MALTA
NGĦIXU
S-SUĊĊESS

ECONOMIC SURVEY 2018

Economic Survey

October 2018

Economic Policy Department
Ministry for Finance
22nd October, 2018

CIP Data

Economic Survey October 2018 / Economic Policy Department - Valletta : Ministry for Finance, 2018.

ISBN: 978-99957-58-29-5

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 12th October 2018.

Printed at the Government Press
Price: **€5.00**

Glossary: Country Codes

(BE)	Belgium	(LT)	Lithuania
(BG)	Bulgaria	(LU)	Luxembourg
(CZ)	Czech Republic	(HU)	Hungary
(DK)	Denmark	(MT)	Malta
(DE)	Germany	(NL)	Netherlands
(EE)	Estonia	(AT)	Austria
(IE)	Ireland	(PL)	Poland
(EL)	Greece	(PT)	Portugal
(ES)	Spain	(RO)	Romania
(FR)	France	(SI)	Slovenia
(HR)	Croatia	(SK)	Slovakia
(IT)	Italy	(FI)	Finland
(CY)	Cyprus	(SE)	Sweden
(LV)	Latvia	(UK)	United Kingdom

Contents

Boxes

Tables

Appendix Tables

Charts

Statistical Annex

Executive Summary

During 2017 and the first half of this year, the European economy witnessed its fastest expansion rate in the last ten years, with all economies experiencing economic growth. The current supportive monetary policy, which is containing financing costs, is aiding this economic expansion. The positive effects of this policy decision seem to persist despite the announcement of the gradual withdrawal of the monetary stimulus.

Economic growth in both the European Union (EU) and the Euro Area (EA) is expected to ease to a rate of 2.1 per cent in 2018 and 2.0 per cent in 2019. The European Commission (EC), considers the fundamentals of the European economy to be sound, but is still cautious on the growth prospects for the near term due to the possible fall-out from ongoing trade tensions that may weigh down on growth prospects. The added uncertainty stemming from the Brexit negotiations and the political climate in certain Member States may have an adverse impact on investor sentiment.

Malta experienced robust economic growth in recent years. This positive trend persisted during the first half of 2018, registering a nominal growth rate of 7.9 per cent, equivalent to 5.4 per cent in real terms. These rates stand well above the average growth rates registered in the EU and the EA during the same period.

The domestic side of the economy was the main contributor to this positive economic performance, primarily attributed to growth in public consumption expenditure and private household consumption expenditure. Public consumption expenditure registered a growth of 7.0 per cent for the first half of 2018 when compared to the same period of the previous year, mainly due to higher compensation for public sector employees after the collective agreements in the Health, Education and Social sectors came into force. Private household consumption experienced growth, equivalent to 5.9 per cent, around 1.5 percentage points higher than the growth registered in the first half of 2017. This increase was bolstered by favourable developments in the labour market and increases in real disposable income.

During the first six months of 2018, Gross Fixed Capital Formation declined by 1.5 per cent mainly reflecting the base effects related to the investments in the energy sector and in aircraft equipment. Throughout the same period, Malta maintained its position as a net exporter of goods and services with registered import growth of 1.9 per cent, reversing the decline registered in 2017. Conversely, the export growth rate was lower than the growth rate recorded during the same period last year, at 0.8 per cent.

Employment growth maintained its positive momentum over the 12 months ending March 2018, while the unemployment rate sustained further declines reaching 3.9 per cent during the first quarter of 2018, a drop of 0.2 percentage points over the same period last year. Employment growth during the first three months of 2018 stood at 6.6 per cent, with both female and male employment rates experiencing increases during the period.

According to the administrative records of Jobs Plus, the sectors that contributed mostly towards employment growth in the private sector were the administrative and support services sector; the professional, scientific and technical sector and the arts, entertainment and recreation sector. In the meantime, the share of gainfully-occupied in the public sector in April 2018 decreased by 0.8 percentage points when compared to the corresponding month last year and stood at 23.2 per cent.

Net-migration (immigration less emigration) has been positive during the past year, increasing from 8,728 in 2016 to 14,623 in 2017. Net-migration inflows have also increased over the same period when expressed as a share of total population, rising from 1.9 per cent in 2016 to 3.1 per cent in 2017, with a share of almost 2.0 percentage points composed of EU nationals.

In September 2018, the 12-month moving average rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) for Malta stood at 1.7 per cent, whereas the annual rate stood at 2.5 per cent. Inflation pressures have started to pick up in recent months, however, the annual rate of inflation is expected to remain below the 2.0 per cent threshold in this and the coming year.

In 2017, the total value of imported goods amounted to €6,126 million while exports of goods totalled €3,609 million. When compared to the previous year, the decrease in imports of €323 million was higher than that in exports of €318 million. As a result, the trade gap has narrowed marginally to €2,517 million. The trade gap for the first six months of 2018 was €124 million wider than the corresponding period for the previous year. This mainly pertains to a decrease in fuel exports. In 2016 and 2017, Malta's export market share expressed as a percentage of global exports stood at 8 per cent, 1 percentage point higher than the rate recorded between 2010 and 2015. This improvement was primarily brought about by the performance of the services sector.

The strong external trade balance recorded during the past few years, has resulted in a consistently positive overall balance in Malta's current account. In 2017, the current account balance stood at 13.8 per cent of Gross Domestic Product (GDP), an increase of 6.8 percentage points over 2016. This trend persisted during the first half of 2018, with the current account balance standing at 12.9 per cent of GDP. Malta's capital account balance for the past few years showed consistent net transfers of assets from foreign countries to Malta, mainly pertaining to government transfers of tangible assets and include transfers from the EU budget. An increase was recorded during the first half of 2018 when compared to the same period in 2017. This coincides with the gradual increase in absorption of EU funds from the previous EU budget cycle for the period between 2007 and 2013. The real effective exchange rate (REER), has been below the base year level during 2017, marking an increase in competitiveness relative to Malta's main trading partners.

In the period between January and July 2018, Malta's monetary financial institutions increased their contribution towards the EA Broad Money (M3) when compared to the end of the previous year. This can be primarily attributed to an increase in overnight deposits, while there was still a slight increase, although negligible, from deposits redeemable at notice up to three months and from deposits with an agreed maturity of up to two years. These developments reflect the continued preference towards short-term liquid money in the form of cash, although longer-term maturity deposits remain noticeably significant. The European Central Bank (ECB) maintained the interest rate on the main refinancing operations, the interest rate on the marginal lending facility and the deposit facility unchanged at their previous rates of 0.00 per cent, 0.25 per cent and -0.40 per cent, respectively. In June 2018, the Governing Council of the ECB anticipated that the monthly pace of the asset purchase programme would be reduced to €15 billion from €30 billion until the end of 2018, following which the net purchases would end.

The Maltese Government recorded a surplus of €393 million during 2017 or 3.5 per cent of GDP. During the year, the debt ratio continued its downward trend and stood at 50.8 per cent of GDP. Between January and August 2018 recurrent revenue, as reported in the Consolidated Fund, increased by 6.2 per cent, while total expenditure increased by 7.6 per cent. The increase in revenue can be attributed to higher tax revenue which outweighed the decline in non-tax revenue, the latter mainly reflecting a decline in revenue from EU Grants. Tax revenue increased by 9.4 per cent and stood at €2,517 million during the first eight months of 2018. The increase in total expenditure during the same period, was due to an increase in recurrent expenditure of €174 million and an increase in capital expenditure of €26 million. Interest on public debt dropped by €5 million. Public sector borrowing requirement increased from €60 million to €283 million, reflecting developments in the sinking fund contribution and direct loan repayment.

Outlook

The Maltese economy is expected to retain a positive momentum in the second half of 2018, as overall growth is expected to increase by 5.8 per cent in real terms by the end of the year with growth driven by the domestic side. Throughout 2019, real GDP is expected to remain strong, reaching a growth rate of 5.3 per cent. Domestic demand is expected to remain strong. In particular, investment is expected to gather pace on the back of the materialisation of a number of large-scale investment projects of a construction nature particularly in health, real-estate and tourism, while the contribution of private consumption and government expenditure is expected to remain robust even if at a slower pace when compared to 2018.

Growth in employment is expected to remain strong and increase by 5.0 per cent in 2018 and 3.7 per cent in 2019. Moreover, the unemployment rate is to reach 4.0 per cent in 2018 and 4.1 per cent in 2019, standing well below the EU average rate. This reflects ongoing efforts in promoting and sustaining active labour market policies. The HICP inflation rate is expected to average 1.7 per cent by the end of this year and 1.9 per cent in 2019.

During 2018, the General Government balance is expected to be in surplus at 1.1 per cent of GDP. The balance is expected to improve somewhat over the course of 2019 and reach a surplus of 1.3 per cent of GDP. Meanwhile, for 2018, it is expected that the General Government Gross Debt ratio reaches 46.9 per cent of GDP and to decline further to 43.8 per cent of GDP in 2019. These developments are underpinned by the improvement in the underlying fiscal position.

1. Macroeconomic Developments

1. Macroeconomic Developments

The Maltese economy continued with its positive performance during the first half of 2018, outperforming most of the other European Union (EU) and Euro Area (EA) Member States. Growth in Gross Value Added (GVA) remained strong reflecting growth in all economic sectors. The local tourism industry continued on an upward trajectory, with double-digit growth registered in the off-peak season.

Malta's labour productivity remained close to the EU average, while the rise in unit labour costs was also contained. Inflation pressures have started to pick up in recent months, however, the annual rate of inflation is expected to remain below the 2 per cent threshold for 2018 and also for 2019.

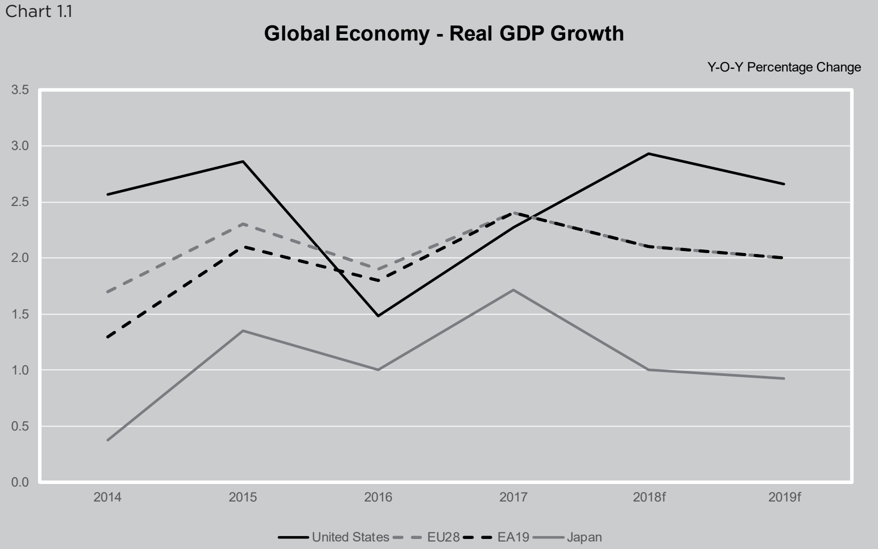
1.1 International Context

Following the global upswing in the last two years, global economic activity has continued to expand early in 2018, although regional disparities are on the rise and downside risks strengthened. These developments suggest that global imbalances are on the rise and posing risk to global economic stability. Developments in the global economy are illustrated in Chart 1.1.

Growth in the United States (US) is currently projected at 2.9 per cent in 2018, bolstered by expansionary fiscal policies, with US output expected to rise above potential. The International Monetary Fund (IMF) predicts that this is expected to put further pressure on inflation and lead to a further increase in the US current account deficit, rising from 2.4 per cent in 2018 to 3.6 per cent of Gross Domestic Product (GDP) in 2020. In this context, the US Dollar has already appreciated by more than 6.0 per cent against the Euro since February 2018.

Consequently, as the US Federal Reserve continues to tighten monetary policy and the US Dollar appreciates, global financial

Chart 1.1



Source: Eurostat, World Economic Outlook (WEO)

stability risks are expected to rise further. These risks appear more acute in emerging markets where parts of the system are vulnerable to US Dollar liquidity mismatch. In particular, one notes recent tensions in Argentina and Turkey which have already experienced a sizable currency depreciation against the US Dollar and high inflationary pressures which mandated a substantial rise in interest rates and pressures to consolidate public finances in a bid to bolster confidence.

In the wake of supply disruptions in Venezuela and US sanctions on Iran, oil prices have increased by 23.3 per cent in 2017 and the IMF is forecasting oil prices to rise by a further 33.0 per cent in 2018 before receding gradually over the medium-term. Higher oil prices and escalating trade tensions have also further increased the discrepancies in growth prospects between emerging markets and developing economies. Growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has been strengthened.

The growth forecast for Japan has been marked down to 1.0 per cent for 2018 following a contraction in the first quarter. This contraction was attributed to a smaller than predicted private consumption and investment. The economy is expected to strengthen over the remainder of the year and into 2019, as private consumption, external demand, and investment are expected to pick up.

In 2017 and during the first half of this year, the European economy experienced the fastest expansion rate in the last 10 years, with the expansion becoming more broad-based, as all economies experienced growth. The region's economy continues to benefit from supportive monetary policy, with low financing costs for companies and governments despite the announced gradual withdrawal of the monetary stimulus.

Growth in both the EU and the EA is expected to moderate from 2.4 per cent in 2017 to 2.1 per cent in 2018. The European Commission expects rising headwinds particularly from the fall-out of ongoing trade tensions to weigh down on growth prospects in the EU. The political backdrop in a number of EU Member States, coupled with the rising uncertainty surrounding Brexit negotiations, could undermine investor sentiment. Nevertheless, the European Commission considers the fundamentals of the European economy to be sound with improving corporate and household balance sheets. Consumption is expected to be further supported by further improvements in the labour market and higher wages, whilst investment demand will be supported by more favourable financing conditions, investments to address capacity constraints and rising corporate profitability. For 2019, the pace of expansion is expected to moderate further to 2.0 per cent in view of Brexit negotiations, supply constraints and trade tensions.

Both the IMF and the European Commission agree that risks for global economic conditions have tilted further on the downside for both the short-term and the medium-term. These risks reflect, in particular, the risks of further escalation in protectionist trade measures and tighter global financing conditions. Additional risks are also present and are tied down to the Brexit negotiations which have not yet been settled, as well as geo-political tensions outside Europe.

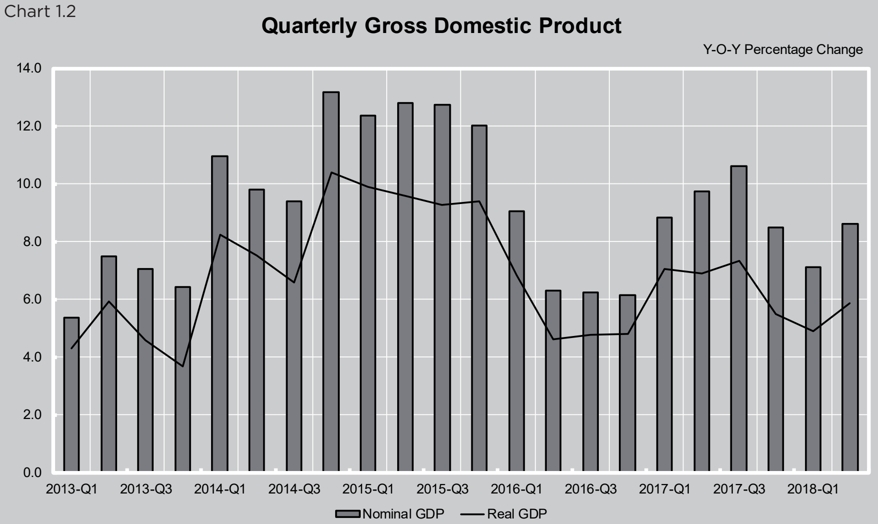
Some of these risks have already started to materialise with a further potential escalation of trade barriers between the US and China, and the financial market turmoil in Turkey and Argentina. In this context, a sudden reversal of capital flows from emerging markets could be followed by a further appreciation of the US Dollar, straining economies with high leverage, fixed exchange rates or balance sheet mismatches. The strong economic fundamentals should protect Europe to some extent. Nevertheless, political risks in Europe could jeopardise economic activity, particularly in highly indebted economies, which have already experienced rising sovereign bond yields.

1.2 Gross Domestic Product: Expenditure Approach

Following the robust growth during the 2015 to 2017 period, the Maltese economy continued with its positive performance in the first half of 2018. Indeed, during this period, the Maltese economy registered a nominal growth rate of 7.9 per cent, or a real rate of 5.4 per cent, standing well above the average growth rates registered in the EU28 and the EA in the same period. Specifically, total GDP amounted to €5.8 billion in nominal terms or €4.7 billion in real terms during the first half of 2018 (Chart 1.2).

The positive economic performance recorded in the first half of 2018 was mostly the result of a larger contribution from the domestic side of the economy, primarily attributed to growth in public and private household consumption. After registering a decline in the first half of 2017, public consumption expenditure exhibited a growth rate of 7.0 per cent for the same period in 2018, mainly reflecting higher compensation for public sector employees after the collective agreements in the Health and Education sectors came into force. Moreover, the growth in public consumption was affected by the relatively lower

Chart 1.2



Source: National Statistics Office

proceeds from the Individual Investor Programme (IIP) in the first half of this year, when compared to the first half of 2017. Since proceeds from the IIP are recorded as market output in national accounts, they are deducted from public consumption and reclassified as exports of services.

Private final consumption expenditure, which includes household final consumption expenditure and consumption expenditure of non-profit institutions serving households (NPISH), also contributed positively towards economic growth. During the period from January till June of 2018, private household consumption registered a growth rate equivalent to 5.9 per cent, which was 1.5 percentage points higher than the growth rate registered in 2017. In nominal terms, private consumption expenditure increased by 6.5 per cent. The growth in private household consumption expenditure was registered across all consumption categories. These increases were backed by favourable developments in the labour market and increases in real disposable income. Moreover, double-digit growth rates were registered in expenditure on clothing and footwear (10.4 per cent) and restaurants and hotels (12.4 per cent).

Gross Capital Formation is made up of Gross Fixed Capital Formation (GFCF), changes in inventories and acquisitions less disposal of valuables. During the first six months of 2018, GFCF

Growth in Main Macroeconomic Indicators

Table 1.1 per cent

	2015	2016	2017	Jan-June 2017	Jan-June 2018
GDP growth at current market prices	12.5	6.9	9.4	9.3	7.9
GDP growth at Chain Linked Volumes by period (Reference year 2010)[1]	9.5	5.2	6.7	7.0	5.4
Expenditure Components of GDP					
at Current Market Prices by period					
Private final consumption expenditure[2]	6.8	3.2	4.8	5.4	6.5
General Government final consumption expenditure	5.3	-1.1	4.6	-2.3	11.3
: net of Individual Investor Programme (IIP) proceeds	*8*	*5.9*	*8.0*		
Gross fixed capital formation	64.4	3.1	-5.3	-8.9	2.2
Exports of goods and services	5.8	5.4	7.3	7.7	4.3
: net of Individual Investor Programme (IIP) proceeds	*5.5*	*4.6*	*6.9*		
Imports of goods and services	9.4	1.4	0.5	-2.3	5.0
Expenditure Components of GDP					
at Chain Linked Volumes by period (Reference year 2010)					
Private final consumption expenditure[2]	5.0	2.6	3.7	4.4	5.9
General Government final consumption expenditure	3.7	-2.8	2.8	-3.4	7.0
Gross fixed capital formation	56.8	1.7	-7.3	-10.5	-1.5
Exports of goods and services	3.7	4.2	3.8	3.6	0.8
Imports of goods and services	7.4	0.7	-1.9	-5.2	1.9
Inflation rate	1.2	0.9	1.3	1.2	1.5
Employment growth (National Accounts Definition)	3.6	4.8	4.0	4.0	5.2
Unemployment rate (Harmonised definition, Eurostat)	5.9	5.2	4.6	4.6	4.1
Compensation per employee	5.1	2.8	1.8	1.4	2.5
Labour productivity	5.4	1.0	1.4	1.5	-0.2
Nominal Unit Labour Cost	-0.3	1.8	0.4	-0.1	2.6
Real Unit Labour Costs	-1.5	0.9	-0.9	-1.2	1.1

[1] Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

[2] Includes NPISH final consumption expenditure.

declined by 1.5 per cent mainly reflecting the base effects related to the investments in the energy sector and in aircraft equipment.

From an external standpoint, Malta maintained its position as a net exporter of goods and services. In the first six months of 2018, import growth stood at 1.9 per cent, reversing the decline registered in 2017. On the other hand, the export growth rate was lower than the growth rate recorded in the first six months of 2017, standing at 0.8 per cent. Further details on exports and imports of goods and services are provided in Chapter 3 of the Economic Survey.

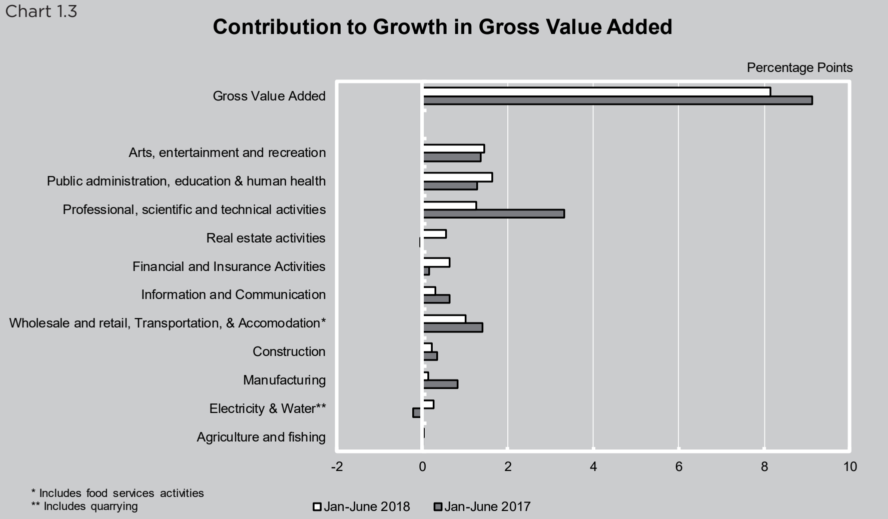
Table 1.1 provides more detailed data on the growth of the different components of GDP. Data presented in this Chapter are based on National Accounts data, compiled in accordance with the European System of Accounts (ESA2010) methodology. This accounting framework enables comparability with EU Member States as well as a systematic and detailed description of the economy and its core components.

1.3 The Maltese Economy – Sectoral analysis (Gross Value Added)

During the first half of 2018, total GVA increased by 7.6 per cent over the same period in 2017, to reach €5.2 billion. The growth in GVA was attributed mostly to the Services sector which registered a contribution rate of 6.9 percentage points to growth, while the primary and secondary sectors recorded a positive contribution to growth equivalent to 0.6 percentage points (Chart 1.3).

The growth in GVA was underpinned by increases registered in all sectors of the economy, with substantial growth rates registered in the Real Estate Activities sector (11.5 per cent), the Arts, Entertainment and Recreation sector (10.7 per cent), the Financial and Insurance Activities sector (10.4 per cent), the Public Administration, Education and Human Health sector (9.5 per cent), and the Professional, Scientific and Technical Activities

Chart 1.3



Source: National Statistics Office

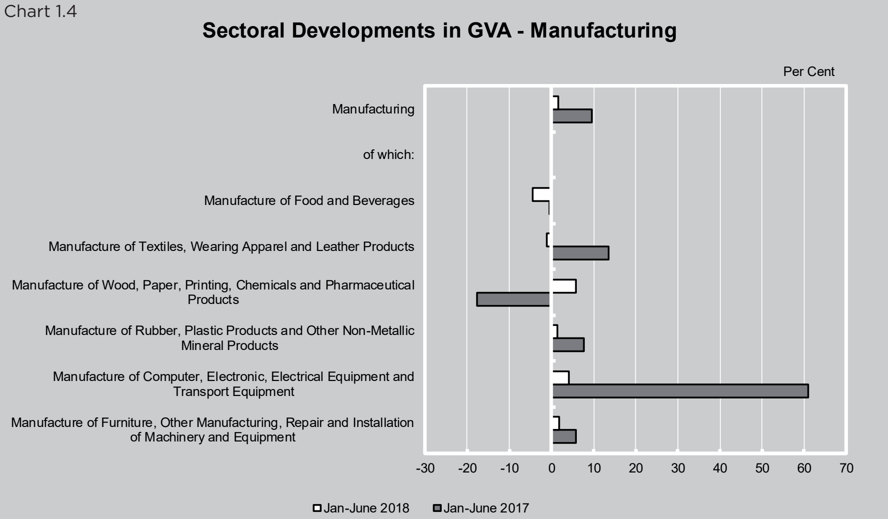
sector (8.5 per cent). These sectors, as well as the Wholesale and Retail, Transportation and Accommodation sector, accounted for a contribution of 6.6 percentage points to GVA growth. An in-depth analysis of the local tourism industry is provided in Box 1.1. The lowest contribution to GVA was recorded in Agriculture and Fishing at 0.03 percentage points.

1.3.1 Manufacturing Performance

The performance of the main sub-sectors within manufacturing during the six months to June 2018 is analysed and compared with developments recorded during the same period a year earlier. This analysis is complemented by Chart 1.4 by zooming into the different sub-sectors within the manufacturing industry.

GVA growth in the Manufacturing sector stood at 1.7 per cent during the first six months of 2018, 7.8 percentage points lower than the rate recorded during the same period a year earlier. The slower growth rate was mainly attributable to a relatively lower growth rate in the manufacture of computer, electronic, electrical equipment and transport equipment sub-sector.

Chart 1.4



Source: National Statistics Office

In the meantime, the wood, paper, printing, chemicals and pharmaceutical products sub-sector reversed the downward trend recorded in previous years and recovered by 5.8 per cent. This increase was mainly recorded on the back of higher GVA in the printing and reproduction of recorded media sub-sector that outweighed a decline in GVA in the manufacture of basic pharmaceutical products and pharmaceutical preparations sub-sector.

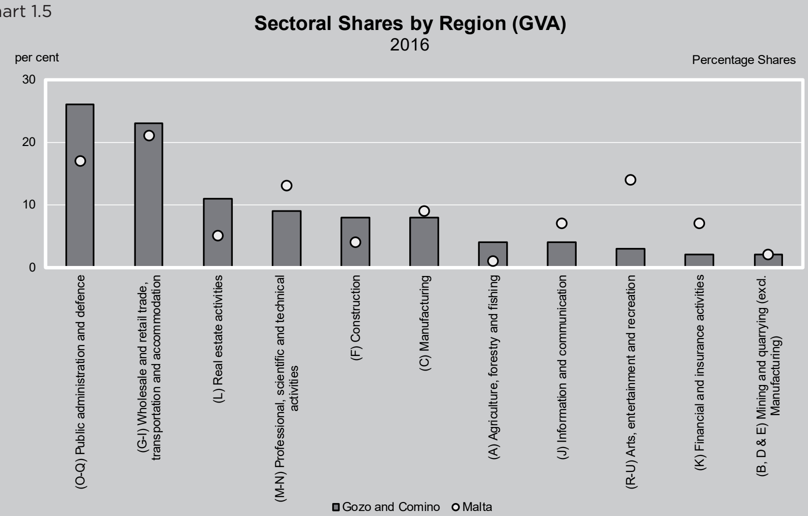
The manufacture of rubber, plastic products and other non-metallic mineral products sub-sector recorded a 1.3 per cent growth rate in GVA during the six months to June 2018, when compared to a growth rate of 7.6 per cent recorded during the January-June 2017 period. Growth was fuelled by the growth in manufacture of rubber and plastic products and other non-metallic mineral products, which outweighed the decline recorded in the manufacture of fabricated metal products. Concurrently, declines in GVA were recorded in the manufacture of food and beverages sector and the manufacture of textiles, wearing apparel and leather products.

1.3.2 Regional Developments

In 2016, GDP at market prices in Gozo stood at €423.8 million, 4.3 per cent of the national level. Chart 1.5 compares Gozo's sectoral contributions to the GVA, with the values recorded for Malta in 2016.[1] Relative to Malta, the Gozitan economy is clearly characterised by a higher proportion of economic activity derived from public administration and defence, real estate activities and construction with their respective shares to total GVA exceeding Malta's shares by 8.9 percentage points, 5.8 percentage points and 4.6 percentage points, respectively. On the other hand, Gozo's shares to GVA were lower in the arts, entertainment and recreation, financial and insurance activities and professional, scientific and technical activities sectors by 11.2 percentage points, 5.2 percentage points and 4.1 percentage points, respectively.

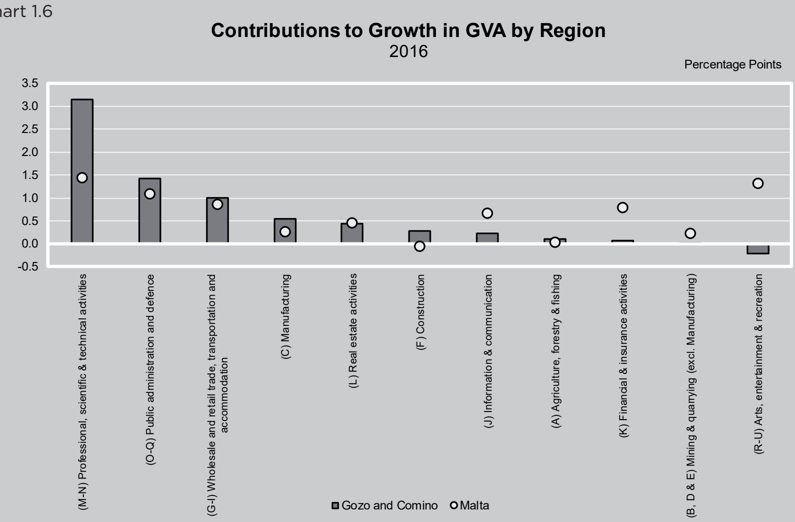
When compared to the previous year, the GVA in 2016 increased by around 7.0 per cent for both Gozo[2] and Malta. Compared to Malta, the increase in economic activity in Gozo was predominantly underpinned by the growth rates recorded in the

Chart 1.5



Source: National Statistics Office

Chart 1.6



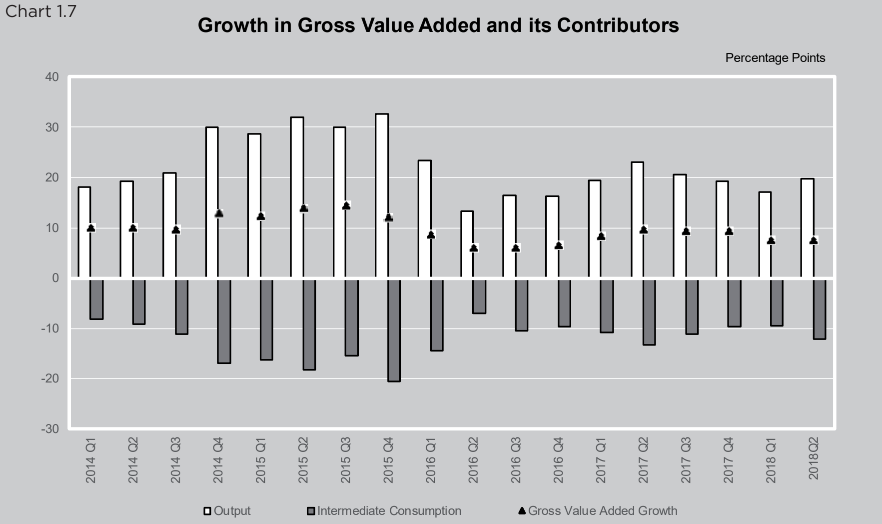
Source: National Statistics Office

professional, scientific and technical activities sector followed by the public administration and defence sector with shares of 3.1 percentage points and 1.4 percentage points respectively. The only decline in Gozo was marginal and recorded in the arts, entertainment and recreation sector (Chart 1.6). On the other hand, Malta's growth was more evenly distributed and the arts, entertainment and recreation, financial and insurance and information and communication sectors provided a stronger contribution to growth in GVA than in Gozo.

1.3.3 Contributors to GVA

On the output side, GVA is defined as the value of all newly generated goods and services (i.e. output) less the value of all goods and services consumed in their creation (i.e. intermediate consumption). Chart 1.7 illustrates the year-on-year growth in GVA and the evolution of the main contributors to this growth over time. One can clearly see that it is output developments that are mainly driving GVA growth in Malta and not the reductions in intermediate consumption. Furthermore, the ratio of

Chart 1.7



Source: National Statistics Office

intermediate consumption to output is on a downward trajectory. This indicates that in the Maltese economy, intermediate costs are rising more slowly than turnover, which points to the possible presence of economies of scale or the evolution to a less resource-intensive structure as the economy transitions further towards services.

Box 1.1

Tourism

The following presents a brief analysis of the profile of tourists visiting Malta based on National Statistics (NSO) data, for the period ending July 2018.

Inbound tourists reached a high of 2,273,837 in 2017, and 1,451,527 for the first seven months of 2018, an increase of 16.9 per cent over the same period in 2017. However, during the first half of the year, total cruise passengers stood at 250,574, a drop of 5.9 per cent over 2017.

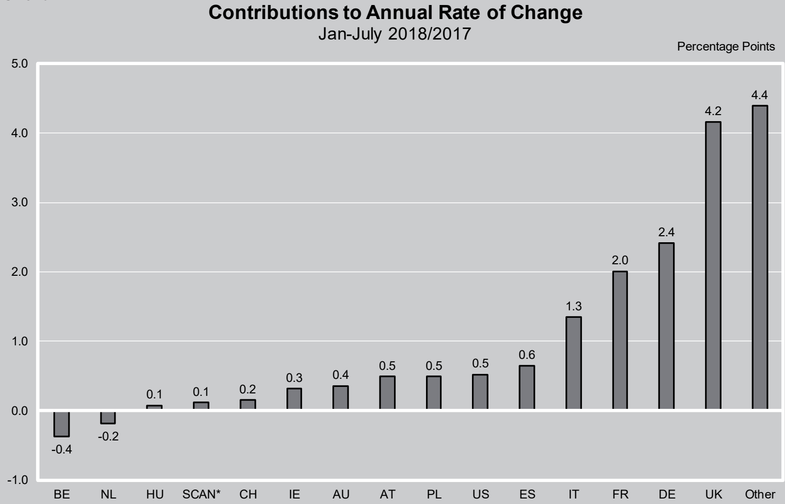
During the first seven months of 2018, 87.8 per cent of the inbound tourists, visited Malta for a holiday visit, while the share of those choosing Malta for business and professional reasons declined to 6.9 per cent. To be recalled that the number of visitors for business and professional reasons were boosted in the first half of 2017 as Malta hosted the rotating Presidency of the European Union. The overall increase in inbound tourists was primarily characterised by a rise in first-time visits, although there was also an increase in repeat tourism. On average, between January and July for the period 2016 to 2018, repeat tourists accounted for around one fourth of total tourists. During the January to July 2018 period, tourists aged between 25 and 44 were the age cohort representing the largest share at 36.8 per cent of the total, followed by the 45-64 age groups which accounted for 31.9 per cent of tourists.

In the first seven months of 2018, growth was mostly underpinned by the traditional markets. Nevertheless, the highest contribution to growth, at 4.4 percentage points, emanated from the 'other' markets category which is an aggregate contribution of many countries predominantly from Eastern Europe.

The highest per capita expenditure during the January to July 2018 period was attributable to visitors from Australia, US and Switzerland. Chart 2 shows that the longer the average length of stay, the higher the expenditure per capita. The relation would be even stronger if we had to exclude the non-European countries from the analysis. Tourists from the US tend to spend significantly more on average in relation to their average length

Box 1.1 cont.

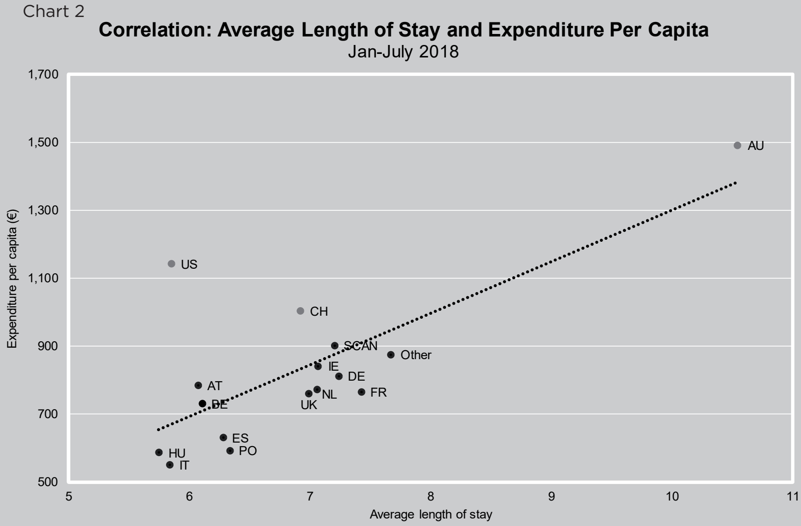
Chart 1



**Scandinavia includes Denmark, Finland, Norway and Sweden*

Source: National Statistics Office

Chart 2



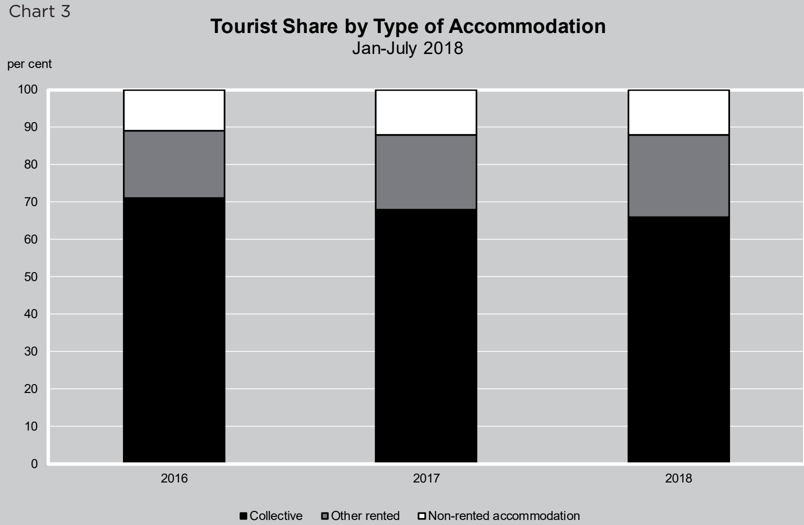
Source: National Statistics Office

Box 1.1 cont.

of stay when compared to other countries/territories. The average length of stay for the tourists visiting Malta during January to July 2018 remained unchanged when compared to the corresponding rate in 2017, at 6.9 nights.

While most tourists opted for non-package travel (64.5 per cent of total tourists) during the January to July 2018 period, increases in both package and non-package expenditure were registered. Increases in the number of tourists residing in all accommodation types were noted in the January to July period between 2016 and 2018, nevertheless the share of tourists residing in collective accommodation establishments dropped by 5 percentage points.

Chart 3



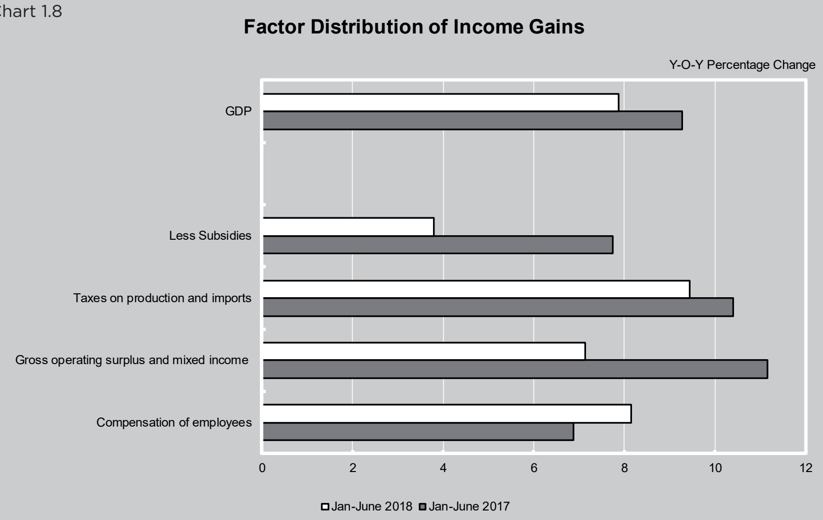
Source: National Statistics Office

1.4 Gross Domestic Product: Income Approach

The factor distribution of income gains in the first half of 2018 was more evenly balanced with the compensation of employees rising by 8.2 per cent and gross operating surplus and mixed income rising by 7.1 per cent. This contrasts with the developments in the same period of 2017, when growth was more based on the contribution of gross operating surplus and mixed income. Meanwhile, taxes on production and imports continued to rise faster than GDP growth, while subsidies rose more slowly in the first half of 2018. Whereas the former exhibited similar patterns in the same period of 2017, subsidies have become more subdued in 2018. Developments in the factor distribution of income gains in the first six months of 2017 and 2018 are shown in Chart 1.8.

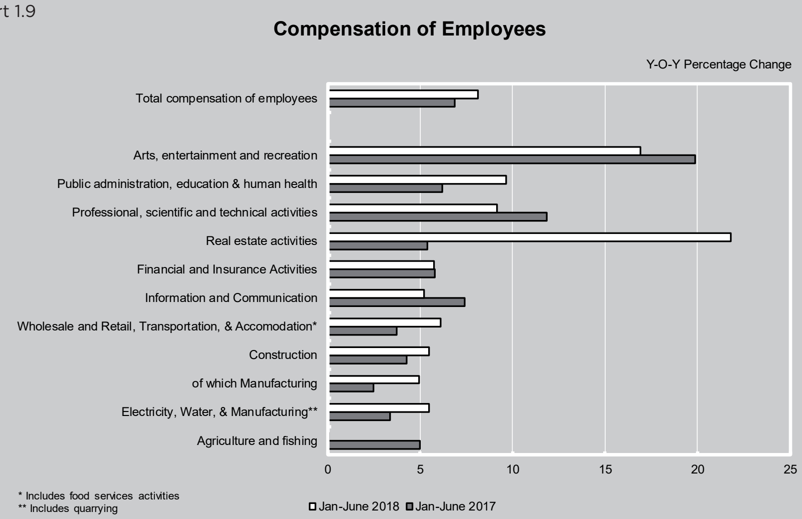
In the first half of 2018, compensation of employees reached €2,439.4 million. The growth in the total compensation of employees for the first six months of 2018 was mainly supported by an increase in employment by 5.1 per cent, while the growth in average compensation per capita was more modest at 2.9

Chart 1.8



Source: National Statistics Office

Chart 1.9



Source: National Statistics Office

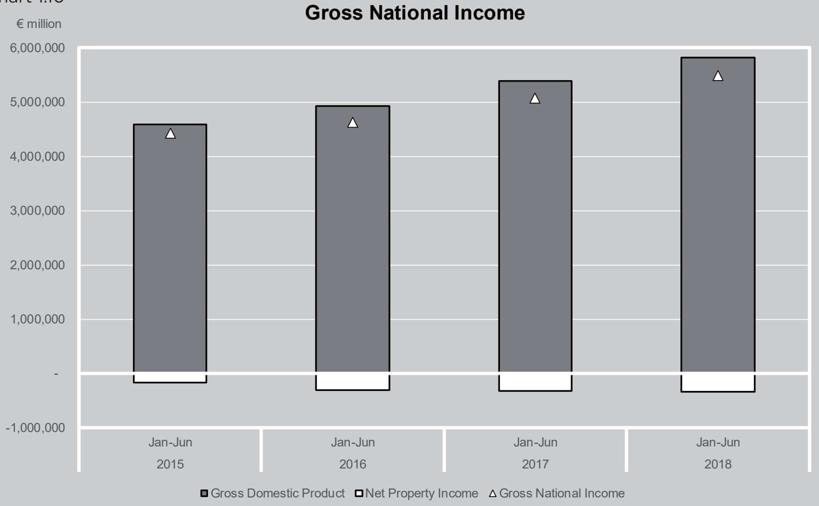
per cent. The increase in compensation of employees was broad-based, with the only sector recording a drop being agriculture and fisheries. From a sectoral perspective, the largest percentage increase in compensation of employees during this period was registered in real estate activities, which increased by 21.8 per cent. The second largest rise was recorded in the arts, entertainment and recreation sector, increasing by 16.9 per cent (Chart 1.9).

1.4.1 Gross National Income

Gross National Income (GNI) is calculated by adjusting GDP at market prices for net compensation received from or paid to the rest of the world, subsidies less taxes from/to the rest of the EU and net income property from the rest of the world. GNI represents the total primary income receivable by resident institutional units, irrespective of where that income was generated. In the last 4 years, GNI was smaller than GDP as the return to foreigners on their domestic investment exceeded the returns generated abroad by domestic nationals.

Chart 1.10

Gross National Income



Source: National Statistics Office

The largest portion of this return to foreigners is attributable to Net Property Income, which includes the profits generated in Malta by foreign owned companies. This category has seen a sharp increase in 2016 but has increased at a more moderate pace thereafter. Net property income paid abroad in the first half of 2018 amounted to €302.0 million, double the amount registered in the same period of 2015. Net compensation of employees from the rest of the world is also increasing rapidly, though this represents a relatively marginal share of net income payments abroad. With more firms employing foreign workers to mitigate the shortage of labour in Malta, net payments abroad of compensation of employees have increased from €9.8 million in the first half of 2015 to €26.7 million in the first half of 2018 (Chart 1.10).

Box 1.2

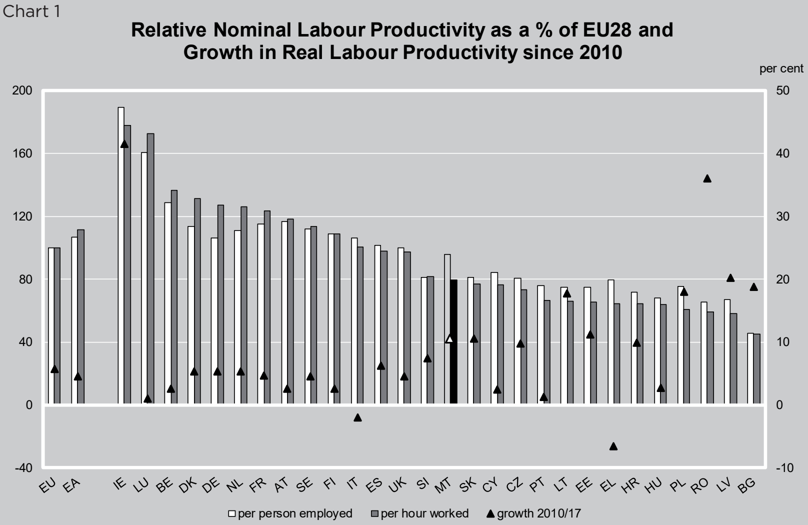
Labour Productivity and Competitiveness

This section evaluates Malta's price competitive position based on unit labour costs and labour productivity as an important determinant of Malta's per capita income levels.

At 95.9 per cent of the European Union (EU), Malta's nominal productivity per person employed in 2017 was close to the EU average. Nevertheless, when measured per hours worked, nominal labour productivity amounted to 79.5 per cent of the EU average. Real labour productivity has increased by 10.5 per cent between 2010 and 2017, which is a notable level of growth when considering the high level of convergence already achieved.

Since 2010, Malta's unit labour costs rose only marginally higher than the EU and Euro Area averages. Nevertheless, at 1.3 per cent, the rise in nominal unit labour costs has been relatively contained. In real terms, growth in unit labour costs has moderated, particularly after 2013, as growth in compensation per employee subsided and labour productivity strengthened.

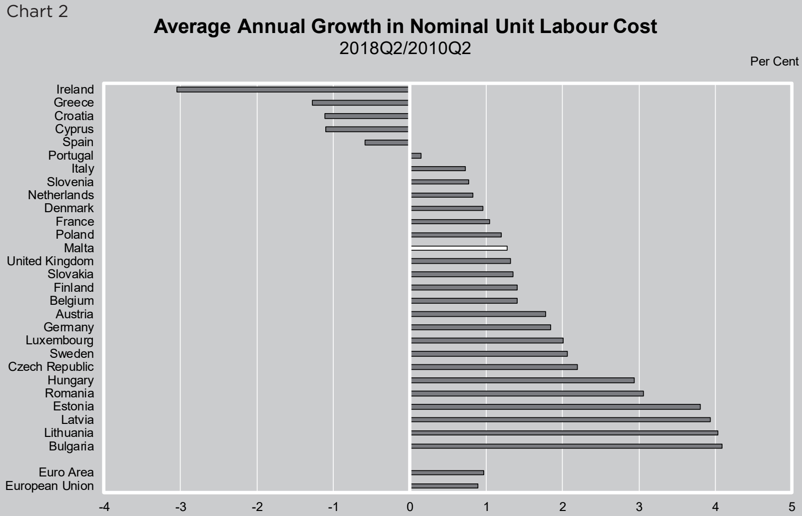
Chart 1



Source: Eurostat

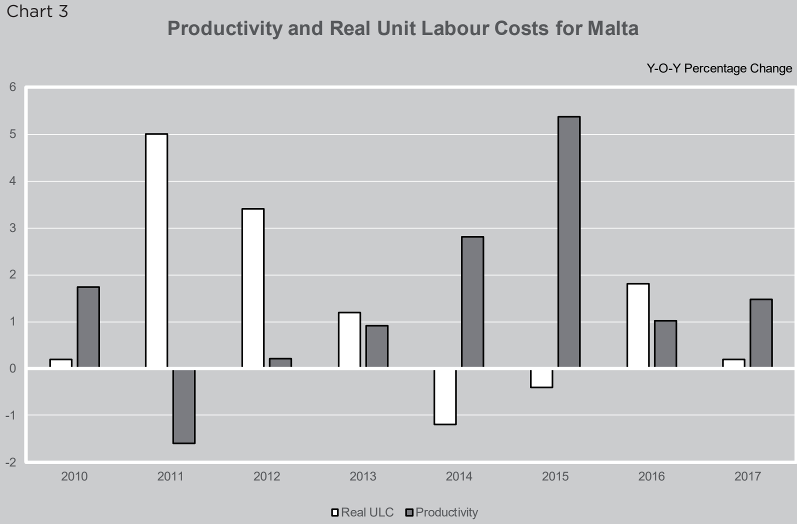
Box 1.2 cont.

Chart 2



Source: Eurostat

Chart 3



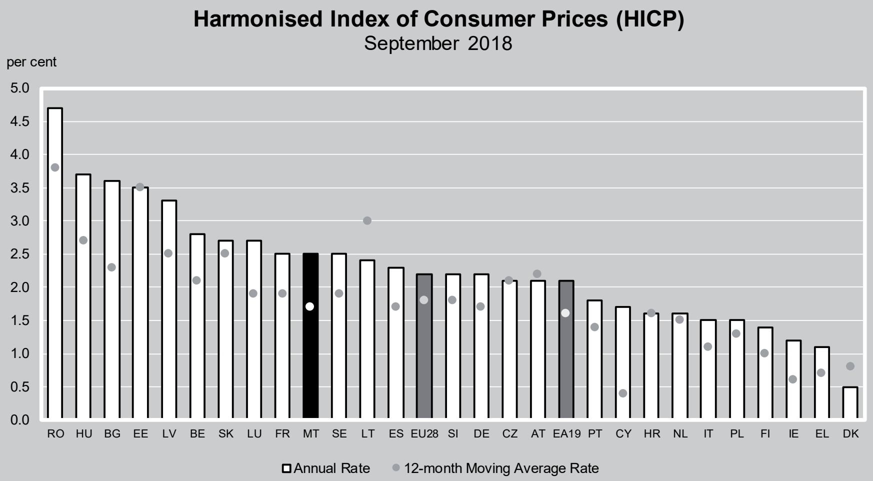
Source: Eurostat

1.5 Inflation

1.5.1 International Comparison

In September 2018, the 12-month moving average rate of inflation as measured by the Harmonised Index of Consumer Prices (HICP) stood at 1.7 per cent. The annual rate stood at 2.5 per cent during the same month.

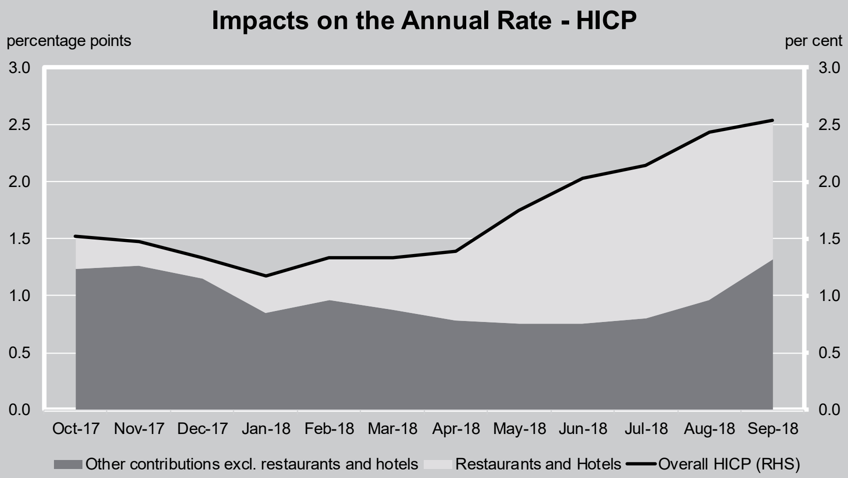
Chart 1.11



Source: Eurostat

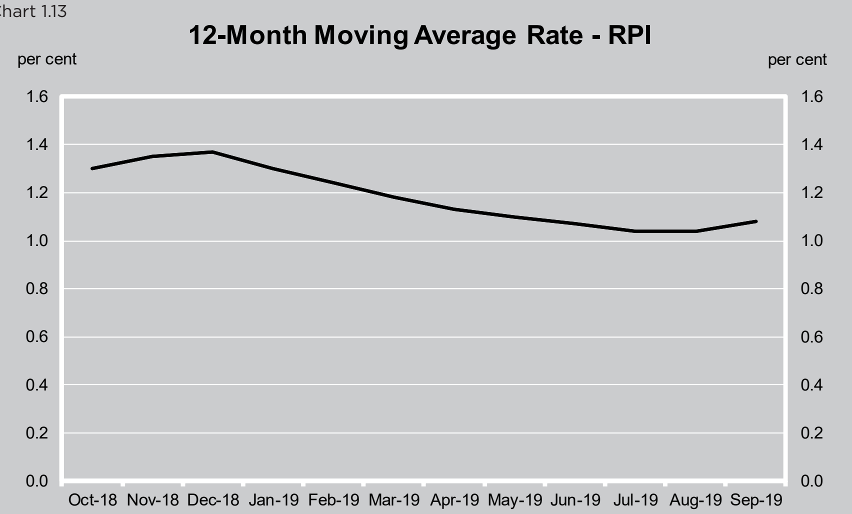
The increase in the annual rate of inflation observed after April 2018 was mainly brought about by the Restaurants and Hotels Index with a contribution of 1.2 percentage points in September 2018 (Chart 1.12). When compared to the previous month, the contribution of this component registered a drop. Nevertheless, the headline rate continued on an upward trajectory mainly due to the increase in the contribution of the Food and Non-Alcoholic Beverages Index. This was the second largest impact of September 2018 (0.5 percentage points).

Chart 1.12



Source: National Statistics Office

Chart 1.13



Source: National Statistics Office

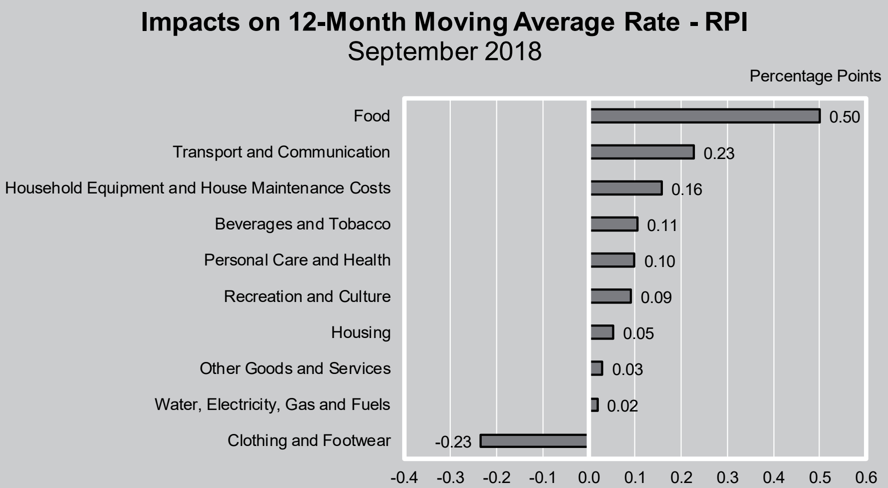
1.5.2 Retail Price Index

The 12-month moving average rate of inflation as measured by the Retail Price Index (RPI) is the official rate used to compute the Cost of Living Adjustment (COLA). Like the HICP, the RPI measures inflation but the weighting structure of the two differs.

Between October 2017 and September 2018, the 12-month moving average rate of inflation as measured by the RPI hovered around 1.18 per cent, with the last rate recorded during the period standing at 1.08 per cent (Chart 1.13).

The Food sub-index brought about the largest upward impact on the 12-month moving average rate of inflation in September 2018, with a contribution of 0.50 percentage points. This contribution was mainly driven by developments in the prices for restaurant services, fruit and bread. The second highest contribution was recorded in the Transport and Communication sub-index at 0.23 percentage points, reflecting changes in the prices of motor vehicles and fuels.

Chart 1.14



Source: National Statistics Office

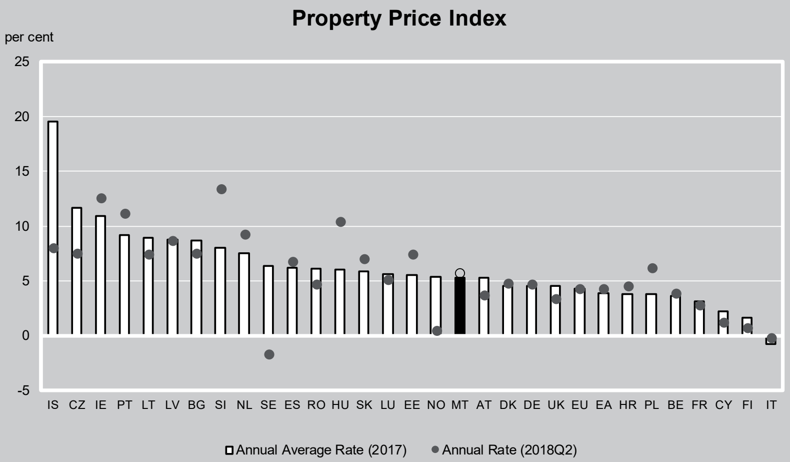
Box 1.3

Residential Property Prices

Residential property prices have been on an upward trajectory in the last few years, mainly driven by supply constraints, demographic developments, low interest rates and rising disposable income. Chart 1 compares the Property Price Indices (PPI) of Malta with the rest of Europe; the former is based on administrative records[1] and is compiled by the National Statistics Office.

During the second quarter of 2018, the PPI for Malta increased by 5.7 per cent when compared to the same quarter of last year.

Chart 1



Source: Eurostat

Footnote:

[1] Commissioner for Revenue (CfR).

The only sub-index that showed a negative contribution in September was Clothing and Footwear, mainly due to price decreases in men's and women's clothing items.

1.6 Macroeconomic Forecasts

The Maltese Economy is expected to grow by a rate of 5.8 per cent in real terms in 2018. The domestic side will be the main contributor to this growth, whilst the external side of the economy is expected to have a negative impact on economic growth.

Private consumption is expected to rise by a real rate of 5.6 per cent, mainly as a result of increases in employment and disposable income. Government consumption is expected to grow by 15.0 per cent in real terms (or equivalent to 19.0 per cent in nominal terms), mainly reflecting higher compensation of employees in the public sector. After excluding the IIP portion of market output, public consumption is projected to grow by 13.8 per cent in nominal terms. Even though there was a decline in gross fixed capital formation figures over the first half of the year, figures should bounce back in the latter stages of 2018 and reach a growth rate of 1.3 per cent in 2018 brought about by the expected acceleration of EU-funded investment. To note that, economists within the Ministry for Finance (MFIN) take a relatively prudent approach when forecasting investment, assuming also a relatively high import contend of investment.

From an external standpoint, import growth is expected to outweigh export growth, leading to a negative net trade contribution to growth equivalent to 1.2 per cent in 2018. Strong domestic demand is the main driver behind an expected 2.0 per cent increase in real rate terms in imports. On the other hand, weaker external demand conditions from those originally anticipated in previous MFIN forecasts, led to a moderate growth of 1.3 per cent in real exports.

The Labour Force Survey (LFS) reported an employment rate of 70.6 per cent in the second quarter of 2018, 1.7 percentage points higher than the corresponding period of last year. Employment is projected to register growth rates of 5.0 per cent and 4.3 per cent for 2018 and 2019, respectively. All sectors are expected to register a growth in employment numbers. The overall positive performance is mainly attributable by the inflow of foreign workers and a higher female participation rate, reflecting ongoing government policies aimed at strengthening the supply side of the labour market. On the other hand, unemployment rate is expected to remain below the EU average rate and settle at 4.0 per cent and 4.1 per cent in 2018 and in 2019, respectively, reflecting the buoyant state of the economy.

Prices are projected to increase by 1.7 per cent for 2018 and 1.9 per cent for 2019, reflecting higher growth in the prices of services and processed food that is partly offset by lower growth in non-energy industrial goods and services components. The relatively higher oil prices in 2018 and 2019 and higher expected services inflation are expected to increase inflationary pressures, while the strength of the Euro is expected to alleviate these effects.

Throughout 2019, real GDP is expected to reach a growth rate of 5.3 per cent as domestic demand is expected to remain strong. While Government expenditure is expected to moderate, private consumption is expected to remain robust albeit more balanced due to a pick-up in inflation. Investment is expected to hasten further on the back of the materialisation of several large-scale investment projects of a construction nature particularly in health, real-estate and tourism.

In contrast to 2018, net exports are expected to contribute positively to economic growth over the course of 2019, as real exports should increase at a relatively faster pace (+0.9 percentage points), reaching a growth rate of 2.2 per cent, while imports are expected to continue growing at a marginally slower pace (-0.2 percentage points), reaching a growth rate of 2.2 per cent. An increase in investment activity should lead to a rise in imports of capital goods while imports of consumption goods are expected to decline as private final consumption should slow down in comparison to 2018. In 2019, exports are expected to grow at a real rate of 2.2 per cent, despite the further strengthening of the Euro and subdued external demand conditions.

Table 1.2 presents the main macroeconomic indicators for the period 2017 to 2019. The figures for the 2017 are based on the latest data released by the National Statistics Office (NSO) under the ESA 2010, whereas the figures presented for 2018 and 2019 are forecasts produced by economists within the MFIN. The macroeconomic forecasts presented in this Economic Survey are based on the following assumptions:

1. Economic activity in Malta's main trading partners is expected to increase by 1.8 per cent in 2018 and 1.7 per cent in 2019.
2. Oil prices are expected to rise, reaching an average of US $72.1 per barrel in 2018 and US $72.2 in 2019.
3. The short-term interest rate is expected to remain at the current spot rate of 0.0 per cent in both 2018 and 2019. On the other hand, the long-term interest rate is expected to average at 1.3 per cent in 2018 and remain at the same level in 2019.
4. The USD/EUR exchange rate is expected to average 1.1785 in 2018 and 1.1980 in 2019, representing an appreciation of the Euro of 2.7 per cent in 2018 and 1.7 per cent in 2019. The STG/EUR exchange rate is expected to average 0.8873 in 2018 and 0.8868 in 2019, representing an appreciation of the Euro of 1.3 per cent in 2018 and a slight depreciation of the Euro of 0.1 per cent in 2019.
5. It is assumed that, starting from the third quarter of 2018, changes in inventories will not contribute materially to GDP growth.

Growth in Macroeconomic Forecasts

Table 1.2 per cent

	2017	2018f	2019f
GDP growth at current market prices	9.4	7.7	7.7
GDP growth at Chain Linked Volumes by period (Reference year 2010)[1]	6.7	5.8	5.3
Expenditure Components of GDP			
at Current Market Prices by period			
Private final consumption expenditure[2]	4.8	6.3	4.7
General Government final consumption expenditure	4.6	19.0	10.6
: net of Individual Investor Programme (IIP) proceeds	*8.0*	*13.8*	*7.1*
Gross fixed capital formation	-5.3	5.0	11.1
Exports of goods and services	7.3	4.1	3.9
: net of Individual Investor Programme (IIP) proceeds	*6.9*	*5.8*	*3.1*
Imports of goods and services	0.5	5.3	3.9
Expenditure Components of GDP			
at Chain Linked Volumes by period (Reference year 2010)			
Private final consumption expenditure[2]	3.7	5.6	4.1
General Government final consumption expenditure	2.8	15.0	8.2
Gross fixed capital formation	-7.3	1.3	8.4
Exports of goods and services	3.8	1.3	2.2
Imports of goods and services	-1.9	2.0	2.2
Inflation rate	1.3	1.7	1.9
Employment growth (National Accounts Definition)	4.0	5.0	3.7
Unemployment rate (Harmonised definition, Eurostat)	4.6	4.0	4.1
Compensation per employee	1.8	2.9	2.9
Labour productivity	1.4	0.8	1.4
Nominal Unit Labour Cost	0.4	2.1	1.5
Real Unit Labour Costs	-0.9	0.4	-0.4

[1] Users should note that chain-linking gives rise to components of GDP not adding up to the aggregate real GDP series. This non-additivity, similar to that in other countries' national accounts, is due to mathematical reasons and reflects the fact that chain-linked volumes are calculated by separately extrapolating both totals and their sub-components.

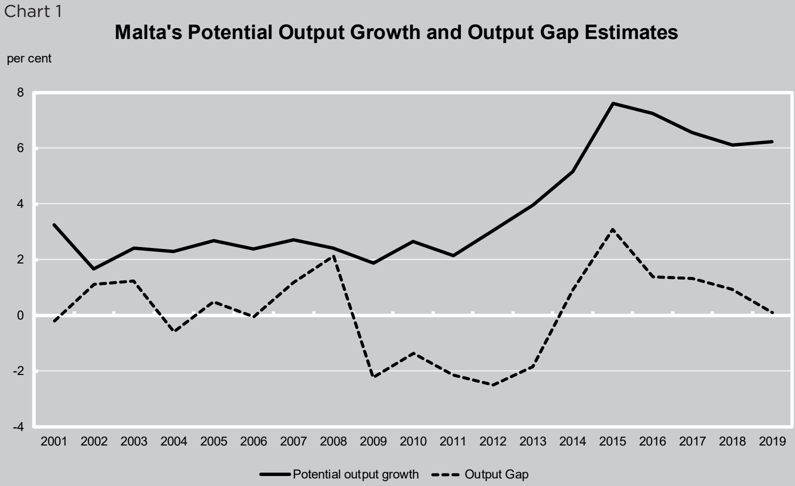
[2] Includes NPISH final consumption expenditure.

Box 1.4

Potential Output and the Output Gap

The developments in potential output and in the output gap, both historically and those expected over the forecast horizon are illustrated in Chart 1. The average potential output growth stood at 4.8 per cent during the period 2010 to 2017. Over 2018 and 2019, potential output growth is expected to increase to an average growth rate of 6.2 per cent, mainly underpinned by positive employment growth and higher labour market participation rates. Improvements in the total factor productivity and capital accumulation will also contribute positively to potential output growth. The positive output gap for 2017 of 1.3 per cent is expected to decline to 0.9 per cent for 2018, and then to almost close in 2019.

Chart 1



Source: Economic Policy Department

Footnotes:

[1] Latest available data for Gozo.

[2] The Gozo and Comino region is referred to as Gozo throughout this section.

2. Labour Market and Social Developments

2. Labour Market and Social Developments

2.1 Introduction

The performance of the labour market remains buoyant. Employment growth has remained strong, in particular due to services sector while the unemployment rate remained on a downward trajectory. Strong net-inflows of migration helped to ease the emerging demographic burden and accommodate the high outturn in labour demand. Poverty and social exclusion risks are declining, with income inequality rather stable and below the European Union (EU) average.

2.2 Labour Supply

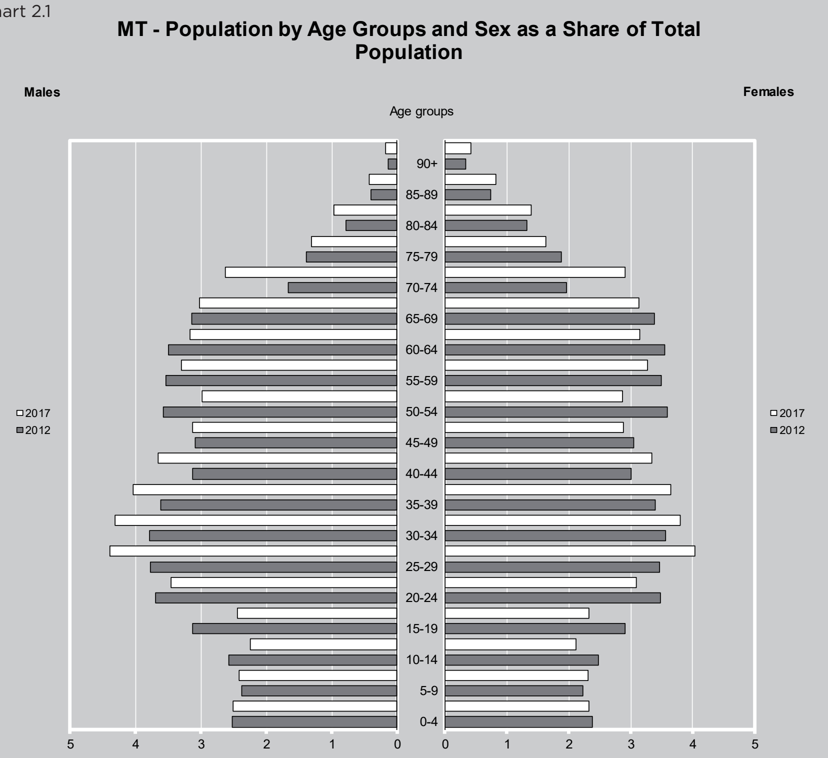
2.2.1 Dependency ratio

By end of the year 2017, the total population stood at 475,701, up by 3.3 per cent when compared to 2016. Malta's population, similar to other developed and developing countries, is experiencing significant changes due to low fertility, continuous gains in life expectancy and strong inward migration. The share of 65+ people has increased significantly in recent years, reflecting Malta's demographic transition. In 2017, persons aged 65 and over represented around 19 per cent of the total population (Chart 2.1).

Meanwhile, the share of the working-age population (aged 15-64 years) in the total population stood at 67 per cent in 2017, a drop of 1 percentage point when compared to 2012.

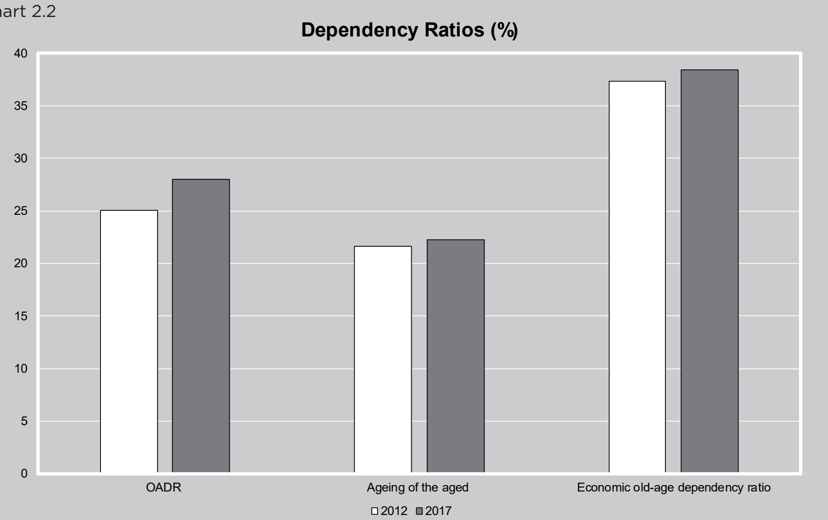
The developments in the dependency ratios shed light on the dynamics of the ageing process, by relating the number of individuals that are likely to be 'dependent' – youths and the elderly – on the support of others for their daily living to the number of individuals who can provide such support. Key indicators of age dependency are the old-age-dependency ratio

Chart 2.1



Source: National Statistics Office

Chart 2.2



Source: National Statistics Office

(OADR - showing persons aged 65 years or more in relation to the number of individuals aged 15-64 years), the ageing of the aged ratio (80+ age bracket as a percentage of the 65+ age bracket) and the economic old-age dependency ratio (inactive population aged 65+ as a percentage of the employed population 15-64). All three measures are on the increase (Chart 2.2). Whilst the ageing process is impinging on the dependency ratios, the improved employment rates, particularly for women and the elderly, is alleviating the pressure emanating from rising old-age dependency.

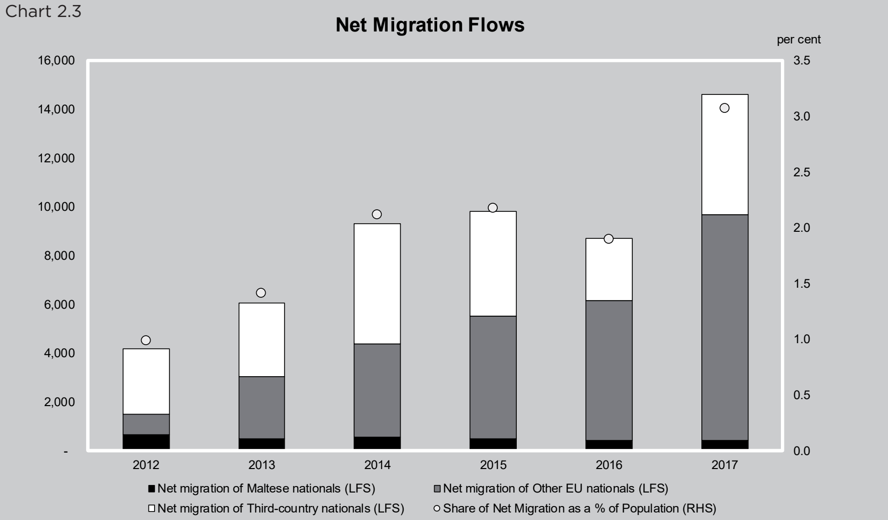
2.2.2 Regional overview

The share of Gozo's population in relation to the total population stood at 6.9 per cent in 2017, 0.6 percentage points lower than the rate recorded in 2011. This coupled with the fact that the persons aged 65 and over represented around 22 per cent of the total population - around 3 percentage points higher than Malta's rate - exacerbates the ageing problem in Gozo even further. For Gozo, the old-age dependency ratio was around 34 per cent in 2017 while for Malta the rate stood at around 28 per cent. Meanwhile, the support ratio for Gozo was 3 to 1 whereas that for Malta was 4 to 1. This implies that while in Malta there were around 4 persons of working-age for every person that reached pensionable age, in Gozo there were 3.

2.2.3 Net-Migration

Positive net-migration of working-age can ease the natural demographic pressures experienced during the recent years. Net-migration (immigration less emigration) has been positive and increased from 8,728 in 2016 to 14,623 in 2017. Net-migration inflows as a share of total population increased from 1.9 per cent in 2016 to 3.1 per cent in 2017 (Chart 2.3). This was primarily underpinned by EU nationals, with a contribution of almost 2 percentage points followed by the share of third-country nationals with around 1 percentage point.

Chart 2.3



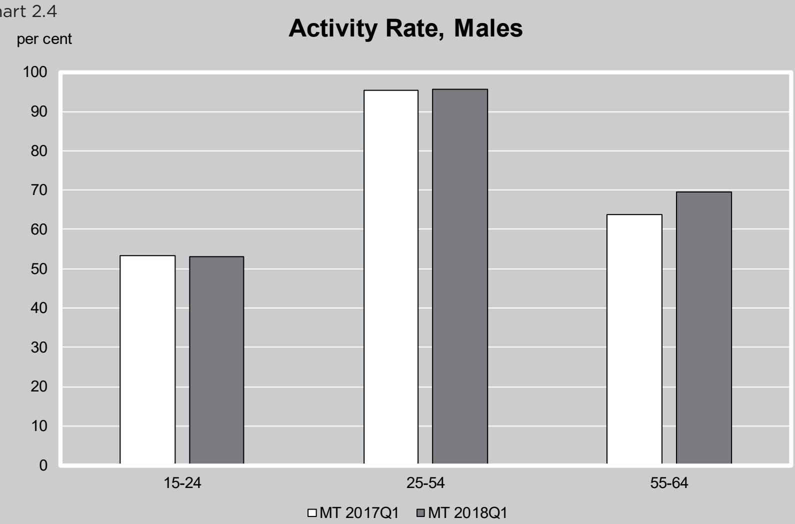
Source: National Statistics Office

2.2.4 Labour Supply

According to the Labour Force Survey (LFS) data, in the first quarter of 2018, the activity rate for the 15-64 years age bracket in Malta (72.6 per cent) increased by around 2 percentage points when compared to the corresponding quarter of 2017. This is 0.7 percentage points lower than the rate recorded at EU level in the first quarter of 2018. Both male and female activity rates for the age bracket 25 to 59 years increased in the period under review, but whereas the former rate was 5 percentage points higher than the EU average, the latter was around 7.1 percentage points below the EU average (Charts 2.4 and 2.5).

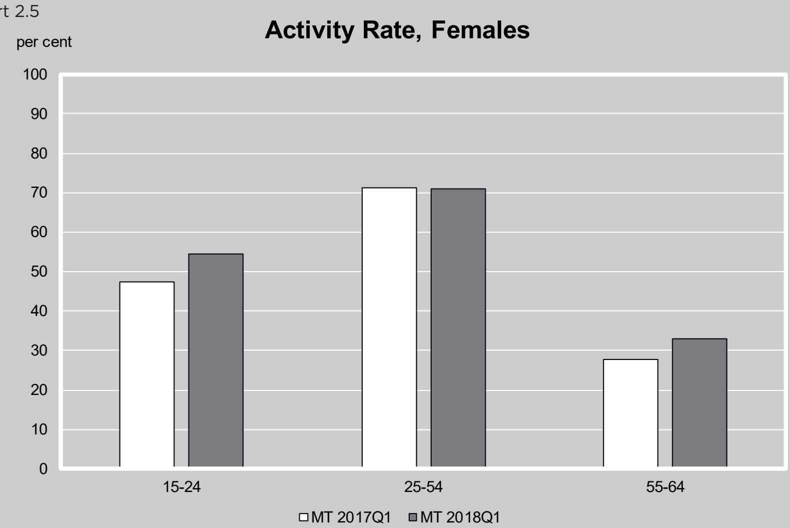
A closer look at the developments in the activity rates over the year to the first quarter of 2018, indicates that whilst all categories for males reported increases, the strongest rise in the activity rate was recorded in older workers category. A similar trend was noted amongst females with strong increases in the activity rates recorded amongst both younger (15-24 years) and older (60-64 years) workers category.

Chart 2.4



Source: National Statistics Office

Chart 2.5



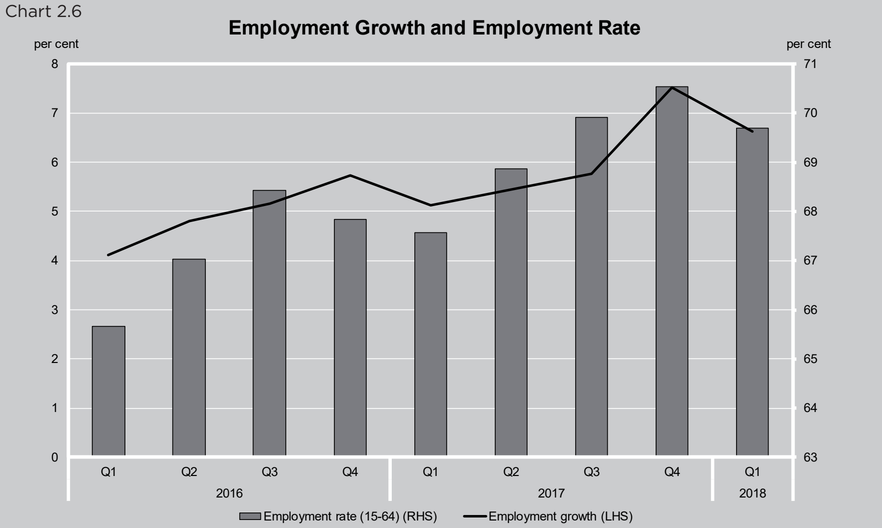
Source: National Statistics Office

2.3 Labour Market Outcomes

The Maltese labour market continues to be robust, with the number of employed and employment rates reaching record levels in 2017 as shown in Chart 2.6. Employment growth has been high, reflecting a job-rich economic growth. This was particularly evident in 2016 and 2017, when the number of people employed increased by around 11,000 persons (or 5.4 per cent) on average compared to the previous year. Employment growth remained solid in the first quarter of 2018 at 6.6 per cent.

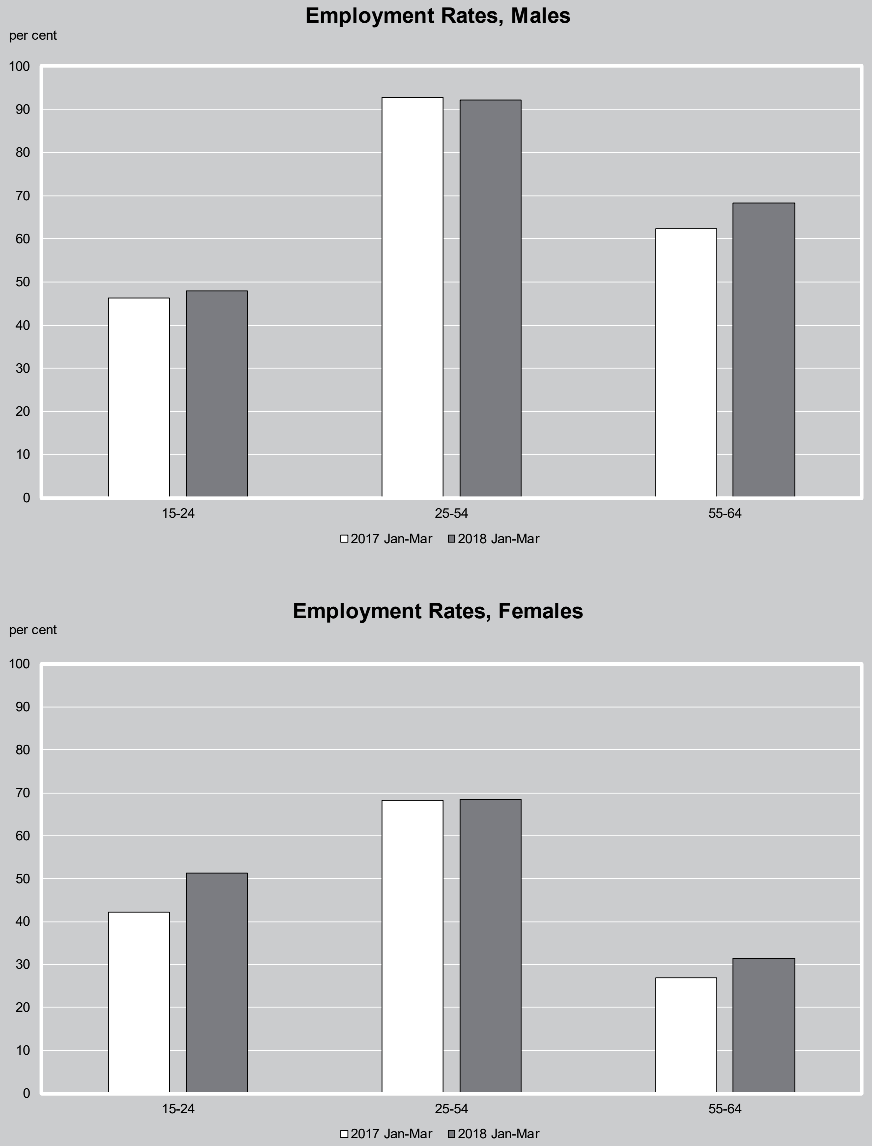
The employment rate (15-64) during the first quarter of 2018 stood at 69.7 per cent. On average, out of every 100 persons aged between 25 to 54 years, 81 were employed. The male employment rate for this age bracket was 92.1 per cent while that for females was almost 69 per cent. The narrowest gender gap in the employment rate was recorded among persons aged between 15 and 24 years, with the gender employment rate gap increasing with age.

Chart 2.6



Source: National Statistics Office

Chart 2.7



Source: National Statistics Office

Employment rates in the EU continued on an upward trajectory, on the back of higher participation rates recorded for women and older workers, despite the pressures emanating from a diminishing working-age population. During the first quarter of 2018, the employment rate for the EU improved by 1.1 percentage points to reach 67.8 per cent when compared to the same quarter of the previous year.

According to the administrative records of Jobs Plus, the five sectors in the private sector that contributed mostly to full-time employment growth included Administrative and Support

Contribution to Growth in Private Sector Employment*

Table 2.1 per cent

NACE	Dec-2016/ Dec-2015	Dec-2017/ Dec-2016	Apr-2018/ Apr-17
Direct Production	**0.4**	**0.8**	**1.0**
Manufacturing	0.1	0.4	0.5
Construction	0.3	0.4	0.4
Agriculture, forestry and fishing	0.1	0.0	0.0
Water supply and waste management	-0.0	0.0	0.0
Mining and Quarrying	-0.0	0.0	0.0
Electricity, gas, steam and air conditioning supply	0.0	0.0	0.0
Market Services	**6.9**	**6.8**	**6.6**
Administrative and support service activities	1.4	1.8	1.8
Professional, scientific and technical activities	0.9	0.9	0.9
Arts, entertainment and recreation	1.2	0.9	0.8
Accommodation and food service activities	0.7	0.7	0.7
Human health and social work activities	0.4	0.6	0.6
Financial and insurance activities	0.4	0.5	0.5
Transportation and storage	0.3	0.3	0.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.5	0.3	0.3
Other service activities	0.2	0.2	0.3
Education	0.1	0.2	0.2
Information and Communication	0.4	0.2	0.1
Real estate activities	0.1	0.1	0.1
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	0.2	0.1	0.0
Activities of extraterritorial organisations and bodies	0.0	-0.0	-0.0

* Including temporary employees

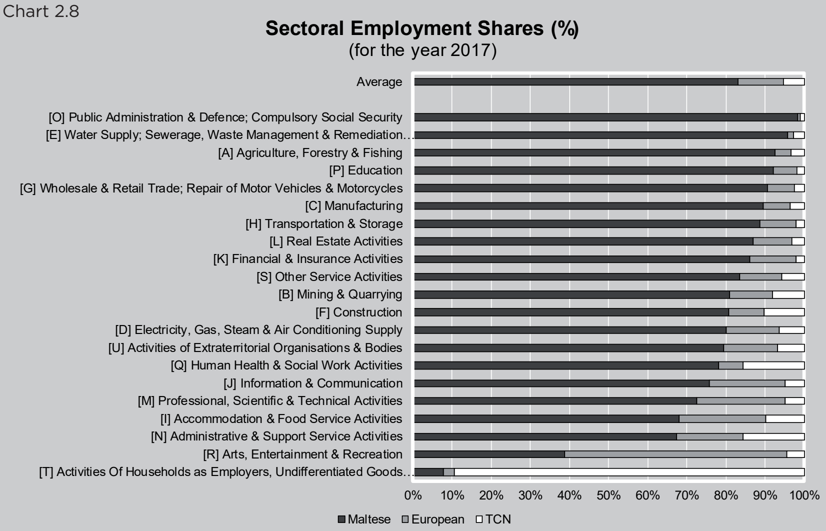
Source: JobsPlus

Service activities, Professional, Scientific and Technical activities, Arts, Entertainment and Recreation activities, Accommodation and Food Service activities, and Human Health and Social Work activities (Table 2.1). Together they made up more than 60 per cent of the increase in full-time employment in the private sector. By end of April 2018, the share of gainfully-occupied in the public sector stood at 23.2 per cent, down from 24.0 per cent from the corresponding month in 2017. The administrative records suggest that the labour market has become more diversified. The contribution of direct production was also on the increase primarily as a result of a greater contribution by Manufacturing and Construction.

Furthermore, Jobs Plus records confirms that in 2017, the share of full-time foreign workers in Malta totaled to 19.9 per cent, with the ratio of Europeans to third-country nationals (TCN) standing at two is to one.[1] Almost one in every five Europeans working in Malta is engaged in the Arts, Entertainment and Recreation sector and one in every four third-country nationals working in Malta is engaged with the Administrative and Support Service Activities sector. The Administrative and Support Service Activities sector employs the largest share of foreign workers at 16.2 per cent followed by the Arts, Entertainment and Recreation sector which employs 14.4 per cent of the full-time foreign workers in Malta. Another sector employing a considerable number of foreigners is the Accommodation and Food Service Activities sector at 12.2 per cent in 2017 (Chart 2.8).

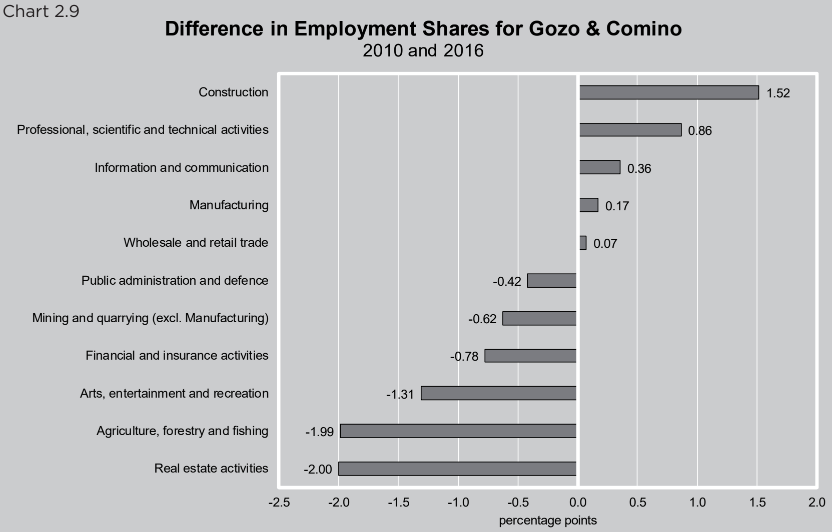
On a regional level, the Construction sector and the Professional, Scientific and Technical Activities sector registered the largest increases in sectoral employment shares in Gozo[2] (relative to Malta's shares), rising by 1.52 percentage points and 0.86 percentage points respectively, between 2010 and 2016 (Chart 2.9). During the same period, the biggest drops were observed in the Real Estate Activities sector (-2.00 percentage points) and the Agriculture, Forestry and Fishing sector (-1.99 percentage points).

Chart 2.8



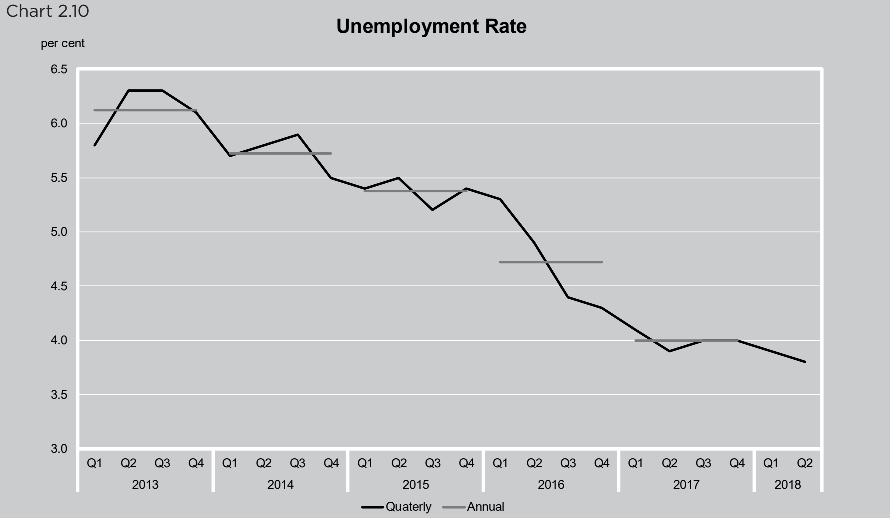
Source: JobsPlus

Chart 2.9



Source: National Statistics Office

Chart 2.10



Source: Eurostat

The declining trend observed in the unemployment rate has been persistent over the entire period under review (Chart 2.10). The unemployment rate for the first quarter of 2018, stood at 3.9 per cent which represents a decline of 0.2 percentage points over the corresponding period of 2017. The number of unemployed persons stood at 9,880 of whom around four-out-of-five are aged 25 and over, and short-term unemployed (less than 12 months). Both the male and female unemployment rates stood at 3.9 per cent, an increase of 0.3 percentage points and a decrease of 0.9 percentage points over the corresponding period last year, respectively.

2.4 Sectoral Wages – Collective Agreements

This section illustrates the development in the average weekly wage rates based on collective agreements as deposited with the Department of Industrial and Employment Relations, covering the period between August 2017 and August 2018.

Box 2.1

Collective Agreements Methodology

The sample under review comprises of 131 firms employing 56,723 full time employees, with 39 firms engaged in direct production and employing 9,815 individuals, the remaining 92 firms operate in services with 46,959 employees. The total coverage ratio is 35 per cent, with the coverage of the Public Service improving significantly this year. The weekly wages are divided into three distinguished levels as per International Standard Classification of Occupation (ISCO-08) ten-skill level groups excluding military occupation. ISCO is a system of classification and aggregation of occupational information under the International Labour Office (ILO). Level 1 includes ISCO major group 9, which reflects elementary occupations. Level 2 includes ISCO major groups 4 to 8 referring to clerk, service and sales workers, skilled agricultural and fishery workers, craft and related trades workers, and plant and machine operators and assemblers. Lastly, Level 3 includes ISCO major groups 1 to 3 covering managers, senior official and legislators, professionals, technicians and associate professionals.

In this analysis, definite contracts of employment are not considered and any employment benefits over and above the basic wage such as production bonuses, overtime payments, social security and allowances and other non-wage incomes, are excluded. This source of non-wage income can be quite significant for some sectors of employment, such that the employees' actual average weekly remuneration might be higher than that reported in this study.

The results presented - comparing the figures for 2018 with those of 2017 - are directly comparable since the analysis is based on the same employment weighting structure and sample of firms. Hence, the difference represents the actual change in wages over the year. However, the wage estimates are not directly comparable to those published in previous Economic Surveys. Comparability is hampered by the methodology and sampling procedure adopted, mainly the inclusion of additional firms and exclusion of others. Thus, the individual firms weighting in each category would change reflecting the changes in employment levels. The average wages rate may also change due to the reclassification of grades of a new collective agreement.

Box 2.1 cont.

The methodology used in this study complies collective agreements based on the entity's NACE code. This classification provides a structure for statistical data according to economic activity. Then the average wage under the three levels for each individual collective agreement is calculated and in cases where the collective agreement is exclusive of the Cost of Living Adjustment (COLA), the figures are increased accordingly. The COLA for the year 2018, as announced in the 2018 Budget Speech, amounted to €1.75.

Average Weekly Wages
August 2018

Table 2.2 €

		Level 1	Level 2	Level 3	Weighted Average
B	Mining support services activities	306.05	351.15	391.38	354.39
CA	Manufacture of food products, beverages and tobacco products	248.00	301.61	383.57	306.55
CB	Manufacture of textiles, apparel, leather and related products	305.83	321.90	379.67	329.28
CC	Manufacture of wood and paper products, and printing	319.60	362.05	423.82	366.65
CE	Manufacture of chemicals and chemical products	284.64	323.11	347.40	319.42
CF	Manufacture of pharmaceuticals, medicinal chemical and botanical products	343.26	369.92	426.32	396.43
CG	Manufacture of rubber and plastics products, and other non-metallic mineral products	268.29	304.52	358.17	305.87
CH	Manufacture of basic metals and fabricated metal products, except machinery and equipment	314.54	328.15	363.73	332.35
CI	Manufacture of computer, electronic and optical products	240.58	284.96	336.56	302.56
CJ	Manufacture of electrical equipment	241.05	336.11	385.95	335.24
CK	Manufacture of machinery and equipment	214.74	355.48	414.95	360.21
CL	Manufacture of transport equipment	228.33	293.69	358.33	313.23
CM	Other manufacturing, and repair and installation of machinery and equipment	248.59	316.63	410.35	330.80
E	Water supply; sewerage, waste management and remediation activities	246.68	327.56	490.53	326.56
F	Construction	243.45	282.35	335.14	280.56
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	223.43	285.76	381.90	304.03
H	Transportation and storage	299.10	334.61	511.87	375.95
I	Accommodation and food service activities	241.87	269.98	305.06	275.94
J	Information and communication	236.50	299.48	393.58	366.40
K	Financial and insurance activities	310.90	435.63	725.31	566.98
L	Real estate activities	226.34	314.11	489.14	402.45
MA	Legal, accounting, management, architecture, engineering, technical testing and analysis activities	259.73	356.96	412.25	391.13
N	Administrative and support service activities	234.42	290.80	479.91	316.01
O	Public administration and defence; compulsory social security	219.52	310.44	470.01	399.76
P	Education	245.47	334.64	526.88	460.35
QB	Residential care and social work activities	242.82	301.53	437.36	331.20
R	Arts, entertainment and recreation	253.67	313.50	413.47	359.18
S	Other service activities	203.37	312.28	458.74	344.81
All sectors		242.53	313.36	451.26	360.20
Direct production		254.48	308.84	375.34	312.91
Services		237.63	314.59	460.75	370.78

Source: Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

As at August 2018, the weighted average weekly wage for all firms stood at €360.20 (Table 2.2). The highest average weekly wage for this period was recorded in the Financial and Insurance sector (€566.98) and Education (€460.35) while the lowest was recorded in the Accommodation and Food Service Activities sector (€275.94). The lowest reported average wage resulted at Level 1 under the Other Services sector (€203.37), which is €30.86 or 17.9 per cent over the national minimum wage for 2018. The highest average wage was recorded in the Financial and Insurance sector under Level 3 at €725.31.

Percentage Change in Average Weekly Wages
August 2017- August 2018

Table 2.3 per cent

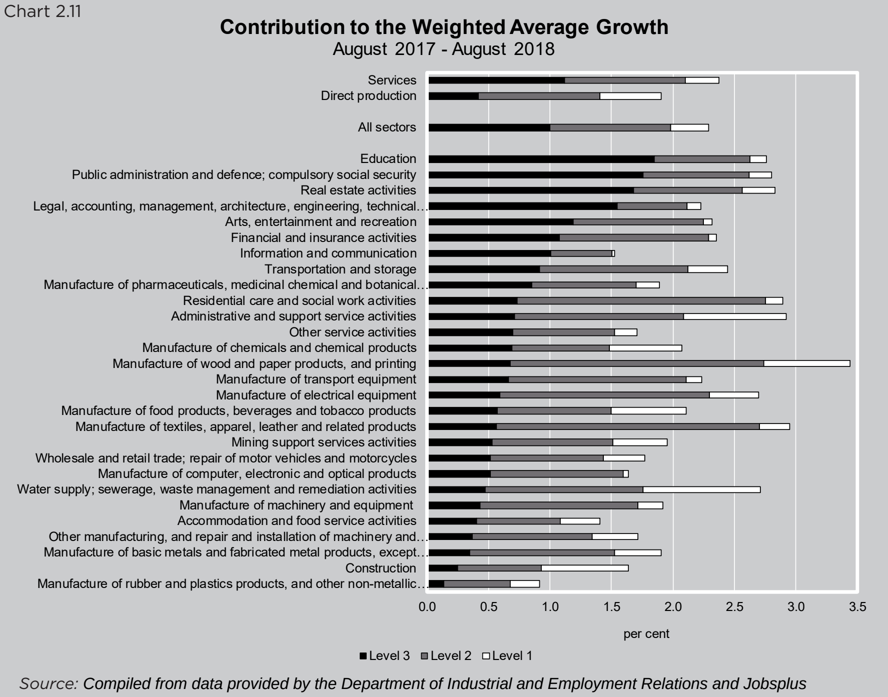
		Level 1	Level 2	Level 3	Weighted Average
B	Mining support services activities	2.26	1.96	1.75	1.94
CA	Manufacture of food products, beverages and tobacco products	1.95	2.18	2.17	2.12
CB	Manufacture of textiles, apparel, leather and related products	2.95	2.79	3.76	2.97
CC	Manufacture of wood and paper products, and printing	3.66	3.42	3.28	3.43
CE	Manufacture of chemicals and chemical products	1.93	2.21	2.06	2.08
CF	Manufacture of pharmaceuticals, medicinal chemical and botanical products	2.31	2.07	1.67	1.87
CG	Manufacture of rubber and plastics products, and other non-metallic mineral products	1.14	0.86	0.81	0.90
CH	Manufacture of basic metals and fabricated metal products, except machinery and equipment	1.96	1.92	1.82	1.90
CI	Manufacture of computer, electronic and optical products	2.18	1.74	1.43	1.62
CJ	Manufacture of electrical equipment	3.06	2.67	2.57	2.68
CK	Manufacture of machinery and equipment	2.63	1.94	1.65	1.88
CL	Manufacture of transport equipment	3.05	2.35	1.92	2.20
CM	Other manufacturing, and repair and installation of machinery and equipment	2.32	1.71	1.36	1.67
E	Water supply; sewerage, waste management and remediation activities	2.66	2.73	2.76	2.72
F	Construction	2.00	1.64	1.08	1.60
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	2.03	1.70	1.75	1.76
H	Transportation and storage	2.21	2.04	3.49	2.58
I	Accommodation and food service activities	1.57	1.47	1.21	1.39
J	Information and communication	0.79	2.02	1.38	1.50
K	Financial and insurance activities	2.59	2.37	2.33	2.35
L	Real estate activities	2.02	2.96	2.95	2.88
MA	Legal, accounting, management, architecture, engineering, technical testing and analysis activities	2.54	2.20	2.22	2.23
N	Administrative and support service activities	2.46	3.25	3.03	2.97
O	Public administration and defence; compulsory social security	2.04	2.88	2.88	2.84
P	Education	2.30	2.97	2.71	2.75
QB	Residential care and social work activities	2.33	2.91	3.00	2.91
R	Arts, entertainment and recreation	2.25	2.15	2.50	2.34
S	Other service activities	1.23	1.60	2.10	1.79
All sectors		2.13	2.25	2.40	2.32
Direct production		2.12	1.93	1.64	1.88
Services		2.13	2.33	2.48	2.40

Source: Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

Table 2.3 shows the percentage changes in average weekly wage between August 2017 and August 2018, while Chart 2.11 illustrates the contributions to these sectoral growth rates.[3] The weighted average increase for all firms stood at 2.3 per cent, from which the majority of growth was derived by Level 3 (1.0 percentage point). The average wage in direct production increased by €5.77 (1.9 per cent) mainly driven from Level 2 (1.0 percentage points) and the average wage in services increased by €8.68 (2.4 per cent) which is derived from Level 3 with 1.12 percentage points.

The sector which recorded the highest percentage increase, was the Manufacture of wood and paper products and printing, at 3.4 per cent, in which most of the workers are classified under Level 2. Specifically, this sector registered the highest percentage increase in Level 1 and Level 2 by 3.7 per cent and 3.4 per cent, respectively. While the highest increase under Level 3, at 3.8 per cent, was recorded in the Manufacture of textiles,

Chart 2.11



Source: Compiled from data provided by the Department of Industrial and Employment Relations and Jobsplus

apparel, leather and related products, with a contribution of 0.6 percentage points.

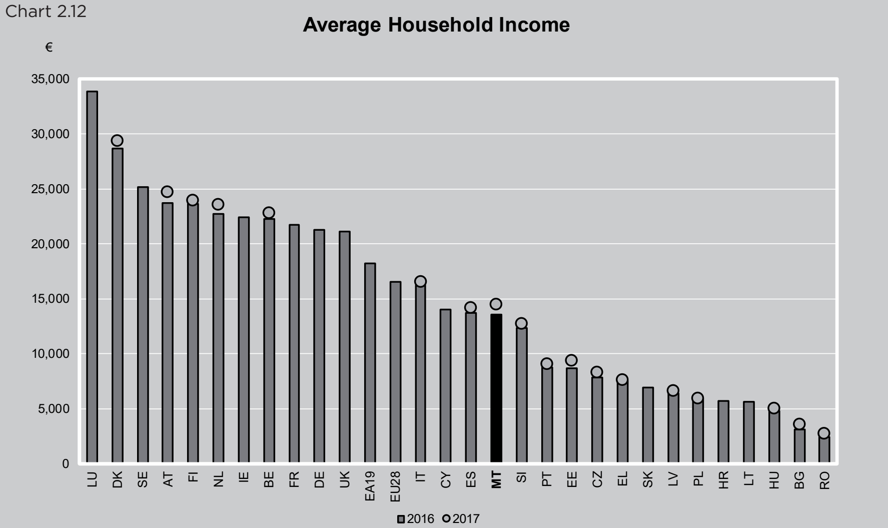
2.5 Social Conditions

The following section provides an analysis of household income, disposable income, as well as poverty and social exclusion.

2.5.1 Average Household Income

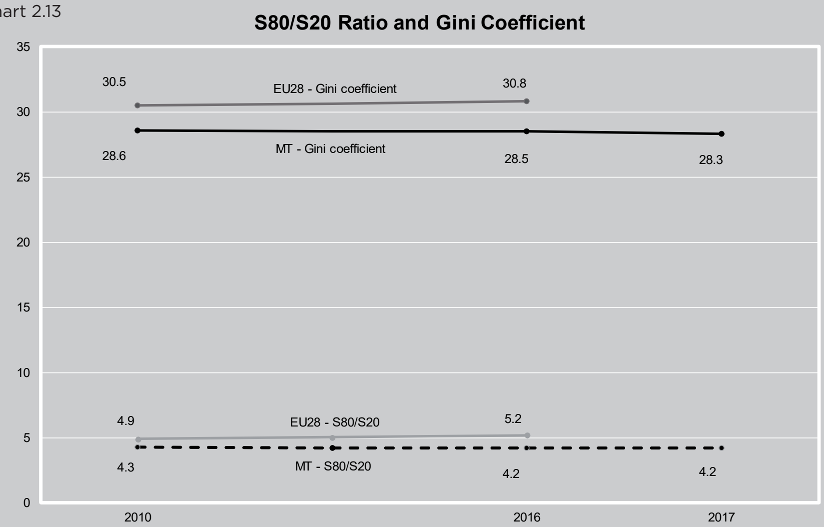
During 2017, the Maltese average household income has continued to follow the positive trend experienced during the last decade, converging steadily towards the EU28 average as shown in Chart 2.12. Malta's average household income as a proportion of EU average has increased by more than 13 percentage points since 2008; from 68.3 per cent in 2008 to 82.0 per cent in 2016. A similar convergence is also noted when comparing to the EA average.

Chart 2.12



Source: Eurostat (Data for 2017 is unavailable for a number of countries)

Chart 2.13



Source: Eurostat

2.5.2 Income Distribution

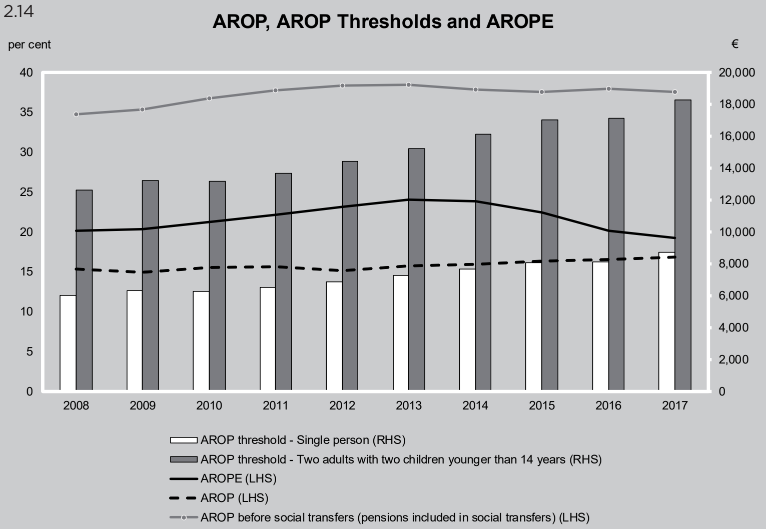
Although the average household income in Malta is lower than the EU, the level of income distribution seems to be fairer through both the income quintile share ratio and the Gini coefficient indicators. The income quintile share ratio (S80/S20) has been rather stable in the past years, indicating that income of the wealthiest 20 per cent of the population is on average 4.2 times higher than the income of the bottom quintile. The gap decreases to 3.3 for persons aged 65 and over.

The Gini coefficient, after social transfers, has also remained relatively stable over the past two years, hovering around 28.4. As shown in Chart 2.13, at EU level, both ratios are higher, indicating that income inequality seems to be less pronounced in Malta even after taking into consideration the impact of social transfers.

2.5.3 Poverty and Social Exclusion

One of the headline indicators on poverty and social exclusion with respect to the Europe 2020 targets, is the people at-risk-

Chart 2.14



Source: Eurostat

of-poverty-or-social-exclusion (AROPE) rate. The indicator for Malta stood at 19.2 per cent in 2017, which is almost 1 percentage point lower than the rate recorded in 2008 and more than 4 percentage points lower than the rate recorded at EU level in 2016. Malta's AROPE rate has been on a downward trajectory since 2013.

The at-risk-of-poverty (AROP) rate before social transfers stood at 37.5 per cent in 2017 for Malta. In the EU, the rate was 44.5 per cent in 2016. After the inclusion of social transfers, the AROP rate, which is one of the components of the AROPE rate, dropped by over 20 percentage points for Malta in 2017. The improvement noted at EU level is even more pronounced with a drop of over 27 percentage points in 2016.

Malta's AROP rate after social transfers has been increasing marginally over the last decade, from 15.3 per cent in 2008 to 16.8 per cent in 2017. However, it should be noted that the poverty lines (AROP thresholds) for both single person households and households comprising two adults with two children younger than 14 years increased by almost 45 per cent over the ten-year period under review, reflecting the increase in the average equivalised income.[4] This may exacerbate the AROP rate as an increase in the poverty line alone captures more households below the threshold.

Footnotes:

[1] Includes those from the EU, those that are EU dependent and those from EFTA and EEA.

[2] The Gozo and Comino region is referred to as Gozo throughout this section.

[3] Chart 2.11 shows how many employees for each sector are earning the sectoral specific reported weekly wage classified by ISCO. Hence, it depicts how each level contributed towards the weighted average growth.

[4] AROP threshold is defined as 60 per cent of median national equivalised income.

3. International Trade and the Balance of Payments

3. International Trade and the Balance of Payments

This chapter focuses on Malta's economic performance vis-a-vis its dealings with the rest of the world. The first sub-section will deal with international trade of goods and the evolution of imports and exports by category. The second sub-section will deal with the balance of payments while the third sub-section deals with exchange rate developments.

This year, the overall trade gap widened due to decreases in both imports and exports with the latter dropping to a greater extent than the former. The significant drop in exports were mainly due to the drop in fuels exports. Intra European Union (EU) exports and imports have also increased as a percentage of total exports between 2016 and 2017.

In terms of the balance of payments, the strong current account surplus declined slightly when comparing the first half of 2018 with the corresponding period in 2017. This was mostly due to a drop in the external trade balance of goods and services. The primary income account on the other hand had a decrease in its net payments position owing to lower net payments of investment income. Malta's strong and positive Net International Investment Position (NIIP) in 2017 was mainly due to a large portfolio net asset balance which outweighed the direct investment net liabilities balance.

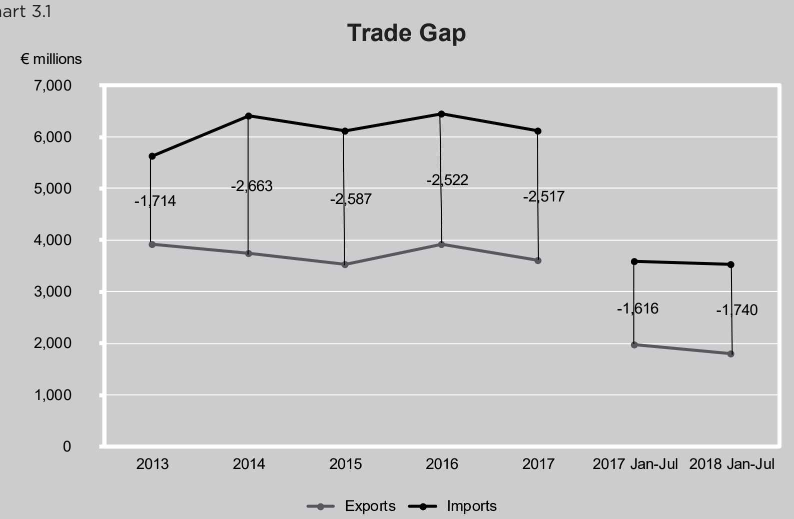
In terms of exchange rates, the Euro generally appreciated against both the Dollar and the Sterling over the past two years. This was mainly due to the uncertainty facing the UK with the Brexit vote and the growing divergence between the Euro Area (EA) and the US monetary policy. Furthermore, Malta's Real Effective Exchange Rate (REER), which is a measure of a country's competitiveness vis-à-vis its main trading partners, has also been in decline, indicating exchange rate competitiveness gains.

3.1 International Trade

In 2017, the total value of imported goods amounted to €6,125.5 million while exports of goods totalled €3,608.7 million. When compared to the previous year, the decrease in imports of €323.4 million was higher than that in exports (€318.4 million). As a result, the trade gap has narrowed marginally to €2,516.7 million (Chart 3.1). When looking at the period between January to July of 2018, the trade gap amounted to €1,739.8 million, €123.7 million wider than the corresponding period of 2017. This mainly pertains to a decrease in exports related to the fuels category.

In percentage terms, imports and exports decreased by 5.0 per cent and 8.1 per cent respectively in 2017, when compared to the previous year. Machinery and Transport Equipment underlay the largest impact on imports with a drop of 21.5 per cent, resulting in a negative contribution to the overall rate of 9.5 percentage points. Mineral Fuels, Lubricants and Related Materials contributed to an increase of 5.2 percentage points in exports, but this was offset by Chemicals which decreased

Chart 3.1



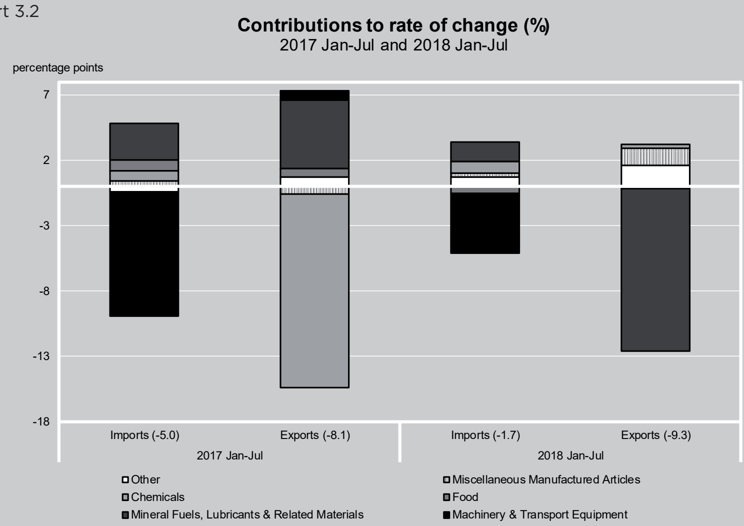
Source: National Statistics Office

by 60.3 per cent in 2017, with a negative contribution of 14.8 percentage points.

During the period January to July 2018, the Mineral Fuels category contributed negatively (-12.4 percentage points) towards the overall drop of 9.3 per cent in exports. Imports declined by 1.7 per cent in the first seven months of 2018 when compared to the corresponding period of 2017, mainly due to a negative contribution of 4.6 percentage points attributable to Machinery and Transport Equipment (Chart 3.2).

In 2017, the percentage share of imports from the EU Member States amounted to 62.2 per cent of total imports whereas the share of exports to the EU amounted to 53.8 per cent of total exports. It is to be noted that between 2011 and 2017, the share of imports from countries outside the EU, has increased by 11.6 percentage points, while the average share of exports to countries outside the EU has decreased by 12.7 percentage points during the same period under review (Charts 3.3 and 3.4).

Chart 3.2

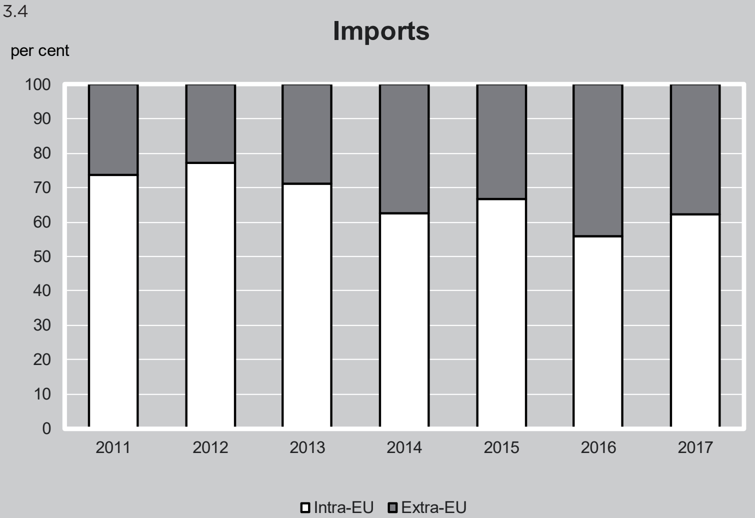


Source: National Statistics Office

Chart 3.3

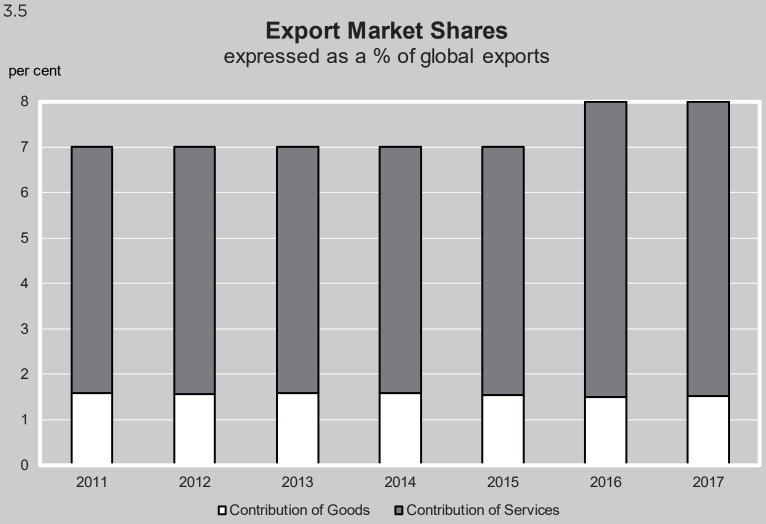
Source: National Statistics Office

Chart 3.4



Source: National Statistics Office

Chart 3.5



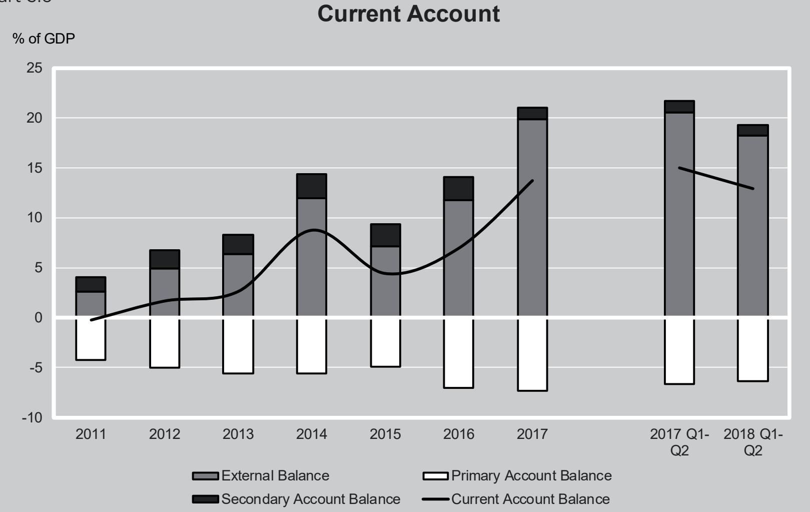
Source: National Statistics Office

Improvements in global export market shares are a good indicator of competitiveness gains. Malta's export market share, derived by expressing local exports as a percentage of global exports, stood at 8.0 per cent in 2017. This rate was 1.0 percentage point higher than the rate recorded between 2010 and 2015. This improvement was mainly brought about by the contributions emanating from the services sector (Chart 3.5).

3.2 Balance of Payments

The balance of payments account shows the international transactions which take place between Malta and the rest of the world. It is based on the sixth edition of the International Monetary Fund's (IMF) balance of payments and international investment position manual (BPM 6). The balance of payments is divided into three main elements; the current account, the capital account and the financial account.

Chart 3.6



Source: National Statistics Office

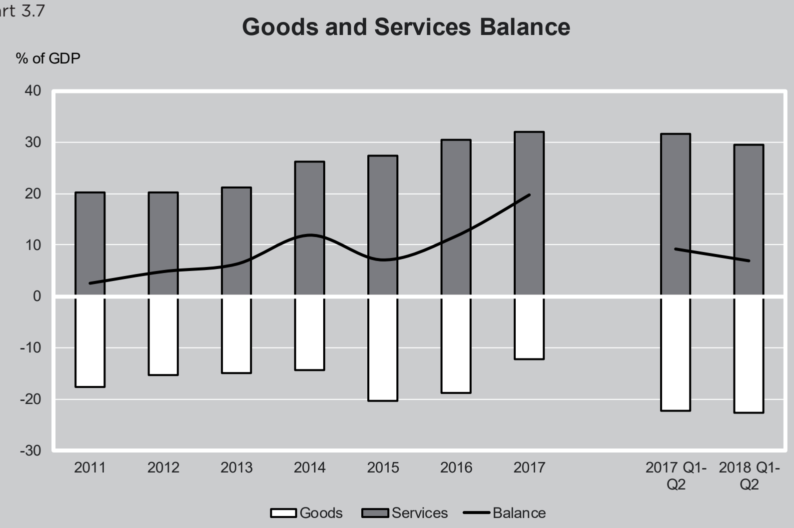
3.2.1 Current Account

The overall balance in the current account has been consistently positive over the past few years. This is mainly due to the strong external trade balance. The positive external trade balance and secondary net income balance accentuated the current account surplus, while the primary income net payments partially offset it. As of 2017, the current account balance stood at 13.8 per cent of nominal Gross Domestic Product (GDP), an increase of 6.8 percentage points over 2016. Furthermore, in the first half of 2018 the current account balance stood at 12.9 per cent of GDP (Chart 3.6).

3.2.1.1 Goods and Services

Most of the current account surplus may be attributed to the goods and services balance. Since 2011, such balance has been consistently positive and on an upward trend owing mostly to a very strong and positive services balance which offsets the negative goods balance as can be seen in Chart 3.7. Over the past few years, the goods balance was consistently in a

Chart 3.7



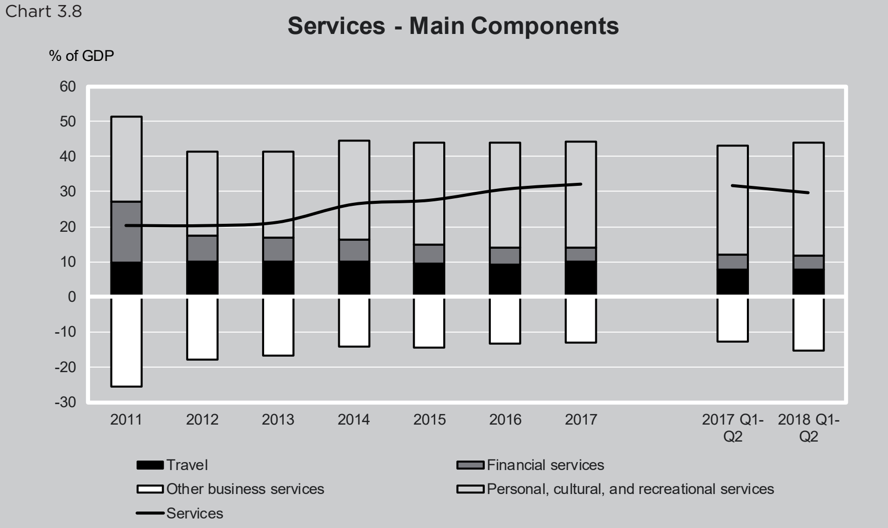
Source: National Statistics Office

net import position, and reflects Malta's services-oriented economy, the absence of sizeable raw materials, dependence on energy imports and the high import content of production and consumption. However, since 2015, the net import figure has been on a constant decline, and in 2017 it stood at 12.2 per cent of GDP, a drop of 6.6 percentage points over 2016. This development is mainly due to a decrease in imports and a rise in exports which occured over the past three years.

The services net export balance was constantly on the increase. This, coupled with the decline in the goods net imports figure, led to a very strong increase in the overall goods and services balance which reached 19.8 per cent of GDP. The strong services net export balance is driven by substantial growth in exports which outweighed the growth in services imports.

When comparing the first half of 2018 with that of 2017, the overall goods and services balance dropped slightly mainly due to a small drop in the services net export balance. This is due to increases in imports of services over the same period.

Chart 3.8

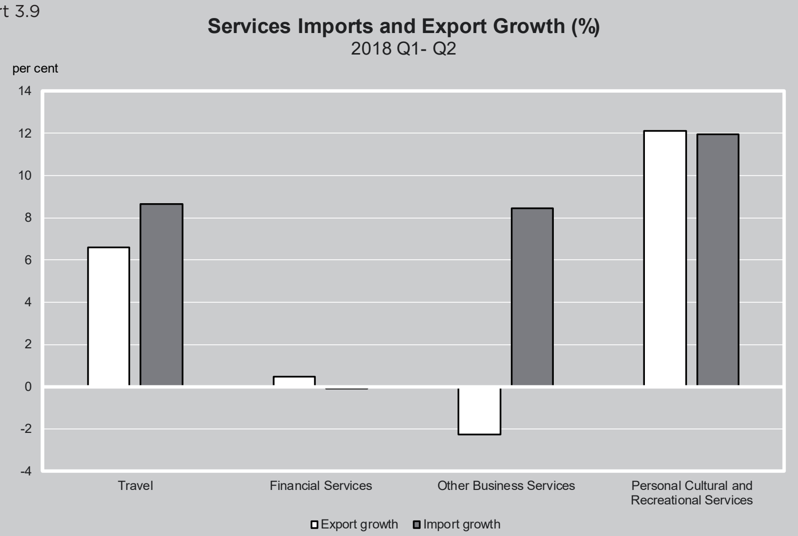


Source: National Statistics Office

The disaggregation of the services balance as shown in Chart 3.8, suggests that the services net export balance pertains to the increase in net exports of personal, cultural and recreational services and the drop in the net imports of other business services. The developments in the former are mainly driven by the gaming sector, whilst developments in the latter pertain to professional and management consulting services. In the first half of 2018, there was a slight drop in the services net export balance when compared to the corresponding period in 2017. This is primarily because of higher net imports of other business services. Only the financial services experienced a decline in net exports in 2017.

Chart 3.9 indicates that the growth in exports in the first half of 2018, when compared to the corresponding period in 2017, is mainly attributable to the personal cultural and recreational services category whilst other business services registered a decline in exports. On the other hand, the growth in imports was underlined by an increase in travel and other business services which increased by 8.6 and 8.5 per cent, respectively.

Chart 3.9

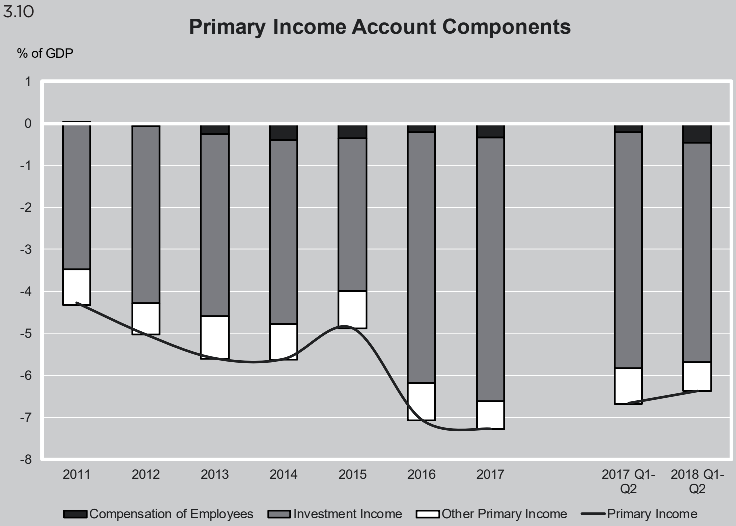


Source: National Statistics Office

3.2.1.2 Primary Income Account

The primary income account consists of income transfers related to either compensation of employees, investment income and other primary income. Investment income accounts for most of the changes in the primary income balance as can be seen in Chart 3.10. It also indicates that over the past few years, Malta has had a primary net payment balance, which has been on the increase over the past few years. This has been driven by large net payments on direct investment liabilities which is partially offset by net income receipts on portfolio assets. Compensation of employees and other primary income are only marginally affecting the overall primary balance. For the first half of 2018, the primary balance remained in a net payment balance, however, such balance decreased slightly when compared to the same period in 2017. This was mainly due to the decrease in net payments of investment income.

Chart 3.10



Source: National Statistics Office

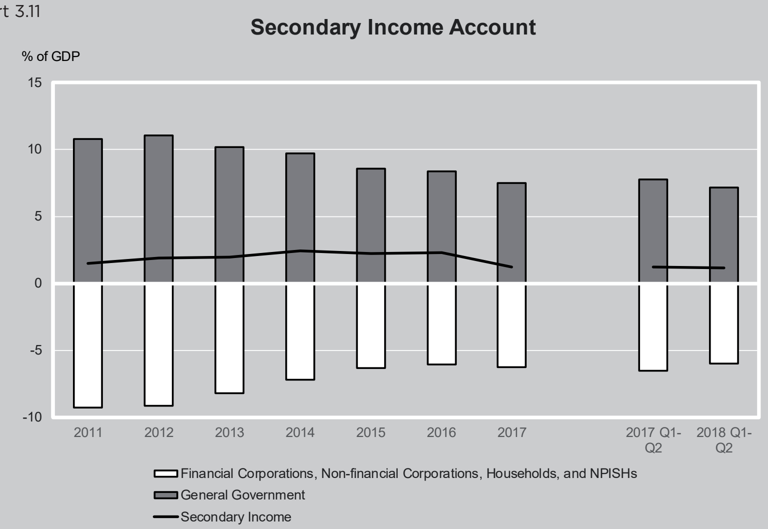
3.2.1.3 Secondary Income Account

The secondary income account is a relatively smaller component of the current account in net terms and it shows income transfers which do not pertain to the primary income account. It contains Government income transfers and income transfers from the private sector. These include tax payments received from abroad and tax refunds paid by Government to foreign individuals or corporations. Chart 3.11 shows the basic composition of the secondary account where General Government net receivables outweigh the private sectors' net payment balance. This results in an overall net receivable position in terms of secondary income transfers. In the first half of 2018, the secondary income net receivables balance remained constant at 1.2 per cent of GDP, when compared to the corresponding period in 2017.

3.2.2 Capital and Financial Account

The capital and financial account record flows of assets between Malta and the rest of the world, whilst the capital account records flows of tangible assets such as plant and machinery,

Chart 3.11



Source: National Statistics Office

the financial account focuses on intangible financial assets such as bonds and shares.

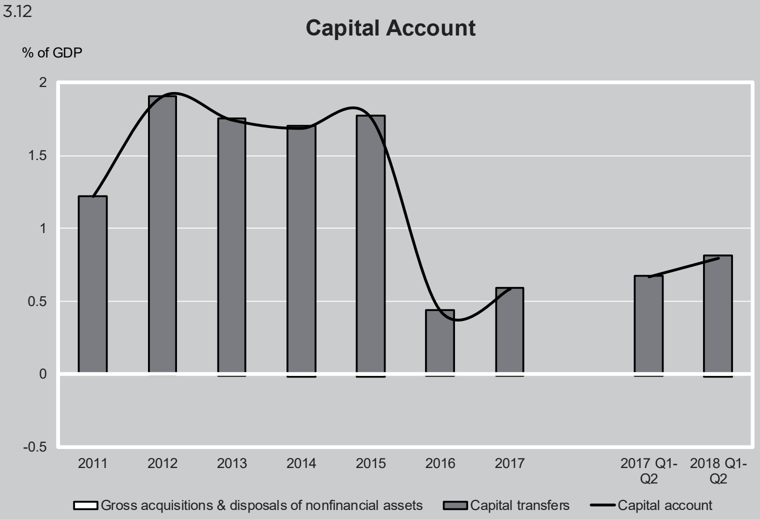
3.2.2.1 Capital Account

The capital account balance has recorded net inflows of capital transfers over the past few years showing consistent net transfers of tangible assets from foreign countries to Malta. Most of these capital transfers pertain to Government transfers of tangible assets and include transfers from the EU Budget. As seen in Chart 3.12, there has been a decline in these transfers from 2015 to 2016, whilst the first half of 2018 saw an increase in capital transfers when compared to the corresponding period in 2017. These developments coincide with the gradual increase in absorption of EU funds from the previous EU budget for 2007/2013.

3.2.2.2 Financial Account Flows

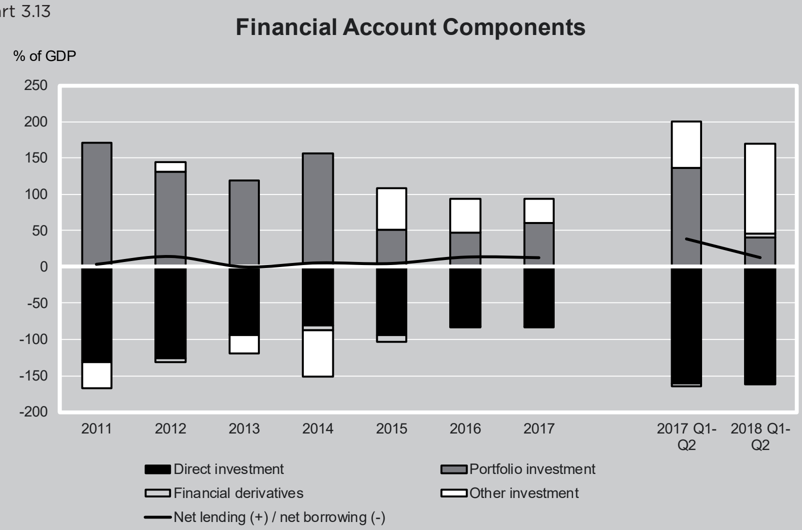
The financial account is shown in terms of financial flows, so any figures represented in Chart 3.13 represent the change in the stock of assets and liabilities from the previous period.

Chart 3.12



Source: National Statistics Office

Chart 3.13



Source: National Statistics Office

The overall financial account balance has been in a net lending position over the past few years, meaning that the acquisition of financial assets by Maltese investors exceeded their incurrence of liabilities over the period. This overall balance is composed of direct investment, portfolio investment, financial derivatives and other investment.

Direct investment is typically in a net borrowing position, reflecting the inflows of foreign capital financing from foreign investors' ownership of direct investment assets. This is coupled with a decline in foreign direct investment assets held by residents.

In terms of portfolio investment flows, Malta has had a net lending position over the past few years, albeit a decreasing one. This net lending position is mainly due to large acquisitions of financial assets through equity and investment fund shares. Furthermore, acquisition of financial assets in terms of debt securities increased marginally in 2017. This was, however, more than offset by debt securities liability holdings.

In terms of financial derivatives, these account for a relatively minor share of the activity in the financial account. Financial derivatives have been consistently in a net borrowing position in the last few years mainly due to higher incurrences in liabilities by banks. Other investment flows have also been in a net lending position since 2015. In 2017, the same position is mainly due to large acquisitions of financial assets which outweighed increases in liabilities over the same period.

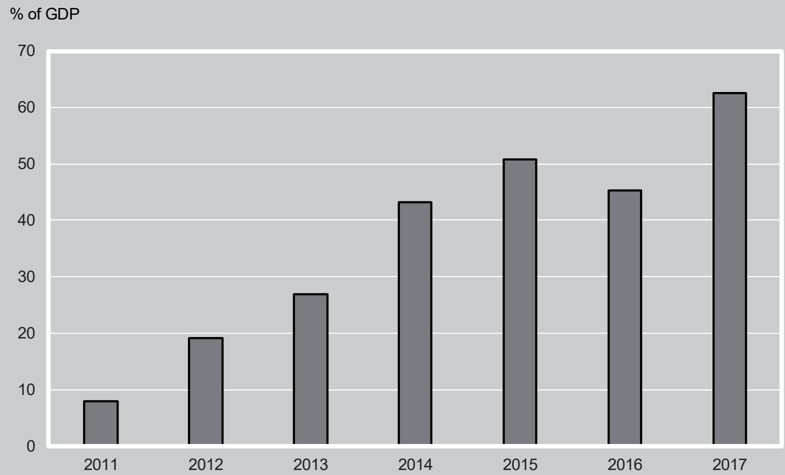
3.2.3 Net International Investment Position

Whilst the financial account records the flows of financial assets and liabilities, the NIIP captures the stock value of these assets and liabilities. It also includes valuation changes in the assets and liabilities, and is therefore also sensitive to exchange rate movements or other changes in the value of these assets and liabilities. The NIIP shows the asset and liability balances at any particular point in time. The indicator is often used to assess financial stability in an economy, as a significant net liability position indicates that a country may be vulnerable to global economic conditions. In this respect, Malta exhibits a net asset position. Chart 3.14 shows the evolution of the NIIP as a percentage of GDP. Following the decline in 2016 caused by increases in overall liabilities (through direct investment), the net asset position regained strength, mainly reflecting increases in assets mainly related to portfolio and other investment assets.

Charts 3.15 and 3.16 also show the composition of assets and liabilities in levels which further explain the changes in the overall NIIP. Liabilities are predominantly made up of direct investments and provide an important source of foreign investment Malta's productive capacity. The remaining liabilities are made up of other liabilities (which generally include currency and deposits held by foreigners in domestic banks and trade credits). On the other hand, assets are more diversified but portfolio investments (mainly equity and investment fund shares and debt securities) almost account for half the value of assets, whilst the rest is spread between direct investments and other

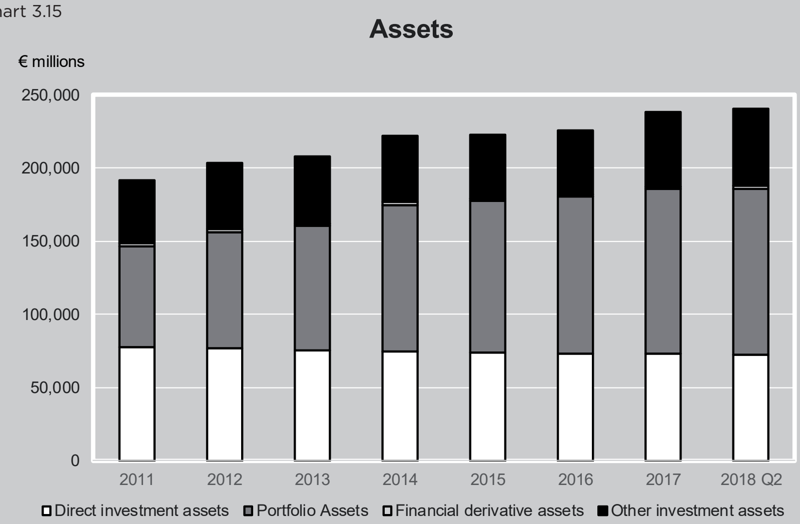
Chart 3.14

Net International Investment Position



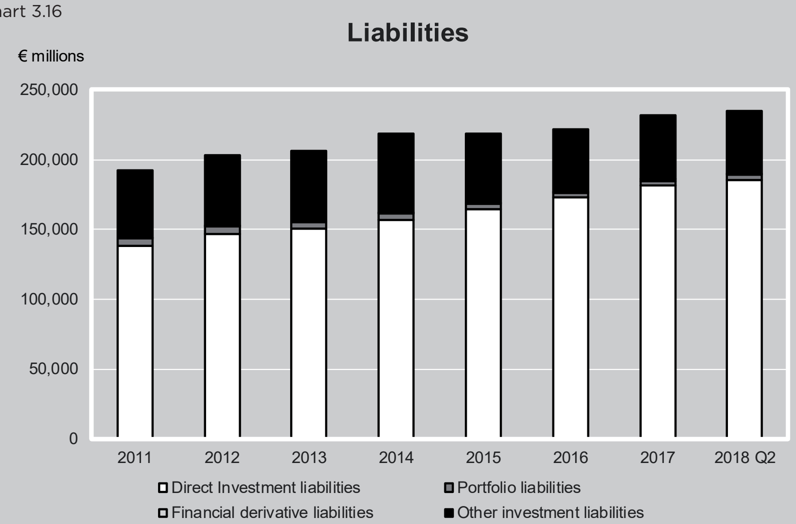
Source: National Statistics Office

Chart 3.15



Source: National Statistics Office

Chart 3.16



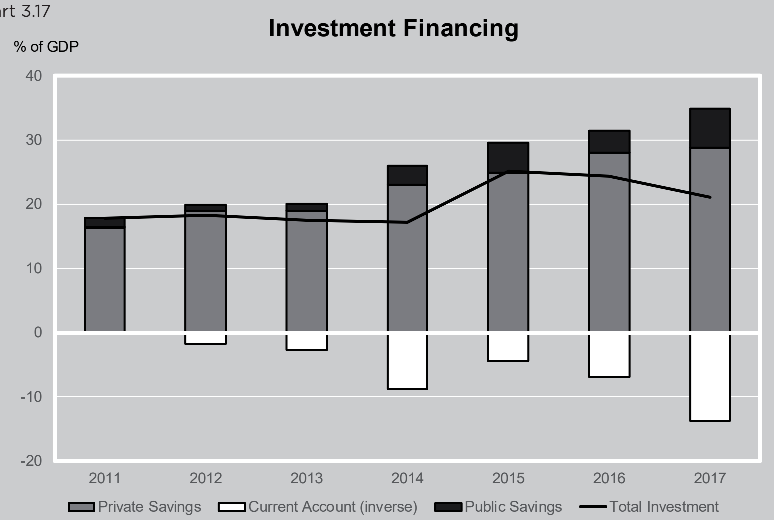
Source: National Statistics Office

investments. Portfolio and other investment assets have been the major driving force in the overall asset increase. To the contrary, direct investment assets have decreased over the last few years, partially offsetting the increases mentioned earlier. Direct investment liabilities have mainly been responsible for the increase in overall liabilities. This mirrors the developments in the financial account as pointed out in the previous section.

3.2.4 Savings and Investment Gap

The current account surplus that Malta has been registering since 2012, implies that domestic savings are increasingly financing domestic investments, with the surplus savings providing a source of accumulation of net foreign assets. In Chart 3.17, this is shown as a net lending position (which is equivalent to the inverse of the current account balance). This position has prevailed despite an increase in the ratio of investment to GDP, particularly since 2015. This suggests that the improvement of the current account position over this period was the result of a strong economy which sustained both an increase in investment and higher savings.

Chart 3.17

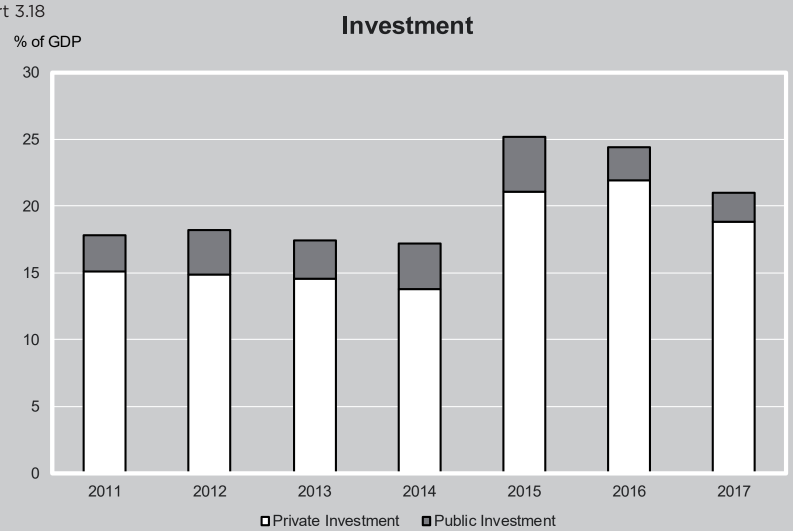


Source: National Statistics Office and Economic Policy Department

Chart 3.17 also divides savings into public and private, with the latter accounting for most of the overall savings. It is to be noted, that public savings are calculated as the excess of Government revenue above recurrent spending (i.e. exclude public investment and hence not equivalent to the budget balance). As seen in Chart 3.17, there is an upward trend driven by, but not exclusively, private savings. Public investment has also been increasing over the past few years as a result of successive fiscal consolidation efforts over this period.

Investment activity has increased significantly in 2015, reaching 25.2 per cent of GDP, before moderating to 21.0 per cent of GDP in 2017. The surge in 2015 was driven by a number of large scale projects such as the construction of a new power plant and other private investments in the aviation sector whilst public investments also rose substantially to absorb EU funds. Since then, both private and public investment ratios have moderated but remain higher than pre-2015 (Chart 3.18).

Chart 3.18



Source: National Statistics Office and Economic Policy Department

3.3 Exchange Rate Developments

The exchange rate is a key indicator as it can have economy-wide implications ranging from the price competitiveness of a country's exports, to its impact on inflationary pressures as well as influencing the real return of an investor's portfolio. This means that exchange rates have a bearing on both the real, as well as the financial sectors of an economy.

3.3.1 Euro exchange rate movements

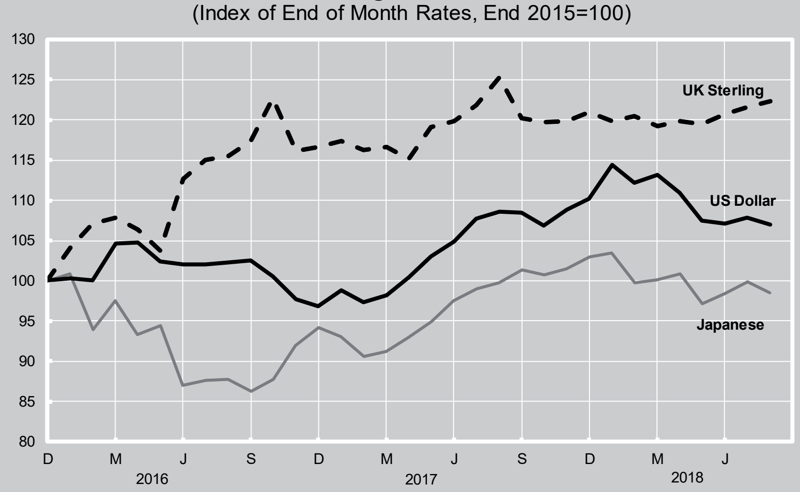
Chart 3.19 shows the developments in exchange rate markets since the end of 2015, portraying an indexed Euro exchange rate against the three major currencies, namely the US Dollar, UK Sterling and the Japanese Yen.

The Euro appreciated by 13.2 per cent against the US Dollar between December 2015 and March 2018. However, since then the Euro has depreciated by 5.4 per cent to reach US $1.1651 in August 2018. The recent depreciation partly reflected the growing divergence between the EA and the US monetary policy.

Chart 3.19

Euro Exchange Rate Movements

(Index of End of Month Rates, End 2015=100)



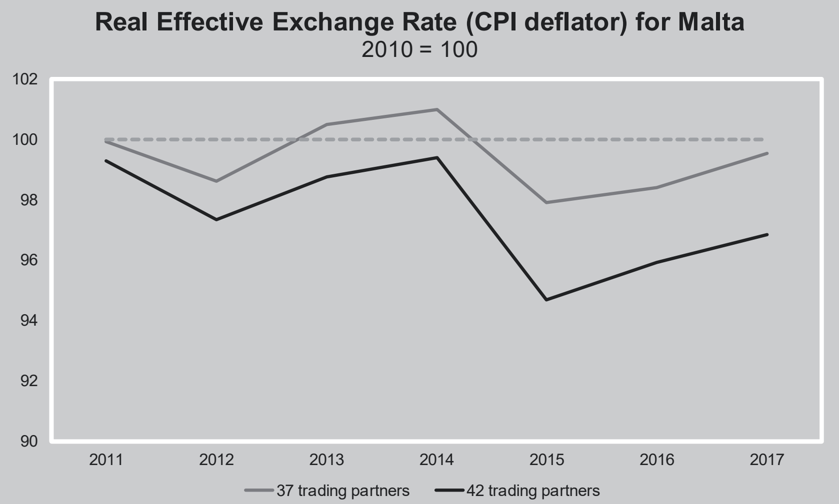
Source: Eurostat

The Euro/US Dollar exchange rate at the end of August 2018 was trading at around 7.9 per cent below its 10-year average level of US $1.26.

In the meantime, the UK Sterling has weakened against the Euro, partly as a result of the uncertainty brought about by the Brexit negotiations. Indeed, since December 2015 the Euro has appreciated by 22.3 per cent against the UK Sterling and in August 2018 the exchange rate stood at £0.8974. By the end of August 2018, the Euro against the UK Sterling was trading at 7.2 per cent above its 10-year average level of £0.84.

Although the value of the Euro against the Japanese Yen in August 2018 was in line with the exchange rate in December 2015, the Euro had initially depreciated over the course of the first nine months of 2016. Nevertheless, the Euro recovered over the following twelve months and then hovered between the JPY 130 and JPY 135. From a longer-term perspective, the exchange rate was trading at 3.8 per cent above the 10-year average mark of JPY 124.28.

Chart 3.20



Source: Eurostat

3.3.2 Real Effective exchange rate

The real effective exchange rate (REER) is a weighted average value of a country's currency relative to the exchange rate of its main trading partners adjusted for inflation. A higher REER value indicates that the currency in question is relatively more expensive than that of its main trading partners, implying competitiveness losses. Chart 3.20 shows the developments in the REER for Malta, since 2011, with respect to 37 trading partners and to 42 trading partners using the Consumer Price Index as deflator. Malta's REER has been below the base year level (2010 = 100) throughout the period under review when considering 42 trading partners. In the series with 37 trading partners, the REER has been above the 2010 average during the years 2013 and 2014 only. In both cases, the REER for Malta dropped after 2014 marking an increase in competitiveness relative to its main trading partners.

4. Monetary Developments

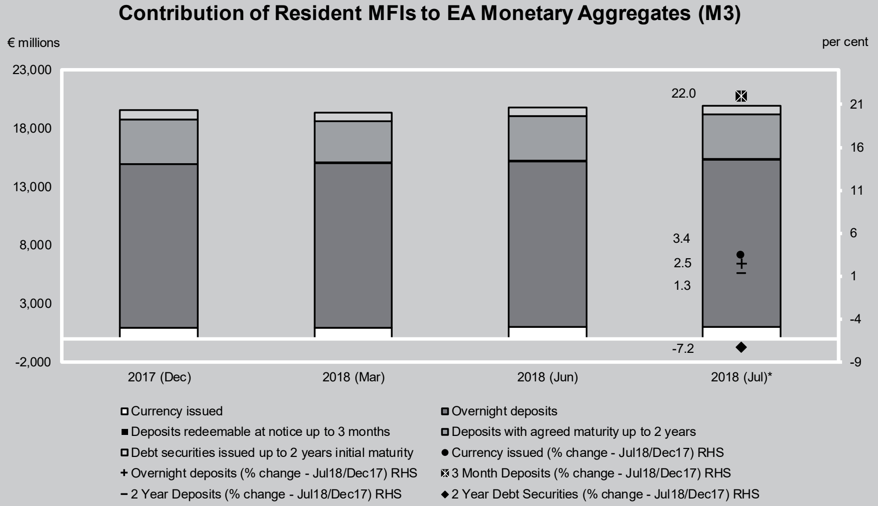
4. Monetary Developments

The contribution of Maltese monetary financial institutions (MFIs) to the stock of Euro Area (EA) Broad Money (M3) registered an increase in the period between January and July 2018 when compared to the end of 2017. This development can be primarily attributed to an increase in overnight deposits. At the same time, despite being marginally positive, the contributions towards M3 stemming from deposits redeemable at notice up to three months and from deposits with an agreed maturity of up to two years, were essentially negligible. Furthermore, during the same period, there has been a decline in net claims on non-residents of the EA, while the 'other counterparts' component contributed negatively, given its slight increase. These developments were offset by the credit counterpart which registered the largest positive increase and contribution towards Broad Money. Given the continued low interest rate environment, depositors were also more inclined to hold highly short-term liquid deposits.

4.1 Contribution of Resident MFIs to Euro Area Monetary Aggregates[1]

The contribution of Maltese resident MFIs to total monetary aggregates (M3)[2] of the EA registered an increase of 2.0 per cent in the first seven months of 2018, reaching €19,939.7 million when compared to €19,549.8 million registered in December 2017. The main driver behind this increase was a rise in overnight deposits[3]. Moreover, a slight positive contribution also stemmed from deposits redeemable at notice up to three months[3] which was complemented with a slightly higher positive contribution from deposits with an agreed maturity of up to two years[3]. Chart 4.1 portrays the main developments in monetary indicators. These developments reflect the continued preference for maintaining short-term liquid money balances in the form of cash, although longer-term maturity deposits remain to a large extent noticeably significant, in particular, two-year term maturity deposits.

Chart 4.1



** provisional*

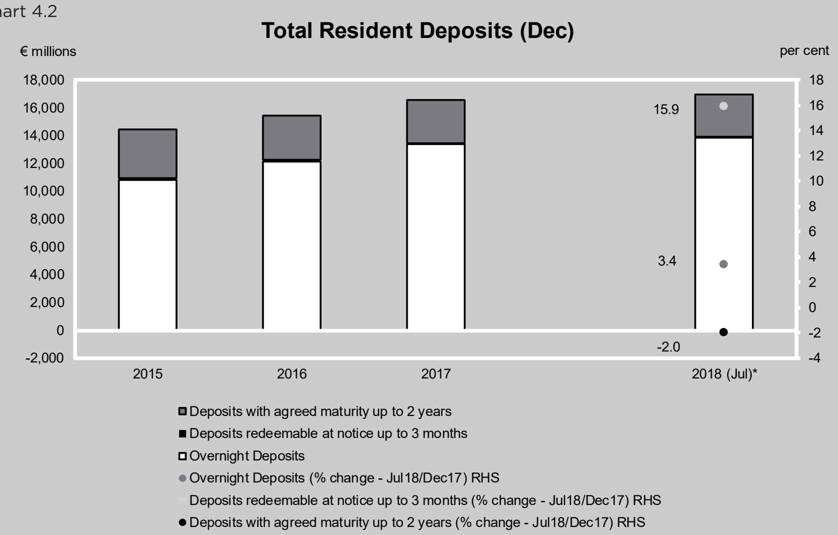
Source: Central Bank of Malta

During the first seven months of 2018, narrow money (M1) reached €15,323.8 million, reflecting an increase of 2.6 per cent when compared to the level of €14,938.1 million registered in the final month of 2017. The main driver behind this development was a 2.5 per cent increase in overnight deposits over the same comparative period, as in July 2018, such deposits reached a level of €14,322.4 million. Such figures portray deposits from local Maltese residents as the main contributors to the developments in total overnight deposits, since despite a decline in deposits from other EA residents, due to their share, such a negative contribution was negligible. In the period under review, currency issued[4] increased by 3.4 per cent reaching €1,001.4 million, however, due to its small share, its positive contribution to M1 was low.

Between January-July 2018, deposits redeemable at notice up to three months increased by 22.0 per cent, reaching €57.8 million when compared to a value of €47.4 million recorded in the last month of 2017. Three-month deposits registered increases both from Maltese residents and significantly also from other EA residents. However given their share, the contribution to M2 from both was negligible. Over the same comparative period, this has also been complemented with an increase of 1.3 per cent in deposits with an agreed maturity of up to two years which totalled €3,831.4 million in July 2018.

Total resident deposits registered an increase of 2.4 per cent in the first seven months of 2018, when compared to December 2017, reaching €16,971.8 million. This was mainly underpinned by a substantial positive contribution stemming from overnight deposits[5] which, in fact, increased by 3.4 per cent during the same period. Concurrently, there has been an increase of 15.9 per cent in deposits redeemable at notice up to three months, while two-year maturity deposits declined slightly by 2.0 per cent. Nevertheless, the latter had a slightly higher, even if negligible, negative contribution towards total resident deposits growth than the former (Chart 4.2).

Chart 4.2



** provisional*

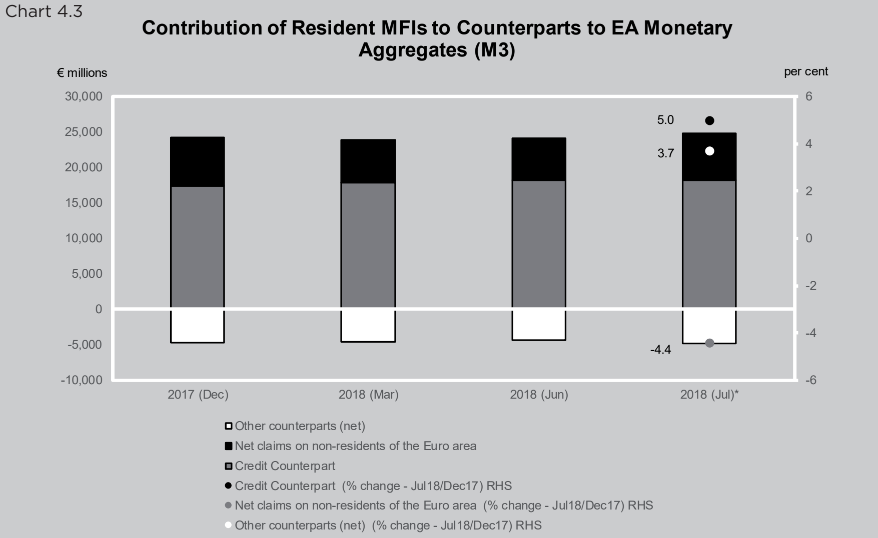
Source: Central Bank of Malta

4.2 Contribution of Resident MFIs to Counterparts to Euro Area Monetary Aggregates

Chart 4.3 illustrates the developments in the contribution of resident MFIs to counterparts to EA monetary aggregates since the end of 2017. In the first seven months of 2018, Maltese MFIs' contribution to the EA broad money stock (M3)[6] increased slightly, mainly driven by a considerable positive contribution from the credit counterpart[7]. This outweighed a decline in net claims on non-residents of the EA and the negative contributory effect from an increase in the 'other counterparts'[8] component.

Between January and July 2018, the credit counterpart of broad money reached €18,269.8 million, reflecting an increase of 5.0 per cent when compared to December 2017. This was supported by increased credit to EA residents which was noticeably higher relative to the positive contribution from credit to Maltese residents. In fact, during this period, credit to other EA residents increased by a total of 11.0 per cent, reaching €4,954.0 million

Chart 4.3



** provisional*

Source: Central Bank of Malta

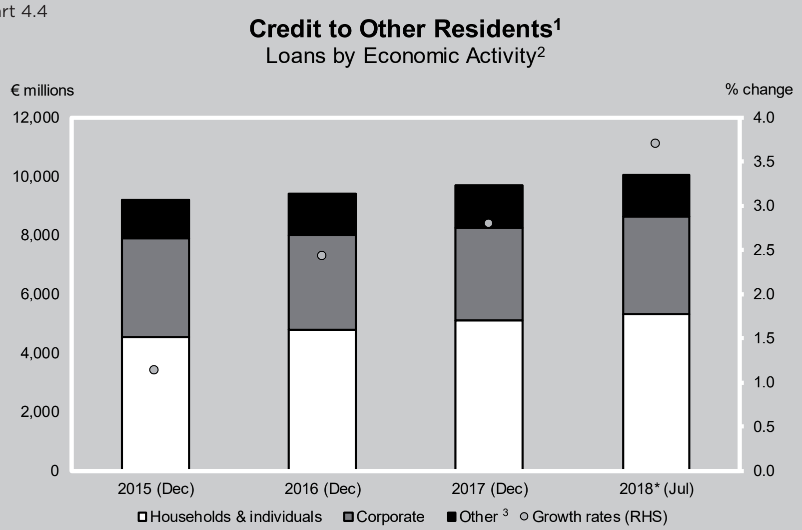
when compared to December 2017. Credit to the private sector, which increased by 11.6 per cent, supported credit developments for EA residents, which was further complemented by an increase of 9.6 per cent in credit to General Government during the same period. In addition, lending to Maltese residents increased by a total of 2.9 per cent, reaching €13,315.9 million during the same comparative period. This resulted from a 3.7 per cent increase in credit to the private sector which was higher than the 0.2 per cent increase in credit to General Government.

Growth dynamics in M3 are also affected by foreign capital from outside the EA. The external counterpart of M3 represented by net claims declined by 4.4 per cent between January to July 2018 when compared to December 2017, reaching €6,530.0 million. The decline in net claims on non-residents of the EA was complemented by a higher level of the 'other counterparts' net balance which increased by 3.7 per cent during the first seven months of 2018 over December 2017, reaching €4,860.1 million. The observed decline in the net claims component reflects a slowdown in resident credit institutions' liabilities to other EA banks with respect to their claims on them. The 'other counterparts' component mainly reflects interbank transactions across the EA and contributes negatively to M3.

4.3 Sectoral Credit Developments

Credit developments to Maltese residents excluding General Government are outlined in Chart 4.4. Provision of loans to the private sector increased by 3.7 per cent over the first seven months of 2018 compared to December 2017. This performance mainly reflected the contribution of loans supplied to the 'households and individuals' sector which increased by 4.0 per cent during the period under review. Additionally, over the same period, an increase in lending of 6.0 per cent was recorded for the 'corporate' category. Sectoral composition of loans to the overall 'corporate' category is illustrated in Chart 4.5. Comparing end of July 2018 to end of December 2017, the sharpest increase in loan provisions was recorded in the 'electricity, gas and water supply' sub-sector reaching just under 26 per cent, which

Chart 4.4



** provisional*

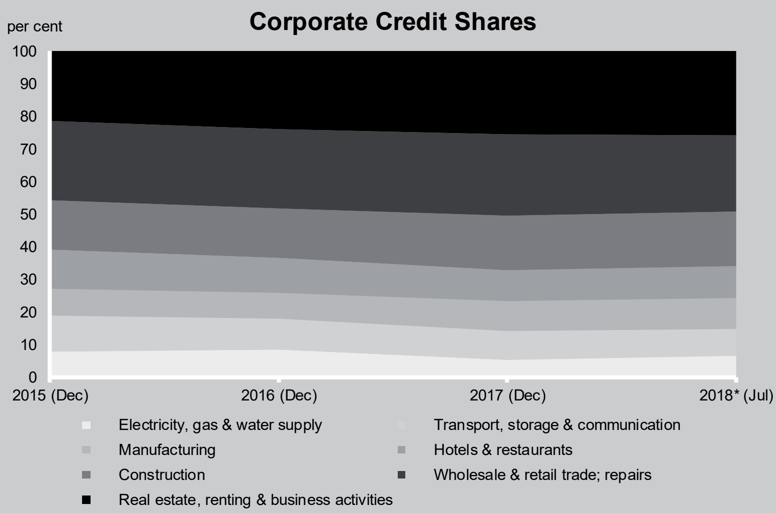
[1] Credit to other residents consists mainly of loans and holdings of securities, including equities, issued by the non-bank private sector and public non-financial companies, and financial derivatives. Interbank claims are excluded. Data only include credit to residents of Malta.

[2] Data presented is compiled in accordance with NACE Rev2.

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

Source: Central Bank of Malta

Chart 4.5



** provisional*

Source: Central Bank of Malta

was mostly due to unusually lower values recorded at end of last December. Other sectors that contributed to the upward impact of the overall performance were ‘real estate, renting and business activities’ (+7.9 per cent), ‘construction’ (+6.1 per cent) and ‘hotels and restaurants’ (+10.5 per cent). Increases in loans were also recorded in the ‘manufacturing’ and in the ‘transport, storage and communication’ sub-sectors (8.5 per cent and 1.4 per cent respectively), however, because of their relatively smaller share in total loans, the increases in lending registered in these sub-sectors had a less significant impact on total loans. On the other hand, loan provisioning in the ‘wholesale and retail trade’ sub-sector and in the ‘other’ sector declined by 1.4 per cent and 2.2 per cent respectively when comparing the total loans registered at end July 2018 to end December 2017.

4.4 The Money Market

During the years following the financial crisis, the European Central Bank (ECB) has played a major role in restoring economic and financial stability throughout the EA. Using a mixture of non-standard measures, the ECB has responded to several challenges posed by the different phases of the crisis. The main aim of the ECB’s measures has been to provide liquidity to banks and to maintain the functioning of financial markets.

During its January 2018 meeting, the Governing Council of the ECB reaffirmed its past decision to maintain the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at their previous rates, namely at 0.00 per cent, 0.25 per cent and -0.40 per cent, respectively. This decision was also re-confirmed at subsequent meetings. In its January 2018 meeting, the Governing Council also confirmed the continuation of the net asset purchase programme at the monthly pace of €30 billion with a view to run the purchases until the end of September 2018. Subsequently, in view of the medium-term inflation outlook, in June 2018, the Governing Council anticipated that the monthly pace of the asset purchase programme would be reduced to €15 billion until the end of 2018, following which the net purchases would end. This stance was reconfirmed by the ECB up until September 2018.

In February 2018, the ECB also published its amended guidelines relating to the Eurosystem's monetary policy implementation. Specifically, these aimed at implementing the previously announced changes to eligibility criteria of unsecured bank bonds. The amended guidelines also adjusted the valuation of haircuts with respect to retained covered bonds with extendible maturities as well as bringing changes to the additional temporary measures relating to Eurosystem refinancing operations and collateral eligibility. In addition, in June 2018, the ECB also announced a methodology for calculating Euro Short-Term Rate (ESTER) which is a new overnight unsecured interest rate that will start to be published as of October 2019.

Interbank rates, which are rates of interest charged between banks on short-term loans, are generally indicative of the risk appetite in financial markets. Specifically, as the level of risk aversion increases, financial institutions would be less willing to exchange credit amongst themselves in the interbank market. Interbank rates remained practically unchanged throughout the first seven months of 2018, maintaining the low levels reached towards the end of last year. This was analogous for both short-term as well as longer-term rates, albeit the 1 year and three-month rates edged up marginally by 0.01 percentage point in June 2018 reaching -0.18 per cent and -0.32 per cent respectively, and remaining unchanged thereafter. The overnight rate stood at -0.36 per cent as at end of July 2018.

The interest rates of EA interbank money markets have a bearing on Maltese Treasury Bills, as they represent an alternative portfolio investment opportunity to the local investors. Between January-August 2018, the Maltese Government issued €715.6 million worth of Treasury Bills on the primary market. This level is €339.4 million higher than the level of Treasury Bills that were issued during the same period in 2017. Statistics show how yields in the primary and secondary markets for Malta Treasury Bills experienced a slight increase during 2017, while some yields have stabilised in the first seven months of 2018. In fact, as at July 2018, the yield on three-month bills in the primary market stood at a negative rate of 0.35 per cent, compared to a negative rate of 0.34 per cent in the same month a year earlier, while during the same period the yield on one-year bills stood at 0.00 per cent, meaning that it has experienced a slight increase when compared to the negative rate of 0.19 per cent registered in July 2017.

It is to be noted, that no trades were executed in Treasury Bills for the period starting from January till August 2018 and the comparable period of 2017.

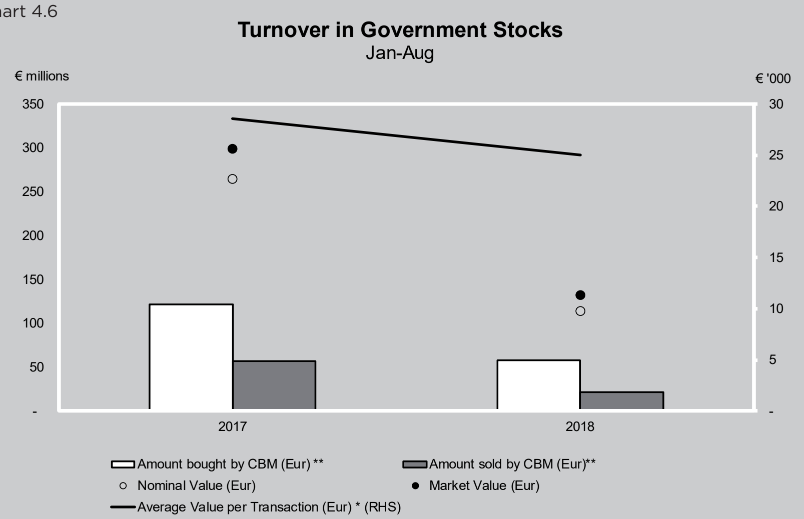
4.5 The Capital Market

Between January and August 2018, the Government issued €260,500 worth of stocks on the primary market with total redeemed stocks amounting to €291.4 million.

A stark decrease of 69.0 per cent in newly-issued corporate bonds was registered between January and August 2018, reaching €67.0 million as at August 2018 when compared to €216.0 million registered in the first eight months of 2017. Redemptions of corporate bonds also decreased by €43.4 million over the period under review, reaching €55.4 million by end of August 2018. No deductions were registered as at August 2018, mirroring the situation reported in the same period in 2017. Moreover, there were no rollovers registered in the first eight months of 2018, while €66.5 million were recorded during the same period in 2017.

Secondary market trading activities related to Government stock are displayed in Chart 4.6. During the first eight months of 2018, trading activity was lower than during the same period of 2017. In fact, turnover levels declined by 55.8 per cent to reach €132.5 million. In the period under review, the number of deals decreased to 4,571 deals when compared to 9,265 in the period January to August 2017, reflecting a decline of 50.7 per cent. Trading was mainly concentrated in two issues during the first eight months of 2018, namely: 2.1 per cent MGS 2039 and 3.0

Chart 4.6



** Based on Nominal Values*
*** Based on Market Values*

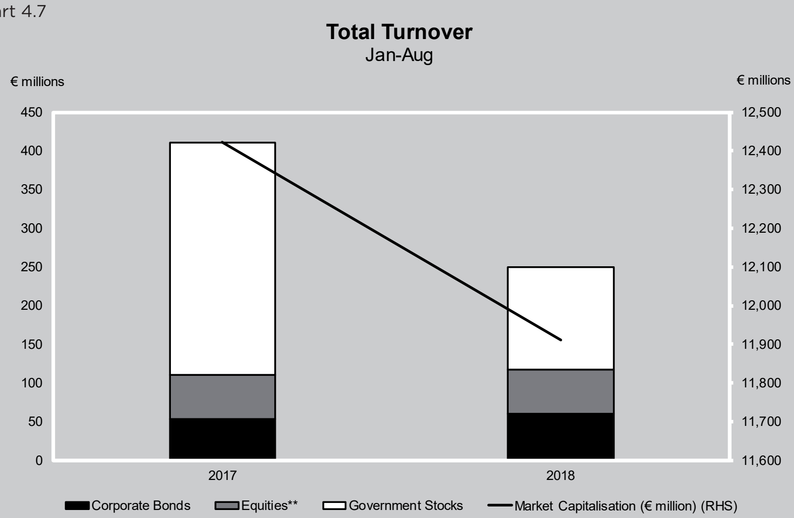
Source: Central Bank of Malta

per cent MGS 2040, which respectively registered 955 and 423 deals. The CBM transacted a total value of €79.9 million in the local Government bond market during the first eight months of 2018.

Chart 4.7 depicts secondary market indicators relative to the capital market. A slight increase in the aggregate turnover for equities was registered in the first eight months of 2018, reaching a level of €57.0 million when compared to a level of €56.8 million registered in the same period of 2017. In the period January to August 2018, the Bank of Valletta and HSBC Bank Malta share issues registered the largest level of trading activity standing at 2,443 and 761 deals, respectively.

As at August 2018, the Malta Stock Exchange Share Index dropped by 4.6 per cent from 8,925.1 to 8,513.4 from the same period of the previous year. Market capitalisation in the equity market decreased from €4,370.1 million in August 2017 to €4,180.2 million at the end of August 2018.

Chart 4.7



*** Including the alternative companies listings*

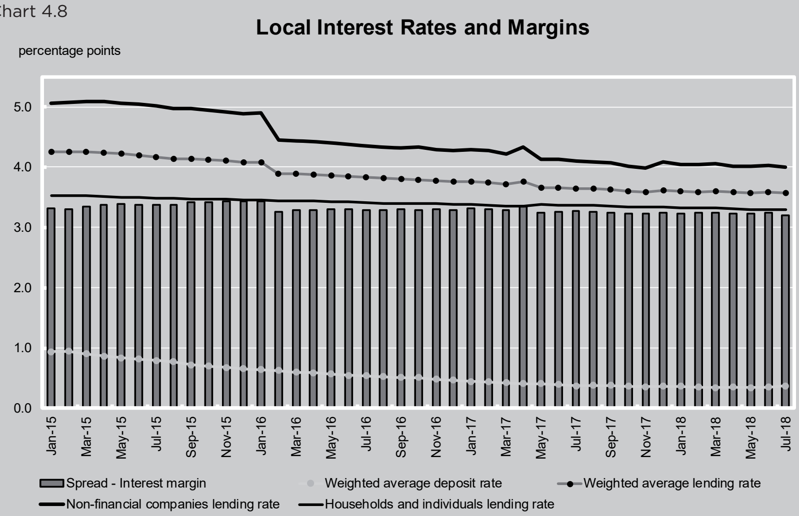
Source: Malta Stock Exchange

Total market capitalisation fell by €523.1 million by the end of August 2018, from €12,433.4 million to €11,910.3 million. This decrease was underpinned mainly by decreases in the market capitalisation for Malta Government Stock and equities, whilst for Treasury Bills and bonds market capitalisation increased.

4.6 Deposit and Lending Rates

Throughout the first seven months of 2018, the weighted average deposit and lending rates were overall slightly lower when compared to the rates recorded in the same comparative months a year earlier. In view of the largely analogous dynamics, the overall spread between weighted average deposit and lending rates declined only marginally throughout the first seven months of 2018, reaching 3.20 per cent as at end July 2018 and representing a decline of 0.03 percentage points when compared to the spread registered in January of the same year. This, however, marked a decline of 0.07 percentage points when compared to the spread recorded as at end July 2017.

Chart 4.8



Source: Central Bank of Malta

The developments in the spread were due to overall marginally lower weighted average lending rates. As at end July 2018, the weighted average deposit and lending rates stood at 0.37 per cent and 3.57 per cent, respectively. The 'households and individual' and 'non-financial companies' lending rates remained practically unchanged throughout the first half of 2018, declining only marginally by 0.04 and 0.05 percentage points respectively by the end of July 2018 when compared to the rate registered in January of the same year. Throughout the period under review, the ECB minimum bid rate remained unchanged at its zero rate (Chart 4.8).

Footnotes:

[1] Figures show the contribution of Maltese MFIs to the EA totals, and include deposit liabilities to both residents of Malta and other EA residents.

[2] M3-M2 comprises repurchase agreements and debt securities up to 2 years' maturity issued by MFIs in Malta less holdings by MFIs in Malta of such securities issued by MFIs anywhere in the EA. Figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the EA and holdings by non-residents of the EA.

[3] Deposits with MFIs exclude interbank deposits and deposits held by central Government.

[4] Comprises the Central Bank of Malta's share of Euro banknotes issued by the Eurosystem, plus coins issued by the Bank on behalf of the Treasury, less holdings of issued Euro banknotes and coins held by the MFI sector.

[5] Overnight deposits are deposits withdrawable on demand and exclude interbank deposits and deposits held by central Government.

[6] This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the EA aggregate.

[7] Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

[8] Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

5. Public Finances

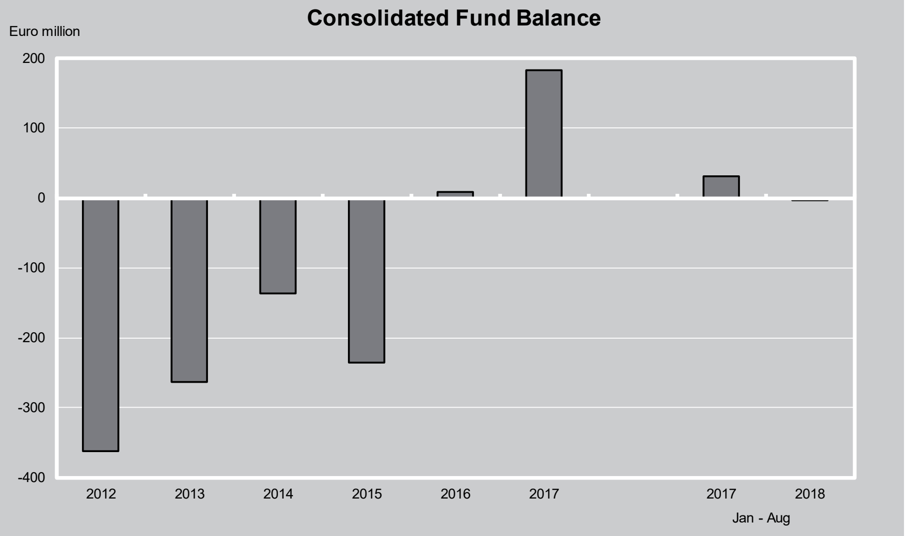
5. Public Finances

In 2017, the General Government recorded a surplus of €392.7 million, equivalent to 3.5 per cent of Gross Domestic Product (GDP), while the Government's Consolidated Fund registered a surplus of €182.7 million. Chart 5.1 presents the developments in the Consolidated Fund balance over recent years. Meanwhile, the debt ratio continued to fall reaching 50.9 per cent of GDP in 2017.

5.1 Consolidated Fund Developments

Unless otherwise stated, the analysis in this section is based on Government finance data as classified in the statement of the Consolidated Fund, where such data is defined on a cash basis rather than on an accruals system. This data must be interpreted with caution since developments in Government's net financial position may not fully reflect actual spending and revenue flows on an accruals basis.

Chart 5.1



During the eight months to August 2018, recurrent revenue increased by €160.3 million, whereas total expenditure increased by €194.6 million. As a result, the Government's Consolidated Fund balance decreased by €34.2 million to a marginal deficit of €3.1 million. Meanwhile, the public sector borrowing requirement increased from €60.3 million to €283.3 million reflecting developments in the sinking fund contribution and direct loan repayment. Developments in Government revenue and expenditure on a cash basis for the period January to August 2015 to 2018 are presented in Table 5.1.

Government Revenue and Expenditure
(January-August)

Table 5.1 € million

	2015	2016	2017	2018
Recurrent Revenue	**2,222.4**	**2,322.6**	**2,583.8**	**2,744.1**
Tax Revenue	1,918.5	2,119.0	2,299.7	2,516.9
Direct Tax Revenue	1,137.4	1,263.3	1,364.0	1,500.1
Indirect Tax Revenue	781.1	855.7	935.7	1,016.8
Non-Tax Revenue	304.0	203.7	284.1	227.3
Total Expenditure	**2,363.4**	**2,401.8**	**2,552.7**	**2,747.2**
Recurrent Expenditure	1,939.3	2,063.7	2,221.6	2,395.3
Interest on Public Debt	152.7	149.8	144.4	139.1
Capital Expenditure	271.4	188.3	186.7	212.8
Balance of recurrent revenue and total expenditure	-141.0	-79.1	31.1	-3.1
Financed by:				
Receipts from sale of shares	0.7	1.1	0.9	0.9
Sinking Funds of Converted Loans	0.0	0.0	0.0	0.0
Sinking Fund Contribution and Direct Loan Repayments	-79.7	-305.2	-90.2	-218.1
Equity Acquisition	-1.1	-12.5	-2.1	-63.0
Repayment of Loan made by government	0.0	12.0	0.0	0.0
Public Sector Borrowing Requirement	-221.1	-383.7	-60.3	-283.3
Local Loans	258.3	438.7	257.8	93.5

Source: National Stastics Office

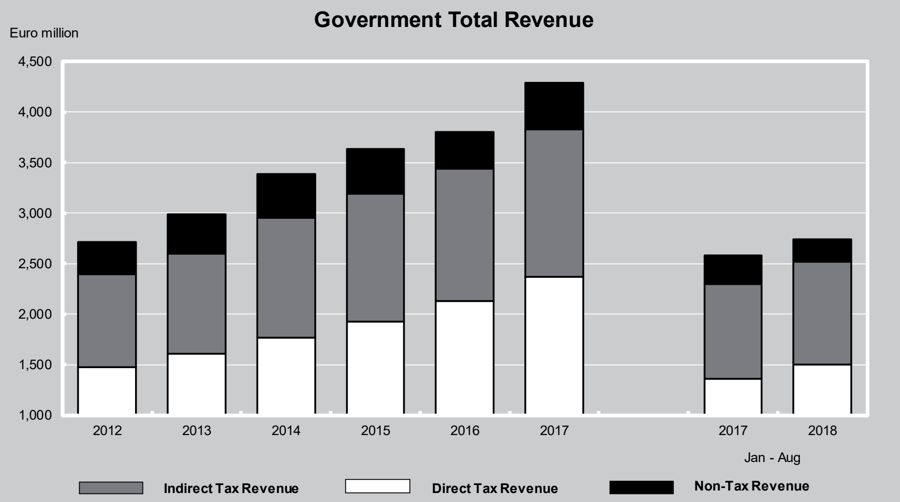
5.1.1 Recurrent Revenue

During the first eight months of 2018, recurrent revenue increased by 6.2 per cent. This increase was underpinned by higher tax revenue. Developments in the components of Government revenue for the period January to August 2015 to 2018 are presented in Appendix Table 5.1. Furthermore, Chart 5.2 illustrates recent trends in the components of Government revenue.

The share of Government revenue from taxes stood at 91.7 per cent of total recurrent revenue during the first eight months of 2018. Tax revenue increased by 9.4 per cent, reaching €2,516.9 million during the same period. This increase was mainly underpinned by developments in direct tax revenue, which increased by €136.1 million and revenue from indirect taxes which increased by €81.1 million. The rise in tax revenue more than offset the decline in non-tax revenue of €56.8 million.

During the first eight months of 2018, it is noteworthy that income tax revenue increased by 10.5 per cent and social

Chart 5.2



security contributions rose by 9.1 per cent. Sustained economic growth and enhanced efficiency in revenue collection have supported fiscal developments to date. Indeed, economic growth composition was significantly influenced by tax-rich components, in particular corporate profits, a strong labour market performance and record tourism earnings. Meanwhile, higher social security contributions also reflect the positive effect of various Government initiatives in the labour market, namely measures to encourage female participation in the labour market and pension reform initiatives.

During the first eight months of 2018, revenue from indirect taxes increased by 8.7 per cent. This increase resulted from positive developments in all three components making up indirect tax revenue, as revenue from Value Added Tax (VAT) and Licences, Taxes and Fines increased by €40.0 million and €32.4 million, respectively, whilst revenue from Customs and Excise duties increased by €8.7 million. Receipts from VAT increased in line with the strong growth in tourism spending and household consumption. Meanwhile, receipts from licences, taxes and fines increased, mainly underpinned by higher proceeds from duty on documents, annual circulation licence fees, gaming taxes and the motor vehicle registration tax. Moreover, revenue from customs and excise duties increased mainly as a result of higher proceeds from excise duty on petroleum and, to a lesser extent, machine-made cigarettes.

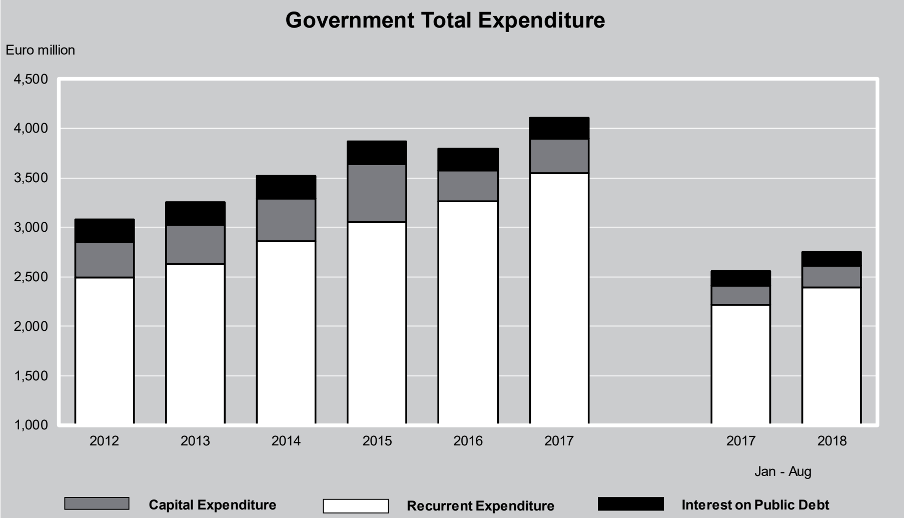
Non-tax revenue is mainly made up of grants, fees of office, the transfer of profits generated by the Central Bank of Malta (CBM) and reimbursements. During the first eight months of 2018, non-tax revenue decreased by €56.8 million mainly due to a decrease of €43.4 million in revenue from European Union (EU) grants, when compared to the same period last year. The decrease resulted from the termination of the 2007-2013 financial framework for which reimbursements in respect of EU co-financed projects were received until 2017. Furthermore, a decline of €14.0 million in revenue from fees of office was recorded, reflecting the overall more moderate contributions anticipated from the Individual Investor Programme (IIP) during

2018. Meanwhile, higher fees of office were principally recorded from the Residency and Visa programme, Fees for rights of use, Environmental contribution and Energy performance certificates. Meanwhile, revenue from the transfer of profits generated by the CBM declined by €8.0 million. Revenue from reimbursements increased by €4.9 million during the eight months to August 2018, mainly reflecting higher infrastructural fees and residential care for the elderly.

5.1.2 Expenditure

During the eight months to August 2018, total Government expenditure increased by 7.6 per cent, mainly underpinned by a €173.8 million increase in recurrent expenditure. Capital expenditure increased by €26.1 million, while interest on public debt declined by €5.3 million during the period under review. Chart 5.3 presents recent developments in Government expenditure.

Chart 5.3



Recurrent Expenditure

Recurrent expenditure is classified under four categories, namely, Personal Emoluments, Operational and Maintenance Expenditure, Programmes and Initiatives and Contributions to Government Entities.

Programmes and Initiatives refer to expenditure and social transfer payments made in respect of ad hoc programmes run by Government, as well as subsidies, payments and grants for the provision of services to citizens and to charitable and private institutions, but excludes operational costs of Government departments. It also includes payments of own resources as contribution to the EU budget. During the first eight months of this year, expenditure on Programme and Initiatives increased by €93.9 million, mainly due to higher outlays on social security benefits, in particular, retirement and widows' pension. However, additional outlays towards social security benefits also reflect seasonal conditions in the timing of payments. Higher outlays were also recorded in respect of medicines and surgical materials, church schools, retirement care in private homes and expenditure related to cancer treatment. The termination of Malta's Presidency of the Council of the EU during the first half of 2017, contributed to offset in part these higher outlays, whilst lower outlays were also recorded in respect of EU own resources.

Contributions towards Government Entities include the funding of Government entities, Parastatals, Corporations and Authorities. Outlays in this respect stood at €271.7 million during the period January to August 2018, registering a €30.3 million increase over the level recorded during the same period a year earlier. Higher outlays were directed to the Malta Tourism Authority, the utilities sector, including the Water Services Corporation and projects related to energy and water management, the Financial Intelligence Analysis Unit (FIAU) and the Valletta European Capital of Culture 2018.

Personal Emoluments include all salaries and wages paid to elected officials and civil servants, as well as any bonuses and supplements paid to employees in excess of standard remunerations including any allowances and overtime payments. During the review period, this category of expenditure increased by €39.5 million to stand at €541.2 million, mainly due to higher outlays directed towards the health, education and social sectors following sectoral collective agreements.

During the first eight months of 2018, Operational and Maintenance expenditure, which includes payments for utilities, contractual services, materials and supplies, transport and rent, increased by €10.1 million to €120.7 million. Higher outlays were mainly recorded with respect to the Ministry for Health, the Ministry for the Family, Children's Rights and Social Solidarity, as well as the Elderly and Community Care.

Appendix Table 5.2 presents the developments in Government's recurrent expenditure on a cost centre basis for the first eight months of 2018. The nomenclature of Ministries as well as the cost centres referred to in this Chapter reflect the allocation of portfolios and assignment of responsibility for Government Departments and Government Entities. A direct comparison with data for past years is therefore not always possible.

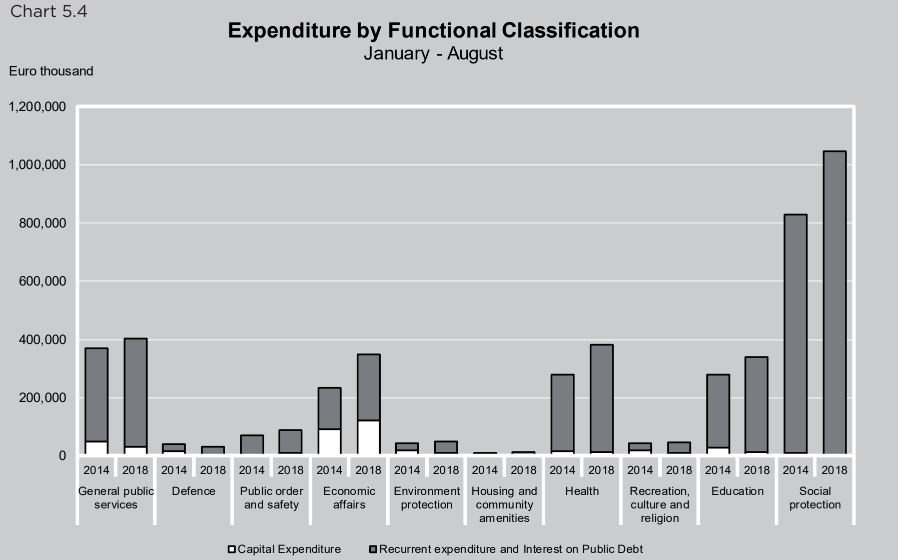
At 27.0 per cent of Government's total recurrent expenditure, Social Security Benefits continue to make up the largest share of Government recurrent expenditure down from 28.2 per cent during the same period in 2017. Around 81 per cent of the social security benefits are contributory benefits, mainly retirement pensions, while the remaining 19 per cent consist of non-contributory benefits, mainly social assistance and children's allowance. During the eight months to August 2018, welfare payments reached €647.7 million. Contributory benefits increased by €21.5 million, mainly underpinned by higher outlays towards retirement pensions. Meanwhile, non-contributory benefits remained at the level recorded during the same period last year, standing at €119.9 million.

Analysis of Recurrent Expenditure by Functional Classification
The structure of recurrent expenditure can be classified by the main socio-economic functions of Government (according to

the Classification of the Functions of Government – COFOG). The different economic functions are the general public service; defence; public order and safety; economic affairs; environment protection; housing and community amenities; health; recreation; culture and religion; education and social protection. Chart 5.4 and Appendix Table 5.3 illustrate the developments in the main components of Government expenditure for the main COFOG categories.

During the eight months to August 2018, social protection expenditure accounted for 43.6 per cent of recurrent expenditure, when compared to 45.7 per cent of recurrent expenditure recorded in 2014. Meanwhile, expenditure on health stood at 15.4 per cent of recurrent expenditure in January to August 2018, compared to 14.8 per cent recorded in 2014. This was followed by expenditure on education, which accounted for 13.7 per cent of recurrent expenditure in 2018, when compared to 14.0 per cent recorded in 2014.

Chart 5.4



When comparing the first eight months of 2014 with the same period in 2018, it is noted that recurrent expenditure has increased by €604.5 million, mainly due to higher outlays towards social protection (€225.9 million), health (€105.3 million), economic affairs (€84.9 million), education (€76.9 million) and general public services (€63.6 million). All the other categories recorded an increase in expenditure outlays, but to a lesser extent.

Capital Expenditure

During the months of January to August 2018, capital expenditure increased by €26.1 million, making up 7.7 per cent of total Government expenditure. According to the latest available expenditure data by economic function, during the period under review, around 57 per cent of capital outlays were directed to the economic affairs category, followed by capital spending on general public services which totalled to around 15 per cent of capital outlays. Meanwhile, education, health, recreation, culture and religion, public order and safety and environment protection, in aggregate amounted to around 26 per cent of total capital expenditure.

Capital expenditure during the period under review increased in the economic affairs (+€21.7 million), general public services (+€16.6 million), health (+€4.8 million) and environment protection (+€2.7 million) categories. Declines were recorded in the remaining categories of expenditure by function.

Total capital expenditure during the period January to August 2018 totalled €212.8 million and is mainly financed from local funds. Developments in total capital expenditure are led by trends in the national funding capital programme (excluding investment and equity acquisitions), which increased by €32.7 million, to €162.4 million during the review period. During the same period, foreign funding declined by €2.6 million, to €37.5 million, while the Malta local co-financing, ineligible costs, funding gap and sponsorship component declined by €4.0 million, to stand at €12.8 million.

5.2 Main Budgetary Developments

The Quarterly Accounts of General Government published by the National Statistics Office (NSO), depict the Government's fiscal position using the updated European System of Accounts (ESA) 2010 methodology. Under this system, mandatory for all EU Member States, adjustments are carried out to the cash balances of the Consolidated Fund transactions to include all government accounts, exclude all financial transactions, and include accrual adjustments. Moreover, data pertaining to Extra Budgetary Units (EBUs) and local councils are also included. It is therefore pertinent to note, that the data presented below is not comparable to that classified in the statement of the Consolidated Fund as provided in other sections of this Chapter. Nevertheless, conformity to the use of ESA 2010 methodology in line with the procedure defined in Article 104 of the Maastricht Treaty, allows for the international comparability of data for reporting purposes.

5.2.1 Medium-Term targets

In 2017, Malta reported headline and structural budget surpluses, in line with the provisions of the Stability and Growth Pact. Indeed, the budgetary situation improved markedly when compared to 2016 as the General Government surplus increased by €296.3 million to €392.7 million, a surplus of 3.5 per cent of GDP.

Medium-term targets consistent with both EU and national legally bound requirements (i.e. the Stability and Growth Pact as well as the Fiscal Responsibility Act) are determined on the basis of the structural budget balance. This is the budget balance net of the effects of one-off and other temporarily measures and also net of the estimated cyclical components of the budget. The structural balance reached a surplus of 3.1 per cent of GDP in 2017, well above the medium-term objective of a balanced budgetary position in structural terms. These fiscal developments were mainly supported by potential economic growth which sustained robust direct tax revenue a more contained expenditure growth and the proceeds from the IIP. Nevertheless, when excluding proceeds from the IIP, the budget balance would still be in a surplus position in 2017, both in nominal and structural terms, at 1.4 per cent and 0.7 per cent, respectively.

During 2017, the robust growth registered in corporate profits and the stronger labour market resulted in higher than expected proceeds from current taxes on income and social security contributions. Corporate tax revenues were also influenced by a one-time increase due to administrative provisions as recommended by Eurostat affecting the management of international companies' departmental account at the Central Bank of Malta. Revenues from taxes on production and imports were also more buoyant, underlined by strong domestic demand conditions, tourism earnings and construction activity.

In terms of expenditure, in spite of higher expenditure in monetary terms, developments trailed GDP growth. As a result, the ratio of General Government expenditure to GDP declined by 0.9 percentage points to 36.2 per cent. This mainly resulted from a decline in the ratio of social payments, supported by the strengthening of labour market conditions and the effect of active labour market measures aimed at making work pay and encourage the reduction of dependency on the benefit system. In addition, growth in public sector wages and salaries was contained relative to GDP growth. Against the background of the ensuing low interest rate environment and the Treasury's debt management strategy, expenditure on interest payments declined in both absolute and relative terms in 2017. Meanwhile, intermediate consumption increased by 0.3 percentage points to 6.5 per cent of GDP in 2017 mainly due to health-related expenditure, increased outlays on residential care in private homes as well as one-off expenditure in respect of Malta's responsibility for the Presidency of the Council of the EU.

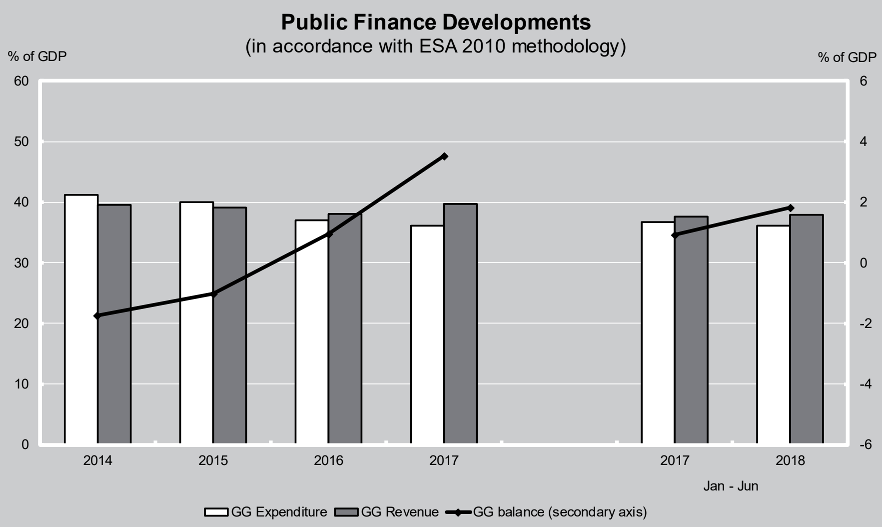
5.2.2 Budgetary Developments during the first half of 2018

The analysis in this section is based on actual General Government (GG) data in ESA 2010 for the first quarters while estimated, and therefore, provisional data is used for the second quarter. It is thus worth noting, that due to seasonal factors, a larger proportion of revenue and to a lesser extent expenditure materialises in the last quarter of the year. As a result, the in-year budgetary performance is not symmetrical between the first half and the second half of the year. Seasonal patterns may also vary from one quarter to the next due to the timing of payments and receipts. Therefore, in-year deficit-to-GDP figures which measure the in-year budgetary performance should be read with caution. Chart 5.5 presents public finance developments in accordance with ESA 2010 methodology over recent years.

The General Government surplus is estimated to have increased from €49.4 million during the first half of 2017 to €105.9 million during the first half of 2018 reflecting higher tax revenue and a more contained expenditure growth.

During the first half of 2018, revenue increased by €181.6 million to €2,210.0 million, equivalent to 38.0 per cent of GDP, mainly the result of higher tax proceeds. This positive performance was

Chart 5.5



mainly attributed to the buoyant state of the economy, including the property market, and the stronger than anticipated growth in employment and wages.

When compared to the first two quarters of 2017, during the first half of 2018 expenditure has increased by €125.1 million to €2,104.1 million or 36.2 per cent of GDP. Expenditure increases were most pronounced for compensation of employees, intermediate consumption, and social payments, although developments in social payments reflect seasonal conditions in the timing of payments due. These higher outlays were in part offset by lower expenditure on gross capital formation, underpinned by lower expenditure on projects in part financed from EU funds, as well as less buoyant than planned domestically financed capital expenditure.

5.3 Budgetary Targets

During the current fiscal year, the General Government balance is expected to remain in surplus, although this is expected to reach €127.0 million or 1.1 per cent of GDP. This compares favourably with the target of €54.0 million (or 0.5 per cent of GDP) presented in the approved Budget last year.

In 2018, revenue is expected to increase by €303.1 million or by 6.9 per cent over the previous year, and amount to €4,727.1 million. The projections for General Government revenue have been revised upwards, mainly on account of higher anticipated tax proceeds based on the better than anticipated outturn in 2017, revenue performance to-date and in reflection of expected economic activity up to the end of the year. It may be noted, that these variances to revenue have largely been carried out in the Medium-Term Fiscal Strategy (MTFS), which was published in April this year and submitted to Parliament in May. Meanwhile, General Government expenditure is expected to increase by €568.8 million or 14.1 per cent over the previous year, and to amount to €4,600.1 million. The projections for General Government expenditure have also been revised upwards, in response to rising demand for public services, in particular in the health and education sectors.

For 2019, Government is aiming for a surplus target of 1.3 per cent of GDP. In structural terms, the General Government balance is expected to increase from 0.6 per cent in 2018 to 1.2 per cent in 2019. General Government budgetary targets are outlined in Table 5.2. Both the revenue and expenditure ratios to GDP are expected to decline marginally in 2019, although a more pronounced decline in expenditure is expected to result in an improvement in the budget surplus by 0.2 of a percentage point of GDP.

Total revenue is expected to decline by 0.3 of a percentage point to 39.1 per cent of GDP in 2019 as a higher tax revenue ratio is expected to be in part offset by lower property income and 'other' revenue, the latter primarily reflecting lower market output.

The ratio of General Government expenditure to GDP is expected to decline by 0.5 of a percentage point to 37.8 per cent in 2019.

Budgetary Targets

(General Government budgetary targets broken down by subsector)

Table 5.2 % GDP

	ESA code	**2018**	**2019**
General Government balance	S.13	1.1	1.3
Interest expenditure	D.41	1.6	1.5
Primary balance		2.7	2.7
One-off and other temporary measures		0.0	0.0
Output gap (% of potential GDP)		0.9	0.1
Cyclical budgetary component (% of potential GDP)		0.4	0.0
Cyclically-adjusted balance (% of potential GDP)		0.6	1.2
Cyclically-adjusted primary balance (% of potential GDP)		2.3	2.7
Structural balance (% of potential GDP)		0.6	1.2

Source: Ministry for Finance

The decline in the expenditure to GDP ratio is mainly set to come from a decline in capital transfers by 0.3 of a percentage point of GDP. It is nevertheless worth noting, that in 2018, this item of expenditure included €63.5 million or 0.5 per cent of GDP primarily for the capitalisation of Malta Air Travel Ltd (MAT Ltd) for the purchase of Air Malta's landing slots which will not be repeated in 2019. These developments, alongside lower ratios for most current expenditure components, are expected to more than offset higher gross fixed capital formation. Increases in

Expenditure and Revenue Targets

(General Government expenditure and revenue targets, broken down by main components)

Table 5.3 — % GDP

	ESA code	2018	2019
General government	S.13	**1.1**	**1.3**
Total revenue target	TR	**39.4**	**39.1**
of which			
Taxes on production and imports	D.2	12.7	12.5
Current taxes on income, wealth, etc	D.5	14.5	15.0
Capital taxes	D.91	0.2	0.2
Social contributions	D.61	6.3	6.2
Property income	D.4	0.7	0.5
Other [1]		5.0	4.7
Total expenditure target	TE	**38.4**	**37.8**
of which			
Compensation of employees	D.1	11.5	11.4
Intermediate consumption	P.2	6.9	6.9
Social payments	D.6M	10.1	10.0
Interest expenditure	D.41	1.6	1.5
Subsidies	D.3	1.4	1.4
Gross fixed capital formation	P.51G	3.3	3.6
Capital transfers	D.9	1.5	1.2
Other [2]		2.1	2.0

[1] *P.10 + D.39rec + D.7rec + D.9rec (other than D.91rec).*

[2] *D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.5M + NP + D.8.*

Source: Ministry for Finance

capital expenditure will be devoted to roads, the environment, health and education and include higher infrastructure expenditure financed from both the EU and local funds. General Government expenditure and revenue targets are presented in Table 5.3.

5.4 Debt Developments

The Government's debt strategy remains that of ensuring that the financing needs of the public sector are met at the lowest possible costs and that its debt service payment obligations are met in a timely manner. Additionally, the Government aims to ensure that the debt levels remain sustainable while simultaneously minimising short, medium and long-term interest rate risk.

The General Government debt has declined below the 60 per cent Treaty requirements in 2015 and is expected to further decrease to 4.0 percentage pionts, to 46.9 per cent in 2018. The projected reduction in the gross debt ratio is mainly driven by the

General Government Debt Developments

Table 5.4 — % of GDP

	ESA Code	2018	2019
1. Gross debt		46.9	43.8
2. Change in gross debt ratio		-4.0	-3.1
Contributions to changes in gross debt			
3. Primary balance		-2.7	-2.7
4. Interest expenditure	EDP D.41	1.6	1.5
5. Stock-flow adjustment		0.7	1.6
p.m. implicit interest rate on debt[1]		3.4	3.3

[1] Proxied by interest expenditure divided by the debt level of the previous year.

Source: Ministry for Finance

primary surplus and the relatively high nominal growth scenario. Both components are expected to mitigate the upward pressure that interest expenditure and stock flow adjustments (SFA) are expected to have on the debt to-GDP ratio. Developments in gross Government debt are presented in Table 5.4.

It is estimated, that in 2018, the SFA contributed to a 0.7 percentage points increase in the debt-to-GDP ratio. Part of the positive stock flow is attributed to the positive balance in the IIP which is not featuring in the Central Government Deficit.

5.5 Sensitivity of Budgetary Targets to Alternative Macroeconomic Forecasts

The macroeconomic forecast is the economic foundation of the Government's budgetary targets. In this context, the macroeconomic forecasts balance the need to strive for forecast accuracy with the need to maintain a measure of prudence. This is complemented by the assessment of past forecasting performance and a rigorous and scientific quantification of macroeconomic risk, based on research carried out by the Economic Policy Department (EPD) within the MFIN. While the Maltese economy has proved to be very resilient to the international economic crisis, GDP forecast errors are relatively higher for Malta than those observed for larger and less open economies within the EU. This section provides an assessment of forecast uncertainty and the balance of risk surrounding the macroeconomic forecasts. The analysis is in line with the requirements of Council Directive 2011/85/EU of the EU on the requirements for budgetary frameworks of the Member States and also in line with the requirements of Article 17(1) of the Fiscal Responsibility Act.

5.5.1 The Accuracy of Past Forecasting Performance

The analysis of past forecast errors shows a tendency to underestimate GDP growth and hence a downward bias in the GDP growth projections in previous years. However, this is primarily a result of persistently significant statistical revisions in the upward direction in the national accounts data. While the one-year ahead forecasts display a root-mean squared error (RMSE) of 3.1, it is notable that the sample size employed is rather small and the earliest available forecast is that of 2004. The small sample size, the recession of 2009, the subsequent recovery and the statistical revisions play an undue influence on this evaluation and limit comparability with the forecast accuracy displayed by other economies. It is noteworthy that over successive vintages of forecasts, the RMSE has widened primarily due to the relatively large forecast errors in 2014 and 2015 which are symptomatic of significant upward revisions in the national accounts data.

The evaluation of the risk and uncertainty of the current macroeconomic projections is based on both an ex ante analysis of past forecast errors which determine the level of uncertainty and an ex post assessment of the balance of risk based on a number of alternative but plausible economic scenarios generated with the forecasting model used by the EPD.

5.5.2 The Balance of Risks

To determine the balance of risks surrounding the macroeconomic forecasts, thirteen alternative model-based growth projections were carried out as follows:

1. Improved global economic growth based on the upper bound of the Consensus forecasts.
2. Weaker global economic growth based on the lower bound of the Consensus forecast.
3. Weaker Euro exchange rate against the US Dollar.
4. Stronger Euro exchange rate against the UK Pound Sterling.
5. Higher world prices rising by 2.5 per cent in contrast to the 1.7 per cent growth assumed in the baseline forecast.
6. Higher interest rate scenario resulting into an upward sloping yield curve in 2019.
7. Trade protectionism scenario, where a strong US Dollar coupled with high world prices and higher export and import prices resulting from the imposition of tariffs is modelled.

8. Stronger medium-term investment scenario.
9. Weaker medium-term investment scenario.
10. Higher oil prices, rising to 80.0 US Dollars per barrel in the last quarter of 2018 and reaching 85.0 US Dollars per barrel in 2019.
11. Higher wage inflation scenario where a growth rate of 3.5 per cent is assumed for 2019.
12. Negative manufacturing growth scenario.
13. Lower growth in exports of financial services.

These represent scenarios that are considered to be plausible alternatives to the baseline projections. While economic judgement influences the choice of these scenarios, this judgement is also underpinned by the constant monitoring of economic conditions prevailing at the time and also informed by the various meetings with economic stakeholders and regulators operating within the Maltese economy, carried out in the early stages of the forecasting exercise.

Among the alternative forecasts, a more detailed description is provided for the alternative growth and interest rate scenarios as required by the Directive and the Act. In the light of the prevailing uncertainty surrounding the global economy, two contrasting growth scenarios are modelled.

In this scenario, global growth is assumed to be higher, where Malta's key trading partners will have stronger growth than originally anticipated; an increase of 0.1 percentage points in 2018 and an increase of 0.6 percentage points in 2019. The relatively higher than expected economic growth in Germany, Italy, France, the UK, and the US is based on the Consensus Forecasts September 2018 publication, assuming the most optimistic growth figure for each trading partner for the forecast years 2018 and 2019. The outcome of this scenario is marginal in 2018. On the other hand, real GDP growth is revised upwards by 0.3 percentage points in 2019, reaching a real growth rate of 5.6 per cent, while the budget balance is increased by 0.1 percentage points.

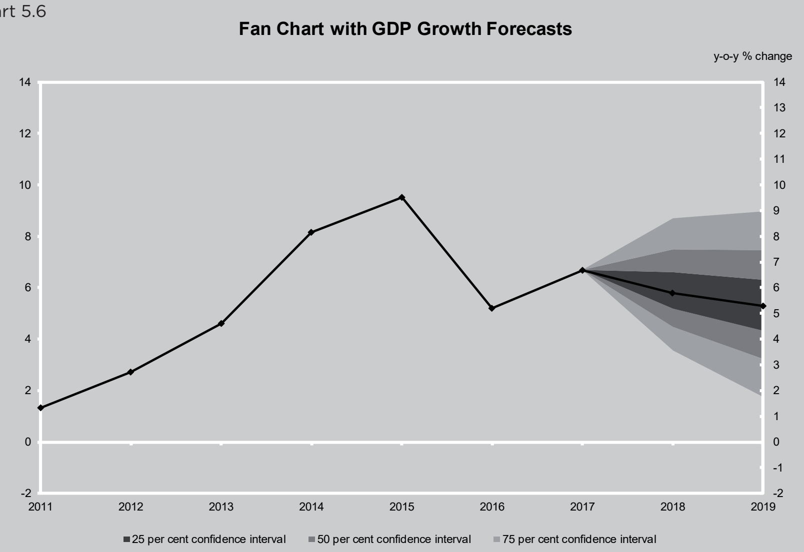
The weaker economic growth scenario models the downside risk of a weaker than expected economic growth rate in Malta's main trading partners on the Maltese economy. The relatively lower than expected growth projections for Germany, Italy, France, the UK, and the US are based on the Consensus Forecasts September 2018 publication, assuming the lowest growth figure for each trading partner for the forecast years 2018 and 2019. The outcome of this scenario is that the Maltese economy will continue yielding roughly the same development in real GDP growth and the budget balance for 2018 as in the baseline forecast. In contrast, real GDP growth is lowered by 0.2 percentage points in 2019, to reach 5.1 per cent, while the budget balance is essentially unaffected.

The Interest Rate Scenario assumes that long-term interest rates are assumed to increase by 50 basis points in 2019, thereby steepening the yield curve compared to the baseline scenario. The effect of this scenario is lower real investment growth leading to a decline of 0.3 percentage points in real GDP in 2019 and a virtually unchanged budget balance.

5.5.3 Alternative Model Forecasts

Moreover, the EPD has developed seven alternative forecasting models ranging from model-free statistical forecast (Random Walk and Holt-Winters Seasonal Smoothing Method), model-based univariate forecasts (2 ARIMA models) and model-based multivariate forecasts (2 VAR models and one VECM model). These models help EPD benchmark the results obtained from its Short-Term Quarterly Econometric Forecasting Model for Malta (STEMM) and can be used to generate alternative growth forecasts. For 2018, the alternative models give a range of growth forecasts from 5.1 to 6.5 with the average being very close to the baseline forecast. This is indicative of a relatively balanced risk for 2018. For 2019, growth forecasts range from 5.1 per cent to 6.2 per cent, meaning that the baseline forecast is rather prudent.

Chart 5.6



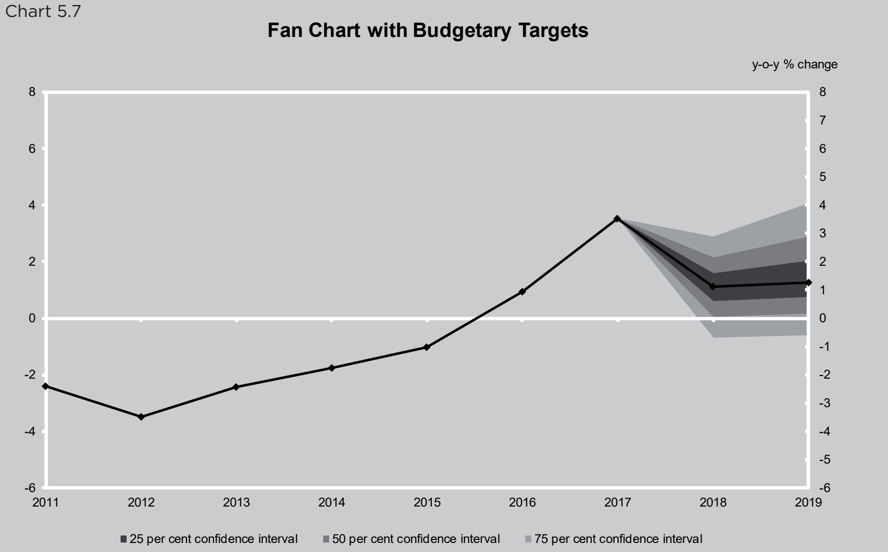
5.5.4 Uncertainty and the Balance of Risk Underlying the Macroeconomic Projections

The uncertainty surrounding the macroeconomic projections is based on the past forecast error variance of GDP. This is equal to 2.2 for the current year forecast, and 3.1 for the one-year ahead forecast. The balance of risk is based on the Pearson skewness indicator of the model generating alternative forecast for GDP documented above. The indicator shows a rather balanced risk for 2018, but an upside risk for 2019. The result is consistent with the analysis of alternative model forecasts highlighted earlier. Chart 5.6 represents the uncertainty and the balance of risk surrounding the macroeconomic forecasts produced economists within MFIN, and presented in this Economic Survey.

5.5.5 Risks to Fiscal Targets

The alternative macroeconomic scenarios documented above can influence the attainment of the fiscal targets thus underpinning alternative fiscal conditions. Chart 5.7 illustrates the range of possible budget balance outcomes conditional upon

Chart 5.7



the realisation of these alternative scenarios and past forecast errors of fiscal projections, based on a methodology similar to that used for deriving the macroeconomic risk assessment. As a result, the risk assessment is presented in the form of a probabilistic fanchart. There seems to be a balanced risk for the attainment of the surplus target in 2018, while the balance of risk is on upside for 2019.

Based on the range of alternative forecast scenarios, the impact on potential output and the output gap has also been produced. In the most optimistic scenario, the output gap could rise from 0.9 per cent of potential GDP to 2.1 per cent in 2018 and from 0.1 per cent of potential GDP to 1.0 per cent in 2019. In the worst case scenario, the output gap could fall to 0.6 per cent of potential GDP and to -0.4 per cent of potential GDP in 2018 and 2019, respectively.

Government Revenue

(January-August)

Appendix Table 5.1 | € thousand

	2015	2016	2017	2018
Tax Revenue	**1,918,470**	**2,118,960**	**2,299,698**	**2,516,865**
Direct Tax Revenue	1,137,357	1,263,274	1,364,038	1,500,113
Income Tax	693,976	771,170	833,252	920,880
Social Security	443,381	492,105	530,786	579,232
Indirect Tax Revenue	781,113	855,685	935,660	1,016,753
Customs and Excise Duties	160,222	170,594	195,957	204,695
Licences, Taxes and Fines	180,307	210,493	221,952	254,329
Value Added Tax	440,584	474,598	517,751	557,729
Non-Tax Revenue	**303,960**	**203,670**	**284,091**	**227,259**
Fees of Office	29,154	32,997	66,566	52,607
Reimbursements	15,413	16,708	22,993	27,904
Rents	21,515	22,253	22,088	22,048
Dividends on Investments	9,273	12,441	19,125	23,333
Repayment of Government Loans and interest	132	73	34	32
Miscellaneous Receipts	33,050	24,158	22,839	22,254
Public Corporations	0	0	0	0
Central Bank of Malta	36,000	36,000	36,000	28,000
Grants	159,423	59,041	94,447	51,082
Recurrent Revenue	**2,222,430**	**2,322,630**	**2,583,789**	**2,744,125**
Extraordinary Receipts	700	1,131	889	91,889
Loans	258,287	438,669	257,770	93,527
Repayment of Loans made by Government	0	11,984	0	0
Total Revenue	**2,481,418**	**2,774,413**	**2,842,448**	**2,929,540**

Source: The Treasury, Ministry for Finance

Government Recurrent Expenditure

(January-August)

Appendix Table 5.2 € thousand

	2015	2016	2017	2018
Office of the President	2,291	2,683	3,412	3,554
House of Representatives	2,306	2,826	2,855	3,798
Office of the Ombudsman	800	600	900	800
National Audit Office	2,025	2,160	2,363	2,565
Office of the Prime Minister	17,621	24,248	21,560	22,244
Public Service Commission	339	363	371	399
Information	742	676	616	681
Government Printing Press	840	825	864	877
Electoral Office	6,841	1,224	6,636	1,528
Government Property Division	4,808	4,516	0	0
Ministry for European Affairs and Implementation of the Electoral Manifesto	7,697	16,232	34,650	12,037
Ministry for Foreign Affairs	14,129	15,013	16,438	17,615
Ministry for Tourism [Culture and the Environment]	31,511	44,275	42,776	57,567
Local Government	26,809	27,405	29,918	30,974
Ministry for Education and Employment	164,874	170,956	168,687	187,462
Education	129,329	137,783	146,070	160,318
Ministry for Sustainable Development, the Environment and Climate Change	29,345	31,654	40,356	51,406
Ministry for Transport and Infrastructure	54,402	60,801	59,952	60,309
Ministry for Gozo	16,786	18,186	19,616	22,765
Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	6,566	6,917	8,497	0
Industrial and Employment Relations	781	960	986	836
Ministry for the Economy, Investment and Small Business	20,006	21,135	12,438	13,266
Trade Services [Commerce]	1,036	1,115	981	898
Ministry for the Family and Social Solidarity	42,452	40,798	51,249	56,834
Social Policy [Security]	137,665	151,893	163,030	183,169
Social Security Benefits	568,960	591,399	625,949	647,696
Social Welfare Standards	675	678	691	804
Elderly and Community Care	52,141	60,998	67,266	78,635
Ministry for Home Affairs and National Security	14,145	8,876	8,919	9,360
Armed Forces of Malta	26,672	27,145	29,514	30,146

Government Recurrent Expenditure

(January-August)

Appendix Table 5.2 continued — € thousand

	2015	2016	2017	2018
Police	35,332	35,357	36,749	39,747
Correctional Services	6,749	6,755	7,312	8,511
Probation and Parole [Services]	597	647	677	718
Civil Protection	2,899	3,467	3,356	3,571
Judicial	8,369	8,591	9,347	11,586
Ministry for Finance	71,873	67,116	87,372	84,633
Treasury	3,793	4,095	5,355	16,913
Pensions	62,078	64,814	69,917	80,151
Inland Revenue	5,010	5,269	5,352	5,831
V.A.T.	3,430	4,149	4,853	6,419
Customs	6,973	6,855	6,322	6,982
Contracts	918	987	920	1,001
Economic Policy	790	745	865	1,084
Ministry for Energy and the Conservation of Water	0	0	0	55,981
Ministry for Energy [the Conservation of Water] and Health	35,603	41,819	0	0
[Ministry for] Health	293,918	313,936	348,713	367,995
Ministry for Justice, Culture and Local Government	16,365	24,753	26,180	45,669
[Energy and Projects]	0	0	31,006	0
[Ministry for Competitiveness and Digital, Maritime and Service Economy]	0	0	9,715	0
Recurrent Expenditure	**1,939,291**	**2,063,693**	**2,221,572**	**2,395,336**

Note: [ ] denotes change in name of cost centres

Source: The Treasury, Ministry for Finance

Appendix Table 5.3

Government Expenditure by COFOG category

(January-August)

€ thousand

COFOG	Personal Emoluments			Operational and Maintenance Expenses			Programmes and Initiatives			Contributions to Government Entities		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
General public services	48,592	52,245	60,367	17,092	18,132	22,352	114,728	155,943	136,273	6,660	5,987	13,645
Defence	24,028	25,351	26,821	2,994	3,909	3,145	255	397	347	0	130	150
Public order and safety	53,388	55,924	61,400	6,523	6,966	7,576	2,741	2,650	3,834	5,337	5,541	5,779
Economic affairs	43,909	45,954	41,851	9,992	7,398	6,338	73,775	77,924	99,221	59,973	65,776	79,898
Environment protection	556	642	0	77	206	243	12,345	15,704	19,391	11,907	12,662	18,615
Housing and community amenities	1,638	437	962	503	52	218	0	2,039	4,757	1,967	7,488	5,629
Health	143,637	152,680	164,730	42,666	36,361	39,023	98,015	125,847	130,925	32,058	35,066	35,299
Recreation, culture and religion	5,266	4,393	4,515	648	659	924	6,628	5,633	7,302	13,519	15,550	21,623
Education	124,081	131,861	146,304	15,804	16,525	17,049	75,811	78,259	98,407	78,615	70,631	65,890
Social protection	31,015	32,221	34,256	17,717	20,355	23,809	849,832	903,472	961,268	29,400	22,603	25,201
Total	**476,109**	**501,708**	**541,206**	**114,017**	**110,563**	**120,676**	**1,234,130**	**1,367,869**	**1,461,724**	**239,437**	**241,432**	**271,730**

	Interest Expenditure			Capital Expenditure			Total expenditure		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
General public services	149,770	144,439	139,124	19,713	14,723	31,310	**356,556**	**391,470**	**403,071**
Defence	0	0	0	7,314	3,219	756	**34,591**	**33,006**	**31,219**
Public order and safety	0	0	0	10,923	18,085	10,806	**78,912**	**89,165**	**89,394**
Economic affairs	0	0	0	101,101	99,814	121,486	**288,751**	**296,866**	**348,794**
Environment protection	0	0	0	1,407	7,125	9,779	**26,292**	**36,339**	**48,028**
Housing and community amenities	0	0	0	7,715	1,581	440	**11,823**	**11,597**	**12,007**
Health	0	0	0	7,462	7,060	11,876	**323,837**	**357,014**	**381,853**
Recreation, culture and religion	0	0	0	14,140	12,674	10,690	**40,202**	**38,909**	**45,054**
Education	0	0	0	13,067	19,763	13,126	**307,378**	**317,038**	**340,775**
Social protection	0	0	0	5,464	2,629	2,516	**933,428**	**981,280**	**1,047,049**
Total	**149,770**	**144,439**	**139,124**	**188,307**	**186,674**	**212,784**	**2,401,770**	**2,552,685**	**2,747,244**

Source: National Statistics Office

Statistical Annex

Population

Table I

	2010	2011	2012	2013	2014	2015	2016	2017
Total Population (000's)	414,989	417,546	422,509	429,424	439,691	450,415	460,297	475,701
Males (000's)	206,405	207,695	210,383	214,533	220,488	226,396	231,663	240,599
Females (000's)	208,584	209,851	212,126	214,891	219,203	224,019	228,634	235,102
% Increase per annum	0.2%	0.6%	1.2%	1.6%	2.4%	2.4%	2.2%	3.3%
Natural Increase per annum	888	898	712	796	921	883	1,134	748
Crude Birth Rate (per 1000 population)	9.4	10.0	9.8	9.5	9.6	9.7	9.8	9.2
Crude Mortality Rate (per 1000 population)	7.3	7.8	8.1	7.6	7.5	7.7	7.3	7.6
Crude Marriage Rate (per 1000 population)	6.3	6.2	6.7	6.1	6.6	6.7	6.7	6.3
Infant Mortality Rate (per 1000 births)	5.6	6.5	5.3	6.7	5.0	5.8	7.4	6.7
Life Expectancy (at birth)	81.5	80.9	80.9	81.9	82.1	82.0	82.6	82.4
Males	79.3	78.7	78.6	79.6	79.9	79.8	80.6	80.2
Females	83.6	83.0	83.1	84.0	84.3	84.1	84.4	84.6
Life Expectancy (at age 65)	20.0	19.4	19.4	20.1	20.3	20.3	21.0	20.7
Males	18.5	17.7	17.6	18.4	18.7	18.8	19.7	19.0
Females	21.1	21.0	21.0	21.5	21.7	21.6	22.1	22.2

Source: National Statistics Office

Social Indicators

Table II

	2010	2011	2012	2013	2014	2015	2016	2017
GDP at current market prices per capita (€)	15,923	16,432	17,064	17,935	19,471	21,387	22,341	23,778
Quality of Life								
Motor Vehicle Licences per 1,000 population	734.2	747.1	744.4	752.1	762.5	770.2	779.8	782.1
Internet Subscriptions per 1,000 population[2]	121.654	128.678	135.758	143.010	151.557	163.205	171.263	181.318
Mobile Phone Subscriptions per 1,000 population[2]	455.579	521.748	532.228	556.652	546.229	557.583	585.470	604.759
Fixed Telephone Lines per 1,000 population[2]	247.635	232.203	229.740	231.331	230.361	230.226	234.368	240.280
Education[1]								
Number of teachers (000)	7.7	8.6	8.0	7.8	8.0	8.2	8.7	8.8
Number of pupils/students (000)	84.0	79.0	78.6	78.5	78.5	79.6	80.4	80.3
of which:								
University students (All Courses)	10,004	10,188	10,533	10,873	10,957	11,115	11,062	11,092
Electricity								
Total Generated (000 MWh)*	2,113.0	2,169.0	2,268.0	2,216.0	2,170.0	2,257	2,248	2,369
Number of Consumers (000)*	260.5	265.7	272.2	277.6	283.9	289.5	295.0	313.6
Domestic Consumption (million kwh)*	604.3	597.2	616.0	608.8	604.3	644.1	641.4	692.1
Water								
Total annual production (million m^3)	28.8	29.6	30.8	30.5	30.4	31.2	32.0	33.1
Average daily consumption (000 m^3)	68	69	72	73	73	76	77	79.9
Social Security								
Total Payments (€ million)	1,096.4	1,106.7	1,190.3	1,264.0	1,352.9	1,411.6	1,502.4	1,607.0
Total Contributions (€ million)	552.1	585.6	609.7	645.3	699.2	739.6	804.4	875.1
Welfare Gap (€ million)	544.3	521.1	580.6	618.7	653.7	672.0	698.0	731.9

*Refer to Financial Year

[1] Education data has been revised

Source: National Statistics Office

[2] *Source: Malta Communications Authority*

Table III

Factor Incomes in Gross National Income

€ million

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2012 Jan-Jun	2013 Jan-Jun	2014 Jan-Jun	2015 Jan-Jun	2016 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun
Compensation of employees	2,366.2	2,503.0	2,668.9	2,736.1	2,845.3	3,036.0	3,207.8	3,414.7	3,660.1	3,996.6	4,279.5	4,583.4	1,582.7	1,690.1	1,802.4	1,969.1	2,110.3	2,255.6	2,439.5
Gross operating surplus and mixed income	2,338.2	2,534.3	2,722.6	2,632.2	2,961.5	2,934.7	3,095.2	3,321.5	3,807.4	4,458.9	4,753.4	5,278.8	1,481.4	1,601.6	1,827.7	2,128.8	2,293.9	2,549.8	2,731.6
Taxes on production and imports	781.1	826.2	858.1	831.1	865.4	934.4	957.4	1,001.1	1,121.6	1,204.0	1,284.5	1,423.8	448.1	441.4	505.2	550.3	595.8	657.8	719.8
Subsidies	99.4	105.9	121.0	60.8	72.6	65.1	92.3	95.6	121.6	134.9	137.3	146.3	44.9	42.2	62.5	62.5	64.4	69.4	72.0
Gross Domestic Product at market prices	**5,386.1**	**5,757.5**	**6,128.7**	**6,138.6**	**6,599.5**	**6,840.0**	**7,168.0**	**7,641.7**	**8,467.5**	**9,524.6**	**10,180.1**	**11,139.7**	**3,467.3**	**3,690.9**	**4,072.9**	**4,585.7**	**4,935.6**	**5,393.7**	**5,818.9**
Net Income from Abroad	-216.1	-156.8	-96.1	-333.2	-278.2	-221.7	-291.1	-334.5	-390.0	-336.9	-616.7	-747.0	-154.8	-212.8	-193.5	-164.2	-299.9	-319.7	-332.7
Gross National Income at market prices	**5,170.0**	**5,600.7**	**6,032.6**	**5,805.4**	**6,321.3**	**6,618.3**	**6,876.9**	**7,307.2**	**8,077.5**	**9,187.7**	**9,563.3**	**10,392.7**	**3,312.5**	**3,478.0**	**3,879.4**	**4,421.5**	**4,635.7**	**5,074.0**	**5,486.2**
Sectoral Percentage Contribution to Gross Value Added (at basic prices)																			
Agriculture, hunting and forestry(1)	2.2	2.0	1.4	1.7	1.7	1.6	1.5	1.4	1.3	1.2	1.2	1.1	1.4	1.3	1.1	1.1	1.1	1.0	1.0
Industry(2)	22.4	21.2	22.0	20.3	20.1	19.4	17.4	17.0	15.7	14.2	13.8	13.8	17.8	17.6	16.3	14.8	14.4	14.0	13.7
Services Activities	75.4	76.8	76.6	78.0	78.2	79.0	81.1	81.7	83.0	84.6	85.0	85.1	80.8	81.1	82.5	84.1	84.5	84.9	85.4

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

(2) Includes energy and construction

Source: National Statistics Office

Table IV

Gross National Income and Expenditure

€ million

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2012 Jan-Jun	2013 Jan-Jun	2014 Jan-Jun	2015 Jan-Jun	2016 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun
GNI at current market prices	4,966.1	5,170.0	5,600.7	6,032.6	5,805.4	6,321.3	6,618.3	6,876.9	7,307.2	8,077.5	9,187.7	9,563.3	10,392.7	3,312.5	3,478.0	3,879.4	4,421.5	4,635.7	5,074.0	5,486.2
% annual increase of GNI	2.7%	4.1%	8.3%	7.7%	-3.8%	8.9%	4.7%	3.9%	6.3%	10.5%	13.7%	4.1%	8.7%		5.0%	11.5%	14.0%	4.8%	9.5%	8.1%
GDP at current market prices	5,149.3	5,386.1	5,757.5	6,128.7	6,138.6	6,599.5	6,840.0	7,168.0	7,641.7	8,467.5	9,524.6	10,180.1	11,139.7	3,467.3	3,690.9	4,072.9	4,585.7	4,935.6	5,393.7	5,818.9
% annual increase of GDP	6.1%	4.6%	6.9%	6.4%	0.2%	7.5%	3.6%	4.8%	6.6%	10.8%	12.5%	6.9%	9.4%		6.4%	10.4%	12.6%	7.6%	9.3%	7.9%
GDP at constant prices	5,971.4	6,080.6	6,323.0	6,534.6	6,373.7	6,599.5	6,687.1	6,868.3	7,184.9	7,771.3	8,511.2	8,954.9	9,553.3	3,201.0	3,365.3	3,630.0	3,983.4	4,209.7	4,502.9	4,745.8
Total Final Consumption Expenditure																				
current market prices	4,176.1	4,421.8	4,517.7	4,814.8	4,956.2	5,101.3	5,355.7	5,543.8	5,701.2	5,943.3	6,322.5	6,453.2	6,758.3	2,719.7	2,795.3	2,904.5	3,058.6	3,221.3	3,326.6	3,584.4
constant prices	4,740.8	4,897.1	4,932.4	5,063.3	5,089.2	5,101.3	5,256.7	5,312.7	5,387.1	5,571.1	5,830.3	5,897.5	6,103.1	2,617.3	2,644.4	2,722.5	2,826.7	2,940.7	3,007.0	3,193.3
Ratio (%) of consumption to GDP at m.p.	81.1%	82.1%	78.5%	78.6%	80.7%	77.3%	78.3%	77.3%	74.6%	70.2%	66.4%	63.4%	60.7%	78.4%	75.7%	71.3%	66.7%	65.3%	61.7%	61.6%
General Government Final Consumption Expenditure																				
current market prices	932.4	1,002.7	1,032.7	1,209.4	1,213.9	1,286.4	1,344.9	1,448.5	1,478.8	1,604.5	1,689.0	1,669.9	1,746.1	707.8	730.2	792.3	841.8	887.0	866.6	965.3
constant prices	1,102.2	1,155.7	1,166.4	1,309.9	1,266.2	1,286.4	1,329.9	1,405.3	1,399.9	1,491.9	1,547.2	1,504.0	1,546.4	688.6	692.5	737.4	770.9	799.8	771.8	826.3
Ratio (%) of Government consumption to GDP at m.p.	18.1%	18.6%	17.9%	19.7%	19.8%	19.5%	19.7%	20.2%	19.4%	18.9%	17.7%	16.4%	15.7%	20.4%	19.8%	19.5%	18.4%	18.0%	16.1%	16.6%
Private Final Consumption Expenditure[1]																				
current market prices	3,243.8	3,419.1	3,485.0	3,605.5	3,742.3	3,814.9	4,010.8	4,095.3	4,222.4	4,338.8	4,633.5	4,783.4	5,012.2	2,011.9	2,065.1	2,112.2	2,216.8	2,334.3	2,459.9	2,619.1
constant prices	3,634.9	3,738.4	3,763.2	3,755.4	3,822.6	3,814.9	3,926.8	3,908.0	3,987.4	4,079.5	4,283.5	4,394.5	4,558.1	1,928.9	1,952.1	1,985.3	3,983.4	4,209.7	4,502.9	4,745.8
Ratio (%) of private consumption to GDP at m.p.	63.0%	63.5%	60.5%	58.8%	61.0%	57.8%	58.6%	57.1%	55.3%	51.2%	48.6%	47.0%	45.0%	58.0%	56.0%	51.9%	48.3%	47.3%	45.6%	45.0%
Gross Fixed Capital Formation																				
current market prices	1,132.9	1,183.2	1,288.2	1,203.1	1,114.8	1,411.6	1,228.4	1,299.8	1,334.9	1,465.4	2,409.4	2,483.8	2,351.6	650.3	654.4	717.2	1,114.1	1,229.4	1,096.5	1,107.0
constant prices	1,286.2	1,319.6	1,393.9	1,266.3	1,116.4	1,411.6	1,184.1	1,202.5	1,217.6	1,300.3	2,038.6	2,072.4	1,920.6	605.6	599.8	642.6	950.8	1,030.3	902.3	877.3
Ratio (%) fixed investment to GDP at m.p.	22.0%	22.0%	22.4%	19.6%	18.2%	21.4%	18.0%	18.1%	17.5%	17.3%	25.3%	24.4%	21.1%	18.8%	17.7%	17.6%	24.3%	24.9%	20.3%	19.0%

[1] Including NPISH final consumption expenditure

Source: National Statistics Office

Labour

Table V

	2013	2014	2015	2016	2017	2016 April	2017 April	2018 April
Labour Supply	**164,864**	**170,752**	**177,399**	**184,758**	**194,415**	**182,540**	**192,011**	**203,633**
Gainfully Occupied	**157,482**	**163,760**	**172,104**	**181,192**	**191,915**	**178,789**	**189,434**	**201,786**
Males	101,704	104,688	108,962	113,550	118,985	112,441	117,864	123,999
Females	55,778	59,072	63,142	67,642	72,930	66,348	71,570	77,787
Private Direct Production	**31,552**	**31,910**	**32,579**	**33,201**	**33,863**	**33,041**	**33,791**	**35,184**
of which:								
Construction	8,813	8,995	9,426	9,819	10,257	9,705	10,300	10,842
Manufacturing	20,231	20,380	20,556	20,716	20,923	20,680	20,804	21,567
Others	2,508	2,535	2,597	2,666	2,683	2,656	2,687	2,775
Private Market Services	**84,013**	**87,885**	**95,286**	**103,344**	**112,253**	**101,284**	**110,228**	**119,718**
of which:								
Wholesale and Retail (including Repair of Motor Vehicles, Motorcyles and Personal and Household Goods)	23,155	23,819	24,621	25,478	26,047	25,347	26,033	26,410
Accomodation and Food Services	10,103	10,396	10,760	11,404	12,320	11,205	12,109	13,172
Financial and Insurance Activities	7,003	7,379	7,787	8,194	8,806	8,056	8,735	9,437
Others	43,752	46,291	52,118	58,268	65,080	56,676	63,351	70,699
Public Sector	**41,917**	**43,965**	**44,239**	**44,647**	**45,799**	**44,464**	**45,415**	**46,884**
of which:								
Government Departments	31,297	32,279	33,029	33,099	33,575	33,074	33,333	33,975
Independent Statutory Bodies	8,789	9,062	9,346	9,717	10,395	9,503	10,309	10,941
Companies with Public Sector majority s/hldg	1,831	2,624	1,864	1,831	1,829	1,887	1,773	1,968
of which Temporary Employment	**558**	**505**	**429**	**417**	**417**	**417**	**417**	**417**
Registered Unemployed*	**7,382**	**6,971**	**5,295**	**3,566**	**2,500**	**3,751**	**2,577**	**1,847**
Males	5,626	5,294	3,978	2,621	1,774	2,773	1,849	1,300
Females	1,756	1,677	1,317	945	726	978	728	547
Self Employed	18,102	18,615	19,522	20,263	21,102	20,096	21,039	21,981

Note: Employment data is subject to revision

* Includes both Parts I and II of the registered unemployed

Data for 2013 - 2017 shows annual averages while data for 2016 April, 2017 April, 2018 April shows data as at end April

Source: JobsPlus

Table VI

Tourism

	2010	2011	2012	2013	2014	2015	2016	2017	2016 Jan-Jul	2017 Jan-Jul	2018 Jan-Jul
Inbound Tourists (000's)	1,338.8	1,415.0	1,443.4	1,582.2	1,689.8	1,783.4	1,965.9	2,273.8	1,055.2	1,241.2	1,451.5
of which from:											
United Kingdom	415.1	438.8	441.3	454.7	487.7	526.0	560.0	560.9	302.4	305.3	356.9
Italy	219.7	201.8	202.2	233.8	262.6	282.8	315.2	363.7	165.1	202.0	218.7
Germany	126.2	134.3	137.5	147.1	143.1	141.9	156.8	193.0	81.1	100.1	130.1
Libya	15.9	6.3	17.2	34.6	30.8	6.7	3.4	2.8	1.7[u]	1.6[u]	2.3[u]
Scandinavian Countries*	92.9	93.8	97.4	105.1	108.6	117.4	124.0	135.3	69.9	73.2	74.6
Other	469.1	540.1	547.9	606.9	657.0	708.7	806.6	1,018.1	435.0	559.0	668.9
Cruise Passengers (000's)[(1)]	467.6	493.2	555.7	424.6	465.4	591.7	615.2	658.2	237.1[(2)]	266.2[(2)]	250.6[(2)]
Expenditure from Inbound Tourism (€ million)	1,132.0	1,221.3	1,326.5	1,440.4	1,528.6	1,639.1	1,709.0	1,946.9	886.0	1,009.5	1,120.8
Total Sector Employment in Hotels and Restaurants	9,775	9,841	10,022	10,103	10,396	10,760	11,404	12,320	10,981[(3)]	11,903[(3)]	12,983[(3)]
% of Gainfully Occupied	6.7	6.6	6.6	6.4	6.3	6.3	6.3	6.4	6.2	6.3	6.5
Outbound Tourists (000's)	294.3	308.5	331.1	363.5	390.7	427.6	496.8	572.5	207.8[(2)]	240.7[(2)]	283.9[(2)]
Days Stayed / Nights Spent (000's)	11,147.9	11,241.5	11,859.5	12,890.3	13,522.1	14,151.6	14,961.4	16,509.1	7,774.8	8,626.4	10,059.6
% of which spent in :											
5 star	14.2	15.3	13.6	12.6	11.6	10.2	9.8	9.4	10.1	10.1	8.8
4 star	32.9	33.0	31.8	31.3	31.5	30.3	29.7	28.4	31.8	29.4	28.0
3 star	13.0	12.9	13.2	14.4	17.4	16.6	14.4	13.9	14.9	14.7	14.0
2 star	1.0	1.1	0.9	0.7	1.3	1.4	1.4	1.4	1.4	1.5	1.3
1 star	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0
Guest Houses	0.8	0.6	0.9	1.0	1.0	1.0	1.1	1.1	1.0	1.1	1.6
Flats/Private Residences	31.3	30.3	32.1	33.1	34.4	37.8	40.6	43.0	38.0	40.3	42.9
Tourist Village/Aparthotels/Hostels/Holiday Complex/Camp Sites/Bed & Breakfast	6.9	6.8	7.6	6.9	2.7	2.6	2.9	2.8	2.8	2.8	3.5

[u] Under represented - between 20 and 49 sample observations.
* Denmark, Finland, Norway and Sweden

[(1)] Excluding embarkations and Maltese cruise passengers.
[(2)] Data for January-June.
[(3)] Data shows average for January-March.

Source: National Statistics Office, JobsPlus

Foreign Trade

Table VII — € million

	2010	2011	2012	2013	2014	2015	2016	2017	2016 Jan-Jul	2017 Jan-Jul	2018 Jan-Jul
Imports and Exports											
Imports (c.i.f.)	4,335.4	5,341.6	6,189.7	5,640.1	6,403.0	6,140.5	6,448.8	6,125.5	4,110.4	3,598.2	3,537.0
Consumer goods*	1,200.7	1,466.0	1,722.1	1,585.7	1,756.6	1,646.4	1,638.1	1,787.1	921.1	1,019.0	1,072.1
Industrial supplies*	2,292.1	2,999.5	3,656.5	3,185.3	3,334.9	2,750.3	2,527.2	2,654.4	1,433.8	1,547.8	1,616.1
Capital goods and others*	842.7	876.1	811.1	869.1	1,311.6	1,743.8	2,283.5	1,683.9	1,755.5	1,031.3	848.8
Total Exports (f.o.b.)	2,809.3	3,819.0	4,438.8	3,925.5	3,771.2	3,605.6	3,927.2	3,608.7	2,426.4	1,982.1	1,797.2
of which manufactures	2,729.4	3,745.6	4,334.8	3,810.0	3,660.3	3,474.5	3,757.0	3,424.5	2,205.7	1,954.8	1,743.2
Trade Gap	-1,526.1	-1,522.6	-1,750.8	-1,714.6	-2,631.8	-2,534.9	-2,521.7	-2,516.7	-1,684.0	-1,616.1	-1,739.8
as % of GDP at current market prices	-23.1%	-22.3%	-24.4%	-22.4%	-31.1%	-26.6%	-24.8%	-22.6%	-34.1%	-30.0%	-29.9%
Selected Groupings											
EU											
Imports	2,721.8	3,359.6	3,952.3	3,246.0	3,229.6	3,659.2	3,204.2	3,296.3	1,846.4	1,897.4	2,356.9
Exports	1,149.1	1,301.9	1,296.0	1,246.1	1,138.4	1,122.8	1,228.8	1,424.4	727.6	840.2	838.7
United Kingdom											
Imports	360.4	362.7	372.8	309.5	390.7	418.9	348.4	404.2	213.7	254.7	308.6
Exports	131.4	150.4	124.6	107.8	116.8	140.2	107.0	78.5	66.4	44.6	35.9
Italy											
Imports	1,068.9	1,447.8	1,989.0	1,410.9	1,180.1	1,301.6	1,236.7	1,230.7	704.8	719.6	829.3
Exports	157.6	171.2	174.2	154.1	163.6	140.3	212.2	399.9	146.3	245.6	154.2
Germany											
Imports	296.7	317.8	320.1	321.4	324.6	380.0	375.0	423.0	219.3	234.0	259.7
Exports	281.6	326.2	358.5	348.6	314.4	345.8	399.3	402.6	231.3	242.2	261.7
France											
Imports	338.5	376.1	369.1	285.6	224.9	234.2	251.6	229.9	175.1	145.5	183.6
Exports	238.6	244.9	296.9	253.0	204.1	242.4	238.7	238.0	129.3	133.1	163.7
America											
Imports	276.9	353.5	278.9	387.9	986.6	823.6	1,715.6	983.3	1,408.9	612.5	293.6
Exports	228.8	226.7	255.3	224.7	231.3	222.7	802.8	181.1	698.8	107.9	129.0
Africa											
Imports	151.5	35.8	197.2	256.4	236.1	163.2	264.7	285.7	131.3	157.3	126.6
Exports	182.7	234.3	776.8	617.3	971.3	934.9	563.5	556.7	351.6	291.8	322.9
Asia											
Imports	611.7	641.9	769.9	827.6	733.6	783.0	787.2	947.7	462.9	584.0	530.3
Exports	686.5	1,092.1	1,020.4	1,059.6	767.4	715.8	671.6	629.5	277.0	295.0	281.4

* Treated differently from other parts in the Survey

Source: National Statistics Office

Balance of Payments

Table VIII

€ millions

	2011	2012	2013	2014	2015	2016	2017	2016 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun
Goods Balance[1]	-1,207.8	-1,099.5	-1,134.3	-1,212.3	-1,931.6	-1,910.5	-1,358.0	-1,001.9	-599.7	-664.3
Imports (f.o.b.)	4,052.7	4,303.5	3,979.2	3,736.8	4,543.5	4,485.8	4,274.1	2,233.9	2,002.5	2,049.5
Exports (f.o.b.)	2,844.9	3,203.9	2,845.0	2,524.5	2,611.9	2,575.3	2,916.1	1,232.0	1,402.9	1,385.2
Services-Net	1,386.1	1,449.8	1,618.5	2,226.5	2,612.7	3,110.4	3,565.2	1,387.7	1,704.7	1,721.8
Transport-net	-44.6	-55.5	-87.1	-133.2	4.9	202.7	311.6	91.3	167.2	160.0
Travel-net	672.1	723.4	768.4	845.8	914.8	937.8	1,114.1	351.2	425.9	450.7
Other Services-net	758.6	781.9	937.1	1,514.0	1,693.1	1,970.0	2,139.5	945.1	1,111.6	1,111.1
Primary Income- Net	-292.7	-360.7	-427.9	-475.6	-465.1	-718.9	-811.1	-339.4	-359.7	-371.1
Compensation of Employees-net	2.3	-4.2	-19.1	-34.5	-34.6	-21.1	-36.8	-10.2	-11.5	-26.7
Investment Income-net	-295.0	-356.5	-408.8	-441.1	-430.5	-697.8	-774.3	-329.2	-348.2	-344.4
Secondary Income-Net	100.7	132.4	147.3	205.4	208.4	230.7	135.7	116.1	65.0	67.0
General Government-net	735.5	790.0	777.3	818.8	813.3	850.3	834.2	427.0	417.6	417.0
Private-net	-634.8	-657.5	-630.0	-613.4	-605.0	-619.6	-698.4	-310.9	-352.6	-349.9
Current A/C-Net	-13.7	122.0	203.7	744.1	424.3	711.7	1,531.8	162.5	810.3	753.4
Goods Balance	-17.7%	-15.3%	-14.8%	-14.3%	-20.3%	-18.8%	-12.2%	-20.3%	-11.1%	-11.4%
Invisible Balance as % of GDP at m.p.	20.3%	20.2%	21.2%	26.3%	27.4%	30.6%	32.0%	28.1%	31.6%	29.6%
Primary Income a/c Balance as % of GDP at m.p.	-4.3%	-5.0%	-5.6%	-5.6%	-4.9%	-7.1%	-7.3%	-6.9%	-6.7%	-6.4%
Secondary Income a/c Balance as % of GDP at m.p.	1.5%	1.8%	1.9%	2.4%	2.2%	2.3%	1.2%	2.4%	1.2%	1.2%
Current a/c Balance as % of GDP at m.p.	-0.2%	1.7%	2.7%	8.8%	4.5%	7.0%	13.8%	3.3%	15.0%	12.9%
Capital A/C-Net	83.4	136.5	133.2	142.8	167.3	44.0	65.0	17.2	34.9	22.4
Financial A/C-Net[2]	220.4	1,006.8	-24.6	443.9	413.8	1,345.7	1,379.4	551.1	1,039.1	387.1
Direct Investment-net	-8,759.4	-9,020.6	-7,036.9	-6,785.0	-8,908.7	-8,299.7	-9,137.7	-4,178.4	-4,342.4	-4,696.7
Portfolio Investment-net[3]	11,707.4	9,435.2	9,141.4	13,206.0	4,899.7	4,756.2	6,720.2	3,016.2	3,685.9	1,225.5
Financial Derivatives-net[3]	-246.7	-438.5	-104.4	-573.2	-897.4	-6.4	-106.8	51.4	-89.3	165.3
Other Investment-net[3]	-2,428.1	909.4	-1,985.9	-5,416.0	5,393.7	4,807.3	3,757.3	1,507.7	1,703.8	3,565.2
Reserve Assets[3]	-52.9	121.4	-38.8	12.0	-73.5	88.3	146.4	154.2	81.1	127.7

[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] The Financial Account-Net in this Table includes Reserve Assets but does not include Errors and Omissions.

[3] As from 1st January 2008, following Malta's entry into the Euro Area (EA), 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 EA, 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 EA 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 compiled in accordance with the sixth edition of the International Monetary Fund's Balance of Payments Manual (BPM6).

Source: National Statistics Office

Government Revenue and Expenditure

Table IX

€ million

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2015 Jan-Aug	2016 Jan-Aug	2017 Jan-Aug	2018 Jan-Aug
Government Recurrent Revenue	2,370.8	2,525.4	2,643.8	2,715.7	2,992.1	3,387.2	3,634.8	3,807.0	4,291.2	2,222.4	2,322.6	2,583.8	2,744.1
Increase/(Decrease) % per annum	3.0	6.5	4.7	2.7	10.2	13.2	7.3	4.7	12.7	11.9	4.5	11.2	6.2
of which:													
Tax Revenue	2,130.1	2,242.5	2,323.4	2,393.0	2,602.5	2,953.7	3,195.6	3,446.0	3,829.3	1,918.5	2,119.0	2,299.7	2,516.9
Direct Tax Revenue	1,265.5	1,353.3	1,361.7	1,475.6	1,612.9	1,767.3	1,924.2	2,132.7	2,372.5	1,137.4	1,263.3	1,364.0	1,500.1
Indirect Tax Revenue	864.6	889.2	961.7	917.3	989.6	1,186.4	1,271.4	1,313.3	1,456.7	781.1	855.7	935.7	1,016.8
Non-Tax Revenue	240.6	282.8	320.5	322.8	389.6	433.5	439.2	361.0	461.9	304.0	203.7	284.1	227.3
Total Government Expenditure	2,667.8	2,804.6	2,862.4	3,078.0	3,255.3	3,523.5	3,870.6	3,798.1	4,108.5	2,363.4	2,401.8	2,552.7	2,747.2
Increase/(Decrease) % per annum	5.2	5.1	2.1	7.5	5.8	8.2	9.9	-1.9	8.2	7.6	1.6	6.3	7.6
of which:													
Recurrent Expenditure	2,204.4	2,296.3	2,361.3	2,488.4	2,632.6	2,857.0	3,056.8	3,264.3	3,543.3	1,939.3	2,063.7	2,221.6	2,395.3
Capital Expenditure	271.3	311.5	288.7	363.8	394.7	435.3	581.5	310.3	350.2	271.4	188.3	186.7	212.8
% of Total Government Expenditure	10.2	11.1	10.1	11.8	12.1	12.4	15.0	8.2	8.5	11.5	7.8	7.3	7.7
Interest on Public Debt	192.0	196.8	212.5	225.8	227.9	231.1	232.3	223.5	215.1	152.7	149.8	144.4	139.1
Balance of recurrent revenue and total expenditure	-297.0	-279.2	-218.6	-362.3	-263.2	-136.3	-235.8	8.9	182.7	-141.0	-79.1	31.1	-3.1
Financed by:													
Extraordinary Receipts	2.8	0.0	9.6	28.4	28.4	0.0	0.8	1.1	0.9	0.7	1.1	0.9	0.9
Receipts from sale of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.8	1.1	0.9	0.7	1.1	0.9	0.9
Sinking Funds of Converted Loans	2.8	0.0	9.6	28.4	28.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sinking Fund Contribution & Direct Loan Repayment	-269.4	-207.4	-141.9	-361.3	-380.8	-427.2	-384.1	-545.1	-427.9	-79.7	-305.2	-90.2	-218.1
Equity Acquisition	-0.5	-0.2	-6.0	-33.4	-26.5	-13.8	-41.1	-13.0	-71.4	-1.1	-12.5	-2.1	-63.0
Loan Facility Agreement with the Hellenic Republic	0.0	-19.8	-30.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan Facility Agreement with Air Malta plc	0.0	0.0	-52.0	-52.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of Loans made by Government	0.0	0.0	0.0	52.0	0.0	0.0	40.4	12.2	0.0	0.0	12.0	0.0	0.0
Public Sector Borrowing Requirement	-564.2	-506.6	-439.8	-728.6	-642.1	-577.3	-619.8	-535.9	-315.7	-221.1	-383.7	-60.3	-283.3
Loans	455.8	577.7	567.8	645.7	627.1	648.8	473.2	597.9	357.4	258.3	438.7	257.8	93.5

Source: National Statistics Office

Contribution of Resident MFIs to Euro Area Monetary Aggregates and Counterparts[1]

Table X — € million

	2010	2011	2012	2013	2014	2015	2016	2017	2018* Jan-Jul
Broad Money (M3)[2]	10,330.4	10,349.7	11,340.8	12,588.1	14,341.8	16,229.4	17,808.9	19,549.8	19,939.7
Intermediate Money (M2)	10,088.8	10,145.5	11,149.3	12,422.6	14,220.4	16,104.3	17,713.2	18,767.0	19,213.0
% Increase/ (Decrease)		0.6	9.9	11.4	14.5	13.2	10.0	5.9	2.4
of which:									
Narrow Money (M1)	5,760.0	5,958.3	6,632.0	7,476.9	9,472.7	12,148.2	13,550.9	14,938.1	15,323.8
Currency issued[3]	674.4	710.6	726.5	778.7	839.4	893.1	939.5	968.7	1,001.4
% Increase/ (Decrease)		5.4	2.2	7.2	7.8	6.4	5.2	3.1	3.4
Overnight deposits[4]	5,085.6	5,247.7	5,905.5	6,698.3	8,633.3	11,255.1	12,611.4	13,969.4	14,322.4
Deposits redeemable at notice up to 3 months[4]	124.3	125.1	153.2	113.8	124.4	123.0	105.0	47.4	57.8
Deposits with agreed maturity up to 2 years[4]	4,204.5	4,062.1	4,364.1	4,831.9	4,623.3	3,833.1	4,057.3	3,781.5	3,831.4
Credit Counterpart[5]	15,233.6	16,939.1	16,504.3	15,348.6	15,736.1	16,407.6	17,012.7	17,405.7	18,269.8
of which:									
Credit to residents of Malta	11,046.0	11,768.7	11,892.2	12,059.4	11,718.4	12,393.6	12,706.1	12,944.0	13,315.9
Credit to other Euro Area residents	4,187.6	5,170.4	4,612.0	3,289.1	4,017.7	4,014.0	4,306.6	4,461.7	4,954.0
Net claims on non-residents of the Euro Area	8,377.7	7,649.4	10,092.6	9,614.7	11,880.8	11,034.4	9,421.5	6,828.7	6,530.0
Other counterparts (net)[6]	13,280.9	14,238.8	15,256.1	12,375.2	13,275.1	11,212.7	8,625.3	4,684.6	4,860.1

* Provisional

[1] Figures show the contribution of Maltese Monetary Financial Institutions (MFIs) to the Euro Area (EA) aggregates.

[2] M3 comprises M2, repurchase agreements and debt securities with agreed maturity of up to 2 years. This does not represent holdings of M3 by residents of Malta but rather the contribution of MFIs in Malta to the EA aggregate. As from December 2008, figures also include MMFs shares/units issued less holdings in such units by MMFs and credit institutions resident in the EA and holdings by non-residents of the EA.

[3] Comprises the Central Bank of Malta's share of Euro banknotes issued by the Eurosystem, plus coins issued by the Bank on behalf of the Treasury, less holdings of issued Euro banknotes and coins held by the MFI sector.

[4] Deposits with MFIs exclude interbank deposits and deposits held by Central Government.

[5] Credit includes, besides lending, claims in the form of debt securities and shares and other equity.

[6] Includes net interbank claims/liabilities within the MFI sector. These counterparts make a negative contribution to M3.

Source: Central Bank of Malta