lm75.6 million in the first nine months of 2004 to Lm93.1 million during the period under review. Interest payments on public debt, which accounts for around 8 per cent of total expenditure, increased by Lm1.5 million to Lm55.8 million. The decline in the structural deficit, which more than offset a decline in extraordinary receipts, was reflected in a lower public sector borrowing requirement. In fact, the public sector borrowing requirement declined from Lm107.3 million to Lm86.5 million during the Survey period.

During the period under review, broad money (M3) continued to increase, albeit at a decreasing rate. The more rapid growth in net foreign assets and the slowdown in growth of other counterparts of M3 were offset by a slower growth in domestic credit, resulting in a deceleration in the monetary growth.

During the period under review, the central intervention rate was raised by 25 basis points, up to 3.25 per cent. During the first nine months of 2005, the Maltese lira weakened against the US dollar, Japanese yen and the UK sterling, but appreciated against the Euro. Malta joined the ERM II mechanism in May, and thus the pegging of the Maltese lira changed from a three currency basket peg to a single currency peg.

International Scene

Global economic expansion has remained broadly on track, mainly driven by a robust growth in the services sector output that more than offset slowing global growth in manufacturing. However during the year, signs of weakening emerged, in part reflecting the impact of higher crude oil prices further exacerbated by the catastrophic effects of subsequent hurricanes that hit the Gulf of Mexico and North America.

Growth has been stronger than expected in the United States, in China and in most developing countries. Several years into the recovery, activity in the US is still largely driven by domestic demand and solid productivity growth, with the contribution of net exports to growth still rather weak despite a substantial depreciation of the real effective exchange rate of the dollar. As a result, the US current account deficit is projected to rise further. In China, after a very

robust growth in 2003 and in the beginning of 2004, GDP growth decelerated considerably in the second quarter of last year, but picked up again in the last two quarters of the year.

In contrast, growth in Europe and Japan has been disappointing, reflecting stammering exports and weak final domestic demand. In Europe, after a promising first half of 2004, growth weakened in the second half of last year. Although apparently economic growth has recovered in 2005, GDP growth forecasts have been marked down, given continued weak final domestic demand and the Euro area's lack of resilience to external shocks, principally to higher oil prices. Japan experienced slight decreases in real GDP in the second and third quarters of 2004, according to revised national accounts data, such that apparently, the Japanese economy has been through a technical recession. Nonetheless, Japan's economy is regaining momentum, with GDP growth rising sharply in the first quarter of 2005, though this is expected to moderate later on in the year.

Relevant macroeconomic indicators are displayed in Tables 1.1 to 1.6 and Charts 1.1 and 1.2.

The most recent forecasts currently available from the European Commission (Spring 2005) suggest that the pace of world GDP growth is projected to ease to a still robust 4.2 per cent this year. Growth is expected to be driven by a number of factors, including supportive macroeconomic policies, low real interest rates, housing-market-induced wealth effects, and particularly strong growth in emerging economies, such as China and India.

Outlook for Industrialised Economies

Growth in industrialised countries is expected to slow down, given that growth in EU 25 and the Euro Area, the US and Japan has moderated.

After gathering momentum in the first half of last year, the growth performance in both the Euro Area and the EU was less propelling in the second half, with growth rates for 2004 averaging 2.0 and 2.4 per cent respectively. Projections for 2005 anticipate growth to slow down to reach 2.0 per cent in EU 25 and 1.6 per cent in the Euro Area, as the recent surge in oil prices seems to have taken toll on business confidence. Inflation is expected to fall to 1.9 per cent in both EU 25 and the Euro Area, as a result of weak domestic price pressures. The modest labour market response in the prolonged downturn has been followed

World GDP, Volume
annual percentage change

Table 1.1

| | 2002 | 2003 | 2004 | 2005* |
|--------------------------|------|------|------|-------|
| World | 2.8 | 3.7 | 5.0 | 4.2 |
| Industrialised Countries | 1.5 | 2.0 | 3.4 | 2.6 |
| EU 25 | 1.1 | 1.0 | 2.4 | 2.0 |
| Euro Area | 0.9 | 0.6 | 2.0 | 1.6 |
| Germany | 0.1 | -0.1 | 1.6 | 0.8 |
| France | 1.2 | 0.5 | 2.5 | 2.0 |
| Italy | 0.4 | 0.3 | 1.2 | 1.2 |
| United Kingdom | 1.8 | 2.2 | 3.1 | 2.8 |
| United States | 1.9 | 3.1 | 4.4 | 3.6 |
| Japan | -0.3 | 1.4 | 2.7 | 1.1 |
| Canada | 3.4 | 2.0 | 2.8 | 2.6 |
| Others | 4.4 | 5.9 | 7.1 | 6.2 |
| Russia | 4.7 | 7.3 | 7.1 | 6.0 |
| China | 8.3 | 9.3 | 9.5 | 8.6 |

*Projections

Source: European Commission

Inflation: Harmonised Index of Consumer Prices*
percentage change on preceeding year

Table 1.2

| | 2002 | 2003 | 2004 | 2005** |
|----------------|------|------|------|--------|
| EU 25 | 2.1 | 1.9 | 2.1 | 1.9 |
| Euro Area | 2.3 | 2.1 | 2.1 | 1.9 |
| Germany | 1.3 | 1.0 | 1.8 | 1.3 |
| France | 1.9 | 2.2 | 2.3 | 1.9 |
| Italy | 2.6 | 2.8 | 2.3 | 2.0 |
| United Kingdom | 1.3 | 1.4 | 1.3 | 1.7 |
| United States | 1.6 | 2.3 | 2.7 | 2.6 |
| Japan | -0.9 | -0.3 | 0.0 | -0.1 |

*National index if not available

**Projections

Source: European Commission

Unemployment Rate*
per cent of labour force

Table 1.3

| | 2002 | 2003 | 2004 | 2005** |
|----------------|------|------|------|--------|
| EU 25 | 8.7 | 8.9 | 9.0 | 9.0 |
| Euro Area | 8.2 | 8.7 | 8.8 | 8.8 |
| Germany | 8.2 | 9.0 | 9.5 | 9.7 |
| France | 8.9 | 9.5 | 9.6 | 9.4 |
| Italy | 8.6 | 8.4 | 8.0 | 7.9 |
| United Kingdom | 5.1 | 4.9 | 4.7 | 4.7 |
| USA | 5.8 | 6.0 | 5.5 | 5.2 |
| Japan | 5.4 | 5.3 | 4.8 | 4.4 |

*Series following Eurostat definition, based on the labour force survey

**Projections

Source: European Commission

Current Account Balance
per cent of GDP

Table 1.4

| | 2002 | 2003 | 2004 | 2005* |
|----------------|------|------|------|-------|
| EU 25 | 0.4 | 0.1 | 0.2 | 0.0 |
| Euro Area | 1.2 | 0.6 | 0.6 | 0.6 |
| Germany | 2.4 | 2.4 | 3.8 | 4.1 |
| France | 1.5 | 0.4 | -0.2 | -0.5 |
| Italy | -0.3 | -0.8 | -0.4 | -0.5 |
| United Kingdom | -1.7 | -1.8 | -1.9 | -2.2 |
| USA | -4.4 | -4.7 | -5.4 | -5.9 |
| Japan | 2.8 | 3.2 | 3.7 | 3.8 |

*Projections

Source: European Commission

by a slow response in the upturn, such that the change in the unemployment rate has been quite restrained in comparison to previous cycles. The unemployment rate is expected to remain stable at 9.0 per cent in the EU and 8.8 per cent in the Euro Area this year. The appreciation of the Euro since 2002 has resulted in a deterioration of Euro Area cost competitiveness. Consequently, and in view of the expected slowdown in global growth, the growth rates of exports of goods are projected to decline to 6.4 per cent in the EU and 5.9 per cent in the Euro Area. Meanwhile, import growth rates for EU 25 and the Euro Area are expected to reach 7.0 and 6.4 per cent respectively. As a consequence, the EU 25 current account balance as a percentage of GDP is expected to deteriorate slightly, while the balance for the Euro-zone is expected to remain broadly stable at 0.6 per cent of GDP.

In Germany, growth is set to continue despite a recent setback. After registering the highest annual GDP growth in four years last year, a mild annual growth rate of 0.8 per cent is expected over the course of this year. Unemployment is projected to start falling by the end of the year, favoured by low wage growth and strong export performance. Nonetheless, projections for 2005 still set the unemployment rate at a higher level than that registered last year, owing to variations throughout the year. Export growth rates are anticipated to fall as the international demand for investment goods, for which Germany enjoys a comparative advantage, slows down. On the other hand, import volumes are projected to increase at a faster pace than exports, in line with domestic demand, thus reaching 7.2 per cent in 2005. Nonetheless, the current account balance as a percentage of GDP is expected to achieve an even higher surplus in 2005, at 4.1 per cent of GDP.

Real GDP in France grew by 2.5 per cent in 2004, its best performance since 2000, such growth being supported by domestic demand, especially by private consumption. Nonetheless, in 2005, real GDP growth is expected to slow down. Economic activity is projected to be driven once again by domestic demand, further strengthened by a decline in inflation. Although employment growth may be slow to pick up, a rise in the demand for labour is foreseen, in part the result of the planned reform of the 35-hour working week. The improvement of price competitiveness and a better cyclical position in the car transport and the aeronautical sectors are expected to support export growth. Notwithstanding the increase in exports, a worsening of the current account balance as a percentage of GDP is anticipated for 2005.

Following two years of near stagnation, reflecting both a cyclical slowdown in the Euro Area and structural problems specific to Italy, economic growth

Exports of Goods, Volume
percentage change on preceeding year

Table 1.5

| | 2002 | 2003 | 2004 | 2005* |
|----------------|------|------|------|-------|
| EU 25 | 2.0 | 1.7 | 7.1 | 6.4 |
| Euro Area | 1.9 | 0.9 | 7.1 | 5.9 |
| Germany | 3.2 | 2.6 | 10.1 | 6.9 |
| France | 2.3 | -1.5 | 3.9 | 5.3 |
| Italy | -2.9 | -2.1 | 3.3 | 5.1 |
| United Kingdom | -1.7 | -0.1 | 1.6 | 6.5 |
| USA | -4.1 | 2.2 | 8.8 | 7.4 |
| Japan | 8.1 | 9.1 | 14.3 | 8.0 |

*Projections

Source: European Commission

Imports of Goods, Volume
percentage change on preceeding year

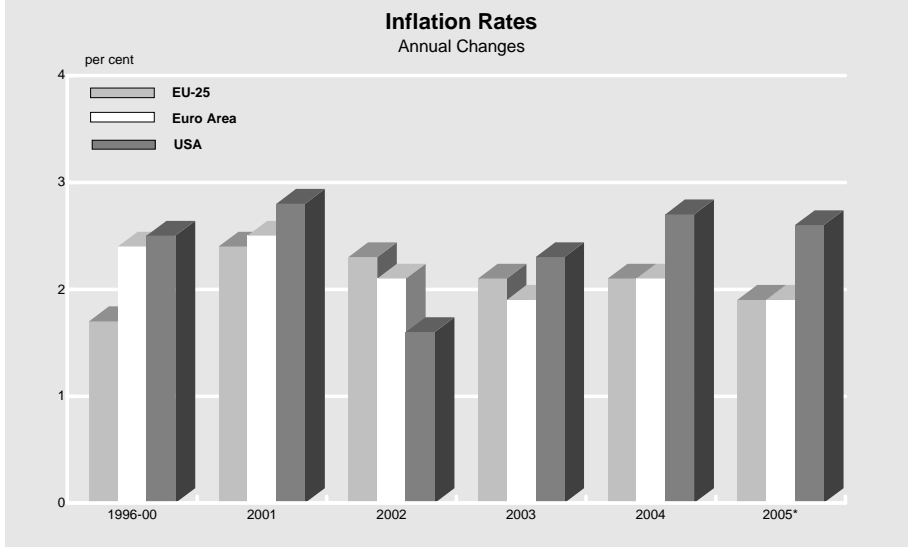
Table 1.6

| | 2002 | 2003 | 2004 | 2005* |
|----------------|------|------|------|-------|
| EU 25 | 1.4 | 3.3 | 7.6 | 7.0 |
| Euro Area | 0.6 | 2.9 | 7.3 | 6.4 |
| Germany | -1.5 | 5.8 | 7.9 | 7.2 |
| France | 3.2 | -0.1 | 8.0 | 6.6 |
| Italy | -1.0 | 0.9 | 3.2 | 5.4 |
| United Kingdom | 4.1 | 1.9 | 5.8 | 6.8 |
| USA | 3.7 | 4.7 | 10.8 | 7.5 |
| Japan | 1.1 | 3.8 | 8.9 | 7.1 |

*Projections

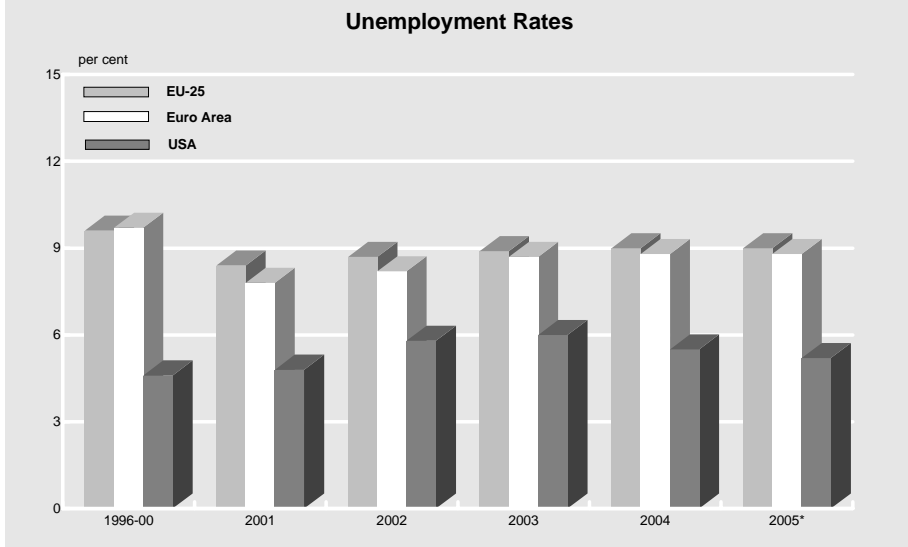
Source: European Commission

Chart 1.1



*Projections

Chart 1.2



*Projections

accelerated somewhat in 2004 reaching an average rate of 1.2 per cent. Growth in 2005 is expected to remain moderate, reflecting the persistence of structural rigidities and high oil prices. In spite of the fact that around half of the contractual wages are due to be renegotiated in 2005, these are not expected to fuel inflation, that is forecast to gradually decline to 2.0 per cent by the end of this year. However, the unfavourable product specialisation towards low-growth goods coupled with a loss of cost competitiveness hinders Italy to fully benefit from the still robust expansion of world trade. Hence, despite a recovery in export growth, the growth in imports is expected to offset the growth in exports, leading to a slight worsening of the current account balance as a percentage of GDP.

After peaking in 2004, GDP growth in the UK has moderated and is expected to reach 2.8 per cent in 2005, domestic demand growth being once again the key driver of this performance. Although unemployment has remained close to record-low levels at 4.7 per cent, average earnings growth has not given rise to considerable inflationary pressures, such that the HICP is expected to reach 1.7 per cent in 2005. Global economic growth is expected to propel UK export performance, which is projected to register the highest growth rate since 2002. Nonetheless, it is foreseen that the continued increase in imports will outpace the growth in exports, leading to a worsening of the current account deficit.

Growth in the US has eased moderately, even though it is projected to remain the highest amongst the group of industrialised countries, underpinned by solid productivity growth, supportive financial market conditions and rising housing market prices. The direct impact of Hurricane Katrina on GDP growth is likely to be moderate, however its indirect effects, stemming from high crude oil prices, may result in a sharp decrease in private consumption growth. With US growth continuing to outstrip that of other large advanced economies, and with higher oil prices, the current account deficit is projected to widen to 5.9 per cent of GDP in 2005. Inflation is expected to remain more or less at the same level registered last year, backed by a steady increase in unit labour costs and high oil prices.

Although the Japanese economy has expanded strongly in the first half of 2005, driven by a recovery in private final domestic demand, growth in the rest of the period is forecast to be more subdued, such that the GDP growth rate is expected to average 1.1 per cent during this year. Robust private consumption was underpinned by a strengthening labour market, such that the unemployment rate is projected to reach an all-time low since 2002 at 4.4 per cent. Nonetheless, deflation in Japan is expected to be once again incumbent. The surplus in the

current account balance as a percentage of GDP is forecast to ameliorate slightly as the growth in imports is outpaced by the growth in exports.

Russia and China are still expected to enjoy high growth rates, even though growth is forecast to decelerate during the course of this year, despite persistently high hydrocarbon prices in Russia and positive growth in net exports and consumption in China.

Commodity Markets

Between January and August of this year, energy prices rose by 41.0 per cent in US dollar terms, even though the growth in crude oil consumption has been broadly in line with expectations. While shortfalls in non-OPEC supply have contributed to this rise, it appears that crude oil prices are being increasingly driven by expectations of future tightness in the market, based on forecasts of continued robust global economic growth, low spare capacity among OPEC producers, and fears that the recent slowdown in non-OPEC production may be somewhat permanent.

With limited spare capacity, short-term disruptions to oil products production have become powerful catalysts for higher prices, as demonstrated by the impact of the terrorist attacks in London and Hurricane Katrina on crude oil and petroleum products prices.

In light of the above developments, the International Monetary Fund (IMF) has raised its projections for the average petroleum spot price for this year, such that the most recent projections published in the September World Economic Outlook, have been revised to \$54.23, compared to \$46.50 per barrel in previous forecasts.

Average non-energy prices rose by 5.0 per cent in U.S. dollar terms during the first eight months of this year, with metals and food prices being the main drivers of the recorded surge. Contrary to what was the case for oil prices, Hurricane Katrina, which devastated ports and cities in the U.S. southern region, appears to have had only a temporary impact on specific non-fuel commodity markets. Looking forward, the upward momentum in non-energy commodity prices is expected to ease for the remainder of 2005, as supply is anticipated to respond strongly to high prices.

Following a record increase in 2004, sales revenue of semiconductors grew at a substantially lower rate between January and July 2005 compared with the same period in 2004. Most of the decline reflects weak average semi-conductor prices. Eventually, semi-conductor prices are expected to rebound in the second half of the year owing to general seasonal factors, with the rebound muted somewhat by the release of inventories.

Future Economic Prospects

The global recovery is expected to continue, but at a somewhat slower pace. After growing briskly by about 5.0 per cent last year, the fastest pace in decades, the world economy is set to expand by just over 4.0 per cent in both 2005 and 2006. The deceleration in activity is expected to be accompanied by a somewhat slower expansion of global trade. The large global current account imbalances, in particular in the US and in industrialised countries, are projected to continue, while stabilising towards the end of the forecast period.

High oil prices, driven by the strong growth in demand and the low level of spare oil production capacity, are likely to have contributed to slower global growth. On the other hand, financial conditions, with low interest rates and low risk premia on corporate and emerging market debt, remain supportive for growth. While global economic activity is expected to stay robust, important downside risks exist, in particular the risk of disorderly adjustment of the large

Projections

Table 1.7

| | 2004 | 2005* | 2006* |
|---------------------------------------|------|-------|-------|
| Real GDP (% change) | | | |
| EU 25 | 2.4 | 2.0 | 2.3 |
| United States | 4.4 | 3.6 | 3.0 |
| Japan | 2.7 | 1.1 | 1.7 |
| Inflation (% change) | | | |
| EU 25 | 2.1 | 1.9 | 1.7 |
| United States | 2.7 | 2.6 | 2.3 |
| Japan | 0.0 | -0.1 | 0.2 |
| Unemployment Rate (% of labour force) | | | |
| EU 25 | 9.0 | 9.0 | 8.7 |
| United States | 5.5 | 5.2 | 5.0 |
| Japan | 4.8 | 4.4 | 4.1 |

*Projections

Source: European Commission

global current account imbalances. Furthermore, high oil prices remain a source of risk, in view of strong growth in oil demand and continued geopolitical risks.

As portrayed in Table 1.7, the European Commission Spring Economic Forecasts project growth in the European Union to decelerate slightly this year, but to regain momentum in 2006 to reach 2.3 per cent. Consequently, the unemployment rate is expected to decline to 8.7 per cent. As a result of weak domestic price pressures, inflation is expected to fall to 1.9 per cent this year and a further fall to 1.7 per cent is foreseen for next year.

Real GDP growth in the United States is expected to slow down to 3.0 per cent in 2006. Growth in consumer spending is projected to be more subdued, hence resulting in a lower inflation rate. Nonetheless, as a consequence of the lagged response to the depreciation of the dollar, the growth rate of exports is projected to outstrip that of imports. Consequently, the unemployment rate is expected to decline to 5.0 per cent next year.

Following a slowdown in GDP growth this year, the Japanese economy is expected to experience a rebound fuelled by continuous global growth, and sustained investment and private consumption growth. Consequently, unemployment is forecast to decrease to 4.1 per cent in 2006, while the year-on-year change in consumer prices is expected to turn positive by next year.

2. Economic Growth

2. Economic Growth

During the first nine months of 2005, nominal Gross Domestic Product (GDP) advanced by 3.7 per cent and by 1.7 per cent in real terms. Increases were recorded in real GDP in the second and third quarters of the year, whilst no growth was recorded in the first quarter of this year. Over the first three quarters of 2005, a significant increase was recorded in gross fixed capital formation. This was primarily driven by Government's capital programme with increases in private sector investment also being registered. Whilst a marginal increase was recorded in private final consumption expenditure a decline was registered in Government's final consumption expenditure. Meanwhile, the drop recorded in exports of goods and services in real terms was significantly higher than the decline registered in imports of goods and services. The external sector of the economy was significantly influenced by the performance of a major company in the semi-conductor sector.

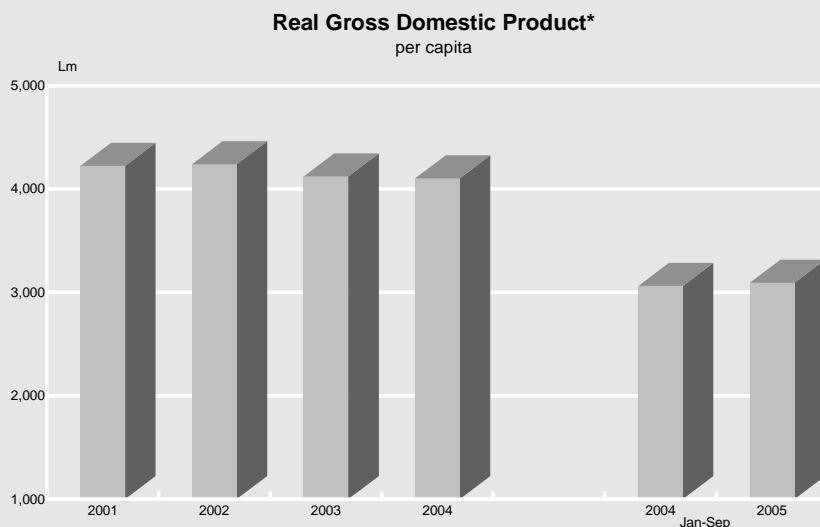
In line with the Economic Survey for the January-September 2004 period, national accounts data presented in this Chapter are based on the European System of Accounts (ESA95) methodology. This internationally compatible accounting framework provides for a systematic and detailed description of the total economy and its components while facilitating an analytical comparison with other economies. It is pertinent to note that data provided in this Chapter for January-September 2005, should be considered as provisional.

National Expenditure

During the Survey period, the Maltese economy expanded by 3.7 per cent in nominal terms to reach Lm1,417.1 million. In real terms, GDP increased by 1.7 per cent, to Lm1,251.6 million. As a result of this improvement, real GDP per capita stood at Lm3,092.7 increasing marginally from the level registered in the first nine months of 2004. Chart 2.1 illustrates real GDP per capita covering the period 2001 to September 2005. Table 2.1 provides data on GDP by category of expenditure at current and constant market prices, whilst the relevant percentage changes are presented in Table 2.2.

In recent years, the domestic economy's performance has been relatively weak, with growth rates being either negative or positive but marginal. Data for the January-September 2005 period indicates that in spite of a very fragile economic environment characterised by economic imbalances and exogenous shocks, the first signs of a more pronounced economic turnaround are getting increasingly

Chart 2.1



*Based on total population

GDP by Category of Expenditure

Table 2.1

Lm million

| | 2002 | 2003 | 2004 | 2004 Jan/Sep | 2005 Jan/Sep |
|--|---------|---------|---------|-----------------|-----------------|
| At Current Market Prices | | | | | |
| Private Final Consumption Expenditure ⁽¹⁾ | 1,094.8 | 1,124.4 | 1,153.6 | 851.6 | 872.4 |
| General Government Final Consumption Expenditure | 376.5 | 395.5 | 412.0 | 307.3 | 302.0 |
| Gross Fixed Capital Formation | 271.5 | 359.9 | 380.3 | 278.8 | 298.4 |
| Changes in Inventories | -18.7 | -12.7 | 14.2 | -19.6 | 47.0 |
| Acquisitions less Disposals of Valuables | 5.4 | 3.4 | 6.0 | 4.5 | 4.5 |
| Exports of Goods and Services | 1,492.6 | 1,446.7 | 1,386.3 | 1,049.1 | 988.8 |
| Total Final Expenditure | 3,222.1 | 3,317.1 | 3,352.5 | 2,471.7 | 2,513.0 |
| Less Imports of Goods and Services | 1,473.6 | 1,524.4 | 1,524.5 | 1,105.5 | 1,095.9 |
| Gross Domestic Product | 1,748.5 | 1,792.7 | 1,828.0 | 1,366.1 | 1,417.1 |
| At Constant 2000 Prices | | | | | |
| Private Final Consumption Expenditure ⁽¹⁾ | 1,060.4 | 1,081.0 | 1,073.1 | 794.7 | 796.0 |
| General Government Final Consumption Expenditure | 339.8 | 349.7 | 352.2 | 262.5 | 252.7 |
| Gross Fixed Capital Formation | 253.9 | 333.6 | 348.4 | 255.5 | 268.6 |
| Changes in Inventories | -17.8 | -11.9 | 12.9 | -17.8 | 42.9 |
| Acquisitions less Disposals of Valuables | 5.1 | 3.1 | 5.4 | 4.1 | 4.1 |
| Exports of Goods and Services | 1,595.2 | 1,556.1 | 1,560.3 | 1,167.3 | 1,088.0 |
| Total Final Expenditure | 3,236.7 | 3,311.7 | 3,352.4 | 2,466.4 | 2,452.3 |
| Less Imports of Goods and Services | 1,553.0 | 1,663.5 | 1,700.8 | 1,236.1 | 1,200.7 |
| Gross Domestic Product | 1,683.7 | 1,648.2 | 1,651.5 | 1,230.3 | 1,251.6 |

⁽¹⁾Includes NPISH final consumption expenditure

Source: National Statistics Office

GDP by Category of Expenditure

Percentage Changes

Table 2.2

| | 2002 | 2003 | 2004 | 2004 Jan/Sep | 2005 Jan/Sep |
|--|-------|------|------|-----------------|-----------------|
| At Current Market Prices | | | | | |
| Private Final Consumption Expenditure ⁽¹⁾ | 0.8 | 2.7 | 2.6 | 2.0 | 2.4 |
| General Government Final Consumption Expenditure | 5.6 | 5.0 | 4.2 | 2.5 | -1.7 |
| Gross Fixed Capital Formation | -18.4 | 32.6 | 5.7 | 2.7 | 7.0 |
| Changes in Inventories | - | - | - | - | - |
| Acquisitions less Disposals of Valuables | - | - | - | - | - |
| Exports of Goods and Services | 5.1 | -3.1 | -4.2 | -3.3 | -5.7 |
| Total Final Expenditure | 1.2 | 2.9 | 1.1 | -0.4 | 1.7 |
| Less Imports of Goods and Services | -0.9 | 3.4 | 0.0 | -3.5 | -0.9 |
| Gross Domestic Product | 3.0 | 2.5 | 2.0 | 2.3 | 3.7 |
| At Constant 2000 Prices | | | | | |
| Private Final Consumption Expenditure ⁽¹⁾ | -0.8 | 1.9 | -0.7 | -1.3 | 0.2 |
| General Government Final Consumption Expenditure | 4.0 | 2.9 | 0.7 | -1.1 | -3.8 |
| Gross Fixed Capital Formation | -20.9 | 31.4 | 4.4 | 1.6 | 5.1 |
| Changes in Inventories | - | - | - | - | - |
| Acquisitions less Disposals of Valuables | - | - | - | - | - |
| Exports of Goods and Services | 2.9 | -2.5 | 0.3 | 0.4 | -6.8 |
| Total Final Expenditure | -0.6 | 2.3 | 1.2 | -0.3 | -0.6 |
| Less Imports of Goods and Services | -2.3 | 7.1 | 2.2 | -1.5 | -2.9 |
| Gross Domestic Product | 1.0 | -2.1 | 0.2 | 0.8 | 1.7 |

⁽¹⁾Includes NPISH final consumption expenditure

Source: National Statistics Office

evident. The extent to which a similar pick up in economic activity in Malta can be sustained in the future is heavily dependent upon the recurrence of exogenous shocks, notable energy prices and developments in Malta's main trading partners. On the domestic side, challenges include the strengthening of Malta's competitiveness position and the need to proceed further with the fiscal consolidation process, while mitigating as far as possible the negative short-term costs on economic growth. A closer look at the main aggregate components of expenditure will follow, to shed more light on the drivers of economic growth over the nine months to September 2005.

Private Final Consumption Expenditure

The private final consumption expenditure category comprises household final consumption expenditure and non-profit institutions serving households (NPISH) final consumption expenditure. The latter is made up of expenditure by non-

profit institutes such as universities, charities and trade unions. During the period under review, private final consumption expenditure in nominal terms advanced by 2.4 per cent. This represents a marginal increase over the growth rate of the comparable period of last year. In real terms, a marginal increase of 0.2 per cent was recorded. In nominal terms an increase of 4.4 per cent was registered in the NPISH final consumption expenditure category when compared to the corresponding January-September period of 2004. The share of private final consumption expenditure in nominal GDP for the first nine months of 2005 stood at 61.6 per cent, slightly below the 62.3 per cent recorded for the January-September period of 2004.

The increases recorded in nominal private consumers' expenditure during the Survey period resulted from a mixed performance within various categories of consumers' expenditure. In particular, increases were recorded in expenditure outlays on furnishings, household equipment and routine maintenance of the house, transport and miscellaneous goods and services. Other increases, albeit of a lower magnitude, were recorded in clothing and footwear, housing, water, electricity, gas and other fuels, restaurants and hotels and communication. Decreases were recorded in the alcoholic beverages, tobacco and narcotics component and in the health component of consumers' expenditure. The other items of expenditure practically maintained the same level recorded during the comparable period of last year.

Private consumers' expenditure also includes expenditure by Maltese tourist abroad, and during the Survey period an increase of 5.3 per cent in this component of expenditure was recorded. Furthermore, expenditure by foreign tourists in Malta increased marginally from Lm202.1 million to Lm204.7 million. Since expenditure by foreign tourists is included in exports of goods and services, spending by foreign tourists in Malta is deducted from the computation of private final consumption expenditure, so as to avoid the problem of double counting in the computation of the GDP.

A prime determinant of private final consumption is disposable income. Household disposable income advanced by Lm36.6 million or 4.1 per cent in nominal terms. Increases in household disposable income more than offset the increases recorded in private final consumption expenditure, pushing up the savings ratio to 5.8 per cent.

Table 2.3 provides information on Gross National Income (GNI), private final consumption expenditure and expenditure by tourists in nominal terms on a per capita basis. During the Survey period, private consumption expenditure per

**GNI, Private Final Consumption Expenditure
and Expenditure by Tourists**
(at current market prices)

Table 2.3

| | 2002 | 2003 | 2004 | 2004 Jan/Sep | 2005 Jan/Sep |
|--|-------|-------|-------|-----------------|-----------------|
| Per Capita (Lm) | | | | | |
| GNI* | 4,407 | 4,455 | 4,470 | 3,338 | 3,439 |
| Private Final Consumption Expenditure* | 2,756 | 2,812 | 2,865 | 2,119 | 2,156 |
| Expenditure by Tourists | 217.0 | 233.8 | 232.5 | 219.8 | 219.8 |
| Per Capita (% change) | | | | | |
| GNI* | 1.8 | 1.1 | 0.3 | -1.0 | 3.0 |
| Private Final Consumption Expenditure* | 0.1 | 2.0 | 1.9 | 1.3 | 1.7 |
| Expenditure by Tourists | -1.7 | 7.7 | -0.6 | 0.5 | — |

*Based on total population

Source: National Statistics Office

head and GNI per capita advanced by 1.7 per cent and by 3.0 per cent respectively. Meanwhile, tourist expenditure per capita practically maintained the same levels of the comparable period of last year.

General Government Final Consumption Expenditure

During the first nine months of 2005, final consumption expenditure by general Government decreased by 1.7 per cent in nominal terms, or Lm5.3 million. In real terms, this component of expenditure decreased by 3.8 per cent. This performance reflects Government's commitment to contain expenditure outlays as part of the fiscal consolidation process.

It is important to highlight that, for GDP purposes, general Government final consumption expenditure excludes outlays which finance transfer payments, such as National Insurance benefits, subsidies and grants. This is due to the fact that such items of expenditure do not reflect the production of goods and services, but merely the redistribution of funds between different sectors of the economy.

Gross Capital Formation

This component of expenditure comprises gross fixed capital formation, changes in inventories and the acquisitions less disposals of valuables. The main item

within this component, gross fixed capital formation, registered an increase of 7.0 per cent in nominal terms during the Survey period, reaching Lm298.4 million. In real terms, this reflects an increase of 5.1 per cent. This advance primarily reflected Government's capital outlays on a number of road projects financed by the Fifth Italian Financial Protocol as well as on other capital projects. Meanwhile, private capital expenditure also registered increases. One notes that the significant fluctuations recorded in this category of expenditure reflect a number of one-off items which materialised over the years. The other items which comprise gross fixed capital formation, in particular, changes in inventories and the acquisitions less disposal of assets, mainly cover changes in the value of inventories during this period of study and goods which are not used in the production process, and which are generally held as a store of value, respectively. During the January to September 2005, inventory changes stood at Lm47.0 million. One notes the reduction in changes in inventories recorded during the third quarter of this year, following the increases in stock levels registered in the first and second quarters of 2005.

Table 2.4 gives further data on the development of the gross fixed capital formation ratio to GDP during the 2002 to the January-September 2005 period. During the first nine months of 2005, this ratio increased marginally from 20.4 per cent to 21.1 per cent. In real terms, this ratio advanced from 20.8 per cent to 21.5 per cent.

Gross Fixed Capital Formation

Table 2.4

| | 2002 | 2003 | 2004 | 2004 Jan/Sep | 2005 Jan/Sep |
|--|---------|---------|---------|-----------------|-----------------|
| At Current Market Prices | | | | | |
| Gross Fixed Capital Formation (Lm million) | 271.5 | 359.9 | 380.3 | 278.8 | 298.4 |
| % change | -18.4 | 32.6 | 5.7 | 2.7 | 7.0 |
| GDP (Lm million) | 1,748.5 | 1,792.7 | 1,828.0 | 1,366.1 | 1,417.1 |
| (GFCF/GDP) % | 15.5 | 20.1 | 20.8 | 20.4 | 21.1 |
| At Constant 2000 Prices | | | | | |
| Gross Fixed Capital Formation (Lm million) | 253.9 | 333.6 | 348.4 | 255.5 | 268.6 |
| % change | -20.9 | 31.4 | 4.4 | 1.6 | 5.1 |
| GDP (Lm million) | 1,683.7 | 1,648.2 | 1,651.5 | 1,230.3 | 1,251.6 |
| (GFCF/GDP) % | 15.1 | 20.2 | 21.1 | 20.8 | 21.5 |

Source: National Statistics Office

Gross fixed capital formation is further subdivided into three main categories: metal products and machinery, transport equipment category, construction category and other products category. Significant increases were recorded in the construction category of gross fixed capital formation, whilst marginal increases were recorded in the two other categories of gross fixed capital formation. A further subdivision of gross fixed capital formation shows that investment undertaken by the private sector during the Survey period, increased by 3.9 per cent in nominal terms, whilst investment undertaken by Government registered a significant increase of 18.3 per cent. This reflects increases in Government's capital outlays on social development projects, infrastructural facilities and productive investment.

Foreign Demand and Supply

Developments in the external sector are of paramount importance to the performance of the Maltese economy. The increased competitive pressure faced by local operators and the increasingly uncertain global economic conditions have significantly influenced the local economy. Downward pressures on prices have also been recorded within particular sectors of the local manufacturing industry.

During the Survey period, exports registered a decline of 5.7 per cent in nominal terms to Lm988.8 million. In real terms, exports declined by 6.8 per cent. Exports of goods and services primarily consist of merchandise exports and foreign exchange earnings from tourism. The decrease in exports of goods was the main contributor to the deterioration in exports of goods and services. This negative performance was significantly influenced by developments in a major manufacturing company in the semi-conductor sector. On the other hand, exports of services during the Survey period advanced by Lm16.2 million, primarily due to higher receipts for transport related services and other services. Meanwhile, receipts from tourism increased marginally by Lm2.6 million.

Imports of goods and services also registered a decline in nominal terms. During the Survey period this category of expenditure registered a fall of 0.9 per cent in nominal terms. In real terms, imports of goods and services fell by 2.9 per cent. Trade data shows that the decline in imports of goods was mainly underpinned by a fall in imports of industrial supplies and capital goods. The 2005 drop in imports of capital goods should however be evaluated in the context of the extraordinary import item captured in the 2004 data. On the other hand, an increase in imports of consumer goods was recorded for the January-September 2005 period when compared to the same period of 2004. A decline

in imports of services was also recorded for the nine months ending September 2005, primarily due to lower payments on transportation services, and on other services. An increase in expenditure by Maltese tourists travelling abroad partly offset the fall in imports of services.

Given the significant decline in exports of goods and services compared to the relatively modest decline registered in the imports of goods and services component, the current account deficit for January-September 2005 reached Lm139.5 million from Lm94.2 million recorded in the same nine months of 2004.

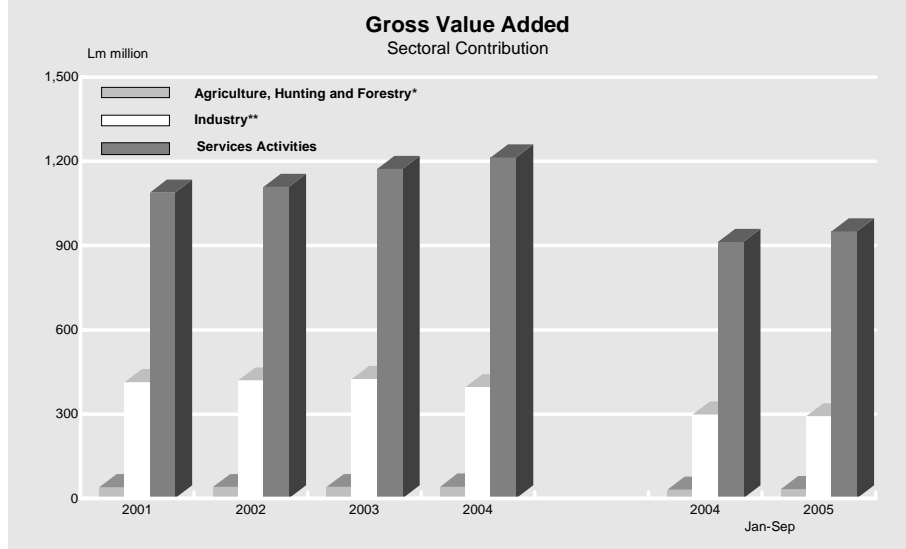
Sectoral Contribution to Gross Value Added

Gross Value Added (GVA) is defined as the value generated by any unit engaged in a production activity and is obtained as the excess of output over intermediate consumption. Intermediate consumption consists of the value of the goods and services consumed as inputs in the process of production, excluding the consumption of fixed assets. Gross value added at basic prices does not include taxes less subsidies on products as output is valued at basic prices, while intermediate consumption is measured at purchaser's prices. It is important to note that GVA of each sector is inclusive of Financial Intermediation Services Indirectly Measured (FISIM) which is subtracted from the sum of value added in the different sectors in order to obtain the GVA at basic prices.

During the Survey period, GVA at basic prices rose by 2.0 per cent in nominal terms and stood at Lm1,208.4 million. Growth in GVA at basic prices is attributable to increases registered in most sectors of the economy. Primarily increases were registered in financial intermediation, real estate, renting and business activities, transport, storage and communication, wholesale and retail trade, construction and other community, social and personal services activities. A minor decrease was registered in manufacturing whilst electricity, gas and water supply registered a significant reduction during the first nine months of 2005.

Chart 2.2 provides the sectoral contribution of agriculture, hunting and forestry, industry and services activities to GVA at basic prices excluding FISIM. In line with the long-term trends noted in previous years, over the period 2001 to 2005, the Maltese economy became more services-oriented and less dependent on industry and agriculture. Services activities include wholesale and retail trade (including repair of motor vehicles), hotels and restaurants, transport, storage

Chart 2.2



*Includes fishing and operation of fish hatcheries and fish farms

**Includes energy and construction

and communication, financial intermediation, real estate, renting and business activity, public administration and defence (including compulsory social security), education, health and social work and other community, social and personal services. Such sector accounted for 74.5 per cent of GVA at basic prices during the first nine months of September 2005, reflecting an increase of 1.1 percentage points over the same period of 2004. The share of industry, which is composed of mining and quarrying, manufacturing, electricity, gas and water supply, and construction, stood at 22.9 per cent, reflecting a decrease of 1.2 percentage points when compared to the share recorded during the comparable period of 2004. The share of agriculture, hunting and forestry, which also includes fishing stood at 2.6 per cent, almost unchanged from that recorded during the nine months to September 2004. Table 2.5 presents a sectoral contribution to GVA at basic prices for the 2002 to September 2005 period.

During the Survey period, GVA at basic prices in agriculture, hunting and forestry, fishing and operation of fish hatcheries and fish farms increased by Lm1.6 million, to Lm32.8 million. This reflects an increase of Lm1.4 million and Lm0.2 million recorded in the agriculture, hunting and forestry sector and fishing sector, respectively. Meanwhile, the GVA at basic prices in the industry category declined by Lm7.0 million or 2.3 per cent reaching Lm292.1 million during January-September 2005. The developments recorded in industry are attributable to

Sectoral Contribution to Gross Value Added

(at basic prices)

Table 2.5

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|--|----------------|--------------|----------------|--------------|----------------|--------------|----------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Agriculture, Hunting and Forestry | 27.2 | 8.3 | 26.8 | 8.7 | 28.4 | 8.8 | 29.8 |
| Fishing | 2.5 | 2.5 | 3.0 | 1.8 | 2.8 | 1.6 | 3.0 |
| Mining and Quarrying | 3.4 | 1.0 | 4.0 | 1.3 | 4.1 | 1.5 | 4.6 |
| Manufacturing | 235.7 | 79.1 | 241.3 | 81.6 | 227.0 | 74.4 | 225.9 |
| Electricity, Gas and Water Supply | 25.1 | 5.2 | 19.5 | 3.8 | 11.9 | 2.5 | 2.1 |
| Construction | 53.0 | 17.5 | 54.9 | 18.3 | 56.1 | 18.9 | 59.5 |
| Wholesale and Retail Trade ⁽¹⁾ | 133.4 | 45.3 | 137.5 | 48.7 | 144.5 | 47.7 | 145.8 |
| Hotels and Restaurants | 84.4 | 24.3 | 85.8 | 25.5 | 81.7 | 23.9 | 82.5 |
| Transport, Storage and Communication | 118.0 | 40.2 | 119.0 | 37.3 | 117.7 | 38.5 | 120.8 |
| Financial Intermediation | 52.7 | 20.7 | 65.7 | 23.6 | 76.9 | 26.8 | 92.9 |
| Real Estate, Renting and Business Activities | 143.8 | 47.7 | 156.1 | 52.6 | 164.6 | 55.7 | 173.1 |
| Public Administration and Defence ⁽²⁾ | 90.3 | 29.9 | 95.0 | 32.6 | 99.9 | 34.0 | 100.5 |
| Education | 82.1 | 26.0 | 86.9 | 27.7 | 91.1 | 28.5 | 92.8 |
| Health and Social Work | 66.8 | 22.4 | 70.0 | 23.7 | 74.2 | 25.4 | 76.9 |
| Other Community, Social and Personal Service Activities ⁽³⁾ | 60.2 | 20.8 | 62.3 | 22.7 | 62.3 | 19.9 | 65.2 |
| Financial Intermediation Services Indirectly Measured (FISIM) | -38.4 | -15.7 | -49.0 | -19.6 | -58.5 | -21.0 | -66.9 |
| Gross Value Added | 1,140.0 | 357.2 | 1,178.9 | 390.3 | 1,184.7 | 387.1 | 1,208.4 |

⁽¹⁾Includes Repair of Motor Vehicles, Motorcycles and Personal and Household Goods

⁽²⁾Includes Compulsary Social Security

⁽³⁾Includes Private Households with Employed Persons

Source: National Statistics Office

declines in electricity, gas and water and manufacturing of Lm9.8 million and Lm1.1 million, respectively. The construction and mining and quarrying sector recorded an increase of Lm3.4 million and Lm0.5 million, respectively.

During the January-September 2005 period, GVA at basic prices in the services activities category stood at Lm950.4 million, an increase of Lm37.5 million over the corresponding period of 2004. The expansion in GVA at basic prices of services activities reflects increases recorded in all sectors falling under this category with the main increases reported in financial intermediation, real estate, renting and business activities, as well as in the transport, storage and communication, other community, social and personal service activities and health and social work sectors.

GVA at basic prices in agriculture, hunting and forestry stood at Lm29.8 million during January-September 2005, reflecting an increase in output of Lm1.0 million and a decline in intermediate consumption of Lm0.3 million. Consequently the share of agriculture, hunting and forestry in total GVA stood at 2.3 per cent, unchanged from the rate recorded during the comparable period of 2004.

During the first nine months of the year, GVA at basic prices in manufacturing declined marginally to Lm225.9 million. This was a result of a decline in output of Lm48.2 million that was partly offset by a decline in intermediate consumption of Lm47.0 million. Lower employment in manufacturing contributed to the decline in intermediate consumption as this sector restructures to respond to increased international competition. On a sub-sectoral level, the performance is mixed with the negative outcome in a number of sub-sectors outweighing the expansions recorded in other sub-sectors. The main declines were recorded in manufacture of radio, television and communication equipment and apparatus (Lm8.2 million), manufacture of wearing apparel (including dressing and dyeing of fur) (Lm2.8 million), manufacture of food products and beverages (Lm1.5 million), manufacture of furniture (including manufacturing not elsewhere classified) (Lm0.9 million) and manufacture of pulp, paper and paper products (Lm0.7 million). However at the same time, an expansion in GVA at basic prices was mainly recorded in the manufacture of electrical machinery and equipment not elsewhere classified (Lm4.0 million), manufacture of chemicals and chemical products (Lm 2.7 million), manufacture of textiles (Lm2.4 million), manufacture of fabricated metal products (except machinery and equipment) (Lm1.7 million), manufacture of other non-metallic products (Lm1.3 million) and the manufacture of machinery and equipment not elsewhere classified (Lm1.2 million). As a result during January-September 2005, the share of manufacturing in total GVA at basic prices stood at 17.7 per cent, 0.6 percentage points lower than the share recorded during the comparable period of 2004.

During the first nine months of 2005, GVA at basic prices in construction increased by Lm3.4 million, or 6.1 per cent to Lm59.5 million. This reflected an increase in output of Lm6.1 million, which more than offset an increase of Lm2.8 million in intermediate consumption, as higher employment recorded in this sector may have contributed to this outcome. The share of construction in GVA at basic prices stood at 4.7 per cent, 0.2 percentage points above the share recorded during the comparable period of 2004.

Output in the electricity, gas and water sector increased by Lm29.6 million during January-September 2005. Nonetheless, intermediate consumption rose by Lm39.4 million during the same period, leading to a decline in GVA at basic

prices of Lm9.8 million. The rise in intermediate consumption is primarily attributable to the surge in the international price of fuel. On a sub-sectoral level, declines in GVA at basic prices were recorded in the electricity, gas, steam and water supply sub-sector (Lm6.9 million) and collection, purification and distribution of water sub-sectors (Lm2.9 million). Hence, during the first nine months of the year, the share of the electricity, gas and water sector in total GVA at basic prices stood at 0.2 per cent, down from 1.0 per cent recorded during the comparable period of 2004.

During the period under review, GVA at basic prices for the wholesale and retail trade sector (including repair and motor vehicles, motorcycles and personal and household goods), rose by Lm1.3 million to Lm145.8 million. This reflected an increase in output by Lm3.0 million which was partially countered by a rise of Lm1.7 million in intermediate consumption. On a sub-sectoral level, the expansion recorded in the sector is mainly attributable to an increase in GVA at basic prices recorded in the sale, maintenance and repair of motor vehicles and motorcycles (including retail of automotive fuel) sub-sector (Lm1.8 million) that countered the decline recorded in retail trade services (except for motor vehicles and motorcycles but including repair of personal services and household goods) sub-sector (Lm0.9 million). This sector's share in total GVA at basic prices stood at 11.4 per cent, down from the rate of 11.6 per cent recorded during the comparable period of 2004.

During January-September 2005, GVA at basic prices for the hotels and restaurants sector increased marginally by Lm0.8 million or 1.0 per cent and amounted to Lm82.5 million. These developments reflected an increase in output of Lm1.8 million, while intermediate consumption rose by Lm1.1 million. The share of hotels and restaurants in GVA at basic prices stood at 6.5 per cent, practically unchanged from the level recorded during January-September 2004.

During the Survey period, output in the transport, storage and communication sector increased by Lm10.3 million compared to the rise of Lm7.3 million recorded in intermediate consumption. Consequently GVA rose by Lm3.1 million to Lm120.8 million. On a sub-sectoral level, the expansion in this sector is due to higher GVA in land transport and transport via pipe services (Lm1.8 million), support and auxiliary transport services (including travel agency services) (Lm1.8 million) and air transport services (Lm0.8 million), that more than countered the decline recorded in the post and telecommunications services sub-sector (Lm1.4 million). Hence, during January-September 2005, the share of the transport, storage and communications sector in total GVA at basic prices was unchanged from the 9.5 per cent recorded during the same period of 2004.

Output in the financial intermediation sector increased by Lm25.8 million, a rise that countered the increase in intermediate consumption of Lm9.8 million. As a result, GVA at basic prices in financial intermediation increased by Lm16.0 million or 20.8 per cent during the first nine months of the year, to reach Lm92.9 million. The highest increase at a sub-sectoral level was recorded in financial intermediation services (except insurance and pension funds services) (Lm13.3 million), services auxiliary to financial intermediation (Lm1.5 million) and the insurance and pension funding services (except compulsory social security services) (Lm1.2 million) sub-sectors. During January-September 2005, the share of financial intermediation in total GVA at basic prices stood at 7.3 per cent, an increase of 1.1 percentage points over the comparable period of 2004.

During January-September 2005, output of the real estate, renting and business activities sector increased by Lm12.9 million when compared to the level recorded during the same period of 2004. Since the increase in intermediate consumption of Lm4.3 million was less than the increase recorded in output, GVA at basic prices advanced by Lm8.5 million or 5.2 per cent to Lm173.1 million during the nine months to September 2005. The improved employment performance recorded in this sector during the Survey period may have contributed to the rise in intermediate consumption. The performance of this sector reflects developments in the construction sector as well as changes in property prices. Although all sub-sectors recorded a positive performance, the expansion was primarily attributable to real estate services (Lm4.0 million) and other business services (Lm3.8 million). Consequently, during the first nine months of 2005, the share of the real estate, renting and business activities sector in total GVA stood at 13.6 per cent, an increase of 0.4 percentage points when compared to the same period of 2004.

GVA at basic prices in the public administration and defence (including compulsory social security) sector expanded marginally by 0.6 per cent to Lm100.5 million during January-September 2005. This expansion is due to a rise of Lm0.2 million in output and a decline in intermediate consumption by Lm0.5 million, reflecting improved controls by Government over public sector employment in this sector. The share of the public administration and defence (including compulsory social security) sector in total GVA at basic prices stood at 7.9 per cent during January-September 2005, a marginal drop of 0.1 percentage points when compared to the same period of 2004.

At Lm92.8 million, GVA at basic prices of the education sector advanced by Lm1.7 million or 1.9 per cent when compared to January-September 2004. This increase was mainly due to a decline in output by Lm0.5 million that was

more than countered by a decline in intermediate consumption of Lm2.2 million. As a result, the share of the education sector in total GVA at basic prices stood at 7.3 per cent, unchanged from the share recorded during January-September 2004.

The GVA at basic prices of the health and social work sector advanced by Lm2.7 million or 3.6 per cent to Lm76.9 million. The increase recorded in this sector was a result of higher output which rose by Lm3.0 million, while intermediate consumption rose by Lm0.3 million. The share of the health sector to total GVA at basic prices stood at 6.0 per cent during the first nine months of 2005, unchanged from the share recorded during January-September 2004.

Whilst output of the other community, social and personal services activities sector increased by Lm4.7 million, intermediate consumption rose by Lm1.8 million during the first nine months of the year. Consequently, GVA at basic prices in the other community, social and personal services activities sector increased by 4.7 per cent or Lm2.9 million to Lm65.2 million during the Survey period. All sub-sectors within the other community, social and personal services activities sector recorded a positive performance. However the expansion recorded during the first nine months of the year is primarily attributable to the recreational, cultural and sporting services sub-sector (Lm2.5 million), mainly due to the improved performance of international internet betting companies located in Malta. During January-September 2005, the share of the other community, social and personal services activities sector in total GVA at basic prices stood at 5.1 per cent, an increase of 0.1 percentage points when compared to the same period of 2004.

Gross National Income

Gross National Income (GNI) at market prices represents the total primary income receivable by resident institutional units and is the aggregate of the Gross Domestic Product at market prices, net compensation received from the rest of the world, subsidies less taxes from/to the rest of the European Union and net property income from the rest of the world.

During the Survey period, GNI at market prices advanced by Lm50.4 million, or 3.8 per cent, to Lm1,391.7 million. This increase was primarily underpinned by an increase in GDP at market prices. Table 2.6 provides information on the components of GNI at market prices during the 2002-2005 period.

Gross National Income

Table 2.6

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|---|----------------|--------------|----------------|--------------|----------------|--------------|----------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Compensation of employees | 619.2 | 207.7 | 643.2 | 213.0 | 645.7 | 218.8 | 661.5 |
| Gross operating surplus and mixed income | 533.3 | 175.7 | 551.8 | 181.5 | 540.5 | 173.5 | 556.1 |
| Taxes on production and imports | 183.0 | 66.9 | 169.7 | 73.2 | 203.8 | 81.4 | 226.0 |
| Less Subsidies | 24.5 | 12.8 | 29.4 | 10.3 | 23.8 | 11.7 | 26.5 |
| Gross Domestic Product at current market prices | 1,311.0 | 437.5 | 1,335.3 | 457.4 | 1,366.1 | 461.9 | 1,417.1 |
| Net compensation of employees from the rest of the world | 0.1 | -0.1 | 0.8 | 0.1 | 0.1 | 1.2 | 2.9 |
| Subsidies less Taxes on products from/to the rest of the EU | 0.0 | 0.0 | 0.0 | 0.0 | -3.6 | -1.6 | -3.6 |
| Net property income from the rest of the world | 30.6 | -28.0 | 9.4 | -21.5 | -21.3 | -2.8 | -24.7 |
| Gross National Income at current market prices | 1,341.6 | 409.4 | 1,345.6 | 436.0 | 1,341.3 | 458.7 | 1,391.7 |

Source: National Statistics Office

Compensation of employees advanced by Lm15.8 million or 2.4 per cent during the Survey period, reflecting the increase in the gainfully occupied population, as well as higher average nominal incomes. The contribution of compensation of employees to GDP at market prices stood at 46.7 per cent during the first nine months of 2005, slightly below the share recorded for the comparable period of 2004. Chart 2.3 illustrates the developments in compensation of employees and GDP at market prices over the period covering 2001 to 2005.

On a sectoral level, compensation of employees registered increases in all sectors of the economy apart from electricity, gas and water supply, other community, social and personal services activities (which includes private households with employed persons) and public administration and defence (including compulsory social security) which registered marginal decreases. Primarily, increases were recorded in financial intermediation (Lm3.5 million), real estate, renting and business activities (Lm2.1 million) and education (Lm2.2 million).

Chart 2.4 and Table 2.7 illustrates developments in compensation of employees and total employment through an analysis of average weekly compensation per employee. Data on compensation of employees includes the earnings of both full-time and part-time employees. Data emanating from the Labour Force Survey

Chart 2.3

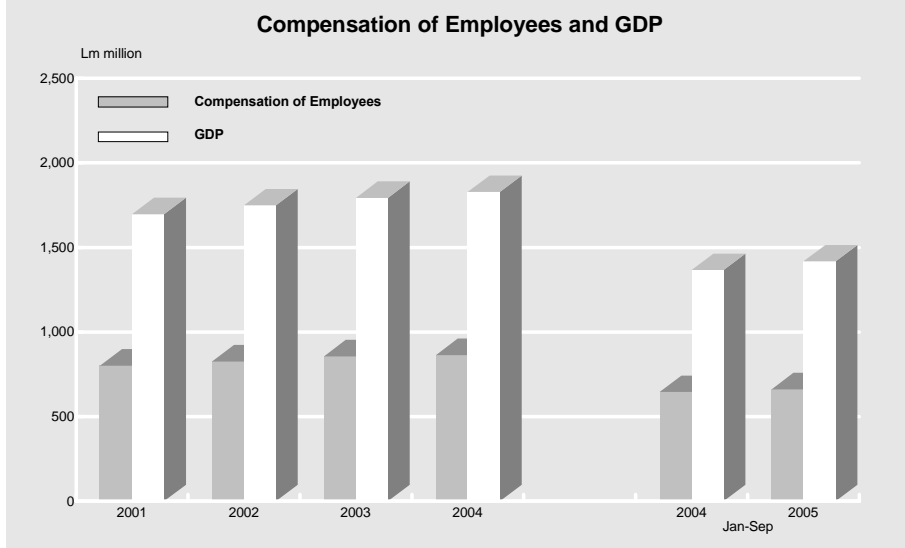
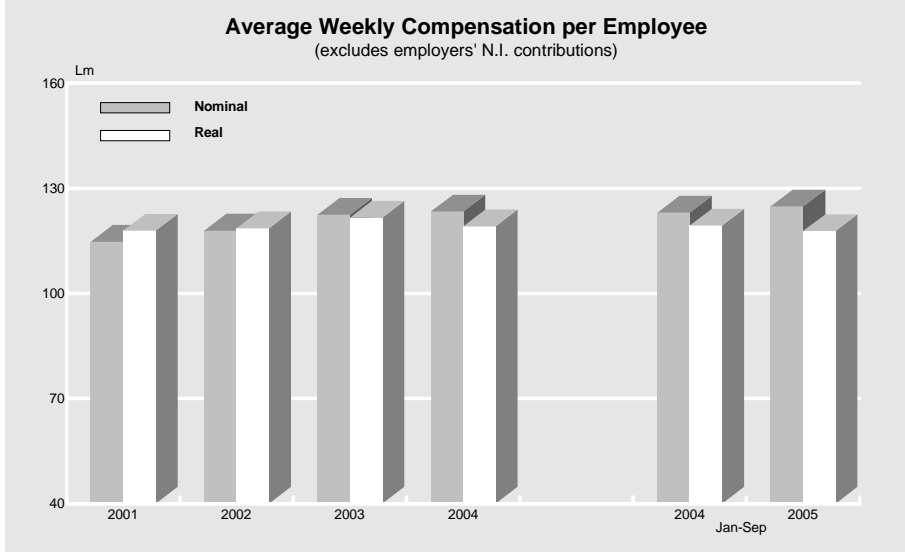


Chart 2.4



Average Weekly Compensation per Employee*

Table 2.7

| | Nominal | | Real | |
|-----------------------|-------------|-------------|-------------|-------------|
| | Value Lm | Change % | Value Lm | Change % |
| 2002 | 117.93 | 2.80 | 118.59 | 0.59 |
| 2003 | 122.49 | 3.86 | 121.58 | 2.52 |
| 2004 | 123.36 | 0.71 | 119.12 | -2.02 |
| 2004 (Jan/Sep) | 123.08 | 0.54 | 119.35 | -2.19 |
| 2005 (Jan/Sep) | 124.84 | 1.44 | 117.82 | -1.28 |

*Excludes employers' National Insurance contributions

Source: National Statistics Office

for total employment was used (which covers both full-time and part-time employees) given that a full-time equivalents measure of the number of employees is not available.

During the Survey period, the average weekly compensation per employee in nominal terms stood at Lm124.84, registering an increase of 1.4 per cent. Real average weekly compensation was obtained by deflating the nominal figures by the Retail Price Index using the base year December 2002=100. Real average compensation of employees stood at Lm117.82, registering a decline of 1.3 per cent over the comparable period of 2004.

Gross operating surplus and mixed income stood at Lm556.1 million, registering an increase of Lm15.6 million over the January-September 2004 period. The share of this category to GDP at market prices during the first nine months of 2005 practically maintained the same level compared to the same nine months of 2004. At a sectoral level, the increases recorded in gross operating surplus and mixed income were primarily underpinned by advances in financial intermediation activities, other community, social and personal service activities (including private households with employed persons), real estate, renting and business activities and transport, storage and communication activities. On the other hand, declines were recorded in electricity, gas and water supply and in manufacturing.

Taxes on production and imports increased by Lm22.2 million to Lm226.0 million, mainly due to higher VAT receipts. Subsidies registered only marginal increases

reaching Lm26.5 million for the first nine months of 2005, compared to Lm23.8 million for the January-September 2004 period.

Net property income from the rest of the world measures the difference between income receivable by Maltese owners of financial assets held abroad and income receivable by foreign residents from Maltese financial assets. When compared to the first nine months of 2004, net property income from the rest of the world fell by Lm3.4 million. This reflects higher payments in the investment income account in the Balance of Payments, which more than offset the higher receipts from abroad. Net compensation of employees from the rest of the world, defined as the difference between total remuneration earned abroad by Maltese nationals less total remuneration earned locally by foreign nationals, increased by Lm2.8 million. Taxes paid to the rest of the EU maintained the same level as last year.

Household Disposable Income

During the period under review, household disposable income reached Lm926.2 million, a rise of Lm36.6 million. This corresponds to a nominal increase of 4.1 per cent, or 2.1 per cent in real terms. In per capita terms, real household disposable income increased marginally by 1.4 per cent. Data on the composition of household disposable income is provided in Table 2.8. Data provided in this Table is not directly comparable to data published in the January-September 2004 Economic Survey due to the use of a different methodology by the NSO. Household disposable income is computed by deducting direct taxation, including social security contributions, from wages and salaries and other forms of income and transfers.

Compensation of employees, inclusive of social security contributions, increased by Lm15.8 million or 2.4 per cent to reach Lm661.5 million. This increase reflects the higher gainfully occupied population during the Survey period as well as higher average nominal incomes. The contribution of compensation of employees to gross household income stood at 59.4 per cent, registering a slight decline when compared to 60.2 per cent recorded during the comparable January-September 2004 period. This high ratio indicates that this category of income is a prime source of income for most households.

Non-wage income, which includes income of self-employed persons, rents, dividends and interest stood at Lm287.3 million, an increase of Lm21.6 million or 8.1 per cent. This category of income accounted for 25.8 per cent of gross household income, 1.0 percentage point below the share recorded for the first nine months of September 2004.

Household Disposable Income*

Table 2.8

Lm million

| | 2002 | 2003 | 2004 | 2004 Jan/Sep | 2005 Jan/Sep |
|--|---------|---------|---------|-----------------|-----------------|
| Compensation of Employees ⁽¹⁾ | 827.0 | 856.2 | 864.4 | 645.7 | 661.5 |
| Non wage income ⁽²⁾ | 360.3 | 361.7 | 355.4 | 265.7 | 287.3 |
| Net transfers from Government including social benefit payments | 200.1 | 203.7 | 210.3 | 157.9 | 166.0 |
| Net transfer from abroad | 4.9 | 4.5 | 4.0 | 3.8 | -1.7 |
| Gross household income | 1,392.2 | 1,426.1 | 1,434.1 | 1,073.1 | 1,113.1 |
| Less: direct taxes, incl. social security contributions | 239.7 | 254.1 | 268.4 | 183.5 | 186.9 |
| Disposable income | 1,152.5 | 1,172.0 | 1,165.7 | 889.6 | 926.2 |
| Private consumption | 1,094.8 | 1,124.4 | 1,153.6 | 851.6 | 872.4 |
| Household savings ⁽³⁾ | 57.7 | 47.6 | 12.1 | 38.0 | 53.8 |
| Savings ratio (in per cent of disposable income) | 5.0 | 4.1 | 1.0 | 4.3 | 5.8 |

*Provisional due to ongoing conversion to ESA95

⁽¹⁾Includes employers social security contributions

⁽²⁾Includes income of self-employed persons, rents, dividends and interest

⁽³⁾Excludes depreciation

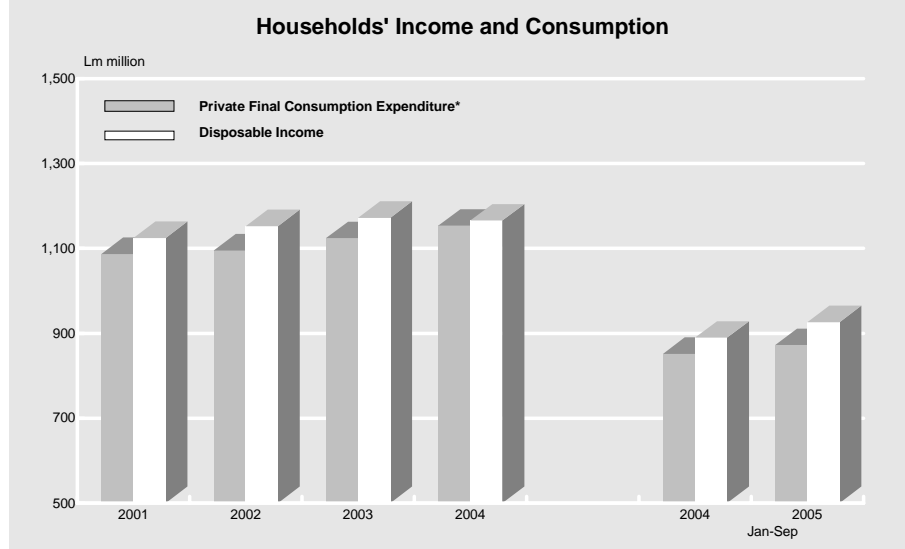
Source: National Statistics Office

An increase of 5.1 per cent was recorded in net transfers from Government, which includes social benefit payments, during the first three quarters of 2005. The share of net transfers from Government in gross household income stood at 14.9 per cent, practically unchanged from the share recorded during January-September 2004.

Net transfers from abroad decreased by Lm5.5 million during the Survey period to a negative of Lm1.7 million, thus contributing negatively to gross household income. This item includes primarily pension payments and funds remitted from abroad.

During the first nine months of 2005, direct taxes, inclusive of social security contribution advanced marginally by Lm3.4 million to Lm186.9 million. The share of direct taxes in gross household income stood at 16.8 per cent, marginally down from 17.1 per cent recorded during the January-September 2004 period.

Chart 2.5



*Includes NPISH final consumption expenditure

Chart 2.5 illustrates the relationship between household disposable income and private consumption expenditure during the period 2001 to 2005. Private consumption expenditure registered an increase of Lm20.8 million, or 2.4 per cent over the first nine months of 2004. Household disposable income increased by a larger proportion when compared to the recorded increase in private consumption expenditure leading to an increase in household savings. During the Survey period, household savings increased by Lm15.8 million to reach Lm53.8 million. The savings ratio for the January-September 2005 period stood at 5.8 per cent.

International Comparison

Given the openness of the Maltese economy and its dependence on developments in the international environment this section seeks to analyse the latest performance of Malta's main trading partners. Table 2.9 shows the growth rates of real GDP for the EU 25 Member States for the four years to 2005, whilst Table 2.10 illustrates the composition of economic growth in real terms for the EU 25 countries. The data is based on the European Commission's Spring 2005 forecasts.

Economic performance across the Euro Area remains very diverse. The expected improvements in economic performance for the Euro Area have not

Gross Domestic Product

at constant market prices

Table 2.9

% change

| | 2002 | 2003 | 2004 | 2005* |
|----------------|------|------|------|-------|
| Austria | 1.2 | 0.8 | 2.0 | 2.1 |
| Belgium | 0.9 | 1.3 | 2.7 | 2.2 |
| Cyprus | 2.1 | 2.0 | 3.7 | 3.9 |
| Czech Republic | 1.5 | 3.7 | 4.0 | 4.0 |
| Denmark | 1.0 | 0.4 | 2.0 | 2.3 |
| Estonia | 7.2 | 5.1 | 6.2 | 6.0 |
| Finland | 2.2 | 2.4 | 3.7 | 3.3 |
| France | 1.2 | 0.5 | 2.5 | 2.0 |
| Germany | 0.1 | -0.1 | 1.6 | 0.8 |
| Greece | 3.8 | 4.7 | 4.2 | 2.9 |
| Hungary | 3.5 | 3.0 | 4.0 | 3.9 |
| Ireland | 6.1 | 3.7 | 5.4 | 4.9 |
| Italy | 0.4 | 0.3 | 1.2 | 1.2 |
| Latvia | 6.4 | 7.5 | 8.5 | 7.2 |
| Lithuania | 6.8 | 9.7 | 6.7 | 6.4 |
| Luxembourg | 2.5 | 2.9 | 4.2 | 3.8 |
| Netherlands | 0.6 | -0.9 | 1.3 | 1.0 |
| Poland | 1.4 | 3.8 | 5.3 | 4.4 |
| Portugal | 0.4 | -1.1 | 1.0 | 1.1 |
| Slovakia | 4.6 | 4.5 | 5.5 | 4.9 |
| Slovenia | 3.3 | 2.5 | 4.6 | 3.7 |
| Spain | 2.2 | 2.5 | 2.7 | 2.7 |
| Sweden | 2.0 | 1.5 | 3.5 | 3.0 |
| United Kingdom | 1.8 | 2.2 | 3.1 | 2.8 |
| EU 25 | 1.1 | 1.0 | 2.4 | 2.0 |
| Euro Area | 0.9 | 0.6 | 2.0 | 1.6 |
| Malta | 1.0 | -2.1 | 0.2 | 1.7 |

*Forecast. For Malta, this figure relates to January - September

Source: European Commission
National Statistics Office

GDP by Category of Expenditure

at constant market prices

Table 2.10

% change

| | 2002 | 2003 | 2004 | 2005* |
|-------------------------------|------|------|------|-------|
| EU 25 | | | | |
| Private Consumption | 1.4 | 1.5 | 1.8 | 1.9 |
| Government Consumption | 3.1 | 1.9 | 2.0 | 1.7 |
| Gross Fixed Capital Formation | -1.4 | 0.1 | 3.0 | 3.6 |
| Exports of Goods and Services | 1.8 | 1.2 | 6.2 | 6.0 |
| Imports of Goods and Services | 1.3 | 2.6 | 6.6 | 6.5 |
| Gross Domestic Product | 1.1 | 1.0 | 2.4 | 2.0 |

*Forecast

Source: European Commission

materialised primarily due to the uncertainty created by the oil price hike. Growth for 2005 is projected to reach 1.6 per cent in the Euro Area and 2.0 per cent in the EU 25. The outlook is highly uncertain, in light of persistent higher oil prices and their increased volatility.

Growth is expected to be mainly driven by an acceleration of domestic demand, while the net trade contribution to GDP growth is expected to remain close to zero in both the Euro Area and in the EU 25. Investment expenditure is expected to pick up in view of the historically low interest rates, an improvement in corporate balance sheets and the widening of profit margins. A gradual recovery is also expected in private consumption. However, recent surveys have been somewhat less encouraging, mainly due to the uncertainty related to oil prices. In the EU 25 consumption is expected to grow by 1.9 per cent. After registering a growth of 3.0 per cent in 2004, gross fixed capital formation is expected to advance by 3.6 per cent. Exports are expected to grow by 6.0 per cent whilst imports are forecasted to increase by 6.5 per cent.

3. Employment

3. Employment

The performance of the labour market in Malta during the twelve months to September 2005 indicates the degree of resilience of the domestic economy in view of the relatively slow rate of economic growth registered in recent years. The process of economic adjustment triggered by industrial restructuring in both private and public enterprises, fiscal consolidation as well as sluggish growth in the economies of main trading partners and the steep rise in the international price of oil posed an increased uncertainty that affected domestic economic developments. Set against this context, the expansion in part-time employment and more modestly in the full-time gainfully occupied population, as well as the decline in number of registered unemployed are noteworthy.

As shown in Table 3.1, the full-time gainfully occupied population rose by 213 or 0.2 per cent reaching 137,813 at the end of September 2005, when compared to September last year. Meanwhile, the number of persons with a part-time job as their main occupation stood at 23,138 representing an increase of 2,190 or 10.5 per cent over September 2004. The number of unemployed persons registering under Part I of the Register declined by 874 to 6,508 at the end of the Survey period. Consequently, the unemployment rate under Part I of the Register declined by 0.6 percentage points to 4.5 per cent. Since the expansion in the full-time gainfully occupied population was lower than the drop in registered unemployed, the labour supply declined by 717 or 0.5 per cent over September 2004. It is notable that over the recent years increasing importance is being attached by both economic operators and employees to part-time work as the main occupation. This indicates changing working patterns and the relative degree of flexibility of the labour market.

The trends noted in previous years towards higher private sector employment, especially market services as the main generator of jobs in Malta persisted during the period under review. Additionally the declining share of the public sector is consistent with Government's policy in this area. Employment in the private sector, inclusive of temporary employment, stood at 92,514, an increase of 1,515 or 1.7 per cent over September 2004. This reflected an expansion in private market services of 1,990 jobs that was slightly countered by a decline of 441 in the private direct production category. As a result, the share of total private sector employment in the gainfully occupied population stood at 67.1 per cent, an increase of 1.0 percentage point over the previous comparable period. In the meantime, employment in the public sector, inclusive of temporary employment, stood at 45,299 representing a decline of 1,302 employees or 2.8 per cent over September 2004. Consequently the share of total public sector in

Labour Market Performance

Table 3.1

| | 2001 Sep | 2002 Sep | 2003 Sep | 2004 Sep | 2005 Sep |
|---|-------------|-------------|-------------|-------------|-------------|
| Labour Supply | 145,687 | 145,631 | 145,568 | 145,740 | 145,023 |
| Males | 104,669 | 104,254 | 103,832 | 103,524 | 102,401 |
| Females | 41,018 | 41,377 | 41,736 | 42,216 | 42,622 |
| Gainfully Occupied | 138,703 | 138,111 | 137,626 | 137,600 | 137,813 |
| Males | 98,899 | 98,180 | 97,567 | 97,019 | 96,830 |
| Females | 39,804 | 39,931 | 40,059 | 40,581 | 40,983 |
| Total Private Sector | 89,756 | 90,141 | 90,236 | 90,999 | 92,514 |
| Private Direct Production | 34,731 | 35,001 | 33,665 | 33,229 | 32,788 |
| Private Market Services | 54,276 | 54,369 | 55,881 | 57,144 | 59,134 |
| Temporary Employment | 749 | 771 | 690 | 626 | 592 |
| Total Public Sector | 48,947 | 47,970 | 47,390 | 46,601 | 45,299 |
| Public Sector | 48,693 | 47,691 | 47,097 | 46,338 | 45,061 |
| Temporary Employment | 254 | 279 | 293 | 263 | 238 |
| Registered Unemployed* | 6,984 | 7,520 | 7,942 | 8,140 | 7,210 |
| Males | 5,770 | 6,074 | 6,265 | 6,505 | 5,571 |
| Females | 1,214 | 1,446 | 1,677 | 1,635 | 1,639 |
| % of Labour Supply | 4.8 | 5.2 | 5.5 | 5.6 | 5.0 |
| of which unemployment under Part I (%) | 4.3 | 4.6 | 5.0 | 5.1 | 4.5 |
| Self-Employed** | 15,516 | 15,566 | 15,742 | 15,979 | 16,180 |
| Males | 13,617 | 13,569 | 13,669 | 13,802 | 13,901 |
| Females | 1,899 | 1,997 | 2,073 | 2,177 | 2,279 |
| % of Gainfully Occupied | 11.2 | 11.3 | 11.4 | 11.6 | 11.7 |
| Memorandum: | | | | | |
| Total Direct Production*** | 46,904 | 46,200 | 44,494 | 42,959 | 42,273 |
| Total Market Services*** | 90,796 | 90,861 | 92,149 | 93,752 | 94,710 |
| Total Private Sector Share | 64.7% | 65.3% | 65.6% | 66.1% | 67.1% |
| Total Public Sector Share | 35.3% | 34.7% | 34.4% | 33.9% | 32.9% |
| Part-time Employment as Primary Job | 16,851 | 17,744 | 18,886 | 20,948 | 23,138 |

*Includes both Parts I and II of the registered unemployed

**Included in the Private Sector

***Excluding temporary employees

Source: Employment and Training Corporation

Box 3.1

The Labour Force Survey

The Labour Force Survey (LFS) is a household survey carried out by the National Statistics Office (NSO) in accordance with the methodologies of the European Union's statistical agency, Eurostat, and of the International Labour Organisation. The LFS provides information regarding the labour market, educational levels, salary conditions and other useful indicators however it is not directly comparable to statistics emanating from the Employment and Training Corporation (ETC) mainly due to differences in definitions and methodologies of the two datasets. Additionally, one must express caution in interpreting LFS results over time as absolute changes in employment of 1,800 or less may be the result of sampling error.

Salient Labour Market Developments

According to the latest LFS statistics, the number of persons employed (inclusive of part-timers and self-employed) stood at 148,333 during April-June 2005, an increase of 2,289 over the comparable period of 2004. The employment rate stood at 53.6 per cent during April-June 2005, an increase of 0.2 percentage points over the comparable period of 2004. The increase was underpinned by higher female employment of 3,124 that countered the decline of 835 male employees recorded during the period. Consequently, the male employment rate stood at 73.5 per cent, a decline of 1.5 percentage points compared to April-June 2004. In contrast, the female employment rate rose by 2.0 percentage points to 33.6 per cent. In spite of this rise, the female employment rate remains relatively low when compared to the prevailing EU average.

The number of unemployed persons reported during April-June 2005 stood at 12,626 of which 62.5 per cent were males while females accounted for 37.5 per cent. During the period, the number of unemployed persons rose by 1,097 as the unemployment rate rose by 0.5 percentage points to 7.8 per cent. During the same period, the male unemployment rate rose by 0.3 percentage points to 7.2 per cent, whilst the indicator for females stood at 9.3 per cent, 1.0 percentage points above the previous year.

The LFS also provides information on the average gross annual salary for employees by main occupation category. During April-June 2005, the highest annual salary related to legislators, senior officials and managers and averaged Lm8,950, while the lowest paid occupation was elementary occupations at Lm4,159 per year. These results suggest a degree of salary compression in the remuneration of different occupational categories. The average gross annual salary stood at Lm5,224 during April-June 2005, reflecting an increase of 3.6 per cent over April-June 2004.

Employment Flexibility

The data emanating from the LFS is useful in providing information on the degree of employment flexibility prevailing in the Maltese labour market. Employment flexibility can be defined as the ability or willingness of employees to change working patterns in order to meet the demands of employers. Flexible working patterns improve the labour market matching between the demand and supply side and are beneficial in increasing labour productivity by enhancing the use of human resources in the economy.

Box 3.1 continued

Part-time employment is associated with employment flexibility in so far as it enables certain groups in society, especially females to enter the labour market by providing a better balance between working life and family responsibilities. LFS data shows that during 2004, the share of part-time employment in total employment stood at 9.4 per cent, up from 7.4 per cent recorded during 2000. Part-time employment is more common amongst females at 20.5 per cent of total female employment. Meanwhile, only 3.9 per cent of males are employed on a part-time basis. During 2004, the share of part-time employment in total employment in Malta was 8.4 percentage points lower than the rate prevailing in EU 25. However the gap has narrowed during recent years.

Another indicator of employment flexibility is the usual hours worked per week. During 2004, the usual hours worked per week in Malta by full-time employees stood at 40.6 hours. Males tend to work longer hours than females as during 2004 males worked 41.4 hours weekly on average while females worked 38.7 hours on average. When compared to the EU 25, Maltese workers work 0.3 hours longer, reflecting a relatively higher contribution of males that counters the relatively lower contribution of females. In general, the Maltese employees work for longer hours than their continental European counterparts, but slightly less than the workers from some of the new Member States.

Limited-duration contracts are also useful in assisting labour market adjustment by enabling workers to move quickly from one job to another. Moreover, during periods of economic uncertainty employers may be more willing to offer limited-duration contracts, thus boosting the overall employment levels. Nevertheless, a high proportion of employees on limited-duration contract may reduce the incentives for employers to offer training and development opportunities. During 2004, the share of employees with limited-duration contract in total employment in Malta stood at 3.9 per cent. This is significantly lower than the rate recorded in EU 25 that stood at 13.7 per cent. In fact the share recorded in Malta is amongst the lowest amongst EU Member States.

Another indicator of employment flexibility is the share of employed persons usually engaged in atypical working hours. According to NSO figures, around 17 per cent and 11 per cent of total employees usually work weekdays during the evening and the night, respectively. Additionally, a significant proportion of employees in Malta usually work during the weekend. In fact, 31.6 per cent and 17.5 per cent of total employees usually work on Saturday and Sunday, respectively. Additionally, work during the evening and night is more common amongst males than females, while no discernible difference is noted regarding the trends for weekend work.

In view of the above, one may conclude that based on these indicators, the Maltese economy displays a moderate degree of employment flexibility relative to the EU 25. In particular, the growth registered in recent years in part-time employment, especially amongst females, is indicative of changing working patterns.

Box 3.1 continued

Employment Flexibility Indicators - 2004

Percentages unless otherwise indicated

| | Males | Females | Total |
|--|-------|---------|-------|
| Part-time employment as % of total employment | | | |
| EU 25 | 7.0 | 31.4 | 17.8 |
| Malta | 3.9 | 20.5 | 9.4 |
| Employees with limited duration contract as a % of total employment | | | |
| EU 25 | 13.2 | 14.4 | 13.7 |
| Malta | 3.0 | 5.8 | 3.9 |
| % of total employment usually engaged on: | | | |
| Evening (Weekdays between 8 pm-11 pm) | 18.4 | 15.2 | 17.4 |
| Night (Weekdays between 11pm-5 am) | 11.3 | 11.2 | 11.3 |
| Saturday | 31.8 | 31.0 | 31.6 |
| Sunday | 17.6 | 17.3 | 17.5 |
| Usual hours worked per week by full-time employees | | | |
| EU 25 | 41.2 | 39.0 | 40.3 |
| Malta | 41.4 | 38.7 | 40.6 |

Source: National Statistics Office
Eurostat

the gainfully occupied population declined to 32.9 per cent. This decline mainly reflects Government's policy to restrict recruitment to non-essential categories in Government Departments as well as the privatisation of Malta Freeport Terminals Ltd during the fourth quarter of 2004.

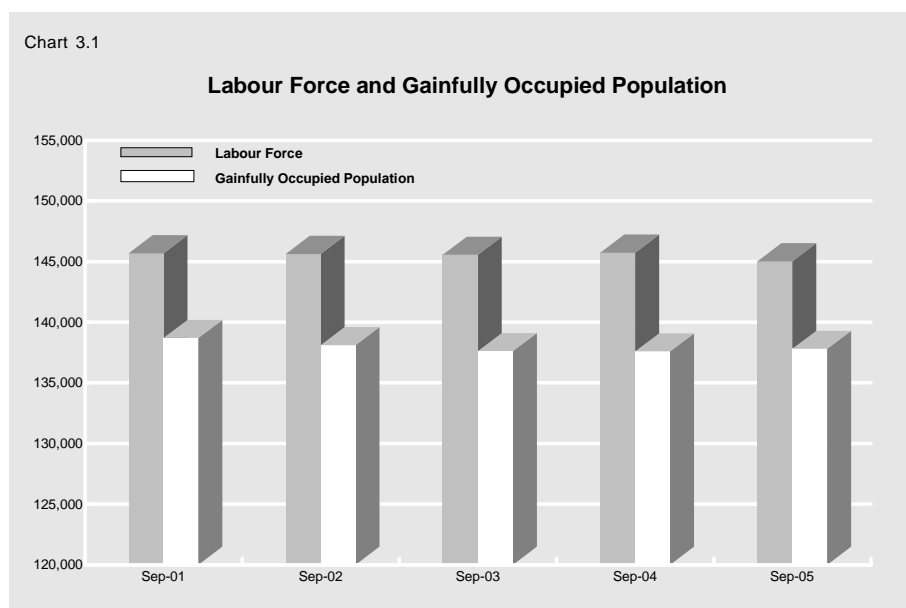
The data presented in this Chapter are based on the administrative records of the Employment and Training Corporation (ETC) which classifies the gainfully occupied population according to the standard NACE classification of economic activities. This classification was introduced during 2005 and was applied to employment statistics as from 1992 onwards. As a result, the data in this Chapter are not directly comparable with those presented in previous issues of the Economic Survey.

It is pertinent to note that the data on registered unemployment is composed of both Part I and Part II of the Register. Part I of the Register includes those persons who are eligible for work and registering with the ETC as unemployed, while Part II incorporates other categories of persons searching for work but not eligible to register under Part I. Such categories include those who were

dismissed from work due to disciplinary action or who left employment at their free will, those who refused work and training opportunities, those who failed to submit the necessary documents required for registration under Part I and those who were struck off the Register after being found in breach of regulations. Thus unemployment under Part I of the Register provides a better indicator for analysing developments in the domestic labour market.

Labour Market Developments

This section provides an analysis of the main labour market developments recorded during the period September 2001 and September 2005. Chart 3.1 shows the main developments in the labour force and the gainfully occupied population over the period under review. The labour supply declined by 664 or 0.5 per cent during the Survey period, thus reaching 145,023 at the end of September 2005. During this period, the labour supply was generally on a downward trend mainly reflecting the implementation of voluntary retirement schemes in public enterprises and declines in the number of registered unemployed who have not joined the full-time gainfully occupied population. Labour supply developments are also marked by different trends in the male and female components. It is noteworthy to highlight that the increase in the number of females in the labour supply partly mitigated the decline in the number of males recorded during the period. In fact, the male labour supply stood at 102,401 at the end of September 2005, a drop of 2,268 over September 2001, as the share of males in the gainfully occupied population declined by 1.2 percentage



points to 70.6 per cent. The female labour supply increased by 1,604 during the four years to September 2005, an increase of around 4 per cent.

The gainfully occupied population stood at 137,813 at the end of September 2005, a decline of 890 or 0.6 per cent over the previous four years. Following the declines recorded during 2002 and 2003, mainly reflecting restructuring being undertaken by both private and public sector, the gainfully occupied population was stable during 2004, while an increase was recorded in 2005.

The number of males in the gainfully occupied population was on a downward trend during the period under review. At the end of September 2005, the number of males in the gainfully occupied population stood at 96,830. On the other hand, the number of females in the gainfully occupied population stood at 40,983. Raising the employment rate, especially for women is one of Government's objectives in the field of employment as set out in the National Action Plan for Employment published in 2004.

The number of unemployed persons under Part I of the Register stood at 6,508 at the end of September 2005, an increase of 293 over September 2001. While the number of registered unemployed under Part I increased by 1,167 between September 2001 and 2004, it noteworthy that a decrease of 874 was recorded during the twelve months to September 2005. As a result, the unemployment rate under Part I of the Register stood at 4.5 per cent at the end of September 2005, 0.2 percentage points higher than that recorded during September 2001.

Private Sector Employment

Employment in the private sector, inclusive of temporary employees was on an upward trend over the period September 2001-September 2005, increasing by 2,758 or 3.1 per cent thus reaching 92,514 at the end of September 2005. In line with long-term trends, this higher employment in the private sector reflects a significant expansion in private market services over the period under review, an increase that was partly countered by a decline in employment in private direct production.

Employment in private direct production stood at 32,788 at the end of September 2005, a decrease of 1,943 or 5.6 per cent over September 2001. Employment in private direct production suffered declines throughout the period except for an expansion recorded during 2002. These developments mainly reflect the restructuring efforts in the manufacturing industry. It also reflects the open

nature of this sector which during the years under consideration had to cope with an unfavourable international economic scenario, as well as trade liberalisation and increasing international competitive pressures. Consequently, the share of private direct production in the gainfully occupied population stood at 23.8 per cent at the end of Survey period, 1.2 percentage points lower than the rate recorded in September 2001. Meanwhile, employment in private market services stood at 59,134 reflecting an increase of 4,858 or 9.0 per cent over September 2001. This increase reflects an expansion in employment in the real estate, renting and business activities, wholesale and retail, transport, storage and communications and other community, social and personal services activities sectors.

The share of private direct production in the total private sector employment stood at 35.4 per cent at the end of September 2005, 3.3 percentage points lower than the share recorded during September 2001. On the other hand, the share of private market services in total private sector employment stood at 63.9 per cent at the end of September 2005, up from 60.5 per cent registered at the end of September 2001. These developments indicate long term trends towards greater reliance on market services as the main source of employment creation in the private sector as the private direct production category registered declines owing to a re-orientation of manufacturing towards less labour-intensive and higher value-added activities as well as increased competitive pressures faced by certain sectors.

Apart from a small rise recorded at the end of September 2002, the number of temporary employees in the private sector was on a downward trend during the four years to September 2005. At the end of September 2005, temporary employment stood at 592, down from 749 recorded four years earlier. As a share of total private sector employment, temporary employment declined by 0.2 percentage points, to 0.6 per cent as the end of Survey period.

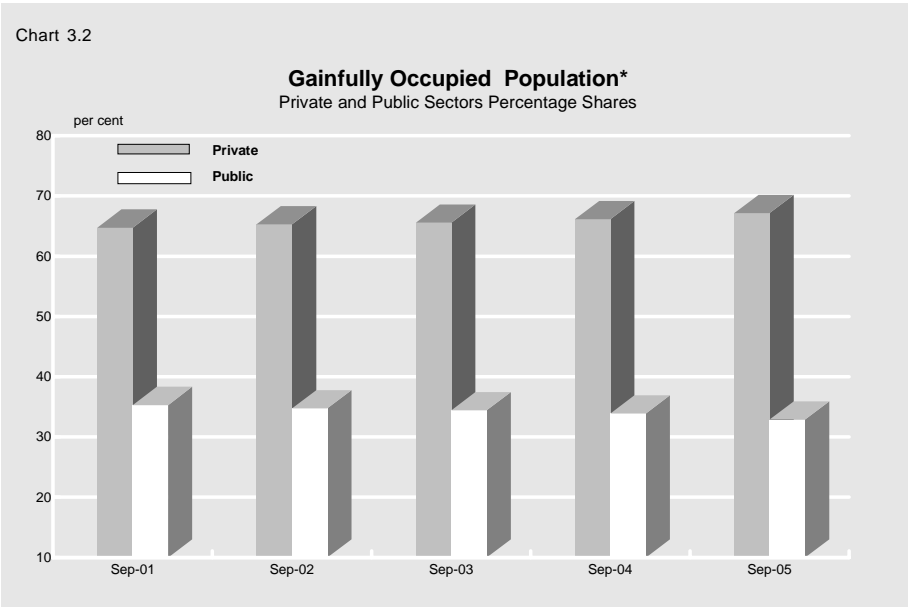
Meanwhile, during the period September 2001-September 2005, the number of self-employed persons followed an upward trend. At the end of September 2005, the number of self-employed persons stood at 16,180 reflecting an increase of 664 or 4.3 per cent over September 2001. The share of self-employed in the gainfully occupied population stood at 11.7 per cent, an increase of 0.5 percentage points over September 2001.

On a gender basis, the number of male self-employed was rising, except for a decline recorded during 2002. The number of male self-employed stood at 13,901 at the end of Survey period, an increase of 284 relative to four years earlier.

The number of female self-employed stood at 2,279 at the end of September 2005 suggesting an increase of 380 or 20.0 per cent over September 2001. Despite this notable increase, the share of females in total self-employed remains relatively low, at 14.1 per cent, when compared to the share of females in the gainfully occupied population.

Public Sector Employment

Over the period September 2001–September 2005, public sector employment was on a downward trend owing to the restructuring of public enterprises, privatisation initiatives as well as Government's policy to restrict recruitment into non-essential categories in Government Departments. At the end of September 2005, public sector employment, inclusive of temporary employees, stood at 45,299, thus representing a decline of 3,648 employees or 7.5 per cent over September 2001. This decline was mainly due to a decrease of 2,468 employees in companies with public sector majority shareholding. Additionally, employment in Government Departments declined by 1,477 over the period September 2001–September 2005. On the other hand, employment with Independent Statutory Bodies rose by 313, while temporary employment in the public sector remained relatively unchanged. Thus as shown in Chart 3.2, the share of public sector employment in the gainfully occupied population declined



*Including temporary employees

from 35.3 per cent at the end of September 2001 to 32.9 per cent at the end of September 2005.

As shown in Table 3.2, at the end of September 2005 public sector employment declined by 1,302 or 2.8 per cent when compared to the same month of 2004. Employment with public sector majority companies declined by 703 or 11.3 over the twelve months to September 2005. This decline was concentrated in the market services category and was mainly due to the privatisation of Malta Freeport Terminals Ltd during the fourth quarter of 2004. Consequently, the share in the public sector accounted for by companies with public sector majority stood at 12.2 per cent at the end of September 2005, a decrease of 1.2 percentage points when compared to twelve months earlier.

Employment in Government Departments stood at 30,960 at the end of Survey period, a decrease of 620 or 2.0 per cent over September 2004. This development reflects Government's policy to restrict recruitment into non-essential categories of Government Departments. Around a quarter of the decline was concentrated in the direct production category whilst the rest originated from the market services category. As a result, the share of Government Departments in total public sector employment stood at 68.3 per cent, an increase of around 0.6 percentage points when compared to September 2004.

At the end of September 2005, employment with Independent Statutory bodies stood at 8,579, reflecting an increase of 46 over the same period last year. This increase was due to job creation within the market services category, particularly tertiary education institutions that more than offset the decline recorded under direct production during the same period. Consequently, the share of Independent Statutory Bodies in total public sector employment stood at 18.9 per cent at the

Public Sector Employment
Table 3.2

| | 2001 Sep | 2002 Sep | 2003 Sep | 2004 Sep | 2005 Sep |
|---|-------------|-------------|-------------|-------------|-------------|
| Government Departments | 32,437 | 31,956 | 31,735 | 31,580 | 30,960 |
| Companies with public sector majority shareholding | 7,990 | 7,841 | 7,199 | 6,225 | 5,522 |
| Independent Statutory Bodies | 8,266 | 7,894 | 8,163 | 8,533 | 8,579 |
| Temporary Employees | 254 | 279 | 293 | 263 | 238 |
| Total | 48,947 | 47,970 | 47,390 | 46,601 | 45,299 |

Source: Employment and Training Corporation

end of September 2005, an increase of 0.6 percentage points over September 2004.

Temporary employment stood at 238 at the end of September 2005 representing a marginal decline of 25 over the comparable period of 2004. Consequently, the share of temporary employment in total public sector employment stood at 0.5 per cent down from 0.6 per cent recorded a year earlier.

Sectoral Employment

At the end of September 2005, the share of the direct production category exclusive of temporary employees, in the gainfully occupied population stood at 30.7 per cent, down from 31.2 per cent recorded twelve months earlier. Conversely, the share of market services, exclusive of temporary employees stood at 68.7 per cent of the gainfully occupied population, an increase of 0.6 percentage points compared to September 2004.

The following analysis gives a detailed outline of employment performance of clusters of economic activity in both the direct production and market services categories during the period September 2004 - September 2005.

Direct Production

Table 3.3 provides an overview of the main developments in direct production over the period September 2001-September 2005. Direct production is composed of agriculture, hunting and forestry, fishing, mining and quarrying, manufacturing, electricity, gas and water and construction. At the end of September 2005, employment in direct production stood at 42,273 thus reflecting a decrease of 686 or 1.6 per cent over the same period of 2004. The decline was mainly due to lower employment levels in manufacturing and electricity, gas and water. The decline in manufacturing employment is attributable to enterprise restructuring while lower employment in electricity, gas and water reflects Government's policy to restrict recruitment into non-essential categories in companies with public sector majority and Independent Statutory Bodies. The private sector accounted for around two-thirds of the decline in employment in direct production. The developments in direct production over the period September 2001-September 2005 are illustrated in Chart 3.3.

Employment in agriculture, hunting and forestry stood at 3,111 at the end of September 2005, an increase of 59 over September 2004. This increase was

Employment in Direct Production*

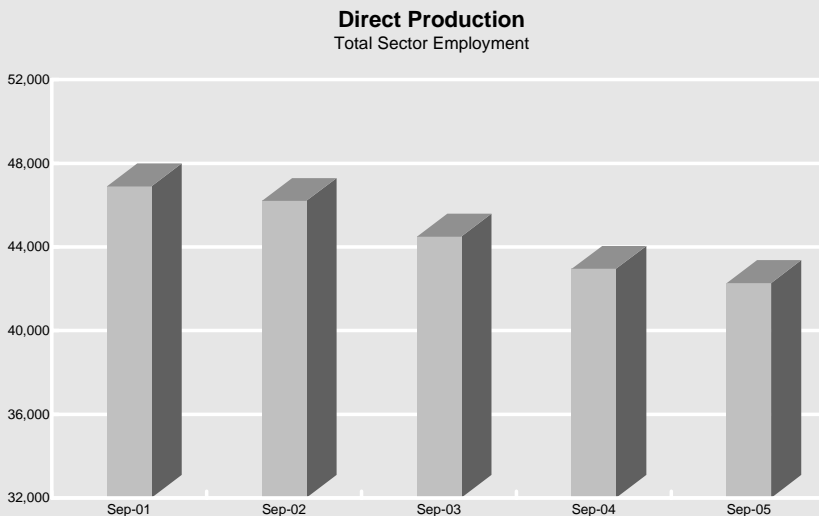
Table 3.3

| | 2001 Sep | 2002 Sep | 2003 Sep | 2004 Sep | 2005 Sep |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Agriculture, Hunting and Forestry | 2,818 | 2,829 | 2,818 | 3,052 | 3,111 |
| Private | 1,650 | 1,658 | 1,672 | 1,668 | 1,669 |
| Public | 1,168 | 1,171 | 1,146 | 1,384 | 1,442 |
| Fishing | 352 | 375 | 407 | 420 | 428 |
| Private | 352 | 375 | 407 | 420 | 428 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mining and Quarrying | 503 | 489 | 500 | 495 | 494 |
| Private | 503 | 489 | 500 | 495 | 494 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Manufacturing | 28,874 | 27,792 | 26,498 | 24,945 | 24,291 |
| Private | 25,244 | 25,007 | 23,762 | 23,143 | 22,542 |
| Public | 3,630 | 2,785 | 2,736 | 1,802 | 1,749 |
| Electricity, Gas and Water | 3,186 | 3,138 | 3,037 | 3,518 | 3,390 |
| Private | 4 | 3 | 1 | 1 | 1 |
| Public | 3,182 | 3,135 | 3,036 | 3,517 | 3,389 |
| Construction | 11,171 | 11,577 | 11,234 | 10,529 | 10,559 |
| Private | 6,978 | 7,469 | 7,323 | 7,502 | 7,654 |
| Public | 4,193 | 4,108 | 3,911 | 3,027 | 2,905 |
| Total Employment in Direct Production | 46,904 | 46,200 | 44,494 | 42,959 | 42,273 |
| Private | 34,731 | 35,001 | 33,665 | 33,229 | 32,788 |
| Public | 12,173 | 11,199 | 10,829 | 9,730 | 9,485 |

* Excluding temporary employees

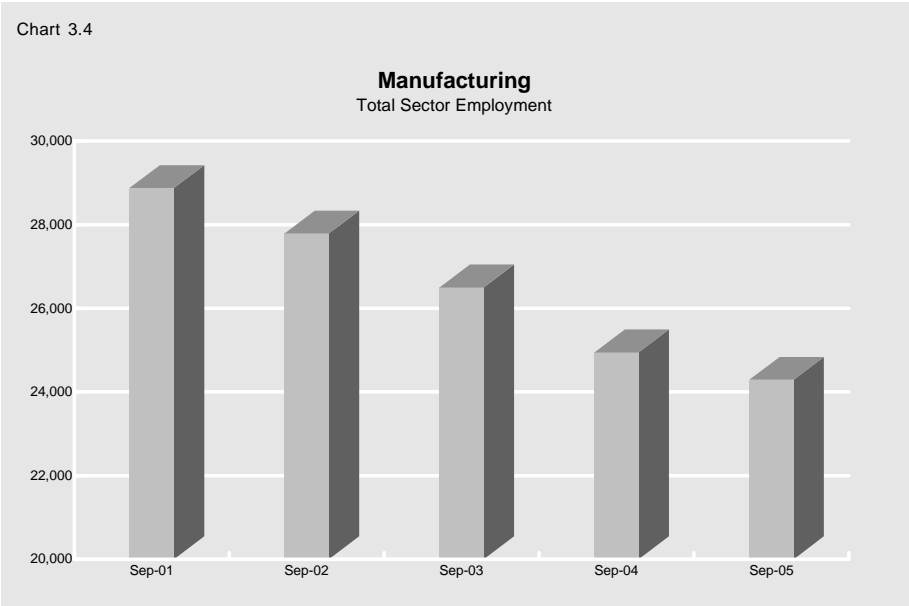
Source: Employment and Training Corporation

Chart 3.3



concentrated in the public sector and reflected the transfer of a number of employees previously classified under the other community and personal services sector. The share of agriculture, hunting and forestry in total employment in direct production stood at 7.4 per cent, an increase of 0.3 percentage points over September 2004. Employment in fishing stood at 428 at the end of September 2005, reflecting a marginal increase over the same period of 2004. The share of fishing in total employment in direct production stood at 1.0 per cent, unchanged from that recorded during September 2004. Meanwhile, the labour complement in mining and quarrying stood at 494 at the end of September 2005, practically unchanged from twelve months earlier. Consequently, at the end of September 2005 the share of mining and quarrying stood at 1.2 per cent unchanged from the comparable period of 2004.

Manufacturing employment which is illustrated in Chart 3.4, stood at 24,291 at the end of Survey period, a decrease of 654 or 2.6 per cent over September 2004. This decline was mainly due to the drops recorded in the manufacturing of electrical machinery and optical equipment, manufacturing of textiles and textile products and manufacturing of leather and leather products. Further declines were also recorded in the manufacturing of food, beverages and tobacco, manufacturing of wood and wood products, manufacturing of basic metals and fabricated metal products, manufacture of rubber and rubber products, manufacturing of transport equipment, manufacture of pulp, paper and paper products, and manufacturing n.e.c. These decreases were partially mitigated



by increases in employment recorded in the manufacturing of chemicals, chemical products and man-made fibres, manufacturing of other non-metallic mineral products and manufacturing of machinery and equipment n.e.c. These changes generally reflect a shift in manufacturing employment towards higher value-added activity.

As shown in Table 3.4, during September 2005 total sectoral gains in manufacturing employment stood at 52, slightly below the level recorded in 2004. These gains were in the private sector, half of which were attributable to manufacturing of chemicals, chemical products and man-made fibres. Meanwhile, sectoral job losses stood at 706 at the end of September 2005, significantly lower than the losses recorded during September 2004. Though still relatively high, the losses recorded during 2005 were the lowest in four years, thus suggesting that the restructuring process of the manufacturing industry is entering into an advanced phase. Job losses were mainly concentrated in the private sector, particularly in the manufacturing of electrical machinery and optical equipment, manufacturing of textiles and textile products and manufacturing of leather and leather products. Employment trends in these sectors are sensitive to cyclical developments in the particular product markets as well as competitive price pressures from Asia. Table 3.5 provides detailed information on employment developments in the manufacturing industry over the period September 2001-September 2005.

| Changes in Manufacturing Employment* | | | | |
|--|----------------|----------------|----------------|----------------|
| Table 3.4 | | | | |
| | 2002-01 | 2003-02 | 2004-03 | 2005-04 |
| | Sep | Sep | Sep | Sep |
| Total Change | -1,082 | -1,294 | -1,553 | -654 |
| Private | -237 | -1,245 | -619 | -601 |
| Public | -845 | -49 | -934 | -53 |
| Total Sectoral Increases | 203 | 315 | 76 | 52 |
| Private | 137 | 251 | 76 | 52 |
| Public | 66 | 64 | 0 | 0 |
| Total Sectoral Decreases | 1,285 | 1,609 | 1,629 | 706 |
| Private | 374 | 1,496 | 695 | 653 |
| Public | 911 | 113 | 934 | 53 |
| * Excluding temporary employees | | | | |
| Source: Compiled from Employment and Training Corporation data | | | | |

Manufacturing Employment*

Table 3.5

| | 2001 Sep | 2002 Sep | 2003 Sep | 2004 Sep | 2005 Sep |
|---|-------------|-------------|-------------|-------------|-------------|
| Mfg of Food Products, Beverages and Tobacco | 3,895 | 3,851 | 3,877 | 3,863 | 3,805 |
| Private | 3,894 | 3,851 | 3,877 | 3,863 | 3,805 |
| Public | 1 | 0 | 0 | 0 | 0 |
| Mfg of Textiles and Textile Products | 3,913 | 3,854 | 2,999 | 2,770 | 2,612 |
| Private | 3,913 | 3,854 | 2,999 | 2,770 | 2,612 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Leather and Leather Products | 872 | 717 | 507 | 449 | 346 |
| Private | 872 | 717 | 507 | 449 | 346 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Wood and Wood Products | 159 | 237 | 176 | 179 | 171 |
| Private | 159 | 171 | 176 | 179 | 171 |
| Public | 0 | 66 | 0 | 0 | 0 |
| Mfg of Pulp, Paper and Paper Products; Publishing and Printing | 1,861 | 1,876 | 1,949 | 1,921 | 1,875 |
| Private | 1,743 | 1,825 | 1,834 | 1,822 | 1,808 |
| Public | 118 | 51 | 115 | 99 | 67 |
| Mfg of Coke, Refined Petroleum Products and Nuclear Fuel | 25 | 20 | 14 | 4 | 4 |
| Private | 25 | 20 | 14 | 4 | 4 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Chemicals, Chemical Products and Man-Made Fibres | 642 | 636 | 761 | 558 | 585 |
| Private | 642 | 636 | 761 | 558 | 585 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Rubber and Plastic Products | 1,906 | 1,867 | 1,758 | 1,756 | 1,665 |
| Private | 1,906 | 1,867 | 1,758 | 1,756 | 1,665 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Other Non-Metallic Mineral Products | 1,233 | 1,276 | 1,258 | 1,207 | 1,217 |
| Private | 1,233 | 1,276 | 1,258 | 1,207 | 1,217 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Basic Metals and Fabricated Metal Products | 1,346 | 1,334 | 1,284 | 1,279 | 1,273 |
| Private | 1,333 | 1,326 | 1,276 | 1,276 | 1,273 |
| Public | 13 | 8 | 8 | 3 | 0 |
| Mfg of Machinery and Equipment n.e.c | 467 | 444 | 422 | 460 | 475 |
| Private | 467 | 444 | 422 | 460 | 475 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Electrical and Optical Equipment | 5,477 | 5,453 | 5,383 | 5,366 | 5,181 |
| Private | 5,477 | 5,453 | 5,383 | 5,366 | 5,181 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Mfg of Transport Equipment | 3,862 | 3,019 | 3,058 | 2,180 | 2,130 |
| Private | 364 | 359 | 445 | 480 | 448 |
| Public | 3,498 | 2,660 | 2,613 | 1,700 | 1,682 |
| Manufacturing n.e.c. | 3,216 | 3,208 | 3,052 | 2,953 | 2,952 |
| Private | 3,216 | 3,208 | 3,052 | 2,953 | 2,952 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Total Manufacturing Employment | 28,874 | 27,792 | 26,498 | 24,945 | 24,291 |

* Excluding temporary employees

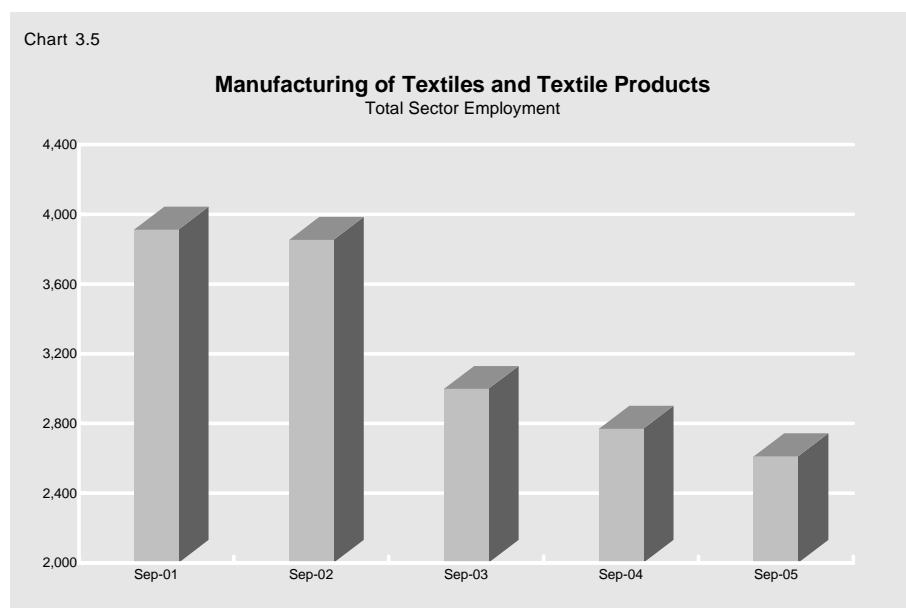
Source: Employment and Training Corporation

Manufacture of Food, Beverages and Tobacco

Employment in food, beverages and tobacco stood at 3,805 at the end of September 2005, a decline of 58 or 1.5 per cent over the comparable period of 2004. The decline is mainly concentrated in the manufacture of food and beverages sub-sector. The share of food, beverages and tobacco in total manufacturing employment stood at 15.7 per cent.

Manufacture of Textile and Textile Products

At the end of September 2005, employment in the manufacture of textile and textile products stood at 2,612, a decline of 158 over the comparable period of 2004. This decline was concentrated in the manufacture of wearing apparel (including dressing and dyeing of fur) sub-sector as employment in the manufacture of textiles was relatively stable. As shown in Chart 3.5, over the recent years, employment in the manufacture of textile and textile products sector has increasingly borne the brunt of increasing price competition particularly from low-cost operators located in Asia. At the end of September 2005, the share of the manufacture of textile and textile products sector in manufacturing stood at 10.8 per cent, 0.4 percentage points lower than the share recorded during the previous year.



Manufacture of Leather and Leather Products

Employment in the manufacture of leather and leather products stood at 346 at the end of September 2005, down from 449 recorded during September 2004. As shown in Table 3.5, employment in September 2005 is less than half the level recorded in the same month of 2001 in the wake of increasing international price competition. At the end of September 2005, the share of manufacture of leather and leather products sector in total manufacturing stood at 1.4 per cent, 0.4 percentage points lower than the share recorded during the comparable period of 2004.

Manufacture of Pulp and Paper Products (including Publishing and Printing)

At the end of September 2005, employment in the manufacture of pulp and paper products (including publishing and printing) stood at 1,875 representing a decrease of 46 over the previous year. On a sub-sectoral level, the decline was evenly divided amongst the manufacture of pulp, paper and paper products and the publishing, printing and reproduction of recorded media sub-sectors. Around two-thirds of the decrease originated in the public sector following the closing down of a company in this sector. Consequently, at the end of September 2005, the share of the manufacture of pulp and paper products (including publishing and printing) sector in manufacturing stood at 7.7 per cent, unchanged from the rate recorded during September 2004.

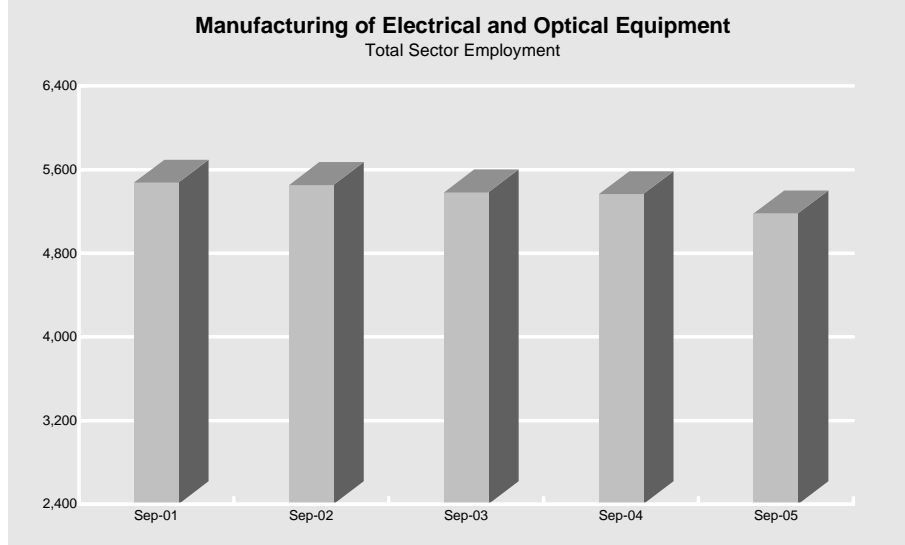
Manufacture of Rubber and Plastic Products

At the end of the Survey period, employment in the manufacture of rubber and plastic products declined by 91 or 5.2 per cent to 1,665 over the comparable period of 2004. A review of the data indicates that employment within this sector is on a downward trend, owing to price-competition offered by low cost locations. As a result, the share of the manufacture of rubber and plastic products sector in total manufacturing stood at 6.9 per cent, 0.2 percentage points lower than the share recorded in September 2004.

Manufacture of Electrical and Optical Equipment

Employment in the manufacture of electrical and optical equipment stood at 5,181 at the end of the Survey period, a decrease of 185 over twelve months earlier. More than half of the decline originated in the manufacture of radio, television and communication equipment and apparatus sub-sector. However, minor declines were also recorded in the manufacture of electrical machinery

Chart 3.6

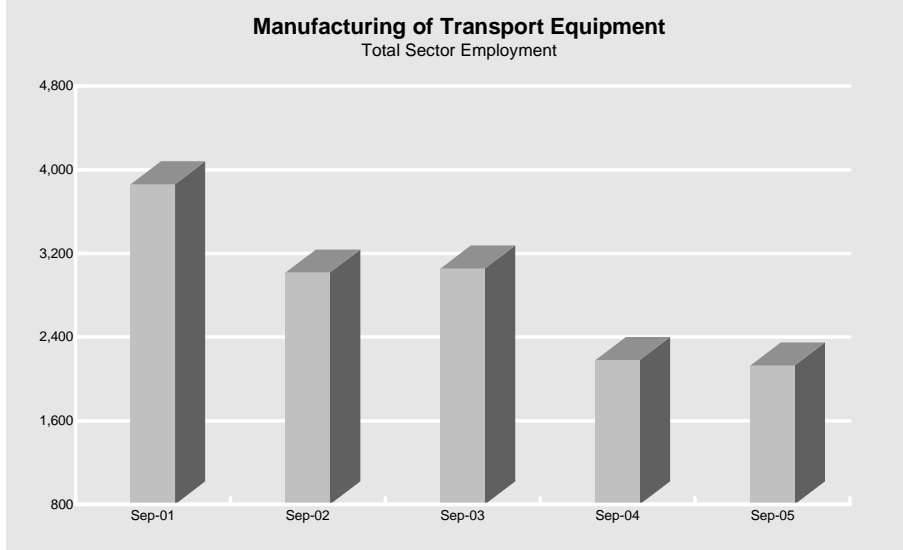


and apparatus n.e.c. and the manufacture of medical, precision and optical instruments, watches and clocks sub-sector. Chart 3.6 illustrates the main developments in the sector over the period September 2001-September 2005. In recent years, this sector has been affected by unfavourable international market conditions and in this context the employment performance of operators based in Malta indicates a certain degree of resilience. At the end of the Survey period the share of the manufacture of electrical and optical equipment sector in total manufacturing stood at 21.3 per cent, 0.2 percentage points lower than the rate recorded at the end of September 2004.

Manufacture of Transport Equipment

During the twelve months to September 2005, employment in the manufacture of transport equipment declined by 50, reaching the level of 2,130 at the end of Survey period. Around two-thirds of the decline is attributable to private sector developments. Declines were recorded in both manufacture of other transport equipment and manufacture of motor vehicles, trailers and semi-trailers sub-sectors with the decline in the former slightly higher than the latter. As shown in Chart 3.7, the employment levels in this sector declined significantly over the recent years reflecting the restructuring of the shipyards, which are included in this sector. At the end of Survey period, the share of manufacture of transport equipment in total manufacturing stood at 8.8 per cent, up marginally by 0.1 percentage points over September 2004.

Chart 3.7

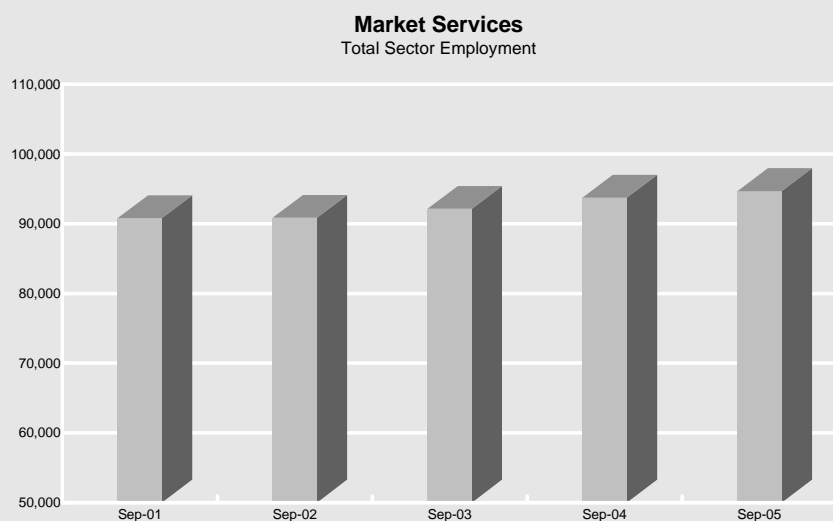


Market Services

As shown in Chart 3.8, market services remained the main generator of employment over the period September 2001–September 2005. This trend continued during the twelve months to September 2005 when employment in market services expanded by 958 or 1.0 per cent to 94,710. The increase in employment was mainly due to an expansion of 1,990 in the private sector while employment in the public sector declined by 1,032. Around half of the decline in market services public sector employment was due to a reclassification following the privatisation of Malta Freeport Terminals Ltd, while other entities within the public sector recorded declines in employment levels.

As shown in Table 3.6, during the twelve months to September 2005, total sectoral increases amounted to 2,287 of which 2,133 originated in the private sector, while the sectoral increases in the public sector amounted to 154. At the same time, total sectoral decreases stood at 1,329, as a result of a decrease of 143 and 1,186 in private sector and public sector employment, respectively. Job increases were concentrated in real estate, renting and business activities, education, and transport storage and communications and wholesale and retail sectors. Other increases were recorded in financial intermediation, other community, social and personal services activities and extra-territorial organisations and bodies. Job losses were recorded in hotels and restaurants, public administration and defence and health and social work sectors. The decline

Chart 3.8



Changes in Employment in Market Services*

Table 3.6

| | 2002-01 Sep | 2003-02 Sep | 2004-03 Sep | 2005-04 Sep |
|--------------------------|----------------|----------------|----------------|----------------|
| Total Change | 65 | 1,288 | 1,603 | 958 |
| Private | 93 | 1,512 | 1,263 | 1,990 |
| Public | -28 | -224 | 340 | -1,032 |
| Total Sectoral Increases | 1,293 | 2,022 | 2,125 | 2,287 |
| Private | 792 | 1,584 | 1,367 | 2,133 |
| Public | 501 | 438 | 758 | 154 |
| Total Sectoral Decreases | 1,228 | 734 | 522 | 1,329 |
| Private | 699 | 72 | 104 | 143 |
| Public | 529 | 662 | 418 | 1,186 |

*Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

in the latter sector partly reflects an internal re-organisation whereby an entity was shifted to another public sector market services sector. Table 3.7 presents the main developments in market services over the period September 2001-September 2005.

Employment in Market Services*

Table 3.7

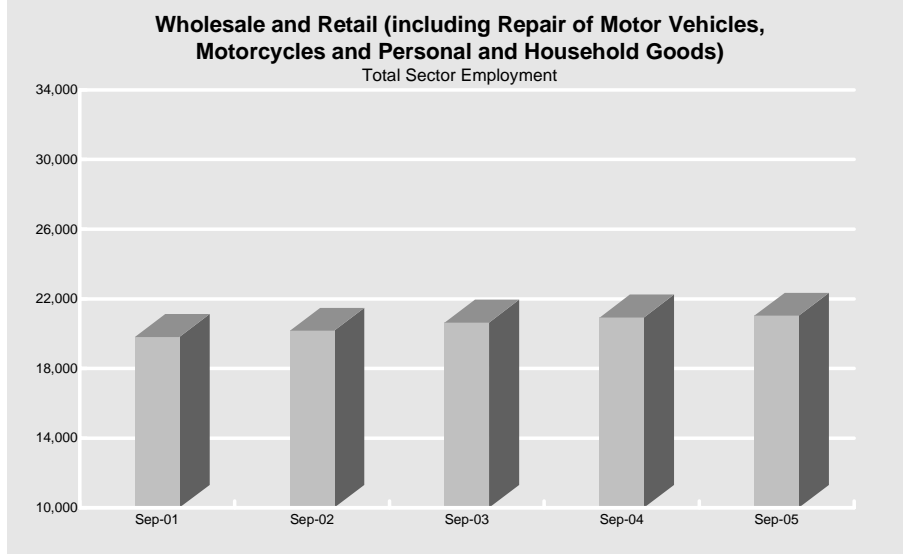
| | 2001 Sep | 2002 Sep | 2003 Sep | 2004 Sep | 2005 Sep |
|---|---------------|---------------|---------------|---------------|---------------|
| Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods) | 19,804 | 20,164 | 20,632 | 20,934 | 21,028 |
| Private | 19,653 | 20,017 | 20,486 | 20,804 | 20,942 |
| Public | 151 | 147 | 146 | 130 | 86 |
| Hotels and Restaurants | 9,083 | 8,661 | 8,613 | 8,518 | 8,360 |
| Private | 8,723 | 8,307 | 8,261 | 8,192 | 8,083 |
| Public | 360 | 354 | 352 | 326 | 277 |
| Transport, Storage and Communications | 11,318 | 11,416 | 11,056 | 10,931 | 11,026 |
| Private | 5,503 | 5,417 | 5,687 | 5,744 | 6,401 |
| Public | 5,815 | 5,999 | 5,369 | 5,187 | 4,625 |
| Financial Intermediation | 5,156 | 5,053 | 5,066 | 5,047 | 5,113 |
| Private | 4,714 | 4,576 | 4,591 | 4,556 | 4,610 |
| Public | 442 | 477 | 475 | 491 | 503 |
| Real Estate, Renting and Business Activities | 8,180 | 8,384 | 8,833 | 9,807 | 10,753 |
| Private | 7,521 | 7,695 | 8,171 | 8,630 | 9,577 |
| Public | 659 | 689 | 662 | 1,177 | 1,176 |
| Public Administration and Defence (including Compulsory Social Security) | 11,029 | 10,554 | 10,726 | 10,767 | 10,654 |
| Private | 5 | 8 | 8 | 10 | 3 |
| Public | 11,024 | 10,546 | 10,718 | 10,757 | 10,651 |
| Education | 10,938 | 11,183 | 11,395 | 11,657 | 11,856 |
| Private | 2,411 | 2,538 | 2,637 | 2,711 | 2,768 |
| Public | 8,527 | 8,645 | 8,758 | 8,946 | 9,088 |
| Health and Social Work | 9,037 | 9,295 | 9,491 | 9,506 | 9,222 |
| Private | 1,196 | 1,320 | 1,369 | 1,403 | 1,377 |
| Public | 7,841 | 7,975 | 8,122 | 8,103 | 7,845 |
| Other Community, Social and Personal Service Activities** | 5,984 | 5,906 | 6,118 | 6,145 | 6,196 |
| Private | 4,283 | 4,246 | 4,452 | 4,654 | 4,871 |
| Public | 1,701 | 1,660 | 1,666 | 1,491 | 1,325 |
| Extra-Territorial Organisations and Bodies | 267 | 245 | 219 | 440 | 502 |
| Private | 267 | 245 | 219 | 440 | 502 |
| Public | 0 | 0 | 0 | 0 | 0 |
| Total Employment in Market Services | 90,796 | 90,861 | 92,149 | 93,752 | 94,710 |

* Excluding temporary employees

**Includes Private Households with Employed Persons

Source: Employment and Training Corporation

Chart 3.9



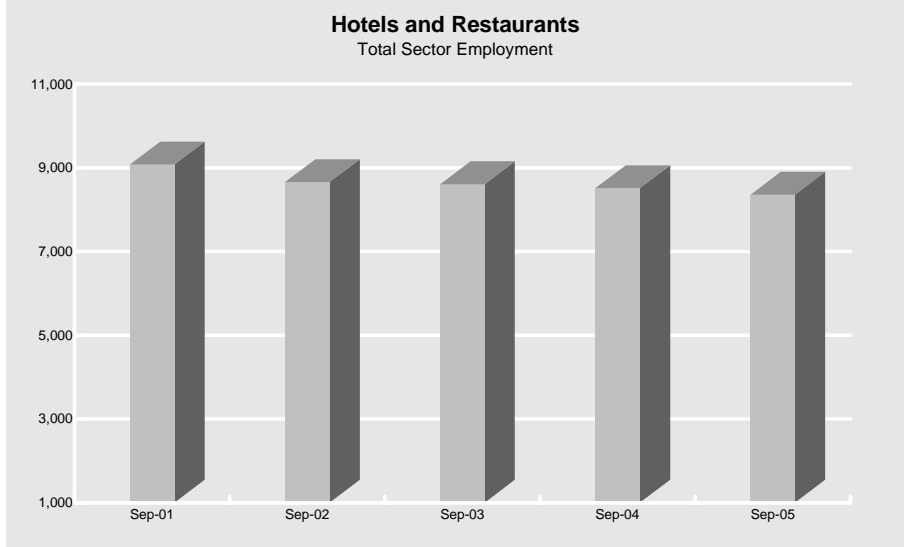
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)

In September 2005, employment in wholesale and retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods) stood at 21,028 reflecting an increase of 94 over the comparable month of 2004. As shown in Chart 3.9, employment in this sector was on an upward trend over the recent years. The increase in employment was mainly due to an increase of 138 recorded in the private sector that more than exceeded the decline in the labour complement in the public sector. The change reported above was due to increases in employment in the sale, maintenance and repair of motor vehicles and motorcycles (including retail sale of automotive fuel) and wholesale trade and commission trade (except of motor vehicles and motorcycles) sub-sectors that exceeded the decrease recorded in the retail trade (except of motor vehicles and motorcycles, but including repair of personal and household goods) sub-sector. The share of employment of the wholesale and retail sector (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods) in the total employment in market services stood at 22.2 per cent, 0.1 percentage points lower than in September 2004.

Hotels and Restaurants

Employment in hotels and restaurants, which is illustrated in Chart 3.10, stood at 8,360 at the end of September 2005, representing a decline of 158 employees

Chart 3.10

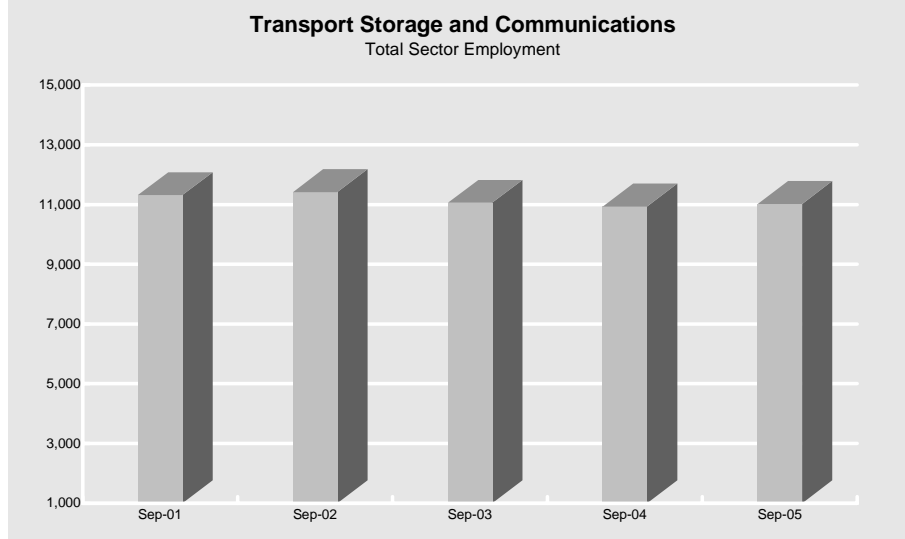


over September 2004. The decrease occurred in both private and public sectors, with the latter accounting for around a third of the drop in employment. In the private sector, some operators converted their investment to service a different type of industry. However, a number of high quality hotels shall be opening later on this year, and these are expected to generate job opportunities in this sector. As a share of total employment in market services, the hotels and restaurants sector accounted for 8.8 per cent at the end of September 2005, down from 9.1 per cent recorded during September 2004.

Transport, Storage and Communications

At the end of September 2005, the employment level in the transport, storage and communication sector stood at 11,026, an increase of 95 employees over the previous year. This reflects an increase of 657 employees in the private sector that more than countered a decrease of 562 employees in the public sector. The drop reported in the public sector is attributable to the privatisation of the Malta Freeport Terminals Ltd and the subsequent re-classification of employees from the public to the private sector. On a sub-sectoral level, the increase in employment was due to land transport (including transport via pipelines) and post and telecommunications sub-sectors that were marginally countered by declines in the air and water transport sub-sectors. Chart 3.11 depicts employment in the transport, storage and communications sector during September 2001-2005. At the end of September 2005, the share of the sector in

Chart 3.11



total employment in market services stood at 11.6 per cent, thus reflecting a marginal decline of 0.1 percentage points over the comparable period of 2004.

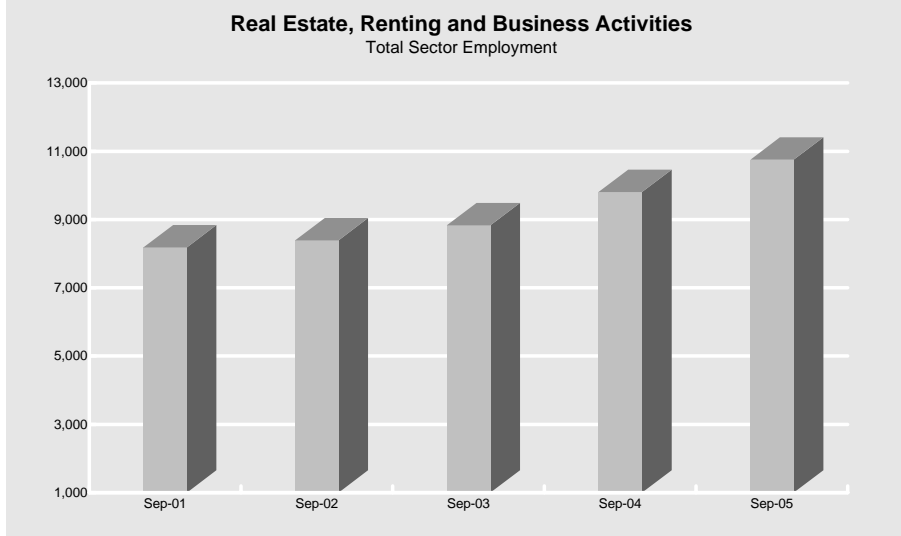
Financial Intermediation

Employment in the financial intermediation sector stood at 5,113 at the end of September 2005 reflecting an increase of 66 employees over September 2004. This advance originated mainly in the private sector, though the public sector also recorded a marginal increase. On a sub-sectoral basis, more than half of the increase is attributable to the insurance and pension funding (except compulsory social security) sub-sector, while increases were also recorded in the financial intermediation (except insurance & pension funding) and activities auxiliary to financial intermediation sub-sectors. As a result, at the end of September 2005, the share of the financial intermediation sector in total employment in market services stood at 5.4 per cent, unchanged from the rate recorded in the same month of 2004.

Real Estate, Renting and Business Activities

The labour complement in the real estate, renting and business activities sector stood at 10,753 at the end of September 2005, an increase of 946 over the comparable period of 2004. This was attributable to higher private sector employment. This expansion was mainly driven by an increase of 899 recorded in the other business activities sub-sector as a result of small-scale recruitment

Chart 3.12



by several employers. Other increases were recorded in the real estate activities, renting of machinery and equipment without operator and of personal and household goods and computer and related activities sub-sectors. At the end of September 2005, the share of real estate, renting and business activities stood at 11.4 per cent, an increase of 0.9 percentage points over September 2004. Chart 3.12 depicts the developments in the real estate, renting and business activities sector over the period September 2001-September 2005.

Unemployment

This section focuses on the registered unemployed under Part I of the unemployment Register. The number of registered unemployed stood at 6,508 at the end of September 2005, reflecting a decrease of 874 or 11.8 per cent over the comparable period of 2004. Consequently, the unemployment rate stood at 4.5 per cent, 0.6 percentage points below September 2004. During 2005, the ETC stepped its efforts at eradicating abuses. In particular during the first eight months of the year, inspections by ETC revealed 1,527 persons working irregularly.

The decline in unemployment was mainly concentrated amongst males, as the number of males registering for employment declined by 859, while the drop among females registering for employment stood at 15. At the end of September

2005, the share of males in total unemployment stood at 78.0 per cent, a decrease of 2.4 percentage points over the previous year. Conversely, the share of females went up to 22.0 per cent. The decline in the level of unemployment was mainly concentrated amongst persons registering for employment for 9 to 48 weeks, though declines were also recorded amongst persons registering for less than 8 weeks and persons registering for over 49 weeks. In fact, as shown in Table 3.8, the share of persons registering for employment for 9 to 48 weeks stood at 34.5 per cent, a decrease of 2.8 percentage points. The share of persons registering for over 49 weeks stood at 43.4 per cent, an increase of 1.6 percentage points, despite the absolute decline in the number of unemployed within this category. The share of persons registering for employment for a period less than 8 weeks stood at 22.1 per cent, 1.1 percentage points higher than the share recorded in 2004.

As shown in Table 3.9, the age distribution of registered unemployed at the end of September 2005, was relatively unchanged when compared to twelve months earlier. Nevertheless, the number of persons classified under each category declined in absolute terms. At the end of the Survey period, the share of youth unemployment, defined as the group aged between 16 and 24 in total unemployment stood at 27.1 per cent, unchanged from September 2004. The share of persons aged 25-49 years in total unemployment stood at 55.3 per cent, a drop of 0.4 percentage points over September 2004. Meanwhile, the share of persons aged over 49 years rose marginally by 0.3 percentage points to 17.5 per cent despite the absolute decline of persons classified under this category.

Registered Unemployed*
by duration of registration

Table 3.8

| | Registered Unemployed | under 8 weeks % | 9 - 48 weeks % | over 49 weeks % |
|-------------------|--------------------------|--------------------|-------------------|--------------------|
| 2000 | 6,583 | 14.9 | 29.8 | 55.3 |
| 2001 | 6,753 | 19.1 | 35.4 | 45.5 |
| 2002 | 6,774 | 15.8 | 37.3 | 46.9 |
| 2003 | 7,494 | 20.8 | 41.2 | 38.0 |
| 2004 | 7,390 | 16.8 | 38.6 | 44.6 |
| 2004 (Sep) | 7,382 | 21.0 | 37.3 | 41.8 |
| 2005 (Sep) | 6,508 | 22.1 | 34.5 | 43.4 |

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

Registered Unemployed*
by age distribution

Table 3.9

| | Registered Unemployed | 16 - 24 years % | 25 - 49 years % | over 49 years % |
|-------------------|--------------------------|--------------------|--------------------|--------------------|
| 2000 | 6,583 | 27.5 | 56.8 | 15.7 |
| 2001 | 6,753 | 29.2 | 55.4 | 15.4 |
| 2002 | 6,774 | 28.3 | 56.2 | 15.5 |
| 2003 | 7,494 | 28.4 | 55.1 | 16.5 |
| 2004 | 7,390 | 26.3 | 56.4 | 17.3 |
| 2004 (Sep) | 7,382 | 27.1 | 55.7 | 17.2 |
| 2005 (Sep) | 6,508 | 27.1 | 55.3 | 17.5 |

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

Table 3.10 presents a snapshot of the registered unemployed classified by occupation as at the end of September 2005. The developments amongst registered unemployment indicate an increase in the number of persons seeking non-manual work that was more than countered by the decline recorded amongst persons seeking manual employment. At the end of the Survey period, the number of persons seeking manual employment stood at 3,937, a decrease of 1,350 over the previous period. The decline in manual unemployment was mainly concentrated in the labouring category while other decreases were recorded in miscellaneous, construction and metal working. Increases were recorded in the other services category, agriculture, printing and catering. The share of persons seeking manual employment stood at 60.5 per cent, down from 71.6 per cent recorded in September 2004. Males made up 89.3 per cent of the persons seeking manual employment while females accounted for 10.7 per cent.

Non-manual unemployment stood at 2,230 at the end of September 2005, an increase of around 25 per cent over the same month of the previous year. This increase was mainly recorded in the technological and professional and clerical and related workers categories. Meanwhile, decreases were recorded in the supervisory and miscellaneous non-manual categories. The share of persons seeking non-manual employment in total unemployment stood at 34.3 per cent, up from 24.1 per cent recorded in September 2004. The share of males in the persons seeking non-manual employment stood at 58.5 per cent, while the share of females recorded at the end of September 2005 stood at 41.5 per cent.

Registered Unemployed Classified by Occupation*

at September 2005

Table 3.10

| | Registered Unemployed | | | Percentage Share | | |
|------------------------------|-----------------------|--------------|--------------|------------------|--------------|--------------|
| | Males | Females | Total | Males | Females | Total |
| Non-Manual | | | | | | |
| Clerical & related workers | 377 | 514 | 891 | 7.4 | 35.8 | 13.7 |
| Supervisory | 35 | 0 | 35 | 0.7 | 0.0 | 0.5 |
| Technological & professional | 594 | 176 | 770 | 11.7 | 12.3 | 11.8 |
| Miscellaneous non-manual | 298 | 236 | 534 | 5.9 | 16.5 | 8.2 |
| Total Non-Manual | 1,304 | 926 | 2,230 | 25.7 | 64.6 | 34.3 |
| Manual | | | | | | |
| Agriculture | 173 | 1 | 174 | 3.4 | 0.1 | 2.7 |
| Construction | 528 | 0 | 528 | 10.4 | 0.0 | 8.1 |
| Textiles | 5 | 9 | 14 | 0.1 | 0.6 | 0.2 |
| Printing | 22 | 0 | 22 | 0.4 | 0.0 | 0.3 |
| Metal working | 247 | 0 | 247 | 4.9 | 0.0 | 3.8 |
| Catering | 261 | 43 | 304 | 5.1 | 3.0 | 4.7 |
| Other services | 328 | 99 | 427 | 6.5 | 6.9 | 6.6 |
| Labouring | 318 | 126 | 444 | 6.3 | 8.8 | 6.8 |
| Miscellaneous | 1,632 | 145 | 1,777 | 32.2 | 10.1 | 27.3 |
| Total Manual | 3,514 | 423 | 3,937 | 69.3 | 29.5 | 60.5 |
| Disabled persons | 256 | 85 | 341 | 5.0 | 5.9 | 5.2 |
| Total | 5,074 | 1,434 | 6,508 | 100.0 | 100.0 | 100.0 |

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

The number of disabled persons registering for unemployment stood at 341, of which 256 were males while 85 were females. At the end of the Survey period, the share of disabled persons in total unemployment stood at 5.2 per cent, up from 4.3 per cent recorded during September 2004.

Part-time Activity

As at the end of September 2005, total part-time employment stood at 41,003, an increase of 3,821 or 10.3 per cent over twelve months earlier. Since September 2001, total part-time employment increased by 10,009 or 32.3 per cent reflecting increases in the numbers of both part-timers holding a full-time job and part-timers as a primary job. It is pertinent to note that over the four years to September 2005, persons holding a part-time job as their primary job increased by 6,287, while part-timers holding a full-time job, increased by 3,722. The trends noted above are related to increasing labour market flexibility in

reaction to changing work organisations within the economy, as well as the increasing participation of females in the labour market.

The number of part-timers holding a full-time job increased by 1,631 over the level recorded in September 2004, representing a rise of 10.0 per cent. At 73.6 per cent, the majority of part-timers holding a full-time job were males, down from 75.4 per cent recorded during September 2004. In fact, while the number of male part-timers holding a full-time job increased by 7.4 per cent in September 2005, the number of their female counterparts increased by 18.3 per cent, thus resulting in an increase in the share of females amongst persons employed as part-timers and having a full-time employment.

The number of persons holding a part-time job as their primary occupation stood at 23,138, of which 9,245 were males, while 13,893 were females. As shown in Table 3.11 the share of persons holding a part-time job as their primary

| Part-Time Employment | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Table 3.11 | | | | | |
| | 2001 Sep | 2002 Sep | 2003 Sep | 2004 Sep | 2005 Sep |
| Part-Timers holding a full-time job | 14,143 | 14,795 | 15,029 | 16,234 | 17,865 |
| Males | 11,267 | 11,508 | 11,566 | 12,240 | 13,142 |
| Females | 2,876 | 3,287 | 3,463 | 3,994 | 4,723 |
| Single | 1,482 | 1,840 | 2,051 | 2,506 | 2,972 |
| Married | 1,394 | 1,447 | 1,412 | 1,488 | 1,751 |
| Part-Timers as a primary job | 16,851 | 17,744 | 18,886 | 20,948 | 23,138 |
| Males | 6,431 | 6,782 | 7,257 | 8,175 | 9,245 |
| Females | 10,420 | 10,962 | 11,629 | 12,773 | 13,893 |
| Single | 3,687 | 4,019 | 4,573 | 5,407 | 6,211 |
| Married | 6,733 | 6,943 | 7,056 | 7,366 | 7,682 |
| Total Part-Time Employment | 30,994 | 32,539 | 33,915 | 37,182 | 41,003 |
| Males | 17,698 | 18,290 | 18,823 | 20,415 | 22,387 |
| Females | 13,296 | 14,249 | 15,092 | 16,767 | 18,616 |
| Single | 5,169 | 5,859 | 6,624 | 7,913 | 9,183 |
| Married | 8,127 | 8,390 | 8,468 | 8,854 | 9,433 |
| Part-Timers as a primary job as % of total gainfully occupied | | | | | |
| Males | 6.5 | 6.9 | 7.4 | 8.4 | 9.5 |
| Females | 26.2 | 27.5 | 29.0 | 31.5 | 33.9 |
| Total | 12.1 | 12.8 | 13.7 | 15.2 | 16.8 |
| Source: Employment and Training Corporation | | | | | |

occupation in the gainfully occupied population was on a rising trend over the period September 2001-September 2005. Indeed, for the second successive year, more than 2,000 jobs were created in this category of employment. Compared to September 2004, the number of persons holding a part-time job as their main occupation increased by 10.5 per cent, while the number of males and females holding a part-time job as their main occupation increased by 13.1 per cent and 8.8 per cent, respectively. Nonetheless, the number of females holding a part-time job as their primary job still constitutes 60.0 per cent of the total, suggesting that part-time work offers females the chance of a better balance between working life and family responsibilities. At the end of September 2005, the share of persons holding a part-time job as their main occupation stood at 16.8 per cent of the gainfully occupied population, up from 15.2 per cent recorded in the same month last year. This reflects the increasing importance being attached by both employers and employees to this form of employment in reflection of changing working patterns.

4. Productive Activities

4. Productive Activities

A relatively large number of locally-owned small and medium-sized enterprises (SMEs) and a number of relatively large foreign-owned export-oriented subsidiaries make up the local manufacturing industry. Over the recent years, the industry has been facing increased challenges which impinged on the performance of both locally- and export-oriented firms. The protection previously enjoyed by locally-oriented firms has been lifted by the removal of levies on imported industrial products and on imported agro-industrial products, leading to the restructuring process that has been undergoing in a number of sectors in the industry. Furthermore, export-oriented firms continuously face challenges from international market forces, including competition arising from emerging countries.

A review of the performance of the manufacturing industry clearly shows that various sub-sectors have managed to register very positive results notwithstanding the sluggish international environment. However, the semi-conductor international business remains difficult and very subdued and given its share in total manufacturing, its performance somewhat offset the positive results registered in other sub-sectors. In fact, in the period under review, total turnover in the manufacturing industry registered a decline of 8.6 per cent when compared to that recorded in the previous Survey period, and stood at Lm700.9 million. This was mainly attributed to a 10.6 per cent decline in exports which were recorded at Lm540.0 million. The decrease in exports reflected the performance of the radio, TV and communication equipment sector. It is pertinent to note that internationally sales revenue of semi-conductor products grew at a substantially lower rate in the seven months to July 2005 compared with the same period in 2004, being partly due to weak average semi-conductor prices.

On the other hand, exports by all the other sectors (excluding the radio, TV and communication equipment sector) registered an increase of 6.9 per cent. Increases in exports were mainly recorded in the food and beverages (a traditionally highly locally-oriented sector), textiles and textile products, chemicals and chemical products and electrical machinery and apparatus sectors. It is worth noting that local operators in the food sub-sector are succeeding in taking advantage of opportunities abroad.

Local sales by the manufacturing industry declined marginally to Lm161.0 million during the Survey period. The lower level of local sales was partly a result of increased competition from imports, mainly related to food and beverage

products. However, modest increases in local sales were recorded in the other non-metallic mineral products, fabricated metal products and the furniture and other manufacturing products sectors. It is noteworthy that the furniture sub-sector is mostly locally-oriented and was subjected to the dismantling of protective levies on imported furniture products. Capital outlays fell by 19.1 per cent and were recorded at Lm33.0 million. Employment income practically remained at the same level recorded in the previous Survey period, at Lm89.8 million.

The wealth generation capability of the manufacturing industry can be measured by value added at factor cost. Value added at factor cost per capita for the total manufacturing industry increased by 1.5 per cent between 2003 and 2004, mainly reflecting an increase in gross operating surplus per capita although a marginal increase was also recorded in personnel costs per capita. The sectors contributing most to aggregate value added were the radio, TV, and communication equipment, food, beverages and tobacco, furniture and other manufacturing, rubber and plastic products, publishing and printing and wearing apparel and clothes sectors.

The agriculture and fisheries sector, though not directly contributing significantly to the economy's output, remains important when considered as one of the contributors towards the tourism industry and the country's general environment. During the period under review, the wholesale value of fruit and vegetables sold through official markets increased by 1.5 per cent, while the volume of agricultural production declined by 2.8 per cent when compared to the level registered in the same period last year. On the other hand, both the volume and value of fish landings increased substantially when compared to the figures recorded last year.

Although the ship repair and ship building industry is increasingly being affected by shipyards in the Black Sea, Croatia and Turkey, the implementation of the restructuring plan at Malta Shipyards Limited aims to make this company viable by 2008. To this intent, Malta Shipyards Limited has sought to expand the services it offers as well as to seek strategic alliances with established specialised service providers. In fact, the first six months of 2005 have been extremely busy for the shipyard, and although the summer period has seen a drop in activity, the coming months are expected to register increased activity at the yard.

This Chapter first reviews the performance of the local manufacturing industry in the nine months to September 2005. Data analysed in this Chapter are not directly comparable with those found in other Chapters of this Economic Survey, since the data provided by the National Statistics Office (NSO) are based on

the results of a monthly survey conducted amongst a representative sample of manufacturing firms. Furthermore, as from 1999, the data for the industry are classified by the NSO according to the General Classification of Economic Activities within the European Union (NACE), thus not being directly comparable with manufacturing data presented in previous Economic Surveys which had been based on the International Standard Industrial Classification of Economic Activities (ISIC). Moreover, as from 2001, the NSO adopted a new methodology with respect to the compilation of employment and wages and salaries for the manufacturing industry.

It is pertinent to note that a re-classification exercise was carried out by NSO last year to reflect the fact that a number of enterprises among different sectors shifted their main reported activity while others stopped carrying out manufacturing-related activities and started operating in the services industry. As a consequence of this re-classification exercise, the enterprises which were previously classified in the office machinery and basic metals sector have been re-classified to other sectors.

Moreover, as from May 2004, the NSO changed the methodology used for the collection of data on trade of goods between the EU Member States from the Customs Declaration to the Intrastat Supplementary Declaration. Since the Supplementary Declaration is a source document for trade statistics, total exports can no longer be broken down into domestic exports and re-exports. Thus, export figures for 2004 and 2005 featured in this Chapter may include elements of re-exports.

The second part of this Chapter reviews sectoral value added at factor cost for the total manufacturing industry. Data for this section are compiled by the NSO from annual business surveys and are classified according to NACE thereby not directly comparable with data on value added found in previous Economic Surveys which were based on ISIC. Moreover, during 2000 the NSO changed the methodology adopted in data collection and compilation of value added at factor cost. This methodology which was applied to data as from 1999, is in line with the Structural Business Statistics Council Regulation 58/97, thereby being comparable to European Union methodology.

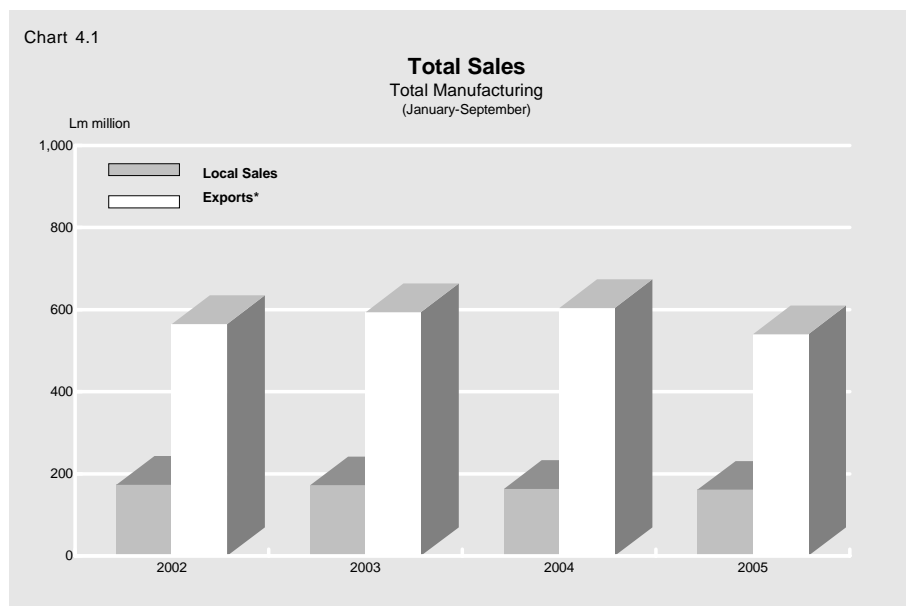
This Chapter subsequently provides a review of activity in the agriculture and fisheries sector and concludes with a review of developments in the shipyards.

Domestic Manufacturing Performance

During the Survey period, total turnover for the manufacturing industry declined by 8.6 per cent when compared to the January-September 2004 period, and stood at Lm700.9 million. This outcome was mainly underpinned by a decline in exports. The decrease in exports reflected the performance of the radio, TV and communication equipment sector. However, when omitting exports by this sector from total manufacturing exports, an increase of 6.9 per cent is recorded. Increases in exports were mainly recorded in the food and beverages (a traditionally highly domestic oriented sector), textiles and textile products, chemicals and chemical products and electrical machinery and apparatus sectors. It is noteworthy that in the food sub-sector, local operators are succeeding in taking advantage of opportunities abroad.

Local sales for the manufacturing industry declined marginally to Lm161.0 million during the Survey period. The lower level of local sales was partly a result of increased competition from imports, mainly related to food and beverage products. However, modest increases in local sales were recorded in the other non-metallic mineral products, fabricated metal products, the furniture and other manufacturing products, publishing and printing and machinery and equipment sectors. It is noteworthy that the furniture sub-sector is mostly locally-oriented

Chart 4.1



*As from 2004, data on exports may include re-exports

and was subjected to the dismantling of protective levies on imported furniture products.

The share of local sales in total manufacturing turnover advanced by 1.7 percentage points, to 23.0 per cent, while the share of exports in total turnover fell by 1.7 percentage points, to 77.0 per cent. Chart 4.1 presents developments of exports and local sales.

Earnings from employment in the manufacturing industry, presented in Chart 4.2, maintained the level recorded in the comparable period last year and stood at Lm89.8 million. Chart 4.3 depicts the level of capital outlays in the industry, which recorded a 19.1 per cent decline in the nine month to September 2005.

Chart 4.4 illustrates the trend followed by average weekly sales per employee, which fell by 7.5 per cent and stood at Lm914.85 in the Survey period. This is mainly attributable to the radio, TV and communication equipment sector as when excluding this sector, there is an increase of 4.9 per cent. Chart 4.5 presents average weekly per capita compensation levels, which increased marginally to Lm117.24. Weekly per capita compensation increased in some sectors and decreased in others, thus reflecting a degree of wage flexibility in the manufacturing sector.

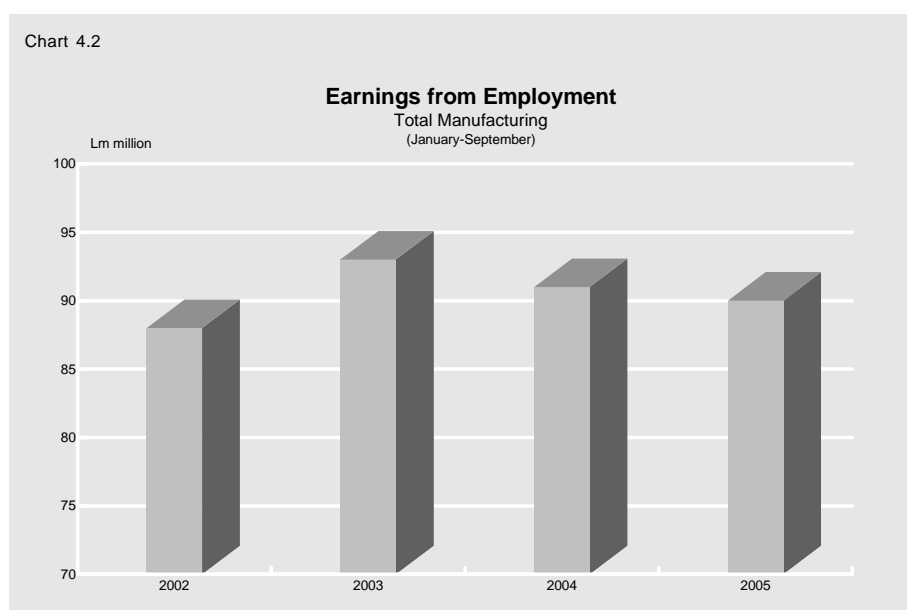


Chart 4.3

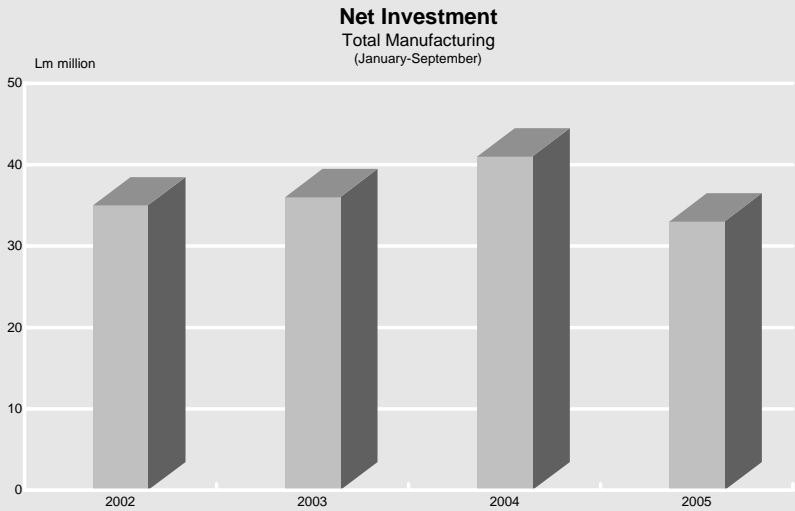
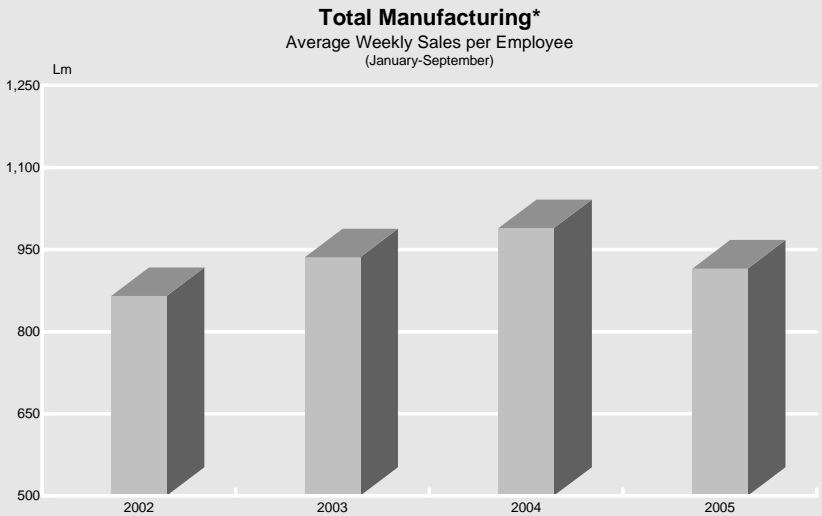


Chart 4.4



*As from 2004, data on exports may include re-exports

Chart 4.5

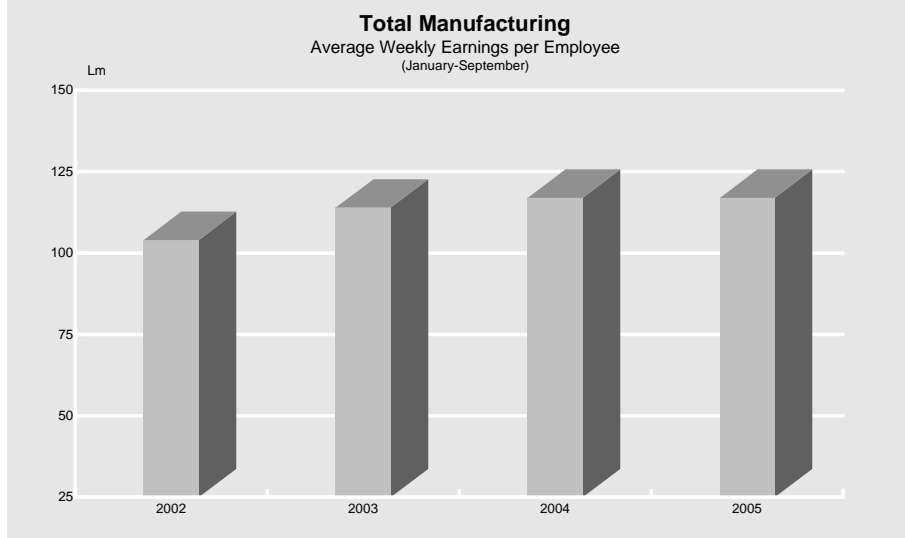
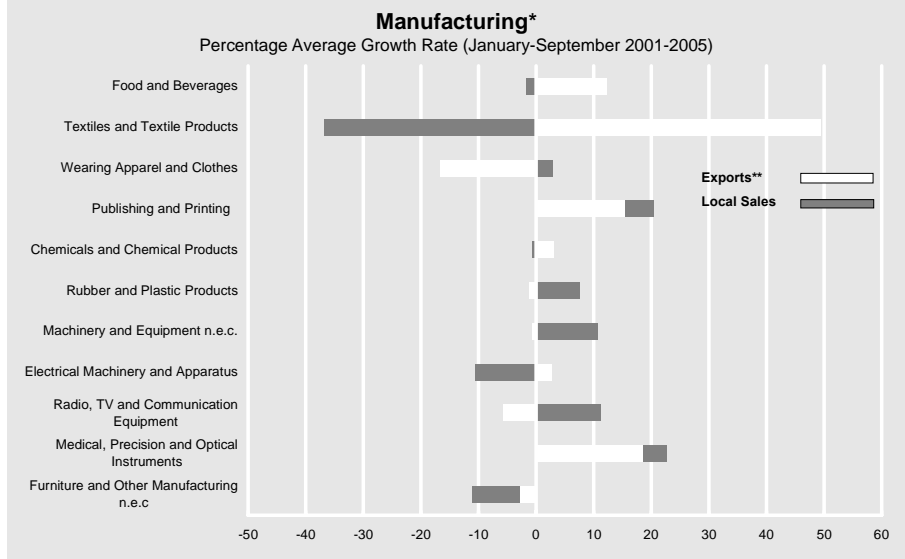


Chart 4.6



*Data reflect re-classification of enterprises according to their main manufacturing activity

**As from 2004, data on exports may include re-exports

The average rates of change in exports and local sales in eleven major sectors within the manufacturing industry during January-September 2001-2005 are depicted in Chart 4.6. Growth rates in exports were recorded in the food and beverages, textiles and textile products, publishing and printing, chemicals and chemical products, electrical machinery and apparatus and medical, precision and optical instruments sectors. Local sales by these sectors registered negative growth rates of different magnitudes except for the publishing and printing and medical, precision and optical instruments sectors which recorded positive rates of growth. Growth rates in local sales were also registered in the wearing apparel and clothes, rubber and plastic products, machinery and equipment and radio, TV and communication equipment sectors. Marginal negative growth rates in exports were recorded in the rubber and plastic products and machinery and equipment sectors, while negative growth rates in wearing apparel and clothes, radio, TV and communication equipment and furniture and other manufacturing sectors were of a greater magnitude.

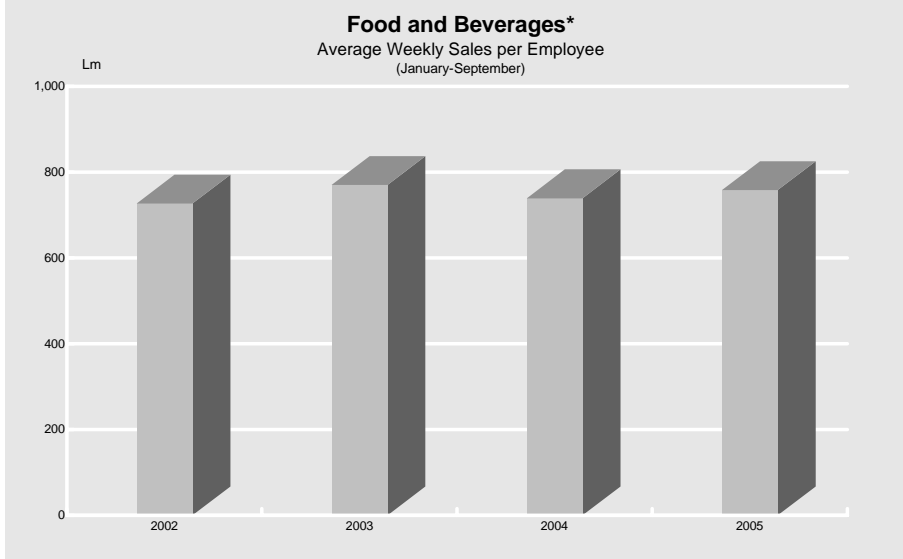
The following section provides a review of sectoral performance in the manufacturing industry. Statistical data on the industry's performance at a sectoral level is presented in Appendix Table 4.1.

Food and Beverages

The food and beverages sector remained one of the most locally-oriented sectors in the manufacturing industry. This sector directed over 78 per cent of its production to the local market during the Survey period. The beverages sub-sector is largely locally-oriented, while the food sub-sector exported nearly 31 per cent of its output. The sector's share in total manufacturing turnover stood at 12.5 per cent, remaining the sector with the second largest share of turnover in the industry, after the radio, TV and communication equipment apparatus sector, although the difference between the shares of these two sectors is significant.

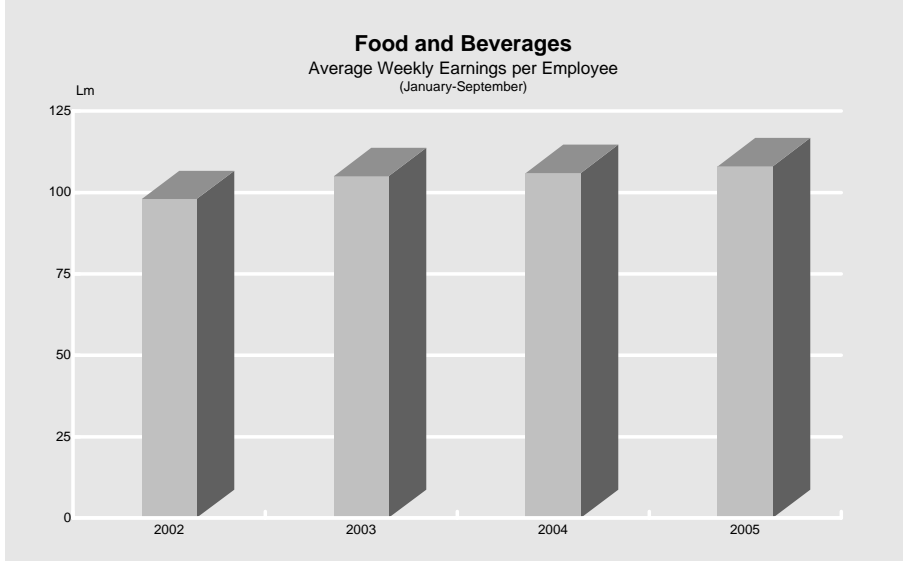
Total sectoral turnover registered a decline of 1.7 per cent and stood at Lm87.6 million. This was underpinned by a 6.8 per cent decline in local sales. The liberalisation process which led to the removal of levies on imported agro-industrial products last year has contributed to the decline in this sector's local sales. However, this has also encouraged the sector to expand internationally, as a number of companies in this sub-sector restructured their operations enabling them to expand their foreign markets. As a result, exports in the food sub-sector increased considerably during the period under review, contributing to a 22.9 per cent rise in the sector's exports which reached Lm18.8 million. Net

Chart 4.7



*As from 2004, data on exports may include re-exports

Chart 4.8



investment by the sector practically maintained the level recorded in the same period last year and stood at Lm3.3 million.

Average weekly sales per employee rose by 2.6 per cent and stood at Lm758.36 as shown in Chart 4.7. Per capita compensation levels rose marginally to Lm107.57 during the Survey period, as illustrated in Chart 4.8.

Textiles and Textile Products

Turnover in the textiles and textile products sector increased by 26.8 per cent and reached Lm25.3 million, reflecting a 29.8 per cent increase in exports. It is noteworthy that the export-oriented enterprises that were re-classified to this sector in the previous Survey period registered an improvement in performance in the period under review. This resulted in an increase in the sector's export-orientation. Capital outlays recorded a marginal increase and stood at Lm1.5 million.

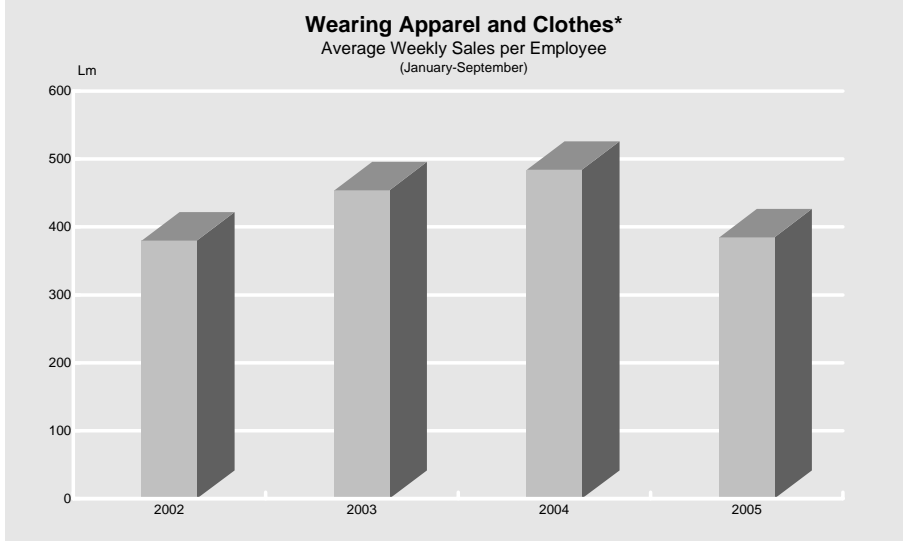
Average weekly sales per capita increased by 17.5 per cent, to Lm591.17, while average weekly exports per employee rose by 20.2 per cent to Lm583.10 in January-September 2005. This reflects the increase in exports which outweighed the higher employment levels in the sector. Average weekly per capita compensation levels rose by 7.9 per cent to Lm105.75, reflecting increased sectoral wages.

Wearing Apparel and Clothes

The wearing apparel and clothes sector directed nearly 79 per cent of its production towards the export market, maintaining the sector's export-orientation. In the period under review, total turnover fell by 24.7 per cent to Lm23.5 million. This decline was made up of a 25.2 per cent decline in exports, which stood at Lm18.5 million and a 22.8 per cent decline in local sales, which reached Lm5.0 million. This reflects the increased international competition especially from manufacturers in cheap labour locations. Furthermore, sectoral local sales were also affected by foreign competition in the local market. Total sectoral wages maintained the level recorded in the previous Survey period, mainly due to a reduction in the rate of decline in the level of employment when compared to that recorded in recent years.

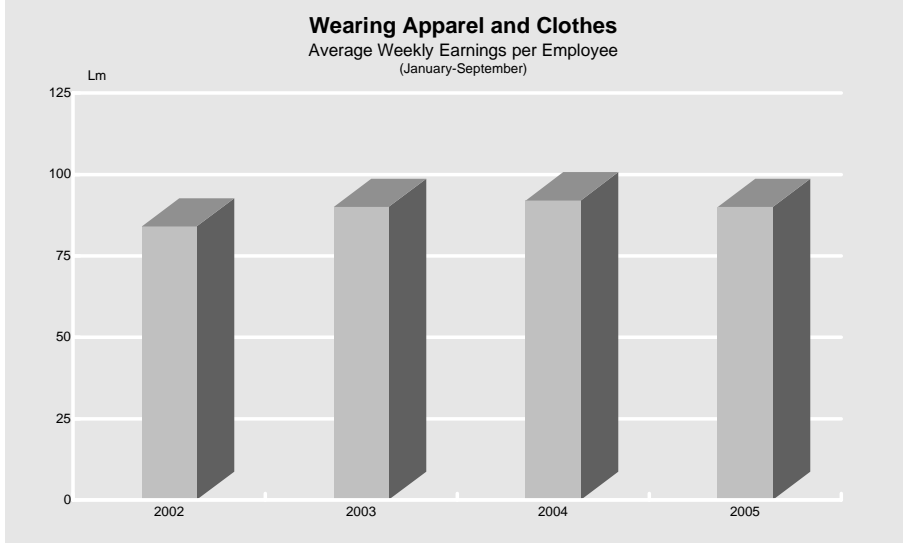
Chart 4.9 presents average weekly sales per employee which declined by Lm98.77 to reach Lm384.99. Average weekly exports per capita fell by Lm80.35

Chart 4.9



*As from 2004, data on exports may include re-exports

Chart 4.10

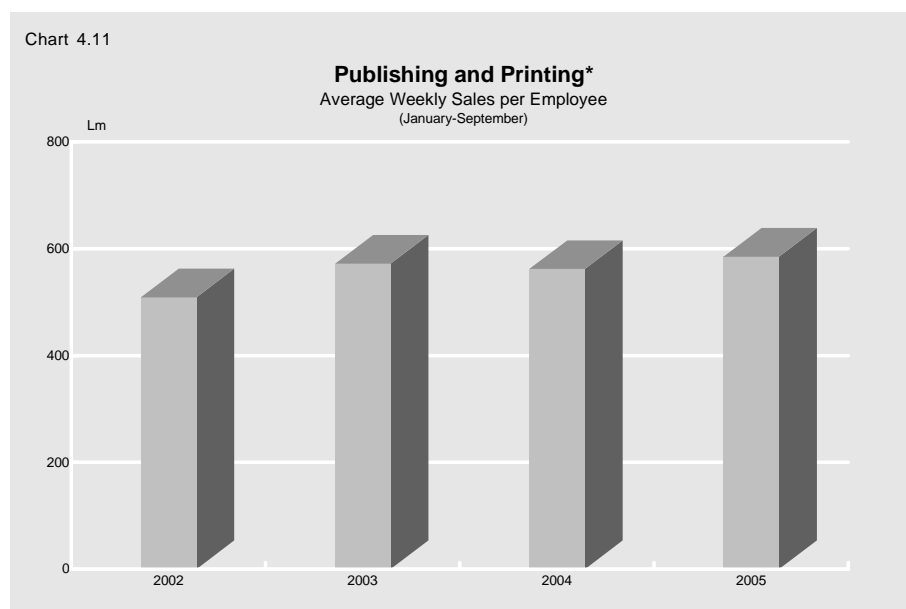


and stood at Lm303.43. Chart 4.10 presents average weekly compensation levels which fell by Lm1.79 when compared to the previous Survey period and stood at Lm90.40.

Publishing and Printing

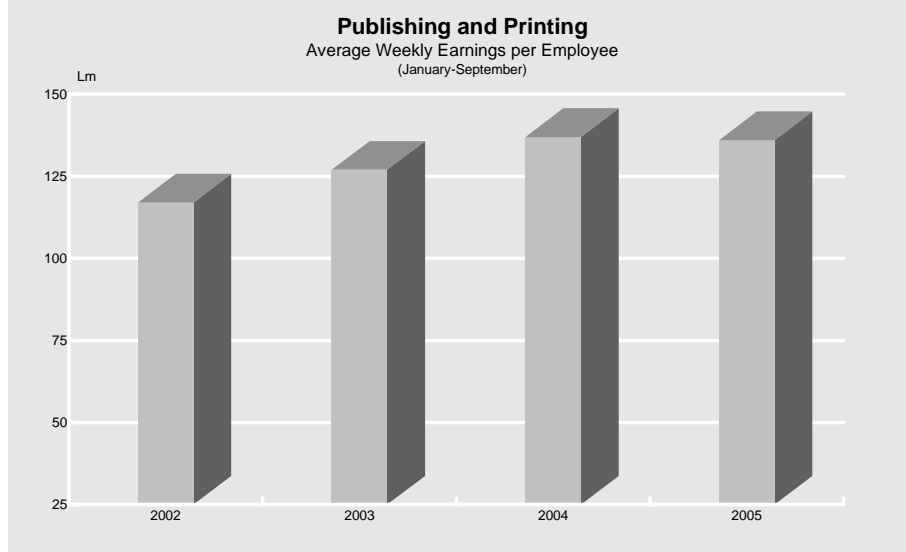
Around 64 per cent of total turnover in the publishing and printing sector was directed towards the export market during the Survey period. Exports remained practically at the level registered in the comparable period last year and stood at Lm23.3 million. Local sales increased to Lm13.1 million. Capital outlays returned to the level registered in the January-September 2003 period and stood at Lm2.3 million.

Average weekly sales per employee increased by Lm22.96 and reached Lm585.03, as shown in Chart 4.11. Average weekly exports per capita rose marginally to Lm374.56. Chart 4.12 presents average compensation levels per capita, which practically maintained the level recorded in the previous Survey period and stood at Lm136.17, being 16.1 per cent higher than the average recorded for the total manufacturing industry.



*As from 2004, data on exports may include re-exports

Chart 4.12



Chemicals and Chemical Products

During the Survey period, over 80 per cent of output in the chemicals and chemical products sector was directed towards the export market. Export-oriented enterprises within the sector produce pharmaceuticals and toiletries, while the locally-oriented firms produce products such as paints, detergents and insecticides.

Sectoral turnover registered a 29.4 per cent increase when compared to that recorded in the previous Survey period, and stood at Lm28.6 million, being the highest level recorded in recent years. This performance was underpinned by a 48.6 per cent increase in exports which reached Lm23.1 million. Local sales stood at Lm5.5 million. Capital outlays registered a decline of Lm2.9 million to Lm5.0 million, when compared to the previous Survey period where higher capital outlays mainly reflected investment carried out by the pharmaceutical sub-sector.

Average weekly sales per capita registered an increase of Lm202.40 and reached Lm903.99. Per capita compensation levels fell slightly to Lm125.43, being Lm8.19 more than the average for the total manufacturing industry. Average weekly exports per employee rose by 48.0 per cent to reach Lm730.21, being 3.6 per cent higher than the average for the total manufacturing industry.

Rubber and Plastic Products

Around 78 per cent of total turnover in the rubber and plastic products sector was exported in the Survey period. At Lm29.2 million, turnover remained at nearly the level recorded in the first nine months of 2004. This performance was reflected in exports which also maintained the level recorded in the January-September 2004 period, and stood at Lm22.9 million. On the other hand, local sales improved marginally to Lm6.3 million. Capital outlays dipped slightly to Lm0.9 million.

During the period under review, average weekly sales per employee declined by Lm16.29 and stood at Lm404.13. Average weekly earnings per employee declined by Lm4.43 and reached Lm116.23. Average weekly exports per capita fell by 5.3 per cent to Lm317.18.

Electrical Machinery and Apparatus

Turnover in the electrical machinery and apparatus sector was almost entirely directed to the export market. In fact, during the period under review, turnover increased by 21.1 per cent to reach Lm36.8 million, being underpinned by an increase of 21.7 per cent in exports which stood at Lm36.5 million. On the other hand, local sales remained at the level recorded in the January-September 2004 period and amounted to Lm0.3 million. Net investment remained at the level recorded in the first nine months of 2004 and reached Lm1.1 million.

Average weekly sales per employee registered an improvement of Lm187.46 and advanced to Lm866.14. Average per capita compensation levels maintained the upward trend followed in recent years and reached Lm131.07, being Lm13.83 more than the average for the total manufacturing industry. Average weekly exports per employee rose by Lm189.06 to reach Lm859.19, being 21.9 per cent more than the average recorded for the total manufacturing industry.

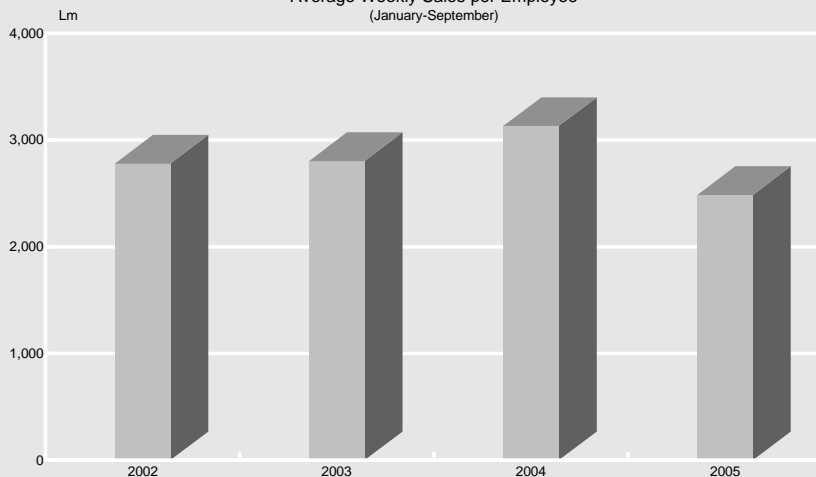
Radio, TV and Communication Equipment

Turnover in the radio, TV and Communication equipment made up over 41 per cent of total manufacturing turnover in the Survey period. The main manufacturing activity consists of electronic components and other precision communication products. The sector's turnover is mainly influenced by the performance of a small number of relatively large foreign subsidiaries, which in turn are affected by international economic developments.

Chart 4.13

Radio, TV and Communication Equipment*

Average Weekly Sales per Employee
(January-September)

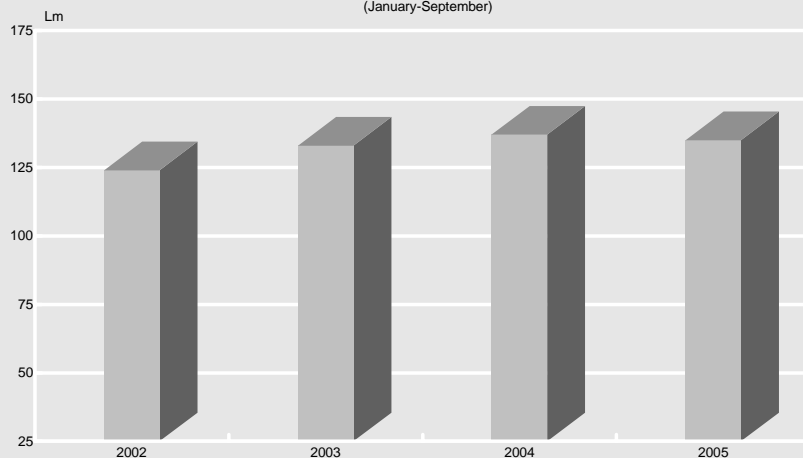


*As from 2004, data on exports may include re-exports

Chart 4.14

Radio, TV and Communication Equipment

Average Weekly Earnings per Employee
(January-September)



At Lm291.9 million, turnover in the sector declined by 21.5 per cent during the Survey period. This was underpinned by a decline in exports by the same percentage to reach Lm291.3 million. This fall in exports is explained by a decline in sales of a leading export-oriented firm in the sector coupled with a decline in the international price of semi-conductor products.

Local sales in the sector practically remained at the level recorded in the previous Survey period and stood at Lm0.6 million. Furthermore, at Lm14.0 million, capital outlays also remained unchanged from the level recorded in the nine months to September 2004.

As evident in Chart 4.13, average weekly sales per employee amounted to Lm2,484.32 in the period under review, Lm647.30 less than that recorded in the January-September 2004 period. However, sectoral average weekly sales per capita are Lm1,569.47 higher than the average for the manufacturing industry. Chart 4.14 depicts the sector's average weekly per capita earnings, which declined slightly to Lm134.70 in the Survey period and were Lm17.46 higher than the average for the aggregate manufacturing sector. Average weekly exports per employee which declined by Lm645.92, remained the highest recorded in the manufacturing industry, and stood at Lm2,479.31.

Medical, Precision and Optical Instruments

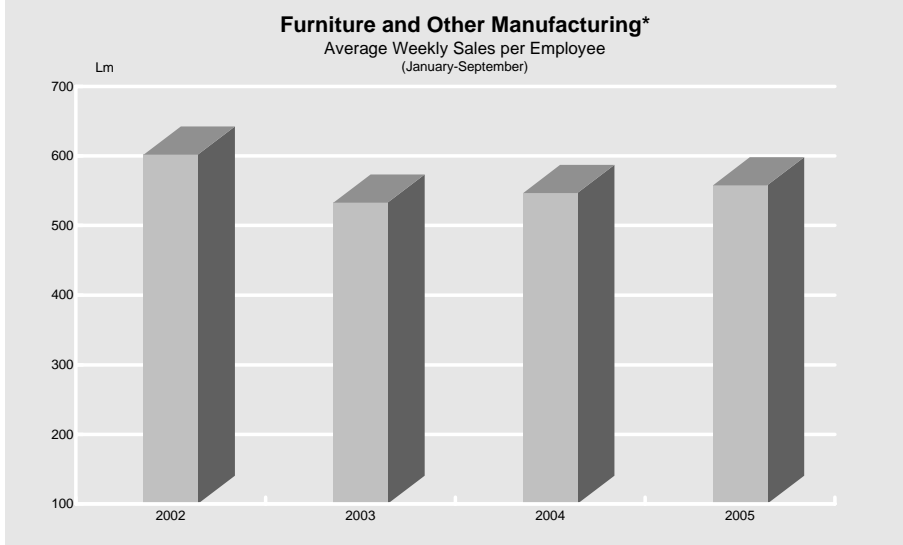
Almost all output by the medical, precision and optical instruments sector is directed to the export market. Total sectoral turnover practically remained at the level registered in the previous Survey period and was recorded at Lm26.0 million, being underpinned by exports which reached Lm25.8 million, when compared to Lm26.2 million in the nine months to September 2004. Local sales remained stable at Lm0.1 million. Net investment declined to Lm0.3 million.

Average weekly sales per employee increased by Lm3.40 to reach Lm573.31, while average weekly exports per capita rose by Lm5.18 in the period under review and stood at Lm570.78. Average per capita compensation levels fell marginally by Lm2.02 and stood at Lm112.84.

Furniture and Other Manufacturing

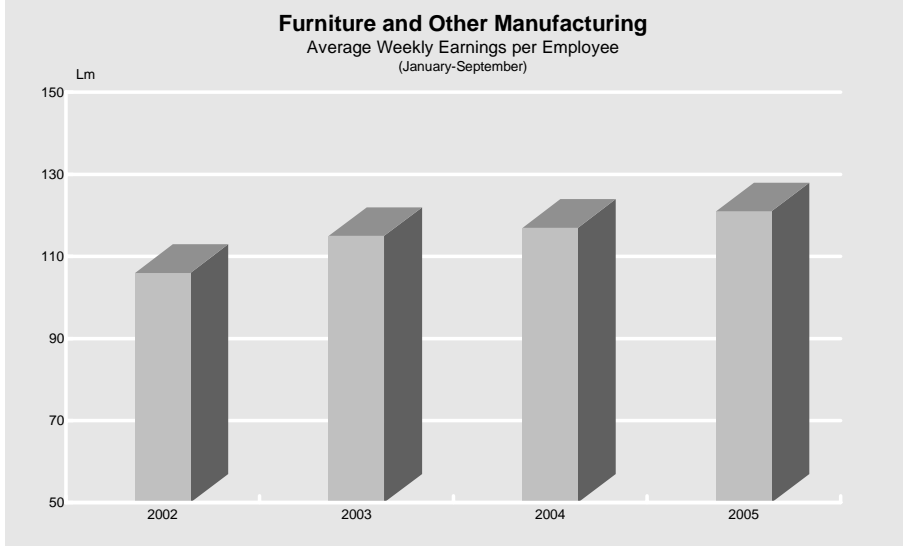
This sector mainly consists of a cluster of firms producing furniture primarily for the local market, while a number of other firms in the manufacturing of toys, games and jewellery items are export-oriented.

Chart 4.15



*As from 2004, data on exports may include re-exports

Chart 4.16



During the Survey period, sectoral turnover recorded an increase of 3.2 per cent and reached Lm34.6 million, being underpinned by an increase in local sales which in turn rose by 17.8 per cent to Lm9.2 million. Developments in local sales were primarily recorded in the furniture sub-sector, although the jewellery and miscellaneous sub-sectors registered marginal increases in local sales. Following the complete dismantling of levies on imported furniture products which took place in October 2002, the furniture sub-sector registered a decline in local sales which has been partly reversed in the current Survey period. Exports in the sector remained practically at the level recorded in the January-September 2004 period and stood at Lm25.5 million. Capital outlays, mainly in the games and toys sub-sector in the period under review, increased marginally to reach Lm3.4 million.

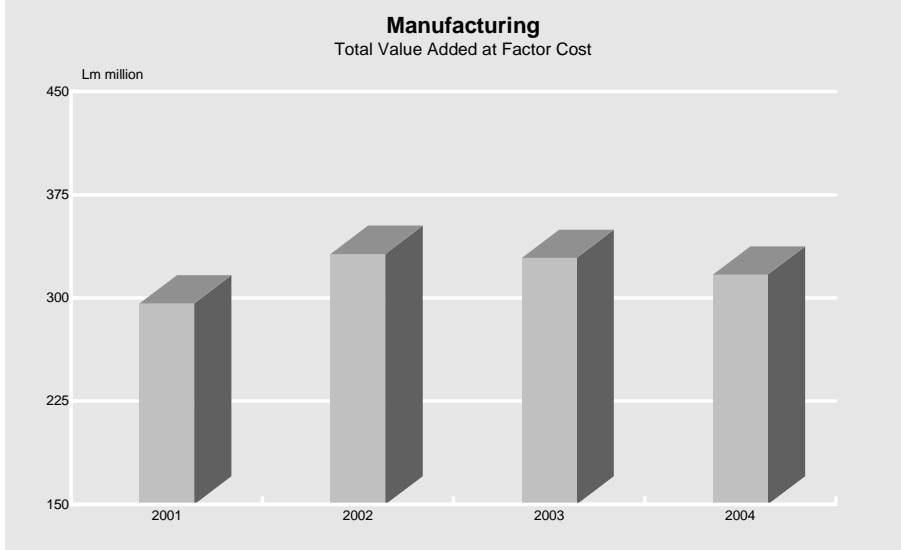
Chart 4.15 presents average weekly sales per employees, which increased by Lm10.93 and stood at Lm558.35 in the period under review, reflecting a rise in turnover. Average weekly per capita compensation levels, illustrated in Chart 4.16, registered an increase of Lm3.69 in the Survey period and stood at Lm121.13, being 3.3 per cent higher than the average for the total manufacturing industry. Average weekly exports per capita declined by Lm9.89 and stood at Lm410.65.

Value Added

This section reviews developments in value added of the manufacturing industry during the 2001-2004 period. The data compiled for this analysis is based on the manufacturers' responses to an annual business statistics questionnaire, in line with the Structural Business Statistics Council Regulation 58/97. According to this methodology, value added at factor cost is made up of personnel costs and gross operating surplus. Personnel costs are made up of wages and salaries and employers' social security costs, whilst gross operating surplus is the surplus generated by operating activities net of labour cost. Since data compiled according to this methodology featured for the first time in the Economic Survey January-September 2002, the data presented in this Chapter are not directly comparable to that published in previous Economic Surveys.

Value added data provides an indication of the contribution of sectoral performance to developments in the total manufacturing industry. Chart 4.17 depicts the trend followed by total manufacturing value added at factor cost during the four years to 2004. Total manufacturing value added at factor cost fell by 3.7 per cent in 2004, following a decline of 0.7 per cent recorded in the previous year. This reflected a 4.0 per cent decline in personnel costs and a 3.3

Chart 4.17



Value Added at Factor Cost per capita

Table 4.1

Lm

| | 2001 | 2002 | 2003 | 2004* |
|--|--------------|---------------|---------------|---------------|
| Food, Beverages and Tobacco Products | 11,303 | 12,094 | 12,760 | 13,219 |
| Textiles and Textile Products | 12,370 | 11,241 | 11,669 | 11,232 |
| Wearing Apparel and Clothes | 6,017 | 7,361 | 7,376 | 6,765 |
| Leather and Leather Products | 5,928 | 6,606 | 6,904 | 6,669 |
| Wood and Wood Products | 5,882 | 6,491 | 5,994 | 6,361 |
| Paper and Paper Products | 7,174 | 9,398 | 10,638 | 10,677 |
| Publishing and Printing | 11,211 | 13,716 | 11,768 | 10,114 |
| Chemicals and Chemical Products | 11,376 | 10,613 | 13,780 | 14,058 |
| Rubber and Plastic Products | 10,301 | 12,745 | 12,300 | 12,530 |
| Other Non-Metallic Mineral Products | 7,268 | 7,561 | 8,903 | 8,272 |
| Basic Metal Products | 7,304 | 7,301 | 6,212 | 7,206 |
| Fabricated Metal Products | 7,698 | 8,784 | 8,563 | 7,277 |
| Machinery and Equipment n.e.c. | 11,250 | 9,020 | 11,927 | 10,840 |
| Electrical Machinery and Apparatus | 12,340 | 13,717 | 14,335 | 16,587 |
| Radio, TV and Communication Equipment | 21,725 | 23,388 | 24,653 | 27,035 |
| Medical, Precision and Optical Instruments | 9,590 | 11,624 | 10,667 | 9,691 |
| Motor Vehicles, Trailers and Semi-Trailers | 6,627 | 7,707 | 7,175 | 6,844 |
| Other Transport Equipment | 4,401 | 4,615 | 3,353 | 2,832 |
| Furniture and Other Manufacturing n.e.c. | 8,167 | 9,043 | 10,004 | 11,331 |
| Recycling | 9,251 | 14,909 | 16,990 | 15,526 |
| Total Manufacturing | 9,971 | 11,006 | 11,541 | 11,718 |

* Provisional

Source: National Statistics Office

per cent decline in gross operating surplus in 2004 when compared to the level recorded in 2003.

A sectoral analysis of the manufacturing industry, based on value added per capita, is provided in Table 4.1. Despite the decline in total value added, value added per capita registered a marginal increase in 2004 reflecting lower employment levels. The growth rate in value added per capita declined from 10.4 per cent in 2002 to 1.5 per cent in 2004.

Personnel costs per capita for the 2001-2004 period are presented in Table 4.2. Per capita personnel costs rose by 2.8 per cent and 6.5 per cent in 2002 and 2003 respectively, while a 1.0 per cent increase was recorded in 2004. Table 4.3 illustrates the performance of gross operating surplus per capita, which was reflected in changes in the value added at factor cost per capita. This component recorded a 20.4 per cent rise in 2002, followed by a 3.0 per cent and a 2.2 per cent increase in the following two years. Chart 4.18 depicts the trend followed between 2001 and 2004 in the two components of value added at factor cost per capita.

| Personnel Costs per capita | | | | |
|--|-------|-------|-------|-------|
| Table 4.2 | | | | |
| | 2001 | 2002 | 2003 | 2004* |
| Food, Beverages and Tobacco Products | 5,193 | 5,162 | 5,366 | 5,625 |
| Textiles and Textile Products | 5,807 | 4,765 | 5,441 | 5,516 |
| Wearing Apparel and Clothes | 4,680 | 4,714 | 5,341 | 5,646 |
| Leather and Leather Products | 4,559 | 4,597 | 4,681 | 4,716 |
| Wood and Wood Products | 3,062 | 4,106 | 3,586 | 3,618 |
| Paper and Paper Products | 5,471 | 5,810 | 6,003 | 6,013 |
| Publishing and Printing | 5,416 | 6,419 | 6,815 | 7,171 |
| Chemicals and Chemical Products | 6,207 | 6,149 | 6,225 | 5,968 |
| Rubber and Plastic Products | 5,997 | 6,090 | 6,696 | 6,394 |
| Other Non-Metallic Mineral Products | 4,232 | 4,144 | 4,408 | 4,476 |
| Basic Metal Products | 6,016 | 5,754 | 5,765 | 6,280 |
| Fabricated Metal Products | 4,894 | 5,040 | 5,043 | 5,368 |
| Machinery and Equipment n.e.c. | 5,412 | 5,133 | 6,018 | 5,986 |
| Electrical Machinery and Apparatus | 6,457 | 6,712 | 7,174 | 6,993 |
| Radio, TV and Communication Equipment | 6,321 | 7,162 | 7,702 | 7,852 |
| Medical, Precision and Optical Instruments | 5,676 | 5,923 | 6,092 | 5,970 |
| Motor Vehicles, Trailers and Semi-Trailers | 3,923 | 4,327 | 5,390 | 5,642 |
| Other Transport Equipment | 7,634 | 7,685 | 8,009 | 7,389 |
| Furniture and Other Manufacturing n.e.c. | 4,948 | 5,117 | 5,593 | 5,659 |
| Recycling | 4,475 | 4,745 | 5,163 | 3,908 |
| Total Manufacturing | 5,676 | 5,835 | 6,216 | 6,278 |
| * Provisional | | | | |
| Source: National Statistics Office | | | | |

Gross Operating Surplus per capita

Table 4.3

Lm

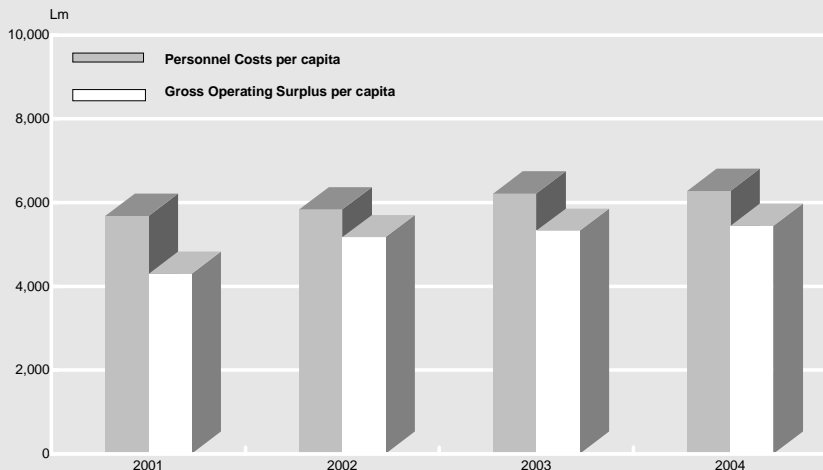
| | 2001 | 2002 | 2003 | 2004* |
|--|--------------|--------------|--------------|--------------|
| Food, Beverages and Tobacco Products | 6,109 | 6,932 | 7,394 | 7,594 |
| Textiles and Textile Products | 6,563 | 6,476 | 6,228 | 5,715 |
| Wearing Apparel and Clothes | 1,337 | 2,647 | 2,036 | 1,120 |
| Leather and Leather Products | 1,369 | 2,009 | 2,224 | 1,953 |
| Wood and Wood Products | 2,820 | 2,385 | 2,409 | 2,743 |
| Paper and Paper Products | 1,703 | 3,589 | 4,635 | 4,665 |
| Publishing and Printing | 5,795 | 7,298 | 4,952 | 2,943 |
| Chemicals and Chemical Products | 5,169 | 4,464 | 7,555 | 8,090 |
| Rubber and Plastic Products | 4,304 | 6,655 | 5,604 | 6,136 |
| Other Non-Metallic Mineral Products | 3,036 | 3,417 | 4,495 | 3,796 |
| Basic Metal Products | 1,288 | 1,547 | 446 | 926 |
| Fabricated Metal Products | 2,804 | 3,744 | 3,521 | 1,909 |
| Machinery and Equipment n.e.c. | 5,839 | 3,886 | 5,908 | 4,855 |
| Electrical Machinery and Apparatus | 5,883 | 7,005 | 7,161 | 9,593 |
| Radio, TV and Communication Equipment | 15,404 | 16,225 | 16,951 | 19,183 |
| Medical, Precision and Optical Instruments | 3,914 | 5,701 | 4,574 | 3,722 |
| Motor Vehicles, Trailers and Semi-Trailers | 2,705 | 3,379 | 1,785 | 1,203 |
| Other Transport Equipment | (3,233) | (3,070) | (4,656) | (4,557) |
| Furniture and Other Manufacturing n.e.c. | 3,219 | 3,926 | 4,411 | 5,672 |
| Recycling | 4,777 | 10,164 | 11,827 | 11,618 |
| Total Manufacturing | 4,295 | 5,171 | 5,325 | 5,440 |

* Provisional

Source: National Statistics Office

Chart 4.18

Composition of per capita Value Added at Factor Cost

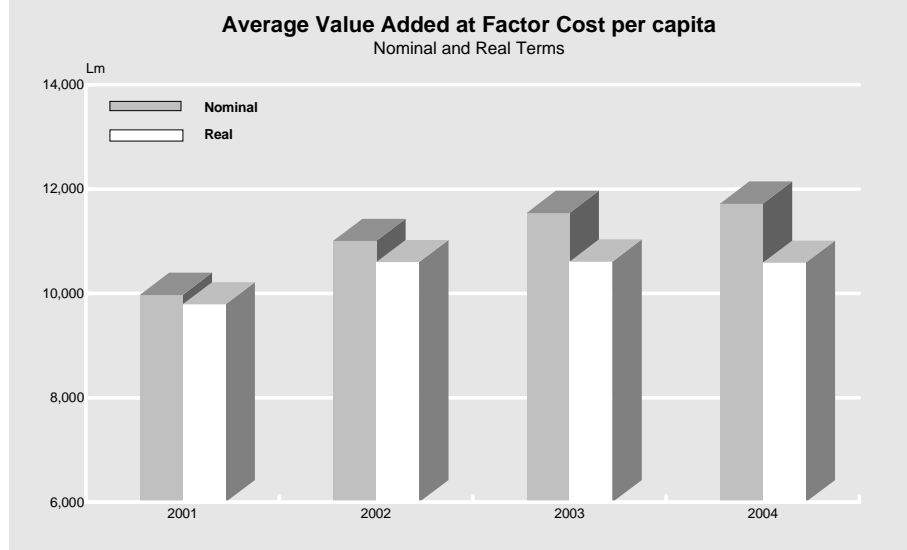


The share of personnel costs in value added at factor cost per capita fell from 56.9 per cent in 2001 to 53.0 per cent in 2002, which was followed by an increase of 0.9 percentage points in 2003 and a marginal decline of 0.3 percentage points, reaching 53.6 per cent in 2004. The share of gross operating surplus in 2002 stood at 47.0 per cent, being 3.9 percentage points higher than the share recorded in the preceding year. This share declined to 46.1 per cent in 2003 and increased marginally to 46.4 per cent in the following year. Thus personnel costs per capita outweighed gross operating surplus per capita.

Productivity changes in the manufacturing industry are analysed after taking into account the effects of prices in value added using the implicit Gross Domestic Product (GDP) deflator having 2000 as the base year, in line with the methodology applied by the NSO for national accounts data. Data on real value added at factor cost per capita are found in Table 4.4 and Chart 4.19. Real value added per capita registered a subdued rise in 2003, when compared to that recorded a year earlier. In 2004, real value added fell by 0.2 per cent and stood at Lm10,586.

| Value Added at Factor Cost per capita in real terms | | | | |
|--|--------|--------|--------|--------|
| Table 4.4 | | | | |
| | 2001 | 2002 | 2003 | 2004* |
| Food, Beverages and Tobacco Products | 11,099 | 11,646 | 11,731 | 11,943 |
| Textiles and Textile Products | 12,148 | 10,824 | 10,728 | 10,147 |
| Wearing Apparel and Clothes | 5,909 | 7,088 | 6,782 | 6,112 |
| Leather and Leather Products | 5,821 | 6,361 | 6,347 | 6,025 |
| Wood and Wood Products | 5,776 | 6,250 | 5,511 | 5,747 |
| Paper and Paper Products | 7,045 | 9,050 | 9,780 | 9,646 |
| Publishing and Printing | 11,009 | 13,208 | 10,819 | 9,138 |
| Chemicals and Chemical Products | 11,171 | 10,220 | 12,669 | 12,701 |
| Rubber and Plastic Products | 10,116 | 12,273 | 11,308 | 11,320 |
| Other Non-Metallic Mineral Products | 7,137 | 7,281 | 8,185 | 7,473 |
| Basic Metal Products | 7,173 | 7,030 | 5,711 | 6,510 |
| Fabricated Metal Products | 7,560 | 8,459 | 7,873 | 6,574 |
| Machinery and Equipment n.e.c. | 11,048 | 8,685 | 10,965 | 9,793 |
| Electrical Machinery and Apparatus | 12,118 | 13,208 | 13,180 | 14,985 |
| Radio, TV and Communication Equipment | 21,334 | 22,521 | 22,665 | 24,424 |
| Medical, Precision and Optical Instruments | 9,418 | 11,193 | 9,807 | 8,755 |
| Motor Vehicles, Trailers and Semi-Trailers | 6,508 | 7,421 | 6,596 | 6,183 |
| Other Transport Equipment | 4,322 | 4,444 | 3,083 | 2,559 |
| Furniture and Other Manufacturing n.e.c. | 8,020 | 8,708 | 9,198 | 10,237 |
| Recycling | 9,085 | 14,356 | 15,620 | 14,026 |
| Total Manufacturing | 9,791 | 10,598 | 10,610 | 10,586 |
| * Provisional | | | | |
| Source: National Statistics Office | | | | |

Chart 4.19



Average Value Added at Factor Cost per capita
nominal and real terms

Table 4.5

| | 2000 | 2001 | 2002 | 2003 | 2004* | 2005 ⁽¹⁾ |
|---|--------|-------|--------|--------|--------|---------------------|
| Average Value Added at factor cost per capita (Lm) at current prices | 12,122 | 9,971 | 11,006 | 11,541 | 11,718 | 12,792 |
| Average Value Added at factor cost per capita (Lm) at constant prices | 12,122 | 9,791 | 10,598 | 10,610 | 10,586 | 11,206 |
| Percentage change | ... | -19.2 | 8.2 | 0.1 | -0.2 | 5.9 |
| Productivity Index 2000=100 | 100 | 81 | 87 | 88 | 87 | 92 |

* Provisional

⁽¹⁾Forecasted

Compiled from data provided by the National Statistics Office

Nominal and real average value added at factor cost per capita for the aggregate manufacturing industry are presented in Table 4.5. Estimated average value added at factor cost per capita at constant prices for 2005 stood at Lm11,206, rising by 5.9 per cent over that recorded in 2004.

A productivity index with 2000 as a base year was compiled to reflect developments in real per capita value added for the 2000-2005 period. The productivity index increased by 1.0 percentage point in 2003 and fell by the same magnitude a year later. The index is expected to rise by 5.0 percentage points in 2005.

Sector Analysis

The following section provides a review of the largest sectoral contributions to value added at factor cost generated within the manufacturing industry. Table 4.6 presents the shares of the sectors within the manufacturing industry in total value added at factor cost.

The contribution of the food, beverages and tobacco sector to total value added remained the second largest in the industry. The sector's share in total value added fell marginally to 15.3 per cent in 2002 from 15.6 per cent a year earlier.

| Composition of Value Added at Factor Cost | | | | |
|--|----------|-------|-------|-------|
| Table 4.6 | per cent | | | |
| | 2001 | 2002 | 2003 | 2004* |
| Food, Beverages and Tobacco Products | 15.6 | 15.3 | 16.6 | 16.8 |
| Textiles and Textile Products | 3.2 | 4.2 | 4.2 | 4.1 |
| Wearing Apparel and Clothes | 6.5 | 7.0 | 5.5 | 3.8 |
| Leather and Leather Products | 1.7 | 1.5 | 1.3 | 1.0 |
| Wood and Wood Products | 0.3 | 0.5 | 0.3 | 0.2 |
| Paper and Paper Products | 0.9 | 0.9 | 1.0 | 1.0 |
| Publishing and Printing | 7.6 | 8.1 | 6.9 | 6.3 |
| Chemicals and Chemical Products | 3.1 | 2.8 | 3.9 | 3.3 |
| Rubber and Plastic Products | 7.0 | 7.0 | 6.5 | 7.3 |
| Other Non-Metallic Mineral Products | 2.7 | 3.0 | 3.4 | 3.3 |
| Basic Metal Products | 0.1 | 0.1 | 0.1 | 0.1 |
| Fabricated Metal Products | 3.2 | 3.5 | 3.4 | 2.6 |
| Machinery and Equipment n.e.c. | 1.7 | 1.2 | 1.5 | 1.6 |
| Electrical Machinery and Apparatus | 5.4 | 5.2 | 5.1 | 6.2 |
| Radio, TV and Communication Equipment | 22.5 | 21.7 | 23.3 | 25.0 |
| Medical, Precision and Optical Instruments | 4.2 | 4.0 | 4.0 | 3.5 |
| Motor Vehicles, Trailers and Semi-Trailers | 0.2 | 0.1 | 0.1 | 0.2 |
| Other Transport Equipment | 5.4 | 5.1 | 3.1 | 2.9 |
| Furniture and Other Manufacturing n.e.c. | 8.6 | 8.4 | 9.3 | 10.2 |
| Recycling | 0.2 | 0.3 | 0.4 | 0.5 |
| Total Manufacturing | 100.0 | 100.0 | 100.0 | 100.0 |
| * Provisional | | | | |
| Source: National Statistics Office | | | | |

However this decline was reversed in the following year when the share rose to 16.6 per cent in 2003. In 2004, the food, beverages and tobacco products sector's contribution in total value added rose by a further 0.2 percentage points, to 16.8 per cent. Personnel costs per capita fell marginally in 2002. However this decline was reversed in the following year with a further rise registered in 2004. The share of gross operating surplus in the sector's value added per capita rose from 54.0 per cent recorded in 2001 to 57.4 per cent in 2004. Developments in gross operating surplus were reflected in the performance of value added per capita, which followed a similar trend. It is noteworthy that the sector's value added per capita was 12.8 per cent higher than the average for the manufacturing industry in 2004.

The share in value added at factor cost of the wearing apparel and clothes sector rose from 6.5 per cent in 2001 to 7.0 per cent in the following year, subsequently falling to 3.8 per cent in 2004. The sector's value added at factor cost per capita, which registered an average annual growth rate of 10.7 per cent between 2001 and 2003, fell by 8.3 per cent in 2004. Since 2002, the share of personnel costs per capita in the sector's value added per capita has increased from 64.0 per cent to 83.5 per cent in 2004. The sector's gross operating surplus per capita nearly doubled in 2002 when compared to the level registered a year earlier, but declined by 23.1 per cent in 2003 and nearly fell by half in 2004. Value added per capita in the wearing apparel and clothes sector was 42.3 per cent less than the average for the manufacturing industry.

The publishing and printing sector's share in total value added reached 6.3 per cent in 2004. The sector's personnel costs per capita registered an annual average growth rate of 9.7 per cent between 2001 and 2004, exceeding the average for the total manufacturing industry by 14.2 per cent in 2004. Gross operating surplus rose by 25.9 per cent in 2002, and fell subsequently in the following two years to nearly half the level recorded in 2001. Following a 22.3 per cent rise in the sector's value added at factor cost per capita in 2002, a decline of 14.2 per cent was recorded in 2003, followed by a decline of nearly the same magnitude in the following year.

With a share of 7.3 per cent, the rubber and plastic products sector was the fourth largest contributor to total manufacturing value added in 2004, reversing the decline recorded in 2003 and exceeding the share recorded in 2001 and 2002. The sector's value added at factor cost per capita exceeded the average for the manufacturing industry by 6.9 per cent in 2004. The trend in value added per capita was underpinned by developments in gross operating surplus, which made up 49.0 per cent of the sector's value added per capita in 2004, up

from 45.6 per cent recorded a year earlier. Personnel costs per capita made up 51.0 per cent of value added per capita in 2004, being 3.4 percentage points lower than that recorded in the previous year.

The radio, TV and communication equipment sector's share in total manufacturing value added remained the major contributor towards total manufacturing value added at factor cost. This share was the highest registered in recent years and reached 25.0 per cent in 2004. This performance is reflected in value added at factor cost per capita which rose steadily at an annual average growth rate of 7.5 per cent. The sector remained the most capital intensive sector in the industry, with gross operating surplus per capita as a share of the sector's value added per capita making up around 70 per cent between 2001 and 2004. Personnel costs per capita reached 29.0 per cent of value added per capita in 2004, declining by 2.2 percentage points from the share recorded in the previous year.

At 10.2 per cent, the third largest contributor to aggregate manufacturing value added was the furniture and other manufacturing sector. The sector's value added per capita registered an average annual growth rate of 11.4 per cent between the 2001-2004 period. This was underpinned by an increase in personnel costs and gross operating surplus per capita, which registered average annual growth rates of 4.5 per cent and 20.6 per cent respectively. In 2004, gross operating surplus made up 50.1 per cent of the sector's value added per capita while the remaining 49.9 per cent consisted of personnel costs. It is noteworthy that during recent years, the share of gross operating surplus per capita has increasingly outweighed the share of personnel costs per capita.

Agriculture and Fisheries

Agriculture and fisheries in Malta exist on a small scale in line with the small island setting of the country, such that in total, the sectors' contribution towards total economy remained rather low in the period under review, at 2.6 per cent of Gross Value Added excluding Financial Intermediation Services Indirectly Measured (FISIM). Nonetheless, agriculture exhibits an integrated framework encompassing the economy of cropping and horticulture, the economy of dairy, livestock and animal husbandry, and the economy of marketing, distribution and agro-processing. Meanwhile, fishing has been practised in Malta for a long time and has come to form part of the island's heritage and social fabric.

Agriculture

Maltese agriculture revolves around fruit and vegetable production, livestock and dairy production and the processing of such produce, such as meat and meat preparation, canning of fruit and vegetables, wines and beer, and animal feeds. The sector still maintains its importance in the local economy, though its small-scale reality hampers the performance of this sector. To this intent, as well as in a bid to assist the Maltese agricultural sector adapt to new circumstances following the removal of import levies on agricultural and agro-food products, the Special Market Policy Programme for Maltese Agriculture provides various financial assistance and incentive schemes. In fact, during the first nine months of 2005, Lm4.7 million were granted to local producers under the agriculture support scheme.

Table 4.7 presents monthly data on the volume of fresh beef, pork and broilers slaughtered at the Civil Abattoir and in private slaughterhouses in Malta and Gozo. The amount of livestock slaughtered during the Survey period was less than that recorded in the same period in 2004. The amount of slaughtered pork increased by 3.5 per cent to 6,453 tonnes, whilst the amount of slaughtered beef increased from 909 tonnes to 1,015 tonnes. Meanwhile, the amount of slaughtered broilers decreased by 30.0 per cent to 3,490 tonnes in the period under review.

The slaughtering of pork amounted to 58.9 per cent of total slaughtering, hence accounting for the majority of slaughtering that took place between January and September 2005. Furthermore, the relevance of pork slaughtering to the

| Slaughtering | | | | | | |
|------------------------------------|--------|-------|-------|-------|----------|-------|
| Beef, Pork and Broilers | | | | | | |
| Table 4.7 | tonnes | | | | | |
| | Beef | | Pork | | Broilers | |
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| January | 86 | 146 | 745 | 676 | 904 | 417 |
| February | 87 | 121 | 687 | 650 | 718 | 375 |
| March | 127 | 112 | 748 | 763 | 734 | 301 |
| April | 110 | 115 | 778 | 696 | 614 | 360 |
| May | 108 | 132 | 640 | 712 | 530 | 388 |
| June | 87 | 98 | 677 | 700 | 364 | 420 |
| July | 84 | 88 | 635 | 726 | 362 | 400 |
| August | 117 | 108 | 638 | 804 | 333 | 410 |
| September | 103 | 95 | 684 | 726 | 425 | 419 |
| Total | 909 | 1,015 | 6,232 | 6,453 | 4,984 | 3,490 |
| Source: National Statistics Office | | | | | | |

total amount of slaughtering has increased compared to the same period last year. Concurrently, cattle slaughtering accounted for the least share in total meat production, in line with the importance of the local cattle industry for the production of dairy products.

During the nine months to September 2005, 35.1 million kilograms of fruit and vegetables were sold, being 2.8 per cent less than the quantity sold in the previous Survey period. However, the wholesale value of fruit and vegetables sold through official markets stood at Lm5.9 million, thereby increasing minimally by 1.5 per cent. As shown in Table 4.8, fresh fruit availability increased, however the wholesale value of fresh fruit obtained by farmers remained at the same level registered during the same period last year. As regards the production of vegetables, lower production volumes were reflected in higher prices than those recorded during the same period last year.

Analysis of the fresh vegetables index indicates that except for January and March, price indices for the rest of the period were significantly higher than those recorded for the same period of the former year. A significant increase in the price index was particularly notable in May, resulting from substantially higher prices of tomatoes, pumpkins, and water and sugar melons. On the other

| Fresh Fruit and Vegetables Indices | | | | |
|------------------------------------|-------------------|--------------|------------------------|--------------|
| Table 4.8 | | 1995=100 | | |
| | Fresh Fruit Index | | Fresh Vegetables Index | |
| | Price Index | Volume Index | Price Index | Volume Index |
| 2004 | | | | |
| January | 182.84 | 29.90 | 193.32 | 79.04 |
| February | 197.01 | 14.18 | 156.59 | 84.62 |
| March | 162.75 | 26.41 | 152.79 | 100.72 |
| April | 92.44 | 70.29 | 127.41 | 120.28 |
| May | 152.26 | 71.12 | 83.65 | 128.40 |
| June | 102.96 | 218.36 | 53.95 | 161.57 |
| July | 133.99 | 175.58 | 64.86 | 219.96 |
| August | 107.71 | 251.15 | 61.98 | 182.93 |
| September | 144.06 | 193.91 | 71.48 | 133.67 |
| 2005 | | | | |
| January | 177.97 | 87.19 | 159.72 | 94.72 |
| February | 181.90 | 47.82 | 173.24 | 70.80 |
| March | 134.43 | 43.22 | 121.98 | 96.99 |
| April | 86.16 | 71.87 | 142.82 | 116.10 |
| May | 136.07 | 76.31 | 137.07 | 128.19 |
| June | 116.23 | 236.46 | 73.39 | 171.71 |
| July | 115.89 | 162.18 | 71.21 | 188.59 |
| August | 103.07 | 249.71 | 76.11 | 181.02 |
| September | 97.49 | 145.58 | 85.06 | 121.33 |
| Source: National Statistics Office | | | | |

hand, a marked decline in the vegetables price index was registered in January reflecting a considerable increase in the volume of traded vegetables, principally higher production levels of cauliflower. Higher prices for vegetables registered between January and September this year reflected the low volume of production of vegetable crops. In fact, the volume index for vegetables was lower during the Survey period, except for January and June, with the highest decline being registered in July, mainly due to lower production of water melons and tomatoes.

Between January and September 2005 the fresh fruit price index was lower than that for the corresponding months in 2004, except for June. Significant declines were registered in March and September, mainly the result of lower prices of sweet oranges and strawberries. A higher fresh fruit price index was registered in June reflecting an increase of average unit prices of strawberries and peaches. The fresh fruit volume index registered increases in most months, but particularly in the first quarter of 2005, reflecting the abundance of sweet oranges on the market.

Major agricultural imports for the first nine months of the four-year period between 2002 and 2005 are presented in Table 4.9. At Lm92.8 million, the value of imports of major agricultural commodities increased by 7.1 per cent, from Lm86.7 million recorded in the previous Survey period. Substantially higher import levels were recorded for edible fruit and nuts, and cereals. Other increases resulted with respect to preparations of meat and fish, sugar and confectionery,

| Imports of Major Agricultural Commodities (January-September) | | | | |
|--|------------|-------|-------|-------|
| Table 4.9 | Lm million | | | |
| | 2002 | 2003 | 2004 | 2005 |
| Live Animals | 0.35 | 0.32 | 0.57 | 0.25 |
| Meat and Edible Offals | 6.65 | 7.84 | 10.18 | 10.72 |
| Fish | 9.34 | 5.78 | 4.09 | 4.06 |
| Dairy Produce | 8.78 | 8.95 | 9.64 | 9.67 |
| Edible Fruits and Nuts | 6.10 | 6.18 | 5.80 | 7.80 |
| Cereals | 7.01 | 9.26 | 4.51 | 7.24 |
| Preparations of Meat, Fish | 6.14 | 6.43 | 6.84 | 7.86 |
| Sugar & Confectionery | 3.89 | 3.74 | 3.39 | 3.64 |
| Cereal Prep. | 8.43 | 8.67 | 10.85 | 11.57 |
| Veg. and Fruit Prep. | 5.19 | 5.63 | 6.48 | 5.61 |
| Misc. Edible Prep. | 7.85 | 8.43 | 7.80 | 8.62 |
| Beverages, Spirits, Vinegar | 8.27 | 9.36 | 10.76 | 9.89 |
| Feeds | 5.21 | 4.81 | 5.77 | 5.87 |
| Total | 83.21 | 85.40 | 86.66 | 92.79 |
| Source: National Statistics Office | | | | |

Box 4.1

Economic Accounts for Agriculture

The Economic Accounts for Agriculture published by the National Statistics Office (NSO), capture agricultural statistics based on methodologies according to the European System of Accounts (ESA 95) as well as the revised methodology on Agriculture Labour Input Statistics. The following analysis is based on agriculture statistics covering private enterprises and is thus not comparable with data presented in other Chapters in this Economic Survey.

Agricultural factor income at current market prices increased by 8.3 per cent and reached Lm27.8 million in 2004, registering the highest level in recent years, as illustrated in Table 4.A. This increase was mainly underpinned by higher subsidies on production, reflecting compensation by Government for farmers' loss of income from lower prices for the produce, following the removal of levies on agro-food products. Moreover, other subsidies not directly linked with production also increased in 2004. Total factor income of the agricultural sector in real terms (constant 2000 prices) rose by 6.2 per cent from Lm23.5 million in 2003 to Lm25.0 million in 2004.

In 2004, final production at basic prices rose marginally and stood at Lm54.9 million in 2004. While the value of crop production increased by Lm2.2 million to Lm21.1 million, the value of livestock products and other animal products declined by Lm1.1 million and Lm0.6 million respectively.

| Factor Income at Current Prices | | | | |
|---|-------------|--------|--------|--------|
| Table 4.A | Lm thousand | | | |
| | 2001 | 2002 | 2003 | 2004 |
| Total final production at producer prices | 55,786 | 55,329 | 50,430 | 50,177 |
| add subsidies on production | 128 | 799 | 4,051 | 4,758 |
| Total final production at basic prices | 55,914 | 56,128 | 54,481 | 54,934 |
| less intermediate consumption | 28,297 | 28,588 | 27,380 | 27,167 |
| Gross value added at basic prices | 27,617 | 27,540 | 27,101 | 27,767 |
| less fixed capital consumption | 1,787 | 1,795 | 1,742 | 1,756 |
| Net value added at basic prices | 25,830 | 25,745 | 25,360 | 26,011 |
| add other subsidies not directly linked with production | 300 | 429 | 268 | 1,742 |
| Factor income at current prices | 26,130 | 26,174 | 25,628 | 27,754 |

Source: National Statistics Office

Box 4.1 continued

At Lm50.1 million, final production at producer prices in 2004 remained at relatively the same level registered in 2003, although lower than the levels registered in previous years. In fact, in both 2003 and 2004, Government compensated for this decline in farmers' loss of income through subsidies on production, which reached Lm4.1 million and Lm4.8 million in 2003 and 2004 respectively. In 2004, other subsidies not directly linked with production, increased from Lm0.3 million in 2003 to Lm1.7 million in 2004, mainly reflecting subsidies in respect of rubble walls aid and least favoured area aid.

Table 4.B presents the distribution of factor income at current prices. Nominal entrepreneurial income increased by Lm2.2 million and stood at Lm25.6 million. Meanwhile, nominal income in terms of wages, rents and interest remained at the level registered in 2003.

**Distribution of Factor Income at
Current Prices**

| Table 4.B | Lm thousand | | | |
|-----------------------------------|-------------|--------|--------|--------|
| | 2001 | 2002 | 2003 | 2004 |
| Factor Income | 26,130 | 26,174 | 25,628 | 27,754 |
| Entrepreneurial income (profits) | 23,915 | 24,011 | 23,335 | 25,574 |
| Compensation of employees (wages) | 995 | 1,082 | 1,344 | 1,274 |
| Interest | 694 | 591 | 458 | 415 |
| Rents | 526 | 490 | 490 | 490 |

Source: National Statistics Office

and cereal preparations. On the other hand, import values declined most significantly for live animals, vegetable and fruit preparations, and beverages, spirits and vinegar, while minor reductions resulted in the import values of fish.

Fisheries

The fishing industry in Malta is relatively small, though it still maintains its importance, particularly in the social aspect, given the traditional nature of local fisheries. Apart from the traditional fishing methods, the local fishing industry relies as well on aquaculture, whose produce is mainly exported.

Traditional fishing methods supply the local market with a variety of fish, mainly dolphin-fish (*lampuki*), blue-fin tuna, and swordfish. During the period under review, total fish landings increased from 742 tonnes during the first nine months of 2004 to 1,048 tonnes during the period under review. At the same time, the wholesale value of fish landings increased from Lm1.5 million during the first nine months of 2004 to Lm2.0 million during the same period this year.

Table 4.10 presents monthly data on average fish prices and volume expressed as an index (1995=100). During the first nine months of 2005, a substantial increase in the fresh fish price index was recorded in January, April and June, reflecting higher prices of shrimps and blue-fin tuna. On the other hand, a sizeable reduction in the fresh fish price index was registered in February, as a result of lower prices of swordfish and dogfish. Significant increases in the fresh fish volume index were registered as from May, mainly reflecting increases in the landings of blue-fin tuna between May and July and increases in the landings of dolphin-fish (*lampuki*) in August and September.

Exports of fish increased significantly from 1,144,036 kilograms to 1,847,693 kilograms during the Survey period. However, as illustrated in Table 4.11, the

| Fresh Fish Indices | | |
|------------------------------------|---------------------------------|--------------|
| Table 4.10 | 1995=100 | |
| | Fresh Fish Index Price Index | Volume Index |
| 2004 | | |
| January | 103.17 | 32.63 |
| February | 145.60 | 21.94 |
| March | 118.71 | 20.00 |
| April | 133.11 | 16.69 |
| May | 159.47 | 126.86 |
| June | 128.04 | 84.00 |
| July | 125.56 | 46.07 |
| August | 129.49 | 75.29 |
| September | 117.01 | 97.46 |
| 2005 | | |
| January | 131.33 | 14.99 |
| February | 104.31 | 8.69 |
| March | 114.65 | 21.98 |
| April | 204.96 | 23.55 |
| May | 153.29 | 170.95 |
| June | 149.26 | 97.58 |
| July | 120.45 | 77.02 |
| August | 104.00 | 145.87 |
| September | 106.65 | 175.30 |
| Source: National Statistics Office | | |

Exports of Fish
(January - September)

Table 4.11

| | 2004 | | 2005 | |
|--------------------|-------------|-----------------|-------------|-----------------|
| | Qty (Kg) | Value Lm 000 | Qty (Kg) | Value Lm 000 |
| Sea-bream/Sea-bass | 727,464 | 1,694 | 785,076 | 1,341 |
| Tuna | 416,518 | 1,702 | 1,032,202 | 1,717 |
| Swordfish | 54 | — | 30,415 | 127 |
| Total | 1,144,036 | 3,396 | 1,847,693 | 3,185 |

Source: National Statistics Office

value of these exports declined by 6.2 per cent. This decline in the value of exports mainly reflected a reduction in the price for sea-bass and sea-bream, as well as drops in the price of tuna. A significant increase in the amount of exports was registered for tuna, such that tuna has the highest ratio of the total volume of fish exports, amounting to 55.9 per cent.

The Shipyard Sector

Over the past years, the ship repair and ship building industry has experienced substantial competition from low cost shipyards. In fact, Mediterranean shipyards are increasingly being affected by expanding shipyards in the Black Sea, Croatia and Turkey. The local shipyard is to date a major beneficiary of public funds. However, the implementation of the restructuring plan for the shipyard aims to fully eliminate the reliance of this industry on Government financial assistance. Positive signs have been registered by the newly formed company, Malta Shipyards Limited, during the first six months of 2005, reflecting efforts to improve productivity and achieve higher turnover targets with a significantly reduced workforce.

Turnover by Malta Shipyards Limited for the first nine months of 2005 has reached Lm13.2 million, while losses for the same period amounted to Lm6.8 million. The restructuring programme implemented at the shipyard aims to phase out subsidies by the end of 2008. In fact, as illustrated in Table 4.12, Government assistance directed to Malta Shipyards Limited during the Survey period amounted to Lm5.8 million, slightly less than the amount granted between January and September 2004. Furthermore, Government provided Lm1.2 million to finance

Government Assistance
(Contributions through the Consolidated Fund)

Table 4.12 Lm million

| | 2002 | 2003 | 2004 | 2004 Jan/Sep | 2005 Jan/Sep |
|---------------------|------|------|------|-----------------|-----------------|
| Malta Shipbuilding | 5.5 | 4.7 | - | - | - |
| Malta Drydocks | 15.2 | 15.1 | - | - | - |
| Malta Shipyards Ltd | - | - | 8.7 | 6.1 | 5.8 |

Source: The Treasury

Employment

Table 4.13

| | 2002 | 2003 | 2004 | 2004 Sep | 2005 Sep |
|---------------------|-------|-------|-------|-------------|-------------|
| Malta Shipbuilding | 692 | - | - | - | - |
| Malta Drydocks | 1,973 | - | - | - | - |
| Malta Shipyards Ltd | - | 1,743 | 1,693 | 1,700 | 1,682 |
| Total | 2,665 | 1,743 | 1,693 | 1,700 | 1,682 |

Source: Employment and Training Corporation

the early and voluntary retirement schemes accepted by retirees of Malta Shipbuilding Co. Ltd. and Malta Drydocks.

As at the end of September 2005, employment at Malta Shipyards Limited stood at 1,682, decreasing minimally over the same month last year, as illustrated in Table 4.13. As part of the restructuring plan for the shipyard, various labour reforms have been implemented in order to improve the productivity of the yard as well as to increase flexibility in the work practices.

Towards the end of 2004, Malta Shipyards Limited won three major contracts, namely repair works on an oil rig, a conversion job on a cruise liner, and the construction of an offshore power-generation barge. In order to meet the peak demands in production, Malta Shipyards Limited made use of subcontracted labour. Work by Malta Shipyards Limited on these contracts resulted in significant activity at the yard during the first six months of 2005. Despite low activity during the third quarter, the company was commissioned a number of major projects towards the end of the summer period, promising significant activity at the yard in the coming months.

During the course of this year, Malta Shipyards Limited has sought to equip itself adequately to diversify in the Liquefied Natural Gas (LNG) repair and tank coating market. In fact, this year the shipyard has won a contract for repair works of a LNG vessel. Furthermore, active steps have been taken by the company to adopt a modern approach to steel repairs which improves efficiency and reduces difficult and unsafe working conditions in confined spaces. Consequently, Malta Shipyards Limited expects to attract more ship repair business by being able to offer a highly competitive approach to major steel reinstatement.

Sampled Manufacturing Firms*⁽¹⁾
(January-September)

Appendix Table 4.1

| | 2002 | 2003 | 2004 | 2005** |
|--------------------------------------|----------|----------|----------|----------|
| TOTAL MANUFACTURING | | | | |
| Sales (Lm 000) | 738,118 | 765,848 | 766,788 | 700,944 |
| Wages (Lm 000) | 88,365 | 93,034 | 90,537 | 89,826 |
| Net Investment (Lm 000) | 34,952 | 36,277 | 40,814 | 33,010 |
| Exports (Lm 000) | 565,225 | 593,682 | 603,732 | 539,973 |
| Local Sales (Lm 000) | 172,893 | 172,166 | 163,055 | 160,972 |
| Avg. Weekly Sales/Employee (Lm) | 864.51 | 935.77 | 988.50 | 914.85 |
| Avg. Weekly Earnings/Employee (Lm) | 103.50 | 113.68 | 116.72 | 117.24 |
| Avg. Weekly Exports/Employee (Lm) | 662.01 | 725.40 | 778.30 | 704.76 |
| FOOD AND BEVERAGES | | | | |
| Sales (Lm 000) | 89,332 | 94,915 | 89,108 | 87,604 |
| Wages (Lm 000) | 12,027 | 12,986 | 12,782 | 12,427 |
| Net Investment (Lm 000) | 2,293 | 5,414 | 3,963 | 3,340 |
| Exports (Lm 000) | 14,413 | 16,089 | 15,262 | 18,760 |
| Local Sales (Lm 000) | 74,918 | 78,826 | 73,846 | 68,844 |
| Avg. Weekly Sales/Employee (Lm) | 727.24 | 769.52 | 738.95 | 758.36 |
| Avg. Weekly Earnings/Employee (Lm) | 97.91 | 105.28 | 106.00 | 107.57 |
| Avg. Weekly Exports /Employee (Lm) | 117.34 | 130.44 | 126.57 | 162.40 |
| TOBACCO PRODUCTS | | | | |
| Sales (Lm 000) | 23,067 | 23,075 | 24,872 | 23,865 |
| Wages (Lm 000) | 817 | 907 | 904 | 892 |
| Net Investment (Lm 000) | 484 | 99 | 134 | 96 |
| Exports (Lm 000) | 177 | 26 | 43 | 277 |
| Local Sales (Lm 000) | 22,890 | 23,049 | 24,829 | 23,589 |
| Avg. Weekly Sales/Employee (Lm) | 3,943.10 | 3,682.59 | 4,027.89 | 3,848.65 |
| Avg. Weekly Earnings/Employee (Lm) | 139.62 | 144.73 | 146.35 | 143.90 |
| Avg. Weekly Exports/Employee (Lm) | 30.31 | 4.22 | 6.94 | 44.61 |
| TEXTILES AND TEXTILE PRODUCTS | | | | |
| Sales (Lm 000) | 12,808 | 12,496 | 19,917 | 25,261 |
| Wages (Lm 000) | 2,387 | 2,737 | 3,879 | 4,519 |
| Net Investment (Lm 000) | 1,438 | 306 | 1,346 | 1,534 |
| Exports (Lm 000) | 7,909 | 9,862 | 19,191 | 24,916 |
| Local Sales (Lm 000) | 4,900 | 2,634 | 726 | 345 |
| Avg. Weekly Sales/Employee (Lm) | 429.87 | 376.51 | 503.31 | 591.17 |
| Avg. Weekly Earnings/Employee (Lm) | 80.12 | 82.47 | 98.02 | 105.75 |
| Avg. Weekly Exports/Employee (Lm) | 265.44 | 297.14 | 484.97 | 583.10 |

Sampled Manufacturing Firms⁽¹⁾
(January-September)

Appendix Table 4.1

continued

| | 2002 | 2003 | 2004 | 2005** |
|-------------------------------------|--------|--------|--------|--------|
| WEARING APPAREL AND CLOTHES | | | | |
| Sales (Lm 000) | 45,921 | 39,379 | 31,162 | 23,463 |
| Wages (Lm 000) | 10,156 | 7,813 | 5,938 | 5,509 |
| Net Investment (Lm 000) | 505 | 400 | 119 | 28 |
| Exports (Lm 000) | 40,896 | 35,215 | 24,721 | 18,492 |
| Local Sales (Lm 000) | 5,025 | 4,164 | 6,441 | 4,970 |
| Avg. Weekly Sales/Employee (Lm) | 380.24 | 454.28 | 483.76 | 384.99 |
| Avg. Weekly Earnings/Employee (Lm) | 84.09 | 90.14 | 92.19 | 90.40 |
| Avg. Weekly Exports/Employee (Lm) | 338.63 | 406.24 | 383.78 | 303.43 |
| LEATHER AND LEATHER PRODUCTS | | | | |
| Sales (Lm 000) | 10,808 | 8,454 | 5,936 | 4,346 |
| Wages (Lm 000) | 2,182 | 1,853 | 1,433 | 1,121 |
| Net Investment (Lm 000) | 223 | 103 | 44 | 10 |
| Exports (Lm 000) | 10,642 | 8,316 | 5,809 | 4,230 |
| Local Sales (Lm 000) | 166 | 138 | 127 | 116 |
| Avg. Weekly Sales/Employee (Lm) | 388.50 | 394.11 | 353.70 | 338.75 |
| Avg. Weekly Earnings/Employee (Lm) | 78.44 | 86.41 | 85.36 | 87.37 |
| Avg. Weekly Exports/Employee (Lm) | 382.53 | 387.69 | 346.13 | 329.68 |
| WOOD AND WOOD PRODUCTS | | | | |
| Sales (Lm 000) | 377 | 375 | 239 | 331 |
| Wages (Lm 000) | 119 | 122 | 79 | 80 |
| Net Investment (Lm 000) | 1 | 0 | 0 | 0 |
| Exports (Lm 000) | 34 | 21 | 0 | 26 |
| Local Sales (Lm 000) | 343 | 355 | 239 | 306 |
| Avg. Weekly Sales/Employee (Lm) | 211.61 | 201.94 | 200.09 | 280.21 |
| Avg. Weekly Earnings/Employee (Lm) | 66.64 | 65.54 | 66.34 | 67.53 |
| Avg. Weekly Exports/Employee (Lm) | 19.18 | 11.07 | 0.00 | 21.57 |
| PAPER AND PAPER PRODUCTS | | | | |
| Sales (Lm 000) | 5,503 | 5,610 | 5,669 | 4,449 |
| Wages (Lm 000) | 1,256 | 1,324 | 1,373 | 1,365 |
| Net Investment (Lm 000) | 7 | 18 | 404 | 58 |
| Exports (Lm 000) | 234 | 92 | 141 | 152 |
| Local Sales (Lm 000) | 5,269 | 5,518 | 5,529 | 4,297 |
| Avg. Weekly Sales/Employee (Lm) | 454.68 | 510.70 | 508.27 | 403.09 |
| Avg. Weekly Earnings/Employee (Lm) | 103.76 | 120.57 | 123.09 | 123.67 |
| Avg. Weekly Exports/Employee (Lm) | 19.34 | 8.41 | 12.61 | 13.74 |

Sampled Manufacturing Firms^{*(1)}
(January-September)

Appendix Table 4.1

continued

| | 2002 | 2003 | 2004 | 2005** |
|--|--------|--------|--------|--------|
| PUBLISHING AND PRINTING | | | | |
| Sales (Lm 000) | 30,416 | 36,540 | 35,811 | 36,415 |
| Wages (Lm 000) | 7,000 | 8,135 | 8,753 | 8,476 |
| Net Investment (Lm 000) | 3,241 | 2,471 | 5,101 | 2,260 |
| Exports (Lm 000) | 19,104 | 24,238 | 23,807 | 23,314 |
| Local Sales (Lm 000) | 11,312 | 12,302 | 12,004 | 13,100 |
| Avg. Weekly Sales/Employee (Lm) | 509.06 | 571.76 | 562.07 | 585.03 |
| Avg. Weekly Earnings/Employee (Lm) | 117.15 | 127.29 | 137.38 | 136.17 |
| Avg. Weekly Exports/Employee (Lm) | 319.74 | 379.27 | 373.66 | 374.56 |
| CHEMICAL AND CHEMICAL PRODUCTS | | | | |
| Sales (Lm 000) | 26,288 | 26,073 | 22,081 | 28,569 |
| Wages (Lm 000) | 4,883 | 5,110 | 4,041 | 3,964 |
| Net Investment (Lm 000) | 3,885 | 3,415 | 7,915 | 5,020 |
| Exports (Lm 000) | 20,222 | 20,207 | 15,533 | 23,077 |
| Local Sales (Lm 000) | 6,066 | 5,866 | 6,548 | 5,492 |
| Avg. Weekly Sales/Employee (Lm) | 641.55 | 634.69 | 701.59 | 903.99 |
| Avg. Weekly Earnings/Employee (Lm) | 119.16 | 124.38 | 128.39 | 125.43 |
| Avg. Weekly Exports/Employee (Lm) | 493.50 | 491.89 | 493.52 | 730.21 |
| RUBBER AND PLASTIC PRODUCTS | | | | |
| Sales (Lm 000) | 29,846 | 28,963 | 29,486 | 29,158 |
| Wages (Lm 000) | 8,055 | 7,957 | 8,463 | 8,386 |
| Net Investment (Lm 000) | 2,303 | 2,270 | 1,049 | 912 |
| Exports (Lm 000) | 23,895 | 22,804 | 23,490 | 22,885 |
| Local Sales (Lm 000) | 5,951 | 6,159 | 5,996 | 6,273 |
| Avg. Weekly Sales/Employee (Lm) | 393.53 | 429.28 | 420.42 | 404.13 |
| Avg. Weekly Earnings/Employee (Lm) | 106.21 | 117.94 | 120.66 | 116.23 |
| Avg. Weekly Exports/Employee (Lm) | 315.07 | 337.99 | 334.93 | 317.18 |
| OTHER NON-METALLIC MINERAL PRODUCTS | | | | |
| Sales (Lm 000) | 10,671 | 10,284 | 10,609 | 14,123 |
| Wages (Lm 000) | 2,107 | 2,307 | 2,322 | 2,508 |
| Net Investment (Lm 000) | 318 | 295 | 76 | 275 |
| Exports (Lm 000) | 1,929 | 1,229 | 1,365 | 1,467 |
| Local Sales (Lm 000) | 8,741 | 9,055 | 9,244 | 12,656 |
| Avg. Weekly Sales/Employee (Lm) | 417.30 | 383.45 | 404.59 | 507.20 |
| Avg. Weekly Earnings/Employee (Lm) | 82.39 | 86.02 | 88.56 | 90.08 |
| Avg. Weekly Exports/Employee (Lm) | 75.44 | 45.81 | 52.04 | 52.70 |

Sampled Manufacturing Firms^{*(1)}
(January-September)

Appendix Table 4.1

continued

| | 2002 | 2003 | 2004 ⁽¹⁾ | 2005** |
|--|----------|----------|---------------------|----------|
| FABRICATED METAL PRODUCTS | | | | |
| Sales (Lm 000) | 11,936 | 11,876 | 9,957 | 13,014 |
| Wages (Lm 000) | 3,009 | 3,015 | 2,973 | 2,911 |
| Net Investment (Lm 000) | 158 | 351 | 108 | 585 |
| Exports (Lm 000) | 6,726 | 5,285 | 4,477 | 5,910 |
| Local Sales (Lm 000) | 5,210 | 6,591 | 5,479 | 7,104 |
| Avg. Weekly Sales/Employee (Lm) | 413.40 | 422.54 | 391.96 | 508.18 |
| Avg. Weekly Earnings/Employee (Lm) | 104.21 | 107.28 | 117.05 | 113.65 |
| Avg. Weekly Exports/Employee (Lm) | 232.96 | 188.02 | 176.25 | 230.79 |
| MACHINERY AND EQUIPMENT n.e.c. | | | | |
| Sales (Lm 000) | 8,383 | 9,841 | 9,721 | 11,466 |
| Wages (Lm 000) | 1,588 | 1,652 | 1,826 | 1,967 |
| Net Investment (Lm 000) | 247 | 380 | 137 | 50 |
| Exports (Lm 000) | 6,172 | 7,350 | 7,395 | 8,171 |
| Local Sales (Lm 000) | 2,211 | 2,491 | 2,326 | 3,295 |
| Avg. Weekly Sales/Employee (Lm) | 547.41 | 677.69 | 586.02 | 643.78 |
| Avg. Weekly Earnings/Employee (Lm) | 103.68 | 113.80 | 110.05 | 110.42 |
| Avg. Weekly Exports/Employee (Lm) | 403.03 | 506.17 | 445.81 | 458.77 |
| ELECTRICAL MACHINERY AND APPARATUS | | | | |
| Sales (Lm 000) | 31,135 | 28,830 | 30,359 | 36,775 |
| Wages (Lm 000) | 5,449 | 5,785 | 5,548 | 5,565 |
| Net Investment (Lm 000) | 1,313 | 1,450 | 1,510 | 1,060 |
| Exports (Lm 000) | 29,449 | 27,429 | 29,977 | 36,480 |
| Local Sales (Lm 000) | 1,686 | 1,401 | 383 | 295 |
| Avg. Weekly Sales/Employee (Lm) | 644.51 | 606.26 | 678.68 | 866.14 |
| Avg. Weekly Earnings/Employee (Lm) | 112.80 | 121.65 | 124.02 | 131.07 |
| Avg. Weekly Exports/Employee (Lm) | 609.61 | 576.79 | 670.13 | 859.19 |
| RADIO, TV AND COMMUNICATION EQUIPMENT | | | | |
| Sales (Lm 000) | 337,773 | 361,004 | 371,814 | 291,860 |
| Wages (Lm 000) | 15,108 | 17,129 | 16,209 | 15,824 |
| Net Investment (Lm 000) | 15,157 | 14,357 | 14,636 | 14,006 |
| Exports (Lm 000) | 335,308 | 358,977 | 371,055 | 291,272 |
| Local Sales (Lm 000) | 2,466 | 2,027 | 759 | 588 |
| Avg. Weekly Sales/Employee (Lm) | 2,778.59 | 2,801.04 | 3,131.62 | 2,484.32 |
| Avg. Weekly Earnings/Employee (Lm) | 124.28 | 132.91 | 136.52 | 134.70 |
| Avg. Weekly Exports/Employee (Lm) | 2,758.30 | 2,785.31 | 3,125.23 | 2,479.31 |

Sampled Manufacturing Firms^{*(1)}
(January-September)

Appendix Table 4.1

continued

| | 2002 | 2003 | 2004 | 2005** |
|---|--------|----------|----------|----------|
| MEDICAL, PRECISION AND OPTICAL INSTRUMENTS | | | | |
| Sales (Lm 000) | 16,758 | 19,453 | 26,420 | 25,952 |
| Wages (Lm 000) | 4,140 | 4,875 | 5,325 | 5,108 |
| Net Investment (Lm 000) | 602 | 362 | 997 | 307 |
| Exports (Lm 000) | 16,680 | 19,401 | 26,220 | 25,837 |
| Local Sales (Lm 000) | 77 | 51 | 200 | 115 |
| Avg. Weekly Sales/Employee (Lm) | 420.30 | 511.22 | 569.91 | 573.31 |
| Avg. Weekly Earnings/Employee (Lm) | 103.84 | 128.12 | 114.86 | 112.84 |
| Avg. Weekly Exports/Employee (Lm) | 418.36 | 509.87 | 565.60 | 570.78 |
| MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS | | | | |
| Sales (Lm 000) | 579 | 541 | 440 | 418 |
| Wages (Lm 000) | 148 | 131 | 162 | 248 |
| Net Investment (Lm 000) | 7 | 0 | 0 | 2 |
| Exports (Lm 000) | 441 | 385 | 280 | 144 |
| Local Sales (Lm 000) | 139 | 156 | 160 | 274 |
| Avg. Weekly Sales/Employee (Lm) | 257.54 | 291.13 | 210.17 | 179.46 |
| Avg. Weekly Earnings/Employee (Lm) | 65.96 | 70.50 | 77.42 | 106.69 |
| Avg. Weekly Exports/Employee (Lm) | 195.90 | 207.28 | 133.89 | 61.84 |
| OTHER TRANSPORT EQUIPMENT ⁽²⁾ | | | | |
| Sales (Lm 000) | 5,477 | 11,989 | 9,618 | 9,237 |
| Wages (Lm 000) | 714 | 1,393 | 1,327 | 1,441 |
| Net Investment (Lm 000) | 25 | 617 | 65 | 105 |
| Exports (Lm 000) | 4,839 | 10,683 | 9,178 | 9,089 |
| Local Sales (Lm 000) | 638 | 1,306 | 441 | 148 |
| Avg. Weekly Sales/Employee (Lm) | 858.07 | 1,403.66 | 1,061.49 | 1,037.28 |
| Avg. Weekly Earnings/Employee (Lm) | 111.83 | 163.05 | 146.45 | 161.87 |
| Avg. Weekly Exports/Employee (Lm) | 758.19 | 1,250.79 | 1,021.87 | 1,020.62 |

Sampled Manufacturing Firms^{*(1)}

(January-September)

Appendix Table 4.1

continued

| | 2002 | 2003 | 2004 | 2005** |
|-------------------------------------|--------|--------|--------|--------|
| MANUFACTURING n.e.c. | | | | |
| Sales (Lm 000) | 41,040 | 36,150 | 33,568 | 34,638 |
| Wages (Lm 000) | 7,219 | 7,801 | 7,202 | 7,515 |
| Net Investment (Lm 000) | 2,744 | 3,969 | 3,208 | 3,363 |
| Exports (Lm 000) | 26,154 | 26,072 | 25,788 | 25,475 |
| Local Sales (Lm 000) | 14,886 | 10,078 | 7,780 | 9,163 |
| Avg. Weekly Sales/Employee (Lm) | 602.23 | 532.82 | 547.42 | 558.35 |
| Avg. Weekly Earnings/Employee (Lm) | 105.94 | 114.99 | 117.44 | 121.13 |
| Avg. Weekly Exports/Employee (Lm) | 383.79 | 384.28 | 420.54 | 410.65 |

* As from 2004, data on exports may include re-exports

** Provisional

⁽¹⁾ As from 2004, data reflects re-classification of enterprises according to their main manufacturing activity

⁽²⁾ Data for 2002-2003 excludes Malta Shipbuilding Co. Ltd.

Source: National Statistics Office

5. Services Activities

5. Services Activities

The tourism industry during 2004 saw an improvement from the decline in departures registered in the previous two years. Indeed, there are positive indications regarding Malta's performance during 2004, within the context of the international scene. In particular, Malta seems to have fared well when compared to competing resorts. Growth in 2005 internationally is expected to be slower than that in 2004.

This is reflected in the Maltese scenario where, during the Survey period, tourist departures increased by 1.2 per cent from 2.3 per cent recorded in the first nine months of 2004. Gross foreign exchange earnings stood at Lm204.7 million during the Survey period, an increase of 1.3 per cent over the same period of 2004. Per capita earnings remained stable at a level of Lm219.8, whilst earnings per night spent increased from Lm22.3 during the first nine months of 2004 to Lm22.9 during the Survey period. There was a decrease of 158 or 1.9 per cent in employment with hotels and restaurants between September 2004 and September 2005. This was mainly attributable to layoffs by tourism operators who converted their investment to service a different type of industry. However, a number of high quality hotels shall be opening during 2005 while a number of other hotels have embarked on refurbishment projects. Cruise liner passengers recorded an increase of 10.7 per cent during the Survey period over the 2004 period, thus recouping part of the decline registered in the previous year.

The Malta Financial Services Authority (MFSA) is the supervisor and single regulator for financial services in Malta, including banking, investment and insurance, and is also responsible for the Registry of Companies and the Listing Authority. An overall promising situation in this sector reflected favourable developments brought about by EU membership and the coming into force of the Trusts (Amendment) Act.

Malta Enterprise, as Government's main agency focused on attracting Foreign Direct Investment (FDI) and supporting enterprises in Malta, provides a comprehensive package of assistance and advisory services to local and foreign businesses considering starting operations in Malta. Assistance provided is in terms of pre-investment advice and support, start-up assistance and post-investment services.

Tourism

Following the removal of embarkation cards in April 2004, the National Statistics Office (NSO) introduced a new system for compiling tourist data on the basis of an Inbound Tourism Survey. Therefore, tourist data in this Chapter are not directly comparable with that published in previous issues of the Economic Survey, which were based on a different methodology. Moreover, it is pertinent to note that data regarding tourist arrivals by sea until March 2004 are taken from information provided in embarkation cards. Thereafter, data for tourist sea departures refer to information taken from the Inbound Tourism Survey.

There are indications that the effects of the negative international conditions in 2001 did not have a lasting impact on Malta's potential for growth within the tourism sector. Indeed, the decline in tourism departures registered during the first three quarters of 2002 was partly reversed during the nine months ending September 2003 and further gains were recorded in the corresponding 2004 and 2005 period. Tourist departures during the period under review increased by 1.2 per cent over the same period of 2004. Nevertheless, these growth rates remain modest and the domestic tourism industry continues to face challenges from international competition. Gross foreign exchange earnings from tourism increased by 1.3 per cent to Lm204.7 million during the first nine months of 2005.

Cruise liner passengers reached 217,281 thus recording an increase of 10.7 per cent during the Survey period over the 2004 period. This represents a recovery from 2004 when cruise passengers recorded a significant decline of 31.7 per cent over the 2003 period. Full-time employment in hotels and restaurants amounted to 8,360 as at the end of September 2005, a decline of 1.9 per cent over September 2004. During the Survey period the bed-stock capacity in hotels, complexes, guesthouses, and hostels declined by 1,885 beds to 37,885 over December 2004. The main tourism indicators are presented in Table 5.1.

The performance of the Maltese tourism industry should be seen against a background of sustained growth in tourism demand especially in Asia, the Pacific and in the Americas. While there are continuing concerns with safety in some markets, it is clear that people are getting more used to living in an unsafe world. People are continuing to take shorter and more frequent trips but long-haul travel demand is expanding. The attractiveness of exotic destinations is being enhanced from cheaper long-haul travel.

Table 5.1

Main Tourism Indicators

| | 2002 | | 2003 | | 2004 | | 2005 |
|---|-------------|---------|-------------|---------|-------------|---------|-------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Tourist Departures* | 887,282 | 244,995 | 899,147 | 219,087 | 919,728 | 237,956 | 931,213 |
| Gross foreign exchange earnings (Lm million) | 182.7 | 63.0 | 196.7 | 64.7 | 202.1 | 67.0 | 204.7 |
| Nights spent (000's)** | 8,553 | 2,046 | 9,423 | 1,870 | 9,054 | 2,121 | 8,926 |
| Cruise Passengers*** | 257,294 | 84,338 | 287,525 | 96,074 | 196,358 | 88,594 | 217,281 |
| Total full-time employment in hotels and restaurants**** | 8,661 | 8,378 | 8,613 | 8,360 | 8,518 | 8,166 | 8,360 |
| Beds in hotels, complexes, guesthouses, and hostels | 39,348 | 39,940 | 42,123 | 41,443 | 41,793 | 39,770 | 37,885 |

*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

**For 2004 includes April - September sea nights from Inbound Tourism Survey

***Excluding Maltese cruise passengers

****The data presented is based on the distribution of the administrative records of the ETC of the gainfully occupied population according to the standard NACE classification of economic activities. As a result, the data is not directly comparable to those presented in previous issues of the Economic Survey. Moreover, the gainfully occupied statistics for September 2005 are published on a provisional basis.

Source: National Statistics Office
Employment and Training Corporation

It is too early to fully assess the likely impact of the most recent hurricanes in the Gulf of Mexico, but in the short term, one sector that will definitely be negatively affected by these events is the cruise business in the area. A number of cruise liners have moved ships from the Caribbean to the Mediterranean for this Winter due to the effects of the hurricanes as, for example, some of the berths had to accommodate the homeless.

Another issue, which is impacting on the tourism industry, relates to energy prices. Although airline fuel surcharges are now increasingly widespread, airlines have refrained over the last few months from passing on fuel energy price rises to consumers due to the high competition in their sector. However, further rises in energy prices are likely to lead to higher costs for consumers. Consumer indicators remain subdued around the world due to energy prices, exchange rate volatility and fears of economic slowdown. Thus, the forecast for 2005 reflects a slowdown in the growth of international tourism in line with the deceleration of growth of world economic output. Therefore, growth in 2005 will tend to be slower than that in 2004.

Malta's performance has to be seen also within the context of international tourism trends. Mass-market destinations such as Turkey, Egypt, Tunisia and Morocco are gaining market share, in most cases because they are cheaper in price. New Eastern European destinations such as Croatia, Bulgaria, Romania, Montenegro, Slovenia have also come onto the scene very strongly, again competing primarily on price. These destinations are putting pressure not only on Malta but also on other traditional Mediterranean destinations such as Cyprus, Greece and Spain as well as European markets such as Portugal, France and Austria.

Within this context for the global tourism industry, the Malta Tourism Authority continued its marketing efforts. In particular, the UK, Dutch, French, Italian, Spanish, Russian and German markets were targeted, stressing Malta's water and adventure sports, culture, sea and natural environment, archaeology, historic cities, artistic treasures as well as culinary traditions. Meanwhile, the Malta branding process, upon which the Malta Tourism Authority has embarked, is rapidly gaining momentum. Steps are already being taken to streamline the Malta Tourism Authority's advertising in all source markets, to be in line with the brand's core values which were established by the Malta Tourism Authority, together with the industry stakeholders.

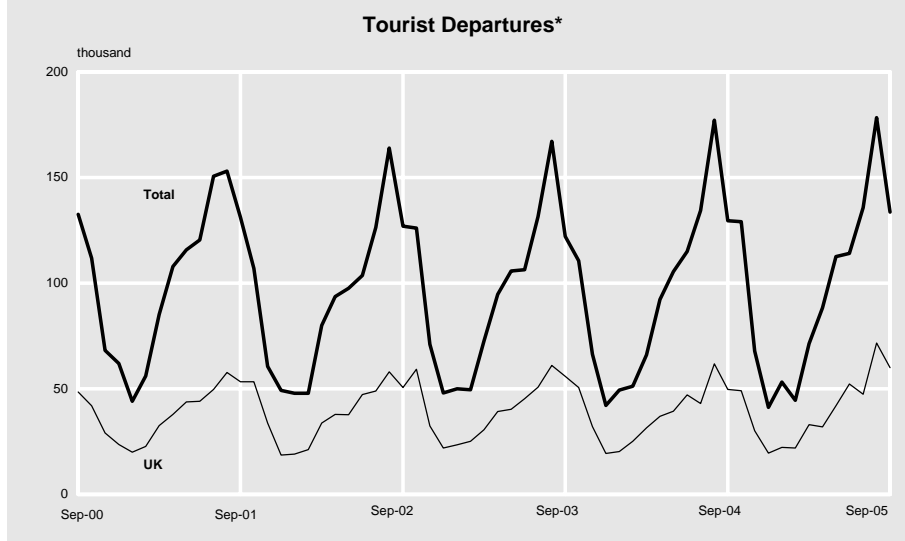
54 enterprises have been allocated funds from the Malta Tourism Authority's Grant Scheme for Tourism Enterprises, which was launched in August 2004, under the Structural Funds Programme for Malta 2004-2006 (through the European Regional Development Fund). The Malta Tourism Authority is also using EU funds to finance the embellishment of Crucifix Hill and Giloramo Cassar Avenue as part of the Cruise Liner Terminal project. Another project financed through EU funds will see the restoration of Howard Gardens in Mdina.

Monthly Distribution

Data on the monthly distribution of tourist departures are shown in Table 5.2. Chart 5.1 indicates clearly that the local tourism industry is characterised by significant seasonality patterns.

On a monthly basis, lower tourist inflows were recorded in February, April and June when compared to the same months of 2004. February recorded the major decline, whereby tourist departures declined by 13.2 per cent over February 2004. By contrast, January and March recorded the highest increase in tourist departures of 7.8 per cent and 8.0 per cent, respectively. The notable increase in March is largely explained by the timing of Easter. In May tourist departures

Chart 5.1



*As from 2001 tourism data is based on the Inbound Tourism Survey, and therefore is not strictly comparable to previous periods. Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

increased by 6.8 per cent over the comparable month of 2004. From July to September tourist departures continued to be higher than the previous comparable period. During the period under review, August continued to be the peak month accounting for 19.1 per cent of total departures during the first nine months of the year.

The distribution of tourist departures on a quarterly basis is shown in Table 5.3. The distribution of tourist departures in the first quarter of 2005 remained unchanged when compared to the same quarter in 2004. The second quarter of the Survey period registered a 0.2 percentage points decline to 33.8 per cent attributable to lower departures in April and June. The third quarter recorded an increase in tourist departures of 0.2 percentage points to 48.1 per cent.

Tourist Nationality

While the UK remains the major market in the tourism sector, its share has declined over the years while other markets have gained importance. Chart 5.2 illustrates the market share of Malta's main source markets for the first three quarters of the year from 1990 to 2005. The UK represents the highest proportion of tourists. However, its relative share has declined from 51.8 per cent during January-September 1990 to 41.0 per cent during the Survey period. Meanwhile,

Monthly Tourist Departures*

Table 5.2

| | 2002 | 2003 | 2004 | 2005 |
|-------------------|-----------|-----------|-----------|---------|
| January | 47,868 | 50,000 | 49,262 | 53,125 |
| February | 47,781 | 49,418 | 51,132 | 44,393 |
| March | 79,859 | 72,501 | 65,999 | 71,277 |
| April | 93,559 | 94,640 | 92,166 | 88,279 |
| May | 97,492 | 105,736 | 105,402 | 112,559 |
| June | 103,557 | 106,226 | 114,879 | 113,931 |
| July | 126,293 | 131,438 | 134,366 | 135,751 |
| August | 163,893 | 167,112 | 177,097 | 178,307 |
| September | 126,980 | 122,076 | 129,425 | 133,591 |
| January/September | 887,282 | 899,147 | 919,728 | 931,213 |
| % change** | -6.7 | 1.3 | 2.3 | 1.2 |
| October | 126,040 | 110,589 | 129,027 | |
| November | 70,927 | 66,368 | 67,744 | |
| December | 48,028 | 42,130 | 41,185 | |
| Total | 1,132,277 | 1,118,234 | 1,157,684 | |
| % change** | -4.1 | -1.2 | 3.5 | |

*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

**Figures for 2001 are not available due to a change in the methodology of compiling tourism statistics, which is now based on the Inbound Tourism Survey

Source: National Statistics Office

Quarterly Distribution of Tourist Departures*

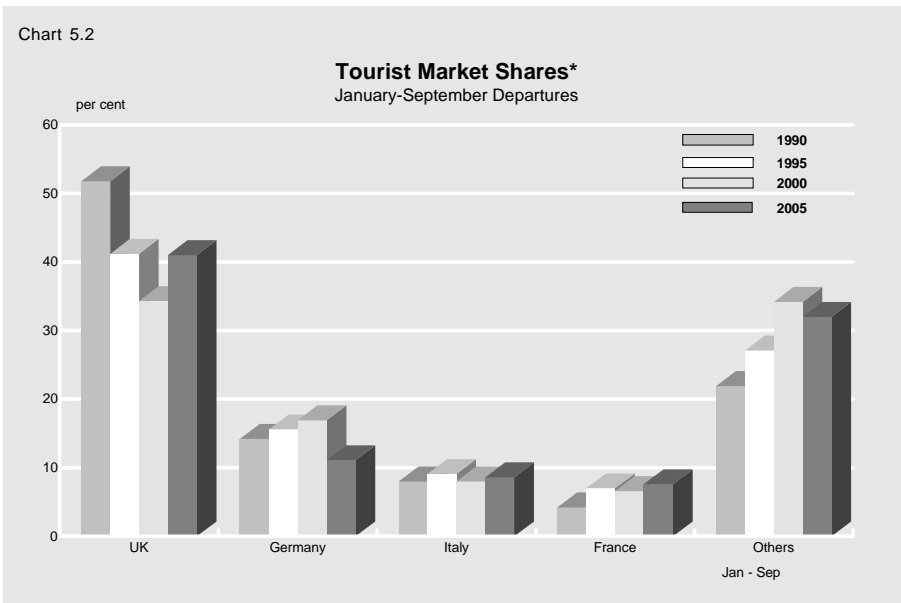
Table 5.3

per cent

| | 2002 | 2003 | 2004 | 2005 |
|-----------|------|------|------|------|
| March | 19.8 | 19.1 | 18.1 | 18.1 |
| June | 33.2 | 34.1 | 34.0 | 33.8 |
| September | 47.0 | 46.8 | 47.9 | 48.1 |

*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

Source: National Statistics Office



*As from 2001 tourism data is based on the Inbound Tourism Survey, and therefore is not strictly comparable to previous periods. Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

after increasing up to 17.0 per cent in 2000, the share of the German market recorded a decline to 11.1 per cent in 2005. The share of the Italian source market remained relatively stable between 1990 to 2005 reaching 8.6 per cent in January-September 2005. The share of the French market increased to 7.6 per cent in 2005, compared to 4.2 per cent in 1990. The share of the other markets category increased from 21.9 per cent in the first three quarters of 1990 to 31.7 per cent during the Survey period.

A detailed breakdown of tourist departures by nationality is presented in Table 5.4. Tourists from the UK increased by 27,639 or 7.8 per cent, to 382,017 during January-September 2005. After the decline in the first three quarters of 2003, tourists from Germany rose by 4.3 per cent in 2004. The increase continued to be sustained during the period under review with this market growing by 2.8 per cent to reach 103,315.

Tourists from Italy, France, Netherlands, Libya, Belgium, and Switzerland registered a decline during the Survey period. In contrast, a relatively high advance was recorded in the Scandinavian source market, which consists of Denmark, Finland, Norway and Sweden. Departures to this market amounted to 53,976 during the Survey period, an increase of 4,013 or 8.0 per cent over

Tourist Departures by Nationality*

Table 5.4

| | 2002 | | 2003 | | 2004 | | 2005 |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| United Kingdom | 354,042 | 113,363 | 371,154 | 101,943 | 354,378 | 98,601 | 382,017 |
| Germany | 112,446 | 36,025 | 96,394 | 29,021 | 100,508 | 34,652 | 103,315 |
| Italy | 77,778 | 10,452 | 81,431 | 11,249 | 89,606 | 13,035 | 80,354 |
| France | 68,928 | 11,345 | 65,432 | 11,950 | 75,419 | 11,727 | 70,567 |
| Netherlands | 33,745 | 8,630 | 32,468 | 7,576 | 30,564 | 7,896 | 29,715 |
| Scandinavia** | 29,792 | 10,240 | 35,280 | 11,677 | 49,963 | 18,785 | 53,976 |
| Libya | 19,482 | 5,564 | 14,312 | 3,151 | 10,115 | 2,717 | 8,660 |
| Belgium | 19,813 | 4,796 | 22,025 | 4,374 | 25,678 | 5,675 | 22,497 |
| Austria | 15,166 | 3,787 | 19,999 | 4,597 | 18,690 | 5,387 | 20,690 |
| Switzerland | 16,064 | 6,309 | 17,446 | 4,564 | 16,480 | 6,394 | 14,891 |
| USA | 10,269 | 2,588 | 11,734 | 3,440 | 14,061 | 4,835 | 14,662 |
| Others | 129,757 | 31,895 | 131,472 | 25,545 | 134,266 | 28,525 | 129,869 |
| TOTAL | 887,282 | 244,994 | 899,147 | 219,087 | 919,728 | 237,956 | 931,213 |

*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

**Includes Denmark, Finland, Norway, Sweden

Source: National Statistics Office

January-September 2004. Tourists from the US, have followed an upward trend since 2002, reaching 14,662 in the first nine months of 2005. Tourist departures to the other countries category were lower during the period under review, with a decline of 4,397 to 129,869.

Cruise Passengers

During the Survey period, the number of foreigners visiting Malta on cruise liners registered an increase of 10.7 per cent. This compares with a decline in cruise passengers of 31.7 per cent in the first nine months of 2004.

This performance is attributable to the fact that more cruise liner companies started using Malta as a home port. Since this concept involves tourists flying to Malta from where they start and end their cruise, it should provide high value added to the economy that goes beyond the cruise liner industry. The new Cruise Liner Terminal, which should open in the very near future, will continue to bolster Malta as an important cruise liner destination in the Mediterranean.

Accommodation

Table 5.5 provides data concerning Malta's accommodation capacity by category of units and beds. It is pertinent to point out that the change in accommodation levels reflects new accommodation, closure of existing accommodation as well as re-classifications.

By the end of September 2005, the number of hotels decreased by 3 compared to that of December 2004. This was attributable to declines in the 4 and 2-Star categories. In terms of bed-stock, capacity in September 2005 stood at 30,926 beds, a decline of 760 beds when compared to December 2004 levels. The 5-Star accommodation category remained unchanged. The 3-Star accommodation recorded an increase of 374 beds over December 2004.

| Main Types of Tourist Accommodation | | | | | | |
|-------------------------------------|------------|--------|------------|--------|------------|--------|
| Table 5.5 | | | | | | |
| | 2003 (Dec) | | 2004 (Dec) | | 2005 (Sep) | |
| | Units | Beds | Units | Beds | Units | Beds |
| Hotels | | | | | | |
| Five Star | 13 | 5,040 | 13 | 5,040 | 13 | 5,040 |
| Four Star | 47 | 15,906 | 44 | 15,315 | 42 | 14,428 |
| Three Star | 51 | 11,074 | 45 | 10,272 | 47 | 10,646 |
| Two Star | 18 | 1,174 | 16 | 1,059 | 13 | 812 |
| Total | 129 | 33,194 | 118 | 31,686 | 115 | 30,926 |
| Villages/ Aparthotels | | | | | | |
| Four Star | 8 | 1,920 | 8 | 1,860 | 7 | 1,292 |
| Three Star | 12 | 2,642 | 10 | 2,350 | 11 | 2,634 |
| Two Star | 15 | 2,407 | 15 | 2,407 | 13 | 1,591 |
| Total | 35 | 6,969 | 33 | 6,617 | 31 | 5,517 |
| Guesthouses | | | | | | |
| Comfort | 12 | 295 | 12 | 295 | 11 | 281 |
| Standard | 28 | 749 | 26 | 684 | 25 | 673 |
| Total | 40 | 1,044 | 38 | 979 | 36 | 954 |
| Hostels | | | | | | |
| Standard | 3 | 236 | 5 | 488 | 5 | 488 |
| Total | 3 | 236 | 5 | 488 | 5 | 488 |
| Source: National Statistics Office | | | | | | |

It should be noted that there were some tourism operators who converted their investment to service a different type of industry. However, five new 5-Star hotels will be opening during 2005 while a number of other hotels have embarked on refurbishment projects.

The total number of tourist villages and apart-hotels at the end of the Survey period stood at 31 with a bed-stock capacity of 5,517, compared to 33 units and 6,617 beds in December 2004. The accommodation capacity of guesthouses declined to 36 units with 954 beds from 38 units with 979 beds in December 2004. Meanwhile, accommodation in hostels remained unchanged at a level of 5 units and 488 beds when compared to December 2004.

The occupancy rates, as illustrated in Table 5.6, are another important element of consideration in the analysis of the tourism industry. The 5-Star, 4-Star and 2-Star category of hotel accommodation reached their peak inflow in September. The 5-Star and 4-Star category recorded similar occupancy rates of 94 per cent, while the 2-Star category registered an occupancy rate of 65 per cent. August proved to be the peak month for the 3-Star with 91 per cent and for the

| Monthly Accommodation Occupancy Levels - 2005* | | | | | |
|---|--------|--------|--------|--------|---|
| Table 5.6 | | | | | per cent |
| | Hotels | | | | Complexes Villages & Apart-hotels Hostels & Guesthouses |
| | 5 Star | 4 Star | 3 Star | 2 Star | |
| January | 28 | 42 | 36 | 11 | 25 |
| February | 32 | 58 | 41 | 15 | 23 |
| March | 44 | 59 | 43 | 28 | 29 |
| April | 44 | 60 | 45 | 32 | 30 |
| May | 55 | 72 | 51 | 31 | 42 |
| June | 65 | 80 | 61 | 26 | 51 |
| July | 76 | 88 | 84 | 36 | 67 |
| August | 90 | 91 | 91 | 39 | 70 |
| September | 94 | 94 | 72 | 65 | 42 |
| Average | 59 | 72 | 58 | 31 | 42 |
| *Occupancy levels for January - June period are based on the Collective Accommodation Establishments Occupancy levels for July - September are estimated on the basis of the Inbound Tourism Survey and the official bed-stock as supplied by the Malta Tourism Authority | | | | | |
| Source: National Statistics Office | | | | | |

complexes, villages and aparthotels together with hostels and guesthouses with 70 per cent.

Another important indicator of the performance of the tourist industry is that related to the average length of stay by tourists. During the Survey period, the average length of nights spent stood at 9.6 nights, from 9.8 nights over the same period of 2004. This must be viewed in the context that internationally the growth in short breaks continues to outpace the growth in outbound travel generally. In fact, in the last years growth rates in tourist departures on an international level have tended to outpace nights spent.

Employment

Data for employment in hotels and restaurants is based on the distribution of the administrative records of the Employment and Training Corporation of the gainfully occupied population according to the standard NACE classification of economic activities. As a result, the employment data in this Chapter is not directly comparable to that presented in previous issues of the Economic Survey.

Full-time employment in hotels and restaurants as at September 2005 stood at 8,360 persons, representing 6.1 per cent of the gainfully occupied population. Private sector employment in hotels and restaurants amounted to 8,083, or 13.7 per cent of the persons employed in private market services.

There was a decrease of 158 or 1.9 per cent in employment with hotels and restaurants between September 2004 and 2005. This was mainly due to layoffs by tourism operators who preferred to convert their investment to service a different type of industry. However, five new 5-Star hotels shall be opening during 2005 while a number of other hotels have embarked on refurbishment projects.

Foreign Exchange Earnings

The generation of foreign exchange earnings gives a good indication of the performance of the domestic tourism industry. Tourism earnings are one of the most important forms of foreign exchange generation in the local economy while it also helps to bridge the gap in the domestic merchandise account. The tourism industry thus provides an important contribution to the external payments position of the domestic economy.

Earnings from Tourism

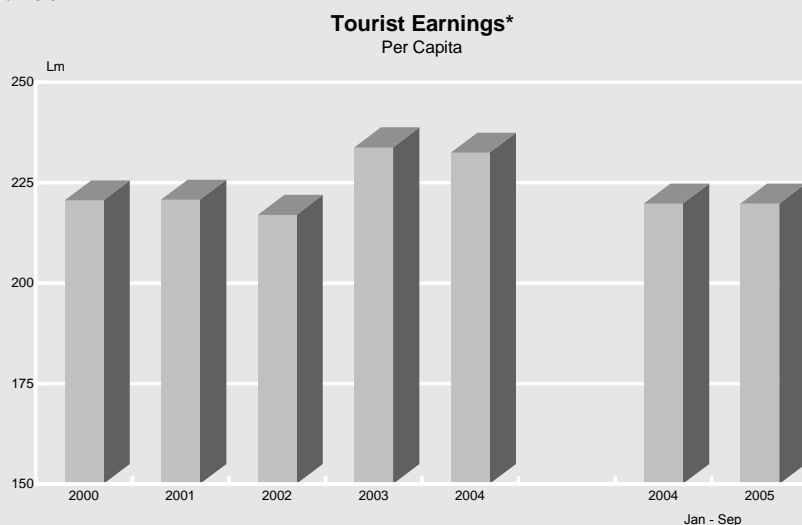
Table 5.7

| | Gross Earnings (Lm million) | Per Capita Earnings (Lm) | Earnings Per Nights Spent* (Lm) | Ratio to exports of goods and services (%) | Ratio to exports of manufactured goods (%) |
|-----------------------|--------------------------------|-----------------------------|---------------------------------------|---|---|
| 2002 | 245.7 | 217.0 | 23.2 | 16.5 | 27.4 |
| 2003 | 261.5 | 233.8 | 23.2 | 18.1 | 28.7 |
| 2004 | 269.1 | 232.5 | 24.1 | 19.4 | 30.3 |
| 2004 (Jan/Sep) | 202.1 | 219.8 | 22.3 | 19.3 | 29.9 |
| 2005 (Jan/Sep) | 204.7 | 219.8 | 22.9 | 20.7 | 34.7 |

*For 2004 includes April - September sea nights from Inbound Tourism Survey

Source: National Statistics Office

Chart 5.3



*As from 2001 tourism data is based on the Inbound Tourism Survey, and therefore is not strictly comparable to previous periods

Gross foreign exchange earnings for the first nine months of 2005 amounted to Lm204.7 million, an increase of 1.3 per cent from Lm202.1 million registered during the same period in 2004. This increase in tourism earnings is mainly due to a higher number of tourist departures. Per capita earnings remained stable at a level of Lm219.8. Earnings per nights spent increased to Lm22.9 for the period under review from Lm22.3 for the corresponding period in 2004. Data on foreign exchange earnings from tourism are provided in Table 5.7, while Chart 5.3 depicts tourism earnings per capita.

During the Survey period, gross earnings from tourism accounted for 20.7 per cent of exports of goods and services. This compares with 19.3 per cent registered in the first nine months of 2004. An increase in the ratio of foreign exchange earnings from tourism to exports of manufactured goods was also registered. This ratio increased from 29.9 per cent in the first three quarters of 2004 to 34.7 per cent during the Survey period. This result was influenced by the significant drop in manufacturing exports recorded during the period under review.

Malta Financial Services Authority

The Malta Financial Services Authority (MFSA) is the supervisor and single regulator for the financial services sector in Malta. The sector incorporates all financial activity including banking, investment and insurance. The MFSA also manages the Registry of Companies and has also the responsibility of the Listing Authority.

On January 1, 2005, a new Trusts and Trustees Act 2004 came into force, which is expected to generate employment and foreign earnings dividends as the trusts sector grows alongside the country's well established banking, investments and insurance industries. The MFSA has already licensed 41 trustees under the new Act.

During the year, the MFSA has also signed a memorandum of understanding with the Isle of Man Insurance and Pensions Authority to establish a framework for mutual assistance and to facilitate the exchange of information between the two regulatory authorities.

New banks and financial institutions have been licensed during the period under review, such that as at 30th September 2005, there were 17 Credit Institutions

licensed under the Banking Act (1994) and 12 financial institutions licensed under the Financial Institutions Act (1994).

During the first nine months of this year, the MFSA issued 12 new Collective Investment Scheme (CISs) licenses including seven professional investor fund licenses. The total number of CISs at the end of September 2005 stood at 107. Since Malta joined the EU in May 2004 the European Passport Rights were applicable to Malta and consequently, a number of CISs have surrendered their license and requested authorization from the MFSA to market their units in Malta. The MFSA also issued 4 new Investment Services (IS) licenses during this period, such that the number of IS licenses at the end of September 2005 totaled 87.

EU membership has enabled the Maltese insurance industry to move onto the international scene. In fact this year, the MFSA licensed the sixth Insurance Manager and three affiliated insurance companies. As at the end of September 2005, the number of foreign principals authorized to carry on insurance business in Malta decreased to 10. The number of local principles remained at 8 during the period under review. The number of companies operating as brokers at the end of the third quarter of this year remained at 24, whereas the number of individuals operating as brokers increased to 39. On the other hand, the number of insurance agents declined to 22 from 25 local and foreign insurers registered during the previous Survey period.

During the first nine months of the year under review, the registry of companies registered 1,711 new commercial partnerships, representing a 2.9 per cent decrease over the corresponding 2004 period.

Malta Enterprise Corporation

Malta Enterprise is Government's agency focused on attracting inward direct investment and supporting enterprises in Malta. The Corporation provides a comprehensive package of assistance and advisory services to both local and international companies and investors considering operations in Malta, such as professional pre-investment advice and support, start-up assistance as well as a suite of post investment services and aftercare facilities. In fact, during the period under review, Malta Enterprise approved 22 new projects and 30 expansion projects, of which 9 new projects and 5 expansion projects originated from abroad. In line with previous years' developments, Germany has been the country with the highest number of approvals for new projects.

While the majority of foreign capital investment for new projects is linked to the electrical and electronic machinery and equipment sector (including transport equipment), a substantial part of local capital investment for new projects is hotels and tourism related. Meanwhile, the majority of foreign investment on expansion projects is related to the plastics and medical, pharmaceutical, and biotechnological sectors. On the other hand, the majority of capital investment by locally owned concerns on expansion projects is earmarked for the food, beverages and tobacco and aquaculture and livestock rearing sector.

Malta Enterprise supports enterprises through loans at low interest rates for part-financing investment. Between January and September 2005, a total of Lm2.5 million of soft loans were granted to 10 different companies, of which the majority funded investments by the medical, pharmaceutical and biotechnology sector.

The first nine months of 2005 witnessed an increased interest from operators within the Information and Communications Technology (ICT) and pharmaceutical industries. The major motivation behind potential companies' interest appears to be the search for improved competitiveness through cost reduction and/or improved quality. As regards the pharmaceutical industry, the favourable patent climate, which permits companies to carry out research and development before a branded pharmaceutical's patent expires, further adds to these advantages. In consideration of the important role of the services industry in Malta, focus is being shifted towards back office operations, logistics and warehousing, provision of training in ICT and management, oil and gas, and support operations.

As part of Malta Enterprise's commitment towards enterprise support, between January and September 2005, the Corporation has organised a significant number of events and meetings designed to reduce some of the inherent risks of entrepreneurs, to improve quality standards and to enhance their potential growth. Malta Enterprise is also co-ordinating the MARIS project, sponsored by the EU Commission, with the aim of fostering a favourable environment and increasing the capacity for the creation and diffusion of innovation. The Innovation Relay Centre promotes innovative technologies and technology co-operation, while the Kordin Business Incubation Centre provides the physical space and technology infrastructure required by incubating businesses.

6. Prices and Incomes

6. Prices and Incomes

A review of local inflationary trends occurring between September 2004 and September 2005 are presented in this Chapter. Moreover, given the high degree of openness of the Maltese economy, an analysis of inflation rates in the European Union (EU) Member States is also presented. The development of wages during the same period is also analysed.

The 12-month inflation rate in Malta stood at 2.76 per cent in September 2005 as compared to 2.57 per cent in September 2004. The inflation rate remained relatively high during 2005, with the lowest level of 2.63 per cent being recorded in October 2004 while the highest level of inflation was recorded in June with a reading of 2.94 per cent. The underlying factors behind the increase in inflation are both of domestic nature and international ones, mainly reflecting higher international oil prices.

The analysis of average weekly sectoral wage rates is compiled from the collective agreements of 209 companies employing a total workforce of 30,506 persons. Of these, 15,013 were employed in direct production while the remaining 15,493 were engaged in the market services. An increase in the average wage of 3.5 per cent was recorded in various categories for the period under observation, thus an increase in wages above the Lm1.75 cost of living adjustment granted for 2005 was experienced. The highest wage rise in percentage terms was recorded in the Banking and Other Financial Institutions which registered an increase of 9.7 per cent. Wage increases in other sectors were relatively lower, ranging from 1.6 per cent to 4.4 per cent. The study also shows that the largest proportion of employees (53.3 per cent) earn an average weekly wage higher than Lm94.00.

Inflation

Percentage changes in the 12-month moving average for the Retail Price Index (RPI) provide the official measure of inflation in Malta. This Index is based on the monthly retail prices of a large and representative selection of goods and services as derived from the Household Budgetary Survey (HBS) carried out between March 2000 and March 2001 by the National Statistics Office (NSO). The current RPI, with base December 2002, was introduced by the NSO as from January 2003, but started to be compiled as from January 2002.

Box 6.1

Harmonised Index of Consumer Prices (HICP)

The Harmonised Index of Consumer Prices (HICP) published by the National Statistics Office measures consumer price movements and is compiled according to the rules specified in a series of European Union Regulations developed by Eurostat in conjunction with EU Member States. This enables comparisons of inflation rates across the European Union.

The scope of the price index is determined by following National Accounts concepts of what constitutes household consumption. Consequently, the HICP uses National Accounts data sources to weigh the items in the basket of goods and services.

The Table shows inflation rates as measured by the 12-month moving average HICP with base year December 2002 for the period January 2002 to September 2005. The domestic HICP inflation rate broadly followed an upward trend during 2004 and reached the highest rate of 2.77 per cent in November 2004. During the following months, in general the HICP inflation rate decreased gradually to end at 2.18 per cent in September 2005. The decrease in the HICP inflation rate in September 2005 is mainly attributed to a decrease in the Restaurants and Hotels sub-index.

Harmonised Index of Consumer Prices
12-Month Moving Average Inflation Rate
(December 2002=100)

| | per cent | | | |
|-----------|----------|------|------|------|
| | 2002 | 2003 | 2004 | 2005 |
| January | 2.77 | 2.34 | 2.09 | 2.65 |
| February | 2.95 | 2.24 | 2.13 | 2.65 |
| March | 3.06 | 2.18 | 2.11 | 2.68 |
| April | 3.10 | 2.13 | 2.24 | 2.55 |
| May | 3.11 | 2.08 | 2.34 | 2.50 |
| June | 3.07 | 2.08 | 2.44 | 2.40 |
| July | 3.00 | 2.03 | 2.56 | 2.28 |
| August | 2.92 | 1.99 | 2.62 | 2.28 |
| September | 2.84 | 1.95 | 2.75 | 2.18 |
| October | 2.82 | 1.94 | 2.76 | |
| November | 2.74 | 1.90 | 2.77 | |
| December | 2.61 | 1.93 | 2.72 | |

Source: National Statistics Office

12-Month Moving Inflation Rate

(December 2002=100)

Table 6.1

per cent

| | 2002 | 2003 | 2004 | 2005 |
|-----------|------|------|------|------|
| January | 3.27 | 1.79 | 1.57 | 2.74 |
| February | 3.48 | 1.58 | 1.70 | 2.77 |
| March | 3.62 | 1.46 | 1.75 | 2.83 |
| April | 3.65 | 1.36 | 1.86 | 2.83 |
| May | 3.64 | 1.26 | 1.95 | 2.92 |
| June | 3.54 | 1.25 | 2.03 | 2.94 |
| July | 3.39 | 1.20 | 2.23 | 2.77 |
| August | 3.14 | 1.14 | 2.41 | 2.74 |
| September | 2.89 | 1.10 | 2.57 | 2.76 |
| October | 2.82 | 1.05 | 2.63 | |
| November | 2.55 | 1.13 | 2.75 | |
| December | 2.19 | 1.30 | 2.79 | |

Source: National Statistics Office

The official inflation rates are calculated by comparing the average RPI in the 12-months leading to the month under consideration with the corresponding average in the previous 12-month period. Table 6.1 presents domestic inflation rates whilst Table 6.2 shows the monthly RPI reading for the period January 2002 and September 2005 in terms of base December 2002. Chart 6.1 provides a graphical representation of the domestic 12-month moving inflation rate for the period September 2000 to September 2005.

In September 2005, the 12-month inflation rate stood at 2.76 per cent. During the Survey period, the inflation rate fluctuated from a low of 2.63 per cent in October 2004 to a high 2.94 per cent in June 2005. The inflation rate was generally on an increasing trend from October to January, it declined in July but was practically stable in the subsequent two months. Throughout the period under review, the inflation rate was higher than that registered during the corresponding months of 2004.

An analysis of particular trends inherent in each sub-index of the RPI provides more insight of the underlying inflationary movements. The average for the twelve months to September of the 2003-2005 period for the sub-indices composing the RPI, grouped by commodities are presented in Table 6.3. During the Survey period, the inflation rate was attributable to higher average prices in all the commodity groups composing the RPI, with the exception of the Clothing

Retail Price Index

Table 6.2

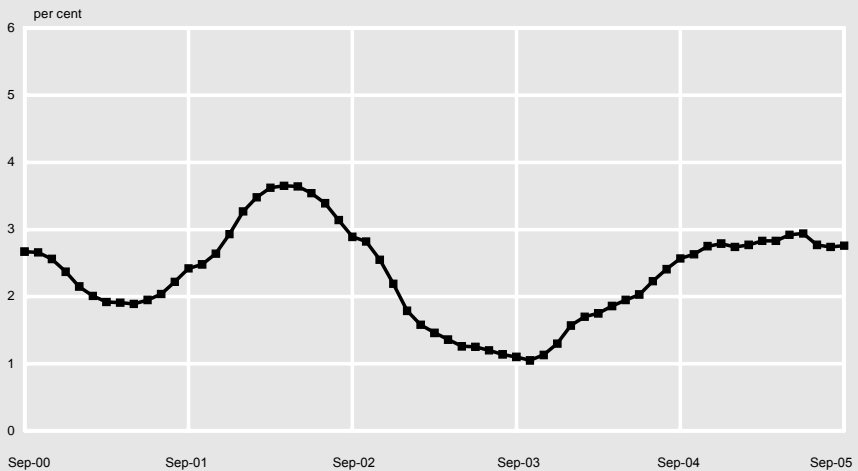
December 2002=100

| | 2002 | 2003 | 2004 | 2005 |
|-----------------|--------|--------|--------|--------|
| January | 99.24 | 99.12 | 102.20 | 104.70 |
| February | 98.57 | 99.60 | 102.23 | 105.33 |
| March | 98.67 | 100.36 | 102.66 | 105.82 |
| April | 98.83 | 100.40 | 103.32 | 106.27 |
| May | 99.44 | 100.73 | 103.13 | 106.69 |
| June | 99.07 | 100.88 | 103.62 | 106.65 |
| July | 99.41 | 100.54 | 104.14 | 105.77 |
| August | 99.80 | 100.47 | 103.25 | 105.83 |
| September | 100.03 | 100.82 | 103.56 | 106.59 |
| October | 100.22 | 101.91 | 104.36 | |
| November | 100.13 | 101.75 | 104.96 | |
| December | 100.00 | 102.38 | 105.27 | |
| Average Jan-Dec | 99.45 | 100.75 | 103.56 | |

Source: National Statistics Office

Chart 6.1

12-Month Moving Inflation Rate



| Index by Commodity Group (Average for 12 months to September) | | | | |
|---|--------|-------------------|--------|--------|
| Table 6.3 | | December 2002=100 | | |
| Commodity Group | Weight | 2003 | 2004 | 2005 |
| Food | 23.82 | 101.45 | 102.89 | 103.79 |
| Beverages and Tobacco | 6.11 | 100.87 | 109.80 | 113.70 |
| Clothing and Footwear | 8.24 | 92.45 | 90.96 | 89.24 |
| Housing | 7.57 | 101.46 | 104.71 | 110.13 |
| Water, Electricity, Gas and Fuels | 2.25 | 100.00 | 100.38 | 115.08 |
| Transport and Communications | 23.13 | 101.19 | 103.80 | 108.00 |
| Recreation and Culture | 8.84 | 99.50 | 100.04 | 101.26 |
| Household Equipment & House Maintenance | | | | |
| Costs | 7.65 | 99.36 | 100.48 | 102.97 |
| Personal Care and Health | 6.22 | 101.63 | 106.67 | 110.72 |
| Other Goods and Services | 6.17 | 101.78 | 109.82 | 114.11 |

Source: National Statistics Office

and Footwear category. In particular, the inflation rate was affected by the rise in average prices of transport, housing, water and electricity.

During the twelve months to September 2005, the Food sub-index, which carries the largest weighting within the RPI, rose by 0.87 per cent over the comparable level for 2004. This increase was slightly lower than the 1.42 per cent rise recorded during the previous year. Marginal decreases in the Food sub-index were registered in March 2005 and July 2005. This decrease was mainly attributed to a decrease in the average prices of vegetables and fish respectively. On the other hand there was an increase in the average price of fruit in May 2005 and an increase in the average prices of vegetables for the month of August.

Average prices for items falling within the Beverage and Tobacco sub-index continued to increase significantly by 3.55 per cent in the twelve months to September 2005, when compared to the same period in 2004. This increase can be attributed to a general increase in the price of non-alcoholic beverages.

The Clothing and Footwear sub-index continued to experience a decline. In fact, this sub-index registered a decrease of 1.89 per cent in 2005 over the comparable twelve-months period of 2004. As in previous years, the average prices in the Clothing and Footwear sub-index were subject to seasonal fluctuations with prices registering a decline in January, July and August due to seasonal sales while a marginal increase in prices was registered in November and May.

The general upward trend in the Housing sub-index recorded in the previous years continued during the Survey period, with a rise of 5.17 per cent being observed. In particular, higher average prices were recorded in March 2005 with respect to repair and maintenance services and construction works.

The Water, Electricity, Gas and Fuels sub-index registered a substantial increase of 14.64 per cent during the twelve months to September 2005. Average prices increased mainly due to an increase in the water and electricity charges in January 2005 reflecting the fuel surcharge of 17 per cent announced in the Budget Speech for 2005, which was introduced to mitigate the significant increase in the international price of oil.

Average prices for items falling within the Household Equipment and House Maintenance Costs sub-index increased by 2.48 per cent. This was mainly due to an increase in average cost of home decoration and that of appliances. On the other hand the average cost of household textiles and carpets registered a marginal decrease during the month of January.

Average prices for items falling within the Transport and Communications sub-index continued to increase. An increase of 4.05 per cent was registered in the twelve months to September 2005, when compared to the same period in 2004. Significant increases in the average cost of fuels were registered in April and July. This reflects the upward revision of fuel reflecting the higher oil prices on the international scene. Air transport services also registered an increase from June to August. Furthermore, average price rises in respect of motor cars also contributed to the rise in the Transport and Communications sub-index.

The Personal Care and Health sub-index continued to register an upward trend during the last 12 months to September 2005. In fact, this sub-index increased by 3.80 per cent mainly due to increases in average prices of therapeutic appliances and equipment, medical and dental services, hygiene services, and medicines during the months of February 2005 and August 2005.

The Recreation and Culture sub-sector continued to be characterised by a marginal increase in prices. In fact, in September 2005 this sub-index registered an increase of 1.22 per cent. The main price increases were recorded in January mainly due to higher average prices of various items of expenditure. On the other hand, a slight decrease in the average prices of audio visual equipment and sport equipment was registered in February 2005 and March 2005.

European Union Inflation Rates
(Harmonised Index of Consumer Prices)

Table 6.4

per cent

| | 2002 | 2003 | 2004 | 2005 ⁽¹⁾ |
|----------------|------|------|------|---------------------|
| Austria* | 1.7 | 1.3 | 2.0 | 2.3 |
| Belgium | 1.6 | 1.5 | 1.9 | 2.5 |
| Cyprus | 2.8 | 4.0 | 1.9 | 2.3 |
| Czech Republic | 1.4 | -0.1 | 2.6 | 1.7 |
| Denmark | 2.4 | 2.0 | 0.9 | 1.5 |
| Estonia | 3.6 | 1.4 | 3.0 | 4.2 |
| Finland | 2.0 | 1.3 | 0.1 | 0.6 |
| France* | 1.9 | 2.2 | 2.3 | 2.0 |
| Germany | 1.3 | 1.0 | 1.8 | 1.9 |
| Greece | 3.9 | 3.4 | 3.0 | 3.4 |
| Hungary | 5.2 | 4.7 | 6.8 | 4.1 |
| Ireland | 4.7 | 4.0 | 2.3 | 2.3 |
| Italy | 2.6 | 2.8 | 2.3 | 2.2 |
| Latvia | 2.0 | 2.9 | 6.2 | 6.8 |
| Lithuania | 0.4 | -1.1 | 1.1 | 2.7 |
| Luxembourg | 2.1 | 2.5 | 3.2 | 3.7 |
| Netherlands* | 3.9 | 2.2 | 1.4 | 1.4 |
| Poland | 1.9 | 0.7 | 3.6 | 3.0 |
| Portugal | 3.7 | 3.3 | 2.5 | 2.1 |
| Slovakia | 3.5 | 8.5 | 7.4 | 3.4 |
| Slovenia | 7.5 | 5.7 | 3.6 | 2.7 |
| Spain | 3.6 | 3.1 | 3.1 | 3.4 |
| Sweden | 2.0 | 2.3 | 1.2 | 0.8 |
| United Kingdom | 1.3 | 1.4 | 1.3 | ... |
| EU 25* | 2.1 | 2.0 | 2.0 | 2.1 |
| Malta | 2.6 | 1.9 | 2.7 | 2.2 |

* Provisional for September 2005

⁽¹⁾ For 2005, figures relate to September

Source: Eurostat
National Statistics Office

Average prices for items falling within the Other Goods and Services sub-index increased by 3.91 per cent. A significant rise was registered in January 2005 and July 2005, mainly attributed to higher average prices for jewellery, watches and clocks, and insurance.

International Comparison

Table 6.4 presents data on the inflation rates for EU Members States as at September 2005. The inflation rate is based on an estimation of the 12-month moving average of the Harmonised Index for Consumer Prices (HICP). This

common methodology used to compile this Index facilitates comparison between Member States.

The lowest inflation rates in September 2005 were recorded in Finland and Sweden, standing at 0.6 per cent and 0.8 per cent respectively. On the other hand, the highest inflation rates were observed in the Baltic region with Latvia registering an inflation rate of 6.8 per cent and Estonia registering a rate of 4.2 per cent. Hungary had an inflation rate of 4.1 per cent. The average inflation rate for the 25 EU Member States has remained basically unchanged since 2002 and stood at 2.1 per cent in September 2005. Inflation in the EU Member States in the last 12 months was mainly due to an increase in the average cost of Alcohol and Tobacco (5.5 per cent), Transport (4.3 per cent), and Housing (4.3 per cent), while there was a drop in the registered value of Communication (-2.2 per cent) and Recreation and Culture (-0.1 per cent). The comparable measure of inflation in Malta based on the HICP decreased from 2.7 per cent in September 2004 to 2.2 per cent in September 2005, thus being marginally above the average EU inflation rate.

Sectoral Wages

This section analyses changes and developments in sectoral average weekly wage rates recorded between September 2004 and September 2005 on the basis of collective agreements finalised and deposited within the Department of Industrial and Employment Relations up to September 2005. The sample under review is made up of 209 firms employing 30,506 employees. Of these, 99 firms are engaged in direct production and employ 15,013. The remaining 110 firms operate in the market services and have a workforce of 15,493. The study looks at data for different job grades divided into four major employment categories namely labourers, skilled tradesmen, clerical and managerial grades. Definite contracts of employment are not considered in this analysis. The data also excludes employment benefits over and above the basic wage, such as production bonuses, overtime payments, social security and allowances, and other non-wage income. This implies that the employees' actual average weekly remuneration is higher than that reported in this study. Moreover, since the information in this Chapter is based on a sample of collective agreements and includes only the basic weekly wage, the results reported are not directly comparable to data based on the gainfully occupied population included in other Chapters of this Economic Survey.

Moreover, the tables and data presented in this chapter are not directly comparable to those published in previous issues of the Economic Survey. This

is due to the methodology and sampling procedure adopted, mainly because of the introduction of additional firms and changes in employment levels of the enterprises, which alter the individual firm's respective weightings in each category. Furthermore, in the case of new collective agreements reclassification of grades may occur. This may also lead to instances where new trainees are paid the entry level of any given wage scale, hence lowering the reported average remuneration level even if the compensation level of existing employees would have remained unchanged.

Collective agreements included in the sample are grouped according to their respective sub-sector of economic activity. The average of the minimum and maximum wage scales for each individual collective agreement is then calculated. This gives the sub-sectoral mean wage. The figures obtained are then increased by the cost of living adjustments, which stood at Lm0.75 and Lm1.75 for 2004 and 2005 respectively.

Sectoral average weekly wages as at September 2004 are shown in Table 6.5. The overall weighted average wage of all firms stood at Lm96.38. Whereas the weighted average wage for those employed in direct production stood at Lm87.43, the average wage for those employed in services stood at Lm105.05, implying a wage gap of Lm17.62. The highest average weekly wage rates were recorded in the Banking and Other Financial Institutions sub-sector (Lm124.97), the Transport sub-sector (Lm115.28), and the Tobacco sub-sector (Lm104.98). On the other hand the lowest paid sub-sectors were the Leather & Leather Goods sub-sector (Lm60.49), the Textiles, Footwear and Clothing sub-sector (Lm68.78), and the Insurance and Real Estate sub-sector (Lm69.55). The lowest weekly average wage rate in September 2004 amounted to Lm59.07 and was earned by the Labourer grade in the Leather and Leather Goods sub-sector. This was Lm5.19 or 9.6 per cent higher than the 2004 national minimum wage which stood at Lm53.88. On the other hand the highest weekly average wage rate was earned by the managerial grade in the Transport sub-sector (Lm177.72) and the Banking and OFI sub-sector (Lm176.91).

The average weekly wage rate for the various employment categories as at September 2005 is illustrated in Table 6.6. It should be noted that both Table 6.5 and Table 6.6 are directly comparable since the same firms and the same employment weighting structures are used. Hence, the changes in the respective wage rates reflect the actual change in the nominal wage occurring during the twelve months to September 2005. The weighted average weekly wage for all firms as at September 2005 stood at Lm99.75. This represents a weekly increase of Lm3.37, of which Lm1.75 comprised the cost of living adjustment for 2005.

Average Weekly Wages - September 2004

Table 6.5

Lm

| | Labourer | Skilled Tradesman | Clerical/ Executive | Managerial | Weighted Average |
|---------------------------------|----------|----------------------|------------------------|------------|---------------------|
| Oil Drilling | 87.50 | 88.00 | 84.50 | 93.50 | 87.56 |
| Food | 86.16 | 89.04 | 88.58 | 97.49 | 87.80 |
| Beverages | 93.38 | 102.91 | 97.00 | 106.18 | 97.46 |
| Tobacco | 87.83 | 111.24 | 94.13 | 157.25 | 104.98 |
| Textiles, Footwear and Clothing | 66.74 | 88.92 | 80.25 | 87.53 | 68.78 |
| Furniture | 79.56 | 99.96 | 100.00 | 102.70 | 91.80 |
| Paper & Printing | 95.67 | 105.54 | 93.80 | 101.32 | 99.30 |
| Leather & Leather Goods | 59.07 | 66.33 | 74.25 | 85.00 | 60.49 |
| Chemicals | 91.70 | 101.57 | 102.13 | 108.47 | 95.75 |
| Non-Metallic Products | 72.25 | 91.75 | - | 95.50 | 85.00 |
| Metal Products | 83.38 | 87.19 | 85.81 | 95.47 | 85.26 |
| Machinery | 66.82 | 83.33 | 76.26 | 89.94 | 75.46 |
| Electrical Machinery | 77.16 | 98.12 | 86.55 | 107.72 | 86.90 |
| Transport Equipment | 79.38 | 89.02 | 90.35 | 106.40 | 91.53 |
| Miscellaneous | 84.78 | 100.07 | 99.25 | 109.88 | 90.71 |
| Electricity & Gas Services | 85.91 | 99.85 | 98.12 | 111.37 | 94.38 |
| Construction | 77.12 | 98.77 | 101.31 | - | 84.47 |
| Wholesale & Retail Trade | 77.50 | 93.77 | 84.95 | 107.36 | 87.75 |
| Banking & OFI | 90.00 | 108.99 | 116.79 | 176.91 | 124.97 |
| Insurance & Real Estate | 69.55 | - | - | - | 69.55 |
| Transport | 98.90 | 115.94 | 101.47 | 177.72 | 115.28 |
| Storage and Warehousing | 88.10 | 95.46 | 108.35 | 103.68 | 93.13 |
| Communications | 94.12 | 106.38 | 90.34 | 128.90 | 99.38 |
| Community & Business | 82.77 | 104.54 | 88.63 | 115.24 | 97.57 |
| Recreation Services | 92.39 | 100.07 | 98.30 | 102.71 | 97.53 |
| Hotels & Catering Ests | 87.06 | 92.79 | 92.06 | 92.22 | 89.54 |
| All Firms | 82.22 | 99.58 | 100.92 | 123.27 | 96.38 |
| Direct Production | 79.81 | 97.82 | 92.33 | 106.69 | 87.43 |
| Market Services | 87.86 | 102.25 | 102.23 | 133.67 | 105.05 |

*Compiled from data provided by the Department of Industrial and Employment Relations
and Employment and Training Corporation*

The best performing sub-sectors as at September 2005 remained unchanged from those in September 2004, namely Banking and Other Financial Institutions sub-sector which had a weekly average weighted remuneration of Lm137.12, the Transport sub-sector with Lm117.13 and the Tobacco sub-sector with a weekly average wage of Lm108.86. Similarly, the least remunerated sub-sectors in the sample were the Leather and Leather Goods sub-sector (Lm62.25), the Textile, Footwear and Clothing sub-sector (Lm70.56), and the Insurance and Real Estate sub-sector (Lm71.30). The lowest reported wage was still Lm6.62 or 11.9 per cent over the National Minimum wage for 2005 which stood at Lm55.63 per week. The highest average wage related to the managerial grade in the Banking and other Financial Institutions sub-sector at Lm188.79, while

Average Weekly Wages - September 2005

Table 6.6

Lm

| | Labourer | Skilled Tradesman | Clerical/ Executive | Managerial | Weighted Average |
|---------------------------------|----------|----------------------|------------------------|------------|---------------------|
| Oil Drilling | 89.25 | 89.75 | 86.25 | 95.25 | 89.31 |
| Food | 88.36 | 90.79 | 90.85 | 100.34 | 90.05 |
| Beverages | 95.89 | 105.34 | 99.45 | 108.57 | 99.94 |
| Tobacco | 91.25 | 115.20 | 97.49 | 162.74 | 108.86 |
| Textiles, Footwear and Clothing | 68.41 | 91.95 | 83.11 | 89.69 | 70.56 |
| Furniture | 81.64 | 101.88 | 101.75 | 104.89 | 93.80 |
| Paper & Printing | 97.60 | 107.34 | 95.58 | 103.09 | 101.14 |
| Leather & Leather Goods | 60.82 | 68.08 | 76.00 | 87.13 | 62.25 |
| Chemicals | 93.98 | 103.75 | 104.23 | 110.37 | 97.95 |
| Non-Metallic Products | 74.00 | 93.50 | - | 97.25 | 86.75 |
| Metal Products | 87.63 | 90.46 | 88.87 | 97.22 | 89.01 |
| Machinery | 68.57 | 85.08 | 78.01 | 91.69 | 77.21 |
| Electrical Machinery | 79.28 | 100.14 | 88.88 | 109.72 | 88.99 |
| Transport Equipment | 82.02 | 91.43 | 93.50 | 109.97 | 94.47 |
| Miscellaneous | 86.50 | 101.82 | 101.00 | 111.62 | 92.44 |
| Electricity & Gas Services | 89.41 | 103.35 | 101.62 | 114.87 | 97.88 |
| Construction | 78.87 | 100.52 | 103.06 | - | 86.22 |
| Wholesale & Retail Trade | 80.37 | 96.71 | 87.50 | 110.23 | 90.58 |
| Banking & OFI | 92.33 | 112.35 | 130.19 | 188.79 | 137.12 |
| Insurance & Real Estate | 71.30 | - | - | - | 71.30 |
| Transport | 100.79 | 117.75 | 103.33 | 179.49 | 117.13 |
| Storage and Warehousing | 89.85 | 97.21 | 110.10 | 105.43 | 94.88 |
| Communications | 97.57 | 109.98 | 92.66 | 131.95 | 102.31 |
| Community & Business | 85.32 | 106.89 | 90.71 | 117.46 | 99.83 |
| Recreation Services | 94.25 | 101.82 | 100.13 | 104.69 | 99.35 |
| Hotels & Catering Ests | 88.95 | 94.70 | 93.99 | 94.20 | 91.45 |
| All Firms | 84.43 | 102.07 | 106.87 | 126.60 | 99.75 |
| Direct Production | 81.98 | 100.22 | 94.84 | 108.94 | 89.68 |
| Market Services | 90.16 | 104.88 | 108.71 | 137.67 | 109.50 |

Compiled from data provided by the Department of Industrial and Employment Relations and Employment and Training Corporation

other relatively high wages were those for the managerial grade in the Transport sub-sector (Lm179.49) and the Tobacco sub-sector (Lm162.74).

Table 6.7 shows percentage changes in average weekly wage occurring between September 2004 and September 2005. During that period, the wage increase registered in the market services was higher than that recorded in the direct production sector. Whilst the average wage in the direct production increased by Lm2.25 or 2.6 per cent to reach Lm89.68 in September 2005, the average weekly wage rate in the market services sector increased by Lm4.45 or 4.2 per cent, thus reaching Lm109.50 in September 2005. Here, it is relevant to highlight that the best performing sub-sectors as at September 2005 were the

Changes in Average Weekly Wages

September 2005 - September 2004

Table 6.7

per cent

| | Labourer | Skilled Tradesman | Clerical/ Executive | Managerial | Weighted Average |
|---------------------------------|----------|----------------------|------------------------|------------|---------------------|
| Oil Drilling | 2.0 | 2.0 | 2.1 | 1.9 | 2.0 |
| Food | 2.6 | 2.0 | 2.6 | 2.9 | 2.6 |
| Beverages | 2.7 | 2.4 | 2.5 | 2.3 | 2.5 |
| Tobacco | 3.9 | 3.6 | 3.6 | 3.5 | 3.7 |
| Textiles, Footwear and Clothing | 2.5 | 3.4 | 3.6 | 2.5 | 2.6 |
| Furniture | 2.6 | 1.9 | 1.8 | 2.1 | 2.2 |
| Paper & Printing | 2.0 | 1.7 | 1.9 | 1.7 | 1.9 |
| Leather & Leather Goods | 3.0 | 2.6 | 2.4 | 2.5 | 2.9 |
| Chemicals | 2.5 | 2.2 | 2.1 | 1.8 | 2.3 |
| Non-Metallic Products | 2.4 | 1.9 | - | 1.8 | 2.1 |
| Metal Products | 5.1 | 3.8 | 3.6 | 1.8 | 4.4 |
| Machinery | 2.6 | 2.1 | 2.3 | 1.9 | 2.3 |
| Electrical Machinery | 2.7 | 2.1 | 2.7 | 1.9 | 2.4 |
| Transport Equipment | 3.3 | 2.7 | 3.5 | 3.4 | 3.2 |
| Miscellaneous | 2.0 | 1.7 | 1.8 | 1.6 | 1.9 |
| Electricity & Gas Services | 4.1 | 3.5 | 3.6 | 3.1 | 3.7 |
| Construction | 2.3 | 1.8 | 1.7 | - | 2.1 |
| Wholesale & Retail Trade | 3.7 | 3.1 | 3.0 | 2.7 | 3.2 |
| Banking & OFI | 2.6 | 3.1 | 11.5 | 6.7 | 9.7 |
| Insurance & Real Estate | 2.5 | - | - | - | 2.5 |
| Transport | 1.9 | 1.6 | 1.8 | 1.0 | 1.6 |
| Storage and Warehousing | 2.0 | 1.8 | 1.6 | 1.7 | 1.9 |
| Communications | 3.7 | 3.4 | 2.6 | 2.4 | 3.0 |
| Community & Business | 3.1 | 2.2 | 2.4 | 1.9 | 2.3 |
| Recreation Services | 2.0 | 1.7 | 1.9 | 1.9 | 1.9 |
| Hotels & Catering Ests | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 |
| All Firms | 2.7 | 2.5 | 5.9 | 2.7 | 3.5 |
| Direct Production | 2.7 | 2.5 | 2.7 | 2.1 | 2.6 |
| Market Services | 2.6 | 2.6 | 6.3 | 3.0 | 4.2 |

*Compiled from data provided by the Department of Industrial and Employment Relations
and Employment and Training Corporation*

Banking and Other Financial Institutions sub-sector which registered an increase of 9.7 per cent, the Metal Products sub-sector with an increase of 4.4 per cent, and the Tobacco sub-sector with an increase of 3.7 per cent. The relatively high rise registered in the Banking and other Financial Institutions sub-sector was significantly influenced by a new collective agreement signed by a firm in this sub-sector which resulted in substantial increases in the averages for the Clerical/Executive category and the Managerial category. This advance had a notable effect on the average wage for the market services sector as well as the overall average wage for all firms.

Proportion of Sampled Employees in Wage Ranges

Table 6.8

per cent

| Sector \ Wage Range | Up to Lm63.99 | Lm64.00- Lm73.99 | Lm74.00- Lm83.99 | Lm84.00- Lm93.99 | Over Lm94.00 |
|-------------------------------|------------------|---------------------|---------------------|---------------------|-----------------|
| Oil Drilling | 0.0 | 0.0 | 0.0 | 96.1 | 3.9 |
| Food | 0.0 | 0.0 | 15.7 | 67.7 | 16.6 |
| Beverages | 0.0 | 0.0 | 10.5 | 4.5 | 84.9 |
| Tobacco | 3.8 | 3.0 | 0.0 | 51.9 | 41.4 |
| Textiles, Footwear & Clothing | 22.9 | 59.8 | 9.9 | 4.7 | 2.6 |
| Furniture & Fixtures | 4.8 | 2.7 | 15.0 | 21.8 | 55.8 |
| Paper & Printing | 0.0 | 1.2 | 10.9 | 24.0 | 63.9 |
| Leather & Leather Goods | 88.0 | 7.2 | 1.6 | 3.2 | 0.0 |
| Chemicals | 0.0 | 2.7 | 1.1 | 33.5 | 62.7 |
| Non-Metallic Products | 0.0 | 0.0 | 36.4 | 54.5 | 9.1 |
| Metal Products | 0.0 | 12.4 | 7.5 | 63.3 | 16.8 |
| Machinery | 7.2 | 33.5 | 9.3 | 42.5 | 7.5 |
| Electrical Machinery | 4.4 | 4.3 | 53.9 | 3.5 | 33.9 |
| Transport Equipment | 0.0 | 0.0 | 12.1 | 54.6 | 33.3 |
| Miscellaneous | 5.1 | 18.5 | 3.8 | 1.1 | 71.5 |
| Electricity & Gas | 0.0 | 0.0 | 0.0 | 47.7 | 52.3 |
| Construction | 0.0 | 0.0 | 66.4 | 0.0 | 33.6 |
| Wholesale & Retail Trade | 5.7 | 0.3 | 25.9 | 33.5 | 34.5 |
| Banking & OFI | 0.0 | 0.0 | 3.6 | 0.9 | 95.5 |
| Insurance & Real Estate | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 |
| Transport | 0.0 | 0.6 | 0.0 | 7.5 | 92.0 |
| Storage and Warehousing | 0.0 | 18.4 | 5.3 | 10.5 | 65.8 |
| Communications | 0.0 | 1.9 | 5.2 | 31.9 | 60.9 |
| Community & Business | 1.2 | 4.6 | 17.9 | 19.2 | 57.1 |
| Recreation Services | 0.0 | 0.0 | 13.3 | 12.4 | 74.3 |
| Hotels & Catering Ests. | 1.1 | 1.5 | 10.4 | 60.0 | 27.0 |
| All Firms | 3.4 | 7.5 | 15.2 | 20.5 | 53.3 |
| Direct Production | 6.2 | 13.2 | 21.0 | 19.9 | 39.8 |
| Market Services | 0.8 | 2.0 | 9.6 | 21.2 | 66.4 |

*Compiled from data provided by the Department of Industrial and Employment Relations
and Employment and Training Corporation*

Table 6.8 provides information about the distribution of average weekly wages along different brackets as at September 2005. This dispersion is closely related to the relative skill-level and specialised expertise requested by each sub-sector. In general, sub-sectors that necessitate specialised skills are more willing to pay higher remuneration to their workers. The largest share of employees (53.3 per cent) for all firms earned on average a weekly wage that fell within the highest weekly wage bracket of Lm94.00 and above. The second largest proportion (20.5 per cent) fell within the Lm84.00 – Lm93.99 bracket. Only 3.5 per cent of all employees fell within the lowest bracket (below Lm63.99). It is of interest to note that while 66.4 per cent of those employed in the services sector fell in the highest wage bracket, only 39.8 per cent of those employed in the direct production earned more than Lm94.00 weekly. The percentage of

employees earning up to Lm63.99 per week stood at 3.4 per cent, the majority of which were engaged in the Leather and Leather sub-sector (88.0 per cent) and Textile, Footwear & Clothing sub-sector (22.9 per cent). On the other hand 95.5 per cent of those employed in the Banking and Other Financial Institutions sub-sector and 92.0 per cent of those employed in the Transport sub-sector earned more than Lm94.00 per week.

The dispersion in average weekly wage rates between the different sub-sectors and between firms engaged in direct production and those in the market services is indicative of the different types and levels of skills and expertise required and the different operational structures. In fact, it is well-known that the actual take-home pay of a large number of workers in the direct production sector is higher than the basic wage mainly due to production bonuses and allowances.

7. Foreign Trade and Payments

7. Foreign Trade and Payments

International developments underpinned the increase in the current account deficit recorded during the Survey period. In particular, a significant decline in the value of exports can be attributable to the semi-conductor sector, which is still being influenced by the decline in semi-conductor prices. A decline in the volume of exports also reflects subdued demand in this sector.

Meanwhile, despite lower export activity, the decline in imports of industrial supplies during the period under analysis was relatively more modest. In addition the rising oil prices contributed to a higher import bill, although due to the termination of bunkering services by a major operator, the recorded increase in fuel imports was marginal compared to the January-September period of 2004. However, the termination of bunkering services also contributed to a decline in exports of fuel. In addition, imports of consumer goods continued on a positive trend, partly reflecting the substitution of local sales with imported goods. Meanwhile, imports of capital goods remained at the level registered last year, after account is taken of the one-off imports of yachts in 2004.

Trade activity during the Survey period was marked by lower exports and imports to and from Malta's major trading partners, including Asia and the USA. Only trade activity with Italy registered an increase. On the other hand, a significant increase in trade with north-African countries was registered during the Survey period.

These developments underpinned the deterioration in the goods balance in the current account. The services balance partly offset the worsening of the goods balance during the period under review. This was due to lower net payments on transport services and higher net receipts on other services such as communications and business services. Meanwhile, tourism earnings were marginally higher than the receipts recorded in the January-September period of 2004.

Higher receipts, primarily in the form of interest income were offset by higher payments resulting from the improved profitability of foreign-owned companies during the Survey period. As a result, the balance on the income account remained stable at the comparable levels in the January-September period of 2004. On the other hand, net outflows by way of current transfers increased, partly reflecting Malta's contribution to the EU budget.

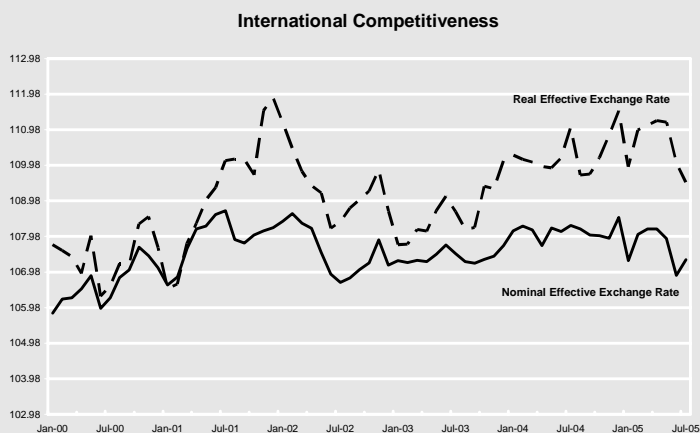
Box 7.1

International Competitiveness

An indicator of a country's international price competitiveness is provided by the real effective exchange rate. The real effective exchange rate (REER) is calculated as the product of the nominal effective exchange rate (NEER) and the relative foreign to domestic prices. In turn, the nominal effective exchange rate is an average of exchange rates weighted by bilateral trade shares. A decline in the real effective exchange rate is indicative of improved international competitiveness

Data published by the Central Bank of Malta indicate that the real effective exchange rate in July 2005 depreciated by 1.8 per cent since December 2004. Meanwhile, the nominal effective exchange rate depreciated by 1.1 per cent over the same period. This indicates an improvement in the price competitiveness of Maltese products and services on the international markets, reflecting lower domestic inflation relative to inflation abroad. A comparison of IMF/Eurostat estimates of consumer price inflation for 2005 suggest that inflation in Malta is expected to be slightly above that of its main trading partners but below that of its major competitors in Europe and North Africa.

A note of caution on the interpretation of effective exchange rates is however warranted. Estimates of the REER and the NEER are based on the consumer price index as a measure of prices. Alternative price measures could include unit labour costs, export deflators or the GDP deflators.



Foreign Trade

Trade developments during the first nine months of 2005 were severely influenced by international events. External shocks to the Maltese economy included the significant increase in international oil prices compounded by the strengthening of the US Dollar in the second and third quarter of 2005, the continuing decline in semi-conductor prices on the international market and their effect on an international firm in the semi-conductor sector which represents a major share of Malta's export portfolio. In addition, economic activity in Malta's main trading partners remained below potential.

All these factors contributed to a decline in the value of Maltese exports. The decline in imports, partly reflecting lower industrial supplies, was not enough to compensate for the loss in export revenue, leading to a deterioration in the trade deficit from Lm273.3 million in the first nine months of 2004 to a deficit of Lm338.5 million in the comparable period of 2005. Further details are provided in Table 7.1 and Chart 7.1. As illustrated in Chart 7.2, the rate of import cover declined from 71.4 per cent in the Survey period of 2004 to 63.8 per cent in the comparable period of 2005.

Exports

During the Survey period, exports declined by Lm86.1 million to Lm595.3 million. This represents a decline of 12.6 per cent. The machinery and transport equipment sector contributed to 9.9 percentage points of the decline in total exports. Another 3.1 percentage points was the result of the decline in fuel exports. The commodity breakdown of exports is provided in Table 7.2.

The fall of Lm67.5 million in exports of machinery and transport equipment was the result of the persistent fall in semiconductor prices and a decline in the volume of exports. The first nine months of 2005 should also be viewed in the context of a period of consolidation and restructuring of a major international operator in the sector at a time of modest growth in demand for semi-conductors.

The second major development during the Survey period related to a decline of Lm21.3 million in exports of fuel. This is due to the termination of bunkering services by a major operator since the third quarter of 2004.

If one were to exclude exports of fuel and machinery and transport equipment sectors, it is interesting to note that exports in the first nine months of 2003, 2004 and 2005 remained stable at around Lm215 million. This occurred despite

Chart 7.1

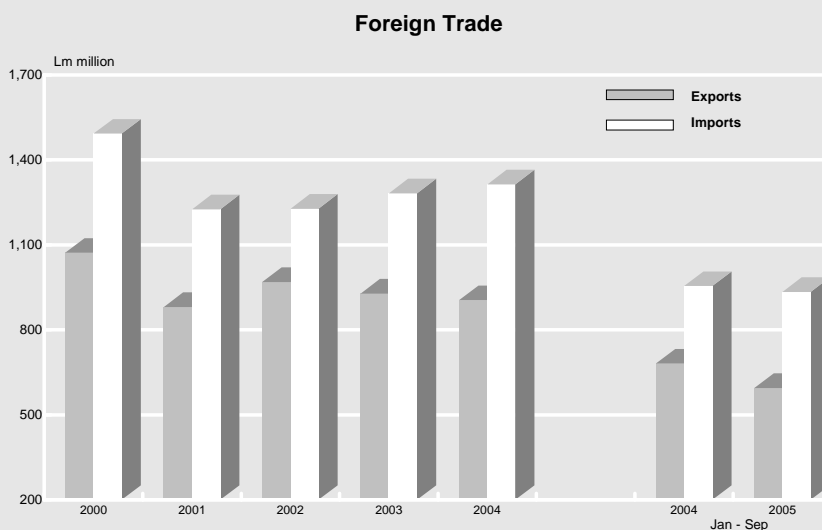


Table 7.1

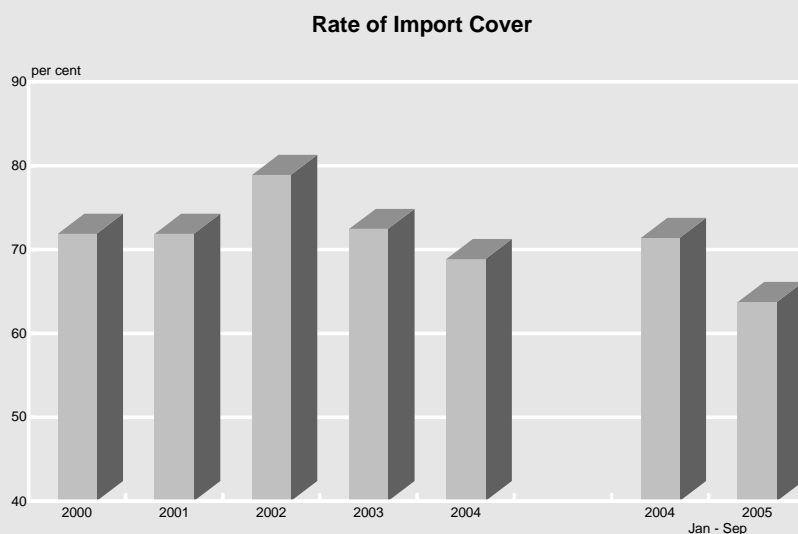
Foreign Trade

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Imports (c.i.f.) | 906.3 | 321.2 | 960.4 | 320.8 | 954.7 | 358.8 | 933.8 |
| Total Exports (f.o.b.) | 719.9 | 248.5 | 684.6 | 243.7 | 681.4 | 223.2 | 595.3 |
| Trade Gap | -186.4 | -72.7 | -275.8 | -77.1 | -273.3 | -135.6 | -338.5 |
| of which: | | | | | | | |
| Exceptional Item (Exports) | 50.1 | - | - | - | - | - | - |
| Exceptional Item (Imports) | - | - | 2.1 | - | - | - | - |

Source: National Statistics Office

Chart 7.2



Commodity Breakdown of Exports

Table 7.2

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | |
| Total Exports | | | | | | | |
| Food, Beverages and Tobacco | 31.4 | 25.2 | 31.3 | 19.4 | 29.8 | 15.5 | 27.3 |
| Chemicals | 14.4 | 4.2 | 13.1 | 5.9 | 18.3 | 5.6 | 23.2 |
| Semi-manufactures | 36.5 | 12.5 | 36.0 | 12.8 | 36.8 | 13.8 | 42.2 |
| Machinery and Transport | | | | | | | |
| Equipment | 455.5 | 146.3 | 427.4 | 149.3 | 437.0 | 136.6 | 369.5 |
| Clothing | 51.9 | 17.1 | 47.4 | 14.6 | 36.0 | 10.7 | 29.6 |
| Fuels | 39.0 | 13.2 | 38.8 | 12.8 | 32.4 | 7.6 | 11.1 |
| Printed Matter | 19.5 | 8.3 | 24.3 | 7.5 | 24.1 | 8.3 | 23.3 |
| Toys and Games | 22.2 | 7.2 | 21.1 | 7.1 | 22.3 | 7.2 | 22.4 |
| Scientific Instruments | 19.9 | 5.4 | 20.1 | 7.8 | 18.4 | 6.7 | 19.5 |
| Other Manufactures | 29.6 | 9.1 | 25.1 | 6.5 | 26.3 | 11.2 | 27.2 |
| Total Exports | 719.9 | 248.5 | 684.6 | 243.7 | 681.4 | 223.2 | 595.3 |

Source: National Statistics Office

the trend decline in exports of clothing, traditionally the second major exporting sector. This indicates that exports in other sectors compensated for the decline in exports of clothing. Of particular relevance is the increase in exports of chemical products, particularly in 2004 and 2005. In the first nine months of 2005, this category of exports increased by a further Lm4.9 million and now represents around 4 per cent of Maltese exports, compared to 2 per cent in 2002.

During the period under review, a significant increase of Lm5.4 million in exports of semi-manufactures was also recorded. On the other hand, exports of food, beverages and tobacco declined by Lm2.5 million during the Survey period. Exports of clothing also declined by Lm6.4 million during the Survey period. Further details are provided in Chart 7.3 and Chart 7.4.

Geographical Distribution – Exports

Exports during the first nine months of 2005 partly reflected the subdued economic activity of Malta's main trading partners. Table 7.3 provides a detailed analysis of the geographical distribution of exports. A decline in exports to France of Lm14.8 million and a decline in exports to the UK of Lm11.3 million were registered during the Survey period. Exports to Germany also decreased by Lm2.3 million. Among Malta's main trading partners, only exports to Italy increased by Lm3.8 million during the same period. An increase of Lm5.3 million

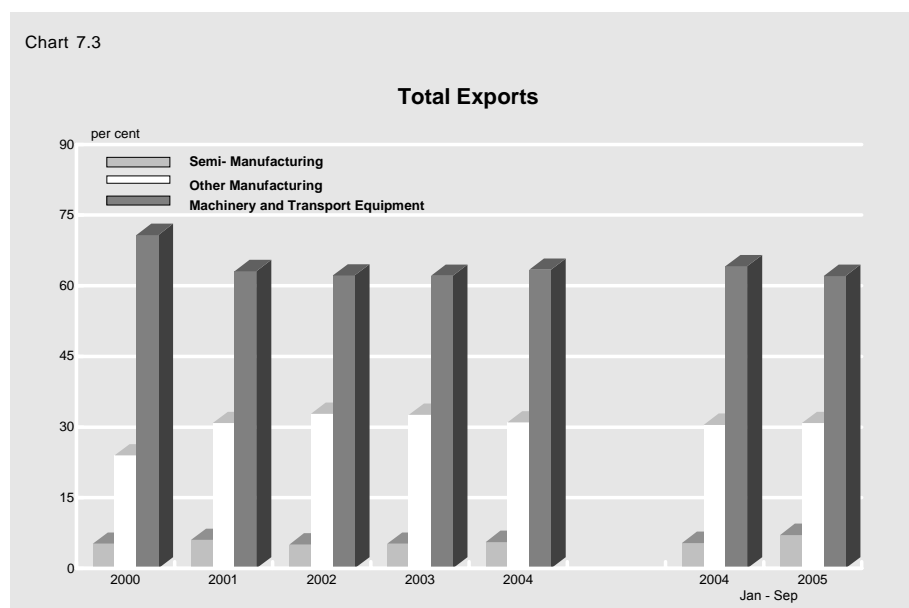
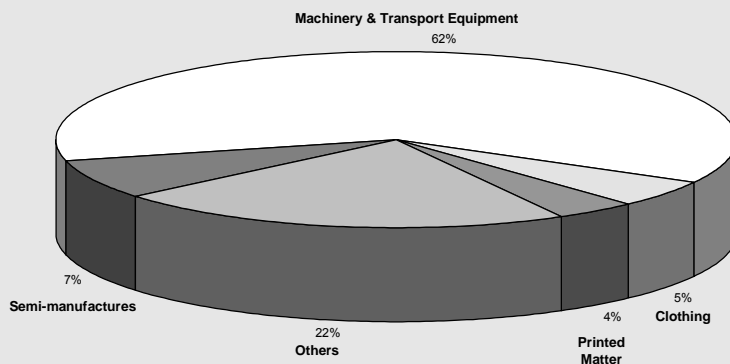


Chart 7.4

Breakdown of Exports January-September 2005



Total Exports by Main Geographical Areas

Table 7.3

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Europe | 332.8 | 116.1 | 327.3 | 108.2 | 330.8 | 108.7 | 310.1 |
| EU* | 327.4 | 113.4 | 323.3 | 106.7 | 325.7 | 106.7 | 303.6 |
| Italy | 25.1 | 7.6 | 24.5 | 7.0 | 20.6 | 6.4 | 24.4 |
| Germany | 70.3 | 23.3 | 70.8 | 24.4 | 73.0 | 24.5 | 70.7 |
| France | 87.6 | 32.4 | 89.4 | 30.8 | 104.2 | 36.4 | 89.4 |
| U.K. | 82.1 | 30.1 | 80.7 | 28.3 | 79.2 | 22.1 | 67.9 |
| Netherlands | 8.4 | 1.9 | 5.6 | 1.2 | 5.5 | 1.9 | 5.5 |
| Belgium | 23.7 | 7.0 | 21.6 | 4.0 | 9.3 | 2.5 | 14.6 |
| Others | 30.2 | 11.2 | 30.6 | 11.0 | 33.9 | 12.9 | 31.1 |
| Euro Area | 235.6 | 77.8 | 224.2 | 71.9 | 230.3 | 77.3 | 217.7 |
| Other European countries | 5.4 | 2.6 | 4.0 | 1.5 | 5.1 | 2.0 | 6.5 |
| Africa | 34.2 | 10.6 | 25.2 | 9.9 | 32.1 | 14.6 | 45.8 |
| America | 131.4 | 32.3 | 98.6 | 44.6 | 114.2 | 36.5 | 96.1 |
| USA | 128.3 | 31.1 | 92.1 | 42.1 | 108.7 | 33.1 | 85.0 |
| Others | 3.0 | 1.3 | 6.5 | 2.5 | 5.5 | 3.4 | 11.1 |
| Oceania | 0.5 | 0.1 | 0.4 | 0.1 | 0.7 | 0.2 | 1.1 |
| Asia | 174.8 | 72.9 | 189.1 | 66.1 | 170.5 | 55.6 | 135.0 |
| Japan | 20.1 | 21.5 | 20.5 | 16.6 | 14.2 | 11.6 | 11.7 |
| Singapore | 116.0 | 35.9 | 121.9 | 34.0 | 101.5 | 29.9 | 73.3 |
| Others | 38.7 | 15.5 | 46.7 | 15.5 | 54.8 | 14.1 | 50.0 |
| Ships & Aircraft | 46.3 | 16.5 | 44.0 | 14.8 | 33.1 | 7.6 | 7.2 |
| Total Exports | 719.9 | 248.5 | 684.6 | 243.7 | 681.4 | 223.2 | 595.3 |
| EU Exports as % of Total | 45.5 | 45.7 | 47.2 | 43.8 | 47.8 | 47.8 | 51.0 |

*As from 2004 considered by country of consignment

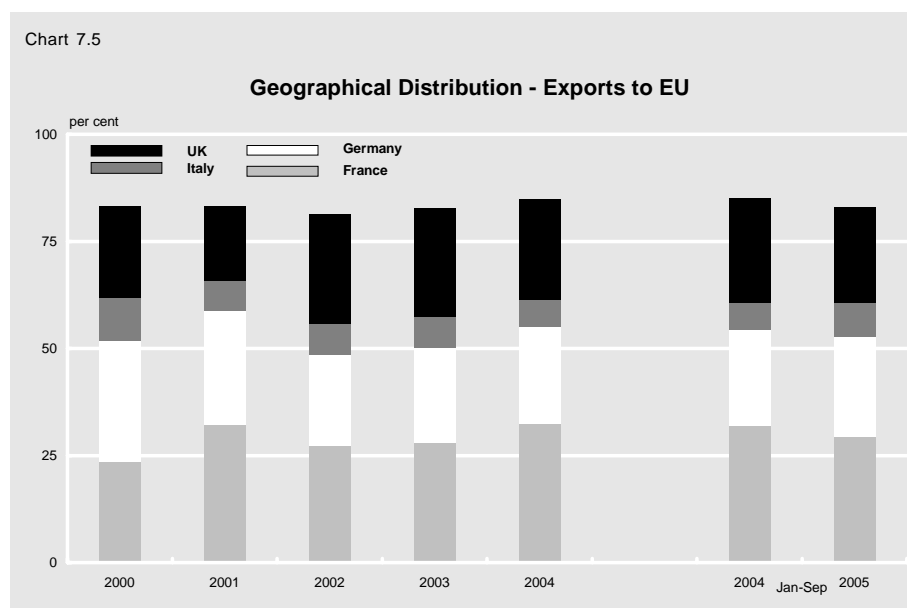
Source: National Statistics Office

in exports to Belgium was recorded, whilst exports to other EU countries declined by Lm2.8 million.

As a result of these developments, exports to the EU declined by Lm22.1 million. Nevertheless, the share of total exports to the EU continued on its upward trend reflecting further trade integration with the EU. In the first nine months of 2005, exports to the EU represented 51.0 per cent of total exports. Chart 7.5 illustrates the share of Maltese exports to the EU directed to the four main trading partners.

Exports to the USA registered a decline of Lm23.7 million during the first nine months of 2005. Exports to Asia in the first nine months of 2004 were also Lm35.5 million lower compared to the same period in 2005. The decline in the Asian market reflected lower exports to Singapore, Japan and other Asian economies.

In contrast, an exceptional increase in exports of Lm13.7 million to Africa, particularly to Libya was registered. This primarily includes a substantial increase in exports of electrical apparatus. Following the lifting of the UN sanctions against Libya and the rise in oil prices, this important fast-growing market has become more accessible. Apart from Libya, there are a number of potential, fast-growing economies in North Africa. These include Tunisia, Algeria and



Morocco. The IMF is projecting a growth of 5.9 per cent in 2006 for these economies, which thus represent a potential growing market for Maltese exports.

A decline of Lm25.9 million was also registered in exports to Ships and Aircraft. This reflected the termination of bunkering operations and therefore is not expected to repeat itself in 2006.

Imports

Imports during the first nine months of 2005 declined by Lm20.9 million, or 2.2 per cent to Lm933.8 million. The decline in imports of capital goods and industrial supplies contributed to 2.4 percentage points and 1.3 percentage points of the decline in imports respectively. Table 7.4 provides a detailed analysis of imports by broad economic category.

Meanwhile, imports of consumer goods continued on a positive trend, increasing by a further Lm11.6 million to Lm257.0 million during the January-September period of 2005. This included an increase of Lm3.8 million in imports of food and beverages, an increase of Lm12.6 million in imports of durable goods and a decline of Lm4.8 million in imports of other consumer goods. This partly reflects the effects of trade liberalization with imports substituting local production in

| Imports by Broad Economic Category | | | | | | | |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Table 7.4 | Lm million | | | | | | |
| | 2002 | | 2003 | | 2004 | | 2005 |
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Consumer Goods | | | | | | | |
| Food and Beverages | 72.6 | 27.0 | 75.4 | 28.7 | 83.1 | 35.4 | 86.9 |
| Durable Goods | 85.4 | 34.8 | 90.3 | 37.0 | 95.9 | 40.1 | 108.5 |
| Others | 55.6 | 18.7 | 59.4 | 20.3 | 66.4 | 23.3 | 61.6 |
| Total | 213.6 | 80.4 | 225.1 | 86.0 | 245.4 | 98.8 | 257.0 |
| Industrial Supplies | | | | | | | |
| Primary | 18.3 | 5.2 | 14.5 | 3.0 | 10.9 | 5.4 | 14.2 |
| Semi-finished | 432.7 | 147.2 | 459.7 | 152.6 | 407.1 | 168.8 | 391.8 |
| Finished | 11.1 | 6.8 | 14.3 | 6.8 | 16.1 | 7.3 | 15.7 |
| Total | 462.1 | 159.2 | 488.5 | 162.4 | 434.1 | 181.5 | 421.7 |
| Capital and Others | | | | | | | |
| Capital Goods | 148.7 | 49.9 | 156.4 | 49.5 | 183.1 | 56.2 | 160.0 |
| Fuel | 73.8 | 29.0 | 81.8 | 20.1 | 85.7 | 21.4 | 88.6 |
| Non-specified and Gold | 8.1 | 2.6 | 8.6 | 2.8 | 6.4 | 0.9 | 6.5 |
| Total | 230.6 | 81.5 | 246.8 | 72.4 | 275.2 | 78.5 | 255.1 |
| Total Imports | 906.3 | 321.2 | 960.4 | 320.8 | 954.7 | 358.8 | 933.8 |
| Source: National Statistics Office | | | | | | | |

some sectors which were protected by the import levies. The composition of consumer imports is illustrated in Chart 7.6. A breakdown of imports into consumer goods, industrial supplies and capital goods is provided in Chart 7.7.

Despite the decline in exports of around Lm86 million, imports of industrial supplies only declined by Lm12.4 million. This suggests that production continued despite a fall in demand. Such developments seem to confirm the increase in inventories registered in the national accounts data. These figures may suggest that the deterioration in the trade balance experienced in the last two years will not necessarily persist and an improvement in the trade balance may possibly materialise in 2006.

Imports of capital goods for the first nine months of 2005 stood at Lm160.0 million. This represents a decline of Lm23.1 million, mainly attributable to exceptional sea-craft imports last year.

Despite the termination of bunkering services of a major operator in the sector, imports of fuel continued to increase by Lm2.9 million to Lm88.6 million. This was primarily related to the substantial increase in oil prices on the international market.

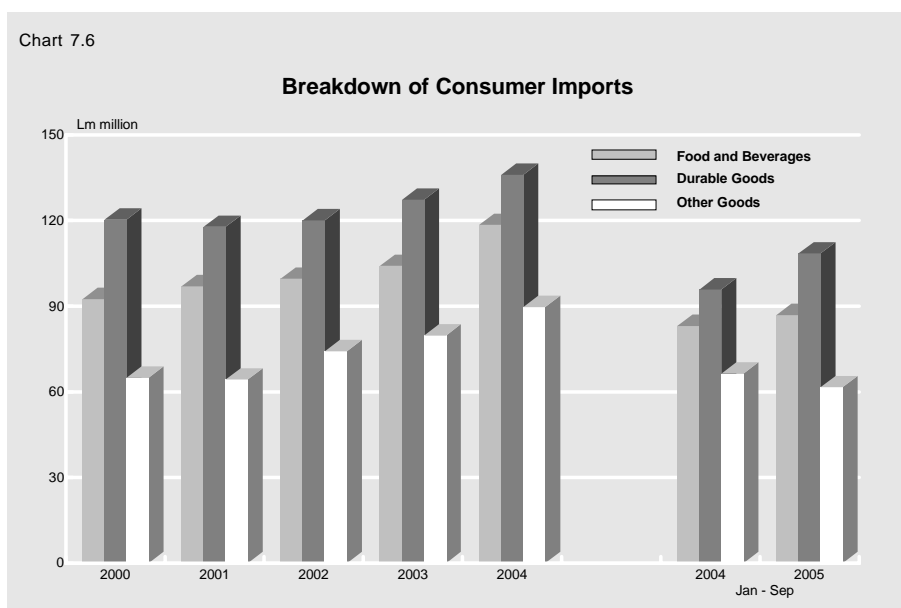
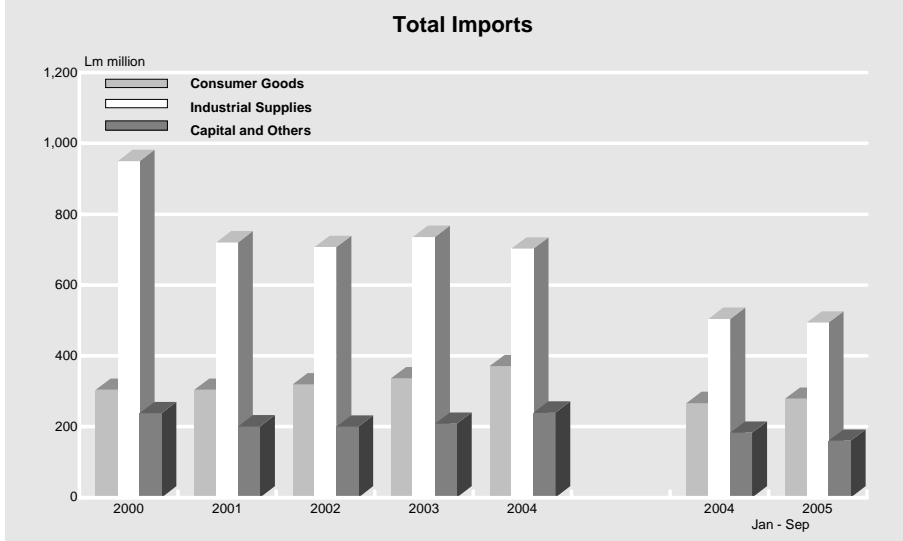


Chart 7.7

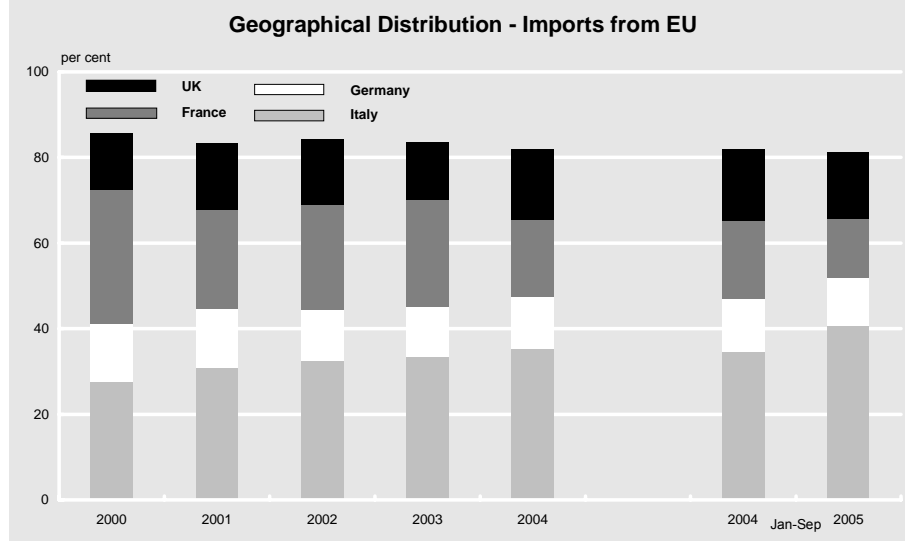


Geographical Distribution – Imports

During the period under review, imports from the African market registered the highest increase in both absolute and in relative terms. Indeed, imports from Africa during the Survey period exceeded the value of imports from the USA, Netherlands and Singapore amongst others. Imports from this region increased significantly by Lm29.6 million. Higher imports of fuel from Egypt were recorded in the first nine months of 2005 and accounted for most of the increase in imports from Africa.

Imports from the EU recorded a significant drop of Lm42.2 million during the period under review. Major declines were registered in the UK (-Lm13.4 million) and Germany (-Lm12.5 million). Within the EU market, imports from France continued on a downward trend, and during the Survey period a decrease of Lm39.2 million was registered. On the other hand, Italy continued to gain importance as a major trading partner. The upward trend in imports from Italy continued, increasing by Lm26.1 million to Lm269.8 million by September 2005. Imports from Italy now account for around 40 per cent of total imports from the EU. Chart 7.8 illustrates the share of Maltese imports to the EU directed to the four main trading partners. Imports from the EU now represent more than 70 per cent of total imports.

Chart 7.8



Imports from the USA stood at Lm42.1 million in the January-September 2005 period, down from Lm47.9 million a year earlier. Reflecting the downward trend in the last few years, these represented around half their level in the comparable period of 2002. Meanwhile, imports from Asia remained stable at Lm137.3 million. Higher imports from Singapore (+Lm8.6 million) were offset by lower imports from Japan (-Lm3.5 million) and other Asian economies (-Lm5.5 million). Table 7.5 analyses imports by main geographical areas in more detail.

Geographical Distribution – Trade Balances

The trade balance with the EU has improved by Lm20.1 million during the Survey period. Apart from Italy, Malta's trade balance with major economies within the EU improved. The trade deficit with France declined by Lm24.4 million, whilst the trade deficit with Germany declined by Lm10.2 million. On the other hand, the trade deficit with Italy deteriorated by a further Lm22.3 million. The positive trade balance with Singapore and the USA deteriorated by Lm36.8 million and Lm17.9 million respectively, reflecting lower exports of machinery and transport equipment. A substantial improvement in the positive trade balance with Libya of Lm9.1 million was also registered during the Survey period. Further details are provided in Table 7.6.

Imports by Main Geographical Areas

Table 7.5

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| Europe | 661.6 | 230.0 | 700.1 | 237.4 | 737.2 | 261.4 | 696.0 |
| EU* | 616.4 | 216.9 | 649.6 | 227.4 | 703.6 | 248.1 | 661.4 |
| Italy | 197.7 | 74.0 | 218.1 | 76.3 | 243.7 | 92.2 | 269.8 |
| U.K. | 93.8 | 33.9 | 89.7 | 28.9 | 116.8 | 40.6 | 103.4 |
| Germany | 74.3 | 24.2 | 75.7 | 25.3 | 86.2 | 30.2 | 73.7 |
| France | 155.3 | 49.8 | 159.6 | 59.3 | 129.6 | 41.8 | 90.4 |
| Netherlands | 20.8 | 7.7 | 22.2 | 7.5 | 34.5 | 11.4 | 32.1 |
| Others | 74.4 | 27.2 | 84.3 | 30.1 | 92.8 | 31.9 | 92.0 |
| Euro Area | 504.9 | 176.0 | 540.9 | 191.6 | 565.9 | 199.3 | 538.2 |
| Other European Countries | 45.1 | 13.1 | 50.5 | 10.0 | 33.6 | 13.3 | 34.6 |
| Africa | 12.3 | 5.0 | 9.1 | 1.7 | 17.6 | 8.1 | 47.2 |
| America | 94.0 | 33.4 | 91.2 | 24.7 | 59.7 | 23.3 | 50.6 |
| USA | 84.7 | 30.6 | 81.7 | 22.2 | 47.9 | 20.1 | 42.1 |
| Others | 9.3 | 2.8 | 9.5 | 2.5 | 11.8 | 3.2 | 8.5 |
| Oceania | 4.9 | 1.3 | 5.6 | 1.2 | 2.5 | 0.9 | 2.7 |
| Asia | 133.5 | 51.5 | 154.4 | 55.8 | 137.7 | 65.1 | 137.3 |
| Japan | 21.0 | 6.9 | 21.1 | 8.2 | 24.3 | 8.5 | 20.8 |
| Singapore | 37.2 | 14.6 | 47.5 | 12.1 | 32.0 | 21.4 | 40.6 |
| Others | 75.3 | 30.0 | 85.8 | 35.5 | 81.4 | 35.2 | 75.9 |
| Total Imports | 906.3 | 321.2 | 960.4 | 320.8 | 954.7 | 358.8 | 933.8 |
| EU Imports as % of Total | 68.0 | 67.5 | 67.6 | 70.9 | 73.7 | 69.1 | 70.8 |

*As from 2004 considered by country of consignment

Source: National Statistics Office

Trade Balances with Various Countries

Table 7.6

Lm million

| | 2002 | 2003 | 2004 | 2004 | 2005 |
|------------------------|--------|--------|--------|---------|---------|
| | | | | Jan/Sep | Jan/Sep |
| EU* | -392.5 | -447.1 | -519.3 | -377.9 | -357.8 |
| Belgium | -10.4 | 3.8 | -9.7 | -6.2 | -3.1 |
| France | -85.1 | -98.7 | -30.8 | -25.4 | -1.0 |
| Germany | -5.0 | -5.8 | -18.9 | -13.2 | -3.0 |
| Italy | -239.1 | -262.9 | -308.9 | -223.1 | -245.4 |
| Netherlands | -18.3 | -22.9 | -38.5 | -29.0 | -26.6 |
| United Kingdom | -15.5 | -96.2 | -56.1 | -37.6 | -35.5 |
| Other EU | -19.0 | 35.6 | -56.4 | -43.4 | -43.2 |
| Other Countries | | | | | |
| USA | 44.1 | 30.3 | 73.8 | 60.8 | 42.9 |
| Japan | 13.6 | 7.8 | -7.0 | -10.1 | -9.1 |
| Singapore | 100.2 | 96.3 | 78.0 | 69.5 | 32.7 |
| Libya | 24.0 | 20.9 | 28.4 | 20.0 | 29.1 |
| China | -25.2 | -33.5 | -20.0 | -14.6 | -12.7 |

*As from 2004 considered by country of consignment

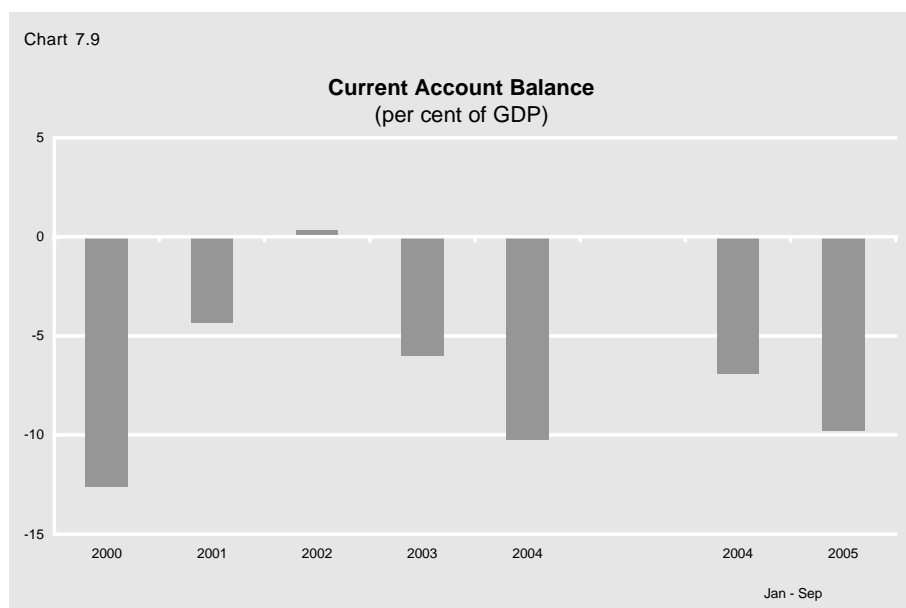
Source: National Statistics Office

Balance of Payments

The widening of the current account deficit experienced since 2003 continued during the first nine months of 2005. This suggests that domestic absorption continued to exceed national income. Whilst imports of goods and services decreased, a significant decline in exports of goods and services occurred during the Survey period. The analysis of trade flows in 2005 underlines the challenges being faced by the semi-conductor sector of the economy and its contribution to this imbalance. Rising international oil prices are another important element contributing to a persistent current account deficit in the last two years.

The high level of domestic absorption relative to the income level is also indicative of low national savings relative to investment. It is important to highlight that the imbalance between savings and investment is the result of an imbalance in both the public and the private sector of the economy. Indeed, given the decline in the budget deficit during the last two years in line with Government's fiscal consolidation exercise, the increase in the current account deficit should be primarily attributable to the decline in private savings. Chart 7.9 shows the current account balance as a percentage of GDP since 2000.

The deficit in the first nine months of 2005 stood at 9.8 per cent of GDP. A deficit in the current account has been registered throughout this period with the exception of a surplus of 3.7 per cent of GDP in the January-September period of 2002. Developments in the goods, services and income account are



Balance of Payments
Goods, Services and Income Account (Net)

Table 7.7

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|---|---------|---------|---------|---------|---------|---------|---------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| GOODS | | | | | | | |
| General Merchandise Transactions | -133.0 | -58.5 | -231.8 | -63.2 | -208.2 | -112.0 | -257.2 |
| Nonmonetary Gold | -7.0 | -2.2 | -6.7 | -2.1 | -5.9 | -1.0 | -4.8 |
| Others | 34.4 | 12.1 | 32.2 | 12.5 | 30.8 | 6.9 | 2.5 |
| Total Goods | -105.6 | -48.6 | -206.3 | -52.8 | -183.3 | -106.1 | -259.5 |
| SERVICES | | | | | | | |
| Transportation | -1.2 | -4.9 | -3.5 | -6.9 | -11.7 | -11.6 | 5.3 |
| Travel | 133.2 | 46.2 | 137.3 | 43.3 | 139.9 | 41.2 | 139.2 |
| Other Services | 1.7 | -1.8 | 12.4 | -1.2 | -1.3 | -5.2 | 7.9 |
| Total Services | 133.7 | 39.5 | 146.2 | 35.2 | 126.9 | 24.4 | 152.4 |
| Total Goods and Services | 28.1 | -9.1 | -60.1 | -17.6 | -56.4 | -81.7 | -107.1 |
| INCOME | | | | | | | |
| Compensation to employees | 0.1 | -0.1 | 0.8 | 0.1 | 0.1 | 1.2 | 2.9 |
| Investment Income | 30.6 | -28.0 | 9.4 | -21.5 | -21.3 | -2.8 | -24.7 |
| Total Income | 30.6 | -28.1 | 10.3 | -21.4 | -21.2 | -1.6 | -21.8 |
| Total Goods, Services and Income | 58.7 | -37.2 | -49.8 | -39.0 | -77.6 | -83.3 | -128.9 |

Source: National Statistics Office

Balance of Payments
Current Account

Table 7.8

Lm million

| | 2002 | | 2003 | | 2004 | | 2005 |
|-----------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep | Oct/Dec | Jan/Sep |
| GOODS AND SERVICES | | | | | | | |
| Exports of Goods and Services | 1,117.3 | 375.3 | 1,085.3 | 361.4 | 1,049.1 | 337.2 | 988.8 |
| Imports of Goods and Services | 1,089.2 | 384.4 | 1,145.5 | 379.0 | 1,105.5 | 418.9 | 1,095.9 |
| Goods and Services Account | 28.1 | -9.1 | -60.1 | -17.6 | -56.4 | -8.2 | -107.1 |
| INCOME | | | | | | | |
| Income Received | 281.9 | 79.3 | 245.2 | 86.1 | 235.6 | 90.8 | 293.0 |
| Income Paid | 251.3 | 107.3 | 235.0 | 107.6 | 256.8 | 92.4 | 314.8 |
| Income Account | 30.6 | -28.1 | 10.3 | -21.4 | -21.2 | -1.6 | -21.8 |
| CURRENT TRANSFERS (Net) | | | | | | | |
| General Government Transfers | 1.8 | 1.4 | 7.3 | 1.6 | 2.7 | -3.4 | -7.1 |
| Private Transfers | -12.5 | -6.8 | -18.3 | -9.7 | -19.2 | -6.0 | -3.5 |
| Total Net Current Transfers | -10.7 | -5.4 | -11.0 | -8.1 | -16.5 | -9.4 | -10.6 |
| Balance on Current Account | 48.0 | -42.6 | -60.9 | -47.2 | -94.2 | -92.7 | -139.5 |

Source: National Statistics Office

presented in Table 7.7 whilst Table 7.8 provides a further analysis of the current account developments.

The Current Account

During the first nine months of 2005, the current account deficit continued to increase, reaching Lm139.5 million from Lm94.2 million a year earlier. The trade deficit accounts for most of the current account imbalance. A positive services balance offset part of the trade imbalance registered during the Survey period. The deterioration in the current account is primarily attributable to the goods account. The income account also contributed to the deterioration in the current account whilst the services and current transfers all contributed to a reduction in the current account deficit during the Survey period.

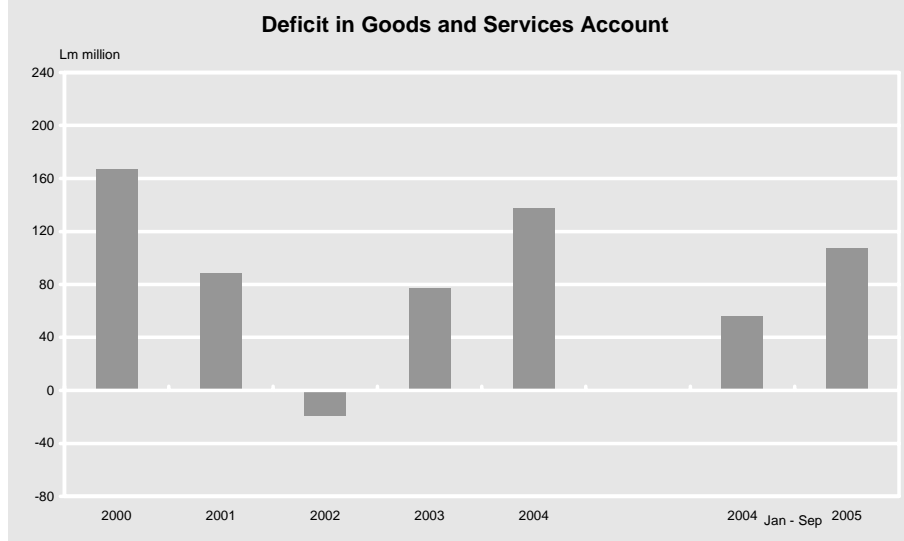
The Goods and Services Account

The goods and services account in the first nine months of 2005 registered a deficit of Lm107.1 million compared to a deficit of Lm56.4 million in the corresponding 2004 period. The deterioration in the goods and services balance is primarily attributable to Lm60.3 million lower exports of goods and services during the Survey period. Lower imports of goods and services of Lm9.6 million partly offset the decline in exports. Chart 7.10 shows the deficit in the goods and services account since 2000.

A higher negative balance in the goods account resulting from lower receipts from goods exports was the main contributors to the deterioration in the goods and services balance. The goods balance declined by Lm76.2 million to a deficit of Lm259.5 million. Further details are provided in the section on international trade in this Chapter.

Meanwhile, the balance in the services account improved by Lm25.5 million to Lm152.4 million during the Survey period. Receipts from services increased by Lm16.2 million whilst payments declined by Lm9.3 million. Higher receipts (+Lm9.2 million) and lower payments (-Lm7.8 million) from transport services improved the balance in the transportation account by Lm17.0 million. Around 60 per cent of the increase in transportation receipts was due to freight transport. Payments for freight and passenger transport increased. These were more than offset by Lm12 million lower payments on other transport services.

Chart 7.10



Receipts from tourism rose by Lm2.6 million during the Survey period. Further detail is provided in Chapter 5 of the Economic Survey. The increase in tourism earnings were offset by a higher expenditure by Maltese tourists travelling abroad. As a result of these developments, net inflows from the travel account remained stable at Lm139.2 million during the first nine months of 2005.

An improvement of Lm9.2 million in the other services balance was also recorded during the period under analysis. Receipts increased by Lm4.4 million. This included higher receipts from communications services and business services of Lm2.6 million and Lm5.1 million, respectively. On the other hand receipts on Government services declined by Lm3.9 million. Lower payments on insurance and other business services of Lm1.3 million and Lm3.7 million respectively were also recorded.

The Income Account and Current Transfers

Higher receipts in the income account were offset by higher payments such that the balance remained at a net outflow of Lm21.8 million, in line with last year's levels. Direct investment income flows account for most of the flows in the income account.

Receipts on investment stood at Lm286.4 million, or Lm53.8 million higher than the comparable nine months of 2004. This primarily reflects higher interest

receipts from abroad. Meanwhile, payments in the investment income account stood at Lm311.0 million, or Lm57.2 million higher than the Survey period of 2004. Profits registered by foreign owned companies during the Survey period amounted to Lm109.3 million, up from Lm80.5 in the first nine months of 2004. Higher profits registered by foreign-owned companies contributed to an increase of Lm44.2 million in dividends and distributed branch profits. On the other hand, re-invested earnings declined by Lm15.3 million. It is important to note that a significant increase in re-invested earnings was recorded last year, partly reflecting higher profits in the banking sector. An increase in interest payments of Lm28.2 million over the Survey period of 2004 was also registered.

During the Survey period, inflows by way of employee compensation more than doubled to Lm6.6 million. As a result, net inflows by way of employee compensation increased by Lm2.8 million to Lm2.9 million during the period under analysis.

Net outflows by way of current transfers were Lm5.9 million less in the period under review compared to the January-September 2004 period. During the first nine months of 2005, Government received Lm24.2 million and paid Lm31.3 million by way of current transfers. Net inflows to Government registered in the Survey period of 2004 turned into a net outflow of Lm7.1 million. Outflows by way of worker's remittances sent abroad increased by Lm0.9 million to Lm1.4 million. Net outflows by way of other transfers improved by Lm16.5 million to a net outflow of Lm2.2 million.

The Capital and Financial Account

This section provides an analysis of the capital and financial flows which financed Malta's current account deficit in 2004. Data for the January-September period of 2005 were not yet available by the time of publication of this Economic Survey. Table 7.9 shows the capital and financial flows as a percentage of GDP.

The current account deficit stood at 10.2 per cent of GDP in 2004. Around 15 per cent of the current account deficit was financed through capital transfers. These amounted to 1.6 per cent of GDP compared to 0.4 per cent in 2003. Included in this figure is the inflow of funds from the Italian financial protocol and EU funds on capital projects.

Current, Capital and Financial Flows*
(per cent of GDP)

Table 7.9

| | 2001 | 2002 | 2003 | 2004 |
|---------------------------------------|------|-------|-------|-------|
| Current Account | -4.3 | 0.3 | -6.0 | -10.2 |
| Capital Account | — | 0.2 | 0.4 | 1.6 |
| Financial Account excl. Reserves | 3.5 | 5.2 | 4.9 | — |
| Net Foreign Direct Investment | 6.3 | -10.4 | 8.5 | 8.0 |
| Net Portfolio Investment Equity Flows | -4.3 | 1.5 | -0.7 | -0.3 |
| Net Portfolio Debt Flows | -8.6 | -10.7 | -32.8 | -31.0 |
| Net Financial Derivatives | ... | ... | 0.5 | 0.1 |
| Net Other Investment Flows | 10.2 | 24.7 | 29.3 | 23.3 |
| Reserve Assets | -6.8 | -7.0 | -3.1 | 3.8 |
| Net Errors and Omissions | 7.6 | 1.3 | 3.9 | 4.8 |

* A positive sign represents a decrease in assets or increase in liabilities.
A negative sign represents an increase in assets or a decrease in liabilities

Source: National Statistics Office

Net foreign direct investment financed around 80 per cent of the current account deficit in 2004. Indeed, net foreign direct investment flows represented 8.0 per cent of GDP. Direct investment in Malta during 2004 represented 9.6 per cent of GDP. Around 60 per cent of new direct investment in Malta was made up of new equity investment whilst another 33 per cent was made up of re-invested earnings. Meanwhile, investment abroad by Maltese companies increased, reaching 1.6 per cent of GDP in 2004.

The outflow of funds by way of portfolio investments continued in 2004, reaching 31.3 per cent of GDP. Most of this investment is made up of debt instruments, particularly foreign assets in the form of bonds held by banks. On the other hand, net other investment inflows represented 23.3 per cent of GDP. Assets which are primarily made up of loans by domestic banks to foreign residents represented 21.4 per cent of GDP. The ratio of new liabilities to GDP, primarily made up of deposits held by foreigners in domestic banks and long-term loan advances by foreign banks, stood at 44.6 per cent of GDP in 2004.

Financial derivative assets and liabilities both recorded a significant increase. However, net inflows in the form of financial derivatives stood at 0.1 per cent of GDP in 2004. As a result of these developments, inflows in the financial account excluding reserve assets equaled outflows. Net errors and omissions represented a further 4.8 per cent of GDP. In other words, at 6.4 per cent of

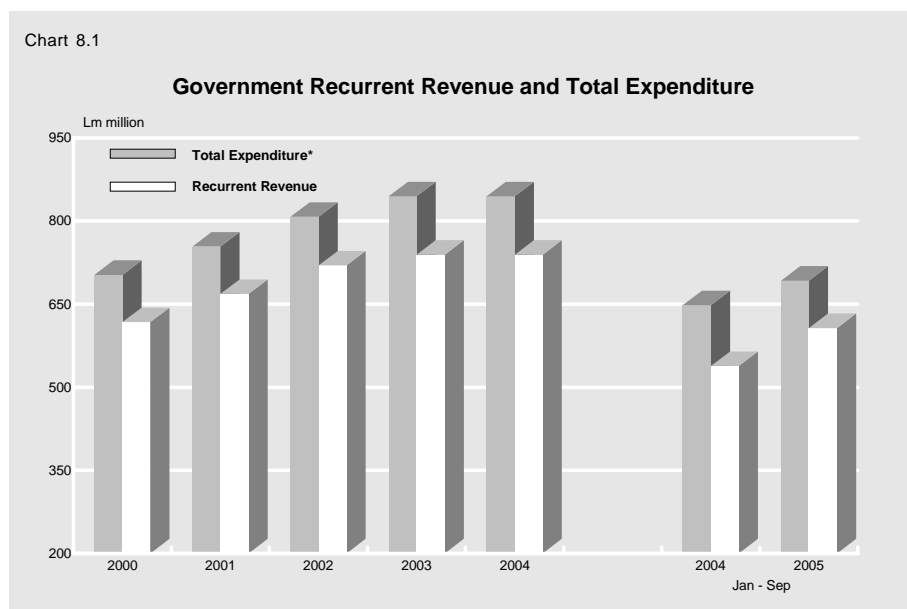
GDP, capital and financial flows, including errors and omissions and excluding reserve assets financed two-thirds of the current account deficit. The rest was financed through foreign reserves which occurred primarily in the last quarter of 2004.

The latest data published by the NSO up till June 2005 suggests that the loss of foreign reserves continued in the first quarter of 2005. However, following Malta's entry into the ERM II, the pegging of the Maltese Lira to the Euro and the prevailing discount rate in Malta, the decline in reserves in the second quarter proceeded at a much lower rate. Data on the capital and financial flows in the balance of payments and the stock of assets and liabilities held by Maltese nationals is not yet available. However, provisional data on the stock of reserves indicates a considerable increase between June and September 2005. Indeed reserves continued to cover more than seven and a half months of the import bill during the Survey period.

8. Financial Developments

8. Financial Developments

The first nine months of 2005 were characterised by budgetary consolidation reflecting Government's fiscal policy framework which is geared towards ensuring sound public finances in the medium term. Indeed, the structural deficit, when compared to the same period in 2004, declined by Lm24.5 million to Lm85.4 million, underpinned by an expansion in recurrent revenue which significantly exceeded increases in total expenditure. During the Survey period, broad money (M3) expanded at a slower rate when compared to the same period last year. There was however a registered increase in the net foreign assets, especially those of monetary financial institutions other than the Central Bank. During the period under review, there has been a change in the central intervention rate by 25 basis points, up to 3.25 per cent. The Maltese currency weakened against the US dollar, Japanese yen and the UK sterling, however it appreciated against the Euro. Malta joined the ERM II in May and thus, the pegging of the Maltese lira changed from a three currency basket peg to a single currency peg.



*excluding contributions to Sinking Fund and Direct Loan Repayments

Public Finance

It is pertinent to note that Government finance data should be interpreted with caution since Government's financial transactions as defined in this Chapter are registered on a cash basis rather than on an accrual basis. Thus, Government's financial position is affected by the timing of the cash payments and receipts and may not reflect actual spending and revenue collection. Developments in public finances during the first nine months of the 2002-2005 period are presented in Table 8.1. Meanwhile, Chart 8.1 illustrates trends in total expenditure and recurrent revenue in recent years.

Revenue

Government recurrent revenue, which includes grants but excludes extraordinary receipts, increased by Lm68.7 million to Lm606.9 million during the first nine months of 2005. This expansion in recurrent revenue was driven by both higher

| Government Revenue and Expenditure (January-September) | | | | |
|--|------------|---------|---------|--------|
| Table 8.1 | Lm million | | | |
| | 2002 | 2003 | 2004 | 2005 |
| Recurrent Revenue | 505.6 | 496.6 | 538.2 | 606.9 |
| Tax Revenue | 438.9 | 443.6 | 472.0 | 500.0 |
| Direct Tax Revenue | 246.8 | 251.0 | 258.7 | 265.7 |
| Indirect Tax Revenue | 192.1 | 192.6 | 213.3 | 234.3 |
| Non-Tax Revenue | 66.7 | 53.0 | 66.2 | 106.9 |
| Total Expenditure | 591.2 | 632.4 | 648.0 | 692.3 |
| Recurrent Expenditure | 471.0 | 499.4 | 518.1 | 543.5 |
| Interest on Public Debt | 49.2 | 48.8 | 54.3 | 55.8 |
| Capital Expenditure | 71.0 | 84.2 | 75.6 | 93.1 |
| Productive | 26.4 | 23.4 | 17.9 | 23.2 |
| Infrastructure | 21.7 | 23.6 | 27.2 | 32.9 |
| Social | 22.8 | 37.2 | 30.6 | 37.0 |
| Structural Balance | (85.6) | (135.8) | (109.9) | (85.4) |
| Financed by: | | | | |
| Extraordinary Receipts | | | | |
| Receipts from sale of shares | 19.0 | 0.0 | 0.0 | 1.1 |
| Sinking Funds of Converted Loans | 0.0 | 2.1 | 8.9 | 3.8 |
| Sinking Fund Contribution/Direct Loan Repayments | (6.1) | (6.2) | (6.3) | (6.0) |
| Public Sector Borrowing Requirement | (72.7) | (139.9) | (107.3) | (86.5) |
| Loans | 0.0 | 102.1 | 70.4 | 110.0 |
| Local Loans | 0.0 | 69.9 | 70.4 | 110.0 |
| Foreign Loans | 0.0 | 32.2 | 0.0 | 0.0 |

Source: The Treasury

tax and non-tax revenue. A detailed breakdown of Government revenue for the first nine months of the 2002-2005 period is presented in Appendix Table 8.1.

Tax revenue, which comprises the main source of Government revenue, increased by Lm28.0 million to Lm500.0 million. This increase in tax receipts was attributable to expansions in both direct and indirect tax revenue. During the Survey period, direct tax revenue, which accounts for around 53 per cent of total tax revenue, increased by Lm7.0 million to Lm265.7 million. This expansion was mainly attributable to higher receipts from income tax, whilst an increase was also recorded in social security contributions. Meanwhile, indirect tax revenue registered an increase of Lm21.0 million to Lm234.3 million. This expansion reflected higher receipts from customs and excise duties and Value Added Tax which outweighed the drop in receipts from licences, taxes and fines.

Revenue generated from income tax increased by Lm5.8 million to Lm139.7 million. During the first nine months of 2005, ongoing efforts to improve efficiency in tax collection contributed to the increase in income tax revenue. Social security contributions increased by Lm1.2 million to Lm126.0 million during the Survey period, thus remaining essentially at last year's level.

During the Survey period, revenue generated from customs and excise duties increased by Lm4.7 million to Lm47.2 million, reflecting higher revenue from excise duties which outweighed the drop in receipts from import duties. Revenue from import duties declined by Lm1.1 million, reflecting the adoption of the Common External Tariff upon EU membership in May 2004. On the other hand, receipts from excise duties increased by Lm5.9 million. This expansion mainly reflected the increase in excise duty on tobacco products. Moreover, higher excise duty on kerosene as announced in the Budget Speech for 2005 also contributed to higher revenue collected from excise duty. In addition, higher revenue was also generated following the introduction of excise duty on mobile telephony.

Revenue generated from licences, taxes and fines decreased by Lm7.7 million to Lm65.6 million. It is pertinent to note that for the corresponding 2004 period this item of revenue included exceptional licence fees generated by the privatisation of the lotteries. Moreover, the completion of the last phase of the three-year programme for the dismantling of import levies by 1 May 2004, also contributed to lower receipts under this category of revenue. This item of revenue was also affected by the exclusion of receipts related to wireless licences, fixed telephone licence and mobile telephone licence which are instead included

under the fees of office category of revenue. On the other hand, receipts from duty on documents increased, following the measure introduced in the Budget Speech for 2005 granting taxpayers the possibility to make adjustments to the declared value of immovable property acquired through inheritance. Moreover, higher revenue was also generated from the passenger departure tax payable on outgoing air fares reflecting the increase in departure tax which came into effect as from 1 August 2005 as well as a higher number of Maltese travelling abroad. In addition, higher receipts from motor vehicle registration tax were also recorded, reflecting higher imports of motor vehicles.

Revenue generated from Value Added Tax amounted to Lm121.5 million or Lm24.0 million more than that registered in the first nine months of 2004. This expansion is partly attributable to the lagged effect of the increase in the standard VAT rate which came into effect as from January 2004, reflecting the fact that payments are made in arrears. Moreover, additional revenue from VAT reflected the implementation of a scheme whereby additional penalties were waived off in cases where timely payment of the balance due is made by a stipulated date. In addition, improved enforcement against tax evasion also contributed to higher revenue from VAT. Cash inflow from this item of revenue was also highly influenced by the change in the timing of the collection of VAT on imported products whereby payments are deferred until the point of sale.

Non-tax revenue increased by a significant Lm40.7 million to Lm106.9 million during the first nine months of 2005. The transfer of Central Bank profits, grants and fees of office comprise the main items of non-tax revenue. The transfer of profits generated by the Central Bank declined by Lm4.2 million to Lm14.0 million, however, this was offset by increases in other items of non-tax revenue.

Fees of office amounted to Lm18.4 million, from Lm4.1 million recorded during January-September 2004. This increase was partly attributable to receipts amounting to Lm6.2 million collected under the investment registration scheme. In addition, around Lm3.1 million were generated from the eco-contribution following the broadening of the products that are subject to eco-contribution as announced in the Budget Speech for 2005. Moreover, revenue generated from fees of office was also affected by the inclusion of wireless licences, fixed telephone licence and mobile telephone licence, previously included under a different category of revenue.

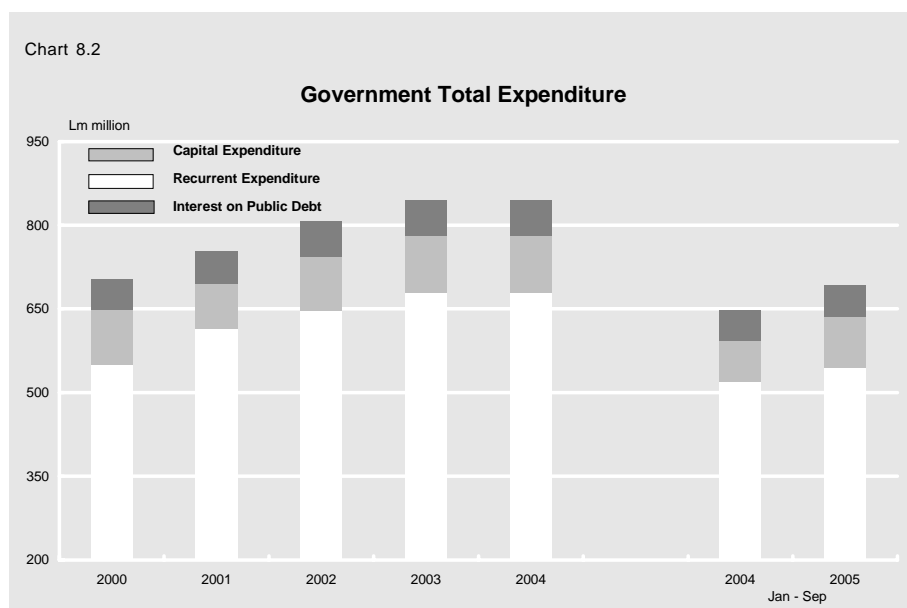
Miscellaneous receipts increased by Lm6.5 million to Lm16.7 million. This increase was mainly attributable to premia from the sale above par of

Government stocks by auction as well as the sale of Government property. Additional revenue was also generated from higher rents from commercial tenements.

Grants received amounted to Lm40.3 million, or Lm24.4 million higher than that recorded during the first nine months of 2004. This expansion was attributable to higher funds forthcoming from the European Union through a monthly cashflow facility and temporary budgetary compensation. Meanwhile, additional transfers were also received in terms of the Fifth Italian Financial Protocol.

Expenditure

Total Government expenditure comprises recurrent expenditure, capital expenditure and interest payments. Contribution to the Sinking Fund in respect of local and foreign loans and direct repayment of loans are excluded from total Government expenditure. Total Government expenditure increased by Lm44.3 million to Lm692.3 million during the Survey period. This expansion was attributable to both higher recurrent expenditure and capital expenditure. Meanwhile, higher interest on public debt also contributed to this increase. Recurrent expenditure, which constitutes around 79 per cent of total expenditure, increased from Lm518.1 million to Lm543.5 million. The share of expenditure of a capital nature to total expenditure is around 13 per cent. Capital expenditure increased from Lm75.6 million in the first nine months of 2004 to Lm93.1 million during the period under review. Interest payments on public debt, which accounts



for around 8 per cent of total expenditure, increased by Lm1.5 million to Lm55.8 million. Developments in Government expenditure since 2000 are depicted in Chart 8.2.

The increase in recurrent expenditure is attributable to higher outlays on Programmes and Initiatives which more than offset declines in Operations and Maintenance expenditure and Contributions to Government Entities. In fact, expenditure under Programmes and Initiatives, which constitutes around 60 per cent of total recurrent expenditure, increased by Lm41.8 million to Lm323.5 million during the period under review. This increase partly reflected the re-classification of expenditure of medicines and surgical materials, which during the previous year was classified under Operations and Maintenance expenditure. Moreover, the re-classification of other items of expenditure previously categorised as Contributions to Government Entities also contributed to the increase in this category of recurrent expenditure. Meanwhile, Malta's contribution to the EU budget, which is more than compensated for by funds transferred from the EU, was also reflected in higher outlays on Programmes and Initiatives. Higher Government welfare payments as well as a higher contribution to church schools also contributed to the increase in this type of recurrent expenditure. On the other hand, it is pertinent to note that outlays on Programmes and Initiatives registered during the first nine months of 2004 included the one-time payment to all employees and pensioners as compensation of the increase in the VAT rate announced in the Budget Speech for 2004.

At Lm139.4 million, personal emoluments, which account for around 26 per cent of total recurrent expenditure, practically remained at the level recorded during the first nine months of 2004. The share of Contributions to Government entities in recurrent outlays stood at around 10 per cent. Contributions to Government entities decreased by Lm2.6 million to Lm55.2 million. This mainly reflects the re-classification of certain items of expenditure to Programmes and Initiatives. Moreover, while lower expenditure by Government entities such as Water Services Corporation was recorded, higher expenditure was allocated to other entities such as the University of Malta and Malta Enterprise Corporation.

Operation and Maintenance expenditure constitutes around 5 per cent of total recurrent expenditure. This category of expenditure declined by Lm14.3 million to Lm25.0 million during the Survey period, mainly reflecting the re-classification of expenditure related to the national health system to other categories of recurrent expenditure. During the Survey period, expenditure recorded under the Special Expenditure category amounted to Lm0.3 million.

A detailed breakdown of Government recurrent expenditure on a cost centre basis for the first nine months of the 2002-2005 period is presented in Appendix Table 8.2. The major fluctuations registered in the separate expenditure categories are discussed below.

Government welfare payments increased by Lm8.1 million to reach Lm163.7 million, largely attributable to higher outlays with respect to retirement and widows pensions and social assistance. This item of expenditure is affected by factors outside Government control such as demographic changes, wages and inflationary developments. Expenditure by the Department of Social Security which mainly constitutes the State contribution in terms of the Social Security Act (Cap. 318), remained at practically the same level recorded during the corresponding 2004 period.

During the first nine months of 2005, expenditure by the Treasury Department decreased from Lm7.8 million to Lm1.2 million. It is pertinent to note that during the first nine months of 2004, this item of expenditure included a one-off payment to compensate for the higher standard VAT rate as announced in the Budget Speech for 2004.

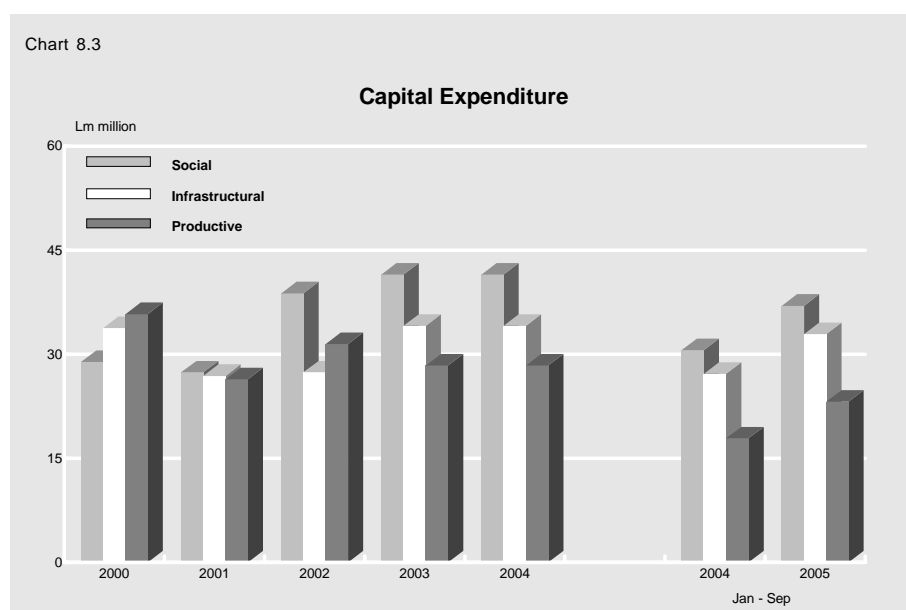
Expenditure under the Treasury pension category reached Lm23.7 million, up from Lm21.5 million. This category of expenditure includes outlays in respect of pensions, allowances and gratuities under the Pensions Ordinance (Cap. 93). Expenditure by the Ministry of Finance increased by Lm8.7 million to Lm23.1 million. This expansion is attributable to Malta's contribution to the EU budget, which is more than compensated for by receipt of funds from the EU. The Ministry for Tourism registered an increase of Lm1.7 million in recurrent expenditure to Lm3.6 million. This increase is attributable to contributions to Government entities which were previously accounted for under other Ministries. Expenditure by the Inland Revenue Department increased by Lm1.1 million to Lm4.9 million during the first nine months of 2005, mainly attributable to repayments in terms of the Income Tax Act (Cap. 123).

The Ministry of Education, Youth and Employment registered an increase of Lm5.7 million in recurrent expenditure, mainly reflecting higher contribution to church schools and students' maintenance grants. The increase in the case of the former is attributable to change in the timing of tranches. Expenditure incurred by the Ministry for Resources and Infrastructure registered a decline of Lm3.5 million in recurrent expenditure. This primarily reflects the exclusion of expenditure related to the solid waste management strategy, which is instead included as part of the expenditure incurred by the Ministry for Rural Affairs

and the Environment. During the Survey period, expenditure incurred by the Ministry of Investment, Industry and Information Technology increased from Lm29.6 million to Lm32.9 million. This rise was mainly attributable to higher expenditure with respect to the restructuring of the Public Broadcasting Services as well as increases in other items of expenditure within this cost-centre.

Capital expenditure is classified under three categories, namely capital outlays on social development, investment directed towards infrastructural facilities and productive investment. During the Survey period, the capital expenditure programme increased by Lm17.5 million to Lm93.1 million. This expansion was underpinned by increases in all the three categories of capital expenditure. Productive and infrastructural investment accounted for 24.9 per cent and 35.3 per cent of total capital expenditure respectively, registering minimal changes to the shares recorded during the corresponding 2004 period. Similarly, at 39.8 per cent, the share of investment directed towards social development remained at practically last year's level. These developments are depicted in Chart 8.3 whilst Appendix Table 8.3 presents a breakdown of Government's capital expenditure programme.

During the period under review, Government's capital programme for productive investment increased by Lm5.3 million to Lm23.2 million. This was underpinned by higher outlays allocated under the item public buildings, plant and equipment which increased from Lm5.7 million to Lm11.0 million. This rise was mainly



attributable to contributions towards the Treasury Clearance Fund in respect of the repayment of outstanding ex-Malta Drydocks advances. Furthermore, additional funds allocated under this item of capital expenditure have been earmarked to finance capital works and equipment for the Ministry for Rural Affairs and the Environment financed through the Fifth Italian Financial Protocol. Capital outlays concerning the development of industries increased by Lm0.9 million to Lm3.2 million. Meanwhile, capital expenditure on tourism stood at Lm7.9 million. If, however, account is taken of tourism related expenditure under the infrastructure and social headings, the total amounted to Lm8.7 million during the Survey period.

Capital expenditure on infrastructure increased by Lm5.7 million to Lm32.9 million. This was mainly attributable to higher capital outlays allocated under the item public buildings, plant and equipment. In fact, this item of capital expenditure increased by Lm5.4 million to Lm24.3 million. This expansion reflects higher outlays allocated for the modernisation of the road network programme financed through the Fifth Italian Protocol. Moreover, higher outlays earmarked for the Armed Forces of Malta also contributed to this increase. On the other hand, outlays on public buildings, plant and equipment allocated to the Ministry of Foreign Affairs registered a decline following the relatively high outlays incurred last year. While an increase was registered in funds earmarked to improve the sewage infrastructure, lower funds were required by way of debt servicing related to the development of Malta Freeport.

At Lm37.0 million, Government's capital programme for social investment was Lm6.5 million higher than the level recorded during the first nine months of 2004. This increase reflected higher capital expenditure on health incurred on works carried out in respect of the new hospital. Moreover, capital outlays allocated under the item public buildings, plant and equipment increased to Lm2.7 million, up from Lm2.0 million. This increase was mainly attributable to higher funds incurred in respect of waste management services partly financed through the EU Structural Funds. Meanwhile, capital expenditure on education declined by Lm1.1 million to Lm3.0 million, mainly reflecting lower capital expenditure by the Foundation for Tomorrow's Schools. Capital outlays on housing, which are primarily administered by the Housing Authority declined by Lm1.0 million to Lm0.3 million since the Authority utilised own-resourced funding for its projects.

Fiscal Performance

As highlighted above, developments in Government's fiscal position reflected ongoing budgetary consolidation efforts. In fact, the structural deficit declined from Lm109.9 million to Lm85.4 million. Meanwhile, extraordinary receipts declined by Lm4.0 million. As a result, the public sector borrowing requirement declined from Lm107.3 million to Lm86.5 million during the Survey period.

The fiscal imbalance is heavily financed through domestic borrowing. In fact, the share of domestic debt is around 95 per cent of the total debt portfolio

General Government Net Lending (+) or Borrowing (-)

as a percentage of GDP

Table 8.2 per cent

| | 2002 | 2003 | 2004 |
|----------------|------|-------|------|
| Austria | -0.2 | -1.1 | -1.3 |
| Belgium | 0.1 | 0.4 | 0.1 |
| Cyprus | -4.5 | -6.3 | -4.2 |
| Czech Republic | -6.8 | -11.7 | -3.0 |
| Denmark | 1.7 | 1.2 | 2.8 |
| Estonia | 1.4 | 3.1 | 1.8 |
| Finland | 4.3 | 2.5 | 2.1 |
| France | -3.2 | -4.2 | -3.7 |
| Germany | -3.7 | -3.8 | -3.7 |
| Greece | -4.1 | -5.2 | -6.1 |
| Hungary | -8.5 | -6.2 | -4.5 |
| Ireland | -0.4 | 0.2 | 1.3 |
| Italy | -2.6 | -2.9 | -3.0 |
| Latvia | -2.7 | -1.5 | -0.8 |
| Lithuania | -1.5 | -1.9 | -2.5 |
| Luxembourg | 2.3 | 0.5 | -1.1 |
| Netherlands | -1.9 | -3.2 | -2.5 |
| Poland | -3.6 | -4.5 | -4.8 |
| Portugal | -2.7 | -2.9 | -2.9 |
| Slovakia | -5.7 | -3.7 | -3.3 |
| Slovenia | -2.4 | -2.0 | -1.9 |
| Spain | -0.3 | 0.3 | -0.3 |
| Sweden | -0.3 | 0.2 | 1.4 |
| United Kingdom | -1.7 | -3.4 | -3.2 |
| EU 25 | -2.3 | -2.9 | -2.6 |
| Malta | -5.8 | -10.4 | -5.1 |

Source: European Commission
National Statistics Office
Ministry of Finance

implying high resort on the domestic market and thus a limited risk to exchange rate fluctuations.

International Comparison

Developments for the budget balance and public debt of the EU Member States for the three-year period to 2004 are presented in Table 8.2 and Table 8.3 respectively. This data is based on the reportings of Government deficit and debt levels transmitted by EU Member States in September 2005 for the excessive deficit procedure according to Regulation 3605/93. It is pertinent to note that the General Government fiscal data presented in this section is according

| General Government Gross Debt as a percentage of GDP | | | |
|--|----------|-------|-------|
| Table 8.3 | per cent | | |
| | 2002 | 2003 | 2004 |
| Austria | 66.7 | 65.4 | 65.2 |
| Belgium | 105.4 | 100.0 | 95.6 |
| Cyprus | 65.2 | 69.8 | 71.9 |
| Czech Republic | 30.7 | 38.3 | 37.4 |
| Denmark | 47.2 | 44.7 | 42.7 |
| Estonia | 5.3 | 5.3 | 4.9 |
| Finland | 42.5 | 45.3 | 45.1 |
| France | 59.0 | 63.9 | 65.6 |
| Germany | 60.9 | 64.2 | 66.0 |
| Greece | 112.2 | 109.3 | 110.5 |
| Hungary | 55.5 | 56.9 | 57.6 |
| Ireland | 32.6 | 32.0 | 29.9 |
| Italy | 108.0 | 106.3 | 105.8 |
| Latvia | 14.1 | 14.4 | 14.4 |
| Lithuania | 22.4 | 21.4 | 19.7 |
| Luxembourg | 7.5 | 7.1 | 7.5 |
| Netherlands | 52.6 | 54.3 | 55.7 |
| Poland | 41.2 | 45.4 | 43.6 |
| Portugal | 58.5 | 60.1 | 61.9 |
| Slovakia | 43.3 | 42.6 | 43.6 |
| Slovenia | 29.5 | 29.4 | 29.4 |
| Spain | 55.0 | 51.4 | 48.9 |
| Sweden | 52.4 | 52.0 | 51.2 |
| United Kingdom | 38.3 | 39.7 | 41.6 |
| EU 25 | 61.7 | 63.3 | 63.8 |
| Malta | 63.2 | 72.8 | 75.9 |
| Source: European Commission National Statistics Office Ministry of Finance | | | |

to the ESA 95 methodology and is thus not comparable with data presented in other sections of this Chapter.

The budgetary position in the EU Member States improved slightly by 0.3 percentage points and reached an average deficit of 2.6 per cent of GDP in 2004. Certainly, the budgetary performance differed across the Member States. Only Belgium, Denmark, Sweden, Ireland, Finland and Estonia had nominal budget positions in balance or in surplus. In 2004, Germany, France, Greece, the UK, Cyprus, Hungary, Poland, Slovakia as well as Malta remained in excessive deficit positions. In the case of Italy and Portugal the budgetary positions in 2004 remained weak. Relative to 2003, a large majority of Member States did not worsen their budget position or did so only marginally, apart from Greece, Luxembourg, Spain, Estonia, Lithuania and Poland.

An improvement was particularly notable in Malta and the Czech Republic. In fact, Malta's budgetary position improved by 5.3 percentage points and reached 5.2 per cent of GDP in 2004. This deficit reduction in 2004 partly reflects a one-off operation related to the restructuring of the shipyards in 2003. Moreover, fiscal consolidation measures undertaken in the budget also contributed to the reduction in the deficit-to-GDP ratio. The notable improvement in the General Government balance of the Czech Republic was also attributable to a one-off operation in the previous year.

In 2004, the aggregate general Government debt-to-GDP ratio in the EU increased by 0.5 percentage points to 63.8 per cent. While Greece and Italy continued to have debt ratios above 100 per cent of GDP, Belgium managed to reduce its debt below this level in 2004. A further six countries, namely Austria, Cyprus, France, Germany, Portugal and Malta have debt ratios above 60 per cent of GDP. General Government debt, including extra-budgetary units, for Malta reached 75.9 per cent of GDP in 2004.

Monetary Developments

During the period under review, broad money (M3) continued to increase albeit at a decreasing rate. The deceleration in monetary growth was attributed to the fact that the more rapid growth in net foreign assets and the slowdown in growth of other counterparts of M3 were offset by a slower growth in domestic credit, the latter compromising the main counterpart of broad money.

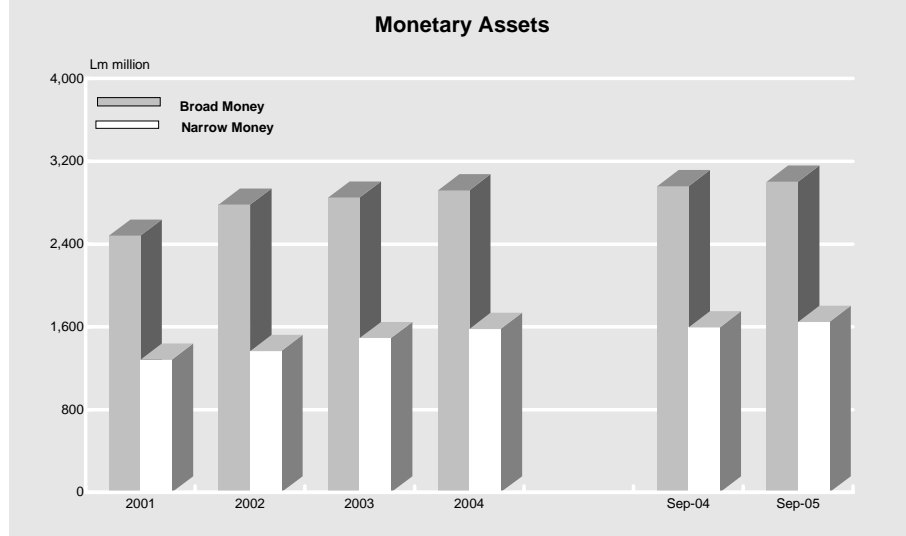
Monetary Aggregates

During the period under review, broad money expanded by 2.9 per cent to Lm3,004.1 million, a lower growth rate compared to the same period last year. The relatively slower growth in M3 is mainly attributed to a lower increase in deposits withdrawable on demand. Table 8.4 presents developments in the monetary aggregates and their counterparts, while Chart 8.4 depicts developments in the monetary aggregates.

Narrow money (M1), which reflects demand for liquid balances, increased by 4.2 per cent to Lm1,647.8 million, compared to the 7.1 per cent growth rate registered during the corresponding 2004 period. This slower growth rate in M1 is attributable to a lower growth rate in currency in circulation as well as a

| | Lm million | | | | | |
|--|---------------|---------------|--------------------------------|---------------|---------------|--------------------------------|
| | 2003 (Dec) | 2004 (Sep) | Sep 04 - Dec-03 % Change | 2004 (Dec) | 2005 (Sep) | Sep 05 - Dec-04 % Change |
| Monetary Aggregates | | | | | | |
| Narrow Money (M1) | 1,490.9 | 1,596.2 | 7.1 | 1,580.9 | 1,647.8 | 4.2 |
| Currency in Circulation | 460.4 | 484.0 | 5.1 | 486.0 | 497.2 | 2.3 |
| Deposits withdrawable on demand | 1,030.5 | 1,112.2 | 7.9 | 1,094.9 | 1,150.5 | 5.1 |
| Intermediate Money (M2) | 2,849.2 | 2,960.4 | 3.9 | 2,918.3 | 3,004.0 | 2.9 |
| Narrow Money (M1) | 1,490.9 | 1,596.2 | 7.6 | 1,580.9 | 1,647.8 | 4.2 |
| Savings Deposits redeemable at notice up to 3 months | 28.7 | 29.7 | 3.5 | 30.0 | 30.3 | 1.0 |
| Time Deposits with agreed maturity up to 2 years | 1,329.5 | 1,334.5 | 0.4 | 1,307.3 | 1,325.9 | 1.4 |
| Broad Money (M3) | 2,849.2 | 2,960.4 | 3.9 | 2,918.3 | 3,004.1 | 2.9 |
| Counterparts of M3 | | | | | | |
| Domestic Credit | 2,648.8 | 2,783.4 | 5.1 | 2,785.3 | 2,795.0 | 0.3 |
| Net Claims on central government | 568.4 | 573.0 | 0.8 | 545.1 | 498.8 | -8.5 |
| Claims on other residents | 2,080.3 | 2,210.4 | 6.3 | 2,240.2 | 2,296.2 | 2.5 |
| Net Foreign Assets | 1,416.9 | 1,474.9 | 4.1 | 1,443.6 | 1,546.4 | 7.1 |
| Central Bank of Malta | 919.8 | 928.7 | 1.0 | 870.3 | 911.7 | 4.8 |
| Other Monetary Financial Institutions | 497.1 | 546.3 | 9.9 | 573.3 | 634.7 | 10.7 |
| Less other counterparts of M3⁽¹⁾ | 1,216.5 | 1,297.9 | 6.7 | 1,310.6 | 1,337.4 | 2.0 |
| ⁽¹⁾ Other counterparts of M3 include the capital base of the Monetary Financial Institutions sector, 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 | | | | | | |
| Source: Central Bank of Malta | | | | | | |

Chart 8.4



slowdown in the growth of deposits withdrawable on demand. Deposits withdrawable on demand increased by Lm55.6 million, or 5.1 per cent as compared to a growth rate of 7.9 per cent during the first nine months of 2005. While demand deposits increased by Lm18.6 million to Lm319.4 million, savings deposits also increased from Lm794.1 million to Lm831.1 million. Currency in circulation increased by Lm11.2 million or 2.3 per cent, compared to a growth rate of 5.1 per cent in the first nine months of 2004.

Intermediate money (M2), which consists of M1 and short term-deposits not withdrawable on demand, increased from Lm2,918.3 million at the end of 2004 to Lm3,004.0 million in September 2005. This represents an increase in M2 of 2.9 per cent, a relatively lower growth rate compared to that for the first nine months of 2004. This slowdown in the growth of M2 was attributable to a relatively slower growth rate in narrow money which more than offset a higher growth rate in time deposits with agreed maturity of up to two years. Time deposits with agreed maturity up to two years rose from Lm1,307.3 million at the end of 2004 to Lm1,325.9 million in September 2005. This represents a growth rate of 1.4 per cent compared to the growth rate of 0.4 per cent registered in the first nine months of 2004. The other component of M2, savings deposits redeemable at notice up to three months, increased at a slower pace when compared to the same period last year. In fact, savings deposits redeemable up to a notice of three months increased from Lm30.0 million in December 2004 to Lm 30.3 million in September 2005. This slow growth in savings deposits partly reflects portfolio shifts into alternative financial assets. M3 is essentially equal

to M2 given that the amount of marketable instruments, namely repurchase agreements and debt securities with a maturity of up to two years transacted during the Survey period was insignificant.

Counterparts of Monetary Expansion

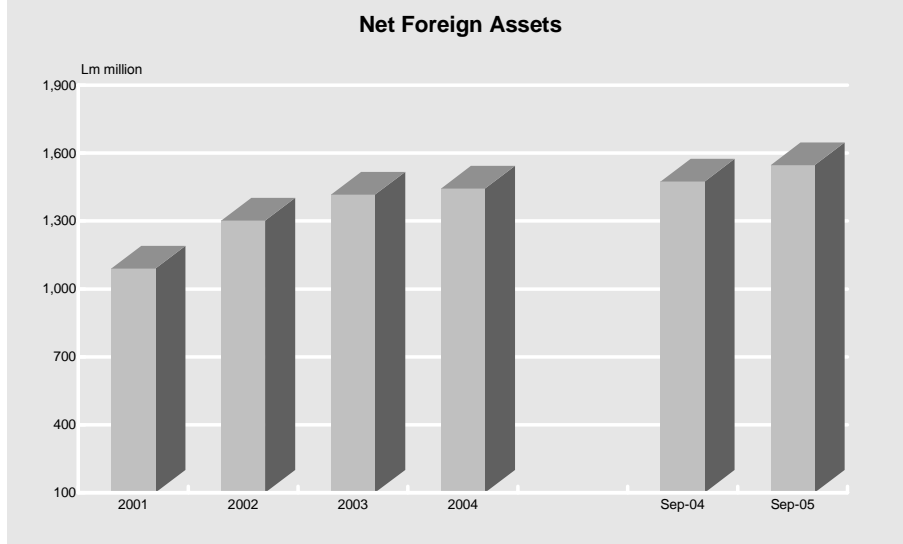
The deceleration of monetary growth registered during the Survey period was attributable to a slowdown in the growth of domestic credit which more than offset the more rapid growth in net foreign assets as well as the deceleration of the other counterparts of M3 category. The latter is deducted from broad money, thus a lower growth rate contributes to a higher pace of monetary growth.

Domestic credit registered only a marginal increase between January and September 2005. In fact, domestic credit expanded by 0.3 per cent during the period under review from Lm2,785.3 million in December 2004 to Lm2,795.0 million in September 2005. This relatively slower growth rate is mainly attributable to a decline in the net claims on central Government. From Lm545.1 million in December 2004, net claims on central Government fell to Lm498.8 million in September 2005. This corresponds to a decline of 8.5 per cent. This decline in the net claims on central Government mainly reflects reductions of claims by the other financial institutions on Treasury bills and loans. There was also a decline in the claims by the Central Bank of Malta on the central Government of 7.7 per cent during the period under review.

Claims on other residents also registered a slower growth rate, although there was still overall absolute growth. In fact, claims on other residents rose from Lm2,240.2 million at the end of 2004 to Lm2,296.2 million in September 2005. This corresponds to a growth rate of 2.5 per cent during the Survey period, as compared to the growth rate of 6.3 per cent registered during the commensurate period last year. This deceleration was mainly attributed to a substantial decrease in the claims on non-bank private sector, which include private non-financial companies, insurance companies, other financial intermediaries and financial auxiliaries, households and non-profit institutions. At the end of September 2005, claims on non-bank private sector amounted to around 94 per cent of total claims on other residents.

Net foreign assets of the banking system, as illustrated in Chart 8.5, expanded at a faster pace when compared to the same period last year. Total net foreign assets rose by 7.1 per cent to Lm1,546.4 million, compared to the 4.1 per cent growth rate registered during the corresponding 2004 period. The expansion in net foreign assets reflects partly the increase in the Central Bank's intervention

Chart 8.5



rate by 25 basis points in April. The major expansion of the net foreign assets was attributed to higher bank's and monetary financial institution's holdings which increased by 10.7 per cent, from Lm573.3 million in December 2004 to Lm634.7 million in September 2005. The Central Bank's net foreign asset holdings also increased substantially over the same period last year. In fact, the Central Bank's net foreign assets increased from Lm870.3 million at the end of 2004 to Lm911.7 million in September 2004. This reflects an increase of 4.8 per cent following a growth rate of 1.0 per cent registered during the corresponding 2004 period.

The other counterparts of M3 amounted to Lm1,337.4 million at the end of September 2005, up by 2.0 per cent compared to the level at the end of 2004. The other counterparts of M3 include the capital base of the Monetary Financial Institutions sector, long-term financial liabilities, provisions, interest accrued and unpaid and other liabilities, less fixed and other assets.

The Money Market

The Central Bank uses short term money market instruments and open market operations, which generally have an original maturity of up to one year in order to pursue monetary policy. These instruments are used in order to influence the level of liquidity in the banking system and consequently the economy. Money markets activity and open market operations also help the Central Bank to keep

its main policy strategy of price stability. Activity in the money market includes Treasury bills while open market operations include the repo market, term deposits and the inter-bank market lending. No disruptions to prevailing monetary conditions were noted as Malta entered the ERM II.

Throughout the first quarter of 2005, the Monetary Policy Council of the Central Bank of Malta left the central intervention rate unchanged at 3.0 per cent. However, on April 8, the Bank's central intervention rate was raised by 25 basis points to 3.25 per cent, the first increase since September 2003. There was no other increase in the central intervention rate for the rest of the Survey period. Such increase in the interest rates was primarily intended to mitigate the level of credit and dampen inflationary pressures.

The Central Bank continued to absorb liquidity from the rest of the banking system mainly through weekly auctions of 14-day term deposits. As from September 15, the Central Bank started to issue 7-day maturity auction term deposits and reverse repos, replacing the 14-day term deposit auctions and reverse repos which have been issued since July 1999. The Central Bank absorbed Lm649.6 million, down from Lm2,193.1 million during the commensurate period last year, a reduction of 70.1 per cent. The interest rate paid on these deposits increased during the Survey period from 2.95 per cent to 3.20 per cent reflecting the increase in the Central Bank intervention rate. At 40 deals, 14-day term deposits were the most popular. For the first time since December 2001, the Central Bank also injected liquidity into the system through reverse repo agreements. In fact, the aggregate value of transacted repos reached Lm79.6 million during the Survey period. The interest rate on reverse repost was of 3.27 per cent in September 2005. This rate reflects the corridor linked to the Central Intervention Rate, plus 5 basis points for reverse repos.

During the Survey period, activity in the inter-bank market continued to increase, following the upward trend registered last year. The value of inter-bank loans increased from Lm185.8 million in December 2004 to Lm304.7 million in September 2005. A total of 17 overnight inter-bank deals were conducted between January and September 2005. The interest rate on the seven day inter-bank lending also increased from 2.95 per cent to 3.26 per cent between January and September 2005. Meanwhile 39 deals were transacted in the 7-day term deposits.

A total of Lm331.2 million worth of Treasury bills were issued on the primary Treasury bills market during the Survey period, as compared to Lm472.7 million issued over the same period last year. Treasury bills are mainly used by the

Government to finance short term financing requirements. The bulk of the trading was in Treasury bills with a maturity period of 91 days. Short-term money market rates remained stable during the first three months of the year, before moving up in line with the official rates in April. The yield on the one-month bill and the three-month bill increased from 2.96 per cent in December 2004 to 3.26 per cent in September 2005. In the primary market, the rate for the six-month and one-year Treasury bill stood at 3.26 per cent and 3.40 per cent respectively.

Turnover in the secondary market for Treasury bills increased from Lm84.2 million in September 2004 to Lm111.7 million in September 2005. The value of transactions involving the Central Bank also increased from Lm20.5 million to Lm91.6 million during the period under review. In tandem with the primary markets, yields in the secondary market also increased. The interest rate on the six-month and one-year secondary market Treasury bill stood at 3.28 per cent and 3.42 per cent, up from 2.99 per cent and 3.00 per cent in 2004 respectively.

The Capital Market

Government continued to resort to capital market instruments for the financing of the deficit through seven new issues of stocks and four re-issues. Between January and September 2005, the total value of the new issues amounted to Lm165.3 million. In March, a total of Lm40 million was issued in two separate bonds of different maturities, MGS 2021 FI and MGS 2012 FI. Subsequently, there were three other new issues between May and July, namely MGS 2021 FI Tranche B, MGS 2012 FI Tranche B and MGS 2015 (III). Moreover, in August, there were two new issues amounting to Lm65 million. These were issued under MGS 2012 (III) FI Tranche C and MGS 2021 FI Tranche C. Coupon rates on the new issues ranged between 5.0 per cent and 5.7 per cent. There was a general over subscription to these stocks.

During the Survey period, nine stocks were redeemed, four of which were followed by a re-issue. The total value of the redemptions was Lm209.5 million. Such redemptions were followed by re-issues worth Lm59.5 million. In May, there was the redemption of MGS 2005 totaling Lm23.5 million. Moreover, a further redemption of Lm31.5 million was done in August. During September there were three other redemptions of a total of Lm95 million.

Between January and September 2005, there were no new corporate bond issues registered in the primary market. However, there was a re-issue of Lm20

million worth of the 7.25 per cent HSBC loan stock. This re-issue was registered in June.

Successive to the increase in turnover in the secondary market for Government bonds registered during the first nine months of 2004, the turnover in Government securities continued to increase from Lm41.5 million to Lm58.8 million in the January-September 2005 period. A total of 2,565 deals were recorded on the Malta Stock Exchange with an average value of Lm20,848 per transaction based on the nominal value of the bonds. The highest turnover was registered in the 5 per cent MGS 2021 FIC, 5 per cent MGS 2021 and 7.2 per cent MGS 2008 (II). The highest volume of transactions in Government bonds in the secondary market was recorded in the 5 per cent MGS 2021 FIC with a volume of 5.4 million in 200 deals. Table 8.5 shows selected values of the activity on the secondary market in Government stock. As indicated in this Table, the value transacted by the Central Bank was Lm12.0 million while other investors took up Lm46.7 million.

During the period under review, the turnover in the corporate secondary bond market increased from Lm6.1 million to Lm6.3 million. The listed bonds with the highest turnover were the Malta Government Privatisation plc bonds (2005), 8 per cent Bay Street Finance plc Bonds 2012 and 6.7 per cent Eden Finance

| Government Stocks Activity on the Secondary Market | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Table 8.5 | | | | |
| | 2005 Jan/Mar | 2005 Apr/Jun | 2005 Jul/Sep | 2005 Jan/Sep |
| Turnover in Government Stocks: | | | | |
| Nominal Value (Lm million) | 21.2 | 21.6 | 10.7 | 53.5 |
| Market Value (Lm million) | 23.6 | 23.8 | 11.4 | 58.8 |
| Number of Transactions | 744 | 911 | 910 | 2,565 |
| Average Value per Transaction (Lm)* | 28,461 | 23,684 | 11,785 | 20,848 |
| Amount sold by CBM (Lm million)** | 8.5 | 0.3 | 0.0 | 8.8 |
| Amount bought by CBM (Lm million)** | 0.5 | 2.0 | 0.7 | 3.2 |
| * Based on Nominal Values | | | | |
| ** Based on Market Values | | | | |
| Source: Central Bank of Malta | | | | |

Selected Indicators of the Capital Market

Table 8.6

| | 2005 Jan/Mar | 2005 Apr/Jun | 2005 Jul/Sep | 2005 Jan/Sep |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Corporate Bonds* | | | | |
| Number of Listings** | 28 | 28 | 28 | 28 |
| Turnover (Lm million) | 3.7 | 1.5 | 1.1 | 6.3 |
| Turnover/GDP (%) | 0.8 | 0.3 | 0.2 | 0.4 |
| Equities* | | | | |
| Number of Issues Outstanding** | 13 | 13 | 13 | 13 |
| Turnover (Lm million) | 10.6 | 6.7 | 10.7 | 28.0 |
| Turnover/GDP (%) | 2.4 | 1.4 | 2.1 | 1.7 |
| Total Listed Securities* | | | | |
| Total Turnover (Lm million) | 14.3 | 8.2 | 11.8 | 34.3 |
| Total Turnover/GDP (%) | 3.3 | 1.7 | 2.4 | 2.4 |
| Market Capitalisation (Lm million)** | 2,342.4 | 2,405.9 | 2,602.2 | 2,602.2 |
| MSE Ord. Share Index** | 3,441.9 | 3,431.1 | 3,937.7 | 3,937.7 |

*Including the Alternative Companies listing

**As at end of period

Source: Malta Stock Exchange

plc Bonds 2010. Table 8.6 shows selected indicators of the capital market. As indicated, the number of bond listed on the secondary market stood at 28 companies.

Activity on the secondary equity market stood at Lm23.6 million. The highest trading companies on the secondary market for equities were First International Merchant Bank plc, Maltacom plc and HSBC Bank Malta plc.

The Malta Stock Exchange Index closed at a value of 3,937.7 at the end of September 2005. This translates to a 37.6 per cent increase in the Malta Stock Exchange share index over the same period last year. Correspondingly, market capitalization increased from Lm1,038.0 million to Lm 2,602.2 million over the commensurate period last year.

The Maltese Lira

Between January and September 2005, there have been some major developments to the local currency. As from April 2005, the local banks started to quote and publish the exchange rate of the Maltese lira against the Euro only

in terms of units of Maltese lira per one Euro. This is in line with the market convention for quotations for the Euro against other currencies.

In May 2005, Malta has officially entered into the ERM II. As a result, the pegging of the Maltese lira was changed from a three currency basket peg to a single currency peg. Thus, the Maltese lira was pegged to the Euro, which already had a 70 per cent weight in the three currency basket pegging. The Maltese lira has entered the ERM II at a central parity rate of EUR/MLT 0.4293. Cyprus and Latvia also joined the ERM II on the same date.

Subsequent to the peak of the US Dollar against the Euro in January 2005, the value of the Euro has pursued a general depreciation trend which also reflects monetary tightening in the US. At the same period, the Maltese Lira depreciated against the major currencies under review except the Euro. The developments of the Maltese lira against the major currencies are presented in Table 8.7 and Chart 8.6.

Movements in the Exchange Rates of the Maltese Lira

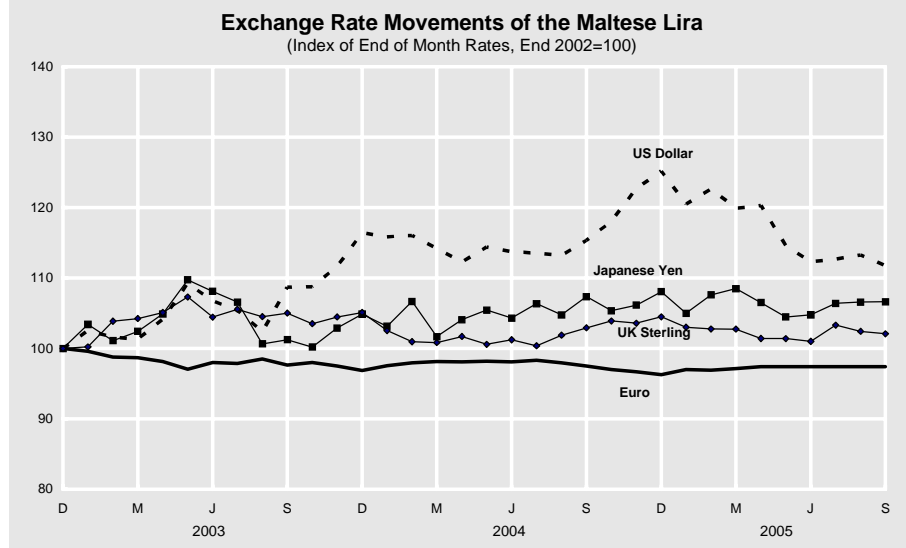
Table 8.7

| Currency | End of Period | Exchange Rate | % change over Previous Period |
|------------------------|---------------|---------------|-------------------------------|
| US Dollar (MTL/USD) | Dec-02 | 2.5074 | 13.34 |
| | Dec-03 | 2.9197 | 16.44 |
| | Dec-04 | 3.1393 | 7.52 |
| | Sep-05 | 2.8019 | -10.75 |
| UK Sterling (MTL/GBP) | Dec-02 | 1.5553 | 0.19 |
| | Dec-03 | 1.6351 | 5.13 |
| | Dec-04 | 1.6252 | -0.61 |
| | Sep-05 | 1.5879 | -2.30 |
| Japanese Yen (MTL/JPY) | Dec-02 | 297.662 | 2.49 |
| | Dec-03 | 312.160 | 4.87 |
| | Dec-04 | 321.710 | 3.06 |
| | Sep-05 | 317.424 | -1.33 |
| Euro (EUR/MTL) | Dec-02 | 0.4182 | 4.51 |
| | Dec-03 | 0.4317 | 3.22 |
| | Dec-04 | 0.4343 | 0.61 |
| | Sep-05 | 0.4293 | -1.16 |

All the above exchange rates denote units of foreign currency per one Maltese lira, with the exception of the euro, for which the rate denotes units of Maltese lira per one euro. As a result, an increase in the EUR/MTL exchange rate implies a depreciation of the Maltese lira against the euro and vice versa.

Source: Central Bank of Malta

Chart 8.6



The value of the Maltese lira against the Euro rose marginally during the first four months of 2005, when it was then fixed according to the central parity rate of the date of entrance in the ERM II. The Maltese lira stood at Lm0.4343 against the Euro at the end of 2004, reaching a peak of Lm0.4342 on January 4. Thereafter, the value of the Maltese lira against the Euro continued to appreciate reaching a low of Lm0.4291 on April 29.

Following the slower appreciation of the Maltese lira against the US dollar in December 2004 over the previous year, the Maltese lira registered a subsequent depreciation against the US dollar of 10.7 per cent during the Survey period, reflecting the downward trend of the Euro against the dollar. The Maltese lira declined from a high of USD3.1044 on January 3 to a low of USD2.7721 on July 5. The Maltese lira appreciated slightly at the end of the third quarter to USD 2.8019.

The Maltese lira registered a marginal depreciation against the Sterling following the drop of 0.61 per cent at the end of 2004. From a high of GBP1.6301 on January 4, the value of the Maltese lira depreciated to a low of GBP1.5436 on June 24. By the end of September the Maltese lira appreciated slightly to GBP1.5879.

During the period under review, the Maltese lira registered a loss of 1.33 per cent against the Japanese Yen. The Maltese lira registered a high of Yen325.7414

on April 11 and then depreciated to a low of Yen305.0082 on June 23. The Maltese lira strengthened marginally by the end of September to Yen317.424.

Government Revenue
(January-September)

Appendix Table 8.1

Lm thousand

| | 2002 | 2003 | 2004 | 2005 |
|-------------------------------|---------|---------|---------|---------|
| Tax Revenue | 438,895 | 443,598 | 472,009 | 499,994 |
| Direct Tax Revenue | 246,818 | 250,969 | 258,690 | 265,698 |
| Income Tax | 125,541 | 125,001 | 133,894 | 139,733 |
| Social Security | 121,277 | 125,968 | 124,796 | 125,965 |
| Indirect Tax Revenue | 192,077 | 192,630 | 213,318 | 234,297 |
| Customs and Excise Duties | 44,137 | 44,942 | 42,420 | 47,153 |
| Licences, Taxes and Fines | 64,721 | 61,624 | 73,325 | 65,618 |
| Value Added Tax | 83,219 | 86,064 | 97,573 | 121,526 |
| Non-Tax Revenue | 66,661 | 52,985 | 66,208 | 106,938 |
| Fees of Office | 10,571 | 4,214 | 4,144 | 18,380 |
| Reimbursements | 4,790 | 3,525 | 5,802 | 5,410 |
| Rents | 6,966 | 8,087 | 6,354 | 7,410 |
| Dividends on Investments | 13,222 | 2,616 | 3,637 | 2,847 |
| Repayment of, and Interest on | | | | |
| Loans made by Government | 31 | 66 | 14 | 13 |
| Miscellaneous Receipts | 2,343 | 5,696 | 10,197 | 16,670 |
| Public Corporations | 1,883 | 1,883 | 1,883 | 1,883 |
| Central Bank of Malta | 25,682 | 24,783 | 18,233 | 14,001 |
| Grants | 1,173 | 2,115 | 15,944 | 40,324 |
| Recurrent Revenue | 505,555 | 496,583 | 538,217 | 606,932 |
| Extraordinary Receipts | 19,048 | 2,137 | 8,899 | 4,929 |
| Loans | 0 | 102,129 | 70,448 | 110,000 |
| Total Revenue | 524,602 | 600,849 | 617,565 | 721,861 |

Source: The Treasury

Government Recurrent Expenditure
(January-September)

Appendix Table 8.2

Lm thousand

| | 2002 | 2003 | 2004 | 2005 |
|---|---------|---------|---------|---------|
| Office of the President | 563 | 532 | 597 | 439 |
| House of Representatives | 711 | 646 | 824 | 831 |
| Office of the Ombudsman | 150 | 120 | 130 | 130 |
| National Audit Office | 550 | 600 | 650 | 575 |
| Office of the Prime Minister | 3,012 | 3,098 | 3,712 | 3,493 |
| Public Service Commission | 98 | 100 | 98 | 96 |
| Armed Forces of Malta | 8,961 | 9,617 | 9,016 | 9,307 |
| Information | 865 | 872 | 389 | 333 |
| Government Printing Press | 0 | 0 | 400 | 371 |
| Electoral Office | 1,151 | 2,340 | 1,143 | 940 |
| Ministry for the Family and Social Solidarity | 4,586 | 5,535 | 3,893 | 4,661 |
| Social Security | 39,024 | 40,570 | 39,949 | 39,877 |
| Social Security Benefits | 141,788 | 150,258 | 155,561 | 163,686 |
| Family and Social Welfare | 447 | 541 | 486 | 412 |
| Elderly and Community Care | 9,461 | 10,170 | 10,273 | 9,289 |
| Housing | 561 | 551 | 807 | 917 |
| Industrial and Employment Relations | 379 | 396 | 421 | 398 |
| Ministry of Education, Youth and Employment | 24,858 | 27,770 | 27,843 | 33,572 |
| Education | 35,823 | 36,984 | 35,406 | 35,714 |
| Libraries and Archives | 486 | 504 | 472 | 447 |
| Ministry of Finance | 1,651 | 1,841 | 14,374 | 23,064 |
| Treasury | 963 | 902 | 7,826 | 1,214 |
| Pensions | 20,817 | 21,088 | 21,528 | 23,736 |
| Inland Revenue | 3,978 | 3,549 | 3,798 | 4,867 |
| Customs | 4,627 | 3,920 | 3,648 | 3,785 |
| V.A.T. | 2,333 | 2,419 | 2,465 | 2,381 |
| Contracts | 250 | 268 | 270 | 298 |
| Ministry for Resources and Infrastructure | 17,413 | 17,711 | 15,582 | 12,053 |
| Ministry for Tourism and Culture | 1,998 | 1,958 | 1,896 | 3,575 |
| Civil Aviation | 588 | 432 | 403 | 371 |
| Economic Policy | 582 | 634 | 466 | 228 |
| Commerce | 1,432 | 1,782 | 2,132 | 1,444 |
| Consumer and Competition | 305 | 397 | 327 | 376 |

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 continued

Lm thousand

| | 2002 | 2003 | 2004 | 2005 |
|--|----------------|----------------|----------------|----------------|
| Ministry for Justice and Home Affairs | 1,410 | 2,845 | 1,936 | 1,908 |
| Police | 11,181 | 12,242 | 11,735 | 11,191 |
| Correctional Services | 1,766 | 1,819 | 1,821 | 2,059 |
| Civil Protection | 944 | 935 | 1,027 | 1,026 |
| Government Property Division | 603 | 1,885 | 951 | 1,012 |
| Registration | 519 | 633 | 629 | 743 |
| Ministry for Rural Affairs and the Environment | 6,379 | 12,313 | 13,021 | 21,051 |
| Ministry for Gozo | 14,520 | 15,175 | 13,531 | 14,106 |
| Ministry of Health, the Elderly and Community Care | 50,423 | 52,891 | 55,410 | 54,149 |
| Local Councils | 5,436 | 5,541 | 5,371 | 5,615 |
| Judicial | 2,692 | 2,722 | 2,922 | 2,797 |
| Ministry of Foreign Affairs | 5,370 | 5,709 | 5,467 | 6,079 |
| Ministry for Investment, Industry and IT | 0 | 0 | 29,630 | 32,870 |
| [Ministry for Competitiveness and Communications] | 0 | 0 | 0 | 2,113 |
| [Ministry for Urban Development and Roads] | 0 | 0 | 0 | 3,853 |
| [Ministry for Transport and Communications] | 3,359 | 3,554 | 4,416 | 0 |
| [Ministry for Youth and the Arts] | 0 | 0 | 3,481 | 0 |
| [Youth and Sport] | 783 | 801 | 0 | 0 |
| [Ministry for Economic Services] | 29,040 | 30,513 | 0 | 0 |
| [Ministry of Justice and Local Government] | 1,371 | 1,700 | 0 | 0 |
| [Museums] | 1,027 | 0 | 0 | 0 |
| [Culture and the Arts] | 814 | 0 | 0 | 0 |
| [Environment Protection] | 443 | 0 | 0 | 0 |
| [Joint Office] | 2,483 | 0 | 0 | 0 |
| Recurrent Expenditure | 470,974 | 499,383 | 518,133 | 543,452 |

Note: [] denotes change in name of cost-centres

Source: The Treasury

Government Capital Expenditure

(January-September)

Appendix Table 8.3

Lm thousand

| | 2002 | 2003 | 2004 | 2005 |
|---------------------------------------|--------|--------|--------|--------|
| Productive Investment | 26,446 | 23,437 | 17,860 | 23,200 |
| Ship Repair and Shipbuilding | 10,419 | 4,459 | 0 | 0 |
| Development of Industries | 3,714 | 4,694 | 2,231 | 3,171 |
| Agriculture and Fisheries | 566 | 1,379 | 1,236 | 911 |
| Tourism | 7,904 | 8,351 | 8,628 | 7,936 |
| Public Buildings, Plant and Equipment | 3,803 | 4,342 | 5,663 | 10,966 |
| Capital Expenditure for Gozo | 41 | 212 | 102 | 216 |
| Infrastructure | 21,700 | 23,612 | 27,190 | 32,860 |
| Roads | 7,089 | 5,172 | 3,215 | 3,139 |
| Sewers | 1,836 | 1,885 | 1,061 | 2,363 |
| Development of Malta Freeport | 2,872 | 2,206 | 3,457 | 2,562 |
| Public Buildings, Plant and Equipment | 9,357 | 13,469 | 18,944 | 24,307 |
| Capital Expenditure for Gozo | 547 | 880 | 513 | 489 |
| Social | 22,817 | 37,129 | 30,583 | 37,046 |
| Education | 3,567 | 5,144 | 4,089 | 2,997 |
| Culture | 287 | 165 | 220 | 299 |
| Sports | 500 | 545 | 400 | 62 |
| Health | 15,489 | 27,520 | 22,175 | 30,388 |
| Care of the Elderly | 54 | 133 | 320 | 151 |
| Housing | 1,699 | 1,568 | 1,297 | 346 |
| Public Buildings, Plant and Equipment | 979 | 1,843 | 1,972 | 2,662 |
| Capital Expenditure for Gozo | 242 | 211 | 110 | 141 |
| Total Capital Expenditure | 70,963 | 84,178 | 75,633 | 93,106 |

Source: The Treasury

Statistical Annex

Table I

Population

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 Jan/Sep | 2004 Jan/Sep | 2005 Jan/Sep |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-----------------|-----------------|-----------------|
| Maltese Population (000's) | | | | | | | | | | | |
| Males (000's) | 376.5 | 378.5 | 380.2 | 382.5 | 385.1 | 386.9 | 388.9 | 390.7 | 388.4 | 390.3 | 392.1 |
| Females (000's) | 186.7 | 187.7 | 188.6 | 189.7 | 191.0 | 192.0 | 192.9 | 193.9 | 192.7 | 193.7 | 194.7 |
| % Increase per annum | 189.8 | 190.8 | 191.6 | 192.8 | 194.1 | 194.9 | 195.9 | 196.8 | 195.7 | 196.6 | 197.4 |
| | 0.7 | 0.5 | 0.4 | 0.6 | 0.7 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Natural Increase per annum | 1,947 | 1,444 | 1,211 | 1,298 | 924 | 774 | 830 | 783 | ... | ... | ... |
| Crude Birth Rate (per 1000 population) | 12.8 | 11.9 | 11.3 | 11.1 | 10.0 | 9.8 | 10.0 | 9.5 | ... | ... | ... |
| Crude Mortality Rate (per 1000 population) | 7.7 | 8.0 | 8.1 | 7.7 | 7.6 | 7.8 | 7.9 | 7.5 | ... | ... | ... |
| Crude Marriage Rate (per 1000 population) | 6.4 | 6.3 | 6.3 | 6.7 | 5.7 | 5.8 | 6.0 | 6.2 | ... | ... | ... |
| Infant Mortality Rate (per 1000 births) | 6.4 | 5.3 | 7.2 | 6.1 | 4.4 | 6.0 | 5.9 | 5.9 | ... | ... | ... |
| Life Expectancy (at birth) | | | | | | | | | | | |
| Males | 74.9 | 74.4 | 75.1 | 74.3 | 76.1 | 75.7 | 76.4 | 76.7 | ... | ... | ... |
| Females | 80.1 | 80.1 | 79.3 | 80.2 | 80.9 | 80.5 | 80.4 | 80.5 | ... | ... | ... |
| Life Expectancy (at age 65) | | | | | | | | | | | |
| Males | 14.6 | 14.5 | 15.1 | 15.0 | 15.4 | 15.0 | 15.7 | 16.4 | ... | ... | ... |
| Females | 18.4 | 17.9 | 17.6 | 18.4 | 18.6 | 19.0 | 18.7 | 18.8 | ... | ... | ... |

Source: National Statistics Office

Social Indicators

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP at current market prices per capita (Lm) | ... | ... | ... | 4,344 | 4,406 | 4,519 | 4,610 | 4,679 |
| Quality of Life | | | | | | | | |
| Motor Vehicle Licences per 1000 population | ... | 595.2 | 614.5 | 630.6 | 643.9 | 657.8 | 673.9 | 673.4 |
| Internet Subscriptions per 1000 population | 33.5 | 58.8 | 63.8 | 83.1 | 130.1 | 168.6 | 195.7 | 218.2 |
| Mobile Phone Subscriptions per 1000 population | 39.3 | 49.0 | 62.5 | 289.8 | 559.0 | 696.9 | 725.0 | 765.8 |
| Fixed Telephone Lines per 1000 population | 483.1 | 495.7 | 508.7 | 521.7 | 526.5 | 521.7 | 520.9 | 523.3 |
| Education | | | | | | | | |
| Number of schools | 347 | 340 | 350 | 331 | 319 | 303 | 303 | 289 |
| Number of teachers (000) | 7.6 | 7.7 | 7.9 | 8.2 | 8.4 | 8.5 | 8.7 | 8.9 |
| Number of pupils/students (000) | 99.2 | 98.5 | 100.5 | 99.5 | 99.5 | 97.8 | 102.6 | 103.3 |
| of which: | | | | | | | | |
| University students (Day Courses) | 5,770 | 6,183 | 6,064 | 5,554 | 6,281 | 5,852 | 6,692 | 6,617 |
| Electricity | | | | | | | | |
| Total Generated (000 Mwh)* | 1,685.9 | 1,720.5 | 1,840.3 | 1,916.6 | 1,943.4 | 2,055.1 | 2,208.0 | 2,216.1 |
| Number of Consumers (000)* | 206.9 | 207.5 | 217.6 | 226.9 | 213.8 | 220.0 | 234.5 | 236.0 |
| Domestic Consumption (million kwh)* | 461.8 | 502.0 | 463.7 | 539.8 | 540.3 | 561.9 | 623.7 | 623.7 |
| Water | | | | | | | | |
| Total annual production (million m ³) | 43.7 | 39.9 | 37.3 | 32.7 | 33.6 | 34.1 | 34.2 | 32.8 |
| Average daily consumption (000 m ³) | 119 | 108 | 102 | 90 | 92 | 93 | 94 | 90 |
| Social Security | | | | | | | | |
| Total Payments (Lm million) | 211.1 | 227.8 | 237.3 | 251.9 | 266.7 | 275.4 | 292.2 | 308.4 |
| Total Contributions (Lm million) | 142.2 | 135.7 | 144.3 | 162.0 | 179.1 | 181.1 | 188.4 | 189.7 |
| Welfare Gap (Lm million) | 68.9 | 92.1 | 93.0 | 89.9 | 87.7 | 94.2 | 103.8 | 118.7 |

*Refer to Financial Year

Source: National Statistics Office
The Treasury

Factor Incomes in Gross National Income

| Table III | Lm million | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| | | | | Jan/Sep | Jan/Sep | Jan/Sep |
| Compensation of employees | 745.3 | 802.2 | 827.0 | 856.2 | 864.4 | 645.7 |
| Gross operating surplus | | | | | | |
| and mixed income | 725.0 | 692.1 | 709.0 | 733.3 | 713.9 | 551.8 |
| Taxes on production and imports | 214.4 | 229.8 | 249.9 | 242.9 | 285.2 | 540.5 |
| Subsidies | 23.0 | 27.3 | 37.3 | 39.7 | 35.5 | 203.8 |
| | | | | | | 26.5 |
| Gross Domestic Product | | | | | | |
| at market prices | 1,661.7 | 1,696.8 | 1,748.5 | 1,792.7 | 1,828.0 | 1,366.1 |
| | | | | | | 1,417.1 |
| Net Income from Abroad | -53.1 | 11.1 | 2.6 | -11.1 | -28.0 | 10.3 |
| | | | | | | -24.9 |
| | | | | | | -25.4 |
| Gross National Income | | | | | | |
| at market prices | 1,608.6 | 1,707.9 | 1,751.0 | 1,781.5 | 1,800.0 | 1,345.6 |
| | | | | | | 1,341.3 |
| | | | | | | 1,391.7 |
| Sectoral Contribution to Gross Value Added | | | | | | |
| (at basic prices) | | | | | | |
| Agriculture, hunting and forestry ⁽¹⁾ | 2.3 | 2.6 | 2.6 | 2.5 | 2.5 | 2.4 |
| Industry ⁽²⁾ | 29.7 | 26.8 | 26.8 | 25.9 | 24.0 | 26.0 |
| Services Activities | 68.0 | 70.6 | 70.7 | 71.6 | 73.5 | 71.5 |
| | | | | | | 73.4 |
| | | | | | | 74.5 |

⁽¹⁾Includes fishing and operation of fish hatcheries and fish farms

⁽²⁾Includes energy and construction

Source: National Statistics Office

Table IV
Gross National Income and Expenditure

| | Lm million | | | | | |
|--|------------|---------|---------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| | | | | Jan/Sep | Jan/Sep | Jan/Sep |
| GNI at current market prices | 1,608.6 | 1,707.9 | 1,751.0 | 1,781.5 | 1,800.0 | 1,345.6 |
| % annual increase of GNI | ... | 6.2 | 2.5 | 1.7 | 1.0 | 0.3 |
| GDP at current market prices | 1,661.7 | 1,696.8 | 1,748.5 | 1,792.7 | 1,828.0 | 1,335.3 |
| % annual increase of GDP | ... | 2.1 | 3.0 | 2.5 | 2.0 | 1.9 |
| GDP at constant prices | 1,661.7 | 1,666.3 | 1,683.7 | 1,648.2 | 1,651.5 | 1,220.5 |
| | | | | | | 1,230.3 |
| | | | | | | 1,251.6 |
| Total Final Consumption Expenditure | | | | | | |
| current market prices | 1,399.4 | 1,443.3 | 1,471.3 | 1,519.9 | 1,565.7 | 1,135.2 |
| constant prices | 1,399.4 | 1,395.8 | 1,400.3 | 1,430.7 | 1,425.3 | 1,070.6 |
| Ratio (%) of consumption to GDP at m.p. | 84.2 | 85.1 | 84.1 | 84.8 | 85.7 | 85.1 |
| | | | | | | 84.8 |
| | | | | | | 82.9 |
| General Government Final Consumption Expenditure | | | | | | |
| current market prices | 327.3 | 356.6 | 376.5 | 395.5 | 412.0 | 299.9 |
| constant prices | 327.3 | 326.7 | 339.8 | 349.7 | 352.2 | 265.5 |
| Ratio (%) of government consumption to GDP at m.p. | 19.7 | 21.0 | 21.5 | 22.1 | 22.5 | 22.5 |
| | | | | | | 22.5 |
| | | | | | | 21.3 |
| Private Final Consumption Expenditure⁽¹⁾ | | | | | | |
| current market prices | 1,072.2 | 1,086.7 | 1,094.8 | 1,124.4 | 1,153.6 | 835.3 |
| constant prices | 1,072.2 | 1,069.2 | 1,060.4 | 1,081.0 | 1,073.1 | 805.1 |
| Ratio (%) of private consumption to GDP at m.p. | 64.5 | 64.0 | 62.6 | 62.7 | 63.1 | 62.6 |
| Ratio (%) of private consumption to disposal income | 97.7 | 96.6 | 95.0 | 95.9 | 99.0 | 93.0 |
| | | | | | | 95.7 |
| | | | | | | 94.2 |
| Gross Fixed Capital Formation | | | | | | |
| current market prices | 371.3 | 332.6 | 271.5 | 359.9 | 380.3 | 271.4 |
| constant prices | 371.3 | 321.1 | 253.9 | 333.6 | 348.4 | 251.6 |
| Ratio (%) fixed investment to GDP at m.p. | 22.3 | 19.6 | 15.5 | 20.1 | 20.8 | 20.3 |
| | | | | | | 20.4 |
| | | | | | | 21.1 |

⁽¹⁾Including NPISH final consumption expenditure

Source: National Statistics Office

Table V

Labour

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 Sep | 2004 Sep | 2005 Sep |
|---|---------|---------|---------|---------|---------|---------|---------|---------|-------------|-------------|-------------|
| Labour Supply | 140,553 | 140,899 | 142,499 | 143,947 | 145,095 | 144,981 | 144,930 | 145,220 | 145,568 | 145,740 | 145,023 |
| Gainfully Occupied | 132,860 | 132,989 | 134,193 | 136,759 | 137,662 | 137,465 | 136,755 | 137,117 | 137,626 | 137,600 | 137,813 |
| Males | 97,081 | 96,452 | 96,607 | 97,856 | 98,174 | 97,653 | 96,672 | 96,604 | 97,567 | 97,019 | 96,830 |
| Females | 35,779 | 36,537 | 37,586 | 38,903 | 39,488 | 39,812 | 40,083 | 40,513 | 40,059 | 40,581 | 40,983 |
| Private Direct Production | 34,099 | 33,891 | 33,559 | 34,332 | 34,677 | 34,600 | 33,337 | 32,995 | 33,665 | 33,229 | 32,788 |
| of which: | | | | | | | | | | | |
| Construction | 6,148 | 5,952 | 6,200 | 6,710 | 7,088 | 7,462 | 7,293 | 7,510 | 7,323 | 7,502 | 7,654 |
| Manufacturing | 25,288 | 25,310 | 24,857 | 25,093 | 25,102 | 24,617 | 23,464 | 22,913 | 23,762 | 23,143 | 22,942 |
| Others | 2,663 | 2,629 | 2,502 | 2,529 | 2,487 | 2,521 | 2,580 | 2,572 | 2,580 | 2,584 | 2,592 |
| Private Market Services | 47,648 | 48,380 | 52,111 | 53,190 | 53,322 | 54,631 | 55,006 | 57,444 | 55,881 | 57,144 | 59,134 |
| of which: | | | | | | | | | | | |
| Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods) | 18,854 | 19,134 | 19,615 | 19,850 | 19,721 | 20,131 | 20,456 | 20,858 | 20,486 | 20,804 | 20,942 |
| Hotels and Restaurants | 7,952 | 7,840 | 8,196 | 8,420 | 8,324 | 8,064 | 8,048 | 7,877 | 8,261 | 8,192 | 8,083 |
| Transport Storage and Communications | 5,450 | 5,539 | 5,742 | 5,475 | 5,392 | 5,715 | 5,631 | 6,257 | 5,687 | 5,744 | 6,401 |
| Financial Intermediation | 2,648 | 2,772 | 4,713 | 4,702 | 4,643 | 4,570 | 4,584 | 4,539 | 4,591 | 4,556 | 4,610 |
| Others | 12,744 | 13,095 | 13,845 | 14,743 | 15,242 | 16,151 | 16,887 | 17,913 | 16,856 | 17,848 | 19,098 |
| Public Sector | 50,267 | 49,737 | 47,455 | 48,031 | 48,487 | 47,160 | 46,832 | 45,752 | 47,097 | 46,338 | 45,061 |
| of which: | | | | | | | | | | | |
| Government Departments | 32,088 | 32,151 | 32,097 | 32,142 | 32,379 | 31,921 | 31,960 | 31,564 | 31,735 | 31,580 | 30,960 |
| Independent Statutory Bodies | 10,308 | 8,227 | 8,165 | 8,173 | 8,333 | 7,981 | 8,588 | 8,608 | 8,163 | 8,533 | 8,579 |
| Companies with Public Sector majority shldg of which: | 7,871 | 9,359 | 7,193 | 7,716 | 7,775 | 7,258 | 6,284 | 5,580 | 7,199 | 6,225 | 5,522 |
| Direct Production | 1,547 | 1,510 | 1,124 | 1,097 | 1,084 | 960 | 260 | 246 | 955 | 245 | 209 |
| Market Services | 6,324 | 7,849 | 6,069 | 6,619 | 6,691 | 6,298 | 6,024 | 5,334 | 6,244 | 5,980 | 5,313 |
| Temporary Employment | 846 | 981 | 1,068 | 1,206 | 1,176 | 1,074 | 980 | 926 | 983 | 889 | 830 |
| Registered Unemployed* | 7,693 | 7,910 | 8,306 | 7,188 | 7,433 | 7,516 | 8,175 | 8,103 | 7,942 | 8,140 | 7,210 |
| Males | 6,475 | 6,775 | 7,090 | 6,142 | 6,161 | 6,174 | 6,606 | 6,511 | 6,265 | 6,505 | 5,571 |
| Females | 1,218 | 1,135 | 1,216 | 1,046 | 1,272 | 1,342 | 1,569 | 1,592 | 1,677 | 1,635 | 1,639 |
| Per cent of Labour Supply | 5.5% | 5.6% | 5.8% | 5.0% | 5.1% | 5.2% | 5.6% | 5.6% | 5.5% | 5.6% | 5.0% |
| of which unemployment under Part I (%) | 5.1% | 5.3% | 5.4% | 4.6% | 4.7% | 4.7% | 5.2% | 5.1% | 5.0% | 5.1% | 4.5% |
| Self Employed | 16,021 | 15,776 | 15,862 | 15,569 | 15,469 | 15,555 | 15,735 | 16,032 | 15,742 | 15,979 | 16,180 |

Note: Employment data has been revised

* Includes both Parts I and II of the registered unemployed

Source: Employment and Training Corporation

Tourism

Table VI

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 Jan-Sep | 2004 Jan-Sep | 2005 Jan-Sep |
|--|---------|---------|---------|---------|---------|---------|---------|---------|-----------------|-----------------|-----------------|
| Tourist Arrivals/Departures⁽¹⁾⁽²⁾ (000's) | | | | | | | | | | | |
| of which from: | | | | | | | | | | | |
| United Kingdom | 1,111.2 | 1,182.2 | 1,214.2 | 1,215.7 | 1,180.8 | 1,132.3 | 1,119.2 | 1,157.7 | 899.1 | 919.7 | 931.2 |
| Italy | 436.9 | 448.8 | 422.4 | 428.8 | 466.8 | 467.4 | 473.1 | 453.0 | 371.1 | 354.4 | 382.0 |
| Germany | 90.2 | 90.6 | 92.7 | 92.5 | 95.3 | 88.2 | 92.7 | 102.6 | 81.4 | 89.6 | 80.4 |
| Libya | 193.0 | 203.2 | 212.4 | 204.7 | 166.4 | 148.5 | 125.4 | 135.2 | 96.4 | 100.5 | 103.3 |
| Scandinavian Countries ⁽³⁾ | 39.3 | 37.5 | 45.0 | 43.3 | 32.4 | 25.0 | 17.5 | 12.8 | 14.3 | 10.1 | 8.7 |
| Other | 39.2 | 40.0 | 50.6 | 52.1 | 50.4 | 40.0 | 47.0 | 68.9 | 35.3 | 50.1 | 54.0 |
| | 312.5 | 362.2 | 391.1 | 394.3 | 369.5 | 363.2 | 362.5 | 385.2 | 300.6 | 315.0 | 302.8 |
| Cruise Passengers (000's) | 126.6 | 144.1 | 187.8 | 170.8 | 259.4 | 341.6 | 383.6 | 285.0 | 287.5 | 196.4 | 217.3 |
| Gross Income (Lm million) | 249.8 | 254.6 | 271.4 | 289.2 | 260.7 | 245.7 | 261.5 | 269.1 | 196.7 | 202.1 | 204.7 |
| as ratio (%) of exports of goods and services | 23.3 | 21.8 | 21.0 | 17.1 | 18.6 | 16.5 | 16.5 | 18.1 | 18.6 | 19.3 | 20.7 |
| Total Sector Employment in Hotels and Restaurants⁽⁴⁾ | 8,318 | 8,200 | 8,549 | 8,758 | 8,625 | 8,378 | 8,360 | 8,166 | 8,613 | 8,518 | 8,360 |
| % of Gainfully Occupied | 6.3 | 6.2 | 6.4 | 6.4 | 6.3 | 6.1 | 6.1 | 6.0 | 6.3 | 6.2 | 6.1 |
| Travel Abroad (000's) | 171.7 | 166.7 | 175.8 | 194.8 | 164.9 | 156.7 | 174.4 | 220.2 | 130.4 | 173.7 | 179.6 |
| Estimated Expenditure (Lm million) | 73.6 | 74.9 | 80.1 | 88.0 | 81.2 | 66.4 | 80.9 | 88.0 | 59.5 | 62.2 | 65.5 |
| Days Stayed / Nights Spent⁽⁵⁾ (000's) | 10,939 | 11,326 | 11,658 | 10,267 | 11,067 | 10,599 | 11,293 | 11,175 | 9,423 | 9,054 | 8,926 |
| % of which spent in : | | | | | | | | | | | |
| 5 star | 4.7 | 6.3 | 6.2 | 8.6 | 8.2 | 8.5 | 8.4 | 9.4 | 8.4 | 8.6 | 10.1 |
| 4 star | 24.1 | 25.2 | 26.1 | 23.8 | 26.2 | 29.6 | 27.9 | 32.7 | 27.9 | 31.8 | 33.4 |
| 3 star | 14.2 | 13.1 | 12.9 | 12.5 | 14.8 | 16.4 | 15.6 | 18.0 | 15.6 | 17.7 | 19.8 |
| 2 star | 3.8 | 3.3 | 2.5 | 2.1 | 1.8 | 1.7 | 1.8 | 1.3 | 1.8 | 1.2 | 0.9 |
| 1 star | 0.1 | 0.1 | 0.1 | 0.1 | - | - | - | - | - | - | - |
| Unclassified | - | 0.3 | 0.7 | 0.4 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 |
| Guest Houses | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.5 | 0.6 | 0.7 | 0.6 | 0.6 | 0.9 |
| Flats/Private Residences | 29.7 | 28.7 | 29.4 | 31.7 | 32.4 | 33.8 | 33.1 | 28.7 | 33.1 | 31.6 | 27.9 |
| Complexes/Tourist Villages/Apartments | 22.8 | 22.3 | 21.5 | 20.4 | 15.8 | 9.4 | 12.6 | 6.1 | 12.6 | 8.4 | 7.0 |

⁽¹⁾ As from 2001 tourism data is based on the Inbound Tourism Survey, and therefore is not directly comparable to previous periods

⁽²⁾ Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey

⁽³⁾ Including Denmark, Finland, Norway, Sweden

⁽⁴⁾ Employment data has been revised

⁽⁵⁾ With the removal of departure cards as from 1 January 2000, accommodation data is being compiled from arrival cards. For 2004 includes April-September sea nights from Inbound Tourism Survey

Sources: National Statistics Office
Employment & Training Corporation

| Foreign Trade | | | | | | | | | | Lm million | |
|--------------------------------------|--------|---------|---------|---------|---------|---------|---------|---------|-----------------|-----------------|-----------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 Jan/Sep | 2004 Jan/Sep | 2005 Jan/Sep |
| Imports and Exports | | | | | | | | | | | |
| Imports (cif) | 984.2 | 1,034.9 | 1,135.8 | 1,492.4 | 1,225.2 | 1,227.5 | 1,281.3 | 1,313.5 | 960.4 | 954.7 | 933.8 |
| Consumer goods | 254.3 | 248.4 | 276.8 | 304.2 | 304.3 | 319.7 | 336.6 | 371.0 | 245.5 | 266.9 | 279.1 |
| Industrial supplies | 573.6 | 627.0 | 690.9 | 950.1 | 720.4 | 707.7 | 734.0 | 702.8 | 556.5 | 504.4 | 494.3 |
| Capital goods and others | 156.3 | 159.6 | 168.0 | 238.0 | 200.5 | 200.0 | 210.7 | 239.7 | 158.4 | 183.4 | 160.4 |
| Total Exports | 628.9 | 712.0 | 791.0 | 1,072.4 | 860.7 | 968.4 | 928.3 | 904.6 | 684.6 | 681.4 | 595.3 |
| of which manufactures ⁽¹⁾ | 622.9 | 707.0 | 779.6 | 1,065.7 | 871.3 | 897.1 | 911.3 | 888.6 | 679.0 | 675.0 | 589.2 |
| Trade Gap | -355.3 | -322.9 | -344.8 | -420.0 | -344.5 | -259.1 | -353.0 | -408.9 | -275.8 | -273.3 | -338.5 |
| as % of GDP at current market prices | ... | ... | ... | -24.9 | -20.4 | -15.0 | -20.0 | -22.1 | -20.8 | -19.9 | -24.1 |
| Selected Groupings | | | | | | | | | | | |
| EU* | | | | | | | | | | | |
| Imports | 708.7 | 725.0 | 750.5 | 902.8 | 788.5 | 833.3 | 877.0 | 951.7 | 649.6 | 703.6 | 661.4 |
| Exports | 344.4 | 390.7 | 388.1 | 364.3 | 433.9 | 440.9 | 423.9 | 432.4 | 323.3 | 325.7 | 303.6 |
| United Kingdom: | | | | | | | | | | | |
| Imports | 145.1 | 128.2 | 123.8 | 119.7 | 123.1 | 127.7 | 118.6 | 157.4 | 89.7 | 116.8 | 103.4 |
| Exports | 51.2 | 54.6 | 73.2 | 78.0 | 76.2 | 112.2 | 109.0 | 101.3 | 80.7 | 79.2 | 67.9 |
| Italy: | | | | | | | | | | | |
| Imports | 199.1 | 199.4 | 189.9 | 249.7 | 243.5 | 271.7 | 294.4 | 335.9 | 218.1 | 243.7 | 269.8 |
| Exports | 35.7 | 33.4 | 39.0 | 36.1 | 30.2 | 32.7 | 31.5 | 27.0 | 24.5 | 20.6 | 24.4 |
| Germany | | | | | | | | | | | |
| Imports | 98.3 | 108.3 | 113.6 | 122.1 | 107.4 | 98.5 | 101.0 | 116.4 | 75.7 | 86.2 | 73.7 |
| Exports | 85.2 | 89.7 | 99.4 | 102.9 | 114.8 | 93.6 | 95.2 | 97.5 | 70.8 | 73.0 | 70.7 |
| France: | | | | | | | | | | | |
| Imports | 163.0 | 184.3 | 217.1 | 281.9 | 184.1 | 205.1 | 218.9 | 171.4 | 159.6 | 129.6 | 90.4 |
| Exports | 121.7 | 147.4 | 120.4 | 85.9 | 140.2 | 120.0 | 120.2 | 140.6 | 89.4 | 104.2 | 89.4 |
| America: | | | | | | | | | | | |
| Imports | 88.3 | 99.6 | 104.8 | 171.1 | 157.4 | 127.4 | 115.9 | 83.1 | 91.2 | 59.7 | 50.6 |
| Exports | 106.5 | 131.7 | 172.7 | 306.7 | 178.3 | 163.7 | 143.2 | 150.7 | 98.6 | 114.2 | 96.1 |
| Africa: | | | | | | | | | | | |
| Imports | 24.9 | 21.7 | 32.1 | 24.0 | 28.6 | 17.3 | 10.8 | 25.7 | 9.1 | 17.6 | 47.2 |
| Exports | 29.7 | 26.1 | 26.9 | 24.9 | 33.0 | 44.8 | 35.1 | 46.7 | 25.2 | 32.1 | 45.8 |
| Asia: | | | | | | | | | | | |
| Imports | 127.3 | 153.6 | 205.2 | 343.8 | 197.3 | 185.0 | 210.2 | 202.8 | 154.4 | 137.7 | 137.3 |
| Exports | 104.2 | 150.2 | 164.8 | 246.8 | 174.2 | 247.7 | 255.2 | 226.1 | 189.1 | 170.5 | 135.0 |

*As from 2004 considered by country of consignment

⁽¹⁾Including shipbuilding

Source: National Statistics Office

Table VIII

Balance of Payments

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 Jan/Sep | 2004 Jan/Sep | 2005 Jan/Sep |
|---|--------|--------|---------|---------|---------|---------|---------|---------|-----------------|-----------------|-----------------|
| Trade Balance ⁽¹⁾ (Lm million) | -277.9 | -260.6 | -265.2 | -331.0 | -254.7 | -154.2 | -259.1 | -289.4 | -206.3 | -183.3 | -259.5 |
| Imports (f.o.b.) (Lm million) | 919.9 | 969.0 | 1,070.3 | 1,418.7 | 1,155.3 | 1,153.4 | 1,201.6 | 1,203.6 | 901.9 | 870.5 | 870.2 |
| Exports ⁽²⁾ (f.o.b.) (Lm million) | 642.0 | 708.4 | 805.0 | 1,087.7 | 900.6 | 999.2 | 942.4 | 914.2 | 695.6 | 687.2 | 610.7 |
| Services-Net (Lm million) | 176.6 | 179.3 | 186.1 | 163.7 | 166.2 | 173.2 | 181.4 | 151.2 | 146.2 | 126.9 | 152.4 |
| Transport-net (Lm million) | -4.2 | 4.7 | 0.5 | -8.4 | 4.6 | -6.1 | -10.3 | -23.4 | -3.5 | -11.7 | 5.3 |
| Travel-net (Lm million) | 176.2 | 179.7 | 191.2 | 180.2 | 179.5 | 179.4 | 180.5 | 181.1 | 137.3 | 139.9 | 139.2 |
| Other Services-net (Lm million) | 4.5 | -5.1 | -5.6 | -8.1 | -18.0 | 0.0 | 11.2 | -6.5 | 12.4 | -1.3 | 7.9 |
| Income-Net (Lm million) | 3.4 | -25.4 | 12.9 | -53.1 | 11.1 | 2.6 | -11.1 | -22.8 | 10.3 | -21.2 | -21.8 |
| Compensation of Employees-net (Lm million) | -0.7 | 2.0 | 0.5 | 1.2 | -0.6 | 0.0 | 0.9 | 1.3 | 0.8 | 0.1 | 2.9 |
| Investment Income-net (Lm million) | 4.1 | -27.4 | 12.4 | -54.3 | 11.7 | 2.6 | -12.1 | -24.1 | 9.4 | -21.3 | -24.7 |
| Current Transfers-Net (Lm million) | 21.4 | 22.3 | 17.0 | 11.2 | 3.8 | -16.1 | -19.1 | -25.9 | -11.0 | -16.5 | -10.6 |
| General Government-net (Lm million) | 1.7 | 1.0 | -3.5 | 0.3 | 3.6 | 3.2 | 8.9 | -0.7 | 7.3 | 2.7 | -7.1 |
| Private-net (Lm million) | 19.7 | 21.3 | 20.5 | 10.8 | 0.2 | -19.3 | -28.1 | -25.2 | -18.3 | -19.2 | -3.5 |
| Current A/C-Net (Lm million) | -76.6 | -84.5 | -49.3 | -209.2 | -73.6 | 5.4 | -108.0 | -186.8 | -60.9 | -94.2 | -139.5 |
| Trade Balance ⁽¹⁾ as % of GDP at m.p. | ... | ... | ... | -19.9 | -15.0 | -8.8 | -14.5 | -15.8 | -15.4 | -13.4 | -18.3 |
| Invisible Balance as % of GDP at m.p. | ... | ... | ... | 9.9 | 9.8 | 9.9 | 10.1 | 8.3 | 10.9 | 9.3 | 10.8 |
| Investment Income as % of GDP at m.p. | ... | ... | ... | -3.2 | 0.7 | 0.1 | -0.6 | -1.2 | 0.8 | -1.6 | -1.5 |
| Current a/c Balance as % of GDP at m.p. | ... | ... | ... | -12.6 | -4.3 | 0.3 | -6.0 | -10.2 | -4.6 | -6.9 | -9.8 |
| Capital A/C-Net (Lm million) | 3.2 | 11.1 | 10.4 | 8.3 | 0.7 | 2.9 | 6.6 | 28.8 | 5.9 | 15.5 | ... |
| Financial A/C-Net (Lm million) | 40.5 | 38.6 | 75.3 | 191.6 | -55.4 | -30.9 | 32.3 | 70.1 | -22.8 | 34.2 | ... |
| Direct Investment-net (Lm million) | 18.6 | 99.4 | 321.7 | 261.3 | 106.7 | -181.8 | 153.2 | 146.1 | 34.5 | 105.0 | ... |
| Portfolio Investment-net (Lm million) | 42.4 | -10.1 | -201.5 | -324.9 | -220.1 | -159.4 | -601.1 | -572.0 | -486.9 | -564.8 | ... |
| Financial Derivatives-net (Lm million) | ... | ... | ... | ... | ... | ... | 9.0 | 0.9 | 0.0 | 5.1 | ... |
| Other Investment-net (Lm million) | -17.9 | 22.9 | 51.4 | 157.6 | 173.3 | 432.2 | 526.0 | 425.8 | 482.0 | 477.7 | ... |
| Reserve Assets (Lm million) | -2.7 | -73.6 | -96.3 | 97.6 | -115.3 | -121.8 | -54.7 | 69.3 | -62.4 | 1.1 | ... |

⁽¹⁾For Balance of Payments purposes, both imports and exports are taken at f.o.b. thus the trade balance is different from that shown under Table VII

⁽²⁾Includes ship repairing

Note: The balance of payments is being compiled in accordance with the 4th edition of the IMF's Balance of Payments Manual

Source: National Statistics Office

Table IX
Government Revenue and Expenditure

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2003 Jan/Sep | 2004 Jan/Sep | 2005 Jan/Sep |
|--|----------------------|---------|---------|--------|--------|--------|---------|---------|-----------------|-----------------|-----------------|
| Government Recurrent Revenue (Lm million) | 514.1 | 513.7 | 562.3 | 617.7 | 668.6 | 719.8 | 739.2 | 813.0 | 496.6 | 538.2 | 606.9 |
| Increase/(Decrease) % per annum | 9.8 | (0.1) | 9.5 | 9.9 | 8.2 | 7.7 | 2.7 | 10.0 | (1.8) | 8.4 | 12.8 |
| of which: | | | | | | | | | | | |
| Tax Revenue (Lm million) | 434.8 | 432.2 | 481.0 | 541.2 | 593.7 | 634.7 | 668.3 | 702.0 | 443.6 | 472.0 | 500.0 |
| Direct Tax Revenue (Lm million) | 252.7 | 246.2 | 272.6 | 311.5 | 345.4 | 371.3 | 393.6 | 400.8 | 251.0 | 258.7 | 265.7 |
| Indirect Tax Revenue (Lm million) | 182.1 | 186.0 | 208.4 | 229.7 | 248.4 | 263.4 | 274.6 | 301.2 | 192.6 | 213.3 | 234.3 |
| Non-Tax Revenue (Lm million) | 79.3 | 81.5 | 81.3 | 76.5 | 74.9 | 85.1 | 70.9 | 111.0 | 53.0 | 66.2 | 106.9 |
| Total Government Expenditure (Lm million) | 632.8 | 653.7 | 676.2 | 702.8 | 753.9 | 807.5 | 844.7 | 907.0 | 632.4 | 648.1 | 692.3 |
| Increase/(Decrease) % per annum | 10.7 | 3.3 | 3.4 | 3.9 | 7.3 | 7.1 | (1.6) | 7.4 | 7.0 | 2.5 | 6.8 |
| % of GDP | ... | ... | ... | 42.3 | 44.4 | 46.2 | 47.1 | 49.6 | 46.0 | 46.2 | 48.9 |
| of which: | | | | | | | | | | | |
| Recurrent Expenditure (Lm million) | 497.2 | 516.4 | 520.0 | 549.8 | 614.6 | 646.0 | 677.7 | 732.8 | 499.4 | 518.2 | 543.5 |
| Capital Expenditure (Lm million) | 103.4 | 96.8 | 106.1 | 98.6 | 80.6 | 97.7 | 104.0 | 104.6 | 84.2 | 75.6 | 93.1 |
| % of Total Government Expenditure | 16.3 | 14.8 | 15.7 | 14.0 | 10.7 | 12.1 | 12.3 | 11.5 | 13.3 | 11.7 | 13.4 |
| Interest on Public Debt (Lm million) | 32.2 | 40.5 | 50.1 | 54.4 | 58.7 | 63.8 | 63.0 | 69.6 | 48.8 | 54.3 | 55.8 |
| Structural Deficit (Lm million) | (118.7) | (140.0) | (113.9) | (85.1) | (85.3) | (87.7) | (105.5) | (94.0) | (135.8) | (109.9) | (85.4) |
| Financed by: | | | | | | | | | | | |
| Extraordinary Receipts (Lm million) | 0.1 | 35.4 | 75.5 | 24.7 | 22.0 | 40.6 | 2.1 | 8.9 | 2.1 | 8.9 | 4.9 |
| Receipts from sale of shares (Lm million) | 0.1 | 35.4 | 73.3 | 12.0 | 0.0 | 27.3 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| Sinking Funds of Converted Loans (Lm million) | 0.0 | 0.0 | 2.2 | 12.7 | 22.0 | 13.3 | 12.1 | 8.9 | 2.1 | 8.9 | 3.8 |
| Sinking Fund Contribution/Direct Loan Repayment (Lm million) | (8.9) | (12.2) | (14.7) | (13.4) | (12.7) | (11.8) | (12.7) | (26.9) | (6.2) | (6.3) | (6.0) |
| Public Sector Borrowing Requirement (Lm million) | (127.5) | (116.8) | (53.1) | (73.8) | (76.0) | (58.9) | (116.1) | (112.0) | (139.9) | (107.3) | (86.5) |
| Loans (Lm million) | 170.6 ⁽¹⁾ | 110.0 | 84.0 | 0.0 | 106.8 | 10.6 | 132.1 | 99.9 | 102.1 | 70.4 | 110.0 |

⁽¹⁾ Includes loan to finance Malta Drydocks

Source: The Treasury

Table X
Monetary Aggregates and Their Counterparts*

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 | 2005 |
|--|---------|---------|---------|---------|---------|---------|---------|
| | | | | | | Sep | Sep |
| Broad Money (M3) (Lm million) | 2,538.9 | 2,481.1 | 2,781.5 | 2,849.2 | 2,918.3 | 2,960.4 | 3,004.1 |
| Intermediate Money (M2) | 2,256.3 | 2,481.1 | 2,781.5 | 2,849.2 | 2,918.3 | 2,960.4 | 3,004.0 |
| % Increase per annum | ... | 10.0 | 12.1 | 2.4 | 2.4 | 3.7 | 1.5 |
| of which: | | | | | | | |
| Narrow Money (M1) | 1,201.6 | 1,282.9 | 1,367.4 | 1,490.9 | 1,580.9 | 1,596.2 | 1,647.8 |
| Currency in Circulation | 396.3 | 418.9 | 436.8 | 460.4 | 486.0 | 484.0 | 497.2 |
| % Increase/ (Decrease) per annum | ... | 5.7 | 4.3 | 5.4 | 5.6 | 6.0 | 2.7 |
| Deposits withdrawals on demand | 805.3 | 864.0 | 930.5 | 1,030.5 | 1,094.9 | 1,112.2 | 1,150.6 |
| Deposits redeemable at notice up to 3 months | 24.7 | 26.3 | 27.9 | 28.8 | 30.0 | 29.7 | 30.3 |
| Deposits with agreed maturity up to 2 years | 1,030.0 | 1,171.9 | 1,386.2 | 1,329.5 | 1,307.3 | 1,334.5 | 1,325.9 |
| Domestic Credit | 2,184.2 | 2,324.1 | 2,401.4 | 2,648.8 | 2,785.3 | 2,783.4 | 2,795.0 |
| of which: | | | | | | | |
| Net Claims of Central Government | 411.8 | 512.0 | 539.5 | 568.4 | 545.1 | 573.1 | 498.8 |
| Claims on other residents | 1,772.4 | 1,812.1 | 1,862.0 | 2,080.3 | 2,240.2 | 2,210.4 | 2,962.2 |
| Net Foreign Assets | 974.5 | 1,089.6 | 1,301.3 | 1,417.0 | 1,443.6 | 1,474.9 | 1,546.4 |
| Increase/(Decrease) % per annum | ... | 11.8 | 19.4 | 8.9 | 1.9 | 7.0 | 4.9 |
| of which: | | | | | | | |
| Central Bank of Malta | 644.2 | 766.5 | 881.6 | 919.8 | 870.3 | 928.7 | 911.7 |
| Other Monetary Financial Institutions | 330.3 | 323.1 | 419.7 | 497.1 | 573.3 | 546.3 | 634.7 |
| Other Counterparts to Broad Money | 903.2 | 932.6 | 921.3 | 1,216.4 | 1,310.6 | 1,297.9 | 1,337.4 |

* In October 2003, the definitions of the main monetary aggregates and their counterparts were revised in accordance with ECB Regulation 2001/13.

Thus, data prior to October 2003 are estimates based on this regulation.

Source: Central Bank of Malta
National Statistics Office