Economic Survey
November 2008

Economic Policy Division

Ministry of Finance, the Economy and Investment

Economic Survey

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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;

National Accounts estimates and other statistics which appear in this Economic Survey are provisional and subject to revision. Figures may not add up due to rounding.
This document is based on statistical information available up to 30th October 2008.

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1. State of the Economy

1. State of the Economy

The Maltese economy continued to register a sustained rate of economic growth during the first six months of 2008. Favorable signs were also particularly evident in the labour market, with significant growth in employment and a further reduction in the unemployment rate. Improved economic activity and job creation were largely underpinned by a positive performance in a number of emerging economic activities. Meanwhile, the restructuring process underway in certain established sectors continued.

Real growth in Gross Domestic Product (GDP) was 3.3 per cent in the first half of 2008, compared with 3.5 per cent in the same period last year. Economic activity in 2008 was underpinned by the domestic sector, namely higher consumption. On the other hand, the external sector contributed negatively to GDP growth. Gross Value Added (GVA) at basic prices rose by 6.4 per cent in nominal terms mainly attributable to increases in the other community, social and personal services sector, and to a lesser extent to the real estate, renting and business activities sector.

In the twelve months to June 2008, the performance of the labour market was buoyant, with sustained growth in employment, both full-time and part-time. The private sector was the main contributor to job creation as the public sector continued to record decreases in its workforce. Moreover, data continues to confirm the increasing importance of the services sectors which more than compensated for the fall in employment in direct production. In particular, job losses were recorded in the manufacturing industry, which remained subject to intense global competition.

Indeed, during the first six months of 2008, turnover in the manufacturing industry dropped by 7.2 per cent when compared to the same period of last year. This was mainly underpinned by a decline in exports of the radio, TV and communication equipment and electrical machinery and apparatus sectors. On the other hand, higher exports were registered by the chemicals and printing and publishing sectors.

During the first eight months of 2008, the increase in tourist departures was sustained, with a further advance of 9.6 per cent. However, such increased numbers were not reflected in higher tourist earnings, as gross foreign exchange earnings from tourism registered a marginal decline of 0.8 per cent during the first half of 2008.

The first three quarters of the year were characterized by relatively high and rising inflation. Inflation, as measured by the Retail Price Index (RPI), reached 3.73 per cent in September 2008, reflecting both domestic and international developments.

The current account deficit deteriorated by €73.2 million to reach €213.6 million, or 7.8 per cent of GDP in the first six months of 2008. Primarily responsible for this worsening balance was a decline in the goods account balance of €159.6 million, equivalent to 5.8 percentage points of GDP. On the other hand, an improvement of around 1.3 percentage points of GDP was registered in service account net inflows during the January-June 2008 period. Whilst the imbalance in the income account increased further, net inflows by way of current transfers rose during the period under review.

Fiscal developments during the nine months to September 2008 resulted in a structural deficit of €258.3 million, from €170.7 million recorded in the same period a year earlier. This increase was mainly underpinned by higher recurrent expenditure, which included a significant increase in outlays related to energy support measures.

Whilst the available data for 2008 suggests certain positive developments in the domestic economy, further efforts need to be undertaken in order to face the significant challenges ahead, primarily due to international economic and financial developments, and to further strengthen the macroeconomic fundamentals of the economy.

One year on, the turmoil in the international financial system continued and intensified and the situation remains weak. Furthermore, economic prospects for most advanced economies, including Malta's main trading partners, have been revised down by a significant margin. Indeed, the prospects of a global economic slowdown are increasing. Given the high degree of openness of the domestic economy, this scenario will have a bearing on domestic economic activity, as foreign demand for domestic exports is affected negatively.

In order to overcome these difficulties, a stable macroeconomic framework is important so as to maintain investor confidence and continue to attract foreign direct investment. In this context, it is critical to ensure price stability, wage moderation and a sustainable fiscal position. At the same time, structural reforms in order to further improve productivity and contain costs would help to sustain the growth of emerging economic activities and to support established sectors.

Being a member of the Euro Area, it is also important that efforts are made to enhance flexibility in labour and product markets. This would ensure that the economy can adjust to changes in cyclical economic conditions, and that the efficient functioning of markets is facilitated. In this manner, the Maltese economy would be able to face the challenges ahead and ensure long-term sustainable economic growth.

Local Scene

Economic Growth

In the first six months of 2008, real GDP increased by 3.3 per cent. In nominal terms, GDP exhibited a growth of 6.1 per cent to reach €2,745.8 million. Economic growth was underpinned by the domestic sector, whilst the external sector contributed negatively to GDP growth. Notable growth was registered in private consumption and general Government consumption whilst gross fixed capital formation exhibited a decline. In the external sector, a decline was registered in both exports and imports. However, the latter exhibited a smaller decrease such that the overall contribution of the external sector to growth was negative.

In real terms, consumer's expenditure increased by 4.1 per cent, whilst in nominal terms a rise of 7.1 per cent was recorded. General Government final consumption expenditure registered a rise of 16.0 per cent in the first six months of 2008. In real terms, the latter advanced by 12.3 per cent. Gross fixed capital formation declined by 4.7 per cent in nominal terms, and by 6.3 per cent in real terms.

In nominal terms, exports of goods and services decreased by 1.5 per cent. In real terms, exports declined by 10.2 per cent reflecting considerable upward movements in export prices. Imports of goods and services registered an increase of 3.9 per cent in nominal terms, but declined by 4.7 per cent in real terms.

Sectoral Contribution to Gross Value Added

In the first half of 2008, GVA at basic prices increased by 6.4 per cent in nominal terms and reached €2,375.1 million. The main contributors towards growth in GVA were the other community, social and personal services sector and to a lesser extent the real estate, renting and business activities sector. Increases were registered in the wholesale and retail trade sector and in the transport, storage and communication sector. Conversely, a notable decline was registered in the electricity, gas and water supply sector.

Gross value added in the manufacturing industry dropped marginally, mainly reflecting declines in the manufacturing of radio, TV and communication equipment sector. On the other hand, a significant improvement was recorded in the chemical and chemical products sector.

Labour Market

During the twelve months to June 2008, the Maltese labour market performed rather strongly as evidenced by significant increase in both full-time and part-time employment. Indeed, by the end of the period under analysis, the gainfully occupied population stood at 145,257, an increase of 3,426 employees or 2.4 per cent over June 2007. At the same time, the number of persons registering for unemployment under Part I and Part II of the Register fell by 476 to 5,861. Consequently, the unemployment rate dropped to 3.9 per cent. Meanwhile, persons with a part-time job as their primary occupation stood at 27,579, an increase of 1,527 or 5.9 per cent over June 2007.

Developments at a sectoral level continued to follow the trends observed in recent years. In fact, during the year to June 2008, direct production employment declined by 900 or 2.1 per cent while market services employment increased by 3,989 or 4.0 per cent. The most notable sectoral developments in the direct production category were the continued decline in the manufacturing of textiles and textile products employment and the increasing number of employed persons in the manufacturing of chemicals and chemical products sector. Meanwhile, market services continued to be the main generator of employment in the Maltese economy, as most of the sectors within this category continued to register significant increases over the year to June 2008.

The trend noted in the private and public sector in recent years continued as private sector employment increased to 103,237, an increase of 12,324 or 13.6 per cent. Meanwhile, public sector employment recorded a decline of 4,928 employees or 10.5 per cent to stand at 42,020, reflecting Government's policy of a declining role by the public sector in the labour market.

Productive Activities

During the first six months of 2008, turnover in the manufacturing industry dropped by 7.2 per cent when compared to the same period of last year. This was mainly underpinned by a decline of 10.9 per cent in exports reflecting decreases in the radio, TV and communication equipment, electrical machinery and apparatus, wearing apparel and clothing and furniture and other manufacturing sectors. Conversely, increases in exports were recorded in the chemicals and chemical products and publishing and printing sectors. Local sales increased by 10.3 per cent during the same period of 2008, mainly underpinned by rises in the food and beverages and fabricated metal products sectors. Meanwhile, capital outlays dropped by 17.7 per cent to €70.7 million.

Despite its small size and relatively small contribution to the domestic economy, the agriculture and fisheries sector still plays an important role in the setting of the Maltese islands. In fact, the agriculture and fisheries sector provides support for sectors such as tourism as well as the environment and landscape of the Maltese islands. During the first six months of 2008, the agriculture and fisheries sector contributed to 1.9 per cent of Gross Value Added.

Services Activities

Service activities are becoming an increasingly important pillar of the Maltese economy, being reflected in the contribution to output growth, employment and foreign exchange earnings. During January-August 2008, tourist departures increased by 9.6 per cent over the corresponding 2007 period, to 905,374. However, gross foreign exchange earnings from tourism recorded a marginal decline of 0.8 per cent during the first half of 2008, to €249.6 million. Per capita earnings declined by 13.8 per cent, to €432.4, whilst earnings per nights spent declined from €60.4 to €55.6. Meanwhile, full-time employment in hotels and restaurants increased by 482 jobs or 4.8 per cent between June 2007 and June 2008. During the period January-September 2008, cruise liner arrivals increased to 407,465, thus recording an increase of 13.9 per cent over the same period of 2007.

Prices and Income

Malta’s inflation rate, as measured by percentage changes in the 12-month moving average for the Retail Price Index (RPI), has been following an upward trend increasing from 0.83 per cent in October 2007 to 3.73 per cent in September 2008. The main contributors to inflation were the food, clothing and footwear, and trasport and communications sub-sectors.

As regards to incomes, the study reviewed the average weekly wages derived from collective agreements of 199 companies with a total workforce of 27,402 employees, where 12,709 employees are engaged in direct production and 14,693 employees in the market services sector. The overall weekly wage increased by €4.48 or 1.8 per cent, compared to the Government cost of living increase of €3.49 granted for 2008. The highest percentage wage rise was registered in the beverages sub-sector, at 3.0 per cent while around 59.8 per cent of all employees earned an average weekly wage of more than €232.

Foreign Trade and Payments

The current account deficit deteriorated by €73.2 million to reach €213.6 million, or 7.8 per cent of GDP in the first six months of 2008. Primarily responsible for this worsening current account balance was a decline in the goods account balance of €159.6 million, equivalent to 5.8 percentage points of GDP.

During the first eight months of 2008, total exports declined following a fall in exports of machinery and transport equipment (€157 million), clothing (€16.9 million), fuels (€11.1 million) and scientific instruments (€6.1 million). This fall in exports has been partly offset by increases in the chemicals sector (€33.4 million), food and beverages (€9.7 million) and printed matter (€8.9 million).

Apart from a fall in exports, in the first eight months of 2008, Malta experienced lower imports. The major contributor to the decline in imports was the industrial supplies category with a decrease of €114.1 million. On the other hand, imports of consumer goods rose by €20.9 million, mainly reflecting higher imports of food and beverages. Capital goods and others remained stable at the level recorded in the same period last year, as the increase in fuel imports was offset by lower capital goods. Higher international oil prices contributed to the increased fuel import bill whilst the decline in capital goods partly reflects the importation of an aircraft in January-August 2007.

As the fall in exports outweighed the decline in imports, the trade balance widened by €41.7 to €922.8 million.

During the January-June 2008 period, an improvement was registered in service account net inflows as net transportation receipts increased by €26.5 million and net inflows on other services improved by €20.4 million. Meanwhile, net travel inflows fell by €10.1 million on the back of lower tourism earnings and higher Maltese tourist expenditure abroad. As a result of these developments, the services balance improved by €36.6 million, or 1.3 percentage points to reach 14.6 per cent of GDP.

In the first half of 2008, the imbalance in the income account increased further by €58.8 million to an outflow of 5.7 per cent of GDP. Lower receipts on bond and note holdings as part of portfolio investment flows were the main reason for the deterioration in the income account. Net direct investment outflows increased largely due to higher dividends and distributed profits, reflecting higher profits made by foreign-owned companies in Malta. Meanwhile, a reduction was recorded in other investment net outflows.

Net inflows by way of current transfers were €108.6 million higher than the level registered in the first six months of 2007. Increases in inflows outpaced increases in outflows as both increased substantially, with Government transfers primarily underpinning this result.

An improvement in the capital and financial account was registered, from a net outflow of 0.4 per cent of GDP in the first half of 2007 to a net inflow of 10.0 per cent of GDP in the comparable period of 2008. This resulted in an addition to reserves of 0.8 per cent of GDP.

Financial Developments

During the nine months to September 2008, the structural deficit reached €258.3 million, reflecting an increase in expenditure outlays that outweighed the rise in revenue receipts. Fiscal developments were underpinned by a €169.4 million increase in total expenditure outlays. This increase largely reflects higher recurrent expenditure which rose from €1,357.3 million to €1,524.1 million. Around 76 per cent of this increase reflected higher outlays on Programmes and Initiatives.

In particular, a significant rise was registered in payments of social security benefits, whilst higher outlays were incurred on energy support measures. Moreover, an increase of €9.4 million was recorded in interest on public debt. During the same period, capital expenditure decreased by €6.8 million to €163.9 million, reflecting lower expenditure of a social nature which outweighed the rise in capital outlays of a productive and infrastructural nature. Meanwhile, Government recurrent revenue increased by €81.8 million to €1,585.7 million, reflecting a rise in tax revenue, which more than outweighed the decline recorded in non-tax revenue.

International Scene

The international economic environment is currently marked by an unusually high degree of uncertainty. Indeed, growth prospects in the world's largest economies have been revised downwards by a significant margin over the past months. World GDP growth is expected to decrease by 1.1 percentage points from 5.0 per cent recorded in 2007 to around 3.9 per cent in 2008.

The financial turmoil that started in the summer of 2007 is still evolving and has now entered into the second year. The situation remains fragile as confidence in the market has not yet been restored. Meanwhile, losses in the financial sectors are continuing to be registered and fears of a global slowdown are raising further concern that the financial turmoil may even worsen. The weaker outlook for global growth coupled with improved supply conditions have allowed oil prices to decrease recently. Nevertheless, the price of crude oil remains appreciably high by historical standards and together with soaring food prices has had adverse effects on global inflation levels. The value of the US dollar has been on a downward trajectory path since 2002. In fact, the US dollar's real effective exchange rate has been decreasing and the value of the US currency has also reached historically low levels against the Euro during the first half of 2008.

Despite economic distress, the performance of most economies of the world surprised on the upside in terms of GDP growth during the first half of 2008. Data for 2007 has also been revised upwards and economic growth for the world (excluding the EU) during 2008 as a whole is expected to be more buoyant than previously forecasted. The upward adjustments for 2008, however, are the result of positive performance during the first half of 2008. In contrast, during the second half of this year, economic growth is expected to decelerate more markedly than previously believed.

The information in this section is based on macroeconomic projections as published by the European Commission in its Interim Forecast of September 2008 as well as the International Monetary Fund's World Economic Outlook of October 2008. Relevant indicators are displayed in Tables 1.1 to 1.3 and in Charts 1.1 and 1.2.

Following a decline in the last quarter of 2007, and despite the turmoil the country is going through, during the first half of 2008 the US economy performed better than previously forecasted in the European Commission Spring Forecast. The recovery experienced has, however, been the result of a number of expansionary

World GDP, Volume

annual percentage change

Table 1.1

	2005	2006	2007	2008*
World	4.5	5.1	5.0	3.9
Advanced Economies	2.6	3.0	2.6	1.5
EU 27	2.0	3.1	2.9	1.4
Euro Area	1.7	2.9	2.6	1.3
Germany	0.8	3.0	2.5	1.8
France	1.9	2.2	2.2	1.0
Italy	0.6	1.8	1.5	0.1
United Kingdom	2.1	2.8	3.0	1.1
United States	2.9	2.8	2.0	1.6
Japan	1.9	2.4	2.1	0.7
Canada	2.9	3.1	2.7	0.7
Emerging and Developing Economies	7.1	7.9	8.0	6.9
Russia	6.4	7.4	8.1	7.0
China	10.4	11.6	11.9	9.7

*Projections

Source: Eurostat
European Commission
IMF

Inflation: Harmonised Index of Consumer Prices*

percentage change on preceeding year

Table 1.2

	2005	2006	2007	2008**
EU 27	2.3	2.3	2.4	3.8
Euro Area	2.2	2.2	2.1	3.6
Germany	1.9	1.8	2.3	3.0
France	1.9	1.9	1.6	3.5
Italy	2.2	2.2	2.0	3.7
United Kingdom	2.1	2.3	2.3	3.6
United States	3.4	3.2	2.9	4.2
Japan	-0.3	0.3	—	1.6

*National index if not available
**Projections

Source: Eurostat
European Commission
IMF

Unemployment Rate*

per cent of labour force

Table 1.3

	2005	2006	2007	2008**
Euro Area	8.9	8.3	7.4	7.6
Germany	10.7	9.8	8.4	7.4
France	9.2	9.2	8.3	7.7
Italy	7.7	6.8	6.1	6.7
United Kingdom	4.8	5.4	5.3	5.4
USA	5.1	4.6	4.6	5.6
Japan	4.4	4.1	3.8	4.1

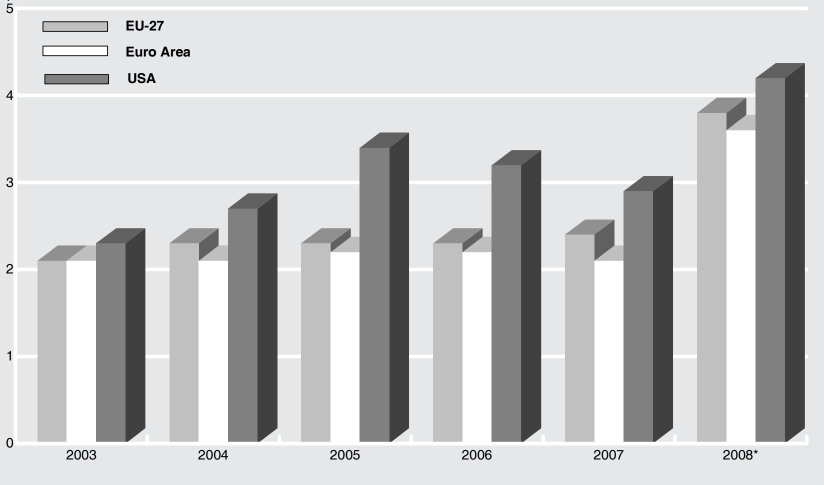
*Series following Eurostat definition, based on the labour force survey
**Projections

Source: Eurostat
European Commission
IMF

Chart 1.1

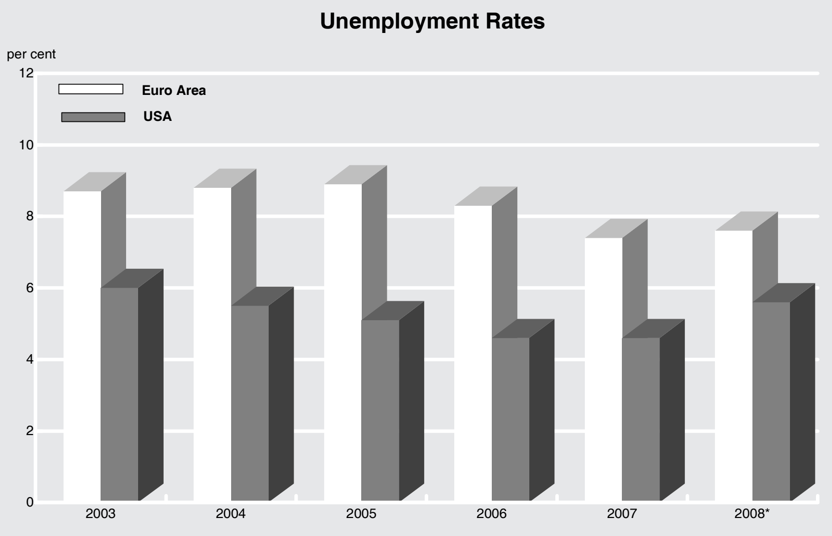
Inflation Rates

Annual Changes



*Projections

Chart 1.2



*Projections

measures taken by the US Government and the rebound of growth is expected to be short-lived. The depreciation of the US dollar has also helped the US economy to some extent. Meanwhile, growth in the Chinese economy remained buoyant throughout the first half of 2008 sustained by strong investment and consumption. In the Japanese economy, GDP growth was unexpectedly strong during the first quarter of 2008 but contracted in the subsequent quarter.

Economic performance in the EU and Euro Area started on a positive note during the first quarter of 2008, although the overall performance during the first half of the year as a whole is mixed. In fact, while during the first quarter of 2008 GDP growth was higher than previously expected for both the EU and Euro Area, economic growth turned negative in both areas during the second quarter of 2008. The initial buoyant performance during 2008 was mainly the effect of temporary circumstances which faded during the subsequent quarter. Elevated commodity prices have contributed to inflationary pressures which continued to rise in the first half of 2008 in both the EU and Euro Area, thus weakening demand. Moreover, the ongoing financial turmoil coupled with a housing shock in several countries continued to weaken confidence.

Recent Developments[1]

GDP growth in the EU reached 0.6 per cent during the first quarter of 2008 and -0.1 per cent during the second quarter. Similarly, Euro Area GDP growth was 0.7 per cent during the first quarter, and turned negative to -0.2 per cent during the second quarter of 2008. In both areas, economic growth during the first quarter of the year was mainly driven by investment particularly in construction which, in winter, was boosted by favorable weather conditions. Moreover, equipment investment expenditure also contributed positively to GDP growth. On the other hand, and in line with a number of adverse conditions, private consumption was more restrained. In fact, both the EU and Euro Area are still suffering from subdued performance of the retail sector, deteriorating consumer confidence, inflationary pressures, as well as tighter credit conditions. Economic growth turned negative in both the EU and Euro Area during the second quarter of 2008, following the gradual fading of the temporary effects observed during the first quarter as the growth momentum started to weaken. In the Euro Area, the decline in GDP growth during the second quarter was solely attributable to domestic demand resulting from poor household consumption on the back of the deteriorating economic conditions.

Inflation increased rapidly throughout the first three quarters of 2008 in both the EU and Euro Area but is expected to start decelerating in the last quarter of the year. The rise in inflation is the result of surges in food and energy prices. HICP inflation for 2008 as a whole is forecasted to reach 3.8 per cent and 3.6 per cent for the EU and Euro Area respectively, representing an upward revision for both areas. These upward revisions were the result of higher than anticipated inflation during the second quarter as well as more pronounced lagged effects of higher oil and food prices. Inflation is expected to start easing during the last quarter of this year as upward pressures from oil prices start to decline and as base effects turn positive.

Following continuous declines experienced during the past three years, the rate of unemployment has remained fairly stable during recent months in both the EU and Euro Area, standing at 6.3 per cent and 7.3 per cent in both areas respectively during the month of June 2008. Divergences among EU countries have also started to emerge. In particular, the labour market has deteriorated in Spain while countries such as Germany, France and Poland experienced slight improvements.

The German economy started 2008 on a positive note with real GDP growth reaching 1.3 per cent during the first quarter, albeit decreasing to -0.5 per cent in the subsequent quarter. Despite the slowdown experienced in the second quarter, the German economy remained resilient during the first half of the year and has even performed better than forecasted in the European Commission Spring Forecast. While the buoyant performance registered at the start of the year was mainly the result of temporary effects from construction, weaker gross fixed capital formation and sluggish consumption both contributed to the contraction of growth in the second quarter. Net exports contributed positively as a decline in imports more than offset the drop in export growth. Germany is experiencing robust employment, falling unemployment as well as rising wages. Despite the strong fundamentals of the German economy, the growth outlook for the second half of 2008 has deteriorated on the back of higher inflation as well as the global economic slowdown which is underway. HICP inflation in Germany was stable around 3.0 per cent during the first half of 2008.

GDP growth in France reached 0.4 per cent during the first quarter of 2008 but turned lower than expected to -0.3 per cent in the second quarter. The turnaround in performance in the second quarter was mainly attributable to a decline in investment on the back of worsening credit conditions. The effect of net trade on growth was negative while private consumption supported growth only minimally. HICP inflation increased to 3.7 per cent during the second quarter from a level of 3.3 per cent registered in the first quarter of 2008.

Economic growth in the Italian economy has been slowing down since mid-2007 and is expected to reach a standstill during 2008. While GDP growth is expected to have reached 0.5 per cent in the first quarter of this year, it is expected to recede during the rest of the year. In fact, according to the European Commission September 2008 Interim Forecast, GDP growth turned negative to -0.3 per cent during the second quarter of 2008. The deterioration in economic performance reflects subdued domestic demand. High inflation as well as negative wealth effects, have weighed negatively on private consumption since the final quarter of 2007. Investment activity is also on the decrease. Since the first quarter of 2008 inflation has been on an upward trend. In fact, during the first three months inflation reached 3.3 per cent and progressed to 3.8 and 4.1 per cent during the second and third quarters respectively.

The UK experienced a marked deceleration in growth during the first half of 2008. In fact, GDP growth fell from 0.3 per cent during the first quarter of 2008 to zero per cent in the second quarter and is expected to turn negative to -0.2 during both the third and fourth quarters of the year. The deceleration in growth experienced during the first two quarters of 2008 was due to a contraction of domestic demand as well as investment. Consumer spending, while remaining positive during the first quarter, deteriorated in the subsequent quarter. The negative growth expectations for the second half of 2008 are a result of the continued weakening of domestic demand. In addition, private consumption is also expected to weaken. Households are facing tighter credit conditions for borrowing, weakening housing and deteriorating labour markets, as well as stagnation in real disposable income emanating from higher inflation. Tighter credit conditions are also expected to affect investment which should also decrease. The UK economy has been adversely affected by its greater exposure to the financial turmoil as well as from a weakening housing market. HICP inflation rose by 1 percentage point to 3.4 per cent in the second quarter of 2008.

The performance of the US economy for the first half of the year has surprised on the upside. In fact, GDP growth in the US reached 0.2 per cent during the first quarter of 2008 and 0.8 per cent during the second quarter of the year. The rebound of growth registered during this period is mainly attributable to monetary easing and the fiscal stimuli, albeit the latter will only have a temporary benign effect. The depreciation of the dollar also helped improve US net exports thus boosting economic activity. Nevertheless, the improvement in the growth level for 2008 is merely a result of the positive performance registered in the first half of the year.

While GDP growth in the Japanese economy was strong during the first quarter of 2008, the subdued growth registered during the second quarter of the year has contracted by 0.6 per cent, signifying a record low for the past seven years. Industrial production in Japan has contracted throughout the first half of 2008. GDP growth for the Chinese economy during the first half of 2008 was 10.4 per cent and this was sustained by strong investment and consumption. In fact, investment and consumption offset the negative effects that weak global demand has had on the Chinese export sector.

Commodity Markets

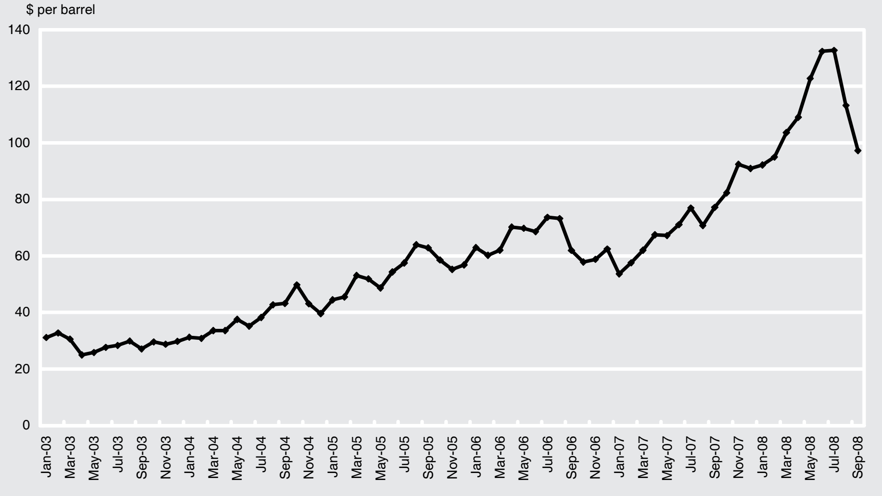
The price of crude oil was very volatile during the course of 2008. Following the uptrend which started in the beginning of 2007, the price of crude oil continued to increase before somewhat slowing down during the final months of 2007. In fact, during the beginning of 2007, the average monthly price of crude oil stood at around $54 per barrel and continued to increase before settling between $90 and $95 per barrel in the period between November 2007 and February 2008. Subsequently, the average monthly price of oil resumed its uptrend reaching a peak of around $132 per barrel during the months of June and July of this year signifying an increase of around 44 per cent from the beginning of 2008.

Thereafter, during the course of August and September of 2008 the price of oil has experienced a substantial decrease. In fact, the average monthly price of crude oil for the month of September stood at $97 per barrel, thus having decreased by around 27 per cent since its latest peak in July. The price of oil has continued to generally fall and stood at a low of $64 per barrel on 16 October. According to the European Commission September 2008 Interim Forecast (based on future prices) the price of oil should average around $114 per barrel in 2008, up by 13 per cent when compared to the European Commission Spring Forecast. Chart 1.3 displays the Brent average monthly oil prices between January 2003 and September 2008.

Food prices have begun booming during mid-2006 and during the first four months of 2008 inflationary pressures have also intensified. The increases in food prices during this period are mainly attributable to the changes in the prices of a number of key food commodities namely, corn, wheat, rice, soybeans and related products, rapeseed oil, and palm oil. In fact, increases in the prices of the aforementioned commodities account for more than 80 per cent of the increase in the IMF's food price index since early 2006. Looking more closely at the developments during the first half of 2008, one notices a sharp increase in grain and vegetable oil prices that led to a 23 per cent increase in the IMF's food price index. The price of wheat also soared during the month of March before declining, while corn and soybean prices have also remained appreciably high during the course of this year. Prices of other agricultural commodities such as meat and poultry have also experienced increases although the process

Chart 1.3

Brent Average Monthly Prices



Box 1.1

Structural Factors Affecting Commodity Prices

Oil Prices

Oil is used as both an input factor in production processes as well as a final consumption good and therefore its price constitutes an important component in practically all economic activities. Higher oil prices result in increased production costs and a decline in real purchasing power. Apart from having a direct effect on the price component of products and services which are passed on to consumers, increases in oil prices might also affect the real economy through second round effects in terms of claims for higher wages in reaction to heightened price expectations.

The price of oil has varied widely lately, thus hinting at important changes in underlying conditions and supply-side and demand-side factors. On the one hand, the price of oil has experienced severe appreciations throughout 2007 and up to mid 2008. Subsequently, while the price of oil has increased considerably up to July 2008, it has declined appreciably thereafter. To an extent, these trends in the price of oil reflect a degree of negative co-movement with respect to the US dollar.

The most recent decline in oil prices, noticeable since July of 2008, has also been the result of supply and demand factors. In fact, the recent increases in supply, coupled with easing demand have contributed to lower oil prices. Of particular importance on the demand-side has been the decrease in demand for oil in OECD countries as well as North America. In fact, while oil demand in the OECD has been decreasing since 2006, it is also expected to continue decreasing over the course of 2008 and 2009. In conjunction, the International Energy Agency expects demand growth in non-OECD countries to remain relatively stable at current levels throughout 2008 and 2009. The less buoyant economic outlook coupled with changes in consumer behavior (such as increased local holidays, and less miles driven) have also contributed to lower demand pressures. Nevertheless, the oil market remains relatively tight for the time being as the limited spare capacity of OPEC producers, which was one of the causes of the price hike in the first half of 2008, remains low according to the International Energy Agency.

The changes in the price of crude oil observed during the past few months of 2008 therefore largely reflect structural shifts in both supply and demand factors. The negative outlook emanating from the global economic slowdown is leading to lower oil prices. Nevertheless, oil prices are still generally expected to remain relatively high over the coming years, albeit being lower than the recent peaks.

Food Prices

The increases in global food prices that have been observed represent a partial reversal of their declines recorded over the last three decades. Moreover, food prices measured in real terms are still considerably below levels recorded during the 1980s. While the increases in food prices since early 2006 have initially been broad-based, recent trends in prices have been less in tandem. In fact, since March 2008 the price of maize has continued to increase while soybean prices displayed increased volatility. Thereafter, wheat prices also started to decrease. Changes in food prices can be attributed to structural factors as well as more temporary factors.

Box 1.1 continued

Income increases in emerging economies, most notably China and India, have comprised an important structural determinant which has also added to the effect of population growth on increasing global demand for food. Emerging economies are, in fact, shifting their consumption patterns and increasingly consuming higher protein foods which require a high input component of grain-based animal feeds. In addition to demographic changes, industrial economies' demand for bio-fuels has also increased considerably. In particular, the rising price of food is to an extent linked to the rising price of oil which has, in turn, affected the profitability of bio-fuel production. In fact, higher oil prices increase the demand for bio-fuels, and increase the opportunity cost of maize production relative to grains, thus raising the price of grains. The slowing down of growth in cereal yields has also negatively affected supply while the potential impact of climate change could have long term effects on supply in the future.

More temporary factors have also had a bearing on international food prices. Bad weather conditions in 2006 and 2007 have also had an important impact, leading to production shortfalls, especially in Australia where a severe drought has caused a sharp decline in production in recent years. Nevertheless, more recently, the price of wheat has started to decline as buoyant harvest expectations have helped lead its price lower. Historically low levels of stocks have also held back the response of supply to surging commodity prices. In addition, a number of protectionist measures have also contributed to increase artificially food prices globally. High instability in international financial markets as well as the falling value of the US dollar have both attracted a shift of investments towards commodities and derivative markets thus also triggering further increases in prices.

The overall outlook for global food prices remains highly uncertain as the extent to which increasing demand pressures will translate into higher prices will greatly depend on the degree of supply response. Since factors underlying the increases in food prices are still in play, the prospects of a slowdown in global growth should only have a limited price easing effect. According to the OECD-FAO Agricultural outlook 2008-2017, agricultural prices for the period 2008 to 2017 will be higher in nominal terms when compared to the average for 1998 to 2007. In particular, beef and pork prices should be around 20 per cent higher while raw and white sugar prices are expected to increase by about 30 per cent. Wheat, maize and skim milk powder prices are also expected to be higher, both experiencing price increases in the bracket of 40 per cent and 60 per cent while butter and oilseeds prices should increase by more than 60 per cent. Vegetable oils are expected to experience the sharpest price increase in the range of 80 per cent or over.

has been more gradual. Given that demand pressures from emerging economies are expected to remain relatively strong, the outlook points to continued high food prices.

Through the course of 2008 base metal prices have also experienced increases. In particular, iron ore prices increased by around 65 per cent while copper and aluminium prices also increased by around 20 per cent. On the other hand, zinc and nickel prices have decreased. The outlook for base metal prices points towards easing prices in the rest of 2008 as well as in 2009 along with slowing global industrial production. Nevertheless, tight supply should have a bearing on copper and aluminium prices for some time.

Future Economic Prospects

Table 1.4 displays projections for main economic indicators. GDP growth in the EU and Euro Area is expected to come to a standstill during the second half of 2008. In fact, according to the European Commission September 2008 Interim Forecast, GDP growth in both the EU and Euro Area is expected to be zero in the third quarter, recovering only slightly to 0.1 per cent in the last quarter of the year. The slight improvement in GDP growth in the last quarter of 2008 reflects a somewhat more buoyant outlook for the largest EU countries during the fourth quarter, except for Spain and the UK. According to the European Commission September 2008 Interim Forecast, the growth rate for the EU and Euro Area economies should reach 1.4 per cent and 1.3 per cent respectively for 2008 as a whole. These growth rates for 2008 thus represent a downward revision from the Spring Forecast of 0.6 percentage points and 0.4 percentage points for the EU and Euro Area respectively for the same year. This deterioration in

Projections

Table 1.4

	2007	2008*	2009*
Real GDP (% change)			
Euro Area	2.6	1.3	0.2
United States	2.0	1.6	0.1
Japan	2.1	0.7	0.5
Inflation (% change)			
Euro Area	2.1	3.6	1.9
United States	2.9	4.2	1.8
Japan	–	1.6	0.9
Unemployment Rate (% of labour force)			
Euro Area	7.4	7.6	8.3
United States	4.6	5.6	6.9
Japan	3.8	4.1	4.5

*Projections

Source: Eurostat
European Commission
IMF

the outlook was due to a combination of factors, namely, data revisions for 2007, a weaker-than-expected second quarter of 2008 as well as a less benign outlook for the whole of the second half of 2008. According to the European Commission September 2008 Interim Forecast, HICP inflation in the EU and Euro Area should reach 3.8 and 3.6 per cent respectively in 2008 as a whole.

The impact of the financial turmoil and its aftermath coupled with uncertainty regarding developments in the oil prices are a major downside risk on growth prospects. In fact, according to the IMF's October 2008 World Economic Outlook, GDP growth in the Euro Area is expected to decrease by 1.1 percentage points in 2009 when compared to 2008, thus reaching a growth rate of 0.2 per cent. The IMF's October 2008 World Economic Outlook forecasts that HICP inflation in the Euro Area should reach 1.9 per cent in 2009. Unemployment on the other hand should reach 8.3 per cent in 2009.

Economic growth in the US economy is expected to weaken in the second half of 2008 as the temporary benign effects of the fiscal measures taken by the US Government during February start to fade and following the heightened financial turmoil in the third quarter of this year. In fact, according to the IMF's October 2008 World Economic Outlook economic growth in the US economy should decline in the final quarter of 2008 as well as in the first quarter of 2009. Subsequently, US GDP growth should stabilize in the second quarter of 2009 before starting a meager recovery in the final quarter. According to the IMF's October 2008 World Economic Outlook, the US economy is projected to expand by 1.6 per cent during 2008 as a whole before decelerating to a growth of 0.1 per cent during 2009. Nevertheless, risks are on the downside as house price corrections could extend into 2010 on the back of a more pronounced effect of the credit crunch. According to the IMF's October 2008 World Economic Outlook, inflation in the US is expected to reach 4.2 per cent during 2008, mainly supported by high energy prices. Recent declines in oil prices should however ease inflationary pressures and, in fact, inflation is expected to decrease substantially in 2009 reaching 1.8 per cent. According to the IMF's October 2008 World Economic Outlook, unemployment in the US should reach 5.6 per cent and 6.9 per cent in 2008 and 2009 respectively.

Footnote:

[1]Quarterly GDP growth rates referred to in this section relate to quarter-on-quarter growth rates.

Appendix 1.1

The Global Financial Crisis

First warning signs of the impending financial crisis emerged in January 2007, as overdue loans in the US subprime mortgage market had started to increase two years previously and residential property prices started to fall in some regions. A series of confidence-shaking news in late July-early August meant that dislocations hit simultaneously and with full force the interbank markets of a number of mature economies. Central banks around the world made significant injections of liquidity and public statements aimed at calming disorderly markets.

The turmoil then changed characterisation going into 2008, as liquidity risks subsided to make way for asset quality concerns. Credit spreads widened in the first two months, writedowns at financial institutions accumulated beyond expectations and credit standards tightened beyond the sectors most affected by the turmoil. Northern Rock was nationalised by the UK after its reliance on the interbank market to promote loan business growth meant significantly higher funding costs which condemned its viability. In the US, Bear Stearns was sold to investment bank JP Morgan Chase, while Fannie Mae and Freddie Mac were nationalised in a bid to support the housing market. In September, a series of events led to an intensified financial crisis as Lehman Brothers filed for bankruptcy protection and Merrill Lynch was taken over by Bank of America. Meanwhile, Goldman Sachs and Morgan Stanley decided to abandon their original investment bank business model by becoming bank holding companies.

Banks in other countries were also badly affected as financial systems that are considerably integrated were exposed to contagion effects. Belgian, Dutch and Luxembourg Governments agreed to save banking and insurance company Fortis and the German Government threw a lifeline to cash-strapped lender Hypo Real Estate. However, Iceland appears to have been the most extensively hit by the financial turmoil, as its extremely large financial sector built on foreign debt dwarfing the country's GDP, experienced financing problems mainly as the Icelandic krona depreciated on increasing risk aversion.

The financial turmoil represents a sharp repricing of credit risk following a phase of broad-based and aggressive risk-taking. Given the leverage built up in the system, the risk repricing led to, and was followed by an evaporation of liquidity in many markets including the interbank market. The opacity of new instruments such as structured credits and the originate-and-distribute (O&D) business model led to a crisis of confidence in valuations as market participants were unsure about the size and character of their own exposures and of those of others. This in turn triggered an evaporation of market liquidity for the instruments concerned and of funding liquidity for those institutions suspected of being vulnerable to the market disruption. Underlying asset quality weaknesses inevitably became more evident over time.

Appendix 1.1 continued

Banks were affected for two main reasons. One was that they had invested directly in the US subprime market either through loans extended there or through purchases of subprime market securities. Another was that banks were faced with substantial liquidity pressures as they were exposed to drying-up asset-backed security (ABS) markets. Features of the financial turmoil can be broken down into two separate classes: idiosyncratic and common.

Idiosyncratic Aspects of the Financial Turmoil

The two major idiosyncratic aspects of the current financial distress are the role of structured credit products and that of the O&D business model. Three interrelated specific characteristics of structured credit products may have contributed to the turbulence.

First, their payoffs can be highly non-linear as they tend to produce steady streams of returns in good times, but can result in heavy losses in bad times. Second, the risk profile of structured products can be quite different from that of traditional bonds. It is common for tranches of structured products with the same expected loss or probability of default as an individual bond to be exposed to a much higher probability of large losses. Since credit ratings only capture expected probabilities of default, it can be highly misleading for investors to extrapolate the credit risk profile of these securities from those ratings. Thirdly, future default and risk profile modelling of these instruments is subject to considerable uncertainty reflecting model limitations and the short history of these products.

It is likely that these three features played a role during the build-up of risk-taking and during the subsequent turmoil. They may have fostered a false sense of security as evidence points towards investors relying excessively on credit ratings as indicators of risk. These characteristics then contributed to the loss of confidence and the evaporation of market liquidity; explaining the reaction triggered by the unexpected downgrades and large losses incurred on the instruments, as investors lost trust in the rating process and in observed valuations.

While the O&D business model has been at the essence of investment banking for many years, it has been prominent in the current episode for two reasons. It is the model that underlies the mortgage market in the US, which is heavily securitised. In addition, the O&D model has encouraged the setting-up of special purpose vehicles (SPVs) to enable banks to economise on risk capital and improve balance sheet liquidity.

During the build-up of risk, the O&D model may have contributed to an underpricing of risks. There are potential distortions of incentives in the O&D chain such as the reduced incentives to screen when originators sell off the credits granted. By appearing to disperse the risks in the system, the O&D model may have also allowed the expansion of credit to go further than would otherwise have been the case. Indeed, empirical evidence tends to confirm a positive correlation between the extent to which intermediaries rely on securitisation and their on-balance sheet credit growth. When risks materialised, the O&D model added to the crisis of confidence as the opaqueness of the location of exposures in the system fuelled uncertainty about the solidity of counterparties.

Appendix 1.1 continued

The amplitude of the involuntary reintermediation wave that threatens financial institutions, with its immediate and long-lasting dislocations in the interbank markets, can be mainly explained by the mixture of new financial products and the O&D model. At the same time, this wave confirmed two trends that have been in evidence for quite some time and are unlikely to be reversed in the future. These include the increasingly tight mutually benefiting dependence between intermediaries and markets and the self-reinforcing link between market and funding liquidity.

Thus, the size of the unprecedented involuntary reintermediation wave is surprising and in turn largely explained by the sheer size of the SPVs that had grown significantly in recent years. This could be described as a thinly capitalised shadow banking system involved in large-scale liquidity and maturity transformation that had escaped the attention of many market players and regulators.

Common Aspects of the Financial Turmoil

Financial distress episodes of a systemic nature with potentially significant implications for the real economy tend to start off with an overextension in risk-taking and in balance sheets in good times. Financial vulnerabilities are generated in the process, and are revealed only as the economic environment becomes less benign, in turn contributing to its further deterioration. Mainly, four factors can explain this overextension. One is the asymmetric information that plagues all financial activity. A second factor is limitations in risk perceptions, which is related to the difficulty of measuring the time dimension of risk, especially for the financial system as a whole. A third factor is limitations in incentives, whereby actions that are individually rational may not result in desirable aggregate outcomes. The final factor is the strong positive feedback mechanisms that operate within the financial system and between the financial system and the real economy.

These factors can help to explain a number of regularities. First, market indicators of risk tend to be comparatively low precisely before the peak of the financial cycle, when in retrospect it turns out that risk was highest. Second, underwriting standards become looser during particularly benign conditions in the more mature stages of credit booms, with the loans granted during those stages having the worst ex-post default performance. Finally, there is evidence that real-time indicators of financial imbalances in the form of coexistence of unusually rapid expansion in credit and asset prices, have useful predictive content for subsequent widespread financial distress, output weakness and disinflation, over horizons of two to four years ahead.

The implication of this explanation is that the build-up of tail risk generates the impression of stability. Extraordinary increases in asset prices raise the probability of their subsequent reversal, while the leverage that builds up in the system increases the vulnerabilities to that reversal. In the process, the system seemingly goes from strength to strength, appearing to validate the strong asset prices and risk premia. A review of some selected indicators will help to shed light on recent behaviour in financial markets.

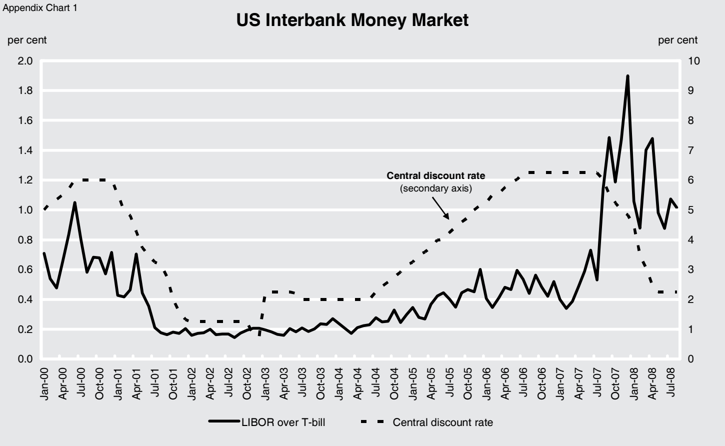
Appendix 1.1 continued

Selected Indicators in the US

The Interbank Money Market

The 3-month LIBOR exceeds the corresponding T-bill rate by a heightened degree in the US. This has been evident from August 2007, when a level of 1.14 per cent was reached. Banks are increasingly wary of lending to each other as they fear toxic assets in each other's balance sheets, thereby putting upward pressure on LIBOR. An investor flight to safety is being witnessed, with treasury bills facing diminishing yields. Since August 2007, the Federal Reserve had started to ease monetary policy, with the central discount rate falling significantly. However, this has not removed asset quality concerns as the difference between LIBOR and the T-bill rate is still significant. These developments can be seen in the Appendix Chart 1.

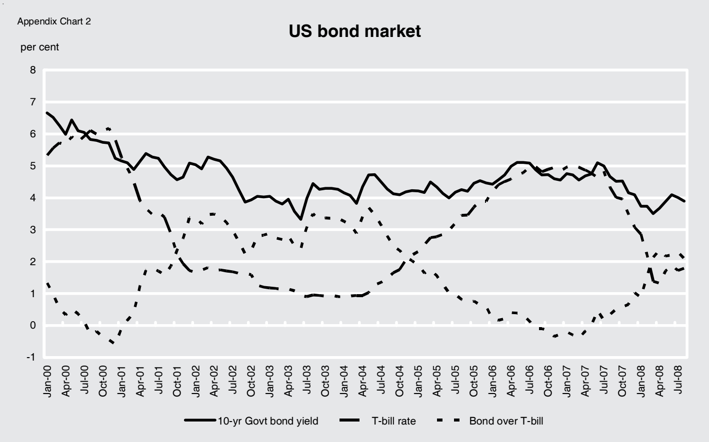
Appendix Chart 1



The Bond Market

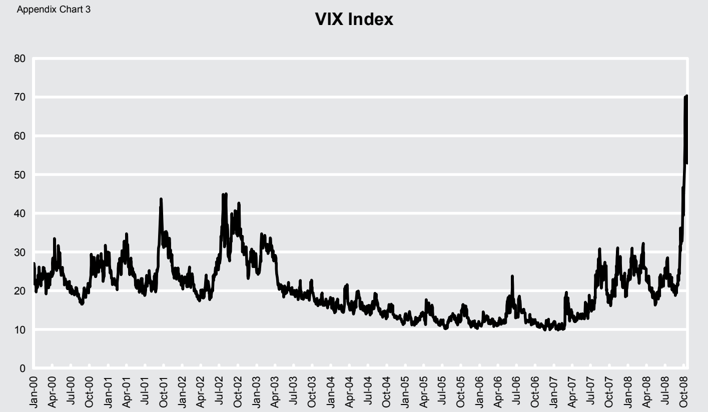
Appendix Chart 2 illustrates an increase in risk aversion that could be discerned in the bond market, as yields on Government assets declined further. This was particularly visible since August 2007, when a downward trend commenced. Treasury bills proved especially attractive, with their yields falling faster than on the 10-year Government bonds. This might be an indication of worsening growth expectations and an improving inflation outlook in the short-term. Longer-term inflation risks remain, particularly stemming from the period of easy monetary policy being expected to prevail as a protection for the financial system from a deep and protracted crisis. Latest yield curve data tends to support this analysis.

Appendix 1.1 continued



Volatility in the S&P 500 Equity Index

Movements in equity indices are becoming increasingly volatile, as increasing risk materialises on the back of concerns about growth and news of further financial sector losses. Markets are still uncertain about the size and duration of the oncoming recession and the role to be played by the financial sector bailouts around the world in helping to boost economies, such that there is no clear direction in stock markets. The VIX Index shows the market's expectation of 30-day volatility in the S&P 500 Index as shown in Appendix Chart 3. This index increased from a level of 18.81 on 22nd August 2008 to reach a level of 53.11 on the 21st October, with investors expecting the S&P 500 Index to move by 15.3 per cent up or down over the following month.



Appendix 1.1 continued

Responses to the Crisis

According to the IMF, the solution in the near-term must include three elements: liquidity provision, purchase of distressed assets, and capital injections into financial institutions. First, runs on banks and financial institutions should be prevented by deposit guarantee schemes and central banks providing the necessary liquidity to financial institutions against good collateral. Second, Governments should purchase distressed assets and hold them until they mature and can be safely resold in order to avoid bank runs occurring. An alternative measure as proposed by the IMF might involve long-term swaps of mortgage securities for government bonds, leaving the long-term risk with banks and side-stepping the pricing of distressed securities issue. Third, the financial system should be recapitalised as the capital available is not succeeding in encouraging market players that the financial system is stable while losses continue to erode capital. Recapitalisation might involve public funds at first, in order to build confidence in the system.

This leaves a number of long-term challenges. The fiscal cost in terms of public debt is high. However, international experience shows that if measures are implemented correctly, the government can expect to recover most of its initial investment such that the ultimate cost to taxpayers is minimised. The financial architecture needs to be revised with a view to improving prudential regulation, accounting rules and transparency. The role of credit rating agencies will also need to be rethought, with greater public scrutiny. Broad-based efforts are required in order to be effective.

Effects of this episode of financial distress have been felt around the world, such that a number of countries have been enacting policies to protect their financial systems. Greater cooperation and discussion is being sought among countries. For these reasons, a G7 meeting was held in Washington on the 10th October 2008.

Countries in the G7 agreed that the situation calls for urgent and exceptional action and committed to continue working together to stabilise financial markets and restore the flow of credit, to support global economic growth. A number of measures were agreed upon, designed to ensure: the prevention of failure of systemically important financial institutions; access to liquidity and funding; the ability of financial institutions to raise capital, that national deposit insurance programs are robust and consistent, and accurate valuation and transparent disclosure of assets with consistent implementation of high quality accounting standards.

G7 countries agreed that actions should be taken in ways that protect taxpayers and avoid potentially damaging effects on other countries. Macroeconomic policy tools will be used as necessary and appropriate, with the IMF's role in assisting countries affected by this turmoil being critical. Full implementation of the Financial Stability Forum recommendations will be accelerated and there is a commitment to the urgent need for reform of the financial system. G7 countries will work towards improving their cooperation and will also work with other countries to accomplish this plan.

Appendix 1.1 continued

Furthermore, a series of high level meetings took place in EU institutions. The ECOFIN meeting of the 7th October agreed that EU Member States should take all necessary measures if needed to protect the stability of the financial system. Recognising the importance of depositor confidence in the banking system, the decision to increase the level of depositor protection to reach €100,000 was taken. The Maltese Government proceeded accordingly by increasing the level of depositor protection afforded to domestic depositors to this amount. Coordinated monetary policy action was taken by central banks around the world by reducing official interest rates by 50 basis points to offset the intensification of the turmoil which augmented the downside risks to growth and diminished the upside risks to price stability.

In a Summit of Euro area countries held in Paris on the 12th October, Euro area Governments discussed the appropriate policy response to this global financial crisis that is threatening to spread to the real economy. Euro area Governments agreed on the importance of: ensuring appropriate liquidity conditions for financial institutions, providing financial institutions with additional capital resources so as to continue to ensure the proper financing of the economy, allowing for an efficient recapitalisation of distressed banks, ensuring sufficient flexibility in the implementation of accounting rules given current exceptional market circumstances and enhancing cooperation procedures among European countries.

In addition, the European Council meeting of the 15th and 16th October took decisions with respect to structural issues. Credit rating agencies should be subject to registration and oversight in Europe, while financial supervision has to improve in order to avoid excessive risk-taking by banks. Moreover, improvements to the architecture of supervision will be made in two directions: by fostering convergence of supervisory practices among national supervisors, and ensuring that supervision is better adapted to the cross-border financial groups.

2. Economic Growth

2. Economic Growth

The rate of real growth of the Maltese economy for the first half of 2008 maintained a steady albeit, slightly lower pace compared to the first six months of 2007. During the period January-June of 2008 the economy grew by 3.3 per cent in real terms compared to 3.5 per cent in the corresponding 2007 period. In nominal terms, Gross Domestic Product (GDP) increased by 6.1 per cent. Real GDP growth in the first quarter of 2008 increased by 3.4 per cent whereas in the second quarter the economy's rate of growth was of 3.2 per cent.

The contribution to growth during the period under review is largely underpinned by the expansion in private final consumption expenditure, which more than offset the negative contribution registered by the external sector.

Data presented in this Chapter is based on the latest available national accounts data which is compiled according to the European System of Accounts (ESA95) methodology. This accounting framework is internationally compatible and enables a systematic and detailed description of the economy and its core components, across EU Member States. Gross Domestic Product at current market prices, is estimated by the National Statistics Office (NSO) from the production side, involving the aggregation of the output of various productive

Box 2.1

GDP Flash Estimate for July-September 2008

NSO has compiled flash estimates for GDP and its expenditure components (at nominal prices) based on recent past trends and statistical imputations for the third quarter of 2008. It is pertinent to point out that the methodology used for the derivation of flash estimates for the third quarter is not comparable to that used in the normal production of GDP data.

During the July-September 2008 period GDP is estimated to have increased by 6.0 per cent in nominal terms. Such growth is largely underpinned by the domestic sector with the external sector registering a positive, albeit marginal contribution. During the aforementioned period, nominal private consumption exhibited a 6.2 per cent rise whilst nominal Government consumption increased by 12.8 per cent. On the other hand, gross fixed capital formation decreased by 2.5 per cent. The positive contribution of the external sector, stemmed from the fact that the decline in exports of 0.2 per cent was more then offset by the decline of 0.9 per cent registered in imports.

sectors net of the cost of intermediate inputs. The production side estimates are then reconciled with estimates of expenditures on output produced.

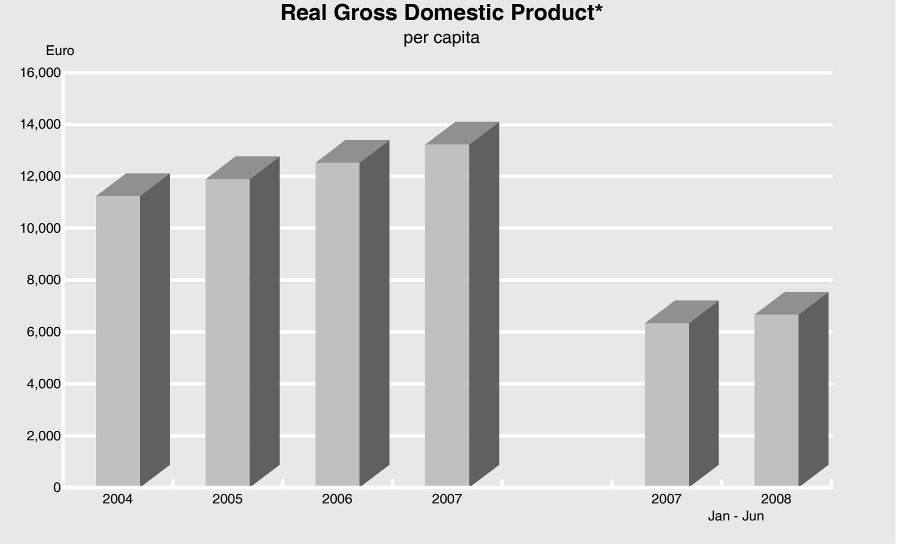
National Expenditure

Nominal GDP increased by 6.1 per cent and stood at €2,745.8 million in the first half of 2008. In real terms, GDP increased by 3.3 per cent and reached €2,213.0 million. The contribution of the domestic sector underpinned the growth exhibited in the first two quarters, whereas the external sector contributed negatively to growth. Real GDP per capita increased to €6,673 in the first two quarters of 2008 from €6,339 registered in the comparable period in 2007, as illustrated in Chart 2.1. Table 2.1 provides GDP data by category of expenditure in nominal and real terms, whilst Table 2.2 shows the relevant percentage changes registered by the different categories of expenditure.

Private Final Consumption Expenditure

This category of expenditure consists of household final consumption expenditure and non-profit institutions serving households (NPISH) final consumption expenditure. The latter incorporates expenditure by non-profit organisations such as trade unions, band clubs and charities. In the first two quarters of 2008, private consumption increased by 7.1 per cent in nominal terms, whilst in real

Chart 2.1



*Based on total population

GDP by Category of Expenditure

Table 2.1 € million

	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
At Current Market Prices					
Private Final Consumption Expenditure[(1)]	3,105.6	3,204.0	3,308.8	1,564.6	1,676.1
General Government Final Consumption Expenditure	944.9	1,018.8	1,043.3	496.1	575.6
Gross Fixed Capital Formation	933.3	1,006.2	1,062.3	498.6	475.1
Changes in Inventories	70.6	62.0	154.7	67.9	189.5
Acquisitions less Disposals of Valuables	-0.1	-3.9	-3.1	-3.3	-9.4
Exports of Goods and Services	3,700.3	4,775.3	4,853.8	2,298.7	2,264.0
Total Final Expenditure	8,754.7	10,062.4	10,419.8	4,922.5	5,171.0
Less Imports of Goods and Services	3,954.9	4,967.0	5,004.8	2,334.0	2,425.1
Gross Domestic Product	4,799.8	5,095.4	5,415.0	2,588.6	2,745.8
At Constant 2000 Prices					
Private Final Consumption Expenditure[(1)]	2,814.0	2,833.0	2,878.9	1,376.4	1,432.5
General Government Final Consumption Expenditure	792.8	839.7	839.3	399.7	448.8
Gross Fixed Capital Formation	840.5	875.8	912.2	432.5	405.1
Changes in Inventories	64.6	53.7	135.6	60.2	165.0
Acquisitions less Disposals of Valuables	-	-3.4	-2.8	-2.9	-8.2
Exports of Goods and Services	3,797.9	4,448.7	4,266.1	2,040.3	1,831.6
Total Final Expenditure	8,309.7	9,047.6	9,029.4	4,306.0	4,274.8
Less Imports of Goods and Services	4,124.3	4,730.5	4,552.4	2,163.7	2,061.8
Gross Domestic Product	4,185.4	4,317.1	4,477.0	2,142.4	2,213.0

[(1)]Includes NPISH final consumption expenditure

Source: National Statistics Office

terms private consumption increased by 4.1 per cent. The growth registered in private consumption expenditure is considerably higher than the trend growth rate registered in recent years. This reflects an increase in consumer prices combined with an expansion in real private consumption. The increase in disposable income levels following the Budget 2008 measures, namely the revision in income tax and the increase in social transfers, contributed, in part, to boost real private consumption.

Consequently, during the first half of 2008, the proportion of private consumption in real GDP increased to 64.7 per cent from the 64.2 per cent level registered in the comparable period in 2007. It is noteworthy to mention that during the period under review an expansion in expenditure in nominal terms was registered in all sub-components of private consumption except for the furnishings, household

GDP by Category of Expenditure

Percentage Changes

Table 2.2

	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
At Current Market Prices					
Private Final Consumption Expenditure[1]	4.4	3.2	3.3	3.3	7.1
General Government Final Consumption Expenditure	1.2	7.8	2.4	1.2	16.0
Gross Fixed Capital Formation	10.4	7.8	5.6	-2.7	-4.7
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	4.0	29.1	1.6	3.9	-1.5
Total Final Expenditure	6.3	14.9	3.6	1.4	5.0
Less Imports of Goods and Services	6.0	25.6	0.8	-3.3	3.9
Gross Domestic Product	6.5	6.2	6.3	6.1	6.1
At Constant 2000 Prices					
Private Final Consumption Expenditure[1]	1.8	0.7	1.6	2.9	4.1
General Government Final Consumption Expenditure	-0.5	5.9	-0.1	-0.9	12.3
Gross Fixed Capital Formation	8.6	4.2	4.2	-2.9	-6.3
Changes in Inventories	-	-	-	-	-
Acquisitions less Disposals of Valuables	-	-	-	-	-
Exports of Goods and Services	1.2	17.1	-4.1	-3.3	-10.2
Total Final Expenditure	3.6	8.9	-0.2	-2.3	-0.7
Less Imports of Goods and Services	3.6	14.7	-3.8	-7.4	-4.7
Gross Domestic Product	3.5	3.1	3.7	3.5	3.3

(1) Includes NPISH final consumption expenditure

Source: National Statistics Office

equipment and routine maintenance of the house component. The highest contributions to the nominal growth in private consumption was registered in the food and non-alcoholic beverages, which is likely to have been influenced by the buoyant increases in agricultural commodity prices registered during the year in international markets. Notable growth was also registered in the housing, water, electricity, gas and other fuels, and the recreation and culture categories.

In the compilation of national accounts, in order to avoid the double counting of expenditure by tourists in Malta, the latter is deducted from the computation of private final consumption expenditure and is recorded as a component of exports of goods and services. Meanwhile, expenditure by Maltese tourists abroad, is included in the private consumption variable. During the period under review, the latter component exhibited a notable increase of 7.4 per cent, whilst expenditure by tourists in Malta declined marginally.

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

Table 2.3

	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
Per Capita (€)					
GNI*	11,358	11,976	12,874	6,079	6,260
Private Final Consumption Expenditure*	7,699	7,878	8,085	3,832	4,074
Expenditure by Tourists	522.0	540.1	534.2	501.7	432.4
Per Capita (% change)					
GNI*	2.3	5.4	7.5	8.4	3.0
Private Final Consumption Expenditure*	3.8	2.3	2.6	2.7	6.3
Expenditure by Tourists	-2.7	3.5	-1.1	0.0	-13.8

*Based on average total population

Source: National Statistics Office

Table 2.3 outlines data on nominal Gross National Income (GNI), private final consumption expenditure and expenditure by tourists in per capita terms. In the first half of 2008, GNI per capita grew by 3.0 per cent whilst private final consumption expenditure per capita increased by 6.3 per cent. Furthermore, during the period under review, a decrease of 13.8 per cent was registered in per capita tourist expenditure.

General Government Final Consumption Expenditure

In the first six months of 2008, general Government expenditure expanded by 16.0 per cent in nominal terms, whilst in real terms Government expenditure exhibited a 12.3 per cent increase. It is noteworthy to mention that the rate of growth was broadly based, with all the major sub-categories of expenditure registering considerable growth.

General Government final consumption expenditure as a ratio of GDP at constant prices increased by 1.6 percentage points to 20.3 per cent of GDP. It is noteworthy to mention that general Government final consumption expenditure excludes outlays which finance transfer payments, such as National Insurance benefits, subsidies and grants. Such items of expenditure do not reflect the production of goods and services but constitute a redistribution of funds between different sectors of the economy.

Gross Capital Formation

Gross Capital Formation incorporates gross fixed capital expenditure, changes in inventories and acquisitions less disposals of valuables. During the period under review, gross fixed capital formation decreased by 4.7 per cent in nominal terms, whilst in real terms a decline of 6.3 per cent was registered. The share of changes in inventories and the acquisitions less disposals of assets in GDP increased to 7.1 per cent in the first two quarters of 2008, from 2.7 per cent in the comparable period. Data on gross fixed capital formation in nominal and constant terms is presented in Table 2.4.

The negative growth in investment was underpinned by a considerable decline of 29.4 per cent in Government investment, which followed the substantial rise in public investment registered in the period January-June 2007. This decline in public investment was partially offset by a rise of 3.3 per cent in private investment. At a sub-category level, in the first six months of 2008 construction investment exhibited a notable decline of 14.9 per cent. During the same period, investment in machinery and transport equipment exhibited a rise of 12.4 per cent. During the period January-June 2008 the ratio of investment to real GDP fell by 1.9 percentage points to 18.3 per cent.

Gross Fixed Capital Formation

Table 2.4

	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
At Current Market Prices					
Gross Fixed Capital Formation (€ million)	933.3	1,006.2	1,062.3	498.6	475.1
% change	10.4	7.8	5.6	-2.7	-4.7
GDP (€ million)	4,799.8	5,095.4	5,415.0	2,588.6	2,745.8
(GFCF/GDP) %	19.4	19.7	19.6	19.3	17.3
At Constant 2000 Prices					
Gross Fixed Capital Formation (€ million)	840.5	875.8	912.2	432.5	405.1
% change	8.6	4.2	4.1	-3.0	-6.3
GDP (€ million)	4,185.4	4,317.1	4,477.0	2,142.4	2,213.0
(GFCF/GDP) %	20.1	20.3	20.4	20.2	18.3

Source: National Statistics Office

Foreign Demand and Supply

Given that Malta has a small and open economy, developments in the external sector are very important for understanding economic growth dynamics. Such openness makes the country's economic prospects heavily influenced by exogenous shocks that emerge from the international environment. In the recent past, the major exogenous shock that emanated from the international scene was the persistence of the upward spiral in the price of oil and other commodities, notably of an agricultural kind such as wheat. Although such price pressures have partially retrenched from the all time highs exhibited during the mid-part of the year, commodity prices still remain at rather elevated levels by historical standards. During 2008, the deflation of the house price bubble in the US and other European countries and the prevalence of an international financial crisis in the major trading partners have implied that the economy faced two simultaneous exogenous shocks.

In the first half of 2008, nominal exports of goods and services exhibited a 1.5 per cent decline, following the increase of 3.9 per cent registered in the comparable period in 2007. The decrease in exports was entirely attributable to a 9.0 per cent decline in the goods category which was only partially offset by the increase of 5.9 per cent registered in the services category. In respect of the latter category the major increases were registered in the other business services category, in the transportation category and in the personal, cultural and recreational services category. Within the goods category, the major declines were registered in the machinery and transport equipment category. Exports of goods and services exhibited a decline of 10.2 per cent in real terms during the period under review.

Imports of goods and services increased by 3.9 per cent in nominal terms, but exhibited a decline of 4.7 per cent in real terms. The largest contribution towards the growth in imports stemmed from an expansion in the services category. The major increases in the latter category occurred in financial services and in the travel category as Maltese tourists made higher payments abroad.

The increased importation combined with the decreased exportation registered in the first two quarters of 2008 triggered a deterioration in the goods and services balance of €123.0 million, following the improvement registered throughout the preceding year. The current account deficit increased to €213.6 million in the first six months of the year from the €140.4 million level registered in the comparable period in 2007.

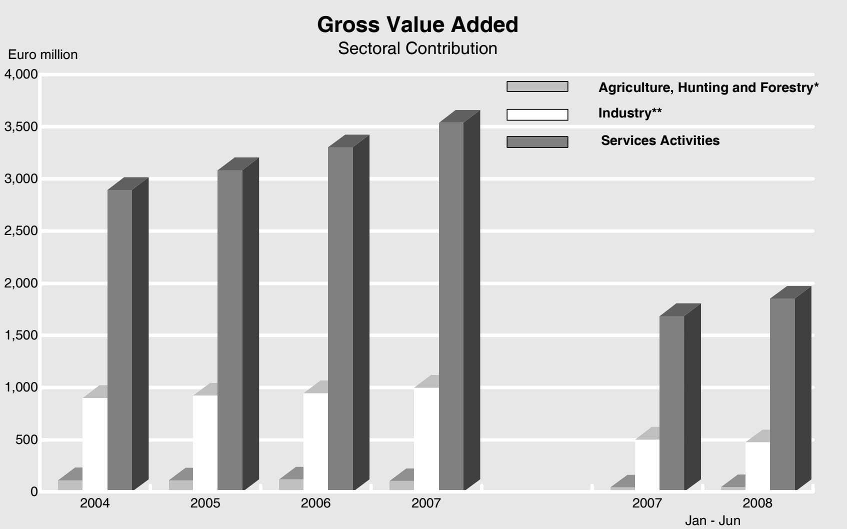
Sectoral Contribution to Gross Value Added

Gross Value Added (GVA) is defined as the value generated by any unit engaged in a production activity and is obtained as the excess 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.

In the first six months of 2008, GVA at basic prices rose by 6.4 per cent and reached €2,375.1 million. This growth was mainly attributable to other community, social and personal services and to a lesser extent to real estate, renting and business activities. Other significant increases were evident in the wholesale and retail trade sector and in the transport, storage and communication sector. Conversely, the main negative contributor to growth in GVA at basic prices was the electricity, gas and water supply sector.

Chart 2.2 illustrates the sectoral contribution of agriculture, hunting and forestry, industry and services activities to GVA at basic prices. In recent years, the Maltese economy has become more services oriented. Over the period 2004-

Chart 2.2



*Includes fishing and operation of fish hatcheries and fish farms

**Includes energy and construction

2007, the share of agriculture, hunting and forestry dropped minimally and stood at 2.3 per cent. Meanwhile, in the same period, there was a re-distribution between the industry and the services activities, as the share of the latter increased by 1.3 percentage points and reached 76.2 per cent. In the first six months of 2008, the share of agriculture, hunting and forestry remained unchanged when compared to the same period of last year at 1.9 per cent. However, the share of the industry activities decreased by 2.5 per cent to 20.0 per cent, while that of the services activities rose to 78.0 per cent.

Table 2.5 shows the sectoral contribution to GVA at basic prices for the period 2005-2008. During the first six months of 2008, GVA at basic prices for agriculture, hunting and forestry (including fishing) increased by €2.6 million and stood at €46.0 million. This growth is mainly attributable to agriculture. On

Sectoral Contribution to Gross Value Added

(at basic prices)

Table 2.5 € million

	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
Agriculture, Hunting and Forestry	85.6	87.2	79.2	38.8	41.1
Fishing	25.6	33.2	25.4	4.6	4.9
Mining and Quarrying	13.5	13.7	13.3	6.6	7.8
Manufacturing	712.2	717.5	784.0	386.6	385.7
Electricity, Gas and Water Supply	36.8	33.5	26.1	21.6	-12.4
Construction	160.7	182.0	174.3	87.7	94.9
Wholesale and Retail Trade[(1)]	545.3	545.6	559.3	267.5	287.5
Hotels and Restaurants	241.9	234.3	252.2	97.5	106.3
Transport, Storage and Communication	407.1	416.7	443.7	203.1	221.6
Financial Intermediation	201.2	219.1	202.9	121.7	120.9
Real Estate, Renting and Business Activities	639.0	716.5	768.4	372.2	407.2
Public Administration and Defence[(2)]	293.0	297.0	316.0	156.8	166.5
Education	257.5	263.4	277.1	134.1	144.1
Health and Social Work	244.6	259.2	273.8	136.5	153.8
Other Community, Social and Personal Service Activities	247.4	344.5	438.4	193.3	241.5
Private Households with Employed Persons	6.7	6.9	7.1	3.6	3.7
Gross Value Added	4,118.0	4,370.4	4,641.3	2,232.1	2,375.1

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

[(2)]Includes Compulsory Social Security

Source: National Statistics Office

the other hand, there was a drop of €26.5 million in the GVA at basic prices for the industry activities which stood at €476.0 million, reflecting mainly a decline in the electricity, gas and water supply coupled with a marginal decline in the manufacturing activities. These decreases were partly offset by increases in both the construction and mining and quarrying activities.

In the period under review, the GVA at basic prices in the services activities increased by €166.8 million and reached €1,853.1 million. Indeed, all sectors within the services activities, with the exception of the financial intermediation sector, have registered growth in their GVA at basic prices. Major increases were recorded in other community, social and personal services (which includes remote gaming activities) and real estate, renting and business activities. Other significant increases were recorded in wholesale and retail trade, transport storage and communication, health and social work and public administration and defence.

During January-June 2008, the GVA at basic prices in agriculture, hunting and forestry increased by €2.3 million and reached €41.1 million. This reflects a rise in output which offset the rise in intermediate consumption. The share of this sector remained unchanged over the previous period standing at 1.7 per cent.

Meanwhile, there was a decline of €0.9 million in the manufacturing sector which stood at €385.7 million, in the period under review. This was underpinned by a significant decline in output that exceeded the decline in intermediate consumption. The main decreases were registered in the manufacture of radio, TV and communication equipment (€10.4 million), the manufacture of wearing apparel and clothing (€5.5 million), the manufacture of furniture and other manufacturing (€4.8 million) and the manufacture of other transport equipment (€4.4 million). On the other hand, improvements were recorded in the manufacture of chemicals and chemical products (€12.8 million), publishing and printing (€4.0 million), fabricated metal products (€3.7 million) and food and beverages (€3.1 million). In the first six months of 2008, the share of manufacturing in total GVA at basic prices dropped by 1.1 percentage points to 16.2 per cent.

Output in the electricity, gas and water supply sector has increased in the first six months of 2008 by €21.9 million. This increase was completely offset by a rise in intermediate consumption of €55.9 million, reflecting the increased cost of imports of oil. As a result, a decline of €34.0 million was recorded such that the GVA at basic prices for this sector stood at a negative €12.4 million.

In the construction sector, GVA at basic prices increased by €7.2 million to €94.9 million. This improvement was largely underpinned by a rise in output of €7.4 million which was minimally offset by a marginal increase in intermediate consumption. The construction sector's share in total GVA at basic prices stood at 4.0 per cent, a marginal increase when compared to the previous corresponding period.

The wholesale and retail trade sector has registered a growth in the GVA at basic prices of €20.0 million reflecting a substantial increase in output of €29.5 million which was partially offset by a rise of €9.5 million in intermediate consumption. The three sub-sectors in this sector, being sale, maintenance and repair of motor vehicles, wholesale and commission trade services and retail trade services have all registered increases in their GVA at basic prices. Nonetheless, the largest rise in GVA at basic prices was recorded in the wholesale and commission trade services which rose by €11.1 million. The share of the wholesale and retail trade sector in GVA at basic prices has remained almost unchanged in the period under review at 12.1 per cent.

A further improvement was evidenced in the hotels and restaurants sector. The GVA at basic prices in this sector increased by €8.8 million and reached €106.3 million. This was underpinned by a significant rise in output of €16.1 million which was partly offset by a rise in intermediate consumption of €7.2 million. The share of the hotels and restaurants sector in total GVA at basic prices increased minimally when compared to the previous period and stood at 4.5 per cent

The GVA at basic prices for the transport, storage and communication sector rose by €18.5 million to €221.6 million owing to a substantial increase in output of €20.9 million which was minimally offset by an increase of €2.4 million in intermediate consumption. At a sub-sectoral level, this rise in GVA at basic prices was mainly underpinned by a rise in the GVA in the post and telecommunication services sub-sector of €12.5 million. The share of this sector in total GVA at basic prices rose by 0.2 percentage points and stood at 9.3 per cent.

The financial intermediation sector registered a marginal drop in GVA at basic prices of €0.8 million. This was mainly underpinned by a rise in intermediate consumption of €0.7 million combined with a drop in output of €0.2 million. The decline in GVA at basic prices of the financial intermediation services except insurance and pension funds services sub-sector of €1.7 million more than offset the increases in the GVA in insurance and pension fund services and services auxiliary to financial intermediation sub-sectors. The share of the financial intermediation sector in the total GVA at basic prices dropped by 0.4 percentage points to 5.1 percent.

The real estate, renting and business activities sector registered significant growth in its GVA at basic prices as it rose by €35.0 million to €407.2 million. This improvement was underpinned by an increase of €46.8 million in output which was partially offset by an increase in intermediate consumption of €11.8 million. At sub-sectoral level, significant increases were evident in other business services (€16.6 million), real estate services (€11.1 million), computer and related services (€4.2 million) and renting services of machinery and equipment (€3.1 million). In January-June 2008, the share of this sector in total GVA at basic prices rose by 0.4 percentage points to reach 17.1 per cent. It thus became the sector with the largest share in GVA, overtaking manufacturing by 0.9 percentage points.

In the public administration and defence sector, there was a significant rise in output of €40.1 million which was partially offset by an increase in intermediate consumption of €30.4 million. This led to a rise in GVA at basic prices of €9.7 million. The share of this sector in total GVA at basic prices remained unchanged at 7.0 per cent in the period under review.

During the first six months of 2008, the GVA at basic prices in the educational sector rose by €10.0 million reaching €144.1 million. This practically reflects wholly an increase in output. The share of this sector in total GVA at basic prices rose marginally to 6.1 per cent when compared to the same period of last year.

The gross value added generated in the health and social work sector rose by €17.3 million and stood at €153.8 million, being underpinned by a rise of €31.0 million in output which was partially offset by a rise in intermediate consumption of €13.7 million. The sectoral share increased by 0.4 percentage points to 6.5 per cent in the period under review.

The other community, social and personal services sector continued on its upward trend and its GVA at basic prices grew substantially by €48.2 million to reach €241.5 million. This reflects a substantial rise in output of €118.9 million which was partly outweighed by an increase in intermediate consumption of €70.7 million. The share of this sector to total GVA at basic prices stood at 10.2 per cent, increasing by 1.5 percentage points over the same previous period. It is noteworthy that this positive performance is practically wholly attributable to the recreational, culture and sport services sub-sector which includes remote gaming activities.

Gross National Income

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

In the first two quarters of 2008, the GNI at market prices exhibited an increase of €93.4 million, equivalent to 3.8 per cent. This increase was underpinned by a rise in GDP at market prices which was partly offset by a higher level of outflow of net property income during the period under review. Table 2.6 provides

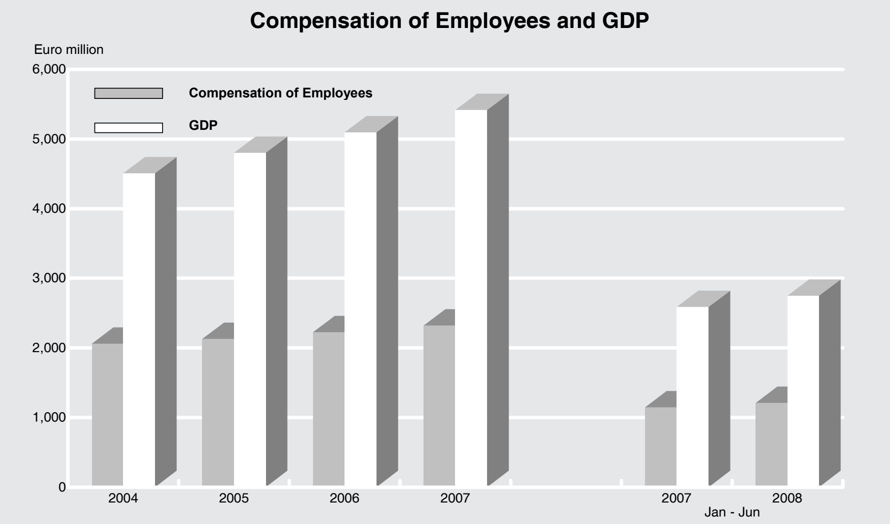
Gross National Income

Table 2.6 € million

	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
Compensation of employees	2,129.4	2,226.1	2,323.5	1,145.4	1,211.7
Gross operating surplus and mixed income	2,028.5	2,184.3	2,374.7	1,106.9	1,198.9
Taxes on production and imports	740.8	780.9	825.9	381.3	399.7
Less Subsidies	98.8	95.9	109.1	45.0	64.5
Gross Domestic Product at current market prices	4,799.8	5,095.4	5,415.0	2,588.6	2,745.8
Net compensation of employees from the rest of the world	9.2	-2.3	-4.7	-1.2	-4.1
Subsidies less Taxes on products from/to the rest of the EU	-18.3	-12.6	-16.7	-7.7	-10.6
Net property income from the rest of the world	-208.8	-210.2	-124.5	-97.4	-155.4
Gross National Income at current market prices	4,581.9	4,870.2	5,269.1	2,482.3	2,575.7

Source: National Statistics Office

Chart 2.3



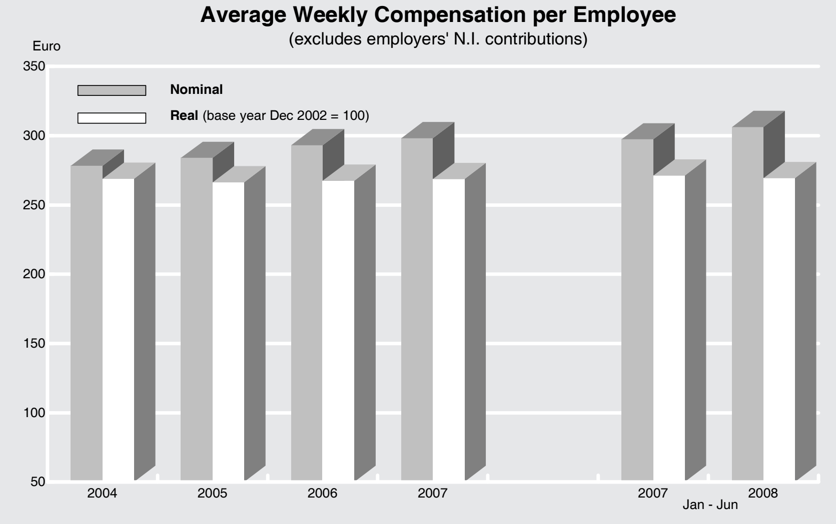
information on the components of GNI at market prices during the period 2005-2008.

Chart 2.3 illustrates the developments in compensation of employees and GDP at market prices over the period 2004-2008. In the first six months of 2008, the share of employee compensation to GDP at market prices remained largely stable at 44.1 per cent. Aggregate compensation of employees exhibited an increase of €66.3 million, equivalent to a rise of 5.8 per cent. This reflects the buoyant labour market situation prevailing during the period under review.

Increases in aggregate employee compensation were registered in all sectors of the economy except in the manufacturing sector. Significant increases were registered in the health and social work (€15.6 million), public administration and defence (€9.5 million), and education sectors (€7.5 million). Other notable increases in the compensation bill were registered in the financial intermediation (€7.0 million) and in the real estate, renting and business activities sector (€7.0 million).

Developments in wages and salaries and total employment as outlined by the average weekly wage per employee are presented in Chart 2.4 and Table 2.7. Data in respect of wages and salaries relates to national accounts data and hence incorporates the earnings of both full-time and part-time employees. In estimating average weekly wage per employee, aggregate wages and salaries

Chart 2.4



Average Weekly Wage per Employee*

Table 2.7

	Nominal		Real**	
	Value	Change	Value	Change
	€	%	€	%
2005	273.47	1.8	256.37	-1.2
2006	282.54	3.3	257.72	0.5
2007	287.61	1.8	259.11	0.5
2007 (Jan-Jun)	286.22	1.0	261.01	0.6
2008 (Jan-Jun)	294.77	3.0	259.09	-0.7

*Excludes employers' National Insurance contributions
**Base year of RPI index (December 2002=100)

Source: National Statistics Office

are divided by the employment level according to the national accounts definition. Moreover, in estimating average weekly wages per employee the segment of National Insurance contributions paid by employers is excluded from the calculations. Real average weekly wage figures were obtained by deflating by the Retail Price Index using the base year December 2002 = 100. Due to an adjustment in the methodology employed it is pertinent to point out that data is not directly comparable with that published in previous Economic Surveys.

In the first two quarters of 2008, the average weekly wage per employee in nominal terms increased by 3.0 per cent to €294.77. In real terms, the average wage exhibited a 0.7 per cent decline, and totaled €259.09 during the period under review.

Gross operating surplus and mixed income increased to €1,198.9 million in the first two quarters of 2008. This represents an increase of €92.0 million or 8.3 per cent over the comparable period of last year. At a sectoral level, increases were registered in all sectors except in the electricity, gas and water supply, financial intermediation, manufacturing and fishing sectors. These declines were, however, more than offset by the increases registered in other economic sectors. Notable growth in gross operating surplus was registered in the other community, social and personal services, in the real estate, renting and business activities and in the wholesale and retail sectors.

Taxes on production and imports registered a €18.4 million increase, equivalent to 4.8 per cent. This rise was underpinned by higher receipts from VAT. On the other hand, subsidies increased by €19.5 million during the period under review.

Net property income from the rest of the world measures the difference between income received by Maltese owners in respect of financial assets held abroad and income receivable by foreign residents in respect of Maltese financial assets. Net property income from the rest of the world exhibited a decline of €58.0 million in the first two quarters of 2008. This occurred since, although both receipts from abroad and payments abroad in the investment income account of the balance of payments increased during the period under review, the increase in the latter was of a higher magnitude.

The difference between total remuneration earned abroad by Maltese nationals less total remuneration earned locally by foreign nationals defined as net compensation of employees, declined by €2.9 million to €4.1 million. Furthermore, taxes less subsidies paid to the rest of the EU increased to €10.6 million.

Box 2.2

GDP per capita in Purchasing Power Standards

GDP per capita in Purchasing Power Standards (PPS) is an indicator published by Eurostat that is widely used in studies benchmarking the level of economic development of different countries. This indicator is expressed in index terms with the European Union (EU-27) average normalised to 100. If a country's index is higher than 100, then that country's level of GDP per head is higher than the EU average and vice-versa. Expressing GDP per capita in PPS i.e. in common currency terms, eliminates the differences in price levels between countries and hence allows a meaningful volume comparison of GDP between countries. Table 1 provides an overview of developments in GDP per capita in the EU27 region over the period 2001-2007, whilst Chart 1 presents a comparison against economies at a similar level of development.

GDP per capita in Purchasing Power Standards*

Table 1

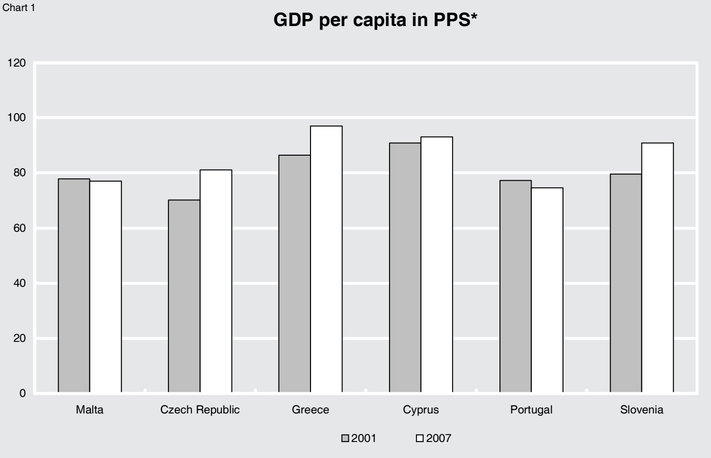
	2001	2007	Change
EU 27	100.0	100.0	0.0
Belgium	123.4	119.2	-4.2
Bulgaria	29.2	38.0	8.8
Czech Republic	70.2	81.1	10.9
Denmark	127.8	122.4	-5.4
Germany	116.6	112.8	-3.8
Estonia	46.1	70.6	24.5
Ireland	132.5	149.3	16.8
Greece	86.5	97.1	10.6
Spain	98.1	106.6	8.5
France	115.7	110.9	-4.8
Italy	117.8	101.1	-16.7
Cyprus	90.9	93.1	2.2
Latvia	38.7	57.8	19.1
Lithuania	41.5	61.0	19.5
Luxembourg	234.1	276.7	42.6
Hungary	58.8	63.3	4.5
Malta	77.9	77.1	-0.8
Netherlands	133.7	132.2	-1.5
Austria	125.0	126.9	1.9
Poland	47.5	53.6	6.1
Portugal	77.3	74.6	-2.7
Romania	27.5	40.5	13.0
Slovenia	79.6	90.9	11.3
Slovakia	52.3	68.4	16.1
Finland	115.7	116.4	0.7
Sweden	121.4	125.8	4.4
United Kingdom	119.7	117.1	-2.6

* is an indicator expressed in index terms with the European Union (EU-27) average normalised to 100.

Source: Eurostat

Box 2.2 continued

Chart 1



One can classify EU countries into four different groups. The first group (Group 1) consists of those countries that exhibited increases in GDP per capita in PPS higher than 3 points relative to the EU average. This group consists of Bulgaria, Czech Republic, Estonia, Ireland, Greece, Spain, Latvia, Lithuania, Luxembourg, Hungary, Poland, Romania, Slovenia, Slovakia and Sweden. The major part of such countries have exhibited double digit growth rates and consist mainly of new member states which started from a considerably low income level and hence had considerable 'catching up' to pursue. However, Ireland, Greece, Spain, Luxembourg, Slovenia and Sweden (who are also a part of this group), started from an initial income level which was either higher than or close to the EU average, and still managed to register relatively high growth in the period under review.

The second group (Group 2) consists of those EU nations that registered a modest albeit positive improvement, lower than 3 points in GDP per capita in PPS over the period 2001-2007 relative to the EU average. Cyprus, Austria and Finland pertain to this group. The third group (Group 3) of countries includes Malta, Netherlands, Portugal and the UK, and includes economies which exhibited a marginal decline in the index over the period under review of less than 3 points. In Malta's case the decline is that of 0.8 points implying that over the period 2001-2007, Malta's position remained largely unaltered exhibiting in essence, neither convergence to, nor divergence from, the EU27 benchmark. The final group (Group 4) of EU27 countries consists of Belgium, Denmark, Germany, France and Italy, and consists of countries that exhibited declines in GDP per capita in PPS greater than 3 points relative to the EU27 average.

Box 2.2 continued

Overall, when other EU Member States' performance are taken into account, the Maltese economy appears to have largely kept the relative position it held in 2001. The economic growth attained over the period 2001-2007 did not enable Malta to move closer to convergence to the EU27 average. Such growth enabled the Maltese economy to maintain its relative position. The Maltese economy's performance is comparable to that of Cyprus that arguably provides a good benchmark for comparison in view of the underlying economic similarities. The Cypriot economy registered an improvement of 2.2 points during the period 2001-2007. Both Malta and Cyprus are small open economies, and their economic performance is heavily influenced by the tourism industry. Moreover, unlike the majority of the new Member States, the two island states started from a relatively higher income level. Thus, in accordance with theories of economic convergence, the pace of 'catching up' is likely to be relatively slower to that of other new Member States which started off from a significantly lower income per capita level.

3. Employment

3. Employment

During the period under review the Maltese labour market was characterised by an overall strong performance as evidenced by significant increases in both full-time and part-time employment as well as the decline in unemployment. Nevertheless, as Malta continues its restructuring process, specific sectors of the labour market in the manufacturing industry are still registering declines in the number of employed persons. At the same time, market services employment has registered significant increases in most sectors. These developments reflect the sustained shift towards a more services-oriented economy. Furthermore, public sector employment continued to follow a downward trend while employment in the private sector remained the major source of employment in the Maltese economy.

Table 3.1 shows that at the end of June 2008, the full-time gainfully occupied population stood at 145,257, an increase of 3,426 employees or 2.4 per cent over June 2007. During the same period, the number of persons registering for unemployment (under Part I and Part II) fell by 476 or 7.5 per cent. Consequently, the labour force increased by 2,950 persons or 2.0 per cent over the same month of the previous year. Meanwhile, persons with a part-time job as their primary occupation stood at 27,579, an increase of 1,527 or 5.9 per cent over June 2007.

The data in this Chapter presents revised labour market data provided by the Employment and Training Corporation (ETC). Therefore, data in this Chapter are not directly comparable to data presented in previous issues of the Economic Survey. The ETC classifies the gainfully occupied population according to the standard NACE classifications of economic activities. The latest available employment data relates to June 2008, whilst the last section of this Chapter, which analyses unemployment trends, is based on more recent data relating to September 2008.

Labour Market Developments

This section provides an overview of the major developments registered in the domestic labour market throughout the period between June 2004 and June 2008. As shown in Chart 3.1, over this period, labour supply rose from 145,803 to 151,118, representing an average annual growth rate of 0.9 per cent. It is noteworthy that growth in the labour supply picked up significantly in the two years to June 2008. The female labour supply was on an upward trend throughout

Labour Market Performance

Table 3.1

	2004 Jun	2005 Jun	2006 Jun	2007 Jun	2008 Jun
Labour Supply	145,803	145,329	146,543	148,168	151,118
Males	103,864	102,920	103,022	103,094	104,030
Females	41,939	42,409	43,521	45,074	47,088
Gainfully Occupied	137,861	138,399	139,482	141,831	145,257
Males	97,430	97,416	97,510	98,120	99,499
Females	40,431	40,983	41,972	43,711	45,758
Total Private Sector	90,913	92,858	96,283	99,223	103,237
Private Direct Production	33,330	33,366	33,178	33,200	32,612
Private Market Services	56,926	58,878	62,710	65,687	69,991
Temporary Employment	657	614	395	336	634
Total Public Sector	46,948	45,541	43,199	42,608	42,020
Public Sector	46,674	45,288	43,070	42,498	41,871
Temporary Employment	274	253	129	110	149
Registered Unemployed*	7,942	6,930	7,061	6,337	5,861
Males	6,434	5,504	5,512	4,974	4,531
Females	1,508	1,426	1,549	1,363	1,330
% of Labour Supply	5.4	4.8	4.8	4.3	3.9
of which unemployment under Part I (%)	5.0	4.3	4.5	3.8	3.5
Self-Employed**	16,054	16,319	16,521	16,767	17,007
Males	13,932	14,095	14,179	14,324	14,436
Females	2,122	2,224	2,342	2,443	2,571
% of Gainfully Occupied	11.6	11.8	11.8	11.8	11.7
Memorandum:					
Total Direct Production***	43,158	42,921	42,844	42,475	41,575
Total Market Services***	93,772	94,611	96,114	98,910	102,899
Total Private Sector Share	65.9%	67.1%	69.0%	70.0%	71.1%
Total Public Sector Share	34.1%	32.9%	31.0%	30.0%	28.9%
Part-time Employment as Primary Job	20,492	22,459	24,128	26,052	27,579

*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 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 administrative records of the Employment and Training Centre (ETC), mainly due to differences in definitions and methodology 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 a sampling error. As from 2008, the weighting procedures in the LFS are based on 2007 population estimates, which are calculated using the Census of Population and Housing 2005 as a benchmark. The first quarter of 2007 estimates were revised accordingly to reflect this methodology and are, therefore, incomparable to data published in the previous Economic Surveys that were worked out using the 1995 Census as a benchmark. A review of developments in the labour market occurring during the year to the second quarter of 2008 based on LFS data is presented below.

By the end of the second quarter of 2008 the labour supply stood at 170,129, an increase of 1,524 or 0.9 per cent over the same quarter in 2007. Throughout the period under analysis, employment increased by 2,107 to 159,875. This reflects an increase in female employment of 4,074 o 54,981 and a decrease in male employment of 1,967 to 104,894. Consequently, in the second quarter of 2008, male employment accounted for 65.6 per cent of total employment compared to 67.7 per cent in the corresponding period of 2007. Meanwhile, unemployment decreased from 10,837 to 10,254. Whilst female unemployment declined by 1,026, the number of male unemployed increased by 443 persons.

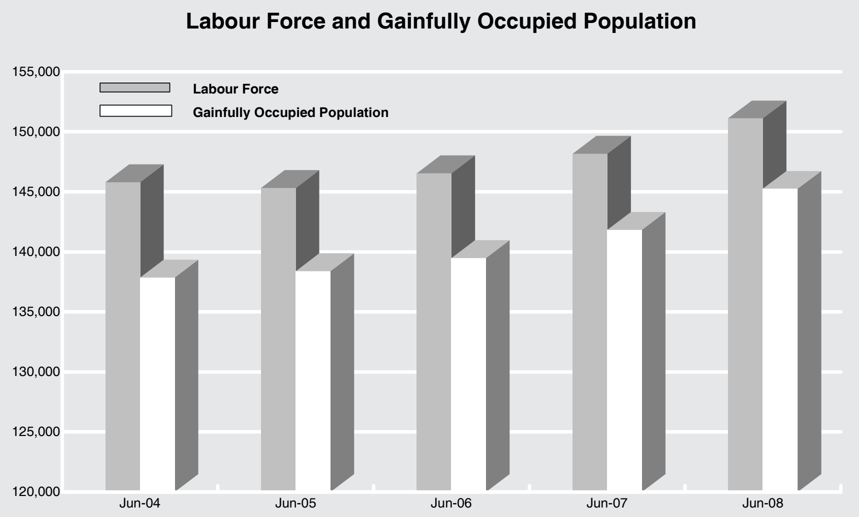
Over the year to the second quarter of 2008, the activity rate decreased by 0.2 percentage points to 58.8 per cent. This development reflected an improvement in the female activity rate of 1.4 percentage points to 41.0 per cent and a decline in the male activity rate of 1.6 percentage points to 76.2 per cent. At the same time, the number of inactive persons increased by 2,588 to 174,619, 66.6 per cent of which was accounted for by females.

Meanwhile, the number of persons engaged in employment as a percentage of the total working age population remained unchanged at 55.2 per cent. This reflects an increase in the female employment rate of 2.2 percentage points to 38.5 per cent and a decline in the male employment rate of 1.9 percentage points to 71.6 per cent.

By the end of the period under analysis, the number of unemployed persons as a percentage of the labour force declined by 0.4 percentage points to 6.0 per cent over the same quarter the previous year. The male unemployment rate increased by 0.5 percentage points to 6.0 per cent, whilst that for females declined by 2.2 percentage points to 6.1 per cent. From an age group perspective, the unemployment rate for persons aged between 15 and 24 years stood at 12.9 per cent, a decline of 2.1 percentage points, whilst that for persons aged 25+ stood at 4.6 per cent, relatively unchanged from the same quarter the previous year.

In the second quarter of 2007, technicians and associate professionals, and service workers and shop and sales workers occupations recorded the highest shares in employment. Indeed, these occupations accounted for approximately 25,000 workers each. Throughout this period, the average gross annual salary for an employee stood at €13,396, an increase of 3.9 per cent over the same quarter the previous year. LFS data also reveals that the highest paid workers were legislators, senior officials and managers with an average annual salary of €22,800 and professionals with an average annual salary of €17,194. Meanwhile, the lowest average gross annual salary related to elementary occupations with an average annual salary of €10,135 and service workers and shop and sales workers with an average annual salary of €10,491.

Chart 3.1

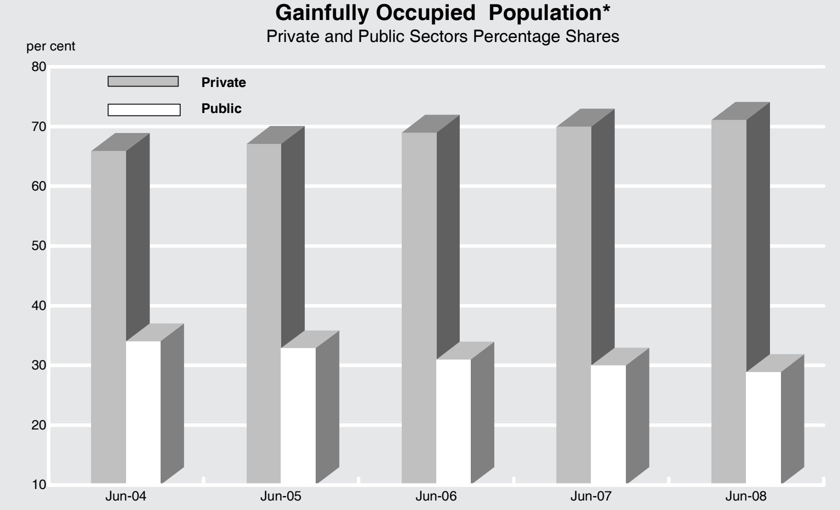


the June 2004 to June 2008 period, rising by 5,149 persons or 12.3 per cent over the four year period. It reached 47,088 in June 2008. During the same period, the male component of the labour supply rose by 166 persons or 0.2 per cent to stand at 104,030, as a notable advance was only recorded in the twelve months to June 2008.

At the end of June 2008, the gainfully occupied population stood at 145,257, an increase of 7,396 or 5.4 per cent over June 2004. To a large extent this development reflected the increase in female employment as it rose by 5,327 or 13.2 per cent to stand at 45,758 at the end of June 2008. During the same period, male employment increased by 2,069 or 2.1 per cent to reach 99,499. By the end of June 2008, the share of males in the total gainfully occupied population stood at 68.5 per cent while the female share amounted to 31.5 per cent.

As shown in Chart 3.2, public sector employment followed a downward trend over the four years to June 2008. Indeed, public employment fell to 42,020 in June 2008, a drop 4,928 workers or 10.5 per cent over June 2004. Meanwhile, private sector employment increased by 12,324 persons or 13.6 per cent to 103,237. Consequently, by the end of June 2008, private and public sector employment accounted for 71.1 per cent and 28.9 per cent of the total gainfully occupied population respectively.

Chart 3.2



*Including temporary employees

Notable reductions were recorded in the number of persons registering as unemployed. Indeed, over the four year period to June 2008 the number of unemployed persons under Part I and Part II of the Register fell by 2,081 persons or 26.2 per cent to 5,861. Consequently, the unemployment rate fell from 5.4 per cent in June 2004 to 3.9 per cent in June 2008.

Private Sector Employment

The upward trend registered in employment in the private sector (inclusive of temporary employees) over the period June 2004 to June 2008 reflected a significant expansion in employment in the private market services. This was partly mitigated by a decline in employment in the private direct production activities.

At the end of June 2008, employment in private direct production stood at 32,612, a decrease of 718 or 2.2 per cent over June 2004. Declines were mainly recorded in the twelve months to June 2006 and June 2008. Consequently, by the end of June 2008, the share of private direct production in total private sector employment stood at 31.6 per cent, 5.1 percentage points lower than the share recorded in June 2004. At the same time, since June 2004, employment in private market services increased by 13,065 or 23.0 per cent to reach 69,991 at the end of June

2008. As a result, the share of private market services in the total private sector employment increased to 67.8 per cent.

Temporary private sector employment declined by 23 or 3.5 per cent over the four year period to June 2008. However, a significant increase is noticeable during the twelve months to June 2008 when temporary private sector employment rose by 298 employees.

The number of self-employed persons has increased consistently during the period under observation. In fact, by the end of June 2008, the number of self-employed stood at 17,007, an increase of 953 employees or 5.9 per cent over June 2004. The share of self-employed in the total gainfully occupied population remained relatively unchanged at around 11.7 per cent. This development was driven by increases amongst both males and females. Female self-employed recorded an increase of 449 employees or 21.2 per cent over the four year period to June 2008, to stand at 2,571. During the same period, the number of male self-employed increased by 504 or 3.6 per cent to stand at 14,436. Despite the increases recorded by females self-employed, their share in total self-employed persons remained relatively low in comparison to the share of females in the gainfully occupied population, probably reflecting the role of cultural traits.

Public Sector Employment

Throughout the period June 2004 to June 2008, public sector employment sustained a downward trend. In particular, this reflected the restructuring of public enterprises, privatisation initiatives as well as Government's policy to restrict recruitment in non-essential categories of Government Departments. Indeed, the share of public sector employees in the total gainfully occupied population fell below the 30 per cent mark.

In June 2008, public sector employment (inclusive of temporary employment) stood at 42,020, a decline of 4,928 employees or 10.5 per cent over the same month in 2004. As illustrated in Table 3.2, this decline mainly reflected developments in companies with a public majority shareholding where employment was more than halved. A more gradual, though still notable, decrease was registered in Government Departments. On the other hand, employment in Independent Statutory Bodies has been on the increase.

During the four years to June 2008, employment in Government Departments declined by 1,500 or 4.7 per cent. Reductions were consistent throughout the

Public Sector Employment

Table 3.2

	2004 Jun	2005 Jun	2006 Jun	2007 Jun	2008 Jun
Government Departments	31,735	31,106	30,658	30,377	30,235
Companies with public sector majority shareholding	6,307	5,500	3,591	3,192	2,607
Independent Statutory Bodies	8,632	8,682	8,821	8,929	9,029
Temporary Employees	274	253	129	110	149
Total	46,948	45,541	43,199	42,608	42,020

Source: Employment and Training Corporation

period, reflecting the implementation of a strict recruitment policy as well as the effect of natural attrition. By the end of the period under observation the share of Government Department employees in total public sector employment increased from 67.6 per cent to 72.0 per cent due to developments in other categories of public sector employment.

Employment in companies with public sector majority shareholding declined by 3,700 or 58.7 per cent over the four years to June 2008. This decline was mainly attributable to privatisation initiatives, including Malta Freeport Terminals Ltd., Air Supplies and Catering Co. Ltd. and Maltacom plc. as well as the restructuring of certain public sector companies. The closing down of Sea Malta Co. Ltd. as well as the sale of Tigne Development Co. Ltd. also contributed to this decline. The downward trend observed throughout this period continued in the twelve months to June 2008 as employment in companies with a public majority shareholding fell by 585 persons or 18.3 per cent to 2,607. This decline mainly reflected the privatisation of Maltapost plc. and Tug Malta Ltd. As a result of these developments, the share of employees in companies with a public majority shareholding in total public sector employment fell from 13.4 per cent in June 2004 to 6.2 per cent in June 2008.

Employment in Independent Statutory Bodies increased by 397 or 4.6 per cent to 9,029 from June 2004 to June 2008. This development reflects the shift of certain activities from Government Departments to Independent Statutory Bodies as well as recruitment by Malta College of Arts, Science and Technology (MCAST). This upward trend was also evident in the year to June 2008 as employment in this category increased by 100 persons or 1.1 per cent. Following these developments, Independent Statutory Bodies accounted for 21.5 per cent of total public sector employment, up from 18.4 per cent in June 2004.

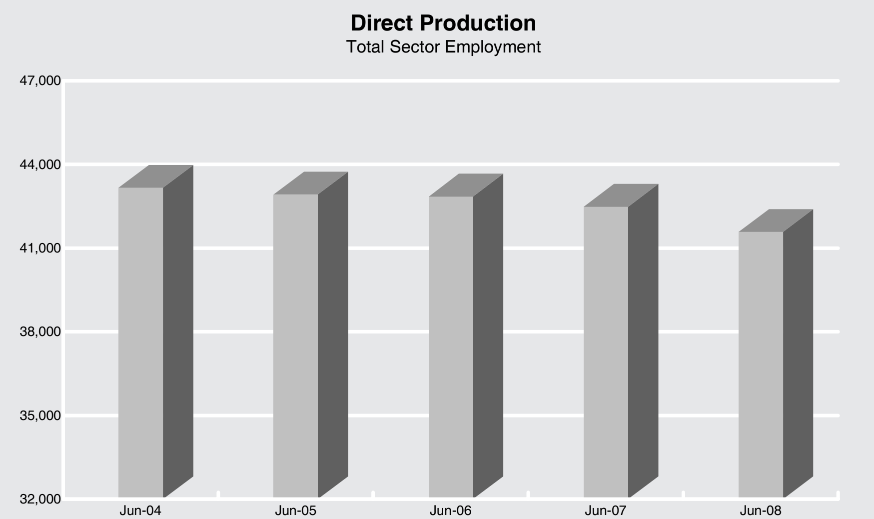
Sectoral Employment

At the end of June 2008, the share of direct production (exclusive of temporary employees) in total gainfully occupied population stood at 28.6 per cent, 1.3 percentage points lower than in June 2007. Meanwhile, the share of market services (exclusive of temporary employment) rose to 70.8 per cent. These developments reflect the ongoing shift towards a more services-oriented economy. This section provides a detailed overview of employment performance of major economic activities in both direct production and market services categories.

Direct Production

A significant decrease in direct production employment was recorded over the four year period to June 2008. In fact, throughout this period, total direct production employment fell by 1,583 or 3.7 per cent as shown in Chart 3.3. This was driven by declines in excess of 700 in both the private and the public sector.

Chart 3.3



The significantly lower level of employment in direct production recorded between June 2004 and June 2008 was mainly a reflection of developments in the manufacturing sector. In fact, during the four years to June 2008, the manufacturing sector recorded a decline of 2,269 employees or 9.0 per cent. The electricity gas and water supply sector also registered a drop in employment levels of 565 employees or 15.9 per cent. Meanwhile, the agriculture, hunting and forestry sector and the mining and quarrying sector recorded relatively smaller declines of 56 employees (1.8 per cent) and 34 employees (6.7 per cent), respectively. These developments were partly offset by increases recorded in the fishing and construction sectors. The latter recorded an increase of 1,207 employees or 11.6 per cent over the four years to June 2008. During the same period, the fishing sector recorded an increase of 134 employees or 32.5 per cent.

As presented in Table 3.3, by the end of June 2008, total employment in direct production stood at 41,575, a decline of 900 employees or 2.1 per cent over June 2007. This decline mainly reflected lower employment in the manufacturing

Employment in Direct Production*

Table 3.3

	2004 Jun	2005 Jun	2006 Jun	2007 Jun	2008 Jun
Agriculture, Hunting and Forestry	3,048	3,089	3,034	2,977	2,992
Private	1,658	1,640	1,626	1,637	1,635
Public	1,390	1,449	1,408	1,340	1,357
Fishing	412	443	461	530	546
Private	412	443	461	530	546
Public	0	0	0	0	0
Mining and Quarrying	510	508	506	495	476
Private	510	508	506	495	476
Public	0	0	0	0	0
Manufacturing	25,247	24,926	24,088	23,865	22,978
Private	23,424	23,143	22,336	22,099	21,229
Public	1,823	1,783	1,752	1,766	1,749
Electricity, Gas and Water	3,558	3,406	3,261	3,109	2,993
Private	1	1	7	8	8
Public	3,557	3,405	3,254	3,101	2,985
Construction	10,383	10,549	11,494	11,499	11,590
Private	7,325	7,631	8,242	8,431	8,718
Public	3,058	2,918	3,252	3,068	2,872
Total Employment in Direct Production	43,158	42,921	42,844	42,475	41,575
Private	33,330	33,366	33,178	33,200	32,612
Public	9,828	9,555	9,666	9,275	8,963

* Excluding temporary employees

Source: Employment and Training Corporation

sector where the number of employees fell by 887 to 22,978. Consequently, the manufacturing sector's share in total direct production employment fell from 56.2 in June 2007 to 55.3 per cent at the end of June 2008. Lower employment was also recorded in the electricity, gas and water supply sector. Such decreases were partly mitigated by a relatively small increase of 91 persons or 0.8 per cent in the construction sector employment. This relatively low growth in construction employment reflected a decline of 196 employees in the public sector which dampened higher employment by 287 persons in the private sector. Marginal improvements were recorded by the agriculture, hunting and forestry sector and the fishing sector.

Meanwhile, declines throughout the year to June 2008 were recorded in the manufacturing sector, the mining and quarrying sector as well as electricity, gas and water sector. The most significant developments during the year to June 2008 were recorded in the manufacturing sector, as the number of employees in this sector fell by 887 to 22,978.

As illustrated in Table 3.4, in the twelve months to June 2008, total private sector declines in manufacturing employment amounted to 1,303. However, these were partly offset by total private sector increases of 433 employees. Table 3.5 provides data on employment developments in the manufacturing industry covering the period June 2004 to June 2008. The section proceeds by reviewing major developments in manufacturing sub-sectors.

Changes in Manufacturing Employment*

Table 3.4

	2005-04 Jun	2006-05 Jun	2007-06 Jun	2008-07 Jun
Total Change	-321	-838	-223	-887
Private	-281	-807	-237	-870
Public	-40	-31	14	-17
Total Private Increases	112	648	371	433
Total Public Increases	0	8	15	1
Total Private Decreases	393	1,455	608	1,303
Total Public Decreases	40	39	1	18

* Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

Manufacturing Employment*

Table 3.5

	2004 Jun	2005 Jun	2006 Jun	2007 Jun	2008 Jun
Mfg of Food Products, Beverages and Tobacco	3,967	3,906	3,821	3,611	3,655
Private	3,967	3,906	3,821	3,611	3,655
Public	0	0	0	0	0
Mfg of Textiles and Textile Products	2,718	2,653	1,714	1,541	929
Private	2,718	2,653	1,714	1,541	929
Public	0	0	0	0	0
Mfg of Leather and Leather Products	467	378	215	207	144
Private	467	378	215	207	144
Public	0	0	0	0	0
Mfg of Wood and Wood Products	213	204	188	165	160
Private	213	204	188	165	160
Public	0	0	0	0	0
Mfg of Pulp, Paper and Paper Products; Publishing and Printing	1,948	1,913	1,914	1,913	1,901
Private	1,835	1,817	1,857	1,857	1,844
Public	113	96	57	56	57
Mfg of Coke, Refined Petroleum Products and Nuclear Fuel	1	1	3	5	4
Private	1	1	3	5	4
Public	0	0	0	0	0
Mfg of Chemicals, Chemical Products and Man-Made Fibres	812	846	950	1,003	1,145
Private	812	846	950	1,003	1,145
Public	0	0	0	0	0
Mfg of Rubber and Plastic Products	1,736	1,741	1,639	1,665	1,582
Private	1,736	1,741	1,639	1,665	1,582
Public	0	0	0	0	0
Mfg of Other Non-Metallic Mineral Products	1,224	1,196	1,250	1,278	1,281
Private	1,224	1,196	1,250	1,278	1,281
Public	0	0	0	0	0
Mfg of Basic Metals and Fabricated Metal Products	1,290	1,290	1,310	1,285	1,286
Private	1,287	1,290	1,310	1,285	1,286
Public	3	0	0	0	0
Mfg of Machinery and Equipment n.e.c	503	525	519	700	560
Private	503	525	519	700	560
Public	0	0	0	0	0
Mfg of Electrical and Optical Equipment	5,266	5,166	5,503	5,350	5,230
Private	5,266	5,166	5,503	5,350	5,230
Public	0	0	0	0	0
Mfg of Transport Equipment	2,175	2,132	2,133	2,218	2,272
Private	468	445	438	508	580
Public	1,707	1,687	1,695	1,710	1,692
Manufacturing n.e.c.	2,927	2,975	2,929	2,924	2,829
Private	2,927	2,975	2,929	2,924	2,829
Public	0	0	0	0	0
Total Manufacturing Employment	25,247	24,926	24,088	23,865	22,978

* Excluding temporary employees

Source: Employment and Training Corporation

Manufacturing of Food, Beverages and Tobacco Products[1]

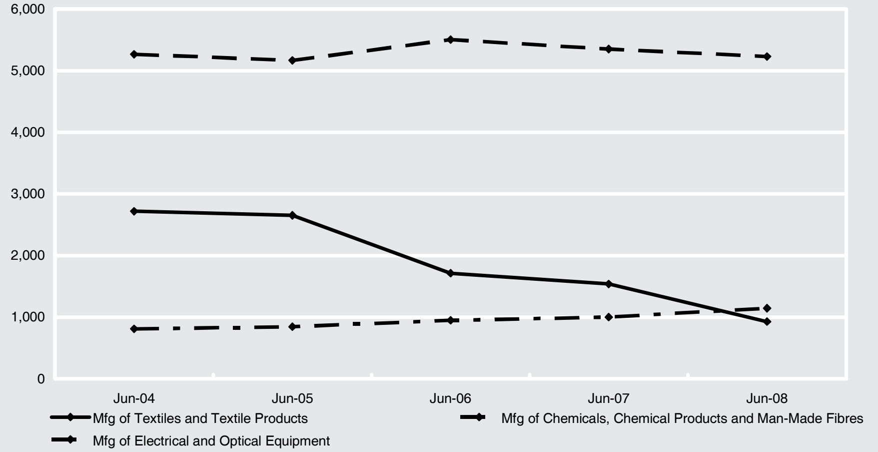
During the year to June 2008, employment in the food, beverages and tobacco products sector increased by 44 or 1.2 per cent to 3,655, reflecting developments in the manufacturing of food products and beverages sub-sector and reversing the trend noted in previous years. Consequently, by the end of June 2008, the share of food products, beverages and tobacco sector in total manufacturing employment stood at 15.9 per cent compared to 15.1 per cent in the same month the previous year.

Manufacturing of Textiles and Textile Products

Employment in the manufacture of textile and textile products fell sharply by 612 or 39.7 per cent over the twelve months to June 2008 to 929. This decline was concentrated in the manufacturing of wearing apparel (including dressing and dying of fur) sub-sector. As highlighted in Chart 3.4, this development is a continuation of the trend noted in previous years, as the sector faced the challenge of increasing price competition from low-cost countries. At the end of June 2008, the share of the manufacture of textile and textile products in total manufacturing employment stood at 4.0 per cent, down from 6.5 per cent in June 2007.

Chart 3.4

Developments in Employment in Selected Manufacturing Sectors



Manufacturing of Chemicals, Chemical Products and Man-Made Fibres

During the year to June 2008, the labour complement within the manufacture of chemicals, chemical products and man-made fibres sector increased by 142 or 14.2 per cent to 1,145. This increase is reflected in the sector's share in total manufacturing employment which rose from 4.2 per cent in June 2007 to 5.0 per cent in June 2008. Increases in employment in this sector have been evident since June 2004, averaging an annual growth rate of 9.0 per cent. The increase in the labour complement within this sector reflects the fact that this one of the emerging growth sectors in the Maltese economy.

Manufacturing of Machinery and Equipment n.e.c.

At the end of June 2008, employment in the manufacture of machinery and equipment n.e.c. sector stood at 560, a decline of 140 or 20.0 per cent over the same month the previous year. More than two-thirds of this decline is accounted for by the manufacture of office machinery and computers. Following these developments, the sector's share in total manufacturing employment fell from 2.9 per cent in June 2007 to 2.4 per cent in June 2008.

Manufacturing of Electrical and Optical Equipment

In June 2008, employment in the manufacture of electrical and optical equipment stood at 5,230, a decrease of 120 persons or 2.2 per cent over June 2007. This sector has the highest share in manufacturing employment. Significant reductions in the number of employed persons were recorded in the radio, television and communication equipment and apparatus sub-sector. Indeed, over the year to June 2008, employment in this sub-sector registered a decline of 267 persons. Meanwhile, the manufacture of electrical machinery and apparatus n.e.c. and the manufacture of medical, precision and optical instruments, watches and clocks sub-sectors recorded increases of 63 and 84 employees respectively. By the end of the period under observation, manufacturing of electrical and optical equipment sector in total manufacturing employment ammounted to 22.8 per cent, 0.4 percentage points higher than in June 2007.

Manufacturing of Transport Equipment

During the twelve months to June 2008, employment in the manufacture of transport equipment increased by 54 persons or 2.4 per cent to stand at 2,272. This was attributable to an increase recorded in the private sector which was partly offset by relatively smaller declines in the public sector. This increase was concentrated in the manufacture of other transport equipment sub-sector.

Consequently, in June 2008, the share of the manufacturing of transport equipment in total manufacturing employment increased by 0.6 percentage points over June 2007 to stand at 9.9 per cent.

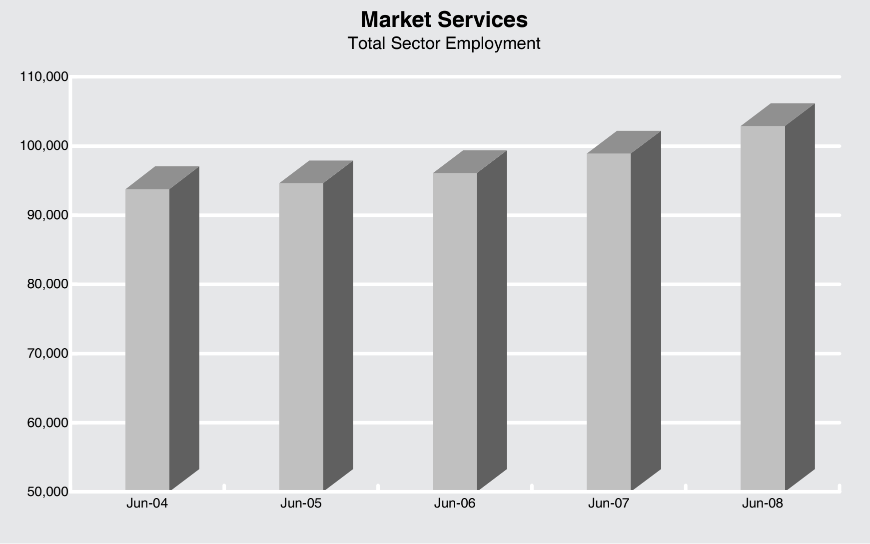
Manufacturing n.e.c.

At the end of June 2008, employment in the manufacture of furniture and recycling stood at 2,829, a decline of 95 persons or 3.2 per cent over June 2007. This development reflected changes observed in the manufacturing of furniture sub-sector as employment in the recycling sub-sector showed a marginal increase. By the end of the period under observation, the manufacturing of furniture and recycling sector accounted for 12.3 per cent of total manufacturing employment, remaining unchanged from the same month of the previous year.

Market Services

Market services activities have been the main generator of employment over the period between June 2004 and June 2008. As illustrated in Chart 3.5, yearly increases were consistent throughout this period, recording an annual average growth rate of 2.4 per cent. During the year to June 2008, market services employment increased by 3,989 persons or 4.0 per cent to 102,899. This increase was due to an overall expansion of 4,304 in the private sector while employment in the public sector recorded an overall decline of 315 persons.

Chart 3.5



Changes in Employment in Market Services*

Table 3.6

	2005-04 Jun	2006-05 Jun	2007-06 Jun	2008-07 Jun
Total Change	839	1,503	2,796	3,989
Private	1,952	3,832	2,977	4,304
Public	-1,113	-2,329	-181	-315
Total Private Increases	1,977	4,079	3,383	4,415
Total Public Increases	253	144	261	554
Total Private Decreases	25	247	406	111
Total Public Decreases	1,366	2,473	442	869

*Excluding temporary employees

Source: Compiled from Employment and Training Corporation data

As shown in Table 3.6, during the twelve months to June 2008, job gains by the private sector amounted to 4,415 while job losses amounted to 111. During the same period, job gains in the public sector amounted to 554, and were offset by job losses of 869. Overall, increases in employment in market services were concentrated in wholesale and retail, hotels and restaurants, transport storage and communications, financial intermediation, real estate, renting and business activities, health and social work and other community, social and personal activities sectors. It is remarkable that all sectors within market services recorded an increase in employment over the year to June 2008. This section proceeds by analysing the developments experienced in market services sectors during the twelve months to June 2008 as shown in Table 3.7.

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

Chart 3.6 shows that during the twelve months to June 2008, employment in the wholesale and retail sector increased by 399 persons or 1.9 per cent to stand at 21,774. Job gains recorded in this sector are entirely due to developments in the private sector. The increase is to a large extent accounted for by developments recorded in the wholesale trade and commission trade (except motor vehicles and motorcycles) sub-sector, with relatively smaller increases accounted for by the sale, maintenance and repair of motor vehicles and motorcycles and retail trade (except for motor vehicles and motorcycles) sub-sectors. By the end of the period under observation, the share of employment of the wholesale and

Employment in Market Services*

Table 3.7

	2004 Jun	2005 Jun	2006 Jun	2007 Jun	2008 Jun
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	20,726	21,020	21,186	21,375	21,774
Private	20,588	20,902	21,161	21,353	21,755
Public	138	118	25	22	19
Hotels and Restaurants	9,173	9,131	8,866	9,954	10,436
Private	8,828	8,852	8,626	9,839	10,325
Public	345	279	240	115	111
Transport, Storage and Communications	11,162	11,279	11,176	10,747	10,998
Private	5,913	6,639	8,179	7,983	8,867
Public	5,249	4,640	2,997	2,764	2,131
Financial Intermediation	5,024	5,059	5,170	5,336	5,547
Private	4,559	4,585	4,692	4,850	5,058
Public	465	474	478	486	489
Real Estate, Renting and Business Activities	9,435	9,808	11,423	11,948	13,253
Private	8,292	8,670	10,255	10,800	12,091
Public	1,143	1,138	1,168	1,148	1,162
Public Administration and Defence (including Compulsory Social Security)	10,964	10,850	10,649	10,789	10,827
Private	2	3	4	0	0
Public	10,962	10,847	10,645	10,789	10,827
Education	11,603	12,013	12,158	12,362	12,458
Private	2,689	2,855	2,947	3,159	3,388
Public	8,914	9,158	9,211	9,203	9,070
Health and Social Work	9,485	9,169	9,239	9,504	10,071
Private	1,425	1,400	1,460	1,629	1,769
Public	8,060	7,769	7,779	7,875	8,302
Other Community, Social and Personal Service Activities**	6,039	6,118	6,085	6,742	7,372
Private	4,469	4,808	5,224	5,921	6,575
Public	1,570	1,310	861	821	797
Extra-Territorial Organisations and Bodies	161	164	162	153	163
Private	161	164	162	153	163
Public	0	0	0	0	0
Total Employment in Market Services	93,772	94,611	96,114	98,910	102,899

* Excluding temporary employees

**Includes Private Households with Employed Persons

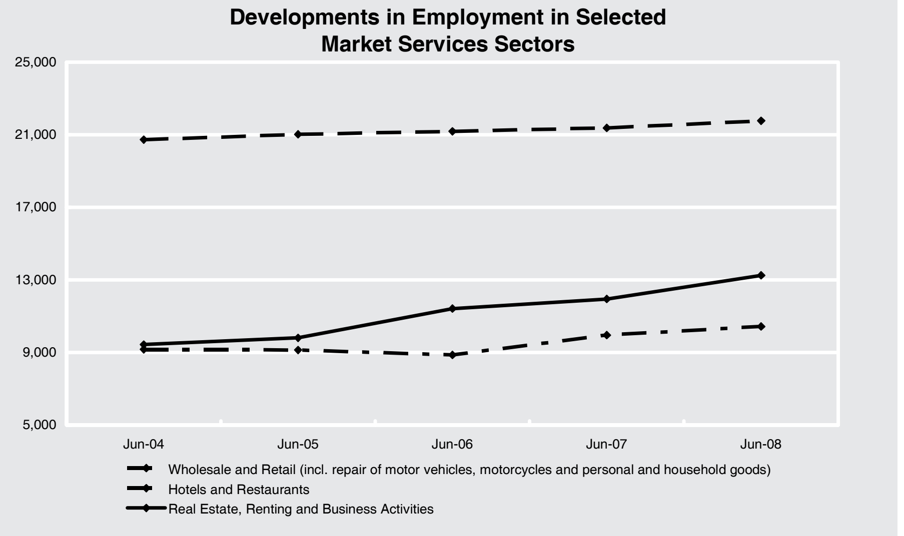
Source: Employment and Training Corporation

retail sector in total employment in market services stood at 21.2 per cent, 0.4 percentage points lower than in June 2007.

Hotels and Restaurants

In June 2008, employment in hotels and restaurants stood at 10,436, an increase of 482 persons or 4.8 per cent over June 2007. Thus, the negative growth rates

Chart 3.6



registered in the early years of the period under observation were reversed by improvements in the year to June 2007 which continued in the year to June 2008. This increase was entirely accounted for by developments in the private sector. As at June 2008, the share of employment in the hotels and restaurants sector to total market services employment remained unchanged at 10.1 per cent.

Transport, Storage and Communication

Throughout the twelve months to June 2008, employment in the transport, storage and communication sector increased by 251 persons or 2.3 per cent over June 2007, to stand at 10,998, thus partly reversing the decline registered over the twelve months to June 2007. This reflected an increase of 884 employees in the private sector which was partly offset by a decline of 633 employees in the public sector. This development is mainly the result of the privatisation of Maltapost plc. On a sub-sectoral level, increases in employment were recorded in land transport, water transport, air transport and supporting and auxiliary transport activities. Meanwhile, relatively smaller declines were recorded in the post and telecommunications sub-sector. By the end of the period under observation, the share of the transport, storage and communications sector in total market services employment stood at 10.7 per cent, a decline of 0.2 percentage points from June 2007.

Financial Intermediation

At the end of June 2008, employment in the financial intermediation sector stood at 5,547, reflecting an increase of 211 persons or 4.0 per cent over the same month the previous year. This increase is a continuation of the trend observed in earlier years and was almost entirely accounted for by developments in the private sector. From a sub-sectoral perspective, the main driver of this increase was the financial intermediation (excluding insurance and pension funding) sub-sector. Other increases were recorded in the insurance and pension funding (excluding compulsory social security) sub-sector while employment in the activities auxiliary to financial intermediation sub-sector declined. In June 2008, the sector's share in total market services employment stood at 5.4 per cent, unchanged from June 2007.

Real Estate, Renting and Business Activities

Over the year to June 2008, employment in the real estate, renting and business activities sector increased by 1,305 or 10.9 per cent to 13,253 as shown in Chart 3.6. This increase was almost entirely attributable to higher private sector employment and reflected developments in the other business activities sub-sector. Other significant increases were recorded in the computer related activities sub-sector. Consequently, by the end of the period under observation, this sector accounted for 12.9 per cent of total market services employment, 0.8 percentage points higher over June 2007.

Health and Social Work

During the twelve months to June 2008, employment in the health and social work sector increased by 567 or 6.0 per cent to stand at 10,071, sustaining the upward trend registered since June 2006. This reflected increases recorded by both the public and private sectors, with the share of the former accounting for three-quarters of the increase. The sector's share in total market services employment increased from 9.6 per cent in June 2007 to 9.8 per cent in June 2008.

Other Community, Social and Personal Service Activities

In June 2008, the number of employees in the other community, social and personal service activities sector increased by 630 or 9.3 per cent over June 2007 to stand at 7,372. Increases were recorded only in the private sector as the public sector recorded relatively small declines. Consequently, the sector's share in total market services employment increased from 6.8 per cent in June 2007 to 7.2 per cent in June 2008.

Unemployment

The analysis in this section is based on more recent data (September 2008) on the number of persons registering for employment and focuses solely on those persons listed under Part I of the Register. This data thereby includes new job-seekers who have left school, re-entrants into the labour market and job losers who have been made redundant by their former employers. On the other hand, the analysis excludes those registering under Part II, that is, workers who have been dismissed from work due to disciplinary action, those who left work on their own free will, refuse work or training opportunities or were struck off the register after an inspection by the law enforcement personnel.

In September 2008, the number of persons registering for employment under Part I of the Register amounted to 5,390, a decline of 550 persons compared to the same month of the previous year. The decline was mainly concentrated amongst females, as the number of females registering for employment fell by 306 while the number of male registrants fell by 244. Consequently, males accounted for 78.4 per cent of total unemployed (under Part I of the Register), up from 75.3 per cent in September 2007.

It is noticeable that the share of those registering for more than 48 weeks declined from 42.9 per cent in September 2007 to 40.7 per cent in September 2008, thus indicating a lower share of long-term unemployed compared to the previous year. Table 3.8 further highlights that the share of people registering for less than 9 weeks fell from 25.1 per cent in September 2007 to 24.6 per cent in September 2008 while the share of persons registering for a period between 9 and 48 weeks increased by 2.7 percentage points to 34.7 per cent over the same period.

Table 3.9 shows the age structure of those registering for employment. The share of unemployed persons aged between 16 and 24 years in total (Part I) unemployment declined significantly during the year to September 2008. In fact, this share fell from 23.2 per cent in September 2007 to 18.1 per cent in September 2008. During the same period, the number of persons registering for employment aged between 25 and 49 years increased by 1.7 percentage points to 58.7 per cent while those aged over 49 years increased by 3.4 percentage points to 23.2 per cent.

Data on the registered unemployed classified by occupation for September 2008 is shown in Table 3.10. The drop in unemployment during the twelve months to September 2008 was mainly attributable to the decline of 330 persons

Registered Unemployed*
by duration of registration

Table 3.8

	Registered Unemployed	under 9 weeks %	9 - 48 weeks %	over 48 weeks %
2003	7,494	20.8	41.2	38.0
2004	7,390	16.8	38.6	44.6
2005	6,696	21.6	37.0	41.4
2006	6,446	20.9	36.5	42.7
2007	5,469	19.6	37.4	43.0
2007 (Sep)	5,940	25.1	32.0	42.9
2008 (Sep)	5,390	24.6	34.7	40.7

*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 %
2003	7,494	28.4	55.1	16.5
2004	7,390	26.3	56.4	17.3
2005	6,696	28.2	55.1	16.7
2006	6,446	26.1	55.9	18.0
2007	5,469	20.6	58.9	20.5
2007 (Sep)	5,940	23.2	57.0	19.8
2008 (Sep)	5,390	18.1	58.7	23.2

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

in the manual category, reflecting significant declines in the other services category, labour, catering and miscellaneous categories. The share of manual unemployed in total unemployment stood at 56.1 per cent compared to 56.4 per cent in September 2007. During the same period the non-manual category registered a decline of 179 persons, primarily in clerical and related work. By the end of September 2008, the non-manual category's share in total unemployment increased by 0.6 percentage points to stand at 38.9 per cent. Improvements were also noted in the number of disabled workers registering for employment as their share in total unemployment fell from 5.2 per cent in September 2007 to 5.0 per cent in September 2008.

Part-Time Activity

As illustrated in Table 3.11, since June 2004, total part-time employment followed an upward trend, an increase of 12,026 persons or 32.7 per cent to reach 48,749

Registered Unemployed Classified by Occupation*

at September 2008

Table 3.10

	Registered Unemployed			**Percentage Share**		
	Males	Females	Total	Males	Females	Total
Non-Manual						
Clerical & related workers	324	389	713	7.7	33.4	13.2
Supervisory	32	2	34	0.8	0.2	0.6
Technological & professional	542	108	650	12.8	9.3	12.1
Miscellaneous non-manual	442	258	700	10.5	22.2	13.0
Total Non-Manual	1,340	757	2,097	31.7	65.1	38.9
Manual						
Agriculture	165	1	166	3.9	0.1	3.1
Construction	418	1	419	9.9	0.1	7.8
Textiles	3	17	20	0.1	1.5	0.4
Printing	9	0	9	0.2	0.0	0.2
Metal working	196	0	196	4.6	0.0	3.6
Catering	121	21	142	2.9	1.8	2.6
Other services	290	125	415	6.9	10.7	7.7
Labouring	545	74	619	12.9	6.4	11.5
Miscellaneous	931	106	1037	22.0	9.1	19.2
Total Manual	2,678	345	3,023	63.4	29.7	56.1
Disabled persons	209	61	270	4.9	5.2	5.0
Total	4,227	1,163	5,390	100.0	100.0	100.0

*Includes Part I of the registered unemployed

Source: Employment and Training Corporation

at the end of June 2008. This upward trend was registered in both part-timers holding a full-time job and part-time as a primary job. Around 60 per cent of the increase in total part-time employment was accounted for by higher part-time employment as a primary job. Indeed, the share of part-time employment as a primary job in total part-time employment rose from 55.8 per cent in June 2004 to 56.6 per cent in June 2008. Furthermore, the increase in part-time employment as a primary occupation was sustained by both the male and female components. Indeed, it is noteworthy that the share of males in part-time employment as a primary job has gradually increased from 38.6 per cent in June 2004 to 41.1 per cent in June 2008. These developments are indicative of increased demand for part-timers by employers as well as flexibility of labour supply to match labour demand.

During the year to June 2008, total part-time employment increased by 2,594 or 5.6 per cent over June 2007 with both male and female part time-employment each accounting for 50.0 per cent of the increase. At the end of June 2008, the number of persons holding a part-time job as their primary occupation increased by 1,527 or 5.9 per cent to 27,579. Females accounted for 58.9 per cent of total part-time as a primary occupation. This indicates that this form of employment might offer a better opportunity to workers to reach a better balance between individual family responsibility and employment as well as incentives by Government to encourage female participation in the labour market.

Part-Time Employment

Table 3.11

	2004 Jun	**2005** Jun	**2006** Jun	**2007** Jun	**2008** Jun
Part-Timers holding a full-time job	16,231	17,424	18,804	20,103	21,170
Males	12,286	12,995	13,859	14,571	15,089
Females	3,945	4,429	4,945	5,532	6,081
Part-Timers as a primary job	20,492	22,459	24,128	26,052	27,579
Males	7,911	8,787	9,595	10,570	11,347
Females	12,581	13,672	14,533	15,482	16,232
Total Part-Time Employment	36,723	39,883	42,932	46,155	48,749
Males	20,197	21,782	23,454	25,141	26,436
Females	16,526	18,101	19,478	21,014	22,313

Source: Employment and Training Corporation

Meanwhile, the number of part-timers holding a full-time job stood at 21,170, an increase of 1,067 or 5.3 per cent over June 2007. At 71.3 per cent, males accounted for the larger share of part-time workers holding a full-time job, whilst the corresponding share of females stood at 28.7 per cent. It is noteworthy that the number of female part-timers holding a full-time job has risen significantly in recent years, with an annual average increase of around 10 per cent during the period June 2004 to June 2008.

Footnote:

[1]The Tobacco industry is no longer being reported as from 2007 as a main enterprise in this sector changed the nature of its operations from manufacturing to trading.

4. Productive Activities

4. Productive Activities

A relatively large number of locally-owned small and medium-sized enterprises and a number of relatively large foreign-owned export-oriented subsidiaries make up the local manufacturing industry. Over the recent years, this industry has been facing a number of challenges emerging particularly from competition both to locally oriented enterprises from imports as well as to export-oriented subsidiaries from low-cost countries. The domestic manufacturing industry has been undergoing a restructuring process resulting in a shift from traditional low-value added sectors, such as textiles, clothing and footwear, towards other high value-added new growth sectors, such as the chemicals and chemical products.

During the January-June 2008 period, the domestic manufacturing industry registered a declining performance. In fact, turnover dropped by 7.2 per cent underpinned by a decline of 10.9 per cent in exports which was partially offset by a rise of 10.3 per cent in local sales. Notable decreases in exports were recorded in the radio, TV and communication equipment, electrical machinery and apparatus, wearing apparel and clothing and furniture and other manufacturing sectors. On the other hand, the chemicals and chemical products and publishing and printing sectors registered significant increases in exports.

The radio, TV and communication equipment sector accounts for around 40 per cent of the total turnover generated by the industry while exports by this sector comprise slightly more than 50 per cent of total production exported by the manufacturing industry. Following a significant increase in January-June 2006, exports remained stable in 2007 and declined during January-June 2008, registering export levels similar to those recorded in the first six months of 2005. The share of this sector in total turnover remained significantly the highest in the manufacturing industry. However, it declined by 5.6 percentage points to 41.1 per cent in January-June 2008 over the same period of 2007.

Following declines registered over the first six months of 2006 and 2007, local sales for the manufacturing industry increased by 10.3 per cent during the corresponding 2008 period. This rise was mainly underpinned by increases in the food and beverages and fabricated metal products sectors which were partially offset by a drop in local sales of furniture and other manufacturing coupled with marginal declines in other sectors such as medical and optical precision instruments, paper and paper products and wearing apparel and clothing sectors.

Capital outlays decreased by €15.2 million in the period under review and stood at €70.7 million. Meanwhile, average weekly earnings per employee increased by 3.6 per cent reflecting a drop in employment levels and a marginally lower wage bill.

The wealth generation capability of the manufacturing industry can be measured by value added at factor cost. Value added at factor cost per capita increased by 10.1 per cent between 2006 and 2007, reflecting an increase in gross operating surplus per capita combined with a marginal increase in personnel costs per capita. The largest contributor towards value added at factor cost was the radio, TV and communication equipment sector. The share of the chemicals and chemical products sector increased significantly in 2007 such that it became the second largest contributor towards total value added at factor cost. Another important contributor remained the food and beverages sector.

Despite its small size, the agriculture and fisheries sector maintains an important role in the economy of the Maltese islands. In 2007, agricultural factor income at current prices rose marginally by 0.8 per cent. Final production at basic prices fell by 0.3 per cent, as the drop in livestock products was partly offset by higher production of other animal products. During the January-June 2008 period the share of the agricultural and fisheries sector of Gross Value Added stood at 1.9 per cent remaining unchanged from the share recorded in the corresponding 2007 period. During the period January-June 2008 the wholesale value of fruit and vegetables sold through organized markets has increased by 13.6 per cent over the comparative period in the previous year. The volume of slaughtering rose by 9.1 per cent. The value of fish landings during the first three quarters of 2008 also increased by 17.6 per cent when compared to the same period in 2007.

This Chapter first reviews the performance of the local manufacturing industry in the first six months of 2008. The results of a monthly survey conducted amongst a representative sample of manufacturing firms are the basis used by the National Statistics Office (NSO) in the compilation of the data analysed in this Chapter. Hence such data are not directly comparable to those found in other Chapters of this Economic Survey.

The second part of this Chapter reviews sectoral value added at factor cost for the total manufacturing industry. Data for this section is compiled by the NSO from annual business surveys and is classified according to NACE. The methodology adopted by the NSO in data collection and compilation of value added at factor cost is in line with the Structural Business Council Regulation 58/97, thereby being comparable to European Union (EU) methodology.

This Chapter then concludes with a review of the activity in the agriculture and fisheries sector.

Domestic Manufacturing Performance

During the first six months of 2008, turnover in the total manufacturing industry declined by 7.2 per cent and stood at €1,108.7 million mainly reflecting a drop in exports of 10.9 per cent. Lower exports in the radio, TV and communication sector were the main contributor to the decline in exports. Other major drops in exports were evident in the wearing apparel and clothes, other transport equipment, furniture and other manufacturing, and electrical machinery and apparatus. On the other hand, the trend growth in exports of chemicals and chemical products continued and a notable increase in exports of publishing and printing sector was also registered.

Local sales by the manufacturing industry increased by 10.3 per cent to €233 million in the period under review. This rise was mainly underpinned by an improved domestic performance by the food and beverages and fabricated metal products sectors. Conversely, lower domestic sales of furniture and other manufacturing were recorded coupled with declines in other sectors such as medical and optical precision instruments, paper and paper products and wearing apparel and clothes.

Chart 4.1 illustrates developments in exports and local sales over the years between 2005 and 2008. It is pertinent to note that data on exports may include also re-exports. The manufacturing industry is still mainly oriented towards the export market and the share of exports in total turnover increased by two percentage points to 79.0 per cent over this period. As a result, total sales increased in 2006 but, registered negative growth in 2007 and 2008.

As depicted in Chart 4.2, the average weekly compensation per employee for the total industry continued on an upward trend increasing by 3.6 per cent to €313 in the first six months of 2008. This increase in average weekly earnings reflects significant drops in employment levels which were coupled with only marginal declines in remuneration in the industry. The significant drop in employment in the textiles and textile products and wearing apparel and clothing sectors, which have a relatively low average weekly earnings per employee

Chart 4.1

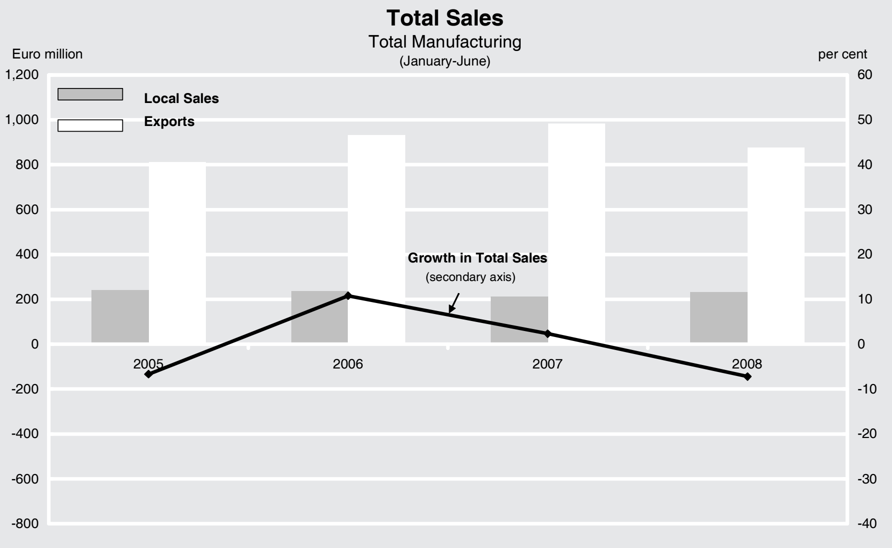
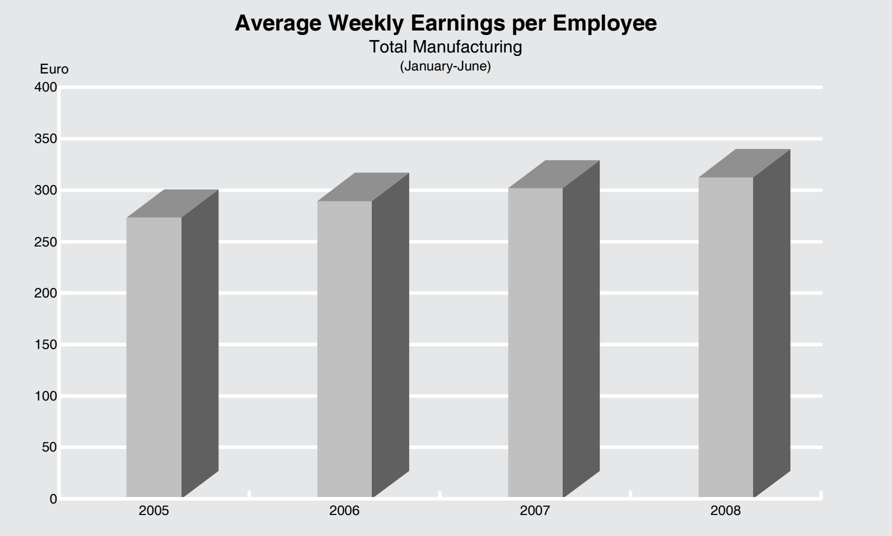


Chart 4.2



contributed to this result. Furthermore, higher employment is being recorded in sectors such as the chemicals and chemical products which have relatively high average weekly earnings per employee.

Meanwhile, Chart 4.3 presents developments in capital outlays in the industry between 2005 and 2008. Subsequent to growths in both 2006 and 2007, capital outlays dropped by 17.7 per cent during January-June 2008 to €70.7 million. Investment performance mainly reflects lower investment by food and beverages products, publishing and printing, chemicals and chemical products and textiles and textile products sectors which were only partially compensated by higher investment outlays namely in furniture and other manufacturing, other transport equipment and radio, TV and communication equipment sectors. However, it is noteworthy that the declines in investment outlays by the food and beverages products and publishing and printing sectors followed relatively high levels recorded in the first six months of 2007 such that the investment levels recorded in the corresponding 2008 period remained relatively high by historical standards.

Chart 4.4 shows the main contributors to growth in total sales in the manufacturing industry in the first six months of 2008. The growth in the total sales of the chemicals and chemical products, publishing and printing and food and beverages products sectors have contributed positively and significantly to the growth in the total sales of the manufacturing industry. Conversely, negative contribution of total sales in the manufacturing industry were recorded in the

Chart 4.3

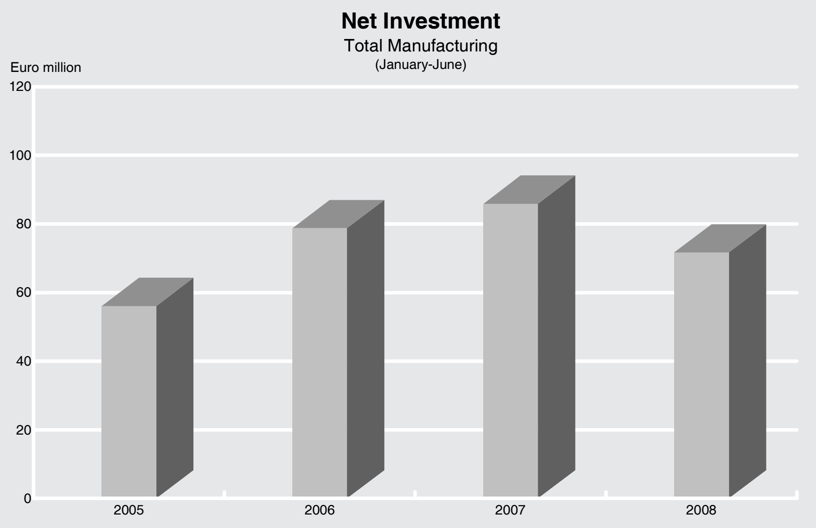
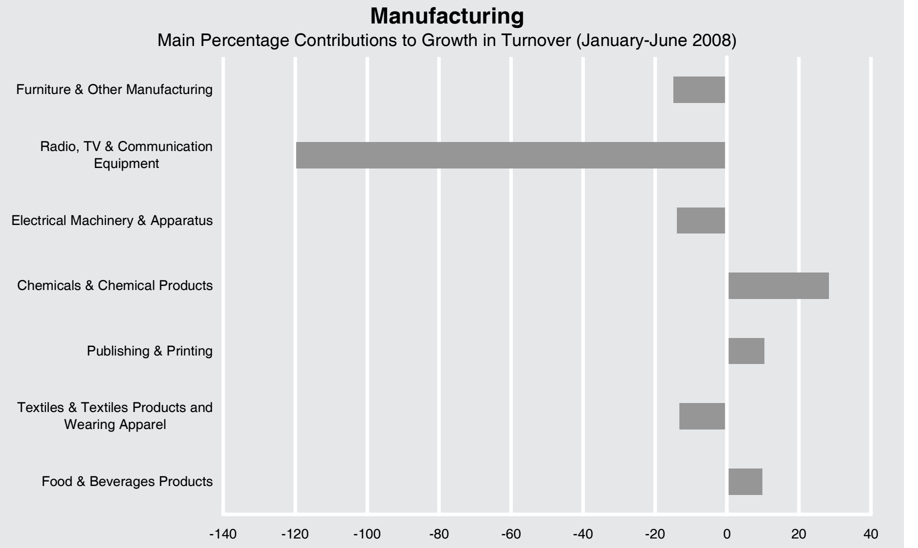


Chart 4.4



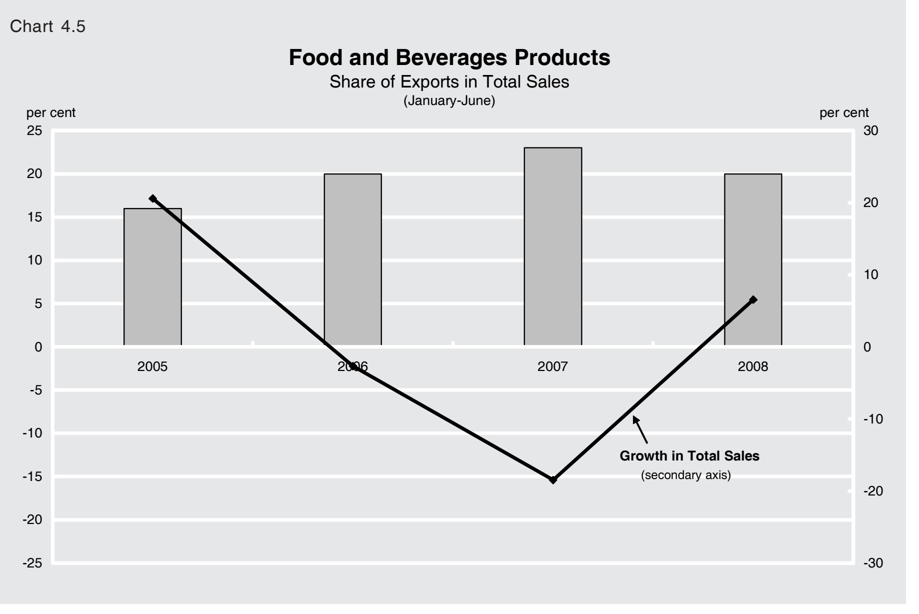
radio, TV and communication apparatus equipment, furniture and other manufacturing, electrical machinery and apparatus and textiles and wearing apparel sectors.

The main sectors within the manufacturing industry are analysed in the following section. Appendix Table 4.1 provides statistical data on the industrial performance at a sectoral level.

Food and Beverages Products

As depicted in Chart 4.5, the food and beverages products sector directed around 80 per cent of its output to the local market, remaining the largest local oriented sector in the manufacturing industry. The sector's share in total turnover stood at 12.2 per cent, thus remaining the second largest share following the radio, TV and communication equipment sector, though with a significant gap between the two. The beverages sub-sector is mainly local oriented while the food sub-sector exports around 27 per cent of its output.

During the first six months of 2008, total sectoral turnover stood at €134.7 million, increasing by nearly 7 per cent when compared to the same period of last year. This was underpinned by a rise of around 11 per cent in local sales which was partly offset by a drop of 7.9 per cent in exports. The decline in exports was attributable to the food sub-sector as exports by this sector dropped

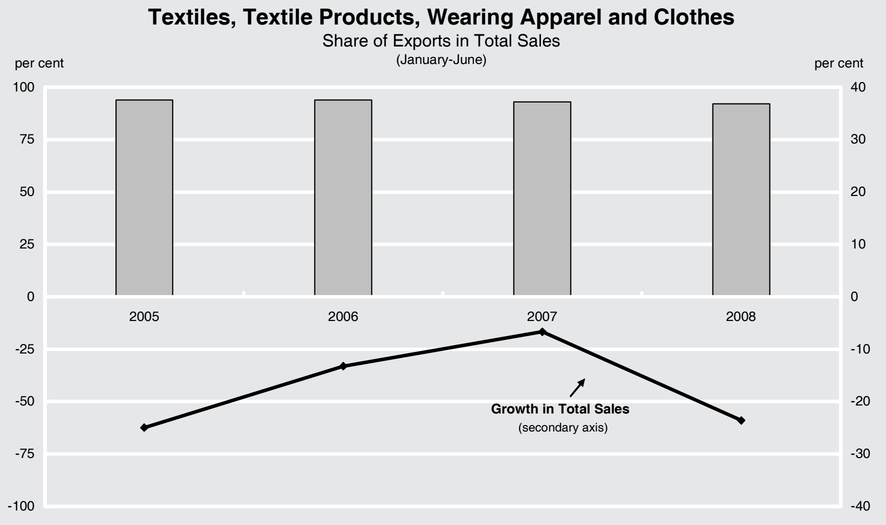


by 8.3 per cent. Meanwhile, the food and beverages sub-sectors registered growth rates in local sales of 11.5 per cent and 9.7 per cent respectively. Net investment in the food and beverages products sector decreased by €5.9 million to €14.0 million, mainly reflecting declines in net investment by the food sub-sector. This is partly owing to a base effect as high levels were recorded in 2007.

Textiles and Textile Products, Wearing Apparel and Clothing

This sector is mainly export oriented as depicted in Chart 4.6. The combined turnover of the textiles, textile products and wearing apparel and clothing sectors continued on a downward trend, decreasing by 23.6 per cent to €36.2 million. This decline reflected a drop in exports of around 25 per cent as well as a decline in local sales of around 5 per cent in the period under review. The share of the two combined sectors in total turnover of the manufacturing industry has dropped from 5.6 per cent in 2005 to 3.3 per cent in 2008. These sectors continue to face increased international competition especially from manufacturers in low-cost countries. These developments recorded over the January-June 2008 period are mainly due to declines in exports by the wearing apparel and clothing sector. Conversely, turnover by the textile and textile products sector remained stable following declines registered in previous periods. Net investment continued to drop from €3.3 million in January-June 2007 to €0.3 million in the corresponding

Chart 4.6



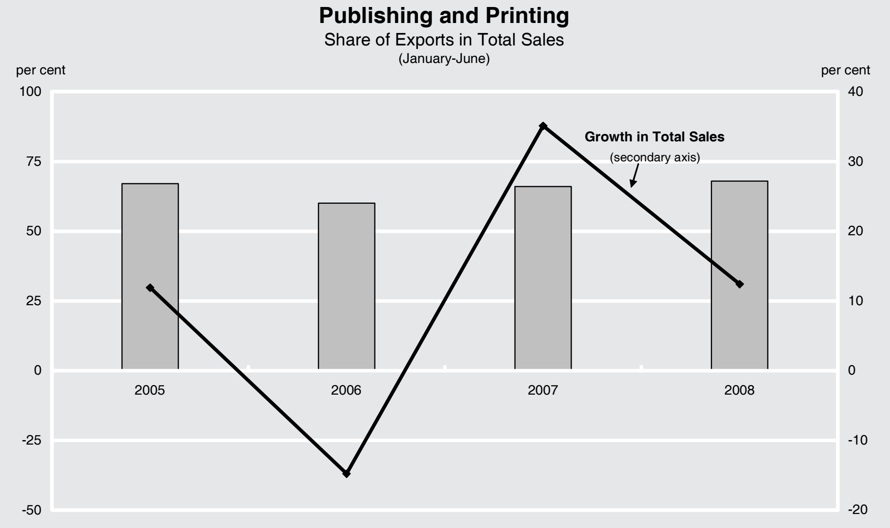
2008 period. This mainly reflects large drops in investment in the textiles and textile products sector, owing to closure of operating firms in this sector.

Publishing and Printing

The positive performance recorded by the publishing and printing sector last year was sustained during the first six months of 2008 as turnover by this sector rose by 12.4 per cent to €80.5 million. This performance was underpinned by an increase in exports of around 16 per cent, which reached €55.0 million. As depicted in Chart 4.7, this sector is export oriented, exporting around 68 per cent of its total sectoral sales. During the period under review, local sales rose marginally by €1.3 million and stood at €25.5 million. Capital outlays dropped drastically by more than half and amounted to €8.1 million. However it is notable that investment outlays in the first six months of 2007 were relatively high and the investment undertaken in the comparable period of 2008 compares favourably with that recorded in previous periods.

The positive performance in this sector was reflected in both an increase in average weekly sales per employee and average exports per employee which were recorded despite an increase in employment levels. Average weekly earnings per employee in this sector remained relatively stable compared to the

Chart 4.7



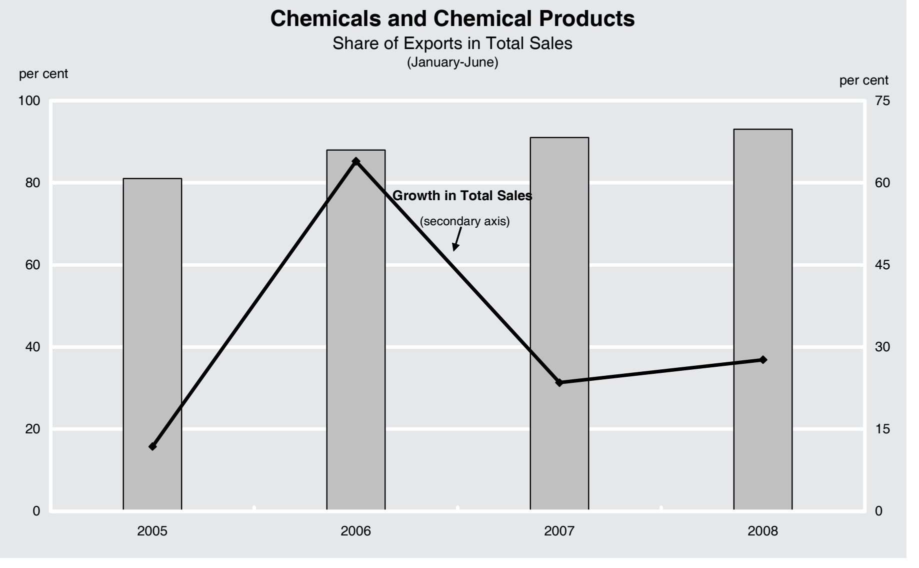
corresponding 2007 period but continued to exceed the average of the total manufacturing industry by 9.9 per cent.

Chemicals and Chemical Products

The chemicals and chemical products sector is one of the emerging fast-growing sectors in the Maltese economy. This sector is made up of export-oriented firms producing pharmaceuticals and toiletries as well as local-oriented firms producing products such as paints, detergents and insecticides. Indeed, the growth in this sector is mainly due to significant growths in the pharmaceuticals sub-sector. During the past recent years the total turnover in this sector more than doubled, with the positive performance underpinned by significant increases in exports. In fact, at 10.1 per cent, the share of this sector in total turnover in the manufacturing industry was the third largest share in the manufacturing industry, closely following the food and beverages sector. Furthermore, it is the second major exporter in the manufacturing industry and in the first half of 2008 its exports exceeded the €100 million mark.

As illustrated in Chart 4.8, during the period under review, over 90 per cent of total turnover in the chemicals and chemical products sector was directed towards the export market. During the first six months of 2008, the turnover by this sector sustained an upward trend increasing by 27.7 per cent and reaching

Chart 4.8



€111.6 million. This mainly reflects a strong growth in exports of 30.2 per cent to €103.2 million.

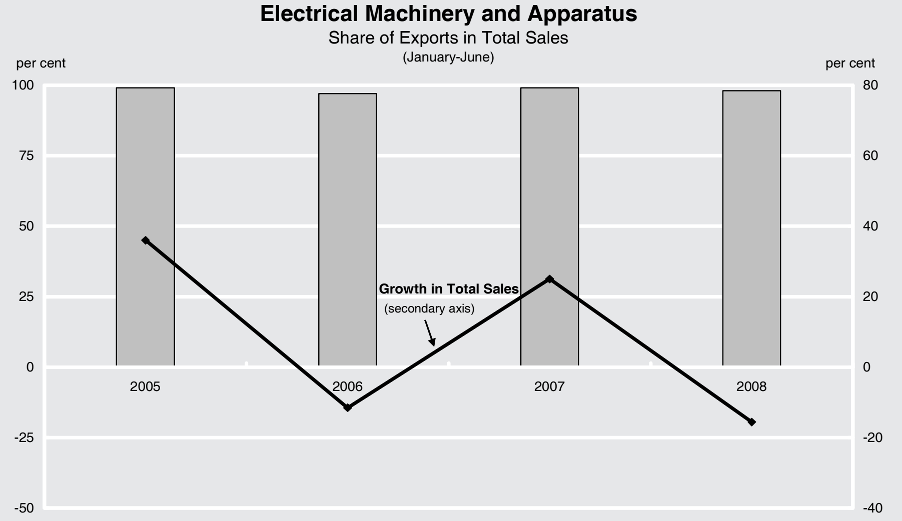
Following relatively high investment outlays in the first six months of 2007 due to investment by a new export-oriented operator in the pharmaceutical sub-sector, during the period under review, capital outlays declined by €3.0 million and stood at €8.8 million reaching levels similar to those recorded in the corresponding 2005 and 2006 periods.

The positive performance registered by this sector is reflected in higher average weekly sales per employee despite an increased level of employment. Indeed, average weekly sales per employee increased by €408 and reached €3,803 per employee, significantly higher than the average weekly sales per employee for the total manufacturing industry. Furthermore, average weekly earnings per employee increased by €25 to €377, exceeding the average of the total manufacturing industry by 20.5 per cent.

Electrical Machinery and Apparatus

The electrical machinery and apparatus sector is nearly completely export-oriented, as shown in Chart 4.9. Following a substantial increase in the January-June 2007 period, turnover dropped by 15.6 per cent to €64.7 million. This

Chart 4.9



reflected lower exports by 16.0 per cent to €63.4 million. Furthermore, during the first six months of 2008, net investment in this sector decreased by €1.7 million to €1.5 million.

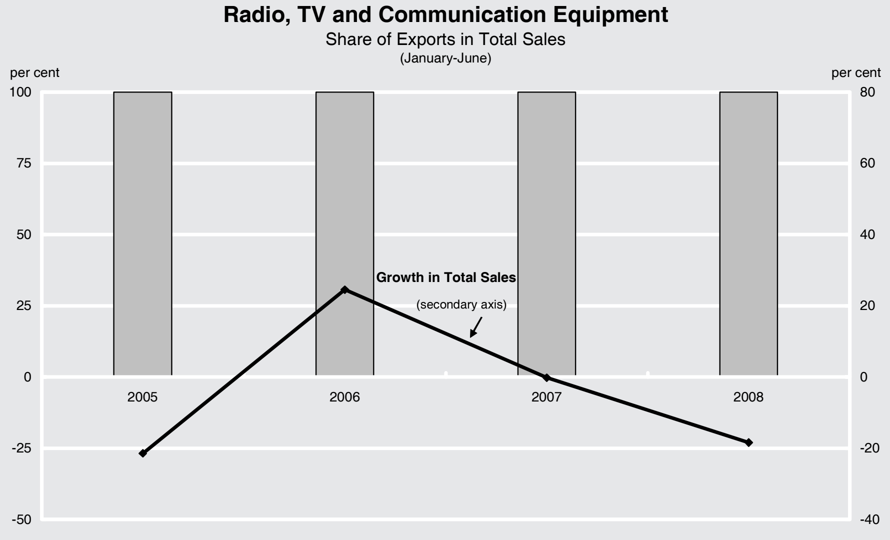
Radio, TV and Communication Equipment

As illustrated in Chart 4.10, the turnover of the radio, TV and communication equipment sector is nearly wholly export-oriented. During the period under review, this sector accounted for over 40 per cent of the total manufacturing turnover, thus remaining the sector which contributes most towards output generated by the local manufacturing industry.

The main manufacturing activity in this sector consists of electronic components and other precision communication products. The sector's turnover mainly reflects the performance of a small number of relatively large foreign subsidiaries, which in turn are affected by international economic developments, in particular market conditions for electronic products.

Turnover in this sector dropped by 18.4 per cent in the period under review and stood at €455.3 million. This was underpinned by a similar drop in exports, which declined to €454.5 million. In the last two years this sector was affected by exchange rate developments, particularly the weakness of the Dollar which

Chart 4.10



is the main trading currency of a main company operating in this sector. Net investment rose by €1.9 million to €22.3 million.

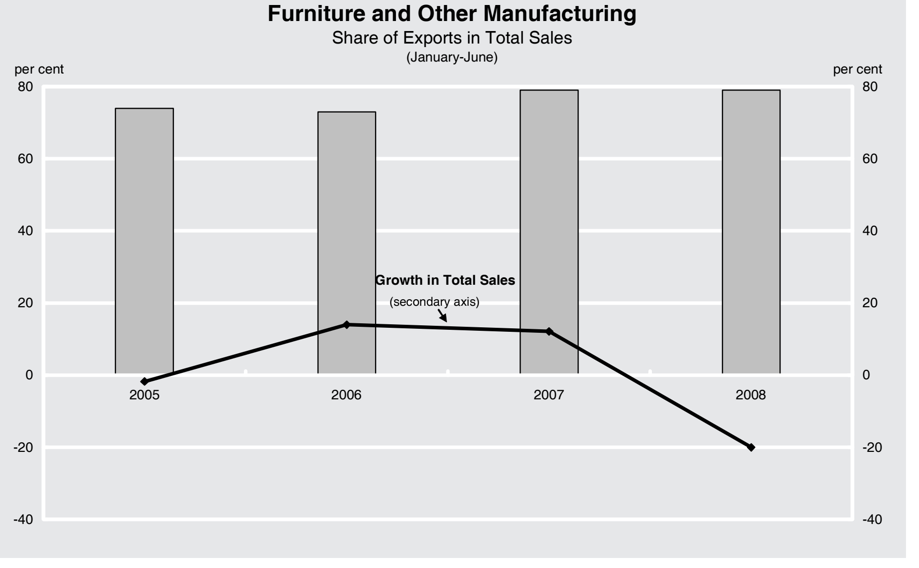
Whilst lower employment levels were recorded, the total wage bill remained relatively constant at the comparable 2007 level. As a result, average weekly earnings increased by €25 to reach €377. This sector has the second highest average weekly earnings per employee.

Furniture and Other Manufacturing

This sector comprises a cluster of primarily local-oriented manufacturers of furniture products, while a number of other firms are engaged in the manufacture of toys, games and jewellery items which are mainly directed towards the export market.

As shown in Chart 4.11, during the first half of 2008, turnover in the furniture and other manufacturing sector dropped significantly by 20.0 per cent to €50.9 million. Exports declined by €10.1 million and stood at €39.9 million, mainly due to lower exports by the games and toys sub-sector. Meanwhile, local sales declined by €2.6 million to €10.9 million reflecting a decline in the furniture sub-sector which was only partly offset by higher local sales in the other sub-sectors.

Chart 4.11



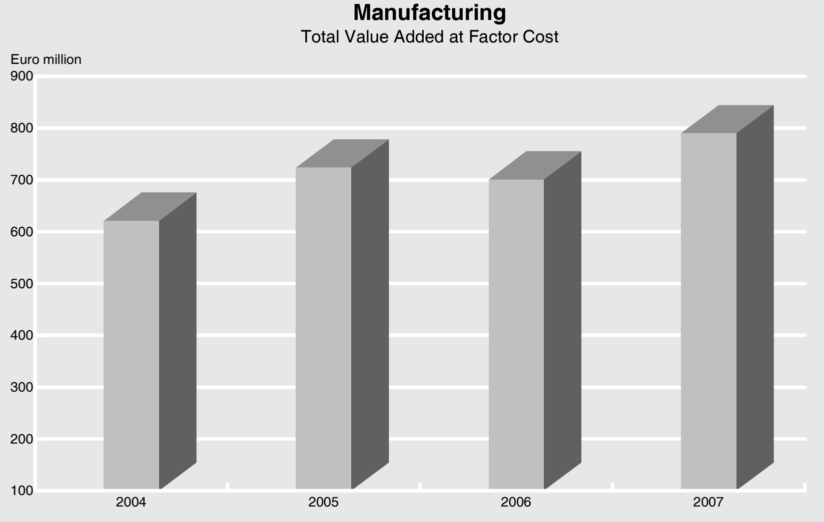
Capital outlays more than doubled in this sector, increasing by €3.5 million to reach €6.4 million. This was mainly underpinned by a large increase in net investment by the games and toys and the furniture sub-sectors.

Value Added

This section reviews developments in value added of the manufacturing industry during the period 2004-2007. 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.

Value added data gives an indication of the contribution of sectoral performance to developments in the total manufacturing industry. Chart 4.12 depicts total manufacturing value added at factor cost for the period 2004-2007. Total value added at factor cost increased by 12.7 per cent in 2007, after a drop of 3.2 per cent in 2006. This was underpinned by an increase of 21.4 per cent in total gross operating surplus combined with an increase in total personnel costs of 2.9 per cent, when compared to 2006 levels. Table 4.1 shows a sectoral analysis

Chart 4.12



Value Added at Factor Cost per capita

Table 4.1 €

	2004	2005	2006	2007*
Food, Beverages and Tobacco Products	28,804	35,418	31,868	32,761
Textiles and Textile Products	31,010	45,860	43,841	50,017
Wearing Apparel and Clothes	14,012	33,042	14,634	21,598
Leather and Leather Products	14,714	13,130	7,810	9,571
Wood and Wood Products	9,994	7,779	7,976	9,723
Paper and Paper Products	22,866	24,447	27,089	24,487
Publishing and Printing	24,389	24,680	27,819	30,365
Chemicals and Chemical Products	27,690	63,254	106,612	121,156
Rubber and Plastic Products	26,448	27,524	26,289	29,518
Other Non-Metallic Mineral Products	19,721	21,658	25,594	23,533
Fabricated Metal Products	14,342	18,848	15,539	16,736
Machinery and Equipment n.e.c.	22,440	30,416	28,499	26,375
Electrical Machinery and Apparatus	39,094	35,815	42,772	50,679
Radio, TV and Communication Equipment	45,461	47,403	43,590	45,108
Medical, Precision and Optical Instruments	21,951	20,503	21,093	28,286
Motor Vehicles, Trailers and Semi-Trailers	21,695	14,128	12,480	8,972
Other Transport Equipment	3,740	18,084	12,767	10,347
Furniture and Other Manufacturing n.e.c.	21,238	24,095	24,537	24,954
Recycling	53,169	42,156	39,265	48,865
Total Manufacturing	25,012	31,195	30,882	34,005

* Provisional

Source: National Statistics Office

Personnel Costs per capita

Table 4.2 €

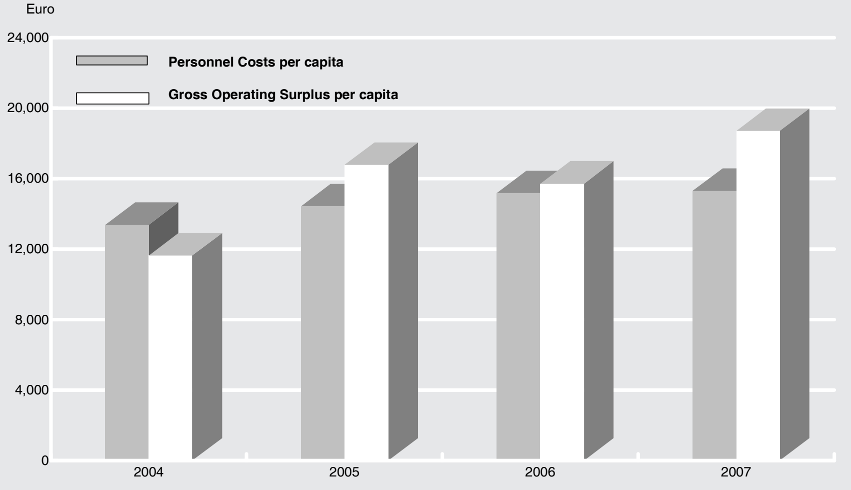
	2004	2005	2006	2007*
Food, Beverages and Tobacco Products	12,581	12,641	13,184	12,100
Textiles and Textile Products	12,733	14,157	16,054	16,142
Wearing Apparel and Clothes	11,989	12,235	11,632	11,782
Leather and Leather Products	11,439	12,328	8,164	8,397
Wood and Wood Products	7,243	7,956	7,990	6,102
Paper and Paper Products	14,708	15,469	15,552	15,682
Publishing and Printing	14,844	14,923	16,116	16,611
Chemicals and Chemical Products	16,338	16,530	18,241	19,055
Rubber and Plastic Products	15,121	15,329	15,839	15,760
Other Non-Metallic Mineral Products	9,613	10,073	10,666	11,059
Fabricated Metal Products	8,676	9,744	9,370	9,824
Machinery and Equipment n.e.c.	13,333	13,987	14,143	13,622
Electrical Machinery and Apparatus	16,553	16,335	16,190	15,369
Radio, TV and Communication Equipment	17,906	18,677	19,121	20,776
Medical, Precision and Optical Instruments	11,979	13,503	16,525	17,698
Motor Vehicles, Trailers and Semi-Trailers	8,062	11,245	10,654	10,851
Other Transport Equipment	13,537	18,791	20,672	19,240
Furniture and Other Manufacturing n.e.c.	9,525	10,127	10,627	11,407
Recycling	11,544	11,493	12,189	13,075
Total Manufacturing	13,378	14,424	15,172	15,302

* Provisional

Source: National Statistics Office

Chart 4.13

Composition of per capita Value Added at Factor Cost



of the manufacturing industry, based on value added per capita. An increase of 10.1 per cent was registered in 2007, following a marginal drop in 2006.

As shown in Table 4.2, personnel costs per capita rose marginally by 0.9 per cent in 2007, following significant rises in both 2005 and 2006. On the other hand, gross operating surplus per capita, exhibited in Table 4.3, rose substantially by 19.1 per cent in 2007. This follows a decline of 6.3 per cent recorded in 2006.

Chart 4.13 shows the trend followed between 2004 and 2007 in the two components of value added at factor cost per capita. In 2004, the larger share of value added at factor cost per capita was personnel cost with 53.5 per cent. However, in the subsequent years between 2005 and 2007 the larger share of value added at factor cost per capita was gross operating surplus reaching 55.0 per cent in 2007.

Gross Operating Surplus per capita

Table 4.3 €

	2004	2005	2006	2007*
Food, Beverages and Tobacco Products	16,222	22,778	18,684	20,661
Textiles and Textile Products	18,278	31,703	27,786	33,875
Wearing Apparel and Clothes	2,023	20,808	3,002	9,816
Leather and Leather Products	3,275	802	-355	1,174
Wood and Wood Products	2,750	-178	-14	3,621
Paper and Paper Products	8,159	8,978	11,537	8,805
Publishing and Printing	9,545	9,756	11,703	13,754
Chemicals and Chemical Products	11,352	46,724	88,371	102,101
Rubber and Plastic Products	11,327	12,195	10,450	13,758
Other Non-Metallic Mineral Products	10,108	11,585	14,928	12,474
Fabricated Metal Products	5,666	9,104	6,169	6,912
Machinery and Equipment n.e.c.	9,107	16,429	14,356	12,753
Electrical Machinery and Apparatus	22,541	19,479	26,582	35,310
Radio, TV and Communication Equipment	27,555	28,726	24,468	24,331
Medical, Precision and Optical Instruments	9,971	7,000	4,568	10,589
Motor Vehicles, Trailers and Semi-Trailers	13,633	2,883	1,826	-1,879
Other Transport Equipment	-9,797	-707	-7,905	-8,893
Furniture and Other Manufacturing n.e.c.	11,713	13,969	13,910	13,547
Recycling	41,625	30,663	27,076	35,789
Total Manufacturing	11,634	16,771	15,710	18,704

* Provisional

Source: National Statistics Office

Value Added at Factor Cost per capita

in real terms

Table 4.4 €

	2004	2005	2006	2007*
Food, Beverages and Tobacco Products	25,833	30,879	27,007	27,075
Textiles and Textile Products	27,812	39,983	37,153	41,336
Wearing Apparel and Clothes	12,567	28,808	12,401	17,850
Leather and Leather Products	13,196	11,448	6,618	7,910
Wood and Wood Products	8,963	6,782	6,759	8,036
Paper and Paper Products	20,508	21,314	22,956	20,237
Publishing and Printing	21,873	21,517	23,576	25,095
Chemicals and Chemical Products	24,834	55,147	90,349	100,129
Rubber and Plastic Products	23,720	23,997	22,279	24,395
Other Non-Metallic Mineral Products	17,687	18,882	21,689	19,449
Fabricated Metal Products	12,863	16,433	13,168	13,832
Machinery and Equipment n.e.c.	20,125	26,518	24,151	21,797
Electrical Machinery and Apparatus	35,061	31,225	36,248	41,884
Radio, TV and Communication Equipment	40,772	41,328	36,940	37,279
Medical, Precision and Optical Instruments	19,687	17,876	17,875	23,377
Motor Vehicles, Trailers and Semi-Trailers	19,458	12,317	10,577	7,415
Other Transport Equipment	3,354	15,766	10,819	8,551
Furniture and Other Manufacturing n.e.c.	19,047	21,007	20,794	20,623
Recycling	47,686	36,753	33,275	40,384
Total Manufacturing	22,432	27,197	26,171	28,103

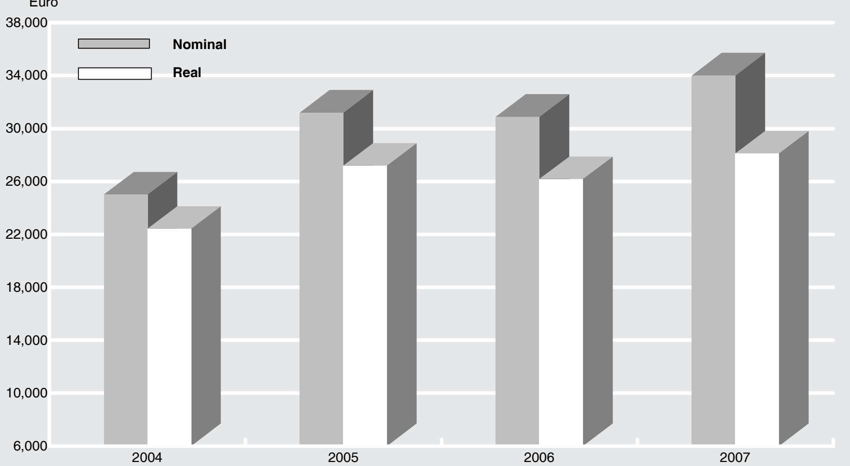
* Provisional

Source: National Statistics Office

Chart 4.14

Average Value Added at Factor Cost per capita

Nominal and Real Terms



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

Table 4.5

	2001	2002	2003	2004	2005	2006	2007*
Average Value Added at factor cost per capita (€) at current prices	21,775	23,618	25,346	25,012	31,195	30,882	34,005
Average Value Added at factor cost per capita (€) at constant prices	21,079	22,156	23,105	22,432	27,197	26,171	28,103
Percentage change	-3.3	5.1	4.3	-2.9	21.2	-3.8	7.4
Productivity Index 2000=100	97	102	106	103	125	120	129

* Provisional

Compiled from data provided by the National Statistics Office

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 sectoral real value added at factor cost per capita is shown in Table 4.4 while Chart 4.14 depicts average value added at factor cost per capita in nominal and real terms. The difference between nominal and real terms indicates an increase in the value added at factor cost owing to higher prices. In 2005, value added at factor cost per capita in real terms increased significantly by 21.2 per cent. However, this was followed by a drop of 3.8 per cent in 2006, It improved again by 7.4 per cent in 2007 to reach €28,103.

Table 4.5 presents nominal and real average value added at factor cost per capita for the aggregate manufacturing industry. A productivity index with 2000 as a base year was compiled to reflect developments in real per capita value added for the 2000-2007 period. The productivity index was above 2000 levels throughout the period 2001-2007 except for 2001. Following the notable increases in 2002 and 2003 exceeding 2000 levels, the productivity index dropped in 2004, however remained above 2000 levels by 3 percentage points. It increased substaintially in 2005, dropped again in 2006, to increase again in 2007, so that it stood at 29 percentage points above 2000 levels.

Composition of Value Added at Factor Cost

Table 4.6 per cent

	2004	2005	2006	2007*
Food, Beverages and Tobacco Products	17.2	16.8	15.6	15.0
Textiles and Textile Products	5.2	6.3	2.8	2.8
Wearing Apparel and Clothes	3.7	6.3	2.4	2.0
Leather and Leather Products	1.0	0.6	0.3	0.3
Wood and Wood Products	0.4	0.2	0.3	0.2
Paper and Paper Products	1.1	0.7	0.8	0.8
Publishing and Printing	7.4	6.7	7.5	7.7
Chemicals and Chemical Products	3.5	7.0	12.9	16.1
Rubber and Plastic Products	7.9	6.6	6.3	6.2
Other Non-Metallic Mineral Products	3.9	3.0	3.8	4.0
Fabricated Metal Products	2.7	3.0	2.4	2.3
Machinery and Equipment n.e.c.	1.9	1.8	1.8	1.6
Electrical Machinery and Apparatus	7.5	6.5	8.4	9.1
Radio, TV and Communication Equipment	22.3	19.0	20.2	18.0
Medical, Precision and Optical Instruments	4.2	3.1	2.9	3.2
Motor Vehicles, Trailers and Semi-Trailers	0.1	0.1	0.1	0.1
Other Transport Equipment	1.2	5.3	3.8	2.8
Furniture and Other Manufacturing n.e.c.	8.1	6.8	7.3	7.3
Recycling	0.6	0.4	0.3	0.4
Total Manufacturing	100.0	100.0	100.0	100.0

* Provisional

Source: National Statistics Office

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 shows the shares of the sectors in total value added at factor cost for the manufacturing industry. The restructuring of the manufacturing industry is reflected in the change in the composition of value added at factor cost. Indeed, the share of the chemicals and chemical products sector increased considerably from 3.5 per cent in 2004 to 16.1 per cent in 2007. In 2007 it accounted for one of the largest shares of value added at factor cost in manufacturing. On the other hand, the shares of textiles and textile products and wearing apparel and clothes sectors declined. Although remaining the largest contributor to total value added in the manufacturing industry, the share of the radio, TV and communication equipment sector contracted from 22.3 per cent in 2004 to 18.0 per cent in 2007.

The share of the food, beverages and tobacco products sector[1] in total value added at factor cost followed a downward trend in the four year period to 2007.

Indeed it dropped by 2.2 percentage points in 2006 and in 2007 its share continued to fall. At 15.0 per cent it had the third largest share in value added at factor cost for the manufacturing industry. In 2007, the value added at factor cost per capita increased only marginally reflecting a rise in gross operating surplus per capita of 10.6 per cent which was offset by a decrease of 8.2 per cent in personnel costs per capita. The share of gross operating surplus per capita in value added at factor cost per capita has been overall increasing throughout the period 2004-2007.

The publishing and printing's share in value added at factor cost stood at 7.7 per cent in 2007, practically unchanged from 2004. The decline in its share in 2005 was recouped in 2006. Value added at factor cost per capita rose in both 2006 and 2007. The increase of 9.2 per cent in 2007 was mainly underpinned by a substantial increase in gross operating surplus per capita of 17.5 per cent. In this sector, personnel costs per capita account for the larger share in value added at factor cost per capita, though its share has declined from 60.9 per cent in 2004 to 54.7 per cent in 2007.

The chemicals and chemical products sector has been registering strong growth rates in the past recent years. As a result, the share of this sector in value added at factor cost increased from 3.5 per cent in 2004 to 16.1 per cent in 2007. This sector became the second largest contributor to value added at factor cost within the manufacturing industry in 2007, thus preceding the food and beverages products sector which had the second largest share up till 2006. Besides, in 2007, chemicals and chemical products sector's contribution to value added at factor cost was only 1.9 percentage point less than that of the largest contributor within the manufacturing industry, the radio, TV and communication equipment sector. Value added at factor cost per capita in this sector has more than doubled in 2005, while it increased by 68.5 per cent in 2006. It grew even further, albeit at a slower rate of 13.6 per cent in 2007. Personnel costs per capita increased at an annual average growth rate of 5.3 per cent in the period 2004-2007. Meanwhile, over the same period, gross operating surplus per capita experienced strong growths. As a result, the share of gross operating surplus per capita in value added at factor cost per capita increased significantly from 41.0 per cent in 2004 to 84.3 per cent in 2007.

Another significant contributor towards the value added at factor cost of the manufacturing industry was the electrical machinery and apparatus sector, whose share increased by 1.6 percentage points between 2004 and 2007 to reach 9.1 per cent in 2007. The value added at factor cost per capita followed a generally upward trend throughout the four years to 2007. An advance of 18.5 per cent was recorded in 2007, reflecting buoyant gross operating surplus per capita as personnel costs per capita decreased by 5.1 per cent. The share of gross operating surplus per capita increased considerably by 12.0 percentage points to reach 69.7 per cent.

The radio, TV and communication equipment sector is the largest contributor towards value added at factor cost within the manufacturing industry. Despite this, its share declined by 4.3 percentage points to 18.0 per cent between 2004 and 2007. In per capita terms, following a drop in 2006, value added at factor cost per capita rose by 3.5 per cent in 2007. These developments reflect an increase in personnel cost per capita of 8.7 per cent as gross operating surplus per capita declined marginally. The share of gross operating surplus per capita in value added at factor per capita, though remaining the larger share, dropped from 60.6 per cent in 2004 to 53.9 per cent in 2007.

The share of the furniture and other manufacturing sector in total value added dropped from 8.1 per cent in 2004 to 7.3 per cent in 2007. However, it still remained one of the largest sectors within the manufacturing industry. Value added at factor cost per capita increased by 13.5 per cent in 2005 but remained practically unchanged in the rest of the period under review. In 2007, developments in value added at factor cost per capita by the furniture and other manufacturing sector reflected a slight increase in personnel costs per capita which was offset by a similar drop in gross operating surplus per capita. Gross operating surplus per capita practically maintained its share in value added at factor cost per capita throughout the four years and stood at 54.3 per cent in 2007.

Agriculture and Fisheries

Despite its small contribution to the Maltese economy, the agricultural and fisheries sector lends to the enhancement of the islands' landscape as well as to the enrichment of the country's social fabric. Agriculture also serves the welfare of the farming community and provides an integrated framework within the varied produce of the sector and in marketing and distribution. Fishing activities have over the years formed part of our local heritage and in addition local fishing villages also constitute a typical tourist attraction. The agricultural and fisheries sector maintained a stable share of Gross Value Added of around 2.8 per cent during the period 2004 to 2006, albeit declining by 0.5 percentage points in 2007 to 2.3 per cent of Gross Value Added. During the period January-June 2008, this sector's contribution to the total economy remained unchanged at 1.9 per cent of Gross Value Added when compared to the same period in

2007. This section reviews the economic accounts for agriculture for the year 2007 as well as recent developments in the agriculture and fisheries sector on the basis of the latest available data for 2008.

Economic Accounts for Agriculture

The local agricultural sector mainly comprises the production of fruit and vegetables, livestock and dairy products which in turn also constitute the inputs for the domestic processing of meat and meat preparation, canning of fruit and vegetables, wines and beer, and animal feeds. Despite its small size, the agricultural sector bears an important role in the Maltese economy. Nevertheless this sector has to face a number of challenges, in particular, the problems of scarcity of water supply, fragmented land ownership and the absence of economies of scale due to its limited size.

The Economic Accounts for Agriculture published by the National Statistics Office (NSO) capture agricultural statistics based on methodologies according to the European Accounts for Agriculture and Forestry (EAA/EAF 97, rev. 1.1), 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 on this sector presented in other Chapters in this Economic Survey.

Factor Income at Current Prices

Table 4.7 € thousand

	2004	2005	2006	2007
Total final production at producer prices	113,071	110,512	113,804	115,061
add subsidies on production	11,530	13,189	13,513	11,893
Total final production at basic prices	124,601	123,701	127,317	126,954
less intermediate consumption	63,134	65,283	66,252	70,225
Gross value added at basic prices	61,467	58,418	61,065	56,729
less fixed capital consumption	3,951	3,870	3,968	4,014
Net value added at basic prices	57,516	54,548	57,098	52,716
add other subsidies not directly linked with production	7,189	6,553	5,603	10,488
Factor income at current prices	64,705	61,101	62,701	63,204

Source: National Statistics Office

As illustrated in Table 4.7 agricultural factor income at current market prices increased marginally by 0.8 per cent in 2007 when compared to 2006 and reached €63.2 million. This was mainly due to an increase in total final production at producer prices as well as significantly higher other subsidies not directly linked with production (as allocation of subsidies shifted from production to rural development). However, these increases were almost offset by a 6.0 per cent increase in intermediate consumption as well as a decrease of 12.0 per cent in subsidies on production.

Table 4.8 portrays data for the distribution of factor income at current market prices. Entrepreneurial income increased by 0.7 per cent in 2007, thus reaching a level of €58.5 million. During 2007, entrepreneurial income accounted for 93 per cent of total factor income. Compensation of employees and interest levels increased by 2.0 per cent and 1.6 per cent respectively in 2007, maintaining the 2006 absolute levels of €2.9 million and €1.1 million respectively. Meanwhile, rents maintained practically the same level recorded in 2006 at €0.7 million.

As shown in Table 4.9, final production at basic prices decreased by 0.3 per cent in 2007 to €127.0 million. Livestock and crop products each comprised slightly more than one third of total final production. Livestock products decreased by 0.9 per cent while secondary activities which involve wine and cheese production fell by 16.7 per cent in 2007 when compared to 2006. On the other hand, production of other animal products and crop products increased by 1.0 per cent and 3.2 per cent respectively.

Annual producer price indices for agricultural products are presented in Table 4.10. Output price indices register developments in the prices of fruit, vegetables, animals and animal products whereas the input price indices indicate changes

Distribution of Factor Income at Current Prices

Table 4.8 — € thousand

	2004	2005	2006	2007
Factor Income	64,705	61,101	62,701	63,204
Entrepreneurial income (profits)	60,354	56,624	58,094	58,509
Compensation of employees (wages)	2,705	2,764	2,839	2,897
Interest	967	1,033	1,088	1,105
Rents	679	680	680	693

Source: National Statistics Office

Final Production at Basic Prices by Type of Product at Current Market Prices

Table 4.9 € thousand

	2004	2005	2006	2007
Final production at basic prices	124,601	123,701	127,317	126,955
Livestock products	48,267	48,092	46,146	45,709
Other animal products	24,240	24,157	24,451	24,703
Crop products	44,416	43,814	46,681	48,177
Secondary activities	7,678	7,639	10,039	8,366

Source: National Statistics Office

Annual producer price indices for agricultural products (2000 = 100)

Table 4.10

	Weight	2004	2005	2006	2007
Output index at producer prices	**100.0**	**98.8**	**97.8**	**97.6**	**102.1**
Forage	4.4	63.1	63.1	63.1	63.1
Potatoes	3.7	92.4	97.5	110.4	149.1
Fresh vegetables	17.2	106.3	109.0	106.1	115.6
Fruit	2.1	97.2	90.1	92.5	113.0
Animals	48.1	98.5	99.3	100.3	99.2
Animal products	24.5	101.6	93.8	91.1	97.3
Input total	**100.0**	**102.7**	**105.9**	**108.7**	**114.2**
Goods and services currently consumed in agriculture	**98.6**	**102.7**	**106.0**	**108.8**	**114.4**
Seeds and planting stock	3.4	108.8	112.5	121.5	118.8
Energy; lubricants	7.7	123.8	151.6	171.9	164.9
Fertilisers and soil improvers	1.8	103.1	104.0	103.1	101.9
Plant protection products and pesticides	1.3	89.6	77.6	77.4	79.4
Veterinary expenses	2.0	117.2	130.2	135.4	141.1
Animal feeding stuffs	58.3	96.1	96.1	96.1	105.5
Maintenance of materials	8.9	99.6	103.3	106.0	109.9
Maintenance of buildings	4.6	102.9	104.3	104.7	107.4
Other goods and services	10.5	122.8	127.2	132.9	133.5
Goods and services contributing to agricultural investment	**1.4**	**101.4**	**97.7**	**99.4**	**101.0**

Source: National Statistics Office

Box 4.1

Recent Developments in the Agricultural Sector

Between January 2008 and September 2008, Government provided €10.6 million in aid under agricultural support schemes. Financial assistance and incentive schemes are provided under the Special Market Programme for Maltese Agriculture to assist the Maltese agricultural sector in adapting to the liberalised trade environment following the removal of levies on imported agricultural and agro-food products in 2004.

Table 4a shows main indicators for the agricultural sector for the first six months of 2007 and 2008. The volume of beef, pork and broiler slaughtering registered an increase of 9.1 per cent during the first six months of 2008 when compared to the same period in 2007. This increase was mainly due to increases in pork slaughtering. Broilers slaughtering also contributed positively to the increase in total slaughtering while the contribution of beef slaughtering to the total was almost negligible due to its small share in total slaughtering. Pork slaughtering experienced an increase of 11.7 per cent during January-June 2008. Beef and broilers slaughtering also increased by 4.7 per cent and 6.5 per cent respectively.

Agricultural Indicators

Table 4a

	2007 Jan-Jun	**2008** Jan-Jun
Slaughtering (tonnes)		
Beef	297	730
Pork	3,629	4,053
Broilers	2,455	2,614
Fresh Fruit		
Price Index	144.9	135.0
Volume Index	68.4	106.1
Fresh Vegetables		
Price Index	108.7	139.4
Volume Index	119.9	110.8

Source: National Statistics Office

The total volume of fruit and vegetables sold during the first two quarters of 2008 amounted to 23.8 million kilograms, representing a decrease of 5.3 per cent when compared to the same period in the previous year. A higher average price of fruit and vegetables was recorded during this period. The wholesale value of fruit and vegetables sold through organized markets during the first six months of 2008 increased by 13.6 per cent to €11.6 million when compared to the same period in the preceding year, thus signifying that demand for fresh fruit and vegetables is price inelastic.

Box 4.1 continued

During the period January-June 2008, the average price of fresh fruit decreased by 5.6 per cent over the comparative period in the previous year. This was accompanied by an increase of 55 per cent in the volume of fresh fruit sold. This resulted in an increase of 46.3 per cent in the wholesale value of fresh fruit. The increases in the volume of sweet oranges and peaches sold, followed by strawberries, contributed mostly to the increase in the total volume of fresh fruit. The volume of cherry plums increased considerably during the period January-June of 2008 when compared to the same period in 2007 albeit their contribution to the total increase in volume of fresh fruit for the period was subdued. The volume of strawberries sold increased such that, despite the resultant decrease in the average price of strawberries, the value of strawberries sold increased. Indeed, the increase in the value of strawberries was the main contributor to the total increase in the value of fresh fruit during the period January-June of 2008.

Average vegetables prices increased by 17.8 per cent during the first six months of 2008 with the most marked increases being recorded in January and February. The volume of fresh vegetables decreased by 7.6 per cent such that the value of vegetables increased by 8.9 per cent reflecting a price inelastic demand for fresh vegetables.

Data for imports of major agricultural commodities is presented in Table 4b. The value of imports of the main agricultural commodities has decreased by 2.1 per cent during the period January-August of 2008 over the comparative period in the previous year reaching a level of €277.2 million. The main reason behind the decline in imports has been the substantial decrease in fish imports. It is pertinent to highlight that data for fish imports for January-August 2008 is highly provisional. The decrease in fish imports more than offset the increase in imports of other agricultural commodities in particular, cereals, as well as beverages, spirits and vinegar, dairy produce, cereal preparations, and preparations of meat and fish. Higher international commodity prices contributed to such increases in import values.

Imports of Major Agricultural Commodities

Table 4b € million

	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
Live Animals	0.84	0.93	0.95	0.70	0.31
Meat and Edible Offals	33.73	39.51	42.14	27.72	29.76
Fish*	25.24	36.93	80.60	73.13	23.84
Dairy Produce	30.32	30.47	33.83	20.81	26.73
Edible Fruits and Nuts	27.37	21.19	25.71	16.36	15.65
Cereals	21.82	19.43	40.10	21.03	36.71
Preparations of Meat, Fish	24.45	25.47	26.15	17.63	21.82
Sugar & Confectionery	14.70	17.59	20.13	12.12	9.96
Cereal Prep.	39.35	40.67	43.18	26.38	30.69
Veg. and Fruit Prep.	17.90	18.46	20.23	13.31	14.25
Misc. Edible Prep.	26.66	26.88	28.52	18.80	21.52
Beverages, Spirits, Vinegar	29.67	29.57	33.26	21.14	29.16
Feeds	18.84	18.32	21.49	13.91	16.79
Total	310.89	325.42	416.29	283.04	277.19

*Imports data for the second quarter of 2007 have been revised upwards, as a consequence of updated information on fish-farming made available from the Aquaculture Census carried out by NSO, reference year 2007. Data for January-August 2008 is highly provisional.

Source: National Statistics Office

Fresh Fish Indices

Table 4.11 2005=100

	2007 Jan-Sep	2008 Jan-Sep
Price Index	129.87	132.13
Volume Index	60.67	69.62

Source: National Statistics Office

in the purchase prices of raw and auxiliary materials and services derived from other industries. Different trends in these two indices would have implications on the profitability performance of the agricultural sector.

During 2007, the output index increased by 4.6 per cent from 97.6 in 2006 to 102.1 in 2007. The largest increases occurred for fruit and potatoes which recorded increases in their index of 22.2 per cent and 35.1 per cent respectively. Nevertheless, as fruit has a relatively low weighting in the aggregate index, its contribution to the increase in the fruit index was rather low. Increases in the indices of animal products, fresh vegetables and potatoes contributed the most to the increase in the output index. The input index increased from 108.7 in 2006 to 114.2 in 2007, thus registering an increase of 5.1 per cent. The increase in the input index was mainly the result of an increase of 9.7 per cent in animal feeding stuffs, in line with increasing international prices of cereals.

Fisheries

Despite its small size, the Maltese fisheries sector maintains an important role in the social and environmental aspects of the local community. Activities in the fisheries sector encompass both traditional fishing methods as well as fish farming aquaculture techniques. Traditional fishing methods provide for the local fish market, supplying primarily dolphin-fish (*lampuki*), blue fin tuna and swordfish. Aquaculture fish farming techniques, on the other hand, serve mainly for exportation purposes.

The price and volume indices for fresh fish for the period January-September 2007 and 2008 are displayed in Table 4.11. The monthly average volume of fresh fish landings increased by 14.8 per cent during January-September 2008 over the corresponding 2007 period. Meanwhile, the price index for fresh fish increased by 1.7 per cent. During the same period, increases in swordfish and blue fin tuna landings contributed most to the increase in total volume of fish landings.

Footnote:

[1]The Tobacco industry is no longer being reported as from 2007 as a main enterprise in this sector changed the nature of its operations from manufacturing to trading.

Sampled Manufacturing Firms

(January-June)

Appendix Table 4.1

	2005	2006	2007*	2008*
MANUFACTURING TOTAL				
Sales (€ 000)	1,053,332	1,167,031	1,194,471	1,108,699
Wages (€ 000)	139,669	138,856	143,881	142,231
Net Investment (€ 000)	56,509	78,753	85,876	70,718
Exports (€ 000)	811,821	930,781	983,277	875,689
Local Sales (€ 000)	241,511	236,250	211,194	233,009
Avg. Weekly Sales/Employee (€)	2,063.77	2,433.36	2,505.38	2,436.21
Avg. Weekly Earnings/Employee (€)	273.65	289.53	301.79	312.53
Avg. Weekly Exports/Employee (€)	1,590.58	1,940.76	2,062.41	1,924.21
FOOD AND BEVERAGES PRODUCTS				
Sales (€ 000)	159,360	155,104	126,446	134,731
Wages (€ 000)	20,524	20,067	18,868	19,943
Net Investment (€ 000)	6,353	5,490	19,897	13,977
Exports (€ 000)	25,865	31,094	29,339	27,015
Local Sales (€ 000)	133,496	124,010	97,107	107,716
Avg. Weekly Sales/Employee (€)	1,967.03	829.07	1,701.05	1,743.30
Avg. Weekly Earnings/Employee (€)	253.34	107.27	253.82	258.05
Avg. Weekly Exports/Employee (€)	319.26	166.20	394.69	349.55
TEXTILES AND TEXTILE PRODUCTS				
Sales (€ 000)	27,438	22,764	20,877	21,067
Wages (€ 000)	6,868	3,459	3,186	2,492
Net Investment (€ 000)	2,855	5,202	3,190	324
Exports (€ 000)	26,968	22,515	20,633	20,849
Local Sales (€ 000)	470	249	244	219
Avg. Weekly Sales/Employee (€)	987.19	867.09	1,882.64	2,207.85
Avg. Weekly Earnings/Employee (€)	247.10	306.90	287.35	261.11
Avg. Weekly Exports/Employee (€)	970.29	1,997.61	1,860.63	2,184.93
WEARING APPAREL AND CLOTHES				
Sales (€ 000)	31,146	28,078	26,569	15,177
Wages (€ 000)	8,705	6,442	6,204	2,088
Net Investment (€ 000)	65	96	114	9
Exports (€ 000)	27,930	25,476	23,684	12,431
Local Sales (€ 000)	3,216	2,602	2,885	2,747
Avg. Weekly Sales/Employee (€)	770.62	940.27	976.49	1,739.92
Avg. Weekly Earnings/Employee (€)	215.38	215.75	228.00	239.39
Avg. Weekly Exports/Employee (€)	691.05	853.15	870.46	1,425.04

Sampled Manufacturing Firms

(January-June)

Appendix Table 4.1 continued

	2005	2006	2007*	2008*
LEATHER AND LEATHER PRODUCTS				
Sales (€ 000)	7,174	4,355	2,484	1,211
Wages (€ 000)	1,809	1,267	850	497
Net Investment (€ 000)	15	0	112	0
Exports (€ 000)	7,000	4,123	2,152	870
Local Sales (€ 000)	173	232	332	341
Avg. Weekly Sales/Employee (€)	815.08	336.70	508.09	447.94
Avg. Weekly Earnings/Employee (€)	205.55	98.00	173.87	183.75
Avg. Weekly Exports/Employee (€)	795.42	318.86	440.19	321.80
WOOD AND WOOD PRODUCTS				
Sales (€ 000)	754	774	803	1,192
Wages (€ 000)	320	437	470	611
Net Investment (€ 000)	1	42	2	5
Exports (€ 000)	12	11	4	18
Local Sales (€ 000)	741	763	799	1,174
Avg. Weekly Sales/Employee (€)	467.52	389.19	396.20	418.64
Avg. Weekly Earnings/Employee (€)	198.42	219.58	231.65	214.76
Avg. Weekly Exports/Employee (€)	7.71	5.61	2.19	6.18
PAPER AND PAPER PRODUCTS				
Sales (€ 000)	7,575	8,730	7,779	7,602
Wages (€ 000)	2,025	2,058	2,124	1,996
Net Investment (€ 000)	159	201	187	0
Exports (€ 000)	272	813	324	434
Local Sales (€ 000)	7,303	7,917	7,455	7,168
Avg. Weekly Sales/Employee (€)	1,036.81	1,259.99	1,118.41	1,142.13
Avg. Weekly Earnings/Employee (€)	277.15	297.01	305.38	299.86
Avg. Weekly Exports/Employee (€)	37.29	117.33	46.53	65.24
PUBLISHING AND PRINTING				
Sales (€ 000)	62,266	53,039	71,656	80,537
Wages (€ 000)	12,898	14,153	14,849	15,282
Net Investment (€ 000)	4,929	2,403	17,323	8,135
Exports (€ 000)	41,829	31,787	47,469	55,039
Local Sales (€ 000)	20,437	21,252	24,187	25,498
Avg. Weekly Sales/Employee (€)	1,501.94	1,259.24	1,663.75	1,810.92
Avg. Weekly Earnings/Employee (€)	311.12	336.01	344.78	343.62
Avg. Weekly Exports/Employee (€)	1,008.98	754.68	1,102.16	1,237.58

Sampled Manufacturing Firms
(January-June)

Appendix Table 4.1 continued

	2005	2006	2007*	2008*
CHEMICALS AND CHEMICAL PRODUCTS				
Sales (€ 000)	43,163	70,756	87,390	111,582
Wages (€ 000)	6,093	7,489	9,046	11,051
Net Investment (€ 000)	8,969	9,188	11,760	8,798
Exports (€ 000)	34,850	62,366	79,289	103,220
Local Sales (€ 000)	8,313	8,390	8,101	8,362
Avg. Weekly Sales/Employee (€)	2,049.51	3,061.17	3,395.11	3,802.94
Avg. Weekly Earnings/Employee (€)	289.31	324.01	351.42	376.62
Avg. Weekly Exports/Employee (€)	1,654.79	2,698.19	3,080.37	3,517.94
RUBBER AND PLASTIC PRODUCTS				
Sales (€ 000)	47,185	46,932	51,711	51,437
Wages (€ 000)	13,001	11,808	12,289	13,037
Net Investment (€ 000)	1,876	1,299	2,514	2,683
Exports (€ 000)	37,607	36,823	41,946	40,653
Local Sales (€ 000)	9,579	10,109	9,765	10,784
Avg. Weekly Sales/Employee (€)	997.98	1,139.22	1,255.61	1,265.75
Avg. Weekly Earnings/Employee (€)	274.97	286.63	298.38	320.82
Avg. Weekly Exports/Employee (€)	795.39	893.83	1,018.51	1,000.38
OTHER NON-METALLIC MINERAL PRODUCTS				
Sales (€ 000)	23,032	23,853	23,625	27,574
Wages (€ 000)	3,824	4,286	4,599	4,700
Net Investment (€ 000)	694	623	2,333	2,852
Exports (€ 000)	2,370	2,228	2,837	5,153
Local Sales (€ 000)	20,662	21,625	20,788	22,421
Avg. Weekly Sales/Employee (€)	1,237.21	1,255.02	1,188.54	1,364.90
Avg. Weekly Earnings/Employee (€)	205.40	225.53	231.39	232.63
Avg. Weekly Exports/Employee (€)	127.33	117.23	142.72	255.07
FABRICATED METAL PRODUCTS				
Sales (€ 000)	21,502	20,414	21,839	31,328
Wages (€ 000)	4,557	4,340	4,288	4,255
Net Investment (€ 000)	1,233	235	668	574
Exports (€ 000)	9,026	6,791	6,921	6,304
Local Sales (€ 000)	12,477	13,624	14,918	25,023
Avg. Weekly Sales/Employee (€)	1,271.35	1,221.10	1,440.75	1,998.19
Avg. Weekly Earnings/Employee (€)	269.41	259.62	282.88	271.39
Avg. Weekly Exports/Employee (€)	533.64	406.20	456.61	402.12

Sampled Manufacturing Firms

(January-June)

Appendix Table 4.1 continued

	2005	2006	2007*	2008*
MACHINERY AND EQUIPMENT N.E.C.				
Sales (€ 000)	16,902	15,549	17,916	20,119
Wages (€ 000)	2,859	2,559	3,040	3,053
Net Investment (€ 000)	121	70	235	309
Exports (€ 000)	13,057	14,564	15,859	18,460
Local Sales (€ 000)	3,845	985	2,057	1,659
Avg. Weekly Sales/Employee (€)	1,538.67	1,642.97	1,509.48	1,782.95
Avg. Weekly Earnings/Employee (€)	260.22	270.40	256.17	270.59
Avg. Weekly Exports/Employee (€)	1,188.61	1,538.90	1,336.15	1,635.93
ELECTRICAL MACHINERY AND APPARATUS				
Sales (€ 000)	69,278	61,291	76,618	64,682
Wages (€ 000)	9,596	10,028	11,570	11,358
Net Investment (€ 000)	2,184	1,010	3,187	1,487
Exports (€ 000)	68,753	59,643	75,551	63,406
Local Sales (€ 000)	525	1,648	1,068	1,277
Avg. Weekly Sales/Employee (€)	2,184.95	1,842.41	2,102.64	1,784.00
Avg. Weekly Earnings/Employee (€)	302.66	301.44	317.52	313.25
Avg. Weekly Exports/Employee (€)	2,168.38	1,792.86	2,073.34	1,748.78
RADIO, TV AND COMMUNICATION EQUIPMENT				
Sales (€ 000)	448,754	558,984	557,951	455,296
Wages (€ 000)	24,544	27,977	29,995	29,222
Net Investment (€ 000)	20,730	48,233	20,375	22,288
Exports (€ 000)	448,073	558,165	557,222	454,496
Local Sales (€ 000)	681	819	729	800
Avg. Weekly Sales/Employee (€)	5,758.06	6,773.60	6,545.57	5,872.36
Avg. Weekly Earnings/Employee (€)	314.93	339.01	351.89	376.90
Avg. Weekly Exports/Employee (€)	5,749.32	1,395.68	6,537.02	5,862.04
MEDICAL, PRECISION AND OPTICAL INSTRUMENTS				
Sales (€ 000)	21,859	24,589	23,425	24,913
Wages (€ 000)	7,560	7,263	6,912	7,340
Net Investment (€ 000)	552	954	967	1,015
Exports (€ 000)	15,798	19,148	17,477	19,191
Local Sales (€ 000)	6,062	5,440	5,948	5,721
Avg. Weekly Sales/Employee (€)	803.01	943.83	1,034.99	1,035.88
Avg. Weekly Earnings/Employee (€)	277.72	278.81	305.38	305.18
Avg. Weekly Exports/Employee (€)	580.32	735.01	772.17	797.98

Sampled Manufacturing Firms

(January-June)

Appendix Table 4.1 continued

	2005	2006	2007*	2008*
MOTOR VEHICLES, TRAILERS AND SEMI-TRAILERS				
Sales (€ 000)	707	851	548	285
Wages (€ 000)	286	261	256	118
Net Investment (€ 000)	57	1	2	60
Exports (€ 000)	239	407	204	107
Local Sales (€ 000)	468	444	344	177
Avg. Weekly Sales/Employee (€)	453.38	617.68	405.28	476.01
Avg. Weekly Earnings/Employee (€)	183.34	189.36	189.25	196.73
Avg. Weekly Exports/Employee (€)	153.52	295.27	150.80	179.74
OTHER TRANSPORT EQUIPMENT				
Sales (€ 000)	15,483	14,254	13,248	9,114
Wages (€ 000)	2,280	2,404	2,620	2,973
Net Investment (€ 000)	210	33	64	1,759
Exports (€ 000)	15,246	13,642	12,351	8,123
Local Sales (€ 000)	237	612	897	990
Avg. Weekly Sales/Employee (€)	2,544.84	2,654.88	2,062.93	1,322.75
Avg. Weekly Earnings/Employee (€)	374.73	447.80	407.94	431.55
Avg. Weekly Exports/Employee (€)	2,505.90	2,540.84	1,923.21	1,179.00
FURNITURE AND OTHER MANUFACTURING N.E.C.				
Sales (€ 000)	49,753	56,713	63,587	50,852
Wages (€ 000)	11,921	12,556	12,716	12,216
Net Investment (€ 000)	5,508	3,671	2,947	6,443
Exports (€ 000)	36,925	41,184	50,017	39,920
Local Sales (€ 000)	12,828	15,529	13,570	10,932
Avg. Weekly Sales/Employee (€)	1,167.16	1,304.60	1,540.57	1,258.99
Avg. Weekly Earnings/Employee (€)	279.67	288.82	308.07	302.45
Avg. Weekly Exports/Employee (€)	866.23	947.38	1,211.81	988.35

* Provisional

Source: National Statistics Office

5. Services Activities

5. Services Activities

Over the years, the structure of the Maltese economy has gradually evolved to become more services oriented. Tourism is the leading services activity both in terms of employment and as a key foreign currency earner. However, the tourism industry is an ever changing industry which is subject to several external influences. The currently prevailing uncertainty over the global economic situation is affecting consumer confidence which may, in turn, affect tourism demand negatively. Moreover, the current economic imbalances, in particular the relatively high inflation, together with exchange rate developments are very likely to influence tourism spending. In addition, high energy prices reflect on airlines' profitability, although this impact is being alleviated with the recent lowering of oil prices. This is a crucial issue for Malta given the fact that the local tourism industry is highly dependent on air transport. Exchange rate developments are another issue in light of the fact that as a Euro Area Member State the strength of the Euro against the Sterling is a challenge for the local tourism industry. Specific tourism demand shifts will however vary from country to country and from region to region, depending on the performance of their local economies, labour markets and consumer confidence.

These recent developments in the international economic situation pose downward risks to the outlook for the domestic tourism industry. Nevertheless, during the first eight months of 2008, the recovery in inbound tourism registered in 2007 was sustained. During 2008, both Government and the Malta Tourism Authority (MTA) continued their efforts to identify and tap new underserved routes through low-cost airlines. Moreover, the Government and the private sector continued to invest in this sector, including efforts to diversify the tourist market, to upgrade the domestic tourist market, as well as to offer a more price competitive package to the potential tourist. Meanwhile, the MTA continued with its intense marketing and advertising campaigns.

During January-August 2008, tourist departures rose by 9.6 per cent over the previous comparable period, to 905,374 visitors. This follows an increase of 7.6 per cent registered for January-August 2007. However, gross foreign exchange earnings from tourism registered a marginal decline of 0.8 per cent during the first half of 2008, to €249.6 million. Per capita earnings during this period declined by 13.8 per cent, to €432.4, whilst earnings per nights spent declined from €60.4 to €55.6. Meanwhile, the cruise liner industry continued to register a positive performance, expanding from a level of 357,646 arrivals during January-September 2007 to 407,465 arrivals in the corresponding 2008 period, an increase of 13.9 per cent. Full-time employment in hotels and restaurants stood at 10,436 as at the end of June 2008, an increase of 482 jobs over June 2007. Table 5.1 presents selected tourism indicators.

The Malta Financial Services Authority (MFSA) is the single regulator and supervisory authority for the financial services sector in Malta. The MFSA also manages the Registry of Companies and has the responsibility of the Listing Authority. During the first eight months of 2008, the MFSA issued a number of new licences particularly in the investment services, insurance and trust sectors. During this period, the MFSA issued Banking Rule BR/12. Other legislative developments concern Capital Adequacy Regulations and Prevention of Money Laundering. Furthermore, during this period, the MFSA has concluded a number of memoranda of understanding (MoUs) with a number of foreign and local regulatory and supervisory authorities to facilitate the exchange of information and also to create a formal framework for regulatory collaboration and co-operation between various regulatory authorities.

Malta Enterprise Corporation is responsible for the promotion of foreign investment and industrial development in Malta. It offers assistance and advice to those who seek to learn more about the business and investment opportunities available on the island, while also offering trade promotion services. During the first eight months of 2008, the Corporation approved new and expansion projects, granted financial assistance through various incentive schemes and approved interest rate subsidies. Furthermore, in 2008, Malta Enterprise prepared a draft Regulation to provide incentives that aim to stimulate the

Main Tourism Indicators

Table 5.1

	2005	**2006**	**2007**	**2007** Jan-Aug	**2008** Jan-Aug
Tourist Departures	1,170,598	1,124,231	1,243,455	825,874	905,374
Nights spent (000's)	11,085	10,656	11,017	7,527	7,914
Cruise Passengers*	312,256	392,940	477,071	357,646 (1)	407,465 (1)
Total full-time employment in hotels and restaurants**	8,809	9,525	10,134	9,954 (2)	10,436 (2)

*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.
(1) Data for January - September
(2) Data as at end of June

Source: National Statistics Office
Employment and Training Corporation

industry to engage in Research, Development and Innovation activities. Moreover, the Corporation issued a pilot scheme on Eco Innovations to encourage enterprises to invest in energy saving measures and renewable technologies. Malta Enterprise Corporation is also participating in the Enterprise Europe Network which offers support and advice to businesses across Europe.

Tourism

The encouraging results in tourist departures recorded in 2007 were sustained with a growth in tourist departures of 9.6 per cent during the first eight months of 2008. The introduction of other low cost airlines servicing from Malta as well as the introduction of new routes by low cost airlines already operating from Malta continued to improve Malta's accessibility thus contributing to this increase in tourist departures. Nights spent increased by 5.1 per cent during the first eights months of 2008, while the average length of stay declined marginally by 0.4 nights to 8.7 nights. This reflected the increased preference for shorter and more frequent trips that is characterising the tourism industry in the Mediterranean region. Nevertheless, challenges remain to sustain the contribution of the tourism industry in the Maltese economy. In particular, despite the increase in departures, tourism earnings fell marginally during the period January-June. Furthermore, the prevailing global economic uncertainty and in particular developments in major tourist markets represent a challenge to the domestic tourism industry.

The domestic cruise liner industry has continued to expand thus sustaining an increasingly important role in the local tourism industry. During January-September 2008, cruise passenger arrivals increased by 13.9 per cent, to reach 407,465. Full-time employment in hotels and restaurants stood at 10,436 as at the end of June 2008, an increase of 482 jobs over June 2007.

The latest available data from the World Tourism Barometer shows that in the first four months of 2008, world tourism recorded a sound start. In spite of uncertainties posed by the global economy, growth continued at only a slightly lower pace than in the previous remarkable year. During this period, Europe continued to see a continuing boom in emerging markets which contributed in part to offset weaker demand from the USA and other markets more seriously affected by exchange rate fluctuations. Moreover, the recent extension of the Schengen area with Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia and Malta, has moved the outer border of the common area to the East and South, allowing easier access for most visitors, but causing difficulties for visitors from the Russian Federation, Belarus and the Ukraine. Despite the current economic slowdown and the strength of the Euro against the Sterling and the US Dollar which may deter visitor numbers from the European countries, a number of European cities have reported strong growth for the first months of 2008.

During the first eight months of 2008, the MTA continued with its marketing efforts. In addition, the MTA is aiming to intensify its efforts in view of the declining consumer confidence as a result of the uncertainty over the global economic situation. Indeed, the MTA has embarked on a strategy to identify all the challenges that can limit tourism growth and address them in a cost-effective manner. Moreover, the MTA is intensifying its efforts to increase the characteristically low load factor on flights in the shoulder months.

In the first eight months of 2008, the Government has continued with its commitment to invest in Malta's historical heritage as well as to upgrade the tourism product. EU funds are also being used to finance such projects, as well as to finance training projects for employees in this industry. The EU budget also offers funding opportunities for the private sector to invest in Malta's tourism product.

Monthly Distribution

During the period January-August 2008, tourist departures increased to 905,374, from 825,874 in the corresponding 2007 period. Significant increases in tourist departures were generally evident throughout the first eight months of 2008 with record levels registered relative to the previous three years. Consecutive monthly increases in tourist departures are partly attributable to the introduction of low cost airlines and the resulting increase in the number of flights to Malta. The first four months of 2008 represented around 35 per cent of the total volume recorded during the period under review, in comparison to a share of around 33 per cent in the previous comparable period. This is indicative of the positive effect of low cost airlines on the winter months, thus contributing to reduce the seasonality pattern of the industry. Significant increases were registered particularly in January, March and May. The notable increase of 27.0 per cent in March was mainly attributable to the early Easter holidays. With an increase of 10.2 per cent, June accounted for 14.3 per cent of the total departures for the period under review. August remained the peak month accounting for 19.7 per cent of the total departures, followed by July with a share of 16.5 per cent. The growth rate in tourist departures decelerated in the peak summer months with July and August both recording an increase of 1.2

per cent over the corresponding 2007 month. Data on the monthly distribution of tourist departures is shown in Table 5.2.

As highlighted in Chart 5.1, Malta's tourism trends continued to exhibit strong seasonality patterns, with a high concentration of tourists in the spring and summer months of the year, particularly in the peak month of August, and a low concentration in the winter period. This seasonal concentration has an impact on a number of issues, in particular on the local infrastructure network, hotel occupancy, as well as on the labour market. All this highlights the importance of investment in marketing efforts in order to achieve a better seasonal distribution.

Tourist Nationality

Although the UK remains the major market in the Maltese tourism sector, its share has generally declined over the years, while other markets registered an increasing market share. This is illustrated in Chart 5.2, which depicts the relative

Monthly Tourist Departures

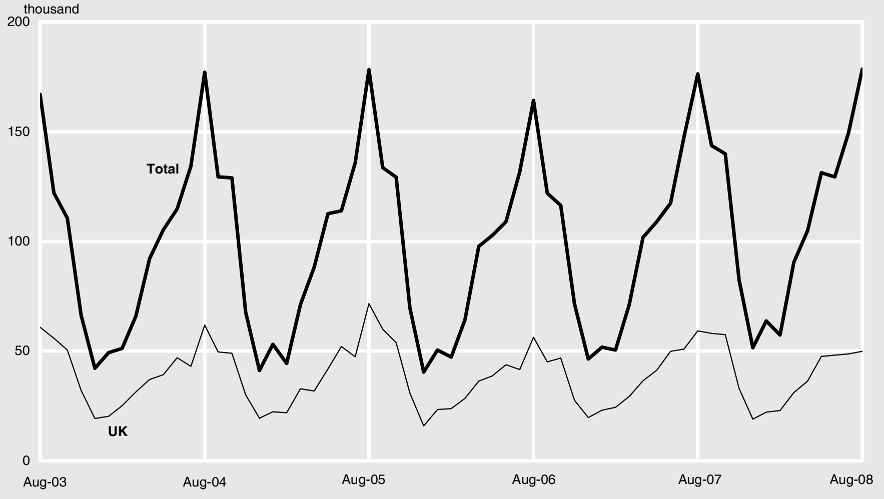
Table 5.2

	2005	2006	2007	2008
January	53,124	50,523	51,736	63,850
February	44,393	47,302	50,547	57,336
March	71,276	64,343	71,280	90,503
April	88,279	97,785	101,792	104,894
May	112,559	102,737	109,027	131,353
June	113,922	109,038	117,421	129,378
July	135,750	131,806	147,699	149,491
August	178,308	164,302	176,372	178,569
January/August	797,611	767,836	825,874	905,374
% change	0.9	-3.7	7.6	9.6
September	133,591	121,950	143,697	
October	129,332	116,427	139,930	
November	69,652	71,535	82,473	
December	40,412	46,483	51,481	
Total	1,170,598	1,124,231	1,243,455	
% change	1.1	-4.0	10.6	

Source: National Statistics Office

Chart 5.1

Tourist Departures*

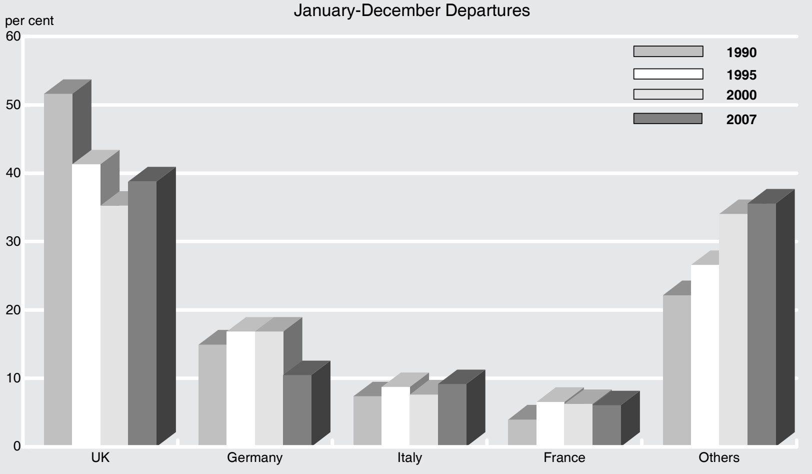


*Until March 2004, data for sea arrivals taken from embarkation cards. Thereafter, data for sea departures taken from Inbound Tourism Survey.

Chart 5.2

Tourist Market Shares*

January-December Departures



*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.

market share of Malta's main source markets over the January-December 1990-2007 period. The relative share of the UK market declined from 51.6 per cent in 1990 to 35.3 per cent in 2000 but edged up to 38.8 per cent by 2007. The German market had increased its share between 1990 and 2000 but then registered a drop in its market share to 10.5 per cent by 2007 which is below the 1990 ratio of 14.9 per cent. The share of the Italian market fluctuated from 7.3 per cent in 1990, to 9.1 per cent in 2007. The share of the French market increased to 6.5 per cent in 1995 but declined to 6.0 per cent in 2007, while the share of the other markets category increased from 22.2 per cent in 1990 to 35.6 per cent in 2007.

The latest available data for tourist departures indicate that during the period January-August 2008 no significant changes were recorded in the distribution of the market share amongst the main source markets when compared to that prevailing in the corresponding 2007 period. UK's market share declined by 4.2 percentage points to 33.9 per cent, whilst the Italian market share increased from 10.3 per cent to 12.1 per cent. The French market's share and the other markets category share remained relatively stable at 6.7 per cent and 35.5 per cent respectively. The German market share increased to 11.8 per cent in the first eight months of 2008. It is interesting to note that Spain's market share increased from 2.6 per cent in the first eight months of 2007, to 4.2 per cent during the period under review. The emergence of this market reflects the introduction of a low cost airline that commenced its operations in June 2007, thus opening up the possibility of an increased inflow of tourists from Spain.

A detailed breakdown of tourist departures by nationality is presented in Table 5.3. During January-August 2008, arrivals from a number of source markets such as the German market as well as the Italian, Belgian, French, Dutch, Swiss, Austrian, and the Scandinavian market reported positive results. The increases in these markets are primarily attributable to the opening of new routes by low cost airlines and an increase in the number of flights to Malta. Arrivals from the German market increased by 28,949 or 37.0 per cent over the previous comparable period, while arrivals from the Italian market increased by 24,032 or 28.2 per cent over the corresponding 2007 period. Tourists from Belgium increased by 4,612 or 25.7 per cent, while tourists from France increased by 7,165 or 13.3 per cent. The Dutch market recorded an increase of 1,893 visitors or 8.1 per cent during January-August 2008, while visitors from Switzerland increased by 1,066 or 7.8 per cent. Tourists from Austria and Scandinavia increased by 5.7 per cent and 5.2 per cent respectively during the period under review. On the other hand, arrivals from the UK market decreased by 8,100 or 2.6 per cent over the corresponding 2007 period. This decline is in part attributable to the exchange rate between the Sterling and the Euro, and a

Table 5.3

Tourist Departures by Nationality

	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
United Kingdom	482,642	431,340	482,401	314,855	306,755
Germany	138,215	125,811	130,049	78,307	107,256
Italy	92,405	112,549	113,651	85,354	109,386
France	82,606	73,400	75,098	53,750	60,915
Netherlands	37,101	37,832	34,783	23,318	25,211
Scandinavia*	72,581	73,683	87,280	56,124	59,066
Libya	10,665	9,198	9,259	6,657	6,044
Belgium	28,730	29,077	26,456	17,952	22,564
Austria	26,394	23,540	20,384	14,165	14,972
Switzerland	20,274	21,403	22,023	13,631	14,697
USA	18,108	16,969	20,423	14,900	12,220
Others	160,877	169,429	221,648	146,861	166,288
TOTAL	1,170,598	1,124,231	1,243,455	825,874	905,374

*Includes Denmark, Finland, Norway, Sweden

Source: National Statistics Office

slowdown in consumer demand following the decline in house prices in the UK and the uncertainty in financial markets. However, it is to be noted that during the first six months of 2008, UK residents' visits to Europe have registered an increase. Arrivals to Malta from the USA market recorded a decline of 2,680 visitors or 18.0 per cent during the period January-August 2008. This may be explained by the current global economic uncertainty, the financial turmoil and the fact that the strong Euro is encouraging tourists to visit countries outside the Euro zone, while the weak dollar continues to make the US an attractive destination.

Cruise Passengers

The cruise liner industry continued to expand during January-September 2008 following Malta's investment and promotion in modern cruise liner facilities. Indeed, in the first nine months of 2008, cruise passenger arrivals reached 407,465, an increase of 49,819 passengers or 13.9 per cent over the previous comparable period. In this tourism segment the challenges presented by the increase in oil prices may be turned into an opportunity to the local tourism industry, as the European market and more specifically the Mediterranean are gaining market share in line with the preference for shorter voyages.

Accommodation

Table 5.4 provides data concerning Malta's accommodation capacity by category of units and beds. It is pertinent to point out that the changes in accommodation levels in Table 5.4 reflect new accommodation, closure of existing accommodation, reclassifications as well as extensions to hotels.

By the end of August 2008, the number of hotels declined by 1 unit when compared to December 2007 levels. This decline is attributable to the 3-Star category while the 5-Star, 4-Star and 2-Star accommodation categories remained unchanged. In terms of bed-stock capacity, in August 2008, there was an increase of 1,558 beds from the December 2007 level. This increase is mainly from the 5-Star and 4-Star categories that recorded an increase in bed-stock capacity of 1,039 beds and 250 beds respectively. Meanwhile, the 3-Star and 2-Star categories increased by 218 beds and 51 beds respectively.

The total number of guesthouses as at the end of August 2008 remained unchanged. The number of holiday complexes increased by 1 unit, while their respective bed-stock level decreased by 431 beds. During the same period, the number of hostels remained unchanged, while the bed-stock level capacity increased by 119 beds.

Table 5.4

Main Types of Tourist Accommodation

	2006 (Dec)		2007 (Dec)		2008 (Aug)	
	Establishments	Bed-Places	Establishments	Bed-Places	Establishments	Bed-Places
Hotels						
Five Star	13	5,608	15	6,461	15	7,500
Four Star	43	15,446	41	14,995	41	15,245
Three Star	48	10,902	39	8,680	38	8,898
Two Star	11	731	8	651	8	702
Total	115	32,687	103	30,787	102	32,345
Other N.E.C.						
Guesthouses	28	757	24	672	24	677
Holiday Complex	30	5,366	28	5,685	29	5,254
Hostels	6	684	7	906	7	1,025
Other N.E.C. Total	64	6,807	59	7,263	60	6,956

Source: National Statistics Office

Monthly Accommodation Occupancy Rates - 2008*

Table 5.5 per cent

	Hotels				Tourist Villages & Aparthotels Hostels & Guesthouses
	5 Star	4 Star	3 Star	2 Star	
January	33	42	28	28	30
February	36	55	33	22	33
March	45	62	39	30	40
April	56	63	47	35	44
May	66	76	52	41	53
June	70	84	59	59	61
July	73	93	81	65	74
August	88	93	85	61	73
Average	58	71	53	43	51

* Net Occupancy levels for Collective Accommodation Establishments based on the ACCOMSTAT Census

Source: National Statistics Office

Another important element of consideration in the analysis of the tourism industry is the occupancy rate for various types of accommodation. As illustrated in Table 5.5, during the period January-August 2008, the 5-Star, 4-Star and 3-Star categories reached their peak inflow in August, while the 2-Star and the other collective accomodation reached their peak inflow in July. The 4-Star accommodation category recorded the highest level of occupancy of 93 per cent. This was followed by the occupancy rate of 88 per cent for the 5-Star category. The 3-Star accommodation category registered an occupancy rate of 85 per cent in August 2008, while the 2-Star recorded an occupancy rate of 61 per cent.

The average length of stay by tourists is another important indicator of the performance of the tourism industry. In the first eight months of 2006 average length of stay stood at 9.8 nights, whilst due to the introduction of low cost airlines the average length of stay declined to 8.7 nights by January-August 2008. This is in line with a declining European average length of outbound trips as tourists are opting for shorter but more frequent holiday trips.

Employment

Data for employment in hotels and restaurants is based on the administrative records of the Employment and Training Corporation of the gainfully occupied population according to the standard NACE classification of economic activities.

Full-time employment in hotels and restaurants stood at 10,436 persons in June 2008, an increase of 482 jobs over the corresponding 2007 period.This is partly attributable to the extension to a 5-star hotel. Employment in this sector corresponded to 7.2 per cent of the gainfully occupied population in June 2008. Private sector employment in hotels and restaurants amounted to 10,325, or 14.8 per cent of the persons employed in private market services.

Foreign Exchange Earnings

Tourism earnings are an important indicator of the performance of the domestic tourism industry, helping to bridge the gap in the domestic merchandise account. Data on foreign exchange earnings from tourism are provided in Table 5.6, while Chart 5.3 depicts tourism earnings per capita.

During January-June 2008, gross foreign exchange earnings reached €249.6 million, a marginal decrease of 0.8 per cent over the previous comparable period. This development occurred despite the notable rise in departures. Indeed, per capita earnings decreased by 13.8 per cent to €432.4. This is only partly attributable to the shorter average length of stay by tourists, as earnings per nights spent also decreased to €55.6 during the first six months of 2008 from €60.4 in the corresponding 2007 period.

During the period January-June 2008, gross earnings from tourism accounted for 11.0 per cent of exports of goods and services, which is in line with the share registered in the first six months of 2007. The ratio of foreign exchange earnings from tourism to exports of manufactured goods increased from 22.7

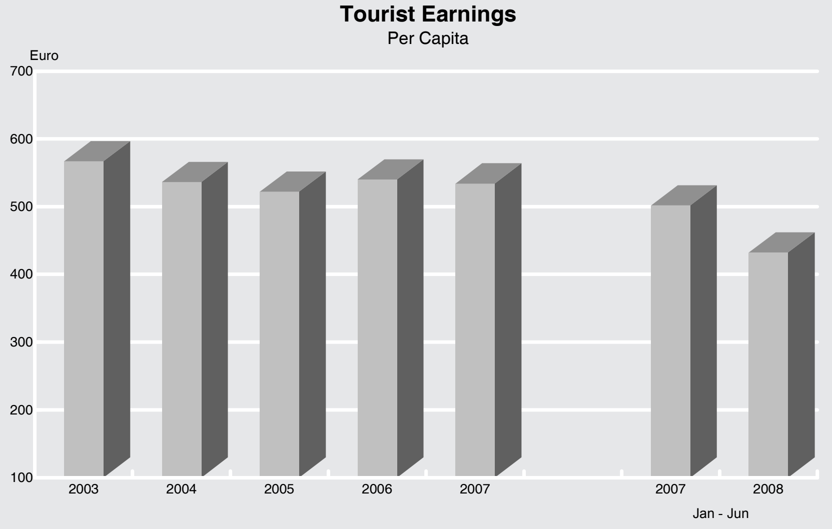
Table 5.6

Earnings from Tourism

	Gross Earnings (€ million)	Per Capita Earnings (€)	Earnings Per Nights Spent (€)	Ratio to exports of goods and services (%)	Ratio to exports of manufactured goods (%)
2005	611.0	522.0	55.1	16.5	31.2
2006	607.2	540.1	56.9	13.6	26.9
2007	664.2	534.2	60.3	13.7	29.7
2007 (Jan-Jun)	251.7	501.7	60.4	10.9	22.7
2008 (Jan-Jun)	249.6	432.4	55.6	11.0	24.4

Source: National Statistics Office

Chart 5.3



per cent to 24.4 per cent during January-June 2008, as the decline in manufacturing exports outweighed the marginal drop in tourism earnings.

Malta Financial Services Authority

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

During the first eight months of 2008, licences issued by the MFSA, particularly in the investment services, insurance and trust sectors, reflect a sustained level of growth in the financial services sector.

Between January and August 2008, one credit institution licence and two financial institution licences were issued resulting in a total of 22 credit institutions licensed under the Banking Act (1994) and 16 financial institutions licensed under the Financial Institutions Act (1994).

During the period analysed, the amount of hedge funds licensed in Malta reached 97 up from 25 licenses recorded in the same period last year.

During the first eight months of this year, Malta's fund servicing capacities continued to build up with the issue of five Category 2 Investment Services licences, four Category 1 Investment Services licences and one Category 4 Investment Services licence. The new licences issued increased the total number of investment services licences from 63 as at end 2007 to 72 as at end of August 2008. A fund administration recognition certificate was also issued bringing the total number of recognised fund administrators to 15.

Additionally, during the period under review, the MFSA has issued 103 new Collective Investment Scheme (CIS) Licences namely 3 retail schemes, 97 professional investor funds and 3 locally based Understandings for Collective Investments in Transferable Securities (UCITS) leading to a total of 387 CIS licences in August 2008.

With regards to the insurance sector, as at the end of August 2008, new licenses issued by the MFSA included four general insurance companies, one life insurance company and one affiliated insurance company, all of which will be operating on a cross-border basis. The MFSA has also licensed one new insurance manager bringing the total number of insurance managers to twelve. Moreover, the MFSA has also enrolled one company in the Agents List and licensed 58 new tied insurance intermediaries.

Furthermore, during the period analysed, the MFSA has authorised six companies to receive property under trusts and to act as a trustee or co-trustee and three companies have been authorised to provide fiduciary services. The total number of Authorised Trustees totalled 96 at the end of August 2008 up from 87 recorded in the previous year.

During January-August 2008, the Registry of Companies registered 1,823 new commercial partnerships of which 1,794 represent local companies and 29 are partnerships.

Given its regulatory and supervisory roles, during 2008 the MFSA has issued Banking Rule BR/12 titled *The Supervisory Review Process of Credit Institutions Authorised under the Banking Act 1994*. The Rule is being made pursuant to Article 17C of the Act and relates to the robustness of a credit institution's internal governance process which is an essential component of the institution's Internal Capital Adequacy Assessment Process (ICAAP). Article 17B of the Act requires every credit institution to put in place robust governance arrangements while Article 17C requires credit institutions to establish their own ICAAP. The Rule aims to elaborate the main attributes of an institution's ICAAP and provides directions with respect to the setting of an institution's business objectives and risk adversity, how its business is organised, how responsibilities and authority are allocated, how reporting lines are set up and what information they convey and how internal control is organised.

Other legislative developments concern Capital Adequacy Regulations and Prevention of Money Laundering. Banking Act (Capital Adequacy) Regulations, 2008 were issued by Legal Notice 76 of 2008. The objective of these regulations is to implement Articles 36 and 38 of the Capital Adequacy Directive. Moreover, Legal Notice 180 of 2008 was issued relating to the Prevention of Money Laundering and Funding of Terrorism Regulations. These regulations aim at implementing the provisions of Directive 2005/60/EC on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing.

During 2008, the MFSA has repealed a number of Insurance Directives and Insurance Intermediaries Directives, substituting them by Insurance Rules and Insurance Intermediaries Rules. Insurance Rules include Insurance Rule 8 of 2008 which relates to the qualifications of individuals who are responsible for the Effective Management of Insurance and Reinsurance Companies or Branches thereof and Insurance Rule 14 of 2008 regulating Insurance Advertisements and Other Promotional Activities. The new Insurance Intermediaries Rules include Insurance Intermediaries Rule 5 of 2008 regulating Insurance Intermediaries Advertisements and Other Promotional Activities and Insurance Intermediaries Rule 23 of 2008 which controls those Insurance Intermediaries carrying out Activities through the internet.

Furthermore, the MFSA has concluded a number of Memoranda of Understanding (MoUs) with a number of foreign and local regulatory and supervisory authorities. On 1 June 2008, a Multilateral Memorandum of Understanding (MMoU) has been entered into with financial supervisory authorities, central banks and finance ministries of the EU. MoUs assist in the execution of MFSA's statutory obligations. The aim of concluding these bilateral and multilateral Memoranda of Understanding is to facilitate the exchange of information between the Authority and the counterparty in the course of investigations into allegations of practices and activities detrimental to consumers of financial services. They also create a formal framework for regulatory collaboration and co-operation between various regulatory authorities.

Malta Enterprise Corporation

Malta Enterprise (ME) is responsible for the promotion of foreign investment and industrial development in Malta. It offers assistance and advice to those who seek to learn more about the business and investment opportunities available on the island. Malta Enterprise also offers a range of services promoting trade and helps foreign companies in finding suitable manufacturers, service providers, suppliers and potential strategic partners in Malta.

During January-September 2008, the Corporation approved nine new projects, eight of which originated from abroad and twenty expansion projects, thirteen of which were undertaken by locally-owned concerns.

Interest rate subsidies, amounting to around €500,000, were approved to five clients to support investments amounting to €4.1 million. Moreover, nine clients were approved €709,000 in cash grants whilst fifteen companies benefited from the allocation of 7,335sqm in factory space. Following the Corporation's intent on helping micro companies, another 1,350sqm of industrial space were approved to seven micro concerns.

During the period analysed, a total of €9.7 million were disbursed in financial assistance channelled through various incentive schemes including, soft loan advances, loan interest subsidy and cash conversion of tax credits. Such assistance was disbursed for projects approved in previous years.

In line with the ME's strategy, the priority focus of the Business Development Section in attracting foreign direct investment is to target manufacturing and service activities with high value added. As a result, Business Development has set its targeting function mainly on those international companies related to healthcare, pharmaceuticals and medical related products/services, information and communication technology, mechanical precision engineering, knowledge or logistic based services, education and training related operations, renewable sources of energy and R&D operations.

Malta Enterprise Corporation has continued to consolidate its external relations and develop joint business promotion initiatives with embassies and other institutions. A number of meetings and events were held in 2008 in order to encourage foreign companies to invest or acquire information about Malta and in order to revive business contacts and renew commercial relationships between foreign and local organisations. During these events, several trade leads were established with importers, retailers, agents and manufacturers in various countries.

In 2008, the Corporation started the transposition of incentives from the Business Promotion Act to Regulations and Incentive Guidelines published under the Malta Enterprise Act and the introduction of new incentives under the new framework. Three Regulations were published namely the Investment Aid Regulations 2008, Assistance to Small and Medium Sized Undertakings Regulations 2008, and Enterprise Support Incentives Regulations 2008.

Malta Enterprise has also prepared a draft Regulation to provide incentives that aim to stimulate the industry to engage in Research, Development and Innovation activities. This regulation is expected to be published in the first half of 2009 after the aid schemes are approved by the European Commission. New incentive guidelines, which will provide the basis of European Regional Development Funded (ERDF) schemes, have been drafted and will be published under the Assistance to Small and Medium-sized Undertakings Regulations 2008 and Enterprise Support Incentives Regulations 2008.

The Corporation issued a pilot scheme on Eco Innovations co-financed from the ERDF. The Eco Innovations Scheme focuses on assisting enterprises invest in energy saving measures and renewable technologies. The interventions included the installation of energy efficient lighting systems, heat exchangers and photovoltaic systems. A total of eleven companies have been assisted with a total budget of €500,000.

Regarding Malta Regional Innovation System (RIS) project, which is a way to help increase the innovation potential of the region by improving its policy making in the field of applied RTDI, during 2008, the Malta Super Yacht Industry Network was set up. This Network is made up of a number of service providers to the Super Yacht industry and has the main objectives of upgrading the services being offered and of placing Malta as one of the best locations for maintenance, overhauling and repairs.

A number of Maltese companies were assisted in collaborating with other European companies in technology related activities under the Innovation Relay Centre.

Malta Enterprise Corporation has also been awarded a contract by the European Commission to participate in the Enterprise Europe Network, which offers support and advice to businesses across Europe. This network commenced in April 2008.

Throughout 2008, the Business Technology Network set up the framework necessary for the Equity Financing program which will be launched in 2009. The program has the objective of preparing entrepreneurs with innovative ideas for equity financing, either through national or foreign equity funds.

During 2008, the Kordin Business Incubation Centre (KBIC) has promoted both its in-house services and also its outreach program. Seven new start-up companies with activities ranging from the design of fibre optics to micro biology labs have started their pre-incubation program. Another five potential start-up companies are currently in close discussion with KBIC. In 2008, KBIC has also been awarded funds under the ERDF to part finance the doubling of its capacity in the coming four years.

6. Prices and Incomes

6. Prices and Incomes

During the twelve months to September 2008, the overall 12-month moving average inflation rate as measured by the Retail Price Index (RPI) followed a continuous upward trend, increasing from 0.83 per cent in October 2007 to 3.73 per cent in September 2008. The underlying factors behind the increase in inflation are attributable to both domestic and international developments, the latter mainly reflecting higher international oil and food prices. Domestic inflationary developments during the twelve months to September 2008 are reviewed in the first part of this Chapter.

The second part of this Chapter analyses average weekly wages in both direct production and market services sectors making use of a representative sample of companies based on collective agreements deposited within the Department of Industrial and Employment Relations. Indeed, average weekly wages are computed on the basis of collective agreements of 199 companies with a total workforce of 27,402 employees, where 12,709 employees are engaged in direct production and 14,693 employees in the market services sector. The overall rate of weekly wage increase resulted to be €4.48 or 1.8 per cent. The highest percentage wage rise was registered in the Beverages sub-sector, at 3.0 per cent. Around 60 per cent of all employees in the sample earned an average weekly wage of more than €232.

This Chapter also includes an analysis on competitiveness indicators using unit labour costs and the nominal effective exchange rate. Unit labour costs is the difference between the growth in nominal compensation per employee and labour productivity. During the period 2002-2007, it has always been increasing with the exception of a marginal decline in 2005. In the first six months of 2008, unit labour costs turned positive after registering a mild decline in the same period of 2007. As from 2007, the REER for Malta was on an upward trend, implying a loss of competitiveness. Such development was also observed in the Euro Area.

Inflation

The RPI measures the relative change in the level of prices paid for by an average household in Malta for a representative basket of consumer goods and services as identified by the Household Budgetary Survey (HBS). The last published HBS was carried out between March 2000 and March 2001 by the

Box 6.1

Harmonised Index of Consumer Prices (HICP)

The Harmonised Index of Consumer Prices (HICP) measures consumer price movements. Given that this index is compiled according to a harmonised approach and a single set of definitions developed by the Eurostat in conjunction with EU Member States, it enables comparability among EU Member States.

The Table presents inflation rates as measured by the 12-month moving average HICP for the period January 2005 to September 2008. The HICP inflation rate declined significantly during most of 2007, registering a low rate of 0.3 per cent in October. However, since the last quarter of 2007, it followed an upward trend reaching 4.0 per cent in September 2008.

The relatively high 12-month moving average inflation in September 2008 mainly reflects developments in the accommodation services, catering services and bread and cereals sub-indices. On the other hand, negative contributions were mainly recorded by package holidays, information processing equipment and financial services n.e.c sub-indices.

Harmonised Index of Consumer Prices
12-Month Moving Average Inflation Rate

per cent

	2005	**2006**	**2007**	**2008**
January	2.6	2.6	2.5	0.9
February	2.7	2.6	2.4	1.2
March	2.7	2.6	2.2	1.5
April	2.6	2.7	1.8	1.9
May	2.5	2.8	1.4	2.3
June	2.4	2.9	1.1	2.8
July	2.3	3.1	0.7	3.3
August	2.3	3.1	0.5	3.7
September	2.2	3.2	0.4	4.0
October	2.2	3.1	0.3	
November	2.4	2.8	0.5	
December	2.5	2.6	0.7	

Source: National Statistics Office

12-Month Moving Average Inflation Rate

Table 6.1 per cent

	2005	2006	2007	2008
January	2.74	2.99	2.70	1.43
February	2.77	2.92	2.60	1.64
March	2.83	2.92	2.37	1.94
April	2.83	3.00	2.04	2.25
May	2.92	3.05	1.67	2.60
June	2.94	3.11	1.37	2.94
July	2.77	3.30	1.10	3.28
August	2.74	3.38	0.93	3.54
September	2.76	3.42	0.81	3.73
October	2.89	3.27	0.83	
November	2.95	3.01	1.04	
December	3.01	2.77	1.25	

Source: National Statistics Office

Retail Price Index

Table 6.2 December 2002=100

	2005	2006	2007	2008
January	104.70	107.06	108.58	112.42
February	105.33	107.70	108.86	112.89
March	105.82	109.05	109.40	113.66
April	106.27	110.32	110.16	114.08
May	106.69	110.89	110.44	114.58
June	106.65	110.52	110.53	114.99
July	105.77	109.95	110.67	115.98
August	105.83	109.50	110.98	115.88
September	106.59	110.19	112.21	116.84
October	108.40	110.64	113.20	
November	109.01	109.88	113.50	
December	109.02	109.88	113.52	
Average Jan-Dec	106.67	109.63	111.00	

Source: National Statistics Office

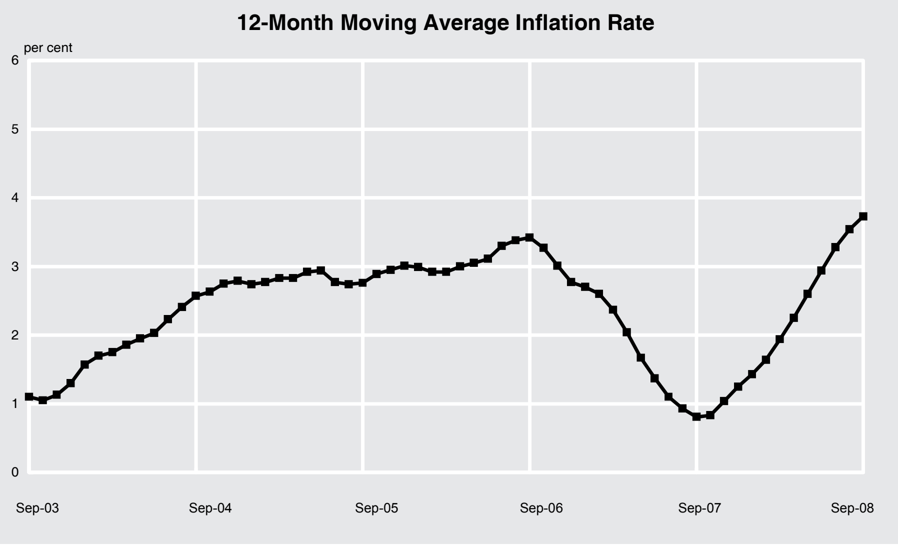
National Statistics Office (NSO). Meanwhile, in September 2007 the NSO officially launched the Household Budgetary Survey 2008.

The official measure of inflation in Malta is computed by comparing the average RPI in the 12-months leading to the month under review with the corresponding average in the previous 12-month period. Table 6.1 presents domestic inflation rates, while monthly RPI readings between January 2005 and September 2008 are presented in Table 6.2. Chart 6.1 depicts the trend of the domestic 12-month moving inflation rate for the period covering September 2003 to September 2008.

As depicted in Chart 6.1, the inflation rate has been following a generally upward trend between September 2003 and September 2006, from 1.10 per cent rising up to 3.42 per cent. Subsequently, in the following twelve months, the inflation rate decreased steadily reaching 0.81 per cent in September 2007. However, since October 2007, the inflation rate followed a relatively steep upward path, increasing to 3.73 per cent in September 2008.

Developments in the trend of each sub-index of the RPI provide an understanding of the underlying inflationary movements in the overall rate. The average for the twelve months to September for the 2006-2008 period for the sub-indices composing the RPI, grouped by commodities are illustrated in Table 6.3. During the period under review, the Food sub-index, the Clothing and Footwear sub-

Chart 6.1



Index by Commodity Group
(Average for 12 months to September)

Table 6.3 December 2002=100

Commodity Group	Weight	2006	2007	2008
Food	23.82	105.65	108.99	117.58
Beverages and Tobacco	6.11	116.45	118.56	121.71
Clothing and Footwear	8.24	89.52	86.38	91.84
Housing	7.57	115.20	119.06	123.39
Water, Electricity, Gas and Fuels	2.25	153.24	148.70	158.78
Transport and Communications	23.13	113.18	111.73	113.92
Recreation and Culture	8.84	101.29	102.50	103.53
Household Equipment & House Maintenance Costs	7.65	104.78	105.62	105.71
Personal Care and Health	6.22	114.34	116.50	118.70
Other Goods and Services	6.17	116.92	117.78	119.92

Source: National Statistics Office

index and the Transport and Communications sub-index contributed significantly to the overall rise of the 12-month moving average inflation rate.

The Food sub-index 12-month moving average rose by 7.88 per cent when compared to 3.16 per cent recorded during the same period last year. The contribution of this sub-index towards the 12-month moving average inflation rate was 1.88 percentage points in September 2008. Higher price increases for food were registered especially in the first quarter this year, with the annual rate reaching a high of 9.34 per cent in March 2008. This was mainly attributed to the increase in the prices of cheese, vegetables, pasta and bakery products. Given Malta's dependence on importation of certain food stuffs, increases in international food prices had a bearing on domestic prices.

The 12-month moving average rate for the Beverages and Tobacco sub-index increased from 1.81 to 2.66 per cent in September 2008 while its contribution was 0.16 percentage points. Major developments were observed in the average prices of non-alcoholic served beverages, recording annual rates of more than 10 per cent. However, it is also worth noting that the off-sales non-alcoholic beverages index recorded declines during this year.

The 12-month moving average of the Clothing and Footwear sub-index in September 2008 increased by 6.32 per cent, in contrast to a drop of 3.51 per cent recorded in September 2007. The Clothing and Footwear sub-index contributed 0.52 percentage points to the overall inflation rate, mainly as a result of increases in prices of footwear, women's outwear and clothing materials.

The Housing sub-index registered an increase of 3.64 per cent, thus contributing 0.27 percentage points to the overall 12-month moving average inflation rate. Major fluctuations in dwelling maintenance and repair followed by slight variations in the materials for plastering, electricity equipment and miscellaneous articles underpinned this increase.

In contrast to a drop of 2.96 per cent recorded in the 12-month moving average of the Water, Electricity, Gas and Fuels sub-index in September 2007, an increase of 6.78 per cent was recorded in September 2008, contributing to 0.15 percentage points to the overall rate. The annual rate for this sub-index increased significantly in the third quarter of 2008. Indeed, during September 2008, annual rates of inflation for water charges and electricity sub-indices stood at 27.79 per cent and 30.00 per cent respectively. These developments reflect the substantial increase in the fuel surcharge, increasing from 50 per cent to 95 per cent in July 2008. Furthermore, higher average prices for liquid fuels were also recorded.

The 12-month moving average of the Household Equipment and House Maintenance Cost sub-index increased by 0.09 per cent in September 2008 with a minor contribution of 0.01 percentage points. Declines were mainly recorded in average prices of household textiles during September 2008 and in average prices of carpets during November and December 2007. On the other hand, increases were recorded in the average price of decoration articles throughout 2008.

In September 2008, the 12-month moving average rate for the Transport and Communications sub-index increased by 1.96 per cent with a contribution of 0.45 percentage points. Since May 2008, the Transport and Communications sub-index has been recording positive contributions to the 12-month moving average inflation rate. The movements in this sub-index mainly reflect developments in fuel prices. Indeed, average fuel pump prices increased by around 10 per cent, thus contributing to the higher rate for this sub-index. Other increases were recorded in the average prices of car parts and maintenance and repair services for cars.

In September 2008, the 12-month moving average rate for the Personal Care and Health sub-index increased by 1.89 per cent with a contribution of 0.12 percentage points to the inflation rate. Annual increases were recorded in medical and dental services and therapeutic appliances and equipment while hospital services recorded negative annual rates during the third quarter in 2008.

The Recreation and Culture sub-index 12-month moving average increased by 1.00 per cent with a total contribution of 0.09 percentage points to the overall RPI inflation rate of September 2008. Declines in prices were mainly recorded in audio visual equipment, parts and accessories and sports equipment. On the other hand, education expenses, stationery goods, plants, flowers and toys were the main items that registered annual price increases.

The Other Goods and Services sub-index has been increasing since the beginning of this year reaching a 12-month average of 1.82 per cent in September 2008. As a result, its contribution to the inflation rate was recorded at 0.11 percentage points, the highest since May 2007. Major annual increases were recorded in club membership and to a lesser extent in the services for pets and pet food.

International Comparison

Table 6.4 presents inflation rates for the EU Member States based on the 12-month moving average of the Harmonized Index of Consumer Prices (HICP) as at September 2008. The common methodology used to calculate the HICP index enables comparability among Member States.

Inflationary developments in the European Union in September 2008 show that Latvia registered the highest inflation rate of 15.8 per cent, followed by Bulgaria at 12.6 per cent, Estonia and Lithuania at 10.8 per cent and Romania at 7.9 per cent. On the other hand, the lowest inflation rate was attributed to the Netherlands at 2.1 per cent, followed by Portugal at 2.9 per cent. The average inflation rate in the EU 27 Member states increased substantially to 3.7 per cent from 2.4 per cent recorded in 2007. This was mainly driven by increases in the 12-month moving average inflation rate in Education (7.8 per cent), Food and Non-alcoholic Beverages (6.6 per cent) and Transport (6.1 per cent) sub-indices. On the other hand, Communication (-2.0 per cent) and Clothing and Footwear sub-indices (-0.4 per cent) contributed negatively to the overall inflation rate in the European Union.

Malta's inflation rate continued to rise during 2008, reaching the rate of 4.0 per cent in September 2008. This represents a significant increase when compared to 0.4 per cent in September 2007.

European Union Inflation Rates

(Harmonised Index of Consumer Prices)

Table 6.4 per cent

	2005	2006	2007	2008[1]
Austria*	2.1	1.7	2.2	3.5
Belgium	2.5	2.3	1.8	4.3
Bulgaria	6.0	7.4	7.6	12.6
Cyprus	2.0	2.2	2.2	4.4
Czech Republic	1.6	2.1	3.0	6.4
Denmark	1.7	1.9	1.7	3.4
Estonia	4.1	4.4	6.7	10.8
Finland	0.8	1.3	1.6	3.5
France	1.9	1.9	1.6	3.3
Germany	1.9	1.8	2.3	3.1
Greece	3.5	3.3	3.0	4.4
Hungary	3.5	4.0	7.9	6.8
Ireland	2.2	2.7	2.9	3.4
Italy	2.2	2.2	2.0	3.4
Latvia	6.9	6.6	10.1	15.8
Lithuania	2.7	3.8	5.8	10.8
Luxembourg	3.8	3.0	2.7	4.6
Netherlands*	1.5	1.7	1.6	2.1
Poland	2.2	1.3	2.6	4.2
Portugal	2.1	3.0	2.4	2.9
Romania	9.1	6.6	4.9	7.9
Slovakia	2.8	4.3	1.9	3.6
Slovenia	2.5	2.5	3.8	6.1
Spain	3.4	3.6	2.8	4.5
Sweden	0.8	1.5	1.7	3.3
United Kingdom	2.1	2.3	2.3	3.2
EU 27*	2.2	2.3	2.4	3.7
Malta	2.5	2.6	0.7	4.0

* Provisional for September 2008

[1] For 2008, figures relate to September

Source: Eurostat

National Statistics Office

Box 6.2

Competitiveness Indicators

Competitiveness is defined by the OECD as "the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international market, while simultaneously maintaining and expanding real incomes of its people over the long term." Maltese enterprises are generally price-takers in the international market. This suggests that maintaining cost competitiveness remains a challenge in order to secure Malta's current and future level of economic development. The following analysis is based on two main aggregate indicators of competitiveness, unit labour costs and real effective exchange rates.

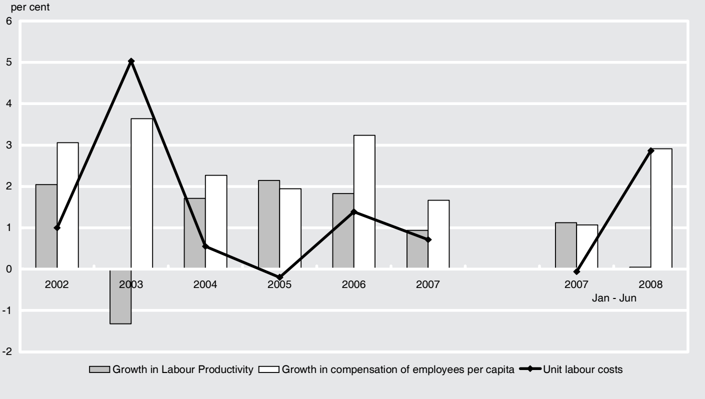
Unit Labour Costs

Unit labour cost is defined as the difference between the growth in nominal compensation per employee and real labour productivity. Therefore, unit labour costs give an indication of the extent to which growth in wages exceed or otherwise the developments in real labour productivity over a period of time. An increase in the unit labour costs implies a supply-side shock to the economy possibly with negative repercussions on competitiveness which may persist for a number of years.

Chart 1 shows the evolution of unit labour costs in Malta from 2002 to June 2008. With the exception of a marginal decline in 2005, unit labour costs in Malta were increasing with growth in compensation per employee invariably exceeding productivity gains. This is evident even in 2003 when labour productivity declined. Whereas productivity increased by an average of 1.7 per cent per annum, employee compensation per capita increased by an annual average of 2.4 per cent between 2002 and 2007. Unit labour costs increased by an annual average of 1.5 per cent between 2002 and 2007.

Chart 1

Growth in Nominal Unit Labour Costs



Box 6.2 continued

In the first six months of 2007, unit labour costs were marginally negative at 0.1 per cent, owing to a slightly faster growth in labour productivity than in compensation per head. Nonetheless, unit labour costs worsened in the same period of 2008, increasing by 2.9 per cent. This was mainly underpinned by an increase in compensation per employee of 2.9 per cent despite the lack of labour productivity gains.

Real Unit Labour Costs

Real unit labour cost is defined as the difference between growth in real compensation per capita and productivity[1]. The derived indicator compares remuneration and productivity to show how and to what degree the increase in remuneration of employees in excess of inflation is related to productivity of their labour. While nominal unit labour costs is a good measure of the competitiveness of the labour market, a comparison with the real unit labour costs allows to determine whether and to what extent inflationary developments were behind the gains or losses in unit labour costs.

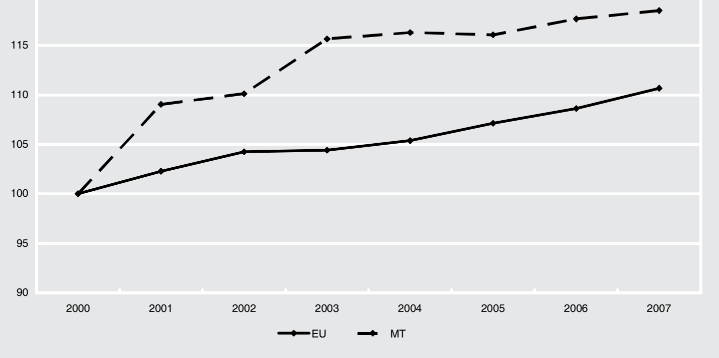
In the period 2002-2007, real unit labour costs for Malta has been generally falling, except in 2003. This suggests that growth in real labour productivity has exceeded growth in real compensation per employee. This is indicative of the negative effect of inflationary pressures on the increase in unit labour costs during this period. It is pertinent to note that real unit labour costs dropped at a slower rate in the last two years.

Relative unit Labour Costs

Chart 2 shows the levels of nominal unit labour costs for Malta and the EU. Data for the EU was obtained from Eurostat. Developments in nominal unit labour costs in Malta were broadly similar to that in the EU, with the exception of 2001 and 2003. Indeed, nominal unit labour costs have been increasing in both the EU and Malta, suggesting loss of competitiveness in both economies. In 2001 and 2003, Malta's labour costs increased by a faster rate than the EU. However, subsequently, Malta's unit labour costs were relatively stable till 2005, whilst that in the EU continued to rise. Thereafter, in 2006 and 2007, unit labour costs in both Malta and the EU increased simultaneously. Nevertheless, the nominal unit labour costs in Malta remained higher than those in the EU.

Chart 2

Relative Nominal Unit Labour Cost in Malta and the EU
(Base 2000)



Box 6.2 continued

International Competitiveness

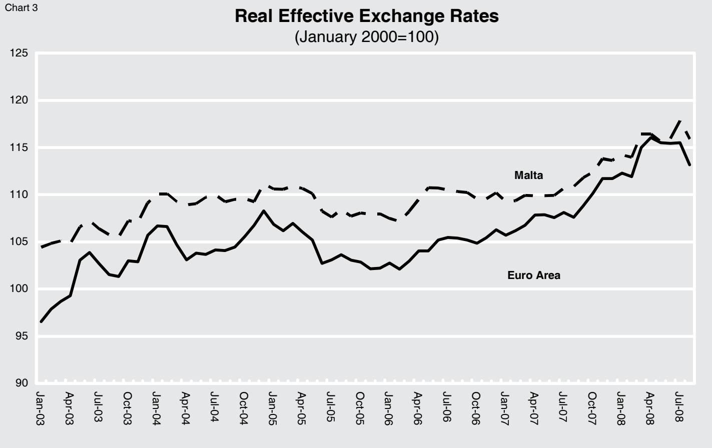
The real effective exchange rate (REER) is the product of the nominal effective exchange rate (NEER) and the relative price of domestic to foreign goods and services. A decline in the REER indicates that domestic inflation is lower than foreign inflation or that the domestic exchange rate has depreciated making Maltese output cheaper on foreign markets. A decline in the REER is therefore indicative of an improvement in a country's international competitiveness. Conversely, a rise in the REER implies deterioration in a country's international competitiveness.

Following Malta's adoption of the Euro, the NEER depends entirely on the Euro. In this context, one can compare Malta's REER to the REER of the Euro Area as an indication of relative competitiveness. An increase in Malta's REER in excess of the REER of the Euro Area is indicative of a loss in relative competitiveness as domestic inflation exceeds that of Malta's main trading partners and of the Euro Area member states. The relevant data was obtained from the Central Bank of Malta.

As illustrated in Chart 3, the REER was higher for Malta than in the Euro Area, throughout the period between 2003 and August 2008. Between 2004 and 2006, the REER remained relatively stable in both the Euro Area and Malta suggesting that both maintained competitiveness relative to their main trading partners.

In 2007, competitiveness continued to deteriorate both in Malta and the Euro area relative to their main trading partners, partly as a result of the strengthening on the Euro against major currencies. However, the indicator rose faster in the Euro Area than in Malta. The convergence of Malta's REER with that of the Euro Area indicates that inflationary developments relative to trading partners in Malta were more benign than those of the Euro Area. This process of convergence continued till May 2008. Nonetheless, Malta's competitiveness as measured by the REER continued to deteriorate in the second quarter of 2008 whilst that of the Euro Area improved. Given the continued strength of the Euro against major currencies, the divergence between Malta's REER and that of the Euro area is primarily attributable to higher inflationary developments relative to trading partners in Malta compared to that in the Euro area.

Chart 3



Box 6.2 continued

The weakening of the Euro since July 2008 should help improve competitiveness in both Malta and the EU relative to main trading partners outside the Euro area. However, the role of inflationary developments is crucial in order to ensure that this does not undermine competitiveness gains related to a weaker Euro.

Footnote:
[1] Real compensation per capita is deflated by the consumption deflator while labour productivity is deflated by the GDP deflator.

Sectoral Wages

This section analyses developments in sectoral average weekly wage rates recorded between September 2007 and September 2008 on the basis of collective agreements deposited within the Department of Industrial and Employment Relations. The collective agreements cover different periods with average weekly wages including or excluding the cost of living increase. The sample under review is made up of 199 firms employing 27,402 employees, where 87 firms are engaged in direct production and employ 12,709 employees while the remaining 112 firms operate in the market services with 14,693 employees. The data for weekly wages is 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. Non-wage income can be quite significant for some categories of employment. Hence, the employees' actual average weekly remuneration might be higher than that reported in this study.

Since the information in this Chapter is based on a sample of collective agreements and includes only the basic weekly wage, direct comparisons of the results shown with data based on gainfully occupied population published in other Chapters of this Economic Survey are not appropriate. Furthermore, the tables and data presented in this Chapter are not directly comparable to those published in previous issues of the Economic Survey. Direct comparability is limited by the methodology and sampling procedure adopted, mainly the inclusion of additional firms and exclusion of others which may result in changes in the individual firms' weighting in each category as well as changes in employment levels. The reported average wage rates may also change either when a new collective agreement results in a reclassification of grades or when new trainees are paid the entry level pay wage. It should also be noted that the Tobacco sub-sector is no longer included in the sample used in this Economic Survey due to its small size.

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 €4.08 and €3.49 for 2007 and 2008 respectively. Subsequently, the mean wages are weighted according to employment levels in each sub-sector.

Sectoral average weekly wages as at September 2007 are shown in Table 6.5. The overall weighted average wage of all firms stood at €249.49. The weighted average wage for those employed in direct production stood at €219.72, whereas the average wage for those employed in services stood at €275.24, implying a wage gap of €55.52. The highest average weekly wage rates were recorded in the Banking and Other Financial Institutions (OFI) sub-sector (€344.25) and the Transport sub-sector (€288.24). These were followed by Insurance & Real Estate (€266.89), Paper & Printing (€255.00), Electricity & Gas Services (€253.97), Community & Business (€248.30) and Beverages (€247.60) sub-sectors. On the other hand, the lowest paid sub-sectors were the Leather & Leather Goods sub-sector (€151.46), the Machinery sub-sector (€194.59), and the Non-Metallic sub-sector (€197.67).

At €150.95, the Labourer grade in the Leather and Leather Goods sub-sector corresponded to the lowest weekly average wage in 2007. This was €12.05 or 8.7 per cent higher than the 2007 National Minimum Wage which stood at €138.90. On the other hand, the highest weekly average wage rate was earned by the Banking and Other Financial Institutions Managerial grade (€458.23).

Table 6.6 shows the average weekly wage rates for the various employment categories in the sampled firms as at September 2008. Table 6.5 and Table 6.6 are directly comparable since they are based on the same employment weighting structure and the same sample of firms. Thus, the differences in the corresponding wage rates represent the actual change in wages occurring during the period under observation.

Average Weekly Wages - September 2007

Table 6.5 €

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	217.22	218.39	210.23	231.20	217.32
Food	215.53	222.83	228.70	245.45	222.14
Beverages	227.10	260.60	248.80	301.49	247.60
Textiles, Footwear and Clothing	191.43	231.23	221.25	220.14	201.17
Furniture & Fixtures	205.28	252.16	246.34	257.18	232.71
Paper & Printing	244.33	271.06	242.70	264.33	255.00
Leather & Leather Goods	150.95	170.87	-	211.40	151.46
Chemicals	218.35	267.50	258.91	285.83	234.51
Non-Metallic Products	181.70	227.12	-	235.85	197.67
Metal Products	230.44	217.13	219.35	259.88	226.64
Machinery	187.48	199.04	185.73	226.95	194.59
Electrical Machinery	186.05	244.06	211.29	277.31	213.06
Transport Equipment	202.26	230.41	230.63	275.93	240.73
Miscellaneous	217.85	271.28	253.93	276.89	236.72
Electricity & Gas Services	217.60	250.06	246.03	397.44	253.97
Construction	193.04	243.46	249.37	-	207.28
Wholesale & Retail Trade	199.46	219.81	216.22	277.39	222.01
Banking & OFI	259.93	275.05	325.15	458.23	344.25
Insurance & Real Estate	251.99	261.19	266.66	287.80	266.89
Transport	231.06	277.32	247.57	418.30	288.24
Storage and Warehousing	214.41	245.90	229.86	272.13	225.71
Communications	242.66	266.08	219.33	306.66	244.44
Community & Business	198.00	262.77	221.91	284.17	248.30
Recreation Services	220.56	233.32	242.81	269.79	231.86
Hotels & Catering Ests	218.32	239.38	231.61	235.91	226.13
All Firms	201.62	247.02	264.60	314.77	249.49
Direct Production	196.16	238.92	223.75	282.80	219.72
Market Services	216.48	260.33	269.48	330.73	275.24

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

The weighted average weekly wage for all firms as at September 2008 stood at €253.97. The sub-sectors offering the highest remuneration remained unchanged from those in September 2007, namely the Banking and OFI sub-sector (€349.97) and the Transport sub-sector (€293.08). Similarly, the least remunerated sub-sectors in the sample were the Leather and Leather Goods sub-sector (€154.86), the Machinery sub-sector (€198.08) and the Non-Metallic sub-sector (€201.16). The lowest reported wage, that is the Labourer grade under the Leather & Leather Goods sub-sector (€154.44), was still €12.05 or 8.5 per cent over the National Minimum Wage for 2008 which stood at €142.39. The highest average wage remained that of the Managerial grade in the Banking and other Financial

Average Weekly Wages - September 2008

Table 6.6 €

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	220.71	221.88	213.72	234.69	220.81
Food	219.02	227.49	232.74	248.94	225.77
Beverages	234.71	268.92	252.84	309.19	255.13
Textiles, Footwear and Clothing	194.92	234.72	224.74	223.63	204.66
Furniture & Fixtures	210.87	256.60	249.83	262.42	237.70
Paper & Printing	248.48	274.55	246.91	268.40	258.97
Leather & Leather Goods	154.44	174.36	-	214.89	154.86
Chemicals	223.83	272.85	264.72	292.32	240.16
Non-Metallic Products	185.19	230.61	-	239.34	201.16
Metal Products	234.24	221.59	223.65	263.37	230.70
Machinery	190.97	202.53	189.22	230.44	198.08
Electrical Machinery	189.58	247.61	214.79	280.78	216.58
Transport Equipment	205.75	233.90	234.12	279.42	244.22
Miscellaneous	222.09	276.49	257.42	280.90	240.97
Electricity & Gas Services	221.09	253.55	249.52	400.93	257.46
Construction	196.53	246.95	252.86	-	210.74
Wholesale & Retail Trade	204.82	226.58	222.17	281.19	227.33
Banking & OFI	263.42	280.96	330.38	466.76	349.97
Insurance & Real Estate	255.48	264.68	270.15	291.29	270.38
Transport	237.74	280.05	252.41	422.50	293.08
Storage and Warehousing	220.24	251.44	236.15	281.78	232.00
Communications	246.16	269.58	223.81	310.84	248.54
Community & Business	201.82	266.84	226.37	289.97	253.21
Recreation Services	224.05	236.81	246.30	273.28	235.35
Hotels & Catering Ests	222.32	243.81	235.33	241.15	230.31
All Firms	205.73	250.84	269.32	320.03	253.97
Direct Production	200.10	242.69	227.39	286.92	223.64
Market Services	221.05	264.26	274.34	336.56	280.21

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

Institutions sub-sector at €466.76, while other relatively high wages were those for the Managerial grade in the Transport sub-sector (€422.50) and the Electricity & Gas Services sub-sector (€400.93).

Table 6.7 shows percentage changes in average weekly wage occurring between September 2007 and September 2008. The weighted average increase for all firms stood at 1.8 per cent, with both the direct production and market services sector registering the same wage rate increase. In absolute terms, while the average wage in the direct production increased by €3.92 to reach €223.64 in September 2008, the average weekly wage rate in the market services sector increased by €4.97, reaching €280.21 in September 2008. Furthermore,

Changes in Average Weekly Wages

September 2008 - September 2007

Table 6.7 per cent

	Labourer	Skilled Tradesman	Clerical/ Executive	Managerial	Weighted Average
Oil Drilling	1.6	1.6	1.7	1.5	1.6
Food	1.6	2.1	1.8	1.4	1.6
Beverages	3.4	3.2	1.6	2.6	3.0
Textiles, Footwear and Clothing	1.8	1.5	1.6	1.6	1.7
Furniture & Fixtures	2.7	1.8	1.4	2.0	2.1
Paper & Printing	1.7	1.3	1.7	1.5	1.6
Leather & Leather Goods	2.3	2.0	-	1.7	2.2
Chemicals	2.5	2.0	2.2	2.3	2.4
Non-Metallic Products	1.9	1.5	-	1.5	1.8
Metal Products	1.6	2.1	2.0	1.3	1.8
Machinery	1.9	1.8	1.9	1.5	1.8
Electrical Machinery	1.9	1.5	1.7	1.2	1.7
Transport Equipment	1.7	1.5	1.5	1.3	1.4
Miscellaneous	1.9	1.9	1.4	1.4	1.8
Electricity & Gas Services	1.6	1.4	1.4	0.9	1.4
Construction	1.8	1.4	1.4	-	1.7
Wholesale & Retail Trade	2.7	3.1	2.8	1.4	2.4
Banking & OFI	1.3	2.1	1.6	1.9	1.7
Insurance & Real Estate	1.4	1.3	1.3	1.2	1.3
Transport	2.9	1.0	2.0	1.0	1.7
Storage and Warehousing	2.7	2.3	2.7	3.5	2.8
Communications	1.4	1.3	2.0	1.4	1.7
Community & Business	1.9	1.5	2.0	2.0	2.0
Recreation Services	1.6	1.5	1.4	1.3	1.5
Hotels & Catering Ests	1.8	1.9	1.6	2.2	1.8
All Firms	2.0	1.5	1.8	1.7	1.8
Direct Production	2.0	1.6	1.6	1.5	1.8
Market Services	2.1	1.5	1.8	1.8	1.8

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

the sub-sectors which recorded the highest percentage increases were the Beverages sub-sector which registered an increase of 3.0 per cent, the Storage and Warehousing sub-sector with an increase of 2.8 per cent and the Chemicals sub-sector and the Wholesale and Retail trade sub-sectors, both with an increase of 2.4 per cent. The highest overall percentage increase was registered in the Managerial grade under the Storage and Warehousing sub-sector with a percentage increase of 3.5 per cent, followed by the Labourer and the Skilled Tradesman grades under the Beverages sub-sector (3.4 and 3.2 per cent respectively) and the Skilled Tradesman grade under the Wholesale and Retail sub-sector (3.1 per cent).

Proportion of Sampled Employees in Wage Ranges

Table 6.8 per cent

Sector \ Wage Range	Up to €161.99	€162.00 - €185.99	€186.00 - €208.99	€209.00 - €231.99	Over €232.00
Oil Drilling	0.0	0.0	0.0	93.2	6.8
Food	0.0	13.1	2.7	26.7	57.6
Beverages	0.0	0.0	5.7	3.2	91.0
Textiles, Footwear & Clothing	7.6	12.3	17.5	41.9	20.8
Furniture & Fixtures	0.8	0.0	0.0	41.5	57.7
Paper & Printing	0.0	0.0	3.9	11.0	85.1
Leather & Leather Goods	86.7	8.0	0.0	5.3	0.0
Chemicals	0.0	1.8	0.0	68.7	29.5
Non-Metallic Products	0.0	66.7	0.0	23.8	9.5
Metal Products	0.0	4.7	14.0	20.5	60.9
Machinery	6.7	11.6	54.5	15.6	11.6
Electrical Machinery	4.1	5.7	55.3	1.1	33.8
Transport Equipment	0.0	0.0	13.6	20.3	66.1
Miscellaneous	1.6	4.3	1.2	35.7	57.2
Electricity & Gas	0.0	0.0	0.0	46.5	53.5
Construction	0.0	0.0	67.7	0.0	32.3
Wholesale & Retail Trade	0.0	10.7	3.6	56.7	29.0
Banking & OFI	0.0	0.0	0.0	0.0	100.0
Insurance & Real Estate	0.0	0.0	0.0	0.0	100.0
Transport	2.2	1.0	0.8	4.6	91.5
Storage and Warehousing	0.0	0.0	0.0	64.9	35.1
Communications	0.0	9.8	8.4	31.8	49.9
Community & Business	0.4	8.1	14.6	15.1	61.9
Recreation Services	0.0	5.7	12.5	33.0	48.9
Hotels & Catering Ests	0.1	2.7	17.9	50.8	28.4
All Firms	1.5	4.6	15.0	19.1	59.8
Direct Production	2.6	4.2	24.0	22.6	46.5
Market Services	0.5	4.9	7.6	16.1	70.9

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 employees along different average weekly wage brackets as at September 2008. Average weekly wage rates between the different sub-sectors and between firms engaged in direct production and those in the market services which are presented in Table 6.8 and discussed above, are indicative of the different types and levels of skills and expertise required and the different operational structures. The largest share of employees for all firms (59.8 per cent) earned on average a weekly wage that fell within the highest weekly wage bracket of €232 and above. The second largest proportion (19.1 per cent) fell within the €209.00 – €231.99 bracket. Moreover, while 70.9 per cent of those employed in the services sector fell in the highest wage bracket, only 46.5 per cent of those employed in the direct production earned more than €232.00 weekly. The percentage of employees earning up to €161.99 per week stood at 1.5 per cent, the majority of which were engaged in the Leather and Leather Goods sub-sector (86.7 per cent). On the other hand, all employees in the Banking and OFI and Insurance and Real Estate sub-sectors earned more than €232.00 per week.

7. Foreign Trade and Payments

7. Foreign Trade and Payments

In the first six months of 2008, the current account deficit deteriorated by €73.2 million to reach €213.6 million or 7.8 per cent of GDP. The worsening in the current account balance was primarily linked to a decline in the goods account balance of €159.6 million, equivalent to 5.8 percentage points of GDP.

During the first eight months of 2008, total exports declined following a fall in exports of machinery and transport equipment, clothing, fuels and scientific instruments, which more than offset higher exports of chemicals, printed matter and food, beverages and tobacco. Furthermore, in the first eight months of 2008, Malta experienced a fall in imports. This was mainly the result of lower imports of industrial supplies, which outweighed the increase in imports of consumer goods. Imports of capital goods and others remained at the same level recorded last year. An increase in fuels was recorded reflecting developments in international oil prices, which offset the fall in capital goods that partly reflected an exceptional import item of €81.8 million in 2007. As the fall in exports outweighed the drop in imports, the trade balance deteriorated further resulting in a deficit of €922.8 million.

Service account net inflows registered an improvement in the January-June 2008 period, as net transportation receipts increased by €26.5 million and net inflows on other services improved by €20.4 million. Meanwhile, lower tourism earnings and higher Maltese tourist expenditure abroad meant that net travel inflows fell by €10.1 million. As a result, the services balance improved by €36.6 million, or 1.3 percentage points to reach 14.6 per cent of GDP.

The imbalance in the income account increased further by €58.8 million in the first half of 2008 to an outflow of 5.7 per cent of GDP. The deterioration in the income account was mainly due to lower receipts on bond and note holdings as part of portfolio investment flows. Net direct investment outflows increased primarily due to higher dividends and distributed profits, reflecting higher profits made by foreign-owned companies in Malta. Meanwhile, a reduction was recorded in other investment net outflows.

Net inflows by way of current transfers were €108.6 million higher than the level registered in the first six months of 2007. This reflects increases in inflows outpacing increases in outflows as both increased substantially, with Government transfers primarily underpinning this result. Figures are in line with higher tax proceeds earned on higher reported company profits.

An inflow in the capital and financial account excluding reserves was recorded during the first six months of 2008. The capital and financial account improved from a net outflow of 0.4 per cent of GDP in the first half of 2007 to a net inflow of 10.0 per cent of GDP in the comparable period of 2008. As a result, an addition to reserves equivalent to 0.8 per cent of GDP was recorded during the January-June 2008 period.

This Chapter is based on the latest available NSO data, which for trade relates to January-August 2008 and for the balance of payments relates to January-June 2008.

Foreign Trade

Trade developments during the first eight months of 2008 were significantly influenced by international events. On the import side, a major factor was the relatively high international prices of food and oil. On the export side, competitive price pressures in a number of sectors continued. Furthermore, the slowdown in the international economic environment as a result of the financial crisis is posing significant downside risks to foreign demand for Maltese exports.

In the period under review, total exports declined following a fall in exports of machinery and transport equipment which was only partly offset by higher exports of chemicals, printed matter and food, beverages and tobacco.

Foreign Trade

Table 7.1 € million

	2004	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
Imports (c.i.f.)	3,328.6	3,117.2	3,487.6	3,585.2	2,357.7	2,260.5
Total Exports (f.o.b.)	2,112.3	1,959.1	2,256.7	2,287.1	1,476.6	1,337.7
Trade Gap	-1,216.4	-1,158.1	-1,230.9	-1,298.1	-881.1	-922.8
of which:						
Exceptional Item (Exports)*	-	-	38.9	-	-	-
Exceptional Item (Imports)*	284.5	72.7	146.9	137.3	81.1	-

*Figures relating to export and import of aircraft over the 2004-2007period, have been revised. These revisions also affected total import and export figures.

Source: National Statistics Office

Chart 7.1

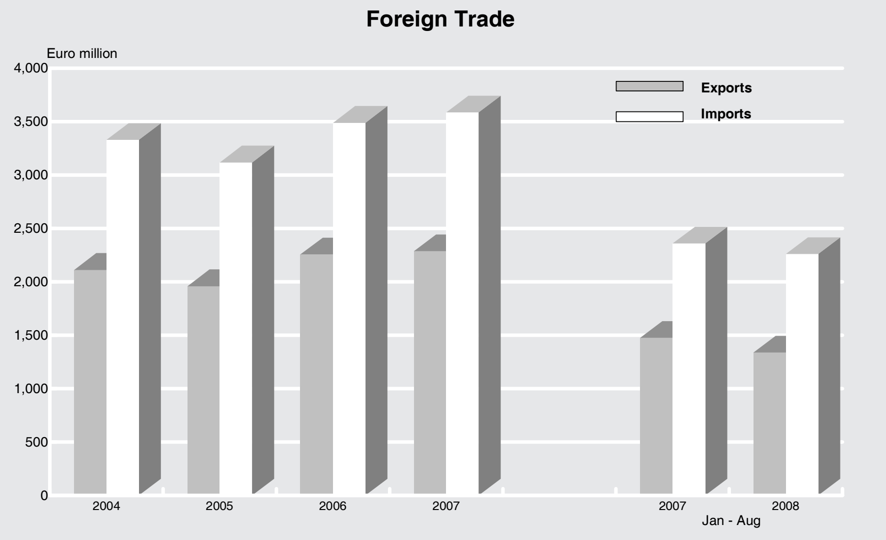
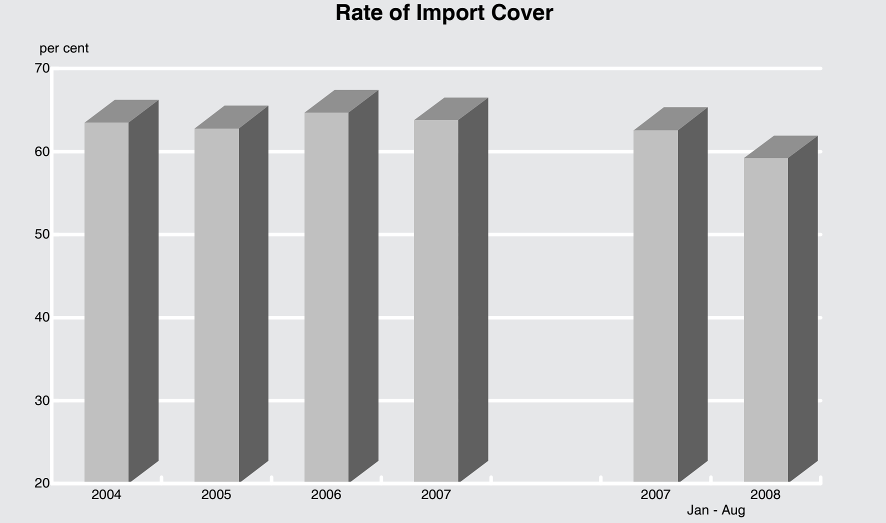


Chart 7.2



In the first eight months of 2008, Malta also experienced a decline in imports. As the fall in exports outweighed the decrease in imports, the negative trade gap widened to €922.8 million compared to €881.1 million in the same period last year. Further details are provided in Table 7.1 and Chart 7.1. As illustrated in Chart 7.2, the rate of import cover deteriorated from 62.6 per cent in the January-August period of 2007 to 59.2 per cent in the comparable period of 2008.

Exports

In the first eight months of 2008, exports registered a fall of 9.4 per cent from €1,476.6 million to €1,337.7 million. The major contributor to this decrease was the machinery and transport equipment sector which contracted by 16.9 per cent from €926.7 million to €769.7 million. It is noteworthy that the depreciation of the Dollar against the Euro by around 14 per cent between January-August 2007 and the same period in 2008, affected the value of exports of a major international company operating locally in this sector whose exports are normally traded in Dollars. If exports of machinery and transport equipment were to be excluded from this analysis, exports in the first eight months of 2008 would have increased by €18.1 million.

During the period under review, the clothing sector continued on a downward trend resulting in a fall in exports of almost 50 per cent from €36.5 million to €19.6 million. Decline in exports of clothing contributed 12.2 per cent to the fall in total exports. Another decline in exports was registered in fuel which involves bunkering activities. Indeed, following a substantial increase in exports of fuel in 2007, during the first eight months of 2008 exports by this sector declined by around 25 per cent, contributing 8.0 per cent to the fall in total exports. Lower exports were also registered in scientific instruments and toys and games with decreases of €6.1 million and €4.3 million respectively.

The fall in exports of machinery and transport equipment and other sectors has been partly offset by increases in the chemicals, food, beverages and tobacco and printed matter sectors. The chemicals sector continued to expand registering a further increase in exports of 29.5 per cent during January-August 2008. Between 2004 and 2007, chemicals recorded an annual average growth of around 50 per cent brought about by new export oriented enterprises establishing in Malta. The share in total exports rose from 2.7 per cent in 2004 to 11.0 per cent in the first eight months of 2008.

Commodity Breakdown of Exports

Table 7.2 — € million

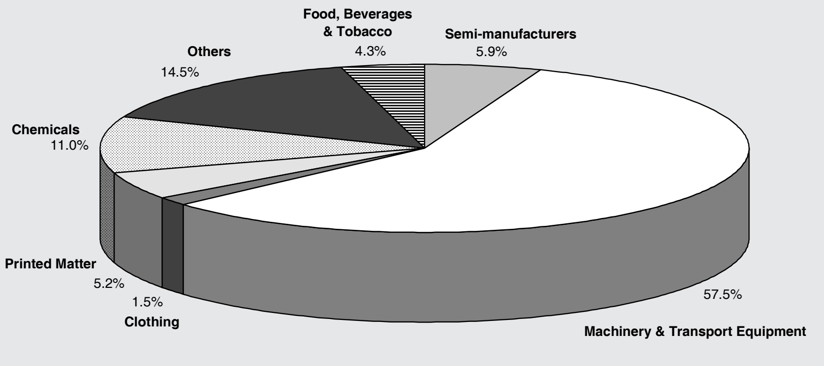
	2004	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
Total Exports						
Food, Beverages and Tobacco	91.7	109.0	127.3	105.4	47.3	57.0
Chemicals	56.0	95.5	138.7	199.4	113.4	146.8
Semi-manufactures	117.9	126.1	115.4	115.3	79.3	79.2
Machinery and Transport Equipment	1,343.6	1,197.1	1,440.0	1,373.2	926.7	769.7
Clothing	108.7	93.8	62.9	47.0	36.5	19.6
Fuels	68.0	21.8	30.9	53.6	42.5	31.4
Printed Matter	77.8	80.1	81.7	92.9	61.3	70.2
Toys and Games	69.0	66.5	70.3	69.7	51.9	47.6
Scientific Instruments	58.4	62.2	79.3	66.4	46.6	40.5
Other Manufactures	121.1	106.9	110.3	164.2	71.1	75.7
Total Exports	2,112.3	1,959.1	2,256.7	2,287.1	1,476.6	1,337.7

Source: National Statistics Office

Chart 7.3

Breakdown of Exports

January-August 2008



Exports of food, beverages and tobacco amounted to €57.0 million during the January-August 2008 period being 20.5 per cent higher than the level registered during the same period last year. This included a higher amount of fish exported. Furthermore, exports of printed matter increased by 14.5 per cent or €8.9 million whereas semi-manufactures remained at the same level recorded last year. The commodity breakdown of exports is provided in Table 7.2.

As shown in Chart 7.3, the major exporting sector remains the machinery and transport equipment with a share in total exports of 57.5 per cent, though this share has fallen from 63.6 per cent in 2004. It is followed by chemicals with a share of 11.0 per cent. Semi-manufactures and printed matter have a similar share slightly exceeding 5 per cent whereas the share of food, beverages and tobacco sums up to 4.3 per cent. The share of clothing is now negligible at 1.5 per cent, compared to 5.1 per cent in 2004.

Total Exports by Main Geographical Areas

Table 7.3 — € million

	2004	**2005**	**2006**	**2007**	**2007** Jan-Aug	**2008** Jan-Aug
Europe	1,034.1	1,027.2	1,179.9	1,133.0	773.9	659.8
EU	1,017.4	1,004.7	1,150.7	1,106.4	759.5	632.8
Italy	65.0	100.5	81.4	90.7	60.8	73.5
Germany	228.4	236.3	283.0	305.0	209.1	190.4
France	327.5	283.8	326.7	271.3	178.7	155.4
U.K.	242.3	216.2	213.2	221.9	152.6	113.2
Netherlands	17.3	17.5	20.2	12.5	7.5	12.2
Belgium	27.1	43.5	24.0	14.6	11.7	4.8
Others	109.9	106.9	202.2	190.5	139.1	83.3
Euro Area	707.5	713.5	855.6	798.5	548.2	479.1
Other European countries	16.7	22.6	29.2	26.5	14.5	27.1
Africa	109.3	143.2	120.5	121.3	88.7	89.9
America	351.0	301.7	298.8	279.7	180.2	141.4
USA	330.4	263.9	275.5	246.7	163.1	122.8
Others	20.6	37.9	23.3	33.1	17.1	18.6
Oceania	2.0	3.6	4.3	6.8	5.0	3.4
Asia	544.4	460.9	631.4	719.9	411.7	414.4
Japan	79.1	79.2	121.7	164.0	52.2	56.9
Singapore	306.2	225.8	280.0	305.0	186.3	178.1
Others	159.1	155.9	229.7	250.9	173.2	179.4
Ships & Aircraft	71.4	22.4	21.9	26.5	17.0	28.8
Total Exports	2,112.3	1,959.1	2,256.7	2,287.1	1,476.6	1,337.7
Exports to the EU as % of Total	48.2	51.3	51.0	48.4	51.4	47.3

Source: National Statistics Office

Geographical Distribution – Exports

Table 7.3 provides a detailed analysis of the geographical distribution of exports. Exports to the European Union fell by 16.7 per cent mainly as a result of lower exports to the UK, France and Germany. During the period analysed, exports to the UK declined by 25.8 per cent whereas the French and German markets recorded decreases of 13.0 per cent and 8.9 per cent respectively. On the other hand, exports to Netherlands recorded an increase of 62.7 per cent to €73.5 million, whereas exports to Italy registered an increase of 20.9 per cent to €12.7 million. In the period under review, exports to the EU represented 47.3 per cent of total exports compared to 51.4 per cent in the January-August period of 2007.

In the first eight months of 2008, exports to the American continent also registered a decrease. This was mainly underpinned by exports to the USA which registered a decline of €40.3 million. Exports to Oceania also fell slightly from €5.0 million in January-August 2007 to €3.4 million in the comparable period of 2008.

During January-August 2008, exports to Africa and to Asia remained broadly at the levels recorded in the same period last year. In Asia, exports to Singapore

Imports by Broad Economic Category

Table 7.4 — € million

	2004	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
Consumer Goods						
Food and Beverages	271.9	283.4	292.4	318.6	202.0	226.7
Durable Goods	317.2	353.0	367.4	385.2	246.0	232.9
Others	202.9	193.1	204.2	209.2	143.6	152.9
Total	792.1	829.5	864.0	913.0	591.6	612.5
Industrial Supplies						
Primary	46.8	54.9	64.8	113.3	86.9	57.2
Semi-finished	1,346.3	1,241.5	1,471.7	1,387.3	934.5	853.2
Finished	54.9	83.2	101.1	91.3	58.1	54.9
Total	1,448.0	1,379.6	1,637.6	1,591.9	1,079.5	965.4
Capital and Others						
Capital Goods	834.5	562.0	654.2	630.8	405.4	320.8
Fuel	237.0	327.4	305.0	417.8	263.5	344.4
Non-specified and Gold	17.0	18.7	26.9	31.7	17.6	17.4
Total	1,088.5	908.1	986.1	1,080.4	686.6	682.6
Total Imports	3,328.6	3,117.2	3,487.6	3,585.2	2,357.7	2,260.5

Source: National Statistics Office

declined by 4.4 per cent which was offset by an increase in exports to Japan by 9.0 per cent and to other Asian countries by 3.6 per cent.

Imports

During the first eight months of 2008, imports declined by €97.2 million, or 4.1 per cent to €2,260.5 million. Table 7.4 provides details of imports by broad economic category. The major contributors to the decline in imports were industrial supplies with a fall of €114.1 million. In contrast, consumer goods imports increased by €20.9 million whilst capital goods and others remained largely stable at the level recorded in the same period last year.

Industrial supplies registered a decline of 10.6 per cent from €1,079.5 million in January-August 2007 to €965.4 million in the same period this year. All components of industrial supplies (i.e. primary, semi-finished and finished supplies) fell, each contributing 30.6 per cent, 83.6 per cent and 3.3 per cent respectively to the fall in total imports. These developments are indicative of a fall in manufacturing output for the sector. Lower imports of industrial supplies were mainly underpinned by a decline in imports of electrical machinery. It is important to note that imports of electrical machinery are categorised under semi-finished industrial supplies and capital goods according to the nature of the product.

Chart 7.4

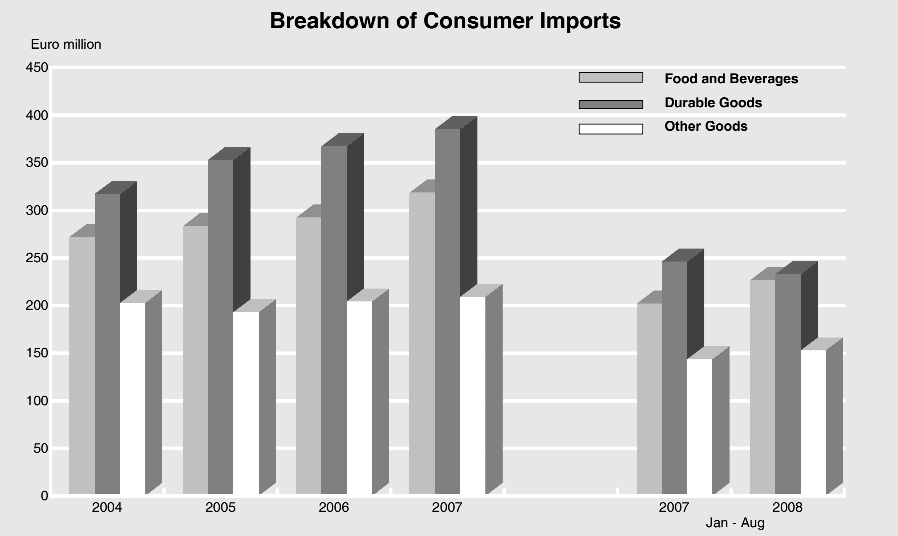
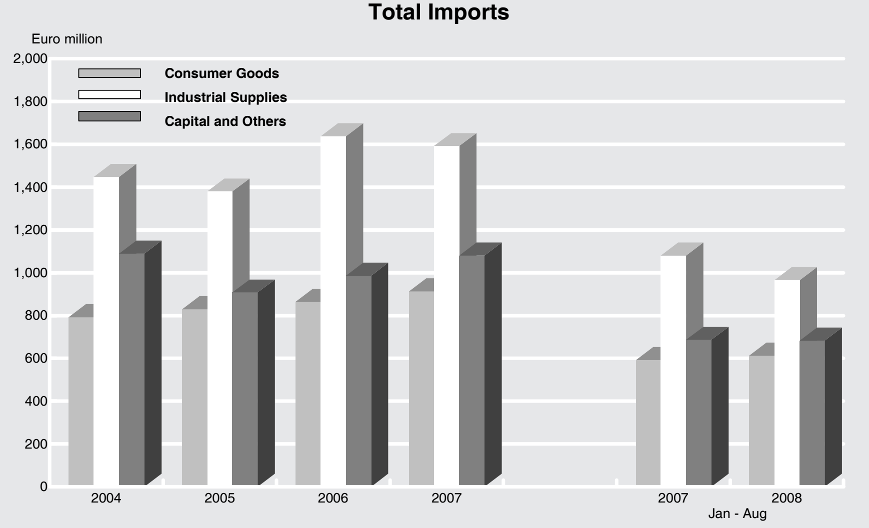


Chart 7.5



During the first eight months of 2008, imports of capital goods and others stood at a similar level to that recorded in the same period in 2007. Whilst fuel imports rose, this was offset by lower imports of capital goods. In January-August 2008, fuel imports recorded an increase of €80.9 million reflecting the pronounced increase in the international price level of crude oil. Capital goods registered a decline of 20.9 per cent or €84.6 million. This is mainly the result of an aircraft amounting to €81.1 million imported from France in January-August 2007, whilst lower imports of electrical machinery of a capital nature were also imported. It is noteworthy that if exceptional import items are excluded, capital goods imports would have been quite stable since 2004 at an average level of €510 million.

Imports of consumer goods increased from €591.6 million in January-August 2007 to €612.5 million in January-August 2008. During the period under review, imports of durable goods declined by €13.1 million to €232.9 million reflecting a fall in imports of motor vehicles. On the other hand, food and beverages imports increased by 12.2 per cent from €202.0 million to €226.7 million. During the period under observation, increases were registered in imports of cereals, dairy produce and meat partly reflecting higher international prices. Moreover, imports of other consumer goods increased by €9.3 million to €152.9 million in the period under review. The composition of consumer imports is illustrated in Chart 7.4. A breakdown of imports into consumer goods, industrial supplies and capital goods and others is provided in Chart 7.5.

Geographical Distribution – Imports

Imports from the EU represent a share of 72.0 per cent of total imports. Even though this share remained unchanged from last year's level, imports from the EU declined by €71.8 million or 4.2 per cent. Similarly, imports from the Euro Area fell by €62.7 million or 4.7 per cent. Such a decrease has been mainly brought about by a substantial fall in imports from France by €134.6 million or 42.1 per cent. This partly reflects the importation of an aircraft with a value of €81.1 million in January-August 2007 and a fall in imports of electrical machinery in 2008 amounting to €14.2 million. Another decline was registered from the UK by €7.7 million. Conversely, imports from Italy and Netherlands recorded an increase of €25.6 million and €22.6 million respectively.

Imports from the American continent declined by €50.4 million. This was underpinned by a fall of €67.8 million in imports from the USA including €25.6 million of electrical machinery and an increase of €17.5 million from other countries.

Imports by Main Geographical Areas

Table 7.5 — € million

	2004	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
Europe	2,605.3	2,376.0	2,546.9	2,706.0	1,794.0	1,719.9
EU	2,497.1	2,265.9	2,421.7	2,569.0	1,698.7	1,626.9
Italy	772.3	956.7	965.9	874.2	585.5	611.1
U.K.	367.4	335.9	343.9	498.0	300.7	293.0
Germany	391.9	280.1	263.2	290.3	177.3	175.7
France	566.3	291.3	405.9	428.4	319.4	184.8
Netherlands	107.3	102.4	119.3	107.8	69.1	91.7
Others	291.9	299.5	323.5	370.3	246.6	270.7
Euro Area	2058.4	1,862.9	2,005.2	1,967.6	1,325.2	1,262.5
Other European Countries	108.2	110.1	125.2	137.0	95.4	93.0
Africa	59.9	125.3	50.3	29.5	19.1	33
America	197.7	189.7	218.2	241.7	136.3	85.9
USA	162.7	162.3	179.5	206.7	113.8	46.0
Others	34.9	27.4	38.7	35.0	22.4	39.9
Oceania	7.8	8.5	36.8	8.9	6.5	8.5
Asia	457.9	417.6	635.3	599.1	401.9	413.1
Japan	62.1	57.2	70.5	67.4	39.5	43.2
Singapore	124.4	119.3	213.7	173.6	111.3	138.8
Others	271.4	241.2	351.0	358.1	251.1	231.1
Total Imports	3,328.6	3,117.2	3,487.6	3,585.2	2,357.7	2,260.5
Imports from the EU as % of Total	75.0	72.7	69.4	71.7	72.0	72.0

Source: National Statistics Office

During the period analysed, imports from Asia increased by €11.2 million to €413.1 million. An increase of €27.5 million was recorded from Singapore while an increase of €3.7 million was registered from Japan. These increases were partly offset by a decline in imports from other Asian countries by €20 million. Other increases in imports were registered from the African continent by €13.9 million and from Oceania by €2.0 million. Table 7.5 provides data on imports by main geographical area.

Geographical Distribution – Trade Balances

The widening of the overall trade gap reflected a deterioration in the trade balance with the EU as well as with a number of other countries. As illustrated in Table 7.6, during January-August 2008, the trade balance with the EU deteriorated further resulting in a deficit of €994.1 million from €939.2 million in the same period in 2007. This is attributed to a higher deficit recorded with the UK (€31.7 million), the Netherlands (€17.8 million) and Italy (€12.9 million). Furthermore, the trade surplus with Germany registered a decline of €17.1 million. On the other hand, as a consequence of the substantial decline in imports from France due to an exceptional item in 2007, Malta experienced an improvement of €111.4 million in its trade deficit.

Regarding countries outside the EU, the trade surplus of €75.0 million with Singapore declined to €39.2 million whereas a decline of €13.8 million was recorded in the trade surplus with Libya. Moreover, the trade deficit with China

Trade Balances with Various Countries

Table 7.6 — € million

	2004	2005	2006	2007	2007 Jan-Aug	2008 Jan-Aug
EU	-1,479.7	-1,261.2	-1,271.0	-1,462.6	-939.2	-994.1
Belgium	-23.1	-14.8	-35.1	-53.5	-30.2	-37.0
France	-238.8	-7.5	-79.3	-157.1	-140.8	-29.4
Germany	-163.6	-43.8	19.8	14.7	31.8	14.7
Italy	-707.3	-856.2	-884.5	-783.5	-524.7	-537.6
Netherlands	-89.9	-84.9	-99.1	-95.3	-61.7	-79.5
United Kingdom	-125.2	-119.7	-130.8	-276.1	-148.1	-179.8
Other EU	-131.8	-134.3	-62.2	-111.7	-65.6	-145.7
Other Countries						
USA	167.7	101.6	95.9	39.9	49.3	76.8
Japan	17.0	22.1	51.1	-15.1	12.8	13.7
Singapore	181.8	106.5	66.3	131.4	75.0	39.2
Libya	66.8	81.2	59.3	50.0	38.6	24.8
China	-46.6	-40.4	-51.0	-67.5	-43.3	-56.2

Source: National Statistics Office

widened further by €12.9 million. On the other hand, the trade surplus with USA registered an improvement of €27.5 million.

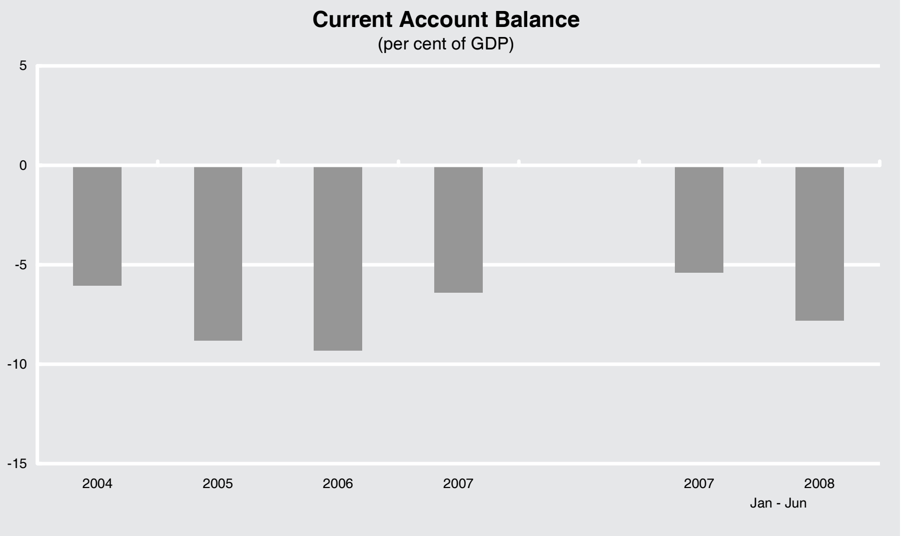
Balance of Payments

A deficit in the current account of the balance of payments has been a usual feature of the Maltese economy in recent years. As seen in Chart 7.6, the deficit was generally increasing in recent years, as it increased from 6.0 per cent of GDP in 2004 to 9.3 per cent of GDP in 2006. A reversal of the trend was registered in the following year, as the deficit decreased to 6.4 per cent of GDP. Services and income accounts were responsible for this improvement. All service components recorded increases in inflows, particularly the other services section, while portfolio investment was primarily responsible for the increasing income account balance.

The turnaround in the performance of the current account was not sustained over the first half of 2008 as the deficit widened to reach 7.8 per cent of GDP, from 5.4 per cent in the corresponding period of 2007. This was mainly due to a deterioration in the goods account balance, which pushed the current account balance further into negative territory.

Following the adoption of the Euro on 1 January 2008, Malta's external reserves were redefined. Assets that represent claims on other Euro Area residents and

Chart 7.6



assets denominated in Euro are no longer considered to form part of reserves. Such assets are now included with portfolio investment or other investment, depending on the nature of the instrument. A fraction of the Central Bank of Malta's reserves was transferred to the ECB in exchange for a claim on the ECB. For these reasons, marked changes were recorded in all financial account subcomponents with the exception of direct investment. As a result, a structural break in the data pertaining to these components exists and direct comparisons with previous periods cannot be made.

Net foreign assets of the Central Bank of Malta increased in the third quarter of 2007 due to the commencement of the alignment process with ECB practice governing minimum reserve requirements. Credit institutions that operate predominantly with non-residents, which were previously exempted from maintaining reserve deposits with the Central Bank of Malta, became obliged to hold reserve deposits. These deposits were placed with the Central Bank in foreign currency. The large increase in the Central Bank's external reserves as a result of this transaction was partially reversed during the first quarter of 2008 as the ECB's regulations on minimum reserve requirements came into force. This implied a lowering of the reserve requirement ratio from the level of 4.0 per cent of the reserve base which applied in 2007, to 2.0 per cent. Such developments affect data with respect to the first quarter of 2008.

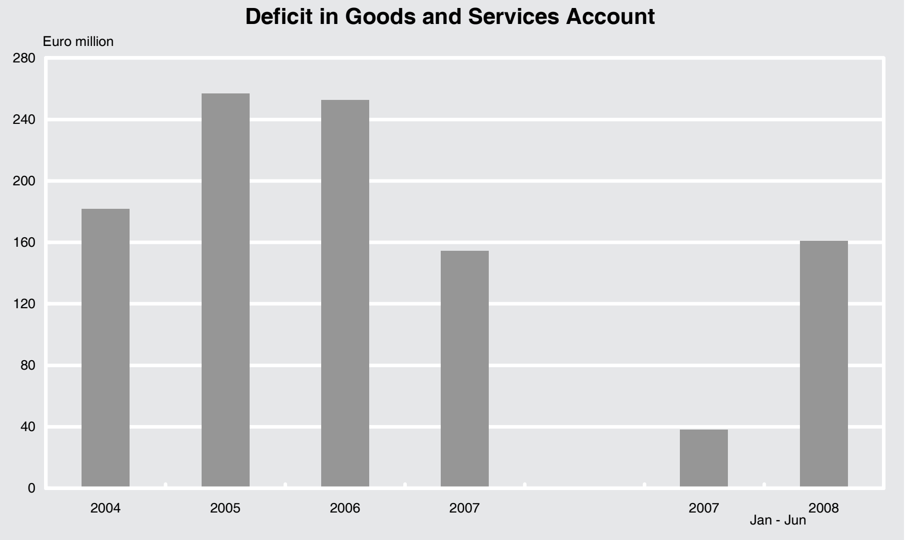
The Current Account

A deficit of €213.6 million was registered in the current account during the first six months of 2008 representing a deterioration of €73.2 million. This performance can be attributed mainly to an increase in the goods account deficit. On the other hand, higher net outflows in the income account were roughly offset by an improvement in the services account. Current transfers turned significantly positive, with a balance of €104.9 million, helping to limit the deterioration in the current account.

The Goods and Services Account

A deterioration in the goods and services deficit of 4.4 percentage points of GDP was registered in the first six months of 2008 to reach a level of 5.9 per cent of GDP. The deficit in the goods and services account is shown in Chart 7.7. Details on international trade developments are provided in the corresponding section in this Chapter. During the first half of 2008, the goods account imbalance worsened by €159.6 million.

Chart 7.7



The positive balance in the services account registered an increase of €36.6 million in the first six months of 2008, from €363.3 million in the same period of 2007. Net transportation inflows improved by €26.5 million, reflecting higher receipts and lower payments on transportation services. Net travel inflows fell by €10.1 million. This occurred mainly through €8.0 million in increased expenditure by Maltese tourists abroad while tourism receipts declined by €2.1 million despite a notable increase in the number of tourists visiting Malta. Meanwhile, a significant increase of €20.4 million was recorded in the other services section. Mainly responsible for this improvement was the other business services section, which increased by €96.1 million. This category thus now turned to a net inflow as receipts increased and payments decreased. Financial services offset a substantial part of this contribution as net outflows increased by €73.5 million. This occurred through a decrease in receipts of €20.6 million and an increase in payments of €52.9 million. Net outflows for computer and information services increased by €7.7 million mainly as a result of an increase in payments of €9.6 million with an increase in receipts compensating the difference.

In the other business services category, merchanting and other trade related services recorded an increase in net inflows of €19.4 million while operating and leasing services increased by €28.5 million to become a net inflow. Furthermore, miscellaneous business, professional and technical services registered a substantial decline in net outflows of €48.2 million. Of particular

Balance of Payments

Goods, Services and Income Account (Net)

Table 7.7 € million

	2004	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
GOODS						
General Merchandise Transactions	-771.8	-979.8	-1,016.2	-1,049.8	-432.6	-592.6
Nonmonetary Gold	-15.5	-17.0	-24.3	-24.9	-12.0	-11.7
Others	94.0	92.5	76.3	70.4	43.2	43.4
Total Goods	-693.3	-904.4	-964.2	-1,004.3	-401.4	-561.0
SERVICES						
Transportation	63.9	63.6	78.1	100.0	47.2	73.7
Travel	415.8	394.7	354.1	392.4	142.7	132.6
Other Services	31.9	189.3	279.4	357.4	173.3	193.7
Total Services	511.6	647.7	711.6	849.7	363.3	399.9
Total Goods and Services	-181.6	-256.7	-252.6	-154.6	-38.1	-161.1
INCOME						
Compensation of employees	11.7	9.2	-2.8	-1.9	0.2	-4.1
Investment Income	-53.0	-208.9	-209.7	-127.0	-98.7	-153.4
Total Income	-41.3	-199.6	-212.4	-129.0	-98.6	-157.4
Total Goods, Services and Income	-223.0	-456.3	-465.0	-283.6	-136.7	-318.5

Source: National Statistics Office

interest were legal, accounting, management consulting and public relations which registered declines in net outflows of €18.8 million, and advertising, market research and public opinion polling services, where net outflows declined by €27.4 million. Architectural, engineering and other technical services registered a decrease in net outflows of €1.8 million. Table 7.7 shows the developments in the goods, service and income account.

The Income Account and Current Transfers

Table 7.8 shows data on the separate subsections of the current account. The income account includes the earnings of foreign-owned companies operating in Malta, which represent an outflow of funds from the current account of the balance of payments. Thus, an increase in earnings of foreign-owned companies will be reflected in a higher current account deficit. However, when these earnings are re-invested in the local economy, then the outflow of funds in the current account is neutralized by an inflow of funds in the financial account as FDI.

Balance of Payments
Current Account

Table 7.8 € million

	2004	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
GOODS AND SERVICES						
Exports of Goods and Services	3,538.2	3,700.3	4,451.5	4,839.6	2,304.2	2,264.0
Imports of Goods and Services	-3,719.8	-3,957.0	-4,704.0	-4,994.2	-2,342.4	-2,425.1
Goods and Services Account	-181.6	-256.7	-252.6	-154.6	-38.1	-161.1
INCOME						
Income Received	780.6	973.9	1,463.1	1,952.8	918.7	995.9
Income Paid	-821.9	-1,173.5	-1,675.5	-2,081.8	-1,017.2	-1,153.3
Income Account	-41.3	-199.6	-212.4	-129.0	-98.6	-157.4
CURRENT TRANSFERS (Net)						
General Government Transfers	11.7	21.7	42.8	3.4	29.4	140.0
Private Transfers	-60.4	14.3	-49.1	-66.6	-33.1	-35.1
Total Net Current Transfers	-45.6	35.9	-6.4	-63.2	-3.7	104.9
Balance on Current Account	-268.6	-420.4	-471.4	-346.8	-140.4	-213.6

Source: National Statistics Office

Income received increased by €77.2 million in the first six months of 2008. This amounts to an increase of 8.4 per cent when compared to the same period of the previous year. Income paid also increased by €136.1 million or 13.4 per cent. This resulted in a larger imbalance in the income account of €157.4 million when compared to an imbalance of €98.6 million in the same period of 2007.

Portfolio investment accounted for the bulk of this deterioration, as net inflows decreased by €52.0 million on account of lower receipts on bond and note holdings primarily by banks and monetary authorities. The onset of the financial turmoil since the end of 2006 brought an investor flight to safety, resulting in gradually decreasing bond yields. In addition, significant bond and note sales in the third quarter of 2007 partly explain the decrease in receipts on bond and note holdings. Net direct investment outflows increased by €28.7 million mainly due to higher dividends and distributed profits as a result of higher profits made by foreign-owned companies in Malta. Around 46.9 per cent of income on equity was reinvested in the Maltese economy. Meanwhile, a reduction of €26.1 million was recorded in other investment net outflows while compensation of employees turned to a net outflow, after falling by €4.2 million.

An increase of €108.6 million was registered in current transfers, as a net outflow in the first six months of 2007 was reversed to a significant net inflow of €104.9 million in the corresponding period of 2008. Increases in inflows and outflows were registered as inflows increased by €283.3 million, outpacing an increase in outflows of €174.7 million. This section reflects tax proceeds received from non-resident companies and amounts reclaimed by shareholders when dividends are paid out. It is worth noting that profitability, dividend policy, tax policy and the timing of claims all have a bearing on fund flows. Figures are in line with higher tax proceeds earned on higher reported company profits. Workers' remittances' net outflows increased by €0.3 million, reaching a level of €1.4 million. Other transfer net outflows also increased to reach €33.7 million, representing an increase of €1.8 million. This meant that private transfers' net outflows increased from €33.1 million to €35.1 million.

The Capital and Financial Account

The capital and financial account tracks all transactions taking place between domestic and foreign residents that involve a change of ownership of an asset. From a domestic point of view, a foreign investor acquiring a domestic asset is considered as a capital inflow, while a domestic resident acquiring a foreign asset is considered as a capital outflow. By definition, the capital and financial account mirrors the current account. Indeed, the capital and financial account provides the financing of the current account. The following provides an analysis of capital and financial flows and the composition of such flows in Malta, as reflected in the balance of payments. As external reserves were redefined, only the capital account and direct investment in the financial account can be compared with previous periods.

During the first half of 2008, the balance in the capital account amounted to an inflow of €11.4 million compared to an inflow of €6.1 million for the comparable period of the previous year. As shown in Table 7.9, the capital account stood at 0.4 per cent of GDP compared to 0.2 per cent a year earlier. The source of the increasing positive balance was mainly an increase of €5.6 million in Government transfer inflows primarily as grants under EU funds.

Net foreign direct investment inflows declined from €329.6 million in the period covering January to June 2007, to €199.2 million in the same period of 2008. This amounted to a change from 12.7 per cent of GDP to 7.3 per cent of GDP. Funds invested abroad increased by €85.2 million while funds invested in the local economy fell by €45.3 million, both on account mainly of equity capital. This amount of FDI compares favourably with an EU27 average of 5.9 per cent of GDP in 2007 and a Euro Area average of 5.2 per cent of GDP in 2007. FDI tends to be the most stable part of financial account flows due to the long

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

Table 7.9

	2004	2005	2006	2007	2007 Jan-Jun	2008 Jan-Jun
Current Account	-6.0	-8.8	-9.3	-6.4	-5.4	-7.8
Capital Account	1.5	3.2	3.0	0.9	0.2	0.4
Financial Account excl. Reserves	-0.6	10.2	7.8	8.6	-0.4	10.0
Net Foreign Direct Investment	6.9	11.7	28.8	12.3	12.7	7.3
Net Portfolio Investment Equity Flows	-0.8	-1.1	-1.4	-1.6	-2.0	0.1
Net Portfolio Debt Flows	-36.6	-43.5	-37.5	8.4	-19.5	-55.1
Net Financial Derivatives	-0.3	-0.4	0.5	2.2	1.2	-0.7
Net Other Investment Flows	30.1	43.4	17.3	-12.7	7.1	58.4
Reserve Assets	3.6	-3.9	-1.6	-6.0	8.5	-0.8
Net Errors and Omissions	1.5	-0.7	0.1	2.9	-2.9	-1.8

* 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

term interest of the investments made. The international financial crisis is leading to an investor flight to safety. Thus, although tight credit conditions and increased volatility may reduce global investment, countries considered to have sound financial institutions and sound economic fundamentals could benefit from the current situation and continue to attract FDI.

Portfolio investment net outflows of €1,508.7 million were registered in the first half year of 2008, mainly on increased holdings of bonds and notes by banks and monetary authorities. Net portfolio investment equity inflows were registered at 0.1 per cent of GDP while net portfolio debt outflows stood at 55.1 per cent of GDP. Financial derivatives recorded outflows of €18.5 million or 0.7 per cent of GDP mainly by bank operations and to some extent also by monetary authorities. Other investment registered net inflows of €1,603.6 million primarily as a reflection of monetary authority operations and bank company loan and currency and deposit operations. Net errors and omissions amounted to a negative €50.0 million or -1.8 per cent of GDP. As a result, reserve assets increased by €23.3 million or 0.8 per cent of GDP during the first six months of 2008 as capital and financial account inflows were more than enough to compensate for the current account deficit.

8. Financial Developments

8. Financial Developments

During the January-September 2008 period, the structural deficit reached €258.3 million from €170.7 million recorded during the comparable period in 2007. This development reflected an increase in expenditure outlays of a recurrent nature, which more than outweighed the rise in receipts from recurrent revenue. It is pertinent to note that the significant rise in expenditure registered during the period under review included an increase in outlays related to subsidies to Enemalta Corporation.

On 1 January 2008, Malta officially adopted the Euro as its national currency. As a result, significant changes ensued in monetary aggregates statistics, so as to reflect the contribution of resident monetary financial institutions (MFIs) to the Euro Area monetary aggregates. The Maltese contribution to Euro Area broad money (M3) includes deposit liabilities both to residents of Malta and to other Euro Area residents and thus exceeds the former quantifications of Maltese Lira broad money. Moreover, following Euro adoption, the Central Bank of Malta became a member of the Eurosystem and ceased to be directly responsible for monetary policy. Consequently, the Bank became responsible for the implementation in Malta of the European Central Bank (ECB) Governing Council's monetary policy decisions. The ECB held a stable monetary policy stance in the first half of 2008. In July the key ECB interest rates were increased by 25 basis points to 4.25 per cent. Subsequently, in the context of a further intensification of the ongoing financial crisis, on 8 October 2008 the ECB reduced the minimum bid rate on the main refinancing operations of the Eurosystem by 50 basis points to 3.75 per cent.

Developments in the Euro exchange rate since the beginning of 2008 have largely reflected changes in market expectations against a background of a global economic slowdown. Indeed, during the first six months of 2008, the Euro mainly appreciated against the US Dollar, the Japanese Yen and the Pound Sterling, on the basis of expectations that the Euro Area would manage to decouple from the global slowdown. However, in the subsequent months to September 2008, the reassessment of prospects for growth across the various economic areas led to a depreciation of the Euro against all major currencies.

Public Finance

Unless otherwise indicated, the analysis in this Chapter is based on Government finance data as classified in the statement of the Consolidated Fund and is thus

Government Revenue and Expenditure

(January-September)

Table 8.1 € million

	2005	2006	2007	2008
Recurrent Revenue	1,413.8	1,467.2	1,504.0	1,585.7
Tax Revenue	1,164.7	1,251.6	1,325.4	1,437.7
Direct Tax Revenue	618.9	669.7	728.2	817.0
Indirect Tax Revenue	545.8	581.9	597.2	620.7
Non-Tax Revenue	249.1	215.5	178.6	148.0
Total Expenditure	1,612.9	1,636.9	1,674.7	1,844.1
Recurrent Expenditure	1,266.0	1,304.7	1,357.3	1,524.1
Interest on Public Debt	130.0	146.5	146.8	156.1
Capital Expenditure	216.9	185.7	170.7	163.9
Productive	54.3	53.3	26.5	42.8
Infrastructure	76.6	48.2	73.4	79.8
Social	86.0	84.2	70.8	41.3
Structural Balance	-199.1	-169.7	-170.7	-258.3
Financed by:				
Extraordinary Receipts	11.4	185.2	3.3	33.3
Receipts from sale of shares	2.6	172.8	0.0	0.0
Sinking Funds of Converted Loans	8.9	12.4	3.3	33.3
Sinking Fund Contribution and Direct Loan Repayments	-14.0	-15.5	-10.9	-102.7
Equity Acquisition	0.0	0.0	0.0	-6.5
Public Sector Borrowing Requirement	-201.7	—	-178.3	-334.2
Local Loans	256.2	23.3	67.2	232.7

Source: The Treasury
Ministry of Finance, the Economy and Investment

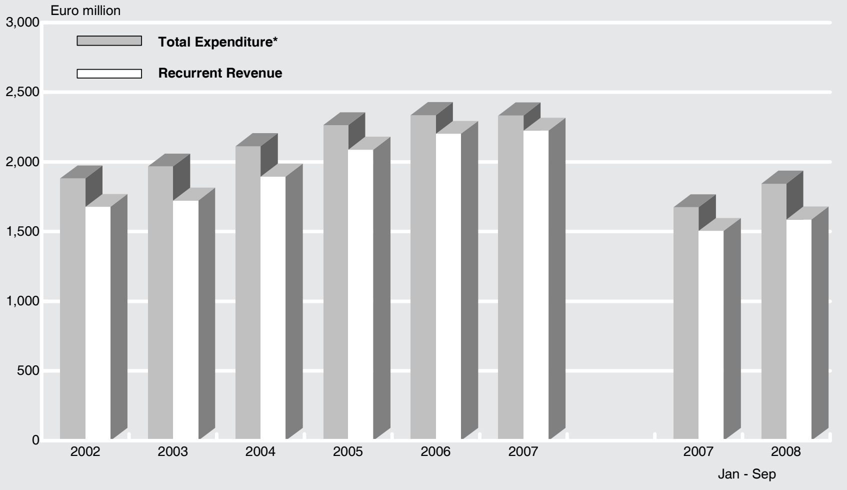
defined on a cash basis rather than on an accruals basis. As a result, Government's net financial position may not reflect actual spending and revenue collection and thus such data should be interpreted with caution. Table 8.1 presents Government's fiscal position during the January-September 2005-2008 period, whilst Chart 8.1 illustrates recent trends in total expenditure and recurrent revenue.

Revenue

During the first nine months to September 2008, Government recurrent revenue increased by €81.8 million to €1,585.7 million, reflecting a rise in tax revenue that more than outweighed a decline in non-tax revenue. Appendix Table 8.1 presents developments in the components of Government revenue for the January-September 2005-2008 period.

Chart 8.1

Government Recurrent Revenue and Total Expenditure



*excluding contributions to Sinking Fund, Direct Loan Repayments and Equity Acquisition

Receipts from taxes remain the main source of Government revenue. During the period under review, tax revenue increased by €112.3 million to €1,437.7 million, mainly reflecting higher direct tax revenue although an increase was also registered in indirect tax revenue. Direct tax revenue increased by €88.8 million to €817.0 million, being mainly driven by higher income tax receipts. Meanwhile, indirect tax revenue rose by €23.5 million to €620.7 million underpinned by higher revenue from Value Added Tax (VAT).

During the January-September 2008 period, income tax revenue rose by €67.5 million to €478.6 million, primarily due to higher company profits. Furthermore, income tax from the final settlement system also increased, despite the revision in the income tax regime announced in the 2008 Budget. Meanwhile, social security contributions increased by €21.3 million to €338.5 million during the period under review, being namely attributable to higher private sector employment.

Revenue from customs and excise duties rose by €1.9 million to reach €130.1 million during the nine months to September 2008, principally reflecting higher revenue from excise duties on machine-made cigarettes and spirits.

During the period under review, a decline of €5.4 million in receipts from licences, taxes and fines was recorded to reach €162.1 million. This decrease was namely underpinned by lower tax receipts from duty on documents reflecting developments in the local property market. On the other hand, higher revenue from gaming taxes, which is also included under licences, taxes and fines was recorded. During the same period, receipts from Value Added Tax (VAT) increased by €27.0 million to €328.5 million, largely underpinned by higher VAT receipts from the services and traders sector reflecting higher consumption expenditure.

During the January-September 2008 period, non-tax revenue declined by €30.6 million to €148.0 million. The main categories of non-tax revenue include fees of office, the transfer of profits generated by the Central Bank of Malta and grants.

Revenue from fees of office declined by €6.9 million to €34.4 million during the nine months to September 2008. It is pertinent to note that this decline largely reflected a one-off increase in this item of revenue during the first nine months of 2007 attributable to the Currency and Bank Deposits Registration Scheme that came into force prior to Euro adoption. Moreover, lower revenue from fees for right of use, which incorporate the net proceeds from various licences and fees collected by the Malta Communications Authority on behalf of Government, also contributed to the decline in revenue from fees of office. On the other hand, revenue from court fees, which is also accounted for under fees of office, increased reflecting improved collection of arrears, particularly collection of dues in the same year in which they are incurred. Moreover, improved enforcement and sanctions mechanisms following amendments to the Eco Contribution Act contributed to higher revenue from eco-contribution.

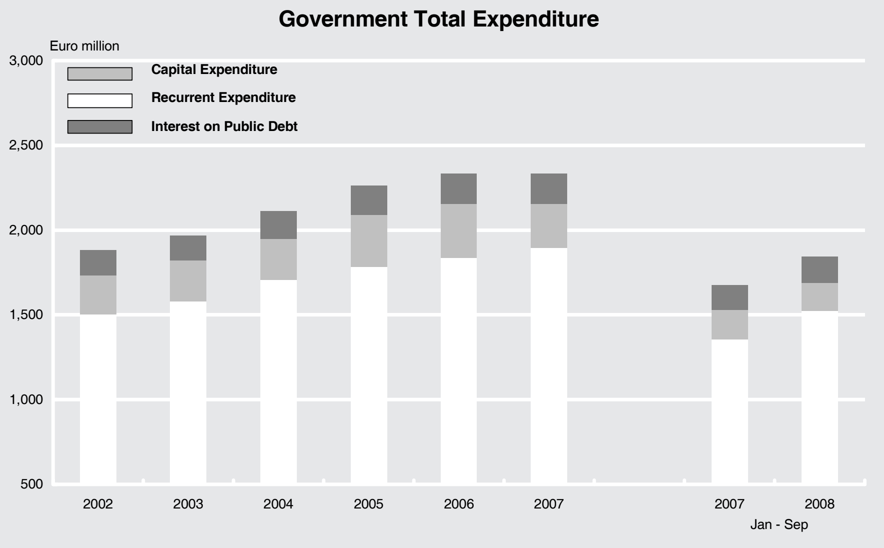
Revenue resulting from the transfer of profits generated by the Central Bank of Malta increased by €3.3 million to €28.7 million. On the other hand, revenue from grants fell by €15.9 million to €19.0 million, mainly due to lower funds under the EU Structural Funds 2004-2006 Programme which closes in 2008, lower EU funds received under the EU Transition Facility and the termination of the Fifth Italian Financial Protocol in 2007. Furthermore, revenue from miscellaneous receipts declined by half to reach €11.8 million during the nine months to September 2008, namely due to lower revenue generated from the sale of Malta Government Stock by auction and lower revenue generated from the sale of property.

Expenditure

During the first nine months of 2008, total Government expenditure, comprising recurrent and capital expenditure and interest on public debt increased by €169.4 million to reach €1,844.1 million. This rise mainly reflected higher recurrent expenditure while interest on public debt also rose albeit by a significantly lesser extent. On the other hand, capital expenditure registered a decline. Total Government expenditure excludes the contribution to the Sinking Fund in respect of local and foreign loans, direct loan repayments and equity acquisition. It is noteworthy that the nomenclature of Ministries and the pertinent cost centres referred to in this Chapter reflect classifications as presented in Parliament for appropriation for 2008, prior to the change in public administration in March 2008.

Recurrent expenditure, which made up around 83 per cent of total expenditure, rose to €1,524.1 million from €1,357.3 million recorded in the comparable period last year. This increase mainly reflected higher payments in social security benefits and higher expenditure outlays recorded under the Ministry of Health, the Elderly and Community Care. Moreover, higher outlays were also recorded under the Ministry for Investment, Industry and Information Technology, particularly reflecting an increase in expenditure in respect of energy support measures falling within the remit of this Ministry. During the nine months to September 2008, capital outlays, which made up around 9 per cent of total expenditure, declined by €6.8 million to €163.9 million. Meanwhile, interest on

Chart 8.2



public debt, which also accounted for around 9 per cent of total expenditure stood at €156.1 million. Chart 8.2 illustrates trends in Government expenditure over recent years.

Recurrent Expenditure

Recurrent expenditure is classified under four main categories, namely, Personal Emoluments, Operational and Maintenance Expenses, Programmes and Initiatives and Contributions to Government Entities. The Programmes and Initiatives category accounted for around 76 per cent of the rise in recurrent expenditure during the nine months to September 2008. This category of expenditure accounted for around 63 per cent of total recurrent expenditure and includes payments made in respect of ad hoc programmes run by Government, as well as subsidies, payments and grants for provision of services to citizens, charitable and private institutions but excludes operational costs of Government departments. Recurrent expenditure under Programmes and Initiatives rose by €126.7 million and stood at €966.1 million during the January-September 2008 period. Higher expenditure outlays were recorded in respect of social security benefits, medicines and surgical materials, and energy support measures.

At €359.3 million, Personal Emoluments accounted for around 24 per cent of total recurrent expenditure. It increased by €24.6 million during the January-September 2008 period when compared to the same period a year earlier. Around half of this increase was due to higher personal emoluments in the Ministry of Health, the Elderly and Community Care. The share of Contributions to Government Entities stood at around 8 per cent of total recurrent expenditure. This category of expenditure rose by €3.5 million to reach €121.8 million during the period under review. This increase mainly reflected higher expenditure incurred by public entities falling under the Ministry of Education, Youth and Employment and the Ministry of Health, the Elderly and Community Care. The share of Operational and Maintenance expenditure stood at 5.0 per cent of total recurrent expenditure, increasing by €12.0 million to €76.9 million during the nine months to September 2008. This category of expenditure mainly consists of expenditure on utilities consumption across Ministries and Government departments, contractual services mainly on education and the national health system.

Appendix Table 8.2 presents a detailed breakdown of recurrent expenditure on a cost centre basis for the first nine months of the 2005-2008 period. The main developments recorded in the separate expenditure cost centres are reviewed below.

Government welfare payments during the period under review increased by €43.3 million to €471.7 million, mainly reflecting increases in both contributory and non-contributory benefits. Expenditure under this cost centre namely consists of retirement pensions but also comprises children's allowance, social assistance and other benefits. This item of expenditure is affected by developments in compensation of employees, inflation as well as demographic changes. During the period under review, expenditure on retirement pensions increased by €23.4 million while outlays earmarked for children's allowance rose by €9.8 million, the latter reflecting the budgetary measure that came into force this year. Expenditure by the Department of Social Security primarily consists of the State contribution in terms of the Social Security Act, 1987 (Cap. 318) and thus reflects revenue derived from social security contributions. Expenditure under this cost centre increased by €5.6 million to €108.1 million during the period under review.

Recurrent expenditure incurred by the Ministry of Health, the Elderly and Community Care increased by €31.7 million to €180.5 million, largely attributed to higher expenditure outlays under the personal emoluments category. Moreover, higher expenditure outlays were also recorded in respect of medicines and surgical materials, institutions' operations and contractual services. The opening of the new hospital in the last quarter of 2007, together with the medical profession's collective agreement reached towards the end of 2007, were important factors underpinning these developments.

Another noteworthy increase in recurrent expenditure was recorded by the Ministry for Investment, Industry and Information Technology. This includes an increase in outlays with respect to the energy support measures. Outlays on ICT academic programmes which were introduced in 2008, amounted to €1.3 million. On the other hand, outlays reflecting the grant to the Water Services Corporation in view of the cost of water production declined, whilst lower funds were also directed towards subsidies to the Malta Shipyards Ltd.

During the period under review, an increase of €6.9 million in recurrent expenditure was recorded by the Ministry of Education, Youth and Employment to reach €87.7 million. This increase mainly reflected higher outlays directed towards the financing of training programmes organised by the Employment and Training Corporation (ETC) as well as contributions directed towards the Occupational Health and Safety Authority (OHSA), Malta College for Arts, Science and Technology (MCAST) and the University of Malta. Moreover, expenditure by the Education Division increased by a further €3.8 million to €91.2 million, in particular underpinned by an increase in personal emoluments and allowances resulting from the latest collective agreement.

The Ministry of Finance recorded an increase of €6.0 million in recurrent expenditure during the period under review to reach €57.1 million. This rise particularly reflected an increase in Malta's own resource payments towards the EU budget as well as higher payments to the National Euro Changeover Committee (NECC), in respect of their operations in 2007 related to the run up to Malta's euro adoption as well as expenses related to their responsibility to ensure price stability following Malta's euro adoption.

Recurrent outlays incurred by the Ministry for Rural Affairs and the Environment increased by €5.4 million to €43.5 million, largely reflecting increased expenditure directed towards the agricultural support scheme, food subsidies and the European Agriculture Guarantee Funds as well as expenditure related to waste management services.

During the first nine months of 2008, recurrent expenditure incurred by the Ministry for the Family and Social Solidarity increased by €6.5 million to €23.3 million, mainly underpinned by outlays on the energy support measures falling under this Ministry and higher outlays directed towards the Refugee Fund.

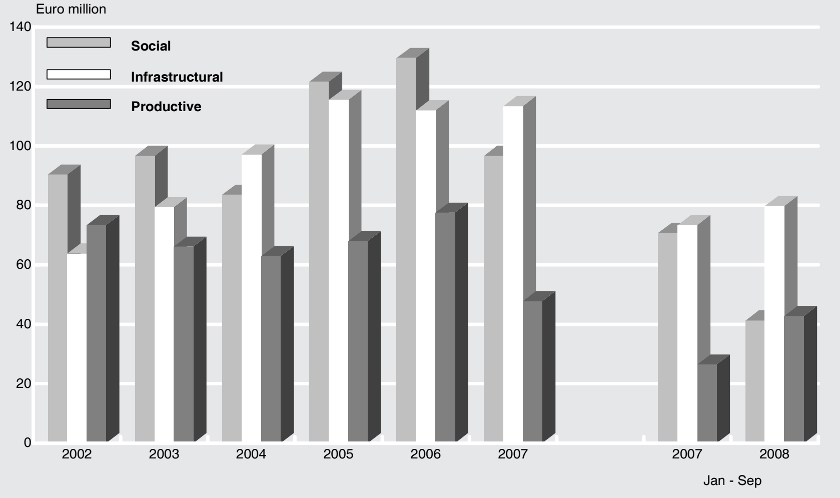
Capital Expenditure

Capital expenditure is made up of three broad categories, namely capital expenditure of a productive nature, investment directed towards infrastructural facilities and capital outlays of a social nature. Capital expenditure is presented on a Ministry basis as per the Departmental Accounting System (DAS).

Total capital expenditure during the January-September 2008 period fell by €6.8 million to €163.9 million when compared to that recorded during the same period a year earlier. This decline resulted from lower social investment outlays that outweighed the increases registered in capital outlays on productive and infrastructural investment. The share of social investment in the total capital programme fell from 41.5 per cent to 25.2 per cent recorded in the period under review. On the other hand, during January-September 2008 the share of productive investment increased to 26.1 per cent of total capital outlays when compared to 15.5 per cent recorded during the first nine months of 2007.

Chart 8.3

Capital Expenditure



Infrastructural investment made up 48.7 per cent of total capital expenditure during the nine months to September 2008 when compared to 43.0 per cent recorded in the same period last year. A breakdown of Government's capital expenditure programme for the January-September 2005-2008 period is presented in Appendix Table 8.3 while Chart 8.3 illustrates developments in capital expenditure over recent years.

Government's capital outlays for productive investment rose from €26.5 million recorded in the January-September 2007 period to €42.8 million recorded during the period under review. The main increase in capital outlays was recorded under the Ministry of Investment, Industry and Information Technology which rose by €10.9 million to €18.3 million, largely reflecting investment outlays allocated to Malta Enterprise in respect of the funding of incentives and the development of industry. Moreover, investment outlays by the Ministry for Tourism and Culture increased by €5.5 million to €21.5 million, being directed towards the promotion of the local tourism industry. These increases by far outweighed the marginal €0.2 million decline in capital outlays recorded under the Ministry for Rural Affairs and the Environment.

Infrastructural investment increased by €6.3 million to €79.8 million during the January-September 2008 period. An increase of €9.9 million in capital outlays was allocated under the Ministry of Health, the Elderly and Community Care, mainly directed towards the development of ICT systems. A further increase in

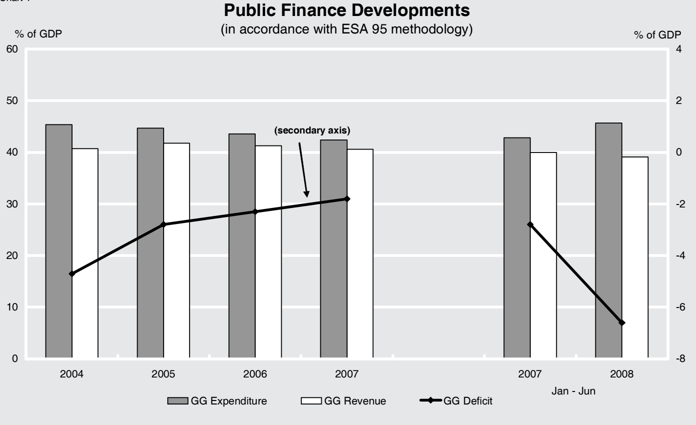
Box 8.1

General Government Budgetary Components

The Quarterly Accounts for General Government published by the National Statistics Office (NSO) capture Government's fiscal position based on the methodology according to the European System of Accounts 1995 (ESA95). The analysis presented below is based on the latest general Government finance data available in accordance with ESA95 which pertains to the January-June 2008 period. It is noteworthy that such data is not comparable to data based on the statement of the Consolidated Fund provided in other sections of this Chapter.

The deficit-to-GDP ratio for the January-June 2008 period rose by 3.8 percentage points when compared to the corresponding period a year earlier and stood at 6.6 per cent, as illustrated in Chart 1. This increase was mainly underpinned by a higher expenditure-to-GDP ratio while a decline was recorded in the revenue ratio.

Chart 1



The expenditure-to-GDP ratio rose from 42.8 per cent to 45.7 per cent, mainly due to a higher ratio of intermediate consumption. Moreover, higher ratios of the 'other' component of expenditure, social benefits and social transfers in kind and compensation of employees also contributed to the increase in the expenditure ratio. On the other hand, marginal declines were registered in the ratios of gross capital formation and property income payable.

The revenue-to-GDP ratio fell from 40.0 per cent to 39.1 per cent during the January-June 2008 period. This decrease mainly reflected a lower ratio of current taxes on income and wealth. A decline was also recorded in the ratio of current and capital transfers, mainly reflecting lower funds under the EU Structural and Cohesion Funds 2004-2006 Programme which closes in 2008 as well as the termination of the Fifth Italian Financial Protocol in 2007. Meanwhile, marginal declines were also recorded in the ratios of market output and taxes on production and imports. On the other hand, marginally higher ratios were recorded for property income and social contributions.

capital outlays was also earmarked to finance ICT systems for the Ministry of Finance. Furthermore, an increase of €4.9 million in infrastructural investment was recorded under the Ministry for Rural Affairs and the Environment, largely reflecting the upgrading of the water treatment plant and material recovery facility financed from EU Cohesion Funds. Moreover, an increase of €2.6 million, allocated under the Ministry for Justice and Home Affairs, mainly reflected higher capital outlays directed towards the acquisition of property for public purposes. On the other hand, both the Ministry for Gozo and the Ministry for Urban Development and Roads recorded a decline in capital outlays of around €5 million, due to lower outlays on projects co-financed from the EU Structural and Cohesion Funds 2004-2006 Programme. Moreover, the Ministry for Urban Development and Roads also recorded lower investment outlays earmarked for road construction and improvement projects which, in 2007, included projects financed from the Fifth Italian Financial Protocol.

Investment of a social nature registered a decline of €29.5 million to €41.3 million during the January-September 2008 period. This decline resulted from lower capital outlays totalling €38.7 million under the Ministry of Finance. Lower social capital outlays by this Ministry reflected a decline in capital expenditure related to the construction of the new hospital. On the other hand, social investment allocated under the Ministry for Rural Affairs and the Environment increased by €4.4 million to €11.6 million, mainly due to higher outlays allocated for waste management services, which were co-financed from EU funds. Furthermore, capital expenditure of a social nature by the Ministry of Health, the Elderly and Community Care increased by €3.4 million to €5.4 million, mainly reflecting increased investment in non-medical equipment at the Mater Dei Hospital as well as capital outlays financed through the EU Transition Facility.

Fiscal Performance

During the January-September 2008 period, the structural deficit rose from €170.7 million to €258.3 million. Higher outlays on energy support measures contributed to the deterioration in the fiscal balance. Meanwhile, extraordinary receipts rose by €30.0 million over the same period. It is noteworthy that, earlier this year, Government invested €6.5 million in equity in the Malta Stock Exchange plc. Moreover, during the nine months to September 2008, Government repaid €93.2 million in respect of matured stock. During the same period, the contribution to the sinking fund totalled €9.5 million. As a result, the public sector borrowing requirement for the first nine months of 2008 stood at €334.2 million.

General Government Net Lending (+) or Borrowing (-)
as a percentage of GDP

Table 8.2 per cent

	2004	2005	2006	2007
Austria	-4.4	-1.5	-1.5	-0.4
Belgium	-0.2	-2.6	0.3	-0.3
Bulgaria	1.6	1.9	3.0	0.1
Cyprus	-4.1	-2.4	-1.2	3.5
Czech Republic	-3.0	-3.6	-2.7	-1.0
Denmark	2.0	5.2	5.1	4.9
Estonia	1.7	1.5	2.9	2.7
Finland	2.4	2.9	4.1	5.3
France	-3.6	-2.9	-2.4	-2.7
Germany	-3.8	-3.3	-1.5	-0.2
Greece	-7.5	-5.1	-2.8	-3.5
Hungary	-6.4	-7.8	-9.3	-5.0
Ireland	1.4	1.7	3.0	0.2
Italy	-3.5	-4.3	-3.4	-1.6
Latvia	-1.0	-0.4	-0.2	0.1
Lithuania	-1.5	-0.5	-0.4	-1.2
Luxembourg	-1.2	-0.1	1.3	3.2
Netherlands	-1.7	-0.3	0.6	0.3
Poland	-5.7	-4.3	-3.8	-2.0
Portugal	-3.4	-6.1	-3.9	-2.6
Romania	-1.2	-1.2	-2.2	-2.6
Slovakia	-2.3	-2.8	-3.5	-1.9
Slovenia	-2.2	-1.4	-1.2	0.5
Spain	-0.3	1.0	2.0	2.2
Sweden	0.8	2.4	2.3	3.6
United Kingdom*	-3.5	-3.1	-2.6	-2.8
EU 27	-2.9	-2.4	-1.4	-0.9
Euro Area	-2.9	-2.5	-1.3	-0.6
Malta	-4.7	-2.8	-2.3	-1.8

* Data pertains to UK financial year (1 April to 31 March)

Source: Eurostat
National Statistics Office
Ministry of Finance, the Economy and Investment

International Comparison

Table 8.2 presents the budgetary position of the EU Member States for the four year period to 2007, while Table 8.3 presents the General Government debt position of the EU Member States. General Government fiscal data presented in this Section is according to the ESA95 methodology and is thus not comparable with data based on the statement of the Consolidated Fund presented in other sections of this Chapter. Moreover, it is pertinent to note that data for the EU Member States, including Malta, is that presented in the Eurostat News Release

General Government Gross Debt
as a percentage of GDP

Table 8.3 per cent

	2004	2005	2006	2007
Austria	64.8	63.7	62.0	59.5
Belgium	94.3	92.1	87.8	83.9
Bulgaria	37.9	29.2	22.7	18.2
Cyprus	70.2	69.1	64.6	59.5
Czech Republic	30.4	29.8	29.6	28.9
Denmark	43.8	36.4	30.5	26.2
Estonia	5.0	4.5	4.3	3.5
Finland	44.1	41.3	39.2	35.1
France	64.9	66.4	63.6	63.9
Germany	65.6	67.8	67.6	65.1
Greece	98.6	98.8	95.9	94.8
Hungary	59.4	61.7	65.6	65.8
Ireland	29.4	27.3	24.7	24.8
Italy	103.8	105.9	106.9	104.1
Latvia	14.9	12.4	10.7	9.5
Lithuania	19.4	18.4	18.0	17.0
Luxembourg	6.3	6.1	6.6	7.0
Netherlands	52.4	51.8	47.4	45.7
Poland	45.7	47.1	47.7	44.9
Portugal	58.3	63.6	64.7	63.6
Romania	18.8	15.8	12.4	12.9
Slovakia	41.4	34.2	30.4	29.4
Slovenia	27.2	27.0	26.7	23.4
Spain	46.2	43.0	39.6	36.2
Sweden	51.2	50.9	45.9	40.4
United Kingdom*	39.9	41.9	42.7	43.2
EU 27	62.2	62.7	61.3	58.7
Euro Area	69.6	70.2	68.5	66.3
Malta	72.1	69.9	63.9	62.2

* Data pertains to UK financial year (1 April to 31 March)

Source: Eurostat
National Statistics Office
Ministry of Finance, the Economy and Investment

which provides Government fiscal data based on figures reported by EU Member States for the excessive deficit procedure according to Council Regulation (EC) No. 3605/93.

Despite advancing at a slower pace, the fiscal consolidation registered in 2006 by the EU continued in 2007, on the back of favourable economic conditions and buoyant revenue developments. Indeed, the average general Government budget deficit for the EU27 fell from 1.4 per cent of GDP recorded in 2006 to 0.9 per cent in 2007. Following a similar trend, the average general Government budget deficit for the Euro area fell from 1.3 per cent to 0.6 per cent over the same period.

As a result of considerable fiscal consolidation efforts, a number of Member States registered improvements in their budgetary position during 2007. Out of the five Member States which reported a general Government deficit exceeding the 3.0 per cent of GDP threshold in 2006 only one Member State remained above this threshold in 2007. In particular, Italy, Poland, Portugal and Slovakia brought their deficits below the 3.0 per cent of GDP threshold in 2007. Although Hungary reported a general Government deficit of 5.0 per cent of GDP in 2007, this is 4.3 percentage points lower than that recorded in 2006. In 2007, in addition to Hungary, Greece also reported a deficit exceeding the 3.0 per cent benchmark.

During 2007, Austria, the Czech Republic, Germany and Malta recorded declining negative balances. On the other hand, Belgium, France, Lithuania, Romania and the UK registered a worsening budgetary position, while still remaining below the 3.0 per cent of GDP threshold.

During 2007, twelve Member States sustained general Government surpluses with Denmark, Estonia, Finland, Ireland and Sweden registering surpluses throughout the 2004-2007 period. Other EU Member States which sustained general Government surpluses registered over the recent years include Luxembourg, Netherlands and Spain. Moreover, Cyprus and Slovenia turned the deficit recorded in 2006 into a surplus in 2007 while Bulgaria and Latvia recorded a close-to-balance budget.

The average general Government debt-to-GDP ratio for the EU27 and the Euro area reflects the fiscal stance and declined by 2.6 percentage points to 58.7 per cent and by 2.2 percentage points to 66.3 per cent respectively in 2007. Most of the Member States registered a lower Government debt in 2007 with the exception of France, Hungary, Ireland, Luxembourg, Romania and the UK. Nevertheless, the increase in the debt ratio by the latter Member States was minimal, ranging up to 0.5 percentage points of GDP. Although declining by 2.8 percentage points, Italy was the only Member States that registered a debt level over the 100 per cent mark in 2007. Meanwhile, a number of Member States, namely Belgium, France, Germany, Greece, Hungary, Portugal and Malta exceeded the 60 per cent threshold. It is noteworthy that although still exceeding the reference value, Malta's debt-to-GDP ratio continued on a downward trend declining from 63.8 per cent in 2006 to 62.2 per cent at the end of 2007.

Monetary Developments

In view of Malta's entry into the Euro Area as from January 2008, significant changes ensued in monetary aggregates statistics, so as to reflect the contribution of resident Monetary Financial Institutions (MFIs) to the Euro Area monetary aggregates. Consequently, a direct comparison between data for the first three quarters of 2008 and 2007 is only possible for selected monetary indicators.

The Maltese contribution to Euro Area broad money (M3) includes deposit liabilities both to residents of Malta and to other Euro Area residents, whereas domestic monetary aggregates covering the period up to the end of 2007 included only resident's deposits. Consequently, at €8,747.2 million, the Maltese contribution to Euro Area broad money (M3) at the end of September 2008 exceeded the former quantifications of Maltese Lira broad money. Thus, such data are not directly comparable with former Maltese broad money measures published in previous editions of the Economic Survey.

Residents Deposits

In light of the above implications of the Euro changeover on the compilation of monetary data, the Central Bank of Malta publishes only the contribution of MFIs resident in Malta to the Euro Area total aggregates rather than monetary aggregates for Malta. Moreover, statistics on currency issued for Malta now show a notional issue of Euro banknotes attributed to the Central Bank of Malta according to the banknote allocation key, based on the Bank's share in the paid up capital of the European Central Bank (ECB). Consequently, the remainder of this section will focus on developments in residents' deposits only, for which comparable data existed prior to Euro adoption.

As indicated in Table 8.4, growth in resident deposits was significantly more subdued during the first nine months of 2008, with monetary expansion mainly resulting from growth in deposits with an agreed maturity of up to 2 years. In fact, notwithstanding a higher growth rate registered in deposits redeemable at notice up to 3 months, these constitute a significantly smaller share of deposits compared to deposits with an agreed maturity of up to 2 years. The latter increased by 5.6 per cent over December 2007 levels, constituting a sharp deceleration compared to the double digit growth rate registered during the comparable period last year. In this context, it is pertinent to note that higher interest rates offered by banks in response to increases in the central intervention rate, as well as an increase in placing currency in Maltese Lira bank deposits

Resident Deposits

Table 8.4 € million

	2005 (Dec)	2006 (Dec)	2007 (Dec)	2008* (Sep)	Sep-08 - Dec-07 % Change
Overnight Deposits(1)	2,728.0	2,746.5	3,085.2	3,131.3	1.5
Deposits redeemable at notice up to 3 months	73.3	71.8	105.3	115.7	9.9
Deposits with agreed maturity up to 2 years	3,121.5	3,520.6	4,474.6	4,726.5	5.6

*Provisional

(1)Overnight deposits are deposits withdrawable on demand and exclude interbank deposits and deposits held by central Government.

Source: Central Bank of Malta

ahead of Euro adoption, contributed to an abnormally high growth in deposits in 2007. During the first three quarters of 2008, expansion in deposits was further hampered by a reduction in deposit interest rates, reflecting the drop in official rates following the decision by the Central Bank of Malta to align the central intervention rate with the ECB's minimum bid rate towards the end of 2007. Meanwhile, growth in overnight deposits also decelerated compared to the end of 2007, primarily on account of a decline in deposits belonging to households reflecting declining interest rates paid on new overnight deposits.

Domestic Credit

The Maltese contribution to the Euro Area counterparts to monetary growth is fundamentally different from the monetary statistics for Malta published by the Central Bank of Malta for data up to and including December 2007. Prior to Euro adoption, the analysis of the counterparts to monetary expansion focused on developments in domestic credit and the net foreign assets of the banking system. Following the adoption of the Euro, the credit counterpart to Euro Area M3 contributed by resident MFIs comprises lending to residents of Malta and all other Euro Area residents. The external counterpart is limited to MFIs net claims on non-residents of the Euro Area, excluding their liabilities outside the Euro Area. Other counterparts comprise other items in the balance sheets of resident MFIs, including the Central Bank of Malta.

To this end, the analysis of the counterparts to monetary growth will focus on developments in credit to private non-financial companies, including households, by deposit money banks since the Euro changeover had no impact on such statistics.

As highlighted in Table 8.5, during the first nine months of 2008, loans to residents increased by nearly 10 per cent, compared to a growth of 6.5 per cent registered during the comparable period in the preceding year. Indeed, whilst loans to general Government registered a decline, credit to the public sector and to private non-financial companies continued to expand.

Credit to private non-financial companies increased by 8.0 per cent over December 2007 levels, mainly underpinned by increases in the transport storage and communication sector and the real estate, renting and business activities sector. The former registered an exceptional growth on account of a client in the transport and communication sector which took up a loan of €100 million in July 2008.

Meanwhile, during the first nine months of 2008, growth in lending to the real estate, renting and business activities sector decelerated, coupled with a more subdued growth in lending to households for house purchase. Nonetheless, credit to the construction sector remained buoyant, compared to a growth rate of 6.8 per cent registered during the same period last year. Notwithstanding the decline in the growth of credit to real estate, renting and business activities, as well as residential mortgages, the link between bank lending and the real estate market

Deposit Money Banks
Loans by Economic Activity

Table 8.5 € million

	2005 (Dec)	**2006** (Dec)	**2007** (Dec)	**2008*** (Sep)	**Sep-08 - Dec-07** % Change
Total Loans	5,162.1	5,788.9	6,330.6	6,954.5	9.9
Loans to Private Non-Financial Companies	4,760.9	5,367.6	5,908.8	6,379.2	8.0
Electricity, gas & water supply	7.1	9.1	13.1	9.0	-31.3
Transport, storage & communication	157.9	235.5	234.1	365.2	56.0
Manufacturing	248.0	263.2	298.5	295.3	-1.1
Construction	502.1	603.8	676.0	725.0	7.3
Hotels & restaurants	470.3	488.6	474.6	446.3	-6.0
Wholesale & retail traide; repairs	691.1	715.0	732.4	752.3	2.7
Real estate, renting & business activities	441.8	589.5	701.8	769.0	9.6
Households & individuals	1,948.7	2,251.1	2,578.2	2,787.1	8.1
Other[(1)]	294.0	211.8	200.2	230.0	14.9

*Provisional
(1) Includes agriculture, fishing, mining and quarrying, financial intermediation, public administration, education, health and social work, community recreation and personal activities, and extra-territorial organisations and bodies

Source: Central Bank of Malta

remained relatively stable. In fact, the share of loans to finance the domestic property market as a ratio of total lending increased marginally to nearly 58 per cent in September 2008.

The growth in credit to private non-financial companies was partly hampered by drops in lending to hotels and restaurants and to the manufacturing industry. Nonetheless, whilst credit to most borrowing categories continued to expand, growth rates decelerated in most sectors.

Deposit and Lending Rates

In 2007, banks raised their deposit and lending rates in response to increases in the Central Bank of Malta's central intervention rate. Generally, lending rates rose immediately, though not all the rise in official interest rates was transmitted to borrowers. On the other hand, the cut in the central intervention rate in December 2007 did not have an immediate impact on average lending rates by the end of the year. The weighted average lending rate increased by 40 basis points during 2007, ending December at 6.3 per cent. Subsequently, in the first six months to June 2008, the weighted average lending rate had generally followed a declining trend. However, following the increase in the minimum bid rate in July 2008, weighted average lending rates increased by around 25 basis points, ending the period at 6.2 per cent.

Meanwhile, in 2007 increases in deposit rates were more gradual, with higher rates being mainly applied to new deposits. The weighted average deposit rate increased by over 60 basis points to 3.0 per cent by December 2007. Variations in the Central Bank of Malta's central intervention rate at the end of 2007 and in the European Central Bank's minimum bid rate at the end of July 2008 had a marginal impact on average interest rates on demand, savings and time deposits. Indeed, by the end of September 2008, the weighted average deposit rate had increased by a mere 5 basis points to 3.05 per cent.

Consequently, during the first six months of 2008, the spread between the average lending and deposit rates was at its lowest level since the beginning of 2005, before recouping marginally in the subsequent three months reflecting slightly higher increases in average lending rates. Meanwhile, the spread between the average lending rate and the minimum bid rate has generally followed a declining trend, even though the decline during the nine months to September 2008 was relatively subdued. Concurrently, the spread between the average deposit rate and the minimum bid rate increased marginally during the same period.

The Money Market

Prior to Euro adoption, the Central Bank of Malta was responsible for the formulation and implementation of monetary policy in Malta, with its main objective being that of maintaining price stability. However, as from Euro adoption on 1 January 2008, the Central Bank of Malta became a member of the Eurosystem and ceased to be directly responsible for monetary policy. As a consequence, the Monetary Policy Advisory Council was dissolved on 31 December 2007.

The Eurosystem, which comprises the European Central Bank and the national central banks of the EU Member States that have adopted the Euro, is responsible for formulating and implementing the single monetary policy for the Euro Area, with the prime objective of price stability. Indeed, notwithstanding a high level of uncertainty resulting from the turmoil in financial markets, the ECB upheld a stable monetary policy stance during the first six months of 2008 on account of upside risks to price stability over the medium term, in a context of very vigorous money and credit growth. However, at its July meeting, the ECB's Governing Council increased the key ECB interest rates by 25 basis points to 4.25 per cent to prevent second round effects and counteract the increasing upside risks to price stability over the medium term.

In the subsequent three meetings, the ECB left the minimum bid rate on its main refinancing operations unchanged. Whilst recognising the extraordinarily high level of uncertainty stemming from the recent intensification of the financial market turmoil, and its possible impact on economic activity and inflation, at its October meeting the Governing Council further stressed on the importance of keeping inflation expectations firmly anchored in line with its objective. However, further intensification of the financial crisis augmented the downside risks to growth and thus diminished further the upside risks to price stability. Consequently, in an attempt to stem unprecedented global market turmoil, on 8 October 2008 the ECB, along with the US Federal Reserve, the Bank of England and several other central banks engaged in a coordinated round of official rate cuts. As a result, the minimum bid rate on the main refinancing operations of the Eurosystem was reduced by 50 basis points to 3.75 per cent, with effect from the main refinancing operation to be settled on 15 October 2008.

As from 1 January 2008, the Central Bank of Malta became responsible for the implementation in Malta of the ECB Governing Council's monetary policy decisions using a range of monetary policy instruments. Indeed, any credit institution established in Malta may access the Eurosystem's monetary policy instruments through the Central Bank of Malta. In order to achieve its objectives, the Eurosystem has at its disposal a set of monetary policy instruments that are used to affect market rates, regulate liquidity in the banking system and signal the general stance of monetary policy. The Eurosystem conducts open market operations, offers standing facilities and requires credit institutions to hold minimum reserves on accounts with the Eurosystem.

Open market operations are used to steer short term interest rates, manage the liquidity situation in the market and signal the stance of monetary policy. Eurosystem open market operations are normally conducted in the form of tenders, either of a fixed rate (volume) or variable rate (interest) nature. Eurosystem open market operations can be divided into four categories: the regular weekly 'main refinancing operations' and the monthly 'longer-term refinancing operations' provide liquidity to the financial sector, while ad-hoc 'fine-tuning operations' aim to smooth interest rates caused by liquidity fluctuations in the market and 'structural operations' are used to adjust the central banks' longer-term structural positions vis-à-vis the financial sector.

During the period under review, the ECB continued to address the tensions at the short end of the Euro money market to bring down interbank interest rates, mainly by addressing liquidity problems in the market with liquidity measures rather than with interest rate cuts. Indeed, the ECB has been primarily frontloading the provision of liquidity early in the maintenance period, while absorbing the resulting surplus liquidity towards the end of the maintenance period so that the average supply of liquidity in any maintenance period remains unchanged. In this context, it should be noted that a maintenance period commences on the settlement day of the first main refinancing operation following the meeting of the Governing Council at which the monthly assessment of the monetary policy stance is pre-scheduled. Supplementary three-month Longer-Term Refinancing Operations (LTRO) were rolled over following their maturity and supplementary LTRO with a six-month maturity were carried out in April and July 2008. Furthermore, the Governing Council is expected to renew the outstanding six-month supplementary longer-term refinancing operation that was allotted in April, and that will mature in October 2008. This renewal is expected to support the further normalisation of the Euro Area money markets.

Meanwhile, the ECB in conjunction with the US Federal Reserve has provided Dollar liquidity to the market in order to satisfy exceptional needs for Dollar funding and to facilitate further normalisation of conditions in the money market. In these operations, which do not affect the supply of Euro liquidity, US Dollar liquidity is provided against collateral eligible in the Eurosystem's operations. Moreover, in response to continued strains in short-term funding markets, at the end of September 2008 both central banks announced further coordinated actions to expand significantly the capacity to provide US dollar liquidity. Indeed, the Federal Open Market Committee of the US Federal Reserve and the Governing Council of the ECB are expected to double their temporary reciprocal currency arrangements to allow expanding the provision of US dollar liquidity in the Euro Area.

Unsecured money market interest rates, in particular the three-month and the twelve-month Euro Interbank Offered Rates (EURIBOR), decreased significantly in January and early February 2008, reflecting a downward shift in market expectations regarding the future path of key ECB interest rates. Thereafter, but predominantly in the second quarter, unsecured money market interest rates increased substantially, causing spreads between twelve-month and one-month EURIBOR rates to widen further. In the subsequent months to September 2008, expectations of higher short-term interest rates receded and consequently, the spread between the twelve-month and one-month EURIBOR rates declined. Meanwhile, overnight interbank interest rates (EONIA) increased by around 25 basis points in July, in line with the Governing Council's decision to increase the ECB's interest rates. By end of September 2008, the EONIA had remained relatively stable at around 4.30 per cent.

In the local money market during the nine months to September 2008, Government continued to raise money through the issue of Treasury Bills in order to provide temporary borrowing to meet monetary liquidity requirements to finance Government expenditure. Indeed, during the first nine months of 2008, a total of €766.0 million worth of Treasury Bills were issued on the primary market, as compared to €867.4 million issued over the same period last year. Out of the total amount of Treasury Bills issued on the primary market during the nine months to September 2008, €453.3 million had a maturity period of 3 months. Yields in the primary market for Treasury Bills remained relatively stable in the first three months of 2008 but followed an increasing trend thereafter, in line with movements in EURIBOR rates. In fact, the yield on three-month bills and six-month bills increased from 4.19 per cent and 4.33 per cent in January 2008 to 4.92 per cent and 5.08 per cent respectively by July 2008. In the subsequent months to September 2008, the yield on Treasury Bills, although lingering at significantly high levels, receded, reflecting expectations of lower official short-term interest rates.

During the first nine months of 2008, activity in the secondary market for Treasury Bills increased significantly over the same period in 2007. Indeed, turnover in the secondary market for Treasury Bills amounted to €90.3 million, compared to €33.7 million registered during the nine months to September 2007. In this context, it is pertinent to note that Malta Treasury Bills were for the first time listed and traded on the Malta Stock Exchange on 1 April 2007. Consequently, activity in the secondary market for Treasury Bills between January and September 2007 was inherently low compared to the corresponding 2008 period. Yields in the secondary market for Treasury Bills mainly followed an increasing trend, such that the yield on three-month Bills increased from 4.19 per cent at the beginning of the year to 4.60 per cent in September 2008. Meanwhile, increases in the yields on six-month and one-year Treasury Bills were more subdued, increasing from 4.27 per cent and 4.29 per cent in January 2008 to 4.55 per cent and 4.41 per cent respectively in September 2008.

The Capital Market

In the nine months to September 2008, Government issued €241.1 million worth of stocks in the primary market, with the majority of new issues bearing medium term maturities. During the same period, two stocks worth €93.2 million were redeemed.

Following an idle primary bond market in the first quarter of 2008 during which MGS 2012 (III) FI was integrated with MGS 2012 (III), the subsequent quarters were characterised by two redemptions and four new listings. In April and June 2008, MGS 2018 (II) and MGS 2018 (III) with a coupon rate of 7.0 per cent were issued on the primary market. Two stocks, with a total value of €93.2 million, were redeemed by the Treasury during June and August 2008. For the purpose of taking up new loans during 2008, the Treasury continued to offer fungible MGS issues, with a view to reducing fragmentation of Government debt. In this respect, the two fungibility MGS issues which were earmarked and issued in June and August 2008 were the 5.1% MGS 2014 (III) and 5% MGS 2021 (I). Consequently, the Treasury accepted tranches to the value of €106.9 million in June 2008 and €127.3 million in August 2008.

In the nine months to September 2008 there were two new issues in the primary corporate bond market, namely 6.75% United Finance Bonds 2014-2016 and 7.5% Mediterranean Investment Holdings plc Bonds 2015, while 6.75% United Finance Bonds 2008 was redeemed. Meanwhile, in the first six months of 2008, 6.7% Corinthia Finance Bonds 2009, 6.4% Gasan Finance plc Bonds 2008/11 and 5% IHI Convertible Bonds 2010 experienced deductions. During August and September, a number of corporate bonds were converted to Euro denominated bonds, namely 4.6% HSBC Bank Malta plc Bonds 2017, 7.5%

Mediterranean Investment Holdings plc Bonds 2012-2014, and 7% GAP Developments plc Sec 2011/13.

At €200.2 million, turnover in the secondary market for Government bonds during the first nine months of 2008 was more subdued compared with the same period last year. This was also reflected in a lower number of transactions. Indeed, as highlighted in Table 8.6, a total of 1,706 deals were registered by the end of September 2008, compared to 2,233 deals between January and September 2007. Consequently, the average value per transaction based on the nominal value of stocks remained broadly stable at €111,979. The highest volume of transactions was registered in 5% MGS 2021 in 377 deals. The same Government security also registered the highest turnover in the period under review. The value of transactions involving the Central Bank of Malta acting as market-maker for Malta Government Stocks in the local secondary market amounted to €152.7 million.

Turnover in the secondary market for corporate bonds nearly doubled during the nine months to September 2008. Indeed, turnover increased from €9.0 million between January and September 2007 to €17.8 million during the corresponding 2008 period. With a transacted value of €5.1 million, trading was highly concentrated in the 4.6% HSBC Bank Malta plc 2017 bond. By the end of

Government Stocks

Activity on the Secondary Market

Table 8.6

	2008 Jan-Mar	**2008** Apr-Jun	**2008** Jul-Sep	**2008** Jan-Sep
Turnover in Government Stocks:				
Nominal Value (€ million)	50.1	42.6	98.3	191.0
Market Value (€ million)	52.9	44.6	102.7	200.2
Number of Transactions	490	511	705	1,706
Average Value per Transaction (€)*	102,295	83,380	139,438	111,979
Amount sold by CBM (€ million)**	13.3	11.5	21.1	45.9
Amount bought by CBM (€ million)**	23.4	26.2	57.2	106.8

* Based on Nominal Values

** Based on Market Values

Source: Central Bank of Malta

Selected Indicators of the Capital Market

Table 8.7

	2008 Jan-Mar	2008 Apr-Jun	2008 Jul-Sep	2008 Jan-Sep
Corporate Bonds*				
Number of Listings**	32	32	31	31
Turnover (€ million)	8.5	3.1	6.1	17.8
Equities*				
Number of Issues Outstanding**	17	18	18	18
Turnover (€ million)	20.9	12.3	9.8	43.0
Total Listed Securities*				
Total Turnover (€ million)***	104.7	85.9	161.0	351.5
Market Capitalisation (€ million)**	7,410.0	7,233.3	6,948.1	6,948.1
MSE Ord. Share Index**	4,650.0	4,274.6	3,724.0	3,724.0

*Including the Alternative Companies listing
**As at end of period
***Including Malta Government Stocks and Treasury Bills

Source: Malta Stock Exchange

September 2008, a total of 31 corporate bonds were listed at the Malta Stock Exchange.

The level of activity in the secondary equity market was relatively stable between January and September 2008 compared with the commensurate period in 2007. In fact, the market turnover of equities traded during the first nine months of 2008 declined marginally to €43.0 million from €46.7 million in the corresponding 2007 period. During the first nine months of 2008, the most traded shares were those of Bank of Valletta plc and FIMBank plc.

Meanwhile, the Malta Stock Exchange Share Index closed at 3,724.0 at the end of September 2008, thereby registering a significant decline of 23.7 per cent over the end of September 2007. Market capitalisation in the equity market declined accordingly, from €3,793.8 million to €2,979.3 million by 30 September 2008. Significant declines in global stock prices have been registered this year, mainly on account of market concerns about the financial sector, but also about the outlook for the world economy. Relevant indicators of the local capital market are displayed in Table 8.7.

Exchange Rate Developments

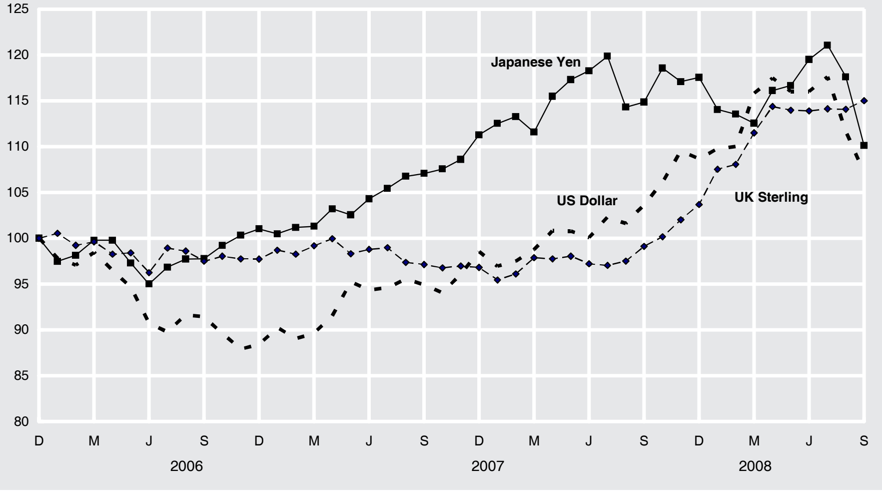
Following the adoption of the Euro as Malta's legal tender, it is of relevance to analyse developments in international foreign exchange markets between the Euro and other major currencies, as illustrated in Chart 8.4.

Developments in the Euro exchange rate since the beginning of 2008 have largely reflected changes in market expectations against a background of a global economic slowdown. Indeed, the weakness of the growth outlook for the US and expectations that the Euro Area would manage to decouple from the US slowdown were the main drivers for the Euro appreciation in the first half of 2008. At USD1.60, the Euro marked a record high against the US Dollar on 15 July. During the third quarter of 2008, the Euro depreciated considerably on account of a reassessment of the economic prospects in the US and in the Euro Area. In the wake of renewed fears of a deepening financial market crisis in the US around mid-September, the Euro appreciated marginally against the Dollar. Nevertheless, following intense financial pressures in European markets during the last week of September, the Euro lost ground against the Dollar, such that the recent depreciation of the Euro against the US Dollar more than offset the appreciation since the beginning of the year. Consequently, the Euro ended September 2008 at USD1.43. This declining trend was sustained in the subsequent weeks. Indeed, the Euro depreciated considerably to a low of USD1.25 on 27 October.

Chart 8.4

Euro Exchange Rate Movements

(Index of End of Month Rates, End 2004=100)



Meanwhile, the Euro appreciated against the Pound Sterling between February and April 2008, possibly reflecting market concerns about the outlook for the UK economy and the exposure of the British financial system to the global financial turmoil. After broadly stabilising, in mid-August the Euro resumed its appreciation against the British Pound, mainly on account of declining market confidence in the strength of the UK economy. Thereafter, the Euro fell back to a level of around GBP0.79 by the end of September 2008, and registered very minor fluctuations during the following month.

The Euro has fluctuated rather widely against the Japanese Yen since early 2008, depreciating rapidly in January and broadly stabilising thereafter. By the end of March this trend was reversed and the Euro appreciated considerably against the Yen, which trend lasted until early August. Subsequently, the reassessment of prospects for growth across the various economic areas led to a depreciation of the Euro, such that at around Yen150.47 by the end of September, the Euro traded at nearly its lowest level since the beginning of the year. The depreciation of the Euro against the Yen intensified significantly thereafter, registering its lowest level since the beginning of the year on 27 October at Yen115.75.

Government Revenue

(January-September)

Appendix Table 8.1 € thousand

	2005	2006	2007	2008
Tax Revenue	1,164,673	1,251,613	1,325,410	1,437,744
Direct Tax Revenue	618,910	669,745	728,230	817,042
Income Tax	325,490	361,655	411,025	478,555
Social Security	293,420	308,090	317,205	338,487
Indirect Tax Revenue	545,765	581,868	597,180	620,702
Customs and Excise Duties	109,837	125,713	128,224	130,129
Licences, Taxes and Fines	152,849	164,600	167,449	162,055
Value Added Tax	283,079	291,555	301,507	328,518
Non-Tax Revenue	249,099	215,541	178,563	147,997
Fees of Office	42,814	30,096	41,321	34,377
Reimbursements	12,602	17,628	17,766	16,054
Rents	17,261	18,093	17,255	16,803
Dividends on Investments	6,632	10,146	15,369	16,847
Repayment of, and Interest on Loans made by Government	30	25	23	19
Miscellaneous Receipts	38,831	23,541	22,156	11,827
Public Corporations	4,386	4,386	4,386	4,386
Central Bank of Malta	32,614	23,295	25,395	28,691
Grants	93,930	88,331	34,892	18,993
Recurrent Revenue	1,413,771	1,467,154	1,503,973	1,585,741
Extraordinary Receipts	11,481	185,213	3,322	33,318
Loans	256,231	23,294	67,224	232,722
Total Revenue	1,681,484	1,675,660	1,574,518	1,851,780

Source: The Treasury
Ministry of Finance, the Economy and Investment

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 € thousand

	2005	2006	2007	2008
Office of the President	1,023	1,034	1,195	1,129
House of Representatives	1,936	1,987	2,110	1,964
Office of the Ombudsman	303	326	326	253
National Audit Office	1,339	1,537	1,165	1,500
Office of the Prime Minister	8,137	11,472	10,990	11,604
Public Service Commission	224	242	245	275
Armed Forces of Malta	21,679	23,587	23,913	26,132
Information	776	855	769	758
Government Printing Press	864	862	881	875
Electoral Office	2,190	2,350	2,676	5,102
Ministry for the Family and Social Solidarity	10,857	12,646	16,751	23,298
Social Security	92,888	97,384	102,464	108,052
Social Security Benefits	381,286	406,331	428,402	471,662
Social Welfare Standards	960	648	652	645
Elderly and Community Care	21,638	28,053	28,546	33,358
Housing	2,136	2,003	1,891	2,042
Industrial and Employment Relations	927	890	876	769
Ministry of Education, Youth and Employment	78,202	76,515	80,850	87,708
Education	83,191	85,174	87,438	91,238
Libraries and Archives	1,041	1,046	1,067	886
Ministry of Finance	53,725	49,008	51,090	57,090
Treasury	2,828	2,141	2,003	2,846
Pensions	55,290	55,935	58,197	62,195
Inland Revenue	11,337	18,763	4,333	3,895
Customs	8,817	8,251	7,554	8,162
V.A.T.	5,546	5,174	5,185	4,610
Contracts	694	699	736	753
Ministry for Resources and Infrastructure	28,076	27,354	27,631	28,403
Ministry for Tourism and Culture	8,328	7,454	7,237	8,894
Civil Aviation	864	922	906	1,472
Economic Policy	531	596	722	722
Commerce	3,364	3,252	2,718	2,671
Consumer and Competition	876	801	2,048	2,676

Government Recurrent Expenditure

(January-September)

Appendix Table 8.2 continued — € thousand

	2005	2006	2007	2008
Ministry for Justice and Home Affairs	4,444	5,250	6,094	6,971
Police	26,068	27,258	28,132	30,563
Correctional Services	4,796	4,941	5,740	5,856
Civil Protection	2,390	2,187	2,448	2,562
Government Property Division	2,357	2,420	3,429	2,467
Registration	1,731	1,605	1,989	2,053
Ministry for Rural Affairs and the Environment	49,036	39,145	38,090	43,499
Ministry for Gozo	32,860	33,909	34,132	37,517
Ministry of Health, the Elderly and Community Care	126,133	140,464	148,821	180,547
Local Government	13,079	13,932	14,274	20,298
Judicial	6,515	6,247	6,285	6,604
Ministry of Foreign Affairs	14,160	14,766	14,854	15,904
Ministry for Investment, Industry and IT	76,567	65,292	75,052	98,364
Ministry for Competitiveness and Communications	4,922	5,313	5,453	6,447
Ministry for Urban Development and Roads	8,977	6,676	8,896	10,803
Recurrent Expenditure	1,265,907	1,304,699	1,357,296	1,524,095

Source: The Treasury
Ministry of Finance, the Economy and Investment

Government Capital Expenditure

(January-September)

Appendix Table 8.3 € thousand

	2005	2006	2007	2008
Productive Investment	54,297	53,302	26,469	42,796
Ministry for Tourism and Culture	18,486	17,114	16,020	21,492
Ministry for Investment, Industry and IT	12,850	14,055	7,397	18,342
Ministry for Rural Affairs and the Environment	8,456	8,313	2,059	1,893
Other Ministries	14,505	13,821	993	1,069
Infrastructure	76,612	48,219	73,431	79,777
Office of the Prime Minister	11,111	1,220	810	1,694
Ministry for Justice and Home Affairs	10,324	3,624	2,914	5,503
Ministry of Finance	2,736	858	1,660	3,821
Ministry for Resources and Infrastructure	2,508	3,172	2,227	2,351
Ministry for Gozo	1,140	2,222	7,675	2,180
Ministry of Health, the Elderly and Community Care	1,183	596	988	10,865
Ministry for Investment, Industry and IT	11,773	17,126	24,901	23,288
Ministry for Rural Affairs and the Environment	434	148	8,996	13,901
Ministry for Urban Development and Roads	32,089	15,721	18,724	13,330
Ministry for the Family and Social Solidarity	1,169	559	801	800
Ministry of Foreign Affairs	330	152	492	530
Other Ministries	1,812	2,821	3,242	1,514
Social	85,966	84,184	70,756	41,295
Ministry of Finance	70,043	67,978	52,378	13,640
Ministry of Education, Youth and Employment	7,232	5,423	6,172	5,925
Ministry of Health, Elderly and Community Care	1,095	2,225	2,073	5,432
Ministry for Rural Affairs and the Environment	4,149	4,978	7,274	11,648
Ministry for the Family and Social Solidarity	881	1,179	1,526	2,372
Other Ministries	2,567	2,401	1,333	2,278
Total Capital Expenditure	216,875	185,705	170,655	163,868

Source: The Treasury
Ministry of Finance, the Economy and Investment

Statistical Annex

Population

Table I

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Jun	2007 Jan-Jun	2008 Jan-Jun
Total Population (000's)	391.4	394.6	397.3	399.9	402.7	405.0	407.8	410.3	406.5	408.9	412.0
Males (000's)	193.7	195.4	196.8	198.1	199.6	200.8	202.6	204.1	201.8	203.2	204.9
Females (000's)	197.7	199.3	200.5	201.8	203.1	204.2	205.2	206.2	204.7	205.7	207.1
% Increase per annum	0.7	0.8	0.7	0.6	0.7	0.6	0.7	0.6	…	…	…
Natural Increase per annum	1,435	1,022	887	886	888	728	669	760	…	…	…
Crude Birth Rate (per 1000 population)	11.3	10.1	9.9	10.2	9.7	9.6	9.6	9.5	…	…	…
Crude Mortality Rate (per 1000 population)	7.6	7.5	7.7	7.9	7.5	7.7	7.9	7.6	…	…	…
Crude Marriage Rate (per 1000 population)	6.5	5.6	5.7	5.9	6.0	5.9	6.2	6.1	…	…	…
Infant Mortality Rate (per 1000 births)	6.1	4.4	6.0	5.9	5.9	6.0	3.6	6.5	…	…	…
Life Expectancy (at birth)											
Males	74.3	76.1	75.7	76.4	76.7	77.7	76.8	77.2	…	…	…
Females	80.2	80.9	80.5	80.4	80.5	81.4	81.2	81.8	…	…	…
Life Expectancy (at age 65)											
Males	15.0	15.4	15.0	15.7	16.4	16.7	16.1	16.6	…	…	…
Females	18.4	18.6	19.0	18.7	18.8	19.8	19.5	18.5	…	…	…

Source: National Statistics Office

Social Indicators

Table II

	2000	2001	2002	2003	2004	2005	2006	2007
GDP at current market prices per capita (€)	10,189	10,270	10,799	11,013	11,239	11,899	12,529	13,231
Quality of Life								
Motor Vehicle Licences per 1000 population	630.6	643.9	657.8	673.9	673.4	671.1	682.7	699.8
Internet Subscriptions per 1000 population	83.1	130.1	168.6	195.7	218.2	219.0	234.0	245.0
Mobile Phone Subscriptions per 1000 population	289.8	559.0	696.9	725.0	765.8	802.0	851.4	907.0
Fixed Telephone Lines per 1000 population	521.7	526.5	521.7	520.9	523.3	517.0	515.0	556.0
Education								
Number of teachers (000)	7.1	6.9	7.3	6.3	6.2	7.2	7.5	8.7
Number of pupils/students (000)	87.6	87.8	86.7	87.9	90.2	88.3	86.3	93.5
of which:								
University students (Day Courses)	6,315	7,422	7,259	8,946	7,867	9,441	8,922	9,556
Electricity								
Total Generated (000 MWh)*	1,916.6	1,943.4	2,055.1	2,208.0	2,216.1	2,263.1	2,260.7	2,296.0
Number of Consumers (000)*	226.9	213.8	220.0	234.5	236.0	241.0	243.0	261.0
Domestic Consumption (million kwh)*	539.8	540.3	561.9	623.7	623.7	669.5	657.6	…
Water								
Total annual production (million m^3)	32.7	33.6	34.1	34.2	32.8	31.3	30.5	31.0
Average daily consumption (000 m^3)	90	92	93	94	90	88	90	88
Social Security								
Total Payments (€ million)	586.8	621.2	641.5	680.6	718.4	749.4	796.6	835.5
Total Contributions (€ million)	377.4	417.2	421.8	438.9	441.9	455.6	471.5	480.3
Welfare Gap (€ million)	209.4	204.3	219.4	241.8	276.5	293.7	325.2	355.2

*Refer to Financial Year

Source: National Statistics Office
The Treasury

Factor Incomes in Gross National Income

Table III

€ million

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Jun	2007 Jan-Jun	2008 Jan-Jun
Compensation of employees	1,740.6	1,880.3	1,949.5	2,051.9	2,061.0	2,129.4	2,226.1	2,323.5	1,104.3	1,145.4	1,211.7
Gross operating surplus and mixed income	1,789.3	1,687.8	1,834.1	1,866.0	1,862.0	2,028.5	2,184.3	2,374.7	1,008.5	1,106.9	1,198.9
Taxes on production and imports	499.5	535.3	582.1	566.1	671.8	740.8	780.9	825.9	374.5	381.3	399.7
Subsidies	56.0	66.4	90.1	95.6	86.0	98.8	95.9	109.1	46.7	45.0	64.5
Gross Domestic Product at market prices	3,973.3	4,037.0	4,275.6	4,388.4	4,508.8	4,799.8	5,095.4	5,415.0	2,440.6	2,588.6	2,745.8
Net Income from Abroad	-101.3	40.9	27.7	-22.4	-54.3	-217.9	-225.1	-145.9	-163.8	-106.3	-170.1
Gross National Income at market prices	**3,872.0**	**4,077.9**	**4,303.3**	**4,366.0**	**4,454.5**	**4,581.9**	**4,870.2**	**5,269.1**	**2,276.8**	**2,482.3**	**2,575.7**
Sectoral Contribution to Gross Value Added (at basic prices)											
Agriculture, hunting and forestry [1]	2.3	2.8	2.8	2.9	2.9	2.7	2.8	2.3	2.3	1.9	1.9
Industry [2]	28.5	24.6	25.4	24.8	23.1	22.4	21.7	21.5	22.1	22.5	20.0
Services Activities	69.1	72.7	71.8	72.3	74.1	74.9	75.6	76.2	75.6	75.5	78.0

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

(2) Includes energy and construction

Source: National Statistics Office

Gross National Income and Expenditure

Table IV

€ million

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Jun	2007 Jan-Jun	2008 Jan-Jun
GNI at current market prices	3,872.0	4,077.9	4,303.3	4,366.0	4,454.5	4,581.9	4,870.2	5,269.1	2,276.8	2,482.3	2,575.7
% annual increase of GNI		5.3	5.5	1.5	2.0	2.9	6.3	8.2	4.1	9.0	3.8
GDP at current market prices	3,973.3	4,037.0	4,275.6	4,388.4	4,508.8	4,799.8	5,095.4	5,415.0	2,440.6	2,588.6	2,745.8
% annual increase of GDP		1.6	5.9	2.6	2.7	6.5	6.2	6.3	6.8	6.1	6.1
GDP at constant prices	3,973.3	3,909.1	4,011.5	3,999.2	4,044.3	4,185.4	4,317.1	4,477.0	2,069.2	2,142.4	2,213.0
Total Final Consumption Expenditure											
current market prices	3,353.8	3,515.3	3,563.2	3,739.2	3,908.2	4,050.5	4,222.8	4,352.2	2,004.4	2,060.7	2,251.7
constant prices	3,353.8	3,377.9	3,365.1	3,490.4	3,560.3	3,606.8	3,672.8	3,718.2	1,740.9	1,776.0	1,881.3
Ratio (%) of consumption to GDP at m.p.	84.4	87.1	83.3	85.2	86.7	84.4	82.9	80.4	82.1	79.6	82.0
General Government Final Consumption Expenditure											
current market prices	736.5	810.6	853.6	901.9	933.9	944.9	1,018.8	1,043.3	490.1	496.1	575.6
constant prices	736.5	740.2	767.7	792.8	796.4	792.8	839.7	839.3	403.4	399.7	448.8
Ratio (%) of Government consumption to GDP at m.p.	18.5	20.1	20.0	20.6	20.7	19.7	20.0	19.3	20.1	19.2	21.0
Private Final Consumption Expenditure[(1)]											
current market prices	2,617.2	2,704.7	2,709.4	2,837.3	2,974.3	3,105.6	3,204.0	3,308.8	1,514.4	1,564.6	1,676.1
constant prices	2,617.2	2,637.8	2,597.4	2,697.5	2,763.9	2,814.0	2,833.0	2,878.9	1,337.4	1,376.4	1,432.5
Ratio (%) of private consumption to GDP at m.p.	65.9	67.0	63.4	64.7	66.0	64.7	62.9	61.1	62.1	60.4	61.0
Gross Fixed Capital Formation											
current market prices	911.4	832.6	695.3	861.3	845.5	933.3	1,006.2	1,062.3	512.6	498.6	475.1
constant prices	911.4	803.6	646.9	796.2	774.2	840.5	875.8	912.2	445.6	432.5	405.1
Ratio (%) fixed investment to GDP at m.p.	22.9	20.6	16.3	19.6	18.8	19.4	19.7	19.6	21.0	19.3	17.3

[(1)] Including NPISH final consumption expenditure

Source: National Statistics Office

Labour

Table V

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jun	2007 Jun	2008 Jun
Labour Supply	**143,947**	**145,095**	**145,104**	**145,086**	**145,496**	**145,279**	**146,814**	**149,008**	**146,543**	**148,168**	**151,118**
Gainfully Occupied	**136,759**	**137,662**	**137,588**	**136,911**	**137,393**	**137,900**	**139,653**	**142,836**	**139,482**	**141,831**	**145,257**
Males	97,856	98,174	97,834	103,494	96,850	96,702	97,118	98,468	97,510	98,120	99,499
Females	38,903	39,488	39,754	41,592	40,543	41,198	42,535	44,368	41,972	43,711	45,758
Private Direct Production	**34,332**	**34,677**	**34,451**	**33,271**	**33,178**	**32,784**	**32,897**	**32,397**	**33,178**	**33,200**	**32,612**
of which:											
Construction	6,710	7,088	7,269	7,145	7,351	7,861	8,200	8,525	8,242	8,431	8,718
Manufacturing	25,093	25,102	24,672	23,558	23,274	22,339	22,096	21,245	22,336	22,099	21,229
Others	2,529	2,487	2,510	2,568	2,553	2,584	2,601	2,627	2,600	2,670	2,665
Private Market Services	**53,190**	**53,322**	**54,909**	**55,834**	**57,542**	**59,581**	**63,472**	**67,748**	**62,710**	**65,687**	**69,991**
of which:											
Wholesale and Retail (including Repair of Motor Vehicles, Motorcycles and Personal and Household Goods)	19,850	19,721	19,981	20,371	20,841	21,178	21,162	21,404	21,161	21,353	21,755
Hotels and Restaurants	8,420	8,324	8,435	8,514	8,372	8,541	9,295	10,026	8,626	9,839	10,325
Transport Storage and Communications	5,475	5,392	5,843	5,796	6,517	6,684	7,943	8,760	8,179	7,983	8,867
Financial Intermediation	4,702	4,643	4,557	4,560	4,515	4,606	4,730	4,917	4,692	4,850	5,058
Others	14,743	15,242	16,093	16,593	17,297	18,572	20,342	22,641	20,052	21,662	23,986
Public Sector	**48,031**	**48,487**	**47,154**	**46,826**	**45,747**	**44,970**	**42,827**	**41,992**	**43,070**	**42,498**	**41,871**
of which:											
Government Departments	32,142	32,379	31,921	31,960	31,564	30,969	30,532	30,426	30,658	30,377	30,235
Independent Statutory Bodies	8,173	8,333	7,975	8,582	8,699	8,686	8,917	9,053	8,821	8,929	9,029
Companies with Public Sector majority s/hldg	7,716	7,775	7,258	6,284	5,484	5,315	3,378	2,513	3,591	3,192	2,607
of which:											
Direct Production	1,097	1,084	960	260	246	221	150	140	152	139	139
Market Services	6,619	6,691	6,298	6,024	5,238	5,094	3,228	2,373	3,439	3,053	2,468
Temporary Employment	**1,206**	**1,176**	**1,074**	**980**	**926**	**565**	**457**	**699**	**524**	**446**	**783**
Registered Unemployed*	**7,188**	**7,433**	**7,516**	**8,175**	**8,103**	**7,379**	**7,161**	**6,172**	**7,061**	**6,337**	**5,861**
Males	6,142	6,161	6,174	6,606	6,511	5,715	5,544	4,684	5,512	4,974	4,531
Females	1,046	1,272	1,342	1,569	1,592	1,664	1,617	1,488	1,549	1,363	1,330
Per cent of Labour Supply	5.0%	5.1%	5.2%	5.6%	5.6%	5.1%	4.9%	4.1%	4.8%	4.3%	3.9%
of which unemployment under Part I (%)	4.6%	4.7%	4.7%	5.2%	5.1%	4.6%	4.4%	3.7%	4.5%	3.9%	3.5%
Self Employed	15,569	15,469	15,674	15,860	16,163	16,328	16,555	16,806	16,521	16,767	17,007

Note: Employment data has been revised

* Includes both Parts I and II of the registered unemployed

Source: Employment and Training Corporation

Tourism

Table VI

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Aug	2007 Jan-Aug	2008 Jan-Aug
Tourist Arrivals/Departures[1][2] (000's)	1,215.7	1,180.8	1,132.3	1,118.2	1,157.7	1,170.6	1,124.2	1,243.5	767.8	825.9	905.4
of which from:											
United Kingdom	428.8	466.8	467.4	473.1	453.0	482.6	431.3	482.4	292.1	314.9	306.8
Italy	92.5	95.3	88.2	92.7	102.6	92.4	112.5	113.7	85.0	85.4	109.4
Germany	204.7	166.4	148.5	125.4	135.2	138.2	125.8	130.0	79.7	78.3	107.3
Libya	43.3	32.4	25.0	17.5	12.8	10.7	9.2	9.3	6.2	6.7	6.0
Scandinavian Countries	52.1	50.4	40.0	47.0	68.9	72.6	73.7	87.3	47.0	56.1	59.1
Other	394.3	369.5	363.2	362.5	385.2	374.1	371.7	420.8	257.8	284.5	316.8
Cruise Passengers (000's)	170.8	259.4	341.6	383.6	285.0	312.3	392.9	477.1	290.0[3]	357.6[3]	407.5[3]
Gross Income (€ million)	602.0	589.2	614.0	634.0	620.9	611.0	607.2	664.2	236.7[4]	251.7[4]	249.6[4]
as ratio (%) of exports of goods and services	16.5	17.8	17.0	17.9	17.5	16.5	13.6	13.7	11.5[4]	10.9[4]	11.0[4]
Total Sector Employment in											
Hotels and Restaurants	8,758	8,625	8,749	8,826	8,661	8,809	9,525	10,134	8,866[5]	9,954[5]	10,436[5]
% of Gainfully Occupied	6.4	6.3	6.4	6.4	6.3	6.4	6.8	7.1	6.4[5]	7.0[5]	7.2[5]
Travel Abroad (000's)	194.8	164.9	156.7	174.4	220.2	224.9	257.2	279.5	167.9	188.2	198.8
Estimated Expenditure (€ million)	204.9	189.2	154.6	188.5	205.1	216.3	253.0	271.8	96.5	109.0	117.0
Days Stayed / Nights Spent[2] (000's)	10,267	11,067	10,599	11,293	11,175	11,085	10,656	11,017	7,527	7,527	7,914
% of which spent in :											
5 star	8.6	8.2	8.5	8.4	9.4	10.6	11.8	14.0	11.0	13.7	13.7
4 star	23.8	26.2	29.6	27.9	32.7	34.0	35.3	33.5	34.4	33.4	33.2
3 star	12.5	14.8	16.4	15.6	18.0	19.7	16.6	15.2	17.5	15.1	13.7
2 star	2.1	1.8	1.7	1.8	1.3	0.9	1.9	2.1	1.7	2.2	2.7
1 star	0.1	-	-	-	-	-	-		-	-	-
Unclassified	0.4	0.2	0.1	0.2	0.1	0.1	-		0.1	-	-
Guest Houses	0.6	0.6	0.5	0.6	0.7	0.8	0.5	0.5	0.5	0.5	1.2
Flats/Private Residences	31.7	32.4	33.8	33.1	29.7	26.9	27.2	28.3	27.9	28.3	29.0
Complexes/Tourist Village/Aparthotels	20.4	15.8	9.4	12.6	8.1	7.0	6.7	6.4	6.9	6.8	6.5

(1) As from 2001 tourism data is based on the Inbound Tourism Survey, and 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) Data for January-September period

(4) Data for January-June period

(5) Data as at end of June

Source: National Statistics Office
Employment & Training Corporation

Foreign Trade

Table VII — € million

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Aug	2007 Jan-Aug	2008 Jan-Aug
Imports and Exports											
Imports (cif)	3,476.4	2,853.9	2,859.3	2,984.4	3,328.6	3,117.2	3,487.6	3,585.2	2,377.4	2,357.7	2,260.5
Consumer goods	708.6	708.8	744.7	784.1	851.3	911.3	940.2	1,017.4	613.5	657.5	698.6
Industrial supplies	2,213.1	1,678.1	1,648.5	1,709.8	1,642.0	1,642.5	1,892.4	1,931.8	1,252.9	1,294.2	1,240.7
Capital goods and others	554.4	467.0	465.9	490.8	851.3	563.4	655.0	636.0	511.0	657.5	321.2
Total Exports	2,498.0	2,051.5	2,255.8	2,162.4	2,112.3	1,959.1	2,256.7	2,234.0	1,420.8	1,476.6	1,337.7
of which manufactures	2,482.4	2,029.6	2,089.7	2,122.8	2,057.8	1,900.1	2,176.1	2,171.5	1,409.5	1,462.1	1,327.8
Trade Gap	-978.3	-802.5	-603.5	-822.0	-1,216.4	-1,158.1	-1,230.9	-1,351.2	-956.7	-881.1	-922.8
as % of GDP at current market prices	-24.6	-19.9	-14.1	-18.7	-27.0	-24.1	-24.2	-25.0	-39.2*	-34.0*	-33.6*
Selected Groupings											
EU											
Imports	2,103.0	1,836.6	1,941.2	2,042.9	2,497.1	2,265.9	2,421.7	2,569.0	1,660.3	1,698.7	1,628.6
Exports	848.6	1,010.8	1,026.8	1,001.9	1,017.4	1,004.7	1,150.7	1,106.4	771.2	759.5	632.8
United Kingdom:											
Imports	278.8	286.7	297.5	276.3	367.4	335.9	343.9	498.0	222.7	300.7	293.1
Exports	181.7	177.5	261.4	253.9	242.3	216.2	213.2	221.9	146.7	152.6	113.2
Italy:											
Imports	581.6	567.2	632.9	685.8	772.3	956.7	965.9	874.2	669.4	585.5	611.5
Exports	84.1	70.3	76.2	73.4	65.0	100.5	81.4	90.7	54.0	60.8	73.5
Germany											
Imports	284.4	250.2	229.4	235.3	391.9	280.1	263.2	290.3	175.0	177.3	175.9
Exports	239.7	267.4	218.0	221.8	228.4	236.3	283.0	305.0	180.4	209.1	190.4
France:											
Imports	656.7	428.8	477.8	509.9	566.3	291.3	405.9	428.4	288.0	319.4	184.8
Exports	200.1	326.6	279.5	280.0	327.5	283.8	326.7	271.3	209.1	178.7	155.4
America:											
Imports	398.6	366.6	296.8	270.0	197.7	189.7	218.2	241.7	152.0	136.3	85.9
Exports	714.4	415.3	381.3	333.6	351.0	301.7	298.8	279.7	192.7	180.2	141.4
Africa:											
Imports	55.9	66.6	40.3	25.2	59.9	125.3	50.3	29.5	41.2	19.1	33.0
Exports	58.0	76.9	104.4	81.8	109.3	143.2	120.5	121.3	71.6	88.7	89.9
Asia:											
Imports	800.8	459.6	430.9	489.6	457.932	417.6	635.3	598.7	401.2	401.5	412.3
Exports	574.9	405.8	577.0	594.5	544.402	460.9	631.4	720.0	349.7	411.7	414.4

*Data for January - June.

Source: National Statistics Office

Balance of Payments

Table VIII

€ million

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Jun	2007 Jan-Jun	2008 Jan-Jun
Goods Balance[(1)]	-771.0	-578.9	-343.7	-565.1	-693.3	-904.4	-964.2	-1,004.3	-556.5	-401.4	-561.0
Imports (f.o.b.)	-3,304.7	-2,698.5	-2,700.5	-2,836.3	-2,881.5	-2,987.5	-3,298.6	-3,358.4	-1,658.5	-1,577.1	-1,630.4
Exports (f.o.b.)	2,533.7	2,119.6	2,356.8	2,271.2	2,188.2	2,083.2	2,334.5	2,354.1	1,102.0	1,175.7	1,069.5
Services-Net	347.8	388.3	446.3	489.7	511.6	647.7	711.6	849.7	306.2	363.3	399.9
Transport-net	-19.5	10.8	-14.2	-21.8	63.9	63.6	78.1	100.0	36.2	47.2	73.7
Travel-net	397.0	400.0	459.4	445.4	415.8	394.7	354.1	392.4	140.1	142.7	132.6
Other Services-net	-29.7	-22.5	1.2	66.1	31.9	189.3	279.4	357.3	129.9	173.3	193.7
Income- Net	-101.3	40.9	27.7	-22.4	-41.3	-199.6	-212.4	-129.0	-157.3	-98.6	-157.4
Compensation of Employees-net	9.1	5.7	12.9	13.1	11.7	9.2	-2.8	-1.9	-1.0	0.2	-4.1
Investment Income-net	-110.4	35.2	14.7	-35.5	-53.0	-208.8	-209.7	-127.0	-156.2	-98.7	-153.4
Current Transfers-Net	27.2	-5.5	-25.6	-38.8	-45.6	35.9	-6.4	-63.2	39.1	-3.7	104.9
General Government-net	0.8	8.4	7.3	20.8	11.7	21.7	42.8	3.4	56.8	29.4	140.0
Private-net	26.4	-13.9	-32.9	-59.6	-60.4	14.2	-49.1	-66.6	-17.8	-33.1	-35.1
Current A/C-Net	-497.3	-155.3	104.8	-136.5	-268.6	-420.4	-471.4	-346.8	-368.5	-140.4	-213.6
Goods Balance[(1)] as % of GDP at m.p.	-19.4	-14.3	-8.0	-12.9	-15.4	-18.8	-18.9	-18.5	-22.8	-15.5	-20.4
Invisible Balance as % of GDP at m.p.	8.8	9.6	10.4	11.2	11.3	13.5	14.0	15.7	12.5	14.0	14.6
Investment Income as % of GDP at m.p.	-2.5	1.0	0.6	-0.5	-0.9	-4.2	-4.2	-2.4	-6.4	-3.8	-5.7
Current a/c Balance as % of GDP at m.p.	-12.5	-3.8	2.5	-3.1	-6.0	-8.8	-9.3	-6.4	-15.1	-5.4	-7.8
Capital A/C-Net	19.3	1.5	6.7	15.4	66.6	155.7	153.1	51.4	56.2	6.1	11.4
Financial A/C-Net	462.5	-118.7	-50.4	96.0	133.9	300.0	313.1	139.0	274.9	209.4	252.2
Direct Investment-net	609.5	253.1	-417.0	367.7	311.6	560.3	1,468.1	664.2	1,052.1	329.6	199.2
Portfolio Investment-net[(2)]	-756.7	-512.7	-371.3	-1,394.8	-1,682.8	-2,137.3	-1,980.3	368.0	-1,999.4	-556.4	-1,508.7
Financial Derivatives-net[(2)]	0.0	0.0	0.0	21.0	-14.0	-18.4	24.9	120.2	34.0	31.5	-18.5
Other Investment-net[(2)]	382.5	409.6	1,021.8	1,229.5	1,358.0	2,083.3	883.5	-686.9	1,223.9	183.9	1,603.6
Reserve Assets[(2)]	227.3	-268.7	-283.8	-127.5	161.1	-187.8	-83.1	-326.5	-35.7	220.8	-23.3

[(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)] As from 1 January 2008, following Malta's entry into the euro area, a reclassification of the external reserves of the country has been carried out. Indeed, this meant that, as from this date, all cross-border claims that Malta has within the euro area as well as all claims that the country has in euro-denomination are no longer considered as being part of Malta's reserve assets. In addition, as happened in other euro area Member States, Malta has transferred a fraction of its external reserves to the European Central Bank (ECB) in exchange for a claim on the ECB; which, being an intra-Eurosystem asset, is also not considered as being part of the country's external reserves. As a result of this, the portfolio investment account, the financial derivatives account and the other investment account recorded significant changes in their net balances.

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

Source: National Statistics Office

Government Revenue and Expenditure

Table IX — € million

	2000	2001	2002	2003	2004	2005	2006	2007	2006 Jan-Sep	2007 Jan-Sep	2008 Jan-Sep
Government Recurrent Revenue	1,438.8	1,557.4	1,676.7	1,721.9	1,893.8	2,088.1	2,200.6	2,224.5	1,467.2	1,504.0	1,585.7
Increase/(Decrease) % per annum	9.8	8.2	7.7	2.7	10.0	10.3	5.4	1.1	3.8	2.5	5.4
of which:											
Tax Revenue	1,260.7	1,382.9	1,478.5	1,556.7	1,635.2	1,724.4	1,857.1	1,982.0	1,251.6	1,325.4	1,437.7
Direct Tax Revenue	725.6	804.6	864.9	916.8	933.6	972.0	1,069.0	1,143.7	669.7	728.2	817.0
Indirect Tax Revenue	535.1	578.6	613.6	639.6	701.6	752.4	788.1	838.3	581.9	597.2	620.7
Non-Tax Revenue	178.1	174.4	198.3	165.2	258.6	363.6	343.5	242.4	215.5	178.6	148.0
Total Government Expenditure	1,637.1	1,756.1	1,881.0	1,967.6	2,112.7	2,263.5	2,335.4	2,333.6	1,636.9	1,674.7	1,844.1
Increase/(Decrease) % per annum	3.9	7.3	7.1	4.6	7.4	7.1	3.2	-0.1	1.5	2.3	10.1
of which:											
Recurrent Expenditure	1,280.7	1,431.6	1,504.8	1,578.6	1,707.0	1,784.2	1,835.9	1,896.6	1,304.7	1,357.3	1,524.1
Capital Expenditure	229.7	187.7	227.6	242.3	243.7	305.1	319.2	257.9	185.7	170.7	163.9
% of Total Government Expenditure	14.0	10.7	12.1	12.3	11.5	13.5	13.7	11.1	11.3	10.2	9.2
Interest on Public Debt	126.7	136.7	148.6	146.8	162.1	174.2	180.2	179.1	146.5	146.8	156.1
Structural Deficit	-198.3	-198.7	-204.2	-245.7	-219.0	-175.4	-134.8	-109.1	-169.7	-170.7	-258.3
Financed by:											
Extraordinary Receipts	57.5	51.2	94.6	4.9	20.7	59.6	201.8	14.9	185.2	3.3	33.3
Receipts from sale of shares	28.0	0.0	63.6	0.0	0.0	50.8	172.8	0.0	172.8	0.0	0.0
Sinking Funds of Converted Loans	29.6	51.2	31.0	4.9	20.7	8.9	29.0	14.9	12.4	3.3	33.3
Sinking Fund Contribution & Direct Loan Repayment	-31.2	-29.6	-27.5	-29.6	-62.7	-32.1	-26.7	-21.2	-15.5	-10.9	-102.7
Equity Acquisition	-	-	-	-	-	-	-	-	-	-	-6.5
Public Sector Borrowing Requirement	-172.0	-177.1	-137.1	-270.4	-260.9	-147.9	40.3	-115.5	—	-178.3	-334.2
Loans	0.0	248.8	24.7	307.7	232.7	256.2	0.0	126.0	23.3	67.2	232.7

Source: The Treasury/Ministry of Finance, the Economy and Investment

Monetary Aggregates and Their Counterparts*

Table X

€ million

	2000	2001	2002	2003	2004	2005	2006	2007
Broad Money (M3)	5,255.8	5,779.4	6,479.2	6,636.9	6,797.8	7,085.0	7,451.7	8,275.3
Intermediate Money (M2)	5,255.8	5,779.4	6,479.2	6,636.9	6,797.8	7,085.0	7,451.7	8,275.3
% Increase per annum		10.0	12.1	2.4	2.4	4.2	5.2	11.1
of which:								
Narrow Money (M1)	2,799.0	2,988.4	3,185.2	3,472.9	3,682.5	3,890.2	3,859.4	3,695.4
Currency in Circulation	923.1	975.8	1,017.5	1,072.4	1,132.1	1,162.2	1,112.9	610.2
% Increase/ (Decrease) per annum		5.7	4.3	5.4	5.6	2.7	-4.2	-45.2
Deposits withdrawals on demand	1,875.8	2,012.6	2,167.5	2,400.4	2,550.4	2,728.0	2,746.5	3,085.2
Deposits redeemable at notice up to 3 months	57.5	61.3	65.0	67.1	70.0	73.3	71.8	105.3
Deposits with agreed maturity up to 2 years	2,399.3	2,729.8	3,229.0	3,096.9	3,045.2	3,121.5	3,520.6	4,474.6
Domestic Credit	5,078.0	5,413.7	5,593.8	5,747.5	6,063.7	6,141.8	6,705.9	7,424.5
of which:								
Net Claims of Central Government	1,039.8	1,192.6	1,256.7	1,324.0	1,269.7	1,031.2	850.1	1,023.8
Claims on other residents	4,038.0	4,221.1	4,337.3	4,423.4	4,793.9	5,110.6	5,855.8	6,400.6
Net Foreign Assets	2,281.6	2,538.1	3,031.2	3,723.1	3,786.9	4,215.0	4,804.9	5,199.9
Increase/(Decrease) % per annum		11.2	19.4	22.8	1.7	11.3	14.0	8.2
of which:								
Central Bank of Malta	1,512.5	1,785.5	2,053.6	2,142.6	2,027.3	2,172.4	2,214.9	2,532.9
Other Monetary Financial Institutions	769.4	752.6	977.6	1,580.5	1,759.7	2,042.6	2,590.0	2,667.0
Other Counterparts to Broad Money	2,103.9	2,172.4	2,146.1	2,833.6	3,052.9	3,271.8	4,059.1	4,349.1

*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.

In view of Euro adoption and the consequent changes in the compilation of monetary data, comparable statistics for January-September 2008 period are not available.

Source: Central Bank of Malta