

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.

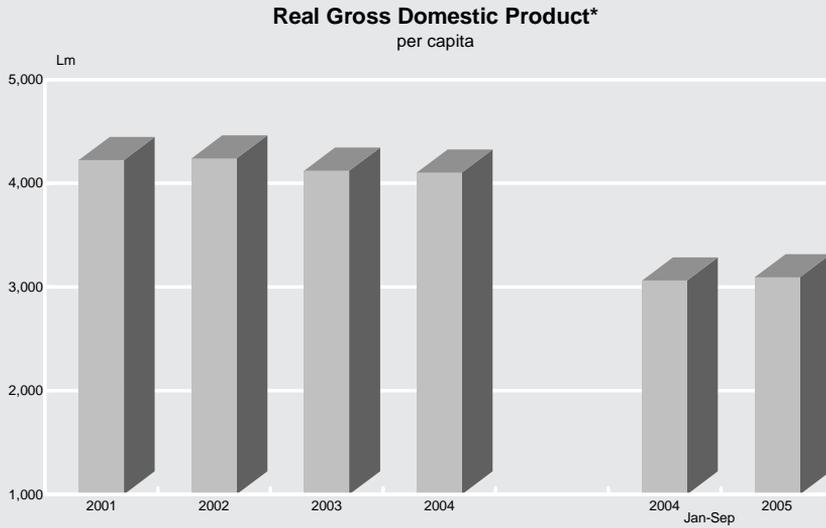
In line with the Economic Survey for the January-September 2004 period, national accounts data presented in this Chapter are based on the European System of Accounts (ESA95) methodology. This internationally compatible accounting framework provides for a systematic and detailed description of the total 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.

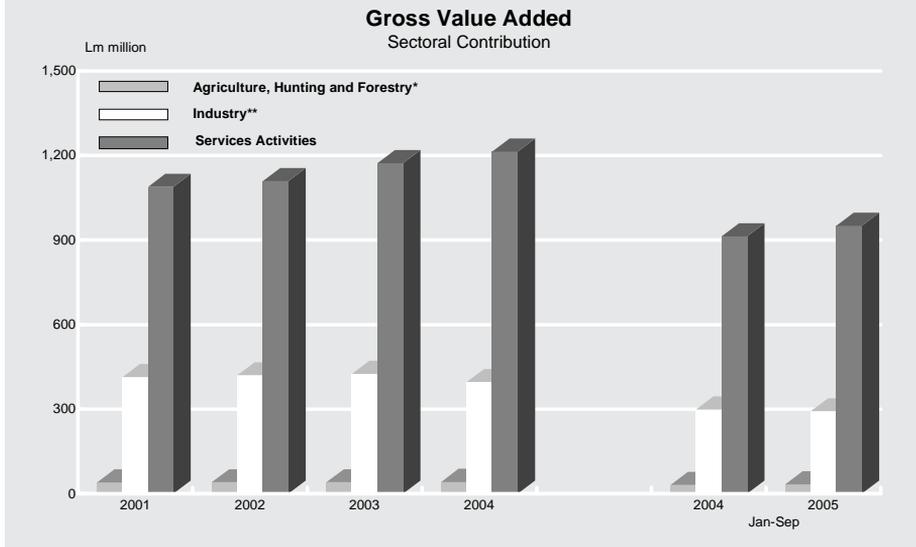
Sectoral Contribution to Gross Value Added

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

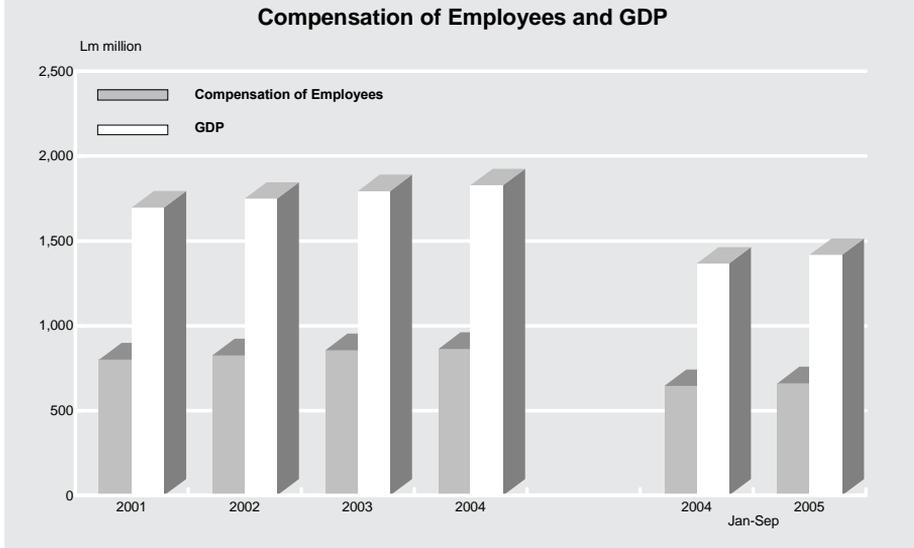
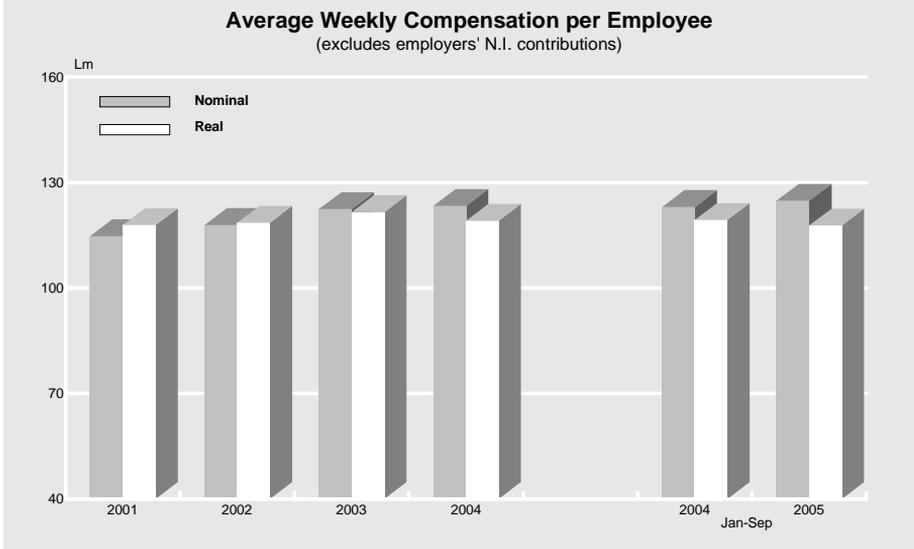


Chart 2.4



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

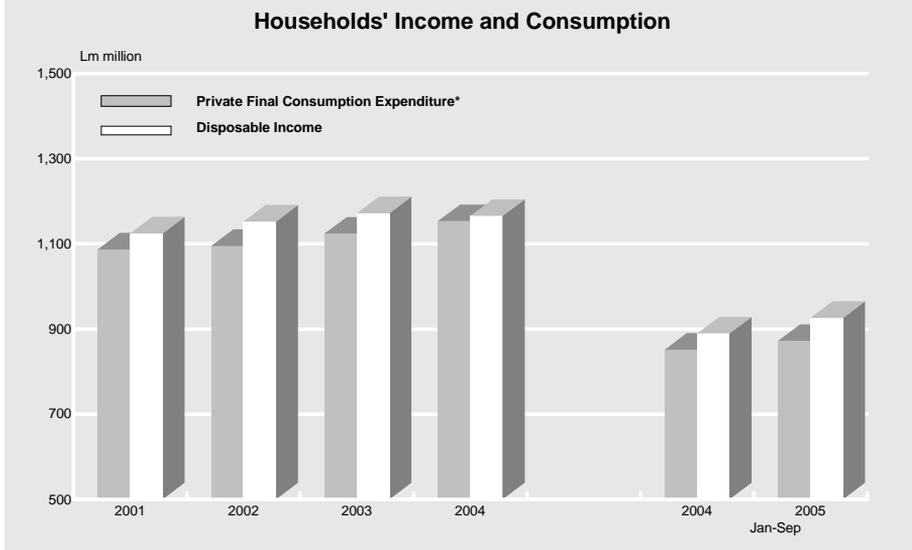
Source: National Statistics Office

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.